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Audit Report To the Shareholders Saudi Electricity Company

The Audit Scope

We have audited the accompanying balance sheet of Saudi Electricity Company (The Company) (a Saudi Joint Stock Company) as of 31 December 2011, and the related statements of income, cash flows, and the changes in shareholders' equities for the year ended on that date. These financial statements are the responsibility of the Company's management, who prepared it in accordance with Article 123 of the Regulations for Companies and presented to us with all the necessary information and explanations we have asked. Our responsibility is to express an opinion on these statements based on our audit. We conducted our audit in accordance with generally accepted auditing standards in the Kingdom of Saudi Arabia. Those standards require that we plan and perform the audit to obtain reasonable conviction about whether the financial statements are free of material misstatements or fundamental errors. The auditing includes examining, on a test or sample basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting standards used and significant estimates made by the management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable degree of conviction that enables us to express our opinion of the financial statements.

Unqualified Opinion:-

In our opinion, the overall financial statements:

1)Present fairly, in all material aspects, the financial position of the Company as of December 31, 2011 and the results of its operations and cash flows for the year then ended are in conformity with generally accepted accounting standards in the Kingdom of Saudi Arabia.

2)Comply with the relevant provisions of the Regulations for Companies and the bylaws of the Company as these relate to the preparation and presentation of the financial statements.

For Ernst and Young

Rashed Saud Al-Rshoud Chartered Accountant

Record in Registry of Chartered Accountants Number (366)

Riyadh: 27 Rabi-Al-Awal, 1433 H

February 19, 2012



Balance Sheet as of December 31, 2011 (In Thousand Saudi Riyal)

	Note	2011	2010
Assets			
Current Assets			
Cash and Similar (Bank) Balances	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
Total Current Assets		29.742.942	26.532.905
Non-Current Assets			
Loan to Subsidiary		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
Total Non-Current Assets		183.705.612	164.339.022
TOTAL ASSETS		213.448.554	190.871.927
	3	3	

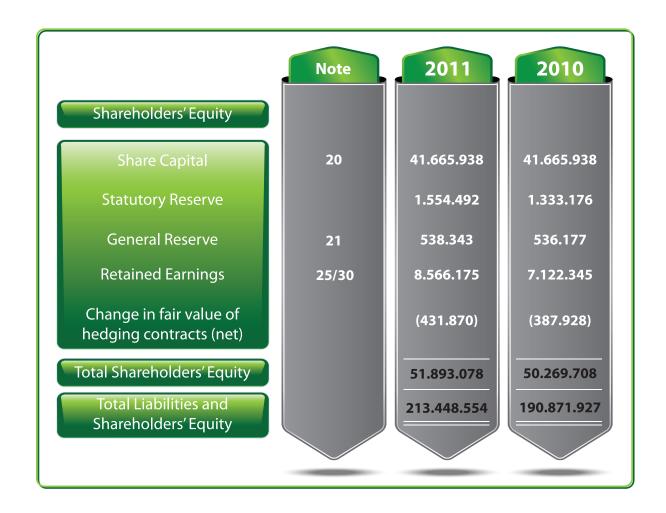


Balance Sheet as of December 31, 2011 (In Thousand Saudi Riyal)





Balance Sheet as of December 31, 2011 (In Thousand Saudi Riyal)





Income Statement for the Year Ended December 31, 2010 (In Thousand Saudi Riyal)

Operating Revenues	Note	2011	2010
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
Total Operating Revenues		30.569.598	27.910.993
Cost of Sales			
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)
Total Cost of Sales		(28.067.672)	(25.318.332)
(Gross Income)		2.501.926	2.592.661
General and Administrative Expenses Depreciation – General	23	(360.235)	(389.072)
and Administrative	9	(335.281)	(353.189)
Operating Income		(1.806.410)	1.850.400
Other Income and Expenses, net	24	406.749	428.688
NET INCOME FOR THE YEAR		2.213.159	2.279.088
Earnings Per Share (SR)			
From Operating Income for the Year		0.43	0.44
From Net Income for the Year		0.53	0.55

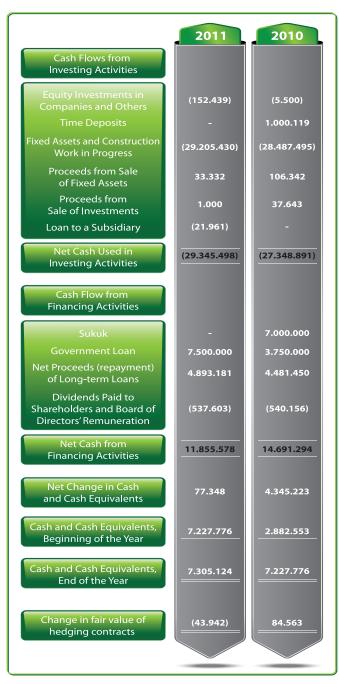


Statement of Cash Flows for the Year Ended December 31, 2011 (In Thousand Saudi Riyal)

	2011	2010
Operating Revenues		
Net Income for the Year	2.213.159	2.279.088
Adjustments to Reconcile Net Income to net Cash from Operating Activities:		
Provision for Doubtful Receivables	121.721	257.564
Provision for Slow-moving Inventories	62.960	11.180
Company's Share in Net Income (loss) of Investee Companies	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 Other Investments	-	(765)
Employees' Indemnities, net	148.291	267.920
Changes in Operating Assets and Liabilities		
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 on Customers' Refundable Deposits	72.186	136.305
Net Cash from Operating Activities	17.567.268	17.002.820



SEQUEL: Statement of Cash Flows for the Year Ended December 31, 2011 (In Thousand Saudi Riyal)





Statement of Changes in Shareholders' Equities for the Year Ended December 31, 2011 (In Thousand Saudi Riyal)

