Financial Statements

Financial Statements

Saudi Electricity Company
(Saudi Joint Stock Company)
CONSOLIDATED FINANCIAL STATEMENTS AND
AUDITORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2012

Auditors' Report to the Shareholders of Saudi Electricity Company
(A Saudi Joint Stock Company)

Scope of audit

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

Unqualified opinion

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

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

for Ernst & Young

Rashid S. AlRashoud
Certified Public Accountant
Registration No. 366

Riyadh: 14 Rabi Thani 1434H

(24 February 2013)

Saudi Electricity Company
(A Saudi Joint Stock Company)
CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2012
(In Thousands Saudi Riyals)

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

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

CONSOLIDATED STATEMENT OF INCOME FOR THE YEAR ENDED 31 DECEMBER 2012
(IN THOUSANDS SAUDI RIYALS)

	Note	2012	2011
OPERATING REVENUES			
Electricity sales		**31,101,888**	28,280,494
Meter reading, maintenance, and bills preparation tariff		**937,529**	883,059
Electricity connection tariff	17	**1,515,790**	1,330,533
Other operating revenues		**91,052**	75,512
TOTAL OPERATING REVENUES		**33,646,259**	30,569,598
COST OF SALES			
Fuel		**(6,228,717)**	(5,771,379)
Purchased energy	29/c	**(4,565,148)**	(4,256,237)
Operations and maintenance	23	**(8,726,637)**	(8,238,710)
Depreciation - Operations and maintenance	10	**(10,522,344)**	(9,601,779)
TOTAL COST OF SALES		**(30,042,846)**	(27,868,105)

GROSS PROFIT FOR THE YEAR		**3,603,413**	2,701,493
General and administrative expenses	24	**(390,448)**	(434,537)
Depreciation - General and administrative	10	**(313,537)**	(335,281)
INCOME FROM OPERATING ACTIVITIES		**2,899,428**	1,931,675
Human recourses productivity improvement program	16/a	**(634,268)**	(125,265)
Other income and expenses, net	25	**295,906**	406,749
Net Income For The Year		**2,561,066**	2,213,159
EARNING PER SHARE (SR):			
From operating activities for the year		**0.7**	0.46
From net income for the year		**0.61**	0.53

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

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

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

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

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2012
(In Thousands Saudi Riyals)

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

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

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

1. ORGANIZATION AND ACTIVITIES

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

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

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

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

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

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

ORGANIZATION AND ACTIVITIES – (continued)

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

Name of Subsidiary	Country of incorporation	Ownership Percentage (direct & indirect)	Business Activity
National Electricity Transmission Company	Saudi Arabia	100%	Transmission power from generating stations to distribution network and operating and maintenance of electricity transmission system
Electricity Sukuk Company	Saudi Arabia	100%	Provide services and support needed in relation of issuing bonds and Sukuk by Saudi Electricity Company

Dawiyat Telecom Company	Saudi Arabia	100%	Establishing, leasing, managing and operating electricity and fiber optic networks to provide telecommunications services
Morjan for Electricity Production Company (under formation)	Saudi Arabia	100%	Establishing, developing, ownership, operating and maintenance of Rabigh project for Electricity production
Saudi Electricity Global Sukuk Company	Cayman Islands	100%	Provide services and support needed in relation of issuing bonds and Sukuk by Saudi Electricity Company

2. Basis of Consolidation

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

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

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

3. Summary of Significant Accounting Policies

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

Accounting Convention

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

Accounting Estimates

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

Cash and Cash Equivalents

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

Electricity Consumers Receivables

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

Inventories

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

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

Investments

Investments in Companies' Equities

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

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

Investments Held to Maturity

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

Fixed Assets

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

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

The estimated operational useful lives are as follows:

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

Impairment of noncurrent assets

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

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

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

Capitalization of borrowing costs

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

Fixed-term government loan

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

Derivative financial instruments and hedge accounting

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

Any gains or losses arising from the changes in the fair value of derivatives determined as effective cash flow hedges are taken directly to the shareholders' equity, while the ineffective portion of cash flow hedges, is recognised in the consolidated statement of income.
For the purpose of hedge accounting, hedges are classified as cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecasted transaction or the foreign currency risk in an unrecognised firm commitment.

