

**PROSPECTUS - PART 2 OF 2**

PROSPECTUS PART 2 OF 2: THIS MUST BE READ IN CONJUNCTION WITH PART 1 OF 2 OF THE PROSPECTUS OF SAUDI ELECTRICITY COMPANY AND THE SUPPLEMENTARY PROSPECTUS OF SAUDI ELECTRICITY COMPANY DATED 27/3/1435H CORRESPONDING TO 28 JANUARY 2014G (BOTH AVAILABLE ON THE WEBSITE OF THE CAPITAL MARKET AUTHORITY WWW.CMA.ORG.SA)



**SAUDI ELECTRICITY COMPANY**

(a joint stock company incorporated under the laws of the Kingdom of Saudi Arabia on 30/12/1420H (corresponding to 5/4/2000G)) with Commercial Register Number 1010158683

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**Joint Lead Managers, Joint Bookrunners and Underwriters**

HSBC Saudi Arabia Limited

Saudi Fransi Capital Company

**HSBC**



السعودية الفرنسية كابيتال  
**Saudi Fransi Capital**



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This Prospectus includes information given in compliance with the Listing Rules of the Capital Market Authority of the Kingdom of Saudi Arabia (the "**Authority**"). The Directors, whose names appear in the "*Management and Employees*" section of this Prospectus, collectively and individually accept full responsibility for the accuracy of the information contained in this Prospectus, and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts the omission of which would make any statement herein misleading. The Authority and the Saudi Stock Exchange do not take any responsibility for the contents of this Prospectus, do not make any representation as to its accuracy or completeness, and expressly disclaim any liability whatsoever for any loss arising from, or incurred in reliance upon, any part of this Prospectus.

**This Prospectus is dated 27/3/1435H (corresponding to 28 January 2014G)**

**Saudi Electricity Company  
(A Saudi Joint Stock Company)**

**FINANCIAL STATEMENTS AND  
AUDITORS' REPORT**

**FOR THE YEAR ENDED 31 DECEMBER 2011**

Saudi Electricity Company  
(A Saudi Joint Stock Company)

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FINANCIAL STATEMENTS AND AUDITORS' REPORT  
FOR THE YEAR ENDED 31 DECEMBER 2011

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## AUDITORS' REPORT TO THE SHAREHOLDERS OF SAUDI ELECTRICITY COMPANY

### Scope of audit

We have audited the accompanying balance sheet of Saudi Electricity Company ("the Company") - a Saudi joint stock company as at 31 December 2011 and the related statements of income, cash flows and changes in shareholders' equity for the year then ended. These financial statements are the responsibility of the company's management and have been prepared by them in accordance with the provisions of Article 123 of the Regulations for Companies and submitted to us together with all the information and explanations which we required. Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the Kingdom of Saudi Arabia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable degree of assurance to enable us to express an opinion on the financial statements.

### Unqualified opinion

In our opinion, the financial statements taken as a whole:

- i) present fairly, in all material respects, the financial position of the Company as at 31 December 2011 and the results of its operations and its cash flows for the year then ended in accordance with accounting standards generally accepted in the Kingdom of Saudi Arabia.
- ii) comply with the requirements of the Regulations for Companies and the Company's by-laws in so far as they affect the preparation and presentation of the financial statements.

for Ernst & Young

Rashid S. AlRashoud  
Certified Public Accountant  
Registration No. 366



Riyadh: 27 Rabi Awal 1433 H  
(19 February 2012)

Saudi Electricity Company  
(A Saudi Joint Stock Company)

BALANCE SHEET

AS AT 31 DECEMBER 2011

(In Thousands Saudi Riyals)

|  | <i>Notes</i> | <u>2011</u>        | <u>2010</u>        |
|--|--------------|--------------------|--------------------|
| <b>ASSETS</b>  |              |                    |                    |
| <b>CURRENT ASSETS</b>  |              |                    |                    |
| Cash and cash equivalents  | 3            | 7,305,124          | 7,227,776          |
| Receivables from electricity consumers and accrued revenues, net | 4            | 12,027,200         | 9,965,007          |
| Prepayments and other receivables, net                           | 5            | 4,847,768          | 3,635,236          |
| Inventories, net   | 6            | 5,562,850          | 5,704,886          |
| <b>TOTAL CURRENT ASSETS</b>                                      |              | <u>29,742,942</u>  | <u>26,532,905</u>  |
| <b>NON-CURRENT ASSETS</b>  |              |                    |                    |
| Loan to an associated company                                    |              | 365,500            | 365,500            |
| Equity investments in companies and others                       | 7            | 2,406,042          | 2,300,350          |
| Construction work in progress                                    | 8            | 22,260,811         | 26,038,186         |
| Fixed assets, net  | 9/30         | 158,673,259        | 135,634,986        |
| <b>TOTAL NON-CURRENT ASSETS</b>                                  |              | <u>183,705,612</u> | <u>164,339,022</u> |
| <b>TOTAL ASSETS</b>  |              | <u>213,448,554</u> | <u>190,871,927</u> |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>                      |              |                    |                    |
| <b>CURRENT LIABILITIES</b>                                       |              |                    |                    |
| Accounts payable   | 10           | 26,235,345         | 21,876,043         |
| Accruals and other payables                                      | 11           | 4,605,942          | 4,402,218          |
| Short term loans and current portion of long-term loans          | 13           | 3,133,100          | 1,189,317          |
| Sukuk  | 14           | 5,000,000          | -                  |
| <b>TOTAL CURRENT LIABILITIES</b>                                 |              | <u>38,974,387</u>  | <u>27,467,578</u>  |
| <b>NON-CURRENT LIABILITIES</b>                                   |              |                    |                    |
| Long-term loans  | 13           | 13,581,788         | 10,632,390         |
| Sukuk  | 14           | 14,000,000         | 19,000,000         |
| Employees' indemnities   | 15           | 4,838,509          | 4,690,218          |
| Deferred revenues, net   | 16           | 20,469,575         | 16,736,945         |
| Consumers' refundable deposits                                   |              | 1,367,628          | 1,295,442          |
| Long-term Government payables                                    | 17/30        | 49,046,508         | 44,244,007         |
| Government loans   | 18           | 18,845,211         | 16,147,711         |
| Change in fair value of hedging contracts                        | 19           | 431,870            | 387,928            |
| <b>TOTAL NON-CURRENT LIABILITIES</b>                             |              | <u>122,581,089</u> | <u>113,134,641</u> |
| <b>TOTAL LIABILITIES</b>   |              | <u>161,555,476</u> | <u>140,602,219</u> |
| <b>SHAREHOLDERS' EQUITY</b>                                      |              |                    |                    |
| Share capital  | 20           | 41,665,938         | 41,665,938         |
| Statutory reserve  |              | 1,554,492          | 1,333,176          |
| General reserve  | 21           | 538,343            | 536,177            |
| Retained earnings  | 25/30        | 8,566,175          | 7,122,345          |
| Net change in fair value of hedging contracts                    |              | (431,870)          | (387,928)          |
| <b>TOTAL SHAREHOLDERS' EQUITY</b>                                |              | <u>51,893,078</u>  | <u>50,269,708</u>  |
| <b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>                |              | <u>213,448,554</u> | <u>190,871,927</u> |

The accompanying notes form an integral part of these financial statements.

Saudi Electricity Company  
(A Saudi Joint Stock Company)

STATEMENT OF INCOME  
FOR THE YEAR ENDED 31 DECEMBER 2011  
(In Thousands Saudi Riyals)

|   | <i>Notes</i> | <u>2011</u>         | <u>2010</u>         |
|---|--------------|---------------------|---------------------|
| <b>OPERATING REVENUES</b>                               |              |                     |                     |
| Electricity sales                                       |              | 28,280,494          | 25,872,780          |
| Meter reading, maintenance and bills preparation tariff |              | 883,059             | 841,119             |
| Electricity connection tariff                           | 16           | 1,406,045           | 1,197,094           |
| <b>TOTAL OPERATING REVENUES</b>                         |              | <u>30,569,598</u>   | <u>27,910,993</u>   |
| <b>COST OF SALES</b>                                    |              |                     |                     |
| Fuel  |              | (5,771,379)         | (5,796,633)         |
| Purchased energy  |              | (4,256,237)         | (3,741,739)         |
| Operations and maintenance                              | 22           | (8,438,277)         | (7,752,943)         |
| Depreciation – Operations and maintenance               | 9            | (9,601,779)         | (8,027,017)         |
| <b>TOTAL COST OF SALES</b>                              |              | <u>(28,067,672)</u> | <u>(25,318,332)</u> |
| <b>GROSS PROFIT FOR THE YEAR</b>                        |              | 2,501,926           | 2,592,661           |
| General and administrative expenses                     | 23           | (360,235)           | (389,072)           |
| Depreciation - General and administrative               | 9            | (335,281)           | (353,189)           |
| <b>INCOME FROM OPERATING ACTIVITIES</b>                 |              | 1,806,410           | 1,850,400           |
| Other income and expenses, net                          | 24           | 406,749             | 428,688             |
| <b>NET INCOME FOR THE YEAR</b>                          |              | <u>2,213,159</u>    | <u>2,279,088</u>    |
| <b>EARNING PER SHARE (SR):</b>                          |              |                     |                     |
| From operating activities for the year                  |              | <u>0.43</u>         | 0.44                |
| From net income for the year                            |              | <u>0.53</u>         | 0.55                |

The accompanying notes form an integral part of these financial statements.

Saudi Electricity Company  
(A Saudi Joint Stock Company)

STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED 31 DECEMBER 2011  
(In Thousands Saudi Riyals)

|  | 2011                | 2010                |
|--|---------------------|---------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>  |                     |                     |
| Net income for the year  | 2,213,159           | 2,279,088           |
| <b>Adjustments to reconcile net income for the year with net cash from operating activities:</b> |                     |                     |
| Provision for doubtful receivables   | 121,721             | 257,564             |
| Provision for slow-moving inventories  | 62,960              | 11,180              |
| Company's share in investees' net losses   | 45,747              | 21,670              |
| Depreciation   | 9,937,060           | 8,380,206           |
| Gain on disposal of fixed assets, net  | (25,860)            | (97,833)            |
| Gain on sale of investments  | -                   | (765)               |
| Employees' indemnities, net  | 148,291             | 267,920             |
| <b>Changes in operating assets and liabilities:</b>  |                     |                     |
| Receivables from electricity consumers and accrued revenues                                      | (2,183,914)         | 363,647             |
| Prepayments and other receivables  | (1,190,571)         | (1,434,955)         |
| Inventories  | 79,076              | (92,724)            |
| Accounts payable   | 4,359,302           | 4,951,175           |
| Deferred revenues, net   | 3,732,630           | 1,766,418           |
| Accruals and other payables  | 195,481             | 193,924             |
| Net proceeds and payments from customers' refundable deposits                                    | 72,186              | 136,305             |
| <b>Net cash from operating activities</b>  | <b>17,567,268</b>   | <b>17,002,820</b>   |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>  |                     |                     |
| Equity investment in companies and others  | (152,439)           | (5,500)             |
| Time deposits  | -                   | 1,000,119           |
| Fixed assets and construction work in progress   | (29,205,430)        | (28,487,495)        |
| Proceeds from sale of fixed assets   | 33,332              | 106,342             |
| Proceeds from sale of other investments  | 1,000               | 37,643              |
| Loan to an associated company  | (21,961)            | -                   |
| <b>Net cash used in investing activities</b>   | <b>(29,345,498)</b> | <b>(27,348,891)</b> |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>  |                     |                     |
| Sukuk  | -                   | 7,000,000           |
| Government loans   | 7,500,000           | 3,750,000           |
| Net proceeds from long-term loans  | 4,893,181           | 4,481,450           |
| Dividends paid to shareholders and Board of Directors' remuneration                              | (537,603)           | (540,156)           |
| <b>Net cash from financing activities</b>  | <b>11,855,578</b>   | <b>14,691,294</b>   |
| <b>NET CHANGE IN CASH AND CASH EQUIVALENTS DURING THE YEAR</b>                                   | <b>77,348</b>       | <b>4,345,223</b>    |
| Cash and cash equivalents, beginning of the year   | 7,227,776           | 2,882,553           |
| <b>CASH AND CASH EQUIVALENTS, END OF THE YEAR</b>  | <b>7,305,124</b>    | <b>7,227,776</b>    |
| <b>Non-cash transaction:</b>   |                     |                     |
| Change in fair value of hedging contracts  | (43,942)            | 84,563              |

The accompanying notes form an integral part of these financial statements.

Saudi Electricity Company  
(A Saudi Joint Stock Company)

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2011  
(In Thousands Saudi Riyals)

|   | Note | Share capital | Statutory reserve    | General reserve | Retained earnings      | Change in fair value for hedging contracts | Total                   |
|---|------|---------------|----------------------|-----------------|------------------------|--|-------------------------|
| For the year ended 31 December 2010               |      |               |                      |                 |                        |  |                         |
| Balance as at 1 January 2010 - before adjustments | 30   | 41,665,938    | 1,107,965<br>(2,698) | 534,777         | 5,865,869<br>(246,647) | (472,491)                                  | 49,174,549<br>(721,836) |
| Prior years adjustments                           |      |               |                      |                 |                        |  |                         |
| Balance as at 1 January 2010 -- adjusted          |      | 41,665,938    | 1,105,267            | 534,777         | 5,619,222              | (472,491)                                  | 48,452,713              |
| Dividends to shareholders for 2009                | 25   | -             | -                    | -               | (547,252)              | -  | (547,252)               |
| Board of Directors' remuneration for 2009         | 26   | -             | -                    | -               | (804)                  | -  | (804)                   |
| Net income for the year                           |      | -             | -                    | -               | 2,279,088              | -  | 2,279,088               |
| Net change in fair value of hedging contracts     |      | -             | -                    | -               | -                      | 84,563                                     | 84,563                  |
| Collection of electricity fees from individuals   | 21   | -             | -                    | 1,400           | -                      | -  | 1,400                   |
| Transfer to statutory reserve                     |      | -             | 227,909              | -               | (227,909)              | -  | -                       |
| Balance as at 31 December 2010 -- adjusted        |      | 41,665,938    | 1,333,176            | 536,177         | 7,122,345              | (387,928)                                  | 50,269,708              |
| For The Year Ended 31 December 2011               |      |               |                      |                 |                        |  |                         |
| Dividends to shareholders for 2010                | 25   | -             | -                    | -               | (547,252)              | -  | (547,252)               |
| Board of Directors' remuneration for 2010         | 26   | -             | -                    | -               | (761)                  | -  | (761)                   |
| Net income for the year                           |      | -             | -                    | -               | 2,213,159              | -  | 2,213,159               |
| Net change in fair value of hedging contracts     |      | -             | -                    | -               | -                      | (43,942)                                   | (43,942)                |
| Collection of electricity fee from individuals    | 21   | -             | -                    | 2,166           | -                      | -  | 2,166                   |
| Transfer to statutory reserve                     |      | -             | 221,316              | -               | (221,316)              | -  | -                       |
| Balance as at 31 December 2011                    |      | 41,665,938    | 1,554,492            | 538,343         | 8,566,175              | (431,870)                                  | 51,893,078              |

The accompanying notes form an integral part of these financial statements.

**Saudi Electricity Company  
(A Saudi Joint Stock Company)**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 December 2011**

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**1. ORGANIZATION AND ACTIVITIES**

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

The Company was incorporated pursuant to the Royal Decree No. M/16 dated 6 Ramadan 1420H corresponding to 13 December 1999, in accordance with the Council of Ministers' Resolution Number 153, dated 5 Ramadan 1420H corresponding to 12 December 1999 and the Minister of Commerce Resolution Number 2047 dated 30 Dhu Al Hijjah 1420H corresponding to 5 April 2000 as a Saudi joint stock company and was registered in Riyadh under Commercial Registration Number 1010158683, dated 28 Muharram 1421H corresponding to 3 May 2000.

The Company's principal activity is the generation, transmission and distribution of electric power. The Company is the major provider of electric power all over the Kingdom of Saudi Arabia, serving governmental, industrial, agricultural, commercial and residential subscribers.

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

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

The Company fully owns the share capital of Sukuk Electricity Company, Dawiyat Telecom Company – limited liability Companies - and owns 50% of the share capital of Water & Electricity Company and Dhuruma Electricity Company and Hajr for Electricity Production Company.

According to the Company's bylaws, the Company's financial year begins on 1<sup>st</sup> January and ends on 31<sup>st</sup> December from each Gregorian year.

Saudi Electricity Company  
(A Saudi Joint Stock Company)

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NOTES TO THE FINANCIAL STATEMENTS – (continued)  
FOR THE YEAR ENDED 31 December 2011

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements have been prepared in accordance with the Accounting Standards issued by the Saudi Organization for Certified Public Accountants (SOCPA). The significant accounting policies adopted are as follows:

**Accounting Convention**

The financial statements are prepared under the historical cost convention except for the measurement of fair value of investments, derivative financial instruments and government loans (received after 1 January 2009).

**Accounting estimates**

The preparation of the financial statements in conformity with generally accepted accounting standards requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting year. Although these estimates are based on management's best knowledge of current events and actions at the reporting date, the actual results ultimately may differ from those estimates.

**Cash and cash equivalents**

Cash and cash equivalents include cash on hand and at bank balances, time deposits, and other investments which are convertible to cash with maturities of three months or less from the date of acquisition.

**Electricity consumers receivables**

Electricity consumer receivables represent the amount not collected from the consumers at the balance sheet date, and are shown net of provision for doubtful receivables.

**Inventories**

Generation, transmission, distribution and other materials and fuel inventory are stated at the weighted average cost, net of provision for slow moving and obsolete items.

Inventory items that are considered an integral part of the generation plants, transmission and distribution networks, and other facilities such as strategic and reserve materials, are included in within fixed assets.

**Investments**

*Investments in companies' equity*

Investments in companies in which the Company hold 20% of interest are accounted for using the equity method, whereby the investment is initially stated at cost, adjusted thereafter by the post acquisition change of the Company's share in the net assets of the investee company. The Company's share in the results of these Companies is recognized when investees' financial statements are issued.

Investments of less than 20% of share capital of unquoted Companies are stated at fair value if it is available, otherwise cost is considered as fair value. Income from these investments is recognised when dividends are declared by the investee companies.

*Investments held to maturity*

Investments that are acquired with the intention to be held to maturity are carried at cost (adjusted for any premium or discount), less any other than temporary decline in value. Such investments are classified as non-current assets with the exception of bonds which mature during the next fiscal year, which are classified as current assets. Income from these investments is recognized when earned.

Saudi Electricity Company  
(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS – (continued)  
FOR THE YEAR ENDED 31 December 2011

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Fixed assets**

Fixed assets are stated at historical cost and, except for land, are depreciated over their estimated operational useful lives using the straight line method. Cost includes the cost of acquisition from supplier, direct labor, indirect construction costs, and borrowing costs up to the date the asset is put in service. Costs of fixed assets sold or otherwise disposed off and related accumulated depreciation are removed from the accounts at the date of the sale or disposal. The resulting gain or loss is recognized in the statement of income.

Expenditure for repair and maintenance are charged to the statement of income. Betterments that increase the value or materially extend the life of the related assets are capitalized.

The estimated operational useful lives are as follows:

|   |                |
|---|----------------|
| Buildings                                       | 20 to 30 years |
| Generation plant, equipment and spare parts     | 20 to 25 years |
| Transmission network, equipment and spare parts | 20 to 30 years |
| Distribution network, equipment and spare parts | 15 to 25 years |
| Other assets                                    | 4 to 20 years  |

**Impairment of noncurrent assets**

The Company conducts periodic review of the carrying amount of its noncurrent assets to determine whether there is any evidence that those noncurrent assets have suffered an impairment loss. If such evidence exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Where it is not possible to estimate the recoverable amount of that asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. Impairment losses are immediately recognized as an expense in the statement of income.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised recoverable amount, provided that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognized as income immediately in the statement of income.

**Capitalization of borrowing costs**

Net borrowing cost which represents finance charges on long-term loans and any other finance costs charged to the Company net of any commission income for the year, is capitalized on all significant projects-in-progress with significant amount that require long period of time for construction. The borrowing cost capitalized on each project is calculated using the capitalization rate on the average amounts spent on each project in progress.

**Fixed-term government loan**

The fixed-term government loan is recognized at present value using an estimated discount rate for Company's borrowing (for loans received after 1 January 2009). The difference between the amount received and the present value is recorded as deferred revenues (government grant) and presented under the long-term government payables caption and recognized over the remaining years of the loan against the corresponding expenses.

Saudi Electricity Company  
(A Saudi Joint Stock Company)

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NOTES TO THE FINANCIAL STATEMENTS – (continued)  
FOR THE YEAR ENDED 31 December 2011

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Derivative financial instruments and hedge accounting**

The Company uses derivative financial instruments to hedge its cash flow exposures to interest rates. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured for any changes in its fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

Any gains or losses arising from the changes in the fair value of derivatives determined as effective cash flows hedges are taken directly to the statement of shareholders' equity, while the ineffective portion of cash flow hedges, is recognised in statement of income.

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

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. At that time, for forecast transactions, any cumulative gain or loss on the hedging instrument recognised in shareholders' equity is retained in shareholder's equity until the forecasted transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in shareholders' equity is transferred to statement of income.

**Accounts payable and accruals**

Liabilities are recognised for amounts to be paid in the future for goods or services received, whether billed by the supplier or not.

**Provision for employees' indemnity**

Employees' indemnity consists of the following:

Provision for end of service benefits:

The end of service benefits are calculated in accordance with the Labor Law in the Kingdom of Saudi Arabia and charged monthly to the statement of income

Employees' saving fund:

The Company contributes in saving fund for the eligible employees based on an approved policy. The Company's share of the contribution in saving fund is charged monthly to statements of Income.

**Zakat provision**

Zakat is provided in accordance with the Regulations of the Department of Zakat and Income Tax in the Kingdom of Saudi Arabia. Adjustments arising from final Zakat assessment, if any, are recorded in the statement of income for the year in which such assessment is obtained.

**Statutory reserve**

In accordance with the Regulations for Companies and the Company's bylaws, 10% of net income for the year is transferred to statutory reserve. The Company's General Assembly may discontinue such transfer when the reserve equals 50% of the share capital.

Saudi Electricity Company  
(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS – (continued)  
FOR THE YEAR ENDED 31 December 2011

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Revenues**

Revenue from electricity sales is recognized when bills are issued to consumers based on the consumption of electric power measured by Kilowatt/hour. Revenue on power consumed by consumers but not yet billed at the balance sheet date are accrued for.

Revenue from meter reading, maintenance and bills preparation represents the monthly fixed tariff based on the capacity of the meter used by the subscribers, and is recognized when bills are issued. Revenue from meter reading, maintenance and bills preparation tariff not billed at the balance sheet date is accrued for.

Electricity service connection tariff received from consumers is deferred and recognized on a straight-line basis over the average useful lives of the equipment used in serving the subscribers, estimated to be 20 years.

**Expenses**

Operation and maintenance expenses include expenses relating to generation, transmission, and distribution activities as well as their allocated portion of the general services and supporting activities' expenses. The remaining portion of these expenses is included under General and Administrative expenses. General services and supporting activities expenses are allocated between the main activities based on the benefits received and is evaluated periodically.

**Earnings (losses) per share for the year**

Earnings (losses) per share is calculated using the weighted average number of outstanding shares at the end of the year, including government shares. Gain (loss) per basic share from operating activities is calculated by dividing gain (loss) from operations on the weighted average number of shares. Gain (loss) per basic share from net income (loss) is calculated by dividing net income (loss) on weighted average of number of shares.

