

IMPORTANT NOTICE

THIS PROSPECTUS MAY ONLY BE DISTRIBUTED OUTSIDE THE UNITED STATES IN ACCORDANCE WITH REGULATION S UNDER THE SECURITIES ACT (AS DEFINED BELOW) AND WITHIN THE UNITED STATES TO QUALIFIED INSTITUTIONAL BUYERS (QIBs) WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT (RULE 144A) WHO ARE ALSO QUALIFIED PURCHASERS (AS DEFINED BELOW).

IMPORTANT: You must read the following notice before continuing. The following notice applies to the attached prospectus following this page (the **Prospectus**), whether received by email, accessed from an internet page or otherwise received as a result of electronic communication, and you are therefore advised to read this notice carefully before reading, accessing or making any other use of the Prospectus. In reading, accessing or making any other use of the Prospectus, you agree to be bound by the following terms and conditions and each of the restrictions set out in the Prospectus, including any modifications made to them from time to time, each time you receive any information from Saudi Electricity Global SUKUK Company 2 (the **Issuer**) or Saudi Electricity Company (**SEC**) as a result of such access.

RESTRICTIONS: NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER TO SELL OR A SOLICITATION OF AN OFFER TO BUY THE CERTIFICATES IN ANY JURISDICTION. ANY CERTIFICATE TO BE ISSUED HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE **SECURITIES ACT**), OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION. THE CERTIFICATES MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED DIRECTLY OR INDIRECTLY WITHIN THE UNITED STATES EXCEPT (1) IN ACCORDANCE WITH RULE 144A UNDER THE SECURITIES ACT TO PERSONS REASONABLY BELIEVED TO BE QIBs THAT ARE QUALIFIED PURCHASERS (**QUALIFIED PURCHASERS**) AS DEFINED IN SECTION 2(a)(51)(A) OF THE U.S. INVESTMENT COMPANY ACT OF 1940, AS AMENDED (**THE INVESTMENT COMPANY ACT**) WHO REPRESENT THAT (A) THEY ARE QUALIFIED PURCHASERS WHO ARE QIBs WITHIN THE MEANING OF RULE 144A, (B) THEY ARE NOT BROKER DEALERS WHO OWN AND INVEST ON A DISCRETIONARY BASIS LESS THAN U.S.\$25 MILLION IN SECURITIES OF UNAFFILIATED ISSUERS, (C) THEY ARE NOT A PARTICIPANT IN A DIRECTED EMPLOYEE PLAN, SUCH AS A 401(K) PLAN, (D) THEY ARE ACTING FOR THEIR OWN ACCOUNT, OR THE ACCOUNT OF ONE OR MORE QIBs, EACH OF WHICH IS ALSO A QUALIFIED PURCHASER, (E) THEY ARE NOT FORMED FOR THE PURPOSE OF INVESTING IN THE SECURITIES OR THE ISSUER, (F) EACH ACCOUNT FOR WHICH THEY ARE PURCHASING WILL HOLD AND TRANSFER AT LEAST U.S.\$200,000 IN FACE AMOUNT OF SECURITIES AT ANY TIME, (G) THEY UNDERSTAND THAT THE ISSUER MAY RECEIVE A LIST OF PARTICIPANTS HOLDING POSITIONS IN ITS SECURITIES FROM ONE OR MORE BOOK ENTRY DEPOSITORIES, AND (H) THEY WILL PROVIDE NOTICE OF THESE TRANSFER RESTRICTIONS TO ANY SUBSEQUENT TRANSFEREES OR (2) IN AN OFFSHORE TRANSACTION PURSUANT TO REGULATION S, OF THE SECURITIES ACT.

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

MADE IN ACCORDANCE WITH THE PROMOTION OF CISS ORDER. (ALL SUCH PERSONS IN (A)(I), (A)(II), (B)(I), (B)(II) AND (B)(III) ABOVE TOGETHER BEING REFERRED TO AS "RELEVANT PERSONS"). PERSONS OF ANY OTHER DESCRIPTION IN THE UNITED KINGDOM MAY NOT RECEIVE AND SHOULD NOT ACT OR RELY ON THIS PROSPECTUS OR ANY OTHER MARKETING MATERIALS IN RELATION TO ANY CERTIFICATES.

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

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

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

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

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

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

The Prospectus has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently none of the Managers, the Issuer, SEC or any person who controls or is a director, officer, employee or agent of the Managers, the Issuer, SEC or any affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between the Prospectus distributed to you in electronic format and the hard copy version available to you on request from the Managers.

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

SAUDI ELECTRICITY GLOBAL SUKUK COMPANY 2

(incorporated as an exempted company in the Cayman Islands with limited liability)

U.S.\$1,000,000,000 3.473 per cent. Certificates due 2023

U.S.\$1,000,000,000 5.06 per cent. Certificates due 2043

The U.S.\$1,000,000,000 3.473 per cent. Certificates due 2023 (the **2023 Certificates**) and the U.S.\$1,000,000,000 5.06 per cent. Certificates due 2043 (the **2043 Certificates**) and, together with the 2023 Certificates, the **Certificateholders** and each a **Series** of Saudi Electricity Global SUKUK Company 2 (the **Issuer**) will be constituted by a declaration of trust (the **Declaration of Trust**) dated 8 April 2013 (the **Closing Date**) entered into between Saudi Electricity Company (**SEC**), the Issuer, in its capacity as issuer and as trustee (the **Trustee**) for and on behalf of holders of the Certificates (the **Certificateholders**) and Deutsche Trustee Company Limited (the **Delegate**). Pursuant to the Declaration of Trust, the Trustee will declare that it will hold the Trust Assets (as defined herein) in respect of each Series upon trust absolutely for the Certificateholders of that Series *pro rata* according to the face amount of the relevant Certificates held by each such Certificateholder in accordance with the Declaration of Trust and the terms and conditions of the terms and conditions of such Certificates (in the case of the 2023 Certificates, the **2023 Conditions** and, in the case of the 2043 Certificates, the **2043 Conditions** and, together, (the **Conditions**).

On the eighth day of April and October in each year, commencing on 8 October 2013 (each a **Periodic Distribution Date**), the Issuer will pay Periodic Distribution Amounts (as defined herein) to the relevant Certificateholders, calculated at the rate of (i) in the case of the 2023 Certificates, 3.473 per cent. per annum on the outstanding face amount of the 2023 Certificates as at the beginning of the relevant Periodic Distribution Period (as defined herein), and (ii) in the case of the 2043 Certificates, 5.06 per cent. per annum on the outstanding face amount of the 2023 Certificates as at the beginning of the relevant Periodic Distribution Period, in each case on a 30/360 day basis.

The Issuer will pay such Periodic Distribution Amounts solely from the proceeds received in respect of the Trust Assets which include rental payments by SEC in its capacity as lessee (the **Lessee**) under the Ijara Agreement (as defined herein), which rental payments will be equal to the Periodic Distribution Amounts payable to the relevant Certificateholders on each Periodic Distribution Date.

Unless previously redeemed or cancelled in the circumstances described in Condition 10.2, Condition 10.3, Condition 10.4 and Condition 10.5, the 2023 Certificates will be redeemed on the Periodic Distribution Date falling on 8 April 2023 and the 2043 Certificates will be redeemed on the Periodic Distribution Date falling on 8 April 2043 (each a **Scheduled Dissolution Date**) at the Dissolution Distribution Amount (as defined herein). The Issuer will pay the Dissolution Distribution Amount solely from the proceeds received in respect of the Trust Assets which include payments by SEC under the relevant Purchase Undertaking (as defined herein).

The Certificates will be limited recourse obligations of the Issuer. An investment in the Certificates involves certain risks. Investors should carefully review the risks described herein under “Risk Factors”.

The Certificates have not been and will not be registered under the United States Securities Act of 1933 (the **Securities Act**) or with any securities regulatory authority of any state or other jurisdiction of the United States. The Certificates are being offered and sold outside the United States in accordance with Regulation S under the Securities Act (Regulation S), and may not be offered, sold or delivered within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Accordingly, the Certificates are being offered, sold or delivered: (a) to qualified institutional buyers (**QIBs**) (as defined in Rule 144A (**Rule 144A**) under the Securities Act) that are also Qualified Purchasers (**QPs** or **Qualified Purchasers**) as defined in Section 2(a)(51)(A) of the U.S. Investment Company Act of 1940, as amended (**the Investment Company Act**), in each case acting for their own account or the account of one or more QIBs who are also QPs in reliance on, and in compliance with, Rule 144A; and (b) to persons outside the United States in reliance on Regulation S. Each purchaser of the Certificates will be deemed to have made the representations described in “**Subscription and Sale**” and is hereby notified that the offer and sale of Certificates to it is being made in reliance on the exemption from the registration requirements of the Securities Act provided by Rule 144A. In addition, until 40 days after the commencement of the offering, an offer or sale of any of the Certificates within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if the offer or sale is made otherwise than in accordance with Rule 144A.

This Prospectus has been approved by the Central Bank of Ireland (the **Central Bank**), as competent authority under Directive 2003/71/EC, as amended (which includes the amendments made by Directive 2010/73/EU to the extent that such amendments have been implemented in a relevant Member State of the European Economic Area) (the **Prospectus Directive**). The Central Bank only approves this Prospectus as meeting the requirements imposed under Irish and EU law pursuant to the Prospectus Directive. Such approval only relates to the Certificates which are to be admitted to trading on a regulated market for the purposes of Directive 2004/39/EC on markets in financial instruments (the **Markets in Financial Instruments Directive**) and/or which are to be offered to the public in any Member State of the European Economic Area. Application has been made to the Irish Stock Exchange for the Certificates to be admitted to the Official List and trading on its regulated market (the **Main Securities Market**). The Main Securities Market is a regulated market for the purposes of the Markets in Financial Instruments Directive. References in this Prospectus to the Certificates being **listed** (and all related references) shall mean that the Certificates have been admitted to the Official List and trading on the Main Securities Market.

Each Series will be issued in registered form in minimum denominations of U.S.\$200,000 and integral multiples of U.S.\$1,000 in excess thereof. Each Series will initially be represented by two global certificates in registered form (the **Global Certificates**), one of which will be issued in respect of the Certificates (the **2023 Rule 144A Certificates** and the **2043 Rule 144A Certificates**, respectively, and together, the **Rule 144A Certificates**) offered and sold in reliance on Rule 144A (the **Restricted Global Certificate**) and will be registered in the name of Cede & Co., as nominee for the Depository Trust Company (**DTC**) and the other of which will be issued in respect of the Certificates (the **2023 Regulation S Certificates** and the **2043 Regulation S Certificates**, respectively, and together, the **Regulation S Certificates**) offered and sold in reliance on Regulation S (the **Unrestricted Global Certificate**) and will be registered in the name of BT Globenet Nominees Limited, as nominee of a common depository for Euroclear Bank SA/NV (**Euroclear**) and Clearstream Banking, société anonyme (**Clearstream, Luxembourg**). Interests in each Restricted Global Certificate will be subject to certain restrictions on transfer. See “**Transfer Restrictions**”. Beneficial interests in each Global Certificate will be shown on, and transfers thereof will be effected only through, records maintained by DTC, Euroclear and Clearstream, Luxembourg and their participants. It is expected that delivery of the Global Certificates will be made on the Closing Date by the Issuer and the Managers (as defined under “**Subscription and Sale**”). Definitive Certificates evidencing holdings of interests in the Certificates will be issued in exchange for interests in the relevant Global Certificate only in certain limited circumstances described herein.

Each Series of Certificates is expected to be assigned a rating of A1 by Moody's Investors Service Ltd. (**Moody's**), AA- by Standard & Poor's (Dubai) Limited (**S&P**) and a rating of AA- by Fitch Ratings Limited (**Fitch**). Each of Moody's, S&P and Fitch has rated SEC, see page 42.

Each of Fitch and Moody's is established in the European Union and is registered under Regulation (EC) No. 1060/2009 (as amended) (the **CRA Regulation**). As such, each of Fitch and Moody's is included in the list of credit rating agencies published by the European Securities and Markets Authority on its website in accordance with such Regulation. S&P is not established in the European Union and is not registered in accordance with the CRA Regulation. S&P is therefore not included in the list of credit rating agencies published by the European Securities and Markets Authority on its website in accordance with the CRA Regulation. A rating is not a recommendation to buy, sell or hold the Certificates (or beneficial interests therein), does not address the likelihood or timing of repayment and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisations. Please also refer to “**Credit Ratings may not reflect all risks**” in the Risk Factors section of this Prospectus.

The transaction structure relating to the Certificates (as described in this Prospectus) has been reviewed by HSBC Amanah Central **Shari'ah** Committee and Dr. Hussein Hamid Hassan, the **Shari'ah** advisor of Deutsche Bank AG, London Branch. Prospective Certificateholders should not rely on this review in deciding whether to make an investment in the Certificates and should consult their own **Shari'ah** advisers as to whether the proposed transaction is in compliance with **Shari'ah** principles.

Joint Lead Managers

Deutsche Bank

HSBC

Co-Manager

J.P. Morgan

IMPORTANT INFORMATION

This document constitutes a prospectus for the purposes of Article 5.3 of the Prospectus Directive.

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

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

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

No representation, warranty or undertaking, express or implied, is made and no responsibility accepted by the Managers or the Delegate as to the accuracy or completeness of the information contained in this Prospectus or any other information supplied in connection with the Certificates. Each person receiving the Prospectus acknowledges that such person has not relied on any of the Managers or the Delegate in connection with its investigation of the accuracy of such information or its investment decision and each person must rely on its own assessment of the Issuer, SEC or the Certificates. Nothing contained in this Prospectus is, or is to be construed as, or shall be relied on as a promise, warranty or representation, whether as to the past or future, by any of the Managers or the Delegate in any respect. To the fullest extent permitted by law, neither the Managers nor the Delegate accepts any responsibility whatsoever for the contents of this Prospectus. Each of the Managers and the Delegate accordingly disclaims all and any liability, whether arising in tort, contract or otherwise, which it might otherwise have in respect of this Prospectus.

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

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

No person is or has been authorised by the Issuer, SEC, the Managers or the Delegate to give any information or to make any representation not contained in or not consistent with this Prospectus or any other information supplied in connection with the offering of the Certificates and, if given or

made, such information or representation must not be relied upon as having been authorised by or on behalf of the Issuer, SEC, the Managers or the Delegate.

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

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

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

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

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

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

THE CERTIFICATES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION OR ANY OTHER SECURITIES COMMISSION OR OTHER REGULATORY AUTHORITY IN THE UNITED STATES, NOR HAVE THE FOREGOING AUTHORITIES REVIEWED OR PASSED UPON THE ACCURACY

OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENCE.

This Prospectus is being submitted on a confidential basis in the United States to a limited number of QIBs that are also QPs for informational use solely in connection with the consideration of the purchase of the Certificates. It may not be copied or reproduced in whole or in part nor may it be distributed or any of its contents disclosed to anyone other than the prospective investors to whom it is originally submitted.

Each purchaser or holder of interests in the Certificates will be deemed, by its acceptance or purchase of any such Certificates, to have made certain representations and agreements as set out in "*Subscription and Sale*".

AVAILABLE INFORMATION

The Issuer is not currently required to file periodic reports under Section 13 or 15 of the Exchange Act with the U.S. Securities and Exchange Commission. To permit compliance with Rule 144A in connection with any resales or other transfers of Certificates that are "restricted securities" within the meaning of the Securities Act, the Issuer has undertaken to furnish, upon the request of a holder of such Certificates or any beneficial interest therein, to such holder or to a prospective purchaser designated by him, the information required to be delivered under Rule 144A(d)(4) under the Securities Act if, at the time of the request, the Issuer is neither a reporting Company under Section 13 or 15(d) of the Exchange Act nor exempt from reporting pursuant to Rule 12g3-2(b) thereunder. Any such request should be directed to the Issuer.

NOTICE TO INVESTORS

NOTICE TO PROSPECTIVE INVESTORS IN THE UNITED STATES

THE CERTIFICATES ARE SUBJECT TO RESTRICTIONS ON TRANSFERABILITY AND RESALE AND MAY NOT BE TRANSFERRED OR RESOLD EXCEPT AS PERMITTED UNDER THE U.S. SECURITIES ACT AND APPLICABLE STATE SECURITIES LAWS PURSUANT TO REGISTRATION OR EXEMPTION THEREFROM. AS A PROSPECTIVE INVESTOR, YOU SHOULD BE AWARE THAT YOU MAY BE REQUIRED TO BEAR THE FINANCIAL RISKS OF THIS INVESTMENT FOR AN INDEFINITE PERIOD OF TIME. PLEASE REFER TO THE SECTIONS IN THIS PROSPECTUS ENTITLED “SUBSCRIPTION AND SALE” AND “TRANSFER RESTRICTIONS”.

NOTICE TO NEW HAMPSHIRE RESIDENTS

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF NEW HAMPSHIRE THAT ANY DOCUMENT FILED UNDER CHAPTER 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

NOTICE TO PROSPECTIVE INVESTORS IN THE UNITED KINGDOM

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

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

NOTICE TO PROSPECTIVE INVESTORS IN THE KINGDOM OF SAUDI ARABIA

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

NOTICE TO PROSPECTIVE INVESTORS IN THE CAYMAN ISLANDS

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

NOTICE TO RESIDENTS OF MALAYSIA

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

NOTICE TO RESIDENTS OF THE STATE OF QATAR

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

NOTICE TO PROSPECTIVE INVESTORS IN BAHRAIN

In relation to investors in the Kingdom of Bahrain, securities issued in connection with this Prospectus and related offering documents may only be offered in registered form to existing account holders and accredited investors as defined by the Central Bank of Bahrain (**CBB**) in the Kingdom of Bahrain where such investors make a minimum investment of at least US\$ 100,000, or any equivalent amount in other currency or such other amount as the CBB may determine.

This offer does not constitute an offer of securities in the Kingdom of Bahrain in terms of Article (81) of the Central Bank and Financial Institutions Law 2006 (decree Law No. 64 of 2006). This prospectus and related offering documents have not been and will not be registered as a prospectus with the CBB. Accordingly, no securities may be offered, sold or made the subject of an invitation for subscription or purchase nor will this prospectus or any other related document or material be used in connection with any offer, sale or invitation to subscribe or purchase securities, whether directly or indirectly, to persons in the Kingdom of Bahrain, other than to accredited investors for an offer outside Bahrain.

The CBB has not reviewed, approved or registered the Prospectus or related offering documents and it has not in any way considered the merits of the securities to be offered for investment, whether in or outside the Kingdom of Bahrain. Therefore, the CBB assumes no responsibility for the accuracy and completeness of the statements and information contained in this document and expressly disclaims any liability whatsoever for any loss howsoever arising from reliance upon the whole or any part of the content of this document. No offer of securities will be made to the public in the Kingdom of Bahrain and this Prospectus must be read by the addressee only and must not be issued, passed to, or made available to the public generally.

CERTAIN PUBLICLY AVAILABLE INFORMATION

Certain statistical data and other information appearing in this Prospectus under “*Kingdom of Saudi Arabia*” have been extracted from public sources identified herein. None of the Issuer, SEC or the Managers accepts responsibility for the factual correctness of any such statistics or information but the Issuer and SEC confirm that such statistics and information have been accurately reproduced and that, so far as the Issuer and SEC are aware and have been able to ascertain from statistics and information published by those public sources, no facts have been omitted which would render the reproduced statistics and information inaccurate or misleading.

FORWARD-LOOKING STATEMENTS

This Prospectus contains “forward-looking statements” within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act. For the SEC Group, particular uncertainties arise from unanticipated loss of power generation and from numerous other matters of national, regional and global scale, including those of a political, economic, business, competitive or regulatory nature.

The words “anticipate”, “estimate”, “expect”, “believe”, “intend”, “plan”, “may”, “will”, “should” and any similar expressions to identify forward-looking statements may be used herein. Prospective purchasers of the Notes are cautioned that actual results could differ materially from those anticipated in forward-looking statements. The forward-looking statements contained in this Prospectus are largely based on SEC’s expectations, which reflect estimates and assumptions made by SEC’s management. These estimates and assumptions reflect SEC’s best judgment based on currently known market conditions and other factors, some of which are discussed below. Although SEC believes such estimates and assumptions to be reasonable, they are inherently uncertain and involve a number of risks and uncertainties that are beyond its control. In addition, assumptions about future events may prove to be inaccurate. We caution prospective purchasers of the Certificates that the forward-looking statements contained in this Prospectus are not guarantees of outcomes of future performance, and SEC cannot assure any prospective purchasers of the Certificates that such statements will be realised or the forward-looking events and circumstances will occur.

By their very nature, forward-looking statements involve inherent risks and uncertainties, both general and specific, many of which are beyond our control, and risks exist that the predictions, forecasts, projections and other forward-looking statements will not be achieved. These risks, uncertainties and other factors include, among other things, those described in the section headed “*Risk Factors*”, as well as those included elsewhere in this Prospectus, and they include:

- The Issuer has a limited operating history and no material assets and is dependent upon the performance by SEC of its obligations under the Transaction Documents to which it is a party;
- SEC’s obligations under the Transaction Documents and other financing arrangements do not benefit from any Government guarantee or other legally enforceable Government backing;
- SEC may not be able to obtain sufficient funding to finance and may be subject to increased financing risk as a result of undertaking increased indebtedness in connection with its planned capital expenditures programme and indebtedness;
- Continued disruptions in the global financial markets may adversely affect the SEC Group and its ability to secure financing;
- The SEC Group’s capital expenditure program is subject to various development and construction risks;

- The SEC Group is reliant upon skilled personnel in the engineering and technical fields and may not be able to recruit and retain qualified personnel;
- Electricity tariffs in the Kingdom are set by a regulatory authority and, as a result, may not reflect any increases in the cost of production;
- The SEC Group is dependent on a single third-party supplier of fuel at prices set by the Government, increases in which may not be reflected in the Government-set tariffs at which SEC is able to charge;
- The SEC Group may be subject to increased prices for any additional electricity it may be required to purchase, which may not be reflected in the tariffs that it is permitted to charge for the supply of electricity;
- The SEC Group has benefitted from significant Government support, and any reduction or delay in the level of support provided to the SEC Group could significantly and adversely affect its business, results of operations and financial condition;
- The SEC Group's counterparties may default on their contractual obligations which may result in materially increased costs or losses for the SEC Group;
- The SEC Group may experience increased costs and operational inefficiency as a result of too much capacity, if demand for electricity in the Kingdom does not increase at the rates assumed by SEC;
- Restrictive covenants included in certain of SEC's financing arrangements could materially adversely impact its ability to raise financing in the future;
- The SEC Group's power generation facilities may experience equipment failures or may otherwise not operate as planned;
- The SEC Group's facilities and operations may be adversely affected by terrorist attacks, natural disasters or other catastrophic events over which the SEC Group has no control;
- The SEC Group may not be able to maintain sufficient insurance coverage for the risks associated with the operation of its business;
- SEC Group companies may be subject to liabilities as a result of any violation of applicable regulations affecting the electricity industry in the Kingdom, including environmental and safety standards;
- SEC is majority-owned by the Government whose interests may, in certain circumstances, not be aligned with the interests of Certificateholders;
- The SEC Group is subject to economic and political conditions in the Middle East, in general, and in the Kingdom, in particular;
- Legislative and regulatory changes in the Kingdom may adversely affect SEC's operations; and
- The Kingdom's economy and the Government's budget are highly dependent upon revenues from oil.

Prospective purchasers of the Certificates should be aware that a number of important factors could cause actual results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements.

Prospective purchasers of the Certificates should not place undue reliance on forward-looking statements and should carefully consider the foregoing factors and other uncertainties and events, especially in light of the political, economic, social and legal environment in which we operate. Such forward-looking statements speak only as of the date on which they are made. Accordingly, we do not undertake any obligation to update or revise any of them, whether as a result of new information, future events or otherwise. We do not make any representation, warranty or prediction that the results anticipated by such forward-looking statements will be achieved and such forward-looking statements represent, in each case, only one of many possible scenarios and should not be viewed as the most likely or standard scenario. These cautionary statements qualify all forward-looking statements attributable to us or persons acting on our behalf.

STABILISATION

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

MARKET AND INDUSTRY DATA

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

Terms and definitions used in this Prospectus have the meanings set forth below.

Btu means British Thermal Unit, which is a standard unit of measurement used to denote the amount of heat energy in fuels, and is the amount of energy needed to heat one pound of water by one degree Fahrenheit.

c.km means circuit kilometres.

GW means gigawatt, which is equal to 1,000 MW.

GWh means gigawatt-hour, representing one hour of electricity consumption at a constant rate of 1GW.

KW means kilowatt, representing the rate at which energy is produced.

KWh means kilowatt-hour, representing one hour of electricity consumption at a constant rate of 1KW.

KVA means kilovolt-ampere, which is equal to 1,000 VA.

MMBtu represents one million Btu.

MW means megawatt, which is equal to 1,000KW.

MWh means megawatt-hour, representing one hour of electricity consumption at a constant rate of 1MW.

VA means volt-ampere which is the unit used for apparent power in an electrical circuit.

PRESENTATION OF FINANCIAL INFORMATION

Unless otherwise indicated, the balance sheet, statement of income and cash flow financial information included in this Prospectus relating to the SEC Group has been derived:

- in the case of the years ended 31 December 2011 and 2012, from the audited financial statements of the SEC Group as at and for the financial year ended 31 December 2012 (including the comparative information as at and for the financial year ended 31 December 2011) (the **2012 Financial Statements**); and

- in the case of the year ended 31 December 2010, from the audited financial statements of SEC as at and for the financial year ended 31 December 2011 (including the comparative information as at and for the financial year ended 31 December 2010) (the **2011 Financial Statements** and, together with the 2012 Financial Statements, the **Financial Statements**).

The Financial Statements have been prepared in accordance with accounting standards issued by the Saudi Organisation for Certified Public Accountants (**SOCPA**) (**Saudi GAAP**). Saudi GAAP differs in certain significant respects from International Financial Reporting Standards (**IFRS**), see “*Summary of significant differences between Saudi GAAP and IFRS*”. The Financial Statements have been audited by Ernst & Young in accordance with generally accepted auditing standards in the Kingdom (**Saudi Auditing Standards**).

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

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

Certain figures and percentages in this Prospectus 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 that precede them.

In the 2012 Financial Statements, SEC has:

- consolidated certain wholly-owned subsidiaries that were not previously consolidated in the 2011 Financial Statements (because they were not then considered material) and, as a result, has (in the 2012 Financial Statements) adjusted the comparative figures in the balance sheet and statement of cash flows for 2011 in accordance with Saudi GAAP to reflect this adjustment;
- reclassified certain balances included within “Prepayments and other receivables, net” and within “Accounts payable” with corresponding reclassification adjustments being made in the comparative figures in the balance sheet for 2011 included within the 2012 Financial Statements;
- separately presented certain revenue as “Other operating revenue” rather than including it under “Electricity connection tariff”, due to an increase in these revenue streams. As a result, SEC has (in the 2012 Financial Statements) adjusted the comparative figures in the income statement for 2011 in accordance with Saudi GAAP to reflect this change in presentation;
- reflecting the transfer of the SEC Group’s transmission business to a new wholly-owned subsidiary with effect from 1 January 2012, reclassified certain costs which had previously been considered operations and maintenance costs of the transmission business unit to general and administrative costs of the new transmission subsidiary and, as a result, has (in the 2012 Financial Statements) adjusted the comparative figures in the income statement for 2011 in accordance with Saudi GAAP to reflect this reclassification; and
- reflecting a significant number of general and administrative staff ceasing to be employed by the SEC Group as a result of a productivity programme, separately recorded the expenses of this programme under “Human resources productivity improvement programme” which resulted in the transfer of certain expenses previously included under “General and administrative expenses” to this new line item. As a result, SEC has (in the 2012 Financial Statements) adjusted the comparative figures in the income statement for 2011 in accordance with Saudi GAAP to reflect this change in presentation.

The impact of these accounting changes is reflected in the table below.

| | As at 31 December | | Net change |
|---|---|---|-------------------|
| | Audited figure for 2011 in the 2011 Financial Statements | Comparative figure for 2011 in the 2012 Financial Statements | |
| | <i>(SAR millions)</i> | | |
| Balance Sheet | | | |
| Cash and cash equivalents ⁽¹⁾ | 7,305 | 7,307 | 2 |
| Prepayments and other receivables, net ⁽²⁾ | 4,848 | 4,854 | 6 |
| Equity investments in companies and others ⁽¹⁾ | 2,406 | 2,405 | (1) |
| Accounts payables ⁽²⁾ | 26,235 | 26,241 | 6 |
| Statement of Income | | | |
| | <i>(SAR millions)</i> | | |
| Electricity connection tariff ⁽³⁾ | 1,406 | 1,331 | (75) |
| Other operating revenues ⁽³⁾ | — | 76 | 76 |
| Operations and maintenance cost of sales ⁽³⁾ | (8,438) | (8,239) | (199) |
| General and administrative expenses ^{(4) (5)} | (360) | (435) | 75 |
| Human resources productivity improvement programme ⁽⁵⁾ | — | (125) | 125 |
| Statement of Cash Flows | | | |
| | <i>(SAR millions)</i> | | |
| Cash flows from operating activities | | | |
| Prepayments and other receivables ⁽⁶⁾ | (1,191) | (1,218) | (27) |
| Accounts payable ⁽⁶⁾ | (4,359) | (4,365) | (6) |
| Cash flows used in investing activities | | | |
| Equity investment in companies and others ⁽⁷⁾ | (152) | (151) | 1 |

Notes:

- (1) Adjustment made as a result of the decision to consolidate additional subsidiaries.
- (2) Adjustment made to reflect certain reclassifications of balances.
- (3) Presentation change. The two line items were consolidated within “Electricity connection tariff” in the 2011 Financial Statements.
- (4) Adjustment made as a result of the separation of the transmission business into a separate subsidiary.
- (5) Presentation change. “Human resources productivity improvement programme” figures were consolidated within “General and administrative expenses” in the 2011 Financial Statements.
- (6) Adjustment made to reflect certain reclassifications of balances.
- (7) Adjustment made as a result of the decision to consolidate additional subsidiaries.

In the Prospectus, the financial information for the year ended 31 December 2010 has been extracted from the comparative column of the 2011 Financial Statements, and does not reflect the reclassification discussed above.

The financial information in the comparative column of the 2011 Financial Statements does however reflect certain reclassifications to the financial information contained in the financial statements as at and for the year ended 31 December 2010 which were audited by Deloitte & Touche Bakr. Abulhair & Co (the “2010 Financial Statements”).

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

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

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

As there is no accounting standard applicable to account for hedging transactions under Saudi GAAP, Saudi companies are required to adopt the applicable International Accounting Standard in the absence of such a standard. Accordingly, SEC adopted certain provisions of IAS 39 in 2011 relevant to the accounting treatment of hedging transactions. This was also applied retroactively for the year ended 31 December 2010 and is reflected in the comparative 2010 figures included in the 2011 Financial Statements. The 2011 Financial Statements therefore include the fair value of SEC's derivative financial instruments in respect of hedging contracts related to fixed versus floating interest rate swaps.

CURRENCY INFORMATION

In this Prospectus, references to:

- **U.S.\$** or **U.S. dollars** refer to the lawful currency of the United States of America; and
- **SAR** or **Saudi Arabian riyals** refer to the lawful currency of the Kingdom of Saudi Arabia. The reporting currency of SEC is Saudi Arabian riyals and its share capital is denominated in Saudi Arabian riyals.

Since 2003, the Saudi Arabian riyal has officially been pegged to the U.S. dollar at SAR 1.00 to U.S.\$0.2667.

ENFORCEMENT OF JUDGMENTS AND SERVICE OF PROCESS

SEC is incorporated pursuant to Royal Decree No. M/16 dated 06/09/1420H (corresponding to 13/12/1999G) as a joint stock company under the laws of the Kingdom of Saudi Arabia. Its commercial registration number is 1010158683 and its headquarters is in Riyadh, the Kingdom of Saudi Arabia. Its address is Al-Faysalyah Tower – King Fahd Road, P.O. Box 22955, Riyadh 11416, Kingdom of Saudi Arabia, and its telephone number is +966 1 461 9000. The issuer is Saudi Electricity Global SUKUK Company 2, a Cayman Islands exempted company with limited liability, which was incorporated on 18 February 2013 under Companies Law (as amended) of the Cayman Islands. Its company registration number is 275530. The registered office of the Issuer is at c/o Intertrust SPV (Cayman) Limited, 190 Elgin Avenue, George Town, Grand Cayman KY1-9005, Cayman Islands, and its telephone number is +1 345 943 3100. A substantial portion of the Issuer's and SEC's assets are located in jurisdictions outside the United Kingdom and the United States. As a result, prospective investors may have difficulties effecting service of process in the United Kingdom or the United States upon SEC in connection with any arbitration process or lawsuits related to the Certificates or the Transaction Documents (as defined below), including actions arising under the laws of England or the federal securities laws of the United States.

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

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

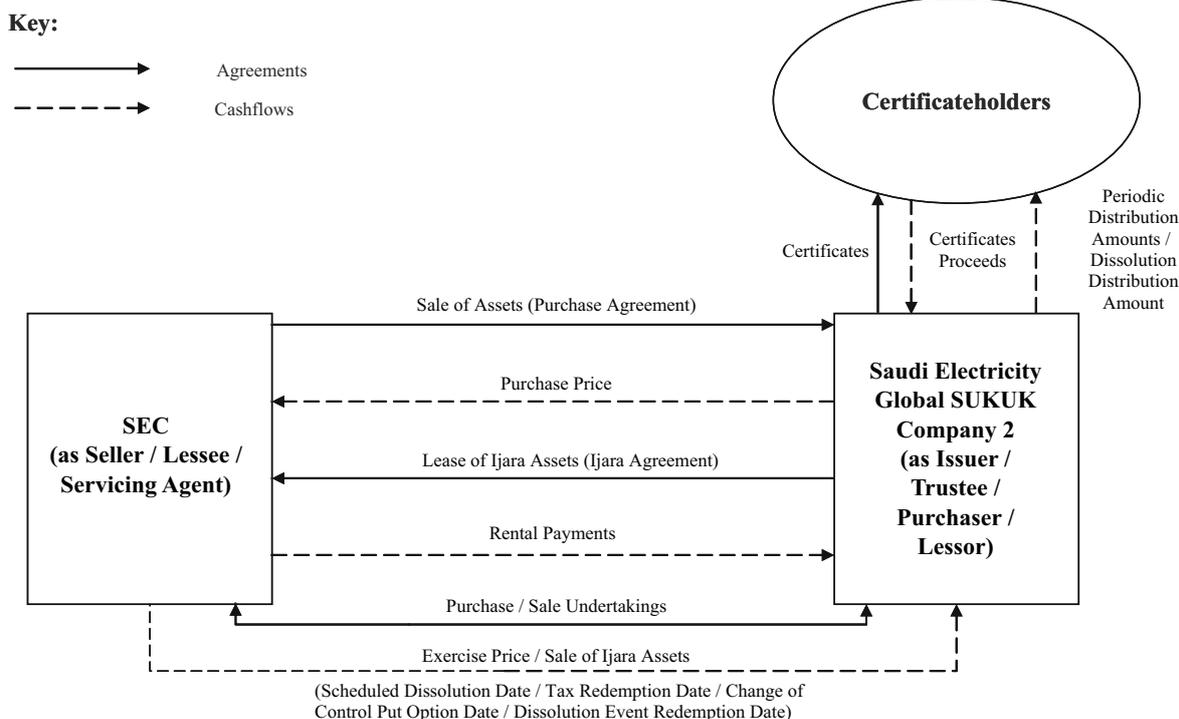
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OVERVIEW OF THE OFFERING

STRUCTURE DIAGRAM AND CASHFLOWS

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



Purchase of Assets and Ijara

On the Issue Date of each Series, the relevant Certificateholders will pay the issue price in respect of the Certificates to the Issuer, which will hold such proceeds of the issue of the Certificates as Trustee.

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

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

Redemption of the Certificates

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

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

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

OVERVIEW OF THE CERTIFICATES

The following overview does not purport to be complete and is taken from, and is qualified in its entirety by, the remainder of this Prospectus. This overview may not contain all of the information that prospective investors should consider before deciding to invest in the Certificates. Accordingly, any decision by a prospective investor to invest in the Certificates should be based on a consideration of this Prospectus as a whole. Words and expressions defined in “Terms and Conditions of the 2023 Certificates” and “Terms and Conditions of the 2043 Certificates” shall have the same meanings in this overview.

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| Description of Certificates: | U.S.\$1,000,000,000 3.473 per cent. Certificates due 2023 and U.S.\$1,000,000,000 5.06 per cent. Certificates due 2043. |
| Issuer and Trustee: | Saudi Electricity Global SUKUK Company 2, as issuer of the Certificates and trustee for and on behalf of the Certificateholders, an exempted company with limited liability incorporated on 18 February 2013 in accordance with the Companies Law (as amended) and formed and registered in the Cayman Islands with company registration number 275530 with its registered office at c/o Intertrust SPV (Cayman) Limited, 190 Elgin Avenue, George Town, Grand Cayman KY1-9005, Cayman Islands. The Issuer has been incorporated solely for the purpose of participating in the transactions contemplated by the Transaction Documents to which it is a party. |
| Ownership of the Issuer: | The authorised share capital of the Issuer is U.S.\$50,000.00 consisting of 50,000 ordinary shares of U.S.\$1.00 par value each, of which 1 ordinary share of U.S.\$1.00 par value has been issued. The sole issued share is fully paid and held by SEC as at the date of this Prospectus. |
| Administration of the Issuer: | The affairs of the Issuer are managed by Intertrust SPV (Cayman) Limited (the Issuer Administrator), who will provide, amongst other things, corporate administrative services, director services and prepare the annual financial statements of the Issuer pursuant to the corporate services agreement dated on or about 28 March 2013 between, <i>inter alia</i> , the Issuer and the Issuer Administrator (the Corporate Services Agreement). |
| Seller: | SEC (in its capacity as the Seller) will sell to the Trustee (in its capacity as the Purchaser) pursuant to the Purchase Agreement in respect of each Series the relevant Ijara Assets. |
| Lessee: | SEC (in its capacity as the Lessee) will lease from the Trustee (in its capacity as the Lessor) the relevant Ijara Assets for a 10 year term in respect of the 2023 Certificates and a 30 year term in respect of the 2043 Certificates and in each case, will pay rent to the Trustee |

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| | on a semi annual basis pursuant to the relevant Ijara Agreement. The rent is intended to fund the Periodic Distribution Amounts payable by the Issuer in respect of the Certificates of each Series. |
| Servicing Agent: | SEC (in its capacity as Servicing Agent) for and on behalf of the Trustee (in its capacity as the Lessor) will be responsible for insuring the Ijara Assets relating to each Series, paying proprietary and other taxes and performing all major maintenance and structural repairs. |
| SEC: | In accordance with the Purchase Undertaking in respect of each Series, SEC shall, at the option of the Trustee, be required to purchase all of the Trustee's rights, title, interests, benefits and other entitlements in and to the relevant Ijara Assets on the Scheduled Dissolution Date, or following the occurrence of a Dissolution Event or a Change of Control. In accordance with the Sale Undertaking in respect of each Series, SEC shall have the right to require the Trustee to sell to SEC all of its rights, title, interests, benefits and other entitlements in and to the relevant Ijara Assets following the occurrence of a Tax Event. |
| Delegate: | Deutsche Trustee Company Limited. In accordance with the Declaration of Trust, the Trustee will unconditionally and irrevocably appoint the Delegate to be its attorney and to exercise certain future duties, powers, authorities and discretions vested in the Trustee by certain provisions of the Declaration of Trust in accordance with the terms of the Declaration of Trust. |
| Joint Bookrunners and Joint Lead Managers: | Deutsche Bank AG, London Branch and HSBC Bank plc. |
| Co-Manager: | J.P. Morgan Securities plc. |
| Principal Paying Agent and Replacement Agent: | Deutsche Bank AG, London Branch |
| Paying Agent: | Deutsche Bank Trust Company Americas |
| Registrars and Transfer Agents: | <i>In respect of the Rule 144A Certificates:</i> Deutsche Bank Trust Company Americas <i>In respect of the Regulation S Certificates:</i> Deutsche Bank Luxembourg S.A. |
| Issue Date: | 8 April 2013 |
| Issue Amount: | U.S.\$1,000,000,000 in respect of the 2023 Certificates and U.S.\$1,000,000,000 in respect of the 2043 Certificates. |
| Issue Price: | 100 per cent. of the aggregate face amount of the Certificates. |
| Periodic Distribution Dates and Amounts: | Payable semi-annually, on the eighth day of each April and October in each year, commencing on 8 October 2013, Certificateholders will receive, from monies received in respect of the relevant Trust Assets, a Periodic Distribution Amount calculated at the rate of (i) in the case of the 2023 Certificates, 3.473 per cent. per annum on the outstanding face amount of the 2023 Certificates as at the beginning of the relevant Periodic Distribution Period, and (ii) in the case of the 2043 Certificates, 5.06 per cent. per annum on the outstanding face amount of the 2043 Certificates as at the beginning of the relevant Periodic Distribution Period, in each case on a 30/360 day basis. |
| Periodic Distribution Period: | The period from (and including) a Periodic Distribution Date (or, in the case of the first Periodic Distribution Period, from, and including, the Closing Date) to (but excluding) the next (or, in the case of the first Periodic Distribution Date, first) Periodic Distribution Date. |

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| Dissolution on the Scheduled Dissolution Date: | The Scheduled Dissolution Date is 8 April 2023 in respect of the 2023 Certificates and 8 April 2043 in respect of the 2043 Certificates. Upon receipt by the Trustee of the Exercise Price payable pursuant to the terms of the relevant Purchase Undertaking, that Exercise Price will be applied to redeem the relevant Certificates at the Dissolution Distribution Amount. |
| Dissolution Distribution Amount: | In relation to each Series, the aggregate outstanding face amount of the Certificates of that Series plus a U.S. dollar amount equal to all accrued and unpaid Periodic Distribution Amounts in respect of such Certificates. |
| Status of the Certificates: | Each Certificate evidences an undivided beneficial ownership interest of the Certificateholders in the Trust Assets in respect of the relevant Series, subject to the terms of the relevant Transaction Documents and Conditions, and is a direct, unsubordinated, unsecured and limited recourse obligation of the Issuer. Each Certificate will at all times rank <i>pari passu</i> , without any preference or priority, with all other Certificates of the relevant Series. |
| Limited Recourse: | No payment of any amount whatsoever shall be made in respect of the Certificates except to the extent that funds for that purpose are available from the relevant Trust Assets. Certificateholders of a Series have no recourse to any assets (other than the Trust Assets in respect of that Series) of the Issuer, the Trustee or SEC (to the extent that it fulfils all of its obligations under the Transaction Documents in relation to the relevant Series to which it is a party) or the Delegate or any Agent or any of their respective affiliates in respect of any shortfall in the expected amounts from the relevant Trust Assets to the extent the relevant Trust Assets have been enforced, realised and fully discharged, following which all obligations of the Issuer, the Trustee, the Delegate and their respective directors and agents shall be extinguished. |
| Use of Proceeds: | The net proceeds of the issue of the Certificates of each Series, of approximately U.S.\$998,875,000, in the case of the 2023 Certificates and approximately U.S.\$998,875,000 in the case of the 2043 Certificates, will be used by the Trustee as the purchase price to be paid to SEC on the Closing Date for the purchase of the Ijara Assets relating to each Series. |
| Summary of the Transaction Structure and Documents: | An overview of the structure of the transaction and the principal cashflows is set out under “ <i>Overview of the Offering – Structure Diagram and Cashflows</i> ” and a description of the principal terms of the Transaction Documents is set out under “ <i>Summary of the Principal Transaction Documents</i> ”. |
| Negative Pledge: | The Certificates will have the benefit of a negative pledge granted by SEC, as described in Condition 5. |
| Cross-Default: | In respect of SEC, the Certificates will have the benefit of a cross-default provision, as described in Condition 14. |
| The Trust Assets: | Pursuant to the Declaration of Trust, the Issuer will declare that it will hold the Trust Assets in respect of each Series for the benefit of the Certificateholders of that Series as Trustee, consisting of: <ul style="list-style-type: none"> (a) all of the Trustee’s rights, title, interests, benefits and other entitlements, present and future, in, to and under the Ijara Assets relating to that Series; |

- (b) all of the Trustee's rights, title, interests, benefits and other entitlements, present and future, in, to and under the Transaction Documents of that Series excluding any representations given to the Trustee by SEC pursuant to any of these Transaction Documents;
- (c) all monies standing to the credit of the relevant Transaction Account; and
- (d) all proceeds of the foregoing.

Early Dissolution of the Trust:

Other than as a result of the occurrence of a Dissolution Event, a Tax Event or a Change of Control, the Trust will not be subject to dissolution, and the Certificates will not be redeemed, prior to the Scheduled Dissolution Date.

Dissolution Events:

The Dissolution Events are described in Condition 14. Following the occurrence of a Dissolution Event which is continuing, the Certificates may be redeemed in full at an amount equal to the Dissolution Distribution Amount in the manner described in Condition 14.

Early Dissolution for Tax Reasons:

Where the Issuer has or will become obliged to pay any additional amounts in respect of the Certificates as a result of a change in the laws of the Cayman Islands or the Issuer has received notice from SEC that SEC has or will become obliged to pay any additional amounts pursuant to the terms of the relevant Ijara Agreement and as a result of a change in the laws of the Kingdom, and such obligation cannot be avoided by the Issuer or SEC, as applicable, taking reasonable measures available to it, the Issuer will, following receipt of an Asset Exercise Notice under the relevant Sale Undertaking, redeem the relevant Certificates in whole but not in part at an amount equal to the Dissolution Distribution Amount on the relevant Tax Redemption Date.

Change of Control Put Option:

Upon the occurrence of a Change of Control and provided that an Asset Exercise Notice has been served on the Issuer by Certificateholders of a Series holding at least one-quarter of the then aggregate face amount of the relevant Certificates outstanding of that Series, Certificateholders may elect to redeem their Certificates on the Change of Control Put Option Date at an amount equal to the Dissolution Distribution Amount in accordance with Condition 10.3. Under the terms of each Purchase Undertaking, SEC has granted to the Trustee the right, following the Change of Control and the service by Certificateholders of the relevant Series of a Change of Control Exercise Notice, to require SEC to purchase all of the Trustee's rights, title, interests, benefits and other entitlements in and to the relevant Ijara Assets at the Dissolution Distribution Amount specified in the Asset Exercise Notice.

A **Change of Control** shall occur if at any time:

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

Total Loss Event:

The occurrence of a Total Loss Event will result in the redemption of the Certificates of that Series and the consequent dissolution of the relevant Trust. The Servicing Agent is responsible for ensuring that the Ijara Assets relating to each Series are properly insured. If a Total Loss Event occurs, the Servicing Agent undertakes to ensure that all insurance proceeds in respect thereof are paid directly into the relevant Transaction Account by no later than the thirtieth (30th) day after the occurrence of the Total Loss Event.

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

Asset Substitution:

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

Enforcement:

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

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

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

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

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

Role of the Delegate:

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

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

Form and Delivery of the Certificates:

The Certificates will be issued in registered global form only.

The Regulation S Certificates of each Series will be represented on issue by beneficial interests in an Unrestricted Global Certificate which will be deposited with a common depository for Euroclear and Clearstream, Luxembourg. The Rule 144A Certificates of each Series will be represented on issue by beneficial interests in the a Restricted Global Certificate which will be deposited with a custodian for DTC. Ownership interests in each Global Certificate will be shown on, and transfers thereof will only be effected through, records maintained by Euroclear, Clearstream, Luxembourg and DTC (as applicable) and their respective participants. See “*Global Certificates*” and “*Clearance and Settlement*”. Definitive Certificates evidencing holdings of Certificates will be issued in exchange for interests in the relevant Global Certificate only in limited circumstances.

Denomination of Certificates:

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

Clearance and Settlement:

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

Transaction Account:

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

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

Priority of Distributions:

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

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

Withholding Tax:

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

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

Listing:

Application has been made to the Irish Stock Exchange for the Certificates to be admitted to the Official List and trading on the Main Securities Market.

Certificateholder Meetings:

A summary of the provisions for convening meetings of Certificateholders to consider matters relating to their interests as such is set out in Condition 18.

Tax Considerations:

See the section entitled “*Taxation and Zakat*” for a description of certain tax considerations applicable to the Certificates.

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

RISK FACTORS

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

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

Prospective investors should also read the detailed information set out elsewhere in this Prospectus and reach their own views prior to making any investment decision. Words and expressions defined in “Terms and Conditions of the 2023 Certificates” and “Terms and Conditions of the 2043 Certificates” shall have the same meanings in this section.

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

RISK FACTORS RELATING TO THE ISSUER

The Issuer has a limited operating history and no material assets and is dependent upon the performance by SEC of its obligations under the Transaction Documents to which it is a party

The Issuer is a newly established exempted company with limited liability under the laws of the Cayman Islands and has no operating history. The Issuer will not engage in any business activity other than the issuance of the Certificates, the acquisition of the Trust Assets as described herein, acting as a trustee and other incidental or related activities.

The Issuer’s only material assets, which it will hold on trust for the Certificateholders, will be the Trust Assets, including its right to receive payments under the Ijara Agreement and the Purchase Undertaking.

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

Recourse to the Issuer in respect of the Certificates is limited to the Trust Assets. For a further description of the risks associated with this limited recourse arrangement and of certain risks affecting the Trust Assets, see “– Risk factors relating to the Certificates”.

The Issuer has not registered, and will not register, as an “investment company” under the Investment Company Act.

The Issuer will seek to qualify for an exemption from the definition of “investment company” under the Investment Company Act and will not register as an investment company in the United States under the Investment Company Act. The Investment Company Act provides certain protections to investors and imposes certain restrictions on registered investment companies, none of which will be applicable to the Issuer or its investors.

RISK FACTORS RELATING TO THE SEC GROUP AND ITS BUSINESS

SEC’s obligations under the Transaction Documents and other financing arrangements do not benefit from any direct or indirect Government guarantee or other legally enforceable Government backing

Although the Government of the Kingdom of Saudi Arabia (the **Government**) is a significant direct and indirect shareholder of SEC, SEC’s financial obligations (including its financial obligations under the Transaction Documents) are not directly or indirectly guaranteed by the Government, the shareholders of SEC or any other person and do not benefit from any legally enforceable

Government backing. In addition, although the Government has provided SEC with significant financial support in the past and SEC expects to require substantial additional financial support to carry out its capital expenditure plan, the Government is under no obligation to extend financial support to SEC in the future. Accordingly, SEC's financial obligations, including its obligations under the Transaction Documents, are not, and should not be regarded as, obligations of the Government.

SEC's ability to make the payments under the Transaction Documents that are necessary for the Issuer to pay amounts due on the Certificates is solely dependent on SEC's ability to fund such obligations from its operating cash flows, borrowings and/or Government support. Therefore, any decline in such operating cash flows or any difficulty in securing external funding at a time when sufficient Government support is not available, may materially adversely affect SEC's ability to make the relevant payments under the Transaction Documents to which it is a party in order for the Issuer to pay amounts due on the Certificates.

The SEC Group has benefitted from significant Government support, and any reduction or delay in the level of support provided to the SEC Group could significantly and adversely affect its business, results of operations and financial condition

The SEC Group has historically benefitted from significant Government support in the form of subsidised loans, the waiver of certain dividends, higher tariffs for electricity supplied to Governmental customers, the provision of subsidised fuel through Saudi Aramco, the assumption by the Government of certain payables due to Saudi Aramco in respect of supplied fuel, the granting of certain rights of way to SEC and the ability to defer significant payments to Saudi Aramco, SWCC and certain Government-related entities (see "*Description of SEC's business – Relationship with the Government*"). These arrangements are subject to change at any time, and there is no guarantee that this significant level of Government support will continue. Given the importance of this Government support to SEC's business, any change or delay in the level of Government support provided could result in a material adverse effect on the SEC Group's business, results of operations and financial condition and may affect SEC's ability to satisfy its obligations to make the relevant payments under the Transaction Documents to which it is a party in order for the Issuer to pay the amounts due under the Certificates.

In particular, during 2010 and 2011, SAR 40,959 million in accounts payable for fuel supplied to SEC by Saudi Aramco in respect of the period from SEC's incorporation to 31 December 2009 were transferred to the Government and recorded as long-term Government payables, pursuant to the minutes of the meeting of the Council of Ministers dated 15/05/1427H (corresponding to 11/06/2006G) and 06/02/1433H (corresponding to 31/12/2011G) and the Council of Ministers' Resolution no. 277. At 31 December 2012, SEC had SAR 34,509 million of accounts payable, 47.1 per cent. of which represented payments due to Saudi Aramco. There is no guarantee that the Government will also assume payment of these (or any future) accounts payable due to Saudi Aramco.

In addition, SEC ratings are currently dependent, in significant part, on the support provided by the Government to SEC. Any perception by a rating agency that such support has or is likely to weaken could result in SEC's ratings being downgraded which could adversely affect its ability to raise financing or increase the cost to it of any financing raised. This, in turn, would be likely to adversely affect its ability to complete its capital expenditure programme and could make it more difficult for the SEC Group to refinance existing financings when they fall due to be repaid, each of which would also adversely affect the SEC Group's business, financial condition and results of operations and may affect SEC's ability to satisfy its obligations to make the relevant payments under the Transaction Documents to which it is a party in order for the Issuer to pay the amounts due under the Certificates.

In addition, certain of SEC's borrowings require it to maintain a rating from at least two of the three major rating agencies that is proximate to that of the Kingdom. A downgrading of SEC's rating to more than two rating levels below that of the Kingdom would breach this covenant which could have materially adverse consequences for SEC, see "*– Restrictive covenants included in certain of SEC's financing arrangements could materially adversely impact its ability to raise financing in the future*".

SEC is majority-owned by the Government whose interests may, in certain circumstances, not be aligned with the interests of Certificateholders

As the majority owner of SEC, the Government has the ability to significantly influence SEC's business through its ability to control decisions and actions of SEC that require shareholder approval as well as its ability to control the composition of SEC's board of directors (the **Board**) and thus

influence Board decisions. The interests of the Government may be different from those of SEC's creditors and other stakeholders (including the Certificateholders). For example, the Government's key objective is to ensure the stable supply of electricity to the Kingdom's residents and businesses at affordable costs rather than the optimisation of the SEC Group's revenue and profits. As a result, the interests of the Government may conflict with SEC's objectives as a commercial enterprise, and there can be no assurance that the Government will not take any action to further its own objectives which may be in conflict with the interests of SEC or the Certificateholders. Any such actions by the Government may adversely affect the SEC Group's business, financial condition, results of operations and cash flows and may affect SEC's ability to satisfy its obligations to make the relevant payments under the Transaction Documents to which it is a party in order for the Issuer to pay the amounts due under the Certificates.

SEC may not be able to obtain sufficient funding to finance, and may be subject to increased financing risk as a result of undertaking increased indebtedness in connection with, its planned capital expenditure programme

In order to meet growing demand for electricity in the Kingdom, SEC needs to undertake substantial capital expenditure over the period to at least 2021 to expand and upgrade its generation, transmission and distribution businesses, see "*Management's discussion and analysis of financial condition and results of operations – Liquidity and capital resources – Capital expenditure*".

Historically, SEC has funded its capital expenditure through Government support, including capital contributions and subsidised loans, cash flow from operations and external borrowings. There can be no assurance that the Government will continue to provide support to SEC to fund its future capital expenditure, see "*– SEC's obligations under the Transaction Documents and other financing arrangements do not benefit from any Government guarantee or other legally enforceable Government backing*".

In addition, SEC's ability to obtain external financing and the cost of such financing are dependent upon numerous factors including general economic and market conditions in the Kingdom of Saudi Arabia (the **Kingdom**) and internationally, international interest rates, credit availability from banks or other lenders, investor confidence in SEC and the success of SEC's business as well as restrictions contained in its existing debt agreements, see further "*– Continued disruptions in the global financial markets may adversely affect the SEC Group and its ability to secure financing*" and "*– Restrictive covenants included in certain of SEC's financing arrangements could materially adversely impact its ability to raise financing in the future*". Should SEC be unable to raise funds for its capital expenditures at any time, this could require it to scale back, defer or cancel existing projects which could have a material adverse effect on the SEC Group's business, financial condition, results of operations and cash flows.

There can be no assurance that external financing or refinancing, either on a short-term or a long-term basis, will be available or, if available, that such financing will be obtainable on terms that are not onerous to SEC. As at 31 December 2012, SEC had SAR 13.7 billion of outstanding long-term loans in addition to SAR 20.6 billion of sukuk, SAR 23.4 billion of Government loans and SAR 58.5 billion of long-term government payables. Furthermore, SEC's significant level of indebtedness and the increased indebtedness SEC is planning on undertaking in connection with its capital expenditure programme may among other things, make it more difficult for SEC to make the relevant payments under the Transaction Documents to which it is a party in order for the Issuer to pay the amounts due under the Certificates, require a substantial portion of cash flow from operations to be dedicated to the payment of principal and interest (to the extent payable) on SEC's indebtedness, thereby reducing its ability to use its cash flow to fund its operations, capital expenditure and future business opportunities, limit its ability to raise capital to fund any future capital expenditure or operations, expose SEC to the risk of increased interest rates and/or increased costs to hedge interest rates, limit SEC's ability to adjust to changes in demand for electricity and expose SEC to refinancing risk to the extent that SEC is unable to repay its borrowings out of internally generated cash flow. Any of the foregoing could have a material adverse effect on SEC's business, financial condition, results of operations and cash flows and may affect SEC's ability to satisfy its obligations to make the relevant payments under the Transaction Documents to which it is a party in order for the Issuer to pay the amounts due under the Certificates.

Continued disruptions in the global financial markets may adversely affect the SEC Group and its ability to secure financing

Since 2008, global credit markets, particularly in the United States and Europe, have experienced difficult conditions of varying intensity. These challenging market conditions have resulted, at times,

in reduced liquidity, greater volatility, widening of credit spreads and lack of price transparency in credit markets. Any worsening of general global economic conditions or any change in investment markets, including, but not limited to, changes in expectations for international, regional or local growth rates, geopolitical tensions, commodity prices, international interest rates, exchange rates and returns from equity, property and other investments, may affect SEC's ability to secure financing on terms similar to those received in the past or at all. Furthermore, a lack of liquidity in the financial markets may also impact the ability of the SEC Group's customers to honour their commitments to the SEC Group or the ability of the SEC Group's contractors to complete existing projects. Any of the foregoing could have a material adverse effect on the SEC Group's business, financial condition and results of operations and may affect SEC's ability to satisfy its obligations to make the relevant payments under the Transaction Documents to which it is a party in order for the Issuer to pay the amounts due under the Certificates.

The SEC Group's capital expenditure programme is subject to various development and construction risks

In connection with its strategy to continue increasing its power generation capacity, the SEC Group is currently in the process of developing and expects to continue developing a significant number of new generation plants that are in various stages of development, construction and commissioning, see "*Description of the SEC Group's business – Business Units – Electricity generation – Electricity generated and generation capacity factors*". The SEC Group's larger projects are mostly outsourced to third-party contractors through "turnkey" contracts, meaning that each phase of such projects, including the planning, design and construction phases, are outsourced to third-party contractors. These projects typically require substantial capital expenditure and may take months or years before they become operational, during which time the SEC Group may be subject to a number of construction, operating and other risks beyond its control including:

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

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

In addition, the performance achieved by a new power plant could be below expected levels of output or efficiency due to issues such as those relating to its design or specifications. If a new power plant fails to achieve the required levels of performance, this could adversely affect the return on the SEC Group's investment in that plant which, in turn, may have an adverse effect on the SEC Group's business, financial condition, results of operations and cash flow and may affect SEC's ability to satisfy its obligations to make the relevant payments under the Transaction Documents to which it is a party in order for the Issuer to pay the amounts due under the Certificates.

Electricity tariffs in the Kingdom are not set by SEC and, as a result, may not reflect commercial or market terms, including any increases in the SEC Group's cost of production

Substantially all of SEC's revenues are generated from the sale of electricity to its customers in the Kingdom based on regulated tariffs.

Tariffs for the consumption of electricity by residential customers in the Kingdom are determined by the Council of Ministers, based on recommendations by the Electricity and Co-generation Regulatory Authority (ECRA), and are currently insufficient to cover the SEC Group's costs of generating the energy supplied. Non-residential tariffs are set by ECRA, although such tariffs must not exceed SAR 0.26 /Kilowatt-hour (KWh). Between SEC's establishment in 2000 and July 2010, the electricity tariff structure in the Kingdom remained largely unchanged. An increase to the tariffs was effected in July 2010, although there have been no further changes to the tariff structure since that date.

There can be no assurance that the Council of Ministers or ECRA, as applicable, will approve any further increase to these tariffs in the future, and tariffs may remain below SEC's cost of production for extended periods of time. Accordingly, the SEC Group's ability to remain profitable in the future will depend on continued direct and indirect support by the Government (whether in the form of direct financial support, below-market fuel prices or otherwise) or tariff increases. Any failure to increase tariffs in line with increased operating costs or reduced Government support could have a material adverse effect on the SEC Group's business, financial condition, results of operations and cash flow and may affect SEC's ability to satisfy its obligations to make the relevant payments under the Transaction Documents to which it is a party in order for the Issuer to pay the amounts due under the Certificates.

The SEC Group is dependent on a single related-party supplier of fuel at prices set by the Government

Pursuant to Royal Decree M/96 dated 24/07/1415H (corresponding to 27/12/1994G), Saudi Aramco is obliged to supply fuel to the SEC Group for its power generation business at prices that are set by the Government. The price set by the Government for the fuel supplied by Saudi Aramco is currently below the market price of such fuel. See "*Description of the SEC Group's business – Fuel supply*".

The Government may increase the price that Saudi Aramco charges for the fuel that is supplied to SEC at any time, and any such increase may not be matched by a corresponding increase in the tariff that the SEC Group is permitted to charge for electricity. Accordingly, any such increase in fuel supply price may materially and adversely affect the SEC Group's business, prospects, results of operations, cash flow and financial condition and may affect SEC's ability to satisfy its obligations to make the relevant payments under the Transaction Documents to which it is a party in order for the Issuer to pay the amounts due under the Certificates.

SEC's power plants can generally operate using either natural gas or other fuels. While SEC prefers to use natural gas for its generation plants, since it is the most environmentally friendly and efficient fuel and causes less damage to the power plants and equipment relative to other fossil fuels, the fuel that is ultimately used in that plant is largely dependent on the type of fuel that Saudi Aramco is able to supply to SEC for that plant. There is no guarantee that the fuel mix supplied by Saudi Aramco will be in line with SEC's preferences in terms of efficiency and maintenance costs.

In addition, as the sole supplier to SEC for fuel, in the event that Saudi Aramco is unable to supply some or all of the fuel required by the SEC Group or is unable to supply the required mix of fuels for the SEC Group's generation facilities, the SEC Group's ability to generate power from its plants would be materially adversely impacted unless it was able to source alternative fuel supplies, which may not be available. Moreover, since Saudi Aramco is obliged by royal decree to supply fuel to the SEC Group at prices which are below the market price, and the SEC Group has historically had the ability to defer payment for these fuel supplies, (see "*Description of SEC's Business – Business Strengths – Government Support*"), any alternative fuel supply arrangement would significantly increase the SEC Group's operating costs. Any prolonged disruption in the supply of fuel by Saudi Aramco would, therefore, materially adversely affect the SEC Group's business, prospects, results of operations and financial condition and may affect SEC's ability to satisfy its obligations to make the relevant payments under the Transaction Documents to which it is a party in order for the Issuer to pay the amounts due under the Certificates.

The SEC Group is reliant upon skilled personnel in the engineering and technical fields and may not be able to recruit and retain qualified personnel

The SEC Group's business and operations are dependent upon its ability to recruit and retain skilled engineering personnel and other technical personnel. If the SEC Group is unable to retain

experienced, capable and reliable personnel, especially senior and middle management with appropriate professional qualifications, or fails to recruit skilled professional and technical staff to replace those who leave, the SEC Group's operations may be adversely affected. There is significant demand for experienced and capable personnel in the engineering and technical fields in the Kingdom reflecting both the increasing number of independent power producers (IPP) and independent water and power producers (IWPP) projects which require such staff and the Government's increasing focus on enforcing requirements for companies in the private sector in the Kingdom to employ a specified percentage of Saudi nationals. As a Government-owned company, SEC already employs a high number of such personnel and is experiencing continued and increasing competition for their talents. Consequently, when talented and trained employees leave, SEC may have difficulty replacing them and may incur additional costs and expenses in securing such replacements.

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

The SEC Group may be subject to increased prices for any additional electricity it may be required to purchase, which may not be reflected in the tariffs that it is permitted to charge for the supply of electricity, and may not be able to obtain any additional electricity it may require

At times of peak demand the SEC Group has, in the past, needed to purchase additional electricity from the Saline Water Conversion Corporation (SWCC) and other available sources to meet demand and expects to continue to do so in the future. In the year ended 31 December 2012, SEC purchased 64,624 GWh of additional electricity from third-party suppliers which constituted 23.8 per cent. of total electricity generated and purchased during the year. See "*Description of the SEC Group's business – Businesses – Electricity generation – Installed generation capacity*". The SEC Group purchases additional electricity from SWCC pursuant to tariffs set by the Council of Ministers. Under the current tariffs in force, the SEC Group pays SWCC SAR 120 per kilowatt (kW) for peak demand charges and SAR 20 per MWh for energy, such that the average combined price payable for demand charges and energy does not exceed SAR 38 per MWh. The Council of Ministers has the power to change these tariffs.

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

The SEC Group's counterparties may default on their contractual obligations which may result in materially increased costs or losses for the SEC Group

SEC Group companies enter into contracts with a range of counterparties, including contractors, sub-contractors, architects, engineers, operators, other service providers, suppliers and customers, and accordingly, the SEC Group is subject to the risk that a counterparty will be unable or unwilling to honour its contractual obligations and that any guarantee or performance bond in respect of such obligations will also not be honoured. The SEC Group's counterparties may default on their obligations for any number of reasons, including as a result of their bankruptcy, a lack of liquidity or operational failure. Such counterparty risk is more acute in difficult market conditions where there is an enhanced risk of default by counterparties.

For example, any failure of a material project counterparty or, where relevant, its guarantor, to fulfil its contractual obligations could adversely impact the SEC Group through delayed completion of the relevant project or through its impact on the operations of a completed project, including the construction of power plants in connection with SEC's planned IPP programme. Even though the arrangements entered into by SEC with its contractors may allocate some of the risk of delays or failure to the contractors through the use of performance bonds, SEC may not always be able to

obtain indemnification from its contractors with respect to any breaches, failures or delays and accordingly, the SEC Group may have to bear the additional costs required to complete the project. This may result in a material adverse effect on the SEC Group's reputation, business, financial condition, results of operations and cash flows and may affect SEC's ability to satisfy its obligations to make the relevant payments under the Transaction Documents to which it is a party in order for the Issuer to pay the amounts due under the Certificates.

The SEC Group's forecasts of future demand for electricity in the Kingdom may be inaccurate, which may lead to increased costs and operational inefficiency, as a result of too much capacity or the inability to meet demand

The SEC Group's current capital expenditure programme is based upon forecasts for growth in demand for electricity in the Kingdom which are based on a number of material assumptions, including population growth trends and trends in future electricity consumption and prices, and there is the risk that such assumptions may be inaccurate. Furthermore, SEC is increasingly committing to take-or-pay contracts with IPPs and IWPPs. To the extent that SEC has overestimated future electricity demand or under-utilises the services under its take-or-pay contracts and is, subsequently, unable to revise its capital expenditure programme, the SEC Group may be unable to receive the expected returns on its capital expenditure. To the extent that the SEC Group has underestimated future electricity demand, it may be unable to meet demand and may be required to purchase electricity from third-party sources at an increased rate that is not reflected in the tariffs charged. See "*The SEC Group may be subject to increased prices for any additional electricity it may be required to purchase, which may not be reflected in the tariffs that it is permitted to charge for the supply of electricity, and may not be able to obtain any additional electricity it may require*". Either result may have a material adverse effect on the SEC Group's business, financial condition, results of operations and cash flows and may affect SEC's ability to satisfy its obligations to make the relevant payments under the Transaction Documents to which it is a party in order for the Issuer to pay the amounts due under the Certificates.

Restrictive covenants included in certain of SEC's financing arrangements could materially adversely impact its ability to raise financing in the future

SEC is party to a number of long-term financing arrangements in the domestic and international capital markets. Certain of the domestic arrangements contain restrictive covenants, including restrictions on incurring additional indebtedness (subject to certain agreed exceptions, including consent of the majority lending banks) and compliance with leverage and minimum tangible net worth ratios. In order to issue the Certificates, SEC sought and obtained from the relevant lenders their consent to the issue in accordance with the terms of the relevant agreements. In view of SEC's increased external financing requirements as a result of its capital expenditure programme, it is likely that SEC may need to seek further consents in relation to future borrowings, and it is possible that SEC may need to renegotiate certain restrictive covenants, such as the leverage ratio, or seek waivers in respect of possible breaches of restrictive covenants.

Should SEC need, in the future, to renegotiate any restrictive covenants or obtain a waiver in respect of any breach of such a covenant, no assurance can be given that it will be successful. Any failure to renegotiate such covenants could restrict SEC's ability to raise financing in the future which could adversely impact its capital expenditure programme, which may have a material adverse effect on the SEC Group's business, financial condition, results of operations and cash flows and may affect SEC's ability to satisfy its obligations to make the relevant payments under the Transaction Documents to which it is a party in order for the Issuer to pay the amounts due under the Certificates.

In addition, any breach of such covenants which is not waived by the lenders could result in the relevant financing being accelerated and potentially trigger cross default provisions under the SEC Group's other financing arrangements, including the Transaction Documents, which may have a material adverse effect on the SEC Group's business, financial condition, results of operations and cash flows and may affect SEC's ability to satisfy its obligations to make the relevant payments under the Transaction Documents to which it is a party in order for the Issuer to pay the amounts due under the Certificates.

