

PROSPECTUS - PART 1 OF 2

PROSPECTUS PART 1 OF 2: THIS MUST BE READ IN CONJUNCTION WITH PART 2 OF 2 OF THE PROSPECTUS OF SAUDI ELECTRICITY COMPANY AND THE SUPPLEMENTARY PROSPECTUS OF SAUDI ELECTRICITY COMPANY DATED 27/3/1435H CORRESPONDING TO 28 JANUARY 2014G (BOTH AVAILABLE ON THE WEBSITE OF THE CAPITAL MARKET AUTHORITY WWW.CMA.ORG.SA)



SAUDI ELECTRICITY COMPANY

(a joint stock company incorporated under the laws of the Kingdom of Saudi Arabia on 30/12/1420H (corresponding to 5/4/2000G))
Commercial Register Number 1010158683

is offering

SUKUK AL-ISTITHMAR EXPIRING 2054G

The Sukuk al-istithmar expiring 2054G (the "**Sukuk**") of Saudi Electricity Company (the "**Issuer**" or "**SEC**") are being issued at par, without discount or premium. Pursuant to a sukuk assets transfer agreement (the "**Sukuk Assets Transfer Agreement**") to be dated on or about the Closing Date (as defined below), between the Issuer, Sukuk Electricity Company (the "**Custodian**") and Saudi Fransi Capital Company (the "**Sukukholders' Agent**"), the Issuer will transfer to the Custodian the Sukuk Assets (as defined in the "Terms and Conditions" section of this Prospectus (the "**Conditions**")) for a period of forty years. Pursuant to a declaration of agency (the "**Declaration of Agency**") to be dated on or about the Closing Date between the Issuer, the Custodian and the Sukukholders' Agent and the Conditions, the Custodian will hold the Sukuk Assets for the benefit of the holders of the Sukuk (the "**Sukukholders**"), pro rata according to the Nominal Amount of Sukuk held by each Sukukholder.

Quarterly in arrears on the 30th of January, April, July and October in each year, commencing on 30 April 2014G and up to and including 30 January 2054G or, if any such day is not a Business Day (as defined in the Conditions), the next Business Day, unless such day would fall in the next calendar month, in which case, the immediately preceding Business Day (each a "**Periodic Distribution Date**"), the Issuer is expected to pay an amount equal to the Periodic Distribution Amount (as defined in the Conditions) to the Sukukholders calculated on the basis of the Benchmark Rate plus the Margin (each as defined in the Conditions) applied to the aggregate Nominal Amount (as defined on page 34) of the Sukuk as are current on the Transfer Record Date (as defined in the Conditions) immediately preceding the last day of the relevant Periodic Distribution Period (as defined in the Conditions).

Under a purchase undertaking to be entered into by the Issuer for the benefit of the Custodian and the Sukukholders' Agent (each as defined herein) (for, and on behalf of, the Sukukholders) on or about the Closing Date (as defined herein) (the "**Purchase Undertaking**"), the Issuer will undertake to purchase the Sukuk Assets from the Custodian and pay the specified predetermined Purchase Price (as defined in the Conditions) which decreases over time, on the Periodic Distribution Dates falling in January of 2024G, 2034G and 2044G (each a "**Purchase Date**") together with any applicable Extra Amount, Periodic Default Amount or Specified Amount (see Condition 11 (*Exercise Events*)).

SEC has a paid up share capital of SAR 41,665,938,150 divided into 4,166,593,815 shares of SAR 10 each. As at the date of this Prospectus, SEC's issued share capital is approximately 74.3 per cent. owned by the Government and approximately 6.9 per cent. owned by Saudi Aramco, which is wholly owned by the Government. The remaining 18.8 per cent. of SEC's shares are held by the general public in the Kingdom.

The investor presentation period for the Sukuk commences on 8/3/1435H (corresponding to 9 January 2014G) and will end 7 Business Days after such date (the "**Investor Presentation Period**") and the Sukuk will be issued on a date falling no later than 10 Business Days after the end of the Investor Presentation Period (the "**Closing Date**"). The offering, sale and delivery of the Sukuk is limited to persons who are Qualified Persons (as defined in the Conditions). In addition, the primary distribution of the Sukuk will be only to Institutional Investors (as defined in the "*Subscription and Sale*" section of this Prospectus), although Qualified Persons who are not Institutional Investors may subsequently be able to purchase Sukuk from Institutional Investors after the end of the offer period and completion of the subscription process.

Investing in the Sukuk involves certain risks and uncertainties. For a discussion of certain factors to be considered in connection with an investment in Sukuk, see "Important Notice" and "Risk Factors" sections of this Prospectus.

Joint Lead Managers, Joint Bookrunners and Underwriters

HSBC



السعودية الفرنسية كابيتال
Saudi Fransi Capital



This Prospectus is dated 27/3/1435H (corresponding to 28 January 2014G)

This Prospectus includes information given in compliance with the Listing Rules of the Capital Market Authority of the Kingdom of Saudi Arabia (the "**Authority**"). The Directors, whose names appear on page 73, collectively and individually accept full responsibility for the accuracy of the information contained in this Prospectus, and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts the omission of which would make any statement herein misleading. The Authority and the Saudi Stock Exchange do not take any responsibility for the contents of this Prospectus, do not make any representation as to its accuracy or completeness, and expressly disclaim any liability whatsoever for any loss arising from, or incurred in reliance upon, any part of this Prospectus.

Distributions of the Periodic Distribution Amounts and the Extra Amounts under the Sukuk will be made from Net Income (as described in the Conditions) from the Sukuk Assets, which is expected to be sufficient to cover the Periodic Distribution Amounts payable to the Sukukholders on each Periodic Distribution Date. If the Net Income received under the Sukuk Assets in any Periodic Distribution Period exceeds the Periodic Distribution Amounts, the amount of any surplus will be retained by SEC in its capacity as administrator of the Sukuk Assets (in such capacity, the "**Sukuk Administrator**") on behalf of the Sukukholders as a reserve (the "**Reserve**") and shall be payable in accordance with the Conditions. The Sukuk Administrator shall have the right to use and invest the Reserve for its own account. Any return from such use or investment, and any losses arising therefrom, are solely for the account of the Sukuk Administrator. If by the date falling 60 days immediately prior to the Periodic Distribution Date falling in October 2023G, the Sukuk Administrator notifies the Sukukholders' Agent that the amount allocated to the Reserve (as at the date of such notifications) is less than 5% of the aggregate Nominal Amount of the Sukuk as are current on such date, the Sukukholders may request the purchase of the Sukuk Assets by the Issuer pursuant to the Purchase Undertaking.

In the event that there are insufficient funds from the Sukuk Assets to meet the required Periodic Distribution Amounts payable to Sukukholders on the Periodic Distribution Dates which shortfall arises as a result of the default or negligence of the Sukuk Administrator in performing its obligations under the Sukuk Assets Administration Agreement (as defined in the Conditions) or the Declaration of Agency, or the Issuer as a result of its breach of any of its undertakings or representations under the Sukuk Documents (as defined in the Conditions), and in certain other circumstances described in Condition 11.2 (*Events of Default*), the Sukukholders may request the purchase of the Sukuk Assets by the Issuer. The purchase of the Sukuk Assets will be effected through a sale of the Sukuk Assets to the Issuer pursuant to the Purchase Undertaking. The Purchase Price shall be payable to such person as is registered as the Sukukholder on the opening of business on the relevant Transfer Record Date in accordance with Condition 3(e) (Register, Title and Transfers).

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

The Sukuk will be registered in the nominal amount of SAR 1,000,000 for each Sak (the "**Nominal Amount**"). The aggregate Nominal Amount, together with the anticipated net proceeds, of the Sukuk to be issued and the Margin will be determined by agreement between the Issuer and the Joint Lead Managers (as specified herein) and announced on a date expected to be around 28 January 2014G (see the "*Subscription and Sale*" section of this Prospectus).

The Issuer has 4,166,593,815 issued ordinary shares and has six series of sukuk outstanding, two issued in the domestic market and four in the international market. For a more detailed description of these, see the "*Summary of other Indebtedness*" section of this Prospectus.

Application has been made, and all requirements have been met, to register the Sukuk on the Official List maintained by the Authority and all of the requirements to list under the Listing Rules of the Authority issued on 4 October 2004G, as amended on 22 January 2012G, have been met (the "**Listing Rules**"), subject to the waivers granted by the Authority as set out in "*General Information - Waivers*". Tadawul will be appointed as registrar (the "**Registrar**", which expression includes any successor registrar) of the Sukuk and the Sukuk will be admitted to the clearing and settlement system of Tadawul, as described in "*Terms and Conditions of the Sukuk - Register, Title and Transfers*" and "*Subscription and Sale*" respectively.

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

IMPORTANT NOTICE

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

HSBC Saudi Arabia Limited and Saudi Fransi Capital Company have been appointed by the Issuer to act as the Joint Lead Managers, Joint Bookrunners and Underwriters (the "**Joint Lead Managers, Joint Bookrunners and Underwriters**") in relation to the Sukuk described herein.

This Prospectus includes information given in compliance with the Listing Rules. The Directors, whose names appear in the "*Management and Employees*" section of this Prospectus, collectively and individually accept full responsibility for the accuracy of the information contained in this Prospectus, and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts the omission of which would make any statement herein misleading. The Authority and Tadawul do not take any responsibility for the contents of this Prospectus, do not make any representation as to its accuracy or completeness, and expressly disclaim any liability whatsoever for any loss arising from, or incurred in reliance upon, any part of this Prospectus.

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

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

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

References herein to "**this Prospectus**" shall be deemed to include this document dated 27/3/1435H (corresponding to 28 January 2014G) together with any supplements and amendments hereto. This Prospectus contains a summary of the key provisions of each of the drafts as of the date of this Prospectus of the Purchase Undertaking, the Sukuk Assets Transfer Agreement, the Declaration of Agency, the Sukuk Assets Administration Agreement and the Payments Administration Agreement (each as defined in the Conditions).

Important Dates for Subscribers and Methods of Application

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

Persons wishing to purchase the Sukuk will be required to submit a duly completed form (an "**Investor Application Form**") to the Joint Lead Managers, Joint Bookrunners and Underwriters before the end of the Investor Presentation Period and shall make payment for the Sukuk in accordance with the instructions contained in the Investor Application Form. Investor Application Forms will be available from the Joint Lead Managers, Joint Bookrunners and Underwriters. Applications to purchase Sukuk for less than SAR 1,000,000 or in amounts which are not higher integral multiples of SAR 1,000,000 thereafter, or from applicants who are not Institutional Investors, will not be accepted.

Only natural persons who are nationals of the Kingdom of Saudi Arabia (the "**Kingdom**") or other legal persons with a permanent establishment in the Kingdom holding a current commercial registration number issued by the Ministry of Commerce and Industry, and which, in either case, maintain a bank account in the Kingdom ("**Qualified Persons**") may be registered as Sukukholders. However, while Qualified Persons may be registered as Sukukholders, the primary distribution of the Sukuk will be only to Institutional Investors. An "Institutional Investor" means a Qualified Person who is also one of the following:

- (a) a person who is authorised to carry on securities business by the Authority;
- (b) an exempt person as specified in Annex 1 to the Securities Business Regulations of the Authority;
- (c) any of the following: (i) any company which owns, or which is a member of a group which owns, net assets of not less than SAR 50 million; (ii) any unincorporated body, partnership or other organisation which has net assets of not less than SAR 50 million; or (iii) any person ("A") whilst acting in the capacity of director, officer or employee of a person ("B") falling within sub-paragraphs (i) or (ii) where A is responsible for B undertaking any securities activity; or
- (d) an institution that has received a licence to engage in banking business in accordance with the laws of the Kingdom.

Qualified Persons who are not Institutional Investors may be able to subsequently purchase Sukuk from Institutional Investors after the end of the offer period and completion of the subscription process.

The distribution of this Prospectus and the offering, sale and delivery of the Sukuk in any jurisdictions other than the Kingdom may be restricted by applicable laws. Any person who comes into possession of this Prospectus is required by the Issuer and the Joint Lead Managers, Joint Bookrunners and Underwriters to inform themselves about and to observe any such restrictions. For a description of certain restrictions on offers, sales and deliveries of the Sukuk and on distribution of this Prospectus and other offering material relating to the Sukuk, see the "*Subscription and Sale*" section of this Prospectus.

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

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

Forecasts and Forward Looking Statements

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

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

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

Supplementary Prospectus

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

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

Except in the aforementioned circumstances, the Issuer does not intend to update or otherwise revise any industry or market information or forward-looking statements in this Prospectus, whether as a result of new information, future events or otherwise. As a result of these and other risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this Prospectus might not eventuate in the manner anticipated by the Issuer and might not occur at all. Potential investors should consider all forward-looking statements in this context and, accordingly, should not place undue reliance on any forward-looking statements.

PARTIES AND ADVISERS

ISSUER

Saudi Electricity Company

Granada Towers
Building A – 1
P.O. Box 22955
Riyadh
Kingdom of Saudi Arabia
Tel: +966 (11) 807 9190
Fax: +966 (11) 807 9191
Email: ftred@se.com.sa
Website: www.se.com.sa



AUTHORISED REPRESENTATIVES OF THE ISSUER TO THE AUTHORITY

Abdulaziz ibn Saleh Alfuraih

Member of the Board of Directors

P.O. Box 22955
Riyadh
Kingdom of Saudi Arabia
Tel: +966 (11) 807 9190
Fax: +966 (11) 807 9191
Email: abdulaziz.al-furaih@riyadhbak.com.sa
Website: www.se.com.sa

Abdulsalam ibn Abdulaziz AlYemni

Senior Vice President of Public Affairs

P.O. Box 22955
Riyadh
Kingdom of Saudi Arabia
Tel: +966 (11) 807 9190
Fax: +966 (11) 807 9191
Email: yemni.aa@se.com.sa
Website: www.se.com.sa

CUSTODIAN

Sukuk Electricity Company

P.O. Box 22955
Riyadh
Kingdom of Saudi Arabia
Tel: +966 (11) 807 9190
Fax: +966 (11) 807 9191
Email: ftred@se.com.sa
Website: N/A



SUKUKHOLDERS' AGENT

Saudi Fransi Capital Company

4th Floor, Head Office Building
King Fahd Road
Legend Tower
Building 749
P.O. Box 23454
Riyadh 11426
Kingdom of Saudi Arabia
Tel: +966(11) 282 6666
Fax: +966 (11) 282 6823
Email: faljarboa@fransicapital.com.sa
Website: www.sfc.sa

السعودي الفرنسي كابيتال
Saudi Fransi Capital



PAYMENTS ADMINISTRATOR

Saudi Fransi Capital Company

4th Floor, Head Office Building
King Fahd Road
Legend Tower
Building 749
P.O. Box 23454
Riyadh 11426
Kingdom of Saudi Arabia
Tel: +966(11) 282 6666
Fax: +966 (11) 282 6823
Email: faljarboa@fransicapital.com.sa
Website: www.sfc.sa

السعودي الفرنسي كابيتال
Saudi Fransi Capital



REGISTRAR

The Saudi Stock Exchange Company (Tadawul)

NCCI building – North Tower
King Fahd Road
P.O. Box 60612
Riyadh 11555
Kingdom of Saudi Arabia
Tel: +966 (11) 218 9999
Fax: +966 (11) 218 1220
Email: webinfo@tadawul.com.sa
Website: www.tadawul.com.sa



FINANCIAL ADVISORS

HSBC Saudi Arabia Limited

HSBC Head Office
Olaya Road
P.O. Box 9084
Riyadh 11413
Kingdom of Saudi Arabia
Tel: +966 800 124 1212
Fax: +966 (11) 2348
Email: saudiarabia@hsbc.com
Website: www.hsbcSaudi.com



Saudi Fransi Capital Company

4th Floor, Head Office Building
King Fahd Road
Legend Tower
Building 749
P.O. Box 23454
Riyadh
Kingdom of Saudi Arabia
Tel: +966 (11) 282 6666
Fax: +966 (11) 282 6823
Email: faljarboa@fransicapital.com.sa
Website: www.sfc.sa

السعودي الفرنسي كابيتال
Saudi Fransi Capital



JOINT LEAD MANAGERS, JOINT BOOKRUNNERS AND UNDERWRITERS

HSBC Saudi Arabia Limited

HSBC Head Office

Olaya Road

P.O. Box 9084

Riyadh 11413

Kingdom of Saudi Arabia

Tel: +966 800 124 1212

Fax: +966 (11) 2348

Email: saudiarabia@hsbc.com

Website: www.hsbcSaudi.com



Saudi Fransi Capital Company

4th Floor, Head Office Building

King Fahd Road

Legend Tower

Building 749

P.O. Box 23454

Riyadh

Kingdom of Saudi Arabia

Tel: +966(11) 282 6666

Fax: +966 (11) 282 6823

Email: faljarboa@fransicapital.com.sa

Website: www.sfc.sa



CREDIT RATINGS ADVISOR

HSBC Saudi Arabia Limited

HSBC Head Office

Olaya Road

P.O. Box 9084

Riyadh 11413

Kingdom of Saudi Arabia

Tel: +966 800 124 1212

Fax: +966 (11) 2348

Email: saudiarabia@hsbc.com

Website: www.hsbcSaudi.com



SHARI'AH ADVISORS

HSBC Saudi Arabia Executive Shariah Committee

HSBC Head Office

Olaya Road

P.O. Box 9084

Riyadh 11413

Kingdom of Saudi Arabia

Tel: +966 800 124 1212

Fax: +966 (11) 2348

Email: saudiarabia@hsbc.com

Website: www.hsbcSaudi.com



**Shari'ah Supervisory Board of Credit Agricole
Corporate and Investment Bank**

Dubai International Financial Centre
Al Fattan Currency House Tower 2 Level 22
P.O. Box 506611, Dubai UAE
Tel: (971) 4376 1101
Fax: (971) 4445 8522
Emails:

- Dr. Mohamed Elgari: drelgari@hotmail.com
- Sheikh Nizam Yaquby: isnaad@gmail.com
- Dr. Abdul Sattar Abu Ghuddah: abughuddah@gmail.com

Website: www.ca-cib.com



SAUDI LEGAL ADVISER TO THE ISSUER

Zeyad S. Khoshaim Law Firm

P.O. Box 230667
Localizer Centre – Suite F6
Prince Mohammed bin Abdulaziz Road (Tahliya)
Riyadh 11321
Kingdom of Saudi Arabia
Tel: +966 (11) 461 8700
Fax: +966 (11) 461 8799
Email: info@khoshaim.com
Website: www.zeyad.khoshaim.com

ZEYAD S. KHOSHAIM Law Firm

INTERNATIONAL LEGAL ADVISER TO THE ISSUER

Allen & Overy LLP

One Bishops Square
London E1 6AD
United Kingdom
Tel: +44(0) 20 3088 0000
Fax: +44(0) 20 3088 0088
Email: information@allenoverly.com
Website: www.allenoverly.com

ALLEN & OVERY

**SAUDI LEGAL ADVISER
TO THE JOINT LEAD MANAGERS, JOINT BOOKRUNNERS AND UNDERWRITERS**

**Law Office of Salman M. Al-Sudairi in association
with Latham & Watkins LLP**

King Fahad Road
Tatweer Towers, Tower 1, 7th Floor
P.O. Box 17411
Riyadh 11474
Kingdom of Saudi Arabia
Tel: +966 (11) 207 2500
Fax: +966 (11) 207 2577
Email: salman.al-sudairi@lw.com
Website: www.lw.com

Law Office of Salman M. Al-Sudairi in association with
LATHAM & WATKINS LLP

**INTERNATIONAL LEGAL ADVISER
TO THE JOINT LEAD MANAGERS, JOINT BOOKRUNNERS AND UNDERWRITERS**

Latham & Watkins LLP

Dubai International Financial Centre
Precinct Building 1, Level 3
P.O. Box 506698
Dubai
United Arab Emirates
Tel: +971 (4) 704 6403
Fax: +971 (4) 207 6499
Email: Harj.Rai@lw.com
Website: www.lw.com

LATHAM & WATKINS LLP

AUDITORS TO THE ISSUER

Ernst & Young

Al Faisaliah Office Tower
Level 14
P.O. Box 2732
Riyadh 11461
Kingdom of Saudi Arabia
Tel: +966 (11) 273 4740
Fax: +966 (11) 273 4730
Email: Riyadh@sa.ey.com
Website: www.ey.com



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

SUMMARY OF THE OFFERING

The following Summary should be read as an introduction to, and is qualified in its entirety by reference to, the more detailed information contained elsewhere in this Prospectus. This Summary may not contain all of the information that prospective investors should consider before deciding to invest in the Sukuk. Accordingly, any decision by a prospective investor to invest in the Sukuk should be based on a consideration of this Prospectus as a whole. Capitalised terms used but not defined in the Summary have the meanings given to them in "*Terms and Conditions of the Sukuk*".

Prospective Sukukholders should review the sections of this Prospectus entitled "*Risk Factors*" and "*Important Information*" respectively prior to making any investment decisions.

Issuer and Sukuk Administrator	Saudi Electricity Company (" SEC ") established as a Saudi joint stock company on 30/12/1420H (corresponding to 5/4/2000G) under the laws of the Kingdom of Saudi Arabia, with commercial Register Number 1010158683 and whose registered address is Granada Towers, Building A – 1, P.O. Box 22955, Riyadh, Kingdom of Saudi Arabia.
Activities of the Issuer	SEC's principal business activities are the generation, transmission and distribution of electricity within the Kingdom.
Ownership of the Issuer	As at the date of this Prospectus, the issued share capital of the Issuer is approximately 74.3 per cent. owned by the Government and approximately 6.9 per cent. owned by Saudi Aramco, which is wholly owned by the Government. The remaining 18.8 per cent. of SEC's shares are held by the general public in the Kingdom.
Share Capital	As at the date of this Prospectus, the authorised share capital of the Issuer is SAR 41,665,938,150 divided into 4,166,593,815 authorized ordinary shares with a par value of SAR 10 each, all of which have been issued and paid in full.
Joint Lead Managers, Joint Bookrunners and Underwriters	HSBC Saudi Arabia Limited, whose registered address is Olaya Road, P.O. Box 9084, Riyadh 11413, Kingdom of Saudi Arabia, and Saudi Fransi Capital Company, whose registered address is 4th Floor, Head Office Building, King Fahd Road, Legend Tower, Building 749, P.O. Box 23454, Riyadh, Kingdom of Saudi Arabia.
Sukukholders' Agent	Saudi Fransi Capital Company, whose registered address is 4th Floor, Head Office Building, King Fahd Road, Legend Tower, Building 749, P.O. Box 23454, Riyadh, Kingdom of Saudi Arabia.
Custodian	Sukuk Electricity Company, a wholly owned subsidiary of SEC being a limited liability company with commercial registration number 1010233775 dated 16/5/1428H with a share capital of SAR 500,000, and whose registered address is P.O. Box 22955, Riyadh, Kingdom of Saudi Arabia.

Payments Administrator	Saudi Fransi Capital Company, whose registered address is 4th Floor, Head Office Building, King Fahd Road, Legend Tower, Building 749, P.O. Box 23454, Riyadh, Kingdom of Saudi Arabia.
Registrar	The Saudi Stock Exchange (" Tadawul "), whose registered address is NCCI building – North Tower – King Fahd Rd, P.O. Box 60612, Riyadh 11555, Kingdom of Saudi Arabia.
Official List	Application has been made for the Sukuk to be admitted to listing on the Official List maintained by the Authority.
Aggregate Nominal Amount of Sukuk offered	SAR 4,500,000,000
Use of Proceeds	The net proceeds of the issue of the Sukuk will be used by the Issuer for general corporate purposes including capital expenditure.
Targeted Investors	The offering, sale and delivery of the Sukuk is limited solely to Qualified Persons (as defined in Condition 1 (<i>Definitions</i>)). In addition, the primary distribution of the Sukuk will be only to Institutional Investors (as defined in "Subscription and Sale"), although Qualified Persons who are not Institutional Investors may subsequently be able to purchase Sukuk from Institutional Investors after the end of the offer period and completion of the subscription process.
Subscription Method	During the Investor Presentation Period, the Joint Lead Managers, Joint Bookrunners and Underwriters may solicit expressions of interest from potential investors for acquiring the Sukuk. Persons wishing to purchase the Sukuk will be required to submit an Investor Application Form to any one of the Joint Lead Managers, Joint Bookrunners and Underwriters before the end of the Investor Presentation Period. Persons who are not Institutional Investors may be able subsequently to purchase Sukuk from Institutional Investors after the end of the offer period and the completion of the subscription process. See the " <i>Subscription and Sale</i> " section of this Prospectus.
Minimum Number of Sukuk	One <i>Sak</i> .
Minimum Subscription Amount	The minimum subscription amount will be SAR 1,000,000.
Maximum Number of Sukuk	4,500 Sukuk.
Maximum Subscription Amount	The maximum subscription amount will be SAR 4,500,000,000.

Allocation and Offering Restrictions	Allocation of Sukuk will be at the discretion of the Issuer and the Joint Lead Managers, Joint Bookrunners and Underwriters and will be made at the end of the Investor Presentation Period. For a more detailed description of these and other restrictions on offers, sales and deliveries of Sukuk, see the " <i>Subscription and Sale</i> " section of this Prospectus.
Surplus Refund to Investors	In the event of partial or complete rejection of an Investor Application Form for any reason, whether due to a surplus or otherwise, the funds received in respect of the rejected application, partially or completely as the case may be, will be returned to the Investor without any discounts by wire transfer to the bank account from which the funds were received.
Offer Period	The period commencing 9 January 2014G and ending 20 January 2014G.
Issue Price	100 per cent of the aggregate Nominal Amount of the Sukuk.
Form of the Sukuk	Sukuk will be issued in dematerialised registered form only and will be represented at all times by interests in a registered form global sak (as more particularly described in Condition 2 (<i>Form and Denomination</i>)) without coupons attached will be deposited with the Sukukholders' Agent.
Currency	Sukuk will be denominated in Saudi Riyals.
Status of the Sukuk	The Sukuk constitute undivided beneficial ownership interests in the Sukuk Assets and will rank <i>pari passu</i> without any preference or priority among themselves. The Issuer's payment obligations under the Sukuk are direct, unsubordinated and unsecured obligations of the Issuer and the payment claims of the Sukukholders against the Issuer under the Sukuk will, other than those mandatorily preferred by law, rank at least <i>pari passu</i> with the claims of all other unsecured and unsubordinated creditors of the Issuer.
Term	The Sukuk will expire in 2054G. However, the Sukukholders Agent will, on the instructions of the Sukukholders, be entitled to sell the Sukuk Assets to the Issuer at the Purchase Price at the end of the 10th year, the 20th year and the 30th year in the circumstances described in Condition 11.1 (<i>Purchase Date</i>).
Redemption of the Sukuk	The Sukuk can be redeemed early in accordance with Condition 11 (Exercise Events) on a Purchase Date or following the occurrence of an Event of Default.
Obligatory purchase of the Sukuk by SEC	Sukukholders may only oblige the Issuer to purchase the Sukuk Assets in the following events: <p>(1) on each Purchase Date (as described in Condition</p>

11.1 (*Purchase Date*)); or

(2) otherwise, in the limited circumstances set out in Condition 11.2 (*Events of Default*),

and, in each case, at the applicable Purchase Price calculated as set out in the definition of Purchase Price in Condition 1 (*Definitions*).

Purchase Price

An amount payable upon an obligatory purchase of the Sukuk Assets by the Issuer. The Purchase Price applicable to the Sukuk (expressed as a percentage of the Nominal Amount of the Sukuk) will be 95 per cent. on the Purchase Date falling in January 2024G, 60 per cent. on the Purchase Date falling in January 2034G, and 30 per cent. on the Purchase Date falling in January 2044G, as described in Condition 1 (*Definitions*). No Purchase Price is payable to the Sukukholders on the expiry of the Sukuk at the end of forty years.

Periodic Distribution Dates

Quarterly in arrears on the thirtieth (30th) of January, April, July and October of each year, commencing on 30 April 2014G and up to and including 30 January 2054G; provided however, that if any such day is not a Business Day (as defined in the Conditions), the Periodic Distribution Date will be the next Business Day, unless it would thereby fall into the next calendar month, in which event such Periodic Distribution Date shall be the immediately preceding Business Day.

Periodic Distribution Amount

The Benchmark Rate plus the Margin, calculated as a percentage rate per annum, (see further under "*Subscription and Sale*" section of this Prospectus) payable quarterly in arrears from Net Income under the Sukuk Assets.

Net Income

The gross income attributable to the Sukuk Assets less the Administrator's Allowable Costs, the Administration Fee and the Agency Fee as further described in Condition 5 (*Sukuk Assets*).

Extra Amount

An amount payable (equal to 5 per cent. of the aggregate Nominal Amount of the Sukuk) out of the Reserve on each of the Purchase Dates falling in January 2024G, January 2034G and January 2044G and the Expiry Date as further described in Condition 5(c) (*Application of Proceeds - Reserve*).

Denominations

Sukuk will be issued in denominations of SAR 1,000,000.

Negative Pledge

The Sukuk will have the benefit of a negative pledge as described in Condition 6 (*Negative Pledge*) under which the Issuer and its Subsidiaries will agree not to create or permit to subsist any security interests (other than certain permitted security interests) upon its undertaking, assets or revenues to secure indebtedness in the form of a security (within the meaning of the Capital Market Law) or a guarantee of such

indebtedness.

Cross Default

The Sukuk will have the benefit of a cross default as described in Condition 11.2 (*Events of Default*).

Transfers

The Sukuk may be transferred in accordance with the regulations and procedures established by the Registrar, by delivering to the Registrar such information as such regulations and procedures shall require. See Condition 3 (Register; Title and Transfers) and “Subscription and Sale” on pages 123 and 151 of this Prospectus, respectively.

Taxation

All payments in respect of the Sukuk will be made free and clear of withholding taxes of the Government of the Kingdom (the "**Government**") unless such withholding is required by law. In that event, the Issuer shall pay such additional amounts as will result in receipt by the Sukukholders of such amounts as would have been received had no such withholding or deduction been required but only to the extent that such amounts are otherwise available for distribution to the Sukukholders from the Net Income and the Reserve (as defined in Condition 5 (b) (*Use of Proceeds – Net Income*)).

Governing Law

The Sukuk and the Sukuk Documents are governed by, and are to be construed in accordance with, the laws of the Kingdom.

SUMMARY OF BASIC INFORMATION

The summary of basic information set out below should be read as an introduction to, and is qualified in its entirety by reference to, the more extensive information contained elsewhere in this Prospectus. This summary may not contain all of the information that prospective investors should consider before deciding to invest in the Sukuk. Accordingly, any decision by a prospective investor to invest should be based on a consideration of this Prospectus as a whole. You should read this entire Prospectus carefully, including the financial statements and related notes and the information set forth under the headings "Risk Factors" and "Important Notice" before making any investment decision. Capitalised terms used but not defined in this summary have the meanings given to them in the "Terms and Definitions of the Sukuk" section of this Prospectus.

Description 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, 81.2 per cent. owned by the Government. As at the date of this Prospectus, SEC has been rated from a credit perspective as follows:

Rating	Rating Agency	Rating definition
A1	Moody's	Upper-medium grade; low credit risk.
AA-	Fitch	Very strong capacity for payment of financial commitments; Very low default risk.
AA-	Standard & Poor's	Capacity to meet financial commitment on the obligation is very strong.

