

# ANNUAL REPORT 2016



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# ANNUAL REPORT 2016

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لَا إِلَهَ إِلَّا اللَّهُ مُحَمَّدٌ رَسُوْلُهُ





His Royal Highness  
**Prince Mohammed bin Nayef bin Abdul Aziz Al-Saud**  
Crown Prince, Deputy Prime Minister  
Minister of Interior



The Custodian of the Two Holy Mosques  
**King Salman bin Abdul Aziz Al-Saud**

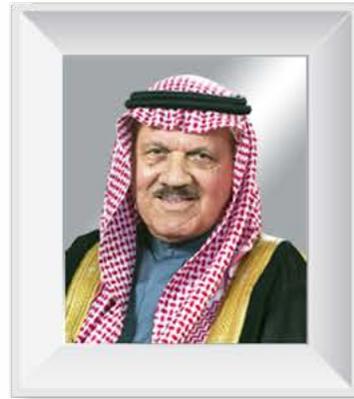


His Royal Highness  
**Prince Mohammad bin Salman bin Abdul Aziz Al-Saud**  
Deputy Crown Prince, Second Deputy Prime Minister  
Minister of Defense

# **Board of Directors**



**Dr. Saleh bin Hussein Al-Awajji**  
**Chairman of the Board**



**Mr. Sulaiman bin Abdullah Alkadi**  
**Vice Chairman of the Board**



**Eng. Isam bin Alwan Al-Bayat**  
**Member of the Board**



**Mr. Saleh bin Saad Al-Mehanna**  
**Member of the Board**



**Dr. Saud bin Mohammed Al-Nemer**  
**Member of the Board**



**Dr. Yousif bin Abdulaziz Al-Turki**  
**Member of the Board**



**Eng. Abdulhamid bin Ahmed Al-Omair**  
**Member of the Board**



**Mr. Abdulmajed Abdullah Al-Mubarak**  
**Member of the Board**



**Eng. Ali Ahmed Al-Sweid**  
**Member of the Board**



## **Chairman's Message**

This Annual Report represents an important opportunity to highlight the efforts and achievements completed during a whole year to keep up with the growing demand for electricity service in the Kingdom, in line with the economic developments and the progress achieved in the Kingdom under the guidance of our government led by The Custodian of the Two Holy Mosques King Salman bin Abdulaziz, may God protect him. The report also refers to the notable improvements accomplished within the competition on global performance indicators following the regional supremacy achieved in the Middle East and North Africa, and the long-term plans and strategies for the electrical power sector until 2030, under the accelerated local or even global economic changes.

The follower of the electricity sector in the Kingdom is fully aware of the efforts made by the Saudi Electricity Company's Board of Directors to develop and continue implementing plans that will guarantee the stability and development of the electricity system in the long term, taking into account these dynamic and flexible plans to address changes in the local market, and at the regional and global levels, by providing future investments, applying development policies to the company's resources, and to carry out huge electrical projects imposed by the need to counter the expected urban expansions over the next few years in all cities and regions of the Kingdom, and relying on the efficiency and capabilities of the company's national cadres, which succeeded by the end of 2016 in fulfilling a significant achievement with the arrival of the generation's capacity of the company to 55 gigawatts within the total generation capacity in Saudi Arabia, which reached 75 gigawatts.

The Custodian of the Two Holy Mosques, may God protect him, has honored the electricity sector by inaugurating a number of important electrical projects in the eastern region at a cost of SR 15 billion. This is the most important accomplishment and highlight of the company and the sector over the past year. It represents a new opportunity for establishing more important projects that will reflect the future orientations of the electricity sector, which do not only focus on electricity production, but seek to achieve a qualitative leap with regard to the Kingdom's application of modern technologies to reduce the cost of production and lessen its dependence on oil in accordance with the long-term vision until 2030.

And now we embarked on a new phase where attention is concentrated on the privatization of the electricity sector, focusing on the diversification of production resources, raising the efficiency of energy use on the supply and demand side, and promoting private sector participation and its investments in the electricity projects. I may not have the possibility to go into details about many of the successes achieved by the Saudi Electricity Company in all electrical power sectors, whether with regard to the implementation of a number of renewable energy projects or the magnitude of the efforts undertaken to improve the service level in all regions, cities and villages

of the Kingdom and to deliver electricity service to more than 500 thousand customers annually, or to develop customers' services according to the latest standards and global technologies, and other accomplishments. But we cannot in any way overlook the big strides achieved by the Saudi Electricity Company, with the full support of its Board of Directors, to turn the Kingdom into a budding regional operations hub for electrical industries in the region, nor the programs and projects that the company is developing year after year to encourage local manufacturers and to attract major international companies in the electrical industries' field to invest in the Saudi market in order to localize this vital industry, to create job opportunities for young people, and to strive in the future to export the production of local factories and businesses to the Gulf and Arab States in the region, as part of the Kingdom's vision until 2030 to diversify the national economy's resources.

Naturally, these successes and achievements wouldn't have been possible without God's grace first and then the accomplishments of this nation's countrymen, as well as the employees and executives of the Saudi Electricity Company. Our Board of Directors has complete faith in the employee as the first building block in the progress and success of our activities, and works relentlessly to create a motivating and productive work environment, to attract young Saudis and to continue to increase the localization percentage which reached 89% of the total number of employees, as well as to promote their development through distinctive training courses inside and outside the Kingdom.

Once again and on behalf of the members of the Board of Directors and the company's customers, I am pleased to present our sincere thanks and gratitude to The Custodian of the Two Holy Mosques, King Salman bin Abdulaziz Al Saud, and his Crown Prince His Royal Highness, Prince Mohammed bin Nayef bin Abdulaziz Al Saud, and his Deputy Crown Prince, His Royal Highness Prince Mohammad bin Salman bin Abdulaziz Al Saud, may God protect them all, and I thank the Minister of Energy, Industry and Mineral Resources, Engineer Khaled bin Abdulaziz Al-Faleh for his interest, commitment and support of the Saudi Electricity Company. Also, I would like to extend my thanks and appreciation to the shareholders, subscribers, and business partners from contractors, manufacturers, to suppliers of the company for the special work they presented last year that contributed to these achievements, asking Almighty God, Glory be to Him, to help us all achieve what we are looking for and better serve our beloved country.

Saleh bin Hussein Al-Awajji  
**Chairman of the Board**



## Chief Executive Officer's Message

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I am honored to present my sincere thanks and deepest gratitude to The Custodian of the Two Holy Mosques, King Salman bin Abdulaziz Al Saud, may God protect him, and his Crown Prince, His Royal Highness, Prince Mohammed bin Nayef bin Abdulaziz Al Saud, and his Deputy Crown Prince, His Royal Highness Prince Mohammad bin Salman bin Abdulaziz Al Saud, may God protect them all, for the unlimited support provided to the Saudi Electricity Company which enabled it to accomplish great local and regional achievements, and helped it to become the largest company in the electrical energy field in the Middle East and North Africa.

The presence of The Custodian of the Two Holy Mosques, may God protect him, at the opening and inauguration of the Saudi Electricity Company's electrical projects for the amount of 15 billion SR in the eastern region at the end of November 2016, is a great testimony to the size of assistance and support given by the leadership to the company, and is considered an important incentive to our cadres and national competencies to implement competitive strategies on performance indicators for international companies in the electrical power field after achieving its regional supremacy.

On this occasion, I am happy to present to you the company's greatest achievements during the year 2016, which embodies not only the success of all its employees and staff, but it represents a part of the overall economic development of our precious country:

Saudi Electricity Company topped the list of Saudi companies that are most dependent on the local market to meet its needs, as the percentage of its purchases from the Saudi market reached 58% of total purchases. As a result, the number of national factories that supply all the company's needs increased from 61 plants, achieved 15 years ago, to 479 factories in 2016, and with a percentage increase amounting to 685%. Spare parts, cables, adapters, meters, towers and other equipment related to the manufacture, maintenance and operation of electrical service became more available, while the company's purchases from the local market reached nearly 80 billion SR over the past 10 years.

- The total available generation capacity in the Kingdom reached about 74.3 gigawatts.
- Electricity was delivered to more than 502,000 new customers in 2016, bringing the total number of customers to 8.6 million.
- The number of Saudi engineers and technicians reached about 23,000, making up about 60% of the total employees of the company.
- The percentage of localization at the company reached 89.9%.
- The number of electrified towns, villages and settlements reached more than 13,000, and the electrical network coverage reached 99.8%.
- The lengths of the distribution network reached 70,300 km-circular.
- The lengths of the fiber optic network reached 53,000 km-circular.
- The lengths of the distribution network amounted to 578,800 km-circular.
- The annual growth rate of demand for electrical power in the past five years reached 6.7%.
- The company succeeded in improving the level of operations' performance in the generating stations, which in turn improved thermal efficiency of the electrical system up to 38.1% in 2016 compared to 36.2% last year.
- The delivery of electrical service to new customers improved by 30% to become 26 working

days in 2016 compared with 37 working days in 2015.

- The reliability and the securing of electrical service improved by 25%.
- The percentage of services provided to customers via electronic channels increased to 80% in 2016 compared to 50% in 2015.
- The inauguration of the first gas turbine made locally in collaboration with the international company GE.
- Decrease in the rates of accidents and injuries at work by 16% from last year.
- The electrical energy projects under construction reached (43) billion SR.
- The number of local factories that provide the company's purchases from the local market increased to 479 factories.

#### **Financial accomplishments for 2016:**

- The company managed to save 3.7 billion SR through strategic transformation initiatives in 2016.

#### **Future plans of the company during the years 2017–2021:**

- Raising the total available capacities in the Kingdom to (91,000) megawatts.
- Strengthening the transmission networks and raising their reliability by adding (21,438) km-circular of transmission lines.
- Delivering electricity service to approximately (2.3) million customers during the plan's timeframe (2017–2021), bringing the total number of customers at the end of 2021 to more than (10.8) million customers.
- Strengthening the distribution networks by adding (161,807) km-circular of distribution lines.

The previous examples of financial and technical achievements were not to be achieved without the grace of the Almighty God, Glory be to Him, in addition to the continuing and strong support from the Chairman and members of the Board of Directors, and their great faith in the capacity of the employees and staff to continue the success process that has grown and developed for over 16 years, in cooperation with local and international partners, and their significant roles in every step the company takes toward greater success.

From this perspective, I offer on behalf of all the employees of the company my sincere and highest appreciation and gratitude to his excellency the Chairman and members of the Board of Directors for all their guidance and support that led us to accomplish such achievements, that we are all proud of.

I would also like to offer all my colleagues and employees of the company sincere thanks and gratitude for what they achieved last year, thanks to the Almighty God, Glory be to Him, and thanks to their dedicated efforts and perseverance in all work phases, to reap today the benefits of our work and dedication and to stride confidently toward a better, more prosperous future.

Ziyad bin Mohammed Alshiha  
**Chief Executive Officer**



# Board of Directors' Report

Presented to the Shareholders  
of the Saudi Electricity Company  
for the fiscal year ended  
31/12/2016

## Description of The Main Activities of The Company

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## Preface:

The Saudi Electricity Company's Board of Directors is pleased to present to its esteemed shareholders its Annual Report on the performance of the company and its financial results for the fiscal year ending 31/12/2016, which were achieved thanks to the grace of God and to the great efforts made by all the company's departments, to improve the performance, capabilities and aspirations of its shareholders and to gain the trust of all its subscribers and customers.

The report contains a thorough summary of the company's performance and address the strategic orientation and the company's efforts on social responsibility, research and development and the programs that were developed for the benefit of its employees. Appended to this report are the audited final accounts of the company and its accompanying explanations, as well as the external auditor's report for the year 2016.

The report also contains a summary showing the level of application of corporate governance regulations and its relevant disclosures, such as the structure of the Board of Directors, its remunerations and tasks, the structure and functions of its committees and the remunerations presented to its senior executives.

The present report has been prepared based on the Capital Market Authority's requirements contained in Article (43) of the registration and listing rules and commitment to corporate governance regulation.

## 1-Description of the main activities of the company:

The main activity of the company includes the generation, transmission and distribution of electrical power, as the company is considered the main producer of electrical power across the Kingdom of Saudi Arabia, and provides its services to different governmental, industrial, agricultural, commercial and residential sectors.

The organizational structure of the company includes major electrical organizational activities (business units) engaged in the generation, transmission, distribution and customer services, as well as common organizational support activities.

## The following is a description of the main activities of the company and the influence of each activity on its work:

The main activities of the company are represented in the generation, transmission, and distribution of electrical power in addition to the customer services. The company is developing intra-selling prices between generation, transmission, and distribution and customer services. The Company currently generates revenues from the sale of electricity to end customers as per the applicable official tariff established by the state.

The distribution and customer services activities, along with the financial department, collect revenues from the sale of electricity to different types of customers. The following table shows the fixed assets of each activity as a percentage of the total fixed assets of the company and the percentage of the operating expenses of each activity as a percentage of the total operational expenses of the company:

Activity	% of Fixed Assets	% of Operational Expenses
Generation	38%	45%
National Grid S.A. Company	35%	31%
Distribution and customers services	25%	22%
Organizational support activities	2%	2%
<b>Total</b>	<b>100%</b>	<b>100%</b>

## The following is a description of the nature of the activities and their main achievements:

# Electric Power Generation

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Total available generation capacity of  
more than 74.3 gigawatts



# Electric Power Generation Activity

Electric power generation is considered the company's principal activity. Its mission is to provide electricity and enough generating capacity using highly reliable and high-readiness production techniques to meet the growing demand for electricity. The company achieves this with an optimum use of resources and investing all capabilities towards reaching its main purpose, i.e., decreasing the cost of electrical power production. The transmitted power from generation stations is regarded as the main source of revenue from sales of electricity, equal to 59% of the total transmitted power on all grids across the Kingdom to different levels of customers.

The generation activity's projects aim to establish new generation stations, operating and maintaining existing generation stations, and reinforcing their capacities to meet the growing demand for electrical power. In this respect, in 2016, the generation activity accomplished many notable achievements, including the addition and operation of 4,737 MW, a 9.4 % increase to total capacities over the ones achieved at the end of 2015. The added capacities are distributed as follows:

## The Central sector

- Seven steam generation units in Power Plant 10 (115.1 MW capacity each), with a total added capacity of 806 MW.
- Two steam generation units in Power Plant 12 (341 MW capacity each), with a total added capacity of 682 MW.

## The Eastern sector

- Two gas generation units in Al Qurayyat Power Plant (77 MW capacity each), with a total added capacity of 154 MW.
- One gas generation unit in Rafha Power Plant with added capacity of 70 MW.

## The Western sector

- Four steam generation units in South Jeddah Power Plant (723 MW capacity each), with a total added capacity of 2,892 MW.
- Two gas generation mobile units in Tabouk 2 Power Plant (20 MW capacity each), with a total added capacity of 40 MW.

## The Southern sector

- Four gas generation mobile units in Jazan Power Plant (23.3 MW capacity each), with a total added capacity of 93 MW.



**Western Region**

2 gas generation units and  
4 steam generation units

**Central Region**

9 steam generation units

**Eastern Region**

3 gas generation units

**Southern Region**

4 gas generation units

**The distribution  
of the added capacity  
at the end of 2016**



## نقل الكهرباء

**National Grid SA**

- ▶ Additional overhead networks and ground networks at a length of 5,161 km-circular
- ▶ 65 New transmission substations



# The National Grid SA

**"This is a company fully-owned by the Saudi Electricity Company. It was established on 1/1/2012, with a structure that includes six main activities: operations and control, maintenance, planning, engineering, projects, and technical services, in addition to two central departments."**

## **Responsibilities of the National Grid SA:**

The company is responsible for operating and maintaining the electrical grid of 110/380 KV, continuing its reliability and stability to ensure transmission of electric power to load centres across the Kingdom, and to enhance the electric grid with transmission substations and high voltage cable networks of 110/132 KV through different stages, including the operations of planning, designing, implementing projects, and ensuring the development of programs and operations in different sectors.

The company's mission is to run the electrical system, transmit electrical power from its production sites to consumption centres, study the expected loads, develop plans to enhance the electrical system to meet the expected demand, communicate with major customers and determine their needs and the best way to supply them with electricity. The company also cooperates with independent producers to sign purchase and energy exchange agreements and to represent SEC as a prime buyer of independent producers.

The plans and objectives of the company are dedicated to promoting the electricity supply, reducing costs, and completing the national electric network. Based on these plans, throughout 2016, the company accomplished several new projects as well as enhanced ongoing projects aimed at improving and developing the transmission networks, as well as increasing their efficiency.

## **Below is a review of the most significant achievements of the National Grid SA:**

### **Transmission Networks:**

Added overhead networks and ground cables to the existing networks, measuring about 5,161 km-circular, which represents 8% of the existing networks by the end of 2015, and these are as follows:

- Ultra-High Voltage 230/380 KV: adding (3,289) km-circular, of which (169) km-circular are underground cable networks and (3,120) km-circular are overhead networks.
- High Voltage 132 KV: adding (1,335) km-circular, of which (347) km-circular are underground cable networks and (988) km-circular are overhead networks.
- High Voltage 115 KV: adding (157) km-circular, of which (148) km-circular are underground cable networks and (9) km-circular are overhead networks.
- High Voltage 110 KV: adding (380) km-circular, of which (170) km-circular are underground cable networks and (210) km-circular are overhead networks.

### **Transmission Substations:**

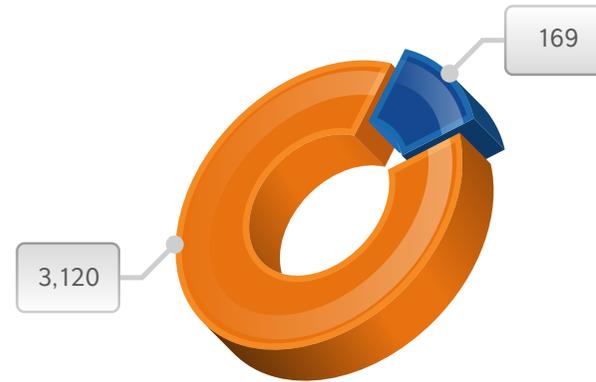
- Established (65) new transmission substations with (217) new transformers with a total capacity of (33,589) MVA.
- Enhanced (24) substations by adding (18) transformers with a net capacity of (2,877) MVA and replacing (5) transformers with a total capacity of (210) MVA.
- Added (3,466) interrupters to the grid, of which (359) interrupters of voltage of 230 KV or more and (3,107) interrupters of voltage of 132 KV and below.
- Enhanced existing substations with capacitors.

**High Voltage 132 KV - adding 1,335 km-circular**



Ground Networks ● Overhead Networks ●

**Ultra High Voltage 230/380 KV - adding 3,289 km-circular**



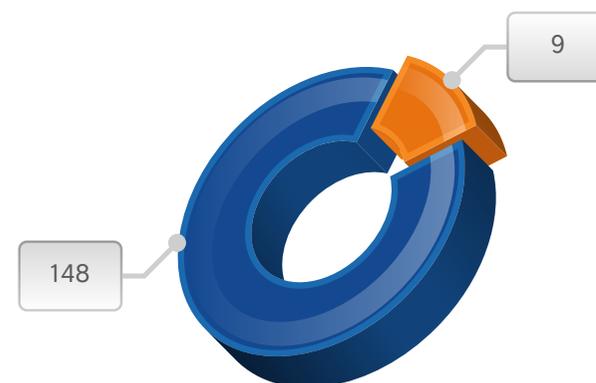
Ground Networks ● Overhead Networks ●

**High Voltage 110 KV - adding 380 km-circular**



Ground Networks ● Overhead Networks ●

**High Voltage 115 KV - adding 157 km-circular**



Ground Networks ● Overhead Networks ●

# Distribution and Customer Services Activity

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502,000 New Customers



# Distribution and Customer Services Activity

One of our prime activities is to receive and distribute power from transmission networks and supply customers with electricity safely and reliably, while developing the quality of the supplied services. The customer service centre issues and distributes electrical power consumption bills to customers, and implements annual plans and programs for the supply of high-quality services using cutting-edge techniques and the facilitation of the procedures for having such service.

