

OFFERING CIRCULAR

SAUDI ELECTRICITY COMPANY (SEC)

(a joint stock company incorporated under
the laws of the Kingdom of Saudi Arabia)

Commercial Register Number 1010158683

is Offering

SUKUK EXPIRING 2030

The Sukuk expiring 2030 (the “Sukuk”) of Saudi Electricity Company (the “Issuer” or “SEC”) are being issued at par, without discount or premium. On the tenth (10th) of February, May, August and November, in each year, commencing on 10th August 2010G and up to and including 10th May 2030G or, if any such day is not a Business Day (as defined in the “Terms and Conditions” section of this Offering Circular (the “Conditions”)), the next following Business Day (each a “Periodic Distribution Date”), the Issuer is expected to pay an amount equal to the Periodic Distribution Amount (as defined in the Conditions) to the holders of the Sukuk (the “Sukukholders”), calculated on the basis of the Benchmark Rate plus the Margin, calculated as a percentage rate per annum plus a Margin (each as defined in the Conditions), of the aggregate Nominal Amount (as defined below) of the Sukuk as are current on the Transfer Record Date (as defined in the Conditions) immediately preceding the last day of the relevant Periodic Distribution Period (as defined in the Conditions).

Under a purchase undertaking to be entered into by the Issuer for the benefit of the Custodian and the Sukukholders’ Agent (each as defined herein) (for, and on behalf of, the Sukukholders) on or about the Closing Date (as defined herein) (the “Purchase Undertaking”), the Issuer will undertake to purchase the Sukuk from the Sukukholders at a specified predetermined Purchase Price (as defined in the Conditions) which decreases over time, on the Periodic Distribution Dates falling on the 10th of May of 2017, 2020 and 2025 (each a “Purchase Date”) (see Condition 11 (*Exercise Events*)).

Joint Lead Managers and Joint Bookrunners



Shari’ah Advisors



Shari’ah Executive Committee of Samba Financial Group

This Offering Circular includes information given in compliance with the Listing Rules issued by the Capital Market Authority of the Kingdom of Saudi Arabia (the “Authority”). The Directors, whose names appear in the “Management and Employees” section of this Offering Circular, collectively and individually accept full responsibility for the accuracy of the information contained in this Offering Circular relating to the Issuer and the Sukuk, and confirm having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts the omission of which would make any statement herein misleading. The Authority and the Saudi Arabian Stock Exchange (“Tadawul”) do not take any responsibility for the contents of this Offering Circular, do not make any representation as to its accuracy or completeness, and expressly disclaim any liability whatsoever for any loss arising from, or incurred in reliance upon, any part of this Offering Circular.

This Offering Circular is dated 29/ 4/ 1431 H (corresponding to 14/ 4/ 2010 G)

شركة الكهرباء للصكوك
Electricity Sukuk Company

The Sukuk will be the subject of a declaration of agency (the “**Declaration of Agency**”) to be dated on or about the Closing Date between the Issuer, Sukuk Electricity Company the “**Custodian**”) and SABB Securities (the “**Sukukholders’ Agent**”).

Pursuant to a sukuk assets transfer agreement (the “**Sukuk Assets Transfer Agreement**”) to be dated on or about the Closing Date, between the Issuer, the Custodian and the Sukukholders’ Agent, the Issuer will transfer to the Custodian the Applicable Percentage (as defined in the Conditions) of certain rights and entitlements under the Sukuk Assets for a period of twenty (20) years (see further information under “*The Sukuk Assets*” section of this Offering Circular). Pursuant to the Declaration of Agency and the Conditions, the Custodian will hold the Sukuk Assets for the benefit of the Sukukholders, *pro rata* according to the Nominal Value of Sukuk held by each Sukukholder.

Distributions of the Periodic Distribution Amounts and the Extra Amounts under the Sukuk will be made from net income from the Sukuk Assets, which is expected to be sufficient to cover the Periodic Distribution Amounts payable to the Sukukholders on each Periodic Distribution Date. Net income in excess of the Periodic Distribution Amounts will be held by SEC in its capacity as administrator of the Sukuk Assets (in such capacity, the “**Sukuk Administrator**”) on behalf of the Sukukholders as a reserve (the “**Reserve**”) and shall be payable in accordance with the Conditions. If the Sukuk Administrator uses and invests the Reserve for its own account, any return from such use or investment, and any losses arising therefrom are solely for the account of the Sukuk Administrator. The Sukuk Administrator may record the Reserve as a liability of the Sukuk Administrator. In the event that there are insufficient funds from the Sukuk Assets to meet the required Periodic Distribution Amounts payable to Sukukholders on the Periodic Distribution Dates which shortfall arises as a result of the default or negligence of the Sukuk Administrator in performing its obligations under the Sukuk Assets Administration Agreement and/or the Declaration of Agency (each as defined in the Conditions) or the Issuer as a result of its breach of any of its undertakings or representations under the Sukuk Documents (as defined in the Conditions), and in certain other circumstances described in Condition 11.2 (*Events of Default*), the Sukukholders may request the purchase of the Sukuk by the Issuer. The purchase of the Sukuk will be effected through a sale of the Sukuk to the Issuer pursuant to the Purchase Undertaking.

If, in relation to any Periodic Distribution Period or other period, the Actual Income (as defined in the Conditions) is less than the amount of the Specified Income (as defined in the Conditions) as a result of the tariff set out in the Council of Ministers’ Resolution no. 169 dated 11/8/1419H (corresponding to 30 November 1998) (as amended by CMR 170 (as defined in the Conditions)) (“**CMR 169**”), as in force at the Closing Date, being reduced or amended, or CMR 169 in any way having been amended, supplemented or revoked, then, the Issuer shall add to the Reserve an amount equal to the difference between the Actual Income and the Specified Income.

The Sukuk will be in registered form in nominal amount of SAR 10,000 (the “**Nominal Amount**”). The aggregate Nominal Amount, together with the anticipated net proceeds, of the Sukuk to be issued and the Margin will be determined by agreement between the Issuer and the Joint Lead Managers and Joint Bookrunners (as defined in the Conditions) and announced on a date expected to be around May 10, 2010 (see the “*Subscription and Sale*” section of this Offering Circular).

Investing in the Sukuk involves risks that are described in the “*Risk Factors*” section of this Offering Circular.

Application has been made to register the Sukuk on the Official List maintained by the Authority. Tadawul will be appointed as registrar (the “**Registrar**”, which expression includes any successor registrar) of the Sukuk and the Sukuk will be admitted to the clearing and settlement system of Tadawul, as described in “*Terms and Conditions of the Sukuk – Register, Title and Transfers*” and “*Subscription and Sale*” sections of this Offering Circular, respectively.

The Sukuk will be registered at all times by interests in a registered form global suk, without coupons attached (the “**Global Suk**”), which will be deposited with the Sukukholders’ Agent. The Sukuk may

only be held in book-entry dematerialized form and definitive certificates will not be issued to Sukukholders in relation to their holdings of Sukuk.

The investor presentation period for the Sukuk commences on 10/5/1431H (corresponding to 24/4/2010) and will end 10 business days after such date, as further described in “*Subscription and Sale*” section of this Offering Circular, (the “**Investor Presentation Period**”) and the Sukuk will be issued on a date (the “**Closing Date**”) falling no later than 12 business days after the end of the Investor Presentation Period.

IMPORTANT NOTICE

This Offering Circular provides details of information relating to the Issuer and the Sukuk being offered. In applying for the Sukuk, investors will be treated as applying on the basis of the information contained in the Offering Circular, copies of which are available for collection from the Issuer and the Joint Lead Managers and Joint Bookrunners (as defined herein) or by visiting their respective websites (www.se.com.sa, www.hsbcSaudi.com and www.sambacapital.com and the CMA www.cma.org.sa).

HSBC Saudi Arabia Limited and Samba Capital & Investment Management Company have been appointed by the Issuer to act as the joint lead managers and joint bookrunners (the “**Joint Lead Managers and Joint Bookrunners**”) in relation to the Sukuk described herein.

This Offering Circular includes information given in compliance with the Listing Rules issued on 4th October 2004G. by the Board of the Authority, as amended (the “**Listing Rules**”). The Directors, whose names appear in the “*Management and Employees*” section of this Offering Circular, collectively and individually accept full responsibility for the accuracy of the information contained in this Offering Circular relating to the Issuer and the Sukuk, and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts the omission of which would make any statement herein misleading. The Authority and the Tadawul do not take any responsibility for the contents of this Offering Circular, do not make any representation as to its accuracy or completeness, and expressly disclaim any liability whatsoever for any loss arising from, or incurred in reliance upon, any part of this Offering Circular.

While the Issuer has made all reasonable enquiries as to the accuracy of the information contained in this Offering Circular as at the date hereof, substantial portions of the market and industry information herein are derived from external sources, and while neither the Issuer, the Joint Lead Managers and Joint Bookrunners, the Joint Lead Managers and Joint Bookrunners’ advisers nor the Issuer’s advisers have any reason to believe that any of the market and industry information is materially inaccurate, such information has not been independently verified and no representation is made with respect to the accuracy or completeness of any of this information.

The information contained in this Offering Circular as at the date hereof is subject to change. In particular, the actual financial state of the Issuer and the value of the Sukuk may be adversely affected by future developments in inflation, financing charges, taxation, calculation of zakat or other economic, political and other factors, over which the Issuer has no control. Neither the delivery of this Offering Circular nor any oral, written or printed interaction in relation to the Sukuk is intended to be, or should be construed as or relied upon in any way as, a promise or representation as to future earnings, results or events.

The Offering Circular is not to be regarded as a recommendation on the part of the Issuer, the Joint Lead Managers and Joint Bookrunners or any of their advisers to purchase the Sukuk. Moreover, information provided in this Offering Circular is of a general nature and has been prepared without taking into account individual investment objectives, financial situation or particular investment needs. Prior to making an investment decision, each recipient of this Offering Circular is responsible for obtaining independent professional advice in relation to the Offering and for considering the appropriateness of the information herein, with regard to individual objectives, financial situations and needs.

References herein to “**this Offering Circular**” shall be deemed to include this document dated April 14, 2010 together with any supplements and amendments hereto. This Offering Circular contains a summary of the key provisions of each of the drafts as of the date of this Offering Circular of the Purchase Undertaking, the Sukuk Assets Transfer Agreement, the Declaration of Agency, the Sukuk Assets Administration Agreement (as defined in the Conditions) and the Payments Administration Agreement (as defined in the Conditions).

The offering, sale and delivery of the Sukuk is limited solely to natural persons who are nationals of the Kingdom of Saudi Arabia (the “**Kingdom**”) or other legal persons with a permanent establishment in the Kingdom of Saudi Arabia holding a current commercial registration number issued by the Ministry of Commerce and Industry, and which, in either case, maintains a bank account in the Kingdom of Saudi Arabia. The distribution of this Offering Circular and the offering, sale and delivery of the Sukuk in any jurisdictions other than the Kingdom of Saudi Arabia may be restricted by law. Any person who comes into possession of this Offering Circular is required by the Issuer and the Joint Lead Managers and Joint Bookrunners to inform themselves about and to observe any such restrictions. For a description of certain restrictions on offers, sales and deliveries of the Sukuk and on distribution of this Offering Circular and other offering material relating to the Sukuk, see the “*Subscription and Sale*” section of this Offering Circular.

Financial Information

The audited financial statements as at and for the years ended 31 December 2007, 31 December 2008 and 31 December 2009 and the notes thereto, each of which are set out elsewhere in this Offering Circular, have been prepared in conformity with the Saudi Organization for Certified Public Accountants (“SOCPA”) Generally Accepted Accounting Principles.

The Issuer publishes its financial statements in Saudi Arabian Riyals.

In this Offering Circular, unless otherwise specified, references to “SAR”, “Saudi Riyal” and “Riyal” are to the currency of the Kingdom of Saudi Arabia and references to “halalah” are to the sub-unit of the Riyal.

Certain figures included in this Offering Circular have been subject to rounding adjustments; accordingly, figures shown for the same category presented in different tables may vary slightly and figures shown as totals in certain tables may not be an arithmetic aggregation of the figures which precede them.

Forecasts and Forward Looking Statements

Forecasts set forth in this Offering Circular have been prepared on the basis of certain stated assumptions. Future operating conditions may differ from the assumptions used and consequently no representation or warranty is made with respect to the accuracy or completeness of any of these forecasts.

Certain statements in this Offering Circular constitute “forward-looking-statements”. Such statements can generally be identified by their use of forward-looking words such as “plans”, “estimates”, “projects”, “believes”, “expects”, “anticipates”, “may”, “will”, “should”, “expected”, “would be” or the negative or other variation of such terms or comparable terminology. These forward-looking statements reflect the current views of the Issuer with respect to future events, and are not a guarantee of future performance. Many factors could cause the actual results, performance or achievements of the Issuer to be significantly different from any future results, performance or achievements that may be expressed or implied by such forward-looking statements. Some of the risks and factors that could have such an effect are described in more detail in other sections of this Offering Circular (see the “Risk Factors” section of this Offering Circular). Should any one or more of the risks or uncertainties materialize or any underlying assumptions prove to be inaccurate or incorrect, actual results may vary materially from those described in this Offering Circular as anticipated, believed, estimated, planned or expected.

Subject to the requirements of the Listing Rules, the Issuer does not intend to update or otherwise revise any industry or market information or forward-looking statements in this Offering Circular, whether as a result of new information, future events or otherwise. As a result of these and other risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this Offering Circular might not occur in the way the Issuer expects, or at all. Prospective purchasers should consider all forward-looking statements in light of these explanations and should not place undue reliance on forward-looking statements.

Supplementary Offering Circular

The Issuer shall prepare a supplement to this Offering Circular in accordance with the requirements of the Authority if, at any time after the date of this Offering Circular but before the Sukuk are admitted to listing on the Official List maintained by the Authority, the Issuer becomes aware that:

- (i) there has been a significant change in material matters contained in this Offering Circular or any other document required by the Listing Rules of the Authority; or
- (ii) additional significant matters have become known which would have been required to be included in this Offering Circular.

PARTIES AND ADVISERS

ISSUER

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AUTHORISED REPRESENTATIVE OF THE ISSUER

Engineer Ali Bin Saleh Al-Barrak (Chief Executive Officer)

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PAYMENTS ADMINISTRATOR

Samba Financial Group

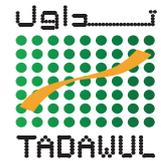
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JOINT LEAD MANAGERS AND JOINT BOOKRUNNERS

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samba سامبا

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Kingdom of Saudi Arabia

The Deloitte logo consists of the word "Deloitte" in a bold, blue, sans-serif font, followed by a small green dot.

All the above-mentioned advisors have consented in writing to the use of their names and logos and to publishing their statements (wherever quoted) in this Offering Circular. Such consents were not withdrawn as at the date hereof.

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SUMMARY OF THE OFFERING

A Summary of the Offering which summarises certain information appearing elsewhere in this Offering Circular is set out below.

Reference is made to, and such Summary is qualified in its entirety by, the more detailed information contained elsewhere in this Offering Circular. Capitalised terms used but not defined in the Summary have the meanings given to them in the “*Terms and Conditions of the Sukuk*” section of this Offering Circular.

Issuer and Sukuk Administrator	Saudi Electricity Company (“ SEC ”).
Joint Lead Managers and Joint Bookrunners	HSBC Saudi Arabia Limited and Samba Capital & Investment Management Company.
Sukukholders’ Agent	SABB Securities.
Payments Administrator	Samba Financial Group.
Custodian	Sukuk Electricity Company, a wholly owned subsidiary of the Issuer being a limited liability company with commercial registration number 1010233775 dated 16/5/1428H with a share capital of SAR 500,000.
Registrar	The Saudi Stock Exchange (“ Tadawul ”).
Official List	Application has been made for the Sukuk to be admitted to listing on the Official List maintained by the Authority.
Sukuk	Sukuk due May 10, 2030G.
Issue Price	100 per cent of the aggregate Nominal Value (as defined in the Conditions) of the Sukuk.
Form of the Sukuk	Sukuk will be issued in dematerialised registered form only and will be represented at all times by interests in a registered form Global Suk (as more particularly described in Condition 2 (<i>Form and Denomination</i>)) without coupons attached, which, to the extent not otherwise required by the Registrar, will be deposited with the Sukukholders’ Agent.
Currency	Sukuk will be denominated in Saudi Riyals.
Status of the Sukuk	The Sukuk constitute undivided beneficial ownership interests in the Sukuk Assets and will rank <i>pari passu</i> without any preference or priority among themselves. The Sukuk will be issued on an unsecured and unsubordinated basis.
Term	The Sukuk will expire on May 10, 2030G. However, Sukukholders will be entitled to sell the Sukuk to the Issuer at the Purchase Price at the end of the seventh (7th), tenth (10th) and fifteenth (15th) year in the circumstances described in Condition 11.1 (<i>Purchase Date</i>).

Obligatory purchase of the Sukuk by SEC	Sukukholders may only oblige the Issuer to purchase the Sukuk at the applicable Purchase Price prior to the Expiry Date (as defined in Condition 1 (<i>Definitions</i>)) on each Purchase Date (as described in Condition 11.1 (<i>Purchase Date</i>)) or otherwise in the limited circumstances set out in Condition 11.2 (<i>Events of Default</i>).
Purchase Price	An amount payable upon an obligatory purchase of the Sukuk by the Issuer. The Purchase Price applicable to the Sukuk (expressed as a percentage of the Nominal Amount of the Sukuk) will be 90 per cent. at the first Purchase Date, 60 per cent. at the second Purchase Date and 30 per cent. at the third Purchase Date, as described in Condition 1 (<i>Definitions</i>). No Purchase Price is payable to the Sukukholders on the expiry of the Sukuk at the end of 20 years.
Periodic Distribution Amount	The Benchmark Rate plus the Margin, calculated as a percentage rate per annum, (see further under the “ <i>Subscription and Sale</i> ” section of this Offering Circular) payable quarterly in arrears from Net Income under the Sukuk Assets.
Net Income	The gross income attributable to the Sukuk Assets less the Administrator’s Allowable Costs, the Administration Fee and the Agency Fee as further described in Condition 5 (<i>Sukuk Assets</i>).
Extra Amount	An amount payable (up to 10 per cent. of the Nominal Amount of the Sukuk) out of the Reserve on each Purchase Date and the Expiry Date as further described in Condition 5(c) (<i>Application of Proceeds – Reserve</i>).
Denominations	Sukuk will be issued in denominations of SAR 10,000.
Negative Pledge	The Sukuk will have the benefit of a negative pledge as described in Condition 6 (<i>Negative Pledge</i>) under which the Issuer and its Subsidiaries will agree not to create or permit to subsist any security interests (other than certain permitted security interests) upon its undertaking, assets or revenues to secure indebtedness in the form of a security (within the meaning of the Capital Market Law) or a guarantee of such indebtedness.
Cross Default	The Sukuk will have the benefit of a cross default as described in Condition 11.2 (<i>Events of Default</i>).

Taxation	All payments in respect of the Sukuk will be made free and clear of withholding taxes of the Government of the Kingdom of Saudi Arabia unless such withholding is required by law. In that event, the Issuer shall pay such additional amounts as will result in receipt by the Sukukholders of such amounts as would have been received had no such withholding or deduction been required but only to the extent that such amounts are otherwise available for distribution to the Sukukholders from the Net Income and the Reserve.
Selling Restrictions	<p>The offering, sale and delivery of the Sukuk is limited to persons who are Qualified Persons (as defined in Condition 1 (<i>Definitions</i>)). In addition, the primary distribution of the Sukuk will be only to Institutional Investors (as defined in the “<i>Subscription and Sale</i>” section of this Offering Circular), although Qualified Persons who are not Institutional Investors may be able to purchase Sukuk from Institutional Investors subsequently.</p> <p>For a more detailed description of these and other restrictions on offers, sales and deliveries of Sukuk and on the distribution of offering material relating to the Sukuk, see the “<i>Subscription and Sale</i>” section of this Offering Circular.</p>
Risk Factors	A purchase of Sukuk should be made only after careful consideration of a potential Sukukholder’s investment circumstances. See the “ <i>Risk Factors</i> ” section of this Offering Circular.

SHARI'AH ADVISORY COMMITTEE AND PRONOUNCEMENT

Prospective Sukukholders should not rely on the pronouncement referred to below in deciding whether to make an investment in the Sukuk and should consult their own Shari'ah advisers as to whether the proposed transaction described in the pronouncement referred to above is in compliance with Shari'ah principles.

Pronouncement of HSBC Amanah Shari'ah Committee

Copies of the pronouncement issued by HSBC Amanah Shari'ah Committee relating to the Sukuk and confirming that, in their view, the proposed issue of the Sukuk and the related structure and mechanism described in the Sukuk Documents are in compliance with *Shari'ah* principles, shall be distributed to prospective Sukukholders upon request by HSBC Saudi Arabia Limited.

Overview of HSBC Amanah Shari'ah Committee

HSBC Amanah Shari'ah Committee is an independent committee appointed by its board of directors. It meets regularly for review and appraisal to ensure full compliance with *Shari'ah* of transactions conducted by HSBC Saudi Arabia Limited, its affiliated institutions or its clients.

Members of HSBC Amanah Shari'ah Committee

Sheikh Dr. Mohamed Ali Elgari

Dr. Elgari holds a Ph.D. in economics from the University of California. He is a professor of Islamic Economics at King Abdul Aziz University. He is an expert at the International Fiqh Academy of the Organization of Islamic Conference and the Islamic World League. Dr. Elgari is member of Shariah Boards of many Islamic Banks and Takaful Companies including those of HSBC, SABB, Dow Jones, International Islamic Fund Market, Citi Islamic Investment bank and Merrill Lynch.

Sheikh Nizam Yaquby

Mr. Yaquby is a graduate in Economics and Comparative Religion from McGill University and is an internationally acclaimed scholar in the Islamic banking industry. He has been a teacher of Tafsir since 1976. He advises a number of banks and financial institutions including HSBC, Abu Dhabi Islamic Bank, BNP Paribas, Dow Jones, Lloyds TSB, Citi Islamic Investment Bank E.C. Bahrain and Standard Chartered on matters pertaining to Islamic banking and finance.

Pronouncement of the Shari'ah Executive Committee of Samba Financial Group

Copies of the detailed pronouncement issued by the Shari'ah Executive Committee of Samba Financial Group relating to the Sukuk and confirming that, in their view, the proposed issue of the Sukuk and the related structure and mechanism described in the Sukuk Documents are in compliance with *Shari'ah* principles, shall be distributed to prospective Sukukholders upon request by Samba Capital & Investment Management Company.

Overview of the Shari'ah Executive Committee of Samba Financial Group

The Shari'ah Executive Committee of Samba Financial Group is an independent committee appointed by its board of directors. It meets regularly for review and appraisal to ensure full compliance with *Shari'ah* of transactions conducted by Samba Financial Group, its affiliated institutions or its clients.

Members of the Shari'ah Executive Committee of Samba Financial Group

Sheikh Dr. Mohamed Ali Elgari

For the profile of Dr. Elgari, please see the previous section.

Sheikh Dr. Abdul Sattar Abu Ghuddah

Sheikh Dr. Abu Ghuddah holds several degrees in Islamic Law from different universities including Damascus University and Al Azhar University in Cairo where he obtained his PhD in Islamic Law. He is an active member of the Islamic Fiqh Academy in Jeddah and the accounting and auditing organizations of a number of Islamic financial institutions. Dr. Ghuddah teaches Fiqh, Islamic studies and Arabic in Riyadh, holds the positions of Shariah Advisor and Director of the Department of Financial Instruments at Al-Baraka Investment Co. of Saudi Arabia and is a member of the Shari'ah boards of many Islamic banks and financial institutions.

RISK FACTORS

Prior to making an investment decision, prospective purchasers of the Sukuk should consider carefully, in light of the circumstances and their investment objectives, all of the information contained in this Offering Circular, including (without limitation) the Risk Factors described below. The following Risk Factors are not exhaustive and other considerations or factors, including some which may not be presently known to SEC, or which SEC presently deems to be immaterial, may impact on any investment in the Sukuk. Accordingly, prospective purchasers should make their own independent assessment of the risk related to any purchase of the Sukuk and of the economic and regulatory environment in which SEC operates.

(A) Factors Relating to SEC's Business

1. *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 leading to a loss of revenue and profit, facilities operating inefficiently or below their designated capacity, unexpectedly high operating and maintenance costs and unforeseen liabilities to third-parties. Prospective Sukukholders should note that there have been no material unplanned outages at any of SEC's power plants in the past three years. Although many of these risks may be mitigated to some extent through contractual and insurance-based protections, there can be no assurance that this will always be the case or that the required levels of insurance cover will always be available or, even if available, taken out by SEC.

Prospective Sukukholders should note that SEC does not carry any business interruption and sabotage and terrorist insurance cover at present (see further under the "Description of the Issuer – Insurance" section of this Offering Circular).

2. *SEC's projects under construction may not commence operation as scheduled, within budget or may not meet project specifications*

The period leading to the commencement of operation of newly constructed power generation plants involves a number of risks, including (without limitation):

- (a) engineering, procurement and construction cost overruns and delays;
- (b) breakdown or failure of equipment, processes or technology;
- (c) environmental issues and costs;
- (d) start-up and commissioning problems; and
- (e) problems relating to the connection of the new facilities to national power networks.

SEC has experienced delays in the commissioning of new projects due to the unavailability of materials. These risks may significantly delay or prevent the commencement of operation of such projects, which in turn, may have an adverse effect on SEC's operations and financial condition.

3. *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 mainly because of issues related 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. Prospective Sukukholders should note that SEC typically only accepts delivery of a new power plant from the contractor if the plant achieves

the levels of output and efficiency that are agreed by SEC and the contractor in the relevant contract. If a new power plant fails to perform to the required levels of output or efficiency, then SEC may not accept delivery of such a plant from the contractor and the contractor will usually be obliged to pay penalties to SEC for the failure by the plant to achieve the required levels of performance.

4. *SEC has a single supplier of fuel*

The Saudi Arabian Oil Company (“**Saudi Aramco**”) supplies all of the fuel needed by SEC for its power generation business. Prospective Sukukholders should note that to date Saudi Aramco has been able to meet all of SEC’s fuel requirements since its incorporation in a timely fashion. 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 charged by Saudi Aramco for the fuel supplied to SEC which are not matched by a corresponding increase in the tariff that SEC may charge for electricity supplies would be likely to have a material adverse effect on SEC’s financial condition and business.

5. *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 sources to meet demand. 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 demand charges and SAR 20 per MWh for energy, such that the average combined price payable for demand charges and energy is 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 charged by SWCC for electricity which are not matched by a corresponding increase in the tariff that SEC may charge for electricity supplies could have a material adverse effect on SEC’s financial condition and business.

(See further under the “*Description of the Issuer – Installed generation capacity*” section of this Offering Circular).

6. *SEC’s facilities could be exposed to catastrophic events, including natural disasters over which SEC has no control*

SEC’s facilities may be exposed to the effects of natural disasters and other potentially catastrophic events, such as major accidents. Although constructed, operated and maintained to withstand certain of such occurrences, SEC’s facilities may not be adequately protected in all circumstances. There can be no assurance that any such events will not occur, or will not materially and adversely affect the operation of a particular power plant, transmission cable on distribution line and thereby have a material adverse effect on SEC’s current or future business, operations and financial condition.

The Western and Southern operating regions (see further under the “*Description of the Issuer*” section of this Offering Circular for a description of SEC’s operating regions) have been prone to seismic activity in the past. However, no power plants, transmission cables or distribution lines owned by SEC have been affected as a result of any seismic activity to date.

7. *Violation of the environmental and safety standards and regulations that apply to SEC could have a material adverse effect on its business, operations and financial condition*

SEC is subject to environmental and safety regulations in force in the Kingdom of Saudi Arabia. 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 the applicable environmental and safety regulations. In addition, governmental authorities in the Kingdom of Saudi Arabia 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.

8. *Restructuring of the electricity sector and tariff structure in the Kingdom of Saudi Arabia*

The Government of the Kingdom of Saudi Arabia (the “**Government**”) is in the process of restructuring the electricity sector in the Kingdom of Saudi Arabia 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 encourage investment from the private sector and promote greater competition in the electricity sector.

As part of the Government plans to create competition and encourage privatisation of the utilities sector, the Electricity and Co-generation Regulatory Authority (“**ECRA**”) has recently announced that it is planning to carve out four power generation companies from SEC. The board of directors of SEC has already approved the unbundling of the company into the aforementioned four power generation companies and the Government is also planning to carve out one or more separate companies for power transmission and distribution. SEC is in the process of establishing an electricity transmission company, which will be a limited liability entity and will be a wholly-owned subsidiary of SEC. Following the unbundling of SEC it is anticipated that SEC will be the holding company of each of the power generation, transmission and distribution entities.

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 26 halala/KWh. ECRA has not changed the current tariff structure since it was granted this power.

The Government plans for restructuring the electricity sector, the related regulatory regime and the electricity tariffs could have a material effect on SEC’s corporate structure, business, operations and financial condition once they are implemented.

The Government’s plans to unbundle and privatise the power generation, distribution and transmission business of SEC and introduce competition in the power distribution business could reduce the number of SEC’s customers which could in turn have a material adverse affect on the level of Net Income receivable in respect of the Sukuk Assets. However, SEC has agreed in the Sukuk Assets Transfer Agreement that if the Net Income received in relation to the Sukuk Assets is less than the amount of Net Income which would otherwise have been received as a result of the Government introducing competition in the power distribution business, it will top up the Reserve with an amount equal to the shortfall between the two amounts.

In addition, if the Government splits SEC’s power generation, transmission or distribution businesses and transfers them to one or more separate companies, then this will constitute an Event of Default for the purposes of the Conditions unless the new companies unconditionally

and irrevocably assume all of SEC's obligations under the Sukuk Assets Transfer Agreement and the Purchase Undertaking as primary obligors.

(See further under the "*Description of the Issuer*" section of this Offering Circular for a description of the Government's plans to restructure the electricity sector and its policy objectives.)

9. *Reliance upon skilled personnel*

In common with other businesses functioning in a competitive environment, SEC's business and operations are dependent upon its ability to recruit and retain skilled personnel. Historically, SEC has a good track record of recruiting and retaining the skilled personnel necessary for its business and operations. The continuity of recruiting and retaining skilled personnel is critical to SEC's business operations.

10. *SEC's business requires substantial capital expenditure*

In order to meet growing demand for electricity in the Kingdom of Saudi Arabia, SEC will need to undertake substantial capital expenditure over the next three years to expand and upgrade its generation, transmission and distribution businesses (see further under the "*Description of the Issuer*" section of this Offering Circular for a summary of SEC's planned capital expenditure for the next three years). Historically, SEC has relied mainly upon capital contributions from the Government to fund most 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 of Saudi Arabia, general availability of credit and the condition of the international and regional financial markets. Although to date SEC has been able to obtain the necessary financing required by it from domestic and regional financial institutions and from the domestic capital markets, there can be no assurance that this will continue to be the case in the future.

(B) ***Factors Relating to the Sukuk***

1. *Governing law, jurisdiction and enforceability*

The Sukuk are governed by, and are to be construed in accordance with, the laws of the Kingdom of Saudi Arabia. As per Condition 18 (*Governing Law and Jurisdiction*), Saudi Arabia's Committee for the Resolution of Securities Disputes and the Appeal Panel shall have exclusive jurisdiction to hear and determine any suit, action or proceedings, and to settle any disputes, which may arise out of or in connection with the Sukuk. Prospective Sukukholders should note that to the best of SEC's knowledge, no securities of a similar nature to the Sukuk have previously been the subject of adjudicatory interpretation or enforcement in the Kingdom of Saudi Arabia. Accordingly, it is uncertain exactly how and to what extent the Sukuk, the Conditions and/or the Sukuk Documents (as defined below) would be enforced by a Saudi Arabian court or the Committee for the Resolution of Securities Disputes, the Appeal Panel or any other Saudi Arabian adjudicatory authority.

The Saudi Government recently approved a restructuring of the judicial system, including the establishment of a Supreme Court as well as commercial, personal status and labour tribunals. The new Judiciary Law and Grievances Board Law were enacted by Royal Decree No. M/78 dated 19/9/1429H (corresponding to 1 October 2008G) but have not yet been fully brought into force. Under the new judiciary law, the Supreme Court will take over all the functions other than certain administrative responsibilities of the Supreme Judiciary Council, which currently serves as the Kingdom's highest tribunal. The Grievances Board's current

jurisdiction over commercial disputes will also pass to a new Commercial Court as part of this restructuring. It is not clear at this stage what impact on the Sukuk or any claim under the Sukuk this restructuring may have.

2. *Shari'ah*

Prospective Sukukholders should note that different *Shari'ah* advisers, and Saudi courts and judicial committees, may form different opinions on identical issues and therefore prospective Sukukholders may wish to consult their own legal and *Shari'ah* advisers to receive an opinion if they so desire. Prospective Sukukholders should also note that although HSBC Amanah Shari'ah Committee and the Shari'ah Executive Committee of Samba Financial Group have issued pronouncements confirming that the Sukuk are in compliance with *Shari'ah* principles, such pronouncements would not bind a Saudi Arabian court or judicial committee, including in the context of any insolvency or bankruptcy proceedings relating to the Issuer, and any Saudi Arabian court or judicial committee will have the discretion to make its own determination about whether the Sukuk, the Sukuk Documents and the related structure (or any part thereof) complies with Saudi law and *Shari'ah* principles and therefore is enforceable. Accordingly, no person (including, without limitation, the Issuer) makes any representation that the Sukuk, the Conditions and any other Sukuk Documents comply with *Shari'ah* principles and in particular no representation is made regarding the *Shari'ah* pronouncements issued by HSBC Amanah Shari'ah Committee and the Shari'ah Executive Committee of Samba Financial Group regarding the Sukuk, which pronouncements are subject to change and disagreement from other *Shari'ah* scholars. Accordingly, there is no assurance that the Sukuk will be considered to be *Shari'ah* compliant by any person other than the members of HSBC Amanah Shari'ah Committee and the members of the Shari'ah Executive Committee of Samba Financial Group.

3. *Trading, settlement and listings*

The Sukuk will be admitted to the trading, clearing and settlement system of the Registrar. However, there can be no assurance that there will be no interruption to, or errors in, trading, clearing or settlement of the Sukuk as a result of the inexperience or lack of familiarity of the operations in regard to trading, clearing and settlement systems or of inherent inadequacies of any such trading, clearing or settlement system.

The Saudi British Bank and Samba Financial Group are under no obligation to provide pricing on or make a market in the Sukuk. Any sale of the Sukuk by Sukukholders in any secondary market that may develop may be at a lower price than the original purchase price of such Sukuk.

4. *Payments under the Sukuk – Periodic Distribution Amount and Extra Amount*

Prospective Sukukholders should note that if they do not receive payment of the Periodic Distribution Amount or the Extra Amount (as the case may be) on the relevant payment date in full (after taking into account any grace period), subject to SEC, the Custodian, the Sukukholders' Agent and the Payments Administrator having fulfilled all of their respective obligations under the relevant Sukuk Documents to which they are a party, prospective Sukukholders will not have any recourse to SEC unless such shortfall directly results from the default or negligence of SEC in the performance of its obligations under the Sukuk Documents.