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 2012G, 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 2012G, the SEC Group's total operating revenue was SAR 33,646 million (compared to SAR 30,570 million for the year ended 31 December 2011G and SAR 27,911 million for the year ended 31 December 2010G) and its net income was SAR 2,561 million (compared to SAR 2,213 million for the year ended 31 December 2011G and SAR 2,279 million for the year ended 31 December 2010G). For the six-month period ended 30 June 2013G, the SEC Group's total operating revenue was SAR 15,731 million (compared to SAR 15,006 million for the six-month period ended 30 June 2012G) and its net income was SAR 845 million (compared to SAR 777 million for the six-month period ended 30 June 2012G). As at 30 June 2013G, the SEC Group's total assets were SAR 263,011 million (compared to SAR 238,586 million as at 31 December 2012G, SAR 213,454 million as at 31 December 2011G and SAR 190,872 million as at 31 December 2010G).

VISION, MISSION AND OVERALL STRATEGY

Vision

SEC's vision is to help and improve the standards of living and enhance the economic competitiveness of the Kingdom in all domains.

Mission

SEC's mission is to provide its customers with safe and reliable electric services, to meet the expectations of its shareholders, caring for its employees, and ensuring optimum utilisation of available resources.

Overall Strategy

SEC's strategy is focused 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 2010G (an increase of 7.7 per cent.), by 2,180 MW during 2011G (an increase of 5.5 per cent.) and by 2,046 MW during 2012G (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 2017G at an estimated total cost of SAR 78,606 million to be incurred up to and including 2017G 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, 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, based on the existing and planned projects as of 31 December 2012, that 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 "*Business Units – 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 2008G and financing agreements for the project were concluded in 2009G. The RFPs for two further independent power plants, namely the Riyadh IPP and the Qurayyah IPP, were issued in 2009G and 2010G, respectively. Financing agreements for the Riyadh IPP were concluded in 2010G and for the Qurayyah IPP in 2011G. 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 late 2013G or early 2014G.

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 2013G and 2017G. Consistent with past practice, the SEC Group expects to finance this expenditure through borrowings, capital markets transactions and Government support. See "*Summary 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 2012G), 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 2001G 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.

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 as at 31 December 2012G 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 directly and indirectly approximately 81.2 per cent. of SEC's issued share capital, 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 2010G to 2014G, 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 2012G. 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 2012G, the population across the Kingdom is expected to grow by 8.4 per cent. between 2012G to 2017G, from 29.4 million to 31.9 million people. Consumption of electricity between 2005G and 2009G 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.

OVERVIEW OF THE MARKET

The generation, transmission and distribution of electricity in the Kingdom is regulated by 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 the Electricity and Co-generation Regulatory Authority (**ECRA**). 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 Saudi electricity market is the largest in the Arab world, with a peak load of 51,939 MW in 2012G 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 – "*Market and Industry Information*" - "*The Government's development strategy*").

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 make 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.

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

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

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 2011G and 2012G, from the audited consolidated financial statements of the SEC Group as at and for the financial year ended 31 December 2012G (including the comparative information as at and for the financial year ended 31 December 2011G) (the **2012G Financial Statements**);
- in the case of the year ended 31 December 2010G, from the audited financial statements of SEC as at and for the financial year ended 31 December 2011G (including the comparative information as at and for the financial year ended 31 December 2010G) (the **2011G Financial Statements**); and
- in the case of the six-month periods ended 30 June 2012G and 2013G, from the unaudited consolidated interim financial statements of the SEC Group as at and for the six-month financial period ended 30 June 2013G (including the comparative information as at and for the six-month financial period ended 30 June 2012G) (the **Interim Financial Statements** and, together with the 2012G Financial Statements and the 2011G 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**). The 2011 Financial Statements and 2012 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 2012G Financial Statements, SEC has:

- consolidated certain wholly-owned subsidiaries that were not previously consolidated in the 2011G Financial Statements (because they were not then considered material) and, as a result, has (in the 2012G Financial Statements) adjusted the comparative figures in the balance sheet and statement of cash flows for 2011G 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 2011G included within the 2012G 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 2012G Financial Statements) adjusted the comparative figures in the income statement for 2011G 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 2012G, 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 2012G Financial Statements) adjusted the comparative figures in the income statement for 2011G in accordance with Saudi GAAP to reflect this reclassification; and
- reflecting the costs of 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 2012G Financial Statements) adjusted the comparative

figures in the income statement for 2011G 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		
	Audited figure for 2011G in the 2011G Financial Statements	Comparative figure for 2011G in the 2012G Financial Statements	Net change
	(SAR millions)		
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			
	(SAR millions)		
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			
	(SAR millions)		
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 2011G 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 2011G 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 2010G has been extracted from the comparative column of the 2011G Financial Statements, and does not reflect the reclassification discussed above.

The financial information in the comparative column of the 2011G 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 2010G which were audited by Deloitte & Touche Bakr. Abulkhair & Co (the "**2010G Financial Statements**").

In the 2011G Financial Statements, the interest free loans that SEC had received from the Saudi Arabian government (after 1 January 2009G) 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 2010G in accordance with Saudi GAAP to reflect this adjustment.

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

In 2010G, SEC had consolidated three subsidiaries, Sukuk Electricity Company; Dawiyat and Hajr for Electricity Production Company. In 2011G, 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 2011G Financial Statements, SEC adjusted the comparative figures for 2010G to reflect the non-consolidation of the three subsidiaries. SEC has also made certain other minor reclassifications and adjustments when preparing its 2011G Financial Statements which impacted the comparative figures for 2010G.

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 2011G relevant to the accounting treatment of hedging transactions. This was also applied retroactively for the year ended 31 December 2010G and is reflected in the comparative 2010G figures included in the 2011G Financial Statements. The 2011G 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.

Performance Indicators

The following table shows SEC's key performance indicators as at, and for the years ended 31 December 2010, 2011 and 2012.

	2010	2011	2012
	(SAR millions)		
Operating revenue	27,911	30,570	33,646
Gross profit	2,593	2,701	3,603
Net income	2,279	2,213	2,561
Fixed assets, net	135,635	158,673	168,652
Shareholder equity	50,270	51,893	53,969
Current assets	26,533	29,750	27,488
Current liabilities	27,468	38,980	40,713
Income from operating activities	1,850	1,932	2,899
	2010	2011	2012
% Operations revenue growth.....	17%	10%	10%
% Net income growth	99%	(3%)	16%
% Gross margin ⁽¹⁾	9.29%	8.84%	10.71%
% Net margin ⁽²⁾	8.17%	7.24%	7.61%
Return on shareholder equity ⁽³⁾	4.53%	4.26%	4.75%
Return on fixed assets ⁽⁴⁾	1.68%	1.39%	1.52%
Fixed assets turnover ⁽⁵⁾	21	19	20
EPS from operating activities (SAR)	0.44	0.46	0.7
EPS from net income (SAR)	0.55	0.53	0.61
Current ratio ⁽⁶⁾	0.97	0.76	0.68

Notes:

- (1) Gross margin = gross profit for the year divided by operating revenue for the year.
- (2) Net margin = net income for the year divided by operating revenue for the year.
- (3) Return on shareholder equity = net income for the year divided by the shareholder equity ending balance.
- (4) Return on fixed assets = net income for the year divided by fixed assets, net ending balance.
- (5) Fixed assets turnover = operating revenue for the year divided by fixed assets, net ending balance.
- (6) Current ratio = current assets ending balance divided by current liabilities ending balance.

SUMMARY OF FINANCIAL INFORMATION

The following summary of historical financial information as at and for the years ended 31 December 2010G, 2011G and 2012G and as at and for the six-month periods ended 30 June 2012G and 30 June 2013G has been derived from:

- in the case of the historical information as at and for the years ended 31 December 2011G and 2012G, the 2012G Financial Statements;
- in the case of the historical information as at and for the year ended 31 December 2010G, the 2011G Financial Statements; and
- in the case of the historical information as at and for the six-month periods ended 30 June 2012G and 30 June 2013G, the Interim Financial Statements,

each of which is included elsewhere in this document. SEC made certain reclassifications and adjustments when preparing its 2012G Financial Statements, see "*Presentation of financial information*". The Financial Statements have been prepared in accordance with Saudi GAAP.

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 SEC*" and the Financial Statements (including the related notes thereto).

STATEMENT OF INCOME DATA

The following table shows SEC's income statement data for the six month period ended at 30 June in each of 2012G and 2013G:

	Six-month period ended 30 June	
	2012G unaudited	2013G unaudited
	(SAR million)	
Electricity sales	13,761	14,373
Meter reading, maintenance and bills preparation tariff	462	486
Electricity connection tariff	740	821
Other operating revenue	42	51
Total operating revenues	15,006	15,731
Fuel	(2,727)	(2,676)
Purchased energy	(1,918)	(3,025)
Operations and maintenance	(4,212)	(4,312)
Depreciation – Operations and maintenance	(5,114)	(5,493)
Total cost of sales	(13,971)	(15,507)
Gross profit for the period	1,035	224
General and administrative expenses	(163)	(174)
Depreciation – General and administrative	(158)	(143)
Income (loss) from operating activities	714	(94)
Non recurring income	—	729
Human resources productivity improvement programme	(78)	—
Other income and expenses, net	142	209
Net income for the period	777	845
Basic income net profit (loss) per share(SAR/share)		
From operating activities for the period	0.17	(0.02)
From net income for the period	0.19	0.20

The following table shows SEC's income statement data for the year ended 31 December in each of 2010G, 2011G and 2012G, respectively.

	Year ended 31 December		
	2010G	2011G	2012G
	<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 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 30 June 2013G and 31 December in each of 2010G, 2011G and 2012G, respectively.

	As at 30 June	As at 31 December		
	2013G unaudited	2010G	2011G	2012G
		(SAR million)		
Cash and cash equivalents	7,016	7,228	7,307	3,046
Receivables from electricity subscribers and accrued revenues, net	17,294	9,965	12,027	13,427
Prepayments and other receivables, net	4,944	3,635	4,854	5,194
Inventories, net	6,850	5,705	5,563	5,821
Total current assets	36,104	26,533	29,750	27,488
Loan to an associated company	1,313	366	366	366
Equity investments in companies and others	2,066	2,300	2,405	2,191
Construction work in progress	49,944	26,038	22,261	39,890
Fixed assets, net	173,584	135,635	158,673	168,652
Total non-current assets	226,907	164,339	183,704	211,098
Total assets	263,011	190,872	213,454	238,586
Accounts payable	39,927	21,876	26,241	34,509
Accruals and other payables	3,350	4,402	4,606	4,736
Short term loans and current portion of long-term loans	1,817	1,189	3,133	1,468
Sukuk	—	—	5,000	—
Total current liabilities	45,094	27,468	38,980	40,713
Long-term loans	15,440	10,632	13,582	12,197
Sukuk	28,064	19,000	14,000	20,563
Employees' indemnities	5,065	4,690	4,839	5,168
Deferred revenues, net	23,667	16,737	20,470	22,290
Customers' refundable deposits	1,511	1,295	1,368	1,454
Long-term Government payables	64,038	44,244	49,047	58,487
Government loans	25,495	16,148	18,845	23,374
Provision for change in fair value of hedging contracts	309	388	432	371
Total non-current liabilities	163,590	113,135	122,581	143,904
Total liabilities	208,684	140,602	161,561	184,617
Share capital	41,666	41,666	41,666	41,666
Statutory reserve	1,811	1,333	1,554	1,811
General reserve	540	536	538	540
Retained earnings	10,620	7,122	8,566	10,323
Net change in fair value of hedging contracts	(309)	(388)	(432)	(371)
Total shareholders' equity	54,328	50,270	51,893	53,969
Total liabilities and shareholders' equity	263,011	190,872	213,454	238,586

STATEMENT OF CASH FLOWS DATA

The following table shows SEC's statement of cash flows data for the six-month period ended 30 June 2012G and 2013G, respectively.

	Six-month period ended 30 June	
	2012G	2013G
	unaudited	unaudited
	<i>(SAR million)</i>	
Net cash from operating activities	7,854	7,150
Net cash used in investing activities	(17,921)	(21,412)
Net cash from financing activities	12,454	18,233
Net change in cash and cash equivalents during the period.....	2,386	3,971
Cash and cash equivalents, beginning of the period	7,307	3,046
Cash and cash equivalents, end of the period	9,693	7,016

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

	Year ended 31 December		
	2010G	2011G	2012G
	<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

CAPITALISATION

The following table sets forth the SEC Group's capitalisation and indebtedness as at 30 June 2013G. 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 30 June 2013G unaudited (SAR millions)
Cash and cash equivalents	7,016
Debt:	
Short-term debt ⁽¹⁾	1,817
Long-term debt ⁽²⁾	43,504
Total debt	45,321
Equity:	
Share capital	41,666
Statutory reserve	1,811
General reserve	540
Retained earnings	10,620
Net change in the fair value of hedging contracts	(309)
Total equity	54,328
Total capitalisation	99,649

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

(2) Includes Long-term loans and Sukuk

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TERMS AND DEFINITIONS

In this Prospectus the following terms shall have the meanings set out below.

"2012G Financial Statements"	means the audited financial statements of the SEC Group as at and for the financial year ended 31 December 2012G (including the comparative information as at and for the financial year ended 31 December 2011G);
"2011G Financial Statements"	means the audited financial statements of the SEC Group as at and for the financial year ended 31 December 2011G (including the comparative information as at and for the financial year ended 31 December 2010G);
"Administration Fee"	means the administration fee of 1 per cent. per annum of the Administrator's Allowable Costs during such period payable to the Issuer semi-annually pursuant to, and as more particularly described in, the Sukuk Assets Administration Agreement;
"Administrator's Allowable Costs"	means the aggregate of the costs incurred by the Sukuk Administrator corresponding to the categories of costs set out in Schedule 1 of the Sukuk Assets Administration Agreement, in connection with providing the relevant Metering Services in relation to the Specified Meters to the Specified Customers, provided, however, that any such costs incurred during any Periodic Distribution Period in excess of the Maximum Allowable Amount (pro rated for such period) shall not constitute Administrator's Allowable Costs for the purposes of the Sukuk Documents;
"Agency Fee"	means the on-going fees and expenses (if any) payable to the Payments Administrator and the Sukukholders' Agent for their services in connection with the Sukuk as further described in the Payments Administration Agreement or, as the case may be, the Declaration of Agency;
"Applicable Percentage"	means the percentage value obtained by dividing the aggregate Nominal Amount of Sukuk on the Closing Date by SAR 6,000,000,000;
"Authorised Holding"	has the meaning given to it in Condition 2 (<i>Form and Denomination</i>);
"Authority"	means the Capital Market Authority of the Kingdom of Saudi Arabia;
"Benchmark Rate"	means, in relation to any Periodic Distribution Period, SIBOR, the Saudi inter-bank offered rate for 3 month Saudi Riyal deposits determined in accordance with Condition 7(b) (<i>Benchmark Rate</i>) in relation to such Periodic Distribution Period;
"Business Day"	means a day on which commercial banks are open for general business in Riyadh;
"Closed Periods"	has the meaning given to it in Condition 3(e) (<i>Transfer Record Dates and Closed Periods</i>);
"Closing Date"	has the meaning as set out on page 1 of this Prospectus;
"CMR 169"	means the Council of Ministers' Resolution no. 169 dated 11/8/1419H (corresponding to 30 November 1998G) in respect of restructuring the electricity sector, arranging the financial affairs of the sector, and approving measures for energy conservation, as amended by CMR 170 and as the same may be further supplemented, revised or amended from time to time;
"CMR 170"	means the Council of Ministers' resolution no. 170 dated 12/7/1421H (corresponding to 10 October 2000G) adjusting the electricity tariffs set by CMR 169, as the same may be supplemented, revised or amended from time to time;
"Committee"	means the Committee for the Resolution of Securities Disputes, established pursuant to the Capital Market Law, promulgated by Royal Decree No. (M/30) dated 2/6/1424H (corresponding to 31 July 2003G), as amended, or any successor body;
"Conditions"	means the terms and conditions of the Sukuk;
"Corporate Governance"	means the Corporate Governance Regulations issued by the CMA;

Regulations"	
"Custodian"	means Sukuk Electricity Company, whose registered address is Granada Towers, Building A – 1, P.O. Box 22955, Riyadh, Kingdom of Saudi Arabia, which expression includes any successor Custodian in relation to the Sukuk;
"Declaration of Agency"	means the declaration of agency to be entered into by the Issuer, the Custodian and the Sukukholders' Agent on or about the Closing Date;
"Distribution Licence"	means the distribution and retail supply licence no. 070406-R dated 28/3/1428H granted by ECRA;
"Distribution Sector Restructuring Event"	has the meaning given to it in paragraph (h) of Condition 11.2 (<i>Events of Default</i>);
"ECRA"	means the Electricity and Co-generation Regulatory Authority;
"Electricity Law"	means the electricity law enacted in the Kingdom pursuant to Royal Decree M/56 dated 20/10/1426H (corresponding to 22/11/2005G);
"Event of Default"	has the meaning given to it in Condition 11.2 (<i>Events of Default</i>);
"Exercise Event"	means an Event of Default or a Purchase Date;
"Exercise Notice"	has the meaning given to it in Condition 11 (<i>Exercise Events</i>);
"Exercise Period"	has the meaning given to it in Condition 11 (<i>Exercise Events</i>);
"Expiry Date"	means the Periodic Distribution Date falling in January 2054G;
"Extra Amount"	means, in respect of the Purchase Date falling in January 2024G, January 2034G or January 2044G or the Expiry Date, an amount equal to 5 per cent. of the aggregate Nominal Amount of the Sukuk as are current on the third Business Day immediately preceding such Purchase Date or the Expiry Date, as the case may be;
"Extraordinary Resolution"	means a resolution passed by a majority of at least one half of the Sukuk represented at a duly convened meeting of the Sukukholders in accordance with the terms of the Sukuk Documents;
"Global Sak"	means the registered form global sak representing the Sukuk;
"Government"	means the Government of the Kingdom;
"Guarantee"	means, in relation to any Indebtedness of any person, any obligation of another person to pay such Indebtedness including (without limitation): <ul style="list-style-type: none"> (a) any obligation to purchase such Indebtedness; (b) any obligation to lend money, to purchase or subscribe shares or other securities or to purchase assets or services in order to provide funds for the payment of such Indebtedness; (c) any indemnity against the consequences of a default in the payment of such Indebtedness; and (d) any other agreement to be responsible for such Indebtedness;
"Indebtedness"	means any indebtedness of any person for money borrowed or raised including (without limitation) any indebtedness for or in respect of: <ul style="list-style-type: none"> (a) amounts raised under any note purchase facility; (b) the amount of any liability in respect of leases or hire purchase contracts which would, in accordance with applicable law and generally accepted accounting principles, be treated as finance or capital leases; (c) the amount of any liability in respect of any purchase price for assets or services the payment of which is deferred for a period in excess of 90 days; and

	(d) amounts raised under any other transaction (including, without limitation, any forward sale or purchase agreement) having the commercial effect of a borrowing;
"Institutional Investor"	<p>means a Qualified Person who is one of the following:</p> <p>(a) a person who is authorised to carry on securities business by the Authority;</p> <p>(b) an exempt person as specified in Annex 1 to the Securities Business Regulations of the Authority;</p> <p>(c) any of the following:</p> <p>(i) any company which owns, or which is a member of a group which owns, net assets of not less than SAR 50 million;</p> <p>(ii) any unincorporated body, partnership or other organisation which has net assets of not less than SAR 50 million; or</p> <p>(iii) any person ("A") whilst acting in the capacity of director, officer or employee of a person ("B") falling within sub-paragraphs (i) or (ii) where A is responsible for B undertaking any securities activity; or</p> <p>(d) an institution that has received a licence to engage in banking business in accordance with the laws of the Kingdom.</p>
"Investor Application Form"	means the form required to be submitted to the Joint Lead Managers, Joint Bookrunners and Underwriters before the end of the Investor Presentation Period by the Persons wishing to invest in the Sukuk;
"Investor Presentation Period"	means the investor presentation period for the Sukuk commencing on 8/3/1435H (corresponding to 9 January 2014G) and ending 7 Business Days after such date;
"Issuer"	means Saudi Electricity Company in its capacity as issuer of the Sukuk whose registered address is Granada Towers, Building A – 1, P.O. Box 22955, Riyadh, Kingdom of Saudi Arabia;
"Joint Lead Managers, Joint Bookrunners and Underwriters"	means HSBC Saudi Arabia Limited, whose registered address is Olaya Road, P.O. Box 9084, Riyadh 11413, Kingdom of Saudi Arabia, and Saudi Fransi Capital Company, whose registered address is 4th Floor, Head Office Building, King Fahd Road, Legend Tower, Building 749, P.O. Box 23454, Riyadh, Kingdom of Saudi Arabia, in their capacity as joint lead managers, joint bookrunners and underwriters;
"Kingdom"	means the Kingdom of Saudi Arabia;
"Listing Rules"	means the Listing Rules issued on 4th October 2004G by the Board of the Authority, as amended;
"Margin"	means the percentage rate per annum specified as the "Margin" and published on the websites of the Issuer and the Payments Administrator as described in the section of the Prospectus entitled " <i>Subscription and Sale</i> ";
"Maximum Allowable Amount"	means the amount of the Administrator's Allowable Costs (expressed as an amount in SAR per electricity meter installed at a residential or commercial customer of SEC) not exceeding SAR 50.00 per year for the period until the first Purchase Date (the " First Period ") and for each subsequent period that occurs after the First Period until the next Purchase Date, the amount negotiated and agreed between the Sukukholders' Agent and the Sukuk Administrator prior to commencement of that period and based upon actual costs in the previous years and projected costs for the next period;
"Metering Services"	<p>means the following services provided by the Issuer in relation to its Specified Customers:</p> <p>(a) reading and maintaining electricity consumption meters installed by the</p>

	Issuer at the Specified Customers' premises; and (b) preparing, issuing and distributing bills to the Specified Customers for all of the services provided to them by the Issuer;
"Net Income"	has the meaning given to it in Condition 5 (<i>Sukuk Assets</i>);
"Nominal Amount"	means the nominal value of each Sak, which is SAR 1,000,000;
"Official List"	means the Official List maintained by the Authority and referred to in the Listing Rules;
"Payments Administrator"	means Saudi Fransi Capital Company, whose registered address is 4th Floor, Head Office Building, King Fahd Road, Legend Tower, Building 749, P.O. Box 23454, Riyadh, Kingdom of Saudi Arabia, which expression includes any successor or other payments administrator appointed in respect of the Sukuk;
"Payments Administration Agreement"	means the payments administration agreement entered into by, amongst others, the Issuer and the Payments Administrator on or about the Closing Date;
"Periodic Default Amount"	<p>means, in relation to any day, other than a Purchase Date, on which the Issuer is to purchase Sukuk following the delivery of an Exercise Notice, an amount calculated as follows:</p> $\frac{A \times B}{C} + D$ <p>where:</p> <p>A= the Periodic Distribution Amount as would have been payable on the next Periodic Distribution Date if an Exercise Notice had not been delivered (provided, however, that for the purposes of calculating such Periodic Distribution Amount, "P" in the definition of Period Distribution Amount shall mean the aggregate Nominal Amount of such Sukuk as are current on the Transfer Record Date immediately preceding the date of such purchase); multiplied by:</p> <p>B= the number of days between the immediately preceding Periodic Distribution Date and the date of such purchase; divided by</p> <p>C= the number of days between the immediately preceding Periodic Distribution Date and the next scheduled Periodic Distribution Date;</p> <p>D= the lesser of (i) the amounts standing to the credit of the Reserve as at the date of such purchase and (ii) the Extra Amount which would have been payable on the next scheduled Purchase Date or the Expiry Date, as the case may be, but for the occurrence of such purchase;</p>
"Periodic Determination Date"	has the meaning given to it in Condition 7 (<i>Periodic Distribution</i>);
"Periodic Distribution Amount"	has the meaning given to it in Condition 7 (<i>Periodic Distribution</i>);
"Periodic Distribution Date"	means the 30th day of January, April, July and October in each year, commencing on 30 April 2014G and up to and including 30 January 2054G; provided, however, that if any such day is not a Business Day as defined in the Conditions, the Periodic Distribution Date will be the next following Business Day (if it falls in the same calendar month) or the immediately preceding Business Day (if it falls in the next calendar month);
"Periodic Distribution Period"	means the period from and including the Closing Date to but excluding the first Periodic Distribution Date, and each successive period from and including a

	Periodic Distribution Date to but excluding the next succeeding Periodic Distribution Date;														
"Permitted Security Interest"	<p>means a Security Interest over any of the Issuer's present or future assets or revenues or any part thereof in connection with:</p> <p>(a) any asset-based financing (including, without limitation, a securitisation or project financing) where the primary source of payment of the obligations secured by such Security Interest is the assets or revenues subject to such Security Interest, without further recourse to the Issuer;</p> <p>(b) any Islamic financing arrangement; or</p> <p>(c) any domestic issue of securities which is required by the Capital Market Authority to be secured;</p>														
"Prospectus"	means the prospectus dated 27/3/1435H (corresponding to 28 January 2014G) relating to the Sukuk as may be amended or supplemented from time to time;														
"Purchase Date"	means the Periodic Distribution Date falling in January 2024G, January 2034G, or January 2044G or, only to the extent that the Sukuk Administrator notifies the Sukukholders' Agent that the amount allocated to the Reserve (as at the date of such notification) is less than (5%) of the aggregate Nominal Amount of the Sukuk as are current by the date falling 60 days immediately prior to the Periodic Distribution Date falling in October 2023G, the Periodic Distribution Date falling in October 2023G;														
"Purchase Notice"	has the meaning given to it in Condition 11.2 (<i>Events of Default</i>);														
"Purchase Price"	<p>means:</p> <p>(a) as of any Purchase Date, the product of the aggregate Nominal Amount of all Sukuk as are current on such date multiplied by the percentage set out opposite such date in the following table:</p> <table> <tr> <th><u>Date</u></th><th><u>Percentage</u></th></tr> <tr> <td>The Periodic Distribution Date falling in January 2024G</td><td>95%</td></tr> <tr> <td>The Periodic Distribution Date falling in January 2034G</td><td>60%</td></tr> <tr> <td>The Periodic Distribution Date falling in January 2044G</td><td>30%</td></tr> </table> <p>and</p> <p>(b) as of any other date, the product of the aggregate Nominal Amount of all Sukuk as are current on such date multiplied by the percentage set out opposite the period in which such date falls in the following table:</p> <table> <tr> <th><u>Date</u></th><th><u>Percentage</u></th></tr> <tr> <td>After the Closing Date but before the Periodic Distribution Date falling in January 2024G.</td><td>100%</td></tr> <tr> <td>After (and including) the Periodic Distribution Date falling in January 2024G but before the Periodic</td><td>95%</td></tr> </table>	<u>Date</u>	<u>Percentage</u>	The Periodic Distribution Date falling in January 2024G	95%	The Periodic Distribution Date falling in January 2034G	60%	The Periodic Distribution Date falling in January 2044G	30%	<u>Date</u>	<u>Percentage</u>	After the Closing Date but before the Periodic Distribution Date falling in January 2024G.	100%	After (and including) the Periodic Distribution Date falling in January 2024G but before the Periodic	95%
<u>Date</u>	<u>Percentage</u>														
The Periodic Distribution Date falling in January 2024G	95%														
The Periodic Distribution Date falling in January 2034G	60%														
The Periodic Distribution Date falling in January 2044G	30%														
<u>Date</u>	<u>Percentage</u>														
After the Closing Date but before the Periodic Distribution Date falling in January 2024G.	100%														
After (and including) the Periodic Distribution Date falling in January 2024G but before the Periodic	95%														

	<p>Distribution Date falling in January 2029G</p> <p>After (and including) the Periodic Distribution Date falling in January 2029G but before the Periodic Distribution Date falling in January 2034G 75%</p> <p>After (and including) the Periodic Distribution Date falling in January 2034G but before the Periodic Distribution Date falling in January 2039G 60%</p> <p>After (and including) the Periodic Distribution Date falling in January 2039G but before the Periodic Distribution Date falling in January 2044G 45%</p> <p>After (and including) the Periodic Distribution Date falling in January 2044G but before the Periodic Distribution Date falling in January 2049G 30%</p> <p>After (and including) the Periodic Distribution Date falling in January 2049G but before the Periodic Distribution Date falling in January 2054G 15%</p> <p>On the Expiry Date 0%</p>
"Purchase Undertaking"	means the purchase undertaking to be entered into by the Issuer and the Sukukholders' Agent on or about the Closing Date;
"Qualified Person"	means a natural person who is a national of the Kingdom for tax purposes or other legal persons with a permanent establishment in the Kingdom holding a current commercial registration number issued by the Ministry of Commerce and Industry, and which, in either case, maintains a bank account in the Kingdom;
"Registrar"	means the Tadawul, and includes any successor registrar as may be appointed in accordance with the provisions of the Registry Agreement), whose registered address is NCCI building – North Tower, King Fahd Rd, P.O. Box 60612, Riyadh 11555, Kingdom of Saudi Arabia;
"Registry Agreement"	means the registry and trading agreement to be entered into between the Issuer and the Registrar in relation to the Sukuk on or about the Closing Date;
"Relevant Indebtedness"	means any Indebtedness which is in the form of or represented by a security (within the meaning of the Capital Market Law), including, without limitation, any bond, note, loan stock, certificate or similar instrument which is, or is capable of being, listed, quoted or traded on any stock exchange or in any securities market (including, without limitation, any over-the-counter market);
"Required Sukukholders"	as of any date, means the Sukukholders of at least 33 ^{1/3} per cent. in aggregate of the Nominal Amount of the Sukuk as are current on such date;
"Reserve"	has the meaning given to it in Condition 5(b) (<i>Application of Proceeds – Net Income</i>);
"Security Interest"	means any mortgage, charge, pledge, lien, assignment by way of security or other security interest including, without limitation, anything analogous to any of the foregoing under the laws of any jurisdiction;
"SEC Group"	means Saudi Electricity Company and its subsidiaries and affiliates taken as a whole;
"Shortfall"	has the meaning given to it in Condition 5 (<i>Sukuk Assets</i>);

"Specific Instruction"	has the meaning given to it in Condition 11.1 (<i>Purchase Date</i>);
"Specified Amount"	means, in respect of any Event of Default occurring under Condition 11.2(a) (<i>Default resulting in non-payment of Periodic Distribution Amount or Extra Amount</i>), the amount of any shortfall in amounts distributed to the Sukukholders as referred to therein which occurred as a direct result of the Sukuk Administrator's default or negligence in performing its obligations under the Sukuk Assets Administrator Agreement and/or the Declaration of Agency to the extent that such amounts are not already compensated for by payment of the Periodic Default Amount;
"Specified Customers"	mean those customers from time to time of the Issuer which have the Specified Meters installed on the premises owned or occupied by them and each customer among which shall be a "Specified Customer";
"Specified Meters"	means the Applicable Percentage of all the electricity meters installed with SEC's residential and commercial customers, as at the date of the Sukuk Assets Transfer Agreement (for the avoidance of doubt, Specified Meters will not include electricity meters installed with SEC's governmental, industrial, health and education, agricultural and desalination customers);
"Standing Instruction"	has the meaning given to it in Condition 11.1 (<i>Purchase Date</i>);
"Subscription Agreement"	means the subscription agreement entered into between the Issuer and the Joint Lead Managers on or prior to the Closing Date;
"Subsidiary"	means, in respect of any person (the " first person ") at any particular time, any other person (the " second person ") controlled by the first person. For this purpose, (i) " control " of the second person (being a company) means the ability to influence the acts or decisions of that person by way of the first person having directly or indirectly, alone or jointly with any relative or other participant, 50 per cent. or more of the voting rights in the second person and (ii) Water & Electricity Company shall not constitute a Subsidiary of the Issuer;
"Sukuk"	means the sukuk al-istithmar expiring 2054G of Saudi Electricity Company;
"Sukuk Assets"	has the meaning given to it in Condition 5 (<i>Sukuk Assets</i>);
"Sukuk Administrator"	means Saudi Electricity Company in its capacity as administrator of the Sukuk Assets whose registered address is Granada Towers, Building A – 1, P.O. Box 22955, Riyadh, Kingdom of Saudi Arabia;
"Sukuk Assets Administration Agreement"	means the sukuk assets administration agreement to be entered into by the Issuer, the Custodian and the Sukukholders' Agent on or about the Closing Date;
"Sukuk Assets Transfer Agreement"	means the sukuk assets transfer agreement to be entered into by the Issuer, the Custodian and the Sukukholders' Agent on or about the Closing Date;
"Sukuk Documents"	means the Sukuk Assets Transfer Agreement, the Declaration of Agency, the Purchase Undertaking, the Sukuk Assets Administration Agreement, the Payments Administration Agreement, the Registry Agreement, the Sukuk, the Investor Application Form and any other agreements and documents delivered or executed in connection therewith;
"Sukukholders"	means the registered holders of the Sukuk;
"Sukukholders' Agent"	means Saudi Fransi Capital Company, whose registered address is 4th Floor, Head Office Building, King Fahd Road, Legend Tower, Building 749, P.O. Box 23454, Riyadh, Kingdom of Saudi Arabia, which expression includes any successor Sukukholders' Agent in relation to the Sukuk;
"SWCC"	means the Saline Water Conversion Corporation;

"Tadawul"	means the Saudi Arabian Stock Exchange;
"Taxes"	means any present or future taxes, zakat, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of the Kingdom or any political subdivision thereof or any authority therein or thereof having power to tax;
"Transaction Account"	has the meaning given to it in Condition 5 (<i>Sukuk Assets</i>);
"Transfer Record"	has the meaning given to it in Condition 3 (<i>Register, Title and Transfers</i>); and
"Transmission"	means the transmission of electricity.

