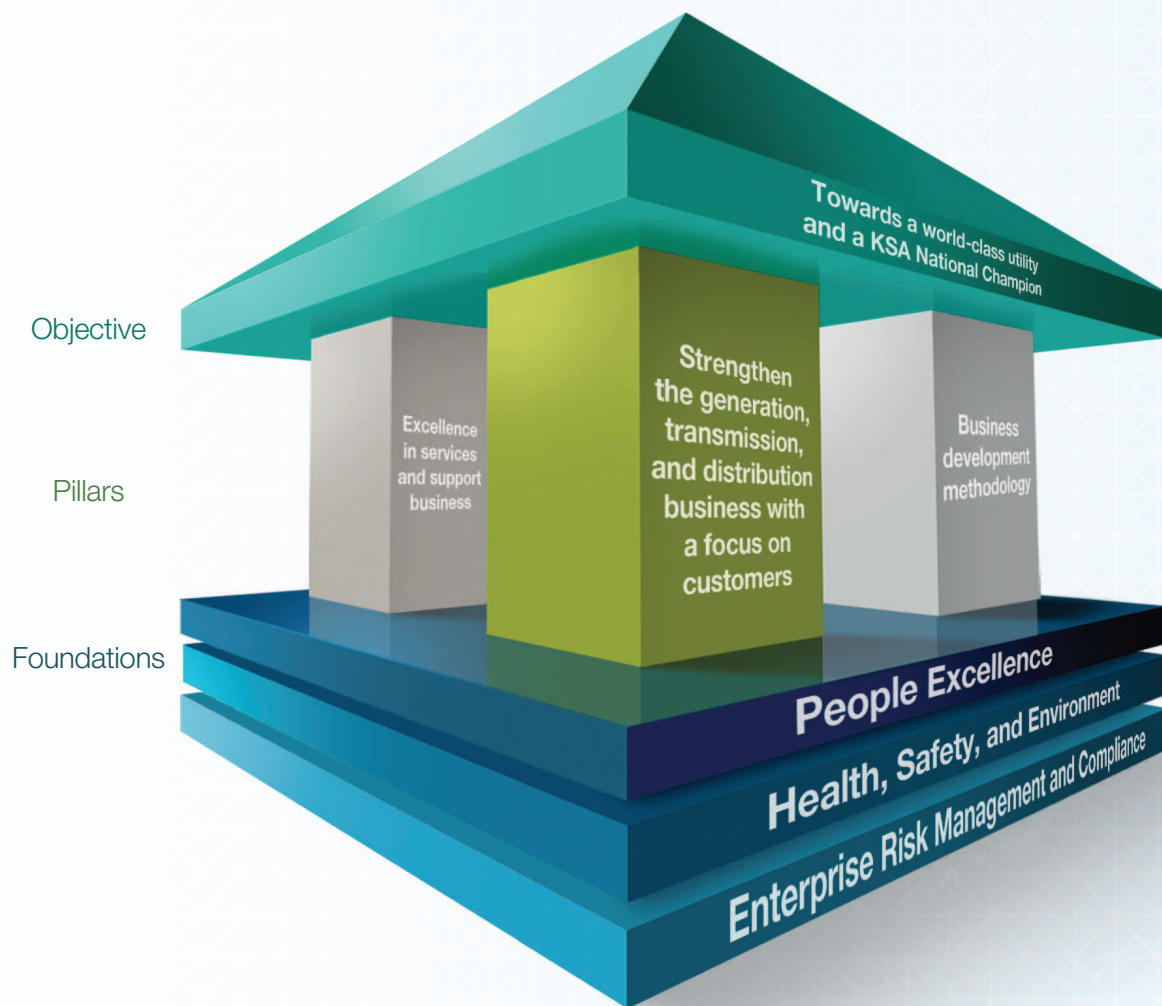


Thinking Globally...through

The Accelerated Strategic Transformation Program (ASTP)



Strategic building is based on strong foundations and pillars



Hands that
Build...



Generations that
Reap...



Annual Report 2014

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لَا إِلَهَ إِلَّا اللَّهُ مُحَمَّدٌ رَسُولُ اللَّهِ





His Royal Highness
Prince Muqrin bin Abdul Aziz Al-Saud
Crown Prince, Deputy Prime Minister



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



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



Percentage of Saudization

86.88%

Total available
generation capacity
65,506
Megawatts



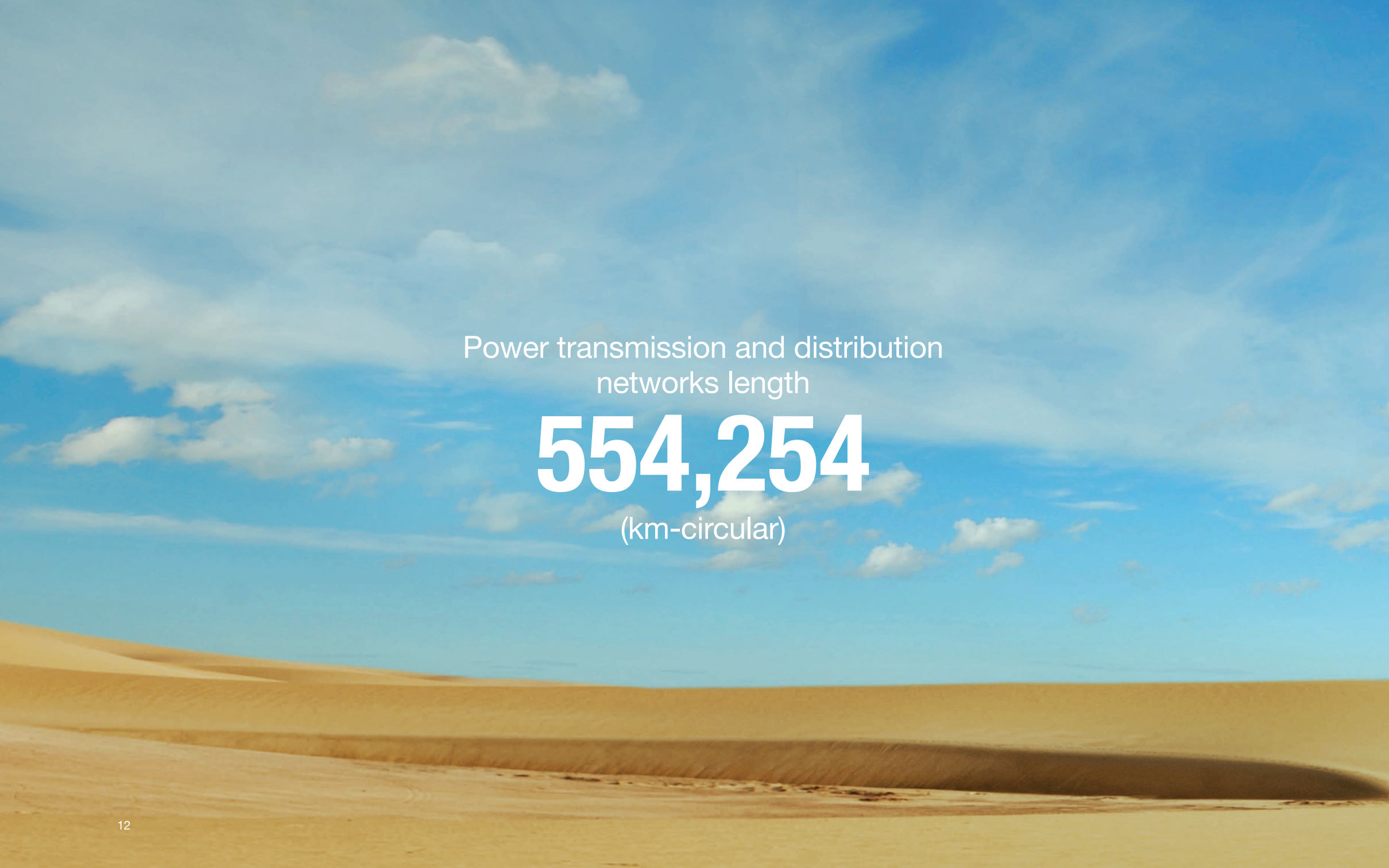






The number of customers

7,602,279



Power transmission and distribution
networks length

554,254
(km-circular)

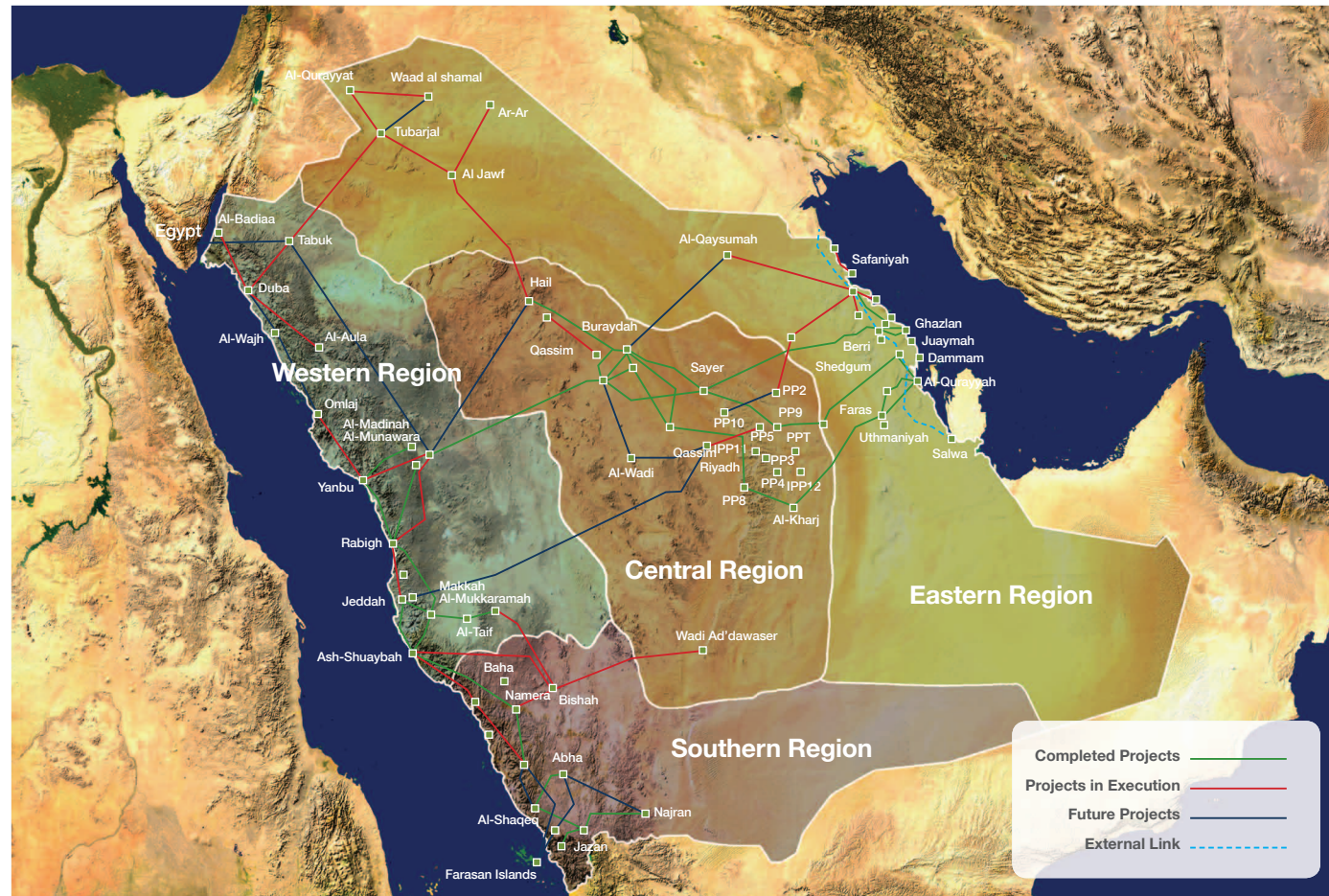




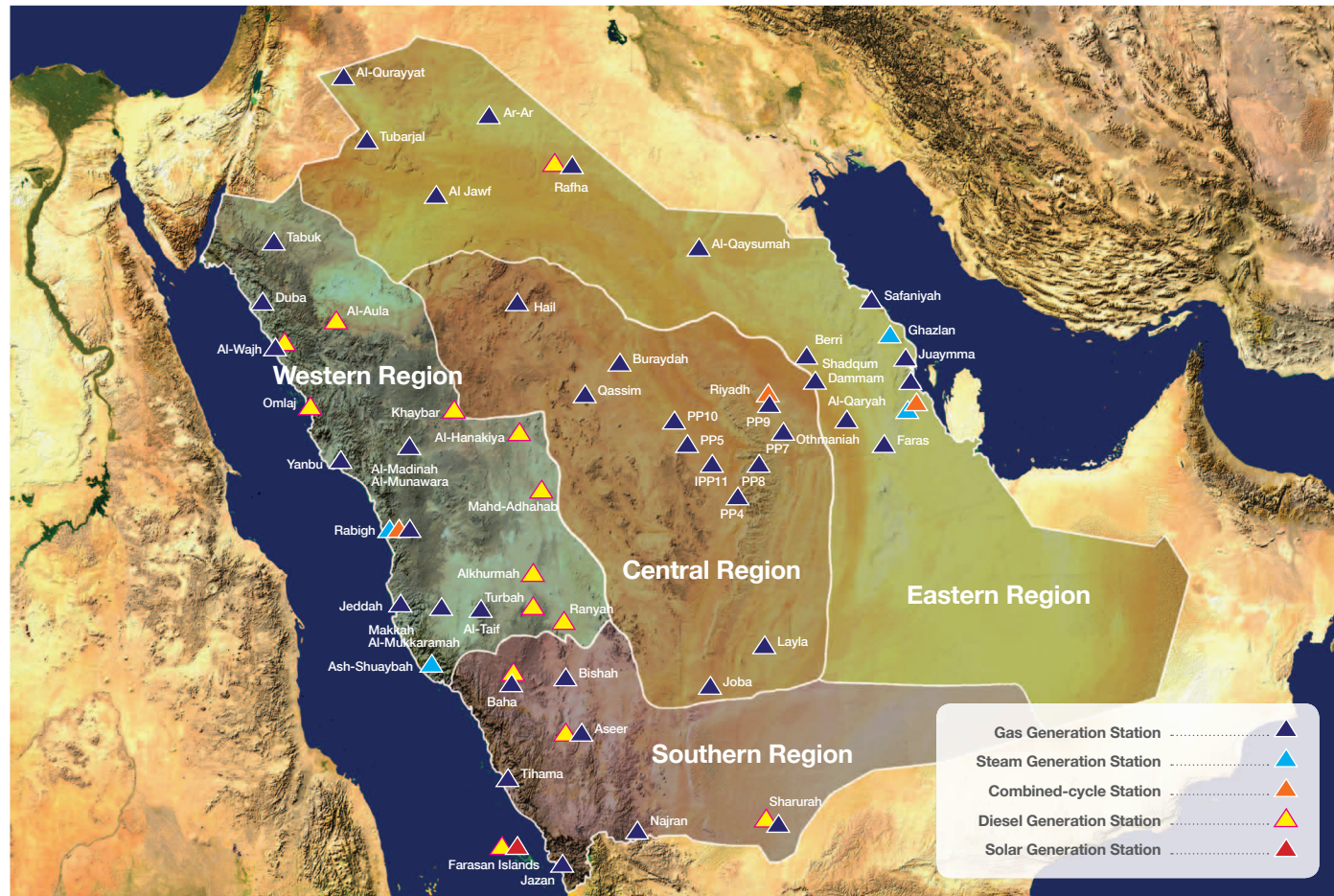
The number of cities
and settlements electrified
reached 12,772



Strategic linking of the Kingdom (380 KV)



Electric Power Generating Stations



Board of Directors

The background of the slide is a dark blue gradient. It features a complex network of glowing light blue lines and nodes, resembling a circuit board or a data network. The lines are of varying thickness and brightness, creating a sense of depth and connectivity. Some lines are straight, while others are curved or branching. The nodes are small, bright blue dots that appear to be connected by the lines. The overall effect is a high-tech, digital aesthetic.



Saleh bin Hussein Al-Awajji
Chairman of the Board



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



**Isam bin Alwan
Al-Bayat**



**Abdulaziz bin Saleh
Al-Fereih**



**Saleh bin Saad
Al-Mehanna**



**Saud bin
Mohammed Al-Nemer**



**Yousif bin
Abdulaziz Al-Turki**



**Abdulhamid bin
Ahmed Al-Omair**



**Ahmed bin
Abdullah Al-Aqeel**



Chairman's Message

The year 2014 has celebrated scores of achievements and launched many initiatives that will positively affect the Company's operational processes and performance, thereby giving rise to enhanced reliability of power supply, improved level of service, and increased technical, financial, and administrative efficiency of the Saudi Electricity Company. All expectations indicate that there will be a growth of around 37% in the demand for power within the next five years which will require securing large financial investments needed for the implementation of power generation, transmission, and distribution projects to keep up with the demand for power.

As part of its efforts to face the challenges of the growing annual demand for electricity, the Company continues to invest in numerous electricity projects, considered to be the largest in the history of the Company. Moreover, it is expected to contribute effectively to strengthening the electrical system in the fields of generation, transmission, and distribution. The Board of Directors has approved a program to implement several renewable energy projects, diversifying its primary sources in the production of electricity in addition to increasing the efficiency of its power plants to reduce fuel consumption. The Company is implementing the process of completing the national transmission network project to connect all the areas of the Kingdom, which is nearing completion. This will enable the exchange of electric power and achieve the results of the principle of economic operation.

Over the past 14 years, the Company has completed 97% of the national plan to interconnect the areas of the Kingdom to the ultra-high voltage 380 KV capacity, raising the available generation capacity from 25,790 MW to around 65,506 MW, an increase of 174%, while the length of the electric power transmission networks increased from 29,631 km-circular to 59,797 km-circular, an increase of 97%. These combined efforts have contributed to the Company's implementation of its

plans and projects to widen its comprehensive electrical services reaching 13,000 cities, villages and residential communities, thereby bringing the total number of customers to over 7.6 million.

The Company reinforces these efforts on strengthening the electrical system by exerting similar dedication in strengthening its financial status and providing necessary cash flows for capital expenditures and operating projects through rationalization of expenditure, boosting revenues, reducing cost, and settling accumulated amounts with different agencies.

The unlimited support that the Company receives from our noble government, one of the leading sources of funding, wherein the Council of Ministers has approved on 10/3/2014 the granting of a good loan to the Company amounting to SAR 49.4 billion payable in installments over a 25-year period. The loan will be released to the Company over five years in accordance with the agreement concluded for this purpose between the Ministry of Finance and the Saudi Electricity Company.

The Company's adoption of the Accelerated Strategic Transformation Program has come into practice and is consistent with the directions of the Board of Directors for strengthening the capabilities and potential growth of the electrical system, improving and developing its services, continuing the restructuring of the Company activities' programs, developing human resources, and creating a work environment that motivates production and creativity.

On behalf of my fellow members of the Board, the management and employees of the Company, I am pleased to express my sincere thanks, appreciation, and gratitude to our government, under the leadership of the Custodian of the Two Holy Mosques King Salman bin Abdul Aziz, and His Royal Highness Prince Muqrin bin Abdul Aziz, Crown Prince and Deputy Prime Minister, and His Royal Highness Prince Mohammed bin Nayef bin Abdul Aziz, Deputy Crown Prince, Second Deputy Prime Minister, and Minister of Interior, may God preserve them, for their continued support to the Company during the course of its development, enabling it to implement its plans and projects and providing better electrical service based on international standards. I would also like to extend my thanks to His Excellency Eng. Abdullah bin Abdul Rahman Alhosayn, Minister of Water and Electricity, for his care and support to the electricity sector in general and to the Saudi Electricity Company in particular. As well, I would like to thank the Company's shareholders, customers, and stakeholders from contractors, to manufacturers and suppliers, and to the Company's management and employees, asking God Almighty to help us achieve our noble goals to serve our beloved nation.

Saleh bin Hussein Al-Awajji
Chairman of the Board



Chief Executive Officer's Message

The Saudi Electricity Company has started a new phase of its development which aims to compete with international electric utility companies by achieving the best work environment standards, service excellence, safety, reliability and efficiency, adherence to environmental standards, and cost reduction. The Company has successfully achieved accomplishments during 2014 that resulted in the improvement of the performance standards of the Company, which proves that we will, with God's help, achieve our goal of becoming a world-class service provider that is able to compete locally and internationally.

It is my pleasure to present the most significant accomplishments the Company achieved in 2014:

- The application of a five-star occupational health and safety program to reduce risks in the workplace which in turn reduce accidents.
- Succeeded in achieving a job nationalization rate of 87% as a result of applying improvements across the work environment, enhancing human resources programs, and working on attracting talents based on the Strategic Transformation Program. In addition, the Company was able to hire 4,500 fresh graduates from different disciplines to meet its needs and conducted 6,000 training courses in order to achieve the development plans for employees based on the latest methodology for the development of human resources that will qualify us to establish an executive leadership development center in Riyadh.
- Delivered electricity to about 500,000 new customers in 2014.
- For the first time in the history of interconnected and isolated network systems, in 2014, the Company was able to maintain the dependability and reliability of the electric grid despite a maximum peak load reaching 56,547 MW.
- Savings of SAR 670 million from operating and capital expenditures for 2014 by improving work procedures and focusing on business performance efficiency.
- Savings of SAR 316 million by switching from copper cables to aluminum cables.

- Cutting fuel consumption by 12 million barrels as a result of improving the efficiency of the generation units as well as activating economic operation of the electrical system by taking advantage of the interconnected networks throughout the regions.
- Limiting network waste by 0.4%, from 7.35% down to 6.95%, resulting in financial savings amounting to SAR 164 million.
- The Company has presented its assets, in 2014, the largest in its history amounting to SAR 45 billion to meet the increased demand for electricity.
- Developing an electronic system for bill issuance for suppliers and contractors that will lead to the improvement of operation, raising the quality of performance, and savings of SAR 39 million.
- Applying an electronic billing system instead of printing and distributing paper utility bills for bills valued at less than SAR 100 per month. This system has helped save SAR 18 million since its inception in Q4 of 2014.
- The Company has issued local and international bonds in the financial markets as follows:
 1. International bonds amounting to SAR 9,375 million.
 2. Local bonds amounting to SAR 4,500 million.
- Continuing the application of the electric power consumption saving system in all of the Company's service and administration buildings, leading to a decrease in power consumption valued at SAR 4.9 million compared to 2013.
- The Company started applying an ambitious plan to install smart meters with the aim of replacing all meters with smart meters before the start of 2015. Contracts for some 200,000 smart meters were awarded in the first phase. A strategic plan has been developed to replace all of the customers' meters to smart meters before the year 2025.
- The Company has established a unified call center to address inquiries from all over the Kingdom via qualified, well-trained female call agents.
- Launching the new electronic interface to offer services via the internet and mobile phone applications.
- Hiring 200 engineers and technicians specialized in thermal insulation operations in new buildings to meet the thermal insulation standards required prior to delivering services to customers.

As a result of these accomplishments, this year's financial performance results were extremely positive. The Company has been able to maintain high credit ratings conferred by several international agencies. The achievements have strengthened the Company's financial position both locally and globally and provided the necessary cash flow for ongoing projects expenditures.

On behalf of the employees of the Company, it gives me immense pleasure to offer my sincerest gratitude to the chairman and members of the Board of Directors for their active role in directing and supporting the Company's executive management which contributed to these accomplishments.

I would also like to offer my thanks to the Company's stakeholders in the different governmental administrations and the private sector for their support of the Company's programs and plans.

