

SAUDI ELECTRICITY COMPANY
(A Saudi Joint Stock Company)

Unaudited condensed consolidated interim financial statements
and independent auditors' review report for the six months ended 30 June 2017

Index

	Page
Auditors' review report	-
Condensed consolidated interim statement of financial position	2-3
Condensed consolidated interim statement of profit or loss	4
Condensed consolidated interim statement of other comprehensive income	5
Condensed consolidated interim statement of changes in equity	6
Condensed consolidated interim statement of cash flows	7
Notes to the condensed consolidated interim financial statements	8 – 28



KPMG Al Fozan & Partners
Certified Public Accountants
KPMG Tower
Salahudeen Al Ayoubi Road
P. O. Box 92876
Riyadh 11663
Kingdom of Saudi Arabia

Telephone +966 11 874 8500
Fax +966 11 874 8600
Internet www.kpmg.com

Licence No. 46/11/323 issued 11/3/1992

"AUDITORS' REPORT ON REVIEW OF CONSOLIDATED INTERIM FINANCIAL STATEMENTS"

The Shareholders
Saudi Electricity Company
Saudi Joint stock Company
Riyadh, Kingdom of Saudi Arabia

Introduction

We have reviewed the accompanying 30 June 2017 condensed consolidated interim financial statements of **Saudi Electricity Company** "the Company" and its subsidiaries (collectively referred to as "the Group") which comprises:

- the condensed consolidated statement of financial position as at 30 June 2017;
- the condensed consolidated statement of profit or loss for the three-month and six-month periods ended 30 June 2017;
- the condensed consolidated statement of comprehensive income for the three-month and six-month periods ended 30 June 2017;
- the condensed consolidated statement of changes in equity for the six-month period ended 30 June 2017;
- the condensed consolidated statement of cash flows for the six-month period ended 30 June 2017; and
- notes to the condensed consolidated interim financial statements.

Management is responsible for the preparation and presentation of these condensed consolidated interim financial statements in accordance with IAS 34, 'Interim Financial Reporting' that is endorsed in the Kingdom of Saudi Arabia. Our responsibility is to express a conclusion on these condensed consolidated interim financial statements based on our review.

Scope of review

We conducted our review in accordance with the International Standard on Review Engagements 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' that is endorsed in the Kingdom of Saudi Arabia. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia, and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying 30 June 2017 condensed consolidated interim financial statements of the Saudi Electricity Company and its subsidiaries are not prepared, in all material respects, in accordance with IAS 34, 'Interim Financial Reporting' that is endorsed in the Kingdom of Saudi Arabia.

For KPMG Al Fozan & Partners
Certified Public Accountants

Abdullah Hamad Al Fozan
License No. 348

Date: 20 July 2017

Corresponding to: 26 Shawwal 1438H



SAUDI ELECTRICITY COMPANY
(A Saudi Joint Stock Company)

CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION (UNAUDITED)

AS AT 30 JUNE 2017

(All amounts are in thousands Saudi Riyals unless otherwise stated)

	Note	30 June 2017	31 December 2016
Assets			
Non-current assets			
Property, plant and equipment- net	9	389,717,255	374,009,392
Investment property	10	535,144	538,595
Intangible assets- net		436,664	394,311
Equity-accounted investees		1,598,679	1,570,338
Held-to-maturity investments		178,213	228,893
Available-for-sale financial assets		290,952	290,952
Total non-current assets		392,756,907	377,032,481
Current assets			
Inventories	11	7,081,186	6,997,552
Receivables from Electricity consumers receivables- net		32,947,502	28,564,041
Loans and advances		2,542,288	3,290,970
Prepayments and other receivables		4,101,599	4,203,790
Cash and cash equivalents		1,802,238	1,486,163
Total current assets		48,474,813	44,542,516
Total assets		441,231,720	421,574,997

The accompanying notes from 1 to 29 form an integral part of these condensed consolidated interim financial statements.

SAUDI ELECTRICITY COMPANY
(A Saudi Joint Stock Company)

CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION (UNAUDITED)

AS AT 30 JUNE 2017

(All amounts are in thousands Saudi Riyals unless otherwise stated)

	Note	30 June 2017	31 December 2016
Equity and liabilities			
Equity			
Share capital	12	41,665,938	41,665,938
Statutory reserve	14	2,863,305	2,863,305
General reserve	14	569,506	569,506
Other reserves		(149,043)	(118,975)
Retained earnings		27,238,136	20,618,023
Total equity		72,187,842	65,597,797
Liabilities			
Non-current liabilities			
Long term loans	15.1	51,162,730	43,385,525
Sukuk	15.2	31,796,040	26,065,350
Loans from the government	15.3	43,388,072	42,411,517
Employees' benefits obligation		6,728,926	6,633,038
Long term deferred revenue		34,936,006	31,927,778
Deferred government grants	16	46,100,406	46,667,608
Derivatives at fair value	17	363,863	360,722
Asset retirement obligation		190,076	187,550
Total non-current liabilities		214,666,119	197,639,088
Current liabilities			
Trade payables		60,093,467	54,415,766
Accruals and other payables		5,923,496	6,832,304
Provision for other liabilities and charges		130,874	132,420
Short term loans	15.1	13,952,037	13,651,541
Sukuk	15.2	-	8,875,140
Customer refundable deposits		1,892,310	1,845,080
Payable to the government	18	58,099,070	58,099,049
Advances from customers		11,661,543	12,077,255
Short term deferred revenue		2,567,552	2,372,167
Derivatives at fair value	17	57,410	37,390
Total current liabilities		154,377,759	158,338,112
Total liabilities		369,043,878	355,977,200
Total equity and liabilities		441,231,720	421,574,997

The accompanying notes from 1 to 29 form an integral part of these condensed consolidated interim financial statements.

SAUDI ELECTRICITY COMPANY
(A Saudi Joint Stock Company)

CONDENSED CONSOLIDATED INTERIM STATEMENT OF PROFIT OR LOSS (UNAUDITED)
FOR THE SIX MONTHS ENDED 30 JUNE 2017

(All amounts in thousands Saudi Riyals unless otherwise stated)

		For the three months ended 30 June		For the six months ended 30 June	
	Note	2017	2016	2017	2016
Revenue	22	13,301,834	13,194,130	22,222,127	22,088,832
Cost of sales	23	(10,610,772)	(10,403,451)	(20,184,716)	(19,640,167)
Gross profit		2,691,062	2,790,679	2,037,411	2,448,665
General and administrative expenses		(435,200)	(410,314)	(691,068)	(629,703)
Other income- net	24	668,763	436,232	973,142	590,219
Waived municipality levy	25	-	-	6,119,546	-
Human resource productivity improvements program	26	-	-	(231,846)	-
Operating income for the period		2,924,625	2,816,597	8,207,185	2,409,181
Finance income		83	7,327	1,280	25,025
Finance expense		(694,075)	(584,292)	(1,039,919)	(990,050)
Finance costs - net		(693,992)	(576,965)	(1,038,639)	(965,025)
Profit for the period before zakat		2,230,633	2,239,632	7,168,546	1,444,156
Zakat	21	952	2,370	(1,181)	(460)
Net profit for the period		2,231,585	2,242,002	7,167,365	1,443,696
Earnings per share					
(expressed in SR per share)					
Basic and diluted earnings per share	27	0.54	0.54	1.72	0.35

The accompanying notes from 1 to 29 form an integral part of these condensed consolidated interim financial statements.

SAUDI ELECTRICITY COMPANY
(A Saudi Joint Stock Company)

CONDENSED CONSOLIDATED INTERIM STATEMENT OF OTHER COMPREHENSIVE INCOME (UNAUDITED)
FOR THE SIX MONTHS ENDED 30 JUNE 2017

(All amounts in thousands Saudi Riyals unless otherwise stated)

	For the three months ended 30 June		For the six months ended 30 June	
	2017	2016	2017	2016
Net profit for the period	2,231,585	2,242,002	7,167,365	1,443,696
Other comprehensive income				
<i>Items that may be reclassified subsequently to profit or loss:</i>				
Cash flow hedges – effective portion	(44,530)	(4,860)	(30,068)	(33,016)
Total items that may be reclassified subsequently to profit or loss	(44,530)	(4,860)	(30,068)	(33,016)
Other comprehensive (loss) for the period	(44,530)	(4,860)	(30,068)	(33,016)
Total comprehensive income for the period	2,187,055	2,237,142	7,137,297	1,410,680

The accompanying notes from 1 to 29 form an integral part of these condensed consolidated interim financial statements.

