



الشركة السعودية للكهرباء  
Saudi Electricity Company

**Saudi Electricity Company**  
**(Saudi Joint Stock Company)**  
**Consolidated financial statements**  
**For the year ended 31 December 2016**  
Together with  
**Auditors' report**

**Saudi Electricity Company**  
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**Consolidated financial statements together with Auditors report**  
**For the year ended 31 December 2016**

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## **INDEPENDENT AUDITORS' REPORT**

**To: The Shareholders**  
**Saudi Electricity Company**  
**Riyadh, Kingdom of Saudi Arabia**

We have audited the accompanying consolidated financial statements of **Saudi Electricity Company** (the "Company") and its subsidiaries which comprise the consolidated balance sheet as at 31 December 2016 and the related consolidated statements of income, cash flows and changes in shareholders' equity for the year then ended and the attached notes (1) through (40) which form an integral part of the consolidated financial statements.

### ***Management's responsibility for the consolidated financial statements***

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with generally accepted accounting standards in the Kingdom of Saudi Arabia and in compliance with the Regulations for Companies and Company's bylaws, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error. Management has provided us with all the information and explanations that we require relating to our audit of these consolidated financial statements.

### ***Auditors' responsibilities***

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with generally accepted auditing standards in the Kingdom of Saudi Arabia. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



## Opinion

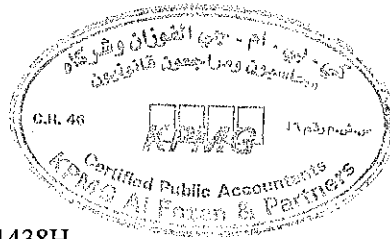
In our opinion, the consolidated financial statements taken as a whole:

- 1) Present fairly, in all material respects, the financial position of **Saudi Electricity Company** as at 31 December 2016, and of its results of operations and its cash flows for the year then ended in accordance with generally accepted accounting standards in the Kingdom of Saudi Arabia appropriate to the circumstances of the Company; and
- 2) Comply with the requirements of the Regulations for Companies and the Company's bylaws with respect to the preparation and presentation of the consolidated financial statements.

**For KPMG Al Fozan & Partners**  
**Certified Public Accountants**

Abdullah Hamad Al Fozan  
License No.348

Riyadh on 23 February 2017  
Corresponding to 26 Jumada' I 1438H



**Saudi Electricity Company**  
**(Saudi Joint Stock Company)**  
**Consolidated balance sheet**  
As at 31 December 2016  
*(In thousands Saudi Riyals)*

	Note	<b>31 December 2016</b>	<b>31 December 2015</b>
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	4	1,222,146	2,038,229
Receivables from electricity customers and accrued revenues, net	5	28,564,041	20,512,384
Prepayments and other receivables, net	6	7,420,224	8,841,894
Inventories, net	7	6,930,273	6,495,066
Loans to associates	8	583,838	859,885
<b>TOTAL CURRENT ASSETS</b>		<b>44,720,522</b>	<b>38,747,458</b>
<b>NON-CURRENT ASSETS</b>			
Investments in equity accounted investees and others	9	3,674,338	3,572,487
Projects in progress	10	86,866,162	85,518,343
Fixed assets, net	11	267,527,943	229,993,769
Intangible assets		181,810	197,892
<b>TOTAL NON- CURRENT ASSETS</b>		<b>358,250,253</b>	<b>319,282,491</b>
<b>TOTAL ASSETS</b>		<b>402,970,775</b>	<b>358,029,949</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>CURRENT LIABILITIES</b>			
Accounts payable	12	66,385,773	52,460,414
Accruals and other payables	13	6,833,806	6,883,995
Short-term loans and current portion of long-term loans	14	12,608,868	3,347,122
Sukuk	15	8,875,140	-
<b>TOTAL CURRENT LIABILITIES</b>		<b>94,703,587</b>	<b>62,691,531</b>
<b>NON-CURRENT LIABILITIES</b>			
Long-term loans	14	34,985,615	22,266,954
Sukuk	15	26,065,350	34,940,490
Employees' indemnities benefits	16	5,723,895	6,019,260
Deferred revenues, net	17	35,064,467	29,370,073
Customer deposits		1,845,081	1,743,429
Long term loans from government	18	42,411,517	39,991,482
Long term payables to the government	19	100,025,591	100,445,372
Fair value of cash flow hedging reserve	20	122,049	212,231
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>246,243,565</b>	<b>234,989,291</b>
<b>TOTAL LIABILITIES</b>		<b>340,947,152</b>	<b>297,680,822</b>
<b>SHAREHOLDERS' EQUITY</b>			
Share capital		41,665,938	41,665,938
Statutory reserve	21	2,839,668	2,629,210
General reserve	21	569,506	557,898
Retained earnings	22	17,392,209	16,046,267
Cash flows hedging contracts reserve	20	(443,698)	(550,186)
<b>TOTAL SHAREHOLDERS' EQUITY</b>		<b>62,023,623</b>	<b>60,349,127</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>402,970,775</b>	<b>358,029,949</b>

**Control Executive Director**

Ibrahim Abdullah AlSada

**Executive vice president and  
chief financial officer**

Fahad Bin Hussein Al-Sudairi

**Chief Executive Officer**

Ziyad Bin Mohamed Al-Shiha

The accompanying notes from (1) to (40) form an integral part of these consolidated financial statements

**Saudi Electricity Company**  
(Saudi Joint Stock Company)  
**Consolidated statement of income**  
For the year ended 31 December 2016  
(In thousands Saudi Riyals)

	Note	2016	2015
Operating revenue	24	49,914,757	41,538,732
Cost of revenue	25	(46,907,873)	(38,953,467)
<b>GROSS PROFIT FOR THE YEAR</b>		<b>3,006,884</b>	<b>2,585,265</b>
General and administrative expenses	27	(532,429)	(607,762)
Fixed assets depreciation - General and administrative		(451,603)	(384,659)
<b>INCOME FROM OPERATING ACTIVITIES</b>		<b>2,022,852</b>	<b>1,592,844</b>
Human resources productivity improvement programm	33	(110,257)	-
Non-recurring revenue	28	-	201,513
Other income (expenses), net	29	191,989	(250,715)
<b>NET INCOME FOR THE YEAR</b>		<b>2,104,584</b>	<b>1,543,642</b>
<b>BASIC EARNINGS PER SHARE (SR):</b>			
Number of shares		4,166,593,815	
From operating activities for the year		0,49	0,38
From net income for the year		0,51	0,37

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**Saudi Electricity Company**  
(Saudi Joint Stock Company)  
**Consolidated statement of cash flows**  
For the year ended 31 December 2016  
(In thousands Saudi Riyals)

	2016	2015
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income for the year	2,104,584	1,543,642
<i>Adjustments to reconcile net income for the year with net cash from operating activities:</i>		
Provision for doubtful receivables, net	664,846	236,359
Share of (profits) of equity accounted investees	(43,977)	(54,015)
Depreciation	17,365,791	14,933,508
Gain on disposal of fixed assets, net	(19,380)	(85,072)
Employees' indemnities, net	(295,365)	376,505
<b>Changes in operating assets and liabilities:</b>		
Receivables from electricity customers and accrued revenues	(8,716,503)	(4,905,068)
Prepayments and other receivables	1,421,670	726,210
Inventories	(435,206)	107,343
Accounts payable	13,925,359	13,338,159
Deferred revenues, net	5,694,394	3,370,802
Accruals and other payables	(50,537)	1,297,974
Net movement in customer deposits	101,651	93,430
<b>Net cash from operating activities</b>	<b>31,717,327</b>	<b>30,979,777</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Fixed assets and projects in progress	(56,263,952)	(56,207,458)
Proceeds from sale of fixed assets	51,629	96,161
Loans to associates	276,047	142,125
Investments in equity accounted investees and others	(41,566)	(63,801)
<b>Net cash used in investing activities</b>	<b>(55,977,842)</b>	<b>(56,032,973)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Net proceeds from Government loans and payables	2,000,254	14,740,208
Net proceeds from short and long-term loans	21,980,407	5,939,479
Dividends paid to shareholders and Board of Directors' remuneration	(536,229)	(531,769)
<b>Net cash from financing activities</b>	<b>23,444,432</b>	<b>20,147,918</b>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS DURING THE YEAR</b>	<b>(816,083)</b>	<b>(4,905,278)</b>
Cash and cash equivalents, beginning of the year	2,038,229	6,943,507
<b>CASH AND CASH EQUIVALENTS, END OF THE YEAR</b>	<b>1,222,146</b>	<b>2,038,229</b>
<b>NON-CASH TRANSACTIONS:</b>		
Change in cash flows hedging contract reserve	106,488	108,121
Transfer from loan for an associate company to equity investment	-	1,248,115

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The accompanying notes from (1) to (40) form an integral part of these consolidated financial statements

**Saudi Electricity Company**  
(Saudi Joint Stock Company)

**Consolidated statement of changes in shareholder's equity**

For the year ended 31 December 2016

(In thousands Saudi Riyals)

	Note	Share capital	Statutory reserve	General reserve	Retained earnings	cash flows hedging contracts reserve	Total
<b>For the year ended 31 December 2015</b>							
Balance as at 1 January 2015		41,665,938	2,474,846	554,912	15,205,107	(658,307)	59,242,496
Net income for the year		-	-	-	1,543,642	-	1,543,642
Dividends paid to shareholders for 2014	22	-	-	-	(547,252)	-	(547,252)
Board of Directors' remuneration for 2014	23	-	-	-	(866)	-	(866)
Net change in cash flows hedge reserve	20	-	-	-	-	108,121	108,121
Reconciliation of Electricity collection fee (individuals)	21	-	-	2,986	-	-	2,986
Transfer to statutory reserve		-	154,364	-	(154,364)	-	-
Balance as at 31 December 2015		41,665,938	2,629,210	557,898	16,046,267	(550,186)	60,349,127

**For the year ended 31 December 2016**

Balance as at 1 January 2016		41,665,938	2,629,210	557,898	16,046,267	(550,186)	60,349,127
Net income for the year		-	-	-	2,104,584	-	2,104,584
Dividends paid to shareholders for 2015	22	-	-	-	(547,252)	-	(547,252)
Board of Directors' remuneration for 2015	23	-	-	-	(932)	-	(932)
Net change in cash flows hedge reserve	20	-	-	-	-	106,488	106,488
Reconciliation of Electricity collection fee (individuals)	21	-	-	11,608	-	-	11,608
Transfer to statutory reserve		-	210,458	-	(210,458)	-	-
Balance as at 31 December 2016		41,665,938	2,839,668	569,506	17,392,209	(443,698)	62,023,623

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## 1. ORGANIZATION AND ACTIVITIES

The Saudi Electricity Company (the "Company") was formed pursuant to the Council of Ministers' Resolution Number 169 dated 11 Sha'ban 1419H corresponding to 29 November 1998, which reorganized the Electricity Sector in the Kingdom of Saudi Arabia by merging all local companies that provided electric power services (10 joint stock companies that covered most of the geographical areas of the Kingdom), in addition to the projects of the General Electricity Corporation, a governmental corporation belonging to the Ministry of Industry and Electricity (11 operating projects that covered various areas in the north of the Kingdom) in the Company.

