Shuqaiq Water and Electricity Company
(A Saudi Closed Joint Stock Company)

FINANCIAL STATEMENTS
AND INDEPENDENT AUDITORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2020

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INDEPENDENT AUDITOR'S REPORT
To the Shareholders of Shuqaiq Water and Electricity Company
(A Saudi Closed Joint Stock Company)

Opinion

We have audited the financial statements of Shuqaiq Water and Electricity Company (A Saudi Closed Joint Stock Company) (the "Company"), which comprise the statement of financial position as at 31 December 2020, and the statement of profit or loss and other comprehensive income, statement of changes in shareholders' equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2020, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are endorsed by the Saudi Organization for Certified Public Accountants.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with professional code of conduct and ethics endorsed in the Kingdom of Saudi Arabia that are relevant to our audit of the 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.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are endorsed by the Saudi Organization for Certified Public Accountants and the provisions of Companies' Law and Company's By-Laws, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company'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 Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these 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 judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the 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 Company's internal control.

- 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 Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the 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 Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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INDEPENDENT AUDITOR'S REPORT
To the Shareholders of Shuqaiq Water and Electricity Company
(A Saudi Closed Joint Stock Company) (continued)

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

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.

for Ernst & Young

Fahad M. Al-Toaimi
Certified Public Accountant
License No. 354

Riyadh: 22 Sha'ban 1442H
(4 April 2021)

Shuqaiq Water and Electricity Company
(A Saudi Closed Joint Stock Company)

STATEMENT OF FINANCIAL POSITION
As at 31 December 2020

	Note	***2020*** ***SR'000***	*2019* *SR'000*
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	6	**5,063,313**	5,220,958
Right-of-use asset	17	**23,016**	23,313
Deferred tax assets	16	**-**	151
TOTAL NON-CURRENT ASSETS		**5,086,329**	5,244,422
CURRENT ASSETS			
Cash and cash equivalents	7	**4,456**	5,601
Account receivable, prepayments and other receivables	8	**179,991**	202,048
TOTAL CURRENT ASSETS		**184,447**	207,649
TOTAL ASSETS		**5,270,776**	5,452,071
SHAREHOLERS' EQUITY AND LIABILITIES			
SHAREHOLDERS' EQUITY			
Share capital	10	**1,120,000**	1,120,000
Statutory reserve	11	**84,755**	66,703
Retained earnings		**534,470**	456,150
Shareholders' equity before cash flow hedge reserve		**1,739,225**	1,642,853
Cash flow hedge reserve	12	**(583,447)**	(470,269)
TOTAL SHAREHOLDERS' EQUITY		**1,155,778**	1,172,584
NON-CURRENT LIABILITIES			
Long term financing	13	**2,831,582**	3,270,881
Fair value of derivatives	12	**496,369**	399,290
Asset retirement obligation	6 (d)	**135,031**	134,281
Lease liability	17	**20,890**	21,151
Employees' termination benefits	14	**2,631**	2,553
Deferred tax liability	16	**-**	5,706
TOTAL NON-CURRENT LIABILITIES		**3,486,503**	3,833,862
CURRENT LIABILITIES			
Accounts payable, accruals and other liabilities	15	**100,105**	86,079
Current portion of long term financing	13	**294,364**	134,427
Short term financing	13	**137,500**	148,000
Lease liability	17	**3,137**	3,154
Fair value of derivatives	12	**87,594**	70,463
Zakat and income tax payable	16	**5,795**	3,502
TOTAL CURRENT LIABILITIES		**628,495**	445,625
TOTAL LIABILITIES		**4,114,998**	4,279,487
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**5,270,776**	5,452,071

The attached notes 1 to 29 form an integral part of these financial statements.

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2020

	Note	*2020* SR'000	*2019* SR'000
Revenue	18	**777,460**	696,987
Operating costs	19	**(359,958)**	(318,732)
GROSS PROFIT		**417,502**	378,255
EXPENSES			
General and administration expenses	20	**(29,871)**	(32,452)
OPERATING PROFIT		**387,631**	345,803
Interest income		**164**	1,196
Other income	21	**34,500**	43,161
Financial charges	13	**(237,963)**	(254,316)
PROFIT BEFORE ZAKAT AND TAX		**184,332**	135,844
Zakat and tax	16	**(3,808)**	(3,497)
NET PROFIT FOR THE YEAR		**180,524**	132,347
OTHER COMPREHENSIVE (LOSS) INCOME			
Items that are or may be reclassified subsequently to profit or loss			
Net change in fair value of cash flow hedge reserve	12	**(113,694)**	6,237
Deferred tax in relation to cash flow hedge reserves	16	**516**	7
		(113,178)	6,244
Items that will not be reclassified subsequently to profit or loss			
Re-measurement of defined benefit liability	14	**(37)**	(96)
OTHER COMPREHENSIVE (LOSS) INCOME		**(113,215)**	6,148
TOTAL COMPREHENSIVE INCOME		**67,309**	138,495
EARNINGS PER SHARE (in Saudi Riyals)	22	**1.61**	1.18

The attached notes 1 to 29 form an integral part of these financial statements.

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
For the year ended 31 December 2020

	Share capital SR'000	*Statutory reserve SR'000*	*Retained earnings SR'000*	*Cash flow hedge reserve SR'000*	*Total SR'000*
Balance at 1 January 2019	1,120,000	53,468	421,634	(476,513)	1,118,589
Profit for the year	-	-	132,347	-	132,347
Other comprehensive income	-	-	(96)	6,244	6,148
Total comprehensive income for the year	-	-	132,251	6,244	138,495
Transfer to statutory reserve	-	13,235	(13,235)	-	-
Dividends (note 24)	-	-	(84,500)	-	(84,500)
Balance at 31 December 2019	1,120,000	66,703	456,150	(470,269)	1,172,584
Profit for the year	-	-	180,524	-	180,524
Other comprehensive loss	-	-	(37)	(113,178)	(113,215)
Total comprehensive income for the year	-	-	180,487	(113,178)	67,309
Transfer to statutory reserve	-	18,052	(18,052)	-	-
Dividends - net (note 24)	-	-	(84,115)	-	(84,115)
Balance at 31 December 2020	**1,120,000**	**84,755**	**534,470**	**(583,447)**	**1,155,778**

The attached notes 1 to 29 form an integral part of these financial statements.

STATEMENT OF CASH FLOWS
For the year ended 31 December 2020

	Note	***2020*** ***SR'000***	*2019* *SR'000*
OPERATING ACTIVITIES			
Profit before zakat and income tax		**184,332**	135,844
Adjustments for:			
Depreciation	6	**170,546**	168,713
Depreciation on right of use asset	17	**297**	1,254
Financial charges	13	**237,963**	254,316
Provision for employees' terminal benefits	14	**41**	473
		593,179	560,600
Changes in operating assets and liabilities:			
Decrease (increase) in account receivable, prepayments and other receivables		**22,057**	(52,019)
Increase in accounts payable, accruals and other liabilities		**18,549**	19,436
Net cash from operations		**633,785**	528,017
Financial charges paid		**(230,200)**	(249,081)
Employee terminal benefits paid	14	**-**	(269)
Zakat and income tax paid	16	**(6,554)**	(247)
Net cash from operating activities		**397,031**	278,420
INVESTING ACTIVITY			
Purchase of property, plant and equipment	6	**(16,796)**	(690)
FINANCING ACTIVITIES			
Proceeds from short term financing		**352,500**	315,000
Repayment of short term financing		**(363,000)**	(251,000)
Repayment of long term financing		**(285,049)**	(256,030)
Payment of principal portion of lease liabilities	17	**(1,716)**	(1,716)
Dividends paid	24	**(84,115)**	(84,500)
Net cash used in financing activities		**(381,380)**	(278,246)
Net decrease in cash and cash equivalents		**(1,145)**	(516)
Cash and cash equivalents at the beginning of the year		**5,601**	6,117
Cash and cash equivalents at end of the year	7	**4,456**	5,601
SIGNIFICANT NON-CASH TRANSACTIONS			
Net change in fair value of cash flow hedge reserve	12	**(113,694)**	6,237
Adjustment for asset retirement obligation	6	**3,375**	-
Reversal of capital work in progress	6	**520**	-
Re-measurement of defined benefit liability	14	**(37)**	(96)
Recognition of right-of-use-assets against lease liabilities	17	**-**	24,567
Deferred tax in relation to cash flow hedge reserve	16	**-**	7

The attached notes 1 to 29 form an integral part of these financial statements.

