

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 2027

The Sukuk expiring 2027 (the "**Sukuk**") of Saudi Electricity Company (the "**Issuer**" or "**SEC**") are being issued at par, without discount or premium.

On the 15th of July, October, January, and April in each year, commencing on 15 October 2007 and up to and including 15 July 2027 or, if any such day is not a Business Day (as defined in the "Terms and Conditions" section on page 12 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 "**Holders**") calculated on the basis of the Benchmark Rate (as defined in the Conditions) plus a specified margin, calculated as a percentage rate per annum, (the "**Margin**") of the face value of the Sukuk as are current at the end 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 Holders) on or about the Closing Date (as defined herein) (the "**Purchase Undertaking**"), the Issuer will undertake to purchase the Sukuk from Holders at a specified predetermined Purchase Price (as defined in the Conditions) which decreases over time, on the Periodic Distribution Dates falling on the 15 July of 2012, 2017 and 2022 (each a "**Fifth-year Date**") (see Condition 11 (Exercise Events)).

Lead Manager and Bookrunner



Shariah Coordinator



Co-Managers



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 on page 65 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 Stock Exchange ("**Tadawul**") do not take any responsibility for the contents of this document, 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 document.

This Offering Circular is issued on 10 / 6 / 1428H (corresponding to 25 / 6 / 2007)

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 HSBC Saudi Arabia Limited (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 certain rights and entitlements under the Sukuk Assets for a period of 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 Holders, *pro rata* according to the face value of Sukuk held by each Holder.

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 Holders 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 Holders as a reserve (the "**Reserve**") and shall be payable in accordance with the Conditions. The Sukuk Administrator shall have the right to use and invest the Reserve for its own account. Any return from such use or investment, and any losses relating thereto, are solely for the account 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 Holders 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 Holders 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 (i) 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 or (ii) any of the Specified Customers (as defined herein) changes its electricity supplier to an entity other than the Issuer, then the Issuer shall add to the Reserve an amount equal to the difference between the Actual Income and the Specified Income.

The aggregate face value, 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 Lead Manager (as specified herein) and announced on a date expected to be around [•] (see "Subscription and Sale" section of this Offering Circular).

Investing in the Sukuk involves risks that are described in the "Risk Factors" 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" respectively.

The Sukuk will be in registered form in denominations of SAR 500,000. The Sukuk will be represented at all times by interests in a registered form global certificate, without coupons attached (the "**Global Certificate**"), which will be deposited with the Sukukholders' Agent. The Sukuk may only be held in book-entry dematerialised form and definitive certificates will not be issued to Holders in relation to their holdings of Sukuk.

The investor presentation period for the Sukuk commences on 30 June 2007 and will end 10 business days after such date, as further described in "Subscription and Sale", (the "**Investor Presentation Period**") and the Sukuk will be issued on a date (the "**Closing Date**") falling no later than 10 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 Lead Manager (as defined herein) or by visiting their respective websites (www.se.com.sa and www.sabb.com).

HSBC Saudi Arabia Limited has been appointed by the Issuer to act as the Lead Manager and Bookrunner (the "**Lead Manager**") (together with each Co-Manager specified in this Offering Circular, the "**Managers**") in relation to the Sukuk described herein.

This Offering Circular includes information given in compliance with the Listing Rules issued by the Authority. The Directors, whose names appear in "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 Tadawaul do not take any responsibility for the contents of this document, 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 document.

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 Managers, the Manager's 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 Managers 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 25 June 2007 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 Managers 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 "Subscription and Sale" section of this Offering Circular.

Financial Information

The audited financial statements as at and for the years ended 31 December 2005 and 31 December 2006 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 "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

Saudi Electricity Company

Al-Faysalyah Tower - King Fahd Road
P.O. Box 22955 - Riyadh 11416 – Kingdom of Saudi Arabia



CUSTODIAN

Sukuk Electricity Company

Al-Faysalyah Tower - King Fahd Road
P.O. Box 22955 - Riyadh 11416 - Kingdom of Saudi Arabia



SUKUKHOLDERS' AGENT

HSBC Saudi Arabia Limited

SABB Super Branch - Intersection of King Abdullah Road and
Olaya Road
P.O. Box 9084 - Riyadh 11413 - Kingdom of Saudi Arabia



PAYMENTS ADMINISTRATOR

The Saudi British Bank

Prince Abdulaziz Bin Musaad Bin Jalawi Street (Dabaab)
P.O. Box 9084 – Riyadh 11413 - Kingdom of Saudi Arabia



REGISTRAR

Tadawul

NCCI building - North Tower - King Fahd Rd
P.O. Box 60612 - Riyadh 11555 - Kingdom of Saudi Arabia



LEAD MANAGER AND BOOKRUNNER ("LEAD MANAGER")

HSBC Saudi Arabia Limited

SABB Super Branch - Intersection of King Abdullah Road and
Olaya Road P.O. Box 9084 - Riyadh 11413 - Kingdom of Saudi
Arabia



SHARIAH COORDINATOR

SABB Amanah

Prince Abdulaziz Bin Musaad Bin Jalawi Street (Dabaab)
P.O. Box 9084 - Riyadh 11413 - Kingdom of Saudi Arabia



CO-MANAGERS

Arab National Bank

P.O. Box 56921 – Riyadh 11564
Kingdom of Saudi Arabia



Banque Saudi Fransi

P.O. Box 56006 – Riyadh 11554
Kingdom of Saudi Arabia



Gulf International Bank

P.O. Box 93413 – Riyadh 11673
Kingdom of Saudi Arabia



The National Commercial Bank

P.O. Box 3555 – Jeddah 21481
Kingdom of Saudi Arabia



The Saudi British Bank

P.O. Box 9084 – Riyadh 11413
Kingdom of Saudi Arabia



Samba Financial Group

P.O. Box 833 – Riyadh 11421
Kingdom of Saudi Arabia



Saudi Hollandi Bank

P.O. Box 1467 – Riyadh 11431
Kingdom of Saudi Arabia



LEGAL ADVISERS TO THE ISSUER

1. **Baker & McKenzie LLP**
100 New Bridge Street - London EC4V 6JA - England
2. **Torki A. Al-Shubaiki in association with Baker & McKenzie Limited**
Olayan Centre - Tower II - Al Ahsa Road
P.O. Box 4288 - Riyadh 11491 - Kingdom of Saudi Arabia



LEGAL ADVISERS TO THE LEAD MANAGER

1. **Clifford Chance LLP**
10 Upper Bank Street - London E14 5JJ – England



2. **Al-Jadaan Law Firm**

Fifth Floor - Al Umam Commercial Center - Siteen St. -
Almalaz P.O. Box 3515 - Riyadh 11481 - Kingdom of Saudi
Arabia



AUDITORS TO THE ISSUER

Dr. Mohammed Al-Amri & Co. Accountants and Consultants

P.O.Box 8736 - Riyadh 11492 - Kingdom of Saudi Arabia



Ahmed A. Bajnied & Co. Audit firm

P.O. Box 87293 - Riyadh 11642 - Kingdom of Saudi Arabia

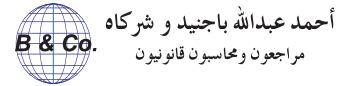


TABLE OF CONTENTS

Summary of the Offering	1
Shariah Supervisory Committee.....	4
Risk Factors.....	6
Factors Relating to SEC's Business	6
Factors Relating to the Sukuk	9
Factors Relating to the Sukuk Assets	10
Terms and Conditions of the Sukuk	12
Use of Proceeds.....	32
Selected Financial Information	33
The Sukuk Assets	35
Summary Of The Sukuk Documents	41
Description of the Issuer	45
History	45
Strategy	46
Organisational Strucutre	49
Capital Expenditure	54
Other Investments and Activities	58
Borrowings, Security Interests, Guarantees and Other Contingent Liabilities	60
Environmental	62
Insurance	62
Disputes and Legal Proceedings	64
Management and Employees	65
Recent Developments and Outlook.....	74
Description of Share Capital and Dividends	77
Taxation and Zakat.....	78
Subscription and Sale.....	80
General Information	82
Financial Statements and Auditors' Report	88
Letter from Directors.....	128
APPENDIX I Copy of Pronouncement.....	129
APPENDIX II - Part A - Forms	143

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 "Terms and Conditions of the Sukuk".

Issuer and Sukuk Administrator:	Saudi Electricity Company ("SEC")
Lead Manager and Bookrunner:	HSBC Saudi Arabia Limited
Co-Managers	Arab National Bank Banque Saudi Fransi Gulf International Bank The National Commercial Bank The Saudi British Bank Samba Financial Group Saudi Hollandi Bank
Sukukholders' Agent:	HSBC Saudi Arabia Limited
Payments Administrator:	The Saudi British Bank
Custodian:	Sukuk Electricity Company, a wholly owned subsidiary of SEC 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.
Issue Price:	100 per cent of the aggregate face value 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 certificate (as more particularly described in Condition 2 (<i>Form and Denomination</i>)) without coupons attached, which 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 be issued on an unsecured and unsubordinated basis.

Term:	The Sukuk will expire in July 2027. However, Holders will be entitled to sell the Sukuk to the Issuer at the Purchase Price at the end of every five years in the circumstances described in Condition 11.1 (<i>Fifth-year Date</i>).
Obligatory purchase of the Sukuk by SEC:	Holders may only oblige SEC to purchase the Sukuk at the applicable Purchase Price prior to the Expiry Date (as defined in Condition 1 (<i>Definitions</i>)) on each Fifth-year Date (as described in Condition 11.1 (<i>Fifth-year 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 SEC. The Purchase Price applicable to the Sukuk (expressed as a percentage of the face value of the Sukuk) will be 90% at the first Fifth-year Date, 60% at the second Fifth-year Date and 30% at the third Fifth-year Date, as described in Condition 1 (<i>Definitions</i>). No Purchase Price is payable to the Holders 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 "Subscription and Sale" 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 aggregate face value of the Sukuk) out of the Reserve on each Fifth-year 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 500,000.
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 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 Holders 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 Holders 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 "Subscription and Sale"), 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 "Subscription and Sale" section of this Offering Circular.</p>
Risk Factors:	A purchase of Sukuk should be made only after careful consideration of a potential Holder's investment circumstances. See "Risk Factors" section of this Offering Circular.

SHARIAH SUPERVISORY COMMITTEE

Detailed pronouncement of the SABB Amanah Shariah Supervisory Committee

A copy of the detailed pronouncement issued by the SABB Amanah Shariah Supervisory Committee relating to the Sukuk is attached to this Offering Circular as Appendix I.

Overview of the SABB Amanah Shariah Supervisory Committee

The SABB Amanah Shariah Supervisory Committee (the "**Committee**") was appointed by the board of directors of The Saudi British Bank in 2001. The Committee is an independent committee, guiding SABB Amanah, which meets regularly to review and appraise and ensure full compliance with Shariah.

Biographical information of the SABB Amanah Shariah Supervisory Committee

Sheikh Abdullah Bin Sulaiman Al-Manea

Sheikh Abdullah has been a member of the Supreme Judiciary Committee of Saudi Arabia since its inception in the year 1391H.

He is a member of the Islamic Fiqh Academy of the OIC and was formerly Deputy President of the Makkah Courts and former Judge of the Court of Cessation in Makkah Al Mukarramah.

Sheikh Abdullah is a member of many Saudi banks' Shariah supervisory committees. He is also a member of many Shariah councils such as the Accounting & Auditing Organisation of Islamic Financial Institutions (Bahrain).

The Sheikh has supervised a number of PhD theses and has participated in the discussion of a number of MA and PhD dissertations. He has compiled a number of Shariah rulings (interpretive opinions) and is an author of a number of books on Islamic finance.

Sheikh Dr Abdullah Bin Mohammed Al-Mutlaq

Sheikh Abdullah is a member of the Permanent Committee for Research and Pronouncements (*iftaa*).

Sheikh Abdullah received his doctorate from Imam Mohammed Bin Saud University in 1404H and was formerly Chairman of the University's Comparative Fiqh Department.

The Sheikh is a member of many Saudi banks' Shariah supervisory committees.

The Sheikh has supervised a number of PhD theses and has participated in the discussion of a number of MA and PhD dissertations. He has compiled a number of Shariah rulings (interpretive opinions) and is an author of a number of books on Islamic finance.

Sheikh Dr Muhammad A Elgari Bin Eid

Sheikh Elgari is a Professor of Islamic Economics at King Abdul Aziz University (Jeddah) and former Director of the Centre for Research in Islamic Economics at the same university.

Sheikh Elgari is the laureate of the Islamic Development Bank International Prize in Islamic Banking and Finance for the year 2004. He is an Expert at the Islamic Fiqh Academy of the Organisation of the Islamic Conference and the Islamic Jurisprudence Academy of the Islamic World League (the "**IWL**").

He is a member of the editorial board of several academic publications in the field of Islamic Finance and Jurisprudence, including the journals of the Jurisprudence Academy (of the IWL), Islamic Economic Studies (of the Islamic Development Bank), Islamic Economics (of the International Association of Islamic Economics, London) and the advisory board of the Harvard Series in Islamic Law.

Sheikh Elgari is a member of numerous Shariah committees of banks and financial institutions.

He has authored several books and articles on Islamic finance in both Arabic and English. Sheikh Elgari is also a frequent speaker in conferences worldwide and was a visiting scholar at Harvard University in 1995. Sheikh Elgari holds a PhD from the University of California.

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 Holders 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 Holders should note that SEC does not carry any business interruption and sabotage and terrorist insurance cover at present (see further under "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.

Prospective Holders should note that there have been no material delays in the start-up of the major projects completed by SEC in the past three years. 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 Holders 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 Holders 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 an agreement dated 15 December 1998, under which 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 34 per MWh. The Council of Ministers has the power to change these prices.

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 "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 "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. The Government plans to separate SEC's transmission business and transfer it to a new company that will be owned and managed by SEC. The Government is also evaluating whether to split SEC's power generation and distribution businesses and transfer them to one or more separate companies.

The current electricity tariff structure is also under review by the Government, and the Electricity and Co-generation Regulatory Authority ("**ECRA**") has formed a working group to prepare a study on the current electricity tariffs and to propose amendments to it. Upon completion, this study and the proposed amendments to the electricity tariffs will be submitted to the Supreme Economic Council for review. However, no timetable has yet been given by ECRA for the submission of this study to the Supreme Economic Council and the introduction of any new tariffs.

Although the Government has not yet finalised its plans for restructuring the electricity sector, the related regulatory regime and the electricity tariffs, these plans could have a material effect on SEC's corporate structure, business, operations and financial condition once they are implemented.

If the Government introduces competition in the power distribution business, this could reduce the number of SEC's customers (including, Specified Customers (as defined below)) 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 "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 "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, 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 and in accordance with the rules of the Shariah as applied in 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 Holders 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 and the Appeal Panel.

2. *Shariah*

Prospective Holders should note that different Shariah advisers, and Saudi courts and judicial committees, may form different opinions on identical issues and therefore prospective Holders may wish to consult their own legal and Shariah advisers to receive an opinion if they so desire. Prospective Holders should also note that although the SABB Amanah Shariah Supervisory Committee has issued a pronouncement confirming that the Sukuk as described in the detailed pronouncement attached as Appendix I to this Offering Circular are in compliance with Shariah principles, such a pronouncement 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 Shariah principles and therefore is enforceable or otherwise. Accordingly, no person (including, without limitation, the Issuer) makes any representation that the Sukuk, the Conditions and any other Sukuk Documents comply with Shariah principles, except for the detailed pronouncement of the SABB Amanah Shariah Supervisory Committee.

3. *Trading, settlement and listings*

The Sukuk will be admitted to the clearing and settlement system of the Registrar. However, as of the Closing Date the Sukuk will not be admitted to any trading system or platform and trading of the Sukuk will need to be conducted through over-the-counter transactions. The Issuer may in the future apply for the Sukuk to be admitted to trading on one or more trading systems or platforms in the Kingdom of Saudi

Arabia when and if such systems or platforms for the trading of such securities are established. Until the Sukuk have been admitted to trading on such trading system(s) or platform(s), trading of the Sukuk is likely to take longer and be less efficient than it would be if the Sukuk were traded through a trading system or platform, thereby potentially restricting the liquidity of the Sukuk. Moreover, if the Sukuk are admitted to the Registrar's clearing and settlement system or a trading system and platform 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.

SABB and potentially other market makers currently intend to give indicative pricing in relation to the Sukuk and/or to make a market therein, but shall be under no obligation to do so. There is currently no established secondary market for the Sukuk, and there can be no assurance that one will develop after the Sukuk are issued. Any sale of the Sukuk by Holders 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 Holders 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 Holders 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 Holders should note that the amount of the Purchase Price to be paid by SEC upon purchase of the Sukuk (following a Fifth-year Date or upon any Event of Default) shall be calculated on the aggregate face value 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 Holders should be aware that they will be entitled to receive a payment of the Purchase Price equal to 90 per cent. of the face value of their Sukuk, if they exercise their rights to have their Sukuk purchased on the first Fifth-year Date falling in July 2012. The Purchase Price payable to Holders declines to 60 per cent. on the Fifth-year Date falling in July 2017 and 30 per cent. on the Fifth-year Date falling in July 2022. 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.

Holders 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 face value of their Sukuk payable on each Fifth-year 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 Fifth-year Date and that SEC pays all amounts due to Holders, Holders would have received, in aggregate, 100% of the face value of the Sukuk if they exercised their rights to have their Sukuk purchased after 5 years. The amount Holders would receive would fall to 80% of the value of the Sukuk if they exercised their rights to have their Sukuk purchased after 10 years, 60% after 15 years and 40% after 20 years.

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

1. *Tariffs for Meter Reading, Maintenance and Bill Reading*

The tariffs charged by SEC to its customers for meter reading, maintenance and bill preparation 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 ECRA has formed a working group to prepare a study on the current electricity tariffs and to propose amendments to it. Therefore, no assurance can be given that the current tariffs for meter reading, maintenance and bill preparation 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 "Regulation" - "Tariffs" in "Description of the Issuer" and the section headed "Sukuk Assets Transfer Agreement" in "Summary of the Sukuk Documents" in this Offering Circular.)

2. Specified Customers Credit Risk

The level of Net Income in respect of the Sukuk Assets will be dependent upon the payments of Meter Charges accruing to SEC from the Specified Customers. The Meter Charges accruing to SEC will be used to make payments under the Sukuk and Holders will therefore be exposed to the risk of the Specified Customers not making payment of the applicable Meter Charges in full by the applicable due date. Prospective Holders should note that SEC does not carry out any credit checks on its new or existing customers and that SEC gives no representation, warranty or assurance on the creditworthiness (or otherwise) of any Specified Customer. Accordingly, no assurance can be given that a Specified Customer will pay the applicable Meter Charges in full and in a timely fashion.

However, prospective Holders should note that SEC operates a very strict policy on overdue payments and will, generally, disconnect supplies to customers who do not pay their bills in full by the due date after having received a reminder from SEC. In recent years, the number of permanent disconnections resulting from non-payment or any other reason (for example, the permanent removal or vacancy of a building) has been extremely negligible, particularly in relation to residential and commercial customers, given that electricity is a fundamental need and at present there are no alternative suppliers of electricity in the Kingdom for residential and commercial customers. In addition, the threshold for disconnection stands at a relatively low amount of SAR 400. Furthermore, any purchaser of a property at which a disconnected meter is installed will need to settle all outstanding bills with SEC and pay a reconnection fee of SAR 10, in accordance with SEC's procedures, to reconnect the electricity supply.

(For further information, see the section entitled "Collections and disconnection" in the "Sukuk Assets" section of 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 Certificate:

Introduction

Each of the Sukuk expiring 15 July 2027 (the "**Sukuk**") represents an undivided beneficial ownership in the Sukuk Assets (as defined herein) 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 "**Holders**").

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 HSBC Saudi Arabia Limited 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 Holders. Each Holder 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.

In these Conditions, references to "**Sukuk**" shall be references to the Sukuk as represented by a Global Certificate 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 The Saudi British Bank 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 Holder, 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 Declaration of Agency and are subject to its detailed provisions. The Holders 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 Declaration of Agency, the Sukuk Assets Administration Agreement, the Sukuk Assets Transfer Agreement and the Purchase Undertaking (as defined herein) are available for inspection from the Closing Date by Holders 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 "Parties and Advisers" section on page vi in the 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 Metering Services in relation to the Specified Meters to the Specified 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 Fee" 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 (the Sukukholders' Agent will be paid periodic fees of SAR 75,000 per annum and the Payments Administrator will be paid periodic fees of SAR 150,000 per annum for its services in relation to the Sukuk);

"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;

"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 A of Schedule 2 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 B of Schedule 2 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;

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

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

"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 Fifth-year 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 Periodic Distribution Date falling in July 2027;

"Extra Amount" means, in respect of a Fifth-year Date or the Expiry Date, an amount equal to 10 per cent. of the aggregate face value of the Sukuk as are current on the third Business Day immediately preceding such Fifth-year 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 Holders;

"Fifth-year Date" means the Periodic Distribution Date falling in July 2012, 2017 or 2022;

"Global Certificate" means the registered form global certificate 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;

"Holders" means the registered holders of the Sukuk;

"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;

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

"Lead Manager" means HSBC Saudi Arabia Limited as lead manager and bookrunner;

"Managers" means the Lead Manager and the other managers party to the underwriting agreement relating to the Sukuk;

"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 a pro rata amount in SAR per Specified Meter) not exceeding SAR 50.00 per year for the period until the first Fifth-year Date and for each subsequent five year period, the amount negotiated and agreed between the Sukukholders' Agent and the Sukuk Administrator prior to commencement of that five year period and based upon actual costs in the previous five years and projected costs for the next five years;

"Metering Services" means the following services provided by the Issuer in relation to its Specified Customers:

- (a) reading and maintaining electricity consumption meters installed by the Issuer at the Specified Customers' premises; and
- (b) preparing, issuing and distributing bills to the Specified Customers for all of the services provided to them by the Issuer;

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

"Offering Circular" means the offering circular dated 25 June 2007 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 Fifth-year 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" shall mean the aggregate face value 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 Fifth-year 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 15th of July, October, January and April in each year, commencing on 15 October 2007; *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 Fifth-year Date, the product of the aggregate face value of all Sukuk as are current on such date multiplied by the percentage set out opposite such date in the following table:

Date	Percentage
First Fifth-year Date (the Periodic Distribution Date falling in July 2012)	90%
Second Fifth-year Date (the Periodic Distribution Date falling in July 2017)	60%
Third Fifth-year Date (the Periodic Distribution Date falling in July 2022)	30%

and

- (b) as of any other date, the product of the aggregate face value 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:

Date	Percentage
After the Closing Date but before the Periodic Distribution Date falling in July 2011	100%
After the Periodic Distribution Date falling in July 2011 but before the Periodic Distribution Date falling in July 2013	90%
After the Periodic Distribution Date falling in July 2013 but before the Periodic Distribution Date falling in July 2015	80%
After the Periodic Distribution Date falling in July 2015 but before the Periodic Distribution Date falling in July 2016	70%

Date	Percentage
After the Periodic Distribution Date falling in July 2016 but before the Periodic Distribution Date falling in July 2018	60%
After the Periodic Distribution Date falling in July 2018 but before the Periodic Distribution Date falling in July 2019	50%
After the Periodic Distribution Date falling in July 2019 but before the Periodic Distribution Date falling in July 2021	40%
After the Periodic Distribution Date falling in July 2021 but before the Periodic Distribution Date falling in July 2022	30%
After the Periodic Distribution Date falling in July 2022 but before the Periodic Distribution Date falling in July 2024	20%
After the Periodic Distribution Date falling in July 2024 but before the Periodic Distribution Date falling in July 2026	10%
After the Periodic Distribution Date falling in July 2026 but before the Periodic Distribution Date falling in July 2027	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;

"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 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 Holders", as of any date, means Holders of at least $33\frac{1}{3}$ per cent. in aggregate of the face value 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, 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 (*Fifth-year 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 Holders 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;

"**Specified Customers**" mean those customers from time to time of the Issuer which have the Specified Meters installed on the premises owned or occupied by them and each customer among which shall be a "**Specified Customer**";

"**Specified Meters**" means the electricity meters listed in Exhibit A to the Sukuk Asset Transfer Agreement entitled "SEC Sukuk Expiring 2027 - The Specified Meters" dated the date hereof and initialled by or on behalf of the parties to the Sukuk Assets Transfer Agreement for identification purposes;

"**Standing Instruction**" has the meaning given to it in Condition 11.1 (*Fifth-year 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 and any other agreements and documents delivered or executed in connection therewith;

"**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 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 Holders, (ii) Condition 14(a) (*Meetings of Holders; Modification*) and Schedule 2 of the Declaration of Agency (*Provisions for Meetings of Holders*), (iii) determining the Required Holders 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 and the Sukuk) 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 500,000. The Sukuk will be collectively represented by the Global Certificate which will be deposited with the Registrar. Individual Sukuk representing holdings of the Global Certificate will not be issued, but Holders will on request be entitled to receive a statement from the Registrar recording their holding of Sukuk. The Global Certificate will represent all of the Sukuk that are current and the ownership by the Holders 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, the "**Holder**" of Sukuk 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 Holders.
- (b) *Title*: The Holder of each Sukuk 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 face value of Sukuk to be transferred together with any existing holding of Sukuk by the party acquiring the Sukuk to be transferred are Authorised Holdings;
 - (ii) where not all of the Sukuk held by a Holder are being transferred, the face value 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 Holder 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 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 Holders of the Sukuk 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 Holders.
- (f) *Transfers and Standing Instructions:* Where a Holder has completed a Standing Instruction in relation to its Sukuk, and such Standing Instruction has not been revoked by it or any subsequent Holder of such Sukuk, any transfer of such Sukuk will be subject to the Standing Instruction, and any subsequent Holder thereof will be deemed to accept the terms of such Standing Instruction. Notwithstanding the above, a subsequent Holder may revoke a Standing Instruction by notice in writing to the Sukukholders' Agent in accordance with Condition 11.1(a) (*Fifth-year 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 Holders**

- (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 Holders 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 Managers 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 Holders, will have direct recourse against the Issuer to recover payments due to the Payments Administrator or the Sukukholders' Agent for the account of the Holders, 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 Holder 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 Holders 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 Managers or any of their affiliates as a consequence of such shortfall or otherwise.

- (c) *Agreement of Holders*: By purchasing Sukuk, each Holder 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 Managers 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 Managers 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 certain specified rights and entitlements in relation to the Specified Meters for a period of 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 Holders.

