



الشركة السعودية للكهرباء
Saudi Electricity Company
Empowering Energy



**Annual Report
2013**

The Power of Innovation


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86.59%

**The employment of Saudi
nationals reached 86.59%
by the end of 2013.**



58,462

**Total available generation
capacity reached 58,462 MW
by the end of 2013.**



7,142,816

**The number of customers
reached more than 7.1
million by the end of 2013.**



54,318

**Power transmission
network lengths 54,318
(km-circular) by the
end of 2013.**



465,501

**Distribution network lengths
465,501 (km-circular) by the
end of 2013.**



12,644

The number of cities and settlements electrified reached 12,644 by the end of 2013.

Saudi Electricity Company Power Plants



Strategic plan linking the Kingdom capacity 380 KV only





Board of Directors



**Mr. Ahmed bin
Abdullah Al-Aqeel**



**Mr. Abdulaziz bin
Saleh Al-Fereih**



**Engineer
Isam bin Alwan
Al-Bayat**



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



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



**Mr. Abdulhamid bin
Ahmed Al-Omair
From 6/10/2013**



**Engineer Ziyad bin
Mohammed Alshiha
From 1/1/2012 to
6/10/2013**



**Dr. Yousif bin
Abdulaziz Al-Turki**



**Dr. Saud bin
Mohammed Al-Nemer**



**Mr. Saleh bin Saad
Al-Mehanna**



Our Vision

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

Our Mission

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

Chairman's Message



In continuation of the approach which began since the founding of the Saudi Electricity Company on April 5, 2000, the Company continues to complete the implementation of plans and programs to enhance the capabilities and potential of the electric power system and improve and develop its services. The Company is moving forward by restructuring the program of activities, human resource development, and the creation of work environment that stimulates production and creativity, and diversifying the sources of funding for projects thereby strengthening the financial position of the Company.

The Company is in line with the government's vision of supporting renewable energy projects to diversify the primary sources of the electricity production as well as oil and gas, with a target of lowering the consumption.

The Company actively contributes, both financially and morally, in supporting the Saudi Center for Energy Efficiency programs, which aim to reduce excess waste in electricity consumption and examine buildings to confirm the use of thermal insulation during the construction process. The Company also supports the center in applying international standards and specifications on imported and locally manufactured air-conditioners to raise their efficiency and reduce electricity consumption.

The Company continues its efforts to follow through on the implementation of the plans approved by the Board of Directors for the next ten years, which include preparing for the implementation of power projects beyond the huge cost of SR 500 billion (currently, projects with a cost of SR 150 billion are being implemented). This year the Company has succeeded in adding 4,873 MW of installed capacity to

its service, in line with a new five-year plan, which was launched in early 2013, that aims to add up to 20,000 MW by 2018. Furthermore, the Company is working on the implementation of 21 combined-cycle projects in an effort to achieve the highest level of efficiency in generating units to reduce fuel consumption and contribute to the availability of adequate reserves of electric power at peak time in the range of 10 percent of the total installed capacity.

The Company continued to encourage the private sector to invest in the production of electricity projects by participating in power plant initiatives, and it is expected that its contributions will reach 30 percent of electricity production in the Kingdom. To keep up with the requirements of the development sectors for electric power, the Company is following the completion of the national grid network to connect all parts of the Kingdom. Thus far, 97 percent has been completed and the remainder of the plan is being implemented, enabling the exchange of electric power between the regions and moving toward a paradigm for economic operation. Electrical interconnection with neighboring countries ensures enhanced reliability and development of the electricity market. With this in mind, the procedures required to connect with the power system in Egypt were completed, and the Company has signed interconnection and operating agreements, as well as energy exchange accords. The contract is expected to be finalized in time for the implementation of the project before the end of 2014.

The generous support enjoyed by the electricity sector of our government has been key to enabling the Company to implement its plans and projects for the production and dissemination of electricity service. This service now reaches 13,000 towns, villages and localities, covering the convergence of 99 percent of the Kingdom's population, and boosting the number of clients subscribing to our electricity services

to 7 million. This support has enabled the Company to meet the needs of its customers and the requirements of its shareholders while providing the electricity needed to accelerate development in the country, as well as contributing to social responsibility and environmental conservation. All of the Company's efforts resulted in achieving a job nationalization rate reaching 86.59% of the total employees of the company as of the end of 2013.

According to this introduction and on behalf of my fellow board members, the Company management, and its employees, I am pleased to express my sincere thanks and appreciation and gratitude to our government, under the leadership of the Custodian of the Two Holy Mosques King Abdullah bin Abdul Aziz, and His Royal Highness Prince Salman bin Abdul Aziz, Crown Prince, Deputy Prime Minister and Defense Minister, and His Royal Highness Prince Muqrin bin Abdul Aziz, Second Deputy Prime Minister, and Engineer Abdullah bin Abdul Rahman Alhosayn, Minister of Water and Electricity, God keep them, for the huge efforts they exert, and their support for the Company during the course of its development, enabling it to play its role and contribute to the development of our nation through the various sectors to meet our electricity needs.

I would also like to extend my sincere thanks to one of the pioneers of the electricity sector, Engineer Ali Bin Saleh Al-Barrak, the former CEO of the Company, who stepped down earlier this year. Engineer Al-Barrak has spent nearly 35 years in the electricity industry, the last seven of which as chief executive of the Company. Under his leadership, remarkable achievements in all fields were achieved. I would also like to express my sincere gratitude and appreciation to the shareholders and customers, as well as the Company's management and employees, asking God to help us all to achieve what we aspire to serve our beloved country.

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

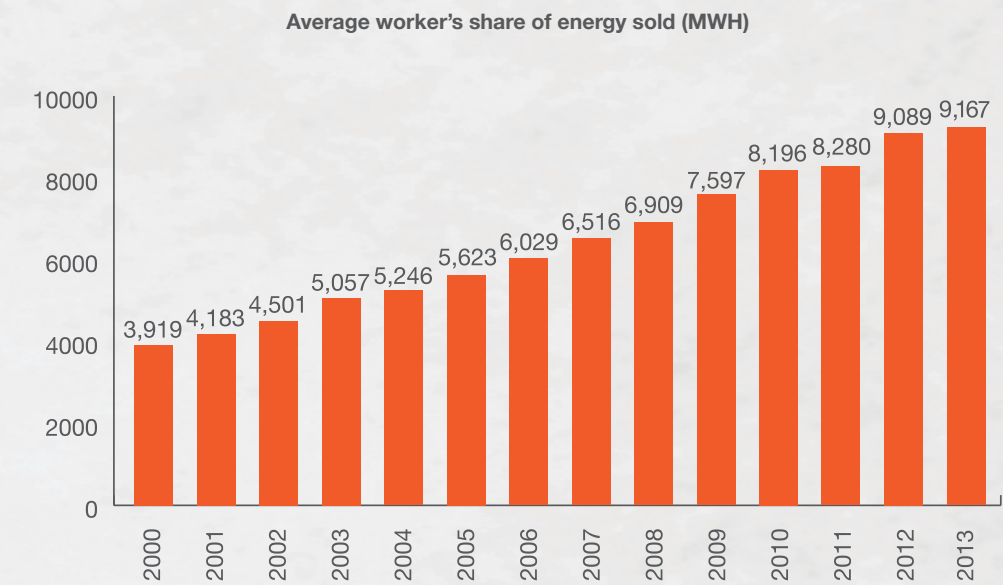
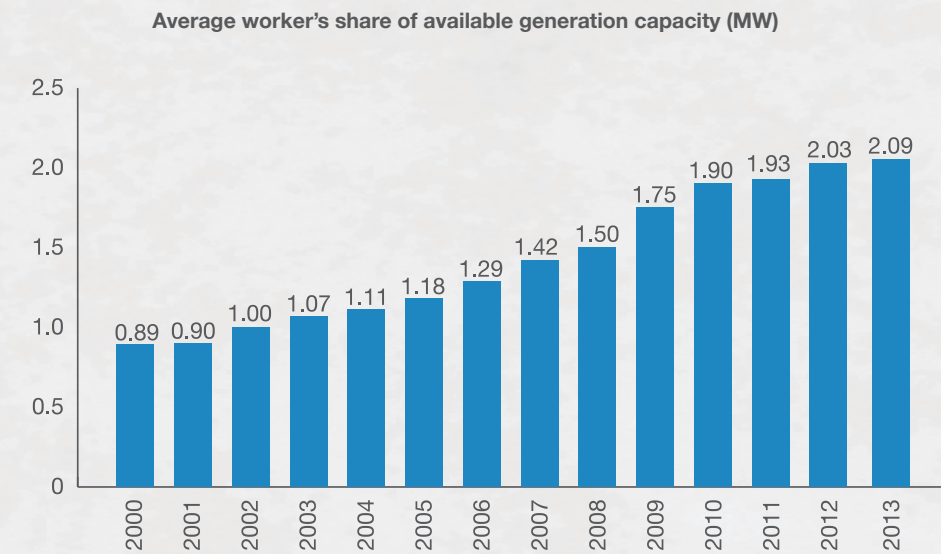
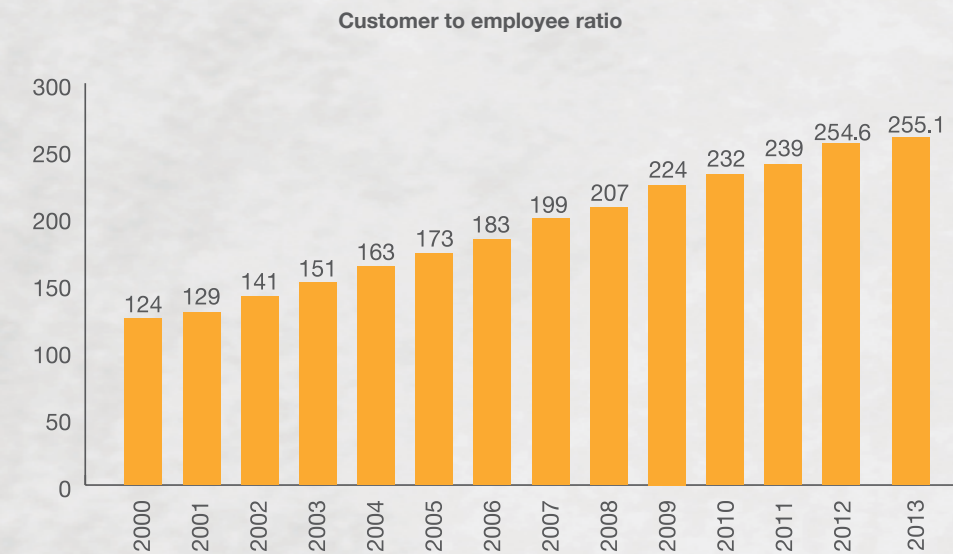


In early 2014 the Saudi Electricity Company welcomed Engineer Ziyad bin Mohammed Alshiha as Chief Executive of the Company, to begin a new phase of innovation and creativity. In his first meeting with the staff, Engineer Alshiha announced, “we have our human wealth as source of power, and we have huge motivating assets and investments and we will work to achieve the vision of the new Company, to be a world-class leader.”

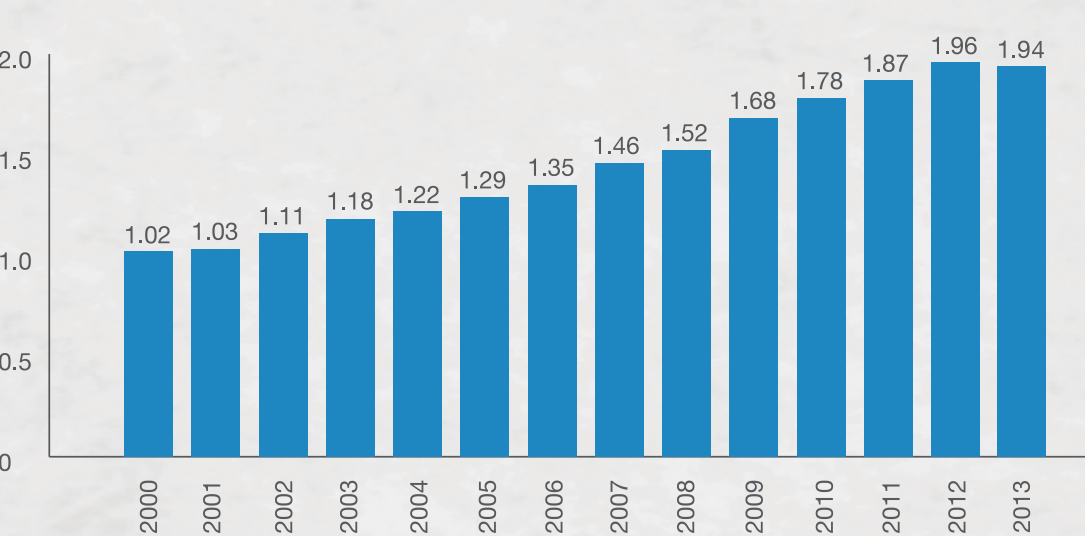


Engineer Ali bin Saleh al-Barrak, the Company’s Chief Executive and one of the pioneers of the electricity sector, spent nearly 35 years of service in the electricity industry. He started out as part of the Company’s staff and then moved on to serve as Director, followed by Deputy, until reaching the position of Chief Executive Officer. The Company honored him on December 31, 2013, in recognition of his many outstanding achievements that have had a proven impact on strengthening the capacity of the electrical system. We send him our sincere thanks and appreciation.

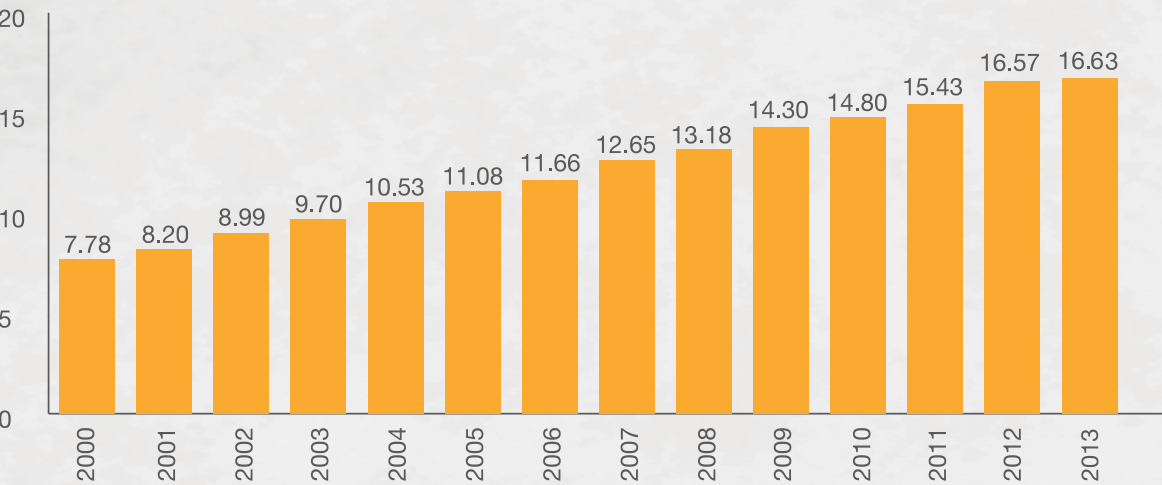
Performance Indicators



Average worker's share of transmission lines lengths (km-circular)



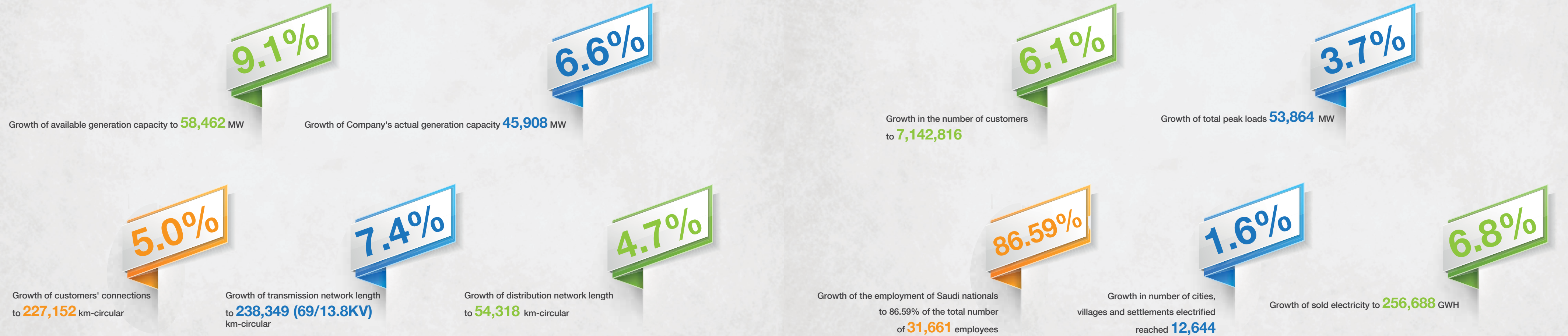
Average worker's share of distribution lines lengths (km-circular)



Growth Indicators



Leading Indicators 2013 Compared to 2012



Financial Policy

Financial Activity

The Company succeeded in maintaining its credit rating -- which was endorsed by leading global institutions -- confirming the safety of its strategic orientations, and the success of its administrative and operational policies, and its management. These positive ratings have supported the Company in its efforts to implement its financial policy and promote its financial standing. This has guaranteed necessary cash flow to spend on projects such as the issuance of Islamic bonds and obtaining different commercial loans.

These outcomes have resulted in the acquisition of financing for the Company's projects under the most optimal conditions and the most competitive prices.

Credit Rating

The Company's credit rating is considered the highest in the Kingdom, consecutively awarded by Standard & Poor's, Fitch, and Moody's (A1/AA-/AA-).

For major projects, the Company has continued to secure funding agreements and diversified its funding sources, which are as follows:

1. Funding from Korean and Japanese exports banks

The Company signed a long-term loan agreement worth \$2,000 million with the Korean and Japanese export-import banks to finance south of Jeddah power plant, which will reach a productive capacity of 2,640 MW. The agreement carries a repayment period of up to 15 years after a grace period of 3 years.

The Company signed with the Korean export-import banks (K-Sure and K-Exim) and other several international banks (Tokyo Mitsubishi Bank, Mizuho Corporate Bank, Sumitomo Bank, HSBC Bank, Deutsche Bank and the German Apex KfW), with guarantees from the Korean export-import banks (K-Sure and K-Exim), in addition to direct funding from the Korea's export-import banks (K-Exim), with total funding amounting to \$1,634 million.

The Company has signed an agreement with the Japanese export-import banks (JBIC and NEXI), Tokyo Mitsubishi Bank and Mizuho Corporate Bank, guaranteed by the Japanese export-import banks (NEXI and JBIC), and has secured funding directly from the Japanese export-import banks JBIC, with funding reaching \$366 million and the funding period extending to 12 years after a grace period of 3 years.

2. Loan issuance of international bonds

The Company issued bonds valued at \$2,000 million (equivalent to SR 7.5 billion) including two versions of the certificates; the first for \$1,000 million maturing after 10 years and yielding a fixed rate of 3.473%, and the second tranche worth \$1,000 million after 30 years with a fixed income of 5.06%.

The return will be paid on each of the two tranches every six months starting from 2013. The version has been customized to a group of investors in Europe, the Middle East and Asia. It has also been issued in Saudi Arabia in accordance with national regulations.

The Company's Activities

In preparation for the restructuring of the Company's activities, numerous actions have been taken on the financial level of which:

- Creating a consistent financial system and transforming the Company's various activities into subsidiary companies.
- Completing the requirements for the application of the following financial links:
 - Transforming the Company's various activities into profit centers attracting investment.
 - Applying the servicing agreement between the activities.
 - Rating the calculated capital cost by activity.

Preparing and finalizing the power purchase agreements between the holding Company and electricity generating companies as well as the transmission and distribution network rental.





Taking Care of Our Shares

Taking Care of Our Shares

The Saudi Electricity Company is always keen to communicate effectively with the sectors related to the financial market and exchange information related to the Company with investors and financial and investment institutions.

The Company is committed to applying guiding provisions contained in the corporate governance; specifically in regard to the rights of the shareholders, the instructions and procedures related to disclosure and transparency, and conformance of the Company's by-laws with the rules of the Capital Market Authority and its executive regulations. The most prominent achievements and services provided to shareholders in 2013 were:

- Issuing 95.96% of the total amount of shareholders' dividends.
- Commitment to the requirements of disclosure and transparency by the registration rules and the rules of corporate governance issued by the Capital Market Authority to the following:
 - Report of the Board of Directors for 2012.
 - The 12th Meeting of the General Assembly.
 - Announcing and disclosing in a timely manner.
- Publishing reports of the Company's stock performance (monthly, semi-annual, and annual) through the Company's website.

