



الشركة السعودية للكهرباء
Saudi Electricity Company

Saudi Electricity Company
(Saudi Joint Stock Company)
Interim Consolidated Financial Statements
For three months period and the year ended
31 December 2016
Together with
Auditors' review report

Saudi Electricity Company
(Saudi Joint Stock Company)
Interim consolidated financial statements together with Auditors review report
For the three months period and year ended 31 December 2016

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REVIEW REPORT ON THE INTERIM CONSOLIDATED
FINANCIAL STATEMENTS

To: **The Shareholders**
Saudi Electricity Company
Saudi Joint Stock Company
Riyadh, Kingdom of Saudi Arabia

Scope of review


We have reviewed the accompanying interim consolidated balance sheet of **Saudi Electricity Company** ("the Company") and its subsidiaries (collectively referred to as "the Group") as at 31 December 2016, the related interim consolidated statement of income for the three months and the year then ended, the interim consolidated statements of cash flows and changes in shareholders' equity for the year then ended and the attached notes (1) to (27) which form an integral part of the interim consolidated financial statements. These interim consolidated financial statements are the responsibility of the Group's management and have been prepared by them and submitted to us together with all the information and explanations which we required. Our responsibility is to express a conclusion on these interim consolidated financial statements based on our review.

We conducted our review in accordance with the auditing Standard on Review of Interim Financial Reporting issued by the Saudi Organization for Certified Public Accountants (SOCPA). A review consists principally of applying analytical procedures to financial data and information and making inquiries of Company's personnel 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.

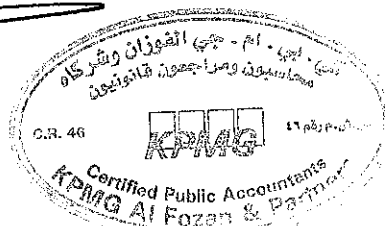
Review conclusion

Based on our review conducted, 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 KPMG Al Fozan & Partners
Certified Public Accountants


Abdullah Hamad Al Fozan
License No. 348

Riyadh on: 17 January 2017
Corresponding to: 19 Rabi'II 1438H



Saudi Electricity Company
(Saudi Joint Stock Company)
Interim consolidated balance sheet (unaudited)
As at 31 December 2016
(In thousands Saudi Riyals)

	<i>Note</i>	31 December 2016	31 December 2015 (Audited)
Assets			
Current assets			
Cash and cash equivalents		1,222,104	2,038,229
Receivables from electricity customers and accrued revenue, net	5	28,564,083	20,512,384
Prepayments and other receivables, net		7,420,224	8,841,894
Inventories, net		6,932,029	6,495,066
Loans to associates	6	594,145	859,885
Total current assets		44,732,585	38,747,458
Non-current assets			
Investments in equity accounted investees and others		3,638,117	3,572,487
Projects in progress	7	86,855,818	85,518,343
Fixed assets, net	8	267,527,943	229,993,769
Intangible assets		181,810	197,892
Total non-current assets		358,203,688	319,282,491
Total assets		402,936,273	358,029,949
Liabilities and shareholders' equity			
Current liabilities			
Accounts payable		66,375,734	52,460,414
Accruals and other payables		6,832,487	6,883,995
Short-term loans and current portion of long-term loans	9	12,608,868	3,347,122
Sukuk	10	8,875,140	--
Total current liabilities		94,692,229	62,691,531
Non-current liabilities			
Long-term loans	9	34,951,847	22,266,954
Sukuk	10	26,065,350	34,940,490
Employees' benefits		5,723,895	6,019,260
Deferred revenue, net		35,064,467	29,370,073
Customer deposits		1,845,080	1,743,429
Loans from government	11	42,411,517	39,991,482
Long term payables to the government	12	100,025,591	100,445,372
Fair value of cash flow hedging instrument	13	179,431	212,231
Total non-current liabilities		246,267,178	234,989,291
Total liabilities		340,959,407	297,680,822
Shareholders' equity			
Share capital	1	41,665,938	41,665,938
Statutory reserve	14	2,629,210	2,629,210
General reserve	14	569,506	557,898
Retained earnings		17,611,413	16,046,267
Cash flows hedge reserve	13	(499,201)	(550,186)
Total shareholders' equity		61,976,866	60,349,127
Total liabilities and shareholders' equity		402,936,273	358,029,949

The accompanying notes from (1) through (27) form an integral part of these interim consolidated financial statements

Saudi Electricity Company

(Saudi Joint Stock Company)

Interim consolidated statement of income (unaudited)

For three months period and the year ended 31 December 2016

(In thousands Saudi Riyals)

	<i>Note</i>	For the		For the	
		Three months period ended		year ended	
		31 December 2016	31 December 2015	31 December 2016	31 December 2015
		(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
Operating revenue	21	10,654,320	8,985,190	49,915,010	41,538,732
Cost of revenue	22	(12,615,236)	(10,329,649)	(46,899,964)	(38,953,467)
Gross profit for the period		(1,960,916)	(1,344,459)	3,015,046	2,585,265
General and administrative expenses		(210,730)	(330,874)	(542,586)	(607,762)
Fixed assets depreciation - General and administrative		(116,254)	(105,565)	(451,603)	(384,659)
Operating income		(2,287,900)	(1,780,898)	2,020,857	1,592,844
Human resources productivity improvement program	18	--	--	(110,257)	--
Non recurring revenue (Losses)		--	201,513	--	201,513
Other income / (expenses), net		(55,191)	134,837	202,730	(250,715)
Net income for the period		(2,343,091)	(1,444,548)	2,113,330	1,543,642
Basic earnings per share:					
Number of shares			4,166,593,815		
From operating activities for the period/year		(0.55)	(0.43)	0.49	0.38
From net income for the period/year		(0.56)	(0.35)	0.51	0.37