SAUDI ELECTRICITY COMPANY
(A Saudi Joint Stock Company)
CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY (UNAUDITED)
FOR THE SIX MONTHS ENDED 30 JUNE 2017

(All amounts in Thousands Saudi Riyals unless otherwise stated)

				Other reserves					
	Share capital	Statutory reserve	General reserve	Derivatives at fair value	Employees end of service benefits	Change in fair value of available for sale investments	Total other reserves	Retained earnings	Total equity
	30 June 2017								
Balance as at 1 January 2017	41,665,938	2,863,305	569,506	(391,205)	253,908	18,322	(118,975)	20,618,023	65,597,797
Net profit for the period	-	-	-	-	-	-	-	7,167,365	7,167,365
Other comprehensive income	-	-	-	(30,068)	-	-	(30,068)	-	(30,068)
Total comprehensive income	-	-	-	(30,068)	-	-	(30,068)	7,167,365	7,137,297
Dividends paid to shareholders	-	-	-	-	-	-	-	(547,252)	(547,252)
Balance at 30 June 2017	41,665,938	2,863,305	569,506	(421,273)	253,908	18,322	(149,043)	27,238,136	72,187,842
	30 June 2016								
Balance at 1 January 2016	41,665,938	2,646,630	557,898	(516,176)	-	8,965	(507,211)	16,836,693	61,199,948
Net profit for the period	-	-	-	-	-	-	-	1,443,696	1,443,696
Other comprehensive income	-	-	-	(33,016)	-	-	(33,016)	-	(33,016)
Total comprehensive income	-	-	-	(33,016)	-	-	(33,016)	1,443,696	1,410,680
Dividends paid to shareholders	-	-	-	-	-	-	-	(547,252)	(547,252)
Balance at 30 June 2016	41,665,938	2,646,630	557,898	(549,192)	-	8,965	(540,227)	17,733,137	62,063,376

The accompanying notes from 1 to 29 form an integral part of these condensed consolidated interim financial statements.

SAUDI ELECTRICITY COMPANY
(A Saudi Joint Stock Company)

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS (UNAUDITED)
FOR THE SIX MONTHS ENDED 30 JUNE 2017

(All amounts in thousands Saudi Riyals unless otherwise stated)

	For the six months ended 30 June	
	2017	2016
<u>Cash flow from operating activities</u>		
Profit for the period before zakat	7,168,546	1,444,156
<u>Adjustments for:</u>		
Depreciation of property, plant and equipment	7,584,500	6,544,933
Amortisation of intangible assets	7,913	8,199
Amortisation of deferred government grant	(567,202)	(339,370)
Finance cost - net	1,038,639	965,025
Provision for doubtful debts	116,208	148,017
Provisions for slow moving inventory	-	7,956
Gain on disposal of property, plant and equipment	(11,666)	(4,838)
Municipality levy waived	(6,119,546)	-
Employees end of service benefits	547,717	284,078
Share of loss on investments in associates	39,159	-
<u>Changes in working capital:</u>		
Inventory	(83,634)	(1,429,994)
Electricity consumers receivables	(4,499,669)	(5,946,161)
Prepayment and other receivables	95,284	(141,328)
Loans and advances	733,632	599,955
Trade payables	11,797,248	12,080,509
Accruals and other payables	(986,397)	238,586
Provisions for liabilities and other fees	1,572	(613)
Customer refundable deposits	47,229	52,041
Advances from customers	(415,712)	645,488
Deferred revenue	3,203,613	2,506,243
Net finance cost paid	(938,398)	(930,269)
Zakat paid	(1,752)	(4,701)
Employee benefits obligation paid	(451,830)	(460,490)
Net cash generated from operating activities	18,305,454	16,267,422
<u>Investing activities</u>		
Payments for the acquisition of property, plant and equipment	(23,302,069)	(28,586,597)
Payments for the acquisition of investment in associated companies	(67,500)	(22,500)
Proceeds from sale of property, plant and equipment	24,824	28,017
Intangible assets	(50,266)	(1,138)
Proceeds from held to maturity investments	50,680	693
Loans to associated companies	15,050	-
Net cash used in investing activities	(23,329,281)	(28,581,525)
<u>Financing activities</u>		
Proceeds from borrowings	10,685,955	13,208,550
Repayments of borrowings and sukuk	(4,776,151)	(1,258,233)
Dividends paid	(569,902)	(531,459)
Net cash generated from financing activities	5,339,902	11,418,858
Net decrease in cash and cash equivalents	316,075	(895,245)
Cash and cash equivalents at the beginning of the period	1,486,163	2,231,078
Cash and cash equivalents at the end of the period	1,802,238	1,335,833

The accompanying notes from 1 to 29 form an integral part of these condensed consolidated interim financial statements.

SAUDI ELECTRICITY COMPANY

(A Saudi Joint Stock Company)

Notes to the condensed consolidated interim financial statements for the period ended 30 June 2017 (unaudited)

(All amounts in thousands Saudi Riyals unless otherwise stated)

1 Corporate information

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

The Company was founded 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's Resolution Number 2047 dated 30 Dhul-Hijjah 1420H corresponding to 5 April 2000 as a Saudi joint stock company and registered in Riyadh under Commercial Registration Number 1010158683, dated 28 Muhurram 1421H corresponding to 3 May 2000.

The Company's principal activities are 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.

On 17 Rabi Awal 1437H corresponding to 28 December 2015, Council of Ministers issued its resolution number 95, increasing power products prices effective from 18 Rabi Awal 1437H corresponding to 29 December 2015, and increasing electricity consumption tariff for all consumers whereby the tariff on the highest bracket was set at a rate of 32 Halala per Kilowatts/hour starting from 1 Rabi Thani 1437H corresponding to 11 January 2016.

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

Saudi Electricity Company will be referred to as ("SEC" or "Company") or together with its subsidiaries as ("Group") throughout the financials.

The address of its registered headquarter is located in Riyadh, Kingdom of Saudi Arabia.

2 Basis of preparation

The accompanying condensed consolidated interim financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are issued by the Saudi Organization for Certified Public Accountants (SOCPA).

For all periods up to the year ended December 31, 2016, SEC prepared and presented its statutory condensed consolidated interim financial statements in accordance with the generally accepted accounting standards in the Kingdom of Saudi Arabia issued by (SOCPA).

For financial periods commencing January 1, 2017, and based on SOCPA's board of directors resolution to adopt the International Financial Reporting Standards, the Company is required to prepare and present its financial statements in accordance with International Financial Reporting Standards ("IFRS") that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are issued by SOCPA (collectively referred to "IFRS as endorsed in KSA"). As part of this requirement, SEC has prepared these condensed consolidated interim financial statements.

These condensed consolidated interim financial statements considered to be the second condensed consolidated interim financial statements and for part of the period covered by the first annual financial statements prepared in accordance with IFRS as endorsed in KSA and accordingly IFRS 1 "First-time Adoption of International Financial Reporting Standards" endorsed in KSA has been applied.

An explanation of how the transition to IFRS has affected the previously reported equity as at June 30, 2016; and comprehensive income of SEC for the three and six months ended June 30, 2016, including the nature and effect of significant changes in accounting policies from those used in SEC's financial statements for the year ended December 31, 2016 is provided in Note 5.

SAUDI ELECTRICITY COMPANY

(A Saudi Joint Stock Company)

Notes to the condensed consolidated interim financial statements for the period ended 30 June 2017 (unaudited)

(All amounts in thousands Saudi Riyals unless otherwise stated)

2 Basis of preparation (continued)

These condensed consolidated interim financial statements should be read in conjunction with SEC's SOCPA GAAP annual financial statements for the year ended December 31, 2016, and SEC's interim financial statements for the quarter ended March 31, 2017 prepared in accordance with IFRS applicable to interim financial statements.

2.1 Changes in accounting policies and disclosures

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's condensed consolidated interim financial statements are disclosed below.

The Group intends to adopt these standards, if applicable, when they become effective.

2.2 Standards issued but not yet applied

IFRS 9: Financial Instruments

IFRS 9, "Financial Instruments" addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets. The standard does not need to be applied until 1 January 2018 but is available for early adoption. The Group elected not to early adopt IFRS 9.

The Group's financial assets would appear to satisfy the conditions for classification as either amortised cost or fair value through other comprehensive income (FVOCI) or fair value through statement of profit or loss and hence there will be no significant change to the accounting for those assets.

Accordingly, the Group does not expect the new guidance to have a significant impact on the classification and measurement of its financial assets.

There will be no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities except for the derivatives. The derecognition rules remain consistent with the requirements of IAS 39 Financial Instruments Recognition and Measurement and have not been changed.

Under the new hedge accounting rules, more hedge relationships might be eligible for hedge accounting, as the standard introduces a more principles-based approach.

The new impairment model requires the recognition of impairment provisions based on expected credit losses (ECL) rather than only incurred credit losses as is the case under IAS 39. It applies to financial assets classified at amortised cost, debt instruments measured at FVOCI, contract assets under IFRS 15 Revenue from Contracts with Customers, lease receivables, loan commitments and certain financial guarantee contracts.

While the Group has not yet undertaken a detailed assessment of how its impairment provisions would be affected by the new model, it may result in earlier recognition of credit losses.

