

**ARABIAN DRILLING COMPANY  
(A LIMITED LIABILITY COMPANY)**

**CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2020  
AND INDEPENDENT AUDITOR'S REPORT**

**ARABIAN DRILLING COMPANY**  
**(A limited liability company)**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2020**

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## *Independent auditor's report to the shareholders of Arabian Drilling Company*

### *Report on the audit of the consolidated financial statements*

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#### *Our opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Arabian Drilling Company (the "Company") and its subsidiary (together the "Group") as at 31 December 2020, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards, that are endorsed in the Kingdom of Saudi Arabia, and other standards and pronouncements issued by the Saudi Organization for Chartered and Professional Accountants (SOCPA).

#### **What we have audited**

The Group's consolidated financial statements comprise:

- the consolidated statement of comprehensive income for the year ended 31 December 2020;
- the consolidated statement of financial position as at 31 December 2020;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

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#### *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 Consolidated Financial Statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### **Independence**

We are independent of the Group in accordance with the code of professional conduct and ethics, endorsed in the Kingdom of Saudi Arabia, that are relevant to our audit of the consolidated financial statements and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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#### *Responsibilities of management and those charged with governance for the consolidated financial statements*

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

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

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



## *Independent auditor's report to the shareholders of Arabian Drilling Company (continued)*

### *Auditor's responsibilities for the audit of the consolidated financial statements*

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

**PricewaterhouseCoopers**

Ashraf M. Al-Zamzami  
License number 587

26 April 2021

**ARABIAN DRILLING COMPANY**  
**(A limited liability company)**  
**Consolidated statement of comprehensive income**  
(All amounts in Saudi Riyals unless otherwise stated)

	Note	For the year ended 31 December	
		2020	2019
Revenue	4	<b>2,532,566,580</b>	2,814,276,018
Cost of revenue	5	<b>(2,009,468,847)</b>	(2,256,105,185)
Impairment losses	14	-	(19,270,462)
<b>Gross profit</b>		<b>523,097,733</b>	538,900,371
Impairment losses on financial assets	12	<b>(551,492)</b>	(17,145,265)
General and administrative expenses	6	<b>(123,800,061)</b>	(139,122,062)
Other operating gain/(loss) - net		<b>1,142,554</b>	(2,425,371)
<b>Operating profit</b>		<b>399,888,734</b>	380,207,673
Financial costs	7	<b>(62,717,145)</b>	(100,825,010)
Financial income	13	<b>927,214</b>	-
Financial costs - net		<b>(61,789,931)</b>	(100,825,010)
<b>Profit before zakat and income tax</b>		<b>338,098,803</b>	279,382,663
Zakat expense	23	<b>(10,478,495)</b>	(8,565,847)
Income tax expense	23	<b>(33,546,730)</b>	(40,397,020)
<b>Profit for the year</b>		<b>294,073,578</b>	230,419,796
<b>Other comprehensive (loss)/income</b>			
<i>Items that may be reclassified to profit or loss</i>			
Fair value changes in cash flow hedge	19	<b>(2,033,595)</b>	(17,356,036)
<i>Items that will not be reclassified to profit or loss</i>			
Remeasurements of employee benefit obligations	21	<b>2,577,062</b>	13,326,442
Impact of deferred tax	23	<b>(264,561)</b>	(1,368,092)
		<b>2,312,501</b>	11,958,350
<b>Other comprehensive income/(loss) for the year</b>		<b>278,906</b>	(5,397,686)
<b>Total comprehensive income for the year</b>		<b>294,352,484</b>	225,022,110

The accompanying notes are an integral part of these consolidated financial statements.

**ARABIAN DRILLING COMPANY**  
**(A limited liability company)**  
**Consolidated statement of financial position**  
(All amounts in Saudi Riyals unless otherwise stated)

		<b>As at 31 December</b>	
	<b>Note</b>	<b>2020</b>	<b>2019</b>
<b>Assets</b>			
<b>Non-current assets</b>			
Property and equipment	8	<b>5,562,212,065</b>	5,799,453,807
Intangible assets	9	<b>11,131,654</b>	16,882,989
Right-of-use assets	10	<b>4,756,548</b>	7,717,497
Mobilization cost	4	<b>4,971,840</b>	22,457,576
<b>Total non-current assets</b>		<b>5,583,072,107</b>	5,846,511,869
<b>Current assets</b>			
Inventories	11	<b>157,929,529</b>	167,256,887
Trade and other receivables	12	<b>532,049,622</b>	1,041,709,721
Mobilization cost	4	<b>20,538,699</b>	38,783,536
Cash and cash equivalents	13	<b>639,520,647</b>	221,272,841
		<b>1,350,038,497</b>	1,469,022,985
Non-current assets held for sale	14	<b>11,036,625</b>	11,036,625
<b>Total current assets</b>		<b>1,361,075,122</b>	1,480,059,610
<b>Total assets</b>		<b>6,944,147,229</b>	7,326,571,479
<b>Equity and liabilities</b>			
<b>Equity</b>			
Share capital	15	<b>22,580,000</b>	22,580,000
Additional paid-in capital	16	<b>97,420,800</b>	97,420,800
Statutory reserve	17	<b>18,883,921</b>	18,883,921
Fair value of cash flow hedge	19	<b>(15,132,817)</b>	(13,099,222)
Retained earnings		<b>3,788,414,614</b>	3,500,913,620
<b>Total equity</b>		<b>3,912,166,518</b>	3,626,699,119
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Long-term murabaha borrowings	20	<b>1,377,434,235</b>	1,735,479,305
Lease liabilities	10	<b>1,810,289</b>	4,777,821
Employee benefit obligations	21	<b>252,653,375</b>	247,625,526
Mobilization revenue	4	<b>14,423,771</b>	38,975,356
Deferred tax liability	23	<b>178,226,943</b>	153,500,764
Trade payable	22	<b>38,381,200</b>	16,000,801
Fair value of cash flow hedge	19	<b>15,132,817</b>	13,099,222
<b>Total non-current liabilities</b>		<b>1,878,062,630</b>	2,209,458,795

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**ARABIAN DRILLING COMPANY**  
**(A limited liability company)**  
**Consolidated statement of financial position** (continued)  
(All amounts in Saudi Riyals unless otherwise stated)

		<b>As at 31 December</b>	
	<b>Note</b>	<b>2020</b>	<b>2019</b>
<b>Current liabilities</b>			
Trade and other payables	22	<b>462,536,803</b>	622,383,097
Current portion of long-term murabaha borrowings	20	<b>639,622,887</b>	794,065,054
Current portion of lease liabilities	10	<b>3,028,614</b>	2,947,177
Mobilization revenue	4	<b>36,538,901</b>	62,470,450
Zakat payable	23	<b>12,190,876</b>	8,547,787
<b>Total current liabilities</b>		<b><u>1,153,918,081</u></b>	<u>1,490,413,565</u>
<b>Total liabilities</b>		<b><u>3,031,980,711</u></b>	<u>3,699,872,360</u>
<b>Total equity and liabilities</b>		<b><u>6,944,147,229</u></b>	<u>7,326,571,479</u>

The accompanying notes are an integral part of these consolidated financial statements.

**ARABIAN DRILLING COMPANY**  
**(A limited liability company)**  
**Consolidated statement of changes in equity**  
(All amounts in Saudi Riyals unless otherwise stated)

	Note	Industrialization and Energy Services Company - TAQA ("TAQA")	Services Petroliers Schlumberger S.A. ("SPS")	Total
<b>Share capital</b>				
31 December 2020 and 2019	15	11,515,800	11,064,200	<b>22,580,000</b>
<b>Additional paid-in capital</b>				
31 December 2020 and 2019	16	49,684,608	47,736,192	<b>97,420,800</b>
<b>Statutory reserve</b>				
31 December 2020 and 2019	17	9,630,800	9,253,121	<b>18,883,921</b>
<b>Fair value of cash flow hedge</b>				
1 January 2019		2,170,975	2,085,839	4,256,814
Fair value changes		(8,851,578)	(8,504,458)	(17,356,036)
31 December 2019	19	(6,680,603)	(6,418,619)	(13,099,222)
Fair value changes		(1,037,133)	(996,462)	<b>(2,033,595)</b>
<b>31 December 2020</b>	19	<b>(7,717,736)</b>	<b>(7,415,081)</b>	<b>(15,132,817)</b>
<b>Retained earnings</b>				
1 January 2019		1,734,489,600	1,563,949,905	3,298,439,505
Profit before zakat and income tax		142,485,158	136,897,505	279,382,663
Zakat and income tax	23	(10,396,108)	(38,566,759)	(48,962,867)
Profit for the year		132,089,050	98,330,746	230,419,796
Zakat and income tax reimbursable by shareholders	24	8,119,681	964,032	9,083,713
Gain on remeasurements of employee benefit obligations, (net of deferred tax)		6,734,501	5,223,849	11,958,350
Dividends	18	(24,983,749)	(24,003,995)	(48,987,744)
31 December 2019		1,856,449,083	1,644,464,537	3,500,913,620
Profit before zakat and income tax		172,430,390	165,668,413	<b>338,098,803</b>
Zakat and income tax	23	(11,998,392)	(32,026,833)	<b>(44,025,225)</b>
Profit for the year		160,431,998	133,641,580	<b>294,073,578</b>
Zakat and income tax reimbursable by shareholders	24	10,056,652	6,946,968	<b>17,003,620</b>
Gain on remeasurements of employee benefit obligations, net (of deferred tax)		1,302,316	1,010,185	<b>2,312,501</b>
Dividends	18	(13,203,240)	(12,685,465)	<b>(25,888,705)</b>
<b>31 December 2020</b>		<b>2,015,036,809</b>	<b>1,773,377,805</b>	<b>3,788,414,614</b>
<b>31 December 2020</b>		<b>2,078,150,281</b>	<b>1,834,016,237</b>	<b>3,912,166,518</b>
31 December 2019		1,920,599,688	1,706,099,431	3,626,699,119

The accompanying notes are an integral part of these consolidated financial statements.