**Foreign currency transactions**

Transactions denominated in foreign currencies are translated into Saudi Riyals at exchange rates prevailing at the date of such transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into Saudi Riyals at the exchange rates prevailing at that date. Any realized or unrealized exchange gains or losses arising from such translations are recorded in the statement of income.

3. CASH AND CASH EQUIVALENTS

|                     | <i>2011</i><br><i>SR'000</i> | <i>2010</i><br><i>SR'000</i> |
|---------------------|------------------------------|------------------------------|
| Cash on hand        | 3,040                        | 2,959                        |
| Cash at banks       | 1,766,494                    | 2,526,650                    |
| Short-term deposits | 5,535,590                    | 4,698,167                    |
|                     | <u>7,305,124</u>             | <u>7,227,776</u>             |

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NOTES TO THE FINANCIAL STATEMENTS – (continued)  
FOR THE YEAR ENDED 31 December 2011

4. RECEIVABLES FROM ELECTRICITY CONSUMERS AND ACCRUED REVENUES, NET

|  | <i>2011</i><br><i>SR'000</i> | <i>2010</i><br><i>SR'000</i> |
|--|------------------------------|------------------------------|
| <b>Electricity subscribers' receivable</b> |                              |                              |
| Governmental institutions                  | 2,870,026                    | 1,071,839                    |
| Commercial and residential                 | 4,861,644                    | 5,388,427                    |
| VIPs consumers                             | 2,359,212                    | 2,216,405                    |
| Saudi Aramco                               | 1,908,179                    | 1,468,493                    |
| Electricity connection receivables         | 1,011,039                    | 571,858                      |
| Saline Water Conversion Corporation        | 335,981                      | 362,984                      |
| Total electricity subscribers' receivable  | <u>13,346,081</u>            | <u>11,080,006</u>            |
| Less: Provision for doubtful receivables   | <u>(2,500,596)</u>           | <u>(2,378,875)</u>           |
| Net electricity subscribers' receivable    | 10,845,485                   | 8,701,131                    |
| Add: Accrued revenues                      | 1,181,715                    | 1,263,876                    |
| Total                                      | <u><u>12,027,200</u></u>     | <u><u>9,965,007</u></u>      |

The movement in the provision for doubtful receivables during the years as follows:

|                                | <i>2011</i><br><i>SR'000</i> | <i>2010</i><br><i>SR'000</i> |
|--------------------------------|------------------------------|------------------------------|
| Balance, beginning of the year | 2,378,875                    | 2,121,311                    |
| Charge for the year            | 121,721                      | 257,564                      |
| Balance, end of the year       | <u><u>2,500,596</u></u>      | <u><u>2,378,875</u></u>      |

5. PREPAYMENTS AND OTHER RECEIVABLES, NET

|  | <i>2011</i><br><i>SR'000</i> | <i>2010</i><br><i>SR'000</i> |
|--|------------------------------|------------------------------|
| Advances to contractors and suppliers          | 3,899,552                    | 2,789,535                    |
| Other government receivables (Note 17-b)       | 244,173                      | 244,173                      |
| Outstanding letter of credit                   | 185,575                      | 203,956                      |
| Prepaid expenses                               | 10,477                       | 20,940                       |
| Other receivables, net                         | 568,780                      | 437,421                      |
| Total  | <u>4,908,557</u>             | <u>3,696,025</u>             |
| Less: Provision for other doubtful receivables | <u>(60,789)</u>              | <u>(60,789)</u>              |
|  | <u><u>4,847,768</u></u>      | <u><u>3,635,236</u></u>      |

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6. INVENTORIES, NET

|   | <i>2011</i><br><i>SR'000</i> | <i>2010</i><br><i>SR'000</i> |
|---|------------------------------|------------------------------|
| Generation plant materials and supplies     | 3,086,034                    | 3,130,904                    |
| Distribution network materials and supplies | 1,792,098                    | 1,863,213                    |
| Transmission network materials and supplies | 394,866                      | 290,027                      |
| Fuel and oil                                | 326,160                      | 401,933                      |
| Other                                       | 227,713                      | 219,870                      |
| Total                                       | <u>5,826,871</u>             | <u>5,905,947</u>             |
| Less: Provision for slow moving inventories | <u>(264,021)</u>             | <u>(201,061)</u>             |
|   | <u><u>5,562,850</u></u>      | <u><u>5,704,886</u></u>      |

The movement of provision for slow-moving inventories during the years as follows:

|                                | <i>2011</i><br><i>SR'000</i> | <i>2010</i><br><i>SR'000</i> |
|--------------------------------|------------------------------|------------------------------|
| Balance, beginning of the year | 201,061                      | 189,881                      |
| Charge for the year            | 62,960                       | 11,180                       |
| Balance, end of the year       | <u><u>264,021</u></u>        | <u><u>201,061</u></u>        |

7. EQUITY INVESTMENTS IN COMPANIES AND OTHERS

|   | <i>2011</i><br><i>SR'000</i> | <i>2010</i><br><i>SR'000</i> |
|---|------------------------------|------------------------------|
| Investments accounted for under the equity method (a) | 1,855,392                    | 1,899,140                    |
| Other investments, at cost (b)                        | 125,650                      | 1,210                        |
| Held to maturity investments (c)                      | 425,000                      | 400,000                      |
|   | <u><u>2,406,042</u></u>      | <u><u>2,300,350</u></u>      |

a) Investments accounted for under the equity method

|  | Ownership<br>% | <i>2011</i><br><i>SR'000</i> | <i>2010</i><br><i>SR'000</i> |
|--|----------------|------------------------------|------------------------------|
| Gulf Cooperation Council Interconnection Authority (a-1) | 31.6           | 1,830,937                    | 1,876,842                    |
| Water and Electricity Company (a-2)                      | 50             | 13,955                       | 13,798                       |
| Rass Al Zoor Water and Electricity company (a-3)         | 20             | -                            | 1,000                        |
| Hajr for Electricity Production Company (a-4)            | 50             | 5,000                        | 2,000                        |
| Dawiyat Telecom Company (a-5)                            | 100            | 1,000                        | 1,000                        |
| Sukuk Electricity Company (a-6)                          | 100            | 500                          | 500                          |
| Rabigh Electricity Company (a-7)                         | 20             | 2,000                        | 2,000                        |
| Dhuruma Electricity Company (a-8)                        | 50             | 2,000                        | 2,000                        |
|  |                | <u><u>1,855,392</u></u>      | <u><u>1,899,140</u></u>      |

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**NOTES TO THE FINANCIAL STATEMENTS – (continued)**  
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**7. EQUITY INVESTMENTS IN COMPANIES AND OTHERS – (continued)**

**(a-1) Gulf Cooperation Council Interconnection Authority**

The Company has contributed in the capital of the Gulf Cooperation Council Interconnection Authority (hereafter referred to as "GCCIA") to enhance the electricity transmission and distribution between the member countries. The Company's contribution in GCCIA amounts to USD 484.80 million equivalent to SR 1,818 million.

**(a-2) Water and Electricity Company**

The Company entered into a partnership agreement with Saline Water Conversion Corporation to establish a jointly owned limited liability company in the name of Water and Electricity Company pursuant to the Supreme Economic Council's Decision No. 5/23 dated Rabi' Al-Awal 23, 1423H which encourages the participation of the private sector in the water desalination project. The Company's share of inception amounting to SR 15 million was paid in full and consists of 300,000 share representing 50% of the investee's share capital.

**(a-3) Rass Al Zoor Water and Electricity company**

Based on the Company's Board of Directors Resolution No. 02/73/2007 dated Dhu Al Hijjah 1, 1428H, the Company entered into a partnership with the Public Investment Fund to establish Rass Al Zoor Water and Electricity Company, a joint stock company formed pursuant to the Royal Decree No. 77 dated Ramadan 14, 1428H. The Company's share at inception amounting to SR 1 million was paid in full and represents 20% of the investee's share capital. In February 2011, the Company has received a certificate from Ministry of Commerce and Industry, cancelling the Rass Al Zoor Water and Electricity Company's commercial registration due to cancellation of Ras Al Zoor electricity and water project. Accordingly, the investment account of Rass Al Zoor Water and Electricity Company has been closed and the Company has refunded the amounts paid previously.

**(a-4) Hajr for Electricity Production Company**

Pursuant to the board of directors' resolution No. 4/95/2010 dated 12/9/1431H corresponding to 22/8/2010, this company has been established with a capital of SR 2 million. During 2011, a new partner has been admitted and the capital has been increased by SR 8 million to become SR 10 million. The company's share represents 50% of the partners' shareholding. The financial statements of Hajr for Electricity Production Company have not been consolidated because of immateriality.

**(a-5) Dawiyat Communication Company**

Pursuant to the board of directors' resolution No. 2/86/2009 dated 8/5/1430H corresponding to 3/5/2009, Dawiyat Communication Company has been established with a paid up capital of SR 1 million, and represents 100% of the investee's share capital. The financial statements of Dawiyat Communication Company have not been consolidated because of immateriality.

**(a-6) Sukuk Electricity Company**

Pursuant to the board of directors' resolution No. 3/67/2007 dated 22/3/1428H corresponding to 10/4/2007, Sukuk Electricity Company has been established with a paid up capital of SR 500 thousand, and represents 100% of the investee's share capital. The financial statements of Sukuk Electricity Company have not been consolidated because of immateriality.

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FOR THE YEAR ENDED 31 December 2011

7. EQUITY INVESTMENTS IN COMPANIES AND OTHERS – (continued)

(a-7) Rabigh Electricity Company

Based on the company's Board of Directors Resolution No. 06/76/2008 dated Jumada Al-Awal 26, 1429H corresponding to June 3, 2008, the Company established Rabigh Electricity Company. The Company's share capital amounting to SR 2 million was paid in full and represents 100% of the investee's share capital.

During the third quarter of 2009, Rabigh Electricity Company increased its capital from SR 2 million to SR 10 million by admission of new partners which resulted in the decrease of Saudi Electricity Company's share from 100% to 20%.

(a-8) Dhuruma Electricity Company

Based on Ministerial Resolution No. 4/88/2009 dated Ramadan 18, 1430H corresponding to September 8, 2009, the Company established Dhuruma Electricity Company (a closed joint stock company) with a share capital of SR 2 million. During the year, a new partner joined the Company and the share capital was increased by the same amount to become SR 4 million and the Saudi Electricity Company's share becomes 50% of total partners' shareholding. The financial statements of Dhuruma Electricity Company have not been consolidated because of immateriality.

b) Other investments, at cost

|  | Ownership<br>% | 2011<br>SR'000 | 2010<br>SR'000 |
|--|----------------|----------------|----------------|
| Al-Shuaiba Water and Electricity company | 8              | 124,840        | 400            |
| Al-Shuqaiq Water and Electricity company | 8              | 400            | 400            |
| Al-Jubail Water and Electricity company  | 5              | 250            | 250            |
| Al-Shuaiba Holding Company               | 8              | 160            | 160            |
| Total other investments, at cost         |                | <u>125,650</u> | <u>1,210</u>   |

c) Held to maturity investments

|  | 2011<br>SR'000 | 2010<br>SR'000 |
|--|----------------|----------------|
| Saudi Basic Industries Corporation Sukuk | 300,000        | 300,000        |
| Bin Laden Company Sukuk                  | 50,000         | 50,000         |
| SAAB bonds                               | 50,000         | 50,000         |
| SATORP Sukuk                             | 25,000         | -              |
| Total held to maturity investments       | <u>425,000</u> | <u>400,000</u> |

d) Share in net (loss) earnings of investees accounted for under equity method

|  | 2011<br>SR'000  | 2010<br>SR'000  |
|--|-----------------|-----------------|
| Gulf Corporation Council Interconnection Authority | (45,905)        | (21,807)        |
| Water and Electricity Company                      | 158             | 137             |
| Total  | <u>(45,747)</u> | <u>(21,670)</u> |

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NOTES TO THE FINANCIAL STATEMENTS – (continued)  
FOR THE YEAR ENDED 31 December 2011

8. CONSTRUCTION WORK IN PROGRESS

|                                    | 2011<br>SR '000     |                       |                       |                  | 2010<br>SR '000<br>Total |
|------------------------------------|---------------------|-----------------------|-----------------------|------------------|--------------------------|
|                                    | Generation projects | Transmission projects | Distribution projects | General projects |                          |
| At the beginning of the year       | 15,424,059          | 6,407,377             | 3,930,639             | 276,111          | 32,214,782               |
| Additions during the year          | 13,771,788          | 7,121,405             | 7,709,853             | 368,507          | 28,971,553               |
| Transfer to fixed assets           | (18,727,487)        | (7,154,491)           | (6,558,211)           | (308,739)        | (34,508,342)             |
| <b>Balance at 31 December 2011</b> | <b>10,468,360</b>   | <b>6,374,291</b>      | <b>5,082,281</b>      | <b>335,879</b>   | <b>22,260,811</b>        |
| Balance at 31 December 2010        | 15,424,059          | 6,407,377             | 3,930,639             | 276,111          | 26,038,186               |

Net borrowing cost capitalized on projects under construction during the year amounted to SR 1,151 million (2010: SR 1,070 million).

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NOTES TO THE FINANCIAL STATEMENTS – (continued)  
FOR THE YEAR ENDED 31 December 2011

9. FIXED ASSETS, NET

|                              | Land<br>SR '000 | Buildings<br>SR '000 | Machinery and<br>equipment<br>SR '000 | Capital spare<br>parts<br>SR '000 | Vehicles<br>and heavy<br>equipment<br>SR '000 | Others<br>SR '000 | Total<br>2011<br>SR '000 | Total<br>2010<br>SR '000 |
|------------------------------|-----------------|----------------------|---------------------------------------|-----------------------------------|---|-------------------|--------------------------|--------------------------|
| <b>Cost:</b>                 |                 |                      |                                       |                                   |   |                   |                          |                          |
| At the beginning of the year | 1,579,661       | 14,851,163           | 241,348,391                           | 3,428,258                         | 1,274,831                                     | 2,610,858         | 265,093,162              | 230,793,514              |
| Additions                    | 56,090          | 805,908              | 30,586,847                            | 368,593                           | 97,704  | 1,073,967         | 32,989,109               | 34,673,046               |
| Disposals                    | (85)            | (22,496)             | (212,825)                             | -                                 | -   | (8)               | (235,414)                | (373,398)                |
| Reclassification             | -               | -                    | 129,702                               | -                                 | -   | (129,702)         | -                        | -                        |
| At the end of the year       | 1,635,666       | 15,634,575           | 271,852,115                           | 3,796,851                         | 1,372,535                                     | 3,555,115         | 297,846,857              | 265,093,162              |
| <b>Depreciation:</b>         |                 |                      |                                       |                                   |   |                   |                          |                          |
| At the beginning of the year | -               | 9,199,208            | 115,831,695                           | 1,834,861                         | 958,962                                       | 1,633,450         | 129,458,176              | 121,433,903              |
| Charge for the year          | -               | 543,846              | 8,642,288                             | 160,960                           | 98,561  | 491,405           | 9,937,060                | 8,380,206                |
| Disposals                    | -               | (18,734)             | (202,900)                             | -                                 | -   | (4)               | (221,638)                | (355,933)                |
| Reclassification             | -               | -                    | 2,002                                 | -                                 | -   | (2,002)           | -                        | -                        |
| At the end of the year       | -               | 9,724,320            | 124,273,085                           | 1,995,821                         | 1,057,523                                     | 2,122,849         | 139,173,598              | 129,458,176              |
| <b>Net book amounts:</b>     |                 |                      |                                       |                                   |   |                   |                          |                          |
| At 31 December 2011          | 1,635,666       | 5,910,255            | 147,579,030                           | 1,801,030                         | 315,012                                       | 1,432,266         | 158,673,259              |                          |
| At 31 December 2010          | 1,579,661       | 5,651,955            | 125,516,696                           | 1,593,397                         | 315,869                                       | 977,408           |                          | 135,634,986              |

Included in land are plots of land with book value of SR 276 million (2010: SR 276 million), the title deeds of which have not yet been transferred to the Company's name.

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9. **FIXED ASSETS, NET – (continued)**

Net book value of the Company's fixed assets is distributed among the main activities as follows:

|                              | <i>2011</i><br><i>SR'000</i> |                   |                   |                  | Total              |
|------------------------------|------------------------------|-------------------|-------------------|------------------|--------------------|
|                              | Generation                   | Transmission      | Distribution      | General Property |                    |
| Land                         | 245,285                      | 587,443           | 225,243           | 577,695          | 1,635,666          |
| Buildings                    | 2,722,760                    | 2,120,588         | 152,154           | 914,753          | 5,910,255          |
| Machinery & equipment        | 61,584,469                   | 46,955,880        | 38,746,741        | 291,940          | 147,579,030        |
| Capital spare parts          | 1,365,071                    | 415,759           | 20,017            | 183              | 1,801,030          |
| Vehicles and heavy equipment | -                            | -                 | -                 | 315,012          | 315,012            |
| Others                       | 900,059                      | 394,846           | 44,714            | 92,647           | 1,432,266          |
|                              | <u>66,817,644</u>            | <u>50,474,516</u> | <u>39,188,869</u> | <u>2,192,230</u> | <u>158,673,259</u> |

|                              | <i>2010</i><br><i>SR'000</i> |                   |                   |                  | Total              |
|------------------------------|------------------------------|-------------------|-------------------|------------------|--------------------|
|                              | Generation                   | Transmission      | Distribution      | General Property |                    |
| Land                         | 245,236                      | 587,388           | 225,249           | 521,788          | 1,579,661          |
| Buildings                    | 2,695,481                    | 1,870,261         | 154,903           | 931,310          | 5,651,955          |
| Machinery & equipment        | 47,654,610                   | 42,805,030        | 34,710,509        | 346,547          | 125,516,696        |
| Capital spare parts          | 1,162,176                    | 410,055           | 20,940            | 226              | 1,593,397          |
| Vehicles and heavy equipment | -                            | -                 | -                 | 315,869          | 315,869            |
| Others                       | 532,312                      | 308,036           | 30,104            | 106,956          | 977,408            |
|                              | <u>52,289,815</u>            | <u>45,980,770</u> | <u>35,141,705</u> | <u>2,222,696</u> | <u>135,634,986</u> |

Depreciation expenses charged to various activities during the year ended December 31 is as follows:

|                                       | <i>2011</i><br><i>SR'000</i> | <i>2010</i><br><i>SR'000</i> |
|---------------------------------------|------------------------------|------------------------------|
| Generation depreciation expense       | 4,199,706                    | 3,201,761                    |
| Transmission depreciation expense     | 2,788,722                    | 2,438,954                    |
| Distribution depreciation expense     | 2,613,351                    | 2,386,302                    |
| General property depreciation expense | 335,281                      | 353,189                      |
|                                       | <u>9,937,060</u>             | <u>8,380,206</u>             |

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10. ACCOUNTS PAYABLE

|  | <i>2011</i><br><i>SR'000</i> | <i>2010</i><br><i>SR'000</i> |
|--|------------------------------|------------------------------|
| Saudi Aramco for fuel cost                               | 51,419,456                   | 46,227,372                   |
| Transferred to Government account (a)                    | <u>(40,959,482)</u>          | <u>(40,959,482)</u>          |
| Saudi Aramco payable for fuel cost                       | 10,459,974                   | 5,267,890                    |
| Saline Water Conversion Corporation for energy purchased | 8,453,968                    | 8,080,770                    |
| Contractors and retention payables                       | 761,301                      | 691,138                      |
| Municipality fees  | 3,241,135                    | 2,804,236                    |
| Payables to suppliers                                    | 93,587                       | 613,496                      |
| Advances received for construction of projects           | 633,768                      | 1,966,612                    |
| Other (b)  | <u>2,591,612</u>             | <u>2,451,901</u>             |
|  | <u><u>26,235,345</u></u>     | <u><u>21,876,043</u></u>     |

(a) As stated in note (17-a), Amounts payable for fuel for the period from April 5, 2000 to December 31, 2009 amounting to SR 41 billion have been transferred from the liability to Saudi Aramco to non-current government liability.

(b) Other payables include SR 1,280 million (2010: SR 1,280 million) which are still under reconciliation between the Company and the Government and pertain to prior-merger account (refer to Note 1).

11. ACCRUALS AND OTHER PAYABLES

|                             | <i>2011</i><br><i>SR'000</i> | <i>2010</i><br><i>SR'000</i> |
|-----------------------------|------------------------------|------------------------------|
| Accrued expenses            | 3,631,647                    | 3,386,288                    |
| Accrued employees' benefits | 370,139                      | 347,162                      |
| Dividends payable *         | 339,940                      | 329,530                      |
| Accrued Murabaha on loans   | 82,389                       | 125,292                      |
| Other                       | <u>181,827</u>               | <u>213,946</u>               |
|                             | <u><u>4,605,942</u></u>      | <u><u>4,402,218</u></u>      |

\* Dividends payable as of December 31, 2011 include unclaimed cash dividends declared by Saudi Consolidated Electricity Company prior to merge amounting to SR 91.5 million (2010: SR 93.8 million).

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12. ZAKAT

The major elements of zakat base are as follows:

|                         | <u>2011</u><br><u>SR</u> | <u>2010</u><br><u>SR</u> |
|-------------------------|--------------------------|--------------------------|
| Net income before zakat | 2,213,159                | 2,279,088                |
| Add: Zakat adjustment   | (12,296,312)             | (8,440,903)              |
| Net adjusted loss       | <u>(10,083,153)</u>      | <u>(6,161,815)</u>       |

Zakat base is calculated as follows:

|   | <u>2011</u><br><u>SR</u> | <u>2010</u><br><u>SR</u> |
|---|--------------------------|--------------------------|
| Capital   | 41,665,938               | 41,665,938               |
| Net adjusted loss   | (10,083,153)             | (6,161,815)              |
| Retained reserves   | 1,869,353                | 1,640,044                |
| Retained earnings   | 7,123,345                | 5,071,166                |
| Retained allowances   | 7,050,373                | 6,761,296                |
| Long term loans and sukuk   | 36,816,001               | 30,821,707               |
| Government loans  | 67,891,719               | 18,688,060               |
| Consumers deposits, government liabilities and contractors accruals | 2,558,748                | 2,730,762                |
| Total   | <u>154,892,324</u>       | <u>101,217,158</u>       |
| Deduct:   |                          |                          |
| Fixed assets and construction work in progress, net                 | (131,259,163)            | (107,525,831)            |
| Difference on fixed assets for previous years                       | (41,576,007)             | (32,287,433)             |
| Long term investments   | (2,406,042)              | (2,296,850)              |
| Material and spare parts inventories                                | (4,218,398)              | (4,563,909)              |
| Zakat base (negative)   | <u>(24,567,286)</u>      | <u>(45,456,865)</u>      |

Zakat has not been provided for during the year ended 31 December 2011 because of the net adjusted loss and zakat base is negative.

The final zakat assessments raised by the Department of Zakat and Income Tax (DZIT) for the period from 5 April 2000 (Date of Merger) to 31 December 2001 and for the year 2002 show zakat differences of SR 13 million, due to the DZIT's computation of zakat on differences due from Aramco on revenue from its residential facilities on which electricity is calculated based on industrial tariff instead of commercial tariff. The Company has not reflected those difference in these financial statements; believing that this claim will never be settled because zakat will never be paid on unearned income and not recorded in the Company's accounts. The Company has received the final assessments for the years 2003 to 2008 which showed zakat differences of SR 24.5 million for the years 2003 and 2004. The Company filed an appeal against these differences which is still pending. The Company filed its zakat returns for the years 2009 to 2010 and are still under review by DZIT.

