

# 2020

## Ambitious Energy Strategy



الشركة السعودية للكهرباء  
Saudi Electricity Company  
Empowering Energy

Annual Report

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The Custodian of the Two Holy Mosques  
**King Abdullah Ibn Abdul Aziz Al-Saud**



His Royal Highness  
**Prince Sultan Ibn Abdul Aziz Al-Saud**  
Crown Prince, Deputy Prime Minister  
Minister of Defense and Aviation  
And Inspector General

# ANNUAL REPORT 2008

## Table of Contents

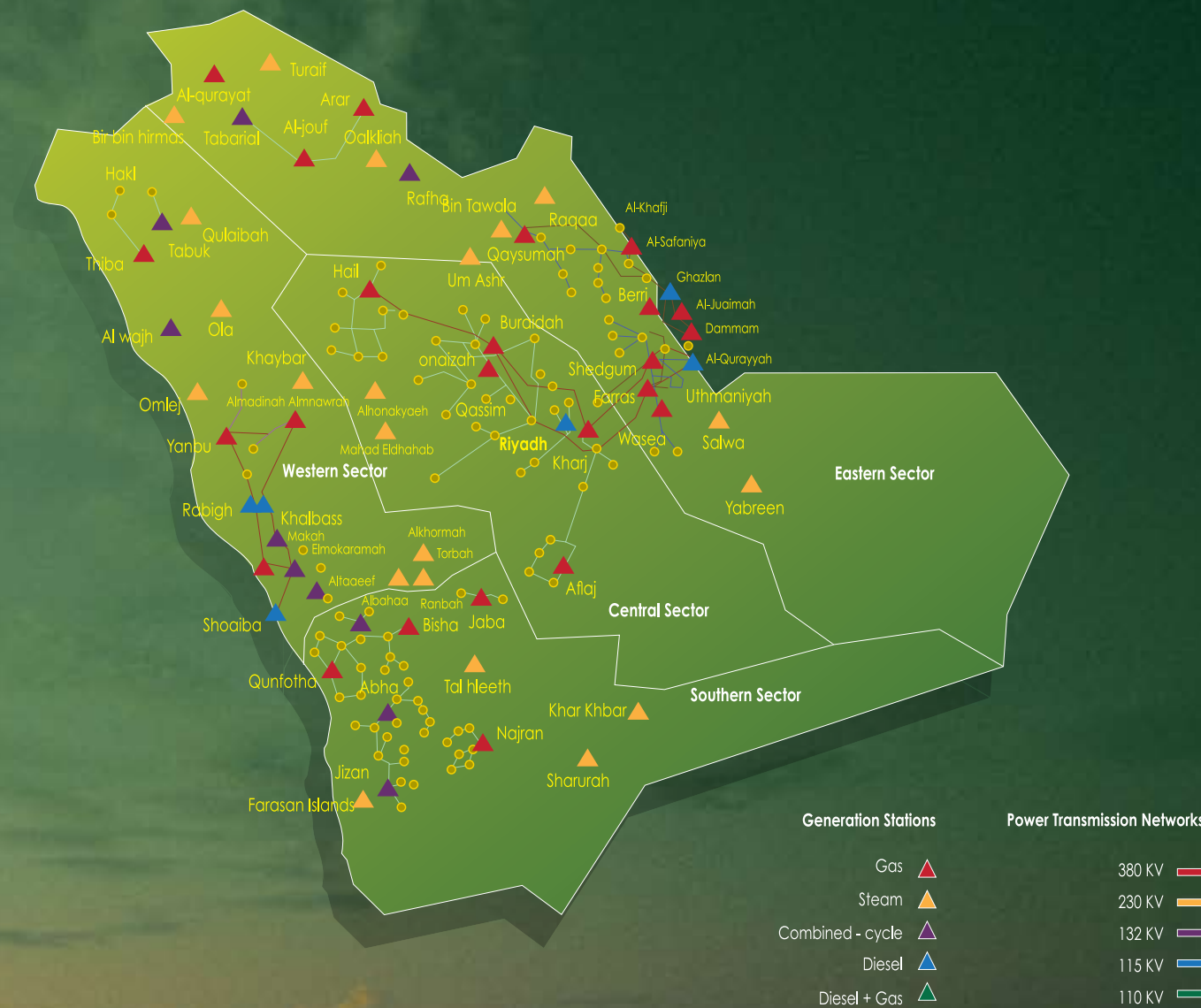
24	Plan for Boosting the Electric System
36	Human Resources
40	Generation
46	Transmission
52	Distribution and Customer Services
60	Our Social Responsibility
75	Financial Statements and Auditors' Report



## SCOPE OF OUR OPERATIONS

To help and improve the standards of living and enhance the economic competitiveness of the Kingdom of Saudi Arabia.

We are committed to provide our customers with safe and reliable electric services, to meet the expectations of our shareholders, caring for our employees, and ensuring optimum utilization of available resources.





# BOARD OF DIRECTORS



**Eng. Mahmoud A. Taiba**  
Chairman of the Board  
(Deceased)



**Dr. Saleh H. Al-Awajji**  
Vice Chairman of the Board



**Mr. Ali S. Al-Sugair**  
Member of the Board



**Dr. Abdullah M. Basodan**  
Member of the Board



**Mr. Sulaiman A. Alkadi**  
Member of the Board



**Mr. Eisa M. Al-Eisa**  
Member of the Board



**Dr. Khaled A. I. Al-Sabti**  
Member of the Board



**Eng. Isam A. Al-Bayat**  
Member of the Board



## Statement of the Vice Chairman Saleh H. Al-Awajji

The 2008 Annual Report reflects the meaningful changes which Saudi Electricity Company has sought to achieve since its establishment and start of its operation in the year 2000. A brief glance at the outcome of the company's eight-year history will indicate that it has accomplished excellent achievements in boosting the electric system. The accomplished achievements in this respect constitute an aspect of its proactive approach and endeavor to anticipate future requirements by continuing its efforts in establishing further projects in the fields of electric power generation, transmission, and distribution so as to cope with the increasing growth in the demand for electric power, upgrading the standard of Company performance, building an appropriate electric power reserve at a rate of 15% of the peak load, developing and boosting the Company's electrical infrastructure.

The Company exerts constant utmost efforts to meet the approximately 10% annual growth in demand for electricity by preparing and developing a plan for boosting the electric system by adding 32,000 MW within the next 10 years and completing the project of the national network for connecting all parts of the Kingdom which will allow readily exchanging electric power among all regions of the Kingdom in addition to realizing the principle of economic operation. Such plan was built according to a solid scientific approach and based on a careful, elaborate study of future requirements while anticipating all future possibilities so as to realize more achievements in order to meet the challenges in population growth, the rapidly expanding industrial, agricultural, and construction activities in the Kingdom and sustaining its economic development.

On the other hand, the Company has continued its drive to diversify its financing sources and ensure such cash flow as required for investment and operational activities. To ensure targeted funding, Company has issued Islamic bonds called "Sukuk" and exerted efforts in encouraging investment and establishing joint ventures with the private sector. The Company has continued such financial policies aiming at promoting its financial position and enhancing the trust of investors with the Company and attracting them to invest in its projects. In this respect, the Company has achieved important steps in encouraging domestic and international investors to participate in power generation projects in line

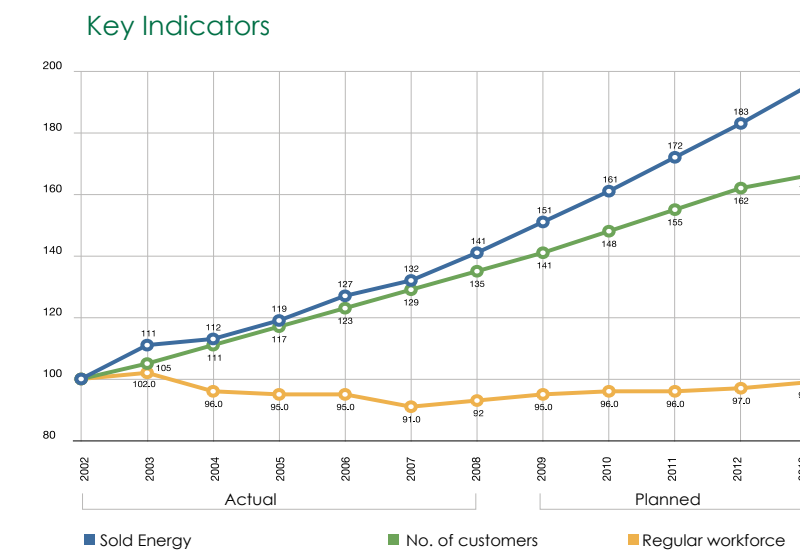
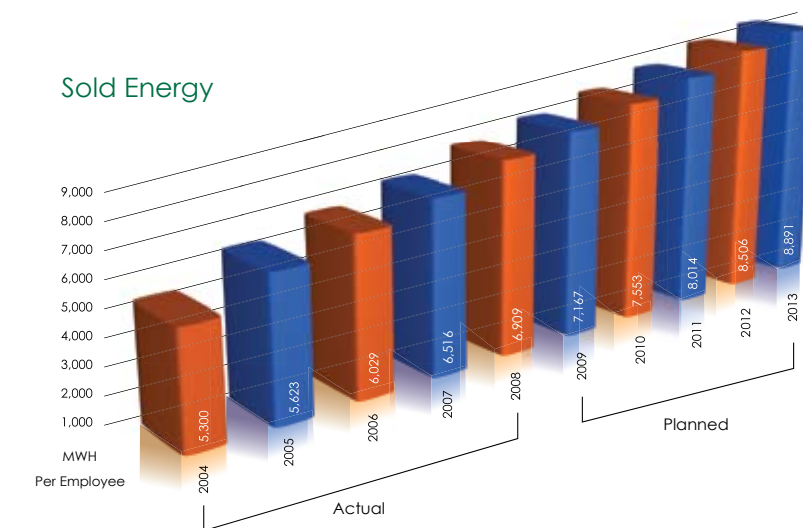
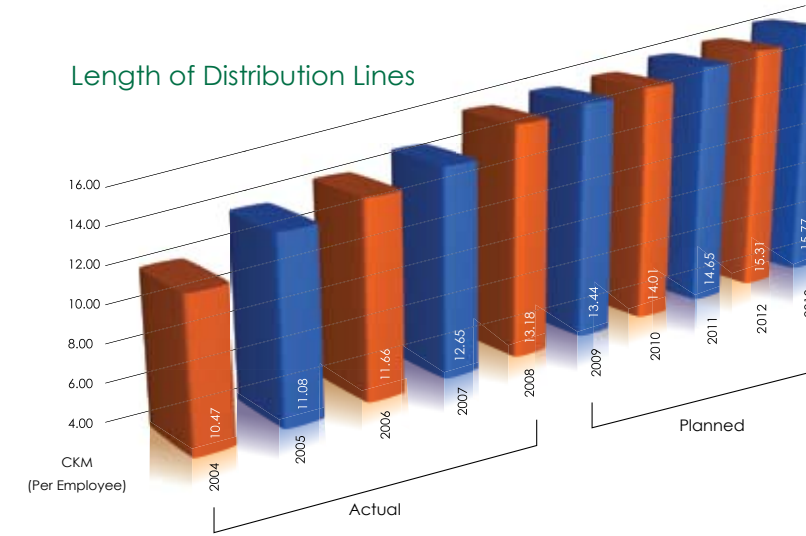
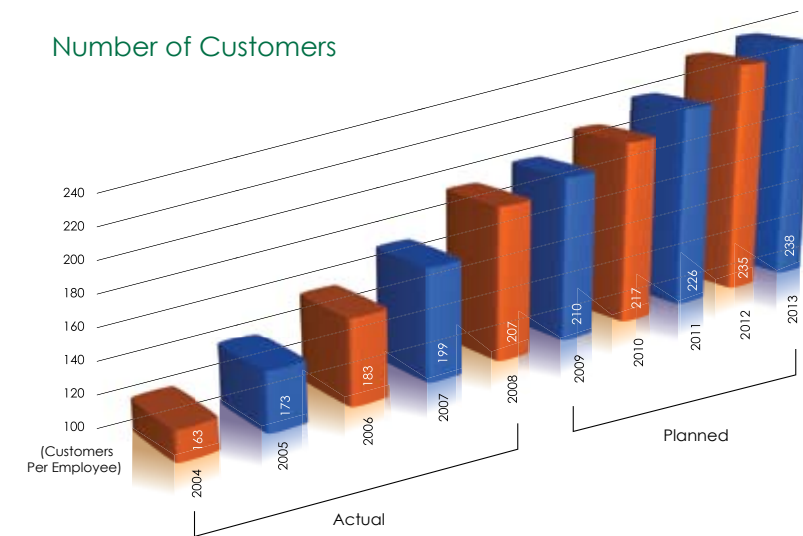
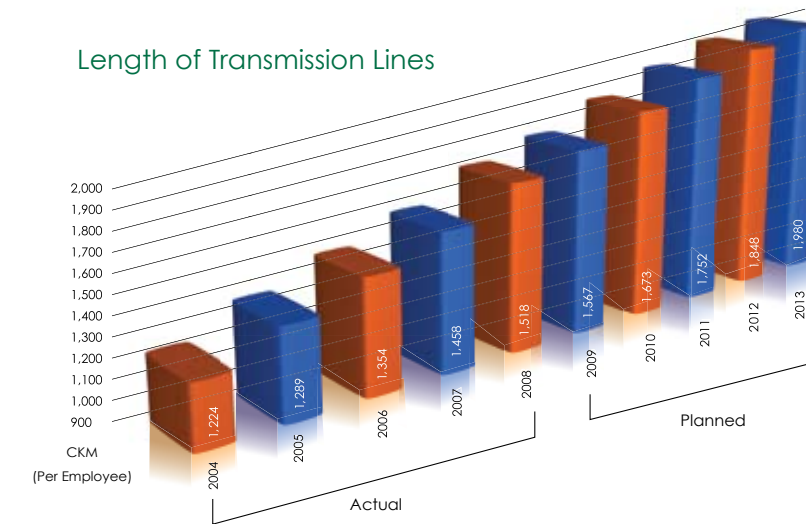
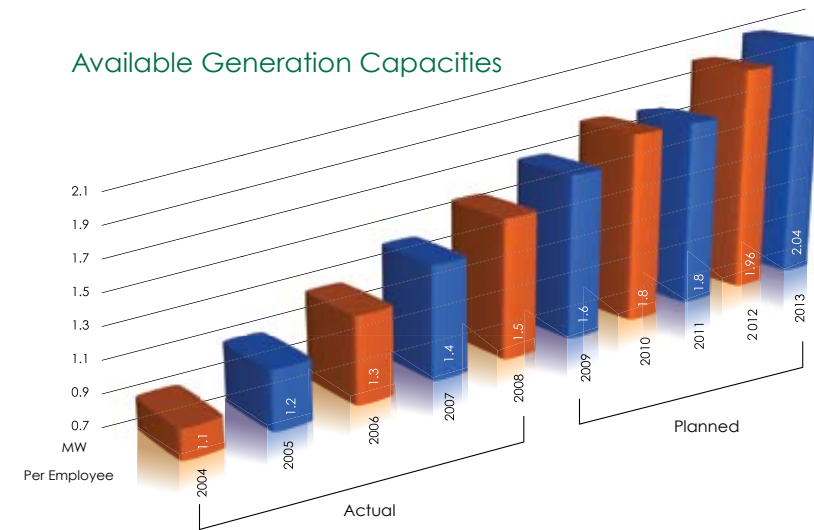
with the Program for Private Sector Participation in Electricity Projects that aims at further attracting investment. Within such program, the Company has already introduced and will introduce a number of projects in the field of electric power generation.

This year has witnessed further continuous efforts exerted by the Company in maintaining electric power supply and ensuring its stability while aiming to meet future needs, upgrading the services provided to the customers whose total number rose to 5,420,810 at year-end 2008. The Company also continued the implementation of its policy focusing on covering the electricity requirements of all villages and settlements which resulted in delivering electric services to 452 villages and settlements so that the total electrified cities, towns, and villages reached 11,405 at year-end. Meanwhile, such efforts were coupled with a substantial attention accorded to the development of human resources by further focusing on training and development programs bringing the overall nationalization rate in the Company to 84.86%.

Finally, on behalf of the members of the Board of Directors, I would like to express our sincere thanks, appreciation, and gratitude to the Custodian of the Two Holy Mosques King Abdullah Ibn Abdul Aziz Al-Saud, and His Royal Highness Prince Sultan Ibn Abdul Aziz Al-Saud, the Crown Prince, Deputy Prime Minister, Minister of Defense and Aviation, and Inspector General, for the valuable support the state has provided to the Company which is an extension of support the electricity sector has enjoyed throughout its history. This support allowed the Company to execute numerous projects that have contributed to meeting the electricity needs of developing sectors in the Kingdom. I wish also to express our thanks to HE Eng. Abdullah Bin Abdul Rahman Alhosayn, the Minister of Water and Electricity, for the support he has provided to the Company's efforts in particular and to the electricity sector in general. Also, I would like to express, on behalf of the members of the Board of Directors, our sincere thanks and appreciation to the Company shareholders, customers, the Company management, and employees, asking Allah to bless their efforts and help us in ensuring all what we look forward to in respect to best serving the shareholders of the company and customers, and best serving our beloved country.



