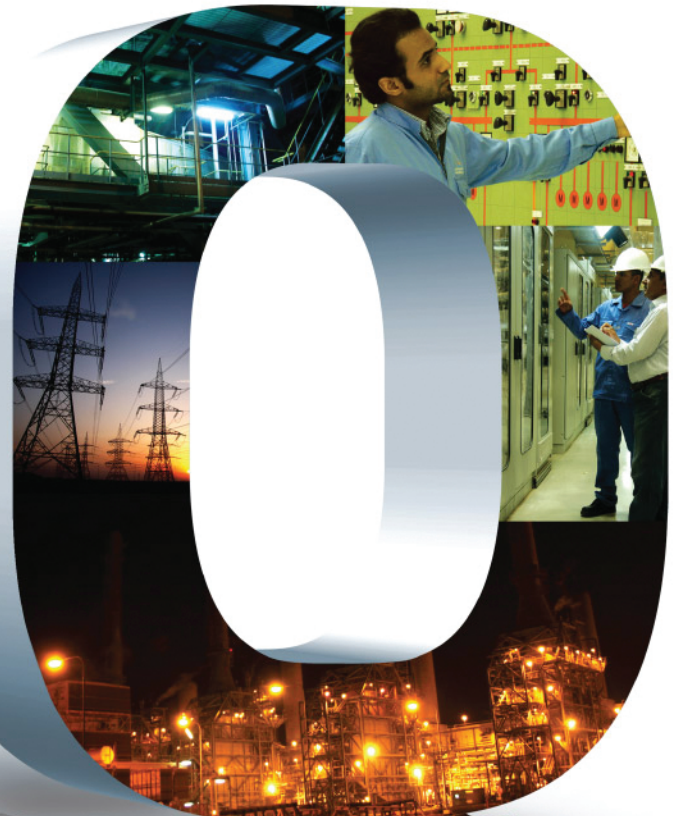




الشركة السعودية للكهرباء  
Saudi Electricity Company  
*Empowering Energy*

1976  
1986  
1996  
2000  
2010







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



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



His Royal Highness  
**Prince Naef Ibn Abdul Aziz Al-Saud**  
Second Deputy Prime Minister and Minister of Interior

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**Board of Directors**



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



**Sulaiman Ibn Abdullah Alkadi**  
Vice Chairman of the board



**Isam Ibn Alwan Al-Bayat**  
Member of the Board



**Khaled Ibn Abdullah Al-Sabti**  
Member of the Board



**Abdullah Ibn Mohammed Basodan**  
Member of the Board



**Saleh Ibn Saad Al-Mehanna**  
Member of the Board



**Saud Ibn Mohammed Al-Nemer**  
Member of the Board



**Abdulaziz Ibn Saleh Al-Fereih**  
Member of the Board



## Our Vision

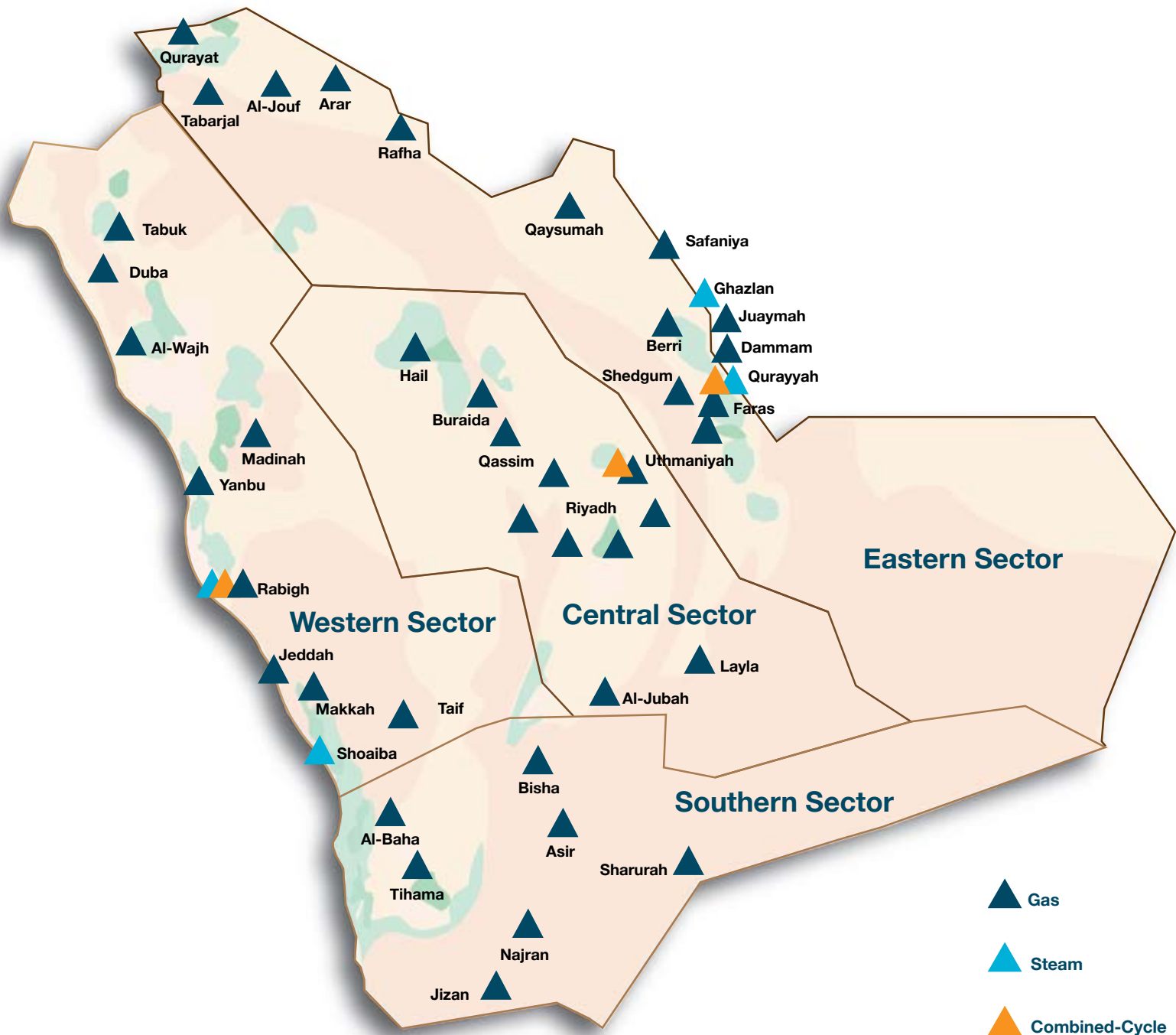
To help and improve the standards of living and enhance the economic competitiveness of the Kingdom of Saudi Arabia.



## Our Mission

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

# Scope of Our Operations





## **Statement of the Chairman of the Board of Directors**





Since its incorporation in 2000, the Saudi Electricity Company has continued its tireless efforts in strengthening the electricity system. This is in spite of the challenges the company has been facing due to increasing growth in the demand for electric power which reached 8%, the enormity of funding required for the implementation of electric power generation and distribution projects, the great disparity between the cost of electricity production and its selling prices, the seasonal variation of loads, and less generation reserve during summertime peak demand periods.

Despite these challenges, by the grace of almighty Allah and His help, great achievements have been realized. Accordingly, the available electrical power generation capacity increased by 100 %, the lengths of the transmission networks increased by 56%, and the distribution networks and electricity connections increased by 69%. As for the number of customers, it jumped from 3.5 million customers to 5.9 million customers. In addition, the number of electrified cities, towns, and villages has reached 12,000.

With the aim of supporting the Company's financial revenues, joint efforts have been made by the Ministry of Water and Electricity, the Electricity & Co-generation Regulatory Authority, and the Company to review the electricity tariffs. With effect from the beginning of July 2010, the decision of the regulatory authority's board of directors, No. 1/22/31 dated 01.06.1431 H, concerning the amendment made to the tariffs for governmental, commercial, and industrial consumptions has been put into force.

What confirms the improvement of the Company's performance and the care it accords to its employees is the Company's winning of the first quality award, at the Kingdom level competition, held for the King Abdul Aziz Quality Award. The Company also got first place in the nationalization of jobs for the fifth time, as the percentage of the Saudi employees reached 86.28%. The Company has been honored with these two awards in appreciation of the efforts exerted by it to develop its works, improve its performance, and raise the efficiency of production in order to serve the customers and developmental sectors in the Kingdom.

The Company has also continued to implement the program of private sector participation in electricity production projects which it had adopted in 2007. The first project has been awarded for the city of Rabigh, in the Western Region, with a capacity of 1,200 MW. The second project has been awarded for the city of Riyadh with a capacity of 1,729 MW while the third project was put up for tender in the Eastern Province with a capacity of 1,800 MW.

With regard to the program of restructuring the activities of the Saudi Electricity Company, a program is currently under execution in the light of a plan adopted by the board of directors to segregate the key activities into financially and administratively independent companies under the umbrella ownership of the Saudi Electricity Company. Assets, revenues, and expenses of each company shall be fixed separately at the time of incorporation. The first of these companies has been established under the name of National Electricity Transmission Company, whose members of the Board of Directors have been appointed, and it has started its activities during the first quarter of 2011.

In conclusion, on behalf of the members of the Board of Directors of the Company, I am pleased to extend my heartfelt thanks, appreciation, and gratitude to The Custodian of the Two Holy Mosques King Abdullah Ibn Abdul Aziz, to His Royal Highness Prince Sultan Ibn Abdul Aziz, The Crown Prince, Deputy Prime Minister and Minister of Defense and Aviation and Inspector General, and to His Royal Highness Prince Nayef Ibn Abdul Aziz, Second Deputy Prime Minister and Minister of Interior, may Allah preserve them for the generous support provided by the State to the Company. I would also like to thank HE Engineer Abdullah Ibn Abdul Rahman Alhosayn, Minister of Water and Electricity, on his support for the advancement of the Company in particular and the electricity sector in general. On behalf of the members of the Board of Directors, I would like to express my sincere thanks and appreciation to the shareholders and customers of the Company and its management, supplicating to Allah Almighty to help us all in achieving our aspiration to serve our beloved country.

**Saleh Ibn Hussein Al-Awajji**  
Chairman of the Board of Directors

1976  
1986  
1996  
2000  
2010



Achievements in Ten Years

# Achievements in Ten Years

| Item   | Since the Company's Establishment in 2000 | Percentage of Change During the Ten-Year Period  |
|--|---|--|
| Available Generation Capacity (MW)           | 25,000                                    |  100%     |
| Length of Transmission Network Lines (ckm)   | 29,600                                    |  56%      |
| Length of Distribution Network Lines (ckm)   | 226,664                                   |  69%      |
| Number of Customers (Million)                | 3.5                                       |  70%    |
| Electrified Towns, Villages, and Settlements | 7,610                                     |  58%    |
| Number of Employees                          | 31,000                                    |  -10.4% |
| Percentage of Saudization                    | 73%                                       |  18.2%  |

# Electricity in Ten Years

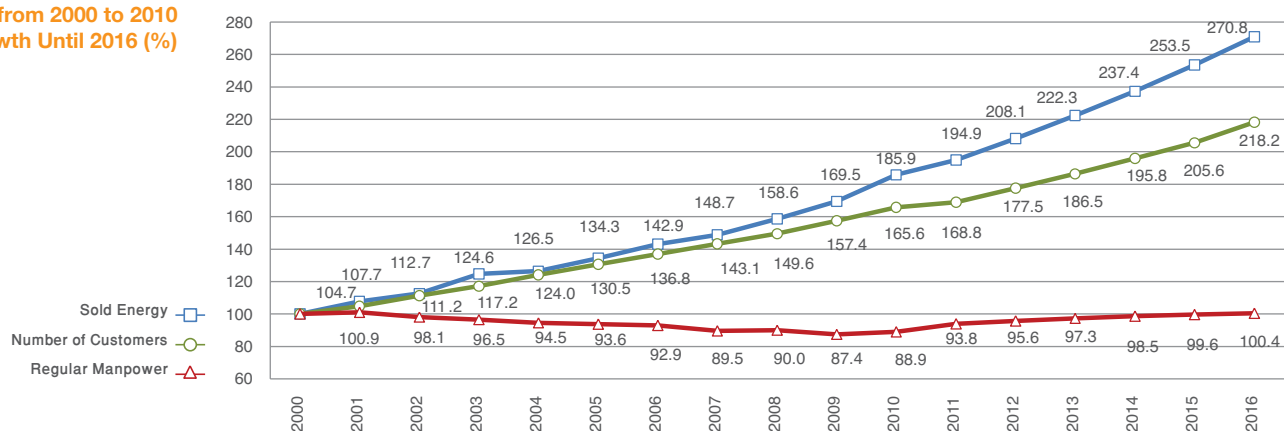
## Facts and Figures

10 years have passed since the establishment of the Saudi Electricity Company following the merger of all electricity companies into one company. During those years many facts, figures, and lots of achievements have been attained as the company exerted efforts to provide the most appropriate electrical services for its customers to enjoy. There were significant challenges faced by the company during those ten years, yet, the company continued its efforts to provide the citizens and residents in the Kingdom with a reliable electric service and to contribute to the industrial development and economic growth of the Kingdom.

Despite the rapid urban and economic growth in the kingdom, the company has been a part, to a large extent, of this growth and worked to establish the infrastructure for the electricity sector, which is confirmed by the figures presented in this report.

The growth indicators signify that at year-end 2010 the growth in the sold energy exceeded 85.9%, growth in the number of customers exceeded 65.6%, and that the expected growth rate for the sold energy will increase to reach 170.8% by the year 2016 as compared to year 2000, which requires a lot of electrical construction projects to cope with this rapid rise in demand for electric energy.

Company Achievements from 2000 to 2010  
and the Expected Growth Until 2016 (%)

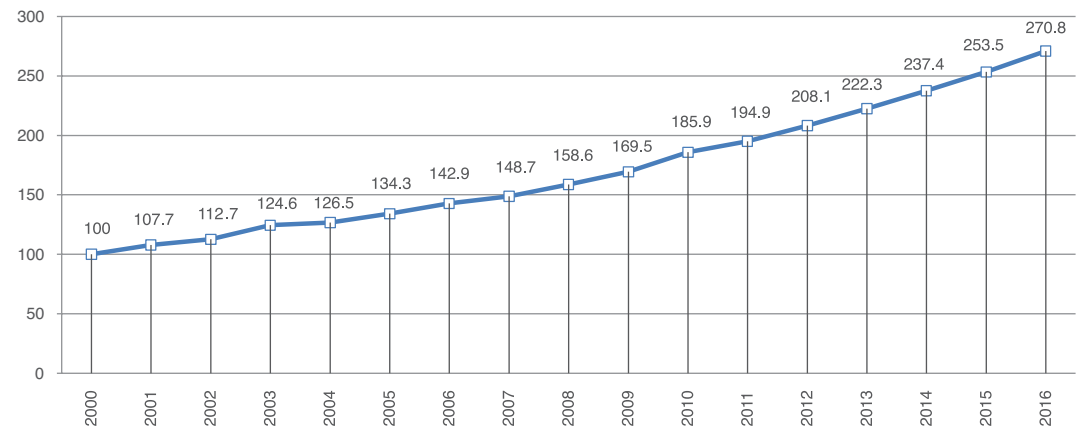




## Sold Energy

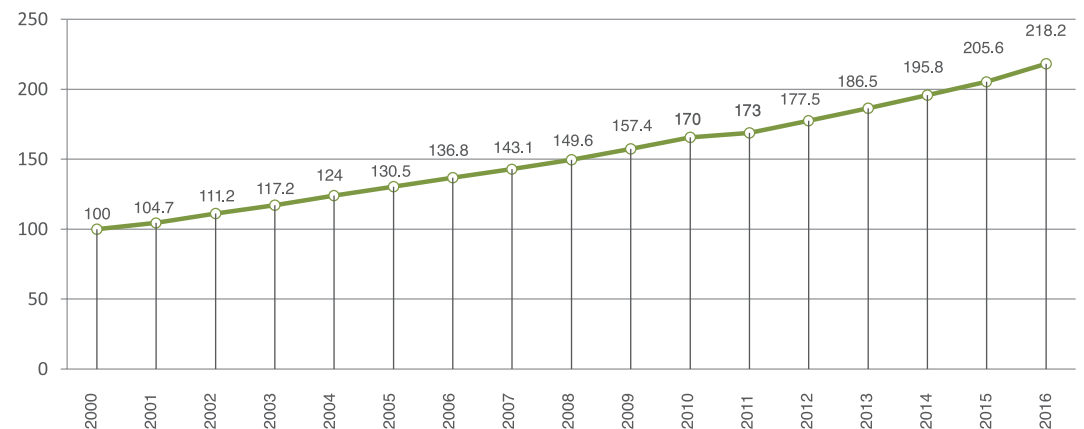
The sold energy has grown 86% since the year 2000 to 2010. It is expected to reach 171% growth by the year 2016 compared with 2000 and an increase of about 46% compared with 2010 figures.

Growth Levels of Sold Energy (%)



## Number of Customers

The number of customers has grown since the year 2000 to 2010 at a ratio of 100:170 indicating an increase of 70%. It is expected to reach 118% by the year 2016 compared to 2000 and an increase of about 32% over the 2010 figures.





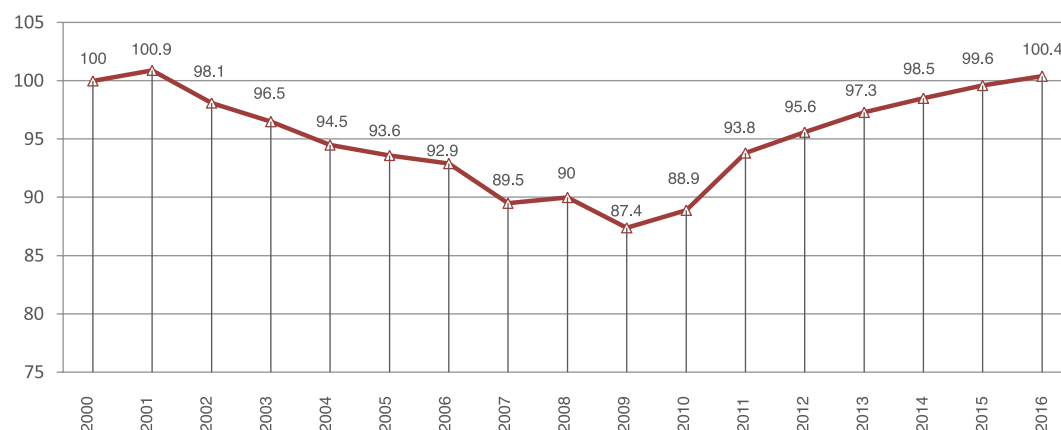
# Electricity in Ten Years

## Growth of Regular Manpower

The manpower has decreased since the year 2000 to 2010 at a ratio of 100:89 representing a decrease of about 11%. Manpower is expected to reach the 2000 level of 100% by the year 2016.

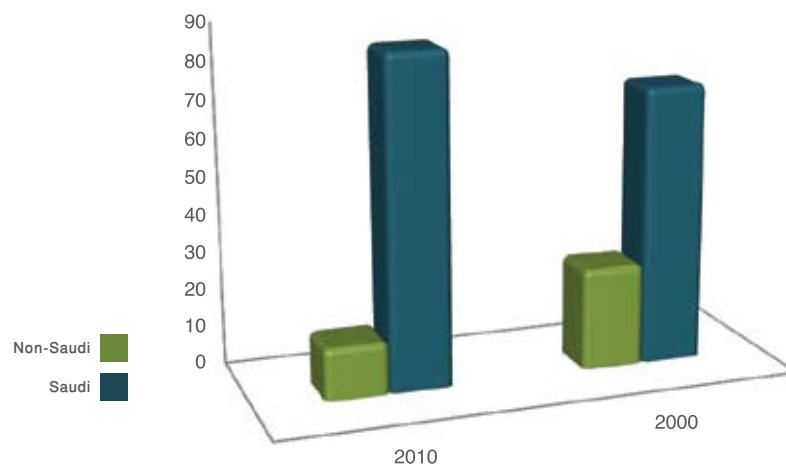
This indicates an increase in the operation efficiency of the manpower despite the rate of increases in the sold energy and in the number of customers.

Growth Levels of Regular Manpower



## Human Resources

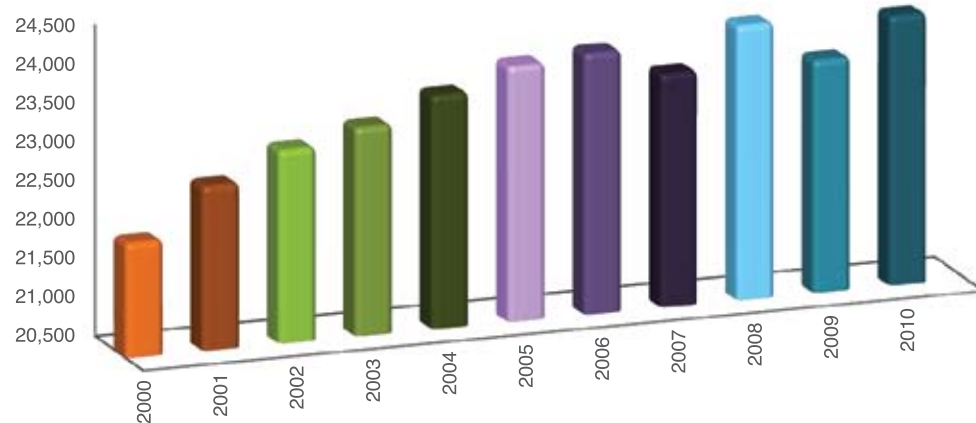
The numerous achievements of the Company over the past 10 years have been due to the qualified workforce that can perform all tasks entrusted to it. The high ratio of job nationalization is what made the Company stand out among other Saudi companies. The Company considers its workforce as a real capital investment upon which the Company relies on for the development and progress of its work, giving it great care.



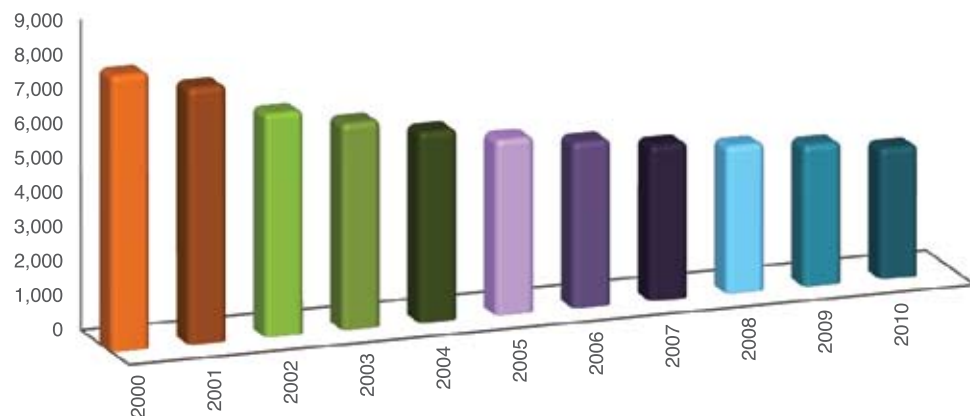


Statistics show that the Company is able to recruit competent personnel who can provide better service to its customers. The company has succeeded in developing the abilities of its staff as the ratio of the number of customers per employee rose to 232 customers in 2010 as compared to 124 customers in year 2000. Job nationalization rate went up to 86.28% at year end from 73.1% in the year 2000. Moreover, the number of Saudis employed in the Company at year-end 2010 reached 23,971 Saudis as compared to 21,976 Saudis in the year 2000 while the recorded number of foreign employees in the company at year-end 2010 was 3,811 from 8,052 foreign workers in 2000, indicating a decrease of 52.7%. The preceding figures confirm a percentage increase in employee efficiency despite a decrease in reliance on foreign labor.

#### Manpower Development in the Company



#### Non-Saudi Manpower Development in the Company

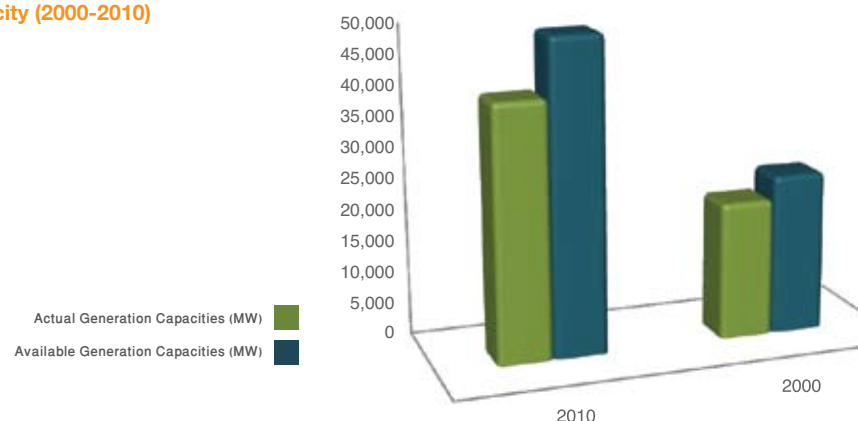


# Electricity in Ten Years

## Power Generation

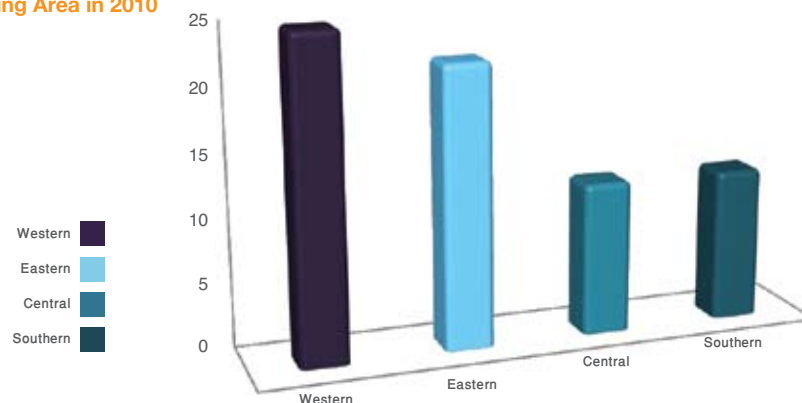
Statistics and figures confirm that there is a real boom in the electric power generation sector due to surging increase in demand for electric power which the Company has succeeded in providing much of the energy needs of the Kingdom in spite of financial difficulties, the global financial crisis, high cost of loans, and lack of substantial financial income. Yet despite these challenges, the Company has succeeded in diversifying sources of financing for generation projects. Currently, the Company owns 729 power generation units installed in 71 power stations with actual capacity of 40,697 MW. This shows that the Company has succeeded in raising its actual generation capacities from 21,698 MW on 5 April 2000 to 40,697 MW by the end of 2010. The Company achieved a total added capacity of 20,157 MW during the last 10 years or an average increase in generation capacity of 2,015.7 MW annually subsequent to installation, upgrade, and retirement of old units. The total available generation capacity in 2000 was 25,790 MW which included 3,730 MW contributions from desalination plants and large producers rising to approximately 50,000 MW in 2010 which include 9,165 MW from leased diesel units, desalination plants, and large producers.

Achieved Power Generation Capacity (2000-2010)



The Company's power generating stations are distributed in all four operating regions; 25 in the Western Region, 22 in the Eastern Region and 12 power stations in each of the Central and Southern Regions.

Number of Power Plants by Operating Area in 2010

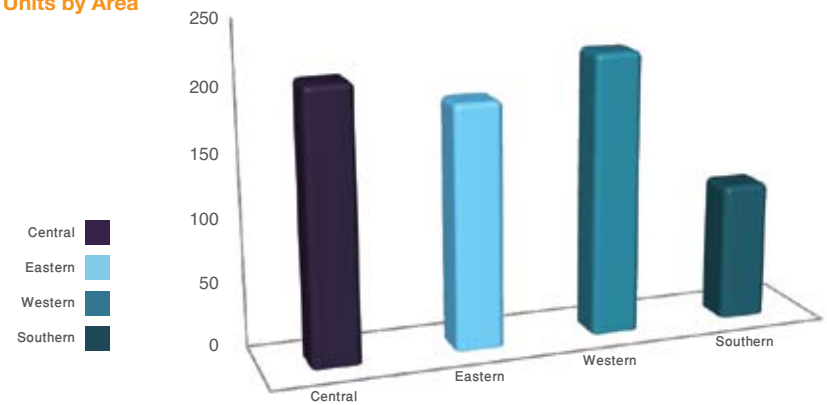




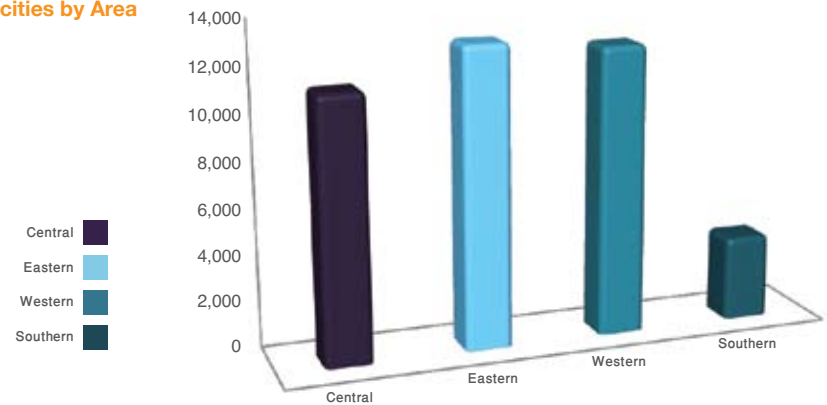
There are 220 generation units in the Western Region with actual generating capacity of 12,590 MW, 211 generation units in the Central Region with production capacity of 11,405 MW, 190 generation units in the Eastern Region with generation capacity of 13,000 MW, and 108 generation units in the Southern Region with production capacity of 3,702 MW.

The percentage rates of distribution of the 729 generation units in the operating regions were: Central Region 29%, Eastern Region 26%, Western Region 30%, and Southern Region 15%.

**Distribution of Power Generation Units by Area**



**Generation Capacities by Area**

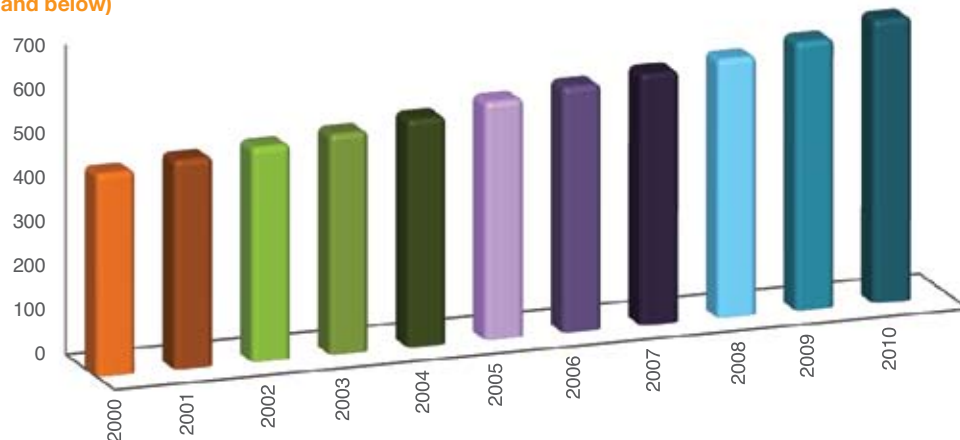


# Electricity in Ten Years

## Transmission

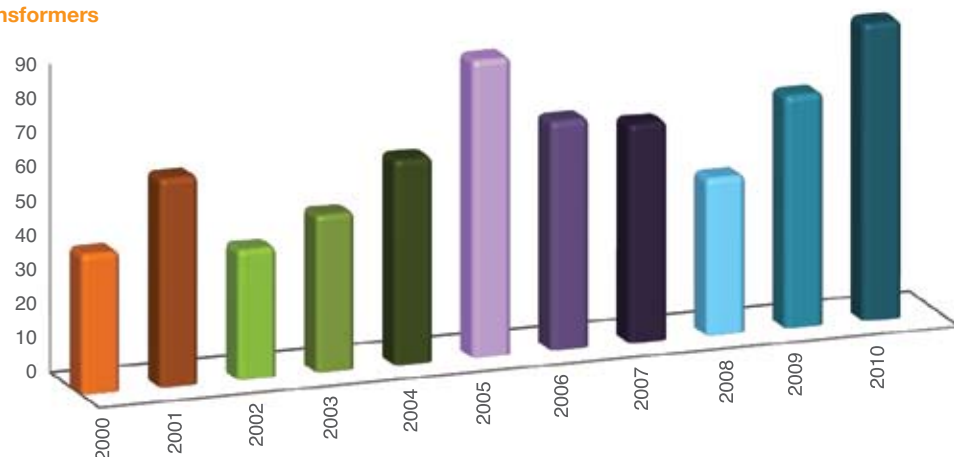
The Company's transmission network has seen actual development in its infrastructure. The figures show significant growth in the number of substations, transmission transformers, their capacities, and network lengths which have been expanded over the past ten years. A total of 189 transmission substations have been added which brought the total number of substations to 642 at year-end 2010 from 453 substations on 5 April 2000, indicating a percentage increase of 41.7% after exclusion of substations that have been decommissioned.