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FOR THE YEAR ENDED 31 December 2011

13. LONG-TERM LOANS

|                              | <i>2011</i><br><i>SR'000</i> | <i>2010</i><br><i>SR'000</i> |
|------------------------------|------------------------------|------------------------------|
| At the beginning of the year | 11,821,707                   | 7,340,257                    |
| Withdrawal during the year   | 6,084,670                    | 5,594,548                    |
| Repayments during the year   | <u>(1,191,489)</u>           | <u>(1,113,098)</u>           |
| At the end of the year       | 16,714,888                   | 11,821,707                   |
| Less: Current portion        | <u>(3,133,100)</u>           | <u>(1,189,317)</u>           |
|                              | <u><u>13,581,788</u></u>     | <u><u>10,632,390</u></u>     |

The maturities for the next years as of December 31 are as follows:

|                              | <i>2011</i><br><i>SR'000</i> | <i>2010</i><br><i>SR'000</i> |
|------------------------------|------------------------------|------------------------------|
| Between one and two years    | 1,468,000                    | 1,017,783                    |
| Between two and three years  | 1,468,000                    | 1,123,000                    |
| Between three and four years | 1,468,000                    | 1,123,000                    |
| Between four and five years  | 1,468,000                    | 1,123,000                    |
| After five years             | <u>7,709,788</u>             | <u>6,245,607</u>             |
|                              | <u><u>13,581,788</u></u>     | <u><u>10,632,390</u></u>     |

- (a) On 28 July 2008, the Company obtained a sharia-compliant loan for SR 6 billion from syndicates of local banks which has been fully withdrawn. The loan is repayable over 22 semi-annual installments starting 3 November 2009. The loan balance amounted to SR 4.6 billion as of 31 December 2011 (2010: SR 5.2 billion). The loan is subject to certain financial covenants in which the Company was compliant with as at 31 December 2011.
- (b) The Company agreed with U.S. Export-Import Bank, and the Export Development Bank of Canada on 21 June 2009 and signed a financing agreement on 27 January 2010, whereby the Company will receive a direct loan amounting to US\$ 1.1 billion equivalent to approximately SR 4.1 billion which has been fully withdrawn. The loan is repayable within 12 years in 24 semi-annual installments starting 25 May 2010. The loan balance amounted to SR 3.4 billion as of 31 December 2011 (2010: SR 3.8 billion).
- (c) On 13 July 2009, the Company signed a financing agreement with the Public Investments Fund whereby the Company will receive a direct loan of SR 2.6 billion which has been fully withdrawn. The loan is repayable within 15 years in 24 semi-annual installments. The loan balance amounted to SR 2.6 billion as of 31 December 2011 (2010: SR 2.6 billion).
- (d) On 13 December 2010, the Saudi Electricity Company signed an agreement with a syndicate of local banks, whereby the Company will obtain a sharia - compliant loan of SR 5 billion, repayable over 26 semi-annual installments within 24 months after the date of signing the agreement. The loan balance amounted to SR 0.5 billion as of 31 December 2011 (2010: SR Nil).

Saudi Electricity Company  
(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS – (continued)  
FOR THE YEAR ENDED 31 December 2011

**13. LONG-TERM LOANS – (continued)**

- (e) On 12 March 2011, Saudi Electricity Company signed an agreement with Tokyo-Mitsubishi Bank, whereby the Company will receive a loan amounting to US\$ 0.5 billion equivalent to SR 1.9 billion, which has been fully withdrawn. The loan is repayable fully at one installment within 12 months from the first withdrawal. The agreement allows the Company to extend the original maturity date of loan for 12 months. The loan balance amounted to SR 1.9 billion as of 31 December 2011 (2010: SR Nil).
- (f) On 22 June 2011, the Company signed an agreement with Export and Import, France, The Company will receive a loan amounting to US\$ 989.1 million equivalent to SR 3.7 billion which had been fully withdrawn. The loan is repayable within 12 years in 24 semi-annual installments starting 11 January 2012. The loan balance amounted to SR 3.7 billion as of 31 December 2011 (2010:SR Nil).

Long term loans mentioned above are used to finance the construction work in progress projects. These loans are secured by promissory notes signed by the Company at the nominal amount of the loan plus the interest payments and/or Murrabaha Margin.

The Company has an unutilized credit facilities with local banks amounting to SR 1 billion as at 31 December 2011 (2010: SR 1 billion).

**14. SUKUK**

The outstanding Sukuk as of 31 December 2011 are as follows:

| <u>Issue</u> | <u>Date of issue</u> | <u>Par value</u> | <u>Total issued amount</u> | <u>Maturity date</u> |
|--------------|----------------------|------------------|----------------------------|----------------------|
| Sukuk 1      | 23 July 2007         | SR 500,000       | SR 5 Billion               | 2027                 |
| Sukuk 2      | 6 July 2009          | SR 100,000       | SR 7 Billion               | 2029                 |
| Sukuk 3      | 10 May 2010          | SR 10,000        | SR 7 Billion               | 2030                 |

The above Sukuk have been, issued at par value with no discount nor premium. The Sukuk bear a rate of return at SIBOR plus a margin payable quarterly from the net income received from the Sukuk assets held by the Sukuk custodian "Electricity Sukuk Company", a wholly owned subsidiary of the Company.

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

| <u>Issue</u> | <u>Percentage</u>          |                             |                            |
|--------------|----------------------------|-----------------------------|----------------------------|
|              | <u>90%</u>                 | <u>60%</u>                  | <u>30%</u>                 |
|              | <u>First purchase date</u> | <u>Second purchase date</u> | <u>Third purchase date</u> |
| Sukuk 1      | 2012                       | 2017                        | 2022                       |
| Sukuk 2      | 2014                       | 2019                        | 2024                       |
| Sukuk 3      | 2017                       | 2020                        | 2025                       |

Saudi Electricity Company  
(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS – (continued)  
FOR THE YEAR ENDED 31 December 2011

**15. EMPLOYEES' INDEMNITIES**

|  | <i>2011</i><br><i>SR'000</i> | <i>2010</i><br><i>SR'000</i> |
|--|------------------------------|------------------------------|
| Provision for end-of-service indemnities | 4,536,870                    | 4,480,977                    |
| Savings program                          | 301,639                      | 209,241                      |
|  | <u>4,838,509</u>             | <u>4,690,218</u>             |

**16. DEFERRED REVENUES, NET**

|  | <i>2011</i><br><i>SR'000</i> | <i>2010</i><br><i>SR'000</i> |
|--|------------------------------|------------------------------|
| At the beginning of the year                             | 16,736,945                   | 14,970,527                   |
| Proceeds from connection tariff services during the year | 5,138,675                    | 2,963,512                    |
| Electrical connection tariff                             | (1,406,045)                  | (1,197,094)                  |
|  | <u>20,469,575</u>            | <u>16,736,945</u>            |

**17. LONG-TERM GOVERNMENT PAYABLES**

- a) Accounts payable for fuel for the period from 5 April 2000 to 31 December 2009 amounting to SR 41 billion have been reclassified from current liabilities to non-current liabilities (long-term governmental payables) pursuant to the Ministerial minutes of meeting dated 15 Jumada Awal 1427H and 6 Safar 1433H based on the Ministerial Resolution number 277, which resolved to transfer the Company's liability of Saudi Aramco to the account of the Ministry of Finance (note 10-a).
- b) During the fourth quarter of year 2010, the Company transferred certain transmission and distribution network assets located in Jubail Industrial City from Royal Commission for Jubail and Yanbu to the Company with a net book value amounting to SR 744 million. This liability has been recorded as long term government payables. The pre-merger accumulated depreciation estimated to be SR 244 million has been recorded as due from government and included within prepayments and other receivables (note5). These transactions have been accounted for retroactively (note 30).

Saudi Electricity Company  
(A Saudi Joint Stock Company)

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NOTES TO THE FINANCIAL STATEMENTS – (continued)  
FOR THE YEAR ENDED 31 December 2011

**18. GOVERNMENT LOANS**

- (a) Pursuant to the Ministerial resolution number 169 dated Sha'ban 11, 1419H, the net dues of the Government to the Saudi Electricity Company and the net dues of the Company to the Government were determined in accordance with rules and procedures stipulated in the minutes of meetings signed by his HE the Minister of Industry and Electricity and HE the Minister of Finance and National Economy dated Jumada Thani 27, 1418H corresponding to October 29, 1997. The net difference payable to the Government by the Company, as determined at the close of the business day preceding the issuance of the Royal Decree for the incorporation of the Company, is considered a long-term non-interest bearing loan (soft loan) with a grace period of twenty five years starting from the date of the announcement of the incorporation of the Company. The loan is to be revisited later on subject to the financial condition of the Government and the Company.

The minutes of the meeting held on Rajab 21, 1422H between the Minister of Industry and Electricity and the Minister of Finance and National Economy in which the initial amount of the Government loan was determined, states that the final settlement of Government accounts will be subject to the reconciliation for the claims of the Company from Government entities, and the loan amount shall be adjusted accordingly. During 2005, the Company finalized the amount due which included the claims of the Company and the amounts due to the Government and the agreement was signed between the Minister of Water and Electricity and the Minister of Finance on Rajab 15, 1426H which brought the balance of Government loan amounted to SR 14.9 billion.

- (b) The Council of Ministers approved in its meeting held on Monday 12 Jumada Awal 1431H corresponding to 26 April 2010 to grant the Company a non-interest bearing loan (soft loan) amounting to SR 15 billion repayable over 25 years. The loan will be paid to the Company within 2 years in accordance with an agreement that will be prepared for this purpose between the Ministry of Finance and the Saudi Electricity Company. The agreement was signed on 15 Ramadan 1431H, corresponding to 25 August 2010 and an amount of SR 11.3 billion from this loan has been withdrawn as at 31 December 2011. The Company has recognized the amount received from the government loan above discounted at its present value as per the accounting policies in Note (2).
- (c) The Council of Ministers approved in its meeting held on Monday 11 Rajab 1432H corresponding to 13 June 2011 to grant the Company a non-interest bearing loan (soft loan) amounting to SR 51.1 billion, repayable over 25 years, The loan will be paid to the Company within 5 years in accordance with an agreement that will be prepared for this purpose between the Ministry of Finance and the Saudi Electricity Company. No amounts have been withdrawn from this loan as at balance sheet date.

**19. DERIVATIVES**

The Company entered into interest rate hedging contracts with several banks to hedge the fluctuation of interest rates on loans for an amount of SR 3.4 billion on 31 December 2011 which includes a US Dollar portion representing approximately 15% of the national amount. The hedging contracts are based on the swap between the Company and the banks of fixed rates against floating rates on the original loan amounts every six-months.

The Company signed forward exchange currency agreements with local banks aiming to fix the Euro exchange rate against the U.S. Dollar exchange rate to cover the Company's future commitments and protect them from currency rate fluctuations.

Saudi Electricity Company  
(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS – (continued)  
FOR THE YEAR ENDED 31 December 2011

**20. SHARE CAPITAL**

The share capital of the Company is SR 41,665,938,150 divided into 4,166,593,815 shares with a par value of SR 10 each and is held as follows:

|                    | Number of shares     | Ownership percentage |
|--------------------|----------------------|----------------------|
| Government         | 3,096,175,320        | 74.31%               |
| Saudi Aramco       | 288,630,420          | 6.93%                |
| Other shareholders | 781,788,075          | 18.76%               |
|                    | <u>4,166,593,815</u> | <u>100%</u>          |

**21. GENERAL RESERVE**

General reserve consists of the balances of the reserves amounting to SR 213,668 Thousands that were reflected in the books of the Saudi Electricity Company at the date of the merger, and investment income from electricity fund of SR 294,976 as well as the collections of surcharge from individuals subsequent to December 31, 2001 amounting to SR 29,699 thousand up to December 31, 2011 (2010: SR 27,533 thousand). The total general reserve amounted to SR 538,343 thousand as at December 31, 2011(2010: SR 536,177 thousand).

**22. OPERATION AND MAINTENANCE EXPENSES**

|  | <i>2011</i>       |                     |                     |                  | <i>2010</i>      |
|--|-------------------|---------------------|---------------------|------------------|------------------|
|  | <i>SR'000</i>     |                     |                     |                  | <i>SR'000</i>    |
|  | <u>Generation</u> | <u>Transmission</u> | <u>Distribution</u> | <u>Total</u>     | <u>Total</u>     |
| Employees' expenses and benefits           | 1,288,171         | 910,581             | 2,365,486           | 4,564,238        | 4,022,932        |
| Materials                                  | 712,916           | 109,954             | 234,539             | 1,057,409        | 1,113,808        |
| Operation and maintenance<br>(contractors) | 405,862           | 109,593             | 372,263             | 887,718          | 703,413          |
| Provision for doubtful receivables         | -                 | -                   | 121,721             | 121,721          | 257,564          |
| Provision for slow moving inventory        | 36,740            | 8,070               | 10,950              | 55,760           | 9,490            |
| Municipality fees                          | -                 | -                   | 436,969             | 436,969          | 394,083          |
| Others                                     | 875,341           | 84,060              | 355,061             | 1,314,462        | 1,251,653        |
|  | <u>3,319,030</u>  | <u>1,222,258</u>    | <u>3,896,989</u>    | <u>8,438,277</u> | <u>7,752,943</u> |

Saudi Electricity Company  
(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS – (continued)  
FOR THE YEAR ENDED 31 December 2011

**23. GENERAL AND ADMINISTRATIVE EXPENSES**

|                                     | <i>2011</i><br><i>SR'000</i> | <i>2010</i><br><i>SR'000</i> |
|-------------------------------------|------------------------------|------------------------------|
| Employees' expenses and benefits    | 230,489                      | 264,407                      |
| Materials                           | 41,410                       | 37,521                       |
| Provision for slow moving inventory | 7,200                        | 1,690                        |
| Others                              | 81,136                       | 85,454                       |
|                                     | <u>360,235</u>               | <u>389,072</u>               |

**24. OTHER INCOME AND EXPENSES, NET**

|  | <i>2011</i><br><i>SR'000</i> | <i>2010</i><br><i>SR'000</i> |
|--|------------------------------|------------------------------|
| Gain on disposal of fixed assets   | 25,860                       | 97,833                       |
| Penalties  | 172,969                      | 118,747                      |
| Share in net loss of investee companies accounted for under the equity method (Note 7-d) | (45,747)                     | (21,670)                     |
| Sale of tender documents   | 28,952                       | 27,063                       |
| Others, net  | 224,715                      | 206,715                      |
|  | <u>406,749</u>               | <u>428,688</u>               |

**25. DIVIDENDS**

In accordance with the Company's by-laws, dividends of at least 5% of paid in capital, net of reserve, should be distributed to shareholders, with due care to the provisions of the Council of Ministers' Resolution No. 169 dated 11 Sha'aban 1419H, whereby the Government has waived its share from the distributed dividends for a period of ten years from the date of the Company's formation, provided that dividends do not exceed 10% of the par value of the shares. In cases where the distribution exceeds 10% of the shares' par value, the Government's share shall be treated similar to the share of other shareholders. The Government has agreed to extend this waiver for another ten years commencing from 30 Thul Hijja 1430H, based on the Council of Ministers' Resolution No. 327 dated 24 Ramadan 1430H.

The General Assembly, in its meeting held on 4 April 2011, approved the distribution of cash dividends for 2010 individuals shareholders amounting to SR 547 million (SR 0.7 per share) representing 7% of the par value per share (2009: SR 547 million).

The board of directors in its meeting held on 19 February 2012, proposed to distribute cash dividends for 2011 to individuals shareholders amounting to SR 547 million. (SR 0.7– per share), representing - 7% of the par value per share. These are subject to the approval of the Company's general meeting.

Saudi Electricity Company  
(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS – (continued)  
FOR THE YEAR ENDED 31 December 2011

**26. BOARD OF DIRECTORS' REMUNERATION AND ALLOWANCES**

The expenses and allowances attributable to attending the board of directors meetings and other subcommittee meeting for the year amounted to SR 605 thousand (2010: SR 625 thousand).

The general meeting has approved in its meeting held on 4 April 2011, board's remuneration for 2010 amounting to SR 0.8 million to be disbursed from retained earnings (2009: SR 0.8 million).

The board of directors in its meeting held on 19 February 2012, proposed board's remuneration of SR 0.7 million after the distribution of dividends to individual shareholders not less than 5% of the share capital. This is subject to general meeting's approval.

**27. RELATED PARTIES TRANSACTIONS**

a. The Company provides electricity power to governmental agencies, ministries and Saudi Aramco. The tariff applied are approved by the Council of Ministers and are similar to these applied to other subscribers, except for the tariff used for Saline Water Conversion Corporation (SWCC) for which a government resolution was issued. As for the residential property of Saudi Aramco, the Company believes that these should be charged with the commercial tariff. However, Saudi Aramco has objected to this tariff and is settling the electricity sales for all such properties based on the industrial tariff which resulted in a difference of SR 1,831 million from the Company's inception to 31 December 2011 (SR 1,745 million from the Company's inception to 31 December 2010). These differences have not been reflected in these financial statements. The Council of Ministers has issued the Resolution Number 114 dated 10 Rabi Thani 1430H to end this dispute and to charge Saudi Aramco on the basis of the residential and commercial tariff instead of industrial tariff. The Electricity and Co-generation Regulatory Authority will have to specify the residential and commercial enterprises of Saudi Aramco and to identify the concerned party to handle the cost of construction, maintenance and operation for power stations, transformers, distribution networks. Accordingly, Saudi Electricity Company, Saudi Aramco and the regulator (The Electricity and Co-generation Regulatory Authority) held several meetings to settle this matter.

In addition, the Company purchases fuel from Saudi Aramco and electricity from Saline Water Conversion Corporation at rates stipulated for in governmental resolutions. Also, fees are charged for municipalities on electricity power sales.

The significant transactions and related approximate balances are as follows:

|                                     | <i>2011</i><br><i>SR'000</i> | <i>2010</i><br><i>SR'000</i> |
|-------------------------------------|------------------------------|------------------------------|
| <b>Sales</b>                        |                              |                              |
| Government                          | 7,150,973                    | 6,927,911                    |
| Saudi Aramco                        | 1,490,989                    | 1,318,150                    |
| Saline Water Conversion Corporation | 194,021                      | 164,988                      |
|                                     | <u>8,835,983</u>             | <u>8,411,049</u>             |
| <b>Purchases and Others</b>         |                              |                              |
| Saudi Aramco                        | 5,514,247                    | 5,591,878                    |
| Saline Water Conversion Corporation | 573,407                      | 626,641                      |
| Municipalities fees                 | 436,969                      | 394,083                      |
|                                     | <u>6,524,623</u>             | <u>6,612,602</u>             |

**Saudi Electricity Company**  
**(A Saudi Joint Stock Company)**

**NOTES TO THE FINANCIAL STATEMENTS – (continued)**  
**FOR THE YEAR ENDED 31 December 2011**

**28. CONTINGENT LIABILITIES**

- a. There is a dispute between the Company and Saudi Aramco for handling crude oil fees. The disputed amount since the Company's inception on 5 April 2000 to 31 December 2011 amounted to approximately SR 2,886 million (2010: SR 2,472 million). The Company's management believes that there will be no liability on the Company based on the Royal Decree Number M/8 dated 25 Rajab 1415H as this matter was not discussed by the Ministerial Committee formed by the Royal Decree referred to above. Accordingly, the difference has not been recorded in the Company's books. In addition, Saudi Aramco is supplying the Company with light fuel oil rather than heavy fuel oil to one of its stations. This has resulted in an accumulated difference of SR 858 million (2010: SR 566 million) not accounted for in the Company's books.
- b. Saudi Aramco has also a claim for the settlement of its share in the annual dividends since inception to 31 December 2010, estimated at SR 1,937 million. The Company believes that Saudi Aramco has no right for this claim during the first 20 years of its formation being wholly owned government agency and accordingly, is governed by the Ministerial Resolution No. 169 dated 11 Sha'aban 1419H and Council of Ministries Resolution No. 327 dated 24 Ramadan 1430H, extending the Government's waiver of its rights in the dividends distributed by the Saudi Electricity Company for another ten years.
- c. The Company has provided guarantees to certain commercial banks against its share for financing a loan granted to some of its investee companies. The guarantee amounted to US\$ 117 million, equivalent to SR 440 million as at 31 December 2011 (2010: US\$ 112 million, equivalent to SR 419 million). In addition, the Company has provided a guarantee for the Department of Zakat and Income Tax amounting to SR 13 million (2010: SR 13 million).
- d. The company is contingently liable against outstanding letters of credit amounting to SR 0.30 million as of the balance sheet date (2010: SR 63 million).

**29. ELECTRICITY SALES**

Electricity sales increased mainly due to the increase in the quantity of power sold, in addition to tariff adjustment on governmental, commercial and industrial classes starting 1 July 2010.

**30. PRIOR YEARS ADJUSTMENTS**

At the end of the first quarter of year 2011, the Company has evaluated the derivative financial instruments of the hedging contracts related to fixed versus floating interest rate swaps. Consequently, the opening balances of the shareholders' equity change in fair value of hedging contracts - were adjusted by SR 388 million as of 1 January 2011 and by SR 472 million as of 1 January 2010.

As set in note (17), The Company transferred certain transmission and distribution network assets in Jubail Industrial City, owned by the Royal Commission for Jubail to the Company's retroactions, which resulted in adjusting the opening balances of retained earnings and statutory reserve for the year ended 31 December 2010.

**31. CAPITAL COMMITMENTS**

These comprise the unexecuted portion of capital contracts conducted by the Company for the erection and installation of power plants and other assets approximately amounting to SR 48,073 million (2010: SR 63,961 million). It is anticipated that these contracts to be completed between one to three years.

Saudi Electricity Company  
(A Saudi Joint Stock Company)

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NOTES TO THE FINANCIAL STATEMENTS – (continued)  
FOR THE YEAR ENDED 31 December 2011

**32. RISK MANAGEMENT**

Financial instruments included in the balance sheet consist mainly of cash and cash equivalents, accounts receivable other assets, bank loans, account payable, accrued liabilities and other non-current liabilities.

**Credit risk**

Credit risk is the risk that one party will fail to discharge an obligation and will cause the other party to incur a financial loss. The Company has proper diversification as of credit risk. Cash is substantially placed financial institutions with sound investment grade credit ratings. Trade accounts receivable are shown, net of provision for doubtful debts..

**Commission rate risk**

Commission rate risk is the risk that the value of financial instrument will fluctuation due to changes in the market commission rates. The Company has no long-term assets commission bearing assets, but has liabilities associated with commission rates as of December 31, 2011. The Company manages its floating-rate loans through the use of commission rates hedging agreements, which have the economic effects to transfer the interest on the loans from floating to fixed rate.

**Liquidity risk**

Liquidity risk is the risk that the Company will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at an amount close to its fair value. The Company managers liquidated risk by monitoring them regulating to ensure that sufficient funds are available to meet its future liabilities.

**Currency risk**

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. The management monitors the fluctuations in currency exchange rates and charge the results to financial statements accordingly.

**Fair value risk**

Fair value is the amount for which an asset could be exchanged, or a liability settled between knowledgeable willing parties in an arm's length transaction. As the Company's financial instruments are prepared under the historical cost convention, differences can arise between the carrying values and fair value estimates. Management believes that the fair values of the Company's financial assets and liabilities are not materially different from their carrying values.

**33. FUTURE RESTRUCTURE FOR THE COMPANY'S ACTIVITIES**

The Company is currently considered as one operating unit with overlapping activities. Its main operating activities are divided into generation, transmission and distribution activities .These activities complement each other in delivering electricity to the consumer. The company's revenue is currently recognized from selling electricity to the end consumer based on the official Tariff set by the government .The company is currently working on developing prices between the activities of generation ,transmission and distribution. The National Electricity Transmission Company was established (has started its operation on January 2012). The Company has also a plan to split its principal activities to different independent entities and therefore revenues and expenses will be specified for each entity by itself upon completion of separation. The Company's operations and consumers are based in the Kingdom of Saudi Arabia.