1 COMPANY INFORMATION AND ACTIVITIES

Shuqaiq Water and Electricity Company (the "Company") is a Saudi closed joint stock company, established pursuant to Ministerial Resolution number 7/M dated 3 Safar 1428H (corresponding to 21 February 2007) under commercial registration number 5903012032 dated 6 Safar 1428H (corresponding to 24 February 2007).

The Company is engaged in development, construction, ownership, operations and maintenance of Shuqaiq II Water and Electricity Co-generation Project (the "Plant") in the Kingdom of Saudi Arabia and sale of desalinated water and electricity from the Plant.

The address of the Company's registered office is as follows:
P.O.Box 2576
Shuqaiq 45983, Jizan-45142
Kingdom of Saudi Arabia

On 28 February 2007, the Company entered into a Power and Water Purchase Agreement ("PWPA") with Water and Electricity Company ("WEC") pursuant to which the Company sells desalinated water and power for a period of 20 years from the Project Commercial Operation Date ("PCOD"). The PWPA is extendable for future periods, if mutually agreed upon. The PCOD was achieved on 1 May 2011, the date from which the PWPA was effective.

The Company has contracted First National Operation & Maintenance Company Limited ("NOMAC"), an affiliate, for operations and maintenance of its plant.

As at the reporting date, the Company's current liabilities are in excess of the current assets by SR 440 million (2019: SR 218 million). This is primarily due to the upcoming maturity of certain loans (note 13). Management is confident, based on the review of cashflow projections, that the loans will be paid from the cash to be generated from the normal operations of the Company. Accordingly, these financial statements are prepared on a going concern assumption.

2 BASIS OF PREPARATION AND STATEMENT OF COMPLIANCE

2.1 STATEMENT OF COMPLIANCE

These financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB), as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements endorsed by the Saudi Organization for Certified Public Accountants ("SOCPA") ("IFRS as endorsed in KSA").

2.2 BASIS OF PREPARATION

The financial statements are prepared under the historical cost convention except for derivative financial instruments which are measured at fair value. These financial statements are presented in Saudi Riyals (SR) which is the functional and presentation currency of the Company. All amounts in the financial statements are rounded to the nearest thousand (SR'000), except when otherwise indicated.

3 SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted are as follows:

Current versus non-current classification
The Company presents assets and liabilities in the separate statement of financial position based on current / non-current classification. An asset is classified as current when it is:

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

The Company classifies all other assets as non-current.

A liability is classified as current when:

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

The Company classifies all other liabilities as non-current.

Property, plant and equipment
Property, plant and equipment, except land and work in progress, is stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Such cost includes the cost of replacing part of the property and equipment and borrowing costs for long-term construction projects if the recognition criteria are met.

When significant parts of property, plant and equipment are required to be replaced at intervals, the Company recognises such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the property, plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in the profit or loss as incurred. The present value of the expected cost for the decommissioning of an asset after its use is included in the cost of the respective asset if the recognition criteria for a provision are met.

Capital work-in-progress (CWIP) are stated at cost less accumulated impairment loss, if any. CWIP represents all costs relating directly or indirectly to the projects in progress and will be accounted for under relevant category under noncurrent assets. Cost includes cost of equipment, material, professional fees, other costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management and for qualifying assets, borrowing costs capitalized in accordance with the Company's accounting policy. When commissioned, CWIP is classified to the appropriate property, plant and equipment category and depreciated in accordance with the Company's policy.

The cost less estimated residual value of other items of property, plant and equipment is depreciated on a straight line basis over the estimated useful lives of the assets.

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the profit or loss when the asset is derecognised. The residual value, useful lives and method of depreciation of property, plant and equipment are reviewed at each reporting date and adjusted prospectively.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases
The Company assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Company as a lessee
The Company applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Company recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

i) Right-of-use assets
The Company recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received.

If ownership of the leased asset transfers to the Company at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

The right-of-use assets are also subject to impairment

ii) Lease liabilities
At the commencement date of the lease, the Company recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Company and payments of penalties for terminating the lease, if the lease term reflects the Company exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognised as expenses (unless they are incurred to produce inventories) in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Company uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

iii) Short-term leases and leases of low-value assets
The Company applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered to be low value. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

Company as a lessor
Leases in which the Company does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Borrowing cost

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, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use. All other borrowing costs are recognized in the profit or loss in the period in which they are incurred.

Financial instruments

Initial recognition

The Company records financial asset or a financial liability in its statement of financial position when, and only when, it becomes party to the contractual provisions of the instrument.

At initial recognition, financial assets or financial liabilities are measured at their fair value. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss. In the case of financial assets or financial liabilities not at fair value through profit or loss, its fair value including the transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability is the initial recognition amount.

Classification

The Company classifies its financial assets under the following categories:

- Fair value through profit or loss (FVTPL);
- Fair value through other comprehensive income (FVTOCI); and
- Amortised cost.

These classifications are on the basis of business model of the Company for managing the financial assets, and contractual cash flow characteristics.

The Company measures financial asset at amortised cost when it is within the business model to hold assets in order to collect contractual cash flows, and contractual terms of the financial asset gives rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

For assets measured at fair value, gains and losses will either be recorded in profit or loss and other comprehensive income. For investments in equity instruments, this will depend on whether the Company has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income.

The Company classifies all non-derivative financial liabilities as subsequently measured at amortised cost using the effective interest rate method.

The Company designates a non-derivative financial liability at fair value through profit or loss if doing so eliminates or significantly reduces measurement or recognition inconsistency or where a group of financial liabilities is managed and its performance is evaluated on a fair value basis.

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e. removed from the Company's statement of financial position) when:

- The rights to receive cash flows from the asset have expired; or
- The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Derecognition (continued)

When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Company continues to recognise the transferred asset to the extent of the Company's continuing involvement. In that case, the Company also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expired. 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 derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Impairment of financial assets

The Company recognizes loss allowances for expected credit losses (ECL) on the following financial assets that are not measured at fair value through profit or loss (FVPL):

- Account receivables (due from WEC)
- Bank balances
- Other financial assets

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL). The Company uses the ratings from credit rating agency both to determine whether the amortize cost instrument has significantly increased in credit risk and to estimate ECLs.

The key inputs into the measurement of ECL are the term structure of the following variables:

- Probability of default (PD)
- Loss given default (LGD)
- Exposure at default (EAD)

PD estimates are estimates at a certain date based on externally compiled data. Market data is used to derive the PD for large corporate counterparties. If a counterparty or exposure migrates between ratings classes, then this will lead to a change in the estimate of the associated PD. PD's are estimated considering the contractual maturities of exposures.

LGD is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realisation of any collateral or credit enhancements that are integral of the related financial assets and not required to be recognised separately. It is usually expressed as a percentage of the EAD.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Impairment of financial assets
EAD represents the expected exposure in the event of a default. The Company derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortization. The EAD of a financial asset is its gross carrying amount.

The Company also considers the forward-looking information in its assessment of significant deterioration in credit risk since origination as well as the measurement of ECLs.

