

# 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 SR'000	2009 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 SR'000	2009 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 SR'000	2009 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 SR'000	2009 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 SR'000	2009 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 SR'000	2009 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 SR'000	2009 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 SR'000	2009 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

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## 5. Prepayments And Other Receivables, Net

	2010 SR'000	2009 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 SR'000	2009 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 SR'000	2009 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 SR'000	2009 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 SR'000	2009 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 SR'000	2009 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 SR'000	2009 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 SR'000	2009 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>

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## 8. Construction Work in Progress

	2010 SR'000	2009 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 SR'000	Buildings SR'000	Machinery & Equipment SR'000	Capital Spare Parts SR'000	Vehicles and Heavy Equipment SR'000	Others SR'000	Total 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 SR'000	2009 SR'000
	Generation	Transmission	Distribution	General 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 SR'000	2009 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
	<b>8,380,206</b>	<b>7,541,909</b>

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## 10. Accounts Payable

	2010 SR'000	2009 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 SR'000	2009 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 SR'000	2009 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.

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## 13. Long-Term Loans

	2010 SR'000	2009 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 SR'000	2009 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 SR'000	2009 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

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## 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 SR'000	2009 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 SR'000	2009 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 SR'000	2009 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 SR'000	2009 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 SR'000	2009 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>

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## 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 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.