(For further information on SEC's obligations under the Sukuk, see the Conditions and also the section in the Offering Circular entitled "*Summary of the Sukuk Documents*").

5. *Payments under the Sukuk – Payment upon the expiry of the Sukuk*

Prospective Sukukholders should note that the amount of the Purchase Price to be paid by SEC upon purchase of the Sukuk (following a Purchase Date or upon any Event of Default)

shall be calculated on the aggregate Nominal Amount of the Sukuk as are current as of such date multiplied by a percentage value which will decrease over the term of the Sukuk. Prospective Sukukholders should be aware that they will be entitled to receive a payment of the Purchase Price equal to 90 per cent. of the Nominal Amount of their Sukuk, if they exercise their rights to have their Sukuk purchased on the first Purchase Date falling in May 2017G. The Purchase Price payable to Sukukholders declines to 60 per cent. on the Purchase Date falling in May 2020G and 30 per cent. on the Purchase Date falling in May 2025G. If the Sukuk is not purchased by SEC prior to the Expiry Date, the value of the Sukuk on the Expiry Date will be zero and the Sukuk will be cancelled.

Sukukholders will also receive (to the extent that there is available Net Income and Reserve on such dates) an Extra Amount of up to 10 per cent. of the Nominal Amount of their Sukuk payable on each Purchase Date to the extent their Sukuk are current on such dates. Accordingly, assuming that there is available sufficient Net Income and Reserve and that the Extra Amount is paid on a Purchase Date and that SEC pays all amounts due to Sukukholders, Sukukholders would have received, in aggregate, 100 per cent. of the face value of the Sukuk if they exercised their rights to have their Sukuk purchased on the first Purchase Date falling in May 2017. The amount Sukukholders would receive would fall to 70 per cent. of the value of the Sukuk if they exercised their rights to have their Sukuk purchased on the Purchase Date falling in May 2020 and 40 per cent. on the Purchase Date falling in May 2025.

6. *Suitability of Investments*

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

- have sufficient knowledge and experience to make a meaningful evaluation of the Sukuk, the merits and risks of investing in the Sukuk and the information contained in this Offering Circular;
- have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Sukuk and the impact the Sukuk will have on its overall investment portfolio;
- have sufficient financial resources and liquidity to bear all of the risks of an investment in the Sukuk, including where the currency of payment is different from the potential investor's currency;
- understand thoroughly the terms of the Sukuk and be familiar with the behaviour of any relevant indices and financial markets; and
- be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic and other factors that may affect its investment and its ability to bear the applicable risks.

(C) **Factors Relating to the Sukuk Assets**

1. *Insufficient Net Income from Connection Charges*

The level of Net Income in respect of the Sukuk Assets will be dependent upon the payment of the Connection Charges (as defined below) accruing to SEC from its customers. The Connection Charges accruing to SEC will be used to make payments under the Sukuk and the Sukukholders will therefore be exposed to the risks that:

- there are insufficient new or existing customers requesting the installation or replacement of meter breakers and as a result the Connection Charges accruing to

SEC (and, therefore, the Net Income in respect of the Sukuk Assets) are insufficient to pay the Periodic Distribution Amounts falling due for payment; and

- SEC's Customers do not pay in full the Connection Charges payable by them and as result the amount of Net Income received in respect of the Sukuk Assets is insufficient to pay the Periodic Distribution Amounts falling due for payment. However, prospective Sukukholders should note that SEC currently operates a policy whereby an electrical service connection is only made after the relevant customer has paid the relevant Connection Charge in full.

(For further information on Connection Charges, see the section in the Offering Circular entitled "*The Sukuk Assets*").

2. *Tariffs for providing Electrical Service Connections*

The tariffs charged by SEC to its customers for providing electrical service connections are determined by the Council of Ministers and such tariffs are based on recommendations provided by the electricity regulator, ECRA.

As mentioned under "Restructuring of the electricity sector and tariff structure in the Kingdom of Saudi Arabia" above, the current electricity tariff structure is under review by the Government and the Supreme Economic Council is reviewing a study on the current electricity tariff structure and proposed amendments to the tariff structure prepared by a working group formed by ECRA. Therefore, no assurance can be given that the current tariffs for providing electrical service connections will not be reduced. If such tariffs were to be reduced this could have an adverse impact on the income receivable under the Sukuk Assets. However, SEC has agreed that if the Net Income received in relation to the Sukuk Assets is less than the amount of Net Income which would otherwise have been received as a result of the applicable tariffs that are in force on the Closing Date being reduced or amended, it will top up the Reserve with an amount equal to the shortfall between the two amounts.

(For further information, see the section entitled the "*Regulation*" – "*Tariffs*" in the "*Description of the Issuer*" and the section headed "*Sukuk Assets Transfer Agreement*" in "*Summary of the Sukuk Documents*" in this Offering Circular.)

TERMS AND CONDITIONS OF THE SUKUK

The following is the text of the Terms and Conditions of the Sukuk which (subject to completion and amendment) will be attached and (subject to the provisions thereof) apply to the Global Suk:

Introduction

Each of the Sukuk expiring May 2030G (the “**Sukuk**”) represents an undivided beneficial ownership in the Sukuk Assets (as defined herein) and will at all times rank *pari passu* amongst themselves. The Sukuk Assets will be held by Sukuk Electricity Company (the “**Custodian**”, which expression includes any successor custodian in relation to the Sukuk Assets) for the benefit of the registered holders of the Sukuk (the “**Sukukholders**”). The obligations of the Issuer in respect of the Sukuk are not secured.

Pursuant to a declaration of agency (the “**Declaration of Agency**”) to be entered into on or about the Closing Date (as defined herein) by the Issuer (as defined herein), the Custodian and SABB Securities as sukukholders’ agent (the “**Sukukholders’ Agent**”, which expression includes any successor Sukukholders’ Agent in relation to the Sukuk), the Sukukholders’ Agent will be appointed to act as agent, and the Custodian will be appointed to act as custodian of the Sukuk Assets, for and on behalf of the Sukukholders. Each Sukukholder by subscribing to, acquiring and holding Sukuk agrees to the terms of the Declaration of Agency including, but not limited to, the appointment of the Sukukholders’ Agent and the appointment of the Custodian. The appointment of the Sukukholders’ Agent or the Custodian may be revoked or terminated (or the Sukukholders’ Agent may resign its appointment) in accordance with the provisions of the Declaration of Agency.

In these Conditions, references to “**Sukuk**” shall be references to the Sukuk as represented by a Global Suk as described in Condition 2 (*Form and Denomination*).

Payments relating to the Sukuk will be made pursuant to a payments administration agreement to be entered into on or about the Closing Date (the “**Payments Administration Agreement**”) between, amongst others, the Issuer and Samba Financial Group in its capacity as payments administrator (the “**Payments Administrator**”, which expression includes any successor or other payments administrator appointed in respect of the Sukuk).

Each initial Sukukholder, by acquiring and holding Sukuk, shall be deemed to authorise, ratify and approve the entry by the Sukukholders’ Agent and the Custodian into the Sukuk Documents (as defined herein) to which it is a party and to the terms of each of the Sukuk Documents.

Certain provisions of these Conditions are summaries of the Sukuk Documents and are subject to their detailed provisions. The Sukukholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Sukuk Documents applicable to them. For so long as any Sukuk are current, copies of the Sukuk Documents are available for inspection from the Closing Date by Sukukholders during normal business hours at the specified offices of each of the Issuer, the Custodian and the Sukukholders’ Agent, the specified offices of which are set out in the section entitled “*Parties and Advisers*” in this Offering Circular.

1. Definitions

1.1 In these Conditions, words and expressions have the following meanings:

“**Administration Fee**” means the administration fee of 1 per cent. per annum of the Administrator’s Allowable Costs during such period payable to the Issuer semi-annually pursuant to, and as more particularly described in, the Sukuk Assets Administration Agreement;

“**Administrator’s Allowable Costs**” means the aggregate of the costs incurred by the Sukuk Administrator corresponding to the categories of costs set out in Schedule 1 of the Sukuk Assets Administration Agreement, in connection with providing the relevant Connection

Services to the Customers, *provided, however, that* any such costs incurred during any Periodic Distribution Period in excess of the Maximum Allowable Amount (pro rated for such period) shall not constitute Administrator's Allowable Costs for the purposes of the Sukuk Documents;

"Agency Fees" means the on-going fees and expenses (if any) payable to the Payments Administrator and the Sukukholders' Agent for their services in connection with the Sukuk as further described in the Payments Administration Agreement or, as the case may be, the Declaration of Agency (among other things, the Sukukholders' Agent will be paid periodic fees of SAR 100,000 per annum and, among other things, the Payments Administrator will be paid periodic fees of SAR 50,000 per annum for its services in relation to the Sukuk);

"Applicable Percentage" means the percentage value obtained by dividing the aggregate Nominal Amount of Sukuk on the Closing Date by SAR 14,000,000,000 and such percentage not to exceed 50 per cent. given that 50 per cent. has been previously transferred to constitute the sukuk assets in relation to SEC's 7,000,000,000 Sukuk expiring 2029 issued in July 2009;

"Authorised Holding" means a holding of one or more Sukuk;

"Authority" means the Capital Market Authority in the Kingdom of Saudi Arabia;

"Benchmark Rate" means, in relation to any Periodic Distribution Period, SIBOR, the Saudi inter-bank offered rate for 3 month Saudi Riyal deposits determined in accordance with Condition 7(b) (*Benchmark Rate*) in relation to such Periodic Distribution Period;

"Business Day" means a day on which commercial banks are open for general business in Riyadh;

"Closed Period" has the meaning given to it in Condition 3(e) (*Register, Title and Transfers*);

"Closing Date" has the same meaning as set out on page (ii) of the Offering Circular;

"CMR 169" means the Council of Ministers' resolution no. 169 dated 11/8/1419H (corresponding to 30 November 1998) (as set out in Part 1 of Annex A to the Sukuk Assets Transfer Agreement), as amended by CMR 170 and as the same may be further supplemented, revised or amended from time to time;

"CMR 170" means the Council of Ministers' resolution no. 170 dated 12/7/1421H (corresponding to 10 October 2000) (as set out in Part 2 of Annex A to the Sukuk Assets Transfer Agreement) as the same may be supplemented, revised or amended from time to time;

"Conditions" means the terms and conditions of the Sukuk;

"Connection Charges" means the right derived from CMR 169 and the Distribution License to levy and receive the one-time charge relating to electrical service connections set out therein;

"Connection Services" means, in relation to each Customer, all of the services that the Issuer is required to provide relating to electrical service connections in order to be entitled to charge the Connection Charges;

"Custodian" has the meaning given to it above under "Introduction";

"Customer" means any customer of the Issuer who is liable to pay the Connection Charges in relation to the Sukuk Assets;

"Declaration of Agency" has the meaning given to it above under "Introduction";

“**Distribution License**” means the distribution and retail supply license no. 070406-R dated 28/3/1428H (corresponding to 16 April 2007) granted by the Electricity and Co-generation Authority to the Issuer;

“**Distribution Sector Restructuring Event**” has the meaning given to it in paragraph (h) of Condition 11.2 (*Events of Default*);

“**Event of Default**” has the meaning given to it in Condition 11.2 (*Events of Default*);

“**Exercise Event**” means an Event of Default or a Purchase Date;

“**Exercise Notice**” has the meaning given to it in Condition 11 (*Exercise Events*);

“**Exercise Period**” has the meaning given to it in Condition 11 (*Exercise Events*);

“**Expiry Date**” means the last Periodic Distribution Date falling on May 10, 2030G;

“**Extra Amount**” means, in respect of a Purchase Date or the Expiry Date, an amount equal to 10 per cent. of the Nominal amount of the Sukuk as are current on the third Business Day immediately preceding such Purchase Date or the Expiry Date, as the case may be;

“**Extraordinary Resolution**” means a resolution passed by a majority of at least one half of the Sukuk represented at a duly convened meeting of the Sukukholders;

“**Global Suk**” means the registered form global suk representing the Sukuk;

“**Guarantee**” means, in relation to any Indebtedness of any person, any obligation of another person to pay such Indebtedness including (without limitation):

- (a) any obligation to purchase such Indebtedness;
- (b) any obligation to lend money, to purchase or subscribe shares or other securities or to purchase assets or services in order to provide funds for the payment of such Indebtedness;
- (c) any indemnity against the consequences of a default in the payment of such Indebtedness; and
- (d) any other agreement to be responsible for such Indebtedness;

“**Indebtedness**” means any indebtedness of any person for money borrowed or raised including (without limitation) any indebtedness for or in respect of:

- (a) amounts raised under any note purchase facility;
- (b) the amount of any liability in respect of leases or hire purchase contracts which would, in accordance with applicable law and generally accepted accounting principles, be treated as finance or capital leases;
- (c) the amount of any liability in respect of any purchase price for assets or services the payment of which is deferred for a period in excess of 90 days; and
- (d) amounts raised under any other transaction (including, without limitation, any forward sale or purchase agreement) having the commercial effect of a borrowing;

“**Investor Application Form**” means the form required to be submitted to the Joint Lead Managers and Joint Bookrunners before the end of the Investor Presentation Period by the persons wishing to purchase the Sukuk;

“**Investor Presentation Period**” means the investor presentation period for the Sukuk commencing 10/5/1431H (corresponding to 24/4/2010G) and ending on 21/5/1431H

(corresponding to 5/5/2010G), unless notified otherwise by the Issuer and the Joint Lead Managers and Joint Bookrunners to the potential investors;

“**Issuer**” means Saudi Electricity Company in its capacity as issuer of the Sukuk and/or as Sukuk Administrator (as the context requires);

“**Joint Lead Managers and Joint Bookrunners**” means HSBC Saudi Arabia Limited and Samba Capital & Investment Management Company, acting as joint lead managers and joint bookrunners;

“**Margin**” means the percentage rate per annum specified as the “Margin” and published on the websites of the Issuer and the Payments Administrator as described in the section of the Offering Circular entitled “*Subscription and Sale*”;

“**Maximum Allowable Amount**” means the amount of the Administrator’s Allowable Costs expressed as an amount in SAR not exceeding an average of SAR 1,531 per Customer per year for the period until the first Purchase Date and for each subsequent period until the next Purchase Date, the amount negotiated and agreed between the Sukukholders’ Agent and the Sukuk Administrator prior to commencement of that period and based upon actual costs in the previous period and projected costs for the next period;

“**Net Income**” has the meaning given to it in Condition 5 (*Sukuk Assets*);

“**Nominal Amount**” means the nominal amount of the Sukuk, which is SAR 10,000;

“**Offering Circular**” means this offering circular dated 29/4/1431H (corresponding to 14/4/2010G) relating to the Sukuk;

“**Payments Administration Agreement**” has the meaning given to it above under “Introduction”;

“**Payments Administrator**” has the meaning given to it above under “Introduction”;

“**Periodic Default Amount**” means, in relation to any day, other than a Purchase Date, on which the Issuer is to purchase Sukuk following the delivery of an Exercise Notice, an amount equal to the sum of (a) and (b) below:

- (a) the Periodic Distribution Amount as would have been payable on the next Periodic Distribution Date if an Exercise Notice had not been delivered (*provided, however, that* for the purposes of calculating such Periodic Distribution Amount, “**P**” (as defined in Condition 7 (*Periodic Distributions*)) shall mean the aggregate Nominal Amount of such Sukuk as are current on the Transfer Record Date immediately preceding the date of such purchase); *multiplied by*:
 - (i) the number of days between the immediately preceding Periodic Distribution Date and the date of such purchase; *divided by*
 - (ii) the number of days between the immediately preceding Periodic Distribution Date and the next scheduled Periodic Distribution Date;
- (b) the lesser of (i) the amounts standing to the credit of the Reserve as at the date of such purchase and (ii) the Extra Amount which would have been payable on the next scheduled Purchase Date or the Expiry Date, as the case may be, but for the occurrence of such purchase;

“**Periodic Determination Date**” has the meaning given to it in Condition 7 (*Periodic Distributions*);

“**Periodic Distribution Amount**” has the meaning given to it in Condition 7 (*Periodic Distributions*);

“**Periodic Distribution Date**” means the tenth (10th) of February, May, August and November in each year, commencing on 10th August 2010G and up to and including 10th May 2030G; *provided, however, that* if any such day is not a Business Day, the Periodic Distribution Date will be the next following Business Day;

“**Periodic Distribution Period**” means the period from and including the Closing Date to but excluding the first Periodic Distribution Date, and each successive period from and including a Periodic Distribution Date to but excluding the next succeeding Periodic Distribution Date;

“**Permitted Security Interest**” means a Security Interest over any of the Issuer’s present or future assets or revenues or any part thereof in connection with:

- (a) any asset-based financing (including, without limitation, a securitisation or project financing) where the primary source of payment of the obligations secured by such Security Interest is the assets or revenues subject to such Security Interest, without further recourse to the Issuer;
- (b) any Islamic financing arrangement; or
- (c) any domestic issue of securities which is required by the Capital Market Authority to be secured;

“**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;

“**Purchase Notice**” has the meaning given to it in Condition 11.2 (*Events of Default*);

“**Purchase Price**” means:

- (a) as of any Purchase Date, the product of the aggregate Nominal Amount of all Sukuk as are current on such date multiplied by the percentage set out opposite such date in the following table:

<u>Date</u>	<u>Percentage</u>
First Purchase Date (the Periodic Distribution Date falling in May 2017G).....	90%
Second Purchase Date (the Periodic Distribution Date falling in May 2020G).....	60%
Third Purchase Date (the Periodic Distribution Date falling in May 2025G).....	30%

and

- (b) as of any other date, the product of the aggregate Nominal Amount of all Sukuk as are current on such date multiplied by the percentage set out opposite the period in which such date falls in the following table:

<u>Date</u>	<u>Percentage</u>
After the Closing Date but before the Periodic Distribution Date falling in May 2016G.....	100%
After the Periodic Distribution Date falling in May 2016G but before the Periodic Distribution Date falling in May 2018G.....	90%
After the Periodic Distribution Date falling in May 2018G but before the Periodic Distribution Date falling in May 2019G.....	75%
After the Periodic Distribution Date falling in May 2019G but before the Periodic Distribution Date falling in May 2021G.....	60%
After the Periodic Distribution Date falling in May 2021G but before the Periodic Distribution Date falling in May 2022G.....	50%
After the Periodic Distribution Date falling in May 2022G but before the Periodic Distribution Date falling in May 2024G.....	40%
After the Periodic Distribution Date falling in May 2024G but before the Periodic Distribution Date falling in May 2026G.....	30%
After the Periodic Distribution Date falling in May 2026G but before the Periodic Distribution Date falling in May 2028G.....	20%
After the Periodic Distribution Date falling in May 2028G but before the Periodic Distribution Date falling in May 2029G.....	10%
After the Periodic Distribution Date falling in May 2029G but before the Periodic Distribution Date falling in May 2030G.....	5%
On the Expiry Date	0%

“**Purchase Undertaking**” means the purchase undertaking to be entered into by the Issuer, the Custodian and the Sukukholders’ Agent on or about the Closing Date;

“**Purchase Date**” means the Periodic Distribution Date falling in May, 2017G, 2020G or 2025G;

“**Qualified Person**” means (a) a natural person who is a national of the Kingdom of Saudi Arabia or (b) another legal person with a permanent establishment in the Kingdom of Saudi Arabia holding a current commercial registration number issued by the Ministry of Commerce and Industry, and which, in the case of either (a) or (b), maintains a bank account in the Kingdom of Saudi Arabia;

“**Registrar**” means the Saudi Arabian Stock Exchange (“**Tadawul**”) (and includes any successor registrar as may be appointed in accordance with the provisions of the Registry Agreement);

“**Registry Agreement**” means the registry and trading agreement to be entered into between the Issuer and the Registrar in relation to the Sukuk on or about the Closing Date;

“**Relevant Indebtedness**” means any Indebtedness which is in the form of or represented by a security (within the meaning of the Capital Market Law), including, without limitation, any bond, note, loan stock, certificate or similar instrument which is, or is capable of being, listed,

quoted or traded on any stock exchange or in any securities market (including, without limitation, any over-the-counter market);

“**Required Sukukholders**”, as of any date, means Sukukholders of at least 33⅓ per cent. in aggregate of the Nominal Amount of the Sukuk as are current on such date;

“**Reserve**” has the meaning given to it in Condition 5 (*Sukuk Assets*);

“**Security Interest**” means any mortgage, charge, pledge, encumbrance, lien, assignment by way of security or other security interest including, without limitation, anything analogous to any of the foregoing under the laws of any jurisdiction;

“**Shortfall**” has the meaning given to it in Condition 5 (*Sukuk Assets*);

“**Specific Instruction**” has the meaning given to it in Condition 11.1 (*Purchase Date*);

“**Specified Amount**” means, in respect of any Event of Default occurring under Condition 11.2(a) (*Default resulting in non-payment of Periodic Distribution Amount or Extra Amount*), the amount of any shortfall in amounts distributed to the Sukukholders as referred to therein which occurred as a direct result of the Sukuk Administrator’s default or negligence in performing its obligations under the Sukuk Assets Administrator Agreement and/or the Declaration of Agency to the extent that such amounts are not already compensated for by payment of the Periodic Default Amount;

“**Standing Instruction**” has the meaning given to it in Condition 11.1 (*Purchase Date*);

“**Subsidiary**” means, in respect of any person (the “**first person**”) at any particular time, any other person (the “**second person**”) controlled by the first person. For this purpose, (i) “**control**” of the second person (being a company) means the ability to influence the acts or decisions of that person by way of the first person having directly or indirectly, alone or jointly with any relative or other participant, 50 per cent. or more of the voting rights in the second person and (ii) Water & Electricity Company shall not constitute a Subsidiary of the Issuer;

“**Sukuk Assets**” has the meaning given to it in Condition 5 (*Sukuk Assets*);

“**Sukuk Administrator**” means Saudi Electricity Company in its capacity as administrator of the Sukuk Assets;

“**Sukuk Assets Administration Agreement**” has the meaning given to it in Condition 5 (*Sukuk Assets*);

“**Sukuk Assets Transfer Agreement**” has the meaning given to it in Condition 5 (*Sukuk Assets*);

“**Sukuk Documents**” means the Sukuk Assets Transfer Agreement, the Declaration of Agency, the Purchase Undertaking, the Sukuk Assets Administration Agreement, the Payments Administration Agreement, the Registry Agreement, the Sukuk (including the Global Suk), the Investor Application Form and any other agreements and documents delivered or executed in connection therewith;

“**Sukukholders**” means the registered holders of the Sukuk;

“**Sukukholders’ Agent**” has the meaning given to it above under “Introduction”;

“**Taxes**” means any present or future taxes, zakat, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of the Government of the Kingdom of Saudi Arabia or any political subdivision thereof or any authority therein or thereof having power to tax;

“**Transaction Account**” has the meaning given to it in Condition 5 (*Sukuk Assets*); and

“**Transfer Record Date**” has the meaning given to it in Condition 3 (*Register, Title and Transfers*).

Without prejudice to its status for any other purpose, a Sukuk shall be considered to be “*current*” unless it has been dissolved pursuant to Condition 10 (*Dissolution of the Sukuk*), or purchased under Condition 8 (*Purchase of Sukuk*) or Condition 11 (*Exercise Events*) and in either case has been cancelled in accordance with Condition 8(c) (*Cancellation*); *provided, however, that*, for the purposes of (i) ascertaining the right to attend and vote at any meeting of Sukukholders, (ii) Condition 14(a) (*Meetings of Sukukholders; Modification*) and Schedule 2 of the Declaration of Agency (*Provisions for Meetings of Sukukholders*), (iii) determining the Required Sukukholders for the purposes of Condition 11 (*Exercise Events*) or Condition 12(b) (*Enforcement and Exercise of Rights*) and (iv) Condition 12(c) (*Enforcement and Exercise of Rights*), those Sukuk (if any) which are for the time being held by any person (including but not limited to any Subsidiary of the Issuer) for the benefit of the Issuer or any Subsidiary of the Issuer shall (unless and until ceasing to be so held) be deemed not to be current.

- 1.2 All references in these Conditions to an agreement, instrument or other document (including the Declaration of Agency, the Payments Administration Agreement, the Purchase Undertaking, the Registry Agreement, the Sukuk Assets Administration Agreement, the Sukuk Assets Transfer Agreement, the Sukuk (including the Global Suk) and the Investor Application Form) shall be construed as a reference to that agreement, instrument or other document as the same may be amended, supplemented, replaced or novated.

2. **Form and Denomination**

The Sukuk are issued in dematerialised registered form in the denomination of SAR 10,000. The Sukuk will be collectively represented by the Global Suk which will be deposited with the Sukukholders’ Agent. Individual Sukuk representing holdings of the Global Suk will not be issued but Sukukholders will on request be entitled to receive a statement from the Registrar recording their holding of Sukuk. The Global Suk will represent all of the Sukuk that are current and the ownership by the Sukukholders of an undivided beneficial ownership interest in the Sukuk Assets.

3. **Register, Title and Transfers**

- (a) *Register*: The Registrar will maintain a register (the “**Register**”) in respect of the Sukuk in accordance with the provisions of the Registry Agreement. In these Conditions, a “**Sukukholder**” means the person in whose name such Sukuk is for the time being registered in the Register (or, in the case of a joint holding, the first named). Only Qualified Persons may be registered as Sukukholders.
- (b) *Title*: Each Sukukholder shall (except as otherwise required by law) be treated as the absolute owner of such Sukuk for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any other interest therein).
- (c) *Transfers*: Subject to paragraphs (e) and (f) below, Sukuk may be transferred in accordance with the regulations and procedures established by the Registrar by delivering to the Registrar such information as such regulations and procedures shall require. Sukuk may not be transferred unless:
- (i) the Nominal Amount of Sukuk to be transferred together with any existing holding of Sukuk by the party acquiring the Sukuk to be transferred are Authorised Holdings; and

- (ii) where not all of the Sukuk held by a Sukukholder are being transferred, the Nominal Amount of the balance of Sukuk not transferred are Authorised Holdings; and
 - (iii) the transferee is a Qualified Person.
- (d) *Transfer Charges:* The transfer of Sukuk will be subject to a charge by the Registrar in accordance with its schedule of charges in force for its services and all such charges shall be borne solely by the transferring Sukukholder and the transferee in accordance with the Registrar's practice. For the avoidance of doubt, none of the Issuer, or the Sukukholders' Agent or the Custodian shall be liable to pay any such charges imposed by the Registrar.
- (e) *Transfer Record Dates and Closed Periods:* Prior to the Closing Date it will be announced publicly whether or not transfers of Sukuk effected during the period starting at the opening of business no less than seven (7) Business Days prior to a due date for payment of any Periodic Distribution Amount, or any other principal or distribution in respect of the Sukuk or, if such a day is not a Business Day, on the next following Business Day (a "**Transfer Record Date**"), and ending on (and including) the applicable due date itself (each such period being a "**Closed Period**") may be registered in the usual way or whether they may only be registered after the expiry of the relevant Closed Period. If such transfers may be so registered in the usual way, then, notwithstanding such registration, all payments shall continue to be paid to such persons as are registered as Sukukholders at the opening of business on the relevant Transfer Record Date. The Registrar may after the Closing Date modify these Conditions insofar as they relate to the registration of transfers effected during Closed Periods by notice to the Issuer and the Sukukholders.
- (f) *Transfers and Standing Instructions:* Where a Sukukholder has completed a Standing Instruction in relation to its Sukuk, and such Standing Instruction has not been revoked by it or any subsequent Sukukholder of such Sukuk, any transfer of such Sukuk will be subject to the Standing Instruction, and any subsequent Sukukholder thereof will be deemed to accept the terms of such Standing Instruction. Notwithstanding the above, a subsequent Sukukholder may revoke a Standing Instruction by notice in writing to the Sukukholders' Agent in accordance with Condition 11.1(a) (*Purchase Date*).
- (g) *Regulations concerning transfers and registration:* All transfers of Sukuk and entries on the Register are subject to the regulations and procedures of the Registrar and the provisions of the Registry Agreement. The regulations may be changed by the Registrar at any time.

4. Status; Limited Recourse; Agreement of Sukukholders

- (a) *Status:* The Sukuk constitute undivided beneficial ownership interests in the Sukuk Assets will at all times rank *pari passu* amongst themselves. The obligations of the Issuer under the Purchase Undertaking will constitute direct, general and unconditional obligations of the Issuer which will at all times rank at least *pari passu* with all other present and future unsecured obligations of the Issuer, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application.
- (b) *Limited Recourse:* Proceeds from the Sukuk Assets, payments by the Issuer pursuant to the Purchase Undertaking and monies standing to the credit of the Transaction Account are the sole source of payments on the Sukuk.

Accordingly, except in relation to claims relating to amounts due from the Issuer under the Purchase Undertaking or any of the other Sukuk Documents, the Sukukholders will have no recourse to any assets of the Issuer, the Custodian (and, for the avoidance of doubt, the Sukuk Assets are not, and shall not be considered to be, an asset of the Custodian) or the Sukukholders' Agent, or (to the extent each fulfils all of its obligations under the relevant Sukuk Documents to which it is a party) the Payments Administrator, the Registrar, the Joint Lead Managers and Joint Bookrunners or any of their respective affiliates in respect of any shortfall in the expected amounts from the Sukuk Assets.

Notwithstanding the above, the Issuer is obliged to make the payments under the relevant Sukuk Documents to which it is a party directly to the Payments Administrator (or in certain circumstances, the Sukukholders' Agent) and the Sukukholders' Agent (subject to it being indemnified to its satisfaction), as agent for and on behalf of the Sukukholders, will have direct recourse against the Issuer to recover payments due to the Payments Administrator or the Sukukholders' Agent for the account of the Sukukholders, pursuant to such Sukuk Documents.

The net proceeds of the realisation of, or enforcement with respect to, the Sukuk Assets may not be sufficient to make all payments due in respect of the Sukuk. If, following distribution of such proceeds, there remains a shortfall in payments due under the Sukuk, then, except in the circumstances described in Conditions 11 (*Exercise Events*) and 12 (*Enforcement and Exercise of Rights*), no Sukukholder will have any claim against the Issuer, or any of its affiliates or other assets in respect of such shortfall and any unsatisfied claims, and Sukukholders will not be able to petition for, or join any other person in instituting proceedings for, the reorganisation, liquidation, winding up or receivership of the Issuer, the Custodian, the Sukukholders' Agent, the Payments Administrator, the Registrar, the Joint Lead Managers and Joint Bookrunners or any of their affiliates as a consequence of such shortfall or otherwise.

- (c) *Agreement of Sukukholders:* By purchasing Sukuk, each Sukukholder agrees that, notwithstanding anything to the contrary contained herein or in any other Sukuk Document, but without prejudice to Conditions 11 (*Exercise Events*) and 12 (*Enforcement and Exercise of Rights*) and the Issuer's obligations under the Purchase Undertaking: (i) no payment is obliged to be made by any of the Issuer, the Custodian, the Sukukholders' Agent, the Payments Administrator, the Registrar or the Joint Lead Managers and Joint Bookrunners or any of their respective agents on their behalf except to the extent funds are available therefore from the Sukuk Assets; and (ii) no recourse shall be had for the payment of any amount owing hereunder or under any other Sukuk Document, whether for the payment of any fee or other amount hereunder or any other obligation or claim arising out of or based upon the Declaration of Agency or any other Sukuk Document, against any of the Issuer, the Custodian, the Sukukholders' Agent, the Payments Administrator, the Joint Lead Managers and Joint Bookrunners or the Registrar for any bankruptcy, reorganisation, arrangement or liquidation proceedings or other proceedings under any bankruptcy or similar law.

5. Sukuk Assets

- (a) *Transfer of Sukuk Assets:* Pursuant to a sukuk assets transfer agreement to be entered into between the Issuer, the Sukukholders' Agent and the Custodian prior to the Closing Date (the "**Sukuk Assets Transfer Agreement**"), upon payment of the issue price, the Issuer will transfer to the Custodian the Applicable Percentage of certain specified rights and entitlements (under CMR 169 and the Distribution License) to undertake the Connection Services and levy the Connection Charges for a period of

twenty (20) years, as further described in the Sukuk Assets Transfer Agreement, (the “**Sukuk Assets**”) to be held by the Custodian for the benefit of the Sukukholders.

Pursuant to a sukuk assets administration agreement to be entered into between the Issuer, the Custodian and the Sukukholders’ Agent on or about the Closing Date (the “**Sukuk Assets Administration Agreement**”), the Issuer undertakes to provide certain services in respect of the Sukuk Assets in return for the Administration Fee.

- (b) *Application of Proceeds – Net Income:* Pursuant to the Sukuk Assets Administration Agreement, the Issuer shall accumulate all monies (net of the Administrator’s Allowable Costs, the Administration Fee and the Agency Fees) accruing under the Sukuk Assets (the “**Net Income**”). On or prior to 11.00 a.m. (Riyadh time) one (1) Business Day prior to each Periodic Distribution Date, the Issuer shall pay into an account of the Sukukholders’ Agent maintained with the Payments Administrator (the “**Transaction Account**”) the lesser of: (i) such accumulated amount and; (ii) the Periodic Distribution Amount. If the Net Income received under the Sukuk Assets in any Periodic Distribution Period exceeds the Periodic Distribution Amount, the amount of any surplus shall be retained by the Sukuk Administrator as a reserve (the “**Reserve**”). The Reserve shall be recorded by the Issuer through a book-entry notional account and will not be maintained in a separate defined bank account. The primary purpose of the Reserve is for it to be held for the Sukukholders. If the Issuer uses and invests the Reserve for its own account, any return from such use or investment, and any losses arising therefrom, are solely for the account of the Issuer. The Issuer may record the Reserve as a liability of the Issuer.
- (c) *Application of Proceeds – Reserve:* Pursuant to the Sukuk Assets Administration Agreement, the Issuer shall retain the Reserve and pay monies standing to the credit of the Reserve (if any) as provided in this Condition 5(c) (*Application of Proceeds – Reserve*).
- (i) On or prior to 11.00 a.m. (Riyadh time) one (1) Business Day prior to each Periodic Distribution Date, the Issuer shall pay into the Transaction Account, the monies (if any) standing to the credit of the Reserve in the following order of priority:
- (A) firstly, towards the aggregate amount of any shortfall between the amounts paid to Sukukholders on any previous Periodic Distribution Date(s) and the corresponding Periodic Distribution Amount(s) for such date(s) (each, a “**Shortfall**”) to the extent these remain unpaid; and
- (B) secondly, towards the amount of any Shortfall for the current Periodic Distribution Period.
- (ii) On or prior to 11.00 a.m. (Riyadh time) one (1) Business Day prior to each Purchase Date and the Expiry Date, after making the payments set out in Condition 5(c)(i) (*Application of Proceeds – Reserve*) above the Issuer shall pay the monies (if any) standing to the credit of the Reserve into the Transaction Account at the lesser of the Extra Amount, or such monies as are standing to the credit of the Reserve on such date. The balance of the Reserve, if any, shall be held by the Issuer in accordance with Condition 5(b) (*Application of Proceeds – Net Income*).
- (iii) Upon dissolution of the Sukuk as specified in Condition 10 (*Dissolution of the Sukuk*), the Sukuk Administrator shall receive the balance of the Reserve (if any) for its own account as a Sukuk assets administration incentive fee.