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

Accounts payable and accruals

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

Provision for employees' indemnity

Employees' indemnity consists of the following:

Provision for end of service benefits:

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

Employees' saving fund:

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

Zakat provision

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

Statutory reserve

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

Revenues

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

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

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

Expenses

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

Earnings (loss) per share for the year

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

Foreign currency transactions

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

4. Cash and Cash Equivalents

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

5. Receivables From Electricity Consumers And Accrued Revenues, Net

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

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

	2012	2011
	SR'000	SR'000
Balance at the beginning of the year	2,500,596	2,378,875
Charge for the year	252,483	121,721
Balance at the end of the year	2,753,079	2,500,596

6. Prepayments and Other Receivables, Net

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

7. Inventories, Net

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

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

	2012	2011
	SR'000	SR'000
Balance at the beginning of the year	264,021	201,061
Charge for the year	171,322	62,960
Balance at the end of year	435,343	264,021

8. Equity Investments in Companies and Others

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

A. Investments accounted for under the equity method

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

(A-1) Gulf Cooperation Council Interconnection Authority

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

(A-2) Water and Electricity Company

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

(A-3) Hajr for Electricity Production Company

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

(A-4) Rabigh Electricity Company

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

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

(A-5) Dhuruma Electricity Company

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

B. Other investments, at cost

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

C. Held to maturity investments

	2012	2011
	SR'000	SR'000
Saudi Basic Industries Corporation Sukuk	150,000	300,000

Bin Laden Company Sukuk	**50,000**	50,000
SABB bonds “Saudi British Bank”	**50,000**	50,000
SATORP Company Sukuk	**25,000**	25,000
Total	**275,000**	425,000

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

	2012	2011
	SR’000	SR’000
Gulf Corporation Council Interconnection Authority	**(62,510)**	(45,905)
Water and Electricity Company	**227**	158
Rabigh Electricity company	**(1,446)**	-
Total	**(63,729)**	(45,747)

9. Construction Work in Progress

	2012					
	SR’000					2011
	Generation Projects	Transmission Projects	Distribution Projects	General projects	**Total**	Total
At the beginning of the year	10,468,360	6,374,291	5,082,281	335,879	**22,260,811**	26,038,186
Additions during the year	18,480,810	9,746,265	8,928,717	988,217	**38,144,009**	28,971,553
Transfer to fixed assets	(6,053,943)	(4,246,335)	(9,461,420)	(753,573)	**(20,515,271)**	(32,748,928)
Balance at 31 December 2012	22,895,227	11,874,221	4,549,578	570,523	**39,889,549**	
Balance at 31 December 2011	10,468,360	6,374,291	5,082,281	335,879		22,260,811

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

10. Fixed Assets, Net

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

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

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

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

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

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

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

11. Accounts Payable

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

A. These amounts represent payables for fuel for the period from April 5, 2000 to December 31, 2009 which have been transferred from the liability to Saudi Aramco to non-current government liability. (Note 19)
B. Other payables include SR 1,280 million (2011: SR 1,280 million) which are still under reconciliation between the Company and the Government and pertain to prior-merger account (refer to Note 1).

12. Accruals and Other Payables

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

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

13. Zakat

The major components of zakat base are as follows:

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

Zakat base is calculated as follows:

	2012	2011
	SR'000	SR'000
Share Capital	41,665,938	41,665,938
Net adjusted loss	(7,752,710)	(10,083,153)
Retained reserves	2,092,835	1,869,353
Retained earnings	8,018,923	7,123,345

Retained allowances	**6,971,363**	7,050,373
Long term loans and sukuk	**27,664,986**	36,816,001
Government loans and payables	**81,861,719**	67,891,719
Consumers deposits, contractors accruals and others	**2,478,119**	2,558,748
Total	**163,001,173**	154,892,324
Deduct:		
Fixed assets and construction work in progress, net	**(130,037,634)**	(131,259,163)
Difference on depreciation of fixed assets for previous years	**(65,111,874)**	(41,576,007)
Long term investments	**(2,254,541)**	(2,406,042)
Material and spare parts inventories	**(4,384,116)**	(4,218,398)
Zakat base (negative)	**(38,786,992)**	(24,567,286)