The SEC Group'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 the SEC Group's business is exposed to certain operating risks. Such risks can include, among other things, unplanned outages, equipment failure or facilities operating inefficiently or below capacity. In addition, SEC may need to temporarily shut down some of its power plants and incur expenses in connection with

inspections, maintenance or repair activities in addition to those that they currently conduct, including such additional activities required by regulators. Any such occurrences could affect SEC's ability to supply electricity at levels sufficient to meet demand. Although SEC maintains back up facilities and is able to purchase electricity from third parties, there is no assurance that such alternative sources will be available when needed or that such sources will be able to provide adequate amounts of electricity to meet any shortfalls in SEC's own supply. Any service disruption may cause loss in electricity generation, customer dissatisfaction, a decrease in revenues and other unforeseen costs and expenses which could have a material adverse effect on our reputation, business, results of operations and financial condition and cash flow and may affect SEC's ability to satisfy its obligations to make the relevant payments under the Transaction Documents to which it is a party in order for the Issuer to pay the amounts due under the Certificates.

The continual operation of power plants, as well as natural processes such as erosion and corrosion, has an impact on the condition of the equipment and components of SEC's power plants. The impact of such operation and processes tends to increase as the plant, equipment and components grow older, and as a result, older plants and equipment generally require greater maintenance, operate less efficiently than more modern plant and equipment and, accordingly, are significantly more expensive to operate. Approximately 13.9 per cent., by generation capacity, of the SEC Group's generation plants has been fully depreciated, meaning that such plants have passed their economically useful life. Although SEC seeks to implement new inspections and maintenance practices, including proactively repairing or replacing equipment and components before they fail, SEC cannot give any assurance that it will be successful in its efforts, which could have a material adverse effect on its business, financial condition, results of operations and cash flow and may affect SEC's ability to satisfy its obligations to make the relevant payments under the Transaction Documents to which it is a party in order for the Issuer to pay the amounts due under the Certificates.

The SEC Group's national average reserve capacity margin (which is the margin of installed generation capacity above the national peak demand for such capacity) was between 2 and 3 per cent. during the summer months of May to September in 2012, which is typically when electricity use is at its highest in the Kingdom. Given that peak demand times within the different regions in the Kingdom do not usually coincide due to the relatively large geographical size of the Kingdom and the resulting differences in the time of day at which the sun is at its highest point and the time of sunrise and sunset, the national peak demand 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. While the Kingdom's four operating regions are almost fully interconnected through the transmission network, as a result of congestion and the fact that some isolated areas in the Kingdom are not yet connected to the transmission network, this has resulted in some regions of the Kingdom experiencing power outages in recent years. Such power outages have resulted in a loss of revenue for the SEC Group. To the extent that interconnection does not improve and such power outages continue to occur, this could result in a further loss of revenue, customer dissatisfaction and other unforeseen costs and expenses, and, accordingly, have an adversely effect on SEC's reputation, business, financial condition, results of operations and cash flow and may affect SEC's ability to satisfy its obligations to make the relevant payments under the Transaction Documents to which it is a party in order for the Issuer to pay the amounts due under the Certificates.

The SEC Group may encounter difficulties in implementing its overall strategy and capital expenditure programme going forward, or such strategy and expansion plans may ultimately be unsuccessful

The SEC Group is focused on significantly increasing its generation capacity to meet anticipated future demand, and improving the interconnectivity of its transmission network, both throughout the Kingdom and internationally. Additionally, the SEC Group is also in the process of restructuring its business, in connection with the Government's initiative to promote greater competition in the electricity industry (see "*Description of SEC's business – Restructuring of the SEC Group*").

There can be no assurance that SEC's strategy and/or restructuring plans will be successful for, or that SEC will be successful in implementing, all aspects of its strategy and restructuring plans without exposing the SEC Group to risk. Unexpected events related to both internal and external factors (many of which are described elsewhere in "Risk Factors") may occur which could impair the SEC Group's ability to successfully implement any or a material part of its strategy and restructuring plans. Such events could have a material adverse effect on its reputation, business, financial condition, results of operations and cash flow and may affect SEC's ability to satisfy its obligations to make the

relevant payments under the Transaction Documents to which it is a party in order for the Issuer to pay the amounts due under the Certificates.

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

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

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

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

In addition, the SEC Group's insurance policies are subject to commercially negotiated deductibles, exclusions and limitations, and the SEC Group will only receive insurance proceeds in respect of a claim made to the extent that its insurers have the funds to make payment. Therefore insurance may not cover all losses incurred by the SEC Group and no assurance is given that the SEC Group will not suffer losses beyond the limits of, or outside the cover provided by, its insurance policies.

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

SEC Group companies may be subject to liabilities as a result of any violation of applicable regulations affecting the electricity industry in the Kingdom, including environmental and safety standards

The SEC Group is subject to an electricity law which was enacted in the Kingdom pursuant to Royal Decree M/56 dated 20/10/1426H (corresponding to 22/11/2005G) (the **Electricity Law**) and is regulated by ECRA. The Electricity Law sets out the principal tasks of the Ministry of Water and Electricity and regulates, among other things, licensing, the scope of ECRA and the Ministry of Water and Electricity's regulatory authority and the setting of non-residential tariffs by ECRA. The risks of environmental damage, such as pollution and leakage, are inherent in the electricity industry, and the use of high-voltage equipment may involve significant health and safety risks. As a result, the SEC Group is also subject to applicable environmental and safety regulations in force in the Kingdom

which set various standards for regulating certain aspects of health, safety, security and environmental quality and impose civil and criminal penalties and other liabilities for any violations. See “*Description of SEC’s Business – Regulation*”.

SEC has adopted environmental standards applicable to its operations and, while as at the date of this prospectus SEC is in compliance with all applicable environmental and safety regulations in force in the Kingdom, there can be no guarantee that it will continue to be in compliance in the future. Should any SEC Group company fail to comply with any such regulations, it may be liable for penalties and/or the consequences of default under any contractual obligations requiring it to comply with applicable regulations.

In addition, relevant authorities in the Kingdom may enforce existing regulations, including environmental and safety laws and regulations, more strictly than they have done in the past and may in the future impose stricter 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 regulations.

Any occurrence of environmental damage or loss of life or serious injury to its employees as a result of any breach of applicable safety legislation may result in a disruption of the SEC Group’s services or cause reputational harm, and significant liability could be imposed on SEC for damages, clean-up costs and penalties and/or compensation as a result.

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

The SEC Group may become subject to competition

SEC is currently the primary generator and sole-off taker of electricity in the Kingdom and has a regulated monopoly position in respect of both the transmission of electric power and the distribution of electricity to consumers in the Kingdom. The Government is in the process of restructuring the electricity sector in the Kingdom and enacted a new electricity law in 20/10/1426H (corresponding to 22 November 2005) that sets out a new regulatory framework for the industry. As part of its efforts to restructure the electricity sector, the Government intends to promote greater competition in the electricity industry by facilitating the establishment of independent power producers and independent water and power producers. See “*Description of the SEC Group’s business – Restructuring of the SEC Group*”. Although the SEC Group does not expect the introduction of competition in the near term, over the longer term, the Government’s plans to create competition and encourage privatisation of the electricity sector, particularly if such changes are made without introducing flexibility to the tariff regime, could have a material adverse effect on SEC’s business, financial condition, results of operations, cash flows and affect its ability to satisfy its obligations to make the relevant payments under the Transaction Documents to which it is a party in order for the Issuer to pay amounts due on the Certificates.

The SEC Group is involved in ongoing discussions, disputes and litigation with suppliers, regulators and other parties, the ultimate outcome of which is uncertain

In the ordinary course of its business, the SEC Group is subject to risks relating to legal and regulatory proceedings to which it or SEC Group companies are currently a party or which could develop in the future, including a number of ongoing disputes with Saudi Aramco, its sole supplier of fuel (see “– *Business-Disputes with Saudi Aramco*”). Litigation and regulatory proceedings are unpredictable and legal or regulatory proceedings in which the SEC Group is or becomes involved (or settlements thereof) could have a material adverse effect on its business, financial condition, results of operations and prospects and affect its ability to satisfy its obligations to make the relevant payments under the Transaction Documents to which it is a party in order for the Issuer to pay amounts due on the Certificates.

RISKS RELATING TO INVESTMENTS IN COMPANIES OPERATING IN THE KINGDOM OF SAUDI ARABIA

The SEC Group is subject to economic and political conditions in the Middle East, in general, and in the Kingdom, in particular

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

Similar to other countries in the Middle East, the Kingdom could be affected by political and social unrest in the region. In particular, should the Kingdom experience similar kinds of political and social unrest as currently ongoing in Syria and recently experienced by Libya, Egypt, Bahrain and other Middle East and North African countries, the Kingdom's economy and, as a consequence, SEC's business could be adversely affected. The Government faces a number of challenges within the Kingdom arising mainly from the relatively high levels of population growth and unemployment among the Saudi Arabian youth and the security threat posed by certain groups of extremists, which could have an adverse effect on the Saudi Arabian economy and, as a consequence, the SEC Group's business, financial condition, results of operations and cash flows and may affect SEC's ability to satisfy its obligations to make the relevant payments under the Transaction Documents to which it is a party in order for the Issuer to pay the amounts due under the Certificates.

Investors should also be aware that investing in emerging markets such as the Kingdom entails greater risks than investing in more developed markets, including risks such as:

- political, social and economic issues;
- external acts of warfare and clashes;
- governmental actions or interventions, including tariffs, protectionism, subsidies, expropriation of assets and cancellation of contractual rights;
- changes in, or in the interpretation, application or enforcement of, law and regulation;
- difficulties and delays in obtaining new permits and consents for the SEC Group's operations or renewing existing ones; and
- potential lack of reliability as to title to real property.

Accordingly, the market value of the Certificates may fluctuate for reasons unrelated to the financial performance of SEC. Investors should exercise particular care in evaluating the risks involved and must decide for themselves whether, in the light of those risks, their investment is appropriate. Generally, investment in emerging markets is only suitable for sophisticated investors who fully appreciate the significance of the risks involved.

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

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

The Kingdom's economy and the Government's budget are highly dependent upon revenues from oil

The Kingdom's economy and the Government's budget are highly dependent on oil revenues.

Historically, the price of oil has been volatile. Such volatility in oil prices will likely continue in the future. The price of oil may fluctuate in response to various factors including, but not limited to:

- economic and political developments in oil producing regions, particularly in the Middle East;

- global and regional supply and demand, and expectations regarding future supply and demand, for oil products;
- the ability of members of OPEC and other crude oil producing nations to agree upon and maintain specified global production levels and prices;
- the impact of international environmental regulations designed to reduce carbon emissions;
- other actions taken by major crude oil producing or consuming nations;
- global economic and political conditions;
- the availability of alternative fuels;
- prices and availability of new technologies; and
- global weather and environmental conditions.

Future volatility in the price of oil could adversely affect the Kingdom's economy and the Government's budget. As a recipient of significant support from the Government (see "*The SEC Group has benefitted from significant Government support, and any reduction in the level of support provided to the SEC Group could significantly and adversely affect its business, results of operations and financial condition*"), any effect on the availability of financial support from the Government as a result of volatility in oil prices could have a material adverse effect on the SEC Group's business, financial condition and results of operations and may affect SEC's ability to satisfy its obligations to make the relevant payments under the Transaction Documents to which it is a party in order for the Issuer to pay the amounts due under the Certificates.

RISK FACTORS RELATING TO THE CERTIFICATES

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

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

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

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

There is no assurance that a market for the Certificates will develop or, if it does develop, that it will provide the Certificateholders with liquidity of investment or that it will continue for the life of the

Certificates. In addition, liquidity may be limited if large allocations of the Certificates are made. Accordingly, a Certificateholder may not be able to find a buyer to buy its Certificates readily or at prices that will enable the Certificateholder to realise a desired yield. The market value of the Certificates may fluctuate and a lack of liquidity, in particular, can have a material adverse effect on the market value of the Certificates. Accordingly, the purchase of the Certificates is suitable only for investors who can bear the risks associated with a lack of liquidity in the Certificates and the financial and other risks associated with an investment in the Certificates. An investor in the Certificates must be prepared to hold the Certificates for an indefinite period of time or until their maturity. Application has been made to the Irish Stock Exchange for the Certificates to be admitted to trading on its Main Securities Market, but there can be no assurance that such listing will occur on or prior to the Closing Date, if at all.

The Certificates are subject to certain restrictions on transfer

The Certificates have not been registered under the Securities Act. Therefore, the Certificates may not be offered or sold into the United States except pursuant to an effective registration statement or in a transaction exempt from, or not subject to, the registration requirements of the Securities Act. In addition, the Issuer is not registered under the Investment Company Act. Accordingly, the Certificates cannot be offered, sold or otherwise transferred into the United States except to QIBs that are also QPs pursuant to the exemption from registration under the Securities Act provided by Rule 144A and the exemption set forth in section 3(c)(7) of the Investment Company Act, or to non-U.S. persons within the meaning of, and in accordance with, Regulation S. Such transfer restrictions could adversely affect the liquidity of the market for the Certificates.

Furthermore, if at any time while the beneficial owner of a certificate holds an interest in the Certificates and is a U.S. person (as defined in Regulation S) that is not a QIB and a QP, the Issuer may compel the beneficial owner to sell its interest in the Certificate. See “*Transfer Restrictions – Rule 144A Certificates*”.

The Certificates may be subject to early redemption

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

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

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

The conditions of the Certificates, the Declaration of Trust and the other Transaction Documents contain provisions which may permit their modification without the consent of all investors and confer significant discretions on the Delegate which may be exercised without the consent of the Certificateholders and without regard to the individual interests of particular Certificateholders

The conditions of the Certificates contain provisions for calling meetings of Certificateholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind

all Certificateholders including Certificateholders who did not attend and vote at the relevant meeting and Certificateholders who voted in a manner contrary to the majority.

The conditions of the Certificates and the Declaration of Trust also provide that the Delegate may, without the consent of Certificateholders and without regard to the interests of particular Certificateholders, agree to any modification of any of the provisions of the Certificates, the Declaration of Trust or any other Transaction Document if, in the opinion of the Delegate, such modification is (a) of a formal, minor or technical nature, (b) made to correct a manifest error, or (c) not materially prejudicial to the interests of Certificateholders. The Delegate may further agree to any waiver or authorisation of any breach or proposed breach of the conditions of the Certificates, the Declaration of Trust or any other Transaction Document, or determine without the consent of the Certificateholders that any SEC Event or potential SEC Event shall not be treated as such, in each such case as further described in Condition 18.

RISK FACTORS RELATING TO ENFORCEMENT

Governing Law and enforcement of judgments

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

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

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

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

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

declined, including where the award is contrary to the public policy of the receiving state. As a consequence, any arbitral award deemed by a court in the Kingdom as contrary to the public policy of the Kingdom may not be enforceable in the Kingdom.

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

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

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

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

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

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

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

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

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

In the event of SEC's insolvency, bankruptcy laws in the Kingdom may adversely affect SEC's ability to perform its obligations under the Transaction Documents to which it is a party and, in turn, affect the Issuer's ability to perform its obligations in respect of the Certificates. In particular, Article 110 of the Commercial Court Regulations promulgated under Royal Decree No. M/32 dated 15/01/1350H

(corresponding to 02/06/1931G) authorises a Saudi Arabian court to declare a contract of a debtor void or ineffective in the event that such debtor has been already declared bankrupt by such court prior to the entry into such contract. There is little precedent to predict how claims by or on behalf of the Certificateholders and/or the Delegate would be resolved in the event of SEC's bankruptcy and accordingly it is uncertain exactly how and to what extent the Transaction Documents would be enforced by a Saudi Arabian adjudicatory body if such Saudi Arabian adjudicatory body were to void or otherwise cause such document, or any part thereof, to be void or ineffective pursuant to Article 110 of the Commercial Court Regulations (following a declaration of bankruptcy), and therefore there can be no assurance that Certificateholders will receive repayment of their claims in full or at all in these circumstances.

Change of law

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

RISK FACTORS RELATING TO TAXATION

Certificateholders may be affected by the EU Savings Directive

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

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

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

ADDITIONAL RISK FACTORS

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

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

Credit ratings may not reflect all risks

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

addition, real or anticipated changes in the ratings of the Certificates could negatively affect the market value of the Certificates.

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

Reliance on DTC, Euroclear and Clearstream, Luxembourg procedures

The Regulation S Certificates of each Series will be represented on issue by an Unrestricted Global Certificate that will be deposited with a common depositary for Euroclear and Clearstream, Luxembourg. Except in the circumstances described in the relevant Unrestricted Global Certificate, investors will not be entitled to receive Certificates in definitive form. Euroclear and Clearstream, Luxembourg and their respective direct and indirect participants will maintain records of the beneficial interests in each Unrestricted Global Certificate. While the Certificates of a Series are represented by an Unrestricted Global Certificate, investors will be able to trade their beneficial interests only through Euroclear and Clearstream, Luxembourg and their respective participants.

The Rule 144A Certificates of each Series will be represented on issue by a Restricted Global Certificate that will be deposited with a nominee for DTC. Except in the circumstances described in the relevant Restricted Global Certificate, investors will not be entitled to receive Certificates in definitive form. DTC and its direct and indirect participants will maintain records of the beneficial interests in each Restricted 144A Global Certificate. While the Certificates of a Series are represented by a Restricted Global Certificate, investors will be able to trade their beneficial interests only through DTC and its participants, including Euroclear and Clearstream, Luxembourg.

While the Certificates of a Series are represented by the Global Certificates, the Issuer will discharge its payment obligation under such Certificates by making payments through the relevant clearing systems. A holder of a beneficial interest in a Global Certificate must rely on the procedures of the relevant clearing system and its participants to receive payments under the relevant Certificates. The Issuer has no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in any Global Certificate.

Holders of beneficial interests in a Global Certificate will not have a direct right to vote in respect of the relevant Certificates. Instead, such holders will be permitted to act only to the extent that they are enabled by the relevant clearing system and its participants to appoint appropriate proxies.

Total Loss Event

As owner of the Ijara Assets relating to each Series, the Issuer is required, among other things, to insure the relevant Ijara Assets. In accordance with *Shari'ah* principles, the Issuer has delegated this obligation to SEC, as its servicing agent, which has undertaken in the Servicing Agency Agreement in respect of each Series, *inter alia*, to insure the relevant Ijara Assets in the name of the Issuer against the occurrence of a Total Loss Event for their full reinstatement value (and to ensure, in relation to each Series, that such amount is not at any time less than the aggregate face amount of Certificates of such Series then outstanding). A **Total Loss Event** is defined as the total loss or destruction of, or damage to the relevant Ijara Assets or any event or occurrence that renders the whole of the relevant Ijara Assets permanently unfit for any economic use and (but only after taking into consideration any insurances or other indemnity granted by any third party in respect of the relevant Ijara Assets) the repair or remedial work in respect thereof is wholly uneconomical or the expropriation, confiscation, attachment, sequestration or execution of any legal process in respect of the relevant Ijara Assets.

Nevertheless, should such an event occur the relevant Ijara will terminate and the Certificates of the relevant Series will be repaid using the proceeds of the insurance received by the Issuer. In this

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

OVERVIEW OF SEC

SEC and its subsidiaries and affiliates (taken as a whole, the **SEC Group**) is the Kingdom's monopoly integrated electricity generation, transmission and distribution business and is, directly or indirectly, 81 per cent. owned by the Government. SEC has been rated A1 by Moody's, AA- by Fitch and AA- by S&P.

The SEC Group's principal business activities are the generation, transmission and distribution of electricity within the Kingdom, the largest economy in the GCC. The SEC Group's total sales of electricity were 240,288 GWh in 2012, of which 120,246 GWh (50.0 per cent.) was sold to residential customers, 41,711 GWh (17.4 per cent.) was sold to industrial customers, 39,264 GWh (16.3 per cent.) was sold to commercial customers and 30,349 GWh (12.6 per cent.) was sold to governmental customers. The balance of 8,718 GWh (3.6 per cent.) was sold to other customers, such as agricultural customers, SWCC and other customers.

For the year ended 31 December 2012, the SEC Group's total operating revenue was SAR 33,646 million (compared to SAR 30,570 million for the year ended 31 December 2011 and SAR 27,911 million for the year ended 31 December 2010) and its net income was SAR 2,561 million (compared to SAR 2,213 million for the year ended 31 December 2011 and SAR 2,279 million for the year ended 31 December 2010). As at 31 December 2012, the SEC Group's total assets were SAR 238,586 million (compared to SAR 213,454 million as at 31 December 2011 and SAR 190,872 million as at 31 December 2010).

BUSINESS STRENGTHS

The SEC Group's principal business strengths comprise:

- **The SEC Group is the monopoly supplier of electricity in the Kingdom**

The SEC Group owned, or was the sole off-taker under long-term power purchase agreements in respect of, all of the available generation capacity in the Kingdom at 31 December 2012 other than certain capacity utilised principally for its own use by Saudi Aramco. The SEC Group has a regulated monopoly position in respect of both the transmission of electric power and the distribution of electricity to consumers in the Kingdom. Under the Electricity Law, all electricity providers in the Kingdom must hold a licence from the Government. Currently, the SEC Group holds the sole licence for the transmission and distribution of electricity in the Kingdom. The SEC Group is, therefore, the monopoly integrated market provider in the electricity sector in Saudi Arabia, and this, coupled with high barriers to entry, means that SEC expects to remain the primary supplier of electricity in the Kingdom for the foreseeable future and retain its monopoly position.

- **Government support**

The Government, which effectively owns approximately 81 per cent. of SEC's issued share capital (see "*Capital structure*"), has historically been supportive in ensuring that the SEC Group can adequately meet the electricity demands of the Kingdom. Such support by the Government has included providing SEC with significant long-term interest-free loans, allowing higher tariffs for electricity supplied to governmental customers, the provision of subsidised fuel through Saudi Aramco, allowing deferred payment for this fuel in addition to power purchased from SWCC and municipality fees, and the assumption of responsibility for significant payables owed to Saudi Aramco. SEC views these forms of Government support as critical elements of its competitive strength. See "*Management's discussion and analysis of financial condition and results of operations – Relationship with the Government*".

In addition, the Government also has a strategic vision with respect to the electricity industry. As part of the ninth five-year development plan for 2010 to 2014, the Ministry of Economy and Planning has set out certain policy objectives for the electricity industry, which include enhancing the role of the electricity sector in maximising national resources and enhancing integration of the electricity sector's transmission and distribution networks regionally and internationally. See "*The Government development strategy*". In conjunction with its historical regulatory and financial support, the ninth five-year development plan demonstrates the Government's intention to continue promoting the electricity sector in the Kingdom.

- **Supply of low cost fuel and deferred payment**

Fuel costs constitute a significant portion of SEC's operating costs, comprising 20.7 per cent. of SEC's cost of sales for the year ended 31 December 2012. The SEC Group has long-term supply arrangements with Saudi Aramco under which it obtains subsidised fuel. Pursuant to a royal decree, Saudi Aramco is obliged to supply fuel to SEC, and pursuant to a Council of Ministers' resolution, SEC is permitted by the Government to defer payment for the fuel supplied to it by Saudi Aramco. These deferred fuel payments account for SEC's increasing amounts of accounts payable owed to Saudi Aramco. (see “– *Fuel supply*”).

- **Role within the Saudi economy**

The SEC Group has a significant economic and policy role within the Saudi economy in terms of meeting the continuing increases in demand for electricity stemming from Government-sponsored industrialisation and population growth. According to the IMF World Economic Outlook database for October 2012, the population across the Kingdom is expected to grow by 8.4 per cent. between 2012 to 2017, from 29.4 million to 31.9 million people. Consumption of electricity between 2005 and 2009 was estimated to have grown by 5.8 per cent. and is forecasted, by the Ministry of Economy and Planning in its Ninth Development Plan, to grow at an average annual rate of 6.4 per cent. SEC believes that this population growth will lead to an increase in demand for electricity by residential users, in addition to an increase in industry and economic activity and, as a result, demand and consumption of electricity by non-residential end-users. SEC's position as the Kingdom's primary electricity provider positions it to capitalise on this growth in demand.

STRATEGY

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

Increase generation capacity

SEC is taking a number of steps to increase the SEC Group's generation capacity to meet anticipated future demand, including expanding existing plants and constructing new plants. As part of its strategy to meet this anticipated demand, the SEC Group increased its generation capacity by 2,916 MW during 2010 (an increase of 7.7 per cent.), by 2,180 MW during 2011 (an increase of 5.5 per cent.) and by 2,046 MW during 2012 (an increase of 4.9 per cent.). The SEC Group plans to increase its generation capacity by 14,246 MW to 57,329 MW by the end of 2017 at an estimated total cost of SAR 78,606 million to be incurred up to and including 2017 with the aim of ensuring that generation capacity in the Kingdom is sufficient to meet peak demand for the medium to long term.

However, as the independent power sector develops (see “– *Industry overview – Restructuring of the electricity industry in the Kingdom*”), SEC believes that it may, as a result, be able to scale back further capital expenditure on new power generation projects. IPPs and IWPPs currently account for approximately 14.5 per cent. of all generation capacity in the Kingdom and SEC expects the share of generation capacity provided by IPPs and IWPPs to increase to approximately 21 per cent. in the medium term.

SEC has also developed its own IPP programme which is intended to encourage private sector investment in its power generation business. For further information about the IPP programme, see “– *Businesses – Electricity generation – IPPs and IWPPs*”. As part of the IPP programme, SEC has identified the need to construct new power plants to complement its plans to increase total generation capacity in the Kingdom which can be constructed on an IPP basis. SEC's IPP programme currently envisages the construction of five new power plants. The request for proposals (**RFP**) for the first independent power plant, the Rabigh IPP, was issued in 2008 and financing agreements for the project were concluded in 2009. The RFPs for two further independent power plants, namely the Riyadh IPP and the Qurayyah IPP, were issued in 2009 and 2010, respectively. Financing agreements for the Riyadh IPP were concluded in 2010 and for the Qurayyah IPP in 2011. SEC has selected the preferred bidder for a fourth IPP, the Rabigh II IPP. The RFP for a fifth IPP, the Dheba IPP, is expected to be issued during 2013.

Improve Transmission Network

The SEC Group is planning to continue the extension of its transmission network in order to minimise congestion, interconnect isolated regions and connect new power plants to the grid.

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

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

Expenditure in upgrading the transmission network is estimated to be approximately SAR 16 to 22 billion per annum between 2013 and 2017. Consistent with past practice, the SEC Group expects to finance this expenditure through borrowings, capital markets transactions and Government support. See “*Description of other indebtedness*”.

During the medium-to long-term (covering a period of five to 25 years) the SEC Group also aims to improve the overall “capacity factors” (that is, the ratio of a power plant’s output over a period of time as compared to its output if it had operated at full capacity) of the generation business through further investment in the transmission network.

The SEC Group’s four operating regions for its transmission business are now almost fully interconnected (with interconnectivity of the transmission network within Saudi Arabia at approximately 98 per cent. as at 31 December 2012), although significant work remains in terms of increasing the capacity of certain of the major interconnection links and this is a significant focus of the SEC Group’s capital expenditure programme in the transmission business.

To improve the reliability of the Kingdom’s power supply, reduce costs and promote energy trading, SEC has also developed connections with transmission networks in the neighbouring GCC countries. The GCCIA, a joint stock company incorporated under the regulations of the Kingdom, was formed in 2001 by the member states of the GCC to interconnect the electricity transmission networks of the member states (see “– *Subsidiaries and other investments – Other investments – Gulf Cooperation Council Interconnection Authority*”). In addition to the GCC countries, SEC intends to develop interconnection projects with other countries in the MENA region.

The SEC Group expects to realise a number of economic and operational gains as a result of enhancing interconnectivity and increasing capacity factors, including:

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

USE OF PROCEEDS

The net proceeds of the issue of the Certificates of each Series of approximately U.S.\$998,875,000, in the case of the 2023 Certificates, and approximately U.S.\$998,875,000, in the case of the 2043 Certificates, will be used by the Trustee as the purchase price to be paid to SEC on the Closing Date for the purchase of the Ijara Assets relating to each Series. SEC will use the net proceeds received from the Trustee to finance the SEC Group's capital expenditures.

DESCRIPTION OF THE ISSUER

General

Saudi Electricity Global SUKUK Company 2, a Cayman Islands exempted company with limited liability, was incorporated on 18 February 2013 under the Companies Law (as amended) of the Cayman Islands with company registration number 275530. The Issuer has been established as a special purpose vehicle for the sole purpose of issuing the Certificates and entering into the transactions contemplated by the Transaction Documents (to which it is a party). The registered office of the Issuer is at c/o Intertrust SPV (Cayman) Limited, 190 Elgin Avenue, George Town, Grand Cayman KY1-9005, Cayman Islands and its telephone number is +1345 943 3100.

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

Business of the Issuer

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

The objects for which the Issuer is established are set out in clause 3 of its Memorandum of Association as registered or adopted on 18 February 2013.

Financial Statements

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

Directors of the Issuer

The Directors of the Issuer are as follows:

| Name: | Principal Occupation: |
|---------------------|---|
| Rachael Rankin..... | Senior Vice President of Intertrust SPV (Cayman) Limited |
| Otelia Scott..... | Assistant Vice President of Intertrust SPV (Cayman) Limited |

The business address of each Director is c/o Intertrust SPV (Cayman) Limited, 190 Elgin Avenue, George Town, Grand Cayman KY1-9005, Cayman Islands.

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

The Administrator

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

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

The Issuer Administrator's principal office is c/o Intertrust SPV (Cayman) Limited, 190 Elgin Avenue, George Town, Grand Cayman KY1-9005, Cayman Islands. The Directors of the Issuer are all employees or officers of the Issuer Administrator. The Issuer has no employees and is not expected to have any employees in the future.

CAPITALISATION

The following table sets forth the SEC Group's capitalisation and indebtedness as at 31 December 2012. This table should be read together with "Management's discussion and analysis of financial condition and results of operation" and the Financial Statements included in this Prospectus.

| | As at 31 December 2012 |
|---|--------------------------------------|
| | (SAR millions) |
| Cash and cash equivalents | 3,046 |
| Debt: | |
| Short-term debt ⁽¹⁾ | 1,468 |
| Long-term debt ⁽²⁾ | 32,760 |
| Total debt | 34,228 |
| Equity: | |
| Share capital | 41,666 |
| Statutory reserve | 1,811 |
| General reserve | 540 |
| Retained earnings | 10,323 |
| Net change in the fair value of hedging contracts | (371) |
| Total equity | 53,969 |
| Total capitalisation | 88,197 |

(1) Includes Short-term loans and current portion of long-term loans

(2) Includes Long-term loans and Sukuk

SELECTED FINANCIAL INFORMATION

The following summary of historical financial information as at and for the years ended 31 December 2012, 2011 and 2010 has been derived from:

- in the case of the historical information as at and for the years ended 31 December 2012 and 2011, the 2012 Financial Statements; and
- in the case of the historical information as at and for the year ended 31 December 2010, the 2011 Financial Statements,

each of which is included elsewhere in this document. SEC made certain reclassifications and adjustments when preparing its 2012 Financial Statements, see “*Presentation of financial information*”. The Financial Statements have been prepared in accordance with Saudi GAAP, which differs from IFRS in certain significant respects, see “*Summary of significant differences between Saudi GAAP and IFRS*”.

Prospectus investors should read the following summary financial information in conjunction with the information contained in “*Presentation of financial information*”, “*Risk factors*”, “*Management’s discussion and analysis of financial condition and results of operations*”, “*Description of the SEC Group’s business*” and the Financial Statements (including the related notes thereto).

STATEMENT OF INCOME DATA

The following table shows SEC’s income statement data as at 31 December in each of 2010, 2011 and 2012, respectively.

| | Year ended 31 December | | |
|---|------------------------|-----------------|-----------------|
| | 2010 | 2011 | 2012 |
| | (SAR million) | | |
| Electricity sales | 25,873 | 28,280 | 31,102 |
| Meter reading, maintenance and bills preparation tariff | 841 | 883 | 938 |
| Electricity connection tariff | 1,197 | 1,331 | 1,516 |
| Other operating revenue | — | 76 | 91 |
| Total operating revenues | 27,911 | 30,570 | 33,646 |
| Fuel..... | (5,797) | (5,771) | (6,229) |
| Purchased energy | (3,742) | (4,256) | (4,565) |
| Operations and maintenance | (7,753) | (8,239) | (8,727) |
| Depreciation – Operations and maintenance | (8,027) | (9,602) | (10,522) |
| Total cost of sales | (25,318) | (27,868) | (30,043) |
| Gross profit for the year..... | 2,593 | 2,701 | 3,603 |
| General and administrative expenses..... | (389) | (435) | (390) |
| Depreciation – General and administrative..... | (353) | (335) | (314) |
| Income from operating activities..... | 1,850 | 1,932 | 2,899 |
| Human resources productivity improvement programme..... | — | (125) | (634) |
| Other income and expenses, net | 429 | 407 | 296 |
| Net income for the year | 2,279 | 2,213 | 2,561 |
| Basic income per share (SAR/share): | | | |
| From operating activities for the year..... | 0.44 | 0.46 | 0.70 |
| From net income for the year | 0.55 | 0.53 | 0.61 |

BALANCE SHEET DATA

The following table shows SEC's balance sheet data as at 31 December in each of 2010, 2011 and 2012, respectively.

| | As at 31 December | | |
|---|----------------------|----------------|----------------|
| | 2010 | 2011 | 2012 |
| | <i>(SAR million)</i> | | |
| Cash and cash equivalents..... | 7,228 | 7,307 | 3,046 |
| Receivables from electricity subscribers and accrued revenues, net..... | 9,965 | 12,027 | 13,427 |
| Prepayments and other receivables, net..... | 3,635 | 4,854 | 5,194 |
| Inventories, net..... | 5,705 | 5,563 | 5,821 |
| Total current assets | 26,533 | 29,750 | 27,488 |
| Loan to an associated company..... | 366 | 366 | 366 |
| Equity investments in companies and others..... | 2,300 | 2,405 | 2,191 |
| Construction work in progress..... | 26,038 | 22,261 | 39,890 |
| Fixed assets, net..... | 135,635 | 158,673 | 168,652 |
| Total non-current assets..... | 164,339 | 183,704 | 211,098 |
| Total assets | 190,872 | 213,454 | 238,586 |
| Accounts payable..... | 21,876 | 26,241 | 34,509 |
| Accruals and other payables..... | 4,402 | 4,606 | 4,736 |
| Short term loans and current portion of long-term loans..... | 1,189 | 3,133 | 1,468 |
| Sukuk..... | — | 5,000 | — |
| Total current liabilities | 27,468 | 38,980 | 40,713 |
| Long-term loans..... | 10,632 | 13,582 | 12,197 |
| Sukuk..... | 19,000 | 14,000 | 20,563 |
| Employees' indemnities..... | 4,690 | 4,839 | 5,168 |
| Deferred revenues, net..... | 16,737 | 20,470 | 22,290 |
| Customers' refundable deposits..... | 1,295 | 1,368 | 1,454 |
| Long-term Government payables..... | 44,244 | 49,047 | 58,487 |
| Government loans..... | 16,148 | 18,845 | 23,374 |
| Provision for change in fair value of hedging contracts..... | 388 | 432 | 371 |
| Total non-current liabilities..... | 113,135 | 122,581 | 143,904 |
| Total liabilities | 140,602 | 161,561 | 184,617 |
| Share capital..... | 41,666 | 41,666 | 41,666 |
| Statutory reserve..... | 1,333 | 1,554 | 1,811 |
| General reserve..... | 536 | 538 | 540 |
| Retained earnings..... | 7,122 | 8,566 | 10,323 |
| Net change in fair value of hedging contracts..... | (388) | (432) | (371) |
| Total shareholders' equity | 50,270 | 51,893 | 53,969 |
| Total liabilities and shareholders' equity | 190,872 | 213,454 | 238,586 |

STATEMENT OF CASH FLOWS DATA

The following table shows SEC's statement of cash flows data for the three years ended 31 December 2010, 2011 and 2012, respectively.

| | Year ended 31 December | | |
|--|------------------------|----------|----------|
| | 2010 | 2011 | 2012 |
| | <i>(SAR million)</i> | | |
| Net cash from operating activities..... | 17,003 | 17,545 | 21,997 |
| Net cash used in investing activities..... | (27,349) | (29,322) | (38,208) |
| Net cash from financing activities..... | 14,691 | 11,856 | 11,950 |
| Net change in cash and cash equivalents during the year..... | 4,345 | 79 | (4,261) |
| Cash and cash equivalents, beginning of the year..... | 2,883 | 7,228 | 7,307 |
| Cash and cash equivalents, end of the year..... | 7,228 | 7,307 | 3,046 |

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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

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

See "Presentation of financial information" for a discussion of the source of the numbers presented in this section.

OVERVIEW

SEC and its subsidiaries and affiliates (taken as a whole, the **SEC Group**) is the Kingdom's monopoly integrated electricity generation, transmission and distribution business and is, directly or indirectly, 81 per cent. owned by the Government. SEC has been rated A1 by Moody's, AA- by Fitch and AA- by S&P.

The SEC Group's principal business activities are the generation, transmission and distribution of electricity within the Kingdom, the largest economy in the GCC. The SEC Group's total sales of electricity were 240,288 GWh in 2012, of which 120,246 GWh (50.0 per cent.) was sold to residential customers, 41,711 GWh (17.4 per cent.) was sold to industrial customers, 39,264 GWh (16.3 per cent.) was sold to commercial customers and 30,349 GWh (12.6 per cent.) was sold to governmental customers. The balance of 8,718 GWh (3.6 per cent.) was sold to other customers, such as agricultural customers, SWCC and other customers.

For the year ended 31 December 2012, the SEC Group's total operating revenue was SAR 33,646 million (compared to SAR 30,570 million for the year ended 31 December 2011 and SAR 27,911 million for the year ended 31 December 2010) and its net income was SAR 2,561 million (compared to SAR 2,213 million for the year ended 31 December 2011 and SAR 2,279 million for the year ended 31 December 2010). As at 31 December 2012, the SEC Group's total assets were SAR 238,586 million (compared to SAR 213,454 million as at 31 December 2011 and SAR 190,872 million as at 31 December 2010).

PRINCIPAL FACTORS AFFECTING RESULTS OF OPERATIONS

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

Growth in customer demand

Energy consumption by the SEC Group's customers increased from 212,263 GWh in 2010 to 219,661 GWh in 2011 (an increase of 3.5 per cent. in 2011) and to 240,288 GWh in 2012 (an increase of 9.4 per cent. in 2012). This increase in consumption was driven by commercial customers, where consumption increased by 12.9 per cent. in 2011 and by 20.8 per cent. in 2012. Within the other principal customer categories, the changes were an increase of 9.2 per cent. and a decrease of 1.0 per cent. for industrial customers in 2011 and 2012, respectively; a 3.5 per cent. decrease and a 10.3 per cent. increase for governmental customers in 2011 and 2012, respectively; and increases of 0.6 per cent. and 10.1 per cent. for residential customers in 2011 and 2012, respectively.

The growth in demand for electricity in the Kingdom has been primarily driven by growth in customer numbers. Since it was established in 2000, the number of the SEC Group's customers has increased each year, reaching 6.0 million at 31 December 2010 (an increase of 5.2 per cent. in 2010), 6.3 million at 31 December 2011 (an increase of 5.7 per cent. in 2011) and 6.7 million at 31 December 2012 (an increase of 6.2 per cent. in 2012). Another factor driving the growth in demand for electricity is the increasing proximity to and overlap of Ramadan with the summer months, leading to increased peak demand during the summer months, as a result of two peak demand periods coinciding. As customers consume more electricity, they upgrade to a higher tariff band, thereby

resulting in increased revenues, as a result of increased electricity consumption at higher tariffs. See “*Description of SEC’s business – Tariffs*”.

Regulated tariffs

Substantially all of the SEC Group’s operating revenues are derived from the sale of electricity to customers within the Kingdom. Tariffs in respect of these sales are determined by the Council of Ministers on the recommendation of ECRA (in the case of residential customers) and, subject to some limitations, by ECRA (in the case of all other customers), although such tariffs must not exceed SAR 0.26/KWh. See “*Description of SEC’s business – Tariffs*”.

Prior to July 2010, the electricity tariff in force in the Kingdom had remained largely unchanged since 2000 and reflected:

- a flat rate tariff of SAR 0.12 per KWh for industrial and certain medical and educational users;
- a variable tariff ranging from SAR 0.05 per KWh to SAR 0.38 per KWh based on amount consumed for residential, commercial and government users; and
- a variable rate tariff ranging from SAR 0.05 per KWh to SAR 0.12 per KWh based on amount consumed for agricultural and certain religious and charitable users.

As of July 2010, a revised tariff structure was implemented for government, commercial and industrial customers, while the residential tariff remained unchanged. Under this revised tariff, governmental users pay a flat rate of SAR 0.26 per KWh used, commercial customers pay a variable tariff ranging from SAR 0.12 per KWh to SAR 0.26 per KWh based on amount consumed and industrial customers pay a variable rate based on amount consumed and time of year in which the consumption takes place as well as, for those customers with digital meters, the time of day during which consumption takes place.

The tariff changes implemented in July 2010 increased the SEC Group’s revenues by SAR 1.5 billion in the second half of that year and by SAR 1.7 billion in the first half of 2011, in each case compared to the equivalent period of the previous year. Overall, revenues from the sale of electricity rose by SAR 2.7 billion in 2011 primarily as a result of these tariff changes.

Cost and availability of fuel

All natural gas and liquid fuel (comprising diesel, light crude oil and heavy fuel oil) for the SEC Group’s generation plants is supplied by Saudi Aramco under long-term arrangements which require Saudi Aramco to supply fuel to the SEC Group at prices which are set by the Government, which are currently below the market price for such fuel. Furthermore, based on the Council of Ministers’ Resolution no. 227 dated 09/09/1427H (corresponding to 02/10/2006G) (**Resolution no. 227**), SEC defers payment to Saudi Aramco under this fuel supply arrangement. While the price of fuel supplied by Saudi Aramco has remained unchanged throughout the three years under review, there can be no assurance that the SEC Group will be able to source sufficient fuel under this arrangement with Saudi Aramco. If the SEC Group is unable to source sufficient fuel under its current arrangement with Saudi Aramco, any alternative fuel supply arrangement could adversely affect its results of operations. See “*Risk Factors – The SEC Group is dependent on a single related-party supplier of fuel at prices set by the Government*”. Notwithstanding this, fuel costs still constitute a significant portion of SEC’s operating costs, comprising 20.7 per cent. of SEC’s cost of sales for the year ended 31 December 2012.

Cost of purchased power

The SEC Group purchases power from three principal sources – SWCC, the IPPs and IWPPs and other producers that have excess capacity. Electricity is purchased from SWCC at tariffs determined by the Government and from the IPPs and IWPPs at agreed prices, under long-term power purchase agreements (through the Water and Electricity Company (WEC), in the case of IWPPs). In the year ended 31 December 2012, SEC purchased 64,624 GWh of additional electricity from third-party suppliers. While the prices paid by the SEC Group in respect of its electricity purchases have remained steady over the three years under review, the SEC Group’s electricity costs over the period under review have increased, principally as a function of increased purchases of additional fuel due to an increase in electricity demand. There can be no assurance that the prices charged by these third-party suppliers will remain steady, and any increase could adversely affect the SEC Group’s results of operations.

Relationship with the Government

The Government is SEC's controlling shareholder and has the power to appoint the majority of SEC's board of directors. In addition to being its controlling shareholder, the Government is also the SEC Group's largest customer as well as its regulator. The Government has in the past provided, and is expected to continue in the future to provide, significant financial support to the SEC Group. In the past, this support has taken the form of subsidised loans, the waiver of dividends, higher tariffs for electricity supplied to governmental customers, the provision of subsidised fuel through Saudi Aramco, permission to defer payment for fuel supplied by Saudi Aramco, power purchased from SWCC and municipality fees and the assumption of responsibility for significant payables owed to Saudi Aramco. See "*Description of SEC's business – Relationship with the Government*" for further details regarding the SEC Group's relationship with the Government.

Seasonality

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

Significant capital expenditure programme

The SEC Group is currently undertaking a significant capital expenditure programme which is described under "*Liquidity and capital resources – Capital expenditure*". In order to fund this capital expenditure, SEC expects to use cash flow from operations and to increase its borrowings significantly in future years. Reflecting the fact that SEC's practice is to capitalise the interest on all long-term borrowings, see "*Significant accounting policies – Capitalisation of borrowing costs*", this increased borrowing is not expected to materially impact the SEC Group's income statement in future years. However, the increased capital expenditure is expected to result in a material increase in the SEC Group's fixed assets and, as a result, the SEC Group's depreciation charge in future years is likely to continue to increase. Furthermore, increased indebtedness undertaken in connection with the capital expenditure programme is expected to increase the SEC Group's finance costs. See "*Risk Factors – SEC may not be able to obtain sufficient funding to finance and may be subject to increased financing risk as a result of undertaking increased indebtedness in connection with its planned capital expenditures programme and indebtedness*".

EXPLANATION OF KEY INCOME STATEMENT ITEMS

Operating revenue

Operating revenue includes revenues from electricity sales; revenues from meter reading, maintenance and bills preparation tariff; revenues from electricity connection tariff; and other operating revenues.

Cost of sales

Cost of sales includes fuel expenses; payments for electricity purchased pursuant to long-term purchase energy agreements with IPPs and IWPPs; expenses relating to operations and maintenance, principally expenses relating to employees and employee benefits, operation and maintenance expenses relating to contractors, provision for doubtful receivables, such as unpaid bills, and provision for slow moving inventory, fees paid to municipalities, and other expenses; and expenses recognised for the depreciation of generation, transmission and distribution of assets and general property depreciation.

General and administrative expenses

General and administrative expenses include expenses relating to employees and employee benefits, materials, provision for slow moving inventory and other expenses.

Human resources productivity improvement programme

The human resources productivity improvement programme represents the present value of future payments which SEC has committed to pay according to the programme's plan and conditions. The programme is intended to improve and align human resources with business requirements.

Other income and expenses, net

Other income and expenses, net includes the proceeds from the disposal of fixed assets; proceeds from penalties assessed on customers for late payment of bills; profit or loss from SEC's share in investee companies accounted for under the equity method which comprises the GCCIA, WEC and Rabigh Electricity Company; proceeds from the sale of tender documents; and other income.

RESULTS OF OPERATIONS

Income statement

The following table shows SEC's income statement data as at 31 December in each of 2010, 2011 and 2012, respectively.

| | Year ended 31 December | | |
|---|------------------------|-----------------|-----------------|
| | 2010 | 2011 | 2012 |
| | <i>(SAR million)</i> | | |
| Electricity sales | 25,873 | 28,280 | 31,102 |
| Meter reading, maintenance and bills preparation tariff | 841 | 883 | 938 |
| Electricity connection tariff | 1,197 | 1,331 | 1,516 |
| Other operating revenue | — | 76 | 91 |
| Total operating revenue | 27,911 | 30,570 | 33,646 |
| Fuel | (5,797) | (5,771) | (6,229) |
| Purchased energy | (3,742) | (4,256) | (4,565) |
| Operations and maintenance | (7,753) | (8,239) | (8,727) |
| Depreciation – Operations and maintenance | (8,027) | (9,602) | (10,522) |
| Total cost of sales | (25,318) | (27,868) | (30,043) |
| Gross profit for the year | 2,593 | 2,701 | 3,603 |
| General and administrative expenses | (389) | (435) | (390) |
| Depreciation – General and administrative | (353) | (335) | (314) |
| Income from operating activities | 1,850 | 1,932 | 2,899 |
| Human resources productivity improvement programme | — | (125) | (634) |
| Other income and expenses, net | 429 | 407 | 296 |
| Net income for the year | 2,279 | 2,213 | 2,561 |
| Basic income per share (SAR/share): | | | |
| From operating activities for the year | 0.44 | 0.46 | 0.70 |
| From net income for the year | 0.55 | 0.53 | 0.61 |

Comparison of years ended 31 December 2010, 2011 and 2012

Operating revenue

The table below shows the breakdown of the SEC Group's operating revenue for each of 2010, 2011 and 2012.

| | Year ended 31 December | | | | | |
|---|------------------------|---------------------|----------------------|---------------------|----------------------|---------------------|
| | 2010 | | 2011 | | 2012 | |
| | <i>(SAR million)</i> | <i>(% of total)</i> | <i>(SAR million)</i> | <i>(% of total)</i> | <i>(SAR million)</i> | <i>(% of total)</i> |
| Electricity sales | 25,873 | 92.7 | 28,280 | 92.5 | 31,102 | 92.4 |
| Meter reading, maintenance and bills preparation tariff | 841 | 3.0 | 883 | 2.9 | 938 | 2.8 |
| Electricity connection tariff | 1,197 | 4.3 | 1,331 | 4.4 | 1,516 | 4.5 |
| Other operating revenue | — | — | 76 | 0.2 | 91 | 0.3 |
| Total operating revenue | 27,911 | 100.0 | 30,570 | 100.0 | 33,646 | 100.0 |

The SEC Group's operating revenue principally comprises its revenues from the sale of electricity to its customers. Electricity sold is either self-generated or purchased from third-party generators. The table below shows the proportion of electricity sales by each customer segment for each of 2010, 2011 and 2012.

| | Year ended 31 December | | | | |
|--------------------------------------|------------------------|---------------|------------|---------------|-------------|
| | 2010 | 2011 | | 2012 | |
| | (SAR million) | (SAR million) | (% change) | (SAR million) | (% change) |
| Residential | 8,680 | 8,486 | (2.2) | 9,392 | 10.7 |
| Commercial | 4,486 | 5,877 | 31.0 | 7,002 | 19.1 |
| Government | 6,928 | 7,158 | 3.3 | 7,891 | 10.2 |
| Industrial | 5,059 | 6,003 | 18.7 | 6,005 | — |
| Others | 720 | 756 | 5.0 | 812 | 7.4 |
| Total electricity sales | 25,873 | 28,280 | 9.3 | 31,102 | 10.0 |

In the years ended 31 December 2010, 2011 and 2012, the SEC Group generated 87.9 per cent., 86.6 per cent. and 86.2 per cent. of the electricity which it sold to customers in the Kingdom. In the year ended 31 December 2012, the SEC Group accounted for the majority of the electricity generation capacity in the Kingdom. As at 31 December 2012, SEC owned, or was the sole off-taker under long-term power purchase agreements in respect of, all of the available generation capacity in the Kingdom other than certain capacity generated and utilised principally for its own use by Saudi Aramco. The SEC Group also derives operating revenue from the monthly tariff charged for meter reading, maintenance and bills preparation and a one-off tariff charged for making initial electricity connections. The monthly tariff is determined by reference to the capacity of the meter used by each customer while the one-off tariff is paid by the customer at the time of connecting to the grid but deferred by SEC and recognised in its accounts on a straight line basis over the 20-year estimated average useful life of the equipment being installed. As a result, monthly tariff revenues are expected to continue to increase in future years.

The SEC Group also records other operating revenue from fees charged for reconnecting customers who have been disconnected for non payment of bills and from Dawiyat Telecom Company, a wholly-owned subsidiary established in 2009 to lease fibre optic networks to telecommunications companies. The SEC Group expects that revenue from Dawiyat Telecom Company will increase in future years, although the amounts are currently not material in the context of the SEC Group's income statement.

The SEC Group's total operating revenue for 2010 amounted to SAR 27,911 million compared to SAR 30,570 million for 2011 and SAR 33,646 million for 2012.

2012 and 2011

The increase in the SEC Group's total operating revenue of SAR 3,077 million, or 10.1 per cent., in 2012 compared to 2011 principally reflected an increase of SAR 2,821 million, or 10.0 per cent., in revenue from the sale of electricity. This increase was driven by a combination of increased sales to the SEC Group's residential, commercial and Government customers, partly as a result of increased customer numbers across each of the major customer categories, and certain non-Government customers migrating onto a higher tariff level due to increased usage. Sales to commercial customers increased by 20.8 per cent. from 2011 to 2012, while sales to residential customers and the Government increased by 10.1 per cent. and 10.3 per cent. during the same period.

The SEC Group's revenue from meter reading, maintenance and bills preparation increased by SAR 54 million, or 6.2 per cent., in 2012 compared to 2011, principally reflecting an increase in customer numbers over the period.

The SEC Group's revenue from electricity connections increased by SAR 185 million, or 13.9 per cent., in 2012 compared to 2011, principally an increase in the number of new connections which totalled 414,024 in 2012.

2011 and 2010

The increase in the SEC Group's total operating revenue of SAR 2,659 million, or 9.5 per cent., in 2011 compared to 2010 principally reflected an increase of SAR 2,408 million, or 9.3 per cent., in revenue from the sale of electricity. This increase was driven by an increase in the tariff for certain customers which became effective on 1 July 2010 and which contributed SAR 1,457 million, or 60.5 per cent., of the increase in electricity sales in 2011 and by increasing demand for electricity from the SEC Group's customers, principally commercial and industrial customers. Electricity sales to commercial customers and industrial customers increased by 12.9 per cent. and 9.2 per cent., respectively.

The SEC Group's revenue from meter reading, maintenance and bills preparation increased by SAR 42 million, or 5.0 per cent., in 2011 compared to 2010, principally reflecting an increase in customer numbers over the period.

The SEC Group's revenue from electricity connections increased by SAR 210 million, or 17.5 per cent., in 2011 compared to 2010, principally reflecting an increase of in the number of new connections which totalled 363,318 in 2011.

Cost of sales

The table below shows the breakdown of the SEC Group's cost of sales for each of 2010, 2011 and 2012.

| | Year ended 31 December | | | | | |
|--|------------------------|--------------|-----------------|--------------|-----------------|--------------|
| | 2010 | | 2011 | | 2012 | |
| | (SAR million) | (% of total) | (SAR million) | (% of total) | (SAR million) | (% of total) |
| Fuel | (5,797) | 22.9 | (5,771) | 20.7 | (6,229) | 20.7 |
| Purchased energy | (3,742) | 14.8 | (4,256) | 15.3 | (4,565) | 15.2 |
| Operations and maintenance | (7,753) | 30.6 | (8,239) | 29.6 | (8,727) | 29.0 |
| <i>of which:</i> | | | | | | |
| <i>Employees' expenses and benefits</i> | <i>(4,023)</i> | <i>15.9</i> | <i>(4,490)</i> | <i>16.1</i> | <i>(4,248)</i> | <i>14.1</i> |
| <i>Materials.....</i> | <i>(1,114)</i> | <i>4.4</i> | <i>(1,056)</i> | <i>3.8</i> | <i>(1,052)</i> | <i>3.5</i> |
| <i>Operation and maintenance contractors</i> | <i>(703)</i> | <i>2.8</i> | <i>(879)</i> | <i>3.2</i> | <i>(887)</i> | <i>3.0</i> |
| <i>Municipality fees.....</i> | <i>(394)</i> | <i>1.6</i> | <i>(437)</i> | <i>1.6</i> | <i>(483)</i> | <i>1.6</i> |
| <i>Provision for doubtful receivables</i> | <i>(258)</i> | <i>1.0</i> | <i>(122)</i> | <i>0.4</i> | <i>(252)</i> | <i>0.8</i> |
| <i>Provision for slow moving inventory</i> | <i>(9)</i> | <i>—</i> | <i>(50)</i> | <i>0.2</i> | <i>(144)</i> | <i>0.5</i> |
| <i>Other.....</i> | <i>(1,252)</i> | <i>5.0</i> | <i>(1,205)</i> | <i>4.3</i> | <i>(1,659)</i> | <i>5.5</i> |
| Depreciation – operations and maintenance | (8,027) | 31.7 | (9,602) | 34.5 | (10,522) | 35.0 |
| Total cost of sales..... | (25,318) | 100.0 | (27,868) | 100.0 | (30,043) | 100.0 |

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

The SEC Group's total cost of sales for 2010 amounted to SAR 25,318 million compared to SAR 27,868 million for 2011 and SAR 30,043 million for 2012.

2012 and 2011

The increase in the SEC Group's cost of sales of SAR 2,175 million, or 7.8 per cent., in 2012 compared to 2011 principally reflected:

- an increase of SAR 921 million, or 9.6 per cent., in depreciation arising from an increase in depreciable assets due to an expanded asset base as a result of the completion of various construction projects over the course of 2012. See “– *Liquidity and Capital Resources – Capital expenditure*”;
- an increase of SAR 488 million, or 5.9 per cent., in operations and maintenance costs, driven primarily by an increase of SAR 131 million, or 107.4 per cent., in the provision for doubtful receivables in the distribution business unit due to an increase in the number of accounts that are more than 24 months outstanding, an increase of SAR 46 million, or 10.5 per cent., in municipality fees for customary municipal services due to an increase in electricity sales and the number of customers, and an increase of SAR 94 million, or 186.5 per cent., in the provision for slow moving inventory, largely in the generation and distribution business units, to provide for the potential obsolescence of such inventory;
- an increase of SAR 457 million, or 7.9 per cent., in fuel costs mainly due to an increase in the amount of fuel consumed as a result of an increase in the amount of electricity produced by SEC-owned power plants of 8.9 per cent.; and
- an increase of SAR 309 million, or 7.3 per cent., in purchased energy. Of this, power purchased from IWPPs and IPPs in which SEC has a shareholding accounted for SAR 226 million, or 72.9 per cent., of the increase.

2011 and 2010

The increase in the SEC Group's cost of sales of SAR 2,550 million, or 10.1 per cent., in 2011 compared to 2010 principally reflected:

- an increase of SAR 1,575 million, or 19.6 per cent., in depreciation arising from an increase in depreciable assets as a result of the expansion of the SEC Group's asset base due to completion of various construction projects in 2011;
- an increase of SAR 486 million, or 6.3 per cent., in operations and maintenance costs, driven by a SAR 467 million, or 11.6 per cent., increase in employee expenses and benefits principally reflecting a Government-decreed bonus equal to two months' salary paid to all employees in March 2011. Other factors contributing to the increase in operations and maintenance costs in 2011 included a SAR 175 million, or 25.0 per cent., increase in the cost of operations and maintenance contractors, mainly from costs of maintaining a larger transmission and distribution network and a SAR 43 million, or 10.9 per cent. increase in municipality fees as a result of higher electricity sales. These increases were partially offset by a SAR 136 million, or 52.7 per cent., decrease in the provision made by SEC for doubtful accounts due to an expected decrease in doubtful accounts, as a result of a decrease in receivables from non-government consumers and a SAR 58 million, or 5.2 per cent., decrease in materials mostly due to less maintenance work in relation to generation assets and a SAR 47 million, or 3.8 per cent., decrease in other operations and maintenance costs mainly from a change in the allocation of overheads;
- an increase of SAR 514 million, or 13.8 per cent., in purchased power. Of this, power purchased from IWPPs and PPPs accounted for SAR 495 million, or 96.3 per cent., of the increase; and
- a decrease of SAR 25 million, or 0.4 per cent., in the cost of fuel mainly due to a decrease in hauling cost and less fuel usage due to greater reliance on purchased power.

Gross profit

Reflecting the above factors, the SEC Group's gross profit was SAR 2,593 million in 2010 compared to SAR 2,701 million in 2011 and SAR 3,603 million in 2012, an increase of 33.4 per cent. in 2012 compared to 2011 and an increase of 4.2 per cent. in 2011 compared to 2010.

General and administrative expenses

The SEC Group's general and administrative expenses principally comprise the cost of its general and administrative staff and materials costs charged under this heading. The SEC Group's general and administrative expenses were SAR 389 million in 2010 compared to SAR 435 million in 2011 and SAR 390 million in 2012.

The SAR 44 million, or 10.1 per cent., decrease in general and administrative expenses in 2012 compared to 2011 principally reflected lower salary costs in 2012 as a result of there not being a special bonus in 2012.

The SAR 45 million, or 11.7 per cent., increase in general and administrative expenses in 2011 compared to 2010 principally reflected an increase in the services being used by operations.

Depreciation – general and administrative

The SEC Group's depreciation charge in relation to its general and administrative assets was SAR 353 million in 2010 compared to SAR 335 million in 2011 and SAR 314 million in 2012.

The SAR 22 million, or 6.5 per cent., decrease in this depreciation charge in 2012 compared to 2011 and the SAR 18 million, or 5.1 per cent., decrease in this depreciation charge in 2011 compared to 2010 in each case principally reflected disposals of depreciable assets in 2011.

Income from operating activities

Reflecting the above factors, the SEC Group's income from operating activities was SAR 1,850 million in 2010 compared to SAR 1,932 million in 2011 and SAR 2,899 million in 2012, an increase of 50.1 per cent. in 2012 compared to 2011 and an increase of 4.4 per cent. in 2011 compared to 2010, respectively.

Human resources productivity improvement programme

The SEC Group has been pursuing a multi-year productivity improvement programme under which certain less productive employees are incentivised to terminate their employment. The incentive takes the form of an immediate lump sum payment plus future payments extending for between five and ten years.

The costs incurred by SEC in respect of this programme, which represents the lump sum amounts paid plus the present value of all future payments due, were SAR 75 million in 2010, SAR 125 million in 2011 and SAR 634 million in 2012, with the variations principally reflecting the numbers of employees leaving each year. The programme terminated at the end of 2012, so SEC does not anticipate recording future costs in respect of this programme.

Other income and expenses, net

The SEC Group's other income and expenses principally comprise its net gain or loss on the sale of fixed assets, penalties (which are collected from suppliers for late deliveries, from contractors for delays and negligence, and from other parties for damage to company properties and illegal connections), its share of the net profits or losses of equity accounted companies in which SEC has invested and fees paid in respect of tenders. The SEC Group's net other income was SAR 429 million in 2010 compared to SAR 407 million in 2011 and SAR 296 million in 2012.

The SAR 111 million, or 27.3 per cent., decrease in the SEC Group's net other income in 2012 compared to 2011 principally reflected a decrease in penalties for delayed delivery and completion of projects of SAR 45 million, or 26.2 per cent., and increased losses by SEC's equity accounted investees of SAR 18 million, or 39.3 per cent., which largely stemmed from losses made by the GCCIA due to the fact that the GCCIA is not currently earning revenue but is incurring depreciation and other expenses.

The SAR 22 million, or 5.1 per cent., decrease in the SEC Group's net other income in 2011 compared to 2010 principally reflected a SAR 72 million, or 73.6 per cent., decrease in income from the sale of fixed assets and a SAR 24 million, or 111.1 per cent., increase in SEC's share of the net loss from its equity accounted investees as described below, which were substantially offset by a SAR 54 million, or 45.7 per cent., increase in income from penalties and an increase in other income of SAR 18 million, or 8.7 per cent.

In 2010, 2011 and 2012, SEC's share of the net loss made by its equity accounted investees was SAR 22 million, SAR 46 million and SAR 64 million, respectively. These losses principally reflect losses made by the Gulf Cooperation Council Interconnection Authority (the **GCCIA**), principally as a result of the fact that the GCCIA is not currently earning revenue but is incurring depreciation and other expenses.

Net income for the year

Reflecting the above factors, the SEC Group's net income for 2010 was SAR 2,279 million compared to SAR 2,213 million for 2011 and SAR 2,561 million for 2012, an increase of 15.7 per cent. in 2012 compared to 2011 and a decrease of 2.9 per cent. in 2011 compared to 2010.

LIQUIDITY AND CAPITAL RESOURCES

Overview

The SEC Group's principal cash requirements are to fund its significant and ongoing capital expenditure programme, the principal elements of which are discussed further below. In past years the SEC Group's operating cash flow has been insufficient to fund the entirety of its capital expenditure programme and, as a result, proceeds from borrowings (including subsidised Government funding) and from securities issued have been an important source of funds for the SEC Group. With the SEC Group's capital expenditure programme expected to remain at significant levels for the foreseeable future, proceeds from borrowings are expected to continue to form an important source of funding for the SEC Group in future years, see "*Risk factors – Risk factors relating to the SEC Group and its business – SEC may not be able to obtain sufficient financing to finance, and may be subject to increased financing risk as a result of undertaking increased indebtedness in connection with, its planned capital expenditure programme*".

Budgeting and Planning

Typically, SEC's annual budgeting process is managed by the capital planning department based on the demand projections which are prepared by the system planning department in conjunction with the Government's Ministry of Planning. The demand projection is typically based on a long-term forecast, which is subject to periodic review and updating. The SEC Group's business units develop a budget and spending plan for investment based on such demand projection. Any project that has been approved in a prior budget is generally treated as committed capital expenditure. The SEC Group's capital planning department coordinates the investment plan and budget by the business units. Based on this approved budget, the SEC Group develops its funding plan for the year. To the extent the SEC Group's operating cash flow is expected to be insufficient to fund the entirety of its capital expenditure programme, the SEC Group then evaluates financing options, including borrowings and capital markets transactions. In the event that the SEC Group's internal cash flows and external borrowings are insufficient to fund its planned capital expenditure programme, SEC would either seek support from the Government or defer these planned capital expenditures.

Cash flow

The table below shows the SEC Group's cash flow from operating activities, investing activities and financing activities for each of 2010, 2011 and 2012.

| | Year ended 31 December | | |
|--|-------------------------------|-------------|-------------|
| | 2010 | 2011 | 2012 |
| | <i>(SAR million)</i> | | |
| Net cash from operating activities..... | 17,003 | 17,545 | 21,997 |
| Net cash used in investing activities..... | (27,349) | (29,322) | (38,208) |
| Net cash from financing activities | 14,691 | 11,856 | 11,950 |
| Cash and cash equivalents at year end..... | 7,228 | 7,307 | 3,046 |

The SEC Group's net cash from operating activities in 2010 was SAR 17,003 million compared to SAR 17,545 million in 2011 and SAR 21,997 million in 2012. The SEC Group's operating cash flow principally represents its net income for the year adjusted upwards to reflect its significant depreciation charges, accounts payable and deferred revenue and adjusted downwards to reflect receivables and prepayments.

The SEC Group's net cash used in investing activities in 2010 was SAR 27,349 million compared to SAR 29,322 million in 2011 and SAR 38,208 million in 2012. In each year, the principal investments made were in construction work in progress in relation to the SEC Group's capital expenditure programme. In 2010, the SEC Group's construction work in progress aggregated SAR 28,332 million (including capitalised net financing costs of SAR 1,070 million). In 2011, the SEC Group's construction work in progress aggregated SAR 28,972 million (including capitalised net financing costs

of SAR 1,151 million). In 2012, the SEC Group's construction work in progress aggregated SAR 38,144 million (including capitalised net financing costs of SAR 1,222 million). For a breakdown of these costs between generation, transmission and distribution projects, see “ – *Capital expenditure*”.

The SEC Group's net cash from financing activities in 2010 was SAR 14,691 million compared to SAR 11,856 million in 2011 and SAR 11,950 million in 2012. SEC's financing activities principally comprise net new financing raised (in the form of loans from banks and from the Government as well as through the issue of sukuk) and the payment of dividends. In 2012, SEC raised net new financing of SAR 12,483 million and paid dividends of SAR 533 million. In 2011, SEC raised net new financing of SAR 12,393 million and paid dividends of SAR 538 million. In 2010, SEC raised net new financing of SAR 15,231 million and paid dividends of SAR 540 million.

Capital expenditure

As noted above under “– *Budgeting and planning*”, SEC's capital expenditure is based on meeting anticipated future demand for electricity in the Kingdom. Although SEC may prepare long-term demand forecasts and preliminary capital expenditure plans based on these forecasts, these plans are subject to material change from year to year.

The table below shows the SEC Group's capital expenditure on construction work in progress for each of 2010, 2011 and 2012.

| | Year ended 31 December | | |
|--|------------------------|---------------|---------------|
| | 2010 | 2011 | 2012 |
| | (SAR million) | | |
| Generation projects | 15,424 | 13,772 | 18,481 |
| Transmission projects | 6,407 | 7,121 | 9,746 |
| Distribution projects | 3,931 | 7,710 | 8,929 |
| General projects | 276 | 369 | 988 |
| Total construction work in progress | 26,038 | 28,972 | 38,144 |

Note:

(1) The net financing cost capitalised on construction work in progress was SAR 1,070 million in 2010, SAR 1,151 million in 2011 and SAR 1,222 million in 2012, and is included in the amounts stated in the table.

The table below shows details of the installed generation capacity that was added in 2012.

| Project Description | Region | Generation capacity (MW) | Project cost (SAR million) | Date units commissioned | Number of units |
|--|---------|--------------------------|----------------------------|-------------------------|-----------------|
| Qurayat power plant expansion | Eastern | 137 | 645.0 | April 2012 | 2 |
| PP 10 expansion | Central | 472 | 2,346.0 | June 2012 | 8 |
| Al Jouf | Eastern | 56 | 225.0 | July 2012 | 1 |
| Al-Qassim expansion | Central | 473 | 1,710.0 | July 2012 | 8 |
| Al-Quraya power plant (CC) expansion | Eastern | 378 | 2,235.0 | July 2012 | 3 |
| Hail power plant expansion ... | Central | 267 | 891.3 | July 2012 | 4 |
| Rafha power plant expansion. | Eastern | 140 | 568.0 | September 2012 | 2 |
| Tabuk expansion 7 | Western | 122 | 420.0 | November 2012 | 2 |
| Total | | 2,046 | 9,040.3 | | 30 |

The SEC Group's transmission and distribution capital expenditure in 2012 principally related to extending the length of the networks, increasing the number of substations, improving transmission interconnectivity and connecting new distribution customers.

Committed and planned capital expenditure

As at 31 December 2012, the SEC Group had budgeted capital expenditure of SAR 48.4 billion, as laid out in the annual budget for 2013. These commitments reflect amounts which the SEC Group has received relevant approvals to spend in future years (which includes both legally binding and discretionary payments), although a significant proportion of the expenditure is expected to be incurred in the year ending 31 December 2013.

