



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 2015

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AUDITORS' 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 2015 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: 2 Rajab 1436H
(21 April 2015)

Saudi Electricity Company
(A Saudi Joint Stock Company)

INTERIM CONSOLIDATED BALANCE SHEET

AS AT 31 March 2015

(In Thousands Saudi Riyals)

	Note	2015 (Unaudited)	2014 (Unaudited)
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents		4,478,295	2,445,853
Receivables from electricity consumers and accrued revenues, net		16,633,253	18,420,767
Prepayments and other receivables, net		9,366,595	6,646,504
Inventories, net		6,936,378	7,328,202
TOTAL CURRENT ASSETS		37,414,521	34,841,326
NON-CURRENT ASSETS			
Loans to associated companies	6	2,250,125	1,129,942
Equity investments in companies and others		2,248,916	2,369,038
Construction work-in-progress		67,199,667	61,437,820
Fixed assets, net		216,435,194	185,956,322
TOTAL NON-CURRENT ASSETS		288,133,902	250,893,122
TOTAL ASSETS		325,548,423	285,734,448
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES			
Accounts payable		42,011,967	31,182,893
Accruals and other payables		5,704,739	4,280,148
Current portion of long-term loans	7	2,254,469	1,816,969
Sukuk	8	-	7,000,000
TOTAL CURRENT LIABILITIES		49,971,175	44,280,010
NON-CURRENT LIABILITIES			
Long-term loans	7	17,265,417	17,397,592
Sukuk	8	34,940,490	25,564,490
Employees' indemnities		5,719,185	5,269,365
Deferred revenues, net		27,662,752	24,890,642
Customers' refundable deposits		1,674,669	1,580,363
Government loans	9	35,284,871	28,248,767
Long-term Government payables	10	95,331,774	82,634,482
Provision for change in fair value of hedging contracts	11	394,625	367,133
TOTAL NON-CURRENT LIABILITIES		218,273,783	185,952,834
TOTAL LIABILITIES		268,244,958	230,232,844
SHAREHOLDERS' EQUITY			
Share capital	12	41,665,938	41,665,938
Statutory reserve		2,474,846	2,114,186
General reserve	13	554,912	545,262
Retained earnings	14	13,265,416	11,593,940
Change in fair value hedging contracts	11	(657,647)	(417,722)
TOTAL SHAREHOLDERS' EQUITY		57,303,465	55,501,604
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		325,548,423	285,734,448

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 2015
(In Thousands Saudi Riyals)

	<i>For the three-months period ended</i>	
	<i>31 March 2015</i>	<i>31 March 2014</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Operating revenues		
Electricity sales	6,327,815	6,329,343
Meter reading, maintenance and bills preparation tariff	259,881	255,454
Electricity connection tariff	501,421	446,834
Revenue of transmission system	286,236	-
Other operating revenues	110,626	37,544
TOTAL OPERATING REVENUES	7,485,979	7,069,175
Cost of sales		
Fuel	(834,073)	(1,057,961)
Purchased power	(1,899,268)	(1,456,578)
Operations and maintenance	(2,453,689)	(2,411,100)
Depreciation – Operations and maintenance	(3,510,338)	(3,007,641)
TOTAL COST OF SALES	(8,697,368)	(7,933,280)
GROSS LOSS FOR THE PERIOD	(1,211,389)	(864,105)
General and administrative expenses	(95,041)	(77,960)
Depreciation - General and administrative	(95,161)	(76,148)
LOSS FROM MAIN OPERATIONS	(1,401,591)	(1,018,213)
Other (expenses) income, net	(538,100)	104,865
NET LOSS FOR THE PERIOD	(1,939,691)	(913,348)
BASIC LOSS PER SHARE (SR):		
From operating activities for the period	(0.34)	(0.24)
From net income for the period	(0.47)	(0.22)

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

Saudi Electricity Company
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INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2015
(In Thousands Saudi Riyals)