## Performance Indicators

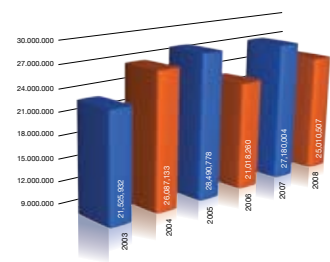




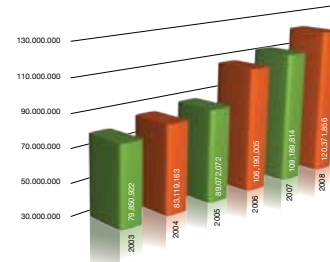
## Our Financial Performance 2003 – 2008

	2003	2004	2005	2006	2007	2008
Total Current Assets	21,525,932	26,087,133	28,490,778	21,018,260	27,180,004	25,010,507
Total Non-Current Assets	79,850,922	83,119,163	89,072,072	106,190,005	109,189,814	120,371,856
Total Liabilities	57,117,531	63,883,933	71,300,514	80,079,396	88,375,747	96,829,742
Total Shareholders' Equity	44,259,323	45,322,363	46,262,336	47,128,869	47,994,071	48,552,621
Operating Income	1,310,288	1,003,203	1,259,159	1,154,574	1,114,378	764,046
Net Income	1,408,443	1,299,632	1,483,042	1,413,832	1,412,499	1,104,447

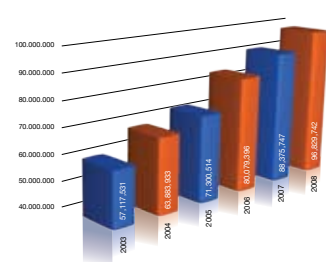
Total Current Assets 2003 -2008



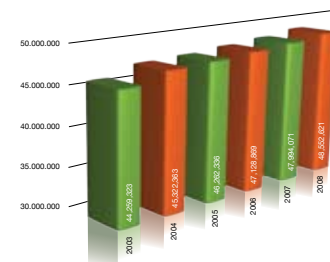
Total Non-Current Assets 2003 -2008



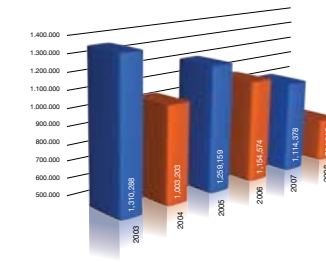
Total Liabilities 2003 - 2008



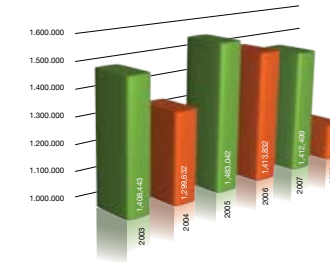
Total Shareholders Equity 2003 - 2008



Operating Income 2003 - 2008



Net Income 2003 - 2008



## Our Financial Performance in Brief

In SR thousand, except for earning per share

### Assets

	2008 As of December 31	2007
Total Current Assets	25,010,507	27,180,004
Total Non-Current Assets	120,371,856	109,189,814
Total Assets	145,382,363	136,369,818

### Liabilities and Shareholder's Equity

Total Current Liabilities	40,148,658	34,675,661
Total Non-Current Liabilities	41,743,024	38,762,026
Government Loan	14,938,060	14,938,060
Shareholder's Equity	48,552,621	47,994,071
Total Liabilities and Shareholder's Equity	145,382,363	136,369,818

### Revenue

Electricity Sales	20,651,799	19,322,935
Meter Reading and Maintenance and Bill Preparation Tariff	752,359	722,994
Electrical Service Connection Tariff	884,584	793,131
Other Income and Expenses (net)	340,401	338,798
Total Revenue	22,629,143	21,177,858

### Operating Expenses

Total Operating Expenses	(21,524,696)	(19,724,682)
Zakat	-	(40,677)
Unrepeated Adjustments	-	-
Total Operating Expenses and Zakat Allocation	(21,524,696)	(19,765,359)

### Income

Operating Income	764,046	1,114,378
Income Before Zakat	1,104,447	1,453,176
Net Income	1,104,447	1,412,499

### Earning Per Share

2008	0.27	0.34
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## Statement of the Chief Executive Officer

### Ali Saleh Al-Barrak

While the demand for electric power witnesses a substantial increase in all regions of the Kingdom, the Company has continued executing numerous projects in the fields of electric power generation, transmission, and distribution at an average annual cost amounting to SR 20 billion so as to meet such large growth in demand which was covered by the Company's own resources and through borrowing from commercial banks and also by providing opportunities to the private sector to invest in electric power generation projects.

The 2008 Annual Report illustrates the extent of efforts exerted in this respect. Through its role in upgrading the electric infrastructure, the Company has added 2,009 MW of generation capacity as a result of enhancing the cooling efficiency of the generation units and adding 30 new generation units.

In the area of upgrading and developing power transmission networks, enhancing the reliability of the electric network system, and serving the new demands for extra-high voltage (380/230 KV), 1,050 ckm of new overhead lines and underground cables were installed in addition to the establishment of 4 new substations as well as further boosting existing substations. As regards high voltage (132/110 KV) 763 ckm of new overhead lines and underground cables were installed in addition to the establishment of 12 new substations and reinforcing existing substations.

Given the necessity for a national transmission network that connects all regions of the Kingdom, the Company approved new contracts for the establishment of projects for interconnecting the networks at a total cost amounting to over SR 5,000 million. Such projects are:

- Projects for connecting the Central and Western Regions, including Al-Qassim-2 Substation, East Madina 380 KV Substation, 380 KV connection line between them, and connection lines for connecting Al-Qassim-2 Substation to the Central Region Network and connection lines connecting East Madina Substation to the Western Region 380 KV Network. The total cost of such projects is SR 3,341 million.
- Projects related to the second phase of the connection lines in the Southern Region, including 2 projects of Shuqaiq-Namera 380 KV line and 380KV Namera Substations at a total cost of SR 1,030 million for both projects.
- Project for connecting the Western Region to the Southern Region (Namera-Al-Shoaiba 380 KV line) at a total cost of SR 520 million.
- Project for the fourth connection line between the Central and Eastern Regions (Khurais-Power Plant 9,380 KV line) at a total cost of SR 210 million.

In respect to electric power distribution, electric service was delivered to 260,543 new customers, thereby raising the total number of customers to 5,420,810 by the end of 2008 representing a growth rate of 4.6% as compared with 5,182,539 in 2007. This is in addition to boosting the distribution networks.

The Company has maintained high credit score ranking for credit worthiness which was conferred to it by major international credit rating agencies last year. This includes maintaining the A1 rank given to the Company by international credit rating agency Moody's while Fitch Ratings Ltd. upgraded the Company's ranking from A+ to AA-. Also, Standard & Poors upgraded the Company's ranking from A+ to AA-. Such high credit score ranking for creditworthiness confirms the substantial success of the Company and the soundness of its strategic attitudes

in respect to enhancing the position of electric power in the Kingdom. It also contributes to maintaining and enhancing investor confidence with the Company, which in turn contributes to further attracting them to continue investing in its projects.

The Company continued its efforts aiming at the development of its national human resources and upgrading their efficiency. In this context, the Company achieved a remarkable growth rate in the nationalization of jobs that reached as high as 84.86% of the total workforce of the Company.

Social responsibility and community service received a considerable attention in the Company as it continued to provide electric services to more villages and settlements although the provision for such service is not economically feasible to the Company. The Company has also given considerable attention to research and development programs with a view to rationalizing the consumption of electric energy and upgrading its systems, in addition to programs aiming at protecting and maintaining the environment, the public safety programs, as well as supporting and sponsoring certain social and economic activities and events.

The Company continued its implementation of the Program for Private Sector Participation in Electricity Projects by offering three projects with total investment costs amounting to SR 25 billion for the establishment of three electric power generating plants with total capacity of 5,200 MW.

The Company will also focus, during the next stage, on a comprehensive electric system plan covering the period 2009–2018 which was developed to meet the increased demand for electric power and based on the study and anticipation of electric loads expectations that are estimated to reach as high as 68 thousand MW by the end of the plan period. Such plan that aims at implementing the required expansion and boosting interconnection among the networks of the Kingdom includes a number of projects for electric power generation, transmission, and distribution.

The total capital investments in the Company's budget for 2009 is about SR 18,732 million for the execution of 206 new projects, while the same year will witness providing electric services to more than 255 thousand new customers which will raise the total number of customers to 6.5 million customers by year-end 2012. In addition, electric services will be provided to about 285 villages and settlements during 2009, so that the total number of villages and settlements provided with electric services during the 2010–2012 period will reach 467.

Finally, on behalf of the Company employees, I would like to express our sincere thanks and appreciation to the Board of Directors for its valuable role in guiding and supporting the management of the Company which had positive impact on our achievements. I would also like to express our sincere thanks to all government bodies, private institutions, our customers, and shareholders for their support to the Company. And for the Company employees whose considerable effort was a major factor in all our achievements throughout the last years, I would like to convey my sincere thanks and appreciation to them all for every effort they have exerted to further develop the Company.



## 2008 Key Indicators Compared with 2007

**5.7%**

Growth of actual generation capacities to 34,470 MW

**6.2%**

Growth of available generation capacities to 39,242 MW

**4.8%**

Growth of power transmission networks to 39,793 ckm

**5.2%**

Growth of distribution networks to 170,400 ckm

**4.3%**

Growth of customers' connections to 175,020 ckm

**8.7%**

Growth of total peak loads to 38,000

**6.7%**

Growth of sold power to 181,098 GWH

**4.6%**

Growth of number of customers to 5,420,810 customers

**4.1%**

Growth of electrified areas to 11,405 towns, villages, and settlements

**1.3%**

Growth of job nationalization rate to 84.86% of the 28,029 employees

## Our Financial Policy

The Company continuously implements its financial policy aiming at enhancing its financial position and ensuring availability of cash flows required for the expenditure related to its projects. The Company also accorded its attention to restructuring certain commercial loans and following up the program of its credit ranking by specialized international credit rating agencies with a view to support and emphasize the soundness of the Company's strategic attitudes and the success of its managerial and operational policies as well as supporting the investors confidence with the Company, and further attracting them to invest in its projects.

The Company has already accomplished several achievements in the financial area, the most important of which are:

### Financial Segregation of the Company's Business Functions:

In anticipation of the future steps to be taken in respect to restructuring the Company's business functions, several measures have been taken in respect to financial segregation of such functions, including:

- Adopting SAP system applications in order to be consistent with the segregation of the Company's business functions.
- Fulfilling the requirements for implementing the following financial processes:
  - > Classification of various sectors of the Company into cost/profitability/investment centers
  - > Power exchange rates
  - > SLA service agreement
  - > Calculating the cost of capital rate by various activities

Such processes will allow the Company to measure the profitability, performance, and effectiveness of its various business functions with a view to ensure accurate reporting in such a way as to help the management in taking sound decisions and contributing to performance development of the Company activities.

### Loan Restructuring:

The high-cost commercial loan was restructured through securing new Islamic financing (Murabaha) at less financing cost and longer repayment period. As a result, the Company has ensured substantial savings in the financing cost from such process.

### Credit Ranking:

In 2008, the Company has maintained such high credit score ranking for creditworthiness which was conferred to it in 2007 by three major international credit rating agencies, as follows:

- Moody's credit rating agency maintained the "A1" rank it had previously assigned to the Company
- Fitch Rating Ltd. upgraded the Company's ranking from A+ to AA-.
- Standard & Poors upgraded the Company's ranking from A+ to AA-.

Such high credit score ranking for creditworthiness constitutes another achievement of the Company which allowed it to secure financing for its projects under the best and most appropriate terms.

### Automated Banking Transactions:

The Company was connected to most domestic banks through the E-Banking system, which allows the Company to electronically transfer payments to be made to various beneficiaries through their respective accounts in all banks as well as electronically effect all banking transactions. Moreover, such process considerably contributes to highly effective management of Company funds.



## Focusing on Our Shareholders

Ensuring our shareholders' expectations and attending to their requirements are the main strategic goals of the Company. We, therefore, spare no effort to make sure we maintain and develop their rights, facilitate the exercise of their rights, provide them with the information they require, invite them to attend the meetings of the General Assembly, facilitate payment of their dividends, and respond to their queries.

Being highly keen to strictly comply with the Executive Regulations of the Capital Market Law, we constantly observe proper disclosure of the financial results and material developments and changes in the Company, as well as observing proper transparency and compliance of the internal regulations of the Company with the regulations of the Capital Market Authority. We also ensure constant communication with the competent parties in the Capital Market and sharing relevant information about the Company and its shares with investors and various financial investment institutions.

The Company accords attention to the implementation of the guidelines contained in the "Corporate Governance Act" as may be relevant to the Company's business and activities, particularly as related to the shareholders' rights and compliance with all instructions and guidelines related to disclosure and transparency.

We regularly follow up, on a daily basis, the performance of the Company shares. We issue, as well, periodic reports about the performance of its shares, in addition to analyzing all such materials or articles as may be published in the newspapers and specialized forums about the Company shares.

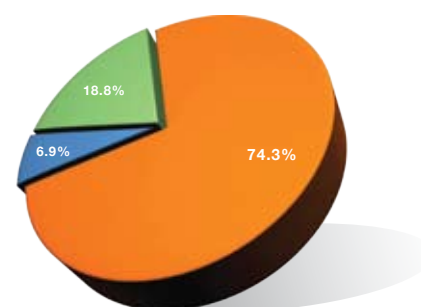
### Key achievements of the Company and major services provided to its shareholders in 2008 include:

- > Highly smooth payment of dividends to the shareholders for the year 2007 amounting to 95% of the total profits to be distributed to shareholders.
- > Rate of portfolios returned in the last year decreased to only 133 portfolios from a total of 73,224 portfolios.
- > Company Share Reports (weekly, monthly, quarterly and annual) were timely posted on the Company website.
- > All announcements published on Tadawul (Saudi Stock Exchange) website as well as all information as may interest the shareholders and investors were also posted on the Company website.
- > A Committee consisting of Company senior executives was formed to develop the Company's own Corporate Governance Regulations.

## Distribution of Company Share Capital

Shareholders	Number of Shares
The Government	3,096,175,320
Saudi Aramco	288,630,420
Public (national and the like)	781,788,075
Total	4,166,593,815

- Government
- Saudi Aramco
- Public



At year-end 2008, the overall index of Saudi Capital Market (Tadawul) closed at 4,802.99 points, compared with 11,038.66 points at the end of 2007, thereby showing a decrease of 6,235.67 points (56.49%). The highest closing point during 2008 on that index was 11,697.01 points on 12 January.

At year-end 2008, the index of the energy and utilities sector closed at 3,415.18 points, compared with 5,614.08 points at year-end 2007, representing a 39.17% decrease.

As for the performance of the Company shares, its closing price at the end of 2008 was SR 9.25, which was 37.29% lower than its closing price of SR 14.75 at year-end 2007.

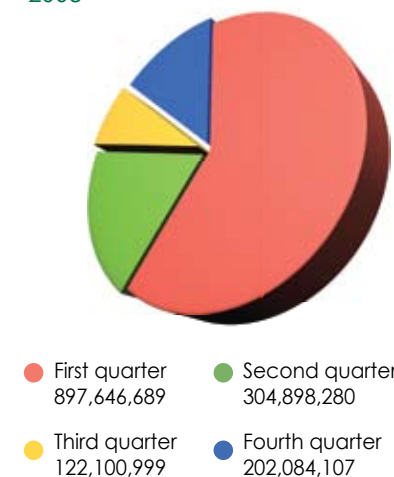
For traded share quantities, Company shares decreased by 30.77% from 2,205,185,449 in 2007 to 1,526,730,75 in 2008. Also, value of traded Company shares decreased by 29.62% from 29,548,005,806.50 in 2007 to 20,797,308,761.85 in 2008. Number of transactions also decreased from 517,191 in 2007 to 360,560 in 2008, which is a 30.28% decrease.

Highest share value in 2008 was SR 17.25 compared with SR 17 in 2007, while the lowest share value in 2008 was 8.85 compared with SR 11 in 2007.

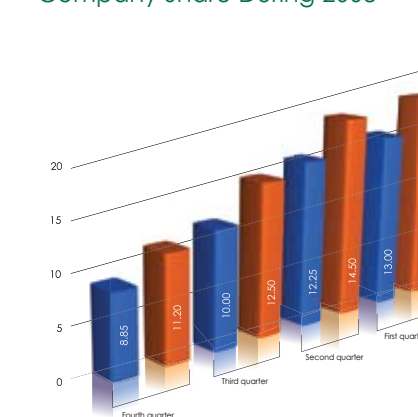
Description	2008	2007	Change (%)
Overall Saudi Capital Market Index	<b>4,802.99</b>	11,038.66	-56.49%
Power and Service Utilities Sector Index	<b>3,415.18</b>	5,614.08 *	-39.17%
Traded Shares Quantity	<b>1,526,730,075</b>	2,205,185,449	-30.77%
Value of Traded Shares	<b>20,797,308,761.85</b>	29,548,005,806.50	-29.62%
No. of Transactions	<b>360,560</b>	517,191	-30.28%
Highest Share Value	<b>17.25</b>	17.00	-1.47%
Lowest Share Value	<b>8.85</b>	11.00	-19.55%
Share Closing Value	<b>9.25</b>	14.75	-37.29%

\* The new sectors of the market were adopted as from 5.4.2008

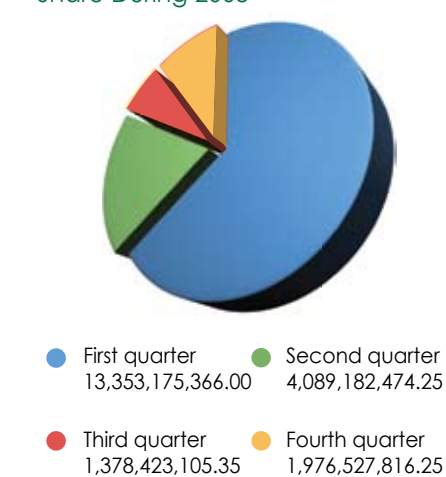
Traded Share Quantity During 2008



Highest/lowest Price of the Company Share During 2008



Traded Value of the Company Share During 2008





# MAJOR EVENTS OF 2008

## JANUARY

- The Board of Directors approved the Regulation of a Savings System.
- The Company concluded contracts amounting to SR 3,825 million for the fifth expansion of Rabigh Power Plant and connecting it to the electricity network.
- The Company launched to the investors its first project within the program for involving the private sector in Company projects and is now receiving applications for investment in a project to construct an independent power plant at Rabigh.

## February

- The Company has accomplished a project study for the development of customer service strategy.
- The Company has approved a document on work ethics.
- The Board of Directors has approved the increase of housing allowance to 25% subject to a minimum of SR 15,000, and approved the increase in number of employees obtaining a rate of "very good" to 23% instead of 15%, and also approved payment of a month's salary reward to those obtaining a rate of "excellent" while a half a month's salary is awarded to those obtaining a rating of "very good."
- The board of Directors has approved dividend payment of 70 halala per share as the Company achieved profits of SR 1,553 million in 2007.

## March

- Started implementing the saving system for Saudi employees.
- The Company launched an automated system for registering suppliers.
- The Chief Executive Officer launched control centers for the Central and Eastern Regions.

## April

- The Company celebrated the graduation of 683 trainees.
- The Company held its sixth General Assembly meeting and approved dividend payment of 70 halala per share to the shareholders.
- The Board of Directors approved concluding contracts amounting SR 2,828 million for completing its strategic projects related to electrical interconnection between the Kingdoms Central, Eastern, Western, and Southern Regions.

- The Company sponsored and supported the national campaign for rationalization of electricity consumption at a cost of one million Saudi Riyals.
- The Company launched the second stage of the program for managerial approach and organizational atmosphere.
- The Chief Executive Officer approved the rules and policies for optimum utilization of the information technology resources.

## May

- The Company participated in sponsoring the "Profession Day" in universities and the establishment of university research chairs as well.
- The Company received for the fourth time the Golden Award for Saudization from HRH Prince Naif Bin Abdul Aziz, Minister of Interior.
- The Company has paid dividends to the shareholders as approved in the sixth meeting of the General Assembly.
- The Company, in coordination with the Eastern Region Chamber of Commerce and Industry, organized the sixth forum on the development of human resources which was participated by regional and international organizations.
- The Company held its second forum in Riyadh with the manufacturers and suppliers of distribution materials.
- The Company, in collaboration with the contractors executing the projects of the Company has held a seminar on merger and acquisition.
- The Company, in coordination with King Abdulaziz City for Science and Technology, held a scientific forum under the theme "The Impact of Electromagnetic Fields in the Kingdom," which was within the compliance of the Company with its social responsibility and its support for scientific studies specializing in electric energy.