Distribution is based on various core points, objectives, and performance standards such as: increasing the level of electricity service connection to new customers in the cities, towns, and residential communities, enhancing distribution networks to ensure meeting the expected supply, enhancing power efficiency, facilitating the procedures for electricity service connection, developing customer services centres, applying cutting-edge techniques, upgrading employees' skills in relation to calculating consumption and reading of bills for customers, and the continuous enhancement of the efficiency and performance of first-line employees.

## **The activity centres of Distribution and Customer Services have fulfilled many goals in 2016, including:**

- Added new transformers for 69 KV and below, measuring (34,674) transformers with a growth rate of 7.7% of the total distribution transformers at the end of 2015, with a total capacity of (19,368) MVA, and representing 8.8% of the total capacities at the end of 2015.
- Added overhead networks and underground cable networks for 69 KV and below, with a length of (42,249) km-circular and a growth rate of 7.9% of the total networks at the end of 2015.
- Supplied electricity service to (502,000) new customers.
- Supplied electricity service to (150) new residential communities.

**150**

New residential communities



**42,249**

KM-Circular of overhead and ground networks



**502,000**

New customers



**34,674**

New transformers



**19,368**

MVA: the total capacity of distribution transformers



# Financial Activity

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# Financial Activity

"The safety of the company's strategic orientations, the success of its administrative and operational policies, and its management effectiveness have enabled the company to obtain credit ratings from specialized international rating agencies. These positive ratings have supported the company's efforts to implement new financial policies that aim at strengthening SEC's financial standing and furnish the necessary cash flow to spend on its future projects."

## **The Credit Rating:**

SEC's credit Rating is the highest among all competitors in the Kingdom according to the rating agencies (Standard & Poor's (S&P), Fitch Group and Moody's) (A-, A+, A2), respectively, which is partly linked to the sovereign credit rating of the Kingdom.



Index ▲ 1.56 ▼ 0.78

# Human Resources Activity

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The Nation's Wealth



# Human Resources Activity

**"The company considers human resources crucial to bringing about the company's desired growth and in upgrading its production efficiency. Hence, it adopted specialized programs to select and upgrade staff's competencies, as well as mapping out their career paths, including improving and ensuring their technical competencies to take on all positions in the company."**

To support these continuing efforts to develop human resources and to enhance staff's competencies in order to achieve greater performance efficiency, in 2016, (2,762) graduates of the training institutes were welcomed by the company, and (239) university graduates were employed and enrolled in the professional development program.

Consequently, in the jobs localization field, the company has attained a leading position among the companies operational in the Kingdom. By the end of 2016, local labor reached (89.88%) of the (38,329) employees in total. In the field of training and developing the skills and capabilities of human resources staff, in 2016, the company implemented programs, which included staff enrollment in internal and external courses. The total number of participants in these short developmental courses reached (69,378). Furthermore, various training programs continued through the online self-education application "I-Learn." By the end of 2016, the number of participants in these programs reached (1,552), which benefited (1,341) employees.

In the Executive Leadership Development Centre, the number of participants in the promising leaders program (Targeted Talent) reached (101) employees.

This program aims at preparing employees who have exceptional leadership skills so that they may fill leading positions within the company in the future. The Executive Centre achieved a classification rating between the top four training centres in the Middle East, which enhances the quality of outputs leading to leader development and provides the company with the chance to market its services to other companies and convert the executive centre to a profit centre. In addition, assessments were held with the participation of (343) leading employees to design suitable and effective development plans based on their scores, and in this context, the application of total quality programs continued and the number of groups formed during the year reached (212).

In the area of creativity and recognition of the employees, (2,849) proposals were presented during the year, and within the program of staff's excellence, the number of employees of the month reached (3,493) employees, and the number of employees of the year reached (290) employees. Through the students' summer training program, (489) students completed their summer training in the company, and (977) students completed the cooperative training program.

The total number  
of participants in short  
developmental courses

**69,378**

The number of employees  
of the month

**3,493**  
employees

Graduates of the training  
institutes were welcomed  
by the company

**2,762**

## Program for Private Sector Participation in Electricity Generating Projects

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- ▶ Increase the investment in solar energy (Green Duba, Wa'ad Alshamal, Aflaj)
- ▶ Annually save two hundred million barrels of equivalent fuel by 2030



# Program for Private Sector Participation in Electricity Generating Projects

To keep pace with the economic developments in the Kingdom, it was necessary for the company to create a large number of power generating plants through direct investments by the company itself and through participation of investments coming from the private sector as part of the company's "Program for Private Sector Participation in Electricity Projects" under the Independent Power Project (IPP), which was approved in 2007. To support the program, the company signed contracts with international consulting firms that have proven experience and knowledge in the technical, legal, and financial fields that are related to the independent electric power production projects, with estimated investments in these projects amounting to SR 33 billion. Two projects were successfully implemented: Rabigh-1 in Mecca with a capacity of (1,204) MW and Riyadh (11) Project in Dharma, Riyadh, with a capacity of (1,729) MW that entered into commercial operation in 2013.

## **There are other projects for independent production under construction, as follows:**

- The Qurayyah project for independent production in the Eastern Province with a capacity of (3,927) MW. It is considered the largest power plant for independent production in the world, having a combined-cycle system run by natural gas. The contracts were signed on 21/9/2011 with a consortium of companies, namely ACWA Power Projects, Samsung C&T Corporation, and MENA Fund to finance the infrastructure projects. Production has begun in the third quarter of

2014. The commercial operation of the plant started in 2016.

- The Rabigh-2 project in Mecca has a capacity of (2,060) MW and uses a combined-cycle system run by natural gas. The contracts were signed at the end of 2013 with a consortium of companies, namely ACWA Power Projects and Samsung C&T Corporation. The work on the project started and is expected to start commercial operation in June 2017.
- Saudi Electricity Company has formed a partnership with Saudi Aramco to develop the Al-Fadhili station as a joint venture co-generation power project (electricity and steam) with the capability of (1,504) MW. The project is currently at the contract signing phase with the winning coalition and is expected in the first quarter of 2017. The station should be ready for commercial operation in December 2019, God's willing.
- The company has started the development of independent production projects by renewable energy and these are in line with the direction of the Kingdom to provide fuel for electricity generation. The Saudi Electricity Company announced at the beginning of June 2016 the development of two solar power generating projects in the cities of Al-Jawf and Rafha with a (100 MW) capacity. It also published the project's documents in October of the same year, and is expected to start commercial operation in June 2018.

The following table shows the under construction and planned projects of the Program for Private Sector Participation in the Electricity Production under the Independent Power Project (IPP). (The Saudi Electricity Company buys the complete production of these electricity projects):

Project Name	Production Capacity (MW)	Private sector investment in the Project's capital	Date of completion
Qurayyah-1 Plant Project for independent production (project is under construction)	3,927	50%	03/2016
Rabigh-2 Plant Project for independent production (project under construction)	2,060	50%	06/2017
Al-Fadhili Plant Project for dual production in cooperation with Saudi Aramco (project is in the signing contracts phase)	1504	40%	12/2019
Jazan Plant Project for dual production in cooperation with Saudi Aramco, and the company will be the buyer of the power (projected)	3,800	-	Under development
Al-Jawf and Rafha Plants Projects for future production of solar energy	100	100%	06/2018

# Shareholders

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# Shareholders

**"The company is committed to the rules and regulations of the Capital Market Authority and has complied with the principles of disclosure and transparency provided in Article (43) of the listing and registration rules and Corporate Governance Regulation issued by the Capital Market Authority. The company has worked to fulfill the aspirations of the shareholders, to promote their rights, and to facilitate their access to information. It also attaches great importance to enhancing the disclosure quality of financial statements, important developments and essential changes, with a focus on timely delivery to shareholders."**

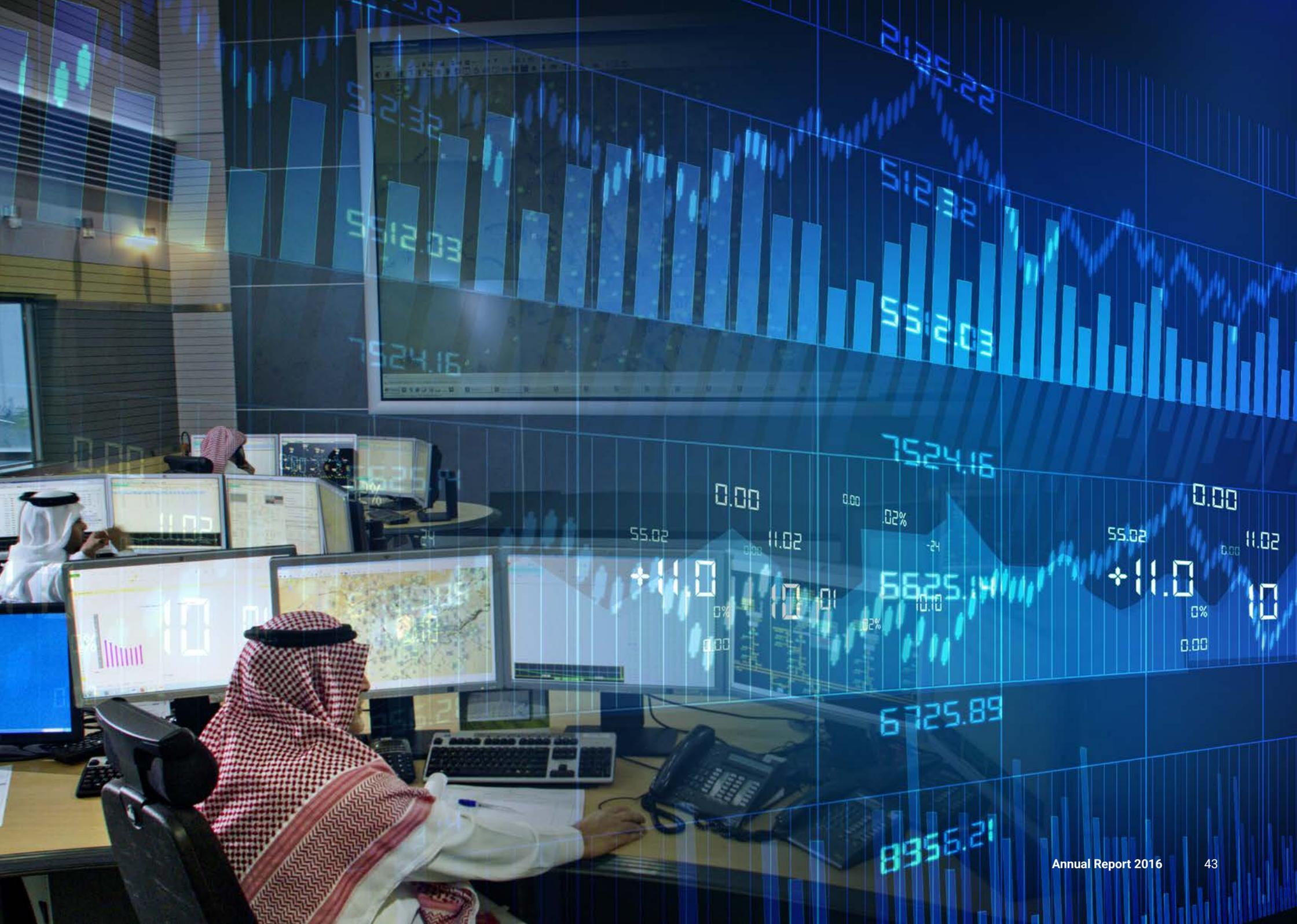
The company has made continuous efforts to enhance its effective ways of communication with its shareholders and to motivate them to deposit their stock certificates in investment portfolios, thus facilitating smooth profit deposits into their accounts, which are linked to their portfolios in different banks during the first day of profits disbursement. The company is keen on effectively communicating with concerned authorities of the Capital Market and to exchange relevant information with the company's investors and financial and investment institutions.

**Complying with the principles of disclosure and transparency**

**Fulfilling the aspirations of the shareholders**

**Facilitating access to information**

**Enhancing the quality of disclosures of the financial statements**



# Research and Development

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# Research and Development

**"Research and development is one of the accelerated strategic transformation initiatives happening at the company in its first and second stages."**

During the first stage, a strategy was adopted to give research and development a substantial role in solving the problems and technical obstacles that prevent the company from achieving its objectives at all levels, and for research to play the main role in the technical empowerment of the ambitious strategic plan of the company. During the second stage of the transition programs, the initiative will focus on the application side, from which, with God's willing, the company will reap the rewards.

## **Vision:**

To develop innovative solutions aimed at improving the core business of the company, and becoming a leader in the technology and innovation field within the energy sector in the Kingdom.

## **Strategic Objectives:**

- To contribute to the improvement of the current operations and to provide great and comprehensive services to the company's customers.
- To reduce capital and operating costs.
- To develop and integrate techniques and new technology in the company's business.
- To assist the company in becoming a leading national company and at the same time in becoming the technical regional benchmark of the energy sector.
- To develop the company's human resources in the high tech sector in order to stimulate and upgrade the innovation index.

To achieve these strategic objectives, work began on the establishment of centres of excellence in the areas needed by the company, providing these centres with the needed qualified human resources, equipment and financial capabilities, fostering strategic relations with national universities, and linking these centres with global research organizations.

## **Research Centres of Excellence:**

Four research centres of excellence were established and work has started on a fifth centre, and these are as follows:

### **1- The Techno-Digital Simulation of an Electrical Network Centre in Dhahran Valley:**

The centre represents an upward move towards setting the network's special studies in the field of planning, operation and protection. The centre has a factory that contains 44 racks of digital processors, which makes it one of the largest simulation factories of an electric network in the world. The factory includes simulation devices to control dynamic compensators and systems of continuous stream of power.

Work is under way on the establishment of permanent headquarters for this factory in Dhahran Techno Valley. But until work in the permanent headquarters is completed, temporary headquarters have been rented within the King Fahd University of Petroleum and Minerals. The factory has been operating in cooperation with more than one agency inside and outside of the company. Some of the most important business and research work achieved during 2016:

- The completion of a study on the evaluation of the impact of technical and economical steel industrial furnaces on the electrical system and how to limit them.
- To continue studying the choice between best voltage and technology for the expansion of electrical transmission networks (feasibility study for comparison between 765 KV and 380 KV or constant current).
- To continue studying the assessing of the reliability of the electricity supply in five main cities and to recommend technical and economical options to promote it.
- To start studying the interactive effects of static VAR compensators existing in Al-Madinah Al-Munawarah.
- To start a feasibility study on the use of (PMU) units of measurement in promoting the stability of the linkage between the central and western regions.

### **2- Smart Grid Centre at King Abdulaziz City for Science and Technology:**

King Abdul Aziz City for Science and Technology was established by agreement between the Saudi Electricity Company and King Abdulaziz City for Science and Technology, and it is funded equally between the two sides. The most important advantage of this centre is that it is synchronous with the company's projects, in particular changing traditional meters to smart meters and transforming the distribution network into an advanced, intelligent network that can be monitored and controlled easily. It is hoped that this centre will technically assist these projects. Some of the most important business and research work achieved during 2016:

- The completion of a study on the automation of the advanced distribution network in cooperation with the American Electric Power Research Institute (EPRI).
- To continue developing pilot projects for the installation of solar panels in schools and mosques with intelligent networks and to discuss the possibility of their expansion.
- To continue the economic feasibility study to settle the static VAR compensators (SVC) at the distribution level.

- To continue to study the impact of the industrial loads on the distribution network.
- The preparation of a feasibility study for the establishment of the Smart Village or Concept Grid which will be used as a platform for research and testing of smart networks. This study will be done in cooperation with the Electricite de France (EDF).

### **3- The Center of Excellence for Fuel Research at King Abdullah University of Science and Technology in Thuwal village:**

The Center was officially inaugurated in March 2016, aiming at doing research which will allow the company to improve the efficiency of fuel burning especially the low-grade fuel, while reducing environmental pollution and its negative effects on the generating units and their maintenance.

#### **Some of the most important business and research work achieved during 2016:**

- To continue studying the economic feasibility and the preparation of the technical specifications of the pumping and storage project of the Pumped Hydro Energy Storage in the regions of Makna and Wadi Baish.
- To start studying the raising of the efficiency of burning emulsified fuel (HFO & VRO) and to replace it with a blend with water instead of diesel.
- To start studying the use of non-thermal plasma technology to deal with the emissions of the power stations.
- To start a feasibility study on the establishment of a national laboratory for clean combustion. This study is done in cooperation between the company, Saudi Aramco and the King Abdullah University of Science and Technology. The three parties hired an international consultant Jacobs to help with the study.

### **4- Renewable Energy Center:**

- To start the cooperation with King Saud University in relation to the implementation of the pilot project's first phase for the generation of electrical energy by condensing the sun's rays to heat sand. The project capacity is 100 KW.
- To start the cooperation with King Saud University in preparation for the pilot project's second phase for the generation of electrical energy by condensing the sun's rays to heat sand, which is planned to have a capacity of more than 1 MW.

### **5- Innovation Incubator Centre:**

The company believes that Radical Innovation plays an important role in the sustainment of work. Hence, it started preparing for a pilot project to incubate innovation by launching a feasibility study about the creation of a permanent, integrated centre for creative ideas that can benefit the company and the country, and raise its technical readiness until it becomes viable.

#### **Management of Knowledge and Innovation:**

Knowledge management and taking advantage of innovative ideas and employees' creations, documenting and protecting these ideas, is one of the major programs related to research and development that will significantly raise the innovation index in the company's business, through patenting and encouraging innovators. A template and a specific framework for knowledge management has been put in place. This model is set into several stages: diagnose, generate, document, share and apply knowledge in various organizational units – and start activating it.

#### **Some of the most important business work implemented during 2016:**

- Holding a specialized workshop in knowledge management for employees of the company to promote a culture of knowledge management in different organizational units of the company, down to its transition to a learned organization.
- The coordination with the Saudi Patent Office to register intellectual patents and protect intellectual property in the company through continuous meetings.
- Holding a specialized training program for dealing with databases and search techniques, down to registering applications for intellectual patents.
- Coordinating with the human resources division at the company to develop a program for staff creativity and bringing it to the next level, and especially the applicable recommendations and suggestions.
- Honoring the 15 recipients of patents among the company's employees.

#### **The Annual Forum for Research, Development and Innovation:**

Recognizing the importance of cooperation and knowledge exchange between the parties involved in electricity research, the company organized its second forum on 14 December 2016, under the slogan: "Strategic partnerships for excellence in research, development and innovation," with participation from within and outside the company. The forum addressed more than 25 subjects, over five specialized scientific sessions covering the following topics:

- Presentation of the new strategy for research and development in the company.
- Automation of the distribution networks and using smart meters and networks.
- Improved fuel efficiency and conservation of the environment.
- The role of digital simulation in the enhancement of power system stability.
- Sustainable energy.

#### **Scientific Cooperation with Universities and Research Institutes in the Kingdom:**

The company relies heavily on local universities and research institutes to localize specialized research and engineering studies, and to minimize the need for foreigners as much as possible. Thus, it continued consolidating its strategic and sustainable relationship with universities to integrate the scientific and practical aspects of learning in its work and thus achieve the national interest of the nation. Some of the most important bodies with which cooperation is starting to take a practical approach are King Abdulaziz City for Science and Technology, King Saud University, King Abdulaziz University, King Fahd University for Petroleum and Minerals, King Abdullah University for Science and Technology and Saudi Aramco. The company will continue working to establish relationships with other bodies as well.

#### **International Scientific Cooperation:**

This cooperation is designed to access the latest global developments in electricity research, to put the company into the ranks of global power companies, and to reduce the costs of research through partnerships with other parties. In this regard, the company has consolidated its cooperation with the American Electric Power Research Institute (EPRI), and the Electricite de France (EDF), and is still considering entering into cooperation with others.

# Electricity Industries Localization

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# Electricity Industries Localization

The company adopted a strategy to localize the electricity industries, which aims to increase local content and to localize industry, as well as to create added value for our national economy. The strategy includes three key initiatives:

## **First Initiative: Set Policies and Mechanisms to Motivate the Contractors:**

Evaluate the offered and accepted proposals based on a motivational formula centred on the following criteria:

The bid price (85 points), the percentage of labour localization (5 points), the percentage of locally manufactured materials (10 points).

Bid price + labour localization points + points for using locally manufactured products = Total points.

The winning bid is the one with the highest points.

Note: in the absence of the provision of work materials in the contract's scope such as standard and consultancy contracts and others, the distribution of points will be as follows:

Bid price (95 points), the percentage of labour localization (5 points).

