

SAUDI ELECTRICITY COMPANY
(A Saudi Joint Stock Company)

Consolidated financial statements and independent auditor's report
For the year ended 31 December 2020

SAUDI ELECTRICITY COMPANY
(A Saudi Joint Stock Company)

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KPMG Professional Services

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كي بي إم جي للاستشارات المهنية

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

Commercial Registration No 1010425494

سجل تجاري رقم ١٠١٠٤٢٥٤٩٤

Independent Auditor's Report

To the Shareholders of Saudi Electricity Company

(A Saudi Joint Stock Company)

Opinion

We have audited the consolidated financial statements of **Saudi Electricity Company** ("the Company") and its subsidiaries (collectively referred to as "the Group"), which comprise the consolidated statement of financial position as at 31 December 2020, the consolidated statements of income, 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 2020, 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 Certified Public Accountants (SOCPA).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing as 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 professional code of conduct and ethics that are endorsed in the Kingdom of Saudi Arabia that are relevant to our audit of the consolidated financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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 (continued)

To the Shareholders of Saudi Electricity Company

(A Saudi Joint Stock Company)

| Key audit matter | |
|---|---|
| Impairment of receivables from sale of electricity | |
| Refer to notes 5,17 accompanying the consolidated financial statements. | |
| Key audit matter | How the matter was addressed in our audit |
| <p>As at 31 December 2020, gross receivables from sale of electricity amounted to SR 36.4 billion, against which a provision for impairment of SR 1.5 billion was recorded.</p> <p>In accordance with the requirements of IFRS 9 'Financial Instruments', the Group has applied the expected credit loss model to record an impairment against receivables from sale of electricity.</p> <p>The application of the expected credit loss model to record an impairment against receivables from sale of electricity is a key audit matter because the impairment of receivables from sale of electricity using the expected credit loss model combined with ongoing evolution of the COVID-19 pandemic, involves material judgments and estimates that may have a significant impact on the Group's consolidated financial statements.</p> | <p>Among other things, our procedures included the following:</p> <ul style="list-style-type: none"> Assessed the design, implementation and the operating effectiveness of the management's internal control systems which govern the receivables from sale of electricity balance, including the provision for impairment of receivables from sale of electricity Assessed the methodology, assumptions and estimates used by management in preparing the expected credit loss model, including projections for the future in light of the ongoing evolution of the COVID-19 pandemic. Assessed the completeness and accuracy of the aging report for receivables from sale of electricity. Involved our specialists to test the key assumptions used by management and assessed the reasonableness of the estimates used to record the provision for impairment of receivables from sale of electricity. Inspected a sample of cash receipts subsequent to the yearend of the consolidated financial statements relating to receivables from sale of electricity including any communications with major customers on the expected dates of payment or any cases of defaults. Evaluated the adequacy of disclosures made by the management in the consolidated financial statements. |



Independent auditor's report

To the Shareholders of Saudi Electricity Company (continued)

(A Saudi Joint Stock Company)

| Key audit matter | |
|--|---|
| Recognition of sale of electricity | |
| Refer to note 40 accompanying the consolidated financial statements. | |
| Key audit matter | How the matter was addressed in our audit |
| <p>The Group applies IFRS 15 'Revenue from contracts with customers'.</p> <p>During the year ended 31 December 2020, the Group recognized revenue from sale of electricity totaling SR 57.5 billion.</p> <p>Revenue from sale of electricity is recognized when the service is rendered, and invoices are issued to the consumers of electricity according to the consumption categories and tariffs specified by the regulator.</p> <p>Revenue is considered to be one of the significant indicators for measuring the performance of the Group, resulting in a possible inherent risk of recognizing revenue which is more than its actual value.</p> <p>The revenue recognition is considered as a key audit matter due to the materiality of the revenue amount and the inherent risk of overstating revenue, which may have a material impact on the Group's consolidated financial statements.</p> | <p>Among other things, our procedures included the following:</p> <ul style="list-style-type: none"> Assessed the design, implementation and operating effectiveness of management's internal controls system which govern the process around recognition of sale of electricity. Inquired management about their awareness of risks of fraud and whether there are cases of actual fraud . Assessed the impact of judgments and assumptions on management's estimates covering the revenue and accrued revenue recognized during the year. Tested a sample of journal entries which included specific risks of material misstatements and inspected underlying supporting documents. Evaluated the adequacy of disclosures made by the management in the consolidated financial statements. |



Independent auditor's report

To the Shareholders of Saudi Electricity Company (continued)

(A Saudi Joint Stock Company)

| Key audit matter | |
|--|--|
| Recognition of the Mudaraba agreement with the Ministry of Finance | |
| Refer to notes 5, 24 accompanying the consolidated financial statements. | |
| Key audit matter | How the matter was addressed in our audit |
| <p>To implement the Royal Decree No. (16031), end of 2019, the Company converted net payables to the government amounting to SR 167.9 billion, into a financial instrument that is classified under equity as a "financial instrument" in accordance with a Mudaraba agreement signed between the Government of the Kingdom of Saudi Arabia; represented by Ministry of Finance in the Kingdom of Saudi Arabia and Saudi Electricity Company.</p> <p>As at 31 December 2020, the fair value of the financial instrument is SR 159 Billion.</p> <p>The recognition, measurement and presentation of the financial instrument is considered as a key audit matter as the recognition of the financial instrument has a material effect on structure, content, the key ratios and financial statement captions in the consolidated financial statements. Furthermore, measuring the fair value of a financial instrument in accordance with the requirements of IFRS 13 (fair value measurement) requires management to make significant judgments, estimates and assumptions that are used as inputs to the fair value calculation by using complex valuation models that may have a material impact on the Group's consolidated financial statements.</p> | <p>Among other things, our procedures included the following:</p> <ul style="list-style-type: none"> Assessed the management's assessment on the classification of the financial instrument within equity, after considering the requirements of IAS 32 (financial instrument: presentation) and the characteristics of the Mudaraba agreement signed between the Saudi Electricity Company and the Ministry of Finance. Assessed the management's assessment related to the fair value estimates of the financial instrument in accordance with the requirements of IFRS 13 (fair value measurement), and using our specialists to ensure the reasonableness of the assumptions and key estimates used by the management in preparing the fair value valuation and measurement models of the financial instrument. Verified the validity of the adjustments resulting from the Mudaraba agreement. Evaluated the adequacy of disclosures made by the management in the consolidated financial statements. |



Independent auditor's report

To the Shareholders of Saudi Electricity Company (continued)

(A Saudi Joint Stock Company)

| Key audit matter | |
|---|---|
| Re-assessment of the residual value of property, plant and equipment | |
| Refer to notes 5,9 accompanying the consolidated financial statements. | |
| Key audit matter | How the matter was addressed in our audit |
| <p>During the year 2020, the Group re-assessed the residual value of all items within property, plant and equipment in accordance with the requirements of IAS 16 "Property, Plant and Equipment". As a result, for the year ended 31 December 2020, the depreciation of the aforementioned items reduced by SR 811 million.</p> <p>The re-assessment of the residual value was considered as a key audit matter due to the significant reduction in the depreciation charge for the year ended 31 December 2020 referred above which has a material effect on the consolidated results of the Group. In addition, the aforementioned re-assessment was based on judgmental assumptions, which if unreasonable, may result in material adjustments to the net book value of property, plant and equipment and their depreciation, consequently, have a material impact on the consolidated financial statements of the Group.</p> | <p>Among other things, our procedures included the following:</p> <ul style="list-style-type: none"> Assessed the design, implementation and operating effectiveness of management's internal control systems which govern the process around calculating the residual value ratio to determine residual value of property, plant and equipment. Assessed the reasonableness of the residual value ratio and the estimates and assumptions used by management to determine the residual value ratio. Matched the cost balance of property, plant and equipment to the asset register pre and post application of the residual value to ensure the completeness and accuracy of the data subsequent to the adjustment. Recalculated a sample of residual value to evaluate consistency of application on all related assets. Performed analytical procedures to evaluate the impact of applying the residual value on the depreciation charge for the year. Evaluated the adequacy of disclosures made by the management in the consolidated financial statements. |



Independent auditor's report

To the Shareholders of Saudi Electricity Company (continued)

(A Saudi Joint Stock Company)

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 The Board of Directors 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.

Auditors' 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 skepticism 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 Saudi Electricity Company (continued)

(A Saudi Joint Stock Company)

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 Saudi Electricity Company and its subsidiaries.

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, related safeguards.

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

Dr. Abdullah Hamad Al Fozan
License No. 348

Date: 17 Sha'aban 1442H
Corresponding to: 30 March 2021



SAUDI ELECTRICITY COMPANY
(A Saudi Joint Stock Company)
Consolidated statement of financial position as at 31 December 2020
(All amounts in thousands Saudi Riyals unless otherwise stated)

| | Notes | 31 December 2020 | 31 December 2019 |
|---|--------|---------------------|---------------------|
| Assets | | | |
| Non-current assets | | | |
| Property, plant and equipment, net | 9 | 436,779,330 | 422,968,974 |
| Right of use assets, net | 10-a | 111,331 | 245,362 |
| Investment properties | 11 | 452,652 | 455,772 |
| Intangible assets, net | 12 | 469,568 | 502,602 |
| Equity accounted investees | 13 | 1,464,936 | 1,427,682 |
| Financial assets at amortised cost | 14 | 34,114 | 38,381 |
| Financial assets through other comprehensive income | 15 | 349,618 | 325,075 |
| Deferred tax assets | 35.3 | - | 17,823 |
| Total non-current assets | | 439,661,549 | 425,981,671 |
| Current assets | | | |
| Inventories, net | 16 | 4,937,483 | 5,055,914 |
| Receivables from sale of electricity, net | 17 | 34,968,645 | 44,884,004 |
| Debit balances and advances | 18 | 623,324 | 720,823 |
| Prepayments and other receivables | 19 | 719,480 | 1,269,274 |
| Cash and cash equivalents | 20 | 4,539,092 | 1,918,304 |
| Total current assets | | 45,788,024 | 53,848,319 |
| Total assets | | 485,449,573 | 479,829,990 |
| Equity and liabilities | | | |
| Equity | | | |
| Share capital | 21 | 41,665,938 | 41,665,938 |
| Statutory reserve | 23 | 4,153,366 | 3,850,811 |
| General reserve | 23 | 702,343 | 702,343 |
| Other reserves | | (742,498) | (32,562) |
| Contractual reserve – Mudaraba instrument | 23 | 927,375 | - |
| Retained earnings | 22 | 33,147,465 | 27,383,342 |
| Total equity before Mudaraba Instrument (1) | | 79,853,989 | 73,569,872 |
| Fair value for Mudaraba instrument | | 159,169,000 | - |
| Fair value adjustment of Mudaraba instrument | | 8,751,563 | - |
| Mudaraba instrument (2) | 24 | 167,920,563 | - |
| Total equity (1+2) | | 247,774,552 | 73,569,872 |
| Liabilities | | | |
| Non-current liabilities | | | |
| Long term loans | 33.2.1 | 56,145,525 | 52,474,050 |
| Sukuk | 33.2.2 | 44,160,434 | 39,289,736 |
| Long term loans from the government | 33.2.3 | - | 47,698,302 |
| Employees' benefits obligation | 25 | 7,259,950 | 6,580,336 |
| Non-current portion of Deferred revenue | 26 | 56,619,625 | 50,150,583 |
| Deferred government grants | 27 | 1,089,377 | 43,665,327 |
| Derivative financial instruments | 33.3 | 937,806 | 572,591 |
| Asset retirement obligations | 28 | 270,425 | 268,262 |
| Deferred tax liability | 35.3 | - | 426,757 |
| Non-current portion of lease liabilities | 10-b | 62,067 | 104,655 |
| Total non-current liabilities | | 166,545,209 | 241,230,599 |
| Current liabilities | | | |
| Short term loans and facilities | 33.2.1 | 13,413,842 | 20,179,264 |
| Trade payables | 29 | 14,145,642 | 22,424,873 |
| Accruals and other payables | 30 | 26,289,101 | 12,749,282 |
| Provision for other liabilities and charges | 31 | 365,411 | 304,153 |
| Refundable deposits from customers | | 1,997,558 | 1,997,932 |
| Payables to the government | 32 | - | 92,495,037 |
| Advance from customers | 34 | 12,710,153 | 12,748,355 |
| Current portion of deferred revenue | 26 | 2,024,808 | 1,925,592 |
| Current portion of lease liabilities | 10-b | 56,085 | 143,820 |
| Derivative financial instruments | 33.3 | 127,212 | 61,211 |
| Total current liabilities | | 71,129,812 | 165,029,519 |
| Total liabilities | | 237,675,021 | 406,260,118 |
| Total equity and liabilities | | 485,449,573 | 479,829,990 |

Executive Vice President
and Chief Financial Officer

Executive Director
Control & Reporting Sector

The accompanying notes from 1 to 49 form an integral part of these consolidated financial statements.

SAUDI ELECTRICITY COMPANY**(A Saudi Joint Stock Company)****Consolidated statement of income for the year ended 31 December 2020**

(All amounts in thousands Saudi Riyals unless otherwise stated)

| | Notes | 31 December 2020 | 31 December 2019 |
|--|-------|---------------------|---------------------|
| Operating revenue | 40 | 68,708,918 | 65,040,000 |
| Cost of revenue | 41 | (60,611,812) | (58,915,883) |
| Gross profit | | 8,097,106 | 6,124,117 |
| Other income, net | 43 | 1,582,155 | 1,655,738 |
| General and administrative expenses | 42 | (1,244,638) | (1,244,525) |
| Fuel settlement expense | | (808,090) | - |
| Operating income for the year | | 7,626,533 | 6,535,330 |
| Finance income | | 18,007 | 30,503 |
| Finance expense | | (4,908,817) | (4,917,436) |
| Finance costs, net | 44 | (4,890,810) | (4,886,933) |
| Share of gain / (loss) on equity accounted investees | 13 | 4,337 | (40,229) |
| Income for the year before zakat and tax | | 2,740,060 | 1,608,168 |
| Zakat and tax expenses | 35.1 | (126,677) | (79,883) |
| Deferred tax Income / (expenses) | 35.1 | 412,165 | (140,728) |
| Net income for the year | | 3,025,548 | 1,387,557 |
| Earnings per share (expressed in SAR) | | | |
| Basic and diluted earnings per share | 38 | 0.50 | 0.33 |

Executive Vice President
and Chief Financial Officer

Executive Director
Control & Reporting Sector

The accompanying notes from 1 to 49 form an integral part of these consolidated financial statements.

SAUDI ELECTRICITY COMPANY**(A Saudi Joint Stock Company)****Consolidated statement of other comprehensive income for the year ended 31 December 2020**

(All amounts in thousands Saudi Riyals unless otherwise stated)

| | Notes | <u>31 December 2020</u> | <u>31 December 2019</u> |
|--|-------|-------------------------|-------------------------|
| Net income for the year | | 3,025,548 | 1,387,557 |
| Other comprehensive income: | | | |
| Items that may be reclassified subsequently to statement of income: | | | |
| Cash flow hedges – effective portion | | <u>(466,109)</u> | <u>(345,149)</u> |
| Total items that may be reclassified subsequently to statement of income | | <u>(466,109)</u> | <u>(345,149)</u> |
| Items that will not be reclassified subsequently to statement of income: | | | |
| Re-measurement of employees' benefits obligation | 25.1 | <u>(268,370)</u> | <u>(426,732)</u> |
| Change in fair value of available-for-sale financial assets | 46.3 | <u>24,543</u> | <u>25,710</u> |
| Total items that will not be reclassified subsequently to statement of income | | <u>(243,827)</u> | <u>(401,022)</u> |
| Other comprehensive loss for the year | | <u>(709,936)</u> | <u>(746,171)</u> |
| Total comprehensive income for the year | | <u>2,315,612</u> | <u>641,386</u> |

Executive Vice President
and Chief Financial Officer

Executive Director
Control & Reporting Sector

The accompanying notes from 1 to 49 form an integral part of these consolidated financial statements.

SAUDI ELECTRICITY COMPANY
(A Saudi Joint Stock Company)
Consolidated statement of changes in equity for the year ended 31 December 2020

(All amounts in thousands Saudi Riyals unless otherwise stated)

| | Share capital | Statutory reserve | General reserve | Contractual reserve | Other reserves | | | | Retained earnings | Total equity before Mudaraba Instrument (1) | Mudaraba instrument | | | Total equity (1+2) |
|---|---------------|-------------------|-----------------|---------------------|---------------------------|--------------------------------|--------------------------|---------------------|-------------------|---|-----------------------------------|--|-------------------------|--------------------|
| | | | | | Fair value of derivatives | Employees' benefits obligation | Financial asset at FVOCI | Total other reserve | | | Fair value of Mudaraba instrument | Fair value adjustment of Mudaraba instrument | Mudaraba instrument (2) | |
| Balance at 1 January 2019 | 41,665,938 | 3,712,055 | 702,343 | - | (291,224) | 978,098 | 26,735 | 713,609 | 26,883,833 | 73,677,778 | - | - | - | 73,677,778 |
| Net income for the year | - | - | - | - | - | - | - | - | 1,387,557 | 1,387,557 | - | - | - | 1,387,557 |
| Other comprehensive loss | - | - | - | - | (345,149) | (426,732) | 25,710 | (746,171) | - | (746,171) | - | - | - | (746,171) |
| Total comprehensive income | - | - | - | - | (345,149) | (426,732) | 25,710 | (746,171) | 1,387,557 | 641,386 | - | - | - | 641,386 |
| Dividends paid to shareholders relating to 2018 (note 22) | - | - | - | - | - | - | - | - | (749,292) | (749,292) | - | - | - | (749,292) |
| Transfer to statutory reserves | - | 138,756 | - | - | - | - | - | - | (138,756) | - | - | - | - | - |
| Balance at 31 December 2019 | 41,665,938 | 3,850,811 | 702,343 | - | (636,373) | 551,366 | 52,445 | (32,562) | 27,383,342 | 73,569,872 | - | - | - | 73,569,872 |
| Net income for the year | - | - | - | - | - | - | - | - | 3,025,548 | 3,025,548 | - | - | - | 3,025,548 |
| Other comprehensive loss | - | - | - | - | (466,109) | (268,370) | 24,543 | (709,936) | - | (709,936) | - | - | - | (709,936) |
| Total comprehensive income | - | - | - | - | (466,109) | (268,370) | 24,543 | (709,936) | 3,025,548 | 2,315,612 | - | - | - | 2,315,612 |
| Dividends paid to shareholders relating to 2019 (note 22) | - | - | - | - | - | - | - | - | (749,292) | (749,292) | - | - | - | (749,292) |
| Transfer to statutory reserve | - | 302,555 | - | - | - | - | - | - | (302,555) | - | - | - | - | - |
| Aramco revenue transferred from retained earnings to Mudaraba instrument (note 22 and 24) | - | - | - | - | - | - | - | - | (3,351,785) | (3,351,785) | - | - | - | (3,351,785) |
| Fair value adjustments for government grants and loans (Note 24) | - | - | - | - | - | - | - | - | 8,069,582 | 8,069,582 | - | - | - | 8,069,582 |
| Mudaraba instrument (note 24) | - | - | - | - | - | - | - | - | - | - | 167,920,563 | - | 167,920,563 | 167,920,563 |
| Fair value adjustments for Mudaraba instrument (note 24) | - | - | - | - | - | - | - | - | - | - | (8,751,563) | 8,751,563 | - | - |
| Transfer to Contractual reserve – Mudaraba instrument (note 23) | - | - | - | 927,375 | - | - | - | - | (927,375) | - | - | - | - | - |
| Balance at 31 December 2020 | 41,665,938 | 4,153,366 | 702,343 | 927,375 | (1,102,482) | 282,996 | 76,988 | (742,498) | 33,147,465 | 79,853,989 | 159,169,000 | 8,751,563 | 167,920,563 | 247,774,552 |

 Executive Vice President
and Chief Financial Officer

 Executive Director
Control & Reporting Sector

The accompanying notes from 1 to 49 form an integral part of these consolidated financial statements.