The table below shows the SEC Group's commitments in respect of its long-term loans and purchase obligations as at 31 December 2012.

| | Payments due in | | | | Total payments due |
|----------------------------|-----------------------------|---------------------|---------------------|------------------------------|-----------------------------------|
| | Less than 1 year | 1 to 3 years | 3 to 5 years | More than 5 years | |
| | <i>(SAR million)</i> | | | | |
| Long-term loans | 1,468 | 2,948 | 2,957 | 6,291 | 13,665 |
| Purchase commitments | 6,634 | 18,380 | 21,083 | 12,598 | 58,695 |
| Total | 8,102 | 21,328 | 24,041 | 18,889 | 72,360 |

Generation

The SEC Group plans to continue increasing its power generation capacity. The following table shows details of the generation projects that the SEC Group expects to commission in the period to 2017. The SEC Group expects to invest approximately SAR 65 million in generation projects during this period.

| Project Description | Region | Contracted Capacity (MW) | Planned date for commissioning first unit |
|--|---------------|---|--|
| Sharorah..... | Southern | 129 | 2013 |
| Najran air cooling (Najran expansion 1)..... | Southern | 56 | 2013 |
| Najran expansion 2 | Southern | 56 | 2013 |
| Aljouba power plant expansion 3 | Southern | 62 | 2013 |
| Aljouba power plant expansion 4 | Southern | 62 | 2013 |
| Tabuk extension 8 | Western | 129 | 2013 |
| Qurayat power plant extension | Eastern | 125 | 2013 |
| Al Shuaibah (CC) | Western | 1,238 | 2013 |
| Al-Wajh power plant 2 | Western | 211 | 2013 |
| Rabigh 6 steam power plant | Western | 2,555 | 2014 |
| PP 10 steam part | Central | 1,036 | 2014 |
| Qurayat power plant extension | Eastern | 120 | 2014 |
| PP12 (CC) | Central | 2,056 | 2014 |
| South Jeddah power plant phase 1 | Western | 2,400 | 2015 |
| Rafha power plant 2 expansion | Eastern | 60 | 2016 |
| Al Shaqiq power plant | Southern | 2,400 | 2016 |
| Rafha power plant (CC) | Eastern | 100 | 2017 |
| Total | | 12,795 | |

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

Transmission

The SEC Group is planning to continue the extension of its transmission network in order to minimise congestion, interconnect isolated regions and connect new power plants to the grid.

Expenditure in upgrading the transmission network is estimated to be between SAR 16 and 23 billion per annum for each year from 2013 to 2017.

Distribution

The SEC Group estimates that it will spend between SAR 11 billion and SAR 13 billion per annum over the period from 2013 to 2017 in expanding, maintaining and improving its distribution network.

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

ANALYSIS OF CERTAIN BALANCE SHEET ITEMS

The following table shows SEC's balance sheet data as at 31 December in each of 2010, 2011 and 2012, respectively.

| | As at 31 December | | |
|--|-------------------|----------------|----------------|
| | 2010 | 2011 | 2012 |
| | (SAR million) | | |
| Cash and cash equivalents | 7,228 | 7,307 | 3,046 |
| Receivables from electricity subscribers and accrued revenues, net | 9,965 | 12,027 | 13,427 |
| Prepayments and other receivables, net | 3,635 | 4,854 | 5,194 |
| Inventories, net | 5,705 | 5,563 | 5,821 |
| Total current assets | 26,533 | 29,750 | 27,488 |
| Loan to an associated company | 366 | 366 | 366 |
| Equity investments in companies and others | 2,300 | 2,405 | 2,191 |
| Construction work in progress | 26,038 | 22,261 | 39,890 |
| Fixed assets, net | 135,635 | 158,673 | 168,652 |
| Total non-current assets | 164,339 | 183,704 | 211,098 |
| Total assets | 190,872 | 213,454 | 238,586 |
| Accounts payable | 21,876 | 26,241 | 34,509 |
| Accruals and other payables | 4,402 | 4,606 | 4,736 |
| Short term loans and current portion of long-term loans | 1,189 | 3,133 | 1,468 |
| Sukuk | — | 5,000 | — |
| Total current liabilities | 27,468 | 38,980 | 40,713 |
| Long-term loans | 10,632 | 13,582 | 12,197 |
| Sukuk | 19,000 | 14,000 | 20,563 |
| Employees' indemnities | 4,690 | 4,839 | 5,168 |
| Deferred revenues, net | 16,737 | 20,470 | 22,290 |
| Customers' refundable deposits | 1,295 | 1,368 | 1,454 |
| Long-term Government payables | 44,244 | 49,047 | 58,487 |
| Government loans | 16,148 | 18,845 | 23,374 |
| Provision for change in fair value of hedging contracts | 388 | 432 | 371 |
| Total non-current liabilities | 113,135 | 122,581 | 143,904 |
| Total liabilities | 140,602 | 161,561 | 184,617 |
| Share capital | 41,666 | 41,666 | 41,666 |
| Statutory reserve | 1,333 | 1,554 | 1,811 |
| General reserve | 536 | 538 | 540 |
| Retained earnings | 7,122 | 8,566 | 10,323 |
| Net change in fair value of hedging contracts | (388) | (432) | (371) |
| Total shareholders' equity | 50,270 | 51,893 | 53,969 |
| Total liabilities and shareholders' equity | 190,872 | 213,454 | 238,586 |

Assets

The SEC Group's most significant assets are its fixed assets and construction work in progress which, together, comprised 87.4 per cent. of its assets at 31 December 2012 compared to 84.8 per cent. at 31 December 2011 and 84.7 per cent. at 31 December 2010. The SEC Group's fixed assets principally comprise its generation, transmission and distribution machinery and equipment, see "*Description of the SEC Group's business – businesses*" and its construction work in progress is described under "*– Liquidity and capital resources – Capital expenditure*".

The SEC Group's most significant current assets are its receivables from electricity consumers. The table below shows details of the SEC Group's total receivables from electricity subscribers at 31 December in each of 2010, 2011 and 2012.

| | As at 31 December | | |
|--|--|-------------|-------------|
| | 2010 | 2011 | 2012 |
| | <i>(SAR million, except percentages)</i> | | |
| Total receivables from electricity subscribers | 11,080 | 13,346 | 14,919 |
| As a percentage of total assets (in %) | 5.8 | 6.3 | 6.3 |
| Receivables from Government-owned customers ⁽¹⁾ | 1,831 | 2,244 | 2,461 |
| Provision for doubtful receivables | (2,379) | (2,501) | (2,753) |
| Provision rate (in %) ⁽²⁾ | 21.5 | 18.7 | 18.5 |

Notes:

(1) Saudi Aramco and SWCC.

(2) Provisions divided by gross receivables.

The table below shows a breakdown of SEC's receivables from electricity customers at 31 December in each of 2010, 2011 and 2012.

| | As at 31 December | | |
|--|--------------------------|---------------|---------------|
| | 2010 | 2011 | 2012 |
| | <i>(SAR million)</i> | | |
| Government institutions | 1,072 | 2,870 | 4,365 |
| Commercial and residential | 5,388 | 4,862 | 4,232 |
| Special customers (VIPs) | 2,216 | 2,359 | 2,502 |
| Saudi Aramco | 1,468 | 1,908 | 2,229 |
| Electricity connection receivables | 572 | 1,011 | 1,360 |
| SWCC | 363 | 336 | 232 |
| Total gross electricity receivables | 11,080 | 13,346 | 14,919 |

Since SEC's inception in 2000, the Government has not paid SEC for electricity usage in full and SEC has not paid for fuel supplied by Saudi Aramco or power purchased from SWCC. See "Description of SEC's business – Relationship with the Government".

Liabilities

The SEC Group's most significant liabilities are its borrowings (including Government loans), its long-term Government payables, its accounts payable and its net deferred revenue (which represents the deferred amount of the connection tariff charged to new subscribers, see "– Results of operations – Comparison of 2010, 2011 and 2012 – Operating revenues"). Together, these liabilities accounted for 93.6 per cent. of its total liabilities at 31 December 2012 compared to 93.0 per cent. at 31 December 2011 and 92.3 per cent. at 31 December 2010.

Information on SEC's borrowings in the form of long-term loans and sukuk and its Government borrowings is set out under "Description of other indebtedness".

In 2010, 24.1 per cent. of SEC's accounts payable related to outstanding fuel payments to Saudi Aramco, 36.9 per cent. related to outstanding energy payments to SWCC and 12.8 per cent. related to outstanding municipality fees. In 2010 and 2011, SAR 41.0 billion in accounts payable for fuel supplied to SEC by Saudi Aramco in respect of the period from SEC's incorporation to 31 December 2009 were transferred to the Government and recorded as long-term Government payables, pursuant to the minutes of the meeting of the Council of Ministers dated 15/05/1427H (corresponding to 11/06/2006G) and 06/02/1433H (corresponding to 31/12/2011G) and the Council of Ministers' Resolution no. 277. In addition, long-term Government payables at 31 December 2012 include SAR 16.8 billion representing the difference between the nominal value and the present value of the subsidised loans made by the Government to SEC. SEC's long-term Government payables amounted to SAR

58,487 million at 31 December 2012, SAR 49,047 million at 31 December 2011 and SAR 44,244 million at 31 December 2010.

As at 31 December 2010, 2011 and 2012, SEC's accounts payable totalled SAR 21,876 million, SAR 26,241 million and SAR 34,509 million, of which 24.1 per cent., 39.9 per cent. and 47.1 per cent., respectively, represented payments due to Saudi Aramco. The increasing amounts of accounts payable owed to Saudi Aramco reflect the fact that SEC has continued to defer payments to Saudi Aramco for fuel supplied by Saudi Aramco. SEC also has significant accounts payable to SWCC and the municipalities, reflecting the fact that it also defers payment to SWCC for electricity which it purchases from SWCC and the fact that it defers payment of municipality fees. SEC defers these payments to Saudi Aramco, SWCC and the municipalities based on Resolution no. 227, and this is in line with historic practice. Together, the accounts payable owed to SWCC and the municipalities totalled SAR 10,885 million at 31 December 2010, SAR 11,695 million at 31 December 2011 and SAR 12,560 million at 31 December 2012.

Shareholders' equity

The table below shows SEC's shareholders' equity at 31 December in each of 2010, 2011 and 2012.

| | As at 31 December | | |
|---|-------------------|---------------|---------------|
| | 2010 | 2011 | 2012 |
| | (SAR million) | | |
| Share capital | 41,666 | 41,666 | 41,666 |
| Statutory reserve..... | 1,333 | 1,554 | 1,811 |
| General reserve | 536 | 538 | 540 |
| Retained earnings | 7,122 | 8,566 | 10,323 |
| Net change in fair value of hedging contract..... | (388) | (432) | (371) |
| Total shareholders' equity..... | 50,270 | 51,893 | 53,969 |

As at 31 December 2012, SEC's share capital is divided into 4,166,593,815 shares with a par value of SAR 10 each. SEC is required to make a transfer equal to 10 per cent. of its annual net income in each year into its statutory reserve provided that, if and for so long as the reserve exceeds 50 per cent. of its paid up share capital, the shareholders may discontinue the transfers. SEC's general reserve comprises the balance of the reserves of Saudi Consolidated Electricity Company at 5 April 2000, the date of its merger into SEC. The net change in the fair value of hedging contracts represents changes in fair value of a limited number of interest rate and currency exchange hedging contracts entered into by SEC. As these are classified as effective cash flow hedges, the changes in fair value are reflected in equity.

Principally reflecting its net profits less dividends paid in each year, the SEC Group's retained earnings have increased from SAR7,122 million at 31 December 2010 to SAR 8,566 million at 31 December 2011 and SAR 10,323 million at 31 December 2012. SEC pays dividends only to its minority shareholders as the Government has waived its entitlement to dividends until 2019, so long as the distributed profits do not exceed 10 per cent. of an SEC share's nominal value, and, in accordance with that waiver, SEC also does not pay dividends to Saudi Aramco as it is wholly-owned by the Government, see "*Description of the SEC Group's business – Disputes with Saudi Aramco*".

RELATED PARTY TRANSACTIONS

SEC's principal related party transactions are with Government agencies, ministries, Saudi Aramco and SWCC to each of which it supplies electricity. SEC also purchases fuel from Saudi Aramco and electricity from SWCC. The tariff charged to each of these entities is the same tariff charged to other consumers, except for the tariff charged to SWCC which has been determined by Governmental resolution.

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

The significant transactions and the related approximate amounts for the years ended 31 December 2010, 2011 and 2012 are as follows:

| | Year ended 31 December | | |
|--|------------------------|--------------|--------------|
| | 2010 | 2011 | 2012 |
| | (SAR million) | | |
| Sales | | | |
| Government | 6,928 | 7,151 | 7,891 |
| Saudi Aramco | 1,318 | 1,491 | 1,634 |
| SWCC | 165 | 194 | 184 |
| Total sales | 8,411 | 8,836 | 9,709 |
| Purchases and other | | | |
| Saudi Aramco | 5,592 | 5,514 | 6,161 |
| SWCC | 627 | 573 | 533 |
| Municipalities fees | 394 | 437 | 483 |
| Total purchases and other | 6,613 | 6,525 | 7,177 |

CONTINGENT LIABILITIES

SEC's contingent liabilities as at 31 December 2012 principally relate to ongoing disputes with Saudi Aramco which are discussed under "*Description of the SEC Group's business – Disputes with Saudi Aramco*". In addition, the SEC Group has contingent liabilities under certain guarantees and letters of credit aggregating as shown in the table below as at 31 December for each of 2010, 2011 and 2012.

| | As at 31 December | | |
|---|-------------------|------------|------------|
| | 2010 | 2011 | 2012 |
| | (SAR million) | | |
| Guarantees | 432 | 453 | 316 |
| Letters of credit | 63 | 0.3 | 1.2 |
| Total contingent liabilities | 495 | 453 | 317 |

DISCLOSURES ABOUT RISK

The SEC Group is exposed to a range of financial risks in its business activities, including market risks, liquidity risk and credit risk. SEC considers that the SEC Group's principal risk exposures are commission rate risk through the effects of movements in interest rates on its floating rate loans and, in 2010 and 2011, currency rate risk in relation to a specific commitment in euro, now discharged. SEC seeks to manage these risks through the use of hedging instruments which convert a portion of its floating rate exposure into a fixed rate exposure and which fixed the euro/U.S. dollar exchange rate to protect it against fluctuations in the exchange rate.

In relation to liquidity risk, SEC's policy is to maintain a minimum of SAR 1 billion in cash and cash equivalents (which is placed with a number of reputable Saudi banks in short-term time deposits). The SEC Group's principal financing requirements are in respect of its capital expenditure programme and SEC ensures that it retains sufficient flexibility within this programme to manage expenditure against the amount of finance available to it. In addition, SEC seeks to ensure that it maintains a range of available financing options, including securities issues and bank borrowings in the domestic and international capital markets and export credit agency financing. SEC has also received significant subsidised financing from the Government in the past and anticipates that such financing will continue to be available to it in the future, although no assurance is made that this will be the case.

SEC does not believe that it is exposed to significant credit risk in respect of its receivables reflecting its ability to disconnect most of its customers who do not pay their bills. SEC faces limited credit risk in respect of its cash and cash equivalent balances as well as in respect of its portfolio of investment securities.

ZAKAT

The SEC Group has not made any provision in respect of zakat payable for the years ended 31 December 2010, 2011 or 2012. This reflects the fact that for zakat purposes the SEC Group's adjusted net income and zakat base are negative.

SEC has received final zakat assessments in respect of all years up to 2008. SEC's zakat returns for 2009, 2010 and 2011 have all been submitted to the relevant authorities and are under review.

SEGMENT REPORTING

The SEC Group has not historically reported its results on a segmental basis, reflecting the fact that although its activities have been divided into generation, transmission and distribution, these activities have all complemented each other in delivering revenue to the SEC Group's customers and almost all of the SEC Group's revenue has historically been derived from the sale of electricity to its customers.

During 2012, a separate transmission company was created to hold all of SEC's transmission assets. SEC anticipates that four generation companies and a distribution company will also be created to hold its generation and distribution assets, respectively, see "*Description of the SEC Group's business – Industry overview – Restructuring of the electricity industry in the Kingdom*". Following the separation of SEC into separate generation, transmission and distribution companies, the SEC Group expects to be in a position to report separately the results of these activities on a segmental basis.

SIGNIFICANT ACCOUNTING POLICIES, CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In preparing the SEC Group's financial statements, management is required to make certain estimates, judgements and assumptions. These affect the reported amounts of the SEC Group's assets and liabilities, including disclosure of contingent assets and liabilities, at the date of the financial statements as well as the reported amounts of its revenues and expenses during the periods presented. Management bases its estimates and assumptions on historical experience and other factors that it believes to be reasonable at the time the estimates and assumptions are made and evaluates the estimates and assumptions on an ongoing basis. However, future events and their effects cannot be predicted with certainty and the determination of appropriate estimates and assumptions requires the use of judgment. Actual outcomes may differ from any estimates or assumptions made and such differences may be material to the financial statements.

The Financial Statements have been prepared in accordance with the Saudi GAAP, see "*Presentation of financial information*". Certain of the significant accounting policies applied by the SEC Group are described below. For a summary of other significant accounting policies applied by the SEC Group, see note 2 to the 2012 Financial Statements. See also "*Summary of Significant Differences between Saudi GAAP and IFRS*".

Fixed assets

The SEC Group's fixed assets are stated at historical cost and, except for land, are depreciated over their estimated operational useful lives using the straight line method. Cost includes the cost of acquisition from the supplier, direct labour costs incurred in bringing the asset into service, indirect construction costs such as finance charges, construction overheads and corporate overheads, and borrowing costs up to the date the asset enters into service.

The cost of fixed assets sold and the related accumulated depreciation are deducted from the accounts at the date of sale. The resulting gain or loss is recognised in the income statement under "Other income and expense, net".

Expenditure for repair and maintenance of fixed assets is charged to the income statement under "Operations and maintenance costs of sale". Improvements which materially increase the value of a fixed asset or extend its life are capitalised.

The estimated operational useful lives of the SEC Group's fixed assets are:

| | |
|--|----------------|
| Buildings | 20 to 30 years |
| Generation plant equipment and spare parts..... | 20 to 25 years |
| Transmission network equipment and spare parts..... | 20 to 30 years |
| Distribution network equipment and spare parts | 15 to 25 years |
| Other assets | 4 to 20 years |

Receivables from electricity consumers

These receivables represent amounts billed but not yet paid by the SEC Group's customers at the relevant balance sheet date. These amounts are stated net of any provision applied by the SEC Group in respect of those receivables whose recovery is considered doubtful.

Revenue recognition

Revenue from electricity sales is recognised when bills, prepared on the basis of electricity consumed, are issued to customers. Revenue from meter reading, maintenance and bills preparation represents a monthly fixed tariff based on the capacity of the meter used by the relevant consumer and is recognised when the bill is issued. Revenue in respect of electricity consumed but not yet billed at the balance sheet date and from meter reading, maintenance and bills preparation services performed but not yet billed at the balance sheet date is accrued under "Receivables from electricity consumers and accrued revenues, net".

Amounts paid in respect of the electricity service connection tariff, which are paid in a lump sum at the time of connection, are deferred and recognised as revenue on a straight line basis over the average useful life of the equipment used in providing the service to the customer, which is estimated to be 20 years.

Capitalisation of borrowing costs

The SEC Group's construction work in progress is not project financed but is financed, to a significant extent, by the SEC Group's long-term borrowings. Reflecting this fact, the SEC Group net borrowing cost, which represents charges on long-term loans and other finance costs, less any commission income for the period, is capitalised against allocated long-term projects. The borrowing costs capitalised on each such project is calculated on a *pro rata* basis using the capitalisation rate on the average amounts spent on each project in progress.

Investments

Investments in companies in which SEC holds between 20 per cent. and 50 per cent. of the issued share capital are accounted for using the equity method which means that the investment is initially recognised in the balance sheet at cost under equity investments in companies and other. The income statement records the SEC Group's share of the results of these companies under "Other income and expenses, net" and the carrying amount on the balance sheet is adjusted at period end to reflect the results of those entities as well as any dividends, additions, disposals or impairments during the period concerned. Where the SEC Group's share of losses exceeds its interest in an equity accounted investment, the carrying amount of that interest is reduced to nil and the recognition of further losses is discontinued save to the extent that the SEC Group has a legal or constructive obligation to contribute to such losses. The SEC Group's principal equity accounted investments are its investments in IPPs, see "*Description of the SEC Group's business – Subsidiaries and other investments – Other investments*".

Investments in companies in which SEC holds less than 20 per cent. of the issued share capital are stated at fair value. Where no reliable estimate of fair value can be made, the fair value is considered to be the cost of the investment. Income from these investments is recognised under "Other income and expenses, net" when dividends are declared by the investee company. The SEC Group's principal investments falling within this category are its minority stakes in IWPPs, see "*Description of the SEC Group's business – Subsidiaries and other investments – Other investments*".

Government loans with fixed payment terms

The SEC Group has received two Government loans with fixed payment terms. These loans are recognised at their present value using an estimated discount rate. The difference between the amount received and the present value is recorded under "Long-term Government payables" and recognised over the remaining term of the loan against the corresponding expenses. As at 31 December 2012, "Long-term Government payables" included SAR 16.8 billion, representing the difference between the proceeds from the soft loans granted by the Council of Ministers on 26 April 2010 and 13 June 2011 and the discounted present value of these loans.

Inventories

The SEC Group's inventory is stated at the lower of cost or market value and calculated using the weighted average cost, net of any provision made in respect of slow moving or obsolete items.

Inventory items that are considered to be an integral part of the SEC Group's generation plants, transmission and distribution networks, and other facilities such as strategic and reserve materials, are included in fixed assets.

Cash and cash equivalents

Cash and cash equivalents include cash on hand and at banks, and time deposits and other investments which are convertible into cash within less than three months.

DESCRIPTION OF SEC'S BUSINESS

INTRODUCTION

SEC and its subsidiaries and affiliates (taken as a whole, the **SEC Group**) is the Kingdom's monopoly integrated electricity generation, transmission and distribution business and is, directly or indirectly, 81 per cent. owned by the Government. SEC has been rated A1 by Moody's, AA- by Fitch and AA- by S&P.

The SEC Group's principal business activities are the generation, transmission and distribution of electricity within the Kingdom, the largest economy in the GCC. The SEC Group's total sales of electricity were 240,288 GWh in 2012, of which 120,246 GWh (50.0 per cent.) was sold to residential customers, 41,711 GWh (17.4 per cent.) was sold to industrial customers, 39,264 GWh (16.3 per cent.) was sold to commercial customers and 30,349 GWh (12.6 per cent.) was sold to governmental customers. The balance of 8,718 GWh (3.6 per cent.) was sold to other customers, such as agricultural customers, SWCC and other customers.

For the year ended 31 December 2012, the SEC Group's total operating revenue was SAR 33,646 million (compared to SAR 30,570 million for the year ended 31 December 2011 and SAR 27,911 million for the year ended 31 December 2010) and its net income was SAR 2,561 million (compared to SAR 2,213 million for the year ended 31 December 2011 and SAR 2,279 million for the year ended 31 December 2010). As at 31 December 2012, the SEC Group's total assets were SAR 238,586 million (compared to SAR 213,454 million as at 31 December 2011 and SAR 190,872 million as at 31 December 2010).

HISTORY

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

Subsequent reform of the electricity sector resulted in the formation of SEC, which was incorporated as a joint stock company pursuant to Royal Decree M/16 dated 06/09/1420H (corresponding to 13/12/1999G) based on Council of Ministers' Resolution no. 153 dated 05/09/1420H (corresponding to 12/12/1999G), with its headquarters located in Riyadh. Following the formation of SEC, GEC was dissolved and the four SCECOs, GEC's projects and the various electricity companies in the Northern region operating under the supervision of GEC were merged into SEC and SEC assumed all of their operations, rights and liabilities.

SEC subsequently reduced the number of operating regions to four. As of the date of this Prospectus, these regions are the Western Region (consisting of four electricity departments covering Makkah, Jeddah Madinah, Tabuk and Taif), the Eastern Region (consisting of four electricity departments covering Dammam and Al Ahsa, the Northern province, the Al-Jouf province and the northern border), the Central Region (consisting of six electricity departments covering Riyadh city and the Riyadh, Qassim, Alkharj, Dawadme and Hail provinces) and the Southern Region (consisting of four electricity departments covering the Asir, Jizan, Najran and Baha provinces).

CAPITAL STRUCTURE

SEC was incorporated as a joint stock company pursuant to Royal Decree M/16 dated 06/09/1420H (corresponding to 13/12/1999G) based on Council of Ministers' Resolution no. 153 dated 05/09/1420H (corresponding to 12/12/1999G), with its headquarters located in Riyadh.

As at 31 December 2012, SEC had an authorised share capital of SAR 41,665,938,150 divided into 4,166,593,815 shares of SAR 10 each, all of which are fully paid. Its issued share capital is approximately 74 per cent. owned by the Government and approximately 7 per cent. owned by Saudi Aramco, which is wholly owned by the Government. The remaining 19 per cent. of SEC's shares are held by the general public in the Kingdom. As at the date of this Prospectus, no shareholder other

than the Government and Saudi Aramco holds more than 5 per cent. of SEC's share capital. Since SEC's incorporation its shares have been listed on the Saudi Stock Exchange.

RELATIONSHIP WITH THE GOVERNMENT

Government as the majority owner

The Government currently owns directly, and indirectly through Saudi Aramco, approximately 81 per cent. of SEC's issued share capital. The Government is responsible for appointing five of the nine members of SEC's board of directors. Saudi Aramco is responsible for appointing one member of the Board, while the remaining three members of the Board are representatives of the private sector (see "*Management and employees*").

The Government has, as at 31 December 2012, made available to SEC two long-term interest-free loans in an aggregate amount of up to SAR 66.1 billion. In addition, a further SAR 14.9 billion in amounts due to SEC from the Government has been converted into an interest-free loan with a 25-year grace period and no fixed repayment term. See "*Description of other indebtedness – Government loans*".

The Government has also agreed, pursuant to the Council of Ministers' Resolution no. 169 dated 11/08/1419H (corresponding to 30/11/1998G), to waive its share of distributed profits for a period of ten years from SEC's establishment, so long as the distributed profits do not exceed 10 per cent. of an SEC share's nominal value. In the cases where the distribution exceeds 10 per cent. of the shares' par value, the Government shall receive the same dividends as the other shareholders. Following a request by SEC for an extension to this period, the Council of Ministers issued Resolution no. 327 dated 24/09/1430H (corresponding to 14/09/2009G) approving the extension of the government's waiver of its share of profits distributed by SEC for an additional period of ten years starting from 30/12/1430H (corresponding to 18/12/2009G).

Government as purchaser of electricity

In 2010, 2011 and 2012, the SEC Group sold a total of 30,349 GWh, 27,528 GWh and 28,526 GWh, respectively, of electricity to the Government and Government-related entities, and as a result, the Government is the SEC Group's largest customer. As the SEC Group's largest customer, historically, the SEC Group has recorded significant Government receivables, principally representing amounts owing by the Government in respect of electricity supplied to it. Between 2006 and 2009, SAR 27 billion of these receivables were paid by the Government and since then the Government has made more regular payments in respect of the electricity used by it.

Under the current tariff system set in July 2010, the Government and governmental users pay a flat rate of SAR 0.26/KWh for electricity. This compares to the variable tariffs for all other customer types which ranged between SAR 0.10/KWh and SAR 0.26/KWh for electricity. See "*Management's discussion and analysis of financial condition and results of operations – Principal factors affecting results of operations – Regulated tariffs*".

The Government is expected to settle its account in line with SEC's standard payment terms. The current basis for settling the Government's account with SEC was established by Resolution no. 227 which, among other things, required the Ministry of Finance to pay for the Government's annual consumption of electricity from the Government's general budget. See "*Management's Discussion and Analysis of Financial Condition and Results of Operation – Analysis of certain balance sheet items – Assets*". As at 31 December 2012, the total amount of Government receivables were SAR 6,825 million (which includes receivables from governmental institutions, Saudi Aramco and SWCC), and the average ageing of Government receivables was seven months.

Government as supplier of fuel

Saudi Aramco is the state-owned oil company of the Kingdom. Pursuant to Royal Decree M/96 dated 24/07/1415H (corresponding to 27/12/1994G), since 1994, Saudi Aramco is obliged to supply fuel to the SEC Group for its power generation business, at prices set by the Government. The current price set by the Government for this fuel is below the market price of such fuel.

Additionally, since SEC's inception in 2000, SEC has not paid for fuel supplied by Saudi Aramco. Following the Government's agreement to assume responsibility for these payments pursuant to the Ministerial minutes of the meeting dated 15/05/1427H (corresponding to 11/06/2006G) and 06/02/1433H (corresponding to 31/12/2011G) and the Council of Ministers' Resolution no. 277, all payables owed to Saudi Aramco in respect of the period from SEC's incorporation to 31 December 2009, in

an amount of SAR 40,959 million, were transferred from “Current liabilities” to “Long-term Government payables”.

Based on Resolution no. 227, SEC defers these payments to Saudi Aramco, resulting in significant payables balances between SEC and Saudi Aramco. At 31 December 2012, SEC had SAR 34,509 million of accounts payable, 47.1 per cent. of which represented payments due to Saudi Aramco, primarily for the supply of fuel between 31 December 2009 and 31 December 2012. SEC also defers payments to SWCC for electricity supplied by it and to other municipalities in respect of various municipality fees also based on Resolution no. 227.

Government as regulator

SEC is regulated by ECRA, as well as by the Ministry of Water and Electricity. ECRA, which was formed in November 2001G, pursuant to Council of Ministers’ Resolution no. 236 dated 27/08/1422H (corresponding to 13/11/2001G), is the government agency which regulates the electricity and co-generation industries in the Kingdom. The Ministry of Water and Electricity is the governmental entity which sets out the policies that govern the water and electricity sectors within the Kingdom.

ECRA has been granted the power to set the electricity consumption tariffs for all sectors except for the residential sector and since July 2010, ECRA has imposed the tariff for government, commercial and industrial customers which has been applied by SEC. The tariffs set by ECRA may not exceed SAR 0.26/KWh without the approval of the Council of Ministers. The tariff in respect of residential customers is set directly by the Government pursuant to Council of Ministers’ Resolution no. 170 dated 12/07/1421H (09/10/2000G) (CMR 169). The Government also regulates the prices which Saudi Aramco is permitted to charge SEC for the fuel which it supplies to SEC and these prices have historically remained at below market rates. The SEC Group is subject to environmental laws and regulations within the Kingdom which are regulated by the Presidency of Meteorology and Environment (PME; formerly known as the Meteorology and Environmental Protection Administration), the governmental entity responsible for the administration and policing of environmental affairs in the Kingdom. Pursuant to Council of Ministers’ Resolution no. 169 dated 11/08/1419H (corresponding to 30/11/1998G), as amended by CMR 169, SEC is required to conduct its operations in line with environmental guidelines set by the Government.

Government as grantor of land and rights of way

SEC rents land from the Government on which to construct generation plants and transmission and distribution lines for a nominal rent. The Government also grants rights of way to SEC for fixed assets, such as overhead and underground transmission lines.

Government financial and other support

As set out above, in addition to maintaining below market rates for SEC to obtain fuel from Saudi Aramco and allowing SEC to defer payments for this fuel to Saudi Aramco in addition to deferring payments for electricity supplied by SWCC and other municipality fees, the Government has also historically provided subsidised and interest-free loans, waived dividends and paid higher tariffs than commercial, industrial and residential customers.

The Government has, in the past provided, and is expected to continue in the future to, provide significant financial support to the SEC Group. See “– *Business Strengths – Government support*”. There is no guarantee, however, that this significant level of Government support will continue, and these arrangements are subject to change at any time (see “– *Risk Factors – The SEC Group has benefitted from significant Government support, and any reduction or delay in the level of support provided to the SEC Group could significantly and adversely affect its business, results of operations and financial condition*”).

BUSINESS STRENGTHS

The SEC Group's principal business strengths comprise:

- **The SEC Group is the monopoly supplier of electricity in the Kingdom**

The SEC Group owned, or was the sole off-taker under long-term power purchase agreements in respect of, all of the available generation capacity in the Kingdom at 31 December 2012 other than certain capacity utilised principally for its own use by Saudi Aramco. The SEC Group has a regulated monopoly position in respect of both the transmission of electric power and the distribution of electricity to consumers in the Kingdom. Under the Electricity Law, all electricity providers in the Kingdom must hold a licence from the Government. Currently, the SEC Group holds the sole licence for the transmission and distribution of electricity in the Kingdom. The SEC Group is, therefore, the monopoly integrated market provider in the electricity sector in Saudi Arabia, and this, coupled with high barriers to entry, means that SEC expects to remain the primary supplier of electricity in the Kingdom for the foreseeable future and retain its monopoly position.

- **Government support**

The Government, which effectively owns approximately 81 per cent. of SEC's issued share capital (see "*Capital structure*"), has historically been supportive in ensuring that the SEC Group can adequately meet the electricity demands of the Kingdom. Such support by the Government has included providing SEC with significant long-term interest-free loans, allowing higher tariffs for electricity supplied to governmental customers, the provision of subsidised fuel through Saudi Aramco, allowing deferred payment for this fuel in addition to power purchased from SWCC and municipality fees, and the assumption of responsibility for significant payables owed to Saudi Aramco. SEC views these forms of Government support as critical elements of its competitive strength. See "*Management's discussion and analysis of financial condition and results of operations – Relationship with the Government*".

In addition, the Government also has a strategic vision with respect to the electricity industry. As part of the ninth five-year development plan for 2010 to 2014, the Ministry of Economy and Planning has set out certain policy objectives for the electricity industry, which include enhancing the role of the electricity sector in maximising national resources and enhancing integration of the electricity sector's transmission and distribution networks regionally and internationally. See "*The Government development strategy*". In conjunction with its historical regulatory and financial support, the ninth five-year development plan demonstrates the Government's intention to continue promoting the electricity sector in the Kingdom.

- **Supply of low cost fuel and deferred payment**

Fuel costs constitute a significant portion of SEC's operating costs, comprising 20.7 per cent. of SEC's cost of sales for the year ended 31 December 2012. The SEC Group has long-term supply arrangements with Saudi Aramco under which it obtains subsidised fuel. Pursuant to a royal decree, Saudi Aramco is obliged to supply fuel to SEC, and pursuant to a Council of Ministers' resolution, SEC is permitted by the Government to defer payment for the fuel supplied to it by Saudi Aramco. These deferred fuel payments account for SEC's increasing amounts of accounts payable owed to Saudi Aramco. (see "*Fuel supply*").

- **Role within the Saudi economy**

The SEC Group has a significant economic and policy role within the Saudi economy in terms of meeting the continuing increases in demand for electricity stemming from Government-sponsored industrialisation and population growth. According to the IMF World Economic Outlook database for October 2012, the population across the Kingdom is expected to grow by 8.4 per cent. between 2012 to 2017, from 29.4 million to 31.9 million people. Consumption of electricity between 2005 and 2009 was estimated to have grown by 5.8 per cent. and is forecasted, by the Ministry of Economy and Planning in its Ninth Development Plan, to grow at an average annual rate of 6.4 per cent. SEC believes that this population growth will lead to an increase in demand for electricity by residential users, in addition to an increase in industry and economic activity and, as a result, demand and consumption of electricity by non-residential end-users. SEC's position as the Kingdom's primary electricity provider positions it to capitalise on this growth in demand.

STRATEGY

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

Increase generation capacity

SEC is taking a number of steps to increase the SEC Group's generation capacity to meet anticipated future demand, including expanding existing plants and constructing new plants. As part of its strategy to meet this anticipated demand, the SEC Group increased its generation capacity by 2,916 MW during 2010 (an increase of 7.7 per cent.), by 2,180 MW during 2011 (an increase of 5.5 per cent.) and by 2,046 MW during 2012 (an increase of 4.9 per cent.). The SEC Group plans to increase its generation capacity by 14,246 MW to 57,329 MW by the end of 2017 at an estimated total cost of SAR 78,606 million to be incurred up to and including 2017 with the aim of ensuring that generation capacity in the Kingdom is sufficient to meet peak demand in the medium to long term.

However, as the independent power sector develops (see “– *Industry overview – Restructuring of the electricity industry in the Kingdom*”), SEC believes that it may, as a result, be able to scale back further capital expenditure on new power generation projects. IPPs and IWPPs currently account for approximately 14.5 per cent. of all generation capacity in the Kingdom and SEC expects the share of generation capacity provided by IPPs and IWPPs to increase to approximately 21 per cent. in the medium term.

SEC has also developed its own IPP programme which is intended to encourage private sector investment in its power generation business. For further information about the IPP programme, see “– *Businesses – Electricity generation – IPPs and IWPPs*”. As part of the IPP programme, SEC has identified the need to construct new power plants to complement its plans to increase total generation capacity in the Kingdom which can be constructed on an IPP basis. SEC's IPP programme currently envisages the construction of five new power plants. The request for proposals (**RFP**) for the first independent power plant, the Rabigh IPP, was issued in 2008 and financing agreements for the project were concluded in 2009. The RFPs for two further independent power plants, namely the Riyadh IPP and the Qurayyah IPP, were issued in 2009 and 2010, respectively. Financing agreements for the Riyadh IPP were concluded in 2010 and for the Qurayyah IPP in 2011. SEC has selected the preferred bidder for a fourth IPP, the Rabigh II IPP. The RFP for a fifth IPP, the Dheba IPP, is expected to be issued during 2013.

Improve Transmission Network

The SEC Group is planning to continue the extension of its transmission network in order to minimise congestion, interconnect isolated regions and connect new power plants to the grid.

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

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

Expenditure in upgrading the transmission network is estimated to be approximately SAR 16 to 22 billion per annum between 2013 and 2017. Consistent with past practice, the SEC Group expects to finance this expenditure through borrowings, capital markets transactions and Government support. See “*Description of other indebtedness*”.

During the medium-to long-term (covering a period of five to 25 years) the SEC Group also aims to improve the overall “capacity factors” (that is, the ratio of a power plant's output over a period of

time as compared to its output if it had operated at full capacity) of the generation business through further investment in the transmission network.

The SEC Group's four operating regions for its transmission business are now almost fully interconnected (with interconnectivity of the transmission network within Saudi Arabia at approximately 98 per cent. as at 31 December 2012), although significant work remains in terms of increasing the capacity of certain of the major interconnection links and this is a significant focus of the SEC Group's capital expenditure programme in the transmission business.

To improve the reliability of the Kingdom's power supply, reduce costs and promote energy trading, SEC has also developed connections with transmission networks in the neighbouring GCC countries. The GCCIA, a joint stock company incorporated under the regulations of the Kingdom, was formed in 2001 by the member states of the GCC to interconnect the electricity transmission networks of the member states (see “– *Subsidiaries and other investments – Other investments – Gulf Cooperation Council Interconnection Authority*”). In addition to the GCC countries, SEC intends to develop interconnection projects with other countries in the MENA region.

The SEC Group expects to realise a number of economic and operational gains as a result of enhancing interconnectivity and increasing capacity factors, including:

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

INDUSTRY OVERVIEW

Overview

The Saudi electricity market is the largest in the Arab world, with a peak load of 51,939 MW in 2012. Demand for electricity is expected to increase in the short to medium term as a result of increased Government-sponsored industrialisation and population growth (see “– *Government development strategy*” and “*Kingdom of Saudi Arabia – Population and employment*”, respectively).

All of the generation capacity in the Kingdom in 2012, other than certain capacity utilised principally for its own use by Saudi Aramco, was either owned by the SEC Group or was committed to SEC under long-term take or pay contracts. Transmission from the generation plants to the consumption areas is through high voltage overhead lines and underground lines that had a combined total length of 51,881 c.km as at 31 December 2012. At present, the SEC Group has a monopoly on transmission of electric power in the Kingdom. The distribution network consisted of 225,476 c.km of overhead lines and 212,655 c.km of underground lines as at 31 December 2012, and the SEC Group also has a monopoly on electricity distribution to consumers in the Kingdom.

The total number of SEC's electricity customers as at 31 December 2012, 31 December 2011 and 31 December 2010 was 6,730,999, 6,341,025 and 5,997,553, respectively, representing increases of 6.2 per cent. in 2012 and 5.7 per cent. in 2011, respectively. During the years 2000 to 2012, the number of customers increased from 3,622,391 to 6,730,999, an increase of 85.8 per cent. The table below shows the distribution of SEC's customers classified by consumption type as at 31 December 2012 along with the amount of consumption for the year ended 31 December 2012.

| Type | Number of subscribers | Consumption (GWh) | Per cent. of total consumption |
|-------------------|-----------------------|-------------------|--------------------------------|
| Residential | 5,335,563 | 120,246 | 50.0 |
| Government | 214,063 | 30,349 | 12.6 |
| Commercial..... | 1,093,288 | 39,264 | 16.3 |
| Industrial..... | 8,166 | 41,711 | 17.4 |
| Other..... | 79,919 | 8,718 | 3.6 |
| Total..... | 6,730,999 | 240,288 | 100.0 |

In 2012, 2011 and 2010, the SEC Group sold a total of 240,288 GWh, 219,661 GWh and 212,263 GWh of electricity, respectively, representing increases of 9.4 per cent. and 3.5 per cent. in 2012 and

2011, respectively. Electricity sales during the years 2000 to 2012 increased by 110.7 per cent. from 114,049 GWh in 2000 to 240,288 GWh in 2012, while the non-coincident peak demand increased by 139.6 per cent. from 21,673 GW in 2000 to 51,939 GW in 2012.

The table below shows the electricity generated by the SEC Group, the electricity imported by the SEC Group from other producers, the total quantity of electricity sold by the SEC Group and the electricity losses in the SEC Group system during each of 2010, 2011 and 2012.

| | 2010 | 2011 | 2012 |
|--|----------------|----------------|----------------|
| | | <i>(GWh)</i> | |
| Electricity generated at SEC Group plants | 186,482 | 190,280 | 207,132 |
| Electricity purchased from SWCC | 16,000 | 15,037 | 14,179 |
| Electricity purchased from other producers ⁽¹⁾ | 37,585 | 44,760 | 50,445 |
| Total electricity generated and purchased | 240,067 | 250,077 | 271,756 |
| Total electricity sold | 212,263 | 219,661 | 240,288 |
| Total electricity loss in the SEC Group system | 21,214 | 23,508 | 23,857 |
| Electricity loss in the SEC Group system as a percentage of electricity generated and transmitted across SEC's transmission network (in %) | 9.1 | 9.6 | 8.9 |

Note:

(1) Principally IPPs and IWPPs but also Saudi Aramco in respect of own generation which it does not use.

The Government's development strategy

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

The Government has indicated that it is keen to increase employment among Saudi nationals (particularly, among Saudi youth) and is encouraging the growth of the private sector in order to diversify its economy from its current reliance on oil. Diversification efforts are expected to focus on power generation, telecommunications, natural gas exploration, and the petrochemical sector. The government has increased spending on job training and education, most recently with the opening of the King Abdullah University of Science and Technology, the Kingdom's first co-educational university, and the extension of the King Abdullah Foreign Scholarship Program in 2011 by another five years.

The Plan also includes objectives for the electricity sector which include providing electricity service at minimal economic, social and environmental costs, ensuring consistency between investment returns and the social dimension, and enhancing the electricity sector's role in maximising national resources. The Plan has also set the following specific targets, to be attained through investment:

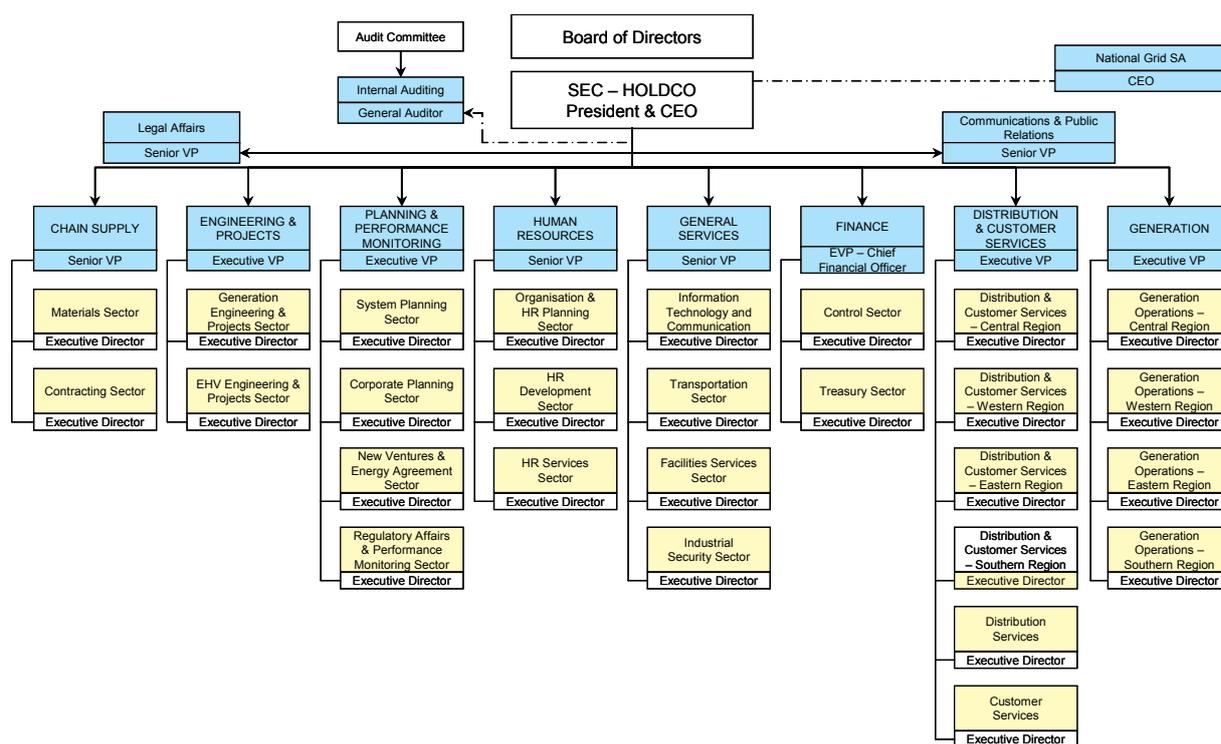
- Provision of electricity service to about 1.3 million new customers including about 1.1 million residential customers during the Plan period;
- Enhancing actual generation capacity by about 20.4 thousand MW during the Plan period;
- Raising reserve generation capacity by about 20.4 thousand MW during the Plan period; and
- Improving labour productivity in the sector by an average annual rate of 5 per cent. over the Plan period.

BUSINESS UNITS

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

Organisational structure

The following chart sets out SEC's organisational structure.



Electricity generation

Total generation capacity

As at 31 December 2012, the SEC Group had 46 major power plants together with a number of smaller power plants bringing the total number of power plants to 60 with a total generation capacity of 43,083 MW.

These plants are powered by a mix of gas, crude oil, diesel and heavy fuel oil. SEC prefers the use of natural gas for its generation plants since it is the most environmentally friendly and efficient and causes less damage to plants and equipment relative to its other fossil fuel counterparts, although these generation plants can generally operate on other fuels and fuel oil. The fuel that is ultimately used is largely dependent on the types of fuel that Saudi Aramco is able to supply to that location.

The SEC Group employs steam turbines, diesel engines and gas turbines (both “single cycle” and “combined cycle”) technology in its power plants to generate electricity. Gas turbines account for the majority of the SEC Group’s power generation capacity, with a total generation capacity of approximately 26,327 MW (accounting for approximately 61.1 per cent. of SEC’s total generation capacity). The remaining power generation capacity is made up of steam turbines, with a total generation capacity of approximately 13,986 MW (accounting for approximately 32.5 per cent. of the SEC Group’s total generation capacity), combined cycle generators with a total generation capacity of approximately 2,331 MW (accounting for approximately 5.4 per cent. of the SEC Group’s total generation capacity) and diesel generators with a total generation capacity of approximately 439 MW (accounting for approximately 1.0 per cent. of the SEC Group’s total generation capacity). The share of power supplied by different power plants varies from year to year depending upon maintenance schedules and load profiles arising out of customer demand.

Gas and steam turbines generate electricity through different processes. Gas turbines compress the atmospheric air to a high pressure, with the resulting hot compressed air flowing into the combustion chamber into which natural gas or fuel oil is fired. The high-pressure hot gases from the combustion chamber expand through the gas turbine consisting of various stages of fixed and rotating blades converting thermal energy to mechanical energy to drive the gas turbine. The hot gases drive the gas turbine, which in turn drive the generator coupled to the turbines, thereby generating electricity. In the combined cycle power plants, the heat waste product from the exhaust of the gas turbines can be utilised by passing it through a heat recovery steam generator to produce steam. This steam is then

expanded through a steam turbine consisting of several stages of both fixed and rotating blades converting thermal energy to mechanical energy to drive the steam turbine. The steam turbine drives the electrical generator attached to it, thereby generating electricity.

In the conventional steam turbines, thermal power is generated by firing natural gas or fuel oil into steam generators in order to generate high-pressure, high-temperature steam. This steam is then expanded through a steam turbine consisting of several stages of both fixed and rotating blades which converts thermal energy to mechanical energy to drive the steam turbine. The steam turbine drives the electrical generator coupled to it, thereby generating electricity. Part of the steam produced by the steam turbines can also be extracted and used in the desalination process.

The decision to use a particular technology depends on a range of factors, principally the location of the plant and the type of fuel available from Saudi Aramco. Typically, plants that are inland, where gas supplies are available, use gas turbines, and coastal plants use steam turbines, since they are able to capitalise on the abundant supply of sea water as a condenser to increase the efficiency of the steam turbines, which use steam from boilers fired by heavy crude oil or fuel oil.

Generation capacity

The SEC Group's generation capacity has increased from 22,060 MW at 31 December 2000 to 43,083 MW as at 31 December 2012 (an increase of 95.3 per cent.). This growth in generation capacity has been achieved through the expansion of existing power plants, construction of new power plants and in making improvements to the operational performance of existing power plants. Additional capacity added and planned to be added by SEC and the IPPs and IWPPs, for which SEC is the sole off-taker of the power generated, is expected to be sufficient to meet peak demand increases of approximately 6-8 per cent. per year in the near- to medium-term.

The SEC Group's generation capacity in the Eastern and Western Regions, when combined with the generation capacity provided by SWCC, in effect gives an overall positive capacity margin in both of these regions. The positive capacity margin in these regions also permits power to be transferred from them to other regions whenever it is economical to do so (the transfer of power in this manner is also called "economic energy interchange"). At present, the principal economic energy interchanges are between the Eastern and Central Regions as the interconnection lines between these two operating regions have the greatest capacity. Although the other regions are all interconnected, the number and capacity of the interconnection lines varies and increasing the number and capacity of these interconnections as well as connecting currently isolated areas within regions is a major goal of the SEC Group's capital expenditure programme in the transmission business.

Based on the additional generation capacity that SEC has installed since 2010 and which it intends to install in future years (see "*– Strategy – Increase Generation Capacity*") and the additional electricity 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 three to four years. Overall, the total generation capacity (including SWCC's capacity and other sources) in the Kingdom was 53,588 MW at the end of 2012, and the overall peak load in the Kingdom was 51,939 MW at the end of 2012.

The table below contains a breakdown by region of the SEC Group's actual generation capacity as at 31 December 2012.

| Province | Power Plants | Generation Units | % of total capacity |
|--------------------|---------------------|-------------------------|----------------------------|
| Eastern..... | 22 | 181 | 30.8 |
| Western..... | 19 | 228 | 32.4 |
| Central..... | 11 | 242 | 28.7 |
| Southern..... | 8 | 108 | 8.1 |
| Total | 60 | 759 | 100.0 |

Peak demand

Driven by a combination of population and economic growth, the non-coincident peak demand for electricity in the Kingdom has grown from 21,673 MW in 2000 to 51,939 MW in 2012, representing an average annual growth of 7.6 per cent. during this period. Peak load typically builds up during the summer months (May to September) because of increased usage of air conditioners and is also significantly influenced by the timing of Ramadan and the school exam period. For example, the

average monthly peak demand from May to September 2012 was approximately 49,257 MW as compared to an average monthly peak demand of approximately 36,512 MW from October to December 2012. In 2012, SEC achieved “capacity margin” (that is, a margin of generation capacity above national peak demand) of 2 per cent. This capacity margin takes into account the installed capacity both of the SEC Group and other generators in the Kingdom, including the IPPs and IWPPs. SEC intends to increase this margin to 10 per cent. in the medium term and this is a major goal of its capital expenditure programme within the generation sector (see “– Strategy – Increase generation capacity”).

The relatively large geographic size of the Kingdom means that peak demand levels of each region do not usually coincide (because of factors such as different sunrise and sunset times across the various regions of the Kingdom) and national peak demand therefore tends to be lower than the sum of peak demand levels in each region. This means that the effective capacity margin for each region may actually prove to be lower than the capacity margin calculated above the national peak demand. In light of the fact that the effective capacity margin for each region tends to be lower than the “national” capacity margin, some regions of the Kingdom have experienced power outages in recent years and the elimination of these outages is another major goal of the capital expenditure programme within the generation sector.

At times of peak demand, SEC has needed to purchase additional electricity from SWCC and other sources (mainly, Saudi Aramco) to meet demand. In the year ended 31 December 2012, SEC purchased 64,624 GWh of additional electricity from third-party suppliers which constituted 23.8 per cent. of total electricity generated and purchased during the year. SEC expects to continue to purchase electricity from SWCC and other sources until it has increased its own generation capacity to sufficient supply levels. SEC does not, however, consider the additional generation capacity available from SWCC to be a substitute for increasing the SEC Group’s generation capacity in order to meet future demand for electricity in the Kingdom.

SEC purchases most of the additional electricity it requires from SWCC by accessing SWCC’s generation capacity through the SEC Group’s networks in the Eastern and Western regions, at a price determined by tariffs set by a Council of Ministers’ resolution. SWCC contributed 4.8 per cent. of the total electricity generated by the Kingdom’s power sector (and transmitted and distributed by SEC) in 2010, 5.8 per cent. in 2011 and 5.3 per cent. in 2012.

Under the current tariffs in force, SEC pays SWCC SAR 120 per KWh for peak demand charges and SAR 20 per MWh for energy, such that the average combined price payable for peak demand charges and energy does not exceed SAR 38 per MWh, although historically the SEC Group has deferred payment for these purchases, see “*Management’s discussion and analysis of financial condition and results of operations – Analysis of certain balance sheet items – Liabilities*”. The Council of Ministers has the power to change these tariffs.

Generation power plants

The table below sets out SEC’s ten most significant power plants, in terms of generation capacity, all of which are fully owned by SEC, and their generation capacity percentage as at 31 December 2012.

| Generation power plant | Generation capacity (MWh) | % of generation capacity |
|-------------------------------|----------------------------------|---------------------------------|
| Shoaibah..... | 5,538 | 12.9 |
| Qurayyah 2..... | 4,376 | 10.2 |
| Rabigh..... | 4,248 | 9.9 |
| PP 9..... | 4,074 | 9.5 |
| Quarayyah ST..... | 2,500 | 5.8 |
| Qurayyah CC..... | 2,286 | 5.3 |
| PP 10..... | 2,260 | 5.3 |
| PP 8..... | 1,867 | 4.3 |
| Jeddah 3..... | 1,696 | 3.9 |
| Qassim..... | 1,374 | 3.2 |

Depreciation

As at 31 December 2012, and assuming an economic life of 25 years for each plant with capacity in excess of 100 MW, around 43.6 per cent. of the SEC Group’s total generation capacity has more

than 10 years of its original economic life remaining. SEC plans to commence the replacement of those power plants which will reach the end of their economic lives in 2015. However, with appropriate maintenance, plants that have been fully depreciated may continue to be fully operational beyond the end of their anticipated economic life.

The table below gives a breakdown of the economic life of the SEC Group's major power plants as at 31 December 2012.

| Remaining economic life | Capacity |
|--------------------------------|-----------------|
| | <i>(MW)</i> |
| Fully depreciated..... | 6,027 |
| Less than 5 years | 12,250 |
| Between 5 and 10 years | 6,017 |
| More than 10 years..... | 18,788 |
| Total | 43,083 |

Electricity generated and generation capacity factors

In 2010, the SEC Group generated a total of 186,482 GWh, which it supplemented by a further 53,585 GWh purchased from SWCC and other sources. In 2011, the SEC Group generated a total of 190,280 GWh, which it supplemented by a further 59,797 GWh purchased from SWCC and other sources. In 2012, the SEC Group generated a total of 207,132 GWh, which it supplemented by a further 64,624 GWh purchased from SWCC and other sources.

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

The continued increase of the SEC Group's power generation capacity is a major goal of its capital expenditure programme in the generation business. See “*Management's discussion and analysis of financial condition and results of operations – Liquidity and capital resources – Capital expenditure*” for a table showing the SEC Group's generation plant projects planned or under construction in the period to 2017. The SEC Group's planned future capital expenditure for the years 2013 to 2017 is expected to be in the region of SAR 248 billion, at a roughly equal amount per annum. This is based on projects which have been approved by the Board in the budget for 2013 and in previous budgets. It is possible that further projects may be approved or certain projects halted or modified in future years which will alter the planned capital expenditure in those and subsequent years. Concurrently with this planned expansion of its generation capacity, the SEC Group intends to retire more expensive older plants as and when demand permits.

IPPs and IWPPs

As a general policy objective, the Government has indicated that it intends to promote greater competition in the electricity industry by facilitating the establishment of IPPs and IWPPs.

Although each IPP and IWPP project is expected to be established on a case-by-case basis, the SEC Group intends to take a key role in the establishment of IPPs and IWPPs. The SEC Group currently contributes, and expects to continue to contribute, a portion of the initial equity investment to each IPP and IWPP in the range of 5 to 50 per cent., with the balance funded by international investors. The SEC Group enters into long-term power purchase agreements (either directly or through the operation of WEC) with the IPP or IWPP as sole off-taker of the electricity that is produced.

Furthermore, to facilitate investment by the private sector in power generation and energy trading, SEC has established WEC, a 50 per cent. owned joint venture with SWCC, the governmental entity in charge of operating the publicly owned desalination plants in the Kingdom, see “– *Subsidiaries and other investments – Other investments – The Water and Electricity Company*”. WEC participates in

three IWPP projects with a total capacity of 4,500 MW. These three IWPP projects, namely the Al-Jubail IWPP, the Shuqaiq IWPP and the Shoaibah IWPP have all commenced commercial operations. WEC is currently the sole purchaser of all water and electricity produced by the Shoaibah and Shuqaiq IWPPs under 20-year power and water purchase agreements. SEC has entered into a long-term purchase agreement with WEC to purchase the power output and capacity that WEC is obliged to purchase from these two IWPPs. SEC has also entered into a long-term purchase agreement for the purchase of the power output and capacity from the Al-Jubail IWPP. SEC is obliged only to purchase all power produced by the IWPPs (through WEC in the case of the Shoaibah and Shuqaiq IWPPs and directly in the case of the Al-Jubail IWPP), with separate arrangements made with other off-takers for the IWPPs' water output. See "*Summary of Material Contracts – Power Purchase Agreements – Power and water on-sale agreements*".

As part of its commitment towards the development and operations of IPPs in Saudi Arabia, SEC has participated in the establishment of three IPPs, with a total expected capacity of 6,860 MW. While the Rabigh IPP is already operational, Riyadh IPP and Qurayya IPP are still under construction. SEC has entered into a long-term power purchase agreement with each of the Rabigh, Riyadh and Qurayyah IPPs to purchase the power output and capacity from each of these IPPs.

The table below summarises the IPPs and IWPPs currently in operation or under construction in Saudi Arabia and the SEC Group's interest in them.

| Type | Name | Power capacity | Status | SEC ownership interest | Power purchase agreement |
|-------|-----------|----------------|---|------------------------|--------------------------|
| IWPPs | Al-Jubail | 2,750 MW | Operational | 8 per cent. | 20 years, through WEC |
| | Shuqaiq | 850 MW | Operational | 8 per cent. | 20 years, through WEC |
| | Shuaibah | 900 MW | Operational | 8 per cent. | 20 years |
| IPPs | Rabigh | 1,204 MW | Operational | 20 per cent. | 20 years |
| | Riyadh | 1,729 MW | Under construction (completion expected during 2013) | 50 per cent. | 20 years |
| | Qurayyah | 3,927 MW | Under construction (completion expected by 2014) | 50 per cent. | 20 years |

Transmission

All electricity produced by the SEC Group is transmitted in the Kingdom through the SEC Group's high tension high voltage transmission grid, which is owned and operated by National Electricity Transmission Company (**National Grid**), see "*– Industry Overview – Restructuring of the Electricity Industry in the Kingdom*". Electricity is carried through a network of overhead transmission lines connected to substations set up in regions across the Kingdom. Electricity is then distributed to customers within those regions through SEC's distribution network. To provide transmission coverage to relatively widely scattered areas throughout the Kingdom, the SEC Group has expanded its transmission network from approximately 36,652 c.km of power lines at the end of 2006 to 51,881 c.km at the end of 2012. The transmission network comprises both underground and overhead cables rated from 110kv to 380kv. The transmission network consisted of 47,650 c.km of overhead lines and 4,231 c.km of underground lines as at 31 December 2012.

The table below shows the classification of the SEC Group's transmission lines and the related number of sub-stations and transformers as at 31 December 2011 and 31 December 2012.

| Voltage of transmission lines | No. of sub-stations | | No. of transformers | | Capacity (MVA) | | Amount of transmission lines (c.km) | |
|-------------------------------|---------------------|------------|---------------------|--------------|----------------|----------------|-------------------------------------|---------------|
| | 2011 | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 | 2012 |
| As at 31 December | | | | | | | | |
| 380kv | 59 | 62 | 198 | 165 | 68,622 | 73,669 | 15,340 | 17,347 |
| 230kv | 34 | 34 | 119 | 98 | 21,859 | 21,769 | 4,100 | 4,278 |
| 132kv | 284 | 297 | 824 | 780 | 50,683 | 50,559 | 19,215 | 19,125 |
| 115kv | 89 | 85 | 209 | 227 | 8,698 | 9,845 | 5,853 | 5,637 |
| 110kv | 176 | 182 | 525 | 599 | 23,670 | 29,401 | 5,167 | 5,493 |
| Total | 642 | 660 | 1,875 | 1,869 | 173,531 | 185,243 | 49,675 | 51,880 |

In 2012, SEC added a total of 2,007 c.km of extra high voltage transmission lines and 504 c.km of high voltage transmission lines to reinforce the transmission network, while decommissioning 306 c.km of high voltage transmission lines. To enable the transmission network to cope with higher peak loads, SEC plans to expand the network coverage, add extra high voltage lines and improve network reliability (see “– Strategy – Improve transmission network”). Although overall transmission capacity decreased between 2011 and 2012, installation of additional capacity in the extra high voltage lines is intended to increase the efficiency of the SEC Group's transmission network and lower the transmission loss rate. Transmission losses (including SEC's own consumption), as a percentage of the load, amounted to 3.0 per cent. in 2012, a decrease of 6.4 per cent. from 9.4 per cent. in 2011.

The Kingdom's four operating regions are almost fully interconnected through the transmission network, reflecting the historic development of the country's power industry on separate regional lines. As at 31 December 2012, interconnectivity of the transmission network was approximately 98 per cent. with the major grids in all four regions connected.

SEC currently is not able to measure the amount of its own consumption, although a project is underway to enable this. The SEC Group is also installing capacitors with a view to reducing transmission losses (excluding own consumption) across the system to average international levels.

Distribution

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

Out of all customers supplied by the SEC Group, the majority are currently metered using individually numbered analogue meters. In order to enhance the performance of its electricity metering, SEC plans to introduce an automatic meter reader/advanced meter management (AMR/AMM) system to replace the existing analogue meters. The AMR/AMM system intends to establish a new metering standard, ensuring an accurate operation in real time to enhance the service performance to customers. SEC has launched the initial pilot phase of the plan which prioritises industrial and commercial customers. As of the date of this Prospectus, approximately 17,000 AMR/AMM meters have been deployed. Currently, SEC plans on completing implementation of the AMR/AMM system by 2021.

SEC currently bills its larger industrial customers using tariffs that reflect the time of use of the electricity consumed, see “– Tariffs”. With effect from 1 January 2014, SEC will be permitted by ECRA to bill its larger commercial customers based on their time of use of electricity, with peak electricity charges being higher than the off peak charges and the installation of digital meters is a precondition to this change.

To facilitate bill payment, SEC also offers online, mobile and SMS services that allow customers to pay their bills online and also monitor their consumption.

Improvements

The SEC Group has spent an average of SAR 6,795 million annually during the five years to 31 December 2012 in expanding and maintaining a reliable distribution network and delivering power supply to an average of 332,068 new customers annually. To improve the quality of energy supply and meet the requirements of its customers, the SEC Group added a total of 29,207 c.km of power lines to its distribution network during the course of 2012 and 26,042 km of power lines to its distribution network during the course of 2011. This increased the total circuit lengths of its distribution power lines to 438,131 c.km as at 31 December 2012. As at 31 December 2012 and 31 December 2011, the SEC Group's distribution network comprised a total of 221,845 km and 205,516 km, respectively, of medium-to-low voltage power lines (13.8kv-69kv), an increase of 7.9 per cent. in 2012 and 7.3 per cent. in 2011, respectively. As at 31 December 2012 and 31 December 2011, the total length of SEC's low voltage lines (127v-380v) was 216,285 km and 203,773 km, respectively, an increase of 6.1 per cent. in 2012 and 6.2 per cent. in 2011, respectively. The SEC Group also installed 29,394 distribution transformers with a total capacity of 15,556 MVA into its distribution networks during 2012. Over the period 2000 to 2012, the average annual growth in the number of transformers was 5.9 per cent. and transformer capacity reached 5.4 per cent. at 31 December 2012.

SEC estimates that it will spend approximately SAR 11 to 14 billion per annum from 31 December 2012 to 31 December 2014 in expanding, maintaining and improving the SEC Group's distribution network. The focus of the investment in improving the network is the installation of digital meters, the development of a smart grid, with a number of successful pilot projects having already been completed and replacement of older equipment, such as transformers and cables, to improve the efficiency of the network.

Connection charge

In addition to the capacity tariff charged to customers (see “– Tariffs”), SEC also charges customers an initial connection fee which is based on the capacity of the electricity meter. This ranges from SAR 60 per KVA (for a meter with a capacity range of more than 1 KVA up to 30 KVA) to SAR 175 per KVA (for a meter with a capacity range of more than 120 KVA up to 152 KVA).

Customers

At 31 December 2012, 31 December 2011 and 31 December 2010, the SEC Group supplied electricity to 6,730,999 customers, 6,341,025 customers and 5,997,553 customers, respectively, representing a 6.2 per cent. increase in customer numbers during 2012 and a 5.7 per cent. increase in customer numbers during 2011.

SEC divides its customers into five main categories: residential; commercial; industrial (which includes state-owned industries); governmental (other than state-owned industries); and other which includes agriculture customers, health and education customers and desalination customers. The table below shows the number of customers across the customer segments for each of 2010, 2011 and 2012.

| | Year ended 31 December | | | | |
|-------------------|------------------------|------------------|------------|------------------|------------|
| | 2010 | 2011 | (% change) | 2012 | (% change) |
| Governmental..... | 118,942 | 117,970 | (0.8) | 214,063 | 4.9 |
| Residential..... | 4,892,271 | 5,023,038 | 2.7 | 5,335,563 | 6.2 |
| Commercial..... | 830,107 | 1,035,177 | 24.7 | 1,093,288 | 6.1 |
| Industrial..... | 7,489 | 7,646 | 2.1 | 8,166 | 6.8 |
| Other..... | 148,744 | 157,194 | 5.7 | 79,919 | 5.4 |
| Total..... | 5,997,553 | 6,341,025 | 5.7 | 6,730,999 | 6.2 |

The quantity of electricity sold in 2012, 2011 and 2010 was 240,288 GWh, 219,661 GWh and 212,263 GWh, respectively, representing an increase of 9.4 per cent. in 2012 and 3.5 per cent. in 2011 and an average annual growth of 7.1 per cent. over the period from 31 December 2000 to 31 December

2012. The table below shows the distribution of electricity sales across the customer segments for each of 2010, 2011 and 2012.

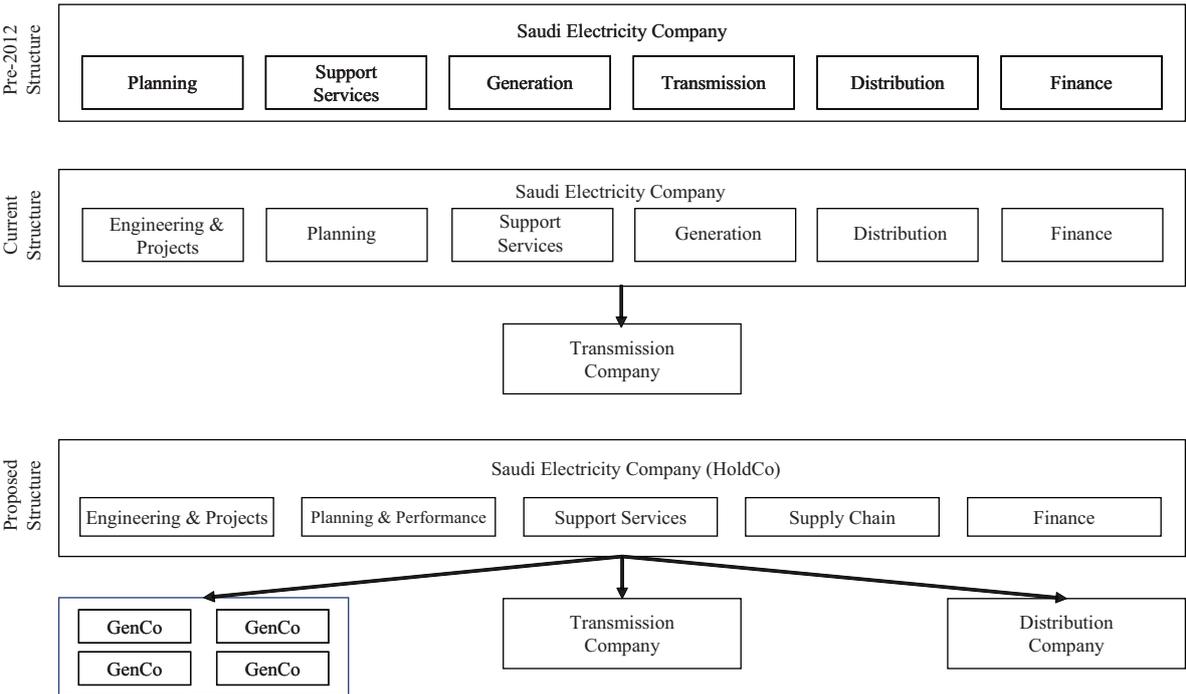
| | Year ended 31 December | | | | |
|--------------------|------------------------|----------------|-------------------|----------------|-------------------|
| | 2010 | 2011 | | 2012 | |
| | <i>GWh</i> | <i>GWh</i> | <i>(% change)</i> | <i>GWh</i> | <i>(% change)</i> |
| Residential | 108,627 | 109,261 | 0.6 | 120,246 | 10.1 |
| Commercial | 28,805 | 32,511 | 12.9 | 39,264 | 20.8 |
| Governmental | 28,526 | 27,528 | (3.5) | 30,349 | 10.3 |
| Industrial | 38,569 | 42,129 | 9.2 | 41,711 | (1.0) |
| Other..... | 7,736 | 8,233 | 6.4 | 8,718 | 5.9 |
| Total | 212,262 | 219,662 | 3.5 | 240,288 | 9.4 |

Most of SEC's residential customers are located in the Central and Western Regions, which together accounted for approximately 68.8 per cent. of all electricity sales made by SEC to residential customers in 2012. The bulk of SEC's industrial customers are located in the Eastern Region, which accounted for approximately 73.3 per cent. of all electricity sales to SEC's industrial customers in 2012.