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 Fee) accruing under the Sukuk Assets (the "**Net Income**"). On or prior to 11.00 a.m. (Riyadh time) one 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 Issuer shall have the right to use and invest the Reserve for its own account and it may be recorded as a liability of the Issuer. Any return from such use or investment, and any losses arising therefrom, are solely for the account 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 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 Holders 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 Business Day prior to each Fifth-year 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 (i) 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, or (ii) any of the Specified Customers changes its electricity supplier to an entity other than the Issuer then, on or before 11:00 a.m. (Riyadh time) one 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 Holders *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 Fifth-year 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 face value 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, The Saudi British Bank and Riyadh 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 Holders. 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) *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 Holders 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 Holders:* The Holders 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 Holder 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 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 Business Day prior to the date of the relevant payment.
- (b) *Payments subject to fiscal 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. No distributions or expenses shall be charged to the Holders 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 Holder 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 Holder 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 Fifth-year Date

- (a) On or prior to the Closing Date, and at any time thereafter, Holders 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**") 30 days prior to a Fifth-year Date, unless the Holder otherwise advises the Sukukholders' Agent in writing no later than 90 Business Days before the applicable Fifth-year Date.
- (b) Between 90 days and 180 days prior to any Fifth-year Date, the Sukukholders' Agent will give notice to the Holders informing them that the occurrence of such Fifth-year 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 Holder 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 90 days and 30 days prior to such Fifth-year Date in the form set out in Appendix II 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 Holder'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 Fifth-year Date may not be transferred after the date which is 30 days prior to such Fifth-year 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 Holders' Sukuk by payment on such Fifth-year Date of the Purchase Price calculated as a percentage to which the Sukuk to be purchased bears to the aggregate face value of such of the Sukuk as are current on such date. Any Periodic Distribution Amount and Extra Amount payable on such Fifth-year Date shall be payable to such person as is registered as the Holder 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 30 days prior to a Fifth-year Date, the Sukukholders' Agent receives Standing Instructions (which have not been subsequently revoked) and/or Specific Instructions from Holders who together hold, in aggregate, at least 70 per cent. of the face value 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 Holders) so notifying the Issuer. Following receipt of such an Exercise Notice, the Issuer shall, pursuant to the Purchase Undertaking, purchase the Sukuk from all Holders by payment of the Purchase Price and any Extra Amount on such Fifth-year 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 Holders 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 Holders on any Fifth-year Date is less than the Extra Amount for such Fifth-year Date;

and such shortfall in amounts has not been paid in full five 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 30 days after written notice thereof, addressed to the Issuer by any Holder 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 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 25 per cent. 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 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 Metering 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 Holders requiring them to indicate within a period of up to 15 days, or such other date as is notified to Holders by the Sukukholders' Agent, (the "**Exercise Period**") whether they wish to exercise their rights under the Purchase Undertaking. Any Holder may then deliver a notice in the form set out in Appendix II 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, Holders will be entitled to complete a standing instruction available from the Sukukholders' Agent in the form set out in Appendix II 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 70 per cent. of the face value 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, the Payments Administrator and the Lead Manager 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 Holders 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 Holders) 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 Holders by payment of the Purchase Price applicable to the Sukuk as of the date on which Purchase Notices from the Holders 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 Holders in accordance with these Conditions and the Declaration of Agency, the Sukukholders' Agent shall not be liable for any further sums, and accordingly no Holder 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 Holders 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 Holders, against all liabilities to which it may thereby render itself liable or which it may incur by so doing.
- (c) No Holder 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 60 days of becoming so bound and such failure is continuing and (ii) the relevant Holder (or such Holder together with the other Holders who propose to proceed directly against the Issuer or the Custodian) holds at least 25 per cent. of the aggregate face value of the Sukuk then current on such date. Under no circumstances shall the Sukukholders' Agent or any Holders 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 Holders 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) 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 Holder 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 Holder 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 Holder 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 Holders 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 Holders. The Payments Administrator and its initial specified office are set out in the "Parties and Advisers" section on page vi. 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 Holders.

14. **Meetings of Holders; Modification**

- (a) *Meetings of Holders:* The Declaration of Agency contains provisions for convening meetings of Holders to consider matters relating to the Sukuk, including the modification of any provision of these Conditions. Any such modification (and certain other proposals) may be made if sanctioned by an Extraordinary Resolution and 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 Holders holding not less than one-tenth of the aggregate face value 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 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 Holders, whether present or not.

- (b) *Modification:* The Sukuk and these Conditions may be amended without the consent of the Holders to correct a manifest error. In addition, the parties to the Declaration of Agency may

agree to modify any provision thereof or of the other Sukuk Documents, but the Sukukholders' Agent shall not agree, without the consent of the Holders, to any such modification unless it is of a formal, minor or technical nature, it is made to correct a manifest error or it is, in the opinion of such parties, not materially prejudicial to the interests of the Holders.

15. Taxation

All payments 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 law. In that event, but only to the extent that such amounts are otherwise available for distribution to the Holders 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 Holders 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 Holders. References herein to the Periodic Distribution Amount, the Extra Amount and any other amounts payable to the Holders, 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 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 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 Holders. Subject thereto, the Sukukholders' Agent waives any right to be indemnified by the Holders 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 Holders 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 default or misconduct of the Sukukholders' Agent.

17. Notices

Notices to the Holders 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 Holders 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 25 days prior to the date set for the initial meeting and at least 30 days prior to the date set for any adjourned meeting.

18. **Governing Law and Jurisdiction**

- (a) *Governing law:* The Sukuk are governed by, and are to be construed in accordance with, the laws and regulations of the Kingdom of Saudi Arabia in accordance with the rules of the *Shariah* as applied in 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 Holders) 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			
	2004	2005	2006
	<i>(thousands of Saudi Riyals)</i>		
STATEMENTS OF INCOME			
OPERATING REVENUE			
Electricity Sales	16,320,524	17,429,591	18,284,878
Meter reading and maintenance and bill preparation tariff	637,219	660,372	707,997
Electrical service connection tariff	618,049	671,326	713,782
Total operating revenue	17,575,792	18,761,289	19,706,657
Operating Expenses			
Fuel	(4,171,344)	(4,573,978)	(4,758,872)
Purchased power	(952,047)	(1,151,615)	(1,195,470)
Operations and maintenance	(5,399,635)	(5,766,420)	(6,124,074)
Depreciation	(5,591,586)	(5,623,944)	(6,065,179)
General and administrative expenses and provisions	(457,977)	(386,173)	(408,488)
Total operating expenses	(16,572,589)	(17,502,130)	(18,552,083)
Operating Income	1,003,203	1,259,159	1,154,574
Other income and expenses - net	338,785	266,901	259,258
Income before Zakat	1,341,988	1,526,060	1,413,832
Provision for Zakat	(42,356)	(43,018)	
Net Income	1,299,632 =====	1,483,042 =====	1,413,832 =====
Earning per share (in SAR)	1.56 =====	1.78 =====	0.34 =====
Earning per share (in SAR) (calculated on the basis of the number of shares outstanding as at the date of this Offering Circular)*	0.31 =====	0.35 =====	0.34 =====

* The number of shares in SEC were 833,318,7613 in 2005. However, the nominal value of the shares was changed to SAR 10 from SAR 50 pursuant to the Council of Ministers' resolution no. 41 dated 27/21247H and as a result, the number of shares in SEC became 4,166,593,815 in 2006.

As at 31 December			
	2004	2005	2006
	(thousands of Saudi Riyals)		
BALANCE SHEET DATA			
ASSETS			
Cash and cash equivalents	1,185,875	1,007,916	4,200,669
Consumers receivable and accrued revenue - net	19,349,198	22,750,051	21,666,391
Prepayment and other receivables - net	1,987,355	1,078,408	1,580,227
Inventories - net	3,564,705	3,654,403	4,695,973
Total Current Assets	26,087,133	28,490,778	32,143,260
Long-term investments	87,764	339,639	748,063
Construction in progress	8,542,433	13,211,241	13,674,707
Fixed assets - net	74,488,966	75,521,192	80,642,235
Total Non-current Assets	83,119,163	89,072,072	95,065,005
TOTAL ASSETS	109,206,296	117,562,850	127,208,265
LIABILITIES AND SHAREHOLDERS' EQUITY			
Bank overdrafts	200,456		
Accounts payable	27,804,623	32,114,648	38,644,492
Accruals and other payables	1,222,296	1,176,700	1,250,130
Current portion of long-term loans	1,148,832	991,222	741,114
Total Current Liabilities	30,376,207	34,282,570	40,635,736
Non-current portion of long-term loans	4,831,214	7,349,395	9,015,415
End of service benefits	3,660,541	3,842,627	3,973,971
Deferred revenue - net	9,580,115	9,957,130	10,533,997
Consumers deposits	883,720	930,732	982,217
Total Non current Liabilities	18,955,590	22,079,884	24,505,600
Government Loan	14,552,136	14,938,060	14,938,060
Total Liabilities	63,883,933	71,300,514	80,079,396
Shareholders' Equity			
Share capital	41,665,938	41,665,938	41,665,938
Statutory reserve	449,622	597,926	739,309
General reserve	525,327	530,510	531,563
Retained earnings	2,681,476	3,467,962	4,192,059
Total Shareholders' Equity	45,322,363	46,262,336	47,128,869
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	109,206,296	117,562,850	127,208,265

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 undertake the following services:

- (a) reading and maintaining electricity consumption meters at the Specified Customers' premises;
- (b) preparing, issuing and distributing bills to the Specified Customers for all of the services provided to them by the Issuer; and

the entitlement to levy and receive the charges relating to (a) and (b) above as specified in 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.

Customers of SEC

SEC divides its customers into five main categories:

- residential, which covers all household customers;
- commercial, which covers all business customers operating outside the industrial and agricultural sectors;
- industrial, which covers all licensed industrial customers who have industrial licenses issued by the appropriate regulating authority;
- agricultural, which covers all agricultural customers licensed by the Ministry of Agriculture; and
- governmental, which covers governmental mosques, lighting for streets, governmental hospitals and clinics, and governmental buildings.

The table below contains a breakdown by customer category of the number of customers for the periods indicated.

Customer Category	For the year ended 31 December	
	2005	2006
Residential	3,897,916	4,083,830
Commercial	609,423	637,961
Governmental	162,091	161,768
Industrial	6,154	12,381
Agricultural	51,787	59,966
Total	4,727,371	4,955,906

The table below shows a breakdown by operating region of customer numbers for the periods indicated.

Operating Region	For the year ended 31 December	
	2005	2006
Central	1,498,370	1,560,735
Western	1,827,747	1,919,760
Eastern	805,488	844,821
Southern	595,766	630,590
Total	4,727,371	4,955,906

The table below shows a breakdown by meter breaker size of customer numbers for the periods indicated.

Meter Size	For the year ended 31 December	
	2005	2006
60 Amps	2,669,631	2,809,750
100 Amps	1,667,454	1,740,259
200 Amps	241,678	251,345
300 Amps	56,359	58,613
400 Amps	52,531	54,632
Over 400 Amps	39,718	41,307
Total	4,727,371	4,955,906

The table below shows a breakdown by operating region of the total revenue collected by SEC from the tariff charged by it for meter reading and maintenance and bill preparation for the periods indicated together with the increase in the revenue for the period indicated.

Operating Region	Total revenue for the year ended 31 December				Increase in revenue from 2005 to 2006	
	2005		2006			
	(thousands of Saudi Riyals and percentages)					
Central	212,465	32%	224,700	32%	12,235	6%
Western	235,993	36%	244,941	35%	8,948	4%
Eastern	120,995	18%	126,968	18%	5,973	5%
Southern	90,919	14%	111,388	16%	19,538	21%
Total	660,372	100%	707,997	100%	46,694	7%

Installation of new meters

SEC will install electricity meters 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 tariff and deposits (which vary depending upon the size of the meter being installed).

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 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 will be installed. Following the installation of the meter, 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 (i.e., commence the supply of electricity to the relevant building).

At present, SEC generally only accepts applications from the owners of buildings, 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 meters at

such premises in accordance with procedures described above, but the meters 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 Meter Charges would be the 'contractual' long-term commercial/industrial tenant.

SEC is also currently reviewing its policy with respect to customer billing and may in the future implement policies whereby it generally invoices the occupiers of the premises.

Customer Billing

Meter readings are usually made monthly, with the exception of meters located in remote locations where readings are taken either every two months or quarterly. Customers with meters located in remote areas represented approximately 4 per cent. of SEC's total customers for the year ended 31 December 2006. SEC is planning to reduce the number of customers that are not billed monthly. However, SEC does not plan to bill the small number of customers who are located in very remote areas of the Kingdom on a monthly basis because of the expense involved in reading their meters every month.

After reading a meter, SEC will prepare a bill setting out the information related to the customer and the meter and the quantity of electricity consumed during the relevant period. The bill also sets out the total amount due from the customer in relation to (1) the monthly tariff for reading and maintaining the meter and bill preparation, and (2) the electricity consumption costs.

Bills are generally rendered to customers within five days from the date of the meter reading and payment under the bill is due within a month from the date on which it is issued. The vast majority of SEC's bills are hand-delivered to the premises on which the meters are located and only a few are delivered by post if requested by the customer. In order to improve the billing process, SEC also introduced SMS bill notification in 2005 and e-bills in 2006 which allow customers to be notified of their bills by mobile phone and email, respectively.

Only a small number of bills issued to a single customer relate to more than one meter (such bills represented less than 1.5 per cent. of all the bills issued in 2006).

Payment methods

Payments 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.

During the year ended 31 December 2006, approximately 71 per cent. of all bill payments were collected through automated channels. In order to enhance the payment options available to its customers, SEC continues to explore further convenient payment methods for use by its customers in the future.

Collections and disconnection

If a customer fails to pay a bill by its due date, a written reminder will be sent to the customer in the following month's bill notifying the customer of the sum outstanding. If a customer's overdue charges reach SAR 400 and the bill remains unpaid for a period of one month, then SEC will issue a notice informing the customer that it will, generally, disconnect supply after 21 days if the customer does not pay all amounts outstanding within that period. SEC is strict in applying its policy of disconnecting customers who default in bill payments. Defaulting Customers will only be reconnected after they have paid all outstanding amounts in full and a reconnection fee of SAR 10.

As a result of SEC's strict disconnection policy and the importance of electricity supply to customers, the vast majority of customers who are disconnected settle their outstanding amounts in order to avoid being disconnected for a prolonged period of time.

Meter Charges

SEC levies a charge for meter reading and maintenance and bill preparation, which is set by the Council of Ministers based on recommendations of ECRA. The Council of Ministers also determines the tariffs that SEC charges for electricity consumption and electrical service connections.

The current scale of Meter Charges and other tariffs was established in 11/8/1419H (corresponding to 30 November 1998) by CMR 169. A copy of CMR 169 in Arabic (along with an English translation) are attached as Schedule 2 to the Sukuk Assets Transfer Agreement.

ECRA is in the process of preparing a study on the current electricity tariffs in the Kingdom of Saudi Arabia and a proposal for amending it, which will be submitted to the Supreme Economic Council upon completion. No timetable has yet been given for the submission of this study and the introduction of any new tariffs.

(For further information, see the section entitled "Regulation" - "Tariffs" in "Description of the Issuer" in this Offering Circular.)

Meters

The majority of meters currently in use are electromechanical "**analogue**" meters which operate by counting the revolutions of an aluminium disc which is made to rotate at a speed proportional to the power. The number of revolutions is thus proportional to the energy usage. Power supplied is shown on an analogue display. SEC is working to replace existing analogue meters installed with industrial customers and very large commercial customers (meter breaker size of over 1,000 amps) with solid state "**digital**" meters which display power supplied on an LCD screen and which may be read remotely. Digital meters offer the additional benefit of providing SEC with technical data on the customer's usage patterns, peak load rates, maximum demand and maximum load, etc. There is currently no plan to replace existing analogue meters with digital meters for regular residential and commercial customers, however, digital meters may be installed for certain new customers.

Meter reading accuracy during 2006 was measured at 99.86 per cent. during 2006, being the percentage of total meters that were not disputed by customers.

A customer pays a Meter Charge for the cost of reading and maintaining a meter and preparing a bill but does not acquire ownership of the meter, which remains the property of SEC.

Specified Customers and Specified Meters

The table below shows a breakdown by operating region and customer category of all of SEC's customers in the five main categories as at 31 December 2006.

Customer Category	Number of Customers in the Operating Regions as at 31 December 2006					
	Central	Western	Eastern	Southern	Total	Per cent.
Residential.....	1,220,291	1,645,289	654,027	564,223	4,083,830	82.40%
Commercial.....	245,685	207,624	148,495	36,157	637,961	12.87%
Sub-total	1,465,976	1,852,913	802,522	600,380	4,721,791	95.27%
Governmental.....	57,911	52,449	234,471	27,937	161,768	3.26%
Industrial.....	4,558	4,456	2,984	383	12,381	0.25%
Agricultural.....	32,290	9,943	15,844	1,890	59,966	1.21%
TOTAL	1,560,736	1,919,761	844,822	630,591	4,955,906	100%

The Specified Meters relating to the Sukuk will be drawn from SEC's residential and commercial customers only and will exclude governmental, industrial and agricultural customers as these three categories in aggregate comprise less than 5 per cent. of all of SEC's total customers as at 31 December 2006. Furthermore, the Specified Meters will be drawn from all of SEC's four operating regions, but no credit quality or other checks will be performed by SEC in relation to the selection of the Specified Meters.

After determination of the aggregate face value of the Sukuk that are issued by SEC (see "Subscription and Sale" section of the Offering Circular), SEC will segregate information about the Specified Meters by including an additional field within its database identifying all Specified Meters and associated Specified Customers by their reference numbers. Furthermore, pursuant to the Sukuk Assets Administration Agreement, a central file (in electronic form and hard copy) of all the Specified Meters and associated Specified Customers will be prepared by SEC and delivered to the Sukukholders' Agent.

Assuming that the aggregate face value of the Sukuk that are issued by SEC is SAR 1,000,000,000, the Specified Meters will comprise approximately one-fifth of all of the residential and commercial meters as at 31 December 2006. The final number of Specified Meters will be adjusted rateably according to the aggregate face value of the Sukuk that are actually issued by SEC.

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 Meter Charges before distributions are made to Holders.

The table below sets out the categories and the costs and expenses which fall under the definition of Administrator's Allowable Costs for the periods indicated.

	For the year ended 31 December	
	2005	2006
	<i>(thousands of Saudi Riyals)</i>	
<i>Meter reading cost:</i>		
Manpower (SEC staff and Contractors)	98,504	134,720
Material	204	58
<i>Meter maintenance cost:</i>		
Manpower (SEC staff and Contractors)	21,052	21,078
Material	331	800
Total	120,091	156,656
Cost per meter in SAR (by dividing the costs incurred throughout the period by the total number of meters at the end of the period)	25.4	31.6

The Administrator's Allowable Costs represent only some of the direct costs and expenses of SEC in connection with providing the Metering Services 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 Metering Services. 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 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 Holders 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 Holders are reminded that pursuant to the Conditions, all Holders 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 undertake the following services:

- (a) reading and maintaining electricity consumption meters at the Specified Customers' premises;
- (b) preparing, issuing and distributing bills to the Specified Customers for all of the services provided to them by the Issuer; and

the entitlement to levy and receive the charges relating to (a) and (b) above as specified in 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 Holders (through the Sukukholders' Agent) from the Issuer for a period of 20 years and the Sukuk Assets will be transferred by the Issuer to the Custodian for the benefit of the Holders.

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 Holders, the Sukuk Assets for the duration of 20 years;
- (2) the transfer of the Sukuk Assets takes effect on and with effect from the Closing Date and shall remain in force in respect of each Specified Meter until the earlier to occur of (i) the expiry of the Transfer Period (as defined in the Sukuk Assets Transfer Agreement) and (ii) the permanent disconnection of such Specified Meter;
- (3) the transfer of the Sukuk Assets will not entitle any Holder to further information on SEC's business or its customers nor entitle any Holder to be involved in any matter in the Metering 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 Metering Services or any other similar activities.

Pursuant to the Sukuk Assets Transfer Agreement, the Issuer covenants that for the duration of 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 the Electricity Laws generally, except to the extent that failure to do so would not have a Material Adverse Effect (as defined in the

Sukuk Assets Transfer Agreement); and (d) do, take or fulfil all such actions, conditions or things that are required in order that the Issuer Warranties (as defined below), which are deemed to be repeated on the Closing Date, are true by reference to the facts then subsisting.

The Custodian covenants with the Issuer and the Sukukholders' Agent to perform or procure the performance of the Metering Services, and to enforce or procure the enforcement of the Sukukholders' rights under the Sukuk Assets. The parties acknowledge that the Custodian irrevocably delegates the performance of the Metering Services and the enforcement (or procuring the enforcement) of the Holders' 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 Agreement and that neither the Custodian nor the Sukukholders' Agent has made or shall make any enquires in respect of, any Specified Meter, any Specified Customer Contract (as defined in the Sukuk Assets Transfer Agreement), the creditworthiness of any Specified 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 Issuer Warranties given to the Custodian and the Sukukholders' Agent on the date of this 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, the Issuer is the legal and beneficial owner of the Sukuk Assets; (b) the entitlement of the Issuer to levy Meter Charges (as defined in the Sukuk Assets Transfer Agreement) on the Specified Customers is governed exclusively by the Electricity Laws; (c) the copy of CMR 169 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 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 Agreement; and (ii) the Agreement will be effective to transfer the Sukuk Assets to the Custodian (on behalf of the Holders and the Sukukholders' Agent); (e) the Issuer 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) the Issuer has the necessary capacity, power and authority to enable it to enter into and perform its obligations under the Agreement; (g) subject to the matters of Saudi Arabian and Shariah law described in "Risk Factors" in the Offering Circular and the related disclaimers and exclusions set out therein, the Sukuk Assets Transfer Agreement constitutes legal, valid and binding obligations enforceable against it in accordance with its terms; (h) all necessary authorisations and consents to enable the Issuer to enter into the Sukuk Assets Transfer Agreement and to transfer the Sukuk Assets to the Custodian (on behalf of the Holders and the Sukukholders' Agent) have been obtained and are in full force and effect; (i) the Issuer has administered the Sukuk Assets for its own account since their inception and (save as disclosed in the 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 Administrator's Allowable Costs for the financial years ended 31 December 2005 and 2006 were as set out in the Sukuk Assets section of the Offering Circular.

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 Holders) irrevocably engages the Sukuk Administrator to perform (or procure the performance of) the Metering 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 Holders. 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 Metering 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) Metering Services, billing, collections of amounts falling due in respect of the Specified Meters, 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, and, in certain circumstances, it may amend, modify, supplement or terminate any Specified Customer Contract.

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 meters 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 Meter Charges relating to the Specified Meters which are contested and which are material in the context of the Sukuk (including in respect of any payments to be made under the Sukuk), provided that Meter Charges will be considered "material" if such Meter Charges constitute at least 1.00 per cent. of all Meter Charges payable in respect of the Specified Meters;

(ii) any event or circumstance which may in the opinion of the Sukuk Administrator be likely to (a) significantly affect the level of Net Income arising in relation to the Sukuk Assets in relation to any Periodic Distribution Period or (b) 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 Fifth-year Date, the applicable Extra Amount;

(iii) if it breaches any material obligation under the Electricity Laws; and

(iv) if 1,000 or more Specified Meters are permanently disconnected (meaning that they are not reconnected within two months of disconnection) in any calendar month such notification to be made at the latest by the 20th day of the following calendar month. The actual number of permanent disconnections made during any financial year shall be notified in a written report to the Custodian and the Sukukholders' Agent by no later than the 120th day of the following financial year;

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 and Shariah law described in "Risk Factors" in the 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 Shariah 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 Holder or Holders (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 Holder(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 2006 accounted for 85 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. SEC is the fourth largest company in the Kingdom by asset value.

As at 31 December 2006, SEC had a total installed electricity generation capacity of 30,334 MW. Currently, SEC owns and operates 69 operational power plants throughout the Kingdom, employing steam turbines, diesel generators and gas turbines (both "single cycle" and "combined cycle"). SEC plans to increase its installed generation capacity to 36,603 MW in 2008 with an estimated total cost of SAR 23,000 million.

As at 31 December 2006, SEC's electricity transmission network comprises more than 33,692 kms of overhead lines and 3,120 kms of underground cable covering all four operating regions of the Kingdom (see further under "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 163,151 GWh in 2006, of which 86,000 GWh (52.7 per cent.) was sold to residential customers and 33,529 GWh (20.5 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 2006. The bulk of SEC's industrial customers are located in the Eastern Region, which accounted for approximately 80 per cent. of all electricity sales to SEC's industrial customers in 2006.

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 2006 were SAR 19,706 million, of which SAR 18,285 million was derived from electricity sales, SAR 707 million from meter reading, maintenance and bill preparation tariffs and SAR 713 million from tariffs for electrical service connection.

SEC's operations are regulated by the 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 2006, SEC had an authorised share capital of SAR 41,665,938,150 divided into 4,166,593,815 shares of SAR10 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 of the 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) and 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 the three units of phase 2 of the Al-Shuaibah power plant project have also commenced operations recently. Of the remaining three units of phase 2, one unit is in the process of completing its reliability tests and two remaining units are expected to start operating by the middle of 2008. 2004 also saw the expansion of the Power Plant-9 in Riyadh and the commissioning of the first 380/110kv substation in Taif. In 2005, the board of directors of SEC approved a 4-year operational plan for SEC for the years 2007 to 2010 and also approved a total budget of SAR 11,000 million for capital expenditure in 2006. SEC signed contracts worth US\$ 5,000 million for the construction, installation and maintenance of power generation, transmission and distribution equipment in 2006.

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.

ECRA's future plans include the splitting of SEC's transmission business from its electricity generation and distribution businesses, by transferring the transmission business to a new company ("**Transco**") that will be owned and managed by SEC.

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 plans to enter into long-term 20 year power purchase agreements with the IPPs to purchase the electricity to be generated by them. 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 Shuqaiq 2 IWPPs which are currently under construction under long-term 20 year power and water purchase agreements (see further under "The Water and Electricity Company" section of this Offering Circular for a description of WEC). SEC is also about to enter into a purchase agreement with WEC for a period 20 years under which it will, among others, purchase the power output and capacity that WEC is obliged to purchase from the relevant IWPPs.

SEC also plans to restructure its power generation business by dividing it into generation portfolios consisting of power generation units. SEC believes that creating these generation portfolios will help promote more competition in the Kingdom's power generation sector for the following reasons:

- o it will optimise the utilisation of power generation assets, including optimising the use of low-cost energy efficient fuels;
- o it will assist in implementing a commercial approach to the supply of electricity to the transmission sector, which will in turn optimise earnings;
- o 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;
- o 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.

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 plans to increase installed generation capacity to 36,603 MW by the end of 2008 in order to meet anticipated demand from mainly residential customers. 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 has identified the need to construct three new power plants with a total generation capacity of 5 GW and expects to put out tenders for their construction in the next 3 to 4 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.

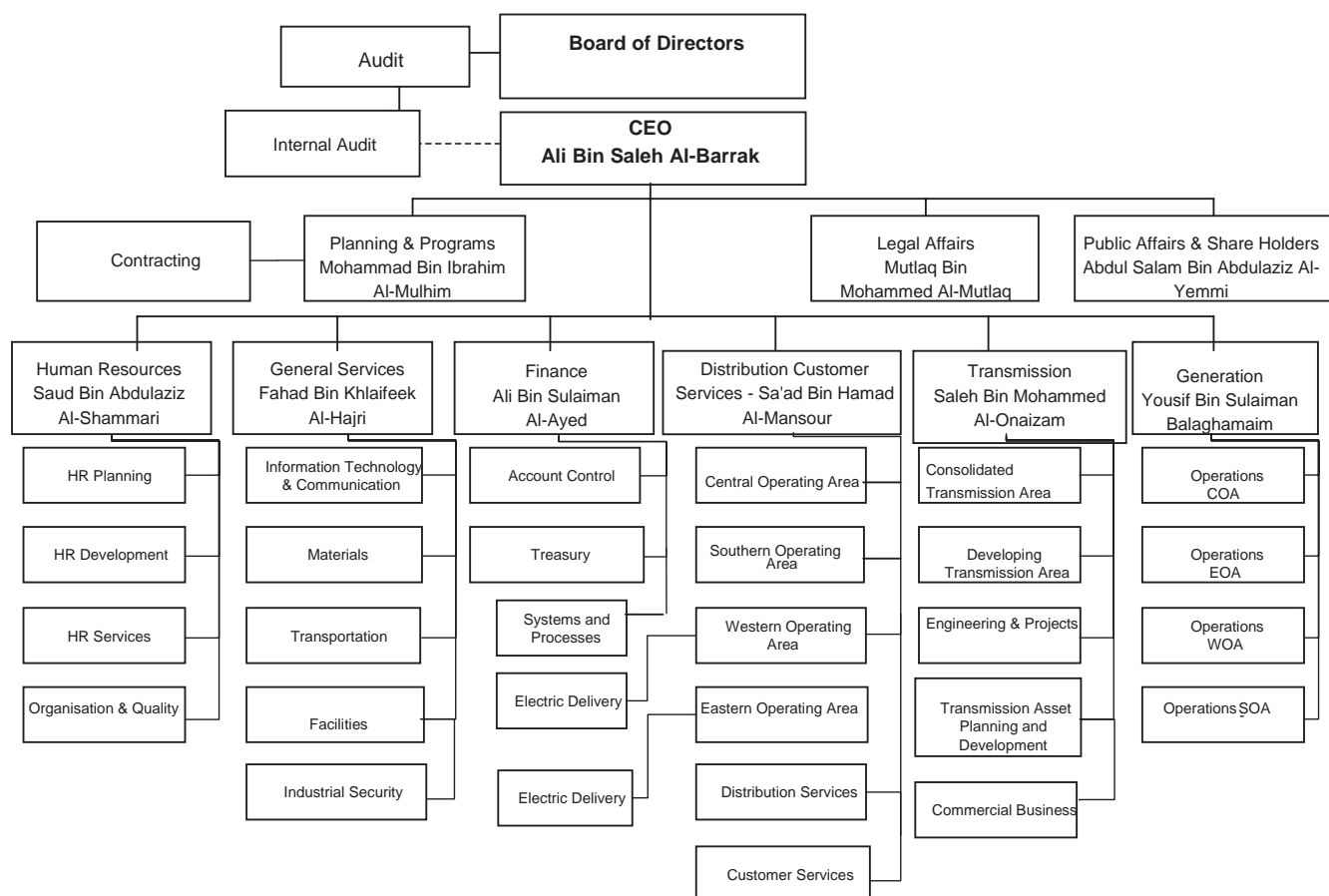
To improve the reliability of the Kingdom's power supply, reduce costs and promote energy trading, SEC intends to develop connections with transmission networks in the neighbouring Gulf Cooperation Council ("GCC") countries. The GCC Interconnection Authority ("GCCIA"), a joint stock company incorporated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

- o increasing the overall reserve capacity for the entire network;
- o improved utilisation of SEC's power plants leading to a reduction in operating costs;
and
- o 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 2006, SEC had 69 operational power plants with a total generation capacity of 30,334 MW, 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 15,843 MW (accounting for 52.3 per cent. of SEC's total generation capacity as at 31 December 2006). The generation capacity of all steam turbines was 11,472 MW as at 31 December 2006 (accounting for 37.8 per cent. of SEC's total generation capacity) and the generation capacity of all combined cycle generators was 2,385 MW as at 31 December 2006 (accounting for 7.8 per cent. of SEC's total generation capacity) and the generation capacity of all diesel generators was 608 MW as at 31 December 2006 (accounting for 2 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 32,657 MW in 2006, representing an average annual growth of 6 per cent. during this period. Peak load typically builds up during the summer

months (May to September) because of increased usage of air conditioners. 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 30,334 MW by the end of 2006, representing an average annual growth rate of 3.1 per cent. during the period from 1997 to 2006. 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 36,900 million in its power generation business from 2002 to the end of 2006. 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 electricity from SWCC pursuant to an agreement dated 15 December 1998, under which SEC pays SWCC SAR 120 per kW for peak demand and SAR 20 per MWh for energy, such that the average combined price payable for peak demand and energy does not exceed SAR 38 per MWh. The Council of Ministers has the power to change these prices. Based on the additional generation capacity that SEC is committed to install in 2007 and 2008 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) in the Kingdom was 34,794 MW at the end of 2006.

