

SAUDI ELECTRICITY COMPANY
(A Saudi Joint Stock Company)

Consolidated financial statements and independent auditor's report
For the year ended 31 December 2021

SAUDI ELECTRICITY COMPANY
(A Saudi Joint Stock Company)

Consolidated financial statements and independent auditor's report
For the year ended 31 December 2021

Index	Pages
Independent auditor's report	-
Consolidated statement of financial position	3
Consolidated statement of profit or loss	4
Consolidated statement of other comprehensive income	5
Consolidated statement of changes in equity	6
Consolidated statement of cash flows	7
Notes to the consolidated financial statements	8-81



KPMG Professional Services

Riyadh Front, Airport Road
P. O. Box 92876
Riyadh 11663
Kingdom of Saudi Arabia
Commercial Registration No 1010425494

Headquarters in Riyadh

كي بي إم جي للاستشارات المهنية

واجهة الرياض، طريق المطار
صندوق بريد ٩٢٨٨٧٦
الرياض ١١٦٦٣
المملكة العربية السعودية
سجل تجاري رقم ١٠١٠٤٢٥٤٩٤
المركز الرئيسي في الرياض

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 2021, the consolidated statement of profit or loss, 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 2021, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organization for Chartered and Professional Accountants (SOCPA).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing 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 note 17 of the accompanying the consolidated financial statements.	
Key audit matter	How the matter was addressed in our audit
<p>As at 31 December 2021, gross receivables from sale of electricity amounted to SR 23.1 billion, against which a provision for impairment of SR 2.4 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 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 the assessing projections for the future. 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 (continued)

To the Shareholders of Saudi Electricity Company

(A Saudi Joint Stock Company)

Key audit matter	
Recognition of sale of electricity	
Refer to note 40 of the 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 2021, the Group recognized revenue from sale of electricity totaling SR 61 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 Water & Electricity Regulatory Authority.</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 about existence of any actual and / or suspected fraud from the management. Furthermore, inquired about management's philosophy on fraud awareness. 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 (continued)

To the Shareholders of Saudi Electricity Company

(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 (continued)

To the Shareholders of Saudi Electricity Company

(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.

KPMG Professional Services

Hani Hamzah A. Bedairi
License No: 460



Date: 19 Sha'aban 1443H
Corresponding to: 22 March 2022

SAUDI ELECTRICITY COMPANY
(A Saudi Joint Stock Company)
Consolidated statement of financial position as at 31 December 2021
(All amounts in thousands Saudi Riyals unless otherwise stated)

	Notes	31 December 2021	31 December 2020
Assets			
Non-current assets			
Property, plant and equipment, net	9	438,731,462	436,779,330
Right of use assets, net	10-A	63,606	111,331
Investment properties	11	449,200	452,652
Intangible assets, net	12	408,977	469,568
Equity accounted investees	13	1,470,036	1,464,936
Financial assets at amortised cost	14	31,074	34,114
Financial assets through other comprehensive income	15	353,379	349,618
Derivative financial instruments	33.3	15,620	-
Total non-current assets		441,523,354	439,661,549
Current assets			
Inventories, net	16	3,321,525	4,937,483
Receivables from sale of electricity, net	17	20,778,804	34,968,645
Loans and advances	18	543,518	623,324
Prepayments and other receivables	19	1,687,051	719,480
Cash and cash equivalents	20	6,243,256	4,539,092
Assets held for sale	47	785,266	-
Total current assets		33,359,420	45,788,024
Total assets		474,882,774	485,449,573
Equity and liabilities			
Equity			
Share capital	21	41,665,938	41,665,938
Statutory reserve	23	5,592,453	4,153,366
General reserve	23	702,343	702,343
Other reserves		(639,480)	(742,498)
Contractual reserve – Mudaraba instrument	23	860,593	927,375
Retained earnings	22	35,521,258	33,147,465
Total equity before Mudaraba Instrument (1)		83,703,105	79,853,989
Fair value for Mudaraba instrument		159,169,000	159,169,000
Fair value adjustment of Mudaraba instrument		8,751,563	8,751,563
Mudaraba instrument (2)	24	167,920,563	167,920,563
Total equity (1+2)		251,623,668	247,774,552
Liabilities			
Non-current liabilities			
Long term loans	33.2.1	50,871,973	56,145,525
Sukuk	33.2.2	33,741,280	44,160,434
Employees' benefits obligation	25	7,938,396	7,259,950
Non-current portion of deferred revenue	26	63,854,362	56,619,625
Deferred government grants	27	1,525,987	1,089,377
Derivative financial instruments	33.3	489,521	937,806
Asset retirement obligations	28	269,644	270,425
Non-current portion of lease liabilities	10-b	56,406	62,067
Total non-current liabilities		158,747,569	166,545,209
Current liabilities			
Short term loans and facilities	33.2.1	13,849,551	13,413,842
Sukuk	33.2.2	10,418,540	-
Trade payables	29	2,988,268	14,145,642
Accruals and other payables	30	14,798,087	26,289,101
Provision for other liabilities and charges	31	1,492,601	365,411
Refundable deposits from customers		1,998,510	1,997,558
Payables to the government	32	4,570,538	-
Advance from subscribers	34	11,915,015	12,710,153
Current portion of deferred revenue	26	2,281,075	2,024,808
Current portion of lease liabilities	10-b	12,649	56,085
Derivative financial instruments	33.3	104,628	127,212
Liabilities related to assets held for sale	47	82,075	-
Total current liabilities		64,511,537	71,129,812
Total liabilities		223,259,106	237,675,021
Total equity and liabilities		474,882,774	485,449,573

The accompanying notes from 1 to 52 form an integral part of these consolidated financial statements.

SAUDI ELECTRICITY COMPANY**(A Saudi Joint Stock Company)****Consolidated statement of profit or loss for the year ended 31 December 2021**

(All amounts in thousands Saudi Riyals unless otherwise stated)

	Notes	31 December 2021	31 December 2020
Operating revenue	40	69,338,036	68,708,918
Cost of revenue	41	(48,796,076)	(60,386,393)
Gross profit		20,541,960	8,322,525
Other (expenses) / income, net	43	(812,875)	1,610,388
Provision for receivable from consumption of electricity and other receivables, net	19,17	(1,074,931)	(253,638)
General and administrative expenses	42	(884,907)	(1,167,370)
Fuel settlement expense		(207,930)	(808,090)
Operating income for the year		17,561,317	7,703,815
Finance income		32,693	18,007
Finance expense		(2,591,619)	(4,908,059)
Finance costs, net	44	(2,558,926)	(4,890,052)
Share of (loss) / gain on equity accounted investees	13	(10,202)	4,337
Income for the year before zakat and tax		14,992,189	2,818,100
Zakat and tax expenses	35.1	(455,925)	(126,677)
Deferred tax income	35.1	-	412,165
Profit for the year from continued operations		14,536,264	3,103,588
Discontinued operations			
Loss for the year from discontinued operations	47.51	(145,393)	(78,040)
Profit for the year		14,390,871	3,025,548
Earnings per share			
(expressed in SAR)			
Basic and diluted earnings per share from continuing operations	38	1.62	0.50
Basic and diluted earnings per share	38	1.65	0.52

The accompanying notes from 1 to 52 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 2021****(All amounts in thousands Saudi Riyals unless otherwise stated)**

	Notes	31 December 2021	31 December 2020
Profit for the year		14,390,871	3,025,548
Other comprehensive income:			
Items that may be reclassified subsequently to statement of profit or loss:			
Cash flow hedges – effective portion		501,834	(466,109)
Total items that may be reclassified subsequently to statement of profit or loss		501,834	(466,109)
Items that will not be reclassified subsequently to statement of profit or loss:			
Re-measurement of employees' benefits obligation	25.1	(402,577)	(268,370)
Change in fair value of available-for-sale financial assets	46.3	3,761	24,543
Total items that will not be reclassified subsequently to statement of profit or loss		(398,816)	(243,827)
Other comprehensive income / (loss) for the year		103,018	(709,936)
Total comprehensive income for the year		14,493,889	2,315,612

The accompanying notes from 1 to 52 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 2021

(All amounts in thousands Saudi Riyals unless otherwise stated)

	Share capital	Statutory reserve	General reserve	Other reserves				Contractual reserve of Mudaraba Instrument	Retained earnings	Total equity before Mudaraba Instrument (1)	Mudaraba instrument			Total equity (1+2)
				Fair value of derivatives	Employees' benefits obligation	Financial asset at FVOCI	Total other reserve				Fair value of Mudaraba instrument	Fair value adjustment of Mudaraba instrument	Mudaraba instrument (2)	
Balance at 1 January 2020	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
Profit 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)	-	-	-	-	-
Transferred from retained earnings to Mudaraba instrument	-	-	-	-	-	-	-	-	(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	-	-	-	-	-	-	-	-	-	-	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	(1,102,482)	282,996	76,988	(742,498)	927,375	33,147,465	79,853,989	159,169,000	8,751,563	167,920,563	247,774,552
Profit for the year	-	-	-	-	-	-	-	-	14,390,871	14,390,871	-	-	-	14,390,871
Other comprehensive income	-	-	-	501,834	(402,577)	3,761	103,018	-	-	103,018	-	-	-	103,018
Total comprehensive income	-	-	-	501,834	(402,577)	3,761	103,018	-	14,390,871	14,493,889	-	-	-	14,493,889
Transfer to Contractual reserve from retained earnings (note 23)	-	-	-	-	-	-	-	7,661,376	(7,661,376)	-	-	-	-	-
Mudaraba instrument dividends payment	-	-	-	-	-	-	-	(7,728,158)	-	(7,728,158)	-	-	-	(7,728,158)
Dividends paid to shareholders (note 22)	-	-	-	-	-	-	-	-	(2,916,615)	(2,916,615)	-	-	-	(2,916,615)
Transfer to statutory reserve	-	1,439,087	-	-	-	-	-	-	(1,439,087)	-	-	-	-	-
Balance at 31 December 2021	41,665,938	5,592,453	702,343	(600,648)	(119,581)	80,749	(639,480)	860,593	35,521,258	83,703,105	159,169,000	8,751,563	167,920,563	251,623,668

The accompanying notes from 1 to 52 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 2021
(All amounts in thousands Saudi Riyals unless otherwise stated)

	31 December 2021	31 December 2020
Cash flows from operating activities		
Profit for the year before zakat and tax	14,390,871	3,025,548
Adjustments for:		
Depreciation of property, plant and equipment	19,625,688	18,720,960
Depreciation of investment property	3,452	3,120
Amortization of intangible assets	66,133	64,326
Finance costs, net	2,558,926	4,890,810
Employees' benefits obligation	723,770	679,516
Provision for receivable from consumption of electricity and other receivables, net	1,074,931	253,638
Provision for slow moving and obsolete inventory	(50,463)	(50,814)
Share of loss / (profit) on equity accounted investees	10,202	(4,337)
Amortization of deferred government grant	(69,393)	(1,356,435)
Provision for other liabilities and charges	784,668	12,859
(Gain) / loss on disposal of property, plant and equipment	(48,576)	189,209
Impairment of property, plant and equipment	863,438	-
Zakat and deferred income tax expense	455,925	(285,488)
Depreciation of right of use assets	63,224	152,964
Cash flows after adjustment of non-cash items	40,452,796	26,295,876
Changes in working capital:		
Inventories	901,370	169,245
Receivables from sale of electricity	(3,306,632)	(23,223,838)
Prepayments and other receivables	(1,147,490)	500,278
Loans and advances	94,806	109,749
Trade payables	(37,726)	12,391,267
Accruals and other payables	3,231,699	5,848,555
Refundable deposits from customers	952	(374)
Advances from customers	(795,138)	(38,202)
Deferred revenue	7,491,004	6,568,258
Employees' benefits obligation paid	(491,230)	(405,199)
Cash generated from operating activities	46,394,412	28,215,615
Zakat paid	(110,793)	(78,278)
Net cash generated from operating activities	46,283,619	28,137,337
Cash flows from investing activities		
Purchase of property, plant and equipment	(26,164,346)	(23,399,218)
Proceeds from sale of property, plant and equipment	138,332	102,800
Payments for intangible assets	(5,542)	(31,292)
Payments for investment in equity accounted investees	-	(63,510)
Proceeds from financial investments carried at amortized cost	3,040	4,267
Repayment to an affiliated company	(15,000)	(12,250)
Cash classified as investment held for sale	(16,257)	-
Net cash used in investing activities	(26,059,773)	(23,399,203)
Cash flows from financing activities		
Proceeds from borrowings	14,910,233	10,043,960
Receipts of government grant	506,003	552,743
Proceeds from Sukuk	-	4,875,000
Payment of lease obligation	(68,211)	(156,544)
Repayments of borrowings	(19,575,354)	(12,155,719)
Dividends paid	(2,931,925)	(715,906)
Payment for contractual reserve	(7,728,158)	-
Net finance costs paid	(3,632,270)	(4,560,880)
Net cash used in financing activities	(18,519,682)	(2,117,346)
Net change in cash and cash equivalents	1,704,164	2,620,788
Cash and cash equivalents at the beginning of the year	4,539,092	1,918,304
Cash and cash equivalents at end of the year	6,243,256	4,539,092

-The impact of non-cash transactions referred to in Note 49 has been excluded.