RESTRUCTURING OF THE SEC GROUP

The SEC Group's businesses have historically been organised into three business units: electricity generation, transmission and distribution. As part of the Government's initiative to promote greater competition in the electricity industry, SEC's business units are in the process of being reorganised into wholly-owned subsidiaries of SEC, with the transmission business having been transferred into a separate wholly-owned subsidiary, National Grid, with effect from 1 January 2012. Following completion of the restructuring, SEC will act as the holding company for the SEC Group and will provide certain shared services to the new subsidiaries (such as security, financing, information technology (**IT**), human resources and procurement). SEC will also have control of the overall strategy for the SEC Group. It will continue to be the purchaser of fuel for the SEC Group and will continue to receive the revenues from customers in respect of the electricity provided. It is expected that due to a large number of assets involved, the restructuring will take a number of years to complete.

The diagram below shows the historical structure, the current structure and the proposed structure of the SEC Group.



At present, SEC has no plans to sell any interest in the GENCOs, National Grid or the distribution subsidiary.

Generation

As at 31 December 2012, the SEC Group had a total actual electricity generation capacity of 43,083 MW. The SEC Group owns and operates 46 major power plants throughout the Kingdom, employing largely gas turbines (both single and combined cycle) with the remaining capacity comprised of steam turbines, combined cycle generators and diesel generators.

As part of the restructuring process, SEC intends to establish four wholly-owned power generation companies (**GENCOs**). Each GENCO will be based in Riyadh and will assume ownership of, and responsibility for maintaining, a portfolio of generation assets intended to be comparable across each GENCO in terms of a range of criteria such as generation capacity, fuel mix, age and costs. Each GENCO will sell all the power generated by it to SEC. Each GENCO will be incentivised to operate as efficiently as possible, with its performance being measured against a series of key performance indicators. SEC believes that the creation of separate wholly-owned GENCOs which are incentivised to operate efficiently and compete against each other should ensure significant improvements in its generation business. SEC will continue to have responsibility for the construction of new generation plants and strategic renovation or upgrading projects in relation to existing generation plants. While it is envisioned that the GENCOs will provide financial compensation to SEC for these services, the effect of these payments will be netted out by payments from SEC to the GENCOs for, among other things, the power generated by the GENCOs.

Transmission

As at 31 December 2012, the SEC Group’s electricity transmission network comprised approximately 51,881 c.km of overhead and underground cable and covered all four operating regions of the Kingdom (see “– History” for a description of the four current operating regions). The capital of SEC’s transmission business was formally transferred to National Grid with effect from 1 January 2012 by way of a transfer of assets from SEC.

Since that date, National Grid has been leasing its transmission network to SEC. The lease agreement incentivises National Grid to operate efficiently by setting out a range of performance-related and financial KPIs against which its performance will be measured.

National Grid also has the capacity to generate external revenues through other ancillary services. National Grid will also assume responsibility for the construction of new high voltage transmission lines (being those between 110 KV and 230 KV) but SEC will retain responsibility for the construction of strategic extra high voltage lines (being those greater than 230 KV).

Distribution

The SEC Group supplies electricity through the medium- and low-voltage power lines that connect its high voltage transmission sub-stations to local sub-stations and, ultimately, to its customers. SEC has four principal customer categories: residential, commercial, industrial (including state-owned industries) and governmental (other than state-owned industries). The distribution business also deals with customer services, including metering, billing, payment collection and electrical service connections for electricity supplied to its customers.

As part of the restructuring, within the distribution sector, SEC intends to establish a single distribution company to own and manage its distribution assets. This company will lease the distribution network to SEC and act as SEC’s agent in selling the electricity transmitted to it to customers throughout Saudi Arabia. Accordingly, the distribution subsidiary will be responsible for all billing and customer relationship activities. As with SEC’s other subsidiaries, the distribution company will be incentivised to perform efficiently against a series of operational and customer-focussed KPIs.

FUEL SUPPLY

All fuel (natural gas, diesel, light crude oil and heavy fuel oil) for the SEC Group’s generation business is supplied under long-term arrangements with Saudi Aramco. Saudi Aramco makes arrangements for delivery of fuel and delivers the fuel using tankers or, in some cases, direct pipelines to the plants.

Pursuant to Royal Decree M/96 dated 24/07/1415H (corresponding to 27/12/1994G), Saudi Aramco is obliged to supply fuel to SEC, and pursuant to Resolution no. 227 , SEC defers payment for the fuel supplied to it by Saudi Aramco, which accounts for SEC’s increasing amounts of accounts payable owed to Saudi Aramco. See “*Management’s discussion and analysis of financial condition and results of operations – Analysis of certain balance sheet items – Liabilities*”.

The payables owed to Saudi Aramco by SEC from its incorporation until 31 December 2009 have been assumed by the Government. See “– *Relationship with the Government – Government support*”. As at 31 December 2012, SEC owed SAR 57,200 million to Saudi Aramco for fuel supplied to it since 31 December 2009.

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

| Type of fuel | Price (U.S.\$ per Mmbtu) |
|-----------------------|---|
| Natural gas | 0.75 |
| Diesel | 0.63 |
| Light crude oil | 0.74 |
| Heavy fuel oil..... | 0.32 |

TARIFFS

The electricity tariffs, defined by the Electricity Law as the compensation in return for the provision of a good or service in relation to the generation, co-generation, transmission, distribution, supply, and trading of electricity, were unified across all regions within the Kingdom pursuant to the Council of Ministers’ Resolution no. 1020 dated 20/07/1394H (corresponding to 09/08/1974G). Tariffs are set in respect of each customer sector and, depending upon the relevant sector, are either based on a set price per KWh or, alternatively, are based on a tiered billing system whereby the price per KWh increases incrementally based on the volume of electricity consumed.

The electricity consumption tariff that is charged by SEC to end-users for electricity supplies was historically determined by the Council of Ministers. However, the Electricity Law provides that ECRA shall revise the tariff structure in consideration of certain requirements set out in the Electricity Law (including, among others, considering the Kingdom’s policies and instructions, providing consumers with true indicators of costs arising out of their consumption patterns, and not

discriminating against consumers within a certain consumption category, nor against a consumption category as a whole).

Pursuant to the Electricity Law, the Council of Ministers issued Resolution no. 333 dated 16/10/1430H (corresponding to 06/10/2009G), granting ECRA the authority to amend and declare the values of electricity tariffs for non-residential consumption categories (commercial, industrial, and governmental), subject to the tariffs set by ECRA not exceeding SAR 0.26/KWh. Pursuant to the authority granted by the Council of Ministers, ECRA's Board of Directors issued Resolution no. 1/22/31 dated 01/06/1431H (corresponding to 15/05/2010G) which amended the electricity tariffs that had been previously set by the Council of Ministers' Resolution no. 170 for the non-residential (commercial, industrial, and governmental) consumption categories.

Since July 2010, ECRA has, therefore, imposed a new tariff for government, commercial and industrial customers which has been applied by SEC, see "*Management's discussion and analysis of financial condition and results of operations – Principal factors affecting results of operations – Regulated tariffs*".

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

In relation to the other principal customer segments, the table below sets out the currently applicable tariffs.

| Consumption range (Kwh) | Sector | | | | | | |
|-------------------------|--------------|-------------|------------|---|---|-------------|---------|
| | Governmental | Residential | Commercial | Commercial (Medical institutions) | Commercial (Educational institutions) | Agriculture | Charity |
| | | | | (per KWh) | | | |
| 1 – 1000 | 26 | 5 | 12 | 12 | 12 | 5 | 5 |
| 1001 – 2000 | 26 | 5 | 12 | 12 | 12 | 5 | 5 |
| 2001 – 3000 | 26 | 10 | 12 | 12 | 12 | 10 | 10 |
| 3001 – 4000 | 26 | 10 | 12 | 12 | 12 | 10 | 10 |
| 4001 – 5000 | 26 | 12 | 20 | 12 | 12 | 10 | 10 |
| 5001 – 6000 | 26 | 12 | 20 | 12 | 12 | 12 | 12 |
| 6001 – 7000 | 26 | 15 | 20 | 12 | 12 | 12 | 12 |
| 7001 – 8000 | 26 | 20 | 20 | 12 | 12 | 12 | 12 |
| 8001 – 9000 | 26 | 22 | 26 | 12 | 12 | 12 | 12 |
| 9001 – 10000 | 26 | 24 | 26 | 12 | 12 | 12 | 12 |
| More than 10000 | 26 | 26 | 26 | 12 | 12 | 12 | 12 |

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.

As part of SEC's energy conservation initiatives, SEC continues to use "time of use" billing (**TOU billing**) for certain of its customers. Under TOU billing, customers are charged different tariffs for electricity usage during peak and off-peak times. TOU billing is currently optional for commercial customers but mandatory for industrial customers with a connected load of more than 1 MVA and encourages customers to reduce their energy bills by using less electricity during peak times. SEC has established a TOU billing tariff which is available to all industrial customers from May until September, under which customers will be charged SAR 0.10/KWh during designated off-peak periods and SAR 0.26/KWh during designated peak periods.

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 the Council of Ministers based on ECRA recommendations.

HEALTH AND SAFETY

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

SUBSIDIARIES AND PRINCIPAL INVESTMENTS

SEC currently has six wholly-owned subsidiaries – National Electricity Transmission Company (National Grid), Electricity SUKUK Company, Dawiyat Telecom Company, Morjan for Electricity Production Company (currently under formation), Saudi Electricity Global SUKUK Company and Saudi Electricity Global SUKUK Company 2. Two of these subsidiaries conduct operational activities with the most significant being National Grid, which is the subsidiary to which its transmission business has been transferred (see “– *Restructuring of the SEC Group*”), and Dawiyat Telecom Company, which is engaged in leasing fibre optic networks to telecom companies as further described below.

National Electricity Transmission Company

National Grid is a wholly-owned subsidiary of SEC. The transmission business of SEC was formally transferred to National Grid with effect from 1 January 2012 (see “– *Restructuring of the SEC Group*”). Since that date, National Grid has been leasing its transmission network to SEC. All electricity produced by the SEC Group is transmitted in the Kingdom through the SEC Group’s high tension high voltage transmission grid, which is owned and operated by National Grid.

Dawiyat Telecom Company

Dawiyat Telecom Company is a wholly-owned subsidiary of SEC established in 2009 to lease fibre optic networks to telecommunications companies.

Morjan for Electricity Production Company

Morjan for Electricity Production Company is a wholly owned subsidiary of SEC. Once formed, this subsidiary will establish, develop, own, operate and maintain the Rabigh II IPP.

Electricity SUKUK Company

Electricity SUKUK Company is a special purpose vehicle which was established in the Kingdom of Saudi Arabia in connection with issuance of sukuks within the Kingdom by SEC.

Saudi Electricity Global SUKUK Company

Saudi Electricity Global SUKUK Company is a special purpose vehicle which was incorporated in the Cayman Islands in connection with the issuance of U.S.\$500 million 2.665 per cent. certificates, maturing in 2017 and U.S.\$1,250 million 4.211 per cent. certificates maturing in 2022 in 2012. See “*Description of other indebtedness – Sukuk*”.

Saudi Electricity Global SUKUK Company 2

Saudi Electricity Global SUKUK Company 2 is a special purpose vehicle incorporated in the Cayman Islands in connection with the issuance of the Certificates. See “*Description of Issuer*”.

Other investments

As at 31 December 2012, SEC also has equity investments in a number of companies (all of which are incorporated in the Kingdom), which are summarised in the table below.

SEC’s aggregate long-term equity investments in all these companies amounted to SAR 1.9 billion as at 31 December 2012. With the exception of GCCIA and WEC, all of these investments related to the development and operation of the IPP and IWPPs (see “– *Business units – Electricity generation – IPPs and IWPPs*”).

| <u>Company name</u> | <u>Objective</u> | <u>Percentage shareholding</u> |
|--|---|--------------------------------|
| GCCIA | Interconnecting the electricity transmission networks of the member states of the GCC | 31.6 |
| WEC | Purchasing power and desalinated water and re-selling it to SWCC and to SEC | 50.0 |
| Shuaibah Water and Electricity Company | Developing and operating the Shuaibah IWPP | 8.0 |
| Shuqaiq Water and Electricity Company | Developing and operating the Shuqaiq IWPP | 8.0 |

| Company name | Objective | Percentage shareholding |
|---|--|--------------------------------|
| Al-Shuaibah Holding Company | Developing projects for the dual production of water and electricity | 8.0 |
| Al-Jubail Water and Electricity Company | Developing and operating Al-Jubail IWPP | 5.0 |
| Rabigh Electricity Company | Developing and operating the Rabigh IPP | 20.0 |
| Dhuruma Electricity Company | Developing and operating the Riyadh IPP | 50.0 |
| Hajr for Electricity Production Company | Developing and owning the Qurayyah IPP | 50.0 |

Gulf Cooperation Council Interconnection Authority

The GCCIA is a joint stock company established in 2001 which is owned by the six Gulf states, Kuwait (26.7 per cent. ownership), Qatar (11.7 per cent.), Oman (5.6 per cent.), SEC (31.6 per cent.), Bahrain (9.0 per cent.) and the United Arab Emirates (15.4 per cent.).

The stated objectives of GCCIA are as follows:

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

The principal benefit of expanding the transmission network within the GCC is to allow energy exchange and, as a consequence, reduce the installed generation capacity needs of individual member states, with associated savings in operating and maintenance costs. The first phase of the project undertaken by GCCIA involved the interconnection of the Kingdom, Bahrain, Qatar and Kuwait (together, the **GCC North Grid**) and was completed in 2009 at a cost of U.S.\$1,407 million, of which SEC's share was equal to U.S.\$484.8 million. The interconnection of the Kingdom, Qatar, Kuwait and Bahrain has been completed. The GCC North Grid was also linked to the interconnection between United Arab Emirates and Oman in 2010. To date, limited exchanges of energy are being transmitted through the grid system although trading of energy is not expected to take place for some time.

SEC has paid in full for the shares it subscribed in GCCIA. The total amount of subscription paid by SEC is SAR 1,768 million which equates to a 31.6 per cent. shareholding in GCCIA. The other shareholders in GCCIA currently are the governments of the UAE (15.4 per cent.), Kuwait (26.7 per cent.), Qatar (11.7 per cent.), Bahrain (9.0 per cent.) and Oman (5.60 per cent.).

The Water and Electricity Company

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

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

The SEC Group purchases electricity under long-term power purchase agreements from IWPPs through WEC. WEC participates in three IWPP projects – Al-Jubail IWPP, Shuqaiq IWPP and Shoaibah IWPP. See “– *Business units – Electricity generation – IPPs and IWPPs*”.

RENEWABLE ENERGY

The Government has established the King Abdullah City for Atomic and Renewable Energy as a research centre to explore and develop a strategy in relation to the role of renewable and nuclear energy within the Kingdom in the context of the Government’s projections for significant future demand for electricity within the Kingdom and the amounts of fossil fuels required to meet that growth in demand.

Currently, there is no national plan within the Kingdom in relation to renewable and nuclear energy although such a plan is under discussion within the Government. SEC intends to participate in any future development of the power sector both as an off-taker and, potentially, as an investor in its own right or in partnership with other entities.

SEC, working in cooperation with Showa Shell (a Japanese company) and Saudi Aramco, has established the first grid-connected solar IPP in the Kingdom. This pilot power plant, which has a capacity of 500 KW, has been in operation for approximately two years.

RESEARCH AND DEVELOPMENT

Pursuant to CMR 169, SEC is required to allocate a portion of its revenues (to be specified by the Board) towards research and development in the fields of energy conservation, system improvement and environmental protection. SEC is required under CMR 169 to establish energy conservation practices to promote a more efficient use of electricity. Since its establishment, SEC has:

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

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

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

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

INSURANCE

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

The SEC Group’s exposures are monitored through periodic risk surveys by its underwriters and reinsurers in conjunction with SEC’s management and engineers.

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

PROPERTY, PLANT AND EQUIPMENT

The net book value of SEC Group's portfolio of land and buildings amounted to SAR 1,786 million and SAR 6,367 million, respectively, as at 31 December 2012.

INFORMATION TECHNOLOGY

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

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

The SEC Group will be upgrading its billing systems as part of its plan to develop its information technology systems in 2013.

LITIGATION

SEC has not been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which SEC is aware) during the last 12 months preceding the date of this Prospectus which may have, or have had, a significant effect on its financial position or profitability

DISPUTES WITH SAUDI ARAMCO

SEC is involved in a number of ongoing disputes with Saudi Aramco:

- SEC and Saudi Aramco are disputing the amount of crude oil handling fees payable by the SEC Group. The amount in dispute was SAR 3,291 million as at 31 December 2012. However SEC's management does not expect any liability to fall on SEC and therefore this provisional loss amount has not been reflected in its accounting records.
- Saudi Aramco continues to claim its share of the yearly cash dividends declared by SEC since its inception, amounting to SAR 2,140 million as at 31 December 2012. SEC believes that Saudi Aramco is not entitled to these dividends as it is a wholly owned Government entity and is therefore subject to the Government's waiver of its right to receive dividends declared up to 2019.
- SEC and Saudi Aramco are also disputing the nature of the fuel oil supplied by Saudi Aramco. Saudi Aramco has been delivering light fuel oil to SEC whereas SEC believes that the agreement with Saudi Aramco was for Saudi Aramco to deliver heavy fuel oil, which is cheaper than light fuel oil. SEC accordingly believes that the price to be paid for the fuel oil should reflect the price of heavy fuel oil, whereas Saudi Aramco believe that the price should be that of light fuel oil. The difference between the two prices in respect of the fuel oil delivered as at 31 December 2012 is approximately SAR 1,200 million.

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

Until March 2009, SEC and Saudi Aramco were also in dispute in relation to the tariffs charged by SEC to Saudi Aramco for the provision of electricity to residential properties owned by Saudi Aramco. SEC believed that the commercial tariff should apply to these properties whereas Saudi Aramco was paying for the electricity supplied at the industrial rate. This dispute was resolved by a decision of the Council of Ministers under which a mixture of the commercial and residential rates is to be applied as designated by ECRA in respect of each disputed property. Based on ECRA designations made in April 2011, SEC has submitted an invoice to Saudi Aramco in the amount of SAR 730 million for underpaid tariffs. SEC is still in the process of completing the necessary procedures to record this revenue.

REGULATION

Regulatory authorities

The Ministry of Water and Electricity

The Ministry of Water and Electricity is the governmental entity which sets out the policies that govern the water and electricity sectors within the Kingdom.

The predecessor to the Ministry of Water and Electricity, the Ministry of Industry and Electricity, was established pursuant to Royal Decree no. A/236 dated 08/10/1395H (corresponding to 14/10/1975G) as the governmental body responsible for placing and monitoring plans in relation to electricity services within the Kingdom. Later, and pursuant to Royal Decree no. A/2 dated 28/02/1424H (corresponding to 01/05/2003G), the name of the Ministry of Industry and Electricity was amended, and the Ministry of Water and Electricity came into existence as such.

The Electricity Law, enacted by Royal Decree no. M/56 dated 20/10/1426H (corresponding to 22/11/2005G) sets out the principal tasks which fall under the Ministry of Water and Electricity's responsibility. These, among others, include:

- proposing policies relating to the electricity sector, and supervising their application after they are implemented;
- adopting and ensuring the application of plans and programs for the development of the electricity sector;
- representing the Kingdom and protecting its interests in relation to the electricity sector before local, regional, and international authorities;
- working towards the nationalisation of jobs within the electricity sector;
- supporting research and development activities regarding the electricity industry in specialised institutes, universities, and private establishments; and
- liaising with ECRA for the purposes of proposing any amendments to the Electricity Law.

Details of the scope and nature of the Ministry of Water and Electricity's tasks and responsibilities are further provided in the Electricity Law's Implementing Regulations issued by Ministerial Resolution no. 3/920 dated 12/12/1427H (corresponding to 02/01/2007G). SEC's Chairman Dr. Saleh Bin Hussain Al-Awajji has served as the Deputy Minister of Water and Electricity since 2003.

Electricity and Co-generation Regulatory Authority

ECRA, which was formed in November 2001G, pursuant to Council of Ministers' Resolution no. 236 dated 27/08/1422H (corresponding to 13/11/2001G), is a government agency which regulates the electricity and co-generation industries in the Kingdom with a mission to allow for the provision of adequate, high quality and reliable electricity services at a reasonable price. ECRA's powers and responsibilities, as defined by Council of Ministers' resolution no. 154 dated 04/05/1428H (corresponding to 21/05/2007G), include:

- Supply matters: including issuing licences, monitoring licence compliance, developing unified utility accounting procedures, coordinating organised infrastructure and devising a services expansion plan;
- Consumer issues: including dealing with tariff assessments and periodic reviews of tariffs, stakeholder protection, investigating and resolving complaints by involved parties, improving sector performance and, in coordination with the Ministry of Water and Electricity, promoting energy conservation measures;

- Technical issues: including developing technical standards of performance for each electrical activity, monitoring compliance with the standards, ensuring adequacy of the industry's research and development activities and other relevant technical matters; and
- Organisational and administrative tasks: including protecting the public interest, developing regulations for infrastructure expansion, encouraging private sector investments, assessing licensing fees, establishing rules and procedures to enforce applicable laws and regulations and issuing periodic reports to the Council of Ministers on costs and tariffs of electricity services.

The Electricity Law explicitly states that no person may carry out any electricity activity unless in accordance with a licence issued by ECRA, and additionally provides the regulatory framework for such licensing. The Electricity Law further defines 'electricity activity' under the definition of 'electricity industry' as electricity services which a person undertakes, or intends to undertake, including the generation, co-generation, transmission, distribution, supply, and trading of electricity.

Pursuant to such provisions, the SEC Group is required to obtain and maintain valid licences in relation to its main activities, being transmission, distribution, and generation.

Environmental regulation

The SEC Group is subject to environmental laws and regulations within the Kingdom. Under the General Environmental Regulation enacted by Royal Decree no. M/34 dated 28/07/1422H (corresponding to 15/10/2001G), the Presidency of Meteorology and Environment ("PME"; formerly known as the Meteorology and Environmental Protection Administration) is the governmental entity responsible for the administration and policing of environmental affairs in the Kingdom.

The General Environment Law and Implementing Regulations for the General Environmental Law issued on 27/08/1424H (corresponding to 23/10/ 2003G) set out wide-ranging prohibitions on pollution and contamination of air, land and water, with particular reference to all parties involved in services, industry or other economic activities.

New projects undertaken by the SEC Group may require an environmental permit prior to their construction and operation. In accordance with the General Environmental Law, any authority responsible for issuing a permit to any new projects with an impact on the environment must ensure that an environmental impact assessment (EIA) is prepared by the applicant during the feasibility study of any such project.

In practice, the EIA is usually submitted to the PME for approval. Following their review and evaluation of the application and the documentation provided, the PME may reject the permit application, grant unconditional PME consent, or grant PME consent subject to such conditions as it considers necessary to address its concerns. Where conditional PME consent is granted, the applicant must undertake to fulfil such conditions as a prerequisite to the granting of any such environmental permit.

Pursuant to CMR 169, SEC is required to conduct its operations in line with environmental guidelines set by the Government. Independent surveyors periodically inspect the SEC Group's facilities to ensure compliance with these guidelines. SEC has also initiated a system of internal audits at the SEC Group's facilities to monitor compliance with applicable environmental laws. SEC believes that emissions from the SEC Group's power plants are within standards set by the Government and that it is in substantial compliance with all applicable environmental laws in the Kingdom.

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

KINGDOM OF SAUDI ARABIA

INTRODUCTION

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

The modern Kingdom was declared in 1932 by King Abdul Aziz bin Abdul Rahman Al Saud. The capital of the Kingdom is Riyadh. Since the discovery of oil fields in the eastern region along the coast of the Arabian Gulf in 1938, the Kingdom has experienced rapid growth and is now a leading producer of oil and natural gas, holding 17.9 per cent. of the world's proven oil reserves as at 31 December 2011 according to the Organization of the Petroleum Exporting Countries (**OPEC**).

GOVERNMENT AND LEGAL FRAMEWORK

The Kingdom is a monarchy with a political system rooted in the traditions and religion of Islam. The King is both the head of state and the head of the government. Its constitution, the Basic Law issued by Royal Decree number A/90 and dated 27/08/1412H (corresponding to 02/03/1992G), specifies that the King must be chosen from among the sons of the first King, Abdul-Aziz bin Saud, and their male descendants. In 2006 the Allegiance Council was established, comprised of (i) King Abdul-Aziz bin Saud 's surviving sons; (ii) one son of each deceased/disabled son of King Abdul-Aziz bin Saud and (iii) one son of the King and one son of the Crown Prince, both appointed by the King, to determine which member of the royal family will be the next King and the next Crown Prince.

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

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

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

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

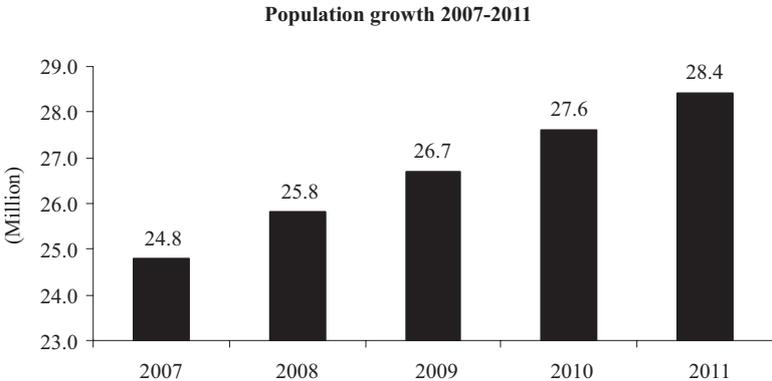
In 1993, executive regulations for the Law of the Council of Ministers were introduced and, in 2003, the cabinet approved procedures for the election of half of the members of the municipal councils. In 2011, the King announced that women would be allowed to stand for election to, and vote for the members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

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

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

POPULATION AND EMPLOYMENT

The population of the Kingdom, based on preliminary estimates of a 2010 census carried out by the Central Department of Statistics and Information of the Ministry of Economy and Planning (CDSI), is approximately 28.4 million which represents a growth of 2.9 per cent. from the previous year’s estimate of 27.6 million. Of this, Saudis constituted 68.4 per cent. (19.4 million) and non-Saudis 31.6 per cent. (9.0 million). The Kingdom has one of the highest population growth rates globally and is the largest in the GCC by population. According to the Forty Eighth Annual Report, The Latest Economic Developments 1433H (2012G), prepared by the Research and Statistics Department of SAMA (the **SAMA Report**), the population of the Kingdom represented 67.4 per cent. of the population of the GCC, and estimates show that the Kingdom’s population nearly doubled during the last two decades, rising from 16.0 million in 1991 to 28.4 million in 2011. Since 2007, the population of the Kingdom has grown at a CAGR of 3 per cent.



Source: The SAMA Report.

The Manpower Research of 2009 issued by the CDSI indicated that the total labour force (age 15 years and over) in the Kingdom was 8.6 million, 49.8 per cent. of which consisted of Saudis and 50.2 per cent. of which consisted of non-Saudis.

ECONOMY

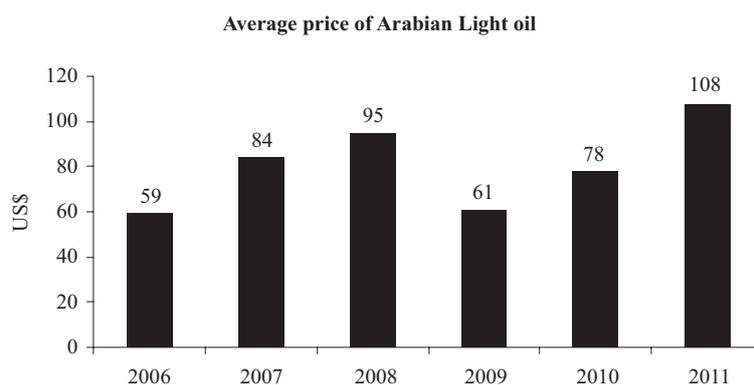
The Kingdom's economy is primarily hydrocarbon-based and is the largest economy in the GCC by GDP, representing 42.8 per cent. of the combined GDP of the GCC countries. In 2012, 88.5 per cent. of budget revenues and 87.1 per cent. of export earnings came from the Kingdom's oil industry. The oil industry comprised 52.3 per cent. of the Kingdom's gross domestic product in 2011, with an additional 26.0 per cent. derived from the private sector. The Kingdom's proven reserves of oil remained substantially unchanged at 264.5 billion barrels at the end of 2010. However, the Kingdom's proven reserves of natural gas rose by 1.2 per cent. to 283.1 trillion standard cubic feet at the end of 2010 compared to 279.7 trillion standard cubic feet at the end of 2009 (*source: the SAMA Report, data for 2011 is provisional*).

The table below shows the Kingdom's crude oil production and exports for each of 2009, 2010 and 2011:

| | 2009 | 2010 | 2011 |
|--|-------------------|---------|---------|
| | (million barrels) | | |
| Total crude oil production | 2,987.3 | 2,980.4 | 3,398.5 |
| Daily average crude oil production | 8.2 | 8.2 | 9.3 |
| Total crude oil exports | 2,287.7 | 2,425.1 | 2,634.6 |

Source: The SAMA Report. Data for 2012 is not currently available.

As the Kingdom's most important export, any change in oil prices significantly affects various macroeconomic indicators, including balance of payments and GDP. The table below shows the level of oil prices from 2006 to 2011.



Source: The SAMA Report.

Oil prices increased in 2010 and 2011 which contributed to an increase in gross domestic product (GDP) at current prices (including import duties) of 21.0 per cent. from SAR 1,412.6 billion in 2009 to SAR 1,709.5 billion in 2010 and of 31.0 per cent. to SAR 2,239.1 billion in 2011. The table below shows the Kingdom's nominal GDP and related growth rates and the GDP at constant 1999 prices and related growth rates for 2006 to 2011.

| | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
|--------------------------|-----------------------------------|---------|---------|---------|---------|---------|
| | (SAR billion, except percentages) | | | | | |
| Nominal GDP | 1,335.6 | 1,442.6 | 1,786.1 | 1,412.6 | 1,701.7 | 2,239.1 |
| Nominal GDP growth | 12.9 | 8.0 | 23.8 | (20.9) | 21.0 | 31.0 |
| Real GDP | 786.3 | 802.2 | 836.1 | 836.9 | 879.8 | 941.8 |
| Real GDP growth | 3.1 | 2.0 | 4.2 | 0.1 | 5.1 | 7.1 |

Source: The SAMA Report. Data for 2011 is provisional. Data for 2006 and 2007 extracted and derived from the Forty Seventh Annual Report, The Latest Economic Developments 1433H (2012G), prepared by the Research and Statistics Department of SAMA.

The oil sector's contribution to GDP grew by 31.7 per cent. from SAR 662.2 billion in 2009 to SAR 872.2 billion in 2010 and by 47.7 per cent. to SAR 1,288.6 billion in 2011, and the GDP contribution

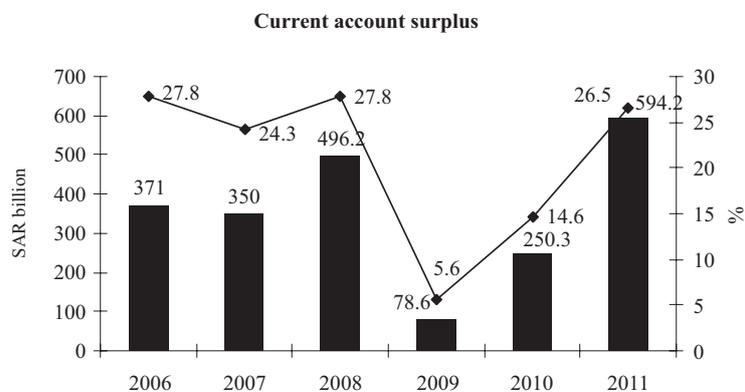
of the non-oil sector at current prices grew by 11.6 per cent. from SAR737.5 billion in 2009 to SAR 822.9 billion in 2010 and by 13.4 per cent. to SAR 933.2 billion in 2011.

The following table shows the contribution by economic sector to the Kingdom's GDP at constant 1999 prices for each of 2009, 2010 and 2011.

| | 2009 | 2010 | 2011 ⁽¹⁾ |
|---|----------------|----------------|---------------------|
| | (SAR million) | | |
| Industries and other producers (excluding government service producers) | | | |
| Agriculture forestry and fishing..... | 39,536 | 39,986 | 41,086 |
| Mining and quarrying..... | 200,131 | 204,536 | 213,274 |
| Crude oil and natural gas..... | 197,095 | 201,433 | 210,354 |
| Other mining and quarrying activities..... | 3,036 | 3,102 | 3,216 |
| Manufacturing industries..... | 105,100 | 111,759 | 125,931 |
| Oil refining..... | 21,615 | 21,886 | 22,642 |
| Other industries..... | 83,485 | 89,873 | 103,288 |
| Electricity, gas and water..... | 14,973 | 16,161 | 17,003 |
| Construction and building..... | 57,982 | 62,518 | 69,843 |
| Wholesale and retail trade and restaurants and hotels..... | 72,992 | 79,190 | 84,792 |
| Transport and storage and communication..... | 59,946 | 65,137 | 72,063 |
| Finance, insurance, real estate and business services..... | 107,517 | 109,201 | 112,529 |
| House ownership..... | 54,875 | 55,915 | 57,672 |
| Others..... | 52,641 | 53,286 | 54,857 |
| Community and social and personal services..... | 32,267 | 34,171 | 37,390 |
| Minus calculated banking services..... | 15,869 | 16,060 | 16,376 |
| Government service producers..... | 152,510 | 162,926 | 173,261 |
| Total (excluding import duties)..... | 827,085 | 869,525 | 931,093 |
| Import duties..... | 9,853 | 10,259 | 10,756 |
| GDP..... | 836,938 | 879,784 | 941,849 |

Source: SAMA Report. Data for 2011 is provisional.

From 2010 to 2011, the Kingdom also experienced an increase in its current account surplus from SAR 250.3 billion in 2010 to SAR 594.2 billion, respectively, and a budget surplus of SAR 87,731 million and SAR 291,092 million, respectively. The following table shows the current account surplus from 2006 to 2011, in addition to the current account surplus as a percentage of GDP.



Source: The SAMA Report. Data for 2011 is provisional. Data for 2006 and 2007 extracted and derived from the Forty Seventh Annual Report, The Latest Economic Developments 1433H (2012G), prepared by the Research and Statistics Department of SAMA.

DOMESTIC STOCK MARKET

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

According to the SAMA Report, the level of the general share price index of the Saudi Arabian Stock Exchange (the **Tadawul**) increased from 6,121.8 at 31 December 2009 to 6,620.8 at 31 December 2010 and decreased to 6,417.7 at 31 December 2011. During the same period the total market capitalisation of companies listed on the Tadawul increased from SAR 1,196 billion at 31 December 2009 to SAR 1,325 billion at 31 December 2010 before falling to SAR 1,270.8 billion at 31 December 2011.

CREDIT RATING

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

| | <u>Moody’s</u> | <u>Fitch</u> | <u>S&P</u> |
|---------------------------------|----------------|--------------|----------------|
| Long-term foreign currency..... | Aa3 | AA- | AA |
| Outlook..... | Stable | Stable | Stable |

FOREIGN INVESTMENT

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

The government is aiming to increase and encourage foreign investment by focusing on ten key sectors, including petrochemicals, electricity and financial services. From 2005 to 2008, there was a 101 per cent. increase in foreign direct investment (*source: SAGIA*).

MANAGEMENT AND EMPLOYEES

MANAGEMENT STRUCTURE

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

There are a number of other committees within SEC, in addition to the audit committee, which report to the Board or the Executive Management and are responsible for dealing with a range of operational and business matters including human resources and remuneration and nominations. For a description of these committees, see "*Board Committees*".

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

BOARD OF DIRECTORS AND SECRETARY TO THE BOARD

The Board consists of nine members, five 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:

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

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

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

Dr. Al-Awajji was elected to the Board by the general meeting of the shareholders in January 2012 and was appointed as Chairman of the Board by the Board in 2009. He has served on the Board since 2003. He has been Deputy Minister of Water and Electricity since 2003. He is currently Chairman of the GCC Electric Interconnection Organization and a member of the board of directors of the Saline Water Conversion Corporation and Saudi Industrial Development Fund. He is also a member of the Preparatory Committee for Saudi-Yemeni Coordination Council; a member of the Expert Team, Executive Board of the Council of Electricity-Concerned Arab Ministers; a member of the Agents Preparatory Committee for the Committee of GCC Electric Cooperation and a member of the National Committee of the International Energy Council. Mr. Al-Awajji obtained a Bachelor's Degree in Electrical Engineering from King Saud University, Saudi Arabia in 1982, a Master's Degree in Electrical Engineering from Taiwan National University in 1985 and a Doctorate in Electrical Engineering from the University of Strathclyde, United Kingdom in 1989.

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

Mr. Al-Kadi was elected to the Board by the general meeting of the shareholders in January 2012. He was the Chief Executive Officer of SEC until 2005 and has served on the Board since 2006. In March 1998, Mr. Al-Kadi was elected Chairman of the board of directors of the Arab Union of Producers, Transformers and Distributors of Electricity Producers. He is a former member of the Eastern Region Council as representative of the Ministry of Industry and Electricity. He is a former Director General and Managing Director of SEC, Eastern Region, member of the board of directors of General Organization of Electricity and member of the board of directors of SEC, Central Region. Mr. Al-Kadi obtained a Bachelor's Degree in Petroleum Engineering and Management from Texas University, USA in 1964.

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

Dr. Al-Nemer was elected to the Board by the general meeting of the shareholders in January 2012. He has served on the Board since 2009. He has been the Chairman of the Advisory Services Committee in the Saudi Organization for Certified Accountants since 2007 and a member of the board of trustees of Prince Sultan University since 2006. He is currently a partner in Al Hamid & Al Nemer. Dr. Al-Nemer obtained a Bachelor's Degree in Accounting and Business Administration from King Saud University, Saudi Arabia in 1973, a Master's Degree in Public Administration from Missouri State University, USA in 1976, and a Doctorate in Public Administration from Florida State University, USA in 1981.

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

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

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

Engineer Al-Bayyat was elected to the Board by the general meeting of the shareholders in January 2012. He has served on the Board since 2006. He was Vice President of New Business Development in Saudi Aramco. He is a former President and Chief Executive Officer of Saudi Refining Inc. in Houston, Texas, USA. Mr. Al-Bayyat obtained a Bachelor's Degree in Electrical Engineering from the University of Basra, Iraq in 1971 and a Master's Degree in Electrical Engineering from King Fahd University of Petroleum & Minerals, Saudi Arabia in 1981.

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

Mr. Saleh Al-Muhanna was elected to the Board by the general meeting of the shareholders in January 2012. He has been Assistant Deputy Minister of Finance since 2004 and has served on the Board since 2009. He has been a member of the board of directors of the Arab Bank Amman since 2006, a member of the board of directors of the Saline Water Conversion Corporation since 2005 and a member of the board of directors of the General Organization for Technical and Vocational Training since 2008. He has been a member of the Country Sovereign Rating Committee for Saudi Arabia since 2001. He obtained a Bachelor's Degree in Industrial Management from King Fahd University of Petroleum & Minerals, Saudi Arabia in 1982 and a Master's Degree in Economics from Ohio University, USA in 1993.

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

Mr. Al-Furaih was elected to the Board by the general meeting of the shareholders in January 2012. He has served on the Board since 2009 and is also currently the first Vice CEO of Riyadh Bank. He is a Certified Public Accountant and worked for Arthur Andersen until 1987. Mr. Al-Furaih obtained his Bachelor's Degree in Accountancy from the University of San Diego, USA in 1981 and a Master's Degree in Accountancy from Ball State University, USA in 1983.

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

Dr. Al-Turki was elected to the Board by the general meeting of the shareholders in January 2012. He has served on the Board since 2012 and has served as the Dean of Scientific Research at King Abdulaziz University, Saudi Arabia since 2006. He served as the Vice Dean of the Institute of Research and Consultations at King Abdulaziz University, Saudi Arabia from 2002 to 2006. Dr. Al-Turki has been the chairman and a member of many committees in various departments and faculties at King Abdulaziz University, Saudi Arabia and has industrial links with bodies outside the university. Dr. Al-Turki is an instructor at the Electrical and Computer Engineering department in the Faculty of Engineering at King Abdulaziz University and is also a member of the Permanent Research Follow-up Committee at King Abdulaziz Science and Technology City. Dr. Al-Turki obtained a Bachelor's degree in Electrical Engineering from King Abdulaziz University, Saudi Arabia in 1979 and a Doctorate Degree in Electrical Power Engineering from Manchester University, United Kingdom in 1985.

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

Engineer Al-Shiha was elected to the Board by the general meeting of the shareholders held in January 2012. He joined Saudi Aramco in 1984, a management trainee in pipelines, and has served on the Board since 2011. He joined the professional development programme as an engineer in 1988 and since then he has held positions such as Manager of New Business Development; Manager of Public Relations; and Manager of Facilities Planning within Saudi Aramco in different departments, including Operations and Maintenance, Engineering and Project, at oil and gas facilities and pipelines inside and outside the Kingdom. He was also a Vice President, General Planning of one of Saudi Aramco's international joint ventures in the Republic of the Philippines. He is the current Executive Director of Electrical Systems, a post he has held since May 2011. Engineer Al-Shiha obtained a Bachelor's Degree in Electrical Engineering from King Fahd University of Petroleum & Minerals, Saudi Arabia in 1988 and a Master's Degree in Electrical Engineering "Control Systems" from Rice University, USA in 1991.

Mr. Obaid Al-Ojairi, Secretary to the Board

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

BOARD COMMITTEES

Audit committee

The Board appoints and replaces members of the audit committee which consists of five non-executive members, three of whom are drawn from the Board and the remaining two from SEC's shareholders. The current members of the audit committee are Abdul Aziz Bin Saleh Al-Furaih (chairman of the committee), Saleh Bin Saad Al-Muhanna, Issam Bin Alwan Al-Bayyat, Abdul Rahman Bin Ibrahim Al-Humaid, and Sulaiman Bin Abdullah Assakran. The audit committee is responsible for monitoring the financial affairs of SEC and its internal corporate governance. The audit committee reports to the Board and met nine times in 2012.

Executive committee

The executive committee is comprised of five members which are selected by the Board. The current members of the executive committee are Saleh Bin Hussain Al-Awajji (chairman of the committee), Saleh Bin Saad Al-Muhanna, Issam Bin Alwan Al-Bayyat, Yousuf Abdulaziz Al-Turki, and Ali Bin Saleh Al-Barrak. The executive committee is responsible for reviewing plans and studies in relation to the restructuring of SEC's activities, reviewing annual budgets and reports, reviewing project proposals submitted by SEC's executive management and the studies, plans, and financing aspects relating to them, routinely reviewing SEC's performance against previous forecasts, and looking into all matters delegated to it by the Board. The executive committee reports to the Board and meets once every two months in ordinary circumstances and, upon the chairman's or CEO's request, in emergency or extraordinary circumstances. The executive committee met ten times during 2012.

Human resources committee

The human resources committee is comprised of five members which are selected by the Board. The current members of the human resources committee are Sulaiman Bin Abdullah Al-Kadi (chairman of the committee), Saleh Bin Hussain Al-Awajji, Ahmed Abdullah Al-Aqeel, Saud Bin Mohammed Al-Nemer, and Ali Bin Saleh Al-Barrak. The human resources committee is responsible for reviewing SEC's human resource policies and regulations, including SEC's salary structure, benefits and allowances, and recruitment standards. It is also responsible for nominating SEC's CEO and vice presidents and appointing sector heads. The human resources committee reports to the Board, and met seven times in 2012.

Remuneration and nominations committee

The remuneration and nominations committee is comprised of five members which are selected by the Board. The current members of the remuneration and nominations committee are Ahmed Abdullah Al-Aqeel (chairman of the committee), Saud Bin Mohammed Al-Nemer, Yousuf Abdulaziz Al-Turki and Ziyad Mohammad Al-Shiha. The remuneration and nominations committee is responsible for annually reviewing the required skills for Board membership and recommending new membership nominations to the Board in accordance with approved policies, reviewing the Board's organisational structure, ensuring that there are no conflicts of interest in the event that a Board member is also a board member or shareholder of another company which provides services to SEC and developing clear policies for the compensation and remuneration of Board members and senior executives. The committee reports to the Board and meets a minimum of twice a year. It met twice in 2012.

EXECUTIVE MANAGEMENT

The table below sets out details of SEC's executive management team.

| Name | Title |
|--|---|
| Engineer Ali Bin Saleh Al-Barrak | Chief Executive Officer |
| Engineer Fouad Bin Juwaied Al-Shuraiby | Executive Vice President – Generation |
| Engineer Sa'ad Bin Hamad Al-Mansour..... | Executive Vice President – Distribution & Customer Services |
| Mr. Ahmed Bin Mohammed Al-Jugaiman..... | Executive Vice President – Finance |
| Engineer Saleh Bin Naser Al-Sohaibani | Executive Vice President – Engineering & Projects |
| Mr. Nazeer A Mohsen Khashqaji | General Auditor |
| Mr. Mutlaq Bin Mohammed Al-Mutlaq | Senior Vice President – Legal Affairs |
| Mr. Mohammed I Gaddourah..... | Senior Vice President – General Services |
| Mr. Abdul Salam Bin Abdulaziz Al-Yemni | Senior Vice President – Public Affairs |
| Mr. Saud Bin Abdulaziz Al-Shammari..... | Senior Vice President – Human Resources |
| Engineer Abdulkarim Bin Abdullah Al-Zakari | Senior Vice President – Supply Chain & Contracting |
| Dr. Mohammad Oayedh Faraj..... | CEO (A), National Grid, Saudia Arabia |

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

Engineer Ali Bin Saleh Al-Barrak, CEO

Mr. Al-Barrak joined SEC as a senior engineer in 1980. Since that time he has held the following positions within SEC: Senior Engineer from 1980 to 1981; Director General, Al Qassim Electricity Area from 1981 to 1986; Acting Director General, Central Region Branch from 2001 to 2002; member of the Executive Committee from 2000 to 2002 and Executive Vice President from 2003 to 2007. Mr. Al-Barrak was appointed as CEO by resolution of the Board (number 2006/60/1) dated 26 September 2006. Before joining SEC, Mr. Al-Barrak worked at The Research Centre and Industrial Development from 1975 to 1978 and worked in consulting services for Al-Saudiyah from 1978 to 1980. Mr. Al-Barrak obtained a Bachelor's Degree in Electrical Engineering from King Saud University, Saudi Arabia in 1975 and a Master's Degree in Electrical Engineering from the University of Colorado at Boulder, USA in 1979.

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

Mr. Al-Shuraiby joined SEC as an electrical engineer in 1986. Since that time he has held the following positions within SEC: Department Manager, Operations & Maintenance Transmission (110KV / 380KV) from 1986 to 1989, Manager, Makkah Al-Mukarrama Area Distribution in Western Region from 1989 to 1993, Vice President, Distribution & Customer Services in Western

Region from 1993 to 2001, General Manager, Western Region branch from 2001 to 2002, Senior Vice President, Distribution & Customer Services in Western Region Sector from 2003 to 2008. Mr. Al-Shuraiby was appointed Executive Vice President, Generation in 2008. Before joining SEC, Mr. Al-Shuraiby was an Electrical Maintenance Engineer in Sweet Water and Electrical Power Generation, Jeddah from 1982 to 1986. Mr. Al-Shuraiby obtained a Bachelor's Degree in Electrical Engineering from Santa Barbara University, California, USA in 1980 and earned a Master's Degree in Electrical Engineering from California State University, San Louis Obispo, USA in 1982.

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

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

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

Mr. Al-Jugaiman joined SEC as an accountant in 1981. Since that time he has held the following positions within SEC: Supervisor, Customer Accounting (Alhasa Operating Area) from 1984 to 1985; Supervisor, Customer Relations (Alhasa Operating Area) from 1985 to 1986; Manager, Finance and Treasury Department (Dammam Operating Area) from 1986 to 1987; Manager, Finance and Treasury Department (Alhasa Operating Area) from 1987 to 1989; Administrator, General Accounting Division from 1989 to 1990; Administrator, General Accounts, Head Office from 1990 to 1992; Controller and Manager for Finance Controlling Department in SCECO from 1993 to 2002; and SEC Vice President, Corporate Controller, Control Sector from 2003 to 2008. Mr. Al-Jugaiman was appointed as Executive Vice President, Finance in 2008. Before joining SEC, Mr. Al-Jugaiman worked for General Organisation for Social Insurance Company. He obtained a Bachelor's Degree in Administrative Sciences and specialised in Accounting from King Saud University in 1981.

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

Engineer Al-Sohaibani joined SEC as an Electrical Engineer in 1980. Since that time he has held different positions within SEC, including Executive Director, Engineering and Project in Transmission from 2003 to 2011. Engineer Al-Sohaibani was appointed as Executive Vice President, Engineering and Projects in 2012. Engineer Al-Sohaibani obtained a Bachelor's degree in Electrical Engineering from King Saud University, Saudi Arabia in 1980 and a Master's degree in Electrical Engineering from King Saud University, Saudi Arabia in 1988.

Mr. Nazeer A Mohsen Khashqaji, General Auditor

Mr. Khashqaji joined SEC as an internal auditor in 1987. Subsequently he advanced to the positions of Head of Management Audit in 1994, Director of Audit Department in 1997, Director of Internal Audit in 1998, Assistant Auditor General for the Finance and Information Technology for the consolidated SEC Company in 2003, and General Auditor for SEC in 2013. Prior to his employment at SEC and its predecessors, Mr. Khashqaji worked in auditing and finance for the General Auditing Bureau from 1977 to 1983, the Arab AAA from 1983 to 1985, Saudi Automotive Services Co from 1985 to 1987, and Saudi Aramco from 1991 to 1994. Mr. Khashqaji earned a Bachelor's Degree in Accounting in 1997.

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

Mr. Al-Mutlaq joined SEC as a member of the Executive Committee for Legal Affairs in 2000. He was appointed as Senior Vice President for Legal Affairs in 2000. 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 Legal Consultant for Mawarid Trading and Marketing Limited in 1995 and a Legal Consultant for Salah Al-Hejailan Law Firm from 1996 to 2000. Mr. Al-Mutlaq obtained a Bachelor's Degree in Islamic Shari'ah from Imam Mohammed bin Saud Islamic University, Saudi Arabia in 1975 and a Master's Degree in Law from the University of Tulane, USA in 1983.

Mr. Mohammed I Gaddourah, Senior Vice President – General Services

Mr. Gaddourah joined SEC as Vice President of the Office of the President in 1985. He held the positions of Vice President – Customer Service and Distribution from 1986 to 1993, Vice President – Engineering and Projects from 1993 to 2001, Vice President – General Services from 2002 to 2005, and Executive Director (consolidated company) from 2005 to 2012. He earned a Bachelor's degree in Mechanical Engineering from King Fahd University of Petroleum and Minerals, Saudi Arabia in 1978 and a Master's of Public Administration from the University of Dallas, USA in 1981. Mr. Gaddourah also received an Advanced Diploma in Management from Harvard University, USA in 1998.

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

Mr. Al-Yemni joined SEC as Secretary to the Board in 2000, a position which he retained until 2011 when he was appointed Senior Vice President for Public Affairs and Shareholder Relations. Mr. Al-Yemni was a member of the Budgetary Committee between 2000 and 2002 and has been a member of the Executive Committee since 2002. Before joining SEC, he worked for the Ministry of Commerce and Industry between 1983 and 2000. He obtained a Bachelor's Degree in Arts from King Saud University, Saudi Arabia in 1982.

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

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

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

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

Dr. Mohammad Oayedh Faraj, CEO (A) National Grid Saudi Arabia

Dr. Mohammad Oayedh Faraj is acting CEO and Vice President of Asset Maintenance for the National Grid SA, a wholly-owned independent operating company of SEC. Dr. Oayedh joined SEC in 1983 and worked in various engineering and management assignments. In 1998 he became System Operations Director and, in 2008, was promoted to Executive Director, Consolidated Transmission Area. In 2012 he was appointed to his current position. Dr. Oayedh obtained a PhD. in Electrical Engineering from King Saud University, Saudi Arabia in 1998 and a Bachelor's degree in Electrical Engineering with honours from King Fahad University, Saudi Arabia in 1981. Dr. Oayedh has published more than 20 national and international papers and is currently supervising the SEC Chair at the Department for Power System Security at the King Saud University.

APPOINTMENT OF DIRECTORS AND CEO

The representatives of the Government on the Board are nominated directly by the King of the Kingdom for periods specified by the relevant Royal Order and the members of the Board are appointed by the general meeting of the shareholders, normally for a period of three years. As at the date of this Prospectus, no members of the Board have or have had related party contracts with SEC.

The CEO is appointed by the Board, which also determines his remuneration and the terms of his appointment. The current CEO was appointed by the Board on 1 October 2006 and his service will continue until the Board terminates his appointment. As at the date of this Prospectus, the CEO does not have any service or employment contract with SEC.

EMPLOYEES

As at 31 December 2012, the SEC Group had a workforce of 29,006 of which 87.6 per cent. are Saudi Arabian nationals.

The following table sets out the SEC Group's employees by category of activity as at 31 December 2012.

| Position | Number of employees |
|--|----------------------------|
| Senior-level executive positions | 45 |
| Mid-level manager positions..... | 1,693 |
| Other positions | 27,268 |
| Total positions | 29,006 |

For the purpose of the above table:

Senior-level leader positions include the CEO, Executive Vice President, Senior Vice President and Executive Directors;

Mid-level manager positions include all Managers, Section Heads, Superintendents, Supervisors, Chiefs, Group Leaders and Foremen; and

Other positions include any job title not in Senior-level leader positions or Mid-level manager positions.

Saudisation

In order to increase the Saudisation of its workforce, SEC has established numerous training centres geared to enhancing the skills of its employees.

SEC has signed agreements with a number of Saudi Arabian banks whereby SEC will facilitate the granting of financings by such banks to SEC's Saudi Arabian employees in order to enable them to purchase housing. As part of these agreements, where an employee meets both the criteria set by SEC and the criteria set by the financing bank, SEC will pay 70 per cent. of the financing costs, defined to exclude the principal of the financed amount, for so long as the employee remains a SEC employee.

CORPORATE GOVERNANCE REGULATIONS

SEC has implemented all of the mandatory rules set out in Articles 9, 12 and 14 of the Corporate Governance Regulations issued by the Capital Market Authority (the **Corporate Governance Regulations**). SEC has also implemented the majority of the advisory guidelines set out in the Corporate Governance Regulations, in particular, the guidelines relating to the rights of shareholders and compliance with disclosure and transparency procedures.

SEC's Board has approved the formation of a committee consisting of a number of senior officials from SEC to prepare its own corporate governance rules with the aim of implementing the balance of the advisory guidelines under the Corporate Governance Regulations.

COMPENSATION OF DIRECTORS AND EXECUTIVE MANAGEMENT

The remuneration of the members of the Board is set by a proposal made by the Board to the general meeting of the shareholders of SEC, which has the power to either approve or reject the Board's proposal. For the years ended 2010, 2011 and 2012, the aggregate remuneration (including benefits in kind) paid to the members of the Board was SAR 1.4 million, SAR 1.4 million and SAR 1.6 million, respectively.

EMPLOYEE BENEFITS

Savings scheme

SEC has founded an elective savings program as an incentive for its employees and to further attract qualified Saudi personnel. This programme aims to motivate Saudi employees and allows them to benefit from their savings at retirement or at the end of their service.

Under the savings program, SEC extracts a part of the participating employee's salary and invests it for the employee's benefit in low-risk investment funds, in accordance with Islamic investment

conditions. SEC proportionally matches each employee's contribution on a sliding scale based on years of membership in the savings scheme and fully matches the employee's monthly contribution after the employee has participated in the savings scheme for ten years.

Loans scheme

SEC provides its Saudi employees with loans as part of a Shari'ah-compliant (*murabaha*) financing programme which enables employees to own, construct, or continue the construction of accommodation. Such financing is provided for an amount of up to SAR 1,200,000 and with a term of up to twenty years. SEC contributes by bearing 70 per cent. of the costs of such financing, with such contribution ending upon the termination of the employee's service, for whatever reason that may be.

As at 31 December 2012, 3,360 employees have benefitted from this scheme.

DESCRIPTION OF OTHER INDEBTEDNESS

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

The SEC Group has a centralised treasury located at its head office, which is responsible for investing and managing its surplus cash. The SEC Group's surplus cash is invested mainly in fixed deposits (between one week's and 12 month's duration) with a mix of highly rated local and international banks. SEC also has a small portfolio of securities issued by Saudi Arabian companies which it expects to hold to maturity and therefore carries at cost. As at 31 December 2010, 2011 and 2012, the value of this portfolio was SAR 400 million, SAR 425 million and SAR 275 million, respectively.

Before undertaking any significant capital expenditure, SEC evaluates the funding requirements for the project concerned. SEC has significant committed funding from the Government in the form of a SAR 51.1 billion interest-free loan of which SAR 41.0 billion was available for drawing at 31 December 2012 as well as other committed funding from external lenders as described below. Based on its available funding, SEC determines whether any additional external financing is required to finance the proposed capital expenditure. Where financing is required, SEC may also utilise hedging instruments to manage its exposure to market rates under that financing.

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

In addition to the long-term loans and sukuk described below, SEC has unutilised credit facilities with local banks amounting to SAR 1.0 billion at 31 December 2012.

Long-term loans and facilities

As at 31 December 2012, SEC had five long-term loans outstanding which together totalled SAR 13,665 million. The table below shows details of each of these long-term loans:

| <u>Type of loan / facility</u> | <u>Principal amount</u> | <u>Amount outstanding</u> | <u>Maturity Date for last instalment</u> |
|--|-------------------------|---------------------------|--|
| | | <i>(SAR million)</i> | |
| Syndicated murabaha facility..... | 6,000 | 4,091 | 2020 |
| U.S. Export-Import Bank and Export Development Bank of Canada loan | 4,125 | 3,048 | 2021 |
| Public Investment Funds loan | 2,583 | 2,476 | 2024 |
| Syndicated murabaha facility..... | 5,000 | 500 ⁽¹⁾ | 2025 |
| COFACE French Export Credit Agency loan | 3,709 | 3,443 | 2024 |
| Korean export credit agencies loan | 5,300 | 107 | 2024 |

Note:

(1) This loan is not yet fully drawn. The availability period in respect of this loan ends on 1 April 2013.

Syndicated murabaha facilities

On 28 July 2008, SEC obtained a Shari'ah-compliant facility for SAR 6 billion from a syndicate of local banks which has been fully drawn. The principal amount drawn under the facility is repayable over 22 semi-annual instalments which began on 3 November 2009. As at 31 December 2012, the principal balance outstanding under the facility was SAR 4.1 billion (compared to SAR 4.6 billion as at 31 December 2011). Profit is payable semi-annually and calculated using a mark-up over SIBOR.

On 13 December 2010, SEC signed an agreement with a syndicate of local banks, whereby SEC would obtain a Shari'ah-compliant facility of SAR 5 billion. The principal amount drawn under the facility is repayable over 26 semi-annual instalments which will begin in June 2013. As at 31 December 2012, the facility is not fully drawn and the principal balance outstanding under the facility amounted

to SAR 0.5 billion (compared to SAR 0.5 billion as at 31 December 2011). Profit is payable semi-annually and calculated using a mark-up over SIBOR.

The financing agreements for the murabaha facilities include a number of financial covenants, positive covenants, negative covenants and events of default, which are fairly standard for financings of this type. The terms of the financing agreements for the murabaha facilities are substantially the same.

The financial covenants require SEC to ensure that its total liabilities do not exceed two times its total tangible net worth at any time and that it maintains a minimum tangible net worth of at least SAR 40 billion.

Key positive covenants include obligations on SEC to: (a) provide certain financial information (including, SEC's annual consolidated financial statements); (b) provide a compliance certificate demonstrating compliance with the financial covenants; (c) notify of any defaults or material litigation; (d) obtain and maintain all required authorisations; (e) comply with applicable laws and regulations if failure to comply would materially impair SEC's ability to operate its business or perform its payment obligations or other material obligations under the agreements; (f) permit the agent to have access at all reasonable times to SEC's sites, projects, books and records; and (g) comply with applicable environmental laws.

Key negative covenants include obligations on SEC not to: (a) create any security or quasi-security (subject to the usual carve-outs for existing security, netting or set-off related to banking or hedging arrangements, liens arising by operation of law in the ordinary course of trading, any pre-existing security over any asset or company acquired by SEC, any security by way of retention of title or similar arrangement imposed by investors in respect of property pursuant to any Islamic financing arrangement and a permitted basket for secured financings); (b) sell, lease or otherwise dispose of any assets (subject to carve-outs for disposals made as part of the permitted reorganisation of the SEC Group, in the ordinary course of trading, in exchange for assets of a similar or superior value, of non-revenue generating assets on arm's length basis and of revenue generating assets with an aggregate value not exceeding a permitted basket or any disposal which constitutes a security interest that is permitted under the negative pledge summarised in (a) above or any disposal made under any listed sukuk issued by SEC); (c) incur any financial indebtedness (subject to carve-outs for existing financial indebtedness specifically listed in the agreements, short term unsecured working capital facilities and medium term guarantees, bonding lines or letters of credit falling within an overall basket, finance or capital leases falling within an overall basket, non-speculative derivatives transactions entered into the ordinary course of business, unsecured trade indebtedness incurred in the ordinary course of trading, short-term letters of credit and subordinated shareholders loans); and (d) incur any financial indebtedness which ranks senior to or *pari passu* with the murabaha financing without the consent of the majority murabaha facility participants.

Key events of default, include: (a) a failure by SEC to make any payments due under the agreements; (b) breach of any financial covenant; (c) any failure by SEC to comply with any of its other obligations (subject to a general remedy period for breach of most obligations); (d) a breach of any representation or warranty made or deemed to be made by SEC; (e) any non payment of any other indebtedness of SEC when due or any other indebtedness of SEC being accelerated (subject to a minimum aggregate threshold); (f) insolvency or insolvency proceedings affecting SEC; (g) any creditors' process affecting SEC's assets (subject to a minimum aggregate threshold and a grace period); and (h) a change of control occurs with respect to SEC or any subsidiary of SEC (a change of control is defined to mean: (A) in respect of SEC, any event which results in the Government directly owning all or substantially all the assets of SEC or results in the Government ceasing to own at least 51% of the shares of SEC and ceasing to have management control over SEC (whether through the ownership of shares, by contract or otherwise), and (B) in respect of a subsidiary of SEC, any event which results in SEC ceasing to own at least 75% of the shares of such subsidiary and ceasing to have management control over such subsidiary (whether through the ownership of shares, by contract or otherwise).

Export credit agency loans

U.S. Export-Import Bank and Export Development Bank of Canada loan

On 27 January 2010, SEC signed a financing agreement with U.S. Export-Import Bank and Export Development Bank of Canada, whereby SEC would receive a direct loan amounting to U.S.\$1.1 billion (approximately SAR 4.1 billion) which has been fully drawn. The loan is repayable within 12 years over 23 semi-annual instalments which began on 25 May 2010. As at 31 December 2012, the loan balance outstanding amounted to SAR 3 billion (compared to SAR 3.4 billion as at

31 December 2011). Accrued commission on the loan is payable semi-annually and is calculated using a fixed rate based on the Commercial Interest Reference Rates (CIRRs).

The loan agreement includes a number of affirmative and negative covenants, which are fairly standard for loans of this nature. Key affirmative covenants include obligations on SEC to: (a) notify of any defaults or material disputes; (b) provide certain financial information (including, SEC's annual consolidated financial statements); (c) enable the lenders to make reasonable inspections of the projects where the goods financed under the loan agreement are being used or incorporated; (d) obtain and maintain all required authorisations; (e) comply with applicable environmental laws and certain environmental standards; (f) comply with all applicable laws and regulations to the extent that non-compliance would not reasonably be expected to have a material adverse effect on (among other things) SEC's ability to perform its payment or other obligations under the loan agreement; (g) ensure that SEC controlled subsidiaries (which are defined as entities in which SEC has an ownership interest of at least 75% and over which SEC has management control) incur no external indebtedness or provide any external guarantees or security; and (h) maintain credit rating from at least two of Moody's, S&P and Fitch and such ratings may not be less than a specified level below the sovereign rating of the Kingdom.

Key negative covenants include obligations on SEC not to: (a) create any security over goods financed under the loan agreement; (b) sell, lease or otherwise transfer any goods financed under the loan agreement; (c) use the goods financed under the loan agreement outside the Kingdom; (d) make any substantial change to the scope or nature of SEC's business or operations; (e) merge or consolidate with any other entity; (f) sell, lease, transfer or otherwise dispose of any substantial part of SEC's properties or any properties which are essential to the conduct of SEC's business or operations (subject to carve-outs for disposals of obsolete or redundant properties, disposals of properties which are replaced with properties of equal value and utility or disposals made as part of the permitted reorganisation of the SEC Group); and (g) knowingly enter into any transaction in respect of any goods financed under the loan agreement with any person which is not eligible to participate in procurement or non-procurement transactions with any United States federal government department or agency.

The loan agreement includes a number of events of default. Key events of default include: (a) a failure by SEC to make an payments due under the loan agreement; (b) a breach of any representation or warranty made or deemed to be made by SEC; (c) any failure by SEC to comply with any of the other covenants (subject to a general remedy period for breach of most covenants); (d) any non payment of any other indebtedness of SEC when due or any other default in respect of any other indebtedness of SEC which leads to an acceleration of (or entitles the relevant creditor to accelerate) the relevant indebtedness; (e) insolvency or insolvency proceedings affecting SEC; (f) any creditors' process affecting SEC's property or any outstanding judgment against SEC which would have material adverse effect on SEC's ability make payment under the loan agreement (subject to a grace period in each case); and (g) a change of control occurs with respect to SEC or an SEC controlled subsidiary (a change of control is defined to mean: (A) in respect of SEC, any event which results in the Government ceasing to own at least 51% of the shares of SEC and ceasing to have management control over SEC, and (B) in respect of an SEC controlled subsidiary, any event which results in SEC ceasing to have an ownership interest of at least 75% in such subsidiary and ceasing to have management control over such subsidiary).

COFACE French Export Credit Agency loan

On 22 June 2011, the Company signed an agreement with international lenders supported by COFACE French Export Credit Agency, whereby SEC would receive a loan amounting to U.S.\$989.1 million (approximately SAR 3.7 billion) which has been fully drawn. The loan is repayable within 12 years over 24 semi-annual instalments which began on 11 January 2012. As at 31 December 2012, the loan balance outstanding amounted to SAR 3.4 billion (compared to SAR 3.7 billion as at 31 December 2011). Accrued commission on the loan is payable semi-annually and is calculated using a margin over LIBOR.

The loan agreement includes a number of positive and negative covenants, which are fairly standard for loans of this nature. Key positive covenants include obligations on SEC to: (a) provide certain financial information (including, SEC's annual consolidated financial statements); (b) provide certain information in respect of supply contracts to be financed under the loan agreement; (c) notify of any defaults or material litigation; (d) obtain and maintain all required authorisations; (e) comply with applicable laws and regulations in all material respects; (f) comply with applicable environmental laws

and certain environmental standards; and (g) enable the agent to make reasonable inspections of the project where the goods financed under the loan agreement are being used or incorporated.

Key negative covenants include obligations on SEC not to: (a) create any security or quasi-security (subject to the usual carve-outs for existing security, netting or set-off related to banking or hedging arrangements, liens arising by operation of law in the ordinary course of trading, any pre-existing security over any asset or company acquired by SEC, any security or quasi-security arising under any Islamic financing arrangements and a permitted basket for secured financings); (b) sell, lease or otherwise dispose of any assets (subject to carve-outs for disposals made as part of the permitted reorganisation of the SEC Group, in the ordinary course of trading, in exchange for assets of a similar or superior value, of non-revenue generating assets on arm's length basis and of revenue generating assets with an aggregate value not exceeding a permitted basket or any disposal which constitutes a security interest that is permitted under the negative pledge summarised in (a) above); (c) use the goods financed under the loan agreement outside the Kingdom; and (d) permit National Grid or any of the other subsidiaries that will be formed as part of the permitted reorganisation of the SEC Group to incur any external financial indebtedness.

The loan agreement includes a number of events of default. Key events of the default include: (a) a failure by SEC to make an payments due under the loan agreement; (b) any failure by SEC to comply with any of its other obligations (subject to a general remedy period for breach of most obligations); (c) a breach of any representation or warranty made or deemed to be made by SEC; (d) any non payment of any other indebtedness of SEC when due or any other default in respect of any other indebtedness of SEC which leads to an acceleration of (or entitles the relevant creditor to accelerate) the relevant indebtedness or which leads to the cancellation or suspension of any commitment for the relevant indebtedness (subject to a minimum aggregate threshold); (e) insolvency or insolvency proceedings affecting SEC; (f) any creditors' process affecting SEC's assets (subject to a minimum aggregate threshold and a grace period); and (g) a change of control occurs with respect to SEC or any subsidiary of SEC (a change of control is defined to mean: (A) in respect of SEC, any event which results in the Government directly owning all or substantially all the assets of SEC or results in the Government ceasing to own at least 51% of the shares of SEC and ceasing to have management control over SEC (whether through the ownership of shares, by contract or otherwise), and (B) in respect of a subsidiary of SEC, any event which results in SEC ceasing to own at least 75% of the shares of such subsidiary and ceasing to have management control over such subsidiary (whether through the ownership of shares, by contract or otherwise)).