	Note	Share Capital	Statutory Reserve	General Reserve	Retained Dividends	Change in Fair Value of Hedging Contracts	Total
Year Ended December 31, 2010							
Balance, January 1, 2010		41.665.938	1.107.965	534.777	5.865.869	-	49.174.549
Prior Years Adjustments	30		(2.698)		(246.647)	(472.491)	(721.836)
Net Income for the Year (adjusted)		41.665.938	1.105.267	534.777	5.619.222	(472.491)	48.452.713
Dividends to the 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
Change in Fair Value of Hedging Contracts - Net		-	-	-	-	84.563	84.563
Electricity Fee Collections (individuals)				1.400			1.400
Transferred to Statutory Reserve (adjusted)			227.909		(227.909)		
Balance, December 31, 2010 (adjusted)		41.665.938	1.333.176	536.177	7.122.345	(387.928)	50.269.708
For the year ended December 31. 2011							
Dividends to the 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
Change in Fair Value of Hedging Contracts - Net						(43.942)	(43.942)
Electricity Fee Collections (individuals)				2.166			2.166
Transferred to Statutory Reserve (adjusted)			221.316		(221.316)		-
Balance as of December 31, 2011		41.665.938	1.554.492	538.343	8.566.175	(431.870)	51.893.078



Notes on the financial statements for the year ended December 31, 2011

1. Organization and Activities

The Saudi Electricity Company "the Company" was formed pursuant to the Council of Ministers' Resolution Number 169 dated Sha'ban 11, 1419H corresponding to November 29, 1998, which reorganized the Electricity Sector in the Kingdom of Saudi Arabia, and merging local companies that provided electricity power services (ten 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 affiliated to the Ministry of Industry and Electricity (eleven operational projects that covered various areas in the north of the Kingdom) in Saudi Electricity Company.

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

The Company is a tariff regulated (subject to tariff control) electricity 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 November 13, 2001 according to Resolution No. 169 dated Sha'ban 11, 1419H. The tariff was adjusted through the Council of Ministers' Resolution No. 170, dated Rajab 12, 1421H, whereby the tariff on the highest segment was set at a rate of SR 0.26 (halala) per kilowatt hour, and was effective as of Sha'ban 1, 1421H corresponding to October 28, 2000.

This was further amended by the Council of Ministers in its Decision Number 333 dated Shawwal 16, 1430H, corresponding to October 5, 2009, which granted the Board of Directors of the Electricity and Co-generation Regulatory Authority the right to review and adjust the non-resid ential (commercial, industrial and governmental) electricity tariff and approve them as long as the change does not exceed SR 0.26 (halala) per each kilowatt hour, taking into consideration, among other aspects, the electrical consumption at peak times. This tariff was implemented starting as of Rajab 19, 1431H, corresponding to July 1, 2010.

The Company is the whole-owner of the subsidiaries: Sukuk Electricity Company, Daoiat (OPTICS) Telecom Company, which are limited liability companies. Morever, the Company owns 50% of the Water and Electricity Company, Dharma Electricity Company, and Hajr Electricity Production Company.

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



2. Summary of Significant Accounting Policies

The accompanying financial statements have been prepared in compliance with the accounting standards issued by the Saudi Organization for Certified Public Accountants. The following is a summary of the most significant accounting policies applied by the Company:

Accounting Convention

The financial statements are prepared according to the principle of the historical cost, with exception to investments, derivatives and governmental loans (received after January 1, 2009) as they are measured by the fair value.

Accounting Estimates

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

Cash and Cash Equivalents

Cash and cash equivalents balance includes cash on hand, cash and time deposits at banks, and other liquefiable investments which are convertible to determined cash amounts the original maturities of which are within three months or less, from the date of its acquisition.

Electricity Consumers' Receivables

Electricity consumers' receivables represent the amount not collected from the consumers at the date of balance sheet, and are stated net after establishing a provision for doubtful receivables.

Inventories

Inventory items of generators, transmission, distribution, other materials, and fuel inventory are stated at the weighted average cost basis. Inventory is shown net after allocation of provision for slow moving and obsolete items. Inventory items that are considered an essential 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 Other Companies' Equities

The investments in investee companies of 20% or more are recorded using the equity method, under which the investment is stated initially at cost when at the time of acquisition and to be 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 wherever it was possible, otherwise the cost will be considered as fair value. Revenues from these investments will be recorded at the time of acquisition of dividends from the investee companies.

Investments Held to Maturity

Investments that are acquired which are intended to be held to maturity are carried at cost (adjusted for any premium or purchase discount) minus any decline, other than temporary, in its value. Such investments are classified as non-current assets with the exception of bonds that mature during the next fiscal year, which are classified as current assets. Revenues from these investments are recorded at the maturity date.

Fixed Assets

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

The estimated operational useful lives are as follows:





Impairment of Fixed (Non-Current) Assets

The Company conducts periodic review of the book value of its tangible or fixed assets to determine any evidence or any indication that those assets have suffered an impairment loss. In case of the existence of such evidence, the recoverable amount of the asset is estimated in order to determine the loss (volume) or extent of the impairment loss. Wherever 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 book value, then, the book value of the asset (cash-generating unit) is reduced to its recoverable amount. Impairment losses are recorded as expenses immediately in the statement of income.

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

Capitalization of Borrowing Costs

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

The Repayment Specified Governmental Loan

The Repayment Specified Governmental Loan is recorded at current or present value using an estimated discount rate for the Company's borrowing (for the loans received after January 1, 2009). The difference between the received value and the present value is recorded as deferred revenues (governmental grant) which appears in the long term government receivables and recognized throughout the remaining years of the loan and its incurred expenses.

Derivative Financial Instruments and Hedge Accounting

The Company uses derivative financial instruments to minimize its exposure to certain interest rate risks arising from financing activities. Basically, the derivative financial instruments are recorded at fair value on the date of its contract. It will subsequently be measured/estimated at fair value. The derivative financial instruments are recorded as financial assets when their fair value is positive and as financial liabilities when their fair value is negative. The changes in the fair value of the derivative financial instruments which were specified as effective coverage for the cash flow risks are directly within the shareholders' equity, while the non-effective part of the coverage is recorded in the statement of income. For purposes of hedge accounting, hedges are classified as a hedge of fair value that hedges the risk of changes in cash flows, whether they are related to some risk associated with assets or liabilities that have been recognized/recorded or transaction that is expected to occur in large or foreign currency risks related to certain obligations which have not been recorded.

The risk hedge accounting shall be stopped at the end of the hedging instrument such as fair value hedge or its sale, termination or execution, or it becomes a disqualified instrument or tool for risk hedging.

At that time, as for the expected transactions, the accumulated profit or loss will be kept, previously recorded in the shareholders' equity, until the occurrence o that expected transaction. In cases where the expected hedged transaction is no longer expected to occur, the net accumulated profit or loss will be transferred, which was recorded in shareholders' equities, to the statement of income.



Creditors and the Payables

The commitments to payables to be paid in the future for received goods or services, whether the suppliers submitted invoices for them or not.