**Development of Power Transmission Substations (2000-2010)  
(110 KV and below)**



Moreover, the number of the transmission transformers increased in the same period from 1,189 to 1,845 transformers at a percentage increase of 55.2% or a total of 665 transformers added during the past ten years after exclusion of transformers that went out of service during that period. The years 2005 and 2010 have witnessed the most number of transmission transformer additions, where the company has added 87 transformers each year.

**Development of the Number of Added Transmission Transformers**

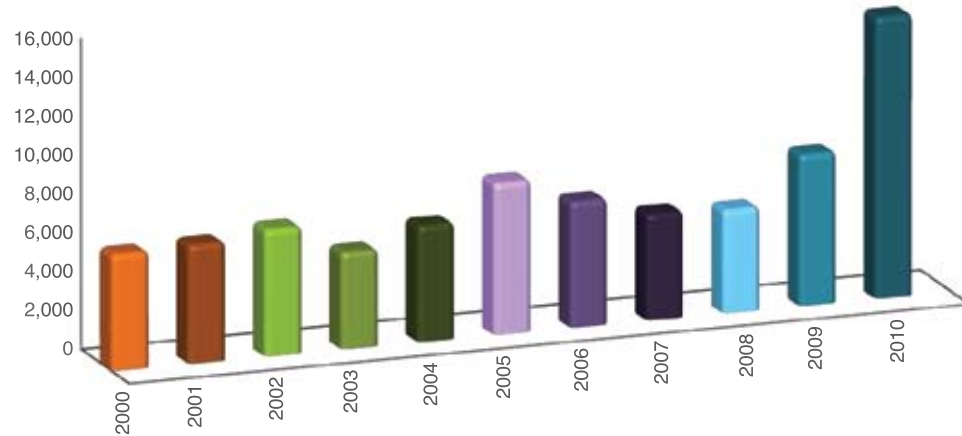




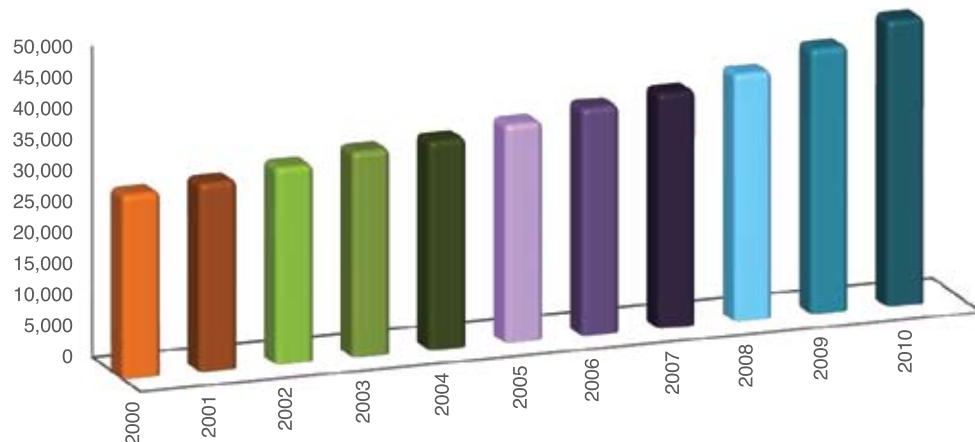


Consequently, the capacity of the transmission transformers rose to 176,090 MVA at year-end from 100,040 MVA on 5 April 2000; an addition of 77,148 MVA or a percentage increase of 76% which averaged at 7,714.8 annually. Furthermore, the transmission network lengths increased to 46 thousand ckm during the same period from 29 thousand ckm indicating a percentage increase of 58.6% to cover in turn large areas of the Kingdom. The year 2010 has witnessed the installation of a networks length of 3,476 ckm; the year the longest total network length was installed.

#### The Added Capacity of Transmission Transformers (MVA)



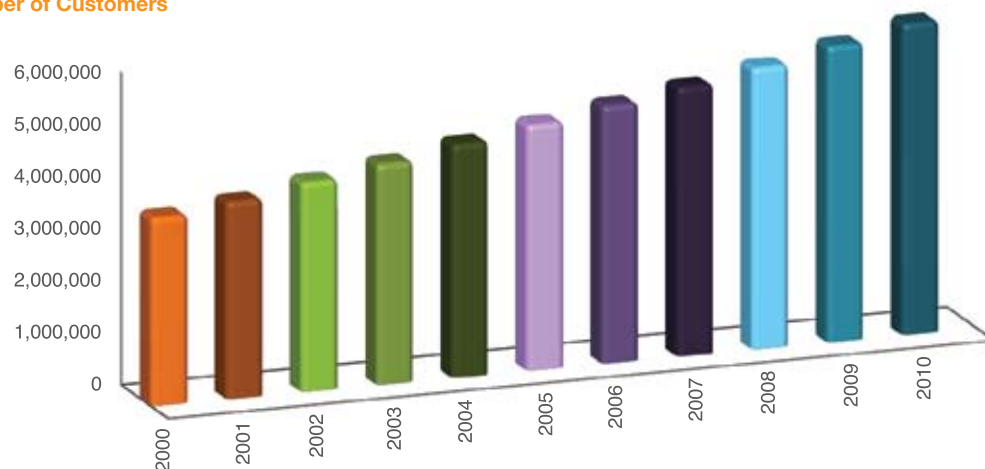
#### Lengths of the Transmission Networks (ckm)



# Electricity in Ten Years

## Distribution and Customer Services

Development of Number of Customers

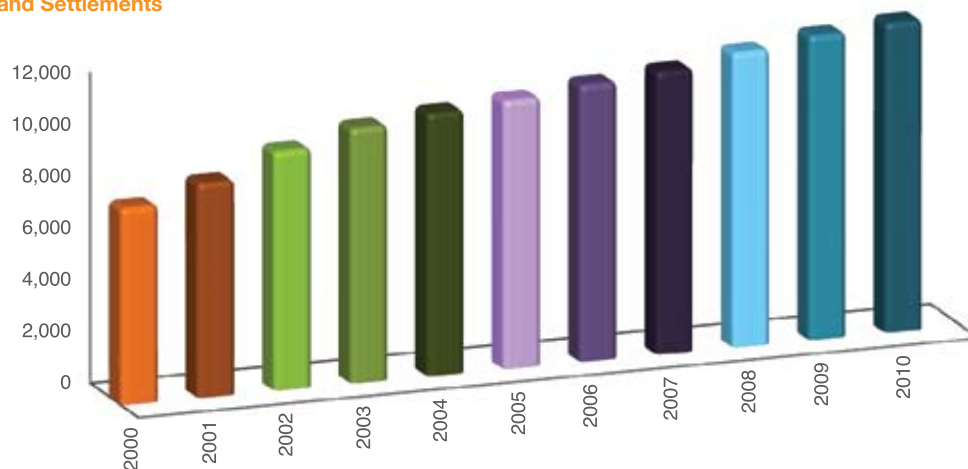


On 5 April 2000, the number of customers in the company was 3,518,433 customers.

On 31 December 2010, the number of customers in the company reached 5,997,553 customers or a percentage increase of 70.5%.

Also, a total of 4,584 residential communities in cities, villages, and settlements have been provided with electricity service, so that the number of electrified towns, villages, and settlements rose to 12,000 at year-end 2010 from 7,406 in April 2000 indicating a percentage increase of 61.9%.

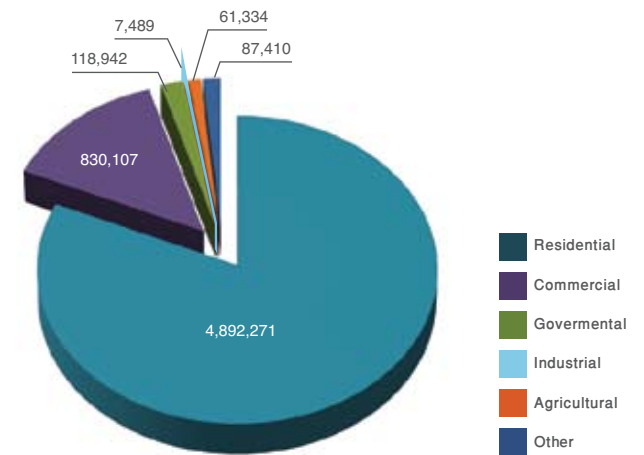
Number of Electrified Towns, Villages, and Settlements





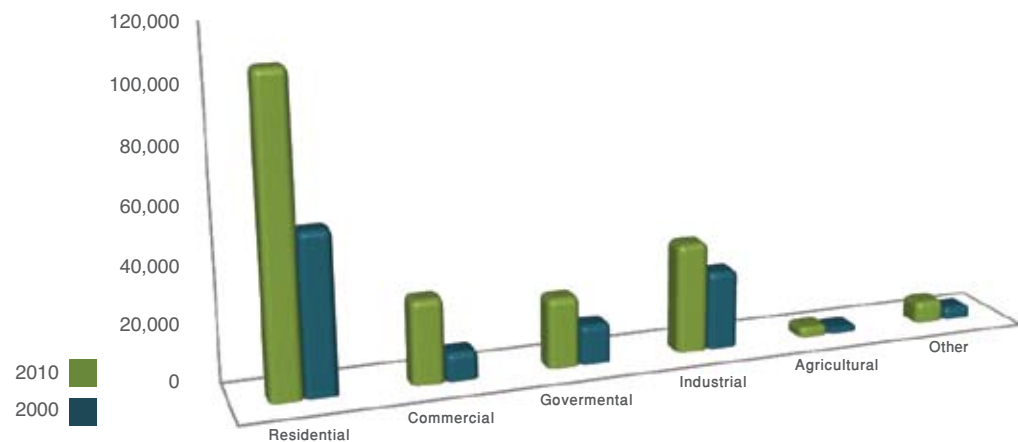
The residential category represents the largest group of customers reaching 4,892,271 customers at year-end 2010 representing 81.6% of the total number of customers from a total of 2,991,161 customers in 2000 or a ratio of 82.6%, followed by the commercial category with 830,107 customers by the end of December, 2010, a ratio of 13.8% against the total number of customers, from 459,593 customers in 2000, indicating an increase of 80.6%. The government category is next which rose to 118,942 from 79,227 customers or a percentage increase of 50.1%.

**Distribution of Customers by Category in 2010**



By the end of 2010, the sold energy reached 212,263 GWH from 114,161 GWH at year-end 2000 or an increase of 86%, where consumption of the residential sector reached 108,627 GWH of the sold energy from a consumption of 56,063 GWH at year-end 2000, indicating an increase of 93.7%. Also in the commercial sector the sold energy increased from 9,969 to 29,310 GWH, an increase of 194%, while the sold energy to the governmental sector increased from 13,896 GWH in 2000 to 24,514 GWH in 2010, indicating an increase of 76.4%.

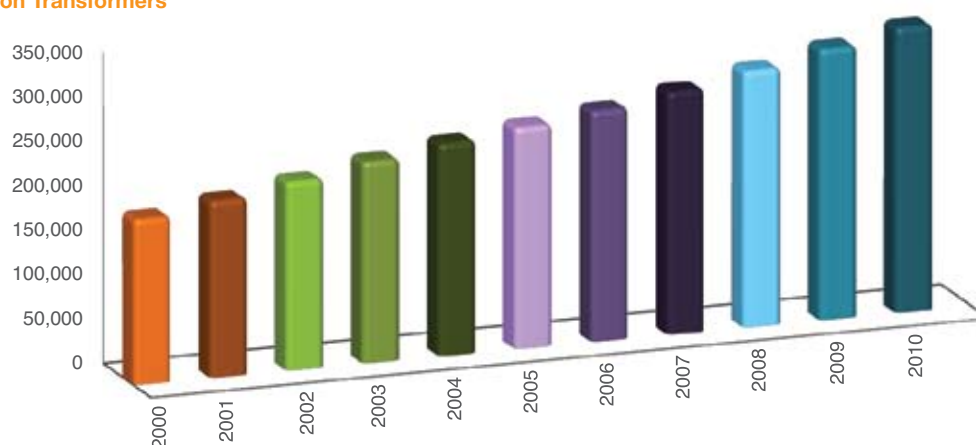
**Sold Energy (GWH)**



# Electricity in Ten Years

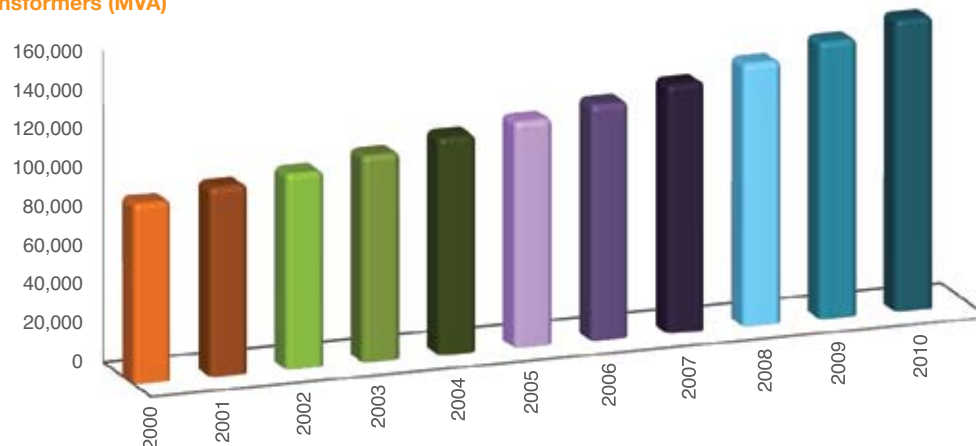
In order to meet needs of the customers for electrical energy, the company has carried out many projects to increase the number and capacities of distribution transformers as well as the lengths of distribution networks, where the company managed to increase distribution transformers to 322,042 transformers from 176,992 transformers on 5 April, 2000, representing an increase of 82%, as the company added 165,513 transformers during the ten-year period at a rate of 16,551 per year, except for transformers that have been replaced with new ones for more power and greater capacity.

Development of the Number of Distribution Transformers



The company has worked to raise the capacity of distribution transformers from 88,682 MVA in April 2000 to 150,266 MVA by the end of 2010, representing a percentage increase of 69.4%. Moreover, the lengths of the distribution networks increased from 219,076 ckm at the beginning of incorporation to 383,304 ckm, indicating a 75% increase.

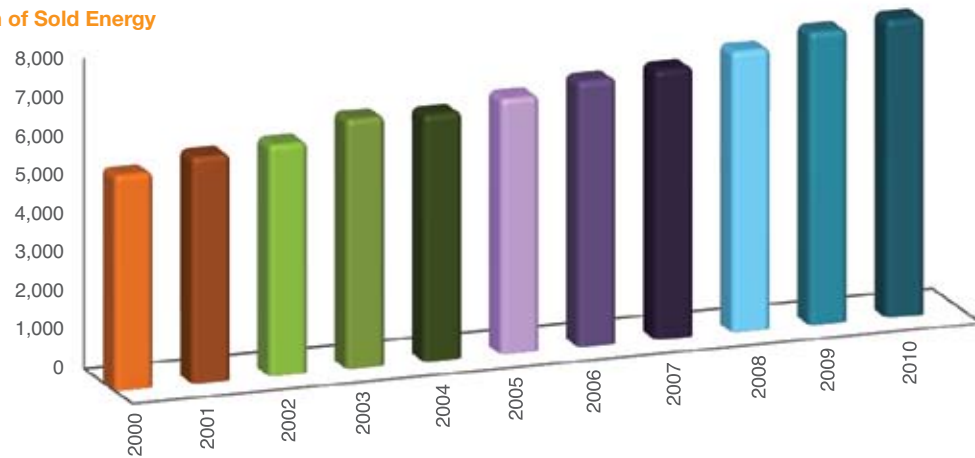
Capacity of Distribution Transformers (MVA)





The growth in the number of customers indicates that the annual per capita power consumption grew from 5,559 KWH at year end of 2000 to 7,694 KWH at the end of the report year with an increase of 38.4%. Customers' share of sold energy increased in the same period from 34,836 KWH to 40,027 KWH at the end of 2010, with an increase of 14.9%. The average annual power consumption of the residential category increased from 18,743 KWH in 2000 to 22,204 KWH at the end of last year, representing an increase of 18.5%.

**Annual Per Capita Power Consumption of Sold Energy**

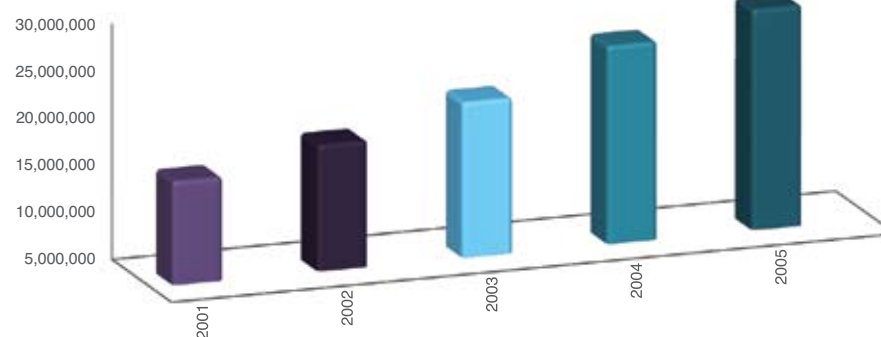




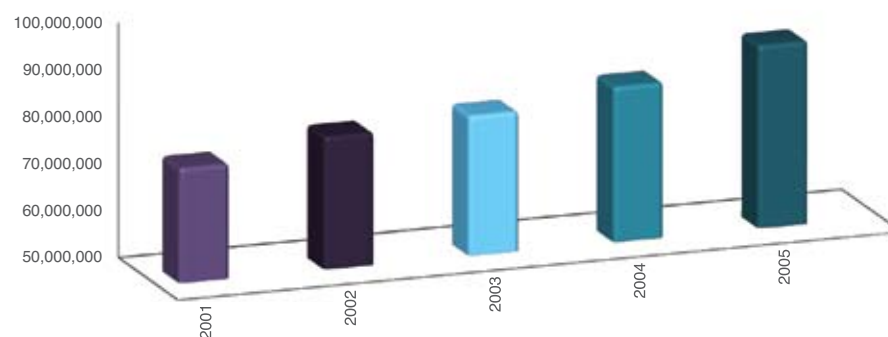
# Electricity in Ten Years

|                            | 2001           | 2002             | 2003             | 2004             | 2005             |
|----------------------------|----------------|------------------|------------------|------------------|------------------|
| Total Current Assets       | 16,052,113     | 18,461,422       | 21,525,932       | 26,087,133       | 28,490,778       |
| Total Fixed Assets         | 74,557,312     | 78,307,756       | 79,850,922       | 83,119,163       | 89,072,072       |
| Total Liabilities          | 48,326,659     | 53,918,298       | 57,117,531       | 63,883,933       | 71,300,514       |
| Total Shareholders' Equity | 42,282,766     | 42,850,880       | 44,259,323       | 45,322,363       | 46,262,336       |
| Income from Operations     | 2,827,450      | 947,369          | 1,310,288        | 1,003,203        | 1,259,159        |
| <b>Net Income</b>          | <b>710,808</b> | <b>1,077,344</b> | <b>1,408,443</b> | <b>1,299,632</b> | <b>1,483,042</b> |

Total Current Assets (2001-2005)

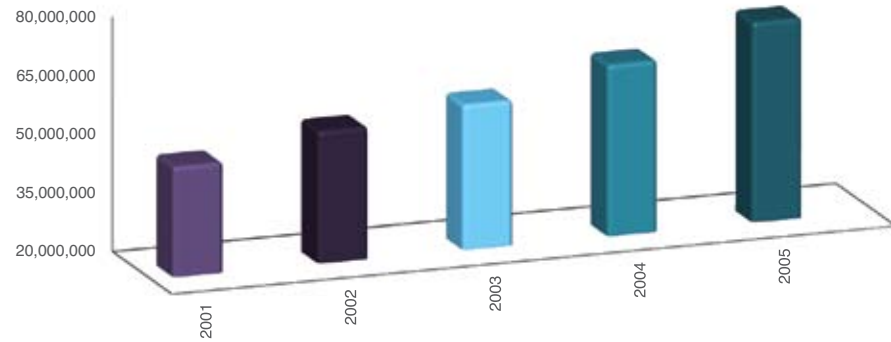


Total Fixed Assets (2001-2005)

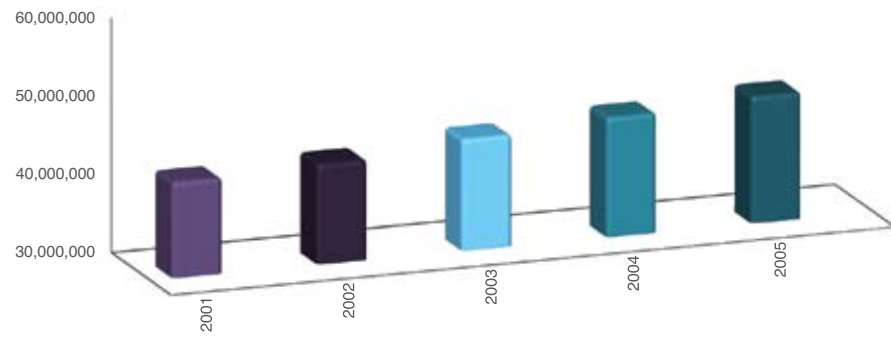




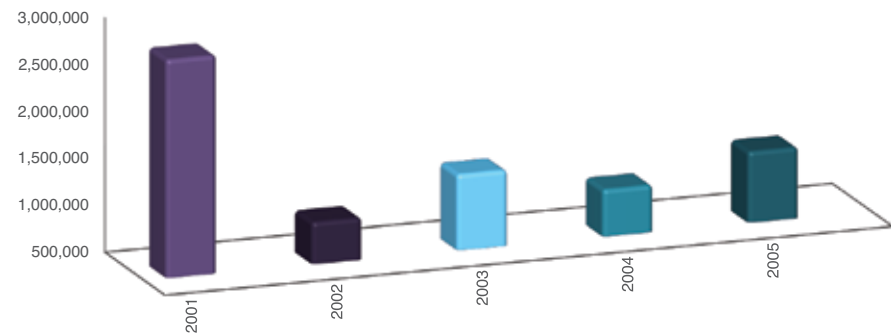
Total Liabilities (2001-2005)



Total Shareholders' Equity (2001-2005)

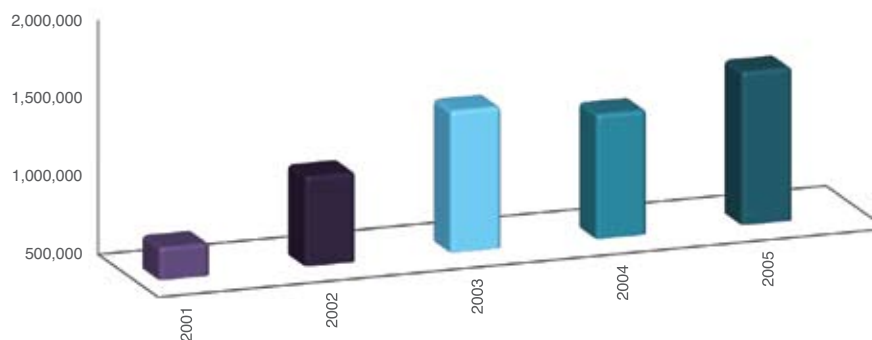


Income from Operations (2001-2005)



# Electricity in Ten Years

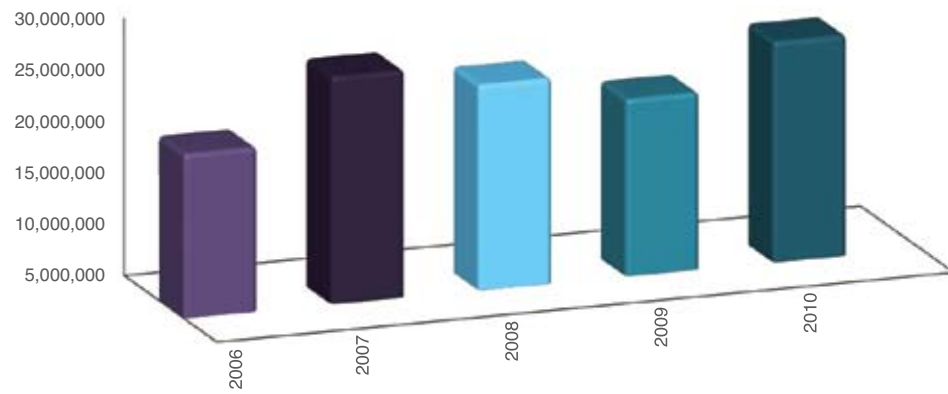
Net Income (2001-2005)



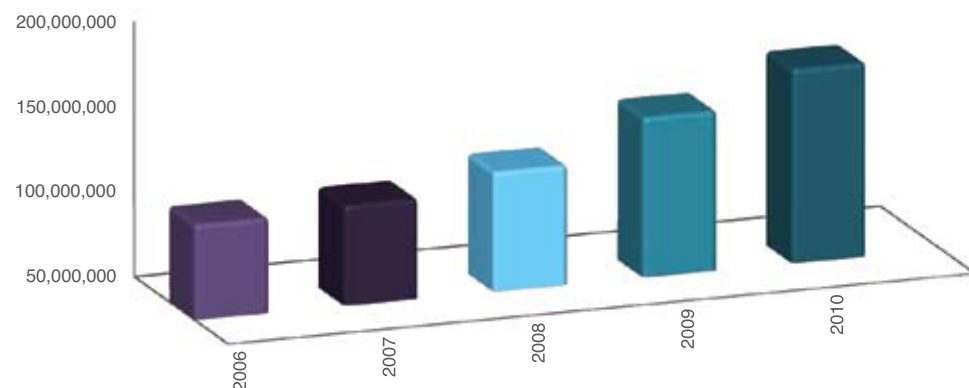
|                            | 2006             | 2007             | 2008             | 2009             | 2010             |
|----------------------------|------------------|------------------|------------------|------------------|------------------|
| Total Current Assets       | 21,018,260       | 27,180,004       | 25,010,507       | 22,292,513       | 26,536,405       |
| Total Fixed Assets         | 106,190,005      | 109,189,814      | 120,371,856      | 144,293,291      | 164,335,522      |
| Total Liabilities          | 80,079,396       | 88,375,747       | 96,829,742       | 117,660,600      | 140,214,291      |
| Total Shareholders' Equity | 47,128,869       | 47,994,071       | 48,552,621       | 48,925,204       | 50,657,636       |
| Income from Operations     | 1,154,574        | 1,114,378        | 764,046          | 785,145          | 1,805,840        |
| <b>Net Income</b>          | <b>1,413,832</b> | <b>1,412,499</b> | <b>1,104,447</b> | <b>1,142,636</b> | <b>2,279,088</b> |



Total Current Assets (2006-2010)

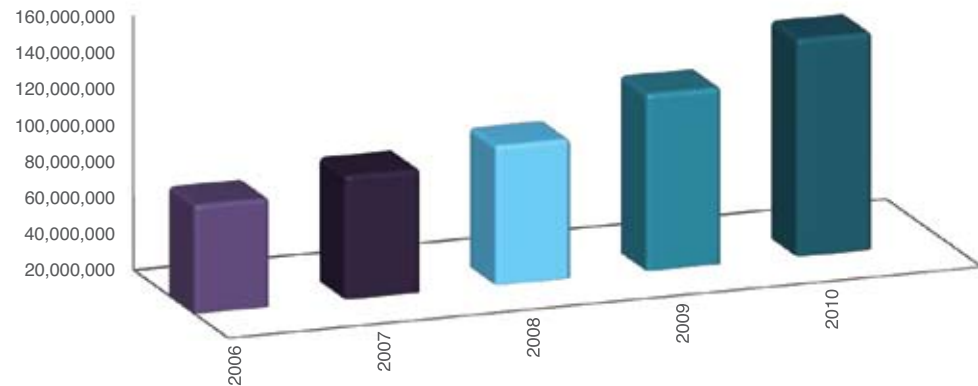


Total Fixed Assets (2006-2010)

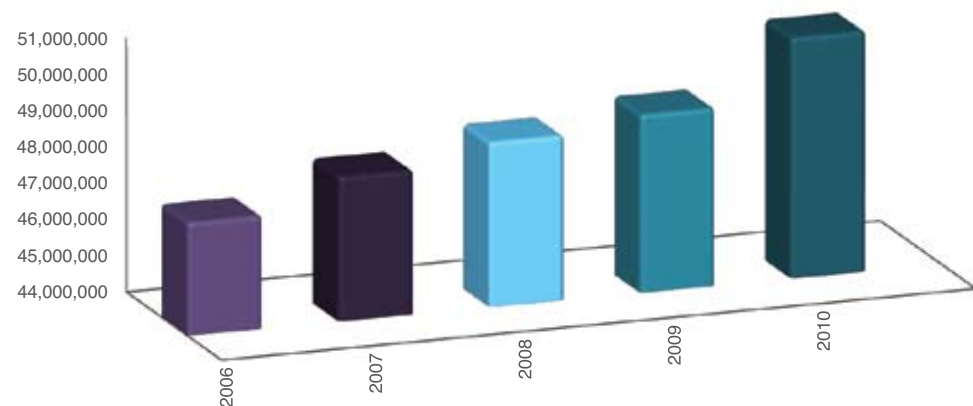


# Electricity in Ten Years

Total Liabilities (2006-2010)

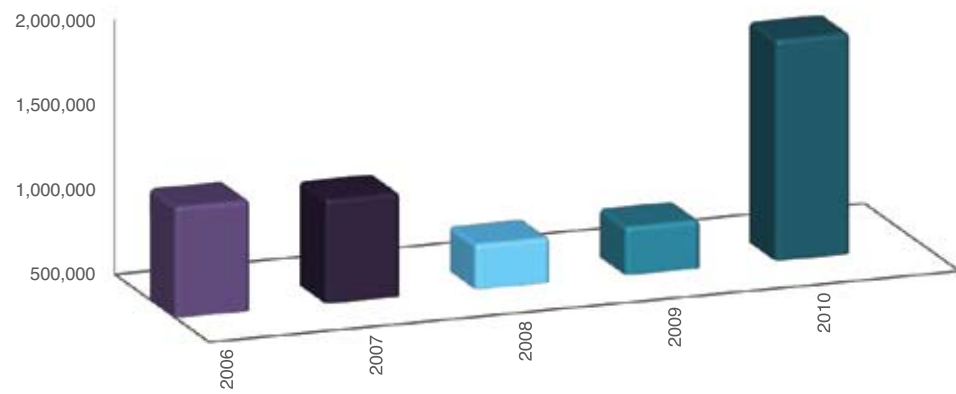


Total Shareholders' Equity (2006-2010)

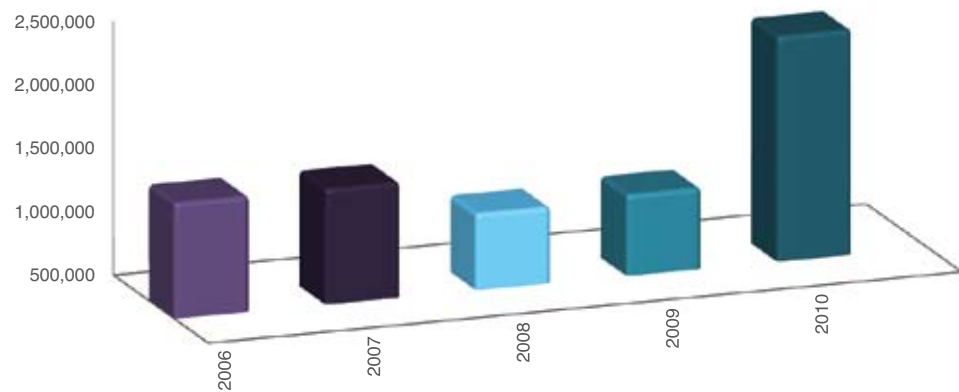




Income from Operations (2006-2010)



Net Income (2006-2010)





## **Statement of the Chief Executive Officer**



With the issuance of the 2010 Annual Report, the Saudi Electricity Company has completed its first decade of operation since its establishment during which the Company has been able to build on the gains that have been achieved by the electricity sector for more than five decades. It has attained great achievements in developing and strengthening the capacities of the electricity system in the Kingdom. The Company has formulated short, medium, and long-term technical, financial, and administrative plans and programs to draw up its future progress and trends. This is specially so in view of the stupendous and accelerated economic growth that the Kingdom has been witnessing in all fields, leading in turn to an increased demand for electric power at the rate of 8% annually. This has prompted the Company to expand the generation, transmission, and distribution of electric power. This decade has witnessed numerous successes in all fields; most recent of which were the awards conferred on the Company for job nationalization and quality. In addition, the Company has made strides in the field of strengthening the electricity infrastructure which can be summarized by comparing its position at the time of its establishment and the start of its operation in 2000 with the position that Company has been able to attain by the end of 2010.