SAUDI ELECTRICITY COMPANY
(A Saudi Joint Stock Company)
Consolidated statement of cash flows for the year ended 31 December 2020
(All amounts in thousands Saudi Riyals unless otherwise stated)

| | 31 December 2020 | 31 December 2019 |
|---|---------------------|---------------------|
| Cash flows from operating activities | | |
| Net income for the year before zakat and tax | 2,740,060 | 1,608,168 |
| <i>Adjustments for:</i> | | |
| Depreciation of property, plant and equipment | 18,720,960 | 18,655,224 |
| Depreciation of investment property | 3,120 | 2,669 |
| Amortization of intangible assets | 64,326 | 56,070 |
| Finance costs, net | 4,890,810 | 4,886,933 |
| Employees' benefits obligation | 679,516 | 636,419 |
| Provision for electricity and other receivables | 253,638 | 205,455 |
| Reversal for slow moving and obsolete inventory | (50,814) | (266,540) |
| Share of (gain) / loss on equity accounted investees | (4,337) | 40,229 |
| Amortization of deferred government grant | (1,356,435) | (1,327,074) |
| Provision / (Reversal) and other charges | 12,859 | (78,701) |
| Gain / (loss) on disposal of property, plant and equipment | 189,209 | (21,784) |
| Depreciation of right of use assets | 152,964 | 158,459 |
| Cash flows after adjustment of non-cash items | 26,295,876 | 24,555,527 |
| Changes in working capital: | | |
| Inventories | 169,245 | (43,980) |
| Receivables from sale of electricity | (23,223,838) | (8,395,563) |
| Prepayments and other receivables | 500,278 | (796,509) |
| Debit balances and advances | 109,749 | (296,901) |
| Trade payables | 12,391,267 | 3,941,265 |
| Accruals and other payables | 5,848,555 | (192,391) |
| Refundable deposits from customers | (374) | 4,408 |
| Advances from customers | (38,202) | 1,337,566 |
| Deferred revenue | 6,568,258 | 6,347,835 |
| Employees' benefits obligation paid | (405,199) | (723,730) |
| Cash generated from operating activities | 28,215,615 | 25,737,527 |
| Zakat paid | (78,278) | (32,370) |
| Net cash generated from operating activities | 28,137,337 | 25,705,157 |
| Cash flows from investing activities | | |
| Purchase of property, plant and equipment | (23,399,218) | (21,413,122) |
| Proceeds from sale of property, plant and equipment | 102,800 | 75,360 |
| Payments for intangible assets | (31,292) | (79,978) |
| Payments for investment in equity accounted investees | (63,510) | (206) |
| Proceeds from financial investments carried at amortized cost | 4,267 | 4,253 |
| (Repayment) / Loan to an associate | (12,250) | 270,977 |
| Net cash used in investing activities | (23,399,203) | (21,142,716) |
| Cash flows from financing activities | | |
| Proceeds from borrowings | 10,043,960 | 16,161,958 |
| Receipts of government grant | 552,743 | 453,006 |
| Proceeds from Sukuk | 4,875,000 | - |
| Payment of lease obligation | (156,544) | (167,929) |
| Repayments of borrowings | (12,155,719) | (16,341,281) |
| Dividends paid | (715,906) | (737,048) |
| Net finance costs paid | (4,560,880) | (4,442,056) |
| Net cash used in financing activities | (2,117,346) | (5,073,350) |
| Net change in cash and cash equivalents | 2,620,788 | (510,909) |
| Cash and cash equivalents at the beginning of the year | 1,918,304 | 2,429,213 |
| Cash and cash equivalents at end of the year | 4,539,092 | 1,918,304 |

-The impact of non-cash transactions referred to in Note 48 has been excluded.

Executive Vice President
and Chief Financial Officer

Executive Director
Control & Reporting Sector

The accompanying notes from 1 to 49 form an integral part of these consolidated financial statements.

SAUDI ELECTRICITY COMPANY

(A Saudi Joint Stock Company)

Notes to the consolidated financial statements for the year ended 31 December 2020

(All amounts in thousands Saudi Riyals unless otherwise stated)

1 Corporate information

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

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

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

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

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

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

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

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

SAUDI ELECTRICITY COMPANY**(A Saudi Joint Stock Company)****Notes to the consolidated financial statements for the year ended 31 December 2020**(All amounts in thousands Saudi Riyals unless otherwise stated)

1 Corporate information - continued

With regards to the letter received from Minister of Energy, Chairman of the Ministerial Committee for restructuring the electricity Sector and the Saudi Electricity Company No. 2057-dated 03/29/1442 AH corresponding to 15th November 2020, the government fee has been cancelled as of 1 January 2021, with the aim of Ministerial Committee to restructure the electricity sector in Saudi Arabia and approved the organization of revenues of Saudi Electricity Company (note 40).

Saudi Electricity Company will be referred to as ("Company") or together with its subsidiaries and joint operations as ("Group") throughout the financials.

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

2 Basis of preparation

The consolidated financial statements of the Group have been prepared 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 of Certified Public Accountants.

3 Changes in accounting policies and notes**3.1 Effect of changes in accounting policies as a result of application of new standards**

The Group has adopted following standards amendments for the first time starting from 1st January 2020 which have no material impact on the financial statements;

3.1.1 IFRS 3 – Commercial Activity Definition

3.1.2 IFRS 1 & IFRS 8 in relation to the definition of materiality.

3.1.3 IFRS 9, IAS 39 & IFRS 7 – Reforming interest rate index

3.1.4 Lease concessions related to COVID-19 (amendment to IFRS 16) – effective 1 June 2020.

3.2 New standards and amendments issued but not yet effective

There are no new standards issued, however, a number of amendments to the standards are in effect from 1st January 2021, but they are not expected to have a material impact on the Group's consolidated financial statements.

3.2.1 Interest Rate benchmark Reform – Second phase Amendments to IFRS 9, 7, 4 and 16 and IAS 39 (amendments effective on or after 1st January 2021).

3.2.2 Amendments to IFRS 3 and IAS 16 and 37, in addition to the annual amendments to IFRSs (2018-2020 cycle) (amendments effective on or after 1st January 2022).

3.2.3 Amendments to IAS 1, "Presentation of Financial Statements" classification of liabilities (amendments effective on or after 1st January 2023).

4 Measurement basis

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

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

The Group is required to comply with the cost model for Investment Property, property, plant and equipment and intangible assets until the year end 2022 and after that the Group has an option to use fair value model or cost model according to the criteria and controls announced by the Capital Market Authority.

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

5 Use of estimates, assumptions and judgements

The preparation of the Group's consolidated financial statements in accordance with IFRS that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organization for Certified Public Accountants requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, costs, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

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

During the current year, the Group re-assessed the residual values of property, plant and equipment except lands, which resulted in calculating the residual value of these items at 1.8% of the cost of the assets. As a result, the depreciation charge of the aforementioned items has been reduced by SAR 811 million, for the period ended 31 December 2020, resulting in a decrease in the operating costs for the period by the same amount and the impact is expected to be same on the depreciation charge in the following years (note 9).

5.1 Use of estimates and assumptions

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

Impairment of non-financial assets

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

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

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

Provision for impairment in inventories

Inventory is stated at cost or net realizable value, whichever is lower. The amount of write-off and any reduction in inventory to the net realizable value and inventory losses is recognized as an expense in the same period in which the write-off or expense occurred. A provision (if necessary) is made for obsolete, slow moving and damaged inventories in accordance with the Group's policy.

The Group re-assesses the net realizable value in each subsequent period in accordance with the Group's policy. When the circumstances that previously caused inventories to be written down below cost no longer exist or when there is clear evidence of an increase in net realisable value because of changed economic circumstances, the amount of the write-down is reversed.

5 Use of estimates, assumptions and judgements - continued

5.1 Use of estimates and assumptions - continued

Provisions

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

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

Useful lives of property, plant and equipment

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

Residual value

The residual value of the asset represents the estimated amount that the entity will receive from the disposal of the asset less the estimated disposal costs, if the asset is indeed of age and in the condition it is expected to be in at the end of its useful life.

The management reconsider the residual value of the asset at least at the end of each financial year, and if expectations differ from previous estimates, this is treated as a change in accounting estimate, in accordance with IAS 8 "Accounting Policies, Changes in Accounting Estimates, and Errors".

Assumptions for employees' benefits obligation

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

Asset retirement obligation (ARO)

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

5 Use of estimates, assumptions and judgements – continued

5.1 Use of estimates and assumptions - continued

Zakat and tax

The Company and its subsidiaries are subject to the legislation of the General Authority of Zakat and Tax ("GAZT"). Accrual of Zakat is recognised in the consolidated statement of income. Additional zakat and tax liabilities, calculated by Authorities, if any, related to prior years zakat declaration is recognised in the year in which final declaration is issued.

Some of the shareholders and foreign shareholders in the Group are subject to income tax. Tax expense, which includes current tax expense and deferred tax, is charged to the statement of income of the Company and its subsidiaries as per the legislation of the General Authority of Zakat and Tax.

Tax expense, which includes current tax expense and deferred tax, is charged to the consolidated statement of income.

The current tax payable is calculated on the basis of the taxable income for the year. The tax income differs from the net income presented in the consolidated statement of income because it excludes taxable or deductible items of income or expense in subsequent years and excludes items that are not taxable or non-deductible. The Group's liabilities are charged to the current tax using the applicable tax rates or substantially expected to be applied at the reporting date.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for the purposes of the financial report and tax amounts used for tax purposes. Deferred tax liabilities are normally recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that there will be taxable income that can be used against temporary differences that are deductible. These assets and liabilities are not recognised in the event that temporary differences arise from the initial recognition of goodwill or return to assets or liabilities in an ineffective operation over tax or accounting income except in the case of a business combination.

Deferred tax liabilities relating to temporary taxable differences arising from investments in subsidiaries, joint operations and associates are recognised, except when the Group has the ability to reverse these temporary differences. These temporary differences may not be reversed in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax is calculated on the basis of the tax rates expected to be applied in the period in which the liability is settled, or the asset is recognised based on the applicable laws or substantially expected to be enacted at the reporting date. The deferred tax is charged or reversed from the consolidated statement of income except in the case that it is attributable to items carried or reversed directly from equity. In this case, deferred tax is treated directly in equity.

5 Use of estimates, assumptions and judgements – continued

5.1 Use of estimates and assumptions - continued

Fair value for financial instrument

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

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

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

When determining the fair value of financial instrument that are not traded in an active market because there is no market that can be monitored to provide pricing information on selling assets or transferring liabilities at the measurement date, the fair value measurement assumes that the transaction takes place on that date, taken into account from the perspective of a market participant who holds the asset or owes the obligation. This assumed transaction will provide the basis for estimating price to sell the asset or transfer the liability.

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

Financial instruments that are measured at fair value or disclosed in the consolidated financial statements are categorized within the fair value hierarchy based on the inputs used in the valuation techniques shown as follows:

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

Accrued revenue

Accrued electricity revenue for the period that are not yet invoiced at the date of the reporting are recognized in the consolidated statement of income, which is calculated based on estimates, assumptions and internal policies that depends fundamentally on management experience.

Projects under progress accrual

Capital projects in progress are recognised at cost, which represents the contractual liabilities of the Company to create assets (such as construction, industrial facilities, etc.). Cost of such assets is recognised as capital projects-in-progress and represented by the value of work performed, using the same principles as the assets acquired.

5 Use of estimates, assumptions and judgements – continued

5.1 Use of estimates and assumptions - continued

Provision for Expected Credit Loss ('ECL') for receivable

The Group applies the simplified and general method for assessing expected and specific credit losses under IFRS 9.

The Group uses the general model to estimate expected credit losses for government and semi-government entities and financial assets at amortized cost. Expected credit losses are calculated over 12 months, or projected credit losses over a lifetime in which the credit value has not decreased or the credit values has decreased, based on the change in the credit risk associated with the financial instrument.

The Group uses the simplified model using a provision matrix to measure the expected credit losses for trade receivables from individual customers, which consist of a very large number of small balances.

The Group reviewed the important sources of uncertainties related to COVID-19 pandemic. The management believes that there is no material impact of the existence of the pandemic on the financial statements for the year ended 31 December 2020. The financial statements included the effect of applying changes in assumptions about the rate of inflation and gross domestic product "GDP" resulting from the COVID-19 pandemic when applying the ECL. The management continues to monitor the situation, and any required changes will be reflected in future reporting periods, and the Group does not expect material impacts related to the years 2021 onwards.

To measure expected credit losses, trade receivables are Grouped based on the characteristics of the joint credit risk and the days in which they are due. Historical loss rates are adjusted to reflect current and future information in accordance with indicators of macroeconomic activity that affect customers' ability to settle receivables. The Group has defined gross domestic product and inflation as primary inputs for adjusting historical loss ratios according to expected changes to these factors.

Discount rate for lease contract

The management uses estimates to determine the incremental borrowing rate for calculating the present value of the minimum lease payments.

5.2 Use of judgements in applying the Group's significant accounting policies

5.2.1 Joint operations - Independent Power Producers

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities relating to the arrangement.

Based on the Group's control assessment, investments held in companies are classified as joint operations. Based on management's judgement, the contractual arrangement establishes that the parties to the joint arrangement share their interests in all assets relating to the arrangement.

Therefore, the Group recognises in relation to their interest in assets, liabilities, income and expenses in the above-mentioned joint operations.

5.2.2 Equity Accounted Investment

The Group determines the significant impact on companies that it owns directly or indirectly (for example through subsidiaries), 20 percent or more of the voting power of the investee, it is presumed that the entity has significant influence, unless it can be clearly demonstrated that this is not the case. Conversely, if the entity holds, directly or indirectly (for example through subsidiaries), less than 20 % of the voting power of the investee, it is presumed that the entity does not have significant influence, unless such influence can be clearly demonstrated. A substantial or majority ownership by another investor does not necessarily preclude an entity from having significant influence.

SAUDI ELECTRICITY COMPANY

(A Saudi Joint Stock Company)

Notes to the consolidated financial statements for the year ended 31 December 2020

(All amounts in thousands Saudi Riyals unless otherwise stated)

6 Summary of significant accounting policies**6.1 Basis of consolidation of financial statements****6.1.1 Subsidiaries**

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

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

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

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

Non-controlling interests are measured by their proportionate share of the identifiable net assets of the acquiree at the date of acquisition.

The Group re-assesses controls of the investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. The consolidation of a subsidiary is commenced when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Subsidiaries are fully consolidated from the date on which control is transferred to the Group and deconsolidated from the date that control ceases. The share of income or loss and net assets not controlled by the Group are presented separately in the consolidated statement of income and within equity in the consolidated statement of financial position. If the Group retains any share in the former subsidiary, that interest is measured at fair value on the date that control ceases.

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

These consolidated financial statements have been prepared for the Saudi Electricity Company and its following subsidiaries:

| Subsidiary Company's name | Country of registration and place of business | Ownership in ordinary shares % | | Principal activity |
|--|---|--------------------------------|------------------|--------------------------------|
| | | 31 December 2020 | 31 December 2019 | |
| National Grid S.A. Company "Grid Company" | Kingdom of Saudi Arabia | 100 | 100 | Transmission Telecommunication |
| Dawiyat Telecommunication Company | Kingdom of Saudi Arabia | 100 | 100 | cation |
| Electricity Sukuk Company | Kingdom of Saudi Arabia | 100 | 100 | Financing Projects |
| Saudi Electricity for Projects Development Co. (business not commenced) | Kingdom of Saudi Arabia | 100 | 100 | Management |
| Saudi Electricity Global Sukuk Company | Cayman Islands | 100 | 100 | Financing |
| Saudi Electricity Global Sukuk Company – 2 | Cayman Islands | 100 | 100 | Financing |
| Saudi Electricity Global Sukuk Company – 3 | Cayman Islands | 100 | 100 | Financing |
| Saudi Electricity Global Sukuk Company – 4 | Cayman Islands | 100 | 100 | Financing |
| Saudi Electricity Global Sukuk Company – 5 | Cayman Islands | 100 | - | Financing |
| Saudi Power Procurement Company | Kingdom of Saudi Arabia | 100 | 100 | Principal Buyer |
| Dawiyat Integrated Company for Telecommunications and Information Technology | Kingdom of Saudi Arabia | 100 | 100 | Telecommunication |
| Saudi Energy Production Company (activity has not started) | Kingdom of Saudi Arabia | 100 | - | Energy Generation |

SAUDI ELECTRICITY COMPANY**(A Saudi Joint Stock Company)****Notes to the consolidated financial statements for the year ended 31 December 2020**(All amounts in thousands Saudi Riyals unless otherwise stated)

6 Summary of significant accounting policies - continued**6.1 Basis of consolidation of financial statements – continued****6.1.1 Subsidiaries - continued**

These consolidated financial statements include the assets, liabilities and results of operations of the subsidiaries referred to in the table above. The percentage of voting rights owned by the Company in subsidiaries is not different from that of the ordinary shares held. The financial year of the subsidiaries starts from the beginning of January and ends at the end of December of each calendar year. The following is a breakdown of the Saudi Electricity Company's subsidiaries:

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

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

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

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

Dawiyat Telecom Company main activity is the construction, leasing, managing and operating of electric and fibre optics networks to provide telecommunication services.

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

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

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

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

4. Saudi Electricity for Projects Development Company was established in the Kingdom of Saudi Arabia as a limited liability company. The company's activity is to manage construction projects, develop detailed designs, purchase materials, and execute projects in the energy sector.
5. Saudi Electricity Global Sukuk Company was established in the Cayman Islands as a limited liability company. The company was established to provide the necessary services and support for the issuance of international bonds and Sukuks.
6. Saudi Electricity Global Sukuk Company – 2 was established in the Cayman Islands as a limited liability company. The company was established to provide the necessary services and support in the issuance of international bonds and Sukuks.

SAUDI ELECTRICITY COMPANY**(A Saudi Joint Stock Company)****Notes to the consolidated financial statements for the year ended 31 December 2020**(All amounts in thousands Saudi Riyals unless otherwise stated)

6 Summary of significant accounting policies - continued**6.1 Basis of consolidation of financial statements – continued****6.1.1 Subsidiaries - continued**

7. Saudi Electricity Global Sukuk Company – 3 was established in the Cayman Islands as a limited liability company. The company was established to provide the necessary services and support in the issuance of international bonds and Sukuks.

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

9. Saudi Electricity Global Sukuk Company – 5 was established in the Cayman Islands as a limited liability company. The company was established to provide the necessary services and support in the issuance of international bonds and Sukuks.

10. The Group has established the Saudi Power Procurement Company, wholly owned subsidiary by the Saudi Electricity Company under Commercial Registration No. 1010608947 dated 31 May 2017. The main activity of the Company is to carry out the main buyer's activity in accordance with the provisions of the license issued by the Electricity and Co-Generation Regulatory Authority which includes offer power generation projects, purchasing and selling power and perform the related agreements.

The Saudi Company for Power Purchase (a wholly owned subsidiary) has signed renewable energy purchase agreements with the following companies:

- Dumat Al-Jandal Wind Company to produce electricity for a period of 20 years from the date of commencing commercial operation which is expected in January 2022.

- Sakaka Solar Energy Company to produce electricity for a period of 25 years from the date of commencing commercial operation, and it is expected in July 2020.

According to these agreements, the Saudi Company for Power Purchase is committed to purchase energy produced by the aforementioned companies as per pre-agreed tariff under these agreements.

11. Dawiyat Integrated Company for Telecommunications and Information Technology is a limited liability company established in Kingdom of Saudi Arabia, Riyadh under the Company's Memorandum of Association on 23 Duhl Qida 1439 (corresponding to 5 August 2018) with C.R No 1010455797 and is fully owned by the Saudi Electricity Company.

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

12. The Saudi Energy Production Company is a limited liability company established in Riyadh, Kingdom of Saudi Arabia, under Commercial Registration No. 1010656214, dated 3 Safar 1442 (corresponding to 20 September 2020), is wholly owned by the Saudi Electricity Company. The main activity is electrical power generation, water purification and water desalination.

SAUDI ELECTRICITY COMPANY

(A Saudi Joint Stock Company)

Notes to the consolidated financial statements for the year ended 31 December 2020

(All amounts in thousands Saudi Riyals unless otherwise stated)

6 Summary of significant accounting policies – continued**6.1 Basis of consolidation of financial statements – continued****6.1.2 Joint-operations**

The Group has various arrangement contracts for energy production projects in order to develop, build, operate, and maintain power plants throughout the Kingdom. One of the main inputs to power plants is the fuel used in the turbines to produce electricity, which is sold to the Company at a subsidized price agreed between the Group and Saudi Aramco (the only supplier of fuel in the Kingdom of Saudi Arabia) and is supplied to the power plant owned by the projects referred to. It is free of charge according to agreements with the Group's partners in Independent Power Producers.

There are standard agreements for independent power projects. Under the terms of these arrangements, independent power producers build and operate power plants using the fuel provided by the Group. The Group purchases all the power generated for the plants.

A joint arrangement is an arrangement in which two or more parties have joint control. Joint operations are divided into joint ventures or joint operation based on relevant rights and obligations. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

Based on the valuation of the Group's control, investments held in four different companies are classified as joint operations. Based on the management's judgment, the contractual arrangement provides that the parties share all joint operation assets. The following is a breakdown of the Company's joint operations:

| <i>Joint Operations</i> | <i>Country of registration and place of business</i> | <i>Ownership percentage shares%</i> | |
|---|--|-------------------------------------|-----------------------------|
| | | <i>31 December 2020</i> | <i>31 December 2019</i> |
| Independent Power Producers | | | |
| Hajr for Electricity Production Company | Kingdom of Saudi Arabia | 50 | 50 |
| Rabigh Electricity Company | Kingdom of Saudi Arabia | 20 | 20 |
| Dhuruma Electricity Company | Kingdom of Saudi Arabia | 50 | 50 |
| Al Mourjan for Electricity Production Company | Kingdom of Saudi Arabia | 50 | 50 |

1. Pursuant to the Board of Directors' Resolution No. 4/95/2010 dated 12th Ramadan 1431H corresponding to 22nd August 2010, the Group established Hajr for electricity production company (a closed joint stock company) with a share capital of SAR 2 million. During 2011, a new shareholder was admitted and the capital was increased by SAR 8 million to SAR 10 million, fully paid, resulting in the Group's share changing to 50% of total shareholder's equity. Furthermore during 2015, the Group contributed additional capital to Hajr for Electricity Production Company amounting to SAR 1,248 million. The additional contribution of capital was achieved by converting a loan previously granted by the Group, increasing the Group's share in Hajr for Electricity Production Company's equity to SAR 1,253 million.