SWCC contributed 11.9 per cent. of the total energy generated by the Kingdom's power sector in 2005 and 12.35 per cent. in 2006. Its generation capacity as at 31 December 2006 was 2,905 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 1700 MW and the power plants located on the Western coast have a total generation capacity of 960 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 2006.

Province	Power Plants	Generation Units	Actual Capacity (MW)	Per cent. of total capacity
Eastern	23	174	10,503	35%
Western	23	211	9,526	31%
Central	12	155	7,409	24%
Southern	11	119	2,896	10%
Total	69	659	30,334	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 2006, and assuming an economic life of 25 years for each plant with capacity in excess of 100 MW, around 40 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 2006.

Remaining economic life	Capacity (MW)
Fully depreciated	6,209
Less than 5 years	6,482
Between 5 and 10 years	4,586
More than 10 years	13,057
Total	30,334

Electricity Generated and Generation Capacity Factors

In 2005 SEC generated a total of 150,214 GWh, which it supplemented by a further 21,025 GWh purchased from SWCC and a further 4.9 GWh purchased from other sources. In 2006 SEC generated a total of 154,969 GWh, which it supplemented by a further 33,053 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 "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 33,685 kms of power lines as at the end of 2004 to 35,144 kms at the end of 2005 and 36,812 kms at the end of 2006. 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 2006.

Voltage of transmission lines	No. of sub-stations	No. of transformers	Capacity (MVA)
380kv	41	148	47,770
230kv	32	111	23,830
132kv	245	599	36,122
110-115kv	221	664	28,364

SEC intends to continue to expand network coverage by adding 85 sub stations with a total capacity of 20,592 MVA), over the next three years.

To enable the transmission network to cope with higher peak loads, it was reinforced during 2006 by adding 260 kms of extra-high voltage transmission lines and 1,248 kms of high voltage lines. SEC plans to add a further 1,983 kms of extra-high voltage lines and 4,492 kms of high voltage 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. SEC is currently working on the connection between Southern and Western Regions, with the consolidation of transmission assets in the Western Region.

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 an internal committee to deal with all matters related to independent power projects. SEC is in the process of restructuring its organisational structure with the aim of ultimately transferring its transmission business to Transco.

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 13,724 kms of power lines to its distribution network during the course of 2006. This increased the total circuit lengths of its power lines to 315,602.7 kms at the end of 2006. As at 31 December 2006, SEC's distribution network comprised a total of 154,505 kms of medium-to-low voltage power lines (13.8kv-69kv), an increase of 5 per cent. from 31 December 2005. As at 31 December 2006, the total length of SEC's low voltage lines (127v-380v) was 161,098 kms at the end of 2006, an increase of 3.8 per cent. as compared to 31 December 2005. SEC also installed 12,071 distribution transformers with a total capacity of 5,354 MVA into its distribution networks during 2006.

By the end of 2006, SEC supplied electricity to 4,955,906 customers, representing a 4.8 per cent. increase in customer numbers for 2005. 244,604 of the customers supplied during 2006 were new customers, representing a 1 per cent. increase in the number of new customers from 2005. The quantity of electricity sold in 2006 was 163,151 GWh, representing a 6.3 per cent. increase on the amount electricity sold in 2005 and an average annual growth of 6.1 per cent. over the five year period from 2001 to the end of 2006.

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.

Marafiq

Marafiq is a joint stock company established to provide utility services to industrial and non-industrial customers in the industrial cities of Jubail and Yanbu. Marafiq was established by Royal Decree No. M/29 dated 21/7/1421H (corresponding to 18 October 2000) with a share capital of SAR 2,500 million with the aim of encouraging the participation of the private sector in the development of the national economy in the Kingdom. Marafiq commenced operations on 1 January 2003 and operates, maintains and manages all of the utility and supply systems in Jubail and Yanbu industrial cities.

The utility services provided by Marafiq comprise sea water cooling systems, sea water desalination and potable water supply, sanitary and industrial waste water treatment and disposal and electricity generation, transmission and supply.

Marafiq's present shareholders are Saudi Aramco (24.81 per cent.), Saudi Arabian Basic Industries Corporation (SABIC) (24.81 per cent.), Public Investment Fund (24.81 per cent.), Royal Commission for Jubail and Yanbu (24.81 per cent.) and private companies (0.76 per cent.).

Marafiq currently has an independent water and power project under construction in Jubail. Upon completion, the project will have a combined cycle gas turbine with a capacity of approximately 2,750 MW and 800,000 cubic metres of water per day. SEC will purchase all of the project's electricity output and then sell it to consumers in Jubail. The first phase of the project (expected to be completed in the middle of 2009) will deliver 660 MW and 300,000 cubic metres per day, with full capacity expected to be achieved in March 2010. The project company operating the project (called Al-Jubail Power and Water Company) is owned by the SGA Marafiq Holdings W.L.L. (60 per cent.), Marafiq (30 per cent.), Public Investment Fund (5 per cent.) and SEC (5 per cent.).

Capital Expenditure

The table below sets out SEC's planned future capital expenditure for the years 2007 to 2010:

	2007	2008	2009	2010
Capital Expenditure	20,700	24,600	24,000	20,500

(in millions of Saudi Riyals)

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)
Cooling System in Faras & Shadgum	EASTERN	434	2009	608
Al-Jouf/Arar Expansion	EASTERN	120	2008	444
Al-Jouf/Arar Cooling System	EASTERN	60	2008	84
Qurayate Power Plant Expansion	EASTERN	50	2009	185
Hail Plant Expansion	CENTRAL	55	2007	204
Cooling System at Seventh Plant	CENTRAL	110	2008	185
Al-Guba Power Plant Extension	CENTRAL	50	2008	154
Rabigh Gas Plant (New Units)	WESTERN	480	2009	1776
Duba Expansion	WESTERN	15	2008	56
Tihama Expansion	SOUTHERN	120	2009	444
Najran Expansion	SOUTHERN	100	2009	370
Sarorah Expansion	SOUTHERN	15	2009	56
Al-Jouf/Arar Expansion	EASTERN	60	2009	222
Qurayate Power Plant Expansion	EASTERN	30	2010	111
Tabarjal Power Plant Expansion	EASTERN	30	2008	111
Rafha Power Plant Expansion	EASTERN	30	2008	111
Al-Guba Power Plant Expansion	CENTRAL	50	2010	185
Rabigh Gas Plant (New Units)	WESTERN	480	2010	1,776
Rabigh Steam Plant	WESTERN	2,400	2011	10,800
Jazan Expansion	SOUTHERN	132	2009	488
Tihama Expansion	SOUTHERN	120	2009	444
Sharorah Expansion	SOUTHERN	30	2009	111
TOTAL		4,971		18,924

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 3 -5,000 million per annum for the next 5 years.

Distribution

SEC has spent an average of SAR 2,700 million annually during the past 5 years to expand and maintain a reliable distribution network and to deliver power supply to an average of 240,000 new customers annually. SEC estimates that it will spend a total of SAR 5,000 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 and debt capital markets;
- (b) fixed income securities (such as sukuk);
- (c) domestic banks and financial institutions;

- (d) international banks and financial institutions; and
- (e) 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 - defining public interest, developing regulations for infrastructure expansion, encouraging private sector investments, assessing licensing fees and penalties for non-compliance with licenses and/or ECRA orders, 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 (other than industrial users) are charged a scale of tariffs per kWh which increase as consumption levels increase. Customers who are industrial users are subject to a fixed per tariff per kWh regardless of the level of consumption. 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 meter reading, maintenance and bill preparation, see "Sukuk Assets" section of this Offering Circular).

ECRA has formed a working group to prepare a study on the current electricity tariffs and to propose amendments to them. Upon completion, this study and the proposed amendments to the electricity tariffs will be submitted to the Supreme Economic Council for review. However, no timetable has yet been given for the submission of this study to the Supreme Economic Council and the introduction of any new tariffs.

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

GCC Interconnection Project

SEC has a 31.6 per cent. shareholding in GCCIA. The other shareholders in GCCIA are the governments of Bahrain (9.0 per cent.), Kuwait (26.7 per cent.), Oman (5.6 per cent.), Qatar (11.7 per cent.) and the United Arab Emirates (15.4 per cent.). SEC has paid SAR 740 million to date towards the subscription of its shares in GCCIA and is liable to pay the remaining subscription of SAR 565 million on the dates to be specified by the board of directors of 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. It is anticipated that the first phase of the project will be completed by June 2008.

The second phase of the project will commence after the completion of the first phase and will involve the interconnection of United Arab Emirates with Oman (together, the "**GCC South Grid**"). The third phase will involve the interconnection of the GCC North Grid with the GCC South Grid.

The Water and Electricity Company

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

In addition to its shareholding in WEC, SEC also has an 8 per cent. stake in Shuaibah Water and Electricity Company and an 8 per cent. stake in Shuqaiq Water and Electricity Company, both of which were established to develop and operate projects for the dual production of water and electricity, Shuaibah-III and Shuqaiq, respectively. SEC also owns 5 per cent. of Al-Jubail Power and Water Company.

SEC's aggregate long-term investments in all companies amounted to SAR 748 million as at 31 December 2006 as compared to SAR 339.6 million as at 31 December 2005.

Summary of Investments

Company Name	Objectives	Investment Percentage
GCC Interconnection Authority	Interconnecting the electricity transmission networks of the member states of the GCC	31.6%
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%
Al-Jubail Power and Water Company	Develop and operate the project for the dual production of water and electricity in the city of Jubail.	5%

Borrowings, Security Interests, Guarantees and Other Contingent Liabilities

Borrowings

As at 31 December 2006, the total amount of SEC's utilised banking facilities (including term loan facilities) was SAR 9,800 million and the total committed but unutilised banking facilities available to SEC was SAR 2,100 million (compared to SAR 4,200 million as at 31 December 2005). The following table sets out the repayment schedule for the principal amount under all of SEC's banking facilities as at 12 June 2007.

Year	Aggregate principal amount of facilities to be repaid (in millions of Saudi Riyals)
2007	741
2008	1,403
2009	1,239
2010	1,064
2011	1,075
2012	792
2013	792
2014	792
2015	792
2016	792
2017	318
Total	9,800

As at the date of this Offering Circular, SEC does not have any debt instruments which are outstanding.

Security Interests

SEC has granted a mortgage in favour of a bank over three power generation units located in Al-Shuaibah. As at 31 May 2007, the book value of the three mortgaged plants was SAR 2,971 million and the principal amount outstanding of the debt which is secured by this mortgage was SAR 1,416 million.

As at the date of this Offering Circular, all of SEC's banking facilities are secured by an assignment of certain of its receivables.

Guarantees and Other Contingent Liabilities

As at 12 June 2007, the aggregate liability of SEC under guarantees and other contingent liabilities that are in force amounted to SAR 483 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 the first three instalments of the receivables due from the Government to SEC. 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.

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 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 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.

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 38,400 million, of which SAR 18,300 million applies to the Eastern Region and SAR 20,100 million applies to the Western Region. SEC also has property insurance cover for the Central and Southern Regions in a total of SAR 20,900 million, of which SAR 16,200 million relates to the Central Region and SAR 4,700 million relates to the Southern Region.

The property insurance maintained by SEC covers all known and foreseeable risks, including (without limitation): fire, lightning, windstorms, hurricanes, civil disturbances, electrical damage and theft.

General Liability Insurance

SEC maintains a comprehensive general liability policy with a loss limit of SAR 18 million, which covers vandalism, malicious mischief, riots, strikes, locked out workmen, labour disturbances and civil unrest.

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

SEC had a dispute with Saudi Aramco, SEC's sole provider of fuel, regarding diesel prices and crude oil handling fees. The dispute relating to diesel prices was recently resolved in favour of SEC at a meeting between H.E. the Minister of Finance and H.E. the Minister of Petroleum and Mineral Resources held on 15/5/1427H. SEC continues to be in dispute with Saudi Aramco in relation to crude oil handling fees amounting to SAR 1,294 million as at 31 December 2006 and continues to press its claim. However, based on the results of the aforementioned meeting between H.E. the Minister of Finance and H.E. the Minister of Petroleum and Mineral Resources, 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.

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 21 December 2005 amounted to SAR 927 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 "Description of Share Capital and Dividends" of this Offering Circular.)

During 2006, SEC received an invoice from Saudi Aramco amounting to SAR 103 million for the electricity exported from Saudi Aramco's generation units to SEC's network for the period from April 5, 2000 to December 31, 2006. The issue is still under investigation by the management of the two companies.

Zakat Liabilities

SEC has obtained its restricted Zakat certificate up to 2005. 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 13 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 2005 had not been received as at the date of this Offering Circular.

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 118 million as at 31 December 2006 (the corresponding figure for the year ended 31 December 2005 was SAR 71 million). 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 the amounts involved are relatively small.

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. The remaining members are representatives from the private sector. Currently, the Board comprises:

Name	Title	Age
H.E. Engineer Mahmoud Bin Abdullah Taiba	Chairman of the Board - Government Representative	80
Mr. Saleh Bin Hussein Al-Awajji	Board Member- Government Representative	51
Mr. Ali Bin Saleh Al-Sugair	Board Member - Government Representative	62
Mr. Sulaiman Bin Abdullah Al-Kadi	Board Member - Private Sector Representative	69
Dr. Abdul Rahman Bin Abdul-Mihsin Al Tuwajjri	Board Member - Private Sector Represent	62
Mr. Issa Bin Mohammed Al Issa	Board Member - Government Representative	51
Dr. Khaled Bin Abdullah Al Sabti	Board Member - Government Representative	40
Engr. Issam Bin Alawan Al-Bayyat	Board Member - Saudi Aramco Representative	58
Dr. Abdullah Bin Mohammed Basodan	Board Member – Government Representative	57
Abdul Salam A. Al-Yemni	Secretary to the Board	49

H.E. Engineer Mahmoud Bin Abdullah Taiba, Chairman of the Board - Government Representative (Civil registry number 1-01098117-1; year of birth 1927)

Engineer Taiba was elected to the Board of SEC by the general meeting of the shareholders held in December 2005 and was appointed as Chairman of the Board by the Board in January 2006. He was appointed Vice President of the Shoura Council in 2005. He served as Chairman of Saudi Consolidated Electricity Company, Eastern Region from 1976 to 1981, as Chairman of Saudi Consolidated Electricity Company, Western Region from 1980 to 2000 and as Vice Chairman of the Company from 2001 to 2005.

He has also been a member of the board of directors of Petromin, Saudi Railways Organization, Saudi Standardization Organization and General Organization of Grain Silos and Flour Mills. His Excellency is an Electrical and Mechanical Engineer and obtained a bachelors degree in Electrical Engineering from Cairo University in 1956 and a bachelors degree in Mechanical Engineering from Pennsylvania University, USA in 1961.

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 2005 and was appointed as Vice Chairman to the Board of SEC by the Board in January 2006. 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 from Taiwan National University in 1985 and a doctorate in Electrical Engineering from the University of Strathclyde, UK in 1989.

Mr. Ali Bin Saleh Al-Sugair, Board Member - Government Representative (Civil registry number 1-0392-9817-7; year of birth 1366H)

Mr. Al-Sugair was elected to the Board of SEC by the general meeting of the shareholders held in December 2005. He has been Director General, Saudi Credit Bank since 1997. He has also served as: Director General, Retirement Pension Authority, Director General of the Department of Zakat and Income Tax, Deputy Minister of Finance for Financial Affairs and Accounts, Deputy Minister of Finance and Chairman of the Permanent Committee for Financial, Economic and Monetary Data, Chairman of the Permanent Committee for Auditing Contracts, Chairman of the Permanent Committee for Tax Exemption and Chairman of the Committee for Loans. He has been a member of the board of directors of a number of organisations, including: Arab Monetary Fund; Arab Investment Company; General Organization of Petroleum and Minerals; Saudi Consolidated Electricity Company Central Region; Arab Bank, Amman, Jordan; King Fahd University of Petroleum & Minerals and Saudi Credit Bank. Mr. AlSaqeer obtained a bachelors degree in Economics and Mathematics from Texas University, USA in 1971 and a masters degree in Science and Metals Economies from Pennsylvania State University, USA in 1977.

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 2005. 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 Association 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. Abdul Rahman Bin Abdul-Mihsin Al Tuwajjri, Board Member - Private Sector Representative (Civil registry number 1-0004-5568; year of birth 1366H)

Dr. Al Tuwaijri was elected to the Board of SEC by the general meeting of the shareholders held in December 2005. He is a member of the board of directors of the Chamber of Commerce and Industry, Riyadh; Chairman of the Committee of Consulting Offices, member of the Industrial Committee, Chairman of the Electrical and Electronic Subcommittee (all at the Chamber of Commerce and Industry) and Chairman of the National Committee of Consulting Offices, Council of the Chambers of Commerce and Industry. Dr. Al Tuwaijri has also been Deputy Minister of Industry and Electricity, Assistant Deputy Minister of Industry and Electricity and General Manager of Studies and Statistics, Ministry of Industry and Electricity. Dr. Al Tuwaijri obtained a bachelors degree in Electrical Engineering from King Saud University, a masters degree in Electrical Engineering from Ein Shams University, Cairo and a doctorate in Electrical Engineering from Brunel University, London, UK, in 2000.

Mr. Issa Bin Mohammed Al Issa, Board Member - Government Representative (Civil registry number 1-0453-6816-2; year of birth 1956)

Mr. Al Issa was elected to the Board of SEC by the general meeting of the shareholders held in December 2005. He is a member of the Consulting Board of the Higher Economic Council; member of the Economic Committee, the General Authority of Tourism; member of the Economic and Investment Committee, King Abdulaziz Organization for Talent Care; Vice Chairman of the International Visa Company, Middle East, Central and Eastern Europe, Middle East and Africa; member of board of directors of Saudi Investment Fund Limited; member of the Secretaries Board of the Centennial Fund; member of board of directors of the International Chamber of Commerce and member of the Competition Protection Council. Mr. Al Issa obtained a bachelors degree in Management from King Abdulaziz University in 1977.

Dr. Khaled Bin Abdullah Al Sabti, Board Member - Government Representative (Civil registry number 1081870753; year of birth 1388H)

Dr. Al Sabti was elected to the Board of SEC by the general meeting of the shareholders held in December 2005. 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 1010748596; year of birth 1370H)

Mr. Al-Bayyat was elected to the Board of SEC by the general meeting of the shareholders held in December 2005. 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 1048123010; year of birth 1371H)

Dr. Basodan was elected to the Board of SEC in June 2007 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 "Executive Management" section of this Offering Circular.

Executive Management

Name	Title	Age
Engineer Ali Bin Saleh Al-Barrak	Chief Executive Officer	55
Engineer Yousif Bin Sulaiman Balghanaim	Executive Vice President - Generation	53
Engineer Saleh Bin Mohammed Al-Onaizan	Executive Vice President - Transmission	52
Engineer Sa'ad Bin Hamad Al-Mansour	Executive Vice President - Distribution & Customer Services	52
Mr. Ali Bin Sulaiman Al-Ayed	Executive Vice President - Finance	51
Mr. Fahad Bin Khlaifeek Al-Hajri	Senior Vice President - General Services	53
Mr. Idris Bin Ahmed Tairi	General Auditor	63
Engineer Mohammad Bin Ibrahim Al-Mulhim	Senior Vice President - Planning and Programs	59
Mr. Mutlaq Bin Mohammed Al-Mutlaq	Senior Vice President - Legal Affairs	52
Mr. Abdul Salam Bin Abdulaziz Al-Yemni	Senior Vice President – General Affairs and Investor Relations, Secretary to the Board	49
Mr. Saud Bin Abdulaziz Al-Shammari	Senior Vice President - Human Resources	49
Dr. Amer Bin Mohammed Al-Swaha	Senior Vice President - Head of IPP Programs	59
Mr. Ahmed Bin Mohammed Al-Jogiaman	Vice President - Control	50
Mr. Fahad Bin Hussain Al-Sudairi	Vice President - Treasury	48

Engineer Ali Bin Saleh Al-Barrak, CEO (Civil registry number 1010810990; 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-Saudiyyah from 1978 to 1979. 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 Yousif Bin Sulaiman. Balghanaim, Executive Vice President - Generation (Civil registry number 1028920104; year of birth 1954)

Mr. Balghanaïm joined SEC as Assistant Chief Engineer in 1977. Since that time and has held the following positions within SEC: Assistant Senior Engineer; Project Coordination Engineer, Steam Station Expansion Project; Manager, Jeddah Distribution Network; Manager, Rabigh Steam Station Expansion Project; Deputy Director General for Operations Affairs and is now Vice President, Generation. He obtained a bachelors degree in Electrical Engineering from the University of California, USA in 1977.

Engineer Saleh Bin Mohammed Al-Onaizan, Executive Vice President - Transmission (Civil registry number 1037146626; 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. 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 1008184952; year of birth 1955)

Mr. Al-Mansour joined SEC as a Manager, Customer Affairs, Alhasa Operating Area in 1985. Since that time he has been a 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. 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. Ali Bin Sulaiman Al-Ayed, Executive Vice President - Finance (Civil registry number 1007670365; year of birth 1956)

Mr. Al-Ayed joined SEC as Executive Vice President and Chief Finance Officer in 2006. Before joining SEC Mr. Al-Ayed was an Internal Auditor for Saudi Basic Industries Corporation from 1980 to 1984 and Manager from 1985 to 1989; Director of Finance and Administration, Mawarid Trading and Marketing Limited from 1990 to 1993 and Financial Manager, The Company for Cooperative Insurance from 1994 to 2006. He obtained a bachelors degree in Accounting from King Saud University in 1980.

Mr. Fahad Bin Khlaifeek Al-Hajri, Senior Vice President - General Services (Civil registry number 1010153938; 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. He obtained a degree in Economics from University of Colorado, USA in 1980.

Mr. Idris Bin Ahmed Tairi, General Auditor (Civil registry number 1025434380; year of birth 1944)

Mr. Tairi joined SEC as Executive Vice President and Chief Financial Officer 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. He has been a Financial Adviser to Saudi Basic Industries, International New Group and AlHonouf Group and was also a Finance and Investment Manager with Saudi Basic Industries. 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.

Engineer Mohammad Bin Ibrahim Al-Mulhim, Senior Vice President - Planning and Programs (Civil registry number 1009462456; year of birth 1948)

Mr. Al-Mulhim joined SEC in 1978. Since that time he has held the following positions within SEC: Vice General Manager of Design, General Manager of Design, General Manager of Projects, General Manager of Planning, General Organization of Electricity; member of the Executive Committee for Support Services and is currently Senior Vice President for Planning and Programs. Mr. Al-Mulhim obtained a bachelors degree in Electrical Engineering from Sheffield University, United Kingdom in 1974.

Mr. Mutlaq Bin Mohammed Al-Mutlaq, Senior Vice President - Legal Affairs (Civil registry number 1025113976; 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 – General Affairs and Investor Relations, 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 1016384495; 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. 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.

Dr. Amer Bin Mohammed Al-Swaha, Senior Vice President - Head of IPP Programs (Civil registry number 1008034942; year of birth 1948)

Dr. Al-Swaha joined SEC as Senior Engineer (Computer-system Operations and Telecommunications Department) in 1981. Mr. Al-Swaha has worked in the following areas within SEC: System Planning,

System Operations, IT, Contracts, Material Management, Human Resources, Planning and Implementing SEC Restructuring and Merger and was the Senior Vice President - Human Resources until 2006. Before joining SEC Mr. Al-Swaha worked for three years in IT. He obtained a bachelors degree in Electrical Engineering from Basra University, Iraq in 1970; a masters degree in Control Systems from University of Manchester Institute of Science and Technology (UMIST) in 1973 and a doctorate in Electrical Engineering from UMIST in 1977.

Mr. Ahmed Bin Mohammed Al-Jogiaman, Vice President - Control (Civil registry number 1009021344; year of birth 1957)

Mr. Al-Jogiaman 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 (Al-Ahsa Operating Area) from 1987 to 1989; Administrator, General Accounting Division from 1989 to 1990; Administrator, General Accounts, Head Office; Controller and Manager for Finance Controlling Department in SCECO from 1993 to 2002. He is currently SEC Vice President, Corporate Controller, Control Section. Before joining SEC Mr. Al-Jogiaman 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 Hussain Al-Sudairi, Vice President - Treasury (Civil registry number 1008444570; year of birth 1959)

Mr. Al-Sudairi joined SEC as an Accountant in 1994. Since that time he has held the following positions: Senior Accountant from 1994 to 1999; Administrator, Cash and Insurance from 1999 to 2003; Acting Vice President, Treasury, in 2004 and he is currently Vice President, Treasury. Before joining SEC Mr. Al-Sudairi was an Assistant Manager, Saudi American Bank; a Senior Administrator, Treasury, Riyadh Bank; Treasurer and customers relations manager, Riyadh Bank; Branch Manager, Riyadh Bank; Assistant Manager, Riyadh Bank, Regional Dammam Branch. He obtained a bachelors degree in Accounting from North Dakota University, USA in 1983.

Directors' compensation and interests of directors and executive management

The table below sets out 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 4 June 2007. Other than the persons listed below, no other director of SEC (or their relatives) own any shares in SEC.

Name of Director	Date of Holding	No. of shares in SEC
Sulaiman Bin Abdullah Al-Kadi	28 May 2007	1,050
Dr. Abdul Rahman Bin AbdulMihsin Al Tuwajiri	28 May 2007	1,050

The table below sets out the names of the Executive Management 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 4 June 2007. Other than the persons listed below, no other member of the Executive Management (or their relatives) own any shares in SEC.