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

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

14. Long-term Loans

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

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

	2012	2011
	SR'000	SR'000
After one year	1,469,701	1,468,000
Between two to three years	1,478,631	1,468,000
Between three to four years	1,478,631	1,468,000
Between four to five years	1,478,631	1,468,000
After five years	6,291,392	7,709,788
	12,196,986	13,581,788

A. On 28 July 2008, the Company obtained a sharia-compliant loan for SR 6 billion from syndicates of local banks which has been fully withdrawn. The loan is repayable over 22 semi-annual installments starting 3 November 2009. The loan balance amounted to SR 4.1 billion as of 31 December 2012 (2011: SR 4.6 billion).

B. The Company agreed with U.S. Export-Import Bank, and the Export Development Bank of Canada on 21 June 2009 and signed a financing agreement on 27 January 2010, whereby the Company will receive a direct loan amounting to US$ 1.1 billion equivalent to approximately SR 4.1 billion which has been fully withdrawn. The loan is repayable within 12 years over 24 semi-annual installments starting 25 May 2010. The loan balance amounted to SR 3 billion as of 31 December 2012 (2011: SR 3.4 billion).

C. On 13 July 2009, the Company signed a financing agreement with the Public Investments Fund whereby the Company will receive a direct loan of SR 2.6 billion which has been fully withdrawn. The loan is repayable within 15 years over 24 semi-annual installments. The loan balance amounted to SR 2.5 billion as of 31 December 2012 (2011: SR 2.6 billion).

D. On 13 December 2010, the Saudi Electricity Company signed an agreement with a syndicate of local banks, whereby the Company will obtain a sharia - compliant loan of SR 5 billion, repayable over 26 semi-annual installments after 24 months from the date of signing the agreement. The loan balance amounted to SR 0.5 billion as of 31 December 2012 (2011: SR 0.5).

E. On 22 June 2011, the Company signed an agreement withinternational lenders guaranteed by Coface French Export Credit Agenc, The Company will receive a loan amounting to US$ 989.1 million equivalent to SR 3.7 billion which had been fully withdrawn. The loan is repayable within 12 years over 24 semi-annual installments starting 11 January 2012. The loan balance amounted to SR 3.4 billion as of 31 December 2012 (2011:SR 3.7).

F. The Company signed a loan agreement guaranteed by two Export Korean banks (K Sure and K Exim) where a group of international banks participated in financing the loan led by HSBC Group, Bank of Tokyo-Mitsubishi , Sumitomo Mitsui Banking Corporation, Mizuho Bank and KFW-IPEX. The Company will receive a loan amounting to SR 5.3 billion equivalent to approximately US$ 1,400 million for a period of 15 years. The loan is repayable over 12 years in equal semi-annual installments starting after grace period of 3 years. The loan balance amounted to SR 107 million as of 31 December 2012

Long term loans mentioned above are used to finance the construction work in progress projects, and secured by promissory notes signed by the Company at the nominal amount of the loan plus the interest payments and/or Murrabaha Margin.
The Company has an unutilized credit facilities with local banks amounting to SR 1 billion as at 31 December 2012 (2011: SR 1 billion).

15. Sukuk

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

Local Sukuk:

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

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

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

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

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

Global Sukuk:

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

16. Employees' Indemnities

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

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

17. Deferred Revenues, Net

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

18. Government Loans

A. Pursuant to the Ministerial resolution number 169 dated Sha'ban 11, 1419H, the net dues of the Government to the Saudi Electricity Company and the net dues of the Company to the Government were determined in accordance with rules and procedures stipulated in the minutes of meetings signed by his HE the Minister of Industry and Electricity and HE the Minister of Finance and National Economy dated Jumada Thani 27, 1418H corresponding to October 29, 1997. The net difference payable to the Government by the Company, as determined at the close of the business day preceding the issuance of the Royal Decree for the incorporation of the Company, is considered a non-interest bearing long term loan (soft loan) with a grace period of twenty five years starting from the date of the announcement of the incorporation of the Company. The loan is to be revisited later on subject to the financial condition of the Government and the Company.
   The minutes of the meeting held on Rajab 21, 1422H between the Minister of Industry and Electricity and the Minister of Finance and National Economy in which the initial amount of the Government loan was determined, states that the final settlement of Government accounts will be subject to the reconciliation for the claims of the Company from Government entities, and the loan amount shall be adjusted accordingly. During 2005, the Company finalized the amount due which included the claims of the Company and the amounts due to the Government and the agreement was signed between the Minister of Water and Electricity and the Minister of Finance on Rajab 15, 1426H which brought the balance of Government loan amounted to SR 14.9 billion.