2. Pursuant to the Board of Directors' Resolution No. 06/76/2008 dated 26th Jumad Awal 1429H corresponding to 3rd June 2008, the Group established Rabigh Electricity Company (a closed joint stock company) with a share capital of SAR 2 million. During 2009, Rabigh Electricity Company increased its capital from SAR 2 million to SAR 10 million by admitting a new shareholder and the Group's share changed to 20% of the total shareholder's equity.

During 2013, as per a shareholder's agreement, the Group contributed additional capital to Rabigh Electricity Company amounting to SAR 183 million – by converting SAR loan previously granted by the Group, increasing the Group's share in Rabigh Electricity Company's equity to SAR 185 million.

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

SAUDI ELECTRICITY COMPANY

(A Saudi Joint Stock Company)

Notes to the consolidated financial statements for the year ended 31 December 2020

(All amounts in thousands Saudi Riyals unless otherwise stated)

6 Summary of significant accounting policies – continued**6.1 Basis of consolidation of financial statements – continued****6.1.2 Joint-operations - continued**

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

6.1.3 Equity-accounted investees

Companies in which the Company has the ability to exercise significant influence over operating and financial policies and joint venture are recorded in the consolidated financial statements using the equity method of accounting. The shares in associates and joint ventures are recognised using the equity method of accounting and are initially recognised at cost, which includes transaction costs. After initial recognition, the consolidated financial statements include the Group's share of income or loss and other comprehensive income of the investee companies using the equity method until the date that such significant influence or joint control ceases.

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

| Equity-accounted investees | Country of registration and activity | Ownership percentage shares % | |
|---|--------------------------------------|---|------------------|
| | | 31 December 2020 | 31 December 2019 |
| Gulf Cooperation Council Interconnection Authority | Kingdom of Saudi Arabia | 31.6 | 31.6 |
| Gulf Laboratory Company for Electronical Equipment Inspection | Kingdom of Saudi Arabia | 25 | 25 |
| Al Fadhly Co-Generation Company | Kingdom of Saudi Arabia | 30 | 30 |
| Saudi Green Company for Carbon Services | Kingdom of Saudi Arabia | 51 | 51 |
| Effective ownership percentage shares % | | | |
| Joint Venture | Country of registration and activity | Effective ownership percentage shares % | |
| | | 31 December 2020 | 31 December 2019 |
| Global Data Hub Company | Kingdom of Saudi Arabia | 50 | 50 |

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

SAUDI ELECTRICITY COMPANY**(A Saudi Joint Stock Company)****Notes to the consolidated financial statements for the year ended 31 December 2020**(All amounts in thousands Saudi Riyals unless otherwise stated)

6 Summary of significant accounting policies - continued**6.2 Foreign currencies***(i) Functional and presentation currency*

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

(ii) Foreign currency transaction

Foreign currencies are initially recorded at functional currency spot rates at the date the transaction first qualifies for recognition. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date.

Differences arising on translation of monetary items are recognised in the consolidated statement of income.

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

Foreign exchange differences resulting from the translation of deferred cash flow hedges are recognised to the extent that the hedge is effective in the statement of other comprehensive income.

6.3 Cash and cash equivalents

Cash and cash equivalents consist of cash in hand and cash in current accounts with banks and other short-term high-liquidity investments with original maturities of three months or less (if any) available to the Group without any restrictions.

6.4 Property, plant and equipment

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

When parts of property, plant and equipment are significant in cost in comparison to the total cost of the item, and where such parts/ components have a useful life different from the other parts and required to be replaced at different intervals, the Group shall recognise such parts as individual components of the asset with specific useful lives and depreciate them accordingly. Likewise, when a major overhaul (planned or unplanned) is performed, its directly attributable cost is recognised in the carrying amount of property, plant and equipment if the recognition criteria are satisfied. The useful life of a major overhaul is generally equal to the period up to the next scheduled overhaul. The carrying amount of the replaced part is derecognised. If the next major overhaul occurs prior to the planned date, any existing net book value of the previous major overhaul is expensed immediately. All other repair and maintenance costs are recognised in the consolidated statement of income as incurred.

Depreciation is calculated from the date the item of property, plant and equipment is available for its intended use or in respect of self-constructed assets from the date such property, plant and equipment are completed and ready for the intended use. Depreciation on assets is calculated on a straight-line basis over the useful life of the asset as follows:

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

6 Summary of significant accounting policies - continued

6.4 Property, plant and equipment – continued

Land and capital work in progress are not considered for depreciation. The property, plant and equipment' residual values, useful lives and methods of depreciation are reviewed, and adjusted prospectively if appropriate, at the end of each year.

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

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.

6.5 Leases

As a lessee

At inception of a contract, the Group assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for financial consideration. The Group assess transfer of right of use by assessing the client have ability over use period with the following:

- A. right to receive most of the economic benefits from using the determined assets.
- B. right to control the determined asset.

The Group recognizes a right-of-use asset at the commencement date of the lease (i.e., the date the underlying asset is available for use) and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any re-measurement of lease liabilities. The cost of right-of-use assets includes the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, any initial direct costs incurred and an estimate of costs to dismantle, less any lease incentive received. The estimated useful life of right-of-use assets are determined based on a lease term.

At the commencement date, the lease liability is initially measured at the present value of the lease payment that are not paid at that date. The Group discounted lease payments using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the Group use the incremental borrowing rate.

After commencement date, the Group measure the liability by:

- A. increasing the carrying amount to reflect the interest on lease liability
- B. reducing the carrying amount to reflect the lease payment made; and
- C. re-measuring the carrying amount to reflect any reassessment or lease modifications or to reflect modified or substantially fixed rent payment which re-measured when there are change in future lease payment generated from the change or modification on the rate used or there are change in the estimate of expected amount or the Group change its evaluation if the Group will purchase or extend or finalize.

Any such re-measurement in the lease liability is adjusted against the carrying value of the right-of-use asset or charged to consolidated income statement if carrying value of the related asset is zero.

Short-term leases

The Group has elected not to recognise right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Extension option

In case of lease contracts which offers the extension option, the Group assess if there is reasonably certainty to exercise an option when commencing the contract. The Group reassesses whether it is reasonably certain to exercise the options if there is a significant event or significant change in circumstances within its control.

6 Summary of significant accounting policies - continued

6.5 Leases – continued

As a lessor

When the Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or operating lease.

To classify each lease, the Group makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease' if not, then it is an operating lease. As part of this assessment, the Group considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

At the initial measurement of the finance lease contracts: The lessor shall use the interest rate implicit in the lease to measure the net investment in the lease.

At the commencement date, the lease payments included in the measurement of the net investment in the lease comprise the following payments for the right to use the underlying asset during the lease term that are not received at the commencement date:

- (a) Fixed payments;
- (b) Variable lease payments that depend on an index or a rate, initially measured using the index or rate;
- (c) Any residual value guarantees provided to the Group by the lessee, a party related to the lessee or a third party unrelated to the Group that is financially capable of discharging the obligations under the guarantee; and
- (d) The exercise price of a purchase option if the lessee is reasonably certain to exercise that option.

At subsequent measurement, the Group shall recognize finance income over the lease term based on a pattern reflecting a constant periodic rate of return on the lessor's net investment in lease.

At the initial measurement of the operating lease contracts: The Group recognises lease payments from operating leases as income on either a straight-line basis or another systematic basis. The Group applies another systematic basis if that basis is more representative of the pattern in which benefit from the use of the underlying asset is diminished.

At the subsequent measurement, the Group applies IAS 36 to determine whether an underlying asset subject to an operating lease is impaired and to account for any impairment loss identified.

When the Group is an intermediate lessor, it accounts for its interests in the head lease and the sub-lease separately. It assesses the lease classification of a sub-lease with reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset. If the head lease is a short-term lease to which the Group applies the exemption, the sublease shall be classified as an operating lease.

If an arrangement contains a lease and non-lease components, the Group applies IFRS 15 to allocate the consideration in the contract.

The Group recognizes lease payments received under operating leases as income on a straight-line basis over the lease term as part of the "other income".

6 Summary of significant accounting policies - continued

6.6 Investment properties

Investment properties are lands and building held for purposes other than using it in Group's operating activities. The Group holds investment properties for rental income and/or capital appreciation purposes. Investment properties are measured in accordance with the cost model and depreciation is calculated on straight line basis over the useful life:

| | |
|----------|----------|
| Building | 40 years |
|----------|----------|

Investment properties are derecognized when they are sold or when they become occupied by the owner or if they are not held to increase their value.

6.7 Intangible assets

Intangible assets acquired separately are measured at cost upon initial recognition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses, if any.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset, are accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the consolidated statement of income in the expense category consistent with the function of the intangible asset. Amortisation of intangible assets is calculated on a straight-line basis over the useful life of the asset as follows:

| | |
|-----------------------|----------|
| Software | 10 years |
| Right-of-use pipeline | 20 years |

The useful life of an intangible asset with a definite life is reviewed regularly to determine whether there is any indication that its current life assessment continues to be supportable. If not, the change in the useful life assessment is made on a prospective basis. Intangible assets with indefinite useful lives are not amortised but are tested for impairment annually and whenever there is an indication that the intangible asset may be impaired either individually or at the aggregated cash generating unit level.

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

6.8 Impairment of non-financial assets

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less cost of disposal and its value in use. For the purpose of assessing impairment, assets are Grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or Group of assets (cash generating unit, "CGU"). Non-financial assets other than goodwill that have been fully or partially impaired are reviewed for possible reversal of all or part of the impairment loss at the end of each reporting period.

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

6 Summary of significant accounting policies - continued

6.9 Financial instruments

6.9.1 Financial assets

6.9.1.1 Recognition and initial measurement

A financial asset is initially measured (unless it is a trade receivable without a significant financing component) at fair value plus 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.

6.9.1.2 Classification and subsequent measurement

Under IFRS 9, on initial recognition, a financial asset is classified as measured at amortised cost or fair value through other comprehensive income - debt investment; fair value through other comprehensive income - equity investment; or fair value through profit and loss. The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. Derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never separated. Instead, the hybrid financial instrument as a whole is assessed for classification.

Financial assets at amortised cost

Financial assets are measured at amortised cost if it meets both of the following conditions and is not designated as at fair value through profit or loss:

- 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.

Financial assets at fair value through other comprehensive income

Financial assets are measured at fair value through other comprehensive income 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 achieved by both collecting contractual cash flows and selling financial assets; 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 other comprehensive income. This election is made on an investment-by-investment basis.

All financial assets not classified as measured at amortised cost or fair value through other comprehensive income as described above are measured at fair value through profit or loss. This includes all derivative financial assets. On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at fair value through other comprehensive income as at fair value through profit or loss if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

6 Summary of significant accounting policies - continued

6.9 Financial instruments - continued

6.9.1 Financial assets – continued

6.9.1.2 Classification and subsequent measurement - continued

The following accounting policies apply to the subsequent measurement of financial assets.

Financial assets at fair value through Consolidated profit or loss

These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in the consolidated statement of income. As at 31 December 2020, the Group does not have any of these assets.

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 the statement of income. Any gain or loss on de-recognition of investment is recognized in consolidated statement of income.

Financial assets at fair value through other comprehensive income (Debt investments)

These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in the consolidated statement of income. Other net gains and losses are recognised in other comprehensive income. On de-recognition, gains and losses accumulated in other comprehensive income are reclassified to the consolidated statement of income. As at 31 December 2020, the Group does not have any of these assets.

Financial assets at fair value through other comprehensive income (Equity investments)

These assets are subsequently measured at fair value. Dividends are recognised as income in the income statement. Any gain or loss on de-recognition or impairment of the investment is recognised in equity and will not be allowed to reclassify to the consolidated statement of income.

6.9.1.3 De-recognition

The Group derecognises a financial asset mainly (or derecognize part of the financial asset or part of similar financial assets) when:

- the contractual rights to the cash flows from the financial asset expire or;
- The Group 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;
- Retains all of the risks and rewards of ownership and it does not retain control of the financial asset.

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 consolidated statement of income.

6.9.1.4 Offsetting

Financial assets and financial liabilities are offset, and the net amount is 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 assets and settle the liability simultaneously.

6 Summary of significant accounting policies - continued

6.9 Financial instruments - continued

6.9.1 Financial assets – continued

6.9.1.5 Impairment of financial asset

The expected credit loss model applies to financial assets measured at amortized cost, and debt investments at FVOCI, but not to investments in equity instruments.

The financial assets at amortized cost consist of trade receivables for sale of electricity and financial assets mentioned above.

Under IFRS 9, loss allowances are measured on either of the following bases:

- 12-month ECLs: these are ECLs that result from possible default events within the 12 months after the reporting date; and
- lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.

The methodology for recognizing impairment has been revised to confirm to the requirements of IFRS 9 for each of these asset classes.

The impact of the change in impairment methodology on the Group's equity is disclosed as follows:

1) Trade receivables

For trade receivables, the Group applies the simplified approach and general approach for expected credit losses prescribed by IFRS 9.

2) Financial assets (Investment in debit instruments)

Financial assets at amortized cost are considered for impairment provision and determined as 12 months expected credit losses.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating credit loss, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including available information.

Credit-impaired financial assets

At each reporting date, the Group assesses whether financial assets carried at amortised cost and debt investment at FVOCI are credit impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future recoveries of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event; or
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganization.

An assessment is made as to whether the credit risk of a financial instrument has increased substantially since its initial recognition by taking into account the change in the risk of default occurring over the remaining life of the financial instrument.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information.

6 Summary of significant accounting policies - continued

6.9 Financial instruments - continued

6.9.1 Financial assets – continued

6.9.1.5 Impairment of financial asset - continued

The Group believes that the credit risk on the financial instrument has not increased significantly since initial recognition if the instrument is identified as having a low credit risk at the reporting date. A financial instrument with a low credit risk is identified if: (i) the financial instrument has a low risk of default; and (ii) the borrower has a strong ability to meet its contractual cash commitments in the near term. (iii) adverse changes in long-term economic and trade conditions, but not necessarily, and a reduction in the borrower's ability to meet contractual cash flow obligations.

The expected credit losses are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive). The expected credit losses are discounted at the effective interest rate of the financial asset.

Provisions for losses on financial assets measured at amortized cost are deducted from the gross carrying amount of the assets. For debt securities at fair value at other comprehensive income, the loss allowance is recognized in other comprehensive income instead of reducing the carrying amount of the asset.

6.9.2 Financial liabilities

The Group classifies non-derivative primary liabilities in the following categories: financial liabilities at fair value through profit or loss and other financial liabilities.

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

Loans, sukuks and government loans is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the de-recognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the consolidated statement of income.

6 Summary of significant accounting policies - continued

6.9 Financial instruments – continued

6.9.3 Derivative financial instruments and hedging activities

The Group classifies a financial instrument as an equity instrument according to the content of the agreements entered and the definition of the equity instrument. An equity instrument is any contract that proves the existence of a residual share in the assets of the entities, according to the relevant agreements, and does not include any liability to deliver cash or other financial assets to another entity.

The equity instrument is initially recognised at fair value, and differences between the face value and the current value are recognised in consolidated equity

All related distributions are recognised in the consolidated statement of changes in equity under retained earnings.

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

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

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

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

Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in the consolidated statement of other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the consolidated statement of income within 'Other income / expense- net'.

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

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

6.10 Employees' benefits

Short-term obligations

Short-term benefits are those amounts expected to be settled wholly within 12 months of the end of the period in which the employees render the service that gives rise to the benefits. Liabilities for wages and salaries, including non-monetary benefits and accumulating leaves and benefits-in-kind that are expected to be settled wholly within twelve months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liabilities are presented as current employee benefit obligations under "accruals and other payables" in the consolidated statement of financial position.

6 Summary of significant accounting policies - continued

6.10 Employees' benefits - continued

Post-employment obligation

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

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

The liability recognised in the consolidated statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method.

The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligation.

Past-service costs are recognised immediately in the consolidated statement of income.

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

Defined contribution plan

The Company operates the defined contribution plan which named the savings plan. The Company's contribution to the contribution plans identified as an expense is recognised in the consolidated statement of income when the related service is provided. The share of the company will only be paid at the written request of the employee to terminate the plan or upon retirement, death or full disability of the employee in accordance with the approved regulations. The assets of the plan are accounted for in accordance with the Company's accounting policies where the liabilities and assets of the plan were offset.

Termination benefits

The Group pays termination benefits upon the termination of the employee's services before the date of normal retirement, or when the employee accepts the voluntary termination of his services. The Group recognises termination benefits at the earlier of when;

- a. The Group can no longer withdraw the offer; or
- b. The Group recognises restructuring costs and includes termination benefits in the event of an offer to encourage retirement, termination benefits are measured based on the number of employees expected to accept the offer. Benefits that occur more than 12 months after the end of the reporting period are discounted at their present value.

6 Summary of significant accounting policies - continued

6.11 Asset retirement obligation

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

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

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

6.12 Government grants

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

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

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

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

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

The Company assesses the relationship between the grant and related expenses when it is recognised. A provision of the estimated-results obligations is provided if it seems probable to pay the grant that was recognised previously.

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

Government grants related to non-depreciable assets which require the attainment of certain obligations are recognised in the consolidated statement of income over the periods where the cost of achievement of obligations are incurred.

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

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

6 Summary of significant accounting policies – continued

6.12 Government grants -continued

The government grant is recognized by the Group, which becomes payable as a compensation for expenses or losses already incurred, which represents the coverage of the gap in the actual and estimated operating income or for the purpose of providing immediate financial support to the Group without future costs related to it in the Group's consolidated statement of income. The Company assesses the relationship between the grant and related expenses upon recognition.

The grant is recognized in the consolidated statement of income even if there are no conditions specifically related to the Group's operating activities other than the requirement for the Group to operate in certain industrial regions or sectors.

6.13 Provisions

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

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

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

6.14 Deferred revenue

Deferred revenue relates to electricity service connection tariffs received from consumers which are deferred and recognised on a straight-line basis over the average useful lives of the equipment used in serving the consumers, estimated 35 years.

6.15 Zakat

The Company and its subsidiaries are subject to Zakat according to the regulations of the General Authority for Zakat and Income in the Kingdom of Saudi Arabia ("the Authority"). Zakat is recognised in the consolidated statement of income of the Group. Additional Zakat liabilities, calculated by the Authority, if any, relating to the prior year's zakat declaration is recognised in the year in which final declaration is issued.

6.16 Income tax and withholding tax

Some of shareholders and Foreign shareholders in the Group are subject to income tax. Tax expense, which includes current tax expense is charged to the consolidated income statement.

The Group deducts taxes on certain transactions with non-resident entities in the Kingdom of Saudi Arabia according to the Saudi Income Tax Law.

The share of the foreign shareholders is taxed on its share in the income of the Company invested directly and indirectly in accordance with the requirements of the General Authority for Zakat and Income.

The current tax payable is calculated on the basis of the taxable income for the year. The tax income differs from the net income presented in the consolidated statement of income because it excludes taxable or deductible items of income or expense in subsequent years and excludes items that are not taxable or non-deductible. The liability is charged to the Group for the current tax using the applicable tax rates or substantially expected to be applied at the reporting date.

6 Summary of significant accounting policies - continued

6.17 Dividend distribution

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

6.18 Statutory reserve

In accordance with the Holding Company's Articles of Association, the Holding Company is required to transfer 10% of the net consolidated income to the statutory reserve until this reserve reaches 30% of the capital.

6.19 Revenue recognition

The Group recognises the following revenues from contracts with customers:

- Revenue from sale of electricity ;
- Revenue from meter reading, maintenance and preparation of bills preparation;
- Revenue from electricity connections;
- Revenue from transmission system; and
- Other operating revenue.

The Group recognises revenue when it transfers control of a good or service to a customer either over time or at a point in time. When connecting electricity to customers, the Group provides the following services:

- Connecting the customer to the electricity grid;
- Supply of electricity
- The right of the customer to use the meter;
- Maintenance of the meter.

For the purpose of recognizing revenue in accordance with IFRS 15, the above-mentioned services are not separate services or goods but (collectively referred to as "bundled services") are considered as single performance obligation for all services or goods secured by the bundled services. The details of the above revenues and the method of their recognition in accordance with IFRS 15 are as follows:

6.19.1 Revenue from sale of electricity

Revenue from sale of electricity is recognised in the accounting period in which the services are rendered. Revenue from sale of electricity is recognised when customers are invoiced for their electricity consumption measured in kilowatt / hours. Since electricity has no form or shape of its own, the transfer of control is evidenced when a particular bill is generated which forms the basis of consumption of the electricity for the month. There is no volume discounts or variable consideration and there is no unfulfilled obligation that could affect the acceptance of the goods and services.

The performance obligation underlying the revenue stream is not a separate performance obligation and forms part of the bundle services in form of provision of electricity to customers. The payment for such service is due after transfer of the services. Therefore, revenue is recognised at a point in time once the services are transferred to the customer and bills are issued. Electricity sales receivable for the period not yet invoiced at the reporting date are recognized in the consolidated income statement.