The accompanying notes from (1) through (27) form an integral part of these interim consolidated financial statements

Saudi Electricity Company
(Saudi Joint Stock Company)
Interim consolidated statement of cash flows (unaudited)
For the year ended 31 December 2016
(In thousands Saudi Riyals)

	<u>2016</u>	<u>2015</u> (Audited)
Cash flows from operating activities:		
Net income for the period	2,113,330	1,543,642
<i>Adjustments to reconcile net income for the year with net cash from operating activities:</i>		
Provision for doubtful receivables, net	664,846	236,359
Share of (losses/profit) of equity accounted investees, net	2,678	(54,015)
Depreciation	17,365,791	14,933,508
Gain on disposal of fixed assets, net	(2,782)	(85,072)
Employees' indemnities, net	(295,365)	376,505
Changes in operating assets and liabilities:		
Receivables from electricity consumers and accrued revenue	(8,716,545)	(4,905,068)
Prepayments and other receivables	1,421,670	726,210
Inventories	(436,963)	107,343
Accounts payable	13,914,973	13,338,159
Deferred revenue, net	5,694,394	3,370,802
Accruals and other payables	(51,508)	1,297,974
Net movement in customer deposits	101,651	93,430
Net cash from operating activities	<u>31,776,170</u>	<u>30,979,777</u>
Cash flows from investing activities:		
Fixed assets and projects in progress	(56,246,593)	(56,207,458)
Proceed from sale of fixed assets	28,017	96,161
Loans to associates	265,740	142,125
Investments in equity accounted investees and others	(50,123)	(63,801)
Net cash used in investing activities	<u>(56,002,959)</u>	<u>(56,032,973)</u>
Cash flows from financing activities:		
Net proceed from Government loans and payables	2,000,254	14,740,208
Net proceeds from long-term loans	21,946,639	5,939,479
Dividends paid to shareholders and Board of Directors' remuneration	(536,229)	(531,769)
Net cash from financing activities	<u>23,410,664</u>	<u>20,147,918</u>
Net changes in cash and cash equivalents during the year	<u>(816,125)</u>	<u>(4,905,278)</u>
Cash and cash equivalents at beginning of the year	2,038,229	6,943,507
Cash and cash equivalents at the end of the year	<u>1,222,104</u>	<u>2,038,229</u>
Non Cash transactions		
Change in cash flows hedging contracts reserve	50,985	108,121
Transfer from loan for an associated company to equity investments	--	1,248,115

The accompanying notes from (1) through (27) form an integral part of these interim consolidated financial statements

Saudi Electricity Company
(Saudi Joint Stock Company)

Interim consolidated statement of changes in shareholder's equity (unaudited)

For the year ended 31 December 2016

(In thousands Saudi Riyals)

For the year ended in 31 December 2015

	Note	Share capital	Statutory reserve	General reserve	Retained earnings	Cash flow hedge reserve	Total
Balance as at 1 January 2015		41,665,938	2,474,846	554,912	15,205,107	(658,307)	59,242,496
Net income for the year		--	--	--	1,543,642	--	1,543,642
Dividends paid to shareholders for 2014	15	--	--	--	(547,252)	--	(547,252)
Board of Directors' remuneration for 2014	15	--	--	--	(866)	--	(866)
Net change in cash flow hedge reserve	13	--	--	--	--	108,121	108,121
Reconciliation of Electricity Collection fee (Individual)		--	--	2,986	--	--	2,986
Transferred to statutory reserves		--	154,364	--	(154,364)	--	--
Balance as at 31 December 2015		41,665,938	2,629,210	557,898	16,046,267	(550,186)	60,349,127

For the year ended in 31 December 2016

Balance as at 1 January 2016		41,665,938	2,629,210	557,898	16,046,267	(550,186)	60,349,127
Net income for the year		--	--	--	2,113,330	--	2,113,330
Dividends paid to shareholders for 2015	15	--	--	--	(547,252)	--	(547,252)
Board of Directors' remuneration for 2015	15	--	--	--	(932)	--	(932)
Reconciliation of Electricity Collection fee (Individual)		--	--	11,608	--	--	11,608
Net change in cash flow hedge reserve	13	--	--	--	--	50,985	50,985
Balance as at 31 December 2016		41,665,938	2,629,210	569,506	17,611,413	(499,201)	61,976,866

The accompanying notes from (1) through (27) form an integral part of these interim consolidated financial statements

Saudi Electricity Company

(Saudi Joint Stock Company)

Notes to the interim consolidated financial statements (unaudited)

For the year ended 31 December 2016

(In thousands Saudi Riyals unless otherwise stated)

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 all local companies that provided electric 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 belonging to the Ministry of Industry and Electricity (11 operating projects that covered various areas in the north of the Kingdom) in the Company.

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

The Company's principal 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.

On 17 Rabi I 1437H corresponding to 28 December 2015, Council of Ministers issued its resolution number 95, increasing power products prices effective from 18 Rabi I 1437H corresponding to 29 December 2015, and increasing electricity consumption tariff for all consumers, effective from 1 Rabi II 1437H corresponding to 11 January 2016.

As at 31 December 2016 and 2015, the structure of the Company's share capital amounted to the following:

	No. of shares	Ownership %
Government of Kingdom of Saudi Arabia	3,096,175,320	74,31
Saudi Arabian Oil Company ("Saudi Aramco")	288,630,420	6,93
Other shareholders	781,788,075	18,76
	<u>4,166,593,815</u>	<u>100</u>

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

The Company's headquarter is located in Riyadh – Kingdom of Saudi Arabia.