The accompanying notes from 1 to 52 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 2021

(All amounts in thousands Saudi Riyals unless otherwise stated)

1 Corporate information

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

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

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

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

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

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

On 24 of Rabi Awal 1439H corresponding to 12 December 2017, the Council of Ministers issued a resolution (Number 166) to increase the prices of electricity and electricity consumption rates for some categories of subscribers with the highest band being 30 Halala per Kilowatts/hour. This change was effective from 1 January 2018 without referring to the previous highest band of 32 Halala. According to Royal Decree No. 14006 dated 23 Rabi 'al-Awwal 1439 H corresponding to 11 December 2017, the Saudi Electricity Company shall pay a government fee equivalent to the difference between the previous and the new tariffs. On 21 of Rabi Awal, 1442 (corresponding to 7th November 2020) Royal Decree No. (16031) was issued to cancel the government fee (note 22).

On 29 of Rabi Al Awwal 1442H corresponding to 15th November 2020, the Minister of Energy, Chairman of the Ministerial Committee issued a letter (Number 2057) for restructuring the electricity sector and cancellation of the government fee as of 1 January 2021, with the aim to restructure the electricity sector in Saudi Arabia and approved the mechanism of revenue of Saudi Electricity Company. The balancing account is calculated on the basis of forecasts determined by the regulatory framework. This represents the difference between the revenue required and specified by the regulator and the annual revenue expected to be achieved by the Company, provided that the balancing account revenue is settled by increase or decrease when the balancing account is approved for the year 2023 by the authority. The Company estimates the balancing account revenue to be recorded for the period based on the actual results achieved and makes the necessary adjustments, as appropriate.

SAUDI ELECTRICITY COMPANY**(A Saudi Joint Stock Company)****Notes to the consolidated financial statements for the year ended 31 December 2021**(All amounts in thousands Saudi Riyals unless otherwise stated)

1 Corporate information - continued

On 14 Safar 1443H, corresponding to 21st September 2021, the Council of Ministers Resolution (No. 111) was issued approving the tariff for industrial consumption of electricity that will be applied to establishments operating in qualified activities or sectors and belonging to the categories of industrial, commercial and agricultural consumption - which are determined by a committee formed under the chairmanship of the Ministry of Energy to determine the qualified for this tariff. By submitting a request to the consumer to apply the tariff to his facility. The tariff for heavy consumption will be in two categories: the first category is establishments operating in activities or sectors in which the ratio of electricity cost to operating costs without raw material costs is (20%) or more, second category is facilities operating in activities or sectors in which the ratio of electricity cost to operating costs without raw material costs is between (10%) and (19.9%) The tariff is applied according to the category of the facility and does not exceed the tariff of the category to which it belongs. This decision shall be implemented as of 1 January 2022. The Group's management is studying the impact on the Company's revenues and business results in future years.

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 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 for Chartered and Professional 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 2021 which have no material impact on the financial statements;

3.1.1 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).

3.1.2 Amendment to IFRS 16 "Leases" - COVID-19 related lease concessions (annual periods beginning on or after 1 June 2020).

3.1.3 Amendment to IFRS 16 "Leases" - COVID-19 related lease concessions extending the practical expedient. (Annual periods beginning on or after 1 April 2021).

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 Amendments to IFRS 3 and IAS 16 and 37, in addition to the annual amendments to IFRSs 1, 9, 41 and 16 (amendments effective on or after 1st January 2022).

3.2.2 Limited Scope Amendments to IAS 1, Practice Statement 2 and IAS 8 (Amendments effective on or after 1 January 2023).

3.2.3 Amendments to IAS 1, "Presentation of Financial Statements" classification of liabilities (amendments effective on or after 1st January 2024).

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.

The functional currency and presentation

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 Chartered and Professional Accountants. requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, costs, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date.

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.

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 profit or loss.

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

Going concern

The Group's management conducted an assessment of the Group's ability to continue to operate in accordance with the principle of going concern and reached a conviction that the group has sufficient resources to enable it to continue operating in the foreseeable future. Also, management is not aware of any material uncertainties that may cast significant doubt on the Group's ability to continue as a going concern. Accordingly, these financial statements have been prepared on the going concern basis.

SAUDI ELECTRICITY COMPANY

(A Saudi Joint Stock Company)

Notes to the consolidated financial statements for the year ended 31 December 2021

(All amounts in thousands Saudi Riyals unless otherwise stated)

5 Use of estimates, assumptions and judgements - continued

5.1 Use of estimates and assumptions - continued

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.

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.

SAUDI ELECTRICITY COMPANY**(A Saudi Joint Stock Company)****Notes to the consolidated financial statements for the year ended 31 December 2021**(All amounts in thousands Saudi Riyals unless otherwise stated)

5 Use of estimates, assumptions and judgements - continued**5.1 Use of estimates and assumptions - continued***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.

Zakat and tax

The Company and its subsidiaries are subject to the legislation of the Zakat, Tax and Customs Authority ("ZATCA"). Accrual of Zakat is recognised in the consolidated statement of profit or loss. 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.

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 profit or loss, 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 2021

(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 profit or loss 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 and joint operations:

Subsidiary Company's name	Country of registration and place of business	Ownership in ordinary shares %		Principal activity
		31 December 2021	31 December 2020	
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	100	Financing
Saudi Electricity Company for the International Sukuk Program	Cayman Islands	100	-	Financing Principal Buyer
Saudi Power Procurement Company	Kingdom of Saudi Arabia	100	100	
Dawiyat Integrated Company for Telecommunications and Information Technology	Kingdom of Saudi Arabia	100	100	Telecommunication
Saudi Energy Production Company (operating activity not commenced)	Kingdom of Saudi Arabia	100	100	Energy Generation

SAUDI ELECTRICITY COMPANY**(A Saudi Joint Stock Company)****Notes to the consolidated financial statements for the year ended 31 December 2021**(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 2021

(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. Saudi Electricity Company for the International Sukuk Program 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.
11. 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.
 - Sakaka Solar Energy Company to produce electricity for a period of 25 years from the date of commencing commercial operation.
 - Saudi Aramco - Jazan for a period of 25 years, with the possibility of extending it for a period of five years with the consent of both parties.
- 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.
- The company has a license from the Water & Electricity Regulatory Authority No. 170656-R dated Shawwal 12, 1438 AH corresponding to 6 July 2017.
- The Ordinary General Assembly was held on 30 January 2022 and it was agreed to sell and transfer all of the shares of the Saudi Electricity Company in the Saudi Energy Procurement Company (the main buyer) to the ownership of the state (note 47).
12. 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.
13. 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 2021

(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 2021</i>	<i>31 December 2020</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 a 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 2021**

(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 2021	31 December 2020
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 2021	31 December 2020
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.

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 profit or loss.

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 profit or loss 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 profit or loss.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

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".

SAUDI ELECTRICITY COMPANY**(A Saudi Joint Stock Company)****Notes to the consolidated financial statements for the year ended 31 December 2021**

(All amounts in thousands Saudi Riyals unless otherwise stated)

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 profit or loss in the expense category consistent with the function of the intangible asset. Amortisation of intangible assets is calculated on a straight-line basis over the useful life of the asset as follows:

Software	10 years
Right-of-use pipeline	20 years

The useful life of an intangible asset with a definite life is reviewed 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 profit or loss 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.

SAUDI ELECTRICITY COMPANY**(A Saudi Joint Stock Company)****Notes to the consolidated financial statements for the year ended 31 December 2021**(All amounts in thousands Saudi Riyals unless otherwise stated)

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

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 profit or loss. 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 profit or loss. 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 profit or loss.

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 profit or loss.

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.

SAUDI ELECTRICITY COMPANY

(A Saudi Joint Stock Company)

Notes to the consolidated financial statements for the year ended 31 December 2021

(All amounts in thousands Saudi Riyals unless otherwise stated)

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 profit or loss 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 profit or loss.

SAUDI ELECTRICITY COMPANY

(A Saudi Joint Stock Company)

Notes to the consolidated financial statements for the year ended 31 December 2021

(All amounts in thousands Saudi Riyals unless otherwise stated)

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 profit or loss within 'Other income / expense- net'.

Amounts accumulated in equity are reclassified to consolidated statement of profit or loss in the periods when the hedged item affects statement of profit or loss. The gain or loss relating to the effective portion of interest rate swaps hedging variable rate borrowings is recognised in the consolidated statement of profit or loss 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 profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the consolidated statement of profit or loss 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.

SAUDI ELECTRICITY COMPANY

(A Saudi Joint Stock Company)

Notes to the consolidated financial statements for the year ended 31 December 2021

(All amounts in thousands Saudi Riyals unless otherwise stated)

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 profit or loss.

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

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 profit or loss 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 profit or loss 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 profit or loss 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 profit or loss 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 profit or loss 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.

SAUDI ELECTRICITY COMPANY**(A Saudi Joint Stock Company)****Notes to the consolidated financial statements for the year ended 31 December 2021**(All amounts in thousands Saudi Riyals unless otherwise stated)

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 profit or loss. The Company assesses the relationship between the grant and related expenses upon recognition.

The grant is recognized in the consolidated statement of profit or loss 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 Zakat, Tax and Customs Authority in the Kingdom of Saudi Arabia ("the Authority"). Zakat is recognised in the consolidated statement of profit or loss 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 Withholding tax

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

SAUDI ELECTRICITY COMPANY**(A Saudi Joint Stock Company)****Notes to the consolidated financial statements for the year ended 31 December 2021**(All amounts in thousands Saudi Riyals unless otherwise stated)

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.

SAUDI ELECTRICITY COMPANY

(A Saudi Joint Stock Company)

Notes to the consolidated financial statements for the year ended 31 December 2021

(All amounts in thousands Saudi Riyals unless otherwise stated)

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, penalty, re-connection, disconnection charges, etc. The revenue is recognised upon satisfaction of the related performance obligation.

Required Revenues is determined by the regulator calculated based upon the forecast determined basis "General Framework of Revenue Requirement Determination Methodology" as published by the regulator "Water & Electricity Regulatory Authority" (WERA). The difference between Allowed Required revenue and the forecasted actual revenue is defined as "Balancing account" by the regulator. This is recorded under "Other Operating Revenues" by the group.

The Group reassesses the reasonableness of balancing account revenue recognized basis the regulatory methodology and adjusts it accordingly, when required. Any difference arising from the re-assessment is adjusted to other operating revenue, and a receivable or payable is recognized for that amount. Interest income or expense on such receivable or payable balance is recognized based on the rate determined by the authority (WERA).

The Regulator reassess the Required Revenue on ex post basis based on actual performance during the subsequent years and the group adjusts its assessment accordingly.

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 profit or loss in the year in which they are incurred.

6 Summary of significant accounting policies - continued

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.

