

IMPORTANT NOTICE

THIS PROSPECTUS MAY ONLY BE DISTRIBUTED TO PERSONS WHO ARE NOT U.S. PERSONS (AS DEFINED IN REGULATION S) AND ARE OUTSIDE THE UNITED STATES.

IMPORTANT: You must read the following notice before continuing. The following notice applies to the attached prospectus following this page (the “**Prospectus**”), whether received by email, accessed from an internet page or otherwise received as a result of electronic communication, and you are therefore advised to read this notice carefully before reading, accessing or making any other use of the Prospectus. In reading, accessing or making any other use of the Prospectus, you agree to be bound by the following terms and conditions and each of the restrictions set out in the Prospectus, including any modifications made to them from time to time, each time you receive any information from Saudi Electricity Global SUKUK Company (the “**Issuer**”) or Saudi Electricity Company (“**SEC**”) as a result of such access.

RESTRICTIONS: NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER TO SELL OR A SOLICITATION OF AN OFFER TO BUY THE CERTIFICATES IN THE UNITED STATES OR IN ANY JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. ANY CERTIFICATE TO BE ISSUED HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE “**SECURITIES ACT**”), OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION. THE CERTIFICATES MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED DIRECTLY OR INDIRECTLY WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT (“**REGULATION S**”)) EXCEPT TO A PERSON WHO IS NOT A U.S. PERSON (AS DEFINED IN REGULATION S) IN AN OFFSHORE TRANSACTION PURSUANT TO RULE 903 OR RULE 904 OF REGULATION S, IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES.

IF THE CERTIFICATES DO NOT CONSTITUTE “ALTERNATIVE FINANCE INVESTMENT BONDS” WITHIN THE MEANING OF ARTICLE 77A OF THE FINANCIAL SERVICES AND MARKETS ACT 2000 (REGULATED ACTIVITIES) (AMENDMENT) ORDER 2010 (THE “**NON-REGULATORY AFIBS**”), THEY WILL REPRESENT INTERESTS IN A COLLECTIVE INVESTMENT SCHEME (AS DEFINED IN THE FINANCIAL SERVICES AND MARKETS ACT 2000 (THE “**FSMA**”)) WHICH HAS NOT BEEN AUTHORISED, RECOGNISED OR OTHERWISE APPROVED BY THE FINANCIAL SERVICES AUTHORITY. ACCORDINGLY, THIS PROSPECTUS IS NOT BEING DISTRIBUTED TO, AND MUST NOT BE PASSED ON TO, THE GENERAL PUBLIC IN THE UNITED KINGDOM. THE DISTRIBUTION IN THE UNITED KINGDOM OF THIS PROSPECTUS AND ANY OTHER MARKETING MATERIALS RELATING TO THE CERTIFICATES (A) IF EFFECTED BY A PERSON WHO IS NOT AN AUTHORISED PERSON UNDER THE FSMA, IS BEING ADDRESSED TO, OR DIRECTED AT, ONLY THE FOLLOWING PERSONS: (I) PERSONS WHO ARE INVESTMENT PROFESSIONALS AS DEFINED IN ARTICLE 19(5) OF THE FINANCIAL SERVICES AND MARKETS ACT 2000 (FINANCIAL PROMOTION) ORDER 2005 (THE “**FINANCIAL PROMOTION ORDER**”) AND (II) PERSONS FALLING WITHIN ANY OF THE CATEGORIES OF PERSONS DESCRIBED IN ARTICLE 49 (HIGH NET WORTH COMPANIES, UNINCORPORATED ASSOCIATIONS, ETC) OF THE FINANCIAL PROMOTION ORDER AND (B) IF THE CERTIFICATES ARE NON-REGULATORY AFIBS AND THE DISTRIBUTION IS EFFECTED BY A PERSON WHO IS AN AUTHORISED PERSON UNDER THE FSMA, IS BEING ADDRESSED TO, OR DIRECTED AT, ONLY THE FOLLOWING PERSONS: (I) PERSONS FALLING WITHIN ONE OF THE CATEGORIES OF INVESTMENT PROFESSIONAL AS DEFINED IN ARTICLE 14(5) OF THE FINANCIAL SERVICES AND MARKETS ACT 2000 (PROMOTION OF COLLECTIVE INVESTMENT SCHEMES) (EXEMPTIONS) ORDER 2001 (THE “**PROMOTION OF CISS ORDER**”), (II) PERSONS FALLING WITHIN ANY OF THE CATEGORIES OF PERSON DESCRIBED IN ARTICLE 22 (HIGH NET WORTH COMPANIES, UNINCORPORATED ASSOCIATIONS, ETC.) OF THE PROMOTION OF CISS ORDER AND (III) ANY OTHER PERSON TO WHOM IT MAY OTHERWISE LAWFULLY BE MADE IN ACCORDANCE WITH THE PROMOTION OF CISS ORDER. (ALL SUCH PERSONS IN (A)(I), (A)(II), (B)(I), (B)(II) AND (B)(III) ABOVE TOGETHER BEING REFERRED TO AS “**RELEVANT PERSONS**”). PERSONS OF ANY OTHER DESCRIPTION IN THE UNITED KINGDOM MAY NOT RECEIVE AND SHOULD NOT ACT OR RELY ON THIS PROSPECTUS OR ANY OTHER MARKETING MATERIALS IN RELATION TO ANY CERTIFICATES.

POTENTIAL INVESTORS IN THE UNITED KINGDOM IN ANY CERTIFICATES WHICH ARE NON-REGULATORY AFIBS ARE ADVISED THAT ALL, OR MOST, OF THE PROTECTIONS AFFORDED BY THE UNITED KINGDOM REGULATORY SYSTEM WILL NOT APPLY TO AN INVESTMENT IN SUCH CERTIFICATES AND THAT COMPENSATION WILL NOT BE AVAILABLE UNDER THE UNITED KINGDOM FINANCIAL SERVICES COMPENSATION SCHEME.

CONFIRMATION OF YOUR REPRESENTATION: In order to be eligible to view the Prospectus or make an investment decision with respect to the Certificates described herein, (1) each prospective investor in respect of the Certificates being offered outside of the United States in an offshore transaction pursuant to Regulation S must be a person other than a U.S. Person and (2) each prospective investor in respect of the Certificates being offered in the United Kingdom must be a Relevant Person. By accepting this e-mail and accessing, reading or making any other use of the attached document, you shall be deemed to have represented to Deutsche Bank AG, London Branch, HSBC Bank plc and Mitsubishi UFJ Securities International plc (together, the “**Managers**”), Saudi Electricity Global SUKUK Company (in any capacity), SEC and Deutsche Trustee Company Limited (the “**Delegate**”) that (1) you have understood and agree to the terms set out herein, (2) you are (or the person you represent is) a person other than a U.S. Person, and that the electronic mail (or e-mail) address to which, pursuant to your request, the attached document has been delivered by electronic transmission is not located in the United States, its territories, its possessions and other areas subject to its jurisdiction; where its possessions include Puerto Rico, the U.S. Virgin Islands, Guam, American Samoa, Wake Island and the Northern Mariana Islands, (3) in respect of the Certificates being offered in the United Kingdom, you are (or the person you represent is) a Relevant Person, (4) you consent to delivery by electronic transmission, (5) you will not transmit the attached Prospectus (or any copy of it or part thereof) or disclose, whether orally or in writing, any of its contents to any other person except with the consent of the Managers, the Issuer and SEC and (6) you acknowledge that you will make your own assessment regarding any legal, taxation or other economic considerations with respect to your decision to subscribe for or purchase of any of the Certificates.

You are reminded that the Prospectus has been delivered to you on the basis that you are a person into whose possession the Prospectus may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorised to, deliver or disclose the contents of the Prospectus, electronically or otherwise, to any other person and in particular to any U.S. Person or to any U.S. address. Failure to comply with this directive may result in a violation of the Securities Act or the applicable laws of other jurisdictions.

If you received this Prospectus by e-mail, you should not reply by e-mail. Any reply e-mail communications, including those you generate by using the “Reply” function on your e-mail software, will be ignored or rejected. If you received this Prospectus by e-mail, your use of this e-mail is at your own risk and it is your responsibility to take precautions to ensure that it is free from viruses and other items of a destructive nature.

The materials relating to the offering do not constitute, and may not be used in connection with, an offer or solicitation in any place where such offers or solicitations are not permitted by law. If a jurisdiction requires that the offering be made by a licensed broker or dealer and the Managers or any affiliate of the Managers is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by the Managers or such affiliate on behalf of the Issuer in such jurisdiction.

Under no circumstances shall the Prospectus constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the Certificates in any jurisdiction in which such offer, solicitation or sale would be unlawful. Recipients of the attached document who intend to subscribe for or purchase the Certificates are reminded that any subscription or purchase may only be made on the basis of the information contained in this Prospectus.

The Prospectus has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently none of the Managers, the Issuer, SEC nor any person who controls or is a director, officer, employee or agent of the Managers, the Issuer, SEC nor any affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between the Prospectus distributed to you in electronic format and the hard copy version available to you on request from the Managers.

The distribution of the Prospectus and the offer or sale of the Certificates in certain jurisdictions may be restricted by law. Persons into whose possession the attached document comes are required by the Managers, the Issuer and SEC to inform themselves about, and to observe, any such restrictions.

IMPORTANT INFORMATION ABOUT THIS PROSPECTUS

This document constitutes a prospectus for the purposes of Article 5.3 of Directive 2003/71/EC (the “Prospectus Directive”).

Each of the Issuer and SEC accepts responsibility for the information contained in this Prospectus. To the best of the knowledge and belief of the Issuer and SEC (each having taken all reasonable care to ensure that such is the case), the information contained in this Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

This Prospectus does not constitute an offer to sell or the solicitation of an offer to buy any Certificates in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The distribution of this Prospectus and the offer or sale of Certificates may be restricted by law in certain jurisdictions. The Issuer, SEC, the Managers (as described under “*Subscription and Sale*”) and the Delegate do not represent that this Prospectus may be lawfully distributed, or that the Certificates may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuer, SEC, the Managers or the Delegate which is intended to permit a public offering of the Certificates or the distribution of this Prospectus in any jurisdiction where action for that purpose is required. Accordingly, no Certificates may be offered or sold, directly or indirectly, and neither this Prospectus nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Prospectus or any Certificates may come must inform themselves about, and observe any such restrictions on the distribution of this Prospectus and the offering and sale of Certificates. In particular, there are restrictions on the distribution of this Prospectus and the offer or sale of Certificates in the United States, the United Kingdom, the United Arab Emirates (the “UAE”) (excluding the Dubai International Financial Centre (the “DIFC”)), the State of Qatar (“Qatar”), the Kingdom of Saudi Arabia (“Saudi Arabia” or the “Kingdom”), the Kingdom of Bahrain (“Bahrain”), the Cayman Islands, Hong Kong, Singapore and Malaysia. See also “*Subscription and Sale*”.

Each of the Managers is acting for the Issuer and SEC and no one else in connection with the offering of the Certificates and will not regard any other person (whether or not a recipient of this Prospectus or any other offering material relating to the Certificates) as its client in relation to the offer, sale and delivery of the Certificates. None of the Managers shall be responsible to anyone other than the Issuer and SEC for providing the protections afforded to clients of the Managers, or for providing advice in relation to the offering of the Certificates, the contents of this Prospectus or any other offering material relating to the Certificates, or any transaction, arrangement or other matter referred to in this Prospectus.

The Managers and the Delegate have not made an independent verification of the information contained in this Prospectus and no representation or warranty, express or implied, is made by any of the Managers or the Delegate as to the accuracy or completeness of such information. Nothing contained in this Prospectus is, or is to be construed as, or shall be relied on as a promise, warranty or representation, whether as to the past or future, by any of the Managers or the Delegate in any respect. To the fullest extent permitted by law, neither the Managers nor the Delegate accepts any responsibility whatsoever for the contents of this Prospectus. Each of the Managers and the Delegate accordingly disclaims all and any liability, whether arising in tort, contract or otherwise, which it might otherwise have in respect of this Prospectus.

No comment is made or advice given by the Issuer, SEC, the Managers or the Delegate in respect of taxation matters relating to the Certificates or the legality of the purchase of the Certificates by an investor under any applicable law.

The contents of this Prospectus are not to be construed as, and shall not be relied on as legal, business or tax advice, and each investor should consult its own legal, business, tax and other advisers for any such advice that may be relevant to such investor.

No person is or has been authorised by the Issuer, SEC, the Managers or the Delegate to give any information or to make any representation not contained in or not consistent with this Prospectus or any

other information supplied in connection with the offering of the Certificates and, if given or made, such information or representation must not be relied upon as having been authorised by or on behalf of the Issuer, SEC, the Managers or the Delegate.

Neither this Prospectus nor any other information supplied in connection with the offering of the Certificates (a) is intended to provide the basis of any credit or other evaluation or (b) should be considered as a recommendation by the Issuer, SEC, any of the Managers or the Delegate that any recipient of this Prospectus or any other information supplied in connection with the offering of the Certificates should purchase any Certificates. Each investor contemplating purchasing any Certificates should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer and/or SEC.

Neither the delivery of this Prospectus nor the offer, issue, sale or delivery of the Certificates shall, under any circumstances, imply that there has been no change in the affairs of the Issuer, SEC or SEC's subsidiaries and affiliates taken as a whole (the "**Group**") since the date hereof or that the information contained herein concerning the Issuer and/or SEC and/or the Group is correct as at any time subsequent to its date or that any other information supplied in connection with the offering of the Certificates is correct as at any time subsequent to the date indicated in the document containing the same. The Managers expressly do not undertake to review the financial condition or affairs of the Issuer, SEC or the Group during the life of the Certificates or to advise any investor in the Certificates of any information coming to their attention or that there has been no change in the affairs of any party mentioned herein since that date.

In connection with the issue and sale of the Certificates, each of the Managers and any of their respective affiliates acting as an investor for its own account may take up Certificates and in that capacity may retain, purchase or sell for its own account such securities and any securities of the Issuer or SEC or related investments, and may offer or sell such securities or other investments otherwise than in connection with the issue and sale of the Certificates. Accordingly, references in this Prospectus to the Certificates being offered, issued or sold should be read as including any offer, issue or sale of securities to the Managers and any of their affiliates acting in such capacity. The Managers do not intend to disclose the extent of any such transactions or investments otherwise than in accordance with any legal or regulatory obligation to do so.

In addition, certain of the Managers and their respective affiliates have performed, and may in the future perform, various financial advisory, investment banking and/or commercial banking services for, and may arrange loans and other non-public market financing for, and enter into derivative transactions with, the Issuer, SEC and/or the Group for which they have and may receive customary fees.

The Certificates may not be a suitable investment for all investors. Each potential investor in the Certificates must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- (i) have sufficient knowledge and experience to make a meaningful evaluation of the Certificates, the merits and risks of investing in the Certificates and the information contained or incorporated by reference in this Prospectus or any applicable supplement;
- (ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Certificates and the impact the Certificates will have on its overall investment portfolio;
- (iii) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Certificates, including Certificates with principal or payment payable in one or more currencies, or where the currency for principal or profit payments is different from the potential investor's currency;
- (iv) understand thoroughly the terms of the Certificates and be familiar with the behaviour of any relevant indices and financial markets; and
- (v) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

NOTICE TO PROSPECTIVE INVESTORS IN THE UNITED KINGDOM

If the Certificates do not constitute “alternative finance investment bonds” within the meaning of Article 77A of the Financial Services and Markets Act 2000 (Regulated Activities) (Amendment) Order 2010 (the “**Non-Regulatory AFIBs**”), they will represent interests in a collective investment scheme (as defined in the Financial Services and Markets Act 2000 (the “**FSMA**”)) which has not been authorised, recognised or otherwise approved by the Financial Services Authority. Accordingly, this Prospectus is not being distributed to, and must not be passed on to, the general public in the United Kingdom. The distribution in the United Kingdom of this Prospectus and any other marketing materials relating to the Certificates (A) if effected by a person who is not an authorised person under the FSMA, is being addressed to, or directed at, only the following persons: (i) persons who are Investment Professionals as defined in Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the “**Financial Promotion Order**”) and (ii) persons falling within any of the categories of persons described in Article 49 (High net worth companies, unincorporated associations, etc) of the Financial Promotion Order and (B) if the Certificates are Non-Regulatory AFIBs and the distribution is effected by a person who is an authorised person under the FSMA, is being addressed to, or directed at, only the following persons: (i) persons falling within one of the categories of Investment Professional as defined in Article 14(5) of the Financial Services and Markets Act 2000 (Promotion of Collective Investment Schemes) (Exemptions) Order 2001 (the “**Promotion of CISs Order**”), (ii) persons falling within any of the categories of person described in Article 22 (High net worth companies, unincorporated associations, etc.) of the Promotion of CISs Order and (iii) any other person to whom it may otherwise lawfully be made in accordance with the Promotion of CISs Order. Persons of any other description in the United Kingdom may not receive and should not act or rely on this Prospectus or any other marketing materials in relation to any Certificates.

Potential investors in the United Kingdom in any Certificates which are Non-Regulatory AFIBs are advised that all, or most, of the protections afforded by the United Kingdom regulatory system will not apply to an investment in such Certificates and that compensation will not be available under the United Kingdom Financial Services Compensation Scheme.

NOTICE TO PROSPECTIVE INVESTORS IN THE KINGDOM OF SAUDI ARABIA

This Prospectus may not be distributed in the Kingdom of Saudi Arabia except to such persons as are permitted under the Offers of Securities Regulations issued by the Capital Market Authority of Saudi Arabia (the “**Capital Market Authority**”). The Capital Market Authority does not make any representations as to the accuracy or completeness of this Prospectus, and expressly disclaims any liability whatsoever for any loss arising from, or incurred in reliance upon, any part of this Prospectus. Prospective purchasers of the securities offered hereby should conduct their own due diligence on the accuracy of the information relating to the securities. If a prospective purchaser does not understand the contents of this Prospectus he or she should consult an authorised financial adviser. By accepting this Prospectus and other information relating to the offering of the Certificates in the Kingdom of Saudi Arabia, each recipient represents that he is a “sophisticated investor”, as set out in “*Subscription and Sale*”.

NOTICE TO PROSPECTIVE INVESTORS IN THE CAYMAN ISLANDS

No invitation may be made to any member of the public of the Cayman Islands to subscribe for the Certificates and this Prospectus shall not be construed as an invitation to any member of the public of the Cayman Islands to subscribe for the Certificates.

NOTICE TO RESIDENTS OF MALAYSIA

The Certificates may not be offered for subscription or purchase and no invitation to subscribe for or purchase such Certificates in Malaysia may be made, directly or indirectly, and this Prospectus or any document or other materials in connection therewith may not be distributed in Malaysia other than to persons falling within the categories specified under Schedule 6 or Section 229(1)(b), Schedule 7 or Section 230(1)(b) and Schedule 8 or Section 257(3) of the Capital Market and Services Act, 2007 of Malaysia. The Securities Commission of Malaysia shall not be liable for any non-disclosure on the part of the Issuer and assumes no responsibility for the correctness of any statements made or opinions or reports expressed in this Prospectus.

NOTICE TO RESIDENTS OF THE STATE OF QATAR

The Certificates have not been and will not be offered, sold or delivered at any time, directly or indirectly, in the State of Qatar (“**Qatar**”) in a manner that would constitute a public offering. This Prospectus has not been reviewed or approved by or registered with the Qatar Central Bank, the Qatar Exchange or the Qatar Financial Markets Authority. This Prospectus is strictly private and confidential, and may not be reproduced or used for any other purpose, nor provided to any person other than the recipient thereof.

NOTICE TO PROSPECTIVE INVESTORS IN BAHRAIN

Any offer of Certificates in the Kingdom of Bahrain will be undertaken by way of private placement.

Such offers are subject to the regulations of the Central Bank of Bahrain that apply to private offerings of securities and the disclosure requirements and other protections that these regulations contain. This Prospectus is therefore intended only for “accredited investors” (as defined below, see “*Subscription and Sale—Kingdom of Bahrain*”).

The Certificates offered in the Kingdom of Bahrain may only be offered in registered form in minimum denominations of US\$200,000 (or equivalent in other currencies).

The Central Bank of Bahrain and the Bahrain Stock Exchange assume no responsibility for the accuracy and completeness of the statements and information contained in this Prospectus and expressly disclaim any liability whatsoever for any loss howsoever arising from reliance upon the whole or any part of the contents of this Prospectus. Each potential investor resident in Bahrain intending to subscribe Certificates (each, a “**potential investor**”) may be required to provide satisfactory evidence of identity and, if so required, the source of funds to purchase Certificates within a reasonable time period determined by the Issuer and the Managers. Pending the provision of such evidence, an application to subscribe for the Certificates will be postponed. If a potential investor fails to provide satisfactory evidence within the time specified, or if a potential investor provides evidence but none of the Issuer or the relevant Managers are satisfied therewith, its application to subscribe for the Certificates may be rejected in which event any money received by way of application will be returned to the potential investor (without any additional amount added thereto and at the risk and expense of such potential investor). In respect of any potential investors, the Issuer and the Managers will comply with Bahrain’s Legislative Decree No. (4) of 2001 with respect to Prohibition and Combating of Money Laundering and various Ministerial Orders issued thereunder including, but not limited to, Ministerial Order No. (7) of 2001 with respect to Institutions’ Obligations Concerning the Prohibition and Combating of Money Laundering.

INDUSTRY AND MARKET DATA

Information regarding market position, growth rates and other industry data pertaining to the SEC’s business contained in this Prospectus consists of estimates based on data reports compiled by professional organisations and analysts, on data from other external sources and on SEC’s knowledge of its markets. This data is subject to change and cannot be verified with complete certainty due to limits on the availability and reliability of the raw data and other limitations and uncertainties inherent in any statistical survey. In many cases, there is no readily available external information (whether from trade associations, government bodies or other organisations) to validate market-related analyses and estimates, so SEC relies on internally developed estimates. Where SEC has compiled, extracted and reproduced market or other industry data from external sources, including third parties or industry or general publications, the Issuer and SEC accept responsibility for accurately reproducing such data. However, neither the Issuer, SEC nor the Managers have independently verified that data and neither the Issuer, SEC nor the Managers makes any representation regarding the accuracy of such data. Similarly, while SEC believes its internal estimates to be reasonable, such estimates have not been verified by any independent sources and neither the Issuer, SEC nor the Managers can assure potential investors as to their accuracy.

CERTAIN PUBLICLY AVAILABLE INFORMATION

Certain statistical data and other information appearing in this Prospectus under “*Kingdom of Saudi Arabia*” has been extracted from public sources identified herein. None of the Issuer, SEC or the Managers accepts responsibility for the factual correctness of any such statistics or information but the

Issuer and SEC confirm that such statistics and information have been accurately reproduced and that, so far as the Issuer and SEC are aware and have been able to ascertain from statistics and information published by those public sources, no facts have been omitted which would render the reproduced statistics and information inaccurate or misleading.

PRESENTATION OF FINANCIAL INFORMATION

Unless otherwise indicated, the balance sheet, statement of income and cash flow financial information included in this Prospectus relating to SEC has been derived (i) in the case of the years ended 31 December 2010 and 2011, from the audited financial statements of SEC as at and for the financial year ended 31 December 2011 (including the comparative information as at and for the financial year ended 31 December 2010) (the “**2011 Financial Statements**”) and (ii) in the case of the year ended 31 December 2009, from the audited financial statements of SEC as at and for the financial year ended 31 December 2010 (including the comparative information as at and for the financial year ended 31 December 2009) (the “**2010 Financial Statements**” and, together with the 2011 Financial Statements, the “**Financial Statements**”).

The Financial Statements have been prepared in accordance with accounting standards issued by the Saudi Organisation for Certified Public Accountants (“**SOCPA**”) (“**Saudi GAAP**”). Saudi GAAP differ in certain significant respects from International Financial Reporting Standards (“**IFRS**”), see “*Summary of Significant Differences Between Saudi GAAP and IFRS*”. The financial statements as at and for the year ended 31 December 2011 have been audited by Ernst & Young and the financial statements as at and for the year ended 31 December 2010 have been audited by Deloitte & Touche Bakr. Abulkhair & Co, in each case in accordance with generally accepted auditing standards in the Kingdom of Saudi Arabia (“**Saudi Auditing Standards**”).

In the 2011 Financial Statements, the interest free loans that SEC had received from the Saudi Arabian government (after 1 January 2009) were discounted. The difference between the amounts received under these loans and their present value was recorded as deferred revenue (government grant) under long-term government payables and recognised over the remaining years of these loans against the corresponding expenses in each relevant year. As a result, SEC adjusted the comparative figures for 2010 in accordance with Saudi GAAP to reflect this adjustment.

In addition, in 2011 the government mandated SEC to transfer payables owed by SEC to Saudi Aramco in respect of the period from 2005 to 2009 to the government’s account. As a result, SEC adjusted the comparative figures for 2010 to reflect this transfer.

In 2010, SEC had consolidated three subsidiaries, Sukuk Electricity Company; Dawiyat; and Hajr for Electricity Production Company. In 2011, SEC decided not to consolidate any of the three subsidiaries on the grounds of immateriality as none of them have any material assets. As a result, when preparing the 2011 Financial Statements, SEC adjusted the comparative figures for 2010 to reflect the non-consolidation of the three subsidiaries.

SEC has also made certain other minor reclassifications and adjustments when preparing its 2011 Financial Statements which impacted the comparative figures for 2010.

As there is no accounting standard applicable to account for hedging transactions under Saudi GAAP, Saudi companies are required to adopt the applicable International Accounting Standard in the absence of such a standard. Accordingly, SEC adopted certain provisions of IAS 39 in 2011 relevant to the accounting treatment of hedging transactions. This was also applied retroactively for the year ended 31 December 2010 and is reflected in the comparative 2010 figures included in the 2011 Financial Statements. The 2011 Financial Statements therefore include the fair value of SEC’s derivative financial instruments in respect of hedging contracts related to fixed versus floating interest rate swaps. As a result, the balance sheet contained in the 2011 Financial Statements includes a negative fair value of hedging contracts of SAR 432 million as at 31 December 2011 and a negative fair value of SAR 388 million as at 31 December 2010, as further described in notes 19 and 30 to SEC’s 2011 Financial Statements.

None of the adjustments made in the 2011 Financial Statements mentioned above are reflected in the 2010 Financial Statements and therefore are not reflected in the financial information for the year ended 31 December 2009 contained in this Prospectus.

The effect of the adjustments and reclassifications described above on the comparative figures for 2010 contained in the balance sheet and the statement of income are shown in the table below.

Balance Sheet

	As at 31 December 2010	
	2010 Financial Statements	2011 Financial Statements
	<i>(SAR millions)</i>	
Cash and cash equivalents ⁽¹⁾	7,231	7,228
Equity investments in companies and other ⁽¹⁾	2,297	2,300
Accounts payable ⁽²⁾	49,540	21,876
Long-term Government payables ⁽²⁾	14,040	44,244
Government loans ⁽³⁾	18,688	16,148
Change in fair value of hedging contracts ⁽⁴⁾	–	388

Statement of income

	Year ended 31 December 2010	
	2010 Financial Statements	2011 Financial Statements
	<i>(SAR millions)</i>	
Electricity connection tariff ⁽⁵⁾	1,146	1,197
Purchased energy ⁽⁶⁾	3,743	3,742
General and administrative expenses ⁽⁷⁾	382	389
Other income and expenses, net ^{(5), (7)}	473	429

Notes:

- (1) Adjustment made as a result of the decision to not consolidate the three immaterial subsidiaries.
- (2) Adjustment in respect of payables owed by SEC to Saudi Aramco in respect of the period from 2005 to 2009 to the government's account.
- (3) In the 2011 Financial Statements, the interest free loans that SEC received from the Saudi Arabian government (after 1 January 2009) were discounted.
- (4) In 2011, SEC included in its financial statements the fair value of its derivative financial instruments (hedging contracts) related to fixed versus floating interest rate swaps. The negative fair value at 31 December 2010 was SAR 388 million.
- (5) Certain income from operating activities, previously recorded under Other income and expense, net was reclassified as Revenue from electricity connection tariff in 2011.
- (6) This change is the result of the correction of a minor error in 2010.
- (7) Certain research and development expenses, previously recorded under Other income and expense, net, were reclassified as General and administrative expenses in 2011.

SEC's financial year ends on 31 December, and references in this Prospectus to any specific year are to the 12-month period ended on 31 December of such year.

SEC publishes audited financial statements on an annual basis and unaudited interim financial information on a quarterly basis.

CURRENCY PRESENTATION

In this Prospectus, references to:

- “U.S.\$” or “U.S. dollars” refer to the lawful currency of the United States of America; and
- “SAR” or “Saudi Arabian Riyals” refer to the lawful currency of the Kingdom of Saudi Arabia.

The reporting currency of SEC is Saudi Arabian Riyals and its share capital is denominated in Saudi Arabian Riyals.

FORWARD-LOOKING STATEMENTS

This Prospectus contains certain “forward-looking statements” which can be identified by the use of forward-looking terminology, such as the terms “believes,” “expects,” “anticipates,” “projects,” “estimates,” “will,” “intends,” “seeks,” “may,” “should” or similar expressions or, in each case, their negative, other variations thereof or comparable terminology. These forward-looking statements include all matters that are not historical facts and they appear in a number of places throughout this Prospectus and include, without limitation, statements with regard to the Group’s intentions, beliefs or current expectations relating to, among other things, the Group’s future financial position, results, performance, achievements and prospects along with future industry results and performance. By their nature, forward-looking statements involve inherent risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future. Investors are cautioned that the forward-looking statements contained in this Prospectus are not guarantees of the Group’s future financial position, results, performance, achievements or prospects and that the Group’s actual future financial position, results, performance, achievements and prospects may differ materially from those suggested or implied by the forward-looking statements contained in this Prospectus.

In addition, these forward-looking statements speak only as at the date of this Prospectus. Except to the extent required by applicable law, neither the Issuer nor SEC intend to update or revise any of the forward-looking statements contained in this Prospectus, whether as a result of new information, future events or otherwise, and the Issuer and SEC hereby expressly disclaim any obligation to do so. All subsequent written or oral forward-looking statements attributed to the Group or persons acting for the Group or on the Group’s behalf are expressly qualified in their entirety by the cautionary statements contained throughout this Prospectus. Investors should not place undue reliance on any such forward-looking statements.

ENFORCEMENT OF JUDGMENTS AND SERVICE OF PROCESS

SEC is incorporated pursuant to Royal Decree No. M/16 dated 6/9/1420H (corresponding to 13 December 1999) as a joint stock company under the laws of the Kingdom of Saudi Arabia. Its commercial registration number is 1010158683 and its headquarters is in Riyadh, the Kingdom of Saudi Arabia. A substantial portion of the Issuer’s and SEC’s assets are located in jurisdictions outside the United Kingdom. As a result, prospective investors may have difficulties effecting service of process in the United Kingdom upon SEC in connection with any arbitration process or lawsuits related to the Certificates or the Transaction Documents (as defined below), including actions arising under the laws of England.

The Certificates and any non-contractual obligations arising out of or in connection with them are governed by English law and disputes in respect of them may be settled through arbitration under the LCIA Rules in London, England. In addition, actions in respect of the Certificates may be, at the option of the Trustee and the Delegate, brought in the English courts. Whilst the option made in favour of the Trustee and the Delegate to elect for arbitration or the English courts is valid under English law and is not restricted under Saudi Arabian law, investors should note that there are no Saudi Arabian court precedents confirming the validity of this option and as such there can be no assurance whether the Saudi Arabian courts will recognise and enforce any arbitral award or judgment made under this option.

The Kingdom of Saudi Arabia is a signatory to the New York Convention on Recognition and Enforcement of Arbitral Awards (1958) and as such, any arbitral award could be enforceable in the Kingdom of Saudi Arabia but subject to filing a legal action for recognition and enforcement of foreign arbitral awards with the Board of Grievances which can take considerable time. In the case of an English court judgment, and in the absence of any bilateral treaty for the reciprocal enforcement of foreign judgments between the United Kingdom and the Kingdom of Saudi Arabia, there is uncertainty as to whether the relevant courts in the Kingdom of Saudi Arabia would enforce such English judgment without re-examining the merits of the claim. Investors may have difficulties in enforcing any English judgments against SEC in the relevant courts in the Kingdom of Saudi Arabia, see also “*Risk Factors – Risks relating to Enforcement – Governing Law and Enforcement of Judgements*”.

STABILISATION

In connection with the offer, issue and sale of the Certificates HSBC Bank plc (the “**Stabilising Manager**”) (or any person acting on behalf of the Stabilising Manager) may effect transactions with a view to supporting the market price of the Certificates at a level higher than that which might otherwise prevail. There is no assurance, however, that the Stabilising Manager (or any person acting on behalf thereof) will undertake any such stabilisation action. Any stabilisation action may begin on or after the Closing Date and, if begun, may be ended at any time, but must end no later than the earlier of 30 days after the issue date of the Certificates and 60 days after the date of allotment of the Certificates. Any stabilisation action must be conducted by the Stabilising Manager (or any person acting on behalf thereof) in accordance with all applicable laws, regulations and rules.

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RISK FACTORS

The purchase of Certificates may involve substantial risks and is suitable only for sophisticated investors who have the knowledge and experience in financial and business matters necessary to enable them to evaluate the risks and merits of an investment in the Certificates. Before making an investment decision, prospective purchasers of Certificates should consider carefully, in the light of their own financial circumstances and investment objectives, all of the information in this Prospectus.

Each of the Issuer and SEC believes that the factors described below represent the principal risks inherent in investing in the Certificates, but the inability of the Issuer to pay any amounts on or in connection with any Certificate may occur for other reasons and none of the Issuer or SEC represents that the statements below regarding the risks of holding any Certificate are exhaustive. There may also be other considerations, including some which may not be presently known to the Issuer or SEC or which the Issuer or SEC currently deems immaterial, that may impact any investment in the Certificates.

Prospective investors should also read the detailed information set out elsewhere in this Prospectus and reach their own views prior to making any investment decision. Words and expressions defined in “Terms and Conditions of the 2017 Certificates” and “Terms and Conditions of the 2022 Certificates” shall have the same meanings in this section.

Notwithstanding anything in these risk factors, these risk factors should not be taken as implying that the Issuer will be unable to comply with its obligations as a company with securities admitted to the Official List.

RISK FACTORS RELATING TO THE ISSUER

The Issuer has a limited operating history and no material assets

The Issuer is a newly established exempted limited company under the laws of the Cayman Islands and has no operating history. The Issuer will not engage in any business activity other than the issuance of the Certificates, the acquisition of the Trust Assets as described herein, acting in the capacity as Trustee and other activities incidental or related to the foregoing as required under the Transaction Documents to which it is a party.

The Issuer’s only material assets, which will be held separately on trust for the Certificateholders of each Series, will be the Trust Assets in respect of that Series, including its right to receive payments under the relevant *Ijara* Agreements and the relevant Purchase Undertaking.

The ability of the Issuer to pay amounts due on the Certificates of a Series will be dependent upon receipt by the Issuer from SEC of all rental amounts due under the relevant *Ijara* Agreement and from SEC of the relevant sums due and payable under the relevant Purchase Undertaking, which, in the aggregate, may not be sufficient to meet all claims under such Certificates and the relevant Transaction Documents. Therefore, the Issuer is subject to all the risks to which SEC is subject to the extent that such risks could limit SEC’s ability to satisfy in full and on a timely basis its obligations under the Transaction Documents to which it is a party. See “*Risk factors relating to SEC and its business*” for a further description of these risks.

Recourse to the Issuer in respect of each Series is limited to the Trust Assets in respect of that Series (for a further description of these risks see “*Risk factors relating to the Certificates*”).

RISK FACTORS RELATING TO SEC AND ITS BUSINESS

No Third-Party Guarantees

SEC’s issued share capital is approximately 74 per cent. owned by the Government of the Kingdom of Saudi Arabia (the “**Government**”) and approximately 7 per cent. owned by Saudi Arabian Oil Company (“**Saudi Aramco**”), which is wholly-owned by the Government. Although SEC functions may be classified as a Government department providing an essential public utility, SEC’s financial obligations (including its financial obligations under the Transaction Documents to which it is a party) are not guaranteed by the Government, the shareholders of SEC or any other person. SEC’s ability to meet its obligations to make the relevant payments under the Transaction Documents to which it is a party in order for the Issuer to pay amounts due on the Certificates is solely dependent on SEC’s ability to fund such obligations from its operations, profits or cash flows or from non-Government borrowings.

Therefore, any decline in SEC's operations, profits or cash flows or any difficulty in securing external funding may materially adversely affect SEC's ability to satisfy its obligations to make the relevant payments under the Transaction Documents to which it is a party in order for the Issuer to pay amounts due on the Certificates.

SEC is majority owned by the Government whose interests may not be aligned with the interests of Certificateholders

As the majority owner of SEC, the Government has the ability to significantly influence SEC's business through its ability to control decisions and actions of SEC that require shareholder approval. The Government's key objective is to ensure the stable supply of electricity to the Kingdom of Saudi Arabia's residents and businesses at affordable costs rather than the optimisation of SEC's revenues and profits. As such, the interests of SEC's Board and those of the Government may conflict with SEC's objectives as a commercial enterprise and there can be no assurance that the Government will not unilaterally take any action to further its own objectives, which may be in conflict with the interests of SEC or the Certificateholders. Any such actions by the Government may result in a material adverse effect on SEC's business, financial condition, results of operations, cash flows and SEC's ability to satisfy its obligations to make the relevant payments under the Transaction Documents to which it is a party in order for the Issuer to pay amounts due on the Certificates.

Restructuring of the electricity sector in the Kingdom

The Government is in the process of restructuring the electricity sector in the Kingdom and enacted a new electricity law in 20/10/1426H (corresponding to 22 November 2005) that sets out a new regulatory framework for the industry. As part of its efforts to restructure the electricity sector, the Government intends to promote greater competition in the electricity industry by facilitating the establishment of independent power producers ("IPPs") and independent water and power producers ("IWPPs") (see "*Description of the Business – Industry Overview – Restructuring of the Electricity Industry in the Kingdom*").

As part of the Government's plans to create competition and encourage privatisation of the electricity sector, SEC intends to have established by 2013 four wholly-owned power generation companies ("GENCOs"). SEC is in the process of identifying the generation plants and relevant employees which will be transferred to the GENCOs and SEC expects to complete the transfer of the generation portfolios to the GENCOs during 2013. At present, SEC has no plans to sell its interest in the GENCOs or the power generation portfolios.

SEC has also established a wholly owned transmission company, National Electricity Transmission Company (to be renamed National Grid Saudi Arabia), and intends to establish a wholly owned electricity distribution company by 2013, in each case as part of the Government's plans to create competition and encourage privatisation of the electricity sector.

The Government's plans to create competition and encourage privatisation of the electricity sector could have a material adverse effect on SEC's business, financial condition, results of operations, cash flows and affect its ability to satisfy its obligations to make the relevant payments under the Transaction Documents to which it is a party in order for the Issuer to pay amounts due on the Certificates.

Electricity tariffs are not set by SEC and may not reflect SEC's cost of production

SEC generates substantially all of its revenue from the sale of electricity to its customers in the Kingdom and therefore its revenues are dependent upon the tariffs charged to its customers for the consumption of electricity.

Following a review of the tariff structure by the Government, the Electricity and Co-generation Regulatory Authority ("ECRA") has been granted the power to set the tariffs for all sectors except for the residential sector. The tariffs set by ECRA may not exceed SAR 0.26 /KWh. Prior to July 2010, ECRA did not make any changes to the tariff structure. With effect from July 2010, certain tariff changes were made which had a beneficial effect on SEC's revenues. As regards tariffs for the residential sector, the electricity consumption tariff that is charged by SEC to residential end-users for electricity supplies is determined by the Council of Ministers, based on recommendations by ECRA.

There can be no assurance that the Council of Ministers or ECRA, as applicable, will approve any further adjustments to SEC's tariffs in the future. If operating costs rise without a corresponding increase in tariffs, SEC's operating income may fall which could result in a material adverse effect on SEC's business, financial condition, results of operations and, if sustained, may affect SEC's ability to satisfy its obligations to make the relevant payments under the Transaction Documents to which it is a party in order for the Issuer to pay amounts due on the Certificates.

SEC has a single supplier of fuel

Saudi Aramco supplies all of the fuel needed by SEC for its power generation business (see "*Description of the Business – Fuel Supply*"). This dependence on a single supplier means that any issues or factors affecting Saudi Aramco's ability to supply fuel could have an adverse impact on SEC's ability to generate power from its plants and, in such circumstances, alternative supplies of fuel would be very limited.

An inability to find alternative suppliers or any increases in the prices which Saudi Aramco is permitted to charge for the fuel supplied to SEC which are not matched by a corresponding increase in the tariff that SEC is permitted to charge for electricity supplies could result in a material adverse effect on SEC's business, financial condition, results of operations and, if sustained, affect its ability to satisfy its obligations to make the relevant payments under the Transaction Documents to which it is a party in order for the Issuer to pay amounts due on the Certificates.

Purchase of additional electricity by SEC to meet demand

At times of peak demand SEC has needed to purchase additional electricity from the Saline Water Conversion Corporation ("SWCC") and other available sources to meet demand (see "*Description of the Business – Businesses – Electricity Generation – Installed generation capacity*"). SEC purchases most of the additional electricity it requires from SWCC pursuant to tariffs set by a Council of Ministers resolution. Under the current tariffs in force, SEC pays SWCC SAR 120 per kW for peak demand charges and SAR 20 per MWh for energy, such that the average combined price payable for demand charges and energy does not exceed SAR 38 per MWh. The Council of Ministers has the power to change these tariffs.

Until SEC increases its own installed generation capacity to levels which are sufficient to meet peak demand, an inability to purchase electricity from SWCC or any increases in the prices which SWCC is permitted to charge for electricity which are not matched by a corresponding increase in the tariff that SEC is permitted to charge for electricity supplies could result in a material adverse effect on SEC's business, financial condition, results of operations and, if sustained, affect its ability to satisfy its obligations to make the relevant payments under the Transaction Documents to which it is a party in order for the Issuer to pay amounts due on the Certificates.

SEC's power generation facilities may experience equipment failures or may otherwise not operate as planned

The operation of industrial facilities such as power generation plants means that SEC's business is exposed to certain operating risks. Such risks can include, among other things, unplanned outages, equipment failure or facilities operating inefficiently or below capacity. Any such occurrences could affect SEC's ability to supply electricity at levels sufficient to meet demand. Although SEC maintains back up facilities and is able to purchase electricity from third parties, there is no assurance that such alternative sources will be available when needed or that such sources will be able to provide adequate amounts of electricity to meet any shortfalls in SEC's own supply. Any such failure may result in a loss of revenue and increased costs and accordingly may have a material adverse effect on SEC's reputation, business, financial condition, results of operations and affect its ability to satisfy its obligations to make the relevant payments under the Transaction Documents to which it is a party in order for the Issuer to pay amounts due on the Certificates.

New power plants may not operate at their expected levels of output

The performance achieved by a new power plant could be below expected levels of output or efficiency because of issues such as those relating to its design or specifications. If a new power plant fails to achieve the required levels of performance, then this could adversely affect the return on SEC's investment in that plant which in turn may have an adverse effect on SEC's business, financial

condition, results of operations and affect its ability to satisfy its obligations to make the relevant payments under the Transaction Documents to which it is a party in order for the Issuer to pay amounts due on the Certificates.

SEC's facilities and operations may be adversely affected by terrorist attacks, natural disasters or other catastrophic events over which SEC has no control

SEC's facilities and business operations could be adversely affected or disrupted by terrorist attacks, natural disasters (such as earthquakes, tsunamis or fires, among others) or other potentially catastrophic events that are beyond SEC's control and in respect of which may not be covered by insurance, see "*SEC may not be able to maintain sufficient insurance coverage for the risks associated with the operation of its business*". The Western and Southern operating regions (see "*Description of the Business – History*") for a description of SEC's operating regions) have been prone to seismic activity in the past, although no power plants, transmission cables or distribution lines owned by SEC have been affected as a result of any seismic activity to date. There can be no assurance that SEC's business operations will not be disrupted by damage due to any of the foregoing. The occurrence of any of these events may affect SEC's ability to supply electricity and therefore have a material adverse effect on its reputation, business, financial condition, results of operations and affect its ability to satisfy its obligations to make the relevant payments under the Transaction Documents to which it is a party in order for the Issuer to pay amounts due on the Certificates.

SEC may not be able to maintain sufficient insurance coverage for the risks associated with the operation of its business

SEC's operations may be affected by a number of risks, including terrorist acts and war-related events, for which full insurance cover is either not available or not available on commercially reasonable terms. For example, SEC has not purchased business interruption, sabotage or terrorist insurance cover. In addition, the severity and frequency of various other events, such as accidents and other mishaps, business interruptions or potential damage to its facilities, property and equipment caused by inclement weather, human error, pollution, labour disputes and natural catastrophes, may result in losses or expose SEC to liabilities in excess of its insurance coverage or significantly impair its reputation. SEC cannot assure investors that its insurance coverage will be sufficient to cover losses arising from any, or all of such events, or that it will be able to renew existing insurance cover on commercially reasonable terms, if at all.

Should an incident occur in relation to which SEC has no insurance coverage or inadequate insurance coverage, SEC could lose the capital invested in, and anticipated future revenues relating to, any property that is damaged or destroyed and, in certain cases, SEC may remain liable for financial obligations related to the impacted property. Similarly, in the event that any assessments are made against SEC in excess of any related insurance coverage that it may maintain, its assets could be subject to attachment, confiscation or restraint under various judicial procedures. Any of these occurrences could have a material adverse effect on SEC's business, financial condition, results of operations and affect its ability to satisfy its obligations to make the relevant payments under the Transaction Documents to which it is a party in order for the Issuer to pay amounts due on the Certificates.

SEC may be subject to liabilities as a result of any violation of the environmental and safety standards and regulations that apply to SEC

The risks of environmental damage such as pollution and leakage are inherent in the electricity industry. SEC is subject to environmental and safety regulations in force in the Kingdom. Should SEC fail to comply with such regulations, it may be liable for penalties and/or the consequences of default under any contractual obligations requiring it to comply with applicable environmental and safety regulations. In addition, governmental authorities in the Kingdom may enforce existing environmental laws and regulations more strictly than they have done in the past and may in the future impose stricter environmental standards, or higher levels of fines and penalties for violations, than those which are in effect at present. Accordingly, SEC is unable to estimate the future financial impact of compliance with, or the cost of a violation of, any applicable environmental laws or regulations. Any occurrence of environmental damage may result in a disruption of SEC's services or cause reputational harm and significant liability could be imposed on SEC for damages, clean-up costs or penalties in the event of environmental damage or non-compliance with environmental laws and regulations. The occurrence of

any of these events may cause disruption to SEC's projects and operations and result in additional costs to SEC, which may have a material adverse effect on SEC's business, financial condition, results of operations and affect its ability to satisfy its obligations to make the relevant payments under the Transaction Documents to which it is a party in order for the Issuer to pay amounts due on the Certificates.

Reliance upon skilled personnel

SEC's business and operations are dependent upon its ability to recruit and retain skilled personnel. If SEC is unable to retain experienced, capable and reliable personnel, especially senior and middle management with appropriate professional qualifications, or fails to recruit skilled professional and technical staff, SEC's operations may be adversely affected. Experienced and capable personnel in the engineering and technical fields remain in high demand in the Kingdom due to the significant competition for their talents. Consequently, when talented and trained employees leave, SEC may have difficulty replacing them and may incur additional costs and expenses in securing such replacements.

The loss of any member of SEC's senior management team or the loss of any of SEC's other key employees may result in a loss of organisational focus, poor execution of operations, or an inability to identify and execute potential strategic initiatives such as expansion of capacity. The occurrence of any of these events may have a material adverse effect on SEC's business, financial condition, results of operations and affect its ability to satisfy its obligations to make the relevant payments under the Transaction Documents to which it is a party in order for the Issuer to pay amounts due on the Certificates.

SEC's operations and expansion projects are subject to a range of development and construction risks

In connection with its strategy to continue increasing its power generation capacity, SEC is currently in the process of developing a number of new generation plants that are in various stages of development, construction and commissioning (see "*Description of the Business – Businesses – Electricity Generation – Electricity Generated and Generation Capacity Factors*"). SEC's larger projects are mostly outsourced to third party contractors through "turnkey" contracts, meaning that each phase of such projects, including the planning, design and construction phases, are outsourced to third party contractors. These projects typically require substantial capital expenditure and may take months or years before they become operational, during which time SEC may be subject to a number of construction, operating and other risks beyond its control such as, but not limited to:

- an inability to find a suitable contractor or sub-contractor either at the commencement of a project or following a default by an appointed contractor or sub-contractor;
- default or failure by its contractors or sub-contractors to finish projects or parts of projects on time, according to specifications or within budget;
- disruption in service and limited access to third parties, such as architects, engineers or other service providers;
- difficulties in connecting new generation plants to existing or new transmission and distribution networks;
- shortages or escalating costs of construction materials and increased global commodity prices;
- shortages or increases in the costs of equipment;
- breakdown or failure of equipment, processes or technology;
- environmental issues and costs;
- start-up and commissioning problems;
- disputes with contractors or sub-contractors; or
- work stoppages or labour disputes.

The occurrence of one or more of these events in relation to current or future projects may negatively affect SEC's ability to complete such projects on schedule or within budget, if at all. This may result in SEC's inability to meet customer demand for electricity and accordingly may result in a material adverse effect on SEC's reputation, business, financial condition, results of operations and affect its ability to satisfy its obligations to make the relevant payments under the Transaction Documents to which it is a party in order for the Issuer to pay amounts due on the Certificates.

SEC's counterparties may default on their contractual obligations

SEC enters into contracts with contractors, sub-contractors, architects, engineers, operators, other service providers and suppliers in connection with the development and construction of its generation plants and transmission networks, and accordingly is subject to the risk that a counterparty will be unable or unwilling to honour its contractual obligations and that any guarantee or performance bond in respect of such obligations will not be honoured. Such counterparties may default on their obligations due to, *inter alia*, bankruptcy, lack of liquidity or operational failure. Such counterparty risk is more acute in difficult market conditions where there is an enhanced risk of default by counterparties. Any such failure of a counterparty or, where relevant, its guarantor, to fulfil its contractual obligations could delay the completion of a project or impact the operations of a completed project. Even though the arrangements entered into by SEC with its contractors may allocate some of the risk of delays or failure to the contractors through the use of performance bonds, SEC may be unable to seek indemnification from its contractors with respect to any breach, failures or delays and accordingly, SEC may have to bear the additional costs required to complete the project. This may result in a material adverse effect on SEC's reputation, business, financial condition, results of operations, cash flows and affect its ability to satisfy its obligations to make the relevant payments under the Transaction Documents to which it is a party in order for the Issuer to pay amounts due on the Certificates.

SEC's business requires substantial capital expenditure

In order to meet growing demand for electricity in the Kingdom, SEC needs to undertake substantial capital expenditure over the period to 2016 to expand and upgrade its generation, transmission and distribution businesses (see "*Financial Review – Capital Expenditure*").

Historically, SEC has relied upon capital contributions from the Government to fund part of its capital expenditure. However, there can be no assurance that the Government will continue to make capital contributions to fund future capital expenditure by SEC. SEC has also raised financing from external sources in order to fund some of its capital expenditure.

SEC's ability to obtain financing from external resources is dependent on a number of factors such as SEC's financial condition, the economic and political climate in the Kingdom, general availability of credit and the condition of the international and regional financial markets. There can be no assurance that SEC will be able to obtain any such financing when required on commercially acceptable terms. A failure to raise funds for its capital expenditures could have a material adverse effect on SEC's business, financial condition, results of operations and affect its ability to satisfy its obligations to make the relevant payments under the Transaction Documents to which it is a party in order for the Issuer to pay amounts due on the Certificates.

SEC may incur significant indebtedness in the future to fund the substantial capital expenditure that the SEC Group plans to undertake

SEC may incur significant indebtedness in the future to satisfy its need to undertake substantial capital expenditure (subject to the restrictions contained in its existing debt agreements) which could limit SEC's ability to obtain additional financing, expose SEC to the risk of increased rates with respect to its borrowing at variable rates of commission and limit SEC's ability to adjust to changes in demand for electricity. Any of the foregoing could have a material adverse effect on SEC's business, financial condition, results of operations, cash flows and affect its ability to satisfy its financial obligations under the Transaction Documents to which it is a party.

SEC may be adversely affected by conditions in the global financial market and the impact that this has on its ability to secure financing

Since 2008, global credit markets have declined markedly, resulting in reduced liquidity, greater volatility, widening of credit spreads and lack of price transparency in credit markets. Any worsening of

general global economic conditions or any change in investment markets, including, but not limited to, changes in commission rates, exchange rates and returns from equity, property and other investments, may affect SEC's ability to secure financing on terms similar to those received in the past or its ability to secure commercial financing. Furthermore, a lack of liquidity in the financial markets may also impact the ability of SEC's customers to honour their commitments to SEC or the ability of SEC's contractors to complete existing projects. Any of the foregoing could have a material adverse effect on SEC's business, financial condition, results of operations and affect its ability to satisfy its obligations to make the relevant payments under the Transaction Documents to which it is a party in order for the Issuer to pay amounts due on the Certificates.

RISKS RELATING TO INVESTMENTS IN THE KINGDOM OF SAUDI ARABIA

Economic and Political Risks

SEC's operations are exclusively located in the Kingdom. As a result, SEC's operating results and growth are and will be affected by financial, political and general economic developments in or affecting the Kingdom and/or the Middle East and, in particular, by the level of economic activity in the Kingdom. There can be no assurance that economic conditions in the Kingdom will not worsen in the future or that demand for electricity will not stagnate or decrease, any of which may result in a material adverse effect on SEC's business, financial condition, results of operations and affect its ability to satisfy its obligations to make the relevant payments under the Transaction Documents to which it is a party in order for the Issuer to pay amounts due on the Certificates.

Similar to other countries in the Middle East, the Kingdom could be affected by political and social unrest in the region. In particular, should the Kingdom experience similar kinds of political and social unrest as recently experienced by Libya, Syria, Egypt, Bahrain and other Middle East and North African countries, the Kingdom's economy and, as a consequence, SEC's business could be adversely affected. The Government faces a number of challenges within the Kingdom arising mainly from the relatively high levels of population growth and unemployment among the Saudi Arabian youth and the security threat posed by certain groups of extremists, which could have an adverse effect on the Saudi Arabian economy and, as a consequence, SEC's business.

Investors should also be aware that investing in emerging markets such as the Kingdom entails greater risks than investing in more developed markets, including, in some cases, significant legal, economic and political risks. Accordingly, the market value of the Certificates may fluctuate for reasons unrelated to the financial performance of SEC. Investors should exercise particular care in evaluating the risks involved and must decide for themselves whether, in the light of those risks, their investment is appropriate. Generally, investment in emerging markets is only suitable for sophisticated investors who fully appreciate the significance of the risks involved.

Legislative and regulatory changes in the Kingdom may adversely affect SEC's operations

SEC's activities are subject to the laws of the Kingdom, including the Ministry of Commerce and Industry's regulations. Laws and regulations that are applied in the Kingdom may change from time to time. Changes in such laws and regulations could impose restrictions on SEC, as well as result in unanticipated costs. Occurrence of any of the above could have a material adverse effect on SEC's business, financial condition, results of operations and affect its ability to satisfy its obligations to make the relevant payments under the Transaction Documents to which it is a party in order for the Issuer to pay amounts due on the Certificates.

The Kingdom's economy is highly dependent upon revenues from oil

The Kingdom's economy is highly dependent on oil revenues. Historically, the price of oil has been volatile. Such volatility in oil prices will likely continue in the future. The price of oil may fluctuate in response to various factors including, economic and political developments in oil producing regions, the strength of the global economy, the ability of the Organization of the Petroleum Exporting Countries and other oil producing nations to agree upon and maintain production levels and prices, the impact of international environmental regulations designed to reduce carbon emissions and prices and availability of alternative fuels. Future volatility in the price of oil could adversely affect the Kingdom's economy, which could have a material adverse effect on SEC's business, financial condition, results of operations and affect its ability to satisfy its obligations to make the relevant payments under the Transaction Documents to which it is a party in order for the Issuer to pay amounts due on the Certificates.

RISK FACTORS RELATING TO THE CERTIFICATES

The Certificates are limited recourse obligations and investors may not be able to seek full recourse for failure to make payments due on the Certificates

The Certificates are not debt obligations of the Issuer. Instead, the Certificates of each Series represent a beneficial ownership interest solely in the Trust Assets in respect of that Series. Recourse to the Issuer in respect of the Certificates of a Series is limited to the Trust Assets in respect of that Series and the proceeds of those Trust Assets are the sole source of payments on such Certificates. Upon the occurrence of a Dissolution Event, the sole right of each of the Trustee, Delegate and, through the Delegate, the Certificateholders will be against SEC to perform its obligations under the relevant Transaction Documents to which it is a party. Certificateholders of a Series will have no recourse to any assets of the Trustee (including the Trust Assets in respect of the other Series), the Delegate, SEC, the Issuer, any Agent or any director or officer of the Trustee, or any affiliate of the foregoing entities in respect of any shortfall in the expected amounts due under the Trust Assets in respect of that Series. SEC is obliged to make certain payments under the Transaction Documents to which it is a party directly to the Issuer. The Trustee and the Delegate will have direct recourse against SEC to recover such payments due to the Issuer pursuant to the Transaction Documents. In the absence of default by the Delegate, investors have no direct recourse to SEC and there can be no assurance that the net proceeds of the realisation of, or enforcement with respect to, the Trust Assets in respect of a Series will be sufficient to make all payments due in respect of that Series. In the event that the proceeds of the Trust Assets in respect of a Series are not sufficient to satisfy the payments under that Series, the relevant Certificateholders shall have no recourse against any other assets of the Trustee (including the Trust Assets in respect of the other Series) or against any director or officer of the Trustee. After enforcing or realising the Trust Assets in respect of a Series and distributing the net proceeds of those Trust Assets in accordance with Condition 6.2 (*Application of Proceeds from Trust Assets*), the obligations of the Issuer in respect of that Series shall be satisfied and neither the Delegate nor any Certificateholder may take any further steps against the Issuer to recover any further sums in respect of that Series and the right to receive any such sums unpaid shall be extinguished.