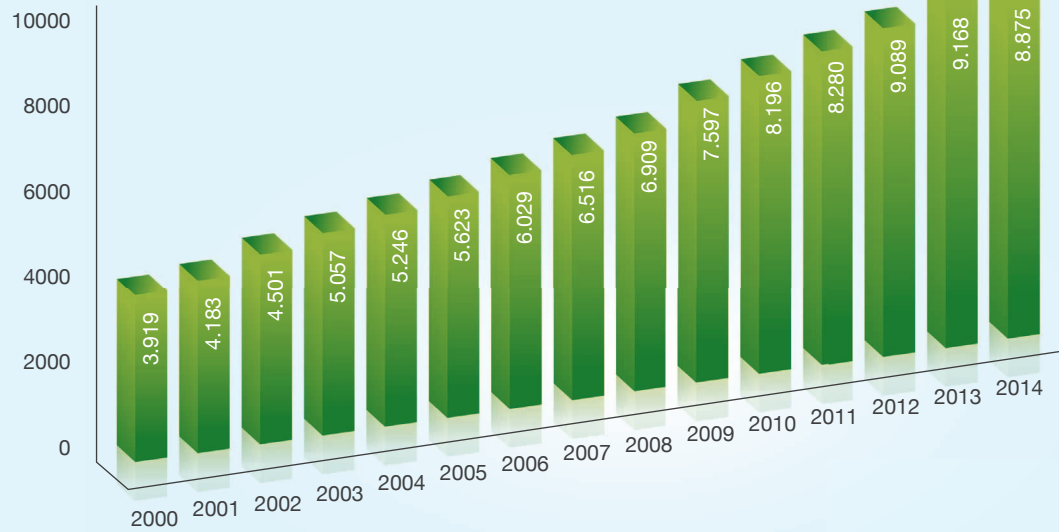
Finally, I would like to say to all the employees of the Company, you are the main reason behind all these successes this Company has achieved this year and in the past. Thus, I offer you my sincere and highest appreciation and gratitude for your dedication, dependability, and commitment in fulfilling your duties with great professionalism and skillfulness. These qualities have contributed to achieving the developments that have taken place in the field of electrical power and have had a positive effect in enhancing the Company's competitive role in the Kingdom.

Ziyad bin Mohammed Alshiha
Chief Executive Officer

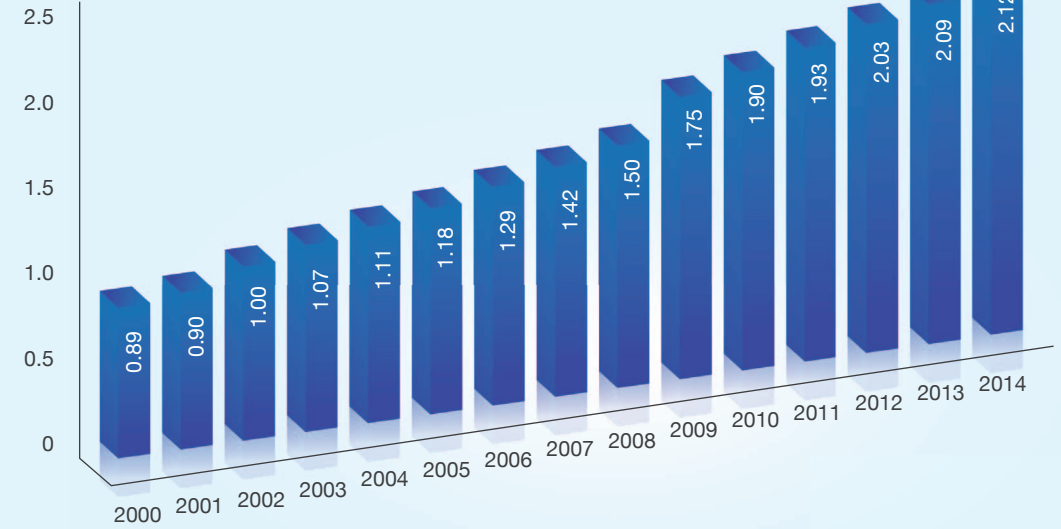


Performance Indicators

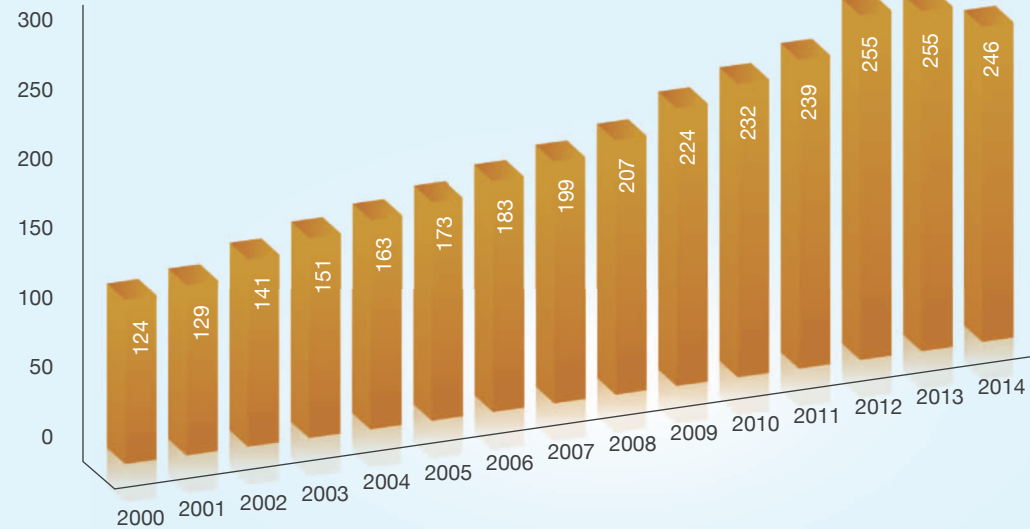
Average worker's share of energy sold (MWH)



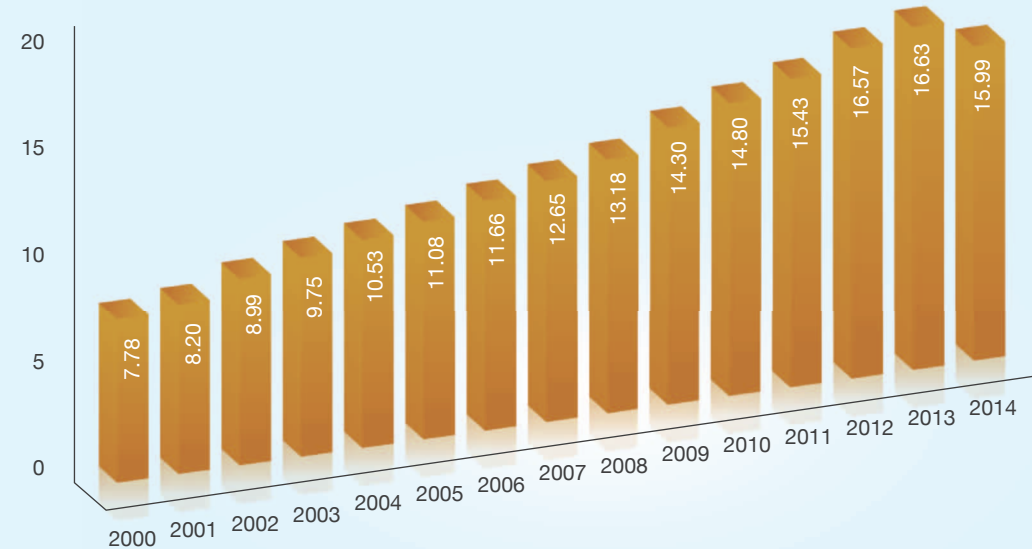
Average worker's share of available generation capacity (MW)



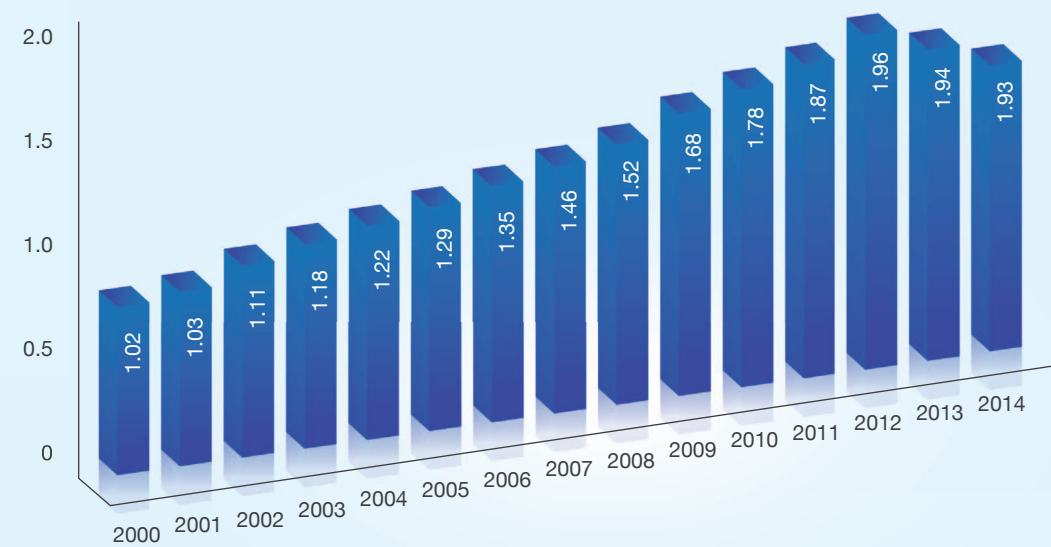
Number of customers per employee



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

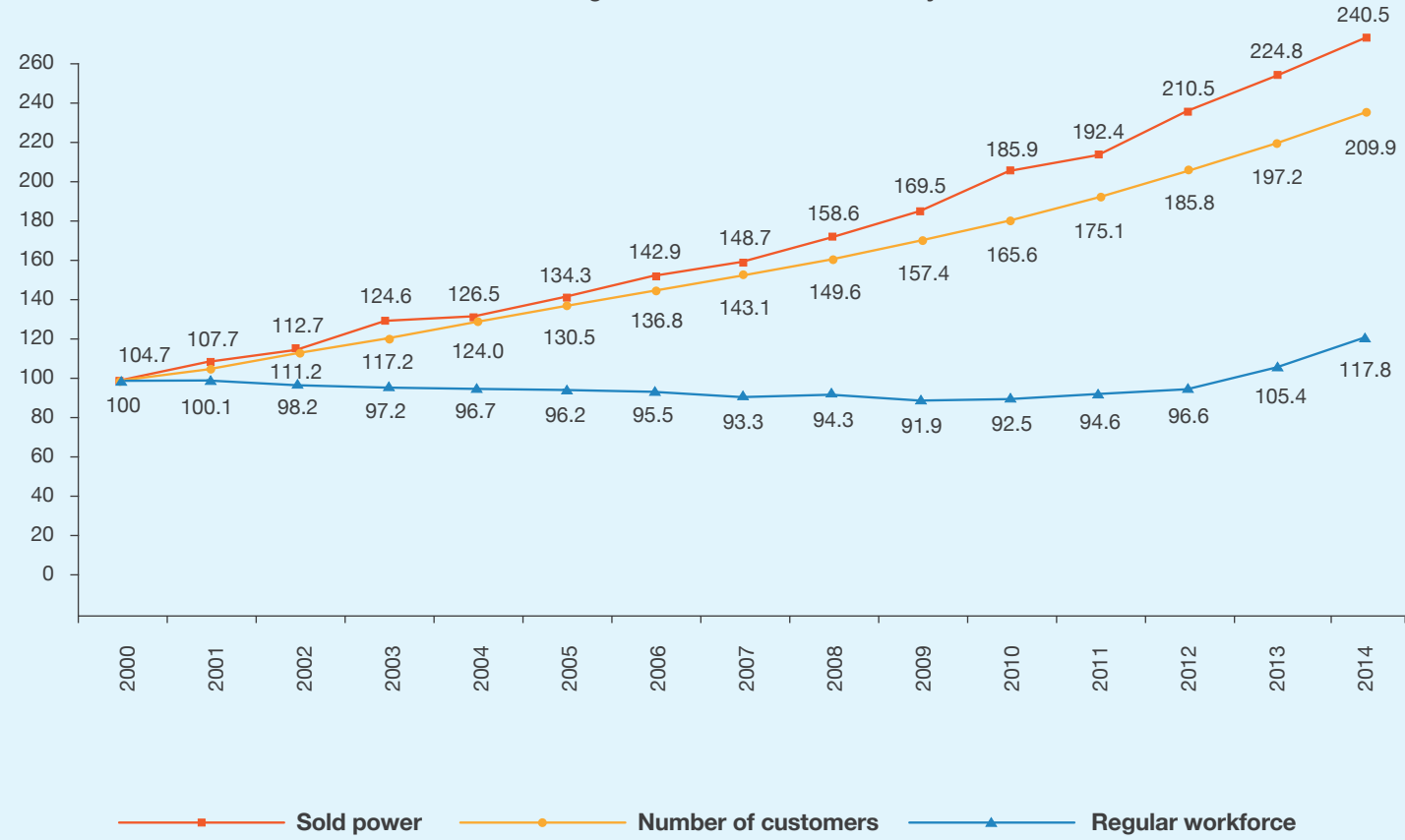


Average worker's share of transmission lines lengths (km-circular)

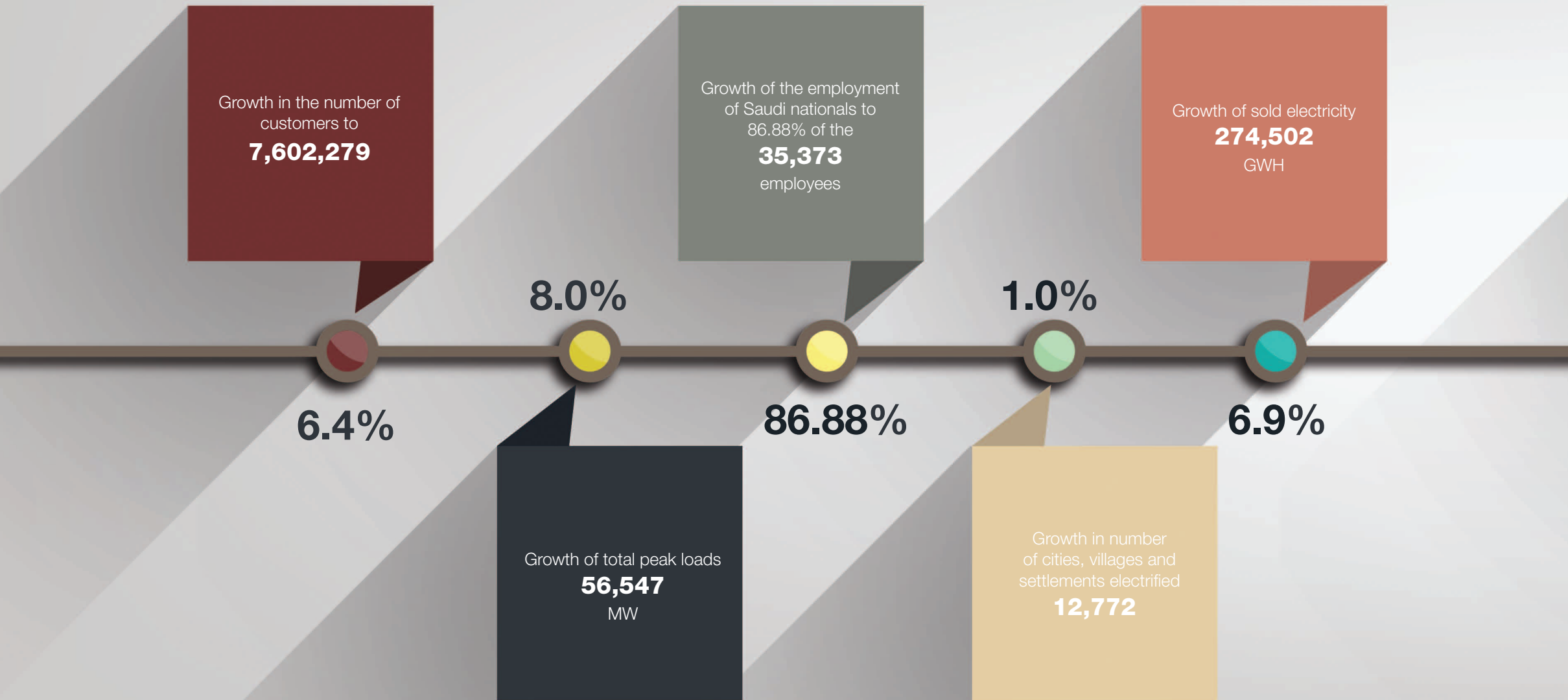


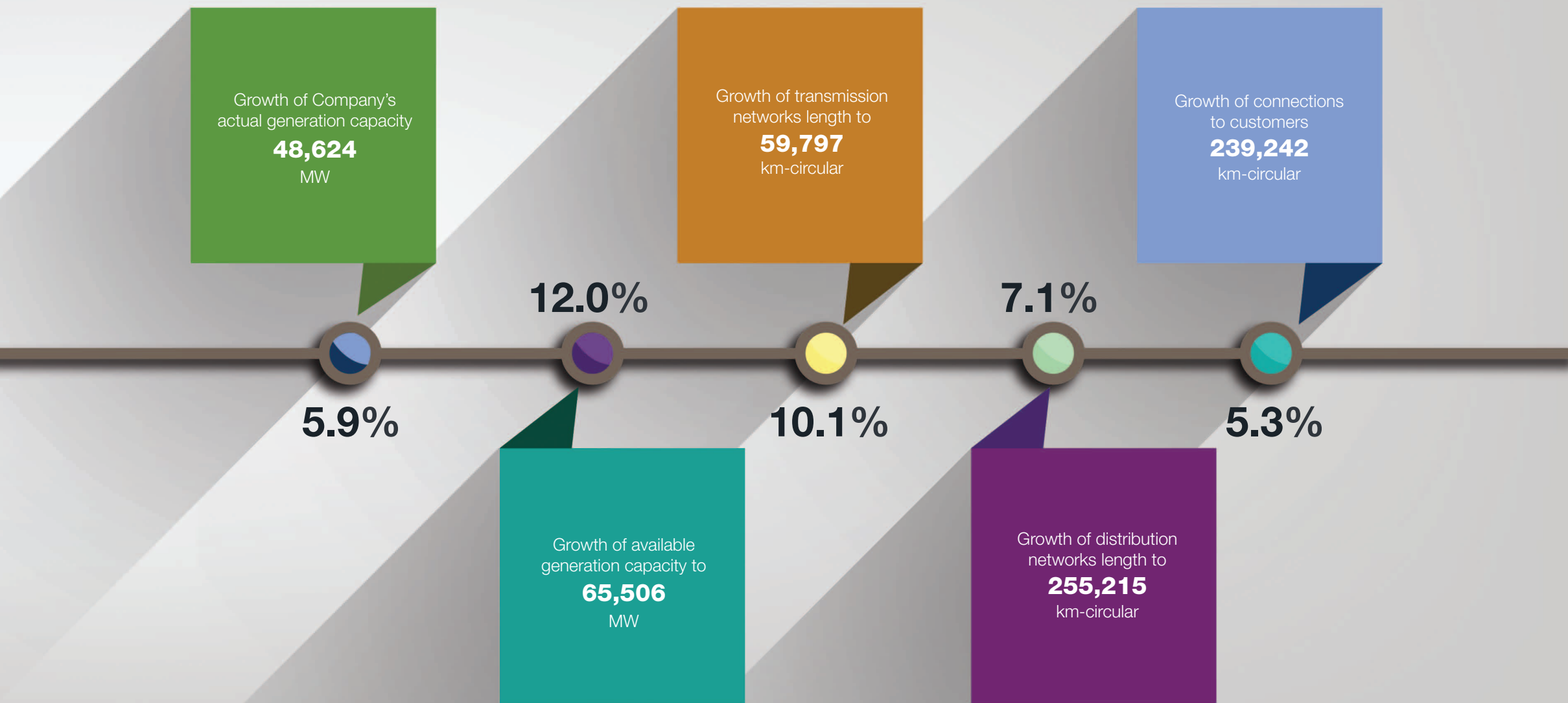
Growth rate

Relative growth indicators for the base year 2000



Leading Indicators 2014 Compared to 2013







5.6631

5.6631

9.334

4.25647

7.2235

Financial Policy

Financial Activity

The Company succeeded in maintaining its credit ratings which were conferred by leading international agencies, 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. The Company's efforts have 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 ratings are considered the highest in the Kingdom, consecutively awarded by Standard & Poor's, Fitch, and Moody's (A1/AA-/AA- respectively). For major projects, the Company has

continued to secure funding agreements and diversified its funding sources, as follows:

1. Loan issuance of local bonds:

The company has issued bonds amounting to SAR 4,500 million maturing after 10 years. These bonds are considered the 4th issue of local bonds and the first to mature in 10 years, that isn't callable.

The bond price has been identified on a rate of 70 points more than the offered rate between the national banks "SAIBOR" three months, the categories of the investors have included a multi-group of Government Institutions, Funds Investments, Insurance Companies, Solidarity Companies, National Companies and Banks.

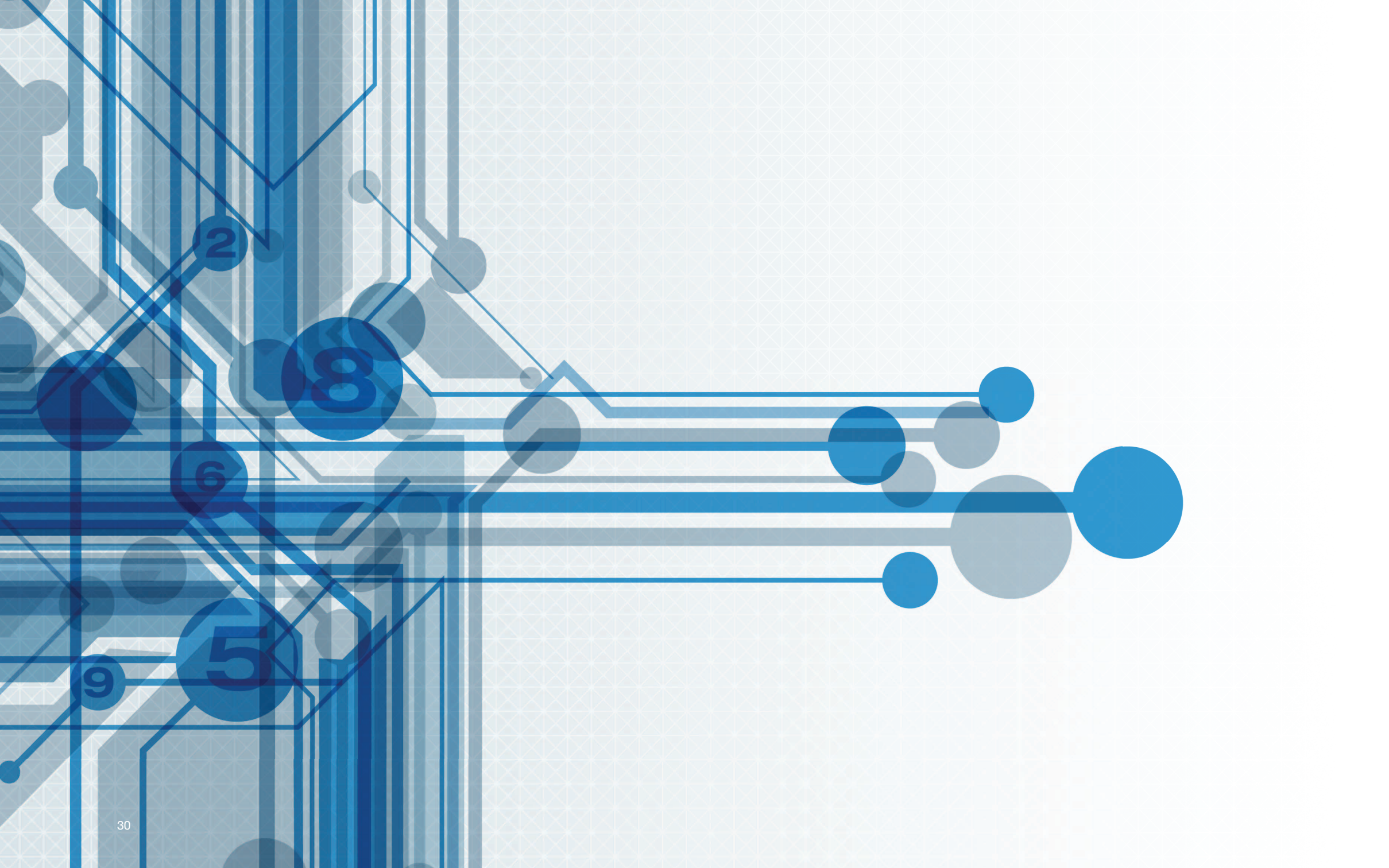
2. Loan issuance of international bonds:

The Company issued bonds valued at \$2,500 million (equivalent to SR 9.375 billion) including two versions of the certificates; the first for \$1,500 million maturing after 10 years and yielding a fixed rate of 4.0%, and the second tranche worth \$1,000 million

maturing after 30 years and yielding a fixed rate of 5.5%. The return will be paid on each of the two tranches every six months starting from 2014. The version has been customized to a group of investors in America, Europe, the Middle East, and Asia.