**34. COMPARATIVE FIGURES**

Certain comparative figures have been reclassified to conform with the current year's presentation.

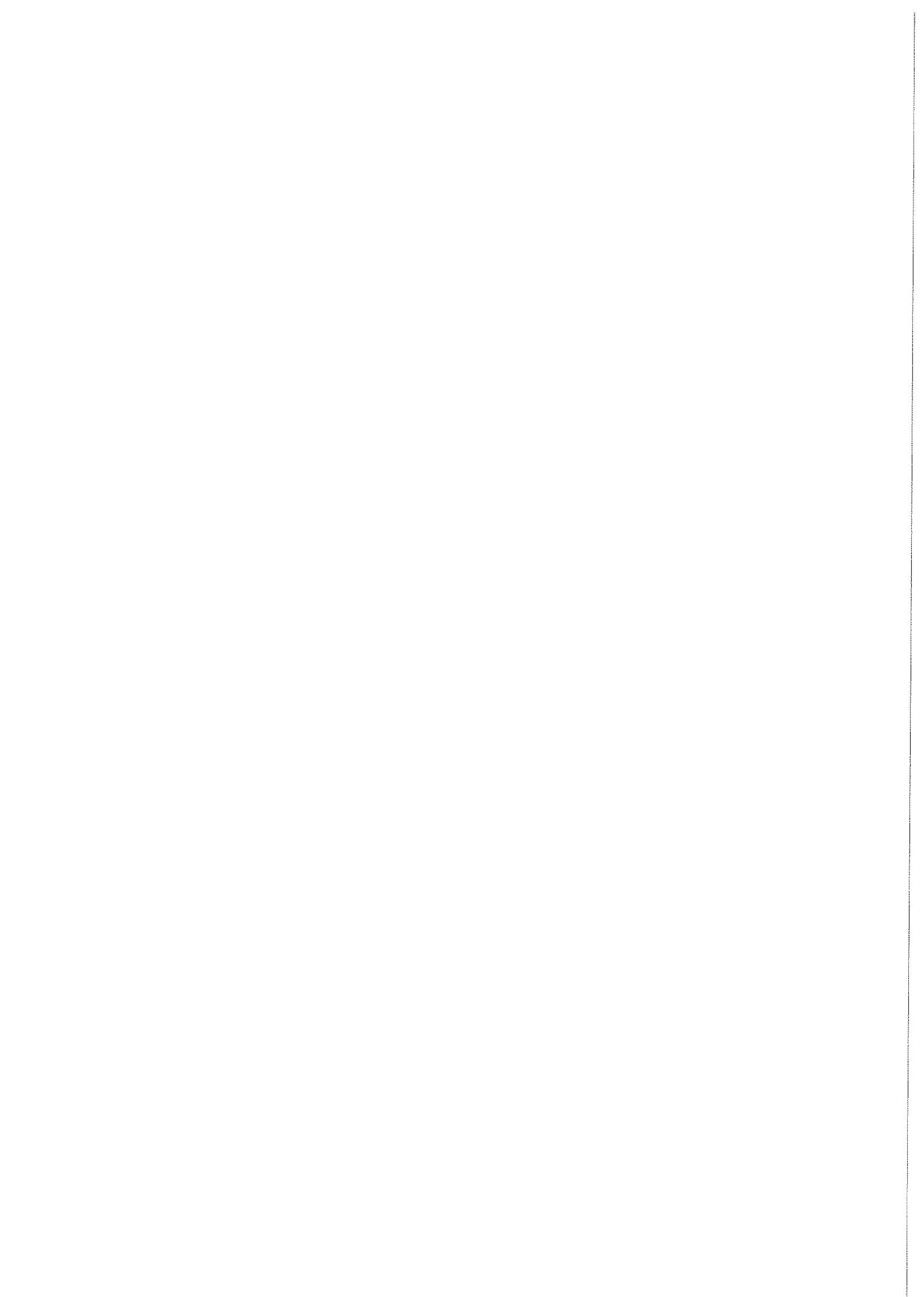
Saudi Electricity Company  
(A Saudi Joint Stock Company)

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NOTES TO THE FINANCIAL STATEMENTS – (continued)  
FOR THE YEAR ENDED 31 December 2011

**35. SUBSEQUENT EVENTS**

The Company has completed the procedure of the registration and incorporation of National Electricity Transmission Company – wholly owned company which started its operations on 1 January 2012 by transferring all Company's related transmission activities to it.



**Saudi Electricity Company**  
**(A Saudi Joint Stock Company)**

**CONSOLIDATED FINANCIAL STATEMENTS AND  
AUDITORS' REPORT**

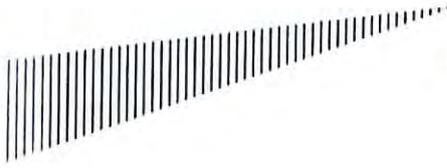
**FOR THE YEAR ENDED 31 DECEMBER 2012**

Saudi Electricity Company  
(A Saudi Joint Stock Company)

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CONSOLIDATED FINANCIAL STATEMENTS AND AUDITORS' REPORT  
FOR THE YEAR ENDED 31 DECEMBER 2012

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**AUDITORS' REPORT TO THE SHAREHOLDERS OF  
SAUDI ELECTRICITY COMPANY  
(A Saudi Joint Stock Company)**

**Scope of audit**

We have audited the accompanying consolidated balance sheet of Saudi Electricity Company ("the Company") - a Saudi joint stock company and its subsidiaries ("the Group") as at 31 December 2012 and the related consolidated statements of income, cash flows and changes in shareholders' equity for the year then ended. These consolidated financial statements are the responsibility of the Group's management and have been prepared by them in accordance with the provisions of Article 123 of the Regulations for Companies and submitted to us together with all the information and explanations which we required. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the Kingdom of Saudi Arabia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable degree of assurance to enable us to express an opinion on the consolidated financial statements.

**Unqualified opinion**

In our opinion, the consolidated financial statements taken as a whole:

- i) present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2012 and the consolidated results of its operations and its cash flows for the year then ended in accordance with accounting standards generally accepted in the Kingdom of Saudi Arabia.
- ii) comply with the requirements of the Regulations for Companies and the Company's by-laws in so far as they affect the preparation and presentation of the consolidated financial statements.

for Ernst & Young

Rashid S. AIRashoud  
Certified Public Accountant  
Registration No. 366



Riyadh: : 14 Rabi Thani 1434H  
(24 February 2013)

Saudi Electricity Company  
(A Saudi Joint Stock Company)

CONSOLIDATED BALANCE SHEET

AS AT 31 DECEMBER 2012

(In Thousands Saudi Riyals)

|  | <i>Note</i> | <u>2012</u>        | <u>2011</u>        |
|--|-------------|--------------------|--------------------|
| <b>ASSETS</b>  |             |                    |                    |
| <b>CURRENT ASSETS</b>  |             |                    |                    |
| Cash and cash equivalents  | 4           | 3,045,786          | 7,306,624          |
| Receivables from electricity consumers and accrued revenues, net | 5           | 13,427,260         | 12,027,200         |
| Prepayments and other receivables, net                           | 6           | 5,193,853          | 4,853,625          |
| Inventories, net   | 7           | 5,821,473          | 5,562,850          |
| <b>TOTAL CURRENT ASSETS</b>                                      |             | <u>27,488,372</u>  | <u>29,750,299</u>  |
| <b>NON-CURRENT ASSETS</b>  |             |                    |                    |
| Loan to an associated company                                    |             | 365,500            | 365,500            |
| Equity investments in companies and others                       | 8           | 2,190,812          | 2,404,542          |
| Construction work in progress                                    | 9           | 39,889,549         | 22,260,811         |
| Fixed assets, net  | 10          | 168,652,100        | 158,673,259        |
| <b>TOTAL NON-CURRENT ASSETS</b>                                  |             | <u>211,097,961</u> | <u>183,704,112</u> |
| <b>TOTAL ASSETS</b>  |             | <u>238,586,333</u> | <u>213,454,411</u> |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>                      |             |                    |                    |
| <b>CURRENT LIABILITIES</b>                                       |             |                    |                    |
| Accounts payable   | 11          | 34,509,177         | 26,241,202         |
| Accruals and other payables                                      | 12          | 4,735,729          | 4,605,942          |
| Short term loans and current portion of long-term loans          | 14          | 1,468,000          | 3,133,100          |
| Sukuk  | 15          | -                  | 5,000,000          |
| <b>TOTAL CURRENT LIABILITIES</b>                                 |             | <u>40,712,906</u>  | <u>38,980,244</u>  |
| <b>NON-CURRENT LIABILITIES</b>                                   |             |                    |                    |
| Long-term loans  | 14          | 12,196,986         | 13,581,788         |
| Sukuk  | 15          | 20,562,990         | 14,000,000         |
| Employees' indemnities   | 16          | 5,168,181          | 4,838,509          |
| Deferred revenues, net   | 17          | 22,289,701         | 20,469,575         |
| Consumers' refundable deposits                                   |             | 1,453,806          | 1,367,628          |
| Government loans   | 18          | 23,374,496         | 18,845,211         |
| Long-term Government payables                                    | 19          | 58,487,223         | 49,046,508         |
| Change in fair value of hedging contracts                        | 20          | 370,748            | 431,870            |
| <b>TOTAL NON-CURRENT LIABILITIES</b>                             |             | <u>143,904,131</u> | <u>122,581,089</u> |
| <b>TOTAL LIABILITIES</b>   |             | <u>184,617,037</u> | <u>161,561,333</u> |
| <b>SHAREHOLDERS' EQUITY</b>                                      |             |                    |                    |
| Share capital  | 21          | 41,665,938         | 41,665,938         |
| Statutory reserve  |             | 1,810,599          | 1,554,492          |
| General reserve  | 22          | 540,330            | 538,343            |
| Retained earnings  | 26/30       | 10,323,177         | 8,566,175          |
| Net change in fair value of hedging contracts                    | 20          | (370,748)          | (431,870)          |
| <b>TOTAL SHAREHOLDERS' EQUITY</b>                                |             | <u>53,969,296</u>  | <u>51,893,078</u>  |
| <b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>                |             | <u>238,586,333</u> | <u>213,454,411</u> |

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

Saudi Electricity Company  
(A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF INCOME  
FOR THE YEAR ENDED 31 DECEMBER 2012  
(In Thousands Saudi Riyals)

|   | <i>Note</i> | <u>2012</u>         | <u>2011</u>         |
|---|-------------|---------------------|---------------------|
| <b>OPERATING REVENUES</b>                               |             |                     |                     |
| Electricity sales                                       |             | 31,101,888          | 28,280,494          |
| Meter reading, maintenance and bills preparation tariff |             | 937,529             | 883,059             |
| Electricity connection tariff                           | 17          | 1,515,790           | 1,330,533           |
| Other operating revenues                                |             | 91,052              | 75,512              |
| <b>TOTAL OPERATING REVENUES</b>                         |             | <u>33,646,259</u>   | <u>30,569,598</u>   |
| <b>COST OF SALES</b>                                    |             |                     |                     |
| Fuel  |             | (6,228,717)         | (5,771,379)         |
| Purchased energy  | 29/c        | (4,565,148)         | (4,256,237)         |
| Operations and maintenance                              | 23          | (8,726,637)         | (8,238,710)         |
| Depreciation – Operations and maintenance               | 10          | (10,522,344)        | (9,601,779)         |
| <b>TOTAL COST OF SALES</b>                              |             | <u>(30,042,846)</u> | <u>(27,868,105)</u> |
| <b>GROSS PROFIT FOR THE YEAR</b>                        |             | 3,603,413           | 2,701,493           |
| General and administrative expenses                     | 24          | (390,448)           | (434,537)           |
| Depreciation - General and administrative               | 10          | (313,537)           | (335,281)           |
| <b>INCOME FROM OPERATING ACTIVITIES</b>                 |             | 2,899,428           | 1,931,675           |
| Human resources productivity improvement program        | 16/a        | (634,268)           | (125,265)           |
| Other income and expenses, net                          | 25          | 295,906             | 406,749             |
| <b>NET INCOME FOR THE YEAR</b>                          |             | <u>2,561,066</u>    | <u>2,213,159</u>    |
| <b>EARNING PER SHARE (SR):</b>                          |             |                     |                     |
| From operating activities for the year                  |             | <u>0,7</u>          | <u>0.46</u>         |
| From net income for the year                            |             | <u>0,61</u>         | <u>0.53</u>         |

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

Saudi Electricity Company  
(A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED 31 DECEMBER 2012  
(In Thousands Saudi Riyals)

|  | 2012                | 2011                |
|--|---------------------|---------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>  |                     |                     |
| Net income for the year  | 2,561,066           | 2,213,159           |
| <b>Adjustments to reconcile net income for the year with net cash from operating activities:</b> |                     |                     |
| Provision for doubtful receivables   | 252,483             | 121,721             |
| Provision for slow-moving inventories  | 171,322             | 62,960              |
| Share in investees' net losses   | 63,729              | 45,747              |
| Depreciation   | 10,835,881          | 9,937,060           |
| Gain on disposal of fixed assets, net  | (85,556)            | (25,860)            |
| Employees' indemnities, net  | 329,672             | 148,291             |
| <b>Changes in operating assets and liabilities:</b>  |                     |                     |
| Receivables from electricity consumers and accrued revenues                                      | (1,652,543)         | (2,183,914)         |
| Prepayments and other receivables  | (340,229)           | (1,218,389)         |
| Inventories  | (429,945)           | 79,076              |
| Accounts payable   | 8,267,975           | 4,365,159           |
| Deferred revenues, net   | 1,820,126           | 3,732,630           |
| Accruals and other payables  | 116,519             | 195,481             |
| Net proceeds and payments from customers' refundable deposits                                    | 86,178              | 72,186              |
| <b>Net cash from operating activities</b>  | <b>21,996,678</b>   | <b>17,545,307</b>   |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>  |                     |                     |
| Equity investment in companies and others  | 150,000             | (150,939)           |
| Fixed assets and construction work in progress   | (38,466,266)        | (29,205,430)        |
| Proceeds from sale of fixed assets   | 108,362             | 33,332              |
| Proceeds from other investments  | -                   | 1,000               |
| <b>Net cash used in investing activities</b>   | <b>(38,207,904)</b> | <b>(29,322,037)</b> |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>  |                     |                     |
| Government loans   | 13,970,000          | 7,500,000           |
| Net (repayment) proceeds from long-term loans  | (3,049,902)         | 4,893,181           |
| Net proceeds from Sukuk  | 1,562,990           | -                   |
| Dividends paid to shareholders and Board of Directors' remuneration                              | (532,700)           | (537,603)           |
| <b>Net cash from financing activities</b>  | <b>11,950,388</b>   | <b>11,855,578</b>   |
| <b>NET CHANGE IN CASH AND CASH EQUIVALENTS DURING THE YEAR</b>                                   | <b>(4,260,838)</b>  | <b>78,848</b>       |
| Cash and cash equivalents, beginning of the year   | 7,306,624           | 7,227,776           |
| <b>CASH AND CASH EQUIVALENTS, END OF THE YEAR</b>  | <b>3,045,786</b>    | <b>7,306,624</b>    |
| <b>Non-cash transaction:</b>   |                     |                     |
| Change in fair value of hedging contracts  | 61,122              | (43,942)            |

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

Saudi Electricity Company  
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**CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**

FOR THE YEAR ENDED 31 DECEMBER 2012  
(In Thousands Saudi Riyals)

|  | Note | Share capital | Statutory reserve | General reserve | Retained earnings | Change in fair value for hedging contracts | Total      |
|--|------|---------------|-------------------|-----------------|-------------------|--|------------|
| <b>For The Year Ended 31 December 2011</b>               |      |               |                   |                 |                   |  |            |
| Balance as at 1 January 2011- before adjustments         | 30   | 41,665,938    | 1,333,176         | 536,177         | 7,122,345         | -  | 50,657,636 |
| Prior years adjustments                                  |      | -             | -                 | -               | -                 | (387,928)                                  | (387,928)  |
| Balance as at 1 January 2011 - adjusted                  |      | 41,665,938    | 1,333,176         | 536,177         | 7,122,345         | (387,928)                                  | 50,269,708 |
| Dividends to shareholders for 2010                       | 26   | -             | -                 | -               | (547,252)         | -  | (547,252)  |
| Board of Directors' remuneration for 2010                | 27   | -             | -                 | -               | (761)             | -  | (761)      |
| Net income for the year                                  |      | -             | -                 | -               | 2,213,159         | -  | 2,213,159  |
| Net change in fair value of hedging contracts            |      | -             | -                 | -               | -                 | (43,942)                                   | (43,942)   |
| Adjustment of electricity fee collected from individuals | 22   | -             | -                 | 2,166           | -                 | -  | 2,166      |
| Transfer to statutory reserve                            |      | -             | 221,316           | -               | (221,316)         | -  | -          |
| Balance as at 31 December 2011                           |      | 41,665,938    | 1,554,492         | 538,343         | 8,566,175         | (431,870)                                  | 51,893,078 |
| <b>For The Year Ended 31 December 2012</b>               |      |               |                   |                 |                   |  |            |
| Dividends to shareholders for 2011                       | 26   | -             | -                 | -               | (547,252)         | -  | (547,252)  |
| Board of Directors' remuneration for 2011                | 27   | -             | -                 | -               | (705)             | -  | (705)      |
| Net income for the year                                  |      | -             | -                 | -               | 2,561,066         | -  | 2,561,066  |
| Net change in fair value of hedging contracts            |      | -             | -                 | -               | -                 | 61,122                                     | 61,122     |
| Adjustment of electricity fee collected from individuals | 22   | -             | -                 | 1,987           | -                 | -  | 1,987      |
| Transfer to statutory reserve                            |      | -             | 256,107           | -               | (256,107)         | -  | -          |
| Balance as at 31 December 2012                           |      | 41,665,938    | 1,810,599         | 540,330         | 10,323,177        | (370,748)                                  | 53,969,296 |

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

Saudi Electricity Company  
(A Saudi Joint Stock Company)

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2012

**1. ORGANIZATION AND ACTIVITIES**

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

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

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

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

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

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

Saudi Electricity Company  
(A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – (continued)  
FOR THE YEAR ENDED 31 DECEMBER 2012

**1. ORGANIZATION AND ACTIVITIES – (continued)**

Following are the list of subsidiaries included in these consolidated financial statements:

| <i>Name of Subsidiary</i>                                   | <i>Country of incorporation</i> | <i>Ownership Percentage (direct &amp; indirect)</i> | <i>Business Activity</i>   |
|---|---------------------------------|---|--|
| National Electricity Transmission Company                   | Saudi Arabia                    | 100%  | Transmission power from generating stations to distribution network and operating and maintenance of electricity transmission system |
| Electricity Sukuk Company                                   | Saudi Arabia                    | 100%  | Provide services and support needed in relation of issuing bonds and Sukuk by Saudi Electricity Company                              |
| Dawiyat Telecom Company                                     | Saudi Arabia                    | 100%  | Establishing, leasing, managing and operating electricity and fiber optic networks to provide telecommunications services            |
| Morjan for Electricity Production Company (under formation) | Saudi Arabia                    | 100%  | Establishing, developing, ownership, operating and maintenance of Rabigh project for Electricity production                          |
| Saudi Electricity Global Sukuk Company                      | Cayman Islands                  | 100%  | Provide services and support needed in relation of issuing bonds and Sukuk by Saudi Electricity Company                              |

**2. BASIS OF CONSOLIDATION**

The Company starts consolidating the financial statements of National Electricity Transmission Company and other subsidiaries during the year ended 31 December 2012. The Company decided to separate the transmission sector and transfer its related operating assets and operations to National Electricity Transmission Company which started its operations in 1<sup>st</sup> of January 2012, therefore these consolidated financial statements for the year ended 31 December 2012 includes the assets, liabilities and operating results of the Company and its subsidiaries (the "Group") mentioned in note (1) above "consolidated financial statements".

A subsidiary company is that in which the Company has directly or indirectly a long term investment comprising an interest of more than 50% in the voting capital or over which it exercises practical control. A subsidiary company is consolidated from the date of which the Company obtains control until the date that control ceases.

The Group's intercompany balances and transactions have been eliminated in these consolidated financial statements.

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accompanying consolidated financial statements have been prepared in accordance with the Accounting Standards issued by the Saudi Organization for Certified Public Accountants (SOCPA). The significant accounting policies adopted are as follows:

**Accounting Convention**

The consolidated financial statements are prepared under the historical cost convention except for the measurement of fair value of investments, derivative financial instruments and government loans (received after 1 January 2009).

Saudi Electricity Company  
(A Saudi Joint Stock Company)

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – (continued)  
FOR THE YEAR ENDED 31 DECEMBER 2012

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (continued)

**Accounting estimates**

The preparation of the consolidated financial statements in conformity with generally accepted accounting standards requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting year. Although these estimates are based on management's best knowledge of current events and actions at the reporting date, the actual results ultimately may differ from those estimates.

**Cash and cash equivalents**

Cash and cash equivalents include cash on hand and at bank balances, time deposits, and other investments which are convertible into known amounts of cash with maturities of three months or less from the date of deposit.

**Electricity consumers receivables**

Electricity consumer receivables represent the amount not collected from the consumers at the consolidated balance sheet date, and are shown net of provision for doubtful receivables.

**Inventories**

Generation, transmission, distribution and other materials and fuel inventory are stated at lower of cost or market value and calculated using the weighted average cost, net of provision for slow moving and obsolete items.

Inventory items that are considered an integral part of the generation plants, transmission and distribution networks, and other facilities such as strategic and reserve materials, are included in within fixed assets.

**Investments**

*Investments in companies' equity*

Investments in companies of which the Group hold at least 20% of interest are accounted for using the equity method, whereby the investment is initially stated at cost, adjusted thereafter by the post acquisition change of the Group's share in the net assets of the investee company. The Group's share in the results of these Companies is recognised in consolidated statement of income when investees' financial statements are issued.

Investments of less than 20% of share capital of unquoted Companies are stated at cost is considered as fair value. Income from these investments is recognised in consolidated statements of income when dividends are declared by the investee companies.

*Investments held to maturity*

Investments that are acquired with the intention of being held to maturity are carried at cost (adjusted for any premium or discount), less any other than temporary decline in value. Such investments are classified as non-current assets with the exception of bonds which mature during the next fiscal year, which are classified as current assets. Income from these investments is recognized in the consolidated statement of income when realized.

Saudi Electricity Company  
(A Saudi Joint Stock Company)

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – (continued)  
FOR THE YEAR ENDED 31 DECEMBER 2012

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (continued)

**Fixed assets**

Fixed assets are stated at historical cost and, except for land, are depreciated over their estimated operational useful lives using the straight line method. Cost includes the cost of acquisition from supplier, direct labor, indirect construction costs, and borrowing costs up to the date the asset is placed into service. Costs of fixed assets sold or otherwise disposed off and related accumulated depreciation are removed from the accounts at the date of the sale or disposal. The resulting gain or loss is recognized in the consolidated statement of income.

Expenditure for repair and maintenance are charged to the consolidated statement of income. Betterments that increase the value or materially extend the life of the related assets are capitalized.

The estimated operational useful lives are as follows:

|   |                |
|---|----------------|
| Buildings                                       | 20 to 30 years |
| Generation plant, equipment and spare parts     | 20 to 25 years |
| Transmission network, equipment and spare parts | 20 to 30 years |
| Distribution network, equipment and spare parts | 15 to 25 years |
| Other assets                                    | 4 to 20 years  |

**Impairment of noncurrent assets**

The Group conducts periodic review of the carrying amount of its non-current assets to determine whether there is any evidence that those non-current assets have suffered an impairment loss. If such evidence exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Where it is not possible to estimate the recoverable amount of that asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. Impairment losses are immediately recognized as an expense in the consolidated statement of income.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised recoverable amount, provided that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognized as income immediately in the consolidated statement of income.