6.23 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.

Financial instruments that an entity classifies as equity instruments are not remeasured. Neither profit or loss nor equity will be affected by the equity price risk of those instruments. Accordingly, no sensitivity analysis is required.

6.27 Asset held for sale and discontinued operations

A non-current asset (or disposal group) is classified as held for sale if its carrying amount will be recovered principally through a sale transaction, available for sale rather than through continuing use, and in its present condition subject only to the normal and recognized terms of sale. Those assets and the sale is considered highly probable, and are measured at the lower of their carrying value and fair value less costs to sell. Any impairment losses in the disposed companies are allocated first to the goodwill and then the remaining assets or liabilities on a pro-rata basis. Excluding assets such as deferred tax assets, inventory, assets arising from employee benefits, financial assets, investment properties carried at fair value and contractual rights under insurance contracts, whichever is less, which are treated and measured in accordance with the Group's accounting policies

An impairment loss is recognized for any initial or subsequent reduction of the asset (or disposal group) to its fair value less costs to sell, any gain for any subsequent increases in fair value is recognized less costs to sell the asset (or disposal group), but not in excess of any impairment loss Previously recognized cumulative gain or loss that was not previously recognized on the date of sale of the non-current asset (or disposal group) is recognized on the date of disposal.

Non-current assets (including those that form part of a disposal group) are not depreciated or amortized while they are classified as held for sale, and interest and other expenses attributable to the liabilities of the disposal group that are classified as held for sale continue to be recognized.

Non-current assets classified as held for sale and disposal group assets classified as held for sale are presented separately from other assets in the consolidated statement of financial position. Liabilities of disposal group classified as held for sale are presented separately from other liabilities in the consolidated statement of financial position.

A discontinued operation is a component of an entity that has been disposed of or classified as held for sale that is a separate major line of business or a separate geographical area of operations and is part of a single coordinated plan to dispose of that business or area of operations, or a subsidiary acquired exclusively for the purpose of its resale, the results of discontinued operations are presented separately in the consolidated statement of profit or loss.

6.28 Earning per share

Basic earnings per share is calculated by dividing the profit for the year and the profit for the year from continuing operations related to the company's shareholders, minus the profits of the mudaraba instrument by the weighted average number of ordinary shares during the year. Diluted earnings per share is calculated by dividing the profit for the year and the profit for the year from continuing operations by the adjusted weighted average number of ordinary shares outstanding during the year assuming the conversion of all dilutive shares into ordinary shares.

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 is 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.

Saudi Power Procurement Company: Purchase of power with the Group companies and from other power producers (discontinued operation).

On 29 November 2021, the Group publicly announced the approval of the Saudi Arabian Council of Ministers ("the Cabinet") for SEC to take all the necessary legal procedures to transfer the ownership of the Group's entire equity in Saudi Power Procurement Company ("SPPC"), a wholly owned subsidiary, to the Government of the Kingdom of Saudi Arabia. This decision aims to establish transparency in commercial relations between parties operating in the electricity sector and to activate work mechanisms on an economic basis, which contributes on achieving the objectives of the electricity sector in the Kingdom, including reducing the use of liquid fuels, raising the level of environmental compliance, and enhancing the reliability of electricity transmission and distribution networks. Enabling the production of electricity from renewable energy sources in order to achieve the objectives of the optimal energy mix for electricity production, improve and complete distribution networks, to achieve the desired goals, and raise the level of quality of services provided to consumers in line with the objectives of the Kingdom's Vision 2030.

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 Ordinary General Assembly was held on 30 January 2022 and it was agreed to sell and transfer all of the shares of the Saudi Electricity Company in the Saudi Energy Procurement Company (the main buyer) to the ownership of the state (note 47).

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

The financial information is presented as follows:

- For the joint operations as a separate segment for the electricity production, generation and distribution;
- For National Grid S.A. Company which includes transmission of electricity and the operation and maintenance of the transmission system;
- For other segments includes the telecommunication activities sector.

SAUDI ELECTRICITY COMPANY

(A Saudi Joint Stock Company)

Notes to the consolidated financial statements for the year ended 31 December 2021

(All amounts in thousands Saudi Riyals unless otherwise stated)

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

For the year ended 31 December 2021 - in SAR Million

	Saudi Electricity Company	National Grid S.A Company	Joint Operations	Other subsidiaries	Intercompany transactions	Total
Revenue						
External customers	69,022	-	-	371	(55)	69,338
Between sectors	-	17,681	1,381	-	(19,062)	-
Total revenue	69,022	17,681	1,381	371	(19,117)	69,338
Cost of sales						
Fuel	(7,682)	-	-	-	-	(7,682)
Purchased energy	(9,710)	-	-	-	-	(9,710)
Operating and maintenance costs	(28,853)	(2,254)	(339)	(40)	19,412	(12,074)
Depreciation - Operation and Maintenance	(11,167)	(7,609)	(424)	(122)	55	(19,267)
Depreciation - Right of Use	(63)	-	-	-	-	(63)
Total cost of sales	(57,475)	(9,863)	(763)	(162)	19,467	(48,796)
General and administrative expenses	(133)	(121)	(115)	(88)	-	(457)
Depreciation - general and administrative	(428)	-	-	-	-	(428)
Total general and administrative expenses	(561)	(121)	(115)	(88)	-	(885)
Other revenue, net	(238)	5	-	83	(663)	(813)
Provision for receivable from consumption of electricity and other receivables, net	(1,045)	-	-	(30)	-	(1,075)
Fuel settlement expense	(208)	-	-	-	-	(208)
Finance cost, net	(2,139)	(662)	(403)	(0)	645	(2,559)
Share of profit from investments in equity-registered companies	(10)	-	-	0	-	(10)
Zakat expenses	(262)	(179)	(4)	(11)	-	(456)
Loss from discontinued operation	187	-	-	-	(332)	(145)
Profit for the year	7,271	6,861	96	163	(0)	14,391
As at 31 December 2021						
Property, plant and equipment	254,641	171,160	10,108	2,822	-	438,731
Total assets	411,700	171,662	11,520	3,313	(123,313)	474,882
Total liabilities	210,122	113,532	8,817	1,901	(111,113)	223,259

SAUDI ELECTRICITY COMPANY

(A Saudi Joint Stock Company)

Notes to the consolidated financial statements for the year ended 31 December 2021

(All amounts in thousands Saudi Riyals unless otherwise stated)

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	Joint Operations	Other subsidiaries	Intercompany transactions	Total
<u>Revenue</u>						
External customers	68,549	-	-	215	(55)	68,709
Between sectors	-	14,252	1,318	-	(15,570)	-
Total revenue	68,549	14,252	1,318	215	(15,625)	68,709
<u>Cost of sales</u>						
Fuel	(7,305)	-	-	-	-	(7,305)
Purchased energy	(9,046)	-	-	-	-	(9,046)
Operating and maintenance costs	(23,755)	(2,014)	(347)	(12)	15,583	(10,545)
Government fees	(15,072)	-	-	-	-	(15,072)
Depreciation - operation and maintenance	(10,674)	(7,209)	(367)	(70)	55	(18,265)
Depreciation – Right of use asset	(153)	-	-	-	-	(153)
Total cost of sales	(66,005)	(9,223)	(714)	(82)	15,638	(60,386)
General and administrative expenses	(337)	(100)	(135)	(72)	-	(644)
Depreciation - general and administrative	(523)	-	-	-	-	(523)
Total general and administrative expenses	(860)	(100)	(135)	(72)	-	(1,167)
Provision for receivable from consumption of electricity and other receivables, net	(254)					(254)
Other income, net	2,951	12	69	19	(1,441)	1,610
Fuel settlement expense	(808)	-	-	-	-	(808)
Finance cost, net	(4,420)	(1,448)	(450)	-	1,428	(4,890)
Share of loss in equity accounted investees	4	-	-	-	-	4
Zakat expenses	137	128	25	(5)	-	285
Loss from discontinued operation	(78)					(78)
(Loss) / Profit for the year	(784)	3,621	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	431,251	168,669	11,853	2,202	(128,525)	485,450
Total liabilities	222,499	120,674	9,490	1,336	(116,324)	237,675

SAUDI ELECTRICITY COMPANY
(A Saudi Joint Stock Company)
Notes to the consolidated financial statements for the year ended 31 December 2021

(All amounts in thousands Saudi Riyals unless otherwise stated)

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 2020	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
Additions	732,098	4,549,272	8,356,554	362,278	24,811,691	50,202	8,478	21,718,170	60,588,743
Transfers from work in progress	-	-	-	-	-	-	-	(38,056,002)	(38,056,002)
Reclassifications	(3,203)	(919,626)	443,947	59,246	590,027	536	(170,927)	-	-
Transferred to assets held for sale (Note 47)	-	-	-	-	-	-	-	(1,746)	(1,746)
Disposals	-	(88,551)	(954,643)	(6,968)	(106,744)	(37,594)	(8,543)	-	(1,203,043)
At 31 December 2021	6,016,054	64,861,495	195,162,772	7,125,652	387,761,292	1,674,484	6,640,469	47,839,865	717,082,083
Accumulated depreciation									
At 1 January 2020	-	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)
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
Depreciation for the year	-	1,912,100	6,616,569	212,086	10,407,547	60,925	416,441	-	19,625,668
Reclassifications	-	(4,044)	(2,447)	3,037	9,224	242	(6,012)	-	-
Impairment loss PP&E	-	-	848,626	-	14,585	227	-	-	863,438
Disposals	-	(82,080)	(895,630)	(6,688)	(82,813)	(37,589)	(8,486)	-	(1,113,286)
As at 31 December 2021	-	26,792,682	93,850,732	3,612,023	147,950,227	1,510,068	4,634,889	-	278,350,621
Net book value									
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
As at 31 December 2021	6,016,054	38,068,813	101,312,040	3,513,629	239,811,065	164,416	2,005,580	47,839,865	438,731,462

SAUDI ELECTRICITY COMPANY

(A Saudi Joint Stock Company)

Notes to the consolidated financial statements for the year ended 31 December 2021

(All amounts in thousands Saudi Riyals unless otherwise stated)

9 Property, plant and equipment, net – continued

- The land item also includes plots of land with a book value of SAR 36 million, the transfer of title deeds to the group is in progress.
- The net book values of the Group's property, plant and equipment (other than projects in progress) is allocated to the main activities as follows:

	Generation	Transmission	Distribution	General property	Joint operations	Total
As at 31 December 2021						
Land	131,113	591,092	218,964	5,074,885	-	6,016,054
Buildings	19,680,680	14,341,592	545,840	2,820,120	680,581	38,068,813
Machinery and equipment	85,722,066	3,929,422	426,347	1,990,709	9,243,496	101,312,040
Capital spare parts	2,195,835	862,641	285,993	1	169,159	3,513,629
Transmission and distribution network	90	140,783,395	99,027,580	-	-	239,811,065
Vehicles and heavy equipment	573	5,667	-	157,813	363	164,416
Others	1,124,489	495,727	292,731	91,118	1,515	2,005,580
Net book value -	108,854,846	161,009,536	100,797,455	10,134,646	10,095,114	390,891,597
	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 -	106,696,571	151,800,926	94,191,752	9,496,335	10,414,303	372,599,887

SAUDI ELECTRICITY COMPANY

(A Saudi Joint Stock Company)

Notes to the consolidated financial statements for the year ended 31 December 2021

(All amounts in thousands Saudi Riyals unless otherwise stated)

9 Property, plant and equipment, net – continued

Constructions work in progress

	Generation	Transmission	Distribution	General property	Joint operations	Total
At 1 January 2020	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 capitalized	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)
At 31 December 2020	18,112,169	23,620,478	17,276,653	5,163,112	7,031	64,179,443
Additions	1,053,731	6,540,629	10,954,791	2,178,072	5,607	20,732,830
Borrowing costs capitalized	22,106	235,313	189,379	538,542	-	985,340
Transfers from CWIP to fixed assets	(9,715,897)	(13,339,600)	(11,060,761)	(3,939,744)	-	(38,056,002)
Transferred to held for sale	-	-	-	(1,746)	-	(1,746)
As at 31 December 2021	9,472,109	17,056,820	17,360,062	3,938,236	12,638	47,839,865