Financial Separation of Company's activities:

In preparation for the future steps toward the restructuring of the Company's activities, a number of measures relevant to financial segregation have been undertaken i.e. a financial system that is consistent with the transfer of Company's activities to its subsidiaries.



Taking Care of our Shareholders

Taking Care of our Shareholders

The Saudi Electricity Company shows ultimate care for its shareholders, developing and preserving their rights. 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 regulations.

The most prominent achievements and services provided to shareholders in 2014 were:

- Issuing 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 as follows:
 - Report of the Board of Directors for 2014
 - The 5th Non-regular meeting of the general assembly
 - The 13th Meeting of the General Assembly
 - Announcing and disclosing in a timely manner

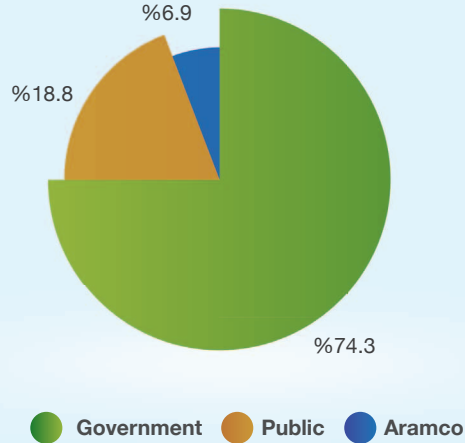
Securing automated systems to keep pace with technological advances and provision of electronic services for shareholders. The use of advanced automated systems consistent with the rules and regulations, the instructions of the Ministry of Trade and Industry, the Capital Market Authority and Saudi Stock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

- Electronic voting in general assemblies
- Application of cumulative voting system in choosing candidates from among the members of the private sector.

Company Capital Distribution:

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 2014



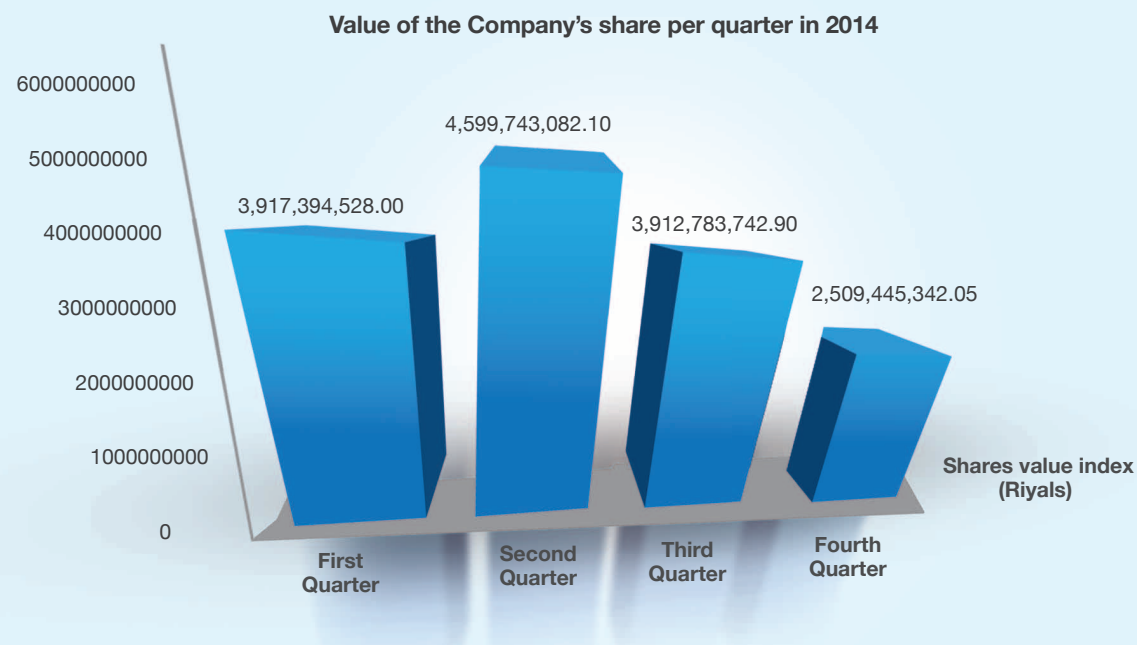
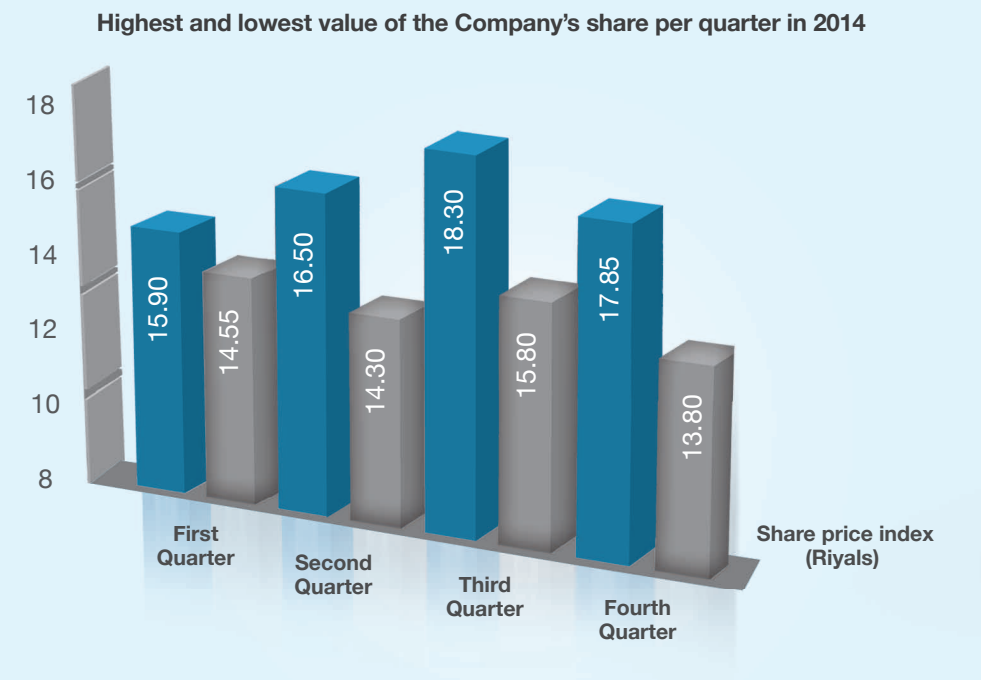
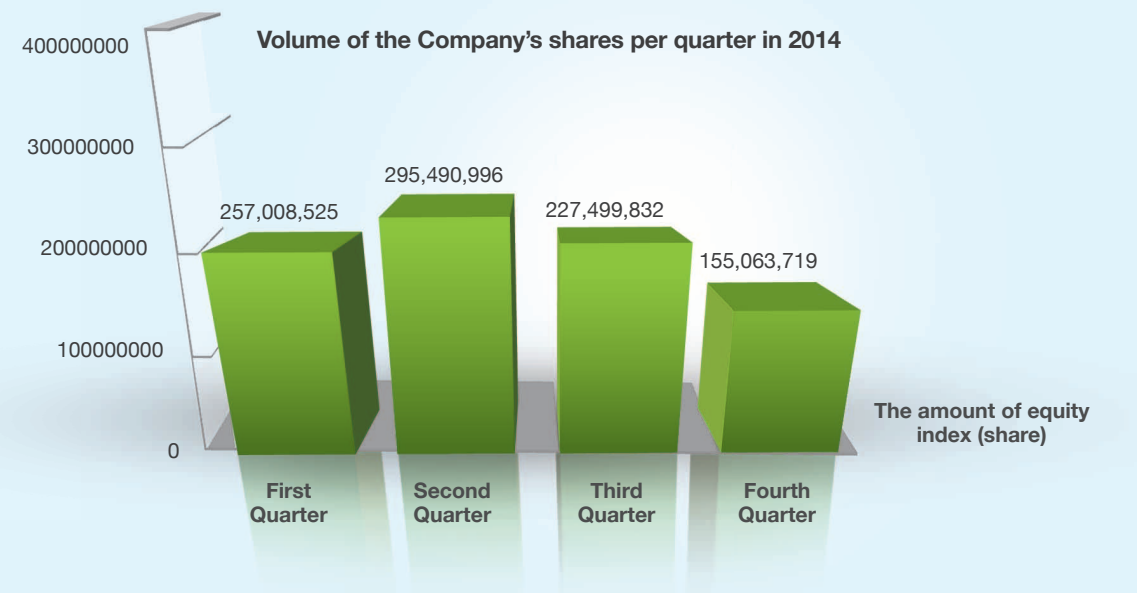
Company's Stock Performance:

At the end of 2014, the general index of the Saudi Stock Exchange (Tadawul) closed at 8,333.30 points, compared to 8,535.60 points at the end of 2013, declining by 202.30 points or 2.37%. The index achieved its highest closing point during the year on September 9th closing at 11,149.36 points.

The Energy and Utilities Sector Index closed at 5,648.32 points compared to 5,358.74 points at the opening of the market beginning of 2014, rising 289.85 points at the rate of 5.40%. The Company shares closed at SAR 14.90 at the end of December compared to SAR 14.55 at the beginning of 2014 with an increase of 2.40%.

It reached its highest value of SR 18.30 per share in 2014 compared to SR 15.30 in 2013. It also reached the lowest value per share SR 13.80 in 2014 compared to SR 12.25 in 2013.

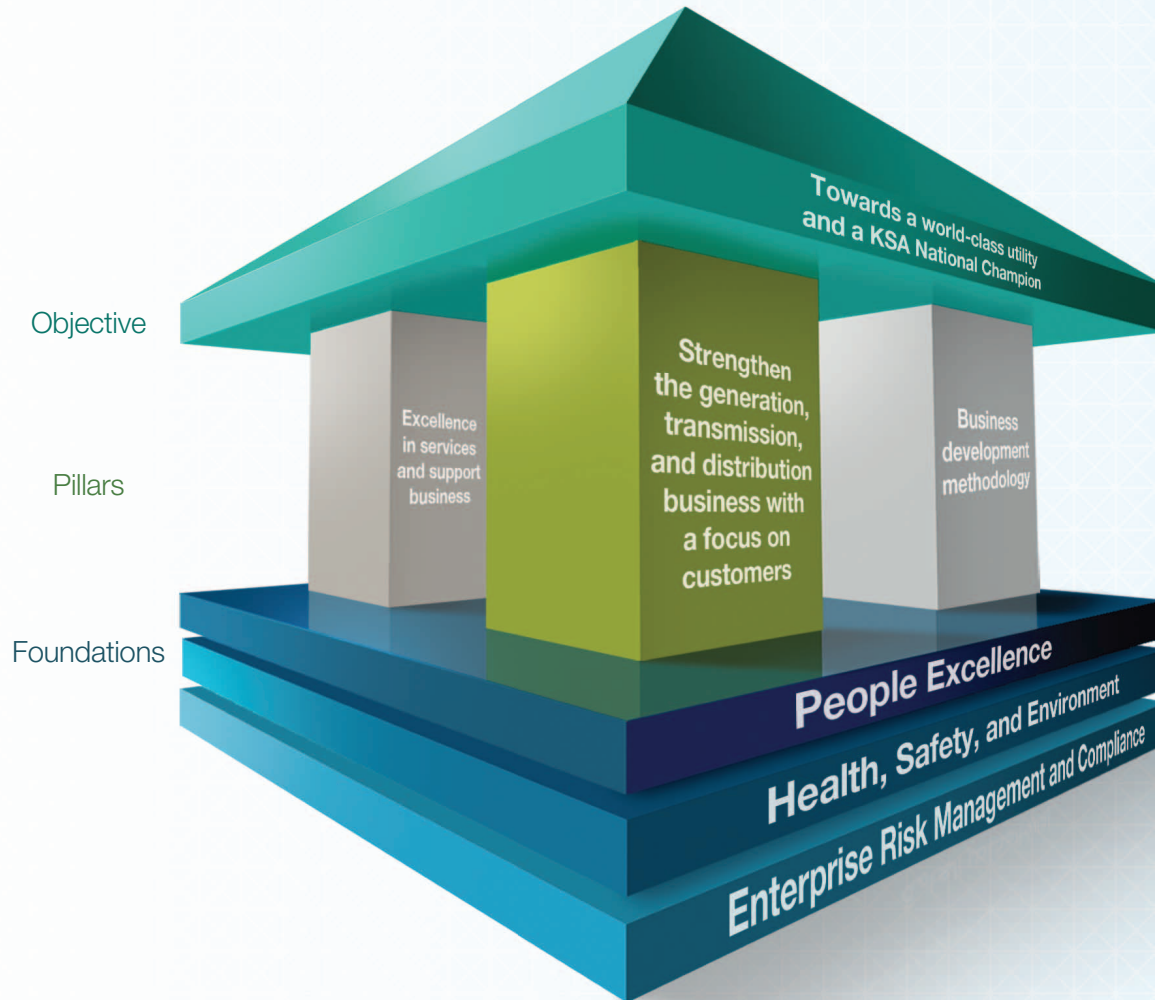
Statement	2013	2014	Percentage (%)
Energy and Utilities Sector Index	5,358.47	5,648.32	5.40%
Number of traded shares	589,419,345	935,063,072	58.64%
Value of shares traded	7,980,964,670.25	14,966,366,695.95	87.52%
Number of transactions	85,843	168,966	96.83%
Highest value per share	15.30	18.30	19.60%
Lowest value per share	12.25	13.80	12.65%
Closing price per share	14.55	14.90	2.40%





Thinking Globally...through

The Accelerated Strategic Transformation Program (ASTP)



The Accelerated Strategic Transformation Program (ASTP)

Strategic building is based on strong foundations and pillars

Looking ahead at the future of the nation's electricity market, including external opportunities and internal performance, the Company has decided to adopt the biggest program in its history: the Accelerated Strategic Transformation Program (ASTP). SEC has begun the process of transformation internally and externally to become a global service place.

A well-established vision of the Company's future has been identified a year after the execution of the program. Additionally, organization and structuring of an entire program for the strategic transformation has been achieved, with teams formed headed by the top leaders in the Company.

More than 1,000 employees have participated in the effort, including international experts and advisers managing the program. All the Company's employees (about 35,373 employees) will be affected by the program and the benefits will be spread to millions throughout KSA over the upcoming years.

Why should we change?

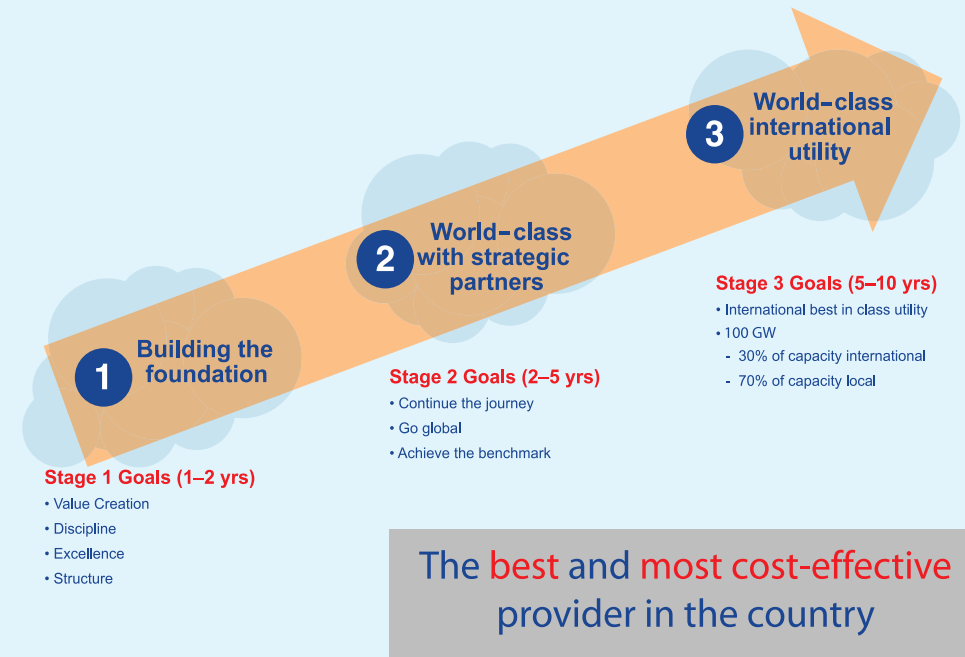
The Kingdom is experiencing a significant economic growth and the Company has succeeded in overcoming the obstacles it has been facing along the way. But today, the challenges are even harder:

- First: The ongoing growth of the Saudi economy means that there will be a continuous challenge in providing power, while the demand for power is expected to grow more than 37% in the next five years. In order to fulfill this demand, huge and immediate financial investments will need to be secured and managed correctly.
- Second: The regulatory environment has become more complicated, leading the Company to work in an integrated system, which includes independent producers and Companies that share in providing power, with a regulated framework under the supervision of the Electricity and Co-generation Regulatory Authority, that aims to formulate new landmarks for the electricity sector in the Kingdom.
- Third: The government has consistently provided the Company with financial support and we need to reduce our dependence on governmental funding as much as possible. Since we have a large amount of funds and wide variety of abilities, we need to lower investment cost and increase production by maintaining the same level of security and quality.
- Fourth: In light of the strong competition to secure the best-qualified employees, it has become a challenge for the Company to attract skilled human resources to continue in the Company.

We are committed to confronting these challenges, which in fact serve as a strong motivator for the Company to achieve its aim of becoming a world-class global service provider capable of competing both locally and internationally.

How are we going to change?

The need for change is evident, and to transform the company into a world-class global service provider requires hard work. This is planned across three main stages:



First Stage:

This involves building the foundations by enhancing performance in all areas, maximizing the added value and fulfilling our job responsibilities.

Second Stage:

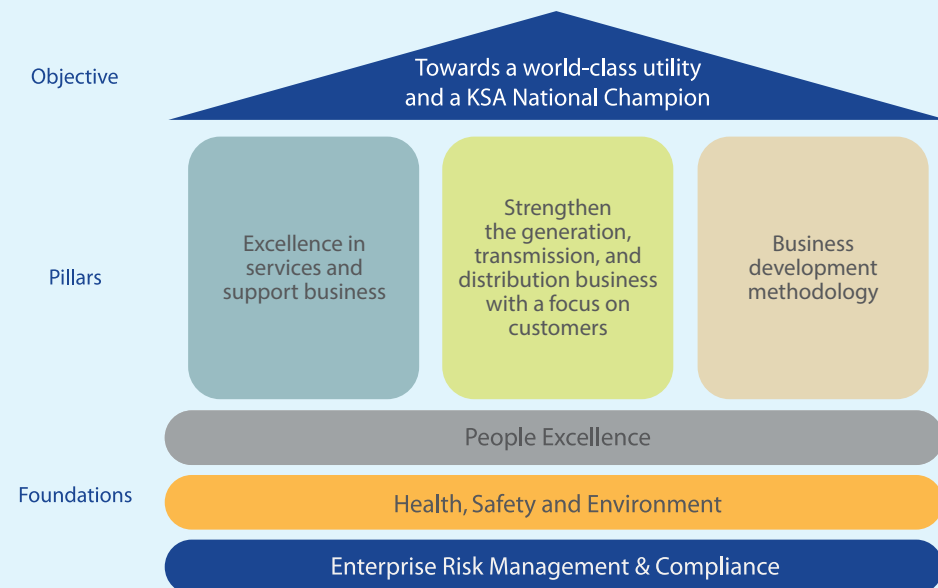
This will see us move into the transformation phase and start to see a global reach through the strategic partners of the Company. Within five years we will become a leading Company in performance and productivity.

Third Stage:

By this stage we will be a global Company of the first degree and will be the best service provider, at a competitive cost, in the Kingdom.

Accelerated Strategic Transformation Program (ASTP)

The Accelerated Strategic Transformation Program (ASTP) is the mechanism through which the Company will build the foundations of its future growth and accomplish its lifelong goal of globalization. The ASTP has six main foundations:



Business Development Methodology:

New features for the electricity sector in the Kingdom will be formulated to accomplish the highest revenues for the Company and the Kingdom while abiding by the requirements of the Electricity and Co-generation Regulatory Authority and getting rid of bureaucratic obstacles.

Strengthening the Generation, Transmission, and Distribution Business by Focusing on Customers:

The Company is looking forward to increasing the efficiency and effectiveness of its main tasks of dealing with the generation, transmission, and distribution business, and to achieve maximum benefit from its capital projects by providing the best services to our customers.

Excellence in Services and Support Business:

Looking forward to achieving a distinctive supporting business, which counts as the main pillar for moving the Company forward by specializing in shared services, supply chain, and information technology. A new strategy will also be established for the research and development to build a brand respected by everyone.

People Excellence:

Human resources are still the main pillar for excellence, and the Company is building itself as the most desirable workplace in the business, attracting and maintaining the best talents and leadership cadres.

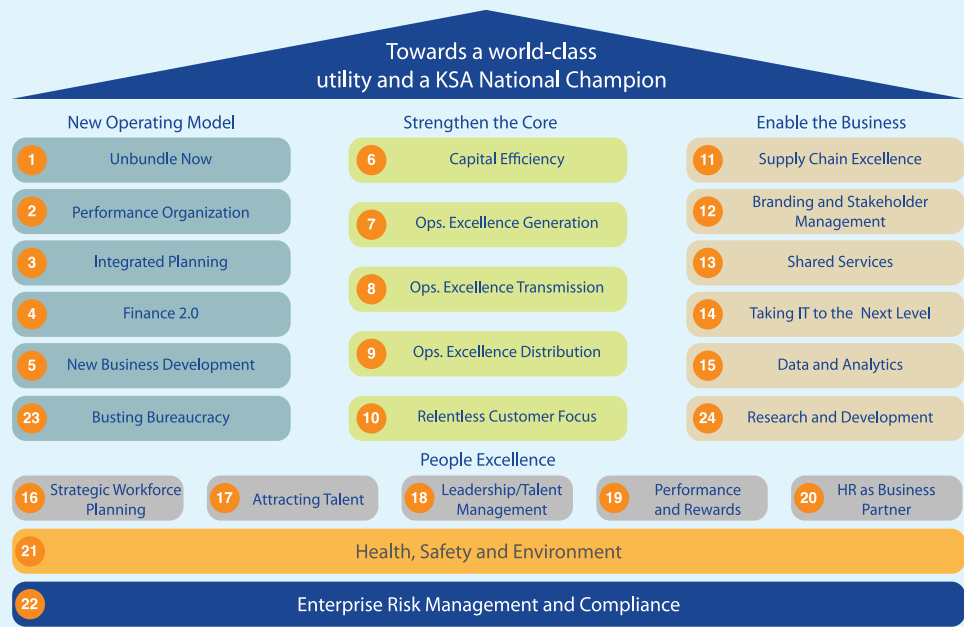
Health, Safety, and Environment:

We care about the health and safety of our employees and business partners and to achieve environmental leadership in the Kingdom.

Enterprise Risk Management Compliance:

We look forward to limiting the risks that the Company is facing by identifying them first and then employing the correct mechanisms to systematically eliminate them while conforming to the ideals and the general rules of conduct.

The program consists of 24 strategic initiative:



In order to regulate the transformation process and control its path, the ASTP team supports initiatives aligning with the program’s main goal. The team also supports in eliminating challenges as well as estimating effects according to performance standards.

In March 2014, the ASTP completed the establishment and structure formatting of all programs and initiatives in addition to the teams that would lead those programs. Between April and July 2014, the ASTP has stated its initiatives’ plans and programs.

