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

Scope of audit

We have audited the accompanying consolidated balance sheet of Saudi Electricity Company – a Saudi Joint Stock Company (“the Company”) and its subsidiaries (“the Group”) as at 31 December 2013 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 2013 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: 24 Rabi Thani 1435H

(24 February 2014)

CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2013
(In Thousands Saudi Riyals)

	Note	2013	2012
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	4	3,992,142	3,045,786
Receivables from electricity consumers and accrued revenues, net	5	18,451,644	13,427,260
Prepayments and other receivables, net	6	6,716,297	5,413,450
Inventories, net	7	6,638,256	5,821,473
TOTAL CURRENT ASSETS		35,798,339	27,707,969
NON-CURRENT ASSETS			
Loan to associated companies	8	1,129,942	365,500
Equity investments in companies and others	9	2,114,715	2,183,260
Construction work in progress	10	54,181,456	39,889,549
Fixed assets, net	11	183,563,192	168,652,100
TOTAL NON-CURRENT ASSETS		240,989,305	211,090,409
TOTAL ASSETS		276,787,644	238,798,378
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES			
Accounts payable	12	28,254,889	34,728,774
Accruals and other payables	13	4,672,010	4,735,729
Short term loans and current portion of long-term loans	15	1,816,969	1,468,000
Sukuk	16	7,000,000	-
TOTAL CURRENT LIABILITIES		41,743,868	40,932,503
NON-CURRENT LIABILITIES			
Long-term loans	15	15,676,962	12,196,986
Sukuk	16	21,064,490	20,562,990

Employees' indemnities	17	5,182,553	5,168,181
Deferred revenues, net	18	23,966,410	22,289,701
Customers' refundable deposits		1,555,562	1,453,806
Government loans	19	28,248,767	23,374,496
Long-term Government payables	20	82,634,401	58,487,223
Provision for change in fair value of hedging contracts	21/35	438,318	883,038
TOTAL NON-CURRENT LIABILITIES		178,767,463	144,416,421
TOTAL LIABILITIES		220,511,331	185,348,924
SHAREHOLDERS' EQUITY			
Share capital	22	41,665,938	41,665,938
Statutory reserve		2,114,186	1,810,599
General reserve	23	545,262	540,330
Retained earnings	27	12,507,288	10,323,177
Cash flow hedges reserve	21/35	(556,361)	(890,590)
TOTAL SHAREHOLDERS' EQUITY		56,276,313	53,449,454
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		276,787,644	238,798,378

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

CONSOLIDATED STATEMENT OF INCOME
FOR THE YEAR ENDED 31 DECEMBER 2013
(In Thousands Saudi Riyals)

	Note	2013	2012
OPERATING REVENUES			
Electricity sales		32,878,143	31,101,888
Meter reading, maintenance, and bills preparation tariff		988,798	937,529
Electricity connection tariff	18	1,679,064	1,515,790
Other operating revenues		126,124	91,052
TOTAL OPERATING REVENUES		35,672,129	33,646,259
COST OF SALES			
Fuel		(5,978,341)	(6,228,717)
Purchased energy	32/b	(6,584,507)	(4,565,148)
Operations and maintenance	24	(9,120,177)	(8,721,808)
Depreciation - Operations and maintenance	11	(11,440,416)	(10,522,344)
TOTAL COST OF SALES		(33,123,441)	(30,038,017)
GROSS PROFIT FOR THE YEAR		2,548,688	3,608,242
General and administrative expenses	25	(370,329)	(395,277)
Depreciation - General and administrative	11	(290,250)	(313,537)
INCOME FROM OPERATING ACTIVITIES		1,888,109	2,899,428
Non-recurring income	29	729,186	-
Human recourses productivity improvement program	17/a	-	(634,268)
Other income and expenses, net	26	418,574	295,906
Net Income For The Year		3,035,869	2,561,066
EARNING PER SHARE (SR):			
From operating activities for the year		0.45	0.70
From net income for the year		0.73	0.61

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

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2013
(In Thousands Saudi Riyals)