- Additions to projects under construction include capitalised interest of SAR 985 million during 31 December 2021 (31 December 2020: SAR 1.7 billion). The capitalisation rate for the year ended 31 December 2021 was 2.79% (31 December 2020: 2.88%)

SAUDI ELECTRICITY COMPANY
(A Saudi Joint Stock Company)
Notes to the consolidated financial statements for the year ended 31 December 2021
(All amounts in thousands Saudi Riyals unless otherwise stated)

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 2020	335,745	56,561	11,515	403,821
Additions	901	415	17,617	18,933
As of 31 December 2020	<u>336,646</u>	<u>56,976</u>	<u>29,132</u>	<u>422,754</u>
Additions	-	-	16,092	16,092
Disposal	(1,790)	-	-	(1,790)
As of 31 December 2021	<u>334,856</u>	<u>56,976</u>	<u>45,224</u>	<u>437,056</u>
Accumulated depreciation				
As of 1 January 2020	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	<u>287,829</u>	<u>9,440</u>	<u>14,154</u>	<u>311,423</u>
Charge for the year	48,221	4,537	10,466	63,224
Disposal	(1,197)	-	-	(1,197)
As of 31 December 2021	<u>334,853</u>	<u>13,977</u>	<u>24,620</u>	<u>373,450</u>
Net Book Value				
As of 31 December 2020	<u>48,817</u>	<u>47,536</u>	<u>14,978</u>	<u>111,331</u>
As of 31 December 2021	<u>3</u>	<u>42,999</u>	<u>20,604</u>	<u>63,606</u>

10-b Long term lease liabilities

The future minimum lease payments together with the present value of minimum lease payments as of 31 December 2021 are as follows:

	Future minimum lease payments	Interest	Present value of minimum lease payments
Future minimum lease payments			
Less than one year	15,192	2,543	12,649
Between two and five years	31,797	6,652	25,145
More than five years	39,219	7,958	31,261
Total	<u>86,208</u>	<u>17,153</u>	<u>69,055</u>

The lease liabilities are presented in the consolidated statement of financial position as follows:

	31 December 2021	31 December 2020
Current portion	12,649	56,085
Non-current portion	56,406	62,067
Total	<u>69,055</u>	<u>118,152</u>

11 Investment properties

The carrying value of investment properties is SAR 449 million as at 31 December 2021 (31 December 2020: SAR 453 million,). Management performed an independent valuation for investment properties as at 31 December 2021 and determined the fair value of investment properties at SAR 1.5 billion.

	31 December 2021	31 December 2020
Cost		
As of 1 January	459,888	459,888
As of 31 December	459,888	459,888
Accumulated depreciation		
As of 1 January	(7,236)	(4,116)
Charge for the year	(3,452)	(3,120)
As of 31 December	(10,688)	(7,236)
Net Book Value		
As of 31 December	449,200	452,652

The Group's lands classified as investment properties were evaluated by an external valuer to determine the fair value of the lands as of 31 December 2021. The lands and buildings were evaluated by Barcode Assets Valuation Company with license number 120000001 with the Saudi Authority for Accredited Valuers.

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 2021 which was completed during the fourth quarter in 2021, is as follows.

	Significant Inputs and Evaluation Assumptions	Purpose of investment property	method	Fair value
Fair-value measurements - Lands	Costing, capitalization and market comparison method	Rental income and maximize capital value	Level 2	1.540 million
Fair-value measurements - Buildings	Costing, capitalization and market comparison method	Rental income and maximize capital value	Level 2	79.9 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 are adjusted using same properties. The most significant input into this valuation approach is price per square meter.

12 Intangible assets, net

	Pipeline right- of-use	Software	Intangible assets in progress*	Total
Cost:				
Balance at 1 January 2020	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
Additions	-	-	5,542	5,542
Transferred from work in progress	-	91,708	(91,708)	-
Balance at 31 December 2021	292,278	632,248	13,042	937,568
Accumulated amortisation:				
Balance at 1 January 2020	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
Amortisation for the year	13,775	52,358	-	66,133
Balance at 31 December 2021	177,114	351,477	-	528,591
Net book value:				
At 31 December 2020	128,939	241,421	99,208	469,568
At 31 December 2021	115,164	280,771	13,042	408,977

*The intangible assets in process represents computer software.

SAUDI ELECTRICITY COMPANY**(A Saudi Joint Stock Company)****Notes to the consolidated financial statements for the year ended 31 December 2021**

(All amounts in thousands Saudi Riyals unless otherwise stated)

13 Equity-accounted investees

The balances related to these investments are as follows:

	31 December 2021	31 December 2020
Gulf Cooperation Council Inter-Connection Authority	1,357,350	1,349,714
Gulf Laboratory Company for testing electrical equipment	107,616	110,003
Al Fadhly Co-Generation Company	-	-
Green Saudi Company for Carbon Services	259	620
	1,465,225	1,460,337
Joint venture		
Global Data Hub Company	4,811	4,599
	4,811	4,599
	1,470,036	1,464,936

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 Company for testing electrical equipment

Based on Ministerial Resolution No. (38 / S) dated 10 Safar, 1437 H corresponding to 10 November, 2016, the Gulf Laboratory Company for Testing Electrical Equipment (a closed joint stock company) was established with an authorized capital of 360 million Saudi riyals, the company's share amounted to 25% in the company's capital, and the founders paid an amount of 90 million Saudi riyals, and the company's share amounted to 22.5 million Saudi riyals, which was paid in full as on 31 December, 2016. During 2017, the entire capital of the company was paid to become 360 million Saudi riyals, and the company's paid share of the capital 90 million Saudi riyals as on 31 December 2017. During the year 2020, the company's capital was increased to 613 million riyals, and the paid share of the company is 153 million riyals, as on 31 December 2020. The mentioned company has not yet started its operational activities. The book value of the investment represents the net paid-up capital after deducting pre-operating expenses.

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 net paid capital after deducting pre operating expenses.

Green Saudi Company for Carbon Services:

The Group participated with petroleum, chemicals and mining limited company (PCMC) 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, During 2020 the realized losses have been charged with an amount of SAR 510 thousand as at 31 December 2020, the mentioned company has not started its operational activities yet. The carrying amount of the investment represents the net paid-up capital after deducting 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 in process to be finalized and is being treated as a joint venture and accounted in the same way as equity investments.

SAUDI ELECTRICITY COMPANY

(A Saudi Joint Stock Company)

Notes to the consolidated financial statements for the year ended 31 December 2021

(All amounts in thousands Saudi Riyals unless otherwise stated)

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 2020	1,350,702	71,695	-	285	5,000	1,427,682
Additions	-	63,000	-	510	-	63,510
Share in net (losses) / profit	(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
Additions	-	-	-	-	-	-
Share in net (losses) / Profit	7,636	(2,387)	(15,302)	(361)	212	(10,202)
Share in OCI	-	-	15,302	-	-	15,302
Balance at 31 December 2021	1,357,350	107,616	-	259	4,811	1,470,036

The following table represents the most important items relating to the Group's investment in the Electricity Interconnection Authority of the Arabic GCC:

	31 December 2021	31 December 2020
Current assets	962,033	822,801
Non-current assets	3,431,651	3,514,915
Current liabilities	110,753	114,888
Non-current liabilities	87,671	51,734
Equity	4,195,260	4,171,094
Operating income	312,840	266,608
Cost of sales	(181,148)	(177,099)
Gross profit / (loss)	131,692	89,509
General and administrative expenses	(103,710)	(95,104)
Operating profit / (loss) for the year	27,982	(5,595)
Other income, net	6,623	4,987
Finance income	(293)	10,034
Profit / (loss) for the year	34,312	9,426

The following table represents the most important financial statement items related to the Group's investment in the Al Fadhly Co-Generation Company:

	31 December 2021	31 December 2020
Current assets	438,152	572,609
Non-current assets	4,011,983	4,043,893
Current liabilities	470,544	511,778
Non-current liabilities	4,101,929	4,418,777
Equity	(122,338)	(314,052)
Operating income	754,368	566,434
Cost of sales	(548,436)	(377,575)
Gross profit	205,932	188,859
General and administrative expenses	(16,365)	(62,845)
Operating profit for the year	189,567	126,013
Other income, net	31,657	118,153
Finance cost	(205,604)	(181,305)
Profit for the year	15,620	62,861

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

SAUDI ELECTRICITY COMPANY**(A Saudi Joint Stock Company)****Notes to the consolidated financial statements for the year ended 31 December 2021**

(All amounts in thousands Saudi Riyals unless otherwise stated)

14 Financial assets at amortised cost

	31 December 2021	31 December 2020
Sadara Company for Basic Services' Sukuk "Sadara"	18,615	19,195
Arabian Aramco Total Services Company's Sukuk "Satorp"	12,535	14,995
	31,150	34,190
(Impairment in financial assets at amortized cost)	(76)	(76)
	31,074	34,114

15 Financial assets through other comprehensive income

	31 December 2021	31 December 2020
Shuaiba Water and Electricity Company *	183,684	189,903
Shuquiq Water and Electricity Company *	75,567	76,944
Jubail Water and electricity limited Company *	77,389	65,930
Shuaibah Expansion Holdings *	16,739	16,841
Total	353,379	349,618

* The dividends received by the Group amounted to SAR 38 million (2020: SAR 34.6 million).

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

16 Inventories, net

	31 December 2021	31 December 2020
Material and supplies - Generation plant *	2,228,314	2,476,851
Materials and supplies - Distribution network *	1,385,209	1,490,280
Materials and supplies - Transmission network *	267,807	361,378
Fuel and oil **	-	1,304,368
Others *	262,270	112,477
Total	4,143,600	5,745,354
Less: Provision for slow moving inventories (a)	(822,075)	(807,871)
Total	3,321,525	4,937,483

*The permanent decrease in the value of the inventory amounted to SAR 365 million as on 31December, 2021 (2020: SAR 429 million).

** The balance fuels and oils stock, amounting to SAR 765 million, as on 31 December 2021, has been transferred to assets held-for-sale assets (note 47)

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

	31 December 2021	31 December 2020
Balance at the beginning of the year	807,871	817,125
Charge / (reversal) during the year	14,204	(9,254)
Balance at the end of the year	822,075	807,871

SAUDI ELECTRICITY COMPANY

(A Saudi Joint Stock Company)

Notes to the consolidated financial statements for the year ended 31 December 2021

(All amounts in thousands Saudi Riyals unless otherwise stated)

17 Receivables from sale of electricity, net

	31 December 2021	31 December 2020
Governmental institutions (a)	5,005,265	11,476,392
Commercial, residential and industrial	13,062,452	12,614,486
Receivables for electricity service connection projects (a)	894,109	2,083,300
Due from related parties (a)	692,276	795,454
Other government receivables (b)	-	6,131,363
Total electricity consumers' receivable	19,654,102	33,100,995
Less: Provision for electricity consumers' receivable (c)	(2,364,760)	(1,467,536)
Add: Unbilled revenues	3,489,462	3,335,186
Total	20,778,804	34,968,645

a) As of 31 December 2021, the balances have been transferred with an amount SAR 16 billion to government payables (note 32).