ECL represent probability-weighted estimates of credit losses. These are measured as follows:

- financial assets that are not credit-impaired at the reporting date: 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 Company expects to receive);

- financial assets that are credit-impaired at the reporting date: as the difference between the net carrying amount and the present value of estimated future cash flows

Derivative financial instruments and hedge accounting
The Company uses derivative financial instruments to hedge its cash flow exposures to interest rate risk. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

Any gains or losses arising from the changes in the fair value of derivatives are taken directly to the profit or loss, except for the effective portion of cash flow hedges, which is recognised in other comprehensive income.

For the purpose of hedge accounting, hedges are classified as cash flow hedges when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognised firm commitment.

At the inception of a hedge relationship, the Company formally designates and documents the hedge relationship to which the Company wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivative financial instruments and hedge accounting (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 Company adjusts the hedge ratio of the hedging relationship (i.e. rebalances the hedge) so that it meets the qualifying criteria again.

When the Company discontinues hedge accounting for a cash flow hedge, the amount that has been accumulated in the cash flow hedge reserve remains in equity if the hedged future cash flows are still expected to occur, until such cash flows occur. If the hedged future cash flows are no longer expected to occur, that amount is immediately reclassified to profit or loss.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised without replacement or rollover (as part of the hedging strategy), or if its designation as a hedge is revoked, or when the hedge no longer meets the criteria for hedge accounting. At that time, for forecast transactions, any cumulative gain or loss on the hedging instrument previously recognised in other comprehensive income is retained separately in other comprehensive income until the forecasted transaction occurs.

Current versus non-current classification
Derivative instruments that are designated as, and are effective hedging instruments, are classified consistently with the classification of the underlying hedged item. The derivative instrument is separated into a current portion and a non- current portion only if a reliable allocation can be made.

Dividends
Final dividends are recognised as a liability at the time of their approval by the General Assembly. Interim dividends are recorded as and when approved by the Board of Directors.

Accounts receivable
After initial recognition, accounts receivable are stated at amortized cost less allowance for any impairment. The Company recognises an allowance for impairment for expected credit losses (“ECL”). Such impairment allowance is charged to the statement of profit or loss and other comprehensive income and reported under “general and administrative expenses”. When an account receivable is uncollectible, it is written-off against the impairment allowance. Any subsequent recoveries of amounts previously written-off are credited against “general and administrative expenses” in in the statement of profit or loss and other comprehensive income.

Provisions
Provisions are recognised when the Company has an obligation (legal or constructive) arising from a past event, and the costs to settle the obligation are both probable and can be measured reliably. If the effect of time value of money is material, provisions are discounted using a current pretax rate that reflects, where appropriate, the risk specific to the liability. When discounting is used, the increase in the provision in the provision due to passage of time is recognised as finance costs.

Employees' benefits
Short-term employee benefits
Short-term employee benefits are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Post-employment obligation
The Company operates a post-employment benefit scheme driven by the labour laws of the country in which it operates.

The post-employment benefit scheme is not funded. Valuation of the obligation under such scheme is carried out by an independent actuary based on the projected unit credit method. The costs relating to such scheme primarily consist of the present value of the benefits attributed on an equal basis to each year of service and the interest on this obligation in respect of employee service in previous years.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Employees' benefits (continued)

Post-employment obligation (continued)

Current and past service costs related to post-employment benefits are recognised immediately as “employee costs” in the statement of profit or loss and other comprehensive income and unwinding of the liability at discount rates used are recorded as “financial charges” in the statement of profit or loss and other comprehensive income. Any changes in net liability due to actuarial valuations and changes in assumptions are taken as re-measurement in other comprehensive income.

Re-measurement gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised in the period in which they occur, directly in other comprehensive income. Remeasurement gains and losses are not reclassified to profit or loss in subsequent periods.

Changes in the present value of the defined benefit obligation resulting from scheme amendments or curtailments are recognised immediately in the statement of profit or loss as past service costs.

Accounts payable and other liabilities

Liabilities are recognized for amounts to be paid in the future for goods or services received, whether billed by the supplier or not. These are initially recognised at fair value and subsequently remeasured at amortised cost.

Statutory reserve

In accordance with the Company’s by-laws and the requirements of Companies’ Law, the Company must set aside 10% of its income after zakat and income tax in each year until it has built up a reserve equal to 30% of its capital. The reserve is not available for distribution.

Earnings per share

Earnings per share are calculated by dividing net profit for the year by the weighted average number of ordinary shares outstanding during the year.

Revenue recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured, regardless of when the payment is received. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The Company assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Company has concluded that it is acting as a principal in all of its revenue arrangements. The following specific recognition criteria must also be met before revenue is recognized:

Supply of desalinated water and power

Revenue from supply of desalinated water and power is recognised upon delivery of desalinated water and power to the customer on an accrual basis. Capacity charge income (excluding receipts for services provided, such as insurance and maintenance) under Power and Water Purchase Agreements (“PWPA”) for each hour during which the plant is available for power generation and/or water desalination is recognised on a straight-line basis over the lease term or upon actual billing period as appropriate considering the terms of PWPA. The component of billed revenue related to goods/services not delivered or performed are recorded as deferred liability and reported in statement of financial position as deferred revenue.

Energy charge revenue which compensates the Company for the fuel and variable cost of power and water delivered is recognized based on the supply of generated power and desalinated water. No revenue is recognized if there are significant uncertainties regarding recovery of the consideration due and associated costs.

Foreign currencies

Transactions in foreign currencies are recorded in Saudi Riyals at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the reporting date. All differences are taken to the profit or loss.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Zakat and income tax
The Company is subject to the Regulations of the General Authority of Zakat and Tax (“GAZT”) in the Kingdom of Saudi Arabia. Zakat and income tax are provided on an accrual basis. Zakat charge is computed on the zakat base.

Income tax is computed on adjusted net income. Any difference in the estimate is recorded when the final assessment is approved. Differences if any resulting from final assessment are adjusted in the year of finalisation.

Deferred tax
Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- When the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized, except:

- When the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss

- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are re-assessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

New standards, amendments and interpretations adopted by the Company

The Company applied for the first-time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2020.

Amendments to IFRS 3: Definition of a Business
The amendment to IFRS 3 Business Combinations clarifies that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that, together, significantly contribute to the ability to create output. Furthermore, it clarifies that a business can exist without including all of the inputs and processes needed to create outputs. These amendments had no impact on the financial statements of the Company, but may impact future periods should the Company enter into any business combinations.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

New standards, amendments and interpretations adopted by the Company (continued)

Amendments to IFRS 7, IFRS 9 and IAS 39 Interest Rate Benchmark Reform

A fundamental review and reform of major profit rate benchmarks is being undertaken globally. The International Accounting Standards Board ("IASB") is engaged in a two-phase process of amending its guidance to assist in a smoother transition away from Interbank Offered Rates (IBOR).

Phase (1) - The first phase of amendments to IFRS 9 Financial Instruments, IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures focused on hedge accounting issues. The final amendments, issued in September 2019, amended specific hedge accounting requirements to provide relief from the potential effects of the uncertainty caused by IBOR reform. The amendments are effective from 1 January 2020 and are mandatory for all hedge relationships directly affected by IBOR reform.

Phase (2) – The second phase relates to the replacement of benchmark rates (IBOR) with alternative risk-free rates (RFR). The Phase 2 amendments are effective for annual periods beginning on or after 1 January 2021 and early application is permitted. Now that the Phase 2 Amendments have been finalised, the Company will complete its assessment of the accounting implications of the scenarios it expects to encounter as the transition from IBORs to RFRs in order to accelerate its programmes to implement the new requirements.

The table below shows the Company's exposure at the year-end to significant IBORs subject to reform that have yet to transition to RFRs. The table excludes exposures to IBOR that will expire before transition is required or that are related to equity accounted investees of the Company:

	In SR '000
Carrying amount of financial liabilities exposed to IBOR	**3,263,446**
Notional of hedges linked to IBOR	**2,827,102**

Amendments to IAS 1 and IAS 8 Definition of Material

The amendments provide a new definition of material that states, "Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity." The amendments clarify that materiality will depend on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. These amendments had no impact on the financial statements of, nor is there expected to be any future impact to the Company.