## **Second Initiative: Set Policies and Mechanisms to Motivate Local Factories:**

**First stage:** National products are given the priority over purchasing from foreign counterparts by 10%.

**Second stage:** Preference is given to local manufacturers according to the local content at the factory. It is based on the following criteria:

- Tender price.
- Local content at the plant.
- The importance of the product to the company.

## **Third Initiative: Identifying Localization Opportunities for Materials Industries:**

- Identify localization opportunities in materials industries and required spare parts, and attract investors and international companies to establish local factories.
- Strengthen coordination and communication with government agencies, large companies in the Kingdom, and the shared committees between the Kingdom and other pertinent countries to localize the industry.
- Support investors who wish to open factories for spare parts and materials that are not available locally.

An independent department has been established to manage the localization activities under the name of "Department of Industry Localization and Technical Rehabilitation" to assume the role of managing the localization, in addition to the development of Key Performance Indicators (KPIs) for measuring the progress achieved in implementing this strategy. These are as follows:

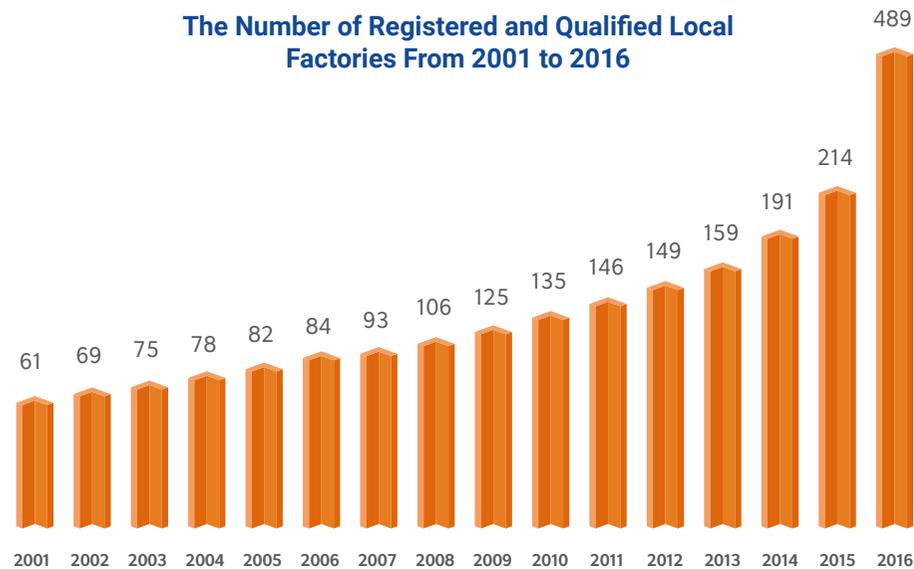
- Percentage of manufactured home-based products to total purchases from manufacturers.
- Number of local factories eligible for manufacturing materials.
- Local content ratio in the projects.

Transparency, clarity and having the necessary information on investment opportunities in manufacturing materials and spare parts are the biggest catalysts for every investor who wants to invest in the electricity industries. Investors are provided with the necessary data for preparing feasibility studies, and the company also publishes a plan about its needs of distribution materials and contract requirements, as well as the technical specifications of the materials on the company's website.

In this context, a booklet – unique among local companies – was published by the company dealing with "Investment Opportunities to Localize Parts and Equipment," which contains 85 opportunities with an estimated value of SR 52 billion over the next five years. It is available on the company's website. A small and permanent exhibition was set up to view these opportunities and to provide samples for those wishing to invest in their manufacture. The company aims to increase the number of local factories, while providing a local supply base to help increase the reliability of electrical power. This will create added value to the national economy, and thus identify industrial investment opportunities and establish some local factories, to name a few:

Company	Factory's Speciality
Bahra Cables Company	Power transformers factory
Bahra Cables Company	Electrical switches factory
Al-Baez Holding Company	Overhead accessories factory
Al-Khalifa Company	Breakers factory
Hawaa Company	Breakers factory
Al-Fanar Company	Pillar factory – Breakers
Founoun	Overhead accessories factory
Al-Tamimi	Valves factory – Filters

It also contributed to the increase in registration and rehabilitation of a number of local factories, numbering upwards of 489 local factory.



It also contributed to the localization of raw materials industry by using aluminum cables instead of copper which is imported from abroad, thus creating added value for the national economy through the use of local aluminum. With this strategy, the company was able to save SR 2 billion in yearly costs, and is expected to save SR 10 billion during the next five years due to the difference in price between the two metals.

With the efforts of the Saudi youth, we were able to localize the manufacturing of some spare parts in the steam power plants, and to reduce purchase prices by more than 60% in contrast to foreign factories, as these spare parts were manufactured locally in the company's workshops, for example, at the Ghazlan Steam Station. This localizing helped the local factories in outperforming the foreign factories in both price and import time.

The Saudi Electricity Company has signed also an agreement with the Saudi National Maritime Transport Company to ship the materials and equipment used in electricity generation, transmission and distribution, as part of the localization of electrical industries' strategy, and support services maintained by the company, especially in the area of transport and shipping, in order to support the added value of the Kingdom's economy and strengthen cooperation between national companies. The contract includes the receipt, transfer, shipping of materials and equipment from various global factories and clearing customs ports in the Kingdom, besides moving them to delivery points on all Saudi Electricity Company's premises.

**"The company is exerting huge efforts to expand and strengthen the localization of the industry sector in the Kingdom through cooperation with government agencies and large corporations, for example Saudi Aramco, SABIC, Saline Water Conversion Corporation, Ministry of Defense and the Saudi Arabian General Investment Authority."**

# Maintaining the Environment

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- ▶ Environmental compatibility
- ▶ Clean energy
- ▶ Preserving natural resources
- ▶ Environmental awareness and communication



# Maintaining the Environment

**"As the largest producer of electric power in the Middle East, SEC must shoulder the responsibility of meeting the nation's ever-growing demand for electricity, which reached 6.3% yearly, and manage the associated environmental effects at the local and regional levels. In spite of the significant challenges facing the company, SEC is committed to achieving these goals while complying with all environmental laws and regulations required to reduce pollution, protect the environment and support public health. With careful management, SEC can support sustainable development without disrupting the company's commitment to providing its customers with their energy needs."**

In view of its accelerated strategic transformation program, the company aims to have a leading role in the field of environmental protection throughout the Kingdom of Saudi Arabia by achieving compatibility with the updated environmental standards issued by the General Authority of Meteorology and Environmental Protection on 2/5/1435 AH and by implementing an environmental management system compliant with the International Standard ISO14001–2015, thereby increasing the production of clean energy and reducing the consumption of non-renewable resources.

## **Environmental Compatibility:**

To better protect the Kingdom's environment, all of the company's projects are designed to be compatible with the latest environmental standards and to comply with the emissions and discharge limits and specific waste disposal systems and environmental standards, thus improving the Kingdom's environment.

The company carefully monitors the compatibility of all its facilities to the environmental standards and applies an environmental inspection protocol that is compatible with ISO 19011: 2011. Thanks to these efforts, the company has developed and implemented a detailed plan to meet or exceed these standards. This plan includes solutions that improve compatibility in an urgent manner, such as raising awareness among all stakeholders to the updated environmental standards. In this context, the company has trained 17 environmental inspectors, according to the criteria set by the International Register of Certificated Auditors (IRCA), and organized 215 workshops and seminars about environmental compatibility, which were attended by more than 2,400 employees throughout 2016. The company prepared (22) relevant environmental documents, and formed a committee for environmental compatibility with representatives from all the company's departments, as well as selected 107 employees as representatives of the environment in the workplace. The environmental compatibility also included other medium- and high-cost solutions to achieve compliance with these standards, such as the installation of volatile organic compounds recovery systems and installing more surveillance and environmental control systems. Currently, the company sites monitor emissions from stacks and fugitive emissions, and emissions of mobile sources and industrial wastewater discharge control and groundwater pollution, noise, hazardous and non-hazardous air quality and substances that deplete the ozone layer.

The company invests huge sums to control and monitor emissions. Some examples include the Dry Low NO<sub>x</sub> (DLN) combustion system, which reduces emissions of nitrogen oxide by up to 60%; the Electrostatic Precipitators in units operated by heavy fuel to reduce emissions of suspended residues by up to 99%; using Flue Gas Desulphurization (Seawater FGD) technology to reduce emission of the air-contaminating sulfuric oxide gas by up to 90%, without any liquid or solid waste; treating wastewater from boilers; separating fuel residue from the water tanks prior to sending it to the evaporation ponds; and controlling the degree of cooling water drained into the sea, within the allowed limits.

Waste management systems have been implemented for 30 sites and wastewater and industrial collection systems for 53 locations and dug test wells for 40 stations and measured the noise of 30 stations and conducted nautical surveys for plants in Rabigh, Shoaiba, and Ghizlan, and the Qurayyah and Qurayyah combined.

In addition, 13 power plants received environmental operating certificates, and 20 studies were conducted to assess the environmental impacts of power plants and transmission projects. The environmental compatibility level has improved in the company from 1.4/5 in 2014 to 3.2/5 in 2016.

#### **Clean Energy:**

The company has achieved outstanding success with its environmental efforts. It generated more clean electric power through the combined-cycle method. In 2016, it produced 24.6% of its total power through the combined-cycle method compared to 8.3% in 2010. The combined-cycle method uses the exhaust pipes of the generating units as thermal sources for the boilers instead of burning fuel. The simple-cycle use decreased from 50% in 2010 to 34.1% in 2016. The company implemented projects to raise capacity generation from combined-cycle methods to more than 4.5 gigawatts.

The company also began to produce more electricity from renewable energy sources such as solar energy. The power plant at Farasan Island and the two projects in Al-Jouf and Rafha plants will generate 100 MW of solar energy, while the project at Al Aflaj plant will produce 50 megawatts of solar energy. The projects of thermal solar energy plants in Waad Al Shamal and Green Duba will generate 100 megawatts. Since the announcement of Saudi Arabia's Vision 2030, the Saudi Electricity Company is working closely with the Ministry of Energy, Industry and Mineral Resources to develop its plans and initiatives geared toward implementing renewable energy projects with capacity of 9.5 gigawatts. In this context lies the Tayba and Northern Qassim projects to produce electricity through combined-cycle methods merged with 360 megawatts of solar energy. To benefit from the wind power resources of the Kingdom, the company is working on a project in the Huraymila region to produce 2.75 MW of wind power, and is also conducting studies for wind power projects in the Amlaj region on the west coast of the Kingdom with up to 50 MW capacity.

#### **Preserving Natural Resources:**

The company has completed the electrical linkage project among regions in the Kingdom and the GCC which contributed to the import and export of electrical power and reducing the revolving reserve. Moreover, installing thermal insulation

in buildings, a program introduced in 2014, will further contribute to reducing energy consumption. Presently, the power plants reuse treated sanitary water in order to increase green areas. The 10<sup>th</sup> and 12<sup>th</sup> generating stations also use treated sanitary water instead of non-renewable groundwater in the production of electricity. The company has started also electric power rationing in all its administrative locations and has saved 70% of energy consumption in its offices in the central region by replacing regular bulbs with LED bulbs.

#### **Environmental Awareness and Communication:**

The company continues its efforts in promoting environmental awareness among all employees, customers, contractors and suppliers. For example, SEC enables its concerned employees to attend qualification courses and obtain the highest international certificates in the field of environmental protection, such as IOSH, IEMA, NEBOSH, and Environmental Lead Auditor, in addition to printing the environmental compatibility booklet and distributing it to employees and providing them with the chance to attend specialized courses and awareness programs in various environmental fields.

The company's entire staff celebrated World Environment Day. The celebration included submitting a number of working papers and hosting several prominent environmental specialists and personalities, along with the participation of private companies at the accompanying green innovation exhibitions.

The company understands the importance of cooperating with the community to support their environmental programs and activities by: sponsoring important events such as the Gulf Environment Forum, which is supervised by the General Authority of Meteorology and Environmental Protection; participating in environmental conferences through working papers; raising public awareness about the importance of maintaining the environment and of rationing electricity consumption by printing guidelines on electricity bills and by distributing brochures and pamphlets via customer services offices; contributing to articles and publications in newspapers; giving lectures in schools; conducting awareness campaigns such as "A Cleaner Environment"; and participating in world events such as "Earth Hour" and "Earth Day."

# Corporate Social Responsibility

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We are committed toward our employees,  
partners, customers and the society.



# Our Social Responsibility

" We are committed toward our employees, partners, customers and the society. "

Our Strategies:

## **1-Toward the Employees:**

Securing a suitable work environment, providing equal training and development opportunities, motivating excellence and innovation initiatives, instilling the culture of quality in word and in deed, embodying the values governed by the workplace codes of ethics, involving employees through e-mails and opinion polls in the programs, activities, and services provided to them.

## **2 -Toward Society:**

Effectively contributing to social and economic development by: supporting social welfare activities and programs; interacting with the developmental and humanitarian issues and concerns of the society; involving the community in the initiatives; leading the programs of rationalization of electric power consumption and dissemination of a culture of safety and security against electricity consumption risks; supporting the research centres through adopting and supporting initiatives and research chairs, which would contribute to the rationalization of electric power consumption; improving the electrical systems performance; maintaining the environment; and supporting renewable energy initiatives and projects.

## **3 -Toward Our Partners and Customers:**

Our responsibility for the generation, transmission, and distribution of electric power was a strong motivation to prove our capabilities that will help us to build strategic relationships on the basis of fairness and transparency. In this context, we communicate with our customers and partners to ensure the sustainability of interaction, trust, and partnership. We also motivate them to participate in the electricity industry's issues and to follow up with its development. We listen to their views and suggestions about the level of our performance in order to enhance our position and public image.

## **4- Social Activities:**

Implementing various programs and events, lectures, graduation ceremonies, and honorary and private parties; promoting social communication with employees and their families through the implementation of an internal communication plan; organizing sports, cultural and social activities at the company's clubs; and providing training opportunities for the employees' children to learn the English language and computer skills in agreement with specialized training institutes, and offer them many different sports activities.





## Description of the Company's Important Plans, Decisions, and Future Prospects

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## 2- Description of the Company's Important Plans, Decisions, and Future Prospects:

### A) Restructuring the Company's Activities:

"To keep up with the Kingdom's 2030 vision and the national transformation program which aims at developing the Kingdom's electricity industry and building a competitive electricity market, the company made significant efforts during 2016 to achieve the objectives of this vision by examining many options and strategic plans to restructure its activities in coordination with all the relevant authorities."

"The restructuring aims to improve the electricity system and work on achieving competition between different energy providers in the Kingdom. This will be reflected in the quality of service provided to customers in all walks of life, in all towns and villages, as well as the settlements in the Kingdom, and thereby will increase the investors' and the private sector's confidence in the viability of investment in the electricity sector."

The restructuring plan of the company – monitored by the Ministry of Energy, Industry and Mineral Resources and the Electricity and Co-generation Regulatory Authority – aims at developing the electricity market in the Kingdom by creating competition in the economic operation of the electricity system in a way that increases its operating efficiency, reduces costs and increases the reliability of the network.

During the past two years, the company has applied an organizational structure that complies with the requirements of the restructuring plan adopted by the Electricity and Co-generation Regulatory Authority. The first fruits of the organizational restructuring plan have been the:

- Creation of the principal buyer's entity inside the Saudi Electricity Company (Ring Fenced).
- Creation of an independent operator's system entity inside the National Grid SA (Ring Fenced).

The company will complete the remaining steps of its plan to restructure its activities in coordination with the Ministry of Energy, Industry and Mineral Resources and the Electricity and Co-generation Regulatory Authority according to the objectives and strategies that contribute to the development of the electricity market. This will play a major role in advancing the national economy and the comprehensive development plans in the Kingdom, God's willing.

### B) Important Decisions:

- On Wednesday 26/03/1437 AH (corresponding to 06/01/2016), the company signed in London an agreement regarding the revolving credit facilities of the tranche denominated in USD with a maximum capacity of USD 1.4 billion (equivalent to SR 5.25 billion), without providing any guarantees from the company. The agreement extends for a period of three years with the participation of the following seven large global banks: Bank of Tokyo Mitsubishi UFJ, Mizuho Corporate Bank, Sumitomo Mitsui Banking Corporation, HSBC, JP Morgan, Crédit Agricole, and Deutsche Bank.
- The Board of Directors approved on Monday 13/05/1437 AH (corresponding to 22/02/2016) to finance part of the capital cost of the project to establish Al-Shuqaiq steam power plant via one or more of the Korean export agencies, in the form of a direct loan and/or loan guaranteed by these agencies and/or any other form of financial facilities with a limit that does not exceed USD 1 billion. On 15/05/2016, the company signed an agreement to finance part of the capital cost of the project to establish Al-Shuqaiq steam plant valued at USD 900 million (SR 3,375 million) with the Korea Exim Bank and several international participating banks: Tokyo Mitsubishi

UFJ, Deutsche Bank and Santander Bank. The duration of the funding extends over 13.25 years and was obtained through direct funding and a guarantee from the Korea Exim Bank. The company also signed on Monday 18/12/1437 AH (corresponding to 19/09/2016) a joint financing agreement in the form of Islamic Murabaha for seven years, valued at SR 5 billion with three local banks: National Commercial Bank, Bank Saudi Fransi and Samba financial group, without any guarantees from the company and for the purpose of financing the company's different capital projects.

- The company announced that Dawiyat Telecom Company is one of its wholly-owned affiliates, and has received from the Communications and Information Technology Commission, on Wednesday 04/05/2016, a 10 years' class licence of type (b) named: "Rental of Communications Facilities", renewable as of 25 Rajab 1437 AH.
- The company signed on 29/06/2016, a direct commercial financing agreement valued at USD 1500 million (SR 5625 million) with Industrial and Commercial Bank of China (ICBC) for five years, without offering any guarantees from the company and will be used to finance part of the company's projects.
- On Wednesday 31/08/2016, and Thursday 01/09/2016, and during the visit to China and Japan of his Royal Highness Prince Mohamed Bin Salman Bin Abdulaziz, The Deputy Crown Prince and Second Deputy to the Prime Minister and the Minister of Defense, the company signed seven memoranda of understanding with a number of specialized Chinese and Japanese companies. These are as follows:
  1. A memorandum of understanding with the Chinese company, Shanghai Electric, for a period of three years, aiming to localize the industries and services related to the energy sector and invest in independent production projects.
  2. A memorandum of understanding with the Chinese Electricity Company in cooperation with Saudi Aramco, for a period of two years, to provide finance, investment, construction, operation and maintenance of electric, thermal, wind and renewable energy power stations in Saudi Arabia based on independent production of energy.
  3. A memorandum of understanding with the Chinese company, Huawei, for a period of three years, for a cooperation in smart meters and networks, as well as solar power.
  4. A memorandum of understanding with the Chinese company, ZTE, for a period of three years, for cooperation in communications, smart meters and networks, as well as solar power, including investment, localization and providing funding for projects that include training in energy and telecommunications.
  5. A memorandum of understanding with the Japanese company, Electricity Tokyo, for a period of five years, for cooperation in the field of energy demand management and to raise energy efficiency to offset loads and reduce capital investment in energy projects.
  6. A memorandum of understanding with the Japanese company, JGC Corporation, for a period of two years, to create electricity generating stations from waste in Saudi Arabia, using the latest technology.
  7. A non-binding memorandum of understanding with the Japanese company, Mitsubishi Corporation, for a period of two years, to finance, invest, construct, operate and maintain electric and thermal power, wind and renewable energy stations in Saudi Arabia, based on independent production of energy. The effective date of operation under these memoranda will be the date of their signatures, and the company will not have any obligations as a result of the signing of these memoranda.
- The company's Executive Committee agreed, in its meeting held on 1/1/1438 AH (corresponding to 02/10/2016), that the company will offer to the private sector opportunities for new investment projects for the purpose of adding an estimated 5,400 MW generation capacity, with the option of implementing these projects in stages.
- Cooperation began between the Saudi Electricity Company and Saudi Aramco to develop Al-Fadhili station as a joint venture co-generation power project. It is a partnership project under the Independent Power Project (IPP) system between the two companies to produce electricity and steam with the participation of the private sector. The project is located near Al-Fadhili gas plant (FGP) where the project will produce about 1,504 MW of electricity and will provide the gas plant with about 3.19 million pounds/hour of steam. The project is a cooperation between the Saudi Electricity Company, Saudi Aramco and the private sector on the basis of Build-Own-Operate-Transfer (BOOT) system. The Saudi Electricity

Company's ownership ratio in the project will be 30%, Saudi Aramco's share will be 30%, and the private sector's share will be 40%. The project to develop Al-Fadhili project was launched for bidding and witnessed an unprecedented turnout of the top local and international energy companies, alliance offers were received, opened and evaluated by the Saudi Electricity Company and Saudi Aramco. On 4/10/2016, the offer presented by the company ENGIE was awarded the contract for the power project. It is planned that this project will enter commercial operation in December 2019. The project will cost about USD 1.2 billion and will be funded by the project company's partners and external funding from a variety of sources.