RISK FACTORS

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

FACTORS RELATING TO SEC'S BUSINESS AND THE MARKET IN WHICH IT OPERATES

SEC's obligations under the Sukuk 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 is a significant direct and indirect shareholder of SEC, SEC's financial obligations (including its financial obligations under the Sukuk 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 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 Sukuk Documents and the Sukuk, are not, and should not be regarded as, obligations of the Government.

SEC's ability to make the payments under the Sukuk Documents that are necessary for the Issuer to pay amounts due on the Sukuk 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 Sukuk.

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 non-interest bearing 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 – 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 Sukuk.

In particular, during 2010G and 2011G, 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 2009G 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. As at 30 June 2013G and 31 December 2012G, SEC had SAR 39,927 million and SAR 34,509 million of accounts payable, of which 45 per cent. and 47.1 per cent., respectively, 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's credit ratings and the credit ratings of the Sukuk are 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 Sukuk.

In addition, certain of SEC's borrowings require it to maintain a rating from at least two of the three major rating agencies (S&P, Moody's, and Fitch) 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.

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

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 Sukukholders). 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 Sukukholders. 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 Sukuk.

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 2021G 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 non-interest bearing 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 Sukuk 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 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*". 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 30 June 2013G, SEC had SAR 15.4 billion of outstanding long-term loans in addition to SAR 28.1 billion of sukuk, SAR 25.5 billion of Government loans and SAR 64.0 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 Sukuk, 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 Sukuk.

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

Since 2008G, 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 Sukuk.

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 Sukuk.

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 Sukuk.

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 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 2000G and July 2010G, the electricity tariff structure in the Kingdom remained largely unchanged. An increase to the tariffs was effected in July 2010G, 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 Sukuk.

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 Sukuk.

SEC's power plants can operate using either natural gas or other fuels such as heavy fuel oil, light Arabian crude and diesel. 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 – 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 Sukuk.

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 Sukuk.

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 2012G, 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 SEC – Business Units – Electricity generation – 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 Sukuk.

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, subcontractors, 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 Sukuk.

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, pursuant to which SEC commits in advance to receive a certain amount of electricity or pays a predetermined compensation. 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. 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 Sukuk.

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 Sukuk.

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 Sukuk.

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 2012G, 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 Sukuk.

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 – 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 Sukuk.

The SEC Group's facilities and operations may be adversely affected by sabotage and similar events or natural disasters over which the SEC Group has no control

The SEC Group's facilities and business operations could be adversely affected or disrupted by sabotage and similar events or natural disasters (such as earthquakes, tsunamis or fires, among others) that are beyond the SEC Group's control and which may not be covered by insurance. The Western and Southern operating regions (see "*Description of SEC - 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 such 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 Sukuk.

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 sabotage and similar events, 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 insurance cover for business interruption or sabotage and similar events. 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 Sukuk.

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 – 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 Sukuk.

SEC's business requires substantial capital expenditure

In order to meet growing demand for electricity in the Kingdom, SEC will need to undertake substantial capital expenditure over the next three years to expand and upgrade its generation, transmission and distribution businesses (see further under the "*Description of SEC*" section of this Prospectus for a summary of SEC's planned capital expenditure for the next three years). Historically, SEC has relied mainly upon capital contributions from the Government to fund most of its capital expenditure. However, there can be no assurance that the Government will continue to make capital contributions to fund future capital expenditure by SEC.

SEC has also raised financing from external sources in order to fund some of its capital expenditure. SEC's ability to obtain financing from external resources is dependent on a number of factors such as SEC's financial condition, the economic and political climate in the Kingdom, general availability of credit and the condition of the international and regional financial markets. Although to date SEC has been able to obtain the necessary financing required by it from domestic and regional financial institutions and from the domestic capital markets, there can be no assurance that this will continue to be the case in the future. If SEC is unable to meet its financing needs for any reason, it may have a material adverse effect on the Group's business, ability to complete projects, and capital expenditure which could affect its ability to satisfy its obligations to make the relevant payments due in respect of the Sukuk.

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 2005G) 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 – Restructuring of the SEC Group*". 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 Sukuk Documents to which it is a party in order for the Issuer to pay amounts due on the Sukuk.

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. 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 Sukuk Documents to which it is a party in order for the Issuer to pay amounts due on the Sukuk.

FACTORS RELATING TO THE SUKUK

Legal investment considerations may restrict certain investments

The investment activities of certain investors are subject to legal investment laws and regulations, or the review of such laws and regulations by certain governmental or regulatory authorities. Each potential investor should consult its legal advisers to determine whether and to what extent: (i) the Sukuk constitute legal investments for it; (ii) the Sukuk can be used as collateral for various types of financing; and (iii) other restrictions apply to any purchase or pledge of the Sukuk by the investor. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of the Sukuk under any applicable risk-based capital or similar rules and regulations to avoid breaching any laws and regulations or the provisions of contracts or agreements to which they are a party.

Change of law

The structure of the Sukuk is based on the laws of the Kingdom in effect as at the date of this Prospectus. No assurance can be given as to the impact of any possible judicial decision or change to Saudi Arabian law or administrative practice after the date of this Prospectus which could materially affect the legal status of the Sukuk and therefore affect the Issuer's ability to make the relevant payments due in respect of the Sukuk.

Qualified Persons

Prospective Sukukholders should note that the Sukuk are being sold only to Qualified Persons and that only Qualified Persons may be registered as Sukukholders. The Issuer shall not pay any additional amounts in respect of any withholding required by law to any person who holds Sukuk but is not a Qualified Person. Therefore, interested investors must ensure satisfaction of the requirements of Qualified Person to avoid such withholding or any other legal or regulatory consequences.

The secondary market generally

There is no assurance that an active secondary market for the Sukuk will develop after the Sukuk are issued. Any sale of Sukuk by Sukukholders in any active secondary market that may develop may be at a lower price than the original purchase price of the Sukuk for various reasons including the possibility that such market may not be liquid. In addition, Sukuk may be sold only to Qualified Persons (as defined in the Conditions) and therefore any access to a secondary market that may develop will be limited to Qualified Persons. Therefore, Sukukholders may not be able to sell their Sukuk easily or at prices that will provide them with a return comparable to similar investments that have a developed secondary market. Illiquidity may have a material adverse effect on the market value of the Sukuk.

Shari'ah

Prospective Sukukholders should note that different *Shari'ah* advisers, and Saudi courts and judicial committees, may form different opinions on identical issues and therefore prospective Sukukholders may wish

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

Trading, settlement and listings

The Sukuk will be admitted to the trading, clearing and settlement system of the Registrar. However, there can be no assurance that there will be no interruption to, or errors in, trading, clearing or settlement of the Sukuk as a result of the inexperience or lack of familiarity of the operations in regard to trading, clearing and settlement systems or of inherent inadequacies of any such trading, clearing or settlement system. Moreover, secondary sales in the Sukuk market are limited and there can be no assurance that the Sukuk will be sold by the Sukukholders easily. The market value of the Sukuk may fluctuate. Consequently, any sale of Sukuk by Sukukholders in any secondary market may be at a price that is higher or lower than the initial offering price depending on many factors, including prevailing interest rates, the Issuer's performance and the market for similar securities or may not be possible at all.

The Joint Lead Managers, Joint Bookrunners and Underwriters are under no obligation to provide pricing on or make a market in the Sukuk. Accordingly, no assurance can be given as to the liquidity of, or trading market for, the Sukuk and an investor in the Sukuk must be prepared to hold the Sukuk for an indefinite period of time or until their maturity.

Payments under the Sukuk – Periodic Distribution Amount and Extra Amount

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

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

Payments under the Sukuk – Payment upon the expiry of the Sukuk

Prospective Sukukholders should note that the amount of the Purchase Price to be paid by SEC upon purchase of the Sukuk (following a Purchase Date or upon any Event of Default) shall be calculated on the aggregate Nominal Amount of the Sukuk as are current as of such date multiplied by a percentage value which will decrease over the term of the Sukuk. Prospective Sukukholders should be aware that they will be entitled to receive a payment of the Purchase Price equal to 95 per cent. of the Nominal Amount of their Sukuk, if they exercise their rights to have their Sukuk purchased on the Purchase Date falling in January 2024G. The Purchase Price payable to Sukukholders declines to 60 per cent. on the Purchase Date falling in January 2034G and 30 per cent. on the Purchase Date falling in January 2044G. If the Sukuk is not purchased by SEC prior to the Expiry Date, the value of the Sukuk on the Expiry Date will be zero and the Sukuk will be cancelled.

Sukukholders will also receive (to the extent that there is available Net Income and Reserve on such dates) an Extra Amount of up to 5 per cent. of the Nominal Amount of their Sukuk payable on the Purchase Date falling in January 2024G, January 2034G, and January 2044G to the extent their Sukuk are current on such dates.

Accordingly, assuming that there is available sufficient Net Income and Reserve and that the Extra Amount is paid on a Purchase Date and that SEC pays all amounts due to Sukukholders, Sukukholders would have received, in aggregate, 100 per cent. of the Nominal Amount of the Sukuk if they exercised their rights to have their Sukuk purchased on the Purchase Date falling in January 2024G. The amount Sukukholders would receive would fall to 65 per cent. of the value of the Sukuk if they exercised their rights to have their Sukuk purchased on the Purchase Date falling in January 2034G and 35 per cent. on the Purchase Date falling in January 2044G.

Credit Ratings may not reflect all risks

SEC has been rated A1 by Moody's, AA- by Fitch and AA- by S&P. In addition to this rating of SEC as a company, one or more independent credit rating agencies may assign credit ratings to the Sukuk themselves. A credit rating (whether relating to SEC or to the Sukuk) is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by its assigning rating agency at any time. Any ratings of SEC or the Sukuk 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 Sukuk. Any actual or anticipated changes in SEC's credit ratings or the ratings of the Sukuk could negatively affect the market value of the Sukuk.

Modification, Waivers and Substitution

The Conditions contain provisions for calling meetings of the Sukukholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Sukukholders, including Sukukholders who did not attend and vote at the relevant meeting and the Sukukholders who voted in a manner contrary to the majority.

Suitability of Investments

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

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

Governing law, jurisdiction and enforceability

The Sukuk Documents and the Sukuk are, governed by, and are to be construed in accordance with, the laws of the Kingdom, which are based on Islamic, or *Shari'ah*, law. There are a number of courts and judicial committees in the Kingdom which have jurisdiction in respect of certain types of claims. Disputes are generally heard before the general courts of the Kingdom unless jurisdiction for a particular type of dispute is awarded to another court or judicial committee. Disputes of a commercial nature are resolved before the Grievances Board, the jurisdiction of which in relation to commercial disputes is currently subject to reform (as further discussed below). Disputes arising under the Capital Market Law of the Kingdom (issued by Royal Decree No. (M/30) dated 2/6/1424H (corresponding to 1/8/2003G), as amended) and its implementing regulations are heard before two special judicial bodies known as the Committee for the Resolution of Securities Disputes (the "**Committee**") and the Appeal Committee for the Resolution of Securities Conflicts (the "**Appeal Panel**", together, the "**Committees**").

As per Condition 18 (Governing Law and Jurisdiction), the Committees shall have exclusive jurisdiction to hear and determine any suit, action or proceedings, and to settle any disputes, which may arise out of or in connection with the Sukuk Documents and the Sukuk. In addition, prospective Sukukholders should note that, to the best of the Issuer's knowledge, no securities of a similar nature to the Sukuk have previously been the subject of adjudicatory interpretation or enforcement in the Kingdom. Investors should also be aware that,

generally, the courts and judicial committees of the Kingdom, including the Committees, have a wide discretion as to how principles of Islamic Shari'ah are applied to a particular set of circumstances and previous decisions of such courts and judicial committees are not considered as establishing binding precedents for deciding subsequent disputes. The decisions of the various courts and judicial committees of the Kingdom and Royal Decrees, ministerial decisions and resolutions, departmental circulars and other pronouncements of official bodies of the Kingdom which have the force of law are not generally or consistently indexed and collected in a central place or made publicly available. Accordingly, it is uncertain exactly how and to what extent any Sukuk, the Conditions and/or the Sukuk Documents would be enforced by the Committees or, should circumstances dictate that they have jurisdiction, a Saudi Arabian court or any other Saudi Arabian adjudicatory body.

The Government has approved a restructuring of the judicial system, including the establishment of a Supreme Court as well as commercial, personal status and labour tribunals. The new Judiciary Law and Grievances Board Law were enacted by Royal Decree No. M/78 dated 19/9/1429H (corresponding to 1/10/2008G) but have not yet been fully brought into force. Under the new judiciary law, the Supreme Court has been given all the functions other than certain administrative responsibilities of the Supreme Judiciary Council, which previously serves as the Kingdom's highest tribunal. The Grievances Board's current jurisdiction over commercial disputes will also pass to a new Commercial Court as part of this restructuring. It is not clear at this stage what impact on the Sukuk Documents or the Sukuk or any claim under the Sukuk Documents or the Sukuk this restructuring may have.

Events of default

There is a risk that the courts and judicial committees of the Kingdom would not give effect to an event of default other than one consisting of the non-payment of due amounts.

Penalties and indemnities

There is a risk that should any provision of the Sukuk Documents be construed by a court or judicial committee of the Kingdom to be an agreement to pay a penalty rather than a genuine estimate of loss incurred, such provision would not be enforced in the Kingdom. Further, any indemnity provided by the Issuer pursuant to the Sukuk Documents or in relation to any Sukuk may not be enforceable under the laws and regulations of the Kingdom to the extent that it (a) purports to be effective notwithstanding any judgment or order of a court to the contrary or (b) is contrary to any applicable law or public policy relating thereto.

FACTORS RELATING TO THE SUKUK ASSETS

Tariffs for Meter Reading, Maintenance and Bill Reading

The tariffs charged by SEC to its customers for meter reading, maintenance and bill preparation are determined by the Council of Ministers and such tariffs are based on recommendations provided by the electricity regulator, ECRA.

The current electricity tariff structure is under review by the Government and ECRA has formed a working group to prepare a study on the current electricity tariffs and to propose amendments to it. Therefore, no assurance can be given that the current tariffs for meter reading, maintenance and bill preparation will not be reduced. If such tariffs were to be reduced this could have an adverse impact on the income receivable under the Sukuk Assets.

(For further information, see the sections entitled "*Regulation*" and "*Tariffs*" in "*Description of SEC*" and the section headed "*Sukuk Assets Transfer Agreement*" in "*Summary of the Sukuk Documents*" in this Prospectus.)

Specified Customers Credit Risk

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

MARKET AND INDUSTRY INFORMATION

Overview

The Saudi electricity market is the largest in the Arab world, with a peak load of 51,939 MW in 2012G. 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 – "*The Government's development strategy*").

All of the generation capacity in the Kingdom in 2012G, 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 2012G. 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 2012G, 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 2012G, 31 December 2011G and 31 December 2010G was 6,730,999, 6,341,025 and 5,997,553, respectively, representing increases of 6.2 per cent. in 2012G and 5.7 per cent. in 2011G, respectively. During the years 2000G to 2012G, 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 2012G along with the amount of consumption for the year ended 31 December 2012G.

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 2012G, 2011G and 2010G, 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 2012G and 2011G, respectively. Electricity sales during the years 2000G to 2012G increased by 110.7 per cent. from 114,049 GWh in 2000G to 240,288 GWh in 2012G, while the non-coincident peak demand increased by 139.6 per cent. from 21,673 GW in 2000G to 51,939 GW in 2012G.

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 2010G, 2011G and 2012G.

	2010G	2011G	2012G
	(GWh)		
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 2010G, the Kingdom adopted its ninth five-year development plan for 2010G to 2014G (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 2011G 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; and
- 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.

DESCRIPTION OF SEC

INTRODUCTION

Saudi Electricity Company (SEC) is a joint stock company incorporated in the Kingdom on 30/12/1420H (corresponding to 5/4/2000G), 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 commercial Register Number 1010158683, and its headquarters located in Granada Towers, Building A – 1, P.O. Box 22955, Riyadh, Kingdom of Saudi Arabia.

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, 81.2 per cent. owned by the Government. As at the date of this Prospectus, SEC has been rated from a credit perspective as follows:

Rating	Rating Agency	Rating definition
A1	Moody's	Upper-medium grade; low credit risk.
AA-	Fitch	Very strong capacity for payment of financial commitments; Very low default risk.
AA-	Standard & Poor's	Capacity to meet financial commitment on the obligation is very strong.

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 2012G, 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 2012G, the SEC Group's total operating revenue was SAR 33,646 million (compared to SAR 30,570 million for the year ended 31 December 2011G and SAR 27,911 million for the year ended 31 December 2010G) and its net income was SAR 2,561 million for the year ended 31 December 2012G (compared to SAR 2,213 million for the year ended 31 December 2011G and SAR 2,279 million for the year ended 31 December 2010G). For the six-month period ended 30 June 2013G, the SEC Group's total operating revenue was SAR 15,731 million (compared to SAR 15,006 million for the six-month period ended 30 June 2012G) and its net income was SAR 845 million (compared to SAR 777 million for the six-month period ended 30 June 2012G). As at 30 June 2013G, the SEC Group's total assets were SAR 263,011 million (compared to SAR 238,586 million as at 31 December 2012G, SAR 213,454 million as at 31 December 2011G and SAR 190,872 million as at 31 December 2010G).

The SEC Group employed a workforce of 29,557 as at 30 June 2013G, of which 87.03 per cent. were Saudi Arabian nationals, 29,006 as at 31 December 2012G, of which 87.58 per cent. were Saudi Arabian nationals, and 28,414 as at 31 December 2011G, of which 87.52 per cent. were Saudi Arabian nationals, as further described in "*Management and Employees*" section of this Prospectus.

HISTORY

In 1975G, the Government created the Ministry of Industry and Electricity (which was replaced by the Ministry of Water and Electricity in 2003G) 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 the date of this Prospectus, 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 74.3 per cent. owned by the Government and approximately 6.9 per cent. owned by Saudi Aramco, which is wholly owned by the Government. The remaining 18.8 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.

The shares are nominal and may not be issued at less than their nominal value. However, the shares may be issued at a value higher than their nominal value, in which case, the difference in value shall be added to the legal reserve, even if the reserve has reached its maximum limit. A share shall be indivisible vis-à-vis the company. If several persons hold a share, they shall designate one person to act on their behalf in exercising the rights connected with the shares. In such case, they shall be jointly responsible for the obligations resulting from the share ownership.

RELATIONSHIP WITH THE GOVERNMENT

Government as the majority owner

The Government currently owns directly, and indirectly through Saudi Aramco, approximately 81.2 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 2012G, 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 *"Summary 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 2010G, 2011G and 2012G, 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 2006G and 2009G, 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 2010G, 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 2012G, 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 1994G, 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 2000G, 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 2009G, 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. As at 30 June 2013G and 31 December 2012G, SEC had SAR 39,927 million and SAR 34,509 million of accounts payable, of which 45 per cent. and 47.1 per cent., respectively, represented payments due to Saudi Aramco, primarily for the supply of fuel between 31 December 2009G and 31 December 2012G. 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 cogeneration 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 2010G, 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 170**). 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 170, 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.

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.

Electricity generation

Total generation capacity

As at 31 December 2012G, 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 2000G to 43,083 MW as at 31 December 2012G (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 2010G 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 2012G, and the overall peak load in the Kingdom was 51,939 MW at the end of 2012G.

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

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 2000G to 51,939 MW in 2012G, 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 2012G was approximately 49,257 MW as compared to an average monthly peak demand of approximately 36,512 MW from October to December 2012G. In 2012G, 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 2012G, 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 2010G, 5.8 per cent. in 2011G and 5.3 per cent. in 2012G.

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 2012G.

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 2012G, 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 2015G. 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 2012G.

Remaining economic life	Capacity
	(MW)
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 2010G, 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 2011G, 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 2012G, 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 2017G. The SEC Group's planned future capital expenditure for the years 2013G to 2017G 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 2013G 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 "Legal Information" - "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 and Riyadh IPP are already operational, the Qurayyah IPP is 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	Operational	50 per cent.	20 years
	Qurayyah	3,927 MW	Under construction (completion expected by 2014G)	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). 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 2006G to 51,881 c.km at the end of 2012G. 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 2012G.

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

Voltage of transmission lines			No. of transformers	Capacity (MVA)		Amount of transmission lines (c.km)		
	No. of sub-stations							
	As at 31 December							
	2011G	2012G	2011G	2012G	2011G	2012G	2011G	2012G
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	173,532	185,243	49,675	51,880

In 2012G, 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 2011G and 2012G, 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 2012G, a decrease of 6.4 per cent. from 9.4 per cent. in 2011G.

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 2012G, 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 2021G.

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 2014G, 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 2012G 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 2012G and 26,042 km of power lines to its distribution network during the course of 2011G. This increased the total circuit lengths of its distribution power lines to 438,131 c.km as at 31 December 2012G. As at 31 December 2012G and 31 December 2011G, 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 2012G and 7.3 per cent. in 2011G, respectively. As at 31 December 2012G and 31 December 2011G, 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 2012G and 6.2 per cent. in 2011G, 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 2000G to 2012G, 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 2012G.

SEC estimates that it will spend approximately SAR 11 to 14 billion per annum from 31 December 2012G to 31 December 2014G 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 2012G, 31 December 2011G and 31 December 2010G, 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 2012G and a 5.7 per cent. increase in customer numbers during 2011G.

SEC divides its customers into seven main categories: residential, commercial, industrial, governmental, agricultural, health and education and desalination. The table below shows the number of customers across the customer segments for each of 2010G, 2011G and 2012G.

	Year ended 31 December				
	2010G	2011G	2012G		
		(% change)		(% change)	
Governmental.....	118,942	117,970 (0.8)	214,063	81.5	
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	5.6	
Industrial.....	7,489	7,646 2.1	8,166	6.8	
Other categories.....	148,744	157,194 5.7	79,919	(49.2)	
Total.....	5,997,553	6,341,025 5.7	6,730,999	6.2	

The quantity of electricity sold in 2012G, 2011G and 2010G was 240,288 GWh, 219,661 GWh and 212,263 GWh, respectively, representing an increase of 9.4 per cent. in 2012G and 3.5 per cent. in 2011G and an average annual growth of 7.1 per cent. over the period from 31 December 2000G to 31 December 2012G. The table below shows the distribution of electricity sales across the customer segments for each of 2010G, 2011G and 2012G.

	Year ended 31 December				
	2010G	2011G	2012G		
	GWh	GWh (% change)	GWh	(% change)	
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.....	212,263	219,662 3.5	240,288	9.4	

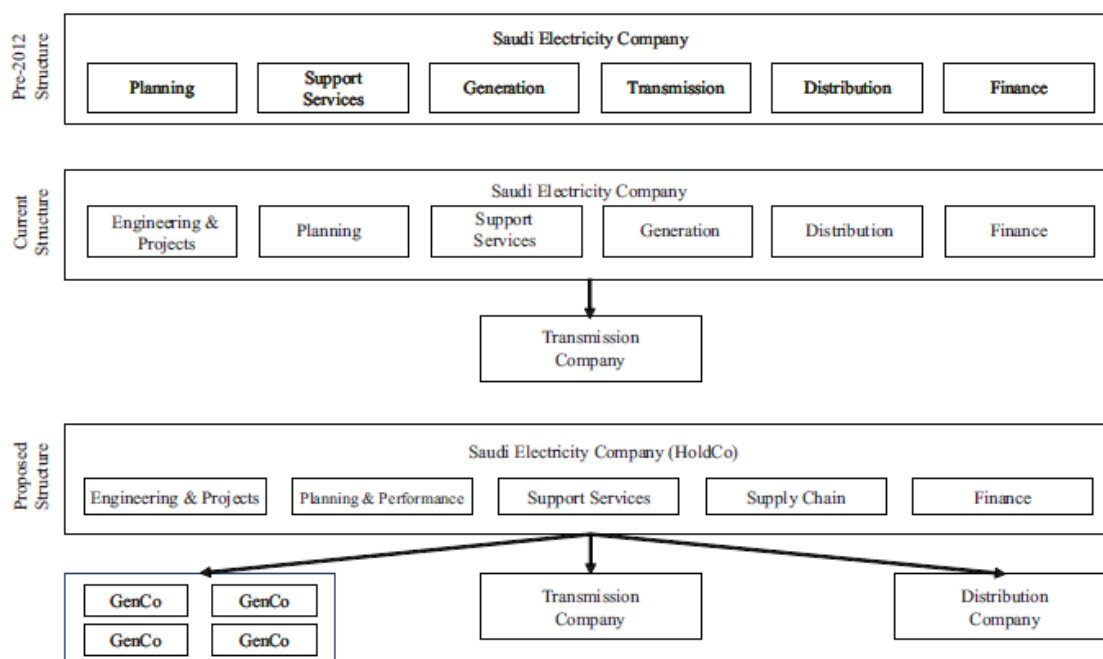
Most of SEC's residential customers are located in the Central and Western Regions, which together accounted for approximately 68.8 per cent. of all electricity sales made by SEC to residential customers in 2012G. The bulk of SEC's industrial customers are located in the Eastern Region, which accounted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

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 2012G. 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. Accordingly, SEC does not anticipate that the restructuring of the SEC Group will have a materially adverse effect on the SEC's business or profitability.

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 2012G, 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 2012G, 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 2012G 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 seven principal customer categories: residential, commercial, industrial, governmental, agricultural, health and education and desalination. 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 of the SEC Group, SEC intends to establish a single distribution company to own and manage its distribution assets. This company is expected to be established in 2014G. The 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 company will be responsible for all billing and customer relationship activities. While the distribution company will be licensed by ECRA to conduct distribution activities, including meter-reading, the Sukuk Assets will not be transferred to the distribution company.

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 2009G have been assumed by the Government. See *"– Relationship with the Government – Government support"*. As at 31 December 2012G, SEC owed SAR 57,201 million to Saudi Aramco for fuel supplied to it since 31 December 2009G.

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 2010G, 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 (Kw/h)	Sector						
	<u>Governmental</u>	<u>Residential</u>	<u>Commercial</u>	<u>Commercial (Medical institutions)</u>	<u>Commercial (Educational institutions)</u>	<u>Agriculture</u>	<u>Charity</u>
	(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 2012G (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 2009G 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 in connection with issuance of sukuk 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 2017G and U.S.\$1,250 million 4.211 per cent. certificates maturing in 2022G. See "*Summary 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 U.S.\$1,000 million 3.473 per cent. certificates, maturing in 2023G and U.S.\$1,000 million 5.06 per cent. certificates, maturing in 2043G.

Other investments

As at 31 December 2012G, 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 2012G. 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*").

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

Company name	Objective	Percentage shareholding
Company		
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 2001G 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 2009G 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 2010G. 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 2003G, 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 or sabotage and similar events 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.

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.

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 2003G.

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.

MANAGEMENT AND EMPLOYEES

MANAGEMENT STRUCTURE

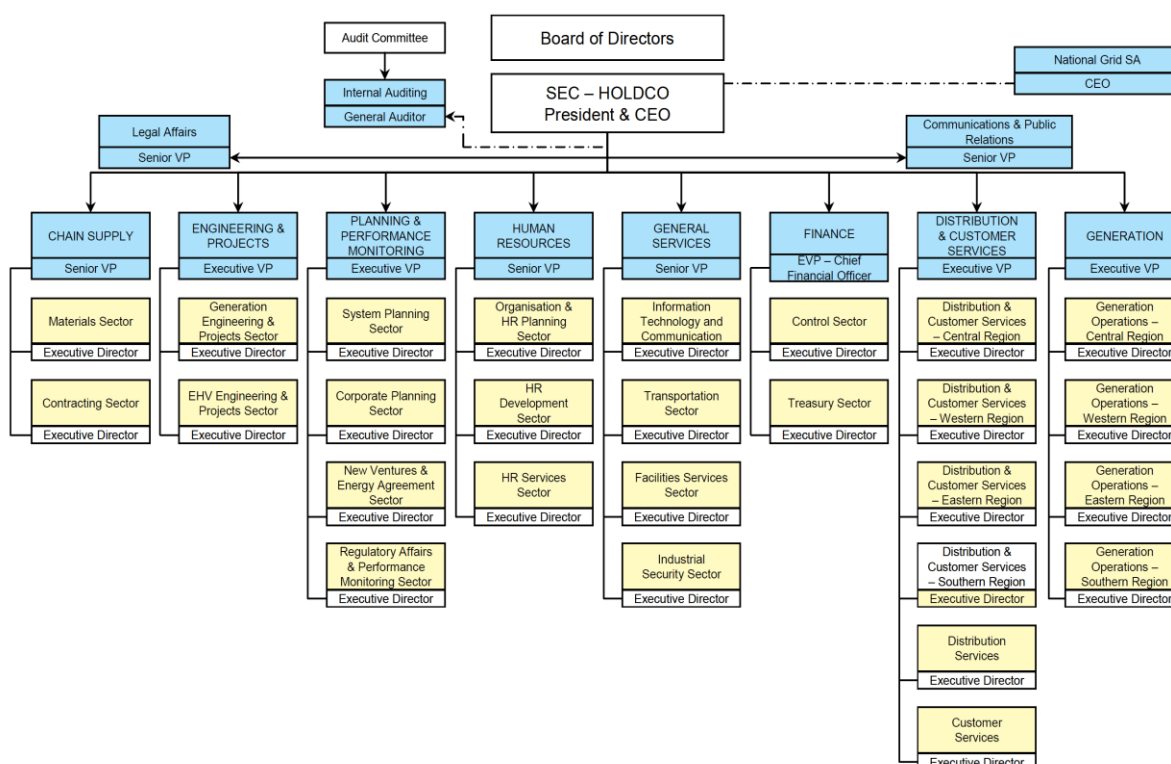
SEC's main management structure consists of a board of directors (the **Board**), an audit committee and an executive committee consisting of a team of executive officers (the **Executive Management**).