- The available electric power generation capacity has increased by 100% from 25,000 MW to about 50,000 MW.
- The length of electric power transmission networks has increased by 56% from 29,600 ckm to 46,000 ckm.
- The length of the distribution networks and the electric power connections has increased by 69% from 226,664 ckm to 383,304 ckm.
- The number of customers has increased by 70% from 3.5 million customers to 5.9 million customers.
- The number of electrified cities, towns, and villages reached 12,000 compared to 7,610, representing a percentage increase of 57.6%.

Financially, in 2010, the Company has succeeded in maintaining the creditworthiness rating of A1 it received from international credit rating agencies. This encouraging rating has contributed to the continuation of the Company's execution of its financial policy aimed at enhancing its financial position. The Company has issued Islamic bonds (Sukuk) worth 7 billion Saudi Riyals, all of which have been subscribed, confirming the investors' confidence in the financial policy of the Company and the government support it enjoys. It has also been honored with the Best Islamic Finance Award for 2010 at the Islamic Finance Forum.

The Company has continued its efforts aimed at upgrading and developing the human resources, increasing its efficiency and effectiveness, simultaneously with the expansion and utilization of diverse technologies. The social responsibility and the social service have also received a great deal of attention as the Company supports research and development programs with the aim of rationalizing the use of the electric power and improving its systems in addition to the programs of environmental conservation, reduction of the costs of investment, operation and maintenance, and the public safety programs.

In conclusion, on behalf of the Company's employees, I am pleased to extend my sincere thanks and appreciation to their Excellencies the Chairman and members of the Board of Directors for their significant role in directing and supporting the Company's executive administration. Also, I am pleased to extend my sincere thanks to the governmental authorities and private institutions which continue to provide support and backing to the Company. Similarly, thanks are due to all our customers and shareholders for their support which the Company enjoys. As for the driving force for these achievements, they are the employees of the Company who continue to make their efforts in their respective positions and offer their sacrifices to elevate this nation and bring happiness to the citizens and residents. I extend to them my thanks and deep appreciation.

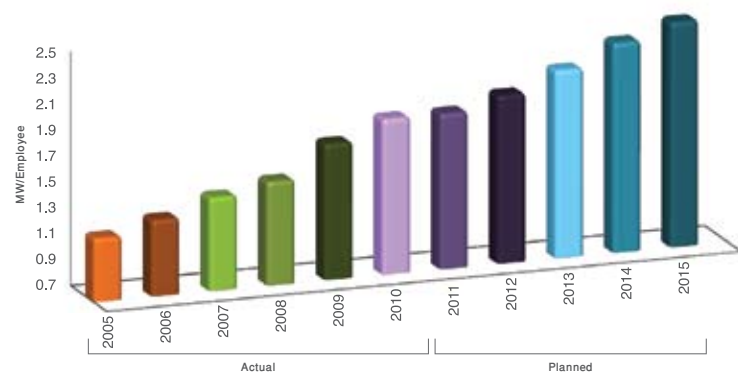
Allah is the grantor of success...

**Ali Saleh Al-Barrak**  
Chief Executive Officer

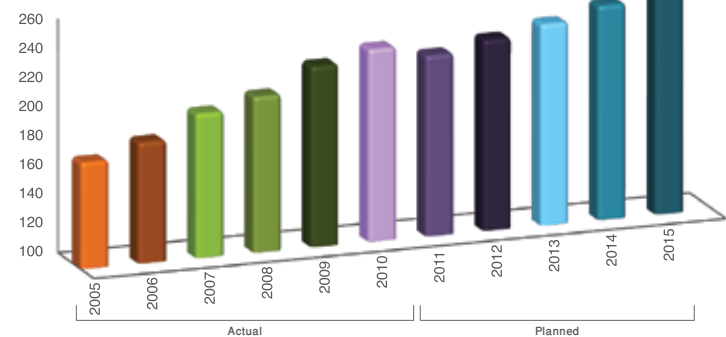


# Performance Indicators

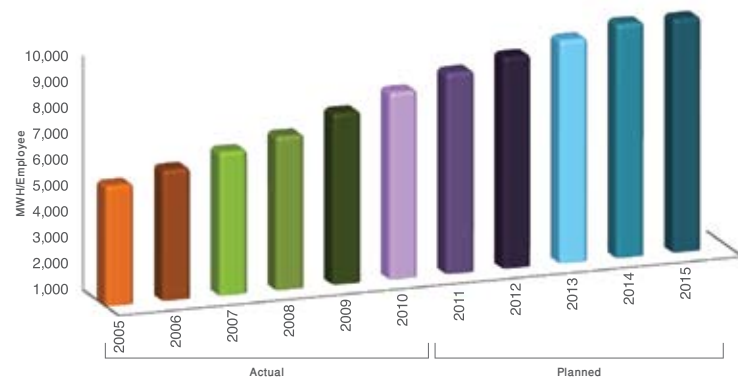
Available Generation Capacity Per Employee



Number of Customers Per Employee

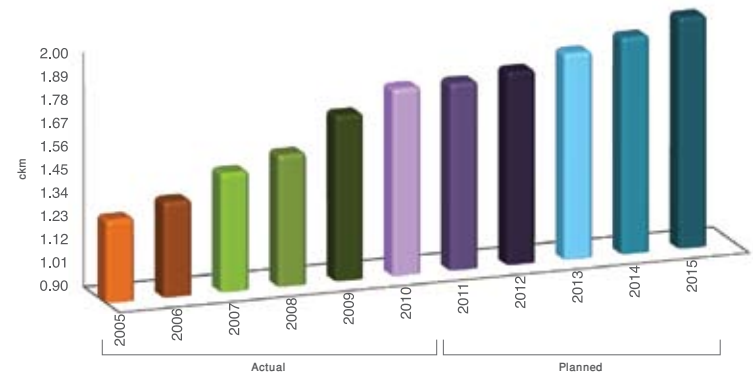


Sold Energy Per Employee

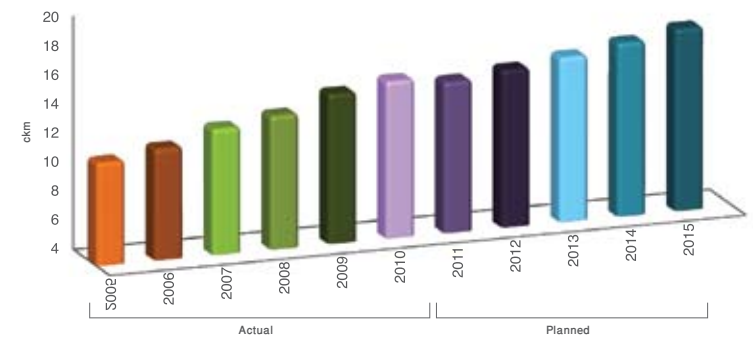




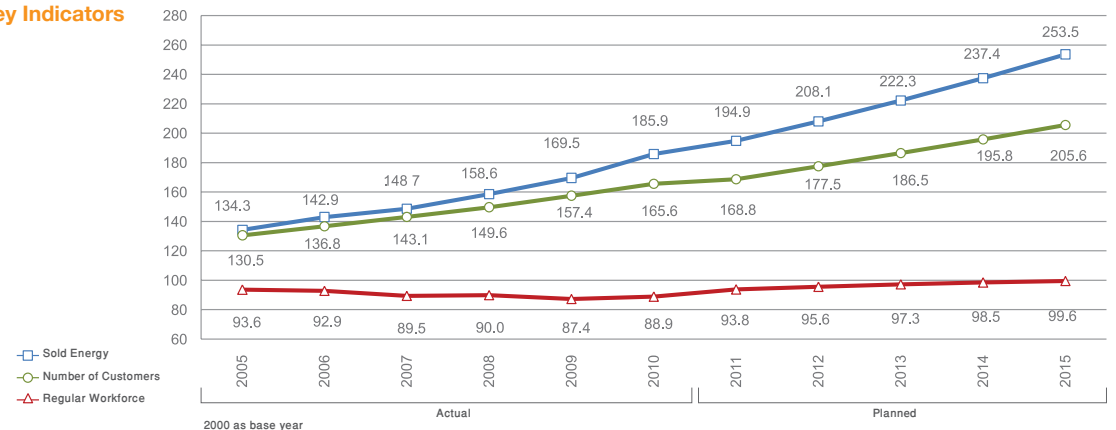
### Length of Transmission Lines Per Employee



### Length of Distribution Lines Per Employee



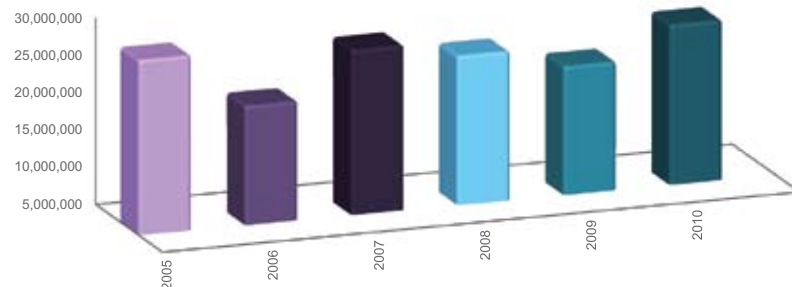
### Key Indicators



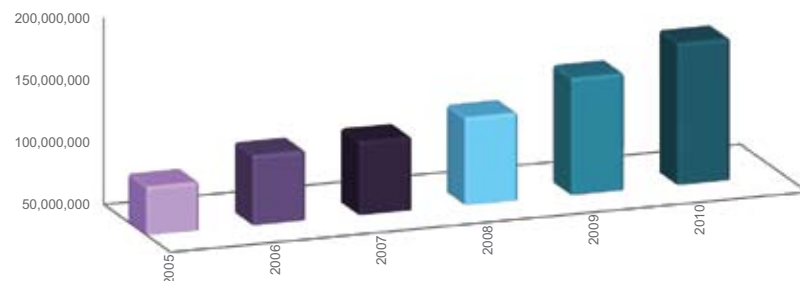
# Summary of Our Financial Performance 2005 - 2010

|                            | 2005             | 2006             | 2007             | 2008             | 2009             | 2010             |
|----------------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| Total Current Assets       | 28,490,778       | 21,018,260       | 27,180,004       | 25,010,507       | 22,292,513       | 26,536,405       |
| Total Fixed Assets         | 89,072,072       | 106,190,005      | 109,189,814      | 120,371,856      | 144,293,291      | 164,335,522      |
| Total Liabilities          | 71,300,514       | 80,079,396       | 88,375,747       | 96,829,742       | 117,660,600      | 140,214,291      |
| Total Shareholders' Equity | 46,262,336       | 47,128,869       | 47,994,071       | 48,552,621       | 48,925,204       | 50,657,636       |
| Income from Operations     | 1,259,159        | 1,154,574        | 1,114,378        | 764,046          | 785,145          | 1,805,840        |
| <b>Net Income</b>          | <b>1,483,042</b> | <b>1,413,832</b> | <b>1,412,499</b> | <b>1,104,447</b> | <b>1,142,636</b> | <b>2,279,088</b> |

Total Current Assets (2005-2010)

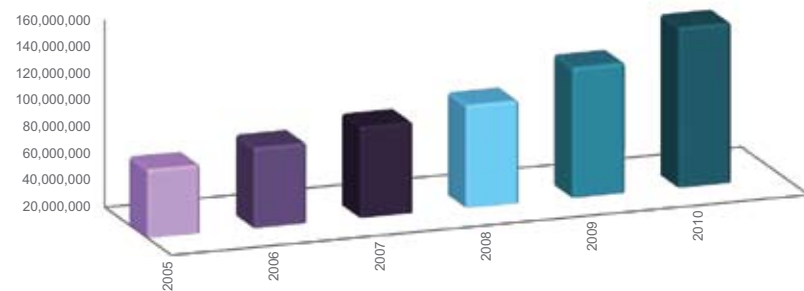


Total Fixed Assets (2005-2010)

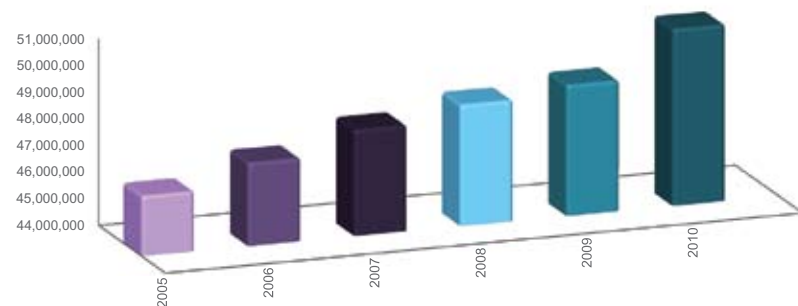


# 2010

Total Liabilities (2005-2010)

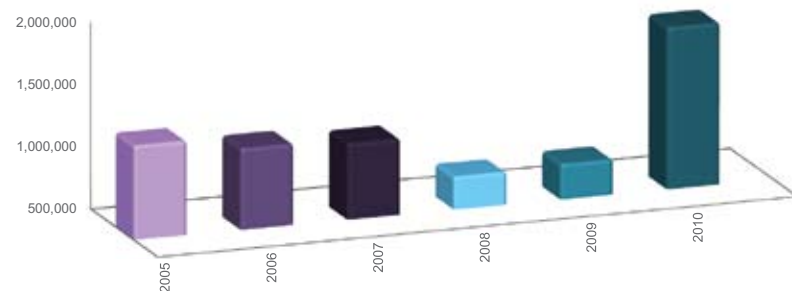


Total Shareholders' Equity (2005-2010)

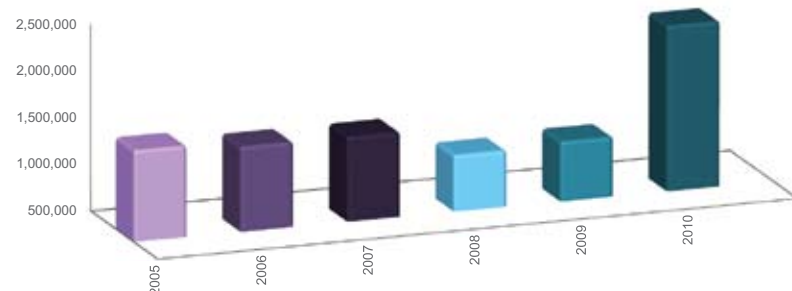


# Summary of Our Financial Performance 2005 - 2010

Income from Operations (2005-2010)



Net Income (2005-2010)





| In Thousand Saudi Riyal, excl. Return on Share           | 2010<br>As of 31 Dec | 2009                |
|--|----------------------|---------------------|
| <b>Assets</b>  |                      |                     |
| Total Current Assets                                     | 26,536,405           | 22,292,513          |
| Total Non-Current Assets                                 | 164,335,522          | 144,293,291         |
| <b>Total Assets</b>                                      | <b>190,871,927</b>   | <b>166,585,804</b>  |
| <b>Liabilities</b>                                       |                      |                     |
| Total Current Liabilities                                | 55,131,447           | 49,618,931          |
| Total Non-Current Liabilities                            | 66,394,784           | 53,103,609          |
| Governmental Loan  | 18,688,060           | 14,938,060          |
| Total Shareholders' Equity                               | 50,657,636           | 48,925,204          |
| <b>Total Liabilities and Shareholders' Equity</b>        | <b>190,871,927</b>   | <b>166,585,804</b>  |
| <b>Revenues</b>  |                      |                     |
| Electricity Sales  | 25,872,780           | 22,040,360          |
| Meter Reading, Maintenance, and Bills Preparation Tariff | 841,119              | 794,852             |
| Electrical Connection Tariff                             | 1,145,841            | 1,015,737           |
| Other Revenues and Expenses, net                         | 473,248              | 357,491             |
| <b>Total Revenues</b>                                    | <b>28,332,988</b>    | <b>24,208,440</b>   |
| <b>Expenses</b>  |                      |                     |
| Total Operating Expenses                                 | (26,053,900)         | (23,065,804)        |
| Zakat Allocations  | -                    | -                   |
| Non-frequent Amendments                                  | -                    | -                   |
| <b>Total Operation Expenses and Zakat Allocation</b>     | <b>(26,053,900)</b>  | <b>(23,065,804)</b> |
| <b>Income</b>  |                      |                     |
| Income from Operations                                   | 1,805,840            | 785,145             |
| Net Income Before Zakat                                  | 2,279,088            | 1,142,636           |
| <b>Net Income (Profit)</b>                               | <b>2,279,088</b>     | <b>1,142,636</b>    |
| <b>Earning Per Share</b>                                 | <b>0.55</b>          | <b>0.27</b>         |

# Key Indicators of 2010 Compared with 2009

**5.4%**

Growth of actual generation capacity to 39,973 MW

**10.8%**

Growth of total peak loads to 45,661 MW

**10.4%**

Growth of available generation capacity to around 50,000 MW

**9.7%**

Growth in sold energy to 212,263 GWH

**8.1%**

Growth of power transmission networks to around 46,000ckm

**5.2%**

Growth in total number of customers to 5,997,553 customers

**5.8%**

Growth of distribution networks (69/13.8 KV) to 191,481 ckm

**1.8%**

Growth in total number of electrified towns, villages, and settlements to 12,000

**4.7%**

Growth of customers' connections to 191,823 ckm

**1.4%**

Growth in job nationalization rate to 86.28% of the 27,782 employees





# Our Financial Policy

The Company has maintained and kept the creditworthiness ratings conferred to it by international credit rating agencies which reflect the accuracy of its strategic attitudes and the success of its administrative and operational policies and business administration. These positive ratings have contributed to the continuous implementation of the same financial policy aiming at enhancing its financial position and ensuring provision of cash flows required for project expenditures through the available funding means, i.e. issuance of Islamic Bond (Sukuk) or obtaining various types of commercial loans.

## Credit Rating

The AA-/AA-/A1 ratings, conferred to the Company by Standard & Poor's, Fitch, and Moody's respectively, were the highest in the Kingdom and similar to the Kingdom's sovereign evaluation.

## Third Issuance of Islamic Bond (Sukuk) Valued at SR 7 Billion

The Company has closed the subscription period for the third issuance of the Islamic Bond (Sukuk) which has been considered to be the longest issuance period by the Company and by any non-banking Saudi company ever. During the subscription period, the Company has marketed the project of Sukuk to investors whereby the subscriptions reached approximately over SR 27 billion, a figure that is nearly four times the Company's issuance target of SR 7 billion. The categories of investors include various groups of governmental institutions, investment funds, insurance companies, Takaful companies (Islamic insurance), local companies, and banks. Fitch Inc. assessed the issuance and gave it a rating of AA-.

## The Company Won the Best Islamic Finance Award in 2010

The Company has been granted the Best Islamic Fund Award for 2010 at the Kuala Lumpur Islamic Finance Forum (KLIFF) held during the period 2-5 August 2010 in Kuala Lumpur in recognition of the Company's successful third issuance of the Islamic Bond (Sukuk) valued at SR 7 billion. This award confirms the Company's competence and its ability to find various ways and methods to fund its projects to meet the need for electrical energy which is witnessing an increasing demand reaching an annual growth rate of 8%.

## Financial Segregation Among the Company's Activities

In preparation for the future steps to be taken pertaining to the restructuring of the Company's activities, several measures were taken for the financial segregation, including:

- Preparing the financial system in such ways as to make it consistent with the segregation between various activities of the Company.
- Completing the requirements for implementing the financial aspects:
  - Classification of the Company's activities into cost/profitability/investment centers
  - Application of the Service Level Agreements between activities
  - Determination of the power exchange rates
  - Calculation of capital cost rate by various activities

Work is currently ongoing on the development and preparation of power exchange prices agreements among the main activities of the Company. Such process will allow the Company to measure the profitability, performance, and efficiency of its various activities with a view to provide accurate reports to assist the management in taking sound decisions and in developing the performance of the Company's business activities.

# Care for Shareholders

The company is always keen to effectively communicate with the stakeholders in the financial market and share relevant information about the Company with the investors and financial/investment corporations.

The Company complies with the implementation of the guidelines contained in the Corporate Governance particularly those concerning the shareholders' rights, compliance with the instructions and procedures of sound disclosure and transparency, and conformance of its internal regulation with the Capital Market Authority's regulations and its executive rules.

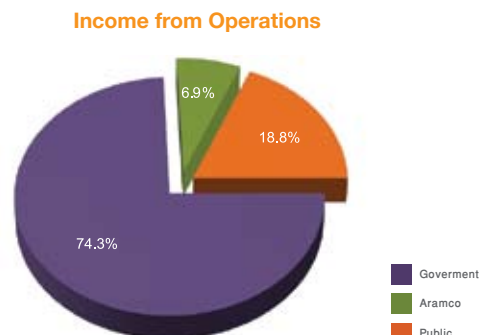
## The main achievements and services to the shareholders in 2010 include:

- Smooth payment of dividends amounting to 94.94% of the total dividends for distribution to shareholders has been made.
- The number of returned portfolios has decreased last year to only 129 out of 62,144.
- Publishing/posting of the Company's weekly, monthly, quarterly, and annual Share Performance Reports on the company's website.
- Publishing of all Company's announcements on Tadawul's website (Saudi Stock Exchange) as well as information of shareholders' and investors' concern were likewise posted on the company's website.
- An agreement was entered into with Consultant Experts Bureau to design/develop the Company's corporate governance regulation that conforms to all the provisions as set forth in the Corporate Governance Regulations issued by the Capital Market Authority.
- A contract was concluded with Al-Alam Company to identify unknown shareholders who have stock certificates to update their data and deposit their certificates in their investment portfolios.

In view of the Company's willingness to keep pace of technological advances to provide electronic services to shareholders and advanced automated systems consistent with the rules, regulations, and instructions of the Ministry of Commerce and Industry, Capital Market Authority, and the Saudi Stock Exchange (Tadawul), the company has planned to obtain automated systems which include:

- System for holding general assemblies
- Shareholder information system
- Stock performance movement system

This will provide ease in the automated organization for holding general assembly meetings, stockholder data processing, retrieving necessary reports and electronic and historical archiving and following up of the stock performance movement.



**Income from Operations**

| Organization                   | Number of Shareholdings |
|--------------------------------|-------------------------|
| Government                     | 3,096,175,320           |
| Saudi-ARAMCO                   | 288,630,420             |
| Public (national and the like) | 781,788,075             |
| <b>Total</b>                   | <b>4,166,593,815</b>    |

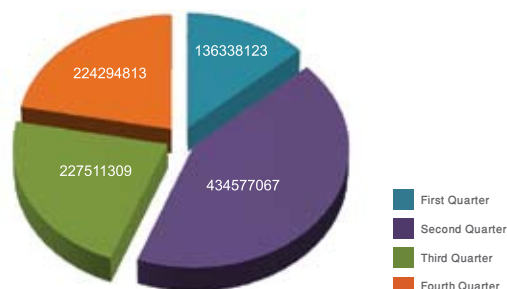


# Share performance

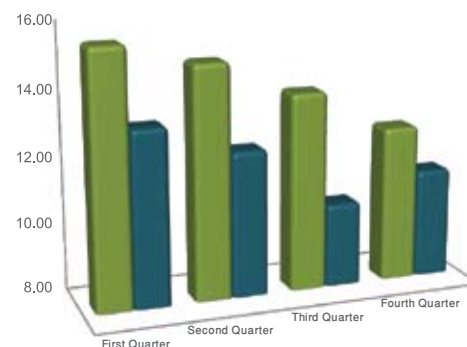
The overall Saudi Capital Market index (Tadawul) closed at 6,620.75 points at the end of 2010 against 6,121.76 points at the end of 2009 showing an increase of 498.99 points (8.15%). The index scored the highest point of closure during 2010 on April 26 as it closed at 6,929.40 points. In addition, the Power and Service Utilities Sector closed at 5,017.16 points against 4,210.69 points at the end of 2009, up by 806.47 points (19.15%). As for the company's shares, the Company's shares closed at SR 14.05 at the end of 2010 as compared to SR 11.25 at the end of 2009, a rise of 24.89%. The quantity of the company's traded shares increased by 81.26% from 564,233,387 in 2009 to 1,022,721,312 in 2010. In addition, the value of traded shares increased by 136.67% from 5,689,486,868.15 in 2009 to 13,464,766,435.35 in 2010. And the number of transactions increased by 69.73% from 110,494 in 2009 to 187,543 in 2010. Moreover, the highest share value reached SR 15.60 in 2010 against SR 11.75 in 2009. The lowest share price was SR 10.50 in 2010 against SR 9.10 in 2009.

| Description                             | 2010              | 2009             | Change (%) |
|---|-------------------|------------------|------------|
| Overall Saudi Capital Market Index      | 6,620.75          | 6,121.76         | 8.15%      |
| Index of the Power and Utilities Sector | 5,017.16          | 4,210.69         | 19.15%     |
| Traded Shares Quantity                  | 1,022,721,312     | 564,233,387      | 81.26%     |
| Value of Traded Shares                  | 13,464,766,435.35 | 5,689,486,868.15 | 136.67%    |
| Number of Transactions                  | 187,543           | 110,494          | 69.73%     |
| Highest Share Value                     | 15.60             | 11.75            | 32.77%     |
| Lowest Share Value                      | 10.50             | 9.10             | 15.38%     |
| Share Closing Value                     | 14.05             | 11.25            | 24.89%     |

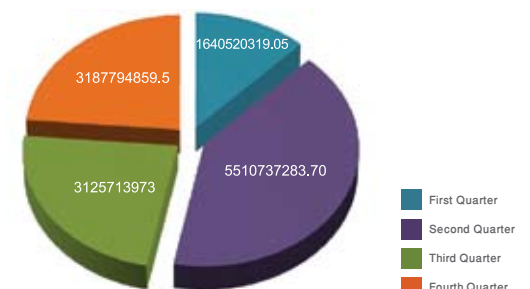
Traded Value of the Company's Share During 2010



Trading Price of the Company's Share During 2010



Traded Quantity of the Company's Share During 2010



# Achievements of the Company During 2010

## January

- Five Saudi and international joint consortiums submitted their bids to participate in the Power Plant 11 Project in Riyadh which is expected to produce approximately 1,800 MW of electricity on the basis of build-own-operate system. It is the second project of the Company's Program for Private Sector Participation in Electricity Projects.
- The Chairman, members of the Board of Directors, Chief Executive Officer (CEO) and some members of the executive management accompanied by a number of newspaper representatives and satellite channels, have visited the power generation station located in Shoaiba.
- The Company has provided electricity related services in record time to soldiers stationed at the country's southern border.
- The Company's technicians in the southern province are successfully carrying out maintenance operations of two generation units thereby saving the Company more than SR 23 million.
- The Company has participated in the "Open Day" activities of King Fahd University of Petroleum & Minerals at Dhahran.
- The Company has signed an agreement worth more than one billion Saudi Riyals to boost the generation capacity of the central station of Qassim with four generating units having a total capacity of 223 MW.
- The Company has signed a number of construction contracts to deal with the increasing electrical loads of the underground cables network in Riyadh and for the installation of dynamic compensators to improve power efficiency and capacity in Qassim. The projects amounted to half a billion Saudi Riyals.

## February

- The Company has launched the project of Cyme GATEWAY system for building an automated system that would link and interface the distribution network data with the Geographic Information System (GIS) through the Distribution System Analysis Software (CYMDIST) for electrical distribution networks.
- The Economic Press Club has hosted the CEO to discuss the electricity industry in the Kingdom and the most prominent challenges and opportunities in this sector.

## March

- The Company has entered into agreements with local banks to finance the housing loans of employees.
- Sanad Charitable Foundation has honored the Company for its support of children suffering from cancer.
- The Company has participated in the activities of the International Civil Defense Day.
- The Business and Management Forum has honored the Company for its golden sponsorship of the Forum.

## April

- The General Assembly of the Company's Shareholders has held its fourth extraordinary meeting and approved the payment of dividends to shareholders.
- The Company's Board of Directors has held its ordinary meeting and stressed the importance of continued efforts and provision of technical capabilities and human resources to implement the Company's operational plan for the electrical power system with high efficiency.
- The Company has signed an agreement with King Abdullah Institute for Research and Studies to study a proposal to store electric energy during peak hours.

## May

- The Company has signed two agreements with the Saudi Industrial Property Authority - Technology Zones to supply the industrial cities with electric power at an estimated cost of SR 619 million.
- The Company has organized the first scientific symposium for research and development which was attended by more than a hundred specialists in the field of electricity.
- The acting Chairman of the Board of Directors has participated in the 13th Asian Electricity Conference held in Singapore.
- The Company has celebrated the graduation of the 10-thousandth trainee.
- The Company has started inviting the expression of interest by local and international investors to enter the bidding competition for the project of Qurayyah power station for independent production.
- The Saudi Telecom Company has honored the Company as a valued customer.



## June

- The Board of Directors has held a meeting and approved the appointment of Dr. Saleh Al-Awajji as Chairman of the Board as well as the appointment of Mr. Sulaiman Ibn Abdullah Alkadi as Vice Chairman of the Board of Directors.
- The Company achieved third place among the top 100 Saudi companies in the list prepared by Al-Iqtisadiyah and TeamOne. It has also achieved third place in the area of innovation for 2009 which was organized by Dubai-based Arabian Innovation Company.
- The Company has signed a contract for the Power Plant 11 Project in Riyadh for independent power production with a capacity of 1,730 MW.

