الشركة السعودية للكهرباء
Saudi Electricity Company
Empowering Energy

2015

10.2% Annual Growth

500,000

New Customers

Annual Report

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لا إله إلا الله محمد رسول الله

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

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

His Royal Highness
Prince Mohammad bin Salman bin Abdul Aziz Al-Saud
Deputy Crown Prince, Second Deputy Prime Minister
Minister of Defense

Board of Directors

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

Mr. Sulaiman bin Abdullah Alkadi
Vice Chairman of the Board

Eng. Isam bin Alwan Al-Bayat
Member of the Board

Mr. Saleh bin Saad Al-Mehanna
Member of the Board

Dr. Saud bin Mohammed Al-Nemer
Member of the Board

Dr. Yousif bin Abdulaziz Al-Turki
Member of the Board

Eng. Abdulhamid bin Ahmed Al-Omair
Member of the Board

Mr. Abdulmajed Abdullah Al-Mubarak
Member of the Board

Eng. Ali Ahmed Al-Muhareb
Member of the Board

Chairman's Message

The Board of Directors pays close attention to the increasing demand for electricity, to keep up with the rapid pace of economic development, as well as sustaining the rising development that the Kingdom witnesses, according to plans that ensure the stability of the performance of the electrical system, while preserving the sustainability of supply and a high service quality. The Board of Directors adopted the first strategic plan for the company which includes the vision, the mission, and the strategic objectives for the next ten years, as well as long-term plans until 2030.

To achieve the objectives of the company, its Board of Directors is also working to provide necessary future investments, and in this regard the company was able to bring its financial resources policies to fruition by adopting an approach which enhances the required cash flows for spending on capital and operating projects, while strengthening the company's financial situation through rational policy implementation, which reduce costs and increase revenue.

The company's sustained efforts have resulted in achieving a significant increase in generation capacity, which reached 69 thousand megawatts. During 2015, infrastructure expansion projects in the areas of generation, transmission and distribution of electrical energy were awarded. Work still continues on improving distribution of electricity to new customers in cities and villages, whose number exceeded half a million customers in 2015, but we have provided all the communities with electrical service. This increased the number of towns, villages and communities serviced to about 13 thousand towns, villages and residential communities. The company did not stop at that stage, but continued implementing energy

efficiency programs to enhance electric capacity, including investing in new renewable energy sources. This new orientation will diversify sources of electricity production and increase the overall efficiency of the generation system. In addition, improvements to traditional power plants will reduce fuel consumption and help to expand private sector investment in new electrical generation projects.

The company continues its efforts to complete the National Grid Network project to connect the entire Kingdom to the 380 KV ultra-high voltage, which will enable the economical and efficient exchange of electrical power between regions. By the end of 2015, the company had completed about 97% of the project. The company is also cooperating with universities, colleges and other institutions that have an interest in scientific research and development in the fields of electricity to improve rational use of electric energy.

The Board of Directors continue efforts to strengthen the capacity and potential of the electrical system by completing the company's operational restructuring program. The first and second levels of the new organizational structure have been completed, and the remaining transition is being carefully supervised by the Board of Directors.

Looking forward to a better future, the company is working on developing its human resources and increasing productivity, considering human capital the most important tool contributing to outstanding results. They have also created a more motivated, productive and innovative work environment that has achieved significant growth in local employment rates, reaching 88.9%.

Finally, on behalf of the members of the Board of Directors, I am pleased to present our sincere thanks and gratitude to The Custodian of the Two Holy Mosques King Salman bin Abdulaziz, his Crown Prince His Royal Highness Prince Mohammed bin Nayef Bin Abdulaziz, and his Deputy Crown Prince His Royal Highness Prince Mohammad bin Salman bin Abdulaziz, may God protect them all, for the generous support provided by our government to Saudi Electricity, which enabled them to complete the necessary improvements to keep up with the increasing demand for electric power. And I would like to especially thank His Excellency the Minister of Water and Electricity Engineer Abdullah bin Abdul Rahman Al-Hussayen, for his commitment and interest in the electricity sector in general and Saudi Electricity Company in particular. Also, I extend my thanks and appreciation to the shareholders, customers of the company and its business partners from contractors, manufacturers, and suppliers, and to the leaders of the company and its employees, asking Almighty Allah to help us all to achieve what we are looking for and better serve our beloved country.