- Dawiyat Telecom Company, a wholly-owned affiliate of SEC, signed on 11/10/2016 an indefinite letter of intent to cooperate with Mobile Telecommunications Company Saudi Arabia (Zain KSA) about the following:
  - Zain's access to the fiber-optic network of SEC.
  - Mutual marketing of the two companies' services.
  - Providing new places to create towers and infrastructure centres for communications networks.
  - Supporting the digital infrastructure of the electrical network especially Internet services between IOT devices.
- The company signed a financing agreement for a portion of the capital cost of establishing Al-Shuqaiq steam plant project for SR 1,575 million (USD 420 million) on 27/10/2016, with the participation of several international banks: Banco Santander and Crédit Agricole. The duration of the funding extends over 12.77 years and was obtained through a guarantee from Korea Trade Insurance Corporation (K-Sure), and no guarantees were provided by the company.

### C) Future Plans Expectations:

In light of the steady growth of the national economy and the expansion of all life's aspects in the Kingdom, the company has prepared its five-year plan for the years (2017–2021) to accomplish these expansions as follows:

- To abide by the company's plan to meet growing loads and electrical power, new net generation capacities of about (8,931) MW will be added to the company's stations.
- Within the private sector participation program to increase generation capacity to meet future loads, about (26,723) MW capacity will be added.

- To abide by the company's plan to strengthen the transmission networks and to raise their reliability, (21,438) km-circular of transmission lines and (237) transmission substations will be added.
- During the five-year plan (2017–2021), the electricity service will be delivered to (2.3) million new customers. The total number of customers will reach (10.8) million customers by the end of 2021.
- To strengthen the distribution networks, (161,807) km of distribution lines will be added to those networks.

**" Through its development programs oriented towards increasing the employees' efficiency and providing them with the necessary training to perform their jobs efficiently and effectively, the company raised the ratio of development days to working days to 3% by the end of 2021. As part of the localization program and the company's service to the community during the plan timeframe (2017–2021), a decision was taken to attract and employ fresh university graduates, in addition to the high school graduates of technical colleges and corporate training programs. The localization rate is expected to reach approximately 92% by the end of 2021, God's willing. "**

### D) Phase 2 of the Accelerated Strategic Transformation Program (NAMA):

In light of our expectations for the future condition of the electricity market and review of external opportunities and internal performance, the company has decided to launch the largest transformation program in SEC's history as yet – the Accelerated Strategic Transformation Program (ASTP). This initiative will accelerate the company's transformation, both internally and externally, and set SEC on the path to becoming a world-class services company.

**" The Transformation Program achieved many tangible results. The first phase has been successfully completed and work started on the second phase named (NAMA). More than 1,000 employees have been and are currently actively teamed up with international experts to manage the program's detailed initiatives. "**

### **Reasons for Change:**

The Kingdom is witnessing a great economic expansion, and SEC has managed to successfully overcome all obstacles along the way. But the challenges are becoming more difficult to overcome. Of all the challenges, four specific areas are worth highlighting:

**First:** As the Saudi economy continues to grow, so do the requirements to provide more power. To face this challenge, the company will require a large volume and speed of investments which need to be managed properly.

**Second:** The regulatory environment has become more complex. The company operates at the centre of an integrated system of independent producers and companies that contribute to saving energy, under the regulatory framework led by the Electricity and Co-generation Regulatory Authority which aims at establishing new benchmarks for the electricity sector in the Kingdom.

**Third:** The State has constantly provided SEC with financial support, but the company intends to reduce its dependence on government funding as much as possible. SEC has enormous wealth and huge capabilities that must be invested in reducing operational costs and increasing productivity, while maintaining safety and quality standards.

**Fourth:** In light of the strong competition for talent that the company faces, it has become a challenge to recruit and retain the most qualified human resources. Attracting talented employees and convincing them to stay with SEC is becoming increasingly competitive as other employers hunt for talent in the Kingdom.

**"We urgently need to meet these challenges, which serves as a motivation that will drive us steadily forward until we achieve the company's goal of transforming it into a world-class services facility able to compete on a local and global scale."**

### **Transformation Path:**

The need for change has become abundantly clear, and we must face the challenges of the future head on, if we are to overcome them and turn SEC into a world-class services facility. Reaching this stage will require lots of hard work and can be summarized in the following two major phases:

#### **In the First Phase:**

This is a "building the foundation" phase, which will improve the company's performance in all fields, maximize the added value, and renew the commitment to excellence in all of our businesses. Most of the requirements of this phase were completed by the end of 2015.

#### **In the Second Phase:**

The second phase of the (NAMA) program started in early 2016. Under the newly structured ASTP, the company managed to remodel the program to comply with the national transformation program. During this phase, we are going forward on a transformational journey to globalization that will make us a world-class services facility through exploring strategic partnerships. We will achieve financial sustainability, and we will be the best and most reasonably priced service provider in the Kingdom.

To achieve this vision, this phase will be based on three key strategic pillars:

- 1. Smart solutions:** To drive a shift to an intelligent and sustainable electricity system, and establish the necessary infrastructure for the smart grid that will self-interact with events, and the use of smart meters.
- 2. Efficiency:** To increase the efficiency and effectiveness of the core business of generation, transmission, distribution and operation in accordance with the best global indicators.
- 3. Customer centric:** To provide innovative services at a global level by applying the best methodology to service the customers remotely.



## Potential Risks and Difficulties Faced by the Company

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# RISK MANAGEMENT



### 3- Potential Risks and Difficulties Faced by the Company:

**"The company might face some risks such as those related to: the production of electrical power in the short term; suppliers, customers, and partner risks; developmental challenges and rapid change in technology; rising prices of materials; changes in fuel use and the new regulations on environmental protection; and the maintenance of human competencies."**

#### **Risks and Difficulties Related to the Production, Transmission, and Distribution of Electricity:**

The large annual increase in electrical loads resulting from the significant developments and growth of all economic sectors, in conjunction with broadening the prospects for internal and external investments, has led to an increase in the demand rate for electricity. There are other difficulties, however, such as the initiation projects at the pre-set times due to both the difficulty of securing paths, locations of stations and overhead lines, as well as the difficulty of providing the necessary funds for these projects. To overcome the aforementioned difficulties, it is necessary to:

1. Provide an adequate generating reserve (10 to 15%) of the peak load, enabling the system to:
  - Cope with any possible delay or error that might occur during the regulatory procedures for awarding contracts to install the required generating units.
  - Avoid delays when implementing the power plants project by the private sector (IPP).
  - Avoid power cuts or disconnecting the feeding of some loads as a result of the forced exit (shutdown) of some generating units, the presence of congestions in the old distribution networks, unanticipated maintenance, customer connections, or climate factors. Using a global consultant, the company has conducted a study on the impact of interruptions on the national economy. Presently, the Executive Committee of the Board of Directors follows up with the efforts to implement the study's recommendations.
2. Provide a strong and interrelated transmission network that is capable of transmitting and exchanging energy between the different regions of the Kingdom.
3. Find a suitable electricity tariff that reflects the real cost needed to cover the operational costs and the capital investments of the production, transmission, and distribution of electric power, with a profit return on investment.
4. Request the government's assistance to acquire sites for transmission stations and paths for lines, as to avoid any delay in the initiation of the company's projects.

#### **Risks and Difficulties Related to Suppliers, Customers and Partners:**

The company faces risks associated with suppliers, customers and partners in the field of private sector investment, whether in co-generation or electricity production projects. These risks are:

1. The growing global demand for the construction of new power plants intensifies competition. This adds to the challenges posed by the accelerated industrial developments, principally the increase in energy demand in the Kingdom due to a remarkable population growth, improving the infrastructure in all regions and cities of the Kingdom, and the establishment of large industrial commercial and urban projects.
2. The commitment to maintain the environment and the subsequent increase in production costs.
3. Attracting national and foreign capital to not just maintain, but increase investment rates in this field, along with attracting modern technologies.
4. The rising prices and costs of shipping, insurance, fuel and raw materials due to the scarcity in the global market of some raw materials, as well as labour high wages, regional conflicts, and the dangers of war.

### **Risks Related to the Rules and Regulations that Govern the Electricity Sector in the Kingdom:**

The company might face unforeseen risks associated with the regulations and provisions regulating the electricity sector, especially those risks related to the adjustment of systems, regulations and decisions governing the electricity sector, as well as the non-compliance with the regulatory framework of the company's policies. As a result, the company has established a specialized unit to ensure compliance with internal and external regulations and to promote a culture of commitment.

### **Risks and Difficulties Related to the Rapid Change and Development of Technology and Information Security:**

The company faces risks due to the rapid development of technologies and the rising prices of global and local technical programs and applications. The company adopts only the best modern technologies that have proven to be successful in serving similar companies locally and globally, and are produced by specialized international companies to guarantee the best prices and continuity of technical support and development. There are also information security risks, such as cyber-attacks on sensitive programs and control centres. The company has a preventive plan to deal with anonymous programs and hacking, and information security centres have been established in some major cities to refer to them in difficult circumstances.

### **Risks and Difficulties Related to Maintaining Competencies (Human Resources):**

The company faces risks due to the existing opportunities and incentives in the local market that lead to the outflow of qualified and trained national competencies to other companies and institutions. The company currently strives to reduce such outflow in order to maintain the national competencies and to encourage experienced specialists to continue working with the company. This includes a number of procedures and regulations such as the savings fund system, housing soft loans, free training and scholarships.

### **Risks and Difficulties Related to the Market (Liquidity/Financing/Interest Rates/Credit Ratings):**

The company pursues a policy that largely reduces exposure to liquidity and

credit risks. Cash reserves, which are maintained at a minimum level of one billion Saudi Riyals, are deposited with banks that have high credit ratings. Moreover, the company's ability to cut off the electricity service for most customers who do not pay their bills, reduces its exposure to credit risks related to accounts receivable assets of its customers. These accounts receivable assets are registered after deducting the allowances for doubtful debts, which usually do not have a significant effect on the company's financial performance.

With regard to the financing risks related to the company's capital expenditure, SEC is always keen to retain sufficient flexibility while managing the expenses related to this program. This requires careful tracking and management of available funds, which are obtained from several sources, including operating cash flows, interest-free government loans, and different business financial formulas.

With regard to the risks of foreign exchange exposure, there is no substantial exposure that must be covered against this type of risks, as most of the company's transactions are performed in US Dollars or Saudi Riyals. There is also a continuous control on the fluctuations of exchange rates as a further precaution.

With regard to exposure to commission rates change, which mainly results from the company's loans that have been obtained to finance capital expenditure rates, there is always a periodic review of the commission rates to determine how best to limit the effects of these risks. These risks have been mitigated by fixing part of their exposure to the floating commission rates, and switching them to fixed rates through certain hedging instruments as well.

By the end of 2016, the company's management did not find any significant effects of the aforementioned risks on the company's business that had – at the time – to be mentioned in light of its aspirations for the year 2017.

### **Media Risks:**

Because the news might hurt the company's image, reputation and brand, the company developed a comprehensive information plan and clear methodology to deal with these risks, enhance the company's position and maintain its image in a way befitting its status.



# Summary of Financial Results

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#### 4- Summary of Financial Results:

The following is a statement on the balance sheet and income statement of the company and the following tables illustrate the asset details and liabilities, shareholders' equity, income and expenses, and net income for the fiscal year 2016, compared to the previous four financial years (More details can be found in the accompanying financial statements and their accompanying explanations):

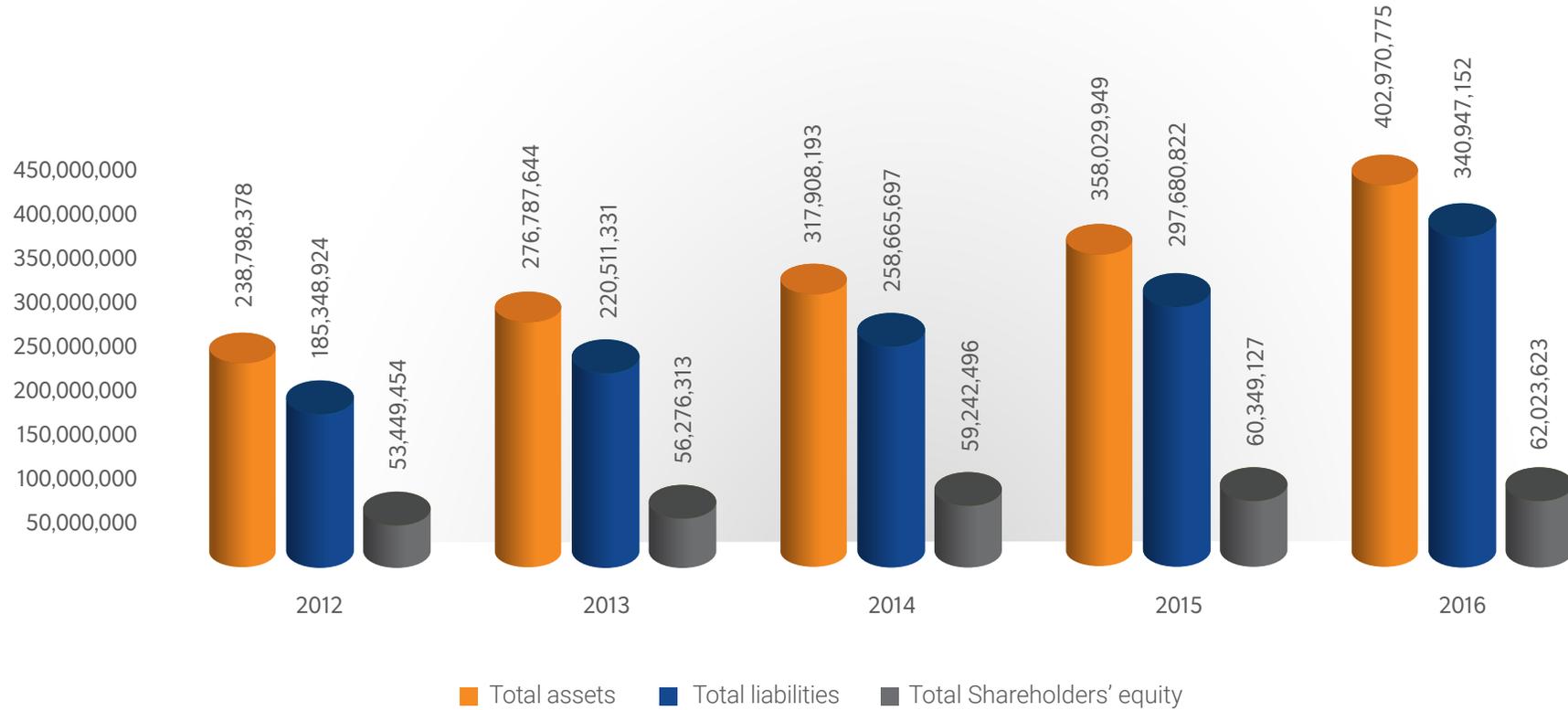
##### A) Balance Sheet:

(Numbers are in Thousands Saudi Riyals)

Index	2016	2015	2014	2013	2012
Current Assets	44,720,522	38,747,458	41,207,820	36,923,281	28,073,469
Other Long-Term Assets	90,722,310	89,288,722	61,326,983	56,301,171	42,072,809
Net Fixed Assets	267,527,943	229,993,769	215,373,390	183,563,192	168,652,100
Total Assets	402,970,775	358,029,949	317,908,193	276,787,644	238,798,378
Current Liabilities	94,703,587	62,691,531	46,949,382	41,743,868	40,932,503
Long-Term Loans	61,050,965	57,207,444	52,360,618	36,741,452	32,759,976
Other Liabilities	185,192,600	177,781,847	159,355,697	142,026,011	111,656,445
Total Liabilities	340,947,152	297,680,822	258,665,697	220,511,331	185,348,924
Paid Share Capital	41,665,938	41,665,938	41,665,938	41,665,938	41,665,938
Reserves and Retained Earnings	20,357,685	18,683,189	17,576,558	14,610,375	11,783,516
Shareholders' Equity	62,023,623	60,349,127	59,242,496	56,276,313	53,449,454
<b>Total Liabilities and Shareholders' Equity</b>	<b>402,970,775</b>	<b>358,029,949</b>	<b>317,908,193</b>	<b>276,787,644</b>	<b>238,798,378</b>

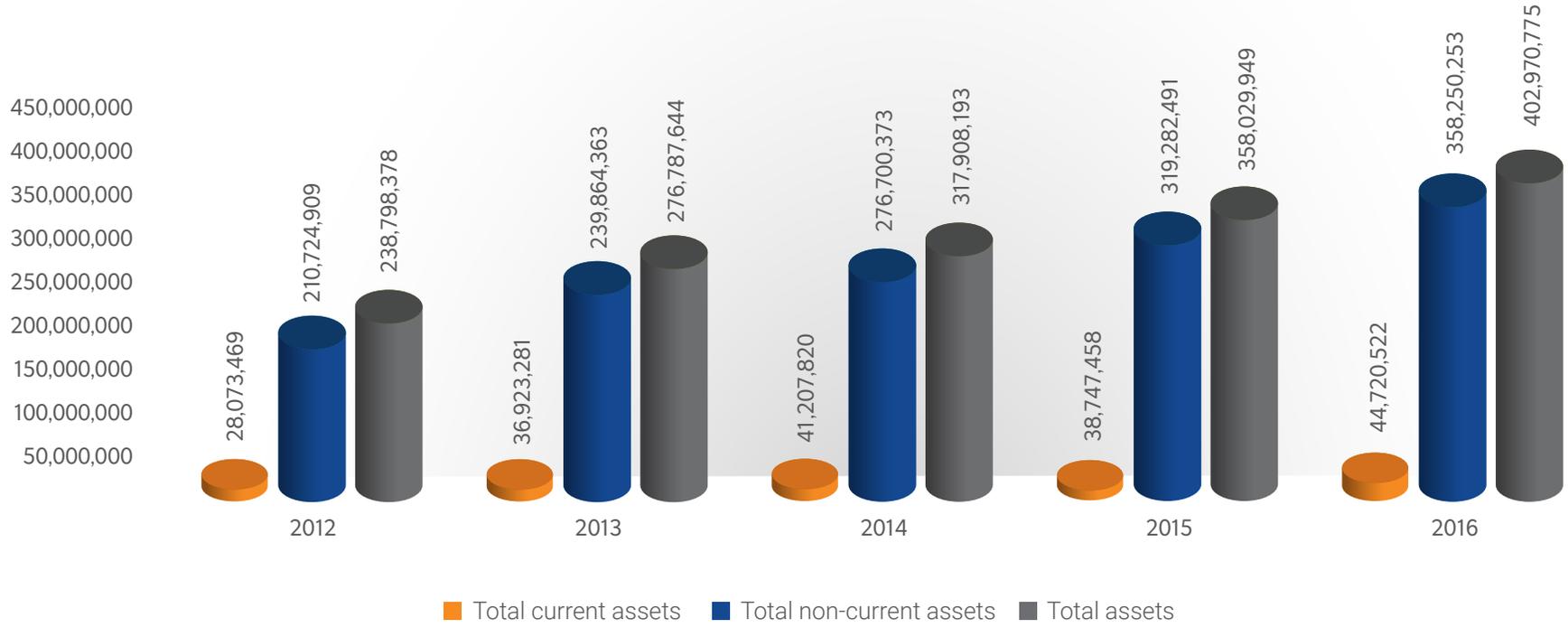
Numbers are in thousands  
of Saudi Riyals