Saudi Electricity Company  
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – (continued)  
FOR THE YEAR ENDED 31 DECEMBER 2012

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (continued)**

**Capitalization of borrowing costs**

Net borrowing cost which represents finance charges on long-term loans and any other finance costs charged to the Group net of any commission income for the year, is capitalized on all significant projects-in-progress with significant amount that require long period of time for construction. The borrowing cost capitalized on each project is calculated using the capitalization rate on the average amounts incurred on each project in progress.

**Fixed-term government loan**

The fixed-term government loan is recognized at present value using an estimated discount rate for Group's borrowing (for loans received after 1 January 2009). The difference between the amount received and the present value is recorded as deferred revenues (government grant) and presented under long-term government payables caption and recognized over the remaining years of the loan against the corresponding expenses.

**Derivative financial instruments and hedge accounting**

The Group uses derivative financial instruments to hedge its cash flow exposures to interest rates. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured for any changes in its fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

Any gains or losses arising from the changes in the fair value of derivatives determined as effective cash flow hedges are taken directly to the shareholders' equity, while the ineffective portion of cash flow hedges, is recognised in the consolidated statement of income.

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

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. At that time, for forecast transactions, any cumulative gain or loss on the hedging instrument previously recognised in shareholders' equity is retained till the forecasted transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss previously recognised in shareholders' equity is transferred to the consolidated statement of income.

**Accounts payable and accruals**

Liabilities are recognised for amounts to be paid in the future for goods or services received, whether billed by the supplier or not.

**Provision for employees' indemnity**

Employees' indemnity consists of the following:

Provision for end of service benefits:

The end of service benefits are calculated in accordance with the Labor Law in the Kingdom of Saudi Arabia and charged monthly to the consolidated statement of income

Employees' saving fund:

The Group contributes in saving fund for the eligible employees based on an approved policy. The Group's share of the contribution in saving fund is charged monthly to the consolidated statements of Income.

Saudi Electricity Company  
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – (continued)  
FOR THE YEAR ENDED 31 DECEMBER 2012

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (continued)

**Zakat provision**

Zakat is provided in accordance with the Regulations of the Department of Zakat and Income Tax in the Kingdom of Saudi Arabia. Adjustments arising from final Zakat assessment, if any, are recorded in the consolidated statement of income for the year in which such assessment is obtained.

**Statutory reserve**

In accordance with the Regulations for Companies and the Company's by-laws, 10% of net income for the year is transferred to statutory reserve. The Company's General Assembly may discontinue such transfer when the reserve equals 50% of the share capital.

**Revenues**

Revenue from electricity sales is recognized when bills are issued to consumers based on the consumption of electric power measured by Kilowatt/hour. Revenue on power consumed by consumers but not yet billed at the consolidated balance sheet date are accrued for.

Revenue from meter reading, maintenance and bills preparation tariff represents the monthly fixed tariff based on the capacity of the meter used by the subscribers, and is recognized when bills are issued. Revenue from meter reading, maintenance and bills preparation tariff not billed at the consolidated balance sheet date is accrued for.

Electricity service connection tariff received from consumers is deferred and recognized on a straight-line basis over the average useful lives of the equipment used in serving the subscribers, estimated to be 20 years.

**Expenses**

Operation and maintenance expenses include expenses relating to generation, transmission, and distribution activities as well as their allocated portion of the general services and supporting activities' expenses. The remaining portion of these expenses is included under General and Administrative expenses. General services and supporting activities expenses are allocated between the main activities based on the benefits received and are evaluated periodically.

**Earnings (loss) per share for the year**

Earnings (losses) per share is calculated using the weighted average number of outstanding shares at the end of the year, including government shares. Earnings (loss) per basic share from operating activities is calculated by dividing income (loss) from operations on the weighted average number of shares. Earnings (loss) per basic share from net income (loss) is calculated by dividing net income (loss) on weighted average of number of shares.

**Foreign currency transactions**

Transactions denominated in foreign currencies are translated into Saudi Riyals at exchange rates prevailing at the date of such transactions. Monetary assets and liabilities denominated in foreign currencies at the consolidated balance sheet date are translated into Saudi Riyals at the exchange rates prevailing at that date. Any realized or unrealized exchange gains or losses arising from such translations are recorded in the consolidated statement of income.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – (continued)  
FOR THE YEAR ENDED 31 DECEMBER 2012

4. CASH AND CASH EQUIVALENTS

|                     | <i>2012</i><br><i>SR'000</i> | <i>2011</i><br><i>SR'000</i> |
|---------------------|------------------------------|------------------------------|
| Cash on hand        | 3,352                        | 3,040                        |
| Cash at banks       | 1,332,951                    | 1,767,994                    |
| Short-term deposits | 1,709,483                    | 5,535,590                    |
| Total               | <u>3,045,786</u>             | <u>7,306,624</u>             |

5. RECEIVABLES FROM ELECTRICITY CONSUMERS AND ACCRUED REVENUES, NET

|  | <i>2012</i><br><i>SR'000</i> | <i>2011</i><br><i>SR'000</i> |
|--|------------------------------|------------------------------|
| <b>Electricity subscribers' receivable</b> |                              |                              |
| Governmental institutions                  | 4,364,978                    | 2,870,026                    |
| Commercial and residential                 | 4,232,203                    | 4,861,644                    |
| VIPs consumers                             | 2,501,513                    | 2,359,212                    |
| Saudi Aramco                               | 2,228,922                    | 1,908,179                    |
| Electricity connection receivables         | 1,359,573                    | 1,011,039                    |
| Saline Water Conversion Corporation        | 231,579                      | 335,981                      |
| Total electricity subscribers' receivable  | <u>14,918,768</u>            | <u>13,346,081</u>            |
| Less: Provision for doubtful receivables   | <u>(2,753,079)</u>           | <u>(2,500,596)</u>           |
| Net electricity subscribers' receivable    | <u>12,165,689</u>            | <u>10,845,485</u>            |
| <b>Add: Accrued revenues</b>               | <u>1,261,571</u>             | <u>1,181,715</u>             |
| Total                                      | <u>13,427,260</u>            | <u>12,027,200</u>            |

The movement in the provision for doubtful receivables during the years as follows:

|                                      | <i>2012</i><br><i>SR'000</i> | <i>2011</i><br><i>SR'000</i> |
|--------------------------------------|------------------------------|------------------------------|
| Balance at the beginning of the year | 2,500,596                    | 2,378,875                    |
| Charge for the year                  | 252,483                      | 121,721                      |
| Balance at the end of the year       | <u>2,753,079</u>             | <u>2,500,596</u>             |

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**6. PREPAYMENTS AND OTHER RECEIVABLES, NET**

|  | <i>2012</i><br><i>SR'000</i> | <i>2011</i><br><i>SR'000</i> |
|--|------------------------------|------------------------------|
| Advances to contractors and suppliers          | 4,208,215                    | 3,899,552                    |
| Other government receivables                   | 244,173                      | 244,173                      |
| Outstanding letters of credit                  | 158,247                      | 191,431                      |
| Prepaid expenses                               | 47,126                       | 10,477                       |
| Other receivables, net                         | 596,881                      | 568,781                      |
| Total  | <u>5,254,642</u>             | <u>4,914,414</u>             |
| Less: Provision for other doubtful receivables | (60,789)                     | (60,789)                     |
| Total  | <u><u>5,193,853</u></u>      | <u><u>4,853,625</u></u>      |

**7. INVENTORIES, NET**

|   | <i>2012</i><br><i>SR'000</i> | <i>2011</i><br><i>SR'000</i> |
|---|------------------------------|------------------------------|
| Generation plant materials and supplies     | 3,004,718                    | 3,086,034                    |
| Distribution network materials and supplies | 2,131,952                    | 1,792,098                    |
| Transmission network materials and supplies | 343,475                      | 289,494                      |
| Fuel and oil                                | 401,477                      | 326,160                      |
| Other                                       | 375,194                      | 333,085                      |
|   | <u>6,256,816</u>             | <u>5,826,871</u>             |
| Less: Provision for slow moving inventories | (435,343)                    | (264,021)                    |
| Total                                       | <u><u>5,821,473</u></u>      | <u><u>5,562,850</u></u>      |

The movement of provision for slow-moving inventories during the years as follows:

|                                      | <i>2012</i><br><i>SR'000</i> | <i>2011</i><br><i>SR'000</i> |
|--------------------------------------|------------------------------|------------------------------|
| Balance at the beginning of the year | 264,021                      | 201,061                      |
| Charge for the year                  | 171,322                      | 62,960                       |
| Balance at the end of the year       | <u><u>435,343</u></u>        | <u><u>264,021</u></u>        |

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**8. EQUITY INVESTMENTS IN COMPANIES AND OTHERS**

|   | <u>2012</u><br><u>SR'000</u> | <u>2011</u><br><u>SR'000</u> |
|---|------------------------------|------------------------------|
| Investments accounted for under the equity method (a) | 1,790,162                    | 1,853,892                    |
| Other investments, at cost (b)                        | 125,650                      | 125,650                      |
| Held to maturity investments (c)                      | 275,000                      | 425,000                      |
| Total   | <u>2,190,812</u>             | <u>2,404,542</u>             |

**a) Investments accounted for under the equity method**

|  | <u>Ownership</u><br><u>%</u> | <u>2012</u><br><u>SR'000</u> | <u>2011</u><br><u>SR'000</u> |
|--|------------------------------|------------------------------|------------------------------|
| Gulf Cooperation Council Interconnection Authority (a-1) | 31.6                         | 1,768,428                    | 1,830,937                    |
| Water and Electricity Company (a-2)                      | 50                           | 14,182                       | 13,955                       |
| Hajr for Electricity Production Company (a-3)            | 50                           | 5,000                        | 5,000                        |
| Rabigh Electricity Company (a-4)                         | 20                           | 552                          | 2,000                        |
| Dhuruma Electricity Company (a-5)                        | 50                           | 2,000                        | 2,000                        |
| Total  |                              | <u>1,790,162</u>             | <u>1,853,892</u>             |

**(a-1) Gulf Cooperation Council Interconnection Authority**

The Company has contributed in the capital of the Gulf Cooperation Council Interconnection Authority (hereafter referred to as "GCCIA") at inception to enhance the electricity transmission and distribution between the member countries. The Company's contribution in GCCIA amounts to USD 484.80 million equivalent to SR 1,818 million.

**(a-2) Water and Electricity Company**

The Company entered into a partnership agreement with Saline Water Conversion Corporation to establish a limited liability company in the name of "Water and Electricity Company" pursuant to the Supreme Economic Council's Decision No. 5/23 dated Rabi' Al-Awal 23, 1423H which encourages the participation of the private sector in the water desalination project. The Company's share at inception amounting to SR 15 million was paid in full and consists of 300,000 share representing 50% of the investee's share capital.

**(a-3) Hajr for Electricity Production Company**

Pursuant to the Board of Directors' Resolution No. 4/95/2010 dated Ramadan 12, 1431H corresponding to August 22, 2010 the Company established Hajr for Electricity Production Company with a share capital of SR 2 million. During 2011, a new partner has been admitted and the capital has been increased by SR 8 million to become SR 10 million. The company's share represents 50% of the partners' shareholding.

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8. EQUITY INVESTMENTS IN COMPANIES AND OTHERS – (continued)

(a-4) Rabigh Electricity Company

Based on the company's Board of Directors Resolution No. 06/76/2008 dated Jumada Al-Awal 26, 1429H corresponding to June 3, 2008, the Company established Rabigh Electricity Company. The Company's share capital amounting to SR 2 million was paid in full and represents 100% of the investee's share capital.

During the third quarter of 2009, Rabigh Electricity Company increased its capital from SR 2 million to SR 10 million by admission of new partners which resulted in the decrease of Saudi Electricity Company's share from 100% to 20%.

(a-5) Dhuruma Electricity Company

Based on the company's Board of Directors Resolution No. 4/88/2009 dated Ramadan 18, 1430H corresponding to September 8, 2009, the Company established Dhuruma Electricity Company (a closed joint stock company) with a share capital of SR 2 million. During 2011, a new partner has been admitted and the capital has been increased by SR 2 million to become SR 4 million. The company's share represents 50% of the share capital.

b) Other investments, at cost

|  | Ownership<br>% | 2012<br>SR'000 | 2011<br>SR'000 |
|--|----------------|----------------|----------------|
| Al-Shuaiba Water and Electricity company | 8              | 124,840        | 124,840        |
| Al-Shuqaiq Water and Electricity company | 8              | 400            | 400            |
| Al-Jubail Water and Electricity company  | 5              | 250            | 250            |
| Al-Shuaiba Holding Company               | 8              | 160            | 160            |
| Total                                    |                | <u>125,650</u> | <u>125,650</u> |

c) Held to maturity investments

|  | 2012<br>SR'000 | 2011<br>SR'000 |
|--|----------------|----------------|
| Saudi Basic Industries Corporation Sukuk | 150,000        | 300,000        |
| Bin Laden Company Sukuk                  | 50,000         | 50,000         |
| SABB bonds "Saudi British Bank"          | 50,000         | 50,000         |
| SATORP Company Sukuk                     | 25,000         | 25,000         |
| Total                                    | <u>275,000</u> | <u>425,000</u> |

d) Share in net (loss) earnings of investees accounted for under equity method

|   | 2012<br>SR'000  | 2011<br>SR'000  |
|---|-----------------|-----------------|
| Gulf Corporation Council Interconnection Authority<br>Water and Electricity Company | (62,510)        | (45,905)        |
| Rabigh Electricity company  | 227             | 158             |
|   | (1,446)         | -               |
| Total   | <u>(63,729)</u> | <u>(45,747)</u> |

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9. CONSTRUCTION WORK IN PROGRESS

|                                    | 2012<br>SR'000      |                       |                       | 2011<br>SR'000<br>Total |
|------------------------------------|---------------------|-----------------------|-----------------------|-------------------------|
|                                    | Generation projects | Transmission projects | Distribution projects |                         |
| At the beginning of the year       | 10,468,360          | 6,374,291             | 5,082,281             | 22,260,811              |
| Additions during the year          | 18,480,810          | 9,746,265             | 8,928,717             | 38,144,009              |
| Transfer to fixed assets           | (6,053,943)         | (4,246,335)           | (9,461,420)           | (20,515,271)            |
| <b>Balance at 31 December 2012</b> | <b>22,895,227</b>   | <b>11,874,221</b>     | <b>4,549,578</b>      | <b>39,889,549</b>       |
| Balance at 31 December 2011        | 10,468,360          | 6,374,291             | 5,082,281             | 22,260,811              |

Net borrowing cost capitalized on projects under construction during the year amounted to SR 1,222 million (2011: SR 1,151 million).

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10. FIXED ASSETS, NET

|                              | Land<br>SR '000 | Buildings<br>SR '000 | Machinery and<br>equipment<br>SR '000 | Capital spare<br>parts<br>SR '000 | Vehicles<br>and heavy<br>equipment<br>SR '000 | Others<br>SR '000 | Total<br>2012<br>SR '000 | Total<br>2011<br>SR '000 |
|------------------------------|-----------------|----------------------|---------------------------------------|-----------------------------------|---|-------------------|--------------------------|--------------------------|
| <b>Cost:</b>                 |                 |                      |                                       |                                   |   |                   |                          |                          |
| At the beginning of the year | 1,635,666       | 15,634,575           | 271,852,115                           | 3,796,851                         | 1,372,535                                     | 3,555,115         | 297,846,857              | 265,093,162              |
| Additions                    | 150,112         | 1,016,357            | 18,670,506                            | 274,189                           | -   | 748,930           | 20,860,094               | 32,989,109               |
| Disposals                    | -               | (1,722)              | (342,632)                             | -                                 | (44,609)                                      | (1,766)           | (390,729)                | (235,414)                |
| At the end of the year       | 1,785,778       | 16,649,210           | 290,179,989                           | 4,071,040                         | 1,327,926                                     | 4,302,279         | 318,316,222              | 297,846,857              |
| <b>Depreciation:</b>         |                 |                      |                                       |                                   |   |                   |                          |                          |
| At the beginning of the year | -               | 9,724,320            | 124,273,085                           | 1,995,821                         | 1,057,523                                     | 2,122,849         | 139,173,598              | 129,458,176              |
| Charge for the year          | -               | 559,596              | 9,565,801                             | 126,413                           | 90,878  | 493,193           | 10,835,881               | 9,937,060                |
| Disposals                    | -               | (1,685)              | (297,297)                             | -                                 | (44,609)                                      | (1,766)           | (345,357)                | (221,638)                |
| At the end of the year       | -               | 10,282,231           | 133,541,589                           | 2,122,234                         | 1,103,792                                     | 2,614,276         | 149,664,122              | 139,173,598              |
| <b>Net book amounts:</b>     |                 |                      |                                       |                                   |   |                   |                          |                          |
| At 31 December 2012          | 1,785,778       | 6,366,979            | 156,638,400                           | 1,948,806                         | 224,134                                       | 1,688,003         | 168,652,100              |                          |
| At 31 December 2011          | 1,635,666       | 5,910,255            | 147,579,030                           | 1,801,030                         | 315,012                                       | 1,432,266         | 158,673,259              |                          |

Included in land are plots of land with book value of SR 276 million, the title deeds of which have not yet been transferred to the Company's name.

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FOR THE YEAR ENDED 31 DECEMBER 2012

10. FIXED ASSETS, NET – (continued)

Net book value of the Group's fixed assets is allocated to the main activities as follows:

|                              | <i>2012</i>       |                   |                   |                  | Total              |
|------------------------------|-------------------|-------------------|-------------------|------------------|--------------------|
|                              | <i>SR'000</i>     |                   |                   |                  |                    |
|                              | Generation        | Transmission      | Distribution      | General Property |                    |
| Land                         | 238,335           | 587,455           | 225,151           | 734,837          | 1,785,778          |
| Buildings                    | 2,561,834         | 2,697,919         | 189,048           | 918,178          | 6,366,979          |
| Machinery & equipment        | 63,324,685        | 47,920,744        | 45,106,974        | 285,997          | 156,638,400        |
| Capital spare parts          | 1,493,202         | 401,649           | 53,765            | 190              | 1,948,806          |
| Vehicles and heavy equipment | -                 | -                 | -                 | 224,134          | 224,134            |
| Others                       | 683,607           | 355,330           | 172,296           | 476,770          | 1,688,003          |
|                              | <u>68,301,663</u> | <u>51,963,097</u> | <u>45,747,234</u> | <u>2,640,106</u> | <u>168,652,100</u> |

|                              | <i>2011</i>       |                   |                   |                  | Total              |
|------------------------------|-------------------|-------------------|-------------------|------------------|--------------------|
|                              | <i>SR'000</i>     |                   |                   |                  |                    |
|                              | Generation        | Transmission      | Distribution      | General Property |                    |
| Land                         | 245,285           | 587,443           | 225,243           | 577,695          | 1,635,666          |
| Buildings                    | 2,722,760         | 2,120,588         | 152,154           | 914,753          | 5,910,255          |
| Machinery & equipment        | 61,584,469        | 46,955,880        | 38,746,741        | 291,940          | 147,579,030        |
| Capital spare parts          | 1,365,071         | 415,759           | 20,017            | 183              | 1,801,030          |
| Vehicles and heavy equipment | -                 | -                 | -                 | 315,012          | 315,012            |
| Others                       | 900,059           | 394,846           | 44,714            | 92,647           | 1,432,266          |
|                              | <u>66,817,644</u> | <u>50,474,516</u> | <u>39,188,869</u> | <u>2,192,230</u> | <u>158,673,259</u> |

Depreciation expenses charged to various activities during the year ended December 31 is as follows:

|                                       | <i>2012</i>       | <i>2011</i>      |
|---------------------------------------|-------------------|------------------|
|                                       | <i>SR'000</i>     | <i>SR'000</i>    |
| Generation depreciation expense       | 4,632,938         | 4,199,706        |
| Transmission depreciation expense     | 2,950,727         | 2,788,722        |
| Distribution depreciation expense     | 2,938,679         | 2,613,351        |
| General property depreciation expense | 313,537           | 335,281          |
|                                       | <u>10,835,881</u> | <u>9,937,060</u> |

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11. ACCOUNTS PAYABLE

|  | <i>2012</i><br><i>SR'000</i> | <i>2011</i><br><i>SR'000</i> |
|--|------------------------------|------------------------------|
| Saudi Aramco for fuel cost                               | 57,200,552                   | 51,419,456                   |
| Transferred to Government account (a)                    | (40,959,482)                 | (40,959,482)                 |
| Saudi Aramco payable for fuel cost                       | 16,241,070                   | 10,459,974                   |
| Saline Water Conversion Corporation for energy purchased | 8,836,619                    | 8,453,968                    |
| Municipality fees  | 3,723,515                    | 3,241,135                    |
| Advances received for construction of projects           | 2,367,238                    | 633,768                      |
| Contractors and retention payables                       | 755,294                      | 761,301                      |
| Payables to suppliers                                    | 657,721                      | 99,444                       |
| Other (b)  | 1,927,720                    | 2,591,612                    |
|  | <u>34,509,177</u>            | <u>26,241,202</u>            |

(a) This amounts represents payables for fuel for the period from April 5, 2000 to December 31, 2009 which have been transferred from the liability to Saudi Aramco to non-current government liability. (Note 19)

(b) Other payables include SR 1,280 million (2011: SR 1,280 million) which are still under reconciliation between the Company and the Government and pertain to prior-merger account (refer to Note 1).

12. ACCRUALS AND OTHER PAYABLES

|                             | <i>2012</i><br><i>SR'000</i> | <i>2011</i><br><i>SR'000</i> |
|-----------------------------|------------------------------|------------------------------|
| Accrued expenses            | 3,550,470                    | 3,631,647                    |
| Accrued employees' benefits | 426,962                      | 370,139                      |
| Dividends payable *         | 355,197                      | 339,940                      |
| Accrued interests on loans  | 170,311                      | 82,389                       |
| Other                       | 232,789                      | 181,827                      |
|                             | <u>4,735,729</u>             | <u>4,605,942</u>             |

\* Dividends payable as of December 31, 2012 include unclaimed cash dividends declared by Saudi Consolidated Electricity Company prior to merge, amounting to SR 88.6 million (2011: SR 91.5 million).

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**13. ZAKAT**

The major components of zakat base are as follows:

|                         | <u>2012</u><br><u>SR'000</u> | <u>2011</u><br><u>SR'000</u> |
|-------------------------|------------------------------|------------------------------|
| Net income before zakat | 2,561,066                    | 2,213,159                    |
| Add: Zakat adjustment   | <u>(10,313,776)</u>          | <u>(12,296,312)</u>          |
| Net adjusted loss       | <u>7,752,710</u>             | <u>(10,083,153)</u>          |

Zakat base is calculated as follows:

|   | <u>2012</u><br><u>SR'000</u> | <u>2011</u><br><u>SR'000</u> |
|---|------------------------------|------------------------------|
| Share Capital   | 41,665,938                   | 41,665,938                   |
| Net adjusted loss   | <u>(7,752,710)</u>           | <u>(10,083,153)</u>          |
| Retained reserves   | 2,092,835                    | 1,869,353                    |
| Retained earnings   | 8,018,923                    | 7,123,345                    |
| Retained allowances   | 6,971,363                    | 7,050,373                    |
| Long term loans and sukuk                                     | 27,664,986                   | 36,816,001                   |
| Government loans and payables                                 | 81,861,719                   | 67,891,719                   |
| Consumers deposits, contractors accruals and others           | <u>2,478,119</u>             | <u>2,558,748</u>             |
| Total   | <u>163,001,173</u>           | <u>154,892,324</u>           |
| Deduct:   |                              |                              |
| Fixed assets and construction work in progress, net           | <u>(130,037,634)</u>         | <u>(131,259,163)</u>         |
| Difference on depreciation of fixed assets for previous years | <u>(65,111,874)</u>          | <u>(41,576,007)</u>          |
| Long term investments   | <u>(2,254,541)</u>           | <u>(2,406,042)</u>           |
| Material and spare parts inventories                          | <u>(4,384,116)</u>           | <u>(4,218,398)</u>           |
| Zakat base (negative)   | <u>(38,786,992)</u>          | <u>(24,567,286)</u>          |

No Zakat is due on the Company for the year ended 31 December 2012 as the net adjusted loss and zakat base is negative.