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income for the year	3,035,869	2,561,066
ADJUSTMENTS TO RECONCILE NET INCOME FOR THE YEAR WITH NET CASH FROM OPERATING ACTIVITIES:		
Provision for doubtful receivables	131,680	252,483
Provision for slow-moving inventories	41,145	171,322
Group's share of associates' net (income) losses	(14,195)	63,729
Depreciation	11,730,666	10,835,881
Gain on disposal of fixed assets, net	(86,784)	(85,556)
Employees' indemnities, net	14,373	329,672
CHANGES IN OPERATING ASSETS AND LIABILITIES:		
Receivables from electricity consumers and accrued revenues	(5,156,064)	(1,652,543)
Prepayments and other receivables	(1,302,847)	(559,826)
Inventories	(857,928)	(429,945)
Accounts payable	(6,473,885)	8,487,572
Deferred revenues, net	1,676,709	1,820,126
Accruals and other payables	(54,766)	116,519
Net proceeds and payments from customers' refundable deposits	101,756	86,178
Net cash from operating activities	2,785,729	21,996,678
CASH FLOWS FROM INVESTING ACTIVITIES		
Equity investment in companies and others	155,000	150,000
Fixed assets and construction work in progress	(40,937,537)	(38,466,266)
Proceeds from sale of fixed assets	90,656	108,362
Loan to an associate company	(947,192)	-
Net cash used in investing activities	(41,639,073)	(38,207,904)

CASH FLOWS FROM FINANCING ACTIVITIES		
Net collection from Government loans and payables	29,021,449	13,970,000
Net proceeds (paid) from long-term loans	3,828,945	(3,049,902)
Net proceeds from Sukuk	7,501,500	1,562,990
Dividends paid to shareholders and Board of Directors' remuneration	(552,194)	(532,700)
Net cash from financing activities	39,799,700	11,950,388
NET CHANGE IN CASH AND CASH EQUIVALENTS DURING THE YEAR	946,356	(4,260,838)
Cash and cash equivalents, beginning of the year	3,045,786	7,306,624
CASH AND CASH EQUIVALENTS, END OF THE YEAR	3,992,142	3,045,786
NON-CASH TRANSACTION:		
Change in fair value of hedging contracts	334,229	(109,133)
Transfer of loan to an associate company to equity investment	182,750	-

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 2013
(In Thousands Saudi Riyals)

	Note	Share Capital	Statutory Reserve	General Reserve	Retained Earnings	Cash flow hedges reserve	Total
For The Year Ended 31 December 2012							
Balance as at 1 January 2012- before adjustments		41,665,938	1,554,492	538,343	8,566,175	(431,870)	51,893,078
Prior years adjustments	21/35	-	-	-	-	(349,587)	(349,587)
Balance as at 1 January 2012 - adjusted		41,665,938	1,554,492	538,343	8,566,175	(781,457)	51,543,491
Net income for the year		-	-	-	2,561,066	-	2,561,066
Dividends paid to shareholders for 2011	27	-	-	-	(547,252)	-	(547,252)
Board of Directors' remuneration for 2011	28	-	-	-	(705)	-	(705)
Net change in fair value of hedging contracts	21/35	-	-	-	-	(109,133)	(109,133)
Reconciliation of Electricity collection fee (individual)	23	-	-	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	(890,590)	53,449,454
For The Year Ended 31 December 2013							
Net income for the year		-	-	-	3,035,869	-	3,035,869
Dividends paid to shareholders for 2012	27	-	-	-	(547,252)	-	(547,252)
Board of Directors' remuneration for 2012	28	-	-	-	(919)	-	(919)
Net change in fair value of hedging contracts	21	-	-	-	-	334,229	334,229
Reconciliation of Electricity collection fee (individual)	23	-	-	4,932	-	-	4,932
Transfer to statutory reserve		-	303,587	-	(303,587)	-	-
Balance as at 31 December 2013		41,665,938	2,114,186	545,262	12,507,288	(556,361)	56,276,313

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

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 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 Cogeneration 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.

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

Name of Subsidiary	Business Activity	Country of incorporation	Ownership % (direct & indirect) 2013
National Grid S.A. Company	Transmission of power from generating stations to distribution network and operating and maintenance of electricity transmission system	Saudi Arabia	100%
Electricity Sukuk Company	Provide services and support needed in relation of issuing bonds and Sukuk by Saudi Electricity Company	Saudi Arabia	100%
Dawiyat Telecom Company	Establishing, leasing, managing and operating electricity and fiber optic networks to provide telecommunications services	Saudi Arabia	100%
Saudi Electricity Global Sukuk Company	Provide services and support needed in relation of issuing bonds and Sukuk by Saudi Electricity Company	Cayman Islands	100%
Saudi Electricity Global Sukuk Company - 2	Provide services and support needed in relation of issuing bonds and Sukuk by Saudi Electricity Company	Cayman Islands	100%
Morjan for Electricity Production Company (under formation)	Establishing, developing, ownership, operating and maintenance of Rabigh project for Electricity production	Saudi Arabia	50%

2. Basis of Consolidation

These consolidated financial statements include the assets, liabilities and operations’ 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 at fair value of investments, derivative financial instruments and government loans.