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

(c) The movement in impairment in electricity consumers' receivable during the year is as follow:

	31 December 2021	31 December 2020
Balance at the beginning of the year	1,467,536	1,549,779
Charge during the year	897,224	204,122
Reversal during the year	-	(286,365)
Balance at the end of the year	2,364,760	(1,467,536)

18 Loans and advances

	31 December 2021	31 December 2020
Due from related party	299,124	284,124
Advances to:		
Contractors and suppliers	217,097	295,130
Employees	27,297	44,070
	543,518	623,324

19 Prepayments and other receivables

	31 December 2021	31 December 2020
Prepaid and other expenses	34,734	32,467
Insurance and other claims	168,662	168,415
Other receivables, net *	1,897,261	754,497
	2,100,657	955,379
Less: Provision for doubtful other receivables balances	(413,606)	(235,899)
	1,687,051	719,480

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

	31 December 2021	31 December 2020
Balance at the beginning of the year	235,899	186,383
Charge during the year	177,707	49,516
Balance at the end of the year	413,606	235,899

SAUDI ELECTRICITY COMPANY**(A Saudi Joint Stock Company)****Notes to the consolidated financial statements for the year ended 31 December 2021**

(All amounts in thousands Saudi Riyals unless otherwise stated)

20 Cash and cash equivalents

	31 December 2021	31 December 2020
Cash in hand	34,328	4,037
Cash at banks	5,077,928	4,447,055
Short-term bank deposits	1,131,000	88,000
	6,243,256	4,539,092

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).

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 after deducting reserves as down payment to be distributed to shareholders.

The Company's General Assembly, at its meeting held on 15 Ramadan 1442H corresponding to 27 April 2021, approved a cash dividend to Company's shareholder with SAR 2.917 million for the year 2020 representing SAR 0.70 per share representing 7 % of the nominal value per share (2019: SAR 749.3 million).

The Board of Directors of the Saudi Electricity Company recommended, in its meeting held on 12 shaaban 1443 H, corresponding to 15 March 2022, to the Company's general assembly of shareholders to pay cash dividends for the financial year 2021 to the shareholders of the Company and their equivalent with an amount of SAR 2.917 million represents SAR 0.70 per share representing 7 % of the nominal value per share.

23 ReservesStatutory 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 recorded within the consolidated financial statements of the Saudi Electricity Company at the date of the merge (note 1), in addition to the collections of surcharges from individuals of electricity fees subsequent to 31 December 2001.

SAUDI ELECTRICITY COMPANY

(A Saudi Joint Stock Company)

Notes to the consolidated financial statements for the year ended 31 December 2021

(All amounts in thousands Saudi Riyals unless otherwise stated)

23 Reserves – continued*Contractual reserve for Mudaraba financial instrument*

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

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

	<u>31 December 2021</u>	<u>31 December 2020</u>
Balance at the beginning of the year	927,375	-
Transferred from retained earnings during year	7,661,376	927,375
Paid during the year	<u>(7,728,158)</u>	-
Balance at the end of the period / year	<u>860,593</u>	<u>927,375</u>

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.

SAUDI ELECTRICITY COMPANY

(A Saudi Joint Stock Company)

Notes to the consolidated financial statements for the year ended 31 December 2021

(All amounts in thousands Saudi Riyals unless otherwise stated)

24 Mudaraba instrument – continued

The fair value measurement information in accordance with IFRS 13 as at 31 December 2021, is given below.

	Fair value measurements as at 31 December 2021		
	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 2021	31 December 2020
Employees' end of service benefits	25.1	6,005,560	5,260,867
Employees' savings fund	25.2	1,002,539	890,006
Human resources productivity improvement program	25.3	930,297	1,109,077
		<u>7,938,396</u>	<u>7,259,950</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 2021 and 31 December 2020 arising from the end of service benefits.

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

Resignation rate before retirement	Rate for the year 2021	Rate for the year 2020
Age (years)		
18-35	0.6%	1.4%
36-40	2.5%	3.6%
41-45	7.6%	10%
+46	16.7%	19.9%
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.	

SAUDI ELECTRICITY COMPANY

(A Saudi Joint Stock Company)

Notes to the consolidated financial statements for the year ended 31 December 2021

(All amounts in thousands Saudi Riyals unless otherwise stated)

25 Employees' benefits obligation – continued

25.1 Employee end of services benefits - continued

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

	31 December 2021	31 December 2020
Gross discount rate	2.7%	2.1%
Price inflation	2%	2%
Salary inflation average rate	4.5%	2-4%

Sensitivity Analysis:

	Impact on defined benefit obligations 2021	
	1% Increase	1% Decrease
Payroll inflation	618,052	537,775
Discount rate	(541,368)	636,033
	Impact on defined benefit obligations 2010	
	1% Increase	1% Decrease
Payroll inflation	324,560	(288,112)
Discount rate	(448,227)	574,815

The reconciliation of the defined benefit obligation for the year ended 31 December 2021 and 2020:

	Statement of profit or loss	Re-measurement	Cash movements	Total
As at 1 January 2020				4,566,697
Current service cost	438,993	-	-	438,993
Interest cost	136,927	-	-	136,927
(Gain) / loss from change in financial assumptions	-	130,281	-	130,281
(Gain) / loss from change in demographic assumptions	-	53,177	-	53,177
Experience loss (gain) / losses	-	84,912	-	84,912
Benefit payments	-	-	(150,120)	(150,120)
Total movement during the year	575,920	268,370	(150,120)	694,170
As at 31 December 2020				5,260,867
Current service cost	491,722	-	-	491,722
Interest cost	110,414	-	-	110,414
(Gain) / loss from change in financial assumptions	-	(15,395)	-	(15,395)
(Gain) / loss from change in demographic assumptions	-	103,595	-	103,595
Experience loss (gain) / losses	-	314,377	-	314,377
Benefit payments	-	-	(192,935)	(192,935)
Total movement during the year	602,136	402,577	(192,935)	811,778
Transferred end of service balance (note 47)				(67,085)
As at 31 December 2021				6,005,560

SAUDI ELECTRICITY COMPANY

(A Saudi Joint Stock Company)

Notes to the consolidated financial statements for the year ended 31 December 2021

(All amounts in thousands Saudi Riyals unless otherwise stated)

25 Employees' benefits obligation – continued**25.2 Employee end of services benefits - continued**

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 2 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. Rate of return will be determined according to company's policy.

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 2021	31 December 2020
Balance at the beginning of the year	890,006	722,850
Charge for the year	154,165	149,107
Paid during the year	(63,958)	(29,689)
transferred to the assets of the Fund	22,326	47,738
Balance at the end of the year	1,002,539	890,006

25.2 Employees' savings fund

The following are the liabilities balances of the Saving Fund:

	31 December 2021	31 December 2020
Contribution by the Company	915,598	795,556
Employees' contribution	728,893	679,937
Total liabilities	1,644,491	1,475,493

The following are the assets of the Saving Fund:

	31 December 2021	31 December 2020
Balances and deposits with banks	476,930	420,465
Investments in Sukuks	165,022	165,022
Total assets of the Fund	641,952	585,487

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 Mowama program. Those eligible for this program are 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 2021 by an actuary. The following are additional assumptions used in evaluating these programs:

Economic assumption used in valuation of Mowama:

	31 December 2021	31 December 2020
Discount rate	1.95%	0.83%
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 2021	31 December 2020
Discount rate	0.35%	0.35%
Inflation rate	5%	5%

SAUDI ELECTRICITY COMPANY**(A Saudi Joint Stock Company)****Notes to the consolidated financial statements for the year ended 31 December 2021**

(All amounts in thousands Saudi Riyals unless otherwise stated)

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 2021	31 December 2020
Special payment offers	202,469	327,773
Mowama offer	727,828	781,304
	930,297	1,109,077

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

	31 December 2021	31 December 2020
Balance at the beginning of the year	1,109,077	1,290,789
Increase during the year:	-	-
Special offers	11,468	47,926
Mowama	66,415	43,490
Total increase during the year	77,883	91,416
Paid during the year	(256,663)	(273,128)
Balance at the end of the year	930,297	1,109,077

26 Deferred revenue

Deferred revenue represents amounts collected for electricity connections service 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 2021	31 December 2020
Balance at the beginning of the year	58,644,433	52,076,175
Charged during the year	9,674,627	8,496,647
Utilised during the year	(2,183,623)	(1,928,389)
Balance at the end of the year	66,135,437	58,644,433

	31 December 2021	31 December 2020
Current portion	2,281,075	2,024,808
Non-current portion	63,854,362	56,619,625
	66,135,437	58,644,433

SAUDI ELECTRICITY COMPANY

(A Saudi Joint Stock Company)

Notes to the consolidated financial statements for the year ended 31 December 2021

(All amounts in thousands Saudi Riyals unless otherwise stated)

27 Deferred government grants

This includes government grant received by Dawiyat (a subsidiary) from Ministry of Communication and Information Technology amount to SAR 1.5 billion on 31 December 2021 (2020: SAR 1.1 billion) against the implementation of the fibre optic network.

The entire balance of deferred government grant has been transferred during the year ended 31 December 2020 to Saudi Electricity Company amounting to SAR 41.8 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 2021	31 December 2020
Balance at the beginning of the year	1,089,377	43,665,327
Government grants received during the year	506,003	552,743
Amortisation during the year	(69,393)	(1,356,435)
Disposed as a result of settlement	-	(41,772,258)
Balance at the end of the year	1,525,987	1,089,377

28 Asset retirement obligations

	31 December 2021	31 December 2020
Balance at the beginning of the year	270,425	268,262
Reversed during the year	(10,312)	(5,838)
Increase in the present value during the year (Note 44)	9,531	8,001
Balance at the end of the year	269,644	270,425

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

29 Trade Payables

	31 December 2021	31 December 2020
Saudi Aramco costs of fuel (a)	683,830	8,721,912
Saline Water Conversion Corporation – payable (a)	359,437	354,349
Contractors and retention payables	838,702	1,784,578
Purchased power payable (a)	69,476	1,758,541
Accounts payable	685,228	674,990
Others (a)	351,595	851,272
	2,988,268	14,145,642

a) Some payable amount with SAR 11.1 billion for the year ended 31 December 2021 (31 December 2020: SAR 18 billion) has been transferred to the account of the Ministry of Finance (note 32).

30 Accruals and other payables

	31 December 2021	31 December 2020
Accrued expenses	7,475,595	11,435,559
Accrued employees' benefits	852,593	797,469
Other credit balances under settlement (a)	514,855	-
Dividends payable	443,874	455,841
Accrued interest expenses	770,586	808,814
Accrued government fees (b)*	4,727,404	12,778,238
Others	13,180	13,180
	14,798,087	26,289,101

(a) Resulted from management reassessment of the balancing account which lead to a reduction in revenue and creation of other credit balance under settlement.

(b) An amount of SAR 10 billion was transferred to government payable (note 32), and work is currently in process with the ministerial committee to settle the rest of the amount (note 1).