Korean export credit agencies loan

SEC has entered into a syndicated financing with a group of international banks, supported by two Korean export credit agencies. The amount of the facility is SAR 5.3 billion, and drawings may be made under the facility until 7 November 2014. Amounts drawn will be repayable over 12 years, commencing March 2015. Accrued commission on any amounts drawn will be payable semi-annually and will be calculated using a margin over LIBOR. As at 31 December 2012, the loan balance outstanding amounted to SAR 107 million.

The loan agreement includes a number of positive covenants, negative covenants and events of default, which are substantially the same as the corresponding provisions included in the COFACE loan agreement summarised above.

Public Investments Fund loan

On 13 July 2009, SEC signed a financing agreement with the Public Investments Fund whereby SEC would receive a direct loan of SAR 2.6 billion which has been fully drawn. The loan is repayable within 15 years over 24 semi-annual instalments. As at 31 December 2012, the loan balance outstanding amounted to SAR 2.5 billion (compared to SAR 2.6 billion as at 31 December 2011). Accrued commission on the loan is payable semi-annually and is calculated using a margin over SIBOR.

The loan agreement includes a number of positive covenants, negative covenants and events of default, which are substantially similar to the corresponding provisions included in the murabaha financing agreements summarised above.

All of the loans and facilities described above are backed by promissory notes signed by SEC in accordance with normal Saudi Arabian financing practice.

Sukuk

SEC has four series of sukuk outstanding, two issued in the domestic market and two in the international market. The table below shows details of each issue as at 31 December 2012:

| Issue date | Maturity | Principal amount | Outstanding amount | Return |
|-----------------------------|---|-------------------------|---------------------------|--|
| Domestic market | | | | |
| 6 July 2009 | 2029, with an early redemption right in 2014, 2019 and 2024 | SAR 7 billion | SAR 7 billion | SIBOR plus a margin, payable quarterly |
| 10 May 2010 | 2030, with an early redemption right in 2017, 2020 and 2025 | SAR 7 billion | SAR 7 billion | SIBOR plus a margin, payable quarterly |
| International market | | | | |
| 3 April 2012 | 2017 | U.S.\$500 million | U.S.\$500 million | 2.665 per cent. per annum |
| 3 April 2012 | 2022 | U.S.\$1,250 million | U.S.\$1,250 million | 4.211 per cent. per annum |

Domestic sukuk

The domestic sukuk have been issued at par value with no discount or premium. The sukuk bear a rate of return at SIBOR, plus a margin payable quarterly from the net income received from the sukuk assets held by the sukuk custodian, Electricity Sukuk Company, a wholly-owned subsidiary of SEC. SEC has undertaken to purchase these sukuk from sukuk holders at dates specified in the offering materials. On each five-year anniversary of the issue date, SEC shall pay a bonus equal to 10 per cent. of the face amount of the sukuk to the sukuk holders. The purchase price is determined by multiplying the sukuk's par value at the percentage shown against the purchase date, as set out in the following table.

| Issue date | 90% | 60% | 30% |
|-------------------|----------------------------|-----------------------------|----------------------------|
| | First purchase date | Second purchase date | Third purchase date |
| 6 July 2009..... | 2014 | 2019 | 2024 |
| 10 May 2010..... | 2017 | 2020 | 2025 |

The transaction documentation in relation to each issue of sukuk contains typical negative pledge and default provisions, including a cross default provision. The transaction documentation does not contain any financial covenants.

International sukuk

On 3 April 2012, SEC issued sukuk amounting to SAR 6.6 billion in an issuance of two sukuk certificates. The first series of certificates amounted to U.S.\$500 million and is maturing in 2017 at a fixed rate of 2.665 per cent. per annum. The second series of certificates amounted to U.S.\$1,250 million and is maturing in 2022 at a fixed rate of 4.211 per cent. per annum.

The transaction documentation in relation to each issue of sukuk contains typical negative pledge and default provisions, including a cross default provision, as well as a put option for investors in the event of a change of control affecting SEC. The transaction documentation does not contain any financial covenants.

Government loans

The table below shows SEC's outstanding loans from the Government as at 31 December 2012.

| Announcement date | Description | Amount (in SAR millions) | Nature | Annual repayment | Maturity |
|--------------------------|--------------------|---|--|---|-------------------|
| December 1999 | Long-term loan | 14,938 | Interest-free, repayment determined at maturity | Zero | TBD ¹ |
| April 2010..... | Long-term loan | 15,000 | Interest-free, to be drawn in two years | Grace period of 10 years, repayment over 15 years | 2035 ² |
| June 2011..... | Long-term loan | 51,100 | Interest-free, availability period of five years Loan likely to be drawn down over next few years | Grace period of 15 years, repayment over 10 years | 2037 ³ |

1 Utilised, repayment will be discussed in 2024, depending on SEC's financial position

2 The loan was fully drawn as of 31 December 2012

3 SAR 10.2 billion has been drawn down as of 31 December 2012

In October 1997, amounts outstanding owed by the Government to SEC were determined by the Government, pursuant to Ministerial resolution no. 169 dated 11/08/1419H (corresponding to 01/12/1998G) and the minutes of meetings signed by the Minister of Industry and Electricity and the Minister of Finance and National Economy dated 27/06/1418H (corresponding to 29/10/1997G), to constitute an interest-free long-term loan with a grace period of 25 years starting from the date of the public announcement of SEC's incorporation. The repayment of the loan was expressed to be subject to review based on the financial position of the Government and SEC. In October 2001, it was agreed that amounts outstanding between SEC and certain Government entities should also be taken into account in determining the amount of the loan. During 2005, the amount outstanding from SEC to Government entities was determined to be SAR 386 million. Thereafter, the final loan amount was agreed at SAR 14,938 million.

During 2010, an additional interest-free loan of up to SAR 15 billion was made available by the Government to SEC. This loan was expressed to be drawable over a period of two years. As at 31 December 2012, the full amount of this loan had been drawn by SEC. No principal is required to be paid under the loan until 2021 and thereafter the loan is repayable over a 15-year period.

In June 2011, the Government approved, pursuant to approval by the Council of Ministers on 11/07/1432H (corresponding to 13/06/2011G), an additional interest-free loan of up to SAR 51.1 billion to be repayable over a period of 25 years. The loan is to be disbursed over a period of five years in accordance with an agreement entered into between SEC and the Saudi Ministry of Finance. As at 31 December 2012, SAR 10.2 billion had been disbursed under this loan. SEC has, in the past, used the interest-free Government funding made available to it to finance capital expenditure and expects that it may also do so in the future.

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

Of SEC's SAR 34,228 million borrowings (excluding Government borrowings) outstanding as at 31 December 2012, 4.3 per cent. was scheduled to mature within 12 months. The table below shows the maturity profile of these borrowings at 31 December 2012.

| | As at 31 December 2012 | |
|-----------------------------------|-------------------------------|--------------------|
| | <i>(SAR million)</i> | <i>(per cent.)</i> |
| Less than one year | 1,468 | 4.3 |
| Between one to two years | 8,470 | 24.8 |
| Between two to three years | 1,479 | 4.3 |
| Between three to four years | 1,479 | 4.3 |
| Between four to five years | 10,354 | 30.3 |
| After five years | 10,979 | 32.1 |
| Total | 34,228 | 100 |

SUMMARY OF MATERIAL CONTRACTS

The following are summaries of certain material agreements – including power purchase agreements (PPAs), power and water purchase agreements (PWPAs) and turnkey construction contracts - entered into by the SEC Group. These summaries should not be considered to be a full statement of the terms and provisions of such agreements. Further information regarding these arrangements may be found in “Description of SEC’s Business – Electricity generation – IPPs and IWPPs” and “Management’s discussion and analysis of financial condition and results of operation – Liquidity and capital resources”.

POWER PURCHASE AGREEMENTS

PPA between SEC and Hajr for Electricity Production Company

SEC entered into an agreement with the Hajr for Electricity Production Company (**Hajr**) on 21 September 2011 for the purpose of setting out the terms and conditions on which Hajr will: (i) develop, finance, design, engineer, procure, manufacture, factory test, transport, construct, erect, install, complete, test and commission the power generation plant (Plant) (ii) develop, finance, design, engineer, procure, construct, operate and maintain the access road; (iii) develop, finance, design, engineer, procure, manufacture, factory test, transport, construct, erect, install, complete, test and commission the Electrical Special Facilities; and (iv) sell and SEC will purchase the Net Dependable Capacity, Net Electrical Energy and electrical output of the Plant. The term of the PPA is 20 years from the project commercial operation date (PCOD) unless otherwise extended or earlier terminated in accordance with the provisions of the PPA. PCOD shall occur on the later of 30 June 2014 and the day following the date that (i) the Plant attains minimum criteria for commercial operation and (ii) the Plant has established its Net Dependable Capacity and is capable of operating in accordance with the PPA. SEC is responsible for the supply of the required quantity of gas and diesel (as back-up fuel) to Hajr on an energy conversion basis. Fuel supply failure constitutes a Political Force Majeure event. The tariff is comprised of two main elements: (i) Capacity Payment; and (ii) Electrical Energy Payment. The Capacity Payment is structured to cover the fixed costs of the project including debt service, returns on equity, taxes and fixed operation and maintenance costs. The Net Electrical Energy Payment is structured to cover the variable costs of generation of the Plant such as variable O&M costs. Consistent with the approach adopted in other independent power projects, Force Majeure comprises Political Force Majeure and Natural Force Majeure. A Prolonged Force Majeure Event will occur where a party is prevented from performing its obligations under the PPA as a result of a Force Majeure Event for a continuous period of 365 days. The PPA may be terminated for non-occurrence of the Closing Date, Company Events of Default, SEC Events of Default and Prolonged Force Majeure. The termination payment amount payable by SEC is dependent on the underlying cause of termination.

PPA between SEC and Dhuruma Electricity Company

SEC entered into an agreement with Dhuruma Electricity Company (**Dhuruma**) on 15 June 2010 for the purpose of setting out the terms and conditions on which Dhuruma will: (i) design, construct, test, commission, own, operate and maintain the power generation plant (**Plant**); (ii) design, construct, test, commission and transfer to SEC certain Electrical Special Facilities; and (iii) sell and SEC will purchase the Early Power Capacity, the Net Dependable Capacity and electrical output of the Plant. The term of the PPA is 20 years from the PCOD unless otherwise extended or earlier terminated in accordance with the provisions of the PPA. SEC is responsible for the supply of the required quantity of service water and back-up fuel (Arabian Super Light) to Dhuruma. Fuel Supply Failure and Service Water Supply Failure constitute Political Force Majeure Events. The tariff is comprised of two main elements: (i) Capacity Payment; and (ii) Net Electrical Energy Payment. The Capacity Payment is structured to cover the fixed costs of the Project including debt service, returns on equity, taxes and fixed operation and maintenance costs. The Net Electrical Energy Payment is structured to cover the variable costs of generation of the Plant such as variable O&M costs. Consistent with the approach adopted in other independent power projects, Force Majeure comprises Political Force Majeure and Natural Force Majeure. A Prolonged Force Majeure Event will occur where a party is prevented from performing its obligations under the PPA as a result of a Force Majeure Event for a continuous period of 365 days. The PPA may be terminated for non-occurrence of the Closing Date, Project Company Events of Default, SEC Events of Default and Prolonged Force Majeure. The termination payment amount payable by SEC is dependent on the underlying cause of termination.

PPA between SEC and Rabigh Electricity Company

SEC entered into an agreement with Rabigh Electricity Company (**Rabigh**) on 11 July 2009 which sets out *inter alia* the terms on which Rabigh will undertake the project, provide electrical energy and power capacity to SEC and on which SEC will supply fuel to the power generation plant comprising two Plant Units, the Disposal Facility, the seawater intake and outfall facilities, the fuel facilities and associated facilities and infrastructure (Plant). The Electrical Special Facilities once constructed are to be transferred to SEC. The term of the PPA is 20 years from the project commercial operation date (PCOD) unless otherwise extended or earlier terminated in accordance with the provisions of the PPA. The Initial Commercial Operation Date is to occur on the later of 1 July 2012 and the date following successful completion of the Net Dependable Capacity tests in respect of the first Plant Unit. Provided that the Initial Commercial Operation Date has occurred, the PCOD shall occur on the later of 1 April 2013 and the day following the date that the test results for the performance of the Plant during the testing and the test procedures demonstrate that the Plant has attained the minimum criteria for commercial operations. SEC is under an obligation to supply fuel for the purposes of testing, commissioning and also the ongoing operation of the Plant. The fuel to be supplied must conform to the Reference Fuel Specification. Fuel risk therefore lies with SEC. The tariff is comprised of two main elements: (i) Capacity Payment; and (ii) Net Electrical Energy Payment. There are two categories of Force Majeure Event: (i) Natural Force Majeure; and (ii) Political Force Majeure. This distinction is consistent with the approach adopted in other independent power projects. A Prolonged Force Majeure Event will occur where a party is prevented from performing its obligations under the PPA as a result of a Force Majeure Event for a continuous period of 365 days. The PPA may be terminated for non-occurrence of the Closing Date, Project Company Events of Default, SEC Events of Default and Prolonged Force Majeure. The termination payment amount payable by SEC is dependent on the underlying cause of termination.

POWER AND WATER ON-SALE AGREEMENTS

SHOAIBA-3 Power and Water Project On-Sale Agreement among Water and Electricity Company LLC, SEC and SWCC

SEC entered into an agreement with Water and Electricity Company LLC (**WEC**) and SWCC on 1 September 2008 under which SEC and SWCC, as applicable, have agreed to purchase from WEC all the power and water capacity and output made available (or deemed available) or produced by the plant and purchased by WEC in accordance with the terms of the PWPA among WEC and Shuaibah Water and Electricity Company (**SWEC**). SEC and SWCC, as applicable, have agreed to pay WEC (i) an amount equal to the amount WEC is obliged to pay to SWEC for receiving such capacity and output pursuant to the terms of the PWPA, (ii) an amount equal to the amount WEC is obliged to pay to Saudi Aramco for fuel pursuant to the Fuel Supply Agreement as well as fuel transportation charges, Fuel Special Facility charges, and (iii) an amount equal to the Overheads. SEC and SWCC, as applicable, may elect to pay to WEC (i) the amount equal to WEC's estimation of each month's invoices for the next twelve billing periods or (ii) the actual amount payable to WEC. The term of this agreement commences on the date of the agreement and shall automatically expire on the expiry or early termination of the PWPA. SEC and SWCC are severally liable to WEC.

SHUQAIQ-2 Power and Water Project On-Sale Agreement among WEC, SEC and SWCC

SEC entered into an agreement with WEC and SWCC on 15 July 2010 under which SEC and SWCC, as applicable, have agreed to purchase from WEC all the power and water capacity and output made available (or deemed available) or produced by the plant and purchased by WEC in accordance with the terms of the PWPA among WEC and SWEC. SEC and SWCC, as applicable, have agreed to pay WEC (i) an amount equal to the amount WEC is obliged to pay to SWEC for receiving such capacity and output, (ii) an amount equal to the amount WEC is obliged to pay to Saudi Aramco for fuel pursuant to the Fuel Supply Agreement as well as fuel transportation charges, Fuel Oil Supply Facilities charges (for SWCC only) and (iii) an amount equal to the Overheads. SEC and SWCC, as applicable, may elect to pay to WEC (i) the amount equal to the WEC's estimation of each month's invoices for the next twelve billing periods, or (ii) the actual amount payable to WEC. The term of this agreement commences on the date of the agreement and shall automatically expire on the expiry or early termination of the PWPA. SEC and SWCC are severally liable to WEC.

JUBAIL Power and Water Project On-Sale Agreement among Marafiq Water and Power Supply Company, Power and Water Utility Company for Jubail and Yanbu, SEC and SWCC

SEC entered into an agreement with Marafiq Water and Power Supply Company (**Tawreed**), Power and Water Utility Company for Jubail and Yanbu (**Marafiq**), and SWCC on 6 April 2009 under which (i) SEC has agreed to purchase from Tawreed all the power capacity and output made available (or deemed available) or produced by the facilities and purchased by Tawreed in accordance with the PWPA among Tawreed and SGA Marafiq Holdings W.L.L.(as novated to Jubail Water and Power Company (**Jubail**)); (ii) SWCC has agreed to purchase from Tawreed five-eighths of the water capacity and output made available (or deemed available) or produced by the facilities and purchased by Tawreed in accordance with the PWPA; and (iii) Marafiq has agreed to purchase from Tawreed three-eighths of the water capacity and output made available (or deemed available) or produced by the facilities and purchased by Tawreed in accordance with the PWPA.

Each of SEC, SWCC and Marafiq, as applicable, have agreed to pay Tawreed (i) an amount equal to the amount Tawreed is obliged to pay to Jubail for such capacity and output of the plant pursuant to the PWPA, (ii) an amount equal to the amount the Tawreed is obliged to pay Saudi Aramco for fuel pursuant to the Fuel Supply Agreement, (iii) an amount equal to the Development Costs Reimbursement Amount and (iv) an amount equal to the Overheads. During the first twelve billing periods SEC, SWCC and Marafiq, as applicable, may elect to pay to Tawreed (i) the amount equal to the Tawreed's estimation of each month's invoices for the next twelve billing periods, or (ii) the actual amount payable to Tawreed. Thereafter, SEC, SWCC and Marafiq, as applicable, shall pay the actual amount payable to Tawreed. The term of the agreement commences on the date of the agreement and shall automatically expire on the expiry or early termination of the PWPA. SEC, SWCC and Marafiq are severally liable to Tawreed.

TURNKEY CONTRACTS

SEC relies on third-party construction firms for the design and construction of its power plants, substations and transmission networks. SEC seeks construction projects on an open tender basis and awards contracts on a "turnkey" basis and on standard terms and conditions. The construction firm will generally be required to carry out the design, construction and commissioning of the plant and assume the majority of the risks related to design and construction. These contracts also include the provision of a performance guarantee by the contractor for the satisfactory and timely completion of the project, and SEC is entitled to deduct a certain amount from the contract price in the event that the deadline is not met.

The details of certain material standard terms and conditions of SEC's turnkey contracts are set out below.

- **Performance bond:** To guarantee the successful performance of the contract, the contractor is required to provide a performance bond through the duration of the contract and throughout the warranty period, which is one year after preliminary acceptance (as defined in the contract) by SEC of the project.
- **Liquidated damages for delay of project:** SEC may assess liquidated damages of up to 10 per cent. of the total contract price against the contractor for failure to complete the project by the agreed date. Liquidated damages are assessed based on the daily average cost of the project.
- **Liability for defects:** The contractor's warranty extends for a period of one year after preliminary acceptance (as defined in the contract) by SEC of the project.

The table below sets out details of SEC's material turnkey contracts.

| Contractor | Service / Site | Contract date | Contract value | Agreed completion date |
|--|--|--|--|-------------------------------|
| | | | <i>(SAR million, except where indicated)</i> | |
| Alstom Power Centrales S.A., Saudi Archirodon Ltd. Consortium | Construction of Shoaiba PP extension | 28 June 2008 | Total of SAR2,399.4m, U.S.\$428.8m, €1,011.7m, SK294.1m, CZK577.6m, ¥1,837.0m, NOK625.2m | 15 August 2013 |
| Arabian Bemco Contracting Co. Ltd. (Arabian Bemco) | Construction of Riyadh PP 10 | 30 June 2008 (further amended as work was completed) | 11,212.4 | June 2015 |
| Arabian Bemco, Doosan Heavy Industries & Construction Co. Ltd. (Doosan) | Conversion of Qurayyah open cycle PP to combined cycle PP | 16 September 2009 | Total of SAR 2,970.0m and U.S.\$1,043.5m with additional fees for optional work | 15 February 2015 |
| Doosan | Rabigh PP extension | 8 September 2010 | Total of SAR 5,074.1m, U.S.\$2,036.9m | 7 December 2014 |
| Arabian Bemco | Construction of Qurayyah combined cycle PP extension | 27 December 2010 | 2,062.5 | 1 June 2015 |
| Al Fanar Co. | Construction of New Haramain high-speed railway substations | 6 April 2011 | 1,087.7 | 28 September 2013 |
| Middle Eastern Engineering & Development Co, Ltd. | Construction of Makkah-Taif second line and Tabuk-Duba OHTL | 9 August 2011 | 576.5 | 2 January 2014 |
| Saudi Services for Electro Mechanic Works Co. Ltd. | Construction of New Qassim-4 substation | 16 August 2011 | 578.3 | 15 January 2014 |
| Arabian Bemco | Conversion of simple cycle gas turbines to combined cycle plant at PP 10 | 16 October 2011 | 5,381.3 | 15 November 2015 |
| Daelim Industrial Company Ltd. | Construction of Shoaiba II PP | 29 October 2011 | Total of SAR 1,282.5m, U.S.\$524.7m, €248.6m | 28 September 2014 |
| ABB Contracting Co. Ltd. | Construction of Al-Hassa bulk supply point (BSP) | 26 December 2011 | 537.0 | 15 May 2014 |
| National Contracting Co. Ltd. | Construction of overhead transmission line at power plant 11 (OHTL) | 28 December 2011 | 544.3 | 31 May 2014 |
| National Contracting Co. Ltd. | Construction of new Doha BSP | 28 December 2011 | 544.0 | 31 May 2014 |

| Contractor | Service / Site | Contract date | Contract value | Agreed completion date |
|---|--|----------------------|--|-------------------------------|
| | | | <i>(SAR million, except where indicated)</i> | |
| Al Toukhi Company for Industry, Trading and Contracting | Wadi Al-Dwasir, Sharura and Najran open cycle PP extension | 2 January 2012 | 678.5 | 11 December 2013 |
| Arabian Bemco, GS Engineering & Construction Corp. | Construction of Riyadh combined cycle PP 12 | 16 May 2012 | 4,724.9 | 15 May 2015 |
| Hyundai Heavy Industries Co., Ltd. | Construction of Jeddah South thermal power plant (PP) | 15 October 2012 | 3,188.6 | 31 January 2017 |

OTHER CONTRACTS

Service agreement for maintenance of fifteen gas turbine generator units at Qurayyah combined cycle power plant

SEC entered into an agreement with Branch of General Electric International Inc. (GE) on 31 December 2007 for the provision of maintenance and other services with respect to certain generator units at the Qurayyah combined cycle power plant. SEC has agreed to pay SAR 877.1 million to GE as a base fee and other specified fees for service order work. The term of the agreement commences on the date of the agreement and shall continue until expiry of certain stipulated events, but no later than 16 years from the date of commercial operation of the first gas turbine generator unit, supplied to SEC under a specified purchase agreement.

Lease agreement with National Grid for the lease of transmission network

SEC has entered into an agreement with National Grid, effective 1 January 2012, for the lease of National Grid's transmission assets.

TERMS AND CONDITIONS OF THE 2023 CERTIFICATES

The following are the Terms and Conditions of the 2023 Certificates which (subject to modification and except for the text in italics) will be endorsed on the Global Certificate (as defined below) in respect of the 2023 Certificates and each 2023 Certificate in definitive form (if issued).

Each of the U.S.\$1,000,000,000 3.473 per cent. Certificates due 2023 (the **Certificates**) is issued by Saudi Electricity SUKUK Company 2 (in its capacity as issuer, the **Issuer**) and represents an undivided beneficial ownership interest in the Trust Assets (as defined below) held on trust (the **Trust**) for the holders of such Certificates pursuant to a declaration of trust (the **Declaration of Trust**) dated 8 April 2013 (the **Closing Date**) made between Saudi Electricity SUKUK Company 2 (in its capacity as trustee, the **Trustee**), Deutsche Trustee Company Limited as the Trustee's delegate (the **Delegate**) and Saudi Electricity Company (**SEC**).

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

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

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

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

1. DEFINITIONS AND INTERPRETATION

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

2043 Certificates means the U.S.\$1,000,000,000 5.06 per cent. Certificates due 2043 issued by the Issuer;

2043 Certificateholders means the holders of the 2043 Certificates;

2043 Certificate Transaction Documents means the Purchase Agreement, the *Ijara* Agreement, the Servicing Agency Agreement, the Purchase Undertaking, the Sale Undertaking, the Substitution Undertaking, any Sale Agreement and any Substitution Transfer Agreement relating to the 2043 Certificates;

2043 Certificate Trust means the trust in respect of the 2043 Certificates declared pursuant to the Declaration of Trust;

2043 Certificate Trust Assets means the assets of the 2043 Certificate Trust;

Additional Dissolution Distribution Amount has the meaning given to it in Condition 8.3;

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

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

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

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

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

Authorised Denomination(s) has the meaning given to it in Condition 2.1;

Cancellation Notice means a cancellation notice in substantially the form of Schedule 5 to the Declaration of Trust;

Certificate means each certificate represented by the Global Certificate as described in Condition 2.1;

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

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

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

Change of Control Exercise Notice has the meaning given to it in Condition 10.3;

Change of Control Notice has the meaning given to it in Condition 10.3;

Change of Control Put Option has the meaning given to it in Condition 10.3;

Change of Control Put Option Date has the meaning given to it in Condition 10.3;

Change of Control Put Period has the meaning given to it in Condition 10.3;

Clearstream means Clearstream Banking, société anonyme, Luxembourg;

Conditions means these terms and conditions of the Certificates;

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

Dispute has the meaning given to it in Condition 22.2;

Dissolution Date means, as the case may be:

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

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

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

Dissolution Event has the meaning given to it in Condition 14;

Dissolution Event Redemption Date has the meaning given to it in Condition 14;

Dissolution Request has the meaning given to it in Condition 14;

DTC means the Depository Trust Company;

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

Euroclear means Euroclear S.A./N.V.;

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

Extraordinary Resolution has the meaning given to it in Schedule 4 of the Declaration of Trust;

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

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

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

Ijara Agreement has the meaning given to it in Condition 6.1;

Ijara Assets has the meaning given to it in Condition 6.1;

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

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

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

LCIA has the meaning given to it in Condition 22.2;

Lessee has the meaning given to it in Condition 6.1;

Lessor has the meaning given to it in Condition 6.1;

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

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

- (a) whose gross revenues (consolidated in the case of a Subsidiary which itself has Subsidiaries) or whose total assets (consolidated in the case of a Subsidiary which itself has Subsidiaries) represent in each case (or, in the case of a Subsidiary acquired after the end of the financial period to which the then latest audited consolidated accounts of SEC and its Subsidiaries relate, are equal to) not less than 10 per cent. of the consolidated gross revenues of SEC, or, as the case may be, consolidated total assets, of SEC and its Subsidiaries taken as a whole, all as calculated respectively by reference to the then latest audited accounts (consolidated or, as the case may be, unconsolidated) of such Subsidiary and the then latest audited consolidated accounts of SEC and its Subsidiaries, provided that in the case of a Subsidiary of SEC acquired after the end of the financial period to which the then latest audited consolidated accounts of SEC and its Subsidiaries relate, the reference to the then latest audited consolidated accounts of SEC and its Subsidiaries for

the purposes of the calculation above shall, until consolidated accounts for the financial period in which the acquisition is made have been prepared and audited as aforesaid, be deemed to be a reference to such first-mentioned accounts as if such Subsidiary had been shown in such accounts by reference to its then latest relevant audited accounts, adjusted as deemed appropriate by SEC;

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

New *Ijara* Assets has the meaning given to it in Condition 6.1;

Non-recourse Financing means any indebtedness where:

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

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

Periodic Distribution Amount means an amount representing a defined share of the Rental paid by the Lessee to the Lessor in accordance with Condition 8.1;

Periodic Distribution Date means 8 April and 8 October in each year, commencing on 8 October 2013, and subject to these Conditions, ending on 8 April 2023;

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

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

Permitted Security Interest means:

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

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

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

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

Proceedings has the meaning given to it in Condition 22.3;

Purchase Agreement has the meaning given to it in Condition 6.1;

Purchase Undertaking has the meaning given to it in Condition 6.1;

QIB means "qualified institutional buyer" within the meaning of Rule 144A of the Securities Act;

QPs means "qualified purchasers" as defined in Section 2(a)(51) of the US Investment Company Act of 1940, as amended;

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

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

Register has the meaning given to it in Condition 2.1;

Regulation S means Regulation S under the Securities Act;

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

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

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

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

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

Rules has the meaning given to it in Condition 22.2;

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

Sale Undertaking has the meaning given to it in Condition 6.1;

Securities Act means the Securities Act of 1933, as amended;

Settlement to Avoid Bankruptcy Law means the settlement to avoid bankruptcy law promulgated under Royal Decree No. M/16, dated 04/09/1416 H. (corresponding to 24/01/1996G) as amended, supplemented or restated from time to time;

Scheduled Dissolution Date means 8 April 2023;

SEC Event has the meaning given to it in Condition 14;

Security Interest has the meaning given to it in Condition 5;

Seller has the meaning given to it in Condition 6.1;

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

Servicing Agency Agreement has the meaning given to it in Condition 6.1;

Servicing Agent has the meaning given to it in Condition 6.1;

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

- (a) any Security Interest created by SEC or a Subsidiary in connection therewith is limited solely to the property and/or revenues which are the subject of the securitisation; and
- (b) each Person participating in such securitisation expressly agrees to limit its recourse to the property and/or revenues so securitised as the principal source of repayment for the money advanced or payment of any other liability,

there is no other recourse to SEC or any Subsidiary in respect of any default by any person under the securitisation;

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

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

Substituted Ijara Assets has the meaning given to it in Condition 6.1;

Substitution Transfer Agreement has the meaning given to it in Condition 6.1;

Substitution Undertaking has the meaning given to it in Condition 6.1;

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

Tax Redemption Date has the meaning given to it in Condition 10.2;

Taxes has the meaning given to it in Condition 11;

Total Loss Event has the meaning given to it in Condition 10.5;

Total Loss Shortfall Amount has the meaning given to it in Condition 6.1;

Transaction Account has the meaning given to it in Condition 6.1;

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

Trust Assets has the meaning given to it in Condition 6.1.

2. FORM, DENOMINATION AND TITLE

2.1 Form and Denomination

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

Upon issue, Certificates offered and sold outside the United States of America to non-US persons, within the meaning of, and in accordance with, Regulation S (the **Unrestricted Certificates**) will be represented by beneficial interests in a Global Certificate (an **Unrestricted Global Certificate**), in registered form, without coupons attached, which will be deposited with, and registered in the name of a nominee for, a common depository for Euroclear and Clearstream.

Certificates offered and sold within the United States of America to persons that are both QIBs and QPs (the **Restricted Certificates**) will be represented on issue by beneficial interests in one or more permanent Global Certificates (each a **Restricted Global Certificate** and, together with the Unrestricted Global Certificate, the **Global Certificates**), in registered form, without coupons attached, which will be deposited with Deutsche Bank Trust Company Americas as custodian (the **Custodian**) for, and registered in the name of Cede & Co. as nominee of, DTC.

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

2.2 Title

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

The Issuer and the Delegate may call for and shall be at liberty to accept and place full reliance on (as sufficient evidence thereof and shall not be liable to any Certificateholder by reason only of either having accepted as valid or not having rejected) an original Certificate or for so long as the Certificates are represented by the Global Certificate, a letter of confirmation purporting to be signed on behalf of DTC, Euroclear or Clearstream or any other relevant clearing system to the effect that at any particular time or throughout any particular period any particular Person is, was or will be shown in its records as having a particular aggregate face amount of Certificates credited to his securities account.

3. TRANSFERS OF CERTIFICATES

3.1 Transfers

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

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

3.2 Delivery of New Certificates

Each new Certificate to be issued upon any transfer of Certificates will, within five business days of receipt by the relevant Transfer Agent of the duly completed form of transfer endorsed on the relevant Certificate (or such longer period as may be required to comply with any applicable fiscal or other laws or regulations), be delivered at the specified office of the relevant Transfer Agent or be mailed by uninsured mail at the risk of the holder entitled to the Certificate to the address specified in the form of transfer. For the purposes of this Condition, **business day** shall mean a day on which banks are open for business in the city in which the specified office of the Transfer Agent with whom a Certificate is deposited in connection with a transfer is located. Where some but not all of the Certificates in respect of which a Certificate is issued are to be transferred, a new Certificate in respect of the Certificates not so transferred will, within five business days of receipt by the relevant Transfer Agent of the original Certificate, be delivered at the specified office of the relevant Transfer Agent or be mailed by uninsured mail at the risk of the holder of the Certificates not so transferred to the address of such holder appearing on the Register or as specified in the form of transfer.

3.3 Formalities Free of Charge

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

3.4 Closed Periods

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

(a) Regulations

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

Each Certificateholder shall be entitled to receive, in accordance with Condition 2.1, only one Certificate in respect of his entire holding of Certificates. In the case of a transfer of a portion of the face amount of a Certificate, a new Certificate in respect of the balance of the Certificates not transferred will be issued to the transferor in accordance with Condition 3.2.

4. STATUS AND LIMITED RECOURSE

4.1 Status

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

4.2 Limited Recourse

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

of the Issuer in respect of any shortfall in the expected amounts from the Trust Assets to the extent the Trust Assets have been exhausted, following which all obligations of the Issuer and SEC shall be extinguished.

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

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

4.3 Agreement of Certificateholders

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

- (a) no payment of any amount whatsoever shall be made by any of the Issuer, the Trustee or the Delegate or any agents of the Issuer or the Trustee on its behalf except to the extent funds are available therefor from the Trust Assets and no recourse shall be had for the payment of any amount owing hereunder, whether for the payment of any fee or other amount hereunder or any other obligation or claim arising out of or based upon the Transaction Documents, against the Issuer, the Trustee, the Delegate or any agents of the Issuer or the Trustee to the extent the Trust Assets have been exhausted, following which all obligations of the Issuer, the Trustee, the Delegate and or any agents of the Issuer and the Trustee shall be extinguished;
- (b) prior to the date which is one year and one day after the date on which all amounts owing by the Issuer under the Transaction Documents to which it is a party have been paid in full, it will not institute against, or join with any other Person in instituting against, the Issuer, any bankruptcy, reorganisation, arrangement or liquidation proceedings or other proceedings under any bankruptcy or similar law; and
- (c) no recourse (whether by institution or enforcement of any legal proceedings or assessment or otherwise) in respect of any breaches of any duty, obligation or undertaking of the Trustee arising under or in connection with the Declaration of Trust or the Issuer arising under or in connection with the Certificates and the Conditions (as from time to time supplemented or modified in accordance with the provisions herein or therein contained), by virtue of any customary law, statute or otherwise shall be had against any shareholder, member, officer, agent or director of the Trustee or the Issuer in their capacity as such and any and all personal liability of every such shareholder, member, officer, agent or director in their capacity as such for any breaches by the Trustee or the Issuer of any such duty, obligation or undertaking is expressly waived and excluded to the extent permitted by law save in the case of wilful default or fraud.

5. NEGATIVE PLEDGE

*The following restrictive covenant has been given by SEC in the Ijara Agreement. So long as any Certificate remains outstanding (as defined in the Declaration of Trust), SEC will not and SEC will procure that no Subsidiary will create, or have outstanding, any mortgage, charge, lien, pledge or other security interest (each a **Security Interest**), other than a Permitted Security Interest, upon the whole or any part of its present or future undertaking, assets or revenues to secure any Relevant Indebtedness or Relevant Sukuk Obligation, or any guarantee or indemnity in respect of any Relevant Indebtedness or Relevant Sukuk Obligation, without at the same time or prior thereto*

according to all amounts payable by it to the Trustee under the Transaction Documents the same security as is created or subsisting to secure any such Relevant Indebtedness, Relevant Sukuk Obligation, guarantee or indemnity or such other security as shall be approved by an Extraordinary Resolution of the Certificateholders.

6. TRUST

6.1 Summary of the Trust

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

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

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

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

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

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

The Trustee has entered into a sale undertaking deed (the **Sale Undertaking**) dated the Closing Date in favour of SEC pursuant to which the Trustee undertakes:

- (a) following receipt of an Asset Exercise Notice from SEC thereunder, to sell all of the Trustee's interests, rights, title, benefits and other entitlements in and to the *Ijara* Assets on the Tax Redemption Date at the Dissolution Distribution Amount; or
- (b) following receipt of an Asset Redemption Notice from SEC thereunder, to transfer and convey all of the Trustee's interests, rights, title, benefits and other entitlements in and to the relevant *Ijara* Assets on the Asset Redemption Date against the cancellation of the relevant Certificates pursuant to the Declaration of Trust.

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

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

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

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

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

6.2 Application of Proceeds from Trust Assets

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

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

7. COVENANTS

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

- (a) incur any Indebtedness or give any guarantee in respect of any Indebtedness of any Person or issue any shares (or rights, warrants or options in respect of shares or securities convertible into or exchangeable for shares) except, in all cases, as contemplated in the Transaction Documents and the 2043 Certificate Transaction Documents;
- (b) secure any of its present or future Indebtedness by any Security Interest upon any of its present or future assets, properties or revenues (other than those arising by operation of law);
- (c) sell, lease, transfer, assign, participate, exchange or otherwise dispose of, or pledge, mortgage, hypothecate or otherwise encumber (by security interest, lien (statutory or otherwise), preference, priority or other security agreement or preferential arrangement of any kind or nature whatsoever or otherwise) (or permit such to occur or suffer such to exist), any part of its interests in any of the Trust Assets except pursuant to the Transaction Documents;
- (d) subject to Condition 18, amend or agree to any amendment of any Transaction Document to which it is a party (other than in accordance with the terms thereof) or its constitutional documents;
- (e) act as trustee in respect of any trust other than the Trust and the 2043 Certificate Trust or in respect of any parties other than the Certificateholders and the 2043 Certificateholders;
- (f) have any subsidiaries or employees;
- (g) redeem any of its shares or pay any dividend or make any other distribution to its shareholders;
- (h) use the proceeds of the issue of the Certificates for any purpose other than as stated in the Transaction Documents;
- (i) prior to the date which is one year and one day after the date on which all amounts owing by the Issuer under the Transaction Documents to which it is a party have been paid in full, put to its directors or shareholders any resolution for, or appoint any liquidator for, its winding up or any resolution for the commencement of any other bankruptcy or insolvency proceeding with respect to it; or
- (j) enter into any contract, transaction, amendment, obligation or liability other than the Transaction Documents and the 2043 Certificate Transaction Documents to which it is a party or any permitted amendment or supplement thereto or as expressly permitted or required thereunder or engage in any business or activity other than:
 - (i) as provided for or permitted in the Transaction Documents and the 2043 Certificate Transaction Documents;
 - (ii) the ownership, management and disposal of the Trust Assets as provided in the Transaction Documents and the 2043 Certificate Trust Assets as provided in the Transaction Documents and the 2043 Certificate Transaction Documents; and
 - (iii) such other matters which are incidental thereto.

8. PERIODIC DISTRIBUTIONS

8.1 Periodic Distribution Amount

Subject to Condition 6.2 and Condition 9, a Periodic Distribution Amount representing a defined share of the Rental paid by the Lessee to the Lessor pursuant to the *Ijara* Agreement in respect of the *Ijara* Assets for the Certificates will be distributed by the Trustee to the Certificateholders, *pro rata* to their respective holdings on each Periodic Distribution Date in arrear in accordance with these Conditions. The “Periodic Distribution Amount” payable on each Periodic Distribution Date shall be an amount equal to the product of 3.473 per cent. per annum and the face amount of the relevant Certificate divided by two.

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

If a Periodic Distribution Amount is required to be calculated in respect of a period of less than a full Periodic Distribution Period (the **Relevant Period**), it shall be calculated as an amount equal to the product of:

- (a) 3.473 per cent. per annum;

- (b) the face amount of the relevant Certificate; and
- (c) the number of days in such Relevant Period calculated on the basis of a year of 12 30-day months divided by 360 (with the result being rounded to the nearest U.S.\$0.01, U.S.\$0.005 being rounded upwards).

8.3 Cessation of Accrual

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

9. PAYMENT

9.1 Payments in Respect of Certificates

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

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

9.2 Payments subject to Applicable Laws

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

9.3 Payment only on a Payment Business Day

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

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

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

9.4 Agents

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

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

- (a) Principal Paying Agent and Replacement Agent:
 - Deutsche Bank AG, London Branch
 - Winchester House
 - 1 Great Winchester Street
 - London EC2N 2DB
 - United Kingdom

- (b) Registrar and Transfer Agent:
Deutsche Bank Luxembourg S.A.
2 boulevard Konrad Adenauer L-
1115 Luxembourg
- (c) Registrar, Transfer Agent and Paying Agent:
Deutsche Bank Trust Company Americas
60 Wall Street, 27th Floor
New York, New York, 10005
United States of America

The Trustee reserves the right at any time to vary or terminate the appointment of any Agent and to appoint additional or other Agents provided that:

- (i) it will at all times maintain a Principal Paying Agent;
- (ii) it will at all times maintain Registrars (which may be the Principal Paying Agent);
- (iii) it will at all times maintain a Paying Agent (which may be the Principal Paying Agent) having its specified office in London for so long as the Certificates are listed on the Official List; and
- (iv) there will at all times be a Paying Agent (which may be the Principal Paying Agent) located in a member state of the European Union that is not obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive.

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

10. CAPITAL DISTRIBUTIONS OF THE TRUST

10.1 Dissolution on the Scheduled Dissolution Date

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

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

10.2 Early Dissolution for Tax Reasons

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

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

provided, however, that no such notice of redemption shall be given unless:

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

Prior to the publication of any notice of redemption pursuant to this Condition 10.2, the Trustee shall deliver to the Delegate:

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

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

SEC has agreed in the Declaration of Trust to notify the Trustee and the Delegate forthwith upon becoming aware of the occurrence of a Change of Control specifying the nature and details of the Change of Control. The Trustee, upon receipt of such notice from SEC or otherwise upon becoming aware of the occurrence of a Change of Control, and, at any time following the occurrence of a Change of Control, the Delegate, if so requested in writing by Certificateholders representing not less than one-quarter in aggregate face amount of the Certificates for the time being outstanding or if so directed by an Extraordinary Resolution (subject in each case to being indemnified and/or secured and/or prefunded to its satisfaction), shall promptly give notice (a **Change of Control Notice**) to the Certificateholders in accordance with Condition 17 of the Change of Control, specifying the nature and details of the Change of Control, the Change of Control Put Period and the Change of Control Put Option Date (each as defined below).

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

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

Any Change of Control Exercise Notice given by a Certificateholder pursuant to this Condition 10.3 shall be irrevocable and the Trustee will redeem all Certificates which are the subject of a validly delivered Change of Control Exercise Notice on the Change of Control Put Option Date.

For the purposes of these Conditions, **Change of Control Put Option Date** shall be the tenth Payment Business Day after the expiry of the Change of Control Put Period.

10.4 Dissolution Following a Dissolution Event

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

10.5 Dissolution Following a Total Loss Event

Upon the occurrence of a Total Loss Event, the Certificates may be redeemed and the Trust dissolved by the Trustee on the date specified by the Delegate. The Certificates shall be redeemed at the Dissolution Distribution Amount using either:

- (a) the proceeds of the insurance payable in respect of the Total Loss Event and standing to the credit of the Transaction Account on or before the 30th day following the occurrence of a Total Loss Event; or
- (b) if the insurance proceeds (if any) standing to the credit of Transaction Account on the 30th day following the occurrence of a Total Loss Event are less than the Insurance Coverage Amount, the amount standing to the credit of the Transaction Account on the 31st day following the occurrence of a Total Loss Event, representing the aggregate of the insurance proceeds payable in respect of a Total Loss Event (if any) and the Total Loss Shortfall Amount funded by the Servicing Agent in accordance with the terms of the Servicing Agency Agreement.

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

10.6 No Other Dissolution

The Trustee shall not be entitled to redeem the Certificates, and the Trustee shall not be entitled to dissolve the Trust otherwise than as provided in this Condition 10, Condition 13 and Condition 14.

10.7 Cancellations

All Certificates which are redeemed in accordance with Condition 10 or Condition 14 will forthwith be cancelled and accordingly may not be held, reissued or resold.

11. TAXATION

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

- (a) who is liable for such Taxes in respect of such Certificate by reason of having some connection with a Relevant Jurisdiction other than the mere holding of such Certificate; or
- (b) who would not be liable or subject to withholding or deduction by making a declaration of non-residence or other similar claim for exemption to the relevant tax authority; or
- (c) where the definitive Certificate is required to be presented for payment and is presented for payment more than 30 days after the Relevant Date (as defined below) except to the extent that a holder would have been entitled to an additional amount on such 30th day assuming that day to have been a Payment Business Day; or

- (d) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant European Council Directive 2003/48/EC on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive; or
- (e) who presented Certificates for payment (where presentation is required) by or on behalf of any Certificateholder who would be able to avoid such withholding or deduction by presenting the relevant Certificate to another Paying Agent in a different Member State of the European Union.

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

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

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

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

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

12. PRESCRIPTION

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

13. PURCHASE AND CANCELLATION OF CERTIFICATES

13.1 Purchases

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

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

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

Declaration of Trust and the Sale Undertaking to execute all such documents and do such further acts and things as may be required under applicable law to give effect to any transfer of the relevant Trust Assets and the cancellation of relevant Certificates.

14. DISSOLUTION EVENTS

Upon the Occurrence and Continuation of any of the Following Events (the **Dissolution Events**):

- (a) default is made in the payment of:
 - (i) the Dissolution Distribution Amount and such default continues for a period of five days from the due date for payment; or
 - (ii) any Periodic Distribution Amount and such default continues for a period of seven days from the due date for payment; or
- (b) the Trustee fails to perform or observe any of its other obligations under the Conditions or the Declaration of Trust in respect of the Certificates and (except in any case where, in the opinion of the Delegate, the failure is incapable of remedy when no such continuation or notice as is hereinafter mentioned will be required) the failure continues for the period of 30 days following the service by the Delegate on the Trustee of written notice requiring the same to be remedied; or
- (c) the Trustee is adjudicated or found bankrupt or insolvent or to be unable to pay its debts as they fall due or proposes or makes a general assignment or an arrangement or composition with or for the benefit of any creditors in respect of any of its debts or a moratorium is agreed or declared or comes into effect in respect of or affecting all or any part of the debts of the Trustee; or
- (d) an administrator is appointed, an order is made or an effective resolution passed for the winding-up or dissolution or administration of the Trustee, or the Trustee shall apply or petition for a winding-up or administration order in respect of itself or cease or through an official action of its board of directors threaten to cease to carry on all or substantially all of its business or operations; or
- (e) any of the obligations of the Trustee under the Certificates or the Transaction Documents to which it is a party are not, or cease to, be legal, valid, binding and enforceable or the Trustee repudiates or evidences an intention to repudiate any Transaction Document to which it is a party; or
- (f) a SEC Event occurs,

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

For the purposes of these Conditions,

“**SEC Event**” means:

- (i) SEC fails to pay:
 - (A) any Rental payable by it in respect of the Certificates under the *Ijara* Agreement and the failure continues for a period of seven days; or

- (B) the Exercise Price under the Purchase Undertaking, the Exercise Price under the Sale Undertaking, the Total Loss Shortfall Amount in respect of the Certificates under the Servicing Agency Agreement or any amount payable pursuant to clause 2.4(b) of the Purchase Undertaking and, in any case, the failure continues for a period of five days; or
- (ii) SEC fails to perform or observe any of its other obligations in respect of the Certificates under the Declaration of Trust, the Purchase Undertaking and the Ijara Agreement and (except in any case where, in the opinion of the Delegate, the failure is incapable of remedy when no such continuation or notice as is hereunder mentioned will be required) the failure continues for the period of 30 days following the service by the Trustee (or the Delegate acting on behalf of the Trustee) of notice requiring the same to be remedied; or
- (iii) (A) the holders of any present or future Indebtedness of SEC or any Material Subsidiary accelerate such Indebtedness or declare such Indebtedness to be due and payable or required to be prepaid, prior to the stated maturity thereof by reason of an event of default (howsoever described); or (B) SEC or any Material Subsidiary fails to pay in full any principal of, or interest on, any of its Indebtedness when due (or within any originally applicable grace period); or (C) any guarantee of any Indebtedness of others given by SEC or any Material Subsidiary shall not be honoured when due and called upon; provided that no event described in this paragraph (iii) shall constitute a SEC Event unless the amount of the Indebtedness or guarantee, either alone or when aggregated (without duplication) with the amount of any other Indebtedness and/or guarantee in respect of which one or more of the events specified in (A) to (C) (inclusive) above shall have occurred and be continuing, amounts to at least fifty million United States dollars (U.S.\$50,000,000) (or its equivalent in any other currency); or
- (iv) any Security Interest given by SEC or a Material Subsidiary for any Indebtedness which equals or exceeds fifty million United States dollars (U.S.\$50,000,000) (or its equivalent in any other currency) becomes enforceable and any step is taken to enforce the Security Interest (including the taking of possession or the appointment of a receiver, manager or other similar Person, but excluding the issue of any notification to SEC or the relevant Material Subsidiary, as the case may be, that such Security Interest has become enforceable) unless the full amount of the Indebtedness secured by the relevant Security Interest is discharged within 30 days of the first date on which any such step for enforcement of the relevant Security Interest is taken; or
- (v) one or more judgment(s) or order(s) for the payment of an amount in excess of fifty million United States dollars (U.S.\$50,000,000) (or its equivalent in any other currency), whether individually or in aggregate is rendered against SEC or any Material Subsidiary and continue(s) unsatisfied and unstayed for a period of 30 days after the date(s) thereof, or if later, the date therein specified for payment; or
- (vi) (A) SEC or any Material Subsidiary is adjudicated or found bankrupt or insolvent or to be unable to pay its debts as they fall due; (B) an administrator or liquidator is appointed over all or substantially all of the undertaking, assets and revenues of SEC or the Material Subsidiary (or proceedings for any such appointment are initiated) and such appointment is not discharged within 30 days; (C) SEC or any Material Subsidiary takes any action for a readjustment or deferral of any of its obligations in connection with bankruptcy, insolvency or liquidation arrangements or makes a general assignment or an arrangement or composition with or for the benefit of its creditors (including any arrangement under the Settlement to Avoid Bankruptcy Law) other than in connection with a Permitted Reorganisation or declares a moratorium in respect of any of its Indebtedness or any guarantee of any Indebtedness given by it; or (D) SEC or any Material Subsidiary ceases or threatens to cease to carry on all or substantially all of its business; or
- (vii) an order is made or an effective resolution is passed for the winding up, liquidation or dissolution of SEC or any Material Subsidiary other than, in the case of a Material Subsidiary, in connection with a Permitted Reorganisation; or
- (viii) any event occurs under the laws, regulations or rules of the Kingdom of Saudi Arabia which has an analogous effect to any of the events referred to in paragraphs (iv) to (vi) (inclusive) above; or
- (ix) any action, condition or thing at any time required to be taken, fulfilled or done in order:

- (A) to enable SEC lawfully to enter into, exercise its rights and perform its obligations under and in respect of the Transaction Documents to which it is a party; and
 - (B) to ensure that those obligations are legal, valid, binding and enforceable is not taken, fulfilled or done; or
- (x) it is or becomes unlawful for SEC to perform or comply with any of its obligations under the Transaction Documents to which it is a party or SEC repudiates or evidences an intention to repudiate any Transaction Document to which it is a party,

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

15. ENFORCEMENT AND EXERCISE OF RIGHTS

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

15.2 The Delegate shall not be bound in any circumstances to take any action to enforce or to realise the Trust Assets or take any action against the Trustee and/or SEC under any Transaction Document to which either of the Trustee or SEC is a party unless directed or requested to do so:

- (a) by an Extraordinary Resolution; or
- (b) in writing by the holders of at least 25 per cent. of the then outstanding aggregate face amount of the Certificates and in either case then only if it shall be indemnified and/or secured and/or prefunded to its satisfaction against all Liabilities to which it may thereby render itself liable or which it may incur by so doing and provided that the Delegate shall not be held liable for the consequences of exercising its discretion or taking any such action and may do so without having regard to the effect of such action on individual Certificateholders.

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

15.4 The foregoing paragraphs in this Condition 15 are subject to this paragraph. After enforcing or realising the Trust Assets and distributing the proceeds of the Trust Assets in accordance with Condition 6.2 and the Declaration of Trust, the obligations of the Trustee in respect of the Certificates shall be satisfied and no Certificateholder may take any further steps against the Trustee, the Delegate or any other Person (including SEC) to recover any further sums in respect of the Certificates and the right to receive any sums unpaid shall be extinguished. In particular, no Certificateholder shall be entitled in respect thereof to petition or to take any other steps for the winding-up of the Trustee.

16. REPLACEMENT OF CERTIFICATES

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

17. NOTICES

All Notices to Certificateholders will be valid if:

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

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

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

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

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

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

- 18.1 The Declaration of Trust contains provisions for convening meetings of Certificateholders to consider any matter affecting their interests, including the modification or abrogation by Extraordinary Resolution of the rights of the Trustee, SEC and/or the Certificateholders or the modification of any of the provisions of these Conditions or the provisions of the Declaration of Trust. Such a meeting may be convened by the Trustee, SEC or the Delegate and shall be convened by the Trustee if required in writing by Certificateholders holding more than 10 per cent. in aggregate face amount of the Certificates for the time being outstanding. Pursuant to the Declaration of Trust, the quorum at any meeting for passing an Extraordinary Resolution will be one or more persons present holding or representing in aggregate not less 50 per cent. of the then outstanding aggregate face amount of the Certificates, or at any adjourned such meeting one or more persons present whatever the outstanding face amount of the Certificates held or represented by him or them, except that any meeting the business of which includes the modification of certain provisions of the Certificates (including, among others, modifying the Scheduled Dissolution Date, reducing or cancelling any amount payable in respect of the Certificates or altering the currency of payment of the Certificates and amending certain covenants given by SEC and the Trustee in the Transaction Documents in a way which is materially prejudicial to the interests of the Certificateholders), the quorum shall be one or more persons present holding or representing not less than $66\frac{2}{3}$ per cent. in aggregate face amount of the Certificates for the time being outstanding, or at any adjourned such meeting one or more persons present holding or representing not less than 25 per cent. in aggregate face amount of the Certificates for the time being outstanding. An Extraordinary Resolution passed at any meeting of the Certificateholders shall be binding on all the Certificateholders, whether or not they are present at the meeting and whether or not voting. The expression "Extraordinary Resolution" is defined in the Declaration of Trust to mean a resolution passed at a meeting duly convened and held in accordance with the Declaration of Trusts by a majority consisting of not less than 75 per cent. of the persons voting thereat upon a show of hands or, if a poll is duly demanded, by a majority consisting of not less than 75 per cent. of the votes cast on such poll.
- 18.2 The Declaration of Trust provides that a resolution in writing signed by or on behalf of 90 per cent. of all holders of Certificates who for the time being are entitled to receive notice of a meeting in accordance with Schedule 4 of the Declaration of Trust shall take effect as if it were an Extraordinary Resolution. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more such holders of Certificates.

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

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

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

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

19. PROVISION OF INFORMATION

The Trustee shall, during any period in which it is not subject to or in compliance with the reporting requirements of Section 13 or 15(d) of the United States Securities Exchange Act of 1934 (the **Exchange Act**) nor exempt from reporting pursuant to Rule 12g3-2(b) under the Exchange Act, duly provide to any holder of a Certificate which is a "restricted security" within the meaning of Rule 144(a)(3) under the Securities Act or to any prospective purchaser of such securities designated by such Certificateholder, upon the written request of such Certificateholder or (as the case may be) prospective Certificateholder addressed to the Trustee and delivered to the Trustee or to the Specified Office of the relevant Registrar, the information specified in Rule 144A(d)(4) under the Securities Act.

20. INDEMNIFICATION AND LIABILITY OF THE DELEGATE AND THE TRUSTEE

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

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

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

21. CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999

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

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

22.1 Governing Law

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

22.2 Arbitration

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

22.3 Jurisdiction

Notwithstanding the agreement that any Dispute will be settled by arbitration as set out in Condition 22.2, the Trustee and SEC have agreed in the Declaration of Trust that, if the Delegate issues a written notice to the Trustee that a Dispute be heard in a court of law, the courts of England shall have exclusive jurisdiction to hear and determine any such Dispute(s) and, for such purposes, each of the Trustee and SEC irrevocably submits to the jurisdiction of such courts. Subject to Condition 22.2, nothing in this Condition shall (or shall be construed so as to limit the right of the Delegate to bring proceedings (**Proceedings**) for the determination of any Dispute(s) in any other court of competent jurisdiction or any committee, including without limitation the Committee for the Resolution of Securities Disputes and the Appeal Panel (the **Committee**), nor shall the bringing of such Proceedings in any one or more jurisdictions preclude the bringing of Proceedings by the Delegate in any other jurisdiction (whether concurrently or not) if and to the extent permitted by law.

22.4 Service of Process

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

22.5 Consent to Enforcement etc

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

22.6 Waiver of Immunity

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

TERMS AND CONDITIONS OF THE 2043 CERTIFICATES

The 2043 Conditions will be identical to those described under “*Terms and Conditions of the 2023 Certificates*” above, except as follows:

- (a) the reference in the introductory paragraph to the “U.S.\$1,000,000,000 3.473 per cent. Certificates due 2023” shall be replaced by a reference to the “U.S.\$1,000,000,000 5.06 per cent. Certificates due 2043” and references to “Certificates” shall be construed as references to the 2043 Certificates;
- (b) the definition of “Periodic Distribution Date” in Condition 1 shall be replaced with **Periodic Distribution Date** means 8 April and 8 October in each year, commencing on 8 October 2013, and subject to these Conditions, ending on 8 April 2043;
- (c) the definition of “Scheduled Dissolution Date” in Condition 1 shall be replaced with **Scheduled Dissolution Date** means 8 April 2043;
- (d) the definitions of “2043 Certificates”, “2043 Certificate Transaction Documents”, “2043 Certificate Trust”, “2043 Certificateholders” and “2043 Certificate Trust Assets” in Condition 1 and the corresponding references in Condition 7 shall be replaced by corresponding definitions and references in respect of the 2023 Certificates;
- (e) the reference in Condition 8.1 to “3.473 per cent. per annum” shall be replaced by a reference to “5.06 per cent. per annum”; and
- (f) the reference in Condition 8.2 to “3.473 per cent. per annum” shall be replaced by a reference to “5.06 per cent. per annum”.

GLOBAL CERTIFICATE

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

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

1 PAYMENTS

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

Holders of book-entry interests in the Rule 144A Certificates held through DTC will receive, to the extent received by the relevant Registrar, all distributions of amounts with respect to book-entry interests in such Rule 144A Certificates from the relevant Registrar through DTC. Distributions in the United States will be subject to U.S. tax laws and regulations.

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

2 REGISTRATION OF TITLE

Registration of title to Certificates in a name other than that of the nominee for the relevant clearing system (the **Relevant Nominee**) will not be permitted unless Euroclear or Clearstream or DTC, as appropriate, notifies the Issuer that it is unwilling or unable to continue as a clearing system in connection with a Global Certificate or, in the case of DTC only, DTC ceases to be a clearing agency registered under the U.S. Securities Exchange Act of 1934, and in each case a successor clearing system approved by the Delegate is not appointed by the Issuer within 90 days after receiving such notice from Euroclear, Clearstream or DTC or becoming aware that DTC is no longer so registered. In these circumstances title to a Certificate may be transferred into the names of holders notified by the Relevant Nominee in accordance with the Conditions, except that Certificates in respect of Certificates so transferred may not be available until 21 days after the request for transfer is duly made.

The Registrar will not register title to the Certificates in a name other than that of the Relevant Nominee for a period of 15 calendar days preceding the due date for any payment of principal or distributions in respect of the Certificates.

If only one of the Global Certificates (the **Exchanged Global Certificate**) becomes exchangeable for Certificates in accordance with the above paragraphs, transfers of Certificates may not take place between, on the one hand, persons holding Certificates issued in exchange for beneficial interests in the Exchanged Global Certificate and, on the other hand, persons wishing to purchase beneficial interests in the other Global Certificate.

3 TRANSFERS

Transfers of book-entry interests in the Certificates will be effected through the records of Euroclear, Clearstream and DTC and their respective participants in accordance with the rules and procedures of Euroclear, Clearstream and DTC and their respective direct and indirect participants, as more fully described under "*Book-entry clearance systems*".

BOOK-ENTRY CLEARANCE SYSTEMS

The information set out below is subject to any change in or reinterpretation of the rules, regulations and procedures of DTC, Euroclear or Clearstream, Luxembourg currently in effect. The information in this section concerning such clearing systems has been obtained from sources that the Issuer believes to be reliable, but none of the Issuer, SEC, the Managers and the Delegate take any responsibility for the accuracy of this section. The Issuer and SEC only take responsibility for the correct extraction and reproduction of the information in this section. Investors wishing to use the facilities of any of the clearing systems are advised to confirm the continued applicability of the rules, regulations and procedures of the relevant clearing system. None of the Issuer, SEC nor any other party to the Agency Agreement will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the Certificates held through the facilities of any clearing system or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

DTC, Euroclear and Clearstream, Luxembourg

Custodial and depositary links have been established between DTC, Euroclear and Clearstream, Luxembourg to facilitate the initial issue of the Certificates and cross-market transfers of the Certificates associated with secondary market trading. See “ – *Settlement and Transfer of Certificates*”.

Euroclear and Clearstream, Luxembourg

Euroclear and Clearstream, Luxembourg each hold securities for their customers and facilitate the clearance and settlement of securities transactions through electronic book-entry transfer between their respective accountholders. Indirect access to Euroclear and Clearstream, Luxembourg is available to other institutions which clear through or maintain a custodial relationship with an accountholder of either system. Euroclear and Clearstream, Luxembourg provide various services including safekeeping, administration, clearance and settlement of internationally-traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg also deal with domestic securities markets in several countries through established depositary and custodial relationships. Euroclear and Clearstream, Luxembourg have established an electronic bridge between their two systems across which their respective customers may settle trades with each other. Their customers are worldwide financial institutions including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. Investors may hold their interests in securities held in Euroclear and Clearstream, Luxembourg directly through Euroclear or Clearstream, Luxembourg if they are accountholders (**direct participants**) or indirectly (**indirect participants** and, together with direct participants, **participants**) through organisations which are accountholders therein.

DTC

DTC has advised the Issuer as follows: DTC is a limited purpose trust company organised under the laws of the State of New York, a “banking organisation” under the laws of the State of New York, a member of the U.S. Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code and a “clearing agency” registered pursuant to the provisions of Section 17A of the Exchange Act. DTC was created to hold securities for its participants and facilitate the clearance and settlement of securities transactions between participants through electronic computerised book-entry changes in accounts of its participants, thereby eliminating the need for physical movement of certificates. Participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organisations. Indirect access to DTC is available to others, such as banks, securities brokers, dealers and trust companies, that clear through or maintain a custodial relationship with a DTC direct participant, either directly or indirectly.

Investors may hold their interests in the Restricted Global Certificate directly through DTC if they are participants (**direct participants**) in the DTC system, or indirectly through organisations which are participants in such system (**indirect participants** and, together with direct participants, **participants**).

DTC has advised the Issuer that it will take any action permitted to be taken by a Certificateholder only at the direction of one or more participants in whose accounts with DTC interests in the Restricted Global Certificate are credited and only in respect of such portion of the aggregate face amount of such Global Certificate as to which such participant or participants has or have given such direction. However, in the circumstances whereby a Restricted Global Certificate becomes exchangeable for Certificates in definitive form, DTC will surrender the Restricted Global Certificate

in exchange for definitive Certificates (which will bear the legend applicable to transfers pursuant to Rule 144A).

Book-entry ownership

Euroclear and Clearstream, Luxembourg

The Unrestricted Global Certificate will have an ISIN and a common code and will be registered in the name of a nominee for, and be deposited with a common depository on behalf of, Euroclear and Clearstream, Luxembourg.

DTC

The Restricted Global Certificate will have an ISIN and a CUSIP number and will be deposited with the custodian (the **Custodian**) for, and registered in the name of a nominee of, DTC. The Custodian and DTC will electronically record the face amount of the Certificates held within the DTC System.

Payments and relationship of participants with clearing systems

Each of the persons shown in the records of DTC, Euroclear or Clearstream, Luxembourg as the holder of a Certificate represented by a Global Certificate must look solely to DTC, Euroclear or Clearstream, Luxembourg (as the case may be) for his share of each payment made by the Issuer to the holder of such Global Certificate and in relation to all other rights arising under such Global Certificate, subject to and in accordance with the respective rules and procedures of DTC, Euroclear or Clearstream, Luxembourg (as the case may be). The Issuer expects that, upon receipt of any payment in respect of Certificates represented by a Global Certificate, the common depository by whom such Certificate is held, or nominee in whose name it is registered, will immediately credit the relevant participants' or accountholders' accounts in the relevant clearing system with payments in amounts proportionate to their respective beneficial interests in the face amount of the relevant Global Certificate as shown on the records of the relevant clearing system or its nominee. The Issuer also expects that payments by direct participants in any clearing system to owners of beneficial interests in a Global Certificate held through such direct participants in any clearing system will be governed by standing instructions and customary practices. Save as aforesaid, such persons shall have no claim directly against the Issuer in respect of payments due on the Certificates for so long as the Certificates are represented by such Global Certificate and the obligations of the Issuer will be discharged by payment to the registered holder, as the case may be, of such Global Certificate in respect of each amount so paid. None of the Issuer, the Delegate or any Agent shall have any responsibility or liability for any aspect of the records relating to or payments made on account of ownership interests in any Global Certificate or for maintaining, supervising or reviewing any records relating to such ownership interests.

Settlement and transfer of Certificates

Subject to the rules and procedures of each applicable clearing system, purchases of Certificates held within a clearing system must be made by or through direct participants, which will receive a credit for such Certificates on the clearing system's records. The ownership interest of each actual purchaser of each such Certificate (the **beneficial owner**) will in turn be recorded on the direct and indirect participant's records. Beneficial owners will not receive written confirmation from any clearing system of their purchase, but beneficial owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the direct or indirect participant through which such beneficial owner entered into the transaction. Transfers of ownership interests in Certificates held within the clearing system will be effected by entries made on the books of participants acting on behalf of beneficial owners. Beneficial owners will not receive certificates representing their ownership interests in such Certificates, unless and until interests in any Global Certificate held within a clearing system are exchanged for Definitive Certificates.

No clearing system has knowledge of the actual beneficial owners of the Certificates held within such clearing system and the records of each clearing system will reflect only the identity of the direct participants to whose accounts such Certificates are credited, which may or may not be the beneficial owners. The participants will remain responsible for keeping account of their holdings on behalf of their customers. Conveyance of notices and other communications by the clearing systems to direct participants, by direct participants to indirect participants, and by direct participants and indirect participants to beneficial owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

The laws of some jurisdictions may require that certain persons take physical delivery in definitive form of securities. Consequently, the ability to transfer interests in a Global Certificate to such persons may be limited. DTC can only act on behalf of direct participants, who in turn act on behalf of indirect participants, so the ability of a person having an interest in a Global Certificate to pledge such interest to persons or entities that do not participate in DTC, or otherwise take actions in respect of such interest, may be affected by a lack of a physical certificate in respect of such interest.

Trading between Euroclear and/or Clearstream, Luxembourg participants

Secondary market sales of book-entry interests in the Certificates held through Euroclear or Clearstream, Luxembourg to purchasers of book-entry interests in the Certificates held through Euroclear or Clearstream, Luxembourg will be conducted in accordance with the normal rules and operating procedures of Euroclear and Clearstream, Luxembourg and will be settled using the procedures applicable to conventional eurobonds and U.S. dollar denominated bonds.

Trading between DTC participants

Secondary market sales of book-entry interests in the Certificates between DTC participants will occur in the ordinary way in accordance with DTC rules and will be settled using the procedures applicable to United States corporate debt obligations in DTC's same-day funds settlement (SDFS) system in same-day funds, if payment is effected in U.S. dollars, or free of payment, if payment is not effected in U.S. dollars. Where payment is not effected in U.S. dollars, separate payment arrangements outside DTC are required to be made between the DTC participants.

Trading between DTC seller and Euroclear/Clearstream, Luxembourg purchaser

When book-entry interests in Certificates are to be transferred from the account of a DTC participant holding a beneficial interest in a Global Certificate to the account of a Euroclear or Clearstream, Luxembourg accountholder wishing to purchase a beneficial interest in that Global Certificate (subject to the certification procedures provided in the Agency Agreement), the DTC participant will deliver instructions for delivery to the relevant Euroclear or Clearstream, Luxembourg accountholder to DTC by 12 noon, New York time, on the settlement date. Separate payment arrangements are required to be made between the DTC participant and the relevant Euroclear or Clearstream, Luxembourg participant. On the settlement date, the custodian of the Global Certificate will instruct the Registrar to (i) decrease the amount of Certificates registered in the name of a nominee of DTC, and evidenced by the relevant Global Certificate and (ii) increase the amount of Certificates registered in the name of the nominee of the common depository for Euroclear and Clearstream, Luxembourg and evidenced by the relevant Global Certificate. Book entry interests will be delivered free of payment to Euroclear or Clearstream, Luxembourg, as the case may be, for credit to the relevant accountholder on the first business day following the settlement date.