Employees' Indemnities

The employees' indemnities provision consists of the following:

Provision for End-of-Service Indemnities

The provision for end-of-service indemnities is calculated in accordance with the Labor Law in the Kingdom of Saudi Arabia and carried down to the statement of income on a monthly basis.

Employees' Savings Program

The Company contributes to the formation of provision for the qualified employees in the savings program according to the approved regulatory regulation. The Company's contribution in the savings' program is carried monthly to the statement of income.

Zakat

Zakat is provided in accordance with the Regulations of the Department of Zakat and Income Tax in the Kingdom of Saudi Arabia. Any adjustments that may arise from final Zakat assessment are recorded in the statement of income for the year in which such final assessment is obtained.

Statutory Reserve

In accordance with the Regulations for Companies and the Company's bylaws, 10% of the annual net income is transferred (retained) to statutory reserve. The Company may discontinue such transfer when the balance of such reserve becomes equal to half of the share capital.

Revenues

Revenues from electricity sales are recorded when bills are issued to consumers based on their consumption of electric power measured by kilowatt/hour.

Accrued Revenue on power consumed by consumers but not yet billed, at the date of the balance sheet will be estimated. 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 the accrued revenues estimated from the unissued bills' tariff and are recorded once the bills are issued.

Tariff of electricity connection service 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 twenty years.



Expenses

Operation and maintenance expenses include expenses relating to the generation, transmission, and distribution activities as well as a portion of the general services and related supporting activities and services' expenses. The remaining portion of these expenses is included under general and administrative expenses. General services and supporting activities' expenses are allocated between the general services and supportive activities based on the benefits received by each activity and are evaluated periodically.

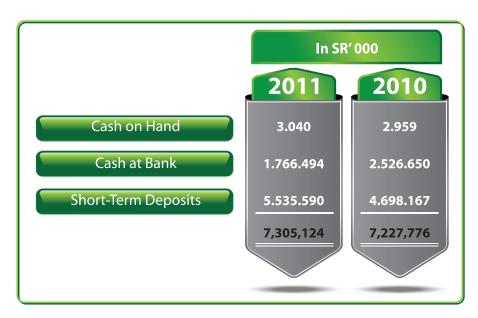
Earnings (Loss) per Share for the Year

Earnings (losses) per share from operating income and earnings per share from net income for the year are calculated by dividing operating income and net income for the year by the outstanding number of weighted average shares, including government 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 transactions are recorded in the statement of income.

3- Cash and Cash Equivalent



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Financial Statements

4- Receivables from Electricity Consumers and Accrued Revenues, Net



The movements in the provision for doubtful receivables during the year are as follows:



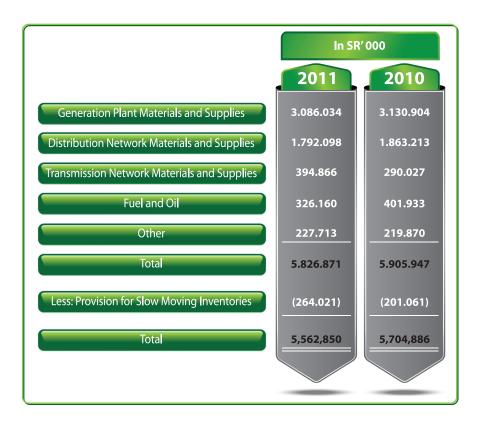


5. Prepayments and Other Receivables, Net





6. Inventories, Net

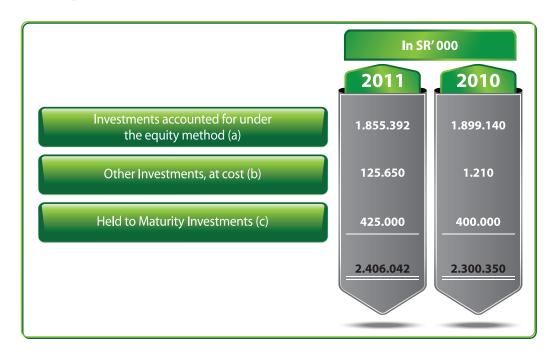


The movement in the provision for slow-moving inventories during the year is as follows:





7. Equity Investments in Companies and Others



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Financial Statements

a) Investments Accounted for Under the Equity Method



(a-1) Gulf Cooperation Council Interconnection Authority

The Company has participated 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 participation in GCCIA amounts to USD 484.80 million equivalent to SR 1,818 million.

(a-2) Water and Electricity Company

The Company had 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 water desalination projects. The Company's share amounting to SR 15 million paid in full and consists of 300,000 shares representing 50% of the investee's share capital.



(a-3) Ras Al-Zour Water and Electricity Company

Based on the Company's Board of Directors Resolution No. 02/73/2007 dated Dhu Al-Hijjah 1, 1428H, and the Company entered into a partnership with the Public Investment Fund to establish the Ras Al-Zour Water and Electricity Company, a joint stock company established pursuant to Royal Decree No. 77 dated Ramadan 14, 1428H. The Company's share amounting to SR 1 million paid in full and represents 20% of the investee's share capital. In February 2011, a certificate was issued by the Ministry of Trade and Industry writing-off the commercial register of the company (Ras Al-Zour), because of the cancellation of Ras Al-Zour project competition for electricity and water, based upon closing the investment account in this company and the recovery of previously paid value.

(a-4) Hajr Electricity Production Company

Based on the Company's Board of Directors Resolution No. 04/95/2010 dated 12/09/1431H, corresponding to 22/8/2010AD, the Company established the Hajr Electricity Production Company with a capital of SR 2 million; during the year 2011 a partner entered into a partnership which increased the capital by SR 8 million thereby bringing the total capital to SR 10 million fully paid. The share of Saudi Electricity became 50% of partners' shares. The financial statements of Hajr Electricity Production Company were not consolidated due to the lack of relative importance.

(a-5) Daoiat (OPTICS) Communications Company

Based on the Company's Board of Directors Resolution No. 02/86/2009 dated 08/05/1430H, corresponding to 03/05/2009AD, the Company established the Daoiat (OPTICS) Communications Company with a capital of SR 1 million; fully paid and represents 100% of the share capital of the new company.

The financial statements of Daoiat (OPTICS) Communications Company were not consolidated due to the lack of relative importance.

