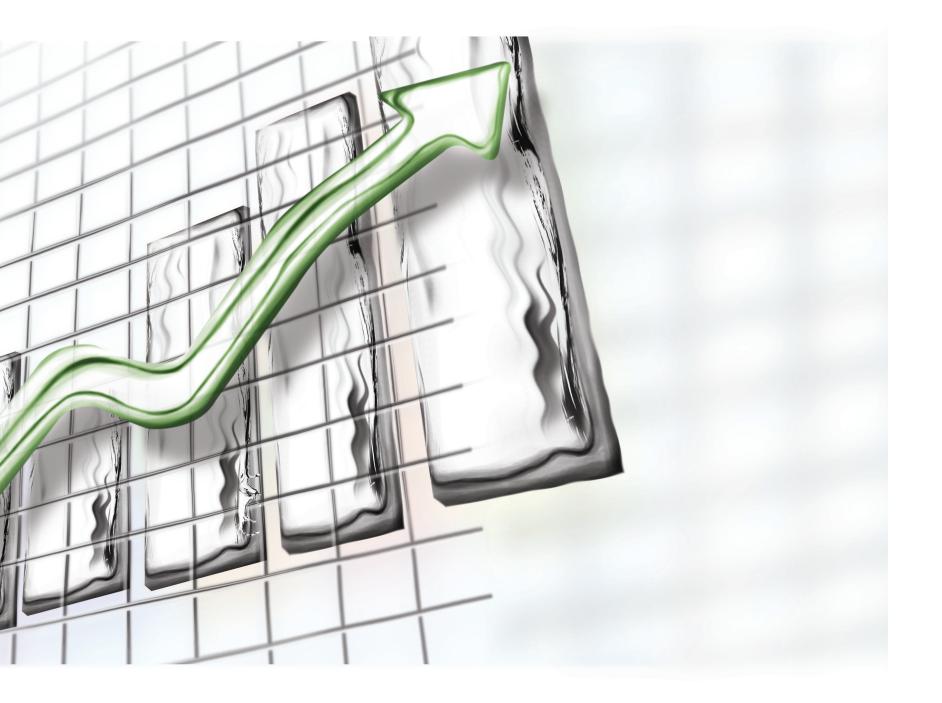
# Financial Statements and Auditors' Report



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# Financial Statements and Auditors' Report



Financial Statements and Auditors' Report For the year ending on 31 December, 2009

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AUDITORS' REPORT

To the shareholders

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

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#### Scope of Audit

We have audited the balance sheet of **Saudi Electricity Company** (a Saudi joint stock company) as of December 31, 2009, and the related statements of income, cash flows and changes in shareholders' equity for the year then ended, and notes 1 to 31 which form an integral part of these financial statements as prepared by the Company in accordance with Article 123 of the Regulations for Companies and presented to us with all the necessary information and explanations. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

#### **Unqualified Opinion**

In our opinion, the financial statements referred to above, present fairly, in all material respects, the financial position of the Company as of December 31, 2009, and the results of its operations and its cash flows for the year then ended in conformity with generally accepted accounting standards appropriate to the nature of the Company, and comply with the relevant provisions of the Regulations for Companies and the bylaws of the Company as these relate to the preparation and presentation of these financial statements.

Deloitte & Touche Bakr Abulkhair & Co.

Bakr A. Abulkhair License No. 101

Rabi Al-Awal 9, 1431 February 23, 2010 ر الروست أنسد ترون المعالمة المراسية المعالمة المراسية ( المعالمة المراسية للمراسية المراسية المراسية

Audit. Tax. Consulting. Financial Advisory.

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## Balance Sheet as of 31 December, 2009

	Note	<b>2009</b> SR'000	2008 SR'000
Assets			
Current assets			
Cash and bank balances	3	3,882,672	1,232,097
Receivables from electricity consumers and accrued revenue, net	4	10,586,218	15,073,847
Prepayments and other receivables, net	5	1,956,108	2,897,890
Inventories, net	6	5,623,342	5,806,673
Total current assets		22,048,340	25,010,507
Non-current assets			
Loan to subsidiary		365,500	-
Equity investments in companies and others	7	2,353,398	2,159,924
Construction work in progress	8	32,214,782	20,103,986
Fixed assets - net	9	109,108,954	98,107,946
Total non-current assets		144,042,634	120,371,856
Total Assets		166,090,974	145,382,363
Liabilities and Shareholder's Equity			
Current Liabilities			
Accounts payable	10	47,350,980	38,278,944
Accruals and other payables	11	1,439,552	1,267,679