Trading between Euroclear/Clearstream, Luxembourg seller and DTC purchaser

When book-entry interests in the Certificates are to be transferred from the account of a Euroclear or Clearstream, Luxembourg accountholder to the account of a DTC participant wishing to purchase a beneficial interest in a Global Certificate (subject to the certification procedures provided in the Agency Agreement), the Euroclear or Clearstream, Luxembourg participant must send to Euroclear or Clearstream, Luxembourg delivery free of payment instructions by 7.45 p.m., Brussels or Luxembourg time, one business day prior to the settlement date. Euroclear or Clearstream, Luxembourg, as the case may be, will in turn transmit appropriate instructions to the common depository for Euroclear and Clearstream, Luxembourg and the Registrar to arrange delivery to the DTC participant on the settlement date. Separate payment arrangements are required to be made between the DTC participant and the relevant Euroclear or Clearstream, Luxembourg accountholder, as the case may be. On the settlement date, the common depository for Euroclear and Clearstream, Luxembourg will (a) transmit appropriate instructions to the custodian of the Global Certificate who will in turn deliver evidence of such book-entry interests in the Certificates free of payment to the relevant account of the DTC participant and (b) instruct the Registrar to (i) decrease the amount of Certificates registered in the name of the nominee of the common depository for Euroclear and Clearstream, Luxembourg and evidenced by the relevant Global Certificate and (ii) increase the amount of Certificates registered in the name of a nominee for DTC and evidenced by the relevant Global Certificate.

Although DTC, Clearstream, Luxembourg and Euroclear have agreed to the foregoing procedures in order to facilitate transfers of beneficial interests in Global Certificates among participants and accountholders of DTC, Clearstream, Luxembourg and Euroclear, they are under no obligation to

perform or continue to perform such procedures, and such procedures may be discontinued at any time. None of the Issuer, SEC, the Trustee, the Delegate or any of their agents will have any responsibility for the performance by DTC, Clearstream, Luxembourg or Euroclear or their respective direct or indirect participants of their respective obligations under the rules and procedures governing their operations.

Pre-issue trades settlement

It is expected that delivery of Certificates will be made against payment therefor on each issue date, which could be more than three business days following the date of pricing. Under Rule 15c6-1 under the Exchange Act, trades in the U.S. secondary market generally are required to settle within three business days (**T+3**), unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade Certificates in the United States on the date of pricing or the next three succeeding business days will be required, by virtue of the fact the Certificates initially will settle beyond T+3, to specify an alternative settlement cycle at the time of any such trade to prevent a failed settlement. Settlement procedures in other countries will vary. Purchasers of Certificates may be affected by such local settlement practices and purchasers of Certificates who wish to trade Certificates on the date of pricing or the next three succeeding business days should consult their own adviser.

SUMMARY OF THE PRINCIPAL TRANSACTION DOCUMENTS

The following is a summary of certain provisions of the principal Transaction Documents in respect of each Series and is qualified in its entirety by reference to the detailed provisions of such principal Transaction Documents. Copies of the Transaction Documents will be available for inspection at the offices of the Principal Paying Agents, as further described under “General Information”.

*A separate version of each of the following Transaction Documents (other than the Declaration of Trust) will be entered into on the Closing Date in respect of each Series. References to the **Certificates** and other terms defined in the Conditions or provisions of the relevant Conditions in this section are, therefore, to the 2023 Certificates or the 2043 Certificates and such terms as defined in, or the relevant provisions of, the 2023 Conditions or the 2043 Conditions, in each case as applicable, and references to **Ijara Assets** or **Trust Assets** are to the Ijara Assets or Trust Assets in respect of the relevant Series.*

PURCHASE AGREEMENT

The Purchase Agreement will be entered into on the Closing Date between the Trustee (in its capacity as the Purchaser) and SEC (in its capacity as the Seller) and will be governed by Saudi law.

Pursuant to the Purchase Agreement the Purchaser will purchase from the Seller the Ijara Assets, free and clear of any encumbrance. The proceeds received by the Trustee from the issuance and sale of the Certificates will be used to pay the purchase price of those assets.

IJARA AGREEMENT

The Ijara Agreement will be entered into on the Closing Date between the Trustee (in its capacity as the Lessor) and SEC (in its capacity as the Lessee) and will be governed by English law.

Pursuant to the Ijara Agreement the Lessor has agreed to lease to the Lessee, and the Lessee has agreed to lease from the Lessor, the Ijara Assets for renewable six (6) month terms commencing and ending on the dates specified in the Ijara Agreement. During the term of the Ijara, the Lessee will pay to the Lessor rental payments as specified in the Ijara Agreement. The rental payments due under the Ijara Agreement will not be less than the Periodic Distribution Amounts payable on the Periodic Distribution Dates. The Lessee will be obligated to make such rental payments on each Periodic Distribution Date. Following the exercise by Certificateholders of the Change of Control Put Option, rental payments will be reduced accordingly and the Lessor shall send to the Lessee a Renewal Notice specifying the rental payments to be paid for the remaining period in the Ijara Period in which the Change of Control Put Option was exercised.

The Lessee shall, at its own cost and expense, be responsible for the performance of all Ordinary Maintenance and Repair required for the Ijara Assets.

The Lessor shall be responsible for: (i) the performance of all Major Maintenance and Structural Repair; (ii) the payment of any proprietorship or other relevant taxes; and (iii) insuring the Ijara Assets (to the extent consistent with general industry practice by prudent owners of similar assets) and the Lessee acknowledges that the Lessor may procure that the Servicing Agent, in accordance with the terms and conditions set out in the Servicing Agency Agreement, shall perform, or shall procure the performance of, the Major Maintenance and Structural Repair, the payment of such taxes and any insurance of the Ijara Assets, in each case, on behalf of the Lessor.

All payments by the Lessee to the Lessor under the Ijara Agreement shall be paid in full without any set-off or counterclaim of any kind and without any deduction or withholding for or on account of tax unless the deduction or withholding is imposed or levied by or on behalf of any relevant taxing authority, in which event the Lessee shall forthwith pay to the Lessor such additional amount so that the net amount received by the Lessor will equal the full amount which would have been received by it had no such deduction or withholding been made.

The Lessee has agreed to use the Ijara Assets at its own risk. Under the Ijara Agreement, the Lessee bears the entire risk of loss of or damage to the Ijara Assets or any part thereof arising from the usage or operation thereof by the Lessee to the extent such losses or damages have resulted from the Lessee's negligence, default, breach of the Ijara Agreement or other action or failure to action. In addition, the Lessor shall not be liable (and the Lessee will waive any claim or right, howsoever arising, to the contrary) for any indirect, consequential or other losses, howsoever arising, in connection with the Lessee's use or operation of the Ijara Assets.

If a Total Loss Event occurs, then the Ijara in respect of the Ijara Assets shall automatically terminate and the Lessor will be entitled to all insurance proceeds (or the relevant percentage thereof)

payable as a result of the Total Loss Event in addition to any amounts payable pursuant to the Servicing Agency Agreement, together with any accrued and unpaid rental payments up to the date on which the Total Loss Event occurred. See “– *Servicing Agency Agreement*” below for further details.

The Lessee has agreed that certain events or circumstances shall constitute a SEC Event under the Ijara Agreement, the occurrence of which shall entitle the Lessor to terminate the Ijara Agreement. For a full list of the SEC Events, please see Condition 14 under “*Terms and Conditions of the Certificates*” above.

The Certificateholders will also have the benefit of a negative pledge and certain other restrictive covenants given by SEC in the Ijara Agreement, the full details of which are set out in Condition 5 and Condition 7 under “*Terms and Conditions of the Certificates*” above.

SERVICING AGENCY AGREEMENT

The Servicing Agency Agreement will be entered into on the Closing Date by SEC (in its capacity as the Servicing Agent) and the Trustee (in its capacity as the Lessor). Pursuant to the Servicing Agency Agreement, the Lessor will appoint the Servicing Agent as its agent and the Servicing Agent will agree to act as the agent for the Lessor and to provide certain services in respect of the Ijara Assets. The Servicing Agency Agreement will be governed by English law.

Under the terms of the Servicing Agency Agreement, the Servicing Agent will be responsible for: (i) ensuring on behalf of the Lessor that the Ijara Assets are properly insured; (ii) the performance of all Major Maintenance and Structural Repair; and (iii) the payment of any proprietorship or other relevant taxes charged, levied or claimed in respect of the Ijara Assets.

An amount equal to the Service Charge Amount to be paid by SEC (as the Lessee under the Ijara Agreement) to the Lessor as, or as part of, any: (i) supplementary rental under the Ijara Agreement; or (ii) Exercise Price under the Purchase Undertaking or the Sale Undertaking (as the case may be), shall be set off against the Service Charge Amount to be paid by the Lessor to the Servicing Agent under the Servicing Agency Agreement.

Upon the occurrence of a Total Loss Event, all insurance proceeds (or the relevant percentage thereof) are required to be paid into the Transaction Account by no later than the thirtieth (30th) day after the occurrence of the Total Loss Event. The Servicing Agency Agreement provides that if the insurance proceeds paid into the Transaction Account are less than the Insurance Coverage Amount, due to the Servicing Agent’s failure to comply with the terms of the Servicing Agency Agreement, the Servicing Agent undertakes to pay any shortfall amount (being the difference between the Insurance Coverage Amount and the amount credited to the Transaction Account (the **Total Loss Shortfall Amount**)) into the Transaction Account by no later than close of business in Riyadh on the thirty first (31st) day after the Total Loss Event occurred, such that the amount standing to the credit of the Transaction Account on the thirty first (31st) day following the occurrence of a Total Loss Event, represents the aggregate of the insurance proceeds payable in respect of a Total Loss Event (if any) and the shortfall amount funded by the Servicing Agent in accordance with the terms of the Servicing Agency Agreement. Following the payment of such Total Loss Shortfall Amount, any insurance proceeds received from any insurer shall be for the Servicing Agent’s sole account.

SUBSTITUTION UNDERTAKING

The Trustee will enter into the Substitution Undertaking on the Closing Date in favour of SEC, which will be governed by English Law.

Under the terms of the Substitution Undertaking, the Trustee has granted to SEC the right to require the Trustee to transfer, convey and deliver all of the Trustee’s rights, title, interests, benefits and other entitlements in and to the Substituted Ijara Assets to SEC in exchange for the grant by SEC to the Trustee of the New Ijara Assets, on the condition that the value of such New Ijara Assets is equal to or greater than the value of the Substituted Ijara Assets on the Substitution Date.

The substitution of the New Ijara Assets for the Substituted Ijara Assets will become effective on the Substitution Date (as specified in the Substitution Notice to be delivered by SEC in accordance with the Substitution Undertaking) by the Trustee and SEC entering into a Substitution Transfer Agreement in substantially the form scheduled to the Substitution Undertaking to effect the transfer of the Substituted Ijara Assets by the Trustee to SEC, which is governed by Saudi Arabian law.

PURCHASE UNDERTAKING

SEC will enter into the Purchase Undertaking on the Closing Date in favour of the Trustee and the Delegate, which will be governed by English law.

Under the terms of the Purchase Undertaking, SEC, provided there has been no Total Loss Event, irrevocably undertakes to purchase, transfer, convey and deliver all of the Trustee's rights, title, interests, benefits and other entitlements in and to the Ijara Assets (or the relevant Ijara Assets as identified by SEC in the case of a Change of Control) on: (i) the Scheduled Dissolution Date of the Certificates; or (ii) any earlier due date following the occurrence of a Dissolution Event or a Change of Control, in each case in exchange for payment of the relevant Exercise Price. The Exercise Price will be the aggregate of: (i) the outstanding face amount of the Certificates (or the relevant Certificates to be redeemed pursuant to Condition 10.3 in the case of a Change of Control); (ii) any accrued but unpaid Periodic Distribution Amount (excluding any Additional Dissolution Distribution Amount) relating to such Certificates; (iii) any outstanding Service Charge Amount; and (iv) any accrued but unpaid Additional Dissolution Distribution Amount relating to such Certificates (but not including (iii) and (iv) in the case of a Change of Control). An amount equal to the Service Charge Amount to be paid by SEC as part of any Exercise Price and any Service Charge Amount to be paid by the Trustee in accordance with the Servicing Agency Agreement which has not been paid by way of payment of supplementary rental under the Ijara Agreement shall be set-off against one another.

In order to exercise these rights, the Trustee or the Delegate (as the case may be) is required to deliver an Asset Exercise Notice to SEC under the Purchase Undertaking.

Simultaneously with the payment of the Exercise Price in accordance with the Purchase Undertaking, the parties will enter into a Sale Agreement to effect the sale by the Trustee to SEC of all of the Trustee's rights, title, interests, benefits and other entitlements in and to the Ijara Assets. Such Sale Agreement will be governed by Saudi law.

SALE UNDERTAKING

The Trustee will enter into the Sale Undertaking on the Closing Date in favour of SEC, which will be governed by English law.

Under the terms of the Sale Undertaking, SEC may also following the occurrence of a Tax Event exercise its rights under the Sale Undertaking to require the Trustee to sell to SEC all of the Trustee's rights, title, interests, benefits and other entitlements in and to the Ijara Assets by delivering an Asset Exercise Notice specifying the Tax Redemption Date, which shall be no later than thirty (30) nor more than sixty (60) days after the date on which the Asset Exercise Notice is given. The consideration payable by SEC upon exercise of the Sale Undertaking shall be an amount equal to the Exercise Price. An amount equal to the Service Charge Amount to be paid by SEC as part of any Exercise Price and any Service Charge Amount to be paid by the Trustee in accordance with the Servicing Agency Agreement which has not been paid by way of payment of supplementary rental under the Ijara Agreement shall be set-off against one another.

Under the terms of the Sale Undertaking, SEC may also, in the event of cancellation of Certificates by SEC in accordance with the Declaration of Trust, exercise its rights under the Sale Undertaking to require the Trustee to transfer and convey all of the Trustee's rights, title, interests, benefits and other entitlements in and to the Redemption Ijara Assets by delivering an Asset Redemption Notice no later than five (5) Payment Business Days prior to the Proposed Asset Redemption Date, which shall be a Periodic Distribution Date. The consideration payable by SEC upon such exercise of the Sale Undertaking shall be the delivery of the Certificates for cancellation, provided that, the aggregate value of the Redemption Ijara Assets shall not exceed the aggregate face amount of the cancelled Certificates.

Simultaneously with the payment of the Exercise Price or cancellation of the Certificates, the parties will enter into a Sale Agreement to effect the sale or transfer by the Trustee to SEC of all of the Trustee's rights, title, interests, benefits and other entitlements in and to the Ijara Assets or the Redemption Ijara Assets (as the case may be). Such Sale Agreement will be governed by Saudi law.

THE DECLARATION OF TRUST

The Declaration of Trust will be entered into on the Closing Date between the Issuer, in its capacity as issuer and Trustee, SEC and the Delegate and will be governed by English law.

The Trust Assets in respect of each Series shall comprise: (i) all of the Trustee's rights, title, interests, benefits and other entitlements, present and future, in, to and under the Ijara Assets relating to that

Series; (ii) all of the Trustee's rights, title, interests, benefits and other entitlements, present and future, in, to and under the Transaction Documents of that Series (excluding, among others, any representations given to the Trustee by SEC in those Transaction Documents); (iii) all monies standing to the credit of the relevant Transaction Account; and (iv) all proceeds of the foregoing.

Pursuant to the Declaration of Trust, the Trustee will, *inter alia*:

- hold the Trust Assets in respect of each Series on trust absolutely for the Certificateholders of that Series as beneficial owners *pro rata* according to the face amount of the relevant Certificates held by each such Certificateholder;
- comply with and perform its obligations, or cause such obligations to be complied with and performed on its behalf in accordance with the terms of the Certificates, the Conditions and the Transaction Documents and observe all the provisions of the Transaction Documents which are expressed to be binding on it; and
- act as trustee in respect of the Trust Assets in respect of each Series, distribute the income from such Trust Assets to the Certificateholders of that Series and perform its duties in accordance with the provisions of the Declaration of Trust.

The Trustee will irrevocably and unconditionally appoint the Delegate to be its attorney and in its name, on its behalf and as its act and deed to execute, deliver and perfect all documents and to exercise all of the present and future duties, powers, trusts, authorities and discretions vested in the Trustee by the Declaration of Trust that the Delegate may consider to be necessary or desirable in order to, upon the occurrence of a Dissolution Event or a Potential Dissolution Event in respect of a Series exercise all of the rights (but not the obligations, liabilities, duties or covenants of the Trustee) of the Trustee under the Purchase Undertaking and any of the other Transaction Documents of that Series and make such distributions from the Trust Assets in respect of that Series as the Trustee is bound to make in accordance with the Declaration of Trust. The appointment of the Delegate is intended to be in the interests of the Certificateholders and does not affect the Trustee's continuing role and obligations as sole trustee.

In addition to the delegation of the relevant powers, certain powers under the Declaration of Trust will be vested solely in the Delegate, including, *inter alios*, the power to convene meetings of Certificateholders, the power to determine the occurrence of a Dissolution Event or a Potential Dissolution Event, the power to waive or authorise a breach of an obligation or determine that a Dissolution Event or Potential Dissolution Event shall not be treated as such, and the power to consent to certain types of amendments to, and agree to any modifications of, any of the Conditions or any Transaction Document or the constitutional documents of the Trustee.

The Declaration of Trust specifies, *inter alia*, that:

- following the enforcement, realisation and ultimate distribution of the net proceeds of the Trust Assets in respect of the Certificates of a series to the Certificateholders of that Series in accordance with the relevant Conditions and the Declaration of Trust, neither the Issuer nor the Trustee shall be liable for any further sums and, accordingly, the Certificateholders of the relevant Series may not take any action against the Issuer, the Trustee or any other person (including SEC) to recover any such sum in respect of the Certificates of that Series or the Trust Assets in respect of that Series;
- no Certificateholder of a Series shall be entitled to proceed directly against the Issuer, the Trustee or SEC under any Transaction Document of that Series to which either of them is a party unless: (i) the Delegate having become bound so to proceed, fails to do so within thirty (30) days of becoming so bound and such failure is continuing; and (ii) the relevant Certificateholder (or such Certificateholder together with the other Certificateholders of that Series who propose to proceed directly against the Issuer, the Trustee or SEC (as the case may be)) holds at least twenty five per cent. (25%) of the then aggregate face amount of the Certificates of the Series outstanding. Under no circumstances shall the Delegate or any Certificateholder of a Series have any right to cause the sale or other disposition of any of the Trust Assets in respect of that Series (other than pursuant to the relevant Purchase Undertaking) and the sole right of the Delegate and the relevant Certificateholders against the Issuer, the Trustee and SEC shall be to enforce their respective obligations under the relevant Transaction Documents; and

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

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

SEC will undertake to the Delegate that, if any amount payable by SEC to the Delegate pursuant to any Transaction Document is not recoverable from SEC for any reason whatsoever or the Trustee or any Certificateholder suffers any cost, expense or loss as a result of the Trustee's holding of the Trust Assets, which cost, expense or loss is not recoverable under the Transaction Documents, then SEC will indemnify the Delegate against all properly incurred losses, claims, costs, charges and expenses, excluding the costs of funding the same, to which it may be subject or which it may incur under or in respect of the Transaction Documents.

SUBSCRIPTION AND SALE

Deutsche Bank AG, London Branch and HSBC Bank plc (the **Joint Lead Managers**) and J.P. Morgan Securities plc (the **Co-Manager** and, together with the Joint Lead Managers, the **Managers**) have entered into a subscription agreement with the Issuer and SEC dated 4 April 2013 with respect to the Certificates (the **Subscription Agreement**). Subject to certain conditions, each Manager has severally agreed to subscribe for the 2023 Certificates in the amounts set out opposite their respective names below:

| | Principal Amount of Certificates |
|---------------------------------------|---|
| Deutsche Bank AG, London Branch | U.S.\$499,777,500 |
| HSBC Bank plc | U.S.\$499,777,500 |
| J.P. Morgan Securities plc | U.S.\$445,000 |

Subject to certain conditions, each Manager has severally agreed to subscribe for the 2043 Certificates in the amounts set out opposite their respective names below:

| | Principal Amount of Certificates |
|---------------------------------------|---|
| Deutsche Bank AG, London Branch | U.S.\$499,777,500 |
| HSBC Bank plc | U.S.\$499,777,500 |
| J.P. Morgan Securities plc | U.S.\$445,000 |

The obligations of the Managers are subject to certain conditions set out in the Subscription Agreement, including the receipt by the Managers of officer's certificates and legal opinions. The Subscription Agreement entitles the Managers to terminate the issue of the Certificates in certain circumstances prior to payment to the Issuer.

The Issuer and SEC have given certain representations and warranties to the Managers in the Subscription Agreement, and the Issuer and SEC have agreed to indemnify the Managers on a joint and several basis against certain liabilities in connection with the offer and sale of the Certificates.

Stabilisation

In connection with the offering of the Certificates, the Managers may engage in over-allotment, stabilising transactions and syndicate covering transactions. Over-allotment involves sales in excess of the offering size, which creates a short position for the Managers. Stabilising transactions involve bids to purchase the Certificates in the open market for the purpose of pegging, fixing or maintaining the price of the Certificates. Syndicate covering transactions involve purchases of the Certificates in the open market after the distribution has been completed in order to cover short positions. Any of these activities may prevent a decline in the market price of the Certificates, and may also cause the price of the Certificates to be higher than it would otherwise be in the absence of these transactions. The Managers may conduct these transactions in the over-the-counter market or otherwise. If the Managers commence any of these transactions, they may discontinue them at any time.

Certificates are not being registered

The Issuer and SEC have not been, and will not be, registered under the Investment Company Act and the Certificates are being offered in reliance upon the exemption provided by Section 3(c)(7) thereunder. The Certificates have not been and will not be registered under the Securities Act or the Investment Company Act and may not be offered or sold except: (i) within the United States to QIBs, that are also QPs and that agree with the transfer restrictions set forth in this Prospectus or (ii) to certain persons in offshore transactions in reliance on Regulation S and in accordance with any applicable securities laws of any state or territory of the United States or any other jurisdiction.

No sales of similar securities

For a period of 60 calendar days after the closing date of the Offering, neither the Issuer, SEC nor any member of the Group will issue, offer, sell, guarantee, contract to sell, pledge or otherwise dispose of, directly or indirectly, any debt securities (including, without limitation, sukuk) of the Issuer, SEC or any member of the Group in the domestic or international debt capital markets that are substantially similar to the Certificates or any warrants, rights or options to purchase or otherwise

acquire any debt securities (including, without limitation, sukuk) of the Issuer, SEC or any member of the Group that are substantially similar to the Certificates in the domestic or international debt capital markets, without the prior written consent of the Managers

U.S. Registered Broker Dealer Affiliates

Each of the Issuer and SEC have agreed and acknowledged that the Managers may make offers and sales into the United States through U.S. registered broker dealer affiliates in order to fulfil their obligations under the Subscription Agreement and to ensure compliance with U.S. securities laws and regulations with respect to U.S. investors.

Settlement

The Issuer expects that delivery of the Certificates will be made to investors on or around 8 April 2013, which will be the fourth day following the date of this Prospectus (such settlement being referred to as “T+4”). Under Rule 15c6-1 under the Exchange Act, trades in the secondary market are required to settle in three business days, unless the parties to any trade expressly agree otherwise. Accordingly, purchasers who wish to trade Certificates prior to the delivery of the Certificates hereunder will be required, by virtue of the fact that the Certificates initially settle in T+4, to specify an alternative settlement arrangement at the time of any such trade to prevent a failed settlement. Purchasers of the Certificates who wish to trade the Certificates prior to their date of delivery hereunder should consult their advisers.

Other Relationships

The Managers and their affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, investment research, principal investment, hedging, financing and brokerage services.

Certain of the Managers and their affiliates have performed, and may in future perform, certain investment and commercial banking or financial advisory services for the SEC Group from time to time, for which they have received, or may in future receive, customary fees and commissions. The Managers and their affiliates have acted in various roles in financing arrangements to which SEC is party. HSBC Bank plc, London acted as coordinating arranger in the COFACE French Export Credit Agency facility established on 22 June 2011 and also acted as coordinating arranger and lender in the syndicated facility guaranteed by two Korean export credit agencies which was established on 29 March 2012. The Saudi British Bank (SABB), an associated company of HSBC Bank plc, is also involved in various local syndications and a murabaha facility extended to SEC. Deutsche Bank AG, Paris Branch acted as a mandated lead arranger and is a lender under the COFACE French Export Credit Agency facility.

To the extent that the Managers or their affiliates have a lending relationship with the SEC Group, they may hedge their credit exposure to the SEC Group consistent with their customary risk management policies. Typically, the Managers and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in SEC’s securities, including potentially, the Certificates. Any such short positions could adversely affect future trading prices of the Certificates.

In addition, in the ordinary course of their business activities, the Managers and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of SEC. The Managers and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

UNITED STATES

The Certificates have not been and will not be registered under the Securities Act and may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Each Manager has represented, warranted and agreed that it has not offered or sold, and agreed that it will not offer or sell, any Certificates constituting part of its allotment within the United States except: (i) within the United

States to QIBs, that are also QPs and that agree with the transfer restrictions set forth in this Prospectus, or (ii) to certain persons in offshore transactions in reliance on Regulation S and in accordance with any applicable securities laws of any state or territory of the United States or any other jurisdiction. Accordingly, neither it, its affiliates, nor any persons acting on its behalf has engaged or will engage in any directed selling efforts with respect to the Certificates. Terms used in this paragraph have the meanings given to them by Regulation S.

In addition, until 40 days after the commencement of the offering of the Certificates, an offer or sale of the Certificates within the United States by any dealer that is not participating in the offering of the Certificates may violate the registration requirements of the Securities Act.

UNITED KINGDOM

Each Manager has represented and agreed that:

- (a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000 (**FSMA**)) received by it in connection with the issue or sale of any Certificate in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer or SEC; and
- (b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Certificates in, from or otherwise involving the United Kingdom.

THE UNITED ARAB EMIRATES (EXCLUDING THE DUBAI INTERNATIONAL FINANCIAL CENTRE)

Each Manager has represented and agreed that the Certificates have not been and will not be offered, sold or publicly promoted or advertised by it in the United Arab Emirates other than in compliance with any laws applicable in the United Arab Emirates governing the issue, offering and sale of securities.

THE DUBAI INTERNATIONAL FINANCIAL CENTRE

Each Manager has represented and agreed that it has not offered and will not offer the Certificates to any person in the DIFC unless such offer is:

- (a) an “Exempt Offer” in accordance with the Markets Rules (MKT) module of the Dubai Financial Services Authority (the **DFSA**); and
- (b) made only to persons who meet the Professional Client criteria set out in Rule 2.3.2 of the DFSA Conduct of Business Manual.

THE STATE OF QATAR

Each Manager has represented and agreed that it has not offered or sold, and will not offer or sell, directly or indirectly, any Certificates in the State of Qatar (**Qatar**), except (a) in compliance with all applicable laws and regulations of Qatar and (b) through persons or corporate entities authorised and licensed to provide investment advice and/or engage in brokerage activity and/or trade in respect of foreign securities in Qatar.

SAUDI ARABIA

No action has been or will be taken in the Kingdom of Saudi Arabia (**Saudi Arabia**) that would permit a public offering of the Certificates in Saudi Arabia. The Certificates will only be initially offered and sold in Saudi Arabia through the Managers in accordance with the Offers of Securities Regulations as issued by the board of the Capital Market Authority pursuant to resolution number 2-11-2004 dated 4 October 2004 as amended by resolution number 1-28-2008, as amended (the **CMA Regulations**). The Certificates will be offered in Saudi Arabia to Sophisticated Investors (as defined in the CMA Regulations) in accordance with Articles 9(a)(2) and 10 of the CMA Regulations with each such offeree paying an amount not less than Saudi Riyals 1,000,000 or an equivalent amount in another currency. Each Manager has represented and agreed that the offer of the Certificates will only be directed at Sophisticated Investors.

Investors are informed that Article 17 of the CMA Regulations place restrictions on secondary market activity with respect to the Certificates which are summarised as follows:

- (a) any transfer must be made through an entity licensed by the Capital Market Authority;
- (b) a person (the **transferor**) who has acquired Certificates may not offer or sell such Certificates or part thereof to any person (referred to as a **transferee**) unless (i) the price to be paid by the transferee for such Certificates equals or exceeds Saudi Riyals 1,000,000; or (ii) the transferee is a sophisticated investor (as defined under the CMA Regulations);
- (c) if the provisions of paragraph (b) cannot be fulfilled because the price of the Certificates being offered or sold to the transferee has declined since the date of the original limited offer, the transferor may offer or sell the Certificates to the transferee if their purchase price during the period of the original offer was equal to or exceeded Saudi Riyals 1,000,000;
- (d) if the provisions of (b) and (c) cannot be fulfilled, the transferor may offer or sell the Certificates if he/she sells his entire holding of the Certificates to one transferee; and
- (e) the provisions of paragraphs (b), (c) and (d) shall apply to all subsequent transferees of the Certificates.

BAHRAIN

Each Manager has represented, warranted and undertaken, that it has not offered or sold, and will not offer or sell any Certificates except on a private placement basis to persons in Bahrain who are “accredited investors”

For this purpose, an “accredited investor” means:

- a. an individual holding financial assets (either singly or jointly with a spouse) of U.S.\$1,000,000 or more;
- b. a company, partnership, trust or other commercial undertaking which has financial assets available for investment of not less than U.S.\$1,000,000; or
- c. a government, supranational organisation, central bank or other national monetary authority or a state organisation whose main activity is to invest in financial instruments (such as a state pension fund).

CAYMAN ISLANDS

Each Manager has represented and agreed that no invitation or offer to subscribe for the Certificates has been or will be made to any member of the public of the Cayman Islands.

HONG KONG

Each Manager has represented and agreed that:

- (a) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Certificates other than: (i) to “professional investors” within the meaning of the Securities and Futures Ordinance (Cap. 571) of Hong Kong (the **SFO**) and any rules made under the SFO; or (ii) in other circumstances which do not result in the document being a “prospectus” as defined in the Companies Ordinance (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance; and
- (b) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Certificates, which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the laws of Hong Kong) other than with respect to the Certificates which are or are intended to be disposed of only to persons outside Hong Kong or only to “professional investors” as defined in the SFO and any rules made under the SFO.

SINGAPORE

This Prospectus has not been registered as a prospectus with the Monetary Authority of Singapore under the Securities and Futures Act, Chapter 289 of Singapore (the **SFA**). Accordingly, each Manager has represented and agreed that it has not offered or sold and that it will not offer or sell any Certificates or cause such Certificates to be made the subject of an invitation for subscription or purchase, nor will it circulate or distribute this Prospectus or any other document or material in connection with the offer or sale or invitation for subscription or purchase of the Certificates, whether directly or indirectly, to any person in Singapore other than:

- (a) to an institutional investor pursuant to Section 274 of the SFA;
- (b) to a relevant person, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA; or
- (c) pursuant to, and in accordance with the conditions of, any other applicable provisions of the SFA.

MALAYSIA

Each Manager has represented and agreed that:

- (a) this Prospectus has not been registered as a prospectus with the Securities Commission of Malaysia (the SC) under the Capital Markets and Services Act 2007 of Malaysia. While a copy of this Prospectus will be deposited with the SC, the SC takes no responsibility for its content; and
- (b) accordingly, the Certificates have not been and will not be issued, offered for subscription or purchase, sold or delivered, nor will any invitation to subscribe for or purchase the Certificates be made, directly or indirectly, nor may this Prospectus, any application for the Certificates or any document or other material in connection with this offering, this Prospectus or the Certificates be circulated or distributed in Malaysia, other than to persons falling within Schedule 6 (or Section 229(1)(b)), Schedule 7 (or Section 230(1)(b)) and Schedule 8 (or Section 257(3)) of the Capital Markets and Services Act 2007 of Malaysia, subject to any law, order, regulation, or official directive of the Central Bank of Malaysia, the Securities Commission of Malaysia and/or any other regulatory authority from time to time.

Residents of Malaysia may be required to obtain relevant regulatory approvals including approval from the Controller of Foreign Exchange to purchase the Certificates. The onus is on the Malaysian residents concerned to obtain such regulatory approvals and none of the Managers is responsible for any invitation, offer, sale or purchase of the Certificates as aforesaid without the necessary approvals being in place.

GENERAL

No action has been taken or will be taken in any jurisdiction by the Managers, the Issuer or SEC that would permit a public offering of the Certificates, or possession or distribution of this Prospectus or any supplement hereto or any other offering or publicity material relating to the Certificates, in any country or jurisdiction where action for that purpose is required. Each Manager has undertaken that it will (to the best of its knowledge and belief) comply with all applicable laws and regulations in each jurisdiction in which it purchases, offers, sells or delivers Certificates or has in its possession or distributes this Prospectus or supplement hereto or any other offering or publicity material. Persons into whose possession this Prospectus comes are required by the Issuer, SEC and the Managers to comply with all applicable laws and regulations in each country or jurisdiction in which they purchase, offer, sell or deliver Certificates or have in their possession, distribute or publish this Prospectus or any other offering or publicity material relating to the Certificates, in all cases at their own expense.

TRANSFER RESTRICTIONS

Rule 144A Certificates

Each purchaser of Rule 144A Certificates, by accepting delivery of this Prospectus and the Rule 144A Certificates, will be deemed to have represented, agreed and acknowledged that:

- 1 It is (a) a QIB that is also a QP, (b) not a broker dealer which owns and invests on a discretionary basis less than U.S.\$25 million in securities of unaffiliated issuers, (c) not a participant directed employee plan, such as a 401(k) plan, (d) acquiring such Certificates for its own account or for the account of a QIB, each of which is also a QP, (e) not formed for the purpose of investing in the Certificates or the Issuer, and (f) aware, and each beneficial owner of such Certificates has been advised, that the seller of such Certificates may be relying on Rule 144A.
- 2 It will (a) along with each account for which it is purchasing, hold and transfer interests in the Certificates in a face amount that is not less than U.S.\$200,000 and (b) provide notice of the transfer restrictions set forth herein to any subsequent transferees. In addition, it understands that the Issuer may receive a list of participants holding positions in the Issuer's securities from one or more book entry depositories.
- 3 (i) The Rule 144A Certificates have not been and will not be registered under the Securities Act and the Issuer has not registered and does not intend to register as an investment company under the Investment Company Act and accordingly the Rule 144A Certificates may not be offered, sold, pledged or otherwise transferred except (a) in accordance with Rule 144A to a person whom the transferor, and any person acting on its behalf, reasonably believes is a QIB that is also a QP that is purchasing for its own account or for the account of one or more QIBs, each of which is also a QP, (b) in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S under the Securities Act, (c) pursuant to an exemption from registration under the Securities Act provided by Rule 144 thereunder (if available) or (d) pursuant to an effective registration statement under the Securities Act, in each case in accordance with any applicable securities laws of any State of the United States and (ii) it will, and each subsequent holder of the Rule 144A Certificates is required to, notify any purchaser of the Rule 144A Certificates from it of the resale restrictions on the Rule 144A Certificates.
- 4 It understands that the Issuer has the power to compel any beneficial owner of the Rule 144A Certificates that is a U.S. person and is not a QIB to sell its interest in the Rule 144A Certificates, or may sell such interest on behalf of such owner. The Issuer has the right to refuse to honour the transfer of an interest in the Rule 144A Certificates to a U.S. person who is not a QIB. Any purported transfer of the Rule 144A Certificates to a purchaser that does not comply with the requirements of the transfer restrictions herein will be of no force and effect and will be void ab initio.
- 5 With respect to the Rule 144A Certificates (or any interest therein), the purchaser represents and agrees that either (a) it is not and for so long as it holds a Rule 144A Certificate (or any interest therein) will not be (i) an "employee benefit plan" as defined in Section 3(3) of ERISA that is subject to Title I of ERISA, (ii) a "plan" as defined in and subject to Section 4975 of the Code, (iii) an entity whose underlying assets include the assets of any such employee benefit plan subject to ERISA or other plan subject to Section 4975 of the Code, or (iv) a governmental, church or non-U.S. plan which is subject to any state, local, other federal law of the United States or non-U.S. law that is substantially similar to the provisions of Section 406 of ERISA or Section 4975 of the Code, or (b) its acquisition, holding and disposition of the Rule 144A Certificates will not result in a prohibited transaction under Section 406 of ERISA or Section 4975 of the Code, or, in the case of such a governmental, church or non-U.S. plan, any such substantially similar state, local, other federal law of the United States or non-U.S. law, for which an exemption is not available.
- 6 The Rule 144A Global Certificate, unless the Issuer determines otherwise in accordance with applicable law, will bear a legend in or substantially in the following form:

THIS CERTIFICATE HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE **SECURITIES ACT**), OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND ACCORDINGLY MAY NOT BE

OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT AS SET FORTH IN THE FOLLOWING SENTENCE.

BY ITS ACQUISITION HEREOF, THE HOLDER (1) REPRESENTS THAT (A) (I) IT IS A "QUALIFIED INSTITUTIONAL BUYER" AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT (A "QIB") AND THAT IS A "QUALIFIED PURCHASER" WITHIN THE MEANING OF SECTION 2(a)(51) OF THE U.S. INVESTMENT COMPANY ACT OF 1940, AS AMENDED, ("QP") (II) IT IS NOT A BROKER DEALER WHICH OWNS AND INVESTS ON A DISCRETIONARY BASIS LESS THAN U.S.\$25,000,000 IN SECURITIES OF UNAFFILIATED ISSUERS; (III) IT IS NOT A PARTICIPANT DIRECTED EMPLOYEE PLAN, SUCH AS A 401(k) PLAN; (IV) IT IS HOLDING THE CERTIFICATES REPRESENTED HEREBY FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ONE OR MORE QIBS, EACH OF WHICH IS A QP; WHOM THE HOLDER HAS INFORMED, IN EACH CASE, THAT SUCH OFFER, SALE, PLEDGE OR OTHER TRANSFER IS BEING MADE ON RELIANCE ON RULE 144A UNDER THE SECURITIES ACT, AND IN AN AMOUNT FOR EACH ACCOUNT OF NOT LESS THAN U.S.\$200,000 FACE AMOUNT OF CERTIFICATES, (V) IT WAS NOT FORMED FOR THE PURPOSE OF INVESTING IN THE ISSUER OR THE CERTIFICATES REPRESENTED HEREBY; (VI) IT UNDERSTANDS THAT THE ISSUER MAY RECEIVE A LIST OF PARTICIPANTS HOLDING POSITIONS IN ITS SECURITIES FROM ONE OR MORE BOOK ENTRY DEPOSITARIES AND (VII) IT WILL PROVIDE NOTICE OF THE FOREGOING TRANSFER RESTRICTIONS TO ITS SUBSEQUENT TRANSFEREES; OR (B) IT IS ACQUIRING THE CERTIFICATES REPRESENTED HEREBY IN AN OFFSHORE TRANSACTION IN COMPLIANCE WITH REGULATION S UNDER THE SECURITIES ACT, (2) AGREES THAT IT WILL NOT RESELL OR OTHERWISE TRANSFER THE CERTIFICATES EXCEPT (A) WITHIN THE UNITED STATES TO A PERSON WHOM THE SELLER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER THAT IS ALSO A QP PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ONE OR MORE QUALIFIED INSTITUTIONAL BUYERS, EACH OF WHICH IS A QP IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A UNDER THE SECURITIES ACT, (B) OUTSIDE THE UNITED STATES IN AN OFFSHORE TRANSACTION IN COMPLIANCE WITH RULE 904 OF REGULATION S UNDER THE SECURITIES ACT, (C) PURSUANT TO THE EXEMPTION FROM REGISTRATION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT (IF AVAILABLE) OR (D) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT AND (3) AGREES THAT IT WILL DELIVER TO EACH PERSON TO WHOM THIS CERTIFICATE IS BEING TRANSFERRED A NOTICE SUBSTANTIALLY TO THE EFFECT OF THIS LEGEND.

IF THE BENEFICIAL OWNER HEREOF IS A U.S. PERSON WITHIN THE MEANING OF REGULATION S, SUCH BENEFICIAL OWNER REPRESENTS THAT (1) IT IS A QIB THAT IS ALSO A QP; (2) IT IS NOT A BROKER DEALER WHICH OWNS AND INVESTS ON A DISCRETIONARY BASIS LESS THAN U.S.\$25,000,000 IN SECURITIES OF UNAFFILIATED ISSUERS; (3) IT IS NOT A PARTICIPANT DIRECTED EMPLOYEE PLAN, SUCH AS A 401(k) PLAN; (4) IT IS HOLDING THE CERTIFICATES REPRESENTED HEREBY FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ONE OR MORE QIBs, EACH OF WHICH IS A QP; (5) IT WAS NOT FORMED FOR THE PURPOSE OF INVESTING IN THE ISSUER OR THE CERTIFICATES REPRESENTED HEREBY; (6) IT UNDERSTANDS THAT THE ISSUER MAY RECEIVE A LIST OF PARTICIPANTS HOLDING POSITIONS IN ITS SECURITIES FROM ONE OR MORE BOOK ENTRY DEPOSITARIES AND (7) IT WILL PROVIDE NOTICE OF THE FOREGOING TRANSFER RESTRICTIONS TO ITS SUBSEQUENT TRANSFEREES.

THE BENEFICIAL OWNER HEREOF HEREBY ACKNOWLEDGES THAT IF AT ANY TIME WHILE IT HOLDS AN INTEREST IN THIS NOTE IT IS A U.S. PERSON WITHIN THE MEANING OF REGULATION S THAT IS NOT A QIB AND A QP, THE ISSUER MAY (A) COMPEL IT TO SELL ITS INTEREST IN THIS NOTE TO A PERSON WHO IS (I) A U.S. PERSON WHO IS A QIB AND A QP THAT IS, IN EACH CASE, OTHERWISE QUALIFIED TO PURCHASE THE NOTES REPRESENTED HEREBY IN A

TRANSACTION EXEMPT FROM REGISTRATION UNDER THE SECURITIES ACT OR (II) NOT A U.S. PERSON WITHIN THE MEANING OF REGULATION S OR (B) COMPEL THE BENEFICIAL OWNER TO SELL ITS INTEREST IN THE NOTES REPRESENTED HEREBY TO THE ISSUER OR AN AFFILIATE OF THE ISSUER OR TRANSFER ITS INTEREST IN THIS NOTE TO A PERSON DESIGNATED BY OR ACCEPTABLE TO THE ISSUER AT A PRICE EQUAL TO THE LESSER OF (X) THE PURCHASE PRICE THEREFOR PAID BY THE BENEFICIAL OWNER, (Y) 100 PER CENT. OF THE FACE AMOUNT THEREOF OR (Z) THE FAIR MARKET VALUE THEREOF. THE ISSUER HAS THE RIGHT TO REFUSE TO HONOUR A TRANSFER OF AN INTEREST IN THE NOTES REPRESENTED HEREBY TO A U.S. PERSON WHO IS NOT A QIB AND A QP. THE ISSUER HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE INVESTMENT COMPANY ACT.

THE ISSUER MAY COMPEL EACH BENEFICIAL OWNER OF THE NOTES REPRESENTED HEREBY THAT IS A U.S. PERSON WITHIN THE MEANING OF REGULATIONS TO CERTIFY PERIODICALLY THAT SUCH BENEFICIAL OWNER IS A QIB AND A QP.

AS USED HEREIN, THE TERMS "OFFSHORE TRANSACTION" AND "UNITED STATES" HAVE THE MEANINGS GIVEN TO THEM BY REGULATION S UNDER THE SECURITIES ACT. IN CONNECTION WITH ANY TRANSFER, THE HOLDER WILL DELIVER TO THE REGISTRAR SUCH OPINIONS OF COUNSEL, CERTIFICATES AND/OR OTHER INFORMATION AS IT MAY REASONABLY REQUIRE IN FORM REASONABLY SATISFACTORY TO IT AS PROVIDED FOR IN THE DECLARATION OF TRUST TO CONFIRM THAT THE TRANSFER COMPLIED WITH THE FOREGOING RESTRICTIONS AS PROVIDED FOR IN THE DECLARATION OF TRUST. ANY RESALE OR OTHER TRANSFER OF THIS CERTIFICATE (OR BENEFICIAL INTEREST HEREIN) WHICH IS NOT MADE IN COMPLIANCE WITH THE RESTRICTIONS SET FORTH HEREIN WILL BE OF NO FORCE AND EFFECT, WILL BE NULL AND VOID AB INITIO AND WILL NOT OPERATE TO TRANSFER ANY RIGHTS TO THE TRANSFEREE.

BY ITS ACQUISITION HEREOF, THE HOLDER REPRESENTS THAT EITHER (A) IT IS NOT AND FOR SO LONG AS IT HOLDS THE CERTIFICATES REPRESENTED HEREBY (OR ANY INTEREST HEREIN) WILL NOT BE (I) AN "EMPLOYEE BENEFIT PLAN" AS DEFINED IN SECTION 3(3) OF THE U.S. EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED ("ERISA") THAT IS SUBJECT TO TITLE I OF ERISA, (II) A "PLAN" AS DEFINED IN AND SUBJECT TO SECTION 4975 OF THE U.S. INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE "CODE"), (III) AN ENTITY WHOSE UNDERLYING ASSETS INCLUDE THE ASSETS OF ANY SUCH EMPLOYEE BENEFIT PLAN SUBJECT TO ERISA OR OTHER PLAN SUBJECT TO SECTION 4975 OF THE CODE, OR (IV) A GOVERNMENTAL, CHURCH OR NON-U.S. PLAN WHICH IS SUBJECT TO ANY STATE, LOCAL, OTHER FEDERAL LAW OF THE UNITED STATES OR NON-U.S. LAW THAT IS SUBSTANTIALLY SIMILAR TO THE PROVISIONS OF SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE, OR (B) ITS ACQUISITION, HOLDING AND DISPOSITION OF THE CERTIFICATES REPRESENTED HEREBY WILL NOT RESULT IN A PROHIBITED TRANSACTION UNDER SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE, OR, IN THE CASE OF SUCH A GOVERNMENTAL, CHURCH OR NON-U.S. PLAN, ANY SUCH SUBSTANTIALLY SIMILAR STATE, LOCAL, OTHER FEDERAL LAW OF THE UNITED STATES OR NON-U.S. LAW, FOR WHICH AN EXEMPTION IS NOT AVAILABLE."

- 7 It understands that the Issuer, the Delegate and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements and agrees that, if any of the acknowledgements, representations or agreements deemed to have been made by it by its purchase of Rule 144A Certificates is no longer accurate, it shall promptly notify the Issuer and the Registrar. If it is acquiring any Rule 144A Certificates for the account of one or more QIBs that are QPs, it represents that it has sole investment discretion with respect to each of those accounts and that it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each such account.

Prospective purchasers are hereby notified that sellers of the Rule 144A Certificates may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A.

Regulation S Certificates

Each purchaser of any Certificate represented by the Unrestricted Global Certificate (or beneficial interest therein) and each subsequent purchaser of such Regulation S Certificates in resales prior to the expiration of the distribution compliance period, by accepting delivery of this Prospectus and the Regulation S Certificates will be deemed to have represented, warranted, agreed and acknowledged that:

- 1 It is, or at the time the Regulation S Certificates are purchased will be, the beneficial holder of such Regulation S Certificates and (a) it is located outside the United States (within the meaning of Regulation S) and (b) it is not an affiliate of the Issuer or any person acting on behalf of such affiliate.
- 2 It understands that the Regulation S Certificates have not been and will not be registered under the Securities Act, the Issuer has not registered and does not intend to register as an investment company under the Investment Company Act and that, prior to the expiration of the distribution compliance period, it will not offer, sell, pledge or otherwise transfer such Regulation S Certificates except (a) in accordance with Rule 144A under the Securities Act to a person whom the transferor, and any person acting on its behalf, reasonably believes is a QIB purchasing for its own account, or for the account of one or more QIBs, in a transaction that meets the requirements of Rule 144A and takes delivery in the form of a Rule 144A Certificate or (b) in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S, in each case in accordance with any applicable securities laws of any State of the United States.
- 3 It understands that prior to the expiration of the distribution compliance period, before any interest in an Unrestricted Global Certificate may be offered, resold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in a Restricted Global Certificate, the transferor and/or transferee, as applicable, will be required to provide the relevant Registrar with a written certification substantially in the form set out in the Agency Agreement.
- 4 With respect to the Regulation S Certificates (or any interest therein), the purchaser represents and agrees that it is not and for so long as it holds a Regulation S Certificate (or any interest therein) will not be (i) an “employee benefit plan” as defined in Section 3(3) of ERISA that is subject to Title I of ERISA, (ii) a “plan” as defined in and subject to Section 4975 of the Code, (iii) an entity whose underlying assets include the assets of any such employee benefit plan subject to ERISA or other plan subject to Section 4975 of the Code, or (iv) a governmental, church or non-U.S. plan which is subject to any state, local, other federal law of the United States or non-U.S. law that is substantially similar to the provisions of Section 406 of ERISA or Section 4975 of the Code.
- 5 It understands that the Unrestricted Global Certificate, unless otherwise determined by the Issuer in accordance with applicable law, will bear a legend in or substantially in the following form:

“THIS CERTIFICATE HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE SECURITIES ACT), OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED WITHIN THE UNITED STATES EXCEPT PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT.

BY ITS ACQUISITION HEREOF, THE HOLDER REPRESENTS THAT IT IS NOT AND FOR SO LONG AS IT HOLDS THE CERTIFICATES REPRESENTED HEREBY (OR ANY INTEREST HEREIN) WILL NOT BE (A) AN “EMPLOYEE BENEFIT PLAN” AS DEFINED IN SECTION 3(3) OF THE U.S. EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED (“ERISA”) THAT IS SUBJECT TO TITLE I OF ERISA, (B) A “PLAN” AS DEFINED IN AND SUBJECT TO SECTION 4975 OF THE U.S. INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE “CODE”), (III) AN ENTITY WHOSE UNDERLYING ASSETS INCLUDE THE ASSETS OF ANY SUCH EMPLOYEE BENEFIT PLAN SUBJECT TO ERISA OR OTHER PLAN SUBJECT TO SECTION 4975 OF THE CODE, OR (IV) A GOVERNMENTAL, CHURCH OR NON-U.S.

PLAN WHICH IS SUBJECT TO ANY STATE, LOCAL, OTHER FEDERAL LAW OF THE UNITED STATES OR NON-U.S. LAW THAT IS SUBSTANTIALLY SIMILAR TO THE PROVISIONS OF SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE.”

It understands that the Issuer, the Delegate and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements.

TAXATION AND ZAKAT

*The statements herein regarding taxation/zakat are based on the laws in force in the United States, the Kingdom of Saudi Arabia (**Saudi Arabia**) and the Cayman Islands and elsewhere as at the date of this Prospectus and are subject to any changes in law occurring after such date, which changes could be made on a retroactive basis.*

The following summary does not purport to be a comprehensive description of all the tax/zakat considerations which may be relevant to a decision to subscribe for, purchase, own or dispose of the Certificates and does not purport to deal with the tax/zakat consequences applicable to all categories of investors, some of which (such as dealers in securities or commodities) may be subject to special rules. Prospective purchasers of the Certificates are advised to consult their own tax/zakat advisers concerning the overall tax/zakat consequences of their ownership of the Certificates.

UNITED STATES

U.S. FEDERAL INCOME TAXATION

TO ENSURE COMPLIANCE WITH U.S. INTERNAL REVENUE SERVICE (IRS) CIRCULAR 230, EACH TAXPAYER IS HEREBY NOTIFIED THAT: (A) ANY TAX DISCUSSION HEREIN IS NOT INTENDED OR WRITTEN TO BE USED, AND CANNOT BE USED BY THE TAXPAYER FOR THE PURPOSE OF AVOIDING U.S. FEDERAL INCOME TAX PENALTIES THAT MAY BE IMPOSED ON THE TAXPAYER; (B) ANY SUCH TAX DISCUSSION WAS WRITTEN TO SUPPORT THE PROMOTION OR MARKETING OF THE TRANSACTIONS OR MATTERS ADDRESSED HEREIN; AND (C) THE TAXPAYER SHOULD SEEK ADVICE BASED ON THE TAXPAYER'S PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISER.

The following is a summary of certain U.S. federal income tax considerations relevant to U.S. Holders (as defined below) acquiring, holding and disposing of Certificates. This summary addresses only the U.S. federal income tax considerations for initial purchasers of Certificates at their original issue price that will hold the Certificates as capital assets (generally, property held for investment). This summary is based on the U.S. Internal Revenue Code of 1986, as amended (the **Code**), final, temporary and proposed U.S. Treasury regulations, administrative and judicial interpretations, all of which are subject to change, possibly with retroactive effect.

This summary does not discuss all aspects of U.S. federal income taxation that may be relevant to investors in light of their particular circumstances, such as investors subject to special tax rules (including, without limitation: (i) financial institutions; (ii) insurance companies; (iii) dealers or traders in stocks, securities, or currencies or notional principal contracts; (iv) regulated investment companies; (v) real estate investment trusts; (vi) tax-exempt organisations; (vii) partnerships, pass-through entities, or persons that hold Certificates through pass-through entities; (viii) investors that hold Certificates as part of a straddle, hedge, conversion, constructive sale or other integrated transaction for U.S. federal income tax purposes; (ix) investors that have a functional currency other than the U.S. Dollar and (x) U.S. expatriates and former long-term residents of the United States), all of whom may be subject to tax rules that differ significantly from those summarised below. This summary does not address U.S. federal estate, gift or alternative minimum tax considerations, or non-U.S., state or local tax considerations.

For the purposes of this summary, a U.S. Holder is a beneficial owner of Certificates that is for U.S. federal income tax purposes (i) an individual who is a citizen or resident of the United States, (ii) a corporation created in, or organised under, the laws of the United States or any state thereof, including the District of Columbia, (iii) an estate the income of which is includible in gross income for U.S. federal income tax purposes regardless of its source or (iv) a trust that is subject to U.S. tax on its worldwide income regardless of its source.

Classification of the Lease Arrangements and the Certificates

The Issuer intends to treat the Certificates under the rules applicable to debt instruments for U.S. tax purposes. Under this characterization, U.S. Holders will not be required to take account of income and expenses incurred at the level of the Trust.

Periodic Distribution Amounts

It is expected, and this discussion assumes, that either the issue price of the Certificates will equal the stated principal amount of the Certificates, or the Certificates will be issued with no more than a de minimis amount of original issue discount. Therefore, a Periodic Distribution Amount on a

Certificate, including the payment of any additional amounts, will be taxable to a U.S. Holder as interest income at the time it is received or accrued, in accordance with the U.S. Holder's method of accounting for tax purposes. A Periodic Distribution Amount on a Certificate and payments of any additional amounts will generally constitute income from sources outside the United States.

Subject to certain conditions and limitations, foreign taxes, if any, withheld on Periodic Distribution Amounts may be treated as foreign taxes eligible for credit against a U.S. Holder's U.S. federal income tax liability. The limitation on foreign taxes eligible for the U.S. foreign tax credit is calculated separately with respect to specific "baskets" of income. Periodic Distribution Amounts on the Certificates generally will constitute "passive category income," or, in the case of certain U.S. Holders, "general category income." As an alternative to the tax credit, a U.S. Holder may elect to deduct such taxes (the election would then apply to all foreign income taxes such U.S. Holder paid in that taxable year). The rules governing the foreign tax credit are complex. U.S. Holders should consult their tax advisers regarding the availability of the foreign tax credit under their particular circumstances.

Sale or Other Disposition of Certificates

A U.S. Holder will generally recognize taxable gain or loss on the sale or other disposition of a Certificate equal to the difference between the amount realized on the sale or other disposition, other than accrued but unpaid Periodic Distribution Amounts which will be taxable as interest, and the U.S. Holder's adjusted tax basis in the Certificate. A U.S. Holder's adjusted tax basis in a Certificate generally will equal the cost of the Certificate to such U.S. Holder, and any gain or loss recognized on the sale or other disposition of such Certificate will be capital gain or loss. In the case of a U.S. Holder that is an individual, estate or trust, the maximum marginal federal income tax rate applicable to capital gains is currently lower than the maximum marginal rate applicable to ordinary income if the Certificates are held for more than one year. The deductibility of capital losses is subject to significant limitations.

Any gain or loss realized on the sale, exchange, retirement or other disposition of a Certificate generally will be treated as U.S. source gain or loss, as the case may be. Consequently, a U.S. Holder may not be able to claim a credit for any foreign tax imposed upon the sale, exchange, retirement or other disposition of Certificates unless such credit can be applied (subject to applicable limitations) against tax due on other income in the same category treated as derived from foreign sources.

Potential Alternative Characterization

The Issuer believes that it is appropriate to treat the Certificates as representing debt obligations of SEC and intends to do so. However, the IRS may seek to characterize the Certificates as interests in a grantor trust for U.S. federal income tax purposes. Under this characterization, while the taxation of the income, gain or loss attributable to the Certificates would be essentially the same as the consequences described above, the Issuer and U.S. Holders would be subject to certain information reporting applicable to foreign trusts. U.S. Holders that fail to comply with these information reporting requirements in a timely manner could be subject to significant penalties, including a penalty of up to 35% of the amount paid for a Certificate and 35% of distributions received from the Issuer. Moreover, a U.S. Holder that fails to file the appropriate information return within 90 days after the date on which the IRS mails notice of such failure to the holder may be liable for a penalty (in addition to the penalty described in the preceding sentence) of U.S.\$10,000 for each 30-day period (or fraction thereof) during which such failure continues after the expiration of such 90-day period. A U.S. Holder could also be liable for penalties equal to 5% of the gross value of the portion of the trust owned by a U.S. Holder at the close of the year, if the Issuer failed to file a U.S. annual information return and provide each U.S. Holder with a foreign grantor trust owner statement. Similar penalties would be applicable to the Issuer for failure to comply. The Issuer does not expect that it will provide information that would allow either itself or U.S. Holders to comply with foreign trust reporting obligations if they were determined to be applicable. U.S. Holders should consult their own tax advisers as to the potential application of the foreign trust reporting rules and the tax consequences generally with respect to an investment in the Certificates.

Backup Withholding and Information Reporting

In general, payments of principal, interest, and the proceeds of a sale or other disposition of, the Certificates, payable to a U.S. Holder by a U.S. paying agent or other U.S. intermediary will be reported to the IRS and to the U.S. Holder as may be required under applicable regulations. Backup

withholding will apply to these payments if the U.S. Holder fails to provide an accurate taxpayer identification number or certification of exempt status or otherwise to comply with the applicable backup withholding requirements.

Certain U.S. Holders are not subject to backup withholding.

Individual U.S. Holders may be required to report to the IRS certain information with respect to their beneficial ownership of the Certificates not held through an account with a financial institution. Investors who fail to report required information could be subject to substantial penalties.

SAUDI ARABIA

A. GCC Certificateholders which are GCC person resident in Saudi Arabia

Certificateholders who are GCC person resident in Saudi Arabia, except for (a) and (b) below are not subject to Saudi Arabian tax, whether by withholding or direct assessment, in respect of any payment or gain realized in respect of the Certificates.

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

- (a) a citizen of a GCC country with a permanent residence in Saudi Arabia; and
- (b) a legal entity established under the law of a GCC country other than Saudi Arabia, with a Permanent Establishment (PE) in Saudi Arabia.

In the following paragraphs we provide below the taxability of a citizen of a GCC and GCC legal entity with a PE in Saudi Arabia as follows:

- (i) *a citizen of a GCC country with a permanent residence in Saudi Arabia*

A citizen of a GCC country with permanent residence will not be subject to zakat and tax, whether by withholding or direct assessment, in respect of payments in the nature of profits or gain realized in respect of the Certificates.

- (ii) *a legal entity established under the law of a GCC country other than Saudi Arabia, with a Permanent Establishment (PE) in Saudi Arabia.*

A legal entity of a GCC country having a PE in Saudi Arabia (i.e. a branch of a GCC legal entity), will be subject to Saudi Arabian corporate tax on a PE's income, including income from the Certificates which is attributable to a PE.

All payments in the nature of profit (except capital gains arising from disposal of certificates traded on Saudi stock exchange) in respect of the Certificates to the above Certificateholder will be part of the Certificateholder's gross income, if such payment is attributable to the PE. The gross income less deduction of allowable costs and certain other adjustments will be subject to income tax at the current rate of 20%. Furthermore, the transfer of profit to the head office is considered distribution of profit and will be subject to 5% withholding tax.

GCC person means (a) a citizen of any of the member countries of the Cooperation Council of the Arab States of the Gulf (namely, Saudi Arabia, the United Arab Emirates, the Kingdom of Bahrain, the Sultanate of Oman, the State of Qatar and the State of Kuwait) and (b) any legal entity owned by GCC citizens and established under the laws of a GCC country.

B. Certificateholders which are non-GCC person resident in Saudi Arabia

Certificateholders who is a non-GCC person resident in Saudi Arabia, as defined in Article 3 of the Income Tax Regulation issued under Royal Decree No. M/1 dated 15/01/1425H (the **Income Tax Regulation**), will be subject to corporate tax.

All payments in the nature of profit (except capital gains arising from disposal of certificates traded on Saudi stock exchange) in respect of the Certificates to the above Certificateholder will be part of the Certificateholder's gross income. The gross income less deduction of allowable costs and certain other adjustments will be subject to corporate tax at the current rate of 20%. Article 3 of the Income Tax Regulation defines Residency as follows:

- (a) A natural person is considered a resident in Saudi Arabia for a taxable year if he meets either of the two following conditions:
 - (i) he has a permanent place of residence in Saudi Arabia and resides in Saudi Arabia for a total of not less than thirty (30) days in the taxable year; or

- (ii) he resides in Saudi Arabia for a period of not less than one hundred eighty three (183) days in the taxable year.

For the purposes of this paragraph, residence in Saudi Arabia for part of a day is considered residence for the whole day, except in the case of a person in transit between two points outside Saudi Arabia.

- (b) A company is considered resident in Saudi Arabia during the taxable year if it meets either of the following conditions:
 - (i) it is formed in accordance with the Companies Law; or
 - (ii) its central management is located in Saudi Arabia.

Non-GCC person means a citizen or a legal entity other than GCC person mentioned in A above.

C. Certificateholders who are non-resident in Saudi Arabia

1. Certificateholders who are not residents in Saudi Arabia (whether such Certificateholders are Saudi Arabian citizens or not Saudi Arabian citizens including Certificateholders resident in GCC) will be subject to 5% withholding tax on all payments in the nature of profit in respect of the Certificates.

In few limited instances, Certificateholders may claim a refund of the withholding taxes where a double tax treaty is in place between Saudi Arabia and the country where the certificateholder has a tax residence and where such treaty provides for exemption/refund.

The capital gains arising from the disposal of certificates (if not traded on the Saudi stock exchange) will be subject to 20% capital gains tax.

2. Certificateholders who are non residents with a PE in Saudi Arabia (as defined in Article 4 of the Income Tax Regulation), will be subject to Saudi Arabian corporate tax on a PE's income, including income from the Certificates which is attributable to a PE.

The payments in the nature of profit in respect of the Certificates to the above Certificateholders will result in same tax implications as mentioned in item A (ii) above.

Subject to the exceptions stipulated in the Income Tax Regulation, PE includes a permanent enterprise of a non-resident in Saudi Arabia which represents a permanent place for the non-resident's activity where it conducts the activity either fully or partly; this also includes the activity conducted by the non-resident through a dependent agent (**dependent agent** having the meaning specified in the Income Tax Regulation).

D. General

Certificateholders who are natural persons at the time of their death will not be subject to inheritance or other taxes of a similar nature in Saudi Arabia.

Certificateholders will not be deemed to be resident, domiciled or carrying on business in Saudi Arabia solely by reason of holding any Certificates.

Under the zakat regulations which are in effect as the date of this Prospectus in Saudi Arabia, long term investments in Certificates are not deductible from the zakat base of the investor.

CAYMAN ISLANDS

There are no income, corporation, capital gains or other taxes in effect in the Cayman Islands on the basis of present legislation. The Issuer has applied for and expects to obtain an undertaking from the Governor-in-Cabinet of the Cayman Islands, pursuant to the Tax Concessions Law (as amended) of the Cayman Islands, that for a period of 20 years from the date of grant of that undertaking no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciation shall apply to the Issuer or its operations and, in addition, that no tax to be levied on profits, income, gains or appreciations which is in the nature of estate duty or inheritance tax shall be payable on or in respect of the shares, debentures or other obligations (which would include the Certificates) of the Issuer or by way of the withholding in whole or part of any relevant payment (as defined in the Tax Concessions Law (as amended)). No capital or stamp duties are levied in the Cayman Islands on the issue or redemption of Certificates. An instrument of transfer in respect of Certificates may be stampable if executed in or brought to the Cayman Islands. An annual registration fee is payable by the Issuer to the Cayman Islands Registry of Companies which is calculated by reference to the nominal amount of its authorised capital. At current rates, this annual

registration fee is approximately U.S.\$853.66. The foregoing is based on current law and practice in the Cayman Islands and this is subject to change therein.

EUROPEAN UNION SAVINGS DIRECTIVE

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

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

If a payment were to be made or collected through a Member State which has opted for a withholding system and an amount of or in respect of tax were to be withheld from that payment, neither the Issuer nor any Paying Agent nor any other person would be obliged to pay additional amounts with respect to Certificates as a result of the imposition of such withholding tax. The Issuer is required to maintain a Paying Agent in a member state that is not obliged to withhold or deduct tax pursuant to the Directive, or to maintain a Paying Agent with a specified office outside the European Union if there is no member state that is not obliged to withhold or deduct tax pursuant to such directive or law.

CERTAIN ERISA CONSIDERATIONS

Unless otherwise provided in any supplement to this Prospectus, the Certificates should be eligible for purchase by employee benefit plans and other plans subject to Title I of the U.S. Employee Retirement Income Security Act of 1974, as amended (**ERISA**), and/or the provisions of Section 4975 of the Code and by governmental, church and non-U.S. plans that are subject to state, local, other federal law of the United States or non-U.S. law that is substantially similar to ERISA or the Code (**Similar Law**) subject to consideration of the issues described in this section. ERISA imposes certain requirements on “employee benefit plans” (as defined in Section 3(3) of ERISA) subject to ERISA, including entities such as collective investment funds and separate accounts whose underlying assets include the assets of such plans (collectively, **ERISA Plans**), and on those persons who are fiduciaries with respect to ERISA Plans. Investments by ERISA Plans are subject to ERISA’s general fiduciary requirements, including the requirements of investment prudence and diversification and the requirement that an ERISA Plan’s investments be made in accordance with the documents governing the ERISA Plan. The prudence of a particular investment must be determined by the responsible fiduciary of an ERISA Plan by taking into account the ERISA Plan’s particular circumstances and all of the facts and circumstances of the investment including, but not limited to, the matters discussed under “*Risk Factors*”.

Section 406 of ERISA and Section 4975 of the Code prohibit certain transactions involving the assets of an ERISA Plan (as well as those plans that are not subject to ERISA but which are subject to Section 4975 of the Code, such as individual retirement accounts (together with ERISA Plans, the **Plans**)) and certain persons (referred to as **parties in interest** or **disqualified persons**) having certain relationships to such Plans, unless a statutory or administrative exemption is applicable to the transaction. A party in interest or disqualified person, including a Plan fiduciary, who engages in a prohibited transaction may be subject to excise taxes and other penalties and liabilities under ERISA and the Code.

The Issuer, SEC, the Managers, the Trustee, the Delegate or any other party to the transactions referred to in this Prospectus may be parties in interest or disqualified persons with respect to many Plans. Prohibited transactions within the meaning of Section 406 of ERISA or Section 4975 of the Code may arise if any of the Certificates is acquired or held by a Plan, including but not limited to where the Issuer, SEC, the Managers, the Trustee, the Delegate or any other party to such transactions is a party in interest or a disqualified person. Certain exemptions from the prohibited transaction provisions of Section 406 of ERISA and Section 4975 of the Code may be applicable, however, depending in part on the type of Plan fiduciary making the decision to acquire any Certificates and the circumstances under which such decision is made. Included among these exemptions are Section 408(b)(17) of ERISA and Section 4975(d)(20) of the Code (relating to transactions between a person that is a party in interest or disqualified person (other than a fiduciary or an affiliate that has or exercises discretionary authority or control or renders investment advice with respect to assets involved in the transaction) solely by reason of providing services to the plan, provided that there is adequate consideration for the transaction), Prohibited Transaction Class Exemption (**PTCE**) 91-38 (relating to investments by bank collective investment funds), PTCE 84-14 (relating to transactions effected by a qualified professional asset manager), PTCE 95-60 (relating to transactions involving insurance company general accounts), PTCE 90-1 (relating to investments by insurance company pooled separate accounts) and PTCE 96-23 (relating to transactions determined by in-house asset managers). Prospective investors should consult with their advisers regarding the prohibited transaction rules and these exceptions. There can be no assurance that any of these exemptions or any other exemption will be available with respect to any particular transaction involving any Certificates.

Governmental plans (as defined in Section 3(32) of ERISA), certain church plans (as defined in Section 3(33) of ERISA) and non-U.S. plans (as described in Section 4(b)(4) of ERISA), while not subject to the fiduciary responsibility provisions of ERISA or the prohibited transaction provisions of Section 406 of ERISA and Section 4975 of the Code, may nevertheless be subject to Similar Law. Fiduciaries of any such plans should consult with their counsel before purchasing the Certificates to determine the need for, if necessary, and the availability of, any exemptive relief under any Similar Law.

In addition, the U.S. Department of Labor has promulgated a regulation, 29 C.F.R. Section 2510.3-101, as modified by Section 3(42) of ERISA (the **Plan Asset Regulation**), describing what constitutes the assets of a Plan with respect to the Plan’s investment in an entity for purposes of certain

provisions of ERISA, including the fiduciary responsibility provisions of Title I of ERISA, and Section 4975 of the Code. Under the Plan Asset Regulation, if a Plan invests in an equity interest of an entity that is neither a publicly-offered security nor a security issued by an investment company registered under the Investment Company Act, the Plan's assets include both the equity interest and an undivided interest in each of the entity's underlying assets, unless one of the exceptions to such treatment described in the Plan Asset Regulation applies. Under the Plan Asset Regulation, a security which is in the form of debt may be considered an equity interest if it has substantial equity features. If the Group was deemed under the Plan Asset Regulation to hold plan assets by reason of a Plan's investment in any of the Certificates, such plan assets would include an undivided interest in the assets held by the Group and transactions by the Group would be subject to the fiduciary responsibility provisions of Title I of ERISA and the prohibited transaction provisions of ERISA and Section 4975 of the Code. The Plan Asset Regulation provides, however, that if equity participation in any entity by **Benefit Plan Investors** is not significant, then the "look-through" rule will not apply to such entity. The term "Benefit Plan Investors" is defined in the Plan Asset Regulation to include (1) any employee benefit plan (as defined in Section 3(3) of ERISA) subject to Title I of ERISA, (2) any plan described in Section 4975(e)(1) of the Code, and (3) any entity whose underlying assets include "plan assets" by reason of any such employee benefit plan or plan's investment in the entity. Equity participation by Benefit Plan Investors in any entity is significant if, immediately after the most recent acquisition of any equity interest in the entity, 25% or more of the value of any class of equity interests in the entity (excluding the value of any interests held by certain persons, other than Benefit Plan Investors, exercising discretionary authority or control over the assets of the entity or providing investment advice to the entity for a fee or any affiliates of such persons) is held by Benefit Plan Investors. If, as a result of any investment, 25% or more of the value of any class of equity interests in the Issuer is being held by Benefit Plan Investors, the applicable Certificates may be redeemed by the Issuer. While there is little pertinent authority in this area and no assurance can be given, the Issuer believes that the Certificates should not be treated as equity interests for the purposes of the Plan Asset Regulation and, therefore, the Plan Asset Regulation should not apply and any such redemptions would not be necessary.