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

IFRS 15: Revenue from Contracts with Customers

The International Accounting Standards Board (IASB) has issued a new standard for the recognition of revenue IFRS 15 Revenue from contracts with customers". This will replace IAS 18 Revenue which covers revenue arising from the sale of goods and the rendering of services and IAS 11 Construction Contracts which covers revenue from construction contracts.

The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer.

The standard permits either a full retrospective or a modified retrospective approach for the adoption. The new standard is effective for first interim periods within annual reporting periods beginning on or after 1 January 2018, and allows early adoption. The Group elected not to early adopt IFRS 15.

SAUDI ELECTRICITY COMPANY

(A Saudi Joint Stock Company)

Notes to the condensed consolidated interim financial statements for the period ended 30 June 2017 (unaudited)

(All amounts in thousands Saudi Riyals unless otherwise stated)

2.2 Standards issued but not yet applied (continued)

IFRS 16: Leases

The IASB has issued a new standard for the recognition of leases IFRS 16, "Leases". This standard will replace:

- IAS 17 Leases
- IFRIC 4 Whether an arrangement contains a lease
- SIC 15 Operating leases – Incentives
- SIC-27 Evaluating the substance of transactions involving the legal form of a lease

Under IAS 17, lessees were required to make a distinction between a finance lease (on statement of financial position) and an operating lease (off statement of financial position). IFRS 16 now requires lessees to recognise a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts. The IASB has included an optional exemption of certain short-term leases and leases of low-value assets.

Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The mandatory date for adoption for the standard is 1 January 2019, and allows early adoption. The Group elected not to early adopt IFRS 16.

The Group is currently assessing the impact of the application of the standards and the amendments mentioned above.

2.3 Measurement basis

These condensed consolidated interim financial statements have been prepared under the historical cost basis, except for available-for-sale assets, and financial assets and financial liabilities (including derivative instruments that have been measured at fair value.

As required by the Capital Market Authority ("CMA") through its circular dated 16th October 2016, SEC needs to apply the cost model to measure the property, plant and equipment, investment property, and intangible assets upon adopting the IFRS for three years period starting from the IFRS adoption date.

The condensed consolidated interim financial statements are presented in Saudi Riyals ("SR"), which is also the Companies functional and presentation currency.

The Company's Board of Directors has authorised these condensed consolidated interim financial statements for issuance on 18 July 2017 corresponds 24 Shawal 1438H.

3 Significant accounting policies

Accounting policies adopted in preparation of these unaudited condensed consolidated financial statements are described in notes 3 and 4 of the Group's condensed consolidated interim financial statements for the three months ended March 31, 2017.

4 Consolidation

The condensed consolidated interim financial statement include the financial statements of the Group and its subsidiaries which was described in notes 4.1 of the Company's condensed consolidated interim financial statements for the three months ended March 31, 2017.

SAUDI ELECTRICITY COMPANY**(A Saudi Joint Stock Company)**

Notes to the condensed consolidated interim financial statements for the period ended 30 June 2017(unaudited)

(All amounts in thousands Saudi Riyals unless otherwise stated)

4 Consolidation (continued)

These condensed consolidated interim financial statements are prepared for Saudi Electricity Company and its subsidiaries (collectively referred to as "the Group"). Details of subsidiaries are as follows:

	Country of incorporation and place of business	Proportion of ordinary shares held by parent (%)	Principal activity
National Grid S.A. Company	Kingdom of Saudi Arabia	100	Transmission
Dawiyat Telecom Company	Kingdom of Saudi Arabia	100	Telecom
Electricity Sukuk Company	Kingdom of Saudi Arabia	100	Financing
Saudi Electricity for Projects Development Co.	Kingdom of Saudi Arabia	100	Projects Management
Saudi Electricity Global Sukuk Company	Cayman Islands	100	Financing
Saudi Electricity Global Sukuk Company – 2	Cayman Islands	100	Financing
Saudi Electricity Global Sukuk Company – 3	Cayman Islands	100	Financing
Saudi Power Procurement Company(*)	Kingdom of Saudi Arabia	100	Single buyer

* The Company has established a wholly owned new subsidiary (Saudi Power Procurement Company) registered in the Kingdom of Saudi Arabia under commercial registration number 1010608947 dated 31 May 2017. The main activity of the Company is to carry out the single buyer's activity in accordance with the license issued by the Electricity and Co-Generation Regulatory Authority. This includes the introduction of electricity generation projects, the purchase and sale of electricity and the signature necessary agreements which still does not carry any assets or liabilities and did not perform any material transactions. Accordingly, this new subsidiary does not have any balances to be consolidated under these consolidated interim financial statements.

5 First time adoption of IFRS

From the period beginning 1 January 2017, the Group is required to prepare its first set of condensed consolidated interim financial statements in accordance with the requirements of IFRS as endorsed by SOCPA in the KSA.

For reconciliation of SOCPA to IFRS condensed consolidated interim statement of financial position as at 1 January 2016 and 31 December 2016 along with accounting policies adopted, please refer to the condensed consolidated interim financial statements for the period ended 31 March 2017.

5.1 Reconciliation of SOCPA to IFRS condensed consolidated interim statement of equity as at 30 June 2016

	Note	30 June 2016 SOCPA	Effects of transition to IFRS	30 June 2016 IFRS
Equity				
Share capital		41,665,938	-	41,665,938
Statutory reserve	5.4.1	2,629,210	17,420	2,646,630
General reserve		557,898	-	557,898
Other reserves	5.4.2	-	(540,227)	(540,227)
Cash flow hedging contracts	5.4.2	(504,222)	504,222	-
Retained earnings	5.4.3	15,550,508	2,182,629	17,733,137
Total equity		59,899,332	2,164,044	62,063,376

SAUDI ELECTRICITY COMPANY
(A Saudi Joint Stock Company)

Notes to the condensed consolidated interim financial statements for the period ended 30 June 2017(unaudited)

(All amounts in thousands Saudi Riyals unless otherwise stated)

5 First time adoption of IFRS (continued)
5.2 Reconciliation of SOCPA to IFRS condensed consolidated interim statement of profit or loss for the period ended 30 June 2016

	Note	For the three months ended 30 June 2016			For the six months ended 30 June 2016		
		30 June 2016 SOCPA	Effects of transition to IFRS	30 June 2016 IFRS	30 June 2016 SOCPA	Effects of transition to IFRS	30 June 2016 IFRS
Revenue	5.5.1	13,213,444	(19,314)	13,194,130	22,115,124	(26,292)	22,088,832
Cost of sales	5.5.2	(11,650,299)	1,246,848	(10,403,451)	(21,756,221)	2,116,054	(19,640,167)
Gross profit		1,563,145	1,227,534	2,790,679	358,903	2,089,762	2,448,665
General and administrative expenses	5.5.3	(288,925)	(121,389)	(410,314)	(467,973)	(161,730)	(629,703)
Other income – net	5.5.4	151,966	284,266	436,232	161,495	428,724	590,219
Operating income for the period		1,426,186	1,390,411	2,816,597	52,425	2,356,756	2,409,181
Finance income		-	7,327	7,327	-	25,025	25,025
Finance costs		-	(584,292)	(584,292)	-	(990,050)	(990,050)
Finance costs - net	5.5.5	-	(576,965)	(576,965)	-	(965,025)	(965,025)
Profit for the period before zakat		1,426,186	813,446	2,239,632	52,425	1,391,731	1,444,156
Zakat	5.5.6	-	2,370	2,370	-	(460)	(460)
Net profit for the period		1,426,186	815,816	2,242,002	52,425	1,391,271	1,443,696

5.3 Reconciliation of SOCPA to IFRS condensed consolidated interim statement of other comprehensive income for the period ended 30 June 2016

	Note	For the three months ended 30 June 2016			For the six months ended 30 June 2016		
		30 June 2016 SOCPA	Effects of transition to IFRS	30 June 2016 IFRS	30 June 2016 SOCPA	Effects of transition to IFRS	30 June 2016 IFRS
Profit for the period		1,426,186	815,816	2,242,002	52,425	1,391,271	1,443,696
Other comprehensive income:							
<u>Items that may be reclassified subsequently to profit or loss:</u>							
Cash flow hedges – effective portion		-	(4,860)	(4,860)	-	(33,016)	(33,016)
Other comprehensive income (loss) for the period		-	(4,860)	(4,860)	-	(33,016)	(33,016)
Total comprehensive income		1,426,186	810,956	2,237,142	52,425	1,358,255	1,410,680

SAUDI ELECTRICITY COMPANY**(A Saudi Joint Stock Company)**

Notes to the condensed consolidated interim financial statements for the period ended 30 June 2017(unaudited)

(All amounts in thousands Saudi Riyals unless otherwise stated)

5 First time adoption of IFRS (continued)**5.4 Notes to the reconciliation of SOCPA to IFRS condensed consolidated interim statement of equity as at 30 June 2016****5.4.1 Interest in equity of joint operations**

The Group's interests in the equity of joint operations were as follows:

	30 June 2016
Statutory reserve	17,420
Other reserves*	(44,970)
Retained earnings **	26,653
	(897)

* This amount represents the group's interest of the other comprehensive income reserves of the joint operations amounting to SR 506 million after less the elimination entries of SR 461 million.