(a-6) Electricity Sukuk Company

Based on the Company's Board of Directors Resolution No. 03/67/2007 dated 22/03/1428H, corresponding to 10/04/2007AD, the Company established the Electricity Sukuk Company with a capital of SR 500 thousand; fully paid and represents 100% of the share capital of the new company. The financial statements of Electricity Sukuk Company were not consolidated due to the lack of relative importance.

(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 the Rabigh Electricity Company. The new 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 through the joining of new partners which decreased Saudi Electricity Company's share from 100% to 20%.

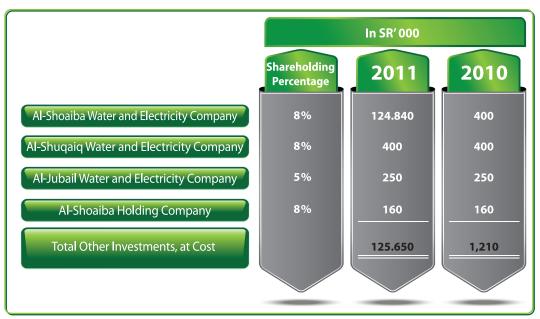
(a-8) Dharma Electricity Company

Based on Company's Board of Directors Resolution No. 4/88/2009 dated Ramadan 18, 1430H corresponding to September 8, 2009, the Company established the Dharma 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 to become 50% of total shareholders' shares. The financial statements of Dharma Electricity Company were not consolidated due to the lack of relative importance.

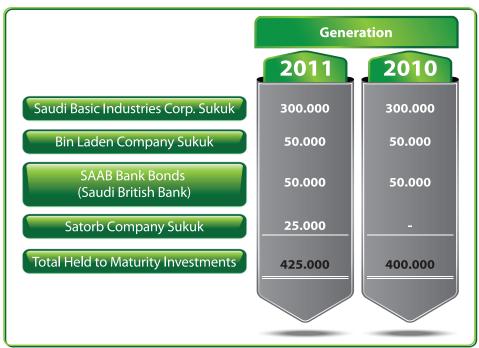
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Financial Statements

b) Other Investments, at Cost

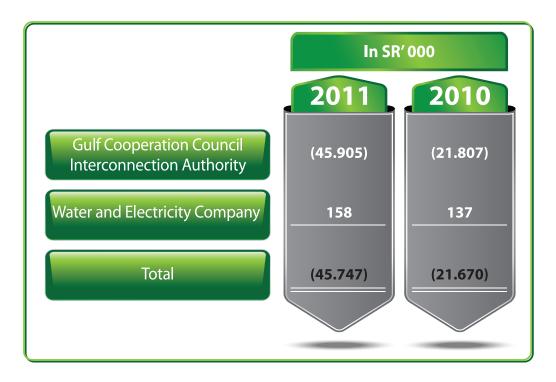


c) Held to Maturity Investments



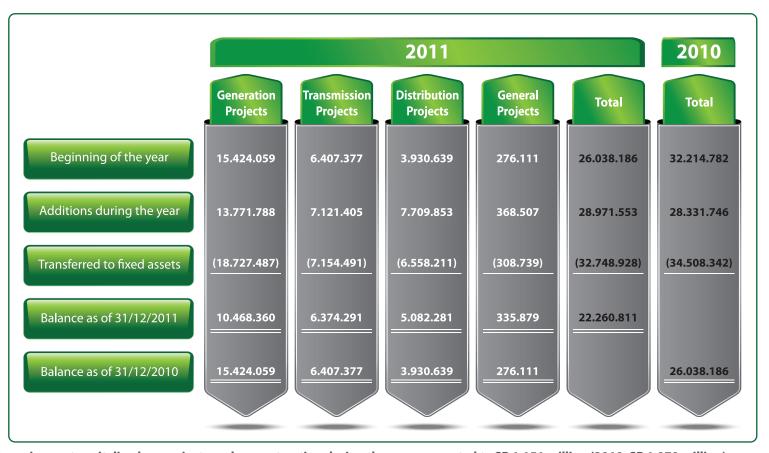


d) Share in Net Income (loss) of Investees Accounted for Under Equity Method





8. Construction Work in Progress



Net financing cost capitalized on projects under construction during the year amounted to SR 1,151 million (2010: SR 1.070 million).



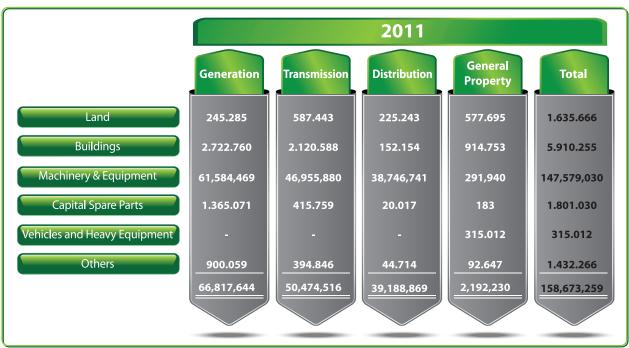
9. Fixed Assets, Net

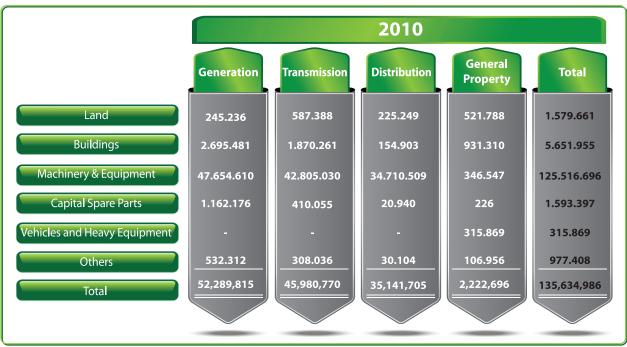
	Land	Buildings	Machinery & Equipment	Capital Spare Parts	Vehicles and Heavy Equipment	Others	2011 Total	2010 Total
COST:								
Year beginning	1.579.661	14.851.163	241.348.391	3.428.258	1.274.831	2.610.858	265.093.162	230.793.514
Additions	56.090	805.908	30.586.847	368.593	97.704	1.073.967	32.989.109	34.673.046
Disposals	(85)	(22.496)	(212.825)	-		(8)	(235.414)	(373.398)
Reclassification			129.702	<u> </u>	-	(129.702)		
Year End	1.635.666	15.634.575	271.852.115	3.796.851	1.372.535	3.555.115	297.846.857	265.093.162
Accumulated Depreciation:								
Year beginning		9.199.208	115.831.695	1.834.861	958.962	1.633.450	129.458.176	121.433.903
Additions		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)	-	
Year End		9.724.320	124.273.085	1.995.821	1.057.523	2.122.849	139.173.598	129.458.176
Net Book Value:								
31/12/2011	1.635.666	5.910.255	147.579.030	1.801.030	315.012	1.432.266	158.673.259	
31/12/2010	1.579.661	5.651.955	125.516.696	1.593.397	315.869	977.408		135.634.986

Land referred to above includes plots of land with a 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.