6.19.2 Revenue from meter reading, maintenance and preparation of bills

Revenue from meter reading, maintenance and preparation of bills is recognised in the accounting period in which the services are rendered. Revenue from meter reading, maintenance and preparation of bills represents the monthly fixed tariff based on the capacity of the meter used by the consumers. For this fixed-price obligation, revenue is recognised based on the actual service provided until 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.

Revenue from meter reading, maintenance and bills preparation tariff that is not billed as at the reporting date is recognised in the consolidated income statement.

6 Summary of significant accounting policies - continued

6.19 Revenue recognition - continued

6.19.3 Revenue from electricity connections

Electricity service connections received from consumers is deferred and recognised on a straight-line basis over the average useful lives of the equipment used in serving the subscribers. Such connection fee is received once from a customer at the time the customer applies for electricity connection.

The electricity connection fee does not represent a separately identifiable component of the contract to provide ongoing access to the supply of electricity to the customer and it is part of the aforementioned bundle of services provided to customer. The revenue recognition policy is to recognise revenue from such electricity connection fee over the useful lives of the equipment used in serving the subscribers.

6.19.4 Revenue from transmission system

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

6.19.5 Other operating revenue

Other operating revenue comprises of operation and maintenance revenue related to lease of fibre optic cables, sale of water, oil residues, penalty, re-connection, disconnection charges etc. The revenue is recognised upon satisfaction of the related performance obligation.

6.20 Dividend income from investments

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

6.21 Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. To the extent that the Group borrows funds generally and uses them for the purpose of obtaining a qualifying asset, the Group determine the amount of borrowing costs eligible for capitalisation by applying a capitalisation rate to the expenditures on that asset. The capitalisation rate shall be the weighted average of the borrowing costs applicable to the borrowings of the Group that are outstanding during the year, other than borrowings made specifically for the purpose of constructing a qualifying asset. The amount of borrowing costs that the Group capitalises during a period does not exceed the amount of borrowing costs it incurs during that year.

All other borrowing costs are recognised in the consolidated statement of income in the year in which they are incurred.

6.22 Segments reporting

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

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

6 Summary of significant accounting policies - continued

6.23 Fair value

Fair value is the price that may be received against the sale of an asset or the conversion of an obligation in an organized transaction between the market participants on the measurement date. The fair value measurement is based on the assumption that the transaction for the sale of the asset or the transfer of the obligation can occur either:

- In the primary market of the asset or obligation or
- In the absence of the primary market, in the most appropriate markets for the asset or liability.

The Group uses appropriate valuation techniques with surrounding conditions for which sufficient data are available to measure fair value, maximizing the use of appropriate inputs that can be monitored and minimizing the use of inputs that cannot be monitored to the greatest extent possible.

The measurement of the fair value of a non-financial asset takes into account the ability of the market participant to generate economic benefits by using the asset at its maximum and best use or by selling it to another market participant who may use the asset at its maximum and best use.

All assets and liabilities whose fair values are measured or disclosed in the consolidated financial statements are classified in the fair value hierarchy. This is described as follows, based on the lowest input level that is important for the overall measurement:

- Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 - Evaluation techniques where the lowest entry level is important for measuring fair value directly (such as price) or indirectly (derived from price);
- Level 3 - Evaluation techniques where the lowest input level cannot be monitored is important for fair value measurement.

For assets and liabilities that are measured in the financial statements at fair value on a recurring basis, the Group determines whether transfers have been made between hierarchy levels by reassessing the classification (based on the lowest input level that is significant for the overall measurement) at the end of each reporting period.

6.24 Inventories

Inventories include material and supplies for generation, transmission and distribution business, fuel inventory and other materials.

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

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

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

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

6.25 Contingent liabilities

A possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group or present obligation that arises from past events but is not recognised because it is not probable that an outflow of resources embodying economic benefits will be required to settle obligation or the amount of obligation cannot be measured with sufficient reliability. The Group do not recognise the contingent liabilities but only disclose them in the notes to the consolidated financial statements.

6 Summary of significant accounting policies - continued

6.26 Equity instruments

The Group classifies a financial instrument as an equity instrument according to the content of the agreements entered and the definition of the equity instrument. An equity instrument is any contract that proves the existence of a residual share in the assets of the entities, according to the relevant agreements, and does not include any liability to deliver cash or other financial assets to another entity.

The equity instrument is initially recognised at fair value, and differences between the face value and the current value are recognised in consolidated equity

All related distributions are recognised in the consolidated statement of changes in equity under retained earnings.

7 Seasonal changes

The Group's activity and revenues are affected by seasonality due to change in weather conditions during the year. The Group's revenues are significantly reduced during the winter months due to lower power consumption while revenue increases during the summer months due to the increase in electricity consumption due to higher temperatures in the summers. These changes are reflected in the financial results of the Group during the year.

8 Segment reporting and future structure of the Group's activities

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

The main actions of each activity are as follows:

Generation: Generating electricity.

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

Distribution and Subscriber Services: Receiving and distributing power from transmission networks to subscribers, issuance and distribution of consumption bills and collections.

Principal buyer: Purchase of power with the Group companies and from other power producers.

The Group is working on implementing an integrated plan aimed at separating the activities into independent companies, as part of the state's plan to restructure the electrical set up in the Kingdom, and work is underway to develop legal arrangements for it.

The Saudi company entered and activated agreements with its subsidiaries to lease electricity, transmission networks, buy and sell energy for both the generation and distribution activities and the Saudi Power Procurement Company.

The activity separation plan aims to be able to independently measure business performance and results.

The financial information of the Saudi Electricity Company in the following schedule includes the generation activities (the generation license is being transferred to the Saudi Energy Production Company), distribution and subscribers' services, as the procedures are still in progress to separate the generation and distribution activities - until the date of preparing these consolidated financial statements - as part of the company's integrated plan for separation. The financial information of the joint operations presented as an independent sector for the electricity production, generation and distribution, and the financial information of the National Grid S.A. Company also includes the activity of transmission of electricity and the operation and maintenance of the transmission system, the financial information of the Saudi Power Procurement Company includes the value of purchasing electricity from the generation and maintenance sector, generating equipment and other energy production companies, and selling electricity to the distribution sector and the other companies' sector includes the telecommunications sector.

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8 Segment reporting and future structure of the Group's activities – continued
For the year ended 31 December 2020 - in SAR Million

| | Saudi Electricity Company | National Grid S.A Company | Saudi Power Procurement Company | Joint Operations | Other subsidiaries | Intercompany transactions | Total |
|--|---------------------------------|------------------------------|---------------------------------------|---------------------|-----------------------|------------------------------|-----------------|
| Revenue | | | | | | | |
| External customers | 68,549 | - | - | - | 215 | (55) | 68,709 |
| Between sectors | - | 14,252 | 90 | 1,318 | - | (15,660) | - |
| Total revenue | 68,549 | 14,252 | 90 | 1,318 | 215 | (15,715) | 68,709 |
| Cost of sales | | | | | | | |
| Fuel | (7,305) | - | - | - | - | - | (7,305) |
| Purchased energy | (9,136) | - | - | - | - | 90 | (9,046) |
| Operating and maintenance costs | (23,981) | (2,014) | - | (347) | (12) | 15,583 | (10,771) |
| Government fee | (15,072) | - | - | - | - | - | (15,072) |
| Depreciation - Operation and Maintenance | (10,674) | (7,209) | - | (367) | (70) | 55 | (18,265) |
| Depreciation - Right of Use | (153) | - | - | - | - | - | (153) |
| Total cost of sales | (66,321) | (9,223) | - | (714) | (82) | 15,728 | (60,612) |
| General and administrative expenses | (337) | (100) | (77) | (135) | (72) | - | (721) |
| Depreciation - general and administrative | (523) | - | - | - | - | - | (523) |
| Total general and administrative expenses | (860) | (100) | (77) | (135) | (72) | - | (1,244) |
| Other revenue, net | 2,923 | 12 | - | 69 | 19 | (1,441) | 1,582 |
| Fuel settlement expense | (808) | - | - | - | - | - | (808) |
| Finance cost, net | (4,420) | (1,448) | (1) | (450) | - | 1,428 | (4,891) |
| Loss on share of equity | 4 | - | - | - | - | - | 4 |
| Zakat expenses | 137 | 128 | - | 25 | (5) | - | 285 |
| Net (loss) / income for the year | (796) | 3,621 | 12 | 113 | 75 | - | 3,025 |
| As at 31 December 2020 | | | | | | | |
| Property, plant and equipment | 256,114 | 168,313 | - | 10,421 | 1,931 | - | 436,779 |
| Total assets | 431,249 | 168,669 | 2 | 11,853 | 2,202 | (128,525) | 485,450 |
| Total liabilities | 222,499 | 120,674 | - | 9,490 | 1,336 | (116,324) | 237,675 |

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8 Segment reporting and future structure of the Group's activities – continued
For the year ended 31 December 2019 – in SAR million

| | Saudi Electricity Company | National Grid S.A Company | Saudi Power Procurement Company | Joint Operations | Other subsidiaries | Intercompany transactions | Total |
|---|------------------------------|------------------------------|------------------------------------|---------------------|-----------------------|------------------------------|-----------------|
| Revenue | | | | | | | |
| External customers | 64,997 | - | - | - | 99 | (56) | 65,040 |
| Between sectors | - | 13,227 | - | 1,271 | - | (14,498) | - |
| Total revenue | 64,997 | 13,227 | - | 1,271 | 99 | (14,554) | 65,040 |
| Cost of sales | | | | | | | |
| Fuel | (7,576) | - | - | - | - | - | (7,576) |
| Purchased energy | (9,076) | - | - | - | - | 1,271 | (7,805) |
| Operating and maintenance costs | (21,812) | (1,752) | - | (319) | (18) | 13,223 | (10,678) |
| Government fees | (14,494) | - | - | - | - | - | (14,494) |
| Depreciation - operation and maintenance | (10,863) | (7,010) | - | (365) | (36) | 69 | (18,205) |
| Depreciation – Right of use asset | (158) | - | - | - | - | - | (158) |
| Total cost of sales | (63,979) | (8,762) | - | (684) | (54) | 14,563 | (58,916) |
| General and administrative expenses | (404) | (221) | (1) | (125) | (40) | - | (791) |
| Depreciation - general and administrative | (454) | - | - | - | - | - | (454) |
| Total general and administrative expenses | (858) | (221) | (1) | (125) | (40) | - | (1,245) |
| Other income, net | 3,057 | 9 | - | 54 | 18 | (1,482) | 1,656 |
| Fuel settlement expense | - | - | - | - | - | - | - |
| Finance cost, net | (4,398) | (1,497) | - | (473) | 9 | 1,473 | (4,886) |
| Share of loss in equity accounted investees | (40) | - | - | - | - | - | (40) |
| Zakat and deferred tax expenses | (54) | (153) | - | (6) | (8) | - | (221) |
| Net (loss) / Income for the year | (1,275) | 2,603 | (1) | 37 | 24 | - | 1,388 |
| As at 31 December 2019 | | | | | | | |
| Property, plant and equipment | 249,620 | 161,408 | - | 10,765 | 1,176 | - | 422,969 |
| Total assets | 434,138 | 161,818 | 2 | 12,214 | 1,615 | (129,957) | 479,830 |
| Total liabilities | 372,852 | 140,686 | - | 9,705 | 774 | (117,757) | 406,260 |

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9 Property, plant and equipment, net

| | Land | Buildings | Machinery and equipment | Capital spare parts | Transmission and distribution network | Vehicles and heavy equipment | Others | Construction work in progress | Total |
|---------------------------------|------------------|-------------------|-------------------------|---------------------|---------------------------------------|------------------------------|-------------------|-------------------------------|--------------------|
| Cost: | | | | | | | | | |
| At 1 January 2019 | 4,245,097 | 47,773,098 | 183,367,687 | 6,203,629 | 326,145,215 | 1,820,459 | 9,756,743 | 64,494,038 | 643,805,966 |
| Additions | 506,343 | 3,366,868 | 7,283,335 | 344,622 | 19,567,696 | 27,573 | 1,135,457 | 23,152,352 | 55,384,246 |
| Transfers from work in progress | - | - | - | - | - | - | - | (31,808,497) | (31,808,497) |
| Reclassifications | 203,519 | 869,703 | (637,933) | 1,060 | 311,396 | - | (747,745) | - | - |
| Disposals | (91) | (14,643) | (275,575) | (1,105) | (129,079) | (5,314) | - | - | (425,807) |
| At 31 December 2019 | 4,954,868 | 51,995,026 | 189,737,514 | 6,548,206 | 345,895,228 | 1,842,718 | 10,144,455 | 55,837,893 | 666,955,908 |
| Additions | 332,296 | 1,132,152 | 2,402,345 | 154,047 | 20,196,327 | 16,876 | 253,571 | 32,807,878 | 57,295,492 |
| Transfers from work in progress | - | - | - | - | - | - | - | (24,466,328) | (24,466,328) |
| Reclassifications | - | 8,193,592 | (4,779,496) | 8,843 | 350,468 | (186,845) | (3,586,562) | - | - |
| Disposals | (5) | (370) | (43,449) | - | (3,975,705) | (11,409) | (3) | - | (4,030,941) |
| At 31 December 2020 | 5,287,159 | 61,320,400 | 187,316,914 | 6,711,096 | 362,466,318 | 1,661,340 | 6,811,461 | 64,179,443 | 695,754,131 |
| Accumulated depreciation | | | | | | | | | |
| At 1 January 2019 | - | 18,150,286 | 76,428,034 | 2,989,087 | 121,481,764 | 1,480,527 | 5,174,243 | - | 225,703,941 |
| Depreciation for the year | - | 1,663,747 | 6,543,186 | 212,165 | 9,491,434 | 121,145 | 623,547 | - | 18,655,224 |
| Reclassifications | - | 23,094 | (30,482) | 149 | 25,470 | - | (18,231) | - | - |
| Disposals | - | (11,986) | (256,446) | (867) | (97,712) | (5,220) | - | - | (372,231) |
| At 31 December 2019 | - | 19,825,141 | 82,684,292 | 3,200,534 | 130,900,956 | 1,596,452 | 5,779,559 | - | 243,986,934 |
| Depreciation for the year | - | 1,739,662 | 6,770,890 | 357,387 | 9,034,493 | 117,560 | 700,968 | - | 18,720,960 |
| Reclassifications | - | 3,402,172 | (2,167,539) | (154,333) | 1,383,809 | (216,528) | (2,247,581) | - | - |
| Disposals | - | (269) | (4,029) | - | (3,717,574) | (11,221) | - | - | (3,733,093) |
| As at 31 December 2020 | - | 24,966,706 | 87,283,614 | 3,403,588 | 137,601,684 | 1,486,263 | 4,232,946 | - | 258,974,801 |
| Net book value | | | | | | | | | |
| As at 31 December 2019 | 4,954,868 | 32,169,885 | 107,053,222 | 3,347,672 | 214,994,272 | 246,266 | 4,364,896 | 55,837,893 | 422,968,974 |
| As at 31 December 2020 | 5,287,159 | 36,353,694 | 100,033,300 | 3,307,508 | 224,864,634 | 175,077 | 2,578,515 | 64,179,443 | 436,779,330 |

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9 Property, plant and equipment, net – continued

- Land includes pieces of land with a book value of SAR 36 million, against which the title deeds are not transferred to the Group yet.
- The net book values of the Group's property, plant and equipment (other than construction work in progress) is allocated to the main activities as follows:

| | Generation | Transmission | Distribution | General property | Joint operations | Total |
|---------------------------------------|--------------------|---------------------|---------------------|-------------------------|-------------------------|--------------------|
| As at 31 December 2020 | | | | | | |
| Land | 131,113 | 591,091 | 218,964 | 4,345,991 | - | 5,287,159 |
| Buildings | 18,567,088 | 13,815,895 | 470,930 | 2,795,503 | 704,278 | 36,353,694 |
| Machinery and equipment | 84,422,099 | 3,807,391 | 404,923 | 1,816,237 | 9,582,650 | 100,033,300 |
| Capital spare parts | 2,242,086 | 720,826 | 219,495 | 4 | 125,097 | 3,307,508 |
| Transmission and distribution network | - | 132,276,726 | 92,587,908 | - | - | 224,864,634 |
| Vehicles and heavy equipment | 2,584 | 17,689 | - | 154,549 | 255 | 175,077 |
| Others | 1,331,601 | 571,308 | 289,532 | 384,051 | 2,023 | 2,578,515 |
| Net book value - net | 106,696,571 | 151,800,926 | 94,191,752 | 9,496,335 | 10,414,303 | 372,599,887 |
| | Generation | Transmission | Distribution | General property | Joint operations | Total |
| As at 31 December 2019 | | | | | | |
| Land | 131,113 | 591,303 | 218,969 | 4,013,483 | - | 4,954,868 |
| Buildings | 16,918,480 | 11,297,189 | 459,971 | 2,770,064 | 724,181 | 32,169,885 |
| Machinery and equipment | 89,880,098 | 5,280,984 | 489,467 | 1,498,907 | 9,903,766 | 107,053,222 |
| Capital spare parts | 2,303,945 | 687,289 | 230,803 | 9 | 125,626 | 3,347,672 |
| Transmission and distribution network | - | 128,654,465 | 86,339,807 | - | - | 214,994,272 |
| Vehicles and heavy equipment | 4,671 | 339 | 8,341 | 232,512 | 403 | 246,266 |
| Others | 2,344,910 | 848,232 | 396,545 | 773,656 | 1,553 | 4,364,896 |
| Net book value - net | 111,583,217 | 147,359,801 | 88,143,903 | 9,288,631 | 10,755,529 | 367,131,081 |

- During the year, the Group reassessed the residual value of all property, machinery and equipment except for land and some other assets including fully depreciated asset, which resulted in the calculation of the residual value of those items at a rate of 1.8% (note 5.1).

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9 Property, plant and equipment, net – continued

Constructions work in progress

| | <u>Generation</u> | <u>Transmission</u> | <u>Distribution</u> | <u>General property</u> | <u>Joint operations</u> | <u>Total</u> |
|-------------------------------------|-------------------|---------------------|---------------------|-------------------------|-------------------------|-------------------|
| At 1 January 2019 | 18,830,844 | 28,124,402 | 13,194,833 | 4,252,574 | 91,385 | 64,494,038 |
| Additions | 2,905,933 | 8,882,106 | 6,580,339 | 2,686,608 | 11,443 | 21,066,429 |
| Borrowing costs capitalised | 799,193 | 1,015,815 | 217,242 | 53,673 | - | 2,085,923 |
| Transfers from CWIP to fixed assets | (6,034,787) | (16,210,784) | (6,082,194) | (3,387,301) | (93,431) | (31,808,497) |
| Transfer | (126,460) | 94,939 | - | 31,521 | - | - |
| At 31 December 2019 | 16,374,723 | 21,906,478 | 13,910,220 | 3,637,075 | 9,397 | 55,837,893 |
| Additions | 2,871,140 | 11,101,226 | 13,445,505 | 3,684,143 | - | 31,102,014 |
| Borrowing costs capitalised | 649,055 | 787,290 | 234,410 | 35,109 | - | 1,705,864 |
| Transfers from CWIP to fixed assets | (1,782,749) | (10,174,516) | (10,313,482) | (2,193,215) | (2,366) | (24,466,328) |
| As at 31 December 2020 | 18,112,169 | 23,620,478 | 17,276,653 | 5,163,112 | 7,031 | 64,179,443 |

- Additions to projects under construction include capitalised interest of SAR 1.7 billion during 31 December 2020 (31 December 2019: SAR 2.16 billion). The capitalisation rate for the year ended 31 December 2020 was 2.88% (31 December 2019, 4.6%).

