



الشركة السعودية للكهرباء

Saudi Electricity Company

Empowering Energy

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

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

FOR THE PERIOD ENDED 31 MARCH 2015

Saudi Electricity Company
(A Saudi Joint Stock Company)

INTERIM CONSOLIDATED FINANCIAL STATEMENTS AND AUDITORS'
LIMITED REVIEW REPORT
FOR THE PERIOD ENDED 31 MARCH 2013

INDEX	PAGE
Auditors' limited review report.....	1
Interim consolidated balance sheet.....	2
Interim consolidated statement of income.....	3
Interim consolidated statement of cash flows.....	4
Interim consolidated statement of changes in shareholders' equity.....	5
Notes to the interim consolidated financial statements.....	6 – 17

LIMITED REVIEW REPORT

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


Scope of Review

We have reviewed the accompanying interim consolidated balance sheet of Saudi Electricity Company - A Saudi Joint Stock Company (the Company) and its subsidiaries (the Group) as at 31 March 2013 and related interim consolidated statements of income, cash flows and changes in shareholders' equity for the three months period then ended. These interim consolidated financial statements are the responsibility of the Group's management and have been prepared by them and submitted to us with all the information and explanations which we required. We conducted our limited review in accordance with the Standard on Review of Interim Financial Reporting issued by the Saudi Organization for Certified Public Accountants (SOCPA). A limited review consists principally of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Conclusion

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

For Ernst & Young


Rashid S. AlRashoud
Certified Public Accountant
Registration No. 366



Riyadh: 6 Jumada Thani 1434H
(16 April 2013)

Saudi Electricity Company
(A Saudi Joint Stock Company)

INTERIM CONSOLIDATED BALANCE SHEET

As at 31 March 2013

(In Thousands Saudi Riyals)

	Note	2013 (Unaudited)	2012 (Unaudited)
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents		5,654,841	6,936,526
Receivables from electricity consumers and accrued revenues, net		13,543,477	11,566,818
Prepayments and other receivables, net		4,995,271	4,456,751
Inventories, net		6,108,606	5,723,369
TOTAL CURRENT ASSETS		30,302,195	28,683,464
NON-CURRENT ASSETS			
Loans to associated companies	6	1,312,692	365,500
Equity investments in companies and others		2,190,812	2,342,032
Construction work-in-progress		46,173,363	26,711,214
Fixed assets, net		170,358,153	159,968,617
TOTAL NON-CURRENT ASSETS		220,035,020	189,387,363
TOTAL ASSETS		250,337,215	218,070,827
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES			
Accounts payable		38,183,401	27,732,614
Accruals and other payables		3,514,296	3,596,519
Short term loans and current portion of long-term loans	7	1,817,000	3,133,100
Sukuk	8	-	5,000,000
TOTAL CURRENT LIABILITIES		43,514,697	39,462,233
NON-CURRENT LIABILITIES			
Long-term loans	7	16,193,446	13,470,021
Sukuk	8	20,562,990	14,000,000
Employees' indemnities		4,817,081	4,759,643
Deferred revenues, net		23,115,632	20,929,234
Customers' refundable deposits		1,478,966	1,386,383
Government loans	9	24,788,263	20,203,286
Long-term Government payables	10	62,183,456	52,118,433
Provision for change in fair value of hedging contracts	11	376,167	471,779
TOTAL NON-CURRENT LIABILITIES		153,516,001	127,338,779
TOTAL LIABILITIES		197,030,698	166,801,012
SHAREHOLDERS' EQUITY			
Share capital	12	41,665,938	41,665,938
Statutory reserve		1,810,599	1,554,492
General reserve		540,330	538,343
Retained earnings		9,665,817	7,982,821
Net change in fair value of hedging contracts	11	(376,167)	(471,779)
TOTAL SHAREHOLDERS' EQUITY		53,306,517	51,269,815
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		250,337,215	218,070,827

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

Saudi Electricity Company
(A Saudi Joint Stock Company)

INTERIM CONSOLIDATED STATEMENT OF INCOME
FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2013
(In Thousands Saudi Riyals)