13	828,400	556,127
	49,618,932	40,102,750
13	6,511,857	4,647,991
14	12,000,000	5,000,000
15	4,422,298	4,396,753
17	14,970,527	13,352,786
	1,159,138	1,095,789
10	13,295,613	13,295,613
18	14,938,060	14,938,060
	67,297,493	56,726,992
	116,916,425	96,829,742
19	41,665,938	41,665,938
	1,107,965	991,004
20	534,777	534,573
	5,865,869	5,361,106
	49,174,549	48,552,621
	166,090,974	145,382,363
	13 14 15 17 10 18	49,618,932  13 6,511,857  14 12,000,000  15 4,422,298  17 14,970,527

The accompanying notes constitute an integral part to these financial statements



## Income Statement for the year ending on 31 December, 2009

	Note	<b>2009</b> SR'000	2008 SR'000
Operating Revenues			
Electric sales		22,040,360	20,651,799
Meter reading, maintenance and bills preparation tariff		794,852	752,359
Electrical connection tariff	17	1,015,737	884,584
Total operating revenues	-	23,850,949	22,288,742
Operating Expenses			
Fuel		(5,898,501)	( 5,477,362 )
Purchased energy		(1,826,900)	( 1,477,634 )
Operation and maintenance	21	(7,482,952)	(7,608,182)
Depreciation	9	(7,514,931)	( 6,744,453 )
General and administrative expenses	22	(315,542)	( 217,065 )
Total operating expenses	_	(23,038,826)	(21,524,696)
Operating income		812,123	764,046
Other revenues and expenses, net	23	357,491	340,401
Net income for the year	-	1,169,614	1,104,447
Earnings per share (SR)			
From operating income for the year (Note 24)	=	0,19	0,18
From net income for the year (Note 24)		0,28	0,27
	_		

The accompanying notes constitute an integral part to these financial statements

## Cash Flows Statement for the year ending on 31 December, 2009

	2009 SR'000	2008 SR'000
Operating activities		
Net income for the year	1,169,614	1,104,447
Adjustments to reconcile net income to net cash from operating activities:		
Provision for doubtful receivables	125,968	116,561
Provision for other doubtful receivables	(20,405)	-
Provision for slow-moving inventories	623	-
Company's share in net income of investee companies	(34,263)	(42,006)
Depreciation	7,514,931	6,744,453
Gain on disposal of fixed assets, net	(31,096)	(40,784)
Gain on sale of other investments	-	(1,050)
Employees indemnities, net	25,545	396,728
Deferred revenues	1,617,741	1,777,976
(Increase) decrease in operating assets and liabilities:		
Receivables from electricity consumers and accrued revenue	4,361,661	2,921,091
Prepayments and other receivables	962,187	(1,178,618)
Inventories	182,708	780,411
Accounts payable	9,072,036	6,077,071
Accruals and other payables	151,169	(254,446)
Net proceeds and payments on customers' refundable deposits	63,349	59,051
Net cash from operating activities	25,161,768	18,460,885



Investing	Activities
HIVESTILL	ACHVILLES

Equity investments in companies and others	(159,211)	(513,463)
Time deposits	(1,000,119)	-
Loan to subsidiary	(365,500)	-
Fixed assets and construction work in progress	(30,633,129)	(22,281,324)
Proceeds from sale of fixed assets	37,490	70,942
Proceeds from sale other investments	-	56,190
Net cash used in investing activities	(32,120,469)	(22,667,655)
Financing activities		
Sukuk	7,000,000	-
Net proceeds (repayment) of long-term loans	2,136,139	378,700
Dividends paid to shareholders and Board of Directors' remuneration	(526,982)	(529,137)
Net cash from (used in) financing activities	8,609,157	(150,437)
Net change in cash and cash equivalents	1,650,456	(4,357,207)
Cash and cash equivalents, beginning of the year	1,232,097	5,589,304
Cash and cash equivalents, end of the year	2,882,553	1,232,097

The accompanying notes constitute an integral part to these financial statements  $% \left( 1\right) =\left( 1\right) \left( 1\right)$ 

## Statement of changes in equity in the year ending on 31 December, 2009

	Note	Capital SR'000	Statutory Reserve SR'000	General Reserve SR'000	Retained Profits SR'000	<b>Total</b> SR'000
Balance, January 1, 2008		41,665,938	880,559	532,418	4,915,156	47,994,071
Net income for the year		-	-	-	1,104,447	1,104,447
Dividends for 2007		-	-	-	(547,252)	(547,252)
Board of directors' remuneration for 2007		-	-	-	(800)	(800)
Electricity fee collections (individuals)	20	-	-	2,155	-	2,155
Transferred to statutory reserve		-	110,445	-	(110,445)	-
Balance, December 31, 2008		41,665,938	991,004	534,573	5,361,106	48,552,621
Net income for the year		-	-	-	1,169,614	1,169,614
Dividends 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		-	116,961	-	(116,961)	-
Balance, December 31, 2009		41,665,938	1,107,965	534,777	5,865,869	49,174,549

The accompanying notes constitute an integral part to these financial statements.