Furthermore, under no circumstances shall any Certificateholder, the Trustee or the Delegate have any right to cause the sale or other disposition of any of the Trust Assets in respect of a Series except pursuant to the Transaction Documents of that Series and the sole right of the Trustee, the Delegate and the Certificateholders against SEC shall be to enforce the obligation of SEC to perform its obligations under such Transaction Documents to which it is a party.

There can be no assurance that a secondary market for the Certificates will develop

There is no assurance that a market for the Certificates will develop or, if it does develop, that it will provide the Certificateholders with liquidity of investment or that it will continue for the life of the Certificates. Accordingly, a Certificateholder may not be able to find a buyer to buy its Certificates readily or at prices that will enable the Certificateholder to realise a desired yield. The market value of the Certificates may fluctuate and a lack of liquidity, in particular, can have a material adverse effect on the market value of the Certificates. Accordingly, the purchase of the Certificates is suitable only for investors who can bear the risks associated with a lack of liquidity in the Certificates and the financial and other risks associated with an investment in the Certificates. An investor in the Certificates must be prepared to hold the Certificates for an indefinite period of time or until their maturity. Application has been made to the London Stock Exchange plc for the Certificates to be admitted to trading on the London Stock Exchange plc's regulated market, but there can be no assurance that such listing will occur on or prior to the Closing Date, if at all.

The Certificates may be subject to early redemption

In the event that the amount payable on the Certificates is required to be increased to include additional amounts in accordance with the Conditions and/or SEC is required to pay additional amounts pursuant to certain Transaction Documents, in each case as a result of certain changes affecting taxation in the Kingdom or the Cayman Islands (as the case may be), or in each case any political subdivision or any authority thereof or therein having power to tax, the Issuer may redeem all but not some only of the Certificates of each Series upon giving notice in accordance with the Conditions of the Certificates prior to their Scheduled Dissolution Date.

The Certificateholders may face foreign exchange risks or adverse tax consequences by investing in the Certificates

The Issuer will pay amounts due on the Certificates in U.S. dollars. If the Certificateholders measure their investment returns by reference to a currency other than U.S. dollars (the “**Certificateholder’s Currency**”), an investment in the Certificates will entail foreign exchange-related risks due to, among other factors, possible significant changes in the value of the U.S. dollar, as applicable, relative to the Certificateholder’s Currency because of economic, political and other factors over which the Issuer has no control and the risk that authorities with jurisdiction over the Certificateholder’s Currency may impose or modify exchange controls. Depreciation of the U.S. dollar, as applicable, against the Certificateholder’s Currency could cause a decrease in the effective yield of the Certificates below their stated Periodic Distribution Amount and could result in a loss to the Certificateholders when the return on the Certificates is translated into the Certificateholder’s Currency. Investment in the Certificates may also have important tax consequences as a result of any foreign currency exchange gains or losses.

RISK FACTORS RELATING TO ENFORCEMENT

Governing Law and enforcement of judgments

The Certificates and certain of the Transaction Documents are expressed to be governed by English law as set out below and provide for the resolution of disputes by arbitration under the Arbitration Rules of the London Court of International Arbitration, subject only to an option for the Certificateholders to bring proceedings before English courts. Despite this, the courts and judicial committees of the Kingdom may not recognise the choice of English law or submission to jurisdiction of English courts at the option of the Certificateholders of a Series. Accordingly, in any proceedings relating to the Certificates in the Kingdom, *Shari’ah*, as interpreted in the Kingdom, may be applied by the relevant court or judicial committee. The courts and judicial committees of the Kingdom have the discretion to deny the enforcement of any contractual or other obligations, if, in their opinion, the enforcement thereof would be contrary to the principles of *Shari’ah*.

Disputes of a commercial nature in the Kingdom are currently heard before a court called the Grievances Board, which strictly applies *Shari’ah*, although a new law of the judiciary was issued on 30 Ramadan 1428H. (corresponding to 12 October 2007) and calls for the establishment of Commercial Courts in the Kingdom. The Grievances Board has exclusive jurisdiction to consider the enforcement of foreign judgments and arbitral awards, supervise insolvency and bankruptcy proceedings of commercial entities and hear claims against Saudi Arabian government bodies. Accordingly, if a judgment from an English court were to be enforced in the Kingdom, it would need to be submitted to the Grievances Board for enforcement.

The Grievances Board may, at its discretion, enforce all or any part of a foreign judgment provided that (a) the judgment is not inconsistent with *Shari’ah* and/or Saudi Arabian law and (b) the judgment creditor can demonstrate to the Grievances Board that the courts of the jurisdiction granting the judgment will reciprocally enforce the judgments of the courts and committees of the Kingdom in such foreign jurisdiction. Such reciprocity may be demonstrated by way of the existence of a treaty or protocol between the Kingdom and the relevant jurisdiction or by virtue of a plaintiff providing evidence that the relevant foreign court has recognised and enforced a Saudi Arabian judgment on a previous occasion. In the case of an English judgment, there is no relevant treaty and, accordingly, Certificateholders seeking to enforce an English judgment might be required to adduce other evidence of such reciprocity. No assurance can be given that investors would be able to meet the requirements of reciprocity of enforcement. In addition, even if Certificateholders were able to meet this requirement, they should be aware that if any terms of the Certificates or the Transaction Documents (including any provisions relating to the payment of profit) were found to be inconsistent with *Shari’ah*, they would not be enforced by the Grievances Board.

Arbitration awards relating to disputes under certain of the Transaction Documents may not be enforceable in the Kingdom

The parties to certain of the Transaction Documents have agreed to refer any unresolved dispute in relation to such Transaction Documents to arbitration under the Arbitration Rules of the London Court of International Arbitration. Although the Kingdom is a party to the New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards 1958 (the “**New York Convention**”), enforcement in the Kingdom of a foreign arbitration is not certain. For example, there are a number of

circumstances in which recognition of an arbitral award under the New York Convention may be declined, including where the award is contrary to the public policy of the receiving state. As a consequence, any arbitral award deemed by a court in the Kingdom as contrary to the public policy of the Kingdom may not be enforceable in the Kingdom.

The choice of English law in certain of the Transaction Documents and any judgments pursuant to English law relating to the Transaction Documents may not be enforceable in the Kingdom

Certain of the Transaction Documents are expressly governed by English law as set out below. There is uncertainty in the Kingdom regarding the enforceability of choice of law provisions. Furthermore, courts in the Kingdom are unlikely to enforce any foreign judgment without re-examining the merits of the claim. Moreover, provisions of foreign law which are deemed contrary to public policy, order or morals in the Kingdom (including *Shari'ah* principles), or to any mandatory law of, or applicable in, the Kingdom, may not be enforceable in the Kingdom.

The terms of the Declaration of Trust may not be enforceable in the Kingdom

The laws of the Kingdom do not recognise the concept of a trust. Accordingly, there is no certainty that the terms of the Declaration of Trust (which is governed by English law) would be enforced by the courts of the Kingdom and as such, there can be no assurance that the obligations of the Trustee under the Declaration of Trust to act on behalf of the Certificateholders in accordance with their instructions (given in accordance with the terms and conditions of the Certificates) are enforceable as a matter of contract under the laws of the Kingdom or that the courts of the Kingdom would recognise any claim of the Delegate on behalf of Certificateholders under the Transaction Documents pursuant to the Declaration of Trust.

There is uncertainty regarding the adjudication of claims relating to the Transaction Documents under the laws of the Kingdom

Certain of the Transaction Documents are expressly governed by, and are to be construed in accordance with, the laws of the Kingdom. Furthermore, such Transaction Documents provide that the Committee for the Resolution of Securities Disputes and the Appeal Panel (the "**Committee**") shall have jurisdiction to hear and determine any suit, action or proceedings, and to settle any disputes, which may arise out of or in connection with such Transaction Documents. To the best of the Issuer's and SEC's knowledge, no securities of a similar nature to the Certificates have previously been the subject of adjudicatory interpretation or enforcement in the Kingdom. Accordingly, it is uncertain exactly how and to what extent the Transaction Documents would be enforced by the Committee or by any other adjudicatory authority in the Kingdom. Furthermore, the Government recently approved a restructuring of the judicial system, which contemplates the review of the jurisdiction and status of the Committee. It is not currently clear what the outcome of this review will be or its impact on any claims relating to the Transaction Documents.

Claims for specific performance under the Transaction Documents may not be granted and there can be no assurances as to the level of damages that may be awarded in the event of a breach under the Transaction Documents

In the event that SEC fails to perform its obligations under any Transaction Document, the potential remedies available to the Issuer, the Trustee and the Delegate include obtaining an order for specific performance of the relevant obligations or a claim for damages. There can be no assurance that a court will provide an order for specific performance which is a discretionary matter or that any order for specific performance granted by an English court will be recognised or enforced by the courts in the Kingdom. Furthermore, the amount of damages which a court in the Kingdom may award in respect of a breach will depend upon a number of possible factors including an obligation on the Issuer, the Trustee or the Delegate to mitigate any loss arising as a result of the breach. No assurances can be provided as to the level of damages which a court may award in the event of a failure by SEC to perform its obligations as set out in the Transaction Documents.

Compliance with bankruptcy laws in the Kingdom may affect SEC's ability to perform its obligations under the Transaction Documents

In the event of SEC's insolvency, bankruptcy laws in the Kingdom may adversely affect SEC's ability to perform its obligations under the Transaction Documents to which it is a party and, in turn, affect

the Issuer's ability to perform its obligations in respect of the Certificates. In particular, Article 110 of the Commercial Court Regulations promulgated under Royal Decree No. M/32 dated 15/1/1350H (corresponding to 2 June 1931) authorises a Saudi Arabian court to declare a contract of a debtor void or ineffective in the event that such debtor has been already declared bankrupt by such court prior to the entry into such contract. There is little precedent to predict how claims by or on behalf of the Certificateholders and/or the Delegate would be resolved in the event of SEC's bankruptcy and accordingly it is uncertain exactly how and to what extent the Transaction Documents would be enforced by a Saudi Arabian adjudicatory body if such Saudi Arabian adjudicatory body were to void or otherwise cause such document, or any part thereof, to be void or ineffective pursuant to Article 110 of the Commercial Court Regulations (following a declaration of bankruptcy), and therefore there can be no assurance that Certificateholders will receive repayment of their claims in full or at all in these circumstances.

Change of law

The structure of the issue of each Series of Certificates is based on English law and administrative practices in effect as at the date of this Prospectus. No assurance can be given as to the impact of any possible change to English law or administrative practices in such jurisdiction after the date of this Prospectus, nor can any assurance be given as to whether any such change could adversely affect the ability of the Issuer to make payments under the Certificates or of SEC to perform its obligations under the Transaction Documents to which it is a party.

RISK FACTORS RELATING TO TAXATION

Certificateholders may be affected by the EU Savings Directive

Under EC Council Directive 2003/48/EC on the taxation of savings income (the "**Directive**"), Member States are required to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to an individual resident in that other Member State or to certain limited types of entities established in that other Member State. However, for a transitional period, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non-European Union countries and territories including Switzerland have adopted similar measures (a withholding system in the case of Switzerland).

The European Commission has proposed certain amendments to the Directive which may, if implemented, amend or broaden the scope of the requirements described above.

If a payment were to be made or collected through a Member State which has opted for a withholding system and an amount of, or in respect of, tax were to be withheld from that payment, neither the Issuer nor any Paying Agent nor any other person would be obliged to pay additional amounts with respect to Certificates as a result of the imposition of such withholding tax. The Issuer is required to maintain a Paying Agent in a member state that is not obliged to withhold or deduct tax pursuant to the Directive.

ADDITIONAL RISK FACTORS

There can be no assurance that the Certificates will be *Shari'ah* compliant

HSBC Amanah Central *Shari'ah* Committee and Dr. Hussein Hamid Hassan, the *Shari'ah* advisor of Deutsche Bank AG, London Branch have reviewed the Transaction Documents and confirmed that the Certificates are, in their view, *Shari'ah* compliant. However, there can be no assurance that the Transaction Documents or issue and trading of the Certificates will be deemed to be *Shari'ah* compliant by any other *Shari'ah* committee or *Shari'ah* scholars. Different *Shari'ah* advisers and judicial committees may form different opinions on identical issues and therefore potential investors should obtain their own independent *Shari'ah* advice as to the compliance of the Transaction Documents and the issue and trading of the Certificates with *Shari'ah* principles. None of the Issuer, SEC or any of the Managers makes any representation as to the *Shari'ah* compliance of the Certificates.

Credit ratings may not reflect all risks

Each Series of Certificates is expected to be assigned a rating of A1 by Moody's, AA- by S&P and AA- by Fitch. A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency. The ratings of the Certificates may not reflect the potential impact of all the risks related to the structure, market, additional factors discussed herein and other factors that may affect the value of the Certificates. In addition, real or anticipated changes in the ratings of the Certificates could negatively affect the market value of the Certificates.

In general, European regulated investors are restricted under the CRA Regulation from using credit ratings for regulatory purposes, unless such ratings are issued by a credit rating agency established in the EU and registered under the CRA Regulation (and such registration has not been withdrawn or suspended), subject to transitional provisions that apply in certain circumstances whilst the registration application is pending. Such general restriction will also apply in the case of credit ratings issued by non-EU credit rating agencies, unless the relevant credit ratings are endorsed by an EU-registered credit rating agency or the relevant non-EU rating agency is certified in accordance with the CRA Regulation (and such endorsement action or certification, as the case may be, has not been withdrawn or suspended). The list of registered and certified rating agencies published by the European Securities and Markets Authority ("ESMA") on its website in accordance with the CRA Regulation is not conclusive evidence of the status of the relevant rating agency included in such list, as there may be delays between certain supervisory measures being taken against a relevant rating agency and the publication of the updated ESMA list. Certain information with respect to the credit rating agencies and ratings is set out on the front page of this Prospectus.

The Certificates will initially be held in book-entry form and therefore the Certificateholders must rely on the procedures of the relevant clearing system to exercise any rights and remedies

Interests in each Global Certificate will trade in book-entry form only. Unless and until the Certificates in definitive registered form are issued in exchange for the relevant Global Certificate, owners of book-entry interests in that Global Certificate will not be considered owners or Certificateholders. The common depositary (or its nominee) for Euroclear and Clearstream will be the registered holder of each Global Certificate. After payment to the common depositary, the Issuer will have no responsibility or liability for the payment of Periodic Distribution Amounts, principal or other amounts to the owners of book-entry interests in the relevant Global Certificate. Accordingly, if holders own a book-entry interest, they must rely on the procedures of Euroclear or Clearstream, as applicable, and if holders are not a participant in Euroclear or Clearstream, on the procedures of the participant through which holders own their interest, to exercise any rights and obligations of a holder under the Conditions of the Certificates. See also "*Summary of Provisions Relating to the Certificates in Global Form*".

Unlike the Certificateholders themselves, owners of book-entry interests in the Global Certificates will not have the direct right to act upon the Issuer's solicitations for consents, requests for waivers or other actions from the Certificateholders. Instead, if holders own a book-entry interest, they will be permitted to act only to the extent that they have received appropriate proxies to do so from Euroclear or Clearstream or, if applicable, from a participant. There can be no assurance that procedures implemented for the granting of such proxies will be sufficient to enable holders to vote on any request actions on a timely basis.

Similarly, upon the occurrence of an event of default under the Conditions, unless and until definitive registered Certificates are issued in respect of all book-entry interests in the relevant Global Certificate, if holders own a book-entry interest, holders will be restricted to acting through Euroclear or Clearstream. There can be no assurance that the procedures to be implemented through Euroclear or Clearstream will be adequate to ensure the timely exercise of rights under the Certificates.

Total Loss Event

As owner of the *Ijara* Assets relating to each Series, the Issuer is required, among other things, to insure the relevant *Ijara* Assets. In accordance with *Shari'ah* principles, the Issuer has delegated this obligation to SEC, as its servicing agent, which has undertaken in the Servicing Agency Agreement in respect of each Series, *inter alia*, to insure the relevant *Ijara* Assets in the name of the Issuer against the occurrence of a Total Loss Event for their full reinstatement value (and to ensure, in relation to each Series, that such amount is not at any time less than the aggregate face amount of Certificates of

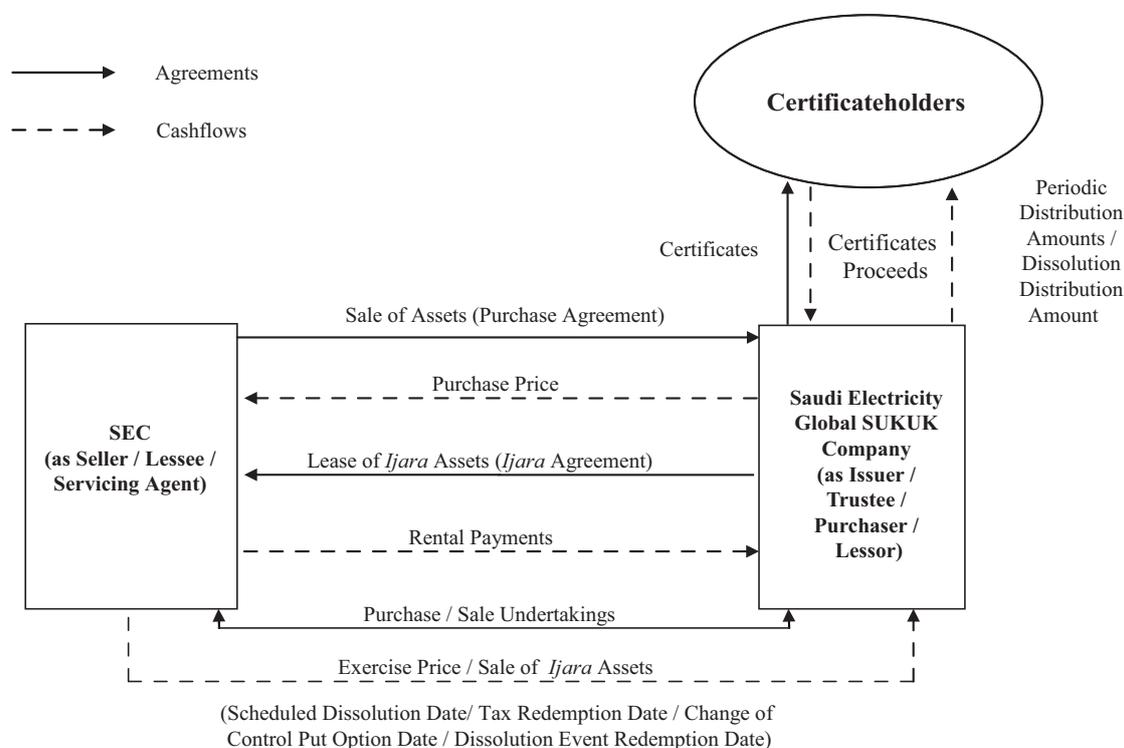
such Series then outstanding). A “**Total Loss Event**” is defined as the total loss or destruction of, or damage to the relevant *Ijara* Assets or any event or occurrence that renders the whole of the relevant *Ijara* Assets permanently unfit for any economic use and (but only after taking into consideration any insurances or other indemnity granted by any third party in respect of the relevant *Ijara* Assets) the repair or remedial work in respect thereof is wholly uneconomical or the expropriation, confiscation, attachment, sequestration or execution of any legal process in respect of the relevant *Ijara* Assets.

Nevertheless, should such an event occur the relevant *Ijara* will terminate and the Certificates of the relevant Series will be repaid using the proceeds of the insurance received by the Issuer. In this scenario potential investors should be aware that (i) rental under the relevant *Ijara* will cease upon the occurrence of a Total Loss Event as that *Ijara* will have terminated and accordingly the Periodic Distribution Amount received by the Certificateholders of the relevant Series will reflect this fact and (ii) there may be a delay in the Issuer receiving the proceeds of insurance and therefore in the relevant Certificateholders receiving a Dissolution Distribution Amount in respect of their Certificates and no additional Periodic Distribution Amount will be paid in respect of this delay. Each Servicing Agency Agreement provides that if the insurance proceeds paid into the relevant Transaction Account are less than the full reinstatement value of the relevant insured relevant *Ijara* Assets due to the Servicing Agent’s failure to comply with the terms of the Servicing Agency Agreement, the Servicing Agent undertakes to pay any shortfall amount (being the difference between the Insurance Coverage Amount and the amount credited to the relevant Transaction Account) into the relevant Transaction Account by no later than close of business in Riyadh on the thirty first (31st) day after the Total Loss Event occurred. The Delegate will be entitled to enforce this undertaking against SEC on behalf of the Certificateholders of the relevant Series.

STRUCTURE DIAGRAM AND CASHFLOWS

The following is a simplified overview of the structure and principal cashflows underlying the issue of each Series. This overview does not purport to be complete and is qualified in its entirety by reference to, and must be read in conjunction with, the detailed information appearing elsewhere in this Prospectus. Potential investors should read the entire Prospectus, especially the risks in relation to investing in the Certificates discussed under “Risk Factors” and the detailed descriptions of the relevant Transaction Documents set out elsewhere in this Prospectus for a fuller description of certain cashflows.

Key:



Purchase of Assets and *Ijara*

On the Issue Date of each Series, the relevant Certificateholders will pay the issue price in respect of the relevant Certificates to the Trustee (in its capacity as the Issuer).

Pursuant to the relevant Purchase Agreement, the Trustee (in its capacity as the Purchaser) will use such amount to purchase from SEC (in its capacity as the Seller) all of the Seller’s rights, title, interests, benefits and other entitlements in and to the relevant power generation assets with an economic life substantially beyond the relevant Scheduled Dissolution Date as described in schedule 1 to the Purchase Agreement (in relation to each Series, the “*Ijara* Assets”) which may be substituted in accordance with the relevant Substitution Undertaking for any assets the identity of which shall be determined by SEC in its sole discretion on the condition that the value of the substitute assets is equal to or greater than the value of the assets being substituted.

The Trustee (in its capacity as the Lessor) will lease the relevant *Ijara* Assets to SEC (in its capacity as the Lessee) pursuant to the relevant *Ijara* Agreement. The Lessee will pay rental payments in respect of the relevant *Ijara* Assets which are intended to be sufficient to fund the Periodic Distribution Amounts due under the relevant Series of Certificates on each Periodic Distribution Date and which shall be applied by the Trustee (in its capacity as the Issuer) for that purpose.

Redemption of the Certificates

Pursuant to the Purchase Undertaking in respect of each Series, the Trustee may, on the relevant Scheduled Dissolution Date, or prior thereto following the occurrence of a Dissolution Event or a Change of Control, exercise its rights under the relevant Purchase Undertaking and require SEC to purchase all of its rights, title, interests, benefits and other entitlements in and to the relevant *Ijara* Assets.

Pursuant to the Sale Undertaking in respect of each Series, SEC may, following the occurrence of a Tax Event, exercise its rights under the relevant Sale Undertaking to require the Trustee to sell to SEC all of its rights, title, interests, benefits and other entitlements in and to the relevant *Ijara* Assets. In each case, the consideration payable by SEC upon such exercise of a Purchase Undertaking or a Sale Undertaking, as appropriate, shall be the relevant Exercise Price.

Pursuant to the Sale Undertaking in respect of each Series, SEC may also, in the event that SEC wishes to cancel any Certificate of the relevant Series purchased in accordance with Condition 13.1 (*Purchases*), exercise its rights under the relevant Sale Undertaking to require the Trustee to transfer and convey the relevant *Ijara* Assets to SEC as identified by SEC. The consideration provided by SEC for such exercise of such Sale Undertaking shall be the cancellation of the relevant Certificates.

OVERVIEW OF THE OFFERING

The following overview does not purport to be complete and is taken from, and is qualified in its entirety by, the remainder of this Prospectus. This overview may not contain all of the information that prospective investors should consider before deciding to invest in the Certificates. Accordingly, any decision by a prospective investor to invest in the Certificates should be based on a consideration of this Prospectus as a whole. Words and expressions defined in “Terms and Conditions of the 2017 Certificates” and “Terms and Conditions of the 2022 Certificates” shall have the same meanings in this overview.

Description of Certificates:	U.S.\$500,000,000 2.665 per cent. Certificates due 2017 and U.S.\$1,250,000,000 4.211 per cent. Certificates due 2022.
Issuer and Trustee:	Saudi Electricity Global SUKUK Company, as issuer of the Certificates and trustee for and on behalf of the Certificateholders, an exempted company with limited liability incorporated on 20 February 2012 in accordance with the Companies Law (as amended) and formed and registered in the Cayman Islands with company registration number WK-266435 with its registered office at Walkers SPV Limited, Walker House, 87 Mary Street, George Town, Grand Cayman KY1-9002, Cayman Islands. The Trustee has been incorporated solely for the purpose of participating in the transactions contemplated by the Transaction Documents to which it is a party.
Ownership of the Trustee:	The authorised share capital of the Trustee is U.S.\$50,000.00 consisting of 50,000 ordinary shares of U.S.\$1.00 par value each, of which 1 ordinary share of U.S.\$1.00 par value has been issued. The sole issued share is fully-paid and held by SEC as at the date of this Prospectus.
Administration of the Trustee:	The affairs of the Trustee are managed by, or procured through a subsidiary of, Walkers SPV Limited (the “ Issuer Administrator ”), who will provide, amongst other things, corporate administrative services, director services and prepare the annual financial statements of the Trustee pursuant to the corporate services agreement dated on or about 29 March 2012 between, <i>inter alia</i> , the Issuer and the Issuer Administrator (the “ Corporate Services Agreement ”).
Seller:	SEC (in its capacity as the Seller) will sell to the Trustee (in its capacity as the Purchaser) pursuant to the Purchase Agreement in respect of each Series the relevant <i>Ijara</i> Assets.
Lessee:	SEC (in its capacity as the Lessee) will lease from the Trustee (in its capacity as the Lessor) the relevant <i>Ijara</i> Assets for a five year term in respect of the 2017 Certificates and a ten year term in respect of the 2022 Certificates and, in each case, will pay rent to the Trustee on a semi annual basis pursuant to the relevant <i>Ijara</i> Agreement. The rent is intended to fund the Periodic Distribution Amounts payable by the Issuer in respect of the Certificates of each Series.
Servicing Agent:	SEC (in its capacity as Servicing Agent) for and on behalf of the Trustee (in its capacity as the Lessor) will be responsible for insuring the <i>Ijara</i> Assets relating to each Series, paying proprietary and other taxes and performing all major maintenance and structural repairs.
SEC:	In accordance with the Purchase Undertaking in respect of each Series, SEC shall, at the option of the Trustee, be required to purchase all of the Trustee’s rights, title, interests, benefits and

other entitlements in and to the relevant *Ijara* Assets on the Scheduled Dissolution Date, or following the occurrence of a Dissolution Event or a Change of Control.

In accordance with the Sale Undertaking in respect of each Series, SEC shall have the right to require the Trustee to sell to SEC all of its rights, title, interests, benefits and other entitlements in and to the relevant *Ijara* Assets following the occurrence of a Tax Event.

Delegate:	Deutsche Trustee Company Limited. In accordance with the Declaration of Trust, the Trustee will unconditionally and irrevocably appoint the Delegate to be its attorney and to exercise certain future duties, powers, authorities and discretions vested in the Trustee by certain provisions of the Declaration of Trust in accordance with the terms of the Declaration of Trust.
Joint Bookrunners and Joint Lead Managers:	Deutsche Bank AG, London Branch and HSBC Bank plc.
Co-Lead Manager:	Mitsubishi UFJ Securities International plc
Principal Paying Agent and Replacement Agent:	Deutsche Bank AG, London Branch
Registrar and Transfer Agent:	Deutsche Bank Luxembourg S.A.
Issue Date:	3 April 2012
Issue Amount:	U.S.\$500,000,000 in respect of the 2017 Certificates and U.S.\$1,250,000,000 in respect of the 2022 Certificates.
Issue Price:	100 per cent of the aggregate face amount of the Certificates.
Periodic Distribution Dates and Amounts:	Payable semi-annually, on the third day of each April and October in each year, commencing on 3 October 2012, Certificateholders will receive, from moneys received in respect of the relevant Trust Assets, a Periodic Distribution Amount calculated at the rate of (i) in the case of the 2017 Certificates, 2.665 per cent. per annum on the outstanding face amount of the 2017 Certificates as at the beginning of the relevant Periodic Distribution Period, and (ii) in the case of the 2022 Certificates, 4.211 per cent. per annum on the outstanding face amount of the 2022 Certificates as at the beginning of the relevant Periodic Distribution Period, in each case on a 30/360 day basis.
Periodic Distribution Period:	The period from (and including) a Periodic Distribution Date (or, in the case of the first Periodic Distribution Period, from, and including, the Closing Date) to (but excluding) the next (or, in the case of the first Periodic Distribution Date, first) Periodic Distribution Date.
Dissolution on the Scheduled Dissolution Date:	The Scheduled Dissolution Date is 3 April 2017 in respect of the 2017 Certificates and 3 April 2022 in respect of the 2022 Certificates. Upon receipt by the Trustee of the Exercise Price payable pursuant to the terms of the relevant Purchase Undertaking, that Exercise Price will be applied to redeem the relevant Certificates at the Dissolution Distribution Amount.
Dissolution Distribution Amount:	In relation to each Series, the aggregate outstanding face amount of the Certificates of that Series plus a U.S. dollar amount equal to all accrued and unpaid Periodic Distribution Amounts in respect of such Certificates.

Status of the Certificates:	Each Certificate evidences an undivided beneficial ownership interest of the Certificateholders in the Trust Assets in respect of the relevant Series, subject to the terms of the relevant Transaction Documents and Conditions, and is a direct, unsubordinated, unsecured and limited recourse obligation of the Trustee. Each Certificate will at all times rank <i>pari passu</i> , without any preference or priority, with all other Certificates of the relevant Series.
Limited Recourse:	<p>No payment of any amount whatsoever shall be made in respect of the Certificates except to the extent that funds for that purpose are available from the relevant Trust Assets.</p> <p>Certificateholders of a Series have no recourse to any assets (other than the Trust Assets in respect of that Series) of the Trustee or SEC (to the extent that it fulfils all of its obligations under the Transaction Documents in relation to the relevant Series to which it is a party) or the Delegate or any Agent or any of their respective affiliates in respect of any shortfall in the expected amounts from the relevant Trust Assets to the extent the relevant Trust Assets have been enforced, realised and fully discharged, following which all obligations of the Trustee, the Delegate and their respective directors and agents shall be extinguished.</p>
Use of Proceeds:	The net proceeds of the issue of the Certificates of each Series, of approximately U.S.\$498,830,605 in the case of the 2017 Certificates and approximately U.S.\$1,248,830,605 in the case of the 2022 Certificates, will be used by the Trustee as the purchase price to be paid to SEC on the Closing Date for the purchase of the <i>Ijara</i> Assets relating to each Series.
Summary of the Transaction Structure and Documents:	An overview of the structure of the transaction and the principal cashflows is set out under “ <i>Structure Diagram and Cashflows</i> ” and a description of the principal terms of the Transaction Documents is set out under “ <i>Summary of the Principal Transaction Documents</i> ”.
Negative Pledge:	The Certificates will have the benefit of a negative pledge granted by SEC, as described in Condition 5 (<i>Negative Pledge</i>).
Cross-Default:	In respect of SEC, the Certificates will have the benefit of a cross-default provision, as described in Condition 14 (<i>Dissolution Events</i>).
The Trust Assets:	<p>Pursuant to the Declaration of Trust, the Trustee will declare that it will hold the Trust Assets in respect of each Series, consisting of:</p> <ul style="list-style-type: none"> (a) all of the Trustee’s rights, title, interests, benefits and other entitlements, present and future, in, to and under the <i>Ijara</i> Assets relating to that Series; (b) all of the Trustee’s rights, title, interests, benefits and other entitlements, present and future, in, to and under the Transaction Documents of that Series excluding any representations given to the Trustee by SEC pursuant to any of those Transaction Documents; (c) all monies standing to the credit of the relevant Transaction Account; and (d) all proceeds of the foregoing.

Early Dissolution of the Trust:	Other than as a result of the occurrence of a Dissolution Event, a Tax Event or a Change of Control, the Trust will not be subject to dissolution, and the Certificates will not be redeemed, prior to the Scheduled Dissolution Date.
Dissolution Events:	The Dissolution Events are described in Condition 14 (<i>Dissolution Events</i>). Following the occurrence of a Dissolution Event which is continuing, the Certificates may be redeemed in full at an amount equal to the Dissolution Distribution Amount in the manner described in Condition 14 (<i>Dissolution Events</i>).
Early Dissolution for Tax Reasons:	Where the Trustee has or will become obliged to pay any additional amounts in respect of the Certificates as a result of a change in the laws of the Cayman Islands or the Trustee has received notice from SEC that SEC has or will become obliged to pay any additional amounts pursuant to the terms of the relevant <i>Ijara</i> Agreement and as a result of a change in the laws of the Kingdom, and such obligation cannot be avoided by the Trustee or SEC, as applicable, taking reasonable measures available to it, the Trustee will, following receipt of an Asset Exercise Notice under the relevant Sale Undertaking, redeem the relevant Certificates in whole but not in part at an amount equal to the Dissolution Distribution Amount on the relevant Tax Redemption Date.
Change of Control Put Option:	<p>Upon the occurrence of a Change of Control and provided that an Asset Exercise Notice has been served on the Trustee by Certificateholders of a Series holding at least one-quarter of the then aggregate face amount of the relevant Certificates outstanding of that Series, Certificateholders may elect to redeem their Certificates on the Change of Control Put Option Date at an amount equal to the Dissolution Distribution Amount in accordance with Condition 10.3 (<i>Dissolution at the Option of the Certificateholders (Change of Control Put)</i>). Under the terms of each Purchase Undertaking, SEC has granted to the Trustee the right, following the Change of Control and the service by Certificateholders of the relevant Series of a Change of Control Exercise Notice, to require SEC to purchase all of the Trustee's rights, title, interests, benefits and other entitlements in and to the relevant <i>Ijara</i> Assets at the Dissolution Distribution Amount specified in the Asset Exercise Notice.</p> <p>A “Change of Control” shall occur if at any time:</p> <ul style="list-style-type: none"> (a) the Government of the Kingdom of Saudi Arabia or any department or authority of the Government of the Kingdom of Saudi Arabia ceases to own, directly or indirectly more than fifty per cent. (50%) of the issued share capital of SEC or to control, directly or indirectly, SEC; or (b) SEC ceases to own, directly or indirectly, more than 50 per cent. (50%) of the issued share capital of each Principal Subsidiary or to control, directly or indirectly, each Principal Subsidiary.
Total Loss Event:	The occurrence of a Total Loss Event will result in the redemption of the Certificates of that Series and the consequent dissolution of the relevant Trust. The Servicing Agent is responsible for ensuring that the <i>Ijara</i> Assets relating to each Series are properly insured. If a Total Loss Event occurs, the

Servicing Agent undertakes to ensure that all insurance proceeds in respect thereof are paid directly into the relevant Transaction Account by no later than the thirtieth (30th) day after the occurrence of the Total Loss Event.

“**Total Loss Event**” means the total loss or destruction of, or damage to all of the *Ijara* Assets relating to a Series or any event or occurrence that renders all such *Ijara* Assets permanently unfit for any economic use and (but only after taking into consideration any insurances or other indemnity granted in each case by any third party in respect of the *Ijara* Assets) the repair or remedial work in respect thereof is wholly uneconomical.

Asset Substitution:

Pursuant to the Substitution Undertaking in respect of each Series, SEC has the right to require the Trustee to transfer, deliver and convey all of the Trustee’s rights, title, interests, benefits and other entitlements in and to the relevant Substituted *Ijara* Assets in exchange for the grant by SEC to the Trustee of the relevant New *Ijara* Assets provided that the value of such New *Ijara* Assets is equal to or greater than the value of the Substituted *Ijara* Assets on the substitution date.

Enforcement:

Following the enforcement, realisation and the ultimate distribution in full of the Trust Assets in respect of a Series to the Certificateholders of that Series in accordance with the relevant Conditions and the Declaration of Trust, the Trustee shall not be liable for any further sums and, accordingly Certificateholders may not take any action against the Trustee or any other person (including SEC) to recover any such sum in respect of the relevant Certificates or the relevant Trust Assets.

The Delegate shall not be bound in any circumstances to take any action to enforce or to realise the Trust Assets of a Series or take any action against the Trustee and/or SEC under any Transaction Document relating to a Series to which either of the Trustee or SEC is a party unless directed or requested to do so: (a) by an Extraordinary Resolution of that Series; or (b) in writing by the holders of at least 25 per cent. of the then outstanding aggregate face amount of the Certificates of that Series and in either case then only if it shall be indemnified and/or secured and/or prefunded to its satisfaction against all liabilities to which it may thereby render itself liable or which it may incur by so doing and provided that the Delegate shall not be held liable for the consequences of exercising its discretion or taking any such action and may do so without having regard to the effect of such action on individual Certificateholders of that Series.

No Certificateholder of a Series shall be entitled to proceed directly against the Trustee or SEC under any Transaction Document relating to that Series to which either of them is party unless (a) the Delegate, having become bound so to proceed, fails to do so within 30 days of becoming so bound and such failure is continuing and (b) the relevant Certificateholder (or such Certificateholder together with the other Certificateholders of that Series who propose to proceed directly against any of the Trustee or SEC (as the case may be) holds at least 25 per cent. of the then aggregate face amount of the Certificates of the Series outstanding. Under no circumstances shall the Delegate or any Certificateholder of the Series have any right to cause the sale or other disposition of any of the Trust Assets in respect of

that Series (other than pursuant to the relevant Purchase Undertaking) and the sole right of the Delegate and the Certificateholders of that Series against the Trustee and/or SEC shall be to enforce their respective obligations under the relevant Transaction Documents.

The foregoing paragraphs are subject to this paragraph. After enforcing or realising the Trust Assets in respect of a Series and distributing the proceeds of those Trust Assets in accordance with Condition 6.2 (*Application of Proceeds from Trust Assets*), the obligations of the Trustee in respect of the Certificates of that Series shall be satisfied and no holder of the Certificates of that Series may take any further steps against the Trustee, the Delegate or any other person (including SEC) to recover any further sums in respect of the Certificates of the Series and the right to receive any sums unpaid shall be extinguished. In particular, no Certificateholder in respect of a Series shall be entitled in respect thereof to petition or to take any other steps for the winding-up of the Trustee.

Role of the Delegate:

Pursuant to the Declaration of Trust, the Trustee will delegate to the Delegate all of the present and future duties, powers, trusts, authorities and discretions vested in the Trustee by certain provisions of the Declaration of Trust. In particular, the Delegate shall be entitled to:

- (a) to deliver an Asset Exercise Notice to SEC in accordance with each Purchase Undertaking; and
- (b) following a Dissolution Event which is continuing, take any enforcement action in the name of the Trustee against SEC.

Form and Delivery of the Certificates: The Certificates will be issued in registered global form only.

The Certificates of each Series will be represented on issue by beneficial interests in a Global Certificate, which will be deposited with, and registered in the name of a nominee for, a common depository for Euroclear and Clearstream. Ownership interests in the relevant Global Certificate will be shown on, and transfers thereof will only be effected through, records maintained by Euroclear and Clearstream (as applicable), and their respective participants. Individual Certificates evidencing holdings of Certificates will be issued in exchange for interests in the relevant Global Certificate only in certain limited circumstances.

Denomination of Certificates:

The Certificates will be issued in minimum denominations of U.S.\$200,000 and integral multiples of U.S.\$1,000 in excess thereof.

Clearance and Settlement:

Holders of the Certificates must hold their interest in the relevant Global Certificate in book-entry form through Euroclear and/or Clearstream. Transfers within and between each of Euroclear or Clearstream will be in accordance with the usual rules and operating procedures of the relevant clearing system.

Transaction Account:

The Principal Paying Agent will maintain and operate in respect of each Series a separate U.S. dollar account in the name of the Issuer into which, among other things, the rental payments in respect of the relevant *Ijara* Assets and payments due to the

Issuer under the relevant Purchase Undertaking or the relevant Sale Undertaking, as the case be, will be deposited. Periodic Distribution Amounts and the Dissolution Distribution Amount in respect of the Certificates of each Series will be paid to holders of the Certificates of that Series from funds standing to the credit of the relevant Transaction Account in accordance with the order of priority described under “*Priority of Distributions*” below.

Priority of Distributions:

On each Periodic Distribution Date or on any Dissolution Date, the Principal Paying Agent shall apply the monies standing to the credit of the Transaction Account relating to the relevant Series in the following order of priority:

- (a) *first*, to the Delegate in respect of all amounts owing to it under the relevant Transaction Documents in its capacity as Delegate;
- (b) *second*, only if such payment is made on a Dissolution Date, to the Principal Paying Agent for application in or towards payment *pari passu* and rateably of: (i) the relevant Dissolution Distribution Amount; or (ii) the amount payable following a Total Loss Event, as the case may be;
- (c) *third*, only if such payment is made on a Dissolution Date, to the Servicing Agent in or towards payment of all outstanding Service Charge Amounts in respect of that Series; and
- (d) *fourth*, only if such payment is made on a Dissolution Date in respect of the relevant Series, payment of the residual amount (if any) to the Trustee as an incentive payment.

Withholding Tax:

All payments by SEC under the Transaction Documents to which it is a party are to be made without withholding or deduction for, or on account of, any Taxes imposed in the Kingdom of Saudi Arabia (or any political sub-division or any authority thereof or therein having power to tax). In the event that any such deduction is made, SEC will be required, pursuant to the relevant Transaction Documents, to pay to the Trustee additional amounts so that the Trustee will receive the full amount which otherwise would have been due and payable under the relevant Transaction Documents.

All payments by the Trustee in respect of the Certificates shall be made without withholding or deduction for, or on account of, Taxes imposed in the Cayman Islands or any political sub-division or any authority thereof or therein having power to tax. SEC has agreed in the Transaction Documents that, if the Trustee is required to make any payment under the Certificates after deduction or withholding for: (i) Taxes; or (ii) as otherwise required by applicable law and is required to pay additional amounts in respect thereof, SEC will pay to the Trustee additional amounts to cover the amounts so deducted as would have been paid had no such deduction or withholding been required.

Listing:

Application has been made to the UK Listing Authority for the Certificates to be admitted to the Official List and to the London Stock Exchange plc for such Certificates to be admitted to trading on the London Stock Exchange plc’s regulated market.

Certificateholder Meetings:	A summary of the provisions for convening meetings of Certificateholders to consider matters relating to their interests as such is set out in Condition 18 (<i>Meetings of Certificateholders, Modification, Waiver, Authorisation and Determination</i>).
Tax Considerations:	See the section entitled “ <i>Taxation and Zakat</i> ” for a description of certain tax considerations applicable to the Certificates.
Governing Law:	<p>The Transaction Documents (other than the Purchase Agreements, any Sale Agreements and any Substitution Transfer Agreements), and any non-contractual obligations arising out of or in connection with any such Transaction Documents, will be governed by and construed in accordance with English law.</p> <p>The Purchase Agreements, any Sale Agreements and any Substitution Transfer Agreements will be governed by Saudi law.</p> <p>The Corporate Services Agreement will be governed by Cayman Islands law.</p>
Transaction Documents:	The Transaction Documents are the Subscription Agreement, the Declaration of Trust, the Agency Agreement, and the Purchase Agreement, the <i>Ijara</i> Agreement, the Servicing Agency Agreement, the Purchase Undertaking, the Sale Undertaking and the Substitution Undertaking in respect of each Series.
Ratings:	<p>Each Series of Certificates is expected to be assigned a rating of AA- by S&P, a rating of AA- by Fitch and a rating of A1 by Moody’s.</p> <p>A securities rating is not a recommendation to buy, sell or hold the Certificates (or the beneficial interests therein). Ratings may be subject to suspension, reduction or withdrawal at any time by the assigning rating organisation.</p>
Selling Restrictions:	There are restrictions on the offer, sale and transfer of the Certificates in the Cayman Islands, the Dubai International Financial Centre, Hong Kong, the Kingdom of Bahrain, the Kingdom of Saudi Arabia, Malaysia, Singapore, the State of Qatar, the United Arab Emirates (excluding the Dubai International Financial Centre), the Dubai International Financial Centre, the United Kingdom and the United States of America and such other restrictions as may be required in connection with the offering and sale of the Certificates. See “ <i>Subscription and Sale</i> ”.
Waiver of Sovereign Immunity:	SEC acknowledges in the Transaction Documents to which it is a party that to the extent that it may in any jurisdiction claim for itself or its assets or revenues immunity from suit, execution before judgment or otherwise or other legal process and to the extent that such immunity (whether or not claimed) may be attributed to it or its assets or revenues, SEC represents and agrees that it will not claim and irrevocably and unconditionally waives to the fullest extent possible under applicable law such immunity in relation to any proceedings.

TERMS AND CONDITIONS OF THE 2017 CERTIFICATES

The following are the Terms and Conditions of the 2017 Certificates which (subject to modification and except for the text in italics) will be endorsed on the Global Certificate (as defined below) in respect of the 2017 Certificates and each 2017 Certificate in definitive form (if issued).

Each of the U.S.\$500,000,000 Trust Certificates due 2017 (the “**Certificates**”) is issued by Saudi Electricity Global SUKUK Company (in its capacity as issuer, the “**Issuer**”) and represents an undivided beneficial ownership interest in the Trust Assets (as defined below) held on trust (the “**Trust**”) for the holders of such Certificates pursuant to a declaration of trust (the “**Declaration of Trust**”) dated 3 April 2012 (the “**Closing Date**”) made between Saudi Electricity Global SUKUK Company (in its capacity as trustee, the “**Trustee**”), Deutsche Trustee Company Limited as the Trustee’s delegate (the “**Delegate**”) and Saudi Electricity Company (“**SEC**”).

Payments relating to the Certificates will be made pursuant to an agency agreement dated the Closing Date (the “**Agency Agreement**”) made between the Trustee, the Delegate, SEC and Deutsche Bank AG, London Branch as principal paying agent (in such capacity, the “**Principal Paying Agent**”), as paying agent (in such capacity, a “**Paying Agent**” and, together with any further or other paying agents appointed from time to time in respect of the Certificates, the “**Paying Agents**”), as replacement agent (together with any further or other replacement agents appointed from time to time in respect of the Certificates, in such capacity, the “**Replacement Agent**”) and as transfer agent (in such capacity, a “**Transfer Agent**”, and, together with any further or other transfer agents appointed from time to time in respect of the Certificates, the “**Transfer Agents**”) and Deutsche Bank Luxembourg S.A. as registrar (in such capacity, the “**Registrar**”). The Paying Agents, the Registrar, the Transfer Agents and the Replacement Agent are together referred to in these Conditions as the “**Agents**”. References to the Agents or any of them shall include their successors.

The Certificateholders (as defined below) are entitled to the benefit of, are bound by, and are deemed to have notice of the Transaction Documents (as defined below) (copies of which are available for inspection during normal business hours at the specified offices of the Paying Agents.

The statements in these Conditions include summaries of, and are subject to, the detailed provisions of the Transaction Documents. In these Conditions, words and expressions defined and rules of construction and interpretation set out in the Declaration of Trust shall, unless defined herein or the context otherwise requires, have the same meanings herein. In the event of any inconsistency between any such document, these Conditions will prevail.

Each initial Certificateholder, by its acquisition and holding of its interest in a Certificate, shall be deemed to authorise and direct the Trustee, on behalf of the Certificateholders: (a) to apply the sums paid by it in respect of its Certificate in acquiring the Trust Assets; and (b) to enter into each Transaction Document to which it is a party, subject to the provisions of the Declaration of Trust and these Conditions.

1. DEFINITIONS AND INTERPRETATION

Words and expressions defined in the Declaration of Trust and the Agency Agreement shall have the same meanings where used in these Conditions unless the context otherwise requires. In addition, in these Conditions the following expressions have the following meanings:

“**2022 Certificates**” means the U.S.\$1,250,000,000 Trust Certificates due 2022 issued by the Issuer;

“**2022 Certificate Transaction Documents**” means the Purchase Agreement, the *Ijara* Agreement, the Servicing Agency Agreement, the Purchase Undertaking, the Sale Undertaking, the Substitution Undertaking, any Sale Agreement and any Substitution Transfer Agreement relating to the 2022 Certificates;

“**2022 Certificate Trust**” means the trust in respect of the 2022 Certificates declared pursuant to the Declaration of Trust;

“**2022 Certificateholders**” means the holders of the 2022 Certificates;

“**2022 Certificate Trust Assets**” means the assets of the 2022 Certificate Trust;

“**Additional Dissolution Distribution Amount**” has the meaning given to it in Condition 8.3 (*Periodic Distributions – Cessation of Accrual*);

“**Additional Ijara Period**” has the meaning given to it in the *Ijara* Agreement;

“**Additional Rental Amount**” means the amount of rental payable for the period from (and including) the date on which any Dissolution Distribution Amount falls due to (but excluding) the date on which such Dissolution Distribution Amount is actually paid;

“**Asset Exercise Notice**” has the meaning given to it in the Purchase Undertaking and the Sale Undertaking;

“**Asset Redemption Notice**” has the meaning given to it in the Sale Undertaking;

“**Asset Redemption Date**” has the meaning given to it in the Sale Undertaking;

“**Authorised Denomination(s)**” has the meaning given to it in Condition 2.1 (*Form, Denomination and Title – Form and Denomination*);

“**Cancellation Notice**” means a cancellation notice in substantially the form of schedule 5 (*Form of Cancellation Notice*) to the Declaration of Trust;

“**Certificate**” means each certificate represented by the Global Certificate as described in Condition 2.1 (*Form, Denomination and Title – Form and Denomination*);

“**Certificateholders**” means the several Persons in whose names the Certificates are registered in the Register save that, for so long as the Certificates or any part of them are represented by a Global Certificate held on behalf of Euroclear and Clearstream, each Person (other than another clearing system) who has for the time being a particular aggregate face amount of such Certificates credited to his securities account in the records of Clearstream or Euroclear shall be deemed to be the Certificateholder in respect of the aggregate face amount of such Certificates for the purposes hereof other than for the purpose of payments in respect thereof, the right to which shall be vested, as against the Trustee, solely in the registered holder of such Global Certificate in accordance with and subject to the terms of the Global Certificate, and the expressions “**holder**” and “**holder of Certificates**” and related expressions shall (where appropriate) be construed accordingly;

a “**Change of Control**” shall occur if at any time:

- (a) the Government of the Kingdom of Saudi Arabia or any department or authority of the Government of the Kingdom of Saudi Arabia ceases to own, directly or indirectly, more than fifty per cent. (50%) of the issued share capital of SEC or to control, directly or indirectly, SEC; or
- (b) SEC ceases to own, directly or indirectly, more than 50 per cent. (50%) of the issued share capital of each Principal Subsidiary or to control, directly or indirectly, each Principal Subsidiary;

“**Change of Control Exercise Notice**” has the meaning given to it in Condition 10.3 (*Capital Distributions of the Trust – Dissolution at the Option of the Certificateholders (Change of Control Put)*);

“**Change of Control Notice**” has the meaning given to it in Condition 10.3 (*Capital Distributions of the Trust – Dissolution at the Option of the Certificateholders (Change of Control Put)*);

“**Change of Control Put Option**” has the meaning given to it in Condition 10.3 (*Capital Distributions of the Trust – Dissolution at the Option of the Certificateholders (Change of Control Put)*);

“**Change of Control Put Option Date**” has the meaning given to it in Condition 10.3 (*Capital Distributions of the Trust – Dissolution at the Option of the Certificateholders (Change of Control Put)*);

“**Change of Control Put Period**” has the meaning given to it in Condition 10.3 (*Capital Distributions of the Trust – Dissolution at the Option of the Certificateholders (Change of Control Put)*);

“**Clearstream**” means Clearstream Banking, *société anonyme*, Luxembourg;

“**Conditions**” means these terms and conditions of the Certificates;

“**control**” means the power to appoint and/or remove all or the majority of the members of the board of directors or other governing body of a Person or to control or have the power to control the affairs and policies of that Person, whether through the ownership of share capital, the possession of voting power, contract, trust or otherwise;

“**Dispute**” has the meaning given to it in Condition 21.2 (*Governing Law, Submission to Jurisdiction and Service of Process - Arbitration*);

“**Dissolution Date**” means, as the case may be:

- (a) the Scheduled Dissolution Date;
- (b) the Tax Redemption Date;
- (c) any Change of Control Put Option Date on which the outstanding Certificates are redeemed in full;
- (d) any Dissolution Event Redemption Date; and
- (e) any date on which the Certificates are redeemed in accordance with the provisions of Condition 10.5 (*Capital Distributions of the Trust – Dissolution Following a Total Loss Event*);

“**Dissolution Distribution Amount**” means, in relation to each Certificate, the sum of:

- (i) the outstanding face amount of such Certificate;
- (ii) any accrued but unpaid Periodic Distribution Amounts relating to such Certificates (other than any Additional Dissolution Distribution Amount); and
- (iii) any accrued but unpaid Additional Dissolution Distribution Amount relating to such Certificate;

“**Dissolution Event**” has the meaning given to it in Condition 14 (*Dissolution Events*);

“**Dissolution Event Redemption Date**” has the meaning given to it in Condition 14 (*Dissolution Events*);

“**Dissolution Request**” has the meaning given to it in Condition 14 (*Dissolution Events*);

“**Encumbrance**” means any lien, pledge, mortgage, security interest, deed of trust, charge or other encumbrance or arrangement having a similar effect;

“**Euroclear**” means Euroclear S.A./N.V.;

“**Extraordinary Resolution**” has the meaning given to it in schedule 4 (*Provisions for Meetings of Certificateholders*) to the Declaration of Trust;

“**Exercise Price**” has the meaning given to it in the Purchase Undertaking and the Sale Undertaking;

“**Face Amount**” means, at any time, the aggregate face amount of the Certificates then outstanding;

“**Global Certificate**” means the trust certificate in global form issued by the Trustee representing the Certificates;

“**Ijara**” means the *Ijara* lease created pursuant to the *Ijara* Agreement;

“**Ijara Agreement**” has the meaning given to it in Condition 6.1 (*Trust – Summary of the Trust*);

“**Ijara Assets**” has the meaning given to it in Condition 6.1 (*Trust – Summary of the Trust*);

“**Indebtedness**” means any indebtedness or guarantee or indemnity in respect of indebtedness for moneys borrowed or raised (whether or not evidenced by bonds, debentures, notes or other instruments and including any obligations incurred in respect of Islamic financing arrangements);

“**Insurance Coverage Amount**” means an amount equal to the full reinstatement value of the *Ijara* Assets, which shall not be less than the aggregate Face Amount;

“**Joint Venture Company**” means an entity which is, at any particular time, jointly controlled (whether directly or indirectly) by SEC and any other Person or Persons;

“**LCIA**” has the meaning given to it in Condition 21.2 (*Governing Law, Submission to Jurisdiction and Service of Process - Arbitration*);

“**Lessee**” has the meaning given to it in Condition 6.1 (*Trust – Summary of the Trust*);

“**Lessor**” has the meaning given to it in Condition 6.1 (*Trust – Summary of the Trust*);

“**Liability**” means any loss, damage, cost (excluding any cost of funding), charge, claim, demand, expense, judgment, action, proceeding or other liability whatsoever (including, without limitation in respect of Taxes) and including any value added tax or similar tax charged or chargeable in respect thereof and legal or other fees and expenses on a full indemnity basis and references to “**Liabilities**” shall mean all of these;

“**Material Subsidiary**” means, at any relevant time, a Subsidiary of SEC:

- (a) whose gross revenues (consolidated in the case of a Subsidiary which itself has Subsidiaries) or whose total assets (consolidated in the case of a Subsidiary which itself has Subsidiaries) represent in each case (or, in the case of a Subsidiary acquired after the end of the financial period to which the then latest audited consolidated accounts of SEC and its Subsidiaries relate, are equal to) not less than ten per cent. (10%) of the consolidated gross revenues of SEC, or, as the case may be, consolidated total assets, of SEC and its Subsidiaries taken as a whole, all as calculated respectively by reference to the then latest audited accounts (consolidated or, as the case may be, unconsolidated) of such Subsidiary and the then latest audited consolidated accounts of SEC and its Subsidiaries, provided that in the case of a Subsidiary of SEC acquired after the end of the financial period to which the then latest audited consolidated accounts of SEC and its Subsidiaries relate, the reference to the then latest audited consolidated accounts of SEC and its Subsidiaries for the purposes of the calculation above shall, until consolidated accounts for the financial period in which the acquisition is made have been prepared and audited as aforesaid, be deemed to be a reference to such first-mentioned accounts as if such Subsidiary had been shown in such accounts by reference to its then latest relevant audited accounts, adjusted as deemed appropriate by SEC;
- (b) to which is transferred the whole or substantially the whole of the undertaking and assets of a Subsidiary of SEC which immediately prior to such transfer is a Material Subsidiary, provided that the transferor Subsidiary shall upon such transfer forthwith cease to be a Material Subsidiary and the transferee Subsidiary shall cease to be a Material Subsidiary pursuant to this subparagraph (b) on the date on which the consolidated accounts of SEC and its Subsidiaries for the financial period current at the date of such transfer have been prepared and audited as aforesaid but so that such transferor Subsidiary or such transferee Subsidiary may be a Material Subsidiary on or at any time after the date on which such

consolidated accounts have been prepared and audited as aforesaid by virtue of the provisions of subparagraph (a) above or, prior to or after such date, by virtue of any other applicable provision of this definition; or