Name and Title	Date of Holding	No. of shares in SEC
Dr. Amer M. Al-Swaha	28 May 2007	5,395

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 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 2005 and 2006, the aggregate remuneration (including benefits in kind) paid to the members of the Board was SAR 1,700,000 and SAR 1,600,000, 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. 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 25 June, 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 2006, SEC had a workforce of 28,679 of which 83.19 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.

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 2006
Senior-Level Executive Positions	36
Mid-Level Manager Positions	1,662
Other Positions	26,981
Total Positions	28,679

For the purpose of the above table:

"Senior-Level Leader Positions" includes the CEO, Executive Vice President, Senior Vice President and Vice President;

"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 2006.

Corporate Governance Regulations

SEC has implemented the majority of the advisory guidelines set out in the Corporate Governance Regulations issued by the Authority, in particular, the guidelines relating to the rights of shareholders and compliance with disclosure and transparency procedures. SEC has commenced a review to determine the extent to which its rules, procedures and internal policies comply with the provisions of the Corporate Governance Regulations with the aim to implement the balance of the provisions of these regulations that are mentioned in the report of the Board to the shareholders of SEC in respect of the financial year ended 31 December 2006.

RECENT DEVELOPMENTS AND OUTLOOKS

SEC's financial performance during 2006 was in line with previous trends. SEC's total operating revenue for the year ended 31 December 2006 was SAR 19,706,657,000, compared with SAR 18,761,289,000 for the previous year, while its total operating expenses rose to SAR 18,552,083,000 for the ended 31 December 2006, compared with SAR 17,502,130,000 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 94.1 per cent. for the year ended 31 December 2006, 93.3 per cent. for the year ended 31 December 2005 and 94.3 per cent. for the year ended 31 December 2004. The two main contributors to the increase in SEC's total operating expenses during this period were the cost of power purchased by SEC and the cost of fuel. The total cost of power purchased by SEC rose from SAR 952,047,000 for the year ended 31 December 2004 to 1,195,470,000 for the year ended 31 December 2006, an increase of 25.6 per cent. While the total cost of fuel rose from SAR 4,171,344,000 for the year ended 31 December 2004 to 4,758,872,000 for the year ended 31 December 2006, an increase of 14.1 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 16,320,524,000 for the year ended 31 December 2004 to SAR 18,284,878,000 for the year ended 31 December 2006. 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 2006, is summarised in the report of its Board of Directors set out in SEC's Annual Report for 2006.

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 unaudited income statement and balance sheet for the first quarter ended 31 March 2007 are set out below. SEC's financial performance during the first quarter ended 31 March 2007 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

	31 March 2006	31 March 2007
	(in thousands of Saudi Riyals)	
Total Operating Revenue	3,424,396	3,664,206
Total Operating Expenses (including depreciation)	(3,886,395)	(4,199,271)
Operating Loss	(461,999)	(535,065)
Other Income	25,886	101,036
Net Loss	(436,113)	(434,029)

Balance Sheet

	31 March 2006	31 March 2007
	(in thousands of Saudi Riyals)	
<u>ASSETS</u>		
Cash and cash equivalents	898,606	5,406,352
Consumers receivable and accrued revenue, net	22,561,525	19,867,176
Prepayments and other receivables, net	898,007	1,623,804
Inventories, net	3,796,003	5,281,500
Total Current Assets	28,154,141	32,178,832
Long-term investments	339,639	1,021,943
Construction in progress	14,171,071	15,383,017
Fixed assets, net	75,922,839	79,839,155
Total Non-current Assets	90,433,549	96,244,115
TOTAL ASSETS	118,587,690	128,422,947
<u>LIABILITIES AND SHAREHOLDERS' EQUITY</u>		
Credit facilities - banks	430,000	-
Accounts payable	32,401,777	38,748,599
Accruals and other payables	1,703,421	2,041,016
Current portion of long-term loans	1,139,652	711,838
Total Current Liabilities	35,674,850	41,501,453
Non-current portion of long-term loans	7,141,307	9,420,920
End of service benefits	3,878,844	4,025,884
Deferred revenue, net	10,186,375	10,845,944
Consumers deposits	941,031	995,846
Total Non-current Liabilities	22,148,557	25,228,594
Government Loan	14,938,060	14,938,060
Total Liabilities	72,761,467	81,728,107
Shareholders' Equity		
Share capital	41,665,938	41,665,938
Statutory reserve	597,926	739,309
General reserve	530,510	531,563
Retained earnings	3,031,849	3,758,030
Total shareholders' equity	45,826,223	46,694,840
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	118,587,690	128,422,947

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% owned by the Government and Saudi Aramco owns 7% 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% 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 SAR3,378 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 2005 and 2006 earnings per share of SEC (determined based on the number of shares outstanding at the end of the relevant year) were SAR 1.78 and SAR 0.34, 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.

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)
2006	14/05/2007	0.70	0.70
2005	04/03/2006	3.5	0.70
2004	14/05/2005	3.5	0.70
2003	17/03/2004	3.5	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 21 December 2005 amounted to SAR 927 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.

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 dependant on individual circumstances. Prospective purchasers of Sukuk should consult their own zakat/tax advisers to determine the zakat/tax consequences for them of acquiring, holding and disposing of 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 in 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.

Holders who are Saudi Arabian nationals resident in the Kingdom of Saudi Arabia

Holders who are Saudi Arabian nationals and are resident in the Kingdom of Saudi Arabia are not subject to any Saudi Arabian tax, whether by withholding or direct assessment, in respect of any payment received or gain realised in respect of Sukuk. However, such a holder may be subject to zakat. This summary does not consider the extent to which a potential Holder would be liable to zakat as a consequence of acquiring, holding or disposing of its Sukuk.

Nationals of other GCC countries who are resident in the Kingdom of Saudi Arabia are treated as Saudi Arabian nationals for the purposes of the zakat/tax regulations in force in the Kingdom of Saudi Arabia.

Holders who are Non-Saudi Arabian nationals resident in the Kingdom of Saudi Arabia

Holders who are not Saudi Arabian nationals and are resident in the Kingdom of Saudi Arabia will be subject to Saudi Arabian tax. All payments in the nature of profit in respect of the Sukuk to such a Holder will be part of the Holder's gross income that is subject to tax after deduction of allowable costs and certain other adjustments. The current income tax rate applicable in the Kingdom of Saudi Arabia is 20 per cent.

Holders who are not resident in the Kingdom of Saudi Arabia

Holders who are not residents in the Kingdom of Saudi Arabia (whether such Holders are Saudi Arabian nationals or not Saudi Arabian nationals) 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.

Capital Gains Tax

A non-Saudi Arabian Holder, whether such Holder is resident in the Kingdom of Saudi Arabia or non-resident in the Kingdom of Saudi Arabia, will be subject to capital gains tax at the rate of 20 per cent. on any gain realised on the disposal, or purchase by SEC, 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.

General

The provisions of the income tax law issued under Royal Decree No. M/1 dated 15/01/1425H (the "**Income Tax Law**") apply to non-resident persons, natural or corporate, Saudi Arabian nationals or non-Saudi Arabian nationals, who conduct business in the Kingdom of Saudi Arabia through a permanent establishment (as defined in the Income Tax Law) located in the Kingdom of Saudi Arabia or who derive income from a source in the Kingdom of Saudi Arabia.

Holders 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.

All taxation related terms used in this section (including "Saudi Arabian national", "person", "resident" and "non-resident") have the meaning given to such terms in the Income Tax Law.

SUBSCRIPTION AND SALE

Underwriting Agreement

The Managers will enter into an underwriting agreement before the Closing Date (as the same may be amended, supplemented or novated, the "**Underwriting Agreement**") with the Issuer relating to the distribution and underwriting of the Sukuk. Pursuant to the Underwriting Agreement, the Managers will severally agree to severally underwrite the Sukuk on the terms provided therein.

The Underwriting Agreement will be subject to a number of conditions and may, in certain circumstances, be terminated by the Lead Manager (on behalf of the Managers) prior to payment of the net proceeds of the issue of the Sukuk to the Issuer. If the Underwriting 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 Managers may solicit expressions of interest from potential investors for acquiring the Sukuk, during which time the Issuer and the Lead Manager (on behalf of the Managers) 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.sabb.com).

Persons wishing to purchase the Sukuk will be required to submit a duly completed form (an "**Investor Application Form**") to any of the Managers before the end of the Investor Presentation Period. Investor Application Forms will be available from any of the Managers. Applications to purchase Sukuk for less than SAR 500,000 or in amounts which are not higher integral multiples of SAR 500,000 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 Lead Manager 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 face amount, together with the anticipated aggregate net proceeds of the Sukuk to be issued to be published on the Issuer's and the Lead Manager's websites.

Only persons who are Qualified Persons as defined in Condition 1 (*Definitions*) may be registered as Holders. "**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;
- (e) an institution that has received a licence to engage in banking business in accordance with the laws of the Kingdom of Saudi Arabia; or
- (f) 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, any Manager 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 Managers 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 clearing and settlement system of the Registrar. However, as of the Closing Date the Sukuk will not be admitted to any trading system or platform and trading of the Sukuk will need to be conducted through over-the-counter transactions. The Issuer may in the future apply for the Sukuk to be admitted to one or more trading systems or platforms in the Kingdom of Saudi Arabia after the establishment of trading systems and platforms for trading debt instruments.

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 2007/70/2 dated 19/5/1428H (corresponding to 5 June 2007).
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 2006, 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 25 June 2007, none of the experts identified in the "Advisers and Parties" section on page vi 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 neither the Lead Manager 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 2004, 31 December 2005 and 31 December 2006;

- 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 of 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 publicising 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 nine 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 meetings of the Ordinary General Meeting 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 INDEPENDENT AUDITORS' REPORT
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004**

INDEPENDENT AUDITORS' REPORT

**TO THE SHAREHOLDERS OF
SAUDI ELECTRICITY COMPANY
Riyadh – Kingdom of Saudi Arabia**

We have audited the accompanying balance sheet of Saudi Electricity Company (A Saudi Joint Stock Company) as of December 31, 2005 and 2004 and the related statements of income, changes in shareholders' equity and cash flows for the years then ended, including the related notes from 1 to 27. These financial statements are the responsibility of the Company's management and have been prepared in accordance with the provisions of Regulations for Companies and presented to us together with all the information and explanations which we required. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the Kingdom of Saudi Arabia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the accompanying financial statements taken as a whole:

- present fairly, in all material respects, the financial position of Saudi Electricity Company as of December 31, 2005 and 2004 and the results of its operations, changes in shareholder's equity and its cash flows for the years then ended in conformity with accounting principles generally accepted in Saudi Arabia.
- comply with the requirements of the Regulations for Companies and the Company's Articles of Association with respect to the preparation and presentation of financial statements.

For Dr. M. Al-Amri & Co.,



Jamal Mohamed Al-Amri
Certified Public Accountant
Registration No. 331

For Ahmed A. Bajnied & Co.



Assad Saleh Basudan
Certified Public Accountant
Registration No. 342



Muharram 27, 1427 (H)
February 26, 2006 (G)



SAUDI ELECTRICITY COMPANY
(A Saudi Joint Stock Company)

BALANCE SHEETS

		As of December 31,	
	<u>Notes</u>	<u>2005</u> <u>SR '000</u>	<u>2004</u> <u>SR '000</u>
<u>ASSETS</u>			
Cash and cash equivalents	3	1,007,916	1,185,875
Consumers receivable and accrued revenue - net	4	22,750,051	19,349,198
Prepayment and other receivables - net	5	1,078,408	1,987,355
Inventories - net	6	<u>3,654,403</u>	<u>3,564,705</u>
Total Current Assets		<u>28,490,778</u>	<u>26,087,133</u>
Long-term investments	7	339,639	87,764
Construction in progress	8	13,211,241	8,542,433
Fixed assets - net	9	<u>75,521,192</u>	<u>74,488,966</u>
Total Non-current Assets		<u>89,072,072</u>	<u>83,119,163</u>
TOTAL ASSETS		<u>117,562,850</u>	<u>109,206,296</u>
<u>LIABILITIES AND SHAREHOLDERS' EQUITY</u>			
Bank overdrafts	10	-	200,456
Accounts payable	11	32,114,648	27,804,623
Accruals and other payables	12	1,176,700	1,222,296
Current portion of long-term loans	14	<u>991,222</u>	<u>1,148,832</u>
Total Current Liabilities		<u>34,282,570</u>	<u>30,376,207</u>
Non-current portion of long-term loans	14	7,349,395	4,831,214
End of service benefits		3,842,627	3,660,541
Deferred revenue - net	15	9,957,130	9,580,115
Consumers deposits		<u>930,732</u>	<u>883,720</u>
Total Non-current Liabilities		<u>22,079,884</u>	<u>18,955,590</u>
Government loan	16	<u>14,938,060</u>	<u>14,552,136</u>
Total Liabilities		<u>71,300,514</u>	<u>63,883,933</u>
Shareholders' Equity			
Share capital	17	41,665,938	41,665,938
Statutory reserve		597,926	449,622
General reserve	18	530,510	525,327
Retained earnings		<u>3,467,962</u>	<u>2,681,476</u>
Total Shareholders' Equity		<u>46,262,336</u>	<u>45,322,363</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		<u>117,562,850</u>	<u>109,206,296</u>

The accompanying notes from No. (1) to No. (27) form
an integral part of these financial statements.

SAUDI ELECTRICITY COMPANY
(A Saudi Joint Stock Company)

STATEMENTS OF INCOME

		For the Years Ended December 31,	
	<u>Notes</u>	<u>2005</u>	<u>2004</u>
		<u>SR '000</u>	<u>SR '000</u>
Operating Revenue			
Electricity sales		17,429,591	16,320,524
Meter reading and maintenance and bill preparation tariff		660,372	637,219
Electrical service connection tariff		<u>671,326</u>	<u>618,049</u>
Total operating revenue		<u>18,761,289</u>	<u>17,575,792</u>
Operating Expenses			
Fuel		(4,573,978)	(4,171,344)
Purchased power		(1,151,615)	(952,047)
Operations and maintenance	19	(5,766,420)	(5,399,635)
Depreciation	9	(5,623,944)	(5,591,586)
General and administrative expenses and provisions	20	<u>(386,173)</u>	<u>(457,977)</u>
Total operating expenses		<u>(17,502,130)</u>	<u>(16,572,589)</u>
Operating Income		1,259,159	1,003,203
Other income and expenses - net	22	<u>266,901</u>	<u>338,785</u>
Income before Zakat		1,526,060	1,341,988
Zakat	13	<u>(43,018)</u>	<u>(42,356)</u>
Net Income		<u>1,483,042</u>	<u>1,299,632</u>
Earning per share (in SR)	23	<u>1.78</u>	<u>1.56</u>

The accompanying notes from No. (1) to No. (27) form
an integral part of these financial statements

SAUDI ELECTRICITY COMPANY
(A Saudi Joint Stock Company)

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

	<u>Paid-in Capital SR'000</u>	<u>Statutory Reserve SR'000</u>	<u>General Reserve SR'000</u>	<u>Retained Earnings SR'000</u>	<u>Total SR'000</u>
<u>For the Year Ended December 31, 2005</u>					
Balance, January 1, 2005 as previously reported	41,665,938	462,766	525,327	2,799,773	45,453,804
Prior year adjustment (Note 26)	-	(13,144)	-	(118,297)	(131,441)
Balance, January 1, 2005 as restated	41,665,938	449,622	525,327	2,681,476	45,322,363
Dividends for 2004	-	-	-	(547,252)	(547,252)
Board of directors' remuneration for 2004	-	-	-	(1,000)	(1,000)
Consumers' Electricity Fund Collections	-	-	5,183	-	5,183
Net income for the year	-	-	-	1,483,042	1,483,042
Transfer to statutory reserve	-	148,304	-	(148,304)	-
Balance, end of the year	<u>41,665,938</u>	<u>597,926</u>	<u>530,510</u>	<u>3,467,962</u>	<u>46,262,336</u>
<u>For the Year Ended December 31, 2004</u>					
Balance, January 1, 2004	41,665,938	319,659	213,668	2,060,058	44,259,323
Dividends for 2003	-	-	-	(547,251)	(547,251)
Board of directors' remuneration for 2003	-	-	-	(1,000)	(1,000)
Returns on Electricity Fee Fund	-	-	294,976	-	294,976
Consumers' Electricity Fund Collections	-	-	16,683	-	16,683
Net income for the year	-	-	-	1,299,632	1,299,632
Transfer to statutory reserve	-	129,963	-	(129,963)	-
Balance, end of the year	<u>41,665,938</u>	<u>449,622</u>	<u>525,327</u>	<u>2,681,476</u>	<u>45,322,363</u>

The accompanying notes from No. (1) to No. (27) form
an integral part of these financial statements

SAUDI ELECTRICITY COMPANY
(A Saudi Joint Stock Company)

STATEMENTS OF CASH FLOWS

	For the Years Ended December 31,	
	2005	2004
	<u>SR '000</u>	<u>SR '000</u>
<u>Cash flows from operating activities :</u>		
Net income	1,483,042	1,299,632
Adjustments to reconcile net income to net cash provided by operating activities :		
Allowance for doubtful receivables	144,022	191,454
Allowance for slow moving inventory	-	(112,964)
(Loss) gain from investments, net	712	(7,579)
Depreciation	5,623,944	5,591,586
(Gain) loss on disposal of fixed assets, net	(53,113)	(20,881)
Provision for end of service benefit	182,086	142,321
Electrical service connection tariff	377,015	650,392
Proceeds from customer deposits, net of refunds	47,012	52,937
Provision for zakat	43,018	42,356
(Increase) Decrease in operating assets :		
Consumers receivable and accrued revenue	(3,506,242)	(3,628,045)
Prepayments and other receivables	860,871	(1,304,496)
Inventories	(89,698)	(303,361)
Increase (Decrease) in operating liabilities :		
Accounts payable	4,705,392	5,451,107
Accruals and other payables	(118,306)	(213,373)
Net cash provided by operating activities :	<u>9,699,755</u>	<u>7,831,086</u>
<u>Cash Flows from Investing Activities :</u>		
Net (payments for) proceeds from investments	(252,587)	-
Fixed assets and construction-in-progress	(11,334,410)	(8,866,305)
Proceeds from disposal of fixed assets	62,545	34,938
Net cash used in investing activities :	<u>(11,524,452)</u>	<u>(8,831,367)</u>
<u>Cash Flows from Financing Activities :</u>		
Bank overdrafts	(200,456)	200,456
Net proceeds from (settlement of) bank loans	2,360,571	714,728
Dividends paid related to prior years	(513,377)	(511,114)
Net cash provided by financing activities	<u>1,646,738</u>	<u>404,070</u>
Net Decrease in Cash and Cash Equivalents	<u>(177,959)</u>	<u>(596,211)</u>
Cash and Cash Equivalents – Beginning of the year	<u>1,185,875</u>	<u>1,782,086</u>
Cash and Cash Equivalents – End of the Year	<u>1,007,916</u>	<u>1,185,875</u>
Non-cash flow from Government loan	<u>385,924</u>	<u>-</u>

The accompanying notes from No. (1) to No. (27) 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, 2005 AND 2004

1. ORGANIZATION AND ACTIVITIES

Name of the Company	:	Saudi Electricity Company (hereinafter referred to as "SEC" or the "Company")
Corporate Status	:	The formation of SEC came as a result of the Council of Ministers' Resolution Number 169 Dated Sha'ban 11, 1419 H corresponding to November 29, 1998. The resolution stipulated the reorganization and restructuring of the electricity energy sector in the Kingdom of Saudi Arabia (KSA) by merging all the former public Utility, joint stock companies (10 public companies covering almost the whole Kingdom) and General Electricity Corporation projects (11 projects covering different areas in the northern region of the Kingdom) in Saudi Electricity Company.
Legal Entity	:	SEC was formed by Royal Decree No. M/16 dated Ramadan 6, 1420H corresponding to December 13, 1999 as a Saudi Joint Stock Company in accordance with the Council of Ministers' Resolution number 153, dated Ramadan 5, 1420H corresponding to December 12, 1999 approving the Company's Articles of Association, and the Minister of Commerce resolution number 4027, dated Dhu Al Hijjah 30, 1420H corresponding to April 5, 2000.
Commercial Registration	:	SEC was incorporated in KSA under Commercial Registration number 1010158683 dated Muharram 28, 1421H corresponding to May 3, 2000.
Nature of Activities	:	The Company's principal activity is the generation, transmission and distribution of electric power. The Company is the major provider of electric power to its consumers all over KSA, serving governmental, industrial, agricultural, commercial and residential consumers.
Company Segments	:	<p>The company is divided, based on its organization chart, into the main activities of generation, transmission, and distribution and related supporting activities such as finance, human resources, general services and planning.</p> <p>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.</p>
Electricity Tariff	:	<p>SEC is a tariff regulated electricity company. Electricity tariffs are determined by the Council of Ministers based on recommendations from the Saudi Electricity Regulatory Authority (SERA). SERA was Established in November 2001 according to Resolution No. 169 dated 11 Sha'aban 1419H.</p> <p>The last change in tariff was made through the Council of Ministers Resolution No. 170 dated 12, Rajab 1421 to be effective from 1 Sh'aban, 1421. The maximum rate of 26 Halala per Kilowatts/hours, has not been changed since then.</p>
Financial Year	:	The financial year of the Company commences on January 1, and ends on December 31, every calendar year.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2005 AND 2004

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Company prepares its financial statements under the historical cost convention on the accrual basis of accounting in accordance with accounting standards generally accepted in the Kingdom of Saudi Arabia. Significant accounting policies adopted in the preparation of these financial statements are summarized below:

a) Accounting Estimates

The preparation of financial statements in accordance with generally accepted accounting principles requires the use of estimates and judgments which might effect the valuation of recorded assets, liabilities and the disclosure of contingencies in the notes to the financial statements at the balance sheet date. Although these estimates are based on the best information available to management at the date of issuing the financial statements, the actual end results might differ from those estimates.

b) Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, balances and deposits with banks, and other investments with original maturities of three months or less.

c) Consumer 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 by the management.

d) Inventories

Generation, transmission and distribution inventories of materials, supplies and fuel are stated at the weighted average cost, net of allowances 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.

e) Investments

Investments in entities in which the Company has at least 20% ownership are accounted by following the equity method. Revenues or losses from such investments are recognized in the income statement when financial statements of investee entities are issued.

Investments in entities in which the Company has less than 20% ownership are accounted by following the cost method. Dividends from such entities are recognized as income when declared.

Held to maturity investments consisting of Saudi Government Bonds are reported at cost and adjusted for amortization of premiums and accretion of discounts. Bonds maturing within 12 months from the balance sheet date are classified as short-term investments and bonds maturing beyond 12 months are classified as long-term investments.

f) Fixed Assets

Fixed assets are recognized at historical cost and depreciated over their estimated operational useful lives using the straight line method. Cost includes purchase price, direct labor, indirect construction costs, and finance costs up to the date the asset is put in service. Fixed assets sold or otherwise disposed off and related accumulated depreciation are removed from the accounts at the time of disposal and the related gain or loss is recognized in the income statement. The estimated operational useful lives are as follows:

Generation plant, equipment and parts	20 to 25 years
Transmission network, equipment and parts	20 to 30 years
Distribution network, equipment and parts	15 to 25 years
Buildings	20 to 30 years
Others	4 to 20 years

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2005 AND 2004

g) Capitalization of Finance Costs

Net finance cost, long-term loans' finance charges and any other finance costs charged to the company net of any 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 finance cost to be capitalized on each project is calculated using the capitalization rate on the average amounts spent on the projects.

h) End of Service Benefits

End of service benefits are accrued in accordance with the Saudi Labor and Workmen Regulations.

i) Zakat

Zakat is accrued in accordance with the regulations of the Department of Zakat and Income Tax in KSA. Adjustments arising from final Zakat assessments, if any, are recorded in the year in which such assessments are made.

j) Revenue

Revenue from electricity sales is recognized when bills are issued to consumers based on their consumption of electric power measured in Kilowatts/hours. Revenue from electricity consumed but not 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.

Electrical 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, which is estimated to be 20 years.

k) Expenses

Operations 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 those 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, which is evaluated on yearly basis.

l) 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.

m) Foreign Currency Transactions

Transactions denominated in foreign currencies are translated into Saudi Riyals at exchange rates prevailing at the dates of such transactions. Monetary assets and liabilities denominated in foreign currencies at the Balance sheet date are translated to Saudi Riyals at the exchange rates prevailing at that date. Exchange gains and losses arising on the settlement of foreign currency transactions and all unrealized gains and losses on foreign currency denominated monetary balances are recorded in the statement of income.

There were no material exchange gains or losses incurred during the year as a result of such transactions.

SAUDI ELECTRICITY COMPANY
(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2005 AND 2004

	As of December 31,	
	2005 SR '000	2004 SR '000
3. <u>CASH AND CASH EQUIVALENTS</u>		
Cash on hand	1,918	347
Cash at banks	983,616	1,049,703
Short-term deposits	<u>22,382</u>	<u>135,825</u>
	<u>1,007,916</u>	<u>1,185,875</u>
4. <u>CONSUMERS RECEIVABLE AND ACCRUED REVENUE - NET</u>		
Consumers Receivable		
Governmental	17,873,774	14,629,682
Saudi Aramco	426,625	675,573
Saline Water Conversion Corporation	712,358	624,013
Commercial and residential	2,961,177	2,812,459
VIPs	1,392,294	1,263,981
Connection fees receivable	<u>199,080</u>	<u>114,344</u>
Total	23,565,308	20,120,052
Less: Allowance for doubtful accounts	<u>(1,578,609)</u>	<u>(1,465,627)</u>
Net consumers receivable	21,986,699	18,654,425
Accrued revenues	<u>763,352</u>	<u>694,773</u>
	<u>22,750,051</u>	<u>19,349,198</u>
5. <u>PREPAYMENTS AND OTHER RECEIVABLES - NET</u>		
Advances to suppliers and contractors	742,331	1,338,418
Prepaid expenses	9,908	4,732
Purchases on open letters of credit	270,064	429,925
Other	<u>134,380</u>	<u>261,515</u>
Total	1,156,683	2,034,590
Less: Allowance for doubtful debts	<u>(78,275)</u>	<u>(47,235)</u>
	<u>1,078,408</u>	<u>1,987,355</u>
6. <u>INVENTORIES - NET</u>		
Generation plant materials and supplies	1,945,966	1,984,611
Transmission network materials and supplies	228,834	259,630
Distribution network materials and supplies	1,377,485	1,229,870
Fuel and oil	219,990	240,908
Others	<u>159,128</u>	<u>126,686</u>
Total	3,931,403	3,841,705
Less: Allowance for slow moving inventory	<u>(277,000)</u>	<u>(277,000)</u>
	<u>3,654,403</u>	<u>3,564,705</u>

SAUDI ELECTRICITY COMPANY
(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2005 AND 2004

7. LONG-TERM INVESTMENTS

	In thousand Saudi Riyals				
	Balance, 01/01/2005	Additions during the year	Investment Profit (loss)	Dividends received	Balance, 31/12/2005
Gulf Cooperation Council Interconnection Authority (7a)	72,764	262,518	194	(10,331)	325,145
Water and Electricity Company (7b)	15,000	-	(906)	-	14,094
Al-Shuaiba Company for Water and Electricity (7c)	-	400	-	-	400
	87,764	262,918	(712)	(10,331)	339,639

7a. Gulf Cooperation Council Interconnection Authority

SEC has 31.6% ownership interest in the Gulf Cooperation Council Interconnection Authority (hereinafter referred to as "GCCIA") capital. This entity was established by the Gulf Cooperation Council "GCC" member countries to enhance the efficiency of electricity transmission and distribution within the member countries. SEC's ownership interest in GCCIA equals USD 347.6 million equivalent to SR 1,305 million of which 25% is paid as of December 2005 (2004: 5%). The remaining balance of subscription will be paid based on dates to be specified by the Board of Directors of GCCIA. GCCIA has not released its 2005 financial statements as of the date of issuance of these financial statements.