## July

- The Company has maintained the AA- rating it secured last year from Fitch Inc., thereby confirming the strength and firmness of the Company's financial position.
- The Saudi Arabian Quality Council has honored the Company for its sponsorship and continued support it extends to events and activities organized by the council.

## August

- The Company has signed a contract with a national company to implement a project to link a new substation with the electricity network and carryout modification works on substations in northern Riyadh at a cost of SR 223 million.
- The Board of Directors has approved the awarding of projects for generation, transmission, and distribution power stations valued at SR 14.7 billion.

## September

- The Company has signed contracts with national companies to establish a line connecting Al-Jouf, Hail, and Rabigh power stations north of Makkah. The value of the contracts amounted to SR 1.2 billion.
- The Company has signed two contracts for the establishment of a substation and interlink line in the region valued at approximately SR 747.5 million.

## October

- 714 new trainees with high school certificates in the fields of science, industry, and technology and college graduates were enrolled in the Company's training institutes.
- The Company has signed a contract with a specialized company valued at SR 12,753 million to enhance the generation capacity of Rabigh Power Plant by adding four steam generating units with total capacity of 2,555 MW.

## December

- The Company has organized the 3rd GCC Workshop "Striving Towards the Development of Customer Services in the GCC States."
- The Company has organized the 14th Total Quality Forum in Al-Khobar followed by an exhibition on innovation by the Company's staff.
- The Company has entered into a SR 5 billion Murabaha loan agreement with four local banks to finance capital projects with the aim of increasing the capacity of power generation, transmission, and distribution throughout the regions of the Kingdom.
- The Company has successfully implemented its Hajj operational plan.



Total Quality Management and Job Nationalization  
Efforts Are Two Sides of One Company

# Human Resources

86.28%

Growth in job nationalization rate of the 27,782 employees constituting the total workforce of the Company.

In the year 2010, our employees have been provided with 447 training courses covering a wide spectrum of subjects through the “I-Learn” (computer assisted learning) training programs.

A total of 3,635 creative ideas were presented through the Innovation Program, 1,812 of which were approved, 373 ideas were submitted during 2010.

| Item                | Since the Company's Establishment<br>in 2000 | Percentage of Change<br>During the Ten-Year Period  |
|---------------------|--|--|
| Number of Employees | 31,000                                       | -10.4%   |



# Human Resources

## The Saudi Electricity Company's Distinguished Job Nationalization Efforts and Total Quality Management

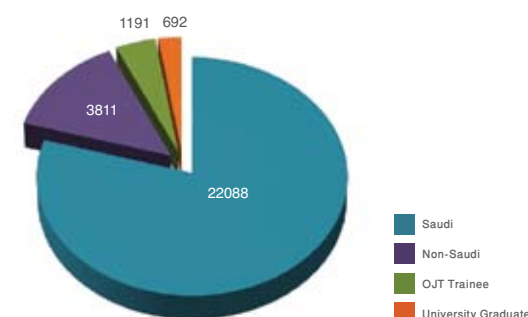
### Job Nationalization Efforts

The Saudi Electricity Company pays particular attention to the development of its human resources through the application of specialized programs for the selection and development of employees and planning their careers to enhance and assure efficiency, and filling in of all Company's job vacancies.

We continue our efforts aiming at developing and enhancing the efficiency of our human resources so they can actively participate in achieving the Company's mission that requires qualified and trained manpower in the different technical and administrative specialties with high abilities and skills and to be able to adapt to the rapid developments. Consequently, in 2010, 834 trainees graduated from the Company's training institutes. By year-end, the number of trainees reached 1,191. Moreover, 354 university graduates were employed and enrolled in the Professional Development Program. The total number of participants in this program reached 692 at year-end 2010.

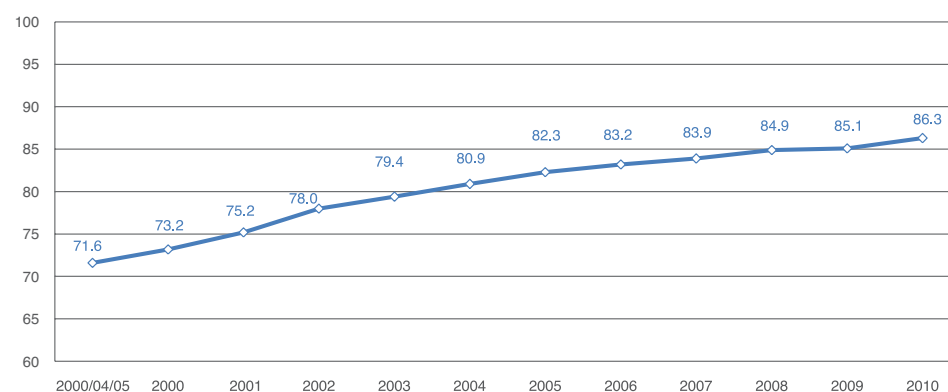
As a result of these efforts, the Company has made a significant development as the percentage rate of job nationalization reached 86.28% of the total work force of 27,782 at year-end 2010. It is noteworthy that through the Company's prominent achievement in the field of recruitment, employment, and training of local workforce, the Company was awarded first place in the H.E. Prince Nayef Bin Abdul Aziz Saudization Award for achieving an outstanding rate in job nationalization, winning the award for fourth time. In addition, the Company was the only honoree with the Merit Award in the field of Saudization. Moreover, the Company won the Golden Saudization Award for the year 1426/1427 H and has also won a plaque and certificate of appreciation from the Minister of Labour and President of GCC States' Council of Ministers of Labour and Social Affairs in its 24th Session, in appreciation of the Company's remarkable efforts in providing job opportunities for the citizens and nationalization of jobs over the entire Gulf Cooperation Council.

### Manpower Classification at Year-End 2010



### Enhancement of Job Nationalization Rate in the Company at Year-end 2010

Saudization Rate



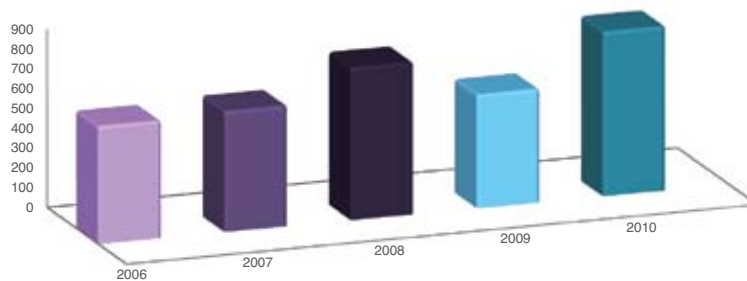


## Training and Development Program

### On-Job-Training Program:

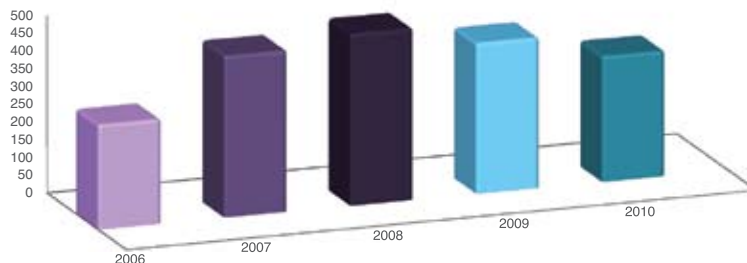
This program is an integrated development program to qualify and train non-employees through which trainees acquire the ability to perform specific duties in real work environment and fill targeted jobs. This program is implemented in the work site by the beneficiary department under the supervision of specialized trainers and monitored in the work area by the Training Department.

During 2010, 834 graduates from the Company's institutes were employed and registered in the On-Job-Training Program. The total number of trainees at year-end was 1,191.



### Qualification Program:

The program aims to accelerate the empowerment of university graduate employees to perform their targeted jobs through work assignments and training courses within scheduled development plan period of 24 months. During 2010, 354 graduates were employed and enrolled in the Qualification Program bringing the total number of participants in this program to 692 by year-end.



# Human Resources

## Experience Development Program:

This program targets a category of employees with university degrees and aims at preparing national competencies to be able to perform technical and administrative work requirements, and to be in line with the technological development in the field of electric power industry, in addition to fulfilling self-sufficiency for experiences in the high-skill disciplines. The number of participants in the program in 2010 was 26. New participants are added every year according to the Company's future needs.

## Leadership Program:

The purpose of the program is to develop the skills of employees who are currently holding leadership positions including potential employees who are nominated for leading positions (department head and above); the program is not time allocated.

Within the program, development plans are set and monitoring techniques are in use to prepare suitable substitutes to fill leading positions, whether for short or long term assignment.

The number of participants in the program reached 305 in 2010. Development plans are revised and updated according to requirements. New participants are enrolled every year.

## Promising Individuals Program:

The purpose of the program in general is to prepare future leaders and to achieve sustainable human resources development in the Saudi Electricity Company by preparing qualified leaders to lead the Company in the future. This program aims at identifying distinguished employees with prominent leadership abilities. These abilities are developed through graded development programs preparing them to fill in future leading positions in the Company. There are 36 registered employees in this program in 2010. New participants are enrolled every year.

## I-Learn (Computer Assisted Training)

This program provides interactive training through a website with state-of-the-art system providing optimum environment for e-training. This virtual learning environment is designed to encourage self-development among employees. A total of 447 courses covering a wide range of essential topics (technical, administrative, and computer courses) were given in 2010 to enable our employees to efficiently and effectively perform their assigned duties.

Through the "I Learn" website, a trainee receives applicable training using his own networked computer. Audio and video techniques are used in the presentation of these courses.

## Supported Training:

This is a development program that targets the Company's national work force who need to develop their skills related to their current or targeted jobs, or it serves as a tool in developing their efficiency and improve their job performance. In this program, courses are given outside the Company's normal working hours and are presented by training entities approved by the Company. The Company pays 80% of the training costs.

## Short Courses:

In addition to the above-mentioned training programs, other several short courses are provided to the employees with the aim of developing their skills, where the number of participations of the Company's employees reached 26,068 in 2010.

## Leadership in Total Quality

The Company continued the implementation of the total quality programs to improve its major operations, raise their efficiency and reduce their costs and to facilitate in developing the quality of the services provided to the internal and external customers.

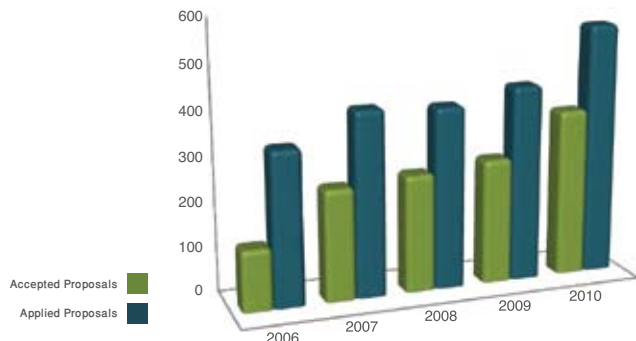
At year-end, the Company organized the 14th Annual Forum on Total Quality Management under the motto "Total Quality... Oasis of Creation." The forum covered several topics including the modern trends related to total quality management and the measurement of its application efficiency. The forum was accompanied by a special exhibition to display the most prominent creations and talents of the Company's employees. In addition, many local and international experiences as regards quality management were reviewed.

## King Abdul Aziz Quality Award

A team representing all the business functions of the Company was formed and prepared all the necessary requirements based on the rules of competition for the King Abdul Aziz Award for Quality. The rules stipulated that the Company's entry must display the major works and efforts of the Company in applying the quality programs and completing the award requirements in its second session. The Company won the award at the beginning of 2011.

## Improvement Programs "Tahsin"

The Improvement Program "Tahsin" is one of the early development programs applied in the Company. The purpose is to improve work procedures, the scope of which lies within the activities of each unit in the Saudi Electricity Company. Each procedure is studied, on part time basis, by a team led by one of the unit's employees to derive the recommendations of improvement and accreditation and work to apply these recommendations within the unit's area of responsibility. The results of the program application include the realization of a significant reduction in direct expenses while reducing the time required in completing a procedure. From its beginning to the end of 2010, this program yielded distinguished results. The number of the improvement teams formed reached 1,640 resulting in achieving 7,781 approved recommendations, 6,415 implemented improvement recommendations representing a percentage rate of 82% of the total recommendations implemented.



## Innovation Program

The purpose of this program is to encourage creativity and innovation among the Company's employees to develop performance, safety, productivity, and customer services. The program aims at improving the measures and developing the use of equipment and utilities. In addition, the programs aims at encouraging the employees to contribute ideas which help raise the operational efficiency, reduce costs and increase the returns. The program targets all employees in the management level below a department head. The total number of creative ideas presented by the end of 2010 was 3,635 of which 1,812 were accepted and 1,309 were applied representing a percentage rate of 72% of the number of accepted ideas. The innovative ideas have saved the Company approximately SR 550 million.

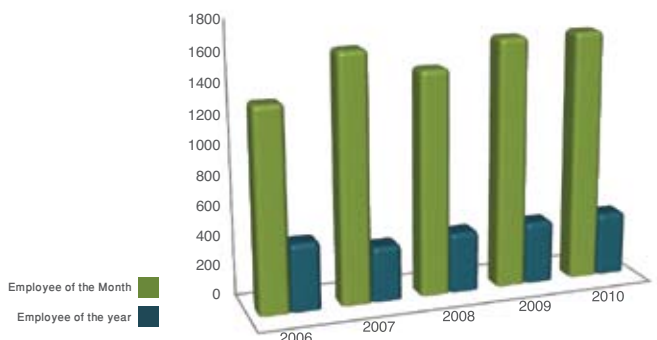
## Employee Distinction Program

The Company began to apply the Employee Distinction Program in all Company operating areas in 2005. The program is composed of the following:

- Employee of the Month Award
- Employee of the Year Award

The purpose of the program is to motivate the employees to distinguish themselves through excellent performance and to encourage competition among employees. The program targets all non-supervisory employees. The number of distinguished employees in the Employee of the Month Award reached a total of 8,244 from the start of the program to the end of 2010, and the number of the distinguished employees in the Employee of the Year Award was 2,743.

## Change and Development



# Human Resources

## Balanced Scorecard:

The balanced scorecard is one of the modern management tools and techniques used in managing corporate performance. This is a strategic performance management system to evaluate the activities and performance of a company according to its vision and strategies. This system creates balance between financial measures and customer satisfaction and between effectiveness of the internal operations as well as the measures of learning, development, and creativity in a company. The year 2010 witnessed the application of the third phase of the balanced scorecard.

## Performance Management System:

The performance management system is one of the human resource management systems adopted by corporations which are related to many other systems as being a cornerstone in the realization of the corporation's strategic objectives and basis of the job benefits and compensations. It helps define the training needs, assuring, and exploring the supervision, leadership, and merit potentials.

Due to the Saudi Electricity Company's aspiration to promote the performance of its employees and its willingness to remove the barriers that may hamper this, all efforts were made to develop a performance management system which was launched in 2009. Cooperation was entered into with large international consulting companies as management and technical best practices were utilized while taking into account the special nature of the Company on the national and international levels.

## Future Vision of the Performance Management System:

- The Company's employees conveniently consider the system and perceive it as a proper tool for the development and evaluation of performance.
- The employees and supervisors of the Company are keen to deal truly with the system and to develop it.
- The Saudi Electricity Company's performance management system is an example for the large companies in the region.

## Development Strategy of the Performance Management System:

- To expand the base of responsibility for the field application to include all the supporting and 10 working activities in the Company by forming a centralized work team that studies, evaluates recommendations, and follows up the performance.
- To disseminate the culture of performance standards among the leaders as basis for performance development; follow up, evaluation and remuneration, to attain concrete achievements based on numbers and facts, not impressions and feelings.
- Continuous review and utilization of successful global experiences in developing the current system.
- the superiors with further tools and techniques to facilitate true application of the system like the supporting databases, automated system, templates, and tables.

The Company honored the departments that have earned distinction in the application of the performance management system for the year 2009 by awarding plaques to 30 departments/divisions while 228 distinguished managers received certificates of appreciation and financial awards.

## Motivation and Loyalty Enhancement

### Cooperative Trainer Program:

The Company is eager to benefit from its current workforce or from those who have retired from service who still have the ability, potential, and merit that effectively qualify them to design and prepare the technical and management programs necessary for the Company's sectors and meeting certain prerequisites in lieu of financial compensation according to approved regulations.



### Savings Program for the Company's Employees:

The Company has launched a savings program which is governed by legal regulations to help Saudi employees accumulate savings to benefit therefrom upon retirement or at end of service, to motivate and retain their services, promote their loyalty and sense of belonging to the Company, enhance their performance, and to facilitate in recruiting required qualified staff.

### System Resources

- Subscription fees (the employee is entitled to decide on subscription amount to be deducted, with no more than 10% of the basic salary).
- The return of the subscribers' investment
- Contribution of the Company in the system: The Company contributes to the program an amount equivalent to 100% of the employee's total monthly subscription; the subscribing employee shall become eligible to the Company's contribution on retirement or at end of his service according to his subscription period.

### Housing Loan

The Saudi Electricity Company has adopted a Housing Loan Program for Saudi nationals (through the local banks) in accordance with legal provisions. The priority standards of the program were automatically and fairly set. The program features:

- Provide an opportunity to the employee to own a residence (villa/duplex/apartment), to build on land he owns, or to finance unfinished house he owns.
- Maximum loan amount of SR 1,200,000, as required.
- Loan duration is 20 years or the remaining number of years prior to employee's retirement at age 60 years Hijra.
- The Company shall bear 70% of the financing costs as contribution; the Company's contribution will cease when the employee terminates his service with the Company for any reason.

### Improvement of the status of the non-employee trainees by increasing their financial provisions:

The Company's concerns are not limited to its regular employees; they include the Company's concern for non-employee trainees enrolled in the training programs at Company's training institutes. They are paid monthly stipend which includes housing and transportation allowances to give them stability, especially during the training period they spend at the institutes. In addition, excelling trainees are given material awards at the end of every training term to encourage them to excel in scientific and academic achievements, to observe safety regulations, and to preserve the good image of the Company. In addition, these awards are among the key factors for competition among the trainees.

### Health Services:

The Company provides its employees and their family members, meeting statutory conditions (wife, children, and parents), with health care services through:

- The Company's clinics available at the Eastern and Western Provinces.
- Direct contact with the medical organizations in all operating areas.
- Health insurance for non-Saudis and their approved dependents.

In the next phase, the Company will strive to improve the health care service for all Company's employees by appointing insurance companies operating in the Saudi market which have been qualified/certified by the Council of Cooperative Health Insurance for this purpose. This service will benefit approximately 150,000 of the Company's employees and their family members.

# Human Resources

## Intercommunication in the Company

The Company pursued the enhancement of the work environment to achieve effective intercommunication between employees and devoted a teamwork culture to support the decision-making and development of different internal operations of the Company. The Company now develops approved mechanism to activate and promote intercommunication among all management levels. All of the Company's management units will apply these mechanisms through the following meetings.

- Weekly discussion meetings with the Chief Executive Officer
- Weekly discussion meetings in operating areas
- Communication meetings within organizational units
- Meetings of the Coordination Administrative Committee in operating areas

## Community Service

The Saudi Electricity Company has prominent and distinguished efforts in community service, including:

- Cooperation between the Company and the Technical and Vocational Training Corporation by contributing to the establishment of specialized institutes for training on electrical works.
- Recruiting some graduates from technical and industrial faculties of Jubail Technical Institute and the Institute of Public Administration who have the necessary specialization required by the Company; directly employing and enrolling them in the on-job-training program of beneficiary departments in the Company's sectors.
- Participation in the annual forums and conferences specialized in the human resources and total quality management.
- Promoting the role of the Company with the society through general lectures the topics of which revolve around the active contributions of the Company in satisfying the communities' needs and the potential positive role of the beneficiaries from the Company's activity in this regard, particularly rationalization of consumption.
- The different fairs held in all operating areas of the Company throughout the year where the Company contributes and participates in events e.g. traffic week, in addition to regularly publishing pamphlets and bulletins in this regard.
- Participation in Career Day activities held by a number of universities in the Kingdom to promote awareness of the Company's businesses and the job opportunities available for required positions within the Company to give them the chance to join the Company.
- Contribution to the success of the cooperative training program for university students in various levels by giving them the opportunity to receive practical and hands-on training at different facilities of the Company, allowing them to gain the necessary practical experiences whether in the technical or administrative field. This program benefits around 800 students every year.
- Contribution to the summer training program by admitting approximately 600 secondary school students every year to work on a part-time basis, with monthly stipend, during summer vacation to accustom them with work environments.
- Support for research activities in Saudi universities and other scientific and research entities which include entering into research collaboration agreements with King Abdulaziz City for Science and Technology, sponsoring academic chairs with King Abdulaziz University, King Saud University, and King Fahd University of Petroleum and Minerals as well as establishing specialized workshops for scientific and academic chairs in Saudi universities which were attended by a large number of engineers from the Company and Saudi-Aramco.
- Maintaining the environment is a major element considered in the preparation of the Company's operational and capital plans; with a deep sense of accountability for maintaining the environment, we coordinate with the Presidency of Meteorology and Environmental Protection Administration in order to contribute in setting proper environmental policies, in addition to conducting studies on the evaluation of adverse environmental impacts. Moreover, the Company takes effort to reduce air, water and soil pollution and minimize the effects of environmental pollution on humans, and participating in the environment and energy exhibitions.
- Awareness campaigns to rationalize consumption and optimally use and handle the electric power.

Finally, we would like to confirm that the Saudi Electricity Company believes in the necessity of continuous development and change, review and evaluation of performance to go in line with the recent developments. In addition, the Company has the flexibility and experience to achieve this.





## Our Outstanding Achievements

We believe in the importance of human resources as a real source of energy for achieving success in radical change processes when developing overall performance and moving forward into commercial mode of work. Our efforts continued in 2010 as a joint organizational unit supporting continued planning and providing development and services programs for the employees, so that they may contribute actively in achieving the Company's mission which requires qualified, trained, and highly efficient workforce, capable of adapting to the rapid developments in the nature of work. We attach special importance to human resources development by adopting specialized programs for the selection and development of staff and for planning their careers so as to ensure filling all job positions of the Company with competent employees on a permanent basis.

In the area of training and development to meet the competency requirements of the Company in various managerial and technical disciplines, 834 graduates from the Company's training institutes were hired in 2010. With this, the number of on job-trainees employed in 2010 reached 1,191. In addition, 354 graduates from various universities have been recruited and joined the Company's Professional Development Program bringing the total number of degree holder employees registered in this program to 692 participants by the end of 2010. A total of 26,068 employees have benefited in the numerous short courses we offered to develop the employees' skills. Developmental programs such as career and leadership programs have been prepared for our managerial and professional staff to prepare them to assume various posts and positions throughout their careers. The number of participants in these programs reached 11,400 employees.

We have also adopted a new developmental program which is based on merit as a non-traditional step for developing our human resources. This program serves other developmental programs and acts as a solid foundation for the planning and replacement processes in the Company. Additionally, we have also adopted a special program for the development of the promising staff which aims to find regular integrated channels for the care of talented degree holder employees who have personal abilities to take on more specialized responsibilities and assume leadership positions in the future. A total of 36 promising employees were enrolled in this program by the end of 2010 while coordination is underway to enroll others from among those that meet the necessary requirements.

In order to promote self development among the employees, we have provided the staff with 447 courses through the online education program called "I-Learn," in 2010, which covered various topics needed by the staff to carry out their tasks efficiently and effectively. A total of 10,548 employees have participated in these courses of which 5,670 employees benefited from them.

Due to the importance of performance management in raising the level of work and the work force, an advanced performance management system has been adopted in order to benefit from the best available international practices and applications. Among our efforts in this area is the completion of the second phase of the automated performance management system which will be launched in the beginning of 2011 together with a provision of the necessary training. In the field of total quality management, the list of nominees for the King Abdulaziz Award for Quality, in its second session, has been presented. (The Company has won the award in the beginning of the year 2011.)

Furthermore, the Company continues to apply the Total Quality Management program. Ninety-eight (98) teams have been formed in 2010 to improve the major operations carried out by units in various administrative levels. The number of teams formed since the start of the application of the total quality management programs reached 1,640 teams. The teams have submitted 7,781 recommendations of which 6,415 recommendations have been implemented to improve various processes which include improved efficiency, reduced costs, and improved quality of services provided to internal and external customers.

Under the Innovation Program, the total creative ideas submitted reached 3,635 ideas of which 1,812 ideas have been accepted, including 373 ideas submitted during 2010. The contributors of these ideas have been honored and thereby making a great impact on encouraging employees to participate more actively.

Under the Excellence Program, which aims to honor outstanding staff members, 1,667 employees received the employee of the month award. The number of awardees since the start of program implementation reached 8,244 employees. Furthermore, 422 employees received the employee of the year award for 2010. Thus, the number of staff members honored since the inception of the program reached 2,743 employees.

We held the 14th Total Quality Management Annual Forum under the slogan of "Quality is the oasis of Innovation" from 21 to 22/12/2010 in the city of Al-Khobar. The forum was followed by an exhibition to showcase the creations of the Company's employees from all areas. It was participated by 41 employees while 650 specialists and concerned persons from within and outside the Company participated in the forum in which 10 working papers were presented. The members of 11 distinguished teams were honored, as well as the best 10 creative suggestions for all activities of the Company. The Company participated in a number of seminars and meetings organized by external bodies in which the achievements of the Company in the field of Total Quality Management were presented.

We have also applied the Balanced Scorecard System which is one of the modern management tools and techniques used in managing corporate performance. It is also considered as an administrative system or strategic plan to assess the activities and performance of the Company according to its vision and strategy. The Balanced Scorecard System balances the financial aspects and customer satisfaction. It also balances the effectiveness of internal processes and aspects of learning, development, and innovation in a company. We continue to work on the project which will be applied in four phases. This project is expected to reach department and division levels upon completion of the fourth phase by the end of 2012. The human resources activity will provide support to beneficiaries through intensive workshops targeting all the participants during the four phases of implementation.

In 2010, we have implemented the third phase of the project which included 27 sectors. Ninety-seven (97) workshops were implemented for this purpose.

We were able to raise the job nationalization rate to 86.28% of the total work force of 27,782 employees in 2010 from 85.12% in 2009 through our continuing efforts in training and developing our university graduate employees as well as those who were graduates from Company training institutes paving the way for their job placement and activating the replacement programs.



Power Plant 10 for Electric Power Generation

# Electric Power Generation

10.4 %

Growth of actual generation capacities to 39,973 MW

Total growth of available power in 2010 reached approximately 50,000 MW compared with 44,485 MW in 2009; thus reflecting a growth rate of 10.4%.

| Item                               | Since the Company's Establishment in 2000 | Percentage of Change During the Ten-Year Period  |
|------------------------------------|---|---|
| Available Generation Capacity (MW) | 25,000                                    | 100%  |

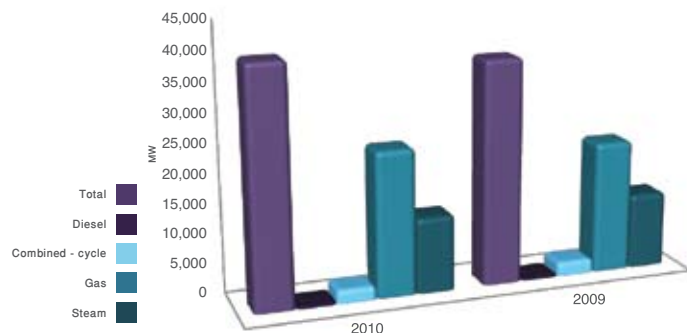
# Electric Power Generation

## Our Major Achievements

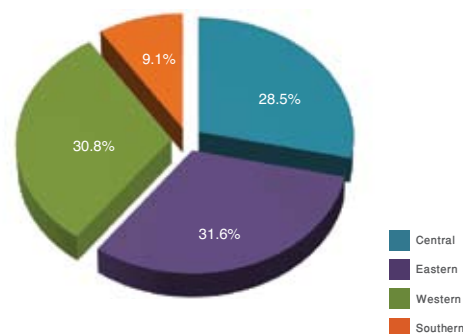
Based on our mission as a business function with the task to provide adequate, highly reliable electric energy and to reduce the cost of producing electric energy by the optimum utilization of available resources, the generation activity constitutes the key source of electric energy production.

In 2010, the contributions of both desalination stations and the large customers during the peak period, as well as the rented generation units, were 4.2%, 13%, and 1.5% respectively of the total available generation capacity. By the end of 2010, the Company's generation stations in the Central, Eastern, Western, and Southern Regions yielded 28.5%, 31.6%, 30.8%, and 9.1% respectively of the total generation capacity of the Company. The Company is keen to increase the efficiency of the economic operation of its generation units, taking into consideration that both gas and steam generation units account for the highest portion of the actual generation capacity of all power stations of the Company, with 61.3% and 32% respectively, while the combined cycle units yielded 5.8% and the rental diesel units 1% of the overall actual generation capacity of all power generating stations of the Company.

### Actual Generation Capacities by Unit Type



### Percentage Distribution of Generation Capacities by Area of the Company Owned Units



The growth in the actual generation capacity reflects our constant efforts to keep up with the required electric power to meet the requirements of the national network. During 2010, a number of projects were launched to boost up the generation capacity of the Company's power generating stations with an actual total capacity that reached 2,918 MW. Such projects are classified by work area and plant as follows:

#### Central Sector

- Power Plant 10: 20 gas units with total capacity of 1,117 MW
- Qassim Power Plant: 4 gas units with total capacity of 224 MW
- Juba Power Plant: 1 gas unit with a capacity of 55 MW

#### Western Sector

- Rabigh Power Plant: 16 gas units with total capacity of 960 MW
- Dheba Power Plant: 1 gas unit with a capacity of 17 MW

#### Eastern Sector

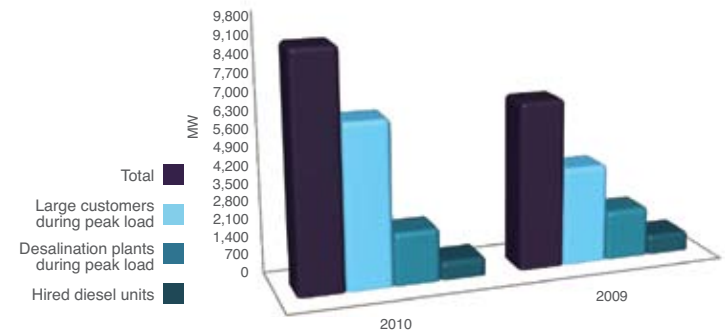
- Qurayyah Combined Cycle Plant: 4 gas units with total capacity of 511 MW

#### South sector

- Sharurah Power Plant: 2 gas units with total capacity of 34 MW

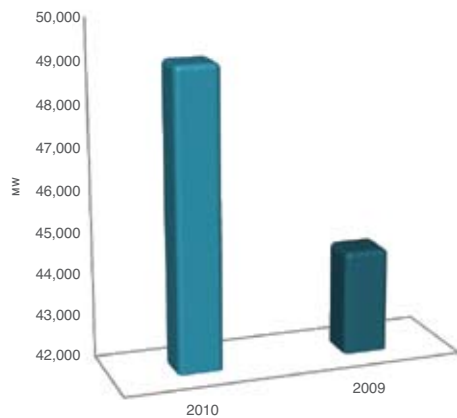


### Purchased Generation Capacities by Source

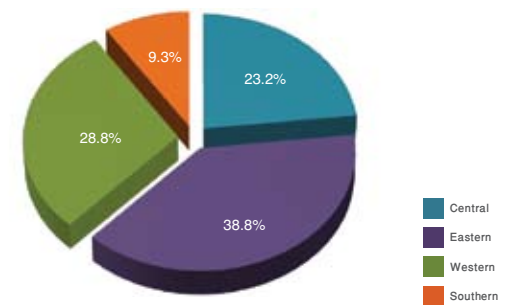


The total available capacity achieved in 2010 reflects a growth of 10.4%. The leased diesel units, desalination plants, and large customers contributed, at peak load time, 724 MW, 2,059 MW and 6,382 MW respectively, bringing up their joint contributions to 9,165 MW, which reflects the new trend adopted by the Company in terms of forming strategic partnerships in order to diversify the generation sources and increase the national generation capacity to keep up with the increasing demand for power. The Company spares no effort in raising the operational performance in order to build an acceptable power reserve with the range of 10-15% of peak load, and boosting and developing the infrastructures of the generation plants facilities which constitute, in terms of its fixed assets alone, 34% of the Company's net fixed assets.