- (c) to which is transferred an undertaking or assets which, taken together with the undertaking or assets of the transferee Subsidiary, generated (or, in the case of the transferee Subsidiary being acquired after the end of the financial period to which the then latest audited consolidated accounts of SEC and its Subsidiaries relate, generate gross revenues equal to) not less than ten per cent. (10%) of the consolidated gross revenues of SEC, or represent (or, in the case aforesaid, are equal to) not less than ten per cent. of the consolidated total assets of SEC and its Subsidiaries taken as a whole, all as calculated as referred to in subparagraph (a) above, provided that the transferor Subsidiary (if a Material Subsidiary) shall upon such transfer forthwith cease to be a Material Subsidiary unless immediately following such transfer its undertaking and assets generate (or, in the case aforesaid, generate gross revenues equal to) not less than ten per cent. (10%) of the consolidated gross revenues of SEC, or its assets represent (or, in the case aforesaid, are equal to) not less than ten per cent. (10%) of the consolidated total assets of SEC and its Subsidiaries taken as a whole, all as calculated as referred to in subparagraph (a) above, and the transferee Subsidiary shall cease to be a Material Subsidiary pursuant to this subparagraph (c) on the date on which the consolidated accounts of SEC and its Subsidiaries for the financial period current at the date of such transfer have been prepared and audited but so that such transferor Subsidiary or such transferee Subsidiary may be a Material Subsidiary on or at any time after the date on which such consolidated accounts have been prepared and audited as aforesaid by virtue of the provisions of subparagraph (a) above or, prior to or after such date, by virtue of any other applicable provision of this definition,

all as more particularly defined in the Declaration of Trust;

“**New Ijara Assets**” has the meaning given to it in Condition 6.1 (*Trust – Summary of the Trust*);

“**Non-recourse Financing**” means any indebtedness where:

- (a) any Security Interest created by SEC or a Subsidiary in respect of such indebtedness is limited solely to specific property;
- (b) the relevant creditors in respect of such indebtedness expressly agree to limit their recourse to such property and the revenues derived from such property or, in the case of any such indebtedness for the financing of all or part of the costs of the acquisition, construction or development of any project, to the project financed and the revenues derived from such project as the sole source of repayment in respect of such indebtedness; and
- (c) there is no other recourse to SEC or any Subsidiary in respect of any default by any Person in respect of such indebtedness;

“**Payment Business Day**” means a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in London and New York and, in the case of presentation of a Certificate, in the place of the specified office of the Registrar or relevant Paying Agent, to whom the relevant Certificate is presented;

“**Periodic Distribution Amount**” means an amount representing a defined share of the Rental paid by the Lessee to the Lessor in accordance with Condition 8.1 (*Periodic Distributions – Periodic Distribution Amount*);

“**Periodic Distribution Date**” means 3 April and 3 October in each year, commencing on 3 October 2012, and subject to these Conditions, ending on 3 April 2017;

“**Periodic Distribution Period**” means the period from (and including) a Periodic Distribution Date (or, in the case of the first Periodic Distribution Period, from, and including, the Closing Date) to (but excluding) the next (or, in the case of the first Periodic Distribution Date, first) Periodic Distribution Date;

“Permitted Reorganisation” means any amalgamation, reorganisation, restructuring, merger, consolidation or similar arrangement, whereby the assets or undertakings of SEC or any Material Subsidiary are transferred to or otherwise vested in SEC or any other Material Subsidiary or the terms of which are approved by an Extraordinary Resolution;

“Permitted Security Interest” means:

- (a) any Security Interest on assets or property existing at the time SEC or any Subsidiary acquired such assets or property provided that such Security Interest was not created in contemplation of such acquisition;
- (b) any Security Interest securing Relevant Indebtedness of a Person existing at the time that such Person is merged into or consolidated with SEC or a Subsidiary provided that such Security Interest was not created in contemplation of such merger or consolidation and does not extend to any other assets or property of SEC or any Subsidiary;
- (c) any Security Interest created to secure a Non-recourse Financing;
- (d) any Security Interest incurred in connection with a Securitisation provided that the aggregate Relevant Indebtedness incurred in connection with such Securitisations shall not exceed at any time fifteen per cent. (15%) of the consolidated total assets of SEC and its Subsidiaries, as shown in the Relevant Accounts; and
- (e) any renewal of or substitution for any Security Interest permitted by any of the preceding subclauses (a) through (d), provided that with respect to any such Security Interest, the principal amount secured has not increased and the Security Interest has not been extended to any additional property (other than the proceeds of such property);

“Person” means any individual, company, corporation, firm, partnership, joint venture, association, organisation, state or agency of a state or other entity, whether or not having separate legal personality;

“Potential Dissolution Event” means any condition, event or act which, with the giving of notice, lapse of time, declaration, demand, determination or fulfillment of any other applicable condition (or any combination of the foregoing), would constitute a Dissolution Event;

“Principal Subsidiary” means any Subsidiary of SEC to which all or a substantial part of SEC’s electricity generation, transmission or distribution assets are transferred, subject, in the case of any *Ijara* Assets, to the *Ijara* Agreement;

“Proceedings” has the meaning given to it in Condition 21.3 (*Governing Law, Submission to Jurisdiction and Service of Process - Jurisdiction*);

“Purchase Agreement” has the meaning given to it in Condition 6.1 (*Trust – Summary of the Trust*);

“Purchase Undertaking” has the meaning given to it in Condition 6.1 (*Trust – Summary of the Trust*);

“Record Date” means, in the case of the payment of a Periodic Distribution Amount or the Dissolution Distribution Amount on the Scheduled Dissolution Date (as the case may be), the date falling on the fifteenth (15th) day before the relevant Periodic Distribution Date or the Scheduled Dissolution Date (as the case may be) and, in the case of the payment of any other Dissolution Distribution Amount, the date falling two (2) Payment Business Days before the relevant Dissolution Date or other due date for payment of such amount;

“Redemption *Ijara* Assets” means the *Ijara* Assets leased by the Trustee to the Lessee pursuant to the *Ijara* Agreement to be transferred back to SEC in accordance with the Sale Undertaking;

“Register” has the meaning given to it in Condition 2.1 (*Form, Denomination and Title – Form and Denomination*);

“**Relevant Accounts**” means, at any time, the most recently available audited consolidated financial statements of SEC;

“**Relevant Indebtedness**” means any indebtedness which is in the form of, or represented or evidenced by, bonds, notes, debentures, loan stock or other securities which for the time being are, or are intended to be, or are capable of being, quoted, listed or dealt in or traded on any stock exchange or over-the-counter or other securities market;

“**Relevant Sukuk Obligation**” means any Sukuk Obligation where the trust certificates or other instruments, as the case may be, are, or are intended to be, or are capable of being, quoted, listed or dealt in or traded on any stock exchange or over-the-counter or other securities market;

“**Renewal Notice**” has the meaning given to it in the *Ijara* Agreement;

“**Rental**” has the meaning given to it in the *Ijara* Agreement;

“**Rules**” has the meaning given to it in Condition 21.2 (*Governing Law, Submission to Jurisdiction and Service of Process - Arbitration*)

“**Sale Agreement**” means any sale agreement entered into in connection with any Purchase Undertaking or Sale Undertaking;

“**Sale Undertaking**” has the meaning given to it in Condition 6.1 (*Trust – Summary of the Trust*);

“**SEC Event**” has the meaning given to it in Condition 14 (*Dissolution Events*);

“**Settlement to Avoid Bankruptcy Law**” means the settlement to avoid bankruptcy law promulgated under Royal Decree No. M/16, dated 4/9/1416 H. (24 January 1996) as amended, supplemented or restated from time to time;

“**Scheduled Dissolution Date**” means 3 April 2017;

“**Securitisation**” means any securitisation of existing or future property and/or revenues, provided that:

- (a) any Security Interest created by SEC or a Subsidiary in connection therewith is limited solely to the property and/or revenues which are the subject of the securitisation;
- (b) each Person participating in such securitisation expressly agrees to limit its recourse to the property and/or revenues so securitised as the principal source of repayment for the money advanced or payment of any other liability; and
- (c) there is no other recourse to SEC or any Subsidiary in respect of any default by any person under the securitisation;

“**Security Interest**” has the meaning given to it in Condition 5 (*Negative Pledge*);

“**Seller**” has the meaning given to it in Condition 6.1 (*Trust – Summary of the Trust*);

“**Service Charge Amount**” has the meaning given to it in the Servicing Agency Agreement;

“**Servicing Agency Agreement**” has the meaning given to it in Condition 6.1 (*Trust – Summary of the Trust*);

“**Servicing Agent**” has the meaning given to it in Condition 6.1 (*Trust – Summary of the Trust*);

“**Subsidiary**” means in relation to SEC, at any particular time, any Person other than a Joint Venture Company:

- (a) which is then under the control, directly or indirectly, of SEC; or
- (b) more than fifty per cent. (50%) of the issued share capital or ownership or other equity interests of which is then beneficially owned, directly or indirectly, by SEC;

“**Substituted Ijara Assets**” has the meaning given to it in Condition 6.1 (*Trust – Summary of the Trust*);

“**Substitution Transfer Agreement**” has the meaning given to it in Condition 6.1 (*Trust – Summary of the Trust*);

“**Substitution Undertaking**” has the meaning given to it in Condition 6.1 (*Trust – Summary of the Trust*);

“**Sukuk Obligation**” means any undertaking or other obligation to pay any money given in connection with the issue of trust certificates or other instruments issued in connection with any Islamic financing arrangements, whether or not in return for consideration of any kind;

“**Tax Redemption Date**” has the meaning given to it in Condition 10.2 (*Capital Distributions of the Trust – Early Dissolution for Tax Reasons*);

“**Taxes**” has the meaning given to it in Condition 11 (*Taxation*);

“**Total Loss Event**” has the meaning given to it in Condition 10.5 (*Capital Distributions of the Trust – Dissolution Following a Total Loss Event*);

“**Total Loss Shortfall Amount**” has the meaning given to it in Condition 6.1 (*Trust – Summary of the Trust*);

“**Transaction Account**” has the meaning given to it in Condition 6.1 (*Trust – Summary of the Trust*);

“**Transaction Documents**” means the Subscription Agreement, the Declaration of Trust, the Agency Agreement, the Purchase Agreement, the *Ijara* Agreement, the Servicing Agency Agreement, the Purchase Undertaking, the Sale Undertaking, the Substitution Undertaking, any Sale Agreement and any Substitution Transfer Agreement; and

“**Trust Assets**” has the meaning given to it in Condition 6.1 (*Trust – Summary of the Trust*).

2. FORM, DENOMINATION AND TITLE

2.1 Form and Denomination

The Certificates are issued in registered form in face amounts of U.S.\$200,000 and integral multiples of U.S.\$1,000 in excess thereof (each an “**Authorised Denomination**”). A Certificate will be issued to each Certificateholder in respect of its registered holding of Certificates. Each Certificate will be numbered serially with an identifying number which will be recorded on the relevant Certificate and in the register of Certificateholders (the “**Register**”), which the Trustee will cause to be kept by the Registrar outside the Cayman Islands and the United Kingdom in accordance with the provisions of the Agency Agreement.

Upon issue, the Certificates will be represented by the Global Certificate. Certificates represented by the Global Certificate will be transferable only in accordance with the rules and procedures for the time being of Euroclear and Clearstream.

2.2 Title

Title to the Certificates passes only by registration in the Register. The registered holder of any Certificate will (except as otherwise required by law) be treated as the absolute owner of the Certificates represented by the Certificate for all purposes (whether or not any payment thereon is overdue and regardless of any notice of ownership, trust or any interest or any writing on, or the theft or loss of, the Certificate) and no Person will be liable for so treating the holder of any Certificate. The registered holder of a Certificate will be recognised by the Trustee as entitled to his Certificate free from any equity, set-off or counterclaim on the part of the Trustee against the original or any intermediate holder of such Certificate.

The Trustee and the Delegate may call for and shall be at liberty to accept and place full reliance on (as sufficient evidence thereof and shall not be liable to any Certificateholder by reason only of

either having accepted as valid or not having rejected) an original Certificate or for so long as the Certificates are represented by the Global Certificate, a letter of confirmation purporting to be signed on behalf of Euroclear or Clearstream or any other relevant clearing system to the effect that at any particular time or throughout any particular period any particular Person is, was or will be shown in its records as having a particular aggregate face amount of Certificates credited to his securities account.

3. TRANSFERS OF CERTIFICATES

3.1 Transfers

Subject to Conditions 3.4 (*Transfers of Certificates – Closed Periods*) and 3.5 (*Transfers of Certificates – Regulations*), a Certificate may be transferred in an Authorised Denomination by depositing the Certificate, with the form of transfer on the back duly completed and signed, at the specified office of any of the Transfer Agents.

Transfer of interests in the Certificates represented by a Global Certificate will be effected in accordance with the rules of the relevant clearing system through which the interest is held.

3.2 Delivery of New Certificates

Each new Certificate to be issued upon any transfer of Certificates will, within five (5) business days of receipt by the relevant Transfer Agent of the duly completed form of transfer endorsed on the relevant Certificate (or such longer period as may be required to comply with any applicable fiscal or other laws or regulations), be delivered at the specified office of the relevant Transfer Agent or be mailed by uninsured mail at the risk of the holder entitled to the Certificate to the address specified in the form of transfer. For the purposes of this Condition, “**business day**” shall mean a day on which banks are open for business in the city in which the specified office of the Transfer Agent with whom a Certificate is deposited in connection with a transfer is located.

Where some but not all of the Certificates in respect of which a Certificate is issued are to be transferred, a new Certificate in respect of the Certificates not so transferred will, within five (5) business days of receipt by the relevant Transfer Agent of the original Certificate, be delivered at the specified office of the relevant Transfer Agent or be mailed by uninsured mail at the risk of the holder of the Certificates not so transferred to the address of such holder appearing on the Register or as specified in the form of transfer.

3.3 Formalities Free of Charge

Registration of any transfer of Certificates will be effected without charge by or on behalf of the Trustee by the Registrar or any Transfer Agent but upon payment (or the giving of such indemnity as the Trustee, any Transfer Agent or the Registrar may reasonably require) by the transferee in respect of any stamp duty, tax or other governmental charges which may be imposed in relation to such transfer.

3.4 Closed Periods

No Certificateholder may require the transfer of a Certificate to be registered during the period of seven (7) days ending on (and including) the due date for any payment of the Dissolution Distribution Amount or any Periodic Distribution Amount.

3.5 Regulations

All transfers of Certificates and entries on the Register will be made subject to the detailed regulations concerning transfer of Certificates scheduled to the Declaration of Trust. A copy of the current regulations will be mailed (free of charge) by the Registrar to any Certificateholder who requests in writing a copy of such regulations.

Each Certificateholder shall be entitled to receive, in accordance with Condition 2.1 (*Form, Denomination and Title – Form and Denomination*), only one Certificate in respect of his entire holding of Certificates. In the case of a transfer of a portion of the face amount of a Certificate,

a new Certificate in respect of the balance of the Certificates not transferred will be issued to the transferor in accordance with Condition 3.2 (*Transfer of Certificates – Delivery of New Certificates*).

4. STATUS AND LIMITED RECOURSE

4.1 Status

Each Certificate evidences an undivided beneficial ownership interest of the Certificateholders in the Trust Assets, subject to the terms of the Transaction Documents and these Conditions, and is a direct, unsubordinated, unsecured and limited recourse obligation of the Trustee. Each Certificate will at all times rank *pari passu*, without any preference or priority, with all other Certificates.

4.2 Limited Recourse

The proceeds of the Trust Assets are the sole source of payments on the Certificates. Save as provided in the next sentence, the Certificates do not represent an interest in or obligation of any of the Trustee or SEC. Accordingly, Certificateholders, by subscribing for or acquiring the Certificates, acknowledge that they will have no recourse to any assets (other than the Trust Assets) of the Trustee or SEC (to the extent that it fulfils all of its obligations under the Transaction Documents to which it is a party) or any director or officer of the Trustee in respect of any shortfall in the expected amounts from the Trust Assets to the extent the Trust Assets have been exhausted, following which all obligations of the Trustee and SEC shall be extinguished.

SEC is obliged to make certain payments under the Transaction Documents to which it is a party directly to the Trustee (for and on behalf of the Certificateholders) or the Delegate (acting in the name and on behalf of the Trustee). The Trustee and the Delegate will have direct recourse against SEC to recover such payments.

The net proceeds of realisation of, or enforcement with respect to, the Trust Assets may not be sufficient to make all payments due in respect of the Certificates. If, following distribution of such proceeds, there remains a shortfall in payments due under the Certificates, subject to Condition 15 (*Enforcement and Exercise of Rights*), no Certificateholder will have any claim against the Trustee (to the extent the Trust Assets have been exhausted) or any director or officer of the Trustee, SEC (to the extent that it fulfils all of its obligations under the Transaction Documents to which it is a party), any affiliate of any of the foregoing entities or against any assets (other than the Trust Assets to the extent not exhausted) in respect of such shortfall and any unsatisfied claims of Certificateholders shall be extinguished. In particular, no Certificateholder will be entitled to petition for, or join any other Person in instituting proceedings for, the reorganisation, liquidation, winding up or receivership of the Trustee as a consequence of such shortfall or otherwise.

4.3 Agreement of Certificateholders

By purchasing Certificates, each Certificateholder is deemed to have agreed that notwithstanding anything to the contrary contained in these Conditions or any Transaction Document, that, in relation to the Certificates:

- (a) no payment of any amount whatsoever shall be made by any of the Trustee or the Delegate or any agents of the Trustee on its behalf except to the extent funds are available therefor from the Trust Assets and no recourse shall be had for the payment of any amount owing hereunder, whether for the payment of any fee or other amount hereunder or any other obligation or claim arising out of or based upon the Transaction Documents, against the Trustee, the Delegate or any agents of the Trustee to the extent the Trust Assets have been exhausted, following which all obligations of the Trustee, the Delegate and or any agents of the Trustee shall be extinguished;
- (b) prior to the date which is one (1) year and one (1) day after the date on which all amounts owing by the Trustee under the Transaction Documents to which it is a party have been paid in full, it will not institute against, or join with any other Person in instituting against, the Trustee, any bankruptcy, reorganisation, arrangement or liquidation proceedings or other proceedings under any bankruptcy or similar law; and

- (c) no recourse (whether by institution or enforcement of any legal proceedings or assessment or otherwise) in respect of any breaches of any duty, obligation or undertaking of the Trustee arising under or in connection with the Declaration of Trust, the Certificates and the Conditions (as from time to time supplemented or modified in accordance with the provisions herein or therein contained), by virtue of any customary law, statute or otherwise shall be had against any shareholder, member, officer, agent or director of the Trustee in their capacity as such and any and all personal liability of every such shareholder, member, officer, agent or director in their capacity as such for any breaches by the Trustee of any such duty, obligation or undertaking is expressly waived and excluded to the extent permitted by law save in the case of wilful default or fraud.

5. NEGATIVE PLEDGE

*The following restrictive covenant has been given by SEC in the Ijara Agreement. So long as any Certificate remains outstanding (as defined in the Declaration of Trust), SEC will not and SEC will procure that no Subsidiary will create, or have outstanding, any mortgage, charge, lien, pledge or other security interest (each a “**Security Interest**”), other than a Permitted Security Interest, upon the whole or any part of its present or future undertaking, assets or revenues to secure any Relevant Indebtedness or Relevant Sukuk Obligation, or any guarantee or indemnity in respect of any Relevant Indebtedness or Relevant Sukuk Obligation, without at the same time or prior thereto according to all amounts payable by it to the Trustee under the Transaction Documents the same security as is created or subsisting to secure any such Relevant Indebtedness, Relevant Sukuk Obligation, guarantee or indemnity or such other security as shall be approved by an Extraordinary Resolution of the Certificateholders.*

6. TRUST

6.1 Summary of the Trust

The Trustee has entered into a purchase agreement (the “**Purchase Agreement**”) dated the Closing Date with SEC (in such capacity, the “**Seller**”). Pursuant to the Purchase Agreement, the Seller has transferred and conveyed to the Trustee all of the Seller’s interests, rights, title, benefits and other entitlements in and to power generation assets with an economic life substantially beyond the Scheduled Dissolution Date as described in schedule 1 to the Purchase Agreement (the “**Ijara Assets**”) which may be substituted in accordance with the Substitution Undertaking for any assets the identity of which shall be determined by SEC in its sole discretion on the condition that the value of the substitute assets is equal to or greater than the value of the assets being substituted, free and clear of any Encumbrances.

The Trustee (in such capacity, the “**Lessor**”) has leased the *Ijara Assets*, with effect from the Closing Date for renewable six (6) months terms, to SEC (in such capacity, the “**Lessee**”) pursuant to an *Ijara* agreement (the “**Ijara Agreement**”) dated the Closing Date. The Lessee will pay the agreed rental payments in respect of the *Ijara Assets* in such amounts as are equal to the Periodic Distribution Amount due on each Periodic Distribution Date.

If, upon dissolution of the Trust (in whole or in part) in accordance with Condition 10 (*Capital Distributions of the Trust*), the Exercise Price is improperly withheld or refused and no Sale Agreement is entered into, the Lessor shall deliver to the Lessee a Renewal Notice in accordance with the *Ijara Agreement*, the *Ijara Assets* shall remain in the ownership of the Lessor and the *Ijara Agreement* shall be deemed to be extended for a period from and including the date on which the Exercise Price was due, to but excluding the date on which the Exercise Price is paid in full in accordance with the terms of the Purchase Undertaking or, as the case may be, the Sale Undertaking. In such circumstances, the Lessor shall be entitled to receive as part of such payment on the date on which such payment is made in full the Additional Rental Amount in respect of such Additional *Ijara* Period.

Under a servicing agency agreement (the “**Servicing Agency Agreement**”) dated the Closing Date, the Trustee has appointed SEC as servicing agent (in such capacity, the “**Servicing Agent**”) in respect of the *Ijara Asset*.

Upon the occurrence of a Total Loss Event, the Certificates will be redeemed and the Trust will be dissolved by the Trustee on the date specified by the Trustee in accordance with Condition 10.5

(*Capital Distributions of the Trust – Dissolution Following a Total Loss Event*). The Certificates will be redeemed at the Dissolution Distribution Amount in accordance with Condition 10.5 (*Capital Distributions of the Trust – Dissolution Following a Total Loss Event*) using either the proceeds of insurance payable in respect of the Total Loss Event or, if a Total Loss Event occurs and an amount (if any) less than the Insurance Coverage Amount is credited to the Transaction Account in accordance with the Servicing Agency Agreement (the difference between the Insurance Coverage Amount and the amount credited to the Transaction Account being the “**Total Loss Shortfall Amount**”), the aggregate of the insurance proceeds payable in respect of the Total Loss Event (if any) and the Total Loss Shortfall Amount transferred by the Servicing Agent in accordance with the terms of the Servicing Agency Agreement.

SEC has entered into a purchase undertaking deed (the “**Purchase Undertaking**”) dated the Closing Date in favour of the Trustee pursuant to which SEC undertakes, following receipt of an Asset Exercise Notice from the Trustee thereunder, to purchase all of the Trustee’s interests, rights, title, benefits and other entitlements in and to the *Ijara* Assets (or the relevant *Ijara* Assets as identified by SEC in the case of a Change of Control) on the Scheduled Dissolution Date, on the Dissolution Event Redemption Date or on the Change of Control Put Option Date, in each case at the Dissolution Distribution Amount.

The Trustee has entered into a sale undertaking deed (the “**Sale Undertaking**”) dated the Closing Date in favour of SEC pursuant to which the Trustee undertakes: (i) following receipt of an Asset Exercise Notice from SEC thereunder, to sell all of the Trustee’s interests, rights, title, benefits and other entitlements in and to the *Ijara* Assets on the Tax Redemption Date at the Dissolution Distribution Amount or (ii) following receipt of an Asset Redemption Notice from SEC thereunder, to transfer and convey all of the Trustee’s interests, rights, title, benefits and other entitlements in and to the relevant *Ijara* Assets on the Asset Redemption Date against the cancellation of the relevant Certificates pursuant to the Declaration of Trust.

The Trustee has entered into a substitution undertaking (the “**Substitution Undertaking**”) dated the Closing Date in favour of SEC pursuant to which SEC has the right to require the Trustee to transfer and convey all of the Trustee’s interests, rights, title, benefits and other entitlements in and to certain *Ijara* Assets (the “**Substituted Ijara Assets**”) to SEC in consideration for which SEC will transfer to the Trustee, by way of a substitution transfer agreement (“**Substitution Transfer Agreement**”), all its interests, rights, title, benefits and other entitlements in and to certain new *Ijara* assets (the “**New Ijara Assets**”). SEC will be obliged to certify that the value of the New *Ijara* Assets is equal to or greater than the value of the Substituted *Ijara* Assets.

The Trustee has established a transaction account (the “**Transaction Account**”) in the name of the Trustee with the Principal Paying Agent into which SEC will deposit all amounts due to the Trustee under the *Ijara* Agreement, the Purchase Undertaking and the Sale Undertaking, as the case may be.

Pursuant to the Declaration of Trust, the Trustee has declared that it will hold certain assets (the “**Trust Assets**”), consisting of:

- (a) all of the Trustee’s rights, title, interests, benefits and other entitlements, present and future, in, to and under the *Ijara* Assets;
- (b) all of the Trustee’s rights, title, interests, benefits and other entitlements, present and future, in, to and under the Transaction Documents excluding any representations given to the Trustee by SEC pursuant to any of the Transaction Documents;
- (c) all monies standing to the credit of the Transaction Account; and
- (d) all proceeds of the foregoing,

upon trust absolutely for the Certificateholders *pro rata* according to the face amount of the Certificates held by each Certificateholder in accordance with the Declaration of Trust and these Conditions.

6.2 Application of Proceeds from Trust Assets

On each Periodic Distribution Date and on any Dissolution Date, the Principal Paying Agent shall apply the monies standing to the credit of the Transaction Account in the following order of priority:

- (a) *first*, to the Delegate in respect of all amounts owing to it under the Transaction Documents in its capacity as Delegate;
- (b) *second*, to the Principal Paying Agent for application in or towards payment *pari passu* and rateably of all Periodic Distribution Amounts due but unpaid;
- (c) *third*, only if such payment is made on a Dissolution Date, to the Principal Paying Agent for application in or towards payment *pari passu* and rateably of: (i) the Dissolution Distribution Amount; or (ii) the amount payable following a Total Loss Event, as the case may be;
- (d) *fourth*, only if such payment is made on a Dissolution Date, to the Servicing Agent in or towards payment of all outstanding Service Charge Amounts (as defined in the Servicing Agency Agreement); and
- (e) *fifth*, only if such payment is made on a Dissolution Date payment of the residual amount (if any) to the Trustee as an incentive payment.

7. COVENANTS

The Trustee covenants that for so long as any Certificate is outstanding, it shall not (without the prior written consent of the Delegate):

- (a) incur any Indebtedness or give any guarantee in respect of any Indebtedness of any Person or issue any shares (or rights, warrants or options in respect of shares or securities convertible into or exchangeable for shares) except, in all cases, as contemplated in the Transaction Documents and the 2022 Certificate Transaction Documents;
- (b) secure any of its present or future Indebtedness by any Security Interest upon any of its present or future assets, properties or revenues (other than those arising by operation of law);
- (c) sell, lease, transfer, assign, participate, exchange or otherwise dispose of, or pledge, mortgage, hypothecate or otherwise encumber (by security interest, lien (statutory or otherwise), preference, priority or other security agreement or preferential arrangement of any kind or nature whatsoever or otherwise) (or permit such to occur or suffer such to exist), any part of its interests in any of the Trust Assets except pursuant to the Transaction Documents;
- (d) subject to Condition 18 (*Meetings of Certificateholders, Modification, Waiver, Authorisation and Determination*), amend or agree to any amendment of any Transaction Document to which it is a party (other than in accordance with the terms thereof) or its constitutional documents;
- (e) act as trustee in respect of any trust other than the Trust and the 2022 Certificate Trust or in respect of any parties other than the Certificateholders and the 2022 Certificateholders;
- (f) have any subsidiaries or employees;
- (g) redeem any of its shares or pay any dividend or make any other distribution to its shareholders;
- (h) use the proceeds of the issue of the Certificates for any purpose other than as stated in the Transaction Documents;
- (i) prior to the date which is one year and one day after the date on which all amounts owing by the Trustee under the Transaction Documents to which it is a party have been paid in full, put to its directors or shareholders any resolution for, or appoint any liquidator for, its winding up or any resolution for the commencement of any other bankruptcy or insolvency proceeding with respect to it; or

- (j) enter into any contract, transaction, amendment, obligation or liability other than the Transaction Documents and the 2022 Certificate Transaction Documents to which it is a party or any permitted amendment or supplement thereto or as expressly permitted or required thereunder or engage in any business or activity other than:
 - (i) as provided for or permitted in the Transaction Documents and the 2022 Certificate Transaction Documents;
 - (ii) the ownership, management and disposal of the Trust Assets as provided in the Transaction Documents and the 2022 Certificate Trust Assets as provided in the Transaction Documents and the 2022 Certificate Transaction Documents; and
 - (iii) such other matters which are incidental thereto.

8. PERIODIC DISTRIBUTIONS

8.1 Periodic Distribution Amount

Subject to Condition 6.2 (*Trust – Application of Proceeds from Trust Assets*) and Condition 9 (*Payment*), a Periodic Distribution Amount representing a defined share of the Rental paid by the Lessee to the Lessor pursuant to the *Ijara* Agreement in respect of the *Ijara* Assets for the Certificates will be distributed by the Trustee to the Certificateholders, pro rata to their respective holdings on each Periodic Distribution Date in arrear in accordance with these Conditions. The “Periodic Distribution Amount” payable on each Periodic Distribution Date shall be U.S.\$13.33 per U.S.\$1,000.00 in face amount of the Certificates.

8.2 Calculation of Periodic Distribution Amounts payable other than on a Periodic Distribution Date

If a Periodic Distribution Amount is required to be calculated in respect of a period of less than a full Periodic Distribution Period (the “**Relevant Period**”), it shall be calculated as an amount equal to the product of: (a) 2.665 per cent. per annum, (b) the face amount of the relevant Certificate and (c) the number of days in such Relevant Period calculated on the basis of a year of 12 30-day months divided by 360 (with the result being rounded to the nearest U.S.\$0.01, U.S.\$0.005 being rounded upwards).

8.3 Cessation of Accrual

No further amounts will be payable on any Certificate from and including its due date for redemption, unless default is made in payment of the Dissolution Distribution Amount in which case Periodic Distribution Amounts will continue to accrue in respect of the Certificates in the manner provided in this Condition 8 (*Periodic Distributions*) (such amount to be the “**Additional Dissolution Distribution Amount**”).

9. PAYMENT

9.1 Payments in Respect of Certificates

Subject to Condition 9.2 (*Payment – Payments subject to Applicable Laws*), payment of any Periodic Distribution Amount and the Dissolution Distribution Amount will be made by the Principal Paying Agent in U.S. dollars by wire transfer in same day funds to the registered account of each Certificateholder. Payments of the Dissolution Distribution will only be made against surrender of the relevant Certificate at the specified offices of any of the Paying Agents. The Dissolution Distribution Amount and each Periodic Distribution Amount will be paid on the due date to the holder shown on the Register at the close of business on the Record Date.

For the purposes of these Conditions, a Certificateholder’s “**registered account**” means the U.S. dollar account maintained by or on behalf of it with a bank that processes payments in U.S. dollar, details of which appear on the Register at the close of business on the relevant Record Date.

9.2 Payments subject to Applicable Laws

Payments in respect of Certificates are subject in all cases to any fiscal or other laws and regulations applicable in the place of payment, but without prejudice to the provisions of Condition 11 (*Taxation*).

9.3 Payment only on a Payment Business Day

Payment instructions (for value the due date or, if that is not a Payment Business Day, for value the first following day which is a Payment Business Day) will be initiated by the Principal Paying Agent on the due date for payment or, in the case of a payment of the Dissolution Distribution Amount, if later, on the Payment Business Day on which the relevant Certificate is surrendered at the specified office of a Paying Agent for value as soon as practicable thereafter.

Certificateholders will not be entitled to any additional payment for any delay after the due date in receiving the amount due if the due date is not a Payment Business Day or, if the relevant Certificateholder is late in surrendering its Certificate (if required to do so).

If the amount of the Dissolution Distribution Amount or any Periodic Distribution Amount is not paid in full when due, the Registrar will annotate the Register with a record of the amount actually paid.

9.4 Agents

In acting under the Agency Agreement and in connection with the Certificates, the Agents act solely as agents of the Trustee and (to the extent provided therein and in the Declaration of Trust) the Delegate and do not assume any obligations towards or relationship of agency or trust for or with any Certificateholder.

The names of the initial Agents and their initial specified offices are set out below:

(A) Principal Paying Agent, Replacement Agent and Transfer Agent:

Deutsche Bank AG, London Branch
Winchester House
1 Great Winchester Street
London EC2N 2DB
United Kingdom

(B) Registrar:

Deutsche Bank Luxembourg S.A.
2 boulevard Konrad Adenauer
L-1115 Luxembourg

The Trustee reserves the right at any time to vary or terminate the appointment of any Agent and to appoint additional or other Agents provided that: (i) it will at all times maintain a Principal Paying Agent and a Registrar (which may be the same entity); (ii) it will at all times maintain a Paying Agent (which may be the Principal Paying Agent) having its specified office in London for so long as the Certificates are listed on the Official List; and (iii) there will at all times be a Paying Agent (which may be the Principal Paying Agent) located in a member state of the European Union that is not obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive.

Notice of any termination or appointment and of any changes in the specified offices shall be given by the Trustee to the Certificateholders in accordance with Condition 17 (*Notices*).

10. CAPITAL DISTRIBUTIONS OF THE TRUST

10.1 Dissolution on the Scheduled Dissolution Date

Unless the Certificates are previously redeemed or purchased and cancelled, the Trustee will redeem each Certificate at the Dissolution Distribution Amount on the Scheduled Dissolution Date.

Upon payment in full of the Dissolution Distribution Amount, the Trust will be dissolved and the Certificates shall cease to represent interests in the Trust Assets and no further amounts shall be payable in respect thereof and the Trustee shall have no further obligations in respect thereof.

10.2 Early Dissolution for Tax Reasons

The Certificates may be redeemed by the Trustee in whole, but not in part, on the date specified in the Asset Exercise Notice delivered in connection with the Sale Undertaking (a “**Tax Redemption Date**”), on giving not less than thirty (30) nor more than sixty (60) days’ notice to the Certificateholders in accordance with Condition 17 (*Notices*) (which notice shall be irrevocable), at the Dissolution Distribution Amount, if it is determined by SEC that a Tax Event occurs, where “**Tax Event**” means:

- (a) (i) the Trustee has or will become obliged to pay additional amounts as provided or referred to in Condition 11 (*Taxation*) as a result of any change in, or amendment to, the laws or regulations of a Relevant Jurisdiction (as defined in Condition 11 (*Taxation*)) or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective after the Closing Date; and (ii) such obligation cannot be avoided by the Trustee taking reasonable measures available to it; or
- (b) (i) the Trustee has received notice from SEC that SEC has or will become obliged to pay additional amounts pursuant to the terms of any Transaction Document as a result of any change in, or amendment to, the laws or regulations of a Relevant Jurisdiction or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective after the Closing Date; and (ii) such obligation cannot be avoided by SEC taking reasonable measures available to it,

provided, however, that no such notice of redemption shall be given unless: (A) an Asset Exercise Notice has been received by the Trustee from SEC under the Sale Undertaking; and (B) provided that no such notice of redemption shall be given earlier than sixty (60) days prior to the earliest date on which (in the case of (a) above) the Trustee would be obliged to pay such additional amounts if a payment in respect of the Certificates were then due or (in the case of (b) above) SEC would be obliged to pay such additional amounts if a payment to the Trustee under the relevant Transaction Document was then due.

Prior to the publication of any notice of redemption pursuant to this Condition 10.2 (*Early Dissolution for Tax Reasons*), the Trustee shall deliver to the Delegate: (i) a certificate signed by two (2) directors of the Trustee stating that the Trustee is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent in (a) or (b) above have occurred, and (ii) an opinion of independent tax advisers of recognised standing to the effect that the Trustee or, as the case may be, SEC, has or will become obliged to pay such additional amounts as a result of such change or amendment and the Delegate shall be entitled to accept (without further investigation) any such certificate and opinion as sufficient evidence thereof in which event it shall be conclusive and binding on the Certificateholders. Upon the expiry of any such notice as is referred to in this Condition 10.2 (*Capital Distribution of the Trust – Early Dissolution for Tax Reasons*), the Trustee shall be bound to redeem the Certificates at the Dissolution Distribution Amount and upon payment in full of the Dissolution Distribution Amount to the Certificateholders, the Trust will terminate, the Certificates shall cease to represent the Trust Assets and no further amounts shall be payable in respect thereof and the Trustee shall have no further obligations in respect thereof.

10.3 Dissolution at the Option of the Certificateholders (Change of Control Put)

SEC has agreed in the Purchase Undertaking to notify the Trustee and the Delegate forthwith upon becoming aware of the occurrence of a Change of Control specifying the nature and details of the Change of Control. The Trustee, upon receipt of such notice from SEC or otherwise upon becoming aware of the occurrence of a Change of Control, and, at any time following the occurrence of a Change of Control, the Delegate, if so requested in writing by Certificateholders representing not less than one-quarter in aggregate face amount of the Certificates for the time being outstanding or if so directed by an Extraordinary Resolution (subject in each case to being indemnified and/or secured and/or prefunded to its satisfaction), shall promptly give notice (a

“**Change of Control Notice**”) to the Certificateholders in accordance with Condition 17 (*Notices*) of the Change of Control, specifying the nature and details of the Change of Control, the Change of Control Put Period and the Change of Control Put Option Date (each as defined below).

If a Change of Control occurs, upon a Certificateholder giving notice to the Trustee (the “**Change of Control Put Option**”) at any time during the period of thirty (30) days from the due date on which the Change of Control Notice is given (the “**Change of Control Put Period**”), the Trustee shall, redeem such Certificates, which right may be exercised in any multiple of the Authorised Denominations, on the Change of Control Put Option Date at the Dissolution Distribution Amount.

To elect to redeem all or any of its Certificates in accordance with this Condition 10.3 (*Capital Distributions of the Trust – Dissolution at the Option of the Certificateholders (Change of Control Put)*), which right may be exercised in any multiple of the Authorised Denomination, a Certificateholder must deliver a duly completed and signed option exercise notice (a “**Change of Control Exercise Notice**”) in the form (for the time being current) obtainable from the specified office of the Principal Paying Agent at its specified office at any time during its normal business hours within the Change of Control Put Period and in which the Certificateholder must specify a bank account to which payment is to be made under this Condition 10.3 (*Capital Distributions of the Trust – Dissolution at the Option of the Certificateholders (Change of Control Put)*) accompanied by the relevant Certificates or evidence satisfactory to the Principal Paying Agent concerned that the relevant Certificates will, following delivery of the Change of Control Exercise Notice, be held to its order or under its control.

Any Change of Control Exercise Notice given by a Certificateholder pursuant to this Condition 10.3 (*Capital Distributions of the Trust – Dissolution at the Option of the Certificateholders (Change of Control Put)*) shall be irrevocable and the Trustee will redeem all Certificates which are the subject of a validly delivered Change of Control Exercise Notice on the Change of Control Put Option Date.

For the purposes of these Conditions, “**Change of Control Put Option Date**” shall be the tenth (10th) Payment Business Day after the expiry of the Change of Control Put Period.

10.4 Dissolution Following a Dissolution Event

Upon the occurrence of a Dissolution Event which is continuing, the Certificates may be redeemed at the Dissolution Distribution Amount on the Dissolution Event Redemption Date and the Trust dissolved as more particularly specified in Condition 14 (*Dissolution Events*).

10.5 Dissolution Following a Total Loss Event

Upon the occurrence of a Total Loss Event, the Certificates may be redeemed and the Trust dissolved by the Trustee on the date specified by the Delegate. The Certificates shall be redeemed at the Dissolution Distribution Amount using either: (i) the proceeds of the insurance payable in respect of the Total Loss Event and standing to the credit of the Transaction Account on or before the 30th day following the occurrence of a Total Loss Event; or (ii) if the insurance proceeds (if any) standing to the credit of Transaction Account on the thirtieth (30th) day following the occurrence of a Total Loss Event are less than the Insurance Coverage Amount, the amount standing to the credit of the Transaction Account on the thirty first (31st) day following the occurrence of a Total Loss Event, representing the aggregate of the insurance proceeds payable in respect of a Total Loss Event (if any) and the Total Loss Shortfall Amount funded by the Servicing Agent in accordance with the terms of the Servicing Agency Agreement.

A “**Total Loss Event**” means the total loss or destruction of, or damage to all of the *Ijara* Assets or any event or occurrence that renders all the *Ijara* Assets permanently unfit for any economic use and (but only after taking into consideration any insurances or other indemnity granted in each case by any third party in respect of the *Ijara* Assets) the repair or remedial work in respect thereof is wholly uneconomical.

10.6 No Other Dissolution

The Trustee shall not be entitled to redeem the Certificates, and the Trustee shall not be entitled to dissolve the Trust otherwise than as provided in this Condition 10 (*Capital Distributions of the Trust*), Condition 13 (*Purchase and Cancellation of Certificates*) and Condition 14 (*Dissolution Events*).

10.7 Cancellations

All Certificates which are redeemed in accordance with Condition 10 (*Capital Distributions of the Trust*) or Condition 14 (*Dissolution Events*) will forthwith be cancelled and accordingly may not be held, reissued or resold.

11. TAXATION

All payments in respect of the Certificates shall be made without withholding or deduction for, or on account of, any present or future taxes, zakat, levies, imposts, duties, fees, assessments or other charges of whatever nature, imposed or levied by or on behalf of any Relevant Jurisdiction (“**Taxes**”), unless the withholding or deduction of the Taxes is required by law. In such event, the Trustee will pay additional amounts as shall be necessary in order that the net amounts received by the Certificateholder after such withholding or deduction shall equal the respective amounts due and payable to any Certificateholder which it would otherwise have received in the absence of such withholding or deduction; except that no such additional amount shall be payable in relation to any payment to any Certificateholder:

- (a) who is liable for such Taxes in respect of such Certificate by reason of having some connection with a Relevant Jurisdiction other than the mere holding of such Certificate; or
- (b) who would not be liable or subject to withholding or deduction by making a declaration of non-residence or other similar claim for exemption to the relevant tax authority; or
- (c) where the definitive Certificate is required to be presented for payment and is presented for payment more than 30 days after the Relevant Date (as defined below) except to the extent that a holder would have been entitled to an additional amount on such 30th day assuming that day to have been a Payment Business Day; or
- (d) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant European Council Directive 2003/48/EC on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive; or
- (e) who presented Certificates for payment (where presentation is required) by or on behalf of any Certificateholder who would be able to avoid such withholding or deduction by presenting the relevant Certificate to another Paying Agent in a different Member State of the European Union.

In these Conditions, references to the “**Dissolution Distribution Amount**” or any “**Periodic Distribution Amount**” payable in respect of a Certificate shall be deemed to include any additional amounts payable under this Condition 11 (*Taxation*). In addition, in these Conditions:

“**Relevant Date**” means the date on which such payment first becomes due, except that, if the full amount of the monies payable has not been duly received by the Principal Paying Agent or the Delegate, as the case may be, on or prior to such due date, the date on which, the full amount of such monies having been so received, notice to that effect is duly given to Certificateholders by the Trustee in accordance with Condition 17 (*Notices*); and

“**Relevant Jurisdiction**” means the Cayman Islands (in the case of any payment made by the Issuer or the Trustee) and the Kingdom of Saudi Arabia (in the case of any payment made by SEC) or, in each case, any political sub-division or authority thereof or therein having the power to tax.

The Ijara Agreement, the Purchase Undertaking, the Sale Undertaking and the Sale Agreement to be entered into pursuant to the Purchase Undertaking and the Sale Undertaking, each provide that payments thereunder by SEC shall be made without withholding or deduction for, or on account of, any present or future Taxes, unless the withholding or deduction of the Taxes is required by law and, in such case, provide for the payment by SEC of additional amounts so that the full amount which would otherwise have been due and payable is received by the Trustee.

Further, in accordance with the Ijara Agreement, the Purchase Undertaking, the Sale Undertaking and the Sale Agreement to be entered into pursuant to the Purchase Undertaking and the Sale Undertaking, SEC undertakes to pay such additional amounts as may be necessary pursuant to this Condition 11 (Taxation) so that the full amount due and payable by the Trustee in respect of the Certificates to the Certificateholders is received by the Trustee for the purposes of payment to the Certificateholders in accordance with and subject to the provisions of this Condition 11 (Taxation).

12. PRESCRIPTION

The right to receive distributions in respect of the Certificates will be prescribed and become void unless claimed within periods of ten (10) years (in the case of the Dissolution Distribution Amount) and five (5) years (in the case of Periodic Distribution Amounts) from the Relevant Date in respect thereof, subject to the provisions of Condition 9 (*Payment*).

13. PURCHASE AND CANCELLATION OF CERTIFICATES

13.1 Purchases

SEC and/or any Subsidiary may at any time purchase Certificates at any price in the open market or otherwise. Such Certificates may be held, resold or, at the option of SEC, surrendered to the Principal Paying Agent for cancellation.

13.2 Cancellation of Certificates held by SEC and/or any of its Subsidiaries

Should SEC wish to cancel any Certificate purchased in accordance with Condition 13.1 (*Purchase and Cancellation of Certificates – Purchases*), it will deliver a Cancellation Notice to the Principal Paying Agent (on behalf of the Trustee) accompanied by the relevant Certificates or evidence satisfactory to the Principal Paying Agent concerned that the relevant Certificates will, following delivery of the Cancellation Notice, be held to its order or under its control under the terms of the Declaration of Trust, whereupon SEC shall, in accordance with the Sale Undertaking, and following the delivery by the Trustee of the Asset Redemption Notice thereunder, be required to accept the transfer and conveyance of all the Trustee's interests, rights, title, benefits and other entitlements in and to those Redemption *Ijara* Assets in consideration for the delivery of such Certificates to the Principal Payment Agent for cancellation. Such Certificates shall be cancelled on the Asset Redemption Date specified in the Asset Redemption Notice. The Trustee and SEC have agreed in the Declaration of Trust and the Sale Undertaking to execute all such documents and do such further acts and things as may be required under applicable law to give effect to any transfer of the relevant Trust Assets and the cancellation of relevant Certificates.

14. DISSOLUTION EVENTS

Upon the occurrence and continuation of any of the following events (the "**Dissolution Events**"):

- (a) default is made in the payment of: (i) the Dissolution Distribution Amount and such default continues for a period of five (5) days from the due date for payment; or (ii) any Periodic Distribution Amount and such default continues for a period of seven (7) days from the due date for payment; or
- (b) the Trustee fails to perform or observe any of its other obligations under the Conditions or the Declaration of Trust in respect of the Certificates and (except in any case where, in the opinion of the Delegate, the failure is incapable of remedy when no such continuation or notice as is hereinafter mentioned will be required) the failure continues for the period of thirty (30) days following the service by the Delegate on the Trustee of written notice requiring the same to be remedied; or

- (c) the Trustee is adjudicated or found bankrupt or insolvent or to be unable to pay its debts as they fall due or proposes or makes a general assignment or an arrangement or composition with or for the benefit of any creditors in respect of any of its debts or a moratorium is agreed or declared or comes into effect in respect of or affecting all or any part of the debts of the Trustee; or
- (d) an administrator is appointed, an order is made or an effective resolution passed for the winding-up or dissolution or administration of the Trustee, or the Trustee shall apply or petition for a winding-up or administration order in respect of itself or cease or through an official action of its board of directors threaten to cease to carry on all or substantially all of its business or operations; or
- (e) any of the obligations of the Trustee under the Certificates or the Transaction Documents to which it is a party are not, or cease to, be legal, valid, binding and enforceable or the Trustee repudiates or evidences an intention to repudiate any Transaction Document to which it is a party; or
- (f) a SEC Event occurs,

provided, however, that, in the case of paragraph (b) above, such event will only constitute a Dissolution Event if the Delegate has certified in writing to the Trustee that such event, in the opinion of the Delegate, is materially prejudicial to the interests of Certificateholders, the Delegate shall give notice of the occurrence of such Dissolution Event to the Certificateholders in accordance with Condition 17 (*Notices*) with a request to such holders to indicate if they wish the Certificates to be redeemed and the Trust to be dissolved. If so requested in writing by the holders of at least twenty per cent. (20%) of the then aggregate face amount of the Certificates outstanding or if so directed by an Extraordinary Resolution of the Certificateholders (a **“Dissolution Request”**), the Delegate shall (subject in each case to being indemnified and/or secured and/or prefunded to its satisfaction) give notice to the Trustee and SEC of the Dissolution Request and, upon receipt of such notice, the Trustee shall exercise its rights under the Purchase Undertaking and use the proceeds of the Exercise Price to redeem the Certificates at the Dissolution Distribution Amount on the date specified in such notice (the **“Dissolution Event Redemption Date”**). Upon payment in full of such amounts, the Trust will terminate, the Certificates shall cease to represent the Trust Assets and no further amounts shall be payable in respect thereof and the Trustee shall have no further obligations in respect thereof.

For the purposes of these Conditions:

“SEC Event” means

- (i) SEC fails to pay:
 - (A) any Rental payable by it in respect of the Certificates under the *Ijara* Agreement and the failure continues for a period of seven (7) days; or
 - (B) the Exercise Price under the Purchase Undertaking, the Exercise Price under the Sale Undertaking, the Total Loss Shortfall Amount in respect of the Certificates under the Servicing Agency Agreement or any amount payable pursuant to clause 2.3(b) of the Purchase Undertaking and, in any case, the failure continues for a period of five (5) days; or
- (ii) SEC fails to perform or observe any of its other obligations in respect of the Certificates under the Declaration of Trust, the Purchase Undertaking and the *Ijara* Agreement and (except in any case where, in the opinion of the Delegate, the failure is incapable of remedy when no such continuation or notice as is hereunder mentioned will be required) the failure continues for the period of thirty (30) days following the service by the Trustee (or the Delegate acting on behalf of the Trustee) of notice requiring the same to be remedied; or
- (iii) (A) the holders of any present or future Indebtedness of SEC or any Material Subsidiary accelerate such Indebtedness or declare such Indebtedness to be due and payable or required to be prepaid, prior to the stated maturity thereof by reason of an event of default (howsoever described); or (B) SEC or any Material Subsidiary fails to pay in full any

principal of, or interest on, any of its Indebtedness when due (or within any originally applicable grace period); or (iii) any guarantee of any Indebtedness of others given by SEC or any Material Subsidiary shall not be honoured when due and called upon; provided that no event described in this paragraph (iii) shall constitute a SEC Event unless the amount of the Indebtedness or guarantee, either alone or when aggregated (without duplication) with the amount of any other Indebtedness and/or guarantee in respect of which one or more of the events specified in (i) to (iii) (inclusive) above shall have occurred and be continuing, amounts to at least fifty million United States dollars (U.S.\$50,000,000) (or its equivalent in any other currency); or

- (iv) any Security Interest given by SEC or a Material Subsidiary for any Indebtedness which equals or exceeds fifty million United States dollars (U.S.\$50,000,000) (or its equivalent in any other currency) becomes enforceable and any step is taken to enforce the Security Interest (including the taking of possession or the appointment of a receiver, manager or other similar Person, but excluding the issue of any notification to SEC or the relevant Material Subsidiary, as the case may be, that such Security Interest has become enforceable) unless the full amount of the Indebtedness secured by the relevant Security Interest is discharged within thirty (30) days of the first date on which any such step for enforcement of the relevant Security Interest is taken; or
- (v) one or more judgment(s) or order(s) for the payment of an amount in excess of fifty million United States dollars (U.S.\$50,000,000) (or its equivalent in any other currency), whether individually or in aggregate is rendered against SEC or any Material Subsidiary and continue(s) unsatisfied and unstayed for a period of thirty (30) days after the date(s) thereof, or if later, the date therein specified for payment; or
- (vi) (i) SEC or any Material Subsidiary is adjudicated or found bankrupt or insolvent or to be unable to pay its debts as they fall due; (ii) an administrator or liquidator is appointed over all or substantially all of the undertaking, assets and revenues of SEC or the Material Subsidiary (or proceedings for any such appointment are initiated) and such appointment is not discharged within thirty (30) days; (iii) SEC or any Material Subsidiary takes any action for a readjustment or deferral of any of its obligations in connection with bankruptcy, insolvency or liquidation arrangements or makes a general assignment or an arrangement or composition with or for the benefit of its creditors (including any arrangement under the Settlement to Avoid Bankruptcy Law) other than in connection with a Permitted Reorganisation or declares a moratorium in respect of any of its Indebtedness or any guarantee of any Indebtedness given by it; or (iv) SEC or any Material Subsidiary ceases or threatens to cease to carry on all or substantially all of its business; or
- (vii) an order is made or an effective resolution is passed for the winding up, liquidation or dissolution of SEC or any Material Subsidiary other than, in the case of a Material Subsidiary, in connection with a Permitted Reorganisation; or
- (viii) any event occurs under the laws, regulations or rules of the Kingdom of Saudi Arabia which has an analogous effect to any of the events referred to in paragraphs (iv) to (vi) (inclusive) above; or
- (ix) any action, condition or thing at any time required to be taken, fulfilled or done in order: (i) to enable SEC lawfully to enter into, exercise its rights and perform its obligations under and in respect of the Transaction Documents to which it is a party; and (ii) to ensure that those obligations are legal, valid, binding and enforceable is not taken, fulfilled or done; or
- (x) it is or becomes unlawful for SEC to perform or comply with any of its obligations under the Transaction Documents to which it is a party or SEC repudiates or evidences an intention to repudiate any Transaction Document to which it is a party,

provided, however, that, in the case of paragraph (ii), (ix) and (x) above, such event will only constitute an SEC Event if the Delegate has certified in writing to the Trustee that such event, in the opinion of the Delegate, is materially prejudicial to the interests of Certificateholders.

15. ENFORCEMENT AND EXERCISE OF RIGHTS

- 15.1 Following the enforcement, realisation and the ultimate distribution in full of the proceeds of the Trust Assets in respect of the Certificates to the Certificateholders in accordance with these Conditions and the Declaration of Trust, the Trustee shall not be liable for any further sums and, accordingly Certificateholders may not take any action against the Trustee or any other Person (including SEC) to recover any such sum or asset in respect of the Certificates or the Trust Assets.
- 15.2 The Delegate shall not be bound in any circumstances to take any action to enforce or to realise the Trust Assets or take any action against the Trustee and/or SEC under any Transaction Document to which either of the Trustee or SEC is a party unless directed or requested to do so: (a) by an Extraordinary Resolution; or (b) in writing by the holders of at least twenty five per cent. (25%) of the then outstanding aggregate face amount of the Certificates and in either case then only if it shall be indemnified and/or secured and/or prefunded to its satisfaction against all Liabilities to which it may thereby render itself liable or which it may incur by so doing and provided that the Delegate shall not be held liable for the consequences of exercising its discretion or taking any such action and may do so without having regard to the effect of such action on individual Certificateholders.
- 15.3 No Certificateholder shall be entitled to proceed directly against the Trustee or SEC under any Transaction Document to which either of them is party unless (a) the Delegate, having become bound so to proceed, fails to do so within thirty (30) days of becoming so bound and such failure is continuing and (b) the relevant Certificateholder (or such Certificateholder together with the other Certificateholders who propose to proceed directly against any of the Trustee or SEC (as the case may be) holds at least twenty five per cent. (25%) of the then aggregate face amount of the Certificates outstanding. Under no circumstances shall the Delegate or any Certificateholder have any right to cause the sale or other disposition of any of the Trust Assets (other than pursuant to the Transaction Documents) and the sole right of the Delegate and the Certificateholders against the Trustee and SEC shall be to enforce their respective obligations under the Transaction Documents.
- 15.4 The foregoing paragraphs in this Condition 15 (*Enforcement and Exercise of Rights*) are subject to this paragraph. After enforcing or realising the Trust Assets and distributing the proceeds of the Trust Assets in accordance with Condition 6.2 (*Trust – Application of Proceeds from Trust Assets*) and the Declaration of Trust, the obligations of the Trustee in respect of the Certificates shall be satisfied and no Certificateholder may take any further steps against the Trustee, the Delegate or any other Person (including SEC) to recover any further sums in respect of the Certificates and the right to receive any sums unpaid shall be extinguished. In particular, no Certificateholder shall be entitled in respect thereof to petition or to take any other steps for the winding-up of the Trustee.

16. REPLACEMENT OF CERTIFICATES

Should any Certificate be lost, stolen, mutilated, defaced or destroyed it may be replaced at the specified office of the Registrar upon payment by the claimant of the costs and expenses incurred in connection with the replacement and on such terms as to evidence and indemnity as the Trustee may reasonably require. Mutilated or defaced Certificates must be surrendered to the Replacement Agent before replacements will be issued.

17. NOTICES

All notices to Certificateholders will be valid if:

- (a) published in a daily newspaper having general circulation in London (which is expected to be the Financial Times) approved by the Delegate; or
- (b) mailed to them by first class pre-paid registered mail (or its equivalent) or (if posted to an overseas address) by airmail at their respective registered addresses.

Any notice shall be deemed to have been given on the fourth (4th) day after being so mailed or on the date of publication or, if so published more than once or on different dates, on the date of the first publication.

So long as the Global certificate representing the Certificates is held in its entirety on behalf of Euroclear and/or Clearstream, the relevant notice may be delivered to Euroclear and/or Clearstream for communication by them to the Certificateholders. Any such notice shall be deemed to have been given to the Certificateholders on the third (3rd) day after the day on which the said notice was given to Euroclear and/or Clearstream.

The Trustee shall also ensure that notices are duly given or published in a manner which complies with the rules and regulations of any listing authority, stock exchange and/or quotation system (if any) by which the Certificates have then been admitted to listing, trading and/or quotation.

Notices to be given by any Certificateholder shall be in writing and given by lodging the same, together with the relevant Certificate or Certificates, with the Principal Paying Agent.