- (d) *Top-Up of Reserve*: If, in relation to any Periodic Distribution Period or other period, the Net Income received in relation to the Sukuk Assets (the “**Actual Income**”) is less than the amount of Net Income which should otherwise have been received (the “**Specified Income**”) as a result of the tariff set out in CMR 169 (as in force at the Closing Date) being reduced or amended, or CMR 169 in any way having been amended, supplemented or revoked, then, on or before 11:00 a.m. (Riyadh time) one (1) Business Day prior to the last day of such Periodic Distribution Period or other period, the Issuer shall add to the Reserve an amount equal to the difference between the Actual Income and the Specified Income.

6. Negative Pledge

So long as any Sukuk remains current, the Issuer shall not, and the Issuer shall procure that none of its Subsidiaries will, create or permit to subsist any Security Interest (other than a Permitted Security Interest) upon the whole or any part of its present or future undertaking, assets or revenues (including uncalled capital) to secure any Relevant Indebtedness or Guarantee of Relevant Indebtedness.

7. Periodic Distributions

- (a) *Periodic Distribution Dates*: Subject to Condition 5(b) (*Application of Proceeds – Net Income*), Condition 5(c) (*Application of Proceeds – Reserve*) and Condition 9 (*Payments*), the Issuer shall instruct the Payments Administrator to distribute to the Sukukholders *pro rata*, out of amounts collected in the Transaction Account, a distribution in relation to the Sukuk on each Periodic Distribution Date equal to the applicable Periodic Distribution Amount, plus if such Periodic Distribution Date is a Purchase Date or the Expiry Date, the applicable Extra Amount.

In these Conditions:

“**Periodic Distribution Amount**” means, for each Periodic Distribution Period, an amount calculated as follows:

$$\frac{P \times (S + M) \times D}{360}$$

where

P = the aggregate Nominal Amount of such Sukuk as are current on the Transfer Record Date immediately preceding the last day of such Periodic Distribution Period;

D = the actual number of days in such Periodic Distribution Period;

S = the Benchmark Rate for such Periodic Distribution Period; and

M = Margin.

- (b) *Benchmark Rate*: The Benchmark Rate for each Periodic Distribution Period shall be determined by or on behalf of the Payments Administrator on the following basis:
- (i) the Payments Administrator will determine the rate for deposits in Saudi Riyals for a period equal to the relevant Periodic Distribution Period which appears on the Reuters Screen SUAA Page across from the caption “AVG” (or such other page as may replace that page on that service, or such other service as may be nominated by the Payments Administrator as the information vendor for the purpose of displaying comparable rates) as of 11.00 a.m. (Riyadh time) on the second Business Day before the first day of

the relevant Periodic Distribution Period (the “**Periodic Determination Date**”); or

- (ii) if such rate does not appear on that page, the Payments Administrator will:
 - (A) request the principal office in the Kingdom of Saudi Arabia of each of Samba Financial Group, HSBC Saudi Arabia and The Saudi British Bank or any substitute reference bank in the Saudi interbank market appointed by the Payments Administrator, to provide a quotation of the rate at which deposits in Saudi Riyals are offered by it in the Saudi interbank market at approximately 11.00 a.m. (Riyadh time) on the Periodic Determination Date to prime banks in the Saudi interbank market for a period equal to the relevant Periodic Distribution Period and in an amount that is representative for a single transaction in that market at that time; and
 - (B) determine the arithmetic mean (rounded, if necessary, to the nearest ten thousandth of a percentage point, 0.00005 being rounded upwards) of such quotations where two or more quotations are available,

and the Benchmark Rate shall be the rate or (as the case may be) the arithmetic mean so determined; *provided, however*, that if the Payments Administrator is unable to determine a rate or (as the case may be) an arithmetic mean in accordance with the above provisions in relation to any Periodic Distribution Period, the Benchmark Rate applicable to the Sukuk during such Periodic Distribution Period will be the Benchmark Rate or (as the case may be) arithmetic mean last so determined in relation to the Sukuk in respect of the most recent preceding Periodic Distribution Period.

- (c) *Publication:* The Payments Administrator will cause the Benchmark Rate and the Periodic Distribution Amount determined by it, together with the relevant Periodic Distribution Date, to be notified to the Issuer, the Custodian and the Sukukholders’ Agent and each stock exchange on which the Sukuk are then listed as soon as practicable after such determination but in any event not later than the first day of the relevant Periodic Distribution Period. Notice thereof shall also promptly be given to the Sukukholders. The Payments Administrator will be entitled to recalculate any Periodic Distribution Amount (on the basis of the foregoing provisions) without notice in the event of an extension or shortening of the relevant Periodic Distribution Period.
- (d) *Calculation of Distribution in respect of Periodic Default Amounts:* When a distribution is required to be calculated in respect of a period less than a full Periodic Distribution Period, it shall be calculated on the basis of the actual number of days elapsed in such period and a 360 day year.
- (e) *Notifications:* All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Condition 7 (*Periodic Distributions*) by the Payments Administrator will (in the absence of manifest error) be binding on the Issuer, the Custodian, the Sukukholders’ Agent and the Sukukholders and (subject as aforesaid) no liability to any such person will attach to the Payments Administrator in connection with the exercise or non-exercise by it of its powers, duties and discretions for such purposes.

8. Purchase of Sukuk

- (a) *Purchase at the option of the Sukukholders:* The Sukukholders may request the Issuer to purchase the Sukuk upon the occurrence of an Exercise Event as set out in Condition 11 (*Exercise Events*).
- (b) *Purchase:* The Issuer may at any time purchase Sukuk in the open market or otherwise and at any price agreed between the Sukukholder and the Issuer.
- (c) *Cancellation:* If any Sukuk are so purchased by the Issuer such Sukuk shall be cancelled and may not be reissued or resold.

9. Payments

- (a) *General:* Payments under the Sukuk shall be made by wire transfer to a Saudi Riyal account maintained by the payee with a bank in the Kingdom of Saudi Arabia as notified in writing to the Registrar and the Payments Administrator not later than 11.00 a.m. (Riyadh time) one (1) Business Day prior to the date of the relevant payment.
- (b) *Payments subject to Applicable Laws:* All payments in respect of the Sukuk are subject in all cases to any applicable fiscal or other laws and regulations in the place of payment. Except as provided in Condition 15 (*Taxation*), no deductions or expenses shall be charged to the Sukukholders in respect of such payments.
- (c) *Payments on Business Days:* Payment instructions will be initiated for value on the due date, or, if the due date is not a Business Day, for value on the next succeeding Business Day. A Sukukholder shall not be entitled to any distribution or other payment in respect of any delay in payment resulting from the due date for a payment not being a Business Day.
- (d) *Transfer Record Date:* Each payment in respect of the Sukuk will be made to the person shown as the Sukukholder in the Register at the opening of business in the place of the Registrar's specified office on the Transfer Record Date.

10. Dissolution of the Sukuk

The Sukuk will be dissolved on the earlier of:

- (a) the Expiry Date; and
- (b) the occurrence of an Exercise Event following which the Issuer has purchased all of the Sukuk Assets pursuant to the Purchase Undertaking and all the Sukuk have been purchased by the Issuer and cancelled.

11. Exercise Events

11.1 Purchase Date

- (a) On or prior to the Closing Date, and at any time thereafter, Sukukholders will be entitled to complete a standing instruction available from the Sukukholders' Agent (a "**Standing Instruction**") to the Sukukholders' Agent requesting it to give a notice in the form set out in the Purchase Undertaking requiring the Issuer to purchase their Sukuk (an "**Exercise Notice**") thirty (30) days prior to a Purchase Date, unless the Sukukholder otherwise advises the Sukukholders' Agent in writing no later than ninety (90) days before the applicable Purchase Date.
- (b) Between ninety (90) days and one hundred and eighty (180) days prior to any Purchase Date, the Sukukholders' Agent will give notice to the Sukukholders

informing them that the occurrence of such Purchase Date will potentially give rise to the Issuer purchasing the Sukuk Assets under the Purchase Undertaking as a result thereof and accordingly describing the consequences of exercising and not exercising their rights in respect thereof.

- (c) Each Sukukholder shall be entitled, by Standing Instruction (including any Standing Instruction deemed to be transferred under Condition 3(f) (*Transfers and Standing Instructions*)) or otherwise by notice in writing given during the period of between ninety (90) days and thirty (30) days prior to such Purchase Date in the form set out in Appendix I to the Offering Circular (such a notice being a “**Specific Instruction**”), to require the Sukukholders’ Agent to give an Exercise Notice under the Purchase Undertaking in relation to all of that Sukukholder’s Sukuk and the corresponding portion of the Sukuk Assets. Sukuk in respect of which Standing Instructions are in force in relation to a particular Purchase Date may not be transferred after the date which is thirty (30) days prior to such Purchase Date and Sukuk in relation to which a Specific Instruction is given may not be transferred after the date of such Specific Instruction. Following receipt of such Standing Instructions or Specific Instructions, the Sukukholders’ Agent shall promptly deliver an Exercise Notice relating to such Sukuk to the Issuer and the Issuer shall, pursuant to the Purchase Undertaking and subject to paragraph (d) below, purchase such Sukukholders’ Sukuk by payment on such Purchase Date of the Purchase Price calculated as a percentage to which the Sukuk to be purchased bears to the aggregate Nominal Amount of such of the Sukuk as are current on such date. Any Periodic Distribution Amount and Extra Amount payable on such Purchase Date shall be payable to such person as is registered as the Sukukholder on the opening of business on the relevant Transfer Record Date in accordance with Condition 3(e) (*Transfer Record Dates and Closed Periods*).
- (d) If on or before the date which is thirty (30) days prior to a Purchase Date, the Sukukholders’ Agent receives Standing Instructions (which have not been subsequently revoked) and/or Specific Instructions from Sukukholders who together hold, in aggregate, at least seventy per cent. (70%) of the Nominal Amount of such Sukuk as are current on such date, the Sukukholders’ Agent shall promptly deliver to the Issuer an Exercise Notice (with a copy to the Sukukholders) so notifying the Issuer. Following receipt of such an Exercise Notice, the Issuer shall, pursuant to the Purchase Undertaking, purchase the Sukuk from all Sukukholders by payment of the Purchase Price and any Extra Amount on such Purchase Date.

11.2 **Events of Default**

Each of the following events and circumstances constitutes an “**Event of Default**”:

- (a) *Default resulting in non-payment of Periodic Distribution Amount or Extra Amount:*
 - (i) the amount distributed to Sukukholders on any Periodic Distribution Date in accordance with Condition 5(b) (*Application of Proceeds – Net Income*) is less than the Periodic Distribution Amount for such Periodic Distribution Date; or
 - (ii) the amount distributed to Sukukholders on any Purchase Date is less than the Extra Amount for such Purchase Date;and such shortfall in amounts has not been paid in full five (5) days after its due date and occurs as a direct result of the Issuer’s or the Sukuk Administrator’s default or negligence in performing its obligations under the Sukuk Documents; or
- (b) *Breach of other obligations:* the Issuer or the Sukuk Administrator defaults in the performance or observance of any of its other obligations under or in respect of the

Sukuk and such default remains unremedied for thirty (30) days after written notice thereof, addressed to the Issuer by any Sukukholder and/or the Sukukholders' Agent, has been delivered to the Issuer or to the specified office of the Payments Administrator; or

(c) *Cross-default of Sukuk Administrator:*

- (i) any Indebtedness of the Issuer or the Sukuk Administrator is not paid when due or (as the case may be) within any originally applicable grace period;
- (ii) any such Indebtedness becomes due and payable prior to its stated maturity as a result of an event of default or other acceleration event (howsoever described); or
- (iii) the Issuer or the Sukuk Administrator fails to pay when due any amount payable by it under any Guarantee of any Indebtedness;

provided that the amount of Indebtedness referred to in sub-paragraph (i) and/or sub-paragraph (ii) above and/or the amount payable under any Guarantee referred to in sub-paragraph (iii) above, individually or in the aggregate, exceeds SAR 75,000,000 (or its equivalent in any other currency or currencies); or

(d) *Unsatisfied judgment:* one or more judgment(s) or order(s) for the payment of an amount in excess of SAR 75,000,000 (or its equivalent in any other currency or currencies), whether individually or in aggregate is rendered against the Issuer or the Sukuk Administrator 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

(e) *Insolvency:* (i) the Issuer or the Sukuk Administrator becomes insolvent or is unable to pay its debts as they fall due, (ii) an administrator or liquidator is appointed over the whole or at least twenty-five per cent. (25%) of the undertaking, assets and revenues of the Issuer or the Sukuk Administrator (or application for any such appointment is made) and such appointment is not discharged within twenty-eight (28) days, (iii) the Issuer or the Sukuk Administrator takes any action for a readjustment or deferment of any of its obligations 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) or declares a moratorium in respect of any of its Indebtedness or any Guarantee of any Indebtedness given by it or (iv) the Issuer or the Sukuk Administrator ceases or threatens to cease to carry on all or any substantial part of its business (otherwise than for the purposes of, or pursuant to, an amalgamation, reorganisation or restructuring whilst solvent which is either (A) initiated or mandated by any governmental body or authority of the Kingdom of Saudi Arabia or (B) is approved by an Extraordinary Resolution *provided that* (in the case of (A) only) any entity to which all or any part of the Issuer's or the Sukuk Administrator's assets and business are then transferred unconditionally and irrevocably assumes on a joint and several basis as primary obligor all of Saudi Electricity Company's obligations under the Sukuk Assets Transfer Agreement and the Purchase Undertaking); or

(f) *Winding up:* an order is made or an effective resolution is passed for the winding up, liquidation or dissolution of the Issuer or the Sukuk Administrator (otherwise than for the purposes of, or pursuant to, an amalgamation, reorganisation or restructuring whilst solvent which is either (i) initiated or mandated by any governmental body or authority of the Kingdom of Saudi Arabia or (ii) is approved by an Extraordinary Resolution *provided that* (in the case of (i) only) each surviving or resulting entity unconditionally and irrevocably assumes on a joint and several basis as primary

obligor all of Saudi Electricity Company's obligations under the Sukuk Assets Transfer Agreement and the Purchase Undertaking); or

- (g) *Analogous event*: any event occurs under the laws, regulations or rules of the Kingdom of Saudi Arabia has an analogous effect to any of the events referred to in paragraphs (d) (*Unsatisfied judgment*) to (f) (*Winding up*) above; or
- (h) *Distribution Sector Restructuring Event*: the Issuer's electricity distribution business (including, without limitation, the provision of Connection Services) is restructured by any governmental body or authority of the Kingdom of Saudi Arabia with the result that such business is or no longer will be carried on by the Issuer directly (rather than through subsidiaries or affiliates) and the Issuer gives notice to the Sukukholders' Agent that, as a result, it will be impracticable for the Issuer to continue to perform its obligations under the Sukuk Documents (a "**Distribution Sector Restructuring Event**");
- (i) *Failure to take action*: any action, condition or thing at any time required to be taken, fulfilled or done in order (i) to enable the Issuer or the Sukuk Administrator lawfully to enter into, exercise its rights and perform and comply with its obligations under and in respect of the Sukuk or the Sukuk Documents and (ii) to ensure that those obligations are legal, valid, binding and enforceable is not taken, fulfilled or done; or
- (j) *Unlawfulness*: it is or becomes unlawful for the Issuer or the Sukuk Administrator to perform or comply with any or all of its obligations under or in respect of the Sukuk or the Sukuk Documents; or
- (k) *Non-Effectiveness of Sukuk Assets*: it is or becomes unlawful for the Issuer, the Sukuk Administrator or the Custodian to perform any of its material obligations under the Sukuk Assets or any documents relating to the Sukuk Assets or any Sukuk Assets or documents relating to the Sukuk Assets are held by a court not to be legally effective or the Issuer, the Sukuk Administrator or the Custodian repudiates or evidences an intention to repudiate any document relating to the Sukuk Assets.

If an Event of Default occurs and is continuing, the Sukukholders' Agent will as soon as is reasonably practicable after it receives notice thereof give notice of the occurrence of such Event of Default to the Sukukholders requiring them to indicate within a period of up to fifteen (15) days, or such other date as is notified to the Sukukholders by the Sukukholders' Agent, (the "**Exercise Period**") whether they wish to exercise their rights under the Purchase Undertaking. Any Sukukholder may then deliver a notice in the form set out in Appendix I to the Offering Circular (a "**Purchase Notice**") within such Exercise Period to the Sukukholders' Agent declaring the Sukuk held by it to be purchasable.

In addition, on or prior to the Closing Date, and at any time thereafter, Sukukholders will be entitled to complete a standing instruction available from the Sukukholders' Agent in the form set out in Appendix I to the Offering Circular (a "**Restructuring Instruction**") to the Sukukholders' Agent requesting it to give on their behalf an Exercise Notice in respect of their Sukuk following the occurrence of a Distribution Sector Restructuring Event. The Sukukholders' Agent shall deliver an Exercise Notice in respect of all Sukuk for which there are Restructuring Instructions as soon as practicable after the commencement of the Exercise Period *provided that* if at the time that the Sukukholders' Agent delivers such an Exercise Notice that Sukukholders' Agent has received Restructuring Instructions (which have not been subsequently revoked) from Sukukholders who together hold, in aggregate, at least seventy per cent. (70%) of the Nominal Amount of the Sukuk that are current at such time, then the Sukukholders' Agent shall deliver an Exercise Notice in respect of all the Sukuk that are current at the relevant time.

Sukuk in respect of which a Purchase Notice is delivered may not be transferred until after the expiry of the Exercise Period and only to the extent not purchased by the Issuer during such Exercise Period in accordance with the Conditions. If the Sukukholders' Agent receives a Purchase Notice, the Sukukholders' Agent shall promptly give notice to the Issuer, the Custodian and the Payments Administrator that such a Purchase Notice has been received, specifying the Event of Default referred to therein (but so that such notice shall only be given in relation to the first Purchase Notice received in respect of any Event of Default). If the Sukukholders' Agent receives Purchase Notices from the Required Sukukholders within the Exercise Period, then the Sukukholders' Agent shall promptly deliver to the Issuer an Exercise Notice so notifying the Issuer (with a copy to the Sukukholders) and, *provided that* the Event of Default in respect of such Exercise Notice is continuing, the Issuer shall, pursuant to the Purchase Undertaking, immediately purchase the Sukuk from all Sukukholders by payment of the Purchase Price applicable to the Sukuk as of the date on which Purchase Notices from the Sukukholders were first received, together with payment of the Periodic Default Amount (calculated as of the date of such purchase) and any Specified Amount (if relevant).

12. Enforcement and Exercise of Rights

- (a) Following the distribution of the proceeds of the Sukuk Assets in respect of the Sukuk to the Sukukholders in accordance with these Conditions and the Declaration of Agency, the Sukukholders' Agent shall not be liable for any further sums, and accordingly no Sukukholder may take any action against the Sukukholders' Agent or any other person to recover any such sum in respect of the Sukuk or the Sukuk Assets.
- (b) The Sukukholders' Agent shall not be bound in any circumstances to take any action to enforce or to realise the Sukuk Assets or take any action against the Issuer under any Sukuk Document to which the Issuer or the Custodian is a party unless directed or requested to do so (a) by an Extraordinary Resolution or (b) in writing by the Required Sukukholders and in either case then only if it shall be indemnified to its satisfaction from the Net Income and amounts standing to the credit of the Reserve, to the extent that such amounts are otherwise available for distribution to the Sukukholders, against all liabilities to which it may thereby render itself liable or which it may incur by so doing.
- (c) No Sukukholder shall be entitled to proceed directly against the Issuer or the Custodian unless (i) the Sukukholders' Agent, having become bound so to proceed, fails to do so within sixty (60) days of becoming so bound and such failure is continuing and (ii) the relevant Sukukholder (or such Sukukholder together with the other Sukukholders who propose to proceed directly against the Issuer or the Custodian) holds at least twenty-five per cent. (25%) of the aggregate Nominal Amount of the Sukuk then current on such date. Under no circumstances shall the Sukukholders' Agent or any Sukukholders have any right to cause the sale or other disposition of any of the Sukuk Assets except pursuant to the Purchase Undertaking, and the sole right of the Sukukholders' Agent and Sukukholders against the Issuer or the Custodian shall be to enforce the obligation of the Issuer to pay the amounts to the credit of, or required to be credited to, the Transaction Account. For the avoidance of doubt, the Sukukholders' Agent shall not be bound to act or proceed unless it has been indemnified to its satisfaction.
- (d) To the extent permitted under applicable laws and regulations, written resolution signed by or on behalf of the Sukukholders of not less than two-thirds of the aggregate Nominal Amount of the Sukuk as are current of such date shall be valid and effective as a duly passed Extraordinary Resolution.

- (e) The foregoing paragraphs in this Condition 12 (*Enforcement and Exercise of Rights*) are subject to this paragraph. After distributing the net proceeds of the Sukuk Assets in accordance with Condition 5(b) (*Application of Proceeds – Net Income*) and Condition 5(c) (*Application of Proceeds – Reserve*), the obligations of the Sukukholders' Agent in respect of the Sukuk shall be satisfied and no Sukukholder may take any further steps against the Sukukholders' Agent to recover any further sums in respect of the Sukuk and the right to receive any such sums unpaid shall be extinguished. Without prejudice to any liability that the Issuer may have under the Purchase Undertaking, no Sukukholder shall be entitled to petition or to take any other steps against the Issuer, the Custodian or the Sukukholders' Agent in respect of the Sukuk or the Sukuk Assets.

Notwithstanding any other provision of the Sukuk Documents and these Conditions, the Sukuk Administrator shall have no liability to any Sukukholder or to the Sukukholders' Agent for any default or negligence, or alleged default or negligence, in the performance of its obligations under the Sukuk Assets Administration Agreement and/or the Declaration of Agency so long as the Sukuk Administrator (or any person on its behalf) transfers into the Transaction Account the full amount of any Periodic Distribution Amount and/or Extra Amount payable to the Sukukholders on the due date in accordance with these Conditions, and upon such payment being made no Event of Default will be deemed to have occurred.

13. Agents

In acting under the Payments Administration Agreement and in connection with the Sukuk, the Payments Administrator acts as agent of the Issuer and does not assume any obligations towards or relationship of agency for or with any of the Sukukholders. The Payments Administrator and its initial specified office are set out in the section "*Parties and Advisers*" of the Offering Circular. The Issuer reserves the right at any time to vary or terminate the appointment of the Payments Administrator and to appoint a successor Payments Administrator; *provided, however*, that the Issuer shall at all times maintain a Payments Administrator in the Kingdom of Saudi Arabia. Notice of any change of the Payments Administrator or in its specified office shall promptly be given to the Sukukholders.

14. Meetings of Sukukholders; Modification

- (a) *Meetings of Sukukholders:* The Declaration of Agency contains provisions for convening meetings of Sukukholders to consider any matter affecting their interests, including the sanctioning by the Extraordinary Resolution of a modification of the Sukuk, these Conditions or any relevant provision of the Declaration of Agency which is also approved by the Issuer. Such a meeting may be convened by the Issuer and shall be convened by the Issuer upon the request in writing of Sukukholders holding not less than one-tenth of the aggregate Nominal Amount of such of the Sukuk as are current as of such date. The quorum at any meeting convened to vote on an Extraordinary Resolution will be two or more persons holding or representing at least half of the aggregate face value of such of the Sukuk as are current as of such date or, at any adjourned meeting, one-quarter of the aggregate face value of such of the Sukuk as are current as of such date.

An Extraordinary Resolution requires the affirmative vote of at least one more Sukukholder than half of those represented in the relevant meeting in order for it to be passed. Any Extraordinary Resolution duly passed at any such meeting shall be binding on all Sukukholders, whether present or not.

- (b) *Modification:* The Declaration of Agency provides that the Sukukholders' Agent may agree, without the consent of the Sukukholders, to any modification (subject to certain exceptions as provided in the Declaration of Agency) of, or to any waiver or authorisation of any breach or proposed breach of, any of these Conditions or any of

the provisions of the Declaration of Agency, or may determine that an Event of Default, shall not be treated as such which in any such case, in the opinion of the Sukukholders' Agent, is not materially prejudicial to the interests of the Sukukholders or to any modification of any of these Conditions or any of the provisions of the Declaration of Agency which is (in the opinion of the Sukukholders' Agent) of a formal, minor or technical nature or which is made to correct a manifest error or to comply with mandatory provisions of law. Any such modification, waiver, authorisation or determination shall be binding on the Sukukholders and, unless the Sukukholders' Agent agrees otherwise, any such modification shall be notified to the Sukukholders as soon as practicable thereafter in accordance with Condition 17 (*Notices*).

In connection with the exercise by it of any of its powers, authorities or discretions (including, but without limitation, any modification, waiver, authorisation or substitution), the Sukukholders' Agent shall have regard to the interests of the Sukukholders as a class and, in particular, but without limitation, need not have regard to the consequences of such exercise for individual Sukukholders resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory and the Sukukholders' Agent shall not be entitled to require, nor shall any Sukukholder be entitled to claim, from the Issuer or any other person any indemnification or payment in respect of any Tax consequence of any such exercise upon individual Sukukholders.

15. Taxation

All payments or distributions in respect of the Sukuk by or on behalf of the Issuer shall be made free and clear of, and without withholding or deduction for or on account of, any Taxes unless the withholding or deduction of such Taxes are required by the applicable laws. In that event, but only to the extent that such amounts are otherwise available for distribution to the Sukukholders from the Net Income or amounts standing to the credit of the Reserve, the Issuer shall pay such additional amounts (the "**Tax Amount**") as would result in the receipt by the Sukukholders of such amounts as would have been received if no such withholding or deduction had been required. If such amounts are insufficient to pay the Tax Amount, no further amounts shall be payable to the Sukukholders. References herein to the Periodic Distribution Amount, the Extra Amount and any other amounts payable to the Sukukholders, shall include any additional amounts so payable pursuant to this Condition 15 (*Taxation*).

16. Indemnification and Liability of the Sukukholders' Agent

- (a) The Declaration of Agency contains provisions for the indemnification of the Sukukholders' Agent in certain circumstances and for its relief from responsibility, including provisions relieving it from taking action unless indemnified and/or secured to its satisfaction. In particular, in connection with the exercise of any of its rights in respect of the Sukuk Assets. The Sukukholders' Agent shall in no circumstances take any action unless directed to do so in accordance with Condition 12 (*Enforcement and Exercise of Rights*), and then only if it shall have been indemnified and/or secured to its satisfaction from the Net Income and amounts standing to the credit of the Reserve, to the extent that such amounts are otherwise available for distribution to the Sukukholders. Subject thereto, the Sukukholders' Agent waives any right to be indemnified by the Sukukholders in circumstances where such amounts are insufficient to indemnify it in full.
- (b) The Sukukholders' Agent makes no representation and assumes no responsibility for the validity, sufficiency or enforceability of the obligations of the Issuer under any Sukuk Document to which the Issuer is a party and shall not under any circumstances have any liability or be obliged to account to the Sukukholders in respect of any

payment which should have been made by the Issuer or on its behalf, but is not so made, and shall not in any circumstances have any liability arising from the Sukuk Assets other than as expressly provided in these Conditions or in the Declaration of Agency.

- (c) The Sukukholders' Agent is excepted from: (i) any liability in respect of any loss or theft of the Sukuk Assets or any cash, (ii) any obligation to insure the Sukuk Assets or any cash and (iii) any claim arising from the fact that the Sukuk Assets or any cash are held by or on behalf of the Sukukholders' Agent or on deposit, unless such loss or theft arises as a result of gross negligence, wilful default or fraud of the Sukukholders' Agent.

17. Notices

Notices to the Sukukholders will be sent to them by registered mail to their respective addresses on the Register. Any such notice shall be deemed to have been given on the fifth day after the date of mailing. In addition, notices of any meetings of Sukukholders shall be published in the Official Gazette and in a daily newspaper with circulation in the locality of the Issuer's head office at least twenty-five (25) days prior to the date set for the initial meeting and at least thirty (30) days prior to the date set for any adjourned meeting.

18. Governing Law and Jurisdiction

- (a) *Governing law:* The Sukuk Documents are governed by, and are to be construed in accordance with, the laws and regulations of the Kingdom of Saudi Arabia.
- (b) *Jurisdiction:* The Committee for the Resolution of Securities Disputes and the Appeal Panel (the "**Committee**") shall have exclusive jurisdiction to hear and determine any suit, action or proceedings, and to settle any disputes, which may arise out of or in connection with the Sukuk or the Sukuk Documents and, for such purposes, all relevant parties (including, the Issuer and the Sukukholders) irrevocably submit to the jurisdiction of the Committee. No suit, action or proceedings which may arise out of or in connection with the Sukuk or the Sukuk Documents may be filed or brought outside the Kingdom of Saudi Arabia and no court or any judicial authority outside the Kingdom of Saudi Arabia shall have jurisdiction to hear any such claim.

USE OF PROCEEDS

The net proceeds of the issue of the Sukuk, after deduction of the combined management and selling commission, will be used by the Issuer for general corporate purposes including meeting working capital requirements, refinancing existing financial obligations and capital expenditure and the making of other investments.

SELECTED FINANCIAL INFORMATION

The following information has been extracted from, and should be read in conjunction with, SEC's audited financial statements (the "Financial Statements"). The Financial Statements are included elsewhere in this Offering Circular.

As at 31 December			
	2007	2008	2009
	<i>(thousands of Saudi Riyals)</i>		
STATEMENTS OF INCOME			
OPERATING REVENUE			
Electricity Sales	19,322,935	20,651,799	22,040,360
Meter reading, maintenance and bill preparation tariff	722,994	752,359	794,852
Electricity connection tariff	793,131	884,584	1,015,737
Total operating revenue	20,839,060	22,288,742	23,850,949
Operating Expenses			
Fuel	(4,937,677)	(5,477,362)	(5,898,501)
Purchased energy	(1,370,984)	(1,477,634)	(1,826,900)
Operations and maintenance	(6,760,312)	(7,608,182)	(7,482,952)
Depreciation	(6,371,536)	(6,744,453)	(7,514,931)
General and administrative expenses	(284,173)	(217,065)	(315,542)
Total operating expenses	(19,724,682)	(21,524,696)	(23,038,826)
Operating Income	1,114,378	764,046	812,123
Other income and expenses - net	338,798	340,401	357,491
Net Income before Zakat	1,453,176	1,104,447	1,169,614
Deferred zakat expenses	(40,677)	-	-
Provision for Zakat	-	-	-
Net Income for the year	1,412,499	1,104,447	1,169,614
Earnings per share (SAR)			
From operating income for the year	0.27	0.18	0.19
From net income for the year.	0.34	0.27	0.28

As at 31 December			
	2007	2008	2009
	<i>(thousands of Saudi Riyals)</i>		
BALANCE SHEET DATA			
ASSETS			
Cash and bank balances	5,589,304	1,232,097	3,882,672
Receivables from electricity consumers and accrued revenue - net	13,284,344	15,073,847	10,586,218
Prepayment and other receivables - net	1,719,272	2,897,890	1,956,108
Inventories - net	6,587,084	5,806,673	5,623,342
Total Current Assets	27,180,004	25,010,507	22,048,340
Non Current Assets			
Loan to subsidiary	-	-	365,500
Receivables from electricity consumers	4,825,000	-	-
Equity investments in companies and others	1,659,595	2,159,924	2,353,398
Construction work in progress	15,050,529	20,103,986	32,214,782
Fixed assets - net	87,654,690	98,107,946	109,108,954
Total Non-current Assets	109,189,814	120,371,856	144,042,634
TOTAL ASSETS	136,369,818	145,382,363	166,090,974
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current Liabilities			
Accounts payable	32,201,873	38,278,944	47,350,980
Accruals and other payables	1,494,488	1,267,679	1,439,552
Current portion of long-term loans	979,300	556,127	828,400
Total Current Liabilities	34,675,661	40,102,750	49,618,932
Non current liabilities			
long-term loans	3,846,118	4,647,991	6,511,857
Sukuk	5,000,000	5,000,000	12,000,000
Employees indemnities	4,008,747	4,396,753	4,422,298
Deferred revenue - net	11,574,810	13,352,786	14,970,527
Customers' refundable deposits	1,036,738	1,095,789	1,159,138
Long-term Government payables	13,295,613	13,295,613	13,295,613
Government Loan	14,938,060	14,938,060	14,938,060
Total Non current Liabilities	53,700,086	56,726,992	67,297,493
Total Liabilities	88,375,747	96,829,742	116,916,425
Shareholders' Equity			
Share capital	41,665,938	41,665,938	41,665,938
Statutory reserve	880,559	991,004	1,107,965
General reserve	532,418	534,573	534,777
Retained earnings	4,915,156	5,361,106	5,865,869
Total Shareholders' Equity	47,994,071	48,552,621	49,174,549

TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	136,369,818 =====	145,382,363 =====	166,090,974 =====
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THE SUKUK ASSETS

The Sukuk Assets comprise the rights of the Issuer derived from CMR 169 and the distribution and the retail supply license no. 070406-R dated 28/3/1428H granted by ECRA to provide electrical service connections and the entitlement to levy and receive a one-time charge for each electrical service connection (a “**Connection Charge**”) provided by the Issuer calculated on the basis of the customer requested meter breaker ampere size in accordance with CMR 169. The Sukuk Assets and the extent of the rights and entitlements that attach to them are more particularly described in the Sukuk Assets Transfer Agreement.

Connection Charges

The Issuer charges a Connection Charge in each of the following circumstances:

- (a) a customer requests a new connection to the electricity supply system by way of the installation of a meter breaker; and
- (b) a customer requests that an existing meter breaker located at a site which is connected to the electricity supply system is replaced by one of a higher capacity (in which case the Connection Charge levied is the difference between the Connection Charge for the existing meter breaker and the Connection Charge for the new meter breaker).

With the exception of electrical service connections made to the Government, the Issuer charges the full amount of a Connection Charge at the time the customer makes the relevant request and the Connection Charge is payable in single a lump sum in advance. The Government pays for its electrical service connections in accordance with the allocation made for it in the Government’s budget.

The Sukuk Assets do not include any rights and entitlements that SEC has under, among other things, Ministry of Water and Electricity Resolution Number 1/3418 dated 17/9/1424H to charge additional amounts for providing electrical service connections to those customers requesting electrical service in areas outside the Issuer’s electricity grid or in non-urban areas.

Installation of new meter breakers

SEC will install electricity meter breakers at new customers’ premises if the following steps are completed:

- the customer completes a services request application form, which includes the customer’s name, identification details, details of the land title deed and date of issuance and information on the new building itself (including, its location and the electricity requirements);
- the customer provides SEC with a permit issued by the relevant local municipality permitting the new building to be connected to SEC’s distribution network; and
- the customer pays the applicable Connection Charge and other deposits (or in the case of a Governmental connection, an allocation is made by the Government in its budget for payment in the future).

SEC does not carry out any credit checks on any new or existing customers.

After the above steps are completed, SEC will install the relevant meter break – usually within a period of three months from the date on which a completed application is submitted if SEC has been given clear access to the site where the meter breaker will be installed. Following the installation of the meter breaker, the customer must then provide SEC with a “*municipality certificate for energisation*”, which is issued by the relevant local municipality upon completion of the building in order for SEC to “energise” the meter breaker (i.e., commence the supply of electricity to the relevant building).