Amendments to IFRS 16 Covid-19 Related Rent Concessions

On 28 May 2020, the IASB issued Covid-19-Related Rent Concessions - amendment to IFRS 16 Leases. The amendments provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the Covid-19 pandemic. As a practical expedient, a lessee may elect not to assess whether a Covid-19 related rent concession from a lessor is a lease modification. The amendment applies to annual reporting periods beginning on or after 1 June 2020. Earlier application is permitted. This amendment had no impact on the financial statements of the Company

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

New standards, amendments and interpretations issued but yet effective and not early adopted

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Company's financial statements are disclosed below. The Company intends to adopt these new and amended standards and interpretations, if applicable, when they become effective.

Based on the Company's assessment, the below standards are not expected to have potential impacts on the reported numbers and disclosures.

Standards	**Description**	**Mandatory effective date**
IFRS 17	Insurance Contracts	1 January 2023
IFRS 1	First-time Adoption of International Financial Reporting Standards: Subsidiary as a first-time adopter	1 January 2022
IFRS 9	Financial Instruments: Fees in the '10 per cent' test for derecognition of financial liabilities	1 January 2022
IAS 41	Agriculture: Taxation in fair value measurements	1 January 2022
Amendments to IAS 1	Classification of Liabilities as Current or Non-current	1 January 2023
Amendments to IFRS 3	Business Combinations: Reference to the Conceptual Framework	1 January 2022
Amendments to IAS 16	Property, Plant and Equipment: Proceeds before Intended Use	1 January 2022
Amendments to IAS 37	Onerous Contracts: Costs of Fulfilling a Contract	1 January 2022

4 SIGNIFICANT ACCOUNTING ESTIMATES

Significant areas where management has used estimates, assumptions or exercised judgements are as follows:

Fair value of unquoted financial instruments

When the fair value of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, the fair value is determined using valuation techniques including the discounted cash flow model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. The judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

The Company enters into derivative financial instruments with various counterparties, principally financial institutions. Derivatives include interest rate swaps which are valued using valuation techniques with market observable inputs. The most frequently applied valuation techniques include swap models, using present value calculations. The models incorporate various inputs including the interest rate curves.

Decommissioning liability (Asset Retirement Obligation)

The Company assesses its Asset Retirement Obligation ("ARO") at each reporting date. 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 decommissioning activities, inflation rates and changes in discount rates. These uncertainties may result in future actual expenditure differing from the amounts currently provided. Decommissioning costs are provided for at the present value of expected costs to settle the obligation using estimated cash flows and are recognised as part of the cost of the relevant asset. The unwinding of the discount is expensed as incurred and recognised in the statement of profit or loss as a finance cost. The estimated future costs of decommissioning are reviewed annually and adjusted as appropriate. Any provision at reporting date represents management's best estimate of the present value of the future costs required. Changes in the estimated future costs, or in the discount rate applied, are added to or deducted from the cost of the asset.

4 SIGNIFICANT ACCOUNTING ESTIMATES

Defined benefit scheme (Employees' terminal benefits)

The cost of defined benefit scheme and the present value of such obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions which may differ from actual developments in the future. These include the determination of the discount rate, future salary increases and mortality rates. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

The parameter most subject to change is the discount rate. In determining the appropriate discount rate, management considers the interest rates of corporate bonds in currencies consistent with the currencies of the post-employment benefit obligation with at least an ‘AA’ rating or above, as set by an internationally acknowledged rating agency, and extrapolated as needed along the yield curve to correspond with the expected term of the defined benefit obligation.

The underlying bonds are further reviewed for quality. Those having excessive credit spreads are removed from the analysis of bonds on which the discount rate is based, on the basis that they do not represent high quality bonds.

The mortality rate is based on publicly available mortality tables for the specific countries. Those mortality tables tend to change only at intervals in response to demographic changes. Future salary increases are based on expected future inflation rates for the respective countries. Further details about employees’ terminal benefits obligations are provided in note 14.

Useful lives of property, plant and equipment

The Company’s management determines the estimated useful lives of property, plant and equipment for calculating depreciation. This estimate is determined after considering the expected usage of the asset or physical wear and tear.

Management reviews the useful lives annually and future depreciation charge would be adjusted where the management believes the useful lives differ from previous estimates.

Going concern

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

5 CAPITAL MANAGEMENT

The Company’s objectives when managing capital are to safeguard the Company’s ability to continue as a going concern and benefit its stakeholders. Management's policy is to maintain a strong capital base to maintain creditor and market confidence and to sustain future development of the business. The Company manages its capital structure and makes adjustments in light of changes in economic conditions.

The Company is not subject to significant externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the current and prior year. For the purpose of the Company’s capital management, capital includes share capital, retained earnings and statutory reserve amounts to SR 1,739,741 thousand as at 31 December 2020 (31 December 2019: SR 1,642,853 thousand)

6 PROPERTY, PLANT AND EQUIPMENT

The estimated useful lives of the assets for calculation of depreciation are as follows:

Building	40 years	Furniture, fixtures and equipment	4 to 10 years
Plant and machinery	20 to 40 years	Motor vehicles	4 years
Capital spares	20 years		

For the year ended 31 December 2020	*Building SR'000*	*Plant and machinery SR'000*	*Capital spares SR'000*	*Furniture, fixtures and equipment SR'000*	*Motor vehicles SR'000*	*Capital work in progress SR'000*	*Total 2020 SR'000*
Cost:							
At beginning of the year	49,507	6,680,572	45,509	2,474	602	520	6,779,184
Additions during the year	-	16,509	-	58	229	-	16,796
Adjustments for asset retirement obligation (note 6(d))	-	(3,375)	-	-	-	-	(3,375)
Reversal	-	-	-	-	-	(520)	(520)
At end of the year	49,507	6,693,706	45,509	2,532	831	-	6,792,085
Accumulated depreciation:							
At beginning of the year	14,210	1,525,230	17,124	1,211	451	-	1,558,226
Depreciation charge for the year	1,279	166,009	2,810	343	105	-	170,546
At end of the year	15,489	1,691,239	19,934	1,554	556		1,728,772
Net book value:							
At 31 December 2020	**34,018**	**5,002,467**	**25,575**	**978**	**275**	**-**	**5,063,313**

6 PROPERTY, PLANT AND EQUIPMENT (continued)

For the year ended 31 December 2019	*Building SR'000*	*Plant and machinery SR'000*	*Capital spares SR'000*	*Furniture, fixtures and equipment SR'000*	*Motor vehicles SR'000*	*Capital work in progress SR'000*	*Total 2019 SR'000*
Cost:							
At beginning of the year	49,507	6,680,572	45,509	1,784	602	520	6,778,494
Additions during the year	-	-	-	690	-	-	690
At end of the year	49,507	6,680,572	45,509	2,474	602	520	6,779,184
Accumulated depreciation:							
At beginning of the year	12,931	1,360,744	14,627	900	311	-	1,389,513
Depreciation charge for the year	1,279	164,486	2,497	311	140	-	168,713
At end of the year	14,210	1,525,230	17,124	1,211	451	-	1,558,226
Net book value:							
At 31 December 2019	35,297	5,155,342	28,385	1,263	151	520	5,220,958

6 PROPERTY, PLANT AND EQUIPMENT (continued)

a) Collateralisation

'Building' and 'Plant and machinery' are collateralised against long-term financing arrangements entered into by the Company for the purpose of financing the construction of the Plant (note 13).

b) Leasehold land

The project is constructed on land leased from Saline Water Conversion Corporation ("SWCC") at a nominal rent for an initial term of 20 years from the commencement of the commercial operations and is renewable for further periods subject to agreement of both parties.

c) Useful lives of property, plant and equipment

The Company's management determines the estimated useful lives of property, plant and equipment for calculating depreciation. This estimate is determined after considering the expected usage of the asset or physical wear and tear. Management reviews the useful lives annually and future depreciation charge would be adjusted where the management believes the useful lives differ from previous estimates.

d) Asset Retirement Obligation

The Company assesses its Asset Retirement Obligation ("ARO") at each reporting date. 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 reporting date represents management's best estimate of the present value of the future costs.