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

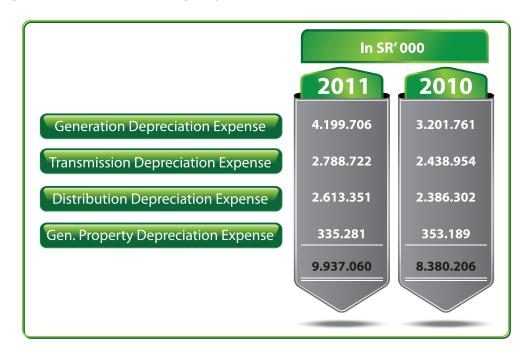






Sequel: Fixed Assets, Net

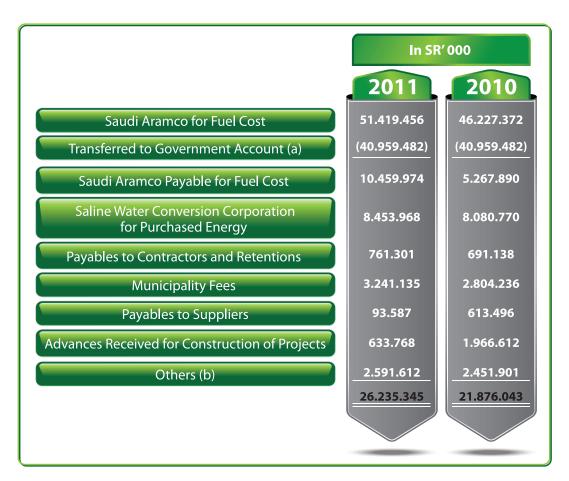
Depreciation expense charged to various activities during the year ended December 31 is as follows:



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10. Accounts Payable



- a) As it is shown in note (17-A), accounts payable to Saudi Aramco for fuel cost for the period from April 5, 2000 to December 31, 2009 amounted to SR 41 billion have been transferred from the accounts of Saudi Aramco into a long-term government payables.
- 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 accounts (refer to Note 1).



11. Accruals and Other Payables



^{*} Dividends payable include dividends in the amount of SR 91.5 million as of December 31, 2011 representing cash dividends declared by Saudi Consolidated Electricity Company prior to merger and unclaimed by the shareholders (2010: SR 93.8 million).

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12- Zakat:

The principal elements of the Zakat base are as follows:

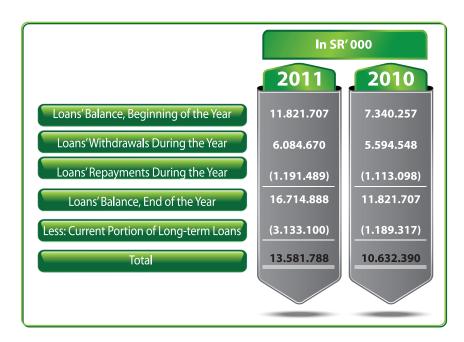


No provision for Zakat has been made during the year ended December 31, 2011, due to the negative amounts for adjusted net income and Zakat base.

According to the final statements received from the Directorate of Zakat and Income Tax (DZIT) for the period from April 5, 2000 (date of merger) to December 31, 2001 and for the year 2002, there are Zakat differences amounting to SR 13 million that resulted from DZIT computing Zakat on amounts claimed by the Company from Aramco for Aramco's electricity consumption in the residential properties and paid by Aramco based on the industrial tariff rather than the commercial tariff. The Company has not provided for this difference as it believes that Zakat should not be levied on unrealized revenues and which have not been recorded in the Company's accounts. The Company received the final statements for the years 2003 to 2008 which showed Zakat differences for SR 24.5 million on accounts of the years 2003 and 2004; these differences have been objected, and the objection is still under consideration and study with DZIT. In addition, the Company had submitted its Zakat Affidavits or Declarations for the years 2009 to 2010 and is still under review by DZIT.



13-Long - Term Loans



Following are the details of the scheduled repayments for the coming years as of December 31:





Sequel: Long - Term Loans

A) On July 28, 2008, the Company obtained a Sharia compliant loan for SR 6 billion from a group of local banks which has been fully withdrawn. The loan must be repaid on 22 biannual installments from November 3, 2009. The loan balance was SR 4.6 billion as of December 31, 2011 (2010: SR 5.2 billion). The loan is subject to certain financial agreements to which the Company is committed as of December 31, 2011.

B) The Company has reached an agreement with the Export-Import Bank of the United States and the Export Development Canada on June 21, 2009 and signed a financing agreement on January 27, 2010 whereby the Company will receive a direct loan amounting to USD 1.1 billion equivalent to approximately SR 4.1 billion which has been withdrawn. The loan is repayable over 12-year period in 24 biannual payments starting from May 25, 2010. The loan balance was SR 3.4 billion as of December 31, 2011 (2010: SR 3.8 billion.)

C) On July 13, 2009, the Company has signed a financing agreement with the Public Investments Fund upon which the Company will receive a direct loan of SR 2.6 billion repayable over a 15-year period in 24 biannual installments. The loan balance was SR 2.6 billion as of December 31, 2011 (2010: 2.6 billion).

D) On December 13, 2010, the Saudi Electricity Company has signed an agreement with a group of local banks whereby the Company will obtain a Sharia compliant loan of SR 5 billion. The loan is repayable over 13 years in 26 biannual equal payments after the elapse of 24 months from signing of the agreement. The loan balance was SR 0.5 billion as of December 31, 2011 (2010: nil.)

E) On March 12, 2011, the Saudi Electricity Company signed an agreement with Tokyo Bank-Mitsubishi whereby the Company will obtain a loan of USD 0.5 billion equivalent to SR 1.9 billion; the loan was withdrawn in total. This loan must be repaid in one payment after 12 months from the date of the first withdrawal. The agreement allows the Company to extend the maturity date of the original loan for another 12 months. The loan balance was SR 1.9 billion as of December 31, 2011 (2010: Nil.)