SAUDI ELECTRICITY COMPANY

(A Saudi Joint Stock Company)

Notes to the consolidated financial statements for the year ended 31 December 2021

(All amounts in thousands Saudi Riyals unless otherwise stated)

31 Provision for other liabilities and charges

At 1 January 2020	304,153
Charge for the year	136,829
Paid /reversed during year	(75,571)
At 31 December 2020	365,411
Charge for the year	1,343,758
Paid /reversed during year	(216,568)
At 31 December 2021	1,492,601

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

Based on the relevant ministerial minutes and decisions, the Group settled during the year some balances due from government agencies against balances due to some government agencies as at 31 December 2021 according to the following:

	31 December 2021	31 December 2020
Balance at beginning of the year (fuel cost)	-	92,340,202
<u>Addition</u>		
Receivables from sale of electricity	-	-
Trade payables	11,119,648	18,323,134
Receivables and other credit balances	10,050,139	-
<u>Deduction</u>		
Receivables from sale of electricity	(16,599,249)	-
Conversion of speculative instrument	-	(110,663,336)
net outstanding balance	4,570,538	-

33 Financial liabilities

33.1 Financial liabilities other than interest bearing

	31 December 2021	31 December 2020
Derivative financial instruments		
Derivative financial instruments at fair value	646,010	1,065,017
	646,010	1,065,017
Other financial liabilities carried at amortized cost, other than interest bearing loans		
Trade payables	2,988,268	14,145,642
Accruals and other payables	14,798,087	26,289,101
Payables to the government	4,570,538	-
Refundable deposits from customers	1,998,510	1,997,558
Total other financial liabilities carried at amortized cost, other than interest bearing loans	25,001,413	42,432,301

Interest bearing liabilities

Classification of borrowings as appearing in the consolidated statement of financial position as of 31 December 2021 is as follows:

	Term Loans	Sukuks	Total
Non-current	50,871,973	33,741,280	84,613,253
Current	13,849,551	10,418,540	24,268,091
	64,721,524	44,159,820	108,881,344

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

	Term Loans	Sukuks	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

SAUDI ELECTRICITY COMPANY

(A Saudi Joint Stock Company)

Notes to the consolidated financial statements for the year ended 31 December 2021

(All amounts in thousands Saudi Riyals unless otherwise stated)

33 Financial liabilities - continued

33.2 Interest bearing liabilities

Movement in borrowings during the year is as follows:

	Term loans	Sukuks	Government loans	Total
As at 1 January 2020	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 for 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
Proceeds from borrowings	14,910,233	-	-	14,910,233
Repayments of borrowings	(19,575,354)	-	-	(19,575,354)
Additions to deferred costs	(172,722)	(614)	-	(173,336)
As at 31 December 2021	64,721,524	44,159,820	-	108,881,344

33.2.1 Term loans

Non-current:

Saudi Electricity Company

Joint operations

31 December 2021

43,524,384

7,347,589

50,871,973

31 December 2020

48,544,121

7,601,404

56,145,525

Current:

Saudi Electricity Company

Joint operations

31 December 2021

13,298,304

551,247

13,849,551

31 December 2020

12,920,878

492,964

13,413,842

SAUDI ELECTRICITY COMPANY

(A Saudi Joint Stock Company)

Notes to the consolidated financial statements for the year ended 31 December 2021

(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

As follows the long-term loans:

	Loan currency	Maturity date	Principal amount	31 December 2021	31 December 2020
Domestic Bank 2	SAR	2025	5,000,000	1,536,800	1,921,600
Domestic Bank 3	SAR	2025	10,000,000	3,631,746	6,761,906
Domestic Bank 5	SAR	2021	1,300,000	-	216,667
Domestic Bank 6	SAR	2026	3,500,000	2,598,750	2,625,000
Domestic Bank 7	SAR	2024	2,400,000	2,280,000	2,340,000
Domestic Bank 8	SAR	2026	15,200,000	14,896,000	15,200,000
Domestic Bank 9	SAR	2029	1,850,000	2,850,000	1,850,000
Domestic Bank 10	SAR	2027	9,000,000	9,000,000	3,000,000
Ministry of finance Loan	SAR	2024	2,583,375	541,475	756,413
International syndicated loan 1	USD	2021	4,057,417	-	146,353
International Bank 2	USD	2024	3,709,125	660,720	969,903
International syndicated loan 3	USD	2026	5,251,120	2,187,561	2,625,128
International syndicated loan 4	USD	2028	7,240,715	4,084,497	4,687,886
International Bank 5	USD	2021	5,625,710	-	936,933
International syndicated loan 6	USD	2029	3,375,585	2,249,754	2,531,671
International syndicated loan 7	USD	2029	1,575,336	1,050,228	1,181,507
International syndicated loan 8	USD	2022	6,562,878	6,562,878	6,562,878
Total value			88,231,261	54,130,409	54,313,845
<i>Less: The current portion of long-term loans</i>				(10,263,796)	(5,404,683)
<i>Less: The Unamortised portion of the prepaid fees</i>				(342,229)	(365,041)
<i>Non-current portion of long-term loans</i>				43,524,384	48,544,121

* The loan was transferred from Public Investment Fund to the Ministry of Finance during September 2021 without entailing any commitment to the Company or any additional undertaking.

SAUDI ELECTRICITY COMPANY

(A Saudi Joint Stock Company)

Notes to the consolidated financial statements for the year ended 31 December 2021

(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 2021	31 December 2020
Domestic revolving bank loan 1	SAR	1,000,000	1,000,000	500,000
Domestic bank facilities 4	SAR	2,500,000	-	1,000,000
International syndicated loan 3	USD	8,066,263	-	5,920,748
Commercial payment facility	SAR	550,000	159,433	95,447
International syndicated loan 4 *	USD	9,665,625	1,875,075	-
Total short-term loans		21,781,888	3,034,508	7,516,195
<i>Add: current portion of long-term loans</i>			10,263,796	5,404,683
Total short-term loans and current portion of long-term loans			13,298,304	12,920,878

* On September 8, 2021, the Saudi Electricity Company signed a revolving credit facility agreement denominated in US dollars with several international banks in order to refinance existing revolving credit facilities, and to finance the Company's activities, including capital expenditures, at a value of 2.6 billion US dollars without guarantees or financial commitments provided by the Company.

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 2021	31 December 2020
Domestic Bank 1	SAR	2032	3,104,704	2,801,734	2,780,582
International Bank 2	USD	2033	832,400	706,728	729,553
International Bank 3	USD	2028	241,000	111,843	129,056
International Bank 4	USD	2033	174,000	147,681	151,273
International Bank 5	USD	2033	142,500	120,816	123,754
International Bank 6	USD	2032	951,422	1,214,197	822,660
International Bank 7	USD	2026	1,736,250	476,965	870,791
Domestic Bank 4	SAR	2036	1,223,000	1,065,092	1,078,381
Domestic Bank 5	SAR	2032	1,109,550	884,011	955,533
Shareholders' loan	SAR	-	50,000	39,706	50,000
International Bank 8	USD	2033	234,179	180,070	190,609
Domestic Bank 6	SAR	2032	495,500	375,574	398,482
Total			10,294,505	8,124,417	8,280,674
Less: Current portion of long-term loans				(551,247)	(492,964)
Less: Unamortised portion of upfront and other fees				(225,581)	(186,306)
Non-current portion of long-term loans				7,347,589	7,601,404

SAUDI ELECTRICITY COMPANY

(A Saudi Joint Stock Company)

Notes to the consolidated financial statements for the year ended 31 December 2021

(All amounts in thousands Saudi Riyals unless otherwise stated)

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

The outstanding Sukuk as of 31 December 2021 are as follows:

Local sukuk

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

The 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 part of the third issuance of sukuk (Sukuk 3) during the second quarter of 2017, at a value of SAR 1.27 billion, which represents part of the repurchase of the third issue (7 billion Saudi riyals). The Group also rescheduled the remaining sukuk balance to be fully purchased before the end of May 2022, the Company has classified SAR 5.7 billion as current sukuk as of 31 December 2021.

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.

SAUDI ELECTRICITY COMPANY**(A Saudi Joint Stock Company)****Notes to the consolidated financial statements for the year ended 31 December 2021**

(All amounts in thousands Saudi Riyals unless otherwise stated)

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%.

33.3 Derivative financial instruments

The Group has interest rate hedging contracts with several banks for an amount of SAR 15.4 billion as of 31 December 2021 (2020: SAR 14.4 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 2021 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 2021</u>	<u>31 December 2020</u>
Derivative financial asset:		
Non-current	<u>15,620</u>	<u>-</u>
Derivative financial liabilities at fair value:		
Current	<u>104,628</u>	<u>127,212</u>
Non-current	<u>489,521</u>	<u>937,806</u>
	<u>594,149</u>	<u>1,065,018</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.

SAUDI ELECTRICITY COMPANY**(A Saudi Joint Stock Company)****Notes to the consolidated financial statements for the year ended 31 December 2021**

(All amounts in thousands Saudi Riyals unless otherwise stated)

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

Zakat and deferred tax for the year is as follows:

	<u>31 December 2021</u>	<u>31 December 2020</u>
Zakat for the year	455,925	126,677
Tax for the year	-	-
(Income) / Expense for Deferred tax for the year	-	(412,165)
	<u>455,925</u>	<u>(285,488)</u>

Deferred tax has been cancelled during the financial year ended on 31 December 2020 as follows:

	<u>31 December 2021</u>	<u>31 December 2020</u>
Consolidated statement of profit or loss	-	(412,165)
Consolidated statement of other comprehensive income – financial derivative	-	(3,213)

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 profit or loss under "Zakat and deferred tax income/(expense)"

Zakat and tax expense based on the Group companies is as follows:

	<u>31 December 2021</u>	<u>31 December 2020</u>
Saudi Electricity Company and its subsidiaries	454,422	122,326
Joint operation	4,113	4,351
Transferred to discontinued operations (Note 47)	(2,610)	-
	<u>455,925</u>	<u>126,677</u>

35 Zakat and income tax – continued

35.2 Zakat

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

	31 December 2021	31 December 2020
Income for the year before zakat and tax	14,849,408	2,740,060
Zakat adjustments	3,327,480	1,209,614
Total adjusted profit	18,176,888	3,949,674

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

Share capital	41,665,938	41,665,938
Total adjusted profit	18,174,276	3,949,674
Retained reserves	4,855,709	4,520,592
Retained earnings	22,487,382	26,667,436
Mudaraba instrument	167,920,563	-
Various provisions	9,685,598	9,040,384
Long term loans and Sukuks	108,881,344	117,257,669
Government loans and deferred grants	1,525,987	87,825,761
Contractors accruals and others	838,702	12,749,282
	376,035,499	303,676,736
Deduct:		
Fixed assets and construction work in progress, Gross	439,439,902	437,360,229
Long term investments	858,177	2,301,320
Material and spare parts inventories	2,657,220	3,949,986
Zakat base	(66,211,360)	(139,934,799)
Zakat payable on the adjusted net profit	454,422	-

The Group submitted its zakat returns within the statutory period for the year ending on 31 December 2020. The Company completed the zakat assessments until 2014, the Company also received a letter of amendment of declarations from the Zakat, Tax and Customs Authority on 29 April 2021 for the declarations for the years from 2015 to 2018, which resulted in differences of SAR 1.7 billion.

The Company has submitted an objection for the differences resulting from amending the declaration for those financial years within the permitted legal period, and the Company's management believes that the Company's position in this objection is supported by sufficient documents, based on the practical practices of the Authority with zakat payers by taking the difference between the receivable and payables accounts in accordance with the executive regulations for the collection of Zakat issued by Ministerial Resolution No. 2082, and the Company has the necessary provisions to meet the expected Zakat obligations..

The movement of deferred income tax is represented as follows: -

	For the year ended	
	31 December 2021	31 December 2020
Balance at the beginning of the year	-	(408,934)
Tax income during the year recognized in the consolidated Statement of profit or loss	-	412,165
Tax expense during the year recognized in the consolidated statement of comprehensive income	-	(3,231)
Balance at the end of the year	-	-

SAUDI ELECTRICITY COMPANY**(A Saudi Joint Stock Company)****Notes to the consolidated financial statements for the year ended 31 December 2021**(All amounts in thousands Saudi Riyals unless otherwise stated)

36 Contingent liabilities

- (a) A committee has been formed represented by various stakeholders, who will study contingent liabilities and give their recommendations to the Ministerial Committee, the most important of which are the following on 31 December 2021:
- There is a dispute between the Group and Saudi Arabian Oil Company (Saudi Aramco- Shareholder) in relation to supply of light oil instead of heavy oil to one of the station. According to the Group's assessment, the cumulative difference amounted to SAR 2.6 billion has not been recorded in the Group's liabilities, and the Group does not expect that the dispute will result in any additional commitments.
 - 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 5 April 2000 until 30 May 2018 amounted to SAR 6.1 billion. The Group does not expect that the dispute will result in any additional commitments
- (b) The Group has provided guarantees to some commercial banks and some other parties with a total amount SAR 62 million as at 31 December 2021 (31 December 2020: SAR 449 million).
- (c) There are some claims filed by one of the contractors against the Company. These are currently in the initial stages of process with the arbitral procedures, based on the claims filed, the contractors are claiming an approximate amount of SAR 7 billion. However, the Company has also filed counter claims against the Contractors amounting to SAR 3.5 billion with the same arbitrator. The management currently believes that there is no basis for recording any obligation and that to date the Company's position is strong, which may change in the event of obtaining new supporting documents in the future.

37 Capital commitments

The capital commitments at the date of the consolidated statement of financial position represent the value of the unimplemented portion of the capital contracts signed by the Group for the construction and installation of stations and other assets, which amounted to SAR 41 billion (December 31, 2020: SAR 47 billion),

38 Earnings per share

Basic earnings per share is calculated by dividing the profit for the year generated from continued operations attributable to equity holders of the Company after deducting Mudaraba instrument profit by the weighted average number of ordinary shares during the year.