Securing automated systems to keep pace with technological advances and the provision of electronic services for shareholders. The use of advanced automated systems consistent with the rules and regulations, the instructions of the Ministry of Trade and Industry, the Capital Market Authority and Saudi Stock Exchange (Tadawul), included the following:

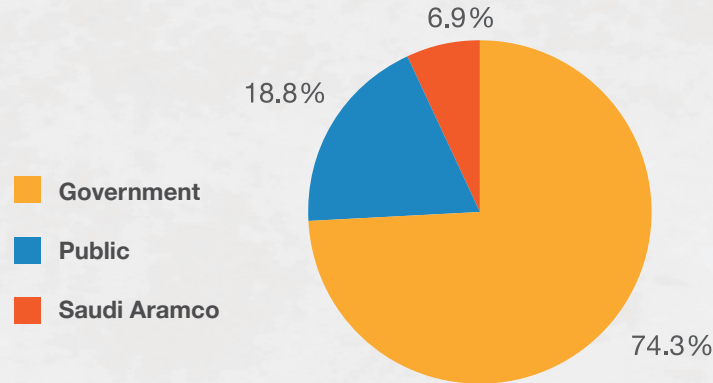
- Holding the meeting of the general assemblies.
- Shareholders' information.
- Stock performance reports.
- Electronic archiving and indexing of shareholders' files.

This has facilitated general assembly meetings, process data, extract reports and file data.

Distribution of the Company's share capital

Shareholders	Number of shares owned
Government Share	3,096,175,320
Saudi Aramco Company	288,630,420
Public	781,788,075
Total	4,166,593,815

Relative distribution of the Company's capital by the end of 2013

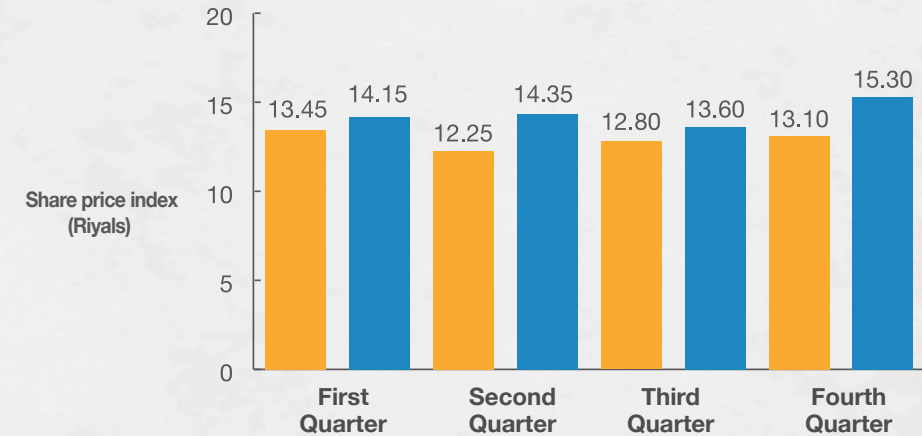


Performance of the Company's shares

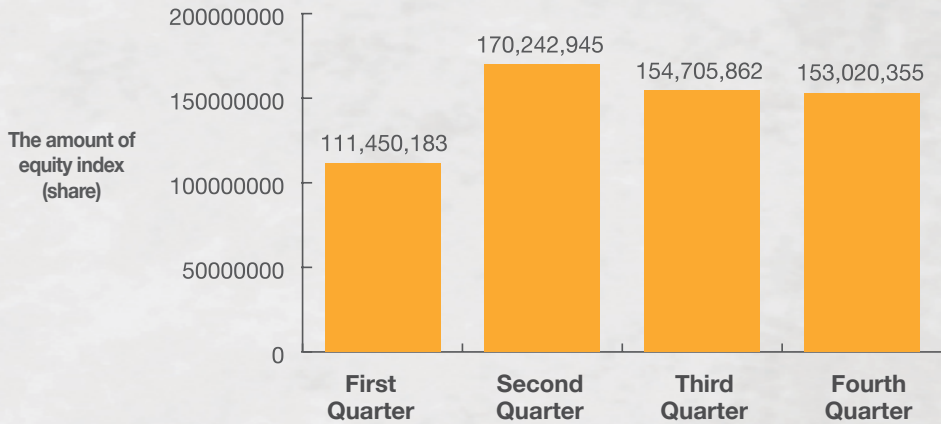
At the end of 2013, the general index of the Saudi Stock Exchange (Tadawul) closed at 8,535.60 points, compared to 6,801.22 points at the end of 2012, achieving a rise of 1,734.38 points at a rate of 25.50%. The index achieved its highest closing point during the year on December 23, closing at 8,561.84 points. The Energy and Utilities Sector Index closed at 5,358.74 points compared to 4,790.15 points at the opening of the market beginning of 2013, rising 568.59 points at the rate of 11.87%. The Company shares closed at SAR 14.55 at the end of December compared to SAR 13.40 at the beginning of 2013 with an increase of 8.58%. It reached its highest value of SR 15.30 per share in 2013 compared to SR 16.60 in 2012. It also reached the lowest value per share SR 12.25 in 2013 compared to SR 12.80 in 2012.

Statement	2012	2013	Percentage (%)
Energy and Utilities Sector Index	4,790.15	5,358.47	8.87%
Number of traded shares	1,165,801,345	589,419,345	49.44%
Value of shares traded	16,654,711,393.55	7,980,964,670.25	52.08%
Number of transactions	168,137	85,843	48.94%
Highest value per share	16.60	15.30	7.83%
Lowest value per share	12.80	12.25	4.30%
Closing price per share	13.40	14.55	8.58%

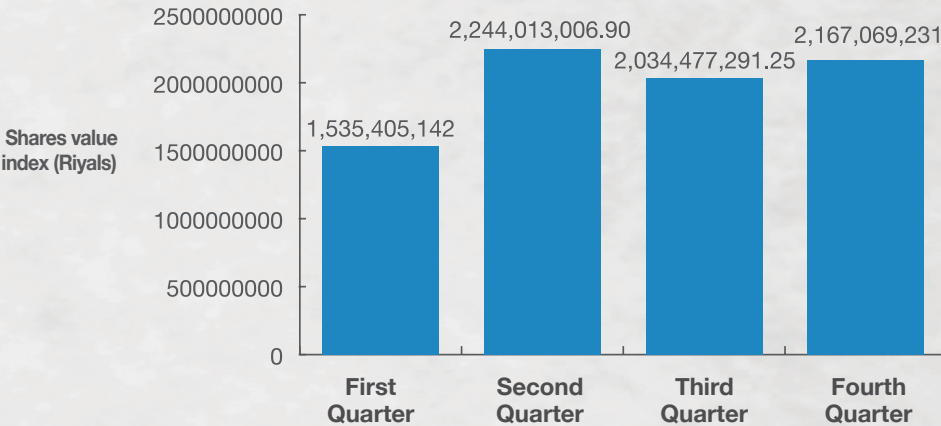
Highest and lowest value of the Company's share per quarter in 2013



Volume of the Company's shares per quarter in 2013



Value of the Company's shares traded per quarter in 2013



The most important activities of the Company in 2013

January

- Contracts worth SR 1,614 million for the establishment of transmission lines are signed.
- Company declares profits of SAR 2.5 billion for the year 2012.
- Distribution activity launches the second phase of the application of value engineering.
- A workshop for the National Grid SA entitled "Compensator for Ineffective Capability" is organized.

February

- The Company offers career opportunities to young people in Abha.
- The Company sponsors the strategic Heat, Ventilation and Air-conditioning 2013 conference and exhibition.
- The Company actively participates in the 16th Gulf Forum for the Environment.
- SR 14 million financial surplus for the Eastern gas stations during 2012 is announced.
- Board of Directors recommends the distribution of 70 halalas dividends to shareholders.
- Bentley International honors Saudi Electricity Company for obtaining first place in archiving engineering documents.

March

- SR 763 million is allocated to connect the Wadi Ad Dawasir electricity grid to the public network.
- SR 986 million is allocated to strengthen the electricity network in the Western region.
- The Company places third nationwide at the fifth International Environmental Governance Tournament.
- An agreement is signed with the National Grid SA to hire a full-capacity electric transmission network.
- An agreement is signed with French company Alstom to support research to improve the efficiencies of heavy fuel oil.

April

- The Company takes part in the Janadriyah festival.
- The Prince of Jizan inaugurates the Saudi Technical Institute for electricity services in Bish.
- Prince Turki bin Nasser honors the Company for sponsoring the Environment Gulf forum.
- The Company is honored as best investor at the Energy and Electricity conference.
- The Company launches the second electric media assembly in Jeddah.

May

- The Company launches the first interactive exhibition for heat insulation at the Customer Service Office east of Riyadh.
- The Company organizes the Saudi forum for the Saudization of the electricity industry equipment.
- The Saudi Electricity Company is named best Arab Company for energy on the Forbes list.

June

- Electricity ministers from the Kingdom and Egypt sign a memorandum of understanding for an electric transmission link between the two countries.
- Four contracts worth more than SR 1,400 million are signed.
- Career opportunities are offered at the Company's Career Day to students with American scholarships.
- The Company signs agreements with national factories to nationalize distribution capabilities.

July

- The Company participates in exhibition projects in Jeddah.
- A total 96% of the Kingdom is linked electrically.
- Six contracts are signed to implement transmission substations in a number of regions throughout the Kingdom.

August

- The Company signed a contract to create Al Shuqaiq steam-generating plant, expected to add 2,640 MW.
- Two contracts are signed to establish and transmission stations at a cost of SR 464 million.

September

- The Company contracts with Kojnezant to improve services and enhance customer satisfaction.
- Prince Saud bin Nayef congratulates the Company for a summer without blackouts and describes this as an achievement for SEC in the Eastern Province.
- The Company offers investment opportunities at the Najran Investment Forum.
- A contract is signed to increase the capacity of the Arar station at a cost of SR 319 million.
- SR 1.4 billion is provided by the Company's value engineering projects.
- An agreement is signed with AmidEast to train high school graduates with monthly grant of SR 3,000 for trainees.

October

- The Prince of Riyadh honors the Company for sponsoring «Producers».
- The Board of Directors approve the 20% allowance of field workers.
- The National Grid SA holds the first induction of the strategic plan.
- The Company announces the success of the operational plan for the Company pilgrimage in Mecca and the holy sites and Medina.
- Eight contracts are signed to implement 3 transmission substations and electricity lines and cables in different areas of the Kingdom.

November

- Prince Faisal bin Bandar inaugurates the plant expansion and a fuel power transmission pipeline.
- The Company signs a contract worth SR 2.1 billion to buy turbines for the 13th and 14th turbine power plants.
- Two agreements worth SR 1.7 billion are signed for the maintenance of gas-generating units 13 and 14.
- Contracts worth SR 6 million are signed with the King Fahd University of Petroleum and Minerals under its fifth research and development.

December

- The Prince of Riyadh recognizes the Company's efforts to secure the development of electric power in the region.
- A larger campaign is launched to update customer data.
- Saudi Arabia and Egypt sign three agreements worth \$1.6 billion to connect electrical power.
- National Grid SA research wins GCC CIGRE 2013.
- Japan and Korea agree to extend loans valued at SR 7.5 billion to the Saudi Electricity Company.
- Five contracts worth SR 3,030 million are signed to establish 2 transmission substations and electrical lines.

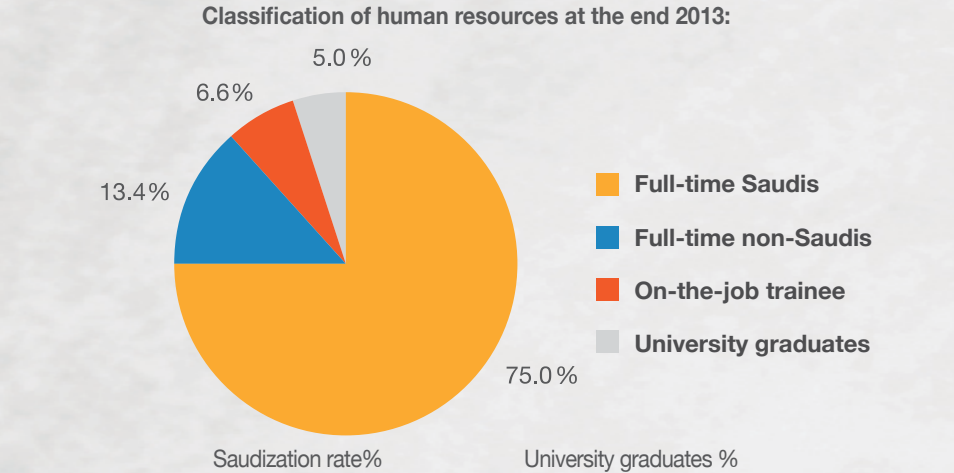
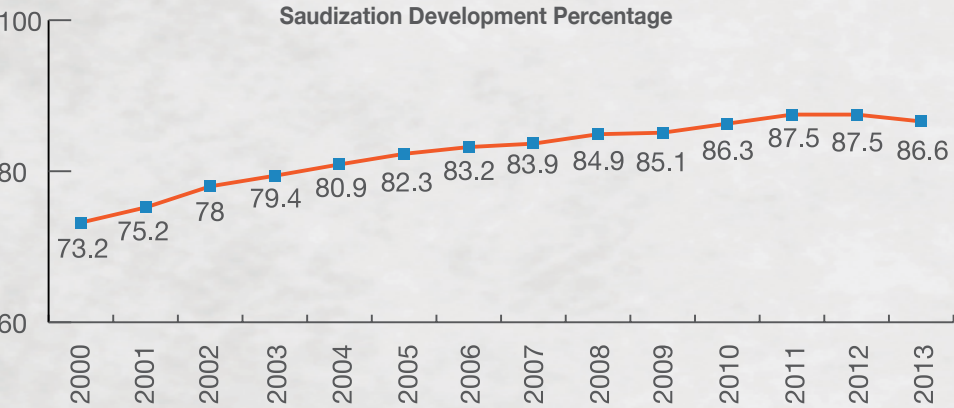


Human Resources

First: Job nationalization efforts

The Company considers the development of human resources the basis of its development and the growth of its business. Hence the Company is keen to develop human resources through specialized programs, mapping out their career paths, including raising and ensuring their competence to take on all positions in the Company.

These efforts resulted in significant growth in the field of localizing jobs, boosting Saudization percentage by the end of 2013 to 86.59% of the total workforce's 31,661 employees. In recognition of its outstanding efforts in the field of attracting, recruiting, and training Saudis, the Company received several shields, prizes, and certificates of appreciation for its prominent role in this area.



Second: Training and Development Programs

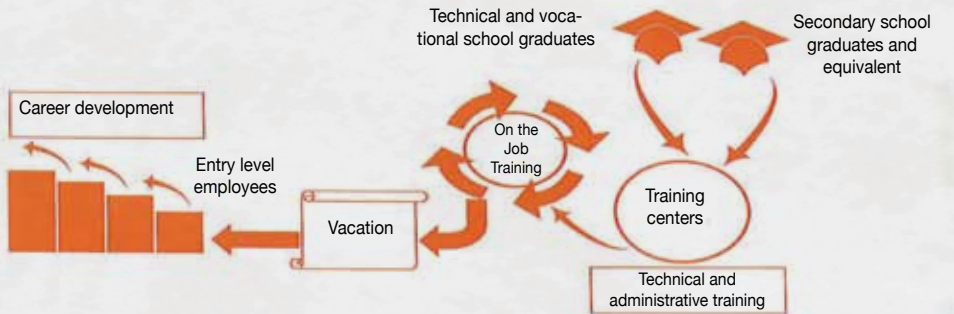
1. Training and qualification program for non-employee trainees (gradual):

This is a long-term training program (duration of 6 to 30 months) depending on qualification and specialization required, provided by institutes to non-employee trainees from high schools, and scientific, industrial and technological institutes. The institutes provide technicians who received training in over 20 fields of specialization. The program welcomed 3,460 participants in the Company's training institutes this year as well as other foreign institutes for training in disciplines that cover all of Company's activities. A total 1,880 graduates completed the program and became employees of the Company.

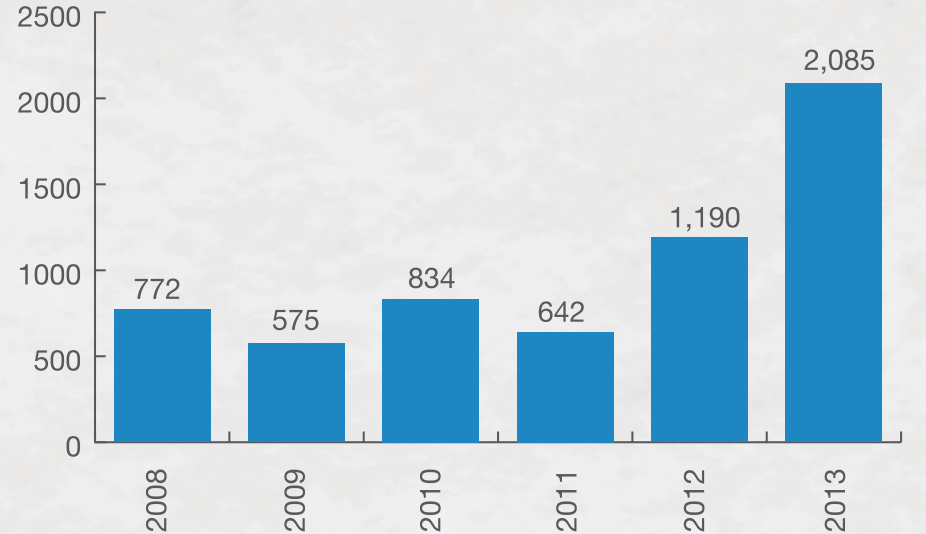
2. On-the-Job Training Program:

This is a complementary development program to train non-employee trainees to perform specific tasks in a real work environment. It is implemented in the workplace by the beneficiary (department) under the supervision of trained management specialists and followed up at the work area by the Training Department.. In 2013, 1,628 graduates of the training institutes were employed and enrolled in the On-the-Job Training Program. The total number of the On-the-Job trainees reached 2,085 by the end of the year.

Training program for non-employee trainees



Participants in the On-the-Job Training Program from 2008 till the end of 2013



3. Professional development program for Saudi university fresh graduates:

The Company offers this program to fresh Saudi university graduates and aims at enhancing competencies through the development of organized, well-thought-out plans for the employee. The department helps in teaching the skills and expertise needed for a professional and administrative career as well as the procedural work necessary to reach the best degree of performance. The latter focuses on the trainee being able to do his job in the Company efficiently in preparation for the hand over from expatriate workers. This is in line with the planned ratios of Saudization, and it includes a development plan which places each participant on multi-functional tasks related to various activities and duties within the department that the employee works, in addition to a number of behavioral skills-based competencies that must be displayed by any employee of the Saudi Electricity Company. The duration of this program is 24 months, and during 2013, 1,017 university graduates were employed and joined the professional development program, so that the total number of participants by the end of the year reached 1,576 university graduates. This program has achieved remarkable goals in the Saudization program that the Company is following.

4. Saudi Experience Development Program:

This program is tailored for university graduate employees and aims at preparing national competencies including

- Managing the electrical system with high efficiency.
- Keeping pace with the technological development in the generation, transmission, and distribution of electric power, as well as areas that support it administratively.

- Operating the electrical system as an economic and commercial base.
- Scientific research and development of the Company.

The program also aims at achieving the self-sufficiency of expertise in highly skilled disciplines and regarding it as a substitute for attracting experts or consultants in those disciplines. The number of participants in this program has reached 124 in 2013, and new participants are added every year depending on the future needs of the Company. The employee compensation rules have been certified for the program participants.

5. Leadership Program:

This program aims at developing the skills of employees currently holding leadership positions and candidates for leading positions (department head and higher) and it is not restricted to a certain period of time. It also works to prepare suitable substitutes to fill leading positions, so that every position will have a readily available substitute for both short - or long-term duration. In 2013, the number of participants in this program was 230. Developmental plans are reviewed and revised according to the actual needs, and new participants are added every year.

6. Intensive English Program for seniors:

The program aims at developing the English language skills of some of the leaders in the Company through participation in an intensive training program in the English language, commensurate with the actual needs of each candidate and for a period not to exceed one year. This aims to enable them to carry out their current or planned duties effectively and implement their own development plans, which include participation in training programs and specialized conferences held mostly in English, and to facilitate communication with the companies. The Board of Directors issued approval for the adoption of this program and the adoption of the compensation paid to the participants.

7. Promising Leaders Program:

It is one of the development programs which aims to prepare promising leaders in general and to achieve sustainable human resources development in the Company by readying qualified individuals to lead the Company in the future. It seeks to identify remarkable employees who have exceptional leadership capabilities. These skills will be developed through organized developmental programs designed to prepare them to fill leading positions in the Company. By the end of 2013, the number of participants in this program was 46; additional attendees are registered annually.

8. Short Development Courses:

The Company held many short courses to develop employee skills. In 2013, 50,181 participated in these courses.

Interactive Development Training Programs:

Supported Training:

The Company accords great importance to training and human resource development as it encourages self-education (personal initiatives) by providing the opportunity for Saudi employees to receive

development training programs outside the Company's training institutes, in their own time and there being without any impact on the Company's official duty hours, in order to acquire the skills and competencies that they see as beneficial to them and help them to boost their skills and improve their performance. The Company assumes 80% of the total training cost; the employee pays the remainder. The total number of beneficiaries in this program was 266 employees at the end of 2013.