18. MEETINGS OF CERTIFICATEHOLDERS, MODIFICATION, WAIVER, AUTHORISATION AND DETERMINATION

18.1 The Declaration of Trust contains provisions for convening meetings of Certificateholders to consider any matter affecting their interests, including the modification or abrogation by Extraordinary Resolution of the rights of the Trustee, SEC and/or the Certificateholders or the modification of any of the provisions of these Conditions or the provisions of the Declaration of Trust. Such a meeting may be convened by the Trustee, SEC or the Delegate and shall be convened by the Trustee if required in writing by Certificateholders holding more than ten per cent. (10%) in aggregate face amount of the Certificates for the time being outstanding. Pursuant to the Declaration of Trust, the quorum at any meeting for passing an Extraordinary Resolution will be one or more persons present holding or representing in aggregate not less than fifty per cent. (50%) of the then outstanding aggregate face amount of the Certificates, or at any adjourned such meeting one or more persons present whatever the outstanding face amount of the Certificates held or represented by him or them, except that any meeting the business of which includes the modification of certain provisions of the Certificates (including, among others, modifying the Scheduled Dissolution Date, reducing or cancelling any amount payable in respect of the Certificates or altering the currency of payment of the Certificates and amending certain covenants given by SEC and the Trustee in the Transaction Documents in a way which is materially prejudicial to the interests of the Certificateholders), the quorum shall be one or more persons present holding or representing not less than sixty six and two thirds per cent. ($66\frac{2}{3}\%$) in aggregate face amount of the Certificates for the time being outstanding, or at any adjourned such meeting one or more persons present holding or representing not less than twenty-five per cent. (25%) in aggregate face amount of the Certificates for the time being outstanding. An Extraordinary Resolution passed at any meeting of the Certificateholders shall be binding on all the Certificateholders, whether or not they are present at the meeting and whether or not voting. The expression "Extraordinary Resolution" is defined in the Declaration of Trust to mean a resolution passed at a meeting duly convened and held in accordance with the Declaration of Trusts by a majority consisting of not less than seventy-five per cent. (75%) of the persons voting thereat upon a show of hands or, if a poll is duly demanded, by a majority consisting of not less than seventy-five per cent. (75%) of the votes cast on such poll.

18.2 The Declaration of Trust provides that a resolution in writing signed by or on behalf of ninety per cent. (90%) of all holders of Certificates who for the time being are entitled to receive notice of a meeting in accordance with schedule 4 (Provisions for Meetings of Certificateholders) of the Declaration of Trust shall take effect as if it were an Extraordinary Resolution. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more such holders of Certificates.

18.3 Pursuant to the Declaration of Trust, any of these Conditions or any Transaction Document may only be amended by the Trustee with the consent of the Delegate and the Delegate may, without any consent or sanction of Certificateholders:

- (a) agree to any modification of any of these Conditions or any of the provisions of the Declaration of Trust or any other relevant Transaction Document or the Trustee's constitutional documents which, in the opinion of the Delegate is: (i) of a formal, minor or technical nature; or (ii) to correct a manifest error; or (iii) not materially prejudicial to the interests of Certificateholders and is other than in respect of a Reserved Matter (as defined in schedule 4 (*Provisions for Meetings of Certificateholders*) of the Declaration of Trust); or
- (b) agree to waive or to authorise any breach or proposed breach of these Conditions or any of the provisions of the Declaration of Trust or any other relevant Transaction Document; or
- (c) determine that any Dissolution Event or Potential Dissolution Event shall not be treated as such, provided that the Delegate will not do so in contravention of an express direction given by an Extraordinary Resolution or a request made pursuant to Condition 14 (*Dissolution Events*).

18.4 In connection with the exercise by it of any of its trusts, powers, authorities and discretions under the Declaration of Trust (including, without limitation, any modification, waiver, authorisation or determination), the Delegate shall have regard to the general interests of Certificateholders as a class and shall not have regard to any interests arising from circumstances particular to individual Certificateholders (whatever their number) and, in particular but without limitation, shall not have regard to the consequences of any such exercise for individual Certificateholders (whatever their number) resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory or any political sub-division thereof and the Delegate shall not be entitled to require, nor shall any Certificateholder be entitled to claim, from the Trustee, SEC, the Delegate or any other Person any indemnification or payment in respect of any tax consequence of any such exercise upon individual Certificateholders.

18.5 Any modification, abrogation, waiver, authorisation or determination shall be binding on Certificateholders and, unless the Delegate otherwise decides, shall as soon as practicable thereafter be notified by the Trustee to the Certificateholders in accordance with Condition 17 (*Notices*).

19. INDEMNIFICATION AND LIABILITY OF THE DELEGATE AND THE TRUSTEE

19.1 The Declaration of Trust contains provisions for the indemnification of the Delegate in certain circumstances and for its relief from responsibility, including provisions relieving it from taking action unless indemnified and/or secured and/or prefunded to its satisfaction.

19.2 The Delegate makes no representation and assumes no responsibility for the validity, sufficiency or enforceability of the obligations of SEC under the Transaction Documents and shall not under any circumstances have any liability or be obliged to account to the Certificateholders in respect of any payments which should have been made by SEC but are not so paid and shall not in any circumstances have any liability arising from the Trust Assets other than as expressly provided in the Conditions or in the Declaration of Trust.

19.3 Each of the Trustee and the Delegate is exempted from (i) any liability in respect of any loss or theft of the Trust Assets or any cash, (ii) any obligation to insure the Trust Assets or any cash and (iii) any claim arising from the fact that the Trust Assets or any cash are held by or on behalf of the Trustee or on deposit or in an account with any depositary or clearing system or are registered in the name of the Trustee or its nominee, unless such loss or theft arises as a result of default or misconduct by the Trustee or the Delegate, as the case may be.

20. CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999

No rights are conferred on any Person under the Contracts (Rights of Third Parties) Act 1999 (the "**Act**") to enforce any term of these Conditions, but this does not affect any right or remedy of any Person which exists or is available apart from that Act.

21. GOVERNING LAW, SUBMISSION TO JURISDICTION AND SERVICE OF PROCESS

21.1 Governing Law

The Declaration of Trust and the Certificates, including any non-contractual obligations arising out of or in connection with, the Declaration of Trust and/or the Certificates, are governed by, and shall be construed in accordance with, English law.

21.2 Arbitration

The Delegate, the Trustee and SEC have agreed in the Declaration of Trust that any claim, dispute or difference of whatever nature arising under, out of or in connection with the Declaration of Trust or the Certificates (including a claim, dispute or difference regarding its existence, termination or validity or any non contractual obligations arising out of or in connection with the Declaration of Trust or the Certificates) (a “**Dispute**”), shall be referred to and finally settled by arbitration in accordance with the rules of the London Court of International Arbitration (the “**LCIA**”) (the “**Rules**”) as at present in force and as modified by this Condition, which Rules shall be deemed incorporated into this Condition. The number of arbitrators shall be three, each of whom shall be disinterested in the arbitration, shall have no connection with any party thereto and shall be an attorney experienced in international securities transactions, one of whom shall be nominated by SEC, one by the Delegate and the third of whom, who shall act as Chairman, shall be nominated by the two party nominated arbitrators, provided that if the third arbitrator has not been nominated within fifteen (15) days of the nomination of the second party nominated arbitrator, such third arbitrator shall be appointed by the LCIA. The parties may nominate and the LCIA may appoint arbitrators from among the nationals of any country, whether or not a party is a national of that country. The seat of arbitration shall be London, England and the language of arbitration shall be English. Section 45 of the Arbitration Act 1996 shall not apply.

21.3 Jurisdiction

Notwithstanding the agreement that any Dispute will be settled by arbitration as set out in Condition 21.2 (*Governing Law, Submission to Jurisdiction and Service of Process - Arbitration*), the Trustee and SEC have agreed in the Declaration of Trust that, if the Delegate issues a written notice to the Trustee that a Dispute be heard in a court of law, the courts of England shall have exclusive jurisdiction to hear and determine any such Dispute(s) and, for such purposes, each of the Trustee and SEC irrevocably submits to the jurisdiction of such courts. Subject to Condition 21.2 (*Governing Law, Submission to Jurisdiction and Service of Process – Arbitration*), nothing in this Condition shall (or shall be construed so as to limit the right of the Delegate to bring proceedings (“**Proceedings**”) for the determination of any Dispute(s) in any other court of competent jurisdiction or any committee, including without limitation the Committee for the Resolution of Securities Disputes and the Appeal Panel (the “**Committee**”), nor shall the bringing of such Proceedings in any one or more jurisdictions preclude the bringing of Proceedings by the Delegate in any other jurisdiction (whether concurrently or not) if and to the extent permitted by law.

21.4 Service of Process

In the Declaration of Trust, the Trustee and SEC have each irrevocably appointed an agent in England to receive, for it and on its behalf, service of process in any Proceedings in England.

21.5 Consent to Enforcement etc.

Each of the Trustee and SEC consents generally in respect of any Proceedings or arbitration of a Dispute to the giving of any relief or the issue of any process in connection with such Proceedings or arbitration of a Dispute including (without limitation) the making, enforcement or execution against any property whatsoever (irrespective of its use or intended use) of any order, award or judgment which may be made or given in such Proceedings or arbitration of a Dispute.

21.6 Waiver of Immunity

To the extent that the Trustee and/or SEC may in any jurisdiction claim for itself or its assets or revenues immunity from suit, execution, attachment (whether in aid of execution, before judgment or otherwise) or other legal process and to the extent that such immunity (whether or not claimed) may be attributed in any such jurisdiction to the Trustee and/or SEC or their respective assets or revenues, each of the Trustee and SEC agrees not to claim and irrevocably waives such immunity to the full extent permitted by the laws of such jurisdiction.

TERMS AND CONDITIONS OF THE 2022 CERTIFICATES

The 2022 Conditions will be identical to those described under “Terms and Conditions of the 2017 Certificates” above, except as follows:

- (a) the reference in the introductory paragraph to the “U.S.\$500,000,000 Trust Certificates due 2017” shall be replaced by a reference to the “U.S.\$1,250,000,000 Trust Certificates due 2022” and references to “Certificates” shall be construed as references to the 2022 Certificates;
- (b) the definition of “Periodic Distribution Date” in Condition 1 shall be replaced with “**Periodic Distribution Date**” means 3 April and 3 October in each year, commencing on 3 October 2012, and subject to these Conditions, ending on 3 April 2022;”;
- (c) the definition of “Scheduled Dissolution Date” in Condition 1 shall be replaced with “**Scheduled Dissolution Date**” means 3 April 2022;”;
- (d) the definitions of “2022 Certificates”, “2022 Certificate Transaction Documents”, “2022 Certificate Trust”, “2022 Certificateholders” and “2022 Certificate Trust Assets” in Condition 1 and the corresponding references in Condition 7 (*Covenants*) shall be replaced by corresponding definitions and references in respect of the 2017 Certificates;
- (e) the reference in Condition 8.1 to “U.S.\$13.33” as the amount of the “Periodic Distribution Amount” payable on each Periodic Distribution Date per U.S.\$1,000.00 in face amount of the Certificates shall be replaced by an amount of “U.S.\$21.06”;and
- (f) the reference in Condition 8.2 to “2.665 per cent. per annum” shall be replaced by a reference to “4.211 per cent. per annum”.

GLOBAL CERTIFICATE

Each Global Certificate of a Series contains certain provisions which apply to the Certificates of that Series whilst they are represented by that Global Certificate, some of which modify the effect of the relevant Conditions. Unless otherwise defined, terms defined in the Conditions have the same meaning in paragraphs 1 and 2 below.

As used herein, unless expressly indicated otherwise, all references to Certificates mean the Certificates of the relevant Series.

1. Payments

Payments of any Dissolution Distribution Amount and Periodic Distribution Amount in respect of Certificates represented by the relevant Global Certificate with respect to book-entry interests in such Global Certificate will be credited to the cash accounts of Euroclear or Clearstream participants in accordance with the relevant system's rules and procedures. Each holder of Certificates must look solely to Euroclear or Clearstream (as the case may be) for its share of each payment made to such holder.

A record of each payment made will be entered into the Register by or on behalf of the Registrar and shall be *prima facie* evidence that payment has been made.

2. Exchange for Definitive Certificates

Each Global Certificate will be exchangeable, free of charge to the holder, in whole but not in part, for Certificates in definitive form (the "**Definitive Certificates**") upon the occurrence of an Exchange Event.

For these purposes, "**Exchange Event**" means that:

- (a) the Delegate has given notice in accordance with Condition 14 that a Dissolution Event has occurred and is continuing; or
- (b) if Euroclear and/or Clearstream is closed for business for a continuous period of 14 days other than by reason of holiday, statutory or otherwise) or announces that it is permanently to cease business or does in fact do so and no successor or alternative clearing system satisfactory to the Delegate is available,

provided that, in the case of any transfer pursuant to (b) above, the holder has given the Registrar not less than 30 days' notice at its specified office of such holder's intention to effect such exchange.

In such circumstances, the relevant Global Certificate shall be exchanged in full for Definitive Certificates and the Issuer will, at the cost of the Issuer (but against such indemnity as the Registrar or any relevant Transfer Agent may require in respect of any tax or other duty of whatever nature which may be levied or imposed in connection with such exchange), cause sufficient Definitive Certificates to be executed and delivered to the Registrar for completion and dispatch to the relevant Certificateholders. A person having an interest in the relevant Global Certificate must provide the Registrar with a written order containing instructions and such other information as the Issuer and the Registrar may require in order to complete, execute and deliver the Definitive Certificates.

USE OF PROCEEDS

The net proceeds of the issue of the Certificates of each Series of approximately U.S.\$498,830,605, in the case of the 2017 Certificates, and approximately U.S.\$1,248,830,605, in the case of the 2022 Certificates, will be used by the Trustee as the purchase price to be paid to SEC on the Closing Date for the purchase of the *Ijara* Assets relating to each Series.

DESCRIPTION OF THE ISSUER

General

Saudi Electricity Global SUKUK Company, a Cayman Islands exempted company with limited liability, was incorporated on 20 February 2012 under the Companies Law (as amended) of the Cayman Islands with company registration number WK-266435. The Issuer has been established as a special purpose vehicle for the sole purpose of issuing the Certificates and entering into the transactions contemplated by the Transaction Documents (to which it is a party). The registered office of the Issuer is at Walkers SPV Limited, 87 Mary Street, George Town, Grand Cayman KY1-9002, Cayman Islands and its telephone number is +1345 945 3727.

The Issuer has no subsidiaries. The authorised share capital of the Issuer is U.S.\$50,000.00 consisting of 50,000 ordinary shares of U.S.\$1.00 par value each, of which 1 ordinary share of U.S.\$ 1.00 nominal or par value has been issued. The sole issued share is fully-paid and held by Saudi Electricity Company as at the date of this Prospectus.

Business of the Issuer

The Issuer is a newly formed Cayman Island entity and, as at the date of the Prospectus, the Issuer has no prior operating history or prior business and will not have any substantial liabilities other than in connection with the issue of the Certificates.

The objects for which the Issuer is established are set out in clause 3 of its Memorandum of Association as registered or adopted on 20 February 2012.

Financial Statements

Since the date of its incorporation, no financial statements of the Issuer have been prepared. The Issuer is not required by Cayman Islands law, and does not intend, to publish audited financial statements.

Directors of the Issuer

The Directors of the Issuer are as follows:

<u>Name:</u>	<u>Principal Occupation:</u>
Rachael Rankin	Senior Vice President of Walkers SPV Limited
Otelia Scott	Assistant Vice President of Walkers SPV Limited

The business address of each Director is Walkers SPV Limited, 87 Mary Street, George Town, Grand Cayman KY1-9002, Cayman Islands.

No director listed above has any interest in the promotion of, or any property acquired or proposed to be acquired by, the Issuer and no director has any conflict of interest and/or any potential conflict of interest between the private interests or other duties of the Directors and their duties to the Issuer.

The Administrator

Walkers SPV Limited will also act, or procure that a subsidiary acts, as the corporate service provider of the Issuer (the “**Issuer Administrator**”). The office of the Issuer Administrator will serve as the general business office of the Issuer. Through the office, and pursuant to the terms of the Corporate Services Agreement, the Issuer Administrator will perform in the Cayman Islands various administrative functions on behalf of the Issuer, including the preparation of annual financial statements of the Issuer, communications with shareholders and the general public, and the provision of certain clerical, administrative and other services until termination of the Corporate Services Agreement. In consideration of the foregoing, the Issuer Administrator will receive various fees payable by the Issuer at rates agreed upon from time to time, plus expenses. The terms of the Corporate Services Agreement provide that the Issuer may terminate the appointment of the Issuer Administrator by giving one month’s notice to the Issuer Administrator or without notice upon the happening of certain stated events, including any breach by the Issuer Administrator of its obligations under the Corporate Services Agreement. In addition, the Corporate Services Agreement provides that the Issuer Administrator shall be entitled to retire from its appointment by giving at least one month’s notice in writing.

The Issuer Administrator will be subject to the overview of the Issuer's Board of Directors.

The Issuer Administrator's principal office is Walkers SPV Limited, 87 Mary Street, George Town, Grand Cayman KY1-9002, Cayman Islands. The Directors of the Issuer are all employees or officers of the Issuer Administrator. The Issuer has no employees and is not expected to have any employees in the future.

KINGDOM OF SAUDI ARABIA

INTRODUCTION

The Kingdom, situated in the southwestern part of Asia, comprises almost four-fifths of the Arabian Peninsula, an area approximately one-third the size of the continental United States. The Kingdom is the largest country in the Gulf Cooperation Council (the “GCC”) and the second-largest Arab country. Its geography is dominated by the Arabian Desert and associated semi-deserts and shrubland. The Kingdom is bordered in the north and northeast by Jordan and Iraq, in the east it is bordered by Kuwait, Qatar and the United Arab Emirates, it is bordered by Oman in the southeast and it is bordered by Yemen in the south. It is connected to Bahrain by the King Fahd causeway.

The modern Kingdom was declared in 1932 by King Abdul Aziz ibn Abdul Rahman Al Saud. The capital of the Kingdom is Riyadh. Since the discovery of oil fields in the eastern region along the coast of the Arabian Gulf in 1938, the Kingdom has experienced rapid growth and is now a leading producer of oil and natural gas, holding more than 20 per cent. of the world’s proven oil reserves (source: United States Energy Information Administration).

GOVERNMENT AND LEGAL FRAMEWORK

The Kingdom is a monarchy with a political system rooted in the traditions and religion of Islam. The King is both the head of state and the head of the government. Its constitution, the Basic Law issued by Royal Decree number A/90 and dated 27/8/1412H (corresponding to 2 March 1992), specifies that the King must be chosen from among the sons of the first King, Abdul-Aziz bin Saud, and their male descendants. In 2006 the Allegiance Council was established, comprised of (i) King Abdul-Aziz bin Saud’s surviving sons; (ii) one son of each deceased/disabled son of King Abdul-Aziz bin Saud and (iii) one son of the King and one son of the Crown Prince, both appointed by the King, to determine which member of the royal family will be the next King and the next Crown Prince.

The King controls the legislative, executive, and judicial bodies and royal orders and royal decrees that together form the basis of the Kingdom’s legislation. The King is also the Prime Minister, and he presides over the Council of Ministers (*Majlis al-Wuzara*), which was established by Royal Decree in 1953 and comprises the first deputy Prime Minister and 23 Ministers with portfolios and five Ministers of State. The King makes appointments to and dismissals from the Council of Ministers. The Council of Ministers is responsible for, among other things, executive and administrative matters such as foreign and domestic policy, defence, finance, health and education. The King and executive officials at the local, provincial and national levels also hold regular meetings, which are open to members of the public (*majalis*) and where members of the public may discuss issues and raise grievances.

Since the founding of the modern Kingdom in 1932, and as per the Basic Law of Governance in Saudi Arabia adopted by Royal Order in 1992, *Shari’ah* (Islamic law) has been the pillar and source of the Kingdom’s basic system of government, and is the paramount body of law in the Kingdom.

The *Shari’ah* is comprised of a collection of fundamental principles derived from a number of different sources, which include the *Holy Qu’ran* and the *Sunnah* (the witnessed sayings and actions of the Prophet Mohammed). In addition to the *Shari’ah*, Saudi Arabian law is also derived from enacted legislation that may not conflict with *Shari’ah* principles. Legislation is enacted in various forms, the most common of which are Royal Orders, Royal Decrees, Council of Ministers resolutions, High Orders, ministerial resolutions and ministerial circulars having the force of law. All such laws and regulations are ultimately subject to, and may not conflict with, the *Shari’ah* and each Saudi Arabian court or other adjudicatory authority is required to interpret such legislation accordingly.

In 1992, in conjunction with the promulgation of the Basic Law of Governance in Saudi Arabia, the Law of Provinces and the Law of *Majlis Al-Shura* (the Consultative Council) were introduced. The Consultative Council has the authority to draft, review and debate legislation, which is then presented to the Council of Ministers for approval. Legislation approved by the Council of Ministers only acquires the force of law once the King has issued his approval by way of a Royal Decree. However, the Council of Ministers or the relevant government ministry or authority may be delegated the power to enact further “executive regulations” that govern the implementation of such legislation.

In 1993, executive regulations for the Law of the Council of Ministers were introduced and, in 2003, the cabinet approved procedures for the election of half of the members of the municipal councils. In 2011, the King announced that women would be allowed to stand for election to, and vote for the members of, the municipal councils in 2015.

The Kingdom's judicial system is composed of *Shari'a* courts of general jurisdiction, a system of administrative courts known as the Board of Grievances and various adjudicatory or semi-judicial committees with special jurisdiction over such matters as banking transactions, securities regulation, intellectual property, labour disputes, electricity industry disputes and medical malpractice. The Board of Grievances also holds jurisdiction over general commercial disputes. Saudi Arabian judges enjoy wide discretionary power in deciding disputes and many areas of law, including civil and commercial law, remain uncodified. Saudi Arabian judges are not bound by judicial precedent. Though efforts have been made to record and publish selected samples of judicial decisions, the vast majority of court decisions in Saudi Arabia are not published or available to the public.

In 2007, judicial reforms were announced, including the establishment of courts of appeal and two supreme courts as well as the merger of most special adjudicatory committees into the general *Shari'a* courts, though exceptions were made for certain adjudicatory committees. The main committees which were exempted from these reforms are: (i) the Committee for the Resolution of Banking Disputes, which operates under the aegis of the Saudi Arabian Monetary Agency ("SAMA"), (ii) the Committee for the Enforcement of the Banking Control Law, which also operates under the aegis of SAMA, (iii) the Committee for the Resolution of Securities Disputes, which operates under the aegis of the Capital Market Authority (the "CMA") and (iv) the Committee for Resolution of Custom Duties Disputes. The 2007 reforms also included the transfer of jurisdiction over commercial disputes from the Board of Grievances to the general *Shari'a* courts. However, with the exception of the establishment of the courts of appeal and the two supreme courts, most of these reforms are yet to be put into practice.

POPULATION AND EMPLOYMENT

The population of the Kingdom, based on preliminary estimates of a 2010 census carried out by the Central Department of Statistics and Information of the Ministry of Economy and Planning ("CDSI"), is approximately 27.1 million which represents a growth of 1.8 per cent. from the previous year's estimate of 26.7 million. Of this, Saudis constituted 68.9 per cent. (18.7 million) and non-Saudis 31.1 per cent. (8.4 million). The Kingdom has one of the highest population growth rates globally and estimates show that the Kingdom's population approximately doubled during the last two decades, rising from 15.2 million in 1990 to 27.1 million in 2010 (source: *Forty Seventh Annual Report, The Latest Economic Developments 1432H (2011G)*, Research and Statistics Department, SAMA (the "SAMA Report")).

The Manpower Research of 2009 issued by the CDSI indicated that the total labour force in the Kingdom was 8.6 million, 49.8 per cent. of which consisted of Saudis and 50.2 per cent. of which consisted of non-Saudis (source: the SAMA Report).

ECONOMY

The Kingdom's economy is primarily hydrocarbon-based and it is the largest economy in the GCC. In 2009, approximately 75 per cent. of budget revenues and 90 per cent. of export earnings came from the Kingdom's oil industry. The oil industry comprised approximately 45 per cent. of the Kingdom's gross domestic product in 2009, with an additional 40 per cent. derived from the private sector. The Kingdom's proven reserves of oil remained unchanged at 264.5 billion barrels at the end of 2010. However, the Kingdom's proven reserves of natural gas rose by 1.2 per cent. to 283.1 trillion standard cubic feet at the end of 2010 compared to 279.7 trillion standard cubic feet at the end of 2009 (source: the SAMA Report).

The table below shows the Kingdom's crude oil production and exports for each of the years indicated:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
		<i>(million barrels)</i>	
Total crude oil production.....	2,980.4	2,987.3	3,366.3
Daily average crude oil production	8.2	8.2	9.2
Total crude oil exports	2,425.1	2,287.7	2,672.4

(Source: the SAMA Report)

Oil prices increased in 2010 and this contributed to an increase in gross domestic product (“GDP”) at current prices (including import duties) of 18.8 per cent. to SAR 1,679.1 billion in 2010. The oil sector's contribution to GDP grew by 31.6 per cent. to SAR 837.6 billion, and the GDP contribution of the non-oil sector grew by 7.5 per cent. to SAR 792.8 billion. In addition, the GDP contribution of the non-oil private sector grew by 6.3 per cent. to SAR 482.6 billion and of the government sector grew by 9.3 per cent. to SAR 310.1 billion.

The table below shows the Kingdom's nominal GDP and related growth rates and the GDP at constant 1999 prices and related growth rates for 2008, 2009 and 2010.

	<u>2010</u>	<u>2009</u>	<u>2008</u>
		<i>(SAR billion)</i>	
Nominal GDP	1,679.1	1,412.6	1,786.1
Percentage change in nominal GDP growth rates	18.9	(20.9)	23.8
Real GDP	871.6	836.9	836.1
Percentage change in real GDP growth rates	4.1	0.09	4.2

(Source: the SAMA Report)

The following table shows the contribution by economic sector to the Kingdom's GDP at constant 1999 prices:

	2010 ⁽¹⁾		2009	2008
	(SAR millions)	2010 compared to 2009, % change)	(SAR millions)	(SAR millions)
Industries and other producers (excluding government service producers)				
Agriculture forestry & fishing	39,986	1.1	39,536	39,731
Mining and quarrying	204,559	2.2	200,131	219,065
Crude oil & natural gas	201,433	2.2	197,095	216,104
Other mining & quarrying activities	3,125	2.9	3,036	2,962
Manufacturing industries	109,753	4.4	105,100	103,509
Oil refining	21,886	1.3	21,615	22,354
Other industries	87,867	5.2	83,485	81,154
Electricity, gas & water	16,161	7.9	14,973	14,018
Construction and building	60,382	4.1	57,982	57,629
Wholesale & retail trade & restaurants & hotels	77,190	5.8	72,992	71,212
Transport & storage & communication	64,745	8.0	59,946	55,822
Finance, insurance, real estate and business services	109,257	1.6	107,517	104,781
House ownership	55,915	1.9	54,875	53,951
Others	53,342	1.3	52,641	50,829
Community & social & personal services	33,865	5.0	32,267	31,028
Minus calculated banking services	16,196	2.1	15,869	15,528
Government service producers	161,801	6.1	152,510	145,210
Total (excluding import duties).....	861,501	4.2	827,085	826,478
Import duties	10,142	2.9	9,853	9,655
GDP	871,643	4.1	836,938	836,133

(1) Preliminary data

Source: Central Department of Statistics and Information, Ministry of Economy and Planning

DOMESTIC STOCK MARKET

The CMA is the sole regulator and supervisor of the Kingdom's capital markets and issues rules and regulations which are aimed at protecting investors and ensuring fairness and efficiency in the market.

The level of the general share price index of the Saudi Arabian Stock Exchange ("Tadawul") increased from 6,121.8 at 31 December 2009 to 6,620.8 at 31 December 2010. During the same period the total market capitalisation of companies listed on the Tadawul increased from SAR 1,196 billion to SAR 1,325 billion.

CREDIT RATING

The Kingdom currently has the following credit ratings assigned to by the three main credit rating agencies:

	Moody's	Fitch	Standard & Poor's
Long-term foreign currency	Aa3	AA-	AA
Outlook	Stable	Stable	Stable

All three rating agencies have the Kingdom *under observation*.

FOREIGN INVESTMENT

The Saudi Arabian Foreign Investment Law requires all foreign investment in the Kingdom to be licensed by the Saudi Arabian General Investment Authority (“**SAGIA**”). Except for those areas expressly excluded by a list (referred to as the “**negative list**”) issued by the Supreme Economic Council under its authority in accordance with Article 3 of the Saudi Arabian Foreign Investment Law, foreign investment is permitted in all investment activities. The negative list is regularly updated. As part of its effort to attract foreign investment, the Kingdom acceded to the WTO in December 2005. SAGIA has the jurisdiction to license foreign investment in the Kingdom, in addition to the licensing of particular types of investment which are entrusted to other agencies (e.g., power generation and health care). Minimum investment thresholds for foreign investors may be amended by SAGIA from time to time. Currently, the minimum investment thresholds for obtaining foreign investment licences are set as follows: (i) SAR 25 million for agricultural projects; (ii) SAR 30 million for real estate projects; (iii) SAR 26.6 million for trade projects; and (iv) SAR 500,000 for general services.

The government is aiming to increase and encourage foreign investment by focusing on ten key sectors, including petrochemicals, electricity and financial services. Since 2005, there has been a 101 per cent. increase in foreign direct investment (source: SAGIA).

GOVERNMENT DEVELOPMENT STRATEGY

In 2010, the Kingdom adopted its ninth five-year development plan for 2010 to 2014 (the “**Plan**”), allocating SAR 4,910.5 billion for public expenditure. The Plan has five principle aims: (1) improving and raising the living standards and quality of life of citizens through increasing per capita income; (2) increasing employment rates by improving education and training; (3) improving the infrastructure of the Kingdom to expand the production base of each region in accordance with its development potential and comparative advantages; (4) improving the structure of the Kingdom’s economy by further diversifying the production base of the national economy and increasing the contribution of non-oil sectors to GDP; and (5) increasing the competitiveness of the national economy and products and boosting the national economy’s capacity to attract national and foreign direct investment (source: the SAMA Report).

The government is keen to increase employment amongst Saudi nationals (particularly, among Saudi youth) and is encouraging the growth of the private sector in order to diversify its economy from its current reliance on oil. Diversification efforts are focusing on power generation, telecommunications, natural gas exploration, and the petrochemical sector. Almost 6 million foreign workers play an important role in the Kingdom’s economy, particularly in the oil and service sectors. The government has substantially boosted spending on job training and education, most recently with the opening of the King Abdullah University of Science and Technology, the Kingdom’s first co-educational university, and the extension of the King Abdullah Foreign Scholarship Program in 2011 by another five years.

SUMMARY OF SIGNIFICANT DIFFERENCES BETWEEN SAUDI GAAP AND IFRS

SEC's financial statements have been prepared in accordance with Saudi GAAP which are promulgated by SOCPA. Whilst there are number of Saudi accounting standards and interpretations issued to date, SOCPA refers to the International Financial Reporting Standards ("IFRS") as an alternative base to complement Saudi standards in cases when an accounting matter has not been covered by Saudi accounting standards and interpretations. Saudi GAAP differs from IFRS in certain significant respects (hereinafter referred to as "GAAP differences").

For purposes of this summary, the GAAP differences described below are the significant differences that apply to the 2011 Financial Statements and is not intended to present all the GAAP differences between Saudi GAAP and IFRS. This summary should not be considered to be exhaustive. Investors must rely on their own examination of SEC and its financial information. Investors should consult their own professional advisers for an understanding of the differences between Saudi GAAP and IFRS and how these differences might affect SEC's financial information. In addition, no attempt has been made to identify all classification, disclosure and presentation differences between Saudi GAAP and IFRS that would affect the manner in which transactions and events are presented in the financial statements or notes thereto or to quantify items discussed herein. No attempt has been made to identify future differences between Saudi GAAP and IFRS as the result of prescribed changes in standards and regulations. In addition, regulatory bodies that promulgate Saudi GAAP and IFRS have significant projects ongoing that could affect future comparisons between Saudi GAAP and IFRS. No attempt has been made to identify all future differences between Saudi GAAP and IFRS that may affect financial statements as a result of transactions or events that may occur in the future.

The discussion below is limited to GAAP differences in the Recognition and Measurement requirements affecting SEC's balance sheet and statement of income. Consequently, this summary does not deal with any differences related to the statement of cash flows, statement of changes in shareholders equity and presentation and disclosure requirements.

The principal GAAP differences are listed below:

Employees Benefits

According to SEC's accounting policy; employees' indemnity provision is calculated and accounted for at cost and in accordance with the related labour regulations in the Kingdom of Saudi Arabia. Adjustments to this provision are charged to the statement of income. Presently, end-of-service indemnities required by Saudi Arabian labour laws are provided in the financial statements based on the employee's length of service. Therefore, the liability represents the amount due on the basis that all employees leave or their service is terminated on 1 January following the year end.

Under IFRS, employees' end-of-service benefits as required by the Saudi Arabian law are accounted for and categorised as "post-employment: defined benefit plans". Accounting for defined benefit plans is complex and actuarial valuation is usually required to measure the obligation and the expense with a possibility of actuarial gains and losses. Moreover, the obligations are measured on a discounted basis because they may be settled many years after the employees render the related service.

Foreign Currency Transactions and Balances

According to Saudi GAAP, if a forward contract is intended to hedge against future identifiable foreign currency commitments, the difference between the agreed upon rate at the inception of the contract and the rate at the time of recording the transaction is added (or deducted) according to its nature, to the agreed upon amount.

In comparison, as per IFRS, a hedge of the foreign currency risk of a firm commitment may be accounted for as either a cash flow hedge or a fair value hedge in accordance with the requirements of International Accounting Standard 39.

Capital Lease

Both Saudi GAAP and IFRS require a lease to be classified as a capital lease if it transfers substantially all the risks and rewards incidental to the ownership of the leased asset to the lessee. Under Saudi GAAP this condition is satisfied if the lease meets one of the specified criteria in the

relevant standard. IFRS on the other hand does not lay down strict criteria but provides indicators that individually or in combination, based on the substance of the transaction, would lead to a lease being classified as a capital lease. Under both standards, a lease that does not meet the criteria of a capital lease is classified as an operating lease.

Earnings per Share

According to Saudi GAAP, earnings per share are presented in the statement of income for profit or loss from operations and for the net profit or loss.

In comparison, under IFRS, earnings per share is presented in the statement of comprehensive income for profit or loss from continuing operations.

Statement of Comprehensive Income

Contrary to Saudi GAAP, IFRS dictates the presentation of the statement of comprehensive income that requires an entity to (a) separately classify items of other comprehensive income by their nature in a financial statement and (b) display the accumulated balance of other comprehensive income separately from retained earnings and additional paid-in capital in the equity section of the statement of financial position.

SELECTED FINANCIAL INFORMATION

The following summary of historical financial information as at and for the years ended 31 December 2011, 2010 and 2009 has been derived from (i) (in the case of the historical information as at and for the years ended 31 December 2011 and 2010) the 2011 Financial Statements, and (ii) (in the case of the historical information as at and for the year ended 31 December 2009) the 2010 Financial Statements, each of which are included elsewhere in this document. SEC made certain reclassifications and adjustments when preparing its 2011 Financial Statements which were not made in its 2010 Financial Statements (see “*Presentation of Financial Information*”). The Financial Statements have been prepared in accordance with Saudi GAAP, which differs from IFRS in certain significant respects (see “*Summary of Differences between Saudi GAAP and IFRS*”).

Prospectus investors should read the following summary financial information in conjunction with the information contained in “*Presentation of Financial Information*”, “*Risk Factors*”, “*Financial Review*”, “*Description of SEC’s Business*” and the Financial Statements (including the related notes thereto) appearing elsewhere in this document.

Statement of Income Data

The following table shows the SEC’s statement of income data for the three years ended December 2011, 2010 and 2009, respectively.

	2011	2010	2009
	<i>(SAR million)</i>		
Operating revenues			
Electricity sales	28,280.5	25,872.8	22,040.4
Meter reading, maintenance and bills preparation tariff	883.1	841.1	794.9
Electricity connection tariff	1,406.1	1,197.1	1,015.7
Total operating revenues	30,569.6	27,911.0	23,851.0
Cost Of Sales			
Fuel.....	(5,771.4)	(5,796.6)	(5,898.5)
Purchased energy	(4,256.2)	(3,741.7)	(1,826.9)
Operations and maintenance.....	(8,438.3)	(7,752.9)	(7,483.0)
Depreciation – Operations and maintenance.....	(9,601.8)	(8,027.0)	(7,202.0)
Total cost of sales.....	(28,067.7)	(25,318.3)	(22,410.4)
Gross profit for the year	2,501.9	2,592.7	1,440.6
General and administrative expenses	(360.2)	(389.1)	(315.5)
Depreciation – General and administrative.....	(335.3)	(353.2)	(339.9)
Income from operating activities	1,806.4	1,850.4	785.2
Other income and expenses, net	406.8	428.7	357.5
Net income for the year	2,213.2	2,279.1	1,142.6
BASIC INCOME PER SHARE (SAR/SHARE):			
From operating activities for the year.....	0.43	0.44	0.19
From net income for the year	0.53	0.55	0.27

Balance Sheet Data

The following table shows SEC's balance sheet data as at 31 December in each of 2011, 2010 and 2009, respectively.

	2011	2010 (SAR million)	2009
ASSETS			
Current assets			
Cash and cash equivalents	7,305.1	7,227.8	3,882.7
Receivables from electricity subscribers and accrued revenues, net.....	12,027.2	9,965.0	10,586.2
Prepayments and other receivables, net.....	4,847.8	3,635.2	2,200.3
Inventories, net.....	5,562.9	5,704.9	5,623.3
Total current assets	29,742.9	26,532.9	22,292.5
Non-current assets			
Loan to an associated company	365.5	365.5	365.5
Equity investments in companies and others.....	2,406.0	2,300.4	2,353.4
Construction work in progress.....	22,260.8	26,038.2	32,214.8
Fixed assets, net.....	158,673.3	135,635.0	109,359.6
Total non-current assets	183,705.6	164,339.0	144,293.3
Total assets	213,448.6	190,871.9	166,585.8
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Accounts payable.....	26,235.4	21,876.0	44,588.7
Accruals and other payables.....	4,605.9	4,402.2	4,201.8
Short term loans and current portion of long-term loans	3,133.1	1,189.3	828.4
Sukuk	5,000.0	-	-
Total current liabilities	38,974.4	27,467.6	49,618.9
Non-current liabilities			
Long-term loans.....	13,581.8	10,632.4	6,511.9
Sukuk	14,000.0	19,000.0	12,000.0
Employees' indemnities	4,838.5	4,690.2	4,422.3
Deferred revenues, net.....	20,469.6	16,737.0	14,970.5
Customers' refundable deposits	1,367.6	1,295.4	1,159.1
Long-term Government payables.....	49,046.5	44,244.0	14,039.8
Government loans.....	18,845.2	16,147.7	14,938.1
Provision for change in fair value of hedging contracts	431.9	387.9	-
Total non-current liabilities	122,581.1	113,134.6	68,041.7
Total liabilities	161,555.5	140,602.2	117,660.6
Shareholders' equity			
Share capital.....	41,665.9	41,665.9	41,665.9
Statutory reserve	1,554.5	1,333.2	1,105.3
General reserve	538.3	536.2	534.8
Retained earnings.....	8,566.2	7,122.4	5,619.2
Net change in fair value of hedging contracts.....	(431.9)	(387.9)	-
Total shareholders' equity	51,893.1	50,269.7	48,925.2
Total liabilities and shareholders' equity	213,448.6	190,871.9	166,585.8

Statement of Cash Flows Data

The following table shows SEC's statements of cash flows data for the three years ended 31 December 2011, 2010 and 2009, respectively.

	2011	2010	2009
		<i>(SAR million)</i>	
Net cash from operating activities	17,567.3	17,002.8	24,695.2
Net cash used in investing activities	(29,345.5)	(27,348.9)	(31,653.9)
Net cash from financing activities	11,855.6	14,691.3	8,609.2
Net change in cash and cash equivalents during the year	77.4	4,345.2	1,650.5
Cash and cash equivalents, beginning of the year	7,227.8	2,882.6	1,232.1
Cash and cash equivalents, end of the year	7,305.1	7,227.8	2,882.6

FINANCIAL REVIEW

The following discussion and analysis should be read in conjunction with the information set out in “Presentation of Financial Information”, “Selected Financial Information” and the Financial Statements.

The discussion of the SEC Group’s financial condition and results of operations is based upon the Financial Statements (which are prepared in Saudi Arabian Riyals) which have been prepared in accordance with Saudi GAAP which differ in certain significant respects from IFRS, see “Summary of Significant Differences Between Saudi GAAP and IFRS”. This discussion contains forward-looking statements that involve risks and uncertainties. The SEC Group’s actual results could differ materially from those anticipated in these forward-looking statements as a result of various factors, including those discussed below and elsewhere in this Prospectus, particularly under the headings “Forward-Looking Statements” and “Risk Factors”.

See “Presentation of Financial Information” for a discussion of the source of the numbers presented in this section.

OVERVIEW

SEC and its wholly-owned subsidiaries (together, the “**SEC Group**”) form an integrated electricity generation, transmission and distribution business. The SEC Group is the primary supplier of electricity in the Kingdom, the largest GCC economy.

As at 31 December 2011, the SEC Group had a total installed generation capacity of 42,012 MW. The SEC Group owns and operates 48 major power plants throughout the Kingdom, employing steam turbines and gas turbines (both single and combined cycle and diesel generators).

As at 31 December 2011, the SEC Group’s electricity transmission network comprised approximately 32,988 km of overhead and underground cable and covered all four operating regions of the Kingdom. The SEC Group’s distribution business is responsible for supplying electricity to its customers. SEC divides its customers into five categories: residential, commercial, industrial (including State-owned industries), agricultural and governmental (other than State-owned industries).

The SEC Group’s total sales of electricity were 220,141 GWh in 2011, of which 109,378 GWh (49.7 per cent.) was sold to residential customers, 42,253 GWh (19.2 per cent.) was sold to industrial customers, 34,023 GWh (15.5 per cent.) was sold to commercial customers, 27,561 GWh (12.5 per cent.) was sold to governmental customers, 3,941 GWh (1.8 per cent.) was sold to agricultural customers and 2,985 GWh (1.4 per cent.) was sold to desalination customers (which consists of sales made to SWCC).

The SEC Group’s operating revenues are derived mainly from three tariffs: an electricity sales tariff (which accounted for 92.5 per cent. of its operating revenues in 2011), a meter reading, maintenance and bill preparation tariff (which accounted for 2.9 per cent. of its operating revenues in 2011) and an electrical service connection tariff (which accounted for 4.6 per cent. of its operating revenues in 2011). The SEC Group’s operating revenues are driven by the amount of electricity used by its customers which, in turn, depends on a range of factors including available capacity, the number of customers and factors affecting demand such as weather conditions and general economic conditions. The price which SEC is permitted to charge per unit of electricity supplied (the electricity sales tariff) is regulated by the Electricity and Co-generation Regulatory Authority (“**ECRA**”) and set at a low level compared to international prices and is not therefore a major factor affecting demand. The electricity sales tariff was changed in July 2010 and this change also affected the SEC Group’s operating revenues in that year and in 2011.

The SEC Group has a significant ongoing capital expenditure programme, under which it plans to increase its installed generation capacity by 15,790 MW to 57,802 MW by the end of 2016 at an estimated total cost of SAR 73,235 million for the additional capacity to be incurred up to and including 2016.

PRINCIPAL FACTORS AFFECTING RESULTS OF OPERATIONS

The following is a discussion of the principal factors that have affected, or are expected to affect, the SEC Group’s results of operations.

Growth in Customer Demand

Energy consumption within the Kingdom increased from 193,472 GWh in 2009 to 212,263 GWh in 2010 (an increase of 9.7 per cent. in 2010) and to 220,141 GWh in 2011 (an increase of 3.7 per cent. in 2011). This increase in consumption was driven by commercial customers, where consumption increased by 24.2 per cent. in 2010 and by 16.1 per cent. in 2011. Within the other principal customer categories, the changes were increases of 11.3 per cent. and 9.6 per cent. for industrial customers in 2010 and 2011, respectively; a 9.0 per cent. increase and a 6.8 per cent. decrease for governmental customers in 2010 and 2011, respectively; and increases of 7.7 per cent. and 0.7 per cent. for residential customers in 2010 and 2011, respectively.

In part, the growth in demand for electricity in the Kingdom has been driven by growth in customer numbers. Since it was established in 2000, the number of SEC's customers has increased each year, reaching 5.7 million at 31 December 2009 (an increase of 5.2 per cent. in 2009), 6.0 million at 31 December 2010 (an increase of 5.1 per cent. in 2010) and 6.3 million at 31 December 2011 (an increase of 5.8 per cent. in 2011). Another significant factor driving the growth in demand for electricity is the low tariff (see "*Regulated tariffs*") which historically failed to discourage unnecessary usage.

Regulated Tariffs

Substantially all of the SEC Group's operating revenues are derived from the sale of electricity to customers within the Kingdom. Tariffs in respect of these sales are determined by the Council of Ministers on the recommendation of ECRA (in the case of residential customers) and by ECRA (in the case of all other customers).

Prior to July 2010, the electricity tariff in force in the Kingdom had remained unchanged since 2000 and reflected (i) a flat rate tariff of SAR 0.12 per KWh for industrial and certain medical and educational users, (ii) a variable tariff ranging from SAR 0.05 per KWh to SAR 0.38 per KWh based on amount consumed for residential, commercial and government users and (iii) a variable rate tariff ranging from SAR 0.05 per KWh to SAR 0.12 per KWh based on amount consumed for agricultural and certain religious and charitable users. As of July 2010, a revised tariff structure was implemented for government, commercial and industrial customers. Under this revised tariff, governmental users pay a flat rate of SAR 0.26 per KWh used, commercial customers pay a variable tariff ranging from SAR 0.12 per KWh to SAR 0.26 per KWh based on amount consumed and industrial customers pay a variable rate based on amount consumed and time of year in which the consumption takes place as well as, for those customers with digital meters, the time of day during which consumption takes place.

The effect of the tariff changes implemented in July 2010 was to increase the SEC Group's revenues by SAR 1.5 billion in the second half of the year and by SAR 1.3 billion in the first half of 2011, in each case compared to the equivalent period of the previous year. Overall, revenues from the sale of electricity rose by SAR 2.9 billion in 2011 as a result of these tariff changes.

Cost and Availability of Fuel

All natural gas and liquid fuel (comprising diesel, light crude oil and heavy fuel oil) for the SEC Group's generation plants is supplied by Saudi Aramco under long-term arrangements which require Saudi Aramco to maintain an adequate supply of fuel to the SEC Group at prices which are set by the government. The price of these commodities has remained unchanged throughout the three years under review and no changes are currently anticipated.

Cost of Purchased Power

SEC purchases power from three principal sources. These are SWCC, the IPPS and Saudi Aramco. Power is purchased from SWCC at tariffs determined by the government, from the IPPs under long-term power purchase agreements and from Saudi Aramco at tariffs which are currently under negotiation. The prices paid by SEC in respect of its power purchases have remained steady over the three years under review, although there are variations in the prices paid to different suppliers. The increase in the cost of purchased power over the period under review has principally been a function of increased purchases of more expensive power.

Relationship with Government

The government is SEC's principal shareholder and has the power to appoint the majority of SEC's board of directors. The government has, in the past, and is expected to continue in the future to, provide significant financial support to the SEC Group. In the past, this support has taken the form of subsidised loans, the waiver of dividends and the provision of subsidised fuel through Saudi Aramco.

The government is also the SEC Group's largest customer as well as its regulator. In its capacity as regulator, the government sets the tariffs that the SEC Group is permitted to charge for the sale of electricity to customers. In 2010, the newly introduced tariff, among other changes, resulted in the government and governmental users paying a flat rate of SAR 0.26 per KWh compared to the previous tariff which ranged between SAR 0.05 and SAR 0.26 per KWh. The SEC Group also has significant receivables from the government in respect of sales of electricity and connection fees. At 31 December 2011, these receivables amounted to SAR 2.9 billion, or 21.5 per cent. of total receivables from electricity consumers. At 31 December 2010 and 2009, the comparative figures were SAR 1.1 billion, or 9.7 per cent., and SAR 4.0 billion, or 34.1 per cent.

In 2010 and 2011, the SEC Group's payables to Saudi Aramco in respect of the period from its incorporation to 31 December 2009 were transferred from current liabilities to long-term government payables. The SEC Group's long-term government payables totalled SAR 49.0 billion at 31 December 2011 as compared to SAR 44.2 billion at 31 December 2010.

Seasonality

SEC's electricity sales are seasonal. Generally, demand for electricity is significantly higher in the warmer summer period (May to September) than in the cooler winter period (October to April) due to the increased use of air conditioning. As a result of this seasonality, the SEC Group's revenues and results of operations tend to be higher in second and third quarters than in the first and fourth quarters of each year.

SIGNIFICANT ACCOUNTING POLICIES

The Financial Statements have been prepared in accordance with the Saudi Organization for Certified Public Accountants (SOCPA) Standards, see "*Presentation of Financial and Other Income*". For a discussion of the accounting policies applied by SEC generally, see note 2 to the 2011 Financial Statements (see also "*Summary of differences between Saudi GAAP and IFRS*").

CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In preparing SEC's financial statements, management is required to make certain estimates, judgments and assumptions. These affect the reported amounts of the SEC Group's assets and liabilities, including disclosure of contingent assets and liabilities, at the date of the financial statements as well as the reported amounts of its revenues and expenses during the periods presented. Management bases its estimates and assumptions on historical experience and other factors that it believes to be reasonable at the time the estimates and assumptions are made and evaluates the estimates and assumptions on an ongoing basis. However, future events and their effects cannot be predicted with certainty and the determination of appropriate estimates and assumptions requires the use of judgment. Actual outcomes may differ from any estimates or assumptions made and such differences may be material to the financial statements. SEC considers that the assumptions and estimations made by it as to the useful life of its plants for the purposes of calculating depreciation in relation to its power plants is its most critical accounting judgment. SEC also makes assumptions and judgments in relation to its provisions for receivables, although given its ability to disconnect most customers who do not settle their bills, it is generally SEC's judgment that the vast majority of its bills are collectible and, as a result, the amount of provisions made by it in this regard is limited.

RESULTS OF OPERATIONS

Comparison of 2011, 2010 and 2009

Operating revenues

The table below shows the breakdown of the SEC Group's operating revenues for each of 2011, 2010 and 2009.

	Year ended 31 December					
	2011		2010		2009	
	(SAR million)	(% of total)	(SAR million)	(% of total)	(SAR million)	(% of total)
Electricity sales	28,281	92.5	25,873	92.7	22,040	92.4
Meter reading, maintenance and bills preparation tariff.....	883	2.9	841	3.0	795	3.3
Electricity connection tariff	1,406	4.6	1,197	4.3	1,016	4.3
Total operating revenue.....	30,570	100.0	27,911	100.0	23,851	100.0

The SEC Group's operating revenues principally comprise its revenues from the sale of electricity to its customers. Electricity sold is either self-generated or purchased from third party generators. In each of 2011, 2010 and 2009, the SEC Group generated 78 per cent., 77.7 per cent. and 84.7 per cent. of the total available power in the Kingdom. The SEC Group also derives operating revenue from the monthly tariff charged for meter reading, maintenance and bills preparation and a one-off tariff charged for making initial electricity connections. The monthly tariff is determined by reference to the capacity of the meter used by each consumer whilst the one-off tariff is paid by the customer at the time of connecting to the grid but deferred by SEC and recognised in its accounts on a straight line basis over the 20-year estimated average useful life of the equipment being installed. As a result, monthly tariff revenues are expected to continue to increase in future years.

The SEC Group's total operating revenues for 2011 amounted to SAR 30,570 million compared to SAR 27,911 million for 2010 and SAR 23,851 million for 2009.

2011 and 2010

The increase in the SEC Group's total operating revenues of SAR 2,659 million, or 9.5 per cent., in 2011 compared to 2010 principally reflected an increase of SAR 2,408 million, or 9.3 per cent., in revenue from the sale of electricity. This increase was driven by increasing demand for electricity from its customers, principally commercial and industrial customers, and the effect of an increase in the tariff for certain customers which became effective on 1 July 2010 and which contributed SAR 1,457 million, or 60.5 per cent., of the increase in electricity sales in 2011.

The SEC Group's revenues from meter reading, maintenance and bills preparation and from connections increased by 12.3 per cent. in 2011 compared to 2010, principally reflecting an increase in customer numbers over the period.

2010 and 2009

The increase in the SEC Group's total operating revenues of SAR 4,060 million, or 17.0 per cent., in 2010 compared to 2009 principally reflected an increase of SAR 3,832 million, or 17.4 per cent., in revenue from the sale of electricity. This increase was driven by increasing demand for electricity from its customers, principally commercial, government and industrial customers, and the effect of an increase in the tariff for certain customers which became effective on 1 July 2010 and which contributed SAR 1,506 million, or 39.3 per cent., of the increase in electricity sales in 2010.

The SEC Group's revenues from meter reading, maintenance and bills preparation and from connections increased by 12.6 per cent. in 2010 compared to 2009, principally reflecting an increase in customer numbers over the period.

Cost of sales

The table below shows the breakdown of the SEC Group's cost of sales for each of 2011, 2010 and 2009.

	Year ended 31 December					
	2011		2010		2009	
	(SAR million)	(% of total)	(SAR million)	(% of total)	(SAR million)	(% of total)
Fuel	(5,771)	20.5	(5,797)	22.9	(5,899)	26.3
Purchased energy	(4,256)	15.2	(3,742)	14.8	(1,827)	8.2
Operations and maintenance	(8,438)	30.1	(7,753)	30.6	(7,483)	33.4
<i>of which:</i>						
<i>Employees' expenses and benefits.</i>	<i>(4,564)</i>	<i>16.2</i>	<i>(4,023)</i>	<i>15.9</i>	<i>(3,769)</i>	<i>16.8</i>
<i>Materials</i>	<i>(1,057)</i>	<i>3.8</i>	<i>(1,114)</i>	<i>4.4</i>	<i>(1,164)</i>	<i>5.2</i>
<i>Operation and maintenance</i>						
<i>contractors.....</i>	<i>(888)</i>	<i>3.2</i>	<i>(703)</i>	<i>2.8</i>	<i>(721)</i>	<i>3.2</i>
<i>Municipality fees</i>	<i>(437)</i>	<i>1.6</i>	<i>(394)</i>	<i>1.6</i>	<i>(347)</i>	<i>1.5</i>
<i>Provision for doubtful receivables</i>	<i>(122)</i>	<i>0.6</i>	<i>(258)</i>	<i>1.0</i>	<i>(126)</i>	<i>0.6</i>
<i>Provision for slow moving</i>						
<i>inventory.....</i>	<i>(56)</i>	<i>0.2</i>	<i>(10)</i>	<i>-</i>	<i>(1)</i>	<i>-</i>
<i>Other.....</i>	<i>(1,315)</i>	<i>4.7</i>	<i>(1,252)</i>	<i>5.0</i>	<i>(1,356)</i>	<i>6.1</i>
Depreciation – operations and maintenance	(9,602)	34.2	(8,027)	31.7	(7,202)	32.1
Total cost of sales.....	(28,068)	100.0	(25,318)	100.0	(22,410)	100.0

The SEC Group's cost of sales comprise the cost of the fuel required to run its generation plants, the cost of energy purchased from independent generators, operations and maintenance costs including, in particular, the costs of operations and maintenance employees, materials costs, the costs of operation and maintenance contractors, and depreciation in respect of its operation and maintenance assets.

The SEC Group's total cost of sales for 2011 amounted to SAR 28,068 million compared to SAR 25,318 million for 2010 and SAR 22,410 million for 2009.

2011 and 2010

The increase in the SEC Group's cost of sales of SAR 2,749 million, or 10.9 per cent., in 2011 compared to 2010 principally reflected:

- an increase of SAR 1,575 million, or 19.6 per cent., in depreciation arising from an increase in depreciable assets.
- an increase of SAR 685 million, or 8.8 per cent., in operations and maintenance consisting of an SAR 541 million, or 13.5 per cent., increase in employee expenses and benefits, an SAR 184 million, or 26.2 per cent., increase in operations and maintenance contractors mainly from expansion in the transmission and distribution network, an SAR 63 million, or 5.0 per cent., increase in other operations and maintenance costs mainly from a change in the allocation of overheads and an SAR 43 million, or 10.9 per cent., increase in municipality fees as a result of higher electricity sales. These increases were partially offset by an SAR 136 million, or 52.7 per cent., decrease in the provision for doubtful accounts due to a decrease in receivables from non-government consumers and an SAR 56 million, or 5.0 per cent., decrease in materials mostly due to less maintenance work in relation to generation assets.
- an increase of SAR 515 million, or 13.8 per cent., in purchased power. Of this, power purchased from JAWAP and Shuqaiq Water and Power accounted for SAR 495 million, or 96.3 per cent., of the increase.
- a decrease of SAR 25 million, or 0.4 per cent., in the cost of fuel mainly due to a decrease in hauling cost and less fuel usage due to greater reliance on purchased power.

2010 and 2009

The increase in the SEC Group's cost of sales of SAR 2,908 million, or 13.0 per cent., in 2010 compared to 2009 principally reflected:

- an increase of SAR 1,915 million, or 104.8 per cent., in the cost of purchased energy, principally reflecting a 61.1 per cent. increase in purchases of electricity from third party generators from 33,236,177 MW in 2009 to 53,529,364 MW in 2010 as well as an increase in the cost of purchased power as a result of more power being purchased from higher priced sources.
- an increase of SAR 825 million, or 11.5 per cent., in depreciation. This principally reflected an increase in the SEC Group's depreciable operations and maintenance asset base.
- an increase of SAR 270 million, or 3.6 per cent., in operations and maintenance expenses, principally driven by a SAR 254 million, or 6.7 per cent., increase in operations and maintenance employee costs and an SAR 132 million, or 104.5 per cent., increase in the provision for doubtful receivables and partially offset by a SAR 104.2 million, or 7.7 per cent., decrease in other operations and maintenance costs. The increase in employee costs principally reflected increased salaries and benefits mainly as a result of promotions and merit increases. The increase in the provision for doubtful receivables principally reflected an increase in receivables from non-governmental customers.