## June

- The Board of Directors raised the maximum limit of salary scale by 7% for all employees and approved increasing the salary of newly hired university graduates in certain disciplines by SR 1,000, and also approved increasing the salaries of the graduates of Company's institutes in technical disciplines to SR 4,200.



- HRH Prince Salman Bin Abdul Aziz, the Prince of Riyadh Region, gave the Chief Executive Officer a memorial shield during the graduation party for graduates of Riyadh Technical Education Council units in appreciation for the role of the Company in the area of employment.
- The Board of Directors approved concluding four contracts for electric power generation projects amounting to SR 26 billion.
- In compliance with its social responsibility, the Company sponsored the "International Environment Day" which was organized by the Royal Commission for Jubail and Yanbu.
- The Company concluded an agreement for a university research chair with King Fahd University of Petroleum and Minerals at a cost amounting to SR 5 million.

### July

- The Company concluded a contract for a SR 6 billion Murabaha loan with six domestic banks for the repayment of the outstanding commercial loan and supporting the financing of a number of capital projects of the Company.
- Fitch Rating Ltd. upgraded the credit rating assigned to the Company to AA while Moody's maintained the credit rating of A1 it previously assigned to the Company.
- The Company won the Abha Award for National Service.

### August

- Standard and Poors assigned AA credit rating to the Company for the second year.

### September

- The Company ranked seventeenth in the list of 150 top companies in the Kingdom and GCC countries.
- The Company concluded a contract for the third phase expansion of Al-Shoaiba Power Plant.

### October

- The Human Resources Forum held in Jeddah honored the Company for its golden sponsorship of the forum.
- The Custodian of the Two Holy Mosques set the foundation stone for a number of electric power connection projects in Madina.

- The Ministry of Water and Electricity honored the Company for its golden sponsorship of the National Campaign for Rationalization of Electric Power Usage.
- The Company participated in the 7th International Forum on Operation and Maintenance, where it submitted 6 papers and won an honor shield.
- The Company organized the first scientific event for industrial safety.
- The Company won the award for excellent performance in the application of geographic information systems.

### November

- HRH Prince Naif bin Abdul Aziz has honored the Company during the conference on computer science and praised its efforts in supporting professional research chairs in the Kingdom.
- The Company concluded three agreements for professional scientific research chairs costing SR 15 million for which the Company received honors in appreciation for such support.
- The Saudi Council for Quality of the Western Region honored the Company for its leading role in quality and continuous improvement.
- The Board of Directors approved a program allowing the employees to obtain loans for building and owning houses.

### December

- The Company organized its sixth seminar on customer service in the Western Region.
- The Company held the seventh meeting of its General Assembly which approved the election of the members of the Board of Directors for its new session.
- The Company successfully implemented its operational plan for the year 1429 Pilgrimage season.





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OUR GOAL: 15% RESERVE  
IN ELECTRIC POWER GENERATION CAPACITY

## PLAN FOR BOOSTING THE ELECTRIC SYSTEM

The concept of planning which the Company has adopted is based on the fact that planning constitutes a key feature in all fields of contemporary life and business upon which the future outlooks are considered and future requirements are accordingly anticipated. Preparations are made to meet them in the light of the goals to be achieved, the available and potential resources, predicted problems, and the processes required to address all such aspects.

Based on such concept, the Company has conducted an analytical study of the developments arising from the issuance of the Council of Ministers Resolution No. 169 dated 1419/8/11 on the merger of all Saudi Consolidated Electric Companies in all regions and the projects of the Electricity Corporation into a single joint stock company, namely "Saudi Electricity Company."

The Company is certain that the most important indicator in the implementation of such resolution is the accomplishment of the necessary processes related to integration and consolidation of the systems, particularly as the newly formed company inherited various systems which required careful examination so that the best procedures, systems, and regulations which have been carried out in the previous companies are adopted by the new company after having done some modifications and introducing new additions as necessary.

The Company accomplished a systematic approach towards restructuring Company's business process, fulfilling all other amalgamation and consolidation processes, preparation of job descriptions, development of the bases for planning, training, and evaluation of Company workforce.

### Achievements of the Interim Plan

While the Company was preoccupied in accomplishing the restructuring requirements, it took into consideration, as top priority, the necessity of being adequately prepared for addressing the challenges in the Kingdom's population growth, expanding construction and industrial activities, and continuing its drive aiming for better service to the customers and providing them with electric power wherever they are. In view of this, the Company developed an interim plan aiming at executing urgent projects and focusing on the vital issues related to boosting electric power generation, transmission, and distribution capacities. Through such interim plan, the Company was able to execute numerous electric power projects.



The most noteworthy features that have been considered in discussing such plan are:

- Since its establishment and start of its operation on 5.4.2000 continuing up to 2008, the Company has spent over SR 160 billion on various projects that were included in the said plan.
- Major achievements of such interim plan that demonstrate the successes that have been accomplished are: the projects for Shoaiba Power Plant, Power Plant 9, and Qurayyah Power Plant including the efforts exerted to upgrade the readiness of various electric power generating plants and increasing the operational efficiency of the power generation systems besides the development of services provided to the customers.
- The interim plan ensured a balance between the requirements of the restructuring phase and meeting the increasing demand for electric power reaching a growth rate of over 7%.

The following table shows the achievements of the Company within the said interim plan:

Description	2000	2008	Change
Power Generation Capacities (MW)	25,790	39,242	52%
Transmission Networks Length (ckm)	29,631	39,793	34%
Distribution Networks Length and Electric Power Connections to Customers (ckm)	226,664	345,420	52%
Number of Customers	3,622,391	5,420,810	50%
Number of Employees	30,028	28,315	(5.7%)
Job Nationalization Rate	73.2%	84.86%	16%

2009-2020 Plan for Boosting the Electric System

In continuation of such effort, and based on the perspective of the Company to the planning approach which require conducting an analysis of the outcomes of the previous achievements and accordingly deciding on what to be executed in the light of an in-depth study and anticipation of the future requirements, it was evident that another carefully developed plan should be in place to cover the period 2009-2020. It became necessary, after gaining operational stability together with the increasing demand for electric power, that there must be a comprehensive plan for the electric system in the Kingdom of Saudi Arabia on the medium run.

The plan's objectives were based on a study of the anticipated loads that were projected to reach 68 thousand MW over the plan years. Required strategies were adopted for the development of the electric system in the Kingdom, and the electric power projects to be executed for this purpose were identified, including both the projects that will be executed by the Company itself and those that will be executed through joint venture between the Company and the private sector. All such projects that have been scheduled for execution will add over 32 thousand MW. The plan also includes a number of projects for electric power transmission, together with the project for electric connection, will be among the largest projects executed by the Company that will contribute to a more effective interchange of electric power throughout the regions of the Kingdom, ensure more economic operation of the generation units, and reinforce the Kingdom's electric system. The plan also includes a number of projects in the area of electric power distribution along with a number of substations throughout the regions of the Kingdom.

Objectives of the Plan

The plan was based on the available current and future resources and its key objectives were identified as follows:

- Preparation of appropriate electric load expectations during the plan period in the light of the expanding development in industrial, commercial, and housing activites being witnessed in the Kingdom.
- Preparation of plans for boosting generation capacities according to the latest international standards and systems to meet electric load growth and to be in line with the state's attitude in respect to ensuring optimum use of fuel in the Kingdom.
- Preparation of plans for the expansion of electric power transmission and distribution networks from generation sources to the final users to ensure the stability and reliability of the electric system.



- Preparation of plans for boosting the interconnection between the Kingdom's electrical network system within a single network so as to facilitate interchange of electric power between various regions of the Kingdom and ensure optimum benefit from all available generation capacities in various regions, given the variation in peak capacities among various areas, and thus the required generation reserve may be minimized.
- Preparation of projections for the required budgets, financing needs, and cash flows for the execution of the required projects during the plan period.

Loads Expectations

The plan was developed after a careful and elaborate study of the anticipated electric loads in coordination with the Ministry of Water and Electricity and the Electricity and Cogeneration Regulatory Authority to come up with a clear and logical perspective of the anticipated loads in all regions of the Kingdom.

The following table summarizes the anticipated loads in the Kingdom during the plan years:

Region	Anticipated Loads (MW)				
	2009	2012	2015	2018	2020
Interconnected Networks of Both Central and Eastern Regions	24,100	29,566	34,082	38,728	42,793
Western Region	11,670	14,140	15,996	17,883	19,928
Southern Region	2,850	4,020	4,964	5,943	6,617
The Kingdom	41,043	50,074	59,526	68,182	75,155

Generation Plans

The plan focused on boosting the generation capacities and based on the study of future generation options for the interconnected network, it has adopted the steam power plant for the coastal areas and the combined-cycle or gas power plants (depending on the availability of natural gas) for the interior territories.

The following tables show the various generation projects executed by the Company or the private sector along with the planned projects in the different regions of the Kingdom. Based on this, it is evident that eight (8) main power plants are required in Qurayyah, Ras Al-Zor, South Uqair in the Eastern Region, Power Plant 11 in Riyadh, Rabigh and South Jeddah Power Plants in the Western Region, Shuqaiq Power Plant in the Southern Region and Dhabaa Power Plant in the North Western Region. Measures for securing the required sites for the generation stations in Ras Al-Zor, South Al-Uqair, South Jeddah and Dhabaa have already been taken.

Planned Electric Power Generation Projects

Planned Projects and Approved to be Executed by the Private Sector

Project	Type	Capacity MW	Year entering into service
Private Sector: Ras Al-Zor Power Plant	Steam	1,000	2012
Private Sector: Power Plant 11	Combined Cycle	2,000	2012
Private Sector: Rabigh Power Plant	Steam	1,200	2012
Private Sector: Qurayyah Power Plant	Steam	2,000	2014



### Planned Projects that will be Executed by the Company/Private Sector

Project	Type	Capacity MW	Year entering into service
Expansion of Qurayyah Power Plant (the steam part)	Combined Cycle	1,255	2012
Expansion of Rabigh Steam Power Plant	Steam	2,400	2012
Expansion of Power Plant 10 (the steam part)	Combined Cycle	990	2014
Shuqaiq Power Plant	Steam	3,200	2014
Dhabaa Steam Power Plant	Steam	1,000	2014
Ras Al-Zor Power Plant	Steam	3,600	2015
South Jeddah Power Plant	Steam	3,600	2015
Al-Uqair Power Plant	Steam	3,600	2016

### Electric Power Generation Projects Currently Executed by the Company and Private Sector

#### Projects Executed by the Company

Project	Type	Capacity MW	Year entering into service
Expansion of Qurayyah Power Plant	Combined Cycle	1905	2009
Expansion of Power Plant 9	Gas	480	2009
Expansion of Faras Power Plant	Gas	480	2009
Expansion of Rabigh Power Plant	Gas	1,680	2009
Power Plant 10	Combined Cycle	2,000	2010
Expansion of Jizan Power Plant	Gas	66	2010
Expansion of Tabuk Power Plant	Gas	240	2010
Expansion of Al-Shoaiba Power Plant	Steam	1200	2011

#### Projects Executed by the Private Sector

Project	Type	Capacity MW	Year entering into service
Private sector station at Jubail (Marafeq)	Combined Cycle	2600	2009
Private sector station at Al-Shoaiba	Steam	900	2009
Private sector station at Al-Shuqaiq	Steam	850	2010

### Electric Power Transmission

Options for the expansion of electric power transmission networks include projects for connecting both the currently executed and planned generation units with the Company's overall electrical network, projects for boosting the electrical connection among the regions of the Kingdom to form a consolidated network, and projects for ensuring continuity of electric service and the stability of the electric system throughout all regions of the Kingdom.

#### Projects for Connecting New Power Stations

Such projects include the required transmission networks for connecting the new power generating units (both those executed by the Company and by the private sector) to the existing electric networks. The most important of such projects include the introduction of a new 380KV network at the North Western Region of the Kingdom to connect the proposed Dhabaa Power Plant to Tabuk and Al-Ula/Al-Wajh and then connecting thereof to the network of the Western Region.

#### Projects for Interconnecting the Regions of the Kingdom

The plan includes a comprehensive program for completing the interconnection of all regions of the Kingdom and includes the projects contained in the following table that shows the position of the electric network of the entire Kingdom after completing the execution of all connection projects.



### Connection Lines in the Kingdom after the Completion of Future Projects

Budget Year	Project	Year entering into service
2009	Connecting Hail -Al-Jouf 380 KV	2012
	Connecting Al-Qassim - Madina 380 KV - Slage2	2011
2010	Connecting Jizan - Najran 380 KV	2012
	Fifth connection line between both the Eastern and Central Regions 380 KV	2013
2011	Connecting Bisha - Wadi Aldowaser 380 KV	2014
	Connecting Al-Qaysumah to the 380 KV	2014
2012	Madina - Ha'il connection line 380 KV	2015
	Central - Western Regions connection line (HVDC) Stage 1	2017
2013	Boosting Connection of the Western-Southern Regions	2016
	Tabuk - Tabarjal connection line 380 KV	2016
2014	Connecting Amlaj - Wajh/Al-Ula 380 KV	2016
	Central - Western Regions connection line (HVDC) - Stage 2	2017
2015	Second connection line between both the Southern and Western Regions	2017
	Al-Jouf - Tabarjal connection line 380 KV	2018
2016	Boosting connection of Madina - Ha'il	2019
2017	Connecting Tabarjal - Qurayyah 380 KV	2020

### Transmission Substations and Sub-Transmission Substations throughout the Kingdom

The plan includes the establishment of more than twenty-five (25) 380 KV transmission substations all over the Kingdom with more than 22 support projects for the existing 380 KV substations and more than 250 sub-transmission substations of 132 KV, 115 KV, or 110 KV capacity in various areas of the Kingdom.



## PROGRAMM FOR PRIVATE SECTOR PARTICIPATION IN ELECTRICITY PROJECTS

In compliance with the policies of the State in respect to privatization and competitiveness, opening opportunities for the private sector to invest in the electric power industry, and recognizing that the large-scale economic development witnessed in the Kingdom requires the establishment of a large number of power generating stations, the Company has already taken significant steps to encourage the private sector to invest in projects for electric power production. A dedicated taskforce was formed and assigned the task of overseeing the related program. In addition, agreements were made with renowned international groups of experts having technical, financial, and legal know-how, and special experience in the area of investment in projects for electric power production.

Accordingly, the Company has already identified the targeted projects and is currently working on the preparation of documents required for soliciting offers so that such projects will be offered to the investors to invest therein under a long-term build-own-operate system.

There are three projects in the first phase whose total required investments are estimated to reach over SR 25 billion. Details are as follows:

- The first project will be in Rabigh, Western Region, with a capacity reaching 1,200 MW. The documents for such project have been prepared and introduced to the private sector in 2008. Two proposals for the construction, ownership, and operation of such project were received from two consortia of qualified developers. The Company is currently working with its consultants in studying, analyzing, and evaluating both proposals in the context of their commercial, technical, and legal aspects in order to identify the successful bidder by the first quarter of 2009. The actual operation of the power station to be constructed under such project will be in 2012.
- The second project will be in Riyadh, with a capacity estimated at 2,000 MW. The Company has already started inviting interested parties to participate in such project and delivered them the prequalification documents as from 20 December, 2008. Documents for soliciting the proposals for such project are currently being prepared. It is expected that the project will start operation in 2013.
- The third will be at Al-Qurayyah, Eastern Region, with a capacity of 2,000 MW and will start operation in 2014.







## HUMAN RESOURCES

- In 2008, we provided Company employees with 58 "I-Learn" (computer assisted learning) training programs consisting of 222 training courses covering a wide variety of subjects
- Total creative ideas presented through the Innovation Program "Ibda'a" was 2,618 of which 1,296 were approved, 233 of which were presented in 2008.

**84.86%**

- Job nationalization rate rose to 84.86% of the 28,315 employees constituting the total workforce of the Company by the end of the year



## Our Major Achievements

We continued our efforts aiming at investing, motivating, and developing the employees given the fact that recruitment, qualification, and training of the human resources contribute to ensuring the desired growth, enhancing the productivity efficiency of the Company, and developing its overall performance in the long run. Based on our belief in the importance of human resources as a critical power to the success of the radical change processes aiming at developing the overall performance and transforming the operation to a business-oriented approach, our efforts continued during 2008 to work as a joint organizational supporting unit in terms of continuous planning and development of Company employees in order to effectively contribute to the realization of the Company mission that requires highly efficient, qualified, and trained workforce capable to adapt with the accelerating developments in the Company's business environment. We, therefore, give special emphasis to the development of human resources through the provision of carefully structured specialized programs for the selection and development of employees and planning their careers in such a way that would ensure permanently filling all Company job positions with highly competent employees.

In the area of prequalification and training to meet the Company requirements for various technical and administrative functions, 772 of the Company training institute graduates were successfully absorbed in 2008 into the Company On-the-Job Training Program (OJT), bringing the total number of on-the-job trainees to 1,291. Furthermore, 484 university graduates were employed and have joined the Professional Development Program, bringing the total number of university graduate employees registered in this program to 812 by year-end 2008. For further developing our employees' skills, numerous short courses were conducted. The total number of participants therein reached 33,343 participants. We also provide developmental programs designed for our professional and managerial employees with a view to preparing and qualifying them to fill higher positions and to perform more complex tasks within their careers. Examples of such programs are the Career Development Program "Masar" and the Leadership Program "Qeyadah." The total number of participants in both programs has been over 10,000 employees.

We have also adopted a modern developmental program, namely the Competency-Based Development Program, as a non-conventional step towards the development of human resources. The total number of participants in such program is over 1,800 employees occupying supervisory and managerial positions. Such program serves the other developmental programs and constitutes a powerful support to the replacement processes of the Company. Furthermore, we have adopted a special program for the development of promising employees with the specific objective of creating adequately integrated organizational channels devoted to take care of Saudi university graduate employees who show proven talents and personal aptitudes to assume further specialized and leadership responsibilities. Total number of participants in this program reached 73 employees by the end of 2008.

Traditionally and in coordination with the Chamber of Commerce and Industry of the Eastern Region, we organized an annual forum on the development of human resources. Within such coordination, six forums were conducted in the past years, which provided participation opportunities for over 200 Company employees annually.

In 2008, we made available to our employees 58 training programs through the computer assisted self-study program called "I-Learn" which include 222 training courses covering a wide range of administrative and technical subjects to encourage self-development and enable our employees to efficiently and effectively perform their tasks. Through this program 4,339 courses have already been delivered and 1,359 employees have benefited from it.

Given the importance of performance management in promoting the standards of both business and its personnel, we have adopted a sophisticated performance management system using the world's best-known practices and applications. In our efforts to ensure that employees absorb the value of such system

and for us to expand the responsibility base in the application of such a system so as to cover all activities, sectors, and departments, we have already provided 91 training courses on performance management to 1,663 line managers and supervisors. Furthermore, educational symposia in the same subject have been delivered and participated by 1,140 employees from all divisions of the Company.