**ARABIAN DRILLING COMPANY**  
**(A limited liability company)**  
**Consolidated statement of cash flows**  
(All amounts in Saudi Riyals unless otherwise stated)

		<b>For the year ended 31 December</b>	
	<b>Note</b>	<b>2020</b>	<b>2019</b>
<b>Cash flows from operating activities</b>			
Profit before zakat and income tax		<b>338,098,803</b>	279,382,663
<u>Adjustments for:</u>			
Depreciation	8, 10	<b>726,524,803</b>	620,148,619
Amortization	9	<b>5,751,335</b>	5,451,026
Impairment losses	14	-	19,270,462
Provision for employee benefit obligations	21	<b>34,144,832</b>	37,741,801
Write-off of property and equipment		-	1,621,838
Amortization of mobilization cost	4	<b>39,667,435</b>	51,422,626
Amortization of mobilization revenue	4	<b>(65,483,134)</b>	(81,645,615)
Financial costs	7	<b>62,717,145</b>	100,825,010
Financial income		<b>(927,214)</b>	-
<u>Changes in working capital:</u>			
Decrease/(increase) in inventories		<b>9,382,969</b>	(4,492,913)
Decrease/(increase) in trade and other receivables		<b>499,795,128</b>	(105,079,311)
Decrease in trade and other payables		<b>(123,324,696)</b>	(12,340,622)
Cash generated from operations		<b>1,526,347,406</b>	912,305,584
Mobilization cost paid	4	<b>(3,936,862)</b>	(21,231,816)
Mobilization revenue received	4	<b>15,000,000</b>	33,750,000
Zakat and income tax paid	23	<b>(8,944,978)</b>	(16,463,635)
Employee benefit obligations paid	21	<b>(26,539,921)</b>	(18,973,790)
Financial costs paid		<b>(66,889,516)</b>	(94,817,597)
Financial income received		<b>927,214</b>	-
<b>Net cash inflow from operating activities</b>		<b>1,435,963,343</b>	794,568,746
<b>Cash flows from investing activities</b>			
Payments for purchase of property and equipment	8	<b>(486,322,112)</b>	(568,030,738)
Payments for purchase of intangible assets	9	-	(2,376,934)
<b>Net cash outflow from investing activities</b>		<b>(486,322,112)</b>	(570,407,672)
<b>Cash flows from financing activities</b>			
Proceeds from long-term murabaha borrowings		-	560,271,413
Repayment of long-term murabaha borrowings		<b>(508,314,866)</b>	(604,482,146)
Principal element of lease payments		<b>(3,133,433)</b>	(2,788,150)
Dividends paid	18	<b>(19,945,126)</b>	(34,729,075)
<b>Net cash outflow from financing activities</b>		<b>(531,393,425)</b>	(81,727,958)
<b>Net increase in cash and cash equivalents</b>		<b>418,247,806</b>	142,433,116
Cash and cash equivalents at beginning of year		<b>221,272,841</b>	78,839,725
<b>Cash and cash equivalents at end of year</b>	13	<b>639,520,647</b>	221,272,841

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**ARABIAN DRILLING COMPANY**  
**(A limited liability company)**  
**Consolidated statement of cash flows** (continued)  
(All amounts in Saudi Riyals unless otherwise stated)

	Note	<b>For the year ended 31 December</b>	
		<b>2020</b>	<b>2019</b>
<b>Non-cash operating, investing and financing activities:</b>			
Right-of-use assets recorded against lease liabilities	10	-	10,513,148
Prepaid lease rentals adjusted against right-of-use assets	10	-	81,492
Zakat and income tax reimbursable from shareholders	24	<b>17,003,620</b>	<b>9,083,713</b>

The accompanying notes are an integral part of these consolidated financial statements.

## **ARABIAN DRILLING COMPANY**

**(A limited liability company)**

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

(All amounts in Saudi Riyals unless otherwise stated)

### **1 General information**

Arabian Drilling Company (the "Company" or "ADC") and its subsidiary (collectively the "Group") are principally engaged in the drilling of oil and natural gas wells, operations, maintenance and hauling of rigs and related activities.

The Company is a limited liability company licensed under foreign investment license number 2031047241 issued by The Ministry of Investment (previously Saudi Arabian General Investment Authority) on 18 Dhu-al-Hijja 1424 H (13 December 2003) and operating under commercial registration number 2051026089 issued in Dammam on 3 Safar 1423 H (16 April 2002). The registered address of the Company is P.O. Box 4110, Al-Khobar 31952, Kingdom of Saudi Arabia.

The accompanying consolidated financial statements include the accounts of the Company and its wholly-owned Saudi Arabian subsidiary, Ofsat Arabia LLC ("Ofsat").

Due to the spread of COVID-19 starting first quarter of 2020, the Group witnessed a decline in its revenues primarily because of a lower demand of crude oil which is the key driver of demand for services provided by the Group. Management of the Group believes that the situation has already improved during 2020 and expects the revenues to increase in 2021 as demand of crude oil recovers. The Group's management has also assessed other impacts of COVID-19 on its operations and has taken a series of proactive and preventative measures to ensure the health and safety of its employees and minimize the impact of the pandemic on its operations and continues to monitor and takes necessary steps to ensure the continuity of its operations as the situation evolves. Also see Note 8.

The accompanying consolidated financial statements were authorized for issue by the Company's Board of Directors on 26 April 2021.

### **2 Summary of significant accounting policies**

The principal accounting policies applied for the preparation of consolidated financial statements of the Group are set out below. These policies have been consistently applied to all years presented.

#### **2.1 Basis of preparation**

##### *(a) Statement of compliance*

These consolidated financial statements of the Group have been prepared in compliance with International Financial Reporting Standards ("IFRS"), that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by Saudi Organization for Chartered and Professional Accountants (SOCPA).

##### *(b) Historical cost convention*

These consolidated financial statements are prepared under the historical cost convention except for fair value of cash flow hedge, lease liabilities and employee benefit obligations as explained in the relevant accounting policies.

##### *(c) New and amended standards adopted by the Group*

A number of new or amended standards became applicable for the current reporting period but did not have any impact on the Group's accounting policies and accordingly did not require any retrospective adjustments.

## **ARABIAN DRILLING COMPANY**

### **(A limited liability company)**

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

(All amounts in Saudi Riyals unless otherwise stated)

#### *(d) Standards issued but not yet effective*

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2020 reporting periods and have not been early adopted by the Group. These standards are not expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

### **2.2 Basis of consolidation**

#### *(a) Subsidiary*

These consolidated financial statements comprise the financial statements of the Company and its subsidiary. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

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

The Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

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

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

Profit or loss and each component of other comprehensive income are attributed to the equity holders of the parent of the Group and to the non-controlling interests, if any. When necessary, adjustments are made to the financial statements of the subsidiary to bring its accounting policies in line with the Group's accounting policies.

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

- Derecognises the assets and liabilities of the subsidiary;
- Recognises the fair value of the consideration received;
- Recognises the fair value of any investment retained;
- Recognises any surplus or deficit in profit or loss; and
- Reclassifies the parent's share of component previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

#### *(b) Transactions eliminated on consolidation*

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

## **ARABIAN DRILLING COMPANY**

**(A limited liability company)**

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

(All amounts in Saudi Riyals unless otherwise stated)

### **2.3 Revenue**

Revenue is measured at the fair value of the consideration received or receivable in the ordinary course of the Group's activities. Revenue from performance of services is recognized in the accounting period in which the services are rendered. The Group has concluded that it is the principal in its revenue arrangement since it is the prime obligor and is exposed to credit risk.