Computer Assisted Learning “I-Learn”

I-Learn is an interactive website on the Company's intranet connection utilizing the most advanced technologies to provide an ideal environment for electronic training. Specially designed to promote self-development among employees, it comprises different training courses covering various disciplines (computer, technical, and administrative) to enable employees to perform their assigned tasks efficiently and effectively.

Through the “I-Learn” site, users can get the training courses they need using their own PC linked to the website. Audiovisual technology is applied in these courses. In 2013, the number of interactions was 497, of which 2,159 employees made use of these interactions.

Third: Leadership in Total Quality

The Company continued applying total quality programs with the aim of improving its major operations and upgrading their efficiency levels while decreasing their costs, as well as promoting the quality of the services provided to internal and external customers. Furthermore, the Company completed preparations for the fifteenth meeting of the Total Quality Management Convention under the sponsorship of the Prince of Riyadh, under the slogan “Towards Organizational Excellence.” A total of 11 employment contracts were given at the event in which companies, world-class speakers, and over 780 attendees participated. An accompanying exhibition entitled “Quality is a Zone of Creativity” was held to display outstanding creative ideas.

1. Improvement Program

The Improvement Program is one of the pioneering development programs applied by the Company. It aims at enhancing the operations falling within the scope of each administrative unit in the Company. A team of selected employees from within the department studies its operational procedures aiming to come up with recommendations where improvements are needed. These are later approved and applied. The application of this program results in a sharp drop in direct expenditures and less work time required to complete procedures. Since its inception, this program has achieved remarkable results with improvement teams reaching a total of 2,077 of which 188 were for 2013.

2. Employees’ Innovation Program

This program encourages Company employees to initiate innovation and creativity with the purpose of upgrading performance effectiveness, safety, productivity, and customer services. The program further endeavors to improve the procedures and develop the use of equipment, facilities, and utilities. It also aims at encouraging the employees to contribute new ideas, which can help raise the operational effectiveness, reduce cost, and increase revenues. The program targets all administrative-

level employees below department manager. The results of the program indicate that the number of proposals by the end of 2013 was 2,761, where total number of applicants was 7,993 of which 3,527 were approved.

The launch of the Automated System for Innovation program led to a mechanism to facilitate the submission of proposals and creative follow-up mechanism of implementing the proposals. Since its launch this program has achieved savings and a financial return of over a billion riyals for the Company.

3. Outstanding Employees Program:

The Company began applying the Outstanding Employees Program across its branches in 2005. It consists of two sub-programs:

- Monthly Excellence Program (Employee of the Month).
- Yearly Excellence Program (Employee of the Year).

The purpose is to encourage employees to distinguish themselves through excellent performance; assess, reward, and create a healthy competitive environment. Furthermore, it aims to create a competitive atmosphere among employees; targeting all non-supervising employees. The total number of awards in the Employee of the Month was 1,995 out of a total of 14,074 employees while the number of recipients in the Employee of the Year was 509 out of a total of 4,148 employees. Four events were held for quality and excellence in the areas of business which were attended by more than 1,800 employees out of which 1,604 were honored.

There are projects linked to the themes of innovation and improvement and excellence, including:

- Project hired labor: The aim is to promote and develop mechanisms and standards for determining the actual requirement of the number and qualifications of supplied labor from contractors and also to promote localization of the Company's vacancies and its clients. It also aims to attract efficient contractor employees to work with the Company as regular employees to complete the work required by the Company.
- Project of Excellence where preparations started to adopt the thought of organizational excellence in the Company by developing a number of cadres and issue them with accredited certificate in this field.
- The Company has updated the design of the Balanced Scorecard for the Saudi Electricity Company and the National Grid SA, and the associated organized units by which the strategic objectives have been updated for the period 2013-2018.

Fourth: Motivation and Loyalty Promotion

1. Employee Housing Loans

The Company adopted a program of awarding housing loans to Saudi employees through local banks according to legal regulations; standards have been developed to fairly determine the priority benefit of the program. The program entails:

- Providing an opportunity to own a residential house (villa/duplex/apartment) or building on land owned by the employee, or the financing of a partially built house owned by the employee.
- Financing up to SR 1,200,000, according to regulations.

- Repayment period of up to 20 years provided it does not exceed the retirement age of the employee (60 years).
- The Company contributes 70% of the cost, and the Company's contribution is discontinued in the event of termination of service of an employee.

The total number of beneficiaries of the program since its launch until the end of 2013 is 3,747 for an aggregate amount of 189,654,498 Saudi Riyals (one hundred eighty nine million six hundred fifty-four thousand and four hundred ninety-eight Saudi Riyals).

2. Savings System:

The aim of the savings system is to encourage Saudi employees to continue in service while the Company allocates contribution versus the amount shared by the employee per month. This contribution is equivalent to 100% of the value of the employee's monthly subscription in his account. The employee gets the Company's contribution upon retirement or the end of the service, according to the period of participation; employee has the right to determine the amount of his monthly savings to be deducted which is not to exceed 10% of his basic salary when he joined the plan. The number of participants in the system by the end of 2013 reached a total of 8,821 employees with total subscriptions of SR 422,572,993 (four hundred twenty-two million five hundred seventy-two thousand nine hundred ninety-three Riyals). The total contributions spent by the Company reached SR 24,060,456 (twenty-four million sixty thousand and four hundred fifty-six Saudi Riyals).

3. Automatic linkage with the Company's Contracted Medical Provider:

The automated linkage project has been applied with the Company's medical contractor.

4. Adjustment of staff salary and allowances of field workers:

- The Company implemented the requirements of the Board of Directors' decision to amend the salaries of Saudis (High School Graduates/ Diploma/ BSc/ Masters) and amended the salaries of employees affected by this decision (employees who are already on the job during the time of amendment.)
- The Company is taking the necessary action to implement the requirements of the decision of the Board of Directors to adjust the allowances of field workers which amounts to 20% of the base monthly salary for Saudi/non-Saudi, according to the specific conditions of the decision.

Fifth: Detailed Organizational Structures

- Completion of the detailed design of organizational structures and job evaluation for companies (distribution/ generation four/ energy trade and partnerships unit)
- Employee placements in the new structure and establishing positions for them in the Nebras.

Sixth: Community Service

The Company has proven outstanding efforts and excellence in community service, most notably:

- Participating in Career Day hosted by a number of universities in the Kingdom to introduce the Company's activities. Career opportunities that the Company needs were announced to give attendees an opportunity to join the workforce in 7 positions in a variety of fields.
- Contributing in the success of the cooperative training program for college students of all years, by providing them the opportunity for practical training in different facilities in the Company, and equipping them with the appropriate practical experience (whether technical or administrative). The number of participants in the program in 2013 was 813 students, 296 of them without remuneration.
- Accepting a number of high school students to work during summer under the Summer Training Program in order to accustom them to the working environment. A monthly remuneration was provided and the number of participants in the program reached 612 students in 2013.

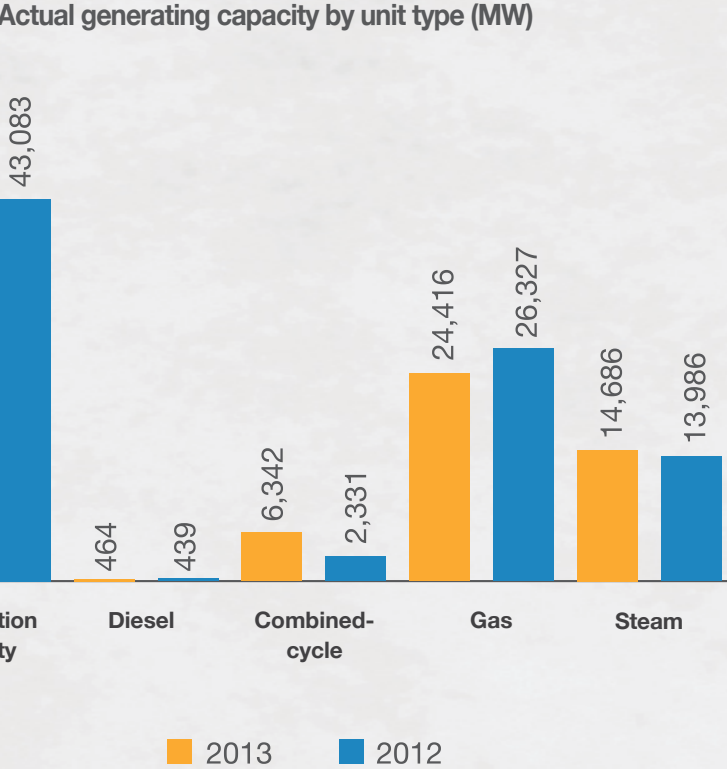
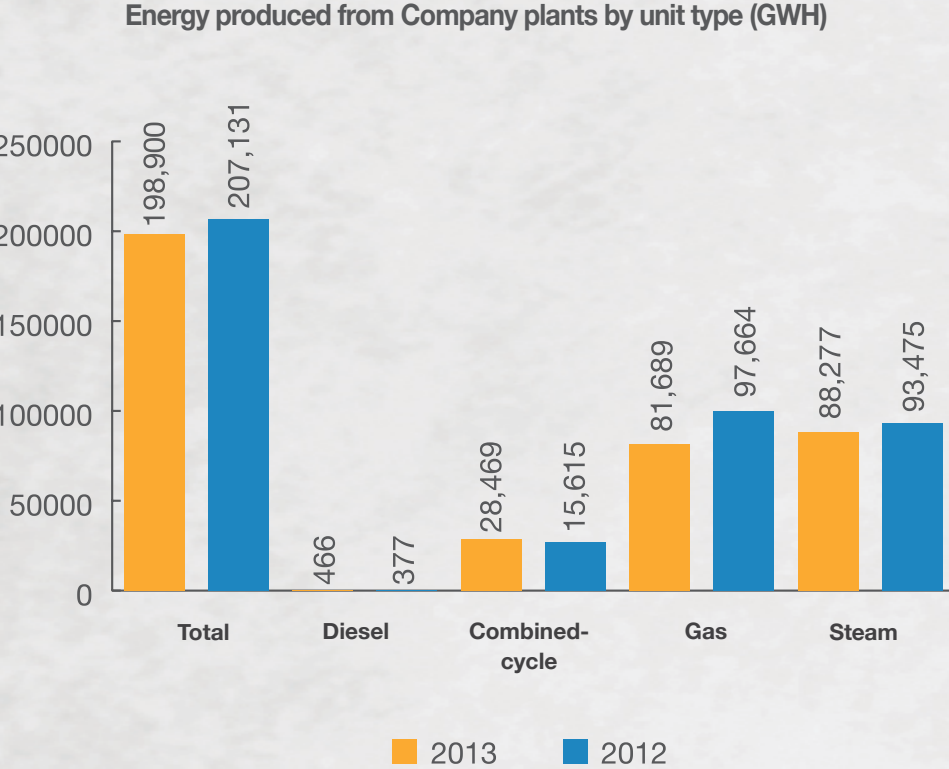


Ghazlan station in the Eastern region

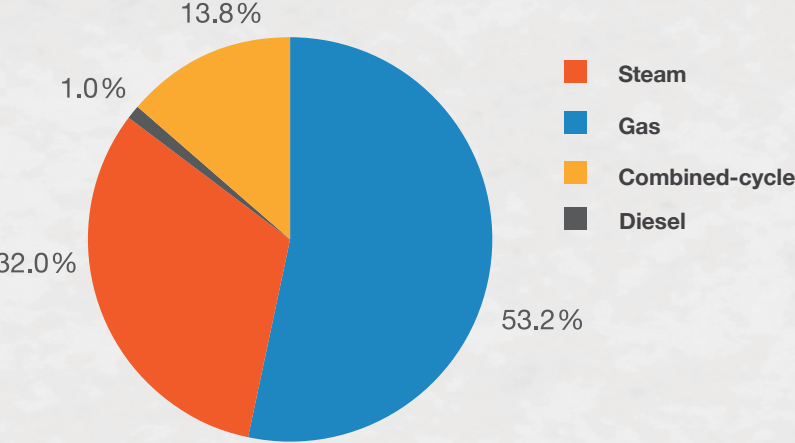
Electric Power Generation

Introduction

The total amount of energy produced by the Company in 2013, is about 198,900 GWH, with 4.0% decrease from 2012.



Relative distribution of the capacity of the Company's generating units in 2013



Our generation activity data also recorded a marked improvement in terms of performance. Most notable are the high thermal efficiency of the majority of our generation units and reducing the duration of the planned maintenance work, where the scored equivalent coefficient of availability was 89.4%, an increase of 2.0% over 2012.

Technical Performance Indicators on the Activity Level

When comparing the performance indicators on activity levels for the years 2012 and 2013, we find that the coefficient of the Weighted Equivalent Availability Factor (WEAF) increased in 2013 to 89.4% compared with 87.6% in 2012. As a result, the coefficient of Weighted Equivalent Planned Outage Factor (WEPOF) dropped to 7.2% in 2013 compared with 7.8% in 2012; a drop in the rate of Weighted Equivalent Maintenance Outage Factor (WEMOF) in 2013 was recorded where it reached an average of 1.2% compared with 1.7% in 2012, and a low coefficient rate on Weighted Equivalent Forced Outage Rate (WEFOR) showed an average of 3.7% in 2013 compared with 4.6% in 2012.

Technical Performance Indicators by Generating Technologies

Steam Units (ST)

Comparing the performance indicators of the steam units' activity levels in 2012 and 2013, we find that the WEAF increased in 2013, recording 88.8% as compared with 85.5% in 2012. This was a result of the decrease in the WEPOF in 2013, recording 10.3% compared to 11.1% in 2012. This is in spite of the relatively limited increase in the Weighted Equivalent Forced Outage Rate WEFOR in 2013, which recorded 0.95% compared to 2.8% in 2012.

Combined-Cycle Units (CC)

Comparing the performance indicators of the combined-cycle units' activity levels in 2012 and 2013, we find that the WEAF increased in 2013, recording 85.4% as compared with 84.9% in 2012. This was a result of the decrease in the WEPOF in 2013, recording 9.4% as compared with 12.3% in 2012 in spite of the increase in the WEFOR in 2013, as it recorded 2.9% compared with 2.2% in 2012.

Gas Units (GT)

Comparing the performance indicators of the gas units' activity levels in 2012 and 2013, we find that the WEAF increased in 2013, recording 90.1% as compared with 88.7% in 2012. This was a result of the decrease in the WEPOF in 2013, recording 5.7% as compared with 6.0% in 2012. Furthermore, the Weighted Equivalent Maintenance Outage Factor (WEMOF) decreased in 2013, reaching 1.4% as compared with 2.0% in 2012. The WEFOR in 2013 has decreased, as it recorded 5.9% compared with 6.3% in 2012.

Thermal Average (BTU/KWH)

The BTU/KWH (BTU = British Thermal Unit, KWH = Kilowatt Hour) of the generation activity decreased to 10,375 BTU/KWH in 2013 as compared with 10,533 BTU/KWH in 2012.

Generation Projects During 2013

Central Sector

2 gas-generating units with a total capacity of 124 MW in Wadi Ad Dawasir station.

Western Sector

- 10 gas-generating units with a total capacity of 760 MW in combined-cycle Al Shoaiba station.
- 2 gas-generating units with a total capacity of 124 MW in Tabuk 2 station.
- 3 gas-generating units with a total capacity of 180 MW in Al Wajh station.
- 1 steam-generating unit with a total capacity of 700 MW in the new Rabigh 2 station.

Eastern Sector

- 4 steam-generating units with a total capacity of 1000 MW in the combined-cycle in Qurayyat station.
- 2 gas-generating units with a total capacity of 120 MW in Qurayyat station.

Southern Sector

Gas-generating units with a total capacity of 112 MW in Najran station.



The Company attaches great importance to the operation and maintenance of the 110/380 KV transmission networks, guaranteeing reliability and high stability to ensure the delivery of electric power to the loads centers in all parts of the Kingdom of Saudi Arabia. The tasks and responsibilities include enhancing the transmission substations and electrical grid for a high voltage of 110/132 KV. This process is carried out over multiple phases including planning, design, and implementation of the projects, taking into account the continuity of the development programs and processes in various technical and administrative areas.

The Company's mission focuses on operating the electrical system, transferring electrical energy from production sites to consumption centers and studying the loads expectations. It emphasizes developing plans to enhance the electricity system to meet the expected loads, in addition to communicating with key participants and determining their consumption needs. The Company is also cooperating with independent producers to sign purchase and energy exchange agreements that represent the Company as a main buyer of the independent producers.

The plans and objectives of the transmission Company are dedicated to the promotion of electricity supply, reducing costs, and moving ahead with the completion of the national electric network. Working toward these goals, the Company in 2013 completed a number of projects in addition to enhancing existing projects aimed at improving and developing transmission networks. The following is a review of the most important achievements of the transmission Company:

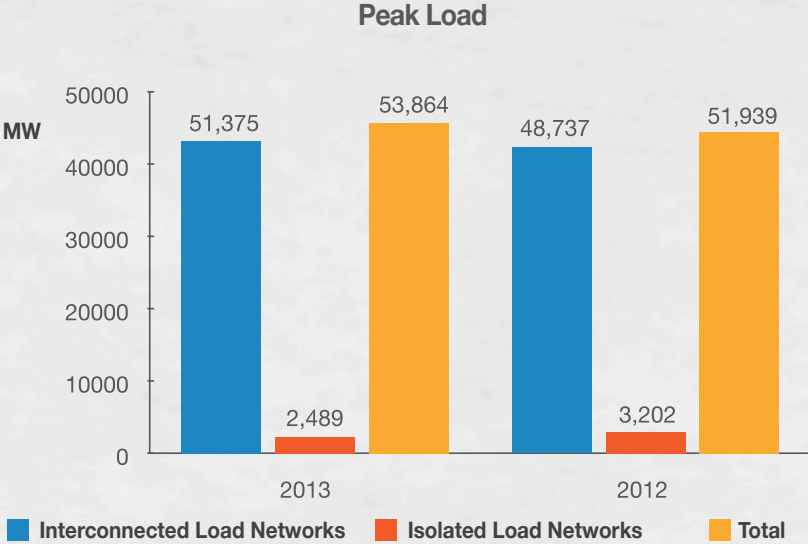
The lengths of electrical transmission networks grew by 4.7% (54,318 km-circular).

The Company launched a number of new projects, and also strengthened enhanced projects, aiming for improvement and development of power transmission networks and increasing their operational efficiency. A total 38 new substations and 107 transformers were added. Eleven transformers were installed in current transmission substations and 8 were replaced, amounting to a total capacity of 15,565 MVA. Transmission networks measuring about 3,029 km-circular were also added. The total voltage of the substations and ultra-high voltage substations reached 699 and 1,982 transformers with a total capacity of 203,006 MVA.

The Best of Our Work

The National Grid SA works to regularly improve and develop transmission networks 110/380 KV in all sectors of the Saudi Electricity Company (Central, East, West and South). The Company aims to raise the readiness of the network and ensure the continuity of its reliability. The Company also gives great importance to the pilgrimage season each year, working to avoid any electrical interruptions in the holy sites that could affect pilgrims. This is achieved by advanced planning of the maintenance and forecasting workloads in addition to processing and fully preparing for any emergency well in advance.

The total peak load of the Kingdom during 2013 reached 53,864 MW with a growth of 3.7% over 2012's peak of 51,939 MW.



In 2013 we launched a number of new projects and enhanced existing projects to improve and develop energy transmission networks and raise operational efficiency. Among the most prominent of those projects:

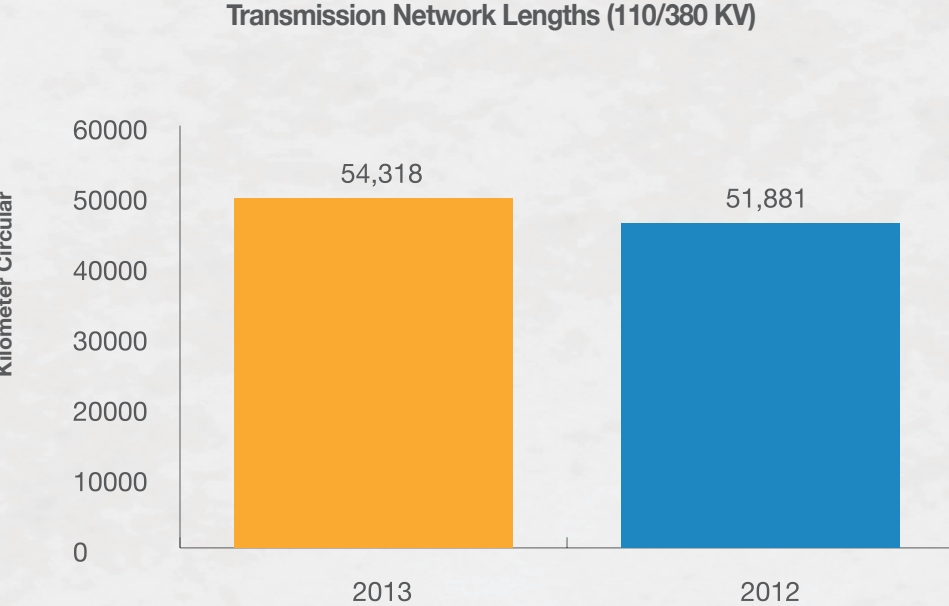
Ultra High Voltage Projects 230/380 KV

- Adding 10 transmission substations and electric breakers with 25 transformers, at a total capacity of 8,090 MVA.
- Adding new overhead and underground cable networks measuring about 2,078 km-circular.
- Enhancing transmission substation efficiency with 5 transformers, with a total capacity of 1,330 MVA.