We have also continued the implementation of the Total Quality Management (TQM) programs. In 2008, a total of 89 teams were formed and specifically assigned the task of enhancing the key operations carried out by the business functions in various managerial levels. Total number of Total Quality Management teams formed from the time the program was first introduced has reached as many as 1,446 teams which came up with 6,932 recommendations, of which 5,665 have been adopted thereby contributing to the enhancement of various operations, upgrading their efficiency, reducing operational costs, and promoting the services rendered to both the internal and external customers.

Within the framework of the Innovation Program "Ibda'a," the total number of creative ideas presented was 2,618 from which 1,296 ideas were approved and of which 233 were presented in 2008. Contributors of the approved ideas were honored, which significantly encouraged the Company employees to submit more contributions to the program. Also, within the Excellence Program "Tamaioz" for honoring excellent employees, 1,487 employees were honored which raised the total number of excelling employees to 4,920 since the start of the program. In addition, 398 high performers were honored in 2008, bringing the total number of honored high performers to 1,902 employees from the time the program was first introduced.

As a result of our ongoing efforts towards the prequalification and development of university graduates as well as graduates of Company training institutes and in preparing them to join the Company workforce and activating the replacement programs, we have managed, by the end of 2008, to raise the nationalization of jobs rate to 84.86% of the 28,315 employees constituting the total workforce of the Company, compared with 83.85% in 2007.

Moreover, we accomplished the first stage of working on the Balanced Scorecard in collaboration with a specialist consultant. Accordingly, strategic goals were identified through workshops conducted with the executive management during 2008. The second stage of that task will be undertaken in two phases. The first phase will be for the Generation, Transmission, and Distribution and Customer Services support service functions, while the second phase will be for the remaining support service functions of the Company where the objectives of each function will be identified and their relevance to the strategic goals of the Company will be checked.

- 33,343 employees participated in specialized courses on various disciplines.
- 484 university graduates were employed and have joined the Professional Development Program for university graduates.
- 722 graduates of Company training institutes were absorbed in the Company in 2008 thereby bringing the total number of on-the-job trainees to 1,291 by the end of 2008.
- Job rationalization rate rose to 84.86% of the 28,315 employees constituting the total workforce of the Company
- Total creative ideas presented through the innovation program was 2,618 of which 233 were presented in 2008





## GENERATION

GROWTH OF AVAILABLE GENERATION CAPACITY  
IN 2008 BY 6.2% TO REACH 39,242 MW COMPARED  
WITH 36,949 MW IN 2007

**5.7%**

GROWTH OF ACTUAL GENERATION CAPACITIES  
TO 34,470 MW

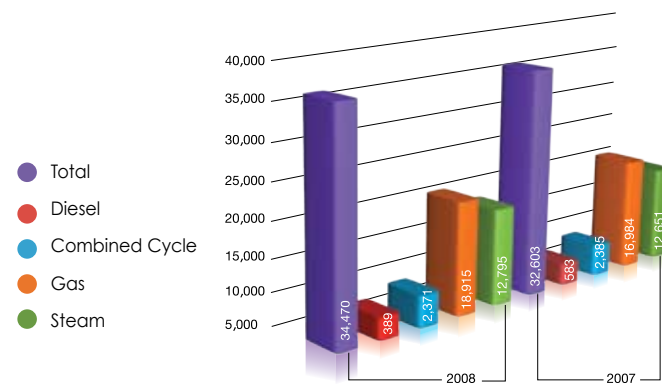


## Our Major Achievements

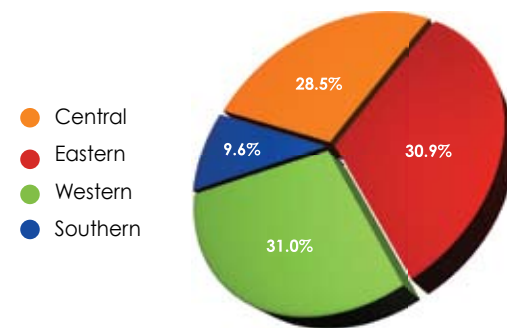
Based on our mission as a business function to provide adequate and highly reliable electric energy and to reduce the cost of power production by the optimum utilization of available resources, the Generation business function constitutes a major activity of the Company given that it is the key source of electric energy production.

In 2008, the contributions of desalination plants, the large customers, as well as the rental diesel units during peak load time were 6.2%, 4.7%, and 1.2% respectively of the total available generation capacity. By the end of 2008, the Company's power stations in the Central, Eastern, Western, and Southern Regions yielded 28.5%, 30.9%, 31.0%, and 9.6% respectively of the Company's total generation capacity. The Company is keen to increase the efficiency of the economic operation of its power generating units, taking into consideration that both gas and steam power generating units account for the highest portion of the actual generation capacity of all Company power stations with 54.9% and 37.1% respectively while the combined cycle units yielded 6.9% and the rental diesel units 1.1% of the overall actual generation capacity of all Company power stations.

### Actual Generation Capacities by Unit Type



### Percentage Distribution of Generation Capacities by Area of Company Owned Power Generating Units in 2008



The growth in the actual generation capacity reflects the constant efforts of the Company to keep up with the required electric power to meet the requirements of the national network. During 2008, a number of projects were launched to boost up the generation capacity of Company power stations with 2,009 MW. Major outcomes of such projects include:

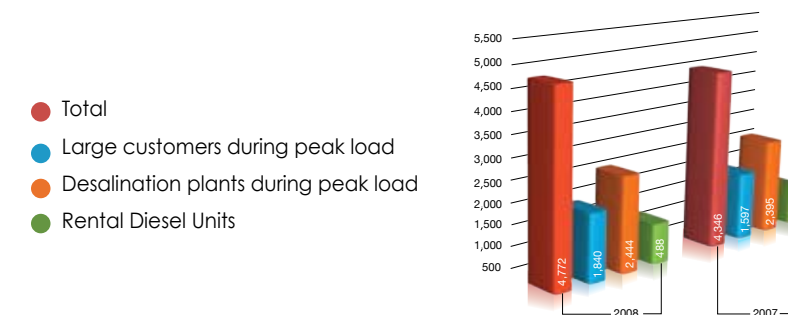
Increased actual generation capacity as a result of enhancing the cooling efficiency of the generation units:

- 304 MW in Power Plant 9, Riyadh

Increased actual generation capacity as a result of introducing new generation units:

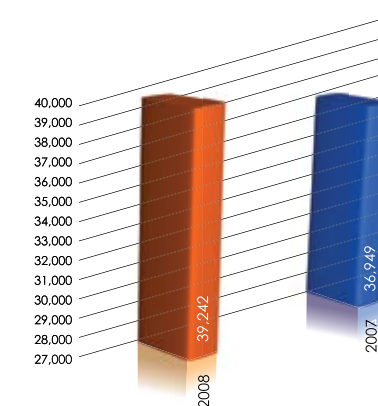
- 22 gas units at Power Plant 9 in Riyadh with a total capacity of 1,221 MW
- 2 gas units at Al-Jouf Power Plant with a total capacity of 120 MW
- 3 gas units at Tabuk Power Plant with a total capacity of 180 MW
- 2 gas units at Jizan Power Plant with a total capacity of 132 MW
- 1 gas unit at Najran Power Plant with a total capacity of 51.5 MW

## Purchased Generation Capacities by Source

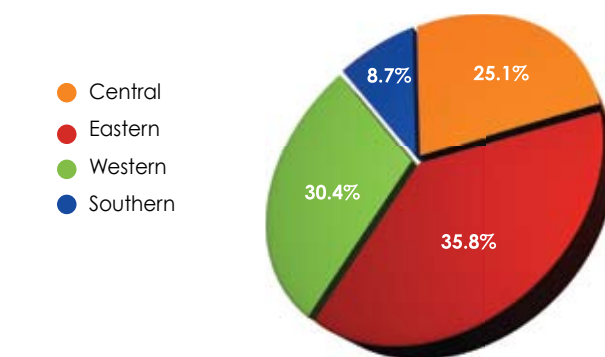


The total available capacity achieved in 2008 reflects a growth rate of 6.2%, bringing up the total available capacity to 39,242 MW, compared with 36,949 MW in 2007. The rental diesel units, desalination plants, and large customers contributed 488 MW, 2,444 MW, and 1,840 MW respectively at peak load time, bringing up their joint contributions to 4,772 MW which reflect the new trend adopted by the Company in terms of forming strategic partnerships in order to diversify power generation sources and increase the national generation capacity to keep up with the increasing demand for power. The Company spares no effort in raising the operational performance in order to build an acceptable power reserve with the range of 10-15% of peak load and boosting and developing the infrastructures of the power generation plants facilities which constitute, in terms of its fixed assets alone, 34% of the Company net fixed assets.

### Total Available Capacity (MW)



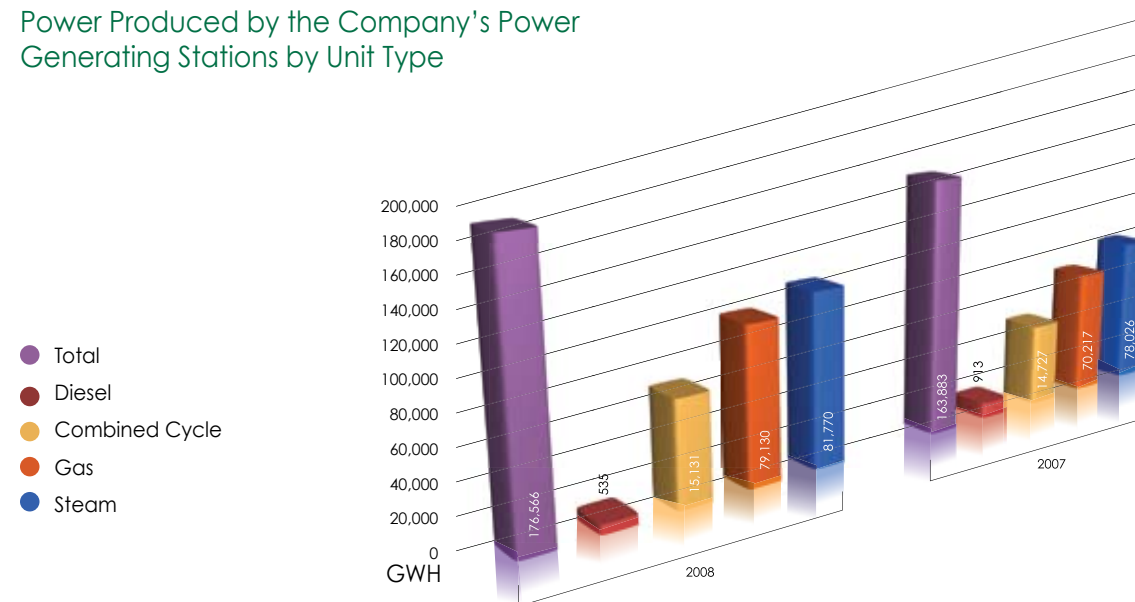
### Percentage Distribution of Total Available Capacity By Area in 2008



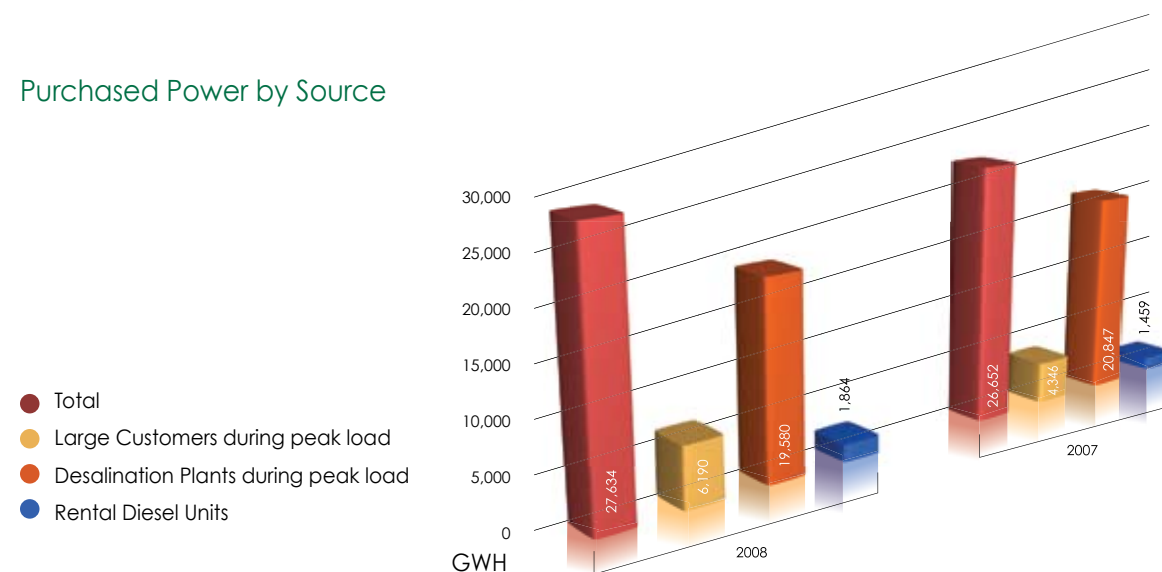


By the end of 2008, the total produced energy from the Company power stations was 176,566 GWH yielding a growth rate of 7.7% as compared with 2007. By comparing the Company's total produced energy with the total contribution of rental diesel units, desalination plants and large customers amounting to 27,634 GWH, the Company contributed 86.5% of the total available power, as compared with 13.5% by all other producers combined. This reflects our commitment to meet the requirements of the national power network. The energy transmitted to the networks constituted 97.4% of the total available energy amounting to 198,809 GWH, compared with 185,471 GWH in 2007.

#### Power Produced by the Company's Power Generating Stations by Unit Type



#### Purchased Power by Source

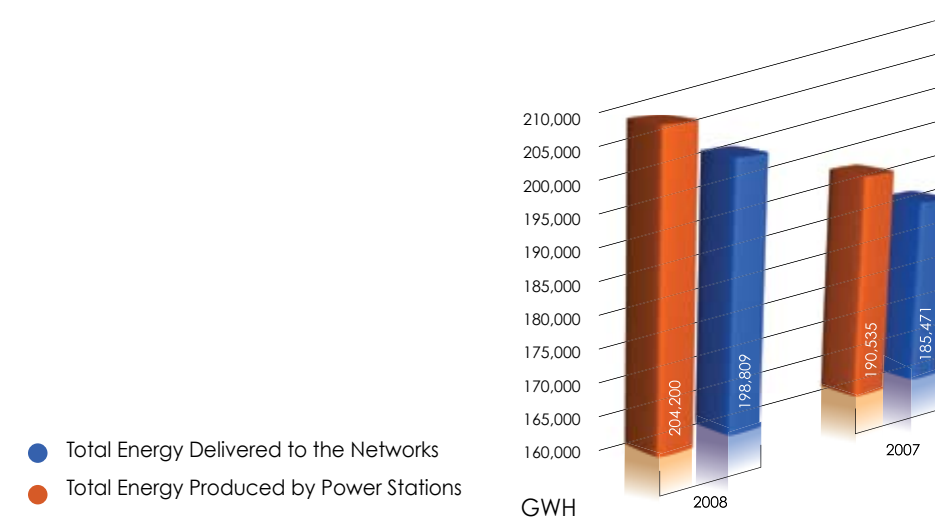


Readiness rate of the steam units during 2008 was 84.3%, compared with the 87% planned rate which was due to unplanned forced outages in the Eastern and Western Sectors. Readiness rate of the gas units was 84.3%, compared with the 88% planned rate, which was due to shutdown involving the gas units in the Central Sector. As for the combined cycle units, readiness rate was 82%, compared with the planned 85%, and the readiness rate for the rental diesel units was 93.6%, compared with the planned 93%, indicating that the planned target rate was achieved.

Maintenance programs were 8.6% higher than the planned rate. Thirty-eight (38) complete maintenance jobs were performed on the generation units and 58 medium maintenance operations were carried out; higher by 18.4%. Such increase was due to converting some maintenance operations from moderate to medium and others from medium to overall.

Emergency shutdown rate for the steam units was 0.36 compared with the planned 0.47 rate, as emergency shutdown coefficient has improved; the planned target was almost achieved. Such shutdown rate for the gas units was 3.43, compared with the planned 1.70 which was due to shutdown of certain generation units in the Central and Eastern Sectors. The rate for the combined cycle units was 1.48, compared with the planned 1.03, which was due to shutdown of a generation unit in the Central Sector for 22 days. The rate for the rental diesel units was 2.04, compared with planned 1.63, due to shutdown of some units in the North Eastern Sector.

#### Total Energy Produced and Delivered to the Network



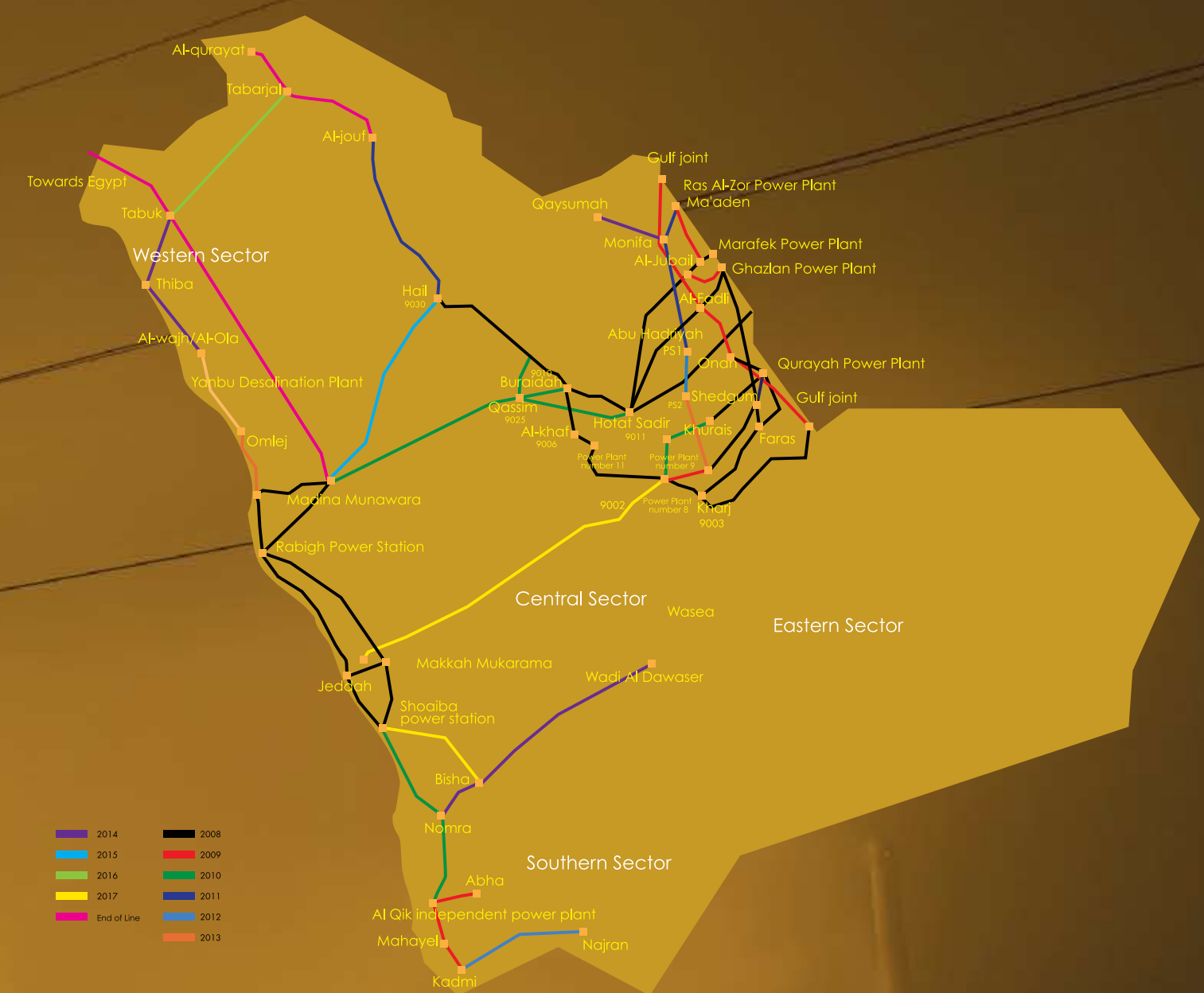


# TRANSMISSION

- Approving a number of contracts for the construction of new projects with total cost of over SR 5,000 million within the plan for completing the strategic electric connection of all regions of the Kingdom.
- Launching a number of new projects in addition to promoting existing projects for upgrading and developing the power transmission networks and raising their operational efficiency. Sixteen (16) substations were added with 46 transformers having a total capacity of 5,327 MVA. New transmission networks with total length of 1,813 ckm were also added.
- Total number of high voltage and extra-high voltage transmission substations reached 586 including 1,690 transformers with total capacity of 153,414 MVA. Growth in total lengths of power transmission networks to 39,793 ckm.