Accordingly, except as otherwise provided in any supplement to this Prospectus, each purchaser and subsequent transferee of any Certificates will represent and warrant, on each day from the date on which the purchaser or transferee acquires such Certificates (or any interest therein) through and including the date on which the purchaser or transferee disposes of such Certificates (or any interest therein), either that (a) it is not a Benefit Plan Investor or a governmental, church or non-U.S. plan which is subject to any Similar Law or (b) it is a Benefit Plan Investor and its acquisition, holding and disposition of such Certificates (or any interest therein) will not constitute or result in a prohibited transaction under Section 406 of ERISA or Section 4975 of the Code (or, in the case of a governmental, church or non-U.S. plan subject to Similar Law, a violation of any Similar Law) for which an exemption is not available.

Each Plan fiduciary who is responsible for making the investment decisions whether to purchase or commit to purchase and to hold any of the Certificates should determine whether, under the documents and instruments governing the Plan, an investment in such Certificates is appropriate for the Plan, taking into account the overall investment policy of the Plan and the composition of the Plan's investment portfolio. Any Plan proposing to invest in such Certificates (including any governmental, church or non-U.S. plan) should consult with its counsel to confirm that such investment will not constitute or result in a non-exempt prohibited transaction and will satisfy the other requirements of ERISA and the Code (or, in the case of a governmental, church or non-U.S. plan, any Similar Law).

The sale of any Certificates to a Plan is in no respect a representation by the Issuer, SEC, the Managers, the Trustee, the Delegate or any other party to the transactions that such an investment meets all relevant legal requirements with respect to investments by Plans generally or any particular Plan, or that such an investment is appropriate for Plans generally or any particular Plan.

Any further ERISA considerations with respect to the Certificates may be found in the relevant supplement.

LEGAL MATTERS

The validity of the Certificates and certain other matters with respect to the Certificates offered hereby will be passed on for the SEC Group by Zeyad S. Khoshaim Law Firm in association with Allen & Overy LLP as to matters of Saudi Arabian law and Allen & Overy LLP as to matters of English law and U.S. federal law. The validity of the Certificates and certain other matters with respect to the Certificates offered hereby will be passed on for the Managers by the Law Office of Salman M. Al-Sudairi in association with Latham & Watkins LLP as to matters of Saudi Arabian law and by Latham & Watkins LLP as to matters of English law and U.S. federal law.

INDEPENDENT AUDITORS

The consolidated financial statements of the SEC Group as at and for the year ended 31 December 2012 and the financial statements of SEC as at and for the year ended 31 December 2011 included in this Prospectus have been audited by Ernst & Young, independent auditors, as stated in their reports included herein. Ernst & Young is regulated in Saudi Arabia by SOCPA and the Ministry of Commerce and Industry. The current address of Ernst & Young is Al Faisaliah Office Tower, Level 14, P.O. Box 2732, Riyadh – 11461, Kingdom of Saudi Arabia.

GENERAL INFORMATION

AUTHORISATION

The issue of the Certificates has been duly authorised by a resolution of the Board of Directors of the Issuer dated 28 March 2013. The Issuer has obtained all necessary consents, approvals and authorisations in the Cayman Islands in connection with the issue and performance of the Certificates and the execution and performance of the Transaction Documents. The entry into the Transaction Documents has been duly authorised by a resolution of the Board of Directors of SEC on 25 February 2013.

LISTING

Application has been made to the Irish Stock Exchange for the Certificates to be admitted to the Official List and trading on the Main Securities Market. The listing of the Certificates is expected to be granted on or before 9 April 2013.

DOCUMENTS AVAILABLE

For so long as any Certificates remain outstanding, copies (and English translations where the documents in question are not in English) of the following documents will be available, during usual business hours on any weekday (Saturdays, Sundays and public holidays excepted), for inspection at the offices of the Issuer and the Paying Agent in London in electronic form:

- (a) the Transaction Documents;
- (b) the Memorandum and Articles of Association of the Issuer;
- (c) the constitutional documents of SEC;
- (d) the audited financial statements of SEC in respect of the two financial years ended 31 December 2011 and 31 December 2012; and
- (e) this Prospectus.

CLEARING SYSTEMS

The Regulation S Certificates have been accepted for clearance through Euroclear and Clearstream, Luxembourg (which are the entities in charge of keeping the records). The ISIN for the 2023 Regulation S Certificates is XS0908512410. The Common Code for the 2023 Regulation S Certificates is 090851241. The ISIN for the 2043 Regulation S Certificates is XS0911024635. The Common Code for the 2043 Regulation S Certificates is 091102463.

The Rule 144A Certificates have been accepted for clearance through DTC (which is the entity in charge of keeping the records). The ISIN for the 2023 Rule 144A Certificates is US804133AA45. The CUSIP for the 2023 Rule 144A Certificates is 804133AA4. The ISIN for the 2043 Rule 144A Certificates is US804133AB28. The CUSIP for the 2043 Rule 144A Certificates is 804133AB2.

The address of Euroclear is Euroclear Bank SA/NV, 1 Boulevard du Roi Albert II, B-1210 Brussels and the address of Clearstream is Clearstream Banking, 42 Avenue JF Kennedy, L-1855 Luxembourg. The address of DTC is 55 Water Street, New York, New York U.S.A. 10041.

SIGNIFICANT OR MATERIAL CHANGE

There has been no significant change in the financial or trading position of the Issuer and no material adverse change in the prospects of the Issuer, in each case, since the date of its incorporation.

There has been no significant change in the financial or trading position of SEC and its subsidiaries, taken as a whole since 31 December 2012 and there has been no material adverse change in the prospects of SEC and its subsidiaries, taken as a whole, since 31 December 2012.

LITIGATION

The Issuer is not and has not been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) in the 12 months preceding the date of this document which may have or have in such period had a significant effect on the financial position or profitability of the Issuer.

SEC is not and has not been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which SEC is aware) in the

12 months preceding the date of this document which may have or have in such period had a significant effect on the financial position or profitability of SEC.

AUDITORS

The first financial period of the Issuer will end on 31 December 2013. The Issuer has no subsidiaries. The Issuer is not required by Cayman Islands law, and does not intend, to publish audited financial statements or appoint any auditors.

The financial statements of SEC for the years ended 31 December 2011 and 31 December 2012 included in this Prospectus have each been audited in accordance with auditing standards generally accepted in the Kingdom of Saudi Arabia by Ernst & Young, as stated in their reports appearing herein.

EXPENSES

The total expenses relating to the issue of each Series are expected to amount to €5,190.

SHARI'AH ADVISORY BOARD

The transaction structure relating to the Certificates (as described in this Prospectus) has been approved by the HSBC Amanah Central *Shari'ah* Committee and Dr. Hussein Hamid Hassan, the *Shari'ah* advisor of Deutsche Bank AG, London Branch. Prospective Certificateholders should not rely on the approval referred to above in deciding whether to make an investment in the Certificates and should consult their own *Shari'ah* advisers as to whether the proposed transaction described in the approval referred to above is in compliance with *Shari'ah* principles.

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**Saudi Electricity Company
(A Saudi Joint Stock Company)**

**CONSOLIDATED FINANCIAL STATEMENTS AND
AUDITORS' REPORT**

FOR THE YEAR ENDED 31 DECEMBER 2012

Saudi Electricity Company
(A Saudi Joint Stock Company)

CONSOLIDATED FINANCIAL STATEMENTS AND AUDITORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2012

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**AUDITORS' REPORT TO THE SHAREHOLDERS OF
SAUDI ELECTRICITY COMPANY
(A Saudi Joint Stock Company)**

Scope of audit

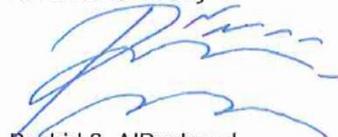
We have audited the accompanying consolidated balance sheet of Saudi Electricity Company ("the Company") - a Saudi joint stock company and its subsidiaries ("the Group") as at 31 December 2012 and the related consolidated statements of income, cash flows and changes in shareholders' equity for the year then ended. These consolidated financial statements are the responsibility of the Group's management and have been prepared by them in accordance with the provisions of Article 123 of the Regulations for Companies and submitted to us together with all the information and explanations which we required. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the Kingdom of Saudi Arabia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable degree of assurance to enable us to express an opinion on the consolidated financial statements.

Unqualified opinion

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

- i) present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2012 and the consolidated results of its operations and its cash flows for the year then ended in accordance with accounting standards generally accepted in the Kingdom of Saudi Arabia.
- ii) comply with the requirements of the Regulations for Companies and the Company's by-laws in so far as they affect the preparation and presentation of the consolidated financial statements.

for Ernst & Young


Rashid S. AlRashoud
Certified Public Accountant
Registration No. 366



Riyadh: : 14 Rabi Thani 1434H
(24 February 2013)

Saudi Electricity Company
(A Saudi Joint Stock Company)

CONSOLIDATED BALANCE SHEET

AS AT 31 DECEMBER 2012

(In Thousands Saudi Riyals)

| | <i>Note</i> | <u>2012</u> | <u>2011</u> |
|--|-------------|--------------------|--------------------|
| ASSETS | | | |
| CURRENT ASSETS | | | |
| Cash and cash equivalents | 4 | 3,045,786 | 7,306,624 |
| Receivables from electricity consumers and accrued revenues, net | 5 | 13,427,260 | 12,027,200 |
| Prepayments and other receivables, net | 6 | 5,193,853 | 4,853,625 |
| Inventories, net | 7 | 5,821,473 | 5,562,850 |
| TOTAL CURRENT ASSETS | | <u>27,488,372</u> | <u>29,750,299</u> |
| NON-CURRENT ASSETS | | | |
| Loan to an associated company | | 365,500 | 365,500 |
| Equity investments in companies and others | 8 | 2,190,812 | 2,404,542 |
| Construction work in progress | 9 | 39,889,549 | 22,260,811 |
| Fixed assets, net | 10 | 168,652,100 | 158,673,259 |
| TOTAL NON-CURRENT ASSETS | | <u>211,097,961</u> | <u>183,704,112</u> |
| TOTAL ASSETS | | <u>238,586,333</u> | <u>213,454,411</u> |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | |
| CURRENT LIABILITIES | | | |
| Accounts payable | 11 | 34,509,177 | 26,241,202 |
| Accruals and other payables | 12 | 4,735,729 | 4,605,942 |
| Short term loans and current portion of long-term loans | 14 | 1,468,000 | 3,133,100 |
| Sukuk | 15 | - | 5,000,000 |
| TOTAL CURRENT LIABILITIES | | <u>40,712,906</u> | <u>38,980,244</u> |
| NON-CURRENT LIABILITIES | | | |
| Long-term loans | 14 | 12,196,986 | 13,581,788 |
| Sukuk | 15 | 20,562,990 | 14,000,000 |
| Employees' indemnities | 16 | 5,168,181 | 4,838,509 |
| Deferred revenues, net | 17 | 22,289,701 | 20,469,575 |
| Consumers' refundable deposits | | 1,453,806 | 1,367,628 |
| Government loans | 18 | 23,374,496 | 18,845,211 |
| Long-term Government payables | 19 | 58,487,223 | 49,046,508 |
| Change in fair value of hedging contracts | 20 | 370,748 | 431,870 |
| TOTAL NON-CURRENT LIABILITIES | | <u>143,904,131</u> | <u>122,581,089</u> |
| TOTAL LIABILITIES | | <u>184,617,037</u> | <u>161,561,333</u> |
| SHAREHOLDERS' EQUITY | | | |
| Share capital | 21 | 41,665,938 | 41,665,938 |
| Statutory reserve | | 1,810,599 | 1,554,492 |
| General reserve | 22 | 540,330 | 538,343 |
| Retained earnings | 26/30 | 10,323,177 | 8,566,175 |
| Net change in fair value of hedging contracts | 20 | (370,748) | (431,870) |
| TOTAL SHAREHOLDERS' EQUITY | | <u>53,969,296</u> | <u>51,893,078</u> |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | | <u>238,586,333</u> | <u>213,454,411</u> |

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

Saudi Electricity Company
(A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF INCOME
FOR THE YEAR ENDED 31 DECEMBER 2012
(In Thousands Saudi Riyals)

| | <i>Note</i> | <u>2012</u> | <u>2011</u> |
|--|-------------|---------------------|--------------|
| OPERATING REVENUES | | | |
| Electricity sales | | 31,101,888 | 28,280,494 |
| Meter reading, maintenance and bills preparation tariff | | 937,529 | 883,059 |
| Electricity connection tariff | 17 | 1,515,790 | 1,330,533 |
| Other operating revenues | | 91,052 | 75,512 |
| TOTAL OPERATING REVENUES | | 33,646,259 | 30,569,598 |
| COST OF SALES | | | |
| Fuel | | (6,228,717) | (5,771,379) |
| Purchased energy | 29/c | (4,565,148) | (4,256,237) |
| Operations and maintenance | 23 | (8,726,637) | (8,238,710) |
| Depreciation – Operations and maintenance | 10 | (10,522,344) | (9,601,779) |
| TOTAL COST OF SALES | | (30,042,846) | (27,868,105) |
| GROSS PROFIT FOR THE YEAR | | 3,603,413 | 2,701,493 |
| General and administrative expenses | 24 | (390,448) | (434,537) |
| Depreciation - General and administrative | 10 | (313,537) | (335,281) |
| INCOME FROM OPERATING ACTIVITIES | | 2,899,428 | 1,931,675 |
| Human resources productivity improvement program | 16/a | (634,268) | (125,265) |
| Other income and expenses, net | 25 | 295,906 | 406,749 |
| NET INCOME FOR THE YEAR | | 2,561,066 | 2,213,159 |
| EARNING PER SHARE (SR): | | | |
| From operating activities for the year | | 0,7 | 0.46 |
| From net income for the year | | 0,61 | 0.53 |

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

Saudi Electricity Company
(A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2012
(In Thousands Saudi Riyals)

| | 2012 | 2011 |
|--|---------------------|---------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net income for the year | 2,561,066 | 2,213,159 |
| Adjustments to reconcile net income for the year with net cash from operating activities: | | |
| Provision for doubtful receivables | 252,483 | 121,721 |
| Provision for slow-moving inventories | 171,322 | 62,960 |
| Share in investees' net losses | 63,729 | 45,747 |
| Depreciation | 10,835,881 | 9,937,060 |
| Gain on disposal of fixed assets, net | (85,556) | (25,860) |
| Employees' indemnities, net | 329,672 | 148,291 |
| Changes in operating assets and liabilities: | | |
| Receivables from electricity consumers and accrued revenues | (1,652,543) | (2,183,914) |
| Prepayments and other receivables | (340,229) | (1,218,389) |
| Inventories | (429,945) | 79,076 |
| Accounts payable | 8,267,975 | 4,365,159 |
| Deferred revenues, net | 1,820,126 | 3,732,630 |
| Accruals and other payables | 116,519 | 195,481 |
| Net proceeds and payments from customers' refundable deposits | 86,178 | 72,186 |
| Net cash from operating activities | 21,996,678 | 17,545,307 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Equity investment in companies and others | 150,000 | (150,939) |
| Fixed assets and construction work in progress | (38,466,266) | (29,205,430) |
| Proceeds from sale of fixed assets | 108,362 | 33,332 |
| Proceeds from other investments | - | 1,000 |
| Net cash used in investing activities | (38,207,904) | (29,322,037) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Government loans | 13,970,000 | 7,500,000 |
| Net (repayment) proceeds from long-term loans | (3,049,902) | 4,893,181 |
| Net proceeds from Sukuk | 1,562,990 | - |
| Dividends paid to shareholders and Board of Directors' remuneration | (532,700) | (537,603) |
| Net cash from financing activities | 11,950,388 | 11,855,578 |
| NET CHANGE IN CASH AND CASH EQUIVALENTS DURING THE YEAR | (4,260,838) | 78,848 |
| Cash and cash equivalents, beginning of the year | 7,306,624 | 7,227,776 |
| CASH AND CASH EQUIVALENTS, END OF THE YEAR | 3,045,786 | 7,306,624 |
| Non-cash transaction: | | |
| Change in fair value of hedging contracts | 61,122 | (43,942) |

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

Saudi Electricity Company
(A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2012
(In Thousands Saudi Riyals)

| | Note | Share capital | Statutory reserve | General reserve | Retained earnings | Change in fair value for hedging contracts | Total |
|--|------|---------------|-------------------|-----------------|-------------------|--|------------|
| For The Year Ended 31 December 2011 | | | | | | | |
| Balance as at 1 January 2011- before adjustments | | 41,665,938 | 1,333,176 | 536,177 | 7,122,345 | - | 50,657,636 |
| Prior years adjustments | 30 | - | - | - | - | (387,928) | (387,928) |
| Balance as at 1 January 2011 - adjusted | | 41,665,938 | 1,333,176 | 536,177 | 7,122,345 | (387,928) | 50,269,708 |
| Dividends to shareholders for 2010 | 26 | - | - | - | (547,252) | - | (547,252) |
| Board of Directors' remuneration for 2010 | 27 | - | - | - | (761) | - | (761) |
| Net income for the year | | - | - | - | 2,213,159 | - | 2,213,159 |
| Net change in fair value of hedging contracts | | - | - | - | - | (43,942) | (43,942) |
| Adjustment of electricity fee collected from individuals | 22 | - | - | 2,166 | - | - | 2,166 |
| Transfer to statutory reserve | | - | 221,316 | - | (221,316) | - | - |
| Balance as at 31 December 2011 | | 41,665,938 | 1,554,492 | 538,343 | 8,566,175 | (431,870) | 51,893,078 |
| For The Year Ended 31 December 2012 | | | | | | | |
| Dividends to shareholders for 2011 | 26 | - | - | - | (547,252) | - | (547,252) |
| Board of Directors' remuneration for 2011 | 27 | - | - | - | (705) | - | (705) |
| Net income for the year | | - | - | - | 2,561,066 | - | 2,561,066 |
| Net change in fair value of hedging contracts | | - | - | - | - | 61,122 | 61,122 |
| Adjustment of electricity fee collected from individuals | 22 | - | - | 1,987 | - | - | 1,987 |
| Transfer to statutory reserve | | - | 256,107 | - | (256,107) | - | - |
| Balance as at 31 December 2012 | | 41,665,938 | 1,810,599 | 540,330 | 10,323,177 | (370,748) | 53,969,296 |

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

Saudi Electricity Company (A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

1. ORGANIZATION AND ACTIVITIES

The Saudi Electricity Company “the Company” was formed pursuant to the Council of Ministers’ Resolution Number 169 dated 11 Sha’ban 1419H corresponding to 29 November 1998, which reorganized the Electricity Sector in the Kingdom of Saudi Arabia by merging the majority of the local companies that provided electricity power services (10 joint stock companies that covered most of the geographical areas of the Kingdom), in addition to the projects of the General Electricity Corporation, a governmental corporation related to the Ministry of Industry and Electricity (11 operating projects that covered various areas in the north of the Kingdom) in Saudi Electricity Company.

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

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

The Company is a tariff regulated company. Electricity tariffs are determined by the Council of Ministers based on recommendations from the Electricity and Co-generation Regulatory Authority (the Authority) which was established on 13 November 2001 according to Council of Ministers’ Resolution No. 169 dated 11 Sha’aban 1419H. The change on tariff was made through the Council of Ministers Resolution Number 170 dated 12 Rajab 1421H and was effective from 1 Sha’aban 1421H corresponding to 28 October 2000 whereby the tariff on the highest bracket was set at a rate of 26 Halala per Kilowatts/hour.

This was further amended by the Council of Ministers in its Decision Number 333 dated 16 Shawwal 1430H, corresponding to 5 October 2009, which granted the Board of Directors of the Electricity and Co-generation Regulatory Authority the right to review and adjust the non-residential (commercial, industrial and governmental) electricity tariff and approve them as long as the change does not exceed 26 Halala for each kilowatt per hour, taking into consideration, among other matters, the electrical consumption at peak times. This tariff was implemented starting 19 Rajab 1431H, corresponding to 1 July 2010.

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

Saudi Electricity Company
(A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – (continued)
FOR THE YEAR ENDED 31 DECEMBER 2012

1. ORGANIZATION AND ACTIVITIES – (continued)

Following are the list of subsidiaries included in these consolidated financial statements:

| <i>Name of Subsidiary</i> | <i>Country of incorporation</i> | <i>Ownership Percentage (direct & indirect)</i> | <i>Business Activity</i> |
|---|---------------------------------|---|--|
| National Electricity Transmission Company | Saudi Arabia | 100% | Transmission power from generating stations to distribution network and operating and maintenance of electricity transmission system |
| Electricity Sukuk Company | Saudi Arabia | 100% | Provide services and support needed in relation of issuing bonds and Sukuk by Saudi Electricity Company |
| Dawiyat Telecom Company | Saudi Arabia | 100% | Establishing, leasing, managing and operating electricity and fiber optic networks to provide telecommunications services |
| Morjan for Electricity Production Company (under formation) | Saudi Arabia | 100% | Establishing, developing, ownership, operating and maintenance of Rabigh project for Electricity production |
| Saudi Electricity Global Sukuk Company | Cayman Islands | 100% | Provide services and support needed in relation of issuing bonds and Sukuk by Saudi Electricity Company |

2. BASIS OF CONSOLIDATION

The Company starts consolidating the financial statements of National Electricity Transmission Company and other subsidiaries during the year ended 31 December 2012. The Company decided to separate the transmission sector and transfer its related operating assets and operations to National Electricity Transmission Company which started its operations in 1st of January 2012, therefore these consolidated financial statements for the year ended 31 December 2012 includes the assets, liabilities and operating results of the Company and its subsidiaries (the “Group”) mentioned in note (1) above “consolidated financial statements”.

A subsidiary company is that in which the Company has directly or indirectly a long term investment comprising an interest of more than 50% in the voting capital or over which it exercises practical control. A subsidiary company is consolidated from the date of which the Company obtains control until the date that control ceases.

The Group’s intercompany balances and transactions have been eliminated in these consolidated financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying consolidated financial statements have been prepared in accordance with the Accounting Standards issued by the Saudi Organization for Certified Public Accountants (SOCPA). The significant accounting policies adopted are as follows:

Accounting Convention

The consolidated financial statements are prepared under the historical cost convention except for the measurement of fair value of investments, derivative financial instruments and government loans (received after 1 January 2009).

Saudi Electricity Company
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – (continued)
FOR THE YEAR ENDED 31 DECEMBER 2012

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (continued)

Accounting estimates

The preparation of the consolidated financial statements in conformity with generally accepted accounting standards requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting year. Although these estimates are based on management's best knowledge of current events and actions at the reporting date, the actual results ultimately may differ from those estimates.

Cash and cash equivalents

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

Electricity consumers receivables

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

Inventories

Generation, transmission, distribution and other materials and fuel inventory are stated at lower of cost or market value and calculated using the weighted average cost, net of provision for slow moving and obsolete items.

Inventory items that are considered an integral part of the generation plants, transmission and distribution networks, and other facilities such as strategic and reserve materials, are included in within fixed assets.

Investments

Investments in companies' equity

Investments in companies of which the Group hold at least 20% of interest are accounted for using the equity method, whereby the investment is initially stated at cost, adjusted thereafter by the post acquisition change of the Group's share in the net assets of the investee company. The Group's share in the results of these Companies is recognised in consolidated statement of income when investees' financial statements are issued.

Investments of less than 20% of share capital of unquoted Companies are stated at cost is considered as fair value. Income from these investments is recognised in consolidated statements of income when dividends are declared by the investee companies.

Investments held to maturity

Investments that are acquired with the intention of being held to maturity are carried at cost (adjusted for any premium or discount), less any other than temporary decline in value. Such investments are classified as non-current assets with the exception of bonds which mature during the next fiscal year, which are classified as current assets. Income from these investments is recognized in the consolidated statement of income when realized.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – (continued)
FOR THE YEAR ENDED 31 DECEMBER 2012

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (continued)

Fixed assets

Fixed assets are stated at historical cost and, except for land, are depreciated over their estimated operational useful lives using the straight line method. Cost includes the cost of acquisition from supplier, direct labor, indirect construction costs, and borrowing costs up to the date the asset is placed into service. Costs of fixed assets sold or otherwise disposed off and related accumulated depreciation are removed from the accounts at the date of the sale or disposal. The resulting gain or loss is recognized in the consolidated statement of income.

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

The estimated operational useful lives are as follows:

| | |
|---|----------------|
| Buildings | 20 to 30 years |
| Generation plant, equipment and spare parts | 20 to 25 years |
| Transmission network, equipment and spare parts | 20 to 30 years |
| Distribution network, equipment and spare parts | 15 to 25 years |
| Other assets | 4 to 20 years |

Impairment of noncurrent assets

The Group conducts periodic review of the carrying amount of its non-current assets to determine whether there is any evidence that those non-current assets have suffered an impairment loss. If such evidence exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Where it is not possible to estimate the recoverable amount of that asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. Impairment losses are immediately recognized as an expense in the consolidated statement of income.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised recoverable amount, provided that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognized as income immediately in the consolidated statement of income.

Saudi Electricity Company
(A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – (continued)
FOR THE YEAR ENDED 31 DECEMBER 2012

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (continued)

Capitalization of borrowing costs

Net borrowing cost which represents finance charges on long-term loans and any other finance costs charged to the Group net of any commission income for the year, is capitalized on all significant projects-in-progress with significant amount that require long period of time for construction. The borrowing cost capitalized on each project is calculated using the capitalization rate on the average amounts incurred on each project in progress.

Fixed-term government loan

The fixed-term government loan is recognized at present value using an estimated discount rate for Group's borrowing (for loans received after 1 January 2009). The difference between the amount received and the present value is recorded as deferred revenues (government grant) and presented under long-term government payables caption and recognized over the remaining years of the loan against the corresponding expenses.

Derivative financial instruments and hedge accounting

The Group uses derivative financial instruments to hedge its cash flow exposures to interest rates. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured for any changes in its fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

Any gains or losses arising from the changes in the fair value of derivatives determined as effective cash flow hedges are taken directly to the shareholders' equity, while the ineffective portion of cash flow hedges, is recognised in the consolidated statement of income.

For the purpose of hedge accounting, hedges are classified as cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecasted transaction or the foreign currency risk in an unrecognised firm commitment.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. At that time, for forecast transactions, any cumulative gain or loss on the hedging instrument previously recognised in shareholders' equity is retained till the forecasted transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss previously recognised in shareholders' equity is transferred to the consolidated statement of income.

Accounts payable and accruals

Liabilities are recognised for amounts to be paid in the future for goods or services received, whether billed by the supplier or not.

Provision for employees' indemnity

Employees' indemnity consists of the following:

Provision for end of service benefits:

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

Employees' saving fund:

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

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – (continued)
FOR THE YEAR ENDED 31 DECEMBER 2012

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (continued)

Zakat provision

Zakat is provided in accordance with the Regulations of the Department of Zakat and Income Tax in the Kingdom of Saudi Arabia. Adjustments arising from final Zakat assessment, if any, are recorded in the consolidated statement of income for the year in which such assessment is obtained.

Statutory reserve

In accordance with the Regulations for Companies and the Company's by-laws, 10% of net income for the year is transferred to statutory reserve. The Company's General Assembly may discontinue such transfer when the reserve equals 50% of the share capital.

Revenues

Revenue from electricity sales is recognized when bills are issued to consumers based on the consumption of electric power measured by Kilowatt/hour. Revenue on power consumed by consumers but not yet billed at the consolidated balance sheet date are accrued for.

Revenue from meter reading, maintenance and bills preparation tariff represents the monthly fixed tariff based on the capacity of the meter used by the subscribers, and is recognized when bills are issued. Revenue from meter reading, maintenance and bills preparation tariff not billed at the consolidated balance sheet date is accrued for.

Electricity service connection tariff received from consumers is deferred and recognized on a straight-line basis over the average useful lives of the equipment used in serving the subscribers, estimated to be 20 years.

Expenses

Operation and maintenance expenses include expenses relating to generation, transmission, and distribution activities as well as their allocated portion of the general services and supporting activities' expenses. The remaining portion of these expenses is included under General and Administrative expenses. General services and supporting activities expenses are allocated between the main activities based on the benefits received and are evaluated periodically.

Earnings (loss) per share for the year

Earnings (losses) per share is calculated using the weighted average number of outstanding shares at the end of the year, including government shares. Earnings (loss) per basic share from operating activities is calculated by dividing income (loss) from operations on the weighted average number of shares. Earnings (loss) per basic share from net income (loss) is calculated by dividing net income (loss) on weighted average of number of shares.

Foreign currency transactions

Transactions denominated in foreign currencies are translated into Saudi Riyals at exchange rates prevailing at the date of such transactions. Monetary assets and liabilities denominated in foreign currencies at the consolidated balance sheet date are translated into Saudi Riyals at the exchange rates prevailing at that date. Any realized or unrealized exchange gains or losses arising from such translations are recorded in the consolidated statement of income.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – (continued)
FOR THE YEAR ENDED 31 DECEMBER 2012

4. CASH AND CASH EQUIVALENTS

| | <i>2012</i> <i>SR'000</i> | <i>2011</i> <i>SR'000</i> |
|---------------------|------------------------------|------------------------------|
| Cash on hand | 3,352 | 3,040 |
| Cash at banks | 1,332,951 | 1,767,994 |
| Short-term deposits | 1,709,483 | 5,535,590 |
| Total | <u>3,045,786</u> | <u>7,306,624</u> |

5. RECEIVABLES FROM ELECTRICITY CONSUMERS AND ACCRUED REVENUES, NET

| | <i>2012</i> <i>SR'000</i> | <i>2011</i> <i>SR'000</i> |
|--|------------------------------|------------------------------|
| Electricity subscribers' receivable | | |
| Governmental institutions | 4,364,978 | 2,870,026 |
| Commercial and residential | 4,232,203 | 4,861,644 |
| VIPs consumers | 2,501,513 | 2,359,212 |
| Saudi Aramco | 2,228,922 | 1,908,179 |
| Electricity connection receivables | 1,359,573 | 1,011,039 |
| Saline Water Conversion Corporation | 231,579 | 335,981 |
| Total electricity subscribers' receivable | <u>14,918,768</u> | 13,346,081 |
| Less: Provision for doubtful receivables | <u>(2,753,079)</u> | (2,500,596) |
| Net electricity subscribers' receivable | <u>12,165,689</u> | 10,845,485 |
| Add: Accrued revenues | <u>1,261,571</u> | 1,181,715 |
| Total | <u>13,427,260</u> | <u>12,027,200</u> |

The movement in the provision for doubtful receivables during the years as follows:

| | <i>2012</i> <i>SR'000</i> | <i>2011</i> <i>SR'000</i> |
|--------------------------------------|------------------------------|------------------------------|
| Balance at the beginning of the year | 2,500,596 | 2,378,875 |
| Charge for the year | <u>252,483</u> | 121,721 |
| Balance at the end of the year | <u>2,753,079</u> | <u>2,500,596</u> |

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – (continued)
FOR THE YEAR ENDED 31 DECEMBER 2012

6. PREPAYMENTS AND OTHER RECEIVABLES, NET

| | <i>2012</i> <i>SR'000</i> | <i>2011</i> <i>SR'000</i> |
|--|------------------------------|------------------------------|
| Advances to contractors and suppliers | 4,208,215 | 3,899,552 |
| Other government receivables | 244,173 | 244,173 |
| Outstanding letters of credit | 158,247 | 191,431 |
| Prepaid expenses | 47,126 | 10,477 |
| Other receivables, net | 596,881 | 568,781 |
| Total | 5,254,642 | 4,914,414 |
| Less: Provision for other doubtful receivables | (60,789) | (60,789) |
| Total | 5,193,853 | 4,853,625 |

7. INVENTORIES, NET

| | <i>2012</i> <i>SR'000</i> | <i>2011</i> <i>SR'000</i> |
|---|------------------------------|------------------------------|
| Generation plant materials and supplies | 3,004,718 | 3,086,034 |
| Distribution network materials and supplies | 2,131,952 | 1,792,098 |
| Transmission network materials and supplies | 343,475 | 289,494 |
| Fuel and oil | 401,477 | 326,160 |
| Other | 375,194 | 333,085 |
| | 6,256,816 | 5,826,871 |
| Less: Provision for slow moving inventories | (435,343) | (264,021) |
| Total | 5,821,473 | 5,562,850 |

The movement of provision for slow-moving inventories during the years as follows:

| | <i>2012</i> <i>SR'000</i> | <i>2011</i> <i>SR'000</i> |
|--------------------------------------|------------------------------|------------------------------|
| Balance at the beginning of the year | 264,021 | 201,061 |
| Charge for the year | 171,322 | 62,960 |
| Balance at the end of the year | 435,343 | 264,021 |

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – (continued)
FOR THE YEAR ENDED 31 DECEMBER 2012

8. EQUITY INVESTMENTS IN COMPANIES AND OTHERS

| | <i>2012</i> <i>SR'000</i> | <i>2011</i> <i>SR'000</i> |
|---|------------------------------|------------------------------|
| Investments accounted for under the equity method (a) | 1,790,162 | 1,853,892 |
| Other investments, at cost (b) | 125,650 | 125,650 |
| Held to maturity investments (c) | 275,000 | 425,000 |
| Total | <u>2,190,812</u> | <u>2,404,542</u> |

a) Investments accounted for under the equity method

| | Ownership % | <i>2012</i> <i>SR'000</i> | <i>2011</i> <i>SR'000</i> |
|--|----------------|------------------------------|------------------------------|
| Gulf Cooperation Council Interconnection Authority (a-1) | 31.6 | 1,768,428 | 1,830,937 |
| Water and Electricity Company (a-2) | 50 | 14,182 | 13,955 |
| Hajr for Electricity Production Company (a-3) | 50 | 5,000 | 5,000 |
| Rabigh Electricity Company (a-4) | 20 | 552 | 2,000 |
| Dhuruma Electricity Company (a-5) | 50 | 2,000 | 2,000 |
| Total | | <u>1,790,162</u> | <u>1,853,892</u> |

(a-1) Gulf Cooperation Council Interconnection Authority

The Company has contributed in the capital of the Gulf Cooperation Council Interconnection Authority (hereafter referred to as "GCCIA") at inception to enhance the electricity transmission and distribution between the member countries. The Company's contribution in GCCIA amounts to USD 484.80 million equivalent to SR 1,818 million.

(a-2) Water and Electricity Company

The Company entered into a partnership agreement with Saline Water Conversion Corporation to establish a limited liability company in the name of "Water and Electricity Company" pursuant to the Supreme Economic Council's Decision No. 5/23 dated Rabi'Al-Awal 23, 1423H which encourages the participation of the private sector in the water desalination project. The Company's share at inception amounting to SR 15 million was paid in full and consists of 300,000 share representing 50% of the investee's share capital.

(a-3) Hajr for Electricity Production Company

Pursuant to the Board of Directors' Resolution No. 4/95/2010 dated Ramadan 12, 1431H corresponding to August 22, 2010 the Company established Hajr for Electricity Production Company with a share capital of SR 2 million. During 2011, a new partner has been admitted and the capital has been increased by SR 8 million to become SR 10 million. The company's share represents 50% of the partners' shareholding.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – (continued)
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8. EQUITY INVESTMENTS IN COMPANIES AND OTHERS – (continued)

(a-4) Rabigh Electricity Company

Based on the company's Board of Directors Resolution No. 06/76/2008 dated Jumada Al-Awal 26, 1429H corresponding to June 3, 2008, the Company established Rabigh Electricity Company. The Company's share capital amounting to SR 2 million was paid in full and represents 100% of the investee's share capital.

During the third quarter of 2009, Rabigh Electricity Company increased its capital from SR 2 million to SR 10 million by admission of new partners which resulted in the decrease of Saudi Electricity Company's share from 100% to 20%.

(a-5) Dhuruma Electricity Company

Based on the company's Board of Directors Resolution No. 4/88/2009 dated Ramadan 18, 1430H corresponding to September 8, 2009, the Company established Dhuruma Electricity Company (a closed joint stock company) with a share capital of SR 2 million. During 2011, a new partner has been admitted and the capital has been increased by SR 2 million to become SR 4 million. The company's share represents 50% of the share capital.

b) Other investments, at cost

| | Ownership % | 2012 SR'000 | 2011 SR'000 |
|--|----------------|------------------------------|------------------------------|
| Al-Shuaiba Water and Electricity company | 8 | 124,840 | 124,840 |
| Al-Shuqaiq Water and Electricity company | 8 | 400 | 400 |
| Al-Jubail Water and Electricity company | 5 | 250 | 250 |
| Al-Shuaiba Holding Company | 8 | 160 | 160 |
| Total | | <u>125,650</u> | <u>125,650</u> |

c) Held to maturity investments

| | 2012 SR'000 | 2011 SR'000 |
|--|------------------------------|------------------------------|
| Saudi Basic Industries Corporation Sukuk | 150,000 | 300,000 |
| Bin Laden Company Sukuk | 50,000 | 50,000 |
| SABB bonds "Saudi British Bank" | 50,000 | 50,000 |
| SATORP Company Sukuk | 25,000 | 25,000 |
| Total | <u>275,000</u> | <u>425,000</u> |

d) Share in net (loss) earnings of investees accounted for under equity method

| | 2012 SR'000 | 2011 SR'000 |
|--|------------------------------|------------------------------|
| Gulf Corporation Council Interconnection Authority | (62,510) | (45,905) |
| Water and Electricity Company | 227 | 158 |
| Rabigh Electricity company | (1,446) | - |
| Total | <u>(63,729)</u> | <u>(45,747)</u> |

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – (continued)
FOR THE YEAR ENDED 31 DECEMBER 2012

9. CONSTRUCTION WORK IN PROGRESS

| | <i>2012</i> <i>SR'000</i> | | | | <i>2011</i> <i>SR'000</i> | |
|------------------------------------|------------------------------|--------------------------|--------------------------|------------------|------------------------------|-------------------|
| | Generation projects | Transmission projects | Distribution projects | General projects | <i>Total</i> | |
| At the beginning of the year | 10,468,360 | 6,374,291 | 5,082,281 | 335,879 | 22,260,811 | 26,038,186 |
| Additions during the year | 18,480,810 | 9,746,265 | 8,928,717 | 988,217 | 38,144,009 | 28,971,553 |
| Transfer to fixed assets | (6,053,943) | (4,246,335) | (9,461,420) | (753,573) | (20,515,271) | (32,748,928) |
| Balance at 31 December 2012 | <u>22,895,227</u> | <u>11,874,221</u> | <u>4,549,578</u> | <u>570,523</u> | <u>39,889,549</u> | |
| Balance at 31 December 2011 | <u>10,468,360</u> | <u>6,374,291</u> | <u>5,082,281</u> | <u>335,879</u> | | <u>22,260,811</u> |

Net borrowing cost capitalized on projects under construction during the year amounted to SR 1,222 million (2011: SR 1,151 million).

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – (continued)
FOR THE YEAR ENDED 31 DECEMBER 2012

10. FIXED ASSETS, NET

| | <i>Land</i> <i>SR '000</i> | <i>Buildings</i> <i>SR '000</i> | <i>Machinery and</i> <i>equipment</i> <i>SR '000</i> | <i>Capital spare</i> <i>parts</i> <i>SR '000</i> | <i>Vehicles</i> <i>and heavy</i> <i>equipment</i> <i>SR '000</i> | <i>Others</i> <i>SR '000</i> | <i>Total</i> <i>2012</i> <i>SR'000</i> | <i>Total</i> <i>2011</i> <i>SR '000</i> |
|------------------------------|-------------------------------|------------------------------------|--|--|---|---------------------------------|---|--|
| Cost: | | | | | | | | |
| At the beginning of the year | 1,635,666 | 15,634,575 | 271,852,115 | 3,796,851 | 1,372,535 | 3,555,115 | 297,846,857 | 265,093,162 |
| Additions | 150,112 | 1,016,357 | 18,670,506 | 274,189 | - | 748,930 | 20,860,094 | 32,989,109 |
| Disposals | - | (1,722) | (342,632) | - | (44,609) | (1,766) | (390,729) | (235,414) |
| At the end of the year | <u>1,785,778</u> | <u>16,649,210</u> | <u>290,179,989</u> | <u>4,071,040</u> | <u>1,327,926</u> | <u>4,302,279</u> | <u>318,316,222</u> | <u>297,846,857</u> |
| Depreciation: | | | | | | | | |
| At the beginning of the year | - | 9,724,320 | 124,273,085 | 1,995,821 | 1,057,523 | 2,122,849 | 139,173,598 | 129,458,176 |
| Charge for the year | - | 559,596 | 9,565,801 | 126,413 | 90,878 | 493,193 | 10,835,881 | 9,937,060 |
| Disposals | - | (1,685) | (297,297) | - | (44,609) | (1,766) | (345,357) | (221,638) |
| At the end of the year | <u>-</u> | <u>10,282,231</u> | <u>133,541,589</u> | <u>2,122,234</u> | <u>1,103,792</u> | <u>2,614,276</u> | <u>149,664,122</u> | <u>139,173,598</u> |
| Net book amounts: | | | | | | | | |
| At 31 December 2012 | <u>1,785,778</u> | <u>6,366,979</u> | <u>156,638,400</u> | <u>1,948,806</u> | <u>224,134</u> | <u>1,688,003</u> | <u>168,652,100</u> | |
| At 31 December 2011 | <u>1,635,666</u> | <u>5,910,255</u> | <u>147,579,030</u> | <u>1,801,030</u> | <u>315,012</u> | <u>1,432,266</u> | | <u>158,673,259</u> |

Included in land are plots of land with book value of SR 276 million, the title deeds of which have not yet been transferred to the Company's name.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – (continued)
FOR THE YEAR ENDED 31 DECEMBER 2012

10. FIXED ASSETS, NET – (continued)

Net book value of the Group's fixed assets is allocated to the main activities as follows:

| | 2012 SR'000 | | | | |
|------------------------------|------------------------------|-------------------|-------------------|---------------------|--------------------|
| | Generation | Transmission | Distribution | General Property | Total |
| Land | 238,335 | 587,455 | 225,151 | 734,837 | 1,785,778 |
| Buildings | 2,561,834 | 2,697,919 | 189,048 | 918,178 | 6,366,979 |
| Machinery & equipment | 63,324,685 | 47,920,744 | 45,106,974 | 285,997 | 156,638,400 |
| Capital spare parts | 1,493,202 | 401,649 | 53,765 | 190 | 1,948,806 |
| Vehicles and heavy equipment | - | - | - | 224,134 | 224,134 |
| Others | 683,607 | 355,330 | 172,296 | 476,770 | 1,688,003 |
| | <u>68,301,663</u> | <u>51,963,097</u> | <u>45,747,234</u> | <u>2,640,106</u> | <u>168,652,100</u> |

| | 2011 SR'000 | | | | |
|------------------------------|------------------------------|-------------------|-------------------|---------------------|--------------------|
| | Generation | Transmission | Distribution | General Property | Total |
| Land | 245,285 | 587,443 | 225,243 | 577,695 | 1,635,666 |
| Buildings | 2,722,760 | 2,120,588 | 152,154 | 914,753 | 5,910,255 |
| Machinery & equipment | 61,584,469 | 46,955,880 | 38,746,741 | 291,940 | 147,579,030 |
| Capital spare parts | 1,365,071 | 415,759 | 20,017 | 183 | 1,801,030 |
| Vehicles and heavy equipment | - | - | - | 315,012 | 315,012 |
| Others | 900,059 | 394,846 | 44,714 | 92,647 | 1,432,266 |
| | <u>66,817,644</u> | <u>50,474,516</u> | <u>39,188,869</u> | <u>2,192,230</u> | <u>158,673,259</u> |

Depreciation expenses charged to various activities during the year ended December 31 is as follows:

| | 2012 SR'000 | 2011 SR'000 |
|---------------------------------------|------------------------------|------------------------------|
| Generation depreciation expense | 4,632,938 | 4,199,706 |
| Transmission depreciation expense | 2,950,727 | 2,788,722 |
| Distribution depreciation expense | 2,938,679 | 2,613,351 |
| General property depreciation expense | 313,537 | 335,281 |
| | <u>10,835,881</u> | <u>9,937,060</u> |

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11. ACCOUNTS PAYABLE

| | <i>2012</i> <i>SR'000</i> | <i>2011</i> <i>SR'000</i> |
|--|------------------------------|------------------------------|
| Saudi Aramco for fuel cost | 57,200,552 | 51,419,456 |
| Transferred to Government account (a) | (40,959,482) | (40,959,482) |
| Saudi Aramco payable for fuel cost | 16,241,070 | 10,459,974 |
| Saline Water Conversion Corporation for energy purchased | 8,836,619 | 8,453,968 |
| Municipality fees | 3,723,515 | 3,241,135 |
| Advances received for construction of projects | 2,367,238 | 633,768 |
| Contractors and retention payables | 755,294 | 761,301 |
| Payables to suppliers | 657,721 | 99,444 |
| Other (b) | 1,927,720 | 2,591,612 |
| | 34,509,177 | 26,241,202 |

(a) This amounts represents payables for fuel for the period from April 5, 2000 to December 31, 2009 which have been transferred from the liability to Saudi Aramco to non-current government liability. (Note 19)

(b) Other payables include SR 1,280 million (2011: SR 1,280 million) which are still under reconciliation between the Company and the Government and pertain to prior-merger account (refer to Note 1).

12. ACCRUALS AND OTHER PAYABLES

| | <i>2012</i> <i>SR'000</i> | <i>2011</i> <i>SR'000</i> |
|-----------------------------|------------------------------|------------------------------|
| Accrued expenses | 3,550,470 | 3,631,647 |
| Accrued employees' benefits | 426,962 | 370,139 |
| Dividends payable * | 355,197 | 339,940 |
| Accrued interests on loans | 170,311 | 82,389 |
| Other | 232,789 | 181,827 |
| | 4,735,729 | 4,605,942 |

* Dividends payable as of December 31, 2012 include unclaimed cash dividends declared by Saudi Consolidated Electricity Company prior to merge, amounting to SR 88.6 million (2011: SR 91.5 million).

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13. ZAKAT

The major components of zakat base are as follows:

| | <u>2012</u> <u>SR'000</u> | <u>2011</u> <u>SR'000</u> |
|-------------------------|------------------------------|------------------------------|
| Net income before zakat | 2,561,066 | 2,213,159 |
| Add: Zakat adjustment | (10,313,776) | (12,296,312) |
| Net adjusted loss | <u>7,752,710</u> | <u>(10,083,153)</u> |

Zakat base is calculated as follows:

| | <u>2012</u> <u>SR'000</u> | <u>2011</u> <u>SR'000</u> |
|---|------------------------------|------------------------------|
| Share Capital | 41,665,938 | 41,665,938 |
| Net adjusted loss | (7,752,710) | (10,083,153) |
| Retained reserves | 2,092,835 | 1,869,353 |
| Retained earnings | 8,018,923 | 7,123,345 |
| Retained allowances | 6,971,363 | 7,050,373 |
| Long term loans and sukuk | 27,664,986 | 36,816,001 |
| Government loans and payables | 81,861,719 | 67,891,719 |
| Consumers deposits, contractors accruals and others | 2,478,119 | 2,558,748 |
| Total | <u>163,001,173</u> | <u>154,892,324</u> |
| Deduct: | | |
| Fixed assets and construction work in progress, net | (130,037,634) | (131,259,163) |
| Difference on depreciation of fixed assets for previous years | (65,111,874) | (41,576,007) |
| Long term investments | (2,254,541) | (2,406,042) |
| Material and spare parts inventories | (4,384,116) | (4,218,398) |
| Zakat base (negative) | <u>(38,786,992)</u> | <u>(24,567,286)</u> |

No Zakat is due on the Company for the year ended 31 December 2012 as the net adjusted loss and zakat base is negative.

The Company has received the final assessments for the period ended in December 2001 and also for the years from 2002 to 2008 which showed Zakat differences of SR 37.5 million for the period ended in 31 December 2001 and the years 2002, 2003 and 2004. The Company filed appeals against these differences which are still pending with the Department of Zakat and Income Tax (DZIT). The Company filed its Zakat returns for the years 2009 to 2011 and are still under review by DZIT.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – (continued)
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14. LONG-TERM LOANS

| | <i>2012</i> <i>SR '000</i> | <i>2011</i> <i>SR '000</i> |
|--|-------------------------------|-------------------------------|
| At the beginning of the year | 16,714,888 | 11,821,707 |
| Withdrawal during the year | 107,171 | 6,084,670 |
| Repayments during the year | (3,157,073) | (1,191,489) |
| At the end of the year | 13,664,986 | 16,714,888 |
| Less: Current portion | (1,468,000) | (3,133,100) |
| Long-term balance at the end of the year | 12,196,986 | 13,581,788 |

The maturities of long term installments for the next years as of December 31 are as follows:

| | <i>2012</i> <i>SR '000</i> | <i>2011</i> <i>SR '000</i> |
|-----------------------------|-------------------------------|-------------------------------|
| After one year | 1,469,701 | 1,468,000 |
| Between two to three years | 1,478,631 | 1,468,000 |
| Between three to four years | 1,478,631 | 1,468,000 |
| Between four to five years | 1,478,631 | 1,468,000 |
| After five years | 6,291,392 | 7,709,788 |
| | 12,196,986 | 13,581,788 |

- (a) On 28 July 2008, the Company obtained a sharia-compliant loan for SR 6 billion from syndicates of local banks which has been fully withdrawn. The loan is repayable over 22 semi-annual installments starting 3 November 2009. The loan balance amounted to SR 4.1 billion as of 31 December 2012 (2011: SR 4.6 billion).
- (b) The Company agreed with U.S. Export-Import Bank, and the Export Development Bank of Canada on 21 June 2009 and signed a financing agreement on 27 January 2010, whereby the Company will receive a direct loan amounting to US\$ 1.1 billion equivalent to approximately SR 4.1 billion which has been fully withdrawn. The loan is repayable within 12 years over 24 semi-annual installments starting 25 May 2010. The loan balance amounted to SR 3 billion as of 31 December 2012 (2011: SR 3.4 billion).
- (c) On 13 July 2009, the Company signed a financing agreement with the Public Investments Fund whereby the Company will receive a direct loan of SR 2.6 billion which has been fully withdrawn. The loan is repayable within 15 years over 24 semi-annual installments. The loan balance amounted to SR 2.5 billion as of 31 December 2012 (2011: SR 2.6 billion).
- (d) On 13 December 2010, the Saudi Electricity Company signed an agreement with a syndicate of local banks, whereby the Company will obtain a sharia - compliant loan of SR 5 billion, repayable over 26 semi-annual installments after 24 months from the date of signing the agreement. The loan balance amounted to SR 0.5 billion as of 31 December 2012 (2011: SR 0.5).

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14. LONG-TERM LOANS – (continued)

- (e) On 22 June 2011, the Company signed an agreement with international lenders guaranteed by Coface French Export Credit Agency. The Company will receive a loan amounting to US\$ 989.1 million equivalent to SR 3.7 billion which had been fully withdrawn. The loan is repayable within 12 years over 24 semi-annual installments starting 11 January 2012. The loan balance amounted to SR 3.4 billion as of 31 December 2012 (2011: SR 3.7).
- (f) The Company signed a loan agreement guaranteed by two Export Korean banks (K Sure and K Exim) where a group of international banks participated in financing the loan led by HSBC Group, Bank of Tokyo-Mitsubishi, Sumitomo Mitsui Banking Corporation, Mizuho Bank and KFW-IPEX. The Company will receive a loan amounting to SR 5.3 billion equivalent to approximately US\$ 1,400 million for a period of 15 years. The loan is repayable over 12 years in equal semi-annual installments starting after grace period of 3 years. The loan balance amounted to SR 107 million as of 31 December 2012

Long term loans mentioned above are used to finance the construction work in progress projects, and secured by promissory notes signed by the Company at the nominal amount of the loan plus the interest payments and/or Murrabaha Margin.

The Company has an unutilized credit facilities with local banks amounting to SR 1 billion as at 31 December 2012 (2011: SR 1 billion).

15. SUKUK

The outstanding Sukuk as of 31 December 2012 are as follows:

Local Sukuk:

| <u>Issue</u> | <u>Date of issue</u> | <u>Par value</u> | <u>Total issued amount</u> | <u>Maturity date</u> |
|--------------|----------------------|------------------|----------------------------|----------------------|
| Sukuk 2 | 6 July 2009 | SR 100,000 | SR 7 Billion | 2029 |
| Sukuk 3 | 10 May 2010 | SR 10,000 | SR 7 Billion | 2030 |

The above Sukuk have been issued at par value with no discount nor premium. The Sukuk bear a rate of return at SIBOR plus a margin payable quarterly from the net income received from the Sukuk assets held by the Sukuk custodian "Electricity Sukuk Company", a wholly owned subsidiary of the Company.

The Company has undertaken to purchase these Sukuk from Sukuk holders at dates specified in prospectus. For each purchase date, the Company shall pay an amount equal to 10% of the aggregate face value of the Sukuk as bonus to the Sukuk holders. The purchase price is determined by multiplying Sukuk's par value at the percentage shown against the purchase date, as follows:

| <u>Issue</u> | <u>Percentage</u> | | |
|--------------|----------------------------|-----------------------------|----------------------------|
| | <u>90%</u> | <u>60%</u> | <u>30%</u> |
| | <u>First purchase date</u> | <u>Second purchase date</u> | <u>Third purchase date</u> |
| Sukuk 2 | 2014 | 2019 | 2024 |
| Sukuk 3 | 2017 | 2020 | 2025 |

On 15 July 2012, the Company fully purchased the assets of its first Sukuk issued (Sukuk1) amounting to SR 5 billion.

Global Sukuk:

During April 2012 the Company issued Sukuk amounting to SR 6.6 billion equivalent to approximately US\$ 1,750 million where the issuance consists of two types of Sukuk certificates. The first type amounting to US\$ 500 million mature after 5 years with fixed rate of 2.665%, the second type amounting to US\$ 1,250 million mature after 10 years with fixed rate of 4.211%.

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16. EMPLOYEES' INDEMNITIES

| | <i>2012</i> <i>SR'000</i> | <i>2011</i> <i>SR'000</i> |
|--|------------------------------|------------------------------|
| Provision for end-of-service indemnities | 4,354,255 | 4,536,870 |
| Employee savings fund | 394,475 | 301,639 |
| Human recourses productivity improvement program (the Program)-(a) | 419,451 | - |
| | <u>5,168,181</u> | <u>4,838,509</u> |

- (a) This amount represents the present value of future payments which the Company has commitment to pay according to the program's plan and conditions. The objective of this program is to improve and align human recourses with business requirements.

17. DEFERRED REVENUES, NET

| | <i>2012</i> <i>SR'000</i> | <i>2011</i> <i>SR'000</i> |
|--|------------------------------|------------------------------|
| Balance at the beginning of the year | 20,469,575 | 16,736,945 |
| Proceeds from connection tariff services during the year | 3,335,916 | 5,063,163 |
| Electrical connection tariff | (1,515,790) | (1,330,533) |
| | <u>22,289,701</u> | <u>20,469,575</u> |

18. GOVERNMENT LOANS

- (a) Pursuant to the Ministerial resolution number 169 dated Sha'ban 11, 1419H, the net dues of the Government to the Saudi Electricity Company and the net dues of the Company to the Government were determined in accordance with rules and procedures stipulated in the minutes of meetings signed by his HE the Minister of Industry and Electricity and HE the Minister of Finance and National Economy dated Jumada Thani 27, 1418H corresponding to October 29, 1997. The net difference payable to the Government by the Company, as determined at the close of the business day preceding the issuance of the Royal Decree for the incorporation of the Company, is considered a non-interest bearing long term loan (soft loan) with a grace period of twenty five years starting from the date of the announcement of the incorporation of the Company. The loan is to be revisited later on subject to the financial condition of the Government and the Company.

The minutes of the meeting held on Rajab 21, 1422H between the Minister of Industry and Electricity and the Minister of Finance and National Economy in which the initial amount of the Government loan was determined, states that the final settlement of Government accounts will be subject to the reconciliation for the claims of the Company from Government entities, and the loan amount shall be adjusted accordingly. During 2005, the Company finalized the amount due which included the claims of the Company and the amounts due to the Government and the agreement was signed between the Minister of Water and Electricity and the Minister of Finance on Rajab 15, 1426H which brought the balance of Government loan amounted to SR 14.9 billion.

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18. GOVERNMENT LOANS – (continued)

- (b) The Council of Ministers approved in its meeting held on Monday 12 Jumada Al-Awal 1431H corresponding to 26 April 2010 to grant the Company a soft loan amounting to SR 15 billion repayable over 25 years. The loan will be paid to the Company within 2 years in accordance with an agreement that will be prepared for this purpose between the Ministry of Finance and the Saudi Electricity Company. The agreement was signed on 15 Ramadan 1431H, corresponding to 25 August 2010, this loan has been fully withdrawn as at 31 December 2012 (2011: SR. 11,3 billion). the Company recognized the amount received from the government loan above discounted at its present value as per the accounting policies in Note (3).
- (c) The Council of Ministers approved in its meeting held on Monday 11 Rajab 1432H corresponding to 13 June 2011 to grant the Company a soft loan amounting to SR 51.1 billion repayable over 25 years, The loan will be paid to the Company within 5 years in accordance with an agreement that will be prepared for this purpose between the Ministry of Finance and the Saudi Electricity Company. An amount of SR 10.2 billion from this loan has been withdrawn as at 31 December 2012 (2011:nil). The Company recognized the amount received from the government loan above discounted at its present value as per the accounting policies in Note (3).

19. LONG-TERM GOVERNMENT PAYABLES

As shown in (note 11-a) the accounts payable for fuel for the period from 5 April 2000 to 31 December 2009 amounting to SR 41 billion has been transferred from current liabilities to non-current liabilities (long-term governmental payables) pursuant to the Ministerial minutes of meeting dated 15 Jumada Awal 1427H (corresponding to 11 June 2006) and 6 Safar 1433H (corresponding to 31 December 2011) and based on the Ministerial Resolution number 277, which resolved to transfer the Company's liability of Saudi Aramco Company (Saudi Aramco) to the Ministry of Finance account.

Also, the Government payable includes an amount of SR 16.8 billion represents the difference between the amount proceed from Government as a soft loans and the discounted present value of these loans (Note 18- (b) & (c)).

20. DERIVATIVES

The Company entered into interest rate hedging contracts with several banks to hedge the fluctuation of interest rates on loans for an amount of SR 2.6 billion on 31 December 2012 (2011: SR 3.4 billion) which includes a US Dollar portion representing approximately 15% of the national amount. The hedging contracts are based on the swap between the Company and the banks of fixed rates against floating rates on the original loan amounts every six-months.

21. SHARE CAPITAL

The share capital of the Company is SR 41,665,938,150 divided into 4,166,593,815 shares with a par value of SR 10 each and is held as follows:

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

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22. GENERAL RESERVE

General reserve consists of the balances of the reserves amounting to SR 213,668 Thousands that were reflected in the books of the Saudi Electricity Company at the date of the merger, and investment income from electricity fund of SR 294,976 as well as the collections of surcharge from individuals subsequent to December 31, 2001 amounting to SR 31,686 thousand up to December 31, 2012 (2011: SR 29,699 thousand). The total general reserve amounted to SR 540,330 thousand as at December 31, 2012 (2011: SR 538,343 thousand).

23. OPERATION AND MAINTENANCE EXPENSES

| | <i>2012</i> | | | <i>2011</i> | |
|---|-------------------|---------------------|---------------------|------------------|------------------|
| | <i>SR'000</i> | | | <i>SR'000</i> | |
| | <u>Generation</u> | <u>Transmission</u> | <u>Distribution</u> | <u>Total</u> | <u>Total</u> |
| Employees' expenses and benefits | 1,220,497 | 670,810 | 2,356,588 | 4,247,895 | 4,489,946 |
| Materials | 754,139 | 65,548 | 232,714 | 1,052,401 | 1,056,090 |
| Operation and maintenance (contractors) | 371,564 | 97,090 | 418,805 | 887,459 | 878,848 |
| Provision for doubtful receivables | - | - | 252,483 | 252,483 | 121,721 |
| Provision for slow moving inventory | 104,554 | 11,571 | 28,129 | 144,254 | 50,353 |
| Municipality fees | - | - | 482,814 | 482,814 | 436,969 |
| Others | 960,306 | 182,523 | 516,502 | 1,659,331 | 1,204,783 |
| | <u>3,411,060</u> | <u>1,027,542</u> | <u>4,288,035</u> | <u>8,726,637</u> | <u>8,238,710</u> |

24. GENERAL AND ADMINISTRATIVE EXPENSES

| | <i>2012</i> | <i>2011</i> |
|-------------------------------------|----------------|----------------|
| | <i>SR'000</i> | <i>SR'000</i> |
| Employees' expenses and benefits | 209,872 | 279,414 |
| Materials | 44,926 | 42,729 |
| Provision for slow moving inventory | 27,068 | 12,607 |
| Others | 108,582 | 99,787 |
| | <u>390,448</u> | <u>434,537</u> |

25. OTHER INCOME AND EXPENSES, NET

| | <i>2012</i> | <i>2011</i> |
|--|----------------|----------------|
| | <i>SR'000</i> | <i>SR'000</i> |
| Gain on disposal of fixed assets | 85,556 | 25,860 |
| Penalties | 127,671 | 172,969 |
| Share in net loss of investee companies accounted for under the equity method (Note 8-d) | (63,729) | (45,747) |
| Sale of tender documents | 30,676 | 28,952 |
| Others, net | 115,732 | 224,715 |
| | <u>295,906</u> | <u>406,749</u> |

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26. DIVIDENDS

In accordance with the Company's by-laws, dividends of at least 5% of paid in capital, net of reserve, should be distributed to shareholders, with due care to the provisions of the Council of Ministers' Resolution No. 169 dated 11 Sha'aban 1419H, whereby the Government has waived its share from the distributed dividends for a period of ten years from the date of the Company's formation, provided that dividends do not exceed 10% of the par value of the shares. In cases where the distribution exceeds 10% of the shares' par value, the Government's share shall be treated similar to the share of other shareholders. The Government has agreed to extend this waiver for another ten years commencing from 30 Thul Hijja 1430H, based on the Council of Ministers' Resolution No. 327 dated 24 Ramadan 1430H.

The General Assembly, in its meeting held on 2 April 2012, approved to distribute of cash dividends for 2011 to individuals shareholders amounting of SR 547 million (SR 0.7 per share) representing 7% of the par value per share (2010: SR 547 million).

The board of directors in its meeting held on 14 Rabi Thani 1434H corresponding 24 February 2013, proposed to distribute cash dividends for 2012 to individuals shareholders amounting to SR 547 million. (SR 0.7 per share), representing 7% of the par value per share. These are subject to the approval of the Company's general meeting.

27. BOARD OF DIRECTORS' REMUNERATION AND ALLOWANCES

The expenses and allowances attributable to attending the board of directors meetings and other subcommittee meeting for the year amounted to SR 783 thousand (2011: SR 605 thousand).

The General Assembly has approved in its meeting held on 2 April 2012, Board of Directors' remuneration of SR 705 thousand from the retained earnings for the year 2011 (2010: SR 761 thousand).

The board of directors in its meeting held on 14 Rabi Thani 1434H corresponding 24 February 2013, proposed board's remuneration of SR 919 thousand after the distribution of dividends to individual shareholders not less than 5% of the share capital. This is subject to general meeting's approval.

28. RELATED PARTIES TRANSACTIONS

The Company provides electricity power to governmental agencies, ministries and Saudi Aramco Company (Saudi Aramco). The rates applied are approved by the Council of Ministers and are similar to the rates applied to other consumers, except for the rates used for Saline Water Conversion Corporation (SWCC) which is in accordance with a government resolution. As for the residential property of Saudi Aramco, the Company believes that these should be charged the commercial tariff. However, Saudi Aramco has objected to this tariff and is settling the electricity sales for the properties based on the industrial tariff.

The Council of Ministers has issued a Resolution Number 114 on 10 Rabi Al-Thani 1430H to resolve this dispute and to charge Saudi Aramco on the basis of residential and commercial tariff instead of industrial tariff. Further, according to the resolution, The Electricity and Co-generation Regulatory Authority (the regulator) will have to specify the residential and commercial enterprises of Saudi Aramco and to identify the concerned party to handle the cost of construction, maintenance and operation for power stations and distribution networks. Accordingly, the Company, Saudi Aramco and the regulator held several meetings to settle this matter where the regulator has specified the disputed residential and commercial enterprises of Saudi Aramco.

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28. RELATED PARTIES TRANSACTIONS – (continued)

The company executed the regulator decree number 49/432 dated 8 Jumada Awal 1432H classifying Saudi Aramco electricity consumption tariff during the year ended 31 December 2012 and the disputed residential and commercial enterprises mentioned above were identified and the difference should be calculated according to the regulator decree. Therefore, the agreed tariff were applied on Saudi Aramco consumption during the year ended 31 December 2012. Further, the Company has completed the calculation – from its part – for the previous years up to 31 December 2011 in according to regulator decree mentioned above and has submitted its invoices to Saudi Aramco with total amount of SR 730 million. However, the Company is still in process of completing the necessary procedures to record this revenue.

In addition, the Company purchases fuel from Saudi Aramco and electricity from Saline Water Conversion Corporation at rates stipulated for in the respective governmental resolutions. Also, fees are charged for municipalities on electricity power sales.

The significant transactions and related approximate balances are as follows:

| | <i>2012</i> <i>SR'000</i> | <i>2011</i> <i>SR'000</i> |
|-------------------------------------|------------------------------|------------------------------|
| Sales | | |
| Government | 7,891,078 | 7,150,973 |
| Saudi Aramco | 1,634,046 | 1,490,989 |
| Saline Water Conversion Corporation | 183,818 | 194,021 |
| | <u>9,708,942</u> | <u>8,835,983</u> |
| Purchases and Others | | |
| Saudi Aramco | 6,161,196 | 5,514,247 |
| Saline Water Conversion Corporation | 532,633 | 573,407 |
| Municipalities fees | 482,815 | 436,969 |
| | <u>7,176,644</u> | <u>6,524,623</u> |

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29. CONTINGENT LIABILITIES

- a. There is a dispute between the Company and Saudi Aramco for handling crude oil fees. The disputed amount since the Company's inception on 5 April 2000 to 31 December 2012 amounted to approximately SR 3,291 million (2011: SR 2,886 million). The Company's management believes that there will be no liability on the Company based on the Royal Decree Number M/8 dated 25 Rajab 1415H as this matter was not discussed by the Ministerial Committee formed by the Royal Decree referred to above. Accordingly, the difference has not been recorded in the Company's books. In addition, Saudi Aramco is supplying the Company with light fuel oil rather than heavy fuel oil to one of its stations. This has resulted in an accumulated difference of SR 1,200 million (2011: SR 858 million) not accounted for in the Company's books.
- b. Saudi Aramco has also a claim for the settlement of its share in the annual dividends since inception to 31 December 2011, estimated at SR 2,140 million. The Company believes that Saudi Aramco has no right for this claim during the first 20 years of its formation since it is a wholly owned government agency and accordingly, is governed by the Ministerial Resolution No. 169 dated 11 Sha'aban 1419H and Ministerial Resolution No. 327 dated 24 Ramadan 1430H on extending the Government's waiver of its rights in the profits distributed by the Saudi Electricity Company for another ten years.
- c. The Company has long-term purchase energy agreements with independent power providers whereby the Company has undertake to purchase the whole energy produced by these providers according to specific terms and prices. These agreements are for periods up to 20 years, and renewable for further periods by mutual consent of both parties.
- d. The Company has provided guarantees to some of the commercial banks against its share in financing a loan granted to some of its investee companies. The guarantee amounted to US\$ 74 million equivalent to SR 278 million as of 31 December 2012 (2011: US\$ 117 million equivalent to SR 440 million). In addition, the Company has provided a guarantee for the Department of Zakat and Income Tax amounting to SR 37,5 million (2011: SR 13 million).
- e. The Company is contingently liable against outstanding letters of credit amounting to SR 1,2 million as of the consolidated balance sheet date (2011: SR 0,3 million).

30. PRIOR YEARS ADJUSTMENTS

At the end of the first quarter of year 2011, the Company has evaluated the derivative financial instruments of the hedging contracts related to fixed versus floating interest rate swaps. Consequently, the opening balances of the shareholders' equity change in fair value of hedging contracts – have been restated by SR 388 million as of 1 January 2011.

31. CAPITAL COMMITMENTS

These comprise the unexecuted portion – as of the consolidated balance sheet date - of capital contracts conducted by the Company for the erection and installation of power plants and other assets approximately amounting to SR 81,033 million (2011: SR 48,073 million). It is anticipated that these contracts to be completed between one to three years.

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32. RISK MANAGEMENT

Financial instruments included in the consolidated balance sheet consist mainly of cash and cash equivalents, accounts receivable other assets, bank loans, account payable, accrued liabilities and other non-current liabilities.

Credit risk

Credit risk is the risk that one party will fail to discharge an obligation and will cause the other party to incur a financial loss. The Group has proper diversification as of credit risk. Cash is substantially placed at financial institutions with sound investment grade credit ratings. Trade accounts receivable are shown, net of provision for doubtful debts..

Commission rate risk

Commission rate risk is the risk that the values of financial instrument will fluctuation due to changes in the market commission rates. The Group has no long-term assets commission bearing assets, but has liabilities associated with commission rates as of December 31, 2012. The Group manages its floating-rate loans through the use of commission rates hedging agreements, which have the economic effects to transfer the interest on the loans from floating to fixed rate.