**This amount represents the group's interest of the joint operations retained earnings of SR 392 million less the elimination entries of SR 366 million.

5.4.2 Other reserves

The following IFRS adjustments have been recorded as at 30 June 2016:

	30 June 2016
Reclassification of the effective portion of the floating-to-fixed interest rate swap contracts	(504,222)
Group's interest in joint operations' equity (note 5.4)	(44,970)
Fair value change of available for sale financial assets	8,965
Other comprehensive income reserves as at 30 June 2016	(540,227)

5.4.3 Retained earnings

	30 June 2016
IFRS adjustments affecting the retained earnings:	
Fully depreciated assets and componentisation of property, plant and equipment	5,589,648
Amortisation of deferred government grants at the date of transition	(3,688,706)
Re-measurement of post-employment benefits at the date of transition	(1,047,803)
Decrease in depreciation expense for the six months as a result of the fully depreciated assets and componentisation of property, plant and equipment	2,016,974
Expenses ineligible for capitalisation	(429,599)
Additional finance cost expensed under IFRS during the six months of 2016	(666,910)
Amortisation of government grants on the useful lives of the underlying assets during the six months of 2016	339,371
Amortisation of deferred revenue on a daily basis as required under IFRS	(11,532)
Post-employment benefits based on the actuarial valuation	76,438
Elimination of retained earnings pertaining to joint operations (previously accounted for using the equity method under SOCPA)	4,748
Total IFRS adjustments	2,182,629

SAUDI ELECTRICITY COMPANY**(A Saudi Joint Stock Company)**

Notes to the condensed consolidated interim financial statements for the period ended 30 June 2017(unaudited)

(All amounts in thousands Saudi Riyals unless otherwise stated)

5 First time adoption of IFRS (continued)**5.5 Notes to the reconciliation of SOCPA to IFRS condensed consolidated interim statement of profit or loss for the period ended 30 June 2016****5.5.1 Revenue**

Based on IFRS guidance, the Group has amended its amortisation basis for deferred revenue resulting in a reduction of SR 11.5 million. A further SR 14.8 million was reduced due to certain revenue arising from joint operations which has now been eliminated.

5.5.2 Cost of sales

The following IFRS adjustments have been recorded as at 30 June 2016:

	For the three months ended 30 June 2016	For the six months ended 30 June 2016
Impact of changes in depreciation expense relating to fully depreciated assets and componentisation adjustments	996,044	1,957,340
Costs for the period that are ineligible for capitalisation under IFRS	(149,475)	(332,032)
Re-measurement Post-employment benefit charge for the period	186,702	139,093
Effect on cost of sales from the reversal of equity accounting of investments in joint operations that were recorded using the equity method under SOCPA (share of profits from these investments was netted off against cost of sales under SOCPA)	83	(5,597)
Reclassification of general and administrative expenses to operations and maintenance costs	61,101	61,101
Elimination of the Group's share in the income of joint operations measured under equity method	152,393	296,149
	<u>1,246,848</u>	<u>2,116,054</u>

5.5.3 General and administrative expenses

The following IFRS adjustments have been recorded as at 30 June 2016:

	For the three months ended 30 June 2016	For the six months ended 30 June 2016
Impact of changes in depreciation expense relating to fully depreciated assets and componentisation adjustments	25,719	59,634
Costs for the period that are ineligible for capitalisation under IFRS	(53,840)	(97,567)
Re-measurement of post-employment benefit liability for the period	72,261	53,549
Board of Directors' remuneration for the period that was previously recorded directly in equity	(932)	(932)
Reclassification of cost of sales, revenues and expenses to general and administrative expenses	(160,116)	(160,116)
Group's share of investments' results that are classified as joint operations under IFRS	(4,481)	(16,298)
	<u>(121,389)</u>	<u>(161,730)</u>

5.5.4 Other income, Net

Other income are mainly adjusted by the amortisation of the government grants (deferred income) and their classification as other income. Previously, these grants were amortised based on the related loan repayment period while it is based on the related assets' useful lives under IFRS.

SAUDI ELECTRICITY COMPANY**(A Saudi Joint Stock Company)**

Notes to the condensed consolidated interim financial statements for the period ended 30 June 2017(unaudited)

(All amounts in thousands Saudi Riyals unless otherwise stated)

5 First time adoption of IFRS (continued)**5.5 Notes to the reconciliation of SOCPA to IFRS condensed consolidated interim statement of profit or loss for the period ended 30 June 2016 (continued)****5.5.5 Finance costs, net**

The following IFRS adjustments have been recorded as at 30 June 2016:

	For the three months ended 30 June 2016	For the six months ended 30 June 2016
Finance costs ineligible for capitalisation under IFRS	(369,289)	(656,134)
Group's share of investments' results that are classified as joint operations under IFRS during the period	(91,473)	(192,688)
Employees' end of service benefits	(116,203)	(116,203)
	(576,965)	(965,025)

5.5.6 Zakat

The IFRS adjustment to Zakat is related to the Group's share in the results of the joint operations during the period.

6. Financial risk management**6.1 Fair-value measurement**

The Group measures its financial instruments at fair value at reporting date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

For assets and liabilities that are recognised in the condensed consolidated interim statement of financial position on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest input that is significant to the fair value measurement as a whole) at the end of each reporting period.

The following table presents the Group's financial assets and liabilities that are measured at fair value at 30 June 2017.

	30 June 2017			
	Level 1	Level 2	Level 3	Total
Assets				
Available-for-sale investments	-	-	290,952	290,952
Total assets	-	-	290,952	290,952
Liabilities				
Derivatives financial instruments at fair value	-	421,273	-	421,273
Total liabilities	-	421,273	-	421,273

SAUDI ELECTRICITY COMPANY**(A Saudi Joint Stock Company)**

Notes to the condensed consolidated interim financial statements for the period ended 30 June 2017(unaudited)

(All amounts in thousands Saudi Riyals unless otherwise stated)

6 Financial risk management (continued)**6.1 Fair-value measurement (continued)**

The following table presents the group's financial assets and liabilities that are measured at fair value. No significant change has occurred for the year ended 31 December 2016.

	31 December 2016			Total
	Level 1	Level 2	Level 3	
Assets				
Available-for-sale investments	-	-	290,952	290,952
Total assets	-	-	290,952	290,952
Liabilities				
Derivatives financial instruments at fair value	-	398,112	-	398,112
Total liabilities	-	398,112	-	398,112

6.2 Valuation techniques used to derive level 2 fair-value

Level 2 hedging derivatives interest rate swaps ('IRS'). Interest rate swaps are fair valued using the mark-to-market value (or fair value) of the interest rate swap technique. The effects of discounting are generally insignificant for Level 2 derivatives.

6.3 Fair value measurements using significant unobservable inputs (Level 3)

The Group has four available-for-sale financial assets i.e., 8% Stake in Shuaiba Water and Electricity Company (SWEC), 8% Stake in Shuqaiq Water and Electricity Company, 5% Stake in Jubail Water and Power Company (JWAP), and 8% Stake in Shuaibah Expansion Holdings Company (SEHO). The fair valuation of these four investments is carried out using the dividend valuation model (DVM).

In accordance with this model, the expected future dividends from the investments are projected (the historical dividend pay-out pattern is used as a basis for future projections over the investment horizon), and discounted using the cost of equity as the relevant discount rate to ascertain the fair value of these investments.

There are unrealised gains for the period included in other comprehensive income ('change in fair-value of available-for-sale investment').

Projected dividends and cost of equity (Ke) are the main input variables for the utilised model for the fair valuation of AFS Investments. An increase/decrease of 5% in the cost of equity (Ke) will lead to an increase/decrease of SR 12.2 million in the fair valuation of AFS investments.

A 5% increase/decrease in the projected dividends will lead to an increase/decrease of SR 14.5 million in the fair valuation of AFS investments.

6.4 Fair value of financial assets and liabilities measured at amortised cost

The fair value of the following financial assets and liabilities is reasonably approximate to their carrying amount:

- Trade receivables
- Other current financial assets
- Cash and cash equivalents
- Trade and other payables
- Borrowings
- Sukuks
- Other current financial liabilities

7 Seasonality of operations

The Group's financial results for this six-month period are not necessarily indicative of results to be expected for the full year.

The company is affected by changes in seasonal weather and consumers behaviours.

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 high temperatures experienced in the Kingdom of Saudi Arabia during these months. Therefore, the results of operations for this interim period (second quarter of year 2017) may not be an accurate indication of the actual results for the full year.