### Total Available Capacity



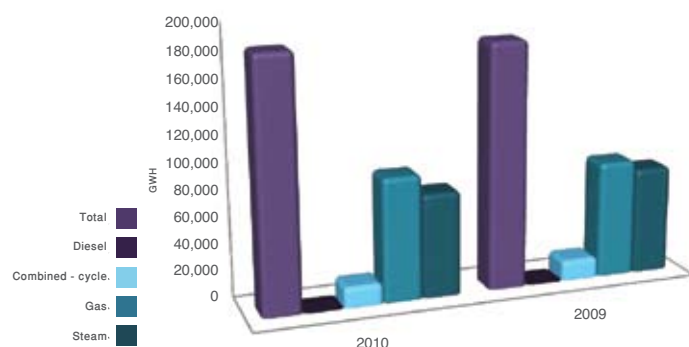
### Percentage Distribution of Total Available Capacity by Area in 2010



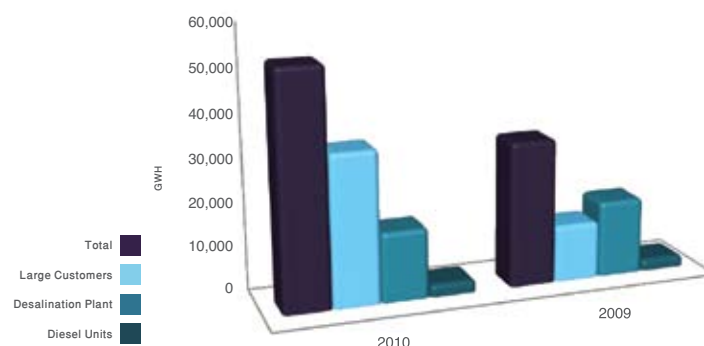
# Electric Power Generation

By the end of 2010, the total produced energy from the Company's power plants was 186,482 GWH, with a growth rate of 1.3% as compared with 2009. By comparing the Company's total produced energy with the total contribution of leased diesel units, desalination plants, and large customers' plants amounting in total to 53,585 GWH representing a rate of 22.3%, the Company has contributed 77.7% of the total available power. This reflects our commitment to meet the requirements of the national power network. The energy transmitted to the networks constituted 97.6% of the total available energy amounting to 234,371 GWH, compared with 211,661 GWH in 2009.

**Power Produced By Company's Power Generating Stations  
by Unit Type**



**Purchased Power by Source**



## Availability of Generation Capacities During 2010

Improvement was recorded in Weighted Equivalent Availability Factor (WEAF) for the gas and diesel units wherein the actual factor for steam units was 83.7%, compared with the 81.8% planned rate, while such factor for the diesel units was 93%, compared with the planned 92.1%, and for gas units was 83.8%, compared with the planned 86.9%. As for the combined cycle units, WEAF was 82.4%, compared with the planned 83.3%.

Reasons behind the decrease in availability of generation capacities from the planned factor in gas and combined cycle units are related to the following:

### Gas units:

- Shutdown of a number of units at some plants due to breakage of turbine blades and malfunction of transformer.
- Increase in unplanned shutdown time for a number of units reached more than 23,000 hours.
- Shutdown of all combined cycle units and new Faras Power Plant units to complete the punch list and perform operational tests.

### Combined Cycle Unit:

- Shutdown of 3 combined cycle units at Rabigh PowerPlant for long periods.





## Emergency Shutdown Rate During 2010

Improvement was recorded in Weighted Equivalent Forced Out Rate (WEFOR) for the steam and combined cycle units, wherein emergency shutdown rate for steam units was 1.0%, compared with the 1.2% planned rate, while for the gas units was 6.3%, compared with the planned 4.2%, for combined cycle units was 0.9%, compared with the planned 1.8%, and for the diesel units was 9.6%, compared with the planned 5.7%.

Increase in emergency shutdown rate for gas and diesel units from the planned rate is related to the following:

### Gas units:

- Shutdown of 4 units at Jeddah Power Plant No. 3
- Shutdown of 2 units at Jeddah Power Plant No. 2
- Long period of emergency shutdown for a number of units at Power Plant 8 and Power Plant 5 in Qassim due to breakage of turbine blades.

### Combined Cycle Unit:

Decrease in dependence on diesel units with limited operation in 2010 in the Southern Region for the following reasons:

1. Operation of Al Shuqaiq Steam plant
2. Operation of 3 gas units in Sharurah

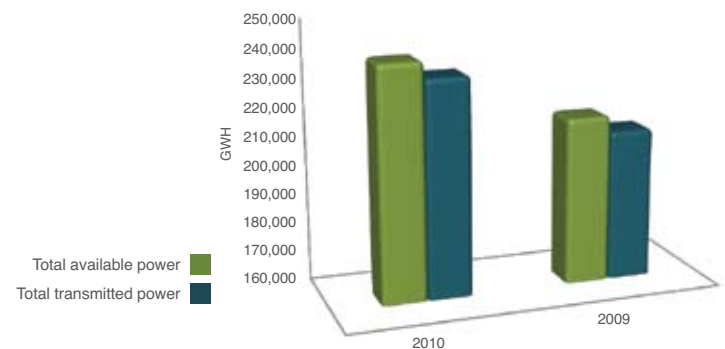
This decreases the service hours (SH) of diesel units which affect the rate and lead to increase in emergency shutdown rate.

## Planned Objectives for Maintenance Programs During 2010

Ninety-seven (97) comprehensive maintenance operations were performed compared to planned 107 maintenance operations, representing a decrease of 10 operations over the planned program, while 197 light maintenance operations were performed compared to planned 240 maintenance operations, representing a decrease of 43 operations over the planned program. A decrease in the number of comprehensive maintenance operations was brought about by combining two maintenance jobs into one for generators and turbines although they were originally planned as two separate maintenance jobs (in the Western Sector), others were the result of postponing comprehensive and light maintenance plans for some units, and changing the type of maintenance.

Number of medium maintenance operations was 141 operations compared to planned 128 operations, representing an increase of 13 maintenance jobs over the planned operations, due to performing unplanned medium repairs for a number of units.

## Total Energy Produced and Delivered to the Network





Link Between Central and Western Regions  
And Between Western and Southern Regions



# Electric Power Transmission

8.1%

Networks Growth Rate, bringing up the total length of power transmission networks to 46,000 ckm.

Inauguration of a number of new projects in addition to boosting existing projects for upgrading and developing the power transmission networks and raising their operational efficiency. Thirty-three (33) transmission substations were added with 77 transformers, and boosting the existing transmission substations with 10 new transformers and replacing 8 transformers with a total added capacity of 14,861 MVA. New networks with total length of 3,476 ckm were also added.

Total number of high voltage and extra-high voltage transmission substations reached 644, including 1,845 transformers with total capacity of 176,090 MVA. Growth in total lengths of power transmission grids reached 46,000 ckm.

| Item                                       | Since the Company's Establishment in 2000 | Percentage of Change During the Ten-Year Period  |
|--|---|---|
| Length of Transmission Network Lines (ckm) | 29,600                                    | 56%   |

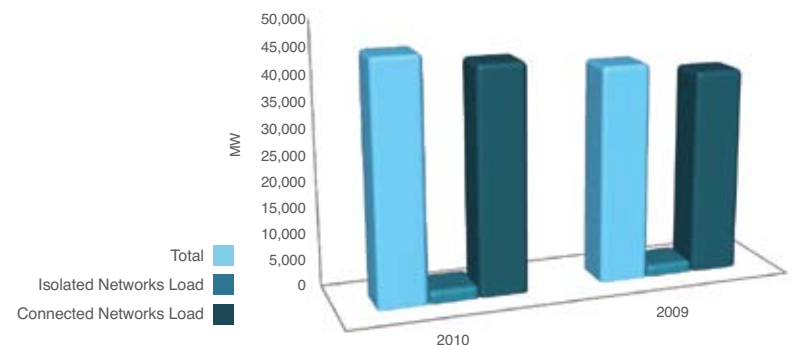
# Electric Power Transmission

## Our Major Achievements

We accord high attention to the operation of the national network with high reliability to ensure that power is supplied to the load centers throughout the Kingdom through our power transmission networks (380/110 KV). This reflects our commitment in all our operational and capital work to our mission as a business function to ensure smooth, stable, and uninterrupted transmission of electric power from its production sites to its consumption locations at the lowest possible costs, in addition to providing opportunities to all power producers and large customers to use the power transmission facilities at reasonable prices. A major achievement in our operations is our success in maintaining the stability of the national network during 2010 and our highly efficient dealing with the increasing demand for electric supply.

Peak load in various regions of the Kingdom in 2010 reached as high as 45,661 MW, representing a growth rate of 10.8% over 2009. Peak load contribution of the interconnected networks and isolated networks increased in 2010 by 10.8% and 11.4% in 2009 respectively. Maximum load of interconnected and isolated networks in 2010 reached as high as 43,173 MW and 2,488 MW respectively.

### Peak Load



The year 2010 witnessed the inauguration of several new projects in addition to boosting existing projects for enhancing and developing the power transmission networks and upgrading its operational efficiency. The most important of these projects are:

#### Extra-high Voltage 380/230 KV

- Construction of 9 transmission substations with 14 transformers having a total capacity of 7,276 MVA.
- Addition of new overhead line circuits and underground cables having a total length of 3,072 ckm.
- Boosting existing transmission substations with 6 transformers having a capacity of 3,006 MVA as well as circuit breakers.

#### High Voltage 132/110 KV

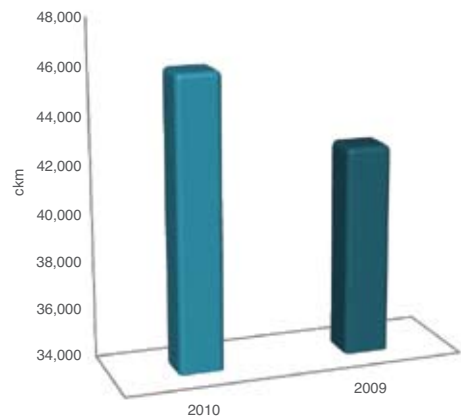
- Construction of 24 new transmission substations with 63 transformers having a total capacity of 4,058 MVA.
- Addition of new overhead line circuits and underground cables having a total length of 404 ckm.
- Boosting existing transmission substations with 4 transformers having a total capacity of 200 MVA.
- Replacement of 8 transformers with a total capacity of 321 MVA.

Such added projects reflect the growth in the power transmission networks by 8.1% to bring the total transmission network length up to 46,000 ckm at the end of 2010, compared with 42,703 ckm in 2009.

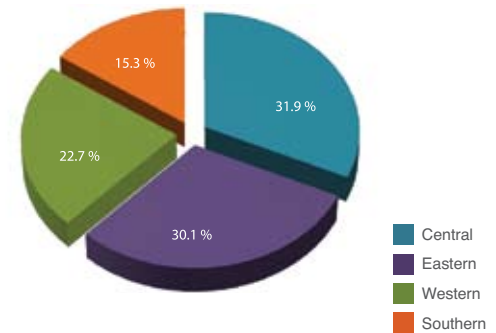


The network spans all company sectors in the Kingdom, where the percentage rates of distribution of power transmission network lengths represent 31.9%, 30.1%, 22.7%, and 15.3% for the Central, Eastern, Western and Southern Regions respectively.

**Transmission Networks Length (380/110 KV)**

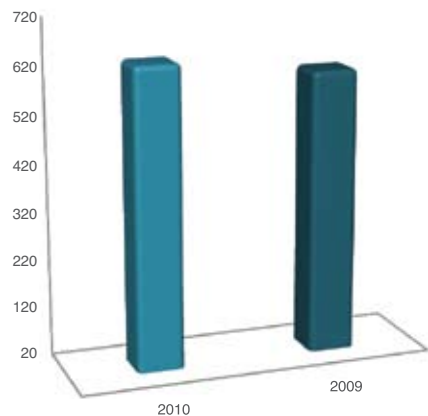


**Percentage Distribution of Transmission Networks Length (380/110 KV) in 2010**

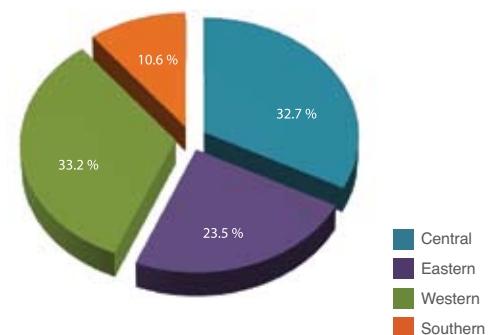


Furthermore, the power transmission networks were boosted up with 33 new substations, bringing the total number of transmission substations by the end of 2010 to 644, representing a growth rate of 5.4% over 2009. This growth led to change in the percentage rates of distribution of power transmission substations in the Central, Eastern, Western and Southern Regions to 32.7%, 23.5%, 33.2%, and 10.6% respectively.

**Number of Power Transmission Substations**



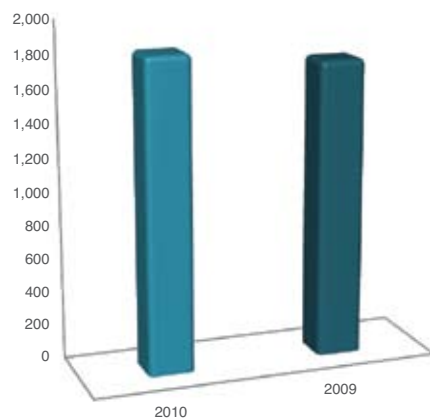
**Percentage Distribution of Power Transmission Substations in 2010**



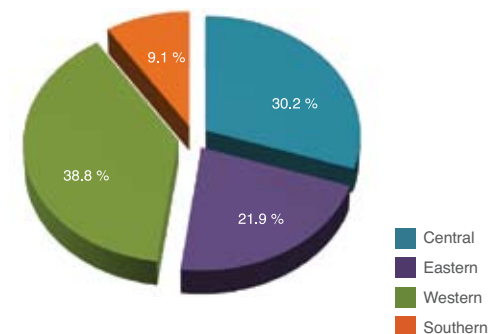
# Electric Power Transmission

The number of transformers witnessed a growth of 4.9% bringing their total number to 1,845 transformers in 2010, compared to 1,758 in 2009. As a result of this further development in the power transmission networks, the percentage rates of distribution of the total number of transformers at the end of 2010 became 30.2%, 21.9%, 38.8%, and 9.1% for the Central, Eastern, Western and Southern sectors respectively. Likewise, the percentage rates of distribution of the total capacity of the transformers became 28.0%, 33.5%, 30.5%, and 8.0% for the Central, Eastern, Western, and Southern sectors respectively.

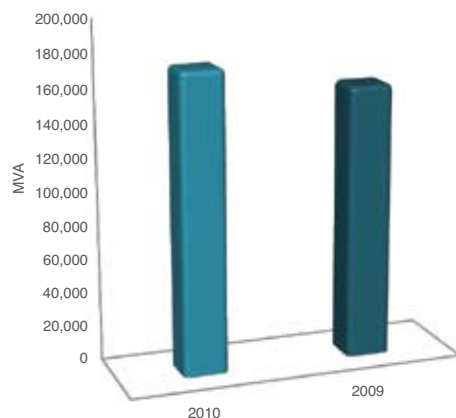
Number of Power Transmission Transformers



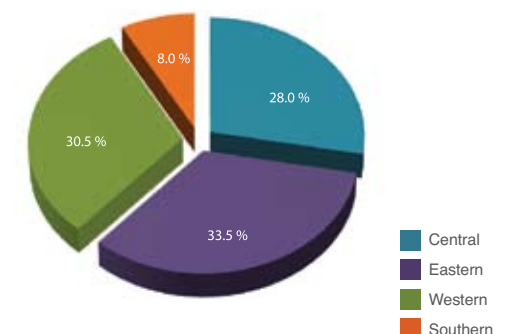
Percentage Distribution of Power Transmission Transformers in 2010



Total of Power Transmission Transformers Capacities



Percentage Distribution of Power Transmission Transformer Capacities in 2010





Within its plan for completing the strategic electric power connection between different parts of the Kingdom, the Company is implementing a project to interconnect the Western Province (Madinah) with the Central Province (Al-Qassim) through a 380 KV network in addition to a project to connect the Western Region (Shoaiba) to the Southern Region (Al-Shuqaiq), these two projects commenced operations in 2010, completing 80% of the strategic interconnection plan in the Kingdom.

The first stage of 380 KV electrical connection network has been operated which connect the networks of the Kingdom with Kuwait, Qatar, and Bahrain

During this year, the first private sector generation project in Shoaiba (Holy Makkah), having a production capacity of 900 MW, has been connected, in addition to the commissioning of the first stage of the Marafiq project in Jubail, with estimated power production capacity of approximately 2,750 MW upon completion of the project in 2011. Al-Shuqaiq generation project has been operated to produce 850 MW.

The Company released a number of contracts for the connection of Al-Jouf Region with Hail. The contracts have been awarded at the end of 2010. The project for the connection of Qaysumah Region with the 380 KV public network has been released and will be awarded during first quarter of 2011.

The company has prepared documents for the series compensators project between Al Qassim and Madinah to boost connection capacity between the two regions. This project shall be released and awarded during first half of 2011.

**Free Electricity SMS Messaging Service**

**Electronic Bill Service**

**Easy Payment Service**

**Advance Payment Service**

**Payment through**

**Telephone Banking**



**ATM**



**Internet**



**Services and Payment Methods**

# Distribution and Customer Services

5.19 %

growth in the number of customers, bringing up the total number to 5,997,553.

Electricity was supplied to 317,932 new customers and 208 villages which brought the total number of electrified cities, towns, and villages to 12,000.

Distribution networks were further reinforced with the addition of 19,330 transformers having a total capacity of 8,879 MVA and added distribution networks length of 18,682 ckm. The total number of transformers reached 322,042 at year-end with total capacity of 150,266 MVA, and total distribution networks length of 383,304 ckm.

| Item                                       | Since the Company's Establishment in 2000 | Percentage of Change During the Ten-Year Period  |
|--|---|---|
| Length of Distribution Network Lines (ckm) | 226,664                                   | 69%   |



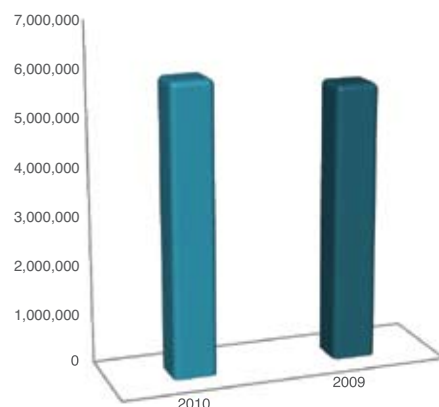
# Distribution and Customer Services

## Significant Achievements

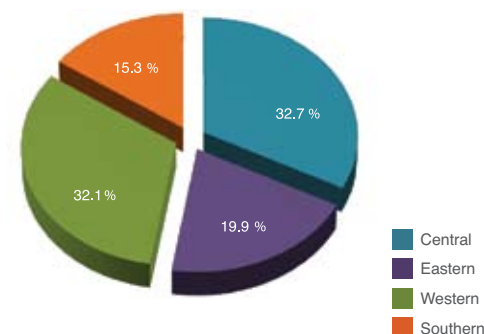
We continuously renew our pursuit to develop our products and services, and to satisfy the electric power requirements according to the customers' needs and aspirations. Being an electric utility in direct contact with customers, we focus our potentials towards the achievement of our mission to provide safe and highly reliable electricity supply to our customers, upgrade the services we provide to gain customer satisfaction at the lowest possible cost through the optimum use of the available resources.

By the end of 2010, the total number of customers reached 5,997,553 representing a growth rate of 5.19% over the year 2009 while the number of new customers reached 317,932 during 2010. Their percentage rates of distribution in the Company's Central, Eastern, Western, and Southern Sectors were 32.7%, 19.9%, 32.1%, and 15.3% respectively. The percentage rates of distribution of the total number of customers in the Company's Central, Eastern, Western, and Southern Sectors were 31.5%, 17.4%, 37.7%, and 13.4% respectively.

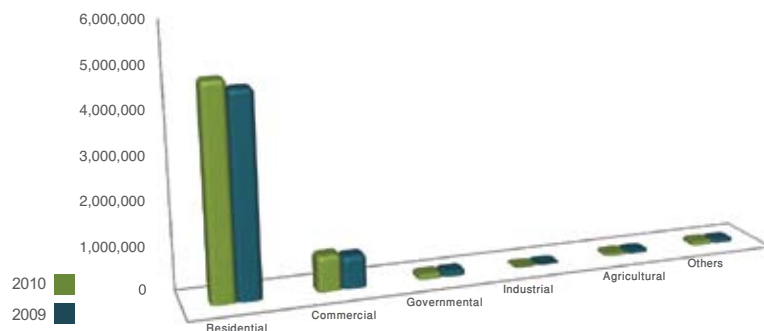
Total Number of Customers



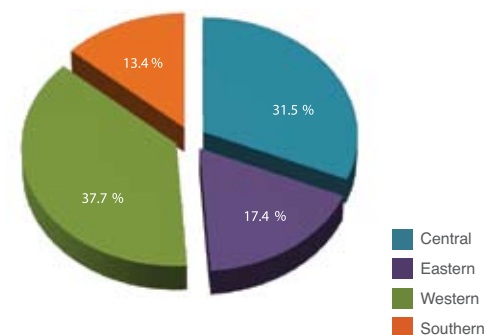
Percentage Distribution of New Customers by Area in 2010



Total Number of Customers by Category



Percentage Distribution of Customers in 2010







## Serving the Two Holy Mosques and the Holy Places

By the end of 2010, the operational plan for the 1431H Hajj Season was efficiently implemented with no interruptions. Therefore, the power required for the pilgrims' convenience in Makkah Al-Mukarramah, the holy places, and Madinah al-Munawwarah was successfully maintained. The plan included the complete removal of all networks within the second phase of the project of extension of the Northern Halls of the Two Holy Mosques at Makkah Al-Mukarramah and was resupplied with highly reliable power networks. Networks were removed from 5,914 locations and more than 80 distribution substations along with their relevant networks to enhance the performance of the networks and substations at the holy sites. Low voltage network in Mina was completed by extending cables by more than 66 km in length. In this respect, medium voltage projects were implemented at the Arafat site by extending cables by 50 km in length.

As regards customer meters, support and promotion of the distribution substation at the holy places, 5,870 meters and 630 distribution substations were completely inspected and maintained, in addition to 845 distribution boards with their relevant networks were completed.

## Customer Services

Due to our interest in developing the services provided to customers, the operational mechanism of the customer's service center and voice reply system were developed to work round the clock in the Eastern and Western Sectors. In addition, training and instructional workshops were organized for the company's staff and were attended by 442 employees.

We expanded the provision of electronic services to the customers, i.e. SMS service to communicate with the customers by means of SMS messages to their mobile phones, in addition to customers of Water and Electricity. The number of subscribers to the SMS service was 1,438,382 by year-end 2010, while the number of sent messages was 25,816,212.

The E-Bill service, by which electricity bills are sent to the customer's email, if customer is registered in the service, was expanded. Moreover, the Internet website of the company was developed.

As regards customer bills, we have launched this year a program supporting the payment of electricity bills for beneficiaries under social welfare. Supporting system was configured in order for the program to succeed. In this regard, we obtained the consent of the Ministry of Islamic Affairs to approve a total of 3,826 mosques for the payment of their debts amounting to SR 9,794,657 and in order for them to be added to the group of registered mosques with the government.

The application of time-of-use rate was approved for customers in the industrial category. This rate aims at encouraging customers to apply load displacement at peak time and benefit from reduction in the amount of electricity bills when they consume electric power beyond peak time.

Fifty-seven (57) automated service systems were fixed in the customer services offices kingdom-wide. Through these systems, customers can evaluate their accounts and perform some operations like bill printing and subscription to certain services.

Large Customers Unit was added to each Electricity Department and followed up the implementation of the services required with special care.

## Improvement of the Networks Performance

During 2010 the following were achieved:

- 1- The projects to transform the voltage from 11 KV to 13.8 KV in Makkah Al-Mukarramah were completed and loads can now be transferred between distribution substations sites in the city.
- 2- Within the campaign launched by the company to minimize meter failure and reduce energy losses in the steam network, 3,500 (1-phase) old meters were replaced with new ones. To reduce loss within the same range of voltages, over 52,000 meters were inspected and maintained in view of the special program on meter reading and performance.
- 3- To improve power distribution network performance, network reliability systems were installed on networks that suffer low voltage and frequent interruptions. The speedy restoration programs were supported by using the mobile generators in the power distribution networks and promoting the use of flexible cables for the medium voltage and in mobile units which contributed to quickly restore power supply to those affected by unpredicted power interruptions in all cities and villages of the Kingdom.
- 4- Numerous projects have been accomplished in boosting the power distribution networks amounting to more than SR 1,800 million. The projects cover the extension of networks by more than 19,000 ckm and installation of more than 19,500 transformers with combined capacity of 9,000 MVA. In addition, power service was connected to 318 thousand new customers at a cost of more than SR 3 billion.

# Distribution and Customer Services

## Development of Performance

Through our efforts to develop the front-line staff, we have completed training of 1,620 customer service employees representing 20 departments in 2010. In addition, the project for live voltage was applied at Jizan Electricity Department, the first department in the Company to apply such a project for the maintenance of electric meters.

## Automated Systems

The application of the consolidated distribution system has been completed in the Western and Southern Sectors, while job is in-progress in the Eastern Sector which is scheduled for completion within the second quarter of the year; application for the Central Sector shall follow. FFMS system for automated tracking of teams, first phase in Riyadh, was applied, while the second phase for the cities of Riyadh, Makkah, Al Madinah al-Munawwarah, Dammam, and Jeddah will be completed by the second quarter of the year. Moreover, the geographic information system was applied and upgraded at Makkah, Jeddah, Madinah al-Munawwarah, Taif, and Tabuk. The contracts for Geographic Information Systems application were signed in Riyadh, Abha, Hofuf, Jubail, Qassim and Hail Electricity and are scheduled for completion in 2012.

Work is in progress to implement the automation of the power distribution network in the central area at Makkah al-Mukarramah and the Industrial City of Jeddah which were scheduled for completion within the second quarter of the year.

As regards smart network application, more than 12,000 electronic meters were installed for the large customers to connect them to the automated reading system and the variable rate system.

The number of combined electronic meters is being increased through an integrated project to cover 60,000 meters over the next three years.

## Load Displacement and Upgrade of Power Efficiency

In 2010, we resumed the application of the variable tariff program for displaced loads in the Central, Western, and Eastern Sectors. A total of 1,135 variable tariff meters were installed at year-end 2010. This contributed to reduce the customer bill due to the utilization of the reduced rate during the peak period. This program contributed to the displacement of loads during peak time, owing it in particular to the significant role of the media in disseminating awareness messages. We have organized 30 exhibitions on the upgrade of power efficiency which were held in various commercial centers and completed the preparation for the national plan for load displacement in coordination with the Ministry of Water & Electricity with the displacement of 1,033 MW during the year. In addition, we have established a number of workshops and instructional lectures for male and female students through the National Program for Rationalization.

## Isolated Generation

A number of contracts were awarded in 2010 as follows:

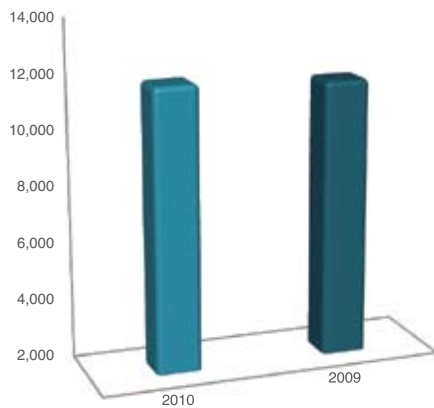
- 1- Support for the power system in various sectors during the summer of 2010 by installing leased generation units in various sites with total power capacity of 145 MW at a cost of SR 56 million.
- 2- Signing of contracts to secure the power required in the developing areas and remote isolated regions by specialized national companies with total power capacity of 634 MW.



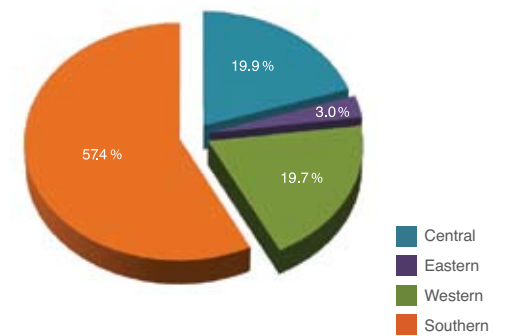
## Power Coverage

Electricity was delivered to 208 villages in the remote areas during 2010.

Number of Electrified Towns, Villages, and Settlements

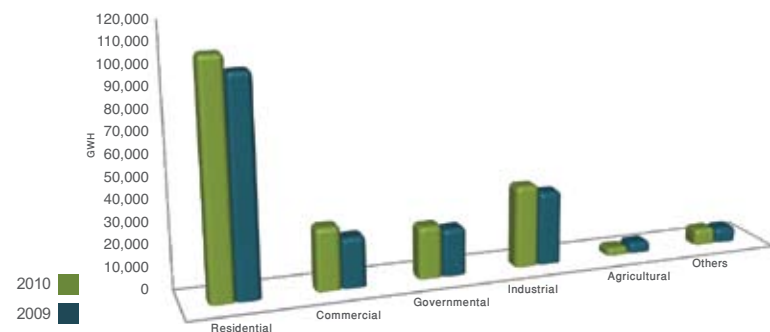


Percentage Distribution of Electrified Towns, Villages, and Settlements in 2010



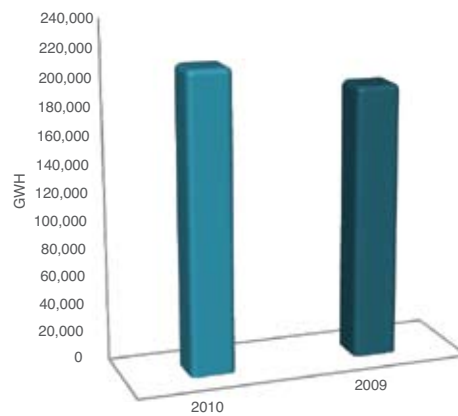
The sold energy has witnessed a growth of 9.7%, bringing up the total sold energy to 212,263 GWH in 2010 as compared to 193,472 GWH in 2009. Thus, the percentage distribution rates of the sold energy in Central, Eastern, Western, and Southern Sectors were 30%, 31%, 30.7%, and 8.3% respectively.