The diluted earnings per share is calculated by dividing the profit for the year generated from continued operations by weighted average number of outstanding ordinary shares assuming that converting all shares diluted into ordinary shares.

The diluted earnings per share is equal to the basic earnings per share for the year ended 31 December 2021 and 31 December 2020, as there are no financial instruments with a dilutive effect on earnings per share.

SAUDI ELECTRICITY COMPANY

(A Saudi Joint Stock Company)

Notes to the consolidated financial statements for the year ended 31 December 2021

(All amounts in thousands Saudi Riyals unless otherwise stated)

38 Earnings per share - Continued

	For the year ended			
	31 December 2021		31 December 2020	
	Profit from continued operation	Profit	Profit from continued operation	Profit
Profit for the year	14,536,264	14,390,871	3,103,588	3,025,548
Less:				
Mudaraba Instrument dividends	(7,661,376)	(7,661,376)	(927,375)	(927,375)
Adjusted year profit	6,874,888	6,729,497	2,176,213	2,098,173
Weighted Average outstanding ordinary Shares in thousands	4,166,594			
Basic and diluted earnings per share "Saudi Riyals"	1.65	1.62	0.52	0.50
Earnings per share without deduction of dividends Mudaraba instrument				
Basic and diluted earnings per share "Saudi Riyals"	3.49	3.45	0.74	0.73

39 Related-party transactions

The ultimate 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 ultimate 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:

(a) Sales of electricity

	For the year ended	
	31 December 2021	31 December 2020
Sales of electricity:		
Group's ultimate controlling party	12,179,798	11,594,615
Entities under control of the Group's ultimate controlling party		
Saudi Aramco	644,398	446,240
Saline Water Conversion Corporation	534,041	562,790
Total	13,358,237	12,603,645

(b) Purchases of energy and fuel

	For the year ended	
	31 December 2021	31 December 2020
Entities under control of the Group's ultimate controlling party:		
Saudi Aramco*	10,064,742	8,455,131
Saline Water Conversion Corporation	610,385	277,510
Fadhili Plant Cogeneration Company	697,141	463,788
Joint operations:		
Dhuruma Electricity Company	659,709	588,697
Rabigh Electricity Company	885,768	915,177
Hajr for Electricity Production Company	824,658	795,525
Al Mourjan for Electricity Production Company	482,402	419,212
Total	14,224,805	11,915,040

SAUDI ELECTRICITY COMPANY

(A Saudi Joint Stock Company)

Notes to the consolidated financial statements for the year ended 31 December 2021

(All amounts in thousands Saudi Riyals unless otherwise stated)

39 Related-party transactions – continued**(b) Purchases of energy and fuel - Continued**

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

(c) Year-end balances arising from sales of electricity/purchases of energy and fuel/loans:

Due from related parties:	31 December 2021	31 December 2020
Ultimate controlling party of the group – governmental electricity receivable	5,005,267	17,194,708
Entities under control of the Group's ultimate controlling party:		
Saudi Aramco – Electricity receivables	403,922	170,929
Saline Water Conversion Corporation– Electricity receivables	-	-
Al Fadhly Co-Generation Company loans	253,874	253,874
Global Data Center Company loans	45,250	30,250
Total due from related parties	5,708,313	17,649,761
Due to related parties:		
<u>Group's ultimate controlling party</u>		
Governmental payables **	4,570,538	-
	4,570,538	-
<u>Entities under control of the Group's ultimate controlling party</u>		
Saudi Aramco *	683,830	10,077,791
Saline Water Conversion Corporation	359,437	354,349
Government payable expenses	4,727,404	12,778,238
	5,770,671	23,210,378

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

Loans and advances from related parties

	31 December 2021	31 December 2020
<u>Group's ultimate controlling party</u>		
Deferred government grants **	1,525,987	1,089,377
Ministry of Finance loans	541,475	756,413
	2,067,462	1,845,790

(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	
	2021	2020
Salaries and allowances	11,779	9,437
Annual and periodic bonus	26,513	12,954
Total	38,292	22,391

SAUDI ELECTRICITY COMPANY

(A Saudi Joint Stock Company)

Notes to the consolidated financial statements for the year ended 31 December 2021

(All amounts in thousands Saudi Riyals unless otherwise stated)

40 Operating revenue

	For the year ended	
	31 December 2021	31 December 2020
Sales of electricity	60,989,388	57,531,486
Electricity service connection fees	2,183,623	1,928,389
Meter reading, maintenance and bills preparation fees	1,443,311	1,391,542
Transmission system revenues	1,580,307	1,171,080
Other operational revenue*	3,141,407	6,686,421
	69,338,036	68,708,918

* The Company has received a letter, reference No. 2057 dated 03/29/1442 H corresponding to 15th November 2020, from the Minister of Energy, Chairman of the Ministerial Committee for restructuring the electricity sector. The Company will be compensated for the difference between the revenue achieved by the Company and the revenue expected to be achieved (required revenue) through the balancing account. The Company's revenue pertaining to the balancing account for the year 2021, calculated using the Regulated asset base model with a specified weighted average cost of capital has been approved. The Company recognized an amount of SAR 1.7 billion in the consolidated statement of profit or loss within the item of other operating income for the year ended on 31 December 2021 according to management estimates (31 December 2020: SAR 6.1 billion) (Note 1). Resulted from management reassessment of the balancing account has led to a reduction in revenue with an amount SAR 514 million with subsequent increase in accruals and other payables (Note 30).

41 Costs of revenue

	For the year ended	
	31 December 2021	31 December 2020
Depreciation of operation and maintenance assets	19,267,356	18,264,947
Operation and maintenance expenses	12,073,095	10,544,987
Fuel	7,682,224	7,305,318
Purchased energy	9,710,177	9,046,275
Government fees *	-	15,071,902
Depreciation of right of use assets	63,224	152,964
	48,796,076	60,386,393

*The government fees has been cancelled according to the letter of the Minister of Energy, Chairman of the Ministerial Committee for the Restructuring of the Electricity Sector and the Saudi Electricity Company No. 2057 - on 03/29/1442 AH corresponding to 15 November 2020 (Note 1).

42 General and administrative expenses

	For the year ended	
	31 December 2021	31 December 2020
Employees' expenses and benefits	252,544	285,034
Depreciation - General and administrative expenses	427,917	523,459
Materials	68,734	69,240
Communication fees	121,950	113,089
Others	13,762	176,548
	884,907	1,167,370

SAUDI ELECTRICITY COMPANY

(A Saudi Joint Stock Company)

Notes to the consolidated financial statements for the year ended 31 December 2021

(All amounts in thousands Saudi Riyals unless otherwise stated)

43 Other income, net

	For the year ended	
	31 December 2021	31 December 2020
Amortisation of government grants	69,393	1,356,435
Other claim provision *	(484,608)	-
Penalties and fines	370,551	79,112
Dividend income	38,141	34,656
Impairment in property, plant & Equipment (Note 9)	(863,438)	-
Profit / (Loss) on disposal of property, plant and equipment, net	48,576	(189,209)
Others, net	8,510	329,394
	(812,875)	1,610,388

* Other claim provision represents disputed claims with third parties.

44 Finance costs, net

	For the year ended	
	31 December 2021	31 December 2020
Finance expense		
Bank borrowings	3,453,399	4,525,380
Government loans	-	1,937,082
Lease obligation	3,615	7,288
Less: Capitalised interest	(985,340)	(1,705,861)
Total	2,471,674	4,763,889
Changes in the present values of the employees' benefits obligations	110,414	136,169
Changes in the present values of the asset retirement obligation	9,531	8,001
Total finance expense	2,591,619	4,908,059
Interest income	(32,693)	(18,007)
Total interest income	(32,693)	(18,007)
Net finance costs	2,558,926	4,890,052

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 and the group benefits from long-term, interest-free government loans.

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 stated 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.

45 Capital management - continued

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

	31 December 2021	31 December 2020
Total borrowings	108,881,344	113,719,801
Less: Cash and cash equivalents	(6,243,256)	(4,539,092)
Adjusted net debt	102,638,088	109,180,709
Total equity	251,623,668	247,774,552
Adjusted equity and net debt	354,261,756	356,955,261
Adjusted debt to equity ratio	29%	31%

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 2021		
	Financial assets through other comprehensive income	Financial assets at amortised cost	Total
Financial assets as per the statement of financial position			
<i>Financial assets measured at fair value</i>			
Financial asset through Other Comprehensive Income	353,379	-	353,379
Derivative financial instruments	15,620		15,620
<i>Financial assets not measured at fair value</i>			
Financial asset at amortized cost	-	31,074	31,074
Cash and cash equivalents	-	6,243,256	6,243,256
Receivables from sale of electricity, net	-	20,778,804	20,778,804
Debit balances and advances	-	326,421	326,421
Other receivables	-	1,652,317	1,652,317
Total	368,999	29,031,872	29,400,871
	31 December 2020		
	Financial assets through other comprehensive income	Financial assets at amortised cost	Total
Financial assets as per the statement of financial position			
<i>Financial assets measured at fair value</i>			
Financial asset through Other Comprehensive Income	349,618	-	349,618
<i>Financial assets not measured at fair value</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
Loans and advances	-	328,194	328,194
Other receivables	-	687,013	687,013
Total	349,618	40,557,058	40,906,676

46 Financial risk management – continued

46.1 Financial risk factors - continued

Liabilities as per the statement of financial position	31 December 2021		
	Derivatives	Other financial liabilities at amortised cost	Total
<i>Financial liabilities measured at fair value</i>			
Derivative financial instruments	594,149	-	594,149
<i>Financial liabilities not measured at fair value</i>			
Loans	-	64,721,524	64,721,524
Sukuk	-	44,159,820	44,159,820
Trade payables	-	2,988,268	2,988,268
Accruals and other payables	-	14,798,087	14,798,087
Payables to the government	-	4,570,538	4,570,538
Total	594,149	131,238,237	131,832,386
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	1,065,018	-	1,065,018
<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	1,065,018	154,154,544	155,219,561

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 11.8 million as of 31 December 2021 (31 December 2020: USD 9 million), while the financial liabilities in US Dollar amounted to USD 17 billion (31 December 2020: USD 16.7 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.

SAUDI ELECTRICITY COMPANY

(A Saudi Joint Stock Company)

Notes to the consolidated financial statements for the year ended 31 December 2021

(All amounts in thousands Saudi Riyals unless otherwise stated)

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 2021	31 December 2020
Variable interest rate borrowings	66,381,344	72,771,479
Fixed interest rate borrowings	42,500,000	40,948,322

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 profit or loss by the amount shown below. The analysis assumes that all other variables remain constant.

	For year ended 31 December 2021			
	Statement of profit or loss		Statement of changes in equity	
	100 bp increase	100 bp decrease	100 bp increase	100 bp decrease
Loans at variable-rates	(663,813)	663,813	-	-
Interest rate swaps	-	-	5,492	(5,492)
Cash-flow sensitivity	(663,813)	663,813	5,492	(5,492)
	For year ended 31 December 2020			
	Statement of profit 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)

(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 SADAD or using major credit cards and various electronic channels.

SAUDI ELECTRICITY COMPANY

(A Saudi Joint Stock Company)

Notes to the consolidated financial statements for the year ended 31 December 2021

(All amounts in thousands Saudi Riyals unless otherwise stated)

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

Impairment on financial assets consist of:

	31 December 2021	31 December 2020
Impairment in electricity receivables	2,364,760	1,467,536
Impairment in debt instruments at amortized cost	76	76
Impairment in other debit balances	413,606	235,899

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

		31 December 2021	31 December 2020
	Less than 3 months	9,048,171	7,539,101
	More than 3 months and less than 6 months	1,334,941	909,506
Simplified approach	More than 6 months and less than a year	984,673	490,830
	More than a year	2,998,339	2,509,774
General approach	-	8,777,440	24,986,970
		23,143,564	36,436,181

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 13% 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 2021 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	8,164,230	4,102,672	10,876,662	23,143,564
Less				
Provision for electricity receivables	(1,148)	(745,938)	(1,617,674)	(2,364,760)
Book value	<u>8,163,082</u>	<u>3,356,734</u>	<u>9,258,988</u>	<u>20,778,804</u>

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 electricity receivables	(2,773)	(592,224)	(872,539)	(1,467,536)
Book value	<u>23,247,726</u>	<u>5,277,516</u>	<u>6,443,403</u>	<u>34,968,645</u>

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

On 31 December 2021 and 31 December 2020, 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 major credit cards and using electronic channel.