1. ORGANIZATION AND ACTIVITIES *(continued)*

These interim consolidated financial statements include accounts of the Company and its subsidiaries (collectively referred to as the "Group") as follows:

<u><i>Name of Subsidiary</i></u>	<u><i>Country of incorporation</i></u>	<u><i>Ownership % (direct & indirect)</i></u>	<u><i>Principal Activity</i></u>
National Grid S.A. Company	Kingdom of Saudi Arabia	100%	Transmission of power from generation stations to distribution network and operation and maintenance of electricity transmission system.
Dawiyat Telecom Company	Kingdom of Saudi Arabia	100%	Establishing, leasing, managing and operating electricity and fiber optic networks to provide telecommunications services.
Electricity Sukuk Company	Kingdom of 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.
Saudi Electricity for Projects Development Company	Kingdom of Saudi Arabia	100%	Management of construction projects, making of detailed design work, procurement of materials and executing projects in the energy sector.

2. BASIS OF PREPARATION**a) Statement of compliance**

The accompanying interim consolidated financial statements have been prepared in accordance with the interim financial reporting standard issued by the Saudi Organization for Certified Public Accountants (SOCPA), each interim financial period forms an integral part of the fiscal year.

b) Basis of measurement

The accompanying interim consolidated financial statements have been prepared on historical cost basis, except for derivative financial instruments and Government loans which are stated at fair value; using the accrual basis of accounting and the going concern concept.

Saudi Electricity Company

(Saudi Joint Stock Company)

Notes to the interim consolidated financial statements (unaudited)

For the year ended 31 December 2016

(In thousands Saudi Riyals unless otherwise stated)

2. BASIS OF PREPARATION (continued)**c) Basis of consolidation**

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

Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account. Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Company obtains control, and continue to be consolidated until the date that such control ceases.

All intra-Group balances, transactions, income and expenses and profits and losses resulting from intra-Group transactions that are recognized in assets, are eliminated in full. Also, any unrealized gains and losses arising from intra-group transactions are eliminated on consolidation.

d) Functional and presentation currency

These interim consolidated financial statements are presented in Saudi Riyals (SR) which is the functional and reporting currency of the Company. All amounts have been rounded to the nearest thousands, unless otherwise stated.

e) Use of estimates and judgments

The preparation of interim consolidated financial statements requires management to make judgment, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in future periods affected.

Information about significant areas of estimation, uncertainty and critical judgments in applying accounting policies that have significant effect on the amounts recognized in the financial statements are as follows:

- Useful lives of fixed assets;
- Provision of receivables from electricity customers and accrued revenue;
- Provision for slow moving inventories.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in the interim consolidated financial statements, which are consistent with those described in the annual audited financial statements for the year ended 31 December 2015. Thus, these interim consolidated financial statements should be read in conjunction with the audited financial statements for the year ended 31 December 2015.

a. Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, cash at banks in current accounts and other short-term highly liquid investments with original maturities of three months or less, if any, which are available to the group without any restrictions.

Saudi Electricity Company
(Saudi Joint Stock Company)
Notes to the interim consolidated financial statements (unaudited)
For the year ended 31 December 2016
(In thousands Saudi Riyals unless otherwise stated)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

b. Bank deposits

Short term bank deposits include placements with banks and other short-term highly liquid investments with original maturities of more than three months and less than one year from the placement date, which are available to the Group.

c. Receivables from electricity customers

Receivables from electricity customers represent the amounts not collected from the customers at the interim consolidated balance sheet date, and are stated net of provision for doubtful debts.

d. Inventories

Generation, transmission, distribution, other materials and fuel inventory are assessed at lower of cost or market value. Cost is determined using the weighted average method. Inventories are stated at 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 within fixed assets.

e. Investments

Investments in equity accounted investees

Investments in equity accounted investee are those entities in which the Company has significant influence, but not control, over the financial and operating policies, generally accompanying a shareholding between 20% or more of the voting rights.

The investments are accounted for using the equity method (equity accounted investee), which are initially recognized at cost. The Company's share in its investees' post-acquisition income and losses is recognized in the consolidated statement of income.

Investments of less than 20% of share capital of unquoted companies are stated at fair value or cost if fair value cannot be determined. Income from these investments is recognized in interim financial consolidated statement of income when dividends are received from investees.

Held to maturity investments

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 and are classified as current assets. Income from these investments is recognized in the interim consolidated statement of income when earned.

f. Fixed assets

Fixed assets are measured at cost, less accumulated depreciation and accumulated impairment loss, except for land which are measured at historical cost less impairment losses, if any. Cost includes expenditure that is directly attributable to the acquisition of the asset. Finance costs on borrowings to finance the construction of the assets are capitalized during the period of time that is required to complete and prepare the asset for its intended use.

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the item of fixed assets. All other expenditure is recognized in the interim consolidated statement of income when incurred.

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

Saudi Electricity Company
(Saudi Joint Stock Company)
Notes to the interim consolidated financial statements (unaudited)
For the year ended 31 December 2016
(In thousands Saudi Riyals unless otherwise stated)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

f. Fixed assets (continued)

Depreciation is charged to the interim consolidated statement of income on a straight-line basis over the estimated useful lives of individual item of fixed assets. The estimated useful lives of assets will be depreciated as follows:

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

g. Intangible assets

Intangible assets are recognized at acquisition cost less accumulated amortization and any impairment losses, if any. Intangible assets are amortized using straight-line method and charged to the consolidated statement of income over the estimated useful life of 10 years.

h. Impairment of non-current assets

The Group review periodically the carrying amount of its non-current assets to determine whether events or changes in circumstances indicates that the carrying amount may not be recoverable. 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 the 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 or 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 or cash-generating unit is increased to the revised recoverable amount, however, the increased carrying amount should not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognized as income immediately in the interim consolidated statement of income.

i. Borrowings

Borrowings are recognized at the proceeds received, net of transaction costs incurred. Further, upfront fee that was deducted, is deferred and presented net of the principal amount of the loan. Such deferred amount is amortized over the term of the loan using the straight line method which is not materially different from applying the prevailing interest rate. Borrowing costs that are directly attributable to the construction of a qualifying asset are capitalized up to stage when substantially all the activities necessary to prepare the qualifying asset for its intended use are completed and, otherwise, such costs are charged to the interim consolidated statement of income.