High Voltage Projects 110/132 KV

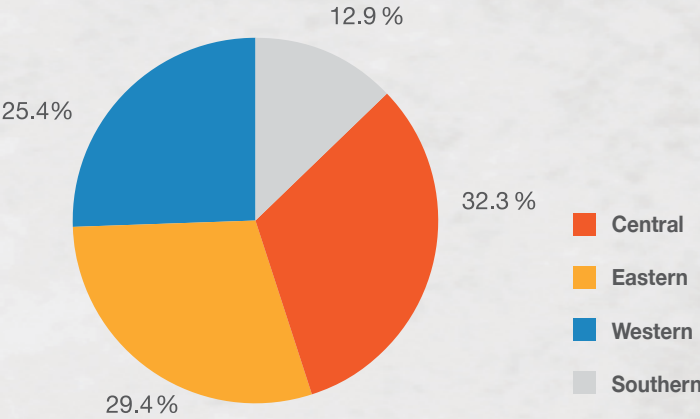
- Adding 28 new transmission substations and 82 transformers with a total capacity of 5,427 MVA.
- Adding new overhead and underground cable networks measuring about 951 km-circular.
- Enhancing existing transmission substations with 6 transformers, with a total capacity of 381 MVA.
- Replacement of 8 transformers with a total capacity of 673 MVA.

These projects reflect the growth in the power transmission grids by 4.7% to reach 54,318 km-circular by the end of 2013 compared to 2012.



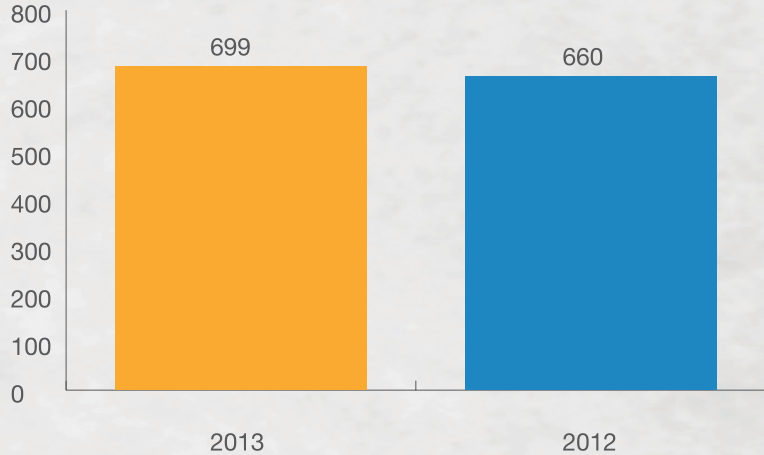
The network spreads across all sectors of the Company and the Kingdom, where the relative distribution of power transmission networks comprises length ratios of 32.3%, 29.4%, 25.4%, 12.9% for the Central, Eastern, Western, and Southern sectors respectively.

Relative Distribution of the Lengths of the Transmission Networks (110/380 KV) in 2012

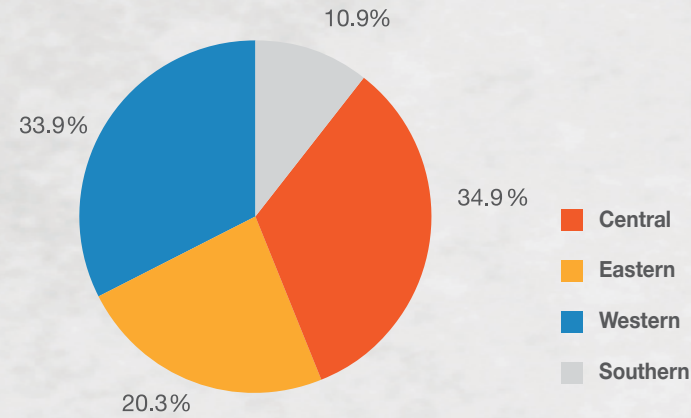


The electricity networks have also been improved to include 38 transmission substations and new electrical breakers, bringing the total number of substations by the end of 2013 to 699. The increase in 2012 was 5.9%, and this growth has boosted the relative distribution of power transmission substations in the Central, Eastern, Western, and Southern sectors up to 34.9%, 20.3%, 33.9%, and 10.9% respectively.

Number of Power Transmission Substations



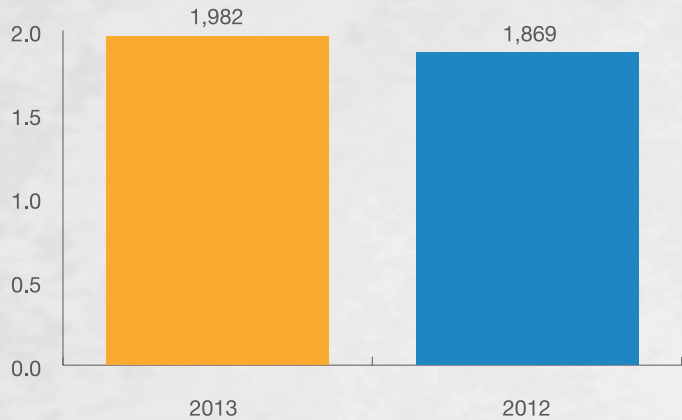
Relative Distribution of the Number of Power Transmission Substations in 2013



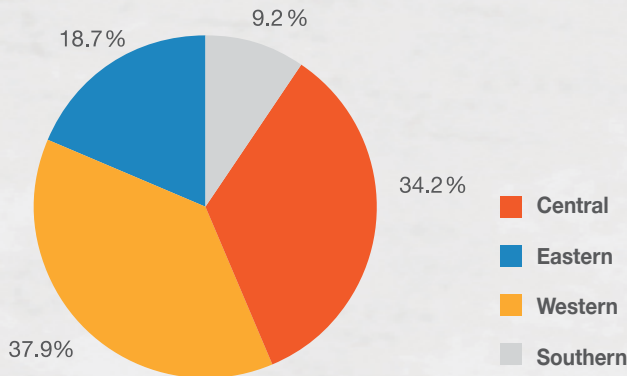
The percentage of growth in the number of transformers reached 6% in 2013, bringing the number of transformers to 1,982 compared to 1,869 transformers in 2012. The increased capacity transformers transfer energy to 203,006 MVA, with a growth rate of 9.6% for 2013 compared to 2012's 185,243 MVA.

This growth has boosted the relative distribution of transmission substations in the Central, Eastern, Western, and Southern sectors up to 34%, 19%, 38%, and 9% respectively, while the relative distribution of transmission substations capacity in the Central, Eastern, Western, and Southern sectors jumped to 35%, 27%, 29%, and 9% respectively.

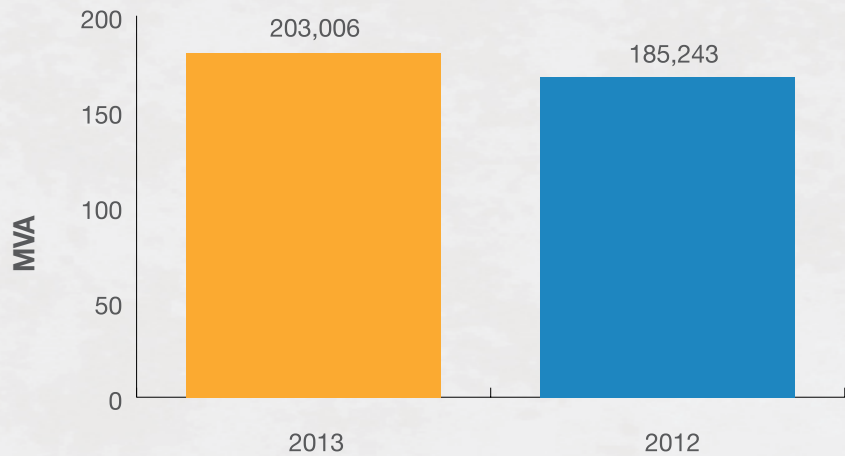
Number of Power Transmission Substation Transformers



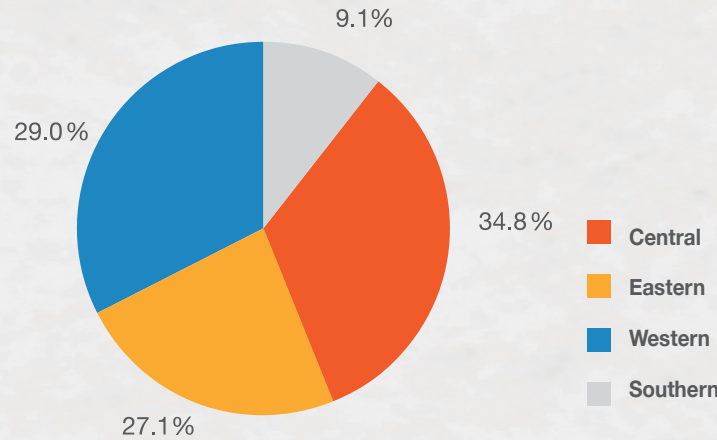
Relative Distribution of the Number of Power Transmission Transformers in 2013



Total Capacity of Power Transmission Substation Transformers



Relative Distribution of Power Transmission Transformer Capacities in 2013



The most important work of the National Grid SA during 2013:

During the transition phase the Company faced challenges in many aspects. The most important was splitting the workforce between the activities of the National Grid SA and resettling them in their new positions. The Company successfully completed the redistribution of the staff across the departments of the holding Company, in addition to separating and distributing the allocations of the responsibility centers of the operational budget in order to start up processes, exchange contracts, maintenance programs, materials, and trainings in addition to documentation of all tasks and responsibilities. Based on these, the design of the new organizational structure of the Company was settled. The working relationship with the holding Company was thus determined based on rental transportation assets and service level agreements. It is worth mentioning that most of these challenges have been overcome while the remainder are in the final stages of being met.

Summer Preparations

The National Grid SA continued to develop electrical and peak load plans during the summer. It identified the requirements and needs of the electricity network for new projects, researching alternatives and existing options, developing plans and programs for implementation and follow-up, while continuing to perform preventive maintenance and rotating electric grid equipment. All of the above necessitated processing, preparing, unifying, and focusing our efforts to meet the growing demand for electrical loads in the various regions of the Kingdom. The Company's objectives in this area include inspecting the existing electrical projects, focusing on the technical problems that the electric grid faces, and working on them in a timely manner.

Quality and Development

Aiming to upgrade operations, a central database has been established for the fiber-optic network to

all parts of the Kingdom, and management information for an operating tests system has also been launched on the Intranet site. It was unveiled to be used in follow-up tests and all capital projects (transmission lines and substations). This system allows access to automated daily and monthly reports as well as the extraction of vital statistics to help make appropriate decisions.

Modern broadband network technology has also been introduced at 47 prime sites, in addition to 671 sub-sites to increase the quality of data transfer between the Company's various systems and control centers. A Service Level Agreement (SLA) project has been launched aimed at developing the relationship between service providers and customers. The initiative relies heavily on transparency and the extent of cooperation and constructive criticism between the service providers and the client. Consequently, the former mechanisms have been adapted through the implementation of automated systems. It is also important to mention the formation of working groups to support and service beneficiaries, set up systems for the planning, and implementation of demand and billing and performance monitoring. The automated system will begin service in 2014.

Human Resources Development

The National Grid SA continues to work on development of human resource leadership and managerial competencies pertaining to supervisory positions and evaluating their skills, in addition to the development of financial skills through specialized programs designed by the Saudi Electricity Company. The Company also increased the number of candidates participating in the expert program, and designed technical training programs suitable for each trainee both domestically and with international companies. There is also an expert program through which the Company seeks to recruit administrative leaders who can face the challenges of the future.

To achieve the Company's objectives of creating a stimulating work environment for its employees, the Company has worked, through its representatives in the standards performance team, on continuing to develop the automated performance management standards system. Staff goal and development plans have been set for 2014, as well as performance enhancement in 2013 through an automated system that is more unique and developed than previous years.

In terms of stimulating the staff to participate in conferences, seminars, and workshops from within and outside the Kingdom, the Company has presented several conference papers at various conferences.

Among these are:

- 5 papers were presented at the conference in Abu Dhabi
- A paper was presented at the Smart Grid conference in Abu Dhabi
- A paper was presented at the Smart Grid conference in Jeddah.
- A paper was presented at the ISA conference in Dammam.
- A scientific paper was presented at a conference in Aomantk Jeddah.
- A scientific paper was presented at the World's Maintenance Conference in Lugano, Switzerland. The Company chose a scientific paper presented by Engineer Walid al-Maliki titled "Measurement System in the Thermal Underground Cables to Improve the Efficiency of Energy Transfer in the Electric Grid" one of the best three papers presented to the Conference out of 44 papers presented at the forum. Al-Maliki was nominated to participate in the Cigre Paris, which will be held in 2016.



Distribution and Customer Services

Serving the Two Holy Mosques and the Holy Places

- Accomplishing the operational plan for Umrah and Hajj seasons for the year 1434 H.
- Adopting the new proposal on strengthening the reliability of the power supply for a low-voltage network in Mina.
- Completing all credits and maps necessary for the supply of materials and started testing for the project of constructing a substation in Rabigh for the train project that leads to the Two Holy Mosques.
- Contributing to the development of the Holy City through the removal of the network that runs counter to the expansion project of Al Haram North campus; namely, the ring road project, King Abdulaziz projects Al Mowazy and Al Khansah, and the Al Haramain train project. The elements removed are: 4,879 meters, 137 distribution substations.
- Participating in the Civil Defense Committee regarding the separation of electricity from derelict buildings and the provision of safety equipment to hotels and furnished apartments.
- Operating the two distribution substations in Al-Shamiya (1 + 2) to enhance the network by synchronizing service with the central area and royal palaces. Furthermore, the full loads of the distribution substation of Al-Haram 1 and Harat Al-Bab were transferred as they run counter to the Custodian of the Two Holy Mosques expansion project of the North squares of the Al-Haram Al-Sharif.
- Adopting the electrical conductivity serving the Two Holy Mosques project to expand the Grand Mosque, with an extra capacity of 97 MVA.
- Adopting electrical conductivity on a temporary basis from government departments for the first phase of the Mina project, at a capacity of 25 MVA.
- Considering and adopting the electrical connection of the backup power needed for the King Abdulaziz Charity project at the Two Holy Mosques.
- Studying a proposal to diversify the sources supplying the expansion of the Two Holy Mosques, the possibility of continued supply through a major transfer station on site, and servicing the Saudi Bin Laden Group.

Customer Service

- The Company participated in customer service workshops for customers in Qatar.
- The Company expanded electronic services, such as SMS, to valued customers. Water and electricity bill customers were linked to the mobile SMS service. The total number of subscribers to SMS service reached 2,383,065.
- The E-Bill service, by which electric power consumption bills are sent to the email addresses of customers who subscribed to this SMS service, was launched.
- The total number of subscribers reached 267, 347.
- The Company continued to apply the payment system for all three companies' revenue, which combines pay bills and pay delivery service (assays).

Network Performance Improvement

1. To reduce meter malfunctions and energy losses, more than 258,580 meters have been tested and maintenance work performed as needed in the light of the outcome of the mechanism for

follow-up program and meter reading performance. (Algasas program)

2. Reliability devices have been installed in networks which continue to suffer from low voltage and frequent interruptions.
The Company has supported rapid restoration programs in case of service interruptions by using mobile generators to power distribution networks and activate the use of flexible cables for medium voltage and mobile units. These efforts have contributed to speedier restoration of electricity to those affected in cities and villages all over the Kingdom.
3. To aid the expansion and enhancement of the electric distribution system, a package of products has been introduced including the extension of networks measuring 27,713 km and the installation of 33,462 distribution transformers with combined capacities of 16,631 MVA. Electrical services reached 444,000 customers.

Performance Development

- Training 438 engineers and technicians to operate the preventive maintenance (CBM) system.
- Enrolling 113 employees during 2013 in the KPI's Awareness Course EL-78.
- Enrolling 65 employees during 2013 in the KPI's Auditing Course EL-79.
- Signing a contract to train 158 employees in 2013.
- 219 contractor meter readers have been absorbed and are now working under fixed-term contract.

Automated Systems

First: A number of systems were developed and applied as follows:

1- Bill Automation

Tactical billing was inaugurated at Al Khobar office in December and is currently in use.

2- Electronic Applications

The Saudi Electricity Company's iPhone, Android, BlackBerry, Twitter, YouTube, Facebook and Windows app was completed and launched.

3- Standardized Checking System

Installation of the standardized reading system was completed and the system is in use.

4- Service Termination Notice for Customers

A program was completed to notify customers of services termination via programmed and non-programmed SMS.

Second: The distribution system has been developed and applied across a number of systems as follows:

1- Standardized Distribution System

A standardized distribution system was applied across all offices in the Company.

2- Field Teams Management System (FTMS)

This is a system for automated tracking of field teams, which was applied in Riyadh, Jeddah, Mecca, and Medina. Dammam, Hofuf, Jubail Abha, Al-Qassim, Hail, Taif, Tabuk, and the remainder will be taken into consideration from the Eastern, Central and South sector offices in 2014. It is a system meant for managing emergency, return, and insulation teams.

3- Geographic Information System

This system was applied in Mecca, Jeddah, Madina, Taif, and Tabuk, and part of Al-Riyadh. Other projects are currently being executed in districts of Riyadh, Abha, Hofuf, Jubail, Al-Qassim, Hail, Dammam and Khazan. These projects include an automatically documented field survey of the components of the electric grid to ensure greater reliability of the network and raise the productivity and quality of services for customers.

4- Automated Meter Reading (AMR)

- **Automated meter reading project major participants (60K)**

A contract with Advanced Electronics Company is currently being implemented to install 60,000 m including VT/ CT and CT major participants. Efforts are being made to determine the technical requirements of connecting with other systems in the Company.

- **Automated meter reading project (second phase)**

This project has been presented and is designed to automatically take a reading of the electronic meters which guarantees accuracy of the bill presented to the customer.

The use of electronic meters allows the Company to apply some of the approved programs adopted by the institute (such as the power factor, the changing tariff as well as the capacity reserved) which have a positive impact on the Company in terms of income as well as the displacement of some loads during peak time.

Distribution Automation System (DAS)

The technical team of the Company completed the required business survey North of Riyadh to implement the automation project in Riyadh. A control center building was inaugurated followed by the launch of the project. Technical and financial analyses including several activities such as meetings and

initial tests to ensure the readiness of the product were presented to bidders.

The contract is expected to be signed by the end of January 2014, with the project slated to start in mid-February 2014. One of the main objectives of the project is to improve the reliability of the network by introducing monitoring systems and remote controlling to reduce the period of interruptions and restore electricity to customers within a short time in order to raise customer satisfaction.

Work is in progress in the Western sector to complete the implementation of automation projects in every region of central Mecca and Taif, as well as in the industrial city of Jeddah and the control center in Madina.

5- Electrical Network Analysis and Design Systems

This system has been applied in all sectors to ensure optimal utilization of the system. Contracts were signed to increase the number of the users thereof. The systems analysis and design of the electrical grid are considered a quantum leap in the preparation of engineering studies in terms of reducing the time and effort for engineers to build highly reliable electricity networks.

Load Displacement and Power Efficiency Upgrade

Throughout 2013 we continued applying the offset loads software and raising the usage efficiency in all sectors as follows:

- 1: *Variable tariff program.*
- 2: *Air-conditioning loads control program.*
- 3: *Reserve generation program.*
- 4: *Power factor program.*

The power laboratories project was launched in November 2013 and experimental bills will be issued to customers in January 2014 where inactive energy consumption tariffs will be applied in July 2014.

5: Thermal insulation:

Thermal insulation has been applied in major cities across the Central, Western, Eastern and Southern sectors in coordination with the municipality in the area when issuing building permits to the customers; the company will automatically be informed and will then start field survey work to ensure the application of thermal insulation.

6: 30 exhibitions were organized to raise the efficiency of electric power markets' businesses and services.