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, distribution networks and other facilities such as strategic and reserve materials, are included in within fixed assets.

Investments

Investments in Companies’ Equity

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

Investments of less than 20% of share capital of unquoted Companies are stated at cost is considered as fair value. Income from these investments is recognised in consolidated statements of income when dividends are received from 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 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 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 projectsin-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.

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. The difference between the amount received and the present value is recorded as deferred income (government grant) and presented under the long-term government payables and recognized over the remaining period 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 subscribers based on the consumption of electric power measured by Kilowatt/hour. Estimates are made and recognized for consumed power but not billed as at the balance sheet date.

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.

Operating lease

Leasing contracts under which capitalised leasing conditions are not met are classified as operating leases. Operating lease payments are recognised as an expense in the consolidated statement of income on a straight -line basis over the lease term.

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

	SR'000	
	2013	2012
Cash on hand	3,553	3,352
Cash at banks	1,257,564	1,332,951
Short-term deposits	2,731,025	1,709,483
	3,992,142	3,045,786

5. Receivables From Electricity Consumers and Accrued Revenues, Net

	SR'000	
	2013	2012
Electricity subscribers' receivable		
Governmental institutions	6,978,479	4,364,978
Commercial and residential	5,182,922	4,232,203
Saudi Arabian Oil Company ("Saudi Aramco")	2,631,261	2,501,513
VIPs consumers	3,325,023	2,228,922

Electricity connection receivables	1,402,152	1,359,573
Saline Water Conversion Corporation	388,628	231,579
Total electricity subscribers' receivable	19,908,465	14,918,768
Less: Provision for doubtful receivables	(2,884,759)	(2,753,079)
Net electricity subscribers' receivable	17,023,706	12,165,689
Add: Accrued revenues	1,427,938	1,261,571
	18,451,644	13,427,260

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

	SR'000	
	2013	2012
Balance at the beginning of the year	2,753,079	2,500,596
Charge for the year	131,680	252,483
Balance at the end of the year	2,884,759	2,753,079

6. Prepayments and Other Receivables, Net

	SR'000	
	2013	2012
Advances to contractors and suppliers	5,748,003	4,427,812
Other government receivables	244,173	244,173
Outstanding letters of credit	76,033	158,247
Prepaid expenses	13,203	47,126
Other receivables, net	695,674	596,881
Total	6,777,086	5,474,239
Less: Provision for other doubtful receivables	(60,789)	(60,789)
	6,716,297	5,413,450

7. Inventories, Net

	SR'000	
	2013	2012
Generation plant materials and supplies	3,038,500	3,004,718
Distribution network materials and supplies	2,949,956	2,131,952
Transmission network materials and supplies	372,368	343,475
Fuel and oil	467,593	401,477
Other	286,327	375,194
Total	7,114,744	6,256,816
Less: Provision for slow-moving inventories	(476,488)	(435,343)
	6,638,256	5,821,473

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

	SR'000	
	2013	2012
Balance at the beginning of the year	435,343	264,021
Charge for the year	41,145	171,322
Balance at the end of year	476,488	435,343

8. Loan to Associated Companies

This balance includes, as of 31 December 2013, an amount of SR 947 million (2012: nil) representing the Company's share in the subordinate loan provided to Dhurma Electricity company (an associated company). Under the agreement between the shareholders of the associated company, the loan is provided by shareholders in proportion of their share in the capital. The company holds 50% interest in the associated company. This subordinate loan is non commission bearing.