Sold Energy by Customer Category

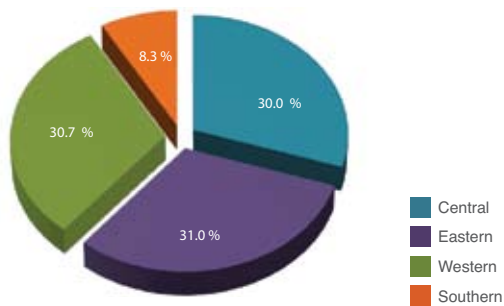


# Distribution and Customer Services

## Total Sold Energy



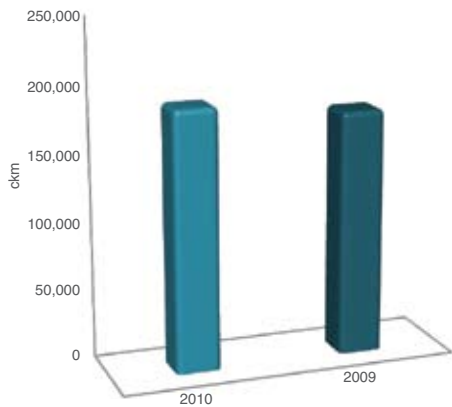
## Percentage Distribution of Sold Energy in 2010



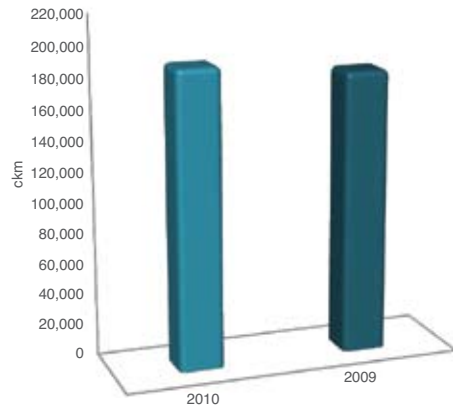


As a result of numerous projects accomplishments for boosting the electric power distribution networks, total distribution networks length (69/13.8 KV) recorded a growth of 5.8% in 2010, bringing up the total length to 191,481 ckm as compared to 180,967 ckm in 2009. In addition, the customer connection lengths for 127V, 220V, and 380V reached 191,823 ckm, representing a growth rate of 4.7% for the year 2010 against 2009.

Power Distribution Networks Lengths (69/13.8 KV)

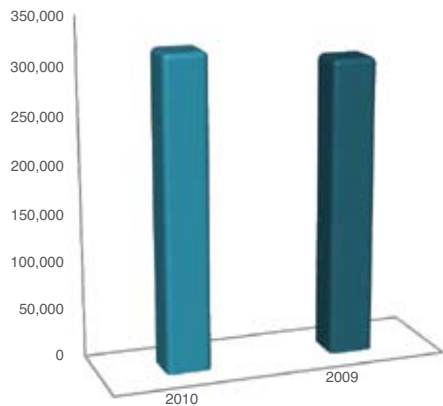


Customer Connections Lengths (127V, 220V, 380V)

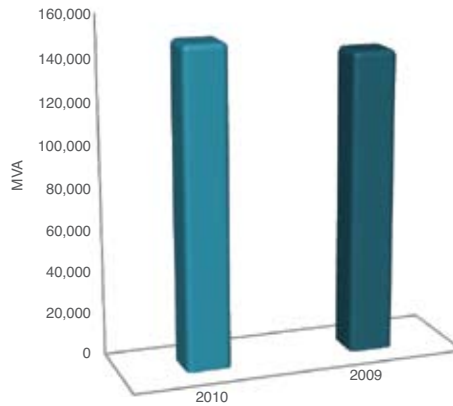


In addition, the number of transformers in the electric power distribution substations in 2010 has increased to 322,042, a growth of 5.2% against 306,107 in 2009. Consequently, the total capacity of the transformers was boosted to 150,266 MVA by the end of 2010, representing a growth rate of 5.4% over the year 2009.

Number of Power Distribution Transformers



Total Capacity of Power Distribution Transformers







Rabigh IPP

# Program for Private Sector Participation in the Electricity Projects

The Company recognizes the importance of the economic development taking place in the Kingdom which entails making available massive electric power to keep abreast of the developments. This necessitates the establishment of a large number of plants producing electric power through direct investments by the Company as well as through joint ventures with the participation of the private sector as part of its Program for Private Sector Participation in the Electricity Projects (IPPs). The program was approved in 2007 and a dedicated team was formed to oversee it.



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In order to provide support to the said team, the Company has signed contracts with international consultancies with proven experience and equipped with the knowledge to execute technical, legal, and financial matters as regards independent electric power production projects. In the first phase of the program, the Company targeted three projects on the basis of build-own-operate system, whose investments are estimated at more than SR 25 billion as detailed below:

The first project is for a 1,200 MW capacity power generating station in Rabigh city in the Western Region. A contract has been signed in the second quarter of 2009 with a consortium of two companies: Korean Electric Power Company (KEPCO) and ACWA Power International (ACWA Power). The production will start in the second quarter of 2012 and the project will be completed in 2013.

The second project is for a 1,729 MW capacity power generating station in Dharma, Riyadh. A contract has been signed in the second quarter of 2010 with a consortium comprising Suez Company, Al-Jomaih Group and Sojitz Company. The production will start in the second quarter of 2012, and the project will be completed in 2013.

The third project is for a 1,800 MW capacity power generating station in Qurayyah in the Eastern Province. A tender was invited for this project in November 2010 and the project is planned to be completed in 2014.





| Name of the Project   | Production Capacity of the Project (MW) | Percentage of the Private Sector Share in the Capital | Completion Date |
|---|---|---|-----------------|
| Rabigh IPP (In progress)  | 1,200                                   | 80%   | 2013            |
| Riyadh IPP Power Plant 11   | 1,729                                   | 50%   | 2013            |
| Qurayyah IPP Project 1 (Tenders have been invited for this project) | 1,800                                   | 50%   | 2014            |
| Qurayyah IPP Project 2 (Under preparation)                          | 1,800                                   | 50%   | 2015            |
| Dhaba IPP (Planned)   | 1,600                                   | 60%   | 2017            |



Bestowal for Generous Community



# Our Social Responsibility

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

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

In pursuance to implementing such an approach which is based on mutual understanding, confidence, and cooperation, we have been assuming full responsibility towards all levels and classes of community as an expression of being an effective member of the community. Our support to the community has been based on two fundamental attitudes, namely serving the community as a whole and serving the specific internal community of the Company through various aspects as follows:

## First: Our Social Responsibility Towards the Public Community

- 1) Serving the Two Holy Mosques
- 2) Delivering Electricity to Villages and Settlements
- 3) Research and Development
- 4) Environmental Protection
- 5) Security and Safety
- 6) Charitable Activities
- 7) Serving the Community

## Second: Our Social Responsibility Towards the Corporate Community

- 1) Social Activities
- 2) Promoting Intercommunication

## First: Our Social Responsibility Towards the Public Community

### 1) Serving the Two Holy Mosques

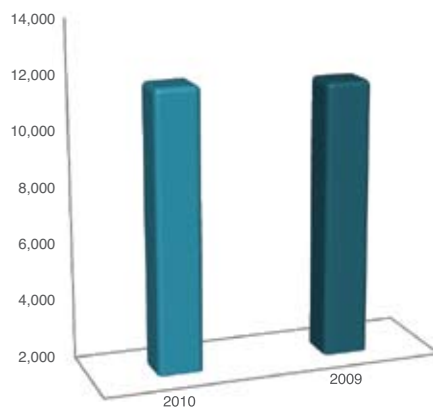
Maintain continuous reliable delivery of power services to the Two Holy Mosques and undertake whatever steps are necessary to diversify supply sources and review the designs of electric supply loads for the Two Holy Mosques on a regular basis and perform the necessary amendments in coordination with competent parties in the General Presidency of the Two Holy Mosques. In this context, the following milestones have been achieved:

- Coordination between Company control centers in Mecca and Madina and the General Presidency of the Two Holy Mosques (Holy Shrines Operations) through a hotline in order to ensure continuous and optimal delivery of highly reliable electric power supply to the Two Holy Mosques, especially during peak times in coordination with other parties as applicable.
- Procure the required electric power for any new loads that provide service to the Two Holy Mosques and holy places.
- Upgrade the capacities of the power generation, transmission, and distribution grids at the two holy cities to maintain stability of their electric power systems.
- Develop operating plans for the annual Hajj and Umra seasons to ensure optimum level of assurance and provide all necessary actions to serve the guests of Allah and all governmental bodies and other relevant service utilities in addition to preparing a plan for emergencies.
- Procure electric power for major projects related to housing accommodations for pilgrims and Umra performers at the two holy cities.

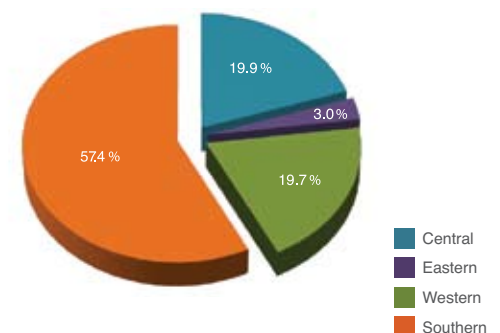
### 2) Delivering Electricity to Villages and Settlements

A great deal of attention is accorded to delivering electricity services to the villages and settlements although we are aware of the fact that the provision for such service has no economic feasibility to the Company. In this respect, our plan involves covering all villages and settlements that have yet to be provided with electricity. During this year, electric services were delivered to 208 villages and settlements which brought up the total number of electrified towns, villages, and settlements to 12,000 at year-end, compared to 11,782 in 2009.

Number of Electrified Towns, Villages, and Settlements



Percentage of Distribution of Electrified Towns, Villages, and Settlements in 2010



# Our Social Responsibility

## 3) Research and Development

### Introduction

The technological development in the field of scientific research has led to the growth and development of many Western countries. It is one of the fruits of efforts for utilizing modern scientific research in finding solutions to modern day problems induced by some methods and techniques of the modern era, including the production, transmission, and distribution of electric power.

For that reason, the Company's management has decided to adopt this approach in the development of work system in a comprehensive manner. The same approach has been followed in dealing with technical and operational aspects, maintenance work, and in particular, rationalization. It has raised the efficiency of the system on sound scientific basis, especially after the issuance of the Council of Ministers' Resolution No. 169, Article 1 (Paragraph 2/E ) which makes it a statutory obligation on the Company to allocate part of its income, as determined by the board of directors, for research and development work in the field of its specialization; and Article 3 of the resolution which obligates the Company to cooperate with universities, institutes, and specialized centers in the rationalization and improvement of systems and the preservation of the environment. Likewise, Article 2/7 of the Company's Articles of Association which stipulates among the Company's tasks to support and conduct research in areas that lead to improved service and raise the efficiency and operational performance, rationalization of energy consumption, conservation of the environment, and reduction of costs.

There is no doubt that adoption of this scientific method in developing the electricity system of the Company will lead to the civilized development of the community through the development of skilled manpower and nationalization of technology in our country. It will encourage efficient energy use and preserve the environment. On the other hand, it would lead to the upgrading of production, raising operating efficiency, and reducing costs incurred by the Company in providing service to all sectors of consumption at the highest level. This was the starting point of the whole approach.

### Program Objectives

- In the field of power generation, we strive to improve fuel efficiency and prolong the useful lives of assets and spare parts, as well as maximize production capabilities.
- In the field of transmission, we strive to prolong the useful lives of existing assets and capabilities and improve its performance in various areas as well as maintenance program rationalization.
- In the area of distribution, we seek to maximize the efficient use of assets and the development of billing and collection processes, and to achieve minimal energy-loss rate.
- In the field of electrical loads, we strive to develop programs of demand management and stimulate them to achieve optimal utilization of existing assets.
- In the field of energy use, we strive to rationalize power consumption, raise the efficiency of use, and strike a balance between the elements of chronological and sectoral growth horizontally and vertically at the Kingdom level.

### Phases of the Program

#### The First Phase from April 2002 to March 2003

This phase started with the review and identification of the important topics for inclusion in the first research program. Ten research contracts have been signed in this phase in addition to the signing of a research cooperation agreement between the Company and King Abdul Aziz City for Science and Technology.

#### The Second Phase from April 2003 to June 2004

During this phase, three projects among the projects of the first program were implemented. The second version of the research program was also launched. The second version consisted of seven requests for bids whose contracts were signed. The number of bids submitted reached 35.

#### The Third Phase from July 2004 to April 2006

This phase consisted of seven projects and the number of offers that have been taken into consideration reached 21 offers, out of which five projects have been signed and completed and their periodic and final reports have been received, some of them during this phase and some others during the next phase, namely:

- Contract for study project on "Diagnosis on the Condition of the Cable Terminals in Transformers and Circuit Breakers" in coordination between Transmission activity and the King Abdul Aziz City for Science and Technology.
- Contract for study project on "The Effects of Harmonics on Power System and Ways of Dealing with It" with King Fahad University.
- Contract for study project to "Develop an Air Conditioning Model that Simulates the Status Returned Load in the Transmission Network" with King Abdul Aziz City for Science and Technology.
- Contract for study project on "Environmental Assessment for Power Plants" with King Saud University.
- Contract for study project on "Power Losses in the Distribution Network" with King Abdul Aziz City for Science and Technology.



#### The Fourth Phase from April 2006 to December 2010

This phase comprised the follow up of the research projects of the first, second, and third phases as well as the joint research projects. Requests for quotation have also been prepared for research projects for the fourth phase, which included two offers on the generation activity and three offers on transmission activity. They are as follows:

- 1) On the project of comparative study of the effects of lowering the temperature of the internal combustion of turbine on the age of turbine blades, the British company ERA Consulting submitted its final report in December 2010 containing its recommendations. All the recommendations revolved around the fuels that the turbines are fed with, and the need for analysis of fuel thoroughly on a regular basis and taking the necessary measures when there is a decrease in fuel standards as compared to the required standards together with understanding and characterization of pollution sources of fuel on a daily basis in order to take the necessary preventive measures in the future which would ensure the maintenance of quality standards of the fuel that turbine is fed with on a regular basis.
- 2) On the project of protecting water intakes from jellyfish at Qurayyah Power Plant, King Fahd University has started working to achieve this goal in cooperation with the U.S. and Japanese consultants, and suggested the construction of barriers to prevent jellyfish from entering the water intakes at this station. It will develop structural and hydraulic designs in accordance with several measures adopted in Japan. This study is expected to be completed at the end of January 2011.
- 3) On the study project of assessing the quality of the capacity of power transmission system of the Company, the consultant submitted to the Company six technical reports on a quarterly basis after taking into account the Company's observation in this regard. A meeting was held with the consultant to discuss with him the time of submitting the draft of the final report. It is expected that contract's period will be extended because of delays in completing the study.
- 4) On the study project of the possibility of utilizing restricted production capacity and study of pricing of reserved power supplied by the Company to Aramco, the data has been collected on power plants that have restricted capacity and a database has been prepared in addition to the preparation of pricing for transmission of power and reserved power, and submitted to the Company. The preparation of the broad outlines for the strategy and the policy of pricing of this kind of power are underway.

All research projects of the fourth phase were signed at the beginning of 2009 and the work is underway to date.

#### Joint Ventures with King Abdul Aziz City for Science and Technology

As part of the scientific cooperation and through the Joint Scientific Committee formed with the King Abdulaziz City for Science and Technology, the committee started its works in 1423 H (2002 G) jointly supporting many researches important to the Company and useful for the electricity industry in the Kingdom. The Company signed several joint projects with the King Abdul Aziz City for Science and Technology, including:

- Project contract for the selection and evaluation of polymer insulation materials used in medium voltage cables and methods for manufacturing them to suit the local conditions, which was implemented by the King Saud University. The project was completed and the results were presented in the second scientific meeting of the City.
- Project contract for studying the effects of power failure on a sample group of large customers in the Kingdom, which was implemented by King Saud University. The project has been completed. The most prominent of its recommendations dwelt on the need for maintaining the quality of the system, improving the level of production, reducing power failure as much as possible for the impact of power failure on the Company is greater than their impact on large customers, especially at the high production levels.
- Project contract for the examination of decomposition and thermal and electrical stress at cable joints and terminals that are used in electricity distribution networks, which was implemented by King Fahd University. The contract was signed and works started in 2006. It was later extended and the results were reviewed in the second scientific meeting of the City.
- An international scientific meeting was also organized jointly by the City and the Company entitled "The Impact of Electromagnetic Fields Emitted from Power Transmission Lines in the Kingdom of Saudi Arabia" on Wednesday, 23/05/1429 H (28/05/2008) under the auspices of His Excellency the Minister of Water and Electricity. The meeting was attended by His Excellency the President of King Abdul Aziz City for Science and Technology, the Honorable Vice-President of the City for the support of scientific research, the Undersecretary of the Ministry of Water and Electricity, His Excellency the Chief Executive Officer of Saudi Electricity Company. A total of 128 participants representing 21 bodies participated in the meeting and 32 questionnaires on the assessment of the meeting were received. The results of the meeting proved their usefulness and relevance. The meeting came up with recommendations of the utmost importance.
- The second scientific meeting was held on 10/6/2009 to review the results of researches carried out in the field of transformers, transmission and distribution networks, distribution cables and the testing and evaluation of their insulating materials, the testing of decomposition, thermal and electrical stress at the cable joints and terminals to reduce downtime, and the study of the causes and effects of power failure on the major customers as well as other researches.
- The first scientific symposium on research and development was held from 2 to 3 May 2010 in the presence of His Excellency the Chairman of the Board, the Chief Executive Officer, project managers and researchers, to review the results of research projects and their recommendations. The number of symposium attendees reached 185 (while the target was 100). Some of them were participants while others were researchers. It became evident from the results of questionnaires that the average of the lectures and scientific material assessment reached 85% and the average assessment of the Organizing Committee and equipment reached 89%. The directors of research projects which were reviewed were honored as well as some researchers who were involved in the projects.

# Our Social Responsibility

## The Sponsorship of Scientific Chairs

Based on the desire of the Company's management to promote and develop the research program, the Company has established scientific chairs in the Saudi universities for which the following contracts were signed:

- Chair of the Saudi Electricity Company for "Load Management and Raising the Efficiency of Electric Power Consumption" was concluded with King Abdul Aziz University on May 7, 2008, at a cost of five million Saudi Riyals (SR 5M) for a period of four years.
- Chair of the Saudi Electricity Company for "Reliability and Security of the Electric System" was concluded with King Saud University on May 25, 2008, at a cost of five million Saudi Riyals (SR 5M) for a period of four years.
- Chair of the Saudi Electricity Company for the "Electrical Protection and Control" was concluded with King Fahd University of Petroleum & Minerals, on June 11, 2008, with a value of five million Saudi Riyals (SR 5M) for a period of four years.

## The Activation of Scientific Chairs

- A number of specialized scientific workshops were organized in 2009 on the topic of scientific chairs. A workshop was held in the area of load management and raising the efficiency of electric power use at King Abdul Aziz University in Jeddah. Another scientific workshop was also held on protection and control in the electric network at King Fahd University of Petroleum & Minerals, Dhahran, which was attended by more than forty engineers from the Company as well as from Aramco and SABIC. Another workshop was also held on the reliability and security of the electrical system at King Saud University in Riyadh. The activation of these chairs motivated some of the Company's employees to prepare master's theses consistent with the Company's needs and specialized topics related to these chairs so that they may benefit the Company in resolving the technical problems that it is currently facing as well as those that may arise in the future. On the other hand, students from among the workers of the Company may benefit from them. These studies have been published in conjunction with the First Scientific Conference of the Research and Development held in the period from 2 to 3 May 2010 through specialized scientific periodicals and journals as research papers submitted by professors and researchers in order to document it for international readership, and for benefiting from them technically and economically in improving the performance of the Company.
- Within the framework of the activities of the chair of the Saudi Electricity Company on the "reliability and security of the electric system" with King Saud University [<http://seccrs.ksu.edu.sa/>], a workshop entitled "Intelligent Network Workshop and Participation in its Management" was organized. Papers were presented in conjunction with King Abdul Aziz City for Science and Technology, King Saud University, Electricity Co-generation Regulatory Authority, the University of California, the University of Los Angeles, at the headquarters of King Abdul Aziz City for Science and Technology during the period from 8 to 9 January 2011. Many of the Company's engineers and university professors participated in this workshop.

## Chair of King Abdul Aziz University for "Load Management and Raising Energy Efficiency" (<http://saudielectricitychair.kau.edu.sa/>)

- The first annual report was released on December 30, 2009, containing the analysis of load curves on a sample of large customers of the Company. A proposal of a new program to manage the loads entitled "Material Incentive to Reduce Summer Loads" (SRBP) to encourage the large customers to reduce the loads, as they wish, at peak times and incentives are paid to the customers depending on the level of reduction in consumption, a concept adopted by the Electricity & Co-generation Regulatory Authority at the time of adopting the new tariff recently for non-residential sectors to motivate the reduction of consumption at peak hours and increase it in other times.
- Under the auspices of the undersecretary of the university for projects Dr. Abdullah Bafel, the second workshop was held on October 30, 2010, under the title "Load Management - Applications and Challenges," at King Abdul Aziz University in Jeddah which was attended by Mr. Hans Erik, Manager of the Load Management Program in the International Energy Agency (IEA) as well as participation of a group of engineers, faculty members and university students, Company representatives, and businessmen.
- Practical work is underway on several buildings of the University in Jeddah as a model for energy rationalization through installing measuring devices and digital meters in collaboration with the maintenance department of the university and the Company, since December 10, 2010, to study these buildings and how to achieve optimal economization of consumption of these buildings for generalization.

## Inventions

The Company currently contributes to the financing of inventions presented to it, from employees of the Company or from any other authority presenting inventions, provided that the Company's management is satisfied that it can be used to improve the performance of the Company technically and economically as it can obtain patent which can be proven technically. It must also be economically feasible. The Company has adopted the feasibility study of an invention, which have obtained a patent from the United States, presented by Mr. Mohammed Al-Khamis with King Saud University on «Electrical Load Management» and its approval as part of the research projects whose idea is based on the rationalization of electricity production during the peak time as the production of electricity in a time like this cost the Company huge amounts of money.



## 4) Protection of the Environment

### Program Objectives:

The Company, since the onset of its business as a unified company on 04/05/2000, has recognized the importance of protecting the environment and included it among the objectives as set forth in its Articles of Association which stipulates “to support research in any of the areas that lead to improvement in the quality of service, raising the efficiency and operational performance, rationalization of energy consumption, and protection of the environment.” The Company has established an environmental protection department to follow up, plan, and manage the environmental protection functions of the Company throughout the Kingdom. It employs a group of experienced and highly trained engineers having required expertise and international certification, as well as consultants in the field of environmental protection. The Company is committed to complying with all environmental standards in all its future plans, and managing the adverse environmental impacts associated with its various operations in order to protect the air, water, and soil to ensure that no damage is caused to the environment and public health.

In this framework, keeping in view all the activities of the Company, we have prepared and published the environmental policy of the Company and have formed an “environmental protection team,” which is representative of all its activities. We have also developed an ambitious implementation plan comprising objectives, goals, time tables, tasks, and responsibilities to activate its environmental policies and to translate them into a living reality, thereby achieving continued commitment to the requirements set forth in the General Environmental Regulations issued by the Presidency of Meteorology and Environment Protection.

Our concern for the environment becomes evident in our work as we take efforts to reduce air, water, and soil pollutions as well as to improve the environmental health to contribute to human welfare and the protection of the environment and its components:

### Air

In the production of electric power, the power generating plants burn liquid fossil fuels and emit gases and pollutant particles in the air. In order to ensure that no harm is caused to public health, we are keen on building power plants outside the cities and communities, and to avoid establishing them in places crowded with factories and other facilities so as not to contribute to the increasing rates of air pollution in these places. To reduce air pollution, we also abide by the following:

- The use of clean fuel, within the resources available, such as natural gas and diesel fuel because there are fewer pollutants in their components. We have achieved remarkable successes in this aspect as numerous power plants now use natural gas for electricity production. Huge amounts of money have been spent in modifying the generating units in Power Plants 7, 8, and 9 in Riyadh that previously used the raw fuel and are now operating on natural gas fuels.
- The use of advanced DLN (Dry Low NOx) burners had an impact in the protection of the environment due to the fact these burners produce a lower proportion of nitrogen oxides, a major pollutant emitted from power plants operating on fossil fuels.
- The use of Electrostatic Precipitators (ESP) in the units operating on heavy fuel to reduce the emission of suspended particles.
- The use of the modern Flue Gas Desulphurization (FGD) technology to reduce sulfur oxides gas which causes air pollution. The Company did not hesitate to invest billions in this area in its new projects.
- The use of combined-cycle generating units with high-efficiency as they use exhaust of the generating units as a source of heat for boilers instead of burning fuel.
- Completion of the advanced level of electrical interconnection between the regions of the Kingdom, which contributed to reducing the rotating reserve in the network and thus reducing air pollutant emissions resulting from burning of more fuel.
- Stopping the use of certain chemicals harmful to the environment and public health, such as freon-12, trichloride, methane, Halon, asbestos, and replacing them with other non-harmful chemicals.

### Water

Water pollution is one of the most crucial environmental problems in the Kingdom, and the Company is working to reduce water pollution resulting from the various operations and activities by:

- Not adding any chemicals to the cooling water returning to sea except for chlorine which is added to control the growth of aquatic organisms which are harmful to power generating equipment. The processes of chlorine addition are monitored with the use of devices that measure the ratio 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 evaporation pools.
- Controlling the degree of cooling water that is discharged into the sea within the allowable limits.
- Using wastewater after treating it biologically for irrigation to increase the green areas inside the plant's premises and its residential areas and to reduce the use of fresh water.
- Removing fuel residues and oil by entering into contracts with qualified companies to ensure that no pollution is caused to the environment. Oil contaminated water is passed through several stages to separate oil from water and discharge it in environmentally safe methods.

# Our Social Responsibility

## Soil:

In order to reduce soil pollution, we are keen to reduce waste, the disposal of which has become one of the largest sources of threat to environment and public health, and to control the use of environmentally harmful materials of various kinds. In this area, we have succeeded in:

- Developing and implementing programs to reduce spills, leaks, and the amount of waste generated from operations and activities of the Company. We have achieved remarkable successes in the field of recycling and reuse.
- Getting rid of all the power transformers that use oils containing carcinogenic substances such as PCB to ensure that no contamination is caused to the soil, surface water, and groundwater in order to guarantee the safety of human beings, animals, and plants.
- Replacing all pesticides use with alternatives that are less harmful to the environment.
- Continuing with the implementation of agreements with qualified contractors to get rid of oil and petroleum wastes in power stations through appropriate methods that do not cause harm to the environment.
- Continuing to cooperate with local and international universities and research centers to find appropriate solutions to the problem of carbon ash.

## Visual Pollution

The Company contributes to improving the general aesthetics of sites in the cities of the Kingdom and to reduce the audio-visual pollution, through:

- Spending huge amounts of money to replace the overhead power transmission lines by installing them in safe underground conduits, surpassing many of the developed countries that are still using aerial grids within their cities.
- Taking into consideration the urban aesthetic aspects while designing buildings, and selecting the most appropriate sites for their facilities and utilities, especially in buildings and reception halls of the customers.

## Environmental Health

The Company is committed to preventing diseases associated with its activities, operations, and applications, as well as to protecting the health of workers, their families, and the public. It is also committed to paying the costs of treatment and maintaining healthy work environment, through:

- Assessing the quality of water used from the source to the network and ensuring they are free from disease causing biological agents and chemical contaminants making it safe to use. Water sources such as wells or water distribution systems are subject to routine inspection to ensure compliance with national standards.
- Monitoring of wastewater and drainage of the industrial wastewaters systems of the Company to ensure compliance with general environmental standards and the protection of public health and the environment.
- Monitoring of waste production from beginning to end to ensure the effective management of wastes from the moment of their production to their disposal and to prevent possible contamination of groundwater resources and soil.
- Commitment to reduce the negative impacts of noise coming from the various activities of the Company, including power plants and transformers in urban areas so that the resulting noise level falls within the limits of international standards during the design and construction process.
- Installing power lines within safe routes and compatible with international standards.

## Rationalization of Consumption

The depletion of natural resources is one of the most crucial environmental problems that plague the world in general and the Kingdom in particular, wherein the rationalization of consumption of water, energy and materials is considered the most important means of protecting the environment from pollution and preservation of resources and sustaining its development. In this area, we have achieved many outstanding successes, including:

- Completion of advanced levels of electrical link between the regions of the Kingdom, which will contribute significantly to reducing loss of energy.
- The use of energy saving combined-cycle generation units as these units benefit from the heat of the exhaust gases to produce steam instead of burning fuel.
- Separation and recycling of fuel residues from water disposal tanks.
- The use of timing equipment to switch off lighting, air conditioning, and computers outside working hours, and replacement of normal lighting and computers with alternative devices that save energy, as well as taking into account the use of the natural light during daytime in the design of Company's new buildings.
- The use of treated wastewater instead of fresh water for irrigation.
- The use of water saving devices in lavatories of the company's facilities.
- Printing on both sides of the paper and not using color printing in the internal correspondence of the Company.
- The application of periodic maintenance programs for the Company's tools and equipment to maintain the highest operational efficiency.



### Raising Awareness and Training

We disseminate and promote environmental awareness among employees, contractors, and suppliers of the Company through:

- Lectures on the environmental awareness as well as publication of brochures and posters that we are keen to make available to everyone.
- Designation of a webpage meant for the environment in the Company's internal network.
- Provision of specialized training courses in the field of environmental protection in the Company's training programs.
- Training of concerned individuals and enabling them to attend training courses to obtain international certification in the field of environmental protection and getting informed of the latest updates on this subject.
- Cooperation with the relevant authorities, both inside and outside the Kingdom, and getting involved in the exchange of experiences with experts and specialists in the field of environmental protection through attendance and participation in environmental seminars and conferences.

### Company's Contributions to the Community in the Protection of the Environment:

The Company has been contributing to and shall continue to contribute in conjunction with government bodies and institutions in many works and activities that aim to protect the environment in the Kingdom through:

- Participation in developing indicators for national environment and sustainable development.
- Participation in the preparation of the national plan for responding to radiological and nuclear emergencies.
- Participation in the development and implementation of the programs of operational plan for the protection of the environment in Riyadh and attending meetings of the high level technical committees.
- Participation with the King Abdul Aziz City for Science and Technology in organizing the scientific meeting on the impact of electromagnetic fields emitted from power transmission lines in the Kingdom of Saudi Arabia.
- Presentation of a research study on energy production and air pollution in the GCC States to the Gulf Cooperation Council Prize for the Best Environmental Work.
- Continuous coordination with the General Presidency of Meteorology and Environment and the General Auditing Bureau regarding the protection of the environment.
- Participation in the "Award for Environmental Excellence" to protect the environment of the Red Sea and Gulf of Aden by conducting a marine survey of the coastal zone of power generating stations of Rabigh and Shoaiba (Red Sea) to study the environmental impact assessment of power plants' marine environment in the Western Region of the Kingdom of Saudi Arabia.

### Achievements of 2010

- Achieved 52 different environmental objectives in the Company's various activities as part of the program "The Executive Plan for the Protection of the Environment in the Company."
- Organized 16 environmental courses in the field of environmental management system and waste management which benefited 370 employees from all the sectors of the Company.
- Prepared and printed a booklet entitled "Our Environment" in coordination with all departments of the Company.

## 5) Security and Safety

The Company has participated in activities related to safety and security, including:

- Participation in the GCC Traffic Week and concurrent exhibit
- International Civil Defense Day and Exhibition
- Supporting and sponsoring a workshop on "Safety Requirements of Electrical Equipment"
- Conducting several fire prevention exercises in power generating stations to test the readiness of the Company's civil defense teams in coordination with certain government authorities such as the Civil Defense Department and others
- Applying the highest standards of safety on Company's vehicles, providing professional courses on traffic safety and defensive driving to employees using Company's equipment and vehicles.