These programs have contributed to eliminating 619 MW of usage in the summer of 2013. It was obligatory that the Saudi Electricity Company present its relevant services — such as the delivery of electric service, paying bills, and communication channels (Service Center Contact, applications via smart phones, self-service devices) — and other services through a study measuring the rate of customer satisfaction. The aim of the study is to further improve services and compare the performance of the Company's customer services with that of other developed countries. It also seeks to document views of participants on the impact of campaigns on upgrading energy efficiency and the extent of their knowledge of the benefits of thermal insulation and its applications. The results of the work study, which

was outsourced, were as follows:

- Personal interviews were conducted with 20,886 distributors on joint consumption categories; residential, commercial and industrial, agricultural and government, with the division of housing sector to Saudis and non-Saudis, 80% Saudis and 20% non-Saudis (proposed for the entire sample survey 20,000).
- The percentage of overall satisfaction with the Company is 76%.
- The study showed that the Saudi Electricity Company is the best service provider in the Kingdom of Saudi Arabia.

Isolated Generation

A number of contracts focusing on power distribution and customer services were awarded in 2013 to achieve the following:

1. Support the system during summer with a total capacity of 340 MW at a cost of SR 138 million.
2. Secure the energy required to serve remote and isolated territories with a total capacity of 913 MW.
3. Provide 46 new generators with a total capacity of 73 MW to support the network and isolated areas during the summer. These will be installed in the cities of Tabarjal and Arar.

Electricity Hedge

In 2013, electric power service was delivered to remote areas, which include 194 villages and settlements.

Sold Energy

1. Preparation of a sale plan, organized by category, until 2019.
2. Adoption of a memorandum between the Ministry of Social Affairs and the Company with a grant that amounts to SR 736 million in 2013.
3. Rescheduling of receivables from government departments worth SR 5,000 million in 2011 and part of the dues in 2012.
4. Development of a revenue plan to implement corrective actions to ensure the accuracy and integrity of the meters starting from 7/2013 till 12/2015 where 198,670 meters were tested and settlements with customers were achieved amounting to SR 52,209,695.

Comparative Value and Amount of Sales until the end of the fourth quarter (2012 - 2013) by category

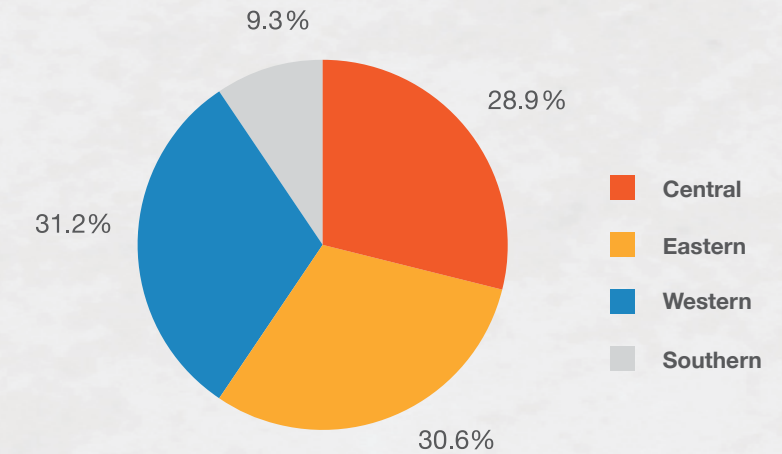
Consumption Category	Sales Quantity	
	2012	2013
Residential	120,245,674	125,678,090
Commercial	39,263,947	38,733,248
Governmental	30,348,753	31,864,399
Industrial	41,711,212	51,080,064
Agricultural	4,361,931	4,476,354
Health and Education	1,528,587	1,849,997
Desalination	2,827,966	3,005,453
Total	240,288,070	256,687,605

- The reason for the decline in energy sold in the commercial category was due to the conversion of S. Aramco meters to a mixed category consumer.

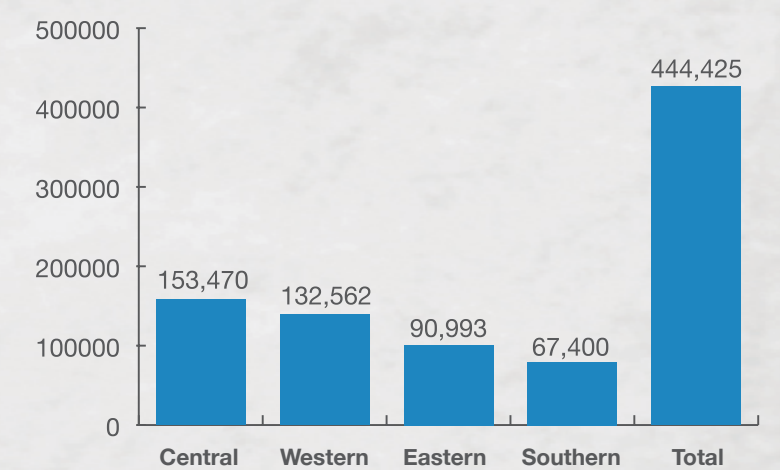
Comparison of volume and value of energy sold up to 4th quarter (2012-2013) by sector

Statement	Sales (2013)	Sales (2012)	Difference	Percentage
	Quantity MWH			
Central	74,282,468	72,972,876	1,309,592	28.9%
Eastern	78,655,397	73,726,801	4,928,596	30.6%
Western	80,193,001	73,065,932	7,127,069	31.2%
Southern	23,556,738	20,522,461	3,034,277	9.3%
Total	256,687,605	240,288,070	16,399,534	6.8%

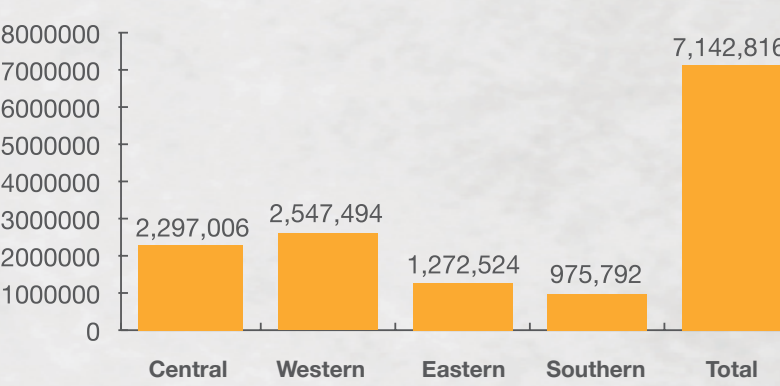
Relative rates of distribution of the amount of sold energy in 2013



Number of new customers in 2013



Total number of customers





Riyadh Project

Investment in Electricity Production Projects

Program for Private Sector Participation in Electricity Projects

The Company is aware of the importance of economic developments taking place in the Kingdom which requires providing an enormous amount of electric power to keep abreast of the developments. It was inevitable to establish a large number of power-generating plants through direct investments by the Company and through the participation of investments coming from the private sector as part of the Company's Program for Private Sector Participation in the Electricity Projects (IPPs), which was approved in 2007; a dedicated team was formed to supervise it.

To support this team, the Company signed contracts with international consulting firms with proven experience and equipped with the knowledge to execute technical, legal, and financial matters related to the independent electric power production projects. The Company targeted, in the first stage of the program, 30% of the transmission projects on a build, own, operate basis with investments estimated at more than SR 36 billion, as detailed below:

- The first project is in Rabigh in the Western Region for a power-generating station with a capacity of 1,204 MW. A contract was signed during the second quarter of 2009 with a consortium of companies, namely Korea Electric Power Company (KEPCO) and ACWA Power International (ACWA Power). Production began in the second quarter of 2012 and the project was completed in 2013.
- The second project is in Dharma in the Riyadh area for a power-generating station with a capacity of 1,729 MW. A contract was signed during the second quarter of 2010 with a consortium of companies, namely Suez Company, Al-Jomaih Group, and Sojitz Company. Production began in the second quarter of 2012 and the project was completed in 2013.
- The third project is in Qurayyah in the Eastern Region for a power-generating station with a capacity of 3,927 MW. A contract was signed on 21/9/2011 with a consortium of companies, namely ACWA Power International and Samsung C&T Corporation. Production will begin in the first quarter of 2014 and the project will be completed in the third quarter of the same year.
- The fourth project (Rabigh – 2) will be in Rabigh in the Western Region with a capacity of 2050 MW. The Company signed the offer in the fourth quarter of 2013, with the cooperation of ACWA Power International and Samsung C & T Corporation. It is expected to start production in the summer of 2016.

The following table shows the draft program of private sector participation in the production of electricity (IPP) —(The Saudi Electricity Company buys the complete production of these electricity projects):

Project name	The productive capacity of the project (MW)	Private sector investment in the project's capital	Project completion date
Rabigh project for independent production (project under implementation)	1,204	80%	1/4/2013
Riyadh project (11) for independent production (project under implementation)	1,729	50%	20/3/2013
Village project (1) for independent production (project is in financial closure phase)	3,927	50%	1/7/2014
Rabigh project (2) for independent production	2,050	50%	2017
Dheba project (1) for independent production (Scheme)	550	50	2017





Our Social Responsibility

Our Strategies:

Our Employees

- Providing a suitable work environment.
- Providing equal opportunities for training and development.
- Promoting excellence and innovation initiatives.
- Inculcation of quality, culture, idea, and practice.
- Embodying the values organized by the work code of ethics.
- Employees' participation through e-mail messages and getting their views about the programs, activities, and services provided to them.

Our Community

Effective participation in achieving social and economic development through:

- Supporting social care activities and programs.
- Interaction with community development and humanitarian issues and concerns.
- Community participation in the initiatives and leading the rationalization program for electric power utilization, as well as dissemination of the safety and security culture on the dangers of the use of electricity.
- Supporting the research centers through adopting and assisting the initiatives and research chairs. This will contribute to rationalizing the use of electricity, improving the electric systems' performance, preserving the environment, and supporting renewable energy plans and projects.

Our Partners and Customers

Our responsibility toward electric power production, transmission, and distribution is a strong incentive to prove our abilities and capabilities to build strategic relations based on fairness and transparency:

- We communicate with our customers and partners to foster interaction, trust, and partnership.
- We encourage them to participate in issues affecting the electricity industry and follow-up of their developments.
- We listen to their views and suggestions on the performance level to reinforce our position and corporate image.

Environmental Protection

As a Company using many types of fuel and oil, in addition to chemicals in the processes of producing electric power, we have a responsibility to protect the environment by:

- Building electric power-generation plants outside cities and public areas
- Using clean fuel
- Using Dry Low NOx Burner (DLN)
- Using Electrostatic Precipitators in units run by heavy fuel to reduce emission of precipitating residues
- Utilizing Flue Gas Desulphurization (FGD) technology to reduce emission of environment-polluting sulfur oxide gases
- Using high-efficiency combined-cycle units, which use exhausts and generation units as a thermal source for the boilers instead of burning fuel

And since we use water, we are working to decrease contamination levels by:

- Not adding any chemicals to water drained back to the sea, except chlorine which is used to control the growth of harmful water organisms in plant equipment
- Treatment of wastewater from boilers and isolation of fuel residues from drainage tanks before sending to evaporation pools
- Controlling the degree of cooling water which will be drained to the sea within permissible limits
- Removing fuel residues and oil by entering into contracts with qualified companies to ensure that no pollution is caused to the environment.

In order to limit soil pollution, we are dedicated to reducing waste levels by:

- Preparing and applying programs to reduce spills, leakages, and seepages. We also work to cut down the quantities of waste generated by our operations and activities, hence achieving prominent successes in the recycling and reuse of materials
- Getting rid of all the power transformers using oils containing carcinogenic substances such as PCB to ensure that no contamination is caused to the soil, surface water, and groundwater, and secure the safety of humans, animals, and plants
- Using safe pesticides and substances that are least harmful to the environment
- Implementing agreements with qualified contractors to get rid of petroleum and oil wastes in the power-generating plants through appropriate means that do not cause harm to the environment
- Cooperating with local and international universities as well as with research centers to find suitable solutions to the problem of carbonic ashes.

We contribute to improving the general aesthetic appearance of the Kingdom's cities and reducing sight and sound pollution by:

- Removing aerial electric power lines and installing them in safe underground conduits
- Ensuring architectural aesthetic appearance when designing the Company's buildings

Employee Activities

We have implemented several internal communication programs plans, notably:

- Panorama Program

We promoted our 466 outstanding recipients of the 'employee of the year' award, presenting their pictures and their names on the display screens in the main centers of the Company

- Group Breakfast Program

We held 274 group breakfasts for business units in the presence of senior Company officials for communication between employees and senior management

- We Are Happy for You Program

We celebrated 355 staff personal occasions (marriage or birth of a child) set up by the departments of the Company and in the presence of senior officials

- Thank God for Safety Program

We conducted 90 visits to employees who have been hospitalized with the aim of providing support and assistance

- Thanks for Your Family Program

This program honored 322 remarkable employees at the end of the year. We provided dinner invitations for them and their families to increase their loyalty to the Company

- We Develop Together Program

We held three meetings with the Vice Presidents to pass on their experiences and scientific knowledge to the employees

- Family Sessions Program

We held 12 sessions to help develop and enhance skills of our employees' families

- Employee's Orientation Program

We organized 32 visits and field trips for the employees to the Company's major facilities

- Employees' Children's Visits Program

We organized 11 visits and field trips for the employee's children to the important facilities of the Company

- Umrah Performance Program

Organized 5 groups of Umrah at discounted rates to employees.

- Marriage Photography Program

Photographing 56 marriages of staff and providing photo albums as gifts to the employees.

- Open Day Program

We organized 10 programs during 2013 across different areas

- Greeting Concerts Program

We organized 48 concerts during the program in 2013 across different areas

- Motivational Messages

Sending 50 motivational messages to employees via e-mail

- Evening Networking

Organizing 4 evenings where the retired employees are invited in the presence of Company officials

- Cultural Competition

Implementing a cultural competition during the annual holy month of Ramadan

Social Activities

- Organizing numerous programs, 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 programs, sports, and cultural activities at the Company's social clubs
- Providing training opportunities for the children of employees to learn English language and computer skills in coordination with specialized training institutes

Our Community Activities

We implemented external communication programs as follows:

- Visits of the Company's Senior Team Member Program

Senior members of our team conducted 16 visits to business partners to reinforce and establish relations, and to build bridges of communication with key partners

- Community Sector Visits to the Company Program

On 45 occasions we invited and received various community sectors (educational, governmental, private, etc.) to visit headquarters and peruse the Company's prominent facilities

- More Beautiful Environment Program

We implemented 12 programs to help clean public parks in the touristic areas of the Kingdom

- Invest Your Energy Program

We implemented a program for people with special needs through art/drawing contests all over the Kingdom

- Blood Donation Campaign

We initiated 6 blood donation campaigns within the Company in coordination with the Ministry of Health and the mobile blood banks

Our Most Notable Community Achievements

- Volunteer program serving pilgrims, distributing 10,000 gifts, and providing guidance and assistance
- Donating SR 2 million to 200 charity organizations
- Sponsoring several community services such as hosting charity associations and organizations (Alber charity association, associations and schools for Quran memorization, orphanages, special needs, and delegations from different charity sectors)

Seminars and Conferences

We organized 476 internal activities, most important of which are:

- Participating in several occasions such as: Electrical interconnection between the Kingdom and the Arab Republic of Egypt Ceremony, the inauguration ceremony of the expansion of Qassim station, launching of Qurayyah combined-cycle station project and the termination of the independent production, Qurayyat Station Expansion Project, a gallery and lecture on the occasion of Gulf Traffic Week in collaboration with industrial security with the Southern safety and environment Forum, signing the contracts of stations 13-14 in the Western Region ceremony, the opening ceremony of the Institute of Bish, a lecture on social responsibility in the Company for the members of the Administrative Committee of the Western Region and displaying images on applying social responsibility and its positive impact on society, seminar on thermal insulation in Abha Palace Hotel, expansion project of the two stations Qurayyat and Rafha.



Environmental Preservation

The Saudi Electricity Company depends on a variety of materials, natural resources, and on non-renewable energy in the production of electrical power. The increase in demand for electricity means an increase in the depletion of these resources, and an increase in pollution resulting from the burning of fuel in addition to generating waste from the Company's various operations. The Company faces great challenges in this aspect but pledges to redouble efforts and responsibility to protect the environment.

In this context, the Company has developed and disseminated its environmental policy with the aim of preserving the environment and public health, and supporting sustainable development while conforming to national and global environmental standards. The Company has formed a technical team that represents all its activities and has developed an ambitious implementation plan that includes goals, targets, timetables, and the tasks and responsibilities needed to turn its goals into reality.

Reduction of air pollution

It is well known that power-generation plants burn fuel to produce electric power and release air-polluting gases and pollutants through chimneys and generation units. In this aspect, we are highly aware of the need to build power plants outside the cities and communities and avoid building them in places crowded with factories and other utilities so as not to contribute to the increasing rates of air pollution in these places. To limit this pollution, we have been:

- Using clean fuel, within the available resources, such as natural gas and diesel.
In this aspect we achieved outstanding successes, ensuring that many of our generation plants use natural gas to produce electric power. Furthermore, we invested heavily in modifying the generation units in Power Plants 7, 8, and 9 in Riyadh, which were operated using crude fuel and are now operating on natural fuel.
- Using advanced Dry Low NOx (DLN) burners that produce lower proportion of nitrogen oxides; a major pollutant emitted from power plants using fossil fuels, which aid in environmental preservation.
- Using Electrostatic Precipitators in units run by heavy fuel to reduce the emission of suspended residues.
- Using Flue Gas Desulphurization (FGD) technology to reduce the emission of environment-polluting sulfur oxides. In this concern, the Company invested billions in its new projects.
- Using high-efficiency combined-cycle generation units, since they use exhausts of the generation units as a thermal source, for the boilers instead of fuel burning.
- Implementing advanced levels of electrical interconnection between the regions of the Kingdom, which contributed in reducing the rotating reserve in the network, and subsequently reducing the emission of the air pollutants resulting from burning more fuel.
- Terminating the use of some environment- and health-harming chemicals such as Freon 12, trimethyl-chloride, halon, and asbestos, and replacing them with non-harmful elements.
- Reducing fuel consumption in Company vehicles by 5%.
- Commitment to the use of non-harmful pesticides.
- Eliminating the use of diesel cranes inside the warehouse and using electric forklifts instead when needed.
- Monitoring the concentrations of emissions from power plants by updating environmental records.

Reduction of water pollution

Water pollution is one of the most pressing environmental problems in the Kingdom, and the Company is working toward reducing the water pollution resulting from its operations and activities through:

- Not adding any chemicals to the water drained back to the sea, except chlorine which is added to control the growth of water organisms that are harmful to the power-generating equipment. The processes of adding chlorine are monitored with the use of devices that measure the levels of chlorine concentration so as not to exceed the allowable ratio in accordance with the environmental protection standards of the Kingdom.
- Treating wastewater from boilers and separating fuel residues from water tanks prior to sending it to the evaporation pools.
- Controlling the degree of cooling drained water going back to the sea within the allowable limits.
- Making use of sanitary water drainage, after it is biologically treated, for irrigation. This increases the green area inside the plants and in its residential areas, and reduces the use of fresh water.
- Phasing out fuel and oil residues by entering into contracts with qualified companies to ensure that no pollution is caused to the environment. Oil-contaminated water is passed through several stages to separate oil from water and discharge it via environmentally safe methods.
- Conducting marine surveys of coastal areas to assess the environmental influences of the electric power-generation plants on water quality and marine sediments, as well as the biological diversity in the marine environment.
- Update and implement the general plan of emergency to cope in the face of environmental emergency situations.

Reduction of soil pollution

To reduce soil contamination, the Company does its best to limit wastes, the disposal of which has become one of the largest threats to the environment and public health. To control the use of environmentally harmful materials of various types, we have succeeded in:

- Preparing and applying programs to reduce spills and leakages.
- Removing all power transformers that use oils containing carcinogenic substances such as PCB to ensure that no contamination is caused to the soil, surface water and groundwater, and to secure the safety of humans, animals, and plants.
- Using SF6 to isolate gas in electrical switches instead of oils, which contribute in reducing possibilities of leakage, seepage, and subsequently water and soil pollution.
- Using XLPE-type dry cables instead of oil cables in order to reduce possibilities of leakage, water and soil pollution.
- Replacing all currently used insecticides with less harmful ones.
- Continuing the implementation of agreements with qualified contractors to get rid of petroleum and oil residues in generation plants in ways that will not cause harm to the environment.

Reduction of waste

The improper management may result in waste, causing adverse effects on public health and the environment. In this context, the Company is represented by an environmental protection team to

prepare a guide to waste management programs within the operational plan for the Company and protect the environment by identifying procedures for the safe handling of these wastes from generation to disposal.

The waste is generated from many of the activities and operations of the Company, and often hazardous input is used in small amounts. This hazardous waste is not separated from other non-hazardous waste while being collected for transportation and disposal. Security measures have been nonexistent, which may result in the exposure of workers to health risks and/or contamination of the environment.

To safeguard against this, the Company during 2013 began inventorying and classifying all types of waste in the Company to develop a mechanism for safe disposal in accordance with the general environment system. This has been achieved in this area:

- Safe disposal by specialist contractors of all medical waste generated from Company activities and operations; using storage containers in designated color-coded areas.
- Monitoring waste generation to ensure effective management from production to disposal, to prevent the possibility of groundwater resources and soil contamination.
- Reducing the amount of waste generated by the operations and activities of the Company and achieving tremendous success in the field of recycling and reuse.
- Continuing the implementation of agreements to get rid of waste oil and oil in power plants with qualified contractors in ways that do not harm the environment.