10 Right of use assets and lease liabilities

10-a Right of use assets

| | Vehicles and heavy equipment | Land | Buildings | Total |
|---------------------------------|---|---------------|------------------|----------------|
| Cost | | | | |
| As of 1 January 2019 | 293,661 | 54,312 | 710 | 348,683 |
| Additions | 42,084 | 2,249 | 10,805 | 55,138 |
| As of 31 December 2019 | 335,745 | 56,561 | 11,515 | 403,821 |
| Additions | 901 | 415 | 17,617 | 18,933 |
| As of 31 December 2020 | 336,646 | 56,976 | 29,132 | 422,754 |
| Accumulated depreciation | | | | |
| As of 1 January 2019 | - | - | - | - |
| Charge for the year | 147,512 | 4,723 | 6,224 | 158,459 |
| As of 31 December 2019 | 147,512 | 4,723 | 6,224 | 158,459 |
| Charge for the year | 140,317 | 4,717 | 7,930 | 152,964 |
| As of 31 December 2020 | 287,829 | 9,440 | 14,154 | 311,423 |
| Net Book Value | | | | |
| As of 31 December 2019 | 188,233 | 51,838 | 5,291 | 245,362 |
| As of 31 December 2020 | 48,817 | 47,536 | 14,978 | 111,331 |

10-b Long term lease liabilities

The future minimum lease payments together with the present value of minimum lease payments as of 31 December 2020 are as follows:

| | Future minimum lease payments | Interest | Present value of minimum lease payments |
|----------------------------|--|-----------------|--|
| Less than one year | 59,807 | (3,722) | 56,085 |
| Between two and five years | 39,650 | (8,668) | 30,982 |
| More than five years | 39,103 | (8,018) | 31,085 |
| Total | 138,560 | (20,408) | 118,152 |

At 31 December 2020, the lease liabilities are presented in the statement of financial position as follows:

| | 2020 | 2019 |
|---------------------|----------------|-------------|
| Current portion | 56,085 | 143,820 |
| Non-current portion | 62,067 | 104,655 |
| Total | 118,152 | 248,475 |

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11 Investment properties

The carrying value of investment properties is SAR 453 million as at 31 December 2020 (31 December 2019: SAR 456 million). Management performed an independent valuation for investment properties as at 31 December 2020 and determined the fair value of investment properties at SAR 1 billion.

| | 31 December 2020 | 31 December 2019 |
|--|-----------------------------|---------------------|
| Cost | | |
| As of 1 January | 459,888 | 535,144 |
| Additions | - | - |
| Transfers from property, plant and equipment | - | 128,263 |
| Transfers to property, plant and equipment | - | (203,519) |
| As of 31 December | 459,888 | 459,888 |
| Accumulated depreciation | | |
| As of 1 January | (4,116) | - |
| Transfer from property, plant and equipment | - | (1,447) |
| Charge for the year | (3,120) | (2,669) |
| As of 31 December | (7,236) | (4,116) |
| Net Book Value | | |
| As of 31 December | 452,652 | 455,772 |

An independent valuation of the Group's land classified as investment properties was performed by an independent valuer, Land and buildings were evaluated by Dar Al Qiyas Real Estate Appraisal Company and Partners, a professional company registered with the number 1210000518 (Licensed by Saudi Authority for Accredited Valuers) to determine the fair value as at 31 December 2020.

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

The fair value measurement information in accordance with IFRS 13 as at 31 December 2020 which was completed during the 2020, is given below.

| | Fair value measurements as at 31 December 2020 | | |
|-------------------------|---|--|--|
| | Quoted prices in active markets for identical assets (Level 1) | Significant other observable inputs (Level 2) | Significant unobservable inputs (Level 3) |
| Fair-value measurements | | | |
| - Land | - | SAR 903 million | - |
| - Buildings | - | SAR 132 million | - |

Valuation techniques used to derive Level 2 fair values:

Level 2 fair values of land have been generally derived using the sales comparison approach. Sales prices of comparable properties are used. The most significant input into this valuation approach is price per square meter.

12 Intangible assets, net

| | Pipeline right- of-use | Software | Work in progress* | Total |
|---|-----------------------------------|-----------------|------------------------------|----------------|
| Cost: | | | | |
| Balance at 1 January 2019 | 292,278 | 436,057 | 92,421 | 820,756 |
| Additions | - | - | 6,787 | 6,787 |
| Transfers from projects under implementation | - | 73,191 | - | 73,191 |
| Balance at 31 December 2019 | 292,278 | 509,248 | 99,208 | 900,734 |
| Additions | - | 31,292 | - | 31,292 |
| Balance at 31 December 2020 | 292,278 | 540,540 | 99,208 | 932,026 |
| Accumulated amortisation: | | | | |
| Balance at 1 January 2019 | 134,720 | 207,342 | - | 342,062 |
| Amortisation for the year | 12,844 | 43,226 | - | 56,070 |
| Balance at 31 December 2019 | 147,564 | 250,568 | - | 398,132 |
| Amortisation for the year | 15,775 | 48,551 | - | 64,326 |
| Balance at 31 December 2020 | 163,339 | 299,119 | - | 462,458 |
| Net book value: | | | | |
| At 31 December 2019 | 144,714 | 258,680 | 99,208 | 502,602 |
| At 31 December 2020 | 128,939 | 241,421 | 99,208 | 469,568 |

*The intangible work in process represents computer software.

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13 Equity-accounted investees

The balances related to these investments are as follows:

| | 31 December 2020 | 31 December 2019 |
|---|-----------------------------|-----------------------------|
| Gulf Cooperation Council Inter-Connection Authority | 1,349,714 | 1,350,702 |
| Gulf Laboratory for Electrical Equipment Diagnoses | 110,003 | 71,695 |
| Al Fadhly Co-Generation Company | - | - |
| Green Saudi Company for Carbon Services | 620 | 285 |
| | 1,460,337 | 1,422,682 |
| Joint venture | | |
| Global Data Hub Company | 4,599 | 5,000 |
| | 4,599 | 5,000 |
| | 1,464,936 | 1,427,682 |

Gulf Cooperation Council Inter-Connection Authority:

The Company has participated in the capital of the electrical interconnection of the GCC countries in order to enhance the utilization of the transmission and distribution of electric power among the member countries. The total value of participation at the date of incorporation was US \$ 484.8 million, equivalent to SAR 1.8 billion.

Gulf Laboratory for Electrical Equipment Diagnoses:

Pursuant to ministerial resolution no (38) dated 10th Safar 1437 H (corresponding to 10th November 2016), Gulf Laboratory for Electrical Equipment Company (closed joint stock company) was established with an authorised share capital of SAR 360 million. The shareholders of Gulf Laboratory for Electrical Equipment Company paid SAR 90 million of the authorised share capital. The Group's share represents 25% of authorized share capital amounting to SAR 22.5 million which was fully paid as at 31 December 2016. During 2017, the authorised share capital was fully paid amounting to SAR 360 million. The share of the Group amounted to SAR 90 million as at 31 December 2017. The company has not yet started its operations. Net book value of investment represents the Group share after pre operating losses.

Al Fadhly Co-Generation Company:

Pursuant to the Board of Directors' resolution no. 5/143/2016 dated 17th Dhul-Hijjah 1437 H corresponding to 20th September 2016, Al Fadhly Co-Generation Company was established for dual production with a share capital of SAR 1.5 million. The Group's share represents 30% of the share capital. Net book value of investment represents the Group's share after pre operating losses.

Green Saudi Company for Carbon Services:

The Group participated in the establishment of Green Saudi Company for Carbon Services which is a limited liability company with a capital of SAR 1 million. The Group's share amounted to SAR 510 thousand represents 51% of the share capital of the Company. During 2020, the company's capital has been increased to SAR 510 thousand, and the paid share of the company is SAR 1 million, as on December 31, 2020, the mentioned company has not started its operational activities yet. The carrying amount of the investment represents the net paid-up capital discounted pre-operating expenses

Global Data Hub Company:

Dawiyat Telecommunication Company established its Global Data Hub company on 11th September 2018 (50% ownership) in the Kingdom of Saudi Arabia. Its main activity is the extension of networks, extension and installation of computer networks, communications, operating systems, computer consultancy and computer facilities management services and information technology). The necessary licenses have been finalized and is being treated as a joint venture and accounted in the same way as equity investments.

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13 Equity-accounted investees - continued

The movement in equity investments recognised under the equity method is as follows:

| | GCC Inter- Connection Authority | Gulf Laboratory for Electrical Equipment Diagnoses | Al Fadhly Co- Generation Company | Green Saudi Company for Carbon Services | Global Data Hub Company | Total |
|--|--|---|---|--|--|------------------|
| Balance at 1 January 2019 | 1,389,321 | 77,858 | 1,126 | 510 | 5,000 | 1,473,815 |
| Additions | - | - | - | 206 | - | 206 |
| Share in net losses | (38,619) | (6,163) | 4,984 | (431) | - | (40,229) |
| Share in OCI | - | - | (6,110) | - | - | (6,110) |
| Balance at 31 December 2019 | 1,350,702 | 71,695 | - | 285 | 5,000 | 1,427,682 |
| Additions | - | 63,000 | - | 510 | - | 63,510 |
| Share in net losses | (988) | (24,692) | 30,593 | (175) | (401) | 4,337 |
| Share in OCI | - | - | (30,593) | - | - | (30,593) |
| Balance at 31 December 2020 | 1,349,714 | 110,003 | - | 620 | 4,599 | 1,464,936 |

The following table represents the financial information relating to the Group's investment in the Electricity Interconnection Authority of the GCC States:

| | 31 December 2020 | 31 December 2019 |
|-------------------------------------|-------------------------|-------------------------|
| Current assets | 822,801 | 706,024 |
| Non-current assets | 3,514,915 | 3,596,865 |
| Current liabilities | 114,888 | 68,854 |
| Non-current liabilities | 51,734 | 59,813 |
| Equity | 4,171,094 | 4,174,222 |
| | 31 December 2020 | 31 December 2019 |
| Operating income | 266,608 | 153,313 |
| Cost of sales | (177,099) | (199,845) |
| Gross profit / (loss) | 89,509 | (46,532) |
| General and administrative expenses | (95,104) | (93,816) |
| Operating loss for the year | (5,595) | (140,348) |
| Other income, net | 4,987 | 20,065 |
| Finance income | 10,034 | 15,961 |
| Profit / (loss) for the year | 9,426 | (104,322) |

* Other equity accounted investees are not disclosed as those investments are not material to the Group.

14 Financial assets at amortised cost

| | 31 December 2020 | 31 December 2019 |
|--|-------------------------|-------------------------|
| Sadara Company for Basic Services' Sukuk "Sadara" | 19,195 | 21,593 |
| Arabian Aramco Total Services Company's Sukuk "Satorp" | 14,995 | 16,864 |
| | 34,190 | 38,457 |
| (Increase in the provision for financial assets at amortized cost) | (76) | (76) |
| | 34,114 | 38,381 |

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15 Financial assets through other comprehensive income

| | 31 December 2020 | 31 December 2019 |
|---|-------------------------|-------------------------|
| Shuaiba Water and Electricity Company * | 189,903 | 171,921 |
| Shuquiq Water and Electricity Company * | 76,944 | 88,261 |
| Jubail Water and Power Company * | 65,930 | 49,301 |
| Shuaibah Expansion Holdings * | 16,841 | 15,592 |
| Total | 349,618 | 325,075 |

* The dividends received by the Group amounted to SAR 34.6 million (2019: SAR 57.6 million).

Fair value information in accordance with IFRS 13 is set out in Note 46.3.

16 Inventories, net

| | 31 December 2020 | 31 December 2019 |
|---|-------------------------|-------------------------|
| Material and supplies - Generation plant * | 2,476,851 | 2,692,272 |
| Materials and supplies - Distribution network * | 1,490,280 | 1,600,921 |
| Materials and supplies - Transmission network * | 361,378 | 363,665 |
| Fuel and oil | 1,304,368 | 1,161,071 |
| Others * | 112,477 | 55,110 |
| Total | 5,745,354 | 5,873,039 |
| Less: Provision for slow moving inventories (a) | (807,871) | (817,125) |
| | 4,937,483 | 5,055,914 |

* During the year ended 31 December 2020, an amount of SAR 429 million (2019: SAR 471 million) has been recorded as an impairment against inventories.

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

| | 31 December 2020 | 31 December 2019 |
|---------------------------------------|-------------------------|-------------------------|
| Balance at the beginning of the year | 817,125 | 1,129,600 |
| Reversal for the year | (9,254) | (312,475) |
| Balance at the end of the year | 807,871 | 817,125 |

17 Receivables from sale of electricity, net

| Receivable from consumption of electricity | 31 December 2020 | 31 December 2019 |
|--|-------------------------|-------------------------|
| Governmental institutions (a) | 11,476,392 | 26,753,439 |
| Commercial and residential | 12,614,486 | 9,296,046 |
| Receivables from electricity service connection projects (a) | 2,083,300 | 2,417,750 |
| Due from related parties | 795,454 | 2,980,636 |
| Other government receivables (b) | 6,131,363 | 1,125,463 |
| Total electricity consumers' receivable | 33,100,995 | 42,573,334 |
| Less: provision for doubtful receivables (a) | (1,467,536) | (1,549,779) |
| Add: Unbilled revenues | 3,335,186 | 3,860,449 |
| | 34,968,645 | 44,884,004 |

a) The balances as of December 2019 amounting to SAR 32.4 billion has been transferred to Mudaraba instrument (note 24).

b) This balance represents the amount receivable from Ministry of Finance with regards to the balancing account (note 40).

17 Receivables from sale of electricity, net - continued

(a) The movement in the provision for doubtful receivables during the year is as follow:

| | 31 December 2020 | 31 December 2019 |
|---------------------------------------|--------------------|------------------|
| Balance at the beginning of the year | 1,549,779 | 1,614,560 |
| Charge for the year | 204,122 | 76,326 |
| Written off during the year | (286,365) | (141,107) |
| Balance at the end of the year | (1,467,536) | 1,549,779 |

18 Debit balances and advances

| | 31 December 2020 | 31 December 2019 |
|--------------------------------|------------------|------------------|
| Due from related party | | |
| Jubail Water and Power Company | 284,124 | 271,874 |
| Advances to: | | |
| Contractors and suppliers | 295,130 | 402,116 |
| Employees | 44,070 | 46,833 |
| | 623,324 | 720,823 |

19 Prepayments and other receivables

| | 31 December 2020 | 31 December 2019 |
|---|------------------|------------------|
| Prepaid and other expenses | 32,467 | 21,332 |
| Insurance and other claims | 168,415 | 144,482 |
| Other receivables, net * | 754,497 | 1,289,843 |
| | 955,379 | 1,455,657 |
| Less: Provision for other doubtful receivables (a) | (235,899) | (186,383) |
| | 719,480 | 1,269,274 |

* Other receivables include amounts of SAR 1.9 billion as of 31 December 2020, resulting from offsetting government electricity consumption receivable with government payables.

(a) The movement in the provision for doubtful receivables during the year is as follow:

| | 31 December 2020 | 31 December 2019 |
|---------------------------------------|------------------|------------------|
| Balance at the beginning of the year | 186,383 | 57,254 |
| Charge for the year | 49,516 | 129,129 |
| Balance at the end of the year | 235,899 | 186,383 |

20 Cash and cash equivalents

| | 31 December 2020 | 31 December 2019 |
|--------------------------|------------------|------------------|
| Cash in hand | 4,037 | 4,110 |
| Cash at banks | 4,447,055 | 1,511,127 |
| Short-term bank deposits | 88,000 | 403,067 |
| | 4,539,092 | 1,918,304 |

21 Share capital

The Company's share capital is divided into 4,166,593,815 shares of SAR 41,665,938,150 with a nominal value of SAR 10 per share. The Government of Saudi Arabia's shareholding of 74.31% in the Company was transferred to the Public Investment Fund by Royal Decree No. 47995 dated 19th Shawwal 1438H (13th July 2017).

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22 Transactions with owners, recognised directly in equity

In accordance with the Group's Articles of Association, dividends of at least 5% of paid up capital, net of reserves, should be distributed to shareholders. As per the Council of Ministers' Resolution No.169 dated 11th Sha'aban 1419H, the Government has waived its share in the distributed dividends for a period of ten years from the date of the Company's formation, provided that dividends do not exceed 10% of the par value of the shares. In cases where the distribution exceeds 10% of the shares' par value, the Government's share shall be treated similar to other shareholders. The Government has agreed to extend this waiver for another ten years based on the Council of Ministers' Resolution No. 327 dated 24th Ramadan 1430H corresponding to 13 September 2009 to extend a Government's waiver for its share of the income distributed by the Company for ten more years ended on 12 September 2019.

On 20 April 2020, the Public Investment Fund "the Fund" has waived its share of dividends for the year 2019 in order to achieve the desired goals of restructuring the electricity sector and ensuring the financial and operational sustainability of the Company.

The Company's General Assembly, at its meeting held on 10 Shawwal 1441H corresponding to 2 June 2020, approved a dividend of 7% for the year 2019 for individuals contributing SAR 749.3 million representing SAR 0.7 per share (2018:SAR 749.3 million).

The general assembly, in its meeting held on 12 Jumada Awal 1441H (corresponding to December 27, 2020), agreed to deal with the profits of the Saudi Arabian Oil Company (Saudi Aramco) for the period since the incorporation of the Company until the end of 1439H, which amounted to SAR 3.4 billion, provided that this amount be treated as a debt the Company must, in favour of the ministry of finance, included of the mention above profit within a Mudaraba instrument (note 24).

The Board of Directors of the Saudi Electricity Company recommended, in its meeting held on 16th Shaban, 1442 AH, corresponding to 29th March 2021, to the Company's general assembly of shareholders to pay cash dividends for the financial year 2020 to the shareholders of the Company amounting to SAR 2.917 million at a rate of SAR 0.70 per share, representing 7% of the nominal value per share (2019: SAR 749 million Saudi riyals)

23 Reserves

Statutory reserves

In accordance with the Company's Articles of Association, the Company is required to transfer each year 10% of its net income to form a statutory reserve until the reserve reaches 30% of the capital. The statutory reserve is not available for distribution.

General reserve

General reserve consists of the balances of the reserves that were reflected in the consolidated financial statements of the Saudi Electricity Company at the date of the consolidation (note 1), in addition to the collections of surcharges from individuals subsequent to 31 December 2001.

Contractual reserve for Mudaraba financial instrument

The General Assembly, in its meeting held on 12th Jumada Awal 1441H (corresponding to 27th December 2020), approved the establishment of a contractual reserve for the purpose of paying the profits on agreement concluded between the Company and the Ministry of Finance, referred to as the Mudaraba Agreement. Furthermore, authorized the Board of Directors to transfer the amount from the Company's retained profits to the contractual reserve and use the agreed reserve to pay the Mudaraba profits in accordance with the provisions of the Mudaraba Agreement. An amount of SAR 927 million has been transferred for the period from the commencement of the agreement until 31st December 2020.

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24 Mudaraba instrument

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

The General Assembly, held on 12/05/1442H corresponding to 27/12/2020, approved to create contractual reserve to pay for the profits from the contractual agreement concluded between the Company and the Ministry of Finance and referred to in the Mudaraba agreement.

The net financial liabilities accrued to the government on the Company amounting to SAR 167.92 billion have been transferred to a secondary financial instrument, unsecured, with an unspecified, recoverable term, and an annual profit margin of 4.5% for a period of 3 years ending in 2023, provided that the margin is recalculated. Profit for the following years according to the mechanism set out in the agreement. The profit margin is payable in the case that it is decided to distribute cash dividends to holders of ordinary shares and collect any amounts due from the budget account, this instrument is compliant with the provisions of sharia compliant, and is classified under the Consolidated statement of equity, it has no effect on the percentage of ownership of the company's shareholders and the related rights, the instrument is considered recoverable only in the event of the end of the company's term or the date on which the company pays all amounts or any other amounts accrued under the agreement, whichever is earlier. The financial instrument included restrictions on some decisions on which the company's management must obtain the approval of the owner of the instrument.

The payment obligations of Saudi Electricity Company under this Agreement shall constitute direct, unsecured and subordinated obligations and rank after all senior obligations, rank pari passu with all other equivalent obligations and rank senior only to the junior obligations.

The general assembly, in its meeting held on 12th Jumada Awal 1441H (corresponding to 27th December 2020), agreed to settle the dividends accrued to Saudi Aramco, book value of the accrual was transferred to the Ministry of Finance covering the dividends for Saudi Aramco's shares in the Company for the period since its establishment until the end of 1439H amounting to SAR 3.4 billion, and the amount included in the amount of the financial instrument is added.

Below is the reconciliation of the Mudaraba instrument in term of fair value;

The following are the details of the net government liabilities that have been agreed upon between the company and the government to create the financial instrument:

| | 31 December 2020 (SAR in billion) |
|--|--|
| Loan from the government (note 33) | 50.6 |
| Deferred government grant (note 27) | 41.7 |
| Retained earnings | (8) |
| Government payable (note 32) | 110.3 |
| Other payables (note 29) | 2.3 |
| Dividend payable to Saudi Aramco - prior 2017 (note 22) – retained earning | 3.4 |
| Less: Receivable from consumption of electricity - government (note 17) | (32.4) |
| Net liabilities reclassified to Mudaraba instrument | 167.9 |

Below is the reconciliation of the Mudaraba instrument in term of fair value;

| | 31 December 2020 | 31 December 2019 |
|--|-------------------------|------------------|
| Fair value of Mudaraba instrument (a) | 159,169,000 | - |
| Fair value adjustment of Mudaraba instrument | (8,751,563) | - |
| Mudaraba instrument | 167,920,563 | - |

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24 Mudaraba instrument – continued

(a) The fair value measurement information in accordance with IFRS 13 as at 31 December 2020, is given below.

| | Fair value measurements as at 31 December 2020 | | |
|-------------------------|--|---|---|
| | Quoted prices in active markets for identical assets (Level 1) | Significant other observable inputs (Level 2) | Significant unobservable inputs (Level 3) |
| Fair-value measurements | | | |
| - Mudaraba instrument | - | - | SAR 159 billion |

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

The regulatory weighted average cost of capital is estimated at 6% based on the Capital Asset Pricing Model using market-based assumptions and is considered a close proxy to the contractual WACC for the fair valuation purposes.

In addition, the redemption option is estimated based on an appropriate option pricing model which incorporates interest rate volatilities. The above inputs to the valuation are considered to be under Level 3 of the fair value hierarchy.