Saleh bin Hussein Al-Awajji
Chairman of the Board

Chief Executive Officer's Message

I am honored to present my sincere thanks and deepest gratitude to our prestigious government, under the wise leadership of The Custodian of the Two Holy Mosques King Salman bin Abdul Aziz, may God protect him, for the great and continuous support that he provides for the electricity sector in the Kingdom. Thanks to God and the King's support, the company implemented many projects that have contributed greatly to meeting the increasing industrial and consumer demand for electricity in the Kingdom.

In 2015, the Saudi Electricity Company continued implementing the Accelerated Strategic Transformation Program initiatives that aim to enable the company to compete with global companies in terms of cost, reliability and level of services, as well as working environment and safety. This program will turn the great challenges of demand growth into promising investment opportunities.

The company has achieved during 2015 tangible achievements in various fields, including:

- Keeping up with the growing demand for electricity, which reached 10.1 percent—one of the highest rates in the world. The company has raised the available generation capacity to more than 69 thousand megawatts, and launched 33 new projects in generation, transmission and distribution fields, with total costs reaching 29 billion SR.
- The Ministry of Water and Electricity and the Ministry of Housing have signed an agreement with the Saudi Electricity Company to deliver electric service for 29 housing projects in The Kingdom, valued at 14 billion SR. This is the first agreement for connecting electricity to housing projects worth more than 4 billion SR. Since the issuance of a Royal Decree to dedicate 14 billion SR to connect electricity to 23 housing projects, the first agreement was signed in less than two months. And it includes the first set of contracts specializing in connecting electricity for a number of Ministry of Housing project sites worth a total value of 4 billion SR for five central stations and substations. This contract involves expanding existing plants with voltage of 380 KV, establish 15 substations of voltage 132/110 KV, and lay 55 km-circular of 132/110 KV cable lines. The company continues to complete procuring and awarding procedures for the rest of the electrical infrastructure connecting to the Ministry of Housing's project sites. In the agreement, the priorities for grants have been specified for 29 grant plans in the housing projects, including 9 plans in the central region, 13 plans in the western region, and 7 plans in the eastern region. The total number of pieces in these plans (142.463) are valued at 14 billion SR.
- The company entered into transformation initiatives to produce electricity from renewable energy, thereby saving fuel and reducing emissions from electrical power plants to preserve the environment. In this regard, a contract was signed for the construction of green energy generating plant with a capacity of 605 MW, of which 50 megawatts are produced from solar energy. Another contract was signed for integrating solar power into the power plant at Waad Al-Shamal city, 50 megawatts of its 1,390 MW capacity comes from solar energy. A memorandum of understanding with the King Abdul Aziz City for Science and Technology was also signed to create an additional solar power plant in the Kingdom with a capacity of

50 megawatts, in the city of Al-Aflaj.
- The company continued to implement the fuel-saving burning program by converting from the simple cycle to combined cycle, and aims to save 200 million barrels per year of equivalent fuel by 2030.
- The company extended the transmission and distribution power networks by adding new transmission and distribution substations to better serve customers.
- Electricity has been connected to more than 500 thousand new customers across the Kingdom in 2015, while the number of customers jumped to more than 8 million in the Kingdom.
- This year, we launched a smart metering project, which aims to install 12 million electric meters.
- Some 6,000 engineers from universities and high school graduates with intermediate diplomas have been prepared and trained to work in the company. A further 4,000 high school graduates with intermediate diplomas attended training institutes in the company and the Saudization ratio reached 88.9%.
- Established the Executive Leadership Development Center that participated in training and developed more than 597 leaders within the company's integrated framework for the management of leaders and talent.
- An agreement to create the largest energy academy was signed, in cooperation with Saudi Aramco, and the King Fahd University of Petroleum and Minerals, and the Technical Vocational Training Corporation.

The company's financial achievements are:
- Maximized income by 473 million SR through re-rating consumption categories and merging meters.
- Saving 78 million SR as a result of stopping printing and distributing customer bills that valued less than 100 SR per month.
- Saved 277 million SR through raising the efficiency and productivity of the transmission network, and a further 361 million SR by improving the efficiency and productivity of the power plants.
- Saved 2.34 billion SR by switching from the use of copper to aluminum in medium voltage cables.
- Saved 349 million SR as a result of applying new methodology for collection contracts.
- Saving more than 2.4 billion SR from capital costs of the Wa'ad Al Shammal and Duba projects.