At the start of August 2014, the ASTP came into force, the initiatives were launched, and we have started accomplishing achievements. The execution stage was started officially on 23/12/14.

We are confident that the ASTP will reduce expenses greatly to SAR 10 billion by the end of 2019. In the same context, there are notable achievements that have been made during 2014:

- Stating the new organizational body for the SEC for the 1st and 2nd levels.
- Decreasing operational expenses by SAR 270 million in 2014 and we are targeting to save SAR 780 million in 2015.
- Saving more than SAR 400 million from capital expenses out of the Wa’ad and Duba project contracts.

- Saving SAR 344 million by switching from medium-voltage copper cables to aluminum ones.
- Gaining SAR 630 million profits as a result of the efforts that the Profit Loss Committee has invested in improving 170,000 meters.
- Saving SAR 100 million from canceling printing and distributing bills for bills valued at less than SAR 100 per month. This has saved SEC SAR 20 million by the end of 2014.
- Establishing and operating Customer Service Centers operated by female staff that offer services from 7am to 11pm.
- Implementing a new fully electronic billing system.
- Presenting a new incentives and rewards system that matches the employees’ personal performance standards and a compensation system that will be applied in 2015.

Next Steps:

The progress has started since 2014 aiming to achieve change and transformation, and here we have been able to reach the execution stage. In 2015, we expect changes in the company's structure, better quality, and an increase in performance as a result of the application of the initiatives of the ASTP.

Workshops attended by the Chief Executive Officer, vice presidents, and sector heads to discuss and follow up on the ASTP





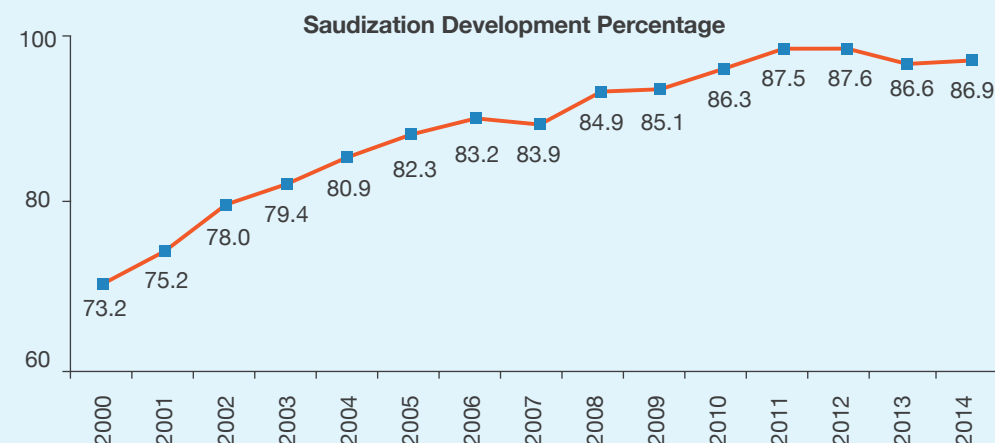
Human Resources



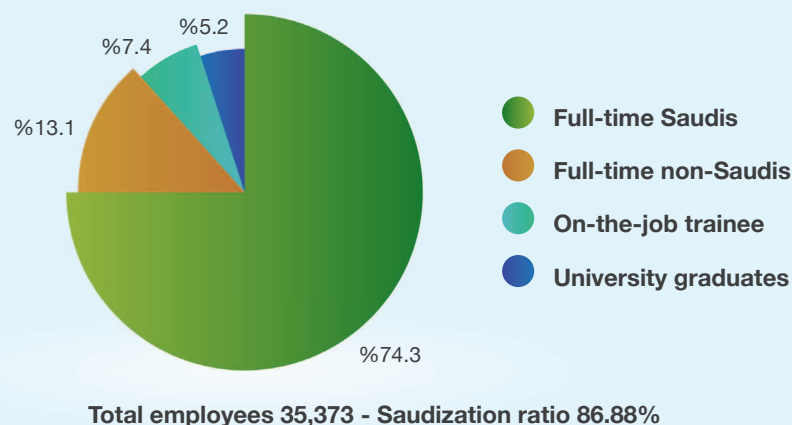
First: Job Nationalization Efforts

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 2014 to 86.88% of the total workforce's 35,373 employees. In recognition of its outstanding efforts in the field of attracting, recruiting, and training Saudis, the Company received several awards, prizes, and certificates of appreciation for its prominent role in this area.



Classification of human resources at the end 2014



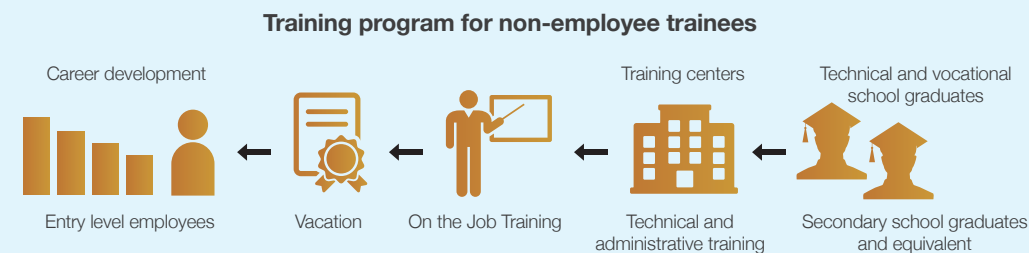
Second: Training and Development Programs

1. Training and Qualification Program for Non-Employee Trainees (Gradual):

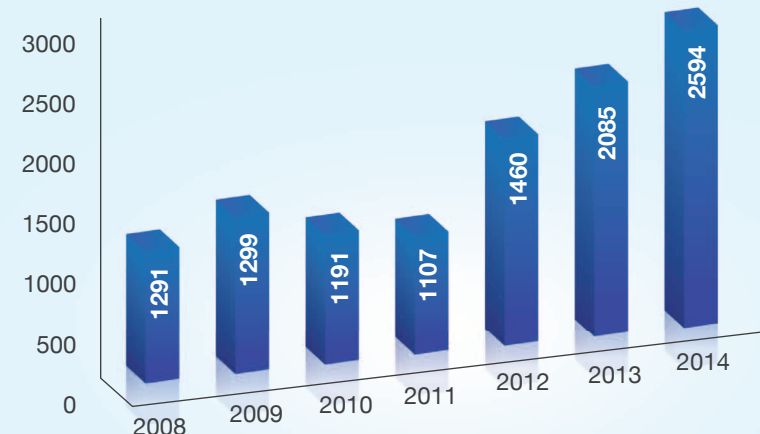
This is a long-term training program (duration of 6 to 30 months depending on qualification and specialization requirements) provided by the institutes to non-employee trainees from science and vocational schools, and technical and industrial colleges. The institutes provide various categories of technicians who received training in over 20 fields of specialization. The program welcomed 3,059 participants in the Company's training institutes this year and also in training institutes outside the Company for them to receive training in various disciplines needed in the Company's activities. A total of 1,796 graduates completed the program and became employees in 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 2014, 1,796 graduates of the training institutes were employed and enrolled in the On-the-Job Training Program. The total number of On-the-Job trainees reached 2,594 by the end of the year.



Participants in the On-the-Job Training Program from 2008 till the end of 2014



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 handover 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 he is assigned to, 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 2014, 1,015 university graduates were employed and joined the professional development program, so that the total number of participants by the end of the year reached 1,850 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 generation, transmission, and distribution of electric power, as well as in 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 self-sufficiency of expertise in highly skilled disciplines and considers it as a substitute for attracting experts or consultants in those disciplines.

The number of participants in this program has reached 144 in 2014, and new participants are added 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 also those who are candidates for leading positions (department head and higher); 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 2014, the number of participants in this program was 237. 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 English language program 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 developmental programs which aims to prepare promising leaders in general and to achieve sustainable development in human resources 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 2014, the number of participants in this program was 36; additional attendees are registered annually.

8. Short Development Courses:

The Company held a number of courses to develop employee skills. In 2014, 61,551 participated in these courses.

Interactive Development Training Programs:

A) 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 301 employees at the end of 2014.

B) 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 2014, the number of interactions was 1,965, of which 768 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 16th meeting of the Total Quality Management Convention under the sponsorship of the Prince of Mecca, under the slogan "Towards Organizational Excellence." A total of 11 work papers have been presented in coordination with multinational companies and international commentators. The event has been attended by more than 814. As well, the SEC has organized the "Oasis of Creativity" exhibition that included presenting unique 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 2,283, of which 206 were in 2014.

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 2014 was 2,573, thereby bringing the total number of proposals to 10,566 of which 4,680 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 for implementing the proposals. Since its launching, 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 2,260 out of a total of 16,335 employees while the number of recipients in the Employee of the Year was 541 out of a total of 4,694 employees. Four events were held for quality and excellence in the areas of business which were attended by more than 1,595 employees out of which 1,969 were honored.

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 launching until the end of 2014 is 4,136 for an aggregate amount of SAR 260,520,744 (two hundred sixty million five hundred twenty thousand and seven hundred forty-four 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; the employee has the right to determine the amount deducted from his monthly savings on condition it does not to exceed 10% of his basic salary at the time of joining the plan. The number of participants in the system by the end of 2014 reached a total of 10,816 employees with total subscriptions of SAR 361,865,446 (three hundred sixty-one million, eight hundred sixty-five thousand, and four hundred forty-six riyals). The total contributions spent by the Company reached SAR 33,159,459 (thirty-three million, one hundred fifty-nine thousand, and four hundred fifty-nine 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 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: 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 were announced to give attendees an opportunity to join the workforce in six positions in a variety of fields.
- Contributing in the success of the cooperative training program for college students 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 2014 was 897 students, 362 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 479 students in 2014.

In conclusion, the SEC believes in the importance of continuing development and changing processes by reviewing and evaluating performances to get them into agreement with recent developments to achieve its vital objectives and the goal of providing high-quality and reliable services to all customers. The Company is certain that this can only be achieved through the participation of professional and advanced human resources. The Company also considers that everything stems from its commitment towards our homeland and its people.



Electric Power Generation

Introduction

The generation activity performs a variety of tasks in the field of power generation which include maintaining and operating power plants, strengthening their power generating capacity and establishing new power stations to meet the growing demand for electricity. Based on these tasks, the Company continued its efforts to cope with the rapid growth in electrical loads, providing its customers with high-quality and reliable electric power services in addition to setting in motion a strategy based on the remarkable changes in the electrical industry.

The efforts made by the Company have resulted in total produced energy of 214,589 GWH in 2014 vs. 198,900 GWH produced during 2013, recording an increase of 8%, in which the total actual capacity was 48,624 MW in 2014 vs. 45,908 MW in 2013, an increase of 6%.

During this year, the Company has completed several projects to enhance the electrical system which resulted in a significant increase in the actual generation capacity, as follows:

Added 3 steam generation units with a total capacity of 2,100 MW in Rabigh Power Plant (Western Sector).

Added 2 steam generation units with a total capacity of 520 MW in Qurayyah Power Plant (Eastern Sector).

Added 2 gas generation units with a total capacity of 128 MW in Sharourah Power Plant (Southern Sector).

Technical Performance Indicators on the Activity Level

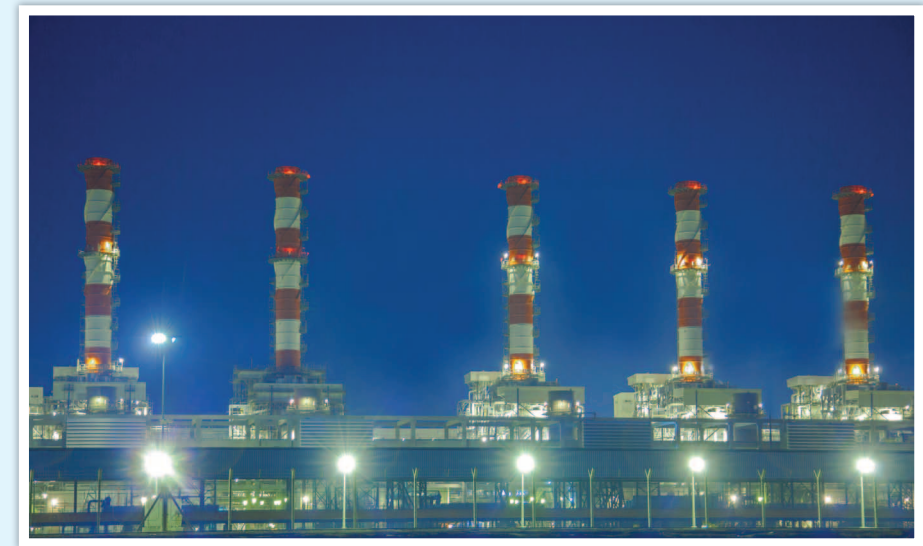
The Company has succeeded in meeting the electrical load of the peak time in 2014, accommodating the growing demand for power, and making up for any shortfall in other production resources. The actual volume of generated electricity has exceeded the planned production volume for 2014 by 9.1%. The data for the generation stations thermal efficiency has shown improvement in all the generation techniques which resulted in the improvement of the thermal efficiency production on the company's level by 1% in 2014 compared to 2013; this has saved the equivalent of 12.1 million barrels of crude oil. The availability of coefficient weighted equivalent has recorded 89.1%, and the coefficient rate on Weighted Equivalent Forced Outage Factor was 2.5 % (WEFOF).

Initiatives of the Generation Activity during 2014:

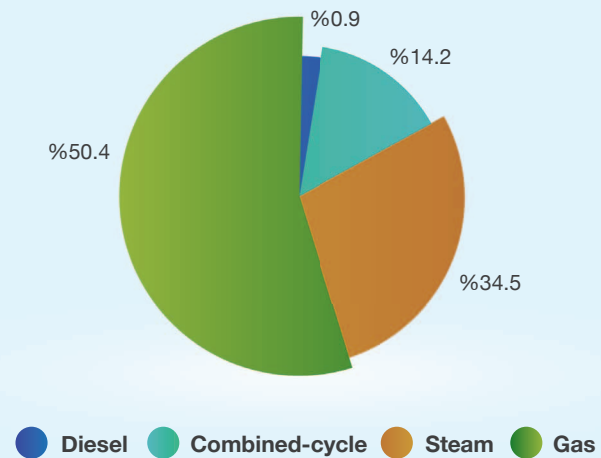
- Contracting with three of the original manufacturers of the generating units to train 500 employees in the areas of engineering, operation, and maintenance.
- Contracting with international generating companies to qualify station managers to run generating stations.
- Authorizing comprehensive practicing programs for engineers, operators, and technicians for future projects including The Green Deba Project and The North Waad Project.
- On September 2014 the activity began implementing the operational excellence initiative in five of the main generation stations, which represents 56% of the capacity of the fleet that resulted in efficiency improvement.
- Developing an implementation plan for maintaining and operating the fuel pipelines for the

Company's stations, in addition to an emergency plan to counter fuel leakage. For the first time, mock plans have been implemented in three sectors.

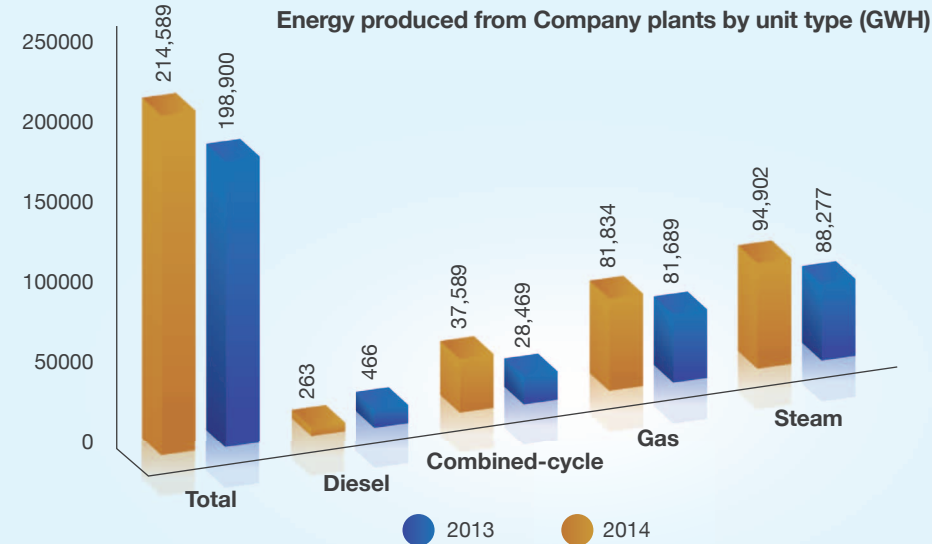
- Forming 24 teams specialized in maintaining gas units and working in shifts across stations throughout the Kingdom, which has resulted in dispensing with the hiring costs of outside contractors.



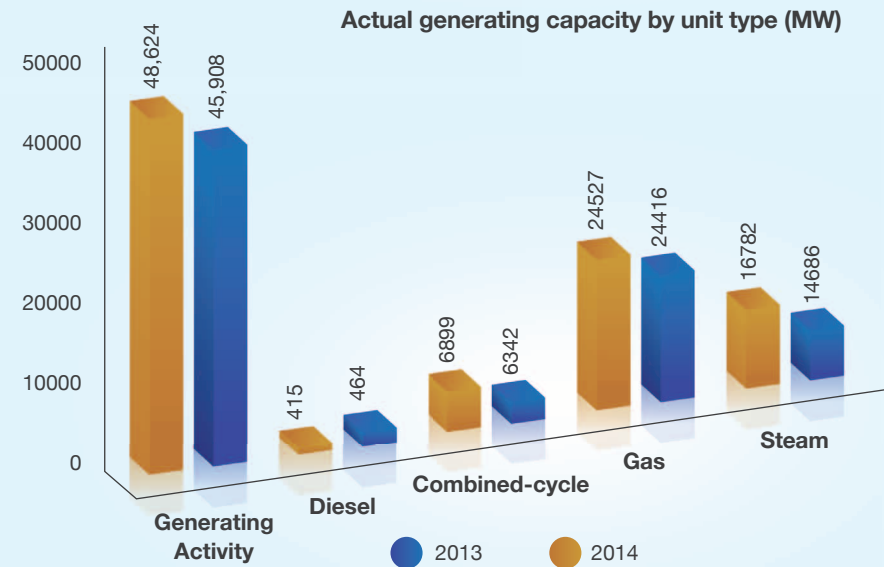
Relative distribution of the capacity of the Company's generating units in 2014



Energy produced from Company plants by unit type (GWH)



Actual generating capacity by unit type (MW)







نقل الكهرباء

National Grid SA

National Company for Transmitting Electricity:

A Company fully owned by the Saudi Electricity Company. It has started its work on 01/01/2012 with an organizational structure that includes six main activities: operations and control, maintenance, planning, engineering, projects, and technical services, in addition to two central departments.

The company is responsible for running the electrical system, transmitting electrical power from its production sites to consumption centers, studying the expectation loads, and developing plans to enhance the electrical system to meet the demand for electricity, in addition to communicating with major customers and determining their needs and the way to supply them with electricity. The company is also cooperating with independent producers to sign purchase and energy exchange agreements, and represents the Company as a prime buyer to independent producers.

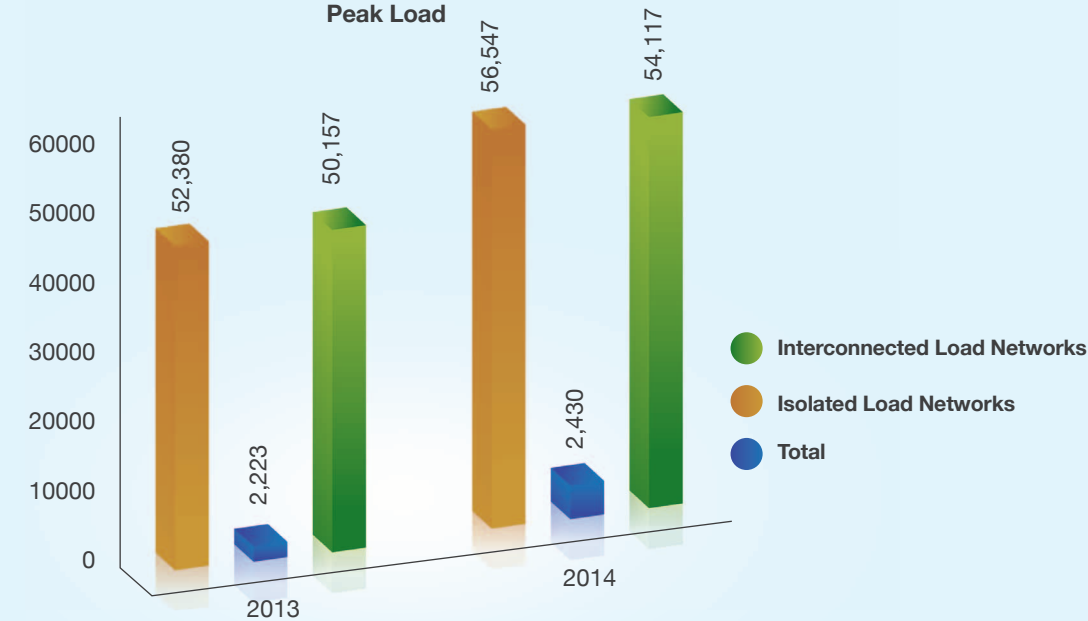
The plans and objectives of the company are dedicated to the promotion of electricity supply, reducing costs, and moving ahead with the completion of the national electric network. Based on these plans, the company has accomplished, through 2014, several new projects in addition to enhancing ongoing projects aimed at improving and developing the transmission networks and increasing their efficiency. Below is a review of the most significant achievements of the National Grid SA:

- Adding overhead networks and ground cables to the existing networks measuring about 3,650 km-circular; representing 6.7% of the existing networks by the end of 2014.
- Constructing 57 new transmission substations boosted with 179 transformers having a total capacity of 22,637 MVA.
- Enhancing 14 substations with 37 transformers with a capacity of 8,595 MVA and replacing 6 transformers with a net capacity of 308 MVA by adding 3,465 categorical network.

The Best of our Work:

The National Grid SA works continuously to improve and develop the transmission networks 110/380 KV in all sectors of the Saudi Electricity Company (Central, Eastern, Western, Southern sectors). 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 the pilgrims. This is achieved by advanced maintenance planning and forecasting workloads in addition to processing and fully preparing for any emergency well in advance.

The total peak load of the Kingdom during 2014 reached 56,547 MW with a growth of 7.9% over 2013's peak of 52,380 MW.



In 2014, we launched a number of new projects, enhanced existing projects to improve and develop energy transmission networks and raise operational efficiency. Among the most prominent of these are:

Ultra High Voltage Projects 230/380 KV

- Adding 12 transmission substations and electric breakers with 34 transformers having a total capacity of 1,322 MVA.
- Adding new overhead and underground cable networks measuring about 2,641 km-circular.
- Enhancing transmission substation efficiency with 14 transformers having a total capacity of 6,876 MVA.
- Replacing transformers with total capacity of 100 MVA.

High Voltage Projects 110/132 KV

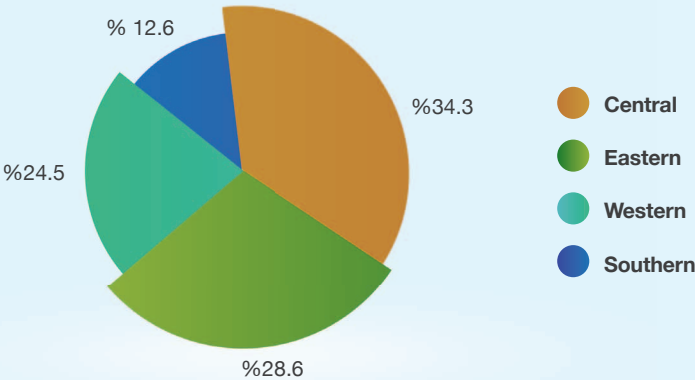
- Adding 45 new transmission substations and 145 transformers having a total capacity of 9,515 MVA.
- Adding new overhead and underground cable networks measuring about 1,026 km-circular.
- Enhancing existing transmission substations with 23 transformers having a total capacity of 1,719 MVA.
- Replacement of 6 transformers having a total capacity of 308 MVA.