The Company has received the final assessments for the period ended in December 2001 and also for the years from 2002 to 2008 which showed Zakat differences of SR 37.5 million for the period ended in 31 December 2001 and the years 2002, 2003 and 2004. The Company filed appeals against these differences which are still pending with the Department of Zakat and Income Tax (DZIT). The Company filed its Zakat returns for the years 2009 to 2011 and are still under review by DZIT.

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14. LONG-TERM LOANS

|  | <i>2012</i><br><i>SR'000</i> | <i>2011</i><br><i>SR'000</i> |
|--|------------------------------|------------------------------|
| At the beginning of the year             | 16,714,888                   | 11,821,707                   |
| Withdrawal during the year               | 107,171                      | 6,084,670                    |
| Repayments during the year               | <b>(3,157,073)</b>           | (1,191,489)                  |
| At the end of the year                   | <b>13,664,986</b>            | 16,714,888                   |
| Less: Current portion                    | <b>(1,468,000)</b>           | (3,133,100)                  |
| Long-term balance at the end of the year | <b><u>12,196,986</u></b>     | <b><u>13,581,788</u></b>     |

The maturities of long term installments for the next years as of December 31 are as follows:

|                             | <i>2012</i><br><i>SR'000</i> | <i>2011</i><br><i>SR'000</i> |
|-----------------------------|------------------------------|------------------------------|
| After one year              | 1,469,701                    | 1,468,000                    |
| Between two to three years  | 1,478,631                    | 1,468,000                    |
| Between three to four years | 1,478,631                    | 1,468,000                    |
| Between four to five years  | 1,478,631                    | 1,468,000                    |
| After five years            | 6,291,392                    | 7,709,788                    |
|                             | <b><u>12,196,986</u></b>     | <b><u>13,581,788</u></b>     |

- (a) On 28 July 2008, the Company obtained a sharia-compliant loan for SR 6 billion from syndicates of local banks which has been fully withdrawn. The loan is repayable over 22 semi-annual installments starting 3 November 2009. The loan balance amounted to SR 4.1 billion as of 31 December 2012 (2011: SR 4.6 billion).
- (b) The Company agreed with U.S. Export-Import Bank, and the Export Development Bank of Canada on 21 June 2009 and signed a financing agreement on 27 January 2010, whereby the Company will receive a direct loan amounting to US\$ 1.1 billion equivalent to approximately SR 4.1 billion which has been fully withdrawn. The loan is repayable within 12 years over 24 semi-annual installments starting 25 May 2010. The loan balance amounted to SR 3 billion as of 31 December 2012 (2011: SR 3.4 billion).
- (c) On 13 July 2009, the Company signed a financing agreement with the Public Investments Fund whereby the Company will receive a direct loan of SR 2.6 billion which has been fully withdrawn. The loan is repayable within 15 years over 24 semi-annual installments. The loan balance amounted to SR 2.5 billion as of 31 December 2012 (2011: SR 2.6 billion).
- (d) On 13 December 2010, the Saudi Electricity Company signed an agreement with a syndicate of local banks, whereby the Company will obtain a sharia - compliant loan of SR 5 billion, repayable over 26 semi-annual installments after 24 months from the date of signing the agreement. The loan balance amounted to SR 0.5 billion as of 31 December 2012 (2011: SR 0.5).

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14. LONG-TERM LOANS – (continued)

- (e) On 22 June 2011, the Company signed an agreement with international lenders guaranteed by Coface French Export Credit Agenc, The Company will receive a loan amounting to US\$ 989.1 million equivalent to SR 3.7 billion which had been fully withdrawn. The loan is repayable within 12 years over 24 semi-annual installments starting 11 January 2012. The loan balance amounted to SR 3.4 billion as of 31 December 2012 (2011:SR 3.7).
- (f) The Company signed a loan agreement guaranteed by two Export Korean banks (K Sure and K Exim) where a group of international banks participated in financing the loan led by HSBC Group, Bank of Tokyo-Mitsubishi, Sumitomo Mitsui Banking Corporation, Mizuho Bank and KFW-IPEX. The Company will receive a loan amounting to SR 5.3 billion equivalent to approximately US\$ 1,400 million for a period of 15 years. The loan is repayable over 12 years in equal semi-annual installments starting after grace period of 3 years. The loan balance amounted to SR 107 million as of 31 December 2012

Long term loans mentioned above are used to finance the construction work in progress projects, and secured by promissory notes signed by the Company at the nominal amount of the loan plus the interest payments and/or Murrabaha Margin.

The Company has an unutilized credit facilities with local banks amounting to SR 1 billion as at 31 December 2012 (2011: SR 1 billion).

15. SUKUK

The outstanding Sukuk as of 31 December 2012 are as follows:

Local Sukuk:

| Issue   | Date of issue | Par value  | Total issued amount | Maturity date |
|---------|---------------|------------|---------------------|---------------|
| Sukuk 2 | 6 July 2009   | SR 100,000 | SR 7 Billion        | 2029          |
| Sukuk 3 | 10 May 2010   | SR 10,000  | SR 7 Billion        | 2030          |

The above Sukuk have been, issued at par value with no discount nor premium. The Sukuk bear a rate of return at SIBOR plus a margin payable quarterly from the net income received from the Sukuk assets held by the Sukuk custodian "Electricity Sukuk Company", a wholly owned subsidiary of the Company.

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

| Issue   | Percentage          |                      |                     |
|---------|---------------------|----------------------|---------------------|
|         | 90%                 | 60%                  | 30%                 |
|         | First purchase date | Second purchase date | Third purchase date |
| Sukuk 2 | 2014                | 2019                 | 2024                |
| Sukuk 3 | 2017                | 2020                 | 2025                |

On 15 July 2012, the Company fully purchased the assets of its first Sukuk issued (Sukuk1) amounting to SR 5 billion.

Global Sukuk:

During April 2012 the Company issued Sukuk amounting to SR 6.6 billion equivalent to approximately US\$ 1,750 million where the issuance consists of two types of Sukuk certificates. The first type amounting to US\$ 500 million mature after 5 years with fixed rate of 2.665%, the second type amounting to US\$ 1,250 million mature after 10 years with fixed rate of 4.211%.

Saudi Electricity Company  
(A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – (continued)  
FOR THE YEAR ENDED 31 DECEMBER 2012

**16. EMPLOYEES' INDEMNITIES**

|  | <i>2012</i><br><i>SR'000</i> | <i>2011</i><br><i>SR'000</i> |
|--|------------------------------|------------------------------|
| Provision for end-of-service indemnities                           | 4,354,255                    | 4,536,870                    |
| Employee savings fund  | 394,475                      | 301,639                      |
| Human recourses productivity improvement program (the Program)-(a) | 419,451                      | -                            |
|  | <u>5,168,181</u>             | <u>4,838,509</u>             |

- (a) This amount represents the present value of future payments which the Company has commitment to pay according to the program's plan and conditions. The objective of this program is to improve and align human recourses with business requirements.

**17. DEFERRED REVENUES, NET**

|  | <i>2012</i><br><i>SR'000</i> | <i>2011</i><br><i>SR'000</i> |
|--|------------------------------|------------------------------|
| Balance at the beginning of the year                     | 20,469,575                   | 16,736,945                   |
| Proceeds from connection tariff services during the year | 3,335,916                    | 5,063,163                    |
| Electrical connection tariff                             | (1,515,790)                  | (1,330,533)                  |
|  | <u>22,289,701</u>            | <u>20,469,575</u>            |

**18. GOVERNMENT LOANS**

- (a) Pursuant to the Ministerial resolution number 169 dated Sha'ban 11, 1419H, the net dues of the Government to the Saudi Electricity Company and the net dues of the Company to the Government were determined in accordance with rules and procedures stipulated in the minutes of meetings signed by his HE the Minister of Industry and Electricity and HE the Minister of Finance and National Economy dated Jumada Thani 27, 1418H corresponding to October 29, 1997. The net difference payable to the Government by the Company, as determined at the close of the business day preceding the issuance of the Royal Decree for the incorporation of the Company, is considered a non-interest bearing long term loan (soft loan) with a grace period of twenty five years starting from the date of the announcement of the incorporation of the Company. The loan is to be revisited later on subject to the financial condition of the Government and the Company.

The minutes of the meeting held on Rajab 21, 1422H between the Minister of Industry and Electricity and the Minister of Finance and National Economy in which the initial amount of the Government loan was determined, states that the final settlement of Government accounts will be subject to the reconciliation for the claims of the Company from Government entities, and the loan amount shall be adjusted accordingly. During 2005, the Company finalized the amount due which included the claims of the Company and the amounts due to the Government and the agreement was signed between the Minister of Water and Electricity and the Minister of Finance on Rajab 15, 1426H which brought the balance of Government loan amounted to SR 14.9 billion.

Saudi Electricity Company  
(A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – (continued)  
FOR THE YEAR ENDED 31 DECEMBER 2012

**18. GOVERNMENT LOANS – (continued)**

- (b) The Council of Ministers approved in its meeting held on Monday 12 Jumada Al-Awal 1431H corresponding to 26 April 2010 to grant the Company a soft loan amounting to SR 15 billion repayable over 25 years. The loan will be paid to the Company within 2 years in accordance with an agreement that will be prepared for this purpose between the Ministry of Finance and the Saudi Electricity Company. The agreement was signed on 15 Ramadan 1431H, corresponding to 25 August 2010, this loan has been fully withdrawn as at 31 December 2012 (2011: SR. 11,3 billion). the Company recognized the amount received from the government loan above discounted at its present value as per the accounting policies in Note (3).
- (c) The Council of Ministers approved in its meeting held on Monday 11 Rajab 1432H corresponding to 13 June 2011 to grant the Company a soft loan amounting to SR 51.1 billion repayable over 25 years. The loan will be paid to the Company within 5 years in accordance with an agreement that will be prepared for this purpose between the Ministry of Finance and the Saudi Electricity Company. An amount of SR 10.2 billion from this loan has been withdrawn as at 31 December 2012 (2011:nil). The Company recognized the amount received from the government loan above discounted at its present value as per the accounting policies in Note (3).

**19. LONG-TERM GOVERNMENT PAYABLES**

As shown in (note 11-a) the accounts payable for fuel for the period from 5 April 2000 to 31 December 2009 amounting to SR 41 billion has been transferred from current liabilities to non-current liabilities (long-term governmental payables) pursuant to the Ministerial minutes of meeting dated 15 Jumada Awal 1427H (corresponding to 11 June 2006) and 6 Safar 1433H (corresponding to 31 December 2011) and based on the Ministerial Resolution number 277, which resolved to transfer the Company's liability of Saudi Aramco Company (Saudi Aramco) to the Ministry of Finance account.

Also, the Government payable includes an amount of SR 16.8 billion represents the difference between the amount proceed from Government as a soft loans and the discounted present value of these loans (Note 18- (b) & (c)).

**20. DERIVATIVES**

The Company entered into interest rate hedging contracts with several banks to hedge the fluctuation of interest rates on loans for an amount of SR 2.6 billion on 31 December 2012 (2011: SR 3.4 billion) which includes a US Dollar portion representing approximately 15% of the national amount. The hedging contracts are based on the swap between the Company and the banks of fixed rates against floating rates on the original loan amounts every six-months.

**21. SHARE CAPITAL**

The share capital of the Company is SR 41,665,938,150 divided into 4,166,593,815 shares with a par value of SR 10 each and is held as follows:

|                    | <u>Number of shares</u> | <u>Ownership percentage</u> |
|--------------------|-------------------------|-----------------------------|
| Government         | 3,096,175,320           | 74.31%                      |
| Saudi Aramco       | 288,630,420             | 6.93%                       |
| Other shareholders | 781,788,075             | 18.76%                      |
|                    | <u>4,166,593,815</u>    | <u>100%</u>                 |

Saudi Electricity Company  
(A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS -- (continued)  
FOR THE YEAR ENDED 31 DECEMBER 2012

**22. GENERAL RESERVE**

General reserve consists of the balances of the reserves amounting to SR 213,668 Thousands that were reflected in the books of the Saudi Electricity Company at the date of the merger, and investment income from electricity fund of SR 294,976 as well as the collections of surcharge from individuals subsequent to December 31, 2001 amounting to SR 31,686 thousand up to December 31, 2012 (2011: SR 29,699 thousand). The total general reserve amounted to SR 540,330 thousand as at December 31, 2012 (2011: SR 538,343 thousand).

**23. OPERATION AND MAINTENANCE EXPENSES**

|   | <i>2012</i>       |                     |                     | <i>2011</i>      |                  |
|---|-------------------|---------------------|---------------------|------------------|------------------|
|   | <i>SR'000</i>     |                     |                     | <i>SR'000</i>    |                  |
|   | <u>Generation</u> | <u>Transmission</u> | <u>Distribution</u> | <u>Total</u>     | <u>Total</u>     |
| Employees' expenses and benefits        | 1,220,497         | 670,810             | 2,356,588           | 4,247,895        | 4,489,946        |
| Materials                               | 754,139           | 65,548              | 232,714             | 1,052,401        | 1,056,090        |
| Operation and maintenance (contractors) | 371,564           | 97,090              | 418,805             | 887,459          | 878,848          |
| Provision for doubtful receivables      | -                 | -                   | 252,483             | 252,483          | 121,721          |
| Provision for slow moving inventory     | 104,554           | 11,571              | 28,129              | 144,254          | 50,353           |
| Municipality fees                       | -                 | -                   | 482,814             | 482,814          | 436,969          |
| Others                                  | 960,306           | 182,523             | 516,502             | 1,659,331        | 1,204,783        |
|   | <u>3,411,060</u>  | <u>1,027,542</u>    | <u>4,288,035</u>    | <u>8,726,637</u> | <u>8,238,710</u> |

**24. GENERAL AND ADMINISTRATIVE EXPENSES**

|                                     | <i>2012</i>    | <i>2011</i>    |
|-------------------------------------|----------------|----------------|
|                                     | <i>SR'000</i>  | <i>SR'000</i>  |
| Employees' expenses and benefits    | 209,872        | 279,414        |
| Materials                           | 44,926         | 42,729         |
| Provision for slow moving inventory | 27,068         | 12,607         |
| Others                              | 108,582        | 99,787         |
|                                     | <u>390,448</u> | <u>434,537</u> |

**25. OTHER INCOME AND EXPENSES, NET**

|  | <i>2012</i>    | <i>2011</i>    |
|--|----------------|----------------|
|  | <i>SR'000</i>  | <i>SR'000</i>  |
| Gain on disposal of fixed assets   | 85,556         | 25,860         |
| Penalties  | 127,671        | 172,969        |
| Share in net loss of investee companies accounted for under the equity method (Note 8-d) | (63,729)       | (45,747)       |
| Sale of tender documents   | 30,676         | 28,952         |
| Others, net  | 115,732        | 224,715        |
|  | <u>295,906</u> | <u>406,749</u> |

Saudi Electricity Company  
(A Saudi Joint Stock Company)

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – (continued)  
FOR THE YEAR ENDED 31 DECEMBER 2012

**26. DIVIDENDS**

In accordance with the Company's by-laws, dividends of at least 5% of paid in capital, net of reserve, should be distributed to shareholders, with due care to the provisions of the Council of Ministers' Resolution No. 169 dated 11 Sha'aban 1419H, whereby the Government has waived its share from the distributed dividends for a period of ten years from the date of the Company's formation, provided that dividends do not exceed 10% of the par value of the shares. In cases where the distribution exceeds 10% of the shares' par value, the Government's share shall be treated similar to the share of other shareholders. The Government has agreed to extend this waiver for another ten years commencing from 30 Thul Hijja 1430H, based on the Council of Ministers' Resolution No. 327 dated 24 Ramadan 1430H.

The General Assembly, in its meeting held on 2 April 2012, approved to distribute of cash dividends for 2011 to individuals shareholders amounting of SR 547 million (SR 0.7 per share) representing 7% of the par value per share (2010: SR 547 million).

The board of directors in its meeting held on 14 Rabi Thani 1434H corresponding 24 February 2013, proposed to distribute cash dividends for 2012 to individuals shareholders amounting to SR 547 million. (SR 0.7 per share), representing 7% of the par value per share. These are subject to the approval of the Company's general meeting.

**27. BOARD OF DIRECTORS' REMUNERATION AND ALLOWANCES**

The expenses and allowances attributable to attending the board of directors meetings and other subcommittee meeting for the year amounted to SR 783 thousand (2011: SR 605 thousand).

The General Assembly has approved in its meeting held on 2 April 2012, Board of Directors' remuneration of SR 705 thousand from the retained earnings for the year 2011 (2010: SR 761 thousand).

The board of directors in its meeting held on 14 Rabi Thani 1434H corresponding 24 February 2013, proposed board's remuneration of SR 919 thousand after the distribution of dividends to individual shareholders not less than 5% of the share capital. This is subject to general meeting's approval.

**28. RELATED PARTIES TRANSACTIONS**

The Company provides electricity power to governmental agencies, ministries and Saudi Aramco Company (Saudi Aramco). The rates applied are approved by the Council of Ministers and are similar to the rates applied to other consumers, except for the rates used for Saline Water Conversion Corporation (SWCC) which is in accordance with a government resolution. As for the residential property of Saudi Aramco, the Company believes that these should be charged the commercial tariff. However, Saudi Aramco has objected to this tariff and is settling the electricity sales for the properties based on the industrial tariff.

The Council of Ministers has issued a Resolution Number 114 on 10 Rabi Al-Thani 1430H to resolve this dispute and to charge Saudi Aramco on the basis of residential and commercial tariff instead of industrial tariff. Further, according to the resolution, The Electricity and Co-generation Regulatory Authority (the regulator) will have to specify the residential and commercial enterprises of Saudi Aramco and to identify the concerned party to handle the cost of construction, maintenance and operation for power stations and distribution networks. Accordingly, the Company, Saudi Aramco and the regulator held several meetings to settle this matter where the regulator has specified the disputed residential and commercial enterprises of Saudi Aramco.

Saudi Electricity Company  
(A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – (continued)  
FOR THE YEAR ENDED 31 DECEMBER 2012

**28. RELATED PARTIES TRANSACTIONS – (continued)**

The company executed the regulator decree number 49/432 dated 8 Jumada Awal 1432H classifying Saudi Aramco electricity consumption tariff during the year ended 31 December 2012 and the disputed residential and commercial enterprises mentioned above were identified and the difference should be calculated according to the regulator decree. Therefore, the agreed tariff were applied on Saudi Aramco consumption during the year ended 31 December 2012. Further, the Company has completed the calculation – from its part – for the previous years up to 31 December 2011 in according to regulator decree mentioned above and has submitted its invoices to Saudi Aramco with total amount of SR 730 million. However, the Company is still in process of completing the necessary procedures to record this revenue.

In addition, the Company purchases fuel from Saudi Aramco and electricity from Saline Water Conversion Corporation at rates stipulated for in the respective governmental resolutions. Also, fees are charged for municipalities on electricity power sales.

The significant transactions and related approximate balances are as follows:

|                                     | <i>2012</i><br><i>SR'000</i> | <i>2011</i><br><i>SR'000</i> |
|-------------------------------------|------------------------------|------------------------------|
| <b>Sales</b>                        |                              |                              |
| Government                          | 7,891,078                    | 7,150,973                    |
| Saudi Aramco                        | 1,634,046                    | 1,490,989                    |
| Saline Water Conversion Corporation | 183,818                      | 194,021                      |
|                                     | <u>9,708,942</u>             | <u>8,835,983</u>             |
| <b>Purchases and Others</b>         |                              |                              |
| Saudi Aramco                        | 6,161,196                    | 5,514,247                    |
| Saline Water Conversion Corporation | 532,633                      | 573,407                      |
| Municipalities fees                 | 482,815                      | 436,969                      |
|                                     | <u>7,176,644</u>             | <u>6,524,623</u>             |

Saudi Electricity Company  
(A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – (continued)  
FOR THE YEAR ENDED 31 DECEMBER 2012

**29. CONTINGENT LIABILITIES**

- a. There is a dispute between the Company and Saudi Aramco for handling crude oil fees. The disputed amount since the Company's inception on 5 April 2000 to 31 December 2012 amounted to approximately SR 3,291 million (2011: SR 2,886 million). The Company's management believes that there will be no liability on the Company based on the Royal Decree Number M/8 dated 25 Rajab 1415H as this matter was not discussed by the Ministerial Committee formed by the Royal Decree referred to above. Accordingly, the difference has not been recorded in the Company's books. In addition, Saudi Aramco is supplying the Company with light fuel oil rather than heavy fuel oil to one of its stations. This has resulted in an accumulated difference of SR 1,200 million (2011: SR 858 million) not accounted for in the Company's books.
- b. Saudi Aramco has also a claim for the settlement of its share in the annual dividends since inception to 31 December 2011, estimated at SR 2,140 million. The Company believes that Saudi Aramco has no right for this claim during the first 20 years of its formation since it is a wholly owned government agency and accordingly, is governed by the Ministerial Resolution No. 169 dated 11 Sha'aban 1419H and Ministerial Resolution No. 327 dated 24 Ramadan 1430H on extending the Government's waiver of its rights in the profits distributed by the Saudi Electricity Company for another ten years.
- c. The Company has long-term purchase energy agreements with independent power providers whereby the Company has undertake to purchase the whole energy produced by these providers according to specific terms and prices. These agreements are for periods up to 20 years, and renewable for further periods by mutual consent of both parties.
- d. The Company has provided guarantees to some of the commercial banks against its share in financing a loan granted to some of its investee companies. The guarantee amounted to US\$ 74 million equivalent to SR 278 million as of 31 December 2012 (2011: US\$ 117 million equivalent to SR 440 million). In addition, the Company has provided a guarantee for the Department of Zakat and Income Tax amounting to SR 37,5 million (2011: SR 13 million).
- e. The Company is contingently liable against outstanding letters of credit amounting to SR 1,2 million as of the consolidated balance sheet date (2011: SR 0,3 million).

**30. PRIOR YEARS ADJUSTMENTS**

At the end of the first quarter of year 2011, the Company has evaluated the derivative financial instruments of the hedging contracts related to fixed versus floating interest rate swaps. Consequently, the opening balances of the shareholders' equity change in fair value of hedging contracts – have been restated by SR 388 million as of 1 January 2011.

**31. CAPITAL COMMITMENTS**

These comprise the unexecuted portion – as of the consolidated balance sheet date - of capital contracts conducted by the Company for the erection and installation of power plants and other assets approximately amounting to SR 81,033 million (2011: SR 48,073 million). It is anticipated that these contracts to be completed between one to three years.

Saudi Electricity Company  
(A Saudi Joint Stock Company)

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – (continued)  
FOR THE YEAR ENDED 31 DECEMBER 2012

**32. RISK MANAGEMENT**

Financial instruments included in the consolidated balance sheet consist mainly of cash and cash equivalents, accounts receivable other assets, bank loans, account payable, accrued liabilities and other non-current liabilities.