At present, SEC generally only accepts applications from the owners of buildings where the electricity service connection is being requested, therefore the owner would be SEC's customer. In some instances, customers who have long-term lease agreements with the Government (such as most of SEC's industrial customers operating on leased land) or with another landlord to develop and occupy land can submit their application forms to SEC together with a copy of the relevant contract and an authorisation from the landlord. SEC will install and energise the meter breakers at such premises in accordance with procedures described above, but the meter breakers will be registered under the names of the developer/occupier in addition to the name of the landowner. In such circumstances, the persons liable for payment of the Connection Charges would be the 'contractual' long-term commercial/industrial tenant.

Payment methods

All payments to SEC, including the payment of Connection Charges, are collected in a variety of ways including:

- payment at designated SEC offices via point of sale terminals (no cash payments are accepted at any SEC office);
- payment at a bank;
- payment through Automated Teller Machines and Cash Deposit Machines;
- direct debit from bank account;
- bank transfers;
- payment via internet banking; and
- payment via telephone banking.

Breaker Sizes and Connection Charges

The Connection Charges do not depend on the category of the requesting customer (residential, commercial, governmental, industrial, or agricultural), but on the meter breaker size, as follows:

<u>Meter Breaker Size</u>	<u>One Time Tariff (SR)</u>
60 Amps.....	SR 1,380
100 Amps.....	SR 3,800
200 Amps.....	SR 11,400
300 Amps.....	SR 18,800
400 Amps.....	SR 26,600
Over 400 Amps.....	SR 26,600 + SR 250 For every additional KVA

The ECRA services manual provides that where one customer requests that more than six (6) meter breakers are installed for different units located in a single residential property, that SEC should charge a Connection Charge for that residential property as though it were a single unit with a meter breaker size equal to the aggregate meter breaker size of all meter breakers installed at that residential property, as opposed to charging a separate Connection Charge for each individual unit's meter breaker based on its size. This should result in a higher Connection Charge for such properties.

The table below shows a breakdown by meter breaker size of the number of new meter breakers installed (for which a Connection Charge was payable) during the periods indicated.

Meter Size	For the year ended 31 December	
	2008	2009
60 Amps.....	176,167	205,904
100 Amps.....	70,620	82,540
200 Amps.....	7,064	8,256
300 Amps.....	2,114	2,472
400 Amps.....	2,371	2,772
Over 400 Amps.....	2,206	2,578
Total	260,542	304,522

The table below shows a breakdown by meter breaker size of the total revenue collected by SEC for the Connection Charges for the periods indicated together with the increase in the revenue for the period indicated.

Meter Size	Total revenue for the year ended 31 December			Increase in revenue from 2008 to 2009		
	2008	2009				
		<i>(thousands of Saudi Riyals and percentages)</i>				
60 Amps.....	243,110	17%	266,074	17%	22,964	9%
100 Amps.....	268,356	18%	281,726	18%	13,370	5%
200 Amps.....	80,529	5%	78,257	5%	-2,272	-3%
300 Amps.....	39,743	3%	46,954	3%	7,211	18%
400 Amps.....	63,068	4%	62,606	4%	-462	-1%
Over 400 Amps.....	792,078	53%	829,526	53%	37,448	5%
Total	1,486,884	100%	1,565,143	100%	78,259	5%

Applicable Percentage

After determination of the aggregate face value of the Sukuk that are issued by SEC (see the "Subscription and Sale" section of the Offering Circular), SEC will determine the Applicable Percentage of the rights and entitlements derived from CMR 169 to provide electrical service connections and to charge the Connection Charges which will be transferred to the Custodian on behalf of the Sukukholders Agent and the Sukukholders.

Administrator's Allowable Costs

Pursuant to the Sukuk Assets Administration Agreement, SEC (in its capacity as Sukuk Administrator) is entitled to charge Administrator's Allowable Costs against revenues received from Connection Charges before distributions are made to Sukukholders. The Administrator's Allowable Costs consist of the costs and expenses of manpower and equipment relating to the provision of electrical service connections and the installation of new meter breakers.

The table below sets out the costs and expenses, by meter breaker size, which fall under the definition of Administrator's Allowable Costs for the periods indicated.

Categories	For the year ended 31 December	
	2008	2009
	<i>(thousands of Saudi Riyals)</i>	
60 Amps	213,115	206,094
100 Amps.....	93,642	118,766
200 Amps.....	8,073	15,719
300 Amps.....	2,745	3,493
400 Amps.....	2,422	3,493
Over 400 Amps.....	2,906	1,748
Total	322,902	349,313

The Administrator's Allowable Costs represent only some of the direct costs and expenses of SEC in connection with providing electrical services connections and installing new meter breakers and are identified only for the purposes of calculating the Net Income in relation to the Sukuk Assets. Accordingly, these costs and expenses do not represent the total costs and expenses incurred by SEC in connection with providing the relevant electrical services connections and installing new meter breakers. However, SEC (in its capacity as Sukuk Administrator) will only be permitted to charge Holders the costs and expenses which fall within the definition of Administrator's Allowable Costs in accordance with the Sukuk Assets Administration Agreement.

SUMMARY OF THE SUKUK DOCUMENTS

The following is a summary of certain key provisions of the Sukuk Assets Transfer Agreement, the Sukuk Assets Administration Agreement and the Purchase Undertaking. This summary is for information purposes only and is not intended to be (nor should it be construed as being) all inclusive. Prospective Sukukholders should note that this summary is not a substitute for reviewing the relevant Sukuk Documents in full, which are available for inspection during normal business hours at the specified offices of each of the Issuer, the Custodian and the Sukukholders' Agent. Prospective Sukukholders are reminded that pursuant to the Conditions, all Sukukholders are bound by, and are deemed to have notice of, all the provisions of the Sukuk Documents.

Except as indicated otherwise below, terms and/or expressions used and not defined herein have the same meanings as is given to them in the Conditions.

The Sukuk Assets comprise the rights of the Issuer derived from CMR 169 and the distribution and the retail supply license no. 070406-R dated 28/3/1428H granted by ECRA to provide electrical service connections and the entitlement to levy and receive a one-time charge for each electrical service connection (a “**Connection Charge**”) provided by the Issuer calculated on the basis of the customer requested meter breaker ampere size in accordance with CMR 169. The Sukuk Assets and the extent of the rights and entitlements that attach to them are more particularly described in the Sukuk Assets Transfer Agreement. Such rights and entitlements will be purchased by the Sukukholders (through the Sukukholders' Agent) from the Issuer for a period of twenty (20) years and the Sukuk Assets will be transferred by the Issuer to the Custodian for the benefit of the Sukukholders.

The Sukuk Assets do not include any rights and entitlements that SEC has under, among other things, Ministry of Water and Electricity Resolution Number 1/3418 dated 17/9/1424H to charge additional amounts for providing electrical service connections to those customers requesting electrical service in areas outside the Issuer's electricity grid or in non-urban areas.

Sukuk Assets Transfer Agreement

The Issuer, the Custodian and the Sukukholders' Agent are parties to the Sukuk Assets Transfer Agreement, pursuant to which:

- (1) the Issuer agrees to transfer to the Custodian, for the benefit of the Sukukholders, the Sukuk Assets for the duration of twenty (20) years;
- (2) the transfer of the Sukuk Assets takes effect on and with effect from the Closing Date and shall remain in force until the expiry of the Transfer Period (as defined in the Sukuk Assets Transfer Agreement); and
- (3) the transfer of the Sukuk Assets will not entitle any Sukukholder to further information on SEC's business or its customers nor entitle any Sukukholder to be involved in any matter in the Connection Services business (except as provided for in the Sukuk Assets Administration Agreement). Given the appointment of the Sukuk Administrator, the Sukukholders' Agent and the Custodian are not entitled to impede in any way the activities of the Sukuk Administrator, including providing (or procuring the provision of) any Connection Services or any other similar activities.

Pursuant to the Sukuk Assets Transfer Agreement, the Issuer covenants that for the duration of twenty (20) years it shall: (a) not, in any manner, dispose of all or any part of the Sukuk Assets nor create, grant or permit to subsist any Security Interest over all or any of its right, title and interest in the Sukuk Assets except to the extent expressly contemplated by the Sukuk Documents; (b) contribute to the Reserve in accordance with Condition 5(d) (*Top-Up of Reserve*) of the Conditions; (c) comply with all laws to which the Issuer may be subject including, without limitation, the Electricity Laws generally, except to the extent that failure to do so would not have a Material Adverse Effect; and (d) do, take or fulfil all such actions, conditions or things that are required in order that the Issuer

Warranties (as defined in the Sukuk Assets Transfer Agreement), which are deemed to be repeated on the Closing Date, are true by reference to the facts then subsisting (the “**Issuer Covenants**”).

The Custodian covenants with the Issuer and the Sukukholders’ Agent to: (a) enforce or procure the enforcement of the Sukukholders’ rights under the Sukuk Assets; (b) not sell, assign, transfer or otherwise dispose of all or any part of the Sukuk Assets, except to the extent expressly contemplated by, or permitted under, the Sukuk Documents or the Conditions; (c) not create, grant or permit to subsist any Security Interest over all or any of its right, title and interest in the Sukuk Assets except to the extent expressly contemplated by, or permitted under, the Sukuk Documents or the Conditions; (d) engage in any business other than as contemplated or permitted by: (i) its constitutional documents as of the date of the Sukuk Assets Transfer Agreement or (ii) the Sukuk Documents; and (e) do, take or fulfil all such actions, conditions or things that are required in order that the Custodian Warranties (as defined in the Sukuk Assets Transfer Agreement), which are deemed to be repeated on the Closing Date, are true by reference to the facts then subsisting (the “**Custodian Covenants**”). The parties acknowledge that the Custodian irrevocably delegates the performance of the Connection Services and the enforcement (or procuring the enforcement) of the Sukukholders’ rights under the Sukuk Assets to the Sukuk Administrator under the Sukuk Assets Administration Agreement.

The Issuer acknowledges that it provides the Issuer Warranties to induce the Custodian and the Sukukholders’ Agent to enter in to the Sukuk Assets Transfer Agreement and that neither the Custodian nor the Sukukholders’ Agent has made or shall make any enquires in respect of, any Customer (as defined in the Sukuk Assets Transfer Agreement), the creditworthiness of any Customer, or the suitability of, the Sukuk Assets. The Custodian and the Sukukholders’ Agent acknowledge that they have only relied upon the Issuer Warranties, and no other representation or warranty. If any Issuer Warranties or the Issuer Covenants are breached the Issuer must notify the Custodian and the Sukukholders’ Agent.

The Custodian acknowledges that in order to induce the Issuer and the Sukukholders’ Agent to enter into the Sukuk Assets Transfer Agreement, the Custodian has agreed to make the Custodian Warranties on the date of the Sukuk Assets Transfer Agreement. The Issuer and the Sukukholders’ Agent acknowledge that they have only relied upon the Custodian Warranties, and no other representation or warranty. If any Custodian Warranties or the Custodian Covenants are breached the Custodian must notify the Issuer and the Sukukholders’ Agent.

The Issuer Warranties given to the Custodian and the Sukukholders’ Agent on the date of the Sukuk Assets Transfer Agreement) (and deemed to be repeated on each date falling on or before the Closing Date) consist of representations and warranties by the Issuer that:

- (a) immediately prior to transferring the Sukuk Assets to the Custodian pursuant to the Sukuk Assets Transfer Agreement, it is the legal and beneficial owner of the Sukuk Assets;
- (b) the entitlement of the Issuer to levy Connection Charges on the Customers is governed exclusively by the Electricity Laws;
- (c) the copy of CMR 169 set out in Part 1 of Annex A of the Sukuk Assets Transfer Agreement (as amended by CMR 170 set out in Part 2 of Annex A of the Sukuk Assets Transfer Agreement) is true and up to date and (other than the amendments set out in CMR 170) has not been amended, supplemented or revoked since the date of the Sukuk Assets Transfer Agreement and the Issuer is not in breach of any provision of the Electricity Laws which in its opinion would have a Material Adverse Effect;
- (d) as of the Closing Date:
 - (i) there will be no restrictions on the Issuer’s ability to transfer the Sukuk Assets in the manner contemplated by the Sukuk Assets Transfer Agreement; and
 - (ii) the Sukuk Assets Transfer Agreement will be effective to transfer the Sukuk Assets to the Custodian (on behalf of the Sukukholders and the Sukukholders’ Agent);

- (e) except as contemplated by the Sukuk Assets Transfer Agreement, it has not sold or otherwise disposed of, or created, granted or permitted to subsist any Security Interest over, all or any of its right, title and interest in the Sukuk Assets;
- (f) it has the necessary capacity, power and authority to enable it to enter into and perform its obligations under the Sukuk Assets Transfer Agreement;
- (g) subject to the matters of Saudi Arabian law described in the “*Risk Factors*” section of this Offering Circular and the related disclaimers and exclusions, the Sukuk Assets Transfer Agreement constitutes its legal, valid and binding obligation enforceable against it in accordance with the terms thereof;
- (h) all necessary authorisations and consents to enable it to enter into the Sukuk Assets Transfer Agreement, to transfer the Sukuk Assets to the Custodian (on behalf of the Sukukholders and the Sukukholders’ Agent) have been obtained and are in full force and effect;
- (i) it has administered the Sukuk Assets for its own account since their inception and (save as disclosed in this Offering Circular) it is not aware of any matter, event or circumstance that would cause the Net Income generated thereby after the date hereof to be reduced such that it was insufficient to cover the Periodic Distribution Amounts and Extra Amounts from time to time becoming payable in respect of the Sukuk; and
- (j) the categories and the costs and expenses which fall under the definition of Administrator’s Allowable Costs for the financial years ended 31 December 2008 and 2009 were as set out in the “*Sukuk Assets*” section of this Offering Circular.

The Custodian Warranties given to the Issuer and the Sukukholders’ Agent on the date of the Sukuk Assets Transfer Agreement) (and deemed to be repeated on each date falling on or before the Closing Date) consist of representations and warranties by the Custodian that:

- (a) immediately prior to transferring the Sukuk Assets to the Custodian pursuant to the Sukuk Assets Transfer Agreement, the Custodian has no substantive trading history and has no liabilities other than the liabilities (if any) assumed by it in respect of the First Sukuk Issue (as defined in the Sukuk Assets Transfer Agreement) and the Second Sukuk Issue (as defined in the Sukuk Assets Transfer Agreement);
- (b) as of the Closing Date there will be no restrictions on the Custodian’s ability to hold the Sukuk Assets in the manner contemplated by the Sukuk Assets Transfer Agreement;
- (c) it has the necessary capacity, power and authority to enable it to enter into and perform its obligations under the Sukuk Documents to which it is a party;
- (d) subject to the matters of Saudi Arabian law described in the “*Risk Factors*” section of this Offering Circular and the related disclaimers and exclusions, the Sukuk Documents to which it is a party constitutes its legal, valid and binding obligation enforceable against it in accordance with the terms thereof;
- (e) all necessary authorisations and consents to enable it to enter into the Sukuk Documents to which it is a party, to hold the Sukuk Assets (on behalf of the Sukukholders and the Sukukholders’ Agent) have been obtained and are in full force and effect;
- (f) other than as expressly disclosed in this Offering Circular there are no litigation or arbitration proceedings against or affecting the Custodian or any of its respective assets or revenues, nor is the Custodian aware of any pending or threatened proceedings of such kind, which are or might be material in the context of the issue of the Sukuk;

- (g) it has promptly filed all tax returns required to be filed by it in any jurisdiction and promptly paid all Taxes payable by it or, if any Tax is being contested in good faith and by appropriate means, adequate provision exists for payment of that Tax; and
- (h) it has not taken any action nor (to the best of its knowledge and belief) have any steps been taken or legal proceedings been started or threatened against it for its winding-up, dissolution or re-organisation, for the enforcement of any Security Interest over its assets or the appointment of a liquidator, supervisor, receiver, administrator, administrative receiver, compulsory manager, trustee or other similar officer of the Custodian or in respect of any of its assets.

Sukuk Assets Administration Agreement

The Custodian, the Sukukholders' Agent and the Sukuk Administrator are parties to the Sukuk Assets Administration Agreement, pursuant to which:

- (1) the Custodian (on behalf of the Sukukholders) irrevocably engages the Sukuk Administrator to perform (or procure the performance of) the Connection Services and other duties set out in the Sukuk Assets Administration Agreement for the duration of the Sukuk and the Sukuk Administrator agrees to so act as administrator in respect of the Sukuk Assets for and on behalf of the Sukukholders. The Sukuk Administrator acts as independent contractor (*ajeer mushtarak*) not as employee (*ajeer khas*); and
- (2) the Sukuk Administrator agrees to the extent practicable to administer, perform and discharge the Connection Services and enforce or procure the enforcement of the Sukukholders' rights under the Sukuk Assets. In particular, it will perform (or procure the performance of) Connection Services, billing, collections of amounts falling due in respect of the Connection Services, costs control in relation to the level of Administrator's Allowable Costs, income administration to preserve and safeguard the income relating to the Sukuk Assets, accounting and auditing in relation to the income and expenses of the Custodian, regulatory and tax control.

Under the Sukuk Assets Administration Agreement, the Sukuk Administrator undertakes that it shall: (a) devote to the performance of its obligations under the Sukuk Assets Administration Agreement at least the same amount of time and attention, and exercise at least the same level of skill, care and diligence as it does in performing its own rights and obligations in relation to its business generally and, in particular, in relation to electricity connection activities performed by it that are not the subject of this transaction or any other issue of sukuk; (b) to the extent practicable, comply with any directions, orders and instructions which the Custodian or the Sukukholders' Agent, as the case may be, acting reasonably may from time to time give to it in connection with the performance of its obligations under the Sukuk Assets Administration Agreement and (c) promptly notify the Custodian and the Sukukholders' Agent of the following:

- (i) any event or circumstance which may in the opinion of the Sukuk Administrator be likely to: (i) significantly affect the level of Net Income arising in relation to the Sukuk Assets in relation to any Periodic Distribution Period; or (ii) cause the Net Income received during the relevant Periodic Distribution Period (when aggregated with the amount of any Reserve) to fall below the Periodic Distribution Amount for such Periodic Distribution Period, plus, in the case of a Periodic Distribution Period ending on a Purchase Date, the applicable Extra Amount; and
- (ii) if it breaches any material obligation under the Electricity Laws in relation to the Sukuk Assets resulting in a reduction in the amount of Net Income received, if such amounts are material in the context of the Sukuk (including in respect of any payments to be made under the Sukuk).

The Sukuk Administrator's fee in relation to the Sukuk Assets Administration Agreement is set out in Conditions 5(b) (*Sukuk Assets: Application of Proceeds – Net Income*) and 5(c) (*Sukuk Assets: Application of Proceeds – Reserve*) in the Conditions.

The Sukuk Administrator makes the following various representations and warranties to the other parties to the Sukuk Assets Administration Agreement and acknowledges that the other parties to the Sukuk Assets Administration Agreement have entered into such agreement in reliance upon such representations and warranties:

- (a) that it has full power and authority to enter into the Sukuk Assets Administration Agreement and to exercise its rights and perform its obligations thereunder;
- (b) that all acts, conditions and things required to be done, fulfilled and performed in order (i) to enable it lawfully to enter into, exercise its rights under and perform and comply with the obligations expressed to be assumed by it in the Sukuk Assets Administration Agreement; (ii) to ensure that the obligations expressed to be assumed by it in the Sukuk Assets Administration Agreement are legal, valid, binding and enforceable, subject to the matters of Saudi Arabian law described in "Risk Factors" in this Offering Circular and the related disclaimers and exclusions set out therein, have been done, fulfilled and performed;
- (c) subject to the matters of Saudi Arabian and Shari'ah law described in "Risk Factors" in the Offering Circular and the disclaimers and exclusions set out therein, the obligations expressed to be assumed by it in the Sukuk Assets Administration Agreement are legal, valid and binding obligations, enforceable against it in accordance with the terms thereof; and
- (d) the execution of the Sukuk Assets Administration Agreement and its exercise of its rights and performance of its respective obligations hereunder do not and shall not (i) conflict in any material respect with any agreement, mortgage or other instrument or treaty to which it is a party or which is binding upon it or any of its assets; (ii) conflict with its constitutive documents; or (iii) conflict with any applicable law, regulation or official or judicial order.

Purchase Undertaking

Pursuant to this undertaking, the Issuer:

- (1) irrevocably undertakes to the Sukukholders' Agent that, following the occurrence of an Exercise Event, it shall purchase the relevant Sukuk from the relevant Sukukholder or Sukukholders (as the case may be); and pay to the Transaction Account all amounts due (if any) in respect of the relevant Sukuk to the relevant Sukukholder(s);
- (2) unconditionally and irrevocably accepts, following the receipt of an Exercise Notice from the Sukukholders' Agent, the automatic transfer of the Sukuk Assets to the Issuer free and clear of any Security Interest. By its acceptance of such Sukuk Assets, the Issuer shall be deemed to have unconditionally and irrevocably accepted and agreed that the Purchase Price together with any applicable Extra Amount or Specified Amount is a fair price for such Sukuk Assets.

Common terms of all documents

Assignment

The Issuer and the Custodian may not assign or transfer their rights and/or obligations under any of the Sukuk Documents or any interest in any of the Sukuk Documents. However, the Sukukholders' Agent has the right to assign or transfer its rights and obligations under any of the Sukuk Documents in accordance with, and subject to the terms of, the Declaration of Agency *provided that*: (i) the Sukukholders' Agent assigns or transfers its rights and obligations under one of the Sukuk Documents at the same time as assigning or transferring its rights and obligations under all other Sukuk Documents; and (ii) all such assignments or transfers are made to the same party.

Termination

Each of the Sukuk Documents terminates on the earlier to occur of (i) the expiry of the Transfer Period, (ii) and the date on which the last Sukuk which is current is purchased by the Issuer in accordance with the Purchase Undertaking.

DESCRIPTION OF THE ISSUER

Introduction

SEC is an integrated electricity generation, transmission and distribution company and the primary supplier of electricity in the Kingdom. Electricity sales by SEC in 2009 accounted for 87.7 per cent. by volume of total electricity sales in the Saudi market. Marafiq and other power producers generate the balance of the electricity consumed in the Kingdom.

As at 31 December 2009, SEC had a total installed electricity generation capacity of 37,913 MW. Currently, SEC owns and operates 53 major power plants throughout the Kingdom, employing steam turbines and gas turbines (both “single cycle” and “combined cycle” and diesel generators). SEC plans to increase its installed generation capacity to 41,347 MW by the end of 2010 with an estimated total cost of SAR 14,220 million.

As at 31 December 2009, SEC’s electricity transmission network comprises more than 39,194.9 kms of overhead lines and 3,507.7 kms of underground cable covering all four operating regions of the Kingdom (see further under the “History” section of this Offering Circular for a description of the four current operating regions).

SEC’s distribution business is responsible for supplying electricity to its customers. SEC divides its customers into five main categories: residential; commercial; industrial (which includes state owned industries); agricultural and governmental.

Total sales of electricity by SEC reached 193,472 GWh in 2009, of which 100,832 GWh (52.11 per cent.) was sold to residential customers and 34,654 GWh (17.91 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 70 per cent. of all electricity sales made by SEC to residential customers in 2009. The bulk of SEC’s industrial customers are located in the Eastern Region, which accounted for approximately 75.6 per cent. of all electricity sales to SEC’s industrial customers in 2009.

SEC’s operating revenues derive from three main sources: electricity sales tariff, meter reading, maintenance, bill preparation tariff and electrical service connection tariff. SEC’s total operating revenues during 2009 were SAR 23,851 million, of which SAR 22,040 million was derived from electricity sales, SAR 795 million from meter reading, maintenance and bill preparation tariffs and SAR 1,016 million from tariffs for electrical service connection.

SEC’s operations are regulated by ECRA. ECRA is responsible for making recommendations to the Council of Ministers to assist them in setting tariffs for electricity sales or regulated services and is charged with ensuring that the Government’s policy objectives for the electricity industry are met. Although ECRA regulates all areas of SEC’s business, its main focus at present are the tariffs charged for electricity sales to customers in the Kingdom.

As at 31 December 2009, SEC had an authorised share capital of SAR 41,665,938,150 divided into 4,166,593,815 shares of SAR 10 each. 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 at present, with the remainder of its shares being held by the general public in the Kingdom. SEC’s shares have been listed on the Saudi Stock Exchange since SEC’s inception.

History

Prior to the incorporation of SEC in December 1999, responsibility for the Saudi electricity industry was divided up regionally among four majority state-owned utilities, known as Saudi Consolidated Electricity Companies (“SCECOs”), and the General Electricity Corporation (“GEC”), the latter of which supervised electricity companies operating in what was then known as the Northern Region.

The four SCECOs were created following the Government's initiative to organise and regulate the Saudi electricity sector by establishing the Ministry of Industry and Electricity in 1975. As part of this organisation, the Kingdom was initially divided into five regions (Western, Eastern, Central, Southern and Northern Regions) for operating purposes. The various private and semi-private electricity companies that were operating in the Western, Eastern, Central and Southern Regions were consolidated into a SCECO in each of the relevant regions. The only exception to this was the Northern Region, where GEC operated certain plants directly and the various other electricity companies continued to operate under the supervision of GEC. The different SCECOs and the electricity companies operating in the Northern Region were only responsible for generating and supplying electricity in their operating region and the regional transmission networks were not interconnected to each other, with the exception of the interconnection between the Eastern and Central Regions.

The electricity sector underwent further reform and restructuring in the late 1990s and SEC was formed pursuant to CMR 169 to replace all four SCECOs and the electricity companies that were operating under the supervision of GEC. SEC 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. The formation of SEC was completed by way of merging the four SCECOs, GEC's projects and the various electricity companies operating under the supervision of GEC into SEC and GEC was dissolved.

SEC assumed all of the operations, rights and liabilities of each of the companies merged into it to become an integrated electricity generation, transmission and distribution company operating throughout the Kingdom. SEC has retained the division of the Kingdom into operating regions but these were reduced to four (the Western, Eastern, Central and Southern Regions) under SEC's current organisational structure. At present, the Western Region covers four electricity departments in Makkah, Jeddah Madinah, Tabuk, and Taif, the Eastern Region consists of four electricity departments covering Dammam and Al Ahsa, Northern province, Al-Jouf province and the northern border, the Central Region consists of six electricity departments covering Riyadh city and Riyadh, Qassim, Alkharj, Dawadme and Hail provinces and the Southern Region consists of four electricity departments covering Asir, Jizan, Najran and Baha provinces.

SEC adopted a strategic plan in 2001 to enable it to meet the needs of its customers, which included the expansion of its generation capacity and its transmission network. In 2002, the second and third units of the Al-Shuaibah power plant started operating and all six units of phase 2 of the Al-Shuaibah power plant project have also commenced operations. 2004 also saw the expansion of the Power Plant-9 in Riyadh and the commissioning of the first 380/110kv substation in Taif. In 2009, the board of directors of SEC approved a 4-year operational plan for SEC for the years 2010 to 2013 and also approved a total budget of SAR 23,985 million for capital investments in 2010 for new projects. SEC incurred a capital expenditure of SAR 20,977 million and SAR 29,140 million in the years 2008 and 2009 respectively. SEC signed contracts amounting to SAR 41,534 million and SAR 12,676 million in 2008 and 2009 respectively.

Strategy

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

As a general policy objective, the Government also 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**”). SEC has entered into a long-term 20 year power purchase agreement with the Rabigh IPP to purchase the electricity to be generated by it and plans to enter into similar power purchase agreements with other IPPs. In relation to the IWPPs, the Water and Electricity Company (“**WEC**”) is currently the sole purchaser (offtaker) of all water and electricity to be produced by Shuaibah 3 and the under construction Shuqaiq 2 IWPP under long-term 20 year power and water purchase agreements (see further under the "*The Water and Electricity Company*" section of this Offering Circular for a description of WEC). 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 the Shuaibah 3 IWPP. 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 approved plans to restructure its power generation business by dividing it into four generation portfolios consisting of power generation units. The creation of these portfolios 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 these generation portfolios 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;
- 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.

The initial plans for restructuring the power generation business are currently in a preliminary stage and have not yet been finalized. Under the current initial plans, the restructuring of SEC’s power generation business will be completed over a four year period agreed with ECRA. SEC will be the sole owner of the new power generation entities created following the completion of the restructuring and at present SEC has no plans to sell its interest in the power generation portfolios or entities to be created in the future.

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.

SEC is taking a number of steps to increase its generation capacity to meet the anticipated future demand. SEC plans to increase installed generation capacity to 41,347 MW by the end of 2010 in order to meet this anticipated demand. However, as the independent power sector develops, SEC believes that it may be able to scale back further capital expenditure on new power generation projects. 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 identified the need to construct three new power plants with a total generation capacity of 5 GW. The bid for the Rabigh Independent Power Plant, one of the three new IPP plants planned, was issued last year. The financing agreements for the Rabigh Independent Power Plant were concluded in 2009. SEC expects to put out bids for the construction of the remaining planned IPP plants in the next 1 to 3 years.

To date, SEC has relied on funds generated from operations and shareholders' equity to fund its operations and has obtained financing from banks and other financial institutions to fund capital expenditure. SEC aims to strengthen its financial position by raising funds through the domestic and international capital markets in order to diversify its sources of funding, with a particular focus on obtaining long-term funding. To this end, SEC raised SAR 5 Billion from a sukuk issue in July 2007 and SAR 7 Billion in July 2009.

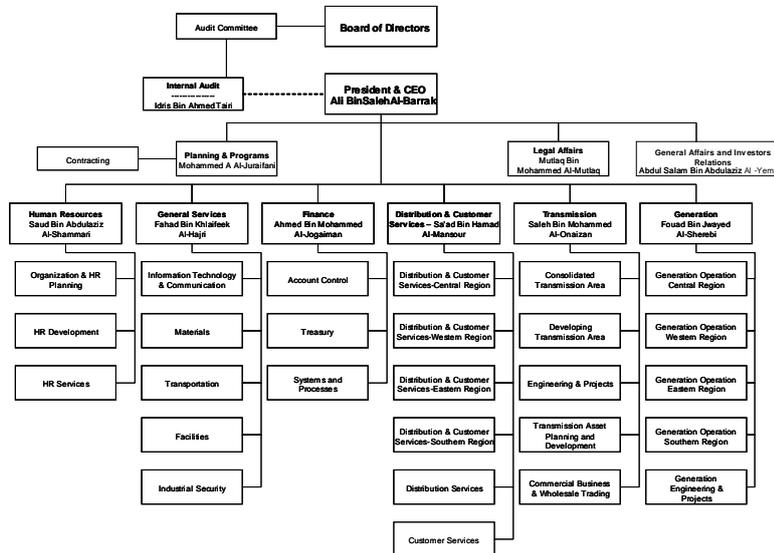
To improve the reliability of the Kingdom's power supply, reduce costs and promote energy trading, SEC intends to develop connections with transmission networks in the neighbouring Gulf Cooperation Council ("GCC") countries. The GCC Interconnection Authority ("GCCIA"), a joint stock company incorporated 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 further under the "*GCC Interconnection Project*" section of this Offering Circular).

During the medium-to long-term (covering a period of 5 to 25 years) SEC 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 and the interconnection of SEC's four operating regions for the transmission business, as only the Central and Eastern Regions are fully interconnected at present. SEC expects to realise a number of economic and operational gains through fully interconnecting its transmission network, including:

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

Organisational structure

The following chart sets out SEC's organisational structure.



Businesses

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

Electricity Generation

As at 31 December 2009, SEC had 53 major power plants together with a number of smaller power plants bringing the total number of power plants to 74 with a total generation capacity of 38,681 MW. These plants are powered by gas turbines, steam turbines and diesel generators. Gas turbines account for the majority of SEC's power generation capacity, with a total generation capacity of 22,389 MW (accounting for 57.9 per cent. of SEC's total generation capacity). The generation capacity of all steam turbines was 12,795 MW (accounting for 33.1 per cent. of SEC's total generation capacity) and the generation capacity of all combined cycle generators was 2,369 MW (accounting for 6.1 per cent. of SEC's total generation capacity) and the generation capacity of all diesel generators was 360 MW (accounting for 0.93 per cent. of SEC'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 19,326 MW in 1997 to 41,200 MW in 2009, representing an average annual growth of 6.5 per cent. during this period. Peak load typically builds up during the summer months (May to September) because of increased usage of air conditioners. SEC has adopted a policy of maintaining a "capacity margin" (that is, a margin of installed generation capacity above peak demand) of 10 per cent. over the next 10 to 15 year period. This capacity margin takes into

account the installed capacity of SEC and the other generators such as the various IPPs and IWPPs in the Kingdom.

The relatively large geographic size of the Kingdom means that peak demand levels of each region do not usually coincide 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, SEC has embarked on an accelerated capital expenditure program for the addition of new generation capacity to meet future growth in demand.

Installed generation capacity

SEC’s installed generation capacity has increased from 22,817 MW in 1997 to 29,051 MW in 2005 and 37,913 MW by the end of 2009, representing an average annual growth rate of 4.3 per cent. during the period from 1997 to 2009. 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. SEC invested a total of SAR 66,850 million in its power generation business from 2002 to the end of 2009. However, at times of peak demand SEC has needed to purchase additional electricity from SWCC and other sources to meet demand. SEC will continue to have cause 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 its own 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 SEC’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 kW 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 is committed to install in 2009 and 2010 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 installed generation capacity (including SWCC’s capacity and other sources) in the Kingdom was 44,582 MW at the end of 2009.

SWCC contributed 11.9 per cent. of the total energy generated by the Kingdom’s power sector in 2005, 10.94 per cent. in 2007, 9.59 per cent. in 2008 and 8.07 per cent. in 2009. Its generation capacity as at 31 December 2009 was 2,092 MW, generated by power plants located on the eastern and western coasts of the Kingdom. The power plants located on the Eastern coast have a total generation capacity of 1,648 MW and the power plants located on the Western coast have a total generation capacity of 399 MW. This generation capacity when combined with SEC’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.

SEC has put in place 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 table below contains a breakdown by region of SEC's installed generation capacity as at 31 December 2009.

Province	Power Plants	Generation Units	Actual Capacity (MW)	Per cent. of total capacity
Eastern.....	15	137	12,568	33.15%
Western.....	16	171	11,403	30.08%
Central.....	14	199	10,314	27.20%
Southern.....	8	103	3,628	9.57%
Total.....	53	610	37,913	100%

SEC employs steam turbine, diesel engine and gas turbine (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 such factors as the availability of the relevant types of fuel and the site on which a plant will be located. If a plant is to be located inland and gas supplies are available, then the plant will employ gas turbines and if the plant is to be located on the coast, then it will use steam turbines using 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 2009, and assuming an economic life of 25 years for each plant with capacity in excess of 100 MW, around 47 per cent of SEC's total generation capacity has more than 10 years of its original economic life remaining. SEC plans to commence the replacement of its power plants which have reached 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 SEC's total generation capacity as at 31 December 2009.

Remaining economic life	Capacity (MW)
Fully depreciated.....	14,134
Less than 5 years.....	1,639
Between 5 and 10 years.....	4,351
More than 10 years.....	17,789
Total.....	37,913

Electricity Generated and Generation Capacity Factors

In 2008 SEC generated a total of 178,430 GWh, which it supplemented by a further 25,770 GWh purchased from SWCC and other sources. In 2009 SEC generated a total of 186,725 GWh, which it supplemented by a further 30,581 GWh purchased from SWCC and from other sources.