7b. Water and Electricity Company

SEC in participation with Saline Water Conversion Corporation established an equally owned new limited liability company called Water and Electricity Company based on the Supreme Economic Council Decision no. 5/23 dated 23/3/1423, which includes encouragement of the private sector participation in water desalination projects. The participation of SR 15 million representing 300,000 shares which is 50% of the company's capital was fully paid. The 2005 financial statements of the company have not been issued as of the date of issuance of these financial statements.

7c. Al-Shuaiba Company for Water and Electricity

The company participated during the current year in establishing Al-Shuaiba Company for Water and Electricity (a joint stock company). The purpose of the company is to establish, develop, and operate Al-Shuaiba III project for the dual production of water and electricity. The company's share of the investment is SR. 400 thousand and is fully paid. The amount represents 8,000 shares which is 8% of the total capital. The commercial operations of the company are not yet commenced and no financial statements have been issued as of the date of issuance of these financial statements.

	As of December 31,	
	2005	2004
8. CONSTRUCTION-IN-PROGRESS	SR '000	SR '000
Power generation projects	4,890,297	2,647,793
Transmission projects	5,030,056	4,397,074
Distribution projects	2,676,857	1,131,974
General projects	614,031	365,592
	13,211,241	8,542,433

Net financing cost capitalized on projects under construction during the year amounted to SR 526 million (2004: SR 401 million).

SAUDI ELECTRICITY COMPANY
(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2005 AND 2004

9. FIXED ASSETS - NET

	Land SR'000	Buildings SR'000	Machinery Equipments SR'000	Spare parts SR'000	Vehicles SR'000	Others SR'000	Total SR'000
Cost:							
Balance, January 1, 2005	1,251,993	11,852,952	145,541,409	2,298,190	1,331,227	1,997,644	164,273,415
Reclassifications	(2,802)	2,797	180,284	-	3,261	(183,540)	-
Additions	39,828	86,304	6,441,118	13,429	38,296	51,866	6,670,841
Disposals	(35)	(21,469)	(168,004)	-	(92,212)	(303)	(282,023)
Balance, December 31, 2005	1,288,984	11,920,584	151,994,807	2,311,619	1,280,572	1,865,667	170,662,233
Accumulated Depreciation:							
Balance, January 1, 2005	-	(6,523,859)	(79,050,511)	(1,293,175)	(1,160,129)	(1,756,775)	(89,784,449)
Reclassifications	-	347	(205,209)	133	(1,381)	206,110	-
Depreciation for the year	-	(393,982)	(4,982,261)	(87,188)	(58,833)	(101,680)	(5,623,944)
Disposals	-	20,789	154,487	-	91,773	303	267,352
Balance, December 31, 2005	-	(6,896,705)	(84,083,494)	(1,380,230)	(1,128,570)	(1,652,042)	(95,141,041)
Net Book Value:							
As at December 31, 2005	1,288,984	5,023,879	67,911,313	931,389	152,002	213,625	75,521,192
As at December 31, 2004	1,251,993	5,329,093	66,490,898	1,005,015	171,098	240,869	74,488,966

Net book value of fixed assets based on the Company's main activities at December 31, 2005 were as follows:

Description	SR'000					
	Generation	Transmission	Distribution	General Property	Total 2005	Total 2004
Land	244,235	576,375	226,292	242,082	1,288,984	1,251,993
Buildings	2,442,386	1,422,077	159,253	1,000,163	5,023,879	5,329,093
Machinery & equipment	21,871,476	25,262,228	20,393,897	383,712	67,911,313	66,490,898
Capital spare parts	546,436	383,959	-	994	931,389	1,005,015
Vehicles	-	-	-	152,002	152,002	171,098
Others	23,130	21,116	11,487	157,892	213,625	240,869
Total	25,127,663	27,665,755	20,790,929	1,936,845	75,521,192	74,488,966

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

	2005 SR '000	2004 SR '000
Generation	1,907,365	1,868,655
Transmission	1,675,751	1,583,149
Distribution	1,751,124	1,876,398
General property	289,704	263,384
	5,623,944	5,591,586

SAUDI ELECTRICITY COMPANY
(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2005 AND 2004

10. BANK OVERDRAFTS

The company has signed agreements with two local banks for overdraft facilities of SR 500 million each aggregating SR 1,000 million. These overdrafts are secured by notes payable. As of December 31, 2005 the overdrafts had no outstanding balance (2004: SR 200,456 thousand).

11. ACCOUNTS PAYABLE

	As of December 31,	
	2005	2004
	SR '000	SR '000
Saudi Aramco for fuel cost	22,802,058	18,489,804
Saline Water Conversion Corporation for power purchased	4,590,953	3,869,901
Contractor payables and retentions	1,654,851	2,498,696
Supplier payables	1,273,473	942,383
Municipality fees	1,186,050	939,833
Advances received for construction of projects	261,316	197,825
Others	345,947	866,181
	<u>32,114,648</u>	<u>27,804,623</u>

There is a dispute between SEC and Saudi Aramco, SEC's sole provider of fuel, on Diesel prices. This dispute started in 1415H when the Council of Ministers issued Resolution No. 96 dated 24/7/1415 imposing additional fee on diesel prices. The Resolution excluded electricity companies, subject to assessment by a government committee to determine the impact of such price increase on them. The committee has not issued its decision as of the date of these financial statements. However, Saudi Aramco applied the new prices on former SCECOs and subsequently on SEC.

Article 2.11 of the Council of Ministers' Resolution 169 stipulated that if the need arose to change fuel prices used in determining electricity tariff, SERA would review production cost, and report its recommendations to the concerned government authority in charge of tariff determination. Fuel price changes per this Article shall not take effect until the authority issues its decision with respect to the tariff.

The impact of price differences between what is accepted by SEC and what is claimed by Saudi Aramco for the year 2005 is SR 2,651 million, and the cumulative amount from the date of Company's inception to December 31, 2005 is SR 14,296 million. Also, the company has another dispute with Aramco relating to crued oil handling fee amounting to SR 1,090 million as of December 31, 2005 (2004: SR 897 million). Based on the above mentioned Resolution, management does not expect any liability on the Company and therefore this amount has not been reflected in its accounting records. Saudi Aramco still insists on its claim as of the date of these financial statements.

12. ACCRUALS AND OTHER PAYABLES

	As of December 31,	
	2005	2004
	SR '000	SR '000
Payroll accruals	262,664	217,553
Accrued expenses	169,487	333,719
Unclaimed dividends	303,743	269,868
Provision for Zakat (Note 13b)	43,018	42,356
Other	397,788	358,800
	<u>1,176,700</u>	<u>1,222,296</u>

Unclaimed dividends include SR 103 million representing cash dividends declared by former SCECOs before 1414H and for 1419H and 1420H which have not been claimed by the shareholders (2004: SR 107 million).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2005 AND 2004

		For the Years Ended December 31,	
		2005	2004
		SR '000	SR '000
13. PROVISION FOR ZAKAT			
a) Calculation of Zakat Provision			
Adjusted net income computation:			
Income before Zakat		1,526,060	1,473,429
Add: Zakat adjustments		194,667	220,811
Adjusted net income		1,720,727	1,694,240
Zakat base computation:			
Share capital		41,665,938	41,665,938
Adjusted net income		1,720,727	1,694,240
Reserves		988,093	533,327
Retained earnings		2,251,521	1,511,807
Provisions		5,450,403	5,229,592
Long-term loans		8,340,406	5,980,046
Government loan		14,938,060	14,552,136
Contractor payables and retentions		1,654,851	2,498,696
Total		77,009,999	73,665,782
Less:			
Fixed assets and construction-in-progress		(75,289,272)	(71,971,542)
Long-term investments		(339,639)	(87,764)
Inventory of material and spare parts		(2,841,828)	(2,779,289)
Zakat Base – Negative		(1,460,740)	(1,172,813)
Zakat due at 2.5% of the adjusted net income		43,018	42,356

		As of December 31,	
		2005	2004
		SR '000	SR '000
b) Zakat Provision Movement			
Balance, beginning of the year		42,356	103,190
Zakat paid during the year		(42,356)	(49,281)
Adjustments during the year (13 c)		-	(53,909)
Provision for the year (13 a)		43,018	42,356
Balance, end of the year/period		43,018	42,356

c) Zakat Status

During 2004, the responsible government agency agreed to settle the amount of SR 1,313 million representing Zakat differences claimed by the Department of Zakat and Income Tax (DZIT) from the former SCECOs for the years up to 1420H (date of merger) against the government subsidy due to the said companies. As a result, an amount of SR 54 million representing the Zakat recorded in the accounts of former SCECOs was transferred from the zakat provision to the government clearance account. As of the date of issuing these financial statements, the company has not received a final clearance from the DZIT for the years up to 1420H.

SAUDI ELECTRICITY COMPANY
(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2005 AND 2004

The company has obtained its restricted Zakat certificate up to 2004. According to the final assessment received from the DZIT for the period from April 5, 2000 (merger date) to December 13, 2001 and for the year 2002, there are zakat differences of SR 13 million relating to amounts being claimed from Aramco for electricity consumption in their residential property based on the residential tariff rather than the industrial tariff which Aramco used for settlement. The management has not accrued any liability for this SR 13 million as it does not expect Aramco to pay the claimed amount, as the management believes that zakat should not be levied on unrecognized revenues which have not been accounted for in the accounting records. The company did not receive any reply from DZIT regarding its appeal against the above assessment. The final assessment for the year 2003 and 2004 has not been received till the date of issuing these financial statements.

	As of December 31,	
	2005	2004
	SR '000	SR '000
14. LONG-TERM LOANS		
Balance, beginning of the year	5,980,046	5,265,318
Received during the year	3,450,000	1,885,967
Paid during the year	(1,089,429)	(1,171,239)
Balance end of the year	8,340,617	5,980,046
Current portion of long-term loans	(991,222)	(1,148,832)
Non-current portion of long-term loans	7,349,395	4,831,214

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

	2005	2004
	SR '000	SR '000
Between one and two years	741,114	932,030
Between two and three years	1,403,192	741,114
Between three and four years	1,239,130	1,111,525
Between four and five years	1,040,749	947,463
Beyond five years	2,925,210	1,099,082
	7,349,395	4,831,214

Bank loans represent long-term borrowings obtained from commercial banks to finance construction work. Some of the borrowings are secured by SEC's revenue from major customers, and notes payable to banks.

The unutilized portion of the above mentioned loans as of December 31, 2005 amounted to SR 4,518 million (2004: SR 4,468 million).

	As of December 31,	
	2005	2004
	SR '000	SR '000
15. DEFERRED REVENUE - NET		
Electrical service connection tariff		
Balance at beginning of the year	9,580,115	8,929,723
Proceeds during the year	1,048,341	1,268,441
Revenues for the year	(671,326)	(618,049)
	9,957,130	9,580,115

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2005 AND 2004

16. GOVERNMENT LOAN

According to Resolution 169 dated 11/8/1419, 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 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 issue of the Royal Decree of incorporation of the Company, is to be considered an interest free subordinated long-term loan with a grace period of twenty five years starting from the date of public announcement of incorporation of the Company. This 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, included that the final settlement of government accounts will be subject to the reconciliation of invoices between the company and certain government entities, and the loan amount shall be adjusted accordingly. During the current year, the company has finalized the settlement and the result was an amount of SR. 385,924 thousand in favor of the government entities. The final loan amount was agreed at SR 14,938,060 thousand in a meeting held on 15/07/1426 between the Ministers of Water and Electricity, and Finance. The minutes of the above meeting were signed by both parties.

The Board of Directors of SEC is of the opinion that the repayment of this loan is not confirmed at the end of the 25 year grace period, and accordingly, it has not been discounted to its net present value.

17. SHARE CAPITAL

The share capital of the Company is SR 41,665,938,150 consists of 833,318,763 shares with a par value of SR 50 each. The amount comprises of the following:

	<u>SR '000</u>
Share capital of merging companies as at 29/12/1420H	23,153,387
Undistributed earnings of merging companies for the period from 1414H to 1418H	1,340,717
Proceeds for Electricity Fee Fund from its inception till 31/12/2001	12,618,340
Net assets of General Electricity Corporation Projects	1,175,327
Capitalization of amounts collected for Government Electricity Fee Fund after 31/12/2001	<u>3,378,167</u>
	<u><u>41,665,938</u></u>

The above mentioned capital is owned by the following:

	<u>Numbers of Shares</u>	<u>Ownership Percentage</u>
Government	619,235,064	74.31
Saudi Aramco	57,726,084	6.93
Other shareholders	<u>156,357,615</u>	<u>18.76</u>
	<u><u>833,318,763</u></u>	<u><u>100%</u></u>

SAUDI ELECTRICITY COMPANY
(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2005 AND 2004

18. GENERAL RESERVE

General reserve represents the balances in reserves that were recorded in the books of the merging companies at the merger date amounting to SR 213,668 thousand and the returns on investing the Electricity Fee Fund amounting to SR 294,976 thousand. In addition, the general reserve as of December 31, 2005 also includes SR 21,866 thousand (2004: SR 16,683 thousand) collected from individuals pertaining to the Electricity fund after December 31, 2001. Accordingly, the balance in general reserve become SR 530,510 thousand as of December 31, 2005 (2004: SR 525,327 thousand).

19. OPERATING AND MAINTENANCE EXPENSES

Operating and maintenance expenses for the two years ended December 31 consist of the following:

	2005 SR '000				2004 SR '000
	Generation	Transmission	Distribution	Total	Total
Employees' expenses and benefits	1,146,330	620,502	1,761,192	3,528,024	3,136,657
Materials	684,000	59,071	161,882	904,953	1,018,028
Municipality fees	-	-	251,634	251,634	217,159
Others	570,713	99,574	411,522	1,081,809	1,027,791
Total	2,401,043	779,147	2,586,230	5,766,420	5,399,635

20. GENERAL AND ADMINISTRATIVE EXPENSES AND PROVISIONS

General and administrative expenses, as well as provisions for the two years ended December 31 consist of the following:

	2005 SR '000	2004 SR '000
Employees' expenses and benefits	140,367	148,894
General and administrative expenses	1,469	15,850
Allowances for doubtful accounts	112,131	191,454
Allowance for slow moving inventory	132,206	101,779
	386,173	457,977

21. BOARD OF DIRECTORS' REMUNERATION AND ALLOWANCES

Costs and allowances relating to attending the board of directors, and other subcommittee meetings for the year amounted to SR 465 thousand (2004: SR 547 thousand).

The Board of Directors' remuneration of SR 1.1 million is due from profit after distribution of dividends of 5% to the Other Shareholders on the share capital held by them (Note 17 and 23). The remuneration is subject to the approval of the General Assembly (2004: SR 1 million).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2005 AND 2004

22. OTHER INCOME AND EXPENSES – NET

Other income and expenses for the years ended December 31 consist of the following:

	<u>2005</u> <u>SR ‘000</u>	<u>2004</u> <u>SR ‘000</u>
(Loss) income from long-term investments	(712)	7,579
Gain (loss) on disposal of fixed assets	53,113	20,881
Reversal of allowances and accruals	77,400	138,221
Reconnection fees	34,844	34,413
Penalties	64,701	27,804
Sales of tender documents	15,765	18,250
Other income and expenses, net	<u>21,790</u>	<u>91,637</u>
	<u>266,901</u>	<u>338,785</u>

23. PROPOSED DIVIDEND AND EARNINGS PER SHARE (EPS)

According to the Company’s Articles of Association, a preliminary payment of dividend not less than 5% of paid share capital is to be declared from the remaining profits after deducting reserves and taking into consideration the conditions stated by Resolution 169 dated 11/8/1419, which stipulates that the Government would waive its share of dividends for a period of ten years from the date of the Company’s formation provided that dividends do not exceed 10% of the par value of its shares. If dividends exceeded 10% of the shares par value, the Government’s share shall be treated similar to the share of other shareholders.

Saudi Aramco raised a claim for its share of yearly cash dividends as well as dividends that will be declared in the future. The claim for the period from the inception of the company on 5/4/2000 to 31/12/2004 amounted to SR 725 million. SEC believes that Aramco is not entitled to cash dividends being a government entity fully owned by the government, and that the above mentioned Resolution No. 169 applies to Aramco.

The Board of Directors, in their meeting held on 04/03/2006 has proposed a subject to the approval of the General Assembly, a dividend distribution for the year 2005 to other shareholders amounting to SR 547 million (2004: SR 547 million) in cash at SR 3.5 per share, representing 7% of the par value of the shares.

Earning per share was calculated using the total number of shares outstanding at December 31, 2005 of 833,318,763, including the government and Saudi Aramco shares (Note 17).

24. COMMITMENTS AND CONTINGENCIES

a) Commitments

SEC has entered into contractual agreements to construct and erect utility plants and other assets. Such commitments amount to approximately SR 13,806 million at the balance sheet date (2004: SR 15,823 million). The expected time to fulfill such commitments is between one to three years.

In addition, SEC has a commitment for SR 979 million representing the remaining balance of its investment in GCCIA (Note 7a).

b) Contingencies

SEC has outstanding letters of credit amounting to SR 146 million (2004: SR 187 million) as of balance sheet date.

The company provided a guarantee to a commercial bank on behalf of Al-Shuaiba Company for Water and Electricity for representing its portion of the loan given to the mentioned company. The guarantee amount is USD 44.6 million equivalent to SR 167 million (Note 7c).

SAUDI ELECTRICITY COMPANY
(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2005 AND 2004

The company has a dispute with one of its energy vendors which it started dealing with in late 2004. The dispute is related to the purchasing price for the Kilowatts/hours. The total difference between the amount accepted by the company and the amount billed by the vendor amounted to SR 71 million as of December 31, 2005. Management believes that the amount billed is overstated since there is no binding agreement, and therefore did not account for it in its books.

25. RELATED PARTY TRANSACTIONS

SEC provides electricity power and connections to governmental agencies, ministries and Saudi Aramco. The rates used to charge related parties are the rates approved by the Council of Ministers which 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 residential property of Saudi Aramco. The Company believes that residential properties of Aramco fall under commercial tariff while Saudi Aramco is rejecting this and pays for electricity sales for all these properties based on industrial tariff. As a result of this, a difference of SR 157 million for the current year was identified and a cumulative difference of SR 993 million since the Company's inception to December 31, 2005 which has not been reflected in the accompanying financial statements. This issue is still under discussion between both companies. In addition, SEC purchases fuel from Aramco and electric power from Saline Water Conversion Corporation, based on prices set by governmental resolutions. Also, fees are paid to the municipalities based on electricity revenues.

The following represents a summary of transactions that have taken place with related parties during the two years ended December 31:

	<u>2005</u> <u>SR '000</u>	<u>2004</u> <u>SR '000</u>
Sales:		
Government	4,703,358	4,539,853
Saudi Aramco	1,788,779	1,943,317
Saline Water Conversion Corporation	<u>80,044</u>	<u>93,508</u>
	<u>6,572,181</u>	<u>6,576,678</u>
Expenses and Other:		
Saudi Aramco	4,396,604	4,225,902
Saline Water Conversion Corporation	739,227	842,235
Municipalities fees	<u>251,634</u>	<u>217,159</u>
	<u>5,387,465</u>	<u>5,285,296</u>

26. PRIOR YEAR ADJUSTMENT

Prior year adjustment represents a correction of meters reading for the consumption of a major consumer has been recognized as revenue in 2004. The total amount of the adjustment is SR. 131,441 thousand which reduced 2004 net income from SR. 1,431,073 thousand to SR. 1,299,632 thousand.

27. COMPARATIVE FIGURES

Certain comparative figures in the financial statements have been reclassified to conform with the current figures.

SAUDI ELECTRICITY COMPANY
(A Saudi Joint Stock Company)

**FINANCIAL STATEMENTS
AND INDEPENDENT AUDITORS' REPORT
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005**

INDEPENDENT AUDITORS' REPORT

**TO THE SHAREHOLDERS OF
SAUDI ELECTRICITY COMPANY
Riyadh – Kingdom of Saudi Arabia**

We have audited the accompanying balance sheet of Saudi Electricity Company (A Saudi Joint Stock Company) as of December 31, 2006 and 2005 and the related statements of income, changes in shareholders' equity and cash flows for the years then ended, including the related notes from 1 to 27. These financial statements are the responsibility of the Company's management and have been prepared in accordance with the provisions of Regulations for Companies and presented to us together with all the information and explanations which we required. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the Kingdom of Saudi Arabia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the accompanying financial statements taken as a whole:

- present fairly, in all material respects, the financial position of Saudi Electricity Company as of December 31, 2006 and 2005 and the results of its operations, changes in shareholder's equity and its cash flows for the years then ended in conformity with accounting principles generally accepted in Saudi Arabia.
- comply with the requirements of the Regulations for Companies and the Company's Articles of Association with respect to the preparation and presentation of financial statements.

For Dr. M. Al-Amri & Co.,



Jamal Mohamed Al-Amri
Certified Public Accountant
Registration No. 331

For Ahmed A. Bajnied & Co.



Assad Saleh Basudan
Certified Public Accountant
Registration No. 342



Safar 06, 1428 (H)
February 24, 2007 (G)



SAUDI ELECTRICITY COMPANY
(A Saudi Joint Stock Company)

BALANCE SHEETS

		As of December 31, 2006 <u>SR '000</u>	2005 <u>SR '000</u>
<u>ASSETS</u>	<u>Notes</u>		
Cash and cash equivalents	3	4,200,669	1,007,916
Consumers receivable and accrued revenue, net	4	21,666,391	22,750,051
Prepayments and other receivables, net	5	1,580,227	1,078,408
Inventories, net	6	<u>4,695,973</u>	<u>3,654,403</u>
Total Current Assets		<u>32,143,260</u>	<u>28,490,778</u>
Long-term investments	7	748,063	339,639
Construction in progress	8	13,674,707	13,211,241
Fixed assets, net	9	<u>80,642,235</u>	<u>75,521,192</u>
Total Non-current Assets		<u>95,065,005</u>	<u>89,072,072</u>
TOTAL ASSETS		<u>127,208,265</u>	<u>117,562,850</u>
<u>LIABILITIES AND SHAREHOLDERS' EQUITY</u>			
Accounts payable	10	38,644,492	32,114,648
Accruals and other payables	11	1,250,130	1,176,700
Current portion of long-term loans	13	<u>741,114</u>	<u>991,222</u>
Total Current Liabilities		<u>40,635,736</u>	<u>34,282,570</u>
Non-current portion of long-term loans	13	9,015,415	7,349,395
End of service benefits		3,973,971	3,842,627
Deferred revenue, net	15	10,533,997	9,957,130
Consumers deposits		<u>982,217</u>	<u>930,732</u>
Total Non-current Liabilities		<u>24,505,600</u>	<u>22,079,884</u>
Government loan	16	<u>14,938,060</u>	<u>14,938,060</u>
Total Liabilities		<u>80,079,396</u>	<u>71,300,514</u>
Shareholders' Equity			
Share capital	17	41,665,938	41,665,938
Statutory reserve		739,309	597,926
General reserve	18	531,563	530,510
Retained earnings		<u>4,192,059</u>	<u>3,467,962</u>
Total Shareholders' Equity		<u>47,128,869</u>	<u>46,262,336</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		<u>127,208,265</u>	<u>117,562,850</u>

The accompanying notes from No. (1) to No. (27) form
an integral part of these financial statements.

SAUDI ELECTRICITY COMPANY
(A Saudi Joint Stock Company)

STATEMENTS OF INCOME

		For the Years Ended December 31,	
	<u>Notes</u>	<u>2006</u>	<u>2005</u>
		<u>SR '000</u>	<u>SR '000</u>
Operating Revenue			
Electricity sales		18,284,878	17,429,591
Meter reading and maintenance and bills preparation tariff		707,997	660,372
Electrical service connection tariff		<u>713,782</u>	<u>671,326</u>
Total operating revenue		<u>19,706,657</u>	<u>18,761,289</u>
Operating Expenses			
Fuel		(4,758,872)	(4,573,978)
Purchased power		(1,195,470)	(1,151,615)
Operations and maintenance	19	(6,124,074)	(5,766,420)
Depreciation	9	(6,065,179)	(5,623,944)
General and administrative expenses and provisions	20	(408,488)	(386,173)
Total operating expenses		<u>(18,552,083)</u>	<u>(17,502,130)</u>
Operating Income		<u>1,154,574</u>	<u>1,259,159</u>
Other income and expenses, net	22	<u>259,258</u>	<u>266,901</u>
Income before Zakat		<u>1,413,832</u>	<u>1,526,060</u>
Provision for zakat	12	<u>-</u>	<u>(43,018)</u>
Net Income for the Year		<u><u>1,413,832</u></u>	<u><u>1,483,042</u></u>
Earning per share (in SR)	23	<u><u>0.34</u></u>	<u><u>0.35</u></u>

The accompanying notes from No. (1) to No. (27) form
an integral part of these financial statements

SAUDI ELECTRICITY COMPANY
(A Saudi Joint Stock Company)

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

	<u>Paid-in Capital SR'000</u>	<u>Statutory Reserve SR'000</u>	<u>General Reserve SR'000</u>	<u>Retained Earnings SR'000</u>	<u>Total SR'000</u>
<u>For the Year Ended December 31, 2006</u>					
Balance, January 1, 2006	41,665,938	597,926	530,510	3,467,962	46,262,336
Dividends for 2005	-	-	-	(547,252)	(547,252)
Board of directors' remuneration for 2005	-	-	-	(1,100)	(1,100)
Consumers' Electricity Fund Collections	-	-	1,053	-	1,053
Net income for the year	-	-	-	1,413,832	1,413,832
Transfer to statutory reserve	-	141,383	-	(141,383)	-
Balance, December 31, 2006	<u>41,665,938</u>	<u>739,309</u>	<u>531,563</u>	<u>4,192,059</u>	<u>47,128,869</u>
<u>For the Year Ended December 31, 2005</u>					
Balance, January 1, 2005 as previously reported	41,665,938	462,766	525,327	2,799,773	45,453,804
Prior year adjustment (Note 26)	-	(13,144)	-	(118,297)	(131,441)
Balance, January 1, 2005 as restated	41,665,938	449,622	525,327	2,681,476	45,322,363
Dividends for 2004	-	-	-	(547,252)	(547,252)
Board of directors' remuneration for 2004	-	-	-	(1,000)	(1,000)
Consumer's Electricity Fund Collection	-	-	5,183	-	5,183
Net income for the year	-	-	-	1,483,042	1,483,042
Transfer to statutory reserve	-	148,304	-	(148,304)	-
Balance, December 31, 2005	<u>41,665,938</u>	<u>597,926</u>	<u>530,510</u>	<u>3,467,962</u>	<u>46,262,336</u>

The accompanying notes from No. (1) to No. (27) form
an integral part of these financial statements

SAUDI ELECTRICITY COMPANY
(A Saudi Joint Stock Company)

STATEMENTS OF CASH FLOWS

	For the Years Ended December 31,	
	2006	2005
	<u>SR '000</u>	<u>SR '000</u>
<u>Cash flows from operating activities :</u>		
Net income before zakat	1,413,832	1,526,060
Adjustments to reconcile net income to net cash provided by operating activities :		
Allowance for doubtful receivables	227,237	144,022
Allowance for slow moving inventory	(21,982)	-
Loss (gain) from investments, net	1,199	712
Depreciation	6,065,179	5,623,944
(Gain) loss on disposal of fixed assets, net	(35,133)	(53,113)
Provision for end of service benefit	131,344	182,086
Electrical service connection tariff	576,867	377,015
Proceeds from consumers deposits, net of refunds	51,485	47,012
(Increase) Decrease in operating assets :		
Consumers receivable and accrued revenue	858,046	(3,506,242)
Prepayments and other receivables	(503,442)	860,871
Inventories	(1,019,588)	(89,698)
Increase (Decrease) in operating liabilities :		
Accounts payable	6,529,844	4,705,392
Accruals and other payables	47,362	(118,306)
Net cash provided by operating activities :	<u>14,322,250</u>	<u>9,699,755</u>
<u>Cash Flows from Investing Activities :</u>		
Net (payments for) proceeds from investments	(413,519)	(262,918)
Dividend received from investments	3,896	10,331
Fixed assets and construction-in-progress	(11,668,285)	(11,334,410)
Proceeds from disposal of fixed assets	53,730	62,545
Net cash used in investing activities :	<u>(12,024,178)</u>	<u>(11,524,452)</u>
<u>Cash Flows from Financing Activities :</u>		
Bank overdrafts	-	(200,456)
Net proceeds from (settlement of) bank loans	1,415,912	2,360,571
Dividends paid related to prior years	(521,231)	(513,377)
Net cash provided by financing activities	<u>894,681</u>	<u>1,646,738</u>
Net Increase (Decrease) in Cash and Cash Equivalents	3,192,753	(177,959)
Cash and Cash Equivalents – Beginning of the year	<u>1,007,916</u>	<u>1,185,875</u>
Cash and Cash Equivalents – End of the Year	<u>4,200,669</u>	<u>1,007,916</u>
 Non-cash flow from Government loan	 <u>-</u>	 <u>385,924</u>

The accompanying notes from No. (1) to No. (27) form
an integral part of these financial statements

SAUDI ELECTRICITY COMPANY
(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

1. ORGANIZATION AND ACTIVITIES

The formation of Saudi Electricity Company (hereinafter referred to as “SEC” or “the Company”) came as a result of the Council of Ministers’ Resolution Number 169 Dated Sha’ban 11, 1419 H corresponding to November 29, 1998. The resolution stipulated the reorganization and restructuring of the electricity energy sector in the Kingdom of Saudi Arabia (KSA) by merging all the former public Utility joint stock companies (10 public companies covering almost the whole Kingdom) and General Electricity Corporation projects (11 projects covering different areas in the northern region of the Kingdom) in Saudi Electricity Company.