	2015 (Unaudited)	2014 (Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES		
Net losses for the period	(1,939,691)	(913,348)
Adjustments to reconcile net losses for the period with net cash from operating activities:		
Provision for doubtful receivables, net	34,760	23,365
Provision for slow-moving inventories	-	5,272
Group's share in earnings of investees	32,573	-
Depreciation	3,605,499	3,083,788
Gain on disposal of fixed assets, net	(3,603)	(16,436)
Employees' indemnities, net	76,430	86,812
Changes in operating assets and liabilities:		
Receivables from electricity consumers and accrued revenues	(824,338)	7,512
Prepayments and other receivables	201,509	69,793
Inventories	(333,969)	(695,218)
Accounts payable	2,889,712	2,928,004
Deferred revenues, net	1,663,481	924,232
Accruals and other payables	133,403	(390,476)
Net proceeds and payments of customers' refundable deposits	24,670	24,801
Net cash from operating activities	5,560,436	5,138,101
CASH FLOWS FROM INVESTING ACTIVITIES		
Fixed assets and construction work-in-progress	(12,789,724)	(12,717,986)
Proceeds from sale of fixed assets	110	1,140
Equity investments in companies and others	-	(181,869)
Net cash used in investing activities	(12,789,614)	(12,898,715)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net collection from Government loans and payables	4,919,999	
Net (repayment of) proceeds from long-term loans	(154,711)	1,720,630
Net proceeds from Sukuk	-	4,500,000
Dividends paid to shareholders and Board of Directors' remuneration	(1,322)	(1,305)
Net cash from financing activities	4,763,966	6,219,325
NET CHANGE IN CASH AND CASH EQUIVALENTS DURING THE PERIOD	(2,465,212)	(1,541,289)
Cash and cash equivalents, beginning of the period	6,943,507	3,987,142
CASH AND CASH EQUIVALENTS, END OF THE PERIOD	4,478,295	2,445,853
Non-cash transactions:		
Change in fair value of hedging contracts	660	138,639

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 2015
(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 2014							
Balance as at 1 January 2014		41,665,938	2,114,186	545,262	12,507,288	(556,361)	56,276,313
Net loss for the period		-	-	-	(913,348)	-	(913,348)
Net change in fair value for hedging contracts	11	-	-	-		138,639	138,639
Balance as at 31 March 2014		<u>41,665,938</u>	<u>2,114,186</u>	<u>545,262</u>	<u>11,593,940</u>	<u>(417,722)</u>	<u>55,501,604</u>
For the three months period ended 31 March 2015							
Balance as at 1 January 2015		41,665,938	2,474,846	554,912	15,205,107	(658,307)	59,242,496
Net loss for the period		-	-	-	(1,939,691)	-	(1,939,691)
Net change in fair value for hedging contracts	11	-	-	-	-	660	660
Balance as at 31 March 2015		<u>41,665,938</u>	<u>2,474,846</u>	<u>554,912</u>	<u>13,265,416</u>	<u>(657,647)</u>	<u>57,303,465</u>

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 2015

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’s Resolution Number 2047 dated 30 Dhul-Hijjah 1420H corresponding to 5 April 2000 as a Saudi joint stock company and was registered at Riyadh under Commercial Registration Number 1010158683, dated 28 Muhurram 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 its bylaws, the Company's financial year begins on 1st January and ends on 31st December of each Gregorian year.

Saudi Electricity Company
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NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS – (Unaudited)
FOR THE PERIOD ENDED 31 MARCH 2015

1. ORGANIZATION AND ACTIVITIES (continued)

Subsidiaries included in these interim consolidated financial statements are as follow:

<i>Name of Subsidiary</i>	<i>Country of incorporation</i>	<i>Ownership % (direct & indirect)</i>	<i>principal Activity</i>
National Grid S.A. Company	Saudi Arabia	100%	Transmission of power from generation stations to distribution network and operation and maintenance of electricity transmission system.
Dawiyat Telecom Company	Saudi Arabia	100%	Establishing, leasing, managing and operating electricity and fiber optic networks to provide telecommunications services.
Electricity Sukuk Company	Saudi Arabia	100%	Provide services and support needed in relation of local bonds and Sukuk.
Saudi Electricity Global Sukuk Company	Cayman Islands	100%	Provide services and support needed in relation of international bonds and Sukuk.
Saudi Electricity Global Sukuk Company – 2	Cayman Islands	100%	Provide services and support needed in relation of international bonds and Sukuk.
Saudi Electricity Global Sukuk Company – 3	Cayman Islands	100%	Provide services and support needed in relation of international bonds and Sukuk.

2. BASIS OF CONSOLIDATION

These interim consolidated financial statements include the assets, liabilities and results of operations' of the Company and its subsidiaries (the "Group") set out in note (1) above. "interim consolidated financial statements"

A subsidiary company is that in which the Company has 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.

All inter-group balances and transactions has been eliminated upon preparation of these interim consolidated financial statements.

Saudi Electricity Company
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NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS – (Unaudited)
FOR THE PERIOD ENDED 31 MARCH 2015

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 preparation of these interim consolidated financial statements, are consistent with those described in the annual audited financial statements for the year ended 31 December 2014.