These increases were partially offset by a decrease of SAR 102 million, or 1.7 per cent., in the cost of purchased fuel, principally reflecting a switch from inefficient generating units such as diesel to more efficient power plants and a reduction in hauling cost.

Gross income

Reflecting the above factors, the SEC Group's gross income was SAR 2,502 million in 2011 compared to SAR 2,593 million in 2010 and SAR 1,441 million in 2009, a decrease of 3.5 per cent. in 2011 compared to 2010 and an increase of 80 per cent. in 2010 compared to 2009.

General and administrative expenses

The SEC Group's general and administrative expenses principally comprise the cost of its general and administrative staff and materials costs charged under this heading. The SEC Group's general and administrative expenses were SAR 360 million in 2011 compared to SAR 389 million in 2010 and SAR 316 million in 2009. The SAR 29 million, or 7.4 per cent., decrease in general and administrative expenses in 2011 compared to 2010 principally reflected an increase in the services being used by operations.

The SAR 74 million, or 23.3 per cent., increase in general and administrative expenses in 2010 compared to 2009 reflected a SAR 53 million increase in general and administrative staff costs together with a SAR 21 million, or 20.2 per cent., increase in other general and administrative costs and was partially offset by a SAR 8 million, or 17.8 per cent., decrease in general and administrative materials. The increase in general and administrative staff costs in 2010 compared to 2009 principally reflected promotions and merit-based salary increases.

Depreciation – general and administrative

The SEC Group's depreciation charge in relation to its general and administrative assets was SAR 335 million in 2011 compared to SAR 353 million in 2010 and SAR 340 million in 2009. The SAR 18 million, or 5.1 per cent., decrease in this depreciation charge in 2011 compared to 2010 principally reflected disposals of depreciable assets in 2011.

The SAR 13 million, or 3.8 per cent., increase in this depreciation charge in 2010 compared to 2009 principally reflected an increase in the SEC Group's general and administrative depreciable asset base.

Income from operating activities

Reflecting the above factors, SEC Group's income from operating activities was SAR 1,806 million in 2011 compared to SAR 1,850 million in 2010 and SAR 785 million in 2009, a decrease of 2.4 per cent. in 2011 compared to 2010 and an increase of 135.7 per cent. in 2010 compared to 2009, respectively.

Other income and expenses, net

The SEC Group's other income and expenses principally comprise its net gain or loss on the sale of fixed assets, penalties (which are collected from suppliers for late deliveries, from contractors for delays and negligence, and from other parties for damage to company properties and illegal connections), its share of the net profits or losses of companies in which SEC has invested and fees paid in respect of tenders. The SEC Group's net other income was SAR 407 million in 2011 compared to SAR 429 million in 2010 and SAR 358 million in 2009.

The SAR 22 million, or 5.1 per cent., decrease in the SEC Group's net other income in 2011 compared to 2010 principally reflected an SAR 72 million, or 73.5 per cent., decrease in income from the sale of fixed assets and an SAR 24 million, or 111.1 per cent., increase in SEC's share of the net loss from its equity accounted investees which were substantially offset by an SAR 54 million, or 46 per cent., increase in income from penalties and an increase in other income by SAR 18 million or 9.0 per cent.

The SAR 71 million, or 19.9 per cent., increase in the SEC Group's net other income in 2010 compared to 2009 principally reflected increases in the net gain on the disposal of fixed assets, penalties, tender fees and other income and expense items which were partially offset by a fall in income from equity accounted investees.

In 2011 and 2010, SEC's share of the net loss made by its equity accounted investees was SAR 24 million and SAR 56 million, respectively, compared to its SAR 34 million share of their net profit in 2009. The losses in 2011 and 2010 principally reflected losses made by the Gulf Cooperation Council Interconnection Authority (the "GCCIA"), principally as a result of the fact that the GCCIA is not currently earning revenue but is incurring depreciation and other expenses.

Net income for the year

Reflecting the above factors, the SEC Group's net income for 2011 was SAR 2,213 million compared to SAR 2,279 million for 2010 and SAR 1,143 million for 2009, a decrease of 2.9 per cent. in 2011 compared to 2010 and an increase of 99.5 per cent. in 2010 compared to 2009.

LIQUIDITY AND CAPITAL RESOURCES

Overview

The SEC Group's principal cash requirements are to fund its significant and ongoing capital expenditure programme. The SEC Group's principal source of funds is cash from operations. In addition, proceeds from borrowings and securities issued represent another important source of funds for the SEC Group.

Cash Flow

The tables below summarises the SEC Group's cash flow from operating activities, investing activities and financing activities for each of 2011, 2010 and 2009.

	Year ended 31 December		
	2011	2010	2009
	<i>(SAR million)</i>		
Net cash from operating activities.....	17,567	17,003	24,695
Net cash used in investing activities.....	(29,346)	(27,349)	(31,654)
Net cash from financing activities.....	11,856	14,691	8,609
Cash and cash equivalents at year end.....	7,305	7,228	2,883

Net cash from operating activities in 2011 was SAR 17,567 million compared to SAR 17,003 million in 2010 and SAR 24,695 million in 2009. The SEC Group's operating cash flow principally represents its

net income for the year adjusted upwards to reflect its significant depreciation charges, accounts payable and deferred revenue and, in 2009, receivables from electricity consumers (principally reflecting an SAR 8 billion payment from the government in 2009 in respect of receivables due from the government since October 2006 that reduced the receivables from the government to SAR 4 billion at the end of 2009) and accrued revenue and adjusted downwards (in 2010) to reflect prepayments and other receivables.

Net cash used in investing activities in 2011 was SAR 29,346 million compared to SAR 27,349 million in 2010 and SAR 31,654 million in 2009. In each year, the principal investments made were in construction work in progress in relation to the SEC Group's capital expenditure programme.

Net cash from financing activities in 2011 was SAR 11,856 million compared to SAR 14,691 million in 2010 and SAR 8,609 million in 2009. SEC's financing activities principally comprise net new financing raised (in the form of loans from banks and from the government as well as through the issue of sukuk) and the payment of dividends. In 2011, SEC raised net new financing of SAR 12,393 million and paid dividends of SAR 538 million. In 2010, SEC raised net new financing of SAR 15,232 million and paid dividends of SAR 540 million. In 2009, SEC raised net new financing of SAR 9,136 million and paid dividends of SAR 527 million.

Borrowings

The SEC Group aims to maintain an appropriate financial profile consistent with businesses which have stable cash flows and long-term assets and seeks to diversify its sources of funding to achieve greater financial flexibility. The SEC Group maintains a minimum cash balance alongside its unutilised committed financing facilities in order to meet its working capital requirements.

The SEC Group has a centralised treasury located at its head office, which is responsible for investing and managing its surplus cash. The SEC Group's surplus cash is invested mainly in fixed deposits (between one week and 12 months duration) with a mix of highly rated local and international banks.

Before undertaking any significant capital expenditure, SEC evaluates the funding requirements for the capital expenditure and determines whether any external financing is required. Where financing is required, SEC may also utilise hedging instruments to manage its exposure to market rates under that financing.

Historically, SEC's management has pursued a conservative funding strategy, utilising its strong equity base and stable cash flow and combining it with external financing sourced from banks and financial institutions. SEC's management intends to continue to follow a prudent approach with respect to its funding strategy and plans to diversify its funding sources to meet its future funding requirements.

In addition to the long-term loans and sukuk described below, SEC has unutilised credit facilities with local banks amounting to SAR 1 billion at 31 December 2011.

SEC also entered into a loan agreement on 29 March 2012 for a U.S.\$1.4 billion export credit agency financing with a maturity of 12 years.

Long-term loans

As at 31 December 2011, SEC had six long-term loans outstanding which together totalled SAR 16,715 million. The table below shows details of each of these long-term loans:

Type of loan	Principal amount (SAR)	Amount outstanding (SAR)	Maturity Date for last instalment
Syndicated Murabaha	6,000,000,000	4,636,363,000	2020
ECA Loan	4,125,000,000	3,410,480,000	2021
Public Investment Fund Loan	2,583,000,000	2,583,375,000	2024
Syndicated Murabaha	5,000,000,000	500,000,000 ⁽¹⁾	2025
Bilateral Loan	1,875,000,000	1,875,100,000	2012 ⁽²⁾
ECA Loan	3,709,000,000	3,709,570,000	2024

Notes:

(1) Not yet fully drawn. The availability period in respect of this loan ends in June 2012.

(2) SEC has an option to extend the maturity of this loan by one year.

Sukuk

SEC has three series of sukuk outstanding. The table below shows details of each issue.

Issue date	Maturity	Principal amount	Outstanding amount	Return
23 July 2007	2027, with an early redemption right in 2012, 2017 and 2022	SAR 5,000,000,000	SAR 5,000,000,000	SIBOR plus a margin, payable quarterly
6 July 2009	2029, with an early redemption right in 2014, 2019 and 2024	SAR 7,000,000,000	SAR 7,000,000,000	SIBOR plus a margin, payable quarterly
10 May 2010	2030, with an early redemption right in 2017, 2020 and 2025	SAR 7,000,000,000	SAR 7,000,000,000	SIBOR plus a margin, payable quarterly

For each series a bonus equal to 10 per cent. of the principal amount of the sukuk is payable to sukukholders on each five year anniversary of the issue date.

Government loans

In October 1997, amounts outstanding between SEC and the government were determined by the government to constitute an interest free long-term loan with a grace period of 25 years starting from the date of the public announcement of SEC's incorporation. The repayment of the loan was expressed to be subject to review based on the financial position of the government and SEC. In October 2001, it was agreed that amounts outstanding between SEC and certain government entities should also be taken into account in determining the amount of the loan. During 2005, the amount outstanding from SEC to government entities was determined to be SAR 386 million. Thereafter, the final loan amount was agreed at SAR 14,938 million.

During 2010, an additional interest free loan of up to SAR 15 billion was made available by the government to SEC. This loan may be drawn over a period of two years expiring on and, as at 31 December 2011, SAR 11,250 million had been drawn by SEC. No principal is required to be paid under the loan until 2021 and thereafter the loan is repayable over a 15 year period.

In June 2011, the government approved an additional interest free loan of up to SAR 51.1 billion to be repayable over a period of 25 years. The loan is to be disbursed over a period of five years in accordance with an agreement to be entered into between SEC and the Saudi Ministry of Finance. The agreement was entered into in 2011 and the first disbursement was made in January 2012.

Maturity profile of SEC's borrowings (excluding government borrowings)

Of SEC's SAR 35,715 million borrowings (excluding government borrowings) outstanding as at 31 December 2011, 17.52 per cent. was scheduled to mature within 12 months. The table below summarises the maturity profile of these borrowings at 31 December 2011.

	As at 31 December 2011	
	(SAR million)	(per cent.)
Repayable within 12 months	8,133	22.77
Repayable between 1 and 5 years.....	12,872	36.04
Repayable after 5 years	14,710	41.19
Total.....	35,715	100.0

Capital Expenditure

The table below shows the SEC Group's capital expenditure on construction work in progress for each of 2011, 2010 and 2009.

	Year ended 31 December		
	2011	2010	2009
	<i>(SAR million)</i>		
Generation projects	10,468	15,424	16,838
Transmission projects	6,374	6,407	11,936
Distribution projects.....	5,082	3,931	3,250
General projects	336	276	192
Total construction work in progress.....	22,261	26,038	32,215

Note:

(1) The net financing cost capitalised on construction work in progress was SAR 1,151 million in 2011, SAR 1,070 million in 2010 and SAR 769 million in 2009, and is included in the amounts stated in the table.

The table below sets out the SEC Group's planned future capital expenditure for the years 2012 to 2016:

	2012	2013	2014	2015	2016
	<i>(SAR million)</i>				
Capital expenditure.....	38,510	47,631	48,295	43,972	40,775

Generation

The SEC Group plans to continue increasing its power generation capacity and the following table shows details of the generation projects that the SEC Group expects to commission in the period to 2016.

Project Description	Region	Capacity (MW)	Planned date for commissioning first unit	Estimated project cost (SAR million)
PP 10 Expansion	Central	590	2012	2,346.0
Qurayat Power Plant Expansion	Eastern	136	2012	645.0
Al-Quraya power plant (CC) steam part	Eastern	1300	2012	7,267.0
Al-Quraya power plant (CC) Expansion	Eastern	640	2012	2,235.0
Rafha Power Plant Expansion.....	Eastern	60	2012	210.0
Al-Qassim Expansion 1	Central	220	2012	750.0
Al-Qassim Expansion 2	Central	220	2012	750.0
Hail power plant Expansion.....	Central	240	2012	891.3
Tabuk Expansion 7	Western	120	2012	420.0
Al Jouf	Eastern	56	2012	225.0
Sharorah	Southern	110	2013	455.8
Najran air cooling (Najran Expansion 1).....	Southern	60	2012	198.8
Najran Expansion 2.....	Southern	60	2013	244.0
Aljouba power plant Expansion 3.....	Southern	60	2013	244.0
Aljouba power plant Expansion 4.....	Southern	60	2013	244.0
Tabuk Extension 8.....	Western	120	2013	455.8
Qurayat Power Plant Extension	Eastern	120	2013	455.8
Al Shuaibah (CC).....	Western	1238	2013	4,780.0
Al-Wajh power plant 2	Western	180	2013	670.8
Rabigh steam power Plant-2	Western	1260	2014	7,675.0
PP 10 steam part	Central	990	2014	6,500.0
Qurayat power plant extension	Eastern	60	2014	244.0
PP12 (CC)	Central	1,800	2014	6,500.0
South Jeddah Phase 1.....	Western	2,400	2015	13,770.0
Rafha power plant 2 Expansion	Eastern	60	2016	255.0
Power plant Jazan.....	Southern	2,680	2016	16,770.0
Rabigh 5 & 7 (CC)	Western	950	2016	5,300.0
TOTAL		15,790		80,502.3

The planned additional capacity is intended to ensure that the SEC Group maintains a national capacity margin of at least 10 per cent. during the period to 2016.

Transmission

The SEC Group is planning to continue the extension of its transmission network in order to minimise congestion, to interconnect isolated regions and to connect new power plants to the grid. Expenditure in upgrading the transmission network is estimated to be approximately SAR 18 – 20 billion per annum for each year from 2012 to 2016.

Distribution

The SEC Group estimates that it will spend a total of SAR 45,925 million over the period from 2012 to 2016 in expanding, maintaining and improving its distribution network.

No assurance can be given as to the actual amounts of capital expenditure that may be incurred in future periods. The timing and amount of capital expenditure is highly dependent on market conditions, the progress of projects, new opportunities that may arise and a range of other factors outside the SEC Group's control.

As at 31 December 2011, the SEC Group had committed capital expenditure of SAR 48,073 million. These commitments reflect amounts which the SEC Group is legally committed to spend in future years, although a significant proportion of the expenditure is expected to be incurred in the year ending 31 December 2012.

ANALYSIS OF CERTAIN BALANCE SHEET ITEMS

Assets

The SEC Group's most significant assets are its fixed assets and construction work in progress which, together, comprised 84.8 per cent. of its assets at 31 December 2011 compared to 84.7 per cent. in 2010 and 85.0 per cent. in 2009. The SEC Group's fixed assets principally comprise its generation, transmission and distribution machinery and equipment, see "*Description of the SEC Group's Business – Businesses*" and its construction work in progress is described under "*Liquidity and Capital Resources – Capital Expenditure*".

SEC's gross receivables from electricity consumers amounted to SAR 13,346 million in 2011 compared to SAR 11,080 million in 2010 and SAR 11,797 million in 2009, equal to 6.3 per cent., 5.8 per cent. and 7.1 per cent. of its total assets in each year. SEC's provision for doubtful receivables was SAR 2,501 million in 2011, SAR 2,379 million in 2010 and SAR 2,121 million in 2009, equal to provision rates of 18.7 per cent., 21.5 per cent. and 18.0 per cent., respectively. Included within SEC's receivables are receivables from government owned institutions, Saudi Aramco and SWCC, totalling SAR 5,114 million at 31 December 2011, SAR 2,903 million at 31 December 2010 and SAR 5,985 million at 31 December 2009. A breakdown of SEC's receivables from electricity consumers is set out in note 4 to its 2011 Financial Statements and note 4 to its 2010 Financial Statements.

Since SEC's inception in 2000, the government did not pay SEC for electricity usage in full and SEC has not paid for fuel supplied by Saudi Aramco or power purchased from SWCC. In October 2006, a Council of Ministers Resolution determined that:

- the Ministry of Finance would pay SEC within three years SAR 19,000 million representing SEC's uncollected revenues from the government accumulated to October 2006. This amount was paid in instalments between 2006 and 2008. An additional payment of SAR 8 billion in respect of uncollected revenues from the government accumulated from 2006 to 2009 was made in 2009;
- the Ministry of Finance would pay for the government's annual consumption of electric power from the government's general budget starting from 2007. Such payments have been made by the government since 2008;
- the existing accruals between SEC and Saudi Aramco, SWCC and the municipalities would be settled in the future; and

- the Ministry of Water and Electricity would submit a plan to resolve all of the outstanding issues related to the electricity sector to the Supreme Economic Council within six months from the date of the Council of Ministers' resolution.

Liabilities

The SEC Group's most significant liabilities are its borrowings (including government loans), its long-term government payables, its accounts payable and its net deferred revenue (which represents the deferred amount of the connection tariff charged to new subscribers, see "*Results of Operations – Comparison of 2011, 2010 and 2009 – Operating revenues*"). Together, these liabilities accounted for 93.0 per cent. of its total liabilities in 2011 compared to 92.3 per cent. in 2010 and 91.7 per cent. in 2009.

Information on SEC's borrowings and its government borrowings is set out under "*Liquidity and Capital Resources – Borrowings*".

In 2010, almost all of SEC's accounts payable related to outstanding fuel payments to Saudi Aramco, outstanding energy payments to SWCC and outstanding municipality fees. In 2010 and 2011, accounts payable for fuel supplied to SEC by Saudi Aramco in respect of the period from SEC's incorporation to 31 December 2009 were transferred to the government and recorded as long-term government payables. As a result, as at 31 December 2011, SEC's accounts payable totalled SAR 26,235 million of which SAR 10,460 million, or 39.9 per cent., represented payments due to Saudi Aramco. The equivalent figures at 31 December 2010 and 31 December 2009 were (in 2010) SAR 21,876 million, of which SAR 5,268 million, or 24.1 per cent., represented payments due to Saudi Aramco and (in 2009) SAR 44,589 million, of which SAR 27,664 million, or 62 per cent., represented payments due to Saudi Aramco. SEC also has significant accounts payable to SWCC and the municipalities, totalling SAR 11,695 million at 31 December 2011, SAR 10,885 million at 31 December 2010 and SAR 9,939 million at 31 December 2009.

SEC's long-term government payables (which principally represent its liability for Saudi Aramco fuel supplied between 5 April 2000 and 31 December 2009) amounted to SAR 49,047 million at 31 December 2011 compared to SAR 44,244 million at 31 December 2010 and SAR 14,040 million at 31 December 2009.

Shareholders' Equity

The table below shows SEC's shareholders' equity at 31 December in each of 2011, 2010 and 2009.

	As at 31 December		
	2011	2010	2009
	<i>(SAR million)</i>		
Share capital	41,666	41,666	41,666
Statutory reserve.....	1,555	1,333	1,105
General reserve.....	538	536	535
Retained earnings.....	8,566	7,122	5,619
Net change in fair value of hedging contact	(432)	(388)	–
Total shareholders' equity	51,893	50,270	48,925

SEC's share capital is divided into 4,166,593,815 shares with a par value of SAR 10 each. SEC is required to make a transfer equal to 10 per cent. of its annual net income in each year into its statutory reserve provided that, if and for so long as the reserve exceeds 50 per cent. of its paid up share capital, the shareholders may discontinue the transfers. SEC's general reserve comprises the balance of the reserves of Saudi Consolidated Electricity Company at 5 April 2000, the date of its merger into SEC. It also comprises returns from investing in the Electricity Fee Fund (amounting to SAR 295 million) and collections of electricity fees from individuals subsequent to 31 December 2001 (amounting to SAR 30 million).

RELATED PARTY TRANSACTIONS

SEC's principal related party transactions are with governmental agencies, ministries, Saudi Aramco and SWCC to each of which it supplies electricity. SEC also purchases fuel from Saudi Aramco and energy

from SWCC. The tariff charged to each of these entities is the same tariff charged to other consumers, except for the tariff charged to SWCC which has been determined by governmental resolution and the tariff charged to Saudi Aramco in respect of its residential properties, in respect of which there is an ongoing dispute as to the correct tariff to be charged. SEC believes that the residential properties of Saudi Aramco fall under the commercial tariff, although Saudi Aramco has rejected this tariff and is settling the electricity sales for all such properties based on the industrial tariff. This has resulted in a cumulative difference of SAR 1,831 million since SEC's inception up to 31 December 2011. See also "Description of the Business – Litigation – Disputes with Saudi Aramco".

The prices paid by SEC to Saudi Aramco for fuel and to SWCC for energy are set by the government.

Further information on SEC's related party transactions is set out in note 27 to the 2011 Financial Statements and note 27 to the 2010 Financial Statements.

The significant transactions and the related approximate amounts for the years ended 31 December 2011, 2010 and 2009 are as follows:

	31 December		
	2011	2010	2009
	<i>(SAR million)</i>		
Sales			
Government.....	7,151	6,928	5,789
Saudi Aramco.....	1,491	1,318	1,281
SWCC.....	194	165	135
Total	8,836	8,411	7,205
Purchases and other			
Saudi Aramco.....	5,514	5,592	6,164
SWCC.....	573	627	655
Municipalities fees.....	437	394	347
Total	6,525	6,613	7,166

CONTINGENT LIABILITIES

SEC's contingent liabilities as at 31 December 2011 are disclosed in note 28 to the 2011 Financial Statements and principally comprise disputes between the SEC Group and Saudi Aramco and contingent liabilities under certain guarantees and letters of credit aggregating SAR 440 million at 31 December 2011 compared to SAR 419 million at 31 December 2010).

DISCLOSURES ABOUT RISK

SEC's risk management policies are described in note 32 to the 2011 Financial Statements. SEC considers that its principal risk exposures are commission rate risk through the effects of movements in interest rates on its floating rate loans and currency rate risk in relation to a specific commitment in euro. SEC seeks to manage this risk through the use of hedging instruments which convert a portion of its floating rate exposure into a fixed rate exposure and which fix the euro/U.S. dollar exchange rate to protect it against future fluctuations in the exchange rate.

DIVIDEND POLICY

The amount of any dividend payable is determined or recommended by the Board in light of SEC's financial condition at the relevant time. While SEC expects to continue to pay future dividends, this will ultimately be determined by the level of its income in the future.

ZAKAT

Zakat has not been provided for during the years ended 31 December 2011 and 31 December 2010 because of the net adjusted loss and zakat base being negative (see the notes to the Financial Statements for further information).

DESCRIPTION OF SEC'S BUSINESS

INTRODUCTION

The SEC Group forms an integrated electricity generation, transmission and distribution business. The SEC Group is the primary supplier of electricity in the Kingdom, the largest GCC economy. SEC has been rated A1 by Moody's, AA- by Fitch and AA- by S&P.

As at 31 December 2011, the SEC Group had a total installed electricity generation capacity of 42,012 MW. The SEC Group owns and operates 46 major power plants throughout the Kingdom, employing steam turbines, diesel engines and gas turbines (both single and combined cycle).

As at 31 December 2011, the SEC Group's electricity transmission network comprised approximately 32,988 km of overhead and underground cable and covered all four operating regions of the Kingdom (see "- History" for a description of the four current operating regions). The SEC Group's distribution business is responsible for supplying electricity to its customers. SEC divides its customers into five categories: residential, commercial, industrial (including state-owned industries), agricultural and governmental (other than state-owned industries).

The SEC Group's total sales of electricity were 220,141 GWh in 2011, of which 109,378 GWh (49.7 per cent.) was sold to residential customers, 42,253 GWh (19.2 per cent.) was sold to industrial customers, 34,023 GWh (15.5 per cent.) was sold to commercial customers, 27,561 GWh (12.5 per cent.) was sold to governmental customers, 3,941 GWh (1.8 per cent.) was sold to agricultural customers and 2,985 GWh (1.4 per cent.) was sold to desalination customers (which consists of sales made to SWCC).

For the year ended 31 December 2011, the SEC Group's income from operating activities was SAR 1,806 million (as compared to SAR 1,850 million for the year ended 31 December 2010 and SAR 785 million for the year ended 31 December 2009) and its net income was SAR 2,213 million (as compared to SAR 2,279 million for the year ended 31 December 2010 and SAR 1,143 million for the year ended 31 December 2009). As at 31 December 2011, the SEC Group's total assets were SAR 213,449 million.

The SEC Group has a significant ongoing capital expenditure programme, under which it plans to increase its installed generation capacity by 15,571 MW to 57,583 MW by the end of 2016 at an estimated total cost of SAR 92,934 million to be incurred in 2012 up to and including 2016.

HISTORY

In 1975, the Government created the Ministry of Industry and Electricity (which was replaced by the Ministry of Water and Electricity in 2003) in order to organise and regulate the Saudi electricity sector. As part of this initiative, the Kingdom was divided into five operating regions (Western, Eastern, Central, Southern and Northern Regions). Within each of the Western, Eastern, Central and Southern Regions, the various private and semi-private electricity companies which had previously provided utilities were consolidated into four majority state-owned utilities known as Saudi Consolidated Electricity Companies ("SCECOs"). Within the Northern Region, the General Electricity Corporation ("GEC") (which had previously operated certain plants within the Northern Region) was given responsibility for supervising the electricity companies operating within that region.

Subsequent reform of the electricity sector resulted in the formation of SEC, which was incorporated as a joint stock company pursuant to Royal Decree M/16 dated 6/9/1420H (corresponding to 13 December 1999) based on Council of Ministers' Resolution no. 153 dated 5/9/1420H (corresponding to 12 December 1999), with its headquarters located in Riyadh. Following the formation of SEC, GEC was dissolved and the four SCECOs, GEC's projects and the various electricity companies operating under the supervision of GEC were merged into SEC and SEC assumed all of their operations, rights and liabilities.

SEC subsequently reduced the number of operating regions to four. As of the date of this Prospectus, these regions are the Western Region (consisting of four electricity departments covering Makkah, Jeddah Madinah, Tabuk, and Taif), the Eastern Region (consisting of four electricity departments covering Dammam and Al Ahsa, the Northern province, the Al-Jouf province and the northern border),

the Central Region (consisting of six electricity departments covering Riyadh city and the Riyadh, Qassim, Alkharj, Dawadme and Hail provinces) and the Southern Region (consisting of four electricity departments covering the Asir, Jizan, Najran and Baha provinces).

CAPITAL STRUCTURE

As at 31 December 2011, SEC had an authorised share capital of SAR 41,665,938,150 divided into 4,166,593,815 shares of SAR 10 each, all of which are fully paid. Its issued share capital is approximately 74 per cent. owned by the Government and approximately 7 per cent. owned by Saudi Arabian Oil Company (“**Saudi Aramco**”), which is wholly-owned by the Government. The remaining 19 per cent. of SEC shares are held by the general public in the Kingdom. As at the date of this Prospectus, no shareholder other than the Government and Saudi Aramco held more than 5 per cent. of SEC’s share capital. Since SEC’s incorporation its shares have been listed on the Saudi Stock Exchange.

RELATIONSHIP WITH THE GOVERNMENT

The Government currently owns approximately 74 per cent. of SEC’s issued share capital, with approximately a further 7 per cent. being held by Saudi Aramco, which is wholly owned by the Government. The Government is responsible for appointing five members of SEC’s board of directors (the “**Board**”), of which there are nine members in total. Saudi Aramco is responsible for appointing one member of the Board, whilst the remaining three members of the Board are representatives of the private sector (see “*Management and Employees*”).

The Government is also the SEC Group’s largest customer as well as its regulator. In its capacity as regulator, the Government sets the tariffs that the SEC Group is permitted to charge for the sale of electricity to customers (see “*Financial Review – Principal Factors Affecting Results of Operations – Relationship with Government*”).

SEC has also received significant interest-free funding from the Government since its incorporation, as further described under “*Financial Review – Liquidity and Capital Resources – Borrowings – Government Loans*”. In addition, SEC supplies electricity to Government departments and Government-owned institutions and receives fuel supplies from Government-owned Saudi Aramco. SEC has significant receivables owing from Government-owned institutions, Saudi Aramco and SWCC, and significant payables owing to certain Government-owned institutions reflecting the fact that, since its incorporation, SEC has not paid for fuel supplied by or power purchased from certain Government-owned institutions. For further details, see *Financial Review – Related Party Transactions*”, “*Financial Review – Analysis of Certain Balance Sheet Items – Assets*”, *Financial Review – Analysis of Certain Balance Sheet Items – Liabilities*” and “*- Litigation*”.

INDUSTRY OVERVIEW

Overview

The Saudi electricity market is the largest in the Arab world, with a peak load of 48,367 MW in 2011. Demand for electricity is expected to increase in the short to medium term as a result of increased Government-sponsored industrialisation and population growth (see “*Kingdom of Saudi Arabia – Government Development Strategy*” and “*Kingdom of Saudi Arabia – Population and Employment*”, respectively). During 2011, natural gas and crude oil were used as fuels to produce more than 76.6 per cent. of the electricity generated in the Kingdom. The other fuels used were diesel and heavy fuel oil.

Available installed generation capacity in the Kingdom in 2011 reached 51,236 MW, of which 82 per cent. was owned by the SEC Group, 3.5 per cent. by the Saline Water Conversion Corporation (“**SWCC**”) and the remaining 14.5 per cent. by other producers. Transmission from the generation plants to the consumption areas is through high voltage overhead lines and underground lines that had a combined total length of 48,298 c.km as at 31 December 2011. At present, the SEC Group has a monopoly on transmission of electric power in the Kingdom. The distribution network consisted of 213,608 c.km of overhead lines and 195,681 c.km of underground lines as at 31 December 2011, and the SEC Group also has a monopoly on electricity distribution to consumers in the Kingdom.

The total number of SEC’s electricity customers as at 31 December 2011 was 6,341,025, which represented an increase of 5.7 per cent. from 5,997,554 as at 31 December 2010. During the years 2000

to 2011, the number of consumers increased from 3,622,391 to 6,341,025, an increase of 43 per cent. The table below shows the distribution of SEC's customers classified by consumption type as at 31 December 2011 along with the amount of consumption for the year ended 31 December 2011:

Type	Number of subscribers	Consumption (GWh)	Per cent. of total consumption
Residential.....	5,023,038	109,378	49.7
Government.....	204,448	27,561	12.5
Commercial.....	1,039,132	34,023	15.5
Industrial.....	7,646	42,253	19.2
Agricultural.....	66,601	3,941	1.8
Desalination ⁽¹⁾	160	2,985	1.3
Total.....	6,341,025	220,141	100.0

(1) "Desalination" consists of sales made to SWCC

In 2011, the SEC Group sold a total of 220,141 GWh of electricity, an increase of 3.7 per cent. from 212,263 GWh in 2010. Electricity sales during the years 2000 to 2011 increased by 93.0 per cent. from 114,049 GWh in 2000 to 220,141 GWh in 2011, while the non-coincident peak demand increased by 123.2 per cent. from 21,673 GW in 2000 to 48,367 GW in 2011.

The below table shows the electricity generated by the SEC Group, the electricity imported by the SEC Group from other producers, the total quantity of electricity sold by the SEC Group and the electricity losses in the SEC Group system during each of 2011 and 2010:

	Quantity of electric energy (GWh)	
	2011	2010
Electricity generated at SEC Group plants.....	187,690	186,482
Electricity purchased from SWCC.....	15,258	16,000
Electricity purchased from other producers.....	41,247	37,585
Total electricity generated and purchased.....	244,195	240,067
Total electricity sold.....	220,141	212,263
Total electricity loss in the SEC Group system.....	23,427	21,388
Electricity loss in the SEC Group system as a percentage of electricity generated and transmitted across SEC's transmission network.....	9.6%	8.9%

Restructuring of the Electricity Industry in the Kingdom

IPPs and IWPPs

As a general policy objective, the Government intends to promote greater competition in the electricity industry by facilitating the establishment of independent power producers ("IPPs") and independent water and power producers ("IWPPs").

To facilitate investment by the private sector in power generation and energy trading, SEC established the Water and Electricity Company ("WEC"), a joint venture with SWCC which is 50 per cent. owned by SEC, see "- Other Investments and Activities – The Water and Electricity Company (WEC)". WEC has invited investors for three IWPP projects with a total capacity of 4,500 MW. These three IWPP projects, namely the Jubail IWPP (developed by Marafiq), the Shuqaiq IWPP and the Shuaibah IWPP have commenced commercial operations. WEC is currently the sole purchaser of all water and electricity produced by the Shuaibah 3 and Shuqaiq 2 IWPPs under long-term 20 year power and water purchase agreements. SEC has entered into a long-term purchase agreement with WEC to purchase the power output and capacity that WEC is obliged to purchase from these two IWPPs. SEC has also entered into a long-term purchase agreement for the purchase of the power output and capacity from the Marafiq IWPP.

SEC has also established an internal committee to promote the development of IPPs and to deal with all matters relating to their operation. As part of its commitment towards the development and operations of IPPs, SEC has entered into a long-term 20 year power purchase agreement with each of the Rabigh I, Riyadh and Qurayyah IPPs.

Reorganisation of SEC Group's Business Units

The SEC Group's businesses are organised into three business units: electricity generation, transmission and distribution. As part of the Government's initiative to promote greater competition in the electricity industry, SEC's business units are in the process of being reorganised into wholly-owned subsidiaries of SEC, with the aim of transferring the transmission, generation and distribution assets currently owned by SEC to the relevant subsidiaries. At present, there are no plans to involve other shareholders in any of these subsidiaries. As the holding company for the SEC Group, SEC will provide certain shared services to the new subsidiaries (such as security, financing, information technology ("IT"), human resources and procurement). SEC will also have control of overall strategy and financing for the SEC Group.

SEC's transmission business is in the process of being transferred to a wholly owned subsidiary called National Transmission Company (which is to be renamed National Grid Saudi Arabia) ("**National Grid**") which was established in 2011 and commenced operations on 1 January 2012. National Grid will be responsible for operating and managing the SEC Group's electricity transmission business.

By 2013, SEC intends to have established four wholly-owned power generation companies ("**GENCOs**") as part of reorganising its electricity generation business. SEC is in the process of identifying the generation plants and relevant employees which will be transferred to the GENCOs. The generation portfolios to be transferred to the GENCOs will not be based on the four operating regions and the composition of each generation portfolio will be determined by taking into consideration factors such as technology, availability of fuels, generation capacity and generation units with the aim of creating several 'equal' players with similar cost bases. SEC believes that creating the GENCOs will help promote more competition in the Kingdom's power generation sector for the following reasons:

- it will optimise the utilisation of power generation assets, including optimising the use of low-cost energy efficient fuels;
- it will assist in implementing a commercial approach to the supply of electricity to the transmission sector, which will in turn optimise earnings;
- it will enhance SEC's ability to forecast and control capital and operational expenditure and to develop and meet the relevant return on capital criteria; and
- it will enable SEC to benchmark performance between the various portfolios and assist in preparing the various portfolios for sale to private investors as part of the Government's initiative to introduce more competition in the sector.

SEC expects to complete the transfer of the generation portfolios to the GENCOs during 2013. At present, SEC has no plans to sell its interest in the GENCOs or the power generation portfolios.

SEC plans to establish a wholly owned distribution company by 2013 for operating its distribution business. However, it is intended that SEC's distribution business will remain a monopoly until such time as the Government considers that it is appropriate to introduce competition to the electricity distribution sector in the Kingdom.

STRATEGY

SEC's strategy is focussed on implementing the Government's policy for the development of the electricity industry in the Kingdom, with the primary objective being the provision of a safe, reliable and cost-efficient supply of electricity to end-users. In addition, SEC's strategy includes significantly increasing the SEC Group's generation business and enhancing its interconnectivity, both internationally and within the Kingdom.

The setting of Government policy for the electricity industry has been the responsibility of the Ministry of Water and Electricity since 2003, when it took over this role from the Ministry of Industry and Electricity. The Ministry of Water and Electricity's current policy objectives are as follows:

- to ensure a safe, reliable and cost-efficient electricity industry, which can meet demands of industry, commerce, government, residential, agricultural and desalination consumers;
- to maintain tariff levels that reflect associated costs within the industry;
- to introduce competition and competitive practices wherever possible and practical (particularly in power generation); and
- to support the ongoing development and smooth operation of the electricity industry, develop a legal framework suitable for encouraging competition within the industry and attract private sector investment.

Increase Generation Capacity

SEC is taking a number of steps to increase the SEC Group's generation capacity to meet anticipated future demand. As part of its strategy to meet this anticipated demand, the SEC Group increased its installed generation capacity by 2,916 MW during 2010, by 2,180 MW during 2011 and it intends to further increase this by 3,979 MW during 2012. The SEC Group plans to increase its installed generation capacity by 15,571 MW to 57,583 MW by the end of 2016 at an estimated total cost of SAR 92,934 million to be incurred in 2012 up to and including 2016. However, as the independent power sector develops (see "*Industry Overview – Restructuring of the Electricity Industry in the Kingdom*"), SEC believes that it may, as a result, be able to scale back further capital expenditure on new power generation projects. IPPs and IWPPs currently account for approximately 18 per cent of all available generation capacity in the Kingdom and SEC expects their share of generation capacity to increase to 27 per cent. by 2020.

SEC has also developed its own IPP programme with the aim of encouraging private sector investment in its power generation business. As part of the IPP programme, SEC has identified the need to construct new power plants to complement its plans to increase total generation capacity in the Kingdom. SEC's IPP programme currently envisages the construction of five new power plants. The request for proposals ("**RFP**") for the first independent power plant, the Rabigh I IPP, was issued in 2008 and financing agreements for the project were concluded in 2009. The RFPs for two further independent power plants, namely the Riyadh IPP and the Qurayyah IPP, were issued in 2009 and 2010, respectively. Financing agreements for the Riyadh IPP were concluded in 2010 and for the Qurayyah IPP in 2011. The Qurayyah IPP is currently set to be the world's largest independent power plant, with an expected generation capacity of approximately 4,000 MW. SEC is also in the process of preparing the RFP documentation for a fourth IPP, the Rabigh II IPP, in respect of which SEC expects to put the RFP out for its development in the second quarter of 2012. The RFP for a fifth IPP, the Dheba IPP, will be prepared and put out once the RFP for the Rabigh II IPP has been issued.

Interconnectivity

To improve the reliability of the Kingdom's power supply, reduce costs and promote energy trading, SEC has developed connections with transmission networks in the neighbouring GCC countries. The GCCIA, a joint stock company incorporated under the regulations of the Kingdom, was formed in 2001 by the member states of the GCC to interconnect the electricity transmission networks of the member states (see "*Other Investments and Activities – Gulf Cooperation Council Interconnection Authority (GCCIA)*"). SEC is also currently investigating the prospective benefits of connectivity with Egypt, including the potential to tap into Egypt's hydro-generation capacity.

During the medium-to long-term (covering a period of 5 to 25 years) the SEC Group aims to improve the overall "capacity factors" (that is, the ratio of a power plant's actual output over a period of time as compared to its output if it had operated at full capacity) of the generation business through further investment in the transmission network. The SEC Group's four operating regions for its transmission business are now almost fully interconnected (with interconnectivity of the transmission at approximately 95 per cent.) and the SEC Group expects to realise a number of economic and operational gains as a result, including:

- increasing the overall reserve capacity for the entire network;
- improved utilisation of the SEC Group’s power plants leading to a reduction in operating costs and capital expenditure costs; and
- enhancement of the reliability and security of the transmission network.

BUSINESS STRENGTHS

The SEC Group’s principal business strengths comprise:

- **The SEC Group is the Primary Supplier of Electricity in the Kingdom**

The SEC Group owned 82 per cent. of the available generation capacity in the Kingdom at 31 December 2011 and has a monopoly in respect of both the transmission of electric power and the distribution of electricity to consumers in the Kingdom. Although, the Government intends to promote greater competition in the electricity industry (see “- *Industry Overview – Restructuring of the Electricity Industry in the Kingdom*”), the SEC Group expects to remain the primary supplier of electricity in the Kingdom for the foreseeable future. See also “*Risk Factors – Restructuring of the Electricity Sector in the Kingdom*”.

- **Government Support**

The Government, which effectively owns approximately 81 per cent. of SEC’s issued share capital (see “- *Capital Structure*”), has historically been supportive in ensuring that SEC can adequately meet the electricity demands of the Kingdom including, for example, by providing SEC with interest-free long-term loans (see “- *Relationship with the Government*”).

- **Supply of low cost feedstock**

SEC has access to a plentiful supply of subsidised feedstock purchased under long-term supply arrangements with Saudi Aramco pursuant to a Royal Decree (see “- *Fuel Supply*”).

- **Role within the Saudi Economy**

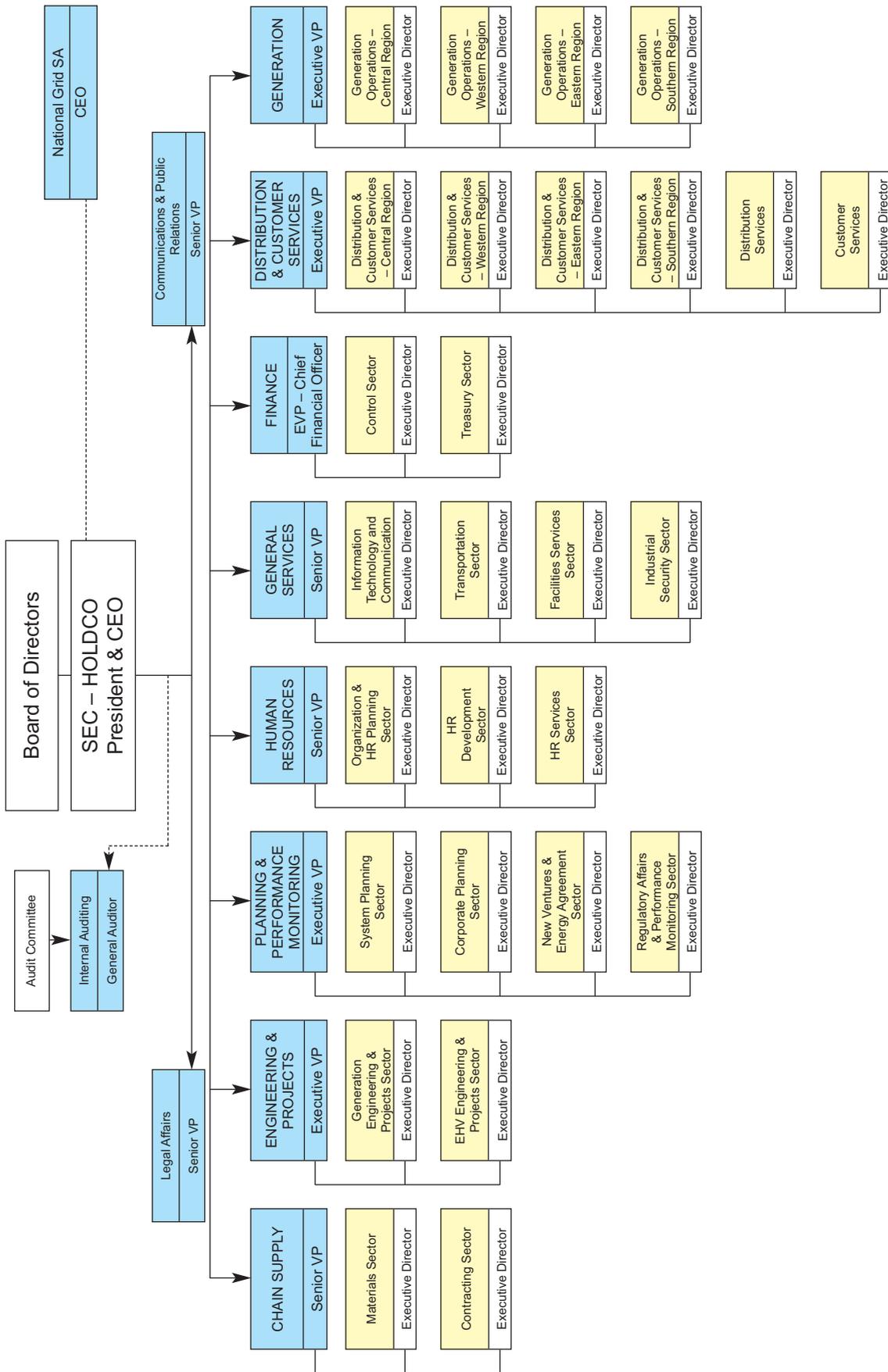
SEC has a significant economic and policy role within the Saudi economy in meeting the needs of increased Government-sponsored industrialisation and population growth, which is expected to lead to continued increases in demand for electricity in the short to medium term.

- **Interconnection with neighbouring GCC countries**

The interconnection of the electricity transmission networks of the GCC countries through the GCCIA will improve the reliability of the SEC Group’s transmission network and promote energy trading across the interconnected networks.

ORGANISATIONAL STRUCTURE

The following chart sets out SEC's organisational structure.



SEC currently has four wholly-owned subsidiaries (see “- *Other Investments and Activities – Summary of the SEC Group and its Investments*”).

SEC also has equity investments in a number of companies, as well as a 31.6 per cent. shareholding in GCCIA as at 31 December 2011 and a 50 per cent. shareholding in WEC as at 31 December 2011 (see “- *Other Investments and Activities*”).

BUSINESSES

The SEC Group’s businesses are organised into three main business units: electricity generation, transmission and distribution. These units are supported by finance, general services, human resources, public relations, investor relations, planning, programmes, legal affairs and internal auditing.

Electricity Generation

Total generation capacity

As at 31 December 2011, the SEC Group had 46 major power plants together with a number of smaller power plants bringing the total number of power plants to 65 with a total generation capacity of 42,012 MW. These plants are powered by a mix of gas, crude oil, diesel and heavy fuel oil, depending principally on the plants’ location. Gas turbines account for the majority of the SEC Group’s power generation capacity, with a total generation capacity of 25,360 MW (accounting for 60.4 per cent. of SEC’s total generation capacity). The remaining power generation capacity is made up of steam turbines (13,986 MW, which accounts for 33.3 per cent. of the SEC Group’s total generation capacity), combined cycle generators (2,300 MW, which accounts for 5.5 per cent. of the SEC Group’s total generation capacity) and diesel generators (367 MW, which accounts for 0.8 per cent. of the SEC Group’s total generation capacity). The share of power supplied by different power plants varies from year to year depending upon maintenance schedules and load profiles arising out of customer demand.

Peak demand

Driven by a combination of population and economic growth, the non-coincident peak demand for electricity in the Kingdom has grown from 21,673 MW in 2000 to 48,367 MW in 2011, representing an average annual growth of 7.6 per cent. during this period. Peak load typically builds up during the summer months (May to September) because of increased usage of air conditioners and is also significantly influenced by the timing of Ramadan and the school exam period. For example, the average monthly peak demand from May to September 2011 was approximately 41,558 MW as compared to an average monthly peak demand of approximately 28,757 MW from October to December 2011. SEC has adopted a policy of maintaining a “capacity margin” (that is, a margin of installed generation capacity above national peak demand) of 10 per cent. over the next 10 to 15 year period. This capacity margin takes into account the installed capacity both of the SEC Group and other generators in the Kingdom, including the IPPs and IWPPs.

The relatively large geographic size of the Kingdom means that peak demand levels of each region do not usually coincide (because of factors such as different sunrise and sunset times across the various regions of the Kingdom) and national peak demand therefore tends to be lower than the sum of peak demand levels in each region. This means that the effective capacity margin for each region may actually prove to be lower than the capacity margin calculated above the national peak demand. In light of the fact that the effective capacity margin for each region tends to be lower than the “national” capacity margin, some regions of the Kingdom have experienced power outages in recent years. In order to address the issue of low capacity margins in the regions, the SEC Group has embarked on an accelerated capital expenditure programme for the addition of new generation capacity to meet future growth in demand.

Installed generation capacity

The SEC Group’s installed generation capacity has increased from 22,060 MW at 31 December 2000 to 42,012 MW as at 31 December 2011 (an increase of 90.4 per cent.). This growth in generation capacity has been achieved through the expansion of existing power plants, construction of new power plants and in making improvements to the operational performance of existing power plants. The SEC Group invested a total of SAR 130,000 million in its power generation business from 2002 to the end of 2011. Additional capacity added and planned to be added by SEC and the IPPs is expected to be sufficient to

meet peak demand increases of approximately 6-8 per cent. per year up to 2016. However, at times of peak demand, SEC has needed to purchase additional electricity from SWCC and other sources (mainly, Saudi Aramco) to meet demand. SEC expects to continue to purchase electricity from SWCC and other sources until it has increased its own installed generation capacity to sufficient supply levels. SEC does not, however, consider the additional generation capacity available from SWCC to be a substitute for increasing the SEC Group’s installed generation capacity in order to meet future demand for electricity in the Kingdom.

SEC purchases most of the additional electricity it requires from SWCC by accessing SWCC’s generation capacity through the SEC Group’s networks in the Eastern and Western regions. SEC purchases most of the additional electricity it requires from SWCC pursuant to tariffs set by a Council of Ministers resolution. Under the current tariffs in force, SEC pays SWCC SAR 120 per KWh for peak demand charges and SAR 20 per MWh for energy, such that the average combined price payable for peak demand charges and energy does not exceed SAR 38 per MWh. The Council of Ministers has the power to change these tariffs. Based on the additional generation capacity that SEC installed in 2010 and 2011 and which it intends to install in 2012 (see “- Strategy – Increase Generation Capacity”) and the additional power that SEC is able to purchase from SWCC, SEC believes that there will be sufficient generation capacity to meet peak demand in the Kingdom during the next 3 to 4 years. Overall the total available installed generation capacity (including SWCC’s capacity and other sources) in the Kingdom was 51,236 MW at the end of 2011.

SWCC contributed 8.07 per cent. of the total electricity generated by the Kingdom’s power sector in 2009, 6.66 per cent. in 2010 and 6.23 per cent. in 2011. This generation capacity, when combined with the SEC Group’s installed generation capacity in the Eastern and Western Regions, in effect gives an overall positive capacity margin in both of these regions. The positive capacity margin in the Eastern Region also permits power to be transferred from the Eastern Region to the Central Region whenever it is economical to do so (the transfer of power in this manner is also called “economic energy interchange”). At present, it is only possible to carry out an economic energy interchange between the Eastern and Central Regions as these are the only two operating regions which are fully interconnected with each other.

The SEC Group plans to expand its generation capacity with the aim of ensuring that installed generation capacity in the Kingdom is sufficient to meet peak demand for the next 20 years and that further capacity is available in reserve to take account of the spinning reserve required by the network to address forced outages during times of peak demand and the uncertainty of forecasting loads. Spinning reserve is where standby generators are left running without any load so that they are immediately available to meet any surges in demand or are ready to compensate for any outages in power generation. The SEC Group plans to increase its installed generation capacity by 15,571 MW to 57,583 MW by the end of 2016 at an estimated total cost of SAR 92,934 million to be incurred in 2012 up to and including 2016.

The table below contains a breakdown by region of the SEC Group’s installed generation capacity as at 31 December 2011.

Province	Power Plants	Generation Units	Per cent. of total capacity
Eastern	22	185	30.5%
Western	21	222	32.7%
Central	10	222	28.2%
Southern	12	108	8.6%
Total	65	737	100%

The SEC Group employs steam turbines, diesel engines and gas turbines (both “single cycle” and “combined cycle”) technology in its power plants to generate electricity, with over 90 per cent. of generation based on gas and steam turbines. The decision to use a particular technology depends on a range of factors, including the availability of the relevant types of fuel from Saudi Aramco and the location of a plant. Typically inland plants, where gas supplies are available, use gas turbines and coastal plants use steam turbines powered by heavy crude oil or fuel oil in accordance with Council of Ministers’ Resolution no. 55 dated 12/3/1427H (corresponding to 11 April 2006).

As at 31 December 2011, and assuming an economic life of 25 years for each plant with capacity in excess of 100 MW, around 78 per cent. of the SEC Group’s total generation capacity has more than 10 years of its original economic life remaining. SEC plans to commence the replacement of those power plants which will reach the end of their economic lives in 2015. However, with appropriate maintenance, plants that have been fully depreciated may continue to be fully operational beyond the end of their anticipated economic life.

The table below gives a breakdown of the economic life of the SEC Group’s major power plants as at 31 December 2011.

Remaining economic life	Capacity (MW)
Fully depreciated.....	5,769
Less than 5 years.....	6,338
Between 5 and 10 years.....	841
More than 10 years.....	28,979
Total.....	41,927

Electricity generated and generation capacity factors

In 2010, the SEC Group generated a total of 186,482 GWh, which it supplemented by a further 53,585 GWh purchased from SWCC and other sources. In 2011, the SEC Group generated a total of 187,690 GWh, which it supplemented by a further 56,505 GWh purchased from SWCC and other sources.

In the short-to medium-term (covering a period of two to 10 years), SEC expects the SEC Group’s power plants to operate at an average capacity factor of approximately 60 per cent. Technically, the SEC Group’s most modern plants are capable of running at capacity factors of around 80 to 85 per cent. of installed generation capacity. In the medium to longer term (covering a period of 15 to 20 years), SEC believes that it should be possible to increase the overall load factor by reinforcing the electricity transmission grid to allow for more economic and efficient utilisation of plants. SEC also anticipates that changes will be made to the electricity tariff structure in the Kingdom to encourage off-peak electricity usage, which should limit growth in peak demand (see “- Regulation – Tariffs”).

SEC plans to continue increasing the SEC Group’s power generation capacity and the following table gives a breakdown of the projects that SEC intends to commission by 2016 for expanding its power generation capacity.

Project Description	Region	Capacity (MW)	Planned date for commissioning first unit	Estimated project cost (SAR millions)
PP 10 Expansion	Central	590	2012	2,346.0
Qurayat Power Plant Expansion	Eastern	136	2012	645.0
Al-Quraya power plant (CC) steam part	Eastern	1300	2012	7,267.0
Al-Quraya power plant (CC) Expansion	Eastern	640	2012	2,235.0
Rafha Power Plant Expansion.....	Eastern	60	2012	210.0
Al-Qassim Expansion 1	Central	220	2012	750.0
Al-Qassim Expansion 2	Central	220	2012	750.0
Hail power plant Expansion.....	Central	240	2012	891.3
Tabuk Expansion 7	Western	120	2012	420.0
Al Jouf	Eastern	56	2012	225.0
Sharorah	Southern	110	2013	455.8
Najran air cooling (Najran Expansion 1).....	Southern	60	2012	198.8
Najran Expansion 2	Southern	60	2013	244.0
Aljouba power plant Expansion 3.....	Southern	60	2013	244.0
Aljouba power plant Expansion 4.....	Southern	60	2013	244.0
Tabuk Extension 8.....	Western	120	2013	455.8
Qurayat Power Plant Extension	Eastern	120	2013	455.8
Al Shuaibah (CC).....	Western	1238	2013	4,780.0
Al-Wajh power plant 2	Western	180	2013	670.8
Rabigh steam power Plant-2	Western	1260	2014	7,675.0
PP 10 steam part	Central	990	2014	6,500.0
Qurayat power plant extension	Eastern	60	2014	244.0
PP12 (CC)	Central	1,800	2014	6,500.0
South Jeddah Phase 1	Western	2,400	2015	13,770.0
Rafha power plant 2 Expansion	Eastern	60	2016	255.0
Power plant Jazan.....	Southern	2,680	2016	16,770.0
Rabigh 5 & 7 (CC)	Western	950	2016	5,300.0
TOTAL		15,790		80,502.3

The planned additional capacity is intended to ensure that the SEC Group maintains a national capacity margin of at least 10 per cent. in the period to 2016.

Transmission

All electricity produced by the SEC Group is transmitted in the Kingdom through the SEC Group's high tension high voltage transmission grid. To provide transmission coverage to relatively widely scattered areas throughout the Kingdom, the SEC Group has expanded its transmission network from approximately 36,652 c.km of power lines at the end of 2006 to 48,298 c.km at the end of 2011. The transmission network comprises both underground and overhead cables rated from 110kv to 380kv. SEC's transmission business is in the process of being transferred to a wholly owned subsidiary, National Grid (see "- Restructuring of the Electricity Industry in the Kingdom – Reorganisation of SEC Group's Business Units").

The table below shows the classification of the SEC Group's transmission lines and the related number of sub-stations and transformers as at 31 December 2011 and 31 December 2010.

Voltage of transmission lines	Amount of transmission lines (ckm)		No. of sub-stations		No. of transformers		Capacity (MVA)	
	31 December		31 December		31 December		31 December	
	2011	2010	2011	2010	2011	2010	2011	2010
380kv.....	15,097	13,921	65	58	202	185	73,006	66,185
230kv.....	4,082	4,082	36	35	126	124	28,228	27,253
132kv.....	19,145	18,524	296	282	758	722	48,972	45,598
115kv.....	9,974	9,652	283	267	841	814	40,920	37,054
Total.....	48,298	46,179	680	642	1,927	1,845	191,126	176,090

The SEC Group intends to continue to expand network coverage by adding 80 new substations with an additional capacity of approximately 26,000 MVA, over the period from 2012 to 2014.

To enable the transmission network to cope with higher peak loads, it was reinforced during 2011 by adding 2,625 km of extra-high voltage transmission lines and 2,410 km of high voltage lines. The SEC Group plans to add at least 5,212 km of lines to its transmission network over the three years to 2015. Extra-high voltage ranges from 230 KV to 380 KV and high voltage ranges from 110 KV to 132 KV.