## Notes To The Financial Statements For The Year Ended On 31 December 2009

#### 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, 141 9H (corresponding to November 29, 1998), which reorganized the Electricity Sector in the Kingdom of Saudi Arabia by merging the majority of the local companies that provided electricity power services (10 joint stock companies, that covered most of the geographical areas of the Kingdom), in addition to the projects of the General Electricity Corporation, a governmental corporation related to the Ministry of Industry and Electricity (11 operating projects, that covered various areas in the north of the Kingdom) in Saudi Electricity Company.

The Company was founded pursuant to the Royal Decree No. M/16 dated Ramadan 6, 1 420H corresponding to December 13, 1999, in accordance with the Council of Ministers' Resolution number 153, dated Ramadan 5, 1420 H., corresponding to December 12, 1999, and the Minister of Commerce Resolution number 2047, dated Dhu Al Hijjah 30, 1420 H., corresponding to April 5, 2000 and registered under Commercial Registration number 1010158683, dated Muharram 28, 1421 H., corresponding to May 3, 2000 in Riyadh.

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

The Company, as per with its organization chart, is divided into main activities of generation, transmission, and distribution and related supporting activities such as finance, human resources, general services and planning. Generation, transmission and distribution activities complement each other for the purpose of delivering the electricity to the consumer. The Company does not have transfer prices between these activities, and revenues are recognized from selling electricity to the end consumer for the Company as a whole based on the official tariff decided by the government.

The Company is a tariff regulated electricity company. Electricity tariffs are determined by the Council of Ministers based on recommendations from the Saudi Electricity Regulatory Agency (SERA). SERA was Established in November 2001 as per the Resolution No. 169 dated Sha'aban 11, 1419H. The last change in tariff was made through the Council of Ministers Resolution No. 170 dated Rajab 12, 1421H and was effective from Sha'aban 1, 1421 H., corresponding to October 28, 2000. The maximum rate of 26 Halala per Kilowatts/hours, has not been changed thereafter.

On 16 Shawwal 1430 H., corresponding to 5 October 2009 G, the Ministerial Cabinet passed a resolution (Resolution No. 333) authorizing the Board of Directors of the Electricity, Co-Generation Regulatory Authority upon reviewing electricity tariff for various categories of non-housing customers (commercial – industrial – governmental) to amend and approve value of the same not exceeding (24) Halala per Kilowatts/hours, so that such tariffs shall observe electrical loads in peak times.

The accompanying financial statements include Sukuk Electricity Company and Daweyyat for Communications accounts "wholly owned limited liability companies".



#### 2. Summary Of Significant Accounting Policies:

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

#### **Accounting convention:**

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

#### **Accounting estimates:**

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

#### Cash and cash equivalents:

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

#### **Electricity consumers receivables:**

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

#### Inventories:

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

#### Investments in companies' equity and other:

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

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



#### Fixed assets:

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

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

#### Impairment:

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

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

#### **Capitalization of borrowing costs:**

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

#### Derivative financial instruments and hedge accounting:

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



#### **End-of-service indemnities:**

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

#### Zakat:

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

#### Revenues:

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

#### **Expenses:**

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

#### Statutory reserve:

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

#### Foreign currency transactions:

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



#### 3. Cash in hand and at banks:

	2009 SR'000	2008 SR'000
Cash on hand	2,887	2,664
Cash at banks	994,805	578,287
Short-term deposits	2,884,980	651,146
Total	3,882,672	1,232,097

Cash in hand and cash at banks as at 31 December 2009 include one million Saudi Riyals in the form of short-term deposits that shall mature within a period of 3 months as of the date of deposit (2008: Nil).

## 4. Receivables From Electricity Consumers And Accrued Revenue, Net:

	2009 SR'000	2008 SR'000
Electricity consumers receivable		
Governmental institutions	4,022,863	8,997,728
Commercial and residential	3,095,487	2,854,451
Special customers	1,958,339	1,817,886
Saudi Aramco (Notes 27 & 29)	1,623,446	1,413,753
Electricity connection receivables	757,592	713,970
Saline Water Conversion Corporation	339,077	454,717
Total electricity consumers receivable	11,796,804	16,252,505
Less: Provision for doubtful receivables	(2,121,311)	(1,995,343)
Net electricity consumers receivable	9,675,493	14,257,162
Accrued revenues	910,725	816,685
Total	10,586,218	15,073,847

## Following is the movement of the doubtful debts during the year:

	<b>2009</b> SR*000	2008 SR'000
Balance, January 1st	1,995,343	1,878,782
Charge for the year	125,968	116,561
Balance, December 31st	2,121,311	1,995,343
5-Prepayments And Other Receivables, Net:		
	<b>2009</b> SR'000	2008 SR'000
Advance payments to contractors and suppliers	1,745,768	2,590,405
Outstanding letters of credit	19,582	125,321
Prepaid expenses	45,455	20,712
Other receivables	206,092	242,646
Total	2,016,897	2,979,084
Less: Provision for doubtful receivables	(60,789)	(81,194)
Total	1,956,108	2,897,890