SEC was formed by Royal Decree No. M/16 dated Ramadan 6, 1420H corresponding to December 13, 1999 as a Saudi Joint Stock Company in accordance with the Council of Ministers’ Resolution number 153, dated Ramadan 5, 1420H corresponding to December 12, 1999 approving the Company’s Articles of Association, and the Minister of Commerce resolution number 4027, dated Dhu Al Hijjah 30, 1420H corresponding to April 5, 2000 under Commercial Registration number 1010158683 dated Muharram 28, 1421H corresponding to May 3, 2000.

The Company’s principal activity is the generation, transmission and distribution of electric power. The Company is the major provider of electric power to its consumers all over KSA, serving governmental, industrial, agricultural, commercial and residential consumers.

The company is divided, based on its organization chart, into the main activities of generation, transmission, and distribution and related supporting activities such as finance, human resources, general services and planning. Generation, transmission and distribution activities complement each other for the purpose of delivering the electricity to the consumer. 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.

SEC is a tariff regulated electricity company. Electricity tariffs are determined by the Council of Ministers based on recommendations from the Saudi Electricity Regulatory Authority (SERA). SERA was Established in November 2001 according to Resolution No. 169 dated 11 Sha’aban 1419H.

The last change in tariff was made through the Council of Ministers Resolution No. 170 dated 12, Rajab 1421 to be effective from 1 Sh’aban, 1421. The maximum rate of 26 Halala per Kilowatts/hours, has not been changed since then.

The financial year of the Company commences on January 1, and ends on December 31, every calendar year.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Company prepares its financial statements under the historical cost convention on the accrual basis of accounting in accordance with accounting standards generally accepted in the Kingdom of Saudi Arabia. Significant accounting policies adopted in the preparation of these financial statements are summarized below:

Accounting Estimates

The preparation of financial statements in accordance with generally accepted accounting principles requires the use of estimates and judgments which might effect the valuation of recorded assets, liabilities and the disclosure of contingencies in the notes to the financial statements at the balance sheet date. Although these estimates are based on the best information available to management at the date of issuing the financial statements, the actual end results might differ from those estimates.

SAUDI ELECTRICITY COMPANY
(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, balances and deposits with banks, and other investments with original maturities of three months or less.

Consumers Receivable

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 by the management.

Inventories

Generation, transmission and distribution inventories of materials, supplies and fuel are stated at the weighted average cost, net of allowances 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

Investments in entities, the Company has at least 20% shareholding, are accounted for by Equity Method under which the investments are stated initially at cost and adjusted thereafter for the post acquisition changes in the net assets of the investee company. Revenues or losses from such investments are recognized in the income statement when financial statements of investee entities are issued.

Investments in entities, the Company has less than 20% shareholding and are held for maturity are stated at fair market value. Fair market value is determined as market value quoted in the financial instruments market. The resultant unrealized gains or losses are recorded as part of shareholders' equity. If the shares of Investee Company are not listed in an active security market and if there are other indicators which can enable the determination of fair value, then those investments are stated at cost. The carrying amount of investment is reduced to recognize other than temporary diminution in the value. Revenue is recognized from these investments upon declaration of dividends by the investee company.

Fixed Assets

Fixed assets are recognized at historical cost and depreciated over their estimated operational useful lives using the straight line method. Cost includes purchase price, direct labor, indirect construction costs, and finance costs up to the date the asset is put in service. Fixed assets sold or otherwise disposed off and related accumulated depreciation are removed from the accounts at the time of disposal and the related gain or loss is recognized in the income statement. The estimated operational useful lives are as follows:

Generation plant, equipment and parts	20 to 25 years
Transmission network, equipment and parts	20 to 30 years
Distribution network, equipment and parts	15 to 25 years
Buildings	20 to 30 years
Others	4 to 20 years

Capitalization of Finance Costs

Net finance cost, long-term loans' finance charges and any other finance costs charged to the company net of any 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 finance cost to be capitalized on each project is calculated using the capitalization rate on the average amounts spent on the projects.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

End of Service Benefits

End of service benefits are accrued in accordance with the Saudi Labor and Workmen Regulations.

Zakat

Zakat is accrued in accordance with the regulations of the Department of Zakat and Income Tax in KSA. Adjustments arising from final Zakat assessments, if any, are recorded in the year in which such assessments are made.

Revenue

Revenue from electricity sales is recognized when bills are issued to consumers based on their consumption of electric power measured in Kilowatts/hours. Revenue from electricity consumed but not 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.

Electrical 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, which is estimated to be 20 years.

Expenses

Operations 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 those 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, which is evaluated on yearly basis.

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 dates of such transactions. Monetary assets and liabilities denominated in foreign currencies at the Balance sheet date are translated to Saudi Riyals at the exchange rates prevailing at that date. Exchange gains and losses arising on the settlement of foreign currency transactions and all unrealized gains and losses on foreign currency denominated monetary balances are recorded in the statement of income.

There were no material exchange gains or losses incurred during the year as a result of such transactions.

SAUDI ELECTRICITY COMPANY
(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

		As of December 31,	
		2006	2005
		SR '000	SR '000
3.	<u>CASH AND CASH EQUIVALENTS</u>		
	Cash on hand	1,638	1,918
	Cash at banks	177,990	983,616
	Short-term deposits	4,021,041	22,382
		4,200,669	1,007,916
The increase in the cash and cash equivalent as of December 31, 2006 is due to collection of SR 3.6 billion from the government in December 2006 against their electricity consumption (Note 4).			
4.	<u>CONSUMERS RECEIVABLE AND ACCRUED REVENUE, NET</u>		
	Consumers Receivable		
	Governmental	16,439,149	17,873,774
	Saudi Aramco	747,124	426,625
	Saline Water Conversion Corporation	814,811	712,358
	Commercial and residential	2,724,021	2,961,177
	VIPs	1,549,295	1,392,294
	Connection fees receivable	284,735	199,080
	Total	22,559,135	23,565,308
	Less: Allowance for doubtful accounts	(1,804,223)	(1,578,609)
	Net consumers receivable	20,754,912	21,986,699
	Accrued revenues	911,479	763,352
		21,666,391	22,750,051
5.	<u>PREPAYMENTS AND OTHER RECEIVABLES, NET</u>		
	Advances to suppliers and contractors	1,304,923	742,331
	Prepaid expenses	27,813	9,908
	Purchases on open letters of credit	208,393	270,064
	Other	118,996	134,380
	Total	1,660,125	1,156,683
	Less: Allowance for doubtful accounts	(79,898)	(78,275)
		1,580,227	1,078,408
6.	<u>INVENTORIES, NET</u>		
	Generation plant materials and supplies	2,217,004	1,945,966
	Transmission network materials and supplies	236,701	228,834
	Distribution network materials and supplies	2,120,978	1,377,485
	Fuel and oil	223,320	219,990
	Others	152,988	159,128
	Total	4,950,991	3,931,403
	Less: Allowance for slow moving inventory	(255,018)	(277,000)
		4,695,973	3,654,403

SAUDI ELECTRICITY COMPANY
(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

7. LONG-TERM INVESTMENTS

	In thousand Saudi Riyals				
	Balance, 01/01/2006	Additions during the year	Investment Profit (loss)	Dividends received	Balance, 31/12/2006
Gulf Cooperation Council Interconnection Authority (7a)	325,145	412,519	1,959	(3,896)	735,727
Water and Electricity Company (7b)	14,094	-	(3,158)	-	10,936
Al-Shuaiba Water and Electricity Company (7c)	400	-	-	-	400
Al-Shuqaiq Water and Electricity Company (7D)	-	1,000	-	-	1,000
	339,639	413,519	(1,199)	(3,896)	748,063

7a. Gulf Cooperation Council Interconnection Authority

SEC has 31.6% ownership interest in the Gulf Cooperation Council Interconnection Authority (hereinafter referred to as "GCCIA") capital. This entity was established by the Gulf Cooperation Council "GCC" member countries to enhance the efficiency of electricity transmission and distribution within the member countries. SEC's ownership interest in GCCIA equals USD 347.6 million equivalent to SR 1,305 million of which 57% is paid as of December 2006 (2005: 25%). The remaining balance of subscription will be paid based on dates to be specified by the Board of Directors of GCCIA. GCCIA has not released its 2006 financial statements as of the date of issuance of these financial statements.

7b. Water and Electricity Company

SEC in participation with Saline Water Conversion Corporation established an equally owned new limited liability company called Water and Electricity Company based on the Supreme Economic Council Decision no. 5/23 dated 23/3/1423, which includes encouragement of the private sector participation in water desalination projects. The participation of SR 15 million representing 300,000 shares which is 50% of the company's capital was fully paid. The 2006 financial statements of the company have not been issued as of the date of issuance of these financial statements.

7c. Al-Shuaiba Water and Electricity Company

SEC participated in establishing Al-Shuaiba Water and Electricity Company (a joint stock company). The purpose of the company is to establish, develop, and operate Al-Shuaiba III project for the dual production of water and electricity. SEC's share of the investment is SR. 400 thousand and is fully paid. The amount represents 8,000 shares which is 8% of the total capital. The Company is still in construction phase and no financial statements have been issued as of the date of issuance of these financial statements.

7d. Al-Shuqaiq Water and Electricity Company

During the current year, SEC, in participation with General Investment Fund, established Al-Shuqaiq Water and Electricity Company. The main objective of the company is to establish, develop and operate Al-Shuqaiq Project for the dual production of Water and Electricity in Al-Shuqaiq Area. The Company's share of investment is SR 1 million and is fully paid. The amount represents 100,000 shares, which is 20% of the total capital. The Company is still in construction phase and no financial statements have been issued as at the date of issuance of these financial statements.

SAUDI ELECTRICITY COMPANY
(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

8. CONSTRUCTION-IN-PROGRESS	As of December 31,	
	2006	2005
	SR '000	SR '000
Power generation projects	5,747,776	4,890,297
Transmission projects	4,823,072	5,030,056
Distribution projects	2,542,064	2,676,857
General projects	561,795	614,031
	13,674,707	13,211,241

Net financing cost capitalized on projects under construction during the year amounted to SR 691 million (2005: SR 526 million).

9. FIXED ASSETS, NET

	Land SR'000	Buildings SR'000	Machinery & Equipments SR'000	Spare parts SR'000	Vehicles SR'000	Others SR'000	Total SR'000
Cost:							
Balance, January 1, 2006	1,288,984	11,920,584	151,994,807	2,311,619	1,280,572	1,865,667	170,662,233
Reclassifications	2,802	(2,273)	(237,507)	8,654	4	228,320	-
Additions	37,343	462,711	10,504,764	74,374	43,389	82,238	11,204,819
Disposals	-	(25,357)	(165,312)	-	(31,209)	(9,327)	(231,205)
Balance, December 31, 2006	1,329,129	12,355,665	162,096,752	2,394,647	1,292,756	2,166,898	181,635,847
Accumulated Depreciation:							
Balance, January 1, 2006	-	(6,896,705)	(84,083,494)	(1,380,230)	(1,128,570)	(1,652,042)	(95,141,041)
Reclassifications	-	-	(196,570)	10	(2,113)	198,673	-
Depreciation for the year	-	(440,779)	(5,377,544)	(91,464)	(50,665)	(104,727)	(6,065,179)
Disposals	-	24,089	147,983	-	31,209	9,327	212,608
Balance, December 31, 2006	-	(7,313,395)	(89,509,625)	(1,471,684)	(1,150,139)	(1,548,769)	(100,993,612)
Net Book Value:							
As at December 31, 2006	1,329,129	5,042,270	72,587,127	922,963	142,617	618,129	80,642,235
As at December 31, 2005	1,288,984	5,023,879	67,911,313	931,389	152,002	213,625	75,521,192

Net book value of fixed assets based on the Company's main activities at December 31, 2006 were as follows:

Description	SR'000					
	Generation	Transmission	Distribution	General Property	Total 2006	Total 2005
Land	246,566	600,482	226,292	255,789	1,329,129	1,288,984
Buildings	2,434,825	1,490,460	155,241	961,744	5,042,270	5,023,879
Machinery & equipment	23,615,843	26,364,567	22,239,680	367,037	72,587,127	67,911,313
Capital spare parts	547,533	375,414	16	-	922,963	931,389
Vehicles	-	-	-	142,617	142,617	152,002
Others	462,210	27,850	2,322	125,747	618,129	213,625
Total	27,306,977	28,858,773	22,623,551	1,852,934	80,642,235	75,521,192

SAUDI ELECTRICITY COMPANY
(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

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

	<u>2006</u> <u>SR '000</u>	<u>2005</u> <u>SR '000</u>
Generation	2,084,999	1,907,365
Transmission	1,849,550	1,675,751
Distribution	1,839,432	1,751,124
General property	291,198	289,704
	<u>6,065,179</u>	<u>5,623,944</u>

	<u>As of December 31,</u> <u>2006</u> <u>SR '000</u>	<u>2005</u> <u>SR '000</u>
10. <u>ACCOUNTS PAYABLE</u>		
Saudi Aramco for fuel cost	26,102,026	21,635,805
Saline Water Conversion Corporation for power purchased	5,436,373	4,590,953
Contractor payables and retentions	2,214,285	1,654,851
Supplier payables	1,174,381	1,273,473
Municipality fees	1,445,003	1,186,050
Advances received for construction of projects	588,328	261,316
Others	<u>1,684,096</u>	<u>1,512,200</u>
	<u>38,644,492</u>	<u>32,114,648</u>

The dispute between SEC and Saudi Aramco relating to the diesel prices has been resolved according to the minutes of the meeting between H.E. the Minister of Finance and H.E. the Minister of Petroleum and Mineral Resources dated 15/5/1427H, corresponding to 11/6/2006, in which it is decided that Saudi Aramco should adjust its books for the additional amount charged for diesel. The amount booked by Saudi Aramco should be based on prices set prior to the Council of Ministers' Resolution number M/8 dated 25/7/1415 on the ground that the Ministerial Committee referred to in the resolution mentioned above did not discuss the revised prices and it was not approved by a Royal Decree.

The above mentioned minutes did not sort out the difference in the crud oil handling fees and the dispute is still pending. The cumulative difference in the crud oil handling fees from the inception of SEC on April 5, 2000 upto December 31, 2006 amounted to SR 1,294 million. Based on the above mentioned resolution, the management does not expect any liability on the company and therefore the amount has not been reflected in the company's accounting records.

During 2006, SEC received an invoice from Saudi Aramco amounting to SR 103 million for the electricity exported from Saudi Aramco's generation units to SEC's network for the period from April 5, 2000 to December 31, 2006. The issue is still under investigation by the management of the two companies.

The other payables constitute pending amounts between the Company and Government mainly due to the accounts of merger.

SAUDI ELECTRICITY COMPANY
(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

	As of December 31,	
	2006	2005
	SR '000	SR '000
11. ACCRUALS AND OTHER PAYABLES		
Payroll accruals	232,511	262,664
Accrued expenses	352,937	169,487
Unclaimed dividends	329,764	303,743
Provision for Zakat (Note 12b)	-	43,018
Other	334,918	397,788
	1,250,130	1,176,700

Unclaimed dividends include SR 98 million representing cash dividends declared by former SCECOs which have not been claimed by the shareholders (2005: SR 103 million).

	For the Years Ended	
	December 31,	December 31,
	2006	2005
	SR '000	SR '000
12. PROVISION FOR ZAKAT		
a) Calculation of Zakat Provision		
Adjusted net income computation:		
Income before Zakat	1,413,832	1,526,060
Add: Zakat adjustments	(9,289,492)	194,667
Adjusted net (loss) income	(7,875,660)	1,720,727
Zakat base computation:		
Share capital	41,665,938	41,665,938
Adjusted net (loss) income	(7,875,660)	1,720,727
Reserves	1,128,436	988,093
Retained earnings	2,919,610	2,251,521
Provisions	5,724,529	5,450,403
Long-term loans	9,756,529	8,340,406
Government loan	14,938,060	14,938,060
Contractor payables and retentions	2,214,285	1,654,851
Total	70,471,727	77,009,999
Less:		
Fixed assets and construction-in-progress	(87,916,913)	(75,289,272)
Long-term investments	(748,063)	(339,639)
Inventory of material and spare parts	(3,659,746)	(2,841,828)
Zakat Base – Negative	(21,852,995)	(1,460,740)

	As of December 31,	
	2006	2005
	SR '000	SR '000
b) Zakat Provision Movement		
Balance, beginning of the year	43,018	42,356
Zakat paid during the year	-	(42,356)
Adjustments during the year	(43,018)	-
Provision for the year	-	43,018
	-	43,018

SAUDI ELECTRICITY COMPANY
(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

c) Zakat Status

The responsible government agency agreed to settle the Zakat differences claimed by the Department of Zakat and Income Tax (DZIT) from the former SCECOs for the years up to 1420H (date of merger) against the government subsidy due to the said companies. As of the date of issuing these financial statements, the company has not received a final clearance from the DZIT for the years up to 1420H.

The company has obtained its restricted Zakat certificate up to 2005. According to the final assessment received from the DZIT for the period from April 5, 2000 (merger date) to December 13, 2001 and for the year 2002, there are zakat differences of SR 13 million relating to amounts being claimed from Aramco for electricity consumption in their residential property based on the residential tariff rather than the industrial tariff which Aramco used for settlement. The management has not accrued any liability for this SR 13 million as it believes that zakat should not be levied on unrecognized revenues which have not been accounted for in the accounting records. The company did not receive any reply from DZIT regarding its appeal against the above assessment. The final assessment for the year 2003 to 2005 has not been received till the date of issuing these financial statements.

	As of December 31,	
	2006	2005
	SR '000	SR '000
13. LONG-TERM LOANS		
Balance, beginning of the year	8,340,617	5,980,046
Received during the year	2,407,083	3,450,000
Paid during the year	(991,171)	(1,089,429)
Balance end of the year	9,756,529	8,340,617
Current portion of long-term loans	(741,114)	(991,222)
Non-current portion of long-term loans	9,015,415	7,349,395

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

	2006	2005
	SR '000	SR '000
Between one and two years	1,403,192	741,114
Between two and three years	1,239,130	1,403,192
Between three and four years	1,075,067	1,239,130
Between four and five years	1,064,432	1,040,749
Beyond five years	4,233,594	2,925,210
	9,015,415	7,349,395

Bank loans represent long-term borrowings obtained from commercial banks to finance construction work. Some of the borrowings are secured by SEC's revenue from major customers, and notes payable to banks.

The unutilized portion of the above mentioned loans as of December 31, 2006 amounted to SR 2,111 million (2005: SR 4,518 million).

14. BANK OVERDRAFTS

The company has signed agreements with two local banks for overdraft facilities of SR 500 million each aggregating SR 1,000 million. These overdrafts are secured by notes payable. As of December 31, 2006 and 2005 the overdrafts had no outstanding balance.

SAUDI ELECTRICITY COMPANY
(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

15. <u>DEFERRED REVENUE - NET</u>	As of December 31,	
	2006	2005
	<u>SR '000</u>	<u>SR '000</u>
Electrical service connection tariff		
Balance at beginning of the year	9,957,130	9,580,115
Proceeds during the year	1,290,649	1,048,341
Revenues for the year	<u>(713,782)</u>	<u>(671,326)</u>
	<u>10,533,997</u>	<u>9,957,130</u>

16. GOVERNMENT LOAN

According to Resolution 169 dated 11/8/1419, 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 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 issue of the Royal Decree of incorporation of the Company, is to be considered an interest free subordinated long-term loan with a grace period of twenty five years starting from the date of public announcement of incorporation of the Company. This 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, included that the final settlement of government accounts will be subject to the reconciliation of invoices between the company and certain government entities, and the loan amount shall be adjusted accordingly. During the year 2005, the company has finalized the settlement and the result was an amount of SR. 385,924 thousand in favor of the government entities. The final loan amount was agreed at SR 14,938,060 thousand in a meeting held on 15/07/1426 between the Ministers of Water and Electricity, and Finance. The minutes of the above meeting were signed by both parties.

The Board of Directors of SEC is of the opinion that the repayment of this loan is not confirmed at the end of the 25 year grace period, and accordingly, it has not been discounted to its net present value.

17. SHARE CAPITAL

The share capital of the Company as of December 31, 2006 is SR 41,665,938,150 consists of 4 166 593 815 shares with a par value of SR 10 each after share split (2005: SR 833,318,763 shares with a par value of SR 50 each).

Based on a resolution by the Council of Ministers, the Capital Market Authority issued decision number 4-154-2006 dated March 27, 2006, splitting the shares of joint stock companies. As a result, the nominal value of the company's shares became SR 10 instead of SR 50 per share.

The share capital amount comprises of the following:

	<u>SR '000</u>
Share capital of merging companies as at 29/12/1420H	23,153,387
Undistributed earnings of merging companies for the period from 1414H to 1418H	1,340,717
Proceeds for Electricity Fee Fund from its inception till 31/12/2001	12,618,340
Net assets of General Electricity Corporation Projects	1,175,327
Capitalization of amounts collected for Government Electricity Fee Fund after 31/12/2001	<u>3,378,167</u>
	<u>41,665,938</u>

SAUDI ELECTRICITY COMPANY
(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

The above mentioned capital is owned by the following:

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

18. GENERAL RESERVE

General reserve represents the balances in reserves that were recorded in the books of the merging companies at the merger date amounting to SR 213,668 thousand and the returns on investing the Electricity Fee Fund amounting to SR 294,976 thousand. In addition, the general reserve as of December 31, 2006 also includes SR 22,919 thousand (2005: SR 21,866 thousand) collected from individuals pertaining to the Electricity fund after December 31, 2001. Accordingly, the balance in general reserve become SR 531,563 thousand as of December 31, 2006 (2005: SR 530,510 thousand).

19. OPERATING AND MAINTENANCE EXPENSES

Operating and maintenance expenses for the two years ended December 31 consist of the following:

	2006 SR '000				2005 SR '000
	Generation	Transmission	Distribution	Total	Total
Employees' expenses and benefits	1,241,292	617,907	1,896,298	3,755,497	3,528,024
Materials	621,002	51,935	178,231	851,168	904,953
Municipality fees	-	-	258,953	258,953	251,634
Others	<u>711,280</u>	<u>113,869</u>	<u>433,307</u>	<u>1,258,456</u>	<u>1,081,809</u>
Total	<u>2,573,574</u>	<u>783,711</u>	<u>2,766,789</u>	<u>6,124,074</u>	<u>5,766,420</u>

20. GENERAL AND ADMINISTRATIVE EXPENSES AND PROVISIONS

General and administrative expenses, as well as provisions for the two years ended December 31 consist of the following:

	<u>2006 SR '000</u>	<u>2005 SR '000</u>
Employees' expenses and benefits	98,094	140,367
Materials	195	1,469
Allowances for doubtful accounts	227,236	144,022
General and administrative expenses	<u>82,963</u>	<u>100,315</u>
	<u>408,488</u>	<u>386,173</u>

SAUDI ELECTRICITY COMPANY
(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

21. BOARD OF DIRECTORS' REMUNERATION AND ALLOWANCES

Costs and allowances relating to attending the board of directors, and other subcommittee meetings for the year amounted to SR 829 thousand (2005: SR 465 thousand).

The Board of Directors' remuneration of SR 0.9 million is due from profit after distribution of dividends of 5% to the Other Shareholders on the share capital held by them (Note 17 and 23). The remuneration is subject to the approval of the General Assembly (2005: SR 1.1 million).

22. OTHER INCOME AND EXPENSES, NET

Other income and expenses for the two years ended December 31 consist of the following:

	<u>2006</u> <u>SR '000</u>	<u>2005</u> <u>SR '000</u>
(Loss) income from long-term investments	(1,199)	(712)
Gain (loss) on disposal of fixed assets, net	35,133	53,113
Reversal of allowances and accruals	43,018	77,400
Reconnection fees	11,977	34,844
Penalties	107,275	64,701
Sales of tender documents	11,782	15,765
Other income and expenses, net	<u>51,272</u>	<u>21,790</u>
	<u>259,258</u>	<u>266,901</u>

23. PROPOSED DIVIDEND AND EARNINGS PER SHARE (EPS)

According to the Company's Articles of Association, a preliminary payment of dividend not less than 5% of paid share capital is to be declared from the remaining profits after deducting reserves and taking into consideration the conditions stated by Resolution 169 dated 11/8/1419, which stipulates that the Government would waive its share of dividends for a period of ten years from the date of the Company's formation provided that dividends do not exceed 10% of the par value of its shares. If dividends exceeded 10% of the shares par value, the Government's share shall be treated similar to the share of other shareholders.

Saudi Aramco raised a claim for its share of yearly cash dividends as well as dividends that will be declared in the future. The claim for the period from the inception of the company on 5/4/2000 to 31/12/2005 amounted to SR 927 million. SEC believes that Aramco is not entitled to cash dividends being a government entity fully owned by the government, and that the above mentioned Resolution No. 169 applies to Aramco.

The Board of Directors, in their meeting held on 24/02/2007 has proposed a subject to the approval of the General Assembly, a dividend distribution for the year 2006 to other shareholders amounting to SR 547 million in cash at SR 0.7 per share, representing 7% of the par value of the shares (2005: SR 547 million).

Earning per share was calculated using the total number of shares outstanding at December 31, 2006 of 4 166 593 815, including the government and Saudi Aramco shares (Note 17). Earning per share for the year 2005 has been restated retroactively to reflect the effect of the share split which took place in 2006.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

24. COMMITMENTS AND CONTINGENCIES

a) Commitments

SEC has entered into contractual agreements to construct and erect utility plants and other assets. Such commitments amount to approximately SR 29,613 million at the balance sheet date (2005: SR 13,806 million). The expected time to fulfill such commitments is between one to three years.

In addition, SEC has a commitment for SR 561 million representing the remaining balance of its investment in GCCIA (Note 7a).

b) Contingencies

SEC has outstanding letters of credit amounting to SR 106 million (2005: SR 146 million) as of balance sheet date.

The company provided a guarantee to a commercial bank on behalf of Al-Shuaiba Company for Water and Electricity for representing its portion of the loan given to the mentioned company. The guarantee amount is USD 44.6 million equivalent to SR 167 million (Note 7c).

The company has a dispute with one of its energy vendors is related to the purchasing price for the Kilowatts/hours. The total difference between the amount accepted by the company and the amount billed by the vendor amounted to SR 118 million as of December 31, 2006 (2005: SR 71 million). Management believes that the amount billed is overstated since there is no binding agreement, and therefore did not account for it in its books.