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.

Organisational structure

The following chart sets out SEC's organisational structure.



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:

Name	Title	Status
Dr. Saleh Bin Hussain Al-Awajji.....	Chairman – Government Representative	Non-independent Non-executive
Mr. Sulaiman Bin Abdullah Al-Kadi	Vice Chairman – Private Sector Representative	Independent Non-executive
Dr. Saud Bin Mohammed Al-Nemer	Board Member – Private Sector Representative	Independent Non-executive
Mr. Ahmed Abdullah Al-Aqeel	Board Member – Private Sector Representative	Independent Non-executive
Engineer Issam Bin Alwan Al-Bayyat	Board Member – Government Representative	Non-independent Non-executive
Mr. Saleh Bin Saad Al Muhanna	Board Member – Government Representative	Non-independent Non-executive
Mr. Abdul Aziz Bin Saleh Al-Furaih.....	Board Member – Government Representative	Non-independent Non-executive
Dr. Yousuf Abdulaziz Al-Turki.....	Board Member – Government Representative	Non-independent Non-executive
Engineer Abdul Hamid Bin Ahmad Al-Omair	Board Member – Saudi Aramco Representative	Non-independent Non-executive
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 – 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

- Membership in the Board of SEC

Dr. Al-Awajji was elected to the current Board by the general meeting of the shareholders in January 2012G. He was appointed as Chairman of the Board in 2009G and has served on the Board since 2003G.

- Academic Qualifications

Year	Degree	Major	University
1982	Bachelor's	Electrical Engineering	King Saud University, Saudi Arabia
1985	Master's	Electrical Engineering	Taiwan National University
1989	Doctorate	Electrical Engineering	University of Strathclyde, United Kingdom

- Professional Qualifications, Current Positions

Membership Start Date	Position	Entity	Type of Legal Entity	Sector
2002G	Deputy Minister	Ministry of Water and Electricity	Government Body	Government
2002G	Member of the board of directors	GCC Electric Interconnection Organization	Public Joint Stock Company	Electricity
2002G	Member of the Executive Board	Council of Electricity-Concerned Arab Ministers	Arabian Organization	Electricity
2002G	Member of the Agents Preparatory Committee	GCC Electric Cooperation	GCC Organization	Electricity
2003G	Member of the National Committee	International Energy Council	International Organization	Energy

- Professional Qualifications, Previous Positions

Membership Start Date	Position	Entity	Type of Legal Entity	Sector
2001G – 2008G	Member of the board of directors	Saline Water Conversion Corporation	Government Corporation	Government
2004G – 2007G	Member of the board of directors	Saudi Industrial Development Fund	Government Financing Body	Industrial Development

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

- Membership in the Board of SEC

Mr. Al-Kadi was elected to the current Board by the general meeting of the shareholders in January 2012G. He has served as the Chief Executive Officer of the SEC until 2005G and has served on the Board since 2006G.

- Academic Qualifications

Year	Degree	Major	University
1964G	Bachelor's	Petroleum Engineering and Management	Texas University, USA.

- Professional Qualifications, Current Positions

Membership Start Date	Position	Entity	Type of Legal Entity	Sector
2007G	Chairman	Saudi United Cooperative Insurance Company	Public Joint Stock Company	Insurance
2008G	Vice Chairman	Basic Chemical Industries Company.	Public Joint Stock Company	Basic Materials Industries

2010G	Member of the board of directors	Chemical Development Company	Closed Joint Stock Company	Chemicals
2011G	Member of the board of directors	Saudi Hollandi Bank	Public Joint Stock Company	Banking

- Professional Qualifications, Previous Positions

Membership Dates	Position	Entity	Type of Legal Entity	Sector
1984G-1997G	General Manager and Acting Director of SEC in the Eastern Province.	SEC	Public Joint Stock Company	Electricity
1988G-2000G	Representative of the Ministry of Electricity and Industry	Board of the Eastern Province	Government Body	Government
1991G-1999G	Member of the board of directors	Electricity General Corporation	Government Corporation	Electricity
1997G-2000G	SEC Board of the Central Province	SEC	Public Joint Stock Company	Electricity
1998G -2005G	Chairman	Arab Union of Electricity	Arabian Organization	Electricity
2001G-2005G	Chief Executive Officer	SEC	Public Joint Stock Company	Electricity

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

- Membership in the board of SEC

Dr. Al-Nemer was elected to the current Board by the general meeting of the shareholders in January 2012G. He has served on the Board since 2009G.

- Academic Qualifications

Year	Degree	Major	University
1973G	Bachelor's	Accounting and Business Administration	King Saud University, Saudi Arabia
1976G	Master's	Public Administration	Missouri State University, USA
1981G	Doctorate	Public Administration	Florida State University, USA

- Professional Qualifications, Current Positions

Membership Start Date	Position	Entity	Type of Legal Entity	Sector
1999G	Partner	Al Hamid & Al Nemr Consulting	Private Company	Administration Consultations
2006G	Member of the Board of Trustees	Prince Sultan University	Non-profit private academic institution	Education
2010G	Member of the board of directors	Solidarity Saudi Takaful Company	Public Joint Stock Company	Insurance

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

- Membership in the board of SEC

Mr. Al-Aqeel was elected to the Board by the general meeting of the shareholders in January 2012G. He has served on the Board since 2012G.

- Academic Qualifications

Year	Degree	Major	University
1972G	Bachelor's	Physics and Mathematics	Texas A&M University, USA
1972G	Master's	Economics and Mathematics	Texas A&M University, USA

- Professional Qualifications, Current Positions

Membership Start Date	Position	Entity	Type of Legal Entity	Sector
1975G	Member of the board of directors	Southern Province Cement Company	Public Joint Stock Company	Cement
1999G	Member of the board of directors	Arab National Bank	Public Joint Stock Company	Banking
2007G	Chairman	SANAD Cooperative Insurance and Reinsurance	Public Joint Stock Company	Insurance
2009G	Member of the board of directors	Aldrees Petroleum and Transport Services Company.	Public Joint Stock Company	Technology and Petroleum Services

- Professional Qualifications, Previous Positions

Membership Dates	Position	Entity	Type of Legal Entity	Sector
1975G-1980G	Secretary General	Public Investment Fund	Government Body	Government
1980G-1998G	General Manager	Real Estate Development Fund	Government Body	Government
1986G-1993G	Chairman	Saudi Real Estate Company	Public Joint Stock Company	Real Estate
1998G-2007G	General Manager	Saudi Real Estate Company	Public Joint Stock Company	Real Estate

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

- Membership in the board of SEC

Engineer Al-Bayyat was elected to the current Board by the general meeting of the shareholders in January 2012G. He has served on the Board since 2006G.

- Academic Qualifications

Year	Degree	Major	University
1971G	Bachelor's	King Fahd University of Petroleum & Minerals, Saudi Arabia	University of Basra, Iraq
1981G	Master's	Electrical Engineering	King Fahd University of Petroleum & Minerals, Saudi Arabia

- Professional Qualifications, Previous Positions

Membership Dates	Position	Entity	Type of Legal Entity	Sector
1999G-2001G	Chief Executive Officer	Saudi Refining Inc.	Joint Stock Company	Petroleum
2001G-2011G	Vice President of New Business Development	Saudi Aramco	A company wholly owned by the government, established by Royal Decree M/8 dated 4/4/1409H	Petroleum

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

- Membership in the board of SEC

Mr. Saleh Al-Muhanna was elected to the current Board by the general meeting of the shareholders in January 2012G. He has served on the Board since 2009G.

- Academic Qualifications

Year	Degree	Major	University
1982G	Bachelor's	Industrial management	King Fahd University of Petroleum & Minerals, Saudi Arabia
1993G	Master's	Economy	Ohio University,

- Professional Qualifications, Current Positions

Membership Start Date	Position	Entity	Type of Legal Entity	Sector
2001G	Member	Sovereign Rating Committee for Saudi Arabia	Private Committee	Credit Rating
2004G	Deputy Minister	Ministry of Finance	Government Authority	Government
2006G	Member of the board of directors	Arab Bank Amman	Joint Stock Company	Banking
2008G	Member of the board of directors	General Organization for Technical and Vocational Training	Government Institute	Government
2011G	Member of the board of directors	Saudi International Ports Company	Private Company	Marine services

- Professional Qualifications, Previous Positions

Membership Dates	Position	Entity	Type of Legal Entity	Sector
2005G-2008G	Member of the board of directors	Saline Water Conversion Corporation	Government Institute	Government

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

- Membership in the board of SEC

Mr. Al-Furaih was elected to the current Board by the general meeting of the shareholders in January 2012G. He has served on the Board since 2009G.

- Academic Qualifications

Year	Degree	Major	University
1981G	Bachelor's	Accountancy	University of San Diego, USA
1983G	Master's	Accountancy	Ball State University, USA

- Professional Qualifications, Current positions

Membership Start Date	Position	Entity	Type of Legal Entity	Sector
2013G	Assistant CEO	Riyadh Bank	Joint Stock Company	Banking

- Professional Qualifications, Previous Positions

Membership Dates	Position	Entity	Type of Legal Entity	Sector
1985G-1987G	Certified Public Accountant	Arthur Andersen	Holding Company (Limited Liability Partnership)	Public Accounting
2003G-2013G	Senior Deputy CEO	Riyadh Bank	Joint Stock Company	Banking

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

- Membership in the board of SEC

Dr. Al-Turki was elected to the current Board by the general meeting of the shareholders in January 2012G. He has served on the Board since 2012G.

- Academic Qualifications

Year	Degree	Major	University
1979G	Bachelor's	Electrical Engineering	King Abdulaziz University, Saudi Arabia
1985G	Doctorate	Electrical Power Engineering	Manchester University, United Kingdom

- Professional Qualifications, Current Positions

Membership Start Date	Position	Entity	Type of Legal Entity	Sector
1986G	Instructor at the Electrical and Computer Engineering Department in the Faculty of Engineering	King Abdulaziz University	Public university	Educational
2006G	Dean of Scientific Research	King Abdulaziz University	Public university	Educational

- Professional Qualifications, Previous Positions

Membership Dates	Position	Entity	Type of Legal Entity	Sector
2002G – 2006G	Vice Dean of the Institute of Research and Consultations	King Abdulaziz University	Public university	Educational

Engineer Abdul Hamid Bin Ahmad Al-Omair, Board Member – Saudi Aramco Representative

- Membership in the board of SEC

Engineer Al-Omair was appointed by Saudi Aramco as its representative to the current Board in October 2013G and has served on the Board since then.

- Academic Qualifications

Year	Degree	Major	University
1985G	Bachelor's	Electronic Engineering	Northern Arizona University

- Professional Qualifications, Current Positions

Membership Start Date	Position	Entity	Type of Legal Entity	Sector
1986G	Manager of the Department of Energy Systems Engineering	Saudi Aramco	A company wholly owned by the government, established by Royal Decree M/8 dated 4/4/1409H	Petroleum
2007G	Manager of the Department of Electrical Energy	Saudi Aramco	A company wholly owned by the government, established by Royal Decree M/8 dated 4/4/1409H	Petroleum
2009G	Member of the board of directors	Power and Utility Company for Jubail and Yanbu	Joint Stock Company	Electricity and Water

Mr. Obaid Al-Ojairi, Secretary to the Board

Mr. Al-Ojairi was elected to be the Secretary to the Board in January 2012G and has served on the Board since that time. He joined SEC in 1981G and, 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 1988G and a Master's Degree in Manpower Development in 1992G from Indiana State University, USA. He is not and has never been a member of the board of directors of any company.

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 2012G.

Executive committee

The executive committee is comprised of six 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 (in his capacity as CEO). The sixth member will be appointed from amongst the members of the Board to replace Ziyad Mohammed Al-Shiha who is no longer a member in the Board. 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 2012G.

Remuneration, nominations and human resources committee

The remuneration, nominations and human resources committee is comprised of six members which are selected by the Board. The current members of the remuneration and nominations committee are Sulaiman Bin Abdullah al-Kadi (chairman of the committee), Abdul Aziz Bin Saleh Al-Furaih, Saleh Bin Hussain Al-Awajji, Ahmed Abdullah Al-Aqeel, Saud Bin Mohammed Al-Nemer and Ali bin Saleh Al-Barrak (in his capacity as CEO). The remuneration, nominations and human resources 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 is also responsible for reviewing SEC's human resource policies and regulations, including SEC's salary structure, benefits and allowances, and recruitment standards, and for nominating SEC's CEO and vice presidents and appointing sector heads. The committee reports to the Board and meets a minimum of twice a year.

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
Engineer Ziyad Mohammed Al-Shiha	Executive Vice President – Strategy Affairs
Mr. Mubarak Ahmed Al-Mulhim	Executive Vice President – Planning & Performance Monitoring
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. Ibrahim Mohammed Balghonaim	Senior Vice President – Human Resources
Engineer Abdulkarim Bin Abdullah Al-Zakari ..	Senior Vice President – Supply Chain & Contracting
Dr. Mohammad Oayedh Faraj	CEO, National Grid, Saudi 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 (his term expires on 31 December 2013)

Mr. Al-Barrak joined SEC as a senior engineer in 1980G. Since that time he has held the following positions within SEC: Senior Engineer from 1980G to 1981G; Director General, Al Qassim Electricity Area from 1981G to 1986G; Acting Director General, Central Region Branch from 2001G to 2002G; member of the Executive Committee from 2000G to 2002G and Executive Vice President from 2003G to 2007G. 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 1975G to 1978G and worked in consulting services for Al-Saudiyyah from 1978G to 1980G. Mr. Al-Barrak obtained a Bachelor's Degree in Electrical Engineering from King Saud University, Saudi Arabia in 1975G and a Master's Degree in Electrical Engineering from the University of Colorado at Boulder, USA in 1979G. Mr. Al-Barrak has held the following board positions: Chairman of the board of directors of the Arab Union of Electricity, an Arab organization operating in the electricity sector, from 2007G to 2009G; member of the board of the General Organization for Technical and Vocational Training, a public government institution operating in the sector of technical and vocational training, since 2007G; and member of the board of the Real Estate Development Fund, a governmental financing institution operating in the sector of industrial development, since 2012G. Mr. Al-Barrak will be replaced as CEO with effect from 1 January 2014G by Engineer Ziyad Mohammed Al-Shiha (see "Appointment of Directors, CEO and CFO" for further details).

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

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

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

Mr. Al-Mansour joined SEC as an engineer in 1985G. Since then he has held the following positions within SEC: Manager, Customer Affairs, Alhasa Operating Area from 1985G to 1986G; Manager, Relations and

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

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

Mr. Al-Jugaiman joined SEC as an accountant in 1981G. Since that time he has held the following positions within SEC: Supervisor, Customer Accounting (Alhasa Operating Area) from 1984G to 1985G; Supervisor, Customer Relations (Alhasa Operating Area) from 1985G to 1986G; Manager, Finance and Treasury Department (Dammam Operating Area) from 1986G to 1987G; Manager, Finance and Treasury Department (Alhasa Operating Area) from 1987G to 1989G; Administrator, General Accounting Division from 1989G to 1990G; Administrator, General Accounts, Head Office from 1990G to 1992G; Controller and Manager for Finance Controlling Department in SCECO from 1993G to 2002G; and SEC Vice President, Corporate Controller, Control Sector from 2003G to 2008G. Mr. Al-Jugaiman was appointed as Executive Vice President, Finance in 2008G. Mr. Al-Jugaiman has been serving as a member of the board of the Water and Electricity Company, a limited liability company operating in the field of water and electricity production, since 2003G and was appointed as Vice Chairman of the board of that company in 2013G. Mr. Al-Jugaiman has also served as a member of the board of National Grid, a limited liability company wholly owned by SEC and operating in the electricity transmission sector, since 2011G. Before joining SEC, Mr. Al-Jugaiman worked for the General Organisation for Social Insurance Company. He obtained a Bachelor's Degree in Administrative Sciences and specialised in Accounting from King Saud University in 1981G.

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

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

Engineer Ziyad Mohammad Al-Shiha, - Strategy Affairs Executive Vice President

Engineer Al-Shiha was appointed to the Board by the general meeting of the shareholders held in January 2012 as the representative of Saudi Aramco, before being replaced in that position by Engineer Abdul Hamid Bin Ahmad Al-Omair in 2013. He will be starting his new position as CEO of SEC with effect from 1 January 2014G, as will be announced on the Tadawul website at that time. He joined Saudi Aramco in 1984, a management trainee in pipelines. 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. 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.

Mubarak Ahmed Al-Mulhim - Executive Vice President for Planning & Performance Monitoring

Mr. Al-Mulhim joined Saudi Consolidated Electric Company in the Eastern Province (or SCECO-East) as senior engineer in January 1988. Subsequently he was advanced to the positions of principal engineer in 1992 and then to manager of System Planning Department in 1996. After the 2001 restructuring of the electricity sector in the Kingdom and the formation of SEC, he became the Executive Director of Transmission Asset Planning & Development and subsequently the Executive Director of System Planning before his promotion to Executive Vice President in 2013. Prior to his employment at SEC, Mr. Al-Mulhim worked as a lecturer in the electrical engineering department in King Fahd University of Petroleum and Minerals in Dhahran during the period 1984-1988. Mr. Al-Mulhim earned his Bachelor's Degree and Master's Degree in Electrical

Engineering from Arizona State University, USA in 1981 and 1983 respectively. Mr. Al-Mulhim has served on numerous committees and study teams that have addressed a range of electricity-related topics in the Kingdom. He also co-authored many technical papers in electrical system planning and operation fields.

Mr. Nazeer A Mohsen Khashqaji, General Auditor

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

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

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

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

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

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

Mr. Ibrahim Mohammed Balghonaim, Senior Vice President – Human Resources

Mr. Balghonaim joined SEC in 1989G. He is responsible for three sectors, including Human Resource Development, Organization and Human Resource Planning, and Human Resource Services. Before his promotion to Senior Vice President, Mr. Balghonaim served as the Executive Director for Human Resource Development. Mr. Balghonaim earned a Bachelor's Degree in English from King Faisal University, Saudi Arabia in 1989G.

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

Engineer Al-Zakari joined SEC as a Civil Engineer in 1984G. 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 2012G. Engineer Al-Zakari obtained a Bachelor's Degree in Civil Engineering from King Fahad University of Petroleum & Minerals, Saudi Arabia in 1984G.

Dr. Mohammad Oayedh Faraj, CEO 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 1983G and worked in various engineering and management assignments. In 1998G he became System Operations Director and, in 2008G, was promoted to Executive Director, Consolidated Transmission Area. In 2012G he was appointed to

his current position. Dr. Oayedh obtained a PhD. in Electrical Engineering from King Saud University, Saudi Arabia in 1998G and a Bachelor's degree in Electrical Engineering with honours from King Fahad University, Saudi Arabia in 1981G. 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, CEO AND CFO

The representatives of the Government on the Board of SEC are initially nominated by the Ministry of Water and Electricity and thereafter elected, as is the case with the remaining members of the Board of SEC, directly by the general meeting of the shareholders, normally for a period of three years. Similarly, the representative of Saudi Aramco is nominated by Saudi Aramco and subsequently elected 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 2006G and his service will continue until 31 December 2013G. As at the date of this Prospectus, the CEO nor any member of the Board of SEC have any service or employment contract with SEC. The Board of Directors have appointed Engineer Ziyad Mohammed Al-Shiha to be the new CEO of SEC with effect from 1 January 2014G, as will be announced on the Tadawul website at that time. Before joining SEC, Mr. Al-Shiha was the executive director for power systems at Saudi Aramco. Mr. Al-Shiha obtained a master's degree in executive business management from Massachusetts Institute of Technology, USA, a master's degree in engineering (control systems) from Rice University in Houston in 1991G and a bachelor's degree in electrical engineering from King Fahd University of Petroleum & Minerals, Saudi Arabia in 1988G.

The current CFO, Mr. Ahmed Bin Mohammad AlJoghaiman, was appointed by Board resolution no. 4/76/2008 dated 29/5/1429H (corresponding to (3/6/2008G) under an indefinite contract in the same of form of approved contracts as other employees of SEC, in accordance with the Labour Law and relevant regulations.

EMPLOYEES

As at 30 June 2013G, the SEC Group had a workforce of 29,557 of which 87.03 per cent. are Saudi Arabian nationals.

The following table sets out the SEC Group's employees by category of activity as at 30 June 2013G.

Position	Number of employees
Senior-level executive positions.....	45
Mid-level manager positions	1,735
Other positions	27,777
Total positions.....	29,557

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.

The following tables categorize the employees of SEC and National Grid according to the main activities and the percentage of Saudisation in the last two years.

1. SEC

Department	As at 31 December					
	2011			2012		
	Saudi Nationals	Non-Saudi Nationals	Saudisation (%)	Saudi Nationals	Non-Saudi Nationals	Saudisation (%)
Chain Supply	748	73	91.1	808	83	90.7
Engineering & Projects	-	-	-	239	60	79.9

Planning & Performance Monitoring.....	159	23	87.4	198	31	86.5
Human Resources.....	577	198	74.5	534	253	67.9
General Services.....	4,313	286	93.8	3,565	223	94.1
Finance.....	527	20	96.3	489	22	95.7
Distribution & Customer Services..	10,618	1,191	89.9	11,183	1,111	91.0
Generation	5,174	1,143	81.9	4,981	1,169	81.0
Total	22,116	2,934	88.3	21,997	2,952	88.2

2. NATIONAL GRID

Department	As at 31 December					
	2011			2012		
	Saudi Nationals	Non-Saudi Nationals	Saudisation (%)	Saudi Nationals	Non-Saudi Nationals	Saudisation (%)
National Grid	1	1	50	3,171	629	83.5

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, 10, 12, 14 and 15 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 2010G, 2011G and 2012G, the aggregate remuneration (including benefits in kind) paid to the members of the Board and the top five highest paid senior executives (including the CEO and the CFO) was SAR 8,797,425 million, SAR 9,872,708 million and SAR 9,691,303 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 2012G, 3,360 employees have benefitted from this scheme.

Shares Scheme

Currently, there is no shares scheme for the employees or any other arrangements that involve the employees in the issued capital.

DECLARATIONS OF THE BOARD OF DIRECTORS AND SENIOR MANAGEMENT

The Directors, the CEO, Company Secretary, and senior management of SEC confirm that:

- They have neither been declared bankrupt nor have they been subject to bankruptcy proceedings;
- They have not been employed by an insolvent company in a managerial or supervisory capacity in the preceding five years;
- With the exception of the directors' membership shares required under article 68 of the Companies Regulations, neither they, nor their relatives, or any other related party have a direct or indirect interest in SEC Group's shares or debt instruments; and
- Neither they, nor their relatives, or any other related party have a direct or indirect interest in any contract or arrangement in effect or contemplated and which is significant in relation to SEC Group's business.

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", "Summary of 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. 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 and indirectly, 81,2 per cent. owned by the Government. As at the date of this Prospectus, SEC has been rated from a credit perspective as follows:

Rating	Rating Agency	Rating definition
A1	Moody's	Upper-medium grade; low credit risk.
AA-	Fitch	Very strong capacity for payment of financial commitments; Very low default risk.
AA-	Standard & Poor's	Capacity to meet financial commitment on the obligation is very strong.

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 2012G, 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 2012G, the SEC Group's total operating revenue was SAR 33,646 million (compared to SAR 30,570 million for the year ended 31 December 2011G and SAR 27,911 million for the year ended 31 December 2010G) and its net income was SAR 2,561 million (compared to SAR 2,213 million for the year ended 31 December 2011G and SAR 2,279 million for the year ended 31 December 2010G). For the six-month period ended 30 June 2013G, the SEC Group's total operating revenue was SAR 15,731 million (compared to SAR 15,006 million for the six-month period ended 30 June 2012G) and its net income was SAR 845 million (compared to SAR 777 million for the six-month period ended 30 June 2012G). As at 30 June 2013G, the SEC Group's total assets were SAR 263,011 million (compared to SAR 238,586 million as at 31 December 2012G, SAR 213,454 million as at 31 December 2011G and SAR 190,872 million as at 31 December 2010G).

PERFORMANCE INDICATORS

The following table shows SEC's key performance indicators as at, and for the years ended 31 December 2010, 2011 and 2012.

	2010	2011	2012
	(SAR millions)		
Operating revenue	27,911	30,570	33,646
Gross profit	2,593	2,701	3,603
Net income	2,279	2,213	2,561
Fixed assets, net	135,635	158,673	168,652
Shareholder equity	50,270	51,893	53,969

Current assets	26,533	29,750	27,488
Current liabilities	27,468	38,980	40,713
Income from operating activities	1,850	1,932	2,899

	2010	2011	2012
% Operations revenue growth.....	17%	10%	10%
% Net income growth	99%	(3%)	16%
% Gross margin ⁽¹⁾	9.29%	8.84%	10.71%
% Net margin ⁽²⁾	8.17%	7.24%	7.61%
Return on shareholder equity ⁽³⁾	4.53%	4.26%	4.75%
Return on fixed assets ⁽⁴⁾	1.68%	1.39%	1.52%
Fixed assets turnover ⁽⁵⁾	21	19	20
EPS from operating activities (SAR)	0.44	0.46	0.7
EPS from net income (SAR)	0.55	0.53	0.61
Current ratio ⁽⁶⁾	0.97	0.76	0.68

Notes:

- (1) Gross margin = gross profit for the year divided by operating revenue for the year.
- (2) Net margin = net income for the year divided by operating revenue for the year.
- (3) Return on shareholder equity = net income for the year divided by the shareholder equity ending balance.
- (4) Return on fixed assets = net income for the year divided by fixed assets, net ending balance.
- (5) Fixed assets turnover = operating revenue for the year divided by fixed assets, net ending balance.
- (6) Current ratio = current assets ending balance divided by current liabilities ending balance.

PRINCIPAL FACTORS AFFECTING RESULTS OF OPERATIONS

Many factors could cause the actual results, performance or achievements of SEC to be significantly different from any future results, performance or achievements that may be expressed or implied by such forward looking statements.

Further to the risks and factors that could have such an effect and which are described in the "Risk Factors" section of this Prospectus, 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 2010G to 219,661 GWh in 2011G (an increase of 3.5 per cent. in 2011G) and to 240,288 GWh in 2012G (an increase of 9.4 per cent. in 2012G). This increase in consumption was driven by commercial customers, where consumption increased by 12.9 per cent. in 2011G and by 20.8 per cent. in 2012G. 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 2011G and 2012G, respectively; a 3.5 per cent. decrease and a 10.3 per cent. increase for governmental customers in 2011G and 2012G, respectively; and increases of 0.6 per cent. and 10.1 per cent. for residential customers in 2011G and 2012G, respectively.

The growth in demand for electricity in the Kingdom has been primarily driven by growth in customer numbers. Since it was established in 2000G, the number of the SEC Group's customers has increased each year, reaching 6.0 million at 31 December 2010G (an increase of 5.2 per cent. in 2010G), 6.3 million at 31 December 2011G (an increase of 5.0 per cent. in 2011G) and 6.7 million at 31 December 2012G (an increase of 6.4 per cent. in 2012G). 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 sales made to residential customers are determined by the Council of Ministers on the recommendation of ECRA, whereas in the case of sales made to all other customers, tariffs are

determined by ECRA (subject to some limitations), and in all cases, tariffs must not exceed a maximum limit of SAR 0.26/KWh. See "*Description of SEC – Tariffs*".

Prior to July 2010G, the electricity tariff in force in the Kingdom had remained largely unchanged since 2000G 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 0.26 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 2010G, 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 2010G 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 2011G, 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 2011G 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 that SEC might enter into in the future could entail higher costs on SEC than its current costs, subsequently causing an adverse effect on 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 17.3 per cent. of SEC's cost of sales for the six-month period ended 30 June 2013G and 20.7 per cent. of SEC's cost of sales for the year ended 31 December 2012G.

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 2012G, 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 non-interest bearing loans, the waiver of dividends, higher tariffs for electricity supplied to governmental customers, the provision of subsidised fuel through Saudi Aramco, permission 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 – 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 aforementioned capital expenditure programme is expected to increase the SEC Group's finance costs.

Holdings affecting Financial Position

SEC does not have any holdings, including holdings in contractually based securities or other assets whose value may be subject to fluctuations or be difficult to ascertain with certainty, significantly affecting the assessment of the issuer's financial position.

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.

The comparative tables included in this Prospectus are prepared on a consolidated basis, extracted without material adjustment from audited financial statements and include financial information presented in a form consistent with that which is adopted in the issuer's annual financial statements.

RESULTS OF OPERATIONS FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2012G COMPARED TO THE SIX-MONTH PERIOD ENDED 30 JUNE 2013G

Income statement

The following table shows SEC's income statement data for the six-month periods ended 30 June 2012 and 2013G.

	Six-month periods ended 30 June	
	2012G	2013G
	unaudited	unaudited
	<i>(SAR million)</i>	
Electricity sales.....	13,761	14,373
Meter reading, maintenance and bills preparation tariff	462	486
Electricity connection tariff	740	821
Other operating revenue	42	51
Total operating revenue	15,006	15,731
Fuel	(2,727)	(2,676)
Purchased energy	(1,918)	(3,025)
Operations and maintenance	(4,212)	(4,312)
Depreciation – Operations and maintenance	(5,114)	(5,493)
Total cost of sales	(13,971)	(15,507)
Gross profit for the period	1,035	224
General and administrative expenses.....	(163)	(174)
Depreciation – General and administrative.....	(158)	(143)
Income (loss) from operating activities	714	(94)
Non-recurring income	-	729
Human resources productivity improvement programme	(78)	-
Other income and expenses, net	142	209
Net income for the period.....	777	845
Basic income (loss) per share (SAR/share):		
From operating activities for the period	0.17	(0.02)
From net income for the period	0.19	0.20

Comparison of six-month periods ended 30 June 2012G and 2013G

Operating revenue

The table below shows the breakdown of the SEC Group's operating revenue for the six-month periods ended 30 June 2012G and 2013G.

	Six-month periods ended 30 June			
	2012G		2013G	
	(SAR million)	(% of total)	(SAR million)	(% of total)
Electricity sales.....	13,761	91.7	14,373	91.4
Meter reading, maintenance and bills preparation tariff.....	462	3.1	486	3.1
Electricity connection tariff	740	4.9	821	5.2
Other operating revenue	42	0.3	51	0.3
Total operating revenue	15,006	100.0	15,731	100.0

The SEC Group's operating revenue principally comprises its revenues from the sale of electricity to its customers, which electricity is a combination of self-generated electricity and electricity purchased from third-party generators. For the six-month periods ended 30 June 2012G and 2013G the largest customer segment for electricity sales of the SEC Group was residential, followed by Government, commercial, industrial and others. As at 30 June 2013G, 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.

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 2009G to lease fibre optic networks to telecommunications companies. The SEC Group expects that revenue from Dawiyat Telecom Company will increase in the future, 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 the six-month period ended 30 June 2012G amounted to SAR 15,006 million compared to SAR 15,731 million for the six-month period ended 30 June 2013G.

The increase in the SEC Group's total operating revenue of SAR 725 million, or 4.8 per cent., in the six-month period ended 30 June 2013G compared to the corresponding period in 2012G principally reflected an increase of SAR 612 million, or 4.4 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 segments, and certain non-Government customers migrating onto a higher tariff level due to increased usage. The SEC Group's revenue from meter reading, maintenance and bills preparation increased by SAR 24 million, or 5.3 per cent., in the six-month period ended 30 June 2013G compared to the same period in 2012G, principally reflecting an increase in customer numbers over the period.