The Kingdom's four operating regions are almost fully interconnected through the transmission network, reflecting the historic development of the country's power industry on separate regional lines. As at 31 December 2011, interconnectivity of the transmission network was approximately 95 per cent. with the major grids in the Central, Western and Eastern Regions connected. The Central and Eastern Regions are connected through four lines. The Central and Western Regions and the Southern and Western Regions, respectively, have been connected since mid-2010. A further initiative is underway to connect isolated regions and bolster major grid connectivity and this initiative is expected to be completed by 2017.

In addition to expanding network capacity, the SEC Group is focusing on improving the reliability of the network system, reducing the number of interruptions and benchmarking network performance to international standards. The SEC Group has taken (and continues to take) a number of measures to improve the reliability of its transmission network, including:

- carrying out periodic studies and analyses of the major transmission faults and identifying the causes and the possible remedies;
- performing routine maintenance of all transmission assets;
- implementing reinforcement projects and commissioning new transmission projects well in advance of periods where demand is at its peak;
- providing mobile reserve transformers in all strategic locations; and
- improving the performance efficiency of its transmission technicians through continuous training and education programmes.

Transmission losses as a percentage of the load amounted to 3.5 per cent. in 2011 as compared to 3.99 per cent. in 2010 (a decrease of 0.49 per cent.). Due to the considerable additional generation capacity requirements in the Kingdom, and in order for savings to be made in respect of capital expenditures through reduced capacity needs, the SEC Group's intention is to reduce the level of transmission losses to 2.33 per cent. by 2018.

The SEC Group is planning to continue the extension of its transmission network in order to minimise congestion, interconnect isolated regions and connect new power plants to the grid. Expenditure in upgrading the transmission network is estimated to be approximately SAR 18 to 20 billion per annum between 2012 and 2016.

Distribution

The SEC Group's distribution business is responsible for the medium and low voltage power lines that connect high voltage transmission sub-stations to local sub-stations and the low voltage lines that provide electricity from local sub-stations to end-users. The distribution business is also responsible for metering, billing, collection of payments and electrical service connections in respect of electricity supplied to end-users. SEC plans to establish a wholly owned distribution company by 2013 for operating its distribution business (see “- *Restructuring of the Electricity Industry in the Kingdom – Reorganisation of SEC Group's Business Units*”).

To improve the quality of energy supply and meet the requirements of its customers, the SEC Group added a total of 26,042 km of power lines to its distribution network during the course of 2011. This increased the total circuit lengths of its distribution power lines to 409,289 km as at 31 December 2011. As at 31 December 2011, the SEC Group's distribution network comprised a total of 205,516 km of medium-to-low voltage power lines (13.8kv-69kv), an increase of 7.3 per cent. from 31 December 2010. As at 31 December 2011, the total length of SEC's low voltage lines (127v-380v) was 203,773 km, an increase of 6.2 per cent. as compared to 31 December 2010. The SEC Group also installed 344,292 distribution transformers with a total capacity of 160,276 MVA into its distribution networks during 2011. Over the period 2000 to 2011, the average annual growth in the number of transformers was 5.7 per cent. and transformer capacity reached 5.1 per cent.

At 31 December 2011, the SEC Group supplied electricity to 6,341,025 customers, representing a 14 per cent. increase in customer numbers during 2011. The quantity of electricity sold in 2011 was 220,141 GWh, representing a 3.7 per cent. increase on the amount of electricity sold in 2010 and an average annual growth of 8 per cent. over the five year period to 31 December 2011.

SEC divides its customers into five main categories: residential; commercial; industrial (which includes state owned industries); agricultural and governmental (other than state-owned industries). During 2011, 109,378 GWh (49.7 per cent.) was sold to residential customers and 42,253 GWh (19.2 per cent.) was sold to industrial customers. Most of SEC's residential customers are located in the Central and Western Regions, which together accounted for approximately 69.4 per cent. of all electricity sales made by SEC to residential customers in 2011. The bulk of SEC's industrial customers are located in the Eastern Region, which accounted for approximately 67.9 per cent. of all electricity sales to SEC's industrial customers in 2011.

SEC charges an initial connection fee which is based on the capacity of the electricity meter. This ranges from SAR 60 per KVA (for a meter with a capacity range of more than 1 KVA up to 30 KVA) to SAR 175 per KVA (for a meter with a capacity range of more than 120 KVA up to 152 KVA). In the case of a meter with a capacity greater than 152 KVA, SEC charges a fee of SAR 26,600 plus SAR 250 for each KVA in excess of 152 KVA.

The majority of the customers supplied by the SEC Group are currently metered using individually numbered analogue meters. In order to enhance the performance of its electricity metering, SEC intends to replace its analogue meters with digital ones after ensuring that the digital meters pass the relevant performance and accuracy tests. SEC will give priority to its industrial and commercial customers when replacing analogue meters with digital ones. Under the initial phase of this plan, SEC intends to switch 60,000 customers to digital meters, with approximately 15,000 customers having been switched so far.

The SEC Group has spent an average of SAR 5,725 million annually during the five years to 31 December 2011 in expanding and maintaining a reliable distribution network and delivering power supply to an average of 297,772 new customers annually. SEC estimates that it will spend a total of SAR 45,925 million over the 5 year period from 31 December 2011 to 31 December 2016 in expanding, maintaining and improving the SEC Group's distribution network.

FUEL SUPPLY

All fuel (natural gas, diesel, light crude oil and heavy fuel oil) for the SEC Group's generation business is supplied under long-term arrangements with Saudi Aramco. Pursuant to the Royal Decree M/96 dated 24/7/1415H (corresponding to 27 December 1994), Saudi Aramco is obliged to maintain an adequate supply of fuel to SEC. The Ministry of Petroleum and Mineral Resources and the Ministry of Water and Electricity signed a memorandum in November 2006 (which is in the process of being renewed) to

set out the quantity of natural gas to be made available for SEC's power plants in the Central and Eastern Regions until 2012 and the quantity and types of liquid fuel to be made available by Saudi Aramco for future power plants to be commissioned by SEC.

Saudi Aramco currently supplies fuel to the SEC Group at the following prices, which are set by the Government:

Type of Fuel	Price (U.S.\$ per mm Btu)
Natural Gas	0.75
Diesel	0.63
Light Crude Oil.....	0.74
Heavy Fuel Oil.....	0.32

REGULATION

Electricity and Co-generation Regulatory Authority (ECRA)

The SEC Group is principally subject to the regulation of ECRA which was formed in November 2001, pursuant to Council of Ministers' Resolution no. 236 dated 27/8/1422H (corresponding to 13 November 2001). ECRA is an independent government agency which regulates the electricity and cogeneration industries in the Kingdom to ensure provision of adequate, high quality and reliable electricity services at a reasonable price. Its powers and responsibilities as defined by Council of Ministers' resolution no. 154 dated 4/5/1428H (corresponding to 21 May 2007) include:

- **Supply matters:** this includes issuing licenses, monitoring license compliance, developing unified utility accounting procedures, coordinating organised infrastructure and devising a services expansion plan;
- **Consumer issues:** this includes dealing with tariff assessments and their periodic review, stakeholder protection, investigating and resolving complaints by involved parties, improving sector performance and, in coordination with the Ministry of Water and Electricity, promoting energy conservation measures;
- **Technical issues:** this includes developing technical standards of performance for each electrical activity, monitoring compliance with the standards, ensuring adequacy of the industry's research and development activities and other relevant technical matters; and
- **Organisational and administrative tasks:** this includes protecting the public interest, developing regulations for infrastructure expansion, encouraging private sector investments, assessing licensing fees, establishing rules and procedures to enforce applicable laws and regulations and issuing periodic reports to the Council of Ministers on costs and tariffs of electricity services.

A new electricity law was enacted in the Kingdom pursuant to the Royal Decree M/56 dated 20/10/1426H (corresponding to 22 November 2005), which supersedes all existing laws relating to the electricity sector and also sets out a new regulatory framework for the industry.

Pursuant to the electricity law, the SEC Group is required to obtain and maintain valid licences in relation to its main activities, being transmission, distribution and generation. The SEC Group has obtained all such licences. As regards the transfer of SEC's transmission business to National Grid, SEC has submitted a request to ECRA for the existing transmission licence to be transferred to National Grid with appropriate modifications.

Environmental Regulations

The SEC Group is subject to environmental laws and regulations within the Kingdom, compliance with which is monitored by the Presidency of Meteorology and Environment (the "PME"). In relation to any new project, an environmental assessment form or environmental assessment study (which must be prepared by a qualified consulting office) must be submitted to the PME for approval.

Tariffs

The electricity consumption tariff that is charged by SEC to end-users for electricity supplies is determined by the Council of Ministers, based on recommendations by ECRA. Currently, all end-users are charged a scale of tariffs per kWh which increase as consumption levels increase. SEC also charges a tariff for meter reading, maintenance and bill preparation and a further tariff for electrical service connections. These tariffs are also set by Council of Ministers based on ECRA recommendations.

Following a review of the tariff structure by the Government, ECRA has been granted the power to set the tariffs for all sectors except for the residential sector. The tariffs set by ECRA may not exceed SAR 0.26 /KWh. Since July 2010, ECRA has imposed a new tariff for government, commercial and industrial customers which has been applied by SEC, see “*Financial Review – Principal Factors Affecting Results of Operations – Regulated Tariffs*”.

Tariffs are set in respect of each customer sector and, depending upon the relevant sector, are either based on a set price per kWh or alternatively are based on a tiered billing system whereby the price per kWh increases incrementally based on the volume of electricity consumed.

As regards the industrial sector, the tariffs range from SAR 0.10 /kWh to SAR 0.26 /kWh depending upon factors such as the contractual load required by the particular customer, whether the meter is electromechanical or digital and the consumption time.

As regards the other customer sectors, the table below sets out the tariffs that were applicable as of the date of this Prospectus:

Consumption Range KW/Hour	Sector						
	Charity	Agriculture	Commercial Medical Institution	Commercial Educational Institutions	Governmental	Commercial	Residential
1 – 1000	5	5	12	12	26	12	5
1001 – 2000	5	5	12	12	26	12	5
2001 – 3000	10	10	12	12	26	12	10
3001 – 4000	10	10	12	12	26	12	10
4001 – 5000	10	10	12	12	26	20	12
5001 – 6000	12	12	12	12	26	20	12
6001 – 7000	12	12	12	12	26	20	15
7001 – 8000	12	12	12	12	26	20	20
8001 – 9000	12	12	12	12	26	26	22
9001 – 10000	12	12	12	12	26	26	24
More than 10000	12	12	12	12	26	26	26

SEC believes that any future amendments to the electricity tariff structure are likely to be implemented in a manner designed to ensure the stability of supply and a viable electricity sector and to realise a return on investment.

As part of SEC’s energy conservation initiatives in the future, SEC plans to introduce is a “time of use” billing option (“**TOU Billing**”) for its customers. Under TOU Billing, customers will be charged different tariffs for electricity usage during peak and off-peak times. TOU Billing will be optional for commercial customers but mandatory for industrial customers with a connected load of more than 1 MVA and will enable customers to reduce their energy bills by using less electricity during peak times. SEC has established a TOU tariff which is available to all industrial customers from May until September, under which customers will be charged SAR 0.10 /kWh during designated off-peak periods and SAR 0.26 /kWh during designated peak periods.

OTHER INVESTMENTS AND ACTIVITIES

Gulf Cooperation Council Interconnection Authority

The stated objectives of GCCIA are as follows:

- to link the electrical power networks in the member states by providing the necessary investments for the exchange of the electrical power in order to address any losses in power generation in emergency situations;
- to reduce the electrical generation reserve of each of the GCC member states;
- to improve the economic efficiency of the electricity power systems in the member states;
- to provide the basis for the exchange of electrical power among the member states in such a way as to serve the economic aspects and strengthen the reliability of the electrical supplies;
- to deal with the existing companies and authorities in charge of the electricity sector in the member states and elsewhere in order to coordinate their operations and strengthen the efficiency of operation with due regard to the circumstances relating to each state; and
- to follow up global technological developments in the field of electricity and to seek to apply the best modern technologies.

The principal benefit of expanding the transmission network within the GCC is to allow energy exchange and, as a consequence, reduce the installed generation capacity needs of individual member states, with associated savings in operating and maintenance costs. The first phase of the project undertaken by GCCIA involved the interconnection of the Kingdom, Bahrain, Qatar and Kuwait (together, the “GCC North Grid”) and was completed in 2009 at a cost of U.S.\$1,407 million, of which SEC’s share was equal to U.S.\$ 444.612 million. The interconnection of the Kingdom, Qatar, Kuwait and Bahrain has been completed. The GCC North Grid was also linked to the interconnection between United Arab Emirates and Oman in 2010. To date, commercial flows are not being transmitted through the grid system although a number of system tests have been completed.

SEC has paid in full for the shares it subscribed in GCCIA. The total amount of subscription paid by SEC is SAR 1,667.295 million which equates to a 31.6 per cent. shareholding in GCCIA. The other shareholders in GCCIA currently are the governments of the UAE (15.4 per cent.), Kuwait (26.7 per cent.), Qatar (11.7 per cent.), Bahrain (9.0 per cent.) and Oman (5.60 per cent.).

The Water and Electricity Company (WEC)

In May 2003, WEC was incorporated as a limited liability company by SWCC and SEC, each of which owns 50 per cent. of the company. WEC’s principal purposes are:

- facilitating the development of new private electricity and water producers;
- acting as the purchaser of electricity and desalinated water capacity and output from certain IWPPs in the Kingdom which involve SEC and/or SWCC;
- supplying the relevant IWPPs with fuel under energy conversion agreements;
- monitoring power production, the quality of desalinated water and the efficiency of fuel conversion by the relevant IWPPs; and
- selling the capacity and output of desalinated water and power procured from the relevant IWPPs to SWCC and SEC, respectively.

Summary of the SEC Group and its Investments

The table below sets out the names, principal objectives and jurisdictions of incorporation of SEC's wholly-owned Subsidiaries:

Name	Principal Objectives	Jurisdiction of Incorporation	Date of Incorporation
Saudi Electricity Sukuk Company	Providing necessary services and support in connection with Sukuk and other instruments issued by SEC, its subsidiaries and/or its affiliates	Kingdom of Saudi Arabia	June 2007
Saudi Electricity Global SUKUK Company	Owning the Sukuk Assets and acting as trustee for the Certificateholders	Cayman Islands	February 2012
Dawiyat	The initial plans for this subsidiary are currently at a preliminary stage and have not yet been finalised. Under the current initial plans, this subsidiary is expected to enable SEC to commercially utilise its fibre optic network with third party telecommunications providers.	Kingdom of Saudi Arabia	December 2009
National Transmission Company (to be renamed National Grid Saudi Arabia)	Owning and operating SEC Group's transmission business in the Kingdom	Kingdom of Saudi Arabia	March 2011

As at 31 December 2011, SEC also has equity investments in a number of companies (all of which are incorporated in the Kingdom), which are summarised in the table below:

Company Name	Objective	Percentage Shareholding
GCCIA	Interconnecting the electricity transmission networks of the member states of the GCC	31.6%
WEC	Purchasing power and desalinated water and re-selling it to SWCC and to SEC	50%
Shuaibah Water and Electricity Company	Develop and operate the Shuaibah-III project for the dual production of water and electricity	8%
Shuqaiq Water and Electricity Company	Develop and operate the Shuqaiq project for the dual production of water and electricity	8%
Shuaibah Holding Company	Develop projects for the dual production of water and electricity	8%
Al-Jubail Water and Electricity Company	Develop and operate the project for the dual production of water and electricity in the city of Jubail.	5%
Rass Al Zoor Water and Electricity Company	Develop and operate the project for the dual production of water and electricity	20%
Rabigh Electricity Company	Develop and operate the project for the production of electricity	20%
Dhuruma Electricity Company	Develop, own, operate and maintain the Riyadh Independent Power Plant	50%
Hajr for Electricity Production Company	Develop, own, operate and maintain the Qurayyah Independent Power Plant	50%

SEC's aggregate long-term equity investments in all companies amounted to SAR 1.9 billion as at 31 December 2011 as compared to SAR 1.9 billion as at 31 December 2010.

RENEWABLE ENERGY

SEC, working in co-operation with Showa Shell (a Japanese company) and Saudi Aramco, has established the first grid connected solar IPP in the Kingdom. The power plant has a capacity of 500 KW.

RESEARCH AND DEVELOPMENT AND ENVIRONMENTAL

Pursuant to Council of Ministers' Resolution no. 169 dated 11/8/1419H (corresponding to 30 November 1998), as amended by the Council of Ministers' resolution no. 170 dated 12/7/1421H (corresponding to 10 October 2000), ("CMR 169"), SEC is required to allocate a portion of its revenues (to be specified by SEC's board of directors) towards research and development in the fields of energy conservation, system improvement and environmental protection. CMR 169 also obliges SEC to conduct its operations in line with environmental guidelines set by the Government. Independent surveyors periodically inspect the SEC Group's facilities to ensure compliance with such guidelines. SEC has also initiated a system of internal audits at the SEC Group's facilities to monitor compliance with applicable environmental laws. SEC believes that emissions from the SEC Group's power plants are within standards set by the Government and that it is in substantial compliance with all applicable environmental laws in the Kingdom.

SEC has taken a number of environmental measures, such as utilising natural gas instead of crude oil and installing meter and measuring devices for the gases emitted from power plants so as to regulate emission quantities and reduce environmental pollution. In addition, industrial waste resulting from the burning of fuel is processed in special internment sites. Adherence to high specifications during design and construction also reduces the level of noise caused by power transformers. The Industrial Security Sector, a division of General Services, is responsible for monitoring environmental standards.

SEC is required under CMR 169 to establish energy conservation practices to promote a more efficient use of electricity. Since its establishment, SEC has:

- applied a peak load management programme;
- educated large domestic and business customers on the efficient usage of electricity;
- distributed brochures on energy conservation;
- formulated a comprehensive energy conservation strategy; and
- co-operated with the King Abdul Aziz City for Science and Technology to activate a national programme of energy conservation.

SEC is also undertaking research and development in collaboration with the King Abdulaziz City for Science and Technology to improve efficiency for its transmission lines.

SEC expects to undertake further energy conservation initiatives in the future. One of the major initiatives that SEC plans to introduce is TOU Billing (see "*- Regulation – Tariffs*"), under which customers will be charged different tariffs for electricity usage during peak and off-peak times.

In order to promote and develop research programmes, SEC has established and funded a number of academic chairs at Saudi universities. These include chairs at King Abdulaziz University, King Saud University and King Fahd University of Petroleum and Minerals. The aim of these chairs is to promote the role of universities in electrical engineering and to carry out studies and developmental research in the field of electrical engineering (with a focus on electric power).

INSURANCE

SEC maintains comprehensive insurance cover in respect of loss or damage to property (including its power plants and sub-stations). This cover includes, but is not limited to, fire, explosion, lightning, windstorms, hurricanes, vandalism, malicious damage, riots, strikes, locked out workmen, labour disturbances, civil unrest, electrical damage and theft. SEC also maintains a comprehensive general liability policy with a loss limit of SAR 18 million, which provides cover against legal liability for causing any accidental bodily injury or death to third parties or damage to their property. SEC further maintains motor vehicle insurance for its general fleet with a combined loss limit of SAR 10 million.

Exposures are carefully measured by means of periodic risk surveys by the underwriters and reinsurers in conjunction with SEC's management and engineers.

SEC does not carry any insurance cover for business interruption and sabotage and terrorism as the costs of obtaining and maintaining such insurance cover are very high and SEC believes that it is more economical for it to retain this exposure and to manage the risk itself.

PROPERTY

The SEC Group's portfolio of land and buildings book value amounted to SAR 1.6 million and SAR 5.9 million, respectively, as at 31 December 2011.

INTELLECTUAL PROPERTY

Other than the SEC logo, the SEC Group does not own any material intellectual property rights.

HEALTH AND SAFETY

SEC seeks to ensure that strict health and safety standards are observed throughout its operations. The Industrial Security Sector, a division of General Services, is responsible for monitoring health and safety standards throughout SEC's business. SEC is subject to a number of external regulations and laws, and SEC confirms that it is in material compliance with all of these requirements.

INFORMATION TECHNOLOGY

SEC uses the following IT systems in order to facilitate its operations:

- **Unified Distribution System ("UDS").** UDS is a system which manages the components of the grid and also acts as a tracking monitor in respect of each customer from the time that a customer applies for the service until the installation and operation of the system;
- **Field Force Management System ("FFMS").** FFMS is a system which maintains the whole grid by using GPIS in connection with the hand held electronic devices used by SEC's maintenance teams which are on location and permits requests for maintenance orders to be sent and received between the hand held electronic devices within the team group and SEC's central control room.
- **Geographical Information System ("GIS").** GIS is a geographical information system used to gather the information and data of the electrical network to all the components of the grid. Another function of this system includes the management and follow-up in relation to the maintenance and operation of the grid, subscribers' services and performing technical analyses to install new tools and equipments or to acquire new subscribers and to locate the loads for the new subscriber. This system is used in the main cities of the Kingdom and SEC plans to expand its use to the other cities in the Kingdom.
- **CYME International T&D ("CYME") & Power Simulation System for Engineers ("PSSE").** CYME & PSSE are two systems that are used to perform analysis on the electrical network. The CYME system is used in respect of the distribution network and the PSSE system is used to perform analysis in respect of the transmission network.

The billing systems are currently on the MainFrame systems (a powerful computer system) and are expected to be replaced with a SAP system as part of SEC's plan to develop its information technology systems in 2013.

LITIGATION

Disputes with Saudi Aramco

SEC had a dispute with Saudi Aramco, SEC's sole provider of fuel, regarding crude oil handling fees amounting to SAR 2,886 million as at 31 December 2011. However SEC's management does not expect any liability to fall on SEC and therefore this provisional loss amount has not been reflected in its accounting records.

In addition, Saudi Aramco has raised a claim for its share of yearly cash dividends since SEC's inception as well as dividends that are declared in the future. The claim for the period from the

inception of SEC on 5 April 2000 to 31 December 2010 amounted to SAR 1,937 million. SEC believes that Saudi Aramco is not entitled to cash dividends being a government entity fully owned by the Government, as SEC believes that the waiver of the right to receive dividends set forth in CMR 169 also applies to Saudi Aramco.

SEC also has a dispute with Saudi Aramco regarding the provision of fuel oil. Saudi Aramco has been delivering light fuel oil to SEC whereas SEC believes that the agreement with Saudi Aramco was for Saudi Aramco to deliver heavy fuel oil, which is cheaper than light fuel oil. SEC accordingly believe that the price to be paid for the fuel oil should reflect the price of heavy fuel oil, whereas Saudi Aramco believe that the price should be that of light fuel oil. The difference between the two prices in respect of the fuel oil delivered is approximately SAR 858 million.

None of the disputes described above currently involve governmental, legal or arbitration proceedings nor is SEC of the view that any such proceedings are pending or threatened.

MANAGEMENT AND EMPLOYEES

MANAGEMENT STRUCTURE

SEC's main management structure consists of a board of directors (the "**Board**"), an audit committee and an executive committee consisting of a team of executive officers (the "**Executive Management**").

The audit committee consists of five members, three of whom are drawn from the Board and the remaining two are drawn from SEC's shareholders. The audit committee is responsible for monitoring the financial affairs of SEC and its internal corporate governance. The audit committee reports to the Board.

There are a number of other committees within SEC which report to the Board or the Executive Management and are responsible for dealing with a range of operational and business matters (including, human resources, remuneration, planning and budgets).

Managing the day-to-day operations of SEC is the responsibility of the President and CEO of SEC, Ali Bin Saleh Al-Barrak, and other senior members of the Executive Management to whom the Board has delegated executive powers.

The business address of the members of the Board and the Executive Management is Saudi Electricity Company, P.O. Box 22955, Riyadh, 11416, Kingdom of Saudi Arabia.

BOARD OF DIRECTORS AND SECRETARY TO THE BOARD

The Board consists of nine members, six of whom currently represent the Government, including the Chairman, and one of whom currently represents Saudi Aramco. In addition, two members of the current board represent the private sector. The remaining members are representatives from the private sector. Currently, the Board comprises:

<u>Name</u>	<u>Title</u>
Dr. Saleh Bin Hussain Al-Awajji.....	Chairman – Government Representative
Mr. Sulaiman Bin Abdullah al-Kadi	Vice Chairman – Private Sector Representative
Dr. Saud Bin Mohammed Al-Nemer.....	Board Member – Private Sector Representative
Engineer Issam Bin Alwan Al-Bayat.....	Board Member – Government Representative
Mr. Saleh Bin Saad Al Muhanna	Board Member – Government Representative
Mr. Abdul Aziz Bin Saleh Al-Furaih	Board Member – Government Representative
Dr. Yousuf Abdulaziz Al-Turki.....	Board Member – Government Representative
Mr. Ahmed Abdullah Al-Aqeel	Board Member – Government Representative
Engineer Ziyad Mohammad Al-Shiha	Board Member – Saudi Aramco Representative
Mr. Obaid Al-Ojairy	Secretary to the Board of Directors

Members of the Board named in the table above (including the Chairman and Vice Chairman) have outside interests in entities other than SEC, including employment and/or directorships with third parties (as set out in the paragraphs below). Certain Board members also serve as Government ministers or with Governmental bodies and in that capacity could be involved in formulating or implementing Government policy which affects SEC's operations (see "*Description of SEC's Business*" – "*Strategy*" for a description of how Government policy affects SEC's strategy) and in a manner contrary to the approach they may otherwise take if acting in their capacity as directors of SEC. This could give rise to a potential conflict of interest in situations where they are involved in formulating or implementing any Government policy which is not necessarily in the interests of SEC. Except as disclosed in this paragraph, as at the date of this Prospectus, no member of the Board has any actual or potential conflict of interest between his duties to SEC and his private interests and/or other duties.

Dr. Saleh Bin Hussain Al-Awajji, Chairman of the Board – Government Representative

Dr. Al-Awajji was elected to the Board of SEC by the general meeting of the shareholders in January 2012 and was appointed as Chairman of the Board of SEC by the Board. He has been Deputy Minister of Water and Electricity since 2003. He is currently Chairman of the GCC Electric Interconnection Organization and a member of the board of directors of General Organization of Water Desalination and Saudi Industrial Development Fund. He is also a member of the Preparatory Committee for Saudi-Yemeni Coordination Council; a member of the Expert Team, Executive Board of the Council of

Electricity-Concerned Arab Ministers; a member of the Agents Preparatory Committee for the Committee of GCC Electric Cooperation and a member of the National Committee of the International Energy Council. Mr. Al-Awajji obtained a Bachelor's Degree in Electrical Engineering from King Saud University in 1982, a Master's Degree in Electrical Engineering from Taiwan National University in 1985 and a Doctorate in Electrical Engineering from the University of Strathclyde, United Kingdom in 1989.

Mr. Sulaiman Bin Abdullah Al-Kadi, Vice-Chairman – Private Sector Representative

Mr. Al-Kadi was elected to the Board of SEC by the general meeting of the shareholders held in January 2012. He was the Chief Executive Officer of SEC until 2005. In March 1998, Mr. Al-Kadi was elected Chairman of the board of directors of the Arab Union of Producers, Transformers and Distributors of Electricity Producers. He is a former member of the Eastern Region Council as representative of the Ministry of Industry and Electricity. He is a former Director General and Managing Director of SEC, Eastern Region, member of the board of directors of General Organization of Electricity and member of the board of directors of SEC, Central Region. Mr. Al-Kadi obtained a Bachelor's Degree in Petroleum Engineering and Management from Texas University, USA in 1964.

Engineer Issam Bin Alwan Al-Bayyat, Board Member – Government Representative

Engineer Al-Bayyat was elected to the Board of SEC by the general meeting of the shareholders held in January 2012. He was Vice President of New Business Development in Saudi Aramco. He is a former President and Chief Executive Officer of Saudi Refining Inc. in Houston, Texas. Mr. Al-Bayyat obtained a Bachelor's Degree in Electrical Engineering from the University of Basra, Iraq in 1971 and a Master's Degree in Electrical Engineering from King Fahd University of Petroleum & Minerals in 1981.

Mr. Saleh Bin Saad Al Muhanna, Board Member – Government Representative

Mr. Saleh Al-Muhanna was elected to the Board of SEC by the general meeting of the shareholders held in January 2012. He has been Assistant Deputy Minister of Finance since 2004. He is currently a member of the board of directors in the Arab Bank Amman since 2006, a member of the board of directors in Public Institution for Desalination of Saline Water since 2005 and a member of the board of directors in the General Organization for Technical and Vocational Training since 2008. He is a member of the Country Sovereign Rating Committee for Saudi Arabia since 2001. He obtained a Bachelor's Degree in Industrial Management from King Fahd University of Petroleum & Minerals in 1982 and a Master's Degree in Economics from Ohio University in 1993.

Dr. Saud Bin Mohammed Al-Nemer, Board Member – Private Sector Representative

Dr. Al Nemer was elected to the Board of SEC by the general meeting of the shareholders held in January 2012. He has been the Chairman of the Advisory Services Committee in the Saudi Organization for Certified Accountants since 1428H and a member of the board of directors of Prince Sultan University since 1427H. He is currently a partner in Al Hamid & Al Nemr Consulting and the House of the National Consultation. Dr. Al Nemer obtained a Bachelor's Degree in Accounting and Business Administration from King Saud University in 1973, a Master's Degree in Public Administration from Missouri State University, and a Doctorate in Public Administration from Florida State University in 1981.

Mr. Abdul Aziz Bin Saleh Al-Furaih, Board Member – Government Representative

Mr. Al-Furaih was elected to the Board of SEC by the general meeting of the shareholders held in January 2012. He is currently the first Vice President of Riyadh Bank responsible for the financial sector, IT and the operations. He is a Certified Public Accountant and worked for Arthur Andersen until 1987. Mr. Al Furaih obtained his Bachelor's Degree in Accountancy from San Diego in 1981 and Master's Degree in Accountancy from Ball State University in 1983.

Dr. Yousuf Abdulaziz Al-Turki, Board Member – Government Representative

Dr. Al-Turki was elected to the Board of SEC by the general meeting of the shareholders held in January 2012. He is the Dean of Scientific Research in King Abdulaziz University from 2006. He was Vice Dean, Institute of Research and Consultations in King Abdulaziz University from 2002 to 2006. He was Director, Development Studies Unit, Institute of Research and Consultations in King Abdulaziz

University from 2001 to 2002. He was Vice Dean, Administrative and Financial Affairs Faculty of Engineering in King Abdulaziz University from 1997 to 1999. In 1996, He became Chairman of the Electrical and Computer Engineering Department in King Abdulaziz University. He was Director of Studies and Development Office in the Faculty in King Abdulaziz University from 1991 to 1995. Since 1980, he is involved in academia in King Abdulaziz University. Dr. Al-Turki has been the chairman and member of many committees in various departments and faculties at King Abdulaziz University. Additionally, he has industrial links with bodies outside the university. Dr. Al-Turki obtained a Bachelor's degree in Electrical Engineering from King Abdulaziz University in 1979 and a Doctorate Degree in Electrical Power Engineering from Manchester University, United Kingdom in 1985.

Mr. Ahmed Abdullah Al-Aqeel, Board Member – Government Representative

Mr. Al-Aqeel was elected to the Board of SEC by the general meeting of the shareholders held in January 2012. He has been the Board Chairman of the SANAD Cooperative Insurance and Reinsurance since 2007 and a member of the Board of Arab National Bank since 1999 and a member of the board of Southern Province Cement Company since 1976. He was General Manager, Saudi Real Estate Company from 1998 to 2007. He was General Manager, Real Estate Development Fund from 1980 to 1998. He was Secretary General of the Public Investment Fund from 1975 to 1980. Mr Al-Aqeel has been the chairman and member of many boards in different companies. Mr. Al-Aqeel obtained a Bachelor's Degree in Physics and Mathematics, a Master's Degree in Economics and Mathematics from Texas A&M University, USA in 1972.

Engineer Ziyad Mohammad Al-Shiha, Board Member – Saudi Aramco Representative

Engineer Al-Shiha was elected to the Board of SEC by the general meeting of the shareholders held in January 2012. He joined Saudi Aramco in 1984, a management trainee in pipelines. After completing the program of Saudi Aramco scholarship university and getting a degree he joined the professional development program as an engineer in 1988. Since that time he has held the following positions within Saudi Aramco in different departments include Operations and Maintenance, Engineering and Project, at oil and gas facilities and pipelines inside/outside KSA. He has held Vice President, General Planning of one of International Joint Ventures that contribute to the Aramco in the Republic of the Philippines. He has held many positions such as: Manager of New Business Development; Manager of Public Relations; Manager of Facilities Planning. He is now the Executive Director of Electrical Systems since May 2011. Engineer Al-Shiha obtained a Bachelor's Degree in Electrical Engineering from King Fahd University of Petroleum & Minerals in 1988, a Master's Degree in Electrical Engineering "Control Systems" from Rice University in Houston, USA in 1991.

Mr. Obaid Al-Ojairi, Secretary to the Board of Directors

Mr. Al-Ojairi was elected to be the Secretary to the Board of Directors of SEC in January 2012. He joined SEC in 1981. Since that time he has held the following positions within SEC: Division Manager, Employees Relations in HR-Central Region; Division Manager, Manpower Development in Central Region; Senior Analyst. Mr. Al-Ojairi has been a member of many committees including the Development Committee of America, and Committee SEC-Central Region Cooperative Fund. Mr. Al-Ojairi obtained a Bachelor's Degree in Industrial Management from USA in 1988 and a Master's Degree in Manpower Development from USA in 1992.

EXECUTIVE MANAGEMENT

<u>Name</u>	<u>Title</u>
Engineer Ali Bin Saleh Al-Barrak	Chief Executive Officer
Engineer Fouad Bin Juwaied Al-Shuraibi	Executive Vice President – Generation
Engineer Sa'ad Bin Hamad Al-Mansour	Executive Vice President – Distribution & Customer Services
Mr. Ahmed Bin Mohammed Al-Jugaiman	Executive Vice President – Finance
Mr. Mohammad Bin Abdulaziz Al-Juraifani	Executive Vice President – Planning
Engineer Saleh bin Naser Al-Sohaibani	Executive Vice President – Engineering & Projects
Mr. Fahad bin Klaifeekh Al-Hajri	Senior Vice President – General Services
Mr. Idrees Bin Ahmed Tairi	General Auditor
Mr. Mutlaq Bin Mohammed Al-Mutlaq	Senior Vice President – Legal Affairs
Mr. Abdulsalam Bin Abdulaziz Al-Yemni	Senior Vice President – Public Affairs
Mr. Saud Bin Abdulaziz Al-Shammari	Senior Vice President – Human Resources
Engineer Abdulkarim Bin Abdullah Al-Zakari	Senior Vice President – Supply Chain & Contracting

As at the date of this Prospectus, there are no potential or actual conflicts of interest between the private interests and other duties of the Executive Management listed above and their duties to SEC.

Engineer Ali Bin Saleh Al-Barrak, CEO

Mr. Al-Barrak joined SEC as a Senior Engineer in 1980. Since that time he has held the following positions within SEC: Senior Engineer; Director General, AlQassim Electricity Area; Acting Director General, Central Region Branch; member of the Executive Committee and Executive Vice President. Mr. Al-Barrak was appointed as CEO by resolution of the Board number 2006/60/1 dated 26 September 2006. Before joining SEC Mr. Al-Barrak worked at The Research Centre and Industrial Development from 1975 to 1978 and worked in consulting services for Al-Saudiya from 1978 to 1980. Mr. Al-Barrak obtained a Bachelor's Degree in Electrical Engineering from King Saud University in 1975 and a Master's Degree in Electrical Engineering from the University of Colorado at Boulder, USA in 1979.

Engineer Fouad Bin Juwaied Al-Shuraiby, Executive Vice President – Generation

Mr. Al-Shuraiby joined SEC as Electrical Engineer-A in 1986. Since that time he has held the following positions within SEC: Department Manager from 1986 to 1989, Operations & Maintenance Transmission (110KV / 380KV), Manager, Makkah Al-Mukarrama Area Distribution in Western Region from 1989 to 1993, Vice President, Distribution & Customer Services in Western Region from 1993 to 2001, General Manager, Western Region branch from 2001 to 2002, Senior Vice President, Distribution & Customer Services in Western Region Sector from 2003 to 2008, and is now Executive Vice President, Generation since 2008. Before joining SEC, Mr. Al-Shuraiby was Electrical Maintenance Engineer in Water and Electrical Power Generation, Jeddah from 1982 to 1986. Mr. Al-Shuraiby obtained a Bachelor's Degree in Electrical Engineering from Santa Barbara University, California in 1980 and earned a Master's Degree in Electrical Engineering from California State University, San Louis Obispo in 1982.

Engineer Sa'ad Bin Hamad Al-Mansour, Executive Vice President – Distribution & Customer Services

Mr. Al-Mansour joined SEC as an engineer in 1985. Since then he has held the following positions within SEC: Manager, Customer Affairs, Alhasa Operating Area from 1985 to 1986; Manager, Relations and Customer Services Department from 1986 to 1987; Manager, Northern Operating Area from 1987 to 1989; Manager, Dammam Operating Area from 1989 to 1993; Operating Area Vice President from 1993 to 1999; Acting General Manager from 1996; General Manager for the Eastern Region from 2000 to 2003; Senior Vice President Eastern Region from 2003 to 2006 and he is now Executive Vice President, Distribution and Customer Services since 2006. Before joining SEC Mr. Al-Mansour was Assistant Manager, Municipality Affairs from 1978 to 1981; a Supervisor at Al- Oyoon Municipality from 1981 to 1982 and worked at the Engineering Consulting Office from 1984 to 1985. Mr. Al-Mansour obtained a Bachelor's Degree in Civil Engineering from King Fahd University of Petroleum & Minerals in 1978.

Mr. Ahmed Bin Mohammed Al-Jugaiman, Executive Vice President – Finance

Mr. Al-Jugaiman joined SEC as an accountant in 1981. Since that time he has held the following positions within SEC: Supervisor, Customer Accounting (Alhasa Operating Area) from 1984 to 1985;

Supervisor, Customer Relations (Alhasa Operating Area) from 1985 to 1986; Manager, Finance and Treasury Department (Dammam Operating Area) from 1986 to 1987; Manager, Finance and Treasury Department (Alhasa Operating Area) from 1987 to 1989; Administrator, General Accounting Division from 1989 to 1990; Administrator, General Accounts, Head Office from 1990 to 1992; Controller and Manager for Finance Controlling Department in SCECO from 1993 to 2002, SEC Vice President, Corporate Controller, Control Sector. He is now an Executive Vice President, Finance. Before joining SEC, Mr. Al-Jugaiman worked for General Organisation for Social Insurance Company. He obtained a Bachelor's Degree in Administrative Sciences and specialised in Accounting from King Saud University in 1981.

Mr. Mohammed Bin Abdulaziz Al-Juraifani, Senior Vice President, Planning & Program

Mr. Al-Juraifani joined SEC as an Industrial Engineer III in 1986. Since that time he has held the following positions within SEC: Planning and Program Analyst II from 1986 to 1987; Planning and Program Analyst I from 1987 to 1988; Planning and Program Specialist from 1988 to 1993; Division Manager, Planning and Program Division from 1993 to 1995; Department Manager, Contracting Department from 1995 to 2003; Sector Head, Contracting from 2003 to 2007. He has been Senior Vice President, Planning and Program since 2008. Before joining SEC, Mr. Al-Juraifani worked for the Institute of Public Administration Dammam. He obtained a Bachelor's Degree in Industrial Management from King Fahad University of Petroleum and Minerals, Dhahran (KFUPM) in 1982, and a Master's Degree in Business Management from KFUPM in 1984.

Engineer Saleh Bin Naser Al-Sohaibani, Executive Vice President – Engineering and Projects

Engineer Al-Sohaibani joined SEC as Electrical Engineer in 1980. Since that time he has held different positions within SEC. He is Executive Director, Engineering and Project in Transmission from 2003 to 2011. Since 2012, he is Executive Vice President, Engineering and Projects. Engineer Al-Sohaibani obtained a bachelors degree in Electrical Engineering and a master degree in Electrical Engineering.

Mr. Fahad Bin Klaifeekh Al-Hajri, Senior Vice President – General Services

Mr. Al-Hajri joined SEC's Personnel Department in 1981. Since that time he has held the following positions within SEC: Administrator in the Employee Relations Department from 1981 to 1984; Manager in the Employee Relations Department from 1984 to 1987; Manager in the Training and Education Department from 1987 to 1994; Manager in the Material Department from 1994 to 1998; Vice President in Support Services from 1998 to 2001; and he has been Senior Vice President, General Services since 2002. He obtained a Degree in Economics from the University of Colorado, USA in 1980.

Mr. Idrees Bin Ahmed Tairi, General Auditor

Mr. Tairi joined SEC as Financial Adviser in 2000. Since that time he has held the following positions within SEC: Financial Adviser and Acting Vice President, Finance, and he is currently General Auditor. Before joining SEC, Mr. Tairi was Financial Adviser to Saudi Basic Industries, International New Group and AlHonouf Group; Director General for Finance and Investment with SABIC; and General Manager with Al-Mawarid Group. He obtained a Bachelor's Degree in Economics from King Saud University in 1969 and a Master's Degree in Accounting from Arizona University, USA in 1974.

Mr. Mutlaq Bin Mohammed Al-Mutlaq, Senior Vice President – Legal Affairs

Mr. Al-Mutlaq joined SEC as a member of the Executive Committee for Legal Affairs in 2000. He is currently Senior Vice President for Legal Affairs. Before joining SEC he was a legal consultant in the Ministry of Industry and Electricity, from 1977 to 1995, rising to the rank of Chief Legal Consultant; he was then a Legal Consultant for Mawarid Trading and Marketing Limited in 1995 and a Legal Consultant for Salah Al-Hejailan Law Firm from 1996 to 2000. Mr. Al-Mutlaq obtained a Bachelor's Degree in Islamic Shariah from Imam Mohammed bin Saud Islamic University in 1975 and a Master's Degree in Law from the University of Tulane, USA in 1983.

Mr. Abdul Salam Bin Abdulaziz Al-Yemni, Senior Vice President – Public Affairs

Mr. Al-Yemni is a former Secretary to the Board, from 2000 to 2011. He is currently the Senior Vice President for Public Affairs and Shareholder Relations. Since joining SEC in 2000, Mr. Al-Yemni was a

member of the Budgetary Committee between 2000 and 2002 and has been a member of the Executive Committee since 2002. Before joining SEC he worked for the Ministry of Commerce and Industry between 1983 and 2000. He obtained a Bachelor's Degree in Arts in 1982.

Mr. Saud Bin Abdulaziz Al-Shammari, Senior Vice President – Human Resources

Mr. Al-Shammari joined SEC as an Information Technology Systems Analyst in 1985. Since then Mr. Al-Shammari has held the following positions within SEC: Systems Analyst; Senior Systems Analyst; Supervisor, Applications Unit; Administrator, IT Application Division; IT Manager; Business Process Improvement Manager; Strategic Management Department Manager; Vice President Organization and Quality; Vice President, Human Resources Development and he has been Senior Vice President, Human Resources since 2007. He obtained a Bachelor's Degree in Business Administration and Computer Science from Winthrop College, South Carolina, USA in 1981 and a Master's Degree in Management Information Systems from the University of South Carolina, USA in 1984.

Engineer Abdulkarim Bin Abdullah Al-Zakari, Senior Vice President – Supply Chain and Contracting

Engineer Al-Zakari joined SEC as a Civil Engineer in 1984. Since that time he has held different positions within SEC: Manager, Contracting Department; Manager, Corporate Planning Department; Executive Director, Organization and Human Resource Planning. He has been Senior Vice President, Supply Chain and Contracting since 2012. Engineer Al-Zakari obtained a Bachelor's Degree in Civil Engineering from King Fahad University of Petroleum & Minerals.

APPOINTMENT OF DIRECTORS AND CEO

The representatives of the Government on the Board are nominated directly by the King of the Kingdom for periods specified by the relevant Royal Order and the members of the Board are appointed by the general meeting of the shareholders, normally for a period of three years. As at the date of this Prospectus, none of the members of the Board have any service contracts with SEC.

The CEO is appointed by the Board, which also determines his remuneration and the terms of his appointment. The current CEO was appointed by the Board on 1 October 2006 and his service will continue until the Board terminates his appointment. As at the date of this Prospectus, the CEO does not have any service or employment contract with SEC.

EMPLOYEES

As at 31 December 2011, the SEC Group had a workforce of 28,005 of which 87.5 per cent. are Saudi Arabian nationals. In order to increase the Saudisation of its workforce, SEC has established numerous training centres geared to enhancing the skills of its employees.

SEC has recently signed agreements with a number of Saudi Arabian banks whereby SEC will facilitate the granting of financings by such banks to SEC's Saudi Arabian employees in order to enable them to purchase housing. As part of these agreements, where an employee meets both the criteria set by SEC and the criteria set by the financing bank, SEC will pay 70 per cent. of the financing costs, defined to exclude the principal of the financed amount, for so long as the employee remains a SEC employee.

The following table sets out the SEC Group's employees by category of activity for the period indicated.

Position	Number of employees in position as at 31 December 2011
Senior-Level Executive Positions	38
Mid-Level Manager Positions	1,699
Other Positions	26,268
Total Positions	<u>28,005</u>

For the purpose of the above table:

“**Senior-Level Leader Positions**” include the CEO, Executive Vice President, Senior Vice President and Executive Directors;

“**Mid-Level Manager Positions**” include all Managers, Section Heads, Superintendents, Supervisors, Chiefs, Group Leaders and Foremen; and

“**Other Positions**” include any job title not in Senior-Level Leader Positions or Mid-Level Manager Positions.

CORPORATE GOVERNANCE REGULATIONS

SEC has implemented all of the mandatory rules set out in Articles 9, 12 and 14 of the Corporate Governance Regulations issued by the Capital Market Authority (the “**Corporate Governance Regulations**”). SEC has also implemented the majority of the advisory guidelines set out in the Corporate Governance Regulations, in particular, the guidelines relating to the rights of shareholders and compliance with disclosure and transparency procedures.

SEC's Board has approved the formation of a committee consisting of a number of senior officials from SEC to prepare its own corporate governance rules with the aim of implementing the balance of the advisory guidelines under the Corporate Governance Regulations.

COMPENSATION OF DIRECTORS AND EXECUTIVE MANAGEMENT

The remuneration of the members of the Board is set by a proposal made by the Board to the general meeting of the shareholders of SEC (the “**General Meeting**”), which has the power to either approve or reject the Board's proposal. For the years ended 2011 and 2010, the aggregate remuneration (including benefits in kind) paid to the members of the Board was SAR 1.4 million and SAR 1.4 million respectively.

SUMMARY OF THE PRINCIPAL TRANSACTION DOCUMENTS

The following is a summary of certain provisions of the principal Transaction Documents in respect of each Series and is qualified in its entirety by reference to the detailed provisions of such principal Transaction Documents. Copies of the Transaction Documents will be available for inspection at the offices of the Principal Paying Agents, as further described under “General Information”.

A separate version of each of the following Transaction Documents (other than the Declaration of Trust) will be entered into on the Closing Date in respect of each Series. References to the “Certificates” and other terms defined in the Conditions or provisions of the relevant Conditions in this section are, therefore, to the 2017 Certificates or the 2022 Certificates and such terms as defined in, or the relevant provisions of, the 2017 Conditions or the 2022 Conditions, in each case as applicable, and references to “Ijara Assets” or “Trust Assets” are to the Ijara Assets or Trust Assets in respect of the relevant Series.

PURCHASE AGREEMENT

The Purchase Agreement will be entered into on the Closing Date between the Trustee (in its capacity as the Purchaser) and SEC (in its capacity as the Seller) and will be governed by Saudi law.

Pursuant to the Purchase Agreement the Purchaser will purchase from the Seller all of the Seller’s rights, title, interests, benefits and other entitlements in and to the *Ijara* Assets, free and clear of any encumbrance. The proceeds received by the Trustee from the issuance and sale of the Certificates will be used to pay the purchase price of those assets.

IJARA AGREEMENT

The *Ijara* Agreement will be entered into on the Closing Date between the Trustee (in its capacity as the Lessor) and SEC (in its capacity as the Lessee) and will be governed by English law.

Pursuant to the *Ijara* Agreement the Lessor has agreed to lease to the Lessee, and the Lessee has agreed to lease from the Lessor, the *Ijara* Assets for renewable six (6) months terms commencing and ending on the dates specified in the *Ijara* Agreement. During the term of the *Ijara*, the Lessee will pay to the Lessor rental payments as specified in the *Ijara* Agreement. The rental payments due under the *Ijara* Agreement will not be less than the Periodic Distribution Amounts payable on the Periodic Distribution Dates. The Lessee will be obligated to make such rental payments on each Periodic Distribution Date. Following the exercise by Certificateholders of the Change of Control Put Option, rental payments will be reduced accordingly and the Lessor shall send to the Lessee a Renewal Notice specifying the rental payments to be paid for the remaining period in the *Ijara* Period in which the Change of Control Put Option was exercised.

The Lessee shall, at its own cost and expense, be responsible for the performance of all Ordinary Maintenance and Repair required for the *Ijara* Assets.

The Lessor shall be responsible for: (i) the performance of all Major Maintenance and Structural Repair; (ii) the payment of any proprietorship or other relevant taxes; and (iii) insuring the *Ijara* Assets (to the extent consistent with general industry practice by prudent owners of similar assets) and the Lessee acknowledges that the Lessor may procure that the Servicing Agent, in accordance with the terms and conditions set out in the Servicing Agency Agreement, shall perform, or shall procure the performance of, the Major Maintenance and Structural Repair, the payment of such taxes and any insurance of the *Ijara* Assets, in each case, on behalf of the Lessor.

All payments by the Lessee to the Lessor under the *Ijara* Agreement shall be paid in full without any set-off or counterclaim of any kind and without any deduction or withholding for or on account of tax unless the deduction or withholding is imposed or levied by or on behalf of any relevant taxing authority, in which event the Lessee shall forthwith pay to the Lessor such additional amount so that the net amount received by the Lessor will equal the full amount which would have been received by it had no such deduction or withholding been made.

The Lessee has agreed to use the *Ijara* Assets at its own risk. Under the *Ijara* Agreement, the Lessee bears the entire risk of loss of or damage to the *Ijara* Assets or any part thereof arising from the usage or operation thereof by the Lessee to the extent such losses or damages have resulted from the Lessee’s

negligence, default, breach of the *Ijara* Agreement or other action or failure to action. In addition, the Lessor shall not be liable (and the Lessee will waive any claim or right, howsoever arising, to the contrary) for any indirect, consequential or other losses, howsoever arising, in connection with the Lessee's use or operation of the *Ijara* Assets.

If a Total Loss Event occurs, then the *Ijara* in respect of the *Ijara* Assets shall automatically terminate and the Lessor will be entitled to all insurance proceeds payable as a result of the Total Loss Event in addition to any amounts payable pursuant to the Servicing Agency Agreement, together with any accrued and unpaid rental payments up to the date on which the Total Loss Event occurred. See “–*Servicing Agency Agreement*” below for further details.

The Lessee has agreed that certain events or circumstances shall constitute a SEC Event under the *Ijara* Agreement, the occurrence of which shall entitle the Lessor to terminate the *Ijara* Agreement. For a full list of the SEC Events, please see Condition 14 (*Dissolution Events*) under “*Terms and Conditions of the Certificates*” above.

The Certificateholders will also have the benefit of a negative pledge and certain other restrictive covenants given by SEC in the *Ijara* Agreement, the full details of which are set out in Condition 5 (*Negative Pledge*) and Condition 7 (*Covenants*) under “*Terms and Conditions of the Certificates*” above.

SERVICING AGENCY AGREEMENT

The Servicing Agency Agreement will be entered into on the Closing Date by SEC (in its capacity as the Servicing Agent) and the Trustee (in its capacity as the Lessor). Pursuant to the Servicing Agency Agreement, the Lessor will appoint the Servicing Agent as its agent and the Servicing Agent will agree to act as the agent for the Lessor and to provide certain services in respect of the *Ijara* Assets. The Servicing Agency Agreement will be governed by English law.

Under the terms of the Servicing Agency Agreement, the Servicing Agent will be responsible for: (i) ensuring on behalf of the Lessor that the *Ijara* Assets are properly insured; (ii) the performance of all Major Maintenance and Structural Repair; and (iii) the payment of any proprietorship or other relevant taxes charged, levied or claimed in respect of the *Ijara* Assets.

An amount equal to the Service Charge Amount to be paid by SEC (as the Lessee under the *Ijara* Agreement) to the Lessor as, or as part of, any: (i) supplementary rental under the *Ijara* Agreement; or (ii) Exercise Price under the Purchase Undertaking or the Sale Undertaking (as the case may be), shall be set off against the Service Charge Amount to be paid by the Lessor to the Servicing Agent under the Servicing Agency Agreement.

Upon the occurrence of a Total Loss Event, all insurance proceeds are required to be paid into the Transaction Account by no later than the thirtieth (30th) day after the occurrence of the Total Loss Event. The Servicing Agency Agreement provides that if the insurance proceeds paid into the Transaction Account are less than the Insurance Coverage Amount, due to the Servicing Agent's failure to comply with the terms of the Servicing Agency Agreement, the Servicing Agent undertakes to pay any shortfall amount (being the difference between the Insurance Coverage Amount and the amount credited to the Transaction Account (the “**Total Loss Shortfall Amount**”)) into the Transaction Account by no later than close of business in Riyadh on the thirty first (31st) day after the Total Loss Event occurred, such that the amount standing to the credit of the Transaction Account on the thirty first (31st) day following the occurrence of a Total Loss Event, represents the aggregate of the insurance proceeds payable in respect of a Total Loss Event (if any) and the shortfall amount funded by the Servicing Agent in accordance with the terms of the Servicing Agency Agreement. Following the payment of such Total Loss Shortfall Amount, any insurance proceeds from any insurer shall be for the Servicing Agent's sole account.

SUBSTITUTION UNDERTAKING

The Trustee will enter into the Substitution Undertaking on the Closing Date in favour of SEC, which will be governed by English Law.

Under the terms of the Substitution Undertaking, the Trustee has granted to SEC the right to require the Trustee to transfer, convey and deliver all of the Trustee's rights, title, interests, benefits and other

entitlements in and to the Substituted *Ijara* Assets to SEC in exchange for the grant by SEC to the Trustee of the New *Ijara* Assets, on the condition that the value of such New *Ijara* Assets is equal to or greater than the value of the Substituted *Ijara* Assets on the Substitution Date.

The substitution of the New *Ijara* Assets for the Substituted *Ijara* Assets will become effective on the Substitution Date (as specified in the Substitution Notice to be delivered by SEC in accordance with the Substitution Undertaking) by the Trustee and SEC entering into a Substitution Transfer Agreement in substantially the form scheduled to the Substitution Undertaking to effect the transfer of the Substituted *Ijara* Assets by the Trustee to SEC, which is governed by Saudi Arabian law.

PURCHASE UNDERTAKING

SEC will enter into the Purchase Undertaking on the Closing Date in favour of the Trustee and the Delegate, which will be governed by English law.

Under the terms of the Purchase Undertaking, SEC, provided there has been no Total Loss Event, irrevocably undertakes to purchase, transfer, convey and deliver all of the Trustee's rights, title, interests, benefits and other entitlements in and to the *Ijara* Assets (or the relevant *Ijara* Assets as identified by SEC in the case of a Change of Control) on: (i) the Scheduled Dissolution Date of the Certificates; or (ii) any earlier due date following the occurrence of a Dissolution Event or a Change of Control, in each case in exchange for payment of the relevant Exercise Price. The Exercise Price will be the aggregate of: (i) the outstanding face amount of the Certificates; (ii) any accrued but unpaid Periodic Distribution Amount (excluding any Additional Dissolution Distribution Amount) relating to such Certificates; (iii) any outstanding Service Charge Amount; and (iv) any accrued but unpaid Additional Dissolution Distribution Amount relating to such Certificates. An amount equal to the Service Charge Amount to be paid by SEC as part of any Exercise Price and any Service Charge Amount to be paid by the Trustee in accordance with the Servicing Agency Agreement which has not been paid by way of payment of supplementary rental under the *Ijara* Agreement shall be set-off against one another.

In order to exercise these rights, the Trustee or the Delegate (as the case may be) is required to deliver an Asset Exercise Notice to SEC under the Purchase Undertaking.

Simultaneously with the payment of the Exercise Price in accordance with the Purchase Undertaking, the parties will enter into a Sale Agreement to effect the sale by the Trustee to SEC of all of the Trustee's rights, title, interests, benefits and other entitlements in and to the *Ijara* Assets. Such Sale Agreement will be governed by Saudi law.

SALE UNDERTAKING

The Trustee will enter into the Sale Undertaking on the Closing Date in favour of SEC, which will be governed by English law.

Under the terms of the Sale Undertaking, SEC may also following the occurrence of a Tax Event exercise its rights under the Sale Undertaking to require the Trustee to sell to SEC all of the Trustee's rights, title, interests, benefits and other entitlements in and to the *Ijara* Assets by delivering an Asset Exercise Notice specifying the Tax Redemption Date, which shall be no later than thirty (30) nor more than sixty (60) days after the date on which the Asset Exercise Notice is given. The consideration payable by SEC upon exercise of the Sale Undertaking shall be an amount equal to the Exercise Price. An amount equal to the Service Charge Amount to be paid by SEC as part of any Exercise Price and any Service Charge Amount to be paid by the Trustee in accordance with the Servicing Agency Agreement which has not been paid by way of payment of supplementary rental under the *Ijara* Agreement shall be set-off against one another.