### Comparison of Assets, Liabilities, and Shareholders' Equity During the years 2012 - 2016



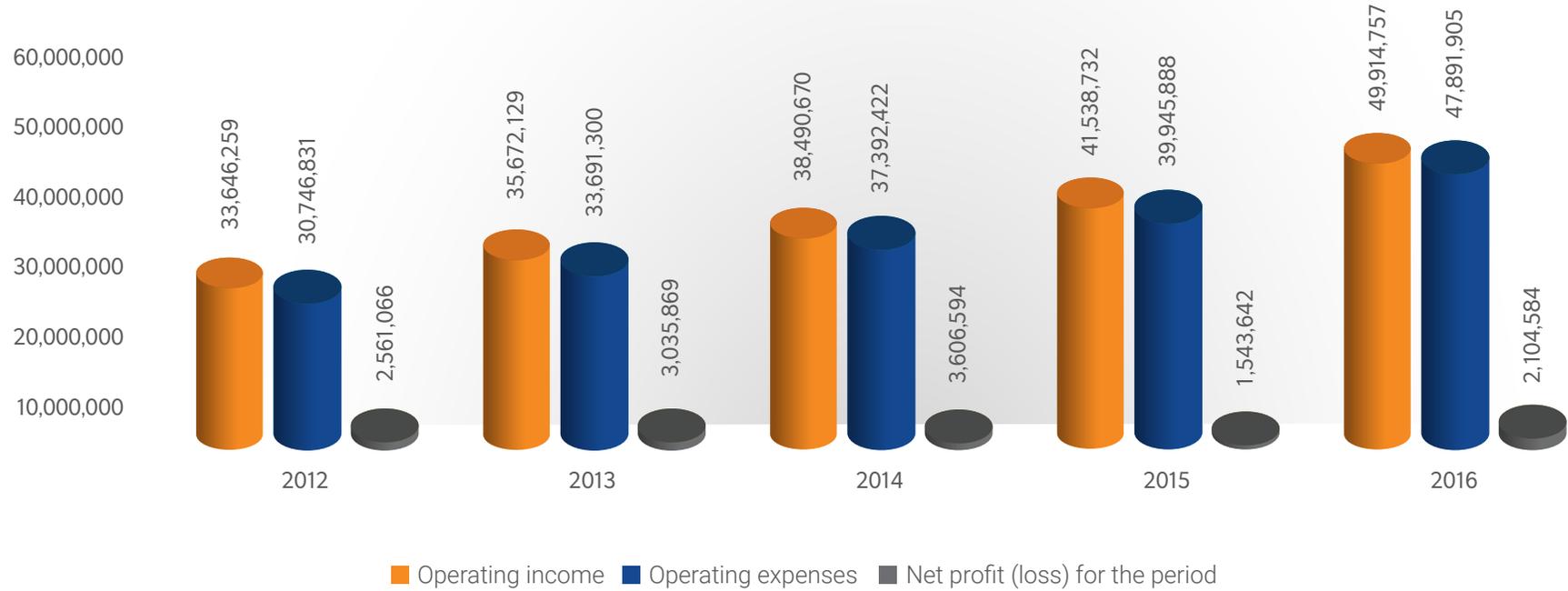
Numbers are in thousands  
of Saudi Riyals

Comparison of Current and Non-Current Assets with Total Assets  
During the years 2012- 2016



Numbers are in thousands  
of Saudi Riyals

### Revenues and Operating Expenses and Net Income During the years 2012- 2016



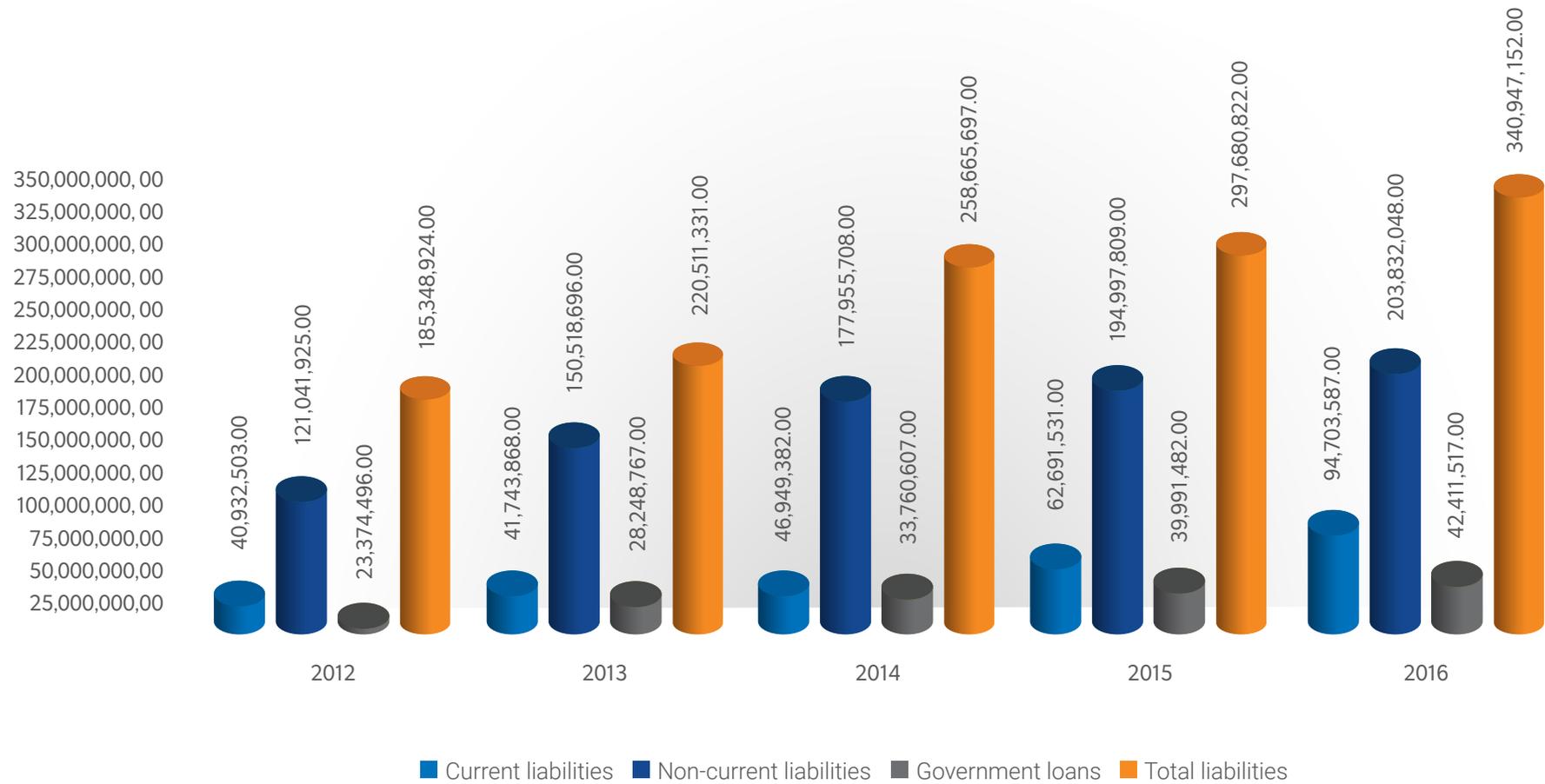
**B) Income Statement:****(Numbers are in Thousands Saudi Riyals)**

Description	2016	2015	2014	2013	2012
Operating revenues	49,914,757	41,538,732	38,490,670	35,672,129	33,646,259
Cost of sales	(46,907,873)	(38,953,467)	(36,462,927)	(33,030,721)	(30,038,017)
Gross profit	3,006,884	2,585,265	2,027,743	2,641,408	3,608,242
General and administrative expenses	(984,032)	(992,421)	(929,495)	(660,579)	(708,814)
Total operating revenues	(47,891,905)	(39,945,888)	(37,392,422)	(33,691,300)	(30,746,831)
Operating income	2,022,852	1,592,844	1,098,248	1,980,829	2,899,428
Reversal of provision for doubtful receivables	0	0	2,635,181	0	0
Deferred revenue (expenses)	0	201,513	(537,239)	729,186	0
Enhancing productivity of human resources program	(110,257)	0	0	0	(634,268)
Other revenue and expenses (net)	191,989	(250,715)	410,404	325,854	295,906
<b>Net profit</b>	<b>2,104,584</b>	<b>1,543,642</b>	<b>3,606,594</b>	<b>3,035,869</b>	<b>2,561,066</b>

The statement items from previous years were regrouped to be compatible with the classifications of 2016.

Numbers are in thousands  
of Saudi Riyals

Comparison of Current and Non-Current Liabilities, and Government Loans to the Total Liabilities  
During the years 2012 – 2016



## 5- Geographical Analysis of Company Revenue:

The company works throughout the Kingdom. The following is a geographical analysis of the sales of the company as per areas (sectors) covered:

Year	Description	Operating Areas				Total
		Central	Eastern	Western	Southern	
2016	Revenues/sales	14,721,787	13,205,873	13,499,899	3,893,911	45,321,470
2015	Revenues/sales	12,124,212	11,240,139	11,148,545	3,067,640	37,580,536

## 6- Clarification of the Operating Results Compared to the Results of Previous Year:

Description	2016	2015	+/- Changes	Change Percentage
Revenues/sales	49,914,757	41,538,732	8,376,025	20
Operating expenses	(47,891,905)	(39,945,888)	(7,946,017)	20
Gross profit from operations	2,022,852	1,592,844	430,008	27
Deferred revenues (expenses)	0	201,513	(201,513)	(100)
Human resources productivity improvement program	(110,257)	0	(110,257)	
Other revenues and expenses (net)	191,989	(250,715)	442,704	(177)
Net profit	2,104,584	1,543,642	560,942	36

### The analysis of changes between 2016 and 2015 is as follows:

- **Revenues:** Revenues have increased by 20% due to the increase in sales tariffs at the end of 2016 compared to the end of 2015.
- **Operational profit:** Operational profit has increased due to the growth in operating revenues in a higher percentage than operating expenses.
- **Zakat:** Zakat is calculated against Zakat provision and net-amended profits.
- **Net income:** Net income has increased due to the growth in operating revenues and the improvement in operating efficiency, despite higher fuel prices.

## 7- Clarification of Any Difference from the Accounting Standards:

The financial statements of the company, for the financial year ended 31 December 2016, were prepared according to the applicable accounting standards in the Kingdom issued by the Saudi Organization for Certified Public Accountants (SOCPA).

### The Plan for Applying International Accounting Standards:

A summary of the plan set by the company, which began its implementation in November 2014 and to be completed in the first quarter of 2017, is explained in the following table, which also shows the progress in this project:

Stage	Works	Current status
Planning stage	<ul style="list-style-type: none"> <li>• A meeting was held with the Saudi Organization for Certified Public Accountants (SOCPA) to discuss the transformation plan.</li> <li>• An invitation to major specialized consultancy companies was made to submit technical offers for the application of this transformation.</li> <li>• Contracting was done with the consultant PWC to study policies adopted by the company and to compare them to the international standards and define the gaps.</li> </ul>	Completed
First stage: Gaps analysis	<ul style="list-style-type: none"> <li>• Defining gaps between the accounting policies adopted by the company and the international standards.</li> <li>• Preparing work papers related to handling these gaps.</li> <li>• Defining the level of change expected to be applied to the company's systems.</li> </ul>	Completed
Second stage: Studies and treatments	<ul style="list-style-type: none"> <li>• Making detailed studies of the gaps and defining the accounting treatments and the changes in procedures.</li> <li>• Determining the accounting policies of the company from the various available standards.</li> <li>• Contracting with a specialized company to apply such a transformation to the international standards on the company's systems.</li> </ul>	Completed
Third stage: Application	<ul style="list-style-type: none"> <li>• Defining transformation requisites on financial systems.</li> <li>• Establishing a general ledger in the digital financial system in accordance with international standards.</li> <li>• Making adjustments and raising the opening balances for the year 2016 in accordance with the international accounting standards.</li> <li>• Finalizing all work papers, officially adopting them and then adapting the system according to these papers.</li> <li>• Issuing the financial reports of the first quarter of 2016 in accordance with the international accounting standards.</li> </ul>	In progress, to be completed in the first quarter of 2017
After application	<ul style="list-style-type: none"> <li>• Reflecting all amendments on the evidence of policies and detailed procedures of the company.</li> <li>• Abiding by the new applied standards.</li> </ul>	2017

## 8- Subsidiaries and Associates:

The company owns shares/quotas in the capital of each of the subsidiaries and associates as per the following table:

Sr.	Subsidiaries and associates	Place of incorporation	Place of activity	Paid capital	Activity	Ownership percentage
1	Gulf Cooperation Council Interconnection Authority	Kingdom of Saudi Arabia	Arab Gulf states	USD 1,407,000,000	Transferring power between member states	31.6%
2	Water and Electricity Company	Kingdom of Saudi Arabia	Kingdom of Saudi Arabia	SR 30,000,000	Purchasing and selling of electricity and necessary fuel for the achievement of its purposes	50%
3	Electricity Sukuk Company	Kingdom of Saudi Arabia	Kingdom of Saudi Arabia	SR 500,000	Providing service and support needed to sukuk and bonds issued by Saudi Electricity Company	100%
4	Dawiyat Telecom Company	Kingdom of Saudi Arabia	Kingdom of Saudi Arabia	SR 50,000,000	Establishing, leasing, managing, and operating electricity and fiber optic networks to provide telecommunication services	100%
5	National Grid S.A. Company	Kingdom of Saudi Arabia	Kingdom of Saudi Arabia	SR 10,000,000,000	Transmitting electricity, operating, controlling, and maintaining power systems, and leasing line capacities of transmission networks	100%
6	Dhuruma Electricity Company	Kingdom of Saudi Arabia	Kingdom of Saudi Arabia	SR 4,000,000	Developing, establishing, owning, operating, and maintaining Dhuruma project for electricity production in Riyadh area	50%
7	Hajr for Electricity Production Company	Kingdom of Saudi Arabia	Kingdom of Saudi Arabia	SR 2,506,230,000	Owning, generating, producing, transferring, and selling electricity in Qurayyah project in the eastern region	50%
8	Rabigh Electricity Company	Kingdom of Saudi Arabia	Kingdom of Saudi Arabia	SR 923,750,000	Developing, establishing, owning, operating, and maintaining Rabigh project in Holy Mecca region	20%
9	Al Mourjan for Electricity Production Company	Kingdom of Saudi Arabia	Kingdom of Saudi Arabia	SR 10,000,000	Developing, establishing, owning, operating, and maintaining Rabigh-2 project in Holy Mecca region	50%
10	Saudi Electricity Company for Project Development	Kingdom of Saudi Arabia	Kingdom of Saudi Arabia	SR 5,000,000	Managing construction projects, setting detailed designs, purchasing materials, and implementing projects in the power sector.	100%
11	GCC Electrical Testing Laboratory Company	Kingdom of Saudi Arabia	Kingdom of Saudi Arabia	SR 90,000,000	Production of transformers, electrical generators and control devices of power plants, high pressure cables and lines, and equipment selection devices	25%
12	Al-Fadhili Co-Generation Company	Kingdom of Saudi Arabia	Kingdom of Saudi Arabia	SR 1,500,000	Co-generation activity of metal-free water and steam used for industrial purposes, generating, storing and sale of electrical power, steam and metal-free water, and owning, developing and funding the establishment and maintenance of co-generation plant	30%

## 9- Shares and Debt Instruments Issued for Each Subsidiary and Investee:

SR.	Name of Subsidiary and investee	Number of shares/ quotas	Debt instruments
1	Gulf Cooperation Council Interconnection Authority	1,407,000 shares	none
2	Water and Electricity Company	600,000 shares	none
3	Electricity Sukuk Company	10,000 quotas	none
4	Dawiyat Telecom Company	5,000,000 quotas	none
5	National Grid S.A. Company	200,000,000 quotas	none
6	Dhuruma Electricity Company	400,000 shares	none
7	Hajr for Electricity Production Company	250,623,000 shares	none
8	Rabigh Electricity Company	92,375,000 shares	none
9	Al Mourjan for Electricity Production Co.	1,000,000 shares	none
10	Saudi Electricity Company for Project Development	100,000 quotas	none
11	GCC Electrical Testing Laboratory Company	9,000,000 shares	none
12	Al-Fadhili Co-Generation Company	150,000 quotas	none

## 10- Company's Policy to Distribute Profits:

The annual net profits (earned) are distributed after deducting all general expenses and other costs, as follows:

10% is withheld from the net profit to form a statutory reserve, but the regular General Assembly has the right to stop this withholding when the mentioned reserve reaches half of the capital.

The company may also keep a ratio of the net profits, which must not exceed 10%, to form another reserve and dedicate it for a specific purpose or purposes, taking into account the following:

1. The provisions contained in paragraph (2) of the (second) clause of the Council of Ministers Resolution No. (169) dated 11/08/1419 AH, which was amended by the Council of Ministers Resolution No. (327) dated 24/09/1430 AH, to approve an extension of the government's concession to its share of the profits for a period of 10 years from 30/12/1430 AH. After that down payment, the rest will be distributed to shareholders of not less than (5%) of the paid-out capital.
2. A bonus is distributed to each member of the Board of Directors in accordance with the principles and instructions in place and after deducting expenses, depreciation, and reserves established by the General Assembly, in accordance with the decisions of the statute of the company, and after distribution of dividends to shareholders of at least (5%) of the company's capital, in accordance with the provisions of the Companies Law and the instructions issued by the Ministry of Commerce and Industry.
3. The rest of the profits will be distributed – after that – to shareholders as additional share of the profits, or it will be carried forward to the coming years, as approved by the General Assembly.

During 2016, the company achieved a net profit of (2,104,584) thousand Saudi Riyals, after the deduction of Zakat and before the distribution of the Board of Directors' bonuses. The Board of Directors proposes the distribution of these profits, according to the company's structure, as follows:

Details	In thousands of Saudi Riyals
Net profit	2,104,584
<b>Deduct the following:</b>	
10% statutory reserve	210,458
Payment to shareholders and their equivalent	547,252
Board of Directors' bonuses	932
Retained earnings	1,345,942

## 11- The Interests of the People in the Company's Shares:

During the financial year ended December 31, 2016, there were no interests conferred to any person in the voting shares. The following table shows a list of shareholders who own at least 5% and any changes in ownership during 2016:

Name	The number of shares at the beginning of the year	The percentage of ownership at the beginning of the year	Net change in number of shares during the year	The Change percentage during the year	Total equity at the end of the year	Total percentage of ownership at the end of the year
Government Shares	3,096,175,320	74.31%	–	–	3,096,175,320	74.31%
Saudi Aramco	288,630,420	6.93%	–	–	288,630,420	6.93%

## 12- Interests and Rights of the Members of the Board of Directors and Senior Executives in the Company's Shares and Debt Instruments:

### A) The Interests and Rights of the Members of the Board of Directors in the Shares and the Company's Debt Instruments during 2016:

Name	Role	The beginning of the year		The end of the year		Net change	Change percentage
		Number of Shares	Debt instruments	Number of Shares	Debt instruments		
Saleh Hussein Al-Awajji	Legal	1000	–	1000	–	–	–
Sulaiman Abdullah Alkadi	Personal	1,050	–	1,050	–	–	–
Isam Alwan Al-Bayat	Legal	1000	–	1000	–	–	–
Yousif Abdulaziz Al-Turki	Legal	1000	–	1000	–	–	–
	Personal	25,750	–	25,750	–	–	–
Ali Ahmed AlSuwayied	Personal	1000	–	1000	–	–	–
Saleh Saad Al-Mehanna	Legal	1000	–	1000	–	–	–
Abdulhamid Ahmed Al-Omair	Legal	1000	–	1000	–	–	–
Abdulmajed Abdullah Al-Mubarak	Legal	1000	–	1000	–	–	–
Saud Mohammed Al-Nemer	Personal	1000	–	1000	–	–	–

• The percentage of the above shareholdings and the change in the number of shares equals "0" because the number of shares owned and their ratio to the total number of shares of the company totalling 4,166,593,815 shares, is so marginal that it is almost equal to "0".