F) The Company has signed an agreement with the French EXIM Bank on June 22, 2011 whereby the Company will obtain a loan of USD 989.1 million equivalent to SR 3.7 billion; the loan was withdrawn in total. The loan is to be repaid within 12 years in 24 equal biannual installments starting from January 11, 2012. The loan balance was SR 3.7 billion as on December 31, 2011 (2010: Nil.)

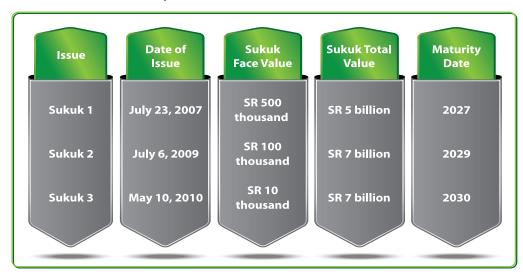
The abovementioned bank loans represent long-term borrowings obtained from commercial banks to finance construction works. Some of these loans are secured by promissory notes issued by the Company and proceeds of revenues collected by the banks.

The Company has unutilized credit facilities from local banks as of December 31, 2011 amounting to SR 1 billion which will be used to purchase generating units for Company's projects (2010: SR 1 billion.)



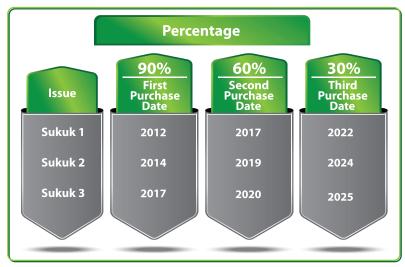
14. Sukuk

Statement of existing instruments as of December 31, 2011

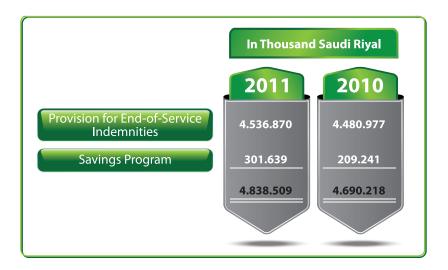


Sukuk, mentioned above, were issued at face value without discount or premium. Based on SIBOR plus the profit margin per annum is payable on a quarterly in arrears basis of the net income derived from the net income derived from the assets of Sukuk held by the custodian of the assets of the Sukuk - The Electricity Sukuk Company which is totally owned by the company.

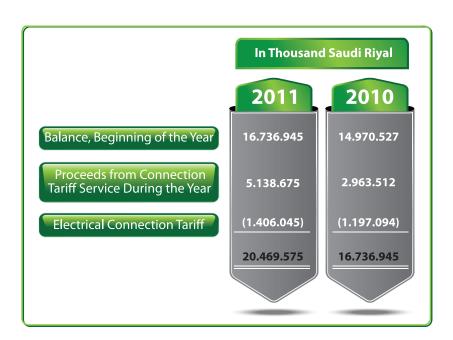
The Company has pledged to buy these instruments from the holders on specific dates in the prospectus. At each date of purchase the Company will pay an amount equivalent to 10% of the total nominal value of the instrument in the ratio described against the date of purchase, according to the following table:



15. Employees' Indemnities



16. Deferred Revenue, Net





17. Government Long-term Payables

A) The accrued fuel credit payables for the period April 5, 2000 to December 31, 2009 amounting to SR 41 billion were reclassified from Current Liabilities to Non-Current (fixed) Liabilities (Government long term payables), based on the ministerial minutes dated 15 Jumada Al-Awal 1427H and 6 Safar1433H in accordance with the Ministerial Resolution No. 277 which handled the accrued indebtedness of the Company to Saudi Aramco Company by transferring it the account of Ministry of Finance (Note 10-a.)

B) The Company during the fourth quarter of the year 2010 transferred some assets of the transmission and distribution networks located in Jubail Industrial City at the Royal Commission for Jubail and Yanbu (The Commission) to the ultimate ownership of the Company according to the terms agreed upon with the commission. The book value of those assets was SR 744 million which was recorded in the government long term payables while the amount of accumulated depreciation during the pre-merger period was estimated at SR 244 million and recorded as government receivables in the prepaid payments and other debit balances (Note 5). These accounting processes were applied retroactively (Note 30.)

18. Government Loans

A) Pursuant to the Ministerial Resolution No. 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 signed by HE the Minister of Industry and Electricity and HE the Minister of Finance and National Economy dated Jumada Al-Thani 27, 1418Hcorresponding to October 29, 1997. The net difference in 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 (Sharia Compliant) 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 reviewed later on; subject to the financial circumstance 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, stated that the final settlement of Government accounts will be subject to final reconciliation of the Company's claim 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 to SR 14.9 billion.

B) The Council of Ministers approved in its meeting held on Monday, Jumada Al-Awal 12, 1431H corresponding to April 26, 2010, to grant the Company a soft loan (Sharia compliant) 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 Ramadan 15, 1431H, corresponding to August 25, 2010; an amount of SR 11.3 billion from this loan has been withdrawn on December 31, 2011. The Company had recorded what was received from the government loan at the present value according accounting policies as shown in Note 2.

C) The Council of Ministers approved in its meeting held on Monday, Rajab11, 1432H corresponding to June 13, 2011, to grant to the Company a soft loan (Sharia compliant) amounting to SR 51.1 billion repayable over 25 years. The loan will be paid to the Company within five years in accordance with an agreement that will be prepared for this purpose between the Ministry of Finance and the Saudi Electricity Company. The amount was not withdrawn until the date of the Balance Sheet.



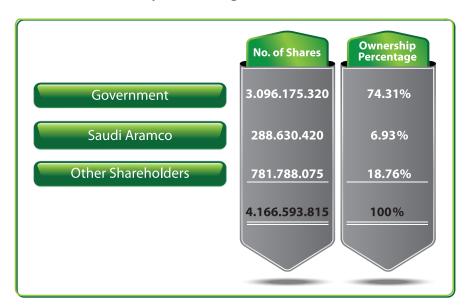
19. Derivatives

The Company entered into interest rate hedging agreements with several banks to hedge the fluctuation in loans' interest rates on a notional amount of SR 3.4 billion as of December 31, 2011 which includes a US Dollar portion representing approximately 15% of the stated nominal value. The hedging agreements are based on the bartering between the Company and the banks of fixed rates against floating rates on the original loan amounts every six months.