Loans from the Government

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.

Saudi Electricity Company**(Saudi Joint Stock Company)****Notes to the interim consolidated financial statements (unaudited)**

For the year ended 31 December 2016

(In thousands Saudi Riyals unless otherwise stated)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)**j. Derivative financial instruments and hedge accounting**

The Company 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 shareholders' equity, while the ineffective portion of cash flow hedges is recognized in the interim consolidated statement of income.

For the purpose of hedge accounting, hedges are classified as fair value hedges when hedging the 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, previously recognized 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 recognized in shareholders' equity, is transferred to the interim consolidated statement of income.

i. 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.

j. 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 projects-in-progress with significant amount that require long period of time for construction. The borrowing cost capitalized is calculated using the capitalization rate on the average amounts incurred on each project in progress.

k. Sukuk

The issued Sukuk which have a fixed maturity date and a fixed dividends date are classified to the financial liabilities.

l. Operating lease

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

m. Employees' indemnity benefits**Provision for end of service benefits:**

The end of service benefits are provided for in accordance with the Labor Law in the Kingdom of Saudi Arabia and charged to the interim consolidated statement of income. The liability is calculated at the current value of the vested benefits to which the employee is entitled, should his services be terminated at the interim consolidated balance sheet date.

Saudi Electricity Company

(Saudi Joint Stock Company)

Notes to the interim consolidated financial statements (unaudited)

For the year ended 31 December 2016

(In thousands Saudi Riyals unless otherwise stated)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

m. Employees' indemnity benefits (continued)

Employees' saving fund:

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

n. Zakat and income tax

The Company and its subsidiaries are subject to zakat in accordance with the regulations of the General Authority of Zakat and Tax ("GAZT"). Zakat is accrued and charged to Interim Consolidated Statement of Income. Additional zakat liability, if any, related to prior years' assessments arising from GAZT are accounted for in the period in which the final assessments are finalized. Taxes owed to foreign shareholders (non-Saudi and GCC) are recognized according to the tax regulations issued by GAZT. Tax charges are charged to the interim consolidated statement of income.

o. Statutory reserve

In accordance with the Company's bylaws, 10% of net income for the year is transferred to statutory reserve.

p. Revenue

Electricity sales

Revenue from electricity sales is recognized when bills are issued to customers 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.

Revenue from meter reading and maintenance tariff

Revenue from meter reading, maintenance and bills preparation tariff 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 tariff that is not billed at the interim consolidated balance sheet date is accrued.

Electricity service connection tariff

Electricity service connection tariff received from consumers is stated as deferred within liabilities and recognized as a revenue 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

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.

q. 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 activity's expenses. The remaining portion of these expenses is included in 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.

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*(In thousands Saudi Riyals unless otherwise stated)***3. SIGNIFICANT ACCOUNTING POLICIES (continued)****r. Profit/(Loss) Basic earnings per share for the period**

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

s. Contingent liabilities

All possible obligations arising from past events whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group; or all present obligations arising from past events but not recognized because: (i) it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation, or (ii) the amount of the obligation cannot be measured with sufficient reliability; all should be assessed at each balance sheet date and disclosed in the Company's financial statements under contingent liabilities.

t. Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in producing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

u. Dividends

Final dividends are recorded in the period in which they are approved by the shareholders.

v. Foreign currency transactions

Transactions denominated in foreign currencies are translated into the functional currency of the Group at exchange rates prevailing at the date of such transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into the functional currency of the Company at the exchange rates prevailing at that date. Exchange difference arising on translation are recognized 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.

5. RECEIVABLES FROM ELECTRICITY CUSTOMERS AND ACCRUED REVENUE, NET

	31 December 2016	31 December 2015 (Audited)
Receivable from Electricity customers		
Governmental institutions	16,857,157	10,063,733
Commercial, residential and VIP	4,401,374	4,260,106
Electricity service connection projects receivables	3,944,832	3,046,279
Saudi Arabian Oil Company ("Saudi Aramco")	1,320,945	1,315,670
Saline Water Conversion Corporation	439,451	227,540
Total	26,963,759	18,913,328
Less: Provision for doubtful receivables	(1,150,783)	(485,937)
Net receivable from electricity customers	25,812,976	18,427,391
Add: Accrued revenue	2,751,107	2,084,993
	28,564,083	20,512,384

5. RECEIVABLES FROM ELECTRICITY CUSTOMERS AND ACCRUED REVENUE, NET (continued)

Movement in provision for doubtful debts during the period is as follow:

	31 December <u>2016</u>	31 December <u>2015</u> (Audited)
Balance at the beginning of the period	485,937	249,578
Charges for the period	664,846	236,359
Balance at the end of the period	1,150,783	485,937

6. LOANS TO ASSOCIATES

Loans to associates 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 loans do not carry any commissions or certain repayment dates.