#### **Inventories - Net:**

	<b>2009</b> SR'000	2008 SR'000
Generation plant materials and supplies	3,217,045	2,708,662
Distribution network materials and supplies	1,862,596	2,575,524
Transmission network materials and supplies	247,390	237,790
Fuel and oil	337,278	304,229
Others	148,914	169,726
Total	5,813,223	5,995,931
Less: Provision for slow moving inventories	(189,881)	(189,258)
	5,623,342	5,806,673

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

	2009 SR'000	2008 SR'000
Balance, January 1st	189,258	189,258
Additions during the year	623	-
Balance, December 31st	189,881	189,258

## 7- Equity Investments In Companies And Others:

	2009 SR'000	2008 SR'000
Investments accounted for under the equity method (a)	1,915,310	1,721,836
Other investment, at cost (b)	1,210	1,210
Held to maturity investments (c)	436,878	436,878
Total	2,353,398	2,159,924

## (a) Investments recorded according to equity method

	Equity		
		<b>2009</b> SR'000	2008 SR'000
Gulf Cooperation Council Interconnection Authority (a-1)	40%	1,898,649	1,703,285
Water Electricity Company (a-2)	50%	13,661	15,551
Rass Al Zoor Water and Electricity Company (a-3)	20%	1,000	1,000
Rabeq Electricity Company (a-4)	20%	2,000	2,000
Total investments accounts for under the equity method		1,915,310	1,721,836

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

The Company has participated in the capital of the Gulf Cooperation Council Interconnection Authority (hereafter referred to as "GCCIA") to enhance the electricity transmission and distribution between the member countries. The Company's participation in GCCIA amounted to USD 484,80 million, equivalent to SR 1,818 million. The financial statements of the GCCIA for the year 2009 have not been issued as of this report date.

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

The Company entered into a partnership agreement with Saline Water Conversion Corporation to establish a jointly owned limited liability company in the name of Water and Electricity Company pursuant to the Supreme Economic Council's decision No. 5/23 dated 23/3/1423, for the encouragement of the private sector in the participation in water desalination projects. The Company's share amounting to SR 15 million was paid in full and consist of 300,000 shares representing 50% of the Company's share capital. The financial statements of the investee Company for the year 2009 have not been issued as of this report date.

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

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

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

Pursuant to the Company's Board of Directors resolution No. 06/76/2008 dated 26/5/1429H, corresponding to June 3, 2008, the Company established Rabeq Electricity Company. The Company's share capital amounting to SR 2 million was paid in full and represents 100% of the investees' capital.

During the third quarter of 2009, the capital share of the company was raised from SR 2 million to SR 10 million by entering new shareholders in the company, according share of the company in the capital was decreased from 100% to only 20%.

The investee has not yet started operation, accordingly no financial statements have been issued as of this.



## b) Other investments at cost

	Equity		
		2009 SR'000	2008 SR'000
Al-Shuaiba Water and Electricity Company	8%	400	400
Al-Shuqaiq Water and Electricity Company	8%	400	400
Al-Jubail Water and Electricity Company	5%	250	250
Al-Shuaba Holding Company	8%	160	160
Total other investments, at cost		1,210	1,210
c) Held to maturity investments			
		2009 SR'000	2008 SR'000
Saudi Basic Industries Corporation Sukuk		300,000	300,000
Bin Laden Company Sukuk		50,000	50,000
SAAB Sukuk		50,000	50,000
Ras Al-Khimah Investment Authority Sukuk		36,878	36,878
Total held to maturity investments		436,878	436,878

## d) Share in net income of investees accounted for under equity method $\,$

Total

	2009 SR'000	2008 SR*000
Gulf Corporation Council Interconnection Authority	36,153	37,391
Water and Electricity Company	(1,890)	4,615
Total (Note 23)	34,263	42,006
8- Construction Work In Progress:		
	<b>2009</b> SR'000	2008 SR*000
Power generation projects	16,837,518	8,972,627
Power transmission projects	11,935,612	7,351,004
Distribution projects	3,249,981	3,514,045
General projects	191,671	266,310

Net financing cost capitalized on projects under construction during the year amounted to SR 613 million (2008: SR 634 million).