The Group recognizes revenue based on a five-step model as set out in IFRS 15.

IFRS 15 requires that revenue is recognized from contracts with customers based on the following five step model as follows:

- Identification of contracts with customer;
- Identification of performance obligations in the contract;
- Determination of transaction price;
- Allocation of transaction price to performance obligations in the contract; and
- Recognition of revenue when the Company satisfies the performance obligation.

The Group has following revenue streams:

#### *(a) Drilling revenue*

Revenue against drilling services is recorded over time as the customers simultaneously receive and consume the related benefit, using the output method where the customers sign the service entry sheet for the month as acknowledgement of the receipt of services. The services are billed to the customers upon acknowledgement of the receipt of services.

#### *(b) Rig move revenue*

The Group provides services to the customer relating to relocation of rigs on the customer's instructions. Revenue against such services is recorded over time as the customer simultaneously receives and consumes the related benefit, using the output method where the customer signs the service entry sheet for the month as acknowledgement of the receipt of services. The services are billed to the customer upon acknowledgement of the receipt of services.

#### *(c) Mobilization revenue and cost*

Mobilization revenue represents fee for initial mobilization of rigs while mobilization cost represents the related costs incurred. These activities do not constitute delivery of a separate service to the customers but are necessary to fulfill the drilling services mentioned above.

Accordingly, mobilization revenue and mobilization cost are recognized as contract liabilities and contract assets, respectively, and are amortized over the term of the respective contracts with customers for drilling services.

#### *(d) Manpower sub-contracting and other revenue*

The Group sub-contracts its manpower to its customers based on pre-agreed unit rates. Revenue against such services is recorded over time, as the customer simultaneously receives and consumes the related benefit, using the output method where the customer signs the time sheet for the month as acknowledgement of the receipt of services. The services are billed to the customer upon acknowledgement of the receipt of services.

## **ARABIAN DRILLING COMPANY**

**(A limited liability company)**

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

(All amounts in Saudi Riyals unless otherwise stated)

### **2.4 Foreign currencies**

#### *(a) Functional and presentation currency*

Items included in the consolidated financial statements of the Group are measured using the currency of the primary economic environment in which the Group operates ("functional currency"). The Group's cash flows, financing and transactions occur in more than one currency. Since a significant portion of revenue and capital expenditure is denominated in USD, management believes that USD is the currency with the most influence over the Group's operations. Accordingly, USD is considered to be the functional currency of the Group.

Management has elected to prepare these consolidated financial statements in Saudi Riyals which is the Group's presentation currency and believes that there is no translation impact on these consolidated financial statements since Saudi Riyal is pegged to USD.

#### *(b) Transactions and balances*

Foreign currency transactions are translated into Saudi Riyals using exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at the period-end exchange rates of monetary assets and liabilities denominated in foreign currencies other than Saudi Riyals are recognized in profit or loss.

Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rate applicable at the date of the initial transactions.

### **2.5 Financial income**

Financial income is measured using the effective interest rate method, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset or a shorter period, where appropriate, to the net carrying amount of the financial asset.

### **2.6 Zakat and income taxes**

In accordance with the regulations of the General Authority of Zakat and Tax (the "GAZT"), the Group is subject to zakat attributable to the effective Saudi shareholding and to income tax attributable to the effective foreign shareholding in the Group. Provision for zakat and income tax is charged to profit or loss for the year. Additional amounts, if any, are accounted for when determined to be required for payment. Further, the amounts for zakat and income tax expense for the year are presented in the consolidated statement of changes in equity in accordance with the guidance issued by SOCPA for companies with mixed ownership in line with the terms of the agreement between the shareholders of the Company with zakat allocated to the Saudi shareholder and income tax allocated to the foreign shareholder.

All shares in the Saudi-resident companies held directly or indirectly by Saudi Arabian Oil Company ("Saudi Aramco") are subject to the Saudi Arabian Income Tax Law of 2004. Consequently, the Group is also subject to income tax for the indirect shareholding of 2.33% of Saudi Aramco, being a shareholder in TAQA, which is charged to profit or loss and allocated to TAQA in the consolidated statement of changes in equity.

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

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

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

### **2.7 Property and equipment**

Property and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses, if any. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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

Land is not depreciated as it is deemed to have an indefinite life.

Depreciation is calculated on property and equipment so as to allocate its cost, less estimated residual value, on a straight line basis over the estimated useful lives of the assets. The depreciation expense is recognized in profit or loss in the expense category consistent with the function of the property and equipment.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each annual reporting period. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in profit or loss. Major spare parts and stand-by equipment qualify for recognition as property and equipment when the Group expects to use them during more than one year. Transfers are made to relevant operating assets category as and when such items are available for use.

Assets in the course of construction or development are capitalised as construction-in-progress. The asset under construction or development is transferred to the appropriate category in property and equipment, once the asset is in a location and / or condition necessary for it to be capable of operating in the manner intended by management. The cost of an item of construction-in-progress comprises its purchase price, construction / development costs and any other directly attributable costs to the construction or acquisition of an item of construction-in-progress intended by management. Construction-in-progress is not depreciated.

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**2.8 Intangible assets**

Intangible assets represent software cost and are amortized using straight-line method over their estimated useful life of seven years.

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less accumulated amortization and accumulated impairment losses, if any. The useful lives of intangible assets are assessed to be either finite or indefinite.

Intangible assets with finite lives are amortized over the economic useful life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life is reviewed at least at the end of each annual reporting period. The amortization expense on intangible assets with finite useful lives is recognized in profit or loss in the expense category consistent with the function of the intangible asset.

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

**2.9 Leases**

***Lease liabilities***

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

To determine the incremental borrowing rate, the Group:

- where possible, uses recent third-party quotations which are adjusted to reflect changes in financing conditions since such quotations were received; and
- makes adjustments specific to the lease, for example lease term, country, currency and security.

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

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

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest rate method) and by reducing the carrying amount to reflect lease payments made.

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The Group re-measures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

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

### ***Right-of-use assets***

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

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

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

### **2.10 Non-current assets held for sale**

Non-current assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable. They are measured at the lower of their carrying amount and fair value less costs to sell.

An impairment loss is recognised for any initial or subsequent write-down of the asset to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset, but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the non-current asset is recognised at the date of derecognition.

Non-current assets are not depreciated or amortised while they are classified as held for sale. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale continue to be recognised.

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

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**2.11 Financial instruments**

**2.11.1 Financial assets**

*(i) Classification*

The Group's financial assets are classified and measured at amortised cost as such assets are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest.

*(ii) Recognition and derecognition*

At initial recognition, the Group measures financial assets at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transactions costs that are directly attributable to the acquisition of financial asset.

The Group derecognizes a financial asset when the contractual cash flows from the asset expire or it transfers its rights to receive contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognized as a separate asset or liability.

*(iii) Measurement*

Subsequent measurement of financial assets depends on the Group's business model for managing the assets and the cash flow characteristics of the assets. Assets that are held for collection of contractual cash flows where those cash flows represent solely payment of principal and interest are measured at amortised cost. A gain or loss on a financial instrument that is subsequently measured at amortized cost and is not part of the hedging relationship is recognized in profit or loss when the asset is derecognized or impaired. Interest income from these financial assets is calculated using the effective interest rate method.

**2.11.2 Financial liabilities**

All financial liabilities are recognised at the time when the Group becomes a party to the contractual provisions of the instrument. Financial liabilities are recognized initially at fair value less any directly attributable transaction cost. Subsequent to initial recognition, these are measured at amortized cost using the effective interest rate method.

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

**2.11.3 Derivative financial instruments and hedge accounting**

Derivatives are measured at fair value and any related transaction costs are recognised in profit or loss. When a derivative is designated as a cash flow hedging instrument, the effective portion of changes in the fair value of the derivative is recognised in other comprehensive income and accumulated in a separate reserve shown under equity. The amount accumulated in equity is reclassified to profit or loss in the period during which the hedged forecast cash flows affect profit or loss or the hedged item affects profit or loss. If the forecast transaction is no longer expected to occur, the hedge no longer meets the criteria for hedge accounting, the hedging instrument expires or is sold, terminated or exercised, or the designation is revoked, then hedge accounting is discontinued prospectively. If the forecast transaction is no longer expected to occur, then the amount accumulated in equity is reclassified to profit or loss.

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Hedge effectiveness is determined at the inception of the hedge relationship and periodically to ensure that an economic relationship exists between the hedged item and hedging instrument. The Group enters into hedge relationships where the critical terms of the hedging instrument match exactly with the terms of the hedged item. The Group performs a qualitative and quantitative assessment of effectiveness at each reporting date. The ineffective portion, if material, is recognized in profit or loss, within other operating income / (loss).