The SEC Group's revenue from electricity connections increased by SAR 81 million, or 10.9 per cent., in the six-month period ended 30 June 2013G compared to the corresponding period in 2012G, principally reflecting an increase in the number of new connections.

Cost of sales

The table below shows the breakdown of the SEC Group's cost of sales for the six-month periods ended 30 June 2012G and 2013G.

	Six-month periods ended 30 June			
	2012G		2013G	
	(SAR million)	(% of total)	(SAR million)	(% of total)
Fuel	(2,727)	19.5	(2,676)	17.3
Purchased energy	(1,918)	13.7	(3,025)	19.5
Operations and Maintenance.....	(4,212)	30.1	(4,312)	27.8
Depreciation – operations and maintenance	(5,114)	36.6	(5,493)	35.4
Total cost of sales	(13,971)	100	(15,507)	100

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 the six-month period ended 30 June 2012G amounted to SAR 13,971 million compared to SAR 15,507 million for the same period in 2013G.

The increase in the SEC Group's cost of sales of SAR 1,536 million, or 11.0 per cent., in the six-month period ended 30 June 2013G compared to the corresponding period in 2012G principally reflected:

- an increase of SAR 1,107 million, or 57.7 per cent., in purchased energy, of this, power purchased from IWPPs and PPPs accounted for SAR 72.1% per cent. of the increase. The increase was primarily the result of the increase in the amount of electricity required to be purchased from IPPs;
- an increase of SAR 379 million, or 7.4 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 the six-month period ended 30 June 2013G. See "*Liquidity and Capital Resources – Capital expenditure*";
- an increase of SAR 100 million, or 2.4 per cent., in operations and maintenance costs, driven primarily by an increase 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 in municipality fees for customary municipal services due to an increase in electricity sales and the number of customers, and an increase in the provision for slow moving inventory, largely in the generation and distribution business units, to provide for the potential obsolescence of such inventory; and
- a decrease of SAR 50 million, or 1.8 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 1,035 million in the six-month period ended 30 June 2012G compared to SAR 224 million in the corresponding period in 2013G, a decrease of 78.4 per cent.

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 163 million in the six-month period ended 30 June 2012G compared to SAR 174 million in the corresponding period in 2013G.

The SAR 11 million, or 6.9 per cent., increase in general and administrative expenses 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 158 million in the six-month period ended 30 June 2012G compared to SAR 143 million in the corresponding period in 2013G.

The SAR 15 million, or 9.3 per cent., decrease in this depreciation charge principally reflected disposals of depreciable assets in the intervening period.

Income (loss) from operating activities

Reflecting the above factors, the SEC Group's income from operating activities was SAR 714 million in the six-month period ended 30 June 2012G compared to a loss of SAR 94 million in the corresponding period in 2013G.

Non-recurring income

In the six-month period ended 30 June 2013G, the SEC Group completed reconciliation procedures with Saudi Aramco in relation to the settlement of a dispute as to the application of the regulated residential and commercial tariffs for the provision of electricity to certain Saudi Aramco properties instead of the lower regulated industrial tariff. This resulted in additional revenues being payable by Saudi Aramco to the SEC Group in this period of SAR 729 million, which the SEC Group has recognised as non-recurring income.

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.

This programme terminated at the end of 2012G and so there were no costs for this programme in the six-month period ended 30 June 2013G. The costs incurred by SEC in respect of this programme in the six-month period ended 30 June 2012G, which represent the lump sum amounts paid plus the present value of all future payments due, were SAR 78 million.

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 142 million in the six-month period ended 30 June 2012G compared to SAR 209 million in the corresponding period in 2013G.

The SAR 68 million, or 47.8 per cent., increase in the SEC Group's net other income is principally due to SEC's share of the net loss made by its equity accounted investments in the six-month period ended 30 June 2012G, which accounted for SAR 62 million. 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 the six-month period ended 30 June 2012G was SAR 777 million compared to SAR 845 million for the corresponding period in 2013G, an increase of 8.7 per cent.

RESULTS OF OPERATIONS FOR THE YEAR ENDED 31 DECEMBER 2012G COMPARED TO THE YEAR ENDED 31 DECEMBER 2011G AND THE YEAR ENDED 31 DECEMBER 2011G COMPARED TO THE YEAR ENDED 31 DECEMBER 2010G

Income statement

The following table shows SEC's income statement data for the year ended 31 December in each of 2010G, 2011G and 2012G, respectively.

	Year ended 31 December		
	2010G	2011G	2012G
	(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 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 2010G, 2011G and 2012G

Operating revenue

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

	Year ended 31 December					
	2010G		2011G		2012G	
	(SAR million)	(% of total)	(SAR million)	(% of total)	(SAR million)	(% of total)
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 table below shows the proportion of electricity sales by each customer segment for each of 2010G, 2011G and 2012G.

	Year ended 31 December				
	2010G	2011G		2012G	
	(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 2010G, 2011G and 2012G, 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 2012G, the SEC Group accounted for the majority of the electricity generation capacity in the Kingdom. As at 31 December 2012G, 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's total operating revenue for 2010G amounted to SAR 27,911 million compared to SAR 30,570 million for 2011G and SAR 33,646 million for 2012G.

2012G and 2011G

The increase in the SEC Group's total operating revenue of SAR 3,077 million, or 10.1 per cent., in 2012G compared to 2011G 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 19.1 per cent. from 2011G to 2012G, while sales to residential customers and the Government increased by 10.7 per cent. and 10.2 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 2012G compared to 2011G, 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 2012G compared to 2011G, principally an increase in the number of new connections which totalled 414,024 in 2012G.

2011 and 2010

The increase in the SEC Group's total operating revenue of SAR 2,659 million, or 9.5 per cent., in 2011G compared to 2010G 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 2010G and which contributed SAR 1,457 million, or 60.5 per cent., of the increase in electricity sales in 2011G 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 2011G compared to 2010G, principally reflecting an increase in customer numbers over the period.

The SEC Group's revenue from electricity connections increased by SAR 133 million, or 11.1 per cent., in 2011G compared to 2010G, 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 2010G, 2011G and 2012G.

	Year ended 31 December					
	2010G		2011G		2012G	
	(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>	(4,023)	15.9	(4,490)	16.1	(4,248)	14.1
<i>Materials</i>	(1,114)	4.4	(1,056)	3.8	(1,052)	3.5
<i>Operation and maintenance contractors</i>	(703)	2.8	(879)	3.2	(887)	3.0
<i>Municipality fees</i>	(394)	1.6	(437)	1.6	(483)	1.6
<i>Provision for doubtful receivables</i>	(258)	1.0	(122)	0.4	(252)	0.8
<i>Provision for slow moving inventory</i>	(9)	—	(50)	0.2	(144)	0.5
<i>Other</i>	(1,252)	5.0	(1,205)	4.3	(1,659)	5.5
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 total cost of sales for 2010G amounted to SAR 25,318 million compared to SAR 27,868 million for 2011G and SAR 30,043 million for 2012G.

2012G and 2011G

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

2011G and 2010G

The increase in the SEC Group's cost of sales of SAR 2,550 million, or 10.1 per cent., in 2011G compared to 2010G 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 2011G;
- 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 2011G. Other factors contributing to the increase in operations and maintenance costs in 2011G 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 2010G compared to SAR 2,701 million in 2011G and SAR 3,603 million in 2012G, an increase of 33.4 per cent. in 2012G compared to 2011G and an increase of 4.2 per cent. in 2011G compared to 2010G.

General and administrative expenses

The SEC Group's general and administrative expenses were SAR 389 million in 2010G compared to SAR 435 million in 2011G and SAR 390 million in 2012G.

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

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

Depreciation – general and administrative

The SEC Group's fixed assets, except for land, are depreciated over their estimated operational useful lives using the straight line method.

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

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

Income from operating activities

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

Human resources productivity improvement programme

The costs incurred by SEC in respect of the multi-year productivity programme of the SEC Group were SAR 75 million in 2010G, SAR 125 million in 2011G and SAR 634 million in 2012G, with the variations principally reflecting the numbers of employees leaving each year.

Other income and expenses, net

The SEC Group's net other income was SAR 429 million in 2010G compared to SAR 407 million in 2011G and SAR 296 million in 2012G.

The SAR 111 million, or 27.3 per cent., decrease in the SEC Group's net other income in 2012G compared to 2011G 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 2011G compared to 2010G 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 2010G, 2011G and 2012G, 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 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 2010G was SAR 2,279 million compared to SAR 2,213 million for 2011G and SAR 2,561 million for 2012G, an increase of 15.7 per cent. in 2012G compared to 2011G and a decrease of 2.9 per cent. in 2011G compared to 2010G.

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.

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

For the six-month periods ended 30 June 2012G and 2013G

The table below shows the SEC Group's cash flow from operating activities, investing activities and financing activities for the six-month periods ended 30 June 2012G and 2013G.

	Six-month periods ended 30 June	
	2012G	2013G
	(SAR million)	
Net cash from operating activities	7,854	7,150
Net cash used in investing activities	(17,921)	(21,412)
Net cash from financing activities	12,454	18,233
Cash and cash equivalents at period end	9,693	7,016

The SEC Group's net cash from operating activities in the six-month period ended 30 June 2012G was SAR 7,854 million compared to SAR 7,150 million in the corresponding period in 2013G. 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 the six-month period ended 30 June 2012G was SAR 17,921 million compared to SAR 21,412 million in the corresponding period in 2013G. In each six-month period, the principal investments made were in construction work in progress in relation to the SEC Group's capital expenditure programme. In the six-month period ended 30 June 2012G, the SEC Group's construction work in progress aggregated SAR 17,980 million (including capitalised net financing costs of SAR 471 million). In the six-month period ended 30 June 2013G, the SEC Group's construction work in progress aggregated SAR 20,619 million (including capitalised net financing costs of SAR 600 million).

The SEC Group's net cash from financing activities in the six-month period ended 30 June 2012G was SAR 12,454 million compared to SAR 18,233 million in the corresponding period in 2013G. 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 the six-month period ended 30 June 2012G, SEC raised net new financing of SAR 12,982 million and paid dividends of SAR 528 million. In the six-month period ended 30 June 2013G, SEC raised net new financing of SAR 18,764 million and paid dividends of SAR 531 million.

For the years ended 31 December 2010G, 2011G and 2012G

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

	Year ended 31 December		
	2010G	2011G	2012G
	(SAR million)		
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 2010G was SAR 17,003 million compared to SAR 17,545 million in 2011G and SAR 21,997 million in 2012G.

The SEC Group's net cash used in investing activities in 2010G was SAR 27,349 million compared to SAR 29,322 million in 2011G and SAR 38,208 million in 2012G. In each year, the principal investments made were in construction work in progress in relation to the SEC Group's capital expenditure programme. In 2010G, the SEC Group's construction work in progress aggregated SAR 28,332 million (including capitalised net financing costs of SAR 1,070 million). In 2011G, the SEC Group's construction work in progress aggregated SAR 28,972 million (including capitalised net financing costs of SAR 1,151 million). In 2012G, 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 2010G was SAR 14,691 million compared to SAR 11,856 million in 2011G and SAR 11,950 million in 2012G. In 2012G, SEC raised net new financing of SAR 12,483 million and paid dividends of SAR 533 million. In 2011G, SEC raised net new financing of SAR 12,393 million and paid dividends of SAR 538 million. In 2010G, 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 2010G, 2011G and 2012G. (*)

	Year ended 31 December		
	2010G	2011G	2012G
	(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:

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

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

Project Description	Region	Generation capacity (MW)	Project cost (SAR million)	Date units commissioned	Number of units
Qurayyah power plant expansion	Eastern	137	645.0	April 2012G	2
PP 10 expansion	Central	472	2,346.0	June 2012G	8
Al Jouf	Eastern	56	225.0	July 2012G	1
Al-Qassim expansion	Central	473	1,710.0	July 2012G	8
Al-Qurayya power plant (CC) expansion	Eastern	378	2,235.0	July 2012G	3
Hail power plant expansion	Central	267	891.3	July 2012G	4
Rafha power plant expansion	Eastern	140	568.0	September 2012G	2
Tabuk expansion 7	Western	122	420.0	November 2012G	2
Total		2,045	9,040.3		30

The SEC Group's transmission and distribution capital expenditure in 2012G 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 2012G, the SEC Group had budgeted capital expenditure of SAR 48.4 billion, as laid out in the annual budget for 2013G. 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 2013G.

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

	Payments due in				Total payments due
	Less than 1 year	1 to 3 years	3 to 5 years	More than 5 years	
	(SAR million)				
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

Note:

(*) SEC has long-term energy purchase agreements with IPPs and IWPPs whereby SEC has undertaken to purchase all energy produced by these providers according to specific terms and prices. These agreements are for periods up to 20 years and renewable for further periods by mutual consent (see "– Business units – Electricity generation – IPPs and IWPPs").

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 2017G. The SEC Group expects to invest approximately SAR 65 billion in generation projects during this period.

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

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 2013G to 2017G.

Distribution

The SEC Group estimates that it will spend between SAR 11 billion and SAR 13 billion per annum over the period from 2013G to 2017G 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.

WORKING CAPITAL

The Directors confirm that SEC and its subsidiaries have sufficient working capital for the 12 months immediately following the date of the publication of this Prospectus.

ANALYSIS OF CERTAIN BALANCE SHEET ITEMS

The following table shows SEC's balance sheet data as at 30 June 2013G and 31 December in each of 2010G, 2011G and 2012G, respectively.

	As at 30 June	As at 31 December		
	2013G			
	unaudited	2010G	2011G	2012G
	(SAR million)			
Cash and cash equivalents	7,016	7,228	7,307	3,046
Receivables from electricity subscribers and accrued revenues, net	17,294	9,965	12,027	13,427
Prepayments and other receivables, net	4,944	3,635	4,854	5,194
Inventories, net	6,850	5,705	5,563	5,821
Total current assets	36,104	26,533	29,750	27,488
Loan to an associated company	1,313	366	366	366
Equity investments in companies and others	2,066	2,300	2,405	2,191
Construction work in progress	49,944	26,038	22,261	39,890
Fixed assets, net	173,584	135,635	158,673	168,652
Total non-current assets	226,907	164,339	183,704	211,098
Total assets	263,011	190,872	213,454	238,586
Accounts payable	39,927	21,876	26,241	34,509
Accruals and other payables	3,350	4,402	4,606	4,736
Short term loans and current portion of long-term loans	1,817	1,189	3,133	1,468
Sukuk	—	—	5,000	—
Total current liabilities	45,094	27,468	38,980	40,713
Long-term loans	15,440	10,632	13,582	12,197
Sukuk	28,064	19,000	14,000	20,563
Employees' indemnities	5,065	4,690	4,839	5,168
Deferred revenues, net	23,667	16,737	20,470	22,290
Customers' refundable deposits	1,511	1,295	1,368	1,454
Long-term Government payables	64,038	44,244	49,047	58,487
Government loans	25,495	16,148	18,845	23,374
Provision for change in fair value of hedging contracts	309	388	432	371
Total non-current liabilities	163,590	113,135	122,581	143,904
Total liabilities	208,684	140,602	161,561	184,617
Share capital	41,666	41,666	41,666	41,666

Statutory reserve	1,811	1,333	1,554	1,811
General reserve	540	536	538	540
Retained earnings	10,620	7,122	8,566	10,323
Net change in fair value of hedging contracts	(309)	(388)	(432)	(371)
Total shareholders' equity	54,328	50,270	51,893	53,969
Total liabilities and shareholders' equity	263,011	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 85.0 per cent. of its assets at 30 June 2013G, compared to 87.4 per cent. at 31 December 2012G, 84.8 per cent. at 31 December 2011G and 84.7 per cent. at 31 December 2010G. The SEC Group's fixed assets principally comprise its generation, transmission and distribution machinery and equipment, see "*Description of SEC – Business Units*" 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 2010G, 2011G and 2012G.

	As at 31 December		
	2010G	2011G	2012G
	<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 Group's receivables from electricity customers at 31 December in each of 2010G, 2011G and 2012G.

	As at 31 December		
	2010G	2011G	2012G
	<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	572	1,011	1,360
SWCC	363	336	232
Total gross electricity receivables	11,080	13,346	14,919

Since SEC's inception in 2000G, 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 - 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 2010G, 2011G*

and 2012G – Operating revenues". Together, these liabilities accounted for 95.1 per cent. of its total liabilities at 30 June 2013G compared to 93.6 per cent. at 31 December 2012G, 93.0 per cent. at 31 December 2011G and 92.3 per cent. at 31 December 2010G.

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

In 2010G, 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 2010G and 2011G, 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 2009G 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 30 June 2013G include SAR 22.3 billion representing the difference between the nominal value and the present value of the non-interest bearing loans made by the Government to SEC. SEC's long-term Government payables amounted to SAR 64,038 million at 30 June 2013G and SAR 58,487 million, SAR 49,047 million and SAR 44,244 million at 31 December 2012G, 2011G and 2010G, respectively.

As at 30 June 2013G and 31 December 2010G, 2011G and 2012G, SEC's accounts payable totalled SAR 39,927 million, SAR 21,876 million, SAR 26,241 million and SAR 34,509 million, of which 45 per cent., 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 13,013 million at 30 June 2013G and SAR 10,885 million, SAR 11,695 million and SAR 12,560 million at 31 December 2010G, 2011G and 2012G, respectively.

Shareholders' equity

The table below shows SEC's shareholders' equity at 30 June 2013G and 31 December in each of 2010G, 2011G and 2012G.

	As at 30 June	As at 31 December		
	2013G	2010G	2011G	2012G
	(SAR million)			
Share capital	41,666	41,666	41,666	41,666
Statutory reserve	1,811	1,333	1,554	1,811
General reserve	540	536	538	540
Retained earnings	10,620	7,122	8,566	10,323
Net change in fair value of hedging contract	(309)	(388)	(432)	(371)
Total shareholders' equity	54,328	50,270	51,893	53,969

As at 30 June 2013G, 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 2000G, 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 SAR 7,122 million at 31 December 2010G to SAR 8,566 million at 31 December 2011G, SAR 10,323 million at 31 December 2012G and SAR 10,620 million at 30 June 2013G. SEC pays dividends only to its minority shareholders as the Government has waived its entitlement to dividends until 2019G, 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 SEC – Disputes with Saudi Aramco*".

Neither SEC nor any of its Subsidiaries has any capital which is under option.

Property, Plant and Equipment

The net book value of SEC Group's portfolio of land and buildings amounted to SAR 2,294 million and SAR 8,287 million, respectively, as at 30 June 2013G.

CONTINGENT LIABILITIES

SEC's contingent liabilities as at 31 December 2012G principally relate to ongoing disputes with Saudi Aramco which are discussed under "*Description of SEC – 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 2010G, 2011G and 2012G.

	As at 31 December		
	2010G	2011G	2012G
		(SAR million)	
Guarantees	432.0	453.0	316.0
Letters of credit.....	63.0	0.3	1.2
Total contingent liabilities.....	495.0	453.0	317.0

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 2010G and 2011G, 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 2010G, 2011G or 2012G. 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 2008G. SEC's zakat returns for 2009G, 2010G and 2011G 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 2012G, 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. 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 3 to the Interim Financial Statements and note 2 to the 2012G Financial Statements.

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

The below table sets out the breakdown of SEC's fixed assets (at net book value):

As at 31 December 2012					
<i>(thousands of Saudi Riyals)</i>					
	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
Vehicle and heavy equipment.....	-	-	-	224,134	224,134
Others	683,607	355,330	172,296	476,770	1,688,003
	68,301,663	51,963,097	45,747,234	2,640,106	168,652,100

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 SEC – 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 SEC – 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 30 June 2013G, "Long-term Government payables" included SAR 22.3 billion, representing the difference between the proceeds from the soft loans granted by the Council of Ministers on 26 April 2010G and 13 June 2011G 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.

SUMMARY 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 2010G, 2011G and 2012G, and 30 June 2013G, the value of this portfolio was SAR 400 million, SAR 425 million, SAR 275 million and SAR 150 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 33.21 billion was available for drawing at 30 June 2013G (compared to SAR 41.0 billion as at 31 December 2012G) 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 30 June 2013G. None of SEC's long-term loans, facilities, sukuk or Government loans are secured, benefit from a mortgage or benefit from a guarantee.

Long-term loans and facilities

As at 30 June 2013G, SEC had six long-term loans outstanding which together totalled SAR 17,255 million. The table below shows details of each of these long-term loans:

Type of loan / facility	Principal amount	Amount outstanding (SAR million)	Maturity Date for last instalment
Syndicated murabaha facility	6,000	3,818	2020G
U.S. Export-Import Bank and Export Development Bank of Canada loan	4,125	2,866	2021G
Public Investment Funds loan.....	2,583	2,368	2024G
Syndicated murabaha facility	5,000	4,808	2025G
COFACE French Export Credit Agency loan	3,709	3,288	2024G
Korean export credit agencies loan.....	5,300	107	2024G

In addition to the foregoing, SEC signed an agreement on 18 December 2013 for a syndicated bank facility from a group of international banks in the amount of US\$ 366 million with participation and coverage by Japanese export agencies and an agreement on 19 December 2013 for a syndicated bank facility from a group of international banks in the amount of US\$ 1,634 million with participation and coverage by Korean export credit agencies. The maturity date of the final instalments of the two facilities will occur in 2027G and 2028G, respectively

Sukuk

SEC has six series of sukuk outstanding, two issued in the domestic market and four in the international market. The table below shows details of each issue as at 30 June 2013G:

<u>Issue date</u>	<u>Maturity</u>	<u>Principal amount</u>	<u>Outstanding amount</u>	<u>Return</u>
Domestic market				
6 July 2009G	2029G, with an early redemption right in 2014G, 2019G and 2024G	SAR 7 billion	SAR 7 billion	SIBOR plus a margin, payable quarterly
10 May 2010G	2030G, with an early redemption right in 2017G, 2020G and 2025G	SAR 7 billion	SAR 7 billion	SIBOR plus a margin, payable quarterly
International market				
3 April 2012G	2017G	U.S.\$500 million	U.S.\$500 million	2.665 per cent. per annum
3 April 2012G	2022G	U.S.\$1,250 million	U.S.\$1,250 million	4.211 per cent. per annum
8 April 2013G	2023G	U.S.\$1,000 million	U.S.\$1,000 million	3.473 per cent. per annum
8 April 2013G	2043G	U.S.\$1,000 million	U.S.\$1,000 million	5.06 per cent. per annum

With the exception of the Sukuk that are the subject of this Prospectus, the Issuer does not have any authorised but unissued debt instruments.

Government loans

The table below shows SEC's outstanding loans from the Government as at 30 June 2013G.

<u>Announcement date</u>	<u>Description</u>	<u>Amount (in SAR millions)</u>	<u>Nature</u>	<u>Annual repayment</u>	<u>Maturity</u>
December 1999G	Long-term loan	14,938	Interest-free, repayment determined at maturity	Zero	TBD ¹
April 2010G	Long-term loan	15,000	Interest-free, to be drawn in two years	Grace period of 10 years from the date of drawdown with repayment over 15 years	2035G ²
June 2011G	Long-term loan	51,100	Interest-free, availability period of five years from June 2011. Loan likely to be drawn down by SEC over next few years	Grace period of 15 years from the date of drawdown with repayment over 10 years	2037G ³

¹ Utilised, repayment will be discussed in 2024G, depending on SEC's financial position

² The loan was fully drawn as of 31 December 2012G

³ SAR 17.89 billion has been drawn down as of 30 June 2013G

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

Of SEC's SAR 45,321 million borrowings (excluding Government borrowings) outstanding as at 30 June 2013G, 4.0 per cent. was scheduled to mature within 12 months. The table below shows the maturity profile of these borrowings at 30 June 2013G.

	As at 30 June 2013G	
	(SAR million)	(per cent.)
Less than one year	1,817	4.0
Between one to two years	8,817	19.5
Between two to three years	1,826	4.0
Between three to four years	10,702	23.6
Between four to five years	1,826	4.0
After five years	20,332	44.9
Total	45,321	100

Capital commitments and purchase obligations

As at 30 June 2013G, the capital contracts entered into by SEC for the erection and installation of power plants and other assets amounted to approximately SAR 100,453 million (compared to SAR 60,782 million for the year ending 30 June 2012G). This is in addition to the future commitments provided by SEC to finance certain investees in the form of subordinated loans or common equity, amounting to SAR 1,253 million (compared to SAR 2,200 million for the year ended 30 June 2012G).

The table below shows the SEC Group's commitments in respect of its purchase obligations as at 31 December 2012G.

	Payments due in				Total payments due
	Less than 1 year	1 to 3 years	3 to 5 years	More than 5 years	
			(SAR million)		
Purchase commitments ^(*)	6,634	18,380	21,083	12,598	58,695

Note:

(*) SEC has long-term energy purchase agreements with IPPs and IWPPs whereby SEC has undertaken to purchase all energy produced by these providers according to specific terms and prices. These agreements are for periods up to 20 years and renewable for further periods by mutual consent (see "– Business units – Electricity generation – IPPs and IWPPs").

Contingent Liabilities

SEC's contingent liabilities as at 31 December 2012G principally relate to ongoing disputes with Saudi Aramco which are discussed under "Description of SEC – 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 2010G, 2011G and 2012G.

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

Other indebtedness

SEC has two overdraft facilities with Samba Financial Group and the National Commercial Bank, each with a value up to SAR 500 million. In addition, the following table shows the other borrowings and indebtedness as of 30 June 2013G:

	As at 30 June 2013G
	<i>(SAR million)</i>
Accounts payable.....	39,927
Accruals and other payables	3,350
Employees' indemnities	5,065
Customers' refundable deposits.....	1,511

Other than as mentioned above or in the remainder of this section of the Prospectus, the Issuer does not have any other borrowings or indebtedness, including bank overdrafts, liabilities under acceptances, acceptance credits or hire purchase commitments.

Security Interest on properties

There are no mortgages, rights or charges on any of the properties held by SEC or any of its subsidiaries.

USE OF PROCEEDS

The net proceeds of the issue of the Sukuk will be used by the Issuer for general corporate purposes including capital expenditure.

SEC estimates in total its costs and expenses in relation to the issue of the Sukuk will be approximately SAR7.0-10.0 million including, without limitation, listing, legal and accounting fees and expenses, agency fees and the combined management and selling commission, costs and other expenses of the Lead Managers and Bookrunners.

TERMS AND CONDITIONS OF THE SUKUK

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

Introduction

An application has been made to register the Sukuk on the Official List maintained by the Capital Markets Authority (the "**Authority**") of the Kingdom of Saudi Arabia (the "**Kingdom**").

Each of the Sukuk Al-istithmar expiring 2054G (the "**Sukuk**") represents an undivided beneficial ownership interest in the Sukuk Assets (as defined herein) and will at all times rank pari passu amongst themselves. The Sukuk Assets will be held by Sukuk Electricity Company, whose registered address is Granada Towers, Building A – 1, P.O. Box 22955, Riyadh, Kingdom of Saudi Arabia, as custodian (the "**Custodian**", which expression includes any successor custodian in relation to the Sukuk Assets) for the benefit of the registered holders of the Sukuk (the "**Sukukholders**") pursuant to a declaration of agency (the "**Declaration of Agency**") to be entered into on or about the Closing Date (as defined herein) between the Saudi Electricity Company, whose registered address is Granada Towers, Building A – 1, P.O. Box 22955, Riyadh, Kingdom of Saudi Arabia (the "**Issuer**"), the Custodian and Saudi Fransi Capital Company as Sukukholders' agent, whose registered address is 4th Floor, Head Office Building, King Fahd Road, Legend Tower, Building 749, P.O. Box 23454, Riyadh, Kingdom of Saudi Arabia (the "**Sukukholders' Agent**", which expression includes any successor Sukukholders' agent in relation to the Sukuk). The obligations of the Issuer in respect of the Sukuk are not secured. Pursuant to the Declaration of Agency, the Sukukholders' Agent will be appointed to act as agent, and the Custodian will be appointed to act as custodian of the Sukuk Assets, for and on behalf of the Sukukholders. Each Sukukholder by subscribing to, acquiring and holding Sukuk agrees to the terms of the Declaration of Agency including, but not limited to, the Sukukholders' ability, by way of Extraordinary Resolution, to revoke their appointment of the Sukukholders' Agent by not less than thirty (30) days' notice to the Sukukholders' Agent; provided, however, that such revocation shall not take effect until a successor has been duly appointed in accordance with the Declaration of Agency.

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

Payments relating to the Sukuk will be made pursuant to a payments administration agreement to be entered into on or about the Closing Date (the "**Payments Administration Agreement**") between, amongst others, the Issuer and Saudi Fransi Capital Company, whose registered address is 4th Floor, Head Office Building, King Fahd Road, Legend Tower, Building 749, P.O. Box 23454, Riyadh, Kingdom of Saudi Arabia, in its capacity as payments administrator (the "**Payments Administrator**", which expression includes any successor or other payments administrator appointed in respect of the Sukuk).

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

Certain provisions of these Conditions are summaries of the Sukuk Documents (as defined herein) and are subject to its detailed provisions. The Sukukholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Sukuk Documents applicable to them. For so long as any sukuk are current, copies of the Declaration of Agency, the Sukuk Assets Administration Agreement, the Sukuk Assets Transfer Agreement and the Purchase Undertaking (as defined herein) are available for inspection from the Closing Date by Sukukholders during normal business hours at the specified offices of each of the Issuer, the Custodian and the Sukukholders' Agent, the specified offices of which are set out in the "*Parties and Advisers*" section on page 7 in the Prospectus.