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at an amount close to its fair value. The Group manage liquidity risk by ensuring that sufficient funds are available to meet its future commitments.

Currency risk

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. The management monitors the fluctuations in currency exchange rates and charge the results to consolidated financial statements accordingly.

Fair value risk

Fair value is the amount for which an asset could be exchanged, or a liability settled between knowledgeable willing parties in an arm's length transaction. As the Group's financial instruments are prepared under the historical cost convention, differences can arise between the carrying values and fair value estimates. Management believes that the fair values of the Group's financial assets and liabilities are not materially different from their carrying values.

33. SEGMENT REPORTING AND FUTURE RESTRUCTURE FOR THE GROUP'S ACTIVITIES

The Group's main operating activities are divided into generation, transmission and distribution activities. These activities complement each other in delivering electricity to the consumer. The Group's revenue is currently recognized from selling electricity to the end consumer based on the official Tariff set by the government. all group's operations are based in the Kingdom of Saudi Arabia.

The Group is in process of applying integrated plan to spin off its principal activities to different independent entities and develop inter-face selling prices. Therefore revenues and expenses will be specified for each entity upon completion of such process. As part of the plan, National Electricity Transmission Company was established and basis of inter-company transaction agreements were approved by the board of directors. The National Electricity Transmission Company started its operations in 1 January 2012, its main activities are in the transmission of power from generating stations to distribution network and operating and maintenance of electricity transmission system.

Saudi Electricity Company
(A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – (continued)
FOR THE YEAR ENDED 31 DECEMBER 2012

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

The financial information of Saudi Electricity Company presented in the following table include the generating and distributing segments in addition to the head office, as the procedures of spinning-off the generation and distribution segments is still in process – till the date of consolidated financial statements preparation date- as part of the Group's spin off integrated plan.

Following are the important financial data of the main group companies:

| | <i>Saudi Electricity Company SR'000</i> | <i>National Electricity Transmission Company SR'000</i> | <i>Other Subsidiaries SR'000</i> | <i>Inter-Company Balances SR'000</i> | <i>Total SR'000</i> |
|-------------------------------|---|---|--|--|-------------------------|
| <i>As of 31 December 2012</i> | | | | | |
| Fixed assets, net | 116,689,002 | 51,963,098 | - | - | 168,652,100 |
| Total assets | 259,502,616 | 58,931,030 | 29,420 | (79,876,733) | 238,586,333 |
| Total liabilities | 207,003,910 | 47,468,053 | 18,303 | (69,873,229) | 184,617,037 |

Due to the spinning –off of National Electricity Transmission Company on 1 January 2012 the comparable period data are not applicable, the procedures of accounting and approving revenues and expenses between National Electricity Transmission Company and the Company is still under process

34. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the current year's presentation.

**Saudi Electricity Company
(A Saudi Joint Stock Company)**

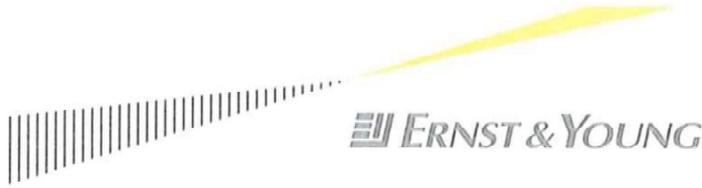
**FINANCIAL STATEMENTS AND
AUDITORS' REPORT**

FOR THE YEAR ENDED 31 DECEMBER 2011

Saudi Electricity Company
(A Saudi Joint Stock Company)

FINANCIAL STATEMENTS AND AUDITORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2011

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AUDITORS' REPORT TO THE SHAREHOLDERS OF SAUDI ELECTRICITY COMPANY

Scope of audit

We have audited the accompanying balance sheet of Saudi Electricity Company ("the Company") - a Saudi joint stock company as at 31 December 2011 and the related statements of income, cash flows and changes in shareholders' equity for the year then ended. These financial statements are the responsibility of the company's management and have been prepared by them in accordance with the provisions of Article 123 of the Regulations for Companies and submitted to us together with all the information and explanations which we required. Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the Kingdom of Saudi Arabia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable degree of assurance to enable us to express an opinion on the financial statements.

Unqualified opinion

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

- i) present fairly, in all material respects, the financial position of the Company as at 31 December 2011 and the results of its operations and its cash flows for the year then ended in accordance with accounting standards generally accepted in the Kingdom of Saudi Arabia.
- ii) comply with the requirements of the Regulations for Companies and the Company's by-laws in so far as they affect the preparation and presentation of the financial statements.

for Ernst & Young

Rashid S. AlRashoud
Certified Public Accountant
Registration No. 366



Riyadh: 27 Rabi Awal 1433 H
(19 February 2012)

Saudi Electricity Company
(A Saudi Joint Stock Company)

BALANCE SHEET

AS AT 31 DECEMBER 2011

(In Thousands Saudi Riyals)

| | <i>Notes</i> | <u>2011</u> | <u>2010</u> |
|--|--------------|--------------------|--------------------|
| ASSETS | | | |
| CURRENT ASSETS | | | |
| Cash and cash equivalents | 3 | 7,305,124 | 7,227,776 |
| Receivables from electricity consumers and accrued revenues, net | 4 | 12,027,200 | 9,965,007 |
| Prepayments and other receivables, net | 5 | 4,847,768 | 3,635,236 |
| Inventories, net | 6 | 5,562,850 | 5,704,886 |
| TOTAL CURRENT ASSETS | | <u>29,742,942</u> | <u>26,532,905</u> |
| NON-CURRENT ASSETS | | | |
| Loan to an associated company | | 365,500 | 365,500 |
| Equity investments in companies and others | 7 | 2,406,042 | 2,300,350 |
| Construction work in progress | 8 | 22,260,811 | 26,038,186 |
| Fixed assets, net | 9/30 | 158,673,259 | 135,634,986 |
| TOTAL NON-CURRENT ASSETS | | <u>183,705,612</u> | <u>164,339,022</u> |
| TOTAL ASSETS | | <u>213,448,554</u> | <u>190,871,927</u> |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | |
| CURRENT LIABILITIES | | | |
| Accounts payable | 10 | 26,235,345 | 21,876,043 |
| Accruals and other payables | 11 | 4,605,942 | 4,402,218 |
| Short term loans and current portion of long-term loans | 13 | 3,133,100 | 1,189,317 |
| Sukuk | 14 | 5,000,000 | - |
| TOTAL CURRENT LIABILITIES | | <u>38,974,387</u> | <u>27,467,578</u> |
| NON-CURRENT LIABILITIES | | | |
| Long-term loans | 13 | 13,581,788 | 10,632,390 |
| Sukuk | 14 | 14,000,000 | 19,000,000 |
| Employees' indemnities | 15 | 4,838,509 | 4,690,218 |
| Deferred revenues, net | 16 | 20,469,575 | 16,736,945 |
| Consumers' refundable deposits | | 1,367,628 | 1,295,442 |
| Long-term Government payables | 17/30 | 49,046,508 | 44,244,007 |
| Government loans | 18 | 18,845,211 | 16,147,711 |
| Change in fair value of hedging contracts | 19 | 431,870 | 387,928 |
| TOTAL NON-CURRENT LIABILITIES | | <u>122,581,089</u> | <u>113,134,641</u> |
| TOTAL LIABILITIES | | <u>161,555,476</u> | <u>140,602,219</u> |
| SHAREHOLDERS' EQUITY | | | |
| Share capital | 20 | 41,665,938 | 41,665,938 |
| Statutory reserve | | 1,554,492 | 1,333,176 |
| General reserve | 21 | 538,343 | 536,177 |
| Retained earnings | 25/30 | 8,566,175 | 7,122,345 |
| Net change in fair value of hedging contracts | | (431,870) | (387,928) |
| TOTAL SHAREHOLDERS' EQUITY | | <u>51,893,078</u> | <u>50,269,708</u> |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | | <u>213,448,554</u> | <u>190,871,927</u> |

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

Saudi Electricity Company
(A Saudi Joint Stock Company)

STATEMENT OF INCOME
FOR THE YEAR ENDED 31 DECEMBER 2011
(In Thousands Saudi Riyals)

| | <i>Notes</i> | <u>2011</u> | <u>2010</u> |
|--|--------------|---------------------|--------------|
| OPERATING REVENUES | | | |
| Electricity sales | | 28,280,494 | 25,872,780 |
| Meter reading, maintenance and bills preparation tariff | | 883,059 | 841,119 |
| Electricity connection tariff | 16 | 1,406,045 | 1,197,094 |
| TOTAL OPERATING REVENUES | | 30,569,598 | 27,910,993 |
| COST OF SALES | | | |
| Fuel | | (5,771,379) | (5,796,633) |
| Purchased energy | | (4,256,237) | (3,741,739) |
| Operations and maintenance | 22 | (8,438,277) | (7,752,943) |
| Depreciation – Operations and maintenance | 9 | (9,601,779) | (8,027,017) |
| TOTAL COST OF SALES | | (28,067,672) | (25,318,332) |
| GROSS PROFIT FOR THE YEAR | | 2,501,926 | 2,592,661 |
| General and administrative expenses | 23 | (360,235) | (389,072) |
| Depreciation - General and administrative | 9 | (335,281) | (353,189) |
| INCOME FROM OPERATING ACTIVITIES | | 1,806,410 | 1,850,400 |
| Other income and expenses, net | 24 | 406,749 | 428,688 |
| NET INCOME FOR THE YEAR | | 2,213,159 | 2,279,088 |
| EARNING PER SHARE (SR): | | | |
| From operating activities for the year | | 0.43 | 0.44 |
| From net income for the year | | 0.53 | 0.55 |

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

Saudi Electricity Company
(A Saudi Joint Stock Company)

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2011
(In Thousands Saudi Riyals)

| | 2011 | 2010 |
|--|---------------------|---------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net income for the year | 2,213,159 | 2,279,088 |
| Adjustments to reconcile net income for the year with net cash from operating activities: | | |
| Provision for doubtful receivables | 121,721 | 257,564 |
| Provision for slow-moving inventories | 62,960 | 11,180 |
| Company's share in investees' net losses | 45,747 | 21,670 |
| Depreciation | 9,937,060 | 8,380,206 |
| Gain on disposal of fixed assets, net | (25,860) | (97,833) |
| Gain on sale of investments | - | (765) |
| Employees' indemnities, net | 148,291 | 267,920 |
| Changes in operating assets and liabilities: | | |
| Receivables from electricity consumers and accrued revenues | (2,183,914) | 363,647 |
| Prepayments and other receivables | (1,190,571) | (1,434,955) |
| Inventories | 79,076 | (92,724) |
| Accounts payable | 4,359,302 | 4,951,175 |
| Deferred revenues, net | 3,732,630 | 1,766,418 |
| Accruals and other payables | 195,481 | 193,924 |
| Net proceeds and payments from customers' refundable deposits | 72,186 | 136,305 |
| Net cash from operating activities | 17,567,268 | 17,002,820 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Equity investment in companies and others | (152,439) | (5,500) |
| Time deposits | - | 1,000,119 |
| Fixed assets and construction work in progress | (29,205,430) | (28,487,495) |
| Proceeds from sale of fixed assets | 33,332 | 106,342 |
| Proceeds from sale of other investments | 1,000 | 37,643 |
| Loan to an associated company | (21,961) | - |
| Net cash used in investing activities | (29,345,498) | (27,348,891) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Sukuk | - | 7,000,000 |
| Government loans | 7,500,000 | 3,750,000 |
| Net proceeds from long-term loans | 4,893,181 | 4,481,450 |
| Dividends paid to shareholders and Board of Directors' remuneration | (537,603) | (540,156) |
| Net cash from financing activities | 11,855,578 | 14,691,294 |
| NET CHANGE IN CASH AND CASH EQUIVALENTS DURING THE YEAR | 77,348 | 4,345,223 |
| Cash and cash equivalents, beginning of the year | 7,227,776 | 2,882,553 |
| CASH AND CASH EQUIVALENTS, END OF THE YEAR | 7,305,124 | 7,227,776 |
| Non-cash transaction: | | |
| Change in fair value of hedging contracts | (43,942) | 84,563 |

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

Saudi Electricity Company
(A Saudi Joint Stock Company)

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2011
(In Thousands Saudi Riyals)

| | Note | Share capital | Statutory reserve | General reserve | Retained earnings | Change in fair value for hedging contracts | Total |
|---|------|---------------|-------------------|-----------------|-------------------|--|------------|
| For the year ended 31 December 2010 | | | | | | | |
| Balance as at 1 January 2010 - before adjustments | | 41,665,938 | 1,107,965 | 534,777 | 5,865,869 | | 49,174,549 |
| Prior years adjustments | 30 | | (2,698) | | (246,647) | (472,491) | (721,836) |
| Balance as at 1 January 2010 – adjusted | | 41,665,938 | 1,105,267 | 534,777 | 5,619,222 | (472,491) | 48,452,713 |
| Dividends to shareholders for 2009 | 25 | - | - | - | (547,252) | - | (547,252) |
| Board of Directors' remuneration for 2009 | 26 | - | - | - | (804) | - | (804) |
| Net income for the year | | - | - | - | 2,279,088 | - | 2,279,088 |
| Net change in fair value of hedging contracts | | - | - | - | - | 84,563 | 84,563 |
| Collection of electricity fees from individuals | 21 | - | - | 1,400 | - | - | 1,400 |
| Transfer to statutory reserve | | - | 227,909 | - | (227,909) | - | - |
| Balance as at 31 December 2010 – adjusted | | 41,665,938 | 1,333,176 | 536,177 | 7,122,345 | (387,928) | 50,269,708 |
| For The Year Ended 31 December 2011 | | | | | | | |
| Dividends to shareholders for 2010 | 25 | - | - | - | (547,252) | - | (547,252) |
| Board of Directors' remuneration for 2010 | 26 | - | - | - | (761) | - | (761) |
| Net income for the year | | - | - | - | 2,213,159 | - | 2,213,159 |
| Net change in fair value of hedging contracts | | - | - | - | - | (43,942) | (43,942) |
| Collection of electricity fee from individuals | 21 | - | - | 2,166 | - | - | 2,166 |
| Transfer to statutory reserve | | - | 221,316 | - | (221,316) | - | - |
| Balance as at 31 December 2011 | | 41,665,938 | 1,554,492 | 538,343 | 8,566,175 | (431,870) | 51,893,078 |

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

Saudi Electricity Company (A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 December 2011

1. ORGANIZATION AND ACTIVITIES

The Saudi Electricity Company “the Company” was formed pursuant to the Council of Ministers’ Resolution Number 169 dated 11 Sha’aban 1419H corresponding to 29 November 1998, which reorganized the Electricity Sector in the Kingdom of Saudi Arabia by merging the majority of the local companies that provided electricity power services (10 joint stock companies that covered most of the geographical areas of the Kingdom), in addition to the projects of the General Electricity Corporation, a governmental corporation related to the Ministry of Industry and Electricity (11 operating projects that covered various areas in the north of the Kingdom) in Saudi Electricity Company.

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

The Company’s principal activity is the generation, transmission and distribution of electric power. The Company is the major provider of electric power all over the Kingdom of Saudi Arabia, serving governmental, industrial, agricultural, commercial and residential subscribers.

The Company is a tariff regulated company. Electricity tariffs are determined by the Council of Ministers based on recommendations from the Electricity and Co-generation Regulatory Authority (the Authority) which was established on 13 November 2001 according to Council of Ministers’ Resolution No. 169 dated 11 Sha’aban 1419H. The change on tariff was made through the Council of Ministers Resolution Number 170 dated 12 Rajab 1421H and was effective from 1 Sha’aban 1421H corresponding to 28 October 2000 whereby the tariff on the highest bracket was set at a rate of 26 Halala per Kilowatts/hour.

This was further amended by the Council of Ministers in its Decision Number 333 dated 16 Shawwal 1430H, corresponding to 5 October 2009, which granted the Board of Directors of the Electricity and Co-generation Regulatory Authority the right to review and adjust the non-residential (commercial, industrial and governmental) electricity tariff and approve them as long as the change does not exceed 26 Halala for each kilowatt per hour, taking into consideration, among other matters, the electrical consumption at peak times. This tariff was implemented starting 19 Rajab 1431H, corresponding to 1 July 2010.

The Company fully owns the share capital of Sukuk Electricity Company, Dawiyat Telecom Company – limited liability Companies - and owns 50% of the share capital of Water & Electricity Company and Dhuruma Electricity Company and Hajr for Electricity Production Company.

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

Saudi Electricity Company
(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS – (continued)
FOR THE YEAR ENDED 31 December 2011

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements have been prepared in accordance with the Accounting Standards issued by the Saudi Organization for Certified Public Accountants (SOCPA). The significant accounting policies adopted are as follows:

Accounting Convention

The financial statements are prepared under the historical cost convention except for the measurement of fair value of investments, derivative financial instruments and government loans (received after 1 January 2009).

Accounting estimates

The preparation of the financial statements in conformity with generally accepted accounting standards requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting year. Although these estimates are based on management's best knowledge of current events and actions at the reporting date, the actual results ultimately may differ from those estimates.

Cash and cash equivalents

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

Electricity consumers receivables

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

Inventories

Generation, transmission, distribution and other materials and fuel inventory are stated at the weighted average cost, net of provision for slow moving and obsolete items.

Inventory items that are considered an integral part of the generation plants, transmission and distribution networks, and other facilities such as strategic and reserve materials, are included in within fixed assets.

Investments

Investments in companies' equity

Investments in companies in which the Company hold 20% of interest are accounted for using the equity method, whereby the investment is initially stated at cost, adjusted thereafter by the post acquisition change of the Company's share in the net assets of the investee company. The Company's share in the results of these Companies is recognized when investees' financial statements are issued.

Investments of less than 20% of share capital of unquoted Companies are stated at fair value if it is available, otherwise cost is considered as fair value. Income from these investments is recognised when dividends are declared by the investee companies.

Investments held to maturity

Investments that are acquired with the intention to be held to maturity are carried at cost (adjusted for any premium or discount), less any other than temporary decline in value. Such investments are classified as non-current assets with the exception of bonds which mature during the next fiscal year, which are classified as current assets. Income from these investments is recognized when earned.

Saudi Electricity Company
(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS – (continued)
FOR THE YEAR ENDED 31 December 2011

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fixed assets

Fixed assets are stated at historical cost and, except for land, are depreciated over their estimated operational useful lives using the straight line method. Cost includes the cost of acquisition from supplier, direct labor, indirect construction costs, and borrowing costs up to the date the asset is put in service. Costs of fixed assets sold or otherwise disposed off and related accumulated depreciation are removed from the accounts at the date of the sale or disposal. The resulting gain or loss is recognized in the statement of income.

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

The estimated operational useful lives are as follows:

| | |
|---|----------------|
| Buildings | 20 to 30 years |
| Generation plant, equipment and spare parts | 20 to 25 years |
| Transmission network, equipment and spare parts | 20 to 30 years |
| Distribution network, equipment and spare parts | 15 to 25 years |
| Other assets | 4 to 20 years |

Impairment of noncurrent assets

The Company conducts periodic review of the carrying amount of its noncurrent assets to determine whether there is any evidence that those noncurrent assets have suffered an impairment loss. If such evidence exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Where it is not possible to estimate the recoverable amount of that asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. Impairment losses are immediately recognized as an expense in the statement of income.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised recoverable amount, provided that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognized as income immediately in the statement of income.

Capitalization of borrowing costs

Net borrowing cost which represents finance charges on long-term loans and any other finance costs charged to the Company net of any commission income for the year, is capitalized on all significant projects-in-progress with significant amount that require long period of time for construction. The borrowing cost capitalized on each project is calculated using the capitalization rate on the average amounts spent on each project in progress.

Fixed-term government loan

The fixed-term government loan is recognized at present value using an estimated discount rate for Company's borrowing (for loans received after 1 January 2009). The difference between the amount received and the present value is recorded as deferred revenues (government grant) and presented under the long-term government payables caption and recognized over the remaining years of the loan against the corresponding expenses.

Saudi Electricity Company
(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS – (continued)
FOR THE YEAR ENDED 31 December 2011

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivative financial instruments and hedge accounting

The Company uses derivative financial instruments to hedge its cash flow exposures to interest rates. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured for any changes in its fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

Any gains or losses arising from the changes in the fair value of derivatives determined as effective cash flows hedges are taken directly to the statement of shareholders' equity, while the ineffective portion of cash flow hedges, is recognised in statement of income.

For the purpose of hedge accounting, hedges are classified as cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecasted transaction or the foreign currency risk in an unrecognised firm commitment.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. At that time, for forecast transactions, any cumulative gain or loss on the hedging instrument recognised in shareholders' equity is retained in shareholder's equity until the forecasted transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in shareholders' equity is transferred to statement of income.

Accounts payable and accruals

Liabilities are recognised for amounts to be paid in the future for goods or services received, whether billed by the supplier or not.

Provision for employees' indemnity

Employees' indemnity consists of the following:

Provision for end of service benefits:

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

Employees' saving fund:

The Company contributes in saving fund for the eligible employees based on an approved policy. The Company's share of the contribution in saving fund is charged monthly to statements of Income.

Zakat provision

Zakat is provided in accordance with the Regulations of the Department of Zakat and Income Tax in the Kingdom of Saudi Arabia. Adjustments arising from final Zakat assessment, if any, are recorded in the statement of income for the year in which such assessment is obtained.

Statutory reserve

In accordance with the Regulations for Companies and the Company's bylaws, 10% of net income for the year is transferred to statutory reserve. The Company's General Assembly may discontinue such transfer when the reserve equals 50% of the share capital.

Saudi Electricity Company
(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS – (continued)
FOR THE YEAR ENDED 31 December 2011

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenues

Revenue from electricity sales is recognized when bills are issued to consumers based on the consumption of electric power measured by Kilowatt/hour. Revenue on power consumed by consumers but not yet billed at the balance sheet date are accrued for.

Revenue from meter reading, maintenance and bills preparation represents the monthly fixed tariff based on the capacity of the meter used by the subscribers, and is recognized when bills are issued. Revenue from meter reading, maintenance and bills preparation tariff not billed at the balance sheet date is accrued for.

Electricity service connection tariff received from consumers is deferred and recognized on a straight-line basis over the average useful lives of the equipment used in serving the subscribers, estimated to be 20 years.

Expenses

Operation and maintenance expenses include expenses relating to generation, transmission, and distribution activities as well as their allocated portion of the general services and supporting activities' expenses. The remaining portion of these expenses is included under General and Administrative expenses. General services and supporting activities expenses are allocated between the main activities based on the benefits received and is evaluated periodically.

Earnings (losses) per share for the year

Earnings (losses) per share is calculated using the weighted average number of outstanding shares at the end of the year, including government shares. Gain (loss) per basic share from operating activities is calculated by dividing gain (loss) from operations on the weighted average number of shares. Gain (loss) per basic share from net income (loss) is calculated by dividing net income (loss) on weighted average of number of shares.

Foreign currency transactions

Transactions denominated in foreign currencies are translated into Saudi Riyals at exchange rates prevailing at the date of such transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into Saudi Riyals at the exchange rates prevailing at that date. Any realized or unrealized exchange gains or losses arising from such translations are recorded in the statement of income.

3. CASH AND CASH EQUIVALENTS

| | <i>2011</i> <i>SR'000</i> | <i>2010</i> <i>SR'000</i> |
|---------------------|------------------------------|------------------------------|
| Cash on hand | 3,040 | 2,959 |
| Cash at banks | 1,766,494 | 2,526,650 |
| Short-term deposits | 5,535,590 | 4,698,167 |
| | <u>7,305,124</u> | <u>7,227,776</u> |

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NOTES TO THE FINANCIAL STATEMENTS – (continued)
FOR THE YEAR ENDED 31 December 2011

4. RECEIVABLES FROM ELECTRICITY CONSUMERS AND ACCRUED REVENUES, NET

| | <i>2011</i> <i>SR'000</i> | <i>2010</i> <i>SR'000</i> |
|--|------------------------------|------------------------------|
| Electricity subscribers' receivable | | |
| Governmental institutions | 2,870,026 | 1,071,839 |
| Commercial and residential | 4,861,644 | 5,388,427 |
| VIPs consumers | 2,359,212 | 2,216,405 |
| Saudi Aramco | 1,908,179 | 1,468,493 |
| Electricity connection receivables | 1,011,039 | 571,858 |
| Saline Water Conversion Corporation | 335,981 | 362,984 |
| Total electricity subscribers' receivable | <u>13,346,081</u> | <u>11,080,006</u> |
| Less: Provision for doubtful receivables | <u>(2,500,596)</u> | <u>(2,378,875)</u> |
| Net electricity subscribers' receivable | 10,845,485 | 8,701,131 |
| Add: Accrued revenues | <u>1,181,715</u> | <u>1,263,876</u> |
| Total | <u><u>12,027,200</u></u> | <u><u>9,965,007</u></u> |

The movement in the provision for doubtful receivables during the years as follows:

| | <i>2011</i> <i>SR'000</i> | <i>2010</i> <i>SR'000</i> |
|--------------------------------|------------------------------|------------------------------|
| Balance, beginning of the year | 2,378,875 | 2,121,311 |
| Charge for the year | <u>121,721</u> | <u>257,564</u> |
| Balance, end of the year | <u><u>2,500,596</u></u> | <u><u>2,378,875</u></u> |

5. PREPAYMENTS AND OTHER RECEIVABLES, NET

| | <i>2011</i> <i>SR'000</i> | <i>2010</i> <i>SR'000</i> |
|--|------------------------------|------------------------------|
| Advances to contractors and suppliers | 3,899,552 | 2,789,535 |
| Other government receivables (Note 17-b) | 244,173 | 244,173 |
| Outstanding letter of credit | 185,575 | 203,956 |
| Prepaid expenses | 10,477 | 20,940 |
| Other receivables, net | <u>568,780</u> | <u>437,421</u> |
| Total | 4,908,557 | 3,696,025 |
| Less: Provision for other doubtful receivables | <u>(60,789)</u> | <u>(60,789)</u> |
| | <u><u>4,847,768</u></u> | <u><u>3,635,236</u></u> |

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NOTES TO THE FINANCIAL STATEMENTS – (continued)
FOR THE YEAR ENDED 31 December 2011

6. INVENTORIES, NET

| | <i>2011</i> <i>SR'000</i> | <i>2010</i> <i>SR'000</i> |
|---|------------------------------|------------------------------|
| Generation plant materials and supplies | 3,086,034 | 3,130,904 |
| Distribution network materials and supplies | 1,792,098 | 1,863,213 |
| Transmission network materials and supplies | 394,866 | 290,027 |
| Fuel and oil | 326,160 | 401,933 |
| Other | 227,713 | 219,870 |
| Total | <u>5,826,871</u> | <u>5,905,947</u> |
| Less: Provision for slow moving inventories | <u>(264,021)</u> | <u>(201,061)</u> |
| | <u><u>5,562,850</u></u> | <u><u>5,704,886</u></u> |

The movement of provision for slow-moving inventories during the years as follows:

| | <i>2011</i> <i>SR'000</i> | <i>2010</i> <i>SR'000</i> |
|--------------------------------|------------------------------|------------------------------|
| Balance, beginning of the year | 201,061 | 189,881 |
| Charge for the year | <u>62,960</u> | <u>11,180</u> |
| Balance, end of the year | <u><u>264,021</u></u> | <u><u>201,061</u></u> |

7. EQUITY INVESTMENTS IN COMPANIES AND OTHERS

| | <i>2011</i> <i>SR'000</i> | <i>2010</i> <i>SR'000</i> |
|---|------------------------------|------------------------------|
| Investments accounted for under the equity method (a) | 1,855,392 | 1,899,140 |
| Other investments, at cost (b) | 125,650 | 1,210 |
| Held to maturity investments (c) | <u>425,000</u> | <u>400,000</u> |
| | <u><u>2,406,042</u></u> | <u><u>2,300,350</u></u> |

a) Investments accounted for under the equity method

| | Ownership % | <i>2011</i> <i>SR'000</i> | <i>2010</i> <i>SR'000</i> |
|--|----------------|------------------------------|------------------------------|
| Gulf Cooperation Council Interconnection Authority (a-1) | 31.6 | 1,830,937 | 1,876,842 |
| Water and Electricity Company (a-2) | 50 | 13,955 | 13,798 |
| Rass Al Zoor Water and Electricity company (a-3) | 20 | - | 1,000 |
| Hajr for Electricity Production Company (a-4) | 50 | 5,000 | 2,000 |
| Dawiyat Telecom Company (a-5) | 100 | 1,000 | 1,000 |
| Sukuk Electricity Company (a-6) | 100 | 500 | 500 |
| Rabigh Electricity Company (a-7) | 20 | 2,000 | 2,000 |
| Dhuruma Electricity Company (a-8) | 50 | <u>2,000</u> | <u>2,000</u> |
| | | <u><u>1,855,392</u></u> | <u><u>1,899,140</u></u> |

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7. EQUITY INVESTMENTS IN COMPANIES AND OTHERS – (continued)

(a-1) Gulf Cooperation Council Interconnection Authority

The Company has contributed in the capital of the Gulf Cooperation Council Interconnection Authority (hereafter referred to as “GCCIA”) to enhance the electricity transmission and distribution between the member countries. The Company’s contribution in GCCIA amounts to USD 484.80 million equivalent to SR 1,818 million.

(a-2) Water and Electricity Company

The Company entered into a partnership agreement with Saline Water Conversion Corporation to establish a jointly owned limited liability company in the name of Water and Electricity Company pursuant to the Supreme Economic Council’s Decision No. 5/23 dated Rabi’ Al-Awal 23, 1423H which encourages the participation of the private sector in the water desalination project. The Company’s share of inception amounting to SR 15 million was paid in full and consists of 300,000 share representing 50% of the investee’s share capital.

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

Based on the Company’s Board of Directors Resolution No. 02/73/2007 dated Dhu Al Hijjah 1, 1428H, the Company entered into a partnership with the Public Investment Fund to establish Rass Al Zoor Water and Electricity Company, a joint stock company formed pursuant to the Royal Decree No. 77 dated Ramadan 14, 1428H. The Company’s share at inception amounting to SR 1 million was paid in full and represents 20% of the investee’s share capital. In February 2011, the Company has received a certificate from Ministry of Commerce and Industry, cancelling the Rass Al Zoor Water and Electricity Company’s commercial registration due to cancellation of Ras Al Zoor electricity and water project. Accordingly, the investment account of Rass Al Zoor Water and Electricity Company has been closed and the Company has refunded the amounts paid previously.

(a-4) Hajr for Electricity Production Company

Pursuant to the board of directors’ resolution No. 4/95/2010 dated 12/9/1431H corresponding to 22/8/2010, this company has been established with a capital of SR 2 million. During 2011, a new partner has been admitted and the capital has been increased by SR 8 million to become SR 10 million. The company’s share represents 50% of the partners’ shareholding. The financial statements of Hajr for Electricity Production Company have not been consolidated because of immateriality.

(a-5) Dawiyat Communication Company

Pursuant to the board of directors’ resolution No. 2/86/2009 dated 8/5/1430H corresponding to 3/5/2009, Dawiyat Communication Company has been established with a paid up capital of SR 1 million, and represents 100% of the investee’s share capital. The financial statements of Dawiyat Communication Company have not been consolidated because of immateriality.

(a-6) Sukuk Electricity Company

Pursuant to the board of directors’ resolution No. 3/67/2007 dated 22/3/1428H corresponding to 10/4/2007, Sukuk Electricity Company has been established with a paid up capital of SR 500 thousand, and represents 100% of the investee’s share capital. The financial statements of Sukuk Electricity Company have not been consolidated because of immateriality.

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NOTES TO THE FINANCIAL STATEMENTS – (continued)
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7. EQUITY INVESTMENTS IN COMPANIES AND OTHERS – (continued)

(a-7) Rabigh Electricity Company

Based on the company's Board of Directors Resolution No. 06/76/2008 dated Jumada Al-Awal 26, 1429H corresponding to June 3, 2008, the Company established Rabigh Electricity Company. The Company's share capital amounting to SR 2 million was paid in full and represents 100% of the investee's share capital.

During the third quarter of 2009, Rabigh Electricity Company increased its capital from SR 2 million to SR 10 million by admission of new partners which resulted in the decrease of Saudi Electricity Company's share from 100% to 20%.

(a-8) Dhuruma Electricity Company

Based on Ministerial Resolution No. 4/88/2009 dated Ramadan 18, 1430H corresponding to September 8, 2009, the Company established Dhuruma Electricity Company (a closed joint stock company) with a share capital of SR 2 million. During the year, a new partner joined the Company and the share capital was increased by the same amount to become SR 4 million and the Saudi Electricity Company's share becomes 50% of total partners' shareholding. The financial statements of Dhuruma Electricity Company have not been consolidated because of immateriality.

b) Other investments, at cost

| | Ownership % | <i>2011</i> <i>SR'000</i> | <i>2010</i> <i>SR'000</i> |
|--|----------------|------------------------------|------------------------------|
| Al-Shuaiba Water and Electricity company | 8 | 124,840 | 400 |
| Al-Shuqaiq Water and Electricity company | 8 | 400 | 400 |
| Al-Jubail Water and Electricity company | 5 | 250 | 250 |
| Al-Shuaiba Holding Company | 8 | 160 | 160 |
| Total other investments, at cost | | <u>125,650</u> | <u>1,210</u> |

c) Held to maturity investments

| | <i>2011</i> <i>SR'000</i> | <i>2010</i> <i>SR'000</i> |
|--|------------------------------|------------------------------|
| Saudi Basic Industries Corporation Sukuk | 300,000 | 300,000 |
| Bin Laden Company Sukuk | 50,000 | 50,000 |
| SAAB bonds | 50,000 | 50,000 |
| SATORP Sukuk | 25,000 | - |
| Total held to maturity investments | <u>425,000</u> | <u>400,000</u> |

d) Share in net (loss) earnings of investees accounted for under equity method

| | <i>2011</i> <i>SR'000</i> | <i>2010</i> <i>SR'000</i> |
|--|------------------------------|------------------------------|
| Gulf Corporation Council Interconnection Authority | (45,905) | (21,807) |
| Water and Electricity Company | 158 | 137 |
| Total | <u>(45,747)</u> | <u>(21,670)</u> |

Saudi Electricity Company
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NOTES TO THE FINANCIAL STATEMENTS – (continued)
FOR THE YEAR ENDED 31 December 2011

8. CONSTRUCTION WORK IN PROGRESS

| | <i>2011</i> <i>SR'000</i> | | | | <i>2010</i> <i>SR'000</i> | |
|------------------------------------|------------------------------|--------------------------|--------------------------|------------------|------------------------------|-------------------|
| | Generation projects | Transmission projects | Distribution projects | General projects | <i>Total</i> | <i>Total</i> |
| At the beginning of the year | 15,424,059 | 6,407,377 | 3,930,639 | 276,111 | 26,038,186 | 32,214,782 |
| Additions during the year | 13,771,788 | 7,121,405 | 7,709,853 | 368,507 | 28,971,553 | 28,331,746 |
| Transfer to fixed assets | (18,727,487) | (7,154,491) | (6,558,211) | (308,739) | (32,748,928) | (34,508,342) |
| Balance at 31 December 2011 | <u>10,468,360</u> | <u>6,374,291</u> | <u>5,082,281</u> | <u>335,879</u> | <u>22,260,811</u> | |
| Balance at 31 December 2010 | <u>15,424,059</u> | <u>6,407,377</u> | <u>3,930,639</u> | <u>276,111</u> | | <u>26,038,186</u> |

Net borrowing cost capitalized on projects under construction during the year amounted to SR 1,151 million (2010: SR 1,070 million).

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NOTES TO THE FINANCIAL STATEMENTS – (continued)
FOR THE YEAR ENDED 31 December 2011

9. FIXED ASSETS, NET

| | <i>Land</i> <i>SR'000</i> | <i>Buildings</i> <i>SR'000</i> | <i>Machinery and</i> <i>equipment</i> <i>SR'000</i> | <i>Capital spare</i> <i>parts</i> <i>SR'000</i> | <i>Vehicles</i> <i>and heavy</i> <i>equipment</i> <i>SR'000</i> | <i>Others</i> <i>SR'000</i> | <i>Total</i> <i>2011</i> <i>SR'000</i> | <i>Total</i> <i>2010</i> <i>SR'000</i> |
|------------------------------|------------------------------|-----------------------------------|---|---|--|--------------------------------|--|--|
| Cost: | | | | | | | | |
| At the beginning of the year | 1,579,661 | 14,851,163 | 241,348,391 | 3,428,258 | 1,274,831 | 2,610,858 | 265,093,162 | 230,793,514 |
| Additions | 56,090 | 805,908 | 30,586,847 | 368,593 | 97,704 | 1,073,967 | 32,989,109 | 34,673,046 |
| Disposals | (85) | (22,496) | (212,825) | - | - | (8) | (235,414) | (373,398) |
| Reclassification | - | - | 129,702 | - | - | (129,702) | - | - |
| At the end of the year | <u>1,635,666</u> | <u>15,634,575</u> | <u>271,852,115</u> | <u>3,796,851</u> | <u>1,372,535</u> | <u>3,555,115</u> | <u>297,846,857</u> | <u>265,093,162</u> |
| Depreciation: | | | | | | | | |
| At the beginning of the year | - | 9,199,208 | 115,831,695 | 1,834,861 | 958,962 | 1,633,450 | 129,458,176 | 121,433,903 |
| Charge for the year | - | 543,846 | 8,642,288 | 160,960 | 98,561 | 491,405 | 9,937,060 | 8,380,206 |
| Disposals | - | (18,734) | (202,900) | - | - | (4) | (221,638) | (355,933) |
| Reclassification | - | - | 2,002 | - | - | (2,002) | - | - |
| At the end of the year | <u>-</u> | <u>9,724,320</u> | <u>124,273,085</u> | <u>1,995,821</u> | <u>1,057,523</u> | <u>2,122,849</u> | <u>139,173,598</u> | <u>129,458,176</u> |
| Net book amounts: | | | | | | | | |
| At 31 December 2011 | <u>1,635,666</u> | <u>5,910,255</u> | <u>147,579,030</u> | <u>1,801,030</u> | <u>315,012</u> | <u>1,432,266</u> | <u>158,673,259</u> | |
| At 31 December 2010 | <u>1,579,661</u> | <u>5,651,955</u> | <u>125,516,696</u> | <u>1,593,397</u> | <u>315,869</u> | <u>977,408</u> | | <u>135,634,986</u> |

Included in land are plots of land with book value of SR 276 million (2010: SR 276 million), the title deeds of which have not yet been transferred to the Company's name.

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NOTES TO THE FINANCIAL STATEMENTS – (continued)
FOR THE YEAR ENDED 31 December 2011

9. FIXED ASSETS, NET – (continued)

Net book value of the Company's fixed assets is distributed among the main activities as follows:

| | <i>2011</i> <i>SR'000</i> | | | | |
|------------------------------|------------------------------|-------------------|-------------------|---------------------|--------------------|
| | Generation | Transmission | Distribution | General Property | Total |
| Land | 245,285 | 587,443 | 225,243 | 577,695 | 1,635,666 |
| Buildings | 2,722,760 | 2,120,588 | 152,154 | 914,753 | 5,910,255 |
| Machinery & equipment | 61,584,469 | 46,955,880 | 38,746,741 | 291,940 | 147,579,030 |
| Capital spare parts | 1,365,071 | 415,759 | 20,017 | 183 | 1,801,030 |
| Vehicles and heavy equipment | - | - | - | 315,012 | 315,012 |
| Others | 900,059 | 394,846 | 44,714 | 92,647 | 1,432,266 |
| | <u>66,817,644</u> | <u>50,474,516</u> | <u>39,188,869</u> | <u>2,192,230</u> | <u>158,673,259</u> |

| | <i>2010</i> <i>SR'000</i> | | | | |
|------------------------------|------------------------------|-------------------|-------------------|---------------------|--------------------|
| | Generation | Transmission | Distribution | General Property | Total |
| Land | 245,236 | 587,388 | 225,249 | 521,788 | 1,579,661 |
| Buildings | 2,695,481 | 1,870,261 | 154,903 | 931,310 | 5,651,955 |
| Machinery & equipment | 47,654,610 | 42,805,030 | 34,710,509 | 346,547 | 125,516,696 |
| Capital spare parts | 1,162,176 | 410,055 | 20,940 | 226 | 1,593,397 |
| Vehicles and heavy equipment | - | - | - | 315,869 | 315,869 |
| Others | 532,312 | 308,036 | 30,104 | 106,956 | 977,408 |
| | <u>52,289,815</u> | <u>45,980,770</u> | <u>35,141,705</u> | <u>2,222,696</u> | <u>135,634,986</u> |

Depreciation expenses charged to various activities during the year ended December 31 is as follows:

| | <i>2011</i> <i>SR'000</i> | <i>2010</i> <i>SR'000</i> |
|---------------------------------------|------------------------------|------------------------------|
| Generation depreciation expense | 4,199,706 | 3,201,761 |
| Transmission depreciation expense | 2,788,722 | 2,438,954 |
| Distribution depreciation expense | 2,613,351 | 2,386,302 |
| General property depreciation expense | 335,281 | 353,189 |
| | <u>9,937,060</u> | <u>8,380,206</u> |

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NOTES TO THE FINANCIAL STATEMENTS – (continued)
FOR THE YEAR ENDED 31 December 2011

10. ACCOUNTS PAYABLE

| | <i>2011</i> <i>SR'000</i> | <i>2010</i> <i>SR'000</i> |
|--|------------------------------|------------------------------|
| Saudi Aramco for fuel cost | 51,419,456 | 46,227,372 |
| Transferred to Government account (a) | (40,959,482) | (40,959,482) |
| Saudi Aramco payable for fuel cost | 10,459,974 | 5,267,890 |
| Saline Water Conversion Corporation for energy purchased | 8,453,968 | 8,080,770 |
| Contractors and retention payables | 761,301 | 691,138 |
| Municipality fees | 3,241,135 | 2,804,236 |
| Payables to suppliers | 93,587 | 613,496 |
| Advances received for construction of projects | 633,768 | 1,966,612 |
| Other (b) | 2,591,612 | 2,451,901 |
| | 26,235,345 | 21,876,043 |

(a) As stated in note (17-a), Amounts payable for fuel for the period from April 5, 2000 to December 31, 2009 amounting to SR 41 billion have been transferred from the liability to Saudi Aramco to non-current government liability.

(b) Other payables include SR 1,280 million (2010: SR 1,280 million) which are still under reconciliation between the Company and the Government and pertain to prior-merger account (refer to Note 1).

11. ACCRUALS AND OTHER PAYABLES

| | <i>2011</i> <i>SR'000</i> | <i>2010</i> <i>SR'000</i> |
|-----------------------------|------------------------------|------------------------------|
| Accrued expenses | 3,631,647 | 3,386,288 |
| Accrued employees' benefits | 370,139 | 347,162 |
| Dividends payable * | 339,940 | 329,530 |
| Accrued Murabaha on loans | 82,389 | 125,292 |
| Other | 181,827 | 213,946 |
| | 4,605,942 | 4,402,218 |

* Dividends payable as of December 31, 2011 include unclaimed cash dividends declared by Saudi Consolidated Electricity Company prior to merge amounting to SR 91.5 million (2010: SR 93.8 million).

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FOR THE YEAR ENDED 31 December 2011

12. ZAKAT

The major elements of zakat base are as follows:

| | <u>2011</u> <u>SR</u> | <u>2010</u> <u>SR</u> |
|-------------------------|----------------------------|---------------------------|
| Net income before zakat | 2,213,159 | 2,279,088 |
| Add: Zakat adjustment | (12,296,312) | (8,440,903) |
| Net adjusted loss | <u>(10,083,153)</u> | <u>(6,161,815)</u> |

Zakat base is calculated as follows:

| | <u>2011</u> <u>SR</u> | <u>2010</u> <u>SR</u> |
|---|----------------------------|----------------------------|
| Capital | 41,665,938 | 41,665,938 |
| Net adjusted loss | (10,083,153) | (6,161,815) |
| Retained reserves | 1,869,353 | 1,640,044 |
| Retained earnings | 7,123,345 | 5,071,166 |
| Retained allowances | 7,050,373 | 6,761,296 |
| Long term loans and sukuk | 36,816,001 | 30,821,707 |
| Government loans | 67,891,719 | 18,688,060 |
| Consumers deposits, government liabilities and contractors accruals | 2,558,748 | 2,730,762 |
| Total | 154,892,324 | 101,217,158 |
| Deduct: | | |
| Fixed assets and construction work in progress, net | (131,259,163) | (107,525,831) |
| Difference on fixed assets for previous years | (41,576,007) | (32,287,433) |
| Long term investments | (2,406,042) | (2,296,850) |
| Material and spare parts inventories | (4,218,398) | (4,563,909) |
| Zakat base (negative) | <u>(24,567,286)</u> | <u>(45,456,865)</u> |

Zakat has not been provided for during the year ended 31 December 2011 because of the net adjusted loss and zakat base is negative.

The final zakat assessments raised by the Department of Zakat and Income Tax (DZIT) for the period from 5 April 2000 (Date of Merger) to 31 December 2001 and for the year 2002 show zakat differences of SR 13 million, due to the DZIT's computation of zakat on differences due from Aramco on revenue from its residential facilities on which electricity is calculated based on industrial tariff instead of commercial tariff. The Company has not reflected those difference in these financial statements; believing that this claim will never be settled because zakat will never be paid on unearned income and not recorded in the Company's accounts. The Company has received the final assessments for the years 2003 to 2008 which showed zakat differences of SR 24.5 million for the years 2003 and 2004. The Company filed an appeal against these differences which is still pending. The Company filed its zakat returns for the years 2009 to 2010 and are still under review by DZIT.

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FOR THE YEAR ENDED 31 December 2011

13. LONG-TERM LOANS

| | <i>2011</i> <i>SR'000</i> | <i>2010</i> <i>SR'000</i> |
|------------------------------|------------------------------|------------------------------|
| At the beginning of the year | 11,821,707 | 7,340,257 |
| Withdrawal during the year | 6,084,670 | 5,594,548 |
| Repayments during the year | (1,191,489) | (1,113,098) |
| At the end of the year | 16,714,888 | 11,821,707 |
| Less: Current portion | (3,133,100) | (1,189,317) |
| | 13,581,788 | 10,632,390 |

The maturities for the next years as of December 31 are as follows:

| | <i>2011</i> <i>SR'000</i> | <i>2010</i> <i>SR'000</i> |
|------------------------------|------------------------------|------------------------------|
| Between one and two years | 1,468,000 | 1,017,783 |
| Between two and three years | 1,468,000 | 1,123,000 |
| Between three and four years | 1,468,000 | 1,123,000 |
| Between four and five years | 1,468,000 | 1,123,000 |
| After five years | 7,709,788 | 6,245,607 |
| | 13,581,788 | 10,632,390 |

- (a) On 28 July 2008, the Company obtained a sharia-compliant loan for SR 6 billion from syndicates of local banks which has been fully withdrawn. The loan is repayable over 22 semi-annual installments starting 3 November 2009. The loan balance amounted to SR 4.6 billion as of 31 December 2011 (2010: SR 5.2 billion). The loan is subject to certain financial covenants in which the Company was compliant with as at 31 December 2011.
- (b) The Company agreed with U.S. Export-Import Bank, and the Export Development Bank of Canada on 21 June 2009 and signed a financing agreement on 27 January 2010, whereby the Company will receive a direct loan amounting to US\$ 1.1 billion equivalent to approximately SR 4.1 billion which has been fully withdrawn. The loan is repayable within 12 years in 24 semi-annual installments starting 25 May 2010. The loan balance amounted to SR 3.4 billion as of 31 December 2011 (2010: SR 3.8 billion).
- (c) On 13 July 2009, the Company signed a financing agreement with the Public Investments Fund whereby the Company will receive a direct loan of SR 2.6 billion which has been fully withdrawn. The loan is repayable within 15 years in 24 semi-annual installments. The loan balance amounted to SR 2.6 billion as of 31 December 2011 (2010: SR 2.6 billion).
- (d) On 13 December 2010, the Saudi Electricity Company signed an agreement with a syndicate of local banks, whereby the Company will obtain a sharia - compliant loan of SR 5 billion, repayable over 26 semi-annual installments within 24 months after the date of signing the agreement. The loan balance amounted to SR 0.5 billion as of 31 December 2011 (2010: SR Nil).

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NOTES TO THE FINANCIAL STATEMENTS – (continued)
FOR THE YEAR ENDED 31 December 2011

13. LONG-TERM LOANS – (continued)

- (e) On 12 March 2011, Saudi Electricity Company signed an agreement with Tokyo-Mitsubishi Bank, whereby the Company will receive a loan amounting to US\$ 0.5 billion equivalent to SR 1.9 billion, which has been fully withdrawn. The loan is repayable fully at one installment within 12 months from the first withdrawal. The agreement allows the Company to extend the original maturity date of loan for 12 months. The loan balance amounted to SR 1.9 billion as of 31 December 2011 (2010: SR Nil).
- (f) On 22 June 2011, the Company signed an agreement with Export and Import, France, The Company will receive a loan amounting to US\$ 989.1 million equivalent to SR 3.7 billion which had been fully withdrawn. The loan is repayable within 12 years in 24 semi-annual installments starting 11 January 2012. The loan balance amounted to SR 3.7 billion as of 31 December 2011 (2010:SR Nil).

Long term loans mentioned above are used to finance the construction work in progress projects. These loans are secured by promissory notes signed by the Company at the nominal amount of the loan plus the interest payments and/or Murrabaha Margin.

The Company has an unutilized credit facilities with local banks amounting to SR 1 billion as at 31 December 2011 (2010: SR 1 billion).

14. SUKUK

The outstanding Sukuk as of 31 December 2011 are as follows:

| <u>Issue</u> | <u>Date of issue</u> | <u>Par value</u> | <u>Total issued amount</u> | <u>Maturity date</u> |
|--------------|----------------------|------------------|----------------------------|----------------------|
| Sukuk 1 | 23 July 2007 | SR 500.000 | SR 5 Billion | 2027 |
| Sukuk 2 | 6 July 2009 | SR 100.000 | SR 7 Billion | 2029 |
| Sukuk 3 | 10 May 2010 | SR 10,000 | SR 7 Billion | 2030 |

The above Sukuk have been, issued at par value with no discount nor premium. The Sukuk bear a rate of return at SIBOR plus a margin payable quarterly from the net income received from the Sukuk assets held by the Sukuk custodian “Electricity Sukuk Company”, a wholly owned subsidiary of the Company.

The Company has undertaken to purchase these Sukuk from Sukuk holders at dates specified in prospectus. For each purchase date, the Company shall pay an amount equal to 10% of the aggregate face value of the Sukuk as bonus to the Sukuk holders. The purchase price is determined by multiplying Sukuk’s par value at the percentage shown against the purchase date, as follows:

| <u>Issue</u> | <u>Percentage</u> | | |
|--------------|----------------------------|-----------------------------|----------------------------|
| | <u>90%</u> | <u>60%</u> | <u>30%</u> |
| | <u>First purchase date</u> | <u>Second purchase date</u> | <u>Third purchase date</u> |
| Sukuk 1 | 2012 | 2017 | 2022 |
| Sukuk 2 | 2014 | 2019 | 2024 |
| Sukuk 3 | 2017 | 2020 | 2025 |

Saudi Electricity Company
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NOTES TO THE FINANCIAL STATEMENTS – (continued)
FOR THE YEAR ENDED 31 December 2011

15. EMPLOYEES' INDEMNITIES

| | <i>2011</i> <i>SR'000</i> | <i>2010</i> <i>SR'000</i> |
|--|------------------------------|------------------------------|
| Provision for end-of-service indemnities | 4,536,870 | 4,480,977 |
| Savings program | 301,639 | 209,241 |
| | 4,838,509 | 4,690,218 |

16. DEFERRED REVENUES, NET

| | <i>2011</i> <i>SR'000</i> | <i>2010</i> <i>SR'000</i> |
|--|------------------------------|------------------------------|
| At the beginning of the year | 16,736,945 | 14,970,527 |
| Proceeds from connection tariff services during the year | 5,138,675 | 2,963,512 |
| Electrical connection tariff | (1,406,045) | (1,197,094) |
| | 20,469,575 | 16,736,945 |

17. LONG-TERM GOVERNMENT PAYABLES

- a) Accounts payable for fuel for the period from 5 April 2000 to 31 December 2009 amounting to SR 41 billion have been reclassified from current liabilities to non-current liabilities (long-term governmental payables) pursuant to the Ministerial minutes of meeting dated 15 Jumada Awal 1427H and 6 Safar 1433H based on the Ministerial Resolution number 277, which resolved to transfer the Company's liability of Saudi Aramco to the account of the Ministry of Finance (note 10-a).
- b) During the fourth quarter of year 2010, the Company transferred certain transmission and distribution network assets located in Jubail Industrial City from Royal Commission for Jubail and Yanbu to the Company with a net book value amounting to SR 744 million. This liability has been recorded as long term government payables. The pre-merger accumulated depreciation estimated to be SR 244 million has been recorded as due from government and included within prepayments and other receivables (note5). These transactions have been accounted for retroactively (note 30).

Saudi Electricity Company
(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS – (continued)
FOR THE YEAR ENDED 31 December 2011

18. GOVERNMENT LOANS

- (a) Pursuant to the Ministerial resolution number 169 dated Sha'ban 11, 1419H, the net dues of the Government to the Saudi Electricity Company and the net dues of the Company to the Government were determined in accordance with rules and procedures stipulated in the minutes of meetings signed by his HE the Minister of Industry and Electricity and HE the Minister of Finance and National Economy dated Jumada Thani 27, 1418H corresponding to October 29, 1997. The net difference payable to the Government by the Company, as determined at the close of the business day preceding the issuance of the Royal Decree for the incorporation of the Company, is considered a long-term non-interest bearing loan (soft loan) with a grace period of twenty five years starting from the date of the announcement of the incorporation of the Company. The loan is to be revisited later on subject to the financial condition of the Government and the Company.

The minutes of the meeting held on Rajab 21, 1422H between the Minister of Industry and Electricity and the Minister of Finance and National Economy in which the initial amount of the Government loan was determined, states that the final settlement of Government accounts will be subject to the reconciliation for the claims of the Company from Government entities, and the loan amount shall be adjusted accordingly. During 2005, the Company finalized the amount due which included the claims of the Company and the amounts due to the Government and the agreement was signed between the Minister of Water and Electricity and the Minister of Finance on Rajab 15, 1426H which brought the balance of Government loan amounted to SR 14.9 billion.

- (b) The Council of Ministers approved in its meeting held on Monday 12 Jumada Awal 1431H corresponding to 26 April 2010 to grant the Company a non-interest bearing loan (soft loan) amounting to SR 15 billion repayable over 25 years. The loan will be paid to the Company within 2 years in accordance with an agreement that will be prepared for this purpose between the Ministry of Finance and the Saudi Electricity Company. The agreement was signed on 15 Ramadan 1431H, corresponding to 25 August 2010 and an amount of SR 11.3 billion from this loan has been withdrawn as at 31 December 2011. The Company has recognized the amount received from the government loan above discounted at its present value as per the accounting policies in Note (2).
- (c) The Council of Ministers approved in its meeting held on Monday 11 Rajab 1432H corresponding to 13 June 2011 to grant the Company a non-interest bearing loan (soft loan) amounting to SR 51.1 billion, repayable over 25 years, The loan will be paid to the Company within 5 years in accordance with an agreement that will be prepared for this purpose between the Ministry of Finance and the Saudi Electricity Company. No amounts have been withdrawn from this loan as at balance sheet date.

19. DERIVATIVES

The Company entered into interest rate hedging contracts with several banks to hedge the fluctuation of interest rates on loans for an amount of SR 3.4 billion on 31 December 2011 which includes a US Dollar portion representing approximately 15% of the national amount. The hedging contracts are based on the swap between the Company and the banks of fixed rates against floating rates on the original loan amounts every six-months.

The Company signed forward exchange currency agreements with local banks aiming to fix the Euro exchange rate against the U.S. Dollar exchange rate to cover the Company's future commitments and protect them from currency rate fluctuations.

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NOTES TO THE FINANCIAL STATEMENTS – (continued)
FOR THE YEAR ENDED 31 December 2011

20. SHARE CAPITAL

The share capital of the Company is SR 41,665,938,150 divided into 4,166,593,815 shares with a par value of SR 10 each and is held as follows:

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

21. GENERAL RESERVE

General reserve consists of the balances of the reserves amounting to SR 213,668 Thousands that were reflected in the books of the Saudi Electricity Company at the date of the merger, and investment income from electricity fund of SR 294,976 as well as the collections of surcharge from individuals subsequent to December 31, 2001 amounting to SR 29,699 thousand up to December 31, 2011 (2010: SR 27,533 thousand). The total general reserve amounted to SR 538,343 thousand as at December 31, 2011(2010: SR 536,177 thousand).

22. OPERATION AND MAINTENANCE EXPENSES

| | <i>2011</i> <i>SR '000</i> | | | | <i>2010</i> <i>SR '000</i> |
|--|-------------------------------|---------------------|---------------------|------------------|-------------------------------|
| | <u>Generation</u> | <u>Transmission</u> | <u>Distribution</u> | <u>Total</u> | <u>Total</u> |
| Employees' expenses and benefits | 1,288,171 | 910,581 | 2,365,486 | 4,564,238 | 4,022,932 |
| Materials | 712,916 | 109,954 | 234,539 | 1,057,409 | 1,113,808 |
| Operation and maintenance (contractors) | 405,862 | 109,593 | 372,263 | 887,718 | 703,413 |
| Provision for doubtful receivables | - | - | 121,721 | 121,721 | 257,564 |
| Provision for slow moving inventory | 36,740 | 8,070 | 10,950 | 55,760 | 9,490 |
| Municipality fees | - | - | 436,969 | 436,969 | 394,083 |
| Others | 875,341 | 84,060 | 355,061 | 1,314,462 | 1,251,653 |
| | <u>3,319,030</u> | <u>1,222,258</u> | <u>3,896,989</u> | <u>8,438,277</u> | <u>7,752,943</u> |

Saudi Electricity Company
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NOTES TO THE FINANCIAL STATEMENTS – (continued)
FOR THE YEAR ENDED 31 December 2011

23. GENERAL AND ADMINISTRATIVE EXPENSES

| | <i>2011</i> <i>SR'000</i> | <i>2010</i> <i>SR'000</i> |
|-------------------------------------|------------------------------|------------------------------|
| Employees' expenses and benefits | 230,489 | 264,407 |
| Materials | 41,410 | 37,521 |
| Provision for slow moving inventory | 7,200 | 1,690 |
| Others | 81,136 | 85,454 |
| | 360,235 | 389,072 |

24. OTHER INCOME AND EXPENSES, NET

| | <i>2011</i> <i>SR'000</i> | <i>2010</i> <i>SR'000</i> |
|--|------------------------------|------------------------------|
| Gain on disposal of fixed assets | 25,860 | 97,833 |
| Penalties | 172,969 | 118,747 |
| Share in net loss of investee companies accounted for under the equity method (Note 7-d) | (45,747) | (21,670) |
| Sale of tender documents | 28,952 | 27,063 |
| Others, net | 224,715 | 206,715 |
| | 406,749 | 428,688 |

25. DIVIDENDS

In accordance with the Company's by-laws, dividends of at least 5% of paid in capital, net of reserve, should be distributed to shareholders, with due care to the provisions of the Council of Ministers' Resolution No. 169 dated 11 Sha'aban 1419H, whereby the Government has waived its share from the distributed dividends for a period of ten years from the date of the Company's formation, provided that dividends do not exceed 10% of the par value of the shares. In cases where the distribution exceeds 10% of the shares' par value, the Government's share shall be treated similar to the share of other shareholders. The Government has agreed to extend this waiver for another ten years commencing from 30 Thul Hijja 1430H, based on the Council of Ministers' Resolution No. 327 dated 24 Ramadan 1430H.

The General Assembly, in its meeting held on 4 April 2011, approved the distribution of cash dividends for 2010 individuals shareholders amounting to SR 547 million (SR 0.7 per share) representing 7% of the par value per share (2009: SR 547 million).

The board of directors in its meeting held on 19 February 2012, proposed to distribute cash dividends for 2011 to individuals shareholders amounting to SR 547 million. (SR 0.7- per share), representing - 7% of the par value per share. These are subject to the approval of the Company's general meeting.

Saudi Electricity Company
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NOTES TO THE FINANCIAL STATEMENTS – (continued)
FOR THE YEAR ENDED 31 December 2011

26. BOARD OF DIRECTORS' REMUNERATION AND ALLOWANCES

The expenses and allowances attributable to attending the board of directors meetings and other subcommittee meeting for the year amounted to SR 605 thousand (2010: SR 625 thousand).

The general meeting has approved in its meeting held on 4 April 2011, board's remuneration for 2010 amounting to SR 0.8 million to be disbursed from retained earnings (2009: SR 0.8 million).

The board of directors in its meeting held on 19 February 2012, proposed board's remuneration of SR 0.7 million after the distribution of dividends to individual shareholders not less than 5% of the share capital. This is subject to general meeting's approval.

27. RELATED PARTIES TRANSACTIONS

- a. The Company provides electricity power to governmental agencies, ministries and Saudi Aramco. The tariff applied are approved by the Council of Ministers and are similar to these applied to other subscribers, except for the tariff used for Saline Water Conversion Corporation (SWCC) for which a government resolution was issued. As for the residential property of Saudi Aramco, the Company believes that these should be charged with the commercial tariff. However, Saudi Aramco has objected to this tariff and is settling the electricity sales for all such properties based on the industrial tariff which resulted in a difference of SR 1,831 million from the Company's inception to 31 December 2011 (SR 1,745 million from the Company's inception to 31 December 2010). These differences have not been reflected in these financial statements. The Council of Ministers has issued the Resolution Number 114 dated 10 Rabi Thani 1430H to end this dispute and to charge Saudi Aramco on the basis of the residential and commercial tariff instead of industrial tariff. The Electricity and Co-generation Regulatory Authority will have to specify the residential and commercial enterprises of Saudi Aramco and to identify the concerned party to handle the cost of construction, maintenance and operation for power stations, transformers, distribution networks. Accordingly, Saudi Electricity Company, Saudi Aramco and the regulator (The Electricity and Co-generation Regulatory Authority) held several meetings to settle this matter.

In addition, the Company purchases fuel from Saudi Aramco and electricity from Saline Water Conversion Corporation at rates stipulated for in governmental resolutions. Also, fees are charged for municipalities on electricity power sales.

The significant transactions and related approximate balances are as follows:

| | <i>2011</i> <i>SR'000</i> | <i>2010</i> <i>SR'000</i> |
|-------------------------------------|------------------------------|------------------------------|
| Sales | | |
| Government | 7,150,973 | 6,927,911 |
| Saudi Aramco | 1,490,989 | 1,318,150 |
| Saline Water Conversion Corporation | 194,021 | 164,988 |
| | 8,835,983 | 8,411,049 |
| Purchases and Others | | |
| Saudi Aramco | 5,514,247 | 5,591,878 |
| Saline Water Conversion Corporation | 573,407 | 626,641 |
| Municipalities fees | 436,969 | 394,083 |
| | 6,524,623 | 6,612,602 |

Saudi Electricity Company (A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS – (continued) FOR THE YEAR ENDED 31 December 2011

28. CONTINGENT LIABILITIES

- a. There is a dispute between the Company and Saudi Aramco for handling crude oil fees. The disputed amount since the Company's inception on 5 April 2000 to 31 December 2011 amounted to approximately SR 2,886 million (2010: SR 2,472 million). The Company's management believes that there will be no liability on the Company based on the Royal Decree Number M/8 dated 25 Rajab 1415H as this matter was not discussed by the Ministerial Committee formed by the Royal Decree referred to above. Accordingly, the difference has not been recorded in the Company's books. In addition, Saudi Aramco is supplying the Company with light fuel oil rather than heavy fuel oil to one of its stations. This has resulted in an accumulated difference of SR 858 million (2010: SR 566 million) not accounted for in the Company's books.
- b. Saudi Aramco has also a claim for the settlement of its share in the annual dividends since inception to 31 December 2010, estimated at SR 1,937 million. The Company believes that Saudi Aramco has no right for this claim during the first 20 years of its formation being wholly owned government agency and accordingly, is governed by the Ministerial Resolution No. 169 dated 11 Sha'aban 1419H and Council of Ministries Resolution No. 327 dated 24 Ramadan 1430H, extending the Government's waiver of its rights in the dividends distributed by the Saudi Electricity Company for another ten years.
- c. The Company has provided guarantees to certain commercial banks against its share for financing a loan granted to some of its investee companies. The guarantee amounted to US\$ 117 million, equivalent to SR 440 million as at 31 December 2011 (2010: US\$ 112 million, equivalent to SR 419 million). In addition, the Company has provided a guarantee for the Department of Zakat and Income Tax amounting to SR 13 million (2010: SR 13 million).
- d. The company is contingently liable against outstanding letters of credit amounting to SR 0.30 million as of the balance sheet date (2010: SR 63 million).

29. ELECTRICITY SALES

Electricity sales increased mainly due to the increase in the quantity of power sold, in addition to tariff adjustment on governmental, commercial and industrial classes starting 1 July 2010.

30. PRIOR YEARS ADJUSTMENTS

At the end of the first quarter of year 2011, the Company has evaluated the derivative financial instruments of the hedging contracts related to fixed versus floating interest rate swaps. Consequently, the opening balances of the shareholders' equity change in fair value of hedging contracts - were adjusted by SR 388 million as of 1 January 2011 and by SR 472 million as of 1 January 2010.

As set in note (17), The Company transferred certain transmission and distribution network assets in Jubail Industrial City, owned by the Royal Commission for Jubail to the Company's retroactions, which resulted in adjusting the opening balances of retained earnings and statutory reserve for the year ended 31 December 2010.

31. CAPITAL COMMITMENTS

These comprise the unexecuted portion of capital contracts conducted by the Company for the erection and installation of power plants and other assets approximately amounting to SR 48,073 million (2010: SR 63,961 million). It is anticipated that these contracts to be completed between one to three years.

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NOTES TO THE FINANCIAL STATEMENTS – (continued)
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32. RISK MANAGEMENT

Financial instruments included in the balance sheet consist mainly of cash and cash equivalents, accounts receivable other assets, bank loans, account payable, accrued liabilities and other non-current liabilities.

Credit risk

Credit risk is the risk that one party will fail to discharge an obligation and will cause the other party to incur a financial loss. The Company has proper diversification as of credit risk. Cash is substantially placed financial institutions with sound investment grade credit ratings. Trade accounts receivable are shown, net of provision for doubtful debts..

Commission rate risk

Commission rate risk is the risk that the value of financial instrument will fluctuation due to changes in the market commission rates. The Company has no long-term assets commission bearing assets, but has liabilities associated with commission rates as of December 31, 2011. The Company manages its floating-rate loans through the use of commission rates hedging agreements, which have the economic effects to transfer the interest on the loans from floating to fixed rate.

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at an amount close to its fair value. The Company managers liquidated risk by monitoring them regulating to ensure that sufficient funds are available to meet its future liabilities.

Currency risk

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. The management monitors the fluctuations in currency exchange rates and charge the results to financial statements accordingly.

Fair value risk

Fair value is the amount for which an asset could be exchanged, or a liability settled between knowledgeable willing parties in an arm's length transaction. As the Company's financial instruments are prepared under the historical cost convention, differences can arise between the carrying values and fair value estimates. Management believes that the fair values of the Company's financial assets and liabilities are not materially different from their carrying values.

33. FUTURE RESTRUCTURE FOR THE COMPANY'S ACTIVITIES

The Company is currently considered as one operating unit with overlapping activities. Its main operating activities are divided into generation, transmission and distribution activities .These activities complement each other in delivering electricity to the consumer. The company's revenue is currently recognized from selling electricity to the end consumer based on the official Tariff set by the government .The company is currently working on developing prices between the activities of generation ,transmission and distribution. The National Electricity Transmission Company was established (has started its operation on January 2012). The Company has also a plan to split its principal activities to different independent entities and therefore revenues and expenses will be specified for each entity by itself upon completion of separation. The Company's operations and consumers are based in the Kingdom of Saudi Arabia.

34. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the current year's presentation.

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NOTES TO THE FINANCIAL STATEMENTS – (continued)
FOR THE YEAR ENDED 31 December 2011

35. SUBSEQUENT EVENTS

The Company has completed the procedure of the registration and incorporation of National Electricity Transmission Company – wholly owned company which started its operations on 1 January 2012 by transferring all Company's related transmission activities to it.

SUMMARY OF SIGNIFICANT DIFFERENCES BETWEEN SAUDI GAAP AND IFRS

SEC's financial statements have been prepared in accordance with Saudi GAAP which are promulgated by SOCPA. While a number of Saudi accounting standards and interpretations have been issued to date, SOCPA refers to IFRS as an alternative base to complement Saudi standards in cases when a particular accounting matter has not been covered by an applicable Saudi accounting standard or interpretation. Saudi GAAP differs from IFRS in certain significant respects and these differences are referred to below as **GAAP differences**.

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

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

The principal GAAP differences are listed below:

Employee benefits

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

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

Foreign currency transactions and balances

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

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

Capital lease

Both Saudi GAAP and IFRS require a lease to be classified as a capital lease if it transfers substantially all the risks and rewards incidental to the ownership of the leased asset to the lessee. Under Saudi GAAP, this condition is satisfied if the lease meets one of the specified criteria in the relevant standard. IFRS on the other hand does not lay down strict criteria but provides indicators

that individually or in combination, based on the substance of the transaction, would lead to a lease being classified as a capital lease. Under both standards, a lease that does not meet the criteria of a capital lease is classified as an operating lease.

Earnings per share

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

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

Statement of comprehensive income

IFRS dictates the presentation of the statement of comprehensive income that requires an entity to:

- separately classify items of other comprehensive income by their nature in a financial statement; and
- display the accumulated balance of other comprehensive income separately from retained earnings and additional paid-in capital in the equity section of the statement of financial position.

Saudi GAAP has no equivalent requirements.

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