At inception of the hedge relationship, the Group documents the economic relationship between hedging instruments and hedged items including whether changes in the cash flows of the hedging instruments are expected to offset changes in the cash flows of hedged items. The Group documents its risk management objective and strategy for undertaking its hedge transactions.

The fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months; it is classified as a current asset or liability when the remaining maturity of the hedged item is less than 12 months.

**2.11.4 Offsetting financial assets and liabilities**

Financial assets and liabilities are offset and net amounts are reported in the consolidated financial statements, when the Group has a legally enforceable right to set off the recognized amounts and intends either to settle on a net basis, or to realize the assets and liabilities simultaneously.

**2.12 Impairment of financial and non-financial assets**

**2.12.1 Impairment of non-financial assets**

The Group assesses at each reporting date whether there is an indication that a non-financial asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or Cash Generating Unit's ("CGU") fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used.

Impairment losses of continuing operations are recognised in profit or loss in those expense categories consistent with the function of the impaired asset.

**2.12.2 Impairment of financial assets**

The Group assesses on a forward looking basis the expected credit losses associated with its financial assets carried at amortized cost.

For trade receivables and contract assets, the Group applies the simplified approach as permitted by IFRS 9, which requires expected lifetime losses to be recognised from the initial recognition of the related financial assets. The amount of loss is charged to profit or loss.

The loss rates are based on probability of default assigned by reputed credit rating agencies to the relevant credit rating of the Group's customers. The loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Group has identified the expected rate of increase in inflation for the upcoming year in the Kingdom of Saudi Arabia as the most relevant factor, and accordingly adjusts the loss rates based on such expected changes

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Trade receivables and contract assets are written-off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, significant decrease in credit worthiness of the customer, the failure of the customer to engage in a repayment plan with the Group, and a failure to make contractual payments for a period of greater than 730 days past due.

### **2.13 Inventories**

Inventories principally represent spare parts and consumables, which are stated at cost. Spare parts and consumables are stated at cost. Cost is determined using the weighted average method. At each reporting date, spare parts and consumables are assessed for impairment. If spare parts and consumables are impaired, their carrying amount is reduced to written down value; the impairment losses are recognised immediately in profit or loss. Provision for slow-moving inventories is made considering various factors including age of the inventory items, historic usage and expected utilization in future.

### **2.14 Trade receivables**

Trade receivables are amounts due from customers for the services performed in the ordinary course of business. If collection is expected in one year or less, they are classified as current assets. If not, they are presented as non-current assets. Trade receivables are recognized initially at fair value and subsequently measured at amortised cost using the effective interest rate method, less allowance for ECL.

### **2.15 Cash and cash equivalents**

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

### **2.16 Share capital**

Ordinary shares are classified as equity.

### **2.17 Trade payables**

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

### **2.18 Borrowings**

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

Borrowings are removed from the consolidated statement of financial position when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in consolidated statement of comprehensive income as other income or finance costs. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least twelve months after the reporting period.

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#### **2.19 Borrowing costs**

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

#### **2.20 Employee benefit obligations**

The Company and its subsidiary operate their respective single post-employment benefit schemes of defined benefit plan driven by the labor laws and workman laws of the Kingdom of Saudi Arabia which are based on employee's most recent salary and number of service years.

The post-employment benefits plans are not funded. Accordingly, valuations of the obligations under the plans are carried out by an independent actuary based on the projected unit credit method. The costs relating to such plans 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.

Current and past service costs related to post-employment benefits and unwinding of liability at discount rates used are recognized immediately in profit or loss.

Re-measurement gains and losses arising from experience adjustments and changes in actuarial assumptions are recognized directly in other comprehensive income and transferred to retained earnings in the consolidated statement of changes in equity in the period in which they occur.

Changes in the present value of the defined benefit obligations resulting from plan amendments or curtailments are recognized immediately in profit or loss as past service costs. End of service payments are based on employees' final salaries and allowances and their cumulative years of service, as stated in the labor law of Saudi Arabia.

#### **2.21 Dividends**

Dividends are recorded in the consolidated financial statements in the period in which they are approved by shareholders of the Company.

### **3 Critical accounting estimates and judgements**

The preparation of consolidated financial statements in conformity with IFRS requires the use of certain critical estimates and judgments that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the reporting date and the reported amounts of revenue and expenses during the reporting period. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Group makes estimates and judgments concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates that have a risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next twelve month period are discussed below:

#### *(a) Employee benefit obligations*

Management has adopted certain actuarial assumptions for valuation of present value of employee benefit obligations based on actuarial advice. For further details see Note 21.

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*(b) Impairment of property and equipment*

Management, in accordance with the accounting policy stated in 2.11.1, tests assets or CGUs for impairment whenever impairment indicators exist. Among others, the events or changes in circumstances which could indicate that an asset or CGU may be impaired mainly include the following:

- A significant decrease in the market prices of services rendered by the Group;
- A significant change in the extent or manner in which an asset is being used or in its physical condition including a significant decrease in current and projected future cash inflows; and
- A current-period operating loss combined with a history and forecast of operating or cash flow losses.

Management determines the recoverable amount of the assets based on value-in-use calculations. These calculations require the use of estimates in relation to the future cash flows and use of an appropriate discount rate applicable to the circumstances of the Group.

Future events could cause the estimates used in these value-in-use calculations to change adversely with a consequent effect on the future results of the Group. Management has performed a sensitivity analysis around the estimates. There are no estimates to which a reasonably possible change may cause the carrying value to exceed the recoverable value of the assets resulting in an impairment loss in future periods. Also see Note 8.

*(c) Useful lives of property and equipment*

The Group management determines the estimated useful lives of property and equipment for computing depreciation. This estimate is determined after considering expected usage of the assets or physical wear and tear. Residual value and useful lives are reviewed annually and future depreciation charges are adjusted where the useful lives differ from previous estimates. See Note 8 for the estimated useful lives of the property and equipment. At 31 December 2020, if the useful lives varied by 10% against the current useful lives with all other variables held constant, the impact on profit for the year would have been Saudi Riyals 72.4 million.

**4 Revenue**

	Note	2020	2019
Drilling revenue		1,962,704,174	2,230,817,715
Rig move revenue		451,920,281	436,288,837
Mobilization revenue	4.1	65,483,134	81,645,615
Manpower sub-contracting and other revenue		52,458,991	65,523,851
		<u>2,532,566,580</u>	<u>2,814,276,018</u>

The Group does not expect to have any contracts where the period between the transfer of the promised services to the customer and payment by the customer exceeds one year except for contractual retentions, and accordingly, the transaction prices are not adjusted for the time value of money. As per the contracts with the customers, there is no financing, non-cash consideration and consideration payable to customer involved in the transaction price.

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**4.1 Mobilization revenue**

	<b>2020</b>	<b>2019</b>
<b>Revenue</b>		
1 January	<b>699,751,503</b>	666,001,503
Additions	<b>15,000,000</b>	33,750,000
Terminations	<b>(383,618,253)</b>	-
31 December	<b>331,133,250</b>	699,751,503
<b>Accumulated amortization</b>		
1 January	<b>(598,305,697)</b>	(516,660,082)
Additions	<b>(65,483,134)</b>	(81,645,615)
Terminations	<b>383,618,253</b>	-
31 December	<b>(280,170,578)</b>	(598,305,697)
	<b>50,962,672</b>	101,445,806

Mobilization revenue is presented in the accompanying consolidated statement of financial position as follows:

Current portion	<b>36,538,901</b>	62,470,450
Non-current portion	<b>14,423,771</b>	38,975,356
	<b>50,962,672</b>	101,445,806

**4.2 Mobilization cost**

	<b>2020</b>	<b>2019</b>
<b>Cost</b>		
1 January	<b>343,339,209</b>	322,107,393
Additions	<b>3,936,862</b>	21,231,816
Terminations	<b>(153,369,788)</b>	-
31 December	<b>193,906,283</b>	343,339,209
<b>Accumulated amortization</b>		
1 January	<b>(282,098,097)</b>	(230,675,471)
Additions	<b>(39,667,435)</b>	(51,422,626)
Terminations	<b>153,369,788</b>	-
31 December	<b>(168,395,744)</b>	(282,098,097)
	<b>25,510,539</b>	61,241,112

Mobilization cost is presented in the accompanying consolidated statement of financial position as follows:

Current portion	<b>20,538,699</b>	38,783,536
Non-current portion	<b>4,971,840</b>	22,457,576
	<b>25,510,539</b>	61,241,112

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**5 Cost of revenue**

	Note	2020	2019
Salaries, wages and benefits		<b>945,858,394</b>	1,134,861,249
Depreciation	8, 10	<b>718,170,854</b>	612,764,789
Maintenance and material consumed		<b>103,565,425</b>	209,565,011
Rent		<b>148,886,285</b>	199,829,526
Mobilization cost	4.2	<b>39,667,435</b>	51,422,626
Rig move expense		<b>22,716,934</b>	12,261,673
Other		<b>30,603,520</b>	35,400,311
		<b><u>2,009,468,847</u></b>	<b><u>2,256,105,185</u></b>