Moreover, the Saudi Electricity Company has signed currency agreements with some local banks aimed at stabilizing the exchange rate of the euro against the U.S. dollar exchange rate in order to cover the Company's future obligations and protect it from fluctuations in exchange rates.

20. Share Capital

The share capital of the Company amounts to SR 41,665,938,150 and divided into 4,166,593,815 shares with a par value of SR 10 each. The Company's share capital referred to above is owned by the following:

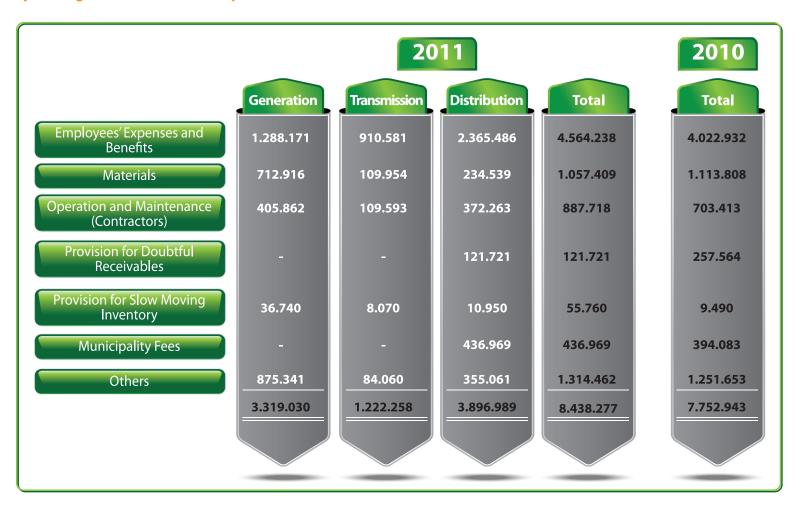


21. General Reserve

General reserve consists of the balances of the reserves that were reflected in the books of the Saudi Consolidated Electricity Companies at the date of the merger amounting to SR 213,668 thousand and the returns from investing in the Electricity Fee Fund amounting to SR 294,976 thousand. In addition, it also includes the collections of electricity fees from individuals subsequent to December 31, 2001 amounting to SR 29,699 thousand till December 31, 2011 (2010: SR 27,533 thousand). Accordingly, the balance of the general reserve amounted to SR 538,343 thousand as of December 31, 2011. (2010: SR 536,177 thousand).



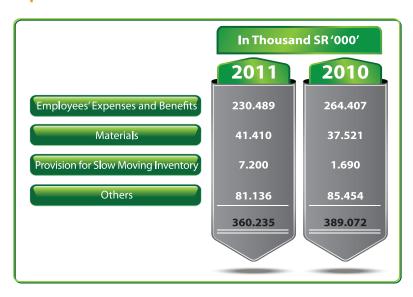
22. Operating and Maintenance Expenses



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Financial Statements

23. General and Administrative Expenses



24. Other Income and Expenses, Net





25. Proposed Dividend and Earnings per Share (Eps)

In compliance with the Company's bylaws, a preliminary distribution of dividends of not less than 5% of paid up share capital is to be distributed to shareholders after deducting reserves subject to the provisions stated in the Council of Ministers' Resolution No. 169 dated Sha'ban 11, 1419H, which stipulates that the Government has waived its share from the dividend distribution for a period of ten years from the date of the Company's formation provided that such dividends do not exceed 10% of the par value of the shares. If dividends exceeded the said percentage of the par value of the shares, then the Government's share shall be treated similar to the shares of the other shareholders. The Council of Ministers' Resolution No. 327 dated Ramadan 24, 1430H specified the extension of the government concession of its share of profits that Saudi Electricity Company distributes for a period of another 10 years.

The Board of Directors in its meeting held on April 4, 2011 proposed dividends for the year 2010 for the shareholders, individuals category, amounting to SR 547 million in cash at SR 0.7 per share representing 7% of the par value of the shares (for the year 2009: SR 547 million). The Board of Directors in its meeting held on February 19, 2012 proposed distribution of cash dividends for the year 2011 for the individual shareholders and the like amounting to SR 547 million in cash at SR 0.7 per share representing 7% of the par value of the shares. The proposed dividends' distribution for the current year requires the Company's General Assembly approval.

26. Board of Directors' Remuneration and Allowances

Expenses and allowances related to the attendance of the board members in the Board of Directors' meetings and other subcommittee meetings for the year amounted to SR 605 thousand (2010: SR 625 thousand).

The General Assembly in its meeting held on April 4, 2011 approved the remunerations for the members of the Board for the year 2010 amounted to SR 0.8 million from the retained earnings (2009: the amount was SR 0.8 million.)

The Board of Directors in its meeting held on February 19, 2012 had approved the provision of a remuneration for the board members amounting to SR 0.7 million from profits after the distribution of dividends of not less than 5% of the share capital to the individual shareholders and the like. The payment of this remuneration is due after the approval of the General Assembly.



27. Related Party Transactions

The Company connects and provides electric power to governmental agencies, ministries, and Saudi Aramco. The tariff charged to related parties is the same tariff approved by the Council of Ministers and charged to other consumers, except for the tariffs charged to Saline Water Conversion Corporation (SWCC) which are in accordance with a Government resolution, except for the residential properties of Saudi Aramco, which the Company believes that residential properties of Aramco fall under the commercial tariff while Saudi Aramco has rejected this tariff and is settling the electricity sales for all such properties based on the industrial tariff which resulted in a difference of about SR 1,831 million since the foundation of the Company until December 31, 2011 (cumulative difference of approximately SR 1,745 million since the Company's inception up to December 31, 2010), which has not been reflected in these financial statements.

The Council of Ministers in its Resolution No. 114 dated Rabi-II 10, 1430H resolved to end the dispute about the basis of charges to Aramco based on the residential and commercial tariff rather than the industrial tariff and requested the Electricity and Co-generation Regulatory Authority to determine the residential and commercial properties owned by Aramco and the party responsible for the construction costs, maintenance, and operations of voltage transformers and distribution networks. Accordingly, several meetings have been held between the Company, Aramco, and the Regulator (Electricity and Co-generation Regulatory Authority) to resolve this issue.