SAUDI ELECTRICITY COMPANY**(A Saudi Joint Stock Company)**

Notes to the condensed consolidated interim financial statements for the period ended 30 June 2017(unaudited)

(All amounts in thousands Saudi Riyals unless otherwise stated)

8 Operating segments and the future restructuring of the Group's activities

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

Following is a description of the Group's main operating segments:

Generation: Generation and provision of electricity power;

Transmission: transmission of power from generation stations using the transmission network to the distribution network and operation and maintenance of the electricity transmission system;

Distribution and customer services: Receipt of power from the transmission network and distribute it to Company's consumers. It is also engaged in issuance, distribution and collection of electric consumption bills.

The Company has established a wholly owned new subsidiary (Saudi Power Procurement Company) registered in the Kingdom of Saudi Arabia under commercial registration number 1010608947 dated 31 May 2017. The main activity of the Company is to carry out the single buyer's activity in accordance with the license issued by the Electricity and Co-Generation Regulatory Authority. This includes the introduction of electricity generation projects, the purchase and sale of electricity and the signature necessary agreements which still does not carry any assets or liabilities and did not perform any material transactions. Accordingly, it is expected that the company will be separated into an independent entity in accordance with further decisions and directions.

The Company is currently implementing an integrated plan which aims to split its principal activities to different independent entities and develop inter-selling prices. Therefore, revenues and expenses will be specified for each company separately upon completion of this split process to assess the performance of each activity and the results of its operation separately. As part of the plan, National Grid S.A. Company was established and basis of inter-group transaction agreements were approved by the Board of Directors. The National Grid S.A. Company started its transmission activities on 1 January 2012.

The financial information of Saudi Electricity Company set out in the table below includes the generation , distribution and customer services segments as well as the head office, as the procedures of splitting the generation and distribution segments are still in process – up to date of consolidated financial statements preparation date- as part of the Company's integrated plan.

For the six-month period ended 30 June 2017

	Saudi Electricity Company	National Grid S.A, Company	Joint operations	Other Subsidiaries	Inter-Group Balances	Total
Revenue	22,225,936	5,083,718	945,955	14,424	(6,047,906)	22,222,127
Cost of revenue	(22,135,408)	(3,373,249)	(723,966)	(4,327)	6,052,234	(20,184,716)
Net profit for the period	6,836,504	240,052	91,489	(680)	-	7,167,365

For the three-month period ended 30 June 2017

Revenue	13,302,130	2,541,859	366,330	7,078	(2,915,563)	13,301,834
Cost of revenue	(11,552,780)	(1,710,271)	(263,284)	(2,123)	2,917,686	(10,610,772)
Net profit for the period	2,050,505	110,975	71,947	(1,842)	-	2,231,585

SAUDI ELECTRICITY COMPANY**(A Saudi Joint Stock Company)**

Notes to the condensed consolidated interim financial statements for the period ended 30 June 2017(unaudited)

(All amounts in thousands Saudi Riyals unless otherwise stated)

8 Operating segments and the future restructuring of the Group's activities (continued)**As at 30 June 2017**

	Saudi Electricity Company	National Grid S.A. Company	Joint operations	Other Subsidiaries	Inter-Group Balances	Total
Property, plant and equipment	250,854,266	127,387,482	11,475,507	-	-	389,717,255
Total assets	400,792,370	128,523,968	13,021,667	277,809	(101,384,094)	441,231,720
Total liabilities	354,256,365	93,041,776	11,471,271	143,195	(89,868,729)	369,043,878

For the six-month period ended 30 June 2016

	Saudi Electricity Company	National Grid S.A. Company	Joint operations	Other Subsidiaries	Inter-Group Balances	Total
Revenue	22,063,546	4,067,343	1,239,082	41,627	(5,322,766)	22,088,832
Cost of revenue	(20,824,029)	(3,181,161)	(957,743)	(12,490)	5,335,256	(19,640,167)
Net profit for the period	1,658,283	(314,892)	72,407	27,898	-	1,443,696

For the three-month period ended 30 June 2016

Revenue	13,166,623	1,986,208	731,665	38,347	(2,728,713)	13,194,130
Cost of revenue	(10,982,115)	(1,559,936)	(590,113)	(11,504)	2,740,217	(10,403,451)
Net profit for the period	2,451,968	(283,697)	48,846	24,885	-	2,242,002

As at 31 December 2016

Property, plant and equipment	248,452,535	114,259,659	11,297,198	-	-	374,009,392
Total assets	402,901,758	115,536,536	12,759,229	292,660	(109,915,186)	421,574,997
Total liabilities	342,376,505	100,577,231	11,250,093	173,192	(98,399,821)	355,977,200

9 Property, plant and equipment- net

As at 30 June 2017, the cost of property, plant and equipment is SR 593 billion (31 December 2016: SR 570 billion). Accumulated depreciation is SR 203 billion (31 December 2016: SR 196.3 billion). The group has made additions to property, plant and equipment during the six months ended 30 June 2017 amounting SR 31.8 billion of which SR 30.6 billion was transferred from projects under construction. The additions to projects under construction was SR 21.8 billion. The net book value of the disposed assets is SR 13.2 million.(31 December 2016: SR 98.12 million)

10 Investment property

The carrying value of investment property is SR 535 million as at 30 June 2017 (31 December 2016: 539 million). Management performed an independent valuation as at 31 December 2016 and determined the fair value of investment property to SR 1.4 billion. Management consider that the fair value as at 30 June 2017 is not significantly different from the fair value as at 31

SAUDI ELECTRICITY COMPANY**(A Saudi Joint Stock Company)**

Notes to the condensed consolidated interim financial statements for the period ended 30 June 2017(unaudited)

(All amounts in thousands Saudi Riyals unless otherwise stated)

December 2016. An independent valuation of the Group's land classified as investment property was performed by independent evaluators to determine the fair value of the land at 31 December 2016. The fair values of the properties have been determined by M/S Medad Valuation Advisory Int. Co. Limited.

10 Investment property (continued)

The following table sets out the valuation techniques used in the determination of fair value of investment property, as well as the key unobservable inputs used in the valuation models.

The fair value measurement information in accordance with IFRS 13 at 31 December 2016 are given below.

	Fair value measurements at 31 December 2016 using		
	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Fair-value measurements			
- Land	-	1,398,402	-

Valuation techniques used to derive Level 2 fair values

Level 2 fair values of land have been generally derived using the sales comparison approach. Sales prices of comparable properties in close proximity are adjusted for differences in key attributes such as property size. The most significant input into this valuation approach is price per square meter.

The real estate valuation followed by the Group is in line with the International Valuation Standards Council ("IVSC") as well as Royal Institution of Chartered Surveyors ("RICS").

11 Inventories

	30 June 2017	31 December 2016
Generation plant materials and supplies	2,966,521	2,951,572
Distribution network materials and supplies	2,882,680	2,818,450
Transmission network materials and supplies	335,437	326,070
Fuel and oil	922,379	949,775
Other	445,772	437,083
	7,552,789	7,482,950
Less: Write-down to net realisable value	(471,603)	(485,398)
Total	7,081,186	6,997,552

12 Share capital

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

13 Transactions with owners, recognised directly in equity

In accordance with the Company's by-laws, dividends of at least 5% of paid in capital, net of reserves, 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 in the distributed dividends for a period of ten years from the date of the SEC'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 based on the Council of Ministers' Resolution No. 327 dated 24 Ramadan 1430H corresponding to 13 September 2009.

The General Assembly, in its meeting held on 19 April 2017, approved distributing of cash dividends for the year 2016 to shareholders amounting of SR 547 million (SR 0.70 per share) representing 7% of the par value per share (2015: SR 547 million).

SAUDI ELECTRICITY COMPANY**(A Saudi Joint Stock Company)**

Notes to the condensed consolidated interim financial statements for the period ended 30 June 2017 (unaudited)

(All amounts in thousands Saudi Riyals unless otherwise stated)

14 Reserves**A- Statutory reserve**

In accordance with the Company's bylaws which was amended to correspond to the new Companies' law and was endorsed in the extraordinary general assembly meeting dated 19 April 2017, 10% of net income for the year is transferred to the statutory reserve until the reserve equals 30% of the share capital.