The Company was founded pursuant to the Royal Decree No. M/16 dated 6 Ramadan 1420H corresponding to 13 December 1999, in accordance with the Council of Ministers' Resolution Number 153, dated 5 Ramadan 1420H corresponding to 12 December 1999 and the Minister of Commerce's Resolution Number 2047 dated 30 Dhul-Hijjah 1420H corresponding to 5 April 2000 as a Saudi joint stock company and registered in Riyadh under Commercial Registration Number 1010158683, dated 28 Muhurram 1421H corresponding to 3 May 2000.

The Company's principal activity is the generation, transmission and distribution of electric power. The Company is the major provider of electric power all over the Kingdom of Saudi Arabia, serving governmental, industrial, agricultural, commercial and residential consumers.

The Company is a tariff-regulated company. Electricity tariffs are determined by the Council of Ministers based on recommendations from the Electricity and Co-generation Regulatory Authority (the Authority) which was established on 13 November 2001 according to Council of Ministers' Resolution No. 169 dated 11 Sha'aban 1419H. The change on tariff was made through the Council of Ministers' Resolution Number 170 dated 12 Rajab 1421H and was effective from 1 Sha'aban 1421H corresponding to 28 October 2000 whereby the tariff on the highest bracket was set at a rate of 26 Halala per Kilowatts/hour.

This was further amended by the Council of Ministers in its Decision Number 333 dated 16 Shawwal 1430H, corresponding to 5 October 2009, which granted the Board of Directors of the Electricity and Co-generation Regulatory Authority the right to review and adjust the non-residential (commercial, industrial and governmental) electricity tariff and approve them as long as the change does not exceed 26 Halala for each kilowatt per hour, taking into consideration, among other matters, the electrical consumption at peak times. This tariff was implemented starting 19 Rajab 1431H, corresponding to 1 July 2010.

On 17 Rabi I 1437H corresponding to 28 December 2015, Council of Ministers issued its resolution number 95, increasing power products prices effective from 18 Rabi I 1437H corresponding to 29 December 2015, and increasing electricity consumption tariff for all consumers, effective from 1 Rabi II 1437H corresponding to 11 January 2016.

As at 31 December 2016 and 2015, the structure of the Company's share capital amounted to the following:

	<b>No. of shares</b>	<b>Ownership %</b>
Government of Kingdom of Saudi Arabia	3,096,175,320	74,31
Saudi Arabian Oil Company ("Saudi Aramco")	288,630,420	6,93
Other shareholders	781,788,075	18,76
	<u>4,166,593,815</u>	<u>100</u>

The Company's financial year begins on 1<sup>st</sup> January and ends on 31<sup>st</sup> December of each Gregorian year according to the Company's bylaws.

The Company's headquarter is located in Riyadh – Kingdom of Saudi Arabia.

**1. ORGANIZATION AND ACTIVITIES** *(continued)*

These consolidated financial statements include accounts of the Company and its subsidiaries as follows:

<u><i>Name of Subsidiary</i></u>	<u><i>Country of incorporation</i></u>	<u><i>Ownership % (direct &amp; indirect)</i></u>	<u><i>Principal Activity</i></u>
National Grid S.A. Company	Kingdom of Saudi Arabia	100%	Transmission of power from generation stations to distribution network and operation and maintenance of electricity transmission system.
Dawiyat Telecom Company	Kingdom of Saudi Arabia	100%	Establishing, leasing, managing and operating electricity and fiber optic networks to provide telecommunications services.
Electricity Sukuk Company	Kingdom of Saudi Arabia	100%	Provide services and support needed in relation of local bonds and Sukuk.
Saudi Electricity Global Sukuk Company	Cayman Islands	100%	Provide services and support needed in relation of international bonds and Sukuk.
Saudi Electricity Global Sukuk Company – 2	Cayman Islands	100%	Provide services and support needed in relation of international bonds and Sukuk.
Saudi Electricity Global Sukuk Company – 3	Cayman Islands	100%	Provide services and support needed in relation of international bonds and Sukuk.
Saudi Electricity for Projects Development Company	Kingdom of Saudi Arabia	100%	Management of construction projects, making of detailed design work, procurement of materials and executing projects in the energy sector.

**2. BASIS OF PREPARATION**

**a) Statement of compliance**

The accompanying consolidated financial statements have been prepared in accordance with the generally accepted accounting standards in Saudi Arabia issued by the Saudi Organization for Certified Public Accountants (SOCPA).

**b) Basis of measurement**

The accompanying consolidated financial statements have been prepared on historical cost basis, except for derivative financial instruments and Government loans which are stated at fair value; using the accrual basis of accounting and the going concern concept.

**2. BASIS OF PREPARATION** *(continued)*

**c) Basis of consolidation**

These consolidated financial statements include the assets, liabilities and operating results of the Company and its subsidiaries set out in note (1) above.

*Subsidiaries*

Subsidiaries are entities controlled by the company. Control exists when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account. Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Company obtains control, and continue to be consolidated until the date that such control ceases.

All intra-Company balances, transactions, income and expenses and profits and losses resulting from intra-Company transactions that are recognized in assets, are eliminated in full. Also, any unrealized gains and losses arising from intra-group transactions are eliminated on consolidation.

**d) Functional and presentation currency**

These consolidated financial statements are presented in Saudi Riyals (SR) which is the functional and reporting currency of the Company. All amounts have been rounded to the nearest thousands, unless otherwise stated.

**e) Use of estimates and judgments**

The preparation of consolidated financial statements requires management to make judgment, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in future periods affected.

Information about significant areas of estimation, uncertainty and critical judgments in applying accounting policies that have significant effect on the amounts recognized in the financial statements are as follows:

- Useful lives of fixed assets;
- Provision of receivables from electricity customers and accrued revenue;
- Provision for slow moving inventories.

**3. SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies set out below have been applied consistently to all periods presented in the consolidated financial statements, which are consistent with those described in the annual audited financial statements for the year ended 31 December 2015.

**a. Cash and cash equivalents**

Cash and cash equivalents comprise cash on hand, cash at banks in current accounts and other short-term highly liquid investments with original maturities of three months or less, if any, which are available to the group without any restrictions.

**3. SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

**b. Bank deposits**

Short term bank deposits include placements with banks and other short-term highly liquid investments with original maturities of more than three months and less than one year from the placement date, which are available to the company.

**c. Receivables from electricity customers**

Receivables from electricity customers represent the amounts not collected from the customers at the consolidated balance sheet date, and are stated net of provision for doubtful debts.

**d. Inventories**

Generation, transmission, distribution, other materials and fuel inventory are assessed at lower of cost or market value. Cost is determined using the weighted average method. Inventories are stated at net of provision for slow moving and obsolete items.

Inventory items that are considered an integral part of the generation plants, transmission, distribution networks and other facilities such as strategic and reserve materials, are included within fixed assets.

**e. Investments**

*Investments in equity accounted investees*

Investments in equity accounted investee are those entities in which the Company has significant influence, but not control, over the financial and operating policies, generally accompanying a shareholding between 20% or more of the voting rights.

The investments are accounted for using the equity method (equity accounted investee), which are initially recognized at cost. The Company's share in its investees' post-acquisition income and losses is recognized in the consolidated statement of income.

Investments of less than 20% of share capital of unquoted companies are stated at fair value or cost if fair value cannot be determined. Income from these investments is recognized in financial consolidated statement of income when dividends are received from investees.

*Held to maturity investments*

Investments that are acquired with the intention of being held to maturity are carried at cost (adjusted for any premium or discount), less any other than temporary decline in value. Such investments are classified as non-current assets with the exception of bonds which mature during the next fiscal year and are classified as current assets. Income from these investments is recognized in the consolidated statement of income when earned.

**f. Fixed assets**

Fixed assets are measured at cost, less accumulated depreciation and accumulated impairment loss, except for land which are measured at historical cost less impairment losses, if any. Cost includes expenditure that is directly attributable to the acquisition of the asset. Finance costs on borrowings to finance the construction of the assets are capitalized during the period of time that is required to

complete and prepare the asset for its intended use.

**3. SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

**f. Fixed assets** *(continued)*

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the item of fixed assets. All other expenditure is recognized in the consolidated statement of income when incurred.

Expenditure for repair and maintenance are charged to the consolidated statement of income. Improvements that materially increase the value or extend the life of the related assets are capitalized. Depreciation is charged to the consolidated statement of income on a straight-line basis over the estimated useful lives of individual item of fixed assets. The estimated useful lives of depreciable assets will be as follows:

Buildings	20 to 30 years
Generation units, equipment and spare parts	20 to 25 years
Transmission networks, equipment and spare parts	20 to 30 years
Distribution networks, equipment and spare parts	15 to 25 years
Other assets	4 to 20 years

**g. Intangible assets**

Intangible assets with finite useful lives are recognized at acquisition cost less accumulated amortization and any impairment losses, if any. Intangible assets are amortized using straight-line method and charged to the consolidated statement of income over the estimated useful life of 10 years.