Under the terms of the Sale Undertaking, SEC may also, in the event of cancellation of Certificates by SEC in accordance with the Declaration of Trust, exercise its rights under the Sale Undertaking to require the Trustee to transfer and convey all of the Trustee's rights, title, interests, benefits and other entitlements in and to the Redemption *Ijara* Assets by delivering an Asset Redemption Notice no later than five (5) Payment Business Days prior to the Proposed Asset Redemption Date, which shall be a Periodic Distribution Date. The consideration payable by SEC upon such exercise of the Sale Undertaking shall be the delivery of the Certificates for cancellation, provided that, the aggregate value of the Redemption *Ijara* Assets shall not exceed the aggregate face amount of the cancelled Certificates.

Simultaneously with the payment of the Exercise Price or cancellation of the Certificates, the parties will enter into a Sale Agreement to effect the sale or transfer by the Trustee to SEC of all of the Trustee's rights, title, interests, benefits and other entitlements in and to the *Ijara* Assets or the Redemption *Ijara* Assets (as the case may be). Such Sale Agreement will be governed by Saudi law.

THE DECLARATION OF TRUST

The Declaration of Trust will be entered into on the Closing Date between SEC, the Trustee and the Delegate and will be governed by English law.

The Trust Assets in respect of each Series shall comprise: (i) all of the Trustee's rights, title, interests, benefits and other entitlements, present and future, in, to and under the *Ijara* Assets relating to that Series; (ii) all of the Trustee's rights, title, interests, benefits and other entitlements, present and future, in, to and under the Transaction Documents of that Series (excluding, among others, any representations given to the Trustee by SEC in those Transaction Documents); (iii) all monies standing to the credit of the relevant Transaction Account; and (iv) all proceeds of the foregoing.

Pursuant to the Declaration of Trust, the Trustee will, *inter alia*:

- hold the Trust Assets in respect of each Series on trust absolutely for the Certificateholders of that Series as beneficial owners *pro rata* according to the face amount of the relevant Certificates held by each such Certificateholder;
- comply with and perform its obligations, or cause such obligations to be complied with and performed on its behalf in accordance with the terms of the Certificates, the Conditions and the Transaction Documents and observe all the provisions of the Transaction Documents which are expressed to be binding on it; and
- act as trustee in respect of the Trust Assets in respect of each Series, distribute the income from such Trust Assets to the Certificateholders of that Series and perform its duties in accordance with the provisions of the Declaration of Trust.

The Trustee will irrevocably and unconditionally appoint the Delegate to be its attorney and in its name, on its behalf and as its act and deed to execute, deliver and perfect all documents and to exercise all of the present and future duties, powers, trusts, authorities and discretions vested in the Trustee by the Declaration of Trust that the Delegate may consider to be necessary or desirable in order to, upon the occurrence of a Dissolution Event or a Potential Dissolution Event in respect of a Series exercise all of the rights (but not the obligations, liabilities, duties or covenants of the Trustee) of the Trustee under the Purchase Undertaking and any of the other Transaction Documents of that Series and make such distributions from the Trust Assets in respect of that Series as the Trustee is bound to make in accordance with the Declaration of Trust. The appointment of the Delegate is intended to be in the interests of the Certificateholders and does not affect the Trustee's continuing role and obligations as sole trustee.

In addition to the delegation of the relevant powers, certain powers under the Declaration of Trust will be vested solely in the Delegate, including, *inter alios*, the power to convene meetings of Certificateholders, the power to determine the occurrence of a Dissolution Event or a Potential Dissolution Event, the power to waive or authorise a breach of an obligation or determine that a Dissolution Event or Potential Dissolution Event shall not be treated as such, and the power to consent to certain types of amendments to, and agree to any modifications of, any of the Conditions or any Transaction Document or the constitutional documents of the Trustee.

The Declaration of Trust specifies, *inter alia*, that:

- following the enforcement, realisation and ultimate distribution of the net proceeds of the Trust Assets in respect of the Certificates of a Series to the Certificateholders of that Series in accordance with the relevant Conditions and the Declaration of Trust, the Trustee shall not be liable for any further sums and, accordingly, the Certificateholders of the relevant Series may not take any action against the Trustee or any other person (including SEC) to recover any such sum in respect of the Certificates of that Series or the Trust Assets in respect of that Series;

- no Certificateholder of a Series shall be entitled to proceed directly against the Trustee or SEC under any Transaction Document of that Series to which either of them is a party unless: (i) the Delegate having become bound so to proceed, fails to do so within thirty (30) days of becoming so bound and such failure is continuing; and (ii) the relevant Certificateholder (or such Certificateholder together with the other Certificateholders of that Series who propose to proceed directly against the Trustee or SEC (as the case may be)) holds at least twenty five per cent. (25%) of the then aggregate face amount of the Certificates of the Series outstanding. Under no circumstances shall the Delegate or any Certificateholder of a Series have any right to cause the sale or other disposition of any of the Trust Assets in respect of that Series (other than pursuant to the relevant Purchase Undertaking) and the sole right of the Delegate and the relevant Certificateholders against the Trustee and SEC shall be to enforce their respective obligations under the relevant Transaction Documents; and
- the Delegate shall not be bound in any circumstances to take any action to enforce or to realise the Trust Assets in respect of a Series or take any action against the Trustee and/or SEC under any Transaction Document of that Series to which either the Trustee or SEC is a party unless directed or requested to do so: (i) by an Extraordinary Resolution of that Series; or (ii) in writing by the holders of at least twenty five per cent. (25%) of the then aggregate outstanding face amount of the Certificates of that Series and in either case then only if it is indemnified and/or secured and/or prefunded to its satisfaction against all liabilities to which it may thereby render itself liable or which it may incur by so doing and provided that the Delegate shall not be held liable for the consequences of exercising its discretion or taking any such action and may do so without having regard to the effect of such action.

The foregoing sub-paragraphs are subject to this paragraph. After enforcing or realising the Trust Assets in respect of a Series and distributing the net proceeds of those Trust Assets in accordance with Condition 6.2 (*Trust – Application of Proceeds from Trust Assets*), the obligations of the Trustee in respect of the Certificates of that Series shall be satisfied and no Certificateholder of that Series may take any further steps against the Trustee, the Delegate or any other person (including SEC) to recover any further sums in respect of the Certificates of that Series and the right to receive any such sums unpaid shall be extinguished. In particular, no Certificateholder of that Series shall be entitled in respect thereof to petition or to take any other steps for the winding-up of the Trustee.

SEC will undertake to the Delegate that, if any amount payable by SEC to the Delegate pursuant to any Transaction Document is not recoverable from SEC for any reason whatsoever or the Trustee or any Certificateholder suffers any cost, expense or loss as a result of the Trustee's holding of the Trust Assets, which cost, expense or loss is not recoverable under the Transaction Documents, then SEC will indemnify the Delegate against all properly incurred losses, claims, costs, charges and expenses, excluding the costs of funding the same, to which it may be subject or which it may incur under or in respect of the Transaction Documents.

TAXATION AND ZAKAT

The statements herein regarding taxation/zakat are based on the laws in force in the Kingdom of Saudi Arabia (“Saudi Arabia”) and the Cayman Islands and elsewhere as at the date of this Prospectus and are subject to any changes in law occurring after such date, which changes could be made on a retroactive basis.

The following summary does not purport to be a comprehensive description of all the tax/zakat considerations which may be relevant to a decision to subscribe for, purchase, own or dispose of the Certificates and does not purport to deal with the tax/zakat consequences applicable to all categories of investors, some of which (such as dealers in securities or commodities) may be subject to special rules. Prospective purchasers of the Certificates are advised to consult their own tax/zakat advisers concerning the overall tax/zakat consequences of their ownership of the Certificates.

SAUDI ARABIA

GCC Certificateholders resident in Saudi Arabia

Certificateholders who are GCC nationals with permanent residence in Saudi Arabia (except for (a) a citizen of a GCC country other than Saudi Arabia with a permanent establishment in Saudi Arabia and (b) a legal entity established under the law of a GCC country other than Saudi Arabia with a permanent establishment in Saudi Arabia) are not subject to Saudi Arabian corporate income tax, whether by withholding or direct assessment, in respect of any payment or gain realized in respect of the Certificates.

However, such a Certificateholder will be subject to zakat. This summary does not consider the extent to which a potential Certificateholder would be liable to zakat as a consequence of acquiring, holding or disposing of its Certificates.

“GCC person” means (a) a citizen of any of the member countries of the Cooperation Council of the Arab States of the Gulf (namely, Saudi Arabia, the United Arab Emirates, the Kingdom of Bahrain, the Sultanate of Oman, the State of Qatar and the State of Kuwait) and (b) any legal entity owned by GCC citizens and established under the laws of a GCC country.

Non-GCC persons resident in Saudi Arabia

Certificateholders who are not GCC persons resident in Saudi Arabia, as defined in Article 3 of the Income Tax Regulation issued under Royal Decree No. M/1 dated 15/01/1425H (the “**Income Tax Regulation**”), will be subject to Saudi Arabian income tax.

Article 3 of the Income Tax Regulation defines Residency as follows:

- (A) A natural person is considered a resident in Saudi Arabia for a taxable year if he meets either of the two following conditions:
- (1) he has a permanent place of residence in Saudi Arabia and resides in Saudi Arabia for a total of not less than thirty (30) days in the taxable year; or
 - (2) he resides in Saudi Arabia for a period of not less than one hundred eighty three (183) days in the taxable year.

For the purposes of this paragraph, residence in Saudi Arabia for part of a day is considered residence for the whole day, except in the case of a person in transit between two points outside Saudi Arabia.

- (B) A company is considered resident in Saudi Arabia during the taxable year if it meets either of the following conditions:
- (1) it is formed in accordance with the Companies Law; or
 - (2) its central management is located in Saudi Arabia.

Certificateholders who are not resident in Saudi Arabia

Certificateholders who are not residents in Saudi Arabia (whether such Certificateholders are Saudi Arabian nationals or not Saudi Arabian nationals including Certificateholders resident in GCC) will be subject to withholding tax at the rate of 5 per cent. (5%) on all payments in the nature of profit in respect of the Certificates.

Certificateholders who are non residents with a permanent establishment in Saudi Arabia (“PE”) (as defined in Article 4 of the Income Tax Regulation), will be subject to Saudi Arabian income tax on a PE’s income, including income from the Certificates which is attributable to a PE. Furthermore, pursuant to Article 63 of the Income Tax By Laws, a PE will be subject to a withholding tax at the rate of 5 per cent. on remittance of profit to its head office.

Subject to the exceptions stipulated in the Income Tax Regulation, PE includes a permanent enterprise of a non-resident in Saudi Arabia which represents a permanent place for the non-resident’s activity where he conducts the activity either fully or partly; this also includes the activity conducted by the non-resident through a dependent agent (“dependent agent” having the meaning specified in the Income Tax Regulation).

A non resident carrying out an activity in Saudi Arabia through a licensed branch (as defined in Article 4(b) 4 of the Income Tax Regulation) is considered to have a PE in Saudi Arabia.

All payments in the nature of profit in respect of the Certificates to a Certificateholder who has a PE in Saudi Arabia, will be part of the Certificateholder’s gross income if such payment is attributable to the PE that is subject to income tax after deduction of allowable costs and certain other adjustments, at the current rate of 20% further more transfer of profit to the head office is considered distribution of profit and is subject to 5% withholding tax.

A Certificateholder, whether such Certificateholder is resident in Saudi Arabia (as defined in Article 3 of the Income Tax Regulation) or non-resident in Saudi Arabia (as defined in Article 1(2)(b) of the Bylaws to the Income Tax Regulation and whether such a Certificateholder has or does not have a PE in Saudi Arabia, will be subject to capital gains tax at the rate of 20% on any gain realized on the disposal or repurchase of its Certificates if such Certificates were not traded in accordance with the Capital Market Law of Saudi Arabia and its implementing regulations.

General

Certificateholders who are natural persons with or without a PE in Saudi Arabia at the time of their death will not be subject to inheritance or other taxes of a similar nature in Saudi Arabia.

Certificateholders will not be deemed to be resident, domiciled or carrying on business in Saudi Arabia solely by reason of holding any Certificates.

Under the zakat regulations which are in effect as the date of this Prospectus in Saudi Arabia, long term investments in Certificates are not deductible from the zakat base of the investor.

CAYMAN ISLANDS

There are no income, corporation, capital gains or other taxes in effect in the Cayman Islands on the basis of present legislation. The Issuer has applied for and expects to obtain an undertaking from the Governor-in-Cabinet of the Cayman Islands, pursuant to the Tax Concessions Law (as amended) of the Cayman Islands, that for a period of 20 years from the date of grant of that undertaking no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciation shall apply to the Issuer or its operations and, in addition, that no tax to be levied on profits, income, gains or appreciations which is in the nature of estate duty or inheritance tax shall be payable on or in respect of the shares, debentures or other obligations (which would include the Certificates) of the Issuer or by way of the withholding in whole or part of any relevant payment (as defined in the Tax Concessions Law (as amended)). No capital or stamp duties are levied in the Cayman Islands on the issue or redemption of Certificates. An instrument of transfer in respect of Certificates may be stampable if executed in or brought to the Cayman Islands. An annual registration fee is payable by the Issuer to the Cayman Islands Registry of Companies which is calculated by

reference to the nominal amount of its authorised capital. At current rates, this annual registration fee is approximately U.S.\$731.70. The foregoing is based on current law and practice in the Cayman Islands and this is subject to change therein.

EUROPEAN UNION SAVINGS DIRECTIVE

Under EC Council Directive 2003/48/EC on the taxation of savings income (the “**Directive**”), Member States are required to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to an individual resident in that other Member State or to certain limited types of entities established in that other Member State. However, for a transitional period, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non-European Union countries and territories including Switzerland have adopted similar measures (a withholding system in the case of Switzerland).

The European Commission has proposed certain amendments to the Directive, which may, if implemented amend or broaden the scope of the requirements described above.

If a payment were to be made or collected through a Member State which has opted for a withholding system and an amount of or in respect of tax were to be withheld from that payment, neither the Issuer nor any Paying Agent nor any other person would be obliged to pay additional amounts with respect to Certificates as a result of the imposition of such withholding tax. The Issuer is required to maintain a Paying Agent in a member state that is not obliged to withhold or deduct tax pursuant to the Directive, or to maintain a Paying Agent with a specified office outside the European Union if there is no member state that is not obliged to withhold or deduct tax pursuant to such directive or law.

SUBSCRIPTION AND SALE

Deutsche Bank AG, London Branch and HSBC Bank plc (the “**Joint Lead Manager**”) and Mitsubishi UFJ Securities International plc (the “**Co-Lead Managers**”) and, together with the Joint Lead Managers, the “**Managers**”) have entered into a subscription agreement with the Issuer and SEC dated 30 March 2012 with respect to the Certificates (the “**Subscription Agreement**”). Subject to certain conditions, each Manager has jointly and severally agreed to subscribe for the Certificates.

The Subscription Agreement entitles the Managers to terminate the issue of the Certificates in certain circumstances prior to payment to the Issuer. The Issuer and SEC have given certain representations and warranties to the Managers in the Subscription Agreement, and the Issuer and SEC have agreed to indemnify the Managers on a joint and several basis against certain liabilities in connection with the offer and sale of the Certificates.

UNITED STATES

The Certificates have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction of the United States. The Certificates are being offered and sold outside the United States by the Managers in accordance with Regulation S, and may not be offered, sold or delivered within the United States or to, or for the account or benefit of, U.S. persons, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S.

Each Manager has represented and agreed that, except as permitted by the Subscription Agreement, it has not offered, sold or delivered, and will not offer, sell or deliver, the Certificates:

- (a) as part of their distribution at any time; or
- (b) otherwise, until 40 days after the later of the commencement of the offering and the issue date of the Certificates (the “distribution compliance period”), within the United States or to, or for the account or benefit of, U.S. persons, and that it will have sent to each dealer to which it sells any Certificates during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Certificates within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S.

In addition, until 40 days after the commencement of the offering, an offer or sale of Certificates within the United States by a dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act.

UNITED KINGDOM

Each Manager has represented and agreed that:

- (a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000 (“**FSMA**”)) received by it in connection with the issue or sale of any Certificate in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer or SEC; and
- (b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Certificates in, from or otherwise involving the United Kingdom.

THE UNITED ARAB EMIRATES (EXCLUDING THE DUBAI INTERNATIONAL FINANCIAL CENTRE)

Each Manager has represented and agreed that the Certificates have not been and will not be offered, sold or publicly promoted or advertised by it in the United Arab Emirates other than in compliance with any laws applicable in the United Arab Emirates governing the issue, offering and sale of securities.

THE DUBAI INTERNATIONAL FINANCIAL CENTRE

Each Manager has represented and agreed that it has not offered and will not offer the Certificates to any person in the DIFC unless such offer is:

- (a) an “Exempt Offer” in accordance with the Offered Securities Rules of the Dubai Financial Services Authority (the “**DFSA**”); and
- (b) made only to persons who meet the Professional Client criteria set out in Rule 2.3.2 of the DFSA Conduct of Business Manual.

THE STATE OF QATAR

Each Manager has represented and agreed that it has not offered or sold, and will not offer or sell, directly or indirectly, any Certificates in the State of Qatar (“**Qatar**”), except (a) in compliance with all applicable laws and regulations of Qatar and (b) through persons or corporate entities authorised and licensed to provide investment advice and/or engage in brokerage activity and/or trade in respect of foreign securities in Qatar.

SAUDI ARABIA

No action has been or will be taken in the Kingdom of Saudi Arabia (“**Saudi Arabia**”) that would permit a public offering of the Certificates in Saudi Arabia. The Certificates will only be initially offered and sold in Saudi Arabia through the Managers in accordance with the Offers of Securities Regulations as issued by the board of the Capital Market Authority pursuant to resolution number 2-11-2004 dated October 4, 2004 as amended by resolution number 1-28-2008, as amended (the “**CMA Regulations**”). The Certificates will be offered in Saudi Arabia to Sophisticated Investors (as defined in the CMA Regulations) in accordance with Articles 9(a)(2) and 10 of the CMA Regulations with each such offeree paying an amount not less than Saudi Riyals 1,000,000 or an equivalent amount in another currency. Each Manager has represented and agreed that the offer of the Certificates will only be directed at Sophisticated Investors.

Investors are informed that Article 17 of the CMA Regulations place restrictions on secondary market activity with respect to the Certificates which are summarised as follows:

- (a) any transfer must be made through an entity licensed by the Capital Market Authority;
- (b) a person (the “**transferor**”) who has acquired Certificates may not offer or sell such Certificates or part thereof to any person (referred to as a “**transferee**”) unless (i) the price to be paid by the transferee for such Certificates equals or exceeds Saudi Riyals 1,000,000; or (ii) the transferee is a sophisticated investor (as defined under the CMA Regulations);
- (c) if the provisions of paragraph (b) cannot be fulfilled because the price of the Certificates being offered or sold to the transferee has declined since the date of the original limited offer, the transferor may offer or sell the Certificates to the transferee if their purchase price during the period of the original offer was equal to or exceeded Saudi Riyals 1,000,000;
- (d) if the provisions of (b) and (c) cannot be fulfilled, the transferor may offer or sell the Certificates if he/she sells his entire holding of the Certificates to one transferee; and
- (e) the provisions of paragraphs (b), (c) and (d) shall apply to all subsequent transferees of the Certificates.

BAHRAIN

Each Manager has represented and agreed that it has not offered, and will not offer, the Certificates to (i) the public (as defined in Articles 142-146 of the Commercial Companies Law (Decree Law No. 21/2001) of Bahrain) or (ii) any person in Bahrain who is not an “accredited investor”. For this purpose, an “accredited investor” means:

- (a) an individual holding financial assets (either singly or jointly with a spouse) of U.S.\$1,000,000 or more;

- (b) a company, partnership, trust or other commercial undertaking which has financial assets available for investment of not less than U.S.\$1,000,000; or
- (c) a government, supranational organisation, central bank or other national monetary authority or a state organisation whose main activity is to invest in financial instruments (such as a state pension fund).

CAYMAN ISLANDS

Each Manager has represented and agreed that no invitation or offer to subscribe for the Certificates has been or will be made to any member of the public of the Cayman Islands.

HONG KONG

Each Manager has represented and agreed that:

- (a) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Certificates other than: (i) to “professional investors” within the meaning of the Securities and Futures Ordinance (Cap. 571) of Hong Kong (the “SFO”) and any rules made under the SFO; or (ii) in other circumstances which do not result in the document being a “prospectus” as defined in the Companies Ordinance (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance; and
- (b) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Certificates, which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the laws of Hong Kong) other than with respect to the Certificates which are or are intended to be disposed of only to persons outside Hong Kong or only to “professional investors” as defined in the SFO and any rules made under the SFO.

SINGAPORE

This Prospectus has not been registered as a prospectus with the Monetary Authority of Singapore under the Securities and Futures Act, Chapter 289 of Singapore (the “SFA”). Accordingly, each Manager has represented and agreed that it has not offered or sold and that it will not offer or sell any Certificates or cause such Certificates to be made the subject of an invitation for subscription or purchase, nor will it circulate or distribute this Prospectus or any other document or material in connection with the offer or sale or invitation for subscription or purchase of the Certificates, whether directly or indirectly, to any person in Singapore other than:

- (a) to an institutional investor pursuant to Section 274 of the SFA;
- (b) to a relevant person, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA; or
- (c) pursuant to, and in accordance with the conditions of, any other applicable provisions of the SFA.

MALAYSIA

Each Manager has represented and agreed that:

- (a) this Prospectus has not been registered as a prospectus with the Securities Commission of Malaysia (the “SC”) under the Capital Markets and Services Act 2007 of Malaysia. While a copy of this Prospectus will be deposited with the SC, the SC takes no responsibility for its content; and
- (b) accordingly, the Certificates have not been and will not be issued, offered for subscription or purchase, sold or delivered, nor will any invitation to subscribe for or purchase the Certificates be made, directly or indirectly, nor may this Prospectus, any application for the Certificates or any document or other material in connection with this offering, this Prospectus or the Certificates be circulated or distributed in Malaysia, other than to persons falling within Schedule 6 (or Section 229(1)(b)), Schedule 7 (or Section 230(1)(b)) and Schedule 8 (or Section 257(3)) of the Capital

Markets and Services Act 2007 of Malaysia, subject to any law, order, regulation, or official directive of the Central Bank of Malaysia, the Securities Commission of Malaysia and/or any other regulatory authority from time to time.

Residents of Malaysia may be required to obtain relevant regulatory approvals including approval from the Controller of Foreign Exchange to purchase the Certificates. The onus is on the Malaysian residents concerned to obtain such regulatory approvals and none of the Managers is responsible for any invitation, offer, sale or purchase of the Certificates as aforesaid without the necessary approvals being in place.

GENERAL

No action has been taken or will be taken in any jurisdiction by the Managers, the Issuer or SEC that would permit a public offering of the Certificates, or possession or distribution of this Prospectus or any supplement hereto or any other offering or publicity material relating to the Certificates, in any country or jurisdiction where action for that purpose is required. Each Manager has undertaken that it will (to the best of its knowledge and belief) comply with all applicable laws and regulations in each jurisdiction in which it purchases, offers, sells or delivers Certificates or has in its possession or distributes this Prospectus or supplement hereto or any other offering or publicity material. Persons into whose possession this Prospectus comes are required by the Issuer, SEC and the Managers to comply with all applicable laws and regulations in each country or jurisdiction in which they purchase, offer, sell or deliver Certificates or have in their possession, distribute or publish this Prospectus or any other offering or publicity material relating to the Certificates, in all cases at their own expense.

GENERAL INFORMATION

AUTHORISATION

The issue of the Certificates has been duly authorised by a resolution of the Board of Directors of the Issuer dated 28 March 2012. The Issuer has obtained all necessary consents, approvals and authorisations in the Cayman Islands in connection with the issue and performance of the Certificates and the execution and performance of the Transaction Documents. The entry into the Transaction Documents has been duly authorised by a resolution of the Board of Directors of SEC on 25 December 2011.

LISTING

Application has been made to the UK Listing Authority for the Certificates to be admitted to the Official List and to the London Stock Exchange for such Certificates to be admitted to trading on the London Stock Exchange's regulated market. The listing of the Certificates is expected to be granted on or before 4 April 2012.

DOCUMENTS AVAILABLE

For so long as any Certificates remain outstanding, copies (and English translations where the documents in question are not in English) of the following documents will be available, during usual business hours on any weekday (Saturdays, Sundays and public holidays excepted), for inspection at the offices of the Issuer and the Paying Agent in London:

- (a) the Transaction Documents;
- (b) the Memorandum and Articles of Association of the Issuer;
- (c) the constitutional documents of SEC;
- (d) the audited financial statements of SEC in respect of the two financial years ended 31 December 2010 and 31 December 2011; and
- (e) this Prospectus.

The Prospectus will be published on the website of the Regulatory News Service operated by the London Stock Exchange at www.londonstockexchange.com/en-gb/pricesnews/marketnews.

CLEARING SYSTEMS

The Certificates have been accepted for clearance through Euroclear and Clearstream, Luxembourg (which are the entities in charge of keeping the records). The ISIN for the 2017 Certificates is XS0764883806. The Common Code for the 2017 Certificates is 076488380. The ISIN for the 2022 Certificates is XS0767862914. The Common Code for the 2022 Certificate is 076786291.

The address of Euroclear is Euroclear Bank SA/NV, 1 Boulevard du Roi Albert II, B-1210 Brussels and the address of Clearstream is Clearstream Banking, 42 Avenue JF Kennedy, L-1855 Luxembourg.

SIGNIFICANT OR MATERIAL CHANGE

There has been no significant change in the financial or trading position of the Issuer and no material adverse change in the prospects of the Issuer, in each case, since the date of its incorporation.

There has been no significant change in the financial or trading position of SEC and its subsidiaries, taken as a whole since 31 December 2011 and there has been no material adverse change in the prospects of SEC and its subsidiaries, taken as a whole, since 31 December 2011.

LITIGATION

The Issuer is not and has not been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) in the 12 months preceding the date of this document which may have or have in such period had a significant effect on the financial position or profitability of the Issuer.

SEC is not and has not been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which SEC is aware) in the 12 months preceding the date of this document which may have or have in such period had a significant effect on the financial position or profitability of SEC.

AUDITORS

The first financial period of the Issuer will end on 31 December 2012. The Issuer has no subsidiaries. The Issuer is not required by Cayman Islands law, and does not intend, to publish audited financial statements or appoint any auditors.

The financial statements of SEC for the year ended 31 December 2011 included in this Prospectus have been audited in accordance with auditing standards generally accepted in the Kingdom of Saudi Arabia by Ernst & Young, as stated in their report appearing herein.

The financial statements of SEC for the year ended 31 December 2010 included in this Prospectus have been audited in accordance with auditing standards generally accepted in the Kingdom of Saudi Arabia by Deloitte & Touche Bakr. Abulkhair & Co, as stated in their report appearing herein.

EXPENSES

The expenses relating to the issue of each Series are expected to amount to £4,200.

SHARIA ADVISORY BOARD

The transaction structure relating to the Certificates (as described in this Prospectus) has been approved by the HSBC Amanah Central *Shari'ah* Committee and Dr. Hussein Hamid Hassan, the *Shari'ah* advisor of Deutsche Bank AG, London Branch. Prospective Certificateholders should not rely on the approval referred to above in deciding whether to make an investment in the Certificates and should consult their own Sharia advisers as to whether the proposed transaction described in the approval referred to above is in compliance with Sharia principles.

MANAGERS TRANSACTING WITH SEC

Certain of the Managers and their affiliates have engaged, and may in the future engage, in investment banking and/ or commercial banking transactions with, and may perform services for, SEC (and its affiliates) in the ordinary course of business.

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

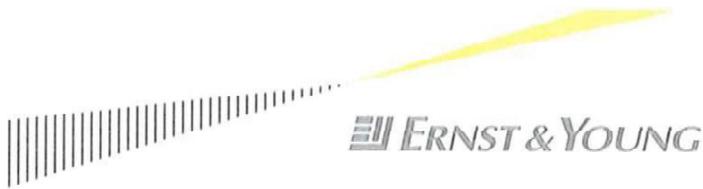
**FINANCIAL STATEMENTS AND
AUDITORS' REPORT**

FOR THE YEAR ENDED 31 DECEMBER 2011

Saudi Electricity Company
(A Saudi Joint Stock Company)

FINANCIAL STATEMENTS AND AUDITORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2011

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AUDITORS' REPORT TO THE SHAREHOLDERS OF SAUDI ELECTRICITY COMPANY

Scope of audit

We have audited the accompanying balance sheet of Saudi Electricity Company ("the Company") - a Saudi joint stock company as at 31 December 2011 and the related statements of income, cash flows and changes in shareholders' equity for the year then ended. These financial statements are the responsibility of the company's management and have been prepared by them in accordance with the provisions of Article 123 of the Regulations for Companies and submitted to us together with all the information and explanations which we required. Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the Kingdom of Saudi Arabia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable degree of assurance to enable us to express an opinion on the financial statements.

Unqualified opinion

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

- i) present fairly, in all material respects, the financial position of the Company as at 31 December 2011 and the results of its operations and its cash flows for the year then ended in accordance with accounting standards generally accepted in the Kingdom of Saudi Arabia.
- ii) comply with the requirements of the Regulations for Companies and the Company's by-laws in so far as they affect the preparation and presentation of the financial statements.

for Ernst & Young

Rashid S. AIRashoud
Certified Public Accountant
Registration No. 366



Riyadh: 27 Rabi Awal 1433 H
(19 February 2012)

Saudi Electricity Company
(A Saudi Joint Stock Company)

BALANCE SHEET

AS AT 31 DECEMBER 2011

(In Thousands Saudi Riyals)

	<i>Notes</i>	2011	2010
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	3	7,305,124	7,227,776
Receivables from electricity consumers and accrued revenues, net	4	12,027,200	9,965,007
Prepayments and other receivables, net	5	4,847,768	3,635,236
Inventories, net	6	5,562,850	5,704,886
TOTAL CURRENT ASSETS		29,742,942	26,532,905
NON-CURRENT ASSETS			
Loan to an associated company		365,500	365,500
Equity investments in companies and others	7	2,406,042	2,300,350
Construction work in progress	8	22,260,811	26,038,186
Fixed assets, net	9/30	158,673,259	135,634,986
TOTAL NON-CURRENT ASSETS		183,705,612	164,339,022
TOTAL ASSETS		213,448,554	190,871,927
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES			
Accounts payable	10	26,235,345	21,876,043
Accruals and other payables	11	4,605,942	4,402,218
Short term loans and current portion of long-term loans	13	3,133,100	1,189,317
Sukuk	14	5,000,000	-
TOTAL CURRENT LIABILITIES		38,974,387	27,467,578
NON-CURRENT LIABILITIES			
Long-term loans	13	13,581,788	10,632,390
Sukuk	14	14,000,000	19,000,000
Employees' indemnities	15	4,838,509	4,690,218
Deferred revenues, net	16	20,469,575	16,736,945
Consumers' refundable deposits		1,367,628	1,295,442
Long-term Government payables	17/30	49,046,508	44,244,007
Government loans	18	18,845,211	16,147,711
Change in fair value of hedging contracts	19	431,870	387,928
TOTAL NON-CURRENT LIABILITIES		122,581,089	113,134,641
TOTAL LIABILITIES		161,555,476	140,602,219
SHAREHOLDERS' EQUITY			
Share capital	20	41,665,938	41,665,938
Statutory reserve		1,554,492	1,333,176
General reserve	21	538,343	536,177
Retained earnings	25/30	8,566,175	7,122,345
Net change in fair value of hedging contracts		(431,870)	(387,928)
TOTAL SHAREHOLDERS' EQUITY		51,893,078	50,269,708
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		213,448,554	190,871,927

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

Saudi Electricity Company
(A Saudi Joint Stock Company)

STATEMENT OF INCOME
FOR THE YEAR ENDED 31 DECEMBER 2011
(In Thousands Saudi Riyals)

	<i>Notes</i>	<u>2011</u>	<u>2010</u>
OPERATING REVENUES			
Electricity sales		28,280,494	25,872,780
Meter reading, maintenance and bills preparation tariff		883,059	841,119
Electricity connection tariff	16	1,406,045	1,197,094
TOTAL OPERATING REVENUES		30,569,598	27,910,993
COST OF SALES			
Fuel		(5,771,379)	(5,796,633)
Purchased energy		(4,256,237)	(3,741,739)
Operations and maintenance	22	(8,438,277)	(7,752,943)
Depreciation – Operations and maintenance	9	(9,601,779)	(8,027,017)
TOTAL COST OF SALES		(28,067,672)	(25,318,332)
GROSS PROFIT FOR THE YEAR		2,501,926	2,592,661
General and administrative expenses	23	(360,235)	(389,072)
Depreciation - General and administrative	9	(335,281)	(353,189)
INCOME FROM OPERATING ACTIVITIES		1,806,410	1,850,400
Other income and expenses, net	24	406,749	428,688
NET INCOME FOR THE YEAR		2,213,159	2,279,088
EARNING PER SHARE (SR):			
From operating activities for the year		0.43	0.44
From net income for the year		0.53	0.55

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

Saudi Electricity Company
(A Saudi Joint Stock Company)

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2011
(In Thousands Saudi Riyals)

	<u>2011</u>	<u>2010</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income for the year	2,213,159	2,279,088
Adjustments to reconcile net income for the year with net cash from operating activities:		
Provision for doubtful receivables	121,721	257,564
Provision for slow-moving inventories	62,960	11,180
Company's share in investees' net losses	45,747	21,670
Depreciation	9,937,060	8,380,206
Gain on disposal of fixed assets, net	(25,860)	(97,833)
Gain on sale of investments	-	(765)
Employees' indemnities, net	148,291	267,920
Changes in operating assets and liabilities:		
Receivables from electricity consumers and accrued revenues	(2,183,914)	363,647
Prepayments and other receivables	(1,190,571)	(1,434,955)
Inventories	79,076	(92,724)
Accounts payable	4,359,302	4,951,175
Deferred revenues, net	3,732,630	1,766,418
Accruals and other payables	195,481	193,924
Net proceeds and payments from customers' refundable deposits	72,186	136,305
Net cash from operating activities	<u>17,567,268</u>	<u>17,002,820</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Equity investment in companies and others	(152,439)	(5,500)
Time deposits	-	1,000,119
Fixed assets and construction work in progress	(29,205,430)	(28,487,495)
Proceeds from sale of fixed assets	33,332	106,342
Proceeds from sale of other investments	1,000	37,643
Loan to an associated company	(21,961)	-
Net cash used in investing activities	<u>(29,345,498)</u>	<u>(27,348,891)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Sukuk	-	7,000,000
Government loans	7,500,000	3,750,000
Net proceeds from long-term loans	4,893,181	4,481,450
Dividends paid to shareholders and Board of Directors' remuneration	(537,603)	(540,156)
Net cash from financing activities	<u>11,855,578</u>	<u>14,691,294</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS DURING THE YEAR	<u>77,348</u>	<u>4,345,223</u>
Cash and cash equivalents, beginning of the year	7,227,776	2,882,553
CASH AND CASH EQUIVALENTS, END OF THE YEAR	<u>7,305,124</u>	<u>7,227,776</u>
Non-cash transaction:		
Change in fair value of hedging contracts	<u>(43,942)</u>	<u>84,563</u>

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

Saudi Electricity Company
(A Saudi Joint Stock Company)

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2011
(In Thousands Saudi Riyals)

	Note	Share capital	Statutory reserve	General reserve	Retained earnings	Change in fair value for hedging contracts	Total
For the year ended 31 December 2010							
Balance as at 1 January 2010 - before adjustments	30	41,665,938	1,107,965 (2,698)	534,777	5,865,869 (246,647)	(472,491)	49,174,549 (721,836)
Balance as at 1 January 2010 – adjusted		41,665,938	1,105,267	534,777	5,619,222	(472,491)	48,452,713
Dividends to shareholders for 2009	25	-	-	-	(547,252)	-	(547,252)
Board of Directors' remuneration for 2009	26	-	-	-	(804)	-	(804)
Net income for the year		-	-	-	2,279,088	-	2,279,088
Net change in fair value of hedging contracts		-	-	-	-	84,563	84,563
Collection of electricity fees from individuals	21	-	-	1,400	-	-	1,400
Transfer to statutory reserve		-	227,909	-	(227,909)	-	-
Balance as at 31 December 2010 – adjusted		41,665,938	1,333,176	536,177	7,122,345	(387,928)	50,269,708
For The Year Ended 31 December 2011							
Dividends to shareholders for 2010	25	-	-	-	(547,252)	-	(547,252)
Board of Directors' remuneration for 2010	26	-	-	-	(761)	-	(761)
Net income for the year		-	-	-	2,213,159	-	2,213,159
Net change in fair value of hedging contracts		-	-	-	-	(43,942)	(43,942)
Collection of electricity fee from individuals	21	-	-	2,166	-	-	2,166
Transfer to statutory reserve		-	221,316	-	(221,316)	-	-
Balance as at 31 December 2011		41,665,938	1,554,492	538,343	8,566,175	(431,870)	51,893,078

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

Saudi Electricity Company (A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 December 2011

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

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

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.

The Company fully owns the share capital of Sukuk Electricity Company, Dawiyat Telecom Company – limited liability Companies - and owns 50% of the share capital of Water & Electricity Company and Dhuruma Electricity Company and Hajr for Electricity Production Company.

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

Saudi Electricity Company
(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS – (continued)
FOR THE YEAR ENDED 31 December 2011

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Accounting Convention

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

Accounting estimates

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

Cash and cash equivalents

Cash and cash equivalents include cash on hand and at bank balances, time deposits, and other investments which are convertible to 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 balance sheet date, and are shown net of provision for doubtful receivables.

Inventories

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

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

Investments

Investments in companies' equity

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

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

Investments held to maturity

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

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2. 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 statement of income.

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

The estimated operational useful lives are as follows:

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

Impairment of noncurrent assets

The Company conducts periodic review of the carrying amount of its noncurrent assets to determine whether there is any evidence that those noncurrent 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 Company 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 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 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 Company net of any commission income for the year, is capitalized on all significant projects-in-progress with significant amount that require long period of time for construction. The borrowing cost capitalized on each project is calculated using the capitalization rate on the average amounts spent on each project in progress.

Fixed-term government loan

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured for any changes in its fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

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

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

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

Accounts payable and accruals

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

Provision for employees' indemnity

Employees' indemnity consists of the following:

Provision for end of service benefits:

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

Employees' saving fund:

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

Zakat provision

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

Statutory reserve

In accordance with the Regulations for Companies and the Company's 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.

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NOTES TO THE FINANCIAL STATEMENTS – (continued)
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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 balance sheet date are accrued for.

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

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

Expenses

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

Earnings (losses) per share for the year

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

Foreign currency transactions

Transactions denominated in foreign currencies are translated into Saudi Riyals at exchange rates prevailing at the date of such transactions. Monetary assets and liabilities denominated in foreign currencies at the 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 statement of income.

3. CASH AND CASH EQUIVALENTS

	<i>2011</i> <i>SR '000</i>	<i>2010</i> <i>SR '000</i>
Cash on hand	3,040	2,959
Cash at banks	1,766,494	2,526,650
Short-term deposits	5,535,590	4,698,167
	7,305,124	7,227,776

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4. RECEIVABLES FROM ELECTRICITY CONSUMERS AND ACCRUED REVENUES, NET

	<i>2011</i> <i>SR'000</i>	<i>2010</i> <i>SR'000</i>
Electricity subscribers' receivable		
Governmental institutions	2,870,026	1,071,839
Commercial and residential	4,861,644	5,388,427
VIPs consumers	2,359,212	2,216,405
Saudi Aramco	1,908,179	1,468,493
Electricity connection receivables	1,011,039	571,858
Saline Water Conversion Corporation	335,981	362,984
Total electricity subscribers' receivable	<u>13,346,081</u>	<u>11,080,006</u>
Less: Provision for doubtful receivables	<u>(2,500,596)</u>	<u>(2,378,875)</u>
Net electricity subscribers' receivable	10,845,485	8,701,131
Add: Accrued revenues	1,181,715	1,263,876
Total	<u><u>12,027,200</u></u>	<u><u>9,965,007</u></u>

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

	<i>2011</i> <i>SR'000</i>	<i>2010</i> <i>SR'000</i>
Balance, beginning of the year	2,378,875	2,121,311
Charge for the year	121,721	257,564
Balance, end of the year	<u><u>2,500,596</u></u>	<u><u>2,378,875</u></u>

5. PREPAYMENTS AND OTHER RECEIVABLES, NET

	<i>2011</i> <i>SR'000</i>	<i>2010</i> <i>SR'000</i>
Advances to contractors and suppliers	3,899,552	2,789,535
Other government receivables (Note 17-b)	244,173	244,173
Outstanding letter of credit	185,575	203,956
Prepaid expenses	10,477	20,940
Other receivables, net	568,780	437,421
Total	<u>4,908,557</u>	<u>3,696,025</u>
Less: Provision for other doubtful receivables	<u>(60,789)</u>	<u>(60,789)</u>
	<u><u>4,847,768</u></u>	<u><u>3,635,236</u></u>

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NOTES TO THE FINANCIAL STATEMENTS – (continued)
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6. INVENTORIES, NET

	<i>2011</i> <i>SR'000</i>	<i>2010</i> <i>SR'000</i>
Generation plant materials and supplies	3,086,034	3,130,904
Distribution network materials and supplies	1,792,098	1,863,213
Transmission network materials and supplies	394,866	290,027
Fuel and oil	326,160	401,933
Other	227,713	219,870
Total	5,826,871	5,905,947
Less: Provision for slow moving inventories	(264,021)	(201,061)
	5,562,850	5,704,886

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

	<i>2011</i> <i>SR'000</i>	<i>2010</i> <i>SR'000</i>
Balance, beginning of the year	201,061	189,881
Charge for the year	62,960	11,180
Balance, end of the year	264,021	201,061

7. EQUITY INVESTMENTS IN COMPANIES AND OTHERS

	<i>2011</i> <i>SR'000</i>	<i>2010</i> <i>SR'000</i>
Investments accounted for under the equity method (a)	1,855,392	1,899,140
Other investments, at cost (b)	125,650	1,210
Held to maturity investments (c)	425,000	400,000
	2,406,042	2,300,350

a) Investments accounted for under the equity method

	Ownership %	<i>2011</i> <i>SR'000</i>	<i>2010</i> <i>SR'000</i>
Gulf Cooperation Council Interconnection Authority (a-1)	31.6	1,830,937	1,876,842
Water and Electricity Company (a-2)	50	13,955	13,798
Rass Al Zoor Water and Electricity company (a-3)	20	-	1,000
Hajr for Electricity Production Company (a-4)	50	5,000	2,000
Dawiyat Telecom Company (a-5)	100	1,000	1,000
Sukuk Electricity Company (a-6)	100	500	500
Rabigh Electricity Company (a-7)	20	2,000	2,000
Dhuruma Electricity Company (a-8)	50	2,000	2,000
		1,855,392	1,899,140

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NOTES TO THE FINANCIAL STATEMENTS – (continued)
FOR THE YEAR ENDED 31 December 2011

7. EQUITY INVESTMENTS IN COMPANIES AND OTHERS – (continued)

(a-1) Gulf Cooperation Council Interconnection Authority

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

(a-2) Water and Electricity Company

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

(a-3) Rass Al Zoor Water and Electricity company

Based on the Company’s Board of Directors Resolution No. 02/73/2007 dated Dhu Al Hijjah 1, 1428H, the Company entered into a partnership with the Public Investment Fund to establish Rass Al Zoor Water and Electricity Company, a joint stock company formed pursuant to the Royal Decree No. 77 dated Ramadan 14, 1428H. The Company’s share at inception amounting to SR 1 million was paid in full and represents 20% of the investee’s share capital. In February 2011, the Company has received a certificate from Ministry of Commerce and Industry, cancelling the Rass Al Zoor Water and Electricity Company’s commercial registration due to cancellation of Ras Al Zoor electricity and water project. Accordingly, the investment account of Rass Al Zoor Water and Electricity Company has been closed and the Company has refunded the amounts paid previously.

(a-4) Hajr for Electricity Production Company

Pursuant to the board of directors’ resolution No. 4/95/2010 dated 12/9/1431H corresponding to 22/8/2010, this company has been established with a capital of SR 2 million. During 2011, a new partner has been admitted and the capital has been increased by SR 8 million to become SR 10 million. The company’s share represents 50% of the partners’ shareholding. The financial statements of Hajr for Electricity Production Company have not been consolidated because of immateriality.

(a-5) Dawiyat Communication Company

Pursuant to the board of directors’ resolution No. 2/86/2009 dated 8/5/1430H corresponding to 3/5/2009, Dawiyat Communication Company has been established with a paid up capital of SR 1 million, and represents 100% of the investee’s share capital. The financial statements of Dawiyat Communication Company have not been consolidated because of immateriality.

(a-6) Sukuk Electricity Company

Pursuant to the board of directors’ resolution No. 3/67/2007 dated 22/3/1428H corresponding to 10/4/2007, Sukuk Electricity Company has been established with a paid up capital of SR 500 thousand, and represents 100% of the investee’s share capital. The financial statements of Sukuk Electricity Company have not been consolidated because of immateriality.

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NOTES TO THE FINANCIAL STATEMENTS – (continued)
FOR THE YEAR ENDED 31 December 2011

7. EQUITY INVESTMENTS IN COMPANIES AND OTHERS – (continued)

(a-7) Rabigh Electricity Company

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

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

(a-8) Dhuruma Electricity Company

Based on Ministerial Resolution No. 4/88/2009 dated Ramadan 18, 1430H corresponding to September 8, 2009, the Company established Dhuruma Electricity Company (a closed joint stock company) with a share capital of SR 2 million. During the year, a new partner joined the Company and the share capital was increased by the same amount to become SR 4 million and the Saudi Electricity Company's share becomes 50% of total partners' shareholding. The financial statements of Dhuruma Electricity Company have not been consolidated because of immateriality.

b) Other investments, at cost

	Ownership %	2011 SR'000	2010 SR'000
Al-Shuaiba Water and Electricity company	8	124,840	400
Al-Shuqaiq Water and Electricity company	8	400	400
Al-Jubail Water and Electricity company	5	250	250
Al-Shuaiba Holding Company	8	160	160
Total other investments, at cost		<u>125,650</u>	<u>1,210</u>

c) Held to maturity investments

	2011 SR'000	2010 SR'000
Saudi Basic Industries Corporation Sukuk	300,000	300,000
Bin Laden Company Sukuk	50,000	50,000
SAAB bonds	50,000	50,000
SATORP Sukuk	25,000	-
Total held to maturity investments	<u>425,000</u>	<u>400,000</u>

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

	2011 SR'000	2010 SR'000
Gulf Corporation Council Interconnection Authority Water and Electricity Company	(45,905) 158	(21,807) 137
Total	<u>(45,747)</u>	<u>(21,670)</u>

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NOTES TO THE FINANCIAL STATEMENTS – (continued)
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8. CONSTRUCTION WORK IN PROGRESS

	2011 SR '000				2010 SR '000 Total
	Generation projects	Transmission projects	Distribution projects	General projects	
At the beginning of the year	15,424,059	6,407,377	3,930,639	276,111	32,214,782
Additions during the year	13,771,788	7,121,405	7,709,853	368,507	28,331,746
Transfer to fixed assets	(18,727,487)	(7,154,491)	(6,558,211)	(308,739)	(34,508,342)
Balance at 31 December 2011	10,468,360	6,374,291	5,082,281	335,879	22,260,811
Balance at 31 December 2010	15,424,059	6,407,377	3,930,639	276,111	26,038,186

Net borrowing cost capitalized on projects under construction during the year amounted to SR 1,151 million (2010: SR 1,070 million).

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NOTES TO THE FINANCIAL STATEMENTS – (continued)
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9. FIXED ASSETS, NET

	Land SR '000	Buildings SR '000	Machinery and equipment SR '000	Capital spare parts SR '000	Vehicles and heavy equipment SR '000	Others SR '000	Total 2011 SR '000	Total 2010 SR '000
Cost:								
At the beginning of the year	1,579,661	14,851,163	241,348,391	3,428,258	1,274,831	2,610,858	265,093,162	230,793,514
Additions	56,090	805,908	30,586,847	368,593	97,704	1,073,967	32,989,109	34,673,046
Disposals	(85)	(22,496)	(212,825)	-	-	(8)	(235,414)	(373,398)
Reclassification	-	-	129,702	-	-	(129,702)	-	-
At the end of the year	1,635,666	15,634,575	271,852,115	3,796,851	1,372,535	3,555,115	297,846,857	265,093,162
Depreciation:								
At the beginning of the year	-	9,199,208	115,831,695	1,834,861	958,962	1,633,450	129,458,176	121,433,903
Charge for the year	-	543,846	8,642,288	160,960	98,561	491,405	9,937,060	8,380,206
Disposals	-	(18,734)	(202,900)	-	-	(4)	(221,638)	(355,933)
Reclassification	-	-	2,002	-	-	(2,002)	-	-
At the end of the year	-	9,724,320	124,273,085	1,995,821	1,057,523	2,122,849	139,173,598	129,458,176
Net book amounts:								
At 31 December 2011	1,635,666	5,910,255	147,579,030	1,801,030	315,012	1,432,266	158,673,259	
At 31 December 2010	1,579,661	5,651,955	125,516,696	1,593,397	315,869	977,408		135,634,986

Included in land are plots of land with book value of SR 276 million (2010: SR 276 million), the title deeds of which have not yet been transferred to the Company's name.

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NOTES TO THE FINANCIAL STATEMENTS – (continued)
FOR THE YEAR ENDED 31 December 2011

9. FIXED ASSETS, NET – (continued)

Net book value of the Company's fixed assets is distributed among the main activities as follows:

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

	<i>2010</i> <i>SR'000</i>				
	Generation	Transmission	Distribution	General Property	Total
Land	245,236	587,388	225,249	521,788	1,579,661
Buildings	2,695,481	1,870,261	154,903	931,310	5,651,955
Machinery & equipment	47,654,610	42,805,030	34,710,509	346,547	125,516,696
Capital spare parts	1,162,176	410,055	20,940	226	1,593,397
Vehicles and heavy equipment	-	-	-	315,869	315,869
Others	532,312	308,036	30,104	106,956	977,408
	<u>52,289,815</u>	<u>45,980,770</u>	<u>35,141,705</u>	<u>2,222,696</u>	<u>135,634,986</u>

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

	<i>2011</i> <i>SR'000</i>	<i>2010</i> <i>SR'000</i>
Generation depreciation expense	4,199,706	3,201,761
Transmission depreciation expense	2,788,722	2,438,954
Distribution depreciation expense	2,613,351	2,386,302
General property depreciation expense	335,281	353,189
	<u>9,937,060</u>	<u>8,380,206</u>

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NOTES TO THE FINANCIAL STATEMENTS – (continued)
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10. ACCOUNTS PAYABLE

	<i>2011</i> <i>SR '000</i>	<i>2010</i> <i>SR '000</i>
Saudi Aramco for fuel cost	51,419,456	46,227,372
Transferred to Government account (a)	(40,959,482)	(40,959,482)
Saudi Aramco payable for fuel cost	10,459,974	5,267,890
Saline Water Conversion Corporation for energy purchased	8,453,968	8,080,770
Contractors and retention payables	761,301	691,138
Municipality fees	3,241,135	2,804,236
Payables to suppliers	93,587	613,496
Advances received for construction of projects	633,768	1,966,612
Other (b)	2,591,612	2,451,901
	26,235,345	21,876,043

(a) As stated in note (17-a), Amounts payable for fuel for the period from April 5, 2000 to December 31, 2009 amounting to SR 41 billion have been transferred from the liability to Saudi Aramco to non-current government liability.

(b) Other payables include SR 1,280 million (2010: SR 1,280 million) which are still under reconciliation between the Company and the Government and pertain to prior-merger account (refer to Note 1).

11. ACCRUALS AND OTHER PAYABLES

	<i>2011</i> <i>SR '000</i>	<i>2010</i> <i>SR '000</i>
Accrued expenses	3,631,647	3,386,288
Accrued employees' benefits	370,139	347,162
Dividends payable *	339,940	329,530
Accrued Murabaha on loans	82,389	125,292
Other	181,827	213,946
	4,605,942	4,402,218

* Dividends payable as of December 31, 2011 include unclaimed cash dividends declared by Saudi Consolidated Electricity Company prior to merge amounting to SR 91.5 million (2010: SR 93.8 million).

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NOTES TO THE FINANCIAL STATEMENTS – (continued)
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12. ZAKAT

The major elements of zakat base are as follows:

	<u>2011</u> <u>SR</u>	<u>2010</u> <u>SR</u>
Net income before zakat	2,213,159	2,279,088
Add: Zakat adjustment	(12,296,312)	(8,440,903)
Net adjusted loss	<u>(10,083,153)</u>	<u>(6,161,815)</u>

Zakat base is calculated as follows:

	<u>2011</u> <u>SR</u>	<u>2010</u> <u>SR</u>
Capital	41,665,938	41,665,938
Net adjusted loss	(10,083,153)	(6,161,815)
Retained reserves	1,869,353	1,640,044
Retained earnings	7,123,345	5,071,166
Retained allowances	7,050,373	6,761,296
Long term loans and sukuk	36,816,001	30,821,707
Government loans	67,891,719	18,688,060
Consumers deposits, government liabilities and contractors accruals	2,558,748	2,730,762
Total	154,892,324	101,217,158
Deduct:		
Fixed assets and construction work in progress, net	(131,259,163)	(107,525,831)
Difference on fixed assets for previous years	(41,576,007)	(32,287,433)
Long term investments	(2,406,042)	(2,296,850)
Material and spare parts inventories	(4,218,398)	(4,563,909)
Zakat base (negative)	<u>(24,567,286)</u>	<u>(45,456,865)</u>

Zakat has not been provided for during the year ended 31 December 2011 because of the net adjusted loss and zakat base is negative.

The final zakat assessments raised by the Department of Zakat and Income Tax (DZIT) for the period from 5 April 2000 (Date of Merger) to 31 December 2001 and for the year 2002 show zakat differences of SR 13 million, due to the DZIT's computation of zakat on differences due from Aramco on revenue from its residential facilities on which electricity is calculated based on industrial tariff instead of commercial tariff. The Company has not reflected those difference in these financial statements; believing that this claim will never be settled because zakat will never be paid on unearned income and not recorded in the Company's accounts. The Company has received the final assessments for the years 2003 to 2008 which showed zakat differences of SR 24.5 million for the years 2003 and 2004. The Company filed an appeal against these differences which is still pending. The Company filed its zakat returns for the years 2009 to 2010 and are still under review by DZIT.

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13. LONG-TERM LOANS

	<i>2011</i> <i>SR '000</i>	<i>2010</i> <i>SR '000</i>
At the beginning of the year	11,821,707	7,340,257
Withdrawal during the year	6,084,670	5,594,548
Repayments during the year	(1,191,489)	(1,113,098)
At the end of the year	16,714,888	11,821,707
Less: Current portion	(3,133,100)	(1,189,317)
	13,581,788	10,632,390

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

	<i>2011</i> <i>SR '000</i>	<i>2010</i> <i>SR '000</i>
Between one and two years	1,468,000	1,017,783
Between two and three years	1,468,000	1,123,000
Between three and four years	1,468,000	1,123,000
Between four and five years	1,468,000	1,123,000
After five years	7,709,788	6,245,607
	13,581,788	10,632,390

- (a) On 28 July 2008, the Company obtained a sharia-compliant loan for SR 6 billion from syndicates of local banks which has been fully withdrawn. The loan is repayable over 22 semi-annual installments starting 3 November 2009. The loan balance amounted to SR 4.6 billion as of 31 December 2011 (2010: SR 5.2 billion). The loan is subject to certain financial covenants in which the Company was compliant with as at 31 December 2011.
- (b) The Company agreed with U.S. Export-Import Bank, and the Export Development Bank of Canada on 21 June 2009 and signed a financing agreement on 27 January 2010, whereby the Company will receive a direct loan amounting to US\$ 1.1 billion equivalent to approximately SR 4.1 billion which has been fully withdrawn. The loan is repayable within 12 years in 24 semi-annual installments starting 25 May 2010. The loan balance amounted to SR 3.4 billion as of 31 December 2011 (2010: SR 3.8 billion).
- (c) On 13 July 2009, the Company signed a financing agreement with the Public Investments Fund whereby the Company will receive a direct loan of SR 2.6 billion which has been fully withdrawn. The loan is repayable within 15 years in 24 semi-annual installments. The loan balance amounted to SR 2.6 billion as of 31 December 2011 (2010: SR 2.6 billion).
- (d) On 13 December 2010, the Saudi Electricity Company signed an agreement with a syndicate of local banks, whereby the Company will obtain a sharia - compliant loan of SR 5 billion, repayable over 26 semi-annual installments after 24 months from the date of signing the agreement. The loan balance amounted to SR 0.5 billion as of 31 December 2011 (2010: SR Nil).

Saudi Electricity Company
(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS – (continued)
FOR THE YEAR ENDED 31 December 2011

13. LONG-TERM LOANS – (continued)

- (e) On 12 March 2011, Saudi Electricity Company signed an agreement with Tokyo-Mitsubishi Bank, whereby the Company will receive a loan amounting to US\$ 0.5 billion equivalent to SR 1.9 billion, which has been fully withdrawn. The loan is repayable fully at one installment within 12 months from the first withdrawal. The agreement allows the Company to extend the original maturity date of loan for 12 months. The loan balance amounted to SR 1.9 billion as of 31 December 2011 (2010: SR Nil).
- (f) On 22 June 2011, the Company signed an agreement with Export and Import, France, The Company will receive a loan amounting to US\$ 989.1 million equivalent to SR 3.7 billion which had been fully withdrawn. The loan is repayable within 12 years in 24 semi-annual installments starting 11 January 2012. The loan balance amounted to SR 3.7 billion as of 31 December 2011 (2010:SR Nil).

Long term loans mentioned above are used to finance the construction work in progress projects. These loans are secured by promissory notes signed by the Company at the nominal amount of the loan plus the interest payments and/or Murrabaha Margin.