## B) Interests and Rights of the Senior Executives, and their Spouses and Minor Children, in the Shares of the Company's Debt Instruments during 2016:

Name	The beginning of the year		The end of the year		Net change	Percentage change
	Number of shares	Debt instruments	Number of shares	Debt instruments		
Osama Bin Abdulwahab Khondena	2,250	–	2,250	–	–	–
Abdulaziz Bin Abdullah Al-Mulhim	1,058	–	1,058	–	–	–

• The percentage of the above shareholdings and the change in the number of shares equals "0" because the number of shares owned and their ratio to the total number of shares of the company totalling 4,166,593,815 shares, is so marginal that it is almost equal to "0".

## 13- Information Related to the Company's Loans:

### A) Commercial Long-Term Loans as of 31/12/2016

The following table shows details of the liabilities at the end of 2016 for the purpose of spending on capital projects:

**Numbers in thousands (Riyals/Dollars as shown in the statement)**

Statement	Total value of basic loans	Loan date	Due date	Loans balance at the beginning of the period as of 01/01/2016	Loan withdrawals during the year	Actual loan repayments during the year	Loan balance at the end of the period as of 31/12/2016
Murabaha loan (I) in Saudi Riyals with the participation of a number of entities	6,000,000	2008	2020	2,454,546	–	545,454	1,909,092
Murabaha loan (II) in Saudi Riyals with the participation of a number of entities	5,000,000	2010	2025	3,845,600	–	384,800	3,460,800
Murabaha loan (III) in Saudi Riyals with the participation of a number of entities	5,000,000	2016	2023	New loan	5,000,000	–	5,000,000
Direct loan from the Public Investment Fund in Saudi Riyals	2,583,375	2009	2024	1,831,096	–	214,937	1,616,159
Direct loan from the Industrial and Commercial Bank of China in USD	1,500,000	2016	2021	New loan	1,500,000	–	1,500,000

Statement	Total value of basic loans	Loan date	Due date	Loans balance at the beginning of the period as of 01/01/2016	Loan withdrawals during the year	Actual loan repayments during the year	Loan balance at the end of the period as of 31/12/2016
Direct loan from Export/Import U.S. and Canadian Banks in USD	1,081,978	2010	2021	522,601	–	96,716	425,885
Direct loan with the participation of a number entities in Bpifrance Assurance Export in USD	989,100	2011	2024	670,810	–	82,425	588,385
Loan with the participation of a number of entities and with the guarantee and the participation of Korean Export Banks in USD	1,400,000	2012	2026	1,283,333	–	116,667	1,166,666
Loan with the participation of a number of entities and with the guarantee and the participation of Korean and Japanese Export Banks in USD	2,000,000	2013	2028	1,918,137	–	24,708	1,893,429
Loan with the participation of a number of entities and with the guarantee and the participation of Export-Import Bank of Korea "KEXIM" in USD	900,000	2016	2029	New loan	900,000	–	900,000
Loan with the participation of a number of entities and with the guarantee Export-Import Bank of Korea "KSURE" in USD	420,000	2016	2029	New loan	420,000	–	420,000
Revolving loan (with the participation of "a number of entities) "Riyal Tranche	2,500,000	2015	2018	1,000,000	1,500,000	–	2,500,000
Revolving loan (with the participation of "a number of entities) "Dollar Tranche	1,400,000	2016	2019	New loan	1,400,000	–	1,400,000

**B) Statement of Sukuk Issues as of 31/12/2016:****Numbers in thousands (Riyals/Dollars as shown in the statement)**

Statement	Issue size	Issue date	Due Date
Local Sukuk (3 <sup>rd</sup> issue) in Saudi Riyals	7,000,000	2010	2030 With the right of early redemption in 2017, 2020, 2025
Local Sukuk (4 <sup>th</sup> issue) in Saudi Riyals	4,500,000		2054 With the right of early redemption in 2024, 2034, 2044
International Sukuk (USD 500 million)	500,000	2012	2017
International Sukuk (USD 1250 million)	1,250,000	2012	2022
International Sukuk (USD 1000 million)	1,000,000	2013	2023
International Sukuk (USD 1000 million)	1,000,000	2013	2043
International Sukuk (USD 1500 million)	1,500,000	2014	2024
International Sukuk (USD 1000 million)	1,000,000	2014	2044

**C) Statement of the Governmental Loans as of 31/12/2016:**

Numbers in thousands

Statement in Saudi Riyals	Total value of basic loans	Loan date	Due date	Loan balance at the beginning of the year as of 1/1/2016	Loan withdrawals during the year	Loan repayments during the year	Loan balance at the end of the year as of 31/12/2016	Recognized differences between received and current values
Governmental loan (due to settlement)	14,938,060	Since establishing the company	–	14,938,060	–	–	14,938,060	–
Ministry of Finance Good loan from the government (1)	15,000,000	2010	2034	15,000,000	–	–	15,000,000	(7,463,081)
Ministry of Finance Good loan from the government (2)	51,100,000	2011	2036	38,325,000	–	–	38,325,000	(23,514,448)
Ministry of Finance Good loan from the government (3)	49,400,000	2014	2038	14,075,000	2,000,000	–	16,075,000	(10,949,015)
<b>Total</b>	<b>130,438,060</b>			<b>82,338,060</b>	<b>2,000,000</b>		<b>84,338,060</b>	<b>(41,926,544)</b>

\* Government loans to the company in the financial statements are reflected in real value in accordance with relevant accounting standards. The difference between the received and current values is recognized in the item of long-term governmental debts.

**14- Description of Classes and Numbers of Convertible Debt Bonds, Contractual Securities, and Subscription Bonds:**

There were no convertible debt bonds, contractual securities, or subscription bonds issued or granted by the company within the financial year ended 31/12/2016.

**15- Description of Conversion, Subscription, or Contractual Securities Rights:**

There were no conversion or subscription rights through convertible debt bonds, or contractual securities, or subscription bonds, or other similar rights issued or granted by the company during 2016.

**16- Description of Recoverable Debt Bonds:**

There was no retrieving, purchasing, or cancelling of any recoverable debt bond by the company.

## 17- Meetings of the Board of Directors and the List of Attendees:

The Board of Directors of the company held (8) meetings during 2016. The following table contains the names of the Board of Directors' members and the number of meetings attended by each member: Attended ✓ Did not attend ✖

Name	Number and date of meetings								Total
	1	2	3	4	5	6	7	8	
	20/02/2016	25/04/2016	31/05/2016	28/06/2016	20/09/2016	01/11/2016	13/12/2016	27/12/2016	
Saleh bin Hussein Al-Awajji (Chairman of the Board)	✓	✓	✓	✓	✓	✓	✓	✓	8
Sulaiman bin Abdullah Alkadi (Vice Chairman of the Board)	✓	✓	✓	✓	✓	✓	✓	✓	8
Isam bin Alwan Al-Bayat (Board Member)	✓	✓	✓	✓	✓	✖	✓	✓	7
Saleh bin Saad Al-Mehanna (Board Member)	✓	✓	✓	✓	✓	✓	✓	✓	8
Saud bin Mohammed Al-Nemer (Board Member)	✓	✓	✓	✓	✓	✓	✓	✓	8
Ali bin Ahmed Al-Sweid (Board Member)	✓	✓	✓	✓	✓	✓	✓	✓	8
Yousif bin Abdulaziz Al-Turki (Board Member)	✓	✓	✓	✓	✓	✓	✓	✓	8
Abdulmajed bin Abdullah Al-Mubarak (Board Member)	✓	✓	✓	✓	✓	✓	✓	✓	8
Abdulhamid bin Ahmed Al-Omair (Board Member)	✓	✓	✓	✓	✓	✓	✓	✓	8

## 18- Description of Any Transaction between the Company and a Related Party:

The significant transactions and related approximate balances are as follows:

Statement	As at and for the year ended in	
	2016	2015
Sales		
Government	12.274.289	10.172.657
Saudi Aramco	336.710	521.310
Saline Water Conversion Corporation	265.579	183.479
	<b>12.876.578</b>	<b>10.877.446</b>
Purchases and Others		
Saudi Aramco	11.300.393	6.353.628
Hajr for Electricity Production Company	1.629.490	1.217.208
Rabigh Electricity Company	1.077.049	1.061.838
Dhuruma Electricity Company	1.040.980	1.037.581
Municipalities fees	723.861	622.709
Saline Water Conversion Corporation	530.324	568.609
	<b>16.302.097</b>	<b>10.861.573</b>

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

## 19- Interests of Company Contracts:

During 2016, there were no contracts in which the company had a part, nor in which any Board Members, the CEO, the Financial Officer, or any person who is related to any of them.

## 20- Assignments of Salaries, Remunerations, and Profits:

There were no arrangements or assignment agreements under which a member of the Board of Directors or a Senior Executive assigned any salary or remuneration.

## 21- Shareholders Assignment of Rights in Profits:

Based on the Council of Ministers' Resolution No. 327, dated 24/9/1430 AH, the government agreed to extend its assignment of its share of the profits distributed by Saudi Electricity Company for another 10 years, starting on 30/12/1430 AH. During 2016, there were no arrangements or assignment agreements where any of the shareholders assigned his right in the profits.

## 22- Accrued Official Payments:

The following table explains/itemizes obligatory payments made to official or regulatory bodies in the government:

Statement	In thousands of Saudi Riyals	
	2016	2015
Customs fees	4,437	3,118
Zakat and tax	22,449	44,420
General Organization for Social Insurance	1,034,926	962,785
Municipality fees	723,861	622,398
Others	11,749	10,746
Total	1,797,422	1,643,467

## 23- Employee Incentive Programs:

### A) Savings Program:

The company founded an (optional) savings program designed to motivate employees, reinforce their loyalty to and association with the company, increase their performances, as well as attract qualified Saudi staff, motivate them to stay with the company, and to help Saudi employees to accumulate savings for retirement or at the end of their service.

For participating employees, the company allocates a monthly contribution that matches the amount shared optionally by the employee. The company chooses a range of suitable investments for the program, in accordance with Islamic

Investment Rules, which offer low-risk portfolios in such a way that guarantees the interests of the subscribing employees.

The company's contribution is equivalent to 100% of the value of the employee's monthly subscription and records in his account. The calculation of employee's entitlement to the company's contribution is based on the program rules ranging from 10% upon completion of the first year of subscription and up to 100% upon reaching the end of the 10<sup>th</sup> year of participation. The amount payable to an employee from such contribution is calculated at the end of the subscription based on legal regulations. The following table explains the changes in the contributions of participating employees and their entitlements from the company's contributions during the year:

Statement	Employee Contributions	Employee entitlements from contributions of the company
Balance at the beginning of the year	460,305,950	281,326,233
Net additions/withdrawals during 2016	53,538,528	45,790,723
Balance at the end of the year	513,844,478	327,116,956

### B) Loans Program:

For the eighth year, the company continued its housing loans program that offers housing loans to Saudi employees in accordance with the terms and conditions of the program to finance the acquisition, construction or completion of construction of houses compatible with the laws of Islamic Sharia (Murabaha), by financing its cost up to (SR 1,200,000) with repayment period of 20 years. The company participates in 70% of the funding costs. The company can stop its contribution at the end of the employee's service for whatever reason. During 2016, a total of (102) employees benefitted from the program.

## 24- Accounting Records, Internal Control System, and the Ability of the Company to Proceed with its Activity:

The Company's internal audit system is prepared on a solid foundation and implemented effectively. This becomes evident when the remarks that result from conducting internal and external audit on the company's functions are issued. The Internal Audit follow up with the relevant authorities to correct these remarks and report periodically to the Revision Committee explaining the corrections completed by the administration and their follow up. The internal control system was designed to manage risks, preserve the company's assets and provide a reasonable conviction of the integrity of the financial reports which are prepared from accounting records. The company has applied an integrated financial accounting system to record all financial transactions. The company stresses that account records are set up correctly, noting that the internal audit management is an independent department and is connected to the Revision Committee, and performs its functions in accordance with the internal audit regulation adopted by the Board of Directors. It checks the internal control system continuously to ensure its efficiency and effectiveness and performs financial and operational audits to assess the company's business.

The Audit Committee, which reports to the Board of Directors, reviews the remarks and findings submitted to it by the external auditors, the internal auditor, and the results of their study of the efficiency and effectiveness of the company's internal control procedures in order to draw relevant recommendations for improvement and submits them to the Board of Directors. It also continues looking into the recommendations that resulted from these reviews and focuses on the group of recommendations that have the direct and most important influence on the internal control system. The internal control system, regardless of how effectively it was designed and implemented, cannot provide absolute assurance to this effect. The company recognizes that no doubts are present about its ability to continue with its activity.

## 25- Commitment to Corporate Governance Regulation:

The Board of Directors approved the company's corporate governance system in line with the provisions contained in the Corporate Governance Regulations, issued by the Capital Market Authority. Moreover, the company applies all the guidelines of most of the provisions stated in the Corporate Governance Regulations issued by the Capital Market Authority.

### A) The Provisions of the Regulation yet to be applied:

The table below shows the regulations yet to be applied, while stating the reasons for the lack of application:

Article	Clause	Article requirements	Reasons for not applying
3 and Item (A) of Article 4	5	The right to monitor the work of the Board of Directors and file a claim of responsibility against the members of the Board.	The company's by-laws include the shareholders basic right to file a claim of responsibility against the Board of Directors, but they do not include the right to monitor the Board of Directors work as guaranteed by virtue of the companies' systems.
6	D	Access to annual reports of investors by people holding a legal status.	We consider this paragraph as a commitment of the investors that hold a legal status and act on behalf of others.
10	H(1)	Stakeholders' compensation mechanisms in case of violation of their rights recognized by the regulations and protected by contracts.	There are applicable rules in place regarding these requirements; the company will complete the development and documentation of the policies and procedures related to this subject.
	H(2)	Mechanisms for settling complaints or disputes that may arise between the company and other stakeholders.	
	H(3)	Appropriate mechanisms to establish good relations with customers and suppliers and to maintain the confidentiality of their information.	
11	0	Did the Board of Directors make sure that written procedures were established for acquainting new Board members with the operations of the company, and in particular, the financial and legal aspects, and to undergo training as well, if necessary?	The Board has procedures for acquainting new members with the company's operations. At the beginning of each session of the Board of Directors' meeting, a comprehensive presentation about the company is made, and new members will be provided with the company's statutes, procedures, decisions and the relevant regulations, as well as annual and periodic reports; work is underway to prepare written procedures.
13	B(4)	Did the Board of Directors approve the work regulations of all standing committees under its supervision?	Work is underway to adopt regulations to the standing committees of the Board of Directors.

## B) The Board of Directors' Memberships in Other Joint-Stock Companies:

The following are members of the Board of Directors who have membership in other joint-stock companies:

SR.	Name	The Board of Directors' memberships in the other joint-stock companies
1	Saleh Hussein Al-Awajji	Gulf Cooperation Council Interconnection Authority. Saudi United Cooperative Insurance Co.
2	Sulaiman Abdullah Alkadi	Saudi Basic Chemical Industries. Chemical Development Co. Alawwal Bank.
3	Abdulmajed Abdullah Al-Mubarak	Aloula Real Estate Development Co. Care Medical Services Co. Riyad Capital.
4	Saleh Saad Al-Mehanna	Arab Bank – Amman – Jordan. Saudi Global Ports Company.

## C) The Structure of the Board of Directors and the Classification of its Members:

All members of the Board of Directors are non-executive directors, including three independent members. The following are the names of the members of the Board of Directors and their membership classification in the Company:

SR.	Name	Position	Member Ranking
1	Saleh Hussein Al-Awajji	Chairman of the Board	non-executive
2	Sulaiman Abdullah Alkadi	Vice Chairman of the Board	independent
3	Isam Alwan Al-Bayat	Board Member	non-executive
4	Yousif Abdulaziz Al-Turki	Board Member	non-executive
5	Abdulmajed Abdullah Al-Mubarak	Board Member	non-executive
6	Saleh Saad Al-Mehanna	Board Member	non-executive
7	Abdulhamid Ahmed Al-Omair	Board Member	non-executive
8	Ali Ahmed Al-Sweid	Board Member	independent
9	Saud Mohammed Al-Nemer	Board Member	independent

## D) Board of Directors Committees:

Four standing committees emerged from the Board of Directors as of 2016, which are:

- Audit Committee.
- Executive Committee.
- Nomination, Remunerations and Human Resources Committee.
- Risk Committee.

What follows is a summary of the Standing Committees of the Board of Directors in 2016:

### 1- Audit Committee:

The Audit Committee consists of (5) non-executive members, including specialists in financial and accounting affairs. The company's General Assembly has approved the proposal of the Board of Directors on the rules of selection of its members, their membership duration and the working method of the committee. The Audit Committee held (8) meetings during 2016, and the following table shows the Audit Committee members and the attendance of each member:

SR.	Name	Position	Number of attendances
1	Saleh Saad Al-Mehanna	Chairman of the Committee	7
2	Isam Alwan Al-Bayat	Vice Chairman of the Committee	8
3	Abdul Rahman Ibrahim Al-Hamid	Committee member	6
4	Abdul Rahman Sulaiman Al-Tareeqi	Committee member	8
5	Yahya Ali Al-Jaber	Committee member	8

The Audit Committee specializes in:

- Recommending, first to the Board of Directors and then to the General Assembly, the selection of the external auditors, determination of their fees and dismissal, making sure that they are independent at the time of recommending their appointments.
- Reviewing the reports of the internal and external auditors, particularly those related to the administration's commitment to special rules and regulations and the internal and external accounting standards that have been adopted.

- Monitoring the company's internal audit in order to ensure its effectiveness in the implementation of its tasks set forth by the Board of Directors.
- Studying the internal control system and compiling a written report stating its opinion and recommendations in this regard.
- Studying the internal audit reports and following up on the implementation of corrective actions mentioned in the notes.
- Following up the work of the certified public accountants and adopting any work outside the scope of audit that is assigned to them during their audit work.
- Studying the audit plan with the certified public accountant and providing their comments on the plan.
- Studying the chartered accountant's notes on the financial statements and following up to see what has been done about them.
- Studying the interim financial statements and the annual financial statements prior to submitting them to the Board of Directors and expressing opinions and recommendations about them.
- Studying the established accounting policies and giving their opinions and recommendations about them to the Board of Directors.
- Raising the findings of the proposals and recommendations of the Committee to the Board of Directors for their approval.

## 2- Executive Committee:

The Executive Committee consists of (6) members. During 2016, the Executive Committee held (8) meetings. The following table shows the names of the Executive Committee members and the attendance record of each member:

SR.	Name	Position	Number of attendances
1	Saleh Hussein Al-Awajji	Chairman of the Committee	8
2	Saleh Saad Al-Mehanna	Vice Chairman of the Committee	8
3	Isam Alwan Al-Bayat	Committee member	8
4	Abdulmajed Abdullah Al-Mubarak	Committee member	8
5	Abdulhamid Ahmed Al-Omair	Committee member	8
6	Ziyad Mohammed Alshiha	Committee member and CEO	8

The Executive Committee specializes in:

- Reviewing plans and studies related to the restructuring of the company's activities.
- Reviewing the general budget (capital and operating) and the proposed projects by the executive management, as well as studies, plans, and methods of financing related thereto.
- Periodically reviewing the company's achievements compared to the approved budgets.
- Considering the company's other matters as brought up by the Governing Council.

## 3- Nomination, Remunerations and Human Resources Committee: \*

The Nomination, Remunerations and Human Resources Committee consists of (6) members.

During 2016 the committee held (6) meetings. The following table shows the names of Nomination, Remunerations and Human Resources Committee members and the attendance record of each member:

SR.	Name	Position	Number of attendances
1	Sulaiman Abdullah Alkadi	Chairman of the Committee	6
2	Saud Mohammed Al-Nemer	Vice Chairman of the Committee	6
3	Saleh Hussein Al-Awajji	Committee member	6
4	Yousif Abdulaziz Al-Turki	Committee member	6
5	Ali Ahmed Al-Sweid	Committee member	6
6	Ziyad Mohammed Alshiha	*Committee Member and CEO	6

\*The Committee's work rules include that the CEO should not attend the discussions of the topics that fall under the mandate of the Committee, contained in the Corporate Governance Regulation issued by the Capital Market Authority, or the confidential subjects of the CEO, and attendance is limited to the designated members of the Board of Directors assigned to the Committee.

The Nomination, Remunerations and Human Resources Committee specializes in:

- Recommending to the Board of Directors the candidates' membership in accordance with approved policies and standards, making sure not to

nominate any person previously convicted of any crime involving moral turpitude and dishonesty.