The significant accounting policies adopted are as follows:

Accounting Convention

The interim 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 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 reporting date, actual results ultimately may differ from those estimates.

Cash and cash equivalents

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

Electricity consumers receivables

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

Inventories

Generation, transmission, distribution, 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 20% and more 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 interim consolidated statement of income.

Investments of less than 20% of share capital of unquoted Companies are stated at cost. Income from these investments is recognised in interim 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 interim consolidated statement of income when earned.

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NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS – (Unaudited)
FOR THE PERIOD ENDED 31 MARCH 2015

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 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 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 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 interim 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 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 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.

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NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS – (Unaudited)
FOR THE PERIOD ENDED 31 MARCH 2015

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 recognized at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

Changes in the fair value of derivatives determined as effective cash flows hedges are taken directly to the equity, while the ineffective portion of cash flow hedges, is recognized 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 recognized asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognized 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 recognized in equity is retained in equity until the forecasted transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognized in 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.

Employees' indemnity

Provision for employees' indemnity consists of the following:

Provision for end of service benefits:

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

Employees' saving fund:

The Group contributes in saving fund for eligible employees based on approved policy. The Group's share from contribution in the 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.

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NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS – (Unaudited)
FOR THE PERIOD ENDED 31 MARCH 2015

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenues (continued)

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 between (20-30) years.

Revenue of transmission system comprises of the usage fees of transmission networks, which is recognized when bills are issued to the licensed co-generation and power providers. Those bills are issued at the end of each month. Revenue is measured based on the fees approved by Electricity and Co-generation Regulatory Authority according to capacity and quantities of power transmitted

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.

Operating lease

Leases on which terms of capital lease are not applicable are classified as operating leases. Payments under operating leases are recognised as an expense in the interim consolidated statement of income on a straight line basis over the term of the lease.

(Losses) earnings per share for the period

(Losses) earnings per share is calculated using the weighted average number of outstanding shares at the end of the period, including government shares. Basic (loss) earnings per basic share from operating activities is calculated by dividing (loss) income from operations on the weighted average number of shares. (loss) earnings per basic share from net (loss) income is calculated by dividing net (loss) income 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 for them 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 then ended.

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NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS – (Unaudited)
FOR THE PERIOD ENDED 31 MARCH 2015

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 2015) may not be an accurate indication of the actual results for the full year.

6. LOANS TO ASSOCIATED COMPANIES

Loans to associated companies represents the Company's share in the subordinated loan extended to those companies according to the agreements between partners in proportion of their equity. These subordinate loans do not carry any commission.

<i>Associate Company</i>	<i>Ownership %</i>	<i>2015 SR'000</i>	<i>2014 SR'000</i>
Hajr for Electricity Production Company	50	1,274,983	-
Dhuruma Electricity Company	50	825,317	947,192
Rabigh Electricity Company	20	105,950	182,750
Jubail Water and Power Company	5	43,875	-
Total		2,250,125	1,129,942

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 is repayable over 22 semi-annual installments starting 3 November 2009. The loan balance amounted SR 3 billion as of 31 March 2015 (2014: SR 3.6 billion).
- (b) On 27 January 2010, the Company signed a financing agreement with the Export-Import Bank of the United States, and the Export Development Bank of Canada whereby the Company will receive a direct loan amounting to US\$ 1.1 billion equivalent to approximately SR 4.1 billion which has been fully withdrawn. The loan is repayable within 12 years over 24 semi-annual installments starting 25 May 2010. The loan balance amounted SR 2.3 billion as of 31 March 2015 (2014: SR 2.7 billion).
- (c) On 13 July 2009, the Company signed a financing agreement with the Public Investments Fund where by 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 SR 2 billion as of 31 March 2015 (2014 : SR 2.3 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 signing the agreement. The loan balance amounted SR 4.2 billion as of 31 March 2015 (2014:SR 4.6 billion).
- (e) On 22 June 2011, the Company singed with Export and Import French Bank an agreement 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 within 12 years over 24 semi-annual installments starting 11 January 2012. The loan balance amounted SR 2.7 billion as of 31 March 2015 (2014:SR 3 billion).