Pre-planning maintenance and load prediction have been put into consideration with all the preparation for emergencies to be done as quickly as possible and overcome all the obstacles that might hinder the implementation.

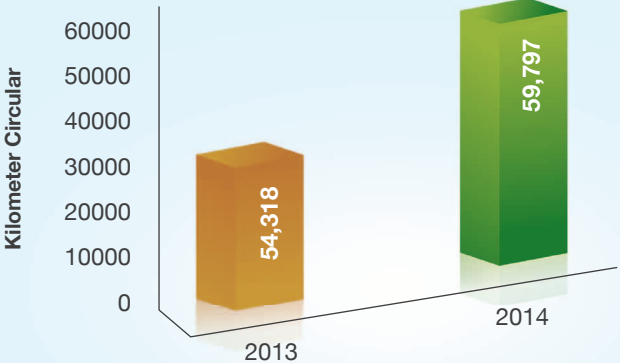
These projects reflect the growth in the power transmission grids by 10.1% reaching a total length of 59,797 km-circular by the end of 2014 compared to 2013.

The network spreads across all sectors of the Company and the Kingdom where the relative distribution of power transmission networks comprises length ratios of 34.3%, 28.6%, 24.5%, 12.6% for the Central, Eastern, Western, and Southern sectors respectively.

Relative Distribution of the Lengths of the Transmission Networks (110/380 KV) in 2014

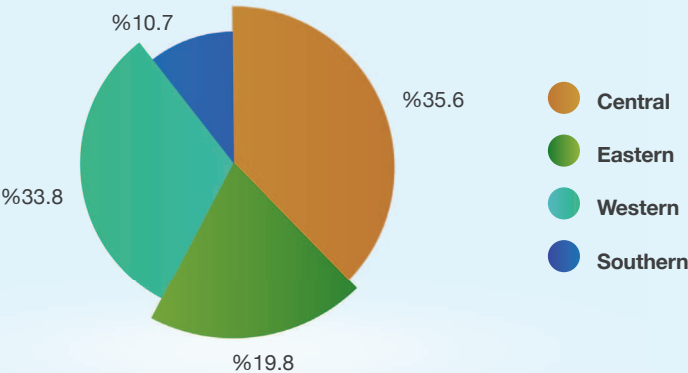


Transmission Network Lengths (110/380 KV)

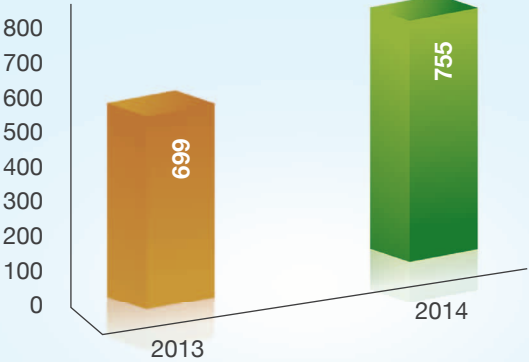


The electricity networks have also been improved to include 57 transmission substations and new electrical breakers, bringing the total number of substations by the end of 2014 to 755. The increase in 2013 was 8.0%, and this growth has boosted the relative distribution of power transmission substations in the Central, Eastern, Western, and Southern sectors up to 35.6%, 19.8%, 33.8%, and 10.7% respectively.

Relative Distribution of the Number of Power Transmission Substations in 2014



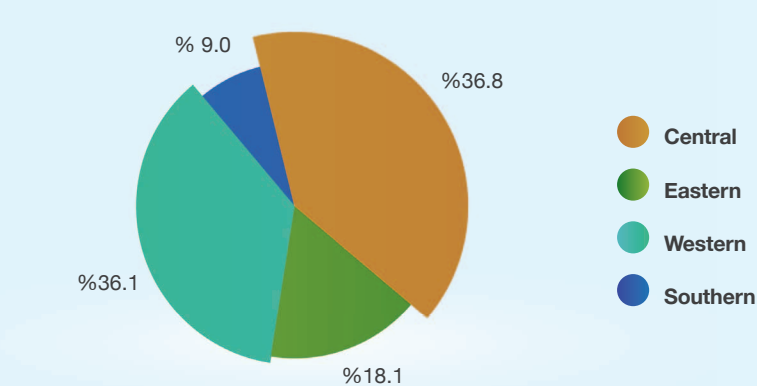
Number of Power Transmission Substations



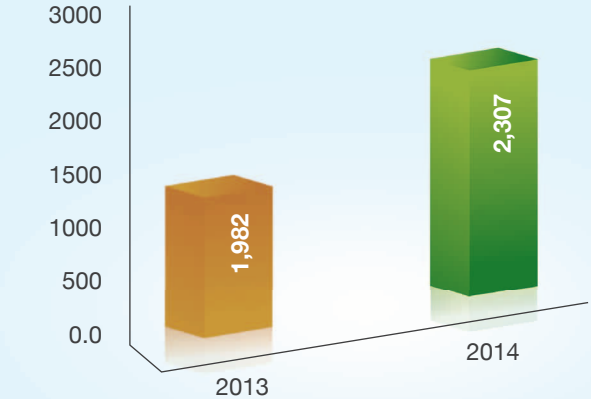
The growth percentage in the number of transformers reached 16.4% in 2014, bringing the number of transformers to 2,307 compared to 1,982 transformers in 2013. The increased capacity transformers transfer energy to 230,908 MVA, with a growth rate of 13.7% for 2014 compared to 2013's 203,006 MVA.

This growth has boosted, by the end of 2014, the relative distribution of transmission substations in the Central, Eastern, Western, and Southern sectors up to 36.8%, 18.1%, 36.1%, and 9% respectively, while the relative distribution of transmission substation capacity in the Central, Eastern, Western, and Southern sectors jumped to 35.2%, 26%, 29.8%, and 9% respectively.

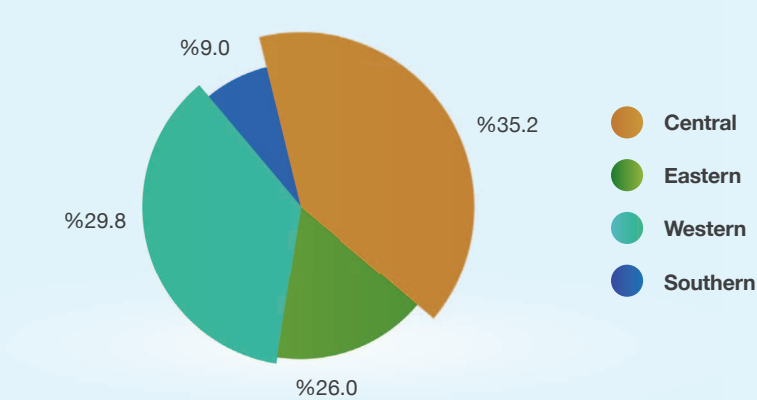
Relative Distribution of the Number of Power Transmission Transformers in 2014



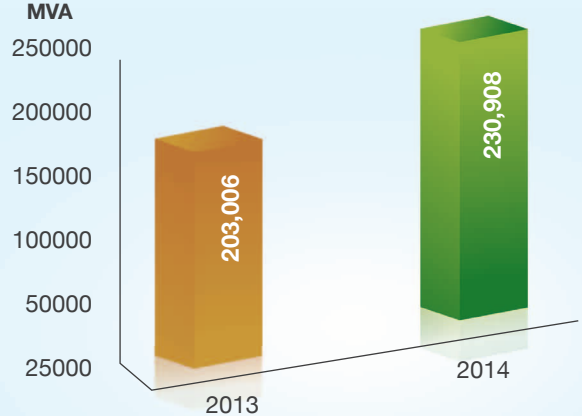
Number of Power Transmission Substation Transformers



Relative Distribution of Power Transmission Transformer Capacities in 2014



Total Capacity of Power Transmission Substation Transformers

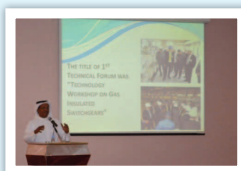


The most important work of the National Grid SA during 2014:

- Signing a memorandum of agreement with the American Schweitzer Engineering Laboratories to construct a specialized factory for protection systems and substation systems; in addition to a center for excellence providing maintenance and technical support, operation, and management of the Kingdom's projects.



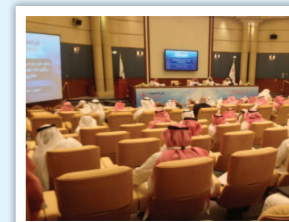
- Holding the second technical forum with Simons titled: "Communication, Operation and Control Systems" on 13/04/2014 for a duration of three days to enhance the partnership and alliance with the main manufacturers and suppliers (Build Partnership and Alliance).



- Signing of a memorandum of agreement on 23/04/2014 between the National Grid SA and Schneider Electric at Schneider Electric's headquarters in Paris following the Smart Network Conference organized by Schneider Electric.



- The National Grid SA held its first meeting on 17-18 September 2014 under the slogan "Electricity Transmission, Cognitive Enrichment, and Development Cooperation." The meeting achieved its aim of spreading the culture of creativity and innovation, consolidating its name as a head supporter of business and leading initiatives for its employees, and presenting success stories. The meeting also highlighted the company's efforts in supporting the strategic plans to achieve its objectives and concluded with different activities varying from proposals for strategic projects and proposals for success stories that were achieved and accomplished by the Company's employees over the years. Moreover, an accompanying exhibition was held where many of the devices used in the electric transmission network were exhibited. The forum was sponsored and attended by the CEO of Saudi Electricity Company Engineer Ziyad Alshiha.



- Signing of 6 agreements to develop the communication network at a total value of SAR 73,693,758.
- Forming a specialized information security team consisting of representatives from all of company's activities headed by Engineer Abdul Aziz Sultan, director of the Communication Engineering Department for all stations. The team held 30 meetings and workshops with international specialized companies that presented 3 reports which were offered to the executive department to improve the project. The team kick-started the implementation of the cooperation program between the company and Aramco company, upon which three working ranges were prepared for the information security system; four workshops were completed to raise awareness about the importance of information security.
- Presenting four scientific papers:

Paper presenter	Name and place of the conference	Title of the paper
Eng. Ali Mohammed	OMAINTEC 2014 UAE	The use of Ester fluids in power transformer for increased fire safety and reduced life cycle costs.
Eng. Saleh Bamseq	IEEE-Energy Con 2014-Croatia	Tuning of fractional order PID controller of series compensation TCSC For power oscillation damping.
Eng. Abdul Aziz Sultan	2nd Annual Digital Grids and Smart Cities Summit - Riyadh	Protecting the power grid in the digital era The digital power grid.

- Signing a consulting service agreement to develop the communication network with the alliance of Al Jazirah consultancy/CISCO valued at SAR 1,961,186.
- Signing a consulting service agreement to choose the design and preparation for the required scope of work between the National Grid SA and the American LCC Company on 08/05/2014 valued at SAR 5,413,479.

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 conduct periodic maintenance on 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 a 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 subsites to increase the quality of data transfer between the Company's various systems and control centers.

In the framework of the continuous improvement program for relatively small operations, which is placed within the scope of management departments, a team of 34 members has been formed to research improvement on the level of the National Grid SA. The number of participants in these studies has reached 237 while a total of 108 suggestions have been presented by the employees regarding the electronic creative program and staff excellence. In addition, 327 employees were nominated for employee of the month award and 79 employees for the employee of the year award.

Human Resources Development

The National Grid SA continues to work on the 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 SEC. The Company has 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.

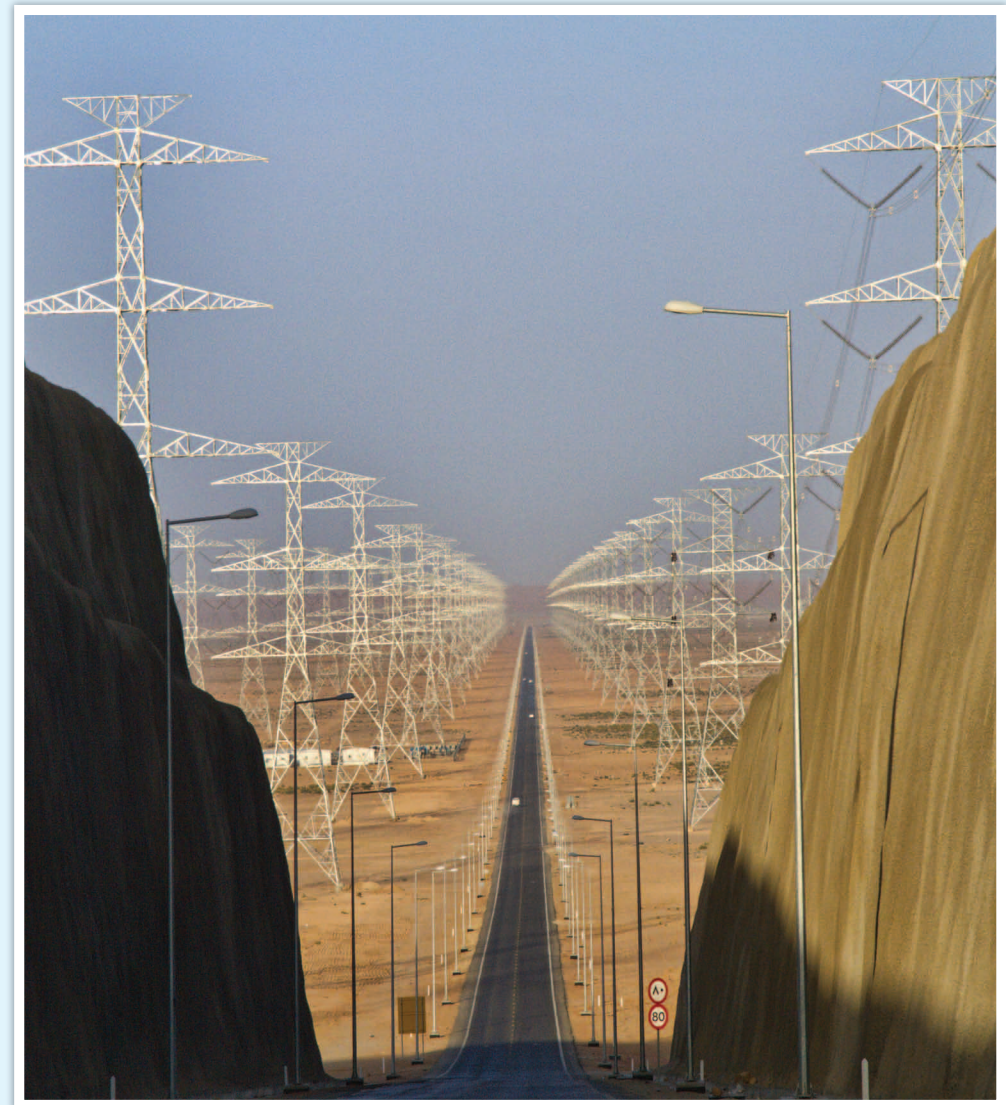
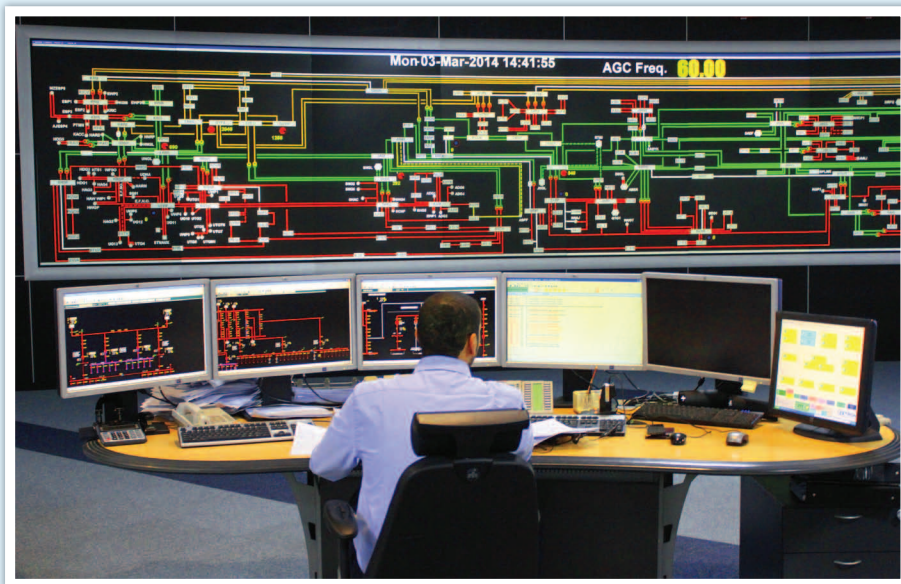
To achieve the Company's objectives for the creation of a stimulating work environment for its employees, the Company has worked through its representatives in the standards performance team, on continuing to develop the automated performance management standards system. Staff goal and development plans have been set for 2015, as well as performance enhancement in 2014 through an automated system that is more unique and developed than previous years.

In terms of stimulating staff to participate in conferences, seminars, and workshops from within and outside the Kingdom, the Company presented several working papers at a conference in Bahrain and in the "Operation and Maintenance in the Arab Countries Conference (OMAINTEC 2014)" in the city of Abu Dhabi.

Most Important Development Tools in 2014:

- Attending 31 local regional and international conferences, where attendance reached 292 specialists.
- The industrial training program, where the numbers of the attendees reached 893 specialists in 244 programs.
- Sending participants for scholarship through the external training programs, where the number of persons sent for scholarships has reached 8 participants in the expertise development program.

- An increase in the number of participants in the expertise development program, where it has reached 60 participants, which means an increase of 7 employees.
- Promising leaders program, where the number of participants has reached 8 employees.
- Participants in the challenge program has reached 14 employees.
- Signing strategic agreements with Al-Fanar Company, Schneider Company, SEL Company, and Hyosung Company, for the following objectives:
 1. Developing specifications and standards for the National Grid SA in line with the latest international standards so as to achieve a balance between cost and quality of performance.
 2. Developing and unifying the designs of the electric transmission network.
 3. Operation and maintenance procedures.
 4. Training programs.
 5. Technical localization.
 6. Technical forums and exchange of experience.
 7. Sharing research and development information for equipment and electricity transmission systems.





Distribution and Customer Services

The Saudi Electricity Company puts ultimate care for the support of the electrical system, as well as diversifying electrical supply for the Two Holy Mosque's expansion projects and other holy sites projects.

- Accomplishing the operational plan for Umrah and Hajj seasons for the year 1435 H.
- Studying the Custodian of the Two Holy Mosques' project proposal to diversify the sources of power supply servicing the Two Holy Mosques.

Developing Customer Service

The distribution and customer service operations are based upon the Company's goal of supporting the customers with a dependable safe service as well as caring for their level of satisfaction through developing and facilitating access to services in the most affordable prices, using resources efficiently. The achievements achieved in 2014 are as follows:

- The Company expanded in the provision of "electricity SMS" service to connect with its customers via short messages to their mobile phone. The total number of customers registered to the SMS service has reached 2,766,000.
- Started notifying customers of scheduled power outages through SMS.
- Increasing communication and awareness about power with our customers via SMS.
- The expansion of E-Bill service by which electric power consumption bills are sent to the email addresses of customers who subscribed to this SMS service. The total number of subscribers reached 305,000.
- A protocol for facilities protection has been prepared and adopted.

Network Performance Improvement

To aid in the expansion and enhancement of the electric distribution system and post-supply services, several projects have been applied:

- Extending networks to more than 29,428 km
- The installation of 30,941 distribution transformers with combined capacities of 17,056 MVA.
- Electrical services reached more than 489,000 customers.

Performance Development

- Signing a contract to train the best 154 employees in 2014.
- 220 contractor meter readers have been absorbed through 2014 and are now working under fixed-term contract.

Automated Systems

First: Customer Systems:

The company continues to work on using the best systems in all post-supply services. Several applications have been offered, as follows:

1- Bill Automation:

The launching of the billing system "SAP" took place in the entire eastern sector, along with the service offices in southern Riyadh, in Abha, and northern Jeddah.

2- Electronic Applications

Inaugrating phase 1 of the SEC application on iPhone, Android, BlackBerry, Twitter, YouTube, Facebook and Windows

3- Standardized Reading System

The installation of the standardized reading system in all sectors during 2014 includes all advantages i.e. reading integration, notification addition, reading revisions, and bill distribution as well as disconnection and reconnection of power supply.

4- Service Termination Notice for Customers

A SMS notification application has been expanded to cover planned and unplanned power cuts.

5-Communication Program:

A program has been launched in 2014 to receive all inquiries regarding complaints, concerns or requests.

Second: The Distribution System

Number of systems has been developed and applied as follows:

1- Unified Distribution System (UDS):

- Training and application of tactical billing system (SAP Billing)
- Connecting to SAP billing
- Development of the Company's electronic portal.
- Communicating with the UDS system users for technical support
- Establishment of workshops in all the sectors about:
 - Advance cable
 - Mechanism of coordination demands of the UDS
 - Introducing the new amendments on the UDS
 - The new electronic portal of the Company and how to handle requests over the web
- Communicating with other departments (Financial, Materials, Information and communication technology) in order to solve customers' problems
- Developing statistical reports

2- Field Teams Management System (FTMS)

- Consolidating unified communication centers in the Central, Eastern, and Southern sectors.
- Providing all 183 company offices with the FTMS for ease of operations, maintenance and post payment refund.
- Liaising with 9 boards of trustees through Government Relations system.
- Apply thermal insulation system in 24 cities as per Royal Decree No. 6927 / MB dated 09/22/1431 H.
- The application of more than 130,000 error detection operations on thermal insulation system.
- Training of 1,900 employees in different workshops.
- Providing the field teams with 1,611 billing handheld devices.
- Linking the FTMS with all inquiry reception centers, as well as customer services centers in addition to linking it to the Company's website.

3- Study and Analysis of Electric Network:

- The success of the Gateway system in linking the electric network with the geographical information system in the Western sector.
- Working on a Gateway linking between the CYME, analysis and study of the electrical grid, and the GIS, Geographical Information System, in all remaining regions starting in Al-Hofuf and Al-Jubail.
- Conducting 10 training courses in Jeddah to train 143 engineers from the different departments in the Western sector.
- Technical support for the CYME.

4- Geographic Information System

- Abha: Finalizing field measuring and analysis of postulate data.
- Al-Qassim: Completion of 40% of field survey and 15% of map transformation.
- Hail: Completion of 80% of the field survey for the city of Hail, work on the review and open some of the remaining stations to conduct information gathering.
- Riyadh: Starting the field survey project for the city.
- Al-Hofuf: Completion of the project; linking with the WMS business management system is the only remaining task.
- Al-Jubail: Completion of the project.
- Al-Hassa villages: Starting the field survey projects.
- Jazan and Najran: Project at awarding stage.
- Al-Jouf and Northern borders: Project at awarding stage.
- Al-Baha: Reviewing postulate data that have been scanned through a direct project with Al-Baha administration.
- Dammam: 50% of the field survey has been conducted.

5- 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 meters which include VT/CT and CT converters for major customers. Efforts are being made to determine the technical requirements of connecting with other systems in the Company, and also launching the experimental system of the project.

Work is underway to complete the installation of meters and organizing the necessary tests for the communications system.

• 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 authority such as the power factor, the changing tariff, as well as storing reserve which have a positive impact on the Company in terms of revenue and the displacement of some loads during

peak time. Due to the demands requested by competing contenders for this project, the opening of the technical envelopes has been delayed several times. The BMT tests have been delayed. The project requirements and improvement updates are based on these tests.

Distribution Automation System (DAS)

The Riyadh project was signed in March 2014 which entailed the establishment of 450 mechanized stations and one control center. We have achieved the following:

- Completion of field survey work.
- Adopting project designs.
- Industrial tests for systems and equipment.
- Choosing a temporary location for the control center.
- Starting to install systems and equipment.

In relation to mechanized projects, a scope of work has been established along with the technical specifications which have been presented all across the sectors of the Company. Currently, we are working on finalizing the introduction of the projects in Dammam, Qassim, Asir, and Mecca, while expecting to sign the project agreements in 2015. Regarding the Western sector projects, the mechanization projects in Jeddah and Taif have been completed and operational as well as the control center in Madina.