**h. Impairment of non-current assets**

The company review periodically the carrying amount of its non-current assets to determine whether events or changes in circumstances indicates that the carrying amount may not be recoverable. If such evidence exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Where it is not possible to estimate the recoverable amount of the asset, the company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. Impairment losses are immediately recognized as an expense in the consolidated statement of income.

Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised recoverable amount, however, the increased carrying amount should not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognized as income immediately in the consolidated statement of income.

**i. Borrowings**

Borrowings are recognized at the proceeds received, net of transaction costs incurred. Further, upfront fee that was deducted, is deferred and presented net of the principal amount of the loan. Such deferred amount is amortized over the term of the loan using the straight line method which is not materially different from applying the prevailing interest rate. Borrowing costs that are directly attributable to the construction of a qualifying asset are capitalized up to stage when substantially all the activities necessary to prepare the qualifying asset for its intended use are completed and, otherwise, such costs are charged to the consolidated statement of income.

**3. SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

**i. Borrowings** *(continued)*

*Loans from the Government*

The Government loan with definite payment terms is recognized at present value using an estimated discount rate for company's borrowing. The difference between the amount received and the present value is recorded as deferred income (Government grant) and presented under the long-term Government payables and recognized over the remaining period of the loan against the corresponding expenses.

**j. Derivative financial instruments and hedge accounting**

The Company uses derivative financial instruments to hedge its cash flow exposures to interest rates. Such derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

Changes in the fair value of derivatives determined as effective cash flows hedges are taken directly to the shareholders' equity, while the ineffective portion of cash flow hedges is recognized in the company consolidated statement of income.

For the purpose of hedge accounting, hedges are classified as fair value hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognized firm commitment.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. At that time, for forecast transactions, any cumulative gain or loss on the hedging instrument, previously recognized in shareholders' equity, is retained till the forecasted transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss, previously recognized in shareholders' equity, is transferred to the company consolidated statement of income.

**k. Accounts payable and accruals**

Liabilities are recognized for amounts to be paid in the future for goods or services received, whether billed by the supplier or not.

**l. Borrowing costs**

Net borrowing cost - which represents finance charges on long-term loans and any other finance costs charged to the company net of any commission income for the period - is capitalized on all projects-in-progress with significant amount that require long period of time for construction. The borrowing cost capitalized is calculated using the capitalization rate on the average amounts incurred on each project in progress.

**m. Sukuk**

The issued Sukuk which have a fixed maturity date and a fixed dividends date are classified to the financial liabilities.

**n. Operating lease**

Leases on which terms of finance lease are not applicable are classified as operating leases. Payments under operating leases are recognized as an expense in the consolidated statement of income on a straight line basis over the term of the lease.

**3. SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

**o. Employees' indemnity benefits**

Provision for end of service benefits:

The end of service benefits are provided for in accordance with the Labor Law in the Kingdom of Saudi Arabia and charged to the consolidated statement of income. The liability is calculated at the current value of the vested benefits to which the employee is entitled, should his services be terminated at the consolidated balance sheet date.

Employees' saving fund:

The Company contributes in saving fund for eligible employees based on approved policy. The Company's share of the contribution in the saving fund is charged monthly to the consolidated statement of income.

**p. Zakat**

The Company and its subsidiaries are subject to zakat in accordance with the regulations of the General Authority of Zakat and Tax ("GAZT"). Zakat is accrued and charged to Consolidated Statement of Income. Additional zakat liability, if any, related to prior years' assessments arising from GAZT are accounted for in the period in which the final assessments are finalized.

**q. Statutory reserve**

In accordance with the Company's bylaws and the Company's regulation in the Kingdom of Saudi Arabia, 10% of net income for the year is transferred to statutory reserve.

**r. Revenue**

Electricity sales

Revenue from electricity sales is recognized when bills are issued to customers based on the consumption of electric power measured by Kilowatt/hour. Revenue on power consumed by consumers but not yet billed at the consolidated balance sheet date are accrued.

Revenue from meter reading and maintenance tariff

Revenue from meter reading, maintenance and bills preparation tariff represents the monthly fixed tariff based on the capacity of the meter used by the consumers, and is recognized when bills are issued. Revenue from meter reading, maintenance and bills preparation tariff that is not billed at the consolidated balance sheet date is accrued.

Electricity service connection tariff

Electricity service connection tariff received from consumers is stated as deferred within liabilities and recognized as a revenue on a straight-line basis over the average useful lives of the equipment used in serving the consumers, estimated between (20-30) years.

Revenue of transmission system

Revenue of transmission system comprises of the usage fees of transmission networks, which is recognized when bills are issued to the licensed co-generation and power providers. Those bills are issued at the end of each month. Revenue is measured based on the fees approved by Electricity and Co-generation Regulatory Authority according to capacity and quantities of power transmitted.

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**3. SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

**s. Expenses**

Operation and maintenance expenses include expenses relating to generation, transmission, and distribution activities as well as their allocated portion of the general services and supporting activity's expenses. The remaining portion of these expenses is included in General and Administrative expenses. General services and supporting activities expenses are allocated between the main activities based on the benefits received and are evaluated periodically.

**t. Basic earnings per share for the year**

Earnings per share is calculated by dividing income from operating activities and net income (loss) for the period on the weighted average number of outstanding shares at the end of the period, including government shares

**u. Contingent liabilities**

All possible obligations arising from past events whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly with the control of the Company; or all present obligations arising from past events but not recognized because: (i) it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation, or (ii) the amount of the obligation cannot be measured with sufficient reliability; all should be assessed at each balance sheet date and disclosed in the Company's financial statements under contingent liabilities.

**v. Segment reporting**

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in producing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

**w. Dividends**

Final dividends are recorded in the period in which they are approved by the shareholders.

**x. Foreign currency transactions**

Transactions denominated in foreign currencies are translated into Saudi Riyals at exchange rates prevailing at the date of such transactions, Monetary assets and liabilities denominated in foreign currencies at the consolidated balance sheet date are translated into Saudi Riyals at the exchange rates prevailing at that date, Any realized or unrealized exchange gains or losses arising from such translations are recorded in the consolidated statement of income.



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**4. CASH AND CASH EQUIVALENTS**

	2016	2015
Cash on hand	3,629	4,065
Cash at banks	748,579	1,461,683
Short-term deposits	469,938	572,481
	<u>1,222,146</u>	<u>2,038,229</u>

**5. RECEIVABLES FROM ELECTRICITY CUSTOMERS AND ACCRUED REVENUES, NET**

	2016	2015
<b>Electricity consumers' receivable</b>		
Governmental institutions	16,857,157	10,063,733
Commercial and residential	4,401,333	4,260,106
Electricity service connection projects receivables	3,944,832	3,046,279
Saudi Arabian Oil Company ("Saudi Aramco")	1,320,945	1,315,670
Saline Water Conversion Corporation	439,450	227,540
	<u>26,963,717</u>	<u>18,913,328</u>
Less: Provision for doubtful receivables	(1,150,783)	(485,937)
<b>Net electricity receivable from customers</b>	<u>25,812,934</u>	<u>18,427,391</u>
Add: Accrued revenues	2,751,107	2,084,993
	<u>28,564,041</u>	<u>20,512,384</u>

The movement in the provision for doubtful receivables during the year is as follow:

	2016	2015
Balance at the beginning of the year	485,937	249,578
Charge for the year	664,846	236,359
<b>Balance at the end of the year</b>	<u>1,150,783</u>	<u>485,937</u>

**6. PREPAYMENTS AND OTHER RECEIVABLES, NET**

	2016	2015
Advances to contractors and suppliers	3,236,589	4,915,993
Other Government receivables	2,982,382	2,875,875
Prepaid expenses	118,726	10,089
Outstanding letters of credit	977	1,022
Other receivables, net	1,138,804	1,099,131
	<u>7,477,478</u>	<u>8,902,110</u>
Less: Provision for other doubtful receivables	(57,254)	(60,216)
	<u>7,420,224</u>	<u>8,841,894</u>

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**7. INVENTORIES, NET**

	2016	2015
Generation plant materials and supplies	2,951,572	3,200,217
Distribution network materials and supplies	2,818,450	2,567,466
Transmission network materials and supplies	326,070	371,156
Fuel and oil	949,775	441,135
Other	369,804	408,446
	7,415,671	6,988,420
Less: Provision for slow moving inventories	(485,398)	(493,354)
	<u>6,930,273</u>	<u>6,495,066</u>

The movement of provision for slow-moving inventories during the year is as follows:

	2016	2015
Balance at the beginning of the year	493,354	493,354
Charge for the year	(7,956)	-
<b>Balance at the end of the year</b>	<u>485,398</u>	<u>493,354</u>

**8. LOANS TO ASSOCIATES**

Loans to associated companies represents the Company's share in the subordinated loans extended to those companies according to the agreements between partners in proportion of their equity, These loans do not carry any commission, also these loans does not have payment/settlement dates.