The following are loans' balances:

	Ownership %	31 December <u>2016</u>	31 December <u>2015</u> (Audited)
Equity accounted investees			
Dhuruma Electricity Company	50	534,674	731,567
Jubail Water and Power Company	5	28,500	28,500
Hajr for Electricity Production Company	50	26,868	26,868
Rabeigh Electricity Company	20	4,103	72,950
		594,145	859,885

7. PROJECTS IN PROGRESS

As at 31 December 2016, the balance of projects in progress amounted to SR 87 billion (2015: SR 86 billion) and the additions during the period amounted to SR 54 billion (2015: SR 55 billion). During the period ended 31 December 2016, an amount of SR 52 billion (2015: SR 28 billion) has been transferred to fixed assets. During the period an amount of SR 2.4 billion of finance cost has been capitalized over the cost of projects in progress (2015: SR 1.7 billion).

8. FIXED ASSETS

As at 31 December 2016, the total cost of fixed assets amounted to SR 473 billion (2015: SR 418 billion) while the accumulated depreciation amounted to SR 205 billion (2015: SR 188 billion). During the period an amount of SR 55 billion (2015: SR 29 billion) has been added to fixed assets through purchases/acquisition and transfers from projects in progress.

As at 31 December 2016, fixed assets include fully depreciated assets which are still under usage in which their carrying value amounted to SR 87.46 billion as of that date. The Company is currently re-studying the estimated useful lives of all assets including fully depreciated assets and studying the expected future use for this assets based on their current technical condition and in line with current actions related to the restructuring of power and energy industry in the Kingdom. The mentioned study is expected to be completed by the end of first quarter of 2017.

Final and reliable estimate of the final impact of this study can not be measured at this point as the study is not yet completed nor approved. The Company's management does not expect that the mentioned study would have a significant impact on the Company's results and total assets.

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9. LOANS AND BANK FACILITIES

The Company has credit facility agreements with local and foreign commercial banks and other lending institutions for long and short term borrowings for financing construction projects.

These loans are secured by promissory notes issued by the Company through par value of loans and/or margin.

(i) Short-term loans

As at 31 December 2016, the balance of short-term loans and current portion of long term loans' installments amounted to SR 12.6 billion (2015: SR 3.34 billion) as follows:

- (a) On 1 December 2015, the Company signed a credit facilities agreement with National Commercial Bank (NCB), in Saudi Riyals amounting to SR 500 million. The utilized balance of this facility in the form of Islamic Murabaha amounted to SR 500 million as at 31 December 2016 (2015: SR nil) and is due for repayment during February 2017.
- (b) On 16 December 2015, the Company signed a credit facilities agreement in form of Saudi Riyals Islamic Murabaha with National Commercial Bank (NCB) and SAMBA Financial Group. The amount of the facilities is SR 2.5 billion and for three years. The utilized balance of the facilities amounted to SR 2.5 billion as at 31 December 2016 (2015: SR 1 Billion), and is due for repayment during June 2017
- (c) On 6 January 2016, the Company signed USD credit facilities agreement for three years. Financing was made by Bank of Tokyo-Mitsubishi UFJ, Mizuho Bank, Sumitomo Mitsui Banking Corporation, HSBC Group, JP Morgan Bank, Crédit Agricole Group and Deutsche Bank. The facilities amounted to SR 5.25 billion (USD 1.4 billion). The utilized balance of the facilities amounted to SR 5.25 billion as at 31 December 2016 (2015: nil), and is due for repayment during February 2017.
- (d) On 3 May 2016, the Company signed a credit facilities agreement with Al Rajhi Bank, in Saudi Riyals amounting to SR 1 billion. The utilized balance of the facilities in form of Islamic Murabaha amounted to SR 1 billion as at 31 December 2016 (2015: nil) and is due for repayment during November 2016.
- (E) On 16 June 2016, the Company signed a credit facilities agreement in Saudi Riyals with SAMBA Bank amounting to SR 500 million. As at 31 December 2016, the utilized amount of these facilities amounted to SR 500 million and is due in April 2017.

(ii) Long-term loans

As at 31 December 2016, the balance of long-term loans amounted to SR 34.9 billion (2015: SR 22.2 billion) as follows:

- (a) On 28 July 2008, the Company obtained a sharia-compliant loan for SR 6 billion from a syndicate of local banks which has been fully withdrawn. The loan is repayable over 22 equal semi-annual installments starting 3 November 2009. The loan balance amounted to SR 1.9 billion as at 31 December 2016 (2015: SR 2.5 billion).
- (b) On 13 July 2009, the Company signed a financing agreement with the Public Investments Fund whereby the Company received a direct loan of SR 2.6 billion which has been fully withdrawn. The loan is repayable within 15 years over 24 equal semi-annual installments starting from 31 December 2012. The loan balance amounted to SR 1.6 billion as at 31 December 2016 (2015: SR 1.8 billion).
- (c) 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 received a direct loan amounting to SR 4.1 billion (USD 1.1 billion) which has been fully withdrawn. The loan is repayable within 12 years over 23 equal semi-annual installments starting 25 May 2010. The loan balance amounted to SR 1.6 billion as at 31 December 2016 (2015: SR 2 billion).
- (d) On 13 December 2010, the Company signed an agreement with a syndicate of local banks whereby the Company obtained a sharia compliant loan of SR 5 billion which has been fully withdrawn. The loan is repayable within 15 years over 26 equal semi-annual installments starting 13 May 2013. The loan balance amounted to SR 3.4 billion as at 31 December 2016 (2015: SR 3.8 billion).