Technically, SEC's plants are capable of running at much higher capacity factors (around 80 to 85 per cent. of installed generation capacity in the case of the most modern plants). However, due to the wide differential between the summer peak demand and the winter base demand due to the large difference between summer and winter temperatures and the limited extent of interconnection between the regions, there are certain parts of the year when the plants do not have to achieve such high capacity factors in order to meet demand.

In the short-to medium-term (covering a period of 2 to 10 years), SEC expects its power plants to operate at an average capacity factor of approximately 60 per cent. In the medium to longer term

(covering a period of 15 to 20 years), 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 further under the “*Tariffs*” section of this Offering Circular for an overview of the proposed reforms to the tariff structure).

Transmission

All electricity produced by SEC is transmitted in the Kingdom through SEC’s high tension high voltage transmission grid. To provide transmission coverage to relatively widely scattered areas throughout the Kingdom, SEC has expanded its transmission network from approximately 36,812 kms of power lines as at the end of 2006 to 37,981 kms at the end of 2007 and 39,793 kms at the end of 2008 and 42,706.6 kms at the end of 2009. The transmission network comprises both underground and overhead cables rated from 110kv to 380kv.

The table below shows the classification of SEC’s transmission lines and the related number of sub-stations and transformers as at 31 December 2009.

Voltage of transmission lines	No. of sub-stations	No. of transformers	Capacity (MVA)
380kv	49	165	55,903.6
230kv	35	124	27,252.8
132kv	273	699	43,892.3
110 115kv	252	770	34,180.3

SEC intends to continue to expand network coverage by adding 87 new substations with an additional capacity of approximately 26,000 MVA, over the next three years.

To enable the transmission network to cope with higher peak loads, it was reinforced during 2009 by adding 1,783 kms of extra-high voltage transmission lines and 1,127.1 kms of high voltage lines. SEC plans to add a further 7,250 kms of lines to its transmission network over the next three years. 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 not yet fully interconnected through the transmission network, reflecting the historic development of the country’s power industry on separate regional lines. At present, only the transmission networks in the Eastern and Central Regions are fully interconnected with each other and the Southern and Western Regions are only partially interconnected with each other. Interconnection of all the regions is being pursued by SEC as a strategic objective, to realise greater efficiencies in SEC’s transmission network and to reduce the need for SEC to develop new capacity to meet demand. In 2008, SEC signed the agreement, for the first central-western interconnection project between the Central and Western Regions linking Madina and Qasim and also signed agreements for the interconnection project between Southern and Western Regions. These two major interconnection projects are expected to be in operation by mid of year 2010. A third contract is expected to be signed in the second quarter of 2010 to interconnect Al-Jouf and ArAr to the Central Region. This project is anticipated to be operational by mid 2012.

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

- (a) carrying out periodic studies and analyses of the major transmission faults and identifying the causes and the possible remedies;
- (b) performing routine maintenance of all transmission assets such as substations, lines etc.;

- (c) implementing reinforcement projects and commissioning new transmission projects well in advance of periods where demand is at its peak;
- (d) providing mobile reserve transformers in all strategic locations; and
- (e) improving the performance efficiency of its transmission technicians through continuous training and education programmes.

To facilitate investment by the private sector in power generation and energy trading, SEC has established a joint venture with SWCC to invite investors for three IWPP projects with a total capacity of 4,500 MW. Two out of these three projects, namely the Jubail IWPP (developed by Marafiq) and Shuqaiq IWPPs is in the final stages of construction. Shuaibah IWPP has commenced commercial operation. Further, 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 agreed to a power purchase agreement for Rabigh Independent Power Plant having a capacity of 1,200 MW in July 2009. SEC is also planning to sign a power purchase agreement for the PP11 Power Plant in Riyadh with a capacity of 1,800 MW by the end of 2010.

Distribution

SEC'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.

To improve the quality of energy supply and meet the requirements of its customers, SEC added a total of 19,400 kms of power lines to its distribution network during the course of 2009. This increased the total circuit lengths of its power lines to 364,000 kms at the end of 2009. As at 31 December 2009, SEC's distribution network comprised a total of 178,360 kms of medium-to-low voltage power lines (13.8kv-69kv), an increase of 5.2 per cent. from 31 December 2008. As at 31 December 2009, the total length of SEC's low voltage lines (127v-380v) was 185,640 kms at the end of 2009, an increase of 4.3 per cent. as compared to 31 December 2008. SEC also installed 20,000 distribution transformers with a total capacity of 7,870 MVA into its distribution networks during 2009.

By the end of 2009, SEC supplied electricity to 5,701,516 customers, representing a 5.15 per cent. increase in customer numbers for 2008. 304,522 of the customers supplied during 2009 were new customers, representing a 7.15 per cent. increase in the number of new customers from 2008. The quantity of electricity sold in 2009 was 193,472 GWh, representing a 6.83 per cent. increase on the amount of electricity sold in 2008 and an average annual growth of 5.8 per cent. over the five year period from 2004 to the end of 2009.

All customers supplied by SEC 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 has switched around 4200 higher energy consuming customers to digital meters and intends to switch other higher energy consuming customers with a load greater than 400Amp. to digital meters in due course.

Capital Expenditure

The table below sets out SEC's planned future capital expenditure for the years 2010 to 2014:

	2010	2011	2012	2013	2014
	<i>(in millions of Saudi Riyals)</i>				
Capital Expenditure	30,606	33,035	35,534	23,323	22,345

These figures do not include the capital expenditure planned to be undertaken by the various IPPs and IWPPs during the same period.

Generation

SEC plans to continue increasing its power generation capacity and the following table gives a breakdown of the projects that SEC intends to commission in the next 4 to 5 years for expanding its power generation capacity.

Project Description	Region	Capacity (MW)	Planned date for commissioning first unit	Estimated project cost (in millions of Saudi Riyals)
Al-Qassim Expansion	CENTRAL	220	2010	1,084.0
Al-Quraya power plant (CC) gas part	EASTERN	520	2010	1,806.0
PP 10.....	CENTRAL	1,100	2010	6,390.9
Al-Guba Power Plant Expansion	CENTRAL	55	2010	312.9
Rabigh Gas Plant (New Units) Stage 5	WESTERN	240	2010	767.0
Rabigh Gas Plant (New Units) Stage 7	WESTERN	720	2010	3,495.0
Tabuk Expansion	WESTERN	120	2010	650.0
Duba Expansion.....	WESTERN	45	2010	396.2
Al-Wajh power plant	WESTERN	90	2010	210.0
Sararah Expansion.....	SOUTHERN	32	2010	239.0
PP 10.....	CENTRAL	660	2011	3,737.0
Shaibah Steam Plant	WESTERN	794	2011	7,241.2
Purchase of 4 mobile units each with a capacity 15 MW each	-	60	2011	242.0
Qurayate Power Plant Expansion.....	EASTERN	120	2012	621.7
Al-Quraya power plant (CC) steam part	EASTERN	500	2012	2,753.0
Rafha Power Plant Expansion.....	EASTERN	60	2012	210.0
Al-Qassim Expansion	CENTRAL	220	2012	750.0
Hail power plant Expansion.....	CENTRAL	110	2012	385.0
Shaibah Steam Plant	WESTERN	397	2012	3,620.6
Tabuk Expansion	WESTERN	120	2012	420.0
Najran air cooling	SOUTHERN	60	2012	198.8
Al-Quraya power plant (CC) steam part	EASTERN	750	2013	4,130.0
Tabarjal Expansion	EASTERN	25	2013	146.0
Qurayate Power Plant Expansion.....	EASTERN	25	2013	138.0
Al-Wajh Expansion	WESTERN	30	2013	175.0
Al-Wajh Expansion	WESTERN	30	2013	165.0
Rabigh steam power Plant-1	WESTERN	1260	2014	7,675.0
PP 10 steam part	CENTRAL	890	2014	5,800.0
Al-Shuqaiq.....	SOUTHERN	1,260	2014	9,548.0
Rabigh steam Power Plant -2	WESTERN	1,260	2015	7,675.0
TOTAL		11,773		70,982.3

The planned additional capacity is intended to ensure that SEC maintains a national capacity margin of at least 10 per cent. during the next 4 to 5 years.

Transmission

SEC 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 12,949 million per annum for the next 5 years.

Distribution

SEC has spent an average of SAR 6,255 million annually during the past 5 years to expand and maintain a reliable distribution network and to deliver power supply to an average of 248,000 new customers annually. SEC estimates that it will spend a total of SAR 71,200 million over the next 10 years in expanding, maintaining and improving its distribution network.

Financial Policy and Funding Strategy

The principal objectives of SEC's financial policy are to maintain an appropriate financial profile consistent with businesses which have stable cash flows and long-term assets, and to seek to diversify its sources of funding to achieve greater financial flexibility.

In light of its long-term asset base and its investment plans, SEC intends to seek long-term financing in the future. SEC believes that this will enable it to achieve balance sheet efficiency and minimise refinancing risks.

SEC has a centralised treasury located at its head office, which is responsible for investing and managing its surplus cash. SEC'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. SEC does not invest its surplus cash in high risk instruments or in a speculative manner.

SEC maintains a minimum cash balance alongside its un-utilised committed financing facilities in order to meet its working capital requirements. Accordingly, the management of SEC believes that SEC has sufficient working capital for the 12 month period immediately following the date of this Offering Circular.

Before undertaking any significant capital expenditure, SEC will evaluate the funding requirements for such capital expenditure and determine whether any external financing is required as part of the funding requirements. If any financing is required, SEC will make arrangements by a suitable time in advance of when such funding is required. SEC also makes use of hedging instruments to manage its exposure to market rates under certain of its financing facilities.

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. As part of its desire to diversify its sources of funding, SEC plans to source its future funding from the following sources:

- (a) domestic equity;
- (b) domestic and international debt capital markets;
- (c) fixed income securities (such as sukuk);
- (d) domestic banks and financial institutions;
- (e) international banks and financial institutions; and
- (f) export credit agencies.

In addition, SEC is also considering issuing securities in the regional and international capital markets in the future.

Fuel Supply

All fuel (natural gas, diesel, light crude oil and heavy fuel oil) for SEC's generation business is supplied under long term arrangements by 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 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 SEC at the following prices:

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

Fuel prices are set by the Government.

Regulation

Electricity and Co-generation Regulatory Authority

SEC is principally subject to the regulation of ECRA which was formed in November 2001, pursuant to Council of Ministers’ Resolution no. 236 (“**CMR 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 CMR 236 (as superseded by the Council of Ministers’ resolution no. 154 dated 4/5/1428H) include:

- (a) Supply Matters – issuing licenses, monitoring license compliance, developing unified utility accounting procedures, coordinating organised infrastructure, and devising a services expansion plan.
- (b) Consumer Issues – 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.
- (c) Technical Issues – developing technical standards of performance for each electrical activity, monitoring compliance with the standards, ensuring adequacy of the industry’s research & development activities, and other relevant technical matters.
- (d) Organisational and Administrative Tasks – protecting 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 issuance of 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.

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 (for a more detailed definition of the tariff for electrical service connection, see the “*Sukuk Assets*” section of this Offering Circular).

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 26 halala/KWh. ECRA has not changed the current tariff structure since it was granted this power.

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.

Other Investments and Activities

Gulf Cooperation Council Interconnection Authority (GCCIA)

The stated objectives of GCCIA are as follows:

- (a) 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
- (b) to reduce the electrical generation reserve of each of the GCC member states
- (c) to improve the economic efficiency of the electricity power systems in the member states
- (d) 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
- (e) 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
- (f) to follow up global technological developments in the field of electricity and to seek to apply the best modern technologies.

The first phase of the project being undertaken by GCCIA will involve the interconnection of Saudi Arabia, Bahrain, Qatar and Kuwait (together, the "**GCC North Grid**") at an estimated project cost of US\$ 1,200 million and SEC's share of this is equal to US\$ 441 million. 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 interconnection of Saudi Arabia, Qatar, Kuwait and Bahrain has been completed. The GCC North Grid will then be linked to the interconnection between United Arab Emirates and Oman (together, the "**GCC South Grid**")

SEC has paid in full for the shares it has subscribed for in the GCCIA. The total amount of subscription paid by SEC is SAR 1818 million which currently equates to a 40 percent shareholding in GCCIA. The other shareholders in the GCCIA currently are the governments of Kuwait (33.80%), Qatar (14.81%) and Bahrain (11.39%)

After the completion of the project for the interconnection of the GCC North Grid and the GCC South Grid, the governments of the United Arab Emirates and Oman will become shareholders in GCCIA and the shares in GCCIA will be redistributed as follows:

Country	Percentage Shareholding
State of Kuwait	26.70
State of Qatar	11.70

Sultanate of Oman	5.60
SEC	31.60
Kingdom of Bahrain	9.00
United Arab Emirates	15.40
TOTAL	100.00

The Water and Electricity Company (WEC)

In May 2003, WEC was incorporated as a limited liability company by SWCC and SEC, each of whom owns 50 per cent. of the company at present. The principal purposes for incorporating WEC were as follows:

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

SEC's aggregate long-term investments in all companies amounted to SAR 2.353 billion as at 31 December 2009 as compared to SAR 2.159 billion as at 31 December 2008.

Summary of SEC's Group and its Investments

SEC has a single subsidiary that is consolidated with SEC for financial reporting purposes. The Sukuk Electricity Company is wholly-owned by SEC and was incorporated by SEC for the purpose of providing necessary services and support in connection with Sukuk and other instruments issued by SEC, its subsidiaries and/or its affiliates.

SEC has recently established a further wholly owned subsidiary, Telecommunications Optics Company. The initial plans for this subsidiary are currently at a preliminary stage and have not yet been finalized. Under current initial plans, this subsidiary would enable SEC to commercially utilize SEC's fiber optic network with third party telecommunications providers.

SEC also has equity investments in a number of companies, which are summarised in the table below:

Company Name	Objective	Percentage Shareholding
GCC Interconnection Authority	Interconnecting the electricity transmission networks of the member states of the GCC	40%
Water and Electricity Company	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%

Borrowings, Security Interests, Guarantees and Other Contingent Liabilities

Borrowings

As at 31 December 2009, the total amount of SEC's utilised banking facilities (including term loan facilities) was SAR 7,340 million and the total committed but unutilised banking facilities available to SEC was SAR 6,654 million. The following table sets out the repayment schedule for the principal amount under all of SEC's banking facilities and the scheduled redemption of the sukuk expiring 2027 and sukuk expiring 2029 as at 31 December 2009.

Year	Aggregate principal amount of facilities to be repaid (in millions of Saudi Riyals)
2010	829
2011	829
2012	5,653
2013	761
2014	7,761
2015	761
2016	761
2017	761
2018	761
2019	761
Total	19,637

As at the date of this Offering Circular, SEC has Sukuk outstanding in the amount of SAR 12,000 million.

Security Interests

SEC has granted a mortgage in favour of a bank over three power generation units located in Al-Shuaibah. As at 31 December 2009, the book value of the three mortgaged plants was SAR 2,621 million and the principal amount outstanding of the debt which is secured by this mortgage was SAR 567 million.

Guarantees and Other Contingent Liabilities

As at 31 December 2009, the aggregate liability of SEC under guarantees and other contingent liabilities that are in force amounted to SAR 409 million.

Government Loan

According to CMR 169, SEC's net dues to the Government as well as net dues from the Government were determined in accordance with rules and procedures stipulated in the minutes approved by the Minister of Water and Electricity and the Minister of Finance dated 29 October 1997. The net

difference payable to the Government by SEC as determined at the end of the business day preceding the issue of the Royal Decree for the incorporation of SEC, is to be considered an interest free long-term loan with a grace period of twenty five years starting from the date of public announcement of incorporation of SEC. This loan is to be reviewed thereafter subject to the financial position of the Government and SEC.

The minutes of the meeting held on 21/7/1422H (corresponding to 9 October 2001) between the Minister of Water and Electricity and the Minister of Finance, in which the initial amount of the Government's loan was determined, concluded that the final settlement of government accounts will be subject to the reconciliation of invoices between SEC and certain government entities, and the loan amount shall be adjusted accordingly. During 2005, SEC finalised the settlement and the result was an amount of SAR 385,924,000 in favour of the government entities. The final loan amount was agreed at SAR 14,938,060,000 in a meeting held on 15/07/1426 (corresponding to 21 August 2005) between the Minister of Water and Electricity and the Minister of Finance.

Government Receivables

Since SEC's inception, the Government has not paid SEC for electricity usage in full and in turn SEC has not paid for fuel supplied by Saudi Aramco or power purchased from SWCC.

Following intensive meetings and negotiations between representatives of the Ministry of Water and Electricity, the Ministry of Finance, and SEC, a Council of Ministers' resolution was issued on 9/9/1427H (corresponding to 2 October 2006). A summary of this resolution is as follows:

- (a) the Ministry of Finance will pay to SEC within a period of three years from the date of the Ministerial Decision the amount of SAR 19,000 million representing SEC's uncollected revenues accumulated over the past six years;
- (b) the Ministry of Finance will pay for the Government's annual consumption of electric power from the Government's general budget starting from 2007;
- (c) the existing accruals between Saudi Aramco, SWCC and the municipalities will be settled in the future; and
- (d) the Ministry of Water and Electricity will 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.

The Ministry of Finance has paid all the instalments of the receivables due from the Government to SEC under the payment schedule till the date of this Offering Circular. However, to the best of SEC's knowledge, the settlement of the accruals between Saudi Aramco, SWCC and the municipalities and the resolution of all of the outstanding issues related to the electricity sector is still under review by the Government.

Research and Development and Environmental

Pursuant to 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 SEC's facilities to ensure compliance with such guidelines. SEC has also initiated a system of internal audits at its facilities to monitor compliance with applicable environmental laws. SEC believes that emissions from its power plants are within standards set by the Government and that it is in substantial compliance with all applicable environmental laws.

SEC has taken many environmental measures, such as activating the policy of utilising natural gas instead of using highly concentrated crude oil and installing meter and measuring devices for the gases emitted from the power plant stations' exhaust systems so as to regulate emission quantities and

prevent/reduce environmental pollution. Furthermore, industrial waste resulting from the burning of fuel is processed in special internment sites. Adherence to high specifications during design and construction reduces the level of noise caused by power transformers.

SEC is required under CMR 169 to establish energy conservation practices to promote a more efficient use of electricity. Since its establishment, SEC has undertaken the following in this regard: (a) applied a peak load management programme; (b) educated large domestic and business customers on the efficient usage of electricity; (c) distributed brochures on energy conservation; (d) formulated a comprehensive energy conservation strategy; and (e) 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 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 and will enable customers to reduce their energy bills by using less electricity during peak times. The introduction of TOU Billing is dependent upon ECRA and the Government’s decisions on reforming the current electricity tariff structure, TOU Billing has been implemented for around 1500 customers.

In order to promote and develop research programs, 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 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), general liability and motor vehicles. Exposures are carefully measured by means of periodic risk surveys by the underwriters and reinsurers in conjunction with SEC’s management and engineers.

Property Insurance

SEC has property insurance cover for the Eastern and Western Regions in a total sum of SAR 46,060 million, of which SAR 18,053 million applies to the Eastern Region and SAR 28,007 million applies to the Western Region. SEC also has property insurance cover for the Central and Southern Regions in a total of SAR 28,993 million, of which SAR 22,912 million relates to the Central Region and SAR 6,081 million relates to the Southern Region.

The property insurance maintained by SEC covers fire and allied perils including, but not limited to fire, explosion, lightening, windstorms, hurricanes, vandalism, malicious mischief, riots, strikes, locked out workmen, labour disturbances and civil unrest, civil disturbances, electrical damage and theft.

General Liability Insurance

SEC maintains a comprehensive general liability policy with a loss limit of SAR 18 million. This policy provides cover against legal liability for causing any accidental bodily injury or death to third parties, or damage to their property.

Motor Vehicle Insurance

SEC also maintains motor vehicle insurance for the general fleet with a combined loss limit of SAR 10 million.

Other Insurances

SEC does not carry any insurance cover for business interruption and sabotage and terrorism at present, as the costs of obtaining and maintaining such insurance cover is very high and SEC believes that it is more economical for it to retain this exposure and to manage the risk itself. In addition, most of SEC's power plants are situated in remote areas and are well protected and guarded at all times by SEC's own industrial security and by the security services of the Government.

DISPUTES AND LEGAL PROCEEDINGS

Disputes with Saudi Aramco

- (a) SEC had a dispute with Saudi Aramco, SEC's sole provider of fuel, regarding crude oil handling fees amounting to SAR 2,090 million as at 31 December 2009 and SEC continues to press its claim. 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.
- (b) 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 2009 amounted to SAR 1,533 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. (See further under the "Description of Share Capital and Dividends" of this Offering Circular.)
- (c) During 2009, SEC received an invoice from Saudi Aramco amounting to SAR 268 million for the electricity exported from Saudi Aramco's generation units to SEC's network for the period from 1 January 2009 to 31 December 2009. The issue is still under investigation by the management of the two companies.

Zakat Liabilities

SEC has obtained its restricted Zakat certificate up to 2008. According to the final assessment received from the Department of Zakat and Income Tax ("DZIT") for the period from 5 April 2000 (merger date) to 31 December 2001 and for the year 2002, there are Zakat differences of SAR 13 million relating to amounts being claimed from Saudi Aramco for electricity consumption in their residential property based on the residential tariff rather than the industrial tariff which Saudi Aramco used for settlement. SEC has not accrued any liability to DZIT for this SAR 13 million, as it believes that Zakat should not be levied on unrecognized revenues which have not been accounted for in the accounting records. SEC did not receive any reply from DZIT regarding its appeal against the above assessment. The final assessment for the years 2003 to 2008 had not been received as at the date of this Offering Circular. However, the Council of Ministers recently issued a resolution which provides that SEC is entitled to bill Saudi Aramco at the residential and commercial tariffs for the power consumption at its residential and commercial compounds similar to other industrial companies. ECRA has been tasked with establishing the methodology to determine which Saudi Aramco facilities are subject to residential and commercial tariffs.

Other Disputes

SEC has a dispute with one of its energy vendors related to the purchasing price for the KWh. The total difference between the amount accepted by SEC and the amount billed by the vendor amounted to SAR 163 million as at 31 December 2009. SEC's management believes that the amount billed is overstated since there is no binding agreement, and therefore has not accounted for it in its books.

None of the disputes described above are material nor do any of them involve legal proceedings.

Legal proceedings

SEC is currently involved in a number of legal proceedings. While SEC cannot predict the final outcome of such legal proceedings, SEC believes that none of these proceedings will have a material adverse effect on its business and financial condition because of the defences available to it and because SEC made a provision for legal proceedings in its operational budget in the amount of approximately SAR 124 million.

MANAGEMENT AND EMPLOYEES

Management Structure

SEC's management structure consists of a board of directors (the "**Board**"), an audit committee and 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.

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 have 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. One seat on the board, representing the Government is vacant and is expected to be filled shortly. It is anticipated that the person filling this vacancy will also be appointed as Chairman. Until such appointment Mr. Saleh Bin Hussein Al-Awajji is carrying out the role of acting Chairman. The remaining members are representatives from the private sector. Currently, the Board comprises:

<u>Name</u>	<u>Title</u>	<u>Age</u>
Mr. Saleh Bin Hussein Al-Awajji	Board Member – Government Representative	53
Mr. Saleh Bin Saad Al Muhanna	Board Member – Government Representative	50
Mr. Sulaiman Bin Abdullah Al-Kadi	Board Member – Private Sector Representative	71
Dr. Saud Bin Mohammed Al-Nemr	Board Member – Private Sector Represent	60
Mr. Abdul Aziz Bin Saleh Al-Furaih	Board Member – Government Representative	50
Dr. Khaled Bin Abdullah Al Sabti	Board Member – Government Representative	42
Engr. Issam Bin Alawan Al-Bayyat	Board Member – Saudi Aramco Representative	60
Dr. Abdullah Bin Mohammed Basodan	Board Member – Government Representative	59
Abdul Salam A. Al-Yemni	Secretary to the Board	51

Mr. Saleh Bin Hussein Al-Awajji, Vice Chairman of the Board – Government Representative (Civil registry number 1-0159-7877-6; year of birth 1377H)

Mr. Al-Awajji was elected to the Board of SEC by the general meeting of the shareholders held in December 2008 and was appointed as Vice Chairman to 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. He is currently 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 bachelors degree in Electrical Engineering from King Saud University in 1982, a masters degree in Electrical Engineering form Taiwan National University in 1985 and a doctorate in Electrical Engineering from the University of Strathclyde, UK in 1989.

Mr. Saleh Bin Saad Al Muhanna, Board Member – Government Representative (Civil registry number 1-0122-1818-4; year of birth 1378H)

Mr. Saleh Al-Muhanna was elected to the Board of SEC by the general meeting of the shareholders held in December 2008. 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 bachelors degree in Industrial Management from King Fahd University of Petroleum & Minerals in 1982 and a masters degree in Economics from Ohio University in 1993.

Mr. Sulaiman Bin Abdullah Al-Kadi, Board Member – Private Sector Representative (Civil registry number 1-0013-3861-3; year of birth 1938)

Mr. Al-Kadi was elected to the Board of SEC by the general meeting of the shareholders held in December 2008. He was the Chief Executive 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 bachelors degree in Petroleum Engineering and Management from Texas University, USA in 1964.

Dr. Saud Bin Mohammed Al-Nemr, Board Member – Private Sector Representative (Civil registry number 1-0154-9360-2; year of birth 1369H)

Dr. Al Nemr was elected to the Board of SEC by the general meeting of the shareholders held in December 2008. 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 Trustees 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 Nemr obtained a bachelors degree in Accounting & business administration from King Saud University in 1973, a masters 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 (Civil registry number 1-0381-1469-8; year of birth 1378H)

Mr. Al-Furaih was elected to the Board of SEC by the general meeting of the shareholders held in December 2008. 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 Anderson until 1987. Mr. Al Furaih obtained his bachelors degree in Accountancy from San Diego in 1981 and masters degree in Accountancy from Ball State University in 1983.

Dr. Khaled Bin Abdullah Al Sabti, Board Member – Government Representative (Civil registry number 1-0818-7075-3; year of birth 1388H)

Dr. Al Sabti was elected to the Board of SEC by the general meeting of the shareholders held in December 2008. He is Director General of the Electronic Government Program, Ministry of Communication and Information Technology; an adviser to the Minister for Information Technology Affairs; Head of Team of Development of Arab Strategy for Communication and Information, Council of Arab Ministers of Communication and Information, league of Arab Nations; member of the Committee of Electronic Government, GCC and is a lecturer in computer science at King Saud University. Dr. Al Sabti obtained a bachelors degree in Computer Science from King Saud

University, in 1990, a masters degree in Computer Science from Syracuse University, USA in 1994 and a doctorate in Computer Science from Syracuse University, USA in 1998.

Engr. Issam Bin Alawan Al-Bayyat, Board Member – Saudi Aramco Representative (Civil registry number 1-0107-4859-6; year of birth 1370H)

Mr. Al-Bayyat was elected to the Board of SEC by the general meeting of the shareholders held in December 2008. He is Vice President of New Business Development Saudi Aramco. He is a former President and CEO of Saudi Refining Inc. in Houston, Texas. Mr. Al-Bayyat obtained a bachelors degree in Electrical Engineering from the University of Basra, Iraq in 1971 and a masters degree in Electrical Engineering from King Fahd University of Petroleum & Minerals in 1981.

Dr. Abdullah Bin Mohammed Basodan, Board Member – Government Representative (Civil registry number 1-0481-2301-0; year of birth 1371H)

Dr. Basodan was elected to the Board of SEC in December 2008 by the Board. He has engaged in economic consulting since 1999. Prior to that, he worked as an assistant professor at King Saud University, as an adjunct adviser to the Ministry of Planning, as an adviser at the Minister of Petroleum and Mineral Resources' office, and as a member for the economic consulting committee at the Supreme Economic Council in the Kingdom of Saudi Arabia. Dr. Basodan obtained a bachelors degree in Economics and Political Science from King Saud University in 1394H, a masters degree in Economics from Washington University Seattle, USA in 1980, and a doctorate in Economics from Washington University Seattle, USA in 1985.

Abdul Salam Bin Abdulaziz Al-Yemni, Secretary to the Board. See below under the “Executive Management” section of this Offering Circular.

Executive Management

Name	Title	Age
Engineer Ali Bin Saleh Al-Barrak	Chief Executive Officer	57
Engineer Fouad Bin Jwayed Al-Sherebi	Executive Vice President – Generation	51
Engineer Saleh Bin Mohammed Al-Onaizan.....	Executive Vice President – Transmission	54
	Executive Vice President – Distribution & Customer Services	54
Engineer Sa’ad Bin Hamad Al-Mansour	Executive Vice President – Finance	52
Mr. Ahmed Bin Mohammed Al-Jogaiman	Senior Vice President - General Services	55
Mr. Fahad Bin Khlaifeek Al-Hajri.....	General Auditor	65
Mr. Idris Bin Ahmed Tairi	Senior Vice President – Planning and Programs	51
Engineer Mohammad Bin Abdulaziz Al-Juraifani..	Senior Vice President – Legal Affairs	54
Mr. Mutlaq Bin Mohammed Al-Mutlaq	Senior Vice President – Public Affairs and Secretary to the Board	51
Mr. Abdul Salam Bin Abdulaziz Al-Yemni.....	Senior Vice President – Human Resources	51

Engineer Ali Bin Saleh Al-Barrak, CEO (Civil registry number 1-0108-1099-0; year of birth 1952)

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-Saudiyah from 1978 to 1980. Mr. Al-Barrak obtained a bachelors degree in Electrical Engineering from King Saud University in 1975 and a masters degree in Electrical Engineering from the University of Colorado at Boulder, USA in 1979.

Engineer Fouad Bin Jwayed Al-Sherebi, Executive Vice President – Generation (Civil registry number 1-0003-8248-9; year of birth 1958)

Mr. Al-Sherebi 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-Sherebi was Electrical Maintenance Engineer in Water and Electrical Power Generation, Jeddah from 1982 to 1986. Mr. Al-Sherebi obtained a bachelors degree in Electrical Engineering from Santa Barbara University, California in 1980 and earned a masters degree in Electrical Engineering from California State University, San Louis Obispo in 1982.

Engineer Saleh Bin Mohammed Al-Onaizan, Executive Vice President – Transmission (Civil registry number 1-0371-4662-6; year of birth 1955)

Mr. Al-Onaizan joined SEC as an Al-Rus Services Division Manager in 1981. Since that time he has held the following positions within SEC: Engineering Department Manager (Central Electricity Co – Qaseem Area) from 1983 to 1987; Manager of Qaseem Area Electricity from 1987 to 1990; Manager of Riyadh Area Electricity from 1990 to 1996; Vice President Engineering and Projects Affairs from 1996 to 2002; Senior Vice President Central Operating Area from 2002 to 2007 and he is currently Executive Vice President Transmission since 2007. Before joining SEC, Mr. Al-Onaizan was a Projects Manager at Saudi Industrial Development Fund from 1977 to 1981; and Electrical Engineer at the Research Centre and Industrial Development from 1976 to 1977. Mr. A-Onaizan obtained a bachelors degree in Electrical Engineering from King Saud University in 1976.

Engineer Sa'ad Bin Hamad Al-Mansour, Executive Vice President – Distribution & Customer Services (Civil registry number 1-0081-8495-2; year of birth 1955)

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 bachelors degree in Civil Engineering from King Fahd University of Petroleum & Minerals in 1978.

Mr. Ahmed Bin Mohammed Al-Jogaiman, Executive Vice President – Finance (Civil registry number 1-0090-2134-4; year of birth 1957)

Mr. Al-Jogaiman 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 Executive Vice President, Finance. Before joining SEC, Mr. Al-Jogaiman worked for General Organisation for Social Insurance and Iraklis Company. He obtained a bachelors degree in Administrative Sciences and specialised in Accounting from King Saud University in 1981.

Mr. Fahad Bin Khlaifeek Al-Hajri, Senior Vice President – General Services (Civil registry number 1-0101-5393-8; year of birth 1954)

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; Vice President Support Services and 4th Operating Area from 2001 to 2002 and he is currently Senior Vice President, General Services since 2002. He obtained a degree in Economics from University of Colorado, USA in 1980.

Mr. Idris Bin Ahmed Tairi, General Auditor (Civil registry number 1-0254-3438-0; year of birth 1944)

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 and Senior Financial Manager, 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 bachelors degree in Economics from King Saud University in 1969 and a masters degree in Accounting from Arizona University, USA in 1974.

Mr. Mohammed Bin Abdulaziz Al-Juraifani, Senior Vice President, Planning & Program (Civil registry number 1-0148-2611-7; year of birth 1958)

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

Mr. Mutlaq Bin Mohammed Al-Mutlaq, Senior Vice President – Legal Affairs (Civil registry number 1-0251-1397-6; year of birth 1955)

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; he was then a Legal Consultant for Salah Al-Hejailan Law Firm from 1996 to 2000. Mr. Al-Mutlaq obtained a bachelors degree in Islamic Shariah from Imam Mohammed bin Saud Islamic University in 1975 and a masters degree in Law from the University of Tulane, USA in 1983.

Mr. Abdul Salam Bin Abdulaziz Al-Yemni, Senior Vice President – Public Affairs and, Secretary to the Board (Civil registry number 1025111855; year of birth 1958)

Mr. Al-Yemni was appointed Secretary to the Board in 2000. He is currently also 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 bachelors degree in arts from King Fahd University of Petroleum & Minerals in 1982.

Mr. Saud Bin Abdulaziz Al-Shammari, Senior Vice President – Human Resources (Civil registry number 1-0163-8449-5; year of birth 1958)

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 is currently Senior Vice President, Human Resources since 2007. He obtained a bachelors degree in Business Administration and Computer Science from Winthrop College, South Carolina, USA in 1981 and a masters degree in Management Information Systems from the University of South Carolina, USA in 1984.

Compensation and related-party interests of directors and executive management

The table below shows the names of the directors who own shares in SEC and the number of shares owned by them and their relatives (as defined in the CMA’s glossary of terms) as at the date indicated below. Other than the persons listed below, no other director of SEC (or their relatives) own any shares in SEC.

<u>Name of Director</u>	<u>Date as of Hold</u>	<u>No. of shares in SEC</u>
Sulaiman Bin Abdullah Al-Kadi.....	23/02/2010	1050
Saud Bin Mohammed Al-Nemr	23/02/2010	178,000

As at 23 February 2010, no member of the Executive Management or their relatives, own any shares in SEC.

No member of the Executive Management of SEC has received any commission, discount, brokerage or other non-cash compensation or has been granted special terms or options in connection with the issue or sale of any securities by SEC or any of its subsidiaries or affiliates in the two years preceding the date of this Offering Circular.

No director of SEC has received any commission, discount, brokerage or other non-cash compensation or has been granted special terms or options in connection with the issue or sale of any securities by SEC or any of its subsidiaries or affiliates in the two years preceding the date of this Offering Circular.

As at the date hereof, none of the directors, Executive Management, or the secretary of SEC has been in bankruptcy.

No contract or arrangement is in effect or contemplated at the date of this Offering Circular in which any of the Chief Operating Officer, the Chief Financial Officer, the Chief Executive Officer (“**CEO**”) and the directors of SEC and their respective relatives is materially interested which is significant in relation to the business of SEC.

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 2009 and 2008, the aggregate remuneration (including benefits in kind) paid to the members of the Board was SAR 1,974,800 and SAR 1,085,000 respectively.