# Our Social Responsibility

## 6) Charitable Activities

- The Company has donated SR 2,000,000 to over 200 charitable societies in the Kingdom which were approved and certified by the Ministry of Social Affairs.
- The Company has conducted a charitable program aiming to provide service to pilgrims and Umrah performers with a view to guide those who may have lost their way and assist those who may have gotten ill. Moreover, a total of 10,000 gift bags containing praying mats, umbrellas, and masks have been distributed by the Company.
- An open day for the Charity Society for Orphans (Insan Charity) has been held which hosted a number of sports and recreational activities for a number of charitable societies and for those with special needs.
- Organizing regular visits to Quran recitation organizations, inviting them to visit the Company and to participate in recreational programs organized for them.
- The Company has provided support, with financial impact, to a number of activities organized by certain societies, the most prominent of which was the interaction with the programs developed by the Association for Disabled Children and the Women's Development Society who have sent words of appreciation and greeting cards to Company officials.

## 7) Serving the Community

The Company is keen to effectively interact with all societies and communities in all occasions and events that promote cultural awareness campaigns to individuals and, in turn, the society as a whole, through:

- Cooperation between the Company and the Technical and Vocational Training Corporation (TVTC), contributing to the foundation of specialized institutes for job training related to the electricity sector.
- Bringing in a number of graduates from Jubail Technical Institute, Institute of Public Administration and from various technical and vocational schools, who have received training on certain specializations sought by the Company. They were employed and enrolled directly in the On-The-Job training program in various functions within the different sectors of the Company.
- Participation in a number of forums and seminars, held by external entities, in various fields related to the electricity sector and industry.
- Sponsoring and organizing a number of activities and local power industry exhibitions including exhibitions on rationalization of energy and a number of occasions for the optimization of power and loads shedding.
- Activating the role of the Company in the society through public lectures, either held or participated in by the Company, on topics dealing with operational contributions of the Company in meeting the needs of the society, in addition to the positive role being expected by the Company's customers especially in consumption rationalization.
- Contributed to a variety of fairs and exhibitions held at Company's business locations throughout the year.
- Participation of the Company in the Traffic Week and other various events, as well as issuing related periodicals and booklets in this regard.
- Participation in Career Day activities, organized by local universities, where we promote awareness of the Company's businesses and the available employment opportunities for national cadres seeking a chance to be employed by the Company.
- The Company has contributed to the success of the cooperative training program for university students in various levels, giving them the opportunity to receive practical and hands-on training in various Company facilities, and allowing them gain the necessary practical experiences whether in the technical or administrative field. Around 800 students have benefited from this program.
- Contribution to the Summer Training Program by admitting approximately 600 secondary school students to work on a part-time basis during summer vacation to make them familiar with work environments and to invest their time in gainful summer employment offering practical and morally beneficial work.
- Support for research activities in Saudi universities and other scientific and research entities which include entering into research collaboration agreements with King Abdulaziz City for Science and Technology, sponsoring academic chairs with King Abdulaziz University, King Saud University, and King Fahd University of Petroleum and Minerals, as well as establishing specialized workshops for scientific and academic chairs in Saudi universities which were attended by a large number of engineers from the Company and Saudi-Aramco.
- Organizing introductory visits for community sectors, schools, universities, specialized faculties, certain military organizations, and community establishments to tour the Company's premises and facilities.
- Organizing regular visits to schools and universities with a view to highlight the significance of rationalizing power consumption and the significance of safety awareness when dealing with electricity.
- Maintaining the environment is a major element considered in the preparation of the Company's operational and capital plans. With a deep sense of accountability for maintaining the environment, we coordinate with the Presidency of Meteorology and Environment (PME) as we develop sound environmental policies and carry out studies on evaluating the environmental impact. The Company accords high attention in controlling pollution in air, water, and soil, eliminating the environmental pollution on humans, and participating in energy and environmental exhibitions.
- Providing social services to a number of tourist parks and recreational grounds within the Kingdom of Saudi Arabia with the implementation of a program called "The Prettiest Environment" which aims to promote tourism within the Kingdom and to introduce the Company as a partner in tourism.



## Second: Our Social Responsibility towards the Corporate Community

### 1) Social Activities

- Organizing celebration parties for Company's employees, graduation celebrations for students of training institute, and honoring retired employees including those who are still in service as well.
- Organizing "Open Day" event for Company's employees and their children that include visits to Company's recreational clubs and participating in entertainment activities and recreation on Eid Al-Fitr day.
- Organizing a number of social and educational programs at Company's recreational clubs which include a reunion for retired employees called "Communication and Loyalty," holding a number of awareness lectures on health and illnesses and how to prevent them, in addition to a number of religious sermons by some scholars and religious men.
- Holding a number of lectures on certain recent developments such as Saher System in addition to interacting with international events and occasions such as Diabetes Awareness Day, organizing campaigns for blood donation, and awareness exhibitions on the dangers of drug abuse.
- Organizing a number of tournaments and sports competitions for employees of the Company, holding end of competition parties for sports activities and awarding prizes to outstanding teams.
- Promoting social interaction, giving congratulation greeting cards following a happy event e.g. birth of a child or wedding announcements, reporting hospitalization of any employee, giving condolences and keeping-in-touch visits and calls.
- Providing sales and discount offers to Company's employees and their families.
- Organizing visits to different facilities and premises of the Company for employees and their families.
- Organizing Company activities which include the 14th Annual Forum on Total Quality Management and the concurrent exhibition on innovation and creativity, customer services workshops, scientific forum for research and development, and a symposium on safety.
- Providing English language and computer skills training opportunity to Company's employees through a number of specialized training institutes.
- Organizing sports events programs for children of Company's employees which include swimming lessons.

### 2) Promoting Intercommunication

The Company has implemented a number of intercommunication programs for internal and external communication in addition to social responsibility. These programs aim at strengthening rapport and connection between employees, encouraging loyalty to the Company, promoting and developing relationships with its customers in a way which serves the Company's vision and businesses, manifesting the Company's exerted efforts in the service of society through the following means:

#### Internal Communication Programs

These programs aim to focus on continuity of intercommunication between the Company's internal public and the Company itself to strengthen trust and relationship between these two parties and improve informational exchange which reflects on the level of performance and productivity of employees. These programs include:

##### Panorama Program

This program puts shine on prominent employees who were granted the "Employee of the Year" award by posting their pictures and names on plasma display panels in the corporate headquarters, the act of which serve as a loyalty motivator to further achieve a spirit of loyalty to the Company and to give the opportunity for the employees to personally know each other and to provide spiritual support to excelling employees, highlighting the importance of creativity and achievement among employees. A total of 415 employees have been given the honor to have their pictures and names posted on the monitor screens at Company's entrances in various locations. During the year 2010, the total number of implementations for this program was 5.

##### Group Breakfast Program

It is a group breakfast held by Company's departments/divisions with the presence of a Company official the aim of which is to have the opportunity to intercommunicate and to bring employees and the administration together to promote an atmosphere of rapport and cordiality among Company's staff as well as to break the monotony of the working day. During the year 2010, the total number of implementations for this program reached 79.

# Our Social Responsibility

## “Happy for You” Program

It is a simple tea party hosted by the administration, strengthened by the presence of a Company official, for an employee following a happy occasion (marriage or birth of a child). It aims to spread an atmosphere of joy and happiness among the attendees, to share the excitement with the honoree, giving him spiritual support and also the chance for his colleagues to personally congratulate him on this happy occasion and for him to receive congratulatory greetings from senior administration staff. During the year 2010, the total number of implementations for this program reached 200.

## “You Deserve More” Program

It is a program whereby creative employees are honored and granted certificates of appreciation from the Human Resources function by way of an attending Company official during the Company’s Annual Total Quality Forum. It aims to give recognition to those who, under an atmosphere of competition, have distinguished themselves among their peers. During the year 2010, the total number of implementations for this program reached 10.

## “Welcome Back” Program

It is a program whereby the Company pays visits to employees who have been hospitalized and presents them with flower bouquets with a card on which “Welcome Back” is written. This brings solace and encouragement to the hospitalized employees, giving them psychological support, spreading an atmosphere of joy and happiness in the family and an air of intimacy among company employees. During the year 2010, the total number of implementations for this program reached 23.

## “Your Outstanding Department” Program

It is a program whereby a plaque, with inscriptions “Shield of the Company for Outstanding Department in Applying the Performance Management System,” is given to selected departments which applied the Performance Management System with distinction. The program aims to encourage the support of senior administration for the proper application of the system, increasing attention of the administrations and observing the proper application of the rules, provisions, and procedures of employee performance management, spreading a spirit of competition among them, and creating an atmosphere of competition between functions, in addition to improving the Company’s image by implementing a fair system for managing performance of the employees. The Company honored and awarded the Company’s plaque to 30 outstanding departments and divisions for the year 2009. Moreover, the Company gave certificates of appreciation and financial awards to a total of 228 managers.

## “Eid Festival” Program

It is an open recreation day hosted by the Company for employees and their children during Eid holidays at the Company’s recreational clubs. The Program aims to increase loyalty and affiliation of employees and their families towards the Company; showing care for staff’s children and their families in addition to creating a relationship between the Company and its employees. During the year 2010, the total number of implementations for this program reached 8.

## External Communication Programs

These programs are developed with a view to achieve effective interconnection and communication with influential/senior community leaders, building strong relationships with the community outside the Company as a way of displaying higher transparency and keeping the positive image of the Company within the community, including:

### Program for Children of Company Staff Visiting the Company

It is a program whereby the Company organizes, for children of Company’s staff, visits and field trips to the Company’s headquarters and premises such as power generation stations, customer service offices, and the Company’s recreational clubs. The program aims at increasing loyalty and affiliation of employees and their families towards the Company; fostering trust and relationship between Company and its staff and showing care for staff’s children. During the year 2010, the total number of implementations for this program reached 8.

### Program for Community Sector Visiting the Company

It is a program whereby the Company invites and receives a number of community sectors (educational, governmental, private, etc.) to visit the Company and peruse its most prominent facilities. The program aims at extending bridges of communication between the Company and external community, promoting the Company’s position and standing in the community as it highlights its works and activities, and spurring university students to work for the Company after graduation. During the year 2010, the total number of implementations for this program reached 59.



#### Social Responsibility programs

These programs are developed with a view to optimize the image of the Company, promoting the general satisfaction with the Company; thus, leading to more focused attention to productivity, delivering more success in all aspects, including:

##### “Prettiest Environment” Program

It is intended to provide social service to the community by supporting parks and touristic places within the Kingdom. The program aims to promote tourist spots in natural environments and to support local tourism while introducing the Company as a partner in tourism. Among most prominent tourist locations are Raudhat Khuraim in Riyadh, Al-Sawdah Park of Aseer, and a public park in Jeddah. During the year 2010, the total number of implementations for this program was 3.

##### Service to “Guests of ArRahman” Program

This program is based on providing voluntary services by a group of Company’s staff who are located in the holy places to provide services and support to the pilgrims and Umrah performers. The program is intended to guide pilgrims and Umrah performers who may have lost their way and assist those who may have gotten ill in addition to giving special presents in gift bags containing praying mats, umbrellas, and masks. During the year 2010, ten thousand (10,000) gift bags have been distributed among the visitors in Mecca. Organizing sports events programs for children of Company’s employees which include swimming lessons.



## Profits Achieved in 2010

# Financial Statements

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**AUDITORS' REPORT**

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

**Scope of Audit**

We have audited the accompanying balance sheet of **Saudi Electricity Company** (a Saudi joint stock company) (the "Company") as of December 31, 2010, and the related statements of income, cash flows and changes in shareholders' equity for the year then ended, and notes 1 to 32 which form an integral part of these financial statements as prepared by the Company in accordance with Article 123 of the Regulations for Companies and presented to us with all the necessary information and explanations. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards 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 standards used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

**Unqualified Opinion**

In our opinion, the financial statements referred to above, present fairly, in all material respects, the financial position of the Company as of December 31, 2010, and the results of its operations and its cash flows for the year then ended in conformity with generally accepted accounting standards in the Kingdom of Saudi Arabia appropriate to the nature of the Company, and comply with the relevant provisions of the Regulations for Companies and the bylaws of the Company as these relate to the preparation and presentation of these financial statements.

Deloitte & Touche  
Bakr Abulkhair & Co.



Bakr A. Abulkhair  
License No. 101

Rabi Al-Awal 17, 1432  
February 20, 2011





## Balance Sheet As Of December 31, 2010

|  | Note | 2010<br>SR'000     | 2009<br>SR'000     |
|--|------|--------------------|--------------------|
| <b>Assets</b>  |      |                    |                    |
| <b>Current Assets</b>  |      |                    |                    |
| Cash and Bank Balances   | 3    | 7,231,276          | 3,882,672          |
| Receivables from Electricity Consumers and Accrued Revenues, net | 4    | 9,965,007          | 10,586,218         |
| Prepayments and Other Receivables, net                           | 5&29 | 3,635,236          | 2,200,281          |
| Inventories, net   | 6    | 5,704,886          | 5,623,342          |
| <b>Total Current Assets</b>                                      |      | <b>26,536,405</b>  | <b>22,292,513</b>  |
| Non-Current Assets   |      |                    |                    |
| Loan to Subsidiary   |      | 365,500            | 365,500            |
| Equity investments in companies and others                       | 7    | 2,296,850          | 2,353,398          |
| Construction Work in Progress                                    | 8    | 26,038,186         | 32,214,782         |
| Fixed Assets, net  | 9&29 | 135,634,986        | 109,359,611        |
| <b>Total Non-Current Assets</b>                                  |      | <b>164,335,522</b> | <b>144,293,291</b> |
| <b>TOTAL ASSETS</b>  |      | <b>190,871,927</b> | <b>166,585,804</b> |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>                      |      |                    |                    |
| <b>Current Liabilities</b>                                       |      |                    |                    |
| Accounts Payable   | 10   | 49,539,912         | 44,588,737         |
| Accruals and Other Payables                                      | 11   | 4,402,218          | 4,201,794          |
| Current portion of Long-term Loans                               | 13   | 1,189,317          | 828,400            |

# Financial Statements

|   | Note  | 2010<br>SR'000     | 2009<br>SR'000     |
|---|-------|--------------------|--------------------|
| <b>Total Current Liabilities</b>                  |       | <b>55,131,447</b>  | <b>49,618,931</b>  |
| <b>Non-Current Liabilities</b>                    |       |                    |                    |
| Long-term Loans                                   | 13    | 10,632,390         | 6,511,857          |
| Sukuk   | 14    | 19,000,000         | 12,000,000         |
| Employees' Indemnities                            | 15    | 4,690,218          | 4,422,298          |
| Deferred Revenue, net                             | 17    | 16,736,945         | 14,970,528         |
| Customers' Refundable Deposits                    |       | 1,295,442          | 1,159,137          |
| Long-term Government Payables                     | 10&29 | 14,039,789         | 14,039,789         |
| Government Loans                                  | 18    | 18,688,060         | 14,938,060         |
| <b>Total Non-Current Liabilities</b>              |       | <b>85,082,844</b>  | <b>68,041,669</b>  |
| <b>Total Liabilities</b>                          |       | <b>140,214,291</b> | <b>117,660,600</b> |
| <b>Shareholders' Equity</b>                       |       |                    |                    |
| Share Capital                                     | 19    | 41,665,938         | 41,665,938         |
| Statutory Reserve                                 | 29    | 1,333,176          | 1,105,267          |
| General Reserve                                   | 20    | 536,177            | 534,777            |
| Retained Earnings                                 | 29    | 7,122,345          | 5,619,222          |
| <b>Total Shareholders' Equity</b>                 |       | <b>50,657,636</b>  | <b>48,925,204</b>  |
| <b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b> |       | <b>190,871,927</b> | <b>166,585,804</b> |

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



## Income Statement For The Year Ended December 31, 2010

|   | Note | 2010<br>SR'000      | 2009<br>SR'000      |
|---|------|---------------------|---------------------|
| Operating Revenues                                      |      |                     |                     |
| Electricity Sales                                       |      | 25,872,780          | 22,040,360          |
| Meter Reading, Maintenance and Bills Preparation Tariff |      | 841,119             | 794,852             |
| Electricity Connection Tariff                           | 17   | 1,145,841           | 1,015,737           |
| <b>Total Operating Revenues</b>                         |      | <b>27,859,740</b>   | <b>23,850,949</b>   |
| Cost of Sales   |      |                     |                     |
| Fuel  |      | (5,796,633)         | (5,898,501)         |
| Purchased Energy  |      | (3,742,597)         | (1,826,900)         |
| Operations and Maintenance                              | 21   | (7,752,943)         | (7,482,952)         |
| Depreciation – Operations and Maintenance               | 9&29 | (8,027,017)         | (7,202,000)         |
| <b>Total Cost of Sales</b>                              |      | <b>(25,319,190)</b> | <b>(22,410,353)</b> |
| <b>Gross income</b>                                     |      | <b>2,540,550</b>    | <b>1,440,596</b>    |
| General and Administrative Expenses                     | 22   | (381,521)           | (315,542)           |
| Depreciation – General and Administrative               | 9    | (353,189)           | (339,909)           |
| <b>Operating Income</b>                                 |      | <b>1,805,840</b>    | <b>785,145</b>      |
| Other Income and Expenses, net                          | 23   | 473,248             | 357,491             |
| <b>NET INCOME FOR THE YEAR</b>                          |      | <b>2,279,088</b>    | <b>1,142,636</b>    |
| Earnings Per Share (SR)                                 |      |                     |                     |
| <b>From operating income for the year (Note 24)</b>     |      | <b>0.43</b>         | <b>0.19</b>         |
| <b>From net income for the year (Note 24)</b>           |      | <b>0.55</b>         | <b>0.27</b>         |

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

# Financial Statements

## Statement of Cash Flows for the Year Ended December 31, 2010

|   | 2010<br>SR'000     | 2009<br>SR'000    |
|---|--------------------|-------------------|
| <b>OPERATING ACTIVITIES</b>   |                    |                   |
| Net Income for the Year   | 2,279,088          | 1,142,636         |
| <b>Adjustments to Reconcile Net Income to net Cash from Operating Activities:</b> |                    |                   |
| Provision for Doubtful Receivables  | 257,564            | 125,968           |
| Provision for Other Doubtful Debit Balances                                       | -                  | (20,405)          |
| Provision for Slow-moving Inventories   | 11,180             | 623               |
| Company's Share in Net Income (loss) of Investee Companies                        | 21,670             | (34,263)          |
| Depreciation  | 8,380,206          | 7,541,909         |
| <b>Gain on Disposal of Fixed assets, net</b>                                      | <b>(97,833)</b>    | <b>(31,096)</b>   |
| Prior Year Adjustments  | -                  | (222,367)         |
| Gain on Sale of Other Investments   | (765)              | -                 |
| Employees' Indemnities, net   | 267,920            | 25,545            |
| Deferred Revenues, net  | 1,766,418          | 1,617,741         |
| <b>Changes in operating assets and liabilities:</b>                               |                    |                   |
| Receivables from Electricity Consumers and Accrued Revenues                       | 363,647            | 4,361,661         |
| <b>Prepayments and Other Receivables</b>  | <b>(1,434,955)</b> | <b>718,013</b>    |
| Inventories   | (92,724)           | 182,708           |
| Accounts Payable  | 4,951,175          | 9,072,036         |
| Accruals and Other Payables   | 193,924            | 151,169           |
| Net Proceeds and Payments on Customers' Refundable Deposits                       | 136,305            | 63,349            |
| <b>Net Cash from Operating Activities</b>   | <b>17,002,820</b>  | <b>24,695,227</b> |

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





|   | 2010<br>SR'000      | 2009<br>SR'000      |
|---|---------------------|---------------------|
| <b>INVESTING ACTIVITIES</b>   |                     |                     |
| Equity Investments in Companies and Others                          | (2,000)             | (159,211)           |
| Time Deposits   | 1,000,119           | (1,000,119)         |
| Fixed Assets and Construction Work in Progress                      | (28,487,495)        | (30,910,764)        |
| Proceeds from Sale of Fixed Assets                                  | 106,342             | 37,490              |
| Proceeds from Sale of Investments                                   | 37,643              | -                   |
| Loan to a Subsidiary  | -                   | (365,500)           |
| Long-term Government Payables                                       | -                   | 744,176             |
| <b>Net Cash Used in Investing Activities</b>                        | <b>(27,345,391)</b> | <b>(31,653,928)</b> |
| <b>FINANCING ACTIVITIES</b>   |                     |                     |
| Government Loan   | 3,750,000           | -                   |
| Sukuk   | 7,000,000           | 7,000,000           |
| Net Proceeds (repayment) of Long-term Loans                         | 4,481,450           | 2,136,139           |
| Dividends Paid to Shareholders and Board of Directors' Remuneration | (540,156)           | (526,982)           |
| <b>Net Cash from Financing Activities</b>                           | <b>14,691,294</b>   | <b>8,609,157</b>    |
| <b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>                      | <b>4,348,723</b>    | <b>1,650,456</b>    |
| Cash and Cash Equivalents, Beginning of the Year                    | 2,882,553           | 1,232,097           |
| <b>CASH AND CASH EQUIVALENTS, END OF THE YEAR</b>                   | <b>7,231,276</b>    | <b>2,882,553</b>    |

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

# Financial Statements

## Statement of Changes in Shareholders' Equity for the Year Ended December 31, 2010

|   | Note | Share Capital     | Statutory Reserve | General Reserve | Retained Earnings | Total             |
|---|------|-------------------|-------------------|-----------------|-------------------|-------------------|
| Balance, January 1, 2009                      |      | 41,665,938        | 991,004           | 534,573         | 5,361,106         | 48,552,621        |
| <b>Prior Years Adjustments</b>                | 29   | -                 | -                 | -               | (222,367)         | (222,367)         |
| Net Income for the Year (adjusted)            | 29   | -                 | -                 | -               | 1,142,636         | 1,142,636         |
| Dividends to the Shareholders for 2008        | 25   | -                 | -                 | -               | (547,252)         | (547,252)         |
| Board of Directors' Remuneration for 2008     | 26   | -                 | -                 | -               | (638)             | (638)             |
| Electricity Fee Collections (individuals)     | 20   | -                 | -                 | 204             | -                 | 204               |
| Transferred to Statutory Reserve (adjusted)   | 29   | -                 | 114,263           | -               | (114,263)         | -                 |
| <b>Balance, December 31, 2009 (adjusted)</b>  |      | <b>41,665,938</b> | <b>1,105,267</b>  | <b>534,777</b>  | <b>5,619,222</b>  | <b>48,925,204</b> |
| Net Income for the Year                       |      | -                 | -                 | -               | 2,279,088         | 2,279,088         |
| <b>Dividends to the Shareholders</b> for 2009 | 25   | -                 | -                 | -               | (547,252)         | (547,252)         |
| Board of Directors' Remuneration for 2009     | 26   | -                 | -                 | -               | (804)             | (804)             |
| Electricity Fee Collections Individuals       | 20   | -                 | -                 | 1,400           | -                 | 1,400             |
| Transferred to Statutory Reserve              |      | -                 | 227,909           | -               | (227,909)         | -                 |
| <b>Balance, December 31, 2010</b>             |      | <b>41,665,938</b> | <b>1,333,176</b>  | <b>536,177</b>  | <b>7,122,345</b>  | <b>50,657,636</b> |

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



## 1. Organization and Activities

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

The Company was founded pursuant to Royal Decree No. M/16 dated Ramadan 6, 1420H corresponding to December 13, 1999, in accordance with the Council of Ministers’ Resolution Number 153, dated Ramadan 5, 1420H corresponding to December 12, 1999, and the Minister of Commerce Resolution Number 2047, dated Dhu Al Hijjah 30, 1420H corresponding to April 5, 2000 as a Saudi joint stock company and was registered in Riyadh under Commercial Registration Number 1010158683, dated Muharram 28, 1421H corresponding to May 3, 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, as per its organizational chart, is divided into the main activities of generation, transmission, and distribution and related supporting activities such as finance, human resources, general services and planning. Generation, transmission and distribution activities complement each other for the purpose of delivering the electricity to the consumer whereby the Company is developing transfer prices between these activities, and the Company’s revenues are currently recognized from selling electricity to the end consumer based on the official tariff decided by the Government. The Company has also a plan to split its principal activities to different independent entities and therefore revenues and expenses will be specified for each entity by itself upon its establishment.

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

This was further amended by the Council of Ministers in its Decision Number 333 dated Shawwal 16, 1430H, corresponding to October 5, 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 hour, taking into consideration, among other matters, the electrical consumption at peak times. This tariff was implemented starting Rajab 19, 1431H, corresponding to July 1, 2010.

According to the Company’s bylaws, the Company’s financial year begins on January 1 and ends on December 31.

The accompanying financial statements include the accounts of Sukuk Electricity Company, Dawiyat Telecom Company and Hajr for Electricity Production Company, being limited liability companies wholly owned by the Saudi Electricity Company.

# Financial Statements

## 2. Summary Of Significant Accounting Policies

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

### Accounting Convention

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

### Accounting Estimates

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

### Cash and Cash Equivalents

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

### Electricity Consumers' Receivables

Electricity consumers' receivables represent the amount not collected from the consumers at the balance sheet date, and are stated net after establishing a provision for doubtful receivables.

### Inventories

Inventory items of generators, transmission, distribution, other materials, and fuel inventory are stated at the weighted average cost basis, net of provision for slow moving and obsolete items.

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

### Investments in Companies' Equity and Other

Investments in companies which are at least 20% owned are recorded using the equity method, under which the investment is stated initially at cost, and adjusted thereafter by the post acquisition change of the Company's share in the net assets of the investee company. The Company's share in the results of these Companies is recognized when investees' financial statements are issued.

Investments of less than 20% of share capital of unquoted companies are stated at cost. Revenue is recognized from these investments upon declaration of dividends by the investee companies.

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

### 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 finance cost up to the date the asset is put in service. Cost and accumulated depreciation of fixed assets sold or otherwise disposed off are removed from the accounts at the time of sale or disposal and the resulting gain or loss is recognized in the statement of income. The estimated operational useful lives are as follows:



#### Years

|   |          |
|---|----------|
| Generation Plant, Equipment and Spare Parts     | 20 to 25 |
| Transmission Network, Equipment and Spare Parts | 20 to 30 |
| Distribution Network, Equipment and Spare Parts | 15 to 25 |
| Buildings                                       | 20 to 30 |
| Other Assets                                    | 4 to 20  |

#### Impairment of Assets

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

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

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

#### Capitalization of Borrowing Costs

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

#### Derivative Financial Instruments and Hedge Accounting

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

#### End-of-Service Indemnities

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

#### Zakat

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

# Financial Statements

## Revenues

- Revenue from electricity sales is recognized when bills are issued to consumers based on the consumption of electric power measured by kilowatt - hour. Revenue on power consumed by consumers but not yet billed at the balance sheet date is accrued for.
- Revenue from meter reading, maintenance and bills preparation services represents the monthly fixed tariff based on the capacity of the meter used by the consumers, and is recognized when bills are issued. Revenue from meter reading, maintenance and bills preparation services that is not yet billed at the 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 consumers, estimated to be 20 years.

## Expenses

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

## Statutory Reserve

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

## 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 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 statement of income.

## 3. Cash and Bank Balances

|                     | 2010<br>SR'000 | 2009<br>SR'000 |
|---------------------|----------------|----------------|
| Cash on Hand        | 2,959          | 2,887          |
| Cash in Banks       | 2,384,110      | 994,805        |
| Short-term deposits | 4,844,207      | 2,884,980      |
|                     | 7,231,276      | 3,882,672      |

Cash and bank balances include as of December 31, 2010 SR Nil, being short term deposits with a maturity of more than three-month period from the acquisition date (2009: SR 1 billion). In addition, short-term deposits include SR 146 million (2009: SR 94 million) related to employees' saving program.



#### 4. Receivables from Electricity Consumers and Accrued Revenues, Net

|  | 2010<br>SR'000 | 2009<br>SR'000 |
|--|----------------|----------------|
| Electricity Consumers Receivable         |                |                |
| Governmental Institutions                | 2,086,912      | 4,022,863      |
| Commercial and Residential               | 4,373,354      | 3,095,487      |
| Special Customers                        | 2,216,405      | 1,958,339      |
| Saudi Aramco (Notes 27 & 30)             | 1,468,493      | 1,623,446      |
| Electricity Connection Receivables       | 571,858        | 757,592        |
| Saline Water Conversion Corporation      | 362,984        | 339,077        |
| Total electricity Consumers Receivable   | 11,080,006     | 11,796,804     |
| Less: Provision for Doubtful Receivables | (2,378,875)    | (2,121,311)    |
| Net Electricity Consumers Receivable     | 8,701,131      | 9,675,493      |
| Add: Accrued Revenues                    | 1,263,876      | 910,725        |
| Total                                    | 9,965,007      | 10,586,218     |

The movements of the provision for doubtful receivables during the year are as follows:

|                                | 2010<br>SR'000 | 2009<br>SR'000 |
|--------------------------------|----------------|----------------|
| Balance, Beginning of the Year | 2,121,311      | 1,995,343      |
| Charge for the Year            | 257,564        | 125,968        |
| Balance, end of the Year       | 2,378,875      | 2,121,311      |



# Financial Statements

## 5. Prepayments And Other Receivables, Net

|  | 2010<br>SR'000 | 2009<br>SR'000 |
|--|----------------|----------------|
| Advances to Contractors and Suppliers          | 2,789,535      | 1,745,768      |
| Outstanding Letters of Credit                  | 203,956        | 19,582         |
| Prepaid Expenses                               | 20,940         | 45,455         |
| Other Government Receivables (Note 29)         | 244,173        | 244,173        |
| Other Receivables                              | 437,421        | 206,092        |
| Total  | 3,696,025      | 2,261,070      |
| Less: Provision for Other Doubtful Receivables | (60,789)       | (60,789)       |
|  | 3,635,236      | 2,200,281      |

## 6. Inventories, Net

|   | 2010<br>SR'000 | 2009<br>SR'000 |
|---|----------------|----------------|
| Generation Plant Materials and Supplies     | 3,130,904      | 3,217,045      |
| Distribution Network Materials and Supplies | 1,863,213      | 1,862,596      |
| Transmission Network Materials and Supplies | 290,027        | 247,390        |
| Fuel and Oil                                | 401,933        | 337,278        |
| Other                                       | 219,870        | 148,914        |
| Total                                       | 5,905,947      | 5,813,223      |
| Less: Provision for Slow Moving Inventories | (201,061)      | (189,881)      |
|   | 5,704,886      | 5,623,342      |



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

|                                | 2010<br>SR'000 | 2009<br>SR'000 |
|--------------------------------|----------------|----------------|
| Balance, Beginning of the Year | 189,881        | 189,258        |
| Charge for the Year            | 11,180         | 623            |
| Balance, End of the Year       | 201,061        | 189,881        |

## 7. Equity Investments in Companies and Others

|   | 2010<br>SR'000 | 2009<br>SR'000 |
|---|----------------|----------------|
| Investments accounted for under the equity method (a) | 1,895,640      | 1,915,310      |
| Other investments, at cost (b)                        | 1,210          | 1,210          |
| Held to maturity investments (c)                      | 400,000        | 436,878        |
|   | 2,296,850      | 2,353,398      |

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

|  | Shareholding % | 2010<br>SR'000 | 2009<br>SR'000 |
|--|----------------|----------------|----------------|
| Gulf Cooperation Council Interconnection Authority (a-1) | 31.6%          | 1,876,842      | 1,898,649      |
| Water and Electricity Company (a-2)                      | 50%            | 13,798         | 13,661         |
| Ras Al-Zour Water and Electricity Company (a-3)          | 20%            | 1,000          | 1,000          |
| Rabigh Electricity Company (a-4)                         | 20%            | 2,000          | 2,000          |
| Dhuruma Electricity Company (a-5)                        | 50%            | 2,000          | -              |
| Total investments accounted for under the equity method  | -              | 1,895,640      | 1,915,310      |

# Financial Statements

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

The Company has participated in the capital of the Gulf Cooperation Council Interconnection Authority (hereafter referred to as “GCCIA”) to enhance the electricity transmission and distribution between the member countries. The Company’s participation in GCCIA amounts to USD 484.80 million equivalent to SR 1,818 million. The final draft of the financial statements of GCCIA for the year 2010 has not been issued as of the date of these financial statements.