**Credit risk**

Credit risk is the risk that one party will fail to discharge an obligation and will cause the other party to incur a financial loss. The Group has proper diversification as of credit risk. Cash is substantially placed at financial institutions with sound investment grade credit ratings. Trade accounts receivable are shown, net of provision for doubtful debts..

**Commission rate risk**

Commission rate risk is the risk that the values of financial instrument will fluctuation due to changes in the market commission rates. The Group has no long-term assets commission bearing assets, but has liabilities associated with commission rates as of December 31, 2012. The Group manages its floating-rate loans through the use of commission rates hedging agreements, which have the economic effects to transfer the interest on the loans from floating to fixed rate.

**Liquidity risk**

Liquidity risk is the risk that the Group will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at an amount close to its fair value. The Group manage liquidity risk by ensuring that sufficient funds are available to meet its future commitments.

**Currency risk**

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. The management monitors the fluctuations in currency exchange rates and charge the results to consolidated financial statements accordingly.

**Fair value risk**

Fair value is the amount for which an asset could be exchanged, or a liability settled between knowledgeable willing parties in an arm's length transaction. As the Group's financial instruments are prepared under the historical cost convention, differences can arise between the carrying values and fair value estimates. Management believes that the fair values of the Group's financial assets and liabilities are not materially different from their carrying values.

**33. SEGMENT REPORTING AND FUTURE RESTRUCTURE FOR THE GROUP'S ACTIVITIES**

The Group's main operating activities are divided into generation, transmission and distribution activities. These activities complement each other in delivering electricity to the consumer. The Group's revenue is currently recognized from selling electricity to the end consumer based on the official Tariff set by the government. all group's operations are based in the Kingdom of Saudi Arabia.

The Group is in process of applying integrated plan to spin off its principal activities to different independent entities and develop inter-face selling prices. Therefore revenues and expenses will be specified for each entity upon completion of such process. As part of the plan, National Electricity Transmission Company was established and basis of inter-company transaction agreements were approved by the board of directors. The National Electricity Transmission Company started its operations in 1 January 2012, its main activities are in the transmission of power from generating stations to distribution network and operating and maintenance of electricity transmission system.

Saudi Electricity Company  
(A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – (continued)  
FOR THE YEAR ENDED 31 DECEMBER 2012

**33. SEGMENT REPORTING AND FUTURE RESTRUCTURE FOR THE GROUP'S  
ACTIVITIES – (continued)**

The financial information of Saudi Electricity Company presented in the following table include the generating and distributing segments in addition to the head office, as the procedures of spinning-off the generation and distribution segments is still in process – till the date of consolidated financial statements preparation date- as part of the Group's spin off integrated plan.

Following are the important financial data of the main group companies:

|                               | <i>Saudi Electricity<br/>Company<br/>SR'000</i> | <i>National Electricity<br/>Transmission<br/>Company<br/>SR'000</i> | <i>Other<br/>Subsidiaries<br/>SR'000</i> | <i>Inter-Company<br/>Balances<br/>SR'000</i> | <i>Total<br/>SR'000</i> |
|-------------------------------|---|---|--|--|-------------------------|
| <i>As of 31 December 2012</i> |   |   |  |  |                         |
| Fixed assets, net             | 116,689,002                                     | 51,963,098  | -  | -  | <b>168,652,100</b>      |
| Total assets                  | 259,502,616                                     | 58,931,030  | 29,420                                   | (79,876,733)                                 | <b>238,586,333</b>      |
| Total liabilities             | 207,003,910                                     | 47,468,053  | 18,303                                   | (69,873,229)                                 | <b>184,617,037</b>      |

Due to the spinning –off of National Electricity Transmission Company on 1 January 2012 the comparable period data are not applicable, the procedures of accounting and approving revenues and expenses between National Electricity Transmission Company and the Company is still under process

**34. COMPARATIVE FIGURES**

Certain comparative figures have been reclassified to conform with the current year's presentation.

**Saudi Electricity Company  
(A Saudi Joint Stock Company)**

**INTERIM CONSOLIDATED FINANCIAL  
STATEMENTS AND AUDITORS' LIMITED REVIEW  
REPORT**

**FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2013**

Saudi Electricity Company  
(A Saudi Joint Stock Company)

INTERIM CONSOLIDATED FINANCIAL STATEMENTS AND AUDITORS'  
LIMITED REVIEW REPORT  
FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2013

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## AUDITORS' LIMITED REVIEW REPORT

TO THE SHAREHOLDERS OF SAUDI ELECTRICITY COMPANY  
(A Saudi joint stock company)

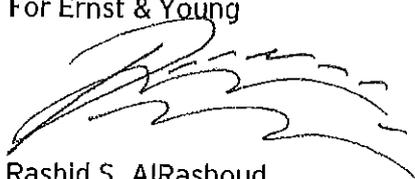
### Scope of Review

We have reviewed the accompanying interim consolidated balance sheet of Saudi Electricity Company - A Saudi Joint Stock Company (the "Company") and its subsidiaries (the "Group") as at 30 June 2013 and related interim consolidated statements of income for the three months and six months periods ended 30 June 2013, and interim consolidated statements of cash flows and changes in shareholders' equity for the six months period then ended. These interim consolidated financial statements are the responsibility of the Group's management and have been prepared by them and submitted to us with all the information and explanations which we required. We conducted our limited review in accordance with the Standard on Review of Interim Financial Reporting issued by the Saudi Organization for Certified Public Accountants (SOCPA). A limited review consists principally of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

### Conclusion

Based on our limited review, we are not aware of any material modifications that should be made to the accompanying interim consolidated financial statements for them to be in conformity with accounting standards generally accepted in the Kingdom of Saudi Arabia.

For Ernst & Young

  
Rashid S. AlRashoud  
Certified Public Accountant  
Registration No. 366



Riyadh: 8 Ramadan1434H  
(16 July 2013)

Saudi Electricity Company  
(A Saudi Joint Stock Company)

INTERIM CONSOLIDATED BALANCE SHEET

As at 30 June 2013

(In Thousands Saudi Riyals)

|  | Note | 2013<br>(Unaudited) | 2012<br>(Unaudited) |
|--|------|---------------------|---------------------|
| <b>ASSETS</b>  |      |                     |                     |
| <b>CURRENT ASSETS</b>  |      |                     |                     |
| Cash and cash equivalents  |      | 7,016,370           | 9,693,058           |
| Receivables from electricity consumers and accrued revenues, net |      | 17,294,321          | 13,359,727          |
| Prepayments and other receivables, net                           |      | 4,943,732           | 4,447,760           |
| Inventories, net   |      | 6,849,687           | 5,895,356           |
| <b>TOTAL CURRENT ASSETS</b>                                      |      | <b>36,104,110</b>   | <b>33,395,901</b>   |
| <b>NON-CURRENT ASSETS</b>  |      |                     |                     |
| Loans to associated companies                                    | 6    | 1,312,692           | 365,500             |
| Equity investments in companies and others                       |      | 2,065,992           | 2,342,259           |
| Construction work-in-progress                                    |      | 49,944,328          | 31,389,793          |
| Fixed assets, net  |      | 173,584,092         | 162,222,622         |
| <b>TOTAL NON-CURRENT ASSETS</b>                                  |      | <b>226,907,104</b>  | <b>196,320,174</b>  |
| <b>TOTAL ASSETS</b>  |      | <b>263,011,214</b>  | <b>229,716,075</b>  |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>                      |      |                     |                     |
| <b>CURRENT LIABILITIES</b>                                       |      |                     |                     |
| Accounts payable   |      | 39,927,193          | 28,996,294          |
| Accruals and other payables                                      |      | 3,349,553           | 3,882,830           |
| Short term loans and current portion of long-term loans          | 7    | 1,817,000           | 1,468,000           |
| Sukuk  | 8    | -                   | 5,000,000           |
| <b>TOTAL CURRENT LIABILITIES</b>                                 |      | <b>45,093,746</b>   | <b>39,347,124</b>   |
| <b>NON-CURRENT LIABILITIES</b>                                   |      |                     |                     |
| Long-term loans  | 7    | 15,439,540          | 12,805,937          |
| Sukuk  | 8    | 28,064,490          | 20,562,990          |
| Employees' indemnities   |      | 5,065,214           | 4,933,567           |
| Deferred revenues, net   |      | 23,667,331          | 21,351,928          |
| Customers' refundable deposits                                   |      | 1,511,026           | 1,408,847           |
| Government loans   | 9    | 25,495,146          | 21,561,361          |
| Long-term Government payables                                    | 10   | 64,037,935          | 55,190,358          |
| Provision for change in fair value of hedging contracts          | 11   | 309,165             | 295,965             |
| <b>TOTAL NON-CURRENT LIABILITIES</b>                             |      | <b>163,589,847</b>  | <b>138,110,953</b>  |
| <b>TOTAL LIABILITIES</b>   |      | <b>208,683,593</b>  | <b>177,458,077</b>  |
| <b>SHAREHOLDERS' EQUITY</b>                                      |      |                     |                     |
| Share capital  | 12   | 41,665,938          | 41,665,938          |
| Statutory reserve  |      | 1,810,599           | 1,554,492           |
| General reserve  |      | 540,330             | 538,343             |
| Retained earnings  | 14   | 10,619,919          | 8,795,190           |
| Net change in fair value of hedging contracts                    | 11   | (309,165)           | (295,965)           |
| <b>TOTAL SHAREHOLDERS' EQUITY</b>                                |      | <b>54,327,621</b>   | <b>52,257,998</b>   |
| <b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>                |      | <b>263,011,214</b>  | <b>229,716,075</b>  |

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

Saudi Electricity Company  
(A Saudi Joint Stock Company)

INTERIM CONSOLIDATED STATEMENT OF INCOME  
FOR THE THREE AND SIX-MONTH PERIODS ENDED 30 JUNE 2013  
(In Thousands Saudi Riyals)

|   | <i>For the three-month period ended</i> |                                     | <i>For the six-month period Ended</i> |                                     |                                     |
|---|---|-------------------------------------|---------------------------------------|-------------------------------------|-------------------------------------|
|   | <i>Note</i>                             | <i>30 June 2013<br/>(Unaudited)</i> | <i>30 June 2012<br/>(Unaudited)</i>   | <i>30 June 2013<br/>(Unaudited)</i> | <i>30 June 2012<br/>(Unaudited)</i> |
| <b>Operating revenues</b>                               |   |                                     |                                       |                                     |                                     |
| Electricity sales                                       |   | 8,613,193                           | 8,431,224                             | 14,372,950                          | 13,761,432                          |
| Meter reading, maintenance and bills preparation tariff |   | 251,077                             | 237,135                               | 486,234                             | 461,851                             |
| Electricity connection tariff                           |   | 416,254                             | 375,039                               | 820,914                             | 740,294                             |
| Other operating revenues                                |   | 26,890                              | 21,535                                | 50,589                              | 42,124                              |
| <b>TOTAL OPERATING REVENUES</b>                         |   | <b>9,307,414</b>                    | <b>9,064,933</b>                      | <b>15,730,687</b>                   | <b>15,005,701</b>                   |
| <b>Cost of sales</b>                                    |   |                                     |                                       |                                     |                                     |
| Fuel  |   | (1,682,116)                         | (1,738,064)                           | (2,676,310)                         | (2,726,673)                         |
| Purchased power   |   | (1,721,239)                         | (976,615)                             | (3,024,991)                         | (1,918,480)                         |
| Operations and maintenance                              |   | (2,331,810)                         | (2,375,697)                           | (4,312,250)                         | (4,211,975)                         |
| Depreciation – Operations and maintenance               |   | (2,776,907)                         | (2,573,719)                           | (5,493,308)                         | (5,113,894)                         |
| <b>TOTAL COST OF SALES</b>                              |   | <b>(8,512,072)</b>                  | <b>(7,664,095)</b>                    | <b>(15,506,859)</b>                 | <b>(13,971,022)</b>                 |
| <b>GROSS PROFIT FOR THE PERIOD</b>                      |   | <b>795,342</b>                      | <b>1,400,838</b>                      | <b>223,828</b>                      | <b>1,034,679</b>                    |
| General and administrative expenses                     |   | (74,277)                            | (60,503)                              | (174,246)                           | (163,015)                           |
| Depreciation - General and administrative               |   | (69,780)                            | (80,394)                              | (143,317)                           | (158,079)                           |
| <b>INCOME (LOSS) FROM MAIN OPERATIONS</b>               |   | <b>651,285</b>                      | <b>1,259,941</b>                      | <b>(93,735)</b>                     | <b>713,585</b>                      |
| Non-recurring income                                    | 16                                      | 729,186                             | -                                     | 729,186                             | -                                   |
| Human resources productivity improvement program        |   | -                                   | (27,234)                              | -                                   | (78,319)                            |
| Other income and expenses, net                          |   | 121,802                             | 127,618                               | 209,462                             | 141,706                             |
| <b>NET INCOME FOR THE PERIOD</b>                        |   | <b>1,502,273</b>                    | <b>1,360,325</b>                      | <b>844,913</b>                      | <b>776,972</b>                      |
| <b>BASIC INCOME (LOSS) PER SHARE (SR):</b>              |   |                                     |                                       |                                     |                                     |
| From operating activities for the period                |   | 0,16                                | 0,30                                  | (0,02)                              | 0,17                                |
| From net income for the period                          |   | 0,36                                | 0,33                                  | 0,20                                | 0,19                                |

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

Saudi Electricity Company  
(A Saudi Joint Stock Company)

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2013  
(In Thousands Saudi Riyals)

|   | 2013<br>(Unaudited) | 2012<br>(Unaudited) |
|---|---------------------|---------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>   |                     |                     |
| Net income for the period   | 844,913             | 776,972             |
| Adjustments to reconcile net income for the period with net cash from operating activities: |                     |                     |
| Provision for doubtful receivables  | 54,562              | 131,647             |
| Provision for slow-moving inventories   | 41,145              | 39,950              |
| Group's share of associates' net (incomes) losses   | (179)               | 62,283              |
| Depreciation  | 5,636,624           | 5,271,973           |
| Gain on disposal of fixed assets, net   | (33,454)            | (29,097)            |
| Employees' indemnities, net   | (102,967)           | 95,058              |
| <b>Changes in operating assets and liabilities:</b>   |                     |                     |
| Receivables from electricity consumers and accrued revenues                                 | (3,921,623)         | (1,464,174)         |
| Prepayments and other receivables   | 250,121             | 405,866             |
| Inventories   | (1,069,359)         | (372,456)           |
| Accounts payable  | 5,418,016           | 2,755,091           |
| Deferred revenues, net  | 1,377,630           | 882,353             |
| Accruals and other payables   | (1,402,856)         | (742,900)           |
| Net proceeds and payments of customers' refundable deposits                                 | 57,220              | 41,219              |
| <b>Net cash from operating activities</b>   | <b>7,149,793</b>    | <b>7,853,785</b>    |
| <b>CASH FLOWS USED IN INVESTING ACTIVITIES</b>  |                     |                     |
| Fixed assets and construction work-in-progress  | (20,619,337)        | (17,979,685)        |
| Proceeds from sale of fixed assets  | 29,396              | 58,464              |
| Loan to associate company   | (947,192)           | -                   |
| Equity investments in companies and others  | 125,000             | -                   |
| <b>Net cash used in investing activities</b>  | <b>(21,412,133)</b> | <b>(17,921,221)</b> |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>   |                     |                     |
| Net collection from Government loans and payables   | 7,671,362           | 8,860,000           |
| Net (paid) proceeds from long-term loans  | 3,591,554           | (2,440,951)         |
| Global sukuk  | 7,501,500           | 6,562,990           |
| Dividends paid to shareholders and Board of Directors' remuneration                         | (531,492)           | (528,169)           |
| <b>Net cash from financing activities</b>   | <b>18,232,924</b>   | <b>12,453,870</b>   |
| <b>NET CHANGE IN CASH AND CASH EQUIVALENTS DURING THE PERIOD</b>                            |                     |                     |
| Cash and cash equivalents, beginning of the period  | 3,970,584           | 2,386,434           |
|   | 3,045,786           | 7,306,624           |
| <b>CASH AND CASH EQUIVALENTS, END OF THE PERIOD</b>   | <b>7,016,370</b>    | <b>9,693,058</b>    |
| <b>Non-cash transaction:</b>  |                     |                     |
| Change in fair value of hedging contracts   | 61,583              | 135,905             |

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

Saudi Electricity Company  
(A Saudi Joint Stock Company)

**INTERIM CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**

FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2013

(In Thousands Saudi Riyals)

|   | Note | Share capital | Statutory reserve | General reserve | Retained earnings | Change in fair value for hedging contracts | Total      |
|---|------|---------------|-------------------|-----------------|-------------------|--|------------|
| <b>For the six-month period ended 30 June 2012</b>  |      |               |                   |                 |                   |  |            |
| Balance as at 1 January 2012                        |      | 41,665,938    | 1,554,492         | 538,343         | 8,566,175         | (431,870)                                  | 51,893,078 |
| Net income for the period                           |      | -             | -                 | -               | 776,972           | -  | 776,972    |
| Dividends paid to shareholders for 2011             | 14   | -             | -                 | -               | (547,252)         | -  | (547,252)  |
| Board of Directors' remuneration for 2011           | 14   | -             | -                 | -               | (705)             | -  | (705)      |
| Net change in fair value for hedging contracts      | 11   | -             | -                 | -               | -                 | 135,905                                    | 135,905    |
| Balance as at 30 June 2012                          |      | 41,665,938    | 1,554,492         | 538,343         | 8,795,190         | (295,965)                                  | 52,257,998 |
| <b>For the six-months period ended 30 June 2013</b> |      |               |                   |                 |                   |  |            |
| Balance as at 1 January 2013                        |      | 41,665,938    | 1,810,599         | 540,330         | 10,323,177        | (370,748)                                  | 53,969,296 |
| Net income for the period                           |      | -             | -                 | -               | 844,913           | -  | 844,913    |
| Dividends paid to shareholders for 2012             | 14   | -             | -                 | -               | (547,252)         | -  | (547,252)  |
| Board of Directors' remuneration for 2012           | 14   | -             | -                 | -               | (919)             | -  | (919)      |
| Net change in fair value for hedging contracts      | 11   | -             | -                 | -               | -                 | 61,583                                     | 61,583     |
| Balance as at 30 June 2013                          |      | 41,665,938    | 1,810,599         | 540,330         | 10,619,919        | (309,165)                                  | 54,327,621 |

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

**Saudi Electricity Company**  
**(A Saudi Joint Stock Company)**

**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS – (Unaudited)**  
**FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2013**  
(In Thousands Saudi Riyals)

**1. ORGANIZATION AND ACTIVITIES**

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

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

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

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

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

According to the Company's bylaws, the Company's financial year begins on 1<sup>st</sup> January and ends on 31<sup>st</sup> December from each Gregorian year.

The following are the list of subsidiaries included in this interim consolidated financial statements:

| <b>Name of Subsidiary</b>                                   | <b>Country of incorporation</b> | <b>Ownership Percentage (direct &amp; indirect)</b> | <b>Business Activity</b>   |
|---|---------------------------------|---|--|
| National Grid S.A. Company                                  | Saudi Arabia                    | 100%  | Transmission power from generating stations to distribution network and operating and maintenance of electricity transmission system |
| Electricity Sukuk Company                                   | Saudi Arabia                    | 100%  | Provide services and support needed in relation of issuing bonds and Sukuk by Saudi Electricity Company                              |
| Dawiyat Telecom Company                                     | Saudi Arabia                    | 100%  | Establishing, leasing, managing and operating electricity and fiber optic networks to provide telecommunications services            |
| Morjan for Electricity Production Company (Under formation) | Saudi Arabia                    | 100%  | Establishing, developing, ownership, operating and maintenance of Rabigh project for Electricity production                          |
| Saudi Electricity Global Sukuk Company                      | Cayman Islands                  | 100%  | Provide services and support needed in relation of issuing bonds and Sukuk by Saudi Electricity Company                              |
| Saudi Electricity Global Sukuk Company - 2                  | Cayman Islands                  | 100%  | Provide services and support needed in relation of issuing bonds and Sukuk by Saudi Electricity Company                              |

**Saudi Electricity Company  
(A Saudi Joint Stock Company)**

**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS – (Unaudited)  
FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2013  
(In Thousands Saudi Riyals)**

**2. BASIS OF CONSOLIDATION**

This interim consolidated financial statements includes the assets, liabilities and operating results of the Company and its subsidiaries (the Group) mentioned in note (1) above "interim consolidated financial statements".

A subsidiary company is that in which the Company has directly or indirectly a long term investment comprising an interest of more than 50% in the voting capital or over which it exercises practical control. A subsidiary company is consolidated from the date of which the Company obtains control until the date that control ceases.

The group's intercompany balances and transactions has been eliminated in this interim consolidated financial statements.

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accompanying interim consolidated financial statements have been prepared in accordance with the Standard of Interim Financial Reporting issued by the Saudi Organization for Certified Public Accountants (SOCPA). This standard follows the integral view of interim periods which considers every period in the financial period as an integral part of the financial year. The significant accounting policies adopted in preparing its interim consolidated financial statements, summarized below, are in conformity with those described in the annual audited financial statements for the year ended 31 December 2012.

The significant accounting policies adopted are as follows:

**Accounting estimates**

The preparation of interim consolidated financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the interim consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of current events and actions at the date of the interim consolidated financial statements period, actual results ultimately may differ from those estimates.

**Cash and cash equivalents**

Cash and cash equivalents include cash on hand and at bank balances, time deposits, and other investments which are convertible to cash with maturities of three months or less from the date of acquisition.

**Electricity consumers receivables**

Electricity consumers receivables represent the amount not collected from the consumers at the interim consolidated balance sheet date, and are stated net of the required provision for doubtful receivables where recovery is considered doubtful.

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NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS – (Unaudited)  
FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2013  
(In Thousands Saudi Riyals)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Inventories**

Inventory items for generation, transmission, distribution and other materials and fuel inventory are valued at lower of cost or market value and stated at the weighted average cost, net of provision for slow moving and obsolete items.

Inventory items that are considered an integral part of the generation plants, transmission and distribution networks, and other facilities such as strategic and reserve materials, are included in fixed assets.

**Investments**

Investments in companies' equity

Investments in companies in which the Company hold more than 20% of interest are accounted for using the equity method, whereby the investment is initially stated at cost, adjusted thereafter by the post acquisition change of the Group's share in the net assets of the investee company. The Group's share in the results of these companies is recognized in interim consolidated statement of income when investees' financial statements are issued.

Investments of less than 20% of share capital of unquoted Companies are stated at fair value if it is available, otherwise cost is considered as fair value. Income from these investments is recognised when dividends are declared by the investee companies.

Investments held to maturity

Investments that are acquired with the intention to be held to maturity are carried at cost (adjusted for any premium or discount), less any other than temporary decline in value. Such investments are classified as non-current assets with the exception of bonds which mature during the next fiscal year, which are classified as current assets. Income from these investments is recognized in interim consolidated statement of income when earned.

**Fixed assets**

Fixed assets are stated at historical cost and, except for land, are depreciated over their estimated operational useful lives using the straight line method. Cost includes the cost of acquisition from supplier, direct labor, indirect construction costs, and borrowing costs up to the date the asset is put in service. Costs of fixed assets sold or otherwise disposed off and related accumulated depreciation are removed from the accounts at the date of the sale or disposal. The resulting gain or loss is recognized in the interim consolidated statement of income.

Expenditure for repair and maintenance are charged to the interim consolidated statement of income. Betterments that materially increase the value or extend the life of the related assets are capitalized.