The following are loans balances:

<i>Associated company</i>	Ownership %	2016	2015
Dhuruma Electricity Company	50	534,692	731,567
Hajr for Electricity Production Company	50	26,868	26,868
Jubail Water and Power Company	5	18,175	28,500
Rabigh Electricity Company	20	4,103	72,950
		<u>583,838</u>	<u>859,885</u>

**9. INVESTMENTS IN EQUITY ACCOUNTED INVESTEEs AND OTHERS**

	2016	2015
Investments accounted for under the equity method (a)	3,172,815	3,089,584
Other investments, at cost (b)	272,631	272,631
Held to maturity investments (c)	228,892	210,272
	<u>3,674,338</u>	<u>3,572,487</u>

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**9. INVESTMENTS IN EQUITY ACCOUNTED INVESTEEs AND OTHERS (continued)**

**9-A) Investments accounted for under the equity method**

	Owner- ship%	Opening balance before Company's share in cash flows hedging contracts reserve as of 1 January	Addition during current year	Share in net income (loss)	Gross investment balance before Company's share in cash flows hedging contracts reserve as of 31 December	Share in cash flows hedging contracts reserve **	Net investment balance as of 31 December
<b>2016</b>							
Gulf Cooperation Council Interconnection Authority (A)	31,6	1,607,223	-	(58,502)	1,548,721	-	<b>1,548,721</b>
Water and Electricity Company (B)	50,0	14,699	-	646	15,345	-	<b>15,345</b>
Hajr for Electricity Production Company (C)*	50,0	1,348,666	-	36,562	1,385,228	(103,707)	<b>1,281,521</b>
Rabigh Electricity Company (D)*	20,0	308,863	-	23,613	332,476	(63,773)	<b>268,703</b>
Dhuruma Electricity Company (E)*	50,0	143,717	-	43,157	186,874	(149,966)	<b>36,908</b>
Al Mourjan for Electricity Production Company (F)*	50,0	4,372	-	(166)	4,206	(4,206)	-
Laboratory Company to Inspect Electrical equipment (G)	25,0	-	22,500	(1,333)	21,167	-	<b>21,167</b>
Al fadhly co-generation company (H)	30,0	-	450	-	450	-	<b>450</b>
		<b>3,427,540</b>	<b>22,950</b>	<b>43,977</b>	<b>3,494,467</b>	<b>(321,652)</b>	<b>3,172,815</b>
<b>2015</b>							
Gulf Cooperation Council Interconnection Authority (A)	31,6	1,663,189	-	(55,966)	1,607,223	-	1,607,223
Water and Electricity Company (B)	50,0	14,508	-	191	14,699	-	14,699
Hajr for Electricity Production Company (C)*	50,0	88,962	1,248,115	11,589*	1,348,666	(103,705)	1,244,961
Rabigh Electricity Company (D)*	20,0	273,057	-	35,806*	308,863	(86,162)	222,701
Dhuruma Electricity Company (E)*	50,0	81,047	-	62,670*	143,717	(143,717)	-
Al Mourjan for Electricity Production Company (F)*	50,0	4,647	-	(275)*	4,372	(4,372)	-
		<b>2,125,410</b>	<b>1,248,115</b>	<b>54,015</b>	<b>3,427,540</b>	<b>(337,956)</b>	<b>3,089,584</b>

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**9. INVESTMENTS IN EQUITY ACCOUNTED INVESTEEES AND OTHERS (continued)**

9-A) Investments accounted for under the equity method – (continued)

\* The Company purchases power produced by Hajr for Electricity Production Company, Rabigh Electricity Company and Dhuruma Electricity Company which are engaged in the power production, The Company's share in net income of these companies together with the equivalent costs of power purchased have been eliminated being inter-company transactions, The Company's share in those companies net income during the year ended 31 December 2016 amounted to SR 103 million (2015: SR 110 million).

\*\* These amounts represents Company's share in unrealized losses from change in cash flows hedging contracts reserve recognized within the equity of investees to the extent of investment balance, Additional reserves were created to account for further commitments exceeding the investment balance amounting to SR 102 million as of 31 December 2016 (2015: SR 138 million) (note 20).

**A. Gulf Cooperation Council Interconnection Authority**

The Company has contributed in the capital of the Gulf Cooperation Council Interconnection Authority (hereafter referred to as "GCCIA") at inception to enhance the electricity transmission and distribution between the member countries, The Company's contribution in GCCIA amounts to USD 484,8 million equivalent to SR 1,8 billion.

**B. Water and Electricity Company**

The Company entered into a partnership agreement with Saline Water Conversion Corporation to establish a limited liability company in the name of "Water and Electricity Company" pursuant to the Supreme Economic Council's Decision No, 5/23 dated 23 Rabi Awal 1423H which encourages the participation of the private sector in the water desalination project, The Company's share at inception amounting to SR 15 million was paid in full and consists of 300,000 share representing 50% of the investee's share capital.

**C. Hajr for Electricity Production Company**

Pursuant to the Board of Directors' Resolution No, 4/95/2010 dated 12 Ramadan 1431H corresponding to 22 August 2010, the Company established Hajr for Electricity Production Company with a share capital of SR 2 million, During 2011, a new partner has been admitted and the capital has been increased by SR 8 million to become SR 10 million fully paid and Company's share became 50% of the partners' shareholding.

During year 2015, the Company contributed in the capital increase of Hajr for Electricity Production Company – according with its ownership percentage- by an amount of SR 1,248 million which was transferred from loan extended previously, The Company's share in Hajr for Electricity Production Company capital became SR 1,253 million.

**D. Rabigh Electricity Company**

Pursuant to the Board of Directors' Resolution No, 06/76/2008 dated 26 Jumad Awal 1429H corresponding to 3 June 2008, the Company established Rabigh Electricity Company with a share capital of SR 2 million, During 2009, Rabigh Electricity Company increased its capital from SR 2 million to SR 10 million by admission of new partners and Company's share became 20% of the partners' shareholding.

During 2013, the Company contributed in the capital increase of Rabigh Electricity Company –according to signed partner's agreement- by an amount of SR 183 million which was transferred from loan extended previously, The Company's share in Rabigh Electricity Company capital became SR 185 million.

**E. Dhuruma Electricity Company**

Pursuant to the Board of Directors' Resolution No, 4/88/2009 dated 18 Ramadan 1430H corresponding to 8 September 2009, the Company established Dhuruma Electricity Company (a closed joint stock company) with a share capital of SR 2 million, During 2011, a new partner has been admitted and the capital has been increased by SR 2 million to become SR 4 million, The Company's share represents 50% of the investee's share capital.

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**9. INVESTMENTS IN EQUITY ACCOUNTED INVESTEESS AND OTHERS – (continued)**

9-A) Investments accounted for under the equity method – (continued)

**F. Al-Mourjan for Electricity Production Company**

Pursuant to the Board of Directors' Resolution No, 4/107/2012 dated 27 Rabi Awal 1433H corresponding to 19 February 2012, the Company established Al Mourjan for Electricity Production Company (a closed joint stock company) with a share capital of SR 2 million, During 2013, a new partner has been admitted and the capital has been increased to become SR 10 million, The Company's share represents 50% of the investee's share capital.

**G. Laboratory Company to Inspect Electrical Equipment**

Pursuant to ministerial Resolution No (38/٤) dated 10 Safar 1437 H corresponding to 10 November 2016, established Laboratory Company to check up electricity equipment (Closed joint stock company) with a share capital of SR 360 million, The Company's share represents 25% of the investee's share capital, the founders paid SR 90 million, The Company's share is SR 22,5 million that was paid in full on 31 December 2016, the mentioned company did not start its operating activity yet.

**H. Al-Fadhly co-Generation Company**

Pursuant to the Board of Directors' Resolution No, 5/143/2016 dated 17 Thul-Hijjah 1437 H corresponding to 20 September 2016, established Al-Fadhly co-Generation Company for dual production with a share capital of SR 1,5 million, The Company's share represents 30% of the investee's share capital, the mentioned company did not start its operating activity yet.

**9-B) Other investments, at cost**

	Ownership %	2016	2015
Shuaiba Water and Electricity Company	8	124,840	124,840
Shuqaiq Water and Electricity Company	8	89,600	89,600
Jubail Water and Power Company	5	44,125	44,125
Shuaibah Expansion Holdings Company	8	14,066	14,066
		<u>272,631</u>	<u>272,631</u>

**9-C) Held to maturity investments**

	2016	2015
Saudi British Bank's Sukuk "SABB"	70,000	70,000
Arab National Bank's Sukuk "ANB"	25,000	25,000
Al – Billad Bank's Sukuk	20,000	--
Almarai Company Sukuk "Almarai"	40,000	40,000
Sadara Company for Basic Services' Sukuk "Sadara"	25,000	25,000
Arabian Aramco Total Services Company's Sukuk "SATORP"	21,892	23,272
National Commercial Bank's Sukuk "NCB"	17,000	17,000
National Petrochemical Company's Sukuk "PetroChem"	10,000	10,000
	<u>228,892</u>	<u>210,272</u>

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## 2016

2015

Net borrowing costs capitalized on projects under construction during the year amounted to SR 2,5 billion (2015: SR 1,75 billion),

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**11. FIXED ASSETS, NET**

	2016						2015
	Land	Buildings	Machinery and equipment	Capital spare parts	Vehicles and heavy equipment	Others	Total
<b>Cost:</b>							
At the beginning of the year	3,168,629	24,389,628	377,010,632	4,854,897	1,613,481	7,429,502	389,395,724
Additions	478,711	6,887,670	44,803,228	351,752	181,089	2,236,470	29,583,708
Disposals	-	(13,005)	(644,149)	(180)	(15,510)	(8,998)	(512,663)
At the end of the year	3,647,340	31,264,293	421,169,711	5,206,469	1,779,060	9,656,974	418,466,769
<b>Depreciation:</b>							
At the beginning of the year	-	12,850,457	167,769,148	2,575,545	1,178,266	4,099,584	174,022,334
Charge for the year	-	1,653,658	14,414,629	167,838	138,975	990,691	14,933,508
Disposals	-	(12,964)	(605,235)	(180)	(15,510)	(8,998)	(482,842)
At the end of the year	-	14,491,151	181,578,542	2,743,203	1,301,731	5,081,277	188,473,000
<b>Net book Value</b>	3,647,340	16,773,142	239,591,169	2,463,266	477,329	4,575,697	229,993,769

As at 31 December 2016, fixed assets items includes fully depreciated assets that some of them are still used in operation with book value amounting to SR 87,46 billion as at that date. Currently and in light of restructure of electricity and energy sector in the Kingdom of Saudi Arabia, the Company is undergoing procedures by restudying and revisit estimated useful lives for all assets of the Company including fully depreciated assets and studying the expected future utilization of these assets taking into consideration their current technical condition. Furthermore, this study is expected to be completed by the end of the first quarter of the year 2017. Currently, it is not possible to make a final and reliable estimation for the final effect of this study as a result of not completing it nor receiving its final approval. The management of the Company does not expect the mentioned study to result in significant impacts on the Company's results and total assets.

Land includes plots of land with book value of SR 25 million (2015: SR 60 million), the title deeds of which have not yet been transferred to the Company's name.