During the year ended 31 December 2020, the Company deducted SR 3.4 million from plant, machinery and equipment cost in respect of ARO for its plant based on an independent expert's revised assessment of the estimated future costs of decommissioning of the plant. As at 31 December 2020, the management estimated an amount of SR 135 million (31 December 2019: SR 134.3 million) is required in respect of ARO for its Plant. Unwinding of the ARO recorded during the year was SR 4.1 million (31 December 2019: SR 3.8 million). The depreciation charge has been allocated as follows:

	31 December 2020 SR'000	*31 December 2019 SR'000*
Operating costs (note 19)	**168,819**	166,983
General and administration expenses (note 20)	**1,727**	1,730
	170,546	168,713

7 CASH AND CASH EQUIVALENTS

	31 December 2020 SR'000	*31 December 2019 SR'000*
Cash at bank	**4,436**	5,582
Cash in hand	**20**	19
	4,456	5,601

The management has conducted a review as required under IFRS 9 and based on such assessment, management believes that there is no need for any significant impairment loss against the carrying value of cash equivalents.

8 ACCOUNTS RECEIVABLE, PREPAYMENTS AND OTHER RECEIVABLES

	31 December 2020 SR'000	*31 December 2019 SR'000*
Due from Water and Electricity Company ("WEC"), a related party (note 8.1)	**138,174**	131,918
Insurance claim receivable	**19,501**	39,035
Advances to contractors	**16,431**	28,712
VAT receivable	**3,157**	-
Prepayments	**2,320**	2,162
Advances to employees	**195**	188
Others	**213**	33
	179,991	202,048

The management has conducted a review as required under IFRS 9 and based on such assessment, management believes that there is no need for any significant impairment against the carrying values of accounts and other receivables.

8.1 WEC is a Government entity and is owned by Ministry of Finance.

9 RELATED PARTY TRANSACTIONS AND BALANCES

During the year, the Company transacted with its related parties, the terms of which are approved by management of the Company in the ordinary course of business. The following are the details of major related party transactions during the year:

Related party	*Nature of transactions*	***31 December 2020 SR'000***	*31 December 2019 SR'000*
Affiliates	Capacity and output invoices under PWPA (WEC) (note 18)	**777,460**	696,987
	Secondment and service costs	**3,617**	3,552
	Annual management fee (note 20)	**3,438**	3,750
	Operation and maintenance costs (note 19)	**135,459**	131,420
	Repair and maintenance	**34,889**	5,933
Directors	Remuneration and allowances	**1,875**	1,875
Senior management	Salaries and benefits	**2,841**	3,066

9 RELATED PARTY TRANSACTIONS AND BALANCES (continued)

The breakdown of amounts due from / to related parties at the reporting date are as follows:

	Relationships	*Balance*	
		31 December 2020 SR'000	*31 December 2019 SR'000*
Due from related parties			
WEC (note 8)	Affiliate	**138,174**	131,918
Due to related parties			
First National Operation and Maintenance Co. Ltd.	Affiliate	**46,330**	43,744
Arabian Company for Water and Power Projects Limited	Affiliate	**985**	1,418
		47,315	45,162

The related party balances are unsecured, interest free and the settlement occurs in cash. The Company did not record any impairment against receivables from related parties during the current and prior year. The management has conducted a review as required under IFRS 9 and based on such assessment, management believes that there is no need for any significant impairment against the carrying values of due from related party balances.

10 SHARE CAPITAL

The Company's authorised and fully paid up share capital consists of 112,000,000 shares of SR 10 each (31 December 2019: 112,000,000 shares of SR 10 each).

Shareholders

	Number of shares held		*Percentage*
	31 December 2020	*31 December 2019*	
Shuqaiq International Water and Electricity Company	**67,200,000**	67,200,000	60%
Water and Electricity Holding Company	**35,840,000**	35,840,000	32%
Saudi Electricity Company	**8,960,000**	8,960,000	8%
Total	**112,000,000**	112,000,000	100%

11 STATUTORY RESERVE

In accordance with the Company's By-Laws and the requirements of Companies' Law, the Company must set aside 10% of its income after zakat and income tax in each year until it has built up a reserve equal to 30% of its capital. The statutory reserve is not available for distribution.

12 DERIVATIVE FINANCIAL INSTRUMENTS

Derivatives designated as hedging instruments

As at 31 December 2020, the Company held Interest Rate Swaps ("IRS") of a notional value of SR 3,265 million (31 December 2019: SR 3,501 million), in order to reduce its exposure to interest rate risks against long-term financing (see note 13). The table below shows the fair values of derivative financial instruments, recorded as liabilities, together with their notional amounts. The notional amounts indicate the volume of transactions outstanding at the year end and are neither indicative of the market risk nor the credit risk.

	31 December 2020 SR'000		*31 December 2019 SR'000*	
	Liabilities	***Notional amount***	*Liabilities*	*Notional amount*
Cash flow hedges				
Interest rate swaps	**583,963**	**2,827,102**	469,753	3,501,449

Derivatives often involve at their inception only a mutual exchange of promises with little or no transfer of consideration. However, these instruments frequently involve a high degree of leverage and are very volatile. A relatively small movement in the value of the rate underlying a derivative contract may have a significant impact on the income or equity component of the Company.

Fair values of cash flow hedge amounting to SR 87.59 million and SR 496.37 million (31 December 2019: SR 70.46 million and SR 399.29 million) represents the current and non-current portion of the negative mark to market values of the interest rate swaps as of 31 December 2020 respectively. The cash flow hedge reserve represents the effective portion of cash flow hedges. The cumulative deferred gain or loss on the hedge is recognised in profit or loss when the hedged transaction impacts the profit or loss. Under the finance agreements, the hedges are required to be held until maturity of the loans.

13 TERM FINANCING

The Company has entered into the following long-term financing arrangements for the purpose of financing the construction of the project:

a) The Syndicated commercial long-term facility bears an interest rate of LIBOR plus an agreed margin. The debt is repayable in semi-annual variable installments, which commenced on 31 May 2011 and will end on 31 May 2029.

b) The Islamic syndicated facility in the form of Islamic leasing of certain assets is repayable in semi-annual variable installments, which commenced on 31 May 2011 and will end on 31 May 2029. The facility bears a special commission rate of LIBOR plus an agreed margin.

c) The syndicated junior facility bears a special commission rate of LIBOR plus an agreed margin and is subject to commitment fee calculated on the unutilised balance of the facility. The debt is repayable in semi-annual variable installments ending on 31 May 2021.

d) The Company has also obtained a short term working capital facility from a local bank. The facility is repayable within one year from the date of draw down. This carries interest at floating commercial rates.

Pursuant to a Common Terms Agreement ("CTA") between the Company and the arrangers of the facilities (except for short term working capital facility); the facilities are secured by a legal charge over the Company's interests in leases of land and any plant and equipment erected thereon constituting fixtures.

13 TERM FINANCING (continued)

The CTA includes certain covenants, which include charge over bank accounts, restriction on further debt acquisition other than the facilities as detailed above. The Company had the following outstanding balances in relation to the above facilities:

	31 December 2020 SR'000	*31 December 2019 SR'000*
Syndicated commercial long-term facility (a)	**2,737,467**	2,978,523
Islamic syndicated facility (b)	**386,944**	421,123
Syndicated Junior facility (c)	**1,535**	5,662
Working capital facility (d)	**137,500**	148,000
	3,263,446	3,553,308
Less: Current portion of long term financing	**(294,364)**	(134,427)
Working capital facility	**(137,500)**	(148,000)
Long term financing (non-current portion)	**2,831,582**	3,270,881

The above long-term financing is disclosed net of related unamortised upfront charges (including commitment fees) amounting to SR 42.3 million as at 31 December 2020 (31 December 2019: SR 48 million).