6- 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 users. 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

The planning department has implemented the load displacement management programs to reduce the pressure during peak time in summer, contribute to network stability, and delay the need for establishing new power generation capacities. In addition, the administration is conducting technical studies in order to enhance power use capabilities and quality. The programs being implemented during 2014 are as follows:

- 1. Inactive tariff program that started in 2014 which aims to improve the electrical network by improving power coefficient.
- 2. Thermal insulation pursuant to Royal Decree No. 6927 MB dated 22/9/1431 ordering the obligatory application of thermal insulation in all buildings; the company is monitoring the implementation.
- 3. Reserve generation program.
- 4. Air conditioning loads control for major customers.
- 5. Variable tariff program.
- 6. The execution of a case study with an international company titled “Loads Displacement and Calculating Losses.”

Moreover, the company is in partnership with the Saudi Center for Energy Efficiency through:

- Raising minimum power consumption (MEPS)
- Developing a standard for energy efficiency in the industrial sector in the steel industry and petrochemicals.

However, these aforementioned programs aren’t operated unless needed, thus 563 MW loads have been displaced which has saved the company approximately SAR 600 million in the summer of 2014. To maintain our good quality service, the company is conducting a periodic study on customer satisfaction about these services.

Isolated Generation:

A study has been conducted about distribution activity and customer services in 2014 that included:

- 1. Supporting the system during the summer with a load of 582 MW valued at SAR 259 million.
- 2. Providing the needed power to serve secluded areas with 899 MW of power.
- 3. Procuring 46 new generators with a collective power of 73 MW in order to support the network and secluded areas during summer, and has been operated in the Sawamla region, Fursan, Sarar, and Nataa’.

Electrical Coverage:

Among its efforts is the deployment of mainstream electric services via delivering electricity to remote areas and electrifying 127 villages in 2014.

Sold Power:

- 1. Prepare a sales plan until 2020, detailed according to categories.
- 2. The collection of the financial subsidies offered by the Ministry of Social Affairs amounting to SAR 870 million, through 2014.

- 3. Relaying government receivables amounting to SAR 6,333 million for the remainder of 2012 and the full dues for 2013.
- 4. Collecting receivables from major customers amounting to SAR 1,490 million.
- 5. The results of 2014 plan as regards maximizing revenues have been reached as a result of corrections in the use of categories, coefficient multiplication, adding subscriptions, and 117,912 tampering cases valued at SAR 456 million.
- 6. Accounting for all outstanding balances of government institutions amounting to over SAR 10 billion by the end of 2014 and providing a financial activity report to the Ministry of Finance.
- 7. Achieving an amount of savings equal to SAR 18 million as a result of discontinuing the issuance of printed bills for bills valued at less than SAR 100 in under three months, September to November 2014, as well as expected savings of SAR 100 million per year.
- 8. Collecting financial dues from large customers’ projects amounting the SAR 1,597 million in 2014.

Comparative Amount of Sales for 2013-2014 According to Consumption Sectors

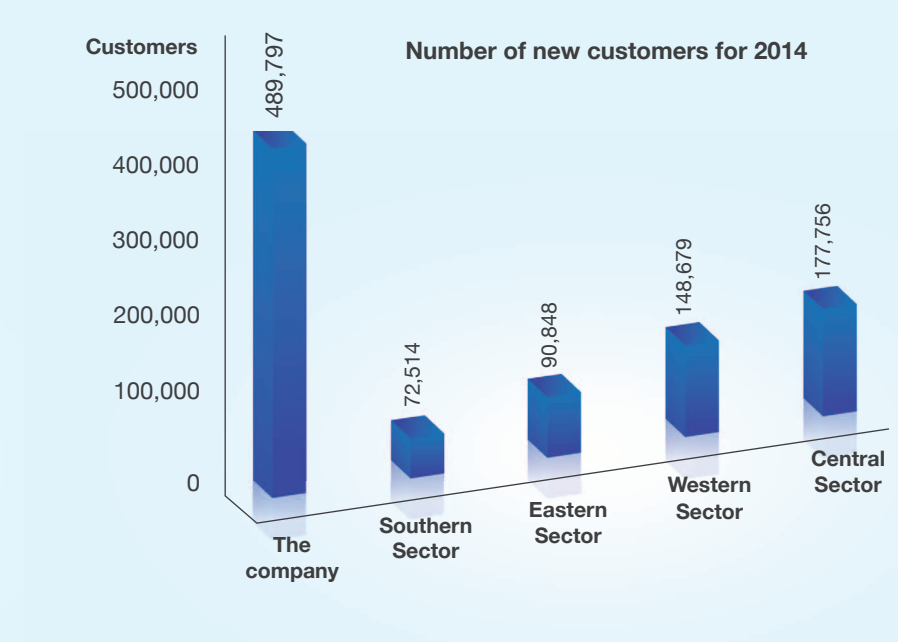
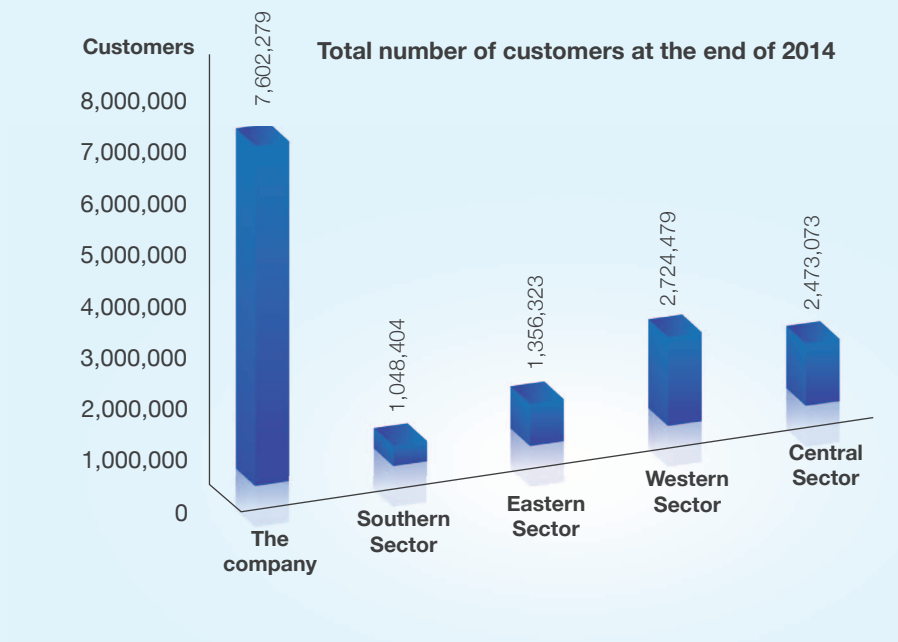
Consumption Category	Amount Sold (MWH)*		
	2014	2013	Average Change in Amount
Residential	135,907,725	125,678,090	8%
Commercial	42,179,889	38,733,248	9%
Governmental	35,670,204	31,864,399	12%
Industrial	51,498,586	51,080,064	1%
Agricultural	4,798,306	4,476,354	7%
Health and Education	1,679,333	1,849,997	-9%
Desalination	2,768,172	3,005,453	-8%
Total	274,502,216	256,687,605	7%

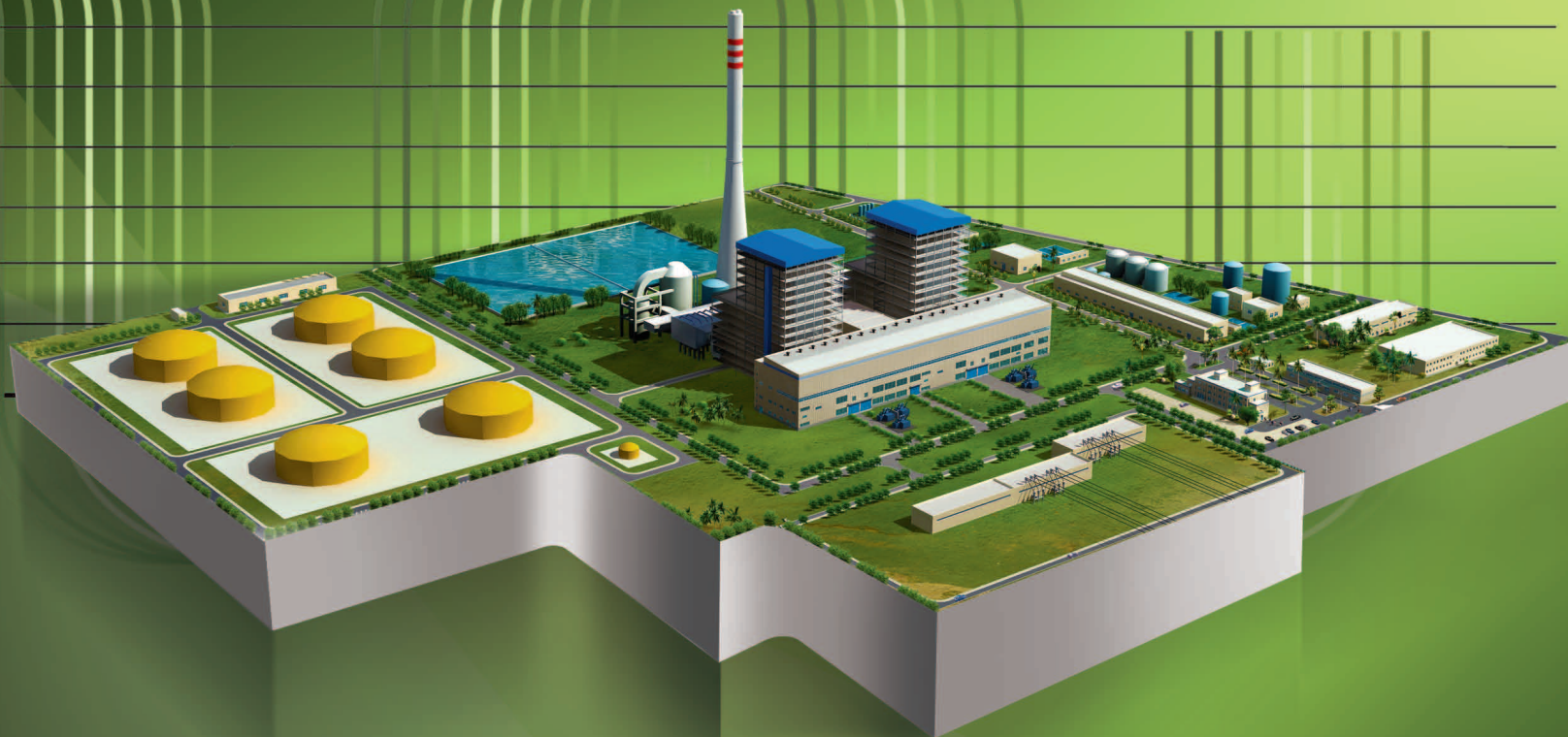
*Comparative Value and Amount of Sales until the end of the fourth quarter (2013 - 2014) by category

Comparison of sales for the years 2013-2014 in the different business sectors:

Business Sector	Sales during 2014	Sales during 2013	Comparison	Percentage
	Quantity (MWH)	Quantity (MWH)	Quantity (MWH)	Quantity
Central	82,318,081	74,282,468	8,035,613	11%
Eastern	82,359,121	78,655,397	3,703,724	5%
Western	84,265,134	80,193,001	4,072,133	5%
Southern	25,559,880	23,556,738	2,003,141	9%
Total	274,502,216	256,687,605	17,814,611	7%

*Sold power doesn't include power transmitted to companies subject to the agreement on the use of the transmission system starting from 2014.





Investment in Electricity Production Projects

Program for Private Sector Participation in Electricity Projects

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

- The Qurayyah project for independent production in the Eastern Province with a capacity of 3,927 MW and considered the largest independent power production plant in the world having combined-cycle system run by natural gas. A contract was signed on 21/9/2011 with a consortium of companies, namely ACWA Power International, Samsung C&T Corporation, and MENA fund to finance the infrastructure projects. Production has begun in the first quarter of 2014 and the project will be completed in the first quarter of 2015.
- The Rabigh-2 project in Mecca has a capacity of 2,050 MW having a combined-cycle system run by natural gas. A contract was signed at the end of 2013 with a consortium of companies, namely ACWA Power International and Samsung C&T Corporation. It is expected to start commercial operation in June 2017.

The company is planning to get into partnerships to build dual production stations also in Al-Fadhli Power Plant for dual production (steam power) having a capacity of 1,410 MW. 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	Production Capacity (MW)	Private sector investment in the project capital	Date of completion
Qurayyah-1 project for independent production (project is in financial closure phase)	3,927	50 %	03 / 2015
Rabigh-2 project for independent production	2,050	50 %	06 / 2017
Fadhili Project for dual production in cooperation with Saudi Aramco (Under construction)	1,434	40 %	02 / 2020
Jazan project for dual production in cooperation with Saudi Aramco	3,800	40 %	08 / 2019



Social Responsibility

Our Strategies:

Our Employees

- Providing a suitable work environment.
- Providing equal opportunities for training and development.
- Promoting excellence and innovation initiatives.
- Instilling 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 welfare 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 on 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 Desulfurization (FGD) technology to reduce emission of environment-polluting sulfur oxide gases.
- Using high-efficiency combined-cycle units which use exhausts of 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 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/Gallery Board Program**
We honored our 430 outstanding recipients of the 'employee of the year' award, presenting their pictures and their names on display screens in 30 locations of the Company.
- **Group Breakfast Program**
We held 309 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 347 staff personal occasions (wedding or birth of a child) set up by the departments of the Company and in the presence of senior officials.
- **Get Well Soon Program**
We conducted 107 visits to employees who have been hospitalized with the aim of providing support.

- **Thank You for Your Family Program**

This program honored 349 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 Progress Together Program**

We held a meeting with the Vice Presidents to pass on their experiences and scientific knowledge to the employees.

Family Self Improvement Program

We held 13 sessions to help develop and enhance skills of our employees' families.

- **Employee Orientation Program**

We organized 30 visits and field trips for the employees to the Company's major facilities.

- **Kids of Employee Visit Program**

We organized 12 visits and field trips for the employee's children to the important facilities of the Company.

- **Keep in Touch with Retirees**

143 messages have been published delivering the Company's congratulatory messages and condolences as well as motivational messages to the retired.

- **Photographing Wedding Program**

Photographing 53 wedding ceremonies involving staff members and providing photo albums as gifts to the employees.

- **Open Day Program**

We organized 4 programs during 2014 across different areas.

- **Eid Celebration Program**

We organized 42 programs in 2013 across different areas.

- **Send Motivational Messages**

Sending 30 motivational messages to employees via e-mail.

- **An Evening Communication**

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

- **Cultural Contest**

Implementing an annual cultural competition in which 4,000 participated, 40 of which won the competitions all across the regions of the Kingdom.

- **Message Boards Stimulus**

200 high quality boards with motivational messages have been distributed all over the Company's quarters.

Social Activities

- Organizing numerous programs, events, lectures, graduation ceremonies, 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

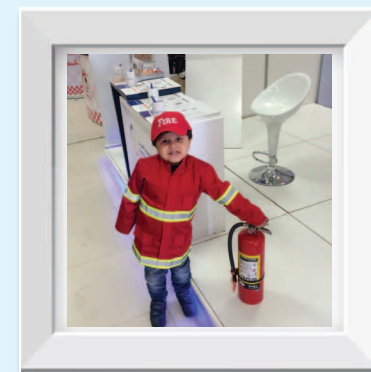
We implemented external communication programs highlighting the following:

- **Visits of the Company's Senior Team Member Program:**

Senior members of our team conducted 25 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 52 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 15 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 8 blood donation campaigns within the Company in coordination with the Ministry of Health and the Mobile Blood Banks.

- **Ramadan Breakfast**

4 programs have been implemented with company employees volunteering to do charity works.

- **Community Patients Visit**

13 visits have been conducted to patients suffering chronic diseases (kidney failure, cancer, etc.) and offering gifts.

- **Contributing in Serving Pilgrims**

A voluntary program to serve the pilgrims through the distribution of gifts in the name of the company and provide guidance for pilgrims during the days of Al-Hajj.

Our Most Notable Community Achievements

- Volunteer program serving pilgrims, distributing 20,000 gifts, and providing guidance and assistance.
- Donating SR 2 million to 200 charity organizations.

Seminars and Conferences

We organized 450 internal activities, most important of which are:

- Launching of Qurayyah generation station.
- Organizing several awareness seminars on integrity and corruption elimination with the anti-corruption national agency.
- Participating in organizing contractors party.
- Participating in organizing suppliers party.
- Participating in organizing customers party.
- Organizing visits to the national executive agency for safety in the Southern, Western, and Eastern areas.
- Participating in organizing training party.
- Organizing the communication meeting party.
- Coordinating the launching of training assembly in Abha.









الشركة السعودية للكهرباء
Saudi Electricity Company

برنامج بيئة اجمل

زيارة منسوبي الشركة السعودية
لحدائق ومنتزة الرقبة
الخميس الموافق ٢٦ / ٢ / ١٤٣٦ هـ





Preservation of the Environment

The Saudi Electricity Company has continued its efforts in applying its special programs to preserve the environment arising from its commitment to maintain all the environmental aspects in all its plans through managing the negative effects of its operations, in a manner that guarantees maintaining and preserving the environment and public health.

In this context, the company had the participation of all its activities in the preparation of an environmental policy and the formation of an environmental preservation team from all its activities. It has developed an ambitious operational plan that includes goals and objectives, timetables and programs, functions and responsibilities covering the implementation/activation of the environmental policy and translate them into real experience, thereby achieving a continued commitment to the requirements of the Presidency of Meteorology and Environmental Protection.

Since the beginning of this year, the company has adopted the strategic transformation program which aims to transform Saudi Electricity Company into a global service provider. It requires a safe, prestigious, centered plans and projects in order for the Company to achieve environmental leadership in the Kingdom.

Following are some of the important features of the Company's existing environmental programs:

Environmental Compliance

The company does not stop at being compatible with the emerging environmental standards as regards emission, but seeks by all means to exceed all the set standards by using the best available techniques and the most appropriate alternatives in support of the principle of sustainable development and to preserve the environment and its components.

Air:

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 (major pollutant emitted from power plants using fossil fuels) to reduce emissions.
- 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.
- 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 substances.
- Continuous monitoring of the concentrations of emissions from power plants.

Water and Soil:

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 by:

- 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.
- 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.
- Phasing out fuel and oil residues.
- Phasing out all power transformers that use oils containing carcinogenic agents like PCB in order to ensure not to pollute the soil, surface and ground water, or endanger human, animals, and plants.
- Using SF6 gas instead of oils in order to insulate switchgears which contributes to decreasing transformer spaces in substations and reducing the possibilities of a leakage.
- Using the XLPE dry cables instead of oil cables to decrease leak probabilities that could pollute soil or water.
- Replacing all pesticides with other substances that are less damaging to the environment.

Waste Management

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 of the Company and protect the environment by identifying procedures for the safe handling of these wastes from generation to disposal.

Within this scope wastes are being categorized according to environmental safety. This has been achieved in this area:

- Safe disposal of all medical wastes generated in Company activities and operations through specialized contractors; keeping them in containers marked with distinguishing color and storing them in places specially designed for such wastes.
- Constructing centers for monitoring wastes in power plants.
- 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.
- Safe disposal of carbonic ashes through a qualifying network, and continuing coordination with local and international universities and research centers to find solutions to the issue of carbonic ashes.

Evaluation of effects on environment:

The Company is committed to conducting environmental impact and expansion assessment during the stage of developing feasibility studies for the Company's projects to ensure that they do not cause any harm to the environment and public health during the stages of construction and production and follow up on the implementation of the procedures recommended by the studies. The Company has adopted the evaluation of environmental impact and assessment studies on the establishment of the 13th Power Plant in Riyadh and in Jeddah South Power Plant.

Reacting to urgent environmental situations:

The company has developed a package of measures to deal with environmental emergency situations and to train employees on reporting. The duties and responsibilities of those concerned are based on their position, aiming to be able to normalize the situations rapidly in case of emergency. Also the company is conducting drills to ensure the levels of readiness in dealing with similar situations. With the release of an updated version of the environmental standards this year by the Presidency of Meteorology and Environmental Protection, the Company has initiated a contract with a consulting firm to evaluate the Company's adherence to such standards and to develop a plan to comply with it within the time limit granted by the environmental authority.

Environmental Hygiene

The company is committed to the prevention of diseases related to its operations and activities, and to protect the health of its workers and their families, and the general public; helping to defray the cost of the treatment and protecting the environment by:

- 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 through the application of improved occupational health program, maintaining a hearing loss prevention program in order to reduce occupational hearing loss and protect the employees from the effects of noise.
- Replacing use of diesel cranes in warehouses with electric ones.
- Establishment of new stations outside cities.

Visual Pollution:

In order to maintain the beauty of the Kingdom's cities and improving its general appearance, the Company is contributing in countering visual pollution as follows:

- The Company secures overhead lines by installing them in underground conduits.
- Highlighting the aesthetic aspect of urban design in all its buildings, and selecting the most appropriate locations for installations and facilities, particularly in customer services buildings.
- Preserving green spaces within the Company's premises.

Environmental awareness

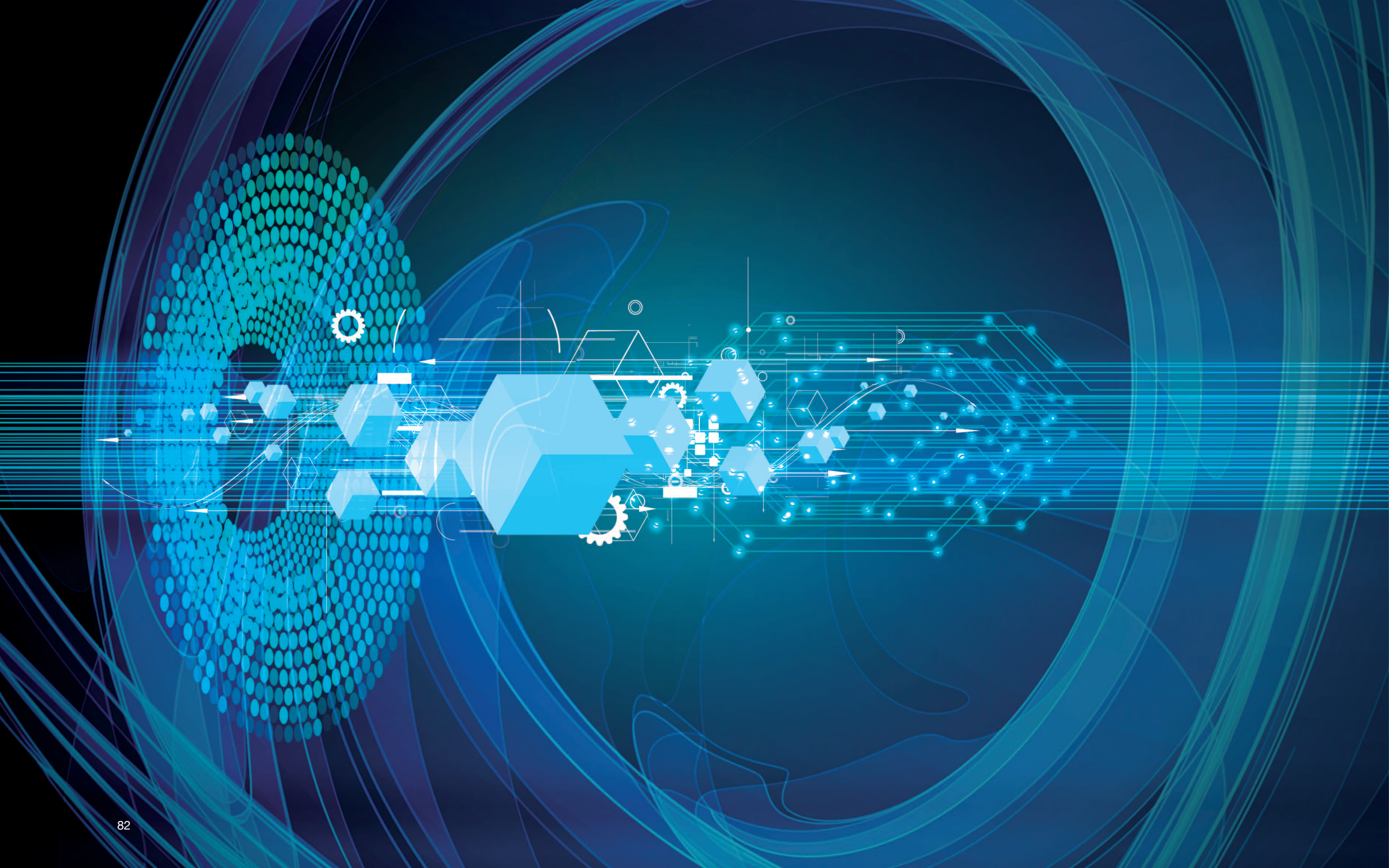
The Company organized a variety of environmental awareness programs to educate its employees and the public about the importance of the environment through regular environmental awareness lectures, and availability of brochures, leaflets and posters. This was done through a variety of activities including:

- Activating the World Environment Day by launching awareness exhibitions, live broadcasting, and holding lectures throughout the Company.
- Participating in clean-up campaigns all over the Kingdom.
- Qualifying employees and enrolling them in courses to gain international certification in 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.
- Offering specialized environmental training sessions for employees.
- Participating in national events and community outreach programs to create public awareness.