4.8%

Networks Growth Rate, bringing up the total length of power transmission networks to 39,793 ckm.

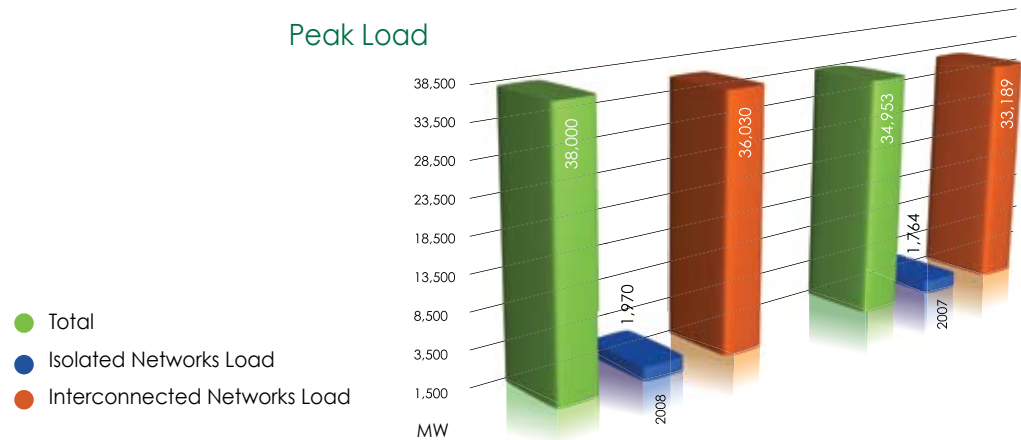




Our Major Achievements

We accord high attention to the operation of the national power network with high reliability to ensure that power is supplied to the load centers throughout the Kingdom through our power transmission networks (380/110 KV). This reflects our commitment to our mission as a business function upon which all our operational and capital projects are based on to ensure a smooth, stable, and uninterrupted transmission of electric power from its production sites to its consumption locations at the lowest possible costs, in addition to providing opportunities to all power producers and customers to use the power transmission facilities at reasonable prices. A major achievement in our operations is our success in maintaining the stability of the national network during 2008 and our highly efficient dealing with the increasing demand for electric loads.

Peak load in various regions of the Kingdom in 2008 reached as high as 38,000 MW, with a growth rate of 8.7% over 2007. Peak load contribution of the interconnected networks and isolated networks increased in 2008 by 8.6% and 11.7% respectively as compared with 2007. Maximum load of interconnected and isolated networks in 2008 reached as high as 36,030 MW and 1,970 MW respectively.



The year 2008 has witnessed the launching of several new projects in addition to boosting existing projects for enhancing and developing the power transmission network and upgrading its operational efficiency.

Within its plan for completing the strategic electric power connection in all parts of the Kingdom, the Company approved several contracts for the construction of projects whose total cost reached over SR5,000 million, details are as follows:

- Projects related to the electric interconnection between the Central and Western Regions, including: Al-Qassim 2 substation, East Madina 380 KV substation, connection line of East Madina 380 KV substation to the Western Region network. The total cost of these projects was SR 3,341 million.
- Projects related to the second phase of the connection lines in the Southern Region, including both projects of Al-Shuqaiq-Namera 380 KV line and Namera 380 KV substation. Total cost of both projects was SR 1,030 million.

- Project for connecting the Western Region to the Southern Region (Namera-Al-Shoaiba 380 KV line), with total cost of SR520 million.
- Project of the fourth connection line between the Central Region and Eastern Region (Khurais-Power Plant 9, 380 KV), at a total cost amounting to SR 210 million.

Extra-high Voltage 380/230 KV

- Addition of 4 new substations with 8 transformers having a total capacity of 2,868 MVA.
- Addition of new overhead line circuits and underground cables having a total length of 1,050 ckm.
- Boosting an existing substation with a 125 MVA capacity transformer as well as circuit breakers.

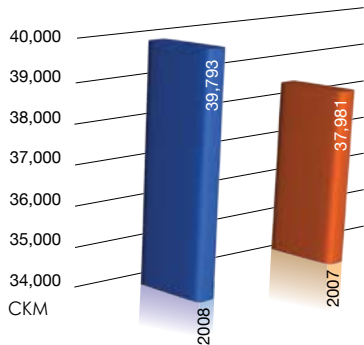
HIGH VOLTAGE 132/110 KV

- Addition of 12 new substations with 32 transformers having a total capacity of 1,898 MVA.
- Addition of new overhead line circuits and underground cables having a total length of 763 ckm.
- Boosting an existing substation by adding 5 transformers having a total capacity of 247 MVA including circuit breakers.
- Replacement of 6 transformers with 189 MVA capacity.

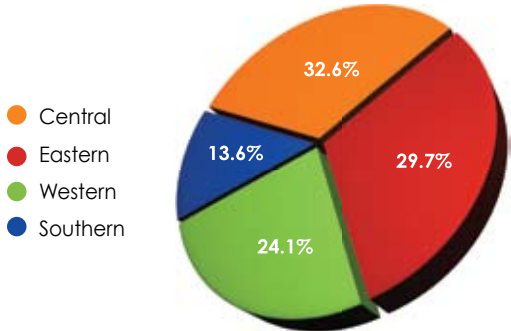
Such added projects reflect the growth in the power transmission networks by 4.8% to bring the total transmission network length up to 39,793 ckm at the end of 2008, compared with 37,981 ckm in 2007.

The power networks are spread all over the Company's operating areas throughout the Kingdom. The percentage rates of distribution by operating area of the power transmission networks length were 32.6%, 29.7%, 24.1% and 13.6% for the Central, Eastern, Western, and Southern Regions respectively.

Transmission Networks Length (380/110 KV) In 2008



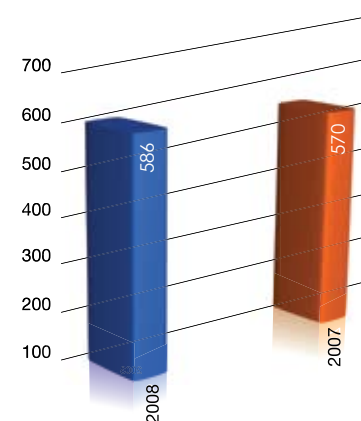
Percentage Distribution of Transmission Networks Lengths (380/110 KV) In 2008



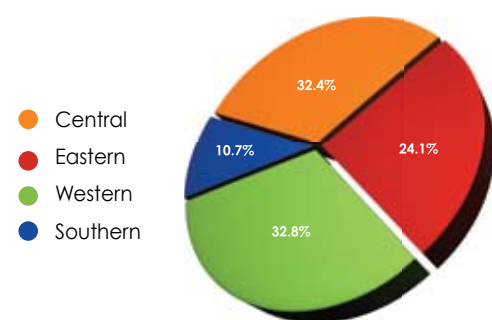


Furthermore, the power transmission networks were boosted up with 16 new substations, bringing the total number of transmission substations by the end of 2008 to 586, which represents a growth rate of 2.8% over 2007. As a result of this growth in the number of transmission substations, the overall percentage rates of distribution of the Company's power transmission substations in the Central, Eastern, Western and Southern Regions reached 32.4%, 24.1%, 32.8%, and 10.7% respectively.

Number of Power Transmission Substations In 2008

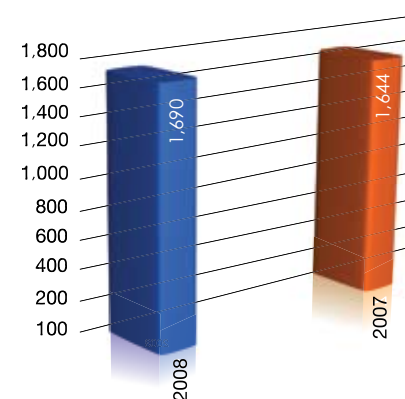


Percentage Distribution of Power Transmission Substations In 2008

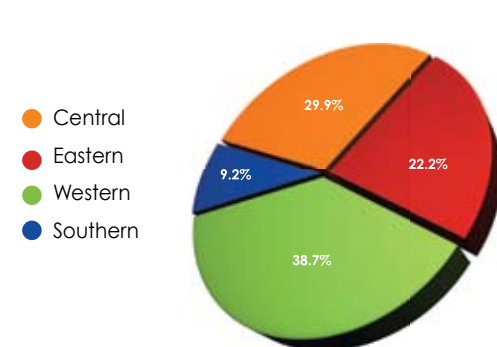


The number of transformers witnessed a growth of 2.8% bringing their total number to 1,690 in 2008, compared with 1,644 in 2007. The capacity of power transformers witnessed a growth of 3.6%, bringing their total capacity to 153,414 MVA in 2008, compared with 148,088 MVA in 2007. As a result of this further development in the power transmission networks, the percentage rates of distribution of the total number of transformers at the end of 2008 became 29.9%, 22.2%, 38.7% and 9.2% in the Company's Central, Eastern, Western and Southern operating areas respectively. Likewise, the percentage rates of distribution of the total capacity of the transformers in 2008 became 28.1%, 33.9%, 31.2% and 6.8% in the Company's Central, Eastern, Western and Southern operating areas respectively.

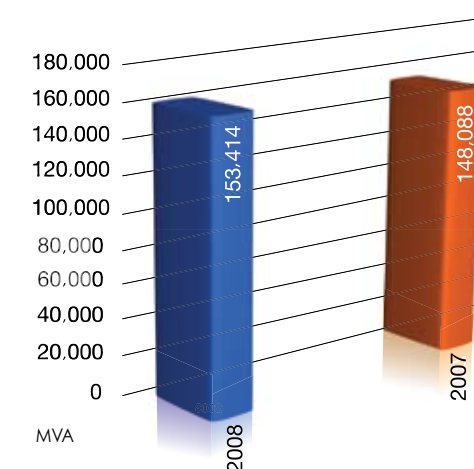
Number of Power Transmission Transformers In 2008



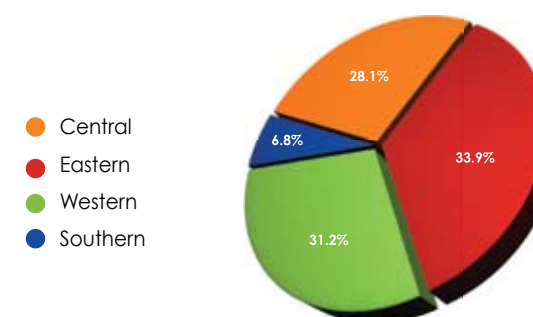
Percentage Distribution of Power Transmission Transformers In 2008



Total Power Transmission Transformer Capacities In 2008



Percentage Distribution of Power Transmission Transformer Capacities In 2008



Of the projects supporting the 110 KV electric networks, new fiber optic lines were added which brought the total length of such lines to 1,460.53 km. Moreover, 41 units of fiber optic interconnection equipment were installed.

Investors were prequalified for the 1,200 MW Rabigh independent power production project which was already introduced. It is expected that a successful bidder will be selected during 2009. The initial operation will start in 2012.



## DISTRIBUTION AND CUSTOMER SERVICES

- Electricity supply was connected to 260,543 new customers and 452 villages and settlements were electrified, bringing up the total of electrified towns, villages, and settlements to 11,405
- Boosting the distribution networks with 18,684 transformers having a total capacity of 7,870 MVA, as well as added networks lengths of 16,139 ckm. At the end of the year, the total number of transformers was 289,266 having a total capacity of 134,895 MVA, and the total distribution networks length reached 345,420 ckm.

**4.6%**

Growth in the number of customers, bringing up the total number to 5,420,810 customers.



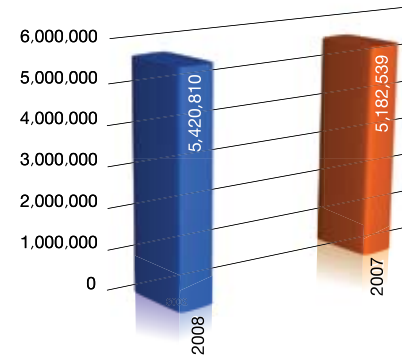


## Our Major Achievements

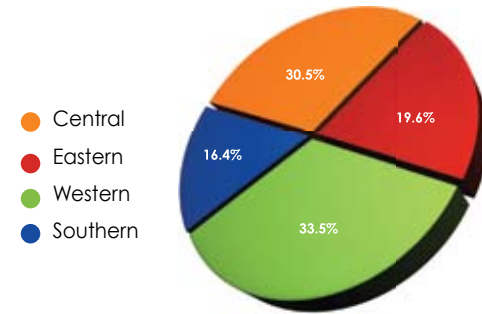
We constantly pursue development of our products and services and ensure that power utility requirements meet the expectations and needs of the customers. Being a business function having direct and constant contact with the customers, we focus our efforts on achieving our mission, including providing safe and highly reliable power utility, and continuously upgrading our services in order to achieve customer satisfaction at the lowest possible cost through the optimum utilization of our available resources. By the end of 2008, the total number of customers reached 5,420,810, representing a growth rate of 4.6% as compared with 2007. During 2008, the number of new customers reached 260,543, whose percentage rates of distribution in the Company's Central, Eastern, Western and Southern operating areas were 30.5%, 19.6%, 33.5% and 16.4% respectively.

The percentage rates of distribution of the total number of customers as per the Company operating areas, i.e. Central, Eastern, Western and Southern were 31.4%, 17.2%, 38.4% and 13.0% respectively.

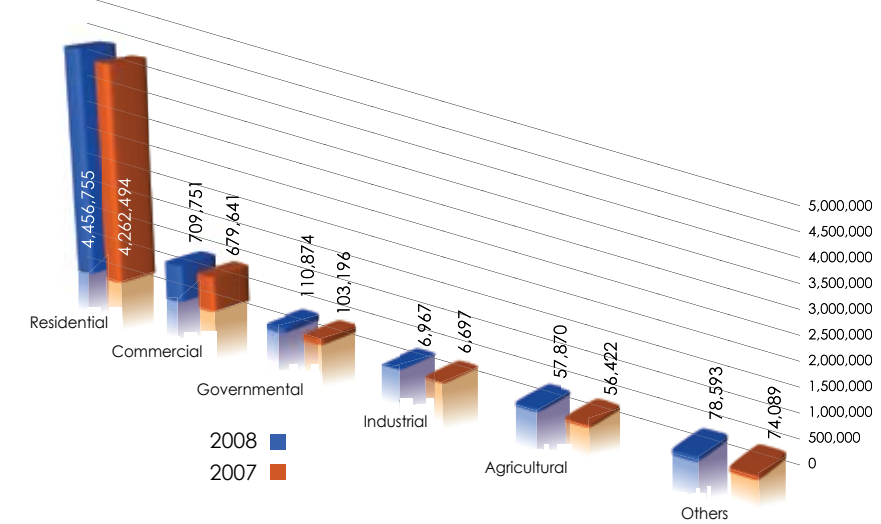
### Total Number of Customers



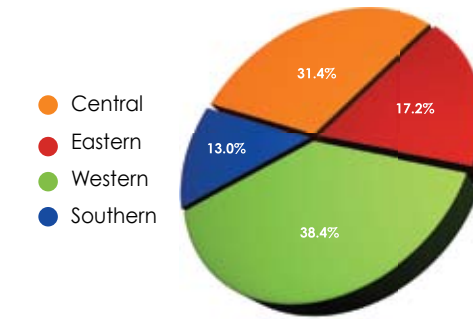
### Percentage Distribution of New Customers by Area In 2008



### Total Number of Customers by Category



### Percentage Distribution of Customers In 2008



## Serving the Two Holy Mosques and the Holy Sites

By the end of 2008 the operational plan for the pilgrimage season of the year 1429H was successfully executed with high efficiency and without any significant power disconnection incident. We, therefore, achieved an unequalled success in providing the required electric service for ensuring the convenience of the pilgrims in Mecca and all holy sites as well as in Madina. The plan included removing all networks existing within the locations of the project for the extension of the northern yards of the holy mosque in Mecca and re-supplying them with electric power through the most highly reliable electric network. Additionally, we have accomplished a project case study about automatic remote control of the electric network (DAS) for most networks, and also accomplished the preparation of electric network data for the overhead monorail system project in the holy sites and a railroad project for the two holy mosques.



## Customer Service

Within our constant focus on the development of services provided to the customers, a process for the operation of a call center was developed to respond to customer queries during regular working hours in all electricity departments in the Central and Western sectors, in addition to the development of the voice response system (IVR). Moreover, the field survey for updating customer data in the system has been accomplished.

We have expanded our service to provide electronic services to the customers by introducing SMS service. Two short numbers were assigned to such service, namely 75555 and 6555 for customers using Al-Jawal and Mobily phone services respectively, to facilitate communication with customers via short messages sent to their mobile phones. We, as well, have expanded the system for electronic delivery of electric bills (E-Bills) through which electric bills are sent to the email addresses of customers who are subscribed to this service.

## Upgrading the Networks Performance

During 2008, a contract has been awarded for supplying electronic meters that meet the standard specifications for meters to be used in activating the Company's program related to the automation of the distribution network. Estimates of distribution network materials needed to cope up with the anticipated growth in demand for electric power were prepared.

To keep pace with the development in the electricity industry and to reduce materials costs, we joined various committees tasked with reviewing the standardization of materials, revising designs and executing main distribution substation projects. Also, based on our previous experience in handling the project for remote meter reading of electricity consumptions in the Diplomatic District, Riyadh, preparations have been accomplished for the implementation of a similar project for Jeddah Electricity Department; electronic meters will be supplied as required for such project.