32,214,782

20,103,986



## 9- Fixed Assets, Net:

	Land SR'000	Buildings SR'000	Machinery & equipment SR'000	Capital Spare Parts SR'000	Vehicules and Heavy Equipments SR'000	Others SR'000	<b>Total</b> SR'000
			(	Thousand Saudi Riy	yals)		
Cost:							
January 1, 2009	1,445,738	13,230,385	184,034,927	2,606,684	1,115,249	9,236,362	211,669,345
Additions	87,895	757,923	16,838,348	589,406	150,330	102,333	18,526,235
Disposals	-	(1,120)	(23,909)	(64)	(119,159)	(1,991)	(146,243)
Reclassification	-	3,572	1,822,851	-	-	(1,826,423)	-
December 31, 2009	1,533,633	13,990,760	202,672,217	3,196,026	1,146,420	7,510,281	230,049,337
Accumulated depreciation:							
January 1, 2009	-	8,215,204	101,205,306	1,626,461	969,665	1,544,763	113,561,399
Charged for the year	-	506,436	6,432,434	102,918	67,522	405,621	7,514,931
Disposals	-	(1,120)	(15,060)	(64)	(119,105)	(598)	(135,947)
Reclassification	-	3,245	16,816	-	-	(20,061)	-
December 31, 2009	-	8,723,765	107,639,496	1,729,315	918,082	1,929,725	120,940,383
Net book value:							
December 31, 2009	1,533,633	5,266,995	95,032,721	1,466,711	228,338	5,580,556	109,108,954
December 31, 2008	1,445,738	5,015,181	82,829,621	980,223	145,584	7,691,599	98,107,946

The land referred to above includes plots of land with a book value of SR 151 million, the title deeds of the land are not yet transferred to the Company's name.

Net book value of fixed assets based on the Company's main activities as of December 31, 2009 are as follows:

			2009 SR'000			2008 SR'000
	Generation	Transmission	Distribution	General Property	Total	Total
Land	245,172	587,412	225,283	475,766	1,533,633	1,445,738
Buildings	2,690,366	1,496,253	139,120	941,256	5,266,995	5,015,181
Machinery & equipment	30,771,080	32,400,749	31,443,548	417,344	95,032,721	82,829,621
Capital spare parts	1,040,593	406,697	19,237	184	1,466,711	980,223
Vehicles and heavy equipment	-	-	-	228,338	228,338	145,584
Others	5,232,065	224,641	26,910	96,940	5,580,556	7,691,599
Total	39,979,276	35,115,752	31,854,098	2,159,828	109,108,954	98,107,946

Depreciation expense carried to various activities during the years ended December 31, 2009 were as follows:

	2009 SR'000	2008 SR'000
Generation depreciation expenses	2,889,023	2,567,165
Transmission depreciation expenses	2,112,025	1,920,651
Distribution depreciation expenses	2,173,974	1,962,132
General property depreciation expenses	339,909	294,505
Total	7,514,931	6,744,453



#### 10- Accounts Payable:

	<b>2009</b> SR'000	2008 SR'000
Saudi Aramco for fuel cost (Notes 27 & 29)	40,959,482	35,654,789
Transferred to Government account (10-a)	(13,295,613)	(13,295,613)
Saudi Aramco receivable for fuel cost	27,663,869	22,359,176
Saline Water Conversion Corporation for power purchased	7,528,478	6,926,483
Payables to contractors and retentions	5,603,154	3,132,577
Municipality fees	2,410,599	2,063,862
Payables to suppliers	1,004,234	1,037,904
Advances received for construction of projects	1,176,615	948,721
Other (10-b)	1,964,031	1,810,221
Total	47,350,980	38,278,944

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

(10b) Other payables include SR 1,280 (2008: SR 1,281) million which are still under reconciliation between the Company and the Government and pertains to the accounts prior to merger referred to in note (1).

#### 11- Accruals And Other Payables:

SR'000	2008 SR'000
447,944	327,424
350,291	348,999
321,629	301,996
319,688	289,260
1,439,552	1,267,679
	447,944 350,291 321,629 319,688

Unclaimed dividends include SR 95.7 million as of December 31, 2009 representing cash dividends declared by Saudi Consolidated Electricity Company prior to merge due to the shareholders (2008: SR 96.1 million).

## 12- Provision For Zakat:

The principle elements of the Zakat base are as follows:

	2009 SR'000	2008 SR'000
Adjusted net income computation:		
Income before Zakat	1,169,614	1,104,447
Add: Zakat adjustments	(6,812,078)	(7,198,442)
Adjusted net loss income	(5,642,464)	(6,093,995)
Zakat base computation:		
Share capital	41,665,938	41,665,938
Adjusted net loss	(5,642,464)	(6,093,995)
Other reserves	1,525,576	1,412,977
Retained earnings	4,813,854	4,367,104
Other provisions	6,155,570	5,989,240
Long-term loans and Sukuk	19,340,257	10,204,118
Government loan	14,938,060	14,938,060
Contractor payables	5,924,783	3,060,236
Total	88,721,574	75,543,678
Less:		
Fixed assets and construction-in-progress	(96,344,143)	(80,234,137)
Prior years depreciation differences of fixed assets	(25,014,747)	(17,894,329)
Long-term investments	(1,882,257)	(2,117,918)
Inventory of material and spare parts	(4,261,625)	(4,417,581)
Zakat Base – Negative	(38,781,198)	(29,120,287)

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



The Company has considered the temporary depreciation differences which resulted to a deferred Zakat amounting to SR 41 million approximately. The Zakat status of the former Saudi Consolidated Electricity Company was finalized up to the end of the year 1420 H. (date of the merger) by offsetting the Zakat differences due to the Zakat Department against the Government's subsidies due to the Company. However, as of the date of the accompanying financial statements, the Company has not received the final assessments from the Zakat Department to indicate the finalization of the Zakat status of the said Company.