(a) Definitions

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

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

"Administrator's Allowable Costs" means the aggregate of the costs incurred by the Sukuk Administrator corresponding to the categories of costs set out in Schedule 1 of the Sukuk Assets Administration Agreement, in connection with providing the relevant Metering Services in relation to the Specified Meters to the Specified Customers, *provided, however, that* any such costs incurred during any Periodic Distribution Period in excess of the Maximum Allowable Amount (pro rated for such period) shall not constitute Administrator's Allowable Costs for the purposes of the Sukuk Documents;

"Agency Fee" means the on-going fees and expenses (if any) payable to the Payments Administrator and the Sukukholders' Agent for their services in connection with the Sukuk as further described in the Payments Administration Agreement or, as the case may be, the Declaration of Agency (the Sukukholders' Agent will be paid periodic fees of SAR 55,000 per annum and the Payments Administrator will be paid periodic fees of SAR 55,000 per annum for its services in relation to the Sukuk);

"Appeal Panel" means the Appeal Committee for the Resolution of Securities Conflicts established pursuant to the Capital Market Law, promulgated by Royal Decree No. (M/30) dated 2/6/1424H (corresponding to 31 July 2003G), as amended, or any successor body;

"Applicable Law" means all applicable statutes, laws, ordinances, rules, orders, circulars, ministerial resolutions, directives and regulations;

"Applicable Percentage" means the percentage value obtained by dividing the aggregate Nominal Amount of Sukuk on the Closing Date by SAR 6,000,000,000;

"Authorised Holding" has the meaning given to it in Condition 2 (*Form and Denomination*);

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

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

"Closed Periods" has the meaning given to it in Condition 3(e) (*Transfer Record Dates and Closed Periods*);

"Closing Date" has the same meaning as set out on page 1 of the Prospectus;

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

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

"Committee" the Committee for the Resolution of Securities Disputes, established pursuant to the Capital Market Law, promulgated by Royal Decree No. (M/30) dated 2/6/1424H (corresponding to 31 July 2003G), as amended, or any successor body;

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

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

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

"Distribution Licence" means the distribution and retail supply licence no. 070406-R dated 28/3/1428H granted by ECRA;

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

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

"Exercise Event" means an Event of Default or a Purchase Date;

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

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

"Expiry Date" means the Periodic Distribution Date falling in January 2054G;

"Extra Amount" means, in respect of the Purchase Date falling in January 2024G, January 2034G or January 2044G or the Expiry Date, an amount equal to 5 per cent. of the aggregate Nominal Amount of the Sukuk as are current on the third Business Day immediately preceding such Purchase Date or the Expiry Date, as the case may be;

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

"Global Sak" means the registered form global sak representing the Sukuk;

"Guarantee" means, in relation to any Indebtedness of any Person, any obligation of another Person to pay such Indebtedness including (without limitation):

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

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

- (a) amounts raised under any note purchase facility;
- (b) the amount of any liability in respect of leases or hire purchase contracts which would, in accordance with applicable law and generally accepted accounting principles, be treated as finance or capital leases;

- (c) the amount of any liability in respect of any purchase price for assets or services the payment of which is deferred for a period in excess of 90 days; and
- (d) amounts raised under any other transaction (including, without limitation, any forward sale or purchase agreement) having the commercial effect of a borrowing;

"Investor Application Form" means the form required to be submitted to the Joint Lead Joint Managers, Joint Bookrunners and Underwriters before the end of the end of the Investor Presentation Period by the Persons wishing to invest in the Sukuk;

"Investor Presentation Period" means the investor presentation period for the Sukuk commencing 8/3/1435H (corresponding to 9 January 2014G) and ending 7 Business Days after such date;

"Joint Lead Managers, Joint Bookrunners and Underwriters" means HSBC Saudi Arabia Limited, whose registered address is Olaya Road, P.O. Box 9084, Riyadh 11413, Kingdom of Saudi Arabia, and Saudi Fransi Capital Company , whose registered address is 4th Floor, Head Office Building, King Fahd Road, Legend Tower, Building 749, P.O. Box 23454, Riyadh, Kingdom of Saudi Arabia.;

"Managers" means the Joint Lead Managers, Joint Bookrunners and Underwriters;

"Margin" means the percentage rate per annum specified as the "Margin" and published on the websites of the Issuer and the Payments Administrator as described in the section of the Prospectus entitled "Subscription and Sale";

"Maximum Allowable Amount" means the amount of the Administrator's Allowable Costs (expressed as a pro rata amount in SAR per Specified Meter) not exceeding SAR 50.00 per year for the period commencing on the Closing Date until the first Purchase Date (the **"First Period"**) and for each subsequent period that occurs after the First Period until the next Purchase Date, the amount negotiated and agreed between the Sukukholders' Agent and the Sukuk Administrator prior to commencement of that period and based upon actual costs in the previous period and projected costs for the next period;

"Meter Charges" means the charges relating to the reading and maintenance of electricity meters and bill preparation specified in CMR 169, as the same may be revised from time to time by the relevant competent government authority in the Kingdom of Saudi Arabia;

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

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

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

"Nominal Amount" means the nominal value of each Sak, which is SAR 1,000,000;

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

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

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

- (a) the Periodic Distribution Amount as would have been payable on the next Periodic Distribution Date if an Exercise Notice had not been delivered (*provided, however, that* for the purposes of calculating such Periodic Distribution Amount, "P" shall mean the aggregate Nominal Amount of such Sukuk as are current on the Transfer Record Date immediately preceding the date of such purchase); *multiplied by*:
 - (i) the number of days between the immediately preceding Periodic Distribution Date and the date of such purchase; *divided by*
 - (ii) the number of days between the immediately preceding Periodic Distribution Date and the next scheduled Periodic Distribution Date calculated on the basis of a 360 day year;
- (b) the lesser of (i) the amounts standing to the credit of the Reserve as at the date of such purchase and (ii) the Extra Amount which would have been payable on the next scheduled Purchase Date or the Expiry Date, as the case may be, but for the occurrence of such purchase;

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

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

"Periodic Distribution Date" means the 30th of January, April, July and October in each year, commencing on 30 April 2014G; *provided, however, that* if any such day is not a Business Day, the Periodic Distribution Date will be the next following Business Day (if it falls in the same calendar month) or the immediately preceding Business Day (if it falls in the next calendar month);

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

"Permitted Security Interest" means a Security Interest over any of the Issuer's present or future assets or revenues or any part thereof in connection with:

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

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

"Prospectus" means the Prospectus dated 27/3/1435H (corresponding to 28 January 2014G) relating to the Sukuk;

"Purchase Date" means the Periodic Distribution Date falling in January of 2024G, 2034G or 2044G or, only to the extent that the Sukuk Administrator notifies the Sukukholders' Agent that the amount allocated to the Reserve (as at the date of such notification) is less than (5 per cent.) of the aggregate Nominal Amount of the Sukuk as are current by the date falling 60 days immediately prior to the

Periodic Distribution Date falling in October 2023G, the Periodic Distribution Date falling in October 2023G;

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

"**Purchase Price**" means:

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

Date	Percentage
The Periodic Distribution Date falling in January 2024G	95%
The Periodic Distribution Date falling in January 2034G	60%
The Periodic Distribution Date falling in January 2044G	30%

and

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

Date	Percentage
After the Closing Date but before the Periodic Distribution Date falling in January 2024G	100%
After (and including) the Periodic Distribution Date falling in January 2024G but before the Periodic Distribution Date falling in January 2029G	95%
After (and including) the Periodic Distribution Date falling in January 2029G but before the Periodic Distribution Date falling in January 2034G	75%
After (and including) the Periodic Distribution Date falling in January 2034G but before the Periodic Distribution Date falling in January 2039G	60%
After (and including) the Periodic Distribution Date falling in January 2039G but before the Periodic Distribution Date falling in January 2044G	45%
After (and including) the Periodic Distribution Date falling in January 2044G but before the Periodic Distribution Date falling in January 2049G	30%
After (and including) the Periodic Distribution Date falling in January 2049G but before the Periodic Distribution Date falling in January 2054G	15%
On the Expiry Date	0%

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

"Qualified Person" means a natural person who is a national of the Kingdom for tax purposes or other legal persons with a permanent establishment in the Kingdom holding a current commercial registration number issued by the Ministry of Commerce and Industry, and which, in either case, maintains a bank account in the Kingdom.

"Registrar" means the Saudi Arabian Stock Exchange ("**Tadawul**"), whose registered address is NCCI building – North Tower, King Fahd Rd, P.O. Box 60612, Riyadh 11555, Kingdom of Saudi Arabia (and includes any successor registrar as may be appointed in accordance with the provisions of the Registry Agreement);

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

"Relevant Indebtedness" means any Indebtedness which is in the form of or represented by a security (within the meaning of the Capital Market Law), including, without limitation, any bond, sukuk, note, loan stock, certificate or similar instrument which is, or is capable of being, listed, quoted or traded on any stock exchange or in any securities market (including, without limitation, any over-the-counter market);

"Required Sukukholders", as of any date, means Sukukholders of at least 33^{1/3} per cent. in aggregate of the Nominal Amount of the Sukuk as are current on such date;

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

"SAR" or **"Saudi Riyals"** mean the lawful currency of the Kingdom;

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

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

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

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

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

"Specified Meters" the Applicable Percentage of all the electricity meters installed with SEC's residential and commercial customers, as at the date of the Sukuk Assets Transfer Agreement (for the avoidance of doubt, Specified Meters will not include electricity meters installed with SEC's governmental, industrial, health and education, agricultural and desalination customers);

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

"Subsidiary" means, in respect of any person (the **"first person"**) at any particular time, any other person (the **"second person"**) controlled by the first person. For this purpose, (i) **"control"** of the second

person (being a company) means the ability to influence the acts or decisions of that person by way of the first person having directly or indirectly, alone or jointly with any relative or other participant, 50 per cent. or more of the voting rights in the second person and (ii) Water & Electricity Company shall not constitute a Subsidiary of the Issuer;

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

"Sukuk Administrator" means Saudi Electricity Company in its capacity as administrator of the Sukuk Assets;

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

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

"Sukuk Documents" means the Sukuk Assets Transfer Agreement, the Declaration of Agency, the Purchase Undertaking, the Sukuk Assets Administration Agreement, the Payments Administration Agreement, the Registry Agreement, the Sukuk, the Investor Application Form and any other agreements and documents delivered or executed in connection therewith;

"Sukukholders" means the registered Sukukholders of the Sukuk;

"Sukukholders' Agent" has the meaning given to it above under *"Introduction"*;

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

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

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

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

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

2. Form and Denomination

The Sukuk are issued in dematerialised registered form in the denomination of SAR 1,000,000 (the "**Authorised Holding**"). The Sukuk will be collectively represented by the Global Sak which will be deposited with the Registrar. Individual Sukuk representing holdings of the Global Sak will not be

issued, but Sukukholders will on request be entitled to receive a statement from the Registrar recording their holding of Sukuk. The Global Sak will represent all of the Sukuk that are current and the ownership by the Sukukholders of an undivided beneficial ownership interest in the Sukuk Assets.

3. Register, Title and Transfers

- (a) *Register*: The Registrar will maintain a register (the "**Register**") in respect of the Sukuk in accordance with the provisions of the Registry Agreement. In these Conditions, the "**Sukukholder**" means the Person in whose name such Sukuk is for the time being registered in the Register (or, in the case of a joint holding, the first named). Only Qualified Persons may be registered as Sukukholders.
- (b) *Title*: The Sukukholder shall (except as otherwise required by law) be treated as the absolute owner of such Sukuk for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any other interest therein).
- (c) *Transfers*: Subject to paragraphs (e) and (f) below, Sukuk may be transferred in accordance with the regulations and procedures established by the Registrar by delivering to the Registrar such information as such regulations and procedures shall require. Sukuk may not be transferred unless:
 - (i) the Nominal Amount of Sukuk to be transferred together with any existing holding of Sukuk by the party acquiring the Sukuk to be transferred are Authorised Holdings;
 - (ii) where not all of the Sukuk held by a Sukukholder are being transferred, the Nominal Amount of the balance of Sukuk not transferred are Authorised Holdings; and
 - (iii) the transferee is a Qualified Person.
- (d) *Transfer Charges*: The transfer of Sukuk will be subject to a charge by the Registrar in accordance with its schedule of charges in force for its services and all such charges shall be borne solely by the transferring Sukukholder and the transferee in accordance with the Registrar's practice. For the avoidance of doubt, none of the Issuer, or the Sukukholders' Agent or the Custodian shall be liable to pay any such charges imposed by the Registrar.
- (e) *Transfer Record Dates and Closed Periods*: Transfers of Sukuk effected during the period starting at the opening of business no less than seven Business Days prior to a due date for payment of any Periodic Distribution Amount, or any other principal or distribution in respect of the Sukuk or, if such a day is not a Business Day, on the next following Business Day (a "**Transfer Record Date**"), and ending on (and including) the applicable due date itself (each such period being a "**Closed Period**") may be registered in the usual way. However, notwithstanding such registration, all payments will be paid to such persons as are registered as Sukukholders of the Sukuk at the opening of business on the relevant Transfer Record Date. The Registrar may after the Closing Date modify these Conditions insofar as they relate to the registration of transfers effected during Closed Periods by notice to the Issuer and the Sukukholders.
- (f) *Transfers and Standing Instructions*: Where a Sukukholder has completed a Standing Instruction in relation to its Sukuk, and such Standing Instruction has not been revoked by it or any subsequent Sukukholder of such Sukuk, any transfer of such Sukuk will be subject to the Standing Instruction, and any subsequent Sukukholder thereof will be deemed to accept the terms of such Standing Instruction. Notwithstanding the above, a subsequent Sukukholder may revoke a Standing Instruction by notice in writing to the Sukukholders' Agent in accordance with Condition 11.1(a) (*Purchase Date*).

- (g) *Regulations concerning transfers and registration:* All transfers of Sukuk and entries on the Register are subject to the regulations and procedures of the Registrar and the provisions of the Registry Agreement. The regulations may be changed by the Registrar at any time.

4. Status; Limited Recourse; Agreement of Sukukholders

- (a) *Status:* The Sukuk constitute undivided beneficial ownership interests in the Sukuk Assets and will at all times rank *pari passu* amongst themselves. The Issuer's payment obligations under the Sukuk are direct, unsubordinated and unsecured obligations of the Issuer and the payment claims of the Sukukholders against the Issuer under the Sukuk will, other than those mandatorily preferred by law, rank at least *pari passu* with the claims of all other unsecured and unsubordinated creditors of the Issuer.
- (b) *Limited Recourse:* Proceeds from the Sukuk Assets, payments by the Issuer pursuant to the Purchase Undertaking and monies standing to the credit of the Transaction Account are the sole source of payments on the Sukuk.

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

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

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

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

Administrator, the Managers or the Registrar for any bankruptcy, reorganisation, arrangement or liquidation proceedings or other proceedings under any bankruptcy or similar law.

5. Sukuk Assets

- (a) *Transfer of Sukuk Assets:* Pursuant to a sukuk assets transfer agreement to be entered into between the Issuer, the Sukukholders' Agent and the Custodian on the Closing Date (the "**Sukuk Assets Transfer Agreement**"), upon payment of the proceeds of the sale of the Sukuk and subject to the other terms and conditions of the Sukuk Assets Transfer Agreement, the Issuer will transfer to the Custodian for a period of forty years the certain specified rights and entitlements of the Issuer derived from CMR 169 and the Distribution Licence to provide the Metering Services and to levy and receive the Meter Charges in relation to the Specified Meters from Specified Customers, as further described in the Sukuk Assets Transfer Agreement, (the "**Sukuk Assets**") to be held by the Custodian for the benefit of the Sukukholders.

Pursuant to a sukuk assets administration agreement to be entered into between the Sukuk Administrator, the Custodian and the Sukukholders' Agent on or about the Closing Date (the "**Sukuk Assets Administration Agreement**"), the Sukuk Administrator undertakes to provide certain services in respect of the Sukuk Assets in return for the Administration Fee. The Issuer may sub-contract the performance of any of these services to one or more Subsidiaries of the Issuer in accordance with the terms of the Sukuk Assets Administration Agreement.

If the Issuer's electricity distribution business (including, without limitation, the provision of Metering Services) is restructured by any governmental body or authority of the Kingdom with the result that such business will be carried out by one of the Issuer's Subsidiaries (and all related licences are transferred to (or reissued in the name of) such Subsidiary) prior to the first Purchase Date, then the Issuer shall procure that the relevant Subsidiary shall issue a written acknowledgement addressed to the Sukukholders' Agent by no later than the first Purchase Date to acknowledge that any transfer of the distribution business to such Subsidiary is subject to the prior transfer of the Sukuk Assets under the Sukuk Assets Transfer Agreement.

- (b) *Application of Proceeds - Net Income:* Pursuant to the Sukuk Assets Administration Agreement, the Sukuk Administrator shall accumulate all monies (net of the Administrator's Allowable Costs, the Administration Fee and the Agency Fee) accruing under the Sukuk Assets (the "**Net Income**"). On or prior to 11.00 a.m. (Riyadh time) one Business Day prior to each Periodic Distribution Date, the Sukuk Administrator shall pay into an account of the Sukukholders' Agent maintained with the Payments Administrator (the "**Transaction Account**") the lesser of (i) such accumulated amount and (ii) the Periodic Distribution Amount. If the Net Income received under the Sukuk Assets in any Periodic Distribution Period exceeds the Periodic Distribution Amount, the amount of any surplus shall be retained by the Sukuk Administrator as a reserve (the "**Reserve**"). The Reserve shall be recorded by the Sukuk Administrator through a book-entry notional account and will not be maintained in a separate defined bank account. The primary purpose of the Reserve is for it to be held for the Sukukholders. The Sukuk Administrator shall have the right to use and invest the Reserve for its own account and it may be recorded as a liability of the Sukuk Administrator. Any return from such use or investment, and any losses arising therefrom, are solely for the account of the Sukuk Administrator. The Reserve is held for the benefit of the Sukukholders. If by the date falling 60 days immediately prior to the Periodic Distribution Date falling in October 2023G, the Sukuk Administrator notifies the Sukukholders' Agent that the amount allocated to the Reserve (as at the date of such notification) is less than 5 per cent. of the aggregate Nominal Amount of the Sukuk as are current on such date in the Reserve, the Sukukholders may request the purchase of the Sukuk Assets by the Issuer pursuant to the Purchase Undertaking.

- (c) *Application of Proceeds - Reserve*: Pursuant to the Sukuk Assets Administration Agreement, the Sukuk Administrator shall retain the Reserve and pay monies standing to the credit of the Reserve (if any) as provided in this Condition 5(c) (*Application of Proceeds - Reserve*).
- (i) On or prior to 11.00 a.m. (Riyadh time) one Business Day prior to each Periodic Distribution Date, the Sukuk Administrator shall pay into the Transaction Account, the monies (if any) standing to the credit of the Reserve in the following order of priority:
 - first**, towards the aggregate amount of any shortfall between the amounts paid to Sukukholders on any previous Periodic Distribution Date(s) and the corresponding Periodic Distribution Amount(s) for such date(s) (each, a "**Shortfall**") to the extent these remain unpaid; and
 - secondly**, towards the amount due (including the amount of any shortfall) for the current Periodic Distribution Period.
 - (ii) On or prior to 11.00 a.m. (Riyadh time) one Business Day prior to each Purchase Date and the Expiry Date, after making the payments set out in Condition 5(c)(i) (*Application of Proceeds - Reserve*) above the Sukuk Administrator shall pay the monies (if any) standing to the credit of the Reserve into the Transaction Account at the lesser of the Extra Amount, or such monies as are standing to the credit of the Reserve on such date. The balance of the Reserve, if any, shall be held by the Sukuk Administrator in accordance with Condition 5(b) (*Application of Proceeds - Net Income*).
 - (iii) Upon dissolution of the Sukuk as specified in Condition 10 (*Dissolution of the Sukuk*), the Sukuk Administrator shall receive the balance of the Reserve (if any) for its own account as a sukuk assets administration incentive fee.
- (d) *Top-Up of Reserve*: If, in relation to any Periodic Distribution Period or other period, the Net Income received in relation to the Sukuk Assets (the "**Actual Income**") is less than the amount of Net Income which should otherwise have been received (the "**Specified Income**") as a result of (i) the tariff set out in CMR 169 (as in force at the Closing Date) being reduced or amended, or CMR 169 in any way having been amended, supplemented or revoked, or (ii) any of the Specified Customers changes its electricity supplier to an entity other than the Issuer then, on or before 11:00 a.m. (Riyadh time) one Business Day prior to the last day of such Periodic Distribution Period or other period, the Issuer shall add to the Reserve an amount equal to the difference between the Actual Income and the Specified Income.

6. Negative Pledge

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

7. Periodic Distributions

- (a) *Periodic Distribution Dates*: Subject to Condition 5(b) (*Application of Proceeds - Net Income*), Condition 5(c) (*Application of Proceeds - Reserve*) and Condition 9 (*Payments*), the Issuer shall instruct the Payments Administrator to distribute to the Sukukholders *pro rata*, out of amounts collected in the Transaction Account, a distribution in relation to the Sukuk on each Periodic Distribution Date equal to the applicable Periodic Distribution Amount plus, if such Periodic Distribution Date is a Purchase Date or the Expiry Date, the applicable Extra Amount. If any Periodic Distribution Date is not a Business

Day, the Periodic Distribution Date will be the next Business Day (if it falls in the same calendar month) or the immediately preceding Business Day (if it falls in the next calendar month).

In these Conditions:

"Periodic Distribution Amount" means, for each Periodic Distribution Period, an amount calculated as follows:

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

where

- P = the aggregate Nominal Amount of such Sukuk as are current on the Transfer Record Date immediately preceding the last day of such Periodic Distribution Period;
- D = the actual number of days in such Periodic Distribution Period;
- S = the Benchmark Rate for such Periodic Distribution Period; and
- M = Margin.

(b) *Benchmark Rate:* The Benchmark Rate for each Periodic Distribution Period shall be determined by or on behalf of the Payments Administrator on the following basis:

- (i) the Payments Administrator will determine the rate for deposits in Saudi Riyals for a period equal to the relevant Periodic Distribution Period which appears on the Reuters Screen SUAA Page across from the caption "AVG" (or such other page as may replace that page on that service, or such other service as may be nominated by the Payments Administrator as the information vendor for the purpose of displaying comparable rates) as of 11.00 a.m. (Riyadh time) on the second Business Day before the first day of the relevant Periodic Distribution Period (the **"Periodic Determination Date"**); or
- (i) if such rate does not appear on that page, the Payments Administrator will:
 - A. request the principal office in the Kingdom of each of the Saudi British Bank, Riyadh Bank and Banque Saudi Fransi or any substitute reference bank in the Saudi interbank market appointed by the Payments Administrator, to provide a quotation of the rate at which deposits in Saudi Riyals are offered by it in the Saudi interbank market at approximately 11.00 a.m. (Riyadh time) on the Periodic Determination Date to prime banks in the Saudi interbank market for a period equal to the relevant Periodic Distribution Period and in an amount that is representative for a single transaction in that market at that time; and
 - B. determine the arithmetic mean (rounded, if necessary, to the nearest ten thousandth of a percentage point, 0.00005 being rounded upwards) of such quotations where two or more quotations are available,

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

Benchmark Rate or (as the case may be) arithmetic mean last so determined in relation to the Sukuk in respect of the most recent preceding Periodic Distribution Period.

- (c) *Publication:* The Payments Administrator will cause the Benchmark Rate and the Periodic Distribution Amount determined by it, together with the relevant Periodic Distribution Date, to be notified to the Issuer, the Custodian and the Sukukholders' Agent as soon as practicable after such determination but in any event not later than 8.00 a.m. (Riyadh time) one Business Day prior to the first day of the relevant Periodic Distribution Period. Notice thereof shall also promptly be provided to the Sukukholders. The Payments Administrator will be entitled to recalculate any Periodic Distribution Amount (on the basis of the foregoing provisions) without notice in the event of an extension or shortening of the relevant Periodic Distribution Period.
- (d) *Calculation of Distribution in respect of Periodic Default Amounts:* When a distribution is required to be calculated in respect of a period less than a full Periodic Distribution Period, it shall be calculated on the basis of the actual number of days elapsed in such period and a 360 day year.
- (e) *Notifications:* All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Condition 7 (*Periodic Distributions*) by the Payments Administrator will (in the absence of manifest error) be binding on the Issuer, the Custodian, the Sukukholders' Agent and the Sukukholders and (subject as aforesaid) no liability to any such Person will attach to the Payments Administrator in connection with the exercise or non exercise by it of its powers, duties and discretions for such purposes.

8. Purchase of Sukuk

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

9. Payments

- (a) *General:* Payments under the Sukuk shall be made by transfer to a Saudi Riyal account maintained by the payee with a bank in the Kingdom as notified in writing to the Registrar and the Payments Administrator not later than opening of business on the Transfer Record Date prior to the date of the relevant payment. Notwithstanding any registration of a transfer of Sukuk during the Closed Period, any payment to be made under these Conditions will be paid to such Persons as are registered as Sukukholders of the Sukuk at the opening of business on the relevant Transfer Record Date.
- (b) *Payments subject to fiscal laws:* All payments in respect of the Sukuk are subject in all cases to any applicable fiscal or other laws and regulations in the place of payment. No distributions or expenses shall be charged to the Sukukholders in respect of such payments.
- (c) *Payments on Business Days:* Payment instructions will be initiated for value on the due date, or, if the due date is not a Business Day, for value on the next succeeding Business Day unless such date would thereby fall into the next calendar month, in which event payment instructions will be initiated for value on the immediately preceding Business Day. A Sukukholder shall not be entitled to any distribution or

other payment in respect of any delay in payment resulting from the due date for a payment not being a Business Day.

- (d) *Transfer Record Date*: Each payment in respect of the Sukuk will be made to the person shown as the Sukukholder in the Register at the opening of business in the place of the Registrar's specified office on the Transfer Record Date.

10. Dissolution of the Sukuk

Unless previously redeemed, or purchased and cancelled, the Sukuk shall be redeemed on the earlier of:

- (a) the Expiry Date; and
- (b) the occurrence of an Exercise Event,

in each case following the Issuer purchasing all of the Sukuk pursuant to the Purchase Undertaking and all the Sukuk have been cancelled.

11. Exercise Events

11.1 Purchase Date

- (a) On or prior to the Closing Date, and at any time thereafter, Sukukholders will be entitled to complete a standing instruction available from the Sukukholders' Agent (a "**Standing Instruction**") to the Sukukholders' Agent requesting it to give an Exercise Notice requiring the Issuer to purchase the Sukuk Assets (an "**Exercise Notice**") 30 days prior to a Purchase Date, unless the Sukukholder otherwise advises the Sukukholders' Agent in writing no later than (i) 90 Business Days before the Purchase Date falling in January 2024G, January 2034G or January 2044G; or (ii) following an exercise under Condition 5(b) (*Application of Proceeds – Net Income*), forty-five (45) days before the Purchase Date falling in October 2023G.
- (b) Between 90 days and 180 days prior to the Purchase Date falling in January 2024G, January 2034G, or January 2044G; or (ii) following an exercise under Condition 5(b) (*Application of Proceeds – Net Income*) only, forty-five (45) days and sixty (60) days prior to the Purchase Date falling in October 2023G, the Sukukholders' Agent will give notice to the Sukukholders informing them that the occurrence of such Purchase Date will potentially give rise to the Issuer purchasing the Sukuk Assets under the Purchase Undertaking as a result thereof and accordingly describing the consequences of exercising and not exercising their rights in respect thereof.
- (c) Each Sukukholder shall be entitled, by Standing Instruction (including any Standing Instruction deemed to be transferred under Condition 3(f) (*Transfers and Standing Instructions*)) or otherwise by notice in writing given during the period of between (i) 90 days or (ii) following an exercise under Condition 5(b) (*Application of Proceeds – Net Income*) only, 45 days, and 30 days prior to such Purchase Date in the form set out in Appendix I, Part (A) to the Prospectus (such a notice being a "**Specific Instruction**"), to require the Sukukholders' Agent to give an Exercise Notice under the Purchase Undertaking in relation to all of that Sukukholder's Sukuk and the corresponding portion of the Sukuk Assets. Sukuk in respect of which Standing Instructions are in force in relation to a particular Purchase Date may not be transferred after the date which is 30 days prior to such Purchase Date and Sukuk in relation to which a Specific Instruction is given may not be transferred after the date of such Specific Instruction.
- (d) If on or before the date which is 30 days prior to a Purchase Date, the Sukukholders' Agent receives Standing Instructions (which have not been subsequently revoked) and/or Specific Instructions from Sukukholders who together hold, in aggregate, at least 70 per cent. of the Nominal Amount of such

Sukuk as are current on such date, the Sukukholders' Agent shall promptly deliver to the Issuer an Exercise Notice (with a copy to the Sukukholders) so notifying the Issuer. Following receipt of such an Exercise Notice, the Issuer shall, pursuant to the Purchase Undertaking, purchase the Sukuk Assets from the Custodian by payment of the Purchase Price that is due in respect of the relevant Sukuk, together with any applicable Extra Amount, Periodic Default Distribution Amount or Specified Amount on such Purchase Date into the Transaction Account for payment to the relevant Sukukholder (as the case may be) by the Payment Administrator.

11.2 Events of Default

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

- (a) Default resulting in non-payment of Periodic Distribution Amount or Extra Amount:
 - (i) the amount distributed to Sukukholders on any Periodic Distribution Date in accordance with Condition 5(b) (*Application of Proceeds - Net Income*) is less than the Periodic Distribution Amount for such Periodic Distribution Date; or
 - (ii) the amount distributed to Sukukholders on any Purchase Date is less than the Extra Amount for such Purchase Date;

and such shortfall in amounts has not been paid in full five days after its due date and occurs as a direct result of the Issuer's or the Sukuk Administrator's default or negligence in performing its obligations under the Sukuk Documents; or

- (b) *Breach of other obligations*: the Issuer and/or the Sukuk Administrator defaults in the performance or observance of any of its other obligations under or in respect of the Sukuk and such default remains unremedied for 30 days after written notice thereof, addressed to the Issuer by any Sukukholder and/or the Sukukholders' Agent, has been delivered to the Issuer or to the specified office of the Payments Administrator; or

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

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

- (d) *Unsatisfied judgment*: one or more judgment(s) or order(s) for the payment of an amount in excess of SAR 75,000,000 (or its equivalent in any other currency or currencies), whether individually or in aggregate is rendered against the Issuer or the Sukuk Administrator and continue(s) unsatisfied and unstayed for a period of 30 days after the date(s) thereof or, if later, the date therein specified for payment; or

- (e) *Insolvency*: (i) the Issuer or the Sukuk Administrator becomes insolvent or is unable to pay its debts as they fall due, (ii) an administrator or liquidator is appointed over the whole or at least 25 per cent. of the undertaking, assets and revenues of the Issuer or the Sukuk Administrator (or application for any such appointment is made) and such appointment is not discharged within 28 days, (iii) the Issuer or the Sukuk Administrator takes any action for a readjustment or deferment of any of its obligations or makes a general assignment or an arrangement or composition with or for the benefit of its creditors (including any arrangement under the Settlement to Avoid Bankruptcy Law) or declares a moratorium in respect of any of its Indebtedness or any Guarantee of any Indebtedness given by it or (iv) the Issuer or the Sukuk Administrator ceases or threatens to cease to carry on all or any substantial part of its business (otherwise than for the purposes of, or pursuant to, an amalgamation, reorganisation or restructuring whilst solvent which is either (A) initiated or mandated by any governmental body or authority of the Kingdom or (B) is approved by an Extraordinary Resolution *provided that* (in the case of (A) only) any entity to which all or any part of the Issuer's or the Sukuk Administrator's assets and business are then transferred unconditionally and irrevocably assumes on a joint and several basis as primary obligor all of Saudi Electricity Company's obligations under the Sukuk Assets Transfer Agreement and the Purchase Undertaking); or
- (f) *Winding up*: an order is made or an effective resolution is passed for the winding up, liquidation or dissolution of the Issuer or the Sukuk Administrator (otherwise than for the purposes of, or pursuant to, an amalgamation, reorganisation or restructuring whilst solvent which is either (i) initiated or mandated by any governmental body or authority of the Kingdom or (ii) is approved by an Extraordinary Resolution *provided that* (in the case of (i) only) each surviving or resulting entity unconditionally and irrevocably assumes on a joint and several basis as primary obligor all of Saudi Electricity Company's obligations under the Sukuk Assets Transfer Agreement and the Purchase Undertaking); or
- (g) *Analogous event*: any event occurs under the laws, regulations or rules of the Kingdom has an analogous effect to any of the events referred to in paragraphs (d) (*Unsatisfied judgment*) to (f) (*Winding up*) above; or
- (h) *Distribution Sector Restructuring Event*: the Issuer's electricity distribution business (including, without limitation, the provision of Metering Services) is restructured by any governmental body or authority of the Kingdom with the result that such business is or no longer will be carried on by the Issuer directly (rather than through subsidiaries or affiliates) and the Issuer gives notice to the Sukukholders' Agent that, as a result, it will be impracticable for the Issuer to continue to perform its obligations under the Sukuk Documents or procure the performance of the services to be provided in respect of the Sukuk Assets under the Sukuk Assets Administration Agreement through a Subsidiary (a "**Distribution Sector Restructuring Event**");
- (i) *Failure to take action*: any action, condition or thing at any time required to be taken, fulfilled or done in order (i) to enable the Issuer or the Sukuk Administrator lawfully to enter into, exercise its rights and perform and comply with its obligations under and in respect of the Sukuk or the Sukuk Documents and (ii) to ensure that those obligations are legal, valid, binding and enforceable is not taken, fulfilled or done; or
- (j) *Unlawfulness*: it is or becomes unlawful for the Issuer or the Sukuk Administrator to perform or comply with any or all of its obligations under or in respect of the Sukuk or the Sukuk Documents; or

- (k) *Non-Effectiveness of Sukuk Assets*: it is or becomes unlawful for the Issuer, the Sukuk Administrator or the Custodian to perform any of its material obligations under the Sukuk Assets or any documents relating to the Sukuk Assets or any Sukuk Assets or documents relating to the Sukuk Assets are held by a court not to be legally effective or the Issuer, the Sukuk Administrator or the Custodian repudiates or evidences an intention to repudiate any document relating to the Sukuk Assets.