- Conducting annual review of the appropriate skills required for Board membership and preparing a description of the required capabilities and qualifications of the Board of Directors' members including identifying the length of time a member should devote to the Board of Directors' work.
- Reviewing the Board of Directors' structure and making recommendations regarding changes that can be made.
- Identifying the weaknesses and strengths of the Board of Directors, and proposing solutions on how to deal with them in accordance with the Company's interest.
- Ensuring the application of corporate governance requirements on the Board of Directors, its committees, its Chief Executive Officer, and making sure on an annual basis that the independent members are indeed independent. Also, making sure no conflict of interest is present regarding potential affiliation of a member, if he is also a member of the Board of Directors of other companies.
- Developing clear policies for compensation and bonuses of the Board of Directors' members and Senior Executives, and taking into account when setting these policies that performance-based criteria are used.
- Reviewing public policies and systems of Human Resources.
- Reviewing the salary scale, housing and transportation allowances of company employees.
- Nominating the CEO, reviewing his remunerations and rewards, and recommending to the Board of Directors the extension of the CEO's services.
- Reviewing amendments to the organizational structure of the company for ranks (57) and above, and the recommendations of the Board of Directors members associated with it.
- Reviewing the basics of annual bonuses' distribution, which are approved by the Board of Directors, and the recommendations of the Governing Council associated with it.
- Reviewing human resources rules and regulations related to retirement, health services, cooperative funds, savings funds, and reviewing the company's work list, bonuses list and disciplinary actions which are certified by the Ministry of Labor.

- Reviewing the basis of annual salary increments for all employees of the company, and taking into account the recommendations of the members of the Board of Directors in this respect.
- Reviewing all matters referred by the Board of Directors related to Human Resources in the company.

#### 4- Risk Committee:

The Risk Committee consists of (5) members. During 2016, it held (5) meetings. The following table contains the names of the members of the Risk Committee and the attendance record of each member:

SR.	Name	Position	Number of attendances
1	Abdulmajed Abdullah Al-Mubarak	Chairman of the Committee	5
2	Saud Mohammed Al-Nemer	Vice Chairman	5
3	Isam Alwan Al-Bayat	Committee member	5
4	Thaleb Ali Al-Shamrani	Committee member	5
5	Ziyad Mohammed Alshiha	Committee member and CEO	5

The Risk Committee specializes in:

- Supervising the preparation and adopting the suitable structure for risk management within the company's structure, defining and adopting management tasks, and preparing rules and regulations that enable the Risk Committee to effectively perform its role.
- Identifying the main risks related to the company's operation, applying suitable systems for managing risks, and informing the Board of Directors of the risks that might threaten the company's operation.
- Supervising the review and evaluation of strategic risks and creating periodic reports of the current and potential strategic risks.
- Assuring there is enough positive culture in the company for managing opportunities, threats, and uncertainties, and assuring that this culture becomes an integral part of the company and its works.
- Setting policies and decisions related to matters that may lead to financial or other risks, or that may affect principles of the company, and conducting periodic review of performance, quality, safety, and effectiveness of risk management.

- Assuring that the strategy of the company includes defining and understanding the main risks the company may face as it strives to achieve its goals through strategies and work plans.
- Providing controls on the information related to the company's growing risks, and assuring that the Board of Directors is informed of such risks.

#### **E) Benefits and Remunerations of the Members of the Board of Directors and Senior Executives:**

The following table contains details of the benefits and remunerations paid to the members of the Board of Directors and five Senior Executives, including the CEO and the Financial Manager, who received the highest benefits and remunerations:

Statement	Executive Members of the Board	Non-Executive/ Independent Members of the Board	Senior Executives
Salaries and remunerations	-	-	8,085,886.41
Allowances	-	1,166,416.59	1,733,413.72
Annual and regular benefits	-	2,831,875	4,900,000
Incentive Plans	-	-	
Any other material remunerations or benefits paid monthly or annually	-	-	
<b>Total</b>	<b>-</b>	<b>3,998,291.59</b>	<b>14,719,300.13</b>

#### **F) Punishment and Penalties Imposed on the Company:**

The Telecommunications Dispute Settlement Commission issued (8) resolutions that stipulated imposing fines with a total amount of (SR 17,000) in relation to causing harm to communication networks. The Company, in light of the pleas and arguments available, appealed these resolutions before the Board of Grievances of the Administrative Court which issued the following decisions:

- 1- The number of primary court provisions issued for the benefit of the company was (2), for the total amount of (SR 2,000).
- 2- The number of final court provisions issued for the benefit of the company was (1), for the total amount of (SR 1,000).
- 3- The number of final court provisions issued against the company was (4), for the total amount of (SR 13,000).
- 4- The number of deliberated cases was (1), with a total value of (SR 1,000).

#### **G) Results of the Annual Review of the Effectiveness of Internal Audit Procedures:**

In the context of its normal business functions, the internal Audit Committee is responsible for the reviews activities, which provide objective and independent assessments that cover all of the governance, risk management, control, and review tasks. The audit activities cover all operational and financial aspects, performance, and compliance of the company.

The Audit Committee, which reports to the Board of Directors and consists of five members – three of whom are independent from the Board of Directors, studies periodic reports prepared by the company's internal auditor and the remarks of the company's external auditor, to better evaluate the internal control procedures in terms of design and application.

The Audit Committee follows up the findings of the internal and external auditors and their recommendations for remedial action that is required for any shortcoming. The Committee also reviews all matters related to the effectiveness of internal control procedures in general through internal audit reports in relation to the fairness of financial statements in particular, while taking into account the fact that any system of internal control, regardless of the extent of its good design and effectiveness of its application, cannot provide absolute assurance. The control procedures mentioned above didn't show any fundamental weakness in the internal audit system that should be revealed.

#### **26- Report of the Chartered Accountant:**

The fifteenth ordinary General Assembly, held on 25/04/2016, approved the appointment of KPMG Al-Fozan and Partners as chartered accountants of the company for the financial year ended 31/12/2016. The report of the Company's chartered accountant did not include any reservations on the annual financial statements from the company's legal accountants.

#### **27- Recommendations of the Board of Directors in Relation to the Chartered Accountant of the Company:**

The Board of Directors has not made any recommendations for replacing the chartered accountant since his appointment in the previous General Assembly.

# Conclusion

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"At the end of this report, the Board of Directors of the Saudi Electricity Company has the pleasure to express its sincere thanks and appreciation to all the company's employees for their continuous and faithful efforts to achieve the company's goals, protecting its gains and interests, and raising its reputation and competitiveness. We ask God - Glory be to Him - to bless all of these efforts, so that the Company continues to achieve its plans and programs for the support and upholding of socio-economic development in the Kingdom and to always meet its demand for electrical power."

# Financial Statements

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Registration number  
46/11/323 dated 7/9/1412 H

### **Auditors' Report to the Shareholders of the Saudi Electricity Company**

(A Saudi Joint Stock Company)  
Riyadh, Kingdom of Saudi Arabia

We have audited the accompanying consolidated financial statements of the Saudi Electricity Company ("the Company") and its subsidiaries which include the consolidated statement of financial position as at 31 December 2016 and the consolidated statements of income and cash flows and changes in shareholders' equity for the year then ended, and the attached explanations from (1) to (40) considered as an integral part of these consolidated statements.

### **Management's Responsibility for the Consolidated Financial Statements**

These consolidated financial statements are the responsibility of the management and have been prepared fairly by them in accordance with the generally accepted accounting standards of the Kingdom of Saudi Arabia and according to the companies' regulations and the company's by-laws as well as the internal audit system which is considered necessary by the management for the preparation of the consolidated financial statements that are free of material misstatement, whether arising from fraud or error. The management provided us with all the information and explanations that we requested to allow us to review these consolidated financial statements.

### **Auditors' responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the Kingdom of Saudi Arabia. Those standards require our commitment to professional ethics and planning and performing our audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

The audit includes procedures to obtain evidence supporting the amounts and disclosures contained in the consolidated financial statements. The chosen procedures are based on our discretion including our assessment of risks of having substantial errors in the financial statements whether arising from fraud or error. And when we evaluate these risks, we take into consideration the internal audit system for the preparation and presentation of the company's financial statements in order to design appropriate audit procedures suitable to the existing conditions, but not to express an opinion on the effectiveness of the company's internal audit system. The audit also includes assessing the appropriateness of the accounting policies used and the reasonableness of accounting estimates used by management, as well as evaluating the overall financial statements presentation.

We believe that our audit provides a reasonable degree of assurance to enable us to express an opinion on the consolidated financial statements.

### **Opinion**

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

- 1- Present fairly, in all material respects, the consolidated financial position of the Saudi Electricity Company as at 31 December 2016 and the consolidated results of its operations and its cash flows for the year then ended in accordance with accounting standards generally accepted in the Kingdom of Saudi Arabia and that are appropriate to the company's circumstances.
- 2- Comply with the requirements of the companies' regulations and the company's by-laws in so far as they affect the preparation and presentation of the consolidated financial statements.



Riyadh: February 20, 2017  
Corresponding to: 23 Jumad Awal 1438 H

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

A blue ink signature of Abdullah Hamad Al Fozan.

Abdullah Hamad Al Fozan  
Registration No. 348

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

	Note	31 December 2016	31 December 2015
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	4	1,222,146	2,038,229
Receivables from electricity customers and accrued revenues, net	5	28,564,041	20,512,384
Prepayments and other receivables, net	6	7,420,224	8,841,894
Inventories, net	7	6,930,273	6,495,066
Loans to associates	8	583,838	859,885
<b>TOTAL CURRENT ASSETS</b>		<b>44,720,522</b>	<b>38,747,458</b>
<b>NON-CURRENT ASSETS</b>			
Investments in equity accounted investees and others	9	3,674,338	3,572,487
Projects in progress	10	86,866,162	85,518,343
Fixed assets, net	11	267,527,943	229,993,769
Intangible assets		181,810	197,892
<b>TOTAL NON- CURRENT ASSETS</b>		<b>358,250,253</b>	<b>319,282,491</b>
<b>TOTAL ASSETS</b>		<b>402,970,775</b>	<b>358,029,949</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>CURRENT LIABILITIES</b>			
Accounts payable	12	66,385,773	52,460,414
Accruals and other payables	13	6,833,806	6,883,995
Short-term loans and current portion of long-term loans	14	12,608,868	3,347,122
Sukuk	15	8,875,140	-
<b>TOTAL CURRENT LIABILITIES</b>		<b>94,703,587</b>	<b>62,691,531</b>

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

	Note	31 December 2016	31 December 2015
<b>NON-CURRENT LIABILITIES</b>			
Long-term loans	14	<b>34,985,615</b>	22,266,954
Sukuk	15	<b>26,065,350</b>	34,940,490
Employees' indemnities benefits	16	<b>5,723,895</b>	6,019,260
Deferred revenues, net	17	<b>35,064,467</b>	29,370,073
Customer deposits		<b>1,845,081</b>	1,743,429
Long term loans from government	18	<b>42,411,517</b>	39,991,482
Long term payables to the government	19	<b>100,025,591</b>	100,445,372
Fair value of cash flow hedging reserve	20	<b>122,049</b>	212,231
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>246,243,565</b>	234,989,291
<b>TOTAL LIABILITIES</b>		<b>340,947,152</b>	297,680,822
<b>SHAREHOLDERS' EQUITY</b>			
Share capital		<b>41,665,938</b>	41,665,938
Statutory reserve	21	<b>2,839,668</b>	2,629,210
General reserve	21	<b>569,506</b>	557,898
Retained earnings	22	<b>17,392,209</b>	16,046,267
Cash flows hedging contracts reserve	20	<b>(443,698)</b>	(550,186)
<b>TOTAL SHAREHOLDERS' EQUITY</b>		<b>62,023,623</b>	60,349,127
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>402,970,775</b>	358,029,949

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

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

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

	2016	2015
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income for the year	2,104,584	1,543,642
<b>Adjustments to reconcile net income for the year with net cash from operating activities:</b>		
Provision for doubtful receivables, net	664,846	236,359
Share of (profits)of equity accounted investees	(43,977)	(54,015)
Depreciation	17,365,791	14,933,508
Gain on disposal of fixed assets, net	(19,380)	(85,072)
Employees' indemnities, net	(295,365)	376,505
<b>Changes in operating assets and liabilities:</b>		
Receivables from electricity customers and accrued revenues	(8,716,503)	(4,905,068)
Prepayments and other receivables	1,421,670	726,210
Inventories	(435,206)	107,343
Accounts payable	13,925,359	13,338,159
Deferred revenues, net	5,694,394	3,370,802
Accruals and other payables	(50,537)	1,297,974
Net movement in customer deposits	101,651	93,430
<b>Net cash from operating activities</b>	<b>31,717,327</b>	<b>30,979,777</b>

Saudi Electricity Company (Saudi Joint Stock Company)

**Consolidated statement of cash flows for the year ended 31 December 2016**

(In thousands Saudi Riyals)

	2016	2015
CASH FLOWS FROM INVESTING ACTIVITIES		
Fixed assets and projects in progress	<b>(56,263,952)</b>	(56,207,458)
Proceeds from sale of fixed assets	<b>51,629</b>	96,161
Loans to associates	<b>276,047</b>	142,125
Investments in equity accounted investees and others	<b>(41,566)</b>	(63,801)
Net cash used in investing activities	<b>(55,977,842)</b>	(56,032,973)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net proceeds from Government loans and payables	<b>2,000,254</b>	14,740,208
Net proceeds from short and long-term loans	<b>21,980,407</b>	5,939,479
Dividends paid to shareholders and Board of Directors' remuneration	<b>(536,229)</b>	(531,769)
Net cash from financing activities	<b>23,444,432</b>	20,147,918
NET CHANGE IN CASH AND CASH EQUIVALENTS DURING THE YEAR	<b>(816,083)</b>	(4,905,278)
Cash and cash equivalents, beginning of the year	<b>2,038,229</b>	6,943,507
CASH AND CASH EQUIVALENTS, END OF THE YEAR	<b>1,222,146</b>	2,038,229
NON-CASH TRANSACTIONS:		
Change in cash flows hedging contract reserve	<b>106,488</b>	108,121
Transfer from loan for an associate company to equity investment	-	1,248,115

Saudi Electricity Company (Saudi Joint Stock Company)  
 Consolidated statement of changes in shareholder's equity for the year ended 31 December 2016  
 (In thousands Saudi Riyals)

	Note	Share Capital	Statutory Reserve	General Reserve	Retained Earnings	Cash Flows Hedging Contracts Reserve	Total
<b>For the year ended 31 December 2015</b>							
Balance as at 1 January 2015		41,665,938	2,474,846	554,912	15,205,107	(658,307)	59,242,496
Net income for the year		-	-	-	1,543,642	-	1,543,642
Dividends paid to shareholders for 2014	22	-	-	-	(547,252)	-	(547,252)
Board of Directors' remuneration for 2014	23	-	-	-	(866)	-	(866)
Net change in cash flows hedge reserve	20	-	-	-	-	108,121	108,121
Reconciliation of Electricity collection fee (individuals)	21	-	-	2,986	-	-	2,986
Transfer to statutory reserve		-	154,364	-	(154,364)	-	-
Balance as at 31 December 2015		41,665,938	2,629,210	557,898	16,046,267	(550,186)	60,349,127
<b>For the year ended 31 December 2016</b>							
Balance as at 1 January 2016		41,665,938	2,629,210	557,898	16,046,267	(550,186)	60,349,127
Net income for the year		-	-	-	2,104,584	-	2,104,584
Dividends paid to shareholders for 2015	22	-	-	-	(547,252)	-	(547,252)
Board of Directors' remuneration for 2015	23	-	-	-	(932)	-	(932)
Net change in cash flows hedge reserve	20	-	-	-	-	106,488	106,488
Reconciliation of Electricity collection fee (individuals)	21	-	-	11,608	-	-	11,608
Transfer to statutory reserve		-	210,458	-	(210,458)	-	-
Balance as at 31 December 2016		41,665,938	2,839,668	569,506	17,392,209	(443,698)	62,023,623

Saudi Electricity Company (Saudi Joint Stock Company)

## Notes to the consolidated financial statements 31 December 2016

### 1- ORGANIZATION AND ACTIVITIES

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

The Company was founded pursuant to the Royal Decree No. M/16 dated 6 Ramadan 1420H corresponding to 13 December 1999, in accordance with the Council of Ministers' Resolution Number 153, dated 5 Ramadan 1420H corresponding to 12 December 1999 and the Minister of Commerce's Resolution Number 2047 dated 30 Dhul-Hijjah 1420H corresponding to 5 April 2000 as a Saudi joint stock company and registered in Riyadh under Commercial Registration Number 1010158683, dated 28 Muhurram 1421H corresponding to 3 May 2000. The Company's principal activity is the generation, transmission and distribution of electric power. The Company is the major provider of electric power all over the Kingdom of Saudi Arabia, serving governmental, industrial, agricultural, commercial and residential customers.

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

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

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

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

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

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

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

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

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

## 2- BASIS OF PREPARATION

### A) Statement of compliance

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

### B) Basis of measurement

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

### C) Basis of consolidation

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

### Subsidiaries

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

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

#### **D) Functional and presentation currency**

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

#### **E) Use of estimates and judgments**

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

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

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

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

### **3- SIGNIFICANT ACCOUNTING POLICIES**

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

#### **A) Cash and cash equivalents**

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

#### **B) Bank deposits**

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

#### **C) Receivables from electricity customers**

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

#### **E) Inventories**

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

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

#### **F) Investments**

##### **Investments in equity accounted investees**

Investments in equity accounted investee are those entities in which the Company has significant influence, but not control, over the financial and operating policies, generally accompanying a shareholding between 20% or more of the voting rights. The investments are accounted for using the equity method (equity accounted investee), which are initially recognized at cost. The Company's share in its investees' post-acquisition income and losses is recognized in the consolidated statement of income.

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

##### **Held to maturity investments**

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

### G) Fixed assets

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

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

Expenditure for repair and maintenance are charged to the consolidated statement of income. Improvements that materially increase the value or extend the life of the related assets are capitalized.