	2013 (Unaudited)	2012 (Unaudited)
Operating revenues		
Electricity sales	5,759,757	5,330,208
Meter reading, maintenance and bills preparation tariff	235,157	224,716
Electricity connection tariff	404,660	365,255
Other operating revenues	23,698	20,589
TOTAL OPERATING REVENUES	6,423,272	5,940,768
Cost of sales		
Fuel	(994,194)	(988,609)
Purchased power	(1,303,752)	(941,865)
Operations and maintenance	(1,980,440)	(1,836,278)
Depreciation – Operations and maintenance	(2,716,401)	(2,540,175)
TOTAL COST OF SALES	(6,994,787)	(6,306,927)
GROSS LOSS FOR THE PERIOD	(571,515)	(366,159)
General and administrative expenses	(99,969)	(102,512)
Depreciation - General and administrative	(73,536)	(77,685)
LOSS FROM MAIN OPERATIONS	(745,020)	(546,356)
Program human resources productivity improvement program	-	(51,085)
Other income and expenses, net	87,660	14,087
NET LOSS FOR THE PERIOD	(657,360)	(583,354)
BASIC LOSS PER SHARE (SR):		
From operating activities for the period	(0.18)	(0.13)
From net loss for the period	(0.16)	(0.14)

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

Saudi Electricity Company
(A Saudi Joint Stock Company)

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

For The Three Months Period Ended 31 March 2013
(In Thousands Saudi Riyals)

	2013 (Unaudited)	2012 (Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss for the period	(657,360)	(583,354)
Adjustments to reconcile net income for the period with net cash from operating activities:		
Provision for doubtful receivables	25,415	14,379
Provision for slow-moving inventories	1,505	-
Group's share of associates' net losses	-	62,510
Depreciation	2,789,936	2,617,860
Gain on disposal of fixed assets, net	(3,728)	(24,886)
Employees' indemnities, net	(351,100)	(78,866)
Changes in operating assets and liabilities:		
Receivables from electricity consumers and accrued revenues	(141,632)	446,003
Prepayments and other receivables	198,582	396,874
Inventories	(288,638)	(160,519)
Accounts payable	3,674,224	1,491,412
Deferred revenues, net	825,931	459,659
Accruals and other payables	(1,217,240)	(1,005,632)
Net proceeds and payments of customers' refundable deposits	25,160	18,755
Net cash from operating activities	<u>4,881,055</u>	<u>3,654,195</u>
CASH FLOWS USED IN INVESTING ACTIVITIES		
Fixed assets and construction work-in-progress	(10,779,571)	(8,360,012)
Proceeds from sale of fixed assets	3,495	21,277
Loan to an associate company	(947,192)	-
Net cash used in investing activities	<u>(11,723,268)</u>	<u>(8,338,735)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Net collection from Government loans and payables	5,110,000	4,430,000
Net (paid) proceeds from long-term loans	4,345,460	(111,767)
Dividends paid to shareholders	(4,192)	(3,791)
Net cash from financing activities	<u>9,451,268</u>	<u>4,314,442</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS DURING THE PERIOD	<u>2,609,055</u>	<u>(370,098)</u>
Cash and cash equivalents, beginning of the period	3,045,786	7,306,624
CASH AND CASH EQUIVALENTS, END OF THE PERIOD	<u>5,654,841</u>	<u>6,936,526</u>
Non-cash transaction:		
Change in fair value of hedging contracts	<u>(5,419)</u>	<u>(39,909)</u>

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

Saudi Electricity Company
(A Saudi Joint Stock Company)

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2013

(In Thousands Saudi Riyals)

	Note	Share capital	Statutory reserve	General reserve	Retained earnings	Change in fair value for hedging contracts	Total
For the three months period ended 31 March 2012							
Balance as at 1 January 2012		41,665,938	1,554,492	538,343	8,566,175	(431,870)	51,893,078
Net loss for the period		-	-	-	(583,354)	-	(583,354)
Net change in fair value for hedging contracts	10	-	-	-	-	(39,909)	(39,909)
Balance as at 31 March 2012		41,665,938	1,554,492	538,343	7,982,821	(471,779)	51,269,815
For the three months period ended 31 March 2013							
Balance as at 1 January 2013		41,665,938	1,810,599	540,330	10,323,177	(370,748)	53,969,296
Net loss for the period		-	-	-	(657,360)	-	(657,360)
Net change in fair value for hedging contracts	10	-	-	-	-	(5,419)	(5,419)
Balance as at 31 March 2013		41,665,938	1,810,599	540,330	9,665,817	(376,167)	53,306,517