Environmental hygiene

The Company is committed to preventing the prevalence of diseases related to its activities, operations, and applications, as well as protecting the health of its workers, their families and the public. It provides support for the payment of treatment costs and for maintaining a healthy work environment through the following procedures:

- Assessing the quality of water used from the source to the network, to ensure it is free of biological or chemical contaminants and that it is safe to use. In this concern, water sources such as wells or distribution systems are subject to routine examination to make sure they are in compliance with national standards.
- Monitoring sewage and industrial water drainage of Company facilities to ensure that the general environment system, public health, and environmental protection standards are observed.
- Committing to reducing the negative effects of noise emitted from various activities of the Company from the design stage and construction processes.
- Installing power lines within safe routes in compliance with international specifications.
- Reduce occupational diseases.

Sustainable development support

Meeting current needs without affecting the rights of future generations to natural resources is one of the most critical environmental challenges facing the countries of the world in general and the Kingdom in particular, and in this regard, the Company has achieved many accomplishments, including:

- Reducing the Company's electrical energy consumption throughout its offices to 0.5%.

- Reducing paper consumption by 1% all over the Company.
- Improving procedures for receiving fuel and adjusting quality.
- Completion of an advanced stage in the process of electrical interconnection between the regions of the Kingdom which will contribute significantly to reducing waste in energy.
- Using combined-cycle generating units which save energy by using exhaust heat to produce steam instead of burning fuel.
- Separating fuel residues from the water tanks prior to reusing the water.
- Using timer switch to switch off and on equipment, lighting fixtures, air-conditioning units, and computers outside working hours, and the replacement of normal lighting and computers with energy-saving alternatives, and making use of the Company's modern design to secure natural light during the day.
- Using treated wastewater for irrigation instead of using fresh water.
- Rationing water through cycles in the Company's facilities.
- Printing on both sides of each paper and not using color printing in internal correspondence.
- Regularly maintaining equipment and machinery to guarantee the highest operational efficiency.
- Establishing a solar power plant capable of producing 860,000 KWH yearly at Farasan Island.
- Establishing combined-cycle power plant (PP10) which uses treated sewage water.

Environmental awareness

The Company organized a variety of environmental awareness programs to educate its employees and the public about the importance of the environment. This was done through a variety of activities including:

- Specialized training courses in environmental protection for staff.
- Regular environmental awareness lectures, and availability of brochures, leaflets and posters, which we want to be accessible to everyone.
- Customizing a website for the environment on the Company's intranet which is updated periodically.
- Publishing environmental slogans to create awareness on the importance of preserving the environment, and rationalization of energy, water, and material consumption.
- Enabling advocates from within the Company to attend training courses for certification in the field of global environmental protection.
- Cooperating with the relevant authorities within and outside the Kingdom and exchanging experiences with specialists and experts in the field of environmental protection by attending and participating in seminars and environmental conferences.
- Printing brochures documenting the Company's awareness role in protecting the environment ("Our Environment").
- Participating in national events and community outreach programs to create public awareness.

The Company's Contributions

The Company cooperates and continues to cooperate with governmental institutions and agencies on many undertakings and activities aiming to protect the environment in the Kingdom, through:

- Participating in the development of national indicators for the environment and sustainable development.
- Participating in preparing the national response plan to radiological and nuclear emergencies.
- Participating in setting and implementing the executive plan to protect the environment in Riyadh and attending the meetings of the High Council and its technical committee.
- Continuing to coordinate with the General Presidency of Meteorology and Environmental Protection and the General Auditing Bureau regarding the protection of the environment.
- Compiling an environmental quarterly report and sending it to the General Presidency of Meteorology and Environment Protection.
- Participating and sponsoring environmental conferences and events locally and globally.
- Participating and sponsoring national campaigns to clean up the cities and provinces of the Kingdom.

Visual Pollution Reduction

The Company contributes in improving the visual elements of the general landscape within the cities of the Kingdom and reducing the visual pollution through the following measures:

- The Company invests heavily to secure overhead lines by installing them in safe underground conduits. In this regard, the Company has an advantage over many of the advanced countries that are still using the aerial networks inside their cities.
- The Company takes into account, when designing its buildings, the aesthetic architectural view of these buildings, facilities, and utilities, particularly the customer reception buildings and halls.
- Preservation of green areas of the Company.





Research and Development

Introduction

Technical developments in the field of scientific research have led to growth and development of many countries and is considered one of the driving factors behind economic advancement. Energy-related research plays an important role in driving economic growth. With regard to the electricity sector, the research and development activity is based on four main components:

1. Electric utilities
2. Manufacturers of electrical equipment
3. Research centers
4. Universities

The relationship between these components is based on: legislation fees and spending, resources, and participating in research and development projects in order to strengthen the role of research and development in the energy sector. The primary purpose of research and development in the electricity sector is to find viable solutions in the sectors of electrical systems for the production, transmission, and distribution of electric power. Needless to say, the great technological development that has occurred in previous decades makes it imperative for research centers to apply advanced technology in order to reach tangible improvements to electrical systems and to expand the scope of research and development taking into account the environmental challenges on the ground, such as global warming and climate change.

The Company's management decided to adopt this approach in the general development of its system with a focus on technical aspects and the operational and maintenance work in particular, as well as its importance in the rationalization of consumption of electric power, thus contributing to raising the efficiency of the system on a scientific basis.

The issuance of the Council of Ministers' Resolution No. 169, Article 1 (Para2/E) has supported this approach, which mandated the Company to allocate a portion of its revenue, as determined by the Board of Directors, to the research and development works within its specialization. Article 3 of the Resolution has also obligated the Company to cooperate with universities, institutes, and specialized centers to ration electric power consumption and improve efficiency and operational performance to preserve the environment. In addition, Article 2/7 of the Company's Articles of Association states that: "Company shall conduct and support research work in such fields as may improve service quality, upgrade performance operation efficiency, rationalize power usage, maintain and protect the environment, and reduce the cost."

There is no doubt that the adoption of this scientific method in developing the electricity system of the Company will foster development of skilled manpower and use of technology in our country and lead to nationwide advances, among them increasing the efficient use of energy and preserving the environment. In addition, it will lead to upgrading the production, raising the operating efficiency, and reducing costs incurred by the Company, allowing it to provide high-quality service to all sectors of consumption.

To achieve the Company's goals it was crucial to start implementing the research and development program as of 2002. The program has since completed four successful phases in coordination with research centers and local stakeholders in the electricity sector.

Program Objectives

The program relies on research and development to achieve multiple benefits across the various activities of the Company, according to the following factors:

Power generation

1. Improving the efficiency of fuel usage.
2. Extending the useful lives of the assets.
3. Maximizing the production capacities of the assets.

Transmission

1. Prolonging the longevity of our existing assets and their capabilities.
2. Improving their performance in various areas.
3. Rationalizing their maintenance programs.

Distribution

1. Maximizing efficient use of assets.
2. Developing the bill preparation and collection processes.
3. Achieving minimal energy-loss rate and reaching the ultimate rate by following the international standards.

Electrical loads

1. Developing programs for rationalization of energy consumption.
2. Increasing the efficiency of energy use.
3. Striking a balance between horizontal and vertical growth throughout the Kingdom.
4. Developing and implementing a program to stimulate demand management loads to achieve optimum utilization of existing assets.

Program Stages

Stage 1 (April 2002 to March 2003)

This stage involved multiple phases:

1. Reviewing and identifying important topics to include in the first program for research.
2. Ten contracts were signed during this stage.
3. An agreement for research collaboration was signed between the Company and King Abdulaziz City for Science and Technology.

Stage 2 (April 2003 to June 2004)

This stage included the following:

1. Three projects of the first program were implemented.
2. The total proposals received under this program were 25.
3. 7 offers were chosen and the contracts were signed.
4. The second research program was issued consisting of 7 requests for proposals, of which contracts were signed.

Stage 3 (July 2004 to April 2006)

This stage consisted of:

1. The Company received a total of 21 proposals.
2. Five contracts were signed and completed.
3. The periodic and final reports were received; some were received during this stage and the others during the second stage.

Stage 4 (April 2006 to December 2010)

This stage includes:

1. The follow-up of the first, second and third stages of the project, as well as the joint research projects.
2. Requests for quotations were prepared for the fourth stage of the research projects, which included two offers for the generation activities and three offers for transmission activities.
3. Signing research contracts.
4. Receiving periodic and final reports for all research projects through the end of 2012.
5. To accomplish the decision of the Council of Ministers No. 169, Article 1 (Para2/E) previously referred to, the Company in early 2012 established a management team to follow developments in the field of research that work to improve the level of service in the Company. The developments also address the technical problems encountered in the operation of the electrical system and increase the reliability and security of the electrical system in the UK. Thus the administration began its search for specialized personnel in the field of research and development to improve the performance and electrical system services.

Stage 5 (second half of 2012)

Early in the second half of 2012, the fifth-stage research projects were considered after a meeting with stakeholders in the Company. A total 17 research topics were selected, in accordance with the requirements of various activities in the Company, as follows:

First: Planning and Performance Monitoring Activities

1. Feasibility of using a voltage higher than 380 KV and a DC voltage HVDC to connect the power plants in major cities across the electrical system in the Kingdom (advantages, disadvantages, and costs).
2. Furnace steel mill impact on the electric grid, especially the proximity of power plants, practical solutions, and estimated costs.

3. Assessing the requirements of reliability and efficiency of electricity service in major cities such as Riyadh, Jeddah, Mecca, and Dammam in both short and long term. This covers energy transmission networks on high and super-high voltage and the availability of alternatives to provide electric service in emergency situations, local generating stations, transformers, equipment and other backup. It also includes the evaluation network strength and condition of the equipment and the incidence of malfunctions.

Second: Distribution and Customer Services Activities

1. Not separating pneumatic transmission lines if feeder lines malfunction.
2. Checking the cables and equipment.
3. Studying the effect of external temperatures on the smart meters for the customers.

Third: National Grid SA Activities

1. Monitoring the performance of insulators built in coastal areas across the national grid.
2. Collapse of the power transformer due to sulfur corrosion.
3. Studying the ideal number to launch protection signals for each feeder.
4. Measuring the developed infrastructure.
5. Increasing the electrical conductivity of the cables, high pressure, and high-voltage at high temperatures.

Fourth: Generation Activities

1. The effect of partial running of units on hot parts and harmful emissions on the environment.
2. Conducting a study to monitor the amount of fuel in fuel trucks while in transit.
3. Working on a feasibility study to establish a laboratory to check spare generating units (whether cutting the hot path for gas units or turbine unit parts) before they are sent for repair to ensure the feasibility of the repair process. Also checking on the quality of repairs and to configure that the Company has experience in this vital field, which costs the Company hundreds of millions of riyals annually. Moreover it should act as a springboard for the Company's entry into the manufacturing and repair processes with a view to securing the highest quality parts and lowest possible cost.
4. Studying the right kind of blades paint for gas units, which operate most of the time on a partial capacity, where there have been some problems.
5. Opting for the most economically effective option when it comes to choosing between installation of air-cooled projects for gas units or the installation of new units.

The Company proceeded to adopt actions as follows:

1. Send proposals for these projects to Saudi universities to provide technical and financial bids.
2. Appoint internal auditors and two reviewers from outside the Company for each research project.
3. Technical evaluation of bids received by the Company from these universities.
4. Dump technical internal and external assessments.
5. Add assessment to the financial offer in accordance with the approved evaluation models in the management of research and development.

6. Extraction of evaluation results which are then presented to the Committee for Research and Development in the Company.
7. The Executive Committee which supervises research, previously headed in 2012-2013 by Engineer Saad Al-Mansour, the executive vice president of Distribution and Customer Services, which is now currently headed by Mr. Fouad Al-Sheraibi, approved the majority of these projects and cancelled some in accordance with the procedures and regulations for research projects. The following table lists down some of the approved research projects.
8. Eight contracts have been signed, including in the last quarter of 2013. See Table (1).
9. Signing of the rest of the contracts is slated for the first quarter of 2014.

Diversified activities have previously been implemented in the program, including,

Table (1)

Project No.	Contract No.	Project name	Project Value (SR)	Research Implementing Agency
SP502	11282058	Assessment of The impacts of steel industrial furnaces on SEC's electrical networks, especially when located near generating stations, and offer practical and cost-effective solutions to mitigate these impacts.	1,614,572.00	King Fahd University
SP503	11282059	Assessment of the reliability of electric supply in five major Saudi Arabian cities and recommend techno-economically feasible options to enhance it.	1,152,941.00	King Saud University
SD504	11282060	The Effect of Industrial load on distribution network.	1,576,471.00	King Saud University
SD505	11282061	Non tripping of long O/H fallen line feeder.	1,647,059.00	King Saud University
SD506	11282062	Cable condition assessment using partial discharge techniques to predict cable faults.	1,764,705.88	King Saud University
ST508	11282064	Failure of power transformer due to Corrosive Sulfur.	2,159,620.00	King Fahd University
ST510	11282066	Advanced Metering Infrastructure (AMI).	1,054,591.00	King Fahd University
SD517	11282073	Effect to temperature on the electronic meters.	1,194,194.00	King Fahd University

Projects for which contracts have been signed (fifth program)

Sporadic activities have been implemented previously in the program

Cooperation with research centers in the Kingdom:

1. Joint ventures with the King Abdul Aziz City for Science and Technology.
2. Cooperation with King Abdullah University of Science and Technology.
3. Registration of research projects on clean energy.
4. The Saudi Electricity Company has 51% of the Company.
5. Sponsoring scientific chairs (three chairs worth a total SR 15 million).

A chair in Demand Side Management and Energy Efficiency in the UK which was carried out by King Abdulaziz University in collaboration with the Company, a chair in the Reliability and Security of the Electrical System which was executed by King Saud University in collaboration with the Company, and a chair in Protection and Control which was carried out by King Fahd University of Petroleum and Minerals in collaboration with the Company.

Inventions

The Company currently contributes toward funding the inventions presented to it, whether by employees of the Company or any parties fielding other inventions which the Company presumes to be of benefit in improving its technical and economic performance.

Project to develop a database of research projects and development

The management team working on research and development has developed a database for research projects (Research projects database), and held a lecture that was attended by department directors and agreed on the following objectives:

- Store and save all the data files that are related to research projects to prevent loss.
- Archive database electronically.
- Facilitate the processing of these files in terms of the added modification and deletion.
- Facilitate the work of researchers, through faster access, and acquire accurate information concerning the research projects required.
- Avoid reexamining technical problems facing the Company which have been previously solved by implementing research projects.

Miscellaneous studies and auditing

1. A technical and financial proposal for a project entitled "Improving the Load Curve in Saudi Arabia by Building a Pumped Storage Power Plant" was presented by the King Fahd University of Petroleum and Minerals (KFUPM).
2. Observations about the research proposal entitled "The Mixed Nanomaterials Modified for the Manufacture of Photovoltaic Cells" by researcher Dr. Nevin Khashab were provided by the King Abdulaziz City for Science and Technology (KACST).
3. An analytical study on the principles of electricity consumption in the Kingdom across the Company's various sectors found several results of interest to stakeholders in the electricity sector. These were specifically in the areas of organization and rationalization of energy consumption and energy efficiency to inform interested students and researchers so they can take advantage of them.
4. Expressing observations and comments on the draft brochure "Guide to facts and Misconceptions About the Impact of Electromagnetic Fields of the Electrical Networks" provided by the Electricity and Cogeneration Regulatory Authority.
5. Providing the Ministry of Water and Electricity Department with remarks on the study titled "Development of Electrical Safety System."



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AUDITORS' REPORT TO THE SHAREHOLDERS OF
SAUDI ELECTRICITY COMPANY
(A Saudi Joint Stock Company)

Scope of audit

We have audited the accompanying consolidated balance sheet of Saudi Electricity Company – a Saudi Joint Stock Company (“the Company”) and its subsidiaries (“the Group”) as at 31 December 2013 and the related consolidated statements of income, cash flows and changes in shareholders’ equity for the year then ended. These consolidated financial statements are the responsibility of the Group’s management and have been prepared by them in accordance with the provisions of Article 123 of the Regulations for Companies and submitted to us together with all the information and explanations which we required. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the Kingdom of Saudi Arabia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable degree of assurance to enable us to express an opinion on the consolidated financial statements.

Unqualified opinion

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

1. Present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2013 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.
2. Comply with the requirements of the Regulations for Companies and the Company’s by-laws in so far as they affect the preparation and presentation of the consolidated financial statements.

For Ernst & Young



Rashid S. AlRashoud
Certified Public Accountant
Registration No. 366



Riyadh: 24 Rabi Thani 1435H

(24 February 2014)

CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2013
(In Thousands Saudi Riyals)

	Note	2013	2012
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	4	3,992,142	3,045,786
Receivables from electricity consumers and accrued revenues, net	5	18,451,644	13,427,260
Prepayments and other receivables, net	6	6,716,297	5,413,450
Inventories, net	7	6,638,256	5,821,473
TOTAL CURRENT ASSETS		35,798,339	27,707,969
NON-CURRENT ASSETS			
Loan to associated companies	8	1,129,942	365,500
Equity investments in companies and others	9	2,114,715	2,183,260
Construction work in progress	10	54,181,456	39,889,549
Fixed assets, net	11	183,563,192	168,652,100
TOTAL NON-CURRENT ASSETS		240,989,305	211,090,409
TOTAL ASSETS		276,787,644	238,798,378
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES			
Accounts payable	12	28,254,889	34,728,774
Accruals and other payables	13	4,672,010	4,735,729
Short term loans and current portion of long-term loans	15	1,816,969	1,468,000
Sukuk	16	7,000,000	-
TOTAL CURRENT LIABILITIES		41,743,868	40,932,503
NON-CURRENT LIABILITIES			
Long-term loans	15	15,676,962	12,196,986
Sukuk	16	21,064,490	20,562,990

Employees' indemnities	17	5,182,553	5,168,181
Deferred revenues, net	18	23,966,410	22,289,701
Customers' refundable deposits		1,555,562	1,453,806
Government loans	19	28,248,767	23,374,496
Long-term Government payables	20	82,634,401	58,487,223
Provision for change in fair value of hedging contracts	21/35	438,318	883,038
TOTAL NON-CURRENT LIABILITIES		178,767,463	144,416,421
TOTAL LIABILITIES		220,511,331	185,348,924
SHAREHOLDERS' EQUITY			
Share capital	22	41,665,938	41,665,938
Statutory reserve		2,114,186	1,810,599
General reserve	23	545,262	540,330
Retained earnings	27	12,507,288	10,323,177
Cash flow hedges reserve	21/35	(556,361)	(890,590)
TOTAL SHAREHOLDERS' EQUITY		56,276,313	53,449,454
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		276,787,644	238,798,378

The accompanying notes form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF INCOME
FOR THE YEAR ENDED 31 DECEMBER 2013
(In Thousands Saudi Riyals)

	Note	2013	2012
OPERATING REVENUES			
Electricity sales		32,878,143	31,101,888
Meter reading, maintenance, and bills preparation tariff		988,798	937,529
Electricity connection tariff	18	1,679,064	1,515,790
Other operating revenues		126,124	91,052
TOTAL OPERATING REVENUES		35,672,129	33,646,259
COST OF SALES			
Fuel		(5,978,341)	(6,228,717)
Purchased energy	32/b	(6,584,507)	(4,565,148)
Operations and maintenance	24	(9,120,177)	(8,721,808)
Depreciation - Operations and maintenance	11	(11,440,416)	(10,522,344)
TOTAL COST OF SALES		(33,123,441)	(30,038,017)
GROSS PROFIT FOR THE YEAR		2,548,688	3,608,242
General and administrative expenses	25	(370,329)	(395,277)
Depreciation - General and administrative	11	(290,250)	(313,537)
INCOME FROM OPERATING ACTIVITIES		1,888,109	2,899,428
Non-recurring income	29	729,186	-
Human recourses productivity improvement program	17/a	-	(634,268)
Other income and expenses, net	26	418,574	295,906
Net Income For The Year		3,035,869	2,561,066
EARNING PER SHARE (SR):			
From operating activities for the year		0.45	0.70
From net income for the year		0.73	0.61

The accompanying notes form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2013
(In Thousands Saudi Riyals)