SAUDI ELECTRICITY COMPANY**(A Saudi Joint Stock Company)****Notes to the consolidated financial statements for the year ended 31 December 2021**

(All amounts in thousands Saudi Riyals unless otherwise stated)

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 without being affected by the shortfall in working capital, through cash receipts from receivables and through facilities and bank loans.

The group expects to meet its financial obligations without working capital deficit effect through cash collections of receivables and through bank facilities and 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.

	31 December 2021				
	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	13,849,551	6,571,387	28,616,822	15,683,764	64,721,524
Sukuk	10,418,190	3,750,000	15,562,500	14,429,130	44,159,820
Trade payables	2,988,268	-	-	-	2,988,268
Accrued expenses and other liabilities	14,798,087	-	-	-	14,798,087
Obligation Lease	12,762	6,521	18,460	31,312	69,055
Payables to the government	4,570,538	-	-	-	4,570,538
Derivative financial instruments	104,628	473,901	15,620	-	594,149
Total	46,742,024	10,801,809	44,213,402	30,144,206	131,901,441

46 Financial risk management - continued

46.2 Risk management framework – continued

46.2.3 Liquidity risk – continued

	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
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

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).

SAUDI ELECTRICITY COMPANY

(A Saudi Joint Stock Company)

Notes to the consolidated financial statements for the year ended 31 December 2021

(All amounts in thousands Saudi Riyals unless otherwise stated)

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 2021:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets				
Financial asset through other comprehensive income	-	-	353,379	353,379
Total assets	-	-	353,379	353,379
Liabilities				
Derivatives used for hedging	-	594,149	-	594,149
Financial instruments liabilities	-	594,149	-	594,149
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 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

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.

SAUDI ELECTRICITY COMPANY

(A Saudi Joint Stock Company)

Notes to the consolidated financial statements for the year ended 31 December 2021

(All amounts in thousands Saudi Riyals unless otherwise stated)

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 2021 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 3.8 million (2020: SAR 24.5 million).

As on 31 December 2021, it represents the expected dividends and the main variable cost of equity entered into the model used for the fair valuation of financial assets through other comprehensive income. An increase of 5% in the cost of equity will lead to a decrease of SAR 15.5 million (2020: 15.6 million Saudi riyals) in the fair valuation of financial assets through other comprehensive income, while a 5% decrease in the cost of equity will lead to an increase of 16.7 million Saudi riyals (2020: 16.8 million Saudi riyals), where the discount risk rate reached in 2021: 8% (2020: 8%)

A 5% increase / decrease in expected income will result in an increase / decrease of SAR 17.7 million (31 December 2020: SAR 17.4 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 2021	31 December 2020
Opening balance	349,618	325,075
Change in present value of the financial assets through other comprehensive income	3,761	24,543
Closing balance	353,379	349,618

Fair values of financial assets and liabilities measured at amortised cost

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

SAUDI ELECTRICITY COMPANY

(A Saudi Joint Stock Company)

Notes to the consolidated financial statements for the year ended 31 December 2021

(All amounts in thousands Saudi Riyals unless otherwise stated)

47 Assets held for sale and its related liabilities

On 29 November 2021, the Group publicly announced the approval of the Saudi Arabian Council of Ministers (“the Cabinet”) No 227 on 18/4/1443H corresponding to 23 November 2021 for SEC to take all the necessary legal procedures to transfer the ownership of the Group's entire equity in Saudi Power Procurement Company (“SPPC”), to the Government of the Kingdom of Saudi Arabia represented by the Ministry of Finance. In addition, Group expected to transfer the fuel and oil inventory to SPPC (together referred to as “the transfer of ownership”).

The Group has approved the Transfer and it is expected that the ownership transfer will take place within a year from the reporting date. The work is in process with the Ministerial Committee to determine the financial compensation, and the Group's management expects the financial consideration to be against the fair value of these assets, which does not differ substantially from their book value on the date of separation and signing of contracts

The transfer comes as part of the Kingdom's electricity sector restructuring program. The objective of this process is to reinforce transparent commercial relations amongst the electricity sectors as well as operating the sector on economic bases.

SPPC will be responsible for the competitive tendering of renewable and traditional energy projects in order to meet the growth in power demand, manage the commercial agreements for the purchase and sale of power and purchasing and providing fuel as well as improving its usage efficiency. Whereas the Saudi Power Procurement Company will become the only major purchaser of electricity from the generation plants in the Kingdom on the date of the transfer of ownership and will become a party to the purchase and providing fuel for the power plants, and accordingly, the stock of fuel and oil held by the Saudi Electricity Company has been included and presented as assets group held for sale.

In addition to the sale of the equity ownership in SPPC and the transfer of the fuel and oil inventories, SEC has commenced the process of substituting the power purchase agreements (PPAs) in respect of the Independent Power Producing entities (IPPs). Since it is not linked to the agreements to sell the Saudi Energy Purchase Company, it is expected that the group will study the treatment of its ownership share in the companies of independent energy producers as joint operations, which may result in the date of signing the replacement agreements and the impact of this on the group's discontinuation of the consolidation of assets and liabilities disclosed in the segmental reports disclosure (note 8) with respect to the following companies at the date of signing those agreements;

- Hajr for Electricity Production Company
- Rabigh Electricity Company
- Dhuruma Electricity Company
- Al Mourjan for Electricity Production Company

The Group has not classified the assets and liabilities in respect of the above entities as held for sale due to the non-completion of the power purchase agreements and their approval by the related authorities.

The Group is working with the ministerial committee on many other agreements to regulate the relationship between the principal buyer, SPPC, the Group and the electricity production companies in the Kingdom of Saudi Arabia. These agreements are expected to have a non-material impact on the financial position and financial performance of the Group.

SAUDI ELECTRICITY COMPANY

(A Saudi Joint Stock Company)

Notes to the consolidated financial statements for the year ended 31 December 2021

(All amounts in thousands Saudi Riyals unless otherwise stated)

47 Assets and liabilities of disposal group classified as held for sale - Continued

The transfer of the group disposed assets has been classified as assets held for sale and its related liabilities as a result of the above-mentioned arrangements, as at 31 December 2021.

Financial performance and cash flows information

Statement of profit or loss for the group disposed assets related to the Saudi Power Procurement Company

	31 December 2021	31 December 2020
	-	-
Other expenses	(142,507)	(78,040)
Finance costs	(276)	-
Loss before zakat	(142,783)	(78,040)
Zakat expense	(2,610)	-
Net Loss for disposal group	(145,393)	(78,040)

SPPC's revenue amounted to SAR 159.7 million for the year ended 31 December 2021 (2020: SAR 90 million) and is entirely generated from the Group (intercompany transaction). It is therefore eliminated upon consolidation.

The effect of the net loss of the disposal group on the basic and diluted earnings per share of the group is not significant (note 38).

The summarized financial position for the disposal group classified as held for sale as at 31 December 2021 is as follows:

	31 December 2021
<u>Assets held for sale</u>	-
Property, plant and equipment, net	1,746
Cash and bank balances	16,257
Prepayments and other receivables	2,212
Fuel and oil inventory	765,051
Total assets of disposal group held for sale	785,266
<u>Liabilities directly related to Assets held for sale</u>	
Employees' benefits obligation	67,085
Accruals and other payables	12,380
Provision for other liabilities	2,610
Total liabilities of disposal group held for sale	82,075
Net assets directly related to disposal group of assets related to SPPC	703,191

SAUDI ELECTRICITY COMPANY**(A Saudi Joint Stock Company)****Notes to the consolidated financial statements for the year ended 31 December 2021**(All amounts in thousands Saudi Riyals unless otherwise stated)

48 Significant events

The Corona Virus ("Covid-19") pandemic continues to disrupt global markets as many geographical regions are experiencing problems due to the identification of several new mutated strains of infection, although they previously controlled the outbreak of the virus through strict precautionary measures. However, the government of Saudi Arabia has been able to successfully control the outbreak of the virus till now.

The management of the group studies and follows up on all other variables that may affect the activities of the group, and the group believes that there is no current impact on the group's results for the year ending on 31 December 2021. The group continues to accurately assess the current macroeconomic situation, including the impact of the pandemic and the extent of the future financial impact on the group's results as a result of the continuation of the pandemic until the date of issuance of these consolidated financial statements.

Climate change effect

The government of the Kingdom of Saudi Arabia has announced a set of initiatives that aim, among other things, to reduce carbon emissions by using renewable energy projects, which are expected to provide 50% of electricity production in the Kingdom of Saudi Arabia by 2030.

The Group is exposed to both short and long term climate change risks due to increased expectations of customers, investors, financiers and government. These risks are an integral part of the generation, transmission and distribution of electricity. Group management is constantly working to reduce the environmental impact of the business, in part, due to inherent risks.

The higher fuel consumption costs and greenhouse gas emissions associated with the consumption of liquid fuels have an impact not only on the environment, but also on the Group's net financial profile, and the Group considers that there is no material impact resulting from these initiatives on the values of machinery and property and associated impairment losses.

The Group is currently working on developing a strategy to improve its energy performance through efficient energy consumption and generation from sustainable sources.

49 Non-cash transactions

The most important basic non-cash transactions for the year ended 31 December 2021 are as follows:

Some balances due from government entities amounting to SAR 16.6 billion have been settled with the balances due to some government dues within trade payables amounting to SAR 11.1 billion Saudi riyals and other dues and credit balances amounting to SAR 10.1 billion (Note 32).

The assets and liabilities of the Saudi Power Procurement Company (the principal buyer) have been transferred to assets held for sale with a total amount of 785 million Saudi riyals and obligations related to those assets amounting to SAR 82 million (note 47).

The most important basic non-cash transactions for the year ended 31 December 2020 are the clearing of some balances due from electricity consumers' with payable balances as shown in the mudaraba instrument amounting to SAR 167.9 billion (Note No. 24).

50 Subsequent Event

The Ordinary General Assembly was held on 30 January 2022, and it was approved to sell and transfer all of the shares of the Saudi Electricity Company in the Saudi Power Procurement Company (the principal buyer) to the government.

The General Assembly has authorized the Board of Directors of the Saudi Electricity Company to carry out all the necessary legal procedures for the sale and transfer of all the shares of Saudi Power Procurement Company held by Saudi Electricity Company to the ownership of the Government.

SAUDI ELECTRICITY COMPANY**(A Saudi Joint Stock Company)****Notes to the consolidated financial statements for the year ended 31 December 2021**

(All amounts in thousands Saudi Riyals unless otherwise stated)

51 Comparative figures

The comparative figures for the year ended on 31 December 2020 have been reclassified to conform with the current presentation of the statement of profit or loss, and this reclassification has no impact on the profit or equity for the year ended on 31 December 2020:

	Balance before Reclassification	Reclassification	Balance after Reclassification
Cost of sale	(60,611,812)	225,419	(60,386,393)
Provision for electricity receivables and other receivables	-	(253,638)	253,638
Other income, net	1,582,155	28,233	1,610,388
General and administrative expenses	(1,244,638)	77,268	(1,167,370)
Loss of the year from non- continuous operations	-	(78,040)	(78,040)
Financing expenses	(4,908,817)	758	(4,908,059)

52 Approval of the consolidated financial statements

The Group's consolidated financial statements were approved by the Group's Board of Directors on 12 Shabaan 1443 H corresponding to 15 March 2022.