Financial charges recognised in profit or loss for the year are comprised of:

	31 December 2020 SR '000	*31 December 2019 SR '000*
Financing costs	**137,522**	156,725
Interest charges on cash flow hedges, net	**94,876**	92,356
Provision for asset retirement obligation (note 6d)	**4,127**	3,781
Interest on lease liabilities	**1,438**	1,454
	237,963	254,316

14 EMPLOYEE BENEFITS

The movement of employee benefits (end of service) liability (unfunded) is as follows:

	31 December 2020 SR'000	*31 December 2019 SR'000*
At beginning of the year	**2,553**	2,253
Charge for the year (including actuarial loss)	**78**	569
Payments during the year	**-**	(269)
At end of the year	**2,631**	2,553

14 EMPLOYEE BENEFITS (continued)

Details of employees' end-of-service expense as presented on the statement of profit or loss and other comprehensive income is as follows:

	31 December 2020 SR'000	*31 December 2019 SR'000*
Interest cost	**41**	111
Current service cost	**-**	362
Actuarial loss – other comprehensive income	**37**	96
	78	569

Assumptions

The principal actuarial assumptions used are as follows:

	31 December 2020	*31 December 2019*
Discount rate	**7.86%**	3.85%
Increments	**9.19%**	3.60%
Resignation rate		
18 - 20 years old	**9.65%**	22.50%
21 - 25 years old	**8.14%**	18.80%
26 - 30 years old	**0.01%**	15.00%
31 - 50 years old	**0.01%**	7.50%
51 - 59 years old	**0.33%**	3.80%

Discount rate

IAS 19 requires the discount rate to be set based on the yields on high quality corporate bonds or government bonds of duration and currency consistent with the liabilities. In countries where there is no deep market in such bonds, the market rates on government bonds are used. The discount rate has instead been based on US Corporate bonds yields. This is considered appropriate given that the Saudi Riyal is currently pegged to the US Dollar.

Further, a risk premium to a US discount rate to reflect a credit spread and the risk of the currency linkage being broken has also been used. The Company used a margin of 100bps above US bonds of duration consistent with that of the liabilities.

The assumptions have been determined based on the market conditions at each valuation date. The movement in the discount rate represents the movement of US Corporate Bond Yields between the valuation dates.

Increments

The assumption for future salary increases has been determined by the Company based on its long term expectations, reflecting both inflationary and promotional increases.

Resignation rates

The turnover assumption determines the rate at which individuals are assumed to resign from the Company before retirement.

14 EMPLOYEE BENEFITS (continued)

Sensitivity analysis

The table below shows the change in end of service liability based on a reasonable possible change in the base assumption value for discount and increment rates:

	Change (bps)	*Increase (decrease) in EOSB liability*	
		31 December 2020 SR'000	*31 December 2019 SR'000*
Discount rate	**+ 100**	**(207)**	(209)
	- 100	**241**	243
Increments	**+ 100**	**253**	255
	- 100	**(221)**	(223)

15 ACCOUNTS PAYABLE, ACCRUALS AND OTHER LIABILITIES

	31 December 2020 SR'000	*31 December 2019 SR'000*
Due to related parties (note 9)	**47,315**	45,162
Deferred revenue	**21,708**	7,056
Accrued finance charges	**17,053**	21,056
Accounts payable	**8,409**	3,976
Withholding tax payable	**2,296**	5,210
VAT payable	**-**	1,235
Other liabilities	**3,324**	2,384
	100,105	86,079

16 ZAKAT AND TAX

Amounts recognised in profit or loss

	31 December 2020 SR'000	*31 December 2019 SR'000*
Zakat expense		
Current year charge	**4,364**	3,223
Zakat charge for prior year assessments	**4,483**	-
	8,847	3,223
Tax expense		
Current tax	**-**	163
Deferred tax	**(5,039)**	111
	(5,039)	274
Zakat and tax expense	**3,808**	3,497

16 ZAKAT AND TAX (continued)

Zakat

The principal elements of the zakat base attributable to Saudi shareholders are as follows:

	31 December 2020 SR'000	*31 December 2019 SR'000*
Equity	**1,426,279**	1,359,542
Opening allowances and other adjustments	**3,004,359**	3,206,234
Book value of long term assets and other adjustments	**(4,649,696)**	(4,719,844)
	(219,058)	(154,068)
Zakatable results for the year	**174,544**	128,930
Zakat base	**174,544**	128,930
Zakat@2.5%	**4,364**	3,223

During the year, the zakat provision amounting to SR 4,364 thousand (2019: SR 3,223 thousand) was recorded by the Company. The difference between the financial and the results subject to zakat are mainly due to certain disallowances / claims made as per fiscal regulation.

Income tax

Saudi Arabian Oil Company (Saudi Aramco) directly holds 6.93% in the Saudi Electricity Company (SEC), a direct shareholder in the Company with 8% shareholding. Such shareholding is considered as subject to zakat beginning 1 January 2020 in light of the Royal Decree No. 153/M dated 05/11/1441H (26 June 2020) amending Article 2 of the income tax law.

Further, International Finance Corporation (IFC) disposed its 1.37% shareholding held through Shuqaiq International Water and Electricity Company (SIWEC) on 13 May 2020. The General Authority for Zakat and Tax ("GAZT") vide its letter no. 4954/16/1436 dated 16/7/1436H (5 May 2015) had previously advised that IFC is exempt from corporate income tax (CIT) and therefore, no CIT is applicable on IFC's share of adjusted profit in the Company.

The remaining 2.88% shareholding in the Company is represented by Arab Petroleum Investments Corporation (APICORP) whose share of adjusted profit/zakat base is exempt from tax and zakat. Accordingly, no CIT or zakat is applicable on APIORP's shareholding in the Company.

16 ZAKAT AND TAX (continued)

Deferred tax

Movement in deferred tax balances

The deferred tax asset/liability and deferred tax charge/credit in the statement of profit or loss and other comprehensive income are attributable to the following items:

2020	***Net balance at 1 January SR'000***	***Recognised in profit or loss SR'000***	***Recognised in OCI SR'000***	***Net balance at 31 December SR'000***	***Deferred tax assets SR'000***	***Deferred tax liabilities SR'000***
Property, plant and equipment	**(5,190)**	**5,190**	-	-	-	-
Employees' terminal benefits	**3**	**(3)**	-	-	-	-
Carry forward losses	**-**	**-**	-	-	-	-
Negative fair value of derivatives	**(516)**	**-**	**516**	-	-	-
Asset retirement obligation	**148**	**(148)**	-	-	-	-
	(5,555)	**5,039**	**516**	-	-	-

2019	*Net balance at 1 January SR'000*	*Recognised in profit or loss SR'000*	*Recognised in OCI SR'000*	*Net balance at 31 December SR'000*	*Deferred tax assets SR'000*	*Deferred tax liabilities SR'000*
Property, plant and equipment	(5,207)	17	-	(5,190)	-	(5,190)
Employees' terminal benefits	3	-	-	3	3	-
Carry forward losses	132	(132)	-	-	-	-
Negative fair value of derivatives	(523)	-	7	(516)	-	(516)
Asset retirement obligation	144	4	-	148	148	-
	(5,451)	(111)	7	(5,555)	151	(5,706)

16 ZAKAT AND TAX (continued)

Zakat and current tax provision for the year

The movement in zakat and tax provision for the year was as follows:

	Company		
	Zakat SR'000	*Tax SR'000*	*Total SR'000*
31 December 2020			
At beginning of the year	**3,339**	**163**	**3,502**
Charge for the year	**8,847**	**-**	**8,847**
Payments during the year	**(6,391)**	**(163)**	**(6,554)**
At end of the year	**5,795**	**-**	**5,795**
31 December 2019			
At beginning of the year	193	170	363
Charge for the year	3,223	163	3,386
Payments during the year	(77)	(170)	(247)
At end of the year	3,339	163	3,502

Status of assessments

The Company had filed zakat and income tax returns for the years up to 2019 with the General Authority of Zakat and Tax ("GAZT") and obtained provisional zakat certificates valid up to 30 April 2021.