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9. LOANS AND BANK FACILITIES *(continued)*

(ii) Long-term loans (continued)

- (e) On 22 June 2011, the Company signed an agreement with Export and Import French Bank whereby the Company obtained a loan of SR 3.7 billion (USD 989.1 million) which has been fully withdrawn. The loan is repayable within 12 years over 24 equal semi-annual installments starting from 11 January 2012. The loan balance amounted to SR 2.2 billion as at 31 December 2016 (2015: SR 2.5 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 syndicate of international banks participated in financing the loan led by HSBC Group, Tokyo-Mitsubishi Bank, Sumitomo Mitsui Banking Corporation, Mizuho Bank and KFW Bankengruppe. The loan amount is SR 5.3 billion (USD 1.4 billion) which has been fully withdrawn. The loan is repayable within 12 years over 24 equal semi-annual installments starting 7 May 2015. The loan balance amounted to SR 4.3 billion as at 31 December 2016 (2015: SR 4.8 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 1.4 billion (USD 366 million). The loan is repayable within 12 years over 24 equal semi-annual installments starting 27 July 2015. The loan balance amounted to SR 1 billion as at 31 December 2016 (2015: SR 1.1 billion).
- (h) On 19 December 2013, the Company signed a loan agreement guaranteed by two Export Korean banks (K Shore and K Exim), where two Export Korean banks (K Shore and K Exim), and various international banks, Tokyo-Mitsubishi Bank, Mizuho Bank, Sumitomo Mitsui Banking Corporation, HSBC Group, Deutsche Bank and KFW IPEX-Bank have participated in financing the loan. The amount of the loan is SR 6.1 billion (USD 1.6 billion) which has been fully withdrawn. The loan is repayable over equal installments within 12 years with a grace period of 3 years. The loan balance amounted to SR 6.1 billion as at 31 December 2016 (2015: SR 6.1 billion).
- (i) On 29 June 2016, the Company signed a loan agreement with China bank for trading and manufacturing. The amount of the loan is SR 5.6 billion (USD 1.5 billion) which has been fully withdrawn. The loan is repayable over 5 years on 10 semiannual installments starting from 20 December 2016. The loan balance amounted to SR 5.6 billion as at 31 December 2016 (2015: nil).
- (j) On 19 September 2016, the Company obtained a sharia-compliant loan with a group of local banks. The amount of the loan is SR 5 billion. The loan is repayable over seven years on 14 semiannual installments starting from 26 March 2017. The loan balance amounted to SR 5 billion as at 31 December 2016 (2015: nil).
- (K) On 27 October 2016, the Company signed a financing agreement with number of international banks such as Banco Santander and Credit Agricole Group under which the Company obtains a loan of US\$ 420 million (SR 1,575 million). This facility is extended to 12.77 year and is obtained by a guarantee of Korean Commercial Insurance Company and no guarantees have been offered by the Company. As at 31 December 2016, the utilized amount of these facility amounted to SR 1.57 billion (2015: nil).

(iii) Bank facilities

On 7 December 2015, the Company signed a financing agreement with Export Korean Bank (K-Exim) for three years starting from the date of signing. The agreement entitles the Company to obtain various loans in the future at its option up to SR 11.25 billion (USD 3 billion). The balance drawn on the facilities amounted to SR 3.4 billion as at 31 December 2016 (2015: nil).

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The outstanding Sukuk as at 31 December 2016 are as follows:

(a) Local Sukuk:

<u>Issue</u>	<u>Date of issue</u>	<u>Par value</u>	<u>Total issued amount</u>	<u>Maturity date</u>
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 nominal 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 par value of the Sukuk as bonus to the Sukuk holders. The purchase price is determined by multiplying Sukuk's par value at the percentage shown against the purchase date, as follows:

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

<u>Percentage</u>			
<u>Issue</u>	<u>95%</u> <u>First purchase date</u>	<u>60%</u> <u>Second purchase date</u>	<u>30%</u> <u>Third purchase date</u>
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.

(b) Global Sukuk

During April 2012, the Company issued Global Sukuk amounting to SR 6.6 billion equivalent to approximately US\$ 1.75 billion. The issuance consists of two types of Sukuk certificates. The first type amounting to US\$ 0.5 billion which matures after 5 years with fixed rate of 2.665% and the second type amounting to US\$ 1.25 billion which matures after 10 years with fixed rate of 4.211%.

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

During April 2014, the Company also issued Global Sukuk amounting to SR 9.4 billion equivalent to US\$ 2.5 billion. The issuance consists of two types of Sukuk certificates; the first type amounting to US\$ 1.5 billion which matures after 10 years with fixed rate of 4% and the second type amounting to US\$ 1 billion which mature after 30 years with fixed rate of 5.5%.

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*(In thousands Saudi Riyals unless otherwise stated)***10. SUKUK (continued)**

As at 30 September 2016, Sukuk have been classified according to accruals and recoveries of Sukuk as follows:

	31 December 2016	31 December 2015 (Audited)
Short-term Sukuk	8,875,140	--
Long-term Sukuk	26,065,350	34,940,490
	34,940,490	34,940,490

11. GOVERNMENT LOANS

- (a) Pursuant to the Council of Ministers' resolution number 169 dated 11 Sha'ban 1419H, the net dues of the Government to the Company and the net dues of the Company to the Government were determined in accordance with rules and procedures stipulated for in the minutes of meetings signed by the Minister of Industry and Electricity and the Minister of Finance and National Economy dated 27 Jumada' II 1418H corresponding to 29 October 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 terms of the loan are to be revisited later in light of the financial condition of the Government and the Company.

The minutes of the meeting held on 21 Rajab 1422H between the Minister of Industry and Electricity and the Minister of Finance and National Economy in which the initial amount of the Government loan was determined, states that the final settlement of Government accounts will be subject to the reconciliation for the claims of the Company and Government entities, and the loan amount shall be adjusted accordingly. During 2005, the Company finalized the amount due which included the claims of the Company and the amounts due to the Government and the agreement was signed between the Minister of Water and Electricity and the Minister of Finance on 15 Rajab 1426H which brought the balance of Government loan amounted to SR 14.9 billion. The Company is working towards and negotiate with lenders to find appropriate alternative to address the balance of these loans to enhance the financial position of the company and its important role to save energy in all sectors in the state.