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NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS – (Unaudited)
FOR THE PERIOD ENDED 31 MARCH 2015

7. LOANS (continued)

- (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 (US\$ 1.4 billion) for a period of 15 years. The loan is repayable within 12 years over 24 semi-annual installments starting after grace period of 3 years. The loan balance amounted SR 5.3 billion as of 31 March 2015 (2014: SR 3.1 billion).
- (g) On 18 December 2013, The Company signed a loan agreement guaranteed by two Export Japanese banks (NEXI) and (JBIC) where Export Japanese bank (JBIC), Tokyo-Mitsubishi Bank, and Mizuho Bank participated in financing the loan. The amount of the loan is SR 1,373 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 March 2015.
- (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 March 2015.

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 2015 with local commercial banks amounting to SR 700 million (2014: SR 1 billion).

8. SUKUK

The outstanding Sukuk as of 31 March 2015 are as follows:

Local Sukuk:

Issue	Date of issue	Par value	Total issued amount	Maturity date
Sukuk 3	10 May 2010	SR 10 Thousand	SR 7 Billion	2030
Sukuk 4	30 January 2014	SR 1 Million	SR 4.5 Billion	2054

The above Sukuk have been, issued at par value with no discount or 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. At each purchase date, the Company shall pay an amount of 5% to 10% of the aggregate face value of the Sukuk as bonus to the Sukuk holders. The purchase price is determined by multiplying Sukuk's par value at the percentage shown against the purchase date, as follows:

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8. **SUKUK (continued)**

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

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

On 15 July 2012, the Company has fully purchased its first Sukuk issued (Sukuk 1) amounting to SR 5 billion.

On 6 July 2014, the Company has fully purchased its second Sukuk issued (Sukuk 2) amounting to SR 7 billion.

Global Sukuk:

- (a) During April 2012 the Company issued Sukuk amounting to SR 6.6 billion equivalent to approximately US\$ 1,750 million. 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%.
- (b) During April 2013 the Company also issued Sukuk amounting 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 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%.
- (c) During April 2014 the Company also issued Sukuk amounting to SR 9.4 billion equivalent to approximately US\$ 2.5 billion. The issuance consists of two types of Sukuk certificates, the first type amounting to US\$ 1.5 billion mature after 10 years with fixed rate of 4%, the second type amounting to US\$ 1 billion mature after 30 years with fixed rate of 5.5%.

9. **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.

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9. GOVERNMENT LOANS (continued)

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 made for this purpose between the Ministry of Finance and the Saudi Electricity Company. This loan has been fully withdrawn as at 31 March 2015 (2014: fully withdrawn). The Company has recognized the amount received from the government loan above discounted to its present.
- (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 made for this purpose between the Ministry of Finance and the Saudi Electricity Company. An amount of SR 33.2 billion from this loan has been withdrawn as at 31 March 2015 (2014: SR 23 billion). The Company has recognized the amount received from the government loan above discounted to its present value.
- (d) The Council of Ministers approved in its meeting held on Monday 9 Jumada Al-Awal 1435H corresponding to 10 March 2014 to grant the Company a soft loan amounting to SR 49.4 billion repayable over 25 years, The loan will be paid to the Company within 5 years in accordance with an agreement made for this purpose between the Ministry of Finance and the Saudi Electricity Company. An amount of SR 9.4 billion from this loan has been withdrawn as at 31 March 2015 (2014: nil). The Company has recognized the amount received from the government loan above discounted to its present value.

10. LONG-TERM GOVERNMENT PAYABLES

The long term government payable as at 31 March 2015 included an amount of SR 57 billion representing the accounts payable for fuel for the period from 5 April 2000 to 31 December 2012 (2014: SR 57 billion representing the accounts payable for fuel for the period from 5 April 2000 to 31 December 2012) 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 Arabian Oil Company ("Saudi Aramco") to the account of the Ministry of Finance according to specific procedures and approvals, the latest was before the end of 2013 .

Also, the Government payables includes an amount of SR 37.2 billion as at 31 March 2015 (2014: SR 24.7 billion) representing the difference between the amount proceed from Government as a soft loans and the discounted present value of these loans (Note 9- (b), (c) & (d)).

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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 1.8 billion as at 31 March 2015 (2014: SR 2.2 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 change in 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.

12. SHARE CAPITAL

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

13. GENERAL RESERVE

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

14. DIVIDENDS PAID AND BOARD OF DIRECTORS' REMUNERATION

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 20 April 2015, approved to distribute of cash dividends for the year 2014 to individual shareholders amounting of SR 547 million (SR 0.70 per share) representing 7% of the par value per share (for the year 2013: SR 547 million). In addition, the General Assembly has approved in its meeting, Board of Directors' remuneration for the year 2014 of SR 866 thousand from the retained earnings (for the year 2013: SR 863 thousand).