Sustainable development

In addition to efforts that seek meeting environmental requirements, the Company works on maintaining natural resources, including:

- Using high-efficiency power generating units which use exhausts of generation units as a thermal source for the boilers instead of burning fuel.
- Using treated wastewater for irrigation instead of using fresh water in Power Plant 10.
- Separating fuel residues from the water tanks prior to reusing the water.
- Completion of the electrical interconnection between the regions of the Kingdom, in its final stage, to significantly reduce energy waste.
- Decreasing fuel consumption of Company vehicles by minimizing the frequency of vehicle use, using smaller capacity vehicles that are fuel efficient and strictly conducting periodic maintenance.
- Requiring customers to use thermal insulation in new buildings, commercial facilities, and residential homes.
- Benefiting from sewage water after biologically treating it for irrigation, to increase the green area inside the affiliated stations and residential areas, and decreasing the use of fresh water.
- Using timer switch to turn off lighting equipment, air-conditioning, and computers outside working hours, and replacing normal lighting and computers with energy-saving alternatives, and making use of the Company's modern building design to secure natural lighting during the day.
- Rationalize and recycle water in the Company's facilities.
- Reduce paper consumption at Company level by raising awareness among employees, programing the printers to print on both sides of the paper, converting reports and invoices into PDF format, and using electronic archiving.
- Establishment of a solar power plant in Farasan Island that produces 860 thousand kilowatt hours annually.



Research and Development

Introduction

The technical developments in the field of scientific research have led to the growth and development of many countries and they are 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 its role in the energy sector. The primary purpose of research and development in the electricity sector is to find viable solutions in the area 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 in the 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 has decided to adopt this approach in the overall development of its system focusing on the technical aspects, and in particular, the operation and maintenance work 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 (Paragraph 2/E) supports this approach whereby the Company is mandated to allocate a portion of its revenue to research and development of issues within its specialization, as determined by the Board of Directors.

Article 3 of the Resolution has also obligated the Company to cooperate with universities, institutes, and specialized centers as regards rationalization of electric power consumption, improvement of power 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 operational 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 the 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 operational 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 since 2002. The program has since completed four successful phases in coordination with research centers and local stakeholders in the electricity sector.

Program Vision:

Our Company stands at the same level as that of the global companies when it comes to research and development with a level of privilege.

Program Message:

Supporting and conducting researches in the electricity sector that will improve the service, increase the performance efficiency, conserve energy, preserve the environment and reduce the cost.

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.
4. Preservation of the environment.
5. Supporting the renewable energy sources.

Transmission

1. Prolonging the longevity of our existing assets.
2. Improving their performance and capacities.
3. Rationalizing their maintenance programs.
4. Increasing the reliability and stability of the electrical system.

Distribution

1. Maximizing efficient use of assets.
2. Developing the bill preparation and collection processes.
3. Achieving a minimum rate of energy loss and reaching the ultimate rate by following the international standards.
4. Improving the quality of the electrical service.

Electrical loads

1. Rationalization of energy use.
2. Improving the efficiency of energy use.
3. Improving expected growth loads.
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 Council of Ministers' Resolution, No. 169, Article 1 (Paragraph 2/E), previously referred to, the Company in early 2012 established a management team to follow up the developments of the research work to improve Company's level of service. 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 Kingdom. 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 of 47 research topics were proposed. Ten (10) research topics were selected based on the requirements of various activities in the Company, as follows:

The Company proceeded to adopt actions as follows:

1. Send proposals about these projects to Saudi universities requesting them to provide technical and financial bids.
2. Appointing two internal auditors as well as another two 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. Signing ten of the agreements by the last quarter of 2013 and through 2014, the following table shows that.

A table showing the research project contracts for the fifth program and signed during the years 2013-2014.

	Project No.	Contract No.	Project Name	Project Value (SR)	Research Implementing Agency
1	SP501	11282057	Voltage selection and the best technology for the expansion of the electrical transmission network (comparative study between 765 KV and 380 KV)	3,688,680.00	King Fahd University
2	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
3	SP503	11282059	Assessment of the reliability of electric supply in five major Saudi Arabian cities and recommend techno-economic feasible options to enhance it.	1,152,941.00	King Saud University
4	SD504	11282060	The Effect of Industrial load on distribution network.	1,576,471.00	King Saud University

5	SD505	11282061	Non tripping of long O/H fallen line feeder.	1,647,059.00	King Saud University
6	SD506	11282062	Cable condition assessment using partial discharge techniques to predict cable faults.	1,764,705.88	King Saud University
7	ST508	11282064	Failure of power transformer due to Corrosive Sulfur.	2,159,620.00	King Fahd University
8	ST510	11282066	Advanced Metering Infrastructure (AMI).	1,054,591.00	King Fahd University
9	SG512	11282068	Effect of the units partial load on the hot parts and the harmful emissions on the environment	835,294	King Saud University
10	SD517	11282073	Effect to temperature on the electronic meters.	1,194,194.00	King Fahd University
Total				16,688,127.88	

Stage 6 (End of 2014)

In September 2014, the Board of Directors has decided to create a research and development sector. They are now working with a foreign consultant to set up its structure, develop a plan and the strategies for research and development wherein a new initiative has been added with the establishment of the Strategic Transformation Program for the Company. A work team has been formed headed by the executive vice president of planning and performance monitoring.

Sporadic activities have been implemented previously in the program

1. Cooperation with research centers in the Kingdom.
2. Joint ventures with the King Abdul Aziz City for Science and Technology.
3. Cooperation with King Abdullah University of Science and Technology.
4. Registration of research projects on clean energy.
5. The Saudi Electricity Company owns 51% of the Company.
6. Sponsoring scientific chairs (three chairs worth a total SR 15 million). A chair in Demand Side Management and Energy Efficiency in the Kingdom 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 and held a lecture that was attended by department directors and agreed on the following:

- 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 as regards addition, 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.

The Main Recent Jobs, Which are Now Being Implemented:

- Progressing in the stages of membership with the American Electric Power Research Institute (EPRI) which is reaching a signing agreement to enable the Company to participate in vital research projects in the field of electrical power and contribute to development of strategy and modern structuring for research and development.
- Continuing cooperation and documenting the bonds with the French Electric Company (EDF) in order to develop the research and development system in the Company.
- Concluding the technical agreement with Wadi Al-Zahran company in King Fahd University of petroleum and minerals to construct a research laboratory and a comprehensive laboratory development (RTDS); this laboratory will facilitate the training of employees, university students, and other companies in the fields of electrical engineering and network research.

Generation:

In the field of generation the following actions are done:

- Developing a framework and memorandum of understanding to cooperate with King Saud University to focus on generation related research by using sand heated by the sun.
- Developing a framework and memorandum of understanding to cooperate with King Saud University to focus on generation related research by using the heated groundwater.
- Cooperating with King Fahd University of Petroleum and Minerals (KFUPM) for implementing the second phase, SWOT analysis, for the pumping and storing water for power generation, which will be funded with the cooperation of the Saudi Aramco Company.

Transmission:

In this field the following is being processed:

- Signing an agreement with King Fahd University of Petroleum and Minerals (KFUPM) for choosing the best voltage and technology for the expansion of the Company's

transmission network through a viability study by comparing 765 KV with 380 KV or continuous (SAR 3,688,680).

- Developing a framework and memorandum of understanding to cooperate with King Fahd University of Petroleum and Minerals (KFUPM) by concentrating on the transmission researches.

Distribution:

The following contracts, projects, and initiatives are in progress:

- Developing a framework and memorandum of understanding to cooperate with King Abdulaziz City for Science and Technology where the focus will be on conducting a research related to power distribution.
- Developing medium voltage laboratory for the Company which is currently located at King Abdulaziz City for Science and Technology devoted to distribution research.
- Implementing the outcomes of the pilot project as regards controlling the voltage known as "Utilidata." Work has started in cooperation with Saudi Aramco Company using this technology.
- An agreement has been signed with the Resource Management Associates (RMA) to study the progress of load and its financial effect for the years 2015-2025.

Miscellaneous Studies and Review:

- Analysis of the electrical consumption in the Kingdom during 2010-2012.
- Preparing expectations for fuel consumption for the company till the year of 2050.
- Preparing a proposal for updating the organizational structure and the job description of the research and development management.
- Preparing a report for rationalizing the electricity consumption, which contains several topics.
- Analyzing the statistics contained in the 2013 annual report. Preparing a summary of the main determinates of the solar energy in Germany, which included a report issued in September 2013.
- Preparing a report of study on the overall reward system and its framework, and the possibility of being applied in the Company.
- Preparing a study on the expected savings of the Kingdom through the generation of electricity using renewable energy.
- Studying the harmful environmental emissions at Kingdom level.
- Studying the research proposals submitted by the companies and research centers and the Company's various activities in managing research and development and show observations on:
- K.A.CARE report as regards the nuclear energy requirements of the Kingdom and their effects.
- K.A.CARE report on sustainable energy impact on the Kingdom's electrical network.
- Feasibility study of linking the electric energy and trade between Arab countries as prepared by CESI Company.
- Proposal for production of electric power using water submitted by Abdul Majeed Al-Dawas.
- Proposal to increase the life span of the transformers and the ability to raise the safety level of the work environment submitted by Eng. Mussa Al-Ghamdi.
- Proposal to benefit from dialing in repeaters and power provided by the Planning and Technical Coordination Service / Jouf Electricity Administration.

Scientific Papers:

- Submitting a research paper for the smart network conference SASG2014 titled "Concerns Related to Smart Network Plan in the Kingdom".
- Preparing a research paper about decreasing electrical loss in the company's network through increasing the capacity factor which will be submitted to a scientific journal for publication.
- Planning a research about loads expectations and the economic effect of installing renewable energy resources and calculating dependability standards and applying them in future expansion plans

Programing:

- Finalizing information and database for research management projects and linking them to the Company's intranet.
- Developing analysis of the cost of renewable energy using EXCEL and preparing programs using MATLAB to calculate the quality of coefficients and reliability of the electrical system.
- Completing an information database with the different stakeholders such as the Ministry of Information, King Abdulaziz City, and universities.
- Programming emissions of the Company and independent producers.

Scientific Activities:

- The 12th research and development workshop on "Managing Reactive Power, Voltage Control Techniques and Equipment, FACTS and HVDC" was conducted and attended by 40 engineers from the company's activities. A questionnaire was disseminated to determine the extent of the benefits derived from them.
- Preparing suggestions for a workshop planned to be conducted in 2015: Economics of the electrical system. Quality of electricity and ways to improve it.
- Attended the 2014 Saudi Arabia Smart Grid (SASG 2014) conference that was held in Jeddah on 14-17/12/2014.
- Participating in some scientific events inside and outside the Kingdom that included seminars and workshops and conferences.

Supporting Promising Projects:

- Discussing a draft of a solar electricity production project using sand heating with King Saud University and working on the preparation of a research agreement regarding the aforementioned issue, as well as preparing a prototype of that suggestion for presentation to the Quality Forum in February 2015.
- Discussion of the proposed project to produce electricity from hot groundwater energy with King Saud University and to arrange for the preparation and presentation of a prototype of this proposal in the Quality Forum, February 2015.

There are several important issues on the R&D department website:

http://w-jhq-moss2/sites/resarch_dev_prog/default.aspx



Financial Statements

Saudi Electricity Company
(A Saudi Joint Stock Company)
Consolidated Financial Statements and Auditors' Report
For the year ending 31 December 2014

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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 2014 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 2014 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: 4 Jumada Awal 1436 H
(23 February 2015)

Consolidated balance sheet
As at 31 December 2014
(In Thousands Saudi Riyals)

	Note	2014	2013
Assets			
Current assets			
Cash and cash equivalents	4	6,943,507	3,987,142
Receivables from electricity consumers and accrued revenues, net	5	15,843,675	18,451,644
Prepayments and other receivables, net	6	9,568,104	6,716,297
Inventories, net	7	6,602,409	6,638,256
Total current assets		38,957,695	35,793,339
Non-current assets			
Loans to associated companies	8	2,250,125	1,129,942
Equity investments in companies and others	9	2,253,230	2,119,715
Construction work in progress	10	59,073,753	54,181,456
Fixed assets, net	11	215,373,390	183,563,192
Total non-current assets		278,950,498	240,994,305
Total assets		317,908,193	276,787,644
Liabilities and shareholders' equity			
Current liabilities			
Accounts payable	12	39,122,255	28,254,889
Accruals and other payables	13	5,572,658	4,672,010
Current portion of long-term loans	15	2,254,469	1,816,969
Sukuk	16	-	7,000,000
Total current liabilities		46,949,382	41,743,868
Non-current liabilities			
Long-term loans	15	17,420,128	15,676,962
Sukuk	16	34,940,490	21,064,490

Employees' indemnities	17	5,642,755	5,182,553
Deferred revenues, net	18	25,999,271	23,966,410
Consumers' refundable deposits		1,649,999	1,555,562
Government loans	19	33,760,607	28,248,767
Long-term government payables	20	91,936,039	82,634,401
Provision for change in fair value of hedging contracts	21/35	367,026	438,318
Total non-current liabilities		211,716,315	178,767,463
Total liabilities		258,665,697	220,511,331
Shareholders' equity			
Share capital	22	41,665,938	41,665,938
Statutory reserve		2,474,846	2,114,186
General reserve	23	554,912	545,262
Retained earnings	27	15,205,107	12,507,288
Fair value hedges reserve	21/35	(658,307)	(556,361)
Total shareholders' equity		59,242,496	56,276,313
Total liabilities and shareholders' equity		317,908,193	276,787,644

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

Consolidated Statement of Income
For the year ended 31 December 2014
(In Thousands Saudi Riyals)

	Note	2014	2013
Operating revenues			
Electricity sales		34,962,184	32,878,143
Meter reading, maintenance and bills preparation tariff		1,055,029	988,798
Electricity connection tariff	18	1,851,606	1,679,064
Revenue of transmission system		467,477	-
Other operating revenues		154,374	126,124
Total operating revenues		38,490,670	35,672,129
Cost of sales			
Fuel		(6,232,252)	(5,978,341)
Purchased energy	32/b	(6,430,276)	(6,518,437)
Operations and maintenance	24	(10,580,584)	(9,093,527)
Depreciation – operations and maintenance	11	(13,219,815)	(11,440,416)
Total cost of sales		(36,462,927)	(33,030,721)
Gross profit for the year		2,027,743	2,641,408
General and administrative expenses	25	(589,340)	(371,137)
Depreciation – general and administrative	11	(340,155)	(289,442)
Income from operating activities		1,098,248	1,980,829
Reversal of provision for doubtful receivables	5	2,635,181	-
Non-recurring (expenses) income	29	(537,239)	729,186
Other income and expenses, net	26	410,404	325,854
Net income for the year		3,606,594	3,035,869
Earning per share (sr):			
From operating activities for the year		0,26	0,48
From net income for the year		0,87	0,73

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

Consolidate Statement of Cashflows
For the year ended 31 December 2014
(In Thousands Saudi Riyals)

	2014	2013
Cash flows from operating activities		
Net income for the year	3,606,594	3,035,869
Adjustments to reconcile net income for the year with net cash from operating activities:		
(Reversal of) provision for doubtful receivables	(2,635,181)	131,680
Provision for slow-moving inventories	16,866	41,145
Group's share of associates' net income	(133,302)	(14,195)
Depreciation	13,559,970	11,729,858
Gain on disposal of fixed assets, net	(91,736)	(86,784)
Employees' indemnities, net	460,202	14,373
Changes in operating assets and liabilities:		
Receivables from electricity consumers and accrued revenues	5,243,150	(5,156,064)
Prepayments and other receivables	(2,851,808)	(1,302,847)
Inventories	18,981	(857,928)
Accounts payable	10,867,366	(6,473,885)
Deferred revenues, net	2,032,861	1,676,709
Accruals and other payables	892,640	(54,766)
Net proceeds and payments from customers' refundable deposits	94,437	101,756
Net cash from operating activities	31,081,040	2,784,921
Cash flows from investing activities		
Fixed assets and construction work in progress	(50,311,822)	(40,936,729)
Proceeds from sale of fixed assets	141,093	90,656
Loans to associated companies, net	(1,120,183)	(947,192)
Equity investment in companies and others	(173,451)	150,000

Net cash used in investing activities	(51,464,363)	(41,643,265)
Cash flows from financing activities		
Net collection from government loans and payables	14,813,478	29,021,449
Net proceeds from long-term loans	2,180,666	3,828,945
Issuance of global sukuk	9,376,000	7,501,500
Net (payment of) proceeds from local sukuk	(2,500,000)	-
Dividends paid to shareholders and board of directors' remuneration	(530,456)	(552,194)
Net cash from financing activities	23,339,688	39,799,700
Net change in cash and cash equivalents During the year	2,956,365	941,356
Cash and cash equivalents, beginning of the year	3,987,142	3,045,786
Cash and cash equivalents, end of the year	6,943,507	3,987,142
Non-cash transactions:		
Change in fair value of hedging contracts	(101,946)	334,229
Transfer of loan to an associate company to equity investment	-	182,750

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

Consolidate Statement of Changes in Shareholders' Equities
For the year ended 31 December 2014
(In Thousands Saudi Riyals)

	Note	Share capital	Statutory reserve	General reserve	Retained earnings	Fair value hedges reserve	Total
For the year ending 31 December 2013							
Balance at 1 January 2013 – before adjustments		41,665,938	1,810,599	540,330	10,323,177	(370,748)	53,969,296
Prior year adjustments	35	-	-	-	-	(519,842)	(519,842)
Balance as at 1 January 2013 - adjusted		41,665,938	1,810,599	540,330	10,323,177	(890,590)	53,449,454
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 for hedging contracts	21/35	-	-	-	-	334,229	334,229
Reconciliation of electricity collection fee (individuals)	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
For the year ended 31 December 2014							
Net income for the year		-	-	-	3,606,594	-	3,606,594
Dividends paid to shareholders for 2013	27	-	-	-	(547,252)	-	(547,252)
Board of directors' remuneration for 2013	28	-	-	-	(863)	-	(863)
Net change in fair value of hedging contracts	21	-	-	-	-	(101,946)	(101,946)
Reconciliation of electricity collection fee (individuals)	23	-	-	9,650	-	-	9,650
Transfer to statutory reserve		-	360,660	-	(360,660)	-	-
Balance as at 31 December 2014		41,665,938	2,474,846	554,912	15,205,107	(658,307)	59,242,496

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

Notes to the consolidated financial statements for the year ended 31 december 2014

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 Dhul-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 co-generation regulatory authority the right to review and adjust the non-residential (commercial, industrial, and governmental) electricity tariff and approve them as long as the change does not exceed 26 halala for each kilowatt per hour, taking into consideration, among other matters, the electrical consumption at peak times. This tariff was implemented starting 19 Rajab 1431h, corresponding to 1 July 2010.

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	Country of Incorporation	Ownership % (direct & indirect)	Business Activity
National Grid S.A. Company	Kingdom of Saudi Arabia	%100	Transmission of electricity power from generation stations to distribution network and operation and maintenance of electricity transmission system
Dawiyat Telecom Company	Kingdom of Saudi Arabia	%100	Establishing, leasing, managing and operating electricity and fiber optic networks to provide telecommunications services
Electricity Sukuk Company	Kingdom of Saudi Arabia	%100	Provide services and support needed in relation to local bonds and sukuk
Saudi Electricity Global Sukuk Company	Cayman Islands	%100	Provide services and support needed in relation to global bonds and sukuk
Saudi Electricity Global Sukuk Company – 2	Cayman Islands	%100	Provide services and support needed in relation to global bonds and sukuk
Saudi Electricity Global Sukuk Company –3	Cayman Islands	%100	Provide services and support needed in relation to global bonds and sukuk

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 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 recognized in a consolidated statement of income.

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 recognized 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 immediately recognized as income 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 projects-in-progress with significant amounts that require long periods 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 recognized at fair value on the date on which a derivative contract is entered into and are subsequently re-measured 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 recognized 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 recognized 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 recognized in shareholders' equity is retained till the forecasted transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss previously recognized in shareholders' equity is transferred to the consolidated statement of income.

Accounts payable and accruals

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

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 a saving fund for the eligible employees based on an approved policy. The Group's share of the contribution in the 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 an 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 reaches 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 bill 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 bill 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 between (20 - 30) years.

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

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 capitalized leasing conditions are not met are classified as operating leases. Operating lease payments are recognized 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 are 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 are calculated by dividing income (loss) from operations on the weighted average number of shares. Earnings (loss) per basic share from net income (loss) are 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	
	2014	2013
Cash on hand	3,967	3,553
Cash at banks	1,100,068	1,252,564
Short-term deposits	5,839,472	2,731,025
	6,943,507	3,987,142

5- Receivables From Electricity Consumers and Accrued Revenues, Net

	SR'000	
	2014	2013
Electricity subscribers' receivable		
Governmental institutions	5,254,601	6,978,479
Commercial and residential	4,484,536	5,182,922
Electricity connection receivables	2,294,234	1,402,152
Saudi Arabian Oil Company ("Saudi Aramco")	1,685,658	3,325,023

Saline Water Conversion Corporation	458,373	388,628
VIPs consumers	351,121	2,631,261
Total electricity subscribers' receivable	14,528,523	19,908,465
Less: Provision for doubtful receivables	(249,578)	(2,884,759)
Net electricity subscribers' receivable	14,278,945	17,023,706
Add: Accrued revenues	1,564,730	1,427,938
Total	15,843,675	18,451,644

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

	SR'000	
	2014	2013
Balance at the beginning of the year	2,884,759	2,753,079
Charge for the year	-	131,680
Reversal of provision for doubtful receivables *	(2,635,181)	-
Balance at the end of the year	249,578	2,884,759

* During the current year, the Company was able to recover certain receivables previously provided for.

6- Prepayments and Other Receivables, Net

	SR'000	
	2014	2013
Advances to contractors and suppliers	5,949,272	5,748,002
Other government receivables	2,875,442	244,173
Prepaid expenses	18,781	13,204
Outstanding letters of credit	1,990	76,033
Other receivables, net	782,835	695,674
Total	9,628,320	6,777,086
Less: Provision for other doubtful receivables	(60,216)	(60,789)
	9,568,104	6,716,297

7- Inventories, Net

	SR'000	
	2014	2013
Generation plant materials and supplies	3,116,059	3,038,500
Distribution network materials and supplies	2,905,828	2,949,956
Fuel and oil	423,677	467,593
Transmission network materials and supplies	357,313	372,368
Other	292,886	286,327
Total	7,095,763	7,114,744
Less: Provision for slow-moving inventories	(493,354)	(476,488)
	6,602,409	6,638,256

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

	SR'000	
	2014	2013
Balance at the beginning of the year	476,488	435,343
Charge for the year	16,866	41,145
Balance at the end of the year	493,354	476,488

8- Loans to Associated Companies

Loans to associated companies represent the Company's share in the subordinated loan extended to those companies according to the agreements between partners in proportion of their equity. These subordinate loans do not carry any commission.