The Company has obtained a restricted Zakat certificate up to 2008. According to the final assessment received from the DZIT for the period from April 5, 2000 (date of merger) to December 31, 2001 and for the year 2002, Zakat differences amounted to SR 13 million due to amounts claimed by the Company from Aramco for the electricity consumption on residential properties based on the residential tariff rather than the industrial tariff which Aramco has used for settlement. The management has not provided for this difference as it believes that Zakat should not be levied on revenues which have not been unrecognized and accounted for in the accounting records. The Company did not receive any response from DZIT regarding its objection against the above assessment. The final assessment for the year 2003 to 2008 has not been received till the date of issuing these financial statements.

#### 13- Long-Term Loans:

	2009 SR'000	2008 SR'000
Balance, beginning of the year	5,204,118	4,825,418
Withdrawals during the year	2,692,266	4,364,260
Payments during the year	(556,127)	(3,985,560)
Balance end of the year	7,340,257	5,204,118
Less: Current portion of long-term loans	(828,400)	(556,127)
Total	6,511,857	4,647,991

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

	<b>2009</b> SR'000	2008 SR'000
Between one and two years	828,854	828,854
Between two and three years	545,454	828,854
Between three and four years	760,736	545,454
Between four and five years	760,736	545,454
Beyond five years	3,616,077	1,899,375
Total	6,511,857	4,647,991

During the year, the Company has obtained a sharia compliant loan for SR 6 billion from a group of local banks which was totally used to repay the outstanding loans. The loan is subject to certain financial covenants, in which the Company was in compliance with as of December 31, 2009.

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

The Company has unutilized credit facilities from local bank as of December 31, 2009 amounting to SR 1 billion (2008: SR 1,2 million). These facilities are secured by promissory notes. On June 21, 2009, the Company signed an agreement for finance with the Export-Import Bank and Export Development Canada whereby the Company shall have a direct loan of SR 4,100 million to be repaid within a period of 12 years. The loan shall be utilized for procuring generation units for the projects of the Company. No amounts have be withdrawn from this loan till date.

on 13 July, 2009, the Saudi Electricity Company signed a finance agreement with the Public Investment Fund (PIF) whereby the Company shall have a direct loan of SR 2,600 million that shall be refunded during a period of 15 years. The loan shall be used to finance projects of power generation and shall mature as of December 31, 2012 on 24 semi-annul premiums. a sum of SR 1,046 million of this loan has been withdrawn as at December 31, 2009.

#### 14- Sukuk:

On July 1, 2007, the Company issued Sukuk for SR 5 billion, at par value of SR 500,000 each without discount or premium, maturing in year 2027. The Sukuk bears a rate of return based on SIBOR plus a margin per annum payable quarterly in arrears from the net income received under the Sukuk assets held by the Sukuk custodian "Electricity Sukuk Company" a wholly owned subsidiary of the Company. At the end of each five year period, the Company shall pay an amount equal to 10% of the aggregate face value of the Sukuk as bonus to the Sukuk holders. The Company has provided an undertaking to the Sukuk holders to repurchase the Sukuk from the Sukuk holders in the years 2012, 2017, 2022 in accordance with certain arrangement.

During July, 2009, the Company issued Sukuk for SR7 billion, at par value of SR 500,000 each without discount or premium, maturing in year 2029. The Sukuk has been covered in full and bears a rate of return based on SIBOR plus a margin per annum payable quarterly in arrears from the net income received under the Sukuk assets held by the Sukuk custodian "Electricity Sukuk Company" a wholly owned subsidiary of the Company. At the end of each five year period, the Company shall pay an amount equal to 10% of the aggregate face value of the Sukuk as bonus to the Sukuk holders. The Company has provided an undertaking to the Sukuk holders to repurchase the Sukuk from the Sukuk holders in the years 2014, 2019, 2024 in accordance with certain arrangement.

#### 15- End-Of-Service Indemnities:

	2009 SR'000	2008 SR'000
Provisions for end-of-service indemnities	4,309,554	4,350,845
Savings program	112,744	45,908
Total	4,422,298	4,396,753



#### 16- Derivatives:

The Company entered into interest rate hedging agreements with several banks to hedge the fluctuation in loans interest rates for an amount of SR 3,958 million as of December 31, 2009; which includes a US Dollar portion representing approximately 15% of the said par value. The hedging agreements are based on the swap between the Company and the banks of fixed rates against floating rates in accordance with the loans original amount every six months.