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income for the year	3,035,869	2,561,066
ADJUSTMENTS TO RECONCILE NET INCOME FOR THE YEAR WITH NET CASH FROM OPERATING ACTIVITIES:		
Provision for doubtful receivables	131,680	252,483
Provision for slow-moving inventories	41,145	171,322
Group's share of associates' net (income) losses	(14,195)	63,729
Depreciation	11,730,666	10,835,881
Gain on disposal of fixed assets, net	(86,784)	(85,556)
Employees' indemnities, net	14,373	329,672
CHANGES IN OPERATING ASSETS AND LIABILITIES:		
Receivables from electricity consumers and accrued revenues	(5,156,064)	(1,652,543)
Prepayments and other receivables	(1,302,847)	(559,826)
Inventories	(857,928)	(429,945)
Accounts payable	(6,473,885)	8,487,572
Deferred revenues, net	1,676,709	1,820,126
Accruals and other payables	(54,766)	116,519
Net proceeds and payments from customers' refundable deposits	101,756	86,178
Net cash from operating activities	2,785,729	21,996,678
CASH FLOWS FROM INVESTING ACTIVITIES		
Equity investment in companies and others	155,000	150,000
Fixed assets and construction work in progress	(40,937,537)	(38,466,266)
Proceeds from sale of fixed assets	90,656	108,362
Loan to an associate company	(947,192)	-
Net cash used in investing activities	(41,639,073)	(38,207,904)

CASH FLOWS FROM FINANCING ACTIVITIES		
Net collection from Government loans and payables	29,021,449	13,970,000
Net proceeds (paid) from long-term loans	3,828,945	(3,049,902)
Net proceeds from Sukuk	7,501,500	1,562,990
Dividends paid to shareholders and Board of Directors' remuneration	(552,194)	(532,700)
Net cash from financing activities	39,799,700	11,950,388
NET CHANGE IN CASH AND CASH EQUIVALENTS DURING THE YEAR	946,356	(4,260,838)
Cash and cash equivalents, beginning of the year	3,045,786	7,306,624
CASH AND CASH EQUIVALENTS, END OF THE YEAR	3,992,142	3,045,786
NON-CASH TRANSACTION:		
Change in fair value of hedging contracts	334,229	(109,133)
Transfer of loan to an associate company to equity investment	182,750	-

The accompanying notes form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2013
(In Thousands Saudi Riyals)

	Note	Share Capital	Statutory Reserve	General Reserve	Retained Earnings	Cash flow hedges reserve	Total
For The Year Ended 31 December 2012							
Balance as at 1 January 2012- before adjustments		41,665,938	1,554,492	538,343	8,566,175	(431,870)	51,893,078
Prior years adjustments	21/35	-	-	-	-	(349,587)	(349,587)
Balance as at 1 January 2012 - adjusted		41,665,938	1,554,492	538,343	8,566,175	(781,457)	51,543,491
Net income for the year		-	-	-	2,561,066	-	2,561,066
Dividends paid to shareholders for 2011	27	-	-	-	(547,252)	-	(547,252)
Board of Directors' remuneration for 2011	28	-	-	-	(705)	-	(705)
Net change in fair value of hedging contracts	21/35	-	-	-	-	(109,133)	(109,133)
Reconciliation of Electricity collection fee (individual)	23	-	-	1,987	-	-	1,987
Transfer to statutory reserve		-	256,107	-	(256,107)	-	-
Balance as at 31 December 2012		41,665,938	1,810,599	540,330	10,323,177	(890,590)	53,449,454
For The Year Ended 31 December 2013							
Net income for the year		-	-	-	3,035,869	-	3,035,869
Dividends paid to shareholders for 2012	27	-	-	-	(547,252)	-	(547,252)
Board of Directors' remuneration for 2012	28	-	-	-	(919)	-	(919)
Net change in fair value of hedging contracts	21	-	-	-	-	334,229	334,229
Reconciliation of Electricity collection fee (individual)	23	-	-	4,932	-	-	4,932
Transfer to statutory reserve		-	303,587	-	(303,587)	-	-
Balance as at 31 December 2013		41,665,938	2,114,186	545,262	12,507,288	(556,361)	56,276,313

The accompanying notes form an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

1. ORGANIZATION AND ACTIVITIES

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

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

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

The Company is a tariff regulated company. Electricity tariffs are determined by the Council of Ministers based on recommendations from the Electricity and Co-generation Regulatory Authority 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 Cogeneration Regulatory Authority the right to review and adjust the non-residential (commercial, industrial and governmental) electricity tariff and approve them as long as the change does not exceed 26 Halala for each kilowatt per hour, taking into consideration, among other matters, the electrical consumption at peak times. This tariff was implemented starting 19 Rajab 1431H, corresponding to 1 July 2010.

According to the Company's bylaws, the Company's financial year begins on 1st January and ends on 31st December from each Gregorian year.

Following are the list of subsidiaries included in these consolidated financial statements:

Name of Subsidiary	Business Activity	Country of incorporation	Ownership % (direct & indirect) 2013
National Grid S.A. Company	Transmission of power from generating stations to distribution network and operating and maintenance of electricity transmission system	Saudi Arabia	100%
Electricity Sukuk Company	Provide services and support needed in relation of issuing bonds and Sukuk by Saudi Electricity Company	Saudi Arabia	100%
Dawiyat Telecom Company	Establishing, leasing, managing and operating electricity and fiber optic networks to provide telecommunications services	Saudi Arabia	100%
Saudi Electricity Global Sukuk Company	Provide services and support needed in relation of issuing bonds and Sukuk by Saudi Electricity Company	Cayman Islands	100%
Saudi Electricity Global Sukuk Company - 2	Provide services and support needed in relation of issuing bonds and Sukuk by Saudi Electricity Company	Cayman Islands	100%
Morjan for Electricity Production Company (under formation)	Establishing, developing, ownership, operating and maintenance of Rabigh project for Electricity production	Saudi Arabia	50%

2. Basis of Consolidation

These consolidated financial statements include the assets, liabilities and operations’ results of the Company and its subsidiaries (the “Group”) mentioned in note (1) above “consolidated financial statements”. A subsidiary company is that in which the Company has, directly or indirectly, a long term investment comprising an interest of more than 50% in the voting capital or over which it exercises practical control. A subsidiary company is consolidated from the date of which the Company obtains control until the date that control ceases. The Group's intercompany balances and transactions have been eliminated in these consolidated financial statements.

3. Summary of Significant Accounting Policies

The accompanying consolidated financial statements have been prepared in accordance with the Accounting Standards issued by the Saudi Organization for Certified Public Accountants (SOCPA). The significant accounting policies adopted are as follows:

Accounting Convention

The consolidated financial statements are prepared under the historical cost convention except for the measurement at fair value of investments, derivative financial instruments and government loans.

Accounting Estimates

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

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand and at bank balances, time deposits, and other investments which are convertible into known amounts of cash with maturities of three months or less from the date of deposit.

Electricity Consumers Receivables

Electricity consumer receivables represent the amount not collected from the consumers at the consolidated balance sheet date, and are shown net of provision for doubtful receivables.

Inventories

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

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

Investments

Investments in Companies’ Equity

Investments in companies of which the Group hold at least 20% of interest are accounted for using the equity method, whereby the investment is initially stated at cost, adjusted thereafter by the post acquisition change of the Group's share in the net assets of the investee company. The Group's share in the results of these Companies is recognised in consolidated statement of income when investees’ financial statements are issued.

Investments of less than 20% of share capital of unquoted Companies are stated at cost is considered as fair value. Income from these investments is recognised in consolidated statements of income when dividends are received from the investee companies.

Investments Held to Maturity

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

Fixed Assets

Fixed assets are stated at historical cost and, except for land, are depreciated over their estimated operational useful lives using the straight line method. Cost includes the cost of acquisition from supplier, direct labor, indirect construction costs, and borrowing costs up to the date the asset is placed into service. Costs of fixed assets sold or otherwise disposed off and related accumulated depreciation are removed from the accounts at the date of the sale or disposal. The resulting gain or loss is recognized in the consolidated statement of income.

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

The estimated operational useful lives are as follows:

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

Impairment of noncurrent assets

The Group conducts periodic review of the carrying amount of its non-current assets to determine whether there is any evidence that those non-current assets have suffered an impairment loss. If such evidence exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Where it is not possible to estimate the recoverable amount of that asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

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

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

Capitalization of borrowing costs

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

Government loan with definite payment terms

The government loan with definite payment terms is recognized at present value using an estimated discount rate for Group’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.

Derivative financial instruments and hedge accounting

The Group uses derivative financial instruments to hedge its cash flow exposures to interest rates. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured for any changes in its fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative. Any gains or losses arising from the changes in the fair value of derivatives determined as effective cash flow hedges are taken directly to the shareholders’ equity, while the ineffective portion of cash flow hedges, is recognised in the consolidated statement of income.

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

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

Accounts payable and accruals

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

Provision for employees’ indemnity

Employees’ indemnity consists of the following:

Provision for end of service benefits:

The end of service benefits are calculated in accordance with the Labor Law in the Kingdom of Saudi Arabia and charged monthly to the consolidated statement of income.

Employees’ saving fund:

The Group contributes in saving fund for the eligible employees based on an approved policy. The Group’s share of the contribution in saving fund is charged monthly to the consolidated statements of Income.

Zakat provision

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

Statutory reserve

In accordance with the Regulations for Companies and the Company’s by-laws, 10% of net income for the year is transferred to statutory reserve. The Company’s General Assembly may discontinue such transfer when the reserve equals 50% of the share capital.

Revenues

Revenue from electricity sales is recognized when bills are issued to subscribers based on the consumption of electric power measured by Kilowatt/hour. Estimates are made and recognized for consumed power but not billed as at the balance sheet date.

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

Electricity service connection tariff received from consumers is deferred and recognized on a straight-line basis over the average useful lives of the equipment used in serving the subscribers, estimated to be 20 years.

Expenses

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

Operating lease

Leasing contracts under which capitalised leasing conditions are not met are classified as operating leases. Operating lease payments are recognised as an expense in the consolidated statement of income on a straight -line basis over the lease term.

Earnings (loss) per share for the year

Earnings (losses) per share is calculated using the weighted average number of outstanding shares at the end of the year , including government shares. Earnings (loss) per basic share from operating activities is calculated by dividing income (loss) from operations on the weighted average number of shares. Earnings (loss) per basic share from net income (loss) is calculated by dividing net income (loss) on weighted average of number of shares.

Foreign currency transactions

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

4. Cash and Cash Equivalents

	SR'000	
	2013	2012
Cash on hand	3,553	3,352
Cash at banks	1,257,564	1,332,951
Short-term deposits	2,731,025	1,709,483
	3,992,142	3,045,786

5. Receivables From Electricity Consumers and Accrued Revenues, Net

	SR'000	
	2013	2012
Electricity subscribers' receivable		
Governmental institutions	6,978,479	4,364,978
Commercial and residential	5,182,922	4,232,203
Saudi Arabian Oil Company ("Saudi Aramco")	2,631,261	2,501,513
VIPs consumers	3,325,023	2,228,922

Electricity connection receivables	1,402,152	1,359,573
Saline Water Conversion Corporation	388,628	231,579
Total electricity subscribers' receivable	19,908,465	14,918,768
Less: Provision for doubtful receivables	(2,884,759)	(2,753,079)
Net electricity subscribers' receivable	17,023,706	12,165,689
Add: Accrued revenues	1,427,938	1,261,571
	18,451,644	13,427,260

The movement in the provision for doubtful receivables during the years as follows:

	SR'000	
	2013	2012
Balance at the beginning of the year	2,753,079	2,500,596
Charge for the year	131,680	252,483
Balance at the end of the year	2,884,759	2,753,079

6. Prepayments and Other Receivables, Net

	SR'000	
	2013	2012
Advances to contractors and suppliers	5,748,003	4,427,812
Other government receivables	244,173	244,173
Outstanding letters of credit	76,033	158,247
Prepaid expenses	13,203	47,126
Other receivables, net	695,674	596,881
Total	6,777,086	5,474,239
Less: Provision for other doubtful receivables	(60,789)	(60,789)
	6,716,297	5,413,450

7. Inventories, Net

	SR'000	
	2013	2012
Generation plant materials and supplies	3,038,500	3,004,718
Distribution network materials and supplies	2,949,956	2,131,952
Transmission network materials and supplies	372,368	343,475
Fuel and oil	467,593	401,477
Other	286,327	375,194
Total	7,114,744	6,256,816
Less: Provision for slow-moving inventories	(476,488)	(435,343)
	6,638,256	5,821,473

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

	SR'000	
	2013	2012
Balance at the beginning of the year	435,343	264,021
Charge for the year	41,145	171,322
Balance at the end of year	476,488	435,343

8. Loan to Associated Companies

This balance includes, as of 31 December 2013, an amount of SR 947 million (2012: nil) representing the Company's share in the subordinate loan provided to Dhurma Electricity company (an associated company). Under the agreement between the shareholders of the associated company, the loan is provided by shareholders in proportion of their share in the capital. The company holds 50% interest in the associated company. This subordinate loan is non commission bearing.

9. Equity Investments in Companies and Others

	SR'000	
	2013	2012
Investments accounted for under the equity method (a)	1,869,065	1,782,610
Other investments, at cost (b)	125,650	125,650
Held to maturity investments (c)	120,000	275,000
	2,114,715	2,183,260

A. Investments accounted for under the equity method

		SR'000					
As of 31 December 2013	Own-ership %	Opening balance before Compa-ny's share from cash flow hedge reserve as of 1 January 2013	Addition during current year	Share from income (loss)	Gross investment balance before Company's share from cash flow hedge reserve as of 31 December 2013	Share from cash flow hedge reserve*	Net investment as of 31 December 2013
Gulf Cooperation Council Interconnection Authority (A-1)	31.6	1,768,427	-	(52,054)	1,716,373	-	1,716,373
Water and Electricity Company (A-2)	50	14,183	-	179	14,362	-	14,362
Hajr for Electricity Production Company (A-3)	50	5,000	-	-	5,000	(5,000)	-
Rabigh Electricity Company (A-4)	20	553	182,750	50,183	233,486	(95,156)	138,330
Dhuruma Electricity Company (A-5)	50	2,000	-	15,887	17,887	(17,887)	-
		1,790,163	182,750	14,195	1,987,108	(118,043)	1,869,065

		SR'000					
As of 31 December 2012	Own-ership %	Opening balance before Compa-ny's share from cash flow hedge reserve as of 1 January 2012	Addition during current year	Share from income (loss)	Gross investment balance before Company's share from cash flow hedge reserve as of 31 December 2012	Share from cash flow hedge reserve*	Net investment as of 31 December 2012
Gulf Cooperation Council Interconnection Authority (A-1)	31.6	1,830,937	-	(62,510)	1,768,427	-	1,768,427
Water and Electricity Company (A-2)	50	13,955	-	228	14,183	-	14,183
Hajr for Electricity Production Company (A-3)	50	5,000	-	-	5,000	(5,000)	-
Rabigh Electricity Company (A-4)	20	2,000	-	(1,447)	553	(553)	-
Dhuruma Electricity Company (A-5)	50	2,000	-	-	2,000	(2,000)	-
		1,853,892	-	(63,729)	1,790,163	(7,553)	1,782,610

* These amounts represent Company's share in unrealized losses from change in the fair value for hedging contracts recognised within the equity of investees to the extent of investment balance. Additional reserves amounting of SR 185 million as of 31 December 2013 (2012: SR 512 million) were created to account for further commitments exceeding the investment balance (note (21) and (35)).

(A-1) Gulf Cooperation Council Interconnection Authority

The Company has contributed in the capital of the Gulf Cooperation Council Interconnection Authority (hereafter referred to as "GCCIA") at inception to enhance the electricity transmission and distribution between the member countries. The Company's contribution in GCCIA amounts to USD 484.80 million equivalent to SR 1,818 million.

(A-2) Water and Electricity Company

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

(A-3) Hajr for Electricity Production Company

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

(A-4) Rabigh Electricity Company

Based on the company's Board of Directors Resolution No. 06/76/2008 dated Jumada Al-Awal 26, 1429H corresponding to June 3, 2008, the Company established Rabigh Electricity Company. The Company's share capital amounting to SR 2 million was paid in full and represents 100% of the investee's share capital.

During the third quarter of 2009, Rabigh Electricity Company increased its capital from SR 2 million to SR 10 million by admission of new partners which resulted in the decrease of Saudi Electricity Company's share from 100% to 20%. During the current year ended 31 December 2013, the Company contributed in the capital increase of Rabigh electricity company –in proportion of its share- by an amount of SR 183 million which was transferred from loan extended previously.

(A-5) Dhuruma Electricity Company

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

B. Other investments, at cost

	Ownership %	SR'000	
		2013	2012
Al-Shuaiba Water and Electricity Company	8	124,840	124,840
Al-Shuqaiq Water and Electricity Company	8	400	400
Al-Jubail Water and Electricity Company	5	250	250
Al-Shuaiba Holding Company	8	160	160
Total		125,650	125,650

C. Held to maturity investments

	SR'000	
	2013	2012
SABB bonds "Saudi British Bank"	70,000	50,000
Arabian Aramco Total Services Company Sukuk (SATORP)	25,000	25,000
Sadara Basic Services Company's sukuk	25,000	-
Saudi Basic Industries Corporation Sukuk	-	150,000
Bin Laden Company Sukuk	-	50,000
Total	120,000	275,000

10. Construction Work in Progress

SR'000						
	2013					2012
	Generation Projects	Transmission Projects	Distribution Projects	General projects	Total	Total
At the beginning of the year	22,895,227	11,874,221	4,549,578	570,523	39,889,549	22,260,811
Additions during the year	14,873,770	12,300,483	10,715,202	2,692,671	40,582,126	38,144,009
Transfer to fixed assets	(8,345,922)	(5,548,202)	(10,889,780)	(1,506,315)	(26,290,219)	(20,515,271)
Balance at 31 December 2013	29,423,075	18,626,502	4,375,000	1,756,879	54,181,456	
Balance at 31 December 2012	22,895,227	11,874,221	4,549,578	570,523		39,889,549

Net borrowing cost capitalized on projects under construction during the year amounted to SR 1,241 million (2012: SR 1,222 million).

11. Fixed Assets, Net

SR'000								
	2013							2012
	Land	Buildings	Machinery and equipment	Capital spare parts	Vehicles and heavy equipment	Others	Total	Total
Cost:								
At the beginning of the year	1,785,778	16,649,210	290,305,880	4,071,040	1,327,926	4,176,388	318,316,222	297,846,857
Additions	621,749	2,683,599	21,101,896	344,400	-	1,901,782	26,653,426	20,860,094
Disposals	(211)	(82,326)	(228,594)	(13,923)	(126,625)	(8,315)	(459,994)	(390,729)
At the end of the year	2,407,316	19,250,483	311,179,182	4,401,517	1,201,301	6,069,855	344,509,654	318,316,222
Depreciation:								
At the beginning of the year	-	10,282,231	133,544,224	2,122,234	1,103,792	2,611,641	149,664,122	139,173,598
Charge for the year	-	824,904	10,205,702	146,380	70,435	483,245	11,730,666	10,835,881
Disposals	-	(82,260)	(216,397)	(13,921)	(126,625)	(9,123)	(448,326)	(345,357)
At the end of the year	-	11,024,875	143,533,529	2,254,693	1,047,602	3,085,763	160,946,462	149,664,122
Net book amounts:								
At 31 December 2013	2,407,316	8,225,608	167,645,653	2,146,824	153,699	2,984,092	183,563,192	
At 31 December 2012	1,785,778	6,366,979	156,761,656	1,948,806	224,134	1,564,747		168,652,100

Included in land are plots of land with book value of SR 188 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:

SR'000					
2013					
	Generation	Transmission	Distribution	General Property	Total
Land	238,335	587,244	225,151	1,356,586	2,407,316
Buildings	4,195,788	2,887,660	203,432	938,728	8,225,608

Machinery & equipment	64,656,088	50,096,152	52,557,103	336,310	167,645,653
Capital spare parts	1,621,098	427,653	97,932	141	2,146,824
Vehicles and heavy equipment	-	-	-	153,699	153,699
Others	1,104,084	633,234	298,517	948,257	2,984,092
	71,815,393	54,631,943	53,382,135	3,733,721	183,563,192

SR'000					
2012					
	Generation	Transmission	Distribution	General Property	Total
Land	238,335	587,455	225,151	734,837	1,785,778
Buildings	2,561,834	2,697,919	189,048	918,178	6,366,979
Machinery & equipment	63,324,685	47,920,744	45,106,974	409,253	156,761,656
Capital spare parts	1,493,202	401,649	53,765	190	1,948,806
Vehicles and heavy equipment	-	-	-	224,134	224,134
Others	683,607	355,330	172,296	353,514	1,564,747
	68,301,663	51,963,097	45,747,234	2,640,106	168,652,100

Depreciation expenses charged to various activities during the year ended December 31 are as follows:

SR'000		
	2013	2012
Generation depreciation expense	4,954,719	4,632,938
Transmission depreciation expense	3,151,712	2,950,727
Distribution depreciation expense	3,333,985	2,938,679
General property depreciation expense	290,250	313,537
	11,730,666	10,835,881

12. Accounts Payable

	SR'000	
	2013	2012
Saudi Aramco payable for fuel cost	62,690,790	57,200,552
Transferred to Government account (a)	(57,200,552)	(40,959,482)
Saudi Aramco payable for fuel cost, net	5,490,238	16,241,070
Saline Water Conversion Corporation for energy purchased	9,257,407	8,836,619
Municipality fees	4,239,703	3,723,515
Advances received for construction of projects	5,892,310	2,367,238
Contractors and retention payables	586,315	974,891
Payables to suppliers	347,429	657,721
Other (b)	2,441,487	1,927,720
	28,254,889	34,728,774

A. This amounts represents as of 31 December 2013 payables for fuel for the period from April 5, 2000 to December 31, 2012 (2012: for the period from April 5, 2000 to December 31, 2009) which have been transferred from the liability to Saudi Aramco to non-current government liability, latest transfer was before 2013 year end (Note (20)).