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**11. FIXED ASSETS, NET (continued)**

Net book value of the Group's fixed assets is allocated to the main activities as follows:

	2016				
	Generation	Transmission	Distribution	General Property	Total
Land	237,735	597,374	225,230	2,587,001	3,647,340
Buildings	10,916,000	4,448,467	242,733	1,165,942	16,773,142
Machinery & equipment	84,792,185	87,665,405	66,720,802	412,777	239,591,169
Capital spare parts	1,790,642	539,556	133,016	52	2,463,266
Vehicles and heavy equipment	-	638	-	476,691	477,329
Others	2,395,694	817,964	377,631	984,408	4,575,697
	<b>100,132,256</b>	<b>94,069,404</b>	<b>67,699,412</b>	<b>5,626,871</b>	<b>267,527,943</b>

	2015				
	Generation	Transmission	Distribution	General Property	Total
Land	238,335	597,374	225,230	2,107,690	3,168,629
Buildings	6,959,679	3,317,090	224,686	1,037,716	11,539,171
Machinery & equipment	80,697,273	65,794,638	62,284,072	468,665	209,244,648
Capital spare parts	1,615,015	528,333	135,938	66	2,279,352
Vehicles and heavy equipment	-	209	-	435,005	435,214
Others	1,884,840	379,025	385,699	677,191	3,326,755
	<b>91,395,142</b>	<b>70,616,669</b>	<b>63,255,625</b>	<b>4,726,333</b>	<b>229,993,769</b>

Depreciation expense charged to various activities during the year ended 31 December is as follows:

	For the year ended	
	31 December 2016	31 December 2015
Generation depreciation expense	7,689,033	6,528,195
Transmission depreciation expense	4,774,549	3,907,474
Distribution depreciation expense	4,450,606	4,113,180
General property depreciation expense	451,603	384,659
	<b>17,365,791</b>	<b>14,933,508</b>



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**12. ACCOUNTS PAYABLE**

	2016	2015
Saudi Aramco payable for fuel cost	83,651,364	73,668,251
Transferred to the Government account (a)	<b>(57,200,552)</b>	<b>(57,200,552)</b>
Saudi Aramco payable for fuel cost, net	<b>26,450,812</b>	16,467,699
Advances received for electricity service connection projects	12,199,030	11,159,364
Saline Water Conversion Corporation for purchased power cost	10,430,862	10,049,688
Municipality fees	6,119,546	5,390,308
Contractors and retention payables	4,974,198	3,637,297
Purchased power payable	4,043,118	2,882,403
Payables to suppliers	120,087	459,653
Other (b)	<b>2,048,120</b>	<b>2,414,002</b>
	<b>66,385,773</b>	<b>52,460,414</b>

- (a) This amounts represents payables for fuel for the period from 5 April 2000 to 31 December 2012 which have been transferred from the liability to Saudi Aramco to long-term Government payables, latest transfer was before the end of 2013 (note 19).
- (b) Other payables include SR 1,2 billion (2015: SR 1,2 billion) which are still under reconciliation between the Company and the Government and pertain to pre-merge accounts refer to note (1).

**13. ACCRUALS AND OTHER PAYABLES**

	2016	2015
Accrued expenses	5,198,321	5,301,660
Accrued employees' benefits	760,462	745,531
Dividends payable *	397,137	385,182
Accrued interests on loans	299,922	266,483
Other	177,964	185,139
	<b>6,833,806</b>	<b>6,883,995</b>

- \* Dividends payable as of 31 December 2016 includes unclaimed cash dividends declared by Saudi Consolidated Electricity Company prior to the merge, amounting to SR 85,9 million (2015: SR 86,4 million),

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**14. LOANS AND BANK FACILITIES**

The Company has credit facility agreements with local and foreign commercial banks and other lending institutions for long and short term borrowings for financing construction projects,

These loans are secured by promissory notes issued by the Company through par value of loans and/or margin,

	2016	2015
Loans at the beginning of the year	25,614,076	19,674,597
Withdrawals during the year	24,327,751	8,240,715
Repayments during the year	(2,347,344)	(2,301,236)
Loans at the end of the year	47,594,483	25,614,076
Less: Short-term loans and current portion of long term loans	(12,608,868)	(3,347,122)
Long-term balance at the end of the year	34,985,615	22,266,954

The maturities of long term installments for the next years as of 31 December are as follow:

	2016	2015
More than one year	4,662,292	2,857,747
Between two to three years	6,054,338	2,857,747
Between three to four years	5,780,748	2,857,747
Between four to five years	4,355,898	2,585,020
More than five years	14,132,339	11,108,693
	34,985,615	22,266,954

*(i) Short-term loans*

As at 31 December 2016, the balance of short-term loans and current portion of long term loans' installments amounted to SR 12,6 billion (2015: SR 3,34 billion) as follows:

- (a) On 1 December 2015, the Company signed a credit facilities agreement with National Commercial Bank (NCB), in Saudi Riyals amounting to SR 500 million, The utilized balance of this facility in the form of Islamic Murabaha amounted to SR 500 million as at 31 December 2016 (2015: SR nil) and is due for repayment during February 2017.
- (b) On 16 December 2015, the Company signed a credit facility agreement in form of Saudi Riyals Islamic Murabaha with National Commercial Bank (NCB) and SAMBA Financial Group, The amount of the facility is SR 500 million and for three years, The utilized balance of this facility amounted to SR 2,5 billion as of 31 December 2016 (2015: 1 billion SR) and is due for repayment during June 2017.
- (c) On 6 January 2016, the Company signed USD credit facilities agreement for three years, Financing was made by Bank of Tokyo-Mitsubishi UFJ, Mizuho Bank, Sumitomo Mitsui Banking Corporation, HSBC Group, JP Morgan Bank, Crédit Agricole Group and Deutsche Bank, The facilities amounted to SR 5,25 billion (USD 1,4 billion), The utilized balance of the facilities amounted to SR 5,25 billion as at 31 December 2016, and is due for repayment during February 2017.
- (d) On 3 May 2016, the Company signed a credit facilities agreement with Al Rajhi Bank, in Saudi Riyals amounting to SR 1 billion, The utilized balance of the facilities in form of Islamic Murabaha amounted to SR 1 billion as at 31 December 2016 and is due for repayment during May 2017.
- (e) On 16 June 2016, the Company signed a credit facilities agreement in Saudi Riyals with SAMBA Bank amounting to SR 500 million, As at 31 December 2016, the utilized amount of these facilities amounted to SR 500 million and is due in April 2017.

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#### 14. LOANS AND BANK FACILITIES *(continued)*

##### *(ii) Long-term loans*

As at 31 December 2016, the balance of long-term loans amounted to SR 34,9 billion (2015: SR 22,22 billion) as follows:

- (a) On 28 July 2008, the Company obtained a sharia-compliant loan for SR 6 billion from a syndicate of local banks which has been fully withdrawn. The loan is repayable over 22 equal semi-annual installments starting 3 November 2009. The loan balance amounted to SR 1,9 billion as of 31 December 2016 (2015: SR 2,5 billion).
- (b) On 13 July 2009, the Company signed a financing agreement with the Public Investments Fund whereby the Company receive a direct loan of SR 2,6 billion which has been fully withdrawn. The loan is repayable within 15 years over 24 equal semi-annual installments starting 31 December 2012. The loan balance amounted to SR 1,6 billion as of 31 December 2016 (2015: SR 1,8 billion).
- (c) On 27 January 2010, the Company signed a financing agreement with the Export-Import Bank of the United States, and the Export Development Bank of Canada whereby the Company receive a direct loan amounting to SR 4,1 billion (US\$ 1,1 billion) which has been fully withdrawn. The loan is repayable within 12 years over 22 equal semi-annual installments starting 25 May 2010. The loan balance amounted to SR 1,6 billion as of 31 December 2016 (2015: SR 2 billion).
- (d) On 13 December 2010, the Company signed an agreement with a syndicate of local banks whereby the Company obtains a sharia compliant loan of SR 5 billion which has been fully withdrawn. The loan is repayable within 15 years over 26 equal semi-annual installments starting 13 May 2013. The loan balance amounted to SR 3,4 billion as of 31 December 2016 (2015: SR 3,8 billion).
- (e) On 22 June 2011, the Company signed an agreement with Export and Import French Bank whereby the Company obtains a loan of SR 3,7 billion (US\$ 989,1 million) which has been fully withdrawn. The loan is repayable within 12 years over 24 equal semi-annual installments starting 11 January 2012. The loan balance amounted to SR 2,2 billion as of 31 December 2016 (2015: SR 2,5 billion).
- (f) On 29 March 2012, The Company signed a loan agreement guaranteed by two Export Korean banks (K Shore and K Exim) where a syndicate of international banks participated in financing the loan led by HSBC Group, Tokyo-Mitsubishi Bank, Sumitomo Mitsui Banking Corporation, Mizuho Bank and KfW Bankengruppe. The loan amount is SR 5,3 billion (US\$ 1,4 billion) which has been fully withdrawn. The loan is repayable within 12 years over 24 equal semi-annual installments starting 7 May 2015. The loan balance amounted to SR 4,3 billion as of 31 December 2016 (2015: SR 4,8 billion).
- (g) On 18 December 2013, The Company signed a loan agreement guaranteed by two Export Japanese banks (NEXI and JBIC) where Export Japanese bank (JBIC), Tokyo-Mitsubishi Bank, and Mizuho Bank participated in financing the loan. The amount of the loan is SR 1,4 billion (US\$ 366 million). The loan is repayable within 12 years over 24 equal semi-annual installments starting 27 July 2015. The loan balance amounted to SR 1 billion as of 31 December 2016 (2015: SR 1,1 billion).
- (h) On 19 December 2013, The Company signed a loan agreement guaranteed by two Export Korean banks (K Shore and K Exim), where Export Korean banks (K Shore and K Exim), and various international banks, Tokyo-Mitsubishi Bank, Mizuho Bank, Sumitomo Mitsui Banking Corporation, HSBC Group, Deutsche Bank and KfW IPEX-Bank have participated in financing the loan. The amount of the loan is SR 6,1 billion (US\$ 1,6 billion) which has been fully withdrawn. The loan is repayable within 12 years with a grace period of 3 years. The loan balance amounted to SR 6,1 billion as of 31 December 2016 (2015: SR 6,1 billion).
- (i) On 29 June 2016, the Company signed a loan agreement with China bank for trading and manufacturing. The amount of the loan is SR 5,6 billion (USD 1,5 billion) which has been fully withdrawn. The loan is repayable over 5 years on 6 semiannual installments starting from 20 December 2018. The loan balance amounted to SR 5,6 billion as at 31 December 2016.
- (j) On 19 September 2016, the Company obtained a sharia-compliant loan with a group of local banks. The amount of the loan is SR 5 billion. The loan is repayable over seven years on 11 semiannual installments starting from 19 September 2018. The loan balance amounted to SR 5 billion as at 31 December 2016.