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

Saudi Electricity Company
(A Saudi Joint Stock Company)

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS – (Unaudited)
For The Period Ended 31 March 2013
(In Thousands Saudi Riyals)

1. ORGANIZATION AND ACTIVITIES

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

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

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

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

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

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

The following are the list of subsidiaries included in this interim 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

Saudi Electricity Company
(A Saudi Joint Stock Company)

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS – (Unaudited)

For The Period Ended 31 March 2013
(In Thousands Saudi Riyals)

2. BASIS OF CONSOLIDATION

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The significant accounting policies adopted are as follows:

Accounting estimates

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

Cash and cash equivalents

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

Electricity consumers receivables

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

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

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS – (Unaudited)

For The Period Ended 31 March 2013

(In Thousands Saudi Riyals)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventories

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

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

Investments

Investments in companies' equity

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

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

Investments held to maturity

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

Fixed assets

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

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

The estimated operational useful lives are as follows:

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

Saudi Electricity Company
(A Saudi Joint Stock Company)

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS – (Unaudited)

For The Period Ended 31 March 2013

(In Thousands Saudi Riyals)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-current assets

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

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

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

Capitalization of borrowing costs

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

Government loan with definite payment terms

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

Derivative financial instruments and hedge accounting

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

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

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

Saudi Electricity Company
(A Saudi Joint Stock Company)

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS – (Unaudited)

For The Period Ended 31 March 2013

(In Thousands Saudi Riyals)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivative financial instruments and hedge accounting (continued)

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

Accounts payable and accruals

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

Provision for employees' indemnity

Employees' indemnity consists of the following:

Provision for end of service benefits:

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

Employees' saving fund:

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

Zakat provision

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

Statutory reserve

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

Revenues

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

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

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

Saudi Electricity Company
(A Saudi Joint Stock Company)

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS – (Unaudited)

For The Period Ended 31 March 2013

(In Thousands Saudi Riyals)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Expenses

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

Earnings (losses) per share for the period

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

Foreign currency transactions

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

4. PERIOD ADJUSTMENTS

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

5. SEASONAL FLUCTUATIONS

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

6. SUBORDINATE LOAN TO ASSOCIATED COMPANY

During the period ended 31 March 2013, the Company has provided subordinate loan by an amount of 947 million to Dhurma Electricity Company (associated company), according to signed agreement between the shareholders of the associate company, in which the Company's owns 50% of its equity. This amount represents the Company's share in the subordinate loan provided by the shareholders in the associated company each according to their share in the capital. This subordinate loan is non commission bearing.

Saudi Electricity Company
(A Saudi Joint Stock Company)

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS – (Unaudited)
For The Period Ended 31 March 2013
(In Thousands Saudi Riyals)

7. LOANS

- (a) On 28 July 2008, the Company obtained a sharia-compliance loan for SR 6 billion from a group of local banks which has been fully withdrawn. The loan repayable over 22 semi-annual installments starting 3 November 2009. The loan balance amounted SR 4.1 billion as of 31 March 2013 (2012:SR 4.6 billion). The loan is subject to certain financial covenants in which the Company complies with as at 31 March 2013.
- (b) The Company agreed with the Export-Import Bank of the United States, and the Export Development Bank of Canada on 21 June 2009 and signed a financing agreement on 27 January 2010 whereby the Company will receive a direct loan amounting to US\$ 1.1 billion equivalent to approximately SR 4.1 billion which has been fully withdrawn. The loan is repayable within 12 years in 24 semi-annual installments starting 25 May 2010. The loan balance amounted SR 3 billion as of 31 March 2013 (2012:SR 3.4 billion).
- (c) On 13 July 2009, the Company signed a financing agreement with the Public Investments Fund upon which the Company will receive a direct loan of SR 2.6 billion which has been fully withdrawn. The loan is repayable within 15 years in 24 semi-annual installments. The loan balance amounted SR 2.5 billion as of 31 March 2013 (2012:SR 2.6 billion).
- (d) On 13 December 2010, the Company signed an agreement with group of local banks whereby the Company will obtain a sharia compliant loan of SR 5 billion repayable over 26 semi-annual installments starting after past 24 months since date of signed agreement. The loan balance amounted SR 0.5 billion as of 31 March 2013 (2012:SR 0.5 billion).
- (e) On 22 June 2011, the Company agreed with Export and Import French Bank whereby the Company will receive a loan amounting to US\$ 989.1 million equivalent to SR 3.7 billion has been fully withdrawn. The loan is repayable over 12 years in 24 semi-annual installments starting 11 January 2012. The loan balance amounted SR 3.3 billion as of 31 March 2013 (2012: SR 3.6 billion).
- (f) The Company signed a loan agreement guaranteed by two Export Korean banks (K Shore and K Exim) where a group of international banks participated in financing the loan led by HSBC Group, Tokyo-Mitsubishi Bank, Sumitomo Mitsui Banking Corporation, Mizuho Bank and KFW Bankengruppe. The Company will receive a loan amounting to SR 5.3 billion equivalent to approximately US\$ 1,400 million for a period of 15 years. The loan is repayable over 12 years in 24 semi-annual installments starting after grace period of 3 years. The loan balance amounted SR 107 million as of 31 March 2013 (2012: Nil).