Further advances have been achieved as follows:
- Higher readiness for electrical networks and reducing cut-offs during peak load times, especially maintaining the continuity of high service reliability during religious events (Hajj and Umrah).
- The largest project in the Middle East and North Africa region is being procured (electrical connection between Saudi Arabia and the Arab Republic of Egypt) of +500 KV constant current, with an estimated cost of more than 7.5 billion SR for the project.
- Prepared all the necessary competition agreements and contracts for power generation companies, as well as visited 23 global companies to see how much they desire to invest, and solicited projects to all the relevant authorities.
- Improved the company's overall strategy of developing projects and reducing capital costs at all levels.
- Identified the company's strategy to develop new business, including the opportunity to invest in further real estate and maritime transport of fuel capacity for the west coast stations.
- Applied the strategic partnerships project with global energy transmission companies.
- Received a first place award for the best call center and launched the company's website to provide all services to customers.
- Automated all procurement and implemented a direct competition through electronic tendering system to facilitate operations, in addition to reducing movement and traveling costs.
- Applied a system of combined services and opened a unified services office.
- Provided shuttle bus service for 1,500 employees to and from power plants to reduce traffic accidents. In addition, trained 6,800 employees on first aid and 18,565 employees on defensive driving skills.
- Industrial injuries were reduced by 26%, traffic injuries by 16% and vehicle accidents by 33% during 2015, compared to 2014.

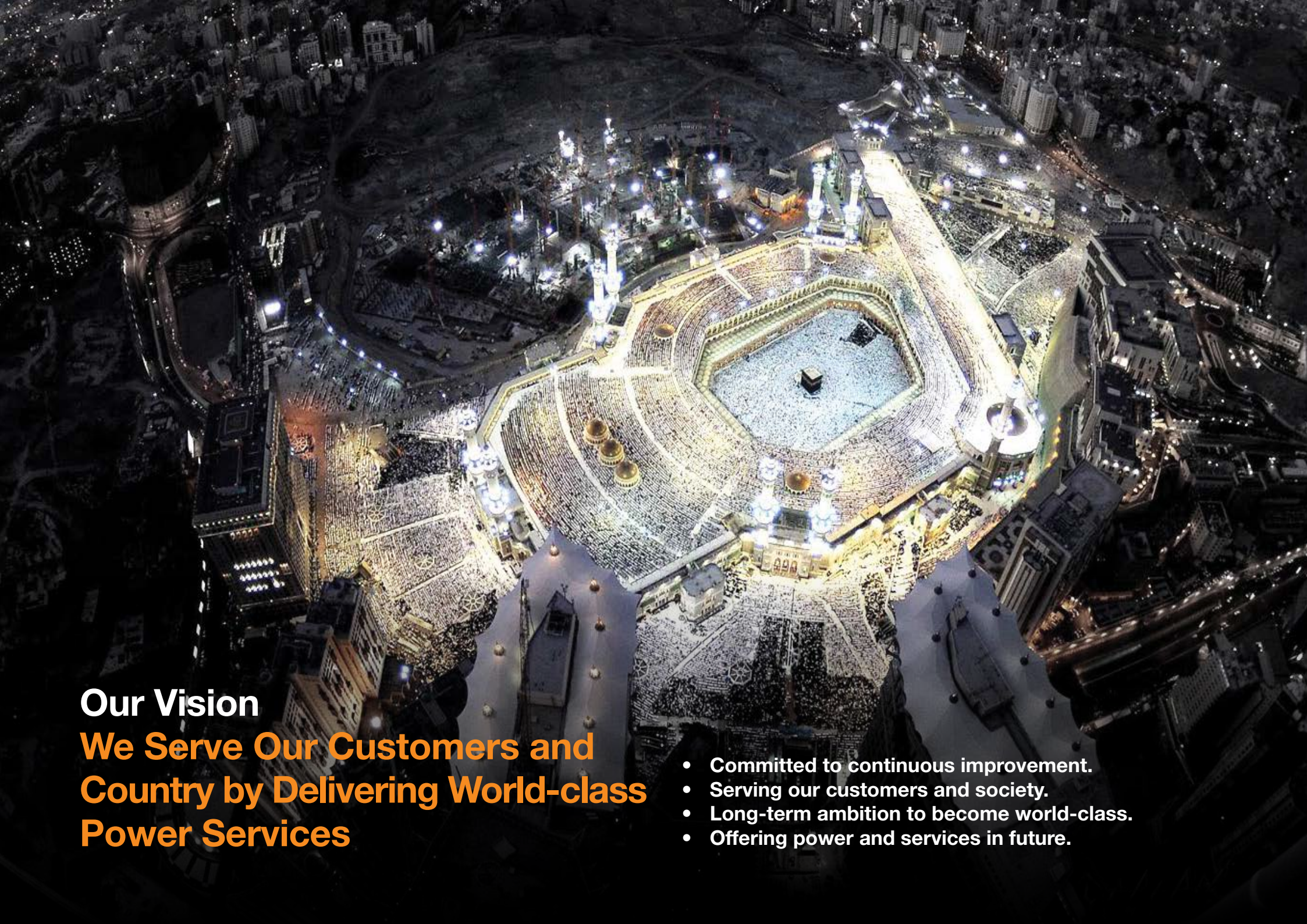
This year the financial performance results were positive, and the company has maintained its credit ratings obtained from several specialized international rating agencies. These achievements have contributed to strengthening the company's financial status locally and regionally, and provided necessary cash flows that are needed to pay for ongoing implemented projects.