- (b) The Council of Ministers approved in its meeting held on Monday 12 Jumada' I 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 Company. This loan has been fully withdrawn as at 31 December 2016 (2015: fully withdrawn). The Company has recognized the amount received from the Government and discounted to 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 made for this purpose between the Ministry of Finance and the Company. An amount of SR 38.3 billion from this loan has been withdrawn as at 31 December 2016 (2015: SR 38.3 billion). The Company has recognized the amount received from the Government and discounted to its present value.

However, the loan agreement provides that the loan amount will be reduced by proceeds collected by the Company due to any increase in the residential sector tariff. In light of the latest tariff amendments (note 1), the Company is currently determining the effect on the loan maturity or future payments.

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11. GOVERNMENT LOANS *(continued)*

- (d) The Council of Ministers approved in its meeting held on Monday 9 Jumada' I 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 Company. An amount of SR 16.1 billion from this loan has been withdrawn as at 31 December 2016 (2015: SR 14.1 billion). The Company has recognized the amount received from the Government loan above discounted to its present value.

The above loans are due for a period of more than year from the balance sheet date. Accordingly, loans are classified within non-current liabilities.

12. LONG TERM GOVERNMENT PAYABLE

The long-term Government payables as at 31 December 2016 include SR 57 billion representing the accounts payable for fuel for the period from 5 April 2000 to 31 December 2012 (2015: SR 57 billion for the period from 5 April 2000 to 31 December 2012) which has been reclassified from current liabilities to non-current liabilities (long-term Government 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. The Company is working towards and negotiate with lenders to find appropriate alternative to address the balance of these loans to enhance the financial position of the company and its important role to save energy in all sectors in the state.

Further, the long-term Government payables include an amount of SR 42 billion as at 31 December 2016 (2015: SR 42.3 billion) representing the difference between the amount received from Government and the discounted present value of these loans.

13. FINANCIAL DERIVATIVES

The Company entered into hedging contracts with several banks to hedge the fluctuations in interest rates on loans for an amount of SR 0.98 billion as at 31 December 2016 (2015: SR 1.4 billion) which includes a USD portion representing approximately 15% of the notional 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 nine-months.

The cash flows hedging reserve shown in the shareholders' equity includes the Group's share in the unrealized gains and losses resulting from the change in the fair value of hedging contracts recognized within the equity of investees.

14. RESERVES

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

In accordance with the Company's bylaws and the regulations for companies in the kingdom of Saudi Arabia, 10% of net income for the year is transferred to statutory reserve until such reserve equals 50% of the share capital. The Company is working on amending the bylaws to match with the new Saudi Arabia Companies regulations, as per the new regulations the Company retain 10% of net income for the year and is being transferred to statutory reserve until such reserve equals to 30% of the share capital.

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15. DIVIDENDS AND BOARD OF DIRECTORS' REMUNERATION

In accordance with the Company's by-laws, dividends of at least 5% of paid in capital, net of reserves, should be distributed to shareholders, with due care to the provisions of the Council of Ministers' Resolution No. 169 dated 11 Sha'aban 1419H, whereby the Government has waived its share in the distributed dividends for a period of ten years from the date of the 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 25 April 2016, approved distributing of cash dividends for the year 2015 to individual shareholders amounting of SR 547 million (SR 0.70 per share) representing 7% of the par value per share (for the year 2014: SR 547 million). In addition, the General Assembly has approved in the same meeting, Board of Directors' remuneration for the year 2015 of SR 932 thousands from the retained earnings (for the year 2014: SR 866 thousand).

16. CONTINGENT LIABILITIES

- 16-1 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 2016 amounted to approximately SR 4.7 billion (2015: SR 4.4 billion). 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, based on the Company's requirements. This has resulted in an accumulated difference of SR 2.6 billion (2015: SR 2.2 billion) not accounted for under liabilities in the Company's books.
- 16-2 Saudi Aramco has also a claim for the settlement of its share in the annual dividends since inception to 31 December 2015, amounted to SR 2.9 billion. 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 Council of Ministers' resolution no. 169 dated 11 Sha'aban 1419H and Council of Ministers' resolution no. 327 dated 24 Ramadan 1430H on extending the Government's waiver of its rights in the profits distributed by the Saudi Electricity Company for another ten years ending on 1440H.
- 16-3 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 USD 18 million equivalent to SR 68 million as at 31 December 2016 (2015: USD 15 million equivalent to SR 56.3 million).

17. SETTLEMENT OF DISPUTES WITH SAUDI ARAMCO

The Company provides electric 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.

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17. SETTLEMENT OF DISPUTES WITH SAUDI ARAMCO (continued)

The Council of Ministers has issued the resolution number 114 on 10 Rabi II 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' I 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 2013, the Company has completed the final reconciliation procedures with Saudi Aramco for this revenue and recognized it in the consolidated statement of income. The Company is currently following-up with Saudi Aramco the procedures to collect this amount.

18. HUMAN RESOURCES PRODUCTIVITY IMPROVEMENT PROGRAM

Amount represents expenses 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 resources with working requirements.

19. CAPITAL COMMITMENTS

- (a) These comprise the unexecuted portion – as at the interim consolidated balance sheet date - of capital contracts conducted by the Company for the construction and installation of power plants and other assets approximately amounting to SR 192 billion as at 31 December 2016(2015: SR 80.5 billion).
- (b) The Company has long-term energy purchase agreements with independent power providers whereby the Company has undertaken to purchase all energy produced by these providers according to specific terms and prices. These agreements are for periods up to 20 years, and renewable for further periods by mutual consent of both parties, in addition to the future commitments provided by the Company to finance certain investees in the form of subordinate loans or equity amounting to SR 695 billion (2015: SR 695 billion).