9. Equity Investments in Companies and Others

	SR'000	
	2013	2012
Investments accounted for under the equity method (a)	1,869,065	1,782,610
Other investments, at cost (b)	125,650	125,650
Held to maturity investments (c)	120,000	275,000
	2,114,715	2,183,260

A. Investments accounted for under the equity method

		SR'000					
As of 31 December 2013	Own-ership %	Opening balance before Compa-ny's share from cash flow hedge reserve as of 1 January 2013	Addition during current year	Share from income (loss)	Gross investment balance before Company's share from cash flow hedge reserve as of 31 December 2013	Share from cash flow hedge reserve*	Net investment as of 31 December 2013
Gulf Cooperation Council Interconnection Authority (A-1)	31.6	1,768,427	-	(52,054)	1,716,373	-	1,716,373
Water and Electricity Company (A-2)	50	14,183	-	179	14,362	-	14,362
Hajr for Electricity Production Company (A-3)	50	5,000	-	-	5,000	(5,000)	-
Rabigh Electricity Company (A-4)	20	553	182,750	50,183	233,486	(95,156)	138,330
Dhuruma Electricity Company (A-5)	50	2,000	-	15,887	17,887	(17,887)	-
		1,790,163	182,750	14,195	1,987,108	(118,043)	1,869,065

		SR'000					
As of 31 December 2012	Own-ership %	Opening balance before Compa-ny's share from cash flow hedge reserve as of 1 January 2012	Addition during current year	Share from income (loss)	Gross investment balance before Company's share from cash flow hedge reserve as of 31 December 2012	Share from cash flow hedge reserve*	Net investment as of 31 December 2012
Gulf Cooperation Council Interconnection Authority (A-1)	31.6	1,830,937	-	(62,510)	1,768,427	-	1,768,427
Water and Electricity Company (A-2)	50	13,955	-	228	14,183	-	14,183
Hajr for Electricity Production Company (A-3)	50	5,000	-	-	5,000	(5,000)	-
Rabigh Electricity Company (A-4)	20	2,000	-	(1,447)	553	(553)	-
Dhuruma Electricity Company (A-5)	50	2,000	-	-	2,000	(2,000)	-
		1,853,892	-	(63,729)	1,790,163	(7,553)	1,782,610

* These amounts represent Company's share in unrealized losses from change in the fair value for hedging contracts recognised within the equity of investees to the extent of investment balance. Additional reserves amounting of SR 185 million as of 31 December 2013 (2012: SR 512 million) were created to account for further commitments exceeding the investment balance (note (21) and (35)).

(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 fully paid. 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%. During the current year ended 31 December 2013, the Company contributed in the capital increase of Rabigh electricity company –in proportion of its share- by an amount of SR 183 million which was transferred from loan extended previously.

(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 investee's share capital.

B. Other investments, at cost

	Ownership %	SR'000	
		2013	2012
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

	SR'000	
	2013	2012
SABB bonds "Saudi British Bank"	70,000	50,000
Arabian Aramco Total Services Company Sukuk (SATORP)	25,000	25,000
Sadara Basic Services Company's sukuk	25,000	-
Saudi Basic Industries Corporation Sukuk	-	150,000
Bin Laden Company Sukuk	-	50,000
Total	120,000	275,000

10. Construction Work in Progress

SR'000						
	2013					2012
	Generation Projects	Transmission Projects	Distribution Projects	General projects	Total	Total
At the beginning of the year	22,895,227	11,874,221	4,549,578	570,523	39,889,549	22,260,811
Additions during the year	14,873,770	12,300,483	10,715,202	2,692,671	40,582,126	38,144,009
Transfer to fixed assets	(8,345,922)	(5,548,202)	(10,889,780)	(1,506,315)	(26,290,219)	(20,515,271)
Balance at 31 December 2013	29,423,075	18,626,502	4,375,000	1,756,879	54,181,456	
Balance at 31 December 2012	22,895,227	11,874,221	4,549,578	570,523		39,889,549

Net borrowing cost capitalized on projects under construction during the year amounted to SR 1,241 million (2012: SR 1,222 million).

11. Fixed Assets, Net

SR'000								
	2013							2012
	Land	Buildings	Machinery and equipment	Capital spare parts	Vehicles and heavy equipment	Others	Total	Total
Cost:								
At the beginning of the year	1,785,778	16,649,210	290,305,880	4,071,040	1,327,926	4,176,388	318,316,222	297,846,857
Additions	621,749	2,683,599	21,101,896	344,400	-	1,901,782	26,653,426	20,860,094
Disposals	(211)	(82,326)	(228,594)	(13,923)	(126,625)	(8,315)	(459,994)	(390,729)
At the end of the year	2,407,316	19,250,483	311,179,182	4,401,517	1,201,301	6,069,855	344,509,654	318,316,222
Depreciation:								
At the beginning of the year	-	10,282,231	133,544,224	2,122,234	1,103,792	2,611,641	149,664,122	139,173,598
Charge for the year	-	824,904	10,205,702	146,380	70,435	483,245	11,730,666	10,835,881
Disposals	-	(82,260)	(216,397)	(13,921)	(126,625)	(9,123)	(448,326)	(345,357)
At the end of the year	-	11,024,875	143,533,529	2,254,693	1,047,602	3,085,763	160,946,462	149,664,122
Net book amounts:								
At 31 December 2013	2,407,316	8,225,608	167,645,653	2,146,824	153,699	2,984,092	183,563,192	
At 31 December 2012	1,785,778	6,366,979	156,761,656	1,948,806	224,134	1,564,747		168,652,100