## Performance Development

During 2008, development of front line staff was accomplished through a contract with a specialized firm to provide customer service training to over 1,450 employees. The sixth seminar on customer services was held under the theme "We work with a view to ensure customers satisfaction." In addition, we held the first seminar on development, planning and construction operations for the Western Sector. Several educational workshops were also held for the Western Sector front line staff. Furthermore, the distribution network materials coding system has been activated.

## Automated Systems

During 2008, the Company's website was activated so that required permits are electronically issued which facilitated coordination and follow-up process. Employees and contractors were trained on using such system. We, also, continued our efforts to implement the plan for applying geographic information system by updating the pre-entered data of the networks and adding new networks and detailed charts. In respect to the payment system, we accomplished a reverse payment system which facilitated the process for correcting errors in customer payments through banks.

## Loads Displacement and Upgrade of Electric Power Efficiency

During 2008, we continued applying the variable tariff program in the Central, Western, and Eastern Regions for load displacement while 272 variable electric meters were installed until year-end 2008. This has led to reducing the customer electric bill as a result of making use of the reduced tariff beyond peak period.

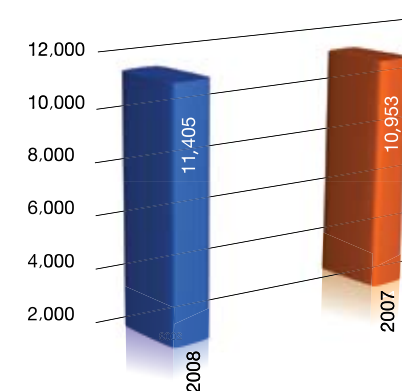
The program has also contributed to the displacement of loads at peak time particularly as disseminations of awareness through media have made a substantial role in this respect. Several exhibitions were organized in shopping centers as regards upgrading the efficiency of electric power. Moreover, the annual plan for improving energy efficiency was prepared in coordination with the Ministry of Water and Electricity. We, as well, conducted a number of educational workshops for school students on the topic of "National Program for Rationalization of Energy."

## Isolated Generation

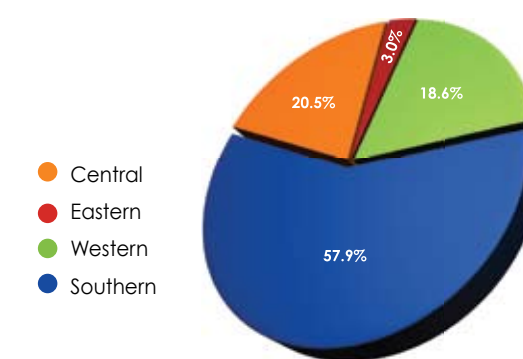
We renewed the agreement for the operation and maintenance of Company owned isolated generation units under a very competitive price of 9.5 halala/KWH. Also, an IPP agreement for the construction of a 27 MW Al-Ula Power Plant was concluded and the operation of a 15.5 MW Orba Power Plant under a lease contract has started.

A noticeable growth in the total number of electrified towns, villages, and settlements has been achieved. Electricity was delivered to 452 villages and settlements during 2008, bringing up the total number of electrified towns, villages, and settlements at the end of the year to 11,405 compared with 10,953 in 2007. Such growth reflects our contribution to the realization of the Company's mission and our commitment towards the needs and aspiration in all categories of our customers.

Number of Electrified Towns, Villages, and Settlements

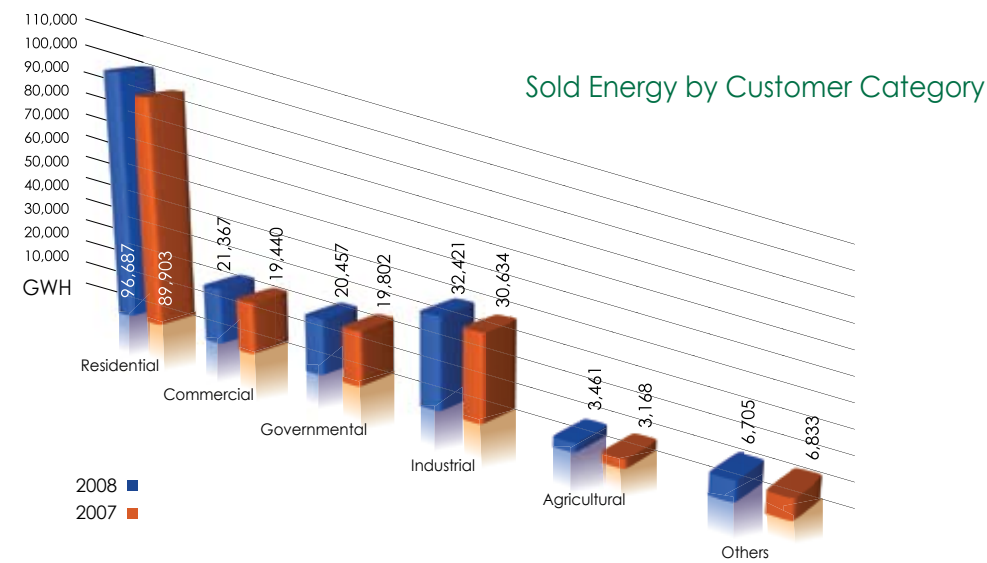


Percentage Distribution of Electrified Towns, Villages, and Settlements

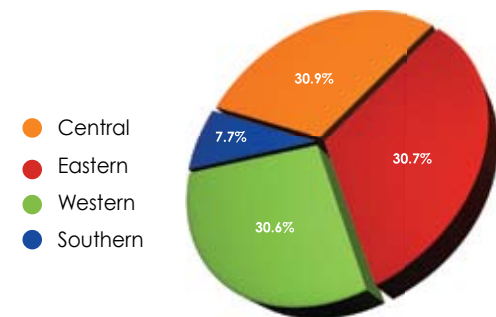




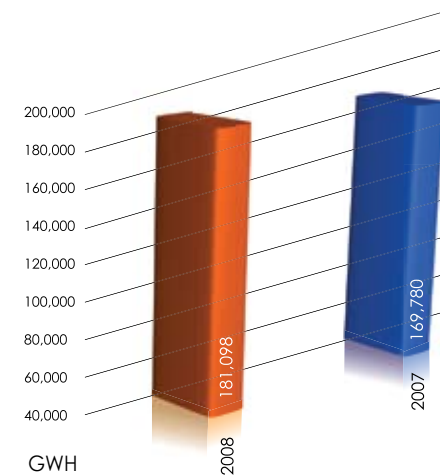
The sold energy witnessed a growth rate of 6.7% at year-end 2008, bringing up the total sold energy in 2008 to 181,098 GWH, compared with 169,780 GWH in 2007. Thus, the percentage rates of distribution of the sold energy in the Central, Eastern, Western and Southern Regions were 30.9%, 30.7%, 30.6%, and 7.7% respectively.



Percentage Distribution of Sold Energy

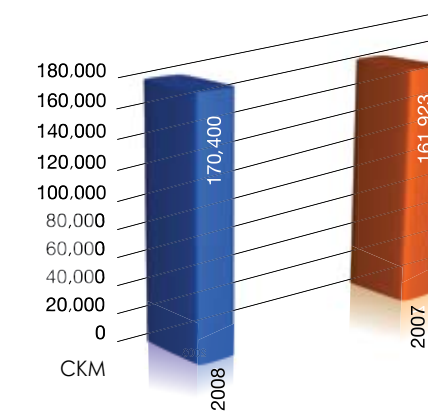


Total Sold Energy

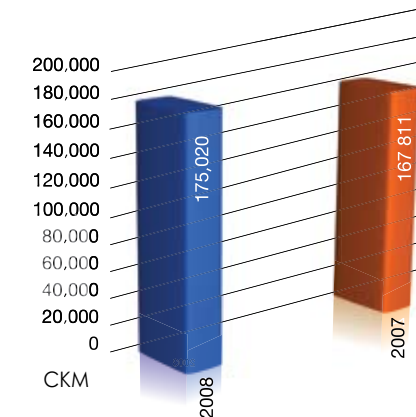


As a result of accomplishing numerous projects for boosting the electric power distribution networks, total distribution networks length (69/13.8 KV) has scored a 5.2% growth in 2008, bringing up the total lengths to 170,400 ckm, compared with 161,923 ckm in 2007. Also, the customers' connection lengths for 127V, 220V, and 380V reached up to 175,020 ckm, with a growth rate of 4.3% in 2008 compared with 2007.

Distribution Networks Lengths (69/13.8 KV)

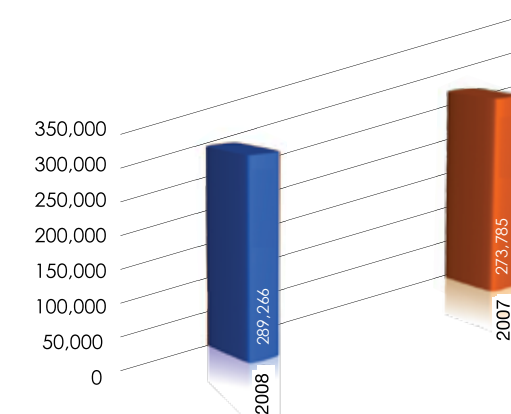


Customer Connections Lengths (127V, 220V, 380V)

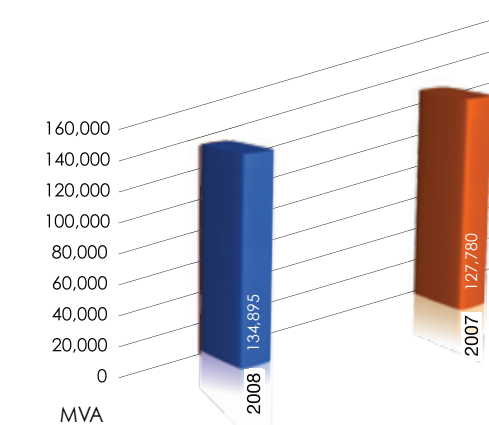


The total number of power distribution transformers rose to 289,266 in 2008 representing a growth rate of 5.7% compared with 273,785 transformers in 2007. Thus the total capacity of the transformers was boosted to reach 134,895 MVA by the end of 2008, with a growth rate of 5.6% over 2007.

Number of Power Distribution Transformers



Total Capacity of Power Distribution Transformers







## OUR SOCIAL RESPONSIBILITY

- Supporting the role of Saudi universities in the field of electric power engineering as we sponsored three academic research chairs at a cost of SR 15 million.
- In the context of attention accorded to community service, we held training courses for 612 students through the Summer Training Program and 750 students through the Cooperative Training Program.
- As always, delivering electricity supply to villages and settlements has been given our highest attention.



Since the Company's establishment in 2000, we have kept our focus on providing comprehensive electric services, working in many areas and activities of social nature with a view to present certain charity services as an essential activity in the development areas that complement our constant efforts to upgrade the human element. During such short period, we have already performed numerous roles in many areas which have led to expand our programs related to both human and social activities.

We intend to keep working in such areas, aiming at expanding the base of users of services we provide in such areas. We also seek from it to provide a model for other institutions and companies which would enrich various fields of community service.

In continuation of such an approach which is based on mutual understanding, confidence, and cooperation, we have assumed our full responsibility towards all levels and classes of community as an expression of our effective membership in such community. Our support to the community has been based on two fundamental attitudes, namely serving the community as a whole and serving the specific internal community of the Company.

#### First: Our Responsibility Towards Serving the Community as a Whole

- 1- Contributing to the realization of the overall economic development by providing electricity to villages and settlements.
- 2- Research and development
- 3- Environmental protection and maintenance
- 4- Security and safety
- 5- Supporting and sponsoring various activities
- 6- Supporting charity programs
- 7- Contributing to support issues related to electricity
- 8- Summer program for students

#### Second: Our Responsibility Towards the Company's Own Community

- 1- Ensuring active and continuous creation of appropriate work environment conducive to fostering creativity, innovation, and high-efficiency performance.
- 2- Adopting admirable principles and values of business ethics.
- 3- Organizing social activities for Company employees.
- 4- Disseminating awareness among our employees.
- 5- Train and employ the sons of our employees during summer season.

Our major achievements in 2008 with respect to our social responsibility related to serving the overall community are:

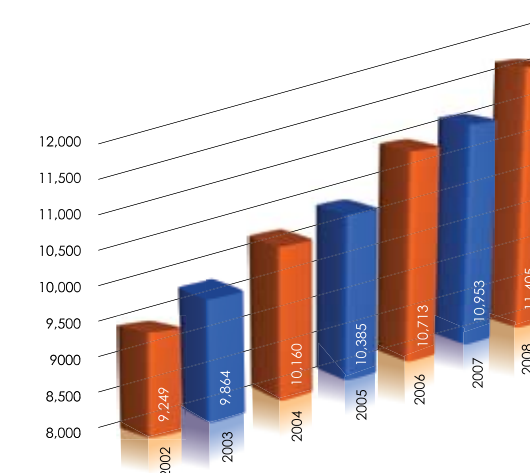
#### 1- Continuing implementation of delivering electricity to villages and settlements

Great attention is accorded to delivering electricity service to villages and settlements although we are aware of the fact that provision for such service has no economic feasibility to the Company. The Company allocated SR 2,092 million for the electrification of villages and settlements during 2001 to 2008. Total actual expenditure in this respect during such period was SR 1,501 million. Moreover, our plan involves covering all villages and settlements that have yet to be provided with electricity. During this year, electricity service was delivered to 452 villages and settlements which brought up the total number of electrified towns, villages, and settlements to 11,405 at year-end, compared with 10,953 in 2007, representing a growth rate of 4.1%. Overall rate of total electrified villages and settlements reached 99.20% at year-end 2008, compared with 89.4% in 2000.

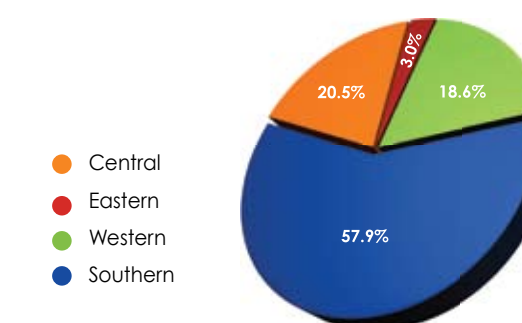
We won the Madina Charity Award for Public Services in the field of utilities and services in recognition of our outstanding efforts in providing electricity supply to villages and settlements of the Madina area with an overall rate of 99% of the total populated locations according to the data of the regional plan for the area.

We also received several acknowledgements and appreciation letters from the governors of a number of regions for our efforts and projects for boosting the capacities of power generating stations.

Number of Electrified Towns, Villages, and Settlements



Percentage Distribution of Electrified Towns, Villages, and Settlements





## 2- Research and Development Program

### Program background:

- Mandatory commitment to implement Resolution No. 169 of the Council of Ministers, Article 1 (Clause 2), which states "The company shall allocate a part of its income, as determined by the Council of Ministers, to research and development work in its field of specialization. Out of this provision, the Company shall support and finance such research conducted by universities, institutes, and specialized centers, particularly those related with the rationalization of the uses of electric power, power system upgrade, and environmental protection." The obligation is further emphasized in Article 3, which states "The Saudi Electricity Company, in collaboration with the universities, institutes, and specialized centers, shall develop a sustainable comprehensive program for the rationalization of the uses of electric power to ensure achievement of the State's goals." In addition, Article 7/2 of the Company's Articles of Association, states that Company shall conduct and support research work in such fields as may improve service quality, upgrade performance and operational efficiency, rationalize power usage, maintain and protect the environment, and cost reduction."
- Ideal exploitation of existing assets and reducing investment, operation, and maintenance costs is of importance
- Promotion of advancement through human resource development, nationalization of technology, increasing the efficiency of electric power consumption and reducing pollution.

### Objectives of the Program

- In generation: Upgrade the efficiency of fuel utilization, prolong the useful life of the assets and parts, and maximize their production capacities.
- In transmission: Prolong the useful life of existing assets, boost their capacity, upgrade their performance in all operating areas, and rationalize their maintenance programs.
- In distribution: Regulate the usage of the assets, develop the processes of billing and collection, and ensure ideal power loss.
- In electric loads: Develop and motivate demand management so as to increase annual rates of utilization of existing assets.
- Power Uses: Rationalize and upgrade the efficiency of the uses of electric energy and ensure right balance between the elements of development in terms of time, horizontal, vertical, and sector growth rate in various regions of the Kingdom.

### Stages of the Program

#### A. First stage from April, 2002 to March, 2003 (First Program)

This stage has started by reviewing and indentifying important issues for inclusion in the first research program. Ten (10) research contracts were concluded during the first stage. In addition, a research collaboration agreement was concluded between the Company and King Abdulaziz City for Science and Technology.

#### B. Second stage from April, 2003 to June, 2004 (Second Program)

During this stage, three (3) projects of the first program were executed and the second research

work program was issued, consisting of seven (7) requests for proposals whose related contracts were concluded. Thirty-five (35) proposals were submitted under this program.

#### C. Third Stage from July 2004 to April 2006 (Third Program)

This stage includes 7 proposals. Approved proposals for this stage were 21 proposals; 5 contracts were concluded, as follows:

- A contract was entered into in 2007 with King Abdulaziz City for Science and Technology to study the diagnosis on the condition of termination cables in transformers and circuit breakers.
- A contract was entered into in 2007 with King Fahd University of Petroleum and Minerals to study the impact of compatibilities on the capacity system and ways of addressing it.
- A contract was entered into in 2007 with King Abdulaziz City for Science and Technology to study the development of an air-conditioning model that simulates the condition of returned load in the transmission network.
- A contract was entered into with King Saud University to study the environmental evaluation in power generating plants.
- A contract was entered into in 2007 with King Abdulaziz City for Science and Technology to study losses in the distribution network.

#### D. Fourth Stage from April, 2006 to December, 2008 (Fourth Program)

This stage includes following up the projects of the first, second, and fourth research programs as well as the joint projects. Also in this stage, requests for proposals for the projects of the fourth research program were prepared, including two proposals on power generation activity, three proposals on power transmission, and one proposal on distribution and customer services. They are as follows:

- Comparative study of the impact of reducing internal combustion temperature of the turbines on the useful life of turbine blades.
- Protection of water inlets in Qurayyah Power Plant against large quantities of jellyfish.
- Evaluation of capacity quality of Saudi Electricity Company's electric power transmission system.
- Study of policy and potentials of utilizing limited generation capacities.
- Study of supplying and pricing of standby power provided by the Company to Saudi Aramco.

It is planned to have all projects of the fourth research program signed at the beginning of 2009.

#### Joint Projects with King Abdulaziz City for Science and Technology

We concluded several joint project contracts with King Abdulaziz City for Science and Technology, including:

- Project contract for testing and evaluating polymer insulation materials used in medium voltage cables and ways of manufacturing them as appropriate to local conditions which was executed and accomplished by King Saud University.