B- General reserve

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

15 Other non-derivative financial liabilities measured at amortised cost

Movements in borrowings during the period are as follows:

	Borrowings	Sukuk	Government loans	Total
As at 1 January 2017	57,037,066	34,940,490	42,411,517	134,389,073
Proceeds from new borrowings	9,653,389	-	-	9,653,389
Repayments	(1,631,701)	(3,144,450)	-	(4,776,151)
Additions to deferred costs	56,013	-	-	56,013
Amortisation of government grants	-	-	976,555	976,555
As at 30 June 2017	65,114,767	31,796,040	43,388,072	140,298,879

15.1 Borrowings**15.1.1 Long term bank borrowings**

- (a) On 28 July 2008, the Group obtained a sharia-compliant loan for SR 6 billion from a syndicate of local banks which has been fully drawn. The loan is repayable over 22 equal semi-annual instalments starting 3 November 2009. The loan balance amounted to SR 1.6 billion as at 30 June 2017 (31 December 2016: SR 1.9 billion).
- (b) On 13 July 2009, the Group signed a financing agreement with the Public Investments Fund whereby the Group received a direct loan of SR 2.6 billion which has been fully drawn. The loan is repayable within 15 years over 24 equal semi-annual instalments starting 31 December 2012. The loan balance amounted to SR 1.5 billion as at 30 June 2017 (31 December 2016: SR 1.6 billion).
- (c) On 27 January 2010, the Group signed a financing agreement with the Export-Import Bank of the United States, and the Export Development Bank of Canada whereby the Group received a direct loan amounting to SR 4.1 billion (US\$ 1.1 billion) which has been fully drawn. The loan is repayable within 12 years over 23 equal semi-annual instalments starting 25 May 2010. The loan balance amounted to SR 1.42 billion as of 30 June 2017 (31 December 2016: SR 1.6 billion).
- (d) On 13 December 2010, the Group signed an agreement with a syndicate of local banks whereby the Group obtained a sharia compliant loan of SR 5 billion which has been fully drawn. The loan is repayable within 15 years over 26 equal semi-annual instalments starting 13 May 2013. The loan balance amounted to SR 3.3 billion as of 30 June 2017 (31 December 2016: SR 3.4 billion).
- (e) On 22 June 2011, the Group signed an agreement with Export and Import French Bank whereby the Group obtained a loan of SR 3.7 billion (US\$ 989.1 million) which has been fully drawn. The loan is repayable within 12 years over 24 equal semi-annual instalments starting 11 January 2012. The loan balance amounted to SR 2.1 billion as of 30 June 2017 (31 December 2016: SR 2.2 billion).
- (f) On 29 March 2012, the Group signed a loan agreement guaranteed by two Export Korean banks (K Shore and K Exim) where a syndicate 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 loan amount is SR 5.3 billion (US\$ 1.4 billion) which has been fully drawn. The loan is repayable within 12 years over 24 equal semi-annual instalments starting 7 May 2015. The loan balance amounted to SR 4.15 billion as of 30 June 2017 (31 December 2016: SR 4.3 billion).

SAUDI ELECTRICITY COMPANY

(A Saudi Joint Stock Company)

Notes to the condensed consolidated interim financial statements for the period ended 30 June 2017 (unaudited)

(All amounts in thousands Saudi Riyals unless otherwise stated)

15 Other non-derivative financial liabilities measured at amortised cost (continued)

15.1 Borrowings (continued)

15.1.1 Long term bank borrowings (continued)

- (g) On 18 December 2013, the Group signed a loan agreement guaranteed by two Export Japanese banks (NEXI) and (JBIC) where Export Japanese Bank (JBIC), Tokyo-Mitsubishi Bank, and Mizuho Bank participated in financing the loan. The amount of the loan is SR 1.4 billion (US\$ 366 million). The loan is repayable within 12 years over 24 equal semi-annual instalments starting 27 July 2015. The loan balance amounted to SR 0.9 billion as of 30 June 2017 (31 December 2016: SR 1 billion).
- (h) On 19 December 2013, the Group signed a loan agreement guaranteed by two export Korean banks (K Shore and K Exim), where the export Korean banks, and various international banks, Tokyo-Mitsubishi Bank, Mizuho Bank, Sumitomo Mitsui Banking Corporation, HSBC Group, Deutsche Bank and KfW IPEX-Bank have participated in financing the loan. The amount of the loan is SR 6.1 billion (US\$ 1.6 billion) which has been fully drawn. The loan is repayable within 12 years with a grace period of 3 years. The loan balance amounted to SR 5.9 billion as of 30 June 2017 (31 December 2016: SR 6.1 billion).
- (i) On 15 May 2016, the Company signed a loan agreement guaranteed by Korean Export Credit Agency, K-EXIM, where a direct loan from K Exim and syndicate of international banks participated in financing the loan led by Bank of Tokyo-Mitsubishi Bank, Banco Santander, Deutsche Bank, The loan amount is SR 3.3 billion (US\$ 900 million) which has been fully drawn. The loan is repayable within 13 years over 24 equal semi-annual instalments starting 3 February 2018. The loan balance amounted to SR 3.4 billion as of 30 June 2017 (31 December 2016: SR 3.4 billion).
- (j) On 29 June 2016, the Group signed a loan agreement with China Bank for trading and manufacturing. The amount of the loan is SR 5.6 billion (USD 1,5 billion) which has been fully drawn. The loan is repayable over 5 years in 6 semi-annual instalments starting from 20 December 2018. The loan balance amounted to SR 5.6 billion as at 30 June 2017 (31 December 2016: SR 5.6 billion).
- (k) On 19 September 2016, the Group obtained a sharia-compliant loan with a group of local banks, the amount of the loan is SR 5 billion. The loan is repayable over seven years in 11 semi-annual instalments starting from 19 September 2018.
On March 26, 2017, the aforementioned murabaha financing agreement was amended. The loan was raised from SR 3 billion to SR 8 billion. The additional funding was obtained from four local banks: Arab National Bank, National Commercial Bank, Banque Saudi Fransi and Samba Financial Group. The loan balance amounted to SR 8 billion as at 30 June 2017 (31 December 2016: SR 5 billion).
- (l) On 27 October 2016, the Group signed a financing agreement with a number of international banks such as Banco Santander and Credit Agricole Group under which the Group obtained a loan of US\$ 420 million (SR 1.575 billion). This facility is extended to 12.77 year and is obtained by a guarantee of Korean Commercial Insurance Company and no guarantees have been offered by the Company. As at 30 June 2017, the utilised amount of this facility amounted to SR 1.57 billion (31 December 2016: SR 1.57 billion). The loan is repayable in 24 semi-annual instalments starting from 3 February 2018.
- (m) On March 16, 2017, the Group signed a financing agreement with Saudi British Bank under which the Group will receive a Shariah compliant loan of SR 1.5 billion payable in March 2020 and were fully drawn.
- (n) On April 20, 2017, the Group signed a financing agreement with National Commercial Bank (NCB) under which the Group obtained a loan of SR 1.3 billion payable over 6 semi-annual instalments starting from October 20, 2017 and it is fully withdrawn.
- (o) On April 20, 2017, the Group signed a financing agreement with Alrajhi Bank under which the Group obtained a loan of SR 3.5 billion payable over 8 semi-annual instalments with grace period of 12 months starting from October 20, 2017 and it is fully withdrawn.

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.

SAUDI ELECTRICITY COMPANY**(A Saudi Joint Stock Company)**

Notes to the condensed consolidated interim financial statements for the period ended 30 June 2017 (unaudited)

(All amounts in thousands Saudi Riyals unless otherwise stated)

15.1.2 Short term bank borrowings

- (a) On 1 December 2015, the Group signed a credit facility agreement in Saudi Riyals with National Commercial Bank (NCB) amounting to SR 0.7 billion. The utilised balance of this facility in the form of an Islamic Murabaha arrangement amounted to 0.5 billion as of 30 June 2017 (31 December 2016: SR 0.5 billion) and is due for repayment during August 2017.
- (b) On 16 December 2015, the Group signed a credit facility agreement in the form of an Islamic Murabaha arrangement with National Commercial Bank (NCB) and SAMBA Financial Group. The amount of the facility is SR 2.5 billion and is available for three years. The utilised balance of this facility amounted to SR 2.5 billion as of 30 June, 2017 (31 December 2016: SR 2.5 billion), and is due for repayment during December 2018.
- (c) On 6 January 2016, the Group signed a US Dollars denominated credit facility agreement for three years. Financing was made by Bank of Tokyo-Mitsubishi UFJ, Mizuho Bank, Sumitomo Mitsui Banking Corporation, HSBC Group, JP Morgan Bank, Crédit Agricole Group and Deutsche Bank. This facility amounted to SR 5.25 billion (US\$ 1.4 billion). The utilised balance of this facility amounted to SR 5.25 billion as of 30 June 2017 (31 December 2016: SR 5.25 billion), and is due for repayment during January 2018.
- (d) On 3 May 2016, the Group signed a credit facilities agreement with an Al Rajihi Bank, in Saudi Riyals amounting to SR 1 billion. The utilised balance of the facilities in the form of an Islamic Murabaha arrangement amounted to SR 1 billion as at 30 June 2017 (31 December 2016: SR 1 billion) and is due for repayment during February 2018.
- (e) On 16 June 2016, the Group signed a credit facilities agreement with SAMBA Bank amounting to SR 500 million. As at 30 June 2017, the utilised amount of these facilities amounted to SR 500 million (31 December 2016: SR 500 million) and is due for repayment during April 2018.
- (f) On 4 January 2017, the Group signed a trade payable facility agreement with JPMorgan Chase Bank N.A., Riyadh Branch for SAR 1 billion. As of 30 June 2017, the utilised amount of this facility amounted to SR 0.87 billion (31 December 2016: SR nil).