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

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

Sukuk in respect of which a Purchase Notice is delivered may not be transferred until after the expiry of the Exercise Period and only to the extent not purchased by the Issuer during such Exercise Period in accordance with the Conditions. If the Sukukholders' Agent receives a Purchase Notice, the Sukukholders' Agent shall promptly give notice to the Issuer, the Custodian, the Payments Administrator and the Joint Lead Managers that such a Purchase Notice has been received, specifying the Event of Default referred to therein (but so that such notice shall only be given in relation to the first Purchase Notice received in respect of any Event of Default).

If the Sukukholders' Agent receives Purchase Notices from the Required Sukukholders within the Exercise Period, then the Sukukholders' Agent shall promptly deliver to the Issuer an exercise notice ("**Exercise Notice**") so notifying the Issuer (with a copy to the Sukukholders) and, provided that the Event of Default in respect of such Exercise Notice is continuing, the Issuer shall, pursuant to the Purchase Undertaking, immediately purchase the Sukuk Assets from the Custodian by payment into the Transaction Account of the Purchase Price as of the date on which Purchase Notices from the Sukukholders were first received, together with payment of the Periodic Default Amount (calculated as of the date of such purchase) and any Specified Amount (if relevant) for payment to the Sukukholders by the Payments Administrator.

12. Enforcement and Exercise of Rights

- (a) Following the distribution of the proceeds of the Sukuk Assets in respect of the Sukuk to the Sukukholders in accordance with these Conditions and the Declaration of Agency, the Sukukholders' Agent shall not be liable for any further sums, and accordingly no Sukukholder may take any action

against the Sukukholders' Agent or any other Person to recover any such sum in respect of the Sukuk or the Sukuk Assets.

- (b) The Sukukholders' Agent shall not be bound in any circumstances to take any action to enforce or to realise the Sukuk Assets or take any action against the Issuer under any Sukuk Document to which the Issuer or the Custodian is a party unless directed or requested to do so (a) by an Extraordinary Resolution or (b) in writing by the Required Sukukholders and in either case then only if it shall be indemnified and/or secured to its satisfaction against all liabilities to which it may thereby render itself liable or which it may incur by so doing.
- (c) No Sukukholder shall be entitled to proceed directly against the Issuer or the Custodian unless (i) the Sukukholders' Agent, having become bound so to proceed, fails to do so within 60 days of becoming so bound and such failure is continuing and (ii) the relevant Sukukholder (or such Sukukholder together with the other Sukukholders who propose to proceed directly against the Issuer or the Custodian) holds at least 25 per cent. of the aggregate Nominal Amount of the Sukuk then current on such date. Under no circumstances shall the Sukukholders' Agent or any Sukukholders have any right to cause the sale or other disposition of any of the Sukuk Assets except pursuant to the Purchase Undertaking, and the sole right of the Sukukholders' Agent and Sukukholders against the Issuer or the Custodian shall be to enforce the obligation of the Issuer to pay the amounts to the credit of, or required to be credited to, the Transaction Account. For the avoidance of doubt, the Sukukholders' Agent shall not be bound to act or proceed unless it has been indemnified and/or secured to its satisfaction.
- (d) The foregoing paragraphs in this Condition 12 (*Enforcement and Exercise of Rights*) are subject to this paragraph. After distributing the net proceeds of the Sukuk Assets in accordance with Condition 5(b) (*Application of Proceeds - Net Income*) and Condition 5(c) (*Application of Proceeds - Reserve*), the obligations of the Sukukholders' Agent in respect of the Sukuk shall be satisfied and no Sukukholder may take any further steps against the Sukukholders' Agent to recover any further sums in respect of the Sukuk and the right to receive any such sums unpaid shall be extinguished. Without prejudice to any liability that the Issuer may have under the Purchase Undertaking, no Sukukholder shall be entitled to petition or to take any other steps against the Issuer, the Custodian or the Sukukholders' Agent in respect of the Sukuk or the Sukuk Assets.

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

13. Agents

In acting under the Payments Administration Agreement and in connection with the Sukuk, the Payments Administrator acts as agent of the Issuer and does not assume any obligations towards or relationship of agency for or with any of the Sukukholders. The Payments Administrator and its initial specified office are set out in the "*Parties and Advisers*" section on page 7. The Issuer reserves the right at any time to vary or terminate the appointment of the Payments Administrator and to appoint a successor Payments Administrator; *provided, however*, that the Issuer shall at all times maintain a Payments Administrator in the Kingdom. Notice of any change of the Payments Administrator or in its specified office shall promptly be given to the Sukukholders.

14. Meetings of Sukukholders; Modification

- (a) *Meetings of Sukukholders:* The Declaration of Agency contains provisions for convening meetings of Sukukholders to consider matters relating to the Sukuk, including the modification of any provision of these Conditions. Any such modification (and certain other proposals) may be made if sanctioned by an Extraordinary Resolution and approved by the Issuer. Such a meeting may be convened by the Issuer and shall be convened by the Issuer upon the request in writing of Sukukholders holding not less than one-tenth of the aggregate Nominal Amount of such of the Sukuk as are current as of such date. The quorum at any meeting convened to vote on an Extraordinary Resolution will be two or more Persons holding or representing at least half of the aggregate Nominal Amount of such of the Sukuk as are current as of such date or, at any adjourned meeting, one quarter of the aggregate Nominal Amount of such of the Sukuk as are current as of such date.

An Extraordinary Resolution requires the affirmative vote of at least one more than half of those represented in the relevant meeting in order for it to be passed. Any Extraordinary Resolution duly passed at any such meeting shall be binding on all Sukukholders, whether present or not. The Declaration of Agency provides that a written resolution signed by or on behalf of the holders of not less than two-thirds of the aggregate Nominal Amount of the Sukuk as are current as of such date shall be valid and effective as a duly passed Extraordinary Resolution.

- (b) *Modification:* The Declaration of Agency provides that the Sukukholders' Agent may agree, without the consent of the Sukukholders, to any modification (subject to certain exceptions as provided in the Declaration of Agency) of, or to any waiver or authorisation of any breach or proposed breach of, any of these Conditions or any of the provisions of the Declaration of Agency, or may determine that an Event of Default, shall not be treated as such which in any such case, in the opinion of the Sukukholders' Agent, is not materially prejudicial to the interests of the Sukukholders or to any modification of any of these Conditions or any of the provisions of the Declaration of Agency which is (in the opinion of the Sukukholders' Agent) of a formal, minor or technical nature or which is made to correct a manifest error or to comply with mandatory provisions of law. Any such modification, waiver, authorisation or determination shall be binding on the Sukukholders and, unless the Sukukholders' Agent agrees otherwise, any such modification shall be notified to the Sukukholders as soon as practicable thereafter in accordance with Condition 17 (*Notices*).

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

15. Taxation

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

amounts shall be payable to the Sukukholders. References herein to the Periodic Distribution Amount, the Extra Amount and any other amounts payable to the Sukukholders, shall include any additional amounts so payable pursuant to this Condition 15 (*Taxation*).

16. Indemnification and Liability of the Sukukholders' Agent

- (a) The Declaration of Agency contains provisions for the indemnification of the Sukukholders' Agent in certain circumstances and for its relief from responsibility, including provisions relieving it from taking action unless indemnified and/or secured to its satisfaction. In particular, in connection with the exercise of any of its rights in respect of the Sukuk Assets, the Sukukholders' Agent shall in no circumstances take any action unless directed to do so in accordance with Condition 12 (*Enforcement and Exercise of Rights*), and then only if it shall have been indemnified and/or secured to its satisfaction.
- (b) The Sukukholders' Agent makes no representation and assumes no responsibility for the validity, sufficiency or enforceability of the obligations of the Issuer under any Sukuk Document to which the Issuer is a party and shall not under any circumstances have any liability or be obliged to account to the Sukukholders in respect of any payment which should have been made by the Issuer or on its behalf, but is not so made, and shall not in any circumstances have any liability arising from the Sukuk Assets other than as expressly provided in these Conditions or in the Declaration of Agency.
- (c) The Sukukholders' Agent is excepted from (i) any liability in respect of any loss or theft of the Sukuk Assets or any cash, (ii) any obligation to insure the Sukuk Assets or any cash and (iii) any claim arising from the fact that the Sukuk Assets or any cash are held by or on behalf of the Sukukholders' Agent or on deposit, unless such loss or theft arises as a result of gross negligence, wilful default or fraud of the Sukukholders' Agent.
- (d) The Sukukholders' may, by way of Extraordinary Resolution, revoke their appointment of the Sukukholders' Agent by not less than thirty (30) days' notice to the Sukukholders' Agent; provided, however that such revocation shall not take effect until such successor has been duly appointed in accordance with the Declaration of Agency.

17. Notices

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

18. Governing Law and Jurisdiction

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

THE SUKUK ASSETS

The Sukuk Assets comprise certain rights and entitlements of the Issuer derived from CMR 169 and the Distribution Licence and to levy and receive the Meter Charges in relation to the Specified Meters from Specified Customers. The Sukuk Assets and the extent of the rights and entitlements that attach to them are more particularly described in the Sukuk Assets Transfer Agreement.

As part of the restructuring of the SEC Group, SEC intends to establish a single distribution company to own and manage its distribution assets. This company is expected to be established in 2014G. The 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 company will be responsible for all billing and customer relationship activities. While the distribution company will be licensed by ECRA to conduct distribution activities, including meter-reading, the Sukuk Assets will not be transferred to the distribution company.

SEC (in its capacity as Sukuk Administrator) may sub-contract all or part of the services that it is obliged to provide in respect of the Sukuk Assets under the Sukuk Assets Administration Agreement to the distribution company after it is established.

Customers of SEC

SEC divides its customers into seven main categories:

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

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

Customer Category	For the year ended 31 December	
	2011G	2012G
Residential	5,023,038	5,335,563
Commercial	1,030,963	1,093,288
Governmental	204,448	214,062
Industrial	7,646	8,166
Health and education	8,169	8,734
Agricultural	66,601	70,984
Desalination	160	202
Total	6,341,025	6,730,999

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

Operating Region	For the year ended 31 December	
	2011G	2012G
Central	2,009,211	2,145,096
Western	2,365,593	2,482,955
Eastern	1,114,563	1,190,022
Southern	851,658	912,926
Total	6,341,025	6,730,999

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

Meter Size	For the year ended 31 December	
	2011G	2012G
30 Amps	659,858	697,553
60 Amps	3,067,219	3,262,361
100 Amps	1,926,351	2,034,911
150 Amps	241,379	270,098
200 Amps	275,417	286,567
300 Amps	66,220	69,810
400 Amps	63,329	65,702
Over 400 Amps	41,252	43,997
Total	6,341,025	6,730,999

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

Operating Region	Total revenue for the year ended 31 December				Increase in revenue from 2011G to 2012G	
	2011G		2012G			
	(thousands of Saudi Riyals and percentages)					
	Total Service charge (meter reading and maintenance and bill preparation) for 2011G	Total sales revenue for 2011G	Total Service charge (meter reading and maintenance and bill preparation) for 2012G	Total sales revenue for 2012G	Increase in Service charge (meter reading and maintenance and bill preparation) between 2011G and 2012G	Increase in Total sales revenue between 2011G and 2012G
Central	284,642	8,926,927	304,063	9,681,395	7%	8%
Western	305,307	8,065,328	317,368	9,068,324	4%	12%
Eastern	158,523	9,459,928	168,267	10,112,228	6%	7%
Southern	133,127	1,939,773	141,380	2,252,293	6%	16%
Total	881,598	28,391,955	931,078	31,114,240	6%	10%

Installation of new meters

SEC will install electricity meters at new customers' premises if the following steps are completed:

- the customer completes a services request application form, which includes the customer's name, identification details, details of the land title deed and date of issuance and information on the new building itself (including, its location and the electricity requirements);

- the customer provides SEC with a permit issued by the relevant local municipality permitting the new building to be connected to SEC's distribution network; and
- the customer pays the applicable connection tariff and deposits (which vary depending upon the size of the meter being installed).

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

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

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

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

Customer Billing

Meter readings are usually made monthly, with the exception of meters located in remote locations where readings are taken either every two months or quarterly. Customers with meters located in non-remote areas represented approximately 90 per cent. of SEC's total customers for the year ended 31 December 2012G. SEC is planning to reduce the number of customers that are not billed monthly. However, SEC does not plan to bill the small number of customers who are located in very remote areas of the Kingdom on a monthly basis because of the expense involved in reading their meters every month.

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

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

Only a small number of bills issued to a single customer relate to more than one meter (such bills represented between 2 and 3 per cent. of all the bills issued in 2012G).

Payment methods

Payments are collected in a variety of ways including:

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

- payment via telephone banking.

During the year ended 31 December 2012G, approximately 70 per cent. of all bill payments were collected through automated channels. In order to enhance the payment options available to its customers, SEC continues to explore further convenient payment methods for use by its customers in the future.

Collections and disconnection

If a customer fails to pay a bill by its due date, a written reminder will be sent to the customer in the following month's bill notifying the customer of the sum outstanding. If a customer's overdue charges reach SAR 400 and the bill remains unpaid for a period of one month, then SEC will issue a notice informing the customer that it will, generally, disconnect supply after 21 days if the customer does not pay all amounts outstanding within that period. SEC is strict in applying its policy of disconnecting customers who default in bill payments. Defaulting Customers will only be reconnected after they have paid all outstanding amounts in full and a reconnection fee of SAR 50.

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

Meter Charges

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

The current scale of Meter Charges and other tariffs was established in 11/8/1419H (corresponding to 30 November 1998G) by CMR 169 as amended by CMR 170 and as the same may be further supplemented, revised or amended from time to time. A copy of CMR 169 in Arabic (along with an English translation) are attached as Part 1 of Annex A of the Sukuk Assets Transfer Agreement.

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

(For further information, see the section entitled "*Tariffs*" in "*Description of SEC*" in this Prospectus.)

Meters

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

Meter reading accuracy during 2012G was measured at 99.8 per cent., being the percentage of total meters that were not disputed by customers.

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

Specified Customers and Specified Meters

The table below shows a breakdown by operating region and customer category of all of SEC's customers in the seven main categories as at 31 December 2012G.

Customer Category	Number of Customers in the Operating Regions as at 31 December 2012G					
	Central	Western	Eastern	Southern	Total	Per cent.
Residential.....	1,648,082	2,008,154	918,160	761,167	5,335,563	79.3%
Commercial.....	378,975	394,783	214,984	104,546	1,093,288	16.2%
Governmental.....	74,241	65,182	31,024	43,615	214,062	3.2%
Industrial.....	2,990	2,616	2,236	324	8,166	0.1%
Health and education	3,815	3,005	1,580	334	8,734	0.1%
Agricultural.....	36,962	9,171	21,965	2,886	70,984	1.1%
Desalination.....	31	44	73	54	202	0.0%
TOTAL	2,145,096	2,482,955	1,190,022	912,926	6,730,999	100%

Assuming that the aggregate Nominal Amount of the Sukuk that are issued by SEC is SAR 4,500,000,000, the Specified Meters will comprise approximately 75% of all of the meters installed with SEC's residential and commercial customers as at the date of this Prospectus.

The Specified Meters will exclude electricity meters installed with governmental, industrial, health and education, agricultural and desalination customers of SEC.

Administrator's Allowable Costs

Pursuant to the Sukuk Assets Administration Agreement, SEC (in its capacity as Sukuk Administrator) is entitled to charge Administrator's Allowable Costs against revenues received from Meter Charges before distributions are made to Sukukholders.

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

	For the year ended 31 December	
	2011G	2012G
	<i>(thousands of Saudi Riyals)</i>	
Meter Revenue	883,059	937,529
<i>Meter reading cost:</i>		
Manpower (SEC staff and Contractors)	405,102	355,554
Material	1,779	1,138
Others	201	527
<i>Meter maintenance cost:</i>		
Manpower (SEC staff and Contractors)	107,920	83,578
Material	8,461	9,043
Others	6,172	6,485
Total	529,635	456,325
Cost per meter in SAR (by dividing the costs incurred throughout the period by the total number of meters at the end of the period)	83,53	67,79

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

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

SUMMARY OF THE SUKUK DOCUMENTS

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

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

The Sukuk Assets comprise the rights of the Issuer derived from CMR 169 and the distribution and the retail supply license no. 070406-R dated 28/3/1428H granted by ECRA to undertake the following services:

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

the entitlement to levy and receive the charges relating to (a) and (b) above as specified in CMR 169. The Sukuk Assets and the extent of the rights and entitlements that attach to them are more particularly described in the Sukuk Assets Transfer Agreement. Such rights and entitlements will be purchased by the Sukukholders (through the Sukukholders' Agent) from the Issuer for a period of forty years and the Sukuk Assets will be transferred by the Issuer to the Custodian for the benefit of the Sukukholders.

Sukuk Assets Transfer Agreement

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

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

Pursuant to the Sukuk Assets Transfer Agreement, the Issuer covenants that for the duration of forty years it shall (a) not, in any manner, dispose of all or any part of the Sukuk Assets nor create, grant or permit to subsist any Security Interest over all or any of its right, title and interest in the Sukuk Assets except to the extent expressly contemplated by the Sukuk Documents; (b) contribute to the Reserve in accordance with Condition 5(d) (*Top-Up of Reserve*) of the Conditions (c) comply with the Electricity Laws generally, except to the extent that failure to do so would not have a Material Adverse Effect (as defined in the Sukuk Assets Transfer Agreement); and (d) do, take or fulfil all such actions, conditions or things that are required in order that the

Issuer Warranties (as defined below), which are deemed to be repeated on the Closing Date, are true by reference to the facts then subsisting.

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

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

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

- (a) immediately prior to transferring the Sukuk Assets to the Custodian, the Issuer is the legal and beneficial owner of the Sukuk Assets;
- (b) the entitlement of the Issuer to levy Meter Charges (as defined in the Sukuk Assets Transfer Agreement) on the Specified Customers is governed exclusively by the Electricity Laws;
- (c) the copy of CMR 169 is true and up to date and (other than the amendments set out in CMR 170) has not been amended, supplemented or revoked since the date of the Agreement and the Issuer is not in breach of any provision of the Electricity Laws which in its opinion would have a Material Adverse Effect;
- (d) as of the Closing Date:
 - (i) there will be no restrictions on the Issuer's ability to transfer the Sukuk Assets in the manner contemplated by the Agreement; and
 - (ii) the Agreement will be effective to transfer the Sukuk Assets to the Custodian (on behalf of the Sukukholders and the Sukukholders' Agent);
- (e) except as contemplated by the Sukuk Assets Transfer Agreement, the Issuer has not sold or otherwise disposed of, or created, granted or permitted to subsist any Security Interest over, all or any of its right, title and interest in the Sukuk Assets;

- (f) the Issuer has the necessary capacity, power and authority to enable it to enter into and perform its obligations under the Agreement;
- (g) subject to the matters of Saudi Arabian and Shari'ah law described in "*Risk Factors*" in the Prospectus and the related disclaimers and exclusions set out therein, the Sukuk Assets Transfer Agreement constitutes legal, valid and binding obligations enforceable against it in accordance with its terms;
- (h) all necessary authorisations and consents to enable the Issuer to enter into the Sukuk Assets Transfer Agreement and to transfer the Sukuk Assets to the Custodian (on behalf of the Sukukholders and the Sukukholders' Agent) have been obtained and are in full force and effect;
- (i) the Issuer has administered the Sukuk Assets for its own account since their inception and (save as disclosed in the Prospectus) it is not aware of any matter, event or circumstance that would cause the net income generated thereby after the date hereof to be reduced such that it was insufficient to cover the Periodic Distribution Amounts and Extra Amounts from time to time becoming payable in respect of the Sukuk; and
- (j) the Administrator's Allowable Costs for the financial years ended 31 December 2011G and 2012G were as set out in the Sukuk Assets section of the Prospectus.

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

- (a) immediately prior to transferring the Sukuk Assets to the Custodian pursuant to the Sukuk Assets Transfer Agreement, the Custodian has no substantive trading history and has no liabilities other than the liabilities (if any) assumed by it in respect of the 2009 Sukuk Issue (as defined in the Sukuk Assets Transfer Agreement) and the 2010 Sukuk Issue (as defined in the Sukuk Assets Transfer Agreement);
- (b) as of the Closing Date there will be no restrictions on the Custodian's ability to hold the Sukuk Assets in the manner contemplated by the Sukuk Assets Transfer Agreement;
- (c) it has the necessary capacity, power and authority to enable it to enter into and perform its obligations under the Sukuk Documents to which it is a party;
- (d) subject to the matters of Saudi Arabian law described in the "*Risk Factors*" section of this Prospectus and the related disclaimers and exclusions, the Sukuk Documents to which it is a party constitutes its legal, valid and binding obligation enforceable against it in accordance with the terms thereof;
- (e) all necessary authorisations and consents to enable it to enter into the Sukuk Documents to which it is a party, to hold the Sukuk Assets (on behalf of the Sukukholders and the Sukukholders' Agent) have been obtained and are in full force and effect;
- (f) other than as expressly disclosed in this Prospectus there are no litigation or arbitration proceedings against or affecting the Custodian or any of its respective assets or revenues, nor is the Custodian aware of any pending or threatened proceedings of such kind, which are or might be material in the context of the issue of the Sukuk;
- (g) it has promptly filed all tax returns required to be filed by it in any jurisdiction and promptly paid all Taxes payable by it or, if any Tax is being contested in good faith and by appropriate means, adequate provision exists for payment of that Tax; and
- (h) it has not taken any action nor (to the best of its knowledge and belief) have any steps been taken or legal proceedings been started or threatened against it for its winding-up, dissolution or re-organisation, for the enforcement of any Security Interest over its assets or the appointment of a liquidator, supervisor, receiver, administrator, administrative receiver, compulsory manager, trustee or other similar officer of the Custodian or in respect of any of its assets.

Sukuk Assets Administration Agreement

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

(1) the Custodian (on behalf of the Sukukholders) irrevocably engages the Sukuk Administrator to perform (or procure the performance of) the Metering Services and other duties set out in the Sukuk Assets Administration Agreement for the duration of the Sukuk and the Sukuk Administrator agrees to so act as administrator in respect of the Sukuk Assets for and on behalf of the Sukukholders. The Sukuk Administrator acts as independent contractor (*ajeer mushtarak*) not as employee (*ajeer khas*); and

(2) the Sukuk Administrator agrees to the extent practicable to administer, perform and discharge the Metering Services and enforce or procure the enforcement of the Sukukholders' rights under the Sukuk Assets. In particular, it will perform (or procure the performance of) Metering Services, billing, collections of amounts falling due in respect of the Specified Meters, costs control in relation to the level of Administrator's Allowable Costs, income administration to preserve and safeguard the income relating to the Sukuk Assets, accounting and auditing in relation to the income and expenses of the Custodian, regulatory and tax control, and, in certain circumstances, it may amend, modify, supplement or terminate any Specified Customer Contract.

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

- (i) any Meter Charges relating to the Specified Meters which are contested and which are material in the context of the Sukuk (including in respect of any payments to be made under the Sukuk), provided that Meter Charges will be considered "material" if such Meter Charges constitute at least 1.00 per cent. of all Meter Charges payable in respect of the Specified Meters;
- (ii) any event or circumstance which may in the opinion of the Sukuk Administrator be likely to (a) significantly affect the level of Net Income arising in relation to the Sukuk Assets in relation to any Periodic Distribution Period or (b) cause the Net Income received during the relevant Periodic Distribution Period (when aggregated with the amount of any Reserve) to fall below the Periodic Distribution Amount for such Periodic Distribution Period, plus, in the case of a Periodic Distribution Period ending on a Purchase Date, the applicable Extra Amount;
- (iii) if it breaches any material obligation under the Electricity Laws; and
- (iv) if 10,000 or more Specified Meters are permanently disconnected (meaning that they are not reconnected within two months of disconnection) in any calendar month such notification to be made at the latest by the 20th day of the following calendar month. The actual number of permanent disconnections made during any financial year shall be notified in a written report to the Custodian and the Sukukholders' Agent by no later than the 120th day of the following financial year;

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

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

Purchase Undertaking

Pursuant to this undertaking, the Issuer:

(1) irrevocably undertakes to the Sukukholders' Agent that, following the occurrence of an Exercise Event, it shall purchase the relevant Sukuk from the relevant Sukukholder or Sukukholders (as the case may be); and pay to the Transaction Account all amounts due (if any) in respect of the relevant Sukuk to the relevant Sukukholder(s); and

(2) unconditionally and irrevocably accepts, following the receipt of an Exercise Notice from the Sukukholders' Agent, the automatic transfer of the Sukuk Assets to the Issuer free and clear of any Security Interest. By its acceptance of such Sukuk Assets, the Issuer shall be deemed to have unconditionally and irrevocably accepted and agreed that the Purchase Price together with any applicable Extra Amount or Specified Amount is a fair price for such Sukuk Assets.

Common terms of all documents

Assignment

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

Termination

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

SHARI'AH ADVISORY COMMITTEE AND PRONOUNCEMENT

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

Pronouncement of HSBC Saudi Arabia Executive Shari'ah Committee

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

Overview of HSBC Saudi Arabia Executive Shari'ah Committee

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

Members of HSBC Saudi Arabia Executive Shari'ah Committee

Sheikh Dr. Mohamed Ali Elgari

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

Sheikh Nizam Yaquby

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

Pronouncement of the Shari'ah Supervisory Board of Credit Agricole Corporate and Investment Bank

Copies of the pronouncement issued by the Shari'ah Supervisory Board of Credit Agricole Corporate and Investment Bank relating to the Sukuk and confirming that, in their view, the proposed issue of the Sukuk and the related structure and mechanism described in the Sukuk Documents are in compliance with Shari'ah principles, shall be distributed to prospective Sukukholders upon request by Saudi Fransi Capital Company .

Overview of the Shari'ah Supervisory Board of Credit Agricole Corporate and Investment Bank

The Shari'ah Supervisory Board of Credit Agricole Corporate and Investment Bank is an independent Shari'ah board.

Members of the Shari'ah Supervisory Board of Credit Agricole Corporate and Investment Bank

Sheikh Dr. Mohamed Ali Elgari

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

Sheikh Nizam Yaquby

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

Dr. Abdul Sattar Abu Ghuddah

Abu Ghuddah holds the positions of Shariah Advisor and Director, Department of Financial Instruments at Al-Baraka Investment Co. of Saudi Arabia. He holds a PhD in Islamic Law from AL Azhar University Cairo, Egypt. Dr. Abu Ghddah is an active member of Islamic Fiqh Academy and the Accounting and Auditing Standards Board of Islamic Financial Institutions. Dr. Abu Ghuddah teaches Fiqh, Islamic studies and Arabic in Riyadh and has performed the valuable task of researching and compiling information for the Fiqh Encyclopedia in the Ministry of Awqaf and Islamic Affairs in Kuwait. He was a member of the Fatwa Board in the Ministry from 1982 to 1990.

TAXATION AND ZAKAT

The statements herein regarding taxation/zakat are based on the laws in force in the Kingdom of Saudi Arabia (the Kingdom) 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 Sukuk 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 Sukuk are advised to consult their own tax/zakat advisers concerning the overall tax/zakat consequences of their ownership of the Sukuk.

A. GCC Sukukholders which are GCC persons resident in the Kingdom

Sukukholders who are GCC persons resident in the Kingdom, except for (i) and (ii) 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 Sukuk

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

- (i) a citizen of a GCC country with a permanent residence in the Kingdom; and*
- (ii) a legal entity established under the law of a GCC country other than the Kingdom, with a Permanent Establishment (PE) in the Kingdom.*

In the following paragraphs we provide below the taxability of a citizen of a GCC and GCC legal entity with a PE in the Kingdom as follows:

- (i) a citizen of a GCC country with a permanent residency in the Kingdom*

A citizen of a GCC country with permanent residence in the Kingdom 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 Sukuk.

- (ii) a legal entity established under the law of a GCC country other than the Kingdom, with a permanent establishment in Saudi Arabia.*

A legal entity of a GCC country having a PE in the Kingdom (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 Sukuk 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 Sukuk to the above Sukukholder will be part of the Sukukholder'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 by the PE 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, the Kingdom, 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. Sukukholders which are non-GCC persons resident in the Kingdom

Sukukholders who are non-GCC persons resident in the Kingdom, 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 Sukuk to the above Sukukholder will be part of the Sukukholder'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 the Kingdom for a taxable year if he meets either of the two following conditions:
- (i) he has a permanent place of residence in the Kingdom and resides in the Kingdom for a total of not less than thirty (30) days in the taxable year; or
 - (ii) he resides in the Kingdom for a period of not less than one hundred eighty three (183) days in the taxable year.

For the purposes of this paragraph, residence in the Kingdom for part of a day is considered residence for the whole day, except in the case of a person in transit between two points outside the Kingdom.

- (b) A company is considered resident in the Kingdom during the taxable year if it meets either of the following conditions:
- (i) it is formed in accordance with the Companies Law; or
 - (ii) its central management is located in the Kingdom.

Non-GCC person means a citizen or a legal entity other than GCC person mentioned in A above.

C. Sukukholders who are non-resident in the Kingdom

1. Sukukholders who are not residents in the Kingdom (whether such Sukukholders are Saudi Arabian citizens or not, including Sukukholders resident in GCC) will be subject to 5% withholding tax on all payments in the nature of profit in respect of the Sukuk.

In few limited instances, Sukukholders may claim a refund of the withholding taxes where a double tax treaty is in place between the Kingdom and the country where the Sukukholder 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. Sukukholders who are non-residents with a PE in the Kingdom (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 Sukuk which is attributable to a PE.

The payments in the nature of profit in respect of the Sukuk to the above Sukukholders 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 the Kingdom 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

Sukukholders who are natural persons at the time of their death will not be subject to inheritance or other taxes of a similar nature in the Kingdom.

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

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

SUBSCRIPTION AND SALE

Joint Lead Managers, Joint Bookrunners and Underwriters

HSBC Saudi Arabia Limited, whose registered address is Olaya Road, P.O. Box 9084, Riyadh 11413, Kingdom of Saudi Arabia, and Saudi Fransi Capital Company, whose registered address is 4th Floor, Head Office Building, King Fahd Road, Legend Tower, Building 749, P.O. Box 23454, Riyadh, Kingdom of Saudi Arabia.

Subscription Agreement

The Joint Lead Managers, Joint Bookrunners and Underwriters will enter into a subscription agreement on or prior to the Closing Date (as the same may be amended, supplemented or novated, the "**Subscription Agreement**") with the Issuer relating to the distribution and underwriting of the Sukuk. Pursuant to the Subscription Agreement, the Joint Lead Managers, Joint Bookrunners and Underwriters will agree to underwrite the Sukuk on the terms provided therein. The Subscription Agreement will be subject to a number of conditions and may, in certain circumstances, be terminated by the Joint Lead Managers, Joint Bookrunners and Underwriters prior to payment of the net proceeds of the issue of the Sukuk to the Issuer. If the Subscription Agreement is terminated prior to the Closing Date, the offer of Sukuk may also terminate and any proceeds received from subscribers will be refunded.