- Project contract for conducting a study on the effects of electric power shutdowns on a sample group of major customers in the Kingdom, which was executed and accomplished by King Saud University.
- Project contract for the examination of thermolysis, electrolysis, and stress at cable joints and terminals used in electric power distribution networks, which was executed by King Fahd University of Petroleum and Minerals. The contract was concluded and work has started in 2006, and later on the contract was given an extension.
- Project contract for developing standards of power quality in Saudi Electricity Company's transmission network, to be executed by King Fahd University of Petroleum and Minerals and a foreign consultant under joint financing by the Company and King Abdulaziz City for Science and Technology. Such contract will be signed during 2009.

#### Sponsoring Academic Research Chairs

In our desire to promote and develop research programs, we have financed certain academic chairs in certain universities and, accordingly, the following agreements were entered into:

- Agreement on Saudi Electricity Company Research Chair for "Load Management and Upgrading the Efficiency of Electric Power Utilization," was concluded with King Abdulaziz University on 7 May, 2008, amounting to SR 5 million for a period of four years.
  - Agreement on Saudi Electricity Company Research Chair for "Reliability of Electric System" concluded with King Saud University on 25 May, 2008, amounting to SR 5 million for a period of four years.
  - Agreement on Saudi Electricity Company Research Chair for "Protection and Electric Control," concluded with King Fahd University of Petroleum and Minerals on 11 June, 2008, amounting to SR 5 million for a period of four years.
- The universities started conducting specialized workshops on the said Research chairs which were attended by a large number of Company engineers from various Company sectors, as well as engineers from Saudi Aramco.

#### Our Objectives In Sponsoring Academic Research Chairs:

1. Enhance the role of the universities in the field of electric power engineering.
2. Conduct developmental studies and researches in the field of electrical engineering with special focus on electric power and all related research and studies, ways to improve our network, and handling the problems confronting them.
3. Develop and evaluate university academic curricula and assist in the design and preparation of programs and courses in the field of electrical engineering.
4. Contribute in teaching and delivering lectures to university students in disciplines related to electrical engineering and its applications, with particular focus on the course materials for electric power, and to recruit engineers for this rare discipline according to our needs.
5. Organize periodic seminars and symposia covering the field of electric power engineering for the benefit of our employees.
6. Issuing periodic analysis newsletters aiming at managing and organizing short training courses with a view to make available in the Kingdom electric power specialists with the latest technological information, including special topics proposed by us.

### 3. Environmental Maintenance and Protection

Maintaining the environment is a major element considered in preparing the operational and capital plans of the Company. All environmental aspects are taken into consideration in the projects planning process that includes developmental programs and plans in addition to cultivating a feeling of responsibility among our employees towards the environment.

Within such efforts aiming at maintaining the environment, we coordinate with the Presidency of Meteorology and Environment which aims at maintaining and protecting the Kingdom's environment along with improving its natural resources and contributing to develop sound environmental policies in all aspects in addition to conducting studies on evaluating the environmental impact.

Our high attention accorded to the environment is materialized in our efforts to control air, water and soil pollutions and eliminate the effects of environmental pollution on humans.

#### Humans

We exert utmost efforts in both the design and construction stages to minimize environmental effects of power transformers in populated areas so that the noise level resulting from such transformers is within the international standards. Moreover, we ensure that transmission line projects are established within safe paths and according to established international standards in this respect.

Moreover, we give substantial attention to the aspects of aesthetic design of our visitor reception buildings in addition to compatibility with the overall appearance of Company facilities and ensuring convenience for customers.

#### Air

As power generating plants use several type of fuels such as natural gas, diesel fuel, and crude oil, we exert utmost efforts in minimizing gas and particles emitted through the chimneys of power generating stations by constructing power stations away from towns and populated areas. We also prevent constructing power generating plants in industrial areas and other utility areas so as not to contribute to increasing air pollution rates in such locations. In preventing pollution, we also use clean fuel, such as natural gas and diesel fuel as both have less emission compared with the other type of fuels. We have already achieved excellent successes in this respect as the main power generating plants such as Power Plant 7, 8, and 9 in Riyadh are operated using natural gas instead of crude oil. Furthermore, advanced burners in gas turbine boilers are used in order to guarantee minimum nitrogen oxide emissions which have a bad reputation for being a major pollutant in power generating stations operating on fossil fuels.

We have also accomplished the scope of work for conducting a comprehensive environmental survey covering the main generating plants with a view to control and study emitted gases and their effects on air and water, and find suitable solutions to control and minimize such effects. The proposals submitted by specialized companies for the implementation of such survey will be evaluated. Moreover, we are continuing the execution of agreements with contractors for the right disposal of petroleum and oil residues in generating plants in such way that it will not cause any adverse effects on the environment.

#### Water

Water is a key element in power generating process. We, therefore, take into consideration that no chemical substances are added to the cooling water returning to sea, apart from the chlorine that is added for controlling the growth of organisms causing adverse effects to power station equipment. The process of controlling the quantity of chlorine being added is carefully monitored to ensure that it does not



exceed the limits permissible under the Kingdom's environmental protection standards. This process is constantly checked by a rate-measuring equipment to measure the rate of chlorine concentration in water thereby allowing our operators to control such concentration rates in a timely manner. Also, sewage water is biologically treated within the generating plants as it is used for irrigation purposes within the plant area and the plant's housing complex.

Through contracts entered into with specialized companies, the residues of fuel and oils are safely disposed of regularly to prevent environmental pollution from such residues. In this process, oil-polluted water passes through several stages for separating oils from the water and then disposing such oils using environmentally safe methods. Furthermore, we regularly develop future operational and capital plans related to maintaining the environment, such as the development of an integrated air and water control system and upgrading the existing laboratories within the generating plants so that they become chemical and environmental laboratories by incorporating therein various type of pollution measuring equipment. Through coordination with the Presidency of Meteorology and Environment, we negotiate with relevant parties to ensure a provision for the type of fuel with less emissions and alternative chemical substances having the least negative impact on the environment.

#### **Soil**

We always take care not to use oils containing carcinogens, such as PCB, to ensure that soil, ground surface and underground water are not polluted to protect the safety of humans and animals. We also constantly cooperate with national and foreign universities and research centers to find appropriate solution for the problem of carbon ashes, in addition to organizing specialized courses delivered to our personnel in respect to environment and sharing experience with experts and specialists in environmental issues both within and outside the Company.

We stopped the use of certain chemical substances that can cause adverse effects in health and the environment. Instead, we use other non harmful alternatives. Moreover, studies on the evaluation of the environmental effect of such measures are conducted with the assistance of specialized firms qualified by the Presidency of Meteorology and Environment.

#### **4. Security and safety**

- Participation in the public campaign on safety and electrical hazards and prevention.
- Sponsored and supported a workshop on "Electrical Equipment Safety Requirements in Buildings and How to Check Them" which was organized with the GCC Standardization Organization.
- Participation in the GCC Traffic Week and the accompanying exhibition.
- Participation in the activities of the Arab Traffic Week.
- Participation in the International Civil Defense and the accompanying exhibition.
- Participation in the Exhibition on Safety in Riyadh.
- Conducted several fire prevention exercises in power generating stations to test the readiness of Company's fire fighting teams in coordination with certain government authorities such as Civil Defense Department and others.

#### **5. Organizing Various Social Activities**

##### **Social activities**

- We participated in diversified campaigns, such as World Day for Smoking Prevention, World Day for Blood Donation and Drug Control campaigns.
- We participated in Career Day organized by Saudi universities where we introduced the Company and its role in providing electric services, the available employment opportunities, and the training programs it provides so as to encourage national cadres to join the Company.
- We provided several timber posts to a number of government organizations.

##### **Orientation Visits**

Traditionally, we approve annual plans for orientation visits intended for employees and other local organizations such as universities, schools, government, military organizations, and private business sector, etc. to visit the generating plants, subscription offices, and other Company facilities to acquaint them with Company activities, its role and the services it provides and show them our efforts in the establishment of generation, transmission and distribution projects with a view to illustrate our commitment to the community.

##### **Health Activities**

- Participation in the activities of the World Day for Smoking Prevention.
- Participation in the activities of the World Day for Blood Donation
- Participation in the activities of the World Day for AIDS Control.
- Participation in the activities of the World Day for Drug Control.

##### **Cultural and Scientific Activities**

- We organized religious and cultural seminars hosting a selection of topics on religion, science, and culture which were presented by high specialists who addressed a variety of issues. We, also, participated in other forums, including the Fourth Annual Media Forum organized by the Saudi Society for Media and Communication.
- We organized an annual forum on Total Quality Management with a view to develop the skills and abilities of Company employees and contributing to introduce the culture and applications of total quality and sharing information on the latest and best modern concepts and applications in the area of total quality management. Such forums, which have so far been 12 forums, involved academics, managers, and quality specialists from commercial, industrial, educational, financial, and governmental organizations in addition to Company employees.
- We also organized an annual forum on human resources to address the experiences and latest application and trends in the area of human resources.
- We organized, as well, a seminar on customer service to consider the best approach in customer service development and promotion of mutual trust between the Company and its customers, and sharing experiences with other service providers in the area of customer service development to ensure customer satisfaction. Such seminars, five of which have so far been held, involve a number of known specialists in the field of customer service in the Gulf area and other Arab countries.



- We organized the seventh forum on human resources at the Eastern Region Chamber of Commerce and Industry.
- We participated in the Open Day organized by King Fahd University of Petroleum and Minerals.

## 6. Charity Activities

### a. Charity Societies

This year witnessed several open activities and programs in addition to supporting certain activities performed by some societies in order to promote their programs or to raise funds. This included our donations to more than 360 charity societies and institutions throughout the Kingdom in coordination with the Ministry of Social Affairs, in addition to posting in our Company website and on electric bills, educational and awareness messages on the effects of drugs. We support as well educational and cultural campaigns by disseminating awareness electronically among our employees and customers.

### b. Supporting the Programs for People with Special Needs

Consistent with our social role, we have given particular attention to people with special needs, to contribute to enable them to develop their abilities and positively interact with others. In this context, we contributed to provide for the needs of the handicapped through our interaction with the Greeting Cards Program which constitute an important fund raising source for supporting the expenses for operating the society centers and funding its free services.

### c. Orphan Care Program

We organized an Open Day event for the Charity Society for Orphans (Insan) at the entertainment center, Riyadh, where they participated in a number of sport and recreational activities. We presented them with gifts in the form of school bags complete with all their contents as well as a package containing materials related to Misbah Program in addition to SR 200 to each orphan.

## 7. Support Issues Related to Electricity

### Sponsoring Conferences, Seminars and Forums

We regularly organize and participate in numerous conferences, seminars and forums either by providing financial support or by presenting papers, particularly in conferences and forums addressing topics related to the activities of the Company.

- We participated in sponsoring the Thirteenth Technological Forum at King Fahd University of Petroleum and Minerals and participated in the exhibition accompanying it.
- We sponsored the Graduation Projects Exhibition of the Faculty of Engineering at King Saud University.
- We sponsored the Technological Forum at King Fahd University of Petroleum and Minerals.
- We sponsored the Workshop on Clean Energy at King Fahd University of Petroleum and Minerals

## Rationalization of Electric Energy Consumption

We participated in the National Program for Management and Rationalization of Energy Consumption that is managed and executed by King Abdulaziz City for Science and Technology by making a financial contribution amounting to SR 1,500,000 per year for four years. Such program aims at conducting studies on auditing energy consumption and disseminating awareness on upgrading the efficiency of energy consumption and sound management of loads as well as upgrading the efficiency of energy consumption in both oil and gas sectors. We have so far achieved the following in this respect:

- We launched a specialized campaign to market and disseminate awareness among customers about the time-of- use tariff and informed them of the optional variable tariff to encourage the targeted sectors to adopt it.
- We started preparation of a plan for a comprehensive specialized informative campaign to spread awareness among customers about consumption efficiency of electrical equipment and the high-efficiency equipment in so far as electricity consumption is concerned.
- Conducting studies on the status of pricing capacity coefficient.

## Tariff

In respect to the tariff on electric energy consumption, we introduced an experimental variable tariff plan which is a technique used internationally which we have gradually applied since 2006 to both the industrial and commercial sectors.

Such adequately flexible experiment was based on a system for availing incentives to factories and industrial sector in the form of reducing the amount of customer bills in return for the displacement of loads at peak time in spite of their short duration which contributed to reducing peak loads thereby creating a balance in the stability of the electric network. We continued the application of such experiment during 2007 and it is expected that it will lead, when widely applied, to minimize the large investments required in the generation sector.

## 8. Summer Hire Program for Students

The Company's Human Resources policy aims at providing opportunities for students to get employed during the summer holidays through the Summer Training Program and Cooperative Training Program in order to contribute to their performance and ability development through sharing of experiences, giving them hands-on tasks to acquire useful information and experience on the business nature and to be accustomed to discipline in addition to investing student leisure time during this period every year. A total of 612 students participated in the Summer Training Program and 750 in the Cooperative Training Program. We also participated in the Profession Day organized by Saudi universities. Moreover:

- We participated in the Saudi Employment Exhibition which was held in Dhahran International Exhibition.
- We have collaborated with the universities in accomplishing the processes related to student graduation and its requirements by providing adequate access to practical application in the Company.

## Our Major Achievements In 2008 In Respect To Social Responsibility

### Our Responsibility Towards the Company Community

As we perform our social responsibility towards serving the internal community of the Company, we continued in 2008 providing various articles, materials, and information that promote fellowship and loyalty among our employees and motivate them to cooperate and provide the best service to



all Company customers, in addition to disseminating news and information about the Company's achievements and activities. We continued to provide the employees with information on all services and products available in the local market as appropriate to them and their families through the Company Intranet. We also publish, through Company Intranet, informative messages on the available discount offers and facilities. This is in addition to electronically communicating various aspects with the employees such as congratulatory messages, condolences, decision announcements, and circulars. Furthermore, we managed to obtain special offers from hotels, private schools, sport clubs, and newspapers and magazines that may be beneficial to Company employees.

### 1. Code of Business Ethics

A Code of Business Ethics was approved in the context of our efforts to create an ideal working environment and commitment to best ethical values in achieving our objectives. Such Code consists of two documents. The first contains the Company's principles and values, and aims at preserving the reputation of the Company and effective performance standards. The second consists of the work ethics for Company employees which emphasize compliance with high level of honesty and integrity in all operational activities of the Company and prevent unethical conduct in all levels.

We are committed to strictly comply with such Code by providing the necessary training to our employees to introduce them to the values contained in the Code of Ethics and develop internal standards, policies and procedures and control mechanisms, and creating the appropriate working environment.

### 2. Social Activities

#### Orientation Visits

Orientation visits are conducted according to an annual plan aiming at receiving people from universities, schools, government, military organizations, and private sector establishments, etc., for the purpose of visiting power generating plants, subscription offices, and Company facilities in order to be acquainted with its activities, its role, and the services it provides and show them our efforts in the establishment of generation, transmission, and distribution projects with a view to illustrate our commitment to the community. In addition, we have organized 32 visits to various sites and Company facilities throughout the Kingdom for the benefit of our employees. We have also organized several visits by commercial and governmental delegations and visits by selected group of businessmen and newsmen to Power Plant 9 in Riyadh. We also invited a number of governors and secretaries of various regions to visit Company power stations. Moreover, we organized several visits by students of universities, technical colleges, and general studies schools who came for a tour of various parts of power stations, and to received briefing on the operation processes and given an adequate explanation on such processes.

### 3. Cultural Activities

We organized religious and cultural seminars hosting selected prominent religious, scientific and cultural specialists who addressed a variety of issues with the aim of promoting awareness among Company employees in regard to those issues. We, also, organized various sports competitions (football, volleyball, swimming, etc) for our employees and their sons.

### 4. Awareness Messages

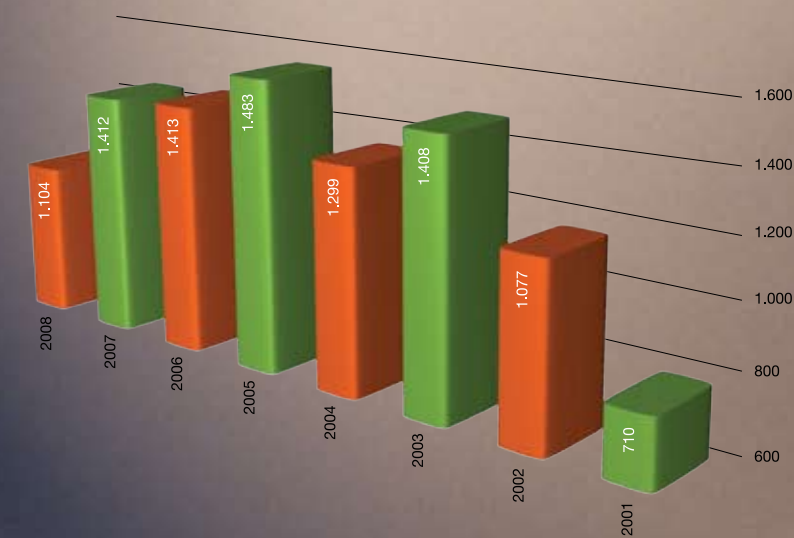
- We published awareness messages aiming at cultivating the concept of environmental culture among Company employees.
- We published awareness messages aiming at enhancing positive attitudes and practices of Company employees.
- We published awareness messages aiming at warning Company employees on viruses affecting computers.
- We published awareness messages in respect to security and safety.

### 5. Program for Training and Employment of Employees' Sons

The Company's Human Resources policy aims at promoting the efforts intended to serve the Company's community through the program of training and employment of the Company employees' sons during summer holidays which provide an opportunity for them to receive training within the Company's training institutes during the summer period or with approved training institutions in various areas offering training in computer, providing English language courses, and self-Development. Total courses delivered in this respect during the summer of 2008 were 48 courses. There was a total of 415 participants in this program.



# FINANCIAL STATEMENTS





INDEX

71 >	Auditors' report
72 >	Balance sheet
73 >	Statement of income
74 >	Statement of cash flows
75 >	Statement of changes in shareholders' equity
76 >	Notes to the financial statements



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AUDITORS' REPORT

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

Scope of Audit

We have audited the balance sheet of **Saudi Electricity Company** (a Saudi joint stock company) as of December 31, 2008, and the related statements of income, cash flows and changes in shareholders' equity for the year then ended, and notes 1 to 30 which form an integral part of these financial statements as prepared by the Company in accordance with Article 123 of the Regulations for Companies and presented to us with all the necessary information and explanations. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

Unqualified Opinion

In our opinion, the financial statements referred to above, present fairly, in all material respects, the financial position of the Company as of December 31, 2008, and the results of its operations and its cash flows for the year then ended in conformity with generally accepted accounting standards appropriate to the nature of the Company, and comply with the relevant provisions of the Regulations for Companies and the bylaws of the Company as these relate to the preparation and presentation of these financial statements.

Deloitte & Touche  
Bakr Abulkhair & Co.