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

The company has unutilized credit facilities signed as of 31 March 2013 with local commercial banks amounting to SR 1 billion (2012: SR 1 billion).

Saudi Electricity Company
(A Saudi Joint Stock Company)

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS – (Unaudited)
For The Period Ended 31 March 2013
(In Thousands Saudi Riyals)

8. SUKUK

The outstanding Sukuk as of 31 March 2013 are as follows:

Local Sukuk:

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

The above Sukuk have been, issued at par value with no discount nor premium. The Sukuk bear a rate of return at SIBOR plus a margin payable quarterly from the net income received from the Sukuk assets held by the Sukuk custodian "Electricity Sukuk Company", a wholly owned subsidiary of the Company. For each purchase date, the Company shall pay an amount equal to 10% of the aggregate face value of the Sukuk as bonus to the Sukuk holders. The purchase price is determined by multiplying Sukuk's par value at the percentage shown against the purchase date, as follows:

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

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

Global Sukuk:

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

9. GOVERNMENT LOANS

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

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

Saudi Electricity Company
(A Saudi Joint Stock Company)

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS – (Unaudited)
For The Period Ended 31 March 2013
(In Thousands Saudi Riyals)

9. GOVERNMENT LOANS (continued)

- (b) The Council of Ministers approved in its meeting held on Monday 12 Jumada Al-Awal 1431H corresponding to 26 April 2010 to grant the Company a soft loan amounting to SR 15 billion repayable over 25 years. The loan will be paid to the Company within 2 years in accordance with an agreement that will be prepared for this purpose between the Ministry of Finance and the Saudi Electricity Company. The agreement was signed on 15 Ramadan 1431H, corresponding to 25 August 2010, this loan has been fully withdrawn as at 31 March 2013 (2012: SR13.1 billion), the Company recognized the amount received from the government loan above discounted at its present value as per the accounting policies in Note (3).
- (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 15.33 billion from this loan has been withdrawn as at 31 March 2013 (2012: 2.6 billion). The Company recognized the amount received from the government loan above discounted at its present value as per the accounting policies in Note (3).

10. LONG-TERM GOVERNMENT PAYABLES

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

Also, the long term Government payable includes an amount of SR 20.5 billion represents the difference between the amount proceed from Government as a soft loans and the discounted present value of these loans (Note 9- (b) & (c))

11. DERIVATIVES

The Company entered into interest rate hedging contracts with several banks to hedge the fluctuation of interest rates on loans for an amount of SR 2.6 billion on 31 March 2013 (2012: 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.

12. SHARE CAPITAL

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

13. GENERAL RESERVE

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

Saudi Electricity Company
(A Saudi Joint Stock Company)

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS – (Unaudited)
For The Period Ended 31 March 2013
(In Thousands Saudi Riyals)

14. DIVIDENDS PAID AND BOARD OF DIRECTORS' REMUNERATION

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

The General Assembly, in its meeting held on 15 April 2013, approved to distribute of cash dividends for 2012 to individuals shareholders amounting of SR 547 million (SR 0.7 per share) representing 7% of the par value per share (2011: SR 547 million).