Included in land are plots of land with book value of SR 188 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:

SR'000					
2013					
	Generation	Transmission	Distribution	General Property	Total
Land	238,335	587,244	225,151	1,356,586	2,407,316
Buildings	4,195,788	2,887,660	203,432	938,728	8,225,608

Machinery & equipment	64,656,088	50,096,152	52,557,103	336,310	167,645,653
Capital spare parts	1,621,098	427,653	97,932	141	2,146,824
Vehicles and heavy equipment	-	-	-	153,699	153,699
Others	1,104,084	633,234	298,517	948,257	2,984,092
	71,815,393	54,631,943	53,382,135	3,733,721	183,563,192

SR'000					
2012					
	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	409,253	156,761,656
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	353,514	1,564,747
	68,301,663	51,963,097	45,747,234	2,640,106	168,652,100

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

SR'000		
	2013	2012
Generation depreciation expense	4,954,719	4,632,938
Transmission depreciation expense	3,151,712	2,950,727
Distribution depreciation expense	3,333,985	2,938,679
General property depreciation expense	290,250	313,537
	11,730,666	10,835,881

12. Accounts Payable

	SR'000	
	2013	2012
Saudi Aramco payable for fuel cost	62,690,790	57,200,552
Transferred to Government account (a)	(57,200,552)	(40,959,482)
Saudi Aramco payable for fuel cost, net	5,490,238	16,241,070
Saline Water Conversion Corporation for energy purchased	9,257,407	8,836,619
Municipality fees	4,239,703	3,723,515
Advances received for construction of projects	5,892,310	2,367,238
Contractors and retention payables	586,315	974,891
Payables to suppliers	347,429	657,721
Other (b)	2,441,487	1,927,720
	28,254,889	34,728,774

A. This amounts represents as of 31 December 2013 payables for fuel for the period from April 5, 2000 to December 31, 2012 (2012: 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, latest transfer was before 2013 year end (Note (20)).

B. Other payables include SR 1,225 million (2012: 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)).

13. Accruals and Other Payables

	SR'000	
	2013	2012
Accrued expenses	3,383,692	3,550,470
Accrued employees' benefits	523,692	426,962
Dividends payable *	351,174	355,197
Accrued interests on loans	172,526	170,311
Other	240,926	232,789
	4,672,010	4,735,729

* Dividends payable as of December 31, 2013 includes unclaimed cash dividends declared by Saudi Consolidated Electricity Company prior to merger, amounting to SR 86.8 million (2012: SR 88.6 million).

14. Zakat

Zakat Base:

The major components of Zakat base are as follows:

	SR'000	
	2013	2012
Net income before zakat	3,035,869	2,561,066
Add: Zakat adjustment	(10,656,983)	(10,313,776)
Net adjusted loss	(7,621,114)	(7,752,710)
Zakat base is calculated as follows:		
Share Capital	41,665,938	41,665,938
Net adjusted loss	(7,621,114)	(7,752,710)
Retained reserves	2,350,929	2,092,835
Retained earnings	9,775,006	8,018,923
Retained allowances	8,604,570	6,971,363
Long term loans and sukuk	45,558,421	27,664,986
Government loans and payables	53,682,616	40,902,237
Contractors accruals and others	937,489	1,330,088
Total	154,953,855	120,893,660
Deduct:		
Fixed assets and construction work in progress, net	(148,419,213)	(130,037,634)
Difference on depreciation of fixed assets for previous years	(66,403,626)	(65,111,874)
Long term investments	(2,100,521)	(2,254,541)
Material and spare parts inventories	(5,090,429)	(4,384,116)
Zakat base (negative)	(67,059,934)	(80,894,505)

No Zakat is due on the Company for the year ended 31 December 2013 as the net adjusted loss and zakat base is negative.