At year end 2009, the Saudi Electricity Company signed forward currency agreements with some local banks aiming to have a fixed price of Euro against US Dollar in order to hedge for future obligations of the Company and protect against fluctuation of exchange rates.

#### 17- Deferred Revenue - Net:

	2009 SR'000	2008 SR'000
Balance at beginning of the year	13,352,786	11,574,810
Proceeds during the year	2,633,478	2,662,560
Electrical connection tariff	(1,015,737)	(884,584)
Total	14,970,527	13,352,786

#### 18- Government Loan:

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

The minutes of the meeting held on 21/7/1422H between the Minister of Industry and Electricity and the Minister of Finance, in which the initial amount of the Government loan was determined, stated that the final settlement of Government accounts shall be subject to the reconciliation for the claims of the Company from Government entities, and the loan amount shall be adjusted accordingly. During 2005, the Company finalized the amount due which included the claims of the Company and the amounts due to the Government and the agreement was signed between the Ministry of Water and Electricity and the Minister of Finance on 15/07/1426 for the loan due to the Government amounting to SR 14,938,060.

#### 19- Share Capital:

The share capital of the Company as of December 31, 2009 amounting to SR 41,665,938,150 consists of SR 4,166,593,815 shares with a par value of SR 10 each.

	Numbers of shares	Ownership percentage
Government	3,096,175,320	74,31%
Saudi Aramco	288,630,420	6,93%
Other shareholders	781,788,075	18,76%
Total	4,166,593,815	100%

#### 20- General Reserve:

General reserve represents the balances of the reserves that were reflected in the books of the Saudi Consolidated Electricity Company at the date of the merger amounting to SR 213,668 thousand and the returns on investing the Electricity Fee Fund amounting to SR 294,976 thousand. In addition, it also includes collections of electricity fees from individuals subsequent to December 31, 2001 amounting to SR 26,133 thousand till December 31, 2009 (2008: SR 25,929 thousand). Accordingly, the balance of the general reserve amounted to SR 534,777 thousand as of December 31, 2009 (2008: SR 534,777 thousand).

## 21- Operating And Maintenance Expenses:

	2009 SR'000			2008 SR'000	
	Generation	Transmission	Distribution	Total	Total
Employees' expenses and benefits	1,086,388	729,800	1,952,589	3,768,777	3,644,572
Materials	902,427	73,951	187,109	1,163,487	1,343,246
Operation and maintenance (contractors)	405,783	92,213	223,135	721,131	844,610
Slow moving inventory provision	383	62	105	550	-
Provision for doubtful receivables	-	-	125,968	125,968	116,561
Municipality fees	-	-	347,217	347,217	324,808
Others	748,522	81,976	525,324	1,355,822	1,334,385
Total	3,143,503	978,002	3,361,447	7,482,952	7,608,182



## 22- General And Administrative Expenses:

	2009 SR'000	2008 SR'000
Employees' expenses and benefits	211,788	70,509
Materials	45,634	53,420
Others	58,120	93,136
Total	315,542	217,065

## 23- Other Income And Expenses, Net:

	2009 SR'000	2008 SR'000
Gain on disposal of fixed assets	31,096	40,784
Penalties	75,053	87,066
Share in net income of investee companies accounted under the equity method (Note 7d)	34,263	42,006
Sales of tender documents	18,405	13,434
Others, net	198,674	157,111
Total	357,491	340,401



#### 24- Earnings Per Share:

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

#### 25- Proposed Dividend And Earnings Per Share (Eps):

In compliance with the Company's by laws, a preliminary distribution of dividend of not less than 5% of paid up share capital is to be made after deducting reserves in accordance with the condition stated by Resolution 169 dated 11/8/1419, which stipulates that the Government would waive its share from the dividend distribution for a period of ten years from the date of the Company's formation provided that such dividends do not exceed 10% of the par value of the shares. If dividends exceed 10% of the par value of the shares then the Government's share shall be treated similar to the shares of the other shareholders, and the Ministerial Cabinet Decree No. 327, dated 24 Ramadan 1430H, regarding the extension of government's share in dividends that shall be distributed for another period of ten year.

The Board of Directors in its meeting held on Feb 23, 2010 G, proposed dividends for year 2009 for the public shareholders and equivalent amounting to SR 547 million in cash at SR 0.7 per share representing 7% of the par value of the shares (2008: SR 547 million). The proposed dividends for the current year requires the Company's General Assembly approval.

#### 26- Board Of Directors' Remuneration And Allowances:

Costs and allowances relating to the Board of Directors meeting and other subcommittee meetings attendance for the year amounted to SR 587 thousand (2008: SR 420 thousand).