25 Employees' benefits obligation

| | | 31 December 2020 | 31 December 2019 |
|--|------|------------------|------------------|
| Employees' end of service benefits | 24.1 | 5,260,867 | 4,566,697 |
| Employees' savings fund | 24.2 | 890,006 | 722,850 |
| Human resources productivity improvement program | 24.3 | 1,109,077 | 1,290,789 |
| | | <u>7,259,950</u> | <u>6,580,336</u> |

25.1 Employee end of services benefits

The Group carried out an actuarial valuation for employees' end of service benefits, using the projected unit credit method for its liability as at 31 December 2020 and 31 December 2019 arising from the end of service benefits.

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

| Withdrawal Rate Age (years) | Rate for the year 2020 | Rate for the year 2019 |
|--------------------------------|---------------------------|------------------------|
| 18-35 | 1.4% | 1% |
| 36-40 | 3.6% | 3% |
| 41-45 | 10% | 15% |
| +46 | 19.9% | 30% |

Assumed retirement age

58 years and 3 months (Gregorian calendar).

Employees older than the normal retired age are assumed to retire immediately on valuation date.

Pre-retirement mortality

The Group based the pre-retirement mortality on the life table for Saudi Arabia, sourced on countries that do not differ substantially from Kingdom of Saudi Arabia.

The economic assumptions for the valuations are shown in the table below:

| | 31 December 2020 | 31 December 2019 |
|---------------------|------------------|------------------|
| Gross discount rate | 2.1% | 3% |
| Price inflation | 2% | 2% |
| Salary inflation | 2-4% | 4% |

25 Employees' benefits obligation – continued

25.1 Employee end of services benefits - continued

Sensitivity Analysis:

| | Impact on defined benefit obligations 2020 | |
|-------------------|---|--------------------|
| | 1% Increase | 1% Decrease |
| Payroll inflation | 324,560 | (288,112) |
| Discount rate | (448,227) | 574,815 |
| | Impact on defined benefit obligations 2019 | |
| | 1% Increase | 1% Decrease |
| Payroll inflation | 331,451 | (297,679) |
| Discount rate | (277,784) | 315,425 |

The reconciliation of the defined benefit obligation for the year ended 31 December 2020 and 2019:

| | Statement of income | Re-measurement | Cash movements | Total |
|--|--------------------------------|-----------------------|---------------------------|-------------------------|
| As at 1 January 2019 | | | | 3,870,088 |
| Current service cost | 351,443 | - | - | 351,443 |
| Interest cost | 177,923 | - | - | 177,923 |
| (Gain) / loss from change in economic assumptions | - | 442,903 | - | 442,903 |
| (Gain) / loss from change in demographic assumptions | - | 41 | - | 41 |
| Experience loss (gain) | - | (16,212) | - | (16,212) |
| Benefit payments | - | - | (259,489) | (259,489) |
| Total movement during the year | <u>529,366</u> | <u>426,732</u> | <u>(259,489)</u> | <u>696,609</u> |
| As at 31 December 2019 | | | | 4,566,697 |
| Current service cost | 438,993 | - | - | 438,993 |
| Interest cost | 136,927 | - | - | 136,927 |
| (Gain) / loss from change in economic assumptions | - | 130,281 | - | 130,281 |
| (Gain) / loss from change in demographic assumptions | - | 53,177 | - | 53,177 |
| Experience loss (gain) | - | 84,912 | - | 84,912 |
| Benefit payments | - | - | (150,120) | (150,120) |
| Total movement during the year | <u>575,920</u> | <u>268,370</u> | <u>(150,120)</u> | <u>694,170</u> |
| As at 31 December 2020 | | | | <u>5,260,867</u> |

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25 Employees' benefits obligation – continued**25.2 Employees' savings fund**

In accordance with Article 145 of the Labor Law, and in line with the Board of Directors' meeting held on 23rd Safar 1429H (corresponding to xx March 2008), the Savings Plan Program was applied to encourage Saudi employees in the Company to save and invest their savings in areas that are more beneficial to them to secure their future and as an incentive for them to continue working with the Company.

Participation in the Fund is restricted to Saudi employees only and is optional for the employee who wishes to contribute a monthly minimum of 1% to a maximum of 10% of their basic salary.

| | 31 December 2020 | 31 December 2019 |
|---------------------------------------|-------------------------|-------------------------|
| Balance at the beginning of the year | 722,850 | 614,331 |
| Charge for the year | 149,107 | 138,470 |
| Paid during the year | (29,689) | (58,744) |
| Net change in the assets of the Fund | 47,738 | 28,793 |
| Balance at the end of the year | 890,006 | 722,850 |

The following are the liabilities balances of the Saving Fund:

| | 31 December 2020 | 31 December 2019 |
|-----------------------------|-------------------------|-------------------------|
| Contribution by the Company | 795,556 | 664,377 |
| Employees' contribution | 679,937 | 596,221 |
| Total liabilities | 1,475,493 | 1,260,598 |

The following are the assets of the Saving Fund:

| | 31 December 2020 | 31 December 2019 |
|----------------------------------|-------------------------|-------------------------|
| Balances and deposits with banks | 420,465 | 347,726 |
| Investments in Sukuks | 165,022 | 190,022 |
| Total assets of the Fund | 585,487 | 537,748 |

25.3 Human resources productivity improvement program

The Company is committed to improve the productivity of human resources by increasing employees' efficiency through the Company's endeavor to improve HR productivity, raise the level of employee efficiency, and reduce the total costs of HR, which will have a positive impact on the Company's performance in the future, the company launched a program to improve HR productivity, which includes the special offer programs and the alignment program. Those eligible for this program are the Saudi employees who meet the terms and conditions of this program, the employees participating in the mentioned programs are entitled to benefits as calculated in the following assumptions:

The Company has carried out actuarial studies for the mentioned programs on 31st December 2020 by an actuary. The following are additional assumptions used in evaluating these programs:

Economic assumption used in valuation of Mowama:

| | 31 December 2020 | 31 December 2019 |
|----------------|---|-------------------------|
| Discount rate | 0.83% | 2.4% |
| Inflation rate | 5% | 5% |
| Mortality | The Group based its pre-retirement Mortality, on countries that do not differ substantially with the life table in the Kingdom of Saudi Arabia. | |

Economic assumption used in valuation of Special offer:

| | 31 December 2020 | 31 December 2019 |
|----------------|-------------------------|-------------------------|
| Discount rate | 0.35% | 2% |
| Inflation rate | 5% | 5% |

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25 Employees' benefits obligation – continued**25.3 Human resources productivity improvement program - continued**

- Each employee entitled to a special offer is likely to receive the offer in any year;
- Annual cost of sponsorship for program members has been approved based on the average actual cost of the Company;
- All benefits under the Plan shall cease upon death or at the age of 60, whichever is earlier;
- Mortgage loans related to premium support will not expire before the employee reaches age 60.

| | 31 December 2020 | 31 December 2019 |
|------------------------|-------------------------|-------------------------|
| Special payment offers | 327,773 | 424,398 |
| Mowama offer | 781,304 | 866,391 |
| | 1,109,077 | 1,290,789 |

Productivity of human resources movement are shown in the table below:

| | 31 December 2020 | 31 December 2019 |
|--------------------------------------|-------------------------|-------------------------|
| Balance at the beginning of the year | 1,290,789 | 1,578,573 |
| Increase during the year: | | |
| Special payment offers | 47,926 | 60,647 |
| Mowama | 43,490 | 85,859 |
| Total increase during the year | 91,416 | 146,506 |
| Paid during the year | (273,128) | (434,290) |
| Balance at the end of the year | 1,109,077 | 1,290,789 |

26 Deferred revenue

Deferred revenue represents amounts collected for delivery of power supply to completed projects and is amortised on a straight-line basis based on the average useful life of the equipment used, estimated 35 years.

| | 31 December 2020 | 31 December 2019 |
|--------------------------------------|-------------------------|-------------------------|
| Balance at the beginning of the year | 52,076,175 | 45,728,340 |
| Received during the year | 8,496,647 | 8,181,732 |
| Recognised during the year | (1,928,389) | (1,833,897) |
| Balance at the end of the year | 58,644,433 | 52,076,175 |

| | 31 December 2020 | 31 December 2019 |
|---------------------|-------------------------|-------------------------|
| Current portion | 2,024,808 | 1,925,592 |
| Non-current portion | 56,619,625 | 50,150,583 |
| | 58,644,433 | 52,076,175 |

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27 Deferred government grants

This includes government grant received to Dawiyat (a subsidiary) from Ministry of Communication and Information Technology amount to SAR 1.1 billion (2019: SAR 576 million) against the implementation of the fibre optic network.

The entire balance of deferred government grant has been transferred to Saudi Electricity Company amounting to SAR 41.7 billion, which represents the difference between the amount received from the government as soft loans and the present values of these loans at the initial recognition of the loan received, has been transferred to and become an integral part of Mudaraba instrument (note 24).

| | 31 December 2020 | 31 December 2019 |
|--|-------------------------|-------------------------|
| Balance at the beginning of the year | 43,665,327 | 44,539,395 |
| Government grants received during the year | 552,743 | 453,006 |
| Amortisation during the year | (1,356,435) | (1,327,074) |
| Transfer to Mudaraba instrument (note 24) | (41,772,258) | - |
| Balance at the end of the year | <u>1,089,377</u> | <u>43,665,327</u> |

28 Asset retirement obligations

| | 31 December 2020 | 31 December 2019 |
|---|-------------------------|-------------------------|
| Balance at the beginning of the year | 268,262 | 258,534 |
| Additions during the year | (5,838) | - |
| Increase in the present value during the year | 8,001 | 9,728 |
| Balance at the end of the year | <u>270,425</u> | <u>268,262</u> |

The balance of the asset retirement obligation is stated at the present value of the future obligation after taking into consideration the discount factor.

29 Trade Payables

| | 31 December 2020 | 31 December 2019 |
|---|-------------------------|-------------------------|
| Saudi Aramco costs of fuel | 112,243,252 | 103,478,397 |
| Transferred to government payable (a) | (103,521,340) | (88,007,942) |
| | 8,721,912 | 15,470,455 |
| Saline Water Conversion Corporation – payable (b) | 354,349 | 515,354 |
| Contractors and retention payables | 1,784,578 | 1,150,149 |
| Purchased power payable (a) | 1,758,541 | 2,982,241 |
| Accounts payable | 674,990 | 570,030 |
| Others (b) | 851,272 | 1,736,644 |
| | <u>14,145,642</u> | <u>22,424,873</u> |

a) This amount represents payable relating to fuel for the period from 5 April 2000 to 31 December 2017, which was transferred from Saudi Aramco account to Government accounts and an amount of SAR 6.8 billion has been transferred from the purchased energy payable (Independent Power Producer fuel receivable). The total amount transferred to the Government during the current years amount to SAR 18 billion (note 32). In addition to this, the Company set off fuel liability amounting to SAR 7.8 billion for the year ended 2020 against the purchase power receivables amounting to SAR 1.7 billion for the year ended 2020 (note 1).

b) Includes an amount of SAR 2.3 billion which was transferred to Mudaraba instrument (note 24).

30 Accruals and other payables

| | 31 December 2020 | 31 December 2019 |
|-----------------------------|-------------------------|-------------------------|
| Accrued expenses | 11,435,559 | 4,840,285 |
| Accrued employees' benefits | 797,469 | 704,895 |
| Dividends payable | 455,841 | 425,798 |
| Accrued interest expenses | 808,814 | 875,831 |
| Accrued government fees * | 12,778,238 | 5,864,162 |
| Others | 13,180 | 38,311 |
| | <u>26,289,101</u> | <u>12,749,282</u> |

* The Company is in the process to discuss the settlement of the amount with Ministerial committee (note 1).

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31 Provision for other liabilities and charges

| | |
|----------------------------|----------------|
| At 1 January 2019 | 335,341 |
| Charge for the year | 79,883 |
| Paid /reversed during year | (111,071) |
| At 31 December 2019 | 304,153 |
| Charge for the year | 136,829 |
| Paid /reversed during year | (75,571) |
| At 31 December 2020 | 365,411 |

The balance mainly includes the provision for a lawsuit against the Company related to claims for compensation, in addition to the balance of Zakat provision.

32 Payables to the government

The payables to the government as of 31 December 2020 is NIL and as of 31 December 2019 is SAR 92.4 billion in addition to an amount of SAR 18 billion, leading to total amount of SAR 110.3 billion, which represents the amount payable for fuel for the period from 5 April 2000 to 31 December 2020 pursuant to the ministerial minutes of the meeting and resolutions which resolved to transfer the Group's liability to Saudi Arabian Oil Company ("Saudi Aramco") to the account of the Ministry of Finance according to specific procedures and approvals, and that the last one was at the end of 2020. The balance has been included as a part of settlement under Mudaraba Instrument (note 24).

33 Financial liabilities**33.1 Financial liabilities other than interest bearing**

| | 31 December 2020 | 31 December 2019 |
|---|-------------------------|-------------------------|
| Derivative financial instruments | | |
| Derivative financial instruments at fair value | 1,065,017 | 633,802 |
| | 1,065,017 | 633,802 |
| Other financial liabilities carried at amortized cost, other than interest bearing loans | | |
| Trade payables | 14,145,642 | 22,424,873 |
| Accruals and other payables | 26,289,101 | 12,749,282 |
| Payables to the government | - | 92,495,037 |
| Refundable deposits from customers | 1,997,558 | 1,997,932 |
| Total other financial liabilities carried at amortized cost, other than interest bearing loans | 42,432,301 | 129,667,124 |

33.2 Interest bearing liabilities

Classification of borrowings as appearing in the consolidated statement of financial position as of 31 December 2020 is as follows:

| | Term Loans | Sukuks | Government loans | Total |
|-------------|-------------------|-------------------|-------------------------|--------------------|
| Non-current | 56,145,525 | 44,160,434 | - | 100,305,959 |
| Current | 13,413,842 | - | - | 13,413,842 |
| | 69,559,367 | 44,160,434 | - | 113,719,801 |

Classification of borrowings as appearing in the consolidated statement of financial position as of 31 December 2019 is as follows:

| | Term Loans | Sukuks | Government loans | Total |
|-------------|-------------------|-------------------|-------------------------|--------------------|
| Non-current | 52,474,050 | 39,289,736 | 47,698,302 | 139,462,088 |
| Current | 19,179,264 | - | 1,000,000 | 20,179,264 |
| | 71,653,314 | 39,289,736 | 48,698,302 | 159,641,352 |

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33 Financial liabilities - continued

33.2 Interest bearing liabilities - continued

Movement in borrowings during the year is as follows:

| | Term loans | Sukuks | Government loans | Total |
|--|-------------------|-------------------|-------------------------|--------------------|
| As at 1 January 2019 | 71,832,637 | 39,289,162 | 46,456,909 | 157,578,708 |
| Proceeds from borrowings | 16,161,958 | - | - | 16,161,958 |
| Repayments of borrowings | (16,252,043) | - | - | (16,252,043) |
| Additions to deferred costs | (89,238) | 574 | - | (88,664) |
| Unwinding of discount for government loans | - | - | 2,241,393 | 2,241,393 |
| As at 31 December 2019 | 71,653,314 | 39,289,736 | 48,698,302 | 159,641,352 |
| Proceeds from borrowings | 10,043,960 | 4,875,000 | - | 14,918,960 |
| Repayments of borrowings | (12,155,719) | - | - | (12,155,719) |
| Additions to deferred costs | 17,812 | (4,302) | - | 13,510 |
| Unwinding of discount of Government loans | - | - | 1,937,082 | 1,937,082 |
| Transferred to Mudaraba instrument (note 24) | - | - | (50,635,384) | (50,635,384) |
| As at 31 December 2020 | 69,559,367 | 44,160,434 | - | 113,719,801 |

33.2.1 Term loans

Non-current:

Saudi Electricity Company

Joint operations

31 December 2020

48,544,121

7,601,404

56,145,525

31 December 2019

44,533,338

7,940,712

52,474,050

Current:

Saudi Electricity Company

Joint operations

31 December 2020

12,920,878

492,964

13,413,842

31 December 2019

18,658,632

520,632

19,179,264

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33 Financial instruments - continued

33.2 Interest bearing liabilities - continued

33.2.1 Term loans - continued

| | Loan currency | Maturity date | Principal amount | 31 December 2020 | 31 December 2019 |
|--|--------------------------|--------------------------|-----------------------------|-------------------------|-------------------------|
| Domestic Bank 1 | SAR | 2020 | 6,000,000 | - | 272,727 |
| Domestic Bank 2 | SAR | 2025 | 5,000,000 | 1,921,600 | 2,306,400 |
| Domestic Bank 3 | SAR | 2025 | 10,000,000 | 6,761,906 | 8,114,286 |
| Domestic Bank 4 | SAR | 2020 | 1,500,000 | - | 375,000 |
| Domestic Bank 5 | SAR | 2021 | 1,300,000 | 216,667 | 649,999 |
| Domestic Bank 6 | SAR | 2026 | 3,500,000 | 2,625,000 | 2,625,000 |
| Domestic Bank 7 | SAR | 2024 | 2,400,000 | 2,340,000 | 2,400,000 |
| Domestic Bank 8 | SAR | 2026 | 15,200,000 | 15,200,000 | 8,800,000 |
| Domestic Bank 9 | SAR | 2029 | 1,850,000 | 1,850,000 | 1,850,000 |
| Domestic Bank 10* | SAR | 2027 | 9,000,000 | 3,000,000 | |
| Direct loan from the Public Investment Fund | SAR | 2024 | 2,583,375 | 756,413 | 971,349 |
| International syndicated loan 1 | USD | 2021 | 4,057,417 | 146,353 | 508,484 |
| International Bank 2 | USD | 2024 | 3,709,125 | 969,903 | 1,279,138 |
| International syndicated loan 3 | USD | 2026 | 5,251,120 | 2,625,128 | 3,063,048 |
| International syndicated loan 4 | USD | 2028 | 7,240,715 | 4,687,886 | 5,291,705 |
| International Bank 5 | USD | 2021 | 5,625,710 | 936,933 | 2,812,721 |
| International syndicated loan 6 | USD | 2029 | 3,375,585 | 2,531,671 | 2,813,023 |
| International syndicated loan 7 | USD | 2029 | 1,575,336 | 1,181,507 | 1,312,804 |
| International syndicated loan 8 | USD | 2022 | 6,562,878 | 6,562,878 | 6,562,878 |
| Total value | | | 95,731,261 | 54,313,845 | 52,008,562 |
| <i>Less: The current portion of long-term loans</i> | | | | (5,404,683) | (7,092,371) |
| <i>Less: The Unamortised portion of the prepaid fees</i> | | | | (365,041) | (382,853) |
| Non-current portion of long-term loans | | | | 48,544,121 | 44,533,338 |

* Murabaha Loan with Group of local banks, the finance period is 7 years to finance the operations of the company including capitalization expenditures.

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(All amounts in thousands Saudi Riyals unless otherwise stated)

33 Financial instruments - continued

33.2 Interest bearing liabilities – continued

33.2.1 Term loans – continued

The following are short-term loans:

| | Loan currency | Principal amount | 31 December 2020 | 31 December 2019 |
|--|--------------------------|-----------------------------|-----------------------------|-----------------------------|
| Domestic revolving bank loan 1 | SAR | 1,000,000 | 500,000 | 500,000 |
| Domestic bank facilities 2 | SAR | 1,000,000 | - | 1,000,000 |
| Domestic bank facilities 4 | SAR | 1,500,000 | 1,000,000 | 1,500,000 |
| Domestic bank facilities 5 | SAR | 500,000 | - | 500,000 |
| International syndicated loan 3 | USD | 8,066,263 | 5,920,748 | 8,066,261 |
| Commercial payment facility | SAR | 550,000 | 95,447 | - |
| Total short-term loans | | 12,616,263 | 7,516,195 | 11,566,261 |
| <i>Add: current portion of long-term loans</i> | | | 5,404,683 | 7,092,371 |
| Total short-term loans and current portion of long-term loans | | | 12,920,878 | 18,658,632 |

Bank loans for joint operations:

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

| | Loan currency | Maturity date | Principal amount | 31 December 2020 | 31 December 2019 |
|--|--------------------------|--------------------------|-----------------------------|-----------------------------|-----------------------------|
| Domestic Bank 1 | SAR | 2032 | 3,104,704 | 2,780,582 | 2,891,685 |
| International Bank 2 | USD | 2033 | 832,400 | 729,553 | 751,470 |
| International Bank 3 | USD | 2028 | 241,000 | 129,056 | 146,268 |
| International Bank 4 | USD | 2033 | 174,000 | 151,273 | 154,945 |
| International Bank 5 | USD | 2033 | 142,500 | 123,754 | 126,758 |
| International Bank 6 | USD | 2032 | 951,422 | 822,660 | 852,193 |
| International Bank 7 | USD | 2026 | 1,736,250 | 870,791 | 997,037 |
| Domestic Bank 4 | SAR | 2036 | 1,223,000 | 1,078,381 | 1,114,915 |
| Domestic Bank 5 | SAR | 2032 | 1,109,550 | 955,533 | 974,880 |
| Shareholders' loan | SAR | - | 50,000 | 50,000 | 50,000 |
| International Bank 8 | USD | 2033 | 234,179 | 190,609 | 201,642 |
| Domestic Bank 6 | SAR | 2032 | 495,500 | 398,482 | 423,405 |
| Total | | | 10,294,505 | 8,280,674 | 8,685,198 |
| <i>Less: Current portion of long-term loans</i> | | | | (492,964) | (520,632) |
| <i>Less: Unamortised portion of upfront and other fees</i> | | | | (186,306) | (223,854) |
| <i>Non-current portion of long-term loans</i> | | | | 7,601,404 | 7,940,712 |

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33 Financial instruments - continued**33.2 Interest bearing liabilities - continued****33.2.2 Sukuk**

The outstanding Sukuk as of 31 December 2020 are as follows:

Local sukuk

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

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

The Company has undertaken to purchase these Sukuk from Sukuk holders at dates specified in prospectus. At each purchase date, the Group will pay an amount of 5% to 10% of the aggregate face value of the Sukuk as bonus to the Sukuk holders. The purchase price is determined by multiplying Sukuk's par value at the percentage shown against the purchase date, as follows:

| | Percentage | | |
|---------|----------------------------|-----------------------------|----------------------------|
| | 90% | 60% | 30% |
| | First purchase date | Second purchase date | Third purchase date |
| Sukuk 3 | 2022 | 2024 | 2026 |

| | Percentage | | |
|---------|----------------------------|-----------------------------|----------------------------|
| | 95% | 60% | 30% |
| | First purchase date | Second purchase date | Third purchase date |
| Sukuk 4 | 2024 | 2034 | 2044 |

The Group repurchased SAR 1.27 billion during second quarter of 2017, out of total Sukuk 3 issue of SAR 7 billion. The remaining balance has been rescheduled until it is fully purchased before May 2022.