	Ownership %	SR'000	
Associate Company		2014	2013
Hajr for Electricity Production Company	50	1,274,983	-
Dhuruma Electricity Company	50	825,317	947,192
Rabigh Electricity Company	20	105,950	182,750
Jubail Water and Power Company	5	43,875	-
Total		2,250,125	1,129,942

9- Equity Investments in Companies and Others

	SR'000	
	2014	2013
Investments accounted for under the equity method (a)	1,834,129	1,874,065
Other investments, at cost (b)	272,631	125,650
Held to maturity investments (c)	146,470	120,000
	2,253,230	2,119,715

a) Investments accounted for under the equity method

		SR'000					
31/12/2014	Ownership %	Opening balance before Company's share from cash flow hedge reserve as of 1 January 2014	Addition during current year	Share from income (loss)	Gross investment balance before Company's share from cash flow hedge reserve as of 31/12/2014	Share from cash flow hedge reserve**	Net investment as of 31/12/2014
Gulf Cooperation Council Interconnection Authority (a-1)	31.6	1,716,373	-	(53,184)	1,663,189	-	1,663,189
Water and Electricity Company (a-2)	50.0	14,362	-	146	14,508	-	14,508
Hajr for Electricity Production Company (a-3)*	50.0	5,000	-	83,962*	88,962	(82,343)	6,619
Rabigh Electricity Company (a-4)*	20.0	233,486	-	39,571*	273,057	(123,244)	149,813
Dhuruma Electricity Company (a-5)*	50.0	17,887	-	63,160*	81,047	(81,047)	-
Al Mourjan for Electricity Production Co. (a-6)*	50.0	5,000	-	*(353)	4,647	(4,647)	-
		1,992,108	-	133,302	2,125,410	(291,281)	1,834,129

		SR'000					
31 December 2013	Ownership %	Opening balance before Company'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)	50.0	14,183	-	179	14,362	-	14,362
Hajr for Electricity Production Company (a-3)*	50.0	5,000	-	-	5,000	(5,000)	-
Rabigh Electricity Company (a-4)*	20.0	553	182,750	50,183*	233,486	(95,156)	138,330
Dhuruma Electricity Company (a-5)*	50.0	2,000	-	15,887*	17,887	(17,887)	-
Al Mourjan for Electricity Production Co. (a-6)*	50.0	-	5,000	-	5,000	-	5,000
		1,790,163	187,750	14,195	1,992,108	(118,043)	1,874,065

* The Company purchases energy produced by Hajr for Electricity Production Company, Rabigh Electricity Company and Dhuruma Electricity Company which are engaged in the energy production. The Company's share of net income of these companies together with the equivalent costs of energy purchased have been eliminated, being inter-company transactions. The Company's share of those companies' net income during the year ending 31/12/2014 amounted to SR 186 million (2013: SR 66 million).

**These amounts represents Company's share in unrealized losses from change in the fair value for hedging contracts recognized within the equity of investees to the extent of investment balance. Additional reserves amounting of SR 201 million as of 31/12/2014 (2013: SR 185 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 23 Rabi Awal 1423H which encourages the participation of the private sector in the water desalination project. The Company's share at inception amounting to SR 15 million was paid in full and consists of 300,000 share representing 50% of the investee's share capital.

(a-3) Hajr for Electricity Production Company

Pursuant to the Board of Directors' Resolution No. 4/95/2010 dated 12 Ramadan 1431H corresponding to 22 August 2010, the Company established Hajr for Electricity Production Company with a share capital of SR 2 million. During 2011, a new partner has been admitted and the capital has been increased by SR 8 million to become SR 10 million fully paid. 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 26 Jumad Awal 1429H corresponding to 3 June 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 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 a loan extended previously.

(a-5) Dhuruma Electricity Company

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

(a-6) AL Mourjan for Electricity Production Company[see note]

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

b) Other investments, at cost

	Ownership %	SR'000	
		2014	2013
Shuaiba Water and Electricity Company	8	124,840	124,840
Shuqaiq Water and Electricity Company	8	89,600	400
Jubail Water and Power Company	5	44,125	250
Shuaibah Expansion Holdings Company	8	14,066	160
Total		272,631	125,650

c) Held to maturity investments

	SR'000	
	2014	2013
Saudi British Bank's Sukuk "SABB"	70,000	70,000
Sadara Company for Basic Services' Sukuk "Sadara"	25,000	25,000
Arabian Aramco Total Services Company's Sukuk "SATORP"	24,470	25,000
National Commercial Bank's Sukuk "NCB"	17,000	-
National Petrochemical Company's Sukuk "PetroChem"	10,000	-
Total	146,470	120,000

10- Construction Work in Progress

	SR'000					
	2014					2013
	Generation Projects	Transmission Projects	Distribution Projects	General projects	Total	Total
At the beginning of the year	29,423,075	18,626,502	4,375,000	1,756,879	54,181,456	39,889,549
Additions during the year	16,958,388	19,461,183	12,167,316	920,253	49,507,140	40,582,126
Transfer to fixed assets	(24,612,419)	(7,777,507)	(11,268,715)	(956,202)	(44,614,843)	(26,290,219)
Balance at 31 December 2014	21,769,044	30,310,178	5,273,601	1,720,930	59,073,753	
Balance at 31 December 2013	29,423,075	18,626,502	4,375,000	1,756,879		54,181,456

Net borrowing cost capitalized on projects under construction during the year amounted to SR 1,951million (2013: SR1,241 million).

11- Fixed Assets, Net

SR'000								
	2014							2013
	Land	Buildings	Machinery and equipment	Capital spare parts	Vehicles and heavy equipment	Others	Total	Total
Cost:								
At the beginning of the year	2,407,316	19,245,248	312,110,699	4,401,517	1,200,886	5,143,988	344,509,654	318,316,222
Additions	256,149	4,087,835	38,484,361	176,519	154,948	2,283,231	45,443,043	26,653,426
Disposals	-	(9,904)	(542,937)	(891)	(290)	(2,951)	(556,973)	(459,994)
At the end of the year	2,663,465	23,323,179	350,052,123	4,577,145	1,355,544	7,424,268	389,395,724	344,509,654
Depreciation:								
At the beginning of the year	-	11,019,822	143,540,158	2,254,693	1,047,187	3,084,602	160,946,462	149,664,122
Charge for the year	-	848,719	11,981,197	157,309	81,376	491,369	13,559,970	11,729,858
Disposals	-	(9,734)	(470,234)	(891)	(290)	(2,949)	(484,098)	(447,518)
At the end of the year	-	11,858,807	155,051,121	2,411,111	1,128,273	3,573,022	174,022,334	160,946,462
Net book amounts:								
At 31 December 2014	2,663,465	11,464,372	195,001,002	2,166,034	227,271	3,851,246	215,373,390	
At 31 December 2013	2,407,316	8,225,426	168,570,541	2,146,824	153,699	2,059,386		183,563,192

Included in land are plots of land with a book value of SR 188 million (2013: 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					
	2014				
	Generation	Transmission	Distribution	General Property	Total
Land	238,335	587,244	225,151	1,612,735	2,663,465
Buildings	7,418,931	2,804,612	232,996	1,007,833	11,464,372
Machinery & equipment	79,154,979	55,445,993	60,024,625	375,405	195,001,002
Capital spare parts	1,626,809	442,063	97,069	93	2,166,034
Vehicles and heavy equipment	-	208	-	227,063	227,271

Others	2,074,952	1,168,548	399,634	208,112	3,851,246
	90,514,006	60,448,668	60,979,475	3,431,241	215,373,390

	SR'000				
	2013				
	Generation	Transmission	Distribution	General Property	Total
Land	238,335	587,244	225,151	1,356,586	2,407,316
Buildings	4,195,606	2,887,660	203,432	938,728	8,225,426
Machinery & equipment	64,655,827	50,950,104	52,621,300	343,310	168,570,541
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	298,362	23,706	2,059,386
	71,814,950	55,485,895	53,446,177	2,816,170	183,563,192

Depreciation expenses charged to various activities during the year ended 31 December 2014 are as follows:

	SR'000	
	2014	2013
Generation depreciation expense	5,923,473	4,954,719
Transmission depreciation expense	3,458,711	3,151,712
Distribution depreciation expense	3,837,631	3,333,985
General property depreciation expense	340,155	289,442
	13,559,970	11,729,858

12- Accounts Payable

	SR'000	
	2014	2013
Saudi Aramco payable for fuel cost	68,315,477	62,690,790
Transferred to Government account (a)	(57,200,552)	(57,200,552)
Saudi Aramco payable for fuel cost, net	11,114,925	5,490,238
Saline Water Conversion Corporation for energy purchased	9,631,861	9,257,407
Advances received for construction of projects	9,038,979	5,892,310
Municipality fees	4,767,910	4,239,703
Contractors and retention payables	679,971	586,315
Payables to suppliers	426,246	347,429
Other (b)	3,462,363	2,441,487
	39,122,255	28,254,889

a) This amounts represent, as of 31 December 2014 payables for fuel for the period from 5 April 2000 to 31 December 2012 (2013: for the period from 5 April 2000 to 31 December 2012) 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 1,225million (2013: SR 1,225million) 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	
	2014	2013
Accrued expenses	3,890,440	3,383,692
Accrued employees' benefits	696,875	523,692
Accrued interests on loans	376,964	172,526
Dividends payable *	368,833	351,174
Other	239,546	240,926
	5,572,658	4,672,010

* Dividends payable as of 31 Dec 2014 include unclaimed cash dividends declared by Saudi Consolidated Electricity Company prior to merger, amounting to SR 86.5 million (2013: SR 86.8million).

14. Zakat

Zakat Base:

The major components of Zakat base are as follows:

	SR'000	
	2014	2013
Net income before zakat	3,606,594	3,035,869
Add: zakat adjustment	(10,981,070)	(10,656,983)
Net adjusted loss	(7,374,476)	(7,621,114)
Zakat base is calculated as follows:		
Share capital	41,665,938	41,665,938
Net adjusted loss	(7,374,476)	(7,621,114)
Retained reserves	2,659,448	2,350,929
Retained earnings	11,960,030	9,775,006
Retained allowances	6,326,159	8,604,570
Long-term loans and sukuk	54,177,087	45,558,421
Government loans and payables	68,496,094	53,682,616
Contractors' accruals and others	955,148	937,489
Total	178,865,428	154,953,855
Deduct:		
Fixed assets and construction work in progress, net	(190,468,449)	(148,419,213)
Difference on depreciation of fixed assets for previous years	(59,073,753)	(66,403,626)
Long-term investments	(1,999,675)	(2,100,521)
Material and spare parts inventories	(5,135,919)	(5,090,429)
Zakat base (negative)	(77,812,368)	(67,059,934)

No zakat is due on the Company for the year ended 31 December 2014 as the net adjusted loss and zakat base is negative.

Zakat status:

The Company has received the zakat assessments for the period ended 31 December 2001 and for the years from 2002 to 2008 which showed zakat differences of SR 37.5 million for the period ending 31 December 2001 and the years 2002, 2003 and 2004. The Company has filed appeals against those differences which were rejected by the Department of Zakat and Income Tax ("DZIT") and referred them to the first Preliminary Zakat and Tax Appeal Committee ("PAC"). PAC has rejected the appeal in form, per its resolution No. 29 for the year 1433H. The Company has filed an appeal before the Tax Appeal Committee ("TAC") which has reviewed the Company's appeal and rejected it per its ruling No.1458 for the year 1436H. The Company has filed the Zakat returns for the years 2009 to 2013 which are still under review by DZIT.

15- Long-term Loans

	SR'000	
	2014	2013
At the beginning of the year	17,493,931	13,664,986
Withdrawal during the year	3,997,635	5,645,936
Repayments during the year	(1,816,969)	(1,816,991)
At the end of the year	19,674,597	17,493,931
Less: Current portion of long-term loans	(2,254,469)	(1,816,969)
Long-term balance at the end of the year	17,420,128	15,676,962

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

	SR'000	
	2014	2013
More than one year	2,254,469	1,921,378
Between two to three years	2,254,469	1,921,378
Between three to four years	2,254,469	1,921,378
Between four to five years	2,254,469	1,921,378
More than five years	8,402,252	7,991,450
	17,420,128	15,676,962

- 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 billion as of 31 December 2014 (2013: SR3.6 billion).
- B. The Company signed a financial 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 USD 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 to SR 2.3 billion as of 31/12/2014 (2013: SR 2.7 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 billion as of 31 December 2014 (2013: SR 2.3 billion).
- D. On 13/12/2010, the Saudi Electricity Company signed an agreement with the syndicate of local banks, whereby the Company will obtain a Shariah-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 4.2 billion as of 31 December 2014 (2013: SR 4.6 billion).
- E. On 22/6/2011, the Company signed an agreement with the 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 2.8 billion as of 31 December 2014 (2013: SR 3.1 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\$ 1.4 billion) 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 to SR 5.3 billion as of 31 December 2014 (2013: SR 1.3 billion).
- 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 2014.
- H. On 19 December 2013, the Company signed a loan agreement guaranteed by two export Korean banks (K Shore and K Exim), where Export Korean banks (K Shore and K Exim), and various international banks, Tokyo-Mitsubishi Bank, Mizuho Bank, Sumitomo 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 2014.

The long-term loans mentioned above are used to finance construction projects. These loans are secured by promissory notes signed 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 2014 with local commercial banks amounting to SR 700 million (2013: SR 1 billion).

16. Sukuk

The outstanding Sukuk as of 31 December 2014 are as follows:

Local Sukuk:

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

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

The Company has undertaken to purchase these sukuk from sukuk holders at dates specified in prospectus. For each purchase date, the Company shall pay an amount of 5% 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 purchased date	Second purchased date	Third purchased date
Sukuk 3	2017	2020	2025
Sukuk 4	2024	2034	2044

The Company fully purchased its first sukuk issued (Sukuk 1) on 15 July 2012 amounting to SR 5 billion.
The Company fully purchased its second sukuk issued (Sukuk 2) on 6 July 2014 amounting to SR 7 billion.

Global Sukuk:

- A. 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 matures after 5 years with a fixed rate of 2.665%, the second type amounting to US\$ 1,250 million maturing after 10 years with a fixed rate of 4.211%.
- B. During April 2013, the Company also issued Sukuk amounting to 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 a fixed rate of 3.473%. The second type amounting to US\$ 1 billion maturing after 30 years with a fixed rate of 5.06%.
- C. During April 2014, the Company also issued Sukuk amounting to SR 9.4 billion equivalent to approximately US\$ 2.5 billion. The issuance consists of two types of Sukuk Certificates: the first type amounting to US\$ 1.5 billion matures after 10 years with a fixed rate of 4%, the second type amounting to US\$ 1 billion mature after 30 years with a fixed rate of 5.5%.

17- Employees’ Indemnities

	SR’000	
	2014	2013
Provision for end-of-service indemnities	4,750,868	4,371,338
Employee savings fund	673,443	498,270
Human recourses productivity improvement program (the “Program”)-(a)	218,444	312,945
	5,642,755	5,182,553

- A. This amount represents the present value of future payments which the Company has a 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	
	2014	2013
Balance at the beginning of the year	23,966,410	22,289,701
Collected from connection tariff services projects	3,884,467	3,355,773
Realized during the year	(1,851,606)	(1,679,064)
	25,999,271	23,966,410

19- Government Loans

- A. Pursuant to the Ministerial resolution number 169 dated 11 Sha'ban 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 27 Jumad Thani 1418H corresponding to 29 October 1997. The net difference payable to the Government by the Company, as determined at the close of the business day preceding the issuance of the Royal Decree for the incorporation of the Company, is considered a non-interest bearing long-term loan (soft loan) with a grace period of twenty five years starting from the date of the announcement of the incorporation of the Company. The loan is to be revisited later on subjected to the financial condition of the Government and the Company. The minutes of the meeting held on 21 Rajab 1422H between the Minister of Industry and Electricity and the Minister of Finance and National Economy in which the initial amount of the Government loan was determined, states that the final settlement of the Government accounts will be subjected 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 were signed between the Minister of Water and Electricity and the Minister of Finance on 15 Rajab 1426H which brought the balance of Government loan amounted to SR 14.9 billion.
- B. The Council of Ministers approved, in its meeting held on Monday 12 Jumad 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. This loan has been fully withdrawn as at 31 December 2014 (2013: 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 made for this purpose between the Ministry of Finance and the Saudi Electricity Company. An amount of SR 30.7 billion from this loan has been withdrawn as at 31 December 2014 (2013: SR 23 billion). The Company recognized the amount received from the government loan above discounted at its present value.
- D. The Council of Ministers approved in its meeting held on Monday 9 Jumad Awal 1435H corresponding to 10 March 2014, to grant the Company a soft loan amounting to SR 49.4 billion repayable over 25 years. The loan will be paid to the Company within 5 years in accordance with an agreement made for this purpose between the Ministry of Finance and the Saudi Electricity Company. An amount of SR 7 billion from this loan has been withdrawn as at 31 December 2014 (2013: nil). 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 of 31 December 2014, SR 57 billion represents the accounts payable for fuel for the period from 5 April 2000 to 31 December 2012 (2013: SR 57 billion represents the accounts payable for fuel for the period from 5 April 2000 to 31 December 2012) 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 34 billion as at 31 December 2014 (2013: SR 24.7 billion) representing the difference between the amount received from the Government as soft loans and the discounted present value of these loans (Note 19- (b), (c) & (d)).

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 1.8 billion on 31/12/2014 (2013: SR 2.2 billion) which includes a US\$ 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 recognized 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 214 million that were reflected in the books of the Saudi Consolidated Electricity Company at the date of the merger, and investment income from an electricity fund of SR 295 million as well as the collections of surcharge from individuals subsequent to 31 December 2001 amounting to SR 46 million thousand up to 31 December 2014 (2013: SR 37million). The total general reserve amounted to SR 555 million as at 31 December 2014 (2013: SR 545 million).

24- Operation and Maintenance Expenses

	SR'000				
	2014				2013
	Generation	Transmission	Distribution	Total	Total
Employees' expenses and benefits	1,647,624	1,060,105	3,087,092	5,794,821	4,540,712
Operation and maintenance (contractors)	584,263	149,822	569,754	1,303,839	1,125,547
Materials	781,302	66,645	207,583	1,055,530	1,118,435
Municipality fees	-	-	542,517	542,517	517,679
Provision for doubtful receivables	-	-	-	-	131,680
Provision for slow-moving inventory	10,405	1,917	3,205	15,527	36,856
Others	1,104,441	177,160	586,749	1,868,350	1,622,618
	4,128,035	1,455,649	4,996,900	10,580,584	9,093,527

25- General and Administrative Expenses

	SR'000	
	2014	2013
Employees' expenses and benefits	401,036	254,733
Materials	52,828	49,372
Communication fees	44,795	40,659
Provision for slow-moving inventory	1,339	4,289
Others	89,342	22,084
	589,340	371,137

26- Other Income and Expenses, Net

	SR'000	
	2014	2013
Penalties	230,355	153,264
Gain on disposal of fixed assets	91,736	86,784
Sale of tender documents	34,443	41,768
Share in net loss of investee companies accounted for under the equity method (Note 9-(a))	(53,038)	(51,875)
Others, net	106,908	95,913
	410,404	325,854

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 2014, approved to distribute cash dividends for 2013 to individual shareholders amounting of SR 547 million (SR 0.7 per share) representing 7% of the par value per share (for 2012: SR 547 million).

The board of directors in its meeting held on 4 Jumad Awal 1436H corresponding 23 February 2015, proposed to distribute cash dividends for 2014 to individual shareholders amounting to SR 547 million (SR 0.7 per share), representing 7% of the par value per share. These are subjected 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 meetings for the year amounted to SR 799 thousand (2013: SR 980 thousand). The General Assembly has approved, in its meeting held on 15/4/2014, the board of directors' remuneration of SR 863 thousand from the retained earnings for the year 2013 (for the year 2012: 919 thousand).

The board of directors, in its meeting held on 4 Jumad Awal 1436H corresponding 23 February 2015, proposed board's remuneration of 866 thousand after the distribution of dividends to individual shareholders not less than 5% of the share capital. This is subject to the general meeting's approval.

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

a) Settlement of dispute on power exchange

During July 2014, the Company has reached to settlement agreement with Saudi Aramco in respect to old outstanding claims related to cost of exchanged power for previous periods. Therefore, the Company has made additional provisions amounting to SR 537 million during the current year against these claims and received net amount of SR 1.5 billion as a final settlement.

b) Settlement of dispute on electric tariff:

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

The Company has executed the regulator decree number 49/432 dated 8 Jumad Awal 1432H classifying Saudi Aramco electricity consumption tariff starting from 1 January 2012, accordingly, the disputed residential and commercial enterprises mentioned above were identified, and the agreed upon tariff were applied on Saudi Aramco consumption. Further, the Company has also completed the calculation of the previous years' consumption since date of inception up to 31 December 2011 according to regulator decree mentioned above and has submitted the invoices to Saudi Aramco with total amount of SR 729 million. During 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.

30- Related Parties Transactions

The significant transactions and related approximate balances are as follows:

	SR'000	
	2014	2013
Sales		
Government	9,262,917	8,285,140
Saudi Aramco	294,652	1,763,138
Saline Water Conversion Corporation	179,935	195,354
	9,737,504	10,243,632
Purchases and Others		
Saudi Aramco	5,629,779	5,978,341
Dhuruma Electricity Company	1,066,110	1,040,882
Rabigh Electricity Company	1,054,428	966,787
Municipalities fees	542,517	517,679
Saline Water Conversion Corporation	524,672	570,715
Hajr for Electricity Production Company	375,719	-
	9,193,225	9,074,404

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 2014 amounted to approximately SR 4,030 million (2013: SR 3,649 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 1,909 million (2013: SR 1,556 million) not accounted for in the Company's books.
- B. Saudi Aramco also has a claim for the settlement of its share in the annual dividends since inception to 31 December 2013, estimated at SR 2,544 million. The Company believes that Saudi Aramco has no right to 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 10 years.

- C. The Company has received an amount of SR 464 million as penalties from contractors for their non-compliance with the conditions and time table of the construction contracts. The Company will recognize the final amounts of these penalties upon the completion of the underlying legal formalities.
- D. 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\$ 14.8 million equivalent to SR 55 million as of 31 December 2014 (2013: US\$ 75 million equivalent to SR 281 million). In addition, the Company has provided a guarantee for the Department of Zakat and Income Tax (DZIT) amounting to SR 37.5 million (2013: 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 121,188 million (2013: SR 93,671 million).
- B. The Company has long-term energy purchase agreements with independent power providers whereby the Company has undertaken to purchase all energy produced by these providers according to specific terms and prices. These agreements are for periods up to 20 years, and renewable for further periods by mutual consent of both parties, 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 695 million (2013: SR 1,253 million).

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 instruments will fluctuate 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 31 December 2014. 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 manages 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 charges 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 comprised of generation, transmission, and distribution and customer services activities. These activities complement each other in delivering electricity to the consumer. The Group's revenue is currently recognized from selling electricity to the end consumer based on the official tariff set by the government. All Group's operations are conducted in the Kingdom of Saudi Arabia.

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

Generation: Generation and provision of electricity power.

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

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

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

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

SR'000					
As of 31/12/2014	Saudi Electricity Company	The National Grid S.A. Company	Other subsidiaries	Inter-Company Balances	Total
Fixed assets, net	154,924,723	60,448,667	-	-	215,373,390
Total assets	312,708,884	72,965,270	135,291	(67,901,252)	317,908,193
Total liabilities	256,915,259	59,516,398	65,435	(57,831,395)	258,665,697

SR'000					
As of 31/12/2013	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

35- Prior Year Adjustments and Comparative Figures

During the fourth quarter of the year ended 31 December 2013, the Company has accounted for its share in unrealized losses from hedge reserve shown in the equity of investee companies of which the Company is accounting for its investment in these companies using the equity method. Consequently, the opening balances of the shareholders' equity – cash flow hedges reserve – were adjusted by SR 520 million as of 1 January 2013 in (Note (9) & (21)).

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



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