The Board of Directors' remuneration of SR 0,8 million is due from the profit of the year 2009 after distribution of dividends of 5% to the other shareholders. The remuneration is payable after the General Assembly's approval (2008: SR 0,6 million).

#### **27- Related Party Transactions:**

SEC provides electricity power and connections to governmental agencies, ministries and Saudi Aramco. The rates charged related parties are approved by the Council of Ministers and are similar to the rates applied to other consumers, except for the rates used for Saline Water Conversion Corporation (SWCC) which are in accordance with a Government resolution, and except for the residential properties of Saudi Aramco. The Company believes that residential properties of Aramco fall under the commercial tariff while Saudi Aramco has rejected this tariff and is settling the electricity sales for all such properties based on the industrial tariff which resulted for a difference of SR 93 million for the current year and a cumulative difference of SR 1,579 million since the Company's inception to December 31, 2009 which has not been reflected in the accompanying financial statements. The resolution of the Ministerial Cabinet has been issued No. 114 dated 10 Rabea Thani 1430 settling the dispute and obliging Aramco to pay on the basis of housing and commercial tariff rather than the industrial one, provided the Electricity, Co-Generation Regulatory Authority shall define the housing and commercial facilities of Aramco and define the relevant authority that is responsible for construction, maintenance and operation of the voltage transmitters and distribution grids. Accordingly, the Company held several meetings with the Saudi Aramco Company and regulator (Electricity, Co-Generation Regulatory Authority) in order to settle this issue.



In addition, SEC purchases fuel from Aramco and electric power from Saline Water Conversion Corporation, based on prices set by Government resolutions. Also, fees are paid to the municipalities based on electricity revenues.

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

	2009 SR'000	2008 SR'000
Sales:		
Government	5,789,364	5,471,953
Saudi Aramco	1,280,774	1,206,758
Saline Water Conversion Corporation	135,134	120,084
Total	7,205,272	6,798,795
Purchase and Other:		
Saudi Aramco	6,163,959	5,741,749
Saline Water Conversion Corporation	655,232	733,631
Municipalities fees	347,217	324,808
Total	7,166,408	6,800,188

#### 28- Capital Commitments:

Capital commitments represent the value of unperformed portions of the SEC contractual agreements for the construction and installation of utility plants and other assets amounting to approximately SR 41,464 million (2008: SR 59,305 million). The scheduled time to complete the commitments is between one to three years.

#### 29- Contingent Liabilities:

(a) The total disputed amount between the Company and ARAMCO for handling crude oil fees since the Company's foundation on April 5, 2000 and up to December 31, 2009 amounted to approximately SR 2,090 million. The Company's management is of the opinion that there shall be no liability on the Company based on the Royal Decree number M/8 dated 25/7/1415 as this matter was not discussed by the Ministerial Committee that was formed by the Royal Decree referred to herein. Accordingly, the difference has not been recorded in the Company's books of account. In addition, the Saudi Aramco Company supplied light crude oil instead of heavy scale crude oil for the Company, resulting in a difference of SR 279 million which has not been recorded in the books of account.



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

- (d) The Company has a dispute with one of its power energy vendors relating to the purchase price per Kilowatt hour. The total price differences between the amount accepted by the Company and the amount billed by the vendor amounted to SR 163 million from the date of commencement of work up to December 31, 2009. The Company believes that the amount billed is overstated and there is no binding agreement, and therefore, these differences have not been booked in the Company's accounts.
- (e) The Company has issued a guarantee to one of the commercial banks against its share for financing a loan granted to one of the companies it has invested. The guarantee amounted to \$109 million (2008: \$101 million) equivalent to SR 409 million.
  - (f) The Company has outstanding letters of credit amounting to SR 200 million as of the balance sheet date (2008: SR 313 million).

Ramadan 1430H, regarding the extension of government's share in dividends that shall be distributed for another period of ten year.

(g) The Royal Commission for Jubail and Yanbu (RCJY) has a claim regarding the title transfer of some assets in the distribution grid at the industrial city of Jubail to SEC with a book value of approximately SR 800 million. The Company's management is in the process of agreeing on bases of final transfer of title in the assets including their value. Similar assets have been transferred from the Authority to the Company and have been included in the soft loan in coordination with the Ministry of Finance.

#### 30- Risk Management:

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

#### Credit risk:

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

#### Commission rate risk:

Commission rate risk is the exposure to various risks associated with the effect of fluctuations in the prevailing commission rates. The Company has no long-term assets associated with the commission rates but has liabilities associated with the commission rates as of December 31, 2009. The Company manages its loans through hedging agreement to hedge the fluctuation of interest rate, which has the economic effect to transfer the interest on loans from floating to fixed rate.



#### Liquidity risk:

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

#### **Currency risk:**

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

#### Fair value:

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.

#### 31- Comparison Figures:

Some comparison figures have been reclassified to match the current year.