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

C. The Council of Ministers approved in its meeting held on Monday 11 Rajab 1432H corresponding to 13 June 2011 to grant the Company a soft loan amounting to SR 51.1 billion repayable over 25 years, The loan will be paid to the Company within 5 years in accordance with an agreement that will be prepared for this purpose between the Ministry of Finance and the Saudi Electricity Company. An amount of SR 10.2 billion from this loan has been withdrawn as at 31 December 2012 (2011:nill). The Company recognized the amount received from the government loan above discounted at its present value as per the accounting policies in Note (3).

19. Long-term Government Payables

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

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

20. Derivatives

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

21. Share Capital

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

	Numbers of shares	Ownership Percentage
Government	3,096,175,320	74,31%
Saudi Aramco	288,630,420	6,93%
Other shareholders	781,788,075	18,76%
	4,166,593,815	100%

22. General Reserves

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

23. Operation and Maintenance Expenses

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

24. General and Administrative Expenses

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

25. Other Income and Expenses, Net

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

26. Dividends

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

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

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

27. Board of Directors' Remuneration and Allowances

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

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

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

28. Related Parties Transactions

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

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

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

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

The significant transactions and related approximate balances are as follows:

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

29. Contingent Liabilities

A. There is a dispute between the Company and Saudi Aramco for handling crude oil fees. The disputed amount since the Company's inception on 5 April 2000 to 31 December 2012 amounted to approximately SR 3,291 million (2011: SR 2,886 million). The Company's management believes that there will be no liability on the Company based on the Royal Decree Number M/8 dated 25 Rajab 1415H as this matter was not discussed by the Ministerial Committee formed by the Royal Decree referred to above. Accordingly, the difference has not been recorded in the Company's books. In addition, Saudi Aramco is supplying the Company with light fuel oil rather than heavy fuel oil to one of its stations. This has resulted in an accumulated difference of SR 1,200 million (2011: SR 858 million) not accounted for in the Company's books.

B. Saudi Aramco has also a claim for the settlement of its share in the annual dividends since inception to 31 December 2011, estimated at SR 2,140 million. The Company believes that Saudi Aramco has no right for this claim during the first 20 years of its formation since it is a wholly owned government agency and accordingly, is governed by the Ministerial Resolution No. 169 dated 11 Sha'aban 1419H and Ministerial Resolution No. 327 dated 24 Ramadan 1430H on extending the Government's waiver of its rights in the profits distributed by the Saudi Electricity Company for another ten years.

C. The Company has long-term purchase energy agreements with independent power providers whereby the Company has undertake to purchase the whole energy produced by these providers according to specific terms and prices. These agreements are for periods up to 20 years, and renewable for further periods by mutual consent of both parties.

D. The Company has provided guarantees to some of the commercial banks against its share in financing a loan granted to some of its investee companies. The guarantee amounted to US$ 74 million equivalent to SR 278 million as of 31 December 2012 (2011: US$ 117 million equivalent to SR 440 million). In addition, the Company has provided a guarantee for the Department of Zakat and Income Tax amounting to SR 37,5 million (2011: SR 13 million).

E. The Company is contingently liable against outstanding letters of credit amounting to SR 1,2 million as of the consolidated balance sheet date (2011: SR 0,3 million).

30. Prior Years Adjustments

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

31. Capital Commitments

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

32. Risk Management

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

Credit Risk

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

Commission Rate Risk

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

Liquidity Risk

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

Currency Risk

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

Fair Value Risk

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

33. Segment Reporting and Future Restructure for The Group's Activities

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

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

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

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

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

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

34. Comparative Figures

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