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 Offering Circular, 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 Offering Circular, the CEO does not have any service or employment contract with SEC.

Powers of directors and CEO

A summary of the current powers of the Board is set out in the “*General Information*” section of this Offering Circular. As at the date of this Offering Circular, the bylaws of SEC do not grant any member of the Board any powers to vote on a contract or proposal in which he has a material interest nor any powers to borrow from SEC. The Board has the power to propose to the General Meeting its remuneration and the General Meeting has the power to either approve or reject the Board’s proposal.

The CEO of SEC is appointed by the Board and the Board also determines his powers and remuneration. The CEO of SEC is not member of the Board and accordingly, has no power to vote on a contract or proposal in which he has a material interest nor does he have any power to borrow from SEC.

Employees

As at 31 December 2009, SEC had a workforce of 27,710 of which 85.86 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 banks whereby SEC will facilitate the granting of financings by such banks to SEC's Saudi employees in order to enable them to purchase housing. As part of these agreements, SEC, where an employee meets both the criteria set by SEC and the criteria set by the financing bank, will pay 70% of the financing costs, defined to exclude the principal of the financed amount, for so long as the employee remains SEC employee.

The following table sets out SEC’s employees by category of activity for the period indicated.

Position	Number of employees in position as at 31 December 2009
Senior-Level Executive Positions	38
Mid-Level Manager Positions.....	1,758
Other Positions	25,914
Total Positions	27,710

For the purpose of the above table:

“**Senior-Level Leader Positions**” includes the CEO, Executive Vice President, Senior Vice President and Executive Directors;

“**Mid-Level Manager Positions**” includes all Managers, Section Heads, Superintendents, Supervisors, Chiefs, Group Leaders and Foremen; and

“**Other Positions**” includes any job title not in Senior-Level Leader Positions or Mid-Level Manager Positions.

There were no material changes to the number of employees of SEC during the financial year ended 2008.

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 Authority. 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.

RECENT DEVELOPMENTS AND OUTLOOK

SEC's financial performance during 2009 was in line with previous trends. SEC's total operating revenue for the year ended 31 December 2009 was SAR 23,850,949,000 compared with SAR 22,288,742,000 for the previous year, while its total operating expenses rose to SAR 23,038,826,000 for the ended 31 December 2009, compared with SAR 21,524,696,000 in the pervious year.

SEC's total operating costs as a percentage of its total operating revenue were relatively stable for the last three financial years, with this percentage standing at 96.6 per cent. for the year ended 31 December 2009, 96.5 per cent. for the year ended 31 December 2008, and 94.6 per cent. for the year ended 31 December 2007. The main contributors to the increase in SEC's total operating expenses during this period were the depreciation expenses, cost of purchased energy and the cost of fuel. The total depreciation expenses rose from SAR 6,744,453,000 for the year ended 31 December 2008, to SAR 7,514,931,000 for the year ended 31 December 2009, an increase of 11.4 per cent., the total cost of purchased energy rose from SAR 1,477,634,000 for the year ended 31 December 2008 to SAR 1,826,900,000 for the year ended 31 December 2009, an increase of 23.6 per cent. While the total cost of fuel rose from SAR 5,477,362,000 for the year ended 31 December 2008 to SAR 5,898,501,000 for the year ended 31 December 2009, an increase of 7.6 per cent.

The increase in the total costs of electricity purchased by SEC and fuel during the last three financial years was mainly the result of increased demand for electricity in the Kingdom of Saudi Arabia during the same period. This increased demand was satisfied by SEC through increases in its own power generation capacity and the purchase of additional power from other producers of electric power in the Kingdom of Saudi Arabia. However, as a result of this increased demand, SEC's total electricity sales grew from SAR 20,651,799,000 for the year ended 31 December 2008 to SAR 22,040,360,000 for the year ended 31 December 2009. SEC expects the volume of its electricity sales to continue during its current financial year. The main driver for this growth is increased demand, which is likely to remain strong as a result of the high population growth rate for the Kingdom of Saudi Arabia and continued industrialisation in the Kingdom of Saudi Arabia. Subject to any changes in the tariff structure that may be imposed by the Government, such growth is expected to result in greater revenues from electricity sales for SEC.

SEC's performance in respect of the financial year which ended on 31 December 2009, is summarised in its annual report for 2009.

Save as disclosed otherwise in this Offering Circular, SEC does not contemplate a material change to the nature of its business as described herein over the next five to ten years.

SEC's audited income statement and balance sheet for the year- ended 31 December 2009 are set out below. SEC's financial performance during the year- ended 31 December 2009 was in line with previous trends and reflects the seasonal nature of electricity use in the Kingdom. Electricity consumption is highest during the third quarter of each year (July to September) because of the high summer temperatures that occur during such time period.

SEC's management does not anticipate any events that could lead to a disruption of current trends with respect to its future financial and trading prospects for the balance of this financial year, but there can be no assurance that this will remain the case.

Income Statements (audited)

	<u>2009</u>	<u>2008</u>
	<i>(in thousands of Saudi Riyals)</i>	
TOTAL OPERATING REVENUE	23,850,949	22,288,742
Total operating expenses (including depreciation)	(23,038,826)	(21,524,696)
Operating income.....	812,123	764,046
Other income and expenses net.....	357,491	340,401
Net Income	1,169,614	1,104,447

Balance Sheet as of 31 December 2009 (audited)

	<u>2009</u>	<u>2008</u>
	(in thousands of Saudi Riyals)	
ASSETS		
Current assets		
Cash and bank balances	3,882,672	1,232,097
Receivables from electricity consumers and accrued revenue, net.....	10,586,218	15,073,847
Prepayments and other receivables, net	1,956,108	2,897,890
Inventories, net.....	5,623,342	5,806,673
Total Current Assets	<u>22,048,340</u>	<u>25,010,507</u>
Non-current assets		
Loan to subsidiary	365,500	—
Equity investments in companies and others.....	2,353,398	2,159,924
Construction work in progress	32,214,782	20,103,986
Fixed assets, net	109,108,954	98,107,946
Total non-current Assets	<u>144,042,634</u>	<u>120,371,856</u>
TOTAL ASSETS	<u>166,090,974</u>	<u>145,382,363</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable	47,350,980	38,278,944
Accruals and other payables.....	1,439,552	1,267,679
Current portion of long-term loans.....	828,400	556,127
Total Current Liabilities	<u>49,618,932</u>	<u>40,102,750</u>
Non-current liabilities		
Long-term loans.....	6,511,857	4,647,991
Sukuk	12,000,000	5,000,000
Employees indemnities	4,422,298	4,396,753
Deferred revenue, net.....	14,970,527	13,352,786
Customers' refundable deposits	1,159,138	1,095,789
Long-term Government payables.....	13,295,613	13,295,613
Government loan.....	14,938,060	14,938,060
Total Non-current Liabilities	<u>67,297,493</u>	<u>56,726,992</u>
Total Liabilities	<u>116,916,425</u>	<u>96,829,742</u>
Shareholders' Equity		
Share capital.....	41,665,938	41,665,938
Statutory reserve	1,107,965	991,004
General reserve	534,777	534,573
Retained earnings.....	5,865,869	5,361,106
Total shareholders' equity	<u>49,174,549</u>	<u>48,552,621</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u>166,090,974</u>	<u>145,382,363</u>

DESCRIPTION OF SHARE CAPITAL AND DIVIDENDS

As at the date of this Offering Circular, SEC has an authorised share capital of SAR 41,665,938,150, represented by 4,166,593,815 ordinary shares, all of which are fully paid, with a nominal value of SAR 10 each. No part of SEC's share capital is currently under option.

SEC is currently 74 per cent. owned by the Government and Saudi Aramco owns 7 per cent. of SEC's issued shares. As at the date of this Offering Circular, no shareholder other than the Government and Saudi Aramco holds more than 5 per cent. of SEC's share capital.

SEC's authorised share capital as at 31 December 2002 was SAR 38,287,770,900 represented by 765,755,418 ordinary shares, with a nominal value of SAR 50 each. In 2003, the chairman of the Supreme Economic Council approved the capitalisation of the Government Electricity Fee Fund amounting to SAR 3,378 million in accordance with CMR 169 and paragraph 3 of Council of Ministries Resolution no. 153 dated 5/9/1420H (corresponding to 12 December 1999) and SEC issued additional shares to its existing shareholders in proportion to their respective shareholding in SEC. As a result, SEC's share capital was increased to SAR 41,665,938,150 represented by 833,318,763 shares with a nominal value of SAR 50 each as at 31 December 2003.

The Council of Ministers passed a resolution no. 41 dated 27/2/1427H requiring that the nominal value of shares in all joint stock companies be reduced to SAR 10. Pursuant to this resolution, the number of ordinary shares in SEC's share capital was split into 4,166,593,815 with a nominal value of SAR 10 per share.

For the years ended 31 December 2008 and 2009 earnings per share of SEC (determined based on the number of shares outstanding at the end of the relevant year) were SAR 0.27 and SAR 0.28, respectively.

Under CMR 169, the Government has waived its right to receive dividends for a period of ten years from the date of SEC's formation, *provided that* dividends paid to other shareholders do not exceed ten per cent. of the nominal value of SEC's shares and under the CMR 327 the Government has agreed to extend this waiver for another ten-year period commencing from Dhu Al-Hijjah 30, 1430 AH.

The following table sets forth the dividends declared and paid by SEC to its shareholders (other than the Government and Saudi Aramco) in respect of the periods specified below.

Financial Year	Pay Date	Amount per share based on the number of shares outstanding as at the end of the relevant Financial Year (SAR)	Amount per share based on the number of shares outstanding as at the date of this Offering Circular (SAR)
2008	24/02/2009	0.70	0.70
2007	19/02/2008	0.70	0.70
2006	14/05/2007	0.70	0.70

It should be noted that Saudi Aramco raised a claim for its share of yearly cash dividends as well as the dividends that will be declared in future. The claim for the period from the inception of SEC on 5 April 2000 to 31 December 2009 amounted to SAR 1,533 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 and CMR 327 also applies to Saudi Aramco.

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.

TAXATION AND ZAKAT

The following is a general description of certain Saudi Arabian zakat/tax considerations relating to the Sukuk. It does not purport to be a complete analysis of all zakat/tax considerations relating to the Sukuk nor does it address the considerations that are dependent on individual circumstances. Prospective purchasers of Sukuk should consult their own tax advisers to determine the zakat/tax consequences for them of acquiring, holding and disposing of any Sukuk and receiving distributions, payments of principal, profit and/or other amounts under the Sukuk and the consequences of such actions under the zakat/tax regulations of the Kingdom of Saudi Arabia.

This summary is based upon the regulations in effect in the Kingdom of Saudi Arabia at the date of this Offering Circular and is subject to any change in such regulations that may take effect after such date. Prospective purchasers should note that SEC is not obliged to update this section for any subsequent changes or modification to the applicable zakat/tax regulations.

1.1 GCC Sukukholders resident in the Kingdom of Saudi Arabia

Sukukholders who are GCC nationals with permanent residence in the Kingdom of Saudi Arabia (except for (a) a citizen of a GCC country other than the Kingdom of Saudi Arabia with a permanent establishment in the Kingdom of Saudi Arabia and (b) a legal entity established under the law of a GCC country other than the Kingdom of Saudi Arabia with a permanent establishment in the Kingdom of 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 Sukuk.

However, such a Sukukholder will be subject to zakat. This summary does not consider the extent to which a potential Sukukholder would be liable to zakat as a consequence of acquiring, holding or disposing of its Sukuk.

“**GCC person**” means (a) a citizen of any of the GCC Countries (namely, the Kingdom of 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.

1.2 Non-GCC persons resident in the Kingdom of Saudi Arabia

Sukukholders who are non-GCC persons resident in the Kingdom of 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 the Kingdom for a taxable year if he meets either of the two following conditions:
 - (1) He has a permanent place of residence in the Kingdom and resides in the Kingdom for a total of not less than thirty (30) days in the taxable year; or
 - (2) He resides in the Kingdom 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 the Kingdom 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 the Kingdom.

(B) A company is considered resident in the Kingdom 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 the Kingdom.

1.3 Sukukholders who are not resident in the Kingdom of Saudi Arabia

Sukukholders who are not residents in the Kingdom of Saudi Arabia (whether such Sukukholders are Saudi Arabian nationals or not Saudi Arabian nationals including Sukukholders resident in GCC) will be subject to withholding tax at the rate of 5 per cent. on all payments in the nature of profit in respect of the Sukuk.

Sukukholders who are non-residents with a permanent establishment in the Kingdom of Saudi Arabia (“PE”) (as defined in Article 4 of the Income Tax Regulation), will be subject to Saudi Arabian income tax and may, pursuant to Article 5 of the Income Tax Regulation, also be subject to a withholding tax at the rate of 5 per cent. on all payments in the nature of profit in respect of the Sukuk.

Subject to the exceptions stipulated in the Income Tax Regulation, PE means a permanent enterprise of a non-resident in the Kingdom 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 an agent.

A non-resident carrying out an activity in the Kingdom of 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 the Kingdom of Saudi Arabia.

All payments in the nature of profit in respect of the Sukuk to a Sukukholder who has a PE in the Kingdom of Saudi Arabia, will be part of the Sukukholder’s gross income 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 Sukukholder, whether such Sukukholder is resident in the Kingdom of Saudi Arabia (as defined in Article 3 of the Income Tax Regulation) or non-resident in the Kingdom of Saudi Arabia (as defined in Article 1(2)(b) of the Bylaws to the Income Tax Regulation and whether such a Sukukholder has or does not have a PE in the Kingdom of 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 Sukuk if such Sukuk were not traded in accordance with the Capital Market Law of the Kingdom of Saudi Arabia and its implementing regulations.

1.4 General

Sukukholders who are natural persons with or without a PE in the Kingdom of Saudi Arabia at the time of their death will not be subject to inheritance or other taxes of a similar nature in the Kingdom of Saudi Arabia.

Sukukholders will not be deemed to be resident, domiciled or carrying on business in the Kingdom of Saudi Arabia solely by reason of holding any Sukuk.

Under the zakat regulations which are in effect as the date of this Offering Circular in the Kingdom of Saudi Arabia, long-term investments in Sukuk are not deductible from the zakat base of the investor.

SUBSCRIPTION AND SALE

Subscription Agreement

The Joint Lead Managers and Joint Bookrunners will enter into a subscription agreement before the Closing Date (as the same may be amended, supplemented or novated, the “**Subscription Agreement**”) with the Issuer relating to the distribution and underwriting of the Sukuk. Pursuant to the Subscription Agreement, the Joint Lead Managers and Joint Bookrunners will severally agree to severally underwrite the Sukuk on the terms provided therein.

The Subscription Agreement will be subject to a number of conditions and may, in certain circumstances, be terminated by the Joint Lead Managers and Joint Bookrunners prior to payment of the net proceeds of the issue of the Sukuk to the Issuer. If the Subscription Agreement is terminated prior to the Closing Date, the offer of Sukuk may also terminate and any proceeds received from subscribers will be refunded.

Application by potential investors

During the Investor Presentation Period, the Joint Lead Managers and Joint Bookrunners may solicit expressions of interest from potential investors for acquiring the Sukuk, during which time the Issuer and the Joint Lead Managers and Joint Bookrunners shall consult and agree on the Margin.

Towards the end of the Investor Presentation Period, the Issuer shall cause the Margin to be published on the websites of the Issuer (www.se.com.sa) and the Payments Administrator (www.samba.com).

Persons wishing to purchase the Sukuk will be required to submit a duly completed form (an “**Investor Application Form**”) to any one of the Joint Lead Managers and Joint Bookrunners before the end of the Investor Presentation Period. Investor Application Forms will be available from any of the Joint Lead Managers and Joint Bookrunners. Applications to purchase Sukuk for less than SAR 500,000 or in amounts which are not higher integral multiples of SAR 10,000 or from applicants who are not Institutional Investors will not be accepted. Persons who are not Institutional Investors may be able subsequently to purchase Sukuk from Institutional Investors.

Allocation of Sukuk will be at the discretion of the Issuer and the Joint Lead Managers and Joint Bookrunners and will be made following the end of the Investor Presentation Period. Once the allocation of Sukuk has been completed, the Issuer shall cause the Margin and the aggregate Nominal Amount, together with the anticipated aggregate net proceeds of the Sukuk to be issued to be published on the Issuer’s and the Joint Lead Managers and Joint Bookrunners’ websites.

Only persons who are Qualified Persons as defined in Condition 1 (*Definitions*) may be registered as Sukukholders. “**Qualified Person**” for these purposes means (a) a natural person who is a national of the Kingdom of Saudi Arabia, (b) another legal person with a permanent establishment in the Kingdom of Saudi Arabia holding a current commercial registration number issued by the Ministry of Commerce and Industry, and which, in the case of either (a) or (b), maintains a bank account in the Kingdom of Saudi Arabia.

The primary distribution of the Sukuk will be only to Institutional Investors (as defined herein).

“**Institutional Investor**” means a Qualified Person who is one of the following:

- (a) a person who is authorised to carry on securities business by the Authority;
- (b) an exempt person as specified in Annex 1 to the Securities Business Regulations of the Authority;
- (c) any of the following:
 - (i) any company which owns, or which is a member of a group which owns, net assets of not less than SAR 50 million;

- (ii) any unincorporated body, partnership or other organisation which has net assets of not less than SAR 50 million; or
- (iii) any person (“A”) whilst acting in the capacity of director, officer or employee of a person (“B”) falling within sub-paragraphs (i) or (ii) where A is responsible for B undertaking any securities activity;
- (d) an institution that has received a licence to engage in banking business in accordance with the laws of the Kingdom of Saudi Arabia; or
- (e) any other person who purchases Sukuk through an authorised person (as defined in the Securities Business Regulations of the Authority).

All potential investors must carefully read the Conditions of the Sukuk prior to completing an application for the purchase of the Sukuk since the execution of the Investor Application Form constitutes acceptance of and agreement to the Conditions.

General

Other than the application for listing of the Sukuk on the Official List maintained by the Authority in the Kingdom of Saudi Arabia, no action has been or will be taken in any jurisdiction by the Issuer, the Joint Lead Managers and Joint Bookrunners that would, or is intended to, permit an offering of the Sukuk, or possession or distribution of this Offering Circular or any other offering material thereto, where action for that purpose is required. Persons into whose hands this Offering Circular comes are required by the Issuer and the Joint Lead Managers and Joint Bookrunners to comply with all applicable laws and regulations in relation to the purchase, offer, sale or delivery of the Sukuk or, have in their possession or distribute this Offering Circular or any other offering material relating to the Sukuk, in all cases at their own expense.

Clearing, Settlement and Trading

The Sukuk will be admitted to the trading, clearing and settlement system of the Registrar.

GENERAL INFORMATION

1. The Issuer's legal address is Al-Faysalyah Tower, King Fahd Road, P.O. Box 22955, Riyadh 11416, Kingdom of Saudi Arabia.
2. The Issuer was 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.
3. As of the date of this Offering Circular, the Issuer has an authorised share capital of SAR 41,665,938,150, represented by 4,166,593,815 of authorised ordinary shares, with a nominal value of SAR 10 each. SEC has no other classes of shares outstanding.
4. The Ordinary General Meeting of SEC adopted a resolution at its meeting held on 4/4/1428H (corresponding to 21 April 2007) approving the issuance of Sukuk by SEC and authorising the Board of Directors of SEC to determine the timing, the amounts and the terms applicable to any Sukuk issued by SEC.
5. The Board of Directors of SEC authorised the issuance of the Sukuk by resolution number 5/91/2010 dated 9/3/1431H (corresponding to 23 February 2010).
6. Except as highlighted in the "*Disputes and Legal Proceedings*" section of this Offering Circular, the Issuer is not aware of any pending or threatened legal or arbitration proceedings affecting it or any of its assets or revenues, which are or might be material in the context of the issue of the Sukuk.
7. Save as disclosed in this Offering Circular, there has been no adverse change, or any development reasonably likely to involve an adverse change, in the condition (financial or otherwise) or general affairs of the Issuer since 31 December 2008, and in the two immediately preceding financial years, that is material in the context of the issue of the Sukuk.
8. No promoter or expert has received any commission, discount, brokerage or other non-cash compensation or has been granted special terms or options in connection with the issue or sale of any securities by SEC or any of its subsidiaries or affiliates in the two years preceding the date of this Offering Circular.
9. As at 17/6/1430 H (corresponding to 10/6/2009G), none of the experts identified in the "*Parties and Advisers*" section of this Offering Circular (for the avoidance of doubt, only the auditors to the Issuer constitute experts for the purposes of the Listing Rules) have any shareholding or interest of any kind in SEC. The Issuer also confirms that none of the Joint Lead Managers (except for any shares held by a Joint Lead Manager under swap agreements entered into by it with investors resident outside the Kingdom in accordance with the circular dated 20/8/1429H (corresponding to 21 August 2008) issued by the Authority) nor any of the legal advisers own any shares or has any interest of any kind in SEC.
10. Save for SEC's logo which is registered as a trademark in the Kingdom, there are no other trade marks, patents, copyright or other intellectual property rights which are material in relation to SEC's business or profitability.
11. For so long as any of the Sukuk are current, copies of the following documents (together with, in the case of items (d) to (g) below, translations thereof into Arabic) may be inspected during normal business hours at the specified office of the Issuer (in respect of paragraph (a) and (b)) and otherwise at the specified office of each of the Custodian and the Sukukholders' Agent:
 - (a) the Issuer's Bylaws and Commercial Registration Certificate;

- (b) the audited financial statements of the Issuer for the years 31 December 2007, 31 December 2008 and 31 December 2009;
 - (c) the latest published unaudited interim financial statements of the Issuer;
 - (d) the Declaration of Agency;
 - (e) the Sukuk Assets Transfer Agreement;
 - (f) the Sukuk Assets Administration Agreement;
 - (g) the Payments Administration Agreements; and
 - (h) the Purchase Undertaking.
12. Taduwl will be appointed as registrar of the Sukuk as described in the “Terms and Conditions of the Sukuk – Register, Title and Transfers”.
13. The following is a summary of the Issuer’s Bylaws:

Adoption of Bylaws and Amendments

The bylaws of SEC were adopted pursuant to Royal Decree No. M/16 dated 6/9/1420H (corresponding to 13 December 1999). Since then, the bylaws have been amended on three occasions, which were as follows:

- (a) Amendment dated 7/4/1423H (corresponding to 16 June 2002) to amend Article 6 of the bylaws regarding the share capital.
- (b) Amendments dated 7/3/1426H (corresponding to 16 April 2005) to amend Articles 2, 6, 8, 9, 14, 17, 20, 21, 22, 23, 25, 26 and 43 of the bylaws and to delete Article 7 regarding the allocation of shares.
- (c) Amendments dated 8/11/1426H (corresponding to 10 December 2005) to amend Articles 2, 5, 14, 17, 23, 28, 35, 36, 39, 40 and 41 of the bylaws.

Objectives

The objectives of SEC are to:

- (1) Generate, transmit and distribute electric power in the Kingdom of Saudi Arabia, either by itself or through its wholly owned or partially owned subsidiaries.
- (2) Purchase, sell and provide electric power services in the Kingdom of Saudi Arabia by itself and through one if its wholly or partially owned subsidiaries for a monetary consideration to be collected from the consumers according to the regulations followed in the Kingdom of Saudi Arabia.
- (3) Take part in and invest in electric power generation, transmission and distribution projects within or outside the Kingdom of Saudi Arabia in accordance with the applicable regulations.
- (4) Import and export of electric power across the borders of the Kingdom in accordance with the applicable regulations.
- (5) Take part in and invest in projects for supply of fuel to its wholly or partially owned subsidiaries pursuant to the applicable regulations. SEC may purchase the fuel needed by it to produce power and by its wholly or partially owned subsidiaries to achieve their goals.

- (6) Prepare and adopt programs and means that are necessary for the implementation of training plans and the requalification of its personnel.
- (7) Conduct and support research in any field leading to the improvement of the quality of service, enhancement of performance and operational efficiency, rationalisation of power consumption, protection of the environment and reduction of costs.
- (8) Prepare, print and distribute manuals, bulletins, information and data and other materials connected with its activities or the services that it provides.
- (9) Provide consultation and advisory services in the fields that serve its objectives.
- (10) Produce water and steam and to benefit, by itself and through its wholly or partially owned subsidiaries, from its facilities to provide communication, information technology, invoicing and collection services and other activities relating to its objectives.

Duration of SEC

The duration of SEC will be fifty years from the date of issuance of the ministerial decision number 2047 dated 30/12/1420H declaring its incorporation, which may be extended by a resolution of the Extraordinary General Meeting of SEC at least one year prior to the expiry of its term.

Shares

All of the shares of SEC shall be registered and shall not be issued for less than their nominal value. Shares may be issued for greater than their nominal value, in which case the difference will be added to SEC's statutory reserve even if the reserve has reached its maximum value.

SEC may, after the approval of the competent authorities, issue preference shares which carry no voting rights, *provided that* these do not exceed fifty per cent. of its capital.

Shares shall be transferable after certificates are issued for them by making an entry in the shareholders' register maintained by SEC, which shall include the names of the shareholders and their nationalities, occupations, places of residence, addresses, the numbers of their shares and the paid-up portion thereof. This registry shall be noted on the share and the ownership and transfer of shares shall be recorded in accordance with the applicable regulations in force.

Sukuk and Bonds

SEC may issue negotiable and indivisible bonds or Sukuk of equal value pursuant to a resolution of its Ordinary General Meeting. The General Meeting may delegate this power to the Board of Directors.

Alteration of Capital

The authorised share capital may be increased by resolution of an Extraordinary General Meeting specifying the method of increasing the share capital, *provided that* the initial authorised share capital has been fully paid-up. Shareholders shall have priority in subscribing for any new shares in cash. New shares issued when increasing the capital may be issued for cash or for contributions in kind.

SEC's capital may be reduced by a resolution of the Extraordinary General Meeting (on acceptable grounds) if the capital exceeds its needs or if SEC has sustained losses. Such resolution may not be passed except after the auditor's report on the reasons justifying the reduction and on the liabilities of SEC and the effect of the reduction on such liabilities has been read out. Subject to the provisions of the Companies Regulations, such resolution shall indicate the manner of reduction. If the reduction is the result of the capital being in excess of

SEC's needs, its creditors must be invited to express their objections thereto within sixty days from the date of publication of the resolution approving the reduction in at least three daily newspapers published in different regions of the Kingdom of Saudi Arabia. If any creditor objects and produces documents within the designated time, SEC shall be obliged to pay its debt if due or to provide an adequate guarantee for payment thereof if it is due on a later date.

Management

SEC will be managed by a Board of Directors consisting of eight members appointed by the General Meeting for three years. The General Meeting shall determine the share of the Board Directors in the annual profits and the amount of fees payable for attendance of the Board meetings and any other benefits.

Each member of the Board of Directors must hold or represent a holder of SEC's shares whose nominal value is not less than ten thousand Saudi Riyals, which shall be deposited in one of the banks designated by the Minister of Commerce and Industry for this purpose within thirty days of his appointment. These shares shall be set aside as a guarantee for that Board member's liability and shall remain non-negotiable until the expiry of the period for hearing the liability claim provided for in the Companies Regulations or until said claim has been decided. If a Board member fails to submit such guarantee shares within the period specified therefore, his membership will be void.

The Board of Directors will appoint a chairman and a Deputy Chairman from amongst its members. The Chairman, or the Deputy Chairman in his absence, shall have the power to call and chair meetings of the Board, to call all General Meetings of shareholders and to represent SEC before governmental departments, agencies or authorities, courts or other adjudicatory authorities, other companies and other persons.

The Board of Directors will appoint a Chief Executive Officer of SEC who may not be a member of the Board. The Chief Executive Officer of SEC will be responsible for executing the Board's resolutions, administering the day to day business of SEC and overseeing all SEC's employees under the supervision of the Board of Directors.

Powers of the Board of Directors

Subject to the powers vested in the General Meeting, the Board shall have the widest powers to manage and supervise SEC's business, its funds and all its other transactions, including the passing of resolutions, the concluding of contracts and performing all other actions that are necessary for the realisation of SEC's objectives.

In discharging its duties, the Board may exercise all functions and perform all acts and actions which SEC may exercise or perform pursuant to its Bylaws, *provided that* such acts do not fall within the competence of the shareholders' General Meeting pursuant to SEC's Bylaws and the Companies Regulations in force.

The Board shall be entitled to contract for loans (including those with a term of more than three years), *provided that* the amount of these loans during a financial year of SEC may not exceed twenty per cent. of its capital and that the Board specifies in its resolution the manner in which these loans are to be applied and how they will be repaid and sees to it that the conditions applicable to the loan and any security given for it will not be detrimental to SEC, its shareholders or the general security given to its creditors.

The Board may buy, sell and mortgage SEC's assets, movable and immovable property and facilities, *provided that* the Board shall specify in its resolution the justification for such an action and that payment of the price for such transaction is not deferred except in certain cases and with sufficient guarantees, and *provided further that* SEC will not be harmed, forced to discontinue some of its activities, or incur other liabilities as a result of the sale or

mortgage conditions. The Board may demand, sue for, collect, compromise, and accept arbitration with respect to SEC's entitlements.

The Board of Directors may release SEC's debtors from their liabilities: (1) the release is after a minimum of one year from the relevant debt coming into existence; (2) the release is in relation to a specified annual allowance for each debtor; and (3) the power to release from liability is not delegable by the Board of Directors.

The Board of Directors may authorise its Chairman or one or more members or another person to perform a certain task or certain tasks within the scope of its powers.

Meetings and Resolutions of the Board of Directors

The Board of Directors shall meet whenever the Chairman calls for a meeting, *provided that* the number of meetings must not be less than four. The Chairman must call for a meeting whenever requested to do so in writing by two Board members. Notices of meetings shall be delivered by hand, or sent to every Board member via registered mail, telex, fax, or other communication means. A meeting of the Board will not be valid unless it is attended by at least six members in person or by proxy, *provided that* the number of members attending in person may not be less than five.

Resolutions of the Board shall be adopted by a majority vote of the Board members present and represented at a meeting. In case of a tie, the Chairman shall have a casting vote. When necessary, the Board may issue its resolutions by having them circulated separately to the Board members, unless a member requests a meeting to deliberate on the resolution. Any resolution adopted in such a manner must be presented to the Board at its next meeting.

Ordinary and Extraordinary Meetings and Resolutions

Any shareholder holding twenty shares will have the right to attend a General Meeting in person or by proxy given in writing to another shareholder who is not himself a member of the Board of Directors, an employee of SEC or someone entrusted with technical or administrative work for SEC's account on a permanent basis.

Except for matters reserved expressly for the Extraordinary General Meeting, the Ordinary General Meeting shall be competent for all matters concerning SEC.

General Meetings will be held in the city in which SEC's head office is located and an Ordinary General Meeting will be held at least once a year within the time period specified in the Companies Regulations. The Board of Directors may call other Ordinary General Meetings whenever it deems it necessary.

Each shareholder will have one vote for each share he represents at the Ordinary and Extraordinary General Meeting. Board members may not vote on resolutions relevant to their release from liability for the period of their membership.

The Ordinary General Meeting will not be valid unless attended by shareholders representing at least fifty per cent. of SEC's capital. If such quorum is lacking at the first meeting, a second meeting shall be called to be held within the next thirty days following the previous meeting and shall be valid irrespective of the number of shares represented at the meeting. Resolutions of the ordinary General Meeting shall be passed by absolute majority of the shares represented at the meeting.

The Extraordinary General Meeting shall have the power to amend the Bylaws of SEC and will be valid only if attended by shareholders representing at least fifty per cent of SEC's capital. If such quorum is lacking at the first meeting, a second meeting shall be called and shall be valid if attended by shareholders representing at least twenty five per cent. of SEC's capital. Resolutions of the Extraordinary General Meeting shall be passed by a two-thirds

majority of the shares represented at the meeting. If a resolution concerns the increase or decrease of the capital, extension or reduction of the duration of SEC, dissolution of SEC prior to the duration stipulated in its Bylaws or merging SEC into another company, then it must be passed by a majority of three-quarters of the shares represented at the meeting.

Auditors

SEC will have one or more auditors appointed annually by the Ordinary General Meeting. The auditor will present an annual report to the Ordinary General Meeting.

Financial Year

SEC's financial year begins on the first day of January of each Gregorian year and ends on the last day of December of such year.

Statutory Reserve and Distribution of Dividends

SEC shall set aside ten per cent. of its net profits every year to form a statutory reserve. The Ordinary General Meeting may decide to stop this deduction when the statutory reserve reaches fifty per cent. of the capital of SEC. SEC may set aside a maximum of ten per cent. of the net profits to constitute another reserve and to allocate same for a particular purpose or purposes.

After deducting the statutory reserve and any other reserve and subject to the provisions of paragraph 2 of the second clause of CMR 169, the balance of net profits (which may not be less than five per cent. of SEC's capital) shall be distributed to the shareholders as a dividend.

Remuneration shall be allocated to the Board of directors after deduction of expenses, depreciation and reserves determined by the Ordinary General Meeting and after the payment of the dividends that may not be less than five per cent. of SEC's capital in accordance with the provisions of the Companies Regulations and the instructions issued by the Ministry of Commerce and Industry. Any funds remaining thereafter will be distributed to the shareholders as additional dividends or retain such funds as agreed by the General Meeting.

The Board of Directors will determine the place and time for the distribution of dividends.

Dissolution and Liquidation

Upon the expiry of SEC's duration or upon its dissolution for any reason before the expiry of its duration, the Extraordinary General Meeting shall specify the liquidation procedure and shall appoint one or more liquidators and specify their powers and fees. The authority of the Board of Directors shall end with the dissolution of SEC. However, the Board of Directors shall continue to manage SEC until the liquidator has been appointed. SEC's employees shall maintain their functions to the extent they do not conflict with the functions of the liquidators.