The assessments for the years from 2007 up to 2015 have been raised by the GAZT. The GAZT and the Company concluded a mutual settlement in which the Company settled SR 4.6 million towards corporate tax and zakat. In respect of withholding tax ("WHT"), the GAZT raised a revised assessment for WHT of SR 39.2 million. The Company filed an appeal against WHT assessment which is under review of the first level appeal committee, Tax Violation and Dispute Resolution Committee (TVDRC) and the decision is awaited.

Further, the GAZT raised an assessment for the year 2018 claiming additional Zakat of SR 4 million and SR 1.1 million corporate tax (excluding delay fines). The Company has submitted an appeal against this assessment. The Company's appeal is under review of the first level appeal committee, Tax Violation and Dispute Resolution Committee (TVDRC) and the hearing is not yet scheduled.

Assessments for the years ended 31 December 2016, 2017 and 2019 have not yet been raised.

17 LEASES

The Company has lease contract in respect of the land lease. The land lease is for a term of 40 years and rental payments are fixed over the term of the lease. The Company pays annual rent of SR 1,716 thousand.

Set out below are the carrying amounts of right-of-use assets recognised and the movements during the year:

	31 December 2020 SR'000	*31 December 2019 SR'000*
At the beginning of the year*	**23,313**	24,567
Depreciation expenses	**(297)**	(1,254)
At the end of the year	**23,016**	23,313

*As at 1 January 2019, the Company has recognized right-of-use asset at the date of initial application equal to the lease liability at the date of initial application, adjusted by the amount of prepaid relating to that lease recognised in the statement of financial position immediately before the date of initial application.

17 LEASES (continued)

Set out below are the carrying amounts of lease liabilities and the movements during the year:

	31 December 2020 SR'000	*31 December 2019 SR'000*
At the beginning of the year	**24,305**	24,567
Accretion of interest	**1,438**	1,454
Payments*	**(1,716)**	(1,716)
At the end of the year	**24,027**	24,305
Current lease liability	**3,137**	3,154
Non-current lease liability	**20,890**	21,151

*Payment of lease liability includes repayment of principal portion of SR 1,716 thousand (31 December 2019: SR 1,716 thousand).

The maturity analysis of lease liabilities are disclosed in note 25.

18 REVENUE

This represents operating lease revenue and includes (i) Capacity payment for desalinated water and power, and (ii) Output payment for desalinated water and power. Capacity payments represent the major portion of the invoices issued during the year.

	31 December 2020 SR'000	*31 December 2019 SR'000*
Capacity payments	**721,732**	643,659
Output payments	**54,482**	51,951
Fuel payments	**1,246**	1,377
	777,460	696,987

Future minimum operating lease revenue by year are as follows:

	31 December 2020 SR'000	*31 December 2019 SR'000*
Within 1 year	**818,163**	795,385
1 – 5 years	**3,912,967**	3,126,919
Over 5 years	**3,221,974**	5,386,315
	7,953,104	9,308,619

The management has assumed certain reliability/availability factors to calculate the above mentioned future minimum lease operating revenue, which are determined from Capacity payments (excluding output payments). These future minimum lease payments are based upon current expectations, estimates and projections that are susceptible to risk and uncertainties which could cause actual results to differ from those anticipated by the management.

19 OPERATING COSTS

	31 December 2020 SR'000	*31 December 2019 SR'000*
Depreciation (note 6)	**168,819**	166,983
Operation and maintenance costs (note 9)	**135,459**	131,420
Repair and maintenance	**34,889**	5,933
Insurance costs	**20,791**	14,396
	359,958	318,732

20 GENERAL AND ADMINISTRATION EXPENSES

	31 December 2020 SR'000	*31 December 2019 SR'000*
Employee costs	**10,458**	10,603
Professional and consultancy fees	**6,489**	5,024
Annual management fee (note 9)	**3,438**	3,750
Training and seminar expenses	**2,801**	3,802
Depreciation (note 6 and 17)	**2,024**	2,984
Board meeting expenses	**1,906**	2,033
Withholding tax expense	**1,794**	3,232
Rent expense	**167**	167
Travel expenses	**123**	412
Repairs and maintenance expenses	**28**	121
Other expenses	**643**	324
	29,871	32,452

21 OTHER INCOME

	31 December 2020 SR'000	*31 December 2019 SR'000*
Insurance claim	**34,500**	43,161

22 EARNINGS PER SHARE

Earnings per share have been computed by dividing net profit for the year by the weighted average number of ordinary shares of 112,000,000 (31 December 2019: 112,000,000) outstanding during the year (note 10). The weighted average number of ordinary shares outstanding during the year is the number of ordinary shares outstanding at the beginning of the year, adjusted by the number of ordinary shares issued during the year multiplied by a time-weighting factor. The time weighting factor is the number of days that the shares are outstanding as a proportion of the total number of days in the year.

23 COMMITMENTS AND CONTINGENCIES

The Company has no contractual commitments for capital expenditure at the reporting date.

24 DIVIDENDS

On 6 December 2020, the Board of Directors of the Company approved the final cash dividend of SR 45 million (at SR 0.4 per share) which represents 4% of the Company's capital based on the General Assembly's consent to approve final cash dividend for the year ended 31 December 2020.

On 9 June 2020, the Board of Directors of the Company approved the interim cash dividend of SR 42.5 million (at SR 0.38 per share) which represents 3.8% of the Company's capital.

During the year, the Company paid dividends aggregating to SR 84.1 million net of zakat and income tax amounting to SR 3.4 million.

On 10 December 2019, the Board of Directors of the Company approved the final cash dividend of SR 28.5 million (at SR 0.25 per share) which represents 3% of the Company's capital based on the General Assembly's consent to approve final cash dividend for the year ended 31 December 2019.

On 10 June 2019, the Board of Directors of the Company approved the interim cash dividend of SR 56 million (at SR 0.5 per share) which represents 5% of the Company's capital.

25 FINANCIAL RISK MANAGEMENT

The Company's activities expose it to a variety of financial risks: market risk (including currency risk, fair value and cash flow interest rate risks), credit risk and liquidity risk. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Company's financial performance. Risk management is carried out by senior management. The most important types of risk are summarised below.

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and will cause the other party to incur a financial loss. The Company seeks to manage its credit risk with respect to customers by setting credit limits for individual customers and by monitoring outstanding receivables.

The table below shows the Company's maximum exposure to credit risk for components of the statement of financial position.

	31 December 2020 SR'000	*31 December 2019 SR'000*
Due from WEC	**138,174**	131,918
Other financial assets	**16,839**	79,662
Bank balances	**4,436**	5,582
	159,449	217,162

Bank balances

Credit risk on bank balances is limited as same are held with banks with sound credit ratings.

Trade receivables

The Company's exposure to credit risk on trade receivables is influenced mainly by the individual characteristics of each customer. The Company's only customer is a related party (WEC) and the sales revenue and receivable amount is set as per PWPA. The Company believes that the credit risk associated with this receivable is very low as management considers WEC as an entity related to the Government of Saudi Arabia.

25 FINANCIAL RISK MANAGEMENT (continued)

An impairment analysis is performed at each reporting date to measure expected credit losses. The calculation of expected credit losses reflect the probability-weighted outcome and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Considering the credit quality and no evidence of historical defaults, the Company has used a probability of default (PD) model with simplistic assumptions. The PD takes into consideration the credit risk with each of the counterparty with the percentage is derived from observable credit risk indicators. The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets disclosed above. The Company does not hold collateral as security.