Depreciation is charged to the consolidated statement of income on a straight-line basis over the estimated useful lives of individual item of fixed assets. The estimated useful lives of depreciable assets will be as follows:

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

### H) Intangible assets

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

### I) Impairment of non-current assets

The company review periodically the carrying amount of its non-current assets to determine whether events or changes in circumstances indicates that the carrying

amount may not be recoverable. If such evidence exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Where it is not possible to estimate the recoverable amount of the asset, the company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

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

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

### J) Borrowings

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

### Loans from the Government

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

### **K) Derivative financial instruments and hedge accounting**

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

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

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

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

### **L) Accounts payable and accruals**

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

### **M) Borrowing costs**

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

### **N) Sukuk**

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

### **O) Operating lease**

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

### **P) Employees' indemnity benefits**

#### **Provision for end of service benefits:**

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

#### **Employees' saving fund:**

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

### **Q) Zakat**

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

### **R) Statutory reserve**

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

## S) Revenue

### Electricity sales

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

### Revenue from meter reading and maintenance tariff

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

### Electricity service connection tariff

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

### Revenue of transmission system

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

## T) Expenses

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

## U) Basic earnings per share for the year

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

## V) Contingent liabilities

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

## W) Segment reporting

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

## X) Dividends

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

## Y) Foreign currency transactions

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

## 4-CASH AND CASH EQUIVALENTS

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

## 5- RECEIVABLES FROM ELECTRICITY CUSTOMERS AND ACCRUED REVENUES, NET

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

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

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

## 6- PREPAYMENTS AND OTHER RECEIVABLES, NET

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

## 7- INVENTORIES, NET

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

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

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

## 8- LOANS TO ASSOCIATES

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

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

## 9- INVESTMENTS IN EQUITY ACCOUNTED INVESTEEES AND OTHERS

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

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

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

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

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

#### **A) Gulf Cooperation Council Interconnection Authority**

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

#### **B) Water and Electricity Company**

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

#### **C) Hajr for Electricity Production Company**

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

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

#### **D) Rabigh Electricity Company**

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

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

#### **E) Dhuruma Electricity Company**

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

#### **F) Al-Mourjan for Electricity Production Company**

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

#### **G) Laboratory Company to Inspect Electrical Equipment**

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

#### **H) Al-Fadhly co-Generation Company**

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

## 9-B) Other investments, at cost

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

## 9-C) Held to maturity investments

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

## 10- PROJECTS IN PROGRESS

	2016				
	Generation projects	Transmission projects	Distribution projects	General projects	Total
At the beginning of the year	28,398,909	43,279,938	12,915,402	924,094	85,518,343
Additions during the year	13,703,868	25,401,680	12,769,023	1,826,176	53,700,747
Transfer to fixed assets	(16,937,740)	(25,490,109)	(8,889,238)	(1,035,841)	(52,352,928)
Balance at 31 December 2016	25,165,037	43,191,509	16,795,187	1,714,429	86,866,162
	2015				
At the beginning of the year	21,769,044	30,310,178	5,273,601	1,523,038	58,875,861
Additions during the year	14,042,072	26,465,205	14,042,446	641,973	55,191,696
Transfer to fixed assets	(7,412,207)	(13,495,445)	(6,400,645)	(1,240,917)	(28,549,214)
Balance at 31 December 2015	28,398,909	43,279,938	12,915,402	924,094	85,518,343

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

## 11- FIXED ASSETS, NET

	2016						2015	
	Land	Buildings	Machinery and equipment	Capital spare parts	Vehicles and heavy equipment	Others	Total	Total
<b>Cost:</b>								
At the beginning of the year	3,168,629	24,389,628	377,010,632	4,854,897	1,613,481	7,429,502	418,466,769	389,395,724
Additions	478,711	6,887,670	44,803,228	351,752	181,089	2,236,470	54,938,920	29,583,708
Disposals	-	(13,005)	(644,149)	(180)	(15,510)	(8,998)	(681,842)	(512,663)
At the end of the year	3,647,340	31,264,293	421,169,711	5,206,469	1,779,060	9,656,974	472,723,847	418,466,769
<b>Depreciation:</b>								
At the beginning of the year	-	12,850,457	167,769,148	2,575,545	1,178,266	4,099,584	188,473,000	174,022,334
Charge for the year	-	1,653,658	14,414,629	167,838	138,975	990,691	17,365,791	14,933,508
Disposals	-	(12,964)	(605,235)	(180)	(15,510)	(8,998)	(642,887)	(482,842)
At the end of the year	-	14,491,151	181,578,542	2,743,203	1,301,731	5,081,277	205,195,904	188,473,000
Net book Value	3,647,340	16,773,142	239,591,169	2,463,266	477,329	4,575,697	267,527,943	229,993,769

As at 31 December 2016, fixed assets items includes fully depreciated assets that some of them are still used in operation with book value amounting to SR 87,46 billion as at that date. Currently and in light of restructure of electricity and energy sector in the Kingdom of Saudi Arabia, the Company is undergoing procedures by restudying and revisit estimated useful lives for all assets of the Company including fully depreciated assets and studying the expected future utilization of these assets taking into consideration their current technical condition. Furthermore, this study is expected to be completed by the end of the first quarter of the year 2017.

Currently, it is not possible to make a final and reliable estimation for the final effect of this study as a result of not completing it nor receiving its final approval. The management of the Company does not expect the mentioned study to result in significant impacts on the Company's results and total assets.

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

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

<b>2016</b>					
	<b>Generation</b>	<b>Transmission</b>	<b>Distribution</b>	<b>General Property</b>	<b>Total</b>
Land	237,735	597,374	225,230	2,587,001	3,647,340
Buildings	10,916,000	4,448,467	242,733	1,165,942	16,773,142
Machinery & equipment	84,792,185	87,665,405	66,720,802	412,777	239,591,169
Capital spare parts	1,790,642	539,556	133,016	52	2,463,266
Vehicles and heavy equipment	-	638	-	476,691	477,329
Others	2,395,694	817,964	377,631	984,408	4,575,697
	100,132,256	94,069,404	67,699,412	5,626,871	267,527,943
<b>2015</b>					
Land	238,335	597,374	225,230	2,107,690	3,168,629
Buildings	6,959,679	3,317,090	224,686	1,037,716	11,539,171
Machinery & equipment	80,697,273	65,794,638	62,284,072	468,665	209,244,648
Capital spare parts	1,615,015	528,333	135,938	66	2,279,352
Vehicles and heavy equipment	-	209	-	435,005	435,214
Others	1,884,840	379,025	385,699	677,191	3,326,755
	91,395,142	70,616,669	63,255,625	4,726,333	229,993,769

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

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

## 12- ACCOUNTS PAYABLE

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

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

## 13- ACCRUALS AND OTHER PAYABLES

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

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

## 14- LOANS AND BANK FACILITIES

The Company has credit facility agreements with local and foreign commercial banks and other lending institutions for long and short term borrowings for financing construction projects, These loans are secured by promissory notes issued by the Company through par value of loans and/or margin.

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

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

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

### 1) Short-term loans

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

- A. On 1 December 2015, the Company signed a credit facilities agreement with National Commercial Bank (NCB), in Saudi Riyals amounting to SR 500 million, The utilized balance of this facility in the form of Islamic Murabaha amounted to SR 500 million as at 31 December 2016 (2015: SR nil) and is due for repayment during February 2017.

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

### 2) Long-term loans

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

- A. On 28 July 2008, the Company obtained a sharia-compliant loan for SR 6 billion from a syndicate of local banks which has been fully withdrawn, The loan is repayable over 22 equal semi-annual installments starting 3 November 2009, The loan balance amounted to SR 1,9 billion as of 31 December 2016 (2015: SR 2,5 billion).
- B. On 13 July 2009, the Company signed a financing agreement with the Public Investments Fund whereby the Company receive a direct loan of SR 2,6 billion which has been fully withdrawn, The loan is repayable within 15 years over 24 equal semi-annual installments starting 31 December 2012, The loan balance amounted to SR 1,6 billion as of 31 December 2016 (2015: SR 1,8 billion).
- C. On 27 January 2010, the Company signed a financing agreement with the

Export-Import Bank of the United States, and the Export Development Bank of Canada whereby the Company receive a direct loan amounting to SR 4,1 billion (US\$ 1,1 billion) which has been fully withdrawn, The loan is repayable within 12 years over 22 equal semi-annual installments starting 25 May 2010, The loan balance amounted to SR 1,6 billion as of 31 December 2016 (2015: SR 2 billion).

- D. On 13 December 2010, the Company signed an agreement with a syndicate of local banks whereby the Company obtains a sharia compliant loan of SR 5 billion which has been fully withdrawn, The loan is repayable within 15 years over 26 equal semi-annual installments starting 13 May 2013, The loan balance amounted to SR 3,4 billion as of 31 December 2016 (2015:SR 3,8 billion).
- E. On 22 June 2011, the Company signed an agreement with Export and Import French Bank whereby the Company obtains a loan of SR 3,7 billion (US\$ 989,1 million) which has been fully withdrawn, The loan is repayable within 12 years over 24 equal semi-annual installments starting 11 January 2012, The loan balance amounted to SR 2,2 billion as of 31 December 2016 (2015:SR 2,5 billion).
- F. On 29 March 2012, The Company signed a loan agreement guaranteed by two Export Korean banks (K Shore and K Exim) where a syndicate of international banks participated in financing the loan led by HSBC Group, Tokyo-Mitsubishi Bank, Sumitomo Mitsui Banking Corporation, Mizuho Bank and KfW Bankengruppe, The loan amount is SR 5,3 billion (US\$ 1,4 billion) which has been fully withdrawn, The loan is repayable within 12 years over 24 equal semi-annual installments starting 7 May 2015, The loan balance amounted to SR 4,3 billion as of 31 December 2016 (2015: SR 4,8 billion).
- G. On 18 December 2013, The Company signed a loan agreement guaranteed by two Export Japanese banks (NEXI) and (JBIC) where Export Japanese bank (JBIC), Tokyo-Mitsubishi Bank, and Mizuho Bank participated in financing the loan, The amount of the loan is SR 1,4 billion (US\$ 366 million), The loan is repayable within 12 years over 24 equal semi-annual installments starting 27 July 2015, The loan balance amounted to SR 1 billion as of 31 December 2016 (2015: SR 1,1 billion).
- H. On 19 December 2013, The Company signed a loan agreement guaranteed by two Export Korean banks (K Shore and K Exim), where Export Korean banks (K Shore and K Exim), and various international banks, Tokyo-Mitsubishi

Bank, Mizuho Bank, Sumitomo Mitsui Banking Corporation, HSBC Group, Deutsche Bank and KfW IPEX-Bank have participated in financing the loan, The amount of the loan is SR 6,1 billion (US\$ 1,6 billion) which has been fully withdrawn, The loan is repayable within 12 years with a grace period of 3 years, The loan balance amounted to SR 6,1 billion as of 31 December 2016 (2015: SR 6,1 billion).

- I. On 29 June 2016, the Company signed a loan agreement with China bank for trading and manufacturing, The amount of the loan is SR 5,6 billion (USD 1,5 billion) which has been fully withdrawn, The loan is repayable over 5 years on 6 semiannual installments starting from 20 December 2018, The loan balance amounted to SR 5,6 billion as at 31 December 2016.
- J. On 19 September 2016, the Company obtained a sharia-compliant loan with a group of local banks, The amount of the loan is SR 5 billion, The loan is repayable over seven years on 11 semiannual installments starting from 19 September 2018, The loan balance amounted to SR 5 billion as at 31 December 2016.
- K. On 27 October 2016, the Company signed a financing agreement with number of international banks such as Banco Santander and Credit Agricole Group under which the Company obtains a loan of US\$ 420 million (SR 1,575 million), This facility is extended to 12,77 year and is obtained by a guarantee of Korean Commercial Insurance Company and no guarantees have been offered by the Company, As at 31 December 2016, the utilized amount of these facility amounted to SR 1,57 billion The loan is repayable on 24 semiannual installments starting from 3 February 2018.

### 3) Bank facilities

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

## 15- SUKUK

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

### A) Local Sukuk:

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

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

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

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

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

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

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

### B) Global Sukuk

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

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

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

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

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

## 16- EMPLOYEES' INDEMNITIES BENEFITS

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

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

## 17- DEFERRED REVENUES, NET

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

## 18- LONG TERM LOANS FROM GOVERNMENT

- A. Pursuant to the Council of Ministers' resolution number 169 dated 11 Sha'ban 1419H, the net dues of the Government to the Company and the net dues of the Company to the Government were determined in accordance with rules and procedures stipulated for in the minutes of meetings signed by the Minister of Industry and Electricity and the Minister of Finance and National Economy dated 27 Jumada' II 1418H corresponding to 29 October 1997, The net difference payable to the Government by the Company, as determined at the close of the business day preceding the issuance of the Royal Decree for the incorporation of the Company, is considered a non-interest bearing long-term loan (soft loan) with a grace period of twenty five years starting from the date of the announcement of the incorporation of the Company, The terms of the loan are to be revisited later in light of the financial condition of the Government and the Company.
- B. The minutes of the meeting held on 21 Rajab 1422H between the Minister of Industry and Electricity and the Minister of Finance and National Economy in which the initial amount of the Government loan was determined, states that the final settlement of Government accounts will be subject to the reconciliation for the claims of the Company and Government entities, and the loan amount shall be adjusted accordingly, During 2005, the Company finalized

the amount due which included the claims of the Company and the amounts due to the Government and the agreement was signed between the Minister of Water and Electricity and the Minister of Finance on 15 Rajab 1426H which brought the balance of Government loan amounted to SR 14,9 billion, The Company is working towards and negotiate with lenders to find appropriate alternative to address the balance of these loans to enhance the financial position of the company and its important role to save energy in all sectors in the state. The Council of Ministers approved in its meeting held on Monday 12 Jumada' I 1431H corresponding to 26 April 2010 to grant the Company a soft loan amounting to SR 15 billion repayable over 25 years, The loan will be paid to the Company within 2 years in accordance with an agreement made for this purpose between the Ministry of Finance and the Company, This loan has been fully withdrawn as at 31 December 2016 (2015: fully withdrawn), The Company has recognized the amount received from the Government and discounted to its present value.

- C. The Council of Ministers approved in its meeting held on Monday 11 Rajab 1432H corresponding to 13 June 2011 to grant the Company a soft loan amounting to SR 51,1 billion repayable over 25 years, The loan will be paid to the Company within 5 years in accordance with an agreement made for this purpose between the Ministry of Finance and the Company, An amount of SR 38,3 billion from this loan has been withdrawn as at 31 December 2016 (2015: SR 38,3 billion), The Company has recognized the amount received from the Government and discounted to its present value. However, the loan agreement provides that the loan amount will be reduced by proceeds collected by the Company due to any increase in the residential sector tariff, In light of the latest tariff amendments (note 1), the Company is currently determining the effect on the loan maturity or future payments.
- D. The Council of Ministers approved in its meeting held on Monday 9 Jumada' I 1435H corresponding to 10 March 2014 to grant the Company a soft loan amounting to SR 49,4 billion repayable over 25 years, The loan will be paid to the Company within 5 years in accordance with an agreement made for this purpose between the Ministry of Finance and the Company, An amount of SR 16,1 billion from this loan has been withdrawn as at 31 December 2016 (2015: SR 14,1 billion), The Company has recognized the amount received from the Government loan above discounted to its present value.

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

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

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

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

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

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

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

### **21- RESERVES**

General reserve consists of the balances of the reserves that were recorded in the financial statements of the Saudi Consolidated Electricity Companies at the date of

the merger amounted to SR 214 million, in addition to the collections of surcharge from individuals subsequent to 31 December 2001, amounted to SR 61 million up to 31 December 2016 (2015: SR 49 million), The total general reserve amounted to SR 570 million as at 31 December 2016 (2015: SR 558 million).

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

### **22- DIVIDENDS**

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

The General Assembly, in its meeting held on 25 April 2016, approved distributing cash dividends for the year 2015 to individual shareholders amounting of SR 547 million (SR 0,70 per share) representing 7% of the par value per share (for the year 2014: SR 547 million (SR 0,70 per share) representing 7% of the par value per share). The Board of Directors in its meeting held on 23 Jumad Awal 1438H corresponding to 20 February 2017, proposed to distribute cash dividends for 2016 to individuals shareholders amounting to SR 547 million, (SR 0,7 per share), representing 7% of the par value per share, These is subject to the approval of the Company's general assembly meeting.

### 23- BOARD OF DIRECTORS' REMUNERATION AND ALLOWANCES

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

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

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

### 24- OPERATING REVENUE

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

### 25- COST OF REVENUE

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

### 26- OPERATING AND MAINTAINANCE EXPENSES

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

### 27- GENERAL AND ADMINISTRATIVE EXPENSES

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

## 28- NON-RECURRING INCOME (EXPENSES)

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

## 29- OTHER INCOME (EXPENSES), NET

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

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

## 30- CONTINGENT LIABILITIES

1. There is a dispute between the Company and Saudi Aramco for handling crude oil fees, The disputed amount since the Company's inception on 5 April 2000 to 31 December 2016 amounted to approximately SR 4,7 billion (2015: SR 4,4 billion), The Company's management believes that there will be no liability on the Company based on the Royal Decree Number M/8 dated 25 Rajab 1415H as this matter was not discussed by the Ministerial Committee formed by the Royal Decree referred to above, Accordingly, the difference has not been recorded as part of the liabilities in the Company's books, In addition, Saudi Aramco is supplying the Company with light fuel oil rather than heavy fuel oil to one of its stations, This has resulted in an accumulated difference of SR 2,6 billion (2015: SR 2,2 billion) not accounted for as part of the liabilities in the Company's books.

2. Saudi Aramco has also a claim for the settlement of its share in the annual dividends since inception to 31 December 2015, estimated at SR 2,9 billion, The Company believes that Saudi Aramco has no right for this claim during the first 20 years of its formation since it is a wholly owned Government agency and accordingly, is governed by the Council of Ministers' resolution no, 169 dated 11 Sha'aban 1419H and Council of Ministers' resolution no, 327 dated 24 Ramadan 1430H on extending the Government's waiver of its rights in the dividends distributed by the Company for another ten years.
3. The Company has provided guarantees to some of the commercial banks against its share for financing a loan granted to some of its investee companies, The guarantee amounted to US\$ 18 million equivalent to SR 68 million as of 31 December 2016 (2015: US\$ 15 million equivalent to SR 56.3 million).

## 31- SETTLEMENT OF DISPUTE WITH SAUDI ARAMCO

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

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

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

### 32- CAPITAL COMMITMENTS

- A. These comprise the unexecuted portion – as of the consolidated balance sheet date - of capital contracts concluded by the Company for the erection and installation of power plants and other assets approximately amounting to SR 192 billion at 31 December 2016 (2015: SR 80,55 billion).
- B. The Company has long-term energy purchase agreements with independent power providers whereby the Company has undertaken to purchase the all energy produced by these providers according to specific terms and prices, These agreements are for periods up to 20 years, and renewable for further periods by mutual consent of both parties, in addition to the future commitments provided by the Company to finance certain investees in the form of subordinated loans or common equity amounting to SR 695 million (2015: SR 695 million).

### 33- HUMAN RESOURCES PRODUCTIVITY IMPROVEMENT PROGRAMM

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

### 34- RELATED PARTIES TRANSACTIONS

The significant transactions and related approximate balances are as follows:

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

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

### 35- ZAKAT

#### A) Zakat Position

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

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

## B) Zakat base:

The major components of zakat base are as follows:

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

## 36- SEGMENT REPORTING AND FUTURE RESTRUCTURE FOR THE COMPANY'S ACTIVITIES

The Company's main operating activities comprises of generation, transmission and distribution and customer services activities, These activities complement each other in delivering electricity to the customer, The Group's revenue is currently

recognized from selling electricity to the end customer based on the official Tariff set by the Government, All Company's operations are conducted in the Kingdom of Saudi Arabia, Following is a description of the main operations for each activity:

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

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

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

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

### Segregating the Company's activities and privatization of the power sector:

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

The following are the fixed assets, total assets and liabilities of the main Group's companies, The financial information of Saudi Electricity Company set out in the table below includes the generation , distribution and customer services segments as well as the head office, as the procedures of splitting the generation and distribution segments are still in process – up to date of consolidated financial

statements preparation date- as part of the Company's integrated plan.

The National Grid S,A, Company's financial information includes the transmission activity, while other subsidiaries' financial information include all companies set out in note- (1) excluding National Grid S,A, Company:

	Saudi Electricity Company	National Grid S,A, Company	Other Subsidiaries	Inter-Group Balances	Total
<b>As at and for the year ended 31 December 2016</b>					
Operating revenue	49,858,414	8,420,375	56,343	(8,420,375)	49,914,757
Cost of revenue	48,835,318	6,469,927	16,903	(8,414,275)	46,907,873
Net income for the year	1,832,399	238,435	33,750	-	2,104,584
Fixed assets, net	173,458,539	94,069,404	-	-	267,527,943
Total assets	395,193,706	114,275,202	292,595	(106,790,728)	402,970,775
Total liabilities	337,124,743	100,384,644	173,033	(96,735,268)	340,947,152

	Saudi Electricity Company	National Grid S,A, Company	Other Subsidiaries	Inter-Group Balances	Total
<b>As at and for the year ended 31 December 2015</b>					
Operating revenue	41,513,442	7,127,308	25,142	(7,127,160)	41,538,732
Cost of revenue	40,551,880	5,502,157	7,543	(7,108,113)	38,953,467
Net income for the year	1,347,407	196,234	33,709	(33,708)	1,543,642
Fixed assets, net	159,377,100	70,616,669	-	-	229,993,769
Total assets	351,903,696	87,360,803	278,615	(81,513,165)	358,029,949
Total liabilities	295,199,674	73,715,698	192,801	(71,427,351)	297,680,822

### 37- FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

#### A) Credit risks

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

## **B) Interest rate risks**

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

## **C) Liquidity risks**

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

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

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

## **D) Hedging risks**

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

## **E) Fair value**

Fair value is the amount for which an asset can be exchange or liabilities can be settled, between knowledgeable and willing parties transacting at an "arm's length". As the financial statements are prepared under the historical cost method, difference may arise between the book value and the fair value estimates.

Management believes that the fair value of the Company's financial assets and liabilities are not materially different from their carrying values.

## **38- NEW ACCOUNTING FRAMEWORK**

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

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

## **39- COMPARATIVE FIGURES**

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

## **40- APPROVAL OF FINANCIAL STATEMENTS**

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

# ANNUAL REPORT 2016

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