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(k) On 27 October 2016, the Company signed a financing agreement with number of international banks such as Banco Santander and Credit Agricole Group under which the Company obtains a loan of US\$ 420 million (SR 1,575 million). This facility is extended to 12,77 year and is obtained by a guarantee of Korean Commercial Insurance Company and no guarantees have been offered by the Company. As at 31 December 2016, the utilized amount of these facility amounted to SR 1,57 billion. The loan is repayable on 24 semiannual installments starting from 3 February 2018.

*(iii) Bank facilities*

On 7 December 2015, the Company signed a financing agreement with Export Korean Bank (K-Exim) for three years starting from the date of signing. The agreement entitles the Company to obtain various loans in the future at its option up to SR 11,25 billion (USD 3 billion). The balance drawn on the facilities amounted to SR 3,4 billion as at 31 December 2016 (2015: nil).

**15. SUKUK**

The outstanding Sukuk as at 31 December 2016 are as follows:

**(a) Local Sukuk:**

<b>Issue</b>	<b>Date of issue</b>	<b>Par value</b>	<b>Total issued amount</b>	<b>Maturity date</b>
Sukuk 3	10 May 2010	SR 10 thousand	SR 7 Billion	2030
Sukuk 4	30 January 2014	SR 1 Million	SR 4.5 Billion	2054

The above Sukuk have been issued at nominal value with no discount or premium. The Sukuk bear a rate of return at SIBOR plus a margin payable quarterly from the net income received from the Sukuk assets held by the Sukuk custodian "Electricity Sukuk Company", a wholly owned subsidiary of the Company.

The Company has undertaken to purchase these Sukuk from Sukuk holders at dates specified in prospectus. At each purchase date, the Company shall pay an amount of 5% to 10% of the aggregate par value of the Sukuk as bonus to the Sukuk holders. The purchase price is determined by multiplying Sukuk's par value at the percentage shown against the purchase date, as follows:

<b>Percentage</b>			
	<b>90%</b>	<b>60%</b>	<b>30%</b>
<b>Issue</b>	<b>First purchase date</b>	<b>Second purchase date</b>	<b>Third purchase date</b>
Sukuk 3	2017	2020	2025

<b>Percentage</b>			
	<b>95%</b>	<b>60%</b>	<b>30%</b>
<b>Issue</b>	<b>First purchase date</b>	<b>Second purchase date</b>	<b>Third purchase date</b>
Sukuk 4	2024	2034	2044

On 15 July 2012, the Company has fully purchased its first Sukuk issued (Sukuk 1) amounting to SR 5 billion.

On 6 July 2014, the Company has fully purchased its second Sukuk issued (Sukuk 2) amounting to SR 7 billion.

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During April 2012, the Company issued Global Sukuk amounting to SR 6.6 billion equivalent to approximately US\$ 1.75 billion. The issuance consists of two types of Sukuk certificates. The first type amounting to US\$ 0.5 billion which matures after 5 years with fixed rate of 2.665% and the second type amounting to US\$ 1.25 billion which matures after 10 years with fixed rate of 4.211%.

During April 2013, the Company also issued Global Sukuk amounting SR 7.5 billion equivalent to US\$ 2 billion. The issuance consists of two types of Sukuk Certificates. The first type amounting to US\$ 1 billion which matures after 10 years with fixed rate of 3.473% and the second type amounting to US\$ 1 billion which matures after 30 years with fixed rate of 5.06%.

During April 2014, the Company also issued Global Sukuk amounting to SR 9.4 billion equivalent to US\$ 2.5 billion. The issuance consists of two types of Sukuk certificates; the first type amounting to US\$ 1.5 billion which matures after 10 years with fixed rate of 4% and the second type amounting to US\$ 1 billion which mature after 30 years with fixed rate of 5.5%.

As at 31 December 2016, Sukuk have been classified according to accruals and recoveries of Sukuk as follows:

	2016	2015
Short-term Sukuk	8,875,140	--
Long-term Sukuk	26,065,350	34,940,490
	<u>34,940,490</u>	<u>34,940,490</u>

**16. EMPLOYEES' INDEMNITIES BENEFITS**

	2016	2015
Provision for end-of-service indemnities	4,558,553	5,010,083
Savings program	1,013,842	875,644
Human resources productivity improvement program (the "Program")-(a)	151,500	133,533
	<u>5,723,895</u>	<u>6,019,260</u>

- (a) This amount represents the present value of future payments which the Company has commitment to pay according to the program's plan and conditions, The objective of this program is to improve and align human resources with business requirements.

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**17. DEFERRED REVENUES, NET**

	<u>2016</u>	<u>2015</u>
Balance at the beginning of the year	29,370,073	26,189,365
Collected from electricity service connection projects	8,007,194	5,253,418
Realized during the year	(2,312,800)	(2,072,710)
	<u>35,064,467</u>	<u>29,370,073</u>

**18. LONG TERM LOANS FROM GOVERNMENT**

- (a) Pursuant to the Council of Ministers' resolution number 169 dated 11 Sha'ban 1419H, the net dues of the Government to the Company and the net dues of the Company to the Government were determined in accordance with rules and procedures stipulated for in the minutes of meetings signed by the Minister of Industry and Electricity and the Minister of Finance and National Economy dated 27 Jumada' II 1418H corresponding to 29 October 1997, The net difference payable to the Government by the Company, as determined at the close of the business day preceding the issuance of the Royal Decree for the incorporation of the Company, is considered a non-interest bearing long-term loan (soft loan) with a grace period of twenty five years starting from the date of the announcement of the incorporation of the Company, The terms of the loan are to be revisited later in light of the financial condition of the Government and the Company.

The minutes of the meeting held on 21 Rajab 1422H between the Minister of Industry and Electricity and the Minister of Finance and National Economy in which the initial amount of the Government loan was determined, states that the final settlement of Government accounts will be subject to the reconciliation for the claims of the Company and Government entities, and the loan amount shall be adjusted accordingly, During 2005, the Company finalized the amount due which included the claims of the Company and the amounts due to the Government and the agreement was signed between the Minister of Water and Electricity and the Minister of Finance on 15 Rajab 1426H which brought the balance of Government loan amounted to SR 14,9 billion, The Company is working towards and negotiate with lenders to find appropriate alternative to address the balance of these loans to enhance the financial position of the company and its important role to save energy in all sectors in the state.

- (b) The Council of Ministers approved in its meeting held on Monday 12 Jumada' I 1431H corresponding to 26 April 2010 to grant the Company a soft loan amounting to SR 15 billion repayable over 25 years, The loan will be paid to the Company within 2 years in accordance with an agreement made for this purpose between the Ministry of Finance and the Company, This loan has been fully withdrawn as at 31 December 2016 (2015: fully withdrawn), The Company has recognized the amount received from the Government and discounted to its present value.
- (c) The Council of Ministers approved in its meeting held on Monday 11 Rajab 1432H corresponding to 13 June 2011 to grant the Company a soft loan amounting to SR 51,1 billion repayable over 25 years, The loan will be paid to the Company within 5 years in accordance with an agreement made for this purpose between the Ministry of Finance and the Company, An amount of SR 38,3 billion from this loan has been withdrawn as at 31 December 2016 (2015: SR 38,3 billion), The Company has recognized the amount received from the Government and discounted to its present value,  
However, the loan agreement provides that the loan amount will be reduced by proceeds collected by the Company due to any increase in the residential sector tariff, In light of the latest tariff amendments (note 1), the Company is currently determining the effect on the loan maturity or future payments.

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#### **18. LONG TERM LOANS FROM GOVERNMENT** *(continued)*

(d) The Council of Ministers approved in its meeting held on Monday 9 Jumada' I 1435H corresponding to 10 March 2014 to grant the Company a soft loan amounting to SR 49,4 billion repayable over 25 years. The loan will be paid to the Company within 5 years in accordance with an agreement made for this purpose between the Ministry of Finance and the Company. An amount of SR 16,1 billion from this loan has been withdrawn as at 31 December 2016 (2015: SR 14,1 billion). The Company has recognized the amount received from the Government loan above discounted to its present value.

The above loans are due for a period of more than year from the balance sheet date, accordingly, loans are classified within non-current liabilities.

#### **19. LONG TERM PAYABLES TO THE GOVERNMENT**

The long-term Government payables as at 31 December 2016 include SR 57 billion representing the accounts payable for fuel for the period from 5 April 2000 to 31 December 2012 (2015: SR 57 billion for the period from 5 April 2000 to 31 December 2012) which has been reclassified from current liabilities to non-current liabilities (long-term Government payables) pursuant to the Ministerial minutes of meeting and resolutions which resolved to transfer the Company's liability of Saudi Arabian Oil Company ("Saudi Aramco") to the account of the Ministry of Finance according to specific procedures and approvals, the latest was before the end of 2013 (note 12). The Company is working towards and negotiate with lenders to find appropriate alternative to address the balance of these loans to enhance the financial position of the company and its important role to save energy in all sectors in the state.

Further, the long-term Government payables include an amount of SR 42 billion as at 31 December 2016 (2015: SR 42,3 billion) representing the difference between the amount received from Government and the discounted present value of these loans.