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

The Company entered into a partnership agreement with Saline Water Conversion Corporation to establish a jointly owned limited liability company in the name of Water and Electricity Company pursuant to the Supreme Economic Council’s Decision No. 5/23 dated Rabi’ Al-Awal 23, 1423H which encourages the participation of the private sector in water desalination projects. The Company’s share amounting to SR 15 million was paid in full and consists of 300,000 shares representing 50% of the investee’s share capital. The final draft of the financial statements of the investee Company for the year 2010 has not been issued as of the date of the financial statements.

## **(a-3) Ras Al-Zour Water and Electricity Company**

Based on the Company’s Board of Directors Resolution No. 02/73/2007 dated Dhu Al Hijjah 1, 1428H, the Company entered into a partnership with the Public Investment Fund to establish Ras Al-Zour Water and Electricity Company, a joint stock company established pursuant to Royal Decree No. 77 dated Ramadan 14, 1428H. The Company’s share amounting to SR 1 million was paid in full and represents 20% of the investee’s share capital. The investee has not yet started operations, accordingly, no financial statements have been issued as of the date of the financial statements.

## **(a-4) Rabigh Electricity Company**

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

During the third quarter of 2009, Rabigh Electricity Company increased its capital from SR 2 million to SR 10 million through the joining of new partners which decreased Saudi Electricity Company’s share from 100% to 20%. The investee has not yet started operations, accordingly, no financial statements have been issued as of the date of these financial statements.

## **(a-5) Dhuruma Electricity Company**

Based on Ministerial Resolution No. G/161 dated Jumada Al-Awal 12, 1431H corresponding to April 26, 2010, the Company established Dhuruma Electricity Company (a closed joint stock company) with a share capital of SR 2 million. During the year, a new partner joined the Company and the share capital was increased by the same amount to become SR 4 million and the Saudi Electricity Company’s share to be 50% of total shareholders’ shares. No financial statements have been issued for the investee for the year 2010 up to the date of these financial statements.

## b) Other Investments, at Cost

|  | Shareholding % | 2010<br>SR'000 | 2009<br>SR'000 |
|--|----------------|----------------|----------------|
| Al-Shoaiba Water and Electricity Company | 8%             | 400            | 400            |
| Al-Shuqaiq Water and Electricity Company | 8%             | 400            | 400            |
| Al-Jubail Water and Electricity Company  | 5%             | 250            | 250            |
| Al-Shoaiba Holding Company               | 8%             | 160            | 160            |
| <b>Total Other Investments, at Cost</b>  |                | <b>1,210</b>   | <b>1,210</b>   |

## c) Held to Maturity Investments

|   | 2010<br>SR'000 | 2009<br>SR'000 |
|---|----------------|----------------|
| Saudi Basic Industries Corporation Sukuk  | 300,000        | 300,000        |
| Bin Laden Company Sukuk                   | 50,000         | 50,000         |
| SAAB Bonds                                | 50,000         | 50,000         |
| Ras Al-Khaimah Investment Authority Sukuk | -              | 36,878         |
| <b>Total Held to Maturity Investments</b> | <b>400,000</b> | <b>436,878</b> |

## d) Share in Net (loss) Income of Investees Accounted for Under Equity Method

|  | 2010<br>SR'000  | 2009<br>SR'000 |
|--|-----------------|----------------|
| Gulf Cooperation Council Interconnection Authority | (21,807)        | 36,153         |
| Water and Electricity Company                      | 137             | (1,890)        |
| <b>Total (Note 23)</b>                             | <b>(21,670)</b> | <b>34,263</b>  |

# Financial Statements

## 8. Construction Work in Progress

|                       | 2010<br>SR'000 | 2009<br>SR'000 |
|-----------------------|----------------|----------------|
| Generation Projects   | 15,424,059     | 16,837,518     |
| Transmission Projects | 6,407,377      | 11,935,612     |
| Distribution Projects | 3,930,639      | 3,249,981      |
| General Projects      | 276,111        | 191,671        |
|                       | 26,038,186     | 32,214,782     |

Net financing cost capitalized on projects under construction during the year amounted to SR 1,070 million (2009: SR 769 million).

## 9. Fixed Assets, Net

|                                  | Land<br>SR'000 | Buildings<br>SR'000 | Machinery &<br>Equipment<br>SR'000 | Capital<br>Spare Parts<br>SR'000 | Vehicles<br>and Heavy<br>Equipment<br>SR'000 | Others<br>SR'000 | Total<br>SR'000 |
|----------------------------------|----------------|---------------------|------------------------------------|----------------------------------|--|------------------|-----------------|
| <b>Cost:</b>                     |                |                     |                                    |                                  |  |                  |                 |
| January 1, 2010                  | 1,533,633      | 13,990,760          | 203,416,394                        | 3,196,026                        | 1,146,420                                    | 7,510,281        | 230,793,514     |
| Additions                        | 46,028         | 862,211             | 33,145,541                         | 232,423                          | 178,454                                      | 208,389          | 34,673,046      |
| Disposals                        | -              | (2,446)             | (320,661)                          | (191)                            | (50,043)                                     | (57)             | (373,398)       |
| Reclassification                 | -              | 638                 | 5,107,117                          | -                                | -  | (5,107,755)      | -               |
| December 31, 2010                | 1,579,661      | 14,851,163          | 241,348,391                        | 3,428,258                        | 1,274,831                                    | 2,610,858        | 265,093,162     |
| <b>Accumulated Depreciation:</b> |                |                     |                                    |                                  |  |                  |                 |
| January 1, 2010                  | -              | 8,723,765           | 108,133,016                        | 1,729,315                        | 918,082                                      | 1,929,725        | 121,433,903     |
| Charge for the year              | -              | 477,299             | 7,271,234                          | 105,649                          | 90,921                                       | 435,103          | 8,380,206       |
| Disposals                        | -              | (2,364)             | (303,371)                          | (103)                            | (50,041)                                     | (54)             | (355,933)       |
| Reclassification                 | -              | 508                 | 730,816                            | -                                | -  | (731,324)        | -               |
| December 31, 2010                | -              | 9,199,208           | 115,831,695                        | 1,834,861                        | 958,962                                      | 1,633,450        | 129,458,176     |
| <b>Net Book Value:</b>           |                |                     |                                    |                                  |  |                  |                 |
| December 31, 2010                | 1,579,661      | 5,651,955           | 125,516,696                        | 1,593,397                        | 315,869                                      | 977,408          | 135,634,986     |
| December 31, 2009                | 1,533,633      | 5,266,995           | 95,283,378                         | 1,466,711                        | 228,338                                      | 5,580,556        | 109,359,611     |

Land caption above includes plots of land with a book value of SR 151 million, the title deeds of which have not yet been transferred to the Company's name.



Net book value of the Company's fixed assets as of December 31, 2010 is distributed among the main activities as follows:

|                              |                   |                   |                   |                     | 2010<br>SR'000     | 2009<br>SR'000     |
|------------------------------|-------------------|-------------------|-------------------|---------------------|--------------------|--------------------|
|                              | Generation        | Transmission      | Distribution      | General<br>Property | Total              | Total              |
| Land                         | 245,236           | 587,388           | 225,249           | 521,788             | 1,579,661          | 1,533,633          |
| Buildings                    | 2,695,481         | 1,870,261         | 154,903           | 931,310             | 5,651,955          | 5,266,995          |
| Machinery & Equipment        | 47,654,610        | 42,805,030        | 34,710,509        | 346,547             | 125,516,696        | 95,283,378         |
| Capital Spare Parts          | 1,162,176         | 410,055           | 20,940            | 226                 | 1,593,397          | 1,466,711          |
| Vehicles and Heavy Equipment | -                 | -                 | -                 | 315,869             | 315,869            | 228,338            |
| Others                       | 532,312           | 308,036           | 30,104            | 106,956             | 977,408            | 5,580,556          |
| <b>Total</b>                 | <b>52,289,815</b> | <b>45,980,770</b> | <b>35,141,705</b> | <b>2,222,696</b>    | <b>135,634,986</b> | <b>109,359,611</b> |

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

|                                       | 2010<br>SR'000 | 2009<br>SR'000 |
|---------------------------------------|----------------|----------------|
| Generation Depreciation Expense       | 3,201,761      | 2,889,023      |
| Transmission Depreciation Expense     | 2,438,954      | 2,114,184      |
| Distribution Depreciation Expense     | 2,386,302      | 2,198,793      |
| General Property Depreciation Expense | 353,189        | 339,909        |
|                                       | 8,380,206      | 7,541,909      |

# Financial Statements

## 10. Accounts Payable

|  | 2010<br>SR'000 | 2009<br>SR'000 |
|--|----------------|----------------|
| Saudi Aramco for Fuel Cost (Notes 27 & 30)               | 46,227,372     | 40,959,482     |
| Transferred to Government Account (10-a)                 | (13,295,613)   | (13,295,613)   |
| Saudi Aramco Payable for Fuel Cost                       | 32,931,759     | 27,663,869     |
| Saline Water Conversion Corporation for Purchased Energy | 8,080,770      | 7,528,478      |
| Payables to Contractors and Retentions                   | 691,138        | 2,840,911      |
| Municipality Fees  | 2,804,236      | 2,410,599      |
| Payables to Suppliers                                    | 613,496        | 1,004,234      |
| Advances Received for Construction of Projects           | 1,966,612      | 1,176,615      |
| Other (10-b)   | 2,451,901      | 1,964,031      |
|  | 49,539,912     | 44,588,737     |

10-a) Accounts payable to Saudi Aramco for fuel cost for the period from April 5, 2000 to December 31, 2003 have been reclassified from current liabilities to non-current liabilities (long-term government payables) in accordance with the minutes of the Ministerial meeting held between his HE the Minister of Finance and his HE the Minister of Petroleum and Mineral Resources signed on Jumada Al-Awal 15, 1427H whereby the Company's liability to Saudi Aramco was transferred to the account of the Ministry of Finance.

10-b) Other payables include SR 1,280 million (2009: SR 1,280 million) which are still under reconciliation between the Company and the Government and pertain to prior-merger accounts (refer to Note 1).

## 11. Accruals and Other Payables

|                             | 2010<br>SR'000 | 2009<br>SR'000 |
|-----------------------------|----------------|----------------|
| Accrued Expenses            | 3,386,288      | 3,210,187      |
| Accrued Employees' Benefits | 347,162        | 350,291        |
| Dividends Payable           | 329,530        | 321,629        |
| Accrued Murabaha on Loans   | 125,292        | 108,934        |
| Other                       | 213,946        | 210,753        |
|                             | 4,402,218      | 4,201,794      |

Dividends payable include dividends in the amount of SR 93.8 million as of December 31, 2010 representing cash dividends declared by Saudi Consolidated Electricity Company prior to merger and unclaimed by the shareholders (2009: SR 95.7 million).



## 12. ZAKAT

The principal elements of the zakat base are as follows:

|  | 2010<br>SR'000      | 2009<br>SR'000      |
|--|---------------------|---------------------|
| Net Income before Zakat  | 2,279,088           | 1,169,614           |
| Add: Zakat Adjustments   | (8,440,903)         | (6,812,078)         |
| <b>Adjusted net loss</b>   | <b>(6,161,815)</b>  | <b>(5,642,464)</b>  |
| <b>Zakat base computation:</b>   |                     |                     |
| Share Capital  | 41,665,938          | 41,665,938          |
| Adjusted Net Loss  | (6,161,815)         | (5,642,464)         |
| Other Reserves   | 1,640,044           | 1,525,576           |
| Retained Earnings  | 5,071,166           | 4,813,854           |
| Other Provisions   | 6,761,296           | 6,155,570           |
| Long-term Loans and Sukuk  | 30,821,707          | 19,340,257          |
| Government Loans   | 18,688,060          | 14,938,060          |
| Customers' Refundable Deposits, Government Payables, and Contractor Payables | 2,730,762           | 5,924,783           |
| <b>Total</b>   | <b>101,217,158</b>  | <b>88,721,574</b>   |
| <b>Less:</b>   |                     |                     |
| Fixed Assets and Construction Work in Progress                               | (107,525,831)       | (96,344,143)        |
| Fixed Assets Depreciation Differences from Prior Years                       | (32,287,433)        | (25,014,747)        |
| Long-term Investments  | (2,296,850)         | (1,882,257)         |
| Inventory of Material and Spare Parts  | (4,563,909)         | (4,261,625)         |
| <b>Zakat Base – Negative</b>   | <b>(45,456,865)</b> | <b>(38,781,198)</b> |

No provision for zakat has been made due to the negative amounts for adjusted net income and zakat base.

According to the final assessment received from the DZIT for the period from April 5, 2000 (date of merger) to December 31, 2001 and for the year 2002, there are zakat differences amounting to SR 13 million that resulted from DZIT computing zakat on amounts claimed by the Company from Aramco for Aramco's electricity consumption in the residential properties and paid by Aramco based on the industrial tariff rather than the commercial tariff. The Company has not provided for this difference as it believes that zakat should not be levied on revenues which have not been recognised and accounted for in the accounting records. During year 2009, the Company received the final assessment for the years 2003 to 2006 which showed zakat differences for SR 24.5 million. This matter is still being followed up with DZIT. In addition, the Company submitted its zakat returns for the years 2007 to 2009 and are still subject for review by DZIT.

# Financial Statements

## 13. Long-Term Loans

|  | 2010<br>SR'000 | 2009<br>SR'000 |
|--|----------------|----------------|
| Loans' Balance, Beginning of the Year    | 7,340,257      | 5,204,118      |
| Loans' Withdrawals During the Year       | 5,594,548      | 2,692,266      |
| Loans' Repayments During the Year        | (1,113,098)    | (556,127)      |
| Loans' Balance, End of the Year          | 11,821,707     | 7,340,257      |
| Less: Current Portion of Long-term Loans | (1,189,317)    | (828,400)      |
|  | 10,632,390     | 6,511,857      |

Following are the details of the scheduled repayments for the coming years as of December 31:

|                              | 2010<br>SR'000 | 2009<br>SR'000 |
|------------------------------|----------------|----------------|
| Between One and Two years    | 1,017,783      | 828,854        |
| Between Two and Three years  | 1,123,000      | 545,454        |
| Between Three and Four years | 1,123,000      | 760,736        |
| Between Four and Five years  | 1,123,000      | 760,736        |
| Beyond Five years            | 6,245,607      | 3,616,077      |
|                              | 10,632,390     | 6,511,857      |

During year 2008, the Company obtained a Shariah compliant loan for SR 6 billion from a group of local banks which has been fully withdrawn. The loan is subject to certain financial covenants in which the company was in compliance with as of December 31, 2010.

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

The Company has unutilized credit facilities from local banks as of December 31, 2010 amounting to SR 1 billion (2009: SR 1 billion).



The Company agreed with the Export-Import Bank of the United States, and Export Development Canada on June 21, 2009 and signed a financing agreement on January 27, 2010 whereby the Company will receive a direct loan amounting to USD 1.1 billion as of December 31, 2010 equivalent to SR 4.1 billion. The loan is repayable over 12 years and will be used to purchase generating units for the Company's projects. The loan has been fully withdrawn as of December 31, 2010.

On July 13, 2009, the Company signed a financing agreement with the Public Investments Fund upon which the Company will receive a direct loan of SR 2.6 billion repayable over a 15 year period in 24 semi annual installments starting December 31, 2012. This loan will be used to finance power generating projects. The loan has been fully withdrawn as of December 31, 2010.

On December 13, 2010, the Saudi Electricity Company signed an agreement with a group of local banks whereby the Company will obtain a sharia compliant loan for SR 5 billion which was not withdrawn as of December 31, 2010.

## 14. Sukuk

- (a) On July 1, 2007, the Company issued Sukuk for SR 5 billion, at par value of SR 500,000 each with no discount nor premium, maturing in the year 2027. The Sukuk bears a rate of return based on SIBOR plus a margin per annum payable quarterly in arrears from the net income received under the Sukuk assets held by the Sukuk custodian "Electricity Sukuk Company" a wholly owned subsidiary of the Company. At the end of each five year period, the Company shall pay an amount equal to 10% of the aggregate face value of the Sukuk as bonus to the Sukuk holders. The Company has provided an undertaking to the Sukuk holders to repurchase the Sukuk in the years 2012, 2017, 2022 in accordance with certain arrangements.
- (b) On July 6, 2009, the Company issued Sukuk for SR 7 billion, at par value of SR 100,000 each without any discount or premium, maturing in the year 2029. The Sukuk has been entirely covered in full. The Sukuk bears a rate of return based on SIBOR plus a margin payable quarterly in arrears from the net income received under the Sukuk assets held by the Sukuk custodian "Electricity Sukuk Company" (Sukuk) a wholly owned subsidiary. At the end of each five year period, the company shall pay an amount equal to 10% of the aggregate face value of the Sukuk as bonus to Sukuk holders. The Company has provided an undertaking to the Sukuk holders to repurchase the Sukuk in the years 2014, 2019 and 2024 at the request of the Sukuk holders and in accordance with certain arrangements.
- (c) On May 10, 2010, the Company issued Sukuk for SR 7 billion, at par value of SR 10,000 each without any discount or premium, maturing in the year 2030. The Sukuk has been entirely covered in full. The Sukuk bears a rate of return based on SIBOR plus a margin payable quarterly in arrears from the net income received under the Sukuk assets held by the Sukuk custodian "Electricity Sukuk Company" (Sukuk) a wholly owned subsidiary of the Company. At the end of each five year period, the company shall pay an amount equal to 10% of the aggregate face value of the Sukuk as bonus to Sukuk holders. The Company has provided an undertaking to the Sukuk holders to repurchase the Sukuk in the years 2017, 2020 and 2025 at the request of the Sukuk holders and in accordance with certain arrangements.

## 15. Employees' Indemnities

|  | 2010<br>SR'000 | 2009<br>SR'000 |
|--|----------------|----------------|
| Provision for End-of-Service Indemnities | 4,480,977      | 4,309,554      |
| Savings Program                          | 209,241        | 112,744        |
|  | 4,690,218      | 4,422,298      |

# Financial Statements

## 16. Derivatives

The Company entered into interest rate hedging agreements with several banks to hedge the fluctuation in loans' interest rates on a notional amount of SR 3,365 million as of December 31, 2010 which includes a US Dollar portion representing approximately 15% of the notional value. The hedging agreements 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.

At the end of year 2009, the Saudi Electricity Company signed forward exchange currency agreements with local banks aiming to fix the Euro exchange rate against the US Dollar exchange rate to cover the Company's future commitments and protect them from currency rate fluctuations.

## 17. Deferred Revenue, Net

|   | 2010<br>SR'000 | 2009<br>SR'000 |
|---|----------------|----------------|
| Balance, Beginning of the Year                          | 14,970,527     | 13,352,786     |
| Proceeds from Connection Tariff Service During the Year | 2,912,259      | 2,633,478      |
| Electrical Connection Tariff                            | (1,145,841)    | (1,015,737)    |
|   | 16,736,945     | 14,970,527     |

## 18. Government Loans

Pursuant to the Ministerial Resolution No. 169 dated Sha'ban 11, 1419H, the net dues of the Government to the Saudi Electricity Company and the net dues of the Company to the Government were determined in accordance with rules and procedures stipulated in the minutes signed by HE the Minister of Industry and Electricity and HE the Minister of Finance and National Economy dated Jumada Al-Thani 27, 1418H corresponding to October 29, 1997. The net difference payable to the Government by the Company, as determined at the end of the business day preceding the issuance of the Royal Decree for the incorporation of the Company, is considered a long-term soft loan with a grace period of twenty five years starting from the date of the announcement of the incorporation of the Company. The loan is to be revisited later on subject to the financial condition of the Government and the Company.

The minutes of the meeting held on Rajab 21, 1422H between the Minister of Industry and Electricity and the Minister of Finance and National Economy in which the initial amount of the Government loan was determined, stated that the final settlement of Government accounts will be subject to the reconciliation for the claims of the Company from Government entities, and the loan amount shall be adjusted accordingly. During 2005, the Company finalized the amount due which included the claims of the Company and the amounts due to the Government and the agreement was signed between the Minister of Water and Electricity and the Minister of Finance on Rajab 15, 1426H which brought the balance of Government loan to SR 14,938,060 thousand.

The Council of Ministers approved in its meeting held on Monday Jumada Al-Awal 12, 1431H corresponding to April 26, 2010 to extend to the Company a soft loan amounting to SR 15 billion repayable over 25 years. The loan will be paid to the Company within 2 years in accordance with an agreement that will be prepared for this purpose between the Ministry of Finance and the Saudi Electricity Company. The agreement was signed on Ramadan 15, 1431H, corresponding to August 25, 2010 and an amount of SR 3,750 million from this loan has been withdrawn as of December 31, 2010.



## 19. Share Capital

The share capital of the Company as of December 31, 2010 amounts to SR 41,665,938,150 and divided into 4,166,593,815 shares with a par value of SR 10 each.

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

|                    | No. 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%                 |

## 20. General Reserve

General reserve consists of the balances of the reserves that were reflected in the books of the Saudi Consolidated Electricity Company at the date of the merger amounting to SR 213,668 thousand and the returns from investing in the Electricity Fee Fund amounting to SR 294,976 thousand. In addition, it also includes the collections of electricity fees from individuals subsequent to December 31, 2001 amounting to SR 27,533 thousand till December 31, 2010 (2009: SR 26,133 thousand). Accordingly, the balance of the general reserve amounted to SR 536,177 thousand as of December 31, 2010 (2009: SR 534,777 thousand).

## 21. Operating And Maintenance Expenses

|   |            |              |              | 2010<br>SR'000 | 2009<br>SR'000 |
|---|------------|--------------|--------------|----------------|----------------|
|   | Generation | Transmission | Distribution | Total          | Total          |
| Employees' Expenses and Benefits        | 1,146,350  | 786,850      | 2,089,732    | 4,022,932      | 3,768,777      |
| Materials                               | 830,575    | 87,539       | 195,694      | 1,113,808      | 1,163,487      |
| Operation and Maintenance (contractors) | 393,664    | 73,225       | 236,524      | 703,413        | 721,131        |
| Provision for Doubtful Receivables      | -          | -            | 257,564      | 257,564        | 125,968        |
| Provision for Slow Moving Inventory     | 6,600      | 1,130        | 1,760        | 9,490          | 550            |
| Municipality Fees                       | -          | -            | 394,083      | 394,083        | 347,217        |
| Others                                  | 685,038    | 151,558      | 415,057      | 1,251,653      | 1,355,822      |
| Total                                   | 3,062,227  | 1,100,302    | 3,590,414    | 7,752,943      | 7,482,952      |

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## 22. General and Administrative Expenses

|                                     | 2010<br>SR'000 | 2009<br>SR'000 |
|-------------------------------------|----------------|----------------|
| Employees' Expenses and Benefits    | 264,407        | 211,788        |
| Materials                           | 37,521         | 45,634         |
| Provision for Slow Moving Inventory | 1,690          | 73             |
| Others                              | 77,903         | 58,047         |
|                                     | 381,521        | 315,542        |

## 23. Other Income and Expenses, Net

|   | 2010<br>SR'000 | 2009<br>SR'000 |
|---|----------------|----------------|
| Gain on Disposal of Fixed Assets  | 97,833         | 31,096         |
| Penalties   | 118,747        | 75,053         |
| Share in Net Income/(loss) of Investee Companies Accounted for Under the Equity Method (Note 7-d) | (21,670)       | 34,263         |
| Sales of Tender Documents   | 27,063         | 18,405         |
| Others, net   | 251,275        | 198,674        |
|   | 473,248        | 357,491        |

## 24. Earnings Per Share

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

## 25. Proposed Dividend and Earnings Per Share (Eps)

In compliance with the Company's bylaws, a preliminary distribution of dividend of not less than 5% of paid up share capital is to be made after deducting reserves in accordance with the conditions stated in the Council of Ministers' Resolution No. 169 dated Sha'ban 11, 1419H, which stipulates that the Government would waive its share from the dividend distribution for a period of ten years from the date of the Company's formation provided that such dividends do not exceed 10% of the par value of the shares. If dividends exceed 10% of the par value of the shares then the Government's share shall be treated similar to the shares of the other shareholders.

The Council of Ministers' Resolution No. 327 dated Ramadan 24, 1430H which is specific to the extension of the government concession of its share of profits that Saudi Electric Company distributes for a period of another 10 years.

The Board of Directors in its meeting held on February 20, 2011, proposed dividends for the year 2010 for the shareholders amounting to SR 547 million in cash at SR 0.7 per share representing 7% of the par value of the shares (2009: SR 547 million). The proposed dividends for the current year require the Company's General Assembly approval.



## 26. 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 625 thousand (2009: SR 587 thousand).

The Board of Directors' remuneration of SR 0.8 million is due from the profit of the year 2010 after distribution of dividends of 5% to the other shareholders. The remuneration is payable after obtaining the General Assembly's approval (2009: SR 0.8 million).

## 27. Related Party Transactions

Saudi Electricity Company provides connections and electric power to governmental agencies, ministries and Saudi Aramco. The tariff charged to related parties is the same tariff approved by the Council of Ministers and charged to other consumers, except for the tariffs charged to Saline Water Conversion Corporation (SWCC) which is in accordance with a Government resolution, and except for the residential properties of Saudi Aramco. The Company believes that residential properties of Aramco fall under the commercial tariff while Saudi Aramco has rejected this tariff and is settling the electricity sales for all such properties based on the industrial tariff which resulted in a difference of SR 148 million for the current year and a cumulative difference of approximately SR 1,745 million since the Company's inception up to December 31, 2010 which has not been reflected in these financial statements. The Council of Ministers in its Resolution No. 114 dated Rabi-II 10, 1430H resolved to end the dispute on the basis to charge Aramco based on the residential and commercial tariff rather than the industrial tariff and requested the Electricity and Co-generation Regulatory Authority to determine the residential and commercial properties owned by Aramco and the party responsible for the construction costs, maintenance and operations of voltage transformers and distribution networks. Accordingly, several meetings have been held between the Company, Aramco, and the Regulator (Electricity and Co-generation Regulatory Authority) to resolve this issue.

In addition, the Company purchases fuel from Saudi Aramco and energy from Saline Water Conversion Corporation based on prices set by Government resolutions. Also, the Company accrues for fees paid to the municipalities based on electricity sales.

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

|                                     | 2010<br>SR'000   | 2009<br>SR'000   |
|-------------------------------------|------------------|------------------|
| <b>Sales:</b>                       |                  |                  |
| Government                          | 6,927,911        | 5,789,364        |
| Saudi Aramco                        | 1,318,150        | 1,280,774        |
| Saline Water Conversion Corporation | 164,988          | 135,134          |
|                                     | <b>8,411,049</b> | <b>7,205,272</b> |
| <b>Purchases and Other:</b>         |                  |                  |
| Saudi Aramco                        | 5,591,878        | 6,163,959        |
| Saline Water Conversion Corporation | 626,641          | 655,232          |
| Municipalities Fees                 | 394,083          | 347,217          |
|                                     | <b>6,612,602</b> | <b>7,166,408</b> |



# Financial Statements

## 28. Capital Commitments

Capital commitments represent the value of non-performed portions of the SEC contractual agreements for the construction and installation of utility plants and other assets amounting to approximately SR 63,961 million (2009: SR 41,464 million). The scheduled time to complete the commitments is between one to three years.

## 29. Prior Years' Adjustments

During the fourth quarter of year 2010, Saudi Electricity company transferred certain transmission and distribution network assets in Jubail Industrial City previously owned by the Royal Commission of Jubail and Yanbu ("Commission") to the Company's ownership in a final settlement and in accordance with rules agreed upon with the Commission. The assets net book value amounted to SR 744 million and resulted in recording depreciation of assets put into service prior to April 5, 2000 (merger date) in the amount of SR 244 million under prepayments and other receivable balance (governmental), and adjustment of retained earnings' opening balance as of January 1, 2009 in the amount of SR 222 million representing prior period depreciation on assets used starting April 5, 2000 and up to December 31, 2008. Below is a schedule of balances of comparative figures that were adjusted:

|   | December 31, 2009<br>SR'000 |                   |
|---|-----------------------------|-------------------|
|   | After Adjustment            | Before Adjustment |
| Prepayments and Other Debit Balances, net | 2,200,281                   | 1,956,108         |
| Fixed Assets, net                         | 109,359,611                 | 109,108,954       |
| Long-term Government Payables             | 14,039,789                  | 13,295,613        |
| Statutory Reserve                         | 1,105,267                   | 1,107,965         |
| Retained Earnings                         | 5,619,222                   | 5,865,869         |
| Depreciation – Operations and Maintenance | 7,202,000                   | 7,175,022         |
| Net Income for the Year                   | 1,142,636                   | 1,169,614         |

## 30. Contingent Liabilities

(A) The total disputed amount between the Company and Saudi Aramco for handling crude oil fees since the Company's formation on April 5, 2000 and up to December 31, 2010 amounted to approximately SR 2,472 million. The Company's management believes that there will be no liability on the Company based on the Royal Decree No. M/8 dated Rajab 25, 1415H as this matter was not discussed by the Ministerial Committee that was formed by the Royal Decree referred to herein. Accordingly, the difference has not been recorded in the Company's books. In addition, Saudi Aramco is supplying the Company with light fuel rather than heavy fuel oil. This has resulted in a difference of SR 566 million not accounted for in the Company's books.

(B) Saudi Aramco has also a claim for the settlement of its share in the annual dividends from the date of the Company's formation to December, 31, 2009, estimated at SR 1,753 million. The Company believes that Saudi Aramco has no right for this claim during the first 20 years of its formation since it is a wholly owned government agency and accordingly, is governed by the Ministerial Resolution No. 169 dated Sha'ban 11, 1419H and the Ministerial Resolution No. 327 dated Ramadan 24, 1430H on extending the Government's waiver of its rights in the profits distributed by the Saudi Electricity Company for another ten years.



- (C) The Company has a dispute with Saudi Aramco relating to certain oval meters' readings in Shadgum, Jomaih and Othmaniah Gas plants as Saudi Aramco has rejected certain amounts billed through the said meters. The issue is still under discussion.
- (D) The Company has issued a guarantee to one of the commercial banks against its share for financing a loan granted to one of its investee companies. The guarantee amounted to US\$ 112 million equivalent to SR 419 million as of December 31, 2010 (2009: US\$ 109 million equivalent to SR 409 million). In addition, the Company has provided a guarantee for the Directorate of Zakat and Income Tax amounting to SR 13 million (2009: SR Nil).
- (E) The Company has outstanding letters of credit amounting to SR 63 million as of the balance sheet date (2009: SR 200 million).

## 31. Risk Management

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

**Credit risk** is a risk wherein one party fails to discharge its obligations and causes the other party to incur a financial loss. The Company has proper distribution of credit risk. Cash is substantially placed in financial institutions with sound credit ratings. Trade accounts receivable are carried net of provision for doubtful debts.

**Commission rate risk** is the exposure to various risks associated with the effect of fluctuations in the prevailing commission rates. The Company has no long-term assets associated with commission rates but has liabilities associated with commission rates as of December 31, 2010. The Company manages its floating-rate loans through utilizing commission rates hedging agreements which have the economic effect to transfer the interest on loans from floating to fixed rate.

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

**Currency risk** is the risk wherein the value of a financial instrument fluctuates due to changes in foreign exchange rates. The Management monitors the fluctuations in currency exchange rates and charges the results to financial statements accordingly.

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

## 32. Comparative Figures

Certain figures for the comparative year have been reclassified to conform with the presentation in the current year.

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