15.1.3 Bank borrowings of the joint operations

The Group's interest in the Joint operations' bank borrowings as at 30 June 2017 are as follows:

	30 June 2017		31 December 2016	
	Short Term	Long Term	Short Term	Long Term
Dhuruma Electricity Company	116,477	2,368,288	107,814	2,419,818
Rabigh Electricity Company	57,519	1,206,895	55,847	1,228,487
Hajr for Electricity Production Company	183,332	3,264,088	130,919	3,261,241
Al Mourjan for Electricity Production Co.	51,168	1,850,266	748,093	1,638,228
Total	408,496	8,689,537	1,042,673	8,547,774

15.2 Sukuk

Outstanding Sukuk payable as of 30 June 2017 are as follows:

Local Sukuk

Issue	Date of issue	Par value	Total issued amount	Maturity date
Sukuk 3	10 May 2017	SR 10 Thousand	SR 5.73 Billion	2030
Sukuk 4	30 January 2014	SR 1 Million	SR 4.5 Billion	2054

The above Sukuks have been, issued at par value with no discount or premium. The Sukuks bear a rate of return at SIBOR plus a margin payable quarterly from the net income received from the Sukuk assets held by the Sukuk custodian "Electricity Sukuk Company", a wholly owned subsidiary of the Group.

The Company has undertaken to purchase these Sukuks from Sukuk holders at dates specified in the relevant prospectus.

At each purchase date, the Company shall pay an amount of 5% to 10% of the aggregate face value of the Sukuk as bonus to the Sukuk holders. The purchase price is determined by multiplying Sukuk's par value at the percentage shown against the purchase date, as follows:

SAUDI ELECTRICITY COMPANY**(A Saudi Joint Stock Company)**

Notes to the condensed consolidated interim financial statements for the period ended 30 June 2017 (unaudited)

(All amounts in thousands Saudi Riyals unless otherwise stated)

15.2 Sukuk (continued)**Local Sukuk (continued)**

	Percentage		
	90%	60%	30%
	First purchase year	Second purchase year	Third purchase year
Sukuk 3	2022	2024	2026

	Percentage		
	95%	60%	30%
	First purchase year	Second purchase year	Third purchase year
Sukuk 4	2024	2034	2044

The Group has repaid a partial amount of the third issuance of Sukuk (Sukuk 3) of SR 1.27 billion during the second quarter of 2017 which represent a partial repayment of Sukuk 3 (SR 7 billion). The remaining amount of Sukuk 3 was rescheduled to be purchased by May 2022.

Global Sukuk

- During April 2012 the Group issued a global sukuk amounting to SR 6.6 billion equivalent to approximately (US\$ 1.75 billion). The issuance consists of two types of sukuk certificates. The first type amounting to US\$ 0.5 billion maturing after 5 years with fixed rate of 2.665%, the second type amounting to US\$ 1.25 billion maturing after 10 years with fixed rate of 4.211%. (The Group has repaid an amount of US\$ 0.5 billion (SR 1.9 billion) during the first quarter of 2017 which represents a repayment of the first portion of this sukuk).
- During April 2013 the Group also issued a global sukuk amounting SR 7.5 billion equivalent to (US\$ 2 billion). The issuance consists of two types of sukuk certificates. The first type amounting to US\$ 1 billion matures after 10 years with a fixed rate of 3.473%. The second type amounting to US\$ 1 billion matures after 30 years with a fixed rate of 5.06%.
- During April 2014 the Group also issued a global sukuk amounting to SR 9.4 billion equivalent to (US\$ 2.5 billion). The issuance consists of two types of sukuk certificates. The first type amounting to US\$ 1.5 billion mature after 10 years with a fixed rate of 4%. The second type amounting to US\$ 1 billion matures after 30 years with a fixed rate of 5.5%.

15.3 Loans from the government

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

The minutes of the meeting held on 21 Rajab 1422H corresponding to 8 October 2001 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 Group from Government entities, and the loan amount shall be adjusted accordingly. During 2005, the Group finalised the amount due which included the claims of the Group 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 corresponding to 19 August 2005 which brought the balance of Government loan amounted to SR 14.9 billion. The Group is in negotiation with lenders to find suitable alternative to amend the balances of these loans in order to enhance the financial position of the group and its important role of providing energy in all sectors of the country.

- The Council of Ministers approved in its meeting held on Monday 12 Jumad Awal 1431H corresponding to 26 April 2010 to grant the Group a loan amounting to SR 15 billion repayable over 25 years. The loan will be paid to the Group within 2 years in accordance with an agreement made for this purpose between the Ministry of Finance and the Group. This loan was fully drawn as at 30 June 2017 (31 December 2016: fully drawn). The Group has recognised the amount received from the Government loan above discounted to its present value.

SAUDI ELECTRICITY COMPANY**(A Saudi Joint Stock Company)**

Notes to the condensed consolidated interim financial statements for the period ended 30 June 2017 (unaudited)

(All amounts in thousands Saudi Riyals unless otherwise stated)

15.3 Loans from the government (continued)

- (c) The Council of Ministers approved in its meeting held on Monday 11 Rajab 1432H corresponding to 13 June 2011 to grant the Group a loan amounting to SR 51.1 billion repayable over 25 years. The loan has no interest charge and will be paid to the Group within 5 years in accordance with an agreement made for this purpose between the Ministry of Finance and the Group. An amount of SR 38.3 billion from this loan has been drawn as at 30 June 2017 (31 December 2016: SR 38.3 billion). The Group has recognised the amount received from the Government discounted to its present value.

However, the loan agreement provides that the loan amount will be reduced by proceeds collected by the Group due to any increase in the residential sector tariff. In light of the latest tariff amendments, the Group is currently determining the effect on the loan maturity or future payments not drawn yet.

- (d) The Council of Ministers approved in its meeting held on Monday 9 Jumad Awal 1435H corresponding to 10 March 2014 to grant the Group a loan amounting to SR 49.4 billion repayable over 25 years. The loan is interest free and will be paid to the Group within 5 years in accordance with an agreement made for this purpose between the Ministry of Finance and the Group. An amount of SR 16.1 billion from this loan has been drawn as at 30 June 2017 (31 December 2016: SR 16.1 billion). The Group has recognised the amount received from the Government loan above discounted to its present value.

16 Deferred government grant

Deferred government grants amounting to SR 46.1 billion as at 30 June 2017 (31 December 2016: SR 46.7 billion) representing the difference between the loan amounts received from the Government and the discounted present value of these loans (described in note 15.3).

17 Derivative financial instruments

The Group has interest rate hedging contracts with several banks to hedge the fluctuations in interest rates on loans for an amount of SR 7.6 billion on 30 June 2017 (31 December 2016: SR 9.76 billion) which includes a US Dollar portion representing approximately 15% of the notional amount. The hedging contracts are based on the swap between the Group and the banks of fixed rates against floating rates on the original loan amounts every six-months.

18 Payable to the government

The government payable includes SR 57 billion representing the accounts payable for fuel for the period from 5 April 2000 to 31 December 2012 pursuant to the ministerial minutes of meeting and resolutions which resolved to transfer the Group's liability to Saudi Arabian Oil Company ("Saudi Aramco") to the account of the Ministry of Finance according to specific procedures and approvals, the latest was before the end of 2013. Government payable also includes SR 0.9 billion related to assets transferred by the Royal Commission for Jubail and Yanbu.

19 Contingent liabilities

- (a) There is a dispute between the Group and Saudi Aramco for handling crude oil fees. The disputed amount since the Group's inception on 5 April 2000 to 30 June 2017 is approximately SR 4.8 billion (31 December 2016: SR 4.7 billion). The Group'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 Group's accounting records. In addition, Saudi Aramco is supplying the Group with light fuel oil rather than heavy fuel oil to one of its stations. This has resulted in an accumulated difference of SR 2.8 billion as on 30 June 2017 (31 December 2016: SR 2.6 billion) not accounted for under liabilities in the Group's accounting records.
- (b) Saudi Aramco has also a claim for the settlement of its share in the annual dividends since inception to 31 December 2016, estimated at SR 3.1 billion. The Group 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 Council of Ministers' resolution no. 169 dated 11 Sha'aban 1419H and Council of Ministers' 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 Group 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\$ 18 million equivalent to SR 68 million as of 30 June 2017 (31 December 2016: US\$ 18 million equivalent to SR 68 million).

SAUDI ELECTRICITY COMPANY**(A Saudi Joint Stock Company)**

Notes to the condensed consolidated interim financial statements for the period ended 30 June 2017 (unaudited)

(All amounts in thousands Saudi Riyals unless otherwise stated)

19 Contingent liabilities (continued)***Settlement of the dispute with Saudi Aramco***

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

The Council of Ministers has issued the resolution number 114 on 10 Rabi Thani 1430H corresponding to 5 April 2009 to end this dispute and to charge Saudi Aramco on the basis of the residential and commercial tariff instead of the 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 Group, 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 Group has executed the regulator decree number 49/432 dated 8 Jumad Awal 1432H corresponding to 11 April 2011 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's consumption.