20. ZAKAT

The Company filed its Zakat returns up to 2008. The Company also filed its Zakat returns for years 2009 through 2015, which are still under review by the General Authority of Zakat and Tax ('GAZT').

The Company has not recognized Zakat charge for the period ended 31 December 2016 (2015: nil) as the Zakat base is negative at the interim consolidated balance sheet date. On 15/3/1438H, GAZT has issued a decision to compute taxed on the foreign shareholders (non-Saudi and GCC shareholders) for the companies listed in the stock exchange market provided that the year-end shall be considered as a base to identify the foreign shareholders. The Company has not recognized tax charges for the period ended 31 December 2016 as the Company's tax base states a net taxable loss for the year ended 31 December 2016.

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*(In thousands Saudi Riyals unless otherwise stated)***21. OPERATING REVENUE**

	For the Three months period ended		For the year ended in	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015 (Audited)
Electricity sales	9,535,498	8,006,506	45,321,470	37,580,536
Electricity service connection tariff	607,830	531,862	2,312,800	2,072,710
Meter reading, maintenance and bills preparation tariff	300,736	285,116	1,186,350	1,118,053
Revenue of transmission system	88,887	105,382	602,017	543,866
Other operational revenue	121,369	56,324	492,373	223,567
	<u>10,654,320</u>	<u>8,985,190</u>	<u>49,915,010</u>	<u>41,538,732</u>

22. COST OF SALES

	For the Three months period ended		For the year ended in	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015 (Audited)
Depreciation of operation and maintenance assets	4,476,822	3,825,029	16,914,188	14,548,849
Operation and maintenance expenses	3,442,518	3,357,059	11,585,545	11,113,771
Purchased energy	2,558,611	1,836,754	8,422,714	7,313,327
Fuel	2,137,285	1,310,807	9,977,517	5,977,520
	<u>12,615,236</u>	<u>10,329,649</u>	<u>46,899,964</u>	<u>38,953,467</u>

23. SEGMENT REPORTING AND FUTURE RESTRUCTURING FOR THE GROUP ACTIVITIES

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

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

Generation: Generation and provision of electric power.

Transmission: transmission of power from generation 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 distributing it to Company's subscribers, It is also engaged in issuance, distribution and collection of electric consumption bills.

23. SEGMENT REPORTING AND FUTURE RESTRUCTURING FOR THE GROUP ACTIVITIES *(continued)*

Segregating the Company's activities and privatization of the power sector

The Company along with several governmental bodies is arranging to study the available practical options to restructure the operating sectors and segregate the production sector in accordance with the relevant Government's resolutions. Protocols and timetables are under preparation for the segregation of major sectors of the Company to be in line with the Government's direction of the privatization of the power sector.

The following are the fixed assets, total assets and liabilities of the Group's main companies. The financial information of Saudi Electricity Company set out in the below table include the generation, distribution and customer services segments as well as the Head Office, as the procedures of splitting the generation and distribution segments are still in process – 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.

	<i>SR'000</i>				
	Saudi Electricity Company	National Grid S.A. Company	Other Subsidiaries	Inter-Group Balances	Total
As at and For the year ended 31 December 2016					
Operating revenue	49,858,414	8,420,628	56,596	(8,420,628)	49,915,010
Cost of revenue	48,845,375	6,452,292	16,903	(8,414,606)	46,899,964
Net income / (loss) for the period	1,832,450	247,266	33,614	-	2,113,330
Fixed assets, net	173,458,539	94,069,404	-	-	267,527,943
Total assets	395,150,341	114,284,061	292,586	(106,790,715)	402,936,273
Total liabilities	337,136,831	100,384,672	173,159	(96,735,255)	340,959,407
As at and For the year ended 31 December 2015					
Operating revenue	41,513,442	7,127,308	25,290	(7,127,308)	41,538,732
Cost of revenue	40,551,880	5,502,157	26,738	(7,127,308)	38,953,467
Net income for the period	340,391	203,251	27,419	(27,419)	1,543,642
Fixed assets, net	159,377,100	70,616,669	--	--	229,993,769
Total assets	351,903,696	87,360,803	278,615	(81,513,165)	358,029,949
Total liabilities	295,199,674	73,715,698	192,801	(71,427,351)	297,680,822

24. SEASONALITY EFFECT

The operations and revenue of the Group are affected by seasonal weather changes during the year. The Group's revenue is considerably lower during the winter months due to lower electricity consumption whereas higher revenue is observed during summer months due to higher electricity consumption as a result of the highest temperature. These changes are reflected on the financial results of the Group during the year. Therefore, the results of operation for this interim period (fourth quarter of 2016) may not be an accurate indicator for the actual results for the full year.

25. INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

The Company is under the process of finalizing the impact of the implementation of International Financial Reporting Standards on 1 January 2017 balances, which is the effective implementation date instructed by Capital Market Authority in the Kingdom of Saudi Arabia. The Company's management expects to finalize the impact on the implementation of International Financial Reporting Standards by the end of first quarter in 2017.

Saudi Electricity Company

(Saudi Joint Stock Company)

Notes to the interim consolidated financial statements (unaudited)

For the year ended 31 December 2016

(In thousands Saudi Riyals unless otherwise stated)

26. COMPARATIVE FIGURES

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

27. APPROVAL OF FINANCIAL STATEMENTS

These financial statements were approved by the Board of Directors on 19 Rabi'II 1438H corresponding to 17 January 2017.