The estimated operational useful lives are as follows:

|   |          |
|---|----------|
| Buildings                                       | 20 to 30 |
| Generation plant, equipment and spare parts     | 20 to 25 |
| Transmission network, equipment and spare parts | 20 to 30 |
| Distribution network, equipment and spare parts | 15 to 25 |
| Other assets                                    | 4 to 20  |

**Saudi Electricity Company  
(A Saudi Joint Stock Company)**

**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS – (Unaudited)  
FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2013  
(In Thousands Saudi Riyals)**

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Impairment of non-current assets**

The Group conducts periodic review of the carrying amount of its non-current assets to determine whether there is any evidence that those assets have suffered an impairment loss. If such evidence exists, the recoverable amount of the non-current asset is estimated in order to determine the extent of the impairment loss. Where it is not possible to estimate the recoverable amount of that non-current asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. Impairment losses are immediately recognized as an expenses in the interim consolidated statement of income.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to meet its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognized as income immediately in the interim consolidated statement of income.

**Capitalization of borrowing costs**

Net borrowing cost which represents finance charges on long-term loans and any other finance costs charged to the Group net of any commission income for the period, is capitalized on all significant projects-in-progress with significant amount that require long period of time for construction. The borrowing cost capitalized on each project is calculated using the capitalization rate on the average amounts spent on the projects in progress.

**Government loan with definite payment terms**

The government loan with definite payment terms is recognized at present value using an estimated discount rate for Group's borrowing (for the loans received after 1 January 2009). The difference between the amount received and the present value is recorded as deferred revenues (government grant) and presented under the long-term government payables caption and recognized over the remaining years of the loan against the corresponding expenses.

**Derivative financial instruments and hedge accounting**

The Group uses derivative financial instruments to hedge its cash flow exposures to interest rates. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured for any changes in its fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

Any gains or losses arising from the changes in the fair value of derivatives determined as effective cash flows hedges are taken directly to the interim consolidated statement of shareholders' equity, while the ineffective portion of cash flow hedges, is recognised in interim consolidated statement of income.

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

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NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS – (Unaudited)  
FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2013  
(In Thousands Saudi Riyals)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Derivative financial instruments and hedge accounting (continued)**

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. At that time, for forecast transactions, any cumulative gain or loss on the hedging instrument recognised in equity is retained in shareholder's equity until the forecasted transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in shareholders' equity is transferred to interim consolidated statement of income.

**Accounts payable and accruals**

Liabilities are recognized for amounts to be paid in the future for goods or services received, whether billed by the supplier or not.

**Provision for employees' indemnity**

Employees' indemnity consists of the following:

Provision for end of service benefits:

The end of service benefits are calculated in accordance with the Labor Law in the Kingdom of Saudi Arabia and charged monthly to the interim consolidated statement of income.

Employees' saving fund:

The Group contributes in saving fund for qualified employees based on approved policy. The Group's share from contribute in saving fund is charged monthly to the interim consolidated statement of income.

**Zakat provision**

Zakat is provided in accordance with the Regulations of the Department of Zakat and Income Tax in the Kingdom of Saudi Arabia. Adjustments arising from final Zakat assessment, if any, are recorded in the interim consolidated statement of income for the period in which such assessment is obtained.

**Statutory reserve**

In accordance with the Regulations for Companies and the company's bylaws, 10% of net income for the year is transferred to statutory reserve. The company's General Assembly may discontinue such transfer when the reserve equals 50% of the share capital.

**Revenues**

Revenue from electricity sales is recognized when bills are issued to consumers based on the consumption of electric power measured by Kilowatt/hour. Revenue on power consumed by consumers but not yet billed at the interim consolidated balance sheet date are accrued for.

Revenue from meter reading, maintenance and bills preparation services represents the monthly fixed tariff based on the capacity of the meter used by the consumers, and is recognized when bills are issued. Revenue from meter reading, maintenance and bills preparation services that is not billed at the interim consolidated balance sheet date are accrued for.

Electricity service connection tariff received from consumers is deferred and recognized on a straight-line basis over the average useful lives of the equipment used in serving the consumers, estimated to be 20 years.

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FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2013  
(In Thousands Saudi Riyals)

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Expenses**

Operation and maintenance expenses include expenses relating to generation, transmission, and distribution activities as well as their allocated portion of the general services and supporting activities' expenses. The remaining portion of these expenses is included under General and Administrative expenses. General services and supporting activities expenses are allocated between the main activities based on the benefits received and is evaluated periodically.

**Earnings (losses) per share for the period**

Earnings (losses) per share is calculated using the weighted average number of outstanding shares at the end of the period, including government shares. Earnings (loss) per basic share from operating activities is calculated by dividing income (loss) from operations on the weighted average number of shares. Earnings (loss) per basic share from net income (loss) is calculated by dividing net income (loss) on weighted average of number of shares.

**Foreign currency transactions**

Transactions denominated in foreign currencies are translated into Saudi Riyals at exchange rates prevailing at the date of such transactions. Monetary assets and liabilities denominated in foreign currencies at the interim consolidated balance sheet date are translated into Saudi Riyals at the exchange rates prevailing at that date. Any realized or unrealized exchange gains or losses arising from such translations are recorded in the interim consolidated statement of income.

**4. PERIOD ADJUSTMENTS**

The Group's management has made all the required adjustments to the interim consolidated financial statements to present fairly the financial position of the Group as at the end of the interim period and the results of its operations for the period.

**5. SEASONAL FLUCTUATIONS**

The operations and revenues of the Group are affected by seasonal weather changes during the year. Revenues are materially lower during the winter months due to lower consumption of electricity whereas higher revenues are earned during summer months due to the increase in consumption of electricity as a result of the high temperature. These changes are reflected in the financial results of the group during the year. Therefore, the results of operations for this interim period (second quarter of year 2013) may not be an accurate indication of the actual results for the full year.

**6. SUBORDINATE LOAN TO ASSOCIATED COMPANY**

This balance includes, as of 30 June 2013, an amount of SR 947 million representing the Company's share in the subordinate loan provided to Dhurma Electricity Company (an associated company). Under the agreement between the shareholders of the associated company, the loan is provided by shareholders in proportion of their share in the capital. The Company holds 50% interest in the associated company. This subordinate loan is non commission bearing.

**Saudi Electricity Company**  
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**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS – (Unaudited)**  
**FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2013**  
**(In Thousands Saudi Riyals)**

**7. LOANS**

- (a) On 28 July 2008, the Company obtained a sharia-compliance loan for SR 6 billion from a group of local banks which has been fully withdrawn. The loan is repayable over 22 semi-annual installments starting 3 November 2009. The loan balance amounted SR 3.8 billion as of 30 June 2013 (2012:SR 4.4 billion). The loan is subject to certain financial covenants in which the Company complies with as at 30 June 2013.
- (b) The Company agreed with the Export-Import Bank of the United States, and the Export Development Bank of Canada on 21 June 2009 and signed a financing agreement on 27 January 2010 whereby the Company will receive a direct loan amounting to US\$ 1.1 billion equivalent to approximately SR 4.1 billion which has been fully withdrawn. The loan is repayable within 12 years in 24 semi-annual installments starting 25 May 2010. The loan balance amounted SR 2.9 billion as of 30 June 2013 (2012:SR 3.2 billion).
- (c) On 13 July 2009, the Company signed a financing agreement with the Public Investments Fund upon which the Company will receive a direct loan of SR 2.6 billion which has been fully withdrawn. The loan is repayable within 15 years in 24 semi-annual installments. The loan balance amounted SR 2.4 billion as of 30 June 2013 (2012:SR 2.6 billion).
- (d) On 13 December 2010, the Company signed an agreement with group of local banks whereby the Company will obtain a sharia compliant loan of SR 5 billion repayable over 26 semi-annual installments starting after past 24 months since date of signed agreement. The loan balance amounted SR 4.8 billion as of 30 June 2013 (2012:SR 0.5 billion).
- (e) On 22 June 2011, the Company agreed with Export and Import French Bank whereby the Company will receive a loan amounting to US\$ 989.1 million equivalent to SR 3.7 billion which has been fully withdrawn. The loan is repayable over 12 years in 24 semi-annual installments starting 11 January 2012. The loan balance amounted SR 3.3 billion as of 30 June 2013 (2012: SR 3.6 billion).
- (f) On 29 March 2012, the Company signed a loan agreement guaranteed by two Export Korean banks (K Shore and K Exim) where a group of international banks participated in financing the loan led by HSBC Group, Tokyo-Mitsubishi Bank, Sumitomo Mitsui Banking Corporation, Mizuho Bank and KFW Bankengruppe. The Company will receive a loan amounting to SR 5.3 billion equivalent to approximately US\$ 1,400 million for a period of 15 years. The loan is repayable over 12 years in 24 semi-annual installments starting after grace period of 3 years. The loan balance amounted SR 107 million as of 30 June 2013 (2012: Nil).

The long-term loans mentioned above are used in financing construction projects. These loans are secured by promissory notes signed by the Company for the nominal value of the loan plus the interest payments and/or Murabaha margin.

The company has unutilized credit facilities signed as of 30 June 2013 with local commercial banks amounting to SR 1 billion (2012: SR 1 billion).

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**8. SUKUK**

The outstanding Sukuk as of 30 June 2013 are as follows:

**Local Sukuk:**

| <u>Issue</u> | <u>Date of issue</u> | <u>Par value</u> | <u>Total issued amount</u> | <u>Maturity date</u> |
|--------------|----------------------|------------------|----------------------------|----------------------|
| Sukuk 2      | 6 July 2009          | SR 100 Thousand  | SR 7 Billion               | 2029                 |
| Sukuk 3      | 10 May 2010          | SR 10 Thousand   | SR 7 Billion               | 2030                 |

The above Sukuk have been issued at par value with no discount nor premium. The Sukuk bear a rate of return at SIBOR plus a margin payable quarterly from the net income received from the Sukuk assets held by the Sukuk custodian "Electricity Sukuk Company", a wholly owned subsidiary of the Company.

For each purchase date, the Company shall pay an amount equal to 10% of the aggregate face value of the Sukuk as bonus to the Sukuk holders. The purchase price is determined by multiplying Sukuk's par value at the percentage shown against the purchase date, as follows:

| <u>Issue</u> | <u>Percentage</u>           |                              |                             |
|--------------|-----------------------------|------------------------------|-----------------------------|
|              | <u>90%</u>                  | <u>60%</u>                   | <u>30%</u>                  |
|              | <u>First purchased date</u> | <u>Second purchased date</u> | <u>Third purchased date</u> |
| Sukuk 2      | 2014                        | 2019                         | 2024                        |
| Sukuk 3      | 2017                        | 2020                         | 2025                        |

On 15 July 2012, the Company fully purchased the assets of its first Sukuk issued (Sukuk1) amounted SR 5 billion

**Global Sukuk:**

During April 2012 the Company issued Sukuk amounting to SR 6.6 billion equivalent to approximately US\$ 1,750 million where the issuance consisted of two types of Sukuk certificates. The first type amounting to US\$ 500 million maturing after 5 years with fixed rate of 2.665%, the second type amounting to US\$ 1,250 million maturing after 10 years with fixed rate of 4.211%.

During April 2013 the Company issued Sukuk amounting SR 7.5 billion equivalent to approximately US\$ 2 billion where the issuance consisted of two types of Sukuk Certificates. The first type amounting to US\$ 1 billion maturing after 10 years with fixed rate of 3.473%, the second type amounting to US\$ 1 billion maturing in 30 years with fixed rate of 5.06%.

**9. GOVERNMENT LOANS**

- (a) Pursuant to the Ministerial resolution number 169 dated 11 Sha'ban 1419H, the net dues of the Government to the Saudi Electricity Company and the net dues of the Company to the Government were determined in accordance with rules and procedures stipulated in the minutes signed by his HE the Minister of Industry and Electricity and his HE the Minister of Finance and National Economy dated 27 Jumada Al-Thani 1418H corresponding to 29 October 1997. The net difference payable to the Government by the Company, as determined at the end of the business day preceding the issuance of the Royal Decree for the incorporation of the Company, is considered a long-term soft loan with a grace period of twenty five years starting from the date of the announcement of the incorporation of the Company. The loan is to be revisited later on subject to the financial condition of the Government and the Company.

The minutes of the meeting held on 21 Rajab 1422H between the Minister of Industry and Electricity and the Minister of Finance and National Economy in which the initial amount of the Government loan was determined, stated that the final settlement of Government accounts will be subject to the reconciliation for the claims of the Company from Government entities, and the loan amount shall be adjusted accordingly. During 2005, the Company finalized the amount due which included the claims of the Company and the amounts due to the Government and the agreement was signed between the Minister of Water and Electricity and the Minister of Finance on 15 Rajab 1426H which brought the balance of Government loan to SR 14.9 billion.

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**9. GOVERNMENT LOANS (continued)**

- (b) The Council of Ministers approved in its meeting held on Monday 12 Jumada Al-Awal 1431H corresponding to 26 April 2010 to grant the Company a soft loan amounting to SR 15 billion repayable over 25 years. The loan will be paid to the Company within 2 years in accordance with an agreement that will be prepared for this purpose between the Ministry of Finance and the Saudi Electricity Company. The agreement was signed on 15 Ramadan 1431H, corresponding to 25 August 2010, this loan has been fully withdrawn as at 30 June 2013 (2012: fully withdrawn). The Company recognized the amount received from the government loan above discounted at its present value as per the accounting policies in Note (3).
- (c) The Council of Ministers approved in its meeting held on Monday 11 Rajab 1432H corresponding to 13 June 2011 to grant the Company a soft loan amounting to SR 51.1 billion repayable over 25 years, The loan will be paid to the Company within 5 years in accordance with an agreement that will be prepared for this purpose between the Ministry of Finance and the Saudi Electricity Company. An amount of SR 17.89 billion from this loan has been withdrawn as at 30 June 2013 (2012: 5.1 billion). The Company recognized the amount received from the government loan above discounted at its present value as per the accounting policies in Note (3).

**10. LONG-TERM GOVERNMENT PAYABLES**

The long term government payable includes SR 41 billion represents the accounts payable for fuel for the period from 5 April 2000 to 31 December 2009 which has been reclassified during the prior years from current liabilities to non-current liabilities (long-term governmental payables) pursuant to the Ministerial minutes of meeting dated 15 Jumada Awal 1427H and 6 Safar 1433H based on the Ministerial Resolution number 277, which resolved to transfer the Company's liability of Saudi Aramco Company (Saudi Aramco) to the account of the Ministry of Finance.

Also, the long-term Government payable includes an amount of SR 22.3 billion (2012: SR 14 billion) that represents the difference between the amount proceed from Government as soft loans and the discounted present value of these loans (Note 9- (b) & (c))

**11. DERIVATIVES**

The Company entered into interest rate hedging contracts with several banks to hedge the fluctuation of interest rates on loans for an amount of SR 2.4 billion on 30 June 2013 (2012: SR 2.8 billion) which includes a US Dollar portion representing approximately 15% of the nominal amount. The hedging contracts are based on the swap between the Company and the banks of fixed rates against floating rates on the original loan amounts every six-months.

**12. SHARE CAPITAL**

The share capital of the Company amounts to SR 41,665,938,150 divided into 4,166,593,815 shares with a par value of SR 10 each.

**13. GENERAL RESERVE**

General reserve consists of the balances of the reserves that were reflected in the consolidated financial statements of the Saudi Electricity Company at the date of the merger, in additions to the collections of surcharge from individuals subsequent to 31 December 2001.

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**14. DIVIDENDS PAID AND BOARD OF DIRECTORS' REMUNERATION**

Pursuant to the company's bylaw, dividends of at least 5% of paid in capital, net of reserves, should be distributed to shareholders as a first payment with due care of Council of Ministers' Resolution No. 169 dated 11 Sha'aban 1419H, whereby the Government has waived its share from the distributed dividends for a period of ten years from the date of the Company's formation, provided that dividends do not exceed 10% of the par value of the shares. In the event whereby the distribution exceeds 10% of the shares' par value, the Government's share shall be treated similar to the share of other shareholders. The Government has agreed to extend this waiver for another ten years, based on the Council of Ministers' Resolution No. 327 dated 24 Ramadan 1430H.

The General Assembly, in its meeting held on 15 April 2013, approved to distribute of cash dividends for 2012 to individuals shareholders amounting of SR 547 million (SR 0.7 per share) representing 7% of the par value per share (2011: SR 547 million). Further, the General Assembly has approved in same meeting, Board of Directors' remuneration of SR 919 thousand from the retained earnings for the year 2012 (2011: SR 705 thousand).

**15. CONTINGENT LIABILITIES**

- a. There is a dispute between the Company and Saudi Aramco for handling crude oil fees. The disputed amount since the Company's inception on 5 April 2000 to 30 June 2013 amounted to approximately SR 3,443 million (2012: SR 3,063 million). The Company's management believes that there will be no liability on the Company based on the Royal Decree Number M/8 dated 25 Rajab 1415H as this matter was not discussed by the Ministerial Committee formed by the Royal Decree referred to above. Accordingly, the difference has not been recorded in the Company's books. In addition, Saudi Aramco is supplying the Company with light fuel oil rather than heavy fuel oil to one of its stations. This has resulted in an accumulated difference of SR 1,344 million (2012: SR 1,026 million) not accounted for in the Company's books.
- b. Saudi Aramco has also a claim for the settlement of its share in the annual dividends since inception to 31 December 2012, estimated at SR 2,342 million. The Company believes that Saudi Aramco has no right for this claim during the first 20 years of its formation since it is a wholly owned government agency and accordingly, is governed by the Ministerial Resolution No. 169 dated 11 Sha'aban 1419H and Ministerial Resolution No. 327 dated 24 Ramadan 1430H on extending the Government's waiver of its rights in the profits distributed by the Saudi Electricity Company for another ten years.
- c. The Company has provided guarantees to some of the commercial banks against its share for financing a loan granted to some of its investee companies. The guarantee amounted to US\$ 74 million equivalent to SR 278 million as of 30 June 2013 (2012: US\$ 74 million equivalent to SR 278 million). In addition, the Company has provided a guarantee for the Department of Zakat and Income Tax amounting to SR 37,5 million (2012: SR 13 million).

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**16. SETTLEMENT OF THE DISPUTE OVER THE ELECTRIC TARIFF WITH SAUDI ARAMCO**

The Company provides electricity power to governmental agencies, ministries and Saudi Aramco. The rates applied are approved by the Council of Ministers and are similar to the rates applied to other consumers, except for the rates used for Saline Water Conversion Corporation (SWCC) which is in accordance with a government resolution. As for the residential property of Saudi Aramco, the Company believes that these should be charged the commercial tariff. However, Saudi Aramco has objected to this tariff and is settling the electricity sales for the properties based on the industrial tariff.

The Council of Ministers has issued a Resolution Number 114 on 10 Rabi Al-Thani 1430H to end this dispute and to charge Saudi Aramco on the basis of residential and commercial tariff instead of industrial tariff. The Electricity and Co-generation Regulatory Authority (the regulator) will have to specify the residential and commercial enterprises of Saudi Aramco. Accordingly, the Company, Saudi Aramco and the regulator held several meetings to settle this matter where the regulator has specified the disputed residential and commercial enterprises of Saudi Aramco.

The Company has executed regulator decree number 49/432 dated 8 Jumada Awal 1432H classifying Saudi Aramco electricity consumption tariff starting from 1 January 2012, accordingly, the disputed residential and commercial enterprises mentioned above were identified, and the agreed upon tariff were applied on Saudi Aramco consumption. Further, the Company has also completed the calculation of the previous years' consumption since date of inception up to 31 December 2011 according to regulator decree mentioned above and has submitted the invoices to Saudi Aramco with total amount of SR 729 million. During the period ended 30 June 2013, the Company has completed the reconciliation procedures with Saudi Aramco for these revenues and recognized them as non-recurring income in the interim consolidated statement of income.

**17. CAPITAL COMMITMENTS**

- a. These comprise the unexecuted portion – as of the Interim consolidated balance sheet date - of capital contracts conducted by the Company for the erection and installation of power plants and other assets approximately amounting to SR 100,453 million (2012: SR 60,782 million) in addition to the future commitments provided by the Company to finance certain investees in the form of subordinate loans or common equity amounting to SR 1,253 million (2012: SR 2,200 million).
- b. The Company has long-term purchase energy agreements with independent power providers whereby the Company has undertaken to purchase the all energy produced by these providers according to specific terms and prices. These agreements are for periods up to 20 years, and renewable for further periods by mutual consent of both parties.

**18. ZAKAT**

The Company did not provide provision for zakat during the period ended 30 June 2013, since the adjusted net income and the zakat base are negative. The Company has received the Zakat assessments up to 2008 and filed an appeal against zakat differences amounted to SR 24.5 million for the years 2003 and 2004. The Company also filed the Zakat return for the years 2009 to 2012 which is still under Department of Zakat and Income Tax review.

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**19. SEGMENT REPORTING AND FUTURE RESTRUCTURE FOR THE COMPANY'S ACTIVITIES**

The Group's main operating activities are divided into generation, transmission and distribution activities. These activities complement each other in delivering electricity to the consumer. The Group's revenue is currently recognized from selling electricity to the end consumer based on the official Tariff set by the government. All group's operations are based in the Kingdom of Saudi Arabia.

Following is a description of the main operations for each activity:

**Generation:** generating electricity power.

**Transmission:** transmission power from generating stations using transmission network, to distribution network and operation and maintenance of electricity transmission system.

**Distribution and customer services:** receive and distribution to subscribers. It also engage in issuance and distribution and collection of electric bills and issue, distribute the consumer invoices and then collect the invoice amount.

The Company is now working on applying integrated plan aims to split its principal activities to different independent entities and develop inter-selling prices. Therefore revenues and expenses will be specified for each entity upon completion of such process to assess the performance of each activity and the results its operation separately. As part of the plan, National Grid S.A. Company was established and basis of inter-company transaction agreements were approved by the board of directors. The National Grid S.A. Company started its operations and related to transmission activity in 1 January 2012.

The following are the fixed assets, total assets and liabilities of the main group's companies. The financial data of Saudi Electricity Company mentioned in the below table include the generating and distributing segments in addition to the head office, as the procedure of splitting the generation and distribution segments is still under process – till the date of interim consolidated financial statements preparation date- as part of the Company's integrated plan to split its activities. The National Grid S.A. Company's financial data includes the transmission activity, while other subsidiaries' financial data include all companies set out in Note- (1) excluding National Grid S.A. Company.

| 30 June 2013      | Saudi Electricity Company<br>SR'000 | National Grid S.A. Company<br>SR'000 | Other Subsidiaries<br>SR'000 | Inter-Company Balances<br>SR'000 | Total<br>SR'000 |
|-------------------|-------------------------------------|--------------------------------------|------------------------------|----------------------------------|-----------------|
| Fixed Assets      | 120,977,184                         | 52,606,908                           | -                            | -                                | 173,584,092     |
| Total Assets      | 310,851,577                         | 60,974,401                           | 46,769                       | (108,861,533)                    | 263,011,214     |
| Total Liabilities | 257,399,320                         | 50,106,404                           | 25,286                       | (98,847,417)                     | 208,683,593     |

| 30 June 2012      | Saudi Electricity Company<br>SR'000 | National Grid S.A. Company<br>SR'000 | Other Subsidiaries<br>SR'000 | Inter-Company Balances<br>SR'000 | Total<br>SR'000 |
|-------------------|-------------------------------------|--------------------------------------|------------------------------|----------------------------------|-----------------|
| Fixed Assets      | 111,391,484                         | 50,831,138                           | -                            | -                                | 162,222,622     |
| Total Assets      | 286,386,217                         | 55,972,677                           | 20,080                       | (112,662,899)                    | 229,716,075     |
| Total Liabilities | 234,893,248                         | 45,210,417                           | 13,811                       | (102,659,399)                    | 177,458,077     |

**20. COMPARATIVE FIGURES**

Certain comparative figures have been reclassified to conform with the current period's presentation.