15. CONTINGENT LIABILITIES AND REVENUE

- (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 2015 amounted to approximately SR 4,081 million (2014: SR 3,715 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 1,967 million (2014: SR 1,622 million) not accounted for in the Company's books.

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15. CONTINGENT LIABILITIES AND REVENUE (continued)

- (b) Saudi Aramco has also a claim for the settlement of its share in the annual dividends since inception to 31 December 2014, estimated at SR 2,794 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 received SR 515 million as fines from contractors for certain non-compliance with terms and dates of completion of the construction contracts. The Company will record the final amounts of these fines upon the completion of the underlying legal formalities.
- (d) The Company has unbilled revenue for this quarter amounting to SR 238 million resulted from electricity sales which were not recorded as part of the revenues for the period ended 31 March 2015, until the Company ensures the completion of certain terms and conditions related to the revenue recognition in accordance with the accounting policies of the Company.
- (e) 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\$ 14.7 million equivalent to SR 55 million as of 31 March 2015 (2014: US\$ 75 million equivalent to SR 281 million). In addition, the Company has provided a guarantee to the Department of Zakat and Income Tax amounting to SR 37.5 million (2014: SR 37.5 million).

16. SETTLEMENT OF THE DISPUTE WITH SAUDI ARAMCO

a. Settlement of dispute on electric tariff:

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 the 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 interim consolidated statement of income.

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16. SETTLEMENT OF THE DISPUTE WITH SAUDI ARAMCO (continued)

b. Settlement of dispute on power exchange

During July 2014, the Company has reached to settlement agreement with Saudi Aramco in respect of old outstanding claims related to cost of exchanged power for previous periods. Therefore, the Company has made additional provisions amounting to SR 537 million during the current year against these claims and received net amount of SR 1.5 billion as a final settlement.

17. CAPITAL COMMITMENTS

- (a) These comprise the unexecuted portion – as of the interim 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 124,673 million (2014: SR 98,280 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, 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 695 million (2014: SR 1,253 million).

18. ZAKAT

The Company has received the Zakat assessments for the period ended in 31 December 2001 and 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 has filed appeals against those differences which were rejected by the Department of Zakat and Income Tax (“DZIT”) and referred them to the first Preliminary Zakat and Tax Appeal Committee (“PAC”), PAC has rejected the appeal in form, per its resolution No. 29 for the year 1433H. The Company has filed an appeal before Tax Appeal Committee (“TAC”) which has reviewed the Company’s appeal and rejected it per its ruling No. 1458 for the year 1436H and the Company is still in process of taking the appropriate actions.

The Company has filed the Zakat returns for the years 2009 to 2014 which are still under review by DZIT.

19. SEGMENTAL INFORMATION AND FUTURE RESTRUCTURE FOR THE COMPANY’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.

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

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

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19. SEGMENT REPORTING AND FUTURE RESTRUCTURE FOR THE GROUP'S ACTIVITIES – (continued)

The Company is currently 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 transmission activities at 1 January 2012.

The following are the fixed assets, total assets and liabilities of the main group's companies. The financial information of Saudi Electricity Company mentioned in the below table include the generate , distributing and customer services segments in addition to the head office, as the procedure of splitting the generation and distribution segments are still in process – till the date of interim 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 information includes the transmission activity, while other subsidiaries' financial information include all companies set out in Note- (1) excluding National Grid S.A. Company.

31 March 2015	<i>Saudi Electricity Company</i> <i>SR'000</i>	<i>National Grid S.A. Company</i> <i>SR'000</i>	<i>Other Subsidiaries</i> <i>SR'000</i>	<i>Inter-Group Balances</i> <i>SR'000</i>	<i>Total</i> <i>SR'000</i>
Fixed assets, net	154,568,950	61,866,244	-	-	216,435,194
Total assets	319,234,019	75,229,303	150,004	(69,064,903)	325,548,423
Total liabilities	266,327,735	60,832,123	71,481	(58,986,381)	268,244,958
31 March 2014	<i>Saudi Electricity Company</i> <i>SR'000</i>	<i>National Grid S.A. Company</i> <i>SR'000</i>	<i>Other Subsidiaries</i> <i>SR'000</i>	<i>Inter-Group Balances</i> <i>SR'000</i>	<i>Total</i> <i>SR'000</i>
Fixed assets, net	130,704,807	55,251,515	-	-	185,956,322
Total assets	280,804,510	64,940,249	86,801	(60,097,112)	285,734,448
Total liabilities	229,059,757	51,183,396	42,370	(50,052,679)	230,232,844