Global Sukuk

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

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33 Financial instruments - continued**33.2 Interest bearing liabilities – continued****33.2.2 Sukuk - continued**

5. During September 2020 the Company issued an international green Sukuk amounting to SAR 4.87 Billion (US\$1.3 billion). The issuance consists of two types of Sukuk certificates. The first one with value of SAR 2.43 billion (US\$ 650 million) maturing after 5 years tenure with a fixed rate 1.74% and the second one with a value SAR 2.43 billion (US\$ 650 million) maturing after 10 years tenure with fixed rate 2.413%.

33.2.3 Government loans

- a. Pursuant to the Council of Ministers' resolution number 169 dated 11th Sha'ban 1419H Corresponding 30th November, 1998 the net dues of the Government to the Group and the net dues of the Group to the Government, were determined in accordance with rules and procedures stipulated for in the minutes of meetings signed by the Minister of Industry and Electricity and the Minister of Finance and National Economy dated 27th Jumad Thani 1418H corresponding to 29th October 1997. The net difference payable to the Government by the Group, as determined on the business day preceding the issuance of the Royal Decree for the incorporation of the Group, is a non-interest-bearing long-term loan with a grace period of twenty five years starting from the date of the announcement of the incorporation of the Group. The loan is to be revisited later, subject to the financial condition of the Government and the Group.

The minutes of the meeting held on 21st Rajab 1422H corresponding to 8th October 2001 between the Minister of Industry and Electricity and the Minister of Finance and National Economy in which the initial amount of the Government loan was determined, states that the final settlement of Government accounts will be subject to the reconciliation for the claims of the Group from Government entities, and the loan amount shall be adjusted accordingly. During 2005, the Group finalised the amount due which included the claims of the Group and the amounts due to the Government and the agreement was signed between the Minister of Water and Electricity and the Minister of Finance on 15th Rajab 1426H corresponding to 19th August 2005 which brought the balance of Government loan amounted to SAR 14.9 billion. The Group is working with negotiators to find suitable alternatives to deal with the balances of these loans in order to enhance the financial position of the Group and its important role in providing energy in all sectors of the country.

- b. The Council of Ministers approved in its meeting held on Monday 12th Jumad Awal 1431H corresponding to 26th April 2010 to grant the Group a loan amounting to SAR 15 billion repayable over 25 years. The loan was paid to the Group within 2 years in accordance with an agreement made for this purpose between the Ministry of Finance and the Group. This loan was fully drawn as at 31st December 2020 (31 December 2019: fully drawn). The Group has classified the amount received from the government loan above, at its present value.
- c. The Council of Ministers approved in its meeting held on Monday 11th Rajab 1432H corresponding to 13th June 2011 to grant the Group a loan amounting to SAR 51.1 billion repayable over 25 years. The loan has no interest charge and will be paid to the Group within 5 years in accordance with an agreement made for this purpose between the Ministry of Finance and the Group. The amount of SAR 38.3 billion was withdrawn from the loan as at 31 December 2020 (31 December 2019: SAR 38.3 billion). The Group has recognised the amount received from the above government loan, at its present value.
- d. The Council of Ministers approved in its meeting held on Monday 9 Jumad Awal 1435H corresponding to 10 March 2014 to grant the Group a loan amounting to SAR 49.4 billion repayable over 25 years. The loan is interest free and will be paid to the Group within 5 years in accordance with an agreement made for this purpose between the Ministry of Finance and the Group. An amount of SAR 16.1 billion from this loan has been drawn as at 31 December 2020 (31 December 2019: SAR 16.1 billion). The Group has recognised the amount received from the Government loan, at its present value.

The balance of these aforementioned government loans as on 14 November 2020, amounted to SAR 50.6 billion.

The entire balance has been included as a part of settlement under Mudaraba Agreement which was signed between the Company & the Ministry of Finance on 16 November 2020 (note 24).

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33 Financial instruments - continued**33.3 Derivative financial instruments**

The Group has interest rate hedging contracts with several banks for an amount of SAR 14.4 billion as of 31 December 2020 (2019: SAR 13.12 billion).

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

All derivatives as at 31 December 2020 are classified as cash flow hedges. Derivatives are classified as non-current assets in the Company and as non-current or current liabilities in joint operation, depending on the expiration date of the financial instruments.

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

| | <u>31 December 2020</u> | <u>31 December 2019</u> |
|--|-------------------------|-------------------------|
| Derivative financial instruments at fair value: | | |
| Current | 127,212 | 61,211 |
| Non-current | 937,806 | 572,591 |
| | <u>1,065,018</u> | <u>633,802</u> |

34 Advance from customers

The amount represents payments received from customers in advance against the service to be delivered. These advances will be amortised once the project is completed.

35 Zakat and income tax**35.1 Charge for the year**

Zakat and tax for the year is as follows:

| | <u>31 December 2020</u> | <u>31 December 2019</u> |
|--|-------------------------|-------------------------|
| Zakat for the year | 126,677 | 79,848 |
| Tax for the year | - | 35 |
| (Income) / Expense for Deferred tax for the year | (412,165) | 140,728 |
| | <u>(285,488)</u> | <u>220,611</u> |

Deferred tax has been charged as follows:

| | <u>31 December 2020</u> | <u>31 December 2019</u> |
|--|-------------------------|-------------------------|
| Consolidated statement of income | (412,165) | 140,728 |
| Consolidated statement of comprehensive income | <u>(3,213)</u> | <u>(8,477)</u> |

On 5 Dhu al-Qi'dah 1441 H (corresponding to 26 June 2020), the Royal Decree No. (M/153) has been issued in respect of the amendment of Paragraph (A) of article 2 of the Income Tax Law issued by Royal Decree No. (M/1) on 15/1/1425 H, as amended by Royal Decree No. (M/131) on 29/12/1438 H, to amend the text contained in the resolution which changed the company's status from a tax and zakat mixed company to a 100% Zakat company not subject to income tax due to change in the status of Saudi Aramco's (the shareholder) investments and exception of companies listed on Saudi Stock Exchange. Accordingly, the net deferred tax assets and liabilities of SAR 412 million that were recorded in the consolidated statement of income under "Zakat and deferred tax income/(expense)" were cancelled.

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35 Zakat and income tax – continued**35.1 Charge for the year – continued****35.1.1 Allocation of Zakat based on the Group companies:**

| | 31 December 2020 | 31 December 2019 |
|--|-----------------------------|---------------------|
| Saudi Electricity Company and subsidiaries | 122,326 | 78,606 |
| Joint operation | 4,351 | 1,277 |
| | 126,677 | 79,883 |

35.1.2 Reconciliation between tax expense and accounting income at applicable tax rate is as follows:

| | 31 December 2020 | 31 December 2019 |
|--|-----------------------------|-----------------------------|
| Income before Zakat and tax | - | 1,608,168 |
| Income subject to income tax (6.93%) | - | 121,344 |
| Income tax at applicable tax rate (20%) | - | 24,269 |
| Tax effect of: | - | |
| Difference between accounting and tax depreciation | - | (273,476) |
| Provisions | - | (7,886) |
| Interest on loans in excess of allowed limit | - | 68,156 |
| Deferred tax impact of property, plant and equipment | - | 125,317 |
| Deferred tax impact of provision | - | 10,657 |
| Deferred tax impact from Joint operations | - | 4,753 |
| | - | (48,210) |
| Unrecognised income tax | - | 188,938 |
| Tax expense as per consolidated statement of income | - | 140,728 |

35.2 Zakat

The main components of the Zakat base for the Saudi Electricity Company and its subsidiaries are as follows:

| | 31 December 2020 | 31 December 2019 |
|--|-----------------------------|---------------------|
| Income for the year before zakat and tax | 2,740,060 | 1,608,168 |
| Less: Zakat adjustments | 1,209,614 | 213,747 |
| Net adjusted (gain) / loss | 3,949,674 | 1,821,915 |

Calculation of the Zakat base of the Company is as follows:

| | | |
|---|----------------------|---------------|
| Share capital | 41,665,938 | 41,665,938 |
| Net adjusted (loss) / gain | 3,949,674 | 1,821,915 |
| Retained reserves | 4,520,592 | 5,128,007 |
| Opening retained earnings | 26,667,436 | 25,720,992 |
| Retained allowances | 9,040,384 | 5,674,603 |
| Long term loans and Sukuks | 117,257,669 | 110,943,050 |
| Government loans and deferred grants | 87,825,761 | 92,363,629 |
| Contractors accruals and others | 12,749,282 | 1,150,149 |
| | 303,676,736 | 284,468,283 |
| Deduct: | | |
| Fixed assets and construction work in progress, net | 437,360,229 | 423,927,348 |
| Long term investments | 2,301,320 | 1,427,682 |
| Material and spare parts inventories | 3,949,986 | 4,044,731 |
| Zakat base | (139,934,799) | (144,931,478) |

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35 Zakat and income tax – continued**35.2 Zakat - continued**

The Company has filed the zakat returns until 2008; the Company also submitted zakat declarations for the years 2009 to 2016, which are still under review by the General Authority for Zakat and Income tax. A claim of SAR 375 million has been received for the years 2009-2014 by the Company. The Company does not expect that this claim will result in any future obligation.

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

35.3 Deferred tax

The deferred tax for Saudi Electricity Company is as follows:

| | Consolidated Financial Statement | |
|--------------------------------|---|-------------------------|
| | 31 December 2020 | 31 December 2019 |
| Property, plant and equipment | - | 506,253 |
| Provisions | - | (123,028) |
| Deferred tax expense (benefit) | - | 383,225 |

| | Consolidated Income statement | |
|--------------------------------|--------------------------------------|-------------------------|
| | 31 December 2020 | 31 December 2019 |
| Property, plant and equipment | - | 125,317 |
| Provisions | - | 10,657 |
| Deferred tax expense (benefit) | - | 135,974 |

| | For the year ended | |
|---|---------------------------|-------------------------|
| | 31 December 2020 | 31 December 2019 |
| Balance at the beginning of the year | (408,934) | (276,683) |
| Tax expense during the year recognized in the consolidated statement of income | 412,165 | (140,728) |
| Income / (expense) during the year recognized in the consolidated statement of comprehensive income | (3,231) | 8,477 |
| Balance at the end of the year | - | (408,934) |

The deferred tax balances are as follows:

| | For the year ended | |
|--------------------------|---------------------------|-------------------------|
| | 31 December 2020 | 31 December 2019 |
| Deferred tax assets | - | 17,823 |
| Deferred tax liabilities | - | (426,757) |
| | - | (408,934) |

35.4 Value Added Tax

The Company has submitted VAT and payments within the statutory term.

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36 Contingent liabilities

- (a) A committee has been formed represented by various stakeholders, who will study financial disputes and give their recommendations to the Ministerial Committee, the most important of which are the following:
- During July 2020, an agreement was signed to settle the dispute between the Saudi Electricity Company and the Saudi Aramco. As per the settlement, Saudi Aramco paid to the Saudi Electricity Company an amount representing claims for consumption and various projects which were previously disputed. The settlement included an end to the dispute over the fuel price difference for the company's generation station in Al-Shuaiba, where the Saudi Electricity Company recorded an amount of SAR 808 million, representing the fuel cost difference which is in favour of Saudi Aramco for the period of 2017 and onwards, which is estimated at SAR 2.6 billion. The Company does not expect any commitment resulting from that.
 - According to Council of Ministers resolution No. 216 dated 16 January 2018 whereby an agreement has been signed with Saudi Aramco regarding the recognition of handling fees as of 1 June 2018, the total disputed amount from the beginning of the Company's incorporation on April 5, 2000 until May 30, 2018 amounted to SAR 6.1 billion. This matter is within the scope of work of the committee formed as mentioned above. The Company does not expect any resulting outflow of resources from such commitment.
- (b) The Group has provided guarantees to some commercial banks for their share of the financing loan granted to some of the investee companies and guarantee to other parties amounting to SAR 449 million as at 31 December 2020 (31 December 2019: SAR 525 million).

37 Capital commitments

These comprise the unexecuted portion of capital contracts for the erection and installation of power plants and other assets amounting to SAR 47 billion (31 December 2019: SAR 42.7 billion).

38 Earnings per share

Basic earnings per share is calculated by dividing the income attributable to equity holders of the Holding Company (adjusted by Mudaraba instrument profit) by the weighted average number of ordinary shares in issue during the year.

The diluted earnings per share equal to the basic earnings per share for the year ended 31 December 2020 and 31 December 2019 as there are no financial instruments with a dilutive effect on basic earnings per share.

Details of Basic and diluted earnings per share are as follows:

| | For the year ended | |
|--|---------------------------|-------------------------|
| | 31 December 2020 | 31 December 2019 |
| Profit for the year | 3,025,548,000 | 1,387,557,000 |
| Less: profit attributable to Mudaraba Instrument | (927,375,000) | - |
| Net profit for the Year - Attributable to Shareholders | 2,098,173,000 | 1,387,557,000 |
| Total Weighted Average Shares in thousands for Basic EPS | 4,166,593,815 | 4,166,593,815 |
| Basic and diluted earnings per share | 0.50 | 0.33 |

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39 Related-party transactions

The final controlling party for the Group is the government of the KSA, where through its ownership of the Public Investment Fund, Saudi Aramco, and the Saline Water Conversion Corporation "SWCC", as the mentioned entities are under the final control of the government of the Kingdom of Saudi Arabia in addition to the independent energy production companies and the companies invested in, the following is a statement: With regard to the most important transactions with related parties:

Following transactions were carried out with related parties:

(a) Sales of electricity

| | For the year ended | |
|---|---------------------------|-------------------------|
| | 31 December 2020 | 31 December 2019 |
| Sales of electricity: | | |
| Group's ultimate controlling party | 11,594,615 | 12,863,475 |
| Entities under control of the Group's ultimate controlling party | | |
| Saudi Aramco | 446,240 | 428,852 |
| Saline Water Conversion Corporation | 562,790 | 533,452 |
| Total | 12,603,645 | 13,825,779 |

(b) Purchases of energy and fuel

| | For the year ended | |
|--|---------------------------|-------------------------|
| | 31 December 2020 | 31 December 2019 |
| Purchases of energy | | |
| Entities under control of the Group's ultimate controlling party: | | |
| Saudi Aramco | 8,455,131 | 8,858,565 |
| Saline Water Conversion Corporation | 277,510 | 290,152 |
| Fadhili Plant Cogeneration Company | 463,788 | - |
| Joint operations: | | |
| Dhuruma Electricity Company | 588,697 | 638,454 |
| Rabigh Electricity Company | 915,177 | 753,390 |
| Hajr for Electricity Production Company | 795,525 | 734,679 |
| Al Mourjan for Electricity Production Company | 419,212 | 387,319 |
| Total | 11,915,040 | 11,662,559 |

The Group purchases fuel from Saudi Aramco and power from Saline Water Conversion Corporation at rates stipulated for in the respective governmental resolutions. Also, the purchasing power transitions from joint operations according to the signed agreement with them.

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39 Related-party transactions – continued**(c) Year-end balances arising from sales of electricity/purchases of energy**

| Due from related parties: | 31 December 2020 | 31 December 2019 |
|--|-------------------------|-------------------------|
| Entities under control of the Group's ultimate controlling party | 17,194,708 | 27,878,902 |
| Saudi Aramco | 170,929 | 1,438,355 |
| Saline Water Conversion Corporation | - | 1,542,281 |
| Al-Fadhli Co-production loans | 253,874 | 253,874 |
| Global Data Center Company loans | 30,250 | 18,000 |
| Total due from related parties | 17,649,761 | 31,131,412 |
| Due to related parties: | | |
| Group's ultimate controlling party | | |
| Governmental payables ** | - | 92,495,037 |
| | - | 92,495,037 |
| Entities under control of the Group's ultimate controlling party | | |
| Saudi Aramco * | 10,077,791 | 18,272,055 |
| Saline Water Conversion Corporation | 354,349 | 515,354 |
| | 10,432,140 | 18,787,409 |

* This includes fuel used by the Company, Independent Power Producer and purchase energy.

Loans and advances from related parties

| | 31 December 2020 | 31 December 2019 |
|------------------------------------|-------------------------|-------------------------|
| Group's ultimate controlling party | | |
| Government loans ** | - | 48,698,302 |
| Deferred government grants ** | 1,089,377 | 43,665,327 |
| Public Investment Fund loans | 756,413 | 971,349 |
| | 1,845,790 | 93,334,978 |

** The Company has transferred the net liabilities owed to the government of SAR 167.9 billion into a financial instrument within equity.

(d) Compensation of key management personnel

Key management consists of Board members and executive management. The compensation paid is illustrated below:

| | For the year ended 31 December | |
|------------------------------|---------------------------------------|-------------|
| | 2020 | 2019 |
| Salaries and allowances | 9,437 | 8,765 |
| Annual and periodic benefits | 12,954 | 9,802 |
| Total | 22,391 | 18,567 |

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40 Operating revenue

| | For the year ended | |
|---|---------------------------|------------------|
| | 31 December 2020 | 31 December 2019 |
| Sales of electricity | 57,531,486 | 58,864,725 |
| Electricity service connection fees | 1,928,389 | 1,833,897 |
| Meter reading, maintenance and bills preparation fees | 1,391,542 | 1,347,934 |
| Transmission system revenues | 1,171,080 | 1,131,341 |
| Other operational revenue* | 6,686,421 | 1,862,103 |
| | 68,708,918 | 65,040,000 |

* Based on the Royal Decree Number 2719 – Dated 14/01/1438H (corresponding date 15 October 2016), and letter from the Ministry of Finance number 5627 – Dated 02/06/1441H) dated 27 January 2020, a balancing account has been activated by the government effective 2019. Based on the letter of the Ministry of Finance No. 8491 dated 16/08/1442H corresponding to 29/03/2021 for approving the organization of revenues of Saudi Electricity Company as per the model of minimum operating costs to determine the required revenues for the financial year 2020 which will cover both operating & financing costs in addition to dividends owed to all shareholders including Public Investment Fund and the commencement of balancing account for the difference between approved required revenue and actual revenue for the year 2020. The Company has recognized an amount of SAR 6.1 billion in the consolidated income statement under the item of other operating income for the year ended 31 December 2020 (2019: SAR 1.1 billion).

41 Costs of revenue

| | For the year ended | |
|--|---------------------------|------------------|
| | 31 December 2020 | 31 December 2019 |
| Depreciation of operation and maintenance assets | 18,264,947 | 18,204,381 |
| Operation and maintenance expenses | 10,770,406 | 10,678,003 |
| Fuel | 7,305,318 | 7,576,427 |
| Purchased energy | 9,046,275 | 7,804,921 |
| Government fees | 15,071,902 | 14,493,692 |
| Depreciation of right of use assets | 152,964 | 158,459 |
| | 60,611,812 | 58,915,883 |

42 General and administrative expenses

| | For the year ended | |
|----------------------------------|---------------------------|------------------|
| | 31 December 2020 | 31 December 2019 |
| Employees' expenses and benefits | 285,034 | 490,055 |
| Depreciation | 523,459 | 509,582 |
| Materials | 69,240 | 42,436 |
| Communication fee | 113,089 | 84,145 |
| Others | 253,816 | 118,307 |
| | 1,244,638 | 1,244,525 |

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43 Other income, net

| | For the year ended | |
|---|---------------------------|------------------|
| | 31 December 2020 | 31 December 2019 |
| Amortisation of government grants | 1,356,435 | 1,327,074 |
| Penalties and fines | 79,112 | 99,323 |
| Dividend income | 34,656 | 57,608 |
| (Loss) / gain on disposal of property, plant and equipment, net | (189,209) | 21,784 |
| Others, net | 301,161 | 149,949 |
| | 1,582,155 | 1,655,738 |

44 Finance costs, net

| | For the year ended | |
|--|---------------------------|------------------|
| | 31 December 2020 | 31 December 2019 |
| Finance expense, net | | |
| Bank borrowings | 4,525,380 | 4,561,733 |
| Government loans | 1,937,082 | 2,241,393 |
| Lease obligation | 7,288 | 12,583 |
| Less: Capitalised interest | (1,705,861) | (2,085,924) |
| Total | 4,763,889 | 4,729,785 |
| Changes in the present values of the employees' benefits obligations | 136,927 | 177,923 |
| Changes in the present values of the asset retirement obligation | 8,001 | 9,728 |
| Total finance expense | 4,908,817 | 4,917,436 |
| Interest income | (18,007) | (30,503) |
| Total interest income | (18,007) | (30,503) |
| Net finance costs | 4,890,810 | 4,886,933 |

45 Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue 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.