The Company has an unutilized credit facilities with local banks amounting to SR 1 billion as at 31 December 2011 (2010: SR 1 billion).

14. SUKUK

The outstanding Sukuk as of 31 December 2011 are as follows:

<u>Issue</u>	<u>Date of issue</u>	<u>Par value</u>	<u>Total issued amount</u>	<u>Maturity date</u>
Sukuk 1	23 July 2007	SR 500,000	SR 5 Billion	2027
Sukuk 2	6 July 2009	SR 100,000	SR 7 Billion	2029
Sukuk 3	10 May 2010	SR 10,000	SR 7 Billion	2030

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

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

<u>Issue</u>	<u>Percentage</u>		
	<u>90%</u>	<u>60%</u>	<u>30%</u>
	<u>First purchase date</u>	<u>Second purchase date</u>	<u>Third purchase date</u>
Sukuk 1	2012	2017	2022
Sukuk 2	2014	2019	2024
Sukuk 3	2017	2020	2025

Saudi Electricity Company
(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS – (continued)
FOR THE YEAR ENDED 31 December 2011

15. EMPLOYEES' INDEMNITIES

	<i>2011</i> <i>SR '000</i>	<i>2010</i> <i>SR '000</i>
Provision for end-of-service indemnities	4,536,870	4,480,977
Savings program	301,639	209,241
	4,838,509	4,690,218

16. DEFERRED REVENUES, NET

	<i>2011</i> <i>SR '000</i>	<i>2010</i> <i>SR '000</i>
At the beginning of the year	16,736,945	14,970,527
Proceeds from connection tariff services during the year	5,138,675	2,963,512
Electrical connection tariff	(1,406,045)	(1,197,094)
	20,469,575	16,736,945

17. LONG-TERM GOVERNMENT PAYABLES

- a) Accounts payable for fuel for the period from 5 April 2000 to 31 December 2009 amounting to SR 41 billion have been reclassified from current liabilities to non-current liabilities (long-term governmental payables) pursuant to the Ministerial minutes of meeting dated 15 Jumada Awal 1427H and 6 Safar 1433H based on the Ministerial Resolution number 277, which resolved to transfer the Company's liability of Saudi Aramco to the account of the Ministry of Finance (note 10-a).
- b) During the fourth quarter of year 2010, the Company transferred certain transmission and distribution network assets located in Jubail Industrial City from Royal Commission for Jubail and Yanbu to the Company with a net book value amounting to SR 744 million. This liability has been recorded as long term government payables. The pre-merger accumulated depreciation estimated to be SR 244 million has been recorded as due from government and included within prepayments and other receivables (note5). These transactions have been accounted for retroactively (note 30).

Saudi Electricity Company
(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS – (continued)
FOR THE YEAR ENDED 31 December 2011

18. GOVERNMENT LOANS

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

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

- (b) The Council of Ministers approved in its meeting held on Monday 12 Jumada Awal 1431H corresponding to 26 April 2010 to grant the Company a non-interest bearing loan (soft loan) amounting to SR 15 billion repayable over 25 years. The loan will be paid to the Company within 2 years in accordance with an agreement that will be prepared for this purpose between the Ministry of Finance and the Saudi Electricity Company. The agreement was signed on 15 Ramadan 1431H, corresponding to 25 August 2010 and an amount of SR 11.3 billion from this loan has been withdrawn as at 31 December 2011. The Company has recognized the amount received from the government loan above discounted at its present value as per the accounting policies in Note (2).
- (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 non-interest bearing loan (soft loan) amounting to SR 51.1 billion, repayable over 25 years, The loan will be paid to the Company within 5 years in accordance with an agreement that will be prepared for this purpose between the Ministry of Finance and the Saudi Electricity Company. No amounts have been withdrawn from this loan as at balance sheet date.

19. 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 3.4 billion as of 31 December 2011 which includes a US Dollar 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 six-months.

The Company signed forward exchange currency agreements with local banks aiming to fix the Euro exchange rate against the U.S. Dollar exchange rate to cover the Company's future commitments and protect them from currency rate fluctuations.

Saudi Electricity Company
(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS – (continued)
FOR THE YEAR ENDED 31 December 2011

20. SHARE CAPITAL

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

	Number of shares	Ownership percentage
Government	3,096,175,320	74.31%
Saudi Aramco	288,630,420	6.93%
Other shareholders	781,788,075	18.76%
	<u>4,166,593,815</u>	<u>100%</u>

21. GENERAL RESERVE

General reserve consists of the balances of the reserves amounting to SR 213,668 Thousands that were reflected in the books of the Saudi Electricity Company at the date of the merger, and investment income from electricity fund of SR 294,976 as well as the collections of surcharge from individuals subsequent to December 31, 2001 amounting to SR 29,699 thousand up to December 31, 2011 (2010: SR 27,533 thousand). The total general reserve amounted to SR 538,343 thousand as at December 31, 2011(2010: SR 536,177 thousand).

22. OPERATION AND MAINTENANCE EXPENSES

	<i>2011</i> <i>SR'000</i>				<i>2010</i> <i>SR'000</i>
	<u>Generation</u>	<u>Transmission</u>	<u>Distribution</u>	<u>Total</u>	<u>Total</u>
Employees' expenses and benefits	1,288,171	910,581	2,365,486	4,564,238	4,022,932
Materials	712,916	109,954	234,539	1,057,409	1,113,808
Operation and maintenance (contractors)	405,862	109,593	372,263	887,718	703,413
Provision for doubtful receivables	-	-	121,721	121,721	257,564
Provision for slow moving inventory	36,740	8,070	10,950	55,760	9,490
Municipality fees	-	-	436,969	436,969	394,083
Others	875,341	84,060	355,061	1,314,462	1,251,653
	<u>3,319,030</u>	<u>1,222,258</u>	<u>3,896,989</u>	<u>8,438,277</u>	<u>7,752,943</u>

Saudi Electricity Company
(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS – (continued)
FOR THE YEAR ENDED 31 December 2011

23. GENERAL AND ADMINISTRATIVE EXPENSES

	<i>2011</i> <i>SR'000</i>	<i>2010</i> <i>SR'000</i>
Employees' expenses and benefits	230,489	264,407
Materials	41,410	37,521
Provision for slow moving inventory	7,200	1,690
Others	81,136	85,454
	360,235	389,072

24. OTHER INCOME AND EXPENSES, NET

	<i>2011</i> <i>SR'000</i>	<i>2010</i> <i>SR'000</i>
Gain on disposal of fixed assets	25,860	97,833
Penalties	172,969	118,747
Share in net loss of investee companies accounted for under the equity method (Note 7-d)	(45,747)	(21,670)
Sale of tender documents	28,952	27,063
Others, net	224,715	206,715
	406,749	428,688

25. DIVIDENDS

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

The General Assembly, in its meeting held on 4 April 2011, approved the distribution of cash dividends for 2010 individuals shareholders amounting to SR 547 million (SR 0.7 per share) representing 7% of the par value per share (2009: SR 547 million).

The board of directors in its meeting held on 19 February 2012, proposed to distribute cash dividends for 2011 to individuals shareholders amounting to SR 547 million. (SR 0.7– per share), representing - 7% of the par value per share. These are subject to the approval of the Company's general meeting.

Saudi Electricity Company
(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS – (continued)
FOR THE YEAR ENDED 31 December 2011

26. BOARD OF DIRECTORS' REMUNERATION AND ALLOWANCES

The expenses and allowances attributable to attending the board of directors meetings and other subcommittee meeting for the year amounted to SR 605 thousand (2010: SR 625 thousand).

The general meeting has approved in its meeting held on 4 April 2011, board's remuneration for 2010 amounting to SR 0.8 million to be disbursed from retained earnings (2009: SR 0.8 million).

The board of directors in its meeting held on 19 February 2012, proposed board's remuneration of SR 0.7 million after the distribution of dividends to individual shareholders not less than 5% of the share capital. This is subject to general meeting's approval.

27. RELATED PARTIES TRANSACTIONS

- a. 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 these applied to other subscribers, except for the tariff used for Saline Water Conversion Corporation (SWCC) for which a government resolution was issued. As for the residential property of Saudi Aramco, the Company believes that these should be charged with the commercial tariff. However, Saudi Aramco has objected to this tariff and is settling the electricity sales for all such properties based on the industrial tariff which resulted in a difference of SR 1,831 million from the Company's inception to 31 December 2011(SR 1,745 million from the Company's inception to 31 December 2010). These differences have not been reflected in these financial statements. The Council of Ministers has issued the Resolution Number 114 dated 10 Rabi Thani 1430H to end this dispute and to charge Saudi Aramco on the basis of the residential and commercial tariff instead of industrial tariff. The Electricity and Co-generation Regulatory Authority will have to specify the residential and commercial enterprises of Saudi Aramco and to identify the concerned party to handle the cost of construction, maintenance and operation for power stations, transformers, distribution networks. Accordingly, Saudi Electricity Company, Saudi Aramco and the regulator (The Electricity and Co-generation Regulatory Authority) held several meetings to settle this matter.

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

The significant transactions and related approximate balances are as follows:

	<i>2011</i> <i>SR'000</i>	<i>2010</i> <i>SR'000</i>
Sales		
Government	7,150,973	6,927,911
Saudi Aramco	1,490,989	1,318,150
Saline Water Conversion Corporation	194,021	164,988
	8,835,983	8,411,049
Purchases and Others		
Saudi Aramco	5,514,247	5,591,878
Saline Water Conversion Corporation	573,407	626,641
Municipalities fees	436,969	394,083
	6,524,623	6,612,602

Saudi Electricity Company
(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS – (continued)
FOR THE YEAR ENDED 31 December 2011

28. CONTINGENT LIABILITIES

- a. There is a dispute between the Company and Saudi Aramco for handling crude oil fees. The disputed amount since the Company's inception on 5 April 2000 to 31 December 2011 amounted to approximately SR 2,886 million (2010: SR 2,472 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 858 million (2010: SR 566 million) not accounted for in the Company's books.
- b. Saudi Aramco has also a claim for the settlement of its share in the annual dividends since inception to 31 December 2010, estimated at SR 1,937 million. The Company believes that Saudi Aramco has no right for this claim during the first 20 years of its formation being wholly owned government agency and accordingly, is governed by the Ministerial Resolution No. 169 dated 11 Sha'aban 1419H and Council of Ministries Resolution No. 327 dated 24 Ramadan 1430H, extending the Government's waiver of its rights in the dividends distributed by the Saudi Electricity Company for another ten years.
- c. The Company has provided guarantees to certain commercial banks against its share for financing a loan granted to some of its investee companies. The guarantee amounted to US\$ 117 million, equivalent to SR 440 million as at 31 December 2011 (2010: US\$ 112 million, equivalent to SR 419 million). In addition, the Company has provided a guarantee for the Department of Zakat and Income Tax amounting to SR 13 million (2010: SR 13 million).
- d. The company is contingently liable against outstanding letters of credit amounting to SR 0.30 million as of the balance sheet date (2010: SR 63 million).

29. ELECTRICITY SALES

Electricity sales increased mainly due to the increase in the quantity of power sold, in addition to tariff adjustment on governmental, commercial and industrial classes starting 1 July 2010.

30. PRIOR YEARS ADJUSTMENTS

At the end of the first quarter of year 2011, the Company has evaluated the derivative financial instruments of the hedging contracts related to fixed versus floating interest rate swaps. Consequently, the opening balances of the shareholders' equity change in fair value of hedging contracts - were adjusted by SR 388 million as of 1 January 2011 and by SR 472 million as of 1 January 2010.

As set in note (17), The Company transferred certain transmission and distribution network assets in Jubail Industrial City, owned by the Royal Commission for Jubail to the Company's retroactions, which resulted in adjusting the opening balances of retained earnings and statutory reserve for the year ended 31 December 2010.

31. CAPITAL COMMITMENTS

These comprise the unexecuted portion of capital contracts conducted by the Company for the erection and installation of power plants and other assets approximately amounting to SR 48,073 million (2010: SR 63,961 million). It is anticipated that these contracts to be completed between one to three years.

Saudi Electricity Company
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NOTES TO THE FINANCIAL STATEMENTS – (continued)
FOR THE YEAR ENDED 31 December 2011

32. RISK MANAGEMENT

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

Credit risk

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

Commission rate risk

Commission rate risk is the risk that the value of financial instrument will fluctuation due to changes in the market commission rates. The Company has no long-term assets commission bearing assets, but has liabilities associated with commission rates as of December 31, 2011. The Company manages its floating-rate loans through the use of commission rates hedging agreements, which have the economic effects to transfer the interest on the loans from floating to fixed rate.

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at an amount close to its fair value. The Company managers liquidated risk by monitoring them regulating to ensure that sufficient funds are available to meet its future liabilities.

Currency risk

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

Fair value risk

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

33. FUTURE RESTRUCTURE FOR THE COMPANY'S ACTIVITIES

The Company is currently considered as one operating unit with overlapping activities. Its main operating activities are divided into generation, transmission and distribution activities. These activities complement each other in delivering electricity to the consumer. The company's revenue is currently recognized from selling electricity to the end consumer based on the official Tariff set by the government. The company is currently working on developing prices between the activities of generation, transmission and distribution. The National Electricity Transmission Company was established (has started its operation on January 2012). The Company has also a plan to split its principal activities to different independent entities and therefore revenues and expenses will be specified for each entity by itself upon completion of separation. The Company's operations and consumers are based in the Kingdom of Saudi Arabia.

34. COMPARATIVE FIGURES

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

Saudi Electricity Company
(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS – (continued)
FOR THE YEAR ENDED 31 December 2011

35. SUBSEQUENT EVENTS

The Company has completed the procedure of the registration and incorporation of National Electricity Transmission Company – wholly owned company which started its operations on 1 January 2012 by transferring all Company's related transmission activities to it.

SAUDI ELECTRICITY COMPANY
(A SAUDI JOINT STOCK COMPANY)

FINANCIAL STATEMENTS AND AUDITORS' REPORT
FOR THE YEAR ENDED DECEMBER 31, 2010

SAUDI ELECTRICITY COMPANY
(A SAUDI JOINT STOCK COMPANY)

FINANCIAL STATEMENTS AND AUDITORS' REPORT
FOR THE YEAR ENDED DECEMBER 31, 2010

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AUDITORS' REPORT

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Head Office: Riyadh

To the shareholders
Saudi Electricity Company
(A Saudi Joint Stock Company)
Riyadh, Kingdom of Saudi Arabia

Scope of Audit

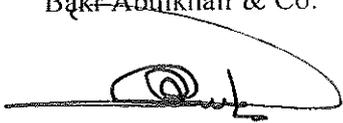
We have audited the accompanying balance sheet of **Saudi Electricity Company** (a Saudi joint stock company) (the "Company") as of December 31, 2010, and the related statements of income, cash flows and changes in shareholders' equity for the year then ended, and notes 1 to 32 which form an integral part of these financial statements as prepared by the Company in accordance with Article 123 of the Regulations for Companies and presented to us with all the necessary information and explanations. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in the Kingdom of Saudi Arabia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting standards used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Unqualified Opinion

In our opinion, the financial statements referred to above, present fairly, in all material respects, the financial position of the Company as of December 31, 2010, and the results of its operations and its cash flows for the year then ended in conformity with generally accepted accounting standards in the Kingdom of Saudi Arabia appropriate to the nature of the Company, and comply with the relevant provisions of the Regulations for Companies and the bylaws of the Company as these relate to the preparation and presentation of these financial statements.

Deloitte & Touche
Bakr Abulkhair & Co.



Bakr A. Abulkhair
License No. 101

Rabi Al-Awal 17, 1432
February 20, 2011

SAUDI ELECTRICITY COMPANY
(A SAUDI JOINT STOCK COMPANY)

BALANCE SHEET
AS OF DECEMBER 31, 2010

	Note	2010 SR'000	2009 SR'000
ASSETS			
Current assets			
Cash and bank balances	3	7,231,276	3,882,672
Receivables from electricity consumers and accrued revenues, net	4	9,965,007	10,586,218
Prepayments and other receivables, net	5&29	3,635,236	2,200,281
Inventories, net	6	5,704,886	5,623,342
Total current assets		26,536,405	22,292,513
Non-current assets			
Loan to an associated company		365,500	365,500
Equity investments in companies and others	7	2,296,850	2,353,398
Construction work in progress	8	26,038,186	32,214,782
Fixed assets, net	9&29	135,634,986	109,359,611
Total non-current assets		164,335,522	144,293,291
TOTAL ASSETS		190,871,927	166,585,804
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Accounts payable	10	49,539,912	44,588,737
Accruals and other payables	11	4,402,218	4,201,794
Current portion of long-term loans	13	1,189,317	828,400
Total current liabilities		55,131,447	49,618,931
Non-current liabilities			
Long-term loans	13	10,632,390	6,511,857
Sukuk	14	19,000,000	12,000,000
Employees' indemnities	15	4,690,218	4,422,298
Deferred revenue, net	17	16,736,945	14,970,528
Customers' refundable deposits		1,295,442	1,159,137
Long-term Government payables	10&29	14,039,789	14,039,789
Government loans	18	18,688,060	14,938,060
Total non-current liabilities		85,082,844	68,041,669
Total liabilities		140,214,291	117,660,600
Shareholders' equity			
Share capital	19	41,665,938	41,665,938
Statutory reserve	29	1,333,176	1,105,267
General reserve	20	536,177	534,777
Retained earnings	29	7,122,345	5,619,222
Total shareholders' equity		50,657,636	48,925,204
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		190,871,927	166,585,804

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

SAUDI ELECTRICITY COMPANY
(A SAUDI JOINT STOCK COMPANY)

STATEMENT OF INCOME
FOR THE YEAR ENDED DECEMBER 31, 2010

	Note	2010 SR'000	2009 SR'000
Operating Revenues			
Electricity sales		25,872,780	22,040,360
Meter reading, maintenance and bills preparation tariff		841,119	794,852
Electricity connection tariff	17	1,145,841	1,015,737
Total operating revenues		27,859,740	23,850,949
Cost of sales			
Fuel		(5,796,633)	(5,898,501)
Purchased energy		(3,742,597)	(1,826,900)
Operations and maintenance	21	(7,752,943)	(7,482,952)
Depreciation -- Operations and maintenance	9&29	(8,027,017)	(7,202,000)
Total cost of sales		(25,319,190)	(22,410,353)
Gross profit		2,540,550	1,440,596
General and administrative expenses	22	(381,521)	(315,542)
Depreciation – General and administrative	9	(353,189)	(339,909)
Operating income		1,805,840	785,145
Other income and expenses, net	23	473,248	357,491
NET INCOME FOR THE YEAR		2,279,088	1,142,636
Earnings per share (SR)			
From operating income for the year (Note 24)		0.43	0.19
From net income for the year (Note 24)		0.55	0.27

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

SAUDI ELECTRICITY COMPANY
(A SAUDI JOINT STOCK COMPANY)

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2010

	2010 SR'000	2009 SR'000
OPERATING ACTIVITIES		
Net income for the year	2,279,088	1,142,636
Adjustments to reconcile net income to net cash from operating activities:		
Provision for doubtful receivables	257,564	125,968
Provision for other doubtful debit balances	-	(20,405)
Provision for slow-moving inventories	11,180	623
Company's share in net income (loss) of investee companies	21,670	(34,263)
Depreciation	8,380,206	7,541,909
Gain on disposal of fixed assets, net	(97,833)	(31,096)
Prior year adjustments	-	(222,367)
Gain on sale of other investments	(765)	-
Employees' indemnities, net	267,920	25,545
Deferred revenues, net	1,766,418	1,617,741
Changes in operating assets and liabilities:		
Receivables from electricity consumers and accrued revenues	363,647	4,361,661
Prepayments and other receivables	(1,434,955)	718,013
Inventories	(92,724)	182,708
Accounts payable	4,951,175	9,072,036
Accruals and other payables	193,924	151,169
Net proceeds and payments on customers' refundable deposits	136,305	63,349
Net cash from operating activities	17,002,820	24,695,227
INVESTING ACTIVITIES		
Equity investments in companies and others	(2,000)	(159,211)
Time deposits	1,000,119	(1,000,119)
Fixed assets and construction work in progress	(28,487,495)	(30,910,764)
Proceeds from sale of fixed assets	106,342	37,490
Proceeds from sale of investments	37,643	-
Loan to an associated company	-	(365,500)
Long-term Government payables	-	744,176
Net cash used in investing activities	(27,345,391)	(31,653,928)
FINANCING ACTIVITIES		
Government loan	3,750,000	-
Sukuk	7,000,000	7,000,000
Net proceeds (repayment) of long-term loans	4,481,450	2,136,139
Dividends paid to shareholders and Board of Directors' remuneration	(540,156)	(526,982)
Net cash from financing activities	14,691,294	8,609,157
NET CHANGE IN CASH AND CASH EQUIVALENTS	4,348,723	1,650,456
Cash and cash equivalents, beginning of the year	2,882,553	1,232,097
CASH AND CASH EQUIVALENTS, END OF THE YEAR	7,231,276	2,882,553

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

SAUDI ELECTRICITY COMPANY
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STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2010

	Note	Share capital SR'000	Statutory reserve SR'000	General reserve SR'000	Retained earnings SR'000	Total SR'000
Balance, January 1, 2009		41,665,938	991,004	534,573	5,361,106	48,552,621
Prior years adjustments	29	-	-	-	(222,367)	(222,367)
Net income for the year (adjusted)	29	-	-	-	1,142,636	1,142,636
Dividends to the shareholders for 2008	25	-	-	-	(547,252)	(547,252)
Board of directors' remuneration for 2008	26	-	-	-	(638)	(638)
Electricity fee collections (individuals)	20	-	-	204	-	204
Transferred to statutory reserve (adjusted)	29	-	114,263	-	(114,263)	-
Balance, December 31, 2009 (adjusted)		41,665,938	1,105,267	534,777	5,619,222	48,925,204
Net income for the year		-	-	-	2,279,088	2,279,088
Dividends to the shareholders for 2009	25	-	-	-	(547,252)	(547,252)
Board of directors' remuneration for 2009	26	-	-	-	(804)	(804)
Electricity fee collections (individuals)	20	-	-	1,400	-	1,400
Transferred to statutory reserve		-	227,909	-	(227,909)	-
Balance, December 31, 2010		41,665,938	1,333,176	536,177	7,122,345	50,657,636

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

SAUDI ELECTRICITY COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010

1. ORGANIZATION AND ACTIVITIES

The Saudi Electricity Company "the Company" was formed pursuant to the Council of Ministers' Resolution Number 169 dated Sha'ban 11, 1419H corresponding to November 29, 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 Royal Decree No. M/16 dated Ramadan 6, 1420H corresponding to December 13, 1999, in accordance with the Council of Ministers' Resolution Number 153, dated Ramadan 5, 1420H corresponding to December 12, 1999, and the Minister of Commerce Resolution Number 2047, dated Dhu Al Hijjah 30, 1420H corresponding to April 5, 2000 as a Saudi joint stock company and was registered in Riyadh under Commercial Registration Number 1010158683, dated Muharram 28, 1421H corresponding to May 3, 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, as per its organizational chart, is divided into the main activities of generation, transmission, and distribution and related supporting activities such as finance, human resources, general services and planning. Generation, transmission and distribution activities complement each other for the purpose of delivering the electricity to the consumer whereby the Company is developing transfer prices between these activities, and the Company's revenues are currently recognized from selling electricity to the end consumer based on the official tariff decided by the Government. The Company has also a plan to split its principal activities to different independent entities and therefore revenues and expenses will be specified for each entity by itself upon its establishment.

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED DECEMBER 31, 2010

This was further amended by the Council of Ministers in its Decision Number 333 dated Shawwal 16, 1430H, corresponding to October 5, 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 Rajab 19, 1431H, corresponding to July 1, 2010.

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

The accompanying financial statements include the accounts of Sukuk Electricity Company, Dawiyat Telecom Company and Hajr for Electricity Production Company, being limited liability companies wholly owned by the Saudi Electricity Company.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements have been prepared in compliance with the accounting standards issued by the Saudi Organization for Certified Public Accountants. The following is a summary of significant accounting policies applied by the Company:

Accounting convention

The financial statements are prepared under the historical cost convention except for equity investments which are accounted for under the equity method.

Accounting estimates

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

Cash and cash equivalents

Cash and cash equivalents include cash on hand and at banks, time deposits, and highly liquid investments which are convertible to cash with original maturities of three-months or less from date of acquisition.

Electricity consumers' receivables

Electricity consumers' receivables represent the amount not collected from the consumers at the balance sheet date, and are stated net after establishing a provision for doubtful receivables.

SAUDI ELECTRICITY COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED DECEMBER 31, 2010

Inventories

Inventory items of generators, transmission, distribution, other materials, and fuel inventory are stated at the weighted average cost basis, net of provision for slow moving and obsolete items.

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

Investments in companies' equity and other

Investments in companies which are at least 20% owned are recorded using the equity method, under which the investment is stated initially at cost, and adjusted thereafter by the post acquisition change of the Company's share in the net assets of the investee company. The Company's share in the results of these Companies is recognized when investees' financial statements are issued.

Investments of less than 20% of share capital of unquoted companies are stated at cost. Revenue is recognized from these investments upon declaration of dividends by the investee companies.

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

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 finance cost up to the date the asset is put in service. Cost and accumulated depreciation of fixed assets sold or otherwise disposed off are removed from the accounts at the time of sale or disposal and the resulting gain or loss is recognized in the statement of income. The estimated operational useful lives are as follows:

	<u>Years</u>
Generation plant, equipment and spare parts	20 to 25
Transmission network, equipment and spare parts	20 to 30
Distribution network, equipment and spare parts	15 to 25
Buildings	20 to 30
Other assets	4 to 20

Impairment of assets

The Company conducts periodic review of the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication 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 an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED DECEMBER 31, 2010

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 recognized as an expense immediately in the statement of income.

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

Capitalization of borrowing costs

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

Derivative financial instruments and hedge accounting

The Company uses derivative financial instruments to hedge the exposure to certain portions of interest rate risks arising from financing activities. The Company designates these as cash flow hedges of Murabaha rate risk. The use of financial derivatives is governed by the Company's policies approved by the Board of Directors, and consistent with the Company's risk management strategy. The Company does not use derivative financial instruments for speculative purposes. Derivative financial instruments are measured at fair value on the contract date and are re-measured to fair value on subsequent reporting dates. If the financial instruments do not qualify for hedge accounting in accordance with generally accepted accounting standards, the changes in the fair value of the derivatives financial instruments are recorded as part of finance charges.

End-of-service indemnities

End-of-service indemnities are calculated annually in accordance with the Labor Law in the Kingdom of Saudi Arabia.

Zakat

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 statement of income for the year in which such assessment is obtained.

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 balance sheet date is accrued for.

SAUDI ELECTRICITY COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED DECEMBER 31, 2010

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

Expenses

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

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 may discontinue such transfer when the reserve equals 50% of the share capital.

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 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 statement of income.

3. CASH AND BANK BALANCES

	2010	2009
	SR'000	SR'000
Cash on hand	2,959	2,887
Cash at banks	2,384,110	994,805
Short-term deposits	4,844,207	2,884,980
	7,231,276	3,882,672

Cash and bank balances include as of December 31, 2010 SR Nil, being short term deposits with a maturity of more than three-month period from the acquisition date (2009: SR 1 billion). In addition, short-term deposits include SR 146 million (2009: SR 94 million) related to employees' saving program.

SAUDI ELECTRICITY COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED DECEMBER 31, 2010

4. RECEIVABLES FROM ELECTRICITY CONSUMERS AND ACCRUED REVENUES, NET

	2010 SR'000	2009 SR'000
Electricity consumers' receivable		
Governmental institutions	2,086,912	4,022,863
Commercial and residential	4,373,354	3,095,487
Special customers	2,216,405	1,958,339
Saudi Aramco (Notes 27 & 30)	1,468,493	1,623,446
Electricity connection receivables	571,858	757,592
Saline Water Conversion Corporation	362,984	339,077
Total electricity consumers' receivable	11,080,006	11,796,804
Less: Provision for doubtful receivables	(2,378,875)	(2,121,311)
Net electricity consumers' receivable	8,701,131	9,675,493
Add: Accrued revenues	1,263,876	910,725
Total	9,965,007	10,586,218

The movements of the provision for doubtful receivables during the year is as follows:

	2010 SR'000	2009 SR'000
Balance, beginning of the year	2,121,311	1,995,343
Charge for the year	257,564	125,968
Balance, end of the year	2,378,875	2,121,311

5. PREPAYMENTS AND OTHER RECEIVABLES, NET

	2010 SR'000	2009 SR'000
Advances to contractors and suppliers	2,789,535	1,745,768
Outstanding letters of credit	203,956	19,582
Prepaid expenses	20,940	45,455
Other government receivables (Note 29)	244,173	244,173
Other receivables	437,421	206,092
Total	3,696,025	2,261,070
Less: Provision for other doubtful receivables	(60,789)	(60,789)
	3,635,236	2,200,281

SAUDI ELECTRICITY COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED DECEMBER 31, 2010

6. INVENTORIES, NET

	2010 SR'000	2009 SR'000
Generation plant materials and supplies	3,130,904	3,217,045
Distribution network materials and supplies	1,863,213	1,862,596
Transmission network materials and supplies	290,027	247,390
Fuel and oil	401,933	337,278
Other	219,870	148,914
Total	5,905,947	5,813,223
Less: Provision for slow moving inventories	(201,061)	(189,881)
	<u>5,704,886</u>	<u>5,623,342</u>

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

	2010 SR'000	2009 SR'000
Balance, beginning of the year	189,881	189,258
Charge for the year	11,180	623
Balance, end of the year	<u>201,061</u>	<u>189,881</u>

7. EQUITY INVESTMENTS IN COMPANIES AND OTHERS

	2010 SR'000	2009 SR'000
Investments accounted for under the equity method (a)	1,895,640	1,915,310
Other investments, at cost (b)	1,210	1,210
Held to maturity investments (c)	400,000	436,878
	<u>2,296,850</u>	<u>2,353,398</u>

a) Investments accounted for under the equity method

	Shareholding %	2010 SR'000	2009 SR'000
Gulf Cooperation Council Interconnection Authority (a-1)	31.6	1,876,841	1,898,649
Water and Electricity Company (a-2)	50	13,798	13,661
Rass Al Zoor Water and Electricity Company (a-3)	20	1,000	1,000
Rabigh Electricity Company (a-4)	20	2,000	2,000
Durmaa Electricity Company (a-5)	50	2,000	-
Total investments accounted for under the equity method		<u>1,895,639</u>	<u>1,915,310</u>

SAUDI ELECTRICITY COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED DECEMBER 31, 2010

(a-1) Gulf Cooperation Council Interconnection Authority

The Company has participated in the capital of the Gulf Cooperation Council Interconnection Authority (hereafter referred to as "GCCIA") to enhance the electricity transmission and distribution between the member countries. The Company's participation in GCCIA amounts to USD 484.80 million equivalent to SR 1,818 million. The final draft of the financial statements of GCCIA for the year 2010 has not been issued as of the date of these financial statements.

(a-2) Water and Electricity Company

The Company entered into a partnership agreement with Saline Water Conversion Corporation to establish a jointly owned limited liability company in the name of Water and Electricity Company pursuant to the Supreme Economic Council's Decision No. 5/23 dated Rabi' Al-Awal 23, 1423H which encourages the participation of the private sector in water desalination projects. The Company's share amounting to SR 15 million was paid in full and consists of 300,000 shares representing 50% of the investee's share capital. The final draft of the financial statements of the investee Company for the year 2010 has not been issued as of the date of the financial statements.

(a-3) Rass Al Zoor Water and Electricity Company

Based on the Company's Board of Directors Resolution No. 02/73/2007 dated Dhu Al Hijjah 1, 1428H, the Company entered into a partnership with the Public Investment Fund to establish Rass Al Zoor Water and Electricity Company, a joint stock company established pursuant to Royal Decree No. 77 dated Ramadan 14, 1428H. The Company's share amounting to SR 1 million was paid in full and represents 20% of the investee's share capital. The investee has not yet started operations, accordingly, no financial statements have been issued as of the date of the financial statements.

(a-4) Rabigh Electricity Company

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

During the third quarter of 2009, Rabigh Electricity Company increased its capital from SR 2 million to SR 10 million through the joining of new partners which decreased Saudi Electricity Company's share from 100% to 20%. The investee has not yet started operations, accordingly no financial statements have been issued as of the date of these financial statements.

SAUDI ELECTRICITY COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED DECEMBER 31, 2010

(a-5) Dhuruma Electricity Company

Based on Ministerial Resolution No. G/161 dated Jumada Al-Awal 12, 1431H corresponding to April 26, 2010, the Company established Dhuruma Electricity Company (a closed joint stock company) with a share capital of SR 2 million. During the year, a new partner joined the Company and the share capital was increased by the same amount to become SR 4 million and the Saudi Electricity Company's share to be 50% of total shareholders' shares. No financial statements have been issued for the investee for the year 2010 up to the date of these financial statements.

b) Other investments, at cost

	Shareholding %	2010 SR'000	2009 SR'000
Al-Shuaiba Water and Electricity Company	8	400	400
Al-Shuqaiq Water and Electricity Company	8	400	400
Al-Jubail Water and Electricity Company	5	250	250
Al-Shuaba Holding Company	8	160	160
Total other investments, at cost		<u>1,210</u>	<u>1,210</u>

c) Held to maturity investments

	2010 SR'000	2009 SR'000
Saudi Basic Industries Corporation Sukuk	300,000	300,000
Bin Laden Company Sukuk	50,000	50,000
SAAB bonds	50,000	50,000
Ras Al-Khaimah Investment Authority Sukuk	-	36,878
Total held to maturity investments	<u>400,000</u>	<u>436,878</u>

d) Share in net (loss) income of investees accounted for under equity method

	2010 SR'000	2009 SR'000
Gulf Corporation Council Interconnection Authority	(21,807)	36,153
Water and Electricity Company	137	(1,890)
Total (Note 23)	<u>(21,670)</u>	<u>34,263</u>

SAUDI ELECTRICITY COMPANY
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NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED DECEMBER 31, 2010

8. CONSTRUCTION WORK IN PROGRESS

	2010 SR'000	2009 SR'000
Generation projects	15,424,059	16,837,518
Transmission projects	6,407,377	11,935,612
Distribution projects	3,930,639	3,249,981
General projects	276,111	191,671
	26,038,186	32,214,782

Net financing cost capitalized on projects under construction during the year amounted to SR 1,070 million (2009: SR 769 million).

9. FIXED ASSETS, NET

	Land SR'000	Buildings SR'000	Machinery & equipment SR'000	Capital spare parts SR'000	Vehicles and heavy equipment SR'000	Others SR'000	Total SR'000
Cost:							
January 1, 2010	1,533,633	13,990,760	203,416,394	3,196,026	1,146,420	7,510,281	230,793,514
Additions	46,028	862,211	33,145,541	232,423	178,454	208,389	34,673,046
Disposals	-	(2,446)	(320,661)	(191)	(50,043)	(57)	(373,398)
Reclassification	-	638	5,107,117	-	-	(5,107,755)	-
December 31, 2010	1,579,661	14,851,163	241,348,391	3,428,258	1,274,831	2,610,858	265,093,162
Accumulated depreciation:							
January 1, 2010	-	8,723,765	108,133,016	1,729,315	918,082	1,929,725	121,433,903
Charge for the year	-	477,299	7,271,234	105,649	90,921	435,103	8,380,206
Disposals	-	(2,364)	(303,371)	(103)	(50,041)	(54)	(355,933)
Reclassification	-	508	730,816	-	-	(731,324)	-
December 31, 2010	-	9,199,208	115,831,695	1,834,861	958,962	1,633,450	129,458,176
Net book value:							
December 31, 2010	1,579,661	5,651,955	125,516,696	1,593,397	315,869	977,408	135,634,986
December 31, 2009	1,533,633	5,266,995	95,283,378	1,466,711	228,338	5,580,556	109,359,611

Land caption above includes plots of land with a book value of SR 151 million, the title deeds of which have not yet been transferred to the Company's name.

SAUDI ELECTRICITY COMPANY
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NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED DECEMBER 31, 2010

Net book value of the Company's fixed assets as of December 31, 2010 is distributed among the main activities as follows:

	2010 SR'000					2009 SR'000
	Generation	Transmission	Distribution	General Property	Total	Total
Land	245,236	587,388	225,249	521,788	1,579,661	1,533,633
Buildings	2,695,481	1,870,261	154,903	931,310	5,651,955	5,266,995
Machinery & equipment	47,654,610	42,805,030	34,710,509	346,547	125,516,696	95,283,378
Capital spare parts	1,162,176	410,055	20,940	226	1,593,397	1,466,711
Vehicles and heavy equipment	-	-	-	315,869	315,869	228,338
Others	532,312	308,036	30,104	106,956	977,408	5,580,556
Total	52,289,815	45,980,770	35,141,705	2,222,696	135,634,986	109,359,611

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

	2010 SR'000	2009 SR'000
Generation depreciation expense	3,201,761	2,889,023
Transmission depreciation expense	2,438,954	2,114,184
Distribution depreciation expense	2,386,302	2,198,793
General property depreciation expense	353,189	339,909
	8,380,206	7,541,909

10. ACCOUNTS PAYABLE

	2010 SR'000	2009 SR'000
Saudi Aramco for fuel cost (Notes 27 & 30)	46,227,372	40,959,482
Transferred to Government account (10-a)	(13,295,613)	(13,295,613)
Saudi Aramco payable for fuel cost	32,931,759	27,663,869
Saline Water Conversion Corporation for purchased energy	8,080,770	7,528,478
Payables to contractors and retentions	691,138	2,840,911
Municipality fees	2,804,236	2,410,599
Payables to suppliers	613,496	1,004,234
Advances received for construction of projects	1,966,612	1,176,615
Other (10-b)	2,451,901	1,964,031
	49,539,912	44,588,737

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NOTES TO THE FINANCIAL STATEMENTS (Continued)
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- 10-a) Accounts payable to Saudi Aramco for fuel cost for the period from April 5, 2000 to December 31, 2003 have been reclassified from current liabilities to non-current liabilities (long-term government payables) in accordance with the minutes of the Ministerial meeting held between his HE the Minister of Finance and his HE the Minister of Petroleum and Mineral Resources signed on Jumada Al-Awal 15, 1427H whereby the Company's liability to Saudi Aramco was transferred to the account of the Ministry of Finance.
- 10-b) Other payables include SR 1,280 million (2009: SR 1,280 million) which are still under reconciliation between the Company and the Government and pertain to prior-merger accounts (refer to Note 1).

11. ACCRUALS AND OTHER PAYABLES

	2010 SR'000	2009 SR'000
Accrued expenses	3,386,288	3,210,187
Accrued employees' benefits	347,162	350,291
Dividends payable	329,530	321,629
Accrued Murabaha on loans	125,292	108,934
Other	213,946	210,753
	<u>4,402,218</u>	<u>4,201,794</u>

Dividends payable include dividends in the amount of SR 93,8 million as of December 31, 2010 representing cash dividends declared by Saudi Consolidated Electricity Company prior to merge and unclaimed by the shareholders (2009: SR 95.7 million).

12. ZAKAT

The principal elements of the zakat base are as follows:

	2010 SR'000	2009 SR'000
Net income before Zakat	2,279,088	1,169,614
Add: Zakat adjustments	(8,440,903)	(6,812,078)
Adjusted net loss	<u>(6,161,815)</u>	<u>(5,642,464)</u>

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	2010 SR'000	2009 SR'000
Zakat base computation:		
Share capital	41,665,938	41,665,938
Adjusted net loss	(6,161,815)	(5,642,464)
Other reserves	1,640,044	1,525,576
Retained earnings	5,071,166	4,813,854
Other provisions	6,761,296	6,155,570
Long-term loans and Sukuk	30,821,707	19,340,257
Government loans	18,688,060	14,938,060
Customers' refundable deposits, government payables, and Contractor payables	2,730,762	5,924,783
Total	101,217,158	88,721,574
Less:		
Fixed assets and construction work in progress	(107,525,831)	(96,344,143)
Fixed assets depreciation differences from prior years	(32,287,433)	(25,014,747)
Long-term investments	(2,296,850)	(1,882,257)
Inventory of material and spare parts	(4,563,909)	(4,261,625)
Zakat Base -- Negative	(45,456,865)	(38,781,198)

No provision for zakat has been made due to the negative amounts for adjusted net income and zakat base.

According to the final assessment received from the DZIT for the period from April 5, 2000 (date of merger) to December 31, 2001 and for the year 2002, there are zakat differences amounting to SR 13 million that resulted from DZIT computing zakat on amounts claimed by the Company from Aramco for Aramco's electricity consumption in the residential properties and paid by Aramco based on the industrial tariff rather than the commercial tariff. The Company has not provided for this difference as it believes that zakat should not be levied on revenues which have not been recognised and accounted for in the accounting records. During year 2009, the Company received the final assessment for the years 2003 to 2006 which showed zakat differences for SR 24.5 million. This matter is still being followed up with DZIT. In addition, the Company submitted its zakat returns for the years 2007 to 2009 and are still subject for review by DZIT.

13. LONG-TERM LOANS

	2010 SR'000	2009 SR'000
Loans' balance, beginning of the year	7,340,257	5,204,118
Loans' withdrawals during the year	5,594,548	2,692,266
Loans' repayments during the year	(1,113,098)	(556,127)
Loans' balance, end of the year	11,821,707	7,340,257
Less: Current portion of long-term loans	(1,189,317)	(828,400)
	10,632,390	6,511,857

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Following are the details of the scheduled next years' repayments as of December 31:

	2010	2009
	SR'000	SR'000
Between one and two years	1,017,783	828,854
Between two and three years	1,123,000	545,454
Between three and four years	1,123,000	760,736
Between four and five years	1,123,000	760,736
Beyond five years	6,245,607	3,616,077
	10,632,390	6,511,857

During year 2008, the Company obtained a sharia compliant loan for SR 6 billion from a Group of local banks which has been fully withdrawn. The loan is subject to certain financial covenants in which the company was in compliance with as of December 31, 2010.

Bank loans represent long-term borrowings obtained from commercial banks to finance construction work. Some of these loans are secured by promissory notes issued by the Company and proceeds of revenues collected by the banks.

The Company has unutilized credit facilities from local banks as of December 31, 2010 amounting to SR 1 billion (2009: SR 1 billion).

The Company agreed with the Export-Import Bank of the United States, and Export Development Canada on June 21, 2009 and signed a financing agreement on January 27, 2010 whereby the Company will receive a direct loan amounting to USD 1.1 billion as of December 31, 2010 equivalent to SR 4.1 billion. The loan is repayable over 12 years and will be used to purchase generating units for the Company's projects. The loan has been fully withdrawn as of December 31, 2010.

On July 13, 2009, the Company signed a financing agreement with the Public Investments Fund upon which the Company will receive a direct loan of SR 2.6 billion repayable in 24 semi-annual installments starting December 31, 2012 and over 15 years. This loan will be used to finance power generating projects. The loan has been fully withdrawn as of December 31, 2010.

On December 13, 2010, the Saudi Electricity Company signed an agreement with group of local banks whereby the Company will obtain a sharia compliant loan for SR 5 billion which was not withdrawn as of December 31, 2010.

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14. SUKUK

- (a) On July 1, 2007, the Company issued Sukuk for SR 5 billion, at par value of SR 500,000 each with no discount nor premium, maturing in the year 2027. The Sukuk bears a rate of return based on SIBOR plus a margin per annum payable quarterly in arrears from the net income received under the Sukuk assets held by the Sukuk custodian "Electricity Sukuk Company" a wholly owned subsidiary of the Company. At the end of each five year period, the Company shall pay an amount equal to 10% of the aggregate face value of the Sukuk as bonus to the Sukuk holders. The Company has provided an undertaking to the Sukuk holders to repurchase the Sukuk in the years 2012, 2017, 2022 in accordance with certain arrangements.
- (b) On July 6, 2009, the Company issued Sukuk for SR 7 billion, at par value of SR 100,000 each without any discount or premium, maturing in the year 2029. The Sukuk were entirely covered. The Sukuk bears a rate of return based on SIBOR plus a margin payable quarterly in arrears from the net income received under the Sukuk assets held by the Sukuk custodian "Electricity Sukuk Company" (Sukuk) a wholly owned subsidiary. At the end of each five year period, the company shall pay an amount equal to 10% of the aggregate face value of the Sukuk as bonus to Sukuk holders. The Company has provided an undertaking to the Sukuk holders to repurchase the Sukuk in the years 2014, 2019 and 2024 at the request of the Sukuk holders and in accordance with certain arrangements.
- (c) On May 10, 2010, the Company issued Sukuk for SR 7 billion, at par value of SR 10,000 each without any discount or premium, maturing in the year 2030. The Sukuk were entirely covered. The Sukuk bears a rate of return based on SIBOR plus a margin payable quarterly in arrears from the net income received under the Sukuk assets held by the Sukuk custodian "Electricity Sukuk Company" (Sukuk) a wholly owned subsidiary of the Company. At the end of each five year period, the company shall pay an amount equal to 10% of the aggregate face value of the Sukuk as bonus to Sukuk holders. The Company has provided an undertaking to the Sukuk holders to repurchase the Sukuk in the years 2017, 2020 and 2025 at the request of the Sukuk holders and in accordance with certain arrangements.

15. EMPLOYEES' INDEMNITIES

	2010 SR'000	2009 SR'000
Provision for end-of-service indemnities	4,480,977	4,309,554
Savings program	209,241	112,744
	<u>4,690,218</u>	<u>4,422,298</u>

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16. DERIVATIVES

The Company entered into interest rate hedging agreements with several banks to hedge the fluctuation in loans' interest rates on a notional amount of SR 3,365 million as of December 31, 2010; which includes a US Dollar portion representing approximately 15% of the notional value. The hedging agreements 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.

At the end of year 2009, the Saudi Electricity Company signed forward exchange currency agreements with local banks aiming to fix the Euro exchange rate against the US Dollar exchange rate to cover the Company's future commitments and protect them from currency rate fluctuations.

17. DEFERRED REVENUE, NET

	2010 SR'000	2009 SR'000
Balance, beginning of the year	14,970,527	13,352,787
Proceeds from connection tariff service during the year	2,912,259	2,633,478
Electrical connection tariff	(1,145,841)	(1,015,737)
	<u>16,736,945</u>	<u>14,970,528</u>

18. GOVERNMENT LOANS

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 signed by his HE the Minister of Industry and Electricity and his HE the Minister of Finance and National Economy dated Jumada Al-Thani 27, 1418H corresponding to October 29, 1997. The net difference payable to the Government by the Company, as determined at the end of the business day preceding the issuance of the Royal Decree for the incorporation of the Company, is considered a long-term soft loan with a grace period of twenty five years starting from the date of the announcement of the incorporation of the Company. The loan is to be revisited later on subject to the financial condition of the Government and the Company.

The minutes of the meeting held on 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, stated that the final settlement of Government accounts will be subject to the reconciliation for the claims of the Company from Government entities, and the loan amount shall be adjusted accordingly. During 2005, the Company finalized the amount due which included the claims of the Company and the amounts due to the Government and the agreement was signed between the Minister of Water and Electricity and the Minister of Finance on Rajab 15, 1426H which brought the balance of Government loan to SR 14,938,060 thousand.

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The Council of Ministers approved in its meeting held on Monday Jumada Al-Awal 12, 1431H corresponding to April 26, 2010 to extend to the Company a soft loan amounting to SR 15 billion repayable over 25 years. The loan will be paid to the Company within 2 years in accordance with an agreement that will be prepared for this purpose between the Ministry of Finance and the Saudi Electricity Company. The agreement was signed on Ramadan 15, 1431H, corresponding to August 25, 2010 and an amount of SR 3,750 million from this loan has been withdrawn as at December 31, 2010.

19. SHARE CAPITAL

The share capital of the Company as of December 31, 2010 amounts to SR 41,665,938,150 and divided into 4,166,593,815 shares with a par value of SR 10 each.

The Company's share capital referred to above is owned by the following:

	Numbers of shares	Ownership percentage
Government	3,096,175,320	74.31%
Saudi Aramco	288,630,420	6.93%
Other shareholders	781,788,075	18.76%
	<u>4,166,593,815</u>	<u>100%</u>

20. GENERAL RESERVE

General reserve consists of the balances of the reserves that were reflected in the books of the Saudi Consolidated Electricity Company at the date of the merger and amounting to SR 213,668 thousand and the returns from investing in the Electricity Fee Fund and amounting to SR 294,976 thousand. In addition, it also includes the collections of electricity fees from individuals subsequent to December 31, 2001 and amounting to SR 27,533 thousand till December 31, 2010 (2009: SR 26,133 thousand). Accordingly, the balance of the general reserve amounted to SR 536,177 thousand as of December 31, 2010 (2009: SR 534,777 thousand).

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21. OPERATING AND MAINTENANCE EXPENSES

	2010				2009
	SR'000				SR'000
	Generation	Transmission	Distribution	Total	Total
Employees' expenses and benefits	1,146,350	786,850	2,089,732	4,022,932	3,768,777
Materials	830,575	87,539	195,694	1,113,808	1,163,487
Operation and maintenance (contractors)	393,664	73,225	236,524	703,413	721,131
Provision for doubtful receivables	-	-	257,564	257,564	125,968
Provision for slow moving inventory	6,600	1,130	1,760	9,490	550
Municipality fees	-	-	394,083	394,083	347,217
Others	685,038	151,558	415,057	1,251,653	1,355,822
Total	3,062,227	1,100,302	3,590,414	7,752,943	7,482,952

22. GENERAL AND ADMINISTRATIVE EXPENSES

	2010	2009
	SR'000	SR'000
Employees' expenses and benefits	264,407	211,788
Materials	37,521	45,634
Provision for slow moving inventory	1,690	73
Others	77,903	58,047
	381,521	315,542

23. OTHER INCOME AND EXPENSES, NET

	2010	2009
	SR'000	SR'000
Gain on disposal of fixed assets	97,833	31,096
Penalties	118,747	75,053
Share in net (loss) income of investee companies accounted for under the equity method (Note 7-d)	(21,670)	34,263
Sales of tender documents	27,063	18,405
Others, net	251,275	198,674
	473,248	357,491

24. EARNINGS PER SHARE

Earnings per share from operating income and earnings per share from net income for the year is calculated by dividing operating income and net income for the year by the outstanding number of weighted average share of 4,166,593,815 shares, including government shares.

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25. PROPOSED DIVIDEND AND EARNINGS PER SHARE (EPS)

In compliance with the Company's bylaws, a preliminary distribution of dividend of not less than 5% of paid up share capital is to be made after deducting reserves in accordance with the conditions stated in Council of Ministers' Resolution No. 169 dated Sha'ban 11, 1419H, which stipulates that the Government would waive its share from the dividend distribution for a period of ten years from the date of the Company's formation provided that such dividends do not exceed 10% of the par value of the shares. If dividends exceed 10% of the par value of the shares then the Government's share shall be treated similar to the shares of the other shareholders.

The Council of Ministers' Resolution No. 327 dated Ramadan 24, 1430H which is specific to the extension of the government concession of its share of profits that Saudi Electric Company distributes for a period of another 10 years.

The Board of Directors in its meeting held on February 20, 2011, proposed dividends for the year 2010 for the shareholders amounting to SR 547 million in cash at SR 0.7 per share representing 7% of the par value of the shares (2008: SR 547 million). The proposed dividends for the current year require the Company's General Assembly approval.

26. BOARD OF DIRECTORS' REMUNERATION AND ALLOWANCES

The expenses and allowances attributable to attending the Board of Directors meetings and other subcommittee meetings for the year amounted to SR 625 thousand (2009: SR 587 thousand).

The Board of Directors' remuneration of SR 0.8 million is due from the profit of the year 2010 after distribution of dividends of 5% to the other shareholders. The remuneration is payable after obtaining the General Assembly's approval (2009: SR 0.8 million).

27. RELATED PARTY TRANSACTIONS

Saudi Electricity Company provides connections and electricity power to governmental agencies, ministries and Saudi Aramco. The tariff charged to related parties is the same tariff approved by the Council of Ministers and charged to other consumers, except for the tariffs charged to Saline Water Conversion Corporation (SWCC) which is in accordance with a Government resolution, and except for the residential properties of Saudi Aramco. The Company believes that residential properties of Aramco fall under the commercial tariff while Saudi Aramco has rejected this tariff and is settling the electricity sales for all such properties based on the industrial tariff which resulted in a difference of SR 148 million for the current year and a cumulative difference of approximately SR 1,745 million since the Company's inception up to December 31, 2010 which has not been reflected in these financial statements.

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The Council of Ministers in its Resolution No. 114 dated April 10, 1430H resolved to end the dispute on the basis to charge Aramco based on the residential and commercial tariff rather than the industrial tariff and requested the Electricity and Cogeneration Regulatory Authority to determine the residential and commercial properties owned by Aramco and the party responsible for the construction costs, maintenance and operations of voltage transformers and distribution networks. Accordingly, several meetings have been held between the Company, Aramco, and the Regulator (Electricity and Cogeneration Regulatory Authority) to resolve this issue.

In addition, the Company purchases fuel from Saudi Aramco and energy from Saline Water Conversion Corporation based on prices set by Government resolutions. Also, the Company accrues for fees paid to the municipalities based on electricity sales.

The significant transactions and the related approximate amounts are as follows:

	2010 SR'000	2009 SR'000
Sales:		
Government	6,927,911	5,789,364
Saudi Aramco	1,318,150	1,280,774
Saline Water Conversion Corporation	164,988	135,134
	<u>8,411,049</u>	<u>7,205,272</u>
Purchases and Other:		
Saudi Aramco	5,591,878	6,163,959
Saline Water Conversion Corporation	626,641	655,232
Municipalities fees	394,083	347,217
	<u>6,612,602</u>	<u>7,166,408</u>

28. CAPITAL COMMITMENTS

Capital commitments represent the value of non-performed portions of the SEC contractual agreements for the construction and installation of utility plants and other assets amounting to approximately SR 63,961 million (2009: SR 41,464 million). The scheduled time to complete the commitments is between one to three years.

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29. PRIOR YEARS' ADJUSTMENTS

During the fourth quarter of year 2010, Saudi Electricity company transferred certain transmission and distribution network assets in Jubail Industrial City previously owned by the Royal Commission of Jubail and Yanbu ("Commission") to the Company's ownership in a final settlement and in accordance with rules agreed with the Commission. Those assets net book value amounted to SR 744 million and resulted in recording of depreciation on assets put into service prior to April 5, 2000 (merger date) in the amount of SR 244 million under prepayments and other receivable balance (governmental), and adjustment of retained earnings' opening balance as of January 1, 2009 in the amount of SR 222 million representing prior period depreciation on assets used starting April 5, 2000 and up to December 31, 2008. Below is a schedule of balances of comparative figures that were adjusted:

	December 31, 2009	
	After Adjustment SR'000	Before Adjustment SR'000
Prepayments and other debit balances, net	2,200,281	1,956,108
Fixed assets, net	109,359,611	109,108,954
Long-term government payables	14,039,789	13,295,613
Statutory reserve	1,105,267	1,107,965
Retained earnings	5,619,222	5,865,869
Depreciation -- Operations and maintenance	7,202,000	7,175,022
Net income for the year	1,142,636	1,169,614

30. CONTINGENT LIABILITIES

- (a) The total disputed amount between the Company and Saudi Aramco for handling crude oil fees since the Company's formation on April 5, 2000 and up to December 31, 2010 amounted to approximately SR 2,472 million. The Company's management believes that there will be no liability on the Company based on the Royal Decree number M/8 dated Rajab 25, 1415H as this matter was not discussed by the Ministerial Committee that was formed by the Royal Decree referred to herein. Accordingly, the difference has not been recorded in the Company's books. In addition, Saudi Aramco is supplying the Company with light fuel rather than heavy fuel oil. This has resulted in a difference of SR 566 million not accounted for in the Company's books.
- (b) Saudi Aramco has also a claim for the settlement of its share in the annual dividends from the date of the Company's formation to December, 31, 2009, estimated at SR 1,753 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 Sha'ban 11, 1419H and the Ministerial Resolution No. 327 dated Ramadan 24, 1430H on extending the Government's waiver of its rights in the profits distributed by the Saudi Electricity Company for another ten years.

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- (c) The Company has a dispute with Saudi Aramco relating to certain oval meters' readings in Shadgum, Jomaih and Othmaniah Gas plants as Saudi Aramco has rejected certain amounts billed through the said meters. The issue is still under discussion.
- (d) The Company has issued a guarantee to one of the commercial banks against its share for financing a loan granted to one of its investee companies. The guarantee amounted to US\$ 112 million equivalent to SR 419 million as of December 31, 2010 (2009: US\$ 109 million equivalent to SR 409 million). In addition, the Company has provided a guarantee for the Directorate of Zakat and Income Tax amounting to SR 13 million (2009: SR Nil).
- (e) The Company has outstanding letters of credit amounting to SR 63 million as of the balance sheet date (2009: SR 200 million).

31. RISK MANAGEMENT

Financial instruments carried on the balance sheet principally include cash and cash equivalents, accounts receivable and other assets, bank loans, accounts payable, accrued liabilities and other non-current liabilities.

Credit risk is the risk that one party will fail to discharge its obligations and cause the other party to incur a financial loss. The Company has proper distribution of credit risk. Cash is substantially placed in financial institutions with sound credit ratings. Trade accounts receivable are carried net of provision for doubtful debts.

Commission rate risk is the exposure to various risks associated with the effect of fluctuations in the prevailing commission rates. The Company has no long-term assets associated with commission rates but has liabilities associated with commission rates as of December 31, 2010. The Company manages its floating-rate loans through utilizing commission rates hedging agreements, which have the economic effect to transfer the interest on loans from floating to fixed rate.

Liquidity risk is the risk that the Company will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to quickly sell a financial asset at its approximate fair value. The Company maintains adequate funding to meet such obligations when they become due.

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

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

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32. COMPARATIVE FIGURES

Certain figures for the comparative year have been reclassified to conform with the presentation in the current year.

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