#### **20. FAIR VALUE OF CASH FLOW HEDGING INSTRUMENTS**

The Company entered into interest rate hedging contracts with several banks to hedge the fluctuations in interest rates on loans for an amount of SR 0.98 billion on 31 December 2016 (2015: SR 1,4 billion) which includes a US Dollar portion representing approximately 15% of the notional amount. The hedging contracts are based on the swap between the Company and the banks of fixed rates against floating rates on the original loan amounts every six-months.

The cash flows hedging contracts reserve shown in the shareholders equity includes the company's share in the unrealized gains and losses resulting from the change in the fair value of hedging contracts recognized within the equity of investees.

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**21. RESERVES**

General reserve consists of the balances of the reserves that were recorded in the financial statements of the Saudi Consolidated Electricity Companies at the date of the merger amounted to SR 214 million, in addition to the collections of surcharge from individuals subsequent to 31 December 2001, amounted to SR 61 million up to 31 December 2016 (2015: SR 49 million), The total general reserve amounted to SR 570 million as at 31 December 2016 (2015: SR 558 million).

In accordance with the Company's bylaws and the regulations for companies in the kingdom of Saudi Arabia, 10% of net income for the year is transferred to statutory reserve until such reserve equals 50% of the share capital, The Company is working on amending the bylaws to match with the new Saudi Companies regulations, as per the new regulations the Company retain 10% of net income for the year and is being transferred to statutory reserve until such reserve equals to 30% of the share capital.

**22. DIVIDENDS**

In accordance with the Company's by-laws, dividends of at least 5% of paid in capital, net of reserves, should be distributed to shareholders, with due care to the provisions of the Council of Ministers' Resolution No, 169 dated 11 Sha'aban 1419H, whereby the Government has waived its share in the distributed dividends for a period of ten years from the date of the Company's formation, provided that dividends do not exceed 10% of the par value of the shares, In cases where the distribution exceeds 10% of the shares' par value, the Government's share shall be treated similar to the share of other shareholders, The Government has agreed to extend this waiver for another ten years based on the Council of Ministers' Resolution No, 327 dated 24 Ramadan 1430H.

The General Assembly, in its meeting held on 25 April 2016, approved distributing cash dividends for the year 2015 to individual shareholders amounting of SR 547 million (SR 0,70 per share) representing 7% of the par value per share (for the year 2014: SR 547 million (SR 0,70 per share) representing 7% of the par value per share).

The Board of Directors in its meeting held on 23 Jumad Awal 1438H corresponding to 20 February 2017, proposed to distribute cash dividends for 2016 to individuals shareholders amounting to SR 547 million, (SR 0,7 per share), representing 7% of the par value per share, These is subject to the approval of the Company's general assembly meeting.

**23. BOARD OF DIRECTORS' REMUNERATION AND ALLOWANCES**

The expenses and allowances attributable to attending the Board of Directors meetings and other subcommittee meeting for the year amounted to SR 1,166 thousand (2015: SR 914 thousand).

The General Assembly, in its meeting held on 25 April 2016, approved Board of Directors' remuneration for the year 2015 of SR 932 thousand from the retained earnings (for the year 2014: SR 866 thousand).

The Board of Directors in its meeting held on 20 Jumad Awal 1438H corresponding 20 February 2017, proposed board's remuneration of SR 932 thousand after the distribution of dividends to individual shareholders not less than 5% of the individuals share capital, This is subject to general assembly meeting's approval.



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**24. OPERATING REVENUE**

	<i>For the year ended</i>	
	<b>31 December 2016</b>	<b>31 December 2015</b>
Electricity sales	45,321,470	37,580,536
Electricity service connection tariff	2,312,800	2,072,710
Meter reading, maintenance and bills preparation tariff	1,186,350	1,118,053
Revenue of transmission system	602,017	543,866
Other operational revenue	492,120	223,567
	<b>49,914,757</b>	<b>41,538,732</b>

**25. COST OF REVENUE**

	<i>For the year ended</i>	
	<b>31 December 2016</b>	<b>31 December 2015</b>
Depreciation of operation and maintenance assets	16,914,188	14,548,849
Operation and maintenance expenses(Note 26)	11,620,444	11,113,771
Fuel	9,989,313	5,977,520
Purchased energy	8,383,928	7,313,327
	<b>46,907,873</b>	<b>38,953,467</b>

**OPERATING AND MAINTAINANCE EXPENSES**

26.

	<i>For the year ended</i>				
	<b>31 December 2016</b>				<b>31 December 2015</b>
	<b>Generation</b>	<b>Transmission</b>	<b>Distribution</b>	<b>Total</b>	<b>Total</b>
Employees' expenses and benefits	1,804,315	1,213,062	3,212,836	6,230,213	5,838,788
Operating and maintenance (contractors)	560,152	195,511	529,566	1,285,229	1,294,953
Materials	680,058	36,344	165,347	881,749	1,001,490
Council Fees	-	-	723,861	723,861	622,709
Provision for doubtful debts,	-	-	405,345	405,345	236,359
Provision for slow moving inventory	68,655	10,687	44,988	124,330	-
Others	901,315	262,777	805,625	1,969,717	2,119,472
	<b>4,014,495</b>	<b>1,718,381</b>	<b>5,887,568</b>	<b>11,620,444</b>	<b>11,113,771</b>

**27. GENERAL AND ADMINISTRATIVE EXPENSES**

	<i>For the year ended</i>	
	<b>31 December 2016</b>	<b>31 December 2015</b>
Employees' expenses and benefits	350,204	346,540
Materials	53,447	66,282
Communication	46,872	68,503
Provision for slow moving inventory	5,949	-
Others	75,957	126,437
	<b>532,429</b>	<b>607,762</b>

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**28. NON-RECURRING INCOME (EXPENSES)**

Non-recurring income for year ended 31 December 2015 represents reconciliations related to applying new billing system which resulted in net adjustments results in favor of the company with an amount of SR 202 million.

**29. OTHER INCOME (EXPENSES), NET**

	<i>For the year ended</i>	
	<b>31 December 2016</b>	<b>31 December 2015</b>
Penalties and fines	<b>99,334</b>	102,053
Gain on disposal of fixed assets, net	<b>19,380</b>	85,072
Sale of tender documents	<b>7,455</b>	22,099
Company's share in net loss of investee companies accounted for under the equity method (Note 9-(a))	<b>(59,189)</b>	(55,775)
Additional employees expenses (a)	-	(561,457)
Other	<b>125,009</b>	157,293
	<b>191,989</b>	(250,715)

(a) This item represents two month's salary paid during the year ended 2015 as award to the Company's employees pursuant to the Royal Decree.

**30. CONTINGENT LIABILITIES**

1. There is a dispute between the Company and Saudi Aramco for handling crude oil fees, The disputed amount since the Company's inception on 5 April 2000 to 31 December 2016 amounted to approximately SR 4,7 billion (2015: SR 4,4 billion), The Company's management believes that there will be no liability on the Company based on the Royal Decree Number M/8 dated 25 Rajab 1415H as this matter was not discussed by the Ministerial Committee formed by the Royal Decree referred to above, Accordingly, the difference has not been recorded as part of the liabilities in the Company's books, In addition, Saudi Aramco is supplying the Company with light fuel oil rather than heavy fuel oil to one of its stations, This has resulted in an accumulated difference of SR 2,6 billion (2015: SR 2,2 billion) not accounted for as part of the liabilities in the Company's books.
2. Saudi Aramco has also a claim for the settlement of its share in the annual dividends since inception to 31 December 2015, estimated at SR 2,9 billion, The Company believes that Saudi Aramco has no right for this claim during the first 20 years of its formation since it is a wholly owned Government agency and accordingly, is governed by the Council of Ministers' resolution no, 169 dated 11 Sha'aban 1419H and Council of Ministers' resolution no, 327 dated 24 Ramadan 1430H on extending the Government's waiver of its rights in the dividends distributed by the Company for another ten years.
3. The Company has provided guarantees to some of the commercial banks against its share for financing a loan granted to some of its investee companies, The guarantee amounted to US\$ 18 million equivalent to SR 68 million as of 31 December 2016 (2015: US\$ 15 million equivalent to SR 56.3 million).

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**31. SETTLEMENT OF DISPUTE WITH SAUDI ARAMCO**

The Company provides electricity power to governmental agencies, ministries and Saudi Aramco. The tariff applied are approved by the Council of Ministers and are similar to the tariff applied to other consumers, except for the tariff used for Saline Water Conversion Corporation (SWCC) which is in accordance with a Government resolution. As for the residential property of Saudi Aramco, the Company believes that these should be charged the commercial tariff. However, Saudi Aramco has objected to this tariff and is settling the electricity sales for the properties based on the industrial tariff.

The Council of Ministers has issued the resolution number 114 on 10 Rabi Thani 1430H to end this dispute and to charge Saudi Aramco on the basis of residential and commercial tariff instead of industrial tariff. The Electricity and Co-generation Regulatory Authority ("the regulator") will have to specify the residential and commercial enterprises of Saudi Aramco. Accordingly, the Company, Saudi Aramco and the regulator held several meetings to settle this matter where the regulator has specified the disputed residential and commercial enterprises of Saudi Aramco.

The Company has executed the regulator decree number 49/432 dated 8 Jumad Awal 1432H classifying Saudi Aramco electricity consumption tariff starting from 1 January 2012, accordingly, the disputed residential and commercial enterprises mentioned above were identified, and the agreed upon tariff were applied on Saudi Aramco consumption. Further, the Company has also completed the calculation of the previous years' consumption since date of inception up to 31 December 2011 according to regulator decree mentioned above and has submitted the invoices to Saudi Aramco with total amount of SR 729 million. During 2013, the Company has completed the reconciliation procedures with Saudi Aramco for these revenues and recognized them in the consolidated statement of income. The Company is currently following-up with Saudi Aramco the procedures to collect this amount.