Further, the Group 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 2013, the Group has completed the reconciliation procedures with Saudi Aramco for these revenues and recognised them in the condensed consolidated statement of profit or loss. The Group is currently following up with Saudi Aramco the procedures to collect this amount.

20 Capital commitments

- (a) These comprise the unexecuted portion – as of the date of interim consolidated statement of financial position - of capital contracts conducted by the Group for the erection and installation of power plants and other assets approximately amounting to SR 193.4 billion (31 December 2016: SR 192 billion).
- (b) The Group has long-term energy purchase agreements with independent power providers whereby the Group has undertaken to purchase 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, in addition to the future commitments provided by the Group to finance certain investees in the form of subordinate loans or common equity as at 30 June 2017: nil (31 December 2016: SR 0.7 billion).

21 Zakat

The Group settled zakat payable as of 31 December 2008 and filed zakat returns for the year 2009 to 2016. These returns are being reviewed by the General Authority for zakat and income ("GAZT"). A claim with a total of SR 375 million has been received for years from 2009 to 2014 but the Group has rejected this claim and does not expect this claim to result in any future obligation.

The Group did not record Zakat for the period ended 30 June 2017 (2016: Nil) further to the negative zakat base relating to the reporting period. The Zakat expense shown in the condensed consolidated interim statement of profit or loss relates to Group's interest in joint operations.

22 Revenue

	Three months ended		Six months ended	
	30 June 2017	30 June 2016	30 June 2017	30 June 2016
Electricity Sales	12,141,422	12,134,822	19,691,229	19,741,106
Meter Reading, Maintenance and Bills Preparation Tariff	311,098	294,778	617,740	586,817
Electricity Connection Tariff	628,436	549,333	1,222,644	1,090,857
NGS	184,333	79,225	608,367	410,278
Other Operating Revenue	36,545	135,972	82,147	259,774
Total	13,301,834	13,194,130	22,222,127	22,088,832

SAUDI ELECTRICITY COMPANY**(A Saudi Joint Stock Company)**

Notes to the condensed consolidated interim financial statements for the period ended 30 June 2017(unaudited)

(All amounts in thousands Saudi Riyals unless otherwise stated)

23 Cost of Sales

	Three months ended		Six months ended	
	30 June 2017	30 June 2016	30 June 2017	30 June 2016
Fuel	2,645,751	2,814,692	4,099,136	4,324,100
Purchased Power	1,925,763	1,562,935	3,642,263	3,144,003
Operations and Maintenance	2,279,293	2,798,258	5,056,953	5,792,346
Depreciation - Operations and Maintenance	3,759,965	3,227,566	7,386,364	6,379,718
Total	10,610,772	10,403,451	20,184,716	19,640,167

24 Other Income, Net

	Three months ended		Six months ended	
	30 June 2017	30 June 2016	30 June 2017	30 June 2016
Amortization of government grants	320,813	193,710	567,202	339,371
Other income and expenses	326,183	230,690	376,955	242,162
Gain / Loss on disposal of PP&E	17,704	9,484	11,666	4,838
Dividend received	4,063	2,348	17,319	3,848
Total	668,763	436,232	973,142	590,219

25 Waiver of Municipality levy charges

Based on the royal decree to cancel the electricity charge of 2% of the consumption for the municipalities, as well as exempting the group from paying the actual amounts due to the municipalities for the electricity charge from the consumption, the group reversed the outstanding balance in related to municipalities amounting to SR 6.1 billion as at 31 December 2016 from current liabilities to other income in the condensed consolidated interim statement of profit or loss for the first quarter of 2017.

26 Human resource productivity improvements program

The amount represents expenses the Company has commitment to pay in accordance with productivity improvement programs. The objective of this program is to improve and align human resources with working requirements.

27 Earnings per share**Basic**

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Group by the weighted average number of ordinary shares outstanding.

Diluted

Diluted earnings per share is calculated by dividing the profit for the period by the adjusted weighted average number of ordinary shares outstanding during the period, to assume conversion of all dilutive potential shares into ordinary shares.

As at 30 June 2017 and 30 June 2016, diluted earnings per share is equal to basic earnings per share.

	Three months ended		Six months ended	
	30 June 2017	30 June 2016	30 June 2017	30 June 2016
Earnings				
Profit for the period	2,231,585	2,242,002	7,167,365	1,443,696
Weighted average number of ordinary shares as at	4,166,593,815	4,166,593,815	4,166,593,815	4,166,593,815
Basic and diluted earnings per share (SAR)	0.54	0.54	1.72	0.35

SAUDI ELECTRICITY COMPANY**(A Saudi Joint Stock Company)**

Notes to the condensed consolidated interim financial statements for the period ended 30 June 2017 (unaudited)

(All amounts in thousands Saudi Riyals unless otherwise stated)

27 Earnings per share (continued)

For comparison purposes, earning per share after excluding the impact value of municipality levy liability waiver amounting of SR 6.1 billion as follows:

	Six months ended	
	30 June 2017	30 June 2016
Earnings		
Profit for the period after eliminating municipality levy charges waiver	1,047,819	1,443,696
Weighted average number of ordinary shares as at	4,166,593,815	4,166,593,815
Basic and diluted earnings per share (SAR)	0.25	0.35

28 Related-party transactions

The Group ultimate controlling party is the Government of the Kingdom of Saudi Arabia. Saudi Aramco and Saline Water Conversion Corporation are companies under common control (both companies ultimately controlled by the Government of the Kingdom of Saudi Arabia).

The following transactions were carried out with related parties:

(a) sales of electricity

	Three months ended		Six months ended	
	30 June 2017	30 June 2016	30 June 2017	30 June 2016
Sales of electricity:				
- Group ultimate controlling party	3,214,229	3,338,767	5,341,919	5,524,883
- Entities under control of the Group ultimate controlling party				
<i>Saudi Aramco</i>	95,146	104,612	170,889	184,420
<i>Saline Water Conversion Corporation</i>	72,703	63,620	128,653	103,691
Total	3,382,078	3,506,999	5,641,461	5,812,994

(b) purchases of energy and municipality fees:

	Three months ended		Six months ended	
	30 June 2017	30 June 2016	30 June 2017	30 June 2016
Purchases of energy:				
- Entities under control of the Group ultimate controlling party				
<i>Aramco</i>	2,910,640	3,268,415	4,640,382	5,151,569
<i>Saline Water Conversion Corporation</i>	150,493	143,458	317,342	276,078
	3,061,133	3,411,873	4,957,724	5,427,647
Municipality fees:				
- Group ultimate controlling party	-	177,221	-	295,945
	-	177,221	-	295,945
Total	3,061,133	3,589,094	4,957,724	5,723,592

The Group purchases fuel from Saudi Aramco and power from Saline Water Conversion Corporation at rates stipulated for in the respective governmental resolutions.

SAUDI ELECTRICITY COMPANY**(A Saudi Joint Stock Company)**

Notes to the condensed consolidated interim financial statements for the period ended 30 June 2017 (unaudited)

(All amounts in thousands Saudi Riyals unless otherwise stated)

28 Related-party transactions (continued)*(c) period-end balances arising from sales of electricity/purchases of energy/municipality fees*

	<u>30 June 2017</u>	<u>31 December 2016</u>
Due from related parties:		
- Group ultimate controlling party		
- Entities under control of the Group ultimate controlling party		
<i>Saudi Aramco</i>	1,482,580	1,320,944
<i>Saline Water Conversion Corporation</i>	578,683	439,451
Total Due from related parties	2,061,263	1,760,395
Due to related parties:		
- Group ultimate controlling party		
<i>Transferred from Saudi Aramco</i>	57,200,589	57,200,589
<i>Municipality fees</i>	-	6,119,546
Total Due to related parties	57,200,589	63,320,135
- Entities under control of the Group ultimate controlling party		
<i>Saudi Aramco</i>	86,242,564	83,651,364
<i>Transferred to Government payables</i>	(57,200,589)	(57,200,589)
<i>Net payable to Saudi Aramco</i>	29,041,975	26,450,775
<i>Saline Water Conversion Corporation</i>	10,648,387	10,430,862

(d) loans and grants from related parties

	<u>30 June 2017</u>	<u>31 December 2016</u>
Loans and grants from the government:		
- Group ultimate controlling party		
<i>Government Loan</i>	43,388,072	42,411,517
<i>Deferred government grant</i>	46,100,406	46,667,608
	89,488,478	89,079,125

(e) key management compensation

Key management includes members of the Board of Directors and members of the Executive Committee. The compensation paid or payable to key management for employee services is shown below:

	<u>30 June 2017</u>	<u>31 December 2016</u>
Salaries and other short-term benefits	2,386	3,680
Employees' end of service benefits paid	11,403	-
Total	13,789	3,680

29 Non-cash transactions

Investing and financing transactions that do not require the use of cash or cash equivalents are excluded from the statement of cash flows.

For the six-months period ended 30 June 2017, the principal non-cash transaction is the write-off of the Municipality levy for which a decree of the Ministers Council was issued and which decided to waive these fees amounting to SR 6.1 billion.