**6 General and administrative expenses**

	Note	2020	2019
Salaries and benefits		<b>77,082,391</b>	89,367,608
Professional services		<b>6,233,638</b>	16,232,145
Depreciation	8, 10	<b>8,186,337</b>	7,383,830
Amortization	9	<b>5,751,335</b>	5,451,026
Office supplies		<b>2,995,961</b>	4,123,144
Other		<b>23,550,399</b>	16,564,309
		<b><u>123,800,061</u></b>	<b><u>139,122,062</u></b>

**7 Financial costs**

	Note	2020	2019
Financial costs on murabaha loans		<b>46,773,353</b>	94,578,714
Financial costs on derivatives		<b>14,331,780</b>	2,465,251
Financial costs on lease liabilities	10	<b>247,338</b>	357,910
Other financial costs		<b>1,364,674</b>	3,423,135
		<b><u>62,717,145</u></b>	<b><u>100,825,010</u></b>

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**8 Property and equipment**

	<b>1 January</b>	<b>Additions</b>	<b>Transfers</b>	<b>31 December</b>
<b>Cost</b>				
Land	88,236,250	-	-	88,236,250
Buildings and portable cabins	86,182,702	-	-	86,182,702
Rig, machinery and equipment	10,351,408,275	-	537,375,408	10,888,783,683
Furniture, fixtures and office equipment	105,967,235	-	72,244	106,039,479
Vehicles and trucks	159,020,083	-	-	159,020,083
Construction-in-progress	193,434,558	486,322,112	(537,447,652)	142,309,018
	<u>10,984,249,103</u>	<u>486,322,112</u>	<u>-</u>	<u>11,470,571,215</u>
<b>Accumulated depreciation and impairment</b>				
Buildings and portable cabins	(17,927,516)	(2,347,423)	-	(20,274,939)
Rig, machinery and equipment	(5,035,681,767)	(689,248,674)	-	(5,724,930,441)
Furniture, fixtures and office equipment	(47,696,410)	(7,878,698)	-	(55,575,108)
Vehicles and trucks	(83,489,603)	(24,089,059)	-	(107,578,662)
	<u>(5,184,795,296)</u>	<u>(723,563,854)</u>	<u>-</u>	<u>(5,908,359,150)</u>
<b>Net book value</b>	<u>5,799,453,807</u>			<u>5,562,212,065</u>

The Group has identified the spread of COVID-19 and the decline in global prices of crude oil, which have an impact on the prices of the Group's services, as an impairment indicator and has determined the recoverable amounts of all CGUs based on value-in-use calculations. Based on the value-in-use calculations the recoverable amounts of all CGUs exceeded their carrying amounts and no impairment loss was identified. These calculations require the use of estimates in relation to the future cash flows and use of an appropriate discount rate and terminal growth rate applicable to the circumstances of the Company.

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	<b>2019</b>	<b>1 January</b>	<b>Additions</b>	<b>Disposals/ transfers</b>	<b>31 December</b>
<b>Cost</b>					
Land		88,236,250	-	-	88,236,250
Buildings and portable cabins		79,847,613	-	6,335,089	86,182,702
Rig, machinery and equipment		9,366,276,115	4,500,000	980,632,160	10,351,408,275
Furniture, fixtures and office equipment		91,421,854	74,930	14,470,451	105,967,235
Vehicles and trucks		158,485,443	1,437,500	(902,860)	159,020,083
Construction-in-progress		676,537,431	562,018,308	(1,045,121,181)	193,434,558
		<u>10,460,804,706</u>	<u>568,030,738</u>	<u>(44,586,341)</u>	<u>10,984,249,103</u>
<b>Accumulated depreciation and impairment</b>					
Buildings and portable cabins		(15,580,093)	(2,347,423)	-	(17,927,516)
Rig, machinery and equipment		(4,458,779,369)	(588,353,922)	11,451,524	(5,035,681,767)
Furniture, fixtures and office equipment		(41,398,720)	(6,318,640)	20,950	(47,696,410)
Vehicles and trucks		(64,140,972)	(20,251,491)	902,860	(83,489,603)
		<u>(4,579,899,154)</u>	<u>(617,271,476)</u>	<u>12,375,334</u>	<u>(5,184,795,296)</u>
<b>Net book value</b>		<u>5,880,905,552</u>			<u>5,799,453,807</u>

a) Construction-in-progress at 31 December 2020 principally represent costs incurred on procurement and construction of certain rigs, wheel loaders and renovation of base camp which are expected to complete in 2021.

b) Depreciation is charged to profit or loss over the following estimated economic useful lives:

	<b>Number of years</b>
• Buildings and portable cabins	10 - 33
• Rig, machinery and equipment	7 - 20
• Furniture, fixtures and office equipment	7
• Vehicles and trucks	4 - 7

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**9 Intangible assets**

	<b>2020</b>	<b>2019</b>
<b>Cost</b>		
1 January	<b>28,739,623</b>	26,059,657
Additions	-	2,376,934
Transfer	-	303,032
31 December	<b>28,739,623</b>	28,739,623
<b>Accumulated amortization</b>		
1 January	<b>(11,856,634)</b>	(6,384,658)
Additions	<b>(5,751,335)</b>	(5,451,026)
Transfer	-	(20,950)
31 December	<b>(17,607,969)</b>	(11,856,634)
<b>Net book value</b>		
31 December	<b>11,131,654</b>	16,882,989

**10 Leases**

**10.1 Right-of-use assets**

	<b>Vehicles</b>	<b>Warehouse</b>	<b>Total</b>
<b>2020</b>			
<b>Cost</b>			
1 January and 31 December	8,657,521	1,937,119	<b>10,594,640</b>
<b>Accumulated depreciation</b>			
1 January	(2,473,577)	(403,566)	<b>(2,877,143)</b>
Depreciation for the year	(2,473,577)	(487,372)	<b>(2,960,949)</b>
31 December	(4,947,154)	(890,938)	<b>(5,838,092)</b>
<b>Net book value</b>			
At 31 December 2020	<b>3,710,367</b>	<b>1,046,181</b>	<b>4,756,548</b>
<b>2019</b>			
<b>Cost</b>			
1 January	-	-	-
Additions	8,657,521	1,937,119	10,594,640
31 December	8,657,521	1,937,119	10,594,640
<b>Accumulated depreciation</b>			
1 January	-	-	-
Depreciation for the year	(2,473,577)	(403,566)	(2,877,143)
31 December	(2,473,577)	(403,566)	(2,877,143)
<b>Net book value</b>			
At 31 December 2019	6,183,944	1,533,553	7,717,497

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**10.2 Lease liabilities**

**Lease liabilities**

	<b>2020</b>	<b>2019</b>
At 1 January	7,724,998	-
Additions	-	10,513,148
Repayments	<b>(3,133,433)</b>	<b>(3,146,060)</b>
	<b>4,591,565</b>	7,367,088
Financial costs	<b>247,338</b>	357,910
At 31 December	<b>4,838,903</b>	7,724,998

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

Non-current portion	<b>1,810,289</b>	4,777,821
Current maturity	<b>3,028,614</b>	2,947,177
	<b>4,838,903</b>	7,724,998

Future financial costs on lease liabilities amounts to Saudi Riyals 0.4 million.

*i) Amounts recognised in profit and loss*

	<b>2020</b>	<b>2019</b>
<b>Depreciation charge of right-of-use assets</b>		
Cost of revenue	<b>2,545,628</b>	2,473,577
General and administrative expenses	<b>415,321</b>	403,566
	<b>2,960,949</b>	2,877,143

*ii) Amounts presented in the consolidated statement of cash flows*

The total cash outflow for leases is Saudi Riyals 3.1 million (2019: Saudi Riyals 3.1 million).

*iii) Additional information about the Group's leasing activities*

The Group has leases in respect of various parcels of warehouse facility and vehicles. Rental contracts are typically made for fixed periods but may have extension options.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants. Leased assets may not be used as security for borrowing purposes.

Extension and termination options are included to maximise operational flexibility in terms of managing the assets used in the Group's operations. The majority of extension options held are exercisable only by mutual agreement of the Group and the respective lessor.

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*iv) Other amounts recognised in profit and loss*

Expense relating to short-term leases for the year ended 31 December 2020 amounted to Saudi Riyals 1.3 million (2019: Saudi Riyals 1.3 million).