The Group monitors capital based on the debt ratio. This ratio is calculated on the basis of net adjusted debt divided by adjusted equity and adjusted net debt. Net debt is calculated as total loans (including "short term", "long term" and "sukuk" loans as described in the consolidated statement of financial position) less cash and cash equivalents. Adjusted equity is recognised as "equity" as stated in the consolidated statement of financial position plus net adjusted debt. The Group strategy is to maintain an appropriate debt ratio in light of operational requirements and future expansion plans.

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45 Capital management - continued

The Adjusted debt to equity ratios as at 31 December were as follows:

| | 31 December 2020 | 31 December 2019 |
|---------------------------------|-------------------------|-------------------------|
| Total borrowings | 113,719,801 | 110,943,050 |
| Less: Cash and cash equivalents | (4,539,092) | (1,918,304) |
| Adjusted net debt | 109,180,709 | 109,024,746 |
| Total equity | 247,774,552 | 73,569,872 |
| Adjusted equity and net debt | 356,955,261 | 182,594,618 |
| Adjusted debt to equity ratio | 31% | 60% |

46 Financial risk management**46.1 Financial risk factors**

The Group's activities expose it to market risk (foreign currency exchange risk, interest rate risk and price risk), credit risk and liquidity risk.

The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to hedge certain risk exposures.

The Group's financial instruments are as follows:

| | 31 December 2020 | | |
|--|--|---|-------------------|
| Financial assets as per the statement of financial position | Financial assets through other comprehensive income | Financial assets at amortised cost | Total |
| <i><u>Financial assets measured at fair value</u></i> | | | |
| Financial asset through Other Comprehensive Income | 349,618 | - | 349,618 |
| <i><u>Financial assets not measured at fair value</u></i> | | | |
| Financial asset at amortized cost | - | 34,114 | 34,114 |
| Cash and cash equivalents | - | 4,539,092 | 4,539,092 |
| Receivables from sale of electricity, net | - | 34,968,645 | 34,968,645 |
| Debit balances and advances | - | 328,194 | 328,194 |
| Other receivables | - | 687,013 | 687,013 |
| Total | 349,618 | 40,557,058 | 40,906,676 |
| | 31 December 2019 | | |
| Financial assets as per the statement of financial position | Financial assets through other comprehensive income | Financial assets at amortised cost | Total |
| <i><u>Financial assets measured at fair value</u></i> | | | |
| Financial asset through Other Comprehensive Income | 325,075 | - | 325,075 |
| <i><u>Financial assets not measured at fair value</u></i> | | | |
| Financial asset at amortized cost | - | 38,381 | 38,381 |
| Cash and cash equivalents | - | 1,918,304 | 1,918,304 |
| Receivables from sale of electricity, net | - | 44,884,004 | 44,884,004 |
| Debit balances and advances | - | 318,707 | 318,707 |
| Other receivables | - | 1,247,942 | 1,247,942 |
| Total | 325,075 | 48,407,338 | 48,732,413 |

46 Financial risk management – continued

46.1 Financial risk factors - continued

| Liabilities as per the statement of financial position | 31 December 2020 | | |
|---|------------------|---|--------------------|
| | Derivatives | Other financial liabilities at amortised cost | Total |
| <i>Financial liabilities measured at fair value</i> | | | |
| Derivative financial instruments | 1,065,017 | - | 1,065,017 |
| <i>Financial liabilities not measured at fair value</i> | | | |
| Loans | - | 69,559,367 | 69,559,367 |
| Sukuk | - | 44,160,434 | 44,160,434 |
| Government loans | - | - | - |
| Trade payables | - | 14,145,642 | 14,145,642 |
| Accruals and other payables | - | 26,289,101 | 26,289,101 |
| Payables to the government | - | - | - |
| Total | 1,065,017 | 154,154,544 | 155,219,561 |
| Liabilities as per the statement of financial position | 31 December 2019 | | |
| | Derivatives | Other financial liabilities at amortised cost | Total |
| <i>Financial liabilities measured at fair value</i> | | | |
| Derivative financial instruments | 633,802 | - | 633,802 |
| <i>Financial liabilities not measured at fair value</i> | | | |
| Loans | - | 72,653,314 | 72,653,314 |
| Sukuk | - | 39,289,736 | 39,289,736 |
| Government loans | - | 48,698,302 | 48,698,302 |
| Trade payables | - | 22,424,873 | 22,424,873 |
| Accruals and other payables | - | 12,749,282 | 12,749,282 |
| Payables to the government | - | 92,495,037 | 92,495,037 |
| Total | 633,802 | 288,310,544 | 288,944,346 |

46 Financial risk management – continued

46.2 Risk management framework

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

The audit committee monitors the Group's commitment to risk management policies and procedures and reviews the adequacy of the overall framework associated with the risks faced by the Group. The internal audit activity assists the audit committee in the management of the Group.

46.2.1 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 consists of three types of risk:

- Foreign currency risk
- Commission rate risk (interest)
- Other price risk.

(a) Foreign currency risk

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

Foreign currency risk is linked to the change in value in the functional currency due to the difference in the underlying foreign currency of the relevant transaction. The Group's functional currency is the Saudi Riyal, which is pegged to the US Dollar with a fixed exchange rate of 3.75 Saudi Riyals against the US Dollar. Except for US Dollar, most of the significant transaction are not subject to foreign currency risk. The financial assets in US Dollar amounted to USD 9 million as of 31 December 2020 (31 December 2019: USD 62 million), while the financial liabilities in US Dollar amounted to USD 16.7 billion (31 December 2019: USD 18.9 billion).

(b) Commission rate risk (interest)

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

The Group's interest rate risk arises from its borrowings. Borrowings issued at variable rates expose the Group to change in cash flow due to change in interest rates. The Group enters into interest rate swaps in order to hedge the interest rate risk and these swaps are designated as derivative financial liability in the financial position.

The Group designate certain hedging instruments, which include derivatives, embedded derivatives and non-derivatives in respect of foreign exchange risk, as either fair value hedges, cash flow hedges, or hedges of net investments in foreign operations. Hedges of foreign exchange risk on firm commitments are accounted for as cash flow hedges where appropriate criteria are met.

At the inception of the hedge relationship, the entity documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk, which is when the hedging relationships meet all of the following hedge effectiveness requirements.

- there is an economic relationship between the hedged item and the hedging instrument;
- the effect of credit risk does not dominate the value changes that result from that economic relationship; and
- the hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the entity actually uses to hedge that quantity of hedged item.

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46 Financial risk management – continued**46.2 Risk management framework – continued****46.2.1 Market risk – continued****(b) Commission rate risk (interest) - continued**

If a hedging relationship ceases to meet the hedge effectiveness requirement relating to the hedge ratio but the risk management objective for that designated hedging relationship remains the same, the Group adjusts the hedge ratio of the hedging relationship (i.e. rebalances the hedge) so that it meets the qualifying criteria again.

The Group's exposure to borrowing risk associated with changes in interest rates is as follows:

| | 31 December 2020 | 31 December 2019 |
|-----------------------------------|-------------------------|------------------|
| Variable interest rate borrowings | 72,771,479 | 81,367,250 |
| Fixed interest rate borrowings | 40,948,322 | 29,575,800 |

Interest rate sensitivity

A reasonably possible change of 100 basis points in interest rates at the reporting date would have increased / (decreased) equity and statement of income by the amount shown below. The analysis assumes that all other variables remain constant.

| | For year ended 31 December 2020 | | | |
|------------------------------|--|------------------------|---------------------------------------|------------------------|
| | Statement of Income or loss | | Statement of changes in equity | |
| | 100 bp increase | 100 bp decrease | 100 bp increase | 100 bp decrease |
| Loans at variable-rates | (607,015) | (607,015) | | |
| Interest rate swaps | - | - | 10,650 | (10,650) |
| Cash-flow sensitivity | (607,015) | (607,015) | 10,650 | (10,650) |
| | For year ended 31 December 2019 | | | |
| | Statement of Income or loss | | Statement of changes in equity | |
| | 100 bp increase | 100 bp decrease | 100 bp increase | 100 bp decrease |
| Loans at variable-rates | (733,284) | 733,284 | - | - |
| Interest rate swaps | - | - | 6,338 | (6,338) |
| Cash-flow sensitivity | (733,284) | 733,284 | 6,338 | (6,338) |

(c) Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in the market prices (other than those arise from currency and interest rate risk). The Group exposed to the fair value risk due to changes in the prices of the available for sales financial assets owned by the Group, where the risk to which the Group exposed is not significant, as the available for sale financial assets includes investments in unquoted equity securities.

46.2.2 Credit risk

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

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Group's receivables from customers.

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

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46 Financial risk management – continued**46.2 Risk management framework – continued****46.2.2 Credit risk – continued**

Impairment on financial assets consist of:

| | <u>31 December 2020</u> | <u>31 December 2019</u> |
|--|-------------------------|-------------------------|
| Provision for impairment of receivables | 1,467,536 | 1,549,779 |
| Provision for impairment of debt instruments at amortized cost | 76 | 76 |
| Other receivables | 235,899 | 186,383 |

The credit quality of financial assets that are neither past due nor impaired is as follows:

| | | <u>31 December 2020</u> | <u>31 December 2019</u> |
|---------------------|---|-------------------------|-------------------------|
| Simplified approach | Less than 3 months | 7,539,101 | 5,745,619 |
| | More than 3 months and less than 6 months | 909,506 | 539,217 |
| | More than 6 months and less than a year | 490,830 | 684,998 |
| | More than a year | 2,509,774 | 874,758 |
| General approach | - | 24,986,970 | 38,589,191 |
| | | <u>36,436,181</u> | <u>46,433,783</u> |

The Group uses the general approach to estimate the expected credit losses of government, semi-government entities and financial assets at amortized cost. The expected credit loss is calculated over the 12-month period or Lifetime ECL depending on the change in credit risk associated with financial instrument.

The Company believes that it is able to collect non-governmental receivables through the Company's ability to stop providing services to those who are late in paying their indebtedness in addition to their legal follow-up with the competent authorities. Non-government receivables account for 7% of total outstanding receivables for more than one year.

The Group uses a dedicated matrix to measure the expected credit losses of trade receivables from individual customers consisting of a very large number of small balances.

The Group takes into consideration the probability of default on the initial recognition of the asset and whether there is a significant increase in credit risk on an ongoing basis over each reporting period. The Group compares the non-payment risk that may arise to the asset at the reporting date with the risk of non-payment as at the date of initial recognition to assess whether there is a significant increase in credit risk. Reasonable and supportive information is taken into consideration, especially the following indicators:

- External credit rating (if available).
- Actual or expected significant adverse change in business, financial or economic situation. A significant change in the borrower's ability to meet their obligations is expected.
- A significant increase in the credit risk of other financial instruments to the same borrower.
- Significant changes in the value of the collateral supporting the liability or the quality of the third party guarantees or improvement of the credit.
- Significant changes in the borrower's expected performance and behaviour, including changes in the payment status of the borrowers in the Group and changes in the borrower's operating results.

46 Financial risk management – continued

46.2 Risk management framework – continued

46.2.2 Credit risk – continued

The Group's exposure to credit risk for electricity consumers as of 31 December 2020 is as follows:

| | Credit losses Expected over 12 months | Credit losses Expected over the age period and not decreased its Credit value | Credit losses Expected over the age period and declined its credit value | Total |
|---|---|--|--|--------------------|
| Receivables from sale of electricity | 23,250,499 | 5,869,740 | 7,315,942 | 36,436,181 |
| Less | | | | |
| Provision for decrease in accounts receivable of electricity consumers book values | (2,773) | (592,224) | (872,539) | (1,467,536) |
| | 23,247,726 | 5,277,516 | 6,443,403 | 34,968,645 |

| | Credit losses Expected over 12 months | Credit losses Expected over the age period and not decreased its Credit value | Credit losses Expected over the age period and declined its credit value | Total |
|--|---|--|--|--------------------|
| Receivables from sale of electricity | 34,674,706 | 4,809,403 | 6,949,674 | 46,433,783 |
| Less | | | | |
| Provision for decrease in accounts receivable of electricity consumers Book value | (5,239) | (591,424) | (953,116) | (1,549,779) |
| | 34,669,467 | 4,217,979 | 5,996,558 | 44,884,004 |

The Group's exposure to credit risk for electricity consumers as of 31 December 2019 is as follows:

Cash and cash equivalent are placed with commercial banks having investment grade credit rating.

On 31 December 2020 and 31 December 2019, there are no collateral financial instruments held.

Loans are secured by promissory notes signed by the Group for the nominal values of the loan plus the interest payments and/or murabaha margin.

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

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

Risk limits are set based on a pre-identified credit limits on a customer-by-customer basis in accordance with limits set by the Board. The utilisation of credit limits is regularly monitored. Sales are settled in cash, SADAD or using major credit cards.

46 Financial risk management – continued

46.2 Risk management framework – continued

46.2.3 Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulties in raising funds to meet obligations associated with financial instruments.

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

The Group expects to meet its future financial obligations through cash receipts from receivables and through facilities and bank loans.

The table below analyses the Group's non-derivative financial liabilities into relevant maturity Groupings based on the remaining period at the consolidated statement of financial position date to the contractual maturity date noting all current financial liabilities fall within a maturity period of one year or less. Derivative financial liabilities are included in the analysis if their contractual maturities are essential for an understanding of the timing of the cash flows. The amounts disclosed in the table are the contractual undiscounted cash flows.

As of 31st December 2020, there are no current government commitments (2019: SAR 126 billion). The Company manages based on their liquidity position in coordination with government entities

| | 31 December 2020 | | | | |
|--|---------------------|-----------------------------|-----------------------------|-------------------|--------------------|
| | Less than 1 year | Between 1 and 2 years | Between 2 and 5 years | Over 5 years | Total |
| <i>Non-derivative financial liabilities:</i> | | | | | |
| Loans | 13,413,842 | 11,249,779 | 15,893,293 | 29,002,453 | 69,559,367 |
| Sukuk | - | 10,418,190 | 19,312,500 | 14,429,744 | 44,160,434 |
| Government loans | - | - | - | - | - |
| Trade payables | 14,145,642 | - | - | - | 14,145,642 |
| Accrued expenses and other liabilities | 26,289,101 | - | - | - | 26,289,101 |
| Obligation Lease | 56,085 | 16,015 | 14,967 | 31,085 | 118,152 |
| Payables to the government | - | - | - | - | - |
| Derivative financial instruments | 127,212 | 937,806 | - | - | 1,065,018 |
| Total | 54,031,882 | 22,621,790 | 35,220,760 | 43,463,282 | 155,337,714 |

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46 Financial risk management - continued**46.2 Risk management framework – continued****46.2.3 Liquidity risk – continued**

| | 31 December 2019 | | | | |
|--|---------------------|-----------------------------|-----------------------------|-------------------|--------------------|
| | Less than 1 year | Between 1 and 2 years | Between 2 and 5 years | Over 5 years | Total |
| <i>Non-derivative financial liabilities:</i> | | | | | |
| Loans | 19,179,264 | 5,278,102 | 21,506,843 | 25,689,105 | 71,653,314 |
| Sukuk | - | - | 15,187,500 | 24,102,236 | 39,289,736 |
| Government loans | 1,000,000 | 1,000,000 | 3,099,000 | 43,599,302 | 48,698,302 |
| Trade payables | 22,424,873 | - | - | - | 22,424,873 |
| Accrued expenses and other liabilities | 12,749,282 | - | - | - | 12,749,282 |
| Obligation Lease | 143,820 | 64,542 | 40,113 | - | 248,475 |
| Payables to the government | 92,495,037 | - | - | - | 92,495,037 |
| Derivative financial instruments | 61,211 | 572,591 | - | - | 633,802 |
| Total | 148,053,487 | 6,915,235 | 39,833,456 | 93,390,643 | 288,192,821 |

46.3 Fair-value measurement

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

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

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

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

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

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

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46 Financial risk management – continued**46.3 Fair-value measurement – continued**

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

The following table presents the Group's financial assets and liabilities that are measured at fair value as of 31 December 2020:

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

The following table presents the Group's financial assets and liabilities that are measured at fair value as of 31 December 2019:

| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
|--|----------------|----------------|----------------|--------------|
| Assets | | | | |
| Financial asset through other comprehensive income | - | - | 325,075 | 325,075 |
| Total assets | - | - | 325,075 | 325,075 |
| Liabilities | | | | |
| Derivatives used for hedging | - | 633,802 | - | 633,802 |
| Financial instruments liabilities | - | 633,802 | - | 633,802 |
| Equity | | | | |
| Mudaraba instrument | - | - | - | - |
| Equity financial instrument | - | - | - | - |

Valuation techniques used to derive level 2 fair-value

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

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

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46 Financial risk management – continued**46.3 Fair-value measurement – continued****Fair value measurements using significant unobservable inputs (Level 3)**

The Group has four available-for-sale financial assets through OCI, 8% Stake in Shuaiba Water and Electricity Company; 8% Stake in Shuqaiq Water and Electricity Company; 5% Stake in Jubail Water and Power Company; 8% Stake in Shuaibah Expansion Holdings Company.

The fair valuation of these four investments is carried out using the dividend valuation model (DVM).

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

Unrealized gross (loss) / profit for the year ended 31 December 2020 included in other comprehensive income ("change in fair value of financial asset at other comprehensive income") for financial statement at other comprehensive income amounted to SAR 24.5 million (2019: SAR 25.7 million).

As at 31 December 2020, projected dividends and cost of equity are the main input variables for the model for the fair valuation of financial asset at other comprehensive income.

An increase of 5% in the cost of equity will lead to a decrease of SAR 15.6 million (31 December 2019: SAR 13.5 million decrease) in the fair valuation of financial assets through other comprehensive income, while a decrease of 5% in the cost of equity will lead to an increase of SAR 16.8 million (31 December 2019: SAR 14.5 million increase) in the fair valuation. The risk reduction rate in 2020 was 8% (2019: 9.5%).

A 5% increase / decrease in expected income will result in an increase / decrease of SAR 17.4 million (31 December 2019: SAR 16.3 million increase) in the fair valuation of financial asset through other comprehensive income.

The Group has determined the fair value of the Mudaraba is determined based on an income approach where perpetual cash flows based on the profit rate of the instrument are discounted at an appropriate discount rate of 4.3% derived based a cost of debt reflecting a yield to maturity of KSA Government Sukuk with longest maturity plus a premium for the perpetual nature of the instrument.

The regulatory weighted average cost of capital is estimated at 6% based on the Capital Asset Pricing Model using market-based assumptions and is considered a close proxy to the contractual WACC for the fair valuation purposes.

There have been no transfers between level 1, level 2 and level 3 fair values.

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

| | 31 December 2020 | 31 December 2019 |
|--|-------------------------|-------------------------|
| Opening balance | 325,075 | 299,365 |
| Change in present value of the financial assets through other comprehensive income | 24,543 | 25,710 |
| Closing balance | 349,618 | 325,075 |

Fair values of financial assets and liabilities measured at amortised cost

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

47 Significant events

COVID-19 pandemic has swept the world since the beginning of 2020, causing disruption in the economic and commercial sectors in general at the global and local levels. The government of the Kingdom of Saudi Arabia has taken stimulus measures and launched initiatives to support the economy to reduce the adverse effects of this pandemic.

The accompanying consolidated financial statements included the results of management's estimates related to the expected impairment loss of Receivables from sale of electricity that are expected to arise as a result of the current conditions which have been estimated according to the best information available to the management.

The Group considers and monitors all factors that may affect the Group's activities and during the year ended 31 December 2020 there has been change in the revenue combination between some categories which impacted the overall profitability of the Group.

The Group's management continues to study and follow up all the variables that affect the Group's activities, however, due to the inability to determine the time period of this pandemic and the precautionary measures and procedures as to what will be emerged in the future, it is currently difficult to determine the size and extent of the financial impact accurately on the results of the Group up to the date of issuance of these consolidated financial statements. However, the Group does not anticipate any significant adverse implication in future related to the Group remaining as a going concern.

48 Non-cash transactions

Primary non-cash transaction during the year ended 31 December 2020 are clearing of some of the debit balances due to some of the electricity consumers' receivables along with the credit balances as disclosed in Mudaraba instrument amounting to SAR 167.9 billion (note 24).

49 Approval of the consolidated financial statements

The Group's consolidated financial statements were approved by the Group's Board of Directors on 17 Sha'aban 1442H, corresponding to 30 March 2021.