The Joint Lead Managers, Joint Bookrunners and Underwriters will be entitled to a combined management and selling commission for performing such services.

Application by potential investors

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

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

Persons wishing to purchase the Sukuk will be required to submit an Investor Application Form to any one of the Joint Lead Managers, Joint Bookrunners and Underwriters before the end of the Investor Presentation Period. Investor Application Forms will be available from any of the Joint Lead Managers, Joint Bookrunners and Underwriters. Persons wishing to purchase the Sukuk will be required to declare that they have read and understood the Prospectus (including the "*Risk Factors*" and the "*Terms and Conditions of the Sukuk*") and the terms and conditions of the Investor Application Form and accept in full and agree to the basis on which the offer of Sukuk is made. They will also be required to declare that they are resident for tax purposes in the Kingdom and that all the information provided in the Investor Application Form is true and correct.

Applications to purchase Sukuk for less than SAR 1,000,000 or in amounts which are not higher integral multiples of SAR 1,000,000 thereafter, or from applicants who are not Institutional Investors will not be accepted. Persons who are not Institutional Investors may be able subsequently to purchase Sukuk from Institutional Investors.

Allocation of Sukuk will be at the discretion of the Issuer and the Joint Lead Managers, Joint Bookrunners and Underwriters and will be made no later than 10 Business Days following the end of the Investor Presentation Period. Once the allocation of Sukuk has been completed, the Issuer shall cause the Margin and the aggregate Nominal Amount, together with the anticipated aggregate net proceeds of the Sukuk to be issued to be published on the Issuer's and the Joint Lead Managers, Joint Bookrunners and Underwriters' websites.

There will be no temporary documents of title issued with respect of the Sukuk.

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

However, while Qualified Persons may be registered as Sukukholders, the primary distribution of the Sukuk will be only to Institutional Investors (as defined herein).

"Institutional Investor" means a Qualified Person who is one of the following:

- (a) a person who is authorised to carry on securities business by the Authority;
- (b) an exempt person as specified in Annex 1 to the Securities Business Regulations of the Authority;
- (c) any of the following:
 - (i) any company which owns, or which is a member of a group which owns, net assets of not less than SAR 50 million;
 - (ii) any unincorporated body, partnership or other organisation which has net assets of not less than SAR 50 million; or
 - (iii) any person ("A") whilst acting in the capacity of director, officer or employee of a person ("B") falling within sub-paragraphs (i) or (ii) where A is responsible for B undertaking any securities activity; or
- (d) an institution that has received a licence to engage in banking business in accordance with the laws of the Kingdom.

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

General

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

Clearing, Settlement and Trading

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

LEGAL INFORMATION

1. The Issuer's legal address is Granada Towers, Building A – 1, P.O. Box 22955, Riyadh, Kingdom of Saudi Arabia.
2. The Issuer was incorporated pursuant to Royal Decree No. M/16 dated 6/9/1420H (corresponding to 13 December 1999G) as a joint stock company under the laws of the Kingdom of Saudi Arabia. Its commercial registration number is 1010158683.
3. As of the date of this Prospectus, the Issuer has an authorised share capital of SAR 41,665,938,150, represented by 4,166,593,815 of authorised ordinary shares, with a nominal value of SAR 10 each. SEC has no other classes of shares outstanding.

SEC is currently 74.3 per cent. owned by the Government and Saudi Aramco owns 6.9 per cent. of SEC's issued shares. 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.

For the years ended 31 December 2011G and 2012G earnings per share of SEC (determined based on the number of shares outstanding at the end of the relevant year) were SAR 0.53 and SAR 0.61, respectively.

Under CMR 169, the Government has waived its right to receive dividends for a period of ten years from the date of SEC's formation, *provided that* dividends paid to other shareholders do not exceed ten per cent. of the nominal value of SEC's shares and under the CMR 327 the Government has agreed to extend this waiver for another ten-year period commencing from 30/12/1430H (corresponding to 18/12/2009G).

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

Financial Year	Pay Date	Amount per share based on the number of shares outstanding as at the end of the relevant Financial Year	Amount per share based on the number of shares outstanding as at the date of this Prospectus
		(SAR)	(SAR)
2012G	15 April 2013G	0.70	0.70
2011G	2 April 2012G	0.70	0.70
2010G	4 April 2011G	0.70	0.70

It should be noted that Saudi Aramco raised a claim for its share of yearly cash dividends as well as the dividends that will be declared in future. The claim for the period from the inception of SEC on 5 April 2000G to 31 December 2009G amounted to SAR 1,533 million. SEC believes that Saudi Aramco is not entitled to cash dividends being a government entity fully owned by the Government, as SEC believes that the waiver of the right to receive dividends set forth in CMR 169 and CMR 327 also applies to Saudi Aramco.

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

4. Save as disclosed in this Prospectus, there has been no adverse change, or any development reasonably likely to involve an adverse change, in the condition (financial or otherwise) or general affairs of the Issuer since 31 December 2012G, and in the two immediately preceding financial years, that is material in the context of the issue of the Sukuk.
5. No promoter or expert has received any commission, discount, brokerage or other non-cash compensation or has been granted special terms or options in connection with the issue or sale of any

securities by SEC or any of its subsidiaries or affiliates in the two years preceding the date of this Prospectus.

6. As at the date of this Prospectus, none of the experts identified in the "*Parties and Advisers*" section of this Prospectus (for the avoidance of doubt, only the auditors to the Issuer constitute experts for the purposes of the Listing Rules) have any shareholding or interest of any kind in SEC. The Issuer also confirms that none of the Joint Lead Managers, Joint Bookrunners and Underwriters (except for any shares held by such Joint Lead Managers or Joint Bookrunners under swap agreements entered into by it with investors resident outside the Kingdom in accordance with the circular dated 20/8/1429H (corresponding to 21 August 2008G) issued by the Authority) nor any of the legal advisers own any shares or has any interest of any kind in SEC.
7. Tadawul will be appointed as registrar of the Sukuk as described in the "*Terms and Conditions of the Sukuk – Register, Title and Transfers*".
8. The following is a summary of the Issuer's Bylaws:

Adoption of Bylaws and Amendments

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

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

Objectives

The objectives of SEC are to:

- (1) Generate, transmit and distribute electric power in the Kingdom, either by itself or through its wholly owned or partially owned subsidiaries.
- (2) Purchase, sell and provide electric power services in the Kingdom by itself and through one if its wholly or partially owned subsidiaries for a monetary consideration to be collected from the consumers according to the regulations followed in the Kingdom.
- (3) Take part in and invest in electric power generation, transmission and distribution projects within or outside the Kingdom in accordance with the applicable regulations.
- (4) Import and export of electric power across the borders of the Kingdom in accordance with the applicable regulations.
- (5) Take part in and invest in projects for supply of fuel to its wholly or partially owned subsidiaries pursuant to the applicable regulations. SEC may purchase the fuel needed by it to produce power and by its wholly or partially owned subsidiaries to achieve their goals.
- (6) Prepare and adopt programs and means that are necessary for the implementation of training plans and the requalification of its personnel.
- (7) Conduct and support research in any field leading to the improvement of the quality of service, enhancement of performance and operational efficiency, rationalisation of power consumption, protection of the environment and reduction of costs.
- (8) Prepare, print and distribute manuals, bulletins, information and data and other materials connected with its activities or the services that it provides.
- (9) Provide consultation and advisory services in the fields that serve its objectives.

- (10) Produce water and steam and to benefit, by itself and through its wholly or partially owned subsidiaries, from its facilities to provide communication, information technology, invoicing and collection services and other activities relating to its objectives.

Duration of SEC

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

Management

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

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

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

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

Powers of the Board of Directors

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

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

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

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

The Board of Directors may release SEC's debtors from their liabilities: (1) the release is after a minimum of one year from the relevant debt coming into existence; (2) the release is in relation to a

specified annual allowance for each debtor; and (3) the power to release from liability is not delegable by the Board of Directors.

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

The Board of Directors of SEC may not:

- a) vote on any decisions relating to their own remuneration or bonuses and benefits;
- b) borrow money from SEC; or
- c) vote on a contract or proposal in which they, jointly or severally, have an interest.

Meetings and Resolutions of the Board of Directors

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

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

Ordinary and Extraordinary Meetings and Resolutions

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

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

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

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

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

The Extraordinary General Meeting shall have the power to amend the Bylaws of SEC and will be valid only if attended by shareholders representing at least fifty per cent of SEC's capital. If such quorum is lacking at the first meeting, a second meeting shall be called and shall be valid if attended by shareholders representing at least twenty five per cent. of SEC's capital. Resolutions of the Extraordinary General Meeting shall be passed by a two-thirds majority of the shares represented at the meeting. If a resolution concerns the increase or decrease of the capital, extension or reduction of the duration of SEC, dissolution of SEC prior to the duration stipulated in its Bylaws or merging SEC into another company, then it must be passed by a majority of three-quarters of the shares represented at the meeting.

Shares

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

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

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

Sukuk and Bonds

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

Alteration of Capital

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

SEC's capital may be reduced by a resolution of the Extraordinary General Meeting (on acceptable grounds) if the capital exceeds its needs or if SEC has sustained losses. Such resolution may not be passed except after the auditor's report on the reasons justifying the reduction and on the liabilities of SEC and the effect of the reduction on such liabilities has been read out. Subject to the provisions of the Companies Regulations, such resolution shall indicate the manner of reduction. If the reduction is the result of the capital being in excess of SEC's needs, its creditors must be invited to express their objections thereto within sixty days from the date of publication of the resolution approving the reduction in at least three daily newspapers published in different regions of the Kingdom. If any creditor objects and produces documents within the designated time, SEC shall be obliged to pay its debt if due or to provide an adequate guarantee for payment thereof if it is due on a later date.

Auditors

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

Financial Year

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

Statutory Reserve and Distribution of Dividends

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

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

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

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

Dissolution and Liquidation

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

MATERIAL CONTRACTS

The following is a summary of the Issuer's material contracts and related party transactions:

Power Purchase Agreement

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 2011G 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 2014G 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 backup 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 2010G 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 2009G 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 2012G 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 2013G 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 2008G 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 2010G 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 Shuqaiq Water and Electricity Company. SEC and SWCC, as applicable, have agreed to pay WEC (i) an amount equal to the amount WEC is obliged to pay to Shuqaiq Water and Electricity Company 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 2009G 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>	
Arabian Bemco Contracting Co. Ltd. (Arabian Bemco)	Construction of Riyadh PP 10	30 June 2008G (further amended as work was completed)	11,212.4	June 2015G
Arabian Bemco, Doosan Heavy Industries & Construction Co. Ltd. (Doosan)	Conversion of Qurayyah open cycle PP to combined cycle PP	16 September 2009G	Total of SAR 2,970.0m and U.S.\$1,043.5m with additional fees for optional work	15 February 2015G
Doosan	Rabigh PP extension	8 September 2010G	Total of SAR 5,074.1m, U.S.\$2,036.9m	7 December 2014G
Arabian Bemco	Construction of Qurayyah combined cycle PP extension	27 December 2010G	2,062.5	1 June 2015G
Middle Eastern Engineering & Development Co. Ltd.	Construction of Makkah-Taif second line and Tabuk-Duba OHTL	9 August 2011G	576.5	2 January 2014G
Saudi Services for Electro Mechanic Works Co. Ltd.	Construction of New Qassim-4 substation	16 August 2011G	578.3	15 January 2014G
Arabian Bemco	Conversion of simple cycle gas turbines to combined cycle plant at PP 10	16 October 2011G	5,381.3	15 November 2015G
Daelim Industrial Company Ltd.	Construction of Shoaiba II PP	29 October 2011G	Total of SAR 1,282.5m, U.S.\$524.7m, €248.6m	28 September 2014G
ABB Contracting Co. Ltd.	Construction of Al-Hassa bulk supply point (BSP)	26 December 2011G	537.0	15 May 2014G
National Contracting Co. Ltd.	Construction of overhead transmission line at power plant 11 (OHTL)	28 December 2011G	544.3	31 May 2014G
National Contracting Co. Ltd.	Construction of new Doha BSP	28 December 2011G	544.0	31 May 2014G
A1 Toukhi Company for	Wadi Al-Dwasir, Sharura and Najran open	2 January 2012G	678.5	11 December 2013G

Contractor	Service / Site	Contract date	Contract value	Agreed completion date
Industry, Trading and Contracting	cycle PP extension			
Arabian Bemco, GS Engineering & Construction Corp.	Construction of Riyadh combined cycle PP 12	16 May 2012G	4,724.9	15 May 2015G
Hyundai Heavy Industries Co., Ltd.	Construction of Jeddah South thermal power plant (PP)	15 October 2012G	3,188.6	31 January 2017G
Algihaz For Contracting, Trade & Tourism Co. LT	AL Mashaar 380/110/13.8KV BSP	8 June 2013G	505.0	7 September 2015G
Basman Est.	Power Management Contract for Makkah	16 July 2013G	983.6	31 October 2016G
Mohammed Al-Ojaimi Contracting Est.	Power Management Contract for Makkah	16 July 2013G	1,090	31 October 2016G
Al Mayal for Contracting Company Limited	Power Management Contract for Makkah	16 July 2013G	1,103	31 October 2016G
Al Hajdyah Trading & Contracting Company Limited	Power Management Contract for Makkah	16 July 2013G	817.4	31 October 2016G
Lateen Arab Company for Construction Ltd.	Power Management Contract for Makkah	16 July 2013G	1,011	31 October 2016G
Bin Turki Limited Company	Power Management Contract for Makkah	16 July 2013G	875.5	31 October 2016G
Mohammed Al-Ojaimi Contracting Est.	Power Management Contract for Madinah	16 July 2013G	986.1	31 October 2016G
Al Mayal for Contracting Company Limited	Power Management Contract for Madinah	16 July 2013G	834.2	31 October 2016G
Pan Kingdom Power Co. Ltd	Power Management Contract for Madinah	16 July 2013G	848.3	31 October 2016G
Deem Co. for Contracting	Power Management Contract for Madinah	16 July 2013G	998.1	31 October 2016G
Madina Net Holding Company	Power Management Contract for Madinah	16 July 2013G	3,136	31 October 2016G
Diyar Alwatan Trading and Contracting Co.	Power Management Contract for Madinah	16 July 2013G	685.6	31 October 2016G

Contractor	Service / Site	Contract date	Contract value	Agreed completion date
Mansour Almosaid Co. for Trading and Contracting	Power Management Contract for Madinah	16 July 2013G	1,051	31 October 2016G
Basman Est.	Power Management Contract for Taif	16 July 2013G	505.8	31 October 2016G
Saudi Services for Electro Mechanic Work	AS SAFA 380/132KV BSP (#9014)	25 July 2013G	658.8	24 October 2015G
Al Toukhi Company for Industry, Trading	Al-Khaldiya 380/110/13.8KV BSP	09 October 2013G	523.9	31 January 2016G

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 2007G 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 2012G, for the lease of National Grid's transmission assets.

RELATED PARTY CONTRACTS

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 2010G, 2011G and 2012G are as follows:

	Year ended 31 December		
	2010G	2011G	2012G
	(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

INTELLECTUAL PROPERTY

Save for SEC's logo which is registered as a trademark in the Kingdom and National Grid's logo, there are no other trademarks, patents, copyright or other intellectual property rights which are material in relation to SEC's business or profitability.

LITIGATION AND DISPUTES

Litigation

SEC and its subsidiaries are currently involved in a number of legal proceedings. While SEC cannot predict the final outcome of such legal proceedings, SEC believes that none of these proceedings will have a material adverse effect on its business and financial condition because of the defences available to it and because SEC made a provision for legal proceedings in its operational budget as at 30 June 2013G in the amount of SAR 113 million.

SEC confirms that, as of the date of this Prospectus, neither SEC nor any of its subsidiaries is a party to any litigation or arbitration proceedings that may, individually or in aggregate, have a material adverse effect on the financial position or business of SEC or its subsidiaries and SEC is not aware of any pending or threatened litigation or arbitration proceedings against either SEC or its subsidiaries that may, individually or in aggregate, have a material adverse effect on the financial position or business of SEC or its subsidiaries.

Disputes

Disputes with Saudi Aramco

As at the date of this Prospectus, the Issuer is party to the following ongoing disputes:

- 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 2012G. 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 2012G. 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 2019G.
- 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 2012G is 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.

Zakat Liabilities

SEC obtained its restricted Zakat certificate up to 2008G. According to the final assessment received from the Department of Zakat and Income Tax ("DZIT") for the period from 5 April 2000G (merger date) to 31 December 2001G and for the year 2002G, 2003G and 2004G, there are Zakat differences of SAR 37.5 million relating to amounts being claimed from Saudi Aramco for electricity consumption in their residential property based on the residential tariff rather than the industrial tariff which Saudi Aramco used for settlement. SEC contests the accrual of any liability to DZIT for this SAR 37.5 million, as it believes that Zakat should not be levied on unrecognized revenues which have not been accounted for in the accounting records. SEC did not receive any reply from DZIT regarding its appeal against the above assessment. The final assessment for the years 2003G to 2008G had not been received as at the date of this Prospectus. However, the Council of Ministers recently issued a resolution which provides that SEC is entitled to bill Saudi Aramco at the residential and commercial tariffs for the power consumption at its residential and commercial compounds similar to other industrial companies. ECRA has been tasked with establishing the methodology to determine which Saudi Aramco facilities are subject to residential and commercial tariffs.

Other Disputes

SEC has a dispute with one of its energy vendors related to the purchasing price for the KWh. The total difference between the amount accepted by SEC and the amount billed by the vendor amounted to SAR 163 million as at 30 June 2013G. SEC's management believes that the amount billed is overstated since there is no binding agreement, and therefore has not accounted for it in its books. None of the disputes described above are material nor do any of them involve legal proceedings.

GENERAL INFORMATION

AUTHORISATION

The Ordinary General Meeting of SEC adopted a resolution at its meeting held on 10/05/1433H (corresponding to 02/04/2012G) approving the issuance of Sukuk by SEC and authorising the Board of Directors of SEC to determine the timing, the amounts and the terms applicable to any Sukuk issued by SEC.

The Board of Directors of SEC authorised the issuance of the sukuk by resolution number (7) dated 15/04/1434H (corresponding to 25/02/2013G).

STATEMENTS BY EXPERTS

As at the date of this Prospectus, none of the experts identified in the "*Parties and Advisers*" section of this Prospectus (for the avoidance of doubt, only the auditors to the Issuer constitute experts for the purposes of the Listing Rules) have any shareholding or interest of any kind in SEC or any of its subsidiaries. The Issuer also confirms that, other than disclosed below, the Joint Lead Managers, Joint Bookrunners and Underwriters, nor any of the legal advisers, own any shares or has any interest of any kind in SEC or any of its subsidiaries.

Zeyad Sameer Khoshaim, of Zeyad S. Khoshaim Law Firm in association with Allen & Overy LLP, legal advisors to SEC, currently owns 4,000 shares in SEC as at the date of this Prospectus.

Ernst & Young has given and not withdrawn its written consent to the publication, in this Prospectus, of each statement made by them in the form and context in which it is included in this Prospectus. Ernst & Young is a professional company that provides assurance, tax and advisory services. It has approximately 175,000 employees in more than 150 countries. It is licensed in the Kingdom by the Ministry of Commerce and Industry as a professional company under license number 45/11/323 and is regulated by the Ministry of Commerce and Industry and the Saudi Organization for Certified Public Accountants. It has operated in the Kingdom since 1967.

WAIVERS

For the purposes of paragraph 20 (Waiver) of Annex 5 (Contents of a Prospectus for Debt Instruments and Convertible Debt Instruments) to the Listing Rules, SEC hereby disclose that the following requirements of the Listing Rules have been waived by the Authority in connection with the issuance of the Sukuk:

Item	Provision of the Listing Rules	Waiver requested
1.	Article 19(b)(16) (<i>Application for registration and admission to listing and supporting documents</i>) of Part 4 (<i>Registration and Listing</i>)	The rule stipulates that the issuer must submit to the Authority a legal due diligence report regarding the application. A waiver in respect of the requirement to provide a legal due diligence report is requested.
2.	Article 19(b)(17) (<i>Application for registration and admission to listing and supporting documents</i>) of Part 4 (<i>Registration and Listing</i>)	The rule stipulates that the issuer must submit to the Authority a financial due diligence report regarding the application. A waiver in respect of the requirement to provide a financial due diligence report is requested.
3.	Article 19(b)(19) (<i>Application for registration and admission to listing and supporting documents</i>) of Part 4 (<i>Registration and Listing</i>)	The rule stipulates that the issuer must submit to the Authority a market study detailing information and market trends for inclusion in the prospectus. A waiver in respect of the requirement to provide a market study is requested.

Item	Provision of the Listing Rules	Waiver requested
4.	Article 25(a) (<i>Publication of prospectus and formal notices</i>) of Part 4 (<i>Registration and Listing</i>)	The rule stipulates that the issuer must publish the prospectus and make it available to the public at least 14 days prior to the start of the offering. A waiver in respect of the 14 days period preceding the start of the offering is requested.
5.	Clause 3(2)(f) of Annex 5 of the Listing Rules	The rule stipulates that the issuer must submit to the Authority contact information relating to the issuer's commercial banks, including addresses, telephone and fax numbers, websites and e-mail addresses. A waiver in respect of the requirement to provide details and contact information regarding the issuer's commercial banks is requested.
6.	Clause 12(2)(a) of Annex 5 of the Listing Rules	The rule stipulates that the issuer must submit to the Authority details on the aggregate amount of shares owned by the employees in the issuer. A waiver in respect of the requirement to provide details on the amount of shares owned by the employees in the issuer is requested.
7.	Clause 23 of Annex 5 of the Listing Rules	This rule stipulates that certain documents be made available for inspection within a period of no less than 20 days before the end of the offering period. A waiver in respect of the minimum period requirement for making the documents available for inspection is requested. Instead, documents will be made available for inspection from the beginning of the offer period and will remain as such so long as the Sukuk remain outstanding.

GUARANTEES

SEC confirms that it will not provide guarantees, pledges or other similar commitments with respect to the Sukuk.

DECLARATIONS BY DIRECTORS

- a) The directors of the Issuer confirm that there has not been any interruption in the business of the Issuer or any of the Issuer's subsidiaries which may have or has had a significant effect on the financial position in the last 12 months.
- b) The directors of the Issuer confirm that there have not been any commissions, discounts, brokerages or other non-cash compensation granted within the three years immediately preceding the application for registration and admission to listing in connection with the issue or offer of any securities by the Issuer or any of the Issuer's subsidiaries.
- c) The directors of the Issuer confirm that there has not been any material adverse change in the financial or trading position of the Issuer or its subsidiaries in the three financial years preceding the application for registration and admission to listing and during the period from the end of the period covered in the external auditor's report up to and including the date of the approval of the Prospectus.
- d) The directors of the Issuer confirm that, other than as set out on page 86 of this Prospectus, they do not have any shareholding or interest of any kind in the Issuer and nor does any relative of theirs.
- e) Save as disclosed in this Prospectus, there has been no adverse change, or any development reasonably likely to involve an adverse change, in the condition (financial or otherwise) or general affairs of the Issuer

or any of its subsidiaries, where applicable, since 31 December 2012, and in the two immediately preceding financial years, that is material in the context of the issue of the Sukuk.

- f) No promoter or expert has received any commission, discount, brokerage or other non-cash compensation or has been granted special terms or options in connection with the issue or sale of any securities by the Issuer or any of its subsidiaries or affiliates in the two years preceding the date of this Prospectus.
- g) As at the date of this Prospectus, none of the experts identified in the "Parties and Advisers" section of this Prospectus (for the avoidance of doubt, only the auditors to the Issuer and its subsidiaries constitute experts for the purposes of the Listing Rules) have any shareholding or interest of any kind in the Issuer or its subsidiaries. The Issuer also confirms that none of the Joint Lead Managers, Joint Bookrunners or Underwriters (except for any shares held by a Joint Lead Manager, a Joint Bookrunner or an Underwriter under swap agreements entered into by it with investors resident outside the Kingdom in accordance with the circular dated 20/8/1429H (corresponding to 21 August 2008G) issued by the Authority) nor any of the legal advisers own any shares or has any interest of any kind in SEC.

DOCUMENTS AVAILABLE FOR INSPECTION

From the date of this Prospectus and for so long as any Sukuk remain outstanding, copies of the following documents may be inspected during normal business hours at the registered address of the Issuer, being Granada Towers, Building A – 1, P.O. Box 22955, Riyadh, Kingdom of Saudi Arabia;

- (a) the Issuer's Bylaws and Commercial Registration Certificate;
- (b) the resolution of the ordinary general meeting of the shareholders of SEC dated 19/5/1433H (corresponding to 11 April 2012G) approving the issuance by SEC of tradable financing instruments including bonds and sukuk inside and outside of the Kingdom.
- (c) the audited consolidated financial statements of the Issuer for the years 31 December 2011G and 31 December 2012G;
- (d) the interim unaudited consolidated financial statements of the Issuer for the six-month period ended 30 June 2013G and interim reviewed consolidated financial statements of the Issuer for the nine-month period ended 30 September 2013G; and
- (e) the related party contracts set out in the "*Legal Information – Related Party Transactions*" section of this Prospectus.

From the date of this Prospectus until the Closing Date, drafts of the following documents may be inspected during normal business hours at the registered office of the Issuer, the Custodian and the Sukukholders' Agent, being:

- (a) the Declaration of Agency;
- (b) the Sukuk Assets Transfer Agreement;
- (c) the Purchase Undertaking; and
- (d) the Sukuk Assets Administration Agreement.

From the Closing Date and for so long as the Sukuk are current, executed copies of these documents may be inspected during normal business hours at the registered office of the Issuer, the Custodian and the Sukukholders' Agent.

EXPENSES

The total expenses relating to the issue of the Sukuk is expected to amount to SAR7.0-10.0 million

OTHER INFORMATION

Except as highlighted on page 164 ("*Legal Information - Litigation*") of this Prospectus, SEC is not aware of any pending or threatened legal or arbitration proceedings affecting it or any of its assets or revenues, which are or might be material in the context of the issue of the Sukuk.

Save as disclosed in this Prospectus, there has been no adverse change, or any development reasonably likely to involve an adverse change, in the condition (financial or otherwise) or general affairs of the Issuer since 31 December 2012G, and in the two immediately preceding financial years, that is material in the context of the issue of the Sukuk.

APPENDIX I
FORMS OF INSTRUCTION

Part A
Form of Specific Instruction

To: [●]
as Sukukholders' Agent

SAUDI ELECTRICITY COMPANY
Sukuk expiring [●] (the "Sukuk")

SPECIFIC INSTRUCTION

We hereby instruct you, in accordance with Condition [11.1(c)] (Purchase Date) of the terms and conditions of the Sukuk set out in the Prospectus issued by Saudi Electricity Company (the "**Conditions**"), to give an Exercise Notice under the Purchase Undertaking in relation to the following Sukuk and the Purchase Date [falling in [●] (if such purchase is permitted under the Conditions) or alternatively, the Purchase Date] falling in [●] [●] [●]]*.

Name of registered Sukukholder: _____

Aggregate Nominal Amount of Sukuk: SAR _____

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

Yours faithfully

By: _____
duly authorised
for and on behalf of

Name of Sukukholder: _____

Date: _____

* Delete as appropriate.

Part B
Form of Restructuring Instruction

To: [●]
 as Sukukholders' Agent

SAUDI ELECTRICITY COMPANY
Sukuk expiring [●] (the "Sukuk")

SPECIFIC INSTRUCTION

We hereby instruct you, in accordance with Condition [●]] (Events of Default) of the terms and conditions of the Sukuk set out in the Prospectus issued by Saudi Electricity Company (the "**Conditions**"), to give an Exercise Notice under the Purchase Undertaking in relation to the following Sukuk:

Name of registered Sukukholder: _____

Aggregate Nominal Amount of Sukuk: SAR_____

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

Yours faithfully

By: _____
 duly authorised
 for and on behalf of

Name of Sukukholder: _____

Date: _____

Part C
Form of Purchase Notice

To: [●]
as Sukukholders' Agent

SAUDI ELECTRICITY COMPANY
Sukuk expiring [●] (the "Sukuk")

PURCHASE NOTICE

We hereby, in accordance with Condition 11.2 (*Events of Default*) of the terms and conditions of the Sukuk set out in the Prospectus dated 27/3/1435H (corresponding 28 January 2014G) issued by Saudi Electricity Company (the "**Conditions**"), provide instruction to the Sukukholders' Agent to exercise its rights under the Purchase Undertaking to require the Issuer to purchase the Sukuk Assets, on account of the Event of Default specified below having occurred and being continuing as of the date hereof.

Name of registered Sukukholder: _____

Aggregate Nominal Amount of Sukuk: SAR _____

Details of Event of Default: *

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

Yours faithfully

By: _____
duly authorised
for and on behalf of

Name of Sukukholder: _____

Date: _____

* Set out brief details.

Part D
Form of Exercise Notice

To: Saudi Electricity Company

SAUDI ELECTRICITY COMPANY
Sukuk expiring [●] (the "Sukuk")

EXERCISE NOTICE

We refer to:

- (1) the Prospectus dated 27/3/1435H (corresponding 28 January 2014G) issued by Saudi Electricity Company (the "**Prospectus**"); and
- (2) the purchase undertaking dated [●] given by Saudi Electricity Company in connection with the Sukuk.

We hereby give you notice that:

[select one of the following and complete/delete as appropriate]

- pursuant to [Condition 11.1(d) (*Purchase Date*)] that we have received Standing Instructions (which have not subsequently been revoked) and/or Specific Instructions in accordance with [Condition 11.1(c) (*Purchase Date*)] on or before the date which is 30 days prior to the Purchase Date falling in [●][●][●][●]* requiring us to give an Exercise Notice in relation to such Purchase Date from Sukukholders who together hold, in aggregate, at least [●] per cent. of the Nominal Amount of the Sukuk as were current on such date, and accordingly the Sukuk Assets are to be purchased by you on such Purchase Date in accordance with the Purchase Undertaking and [Condition 11.1(d) (*Purchase Date*)].
- pursuant to [Condition 11.2 (*Events of Default*)] that we have received Purchase Notices from the Required Sukukholders within the Exercise Period in relation to the Event of Default specified below and accordingly, so long as such Event of Default is continuing, the Sukuk Assets are to be purchased by you immediately in accordance with the Purchase Undertaking and Condition 11.2 (*Events of Default*).

[SET OUT DETAILS OF EVENT OF DEFAULT]

Terms and expressions used in this instruction but not defined herein have the same meanings as given to them in the terms and conditions of the Sukuk as set out in the Prospectus.

Yours faithfully

By: _____
duly authorised
for and on behalf of

[●]
as Sukukholders' Agent

Date: _____

APPENDIX II

FINANCIAL STATEMENTS

Contents:

- Financial Statements of SEC as at and for the year ended 31 December 2011G
- Auditors' audit report in respect of the financial statements of SEC as at and for the year ended 31 December 2011G
- Financial Statements of SEC as at and for the year ended 31 December 2012G
- Auditors' audit report in respect of the financial statements of SEC as at and for the year ended 31 December 2012G
- Interim Financial Statements of SEC as at and for the period up to 30 June 2013G
- Auditors' limited review report in respect of the interim financial statements of SEC as at and for the period up to 30 June 2013G