In addition, the Company purchases fuel from Saudi Aramco and energy from Saline Water Conversion Corporation based on prices set by Government resolutions. Also, the Company accrues for fees for the benefit of the municipalities based on electricity sales.

The significant transactions and the related approximate amounts are as follows:





28. Contingent Liabilities

A) A dispute exists between the Company and Saudi Aramco about the issue of crude oil handling fees which Aramco is asking for some sites or locations. The total disputed amount between the Company and Saudi Aramco since the Company's formation on April 5, 2000 and up to December 31, 2011 is amounting to approximately SR 2,886 million (balance of 2010: SR 2.472 million). The Company's management believes that there will be no liability on the Company based on the Royal Decree No. M/8 dated Rajab 25, 1415H as this matter was not discussed by the Ministerial Committee that was formed by the Royal Decree referred to herein. Accordingly, the difference has not been recorded in the Company's accounting books. In addition, there is another dispute about an allegation to Saudi Aramco of supplying the Company with light fuel instead of heavy fuel oil to one of the plants, as per the company's requirements; this has resulted in accumulated difference which amounted to SR 858 million (2010: SR 566 million.) Thus, it was not accounted for or recorded in the Company's books.

B) Saudi Aramco is also asking for the settlement of its share from the annual dividends according to its share in the share capital of the company. The claim for profits from the date of the Company's formation to December 31, 2010 is estimated at SR 1,937 million. The Company believes that Saudi Aramco has no right for this claim during the first twenty years of its formation since it is a government agency wholly owned by the state and, accordingly, is governed by the Ministerial Resolution No. 169 dated Sha'ban 11, 1419H and the Ministerial Resolution No. 327 dated Ramadan 24, 1430H on extending the Government's waiver of its rights in the profits distributed by the Saudi Electricity Company for another ten vears.

C) The Company has issued guarantees to some commercial banks for financing its share of the loan granted to some of the investee companies. The guarantee is valued at USD 117 million as of December 31, 2011 which is equivalent to the sum of SR 440 million (2010: USD 112, equivalent to SR 419 million.) The Company has also issued a guarantee for the benefit of DZIT equivalent to SR 13 million (2010: SR 13 million.)

D) The Company has contingent liabilities which resulted from outstanding letters of credit amounting to SR 0.30 million as of the balance sheet date (2010: SR 63 million.)

29- Sales of Electric Power

The sales of electric power have increased mainly due to the increase in the sold power quantities, as well as due to the tariff adjustment for the governmental, commercial, and industrial categories, as of July 1, 2010.

30. Prior Years' Adjustments

Towards the end of the first quarter of the year 2011, Saudi Electricity Company evaluated the hedge contracts of the fixed interest rate exchange against fluctuated rates of interest based on the fair value of the financial instruments' derivatives. That evaluation resulted in the adjustment of the opening balances of shareholders' equities – the change in the fair value of the hedge contracts – in the value of SR 388 million as of January 31, 2011, and SR 472 million as of January 1, 2010.

As shown in Note (17), certain transmission and distribution network assets in Jubail Industrial City owned by the Royal Commission for Jubail and Yanbu ("Commission") have been transferred to the Company's ownership retroactively, thus resulted in adjustment of the retained profits and statutory reserve opening balances for the year ended December 31, 2010.

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31. Capital Commitments

Capital commitments represent the value of unperformed portions of the Company's contractual agreements for the construction and installation of utility plants and other assets amounting to approximately SR 48,073 million (2010: SR 63,961 million). The scheduled time to complete these undertakings ranges between one to three years.

32. Risk Management

Financial instruments carried on the balance sheet principally include cash and cash equivalents, accounts receivable, accounts payable, other assets, bank loans, accrued liabilities, and other non-current liabilities.

Credit Risk

The credit risk represents the failure of a party to commit to his or its obligations, and thus causing the other party to incur a financial loss. The Company has proper distribution of credit risk. Cash is substantially kept with those financial institutions of renowned credit ratings. Trade accounts receivable are carried down after deducting doubtful debts.

Risk of Commission-Rates

Represents the risks emerging from exposure to fluctuations in the value of the financial instruments, which in turn is the result of fluctuations in the exchange rates prevailing at the market. The Company has no significant long-term assets associated with commission rates, but it has liabilities associated with commission rates as of December 31, 2011. The Company manages its floating-rate loans through utilizing commission rates hedging agreements linked with commissions having economic effect on the loans transference from floated into fixed rate loans.

Liquidity Risk

The liquidity risk is a risk wherein the Company encounters difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from inability to quickly sell a financial asset at its approximate fair value. The liquidity risk is managed by regular surveillance to assure the availability of sufficient funding to meet any future obligations.



Currency Risk

The currency risk is the risk wherein the value of a financial instrument fluctuates due to changes in foreign exchange rates. The Management monitors the fluctuations in currency exchange rates and charges the results to financial statements accordingly.

Fair Value

The fair value is the amount for which an asset could be exchanged, or a liability settled between knowledgeable willing parties subject to fair and just terms and condition in the transaction. As the Company's financial statements are being prepared under the principle of historical cost convention, differences could emerge between the book value and the estimated fair value. Management may believe that the fair value of the Company's financial assets and liabilities are not materially different from their book value.

33. Future Restructuring of Company Activities

The Company is considered as a single intertwined operational unit. The main operational activities in the Company are divided into the activities of generation, transmission, and distribution which are looked upon as complementary to each other in the field of electric power generation and conveyance to the final consumer, as the present company revenues are realized from the sale of electricity to the final consumer based on the official tariff decided by the state. The Company is now working on the development of a home/interface selling price among the activities of generation, transmission and distribution. As well, the establishment of the National Electricity Transmission Company has been completed; the new company commenced its business on January 1, 2012 within the company's plan to split the main activities into independent companies, thus the revenues and expenses of each company shall be determined separately at the completion of the unbundling process. All operations of the Company and its customers are performed within the borders of the Kingdom of Saudi Arabia.

34. Comparative Figures

Certain figures for the comparative year have been reclassified to conform with the presentation in the current year.

35. Subsequent Events

The Company has completed the registration and establishment procedures for the National Electricity Transmission Company, a wholly-owned company, which commenced business operation on January 1, 2012 by the transfer of all transmission activities into it.

Studies and Marketing **Public Affairs Activity** TSShowair@se.com.sa Emergency 933 | www.se.com.sa | Subscriber Service Center: 920 00 11 00 A Saudi Joint Stock Company with a capital of 41,665,938,150 Riyals