**11 Inventories**

	<b>2020</b>	<b>2019</b>
Spare parts and supplies, held not for sale	<b>178,228,395</b>	187,500,142
Less: provision for slow-moving inventories	<b>(20,298,866)</b>	(20,243,255)
	<b>157,929,529</b>	167,256,887

Movement in provision for slow-moving inventories is as follows:

	<b>2020</b>	<b>2019</b>
1 January	<b>20,243,255</b>	10,710,360
Additions	<b>3,247,522</b>	9,532,895
Write-offs	<b>(3,191,911)</b>	-
31 December	<b>20,298,866</b>	20,243,255

**12 Trade and other receivables**

	<b>Note</b>	<b>2020</b>	<b>2019</b>
<b>Trade:</b>			
Billed		<b>129,571,397</b>	227,952,435
Unbilled		<b>98,886,057</b>	187,848,913
Related party	24	<b>249,971,475</b>	320,192,585
Retentions receivable		<b>2,506,687</b>	250,544,504
Less: allowance for ECL		<b>(10,254,746)</b>	(30,652,305)
		<b>470,680,870</b>	955,886,132
Prepayments		<b>24,167,402</b>	30,303,414
Value added tax refundable		-	14,155,954
Advance income tax - net	23	<b>9,509,751</b>	16,241,444
Other		<b>27,691,599</b>	25,122,777
		<b>532,049,622</b>	1,041,709,721

Movement in allowance for ECL is as follows:

	<b>Note</b>	<b>2020</b>	<b>2019</b>
1 January		<b>30,652,305</b>	13,507,040
Additions, net of reversals		<b>551,492</b>	17,145,265
Write-offs	24	<b>(20,949,051)</b>	-
31 December		<b>10,254,746</b>	30,652,305

**ARABIAN DRILLING COMPANY****(A limited liability company)****Notes to the consolidated financial statements for the year ended 31 December 2020**

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- (a) The Group applies the simplified approach to measure expected credit losses which uses a lifetime expected loss allowance for all trade receivables.

To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables.

- (b) Customers are allowed credit period from the invoice date ranging from 30 to 60 days based on the agreed terms with the customer. These relate to a number of corporate customers from whom there is no history of default. The aging analysis of these trade receivable is as follows:

	<b>2020</b>	<b>2019</b>
Not due	<b>368,250,702</b>	221,315,934
Over due up to 90 days	<b>87,113,897</b>	668,543,378
Over due for a period between 91 to 180 days	<b>2,507,627</b>	20,933,549
Over due for a period between 181 to 365 days	<b>462,742</b>	32,078,079
Over due for a period between 366 to 730 days	<b>17,156,991</b>	33,550,665
Over 730 days	<b>5,443,657</b>	10,116,832
	<b>480,935,616</b>	986,538,437

The Group considers any trade receivables overdue for more than 730 days to be in default and are accordingly fully provided for. The loss rates for the ageing brackets are not significant.

- (c) The other classes within trade and other receivable do not contain impaired assets. The maximum exposure to the credit risk at the reporting date is the carrying amount of each class of receivable.
- (d) The Group does not hold any collateral as security.

**13 Cash and cash equivalents**

	<b>2020</b>	<b>2019</b>
Cash in hand	<b>90,530</b>	40,797
Cash at bank	<b>469,430,117</b>	221,232,044
Murabaha deposits	<b>170,000,000</b>	-
	<b>639,520,647</b>	221,272,841

Murabaha deposits are held with local and foreign banks and yield financial income at prevailing market rates based on Saudi Interbank Offered Rate ("SIBOR"). Murabaha deposits are denominated in Saudi Riyals.

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**14 Non-current assets held for sale**

During 2019, based on the approval of the Company's Board of Directors, the Company initiated a plan to actively seek buyers for two rigs previously classified under construction work-in-progress. Accordingly, such rigs are classified as non-current assets held for sale and are carried at their fair value less cost to sell resulting in a write-down of Saudi Riyals 19.3 million to their carrying values in 2019. There has been no change in the estimate of fair value less cost to sell during the year ended 2020. The carrying amount, fair value less cost to sell and the resultant impairment losses as at 31 December 2020 and 2019 are as follows:

<b>Rig number</b>	<b>Carrying Amount</b>	<b>Fair value less cost to sell</b>	<b>Impairment losses</b>
AD 90	15,108,906	5,518,313	9,590,593
AD 100	15,198,181	5,518,312	9,679,869
	<b>30,307,087</b>	<b>11,036,625</b>	<b>19,270,462</b>

**15 Share capital**

The share capital of the Company as of 31 December consisted of 225,800 shares stated at Saudi Riyals 100 per share as follows:

<b>Shareholder</b>	<b>Country of incorporation</b>	<b>Shareholding percentage</b>	
		<b>2020</b>	<b>2019</b>
TAQA	Kingdom of Saudi Arabia	51	51
SPS	France	49	49
		<b>100</b>	<b>100</b>

**16 Additional paid-in capital**

This represents funding provided by the Company's shareholders in proportion to their shareholding. The balance does not have a repayment profile, does not bear any financial costs and is repayable at the discretion of the Company.

**17 Statutory reserve**

In accordance with the Company's Articles of Association and the Regulations for Companies in the Kingdom of Saudi Arabia, the Company is required to maintain a statutory reserve equal to a minimum of 30% of its share capital. The statutory reserve in the accompanying consolidated financial statements is the statutory reserve of the Company. This reserve currently is not available for distribution to the shareholders of the Company.

**18 Dividends payable**

	<b>2020</b>	<b>2019</b>
1 January	14,141,199	34,729,075
Dividend approved in shareholders' meeting held on 26 May 2020	25,888,707	-
Dividend approved in shareholders' meeting held on 18 March 2019	-	48,987,744
Dividends paid	(19,945,126)	(34,729,075)
Dividends adjusted against zakat and income tax reimbursable	(20,084,780)	(34,846,545)
31 December	-	14,141,199

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**19 Fair value of cash flow hedge**

The Group entered into an interest rate swap arrangement designated as a cash flow hedge instrument to cover cash flow fluctuations arising from variable interest rate murabaha loans. The interest rate swap results in the Group receiving floating Saudi Interbank Offer Rate ("SIBOR") while paying a fixed rate of interest under certain conditions. As per Group policy, derivative instruments are not used for trading or speculative purposes.

The fair value of the derivative is calculated using a discounted cash flow analysis and is accordingly categorized in Level 3 of the fair value hierarchy. Significant market data used as input for such valuation includes interest rate (SIBOR) curves. At 31 December 2020, the impact of a reasonably expected change in the interest rate (SIBOR) curves is not expected to be material.

At 31 December 2020, the carrying amount and fair value of the hedging instrument is Saudi Riyals 15.1 million (2019: Saudi Riyals 13.1 million). There were no transfers between levels of fair value hierarchy during the period.

**20 Long-term murabaha borrowings**

	<b>2020</b>	<b>2019</b>
Murabaha borrowings	<b>2,009,027,537</b>	2,517,342,403
Add: accrued financial costs	<b>8,029,585</b>	12,201,956
	<b>2,017,057,122</b>	2,529,544,359
Less: current portion presented under current liabilities	<b>(639,622,887)</b>	(794,065,054)
	<b>1,377,434,235</b>	1,735,479,305

The Group has long-term murabaha facility agreements with four local commercial banks with a total facility of Saudi Riyals 3.53 billion to finance the capital expenditure and working capital requirements of the Company. These loans bear financial costs based on prevailing market rates which are based on SIBOR. The aggregate outstanding maturities of the loans based on their respective repayment schedules, are spread in 2021 through 2026. The loans are secured principally by the assignment of certain trade receivables. The covenants of the borrowing facilities require the Company to maintain certain level of financial conditions and certain other requirements. At 31 December 2020, the Group was in compliance of the covenants of the borrowing facilities.

During 2020, ADC signed an amendment agreement with one of the commercial banks to reschedule loan repayments amounting to Saudi Riyals 295.5 million from 2020 and 2021 to 2021 and 2022. The rescheduling did not result in substantial modification of the terms of the loan agreement.

**Maturity profile of long-term murabaha borrowings**

	<b>2020</b>	<b>2019</b>
Years ending 31 December:		
2020	-	794,065,054
2021	<b>639,622,887</b>	619,943,452
2022	<b>549,129,014</b>	477,452,380
2023	<b>430,537,364</b>	240,225,610
2024	<b>176,785,714</b>	176,695,710
2025	<b>176,785,714</b>	176,785,714
2026	<b>44,196,429</b>	44,376,439
	<b>2,017,057,122</b>	2,529,544,359

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**21 Employee benefit obligations****21.1 General description of the plan**

The Group operates a defined benefit plan in line with the labor law requirement in the Kingdom of Saudi Arabia. The end of service benefit payments under the plan are based on the employees' final salaries and allowances and their cumulative years of service at the date of their termination of employment, as defined by the conditions stated in the labor laws of the Kingdom of Saudi Arabia. Employees' end of service benefit plan is an unfunded plan and the benefit payment obligations are met when they fall due upon termination of or resignation from employment. The latest valuation of employee benefit obligations under the projected unit credit method was carried out by an independent actuary as at 31 December 2020.