Zakat status:

The Company has received the final assessments for the period ended in 31 December 2001and also for the years from 2002 to 2008 which showed Zakat differences of SR 37.5 million for the period ended 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 2012 and are still under review by DZIT.

15. Long-term Loans

	SR'000	
	2013	2012
At the beginning of the year	13,664,986	16,714,888
Withdrawal during the year	5,645,936	107,171
Repayments during the year	(1,816,991)	(3,157,073)
At the end of the year	17,493,931	13,664,986
Less: Current portion	(1,816,969)	(1,468,000)
Long-term balance at the end of the year	15,676,962	12,196,986

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

	SR'000	
	2013	2012
More than one year	1,921,378	1,469,701
Between two to three years	1,921,378	1,478,631
Between three to four years	1,921,378	1,478,631
Between four to five years	1,921,378	1,478,631
More than five years	7,991,450	6,291,392
	15,676,962	12,196,986

- 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 3.6 billion as of 31 December 2013 (2012: SR 4.1 billion). The loan is subject to certain financial covenants in which the Company complies with as at 31 December 2013.
- B. The Company signed a financing agreement with the Export-Import Bank of the United States, and the Export Development Bank of Canada on 27 January 2010 whereby the Company will receive a direct loan amounting to US\$ 1.1 billion equivalent to approximately SR 4.1 billion which has been fully withdrawn. The loan is repayable within 12 years in 24 semi-annual installments starting 25 May 2010. The loan balance amounted SR 2.7 billion as of 31 December 2013 (2012:SR 3 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 2.3 billion as of 31 December 2013 (2012: SR 2.5 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 4.6 billion as of 31 December 2013 (2012: SR 0.5 billion).
- E. On 22 June 2011, the Company signed an agreement with Export and Import French Bank whereby the Company will receive a loan amounting to US\$ 989.1 million equivalent to SR 3.7 billion which had been fully withdrawn. The loan is repayable over 12 years over 24 semi-annual installments starting 11 January 2012. The loan balance amounted to SR 3.1 billion as of 31 December 2013 (2012:SR 3.4 billion).

- F. On 29 March 2012, the Company signed a loan agreement guaranteed by two Export Korean banks (K Shore and K Exim) where a group of international banks participated in financing the loan led by HSBC Group, Tokyo-Mitsubishi Bank, Sumitomo Mitsui Banking Corporation, Mizuho Bank and KFW Bankengruppe. The Company will receive a loan amounting to SR 5.3 billion equivalent to approximately US\$ 1,400 million for a period of 15 years. The loan is repayable over 12 years in 24 semi-annual installments starting after grace period of 3 years. The loan balance amounted SR 1.3 billion as of 31 December 2013 (2012: SR 107 million).
- G. On 18 December 2013, the Company signed a loan agreement guaranteed by two Export Japanese banks (NEXI and JBIC) where Japan Bank for International Cooperation (JBIC), Tokyo-Mitsubishi Bank and Mizuho Bank participated in financing the loan. The amount of the loan is SR 1,373 million (US\$ 366 million) for a period of 15 years. The loan is repayable in equal installments over 12 years starting after grace period of 3 years. The loan has not been withdrawn up to 31 December 2013.
- H. On 19 December 2013, The Company signed a loan agreement guaranteed by two Export Korean banks (K Shore and K Exim), where Export Korean banks (K Shore and K Exim), and various international banks, Tokyo-Mitsubishi Bank, Mizuho Bank, Sumito bank, HSBC Group, Deutsche bank and IPEX bank have participated in financing the loan. The amount of the loan is SR 6,128 million (US\$ 1,634 million) for a period of 15 years. The loan is repayable in equal installments over 12 years starting with a grace period of 3 years. The loan has not been withdrawn up to 31 December 2013. The long-term loans mentioned above are used to finance construction projects. These loans are secured by promissory notes singed by the Company for the nominal value of the loan plus the interest payments and/or Murabaha margin. The company has unutilized credit facilities as of 31 December 2013 with local commercial banks amounting to SR 1 billion (2012: SR 1 billion).

16. Sukuk

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

Local Sukuk:

Issue	Date of issue	Par value	Total issued amount	Maturity year
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.

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) amounted SR 5 billion. The Company is also intends to fully purchase the assets of its second Sukuk issued (Sukuk2) amounting to SR 7 billion at the first purchase date during July 2014, therefore; this amount has been classified within current liabilities as of 31 December 2013.

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%.