Saudi Electricity Company
A Saudi Joint Stock Company
FINANCIAL STATEMENTS
INCLUDING INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF
SAUDI ELECTRICITY COMPANY (SEC)
Riyadh-Kingdom of Saudi Arabia

SAUDI ELECTRICITY COMPANY
(A SAUDI JOINT STOCK COMPANY)

FINANCIAL STATEMENTS AND AUDITORS' REPORT
FOR THE YEAR ENDED DECEMBER 31, 2008

SAUDI ELECTRICITY COMPANY
(A SAUDI JOINT STOCK COMPANY)

FINANCIAL STATEMENTS AND AUDITORS' REPORT
FOR THE YEAR ENDED DECEMBER 31, 2008

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AUDITORS' REPORT

To the shareholders
Saudi Electricity Company
(A Saudi Joint Stock Company)
Riyadh, Kingdom of Saudi Arabia

Scope of Audit

We have audited the balance sheet of **Saudi Electricity Company** (a Saudi joint stock company) as of December 31, 2008, and the related statements of income, cash flows and changes in shareholders' equity for the year then ended, and notes 1 to 30 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. 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, 2008, and the results of its operations and its cash flows for the year then ended in conformity with generally accepted accounting standards 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
Safar 29, 1430
February 24, 2009

SAUDI ELECTRICITY COMPANY
(A SAUDI JOINT STOCK COMPANY)

BALANCE SHEET
AS OF DECEMBER 31, 2008

	Notes	2008 SR'000	2007 SR'000 (Restated)
ASSETS			
Current assets			
Cash and cash equivalents	3	1,232,097	5,589,304
Receivables from electricity consumers and accrued revenue, net	4	15,073,847	13,284,344
Prepayments and other receivables, net	5	2,897,890	1,719,272
Inventories, net	6	5,806,673	6,587,084
Total current assets		25,010,507	27,180,004
Non-current assets			
Receivables from electricity consumers	4	-	4,825,000
Equity investments in companies and others	7	2,159,924	1,659,595
Construction work in progress	8	20,103,986	15,050,529
Fixed assets, net	9	98,107,946	87,654,690
Total non-current assets		120,371,856	109,189,814
TOTAL ASSETS		145,382,363	136,369,818
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Accounts payable	10	38,278,944	32,201,873
Accruals and other payables	11	1,313,587	1,494,488
Current portion of long-term loans	13	556,127	979,300
Total current liabilities		40,148,658	34,675,661
Non-current liabilities			
Long-term loans	13	4,647,991	3,846,118
Sukuk	14	5,000,000	5,000,000
End-of-service indemnities		4,350,845	4,008,747
Deferred revenue, net	16	13,352,786	11,574,810
Customers' refundable deposits		1,095,789	1,036,738
Long-term Government payables	10	13,295,613	13,295,613
Government loan	17	14,938,060	14,938,060
Total non-current liabilities		56,681,084	53,700,086
Total liabilities		96,829,742	88,375,747
Shareholders' equity			
Share capital	18	41,665,938	41,665,938
Statutory reserve		991,004	880,559
General reserve	19	534,573	532,418
Retained earnings		5,361,106	4,915,156
Total shareholders' equity		48,552,621	47,994,071
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		145,382,363	136,369,818

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, 2008

	Notes	2008 SR'000	2007 SR'000 (Restated)
Operating Revenues			
Electricity sales		20,651,799	19,322,935
Meter reading, maintenance and bills preparation tariff		752,359	722,994
Electricity connection tariff	16	884,584	793,131
Total operating revenues		22,288,742	20,839,060
Operating Expenses			
Fuel expenses		(5,477,362)	(4,937,677)
Purchased energy		(1,477,634)	(1,370,984)
Operations and maintenance	20	(7,608,182)	(6,760,312)
Depreciation	9	(6,744,453)	(6,371,536)
General and administrative expenses	21	(217,065)	(284,173)
Total operating expenses		(21,524,696)	(19,724,682)
Operating Income		764,046	1,114,378
Other income and expenses, net	22	340,401	338,798
Net income before zakat		1,104,447	1,453,176
Deferred zakat expenses	12	-	(40,677)
NET INCOME FOR THE YEAR		1,104,447	1,412,499
Earnings per share (SR)			
From operating income for the year	23	0.18	0.27
From net income for the year	23	0.27	0.34

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, 2008

	2008	2007
	SR'000	SR'000
OPERATING ACTIVITIES		(Restated)
Net income before zakat	1,104,447	1,453,176
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for doubtful receivables	116,561	74,559
Provision for slow-moving inventory	-	(65,760)
Company's share in net income of investee companies	(42,006)	(11,344)
Depreciation	6,744,453	6,371,536
Gain on sale of fixed assets, net	(40,784)	(128,778)
Gain on sale of the investments	(1,050)	-
End-of-service indemnities, net	342,098	34,776
Deferred revenues, net	1,777,976	1,040,813
(Increase) decrease in operating assets and liabilities:		
Receivables from electricity consumers and accrued revenue	2,921,091	3,483,343
Prepayments and other receivables	(1,178,618)	(139,045)
Inventories	780,411	(1,825,351)
Accounts payable	6,077,071	6,852,994
Accruals and other payables	(199,816)	250,364
Net proceeds and refunds from customers' refundable deposits	59,051	54,521
Net cash from operating activities	18,460,885	17,445,804
INVESTING ACTIVITIES		
Equity investments in companies and others	(513,463)	(900,188)
Fixed assets and construction work in progress	(22,281,324)	(14,778,115)
Proceeds from sale of fixed assets	70,942	147,080
Proceeds from sale other investments	56,190	-
Net cash used in investing activities	(22,667,655)	(15,531,223)
FINANCING ACTIVITIES		
Sukuk	-	5,000,000
Net proceeds (repayment) of long-term loans	378,700	(4,931,111)
Dividends paid to shareholders and Board of Directors' remuneration	(529,137)	(594,835)
Net cash used in financing activities	(150,437)	(525,946)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(4,357,207)	1,388,635
Cash and cash equivalents, beginning of the year	5,589,304	4,200,669
CASH AND CASH EQUIVALENTS, END OF THE YEAR	1,232,097	5,589,304

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 DECEMBER 31, 2008

	Notes	Share capital SR'000	Statutory reserve SR'000	General reserve SR'000	Retained earnings SR'000	Total SR'000
Balance, January 1, 2007		41,665,938	739,309	531,563	4,192,059	47,128,869
Net income for the year – restated	24	-	-	-	1,412,499	1,412,499
Dividends for 2006	25	-	-	-	(547,252)	(547,252)
Board of directors’ remuneration for 2006	26	-	-	-	(900)	(900)
Electricity fee collections (individuals)	19	-	-	855	-	855
Transferred to statutory reserve – restated		-	141,250	-	(141,250)	-
Balance, December 31, 2007 – restated		41,665,938	880,559	532,418	4,915,156	47,994,071
Net income for the year		-	-	-	1,104,447	1,104,447
Dividends for 2007	25	-	-	-	(547,252)	(547,252)
Board of directors’ remuneration for 2007	26	-	-	-	(800)	(800)
Electricity fee collections (individuals)	19	-	-	2,155	-	2,155
Transferred to statutory reserve	13	-	110,445	-	(110,445)	-
Balance, December 31, 2008		41,665,938	991,004	534,573	5,361,106	48,552,621

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, 2008

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 the 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, 1420 H., corresponding to December 12, 1999, and the Minister of Commerce Resolution number 2047, dated Dhu Al Hijjah 30, 1420 H., corresponding to April 5, 2000 and registered under Commercial Registration number 1010158683, dated Muharram 28, 1421 H., corresponding to May 3, 2000 in Riyadh.

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 with its organization chart, is divided into 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. The Company does not have transfer prices between these activities, and revenues are recognized from selling electricity to the end consumer for the Company as a whole based on the official tariff decided by the government.

The Company is a tariff regulated electricity company. Electricity tariffs are determined by the Council of Ministers based on recommendations from the Saudi Electricity Regulatory Agency (SERA). SERA was Established in November 2001 as per the Resolution No. 169 dated Sha’aban 11, 1419H. The last change in tariff was made through the Council of Ministers Resolution No. 170 dated Rajab 12, 1421H and was effective from Sha’aban 1, 1421H., corresponding to October 28, 2000. The maximum rate of 26 Halala per Kilowatts/hours, has not been changed thereafter.

According to the Company's bylaws, the Company's financial year begins on January 1, and ends on December 31, of every calendar year.

SAUDI ELECTRICITY COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED DECEMBER 31, 2008

The accompanying financial statements include Sukuk Electricity Company accounts "a wholly owned limited liability company" registered under commercial registration number 1010233775 dated Jumad Al-Awal 16, 1428 H., corresponding to June 2, 2007.

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 investments in Company's equity 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 reporting period. Although these estimates are based on management's best knowledge of current event and actions, actual results ultimately may differ from those estimates.

Cash and cash equivalents

Cash and cash equivalents include cash on hand and at banks and time deposits and highly liquid investments which are convertible to cash with original maturities of three months or less.

Electricity consumers receivables

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

Inventories

Inventory items of generators, transmission and distribution materials, supplies and fuel are stated at weighted average cost basis, net of provision for slow moving and obsolete items.

Inventory items that are considered an integral part of the generation plant, transmission and distribution networks, and general property such as strategic and stand-by spare parts, 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 net results is recognized when investees' financial statements are issued.

SAUDI ELECTRICITY COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED DECEMBER 31, 2008

Investments of less than 20% owned for which there is no readily available market are stated at cost. Revenue is recognized from these investment 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 decline in value which is other than temporary. 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.

Fixed assets

Fixed assets are stated at historical cost and depreciated over their estimated operational useful lives using the straight line method. Cost includes 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 are removed from the accounts at the time of disposal and the related 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

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 (if any). 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.

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.

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 so 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.

SAUDI ELECTRICITY COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED DECEMBER 31, 2008

Capitalization of borrowing costs

Net borrowing cost which represents, finance charges and other finance costs on long-term loans charged to the Company, net of commission income for the year, are capitalized on all construction-in-progress projects of material amounts 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.

Derivative financial instruments and hedge accounting

The Company use 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 at 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 instrument is recorded as part of finance charges.

End-of-service indemnities

End-of-service indemnities are calculated in accordance with the Saudi Labor Law.

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, is recorded in the statement of income for the period 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.
- Revenue from meter reading, maintenance and bills preparation services represent the monthly fixed tariff based on the capacity of the meter used by the consumers, and is recognized when bills are issued. Revenue of meter reading, maintenance and bills preparation services not yet billed at the balance sheet date is accrued.
- 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 for 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 is evaluated periodically.

SAUDI ELECTRICITY COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED DECEMBER 31, 2008

Statutory reserve

In accordance with the Companies Regulations and the Company's Articles of Association, 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 paid-up capital.

Foreign currency transactions

Transactions denominated in foreign currencies are translated into Saudi Riyals at exchange rates prevailing at the date of the 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. Realized and unrealized exchange gains and losses arising from such translations are recorded in the statement of income.

3. CASH AND CASH EQUIVALENTS

	2008	2007
	SR'000	SR'000
Cash on hand	2,664	2,695
Cash at banks	578,287	428,588
Short-term deposits	651,146	5,158,021
	1,232,097	5,589,304

4. RECEIVABLES FROM ELECTRICITY CONSUMERS AND ACCRUED REVENUE, NET

	2008	2007
	SR'000	SR'000
Electricity consumers receivable		
Governmental institutions	8,997,728	12,558,280
Non-current portion of Governmental institutions (4a)	-	(4,825,000)
Current portion of Governmental institutions	8,997,728	7,733,280
Commercial and residential	2,854,451	2,797,830
Special customers	1,817,886	1,686,602
Saudi Aramco (Notes 27 & 29)	1,413,753	1,071,019
Electricity connection receivables	713,970	394,088
Saline Water Conversion Corporation	454,717	557,900
Total electricity consumers receivable	16,252,505	14,240,719
Less: Provision for doubtful receivables (4b)	(1,995,343)	(1,878,782)
Net electricity consumers receivable	14,257,162	12,361,937
Accrued revenues	816,685	922,407
Total	15,073,847	13,284,344

SAUDI ELECTRICITY COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED DECEMBER 31, 2008

4a. Receivables from Governmental institutions for the period from 5/4/2000 to 31/12/2005, has been agreed to be settled over a period of three years effective 2007 and has been classified to consumer receivables due within one year under current assets, while the remaining balance has been classified as non-current consumers receivables.

4b. Movements in the provision for doubtful receivables during the year is as follows:

	2008	2007
	SR'000	SR'000
Balance, January 1	1,878,782	1,804,223
Charge for the year	116,561	74,559
Balance, December 31	1,995,343	1,878,782

5. PREPAYMENTS AND OTHER RECEIVABLES, NET

	2008	2007
	SR'000	SR'000
Advances to suppliers and contractors	2,590,405	1,039,183
Outstanding letters of credit	125,321	447,141
Prepaid expenses	20,712	25,412
Other	242,646	288,730
Total	2,979,084	1,800,466
Less: Provision for doubtful debts	(81,194)	(81,194)
	2,897,890	1,719,272

6. INVENTORIES, NET

	2008	2007
	SR'000	SR'000
Generation plant materials and supplies	2,708,662	2,532,444
Distribution network materials and supplies	2,575,524	3,540,919
Transmission network materials and supplies	237,790	313,224
Fuel and oil	304,229	215,650
Other	169,726	174,105
Total	5,995,931	6,776,342
Less: Provision for slow moving inventories	(189,258)	(189,258)
	5,806,673	6,587,084

SAUDI ELECTRICITY COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED DECEMBER 31, 2008

Movement in provision for slow-moving inventories during the year is as follows:

	2008	2007
	SR'000	SR'000
Balance, January 1	189,258	255,018
Write offs during the year	-	(65,760)
Balance, December 31	189,258	189,258

7. EQUITY INVESTMENTS IN COMPANIES AND OTHERS

	2008	2007
	SR'000	SR'000
Investments accounted for under the equity method (a)	1,721,836	1,415,318
Other investment, at cost (b)	1,210	1,210
Held to maturity investments (c)	436,878	243,067
	2,159,924	1,659,595

a) Investments accounted for under the equity method.

	Shareholding	2008	2007
	%	SR'000	SR'000
Gulf Cooperation Council Interconnection Authority (a-1)	40	1,703,285	1,403,382
Water Electricity Company (a-2)	50	15,551	10,936
Rass Al Zoor Water and Electricity Company (a-3)	20	1,000	1,000
Rabeq Electricity Company (a-4)	100	2,000	-
Total investments accounts for under the equity method		1,721,836	1,415,318

(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 amounted to USD 442,3 million, equivalent to SR 1,658 million. During 2008, the Company increased its capital contribution in GCCIA to 40% instead of 31,6%. The financial statements of the GCCIA for the year 2008 have not been issued as of this report date.

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NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED DECEMBER 31, 2008

(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 23/3/1423, for the encouragement of the private sector in the participation in water desalination projects. The Company's share amounting to SR 15 million was paid in full and consist of 300,000 shares representing 50% of the Company's share capital. The financial statements of the investee Company for the year 2008 have not been issued as of this report date.

(a-3) Rass Al Zoor Water and Electricity Company

Based on the Company's Board of Directors resolution No. 02/73/2007 dated 1/12/1428H., 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 on 14/9/1428H. The Company's share amounting to SR 1 million was paid in full and represents 20% of the investees' capital. The investee has not yet started operation, accordingly, no financial statements have been issued as of this report date.

(a-4) Rabeq Electricity Company

Based on the Company's Board of Directors resolution No. 06/76/2008 dated 26/5/1429H., corresponding to June 3, 2008, the Company established Rabeq Electricity Company. The Company's share capital amounting to SR 2 million was paid in full and represents 100% of the investees' capital. The investee has not yet started operation, accordingly no financial statements have been issued as of this report date.

b) Other investment, at cost.

	Shareholding %	2008 SR'000	2007 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		1,210	1,210

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NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED DECEMBER 31, 2008

c) Held to maturity investments

	2008	2007
	SR'000	SR'000
Saudi Basic Industries Corporation Sukuk	300,000	150,000
Bin Laden Company Sukuk	50,000	-
SAAB Sukuk	50,000	-
Ras Al-Khimah Investment Authority Sukuk	36,878	93,067
Total held to maturity investments	436,878	243,067

d) Share in net income of investees accounted for under equity method.

	2008	2007
	SR'000	SR'000
Gulf Corporation Council Interconnection Authority	37,391	11,344
Water and Electricity Company	4,615	-
Total (Note 22)	42,006	11,344

8. CONSTRUCTION WORK IN PROGRESS

	2008	2007
	SR'000	SR'000
Power generation projects	8,972,627	4,403,073
Power transmission projects	7,351,004	6,549,777
Distribution projects	3,514,045	3,691,284
General projects	266,310	406,395
	20,103,986	15,050,529

Net financing cost capitalized on projects under construction during the year amounted to SR 613 million (2007: SR 634 million).

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NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED DECEMBER 31, 2008

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, 2008	1,410,099	12,942,472	173,337,129	2,437,754	1,069,286	3,402,588	194,599,328
Additions	35,639	338,564	10,783,542	168,930	69,035	5,837,925	17,233,635
Disposals	-	(50,651)	(85,744)	-	(23,072)	(4,151)	(163,618)
December 31, 2008	1,445,738	13,230,385	184,034,927	2,606,684	1,115,249	9,236,362	211,669,345
Accumulated depreciation:							
January 1, 2008	-	7,810,616	95,366,294	1,544,232	950,121	1,273,375	106,944,638
Charged for the year	-	428,481	5,915,587	82,229	42,616	275,540	6,744,453
Disposals	-	(23,893)	(76,575)	-	(23,072)	(4,152)	(127,692)
December 31, 2008	-	8,215,204	101,205,306	1,626,461	969,665	1,544,763	113,561,399
Net book value:							
December 31, 2008	1,445,738	5,015,181	82,829,621	980,223	145,584	7,691,599	98,107,946
December 31, 2007	1,410,099	5,131,856	77,970,835	893,522	119,165	2,129,213	87,654,690

The land referred to above includes plots of land with a book value of SR 151 million. The title deeds of the land are not yet transferred to the Company's name.

Net book value of fixed assets based on the Company's main activities as of December 31, 2008 are as follows:

	2008 SR'000					2007 SR'000
	Generation	Transmission	Distribution	General Property	Total	Total
Land	246,095	588,559	223,984	387,100	1,445,738	1,410,099
Buildings	2,443,234	1,500,123	132,861	938,963	5,015,181	5,131,856
Machinery & equipment	26,927,558	28,500,171	26,978,381	423,511	82,829,621	77,970,835
Capital spare parts	609,044	367,085	3,875	219	980,223	893,522
Vehicles and heavy equipment	-	-	-	145,584	145,584	119,165
Others	5,503,667	1,666,550	293,015	228,367	7,691,599	2,129,213
Total	35,729,598	32,622,488	27,632,116	2,123,744	98,107,946	87,654,690

SAUDI ELECTRICITY COMPANY
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NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED DECEMBER 31, 2008

Depreciation expense charged to various activities during the years ended December 31 were as follows:

	2008	2007
	SR'000	SR'000
Generation depreciation expenses	2,567,165	2,422,869
Transmission depreciation expenses	1,920,651	1,822,576
Distribution depreciation expenses	1,962,132	1,836,348
General property depreciation expenses	294,505	289,743
	6,744,453	6,371,536

10. ACCOUNTS PAYABLE

	2008	2007
	SR'000	SR'000
Saudi Aramco for fuel cost (Notes 27 & 29)	35,654,789	30,651,387
Transferred to Government account (10-a)	(13,295,613)	(13,295,613)
Saudi Aramco receivable for fuel cost	22,359,176	17,355,774
Saline Water Conversion Corporation for power purchased	6,926,483	6,211,819
Payables to contractors and retentions	3,116,309	2,716,432
Municipality fees	2,063,862	1,739,598
Payables to suppliers	1,037,904	1,599,746
Advances received for construction of projects	786,379	679,696
Other (10-b)	1,988,831	1,898,808
	38,278,944	32,201,873

10-a) Accounts payable to Saudi Aramco for fuel cost for the period from 5/4/2000 to 31/12/2003 has been reclassified from current liabilities to non-current liabilities (long-term government payables) in accordance with the minutes of the meetings held between the Ministry of Finance and the Ministry of Petroleum and Mineral Resources signed on 15/05/1427 whereby the Company's liability to Saudi Aramco was transferred to the account of the Ministry of Finance.

10-b) Other payables include SR 1,281 million which are still under reconciliation between the Company and the Government and pertains to the accounts prior to merger referred to in note 1.

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NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED DECEMBER 31, 2008

11. ACCRUALS AND OTHER PAYABLES

	2008	2007
	SR'000	SR'000
Accrued expenses	327,421	455,357
Accrued employers' benefits	394,908	336,677
Unclaimed dividends	301,996	283,081
Other	289,262	419,373
	<u>1,313,587</u>	<u>1,494,488</u>

Unclaimed dividends include SR 96 million as of December 31, 2008 representing cash dividends declared by Saudi Consolidated Electricity Company prior to merge due to the shareholders (2007: SR 97 million).

12. PROVISION FOR ZAKAT

The principle elements of the zakat base are as follows:

	2008	2007
	SR'000	SR'000
Adjusted net income computation:		
Income before Zakat	1,104,447	1,453,176
Add: Zakat adjustments	(7,198,442)	(8,209,550)
Adjusted net loss income	<u>(6,093,995)</u>	<u>(6,756,374)</u>
Zakat base computation:		
Share capital	41,665,938	41,665,938
Adjusted net loss	(6,093,995)	(6,756,374)
Reserves	1,412,977	1,270,872
Retained earnings	4,367,104	3,643,907
Provisions	5,989,240	6,113,110
Long-term loans and Sukuk	10,204,118	9,825,418
Government loan	14,938,060	14,938,060
Contractor payables	3,060,236	2,999,513
Total	75,543,678	73,700,444
Less:		
Fixed assets and construction-in-progress	(80,234,137)	(72,179,125)
Long-term investments	(2,117,918)	(1,648,251)
Inventory of material and spare parts	(4,417,581)	(5,109,270)
Zakat Base – Negative	<u>(11,225,958)</u>	<u>(5,236,202)</u>

SAUDI ELECTRICITY COMPANY
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NOTES TO THE FINANCIAL STATEMENTS (Continued)
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No provision for zakat has been made due to the negative adjusted net income and zakat base. The Company has considered the temporary depreciation differences which resulted to a deferred zakat amounting to SR 41 million approximately.

The zakat status of the former Saudi Consolidated Electricity Company was finalized up to the end of the year 1420 H. (date of the merger) by offsetting the zakat differences due to the Zakat Department against the Government's subsidies due to the Company. However, as of the date of the accompanying financial statements, the Company has not received the final assessments from the Zakat Department to indicate the finalization of the zakat status of the said Company.

The Company has obtained a restricted Zakat certificate up to 2007. 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, zakat differences amounted to SR 13 million due to amounts claimed by the Company from Aramco for the electricity consumption on residential properties based on the residential tariff rather than the industrial tariff which Aramco has used for settlement. The management has not provided for this difference as it believes that zakat should not be levied on revenues which have not been unrecognised and accounted for in the accounting records. The Company did not receive any response from DZIT regarding its objection against the above assessment. The final assessment for the year 2003 to 2007 has not been received till the date of issuing these financial statements.

13. LONG-TERM LOANS

	2008	2007
	SR'000	SR'000
Balance, beginning of the year	4,825,418	9,756,529
Withdrawals during the year	4,364,260	950,293
Payments during the year	(3,985,560)	(5,881,404)
Balance end of the year	5,204,118	4,825,418
Less: Current portion of long-term loans	(556,127)	(979,300)
	4,647,991	3,846,118

Following are the scheduled repayments of long-term loans as of December 31:

	2008	2007
	SR'000	SR'000
Between one and two years	828,854	979,300
Between two and three years	828,854	979,300
Between three and four years	545,454	968,958
Between four and five years	545,454	695,900
Beyond five years	1,899,375	222,660
	4,647,991	3,846,118

SAUDI ELECTRICITY COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED DECEMBER 31, 2008

During the year, the Company has obtained a sharia compliant loan for SR 6 billion from a group of local banks. The utilized amount of the loan up to December 31, 2008 amounted to SR 4.35 billion which was used to repay the outstanding loans. The loan is subject to certain financial covenants, in which the Company was in compliance with as of December 31, 2008.

During 2007, the Company has accelerated the repayment of certain outstanding loans, by repayment of SR 4,550 million to a group of national and international commercial banks.

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 by collection of revenues through banks.

The Company has unutilized credit facilities from local bank as of December 31, 2008 amounting to SR 1,2 billion. These facilities are secured by promissory notes.

14. SUKUK

On July 1, 2007, the Company issued Sukuk for SR 5 billion, at par value of SR 500,000 each without discount or premium, maturing in 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 from the Sukuk holders in the years 2012, 2017, 2022 in accordance with certain arrangement.

15. DERIVATIVES

The Company entered into interest rate hedging agreements with several banks to hedge the fluctuation in loans interest rates for an amount of SR 4,750 million as of December 31, 2008; which includes a US Dollar portion representing approximately 15%. The hedging agreements are based on the swap between the Company and the banks of fixed rates against floating rates in accordance with the loans original amount every six months.

16. DEFERRED REVENUE – NET

	2008	2007
	SR'000	SR'000
Balance at beginning of the year	11,574,810	10,533,997
Proceeds during the year	2,662,560	1,833,944
Electrical connection tariff	(884,584)	(793,131)
	13,352,786	11,574,810

SAUDI ELECTRICITY COMPANY
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NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED DECEMBER 31, 2008

17. GOVERNMENT LOAN

Pursuant to the resolution number 169 dated 11/8/1419, the net dues of Saudi Electricity Company to the Government and the net dues of the Company to the Government were determined in accordance with rules and procedures stipulated in the minutes approved by the Minister of Industry and Electricity and the Minister of Finance and National Economy dated 27/6/1418H (29/10/1997). 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, to be an interest free subordinated long-term 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 reviewed thereafter subject to the financial position of the Government and the Company.

The minutes of the meeting held on 21/7/1422H between the Minister of Industry and Electricity and the Minister of Finance, 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 Ministry of Water and Electricity and the Minister of Finance on 15/07/1426 for the loan due to the Government amounting to SR 14,938,060.

18. SHARE CAPITAL

The share capital of the Company as of December 31, 2008 amounting to SR 41,665,938,150 consists of SR 4,166,593,815 shares with a par value of SR 10 each.

The 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>

SAUDI ELECTRICITY COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED DECEMBER 31, 2008

19. GENERAL RESERVE

General reserve represents the balances of the reserves that were reflected in the books of the Saudi Consolidated Electricity Company at the date of the merger amounting to SR 213,668 thousand and the returns on investing the Electricity Fee Fund amounting to SR 294,976 thousand. In addition, it also includes collections of electricity fees from individuals subsequent to December 31, 2001 amounting to SR 25,929 thousand till December 31, 2008 (2007: SR 23,774 thousand). Accordingly, the balance of the general reserve amounted to SR 534,573 thousand as of December 31, 2008 (2007: SR 532,418 thousand).

20. OPERATING AND MAINTENANCE EXPENSES

	2008				2007
	SR'000				SR'000
	Generation	Transmission	Distribution	Total	Total
Employees' expenses and benefits	1,013,120	678,235	1,953,217	3,644,572	3,330,311
Materials	994,169	113,259	235,818	1,343,246	1,248,270
Operation and maintenance (contractors)	378,232	86,677	379,701	844,610	819,924
Provision for doubtful receivables	-	-	116,561	116,561	74,559
Municipality fees	-	-	324,808	324,808	296,541
Others	877,386	73,909	383,090	1,334,385	990,707
Total	3,262,907	952,080	3,393,195	7,608,182	6,760,312

Others referred to the above include indirect expenses related to storage services which were treated as period expenses during the year ended December 31, 2008, based on the availability of additional information about the nature of such services.

21. GENERAL AND ADMINISTRATIVE EXPENSES

	2008	2007
	SR'000	SR'000
Employees' expenses and benefits	70,509	103,000
Materials	53,420	51,973
Others	93,136	129,200
	217,065	284,173

SAUDI ELECTRICITY COMPANY
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NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED DECEMBER 31, 2008

22. OTHER INCOME AND EXPENSES, NET

	2008	2007
	SR'000	SR'000
Gain on disposal of fixed assets	40,784	128,778
Penalties	87,066	108,094
Share in net income of investee companies accounted under the equity method (Note 7d)	42,006	11,344
Sales of tender documents	13,434	17,565
Fees for reconnection	8,097	8,328
Others, net (a)	149,014	64,689
	340,401	338,798

- (a) The department of the legal affairs of the Company performed a comprehensive review for the outstanding lawsuit against the Company. Accordingly, the provision for lawsuit was reduced by SR 78 million approximately. This amount was included in other revenues and expenses.

23. EARNINGS PER SHARE

Earnings per share from operating income and from net income for the year is calculated by dividing operating income and net income for the year by outstanding number of the weighted average share to 4,166,593,815 including governments shares.

24. PRIOR YEARS ADJUSTMENTS

During year 2008, the Company made adjustments resulted from meters reading amounted to SR 140.4 million, which resulted in increasing the electricity sales, the net income for the year and the receivable for electricity consumers by the same amount for year 2007. Accordingly, the Company has restated the previous reported balances and decreased them by the same amount. The following is a list of balances before and after restatement:

	December 31, 2007 SR'000	December 31, 2007 SR'000
	after restatement	before restatement
Electricity sales	19,322,935	19,463,327
Net income for the year	1,412,499	1,552,891
Retained earnings	4,915,156	5,041,509
Statutory reserve	880,559	894,598
Receivable for electricity consumers	13,284,344	13,424,736

SAUDI ELECTRICITY COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED DECEMBER 31, 2008

25. PROPOSED DIVIDEND AND EARNINGS PER SHARE (EPS)

In compliance with the Company's by laws, 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 condition stated by Resolution 169 dated 11/8/1419, 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 Board of Directors in its meeting held on 2/24/2009G, proposed dividends for year 2008 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 (2007: SR 547 million). The proposed dividends for the current year requires the Company's General Assembly approval.

26. BOARD OF DIRECTORS' REMUNERATION AND ALLOWANCES

Costs and allowances relating to the Board of Directors meeting and other subcommittee meetings attendance for the year amounted to SR 420 thousand (2007: SR 442 thousand).

The Board of Directors' remuneration of SR 0,6 million is due from the profit of the year 2008 after distribution of dividends of 5% to the other shareholders (Note 18 and 25). The remuneration is payable after the General Assembly's approval (2007: SR 0,8 million).

27. RELATED PARTY TRANSACTIONS

SEC provides electricity power and connections to governmental agencies, ministries and Saudi Aramco. The rates charged related parties are approved by the Council of Ministers and are similar to the rates applied to other consumers, except for the rates used for Saline Water Conversion Corporation (SWCC) which are 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 for a difference of SR 194 million for the current year and a cumulative difference of SR 1,504 million since the Company's inception to December 31, 2008 which has not been reflected in the accompanying financial statements. The issue is still under discussion between the two companies. In addition, SEC purchases fuel from Aramco and electric power from Saline Water Conversion Corporation, based on prices set by Government resolutions. Also, fees are paid to the municipalities based on electricity revenues.

SAUDI ELECTRICITY COMPANY
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NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED DECEMBER 31, 2008

The significant transactions and the related approximate amounts are as follows:

	2008	2007
	SR'000	SR'000
Sales:		
Government	5,471,953	5,229,137
Saudi Aramco	1,206,758	1,234,487
Saline Water Conversion Corporation	120,084	109,603
	6,798,795	6,573,227
Purchase and Other:		
Saudi Aramco	5,741,749	4,556,437
Saline Water Conversion Corporation	733,631	775,180
Municipalities fees	324,808	296,541
	6,800,188	5,628,158

28. CAPITAL COMMITMENTS

Capital commitments represent the value of unperformed portions of the SEC contractual agreements for the construction and installation of utility plants and other assets amounting to approximately SR 59,305 million (2007: SR 35,550 million). The scheduled time to complete the commitments is between one to three years.

29. CONTINGENT LIABILITIES

- (a) The total disputed amount between the Company and ARAMCO for handling crude oil fees since the Company's foundation on April 5, 2000 and up to December 31, 2008 amounted to approximately SR 1,717 million. The Company's management is of the opinion that there will be no liability on the Company based on the Royal Decree number M/8 dated 25/7/1415 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 of account.
- (b) Saudi Aramco has also a claim for the settlement of its share in the annual dividends from the date of the Company's foundation to December, 31, 2007, estimated at SR 1,331 million. The Company believes that Saudi Aramco has no right for this claim since it is a wholly owned government agency and accordingly, is governed by the Ministerial Resolution No. 169 dated 11/8/1419 H.
- (c) The Company has a dispute with Saudi Aramco relating to certain dual meters readings in Shadgum, Jomaih and Othmaniah Gas plants as Aramco has rejected certain amounts billed through the said meters. The issue is still under discussion.

SAUDI ELECTRICITY COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED DECEMBER 31, 2008

- (d) The Company has a dispute with one of its power energy vendors relating to the purchase price per Kilowatt hour. The total price differences between the amount accepted by the Company and the amount billed by the vendor amounted to SR 178 million from the date of commencement of work up to December 31, 2008. The Company believes that the amount billed is overstated and there is no binding agreement, and therefore, these differences have not been booked in the Company's accounts.
- (e) The Company has issued a guarantee to one of the commercial banks against its share for financing a loan granted to one of the companies it has invested. The guarantee amounted to \$ 101-million (2007: \$ 101.4 million) equivalent to SR 379 million.
- (f) The Company has outstanding letters of credit amounting to SR 313 million as of the balance sheet date (2007: SR 198 million).

30. RISK MANAGEMENT

Financial instruments carried on the balance sheet principally include cash and cash equivalents, accounts receivable, accounts payable, bank loans, accrued liabilities and other non-current liabilities.

Credit risk is the risk that one party will fail to discharge an obligation and cause the other party to incur a financial loss. The Company has no significant concentration of credit risk. Cash is substantially placed with national banks 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 the commission rates but has liabilities associated with the commission rates as of December 31, 2008. The Company manages its loans through hedging agreement to hedge the fluctuation of interest rate, which has 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 sell a financial asset quickly at fair value. The Company maintains adequate funding to meet such obligations when they become due.