Other financial assets

Other financial assets include accrued revenue, advances to employees and contractors and other receivables. There is no credit risk attached to advances to employees. Management believes that credit risk attached to other financial instruments is not significant and the Company expects to recover all such amounts fully at the stated carrying amounts.

Credit concentration

Except as disclosed above for trade receivables, no significant concentrations of credit risk were identified by the management as at the reporting date.

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from Company's inability to sell a financial asset quickly at an amount close to its fair value. The Company's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when they are due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to Company's reputation. Accordingly, the Company ensures that sufficient bank facilities and funding from related parties are available at all times.

The following are the remaining contractual maturities of financial liabilities at the reporting date. The amounts are gross and undiscounted and include contractual interest payments:

31 December 2020	*Within 3 months SR'000*	*3 months to 1 year SR'000*	*1 to 5 years SR'000*	*More than 5 years SR'000*	*Total SR'000*
Non-derivative financial liabilities					
Term financing*	**11,643**	**482,384**	**1,493,295**	**1,585,362**	**3,572,684**
Lease liabilities	**858**	**2,574**	**6,864**	**41,184**	**51,480**
Trade payables, accruals and other liabilities*	**94,485**	**-**	**-**	**-**	**94,485**
	106,986	**484,958**	**1,500,159**	**1,626,546**	**3,718,649**
Derivative financial liabilities					
Interest rate swaps used for hedging	**35,768**	**134,072**	**356,048**	**257,199**	**783,087**

25 FINANCIAL RISK MANAGEMENT (continued)

Liquidity risk (continued)

31 December 2019	*Within 3 months SR'000*	*3 months to 1 year SR'000*	*1 to 5 years SR'000*	*More than 5 years SR'000*	*Total SR'000*
Non-derivative financial liabilities					
Term financing*	33,440	373,538	1,488,275	1,851,876	3,747,129
Lease liabilities	366	2,788	12,434	8,717	24,305
Trade payables, accruals and other liabilities*	78,325	-	-	-	78,325
	112,131	376,326	1,500,709	1,860,593	3,849,759
Derivative financial liabilities					
Interest rate swaps used for hedging	17,757	68,061	205,401	209,036	500,255

*For the purpose of above disclosure, accrued finance charges are included within term financing.

The cash flows disclosed in the above table in respect of derivative represent contractual undiscounted cash flows relating to derivative financial liabilities held for risk management purposes and which are not usually closed out before contractual maturity.

The interest payments on variable interest rate loans included in the table above reflect market forward interest rates at the reporting date and these amounts may change as market interest rate changes.

Market risk

Market risk is the risk that changes in the market prices, such as foreign exchange rates and interest rates, will affect the Company's income or cash flows. The objective of market risk management is to manage and control market risk exposures within acceptable parameters while optimizing the return.

The Company uses derivatives to manage market risks. All such transactions are carried out in accordance with Company's policies and practices. Generally, the Company seeks to apply hedge accounting to manage volatility in profit or loss.

Currency risk

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. The Company is subject to fluctuations in foreign exchange rates in the normal course of its business. The Company neither has monetary assets or liabilities nor did it undertake significant transactions in currencies other than Saudi Riyals and US Dollars. Since Saudi Riyal is on a fixed parity with the US Dollar, the management believes that the Company does not have any significant exposure to currency risk.

Interest rate risk

Interest rate risk is the risk that the value of financial instruments will fluctuate due to changes in the market interest rates. The Company is subject to interest rate risk on term loans. The Company hedges long term interest rate sensitivities through hedge strategies, including use of derivative financial instruments and regularly monitors market interest rates.

The interest rate profile of the Company's interest bearing financial instruments as reported to the management of the Company is as follows:

	31 December 2020 SR'000	*31 December 2019 SR'000*
Variable rate instruments		
Financial liabilities	**3,263,446**	3,553,308

25 FINANCIAL RISK MANAGEMENT (continued)

Market risk (continued)

Interest rate risk (continued)
The Company does not account for any fixed rate interest bearing financial assets or financial liabilities at fair value and therefore the Company is not exposed to any fair value interest rate risk.

Sensitivity analysis
A reasonably possible change of 100 basis points in interest rates at the reporting date would have increased (decreased) profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency exchange rates, remain constant.

	Profit or loss	
	100 bps increase	***100 bps decrease***
31 December 2020		
Variable rate financial liabilities	**(32,634)**	**32,634**
Interest rate swaps	**28,271**	**(28,271)**
Net sensitivity	**(4,363)**	**4,363**
31 December 2019		
Variable rate financial liabilities	(35,533)	35,533
Interest rate swaps	35,321	(35,321)
Net sensitivity	(212)	212

Derivative assets and liabilities designated as cash flow hedges
The following table indicates the periods in which the cash flows associated with cash flow hedges are expected to occur and the carrying amounts of the related hedging instruments.

			Expected cash flows	
	Carrying amount	*Total*	*12 months or less*	*More than one year*
31 December 2020	*SR'000*	*SR'000*	*SR'000*	*SR'000*
Interest rate swaps				
Liabilities	**583,963**	**783,087**	**169,840**	**613,247**
31 December 2019				
Interest rate swaps				
Liabilities	469,753	500,253	85,817	414,436

26 FAIR VALUE OF FINANCIAL INSTRUMENTS

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 principal or the most advantageous market must be accessible by the Company.

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 that market participants act in their economic best interest.

When measuring the fair value of an asset or a liability, the Company uses observable market data as far as possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows.

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 – inputs other than quoted prices included in Level 1 that are observable for the assets or liabilities either directly (i.e. as prices) or indirectly (i.e. derived from prices)
- Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable input).

The following table shows an analysis of financial instruments measured at fair value by their level of fair value hierarchy:

	Carrying amount	*Fair Value*			
		Level 1	*Level 2*	*Level 3*	*Total*
	SR'000	*SR'000*	*SR'000*	*SR'000*	*SR'000*
As at 31 December 2020					
Fair value of derivatives	**583,963**	**-**	**583,963**	**-**	**583,963**
As at 31 December 2019					
Fair value of derivatives	469,753	-	469,753	-	469,753

Fair value of other financial instruments has been assessed by management to be approximate to their carrying amounts due to frequent re-pricing and/or their short-term nature.

Derivatives are valued using discounted cash flows approach which is effectively a present value of expected payments or receipts discounted using the risk adjusted discount rate or the market discount rate applicable for a recent comparable transaction.

27 IMPACT OF COVID 19

A novel strain of coronavirus ("COVID-19") was first identified at the end of December 2019, subsequently in March 2020 was declared as a pandemic by the World Health Organization ("WHO"). COVID-19 continues to spread throughout in nearly all regions around the world including the Kingdom of Saudi Arabia and resulted in travel restrictions and curfew in the cities which resulted in a slowdown of economic activities and shutdowns of many sectors at global and local levels.

The extent to which coronavirus pandemic impacts the Company's business, operations, and financial results, is uncertain and depends on many factors and future developments, that the Company may not be able to estimate reliably during the current period. These factors include the virus transmission rate, the duration of the outbreak, precautionary actions that may be taken by governmental authorities to reduce the spread of the epidemic and the impact of those actions on economic activity, the impact to the businesses of the Company's customers and partners and other factors.

27 IMPACT OF COVID 19 (continued)

As far and as of the date of preparation of the financial statements for the year ended 31 December 2020, the Company's operations have not incurred significant impact from the COVID-19 outbreak. The Company's management will continue to evaluate the nature and extent of the impact of COVID-19 on the Company's business and financial results.

28 EVENTS AFTER THE REPORTING PERIOD

No events have occurred subsequent to the reporting date and before the issuance of these financial statements which require adjustment or disclosure in these financial statements.

29 APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Board of Directors on 12 Sha'ban 1442H, corresponding to 25 March 2021.