Bakr A. Abulkhair  
License No. 101  
Safar 29, 1430  
February 24, 2009

Audit • Tax • Consulting • Financial Advisory

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## BALANCE SHEET

AS OF DECEMBER 31, 2008

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

The accompanying notes form an integral part of these financial statements

## STATEMENT OF INCOME

FOR THE YEAR ENDED DECEMBER 31, 2008

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

The accompanying notes form an integral part of these financial statements



## STATEMENT OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31, 2008

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

The accompanying notes form an integral part of these financial statements

## STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEAR ENDED DECEMBER 31, 2008

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

The accompanying notes form an integral part of these financial statements



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

1- ORGANIZATION AND ACTIVITIES

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

The Company was founded pursuant to the Royal Decree No. M/16 dated Ramadan 6, 1420H corresponding to December 13, 1999, in accordance with the Council of Ministers' Resolution number 153, dated Ramadan 5, 1420 H., corresponding to December 12, 1999, and the Minister of Commerce Resolution number 2047, dated Dhu Al Hijjah 30, 1420 H., corresponding to April 5, 2000 and registered under Commercial Registration number 1010158683, dated Muharram 28, 1421 H., corresponding to May 3, 2000 in Riyadh.

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

The Company, as per with its organization chart, is divided into main activities of generation, transmission, and distribution and related supporting activities such as finance, human resources, general services and planning. Generation, transmission and distribution activities complement each other for the purpose of delivering the electricity to the consumer. The Company does not have transfer prices between these activities, and revenues are recognized from selling electricity to the end consumer for the Company as a whole based on the official tariff decided by the government. The Company is a tariff regulated electricity company. Electricity tariffs are determined by the Council of Ministers based on recommendations from the Saudi Electricity Regulatory Agency (SERA). SERA was Established in November 2001 as per the Resolution No. 169 dated Sha'aban 11, 1419H. The last change in tariff was made through the Council of Ministers Resolution No. 170 dated Rajab 12, 1421H and was effective from Sha'aban 1, 1421H., corresponding to October 28, 2000. The maximum rate of 26 Halala per Kilowatts/hours, has not been changed thereafter. According to the Company's bylaws, the Company's financial year begins on January 1, and ends on December 31, of every calendar year. The accompanying financial statements include Sukuk Electricity Company accounts "a wholly owned limited liability company" registered under commercial registration number 1010233775 dated Jumad Al-Awal 16, 1428 H., corresponding to June 2, 2007.

2- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements have been prepared in compliance with the accounting standards issued by the Saudi Organization for Certified Public Accountants. The following is a summary of significant accounting policies applied by the Company:

Accounting convention

The financial statements are prepared under the historical cost convention except for investments in Company's equity which are accounted for under the equity method.

Accounting estimates

The preparation of financial statements in conformity with generally accepted accounting standards requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of current event and actions, actual results ultimately may differ from those estimates.

Cash and cash equivalents

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

Electricity consumers receivables

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

Inventories

Inventory items of generators, transmission and distribution materials, supplies and fuel are stated at weighted average cost basis, net of provision for slow moving and obsolete items. Inventory items that are considered an integral part of the generation plant, transmission and distribution networks, and general property such as strategic and stand-by spare parts, are included in fixed assets.

Investments in companies' equity and other

Investments in companies which are at least 20% owned are recorded using the equity method, under which the investment is stated initially at cost, and adjusted thereafter by the post acquisition change of the Company's share in the net assets of the investee company. The Company's share in the net results is recognized when investees' financial statements are issued. Investments of less than 20% owned for which there is no readily available market are stated at cost. Revenue is recognized from these investment upon declaration of dividends by the investee companies.



Investments that are acquired with the intention to be held to maturity are carried at cost (adjusted for any premium or discount), less any decline in value which is other than temporary. Such investments are classified as non current assets with the exception of bonds that mature during the next fiscal period, which are classified as current assets.

Fixed assets

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

	Years
Generation plant, equipment and spare parts	20 to 25
Transmission network, equipment and spare parts	20 to 30
Distribution network, equipment and spare parts	15 to 25
Buildings	20 to 30
Other assets	4 to 20

Impairment

The Company conducts periodic review of the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. Impairment losses are recognized as an expense immediately. Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognized as income immediately.

Capitalization of borrowing costs

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

Derivative financial instruments and hedge accounting

The Company use derivative financial instruments to hedge the exposure to certain portions of interest rate risks arising from financing activities. The Company designates these as cash flow hedges of Murabaha rate risk. The use of financial derivatives is governed by the Company's policies approved by the Board of Directors, and consistent with the Company's risk management strategy. The Company does not use derivative financial instruments for speculative purposes. Derivative financial instruments are measured at fair value on the contract date and are re-measured to fair value at subsequent reporting dates. If the financial instruments do not qualify for hedge accounting in accordance with generally accepted accounting standards, the changes in the fair value of the derivatives financial instrument is recorded as part of finance charges.

End-of-service indemnities

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

Zakat

Zakat is provided in accordance with the Regulations of the Department of Zakat and Income Tax in the Kingdom of Saudi Arabia. Adjustments arising from final Zakat assessment, if any, is recorded in the statement of income for the period in which such assessment is obtained.

Revenues

- Revenue from electricity sales is recognized when bills are issued to consumers based on the consumption of electric power measured by Kilowatt/hour. Revenue on power consumed by consumers but not yet billed at the balance sheet date is accrued.
- Revenue from meter reading, maintenance and bills preparation services represent the monthly fixed tariff based on the capacity of the meter used by the consumers, and is recognized when bills are issued. Revenue of meter reading, maintenance and bills preparation services not yet billed at the balance sheet date is accrued.
- Electricity service connection tariff received from consumers is deferred and recognized on a straight line basis over the average useful lives of the equipment used in serving the consumers, estimated for 20 years.

Expenses

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

Statutory reserve

In accordance with the Companies Regulations and the Company's Articles of Association, 10% of net income for the year is transferred to statutory reserve. The Company may discontinue such transfer when the reserve equals 50% of the paid-up capital.



### Foreign currency transactions

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

### 3- CASH AND CASH EQUIVALENTS

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

### 4- RECEIVABLES FROM ELECTRICITY CONSUMERS AND ACCRUED REVENUE, NET

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

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

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

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

### 5- PREPAYMENTS AND OTHER RECEIVABLES, NET

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

### 6- INVENTORIES, NET

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

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



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

## 7- EQUITY INVESTMENTS IN COMPANIES AND OTHERS

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

### a) Investments accounted for under the equity method.

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

#### (a-1) Gulf Cooperation Council Interconnection Authority

The Company has participated in the capital of the Gulf Cooperation Council Interconnection Authority (hereafter referred to as "GCCIA") to enhance the electricity transmission and distribution between the member countries. The Company's participation in GCCIA amounted to USD 442,3 million, equivalent to SR 1,658 million. During 2008, the Company increased its capital contribution in GCCIA to 40% instead

of 31,6%. The financial statements of the GCCIA for the year 2008 have not been issued as of this report date.

#### (a-2) Water and Electricity Company

The Company entered into a partnership agreement with Saline Water Conversion Corporation to establish a jointly owned limited liability company in the name of Water and Electricity Company pursuant to the Supreme Economic Council's decision No. 5/23 dated 23/3/1423, for the encouragement of the private sector in the participation in water desalination projects. The Company's share amounting to SR 15 million was paid in full and consist of 300,000 shares representing 50% of the Company's share capital. The financial statements of the investee Company for the year 2008 have not been issued as of this report date.

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

Based on the Company's Board of Directors resolution No. 02/73/2007 dated 1/12/1428H., the Company entered into a partnership with the Public Investment Fund to establish Rass Al Zoor Water and Electricity Company, a joint stock company established pursuant to Royal Decree No. 77 dated on 14/9/1428H. The Company's share amounting to SR 1 million was paid in full and represents 20% of the investees' capital. The investee has not yet started operation, accordingly, no financial statements have been issued as of this report date.

#### (a-4) Rabeq Electricity Company

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

### b) Other investment, at cost.

	Shareholding %	2008 SR'000	2007 SR'000
Al-Shuaiba Water and Electricity Company	8	400	400
Al-Shuqaiq Water and Electricity Company	8	400	400
Al-Jubail Water and Electricity Company	5	250	250
Al-Shuaba Holding Company	8	160	160
Total other investments, at cost		1,210	1,210



### c) Held to maturity investments

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

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

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

## 8- CONSTRUCTION WORK IN PROGRESS

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

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

## 9- FIXED ASSETS, NET

	Land SR'000	Buildings SR'000	Machinery & equipment SR'000	Capital spare parts SR'000	Vehicles and heavy equipment SR'000	Others SR'000	Total SR'000
<b>Cost:</b>							
January 1, 2008	1,410,099	12,942,472	173,337,129	2,437,754	1,069,286	3,402,588	194,599,328
Additions	35,639	338,564	10,783,542	168,930	69,035	5,837,925	17,233,635
Disposals	-	(50,651)	(85,744)	-	(23,072)	(4,151)	(163,618)
December 31, 2008	1,445,738	13,230,385	184,034,927	2,606,684	1,115,249	9,236,362	211,669,345
<b>Accumulated depreciation:</b>							
January 1, 2008	-	7,810,616	95,366,294	1,544,232	950,121	1,273,375	106,944,638
Charged for the year	-	428,481	5,915,587	82,229	42,616	275,540	6,744,453
Disposals	-	(23,893)	(76,575)	-	(23,072)	(4,152)	(127,692)
December 31, 2008	-	8,215,204	101,205,306	1,626,461	969,665	1,544,763	113,561,399
<b>Net book value:</b>							
December 31, 2008	1,445,738	5,015,181	82,829,621	980,223	145,584	7,691,599	98,107,946
December 31, 2007	1,410,099	5,131,856	77,970,835	893,522	119,165	2,129,213	87,654,690

The land referred to above includes plots of land with a book value of SR 151 million.

The title deeds of the land are not yet transferred to the Company's name.

Net book value of fixed assets based on the Company's main activities as of

December 31, 2008 are as follows:

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



Depreciation expense charged to various activities during the years ended December 31, 2008 were as follows:

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

#### 10- ACCOUNTS PAYABLE

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

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

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

#### 11- ACCRUALS AND OTHER PAYABLES

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

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

#### 12- PROVISION FOR ZAKAT

The principle elements of the Zakat base are as follows:

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

No provision for Zakat has been made due to the negative adjusted net income and Zakat base. The Company has considered the temporary depreciation differences which resulted to a deferred Zakat amounting to SR 41 million approximately. The Zakat status of the former Saudi Consolidated Electricity Company was finalized up to the end of the year 1420 H. (date of the merger) by offsetting the Zakat differences due to the Zakat Department against the Government's subsidies due to the Company. However, as of the date of the accompanying financial statements, the Company has not received the final assessments from the Zakat Department to indicate the finalization of the Zakat status of the said Company.



The Company has obtained a restricted Zakat certificate up to 2007. According to the final assessment received from the DZIT for the period from April 5, 2000 (date of merger) to December 31, 2001 and for the year 2002, Zakat differences amounted to SR 13 million due to amounts claimed by the Company from Aramco for the electricity consumption on residential properties based on the residential tariff rather than the industrial tariff which Aramco has used for settlement. The management has not provided for this difference as it believes that Zakat should not be levied on revenues which have not been unrecognised and accounted for in the accounting records. The Company did not receive any response from DZIT regarding its objection against the above assessment. The final assessment for the year 2003 to 2007 has not been received till the date of issuing these financial statements.

### 13- LONG-TERM LOANS

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

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

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

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

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

Bank loans represent long-term borrowings obtained from commercial banks to finance construction work. Some of these loans are secured by promissory notes issued by the Company and by collection of revenues through banks.

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

### 14- SUKUK

On July 1, 2007, the Company issued Sukuk for SR 5 billion, at par value of SR 500,000 each without discount or premium, maturing in year 2027.

The Sukuk bears a rate of return based on SIBOR plus a margin per annum payable quarterly in arrears from the net income received under the Sukuk assets held by the Sukuk custodian "Electricity Sukuk Company" a wholly owned subsidiary of the Company. At the end of each five year period, the Company shall pay an amount equal to 10% of the aggregate face value of the Sukuk as bonus to the Sukuk holders.

The Company has provided an undertaking to the Sukuk holders to repurchase the Sukuk from the Sukuk holders in the years 2012, 2017, 2022 in accordance with certain arrangement.

### 15- DERIVATIVES

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

### 16- DEFERRED REVENUE – NET

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

### 17- GOVERNMENT LOAN

Pursuant to the resolution number 169 dated 11/8/1419, the net dues of Saudi Electricity Company to the Government and the net dues of the Company to the Government were determined in accordance with rules and procedures stipulated in the minutes approved by the Minister of Industry and Electricity and the Minister of Finance and National Economy dated 27/6/1418H (29/10/1997). The net difference payable to the Government by the Company, as determined at the end of the business day preceding the issuance of the Royal Decree for the incorporation of the Company, to be an interest free subordinated long-term loan with a grace period of twenty five years starting from the date of the announcement of the incorporation of the Company. The loan is to be reviewed thereafter subject to the financial position of the Government and the Company.

The minutes of the meeting held on 21/7/1422H between the Minister of



Industry and Electricity and the Minister of Finance, in which the initial amount of the Government loan was determined, stated that the final settlement of Government accounts will be subject to the reconciliation for the claims of the Company from Government entities, and the loan amount shall be adjusted accordingly. During 2005, the Company finalized the amount due which included the claims of the Company and the amounts due to the Government and the agreement was signed between the Ministry of Water and Electricity and the Minister of Finance on 15/07/1426 for the loan due to the Government amounting to SR 14,938,060.

### 18- SHARE CAPITAL

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

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

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

### 19- GENERAL RESERVE

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

## 20- OPERATING AND MAINTENANCE EXPENSES

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

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

## 21- GENERAL AND ADMINISTRATIVE EXPENSES

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

## 22- OTHER INCOME AND EXPENSES, NET

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



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

23- EARNINGS PER SHARE

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

24- PRIOR YEARS ADJUSTMENTS

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

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

25- PROPOSED DIVIDEND AND EARNINGS PER SHARE (EPS)

In compliance with the Company's by laws, a preliminary distribution of dividend of not less than 5% of paid up share capital is to be made after deducting reserves in accordance with the condition stated by Resolution 169 dated 11/8/1419, which stipulates that the Government would waive its share from the dividend distribution for a period of ten years from the date of the Company's formation provided that such dividends do not exceed 10% of the par value of the shares. If dividends exceed 10% of the par value of the shares then the Government's share shall be treated similar to the shares of the other shareholders.

The Board of Directors in its meeting held on 2/24/2009G, proposed dividends for year 2008 for the shareholders amounting to SR 547 million in cash at SR 0.7 per share representing 7% of the par value of the shares (2007: SR 547 million). The proposed dividends for the current year requires the Company's General Assembly approval.

26- BOARD OF DIRECTORS' REMUNERATION AND ALLOWANCES

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

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

27- RELATED PARTY TRANSACTIONS

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

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

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



## 28- CAPITAL COMMITMENTS

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

## 29- CONTINGENT LIABILITIES

(a) The total disputed amount between the Company and ARAMCO for handling crude oil fees since the Company's foundation on April 5, 2000 and up to December 31, 2008 amounted to approximately SR 1,717 million. The Company's management is of the opinion that there will be no liability on the Company based on the Royal Decree number M/8 dated 25/7/1415 as this matter was not discussed by the Ministerial Committee that was formed by the Royal Decree referred to herein. Accordingly, the difference has not been recorded in the Company's books of account.

(b) Saudi Aramco has also a claim for the settlement of its share in the annual dividends from the date of the Company's foundation to December, 31, 2007, estimated at SR 1,331 million. The Company believes that Saudi Aramco has no right for this claim since it is a wholly owned government agency and accordingly, is governed by the Ministerial Resolution No. 169 dated 11/8/1419 H.

(c) The Company has a dispute with Saudi Aramco relating to certain dual meters readings in Shadgum, Jomaih and Othmaniah Gas plants as Aramco has rejected certain amounts billed through the said meters. The issue is still under discussion.

(d) The Company has a dispute with one of its power energy vendors relating to the purchase price per Kilowatt hour. The total price differences between the amount accepted by the Company and the amount billed by the vendor amounted to SR 178 million from the date of commencement of work up to December 31, 2008. The Company believes that the amount billed is overstated and there is no binding agreement, and therefore, these differences have not been booked in the Company's accounts.

(e) The Company has issued a guarantee to one of the commercial banks against its share for financing a loan granted to one of the companies it has invested. The guarantee amounted to \$ 101-million (2007: \$ 101.4 million) equivalent to SR 379 million.

(f) The Company has outstanding letters of credit amounting to SR 313 million as of the balance sheet date (2007: SR 198 million).

## 30- RISK MANAGEMENT

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

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

**Commission rate risk** is the exposure to various risks associated with the effect of fluctuations in the prevailing commission rates. The Company has no long-term assets associated with the commission rates but has liabilities associated with the commission rates as of December 31, 2008. The Company manages its loans through hedging agreement to hedge the fluctuation of interest rate, which has the economic effect to transfer the interest on loans from floating to fixed rate.

**Liquidity risk** is the risk that the Company will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at fair value. The Company maintains adequate funding to meet such obligations when they become due.

**Currency risk** is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Management monitors the fluctuations in currency exchange rates and charge differences to financial statements accordingly.

**Fair value** is the amount for which an asset could be exchanged, or a liability settled between knowledgeable willing parties in an arm's length transaction. As the Company's financial instruments are compiled under the historical cost convention, differences can arise between the book values and fair value estimates. Management believes that the fair values of the Company's financial assets and liabilities are not materially different from their carrying values.



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- **Telebanking Service:**  
If you have access to your bank's telebanking service, you can dial such service, select electricity bill payment, and then enter your account number as shown on the bill.
- **ATM:**  
If you have access to ATM machines, you can use your ATM card to pay your electricity bill; select electricity bill payment, and then enter your account number as shown on the bill.
- **Internet:**  
By visiting your bank website, you can make a payment by opening the bills payment page. This will require authorization from your bank in order to use this type of service.
- **Direct Debit Payment:**  
You may authorize your bank to directly debit the amount of electric bill to your bank account so that the bill is automatically paid upon issue.

Facilitated Payment

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Achievements  
up to 30 September 2008

	AT THE ESTABLISHMENT OF THE COMPANY 5.4.2000	AFTER THE ESTABLISHMENT OF THE COMPANY UP TO THE END OF 2008	CHANGE %
Net Fixed assets	60	118	96.7%
Total Shareholders Equity	26	49	88.5%
Generation Capacity (MW)	25,790	39,242	52.2%
Transmission Network Length (ckm)	29,600	39,793	34.4%
Distribution Network Length (ckm)	226,664	345,420	52.4%
Number of Customers	3,5 Million	5,42 Million	54.9%
Number of Electrified Towns, Villages, and Settlements	7,600	11,405	50.1%
Number of Employees	31,000	28,315	(8.7%)
Job Nationalization rate	73%	84.86%	16.3%

There are still great challenges in coping with the increasing growth in demand for electric power and in boosting and developing the Company's electric system.









We look forward to receiving your comments on the Company's  
Performance and its 2008 Report by email to:  
[informus@se.com.sa](mailto:informus@se.com.sa)

For more information on the Statistics Figures,  
Please contact us at:  
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