B. Other payables include SR 1,225 million (2012: SR 1,280 million) which are still under reconciliation between the Company and the Government and pertain to prior-merger account (refer to Note (1)).

13. Accruals and Other Payables

	SR'000	
	2013	2012
Accrued expenses	3,383,692	3,550,470
Accrued employees' benefits	523,692	426,962
Dividends payable *	351,174	355,197
Accrued interests on loans	172,526	170,311
Other	240,926	232,789
	4,672,010	4,735,729

* Dividends payable as of December 31, 2013 includes unclaimed cash dividends declared by Saudi Consolidated Electricity Company prior to merger, amounting to SR 86.8 million (2012: SR 88.6 million).

14. Zakat

Zakat Base:

The major components of Zakat base are as follows:

	SR'000	
	2013	2012
Net income before zakat	3,035,869	2,561,066
Add: Zakat adjustment	(10,656,983)	(10,313,776)
Net adjusted loss	(7,621,114)	(7,752,710)
Zakat base is calculated as follows:		
Share Capital	41,665,938	41,665,938
Net adjusted loss	(7,621,114)	(7,752,710)
Retained reserves	2,350,929	2,092,835
Retained earnings	9,775,006	8,018,923
Retained allowances	8,604,570	6,971,363
Long term loans and sukuk	45,558,421	27,664,986
Government loans and payables	53,682,616	40,902,237
Contractors accruals and others	937,489	1,330,088
Total	154,953,855	120,893,660
Deduct:		
Fixed assets and construction work in progress, net	(148,419,213)	(130,037,634)
Difference on depreciation of fixed assets for previous years	(66,403,626)	(65,111,874)
Long term investments	(2,100,521)	(2,254,541)
Material and spare parts inventories	(5,090,429)	(4,384,116)
Zakat base (negative)	(67,059,934)	(80,894,505)

No Zakat is due on the Company for the year ended 31 December 2013 as the net adjusted loss and zakat base is negative.

Zakat status:

The Company has received the final assessments for the period ended in 31 December 2001and also for the years from 2002 to 2008 which showed Zakat differences of SR 37.5 million for the period ended 31 December 2001 and the years 2002, 2003 and 2004. The Company filed appeals against these differences which are still pending with the Department of Zakat and Income Tax (“DZIT”). The Company filed its Zakat returns for the years 2009 to 2012 and are still under review by DZIT.

15. Long-term Loans

	SR'000	
	2013	2012
At the beginning of the year	13,664,986	16,714,888
Withdrawal during the year	5,645,936	107,171
Repayments during the year	(1,816,991)	(3,157,073)
At the end of the year	17,493,931	13,664,986
Less: Current portion	(1,816,969)	(1,468,000)
Long-term balance at the end of the year	15,676,962	12,196,986

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

	SR'000	
	2013	2012
More than one year	1,921,378	1,469,701
Between two to three years	1,921,378	1,478,631
Between three to four years	1,921,378	1,478,631
Between four to five years	1,921,378	1,478,631
More than five years	7,991,450	6,291,392
	15,676,962	12,196,986

- A. On 28 July 2008, the Company obtained a sharia-compliant loan for SR 6 billion from syndicates of local banks which has been fully withdrawn. The loan is repayable over 22 semi-annual installments starting 3 November 2009. The loan balance amounted to SR 3.6 billion as of 31 December 2013 (2012: SR 4.1 billion). The loan is subject to certain financial covenants in which the Company complies with as at 31 December 2013.
- B. The Company signed a financing agreement with the Export-Import Bank of the United States, and the Export Development Bank of Canada on 27 January 2010 whereby the Company will receive a direct loan amounting to US\$ 1.1 billion equivalent to approximately SR 4.1 billion which has been fully withdrawn. The loan is repayable within 12 years in 24 semi-annual installments starting 25 May 2010. The loan balance amounted SR 2.7 billion as of 31 December 2013 (2012:SR 3 billion).
- C. On 13 July 2009, the Company signed a financing agreement with the Public Investments Fund whereby the Company will receive a direct loan of SR 2.6 billion which has been fully withdrawn. The loan is repayable within 15 years over 24 semi-annual installments. The loan balance amounted to SR 2.3 billion as of 31 December 2013 (2012: SR 2.5 billion).
- D. On 13 December 2010, the Saudi Electricity Company signed an agreement with a syndicate of local banks whereby the Company will obtain a sharia compliant loan of SR 5 billion, repayable over 26 semi-annual installments after 24 months from the date of signing the agreement. The loan balance amounted to SR 4.6 billion as of 31 December 2013 (2012: SR 0.5 billion).
- E. On 22 June 2011, the Company signed an agreement with Export and Import French Bank whereby the Company will receive a loan amounting to US\$ 989.1 million equivalent to SR 3.7 billion which had been fully withdrawn. The loan is repayable over 12 years over 24 semi-annual installments starting 11 January 2012. The loan balance amounted to SR 3.1 billion as of 31 December 2013 (2012:SR 3.4 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 group 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 Company will receive a loan amounting to SR 5.3 billion equivalent to approximately US\$ 1,400 million for a period of 15 years. The loan is repayable over 12 years in 24 semi-annual installments starting after grace period of 3 years. The loan balance amounted SR 1.3 billion as of 31 December 2013 (2012: SR 107 million).
- G. On 18 December 2013, the Company signed a loan agreement guaranteed by two Export Japanese banks (NEXI and JBIC) where Japan Bank for International Cooperation (JBIC), Tokyo-Mitsubishi Bank and Mizuho Bank participated in financing the loan. The amount of the loan is SR 1,373 million (US\$ 366 million) for a period of 15 years. The loan is repayable in equal installments over 12 years starting after grace period of 3 years. The loan has not been withdrawn up to 31 December 2013.
- 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, Sumito bank, HSBC Group, Deutsche bank and IPEX bank have participated in financing the loan. The amount of the loan is SR 6,128 million (US\$ 1,634 million) for a period of 15 years. The loan is repayable in equal installments over 12 years starting with a grace period of 3 years. The loan has not been withdrawn up to 31 December 2013. The long-term loans mentioned above are used to finance construction projects. These loans are secured by promissory notes singed by the Company for the nominal value of the loan plus the interest payments and/or Murabaha margin. The company has unutilized credit facilities as of 31 December 2013 with local commercial banks amounting to SR 1 billion (2012: SR 1 billion).

16. Sukuk

The outstanding Sukuk as of 31 December 2013 are as follows:

Local Sukuk:

Issue	Date of issue	Par value	Total issued amount	Maturity year
Sukuk 2	6 July 2009	SR 100 Thousand	SR 7 Billion	2029
Sukuk 3	10 May 2010	SR 10 Thousand	SR 7 Billion	2030

The above Sukuk have been, issued at par value with no discount nor premium. The Sukuk bear a rate of return at SIBOR plus a margin payable quarterly from the net income received from the Sukuk assets held by the Sukuk custodian “Electricity Sukuk Company”, a wholly owned subsidiary of the Company.

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

	Percentage		
	90%	60%	30%
Issue	First purchase date	Second purchase date	Third purchase date
Sukuk 2	2014	2019	2024
Sukuk 3	2017	2020	2025

On 15 July 2012, the Company fully purchased the assets of its first Sukuk issued (Sukuk1) amounted SR 5 billion. The Company is also intends to fully purchase the assets of its second Sukuk issued (Sukuk2) amounting to SR 7 billion at the first purchase date during July 2014, therefore; this amount has been classified within current liabilities as of 31 December 2013.

Global Sukuk:

During April 2012 the Company issued Sukuk amounting to SR 6.6 billion equivalent to approximately US\$ 1,750 million where the issuance consists of two types of Sukuk certificates. The first type amounting to US\$ 500 million maturing after 5 years with fixed rate of 2.665%, the second type amounting to US\$ 1,250 million maturing after 10 years with fixed rate of 4.211%.

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

17. Employees’ Indemnities

	SR’000	
	2013	2012
Provision for end-of-service indemnities	4,371,338	4,354,255
Employee savings fund	498,270	394,475
Human recourses productivity improvement program (the Program)-(a)	312,945	419,451
	5,182,553	5,168,181

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

18. Deferred Revenues, Net

	SR’000	
	2013	2012
Balance at the beginning of the year	22,289,701	20,469,575
Proceeds from connection tariff services during the year	3,355,773	3,335,916
Electrical connection tariff	(1,679,064)	(1,515,790)
	23,966,410	22,289,701

19. Government Loans

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

The minutes of the meeting held on Rajab 21, 1422H between the Minister of Industry and Electricity and the Minister of Finance and National Economy in which the initial amount of the Government loan was determined, states that the final settlement of Government accounts will be subject to the reconciliation for the claims of the Company from Government entities, and the loan amount shall be adjusted

accordingly. During 2005, the Company finalized the amount due which included the claims of the Company and the amounts due to the Government and the agreement was signed between the Minister of Water and Electricity and the Minister of Finance on Rajab 15, 1426H which brought the balance of Government loan amounted to SR 14.9 billion.

- B. The Council of Ministers approved in its meeting held on Monday 12 Jumada Al-Awal 1431H corresponding to 26 April 2010 to grant the Company a soft loan amounting to SR 15 billion repayable over 25 years. The loan will be paid to the Company within 2 years in accordance with an agreement that will be prepared for this purpose between the Ministry of Finance and the Saudi Electricity Company. The agreement was signed on 15 Ramadan 1431H, corresponding to 25 August 2010, this loan has been fully withdrawn as at 31 December 2013 (2012: fully withdrawn). the Company recognized the amount received from the government loan above discounted at 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 that will be prepared for this purpose between the Ministry of Finance and the Saudi Electricity Company. An amount of SR 23 billion from this loan has been withdrawn as at 31 December 2013 (2012: SR 10.2 billion). The Company recognized the amount received from the government loan above discounted at its present value.

20. Long-term Government Payables

The long term government payable includes as 31 December 2013 SR 57 billion represents the accounts payable for fuel for the period from 5 April 2000 to 31 December 2012 (2012: SR 41 billion represents the accounts payable for fuel for the period from 5 April 2000 to 31 December 2009) which has been reclassified from current liabilities to non-current liabilities (long-term governmental payables) pursuant to the Ministerial minutes of meeting and resolutions which resolved to transfer the Company’s liability of Saudi Aramco to the account of the Ministry of Finance according to specific procedures and approvals, the latest was before 2013 year end.

Also, the Government payable includes an amount of SR 24.7 billion as at 31 December 2013 (2012: SR 16.8 billion) represents the difference between the amount proceed from Government as a soft loans and the discounted present value of these loans (Note 19- (b) & (c)).

21. Derivatives

The Company entered into interest rate hedging contracts with several banks to hedge the fluctuation of interest rates on loans for an amount of SR 2.2 billion on 31 December 2013 (2012: SR 2.6 billion) which includes a US Dollar portion representing approximately 15% of the national amount. The hedging contracts are based on the swap between the Company and the banks of fixed rates against floating rates on the original loan amounts every six months.

The cash flow hedge reserve shown in the shareholders equity includes the group’s share in the unrealized losses resulting from the change in the fair value for hedging contracts recognised within the equity of investees (Note (9) and (35)).

22. Share Capital

The share capital of the Company is SR 41,665,938,150 divided into 4,166,593,815 shares with a par value of SR 10 each and is held as follows:

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

23. General Reserve

General reserve consists of the balances of the reserves amounting to SR 213,668 Thousands that were reflected in the books of the Saudi Electricity Company at the date of the merger, and investment income from electricity fund of SR 294,976 as well as the collections of surcharge from individuals subsequent to December 31, 2001 amounting to SR 36,618 thousand up to December 31, 2013 (2012: SR 31,686 thousand). The total general reserve amounted to SR 545,262 thousand as at December 31, 2013 (2012: SR 540,330 thousand).

24. Operation and Maintenance Expenses

	SR'000				
	2013				2012
	Generation	Transmission	Distribution	Total	Total
Employees' expenses and benefits	1,318,255	709,455	2,513,002	4,540,712	4,264,027
Operation and maintenance (contractors)	488,300	124,777	512,470	1,125,547	936,210
Materials	796,718	72,790	248,927	1,118,435	1,052,401
Municipality fees	-	-	517,679	517,679	482,814
Provision for doubtful receivables	-	-	131,680	131,680	252,483
Provision for slow moving inventory	25,392	4,684	6,780	36,856	144,254
Others	1,021,773	190,491	437,004	1,649,268	1,589,619
	3,650,438	1,102,197	4,367,542	9,120,177	8,721,808

25. General and Administrative Expenses

	SR'000	
	2013	2012
Employees' expenses and benefits	266,288	209,873
Materials	37,687	49,754
Provision for slow moving inventory	4,289	27,068
Others	62,065	108,582
	370,329	395,277

26. Other Income and Expenses, Net

	SR'000	
	2013	2012
Penalties	153,264	127,671
Gain on disposal of fixed assets	86,784	85,556
Sale of tender documents	41,768	30,676
Share in net income (loss) of investee companies accounted for under the equity method (Note 9-(a))	14,195	(63,729)
Others, net	122,563	115,732
	418,574	295,906

27. Dividends

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

The General Assembly, in its meeting held on 15 April 2013, approved to distribute of cash dividends for 2012 to individuals shareholders amounting of SR 547 million (SR 0.7 per share) representing 7% of the par value per share (for 2011: SR 547 million).

The board of directors in its meeting held on 24 Rabi Thani 1435H corresponding 24 February 2014, proposed to distribute cash dividends for 2013 to individuals shareholders amounting to SR 547 million. (SR 0.7 per share), representing 7% of the par value per share. These are subject to the approval of the Company's general meeting.

28. 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 980 thousand (2012: SR 783 thousand).

The General Assembly has approved in its meeting held on 15 April 2013, Board of Directors' remuneration of SR 919 thousand from the retained earnings for the year 2012 (for the year 2011: SR 705 thousand).

The board of directors in its meeting held on 24 Rabi Thani 1435H corresponding 24 February 2014, proposed board's remuneration of SR 863 thousand after the distribution of dividends to individual shareholders not less than 5% of the share capital. This is subject to general meeting's approval.

29. Settlement of The Dispute Over The Electric Tariff With Saudi Aramco

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

The Council of Ministers has issued a Resolution Number 114 on 10 Rabi Al-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 Jumada 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 the quarter ended 30 June 2013, the Company has completed the reconciliation procedures with Saudi Aramco for these revenues and recognized them as non-recurring income in the consolidated statement of income for the period.

30. Related Parties Transactions

The significant transactions and related approximate balances are as follows:

	SR’000	
	2013	2012
Sales		
Government	8,285,140	7,891,078
Saudi Aramco	1,763,138	1,634,046
Saline Water Conversion Corporation	195,354	183,818
	10,243,632	9,708,942
Purchases and others		
Saudi Aramco	5,978,341	6,161,196
Rabigh Electricity Company	1,016,970	163,361
Dhuruma Electricity Company	1,056,769	141,374
Saline Water Conversion Corporation	570,715	532,633
Municipalities fees	517,679	482,815
	9,140,474	7,481,379

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

31. Contingent Liabilities

- A. There is a dispute between the Company and Saudi Aramco for handling crude oil fees. The disputed amount since the Company’s inception on 5 April 2000 to 31 December 2013 amounted to approximately SR 3,649 million (2012: SR 3,291 million). The Company’s management believes that there will be no liability on the Company based on the Royal Decree Number M/8 dated 25 Rajab 1415H as this matter was not discussed by the Ministerial Committee formed by the Royal Decree referred to above. Accordingly, the difference has not been recorded in the Company’s books. In addition, Saudi

Aramco is supplying the Company with light fuel oil rather than heavy fuel oil to one of its stations. This has resulted in an accumulated difference of SR 1,556 million (2012: SR 1,200 million) not accounted for in the Company’s books.

- B. Saudi Aramco has also a claim for the settlement of its share in the annual dividends since inception to 31 December 2013, estimated at SR 2,342 million. The Company believes that Saudi Aramco has no right for this claim during the first 20 years of its formation since it is a wholly owned government agency and accordingly, is governed by the Ministerial Resolution No. 169 dated 11 Sha’aban 1419H and Ministerial Resolution No. 327 dated 24 Ramadan 1430H on extending the Government’s waiver of its rights in the profits distributed by the Saudi Electricity Company for another ten years.
- C. The Company has 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\$ 75 million equivalent to SR 281 million as of 31 December 2013 (2012: US\$ 74 million equivalent to SR 278 million). In addition, the Company has provided a guarantee for the Department of Zakat and Income Tax amounting to SR 37.5 million (2012: SR 37.5 million).

32. Capital Commitments

- A. These comprise the unexecuted portion – as of the consolidated balance sheet date - of capital contracts conducted by the Company for the erection and installation of power plants and other assets approximately amounting to SR 93,671 million (2012: SR 81,033 million) in addition to the future commitments provided by the Company to finance certain investees in the form of subordinate loans or common equity amounting to SR 1,253 million (2012: SR 2,200 million).
- 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.

33. Risk Management

Financial instruments included in the consolidated balance sheet consist mainly of cash and cash equivalents, accounts receivable other assets, bank loans, account payable, accrued liabilities and other non-current liabilities.

Credit Risk

Credit risk is the risk that one party will fail to discharge an obligation and will cause the other party to incur a financial loss. The Group has proper diversification as of credit risk. Cash is substantially placed at financial institutions with sound investment grade credit ratings. Trade accounts receivable are shown, net of provision for doubtful debts.

Commission Rate Risk

Commission rate risk is the risk that the values of financial instrument will fluctuates due to changes in the market commission rates. The Group has no significant long-term commission bearing assets, but has interest bearing liabilities as of December 31, 2013. The Group manages its floating-rate loans using commission rates hedging agreements, which have the economic effects to transfer the interest on the loans from floating to fixed rate.

Liquidity Risk

Liquidity risk is the risk that the Group will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at an amount close to its fair value. The Group manage liquidity risk by ensuring that sufficient funds are available to meet its future commitments.

Currency Risk

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. The management monitors the fluctuations in currency exchange rates and charge the results to consolidated financial statements accordingly.

Fair Value Risk

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

34. Segment Reporting and Future Restructure for The Group's Activities

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

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

Generation: generating electricity power.

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

Distribution and Customer Services: receive and distribution to subscribers. It also engage in issuance and distribution and collection of electric bills and issue, distribute the consumer invoices and then collect the invoice amount.

The Company is now working on applying integrated plan aims to split its principal activities to different independent entities and develop inter-selling prices. Therefore revenues and expenses will be specified for each entity upon completion of such process to assess the performance of each activity and the results its operation separately. As part of the plan, National Grid S.A. Company was established and basis of inter-company transaction agreements were approved by the board of directors. The National Grid S.A. Company started its operations and related to transmission activity in 1 January 2012.

The following are the fixed assets, total assets and liabilities of the main group's companies. The financial data of Saudi Electricity Company mentioned in the below table include the generating and distributing and customer services segments in addition to the head office, as the procedure of splitting the generation and distribution segments is still under process – till the date of consolidated financial statements preparation date- as part of the Company's integrated plan to split its activities. The National Grid S.A. Company's financial data includes the transmission activity, while other subsidiaries' financial data include all companies set out in Note- (1) excluding National Grid S.A. Company.

	SR'000				
As of 31 December 2013	Saudi Electricity Company	The National Grid S.A. Company	Other subsidiaries	Inter-Company Balances	Total
Fixed assets, net	128,931,249	54,631,943	-	-	183,563,192
Total assets	272,339,790	63,735,736	76,081	(59,363,963)	276,787,644
Total liabilities	219,263,020	50,536,193	35,638	(49,323,520)	220,511,331

	SR'000				
As of 31 December 2012	Saudi Electricity Company	The National Grid S.A. Company	Other subsidiaries	Inter-Company Balances	Total
Fixed assets, net	116,689,002	51,963,098	-	-	168,652,100
Total assets	236,197,639	58,552,662	29,420	(55,981,343)	238,798,378
Total liabilities	184,175,221	47,125,625	18,303	(45,970,225)	185,348,924

35. Prior Year Adjustments and Comparative Figures

During the current year ended 31 December 2013, the Company has accounted for its share in unrealized losses from hedges reserve shown in the equity of investee companies of which the Company are accounting for its investment in these companies using the equity method. Consequently, the opening balances of the shareholders' equity – cash flow hedges reserve– adjusted by SR 350 million as of 1 January 2012, and SR 170 million as of 1 January 2013, (Note (9) & (21)).

In addition, certain comparative figures have been reclassified to conform with the current year's presentation.

36. Subsequent Events

During January 2014; the Company has issued islamic Sukuk amounting to SR 4.5 billion maturing in 2054, with a variable rate of 70 basis points plus 3-months SIBOR.







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