25. RELATED PARTY TRANSACTIONS

SEC provides electricity power and connections to governmental agencies, ministries and Saudi Aramco. The rates used to charge related parties are the rates approved by the Council of Ministers which 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 residential property of Saudi Aramco. The Company believes that residential properties of Aramco fall under commercial tariff while Saudi Aramco is rejecting this and pays for electricity sales for all these properties based on industrial tariff. As a result of this, a difference of SR 168 million for the current year was identified (2005: SR 157 million) and a cumulative difference of SR 1,161 million since the Company's inception to December 31, 2006 which has not been reflected in the accompanying financial statements. This issue is still under discussion between both companies. In addition, SEC purchases fuel from Aramco and electric power from Saline Water Conversion Corporation, based on prices set by governmental resolutions. Also, fees are paid to the municipalities based on electricity revenues.

SAUDI ELECTRICITY COMPANY
(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

The following represents a summary of transactions that have taken place with related parties during the two years ended December 31:

	<u>2006</u> <u>SR '000</u>	<u>2005</u> <u>SR '000</u>
Sales:		
Government	4,907,862	4,703,358
Saudi Aramco	1,633,961	1,788,779
Saline Water Conversion Corporation	<u>87,402</u>	<u>80,044</u>
	<u>6,629,225</u>	<u>6,572,181</u>
Purchase and Other:		
Saudi Aramco	4,442,357	4,396,604
Saline Water Conversion Corporation	846,808	739,227
Municipalities fees	<u>258,953</u>	<u>251,634</u>
	<u>5,548,118</u>	<u>5,387,465</u>

26. PRIOR YEARS ADJUSTMENT

Prior years adjustments relating to 2005 represent the correction of meter readings for the consumption of a major consumer amounting to SR 131,441 thousand that has been recognized as revenue in 2004.

27. COMPARATIVE FIGURES

Certain comparative figures in the financial statements have been reclassified to conform with the current figures.

LETTER FROM DIRECTORS

The directors of SEC have submitted a letter to the Authority in accordance with section 4(a)(4) of Annex V to the Listing Rules of the Authority, confirming that the financial information has been extracted without material adjustment from the audited financial statements, and that such financial statements have been prepared and audited in accordance with the accounting standards issued by SOCPA.

APPENDIX I
Copy of Pronouncement

بسم الله الرحمن الرحيم

شروط و أحكام صكوك الشركة السعودية للكهرباء

الحمد لله رب العالمين والصلاة والسلام على رسول الله محمد وعلى آله وصحبه أجمعين

الرجاء ملاحظة أن قراءة هذا الملخص لا تغني عن قراءة الشروط والأحكام المفصلة لصكوك الشركة السعودية للكهرباء.

المصدر:

الشركة السعودية للكهرباء، وهي شركة مساهمة تأسست في المملكة العربية السعودية ("المصدر").
تقوم الشركة السعودية للكهرباء بإصدار صكوك يمثل كل منها جزءا مشاعا من موجودات الصكوك.

أمين الصكوك:

شركة الكهرباء للصكوك، وهي شركة تابعة مملوكة بالكامل للشركة السعودية للكهرباء تم تأسيسها كشركة ذات مسؤولية محدودة في المملكة العربية السعودية برأسمال قدره [٥٠٠,٠٠٠] ريال سعودي، أمين الصكوك هي شركة جديدة تم تأسيسها لغرض مزاوله الأنشطة المتعلقة بهذه الصكوك والأنشطة المماثلة في المستقبل.

أمين موجودات الصكوك:

وفقا لإعلان الوكالة، سيعمل ("أمين موجودات الصكوك") أمينا لصالح ونيابة عن حملة الصكوك فيما يتعلق بموجودات الصكوك.

وكيل حملة الصكوك:

بنك انش اس بي سي العربية السعودية المحدودة HSBC Saudi Arabia، وسوف يعمل وكيلا لحملة الصكوك لصالح حملة الصكوك وفقا لشروط وأحكام الصكوك (ويطلق عليها فيما يلي "شروط الصكوك") ووفقا لإعلان وكالة مؤرخ في أو قريب من تاريخ الإقبال (ويطلق عليه فيما يلي "إعلان الوكالة").

مدير الدفعات:

يقوم البنك السعودي البريطاني كمدير للدفعات (ويطلق عليه فيما يلي "مدير الدفعات") بموجب شروط اتفاقية إدارة دفعات تبرم بين البنك السعودي البريطاني و المصدر (ويطلق عليها فيما يلي "اتفاقية إدارة الدفعات"). ومن جملة أمور أخرى، يقوم مدير الدفعات بتشغيل حساب العملية وتحصيل وقبض الدفعات من المصدر طبقا لشروط اتفاقية إدارة موجودات الصكوك و تعهد الشراء، كما يوضح مدير الدفعات معدل العمولة الأساسي ومبالغ التوزيع الدورية التي تتعلق بالصكوك لكل فترة توزيع دوري وسداد الدفعات المستلمة من المصدر، فيما يتعلق بموجودات الصكوك، أو من المصدر، بموجب شروط تعهد الشراء، إلى حملة الصكوك.

موجودات الصكوك:

تشمل موجودات الصكوك الحق للمصدر في القيام بالخدمات التالية:

- قراءة و صيانة عدادات قياس استهلاك الكهرباء في مباني العملاء المحددين؛
- إعداد الفواتير وإصدارها وتوزيعها على العملاء المحددين بخصوص جميع الخدمات التي يقدمها لهم المصدر؛

والحق بتقاضي وقبض الرسوم المتعلقة بالخدمات المشار اليهم في (أ) و (ب) أعلاه، كما هو محدد في قرار مجلس الوزراء رقم ١٦٩. وسيتم شراء هذه الحقوق من قبل حملة الصكوك (عن طريق وكيل حملة الصكوك) من المصدر لمدة ٢٠ سنة وسيقوم المصدر بتحويل موجودات الصكوك إلى أمين الصكوك لمصلحة حملة الصكوك.

اتفاقية تحويل ملكية موجودات الصكوك:

تحويل الشركة السعودية للكهرباء، بموجب اتفاقية تحويل ملكية موجودات الصكوك، موجودات الصكوك إلى أمين الصكوك. وبالتالي، سيكون صافي الدخل (الدخل ناقصا المصاريف) الخاص بموجودات الصكوك من حق حملة الصكوك.

زيادة الاحتياطي: إذا، كان صافي الدخل المستلم عن موجودات الصكوك ("الدخل الفعلي")، بالنسبة إلى فترة توزيع دوري أو أي فترة أخرى، أقل من مبلغ صافي الدخل الذي كان يجب تسلمه ("الدخل المحدد") إما بسبب (١) تخفيض التعرفة المحددة في القرار رقم ١٦٩ (كما هو ساري المفعول في تاريخ الإقفال) أو تعديلها، أو بسبب تعديل أو إضافة أو إلغاء القرار ١٦٩ أو (٢) قيام أي من العملاء المحدثين بتغيير مزودهم بالكهرباء بانتقالهم إلى مزود آخر غير المصدر فحينئذ، يقوم المصدر في أو قبل الساعة ١١ صباحا (بتوقيت الرياض) في يوم عمل واحد قبل آخر يوم من فترة التوزيع الدوري أو الفترة الأخرى المعنية ، بإضافة مبلغ يعادل الفرق بين الدخل الفعلي والدخل المحدد إلى الاحتياطي.

صافي الدخل:

في هذه الوثيقة يشار بـ "صافي الدخل" إلى إجمالي الدخل من العدادات المحددة ناقصا أتعاب الإدارة وتكاليف الإدارة المسموح بها (بوصفها تكاليف مباشرة معينة سيتم تحديدها في ملحق باتفاقية إدارة موجودات الصكوك)

اتفاقية إدارة موجودات الصكوك:

بموجب اتفاقية إدارة موجودات الصكوك المبرمة بين الشركة السعودية للكهرباء (المصدر) و أمين موجودات الصكوك ووكيل حملة الصكوك يتم تعيين الشركة السعودية للكهرباء (المصدر) مديرا لموجودات الصكوك، على نحو غير قابل للإلغاء، لتقديم الخدمات التالية حسب الأحوال، لصالح حملة الصكوك لفترة تمتد حتى ٢٠ عاما، وهذه الخدمات هي:

أ- خدمة قراءة وصيانة العدادات المحددة:

تقديم كافة الخدمات المطلوبة من شركة الكهرباء السعودية (المصدر) لقراءة وصيانة العدادات المحددة وبذل أفضل الجهود في ذلك حسب ما هو متبع عالميا وحسب عقد العمل الخاص بالعداد المحدد وحسب نظام الكهرباء؛

ب- الفوترة:

إعداد و تسليم فاتورة تحتوي رسوم العداد إلى العميل المحدد فيما يتعلق بكل عداد حدد والالتزام بعدم التقريق في المعاملة بين العدادات التي تحتفظ بها والعدادات المحددة لهذه الصكوك أو غيرها من إصدارات الصكوك حتى تاريخ هذه الاتفاقية. (علما بأن الإجراءات المذكورة موضحة في نشرة الإصدار).

ج- التحصيل:

المحافظة على إجراءات التحصيل المناسبة في ما يتعلق بالمبالغ المستحقة والخاصة بالعدادات المحددة وذلك حسب نظام الكهرباء، وتكون على الأقل بنفس مستوى الاجراءات التي تتبعها شركة الكهرباء السعودية في ما يتعلق بتحصيل المبالغ المستحقة على العدادات الأخرى والتي ليست ضمن هذه الصكوك أو أية صكوك أخرى وقت إصدار هذه الصكوك.

د- ضبط التكاليف:



بذل الحرص اللازم فيما يتعلق بمستوى تكاليف الإدارة المسموح بها ولعمل ذلك يجب القيام بكل الخطوات المعقولة للتأكد من أن مستوى تكاليف الإدارة المسموح بها لن يصل إلى مستوى يؤدي إلى عجز في صافي الدخل.

لقد قام مدير موجودات الصكوك بتقديم الخدمات المنصوص عليها في هذه الاتفاقية لحسابه الخاص لعدد من السنوات، وبالتالي فإنه يوافق بصفته مديراً لموجودات الصكوك على تحديد المبلغ الذي يمكن احتسابه لتكاليف الإدارة المسموح بها وذلك لكل خمس سنوات طوال مدة الصكوك.

وفيما يتعلق بالسنوات الخمس الأولى، فإن المبلغ المساوي لتكاليف الإدارة المسموح بها والذي تم تكبدها فعلياً لعام ٢٠٠٥ و ٢٠٠٦ كانت ٢٥,٤ ريال سعودي و ٣١,٦ ريال سعودي لكل عداد. وبالتالي فإن مدير موجودات الصكوك يتعهد بتحديد مبلغ ٥٠ ريال سعودي كحد أقصى لتكاليف كل عداد سنوياً، ولن يتم احتساب أي مبلغ يزيد عن ذلك كتكاليف إدارة مسموح بها.

إن الحد الأقصى لتكاليف كل عداد لكل فترة خمس سنوات تالية (بعد فترة الخمس سنوات الأولى) سيتم نقاشها والموافقة عليها بين جميع الأطراف (مدير موجودات الصكوك و وكيل حملة الصكوك) وذلك قبل بدء تلك الفترة، وسيكون ذلك بناء على التكاليف الفعلية المتكبدة خلال فترة السنوات الخمس السابقة والتكاليف المتوقعة للسنوات الخمس المقبلة.

هـ - إدارة الدخل:

الحفاظ على الدخل الخاص بموجودات الصكوك وحمايته عن طريق:

١. التأكد من جمع كل الدخل الناتج عن خدمة قراءة وصيانة العدادات المحددة وإعداد الفواتير (ناقصاً رسم الوكالة، تكاليف الإدارة المسموح بها، و رسم الإدارة) وقبده كصافي دخل (منعاً للالتباس، مدير للصكوك سيحتسب صافي الدخل للصكوك ولمستندات الصكوك) و
٢. الاحتفاظ بأية مبالغ فائضة من صافي الدخل خلال أي مدة توزيع دوري والتي تتجاوز مبلغ التوزيع الدوري المعني كاحتياطي. كما تم الاتفاق على ما يلي:
 - أ. تكون مبالغ الاحتياطي مسجلة كقيد دفنري بواسطة شركة الكهرباء السعودية ولن يتم الحفاظ عليها في حساب مصرفي محدد ومستقل
 - ب. بحق لشركة الكهرباء السعودية استخدام أموال الاحتياطي و استثمارها لمصلحته مع بقائها كمطلوبات عليه
 - ج. يكون أي عائد على استخدام الاحتياطي أو خسارة تنشأ عن ذلك على حساب شركة الكهرباء السعودية وحدها وذلك حسب فقرة توزيع الاحتياطي.
٣. القيام في أو قبل الساعة ١١:٠٠ صباحاً بتوقييت الرياض من كل تاريخ توزيع دوري بتحويل صافي الدخل المستلم خلال مدة التوزيع الدوري بنهاية تاريخ التوزيع الدوري إلى حساب العملية، بالإضافة إلى مبلغ الاحتياطي (في حال وجوده) بما يكفل للشركة السعودية للكهرباء القيام بالدفعات حسب ما هو موضح هنا

و- المراجعة والتدقيق:

التأكد من القيد المنتظم لدفاتر الحسابات والدخل والنفقات الخاصة بأمين موجودات الصكوك وأن يتم إعداد حساباتها وفقاً للمعايير والمبادئ المحاسبية المتعارف عليها على أن تخضع للمراجعة السنوية بواسطة المراجع القانوني؛

ز - التقيد بالأنظمة والمستحقات الضريبية:

التأكد من قيام أمين موجودات الصكوك بالمتطلبات النظامية والوفاء بالمستحقات الضريبية النظامية؛

ح - صافي الدخل:

القيام بكل الخطوات المعقولة لا على سبيل الضمان للتأكد من أن صافي الدخل المتحصل في أية فترة توزيع دوري (بعد إضافته لأي احتياطي) لا تكون أقل من مبلغ التوزيع الدوري في تلك الفترة زائداً المبلغ الزائد المقرر ، في حالة فترة التوزيع الدوري المنتهية في سنة خامسة.

ط - عقود عملاء العدادات المحددة:

طالما كان مدير الصكوك ملتزماً بالفقرة (ح - صافي الدخل) أعلاه فإنه يحق له تعديل أو تغيير أو إضافة أو إنهاء أي من عقود عملاء العدادات المحددة.

أجور الإدارة:

وفقاً لاتفاقية إدارة موجودات الصكوك، يكون للمدير الحق في أتعاب إدارة واجبة الدفع بنهاية كل فترة ٦ أشهر تعادل تكاليف مدير موجودات الصكوك المسموح بها (أي التكاليف المحددة و المباشرة لتوفير خدمة قراءة العدادات) أثناء السنة (٦) أشهر الأخيرة زائداً ١% عن كل سنة مقابل القيام بخدمات الإدارة (أي أن مقابل الخدمات مبني على أساس التكلفة زائداً نسبة محددة من التكلفة).

تواريخ التوزيع الدورية

يتم التوزيع بشكل ربع سنوي في اليوم الخامس عشر من كل شهر من الشهور: يوليو، أكتوبر، يناير و أبريل، وإذا لم يكن اليوم المذكور يوم عمل، فيكون ذلك في يوم العمل التالي مباشرة، على أن تكون بداية ذلك في ١٥ أكتوبر ٢٠٠٧.

يوم العمل يعني أي يوم تفتح فيه البنوك التجارية في الرياض أبوابها لتقديم خدماتها للجمهور.

فترة التوزيع الدوري

الفترة التي تبدأ من تاريخ الإقفال إلى تاريخ التوزيع الدوري الأول وكل فترة متعاقبة تبدأ من تاريخ التوزيع الدوري إلى تاريخ التوزيع الدوري التالي.

مبلغ التوزيع الدوري و الاحتياطي:

مبلغ التوزيع الدوري هو الناتج فيما يتعلق بأي فترة عائد، لـ (أ) مجموع معدل العمولة الأساسي زائداً نسبة مئوية قدرها (ـ%) لكل سنة (ويطلق عليها فيما يلي "الهامش")، (ب) إجمالي القيمة الاسمية لتلك الصكوك القائمة في تاريخ قيد التحويل الذي يسبق مباشرة آخر يوم من فترة التوزيع الدوري المعنية و(ج) عدد الأيام الفعلي في فترة التوزيع الدوري المعنية مقسوماً على ٣٦٠ يوماً). إذا كان الدخل الصافي زائداً عن مبلغ التوزيع الدوري (ويطلق عليه فيما يلي "الدخل الزائد") يتم الاحتفاظ به بواسطة مدير موجودات الصكوك (ويطلق على إجمالي مثل هذه المبالغ التي تكون مستحقة من وقت لآخر "الاحتياطي").

توزيع الاحتياطي

يتم توزيع الاحتياطي وفقاً للأولويات التالية:

أولاً: إذا لم يحصل حملة الصكوك في أي تاريخ توزيع دوري سابق على مبلغ التوزيع الدوري المعني أو حصلوا على مبلغ أقل من مبلغ التوزيع الدوري المعني ثم تحقق عائد في فترة دفع تالية فيعطى حملة الصكوك مبلغ من التوزيع الدوري المتحقق بما يغطي مبلغ العجز السابق وذلك إلى الحد الذي تظل فيه هذه المبالغ غير مدفوعة.

ثانياً: إذا كان مبلغ صافي الدخل الواجب الدفع إلى حملة الصكوك فيما يتعلق بفترة التوزيع الدوري أقل من مبلغ التوزيع الدوري لتلك الفترة، فيدفع لحملة الصكوك من الاحتياطي مبلغ يعادل ذلك العجز .

ثالثاً: الدفع إلى حملة الصكوك في نهاية كل سنة خامسة، مبلغ إضافي يصل إلى ما يعادل ١٠% من إجمالي القيمة الاسمية للصكوك كما هي في يوم العمل الثالث الذي يسبق مباشرة تاريخ سنة خامسة (المبلغ الإضافي)

رابعاً: يبقى المتبقي من الاحتياطي مع المدير ليستخدم في تغطية الخطوات أولاً وثانياً وثالثاً أعلاه في نهاية كل سنة خامسة ، وحين تتم تصفية الصكوك وفي ذلك الوقت فقط يدفع باقي رصيد حساب الاحتياطي إلى مدير موجودات الصكوك كحافز أتعاب لإدارة موجودات الصكوك.

التعويض عن الأضرار:

يثبت الضرر المستحق للتعويض بظهور العجز نتيجة إهمال المصدر أو المدير أو تقصيره في الحالات التالية:

أ- إذا كان إجمالي صافي الدخل والاحتياطي الموزع على حملة الصكوك، في أي تاريخ توزيع دوري، غير كاف لدفع مبلغ التوزيع الدوري إلى حملة الصكوك و/أو

ب- إذا كانت مبالغ الاحتياطي الموزعة على حملة الصكوك، في أي تاريخ سنة خامسة، غير كاف لدفع المبلغ الإضافي إلى حملة الصكوك.

و في هاتين الحالتين يحق لحملة الصكوك الحصول على تعويض عن الضرر المتمثل في العجز .

تعهد الشراء:

تقوم الشركة السعودية للكهرباء بتوقيع تعهد شراء ملزم لصالح حملة الصكوك تتعهد بموجبه بشراء كل أو بعض الصكوك في نهاية كل خمس سنوات وفي حالات الإخفاق. بعد إرسال إشعار الممارسة بواسطة وكيل حملة الصكوك نيابة عن جميع حملة الصكوك في نهاية كل خمس سنوات يجب على المصدر شراء الصكوك، ويكون ثمن الشراء على النحو التالي:

ثمن الشراء (كنسبة مئوية من القيمة الاسمية للصك):

١. في نهاية السنة الخامسة (٥) ٩٠%
٢. في نهاية السنة العاشرة (١٠) ٦٠%
٣. في نهاية السنة الخامسة عشرة (١٥) ٣٠%

و يتم إصدار إشعار الممارسة عند حلول أي تاريخ سنة خامسة. وفي وقت شراء الصكوك في كل فترة، يكون لحملة الصكوك الحق في تعبئة نموذج توجيه صادر إلى وكيل حملة الصكوك يقضي بطلب إرسال إشعار ممارسة فيما يتعلق بصكوكهم مباشرة قبل تاريخ السنة الخامسة المعني ما لم يخطر حامل الصكوك وكيل حملة الصكوك بخلاف ذلك خطياً في فترة لا تتجاوز [٩٠] يوم عمل قبل تاريخ السنة الخامسة المعني.

وفي الفترة الممتدة بين ٩٠ يوماً إلى ١٨٠ يوماً قبل أي تاريخ سنة خامسة، يقوم وكيل حملة الصكوك بإرسال إشعار إلى حملة الصكوك

يخبرهم بقرب حلول تاريخ السنة الخامسة المعني و بحقوقهم الناشئة بموجب تعهد الشراء نتيجة لحلول ذلك التاريخ ويصف في الإشعار النتائج المترتبة عن ممارسة أو عدم ممارسة حقوقهم.

إذا تسلم وكيل حملة الصكوك في أو قبل التاريخ الذي يقع قبل ٣٠ يوما قبل تاريخ سنة خامسة توجيهات دائمة (ولم تلغ فيما بعد) و/أو توجيهات محددة من حملة صكوك، يملكون مجتمعين، ما لا يقل عن ٧٠% من القيمة الاسمية لتلك الصكوك القائمة في ذلك التاريخ، فسوف يقدم وكيل حملة الصكوك قبل ٣٠ يوم من تاريخ انتهاء السنة الخامسة إلى المصدر إشعار ممارسة (ويرسل نسخة إلى حملة الصكوك) بذلك. وبعد تسلم إشعار الممارسة هذا، يقوم المصدر، وفقا لتعهد الشراء، بشراء الصكوك من جميع حملة الصكوك وذلك بدفع سعر الشراء وأي مبلغ عائد إضافي في تاريخ السنة الخامسة.

حالات الإخفاق:

تشكل كل واحدة من الأحداث والظروف التالية "حالة إخفاق":

(أ) الإخفاق الناتج عن عدم دفع مبلغ توزيع دوري أو مبلغ العائد الإضافي
١. إذا كان المبلغ الموزع على حملة الصكوك في أي تاريخ توزيع دوري أقل من مبلغ التوزيع الدوري المقرر لتاريخ التوزيع الدوري المعني، أو

٢. إذا كان المبلغ الموزع على المالكين في أي تاريخ سنة خامسة أقل من مبلغ العائد الإضافي المقرر لتاريخ السنة الخامسة المعني،

و لم يتم دفع ذلك العجز خلال خمسة أيام في موعد استحقاقه وحدث كنتيجة مباشرة لإخلال أو إهمال مدير موجودات الصكوك أو المصدر في الوفاء بالتزاماته بموجب وثائق الصكوك.

(ب) الإخلال بالالتزامات الأخرى:

إخفاق المصدر أو مدير موجودات الصكوك في الوفاء بأي من التزاماته الأخرى أو فيما يتعلق بأي من التزاماته بموجب الصكوك أو وثائق الصكوك، واستمرار ذلك الإخفاق دون معالجة لمدة ٣٠ يوما بعد توجيه إشعار خطي بذلك إلى المصدر من قبل [أحد حملة الصكوك/ وكيل حملة الصكوك] وتسليمه إلى المصدر أو إلى المكتب المحدد لمدير إدارة الدفعات، أو

(ج) التقصير المتقاطع Cross-default من جانب مدير موجودات الصكوك:

(١) عدم سداد أي مديونية على المصدر أو مدير موجودات الصكوك في موعد استحقاقها أو (حسب الحالة) خلال أي فترة سماح مقررة في الأصل.

(٢) أن تصبح أي مديونية مستحقة وواجبة السداد قبل موعد استحقاقها المقرر نتيجة لأي حالة إخفاق أو تقصير أو أحد شروط التججيل (أيا كان وصفه)، أو

(٣) إذا فشل المصدر أو مدير موجودات الصكوك في أن يسدد في موعد الاستحقاق أي مبلغ مستحق عليه بموجب أي ضمان لأي مديونية.

وذلك بشرط أن يزيد مبلغ المديونية المشار إليه في الفقرة الفرعية (١) و/أو الفقرة الفرعية (٢) أعلاه و/أو المبلغ المستحق بموجب أي ضمان مشار إليه في الفقرة الفرعية (٣) أعلاه، بصورة مستقلة أو إجمالاً، عن ٧٥,٠٠٠,٠٠٠ ريال سعودي (أو ما يعادله بأية عملة أو عملات أخرى)، أو

(د) الحكم غير المنفذ:

عند صدور حكم أو أكثر من حكم أو أمر أو أكثر من أمر ضد المصدر أو مدير موجودات الصكوك بدفع مبلغ يزيد عن ٧٥,٠٠٠,٠٠٠ ريال سعودي (أو ما يعادله بأي عملة أو عملات)، سواء بصورة مستقلة أو إجمالاً، واستمر ذلك الحكم أو الأمر غير منفذ ومؤجل للتنفيذ لمدة ٣٠ يوماً من تاريخ صدوره، أو، إذا كان بعد ذلك، من التاريخ المحدد للدفع، أو

(هـ) الإعسار:

(١) إذا أصبح المصدر أو مدير موجودات الصكوك معسراً أو غير قادر على تسديد ديونه عند استحقاقها (٢) إذا تم تعيين مصف لجميع أو خمسة وعشرين بالمائة على الأقل من تعهدات المصدر أو مدير موجودات الصكوك أو أصوله أو إيراداته (أو تقديم طلب لمثل هذا التعيين) ولم يتم إلغاء هذا التعيين خلال ٢٨ يوماً، (٣) اتخاذ المصدر أو مدير موجودات الصكوك إجراء لتعديل أو تأجيل أي من التزاماته أو أجرى تنازلاً عاماً أو ترتيباً أو صلحاً مع دائنيه أو لصالحهم (بما في ذلك القيام بترتيب بموجب نظام التسوية الواقية من الإفلاس) أو أعلن قراراً بتأجيل سداد أي من ديونه أو أي ضمان لمديونية مقدم منه أو (٤) أوقف المصدر أو مدير موجودات الصكوك أو هدد بوقف جميع أنشطته أو أي جزء كبير منها (إلا أن يكون ذلك لأغراض الاندماج أو عملية إعادة تنظيم أو إعادة هيكلة، مع الملاءة المالية، (أ) بمبادرة أو أمر صادر من أي جهة حكومية في المملكة العربية السعودية أو (ب) معتمد بقرار غير عادي، بشرط (وذلك فيما يتعلق فقط بالوضع في رقم (أ)) أن تتحمل أي شركة، بالتضامن، التي يحول لها عندئذ كل أو أي جزء من أصول وأعمال المصدر أو مدير موجودات الصكوك، تحملاً غير مشروطاً وغير قابل للنقض كملتزم رئيسي بكافة التزامات الشركة السعودية للكهرباء بموجب اتفاقية تحويل ملكية موجودات الصكوك وتعهد الشراء، أو)،

(و) انقضاء المصدر أو مدير موجودات الصكوك:

عند صدور أمر أو اعتماد قرار ساري المفعول بحل المصدر أو مدير موجودات الصكوك وتصفيته (إلا إذا كان ذلك لأغراض الاندماج أو عملية إعادة تنظيم أو إعادة هيكلة، مع الملاءة المالية، والذي يتم إما (١) بمبادرة أو أمر صادر من أي جهة حكومية في المملكة العربية السعودية أو (٢) معتمد بقرار غير عادي، بشرط (وذلك فيما يتعلق فقط بالوضع في رقم (١)) أن تتحمل أي شركة باقية أو ناتجة عن ذلك، بالتضامن، تحملاً غير مشروطاً وغير قابل للنقض كملتزم رئيسي بكافة التزامات الشركة السعودية للكهرباء بموجب اتفاقية تحويل ملكية موجودات الصكوك وتعهد الشراء، أو

(ز) الحدث المشابهة:

أي حدث يقع له بموجب القوانين أو الأنظمة و اللوائح المعمول بها في المملكة العربية السعودية أثر مشابه لأي من الأحداث المذكورة في الفقرات (د) (الحكم غير المنفذ) إلى (و) (انقضاء المصدر أو مدير موجودات الصكوك) أعلاه،

(ح) حالة إعادة هيكلة قسم التوزيع

أن يعاد هيكلة أعمال توزيع الكهرباء للمصدر (بما في ذلك، دون حصر، تقديم خدمات العدادات) من قبل أي جهة أو سلطة حكومية في المملكة العربية السعودية بما يؤدي إلى عدم قيام المصدر (أو عدم تمكنه بالقيام) بهذه الأعمال مباشرة (وليس من خلال شركات تابعة أو منضوية تحت مجموعته) ويقوم المصدر بإشعار وكيل حملة الصكوك بأنه نتيجة لذلك سيصبح تنفيذ التزامات المصدر بموجب وثائق الصكوك غير ممكن من الناحية العملية.