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

17. Employees’ Indemnities

	SR’000	
	2013	2012
Provision for end-of-service indemnities	4,371,338	4,354,255
Employee savings fund	498,270	394,475
Human recourses productivity improvement program (the Program)-(a)	312,945	419,451
	5,182,553	5,168,181

- (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.

18. Deferred Revenues, Net

	SR’000	
	2013	2012
Balance at the beginning of the year	22,289,701	20,469,575
Proceeds from connection tariff services during the year	3,355,773	3,335,916
Electrical connection tariff	(1,679,064)	(1,515,790)
	23,966,410	22,289,701

19. 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 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 2013 (2012: fully withdrawn). the Company recognized the amount received from the government loan above discounted at its present value.
- 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 23 billion from this loan has been withdrawn as at 31 December 2013 (2012: SR 10.2 billion). The Company recognized the amount received from the government loan above discounted at its present value.

20. Long-term Government Payables

The long term government payable includes as 31 December 2013 SR 57 billion represents the accounts payable for fuel for the period from 5 April 2000 to 31 December 2012 (2012: SR 41 billion represents the accounts payable for fuel for the period from 5 April 2000 to 31 December 2009) which has been reclassified from current liabilities to non-current liabilities (long-term governmental payables) pursuant to the Ministerial minutes of meeting and resolutions which resolved to transfer the Company’s liability of Saudi Aramco to the account of the Ministry of Finance according to specific procedures and approvals, the latest was before 2013 year end.

Also, the Government payable includes an amount of SR 24.7 billion as at 31 December 2013 (2012: 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 19- (b) & (c)).

21. 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 2.2 billion on 31 December 2013 (2012: SR 2.6 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.

The cash flow hedge reserve shown in the shareholders equity includes the group’s share in the unrealized losses resulting from the change in the fair value for hedging contracts recognised within the equity of investees (Note (9) and (35)).

22. 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%

23. General Reserve

General reserve consists of the balances of the reserves amounting to SR 213,668 Thousands that were reflected in the books of the Saudi Electricity Company at the date of the merger, and investment income from electricity fund of SR 294,976 as well as the collections of surcharge from individuals subsequent to December 31, 2001 amounting to SR 36,618 thousand up to December 31, 2013 (2012: SR 31,686 thousand). The total general reserve amounted to SR 545,262 thousand as at December 31, 2013 (2012: SR 540,330 thousand).

24. Operation and Maintenance Expenses

	SR'000				
	2013				2012
	Generation	Transmission	Distribution	Total	Total
Employees' expenses and benefits	1,318,255	709,455	2,513,002	4,540,712	4,264,027
Operation and maintenance (contractors)	488,300	124,777	512,470	1,125,547	936,210
Materials	796,718	72,790	248,927	1,118,435	1,052,401
Municipality fees	-	-	517,679	517,679	482,814
Provision for doubtful receivables	-	-	131,680	131,680	252,483
Provision for slow moving inventory	25,392	4,684	6,780	36,856	144,254
Others	1,021,773	190,491	437,004	1,649,268	1,589,619
	3,650,438	1,102,197	4,367,542	9,120,177	8,721,808

25. General and Administrative Expenses

	SR'000	
	2013	2012
Employees' expenses and benefits	266,288	209,873
Materials	37,687	49,754
Provision for slow moving inventory	4,289	27,068
Others	62,065	108,582
	370,329	395,277

26. Other Income and Expenses, Net

	SR'000	
	2013	2012
Penalties	153,264	127,671
Gain on disposal of fixed assets	86,784	85,556
Sale of tender documents	41,768	30,676
Share in net income (loss) of investee companies accounted for under the equity method (Note 9-(a))	14,195	(63,729)
Others, net	122,563	115,732
	418,574	295,906

27. 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 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 (for 2011: SR 547 million).

The board of directors in its meeting held on 24 Rabi Thani 1435H corresponding 24 February 2014, proposed to distribute cash dividends for 2013 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.

28. 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 980 thousand (2012: SR 783 thousand).

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 (for the year 2011: SR 705 thousand).

The board of directors in its meeting held on 24 Rabi Thani 1435H corresponding 24 February 2014, proposed board's remuneration of SR 863 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.