**21.2 Movement in net liability recognized in the consolidated statement of financial position**

	<b>2020</b>	<b>2019</b>
1 January	<b>247,625,526</b>	242,183,957
Current service cost	<b>28,285,943</b>	27,182,836
Interest expense	<b>5,858,889</b>	10,558,965
Payments	<b>(26,539,921)</b>	(18,973,790)
Remeasurements	<b>(2,577,062)</b>	(13,326,442)
31 December	<b>252,653,375</b>	247,625,526

**21.3 Amounts recognised in the consolidated statement of comprehensive income**

	<b>2020</b>	<b>2019</b>
Current service cost	<b>28,285,943</b>	27,182,836
Interest expense	<b>5,858,889</b>	10,558,965
<b>Total amount recognised in profit or loss</b>	<b>34,144,832</b>	37,741,801
<u>Remeasurements</u>		
Gain due to experience adjustments	<b>(2,577,062)</b>	(13,326,442)
<b>Total amount recognised in comprehensive income</b>	<b>(2,577,062)</b>	(13,326,442)

**21.4 Key actuarial assumptions**

	<b>2020</b>	<b>2019</b>
Discount rate	<b>2.5%</b>	2.5%
Salary growth rate	<b>2.0%</b>	2.0%

**21.5 Sensitivity analysis for actuarial assumptions**

	<b>Change in assumption</b>		<b>Impact on employee benefit obligations</b>	
	Increase in assumption	Decrease in assumption	Increase in assumption	Decrease in assumption
Discount rate	1%	1%	(18,767,943)	21,674,256
Salary growth rate	1%	1%	22,429,412	(19,820,682)

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

**21.6 Expected maturity analysis**

The weighted average duration of the defined benefit obligation is 6 to 8 years (2019: 6 to 8 years). The expected maturity analysis of undiscounted post-employment benefits is as follows:

	<b>Less than a year</b>	<b>Between 1 - 2 years</b>	<b>Between 2 - 5 years</b>	<b>Over 5 years</b>	<b>Total</b>
31 December 2020	<b>28,554,356</b>	<b>28,119,175</b>	<b>79,200,270</b>	<b>508,145,593</b>	<b>644,019,394</b>
31 December 2019	26,288,162	30,216,074	79,115,389	519,788,466	655,408,091

**22 Trade and other payables**

	<b>Note</b>	<b>2020</b>	<b>2019</b>
Trade payable		<b>219,004,705</b>	282,670,399
Less: non-current trade payable		<b>(38,381,200)</b>	(16,000,801)
		<b>180,623,505</b>	266,669,598
Accrued expenses		<b>260,828,978</b>	328,004,253
Dividends payable	18	-	14,141,199
Due to related parties	24	-	12,115,631
Value added tax payable		<b>20,312,656</b>	-
Other		<b>771,664</b>	1,452,416
		<b>462,536,803</b>	622,383,097

**23 Zakat and income tax matters**

**23.1 Components of zakat base**

The Company and its Subsidiary file their zakat and income tax declaration on an unconsolidated basis. The significant components of the zakat base of the Company, under zakat and income tax regulations, are principally comprised of shareholders' equity, provisions at the beginning of year, long-term murabaha borrowings and adjusted profit, less deduction for the net book value of property and equipment and certain other items.

**23.2 Income tax expense**

	<b>2020</b>	<b>2019</b>
Current tax	<b>9,085,112</b>	1,271,842
Deferred tax charged to profit or loss	<b>24,461,618</b>	39,125,178
	<b>33,546,730</b>	40,397,020
Deferred tax charged to other comprehensive income	<b>264,561</b>	1,368,092
	<b>33,811,291</b>	41,765,112

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**23.3 Provision for zakat and income tax**

	<b>Zakat</b>	<b>Income tax</b>	<b>Total</b>
1 January 2020	8,547,787	(16,241,444)	<b>(7,693,657)</b>
Provision	10,052,732	9,085,112	<b>19,137,844</b>
Adjustment relating to prior year	181,916	-	<b>181,916</b>
	10,234,648	9,085,112	<b>19,319,760</b>
Payment	(8,729,703)	(215,275)	<b>(8,944,978)</b>
31 December 2020	10,052,732	(7,371,607)	<b>2,681,125</b>
1 January 2019	10,697,286	(11,764,997)	(1,067,711)
Provision	8,547,787	1,225,057	9,772,844
Adjustment relating to prior year	18,060	46,785	64,845
	8,565,847	1,271,842	9,837,689
Payment	(10,715,346)	(337,127)	(11,052,473)
Advance tax payments	-	(5,411,162)	(5,411,162)
31 December 2019	8,547,787	(16,241,444)	(7,693,657)

**23.4 Numerical reconciliation of income tax expense to prima facie tax payable**

	<b>2020</b>	<b>2019</b>
Profit before zakat and income tax	<b>338,098,803</b>	279,382,663
Income tax rate applicable to the Group	<b>20%</b>	20%
Effective shareholding subject to income tax	<b>51.33%</b>	51.33%
Income tax on effective shareholding	<b>34,709,223</b>	28,681,424
Reconciliation:		
Tax effect of permanent differences	<b>(1,162,493)</b>	10,117,366
Deferred tax not recorded for a subsidiary	-	1,551,445
Prior year tax adjustments	-	46,785
	<b>33,546,730</b>	40,397,020

**23.5 Status of certificates and final assessments**

- (i) The GAZT has finalized the Company's zakat and income assessments for the years through 2014. Assessments for the years 2015 through 2019 are currently under review by the GAZT.
- (ii) The GAZT has issued additional zakat and income tax assessments related to Ofsat for certain years which are under various stages of appeals. The Group management believes that no material liability will arise upon the ultimate resolution of such appeals and accordingly no provision for such additional assessments has been made in the accompanying 2020 consolidated financial statements. Ofsat's assessments for the years 2013 through 2019 are currently under review by the GAZT.
- (iii) The Group has obtained zakat and income tax certificates for the years through 2019.

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**23.6 Deferred taxes**

The balance comprises deductible/(taxable) temporary differences attributable to:

	<b>2020</b>	<b>2019</b>
Employee benefit obligations	<b>258,681,368</b>	247,625,526
Property and equipment	<b>(2,058,263,798)</b>	(1,800,061,643)
Other	<b>38,294,921</b>	57,201,704
Taxable temporary differences - net	<b><u>(1,761,287,509)</u></b>	<b><u>(1,495,234,413)</u></b>
Deferred tax liability	<b><u>(178,226,943)</u></b>	<b><u>153,500,764</u></b>

Movement in deferred taxes is attributable to:

	<b>Employee benefit obligations</b>	<b>Property and equipment</b>	<b>Other</b>	<b>Total</b>
1 January 2020	25,421,236	(184,794,328)	5,872,328	<b>(153,500,764)</b>
Charged to consolidated statement of comprehensive income	513,936	(22,504,221)	(2,735,894)	<b>(24,726,179)</b>
31 December 2020	<b><u>25,935,172</u></b>	<b><u>(207,298,549)</u></b>	<b><u>3,136,434</u></b>	<b><u>(178,226,943)</u></b>
1 January 2019	24,237,104	(138,935,833)	1,691,235	(113,007,494)
Charged to consolidated statement of comprehensive income	1,184,132	(45,858,495)	4,181,093	(40,493,270)
31 December 2019	<b><u>25,421,236</u></b>	<b><u>(184,794,328)</u></b>	<b><u>5,872,328</u></b>	<b><u>(153,500,764)</u></b>

**24 Related party transactions and balances**

During 2020, based on an updated assessment carried out by TAQA's management and approved by TAQA's Board of Directors, the controlling party of TAQA and consequently the Company was concluded to be the Government of the Kingdom of Saudi Arabia (the "KSA Government").

Related parties comprise the shareholders, directors, associated companies, other entities controlled by the KSA Government ("Government controlled entities") and key management personnel. Related parties also include business entities in which certain directors or senior management have an interest (other related parties).

(a) Following are the significant transactions entered into by the Group with its related parties:

<b>Nature of transactions</b>	<b>2020</b>	<b>2019</b>
Revenue from an associated company	<b>890,653,331</b>	838,911,355
Rent income from an associated company	<b>723,500</b>	729,200
Costs charged by an associated company	<b>21,104,503</b>	34,099,735
Zakat and income tax reimbursable by shareholders	<b>17,003,620</b>	9,083,713

Significant transactions with Government controlled entities for the year ended 31 December 2020 comprise of revenues amounting to Saudi Riyals 1.5 billion.