**32. CAPITAL COMMITMENTS**

- (a) These comprise the unexecuted portion – as of the consolidated balance sheet date - of capital contracts concluded by the Company for the erection and installation of power plants and other assets approximately amounting to SR 192 billion at 31 December 2016 (2015: SR 80,55 billion).
- (b) The Company has long-term energy purchase agreements with independent power providers whereby the Company has undertaken to purchase the 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 of both parties, in addition to the future commitments provided by the Company to finance certain investees in the form of subordinated loans or common equity amounting to SR 695 million (2015: SR 695 million).

**33. HUMAN RESOURCES PRODUCTIVITY IMPROVEMENT PROGRAMM**

Amount represents expenses which the Company has commitment to pay according to the program's plan and conditions, the objective of this program is to improve and align human resources with working requirements.

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*(In thousands Saudi Riyals unless otherwise stated)***34. RELATED PARTIES TRANSACTIONS**

The significant transactions and related approximate balances are as follows:

	<i>For the year ended</i>	
	<b><u>31 December</u></b>	<b><u>31 December</u></b>
	<b><u>2016</u></b>	<b><u>2015</u></b>
<b>Sales</b>		
Government	12,274,289	10,172,657
Saudi Aramco	336,710	521,310
Saline Water Conversion Corporation	265,579	183,479
	<b><u>12,876,578</u></b>	<b><u>10,877,446</u></b>
<b>Purchases and Others</b>		
Saudi Aramco	11,300,393	6,353,628
Hajr for Electricity Production Company	1,629,490	1,217,208
Rabigh Electricity Company	1,077,049	1,061,838
Dhuruma Electricity Company	1,040,980	1,037,581
Municipalities fees	723,861	622,709
Saline Water Conversion Corporation	530,324	568,609
	<b><u>16,302,097</u></b>	<b><u>10,861,573</u></b>

The company purchases fuel from Saudi Aramco and energy from Saline Water Conversion Corporation at rates stipulated for in the respective governmental resolutions, Also, fees are charged for municipalities on electricity power sales.

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**35. ZAKAT**

***Zakat Position***

The Company filed its Zakat returns up to 2008, The Company also filed its Zakat returns for years 2009 through 2015, which are still under review by the General Authority of Zakat and Tax ('GAZT').

The Company has not recognized Zakat charge for the year ended 31 December 2016 (2015: nil) as the Zakat base is negative at the consolidated balance sheet date,

***Zakat base:***

The major components of zakat base are as follows:

	<u>31 December 2016</u>	<u>31 December 2015</u>
Net income for the year	2,104,584	1,543,642
Add: Zakat adjustment	(12,232,662)	(11,961,268)
Net adjusted loss	<u>(10,128,078)</u>	<u>(10,417,626)</u>
Zakat base is calculated as follows:		
Share capital	41,665,938	41,665,938
Net adjusted loss	(10,128,078)	(10,417,626)
Retained reserves	3,187,108	3,029,758
Retained earnings	16,046,267	14,656,989
Retained allowances	6,695,230	6,684,073
Long term loans and sukuk	73,659,833	60,554,566
Government loans and payables	94,165,670	83,236,302
Contractors accruals and others	4,035,770	4,022,479
Total	<u>229,327,738</u>	<u>203,432,479</u>
Deduct:		
Fixed assets and construction work in progress, net	(228,756,645)	(202,319,090)
Difference on depreciation of fixed assets for previous years	(99,786,057)	(87,212,078)
Long term investments	(3,673,692)	(3,362,215)
Material and spare parts inventories	(5,932,537)	(4,911,071)
Zakat base (negative)	<u>(108,821,192)</u>	<u>(94,371,975)</u>

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*(In thousands Saudi Riyals unless otherwise stated)***36. SEGMENT REPORTING AND FUTURE RESTRUCTURE FOR THE COMPANY'S ACTIVITIES**

The Company's main operating activities comprises of generation, transmission and distribution and customer services activities, These activities complement each other in delivering electricity to the consumer, The Group's revenue is currently recognized from selling electricity to the end consumer based on the official Tariff set by the Government, All Company's operations are conducted in the Kingdom of Saudi Arabia,

Following is a description of the main operations for each activity:

**Generation:** Generation and provision of electricity power,

**Transmission:** Transmission of electricity power from generation stations using transmission network, to distribution network and operation and maintenance of electricity transmission system,

**Distribution and customer services:** Receipt of electricity power from transmission network and distribute it to Company's consumers, It is also engaged in issuance, distribution and collection of electric consumption bills,

The Company is currently implementing an integrated plan which aims to split its principal activities to different independent entities and develop inter-selling prices, Therefore, revenues and expenses will be specified for each company separately upon completion of this split process to assess the performance of each activity and the results of its operation separately, As part of the plan, National Grid S,A, Company was established and basis of inter-group transaction agreements were approved by the Board of Directors, The National Grid S,A, Company started its transmission activities on 1 January 2012.

**Segregating the Company's activities and privatization of the power sector**

The Company along with several governmental bodies is arranging to study the available practical options to restructure the operating sectors and segregate the production sector in accordance with the relevant Government's resolutions. Protocols and timetables are under preparation for the segregation of major sectors of the Company to be in line with the Government's direction of the privatization of the power sector.

The following are the fixed assets, total assets and liabilities of the main Group's companies, The financial information of Saudi Electricity Company set out in the table below includes the generation , distribution and customer services segments as well as the head office, as the procedures of splitting the generation and distribution segments are still in process – up to date of consolidated financial statements preparation date- as part of the Company's integrated plan, The National Grid S,A, Company's financial information includes the transmission activity, while other subsidiaries' financial information include all companies set out in note- (1) excluding National Grid S,A, Company,

	<b>Saudi Electricity Company</b>	<b>National Grid S,A, Company</b>	<b>Other Subsidiaries</b>	<b>Inter-Group Balances</b>	<b>Total</b>
<b>As at and for the year ended 31 December 2016</b>					
Operating revenue	49,858,414	8,420,375	56,343	(8,420,375)	49,914,757
Cost of revenue	48,835,318	6,469,927	16,903	(8,414,275)	46,907,873
Net income for the year	1,832,399	238,435	33,750	-	2,104,584
Fixed assets, net	173,458,539	94,069,404	-	-	267,527,943
Total assets	395,193,706	114,275,202	292,595	(106,790,728)	402,970,775
Total liabilities	337,124,743	100,384,644	173,033	(96,735,268)	340,947,152
<b>As at and for the year ended 31 December 2015</b>					
Operating revenue	41,513,442	7,127,308	25,142	(7,127,160)	41,538,732
Cost of revenue	40,551,880	5,502,157	7,543	(7,108,113)	38,953,467
Net income for the year	1,347,407	196,234	33,709	(33,708)	1,543,642
Fixed assets, net	159,377,100	70,616,669	-	-	229,993,769
Total assets	351,903,696	87,360,803	278,615	(81,513,165)	358,029,949
Total liabilities	295,199,674	73,715,698	192,801	(71,427,351)	297,680,822

**Saudi Electricity Company**  
(Saudi Joint Stock Company)

**Notes to the consolidated financial statements**

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*(In thousands Saudi Riyals unless otherwise stated)*

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**37. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT**

Financial assets of the Company include cash at banks, trade and other receivables and due to related parties. Financial liabilities of the Company include borrowings, trade payable and accrued expenses.

**a. Credit risks**

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Financial assets, which are potentially subject to concentration of credit risk, consist principally of cash at banks, trade receivables and due from related parties. Cash at banks of the Company are placed with high rated banks; accordingly, credit risks are limited. Credit risks related to trade receivables are also limited as credit is allowed to be granted to customers approved by the management. Furthermore, management follows credit policy to monitor credit risks on a regular basis.

**b. Interest rate risks**

Interest rate risk represent the change in interest rate of the Company's debts for banks which are represented in borrowings and credit facilities. To mitigate this risk, management of the Company makes sure to obtain best available conditions from banks for credit facilities, overdrafts and borrowings in addition to signing financial derivative contracts, when needed, in order to limit the increase in interest rate and reviewing prevailing interest rates at banks on a regular basis to limit interest rate risks.

**c. Liquidity risks**

Liquidity risk is the risk that the Company will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from the inability to sell a financial asset quickly at an amount close to its fair value. Liquidity risk is managed by monitoring on a regular basis that sufficient funds are available for financing and meeting the Company's current and future commitments. The Company has a detailed plan to manage cash to limit any risks resulting from any possible default on the working share capital.

As at 31 December 2016, current liabilities exceeded current assets by SR 49,9 billion (2015: SR 23,9 billion).

The management believes that in case of excluding governmental accruals from current liabilities which are not expected to be paid within a year from the date of the consolidated financial statements, there might be positive net working capital.

**d. Hedging risks**

As at 31 December 2016, the Company has hedging instruments specialized to decrease cash flows risks and to hedge fluctuation risks arising from currency and foreign exchange rates. As at 31 December 2016, hedging contracts amounted to SR 20 million (2015: SR 75 million).

**e. Fair value**

Fair value is the amount for which an asset can be exchange or liabilities can be settled, between knowledgeable and willing parties transacting at an "arm's length". As the financial statements are prepared under the historical cost method, difference may arise between the book value and the fair value estimates. Management believes that the fair value of the Company's financial assets and liabilities are not materially different from their carrying values.

**Saudi Electricity Company**  
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**38. NEW ACCOUNTING FRAMEWORK**

In accordance with the requirements of the Saudi Organization for Certified Accountants ("SOCPA"), listed companies are required to convert to International Financial Reporting Standards ("IFRS") when preparing their financial statements. These requirements have been approved by SOCPA effective on 1 January 2017. When preparing the first financial statements according to IFRS, the Company will analyze the resulting final effect for the current and future period. Thus, necessary adjustments on the first financial statements prepared in accordance with IFRS will be recorded.

Capital Market Authority issued Circular No. 16/8074/5/S dated 16/1/1438H to use cost model option to measure property, plant, equipment, investment properties and intangible assets for three years effective from the date of applying International Accounting Standards

**39. COMPARATIVE FIGURES**

Certain comparative figures have been reclassified to conform with the current year's presentation,

**40. APPROVAL OF FINANCIAL STATEMENTS**

These financial statements were approved by the Board of Directors on 20 February 2017 corresponding to 23 JumadaI 1438H.