29. Settlement of The Dispute Over The Electric Tariff With Saudi Aramco

The Company provides electricity power to governmental agencies, ministries and Saudi Aramco. The tariff applied are approved by the Council of Ministers and are similar to the tariff applied to other consumers, except for the tariff used for Saline Water Conversion Corporation (SWCC) which is in accordance with a government resolution. As for the residential property of Saudi Aramco, the 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 the regulator decree number 49/432 dated 8 Jumada Awal 1432H classifying Saudi Aramco electricity consumption tariff starting from 1 January 2012, accordingly, the disputed residential and commercial enterprises mentioned above were identified, and the agreed upon tariff were applied on Saudi Aramco consumption. Further, the Company has also completed the calculation of the previous years’ consumption since date of inception up to 31 December 2011 according to regulator decree mentioned above and has submitted the invoices to Saudi Aramco with total amount of SR 729 million. During the quarter ended 30 June 2013, the Company has completed the reconciliation procedures with Saudi Aramco for these revenues and recognized them as non-recurring income in the consolidated statement of income for the period.

30. Related Parties Transactions

The significant transactions and related approximate balances are as follows:

	SR’000	
	2013	2012
Sales		
Government	8,285,140	7,891,078
Saudi Aramco	1,763,138	1,634,046
Saline Water Conversion Corporation	195,354	183,818
	10,243,632	9,708,942
Purchases and others		
Saudi Aramco	5,978,341	6,161,196
Rabigh Electricity Company	1,016,970	163,361
Dhuruma Electricity Company	1,056,769	141,374
Saline Water Conversion Corporation	570,715	532,633
Municipalities fees	517,679	482,815
	9,140,474	7,481,379

The Group 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.

31. 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 2013 amounted to approximately SR 3,649 million (2012: SR 3,291 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 1,556 million (2012: SR 1,200 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 2013, estimated at SR 2,342 million. The Company believes that Saudi Aramco has no right for this claim during the first 20 years of its formation since it is a wholly owned government agency and accordingly, is governed by the Ministerial Resolution No. 169 dated 11 Sha’aban 1419H and Ministerial Resolution No. 327 dated 24 Ramadan 1430H on extending the Government’s waiver of its rights in the profits distributed by the Saudi Electricity Company for another ten years.
- C. The Company has provided guarantees to some of the commercial banks against its share for financing a loan granted to some of its investee companies. The guarantee amounted to US\$ 75 million equivalent to SR 281 million as of 31 December 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 37.5 million).

32. Capital Commitments

- A. 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 93,671 million (2012: SR 81,033 million) in addition to the future commitments provided by the Company to finance certain investees in the form of subordinate loans or common equity amounting to SR 1,253 million (2012: SR 2,200 million).
- B. The Company has long-term energy purchase agreements with independent power providers whereby the Company has undertaken to purchase the all energy produced by these providers according to specific terms and prices. These agreements are for periods up to 20 years, and renewable for further periods by mutual consent of both parties.

33. 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 fluctuates due to changes in the market commission rates. The Group has no significant long-term commission bearing assets, but has interest bearing liabilities as of December 31, 2013. The Group manages its floating-rate loans using 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.

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

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

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

Generation: generating electricity power.

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

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

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

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

	SR'000				
As of 31 December 2013	Saudi Electricity Company	The National Grid S.A. Company	Other subsidiaries	Inter-Company Balances	Total
Fixed assets, net	128,931,249	54,631,943	-	-	183,563,192
Total assets	272,339,790	63,735,736	76,081	(59,363,963)	276,787,644
Total liabilities	219,263,020	50,536,193	35,638	(49,323,520)	220,511,331

	SR'000				
As of 31 December 2012	Saudi Electricity Company	The National Grid S.A. Company	Other subsidiaries	Inter-Company Balances	Total
Fixed assets, net	116,689,002	51,963,098	-	-	168,652,100
Total assets	236,197,639	58,552,662	29,420	(55,981,343)	238,798,378
Total liabilities	184,175,221	47,125,625	18,303	(45,970,225)	185,348,924

35. Prior Year Adjustments and Comparative Figures

During the current year ended 31 December 2013, the Company has accounted for its share in unrealized losses from hedges reserve shown in the equity of investee companies of which the Company are accounting for its investment in these companies using the equity method. Consequently, the opening balances of the shareholders' equity – cash flow hedges reserve– adjusted by SR 350 million as of 1 January 2012, and SR 170 million as of 1 January 2013, (Note (9) & (21)).

In addition, certain comparative figures have been reclassified to conform with the current year's presentation.

36. Subsequent Events

During January 2014; the Company has issued islamic Sukuk amounting to SR 4.5 billion maturing in 2054, with a variable rate of 70 basis points plus 3-months SIBOR.