(ط) الفشل في اتخاذ الإجراءات التالية:

عدم اتخاذ أي إجراء أو شرط أو شيء مطلوب اتخاذه أو أدائه في أي وقت من أجل (١) تمكين المصدر من إبرام أو ممارسة حقوقه

بطريقة مشروعة وأداء التزاماته والتقيدها بموجب الصكوك أو وثائق الصكوك أو فيما يتعلق بها و(٢) التأكد من أن تلك الالتزامات قانونية ومشروعة وملزمة وقابلة للتنفيذ.

(ي) عدم المشروعية:

إذا أصبح أو سيصبح من غير المشروع قيام المصدر أو مدير موجودات الصكوك بأداء أي من التزاماته أو جميعها بموجب الصكوك أو وثائق الصكوك أو فيما يتعلق بها، أو

(ك) عدم صلاحية موجودات الصكوك

إذا أصبح أو سيصبح من غير المشروع قيام المصدر أو مدير موجودات الصكوك أو أمين موجودات الصكوك بأداء أي من التزاماته الأساسية بموجب موجودات الصكوك أو أي وثائق تتعلق بموجودات الصكوك، أو اعتبرت أي موجودات للصكوك أو وثائق تتعلق بموجودات الصكوك من قبل محكمة أنها لا صلاحية لها أو إذا أنكر المصدر أو مدير موجودات الصكوك أو أمين موجودات الصكوك لأي من الوثائق المتعلقة بموجودات الصكوك أو أبدى نية في إنكار أي من تلك الوثائق.

في حالة وقوع حالة إخفاق واستمرار تلك الحالة، يقوم وكيل حملة الصكوك في أقرب فرصة عملية، بعد تسلمه إشعاراً بذلك، بتقديم إشعار بحدوث حالة الإخفاق المعنية إلى حملة الصكوك طالبا منهم أن يبدأوا خلال فترة تصل لغاية ١٥ يوما أو أي تاريخ وفقا لما يتم إبلاغه إلى حملة الصكوك بواسطة وكيل حملة الصكوك ("فترة الممارسة") ما إذا كانوا يريدون ممارسة حقوقهم المنصوص عليها في تعهد الشراء أم لا. وحينها يجوز لأي حامل صكوك أن يقدم إشعاراً ("إشعار ممارسة") خلال فترة الممارسة إلى وكيل حملة الصكوك يذكر فيه أن ما يملكه من صكوك قابلة للشراء.

وإضافة لذلك، في أو قبل تاريخ الإقفال، وفي أي وقت بعده، يحق لحملة الصكوك إصدار توجيهات دائمة، متوفرة لدى وكيل حملة الصكوك ("توجيهات إعادة هيكلة")، إلى وكيل حملة الصكوك يطلبون فيه إصدار إشعار ممارسة نيابة عنهم بشأن صكوكهم بعد حدوث حالة إعادة هيكلة لقسم التوزيع. ويقوم وكيل حملة الصكوك بإعطاء إشعار ممارسة بشأن جميع الصكوك التي صدر بشأنها توجيهات إعادة هيكلة وذلك في أسرع وقت ممكن من الناحية العملية بعد بدء فترة الممارسة، بشرط أن يستلم وكيل حملة الصكوك في ذلك الوقت توجيهات إعادة هيكلة ولم تلغ فيما بعد) من حملة صكوك يملكون مجتمعين ما لا يقل عن ٧٠% من القيمة الاسمية للصكوك القائمة في ذلك الوقت، و يعطى وكيل حملة الصكوك إشعار ممارسة بشأن جميع الصكوك القائمة في الوقت المعنى.

ولا يجوز تحويل الصكوك المعنية بإشعار الشراء الذي يتم تسليمه على هذا النحو إلا بعد انتهاء فترة الممارسة، إذا لم يتم شرائها من قبل المصدر خلال فترة الممارسة تلك وذلك وفقا للشروط. وإذا تسلم وكيل حملة الصكوك إشعار شراء، وجب عليه القيام فوراً بإبلاغ المصدر وأمين موجودات الصكوك ومدير الدفعات ومدير الإصدار بذلك محددا حالة الإخفاق المشار إليها في إشعار الشراء الذي تسلمه (ولكن بشرط تقديم ذلك الإشعار بخصوص أول إشعار شراء تم استلامه بخصوص حالة الإخفاق). وإذا تسلم وكيل حملة الصكوك إشعارات شراء من عدد من حملة الصكوك يشكل النصاب المطلوب من حملة الصكوك، وجب حينها على وكيل حملة الصكوك أن يقدم للمصدر إشعار ممارسة (مع إرسال نسخة إلى حملة الصكوك)، بشرط أن تكون حالة الإخفاق المعنية بإشعار الممارسة ما زالت مستمرة، ويجب على المصدر، وفقا لتعهد الشراء، شراء الصكوك فوراً من جميع حملة الصكوك بدفع سعر الشراء المنطبق على الصكوك في اليوم الذي تم فيه استلام إشعارات الشراء من حملة الصكوك إضافة إلى مبلغ التوزيع في حالة الإخفاق (محتسبا بتاريخ الشراء المعنى) وأي مبلغ محدد (إذا انطبق الحال).

سعر الشراء في تاريخ غير تاريخ سنة خامسة يكون ناتج ضرب إجمالي القيمة الاسمية لجميع الصكوك وفقا لما تكون عليه في ذلك

التاريخ في النسبة المبينة مقابل الفترة التي يقع فيها ذلك التاريخ كما في الجدول التالي:

النسبة المئوية	التاريخ
١٠٠%	بعد تاريخ الإقفال لكن قبل تاريخ التوزيع الدوري الواقع في يوليو من عام ٢٠١١م
٩٠%	بعد تاريخ التوزيع الدوري الواقع في يوليو من عام ٢٠١١م لكن قبل تاريخ التوزيع الدوري الواقع في يوليو من عام ٢٠١٣م
٨٠%	بعد تاريخ التوزيع الدوري الواقع في يوليو من عام ٢٠١٣م لكن قبل تاريخ التوزيع الدوري الواقع في ٢٠١٥
٧٠%	بعد تاريخ التوزيع الدوري الواقع في يوليو من عام ٢٠١٥م لكن قبل تاريخ التوزيع الدوري الواقع في يوليو من عام ٢٠١٦م
٦٠%	بعد تاريخ التوزيع الدوري الواقع في يوليو من عام ٢٠١٦م لكن قبل تاريخ التوزيع الدوري الواقع في يوليو من عام ٢٠١٨م
٥٠%	بعد تاريخ التوزيع الدوري الواقع في يوليو من عام ٢٠١٨م لكن قبل تاريخ التوزيع الدوري الواقع في يوليو من عام ٢٠١٩م
٤٠%	بعد تاريخ التوزيع الدوري الواقع في يوليو من عام ٢٠١٩م لكن قبل تاريخ التوزيع الدوري الواقع في يوليو من عام ٢٠٢١م
٣٠%	بعد تاريخ التوزيع الدوري الواقع في يوليو من عام ٢٠٢١م لكن قبل تاريخ التوزيع الدوري الواقع في يوليو من عام ٢٠٢٢م
٢٠%	بعد تاريخ التوزيع الدوري الواقع في يوليو من عام ٢٠٢٢م لكن قبل تاريخ التوزيع الدوري الواقع في يوليو من عام ٢٠٢٤م
١٠%	بعد تاريخ التوزيع الدوري الواقع في يوليو من عام ٢٠٢٤م لكن قبل تاريخ التوزيع الدوري الواقع في يوليو من عام ٢٠٢٦م
٥%	بعد تاريخ التوزيع الدوري الواقع في يوليو من عام ٢٠٢٦م لكن قبل تاريخ التوزيع الدوري الواقع في يوليو من عام ٢٠٢٧م
صفر %	تاريخ الانتهاء

بيانات و أحكام إضافية

سعر الإصدار:

١٠٠% من إجمالي القيمة الاسمية للصكوك.

المدة:

تكون المدة الكاملة للصكوك ٢٠ عاما ومع ذلك، يكون لحملة الصكوك الحق في بيع الصكوك على المصدر بنهاية كل خمس سنوات بموجب تعهد الشراء.

تصفية الصكوك

تتم تصفية الصكوك بطريقتين :

أ- عند بيع جميع الصكوك إلى الشركة السعودية للكهرباء وفقا لتعهد الشراء.

ب عند انتهاء الصكوك وتنتهي الصكوك في تاريخ الانتهاء بعد ٢٠ عاما من إصدارها دون أي إجراء إضافي من جانب المصدر ما لم يتم انتهاءها عن طريق شراؤها.

"تاريخ الانتهاء" يقصد به آخر تاريخ توزيع دوري يقع في [] ٢٠٢٧.

تسجيل الصكوك

يتم إصدار شهادات الصكوك ("الصكوك") وتسجل فقط في المملكة العربية السعودية دون إرفاق أي كوبونات. تمثل الصكوك حصة شائعة في شهادة رئيسية Global Certificate يتم إيداعها في تداول بدوره المسجل. ولن يتم إصدار صكوك تمثل حصة فردية من الشهادة الرئيسية، ومع ذلك يحق لكل مالك تسلم كشف من المسجل يبين حصته من الصكوك بين الحين والآخر.

المقاصة والتسوية

تخضع جميع عمليات تحويل الصكوك وتسجيلها في السجل لأنظمة وإجراءات المسجل (تداول) ونصوص اتفاقية التسجيل. وقد يقوم المسجل بتغيير الأنظمة في أي وقت.

وحدة الإصدار

سيتم إصدار الصك بالريال السعودي بقيمة ٥٠٠,٠٠٠ ريال سعودي لكل صك و بحد تملك أدنى قدره ٥٠٠,٠٠٠ ريال سعودي.

حساب العملية

يحتفظ مدير الدفعات بحساب الصكوك العملية ويديره نيابة عن وكيل حملة الصكوك. ويتم توزيع المبالغ الناتجة عن موجودات الصكوك بواسطة المصدر على حملة الصكوك من الأموال الثابتة والمقيدة في حساب العملية.

التكاليف

تتحمل الشركة السعودية للكهرباء جميع التكاليف المستحقة قبل إصدار و طرح الصكوك وهي على سبيل المثال ما يلي: الأتعاب المتفق عليها والعمولات الخاصة بمستشار اختيار سعر الإصدار فيما يتعلق بترتيب وتسويق وتوزيع وبيع الصكوك والأتعاب والمصروفات الخاصة بالمستشار القانوني لمستشار اختيار سعر الإصدار وأتعاب ومصروفات وكيل حملة الصكوك وأمين موجودات الصكوك ومدير الدفعات وتكاليف الطباعة والإعلان والأتعاب والمصروفات المتكبدة فيما يتعلق بإدراج الصكوك في السوق المالية السعودية والحصول على الموافقات الحكومية والنظامية الضرورية وغيرها من الموافقات وكذلك أي مصروفات أخرى فيما يتعلق بإنشاء وإصدار الصكوك.

أما التكاليف اللاحقة لعملية الإصدار و الطرح فتوفر من صافي دخل الصكوك.

الضرائب

يتم دفع جميع دفعات رأس المال أو التوزيعات المتعلقة بالصكوك التي تدفع من قبل المصدر أو نيابة عنه خالية من أي استقطاعات أو خصومات ضريبية، ما لم يكن استقطاع أو خصم تلك الضرائب متطلبا بموجب النظام. وفي تلك الحالة، فقط بقدر ما تتوفر تلك المبالغ للتوزيع على حملة الصكوك من صافي الدخل أو المبالغ القائمة كرسيد دائن في الاحتياطي، سيدفع المصدر تلك المبالغ الإضافية ("مبلغ الضريبة") التي تنتج في تسليم حملة الصكوك المبالغ التي كانوا سيتسلمونها لو لم يلزم إجراء تلك الاستقطاعات أو الخصومات. وإذا لم تكف تلك المبالغ لدفع مبلغ الضريبة، فلن يتم دفع أية مبالغ أخرى إلى حملة الصكوك. وتعتبر أي إشارة في هذه الشروط إلى مبلغ توزيع دوري ومبلغ إضافي وأي مبالغ أخرى تدفع لحملة الصكوك شاملا للمبالغ الإضافية التي تم دفعها وفقا لهذا الشرط (الضرائب).

محدودية حق الرجوع

١. الوضع القانوني:

تشكل الصكوك التزامات محدودة لحق الرجوع من قبل المصدر كما هو موضح في الشرط (محدودية حق الرجوع) وستكون في جميع الأوقات في مرتبة مساوية لبعضها بعضا. وستشكل التزامات المصدر بموجب تعهد الشراء التزامات مباشرة وعامة وغير مشروطة

على المصدر وستعامل في جميع الأوقات على نحو متساو مع جميع التزامات المصدر الأخرى الحالية والمستقبلية غير المضمونة، فيما عدا تلك الالتزامات التي تحظى بأفضلية بموجب أحكام النظام والتي تعتبر إلزامية وتطبق بشكل عام.

٢. محدودية حق الرجوع:

تعتبر متحصلات موجودات الصكوك والدفعات التي يدفعها المصدر وفقا لتعهد الشراء والمبالغ الموجودة في حساب العملية هما مصدر الدفعات الوحيد الخاص بالصكوك. وبناء على ذلك، فانه باستثناء ما يتعلق بالمطالبات المتعلقة بمبالغ مستحقة من المصدر بموجب تعهد الشراء أو أي وثيقة أخرى من وثائق الصكوك، لن يكون لحملة الصكوك أي حق للرجوع على أي من أصول المصدر أو أمين موجودات الصكوك (وتجنباً للشك، فإن موجودات الصكوك ليست من أصول أمين موجودات الصكوك ولن تعتبر كذلك) أو وكيل حملة الصكوك، أو مدير الدفعات أو المسجل أو مدير الإصدار أو أي من مؤسساتهم التابعة، بقدر وفاء كل منهم بجميع التزاماته بموجب وثائق الصكوك ذات العلاقة التي هو طرف فيها، فيما يتعلق بأي عجز في المبالغ المتوقعة من موجودات الصكوك. وبالرغم مما سبق، فإن المصدر ملزم بدفع المبالغ المطلوبة بموجب وثائق الصكوك التي هو طرف فيها مباشرة إلى مدير الدفعات أو في حالات معينة سيكون لوكيل حملة الصكوك (بشرط تعويضه تعويضا مقبولا له)، بصفته وكيلا لحملة الصكوك، حق رجوع مباشر على المصدر لاستعادة مدفوعات مستحقة لمدير الدفعات أو وكيل حملة الصكوك لحساب حملة الصكوك وفقا لوثائق الصكوك تلك.

ربما يكون صافي العوائد الناتج من موجودات الصكوك، أو فيما يتعلق بتنفيذها، غير كافيا للوفاء بجميع الدفعات المستحقة فيما يتصل بالصكوك. وإذا بقي، بعد توزيع العوائد نقص في الدفعات المستحقة بموجب الصكوك، فلن يكون لأي حامل الصك، إلا في الحالات الموضحة في الشرط (حالات الممارسة) والشرط (تنفيذ وممارسة الحقوق)، أي مطالبة بحق المصدر أو أي من مؤسساته التابعة أو أي أصول أخرى بالنسبة لذلك النقص وأية مطالبات غير مسددة، ولن يستطيع حملة الصكوك تقديم التماس أو الانضمام إلى أي شخص آخر في رفع دعوى قضائية للمطالبة بإعادة تنظيم أو تصفية أو حل أو تعيين حارس قضائي على المصدر أو أمين موجودات الصكوك أو وكيل حملة الصكوك أو مدير الدفعات أو المسجل أو مدير الإصدار أو من مؤسساتهم التابعة كنتيجة لذلك العجز أو غير ذلك.

٣. اتفاق حملة الصكوك:

بشراء كل حامل صكوك للصكوك، بالرغم من أي شيء يناقض ذلك في أي من وثائق الصكوك، ولكن دون المساس بالشرط (حالات الممارسة) والشرط (تنفيذ وممارسة الحقوق) والتزامات المصدر بموجب تعهد الشراء، فإن هذا يعني موافقة حامل الصك المعني على أنه (١) لن يتم دفع أي مبلغ من قبل المصدر أو أمين موجودات الصكوك أو وكيل حملة الصكوك أو مدير الدفعات أو المسجل أو المدير أو أي من وكلائهم المعنيين نيابة عنهم إلا في حدود الأموال المتوفرة لذلك من موجودات الصكوك و(٢) لن يكون له حق الرجوع والمطالبة بدفع أي مبلغ يستحق بموجب نشرة الإصدار هذه أو بموجب أي من وثائق الصكوك، سواء بدفع أي رسوم أو أي مبلغ آخر بموجب أي التزام أو مطالبة أخرى تنشأ أو تستند إلى إعلان الوكالة أو أية وثيقة صكوك أخرى، ضد المصدر أو أمين موجودات الصكوك أو مدير الدفعات أو المسجل أو المدير بسبب أي قضية إفلاس أو إعادة تنظيم أو ترتيب أو إجراءات تصفية أو أية قضية أخرى بموجب أي نظام إفلاس أو ما شابه.

تنفيذ وممارسة الحقوق:

بعد توزيع عوائد موجودات الصكوك فيما يتعلق بالصكوك على حملة الصكوك وفقا للشروط وإعلان الوكالة، لا يجوز لأي حامل صكوك اتخاذ أي إجراء بحق وكيل حملة الصكوك أو أي شخص آخر لاسترداد أي مبلغ يتعلق بالصكوك أو بموجودات الصكوك.

لن يكون وكيل حملة الصكوك ملزما تحت أي ظرف باتخاذ أي إجراء لتنفيذ حقوق حملة الصكوك على موجودات الصكوك أو باتخاذ

أي إجراء بحق المصدر بموجب أي وثيقة من وثائق الصكوك يكون المصدر أو أمين موجودات الصكوك طرفاً فيها إلا إذا تلقى أمراً أو طلباً بذلك (١) بقرار غير العادي أو (٢) خطياً من قبل نصاب حملة الصكوك وفي أي من الحالتين بشرط أن يتلقى تعهداً بالتعويض مقنعاً له من صافي الدخل أو المبالغ القائمة كرصيد دائن في الاحتياطي، وذلك فقط بقدر ما تتوفر تلك المبالغ للتوزيع على حملة الصكوك، عن جميع الالتزامات التي يعتبر نفسه مسؤولاً عنها أو تلك التي تترتب عليه نتيجة لذلك.

لا يحق لحامل الصك إقامة دعوى بحق المدير أو أمين موجودات الصكوك إلا (١) إذا وجب على وكيل حملة الصكوك إقامة دعوى ولم يفعل ذلك خلال ٦٠ يوماً من وجوب إقامة الدعوى واستمر ذلك و(٢) إذا كان حامل الصكوك المعني يملك بمفرده (أو مع حملة الصكوك آخرين ينوون إقامة دعوى مباشرة ضد المصدر أو مدير الحفظ) ٢٥ في المائة على الأقل من إجمالي القيمة الاسمية للصكوك القائمة حينئذ في ذلك التاريخ. ولن يكون لوكيل حملة الصكوك أو لأي من حملة الصكوك تحت أي ظرف أي حق في بيع أي من موجودات الصكوك أو التصرف بها بأي شكل آخر إلا وفقاً لتعهد الشراء، وسيكون الحق الوحيد لوكيل حملة الصكوك و حملة الصكوك ضد المصدر أو أمين موجودات الصكوك هو تنفيذ التزام المصدر بدفع المبالغ المطلوبة في حساب العملية. وتجنباً للشك، لن يكون وكيل حملة الصكوك ملزماً باتخاذ إجراء أو رفع دعوى إلا إذا تلقى تعويضاً مقنعاً له.

إعداد الحسابات/ تسويات صافي الدخل:

تقوم شركة الكهرباء للصكوك (بمساعدة المدير) بإعداد حسابات سنوية مدققة وحسابات ربع سنوية غير مدققة تتعلق بإجمالي صافي الدخل المقبوض أثناء الفترة المعنية. وعند وجود أي تفاوت، بعد نشر تلك الحسابات، فيما يتصل بمبلغ صافي الدخل الخاص بأي فترة طبقاً لما تثبته تلك الحسابات، وبعد المقارنة مع ما تم احتسابه في وقت سابق بواسطة المدير، فإنه يجب إجراء تسوية لمبالغ الاحتياطي حسب ما يكون مطبقاً.

الاطعاء الحسابية والطباعة

يجوز للمدير تعديل وثائق الصكوك دون موافقة حملة الصكوك وذلك لتصحيح خطأ حسابي أو خطأ في الطباعة. و يجوز لأطراف ووثائق الصكوك الاتفاق على تعديل أي من أحكامها على أنه لا يجوز لوكيل حملة الصكوك الموافقة على هذا التعديل إلا بموافقة حملة الصكوك ما لم يكن التعديل في الصياغة أو بسيطاً أو ذو طبيعة فنية يتم إجراءه لتعديل خطأ حسابي أو خطأ في الطباعة أو أنه في رأي أطراف الوثيقة غير مهم ولا يؤثر بشكل جوهري على مصالح حملة الصكوك.

الإدراج:

سيتم تقديم طلب لقبول الصكوك وإدراجها ضمن القائمة الرسمية للهيئة و/أو قبول إدراجها وتداولها و/أو تسعيرها من قبل أي سلطة رسمية أخرى في المملكة العربية السعودية.

وثائق الصكوك:

تشمل وثائق الصكوك ما يلي :

١. اتفاقية تحويل ملكية موجودات الصكوك
٢. اتفاقية إدارة موجودات الصكوك
٣. تعهد الشراء
٤. إعلان الوكالة
٥. اتفاقية وكالة الدفع
٦. الصكوك
٧. أي اتفاقيات أخرى ووثائق يتم تسليمها أو توقيعها فيما يتعلق بذلك (حسب تعريفها في شروط الصكوك).

النظام والاختصاص القضائي:


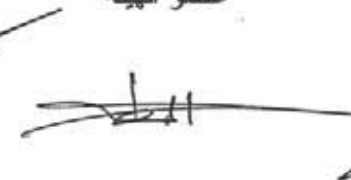

١. القانون الواجب التطبيق: تخضع الصكوك للقوانين والأنظمة المعمول بها في المملكة العربية السعودية وطبقاً للشرعية الإسلامية المطبقة في المملكة وتفسر وفقاً لذلك.

٢. الاختصاص القضائي: تعتبر لجنة الفصل في منازعات الأوراق المالية وهيئة الاستئناف ("اللجنة") هي الجهة الوحيدة صاحبة الاختصاص الحصري في النظر والبت في أية قضية أو دعوى أو أي إجراء قضائي وتسوية أية نزاعات قد تنشأ عن الصكوك أو وثائق الصكوك، ولهذه الأغراض، يقر جميع الأطراف ذوي العلاقة بما فيهم مالكو الصكوك إقراراً لا رجعة فيه بخضوعهم للاختصاص القضائي للجنة. ولا يجوز رفع أي قضية أو دعوى أو أي إجراء قضائي بخصوص الصكوك أو وثائق الصكوك لدى أية جهة خارج المملكة العربية السعودية ولن يكون لأي محكمة أو سلطة قضائية خارج المملكة العربية السعودية صلاحية النظر في أية دعوى بهذا الخصوص.

الحمد لله والصلاة والسلام على رسول الله وعلى آله وصحبه أجمعين وبعد

فقد أطلعت الهيئة الشرعية للأمانة بساب على شروط وأحكام الاستثمار في صكوك الاستثمار لشركة الكهرباء السعودية، وبعد مراجعة هذه الشروط والأحكام وإجراء التعديلات اللازمة عليها، لم يظهر للهيئة بعد ذلك ملاحظة عليها وتمت الموافقة عليها بالصيغة المرفقة... والله الهادي إلى سواء السبيل

التاريخ: ٢٧ جماد الأول ١٤٢٨هـ الموافق ١٣ يونيو ٢٠٠٧ م

رئيس الهيئة	عضو الهيئة	عضو الهيئة
		
الشيخ عبدالله بن سليمان المطير	الشيخ د. عبد الله بن محمد المطلق	الشيخ د. محمد القرري بن عيد

٥٠

APPENDIX II

Part A Form of Specific Instruction

To: HSBC Saudi Arabia Limited
as Sukukholders' Agent

SAUDI ELECTRICITY COMPANY Sukuk expiring 2027 (the "Sukuk")

SPECIFIC INSTRUCTION

We hereby instruct you, in accordance with Condition 11.1(c) (Fifth-year Date) of the terms and conditions of the Sukuk set out in the Offering Circular dated 25 June 2007 issued by Saudi Electricity Company (the "**Conditions**"), to give an Exercise Notice under the Purchase Undertaking in relation to the following Sukuk and the Fifth-year Date falling in July [2012/2017/2022]*:

Name of registered Holder: _____

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 Holder: _____

Date: _____

* Delete as appropriate

Part B
Form of Restructuring Instruction

To: HSBC Saudi Arabia Limited
as Sukukholders' Agent

SAUDI ELECTRICITY COMPANY
Sukuk expiring 2027 (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 25 June 2007 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 Holder: _____

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 Holder: _____

Date: _____

Part C
Form of Purchase Notice

To: HSBC Saudi Arabia Limited
as Sukukholders' Agent

SAUDI ELECTRICITY COMPANY
Sukuk expiring 2027 (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 25 June 2007 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 Holder: _____

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 Holder: _____

Date: _____

* Set out brief details

Part D
Form of Exercise Notice

To: Saudi Electricity Company

SAUDI ELECTRICITY COMPANY
Sukuk expiring 2027 (the "Sukuk")

EXERCISE NOTICE

We refer to:

- (1) the offering circular dated 25 June 2007 issued by Saudi Electricity Company (the "**Offering Circular**"); and
- (2) the purchase undertaking dated [•] 2007 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) (*Fifth-year Date*) that we have received Standing Instructions (which have not been subsequently revoked) and/or Specific Instructions in relation to the Sukuk and Holders specified in the attached list in accordance with Condition 11.1(c) (*Fifth-year Date*) requiring us to give an Exercise Notice in relation thereto and, accordingly such Sukuk are to be purchased by you on the Fifth-Year Date falling in [2012/2017/2022]* in accordance with the Purchase Undertaking and Condition 11.1(c) (*Fifth-year Date*).
- pursuant to Condition 11.1(d) (*Fifth-year Date*) that we have received Standing Instructions (which have not subsequently been revoked) and/or Specific Instructions in accordance with Condition 11.1(c) (*Fifth-year Date*) on or before the date which is 30 days prior to the Fifth-Year Date falling in [2012/2017/2022]* requiring us to give an Exercise Notice in relation to such Fifth Year Date from Holders who together hold, in aggregate, at least 70 per cent. of the face value of the Sukuk as were current on such date, and accordingly all of the Sukuk are to be purchased by you on such Fifth-Year Date in accordance with the Purchase Undertaking and Condition 11.1(d) (*Fifth-year Date*).
- pursuant to Condition 11.2 (*Events of Default*) that we have received Restructuring Instructions (which have not subsequently been revoked) from Holders who together hold, in aggregate, at least 70 per cent. of the face value 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 Holders 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

* Delete as appropriate

purchased by you immediately in accordance with the Purchase Undertaking and Condition 11.2 (*Events of Default*).

[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
HSBC Saudi Arabia Limited
as Sukukholders' Agent

Date: _____

THIS PAGE IS INTENTIONALLY LEFT BLANK

THIS PAGE IS INTENTIONALLY LEFT BLANK

THIS PAGE IS INTENTIONALLY LEFT BLANK

www.se.com.sa