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(b) Key management personnel compensation:

	<b>2020</b>	<b>2019</b>
Salaries and other short-term employee benefits	<b>14,330,476</b>	13,880,840
Post-employment benefits	<b>576,780</b>	556,854
	<b>14,907,256</b>	14,437,694

Board of directors' fee for the year ended 31 December 2020 was Saudi Riyals 0.3 million (2019: Saudi Riyals 0.1 million).

(c) Due from related parties

	<b>2020</b>	<b>2019</b>
Schlumberger Middle East S.A. ("SMESA")	<b>248,996,715</b>	320,192,585
TAQA Sanjel ("Sanjel")	<b>974,760</b>	-
	<b>249,971,475</b>	320,192,585

- During 2020, the Group agreed with SMESA to settle certain disputed invoices receivable from SMESA for services provided in 2019, for Saudi Riyals 19.9 million. The remaining invoice amounts of Saudi Riyals 19.9 million were provided for during 2019 and were written-off in 2020. Also see Note 12.
- Significant balances due from Government controlled entities as at 31 December 2020 amounted to Saudi Riyals 153.2 million.

(d) Due to related parties

	<b>2020</b>	<b>2019</b>
SPS	-	12,055,339
Arabian Geophysical & Surveying Company	-	60,292
	-	12,115,631

**25 Financial risk management**

**25.1 Financial risk factors**

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

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

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

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

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

*(a) Market risk*

*(i) Foreign exchange risk*

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group's transactions are primarily in Saudi Riyals and USD. Since Saudi Riyal is pegged to USD, the Group believes that the currency risk for the financial instruments is not significant.

*(ii) Fair value and cash flow interest rate risk*

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

The Group manages its cash flow interest rate risk by using variable-to-fixed interest rate swaps. The Group raises certain of its long-term murabaha borrowings at variable rates and swaps them into fixed rates. During 2020, the Group's borrowings were denominated in Saudi Riyals.

At 31 December 2020, the Group had variable interest bearing financial liabilities of Saudi Riyals 2.0 billion (2019: Saudi Riyals 2.5 billion), and had the interest rate varied by 1% with all the other variables held constant, net change in profit before zakat and income tax would have been approximately Saudi Riyals 18.3 million (2019: Saudi Riyals 25.6 million) lower/higher, mainly as a result of lower/higher financial charges on floating rate borrowings.

The Group's receivables and payables are carried at amortised cost and are not subject to interest rate risk as defined in IFRS 7, since neither the carrying amount nor the future cash flows will fluctuate because of a change in market interest rates. Hence, the Group is not exposed to fair value interest rate risk.

*(iii) Price risk*

The risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all instruments traded in the market. The Group's financial assets and liabilities are not exposed to price risk.

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*(b) Credit risk*

Credit risk arises from cash and cash equivalents carried at amortised cost, as well as credit exposures to customers, including outstanding receivables.

Cash and cash equivalents represent low credit risk as they are placed with reputable local banks.

Credit risk represents the financial loss that would be recognized at the reporting date if counter parties failed completely to perform as contracted. The maximum exposure to credit risk is equal to the carrying amount of financial assets. At 31 December 2020, 99.8% (2019: 99.7%) of trade receivables were due from three customers. Also see Note 24. Management believes that this concentration of credit risk is mitigated as the customers have an established track record of regular and timely payments.

For trade receivables, an internal risk assessment process determines the credit quality of the customers, taking into account their financial positions, past experiences and other factors. Individual risk limits are set based on internal or external credit worthiness ratings in accordance with limits set by the management. The carrying amount of trade receivables relates to a few customers for whom there is no recent history of default.

Management believes that it is not exposed to significant credit risk.

*(c) Liquidity risk*

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

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

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

The table below summarises the Group's financial liabilities based on undiscounted contractual cash flows. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within twelve months equal their carrying balances, as the impact of discounting is not significant.

The Group's trading portfolio of derivative instruments with a negative fair value has been included at their fair value within the 'less than one year' time bucket. This is because the contractual maturities are not essential for an understanding of the timing of the cash flows. These contracts are managed on a net fair value basis, rather than by maturity date.

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	<b>Less than one year</b>	<b>1 to 2 Years</b>	<b>2 to 5 years</b>	<b>Over 5 years</b>	<b>Total</b>
<b>2020</b>					
<b>Derivatives</b>					
Fair value of cash flow					
Hedge	-	-	15,132,817	-	<b>15,132,817</b>
<b>Financial liabilities</b>					
Long-term murabaha borrowings	639,622,887	549,129,014	784,108,792	44,196,429	<b>2,017,057,122</b>
Lease liabilities	3,028,614	1,810,289	-	-	<b>4,838,903</b>
Future interest on long-term murabaha borrowings	48,369,555	24,105,453	18,372,055	27,782	<b>90,874,845</b>
Trade and other payables	442,224,147	23,191,400	15,189,800	-	<b>480,605,347</b>
	<b>1,133,245,203</b>	<b>598,236,156</b>	<b>817,670,647</b>	<b>44,224,211</b>	<b>2,593,376,217</b>
	<b>Less than one year</b>	<b>1 to 2 Years</b>	<b>2 to 5 years</b>	<b>Over 5 years</b>	<b>Total</b>
<b>2019</b>					
<b>Derivatives</b>					
Fair value of cash flow					
hedge	-	-	13,099,222	-	<b>13,099,222</b>
<b>Financial liabilities</b>					
Long-term murabaha borrowings	794,065,054	619,943,452	894,373,700	221,162,153	2,529,544,359
Lease liabilities	2,947,177	3,028,614	1,749,207	-	7,724,998
Future interest on long-term murabaha borrowings	71,406,435	46,100,869	44,300,753	2,488,590	164,296,647
Trade and other payables	622,383,097	7,999,201	8,001,600	-	638,383,898
	<b>1,490,801,763</b>	<b>677,072,136</b>	<b>948,425,260</b>	<b>223,650,743</b>	<b>3,339,949,902</b>

**25.2 Capital risk management**

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

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings which includes long-term murabaha borrowings and lease liabilities as shown in the consolidated statement of financial position, less cash and cash equivalents. Total equity is as per the consolidated statement of financial position plus net debt.

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The gearing ratios at 31 December were as follows:

	<b>2020</b>	<b>2019</b>
Total borrowings (including lease liabilities)	<b>2,021,896,025</b>	2,537,269,357
Less: cash and cash equivalents	<b>(639,520,647)</b>	(221,272,841)
Net debt	<b>1,382,375,378</b>	2,315,996,516
Total equity	<b>3,912,166,518</b>	3,626,699,119
Gearing ratio	<b>35%</b>	64%

### **25.3 Fair value estimation**

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

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

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

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

When measuring the fair value of an asset or liability, the Group 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 asset or liability, 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 inputs).

If the inputs used to measure the fair value of an asset or liability fall into different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest input level that is significant to the entire measurement.

The Group recognizes transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

As at 31 December 2020 and 2019, the fair values of the Group's current financial instruments, except for cash flow hedge at fair value through other comprehensive income, are estimated to approximate their carrying values since the financial instruments are short term in nature, carry interest rates which are based on prevailing market interest rates and are expected to be realized at their current carrying values within twelve months from the date of statement of financial position. The fair values of the non-current financial liabilities are estimated to approximate their carrying values as these carry interest rates which are based on prevailing market interest rates.

Cash flow hedge at fair value through other comprehensive income is carried at fair value which is assessed by management to fall in Level 3 of the fair value hierarchy.

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**26 Categories of financial instruments**

The financial instruments by category are detailed in the table below:

	2020	2019
<b>Financial assets at amortised cost</b>		
Trade and other receivables	480,935,616	986,538,437
Cash and cash equivalents	639,520,647	221,272,841
	<u>1,120,456,263</u>	<u>1,207,811,278</u>
<b>Financial liabilities at fair value through other comprehensive income</b>		
Fair value of cash flow hedge	<u>15,132,817</u>	13,099,222
	2020	2019
<b>Financial liabilities at amortised cost</b>		
Long-term murabaha borrowings	2,017,057,122	2,529,544,359
Lease liabilities	4,838,903	7,724,998
Trade and other payables	480,605,347	638,383,898
	<u>2,502,501,372</u>	<u>3,175,653,255</u>

**27 Contingencies and commitments**

- (i) At 31 December 2020, the Group was contingently liable for bank guarantees and letters of credit issued in the normal course of the Group's business amounting to Saudi Riyals 276.3 million and Saudi Riyals 80.2 million (2019: Saudi Riyals 253.9 million and Saudi Riyals 91.7 million), respectively.
- (ii) The capital expenditure contracted by the Group but not incurred till 31 December 2020 was approximately Saudi Riyals 188.0 million (2019: Saudi Riyals 227.1 million).
- (iii) Also see Note 23.