SAUDI ELECTRICITY COMPANY
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NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED DECEMBER 31, 2008

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 differences 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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SAUDI ELECTRICITY COMPANY
(A SAUDI JOINT STOCK COMPANY)

FINANCIAL STATEMENTS AND AUDITORS' REPORT
FOR THE YEAR ENDED DECEMBER 31, 2009

SAUDI ELECTRICITY COMPANY
(A SAUDI JOINT STOCK COMPANY)

FINANCIAL STATEMENTS AND AUDITORS' REPORT
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AUDITORS' REPORT

To the shareholders
Saudi Electricity Company
(A Saudi Joint Stock Company)
Riyadh, Kingdom of Saudi Arabia

Scope of Audit

We have audited the balance sheet of **Saudi Electricity Company** (a Saudi joint stock company) as of December 31, 2009, and the related statements of income, cash flows and changes in shareholders' equity for the year then ended, and notes 1 to 31 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. 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, 2009, and the results of its operations and its cash flows for the year then ended in conformity with generally accepted accounting standards 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 9, 1431
February 23, 2010

SAUDI ELECTRICITY COMPANY
(A SAUDI JOINT STOCK COMPANY)

BALANCE SHEET
AS OF DECEMBER 31, 2009

	Note	2009 SR'000	2008 SR'000
ASSETS			
Current assets			
Cash and bank balances	3	3,882,672	1,232,097
Receivables from electricity consumers and accrued revenue, net	4	10,586,218	15,073,847
Prepayments and other receivables, net	5	1,956,108	2,897,890
Inventories, net	6	5,623,342	5,806,673
Total current assets		22,048,340	25,010,507
Non-current assets			
Loan to subsidiary		365,500	-
Equity investments in companies and others	7	2,353,398	2,159,924
Construction work in progress	8	32,214,782	20,103,986
Fixed assets, net	9	109,108,954	98,107,946
Total non-current assets		144,042,634	120,371,856
TOTAL ASSETS		166,090,974	145,382,363
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Accounts payable	10	47,350,980	38,278,944
Accruals and other payables	11	1,439,552	1,267,679
Current portion of long-term loans	13	828,400	556,127
Total current liabilities		49,618,932	40,102,750
Non-current liabilities			
Long-term loans	13	6,511,857	4,647,991
Sukuk	14	12,000,000	5,000,000
Employees indemnities	15	4,422,298	4,396,753
Deferred revenue, net	17	14,970,527	13,352,786
Customers' refundable deposits		1,159,138	1,095,789
Long-term Government payables	10	13,295,613	13,295,613
Government loan	18	14,938,060	14,938,060
Total non-current liabilities		67,297,493	56,726,992
Total liabilities		116,916,425	96,829,742
Shareholders' equity			
Share capital	19	41,665,938	41,665,938
Statutory reserve		1,107,965	991,004
General reserve	20	534,777	534,573
Retained earnings		5,865,869	5,361,106
Total shareholders' equity		49,174,549	48,552,621
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		166,090,974	145,382,363

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, 2009

	Note	2009 SR'000	2008 SR'000
Operating Revenues			
Electricity sales		22,040,360	20,651,799
Meter reading, maintenance and bills preparation tariff		794,852	752,359
Electricity connection tariff	17	1,015,737	884,584
Total operating revenues		23,850,949	22,288,742
Operating Expenses			
Fuel		(5,898,501)	(5,477,362)
Purchased energy		(1,826,900)	(1,477,634)
Operations and maintenance	21	(7,482,952)	(7,608,182)
Depreciation	9	(7,514,931)	(6,744,453)
General and administrative expenses	22	(315,542)	(217,065)
Total operating expenses		(23,038,826)	(21,524,696)
Operating Income		812,123	764,046
Other income and expenses, net	23	357,491	340,401
NET INCOME FOR THE YEAR		1,169,614	1,104,447
Earnings per share (SR)			
From operating income for the year (Note 24)		0.19	0.18
From net income for the year (Note 24)		0.28	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, 2009

	2009 SR'000	2008 SR'000
OPERATING ACTIVITIES		
Net income for the year	1,169,614	1,104,447
Adjustments to reconcile net income to net cash from operating activities:		
Provision for doubtful receivables	125,968	116,561
Provision for other doubtful receivables	(20,405)	-
Provision for slow-moving inventories	623	-
Company's share in net income of investee companies	(34,263)	(42,006)
Depreciation	7,514,931	6,744,453
Gain on disposal of fixed assets, net	(31,096)	(40,784)
Gain on sale of other investments	-	(1,050)
Employees indemnities, net	25,545	396,728
Deferred revenues	1,617,741	1,777,976
(Increase) decrease in operating assets and liabilities:		
Receivables from electricity consumers and accrued revenue	4,361,661	2,921,091
Prepayments and other receivables	962,187	(1,178,618)
Inventories	182,708	780,411
Accounts payable	9,072,036	6,077,071
Accruals and other payables	151,169	(254,446)
Net proceeds and payments on customers' refundable deposits	63,349	59,051
Net cash from operating activities	25,161,768	18,460,885
INVESTING ACTIVITIES		
Equity investments in companies and others	(159,211)	(513,463)
Time deposits	(1,000,119)	-
Loan to subsidiary	(365,500)	-
Fixed assets and construction work in progress	(30,633,129)	(22,281,324)
Proceeds from sale of fixed assets	37,490	70,942
Proceeds from sale other investments	-	56,190
Net cash used in investing activities	(32,120,469)	(22,667,655)
FINANCING ACTIVITIES		
Sukuk	7,000,000	-
Net proceeds (repayment) of long-term loans	2,136,139	378,700
Dividends paid to shareholders and Board of Directors' remuneration	(526,982)	(529,137)
Net cash from (used in) financing activities	8,609,157	(150,437)
NET CHANGE IN CASH AND CASH EQUIVALENTS	1,650,456	(4,357,207)
Cash and cash equivalents, beginning of the year	1,232,097	5,589,304
CASH AND CASH EQUIVALENTS, END OF THE YEAR	2,882,553	1,232,097

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 DECEMBER 31, 2009

	Note	Share capital SR'000	Statutory reserve SR'000	General reserve SR'000	Retained earnings SR'000	Total SR'000
Balance, January 1, 2008		41,665,938	880,559	532,418	4,915,156	47,994,071
Net income for the year		-	-	-	1,104,447	1,104,447
Dividends for 2007		-	-	-	(547,252)	(547,252)
Board of directors' remuneration for 2007		-	-	-	(800)	(800)
Electricity fee collections (individuals)	20	-	-	2,155	-	2,155
Transferred to statutory reserve		-	110,445	-	(110,445)	-
Balance, December 31, 2008		41,665,938	991,004	534,573	5,361,106	48,552,621
Net income for the year		-	-	-	1,169,614	1,169,614
Dividends 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		-	116,961	-	(116,961)	-
Balance, December 31, 2009		41,665,938	1,107,965	534,777	5,865,869	49,174,549

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, 2009

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 the 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, 1420 H., corresponding to December 12, 1999, and the Minister of Commerce Resolution number 2047, dated Dhu Al Hijjah 30, 1420 H., corresponding to April 5, 2000 and registered under Commercial Registration number 1010158683, dated Muharram 28, 1421 H., corresponding to May 3, 2000 in Riyadh.

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 principal 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 revenues are recognized from selling electricity to the end consumer for the Company as a whole based on the official tariff decided by the Government. The Company also has 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 their 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). The Authority was Established in November 13, 2001 according to Resolution No. 169 dated Sha’aban 11, 1419H. The last change in tariff was made through the Council of Ministers Resolution No. 170 dated Rajab 12, 1421H and was effective from Sha’aban 1, 1421H corresponding to October 28, 2000. The maximum rate of 26 Halala per Kilowatts/hours, has not been changed since then.

SAUDI ELECTRICITY COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED DECEMBER 31, 2009

On Shawwal 16, 1430H (corresponding to October 5, 2009), the Council of Ministers in its decision # 333 granted the Managing Board of Electricity and Cogeneration Regulatory Authority the right to review and adjust the non-residential (commercial, industrial and governmental) electricity tariff and approve them as long as the change does not exceed SR 0.26 for each kilowatt per hour, taken into consideration, among other matters, the electrical consumption at peak times.

According to the Company's Article of Association, the Company's financial year begins on January 1, and ends on December 31, every calendar year.

The accompanying financial statements include Sukuk Electricity Company and Dawiyat Telecom Company accounts, 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 investments in Company's equity 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 reporting period. Although these estimates are based on management's best knowledge of current event and actions, actual results ultimately may differ from those estimates.

Cash and cash equivalents

Cash and cash equivalents include cash on hand and at banks and time deposits and highly liquid investments which are convertible to cash with original maturities of three months or less.

Electricity consumers' receivables

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

SAUDI ELECTRICITY COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED DECEMBER 31, 2009

Inventories

Inventory items of generators, transmission and distribution materials, supplies and fuel 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 plant, transmission and distribution networks, and general property such as strategic and stand-by spare parts, 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 net results is recognized when investees' financial statements are issued.

Investments of less than 20% owned for which there is no readily available market 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.

Fixed assets

Fixed assets are stated at historical cost and 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 are removed from the accounts at the time of disposal and the related 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

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 (if any). 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.

SAUDI ELECTRICITY COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED DECEMBER 31, 2009

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.

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 so 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.

Capitalization of borrowing costs

Net borrowing cost which represents, finance charges and other finance costs on long-term loans charged to the Company, net of commission income for the year, are capitalized on all construction-in-progress projects of material amounts 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.

Derivative financial instruments and hedge accounting

The Company use 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 at 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 instrument is recorded as part of finance charges.

End-of-service indemnities

End-of-service indemnities are calculated in accordance with the Saudi Labor Law.

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, is recorded in the statement of income for the period 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.

SAUDI ELECTRICITY COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED DECEMBER 31, 2009

- Revenue from meter reading, maintenance and bills preparation services represent the monthly fixed tariff based on the capacity of the meter used by the consumers, and is recognized when bills are issued. Revenue of meter reading, maintenance and bills preparation services not yet billed at the balance sheet date is accrued.
- 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 for 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 is evaluated periodically.

Statutory reserve

In accordance with the Companies Regulations and the Company's Articles of Association, 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 paid-up capital.

Foreign currency transactions

Transactions denominated in foreign currencies are translated into Saudi Riyals at exchange rates prevailing at the date of the 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

	2009	2008
	SR'000	SR'000
Cash on hand	2,887	2,664
Cash at banks	994,805	578,287
Short-term deposits	2,884,980	651,146
	3,882,672	1,232,097

Cash and bank balances include as of December 31, 2009 SR 1 billion, being short term deposits with a maturity of more than three-month period from the acquisition date (2008: nil).

SAUDI ELECTRICITY COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED DECEMBER 31, 2009

4. RECEIVABLES FROM ELECTRICITY CONSUMERS AND ACCRUED REVENUE, NET

	2009	2008
	SR'000	SR'000
Electricity consumers receivable		
Governmental institutions	4,022,863	8,997,728
Commercial and residential	3,095,487	2,854,451
Special customers	1,958,339	1,817,886
Saudi Aramco (Notes 27 & 29)	1,623,446	1,413,753
Electricity connection receivables	757,592	713,970
Saline Water Conversion Corporation	339,077	454,717
Total electricity consumers receivable	11,796,804	16,252,505
Less: Provision for doubtful receivables	(2,121,311)	(1,995,343)
Net electricity consumers receivable	9,675,493	14,257,162
Accrued revenues	910,725	816,685
Total	10,586,218	15,073,847

Movements in the provision for doubtful receivables during the year is as follows:

	2009	2008
	SR'000	SR'000
Balance, January 1	1,995,343	1,878,782
Charge for the year	125,968	116,561
Balance, December 31	2,121,311	1,995,343

5. PREPAYMENTS AND OTHER RECEIVABLES, NET

	2009	2008
	SR'000	SR'000
Advances to suppliers and contractors	1,745,768	2,590,405
Outstanding letters of credit	19,582	125,321
Prepaid expenses	45,455	20,712
Other receivables	206,092	242,646
Total	2,016,897	2,979,084
Less: Provision for other doubtful receivables	(60,789)	(81,194)
	1,956,108	2,897,890

SAUDI ELECTRICITY COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED DECEMBER 31, 2009

6. INVENTORIES, NET

	2009	2008
	SR'000	SR'000
Generation plant materials and supplies	3,217,045	2,708,662
Distribution network materials and supplies	1,862,596	2,575,524
Transmission network materials and supplies	247,390	237,790
Fuel and oil	337,278	304,229
Other	148,914	169,726
Total	5,813,223	5,995,931
Less: Provision for slow moving inventories	(189,881)	(189,258)
	5,623,342	5,806,673

Movement in the provision for slow-moving inventories during the year is as follows:

	2009	2008
	SR'000	SR'000
Balance, January 1	189,258	189,258
Additions during the year	623	-
Balance, December 31	189,881	189,258

7. EQUITY INVESTMENTS IN COMPANIES AND OTHERS

	2009	2008
	SR'000	SR'000
Investments accounted for under the equity method (a)	1,915,310	1,721,836
Other investment, at cost (b)	1,210	1,210
Held to maturity investments (c)	436,878	436,878
	2,353,398	2,159,924

a) Investments accounted for under the equity method.

	Shareholding	2009	2008
	%	SR'000	SR'000
Gulf Cooperation Council Interconnection Authority (a-1)	40	1,898,649	1,703,285
Water Electricity Company (a-2)	50	13,661	15,551
Rass Al Zoor Water and Electricity Company (a-3)	20	1,000	1,000
Rabeq Electricity Company (a-4)	20	2,000	2,000
Total investments accounted for under the equity method		1,915,310	1,721,836

SAUDI ELECTRICITY COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED DECEMBER 31, 2009

(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 amounted to USD 484.80 million, equivalent to SR 1,818 million. The financial statements of the GCCIA for the year 2009 have not been issued as of this report date.

(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 23/3/1423, for the encouragement of the private sector in the participation in water desalination projects. The Company's share amounting to SR 15 million was paid in full and consist of 300,000 shares representing 50% of the Company's share capital. The financial statements of the investee Company for the year 2009 have not been issued as of this report date.

(a-3) Rass Al Zoor Water and Electricity Company

Based on the Company's Board of Directors resolution No. 02/73/2007 dated 1/12/1428H., 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 on 14/9/1428H. The Company's share amounting to SR 1 million was paid in full and represents 20% of the investees' capital. The investee has not yet started operation, accordingly, no financial statements have been issued as of this report date.

(a-4) Rabeq Electricity Company

Based on the Company's Board of Directors resolution No. 06/76/2008 dated 26/5/1429H., corresponding to June 3, 2008, the Company established Rabeq Electricity Company. The Company's share capital amounting to SR 2 million was paid in full and represents 100% of the investees' 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 share from 100% to 20%. The investee has not yet started operation, accordingly no financial statements have been issued as of this report date.

SAUDI ELECTRICITY COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED DECEMBER 31, 2009

b) Other investments, at cost.

	Shareholding %	2009 SR'000	2008 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		1,210	1,210

c) Held to maturity investments

	2009 SR'000	2008 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-Khimah Investment Authority Sukuk	36,878	36,878
Total held to maturity investments	436,878	436,878

d) Share in net income of investees accounted for under equity method.

	2009 SR'000	2008 SR'000
Gulf Corporation Council Interconnection Authority	36,153	37,391
Water and Electricity Company	(1,890)	4,615
Total (Note 23)	34,263	42,006

8. CONSTRUCTION WORK IN PROGRESS

	2009 SR'000	2008 SR'000
Power generation projects	16,837,518	8,972,627
Power transmission projects	11,935,612	7,351,004
Distribution projects	3,249,981	3,514,045
General projects	191,671	266,310
	32,214,782	20,103,986

Net financing cost capitalized on projects under construction during the year amounted to SR 769 million (2008: SR 613 million).

SAUDI ELECTRICITY COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED DECEMBER 31, 2009

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, 2009	1,445,738	13,230,385	184,034,927	2,606,684	1,115,249	9,236,362	211,669,345
Additions	87,895	757,923	16,838,348	589,406	150,330	102,333	18,526,235
Disposals	-	(1,120)	(23,909)	(64)	(119,159)	(1,991)	(146,243)
Reclassification	-	3,572	1,822,851	-	-	(1,826,423)	-
December 31, 2009	1,533,633	13,990,760	202,672,217	3,196,026	1,146,420	7,510,281	230,049,337
Accumulated depreciation:							
January 1, 2009	-	8,215,204	101,205,306	1,626,461	969,665	1,544,763	113,561,399
Charged for the year	-	506,436	6,432,434	102,918	67,522	405,621	7,514,931
Disposals	-	(1,120)	(15,060)	(64)	(119,105)	(598)	(135,947)
Reclassification	-	3,245	16,816	-	-	(20,061)	-
December 31, 2009	-	8,723,765	107,639,496	1,729,315	918,082	1,929,725	120,940,383
Net book value:							
December 31, 2009	1,533,633	5,266,995	95,032,721	1,466,711	228,338	5,580,556	109,108,954
December 31, 2008	1,445,738	5,015,181	82,829,621	980,223	145,584	7,691,599	98,107,946

The land referred to above includes plots of land with a book value of SR 151 million, the title deeds of the land are not yet transferred to the Company's name.

Net book value of fixed assets based on the Company's main activities as of December 31, 2009 are as follows:

	2009 SR'000					2008 SR'000
	Generation	Transmission	Distribution	General Property	Total	Total
Land	245,172	587,412	225,283	475,766	1,533,633	1,445,738
Buildings	2,690,366	1,496,253	139,120	941,256	5,266,995	5,015,181
Machinery & equipment	30,771,080	32,400,749	31,443,548	417,344	95,032,721	82,829,621
Capital spare parts	1,040,593	406,697	19,237	184	1,466,711	980,223
Vehicles and heavy equipment	-	-	-	228,338	228,338	145,584
Others	5,232,065	224,641	26,910	96,940	5,580,556	7,691,599
Total	39,979,276	35,115,752	31,854,098	2,159,828	109,108,954	98,107,946

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Depreciation expense charged to various activities during the years ended December 31 were as follows:

	2009	2008
	SR'000	SR'000
Generation depreciation expenses	2,889,023	2,567,165
Transmission depreciation expenses	2,112,025	1,920,651
Distribution depreciation expenses	2,173,974	1,962,132
General property depreciation expenses	339,909	294,505
	7,514,931	6,744,453

10. ACCOUNTS PAYABLE

	2009	2008
	SR'000	SR'000
Saudi Aramco for fuel cost (Notes 27 & 29)	40,959,482	35,654,789
Transferred to Government account (10-a)	(13,295,613)	(13,295,613)
Saudi Aramco receivable for fuel cost	27,663,869	22,359,176
Saline Water Conversion Corporation for power purchased	7,528,478	6,926,483
Payables to contractors and retentions	5,603,154	3,132,577
Municipality fees	2,410,599	2,063,862
Payables to suppliers	1,004,234	1,037,904
Advances received for construction of projects	1,176,615	948,721
Other (10-b)	1,964,031	1,810,221
	47,350,980	38,278,944

10-a) Accounts payable to Saudi Aramco for fuel cost for the period from 5/4/2000 to 31/12/2003 has been reclassified from current liabilities to non-current liabilities (long-term government payables) in accordance with the minutes of the meetings held between the Ministry of Finance and the Ministry of Petroleum and Mineral Resources signed on 15/05/1427 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 (2008: SR 1,281 million) which are still under reconciliation between the Company and the Government and pertains to the accounts prior to the merger referred to in Note 1.

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11. ACCRUALS AND OTHER PAYABLES

	2009	2008
	SR'000	SR'000
Accrued expenses	447,944	327,424
Accrued employers' benefits	350,291	348,999
Dividends payable *	321,629	301,996
Other	319,688	289,260
	1,439,552	1,267,679

* Unclaimed dividends include SR 95.7 million as of December 31, 2009 representing cash dividends declared by Saudi Consolidated Electricity Company prior to merge due to the shareholders (2008: SR 96.1 million).

12. PROVISION FOR ZAKAT

The principal elements of the zakat base are as follows:

	2009	2008
	SR'000	SR'000
Income before Zakat	1,169,614	1,104,447
Add: Zakat adjustments	(6,812,078)	(7,198,442)
Adjusted net loss	(5,642,464)	(6,093,995)
Zakat base computation:		
Share capital	41,665,938	41,665,938
Adjusted net loss	(5,642,464)	(6,093,995)
Other reserves	1,525,576	1,412,977
Retained earnings	4,813,854	4,367,104
Other provisions	6,155,570	5,989,240
Long-term loans and Sukuk	19,340,257	10,204,118
Government loan	14,938,060	14,938,060
Contractor payables	5,924,783	3,060,236
Total	88,721,574	75,543,678
Less:		
Fixed assets and construction-in-progress	(96,344,143)	(80,234,137)
Prior years depreciation differences of fixed assets	(25,014,747)	(17,894,329)
Long-term investments	(1,882,257)	(2,117,918)
Inventory of material and spare parts	(4,261,625)	(4,417,581)
Zakat Base – Negative	(38,781,198)	(29,120,287)

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No provision for zakat has been made due to the negative adjusted net income and zakat base.

The zakat status of the former Saudi Consolidated Electricity Company was finalized up to the end of the year 1420 H. (date of the merger) by offsetting the zakat differences due to the Zakat Department against the Government's subsidies due to the Company. However, as of the date of the accompanying financial statements, the Company has not received the final assessments from the Zakat Department to indicate the finalization of the zakat status of the said Company.

The Company has obtained a restricted Zakat certificate up to 2008. 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, zakat differences amounted to SR 13 million due to amounts claimed by the Company from Aramco for the electricity consumption on residential properties based on the residential tariff rather than the industrial tariff which Aramco has used for settlement. The management 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. The Company did not receive any response from DZIT regarding its objection against the above assessment. The final assessment for the year 2003 to 2008 has not been received till the date of issuing these financial statements.

13. LONG-TERM LOANS

	2009	2008
	SR'000	SR'000
Balance, beginning of the year	5,204,118	4,825,418
Withdrawals during the year	2,692,266	4,364,260
Payments during the year	(556,127)	(3,985,560)
Balance end of the year	7,340,257	5,204,118
Less: Current portion of long-term loans	(828,400)	(556,127)
	6,511,857	4,647,991

Following are the scheduled repayments of long-term loans as of December 31:

	2009	2008
	SR'000	SR'000
Between one and two years	828,854	828,854
Between two and three years	545,454	828,854
Between three and four years	760,736	545,454
Between four and five years	760,736	545,454
Beyond five years	3,616,077	1,899,375
	6,511,857	4,647,991

During 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, 2009.

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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 by collection of revenues through banks.

The Company has unutilized credit facilities from local bank as of December 31, 2009 amounting to SR 1 billion. These facilities are secured by promissory notes.

The Company signed a financing agreement with Export-Import Bank of the United States, and Export Development Canada on June 21, 2009 whereby the Company will receive a direct loan amounting to SR 4,100 million. The loan is repayable over 12 years and will be used to purchase generating units for the Company's projects. No funds have been withdrawn to date.

On July 13, 2009, the Company signed an agreement with the Public Investments Fund upon which the Company will receive a direct loan of SR 2,600 million repayable in 24 semi-annual installments starting December 31, 2012 and over 15 years. This loan will be used to finance power generating projects. An amount of SR 1,046 million has been withdrawn as of December 31, 2009.

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 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 from the Sukuk holders in the years 2012, 2017, 2022 in accordance with certain arrangements.
- (b) During July 2009, the Company issued Sukuk for SR 7 billion, at par value of SR 100,000 each with no discount nor premium, maturing in year 2029. The Sukuk was entirely covered. 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 Sukuk holders. The Company has provided an undertaking to the Sukuk holders to repurchase the Sukuk from its holders in the years 2014, 2019 and 2024 at the request of the holders of the instruments and in accordance with certain arrangements.

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FOR THE YEAR ENDED DECEMBER 31, 2009

15. EMPLOYEES' INDEMNITIES

	2009	2008
	SR'000	SR'000
Provision for end-of-service indemnities	4,309,554	4,350,845
Savings program	112,744	45,908
	4,422,298	4,396,753

16. DERIVATIVES

The Company entered into interest rate hedging agreements with several banks to hedge the fluctuation in loans' interest rates for an amount of SR 3,958 million as of December 31, 2009; which include a US Dollar portion representing approximately 15%. The hedging agreements are based on the swap between the Company and the banks of fixed rates against floating rates in accordance with the loans original amount every six months.

During the end of 2009 the Saudi Electricity Co. 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.

17. DEFERRED REVENUE – NET

	2009	2008
	SR'000	SR'000
Balance at beginning of the year	13,352,786	11,574,810
Proceeds during the year	2,633,478	2,662,560
Electrical connection tariff	(1,015,737)	(884,584)
	14,970,527	13,352,786

18. GOVERNMENT LOAN

Pursuant to the resolution number 169 dated 11/8/1419, the net dues of Saudi Electricity Company to the Government and the net dues of the Company to the Government were determined in accordance with rules and procedures stipulated in the minutes approved by the Minister of Industry and Electricity and the Minister of Finance and National Economy dated 27/6/1418H (29/10/1997). 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, to be an interest free subordinated long-term 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 reviewed thereafter subject to the financial position of the Government and the Company.

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The minutes of the meeting held on 21/7/1422H between the Minister of Industry and Electricity and the Minister of Finance, 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 Ministry of Water and Electricity and the Minister of Finance on 15/07/1426 for the loan due to the Government amounting to SR 14,938,060.

19. SHARE CAPITAL

The share capital of the Company as of December 31, 2009 amounting to SR 41,665,938,150 consists of SR 4,166,593,815 shares with a par value of SR 10 each.

The share capital referred to above is owned by the following:

	<u>Ownership percentage</u>	<u>Numbers of shares</u>
Government	74.31%	3,096,175,320
Saudi Aramco	6.93%	288,630,420
Other shareholders	18.76%	781,788,075
	<u>100%</u>	<u>4,166,593,815</u>

20. GENERAL RESERVE

General reserve represents the balances of the reserves that were reflected in the books of the Saudi Consolidated Electricity Company at the date of the merger amounting to SR 213,668 thousand and the returns on investing the Electricity Fee Fund amounting to SR 294,976 thousand. In addition, it also includes collections of electricity fees from individuals subsequent to December 31, 2001 amounting to SR 26,133 thousand till December 31, 2009 (2008: SR 25,929 thousand). Accordingly, the balance of the general reserve amounted to SR 534,777 thousand as of December 31, 2009 (2008: SR 534,573 thousand).

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21. OPERATING AND MAINTENANCE EXPENSES

	2009				2008
	SR'000				SR'000
	Generation	Transmission	Distribution	Total	Total
Employees' expenses and benefits	1,086,388	729,800	1,952,589	3,768,777	3,644,572
Materials	902,427	73,951	187,109	1,163,487	1,343,246
Operation and maintenance (contractors)	405,783	92,213	223,135	721,131	844,610
Provision for slow moving inventory	383	62	105	550	116,561
Provision for doubtful receivables	-	-	125,968	125,968	-
Municipality fees	-	-	347,217	347,217	324,808
Others	748,522	81,976	525,324	1,355,822	1,334,385
Total	3,143,503	978,002	3,361,447	7,482,952	7,608,182

22. GENERAL AND ADMINISTRATIVE EXPENSES

	2009	2008
	SR'000	SR'000
Employees' expenses and benefits	211,788	70,509
Materials	45,634	53,420
Others	58,120	93,136
	315,542	217,065

23. OTHER INCOME AND EXPENSES, NET

	2009	2008
	SR'000	SR'000
Gain on disposal of fixed assets	31,096	40,784
Penalties	75,053	87,066
Share in net income of investee companies accounted under the equity method (Note 7d)	34,263	42,006
Sales of tender documents	18,405	13,434
Others, net	198,674	157,111
	357,491	340,401

24. EARNINGS PER SHARE

Earnings per share from operating income and from net income for the year is calculated by dividing operating income and net income for the year by outstanding number of the weighted average share to 4,166,593,815 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 condition stated by Resolution 169 dated 11/8/1419 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 resolution No. 327 dated Ramadan 24, 1430 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 2/23/2010G, proposed dividends for year 2009 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

Costs and allowances relating to the Board of Directors meetings and other subcommittee meetings attendance for the year amounted to SR 587 thousand (2008: SR 420 thousand).

The Board of Directors' remuneration of SR 0.8 million is due from the profit of the year 2009 after distribution of dividends of 5% to the other shareholders. The remuneration is payable after the General Assembly's approval (2008: SR 0,6 million).

27. RELATED PARTY TRANSACTIONS

Saudi Electric Company provides electricity power and connections to governmental agencies, ministries and Saudi Aramco. The rates charged related parties are approved by the Council of Ministers and are similar to the rates applied to other consumers, except for the rates used for Saline Water Conversion Corporation (SWCC) which are 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 for a difference of SR 93 million for the current year and a cumulative difference of SR 1,597 million since the Company's inception to December 31, 2009 which has not been reflected in the accompanying financial statements.

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The Council of Ministers in its Resolution No. 114 dated April 10, 1430 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 meeting 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 electric power 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:

	2009	2008
	SR'000	SR'000
Sales:		
Government	5,789,364	5,471,953
Saudi Aramco	1,280,774	1,206,758
Saline Water Conversion Corporation	130,134	120,084
	7,200,272	6,798,795
Purchase and Other:		
Saudi Aramco	6,163,959	5,741,749
Saline Water Conversion Corporation	655,232	733,631
Municipalities fees	347,217	324,808
	7,166,408	6,800,188

28. CAPITAL COMMITMENTS

Capital commitments represent the value of unperformed portions of the SEC contractual agreements for the construction and installation of utility plants and other assets amounting to approximately SR 41,464 million (2008: SR 59,305 million). The scheduled time to complete the commitments is between one to three years.

29. 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, 2009 amounted to SR 2,090 million. The Company's management is of the opinion 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 caused a difference of SR 279 million not accounted for by the Company.

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- (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, 2008, estimated at SR 1,533 million. The Company believes that Saudi Aramco has no right for this claim since it is a wholly owned government agency and accordingly, is governed by the Ministerial Resolution No. 169 dated Sha'aban 11, 1419H and the decision of the Council of Ministers No. 327 dated Ramadan 24, 1430H on extending the Government's waiver on its rights in the profits distributed by the Saudi Electricity Company for another ten year period.
- (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 a dispute with one of its power energy vendors relating to the purchase price of Kilowatt per hour. The total price differences between the amount accepted by the Company and the amount billed by the vendor amounted to SR 163 million from the date of commencement of work up to December 31, 2009. The Company believes that the amount billed is overstated and there is no binding agreement, and therefore these differences have not been booked in the Company's accounting records.
- (e) 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\$ 109 million equivalent to SR 409 million as of December 31, 2009 (2008: US\$ 101 million).
- (f) The Company has outstanding letters of credit amounting to SR 200 million as of the balance sheet date (2008: SR 313 million).
- (g) There is a claim from the Royal Commission for Jubail and Yanbu concerning the transfer of ownership for some of the distribution network assets in Jubail Industrial City to the Saudi Electricity Company having a net book value amounting to SR 800 million. The Company's management is in the process to agree with the Royal Commission on the mechanism to transfer the ownership including their value as a whole, noting that there had been a similar transfer from the Royal Commission to the Company and was included as part of the soft loan in coordination with the Ministry of Finance.

30. RISK MANAGEMENT

Financial instruments carried on the balance sheet principally include cash and cash equivalents, accounts receivable, accounts payable, bank loans, accrued liabilities and other non-current liabilities.

Credit risk is the risk that one party will fail to discharge an obligation and cause the other party to incur a financial loss. The Company has no significant concentration of credit risk. Cash is substantially placed with national banks with sound credit ratings. Trade accounts receivable are carried net of provision for doubtful debts.

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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 the commission rates but has liabilities associated with the commission rates as of December 31, 2009. The Company manages its loans through hedging agreement to hedge the fluctuation of interest rate, which has 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 sell a financial asset quickly at 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 differences 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.

31. COMPARATIVE FIGURES

Certain figures for the comparative year have been reclassified to conform with the presentation in the current year.

APPENDIX I

**Part A
Form of Specific Instruction**

To: SABB SECURITIES
as Sukukholders' Agent

**SAUDI ELECTRICITY COMPANY
Sukuk expiring 2030G (the "Sukuk")**

SPECIFIC INSTRUCTION

We hereby instruct you, in accordance with Condition 11.1(c) (Purchase Date) of the terms and conditions of the Sukuk set out in the Offering Circular dated 29/4/1431H. (corresponding 14/4/2010G) issued by Saudi Electricity Company (the "**Conditions**"), to give an Exercise Notice under the Purchase Undertaking in relation to the following Sukuk and the Purchase Date falling on May 10,[2017, 2020, 2025]*:

Name of registered Sukukholder: _____

Aggregate face amount of Sukuk: SAR _____

Terms and expressions used in this instruction but not defined herein have the same meanings as given to them in the Conditions.

Yours faithfully

By: _____
duly authorised
for and on behalf of

Name of Sukukholder: _____

Date: _____

* Delete as appropriate.

Part B
Form of Restructuring Instruction

To: SABB SECURITIES
as Sukukholders' Agent

SAUDI ELECTRICITY COMPANY
Sukuk expiring 2030G (the "Sukuk")

RESTRUCTURING INSTRUCTION

We hereby instruct you, in accordance with Condition 11.2 (*Events of Default*) of the terms and conditions of the Sukuk set out in the Offering Circular dated 29/4/1431H. (corresponding 14/4/2010G) issued by Saudi Electricity Company (the "**Conditions**"), to give an Exercise Notice under the Purchase Undertaking in relation to the following Sukuk:

Name of registered Sukukholder: _____

Aggregate face amount of Sukuk: SAR _____

Terms and expressions used in this instruction but not defined herein have the same meanings as given to them in the Conditions.

Yours faithfully

By: _____
duly authorised
for and on behalf of

Name of Sukukholder: _____

Date: _____

Part C
Form of Purchase Notice

To: SABB SECURITIES
as Sukukholders' Agent

SAUDI ELECTRICITY COMPANY
Sukuk expiring 2030 (the "Sukuk")

PURCHASE NOTICE

We hereby declare, in accordance with Condition 11.2 (*Events of Default*) of the terms and conditions of the Sukuk set out in the Offering Circular dated 04/1431H. (corresponding 04/2010G) issued by Saudi Electricity Company (the "**Conditions**"), the following Sukuk to be purchasable under the Purchase Undertaking on account of the Event of Default specified below having occurred and being continuing as of the date hereof.

Name of registered Sukukholder: _____

Aggregate face amount of Sukuk: SAR _____

Details of Event of Default:*

Terms and expressions used in this notice but not defined herein have the same meanings as given to them in the Conditions.

Yours faithfully

By: _____
duly authorised
for and on behalf of

Name of Sukukholder: _____

Date: _____

* Set out brief details.

Part D
Form of Exercise Notice

To: Saudi Electricity Company

SAUDI ELECTRICITY COMPANY
Sukuk expiring 2030 (the “Sukuk”)

EXERCISE NOTICE

We refer to:

- (1) the offering circular dated 04/1431H. (corresponding 04/2010G) issued by Saudi Electricity Company (the “**Offering Circular**”); and
- (2) the purchase undertaking dated / /2010 given by Saudi Electricity Company in connection with the Sukuk.

We hereby give you notice that:

[select one of the following and complete/delete as appropriate]

- pursuant to Condition 11.1(c) (*Purchase Date*) that we have received Standing Instructions (which have not been subsequently revoked) and/or Specific Instructions in relation to the Sukuk and Sukukholders specified in the attached list in accordance with Condition 11.1(c) (*Purchase Date*) requiring us to give an Exercise Notice in relation thereto and, accordingly such Sukuk are to be purchased by you on the Purchase Date falling on May,[2017, 2020, 2025]* in accordance with the Purchase Undertaking and Condition 11.1(c) (*Purchase Date*).
- pursuant to Condition 11.1(d) (*Purchase Date*) that we have received Standing Instructions (which have not subsequently been revoked) and/or Specific Instructions in accordance with Condition 11.1(c) (*Purchase Date*) on or before the date which is 30 days prior to the Purchase Date falling on May,[2017, 2020, 2025]* requiring us to give an Exercise Notice in relation to such Purchase Date from Sukukholders who together hold, in aggregate, at least 70 per cent. of the Nominal Amount of the Sukuk as were current on such date, and accordingly all of the Sukuk are to be purchased by you on such Purchase Date in accordance with the Purchase Undertaking and Condition 11.1(d) (*Purchase Date*).
- pursuant to Condition 11.2 (*Events of Default*) that we have received Restructuring Instructions (which have not subsequently been revoked) from Sukukholders who together hold, in aggregate, at least 70 per cent. of the Nominal Amount of the Sukuk as were current on the relevant date, and accordingly all of the Sukuk are to be purchased by you in accordance with the Purchase Undertaking and Condition 11.2 (*Events of Default*).
- pursuant to Condition 11.2 (*Events of Default*) that we have received Purchase Notices from the Required Sukukholders within the Exercise Period in relation to the Event of Default specified below and accordingly, so long as such Event of Default is continuing, all of the Sukuk are to be purchased by you immediately in accordance with the Purchase Undertaking and Condition 11.2 (*Events of Default*).

* Delete as appropriate.

[SET OUT DETAILS OF EVENT OF DEFAULT]

Terms and expressions used in this instruction but not defined herein have the same meanings as given to them in the terms and conditions of the Sukuk as set out in the Offering Circular.

Yours faithfully

By: _____
duly authorised
for and on behalf of

SABB SECURITIES
as Sukukholders' Agent

Date: _____

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