The General Assembly has approved in its meeting held on 15 April 2013, Board of Directors' remuneration of SR 919 thousand from the retained earnings for the year 2012 (2011: SR 705 thousand).

15. CONTINGENT LIABILITIES

- a. There is a dispute between the Company and Saudi Aramco for handling crude oil fees. The disputed amount since the Company's inception on 5 April 2000 to 31 March 2013 amounted to approximately SR 3,346 million (2012: SR 2,945 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 1,248 million (2012: SR 923 million) not accounted for in the Company's books.
- b. Saudi Aramco has also a claim for the settlement of its share in the annual dividends since inception to 31 December 2012, estimated at SR 2,342 million. The Company believes that Saudi Aramco has no right for this claim during the first 20 years of its formation since it is a wholly owned government agency and accordingly, is governed by the Ministerial Resolution No. 169 dated 11 Sha'aban 1419H and Ministerial Resolution No. 327 dated 24 Ramadan 1430H on extending the Government's waiver of its rights in the profits distributed by the Saudi Electricity Company for another ten years.
- c. The Company has 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 for financing a loan granted to some of its investee companies. The guarantee amounted to US\$ 74 million equivalent to SR 278 million as of 31 March 2013 (2012: US\$ 74 million equivalent to SR 278 million). In addition, the Company has provided a guarantee for the Department of Zakat and Income Tax amounting to SR 37,5 million (2012: SR 13 million).
- e. The Company is contingently liable against outstanding letters of credit amounting to SR 4,9 million as of the consolidated balance sheet date (2012: Nil).

Saudi Electricity Company
(A Saudi Joint Stock Company)

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS – (Unaudited)
For The Period Ended 31 March 2013
(In Thousands Saudi Riyals)

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

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

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

The Company has executed regulator decree number 49/432 dated 8 Jumada Awal 1432H classifying Saudi Aramco electricity consumption tariff starting from 1 January 2012, accordingly, the disputed residential and commercial enterprises mentioned above were identified, and the agreed upon tariff were applied on Saudi Aramco consumption. Further, the Company has also completed the calculation – from its part – of the previous years' consumption up to 31 December 2011 according to regulator decree mentioned above and has submitted the invoices to Saudi Aramco with total amount of SR 730 million. However, the Company still in process of completing the necessary procedure to record this revenue.

17. ZAKAT

The Company did not provide provision for zakat during the period ended 31 March 2013, since the adjusted net income and the zakat base are negative. It should be noted that the Company has received the zakat final assessments for the years 2003 to 2008. The company also submitted the Zakat return for the years 2009, 2010, 2011 and 2012 which is still under Department of Zakat and Income Tax review.

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

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

The company is now working on applying integrated plan aims to split its principal activities to different independent entities and develop inter-selling prices. Therefore revenues and expenses will be specified for each entity upon completion of such process. 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 data of Saudi Electricity Company mentioned in the below table include the generating and distributing segments in addition to the head office, as the procedure of separating the generation and distribution segments is still under process – till the date of interim consolidated financial statements preparation date- in Company's integrated plan to split..

Saudi Electricity Company
(A Saudi Joint Stock Company)

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS – (Unaudited)
For The Period Ended 31 March 2013
(In Thousands Saudi Riyals)

18. SEGMENT REPORTING AND FUTURE RESTRUCTURE FOR THE COMPANY'S ACTIVITIES
(continued)

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

31 March 2013	Saudi Electricity Company	National Electricity Transmission Company	Other Subsidiaries	Inter-Company Balances	Total
Fixed Assets	118,077,135	52,281,018	-	-	170,358,153
Total Assets	269,543,561	59,758,222	37,802	(79,002,370)	250,337,215
Total Liabilities	218,185,636	47,812,133	21,180	(68,988,251)	197,030,698

31 March 2012	Saudi Electricity Company	National Electricity Transmission Company	Other Subsidiaries	Inter-Company Balances	Total
Fixed Assets	109,241,241	50,727,376	-	-	159,968,617
Total Assets	277,817,200	55,862,264	13,617	(115,622,254)	218,070,827
Total Liabilities	226,976,366	45,434,066	11,333	(105,620,753)	166,801,012

The procedures of accounting and approving revenues and expenses between National Electricity Transmission Company and the Company is still under process.

19. COMPARATIVE FIGURES

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

20. SUBSEQUENT EVENTS

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