During the coming year, we will go forward on a journey of change, which follows the global trend towards building a new corporate culture based on discipline, commitment, and outstanding performance.

On behalf of all the employees of the Company, I am pleased to present my sincere thanks and appreciation to His Excellency the Chairman and members of the Board for their active role in guiding and supporting the company's executive management, which contributed greatly to these achievements. I would like to present my sincere thanks and gratitude to all the company's partners, including various government agencies and the private sector, for their support to our company's plans and programs. Finally, I would like to address the employees of the company. You are responsible for every breakthrough we have accomplished this year and in previous years. Thank you for your dedication and devotion to carrying out your responsibilities. Your outstanding performance contributed greatly to keeping up with the requirements of all development sectors of electricity, which has had a positive effect on strengthening the competitive position of the Kingdom in all areas.

Ziyad bin Mohammed Alshiha
Chief Executive Officer

Strategic Directions 2030



Our Vision

We Serve Our Customers and Country by Delivering World-class Power Services

- Committed to continuous improvement.
- Serving our customers and society.
- Long-term ambition to become world-class.
- Offering power and services in future.

Our Mission

We Power the Kingdom that Energizes the World

- Saudi Arabia is a beacon of stability and prosperity in the region.
- Our holy mosques inspire the Islamic world.
- The Kingdom supplies the world with oil… and soon with power.

Our Strategic Goals

World-class operations

Efficient

- Thermal efficiency of fossil-fuel power plants
- Strongly oriented towards the use of renewable energy
- Efficient co-generation projects with customers

Reliable

- Investments in grid upgrade and improvement
- Power outage times reduced by more than 60%
- Flexible and efficient demand-side-management capacities to meet peak loads

Services and solution provider

Customer-Centric

- Customer partner in energy services (ESCO)
- Enabler of energy efficiency, diversity of power generation sources and district cooling
- Best-in-class remote customer service processes

Smart

- Focus on providing digital services to customers
- 100% smart meter penetration rolled out by 2025
- Smart and self-healing grid infrastructure

Financially sustainable

Diversified

- Expansion into non-commodity service business
- Investment in real estate assets and fiber optic network
- Explore strategic opportunities to invest in new business and other markets

International

- Energy trading with neighboring countries
- Long-term ambition to connect to Europe
- Global strategic investments

0.81%
60.72
34.82
24.76

Strategic Directions in 2030

Mission

"We power the Kingdom that energizes the world."

Vision

"We serve our customers and country by delivering world-class power services."

Goals

Efficient | Reliable | Customer-centric | Smart | Diversified | International

Strategy

Generation

- Market leader in generation
- International efficiency benchmark
- Trusted co-generation partner
- Diversified energy sources, including nuclear and renewable energy.

Transmission

- National "grid champion"
- Efficient operation of the system
- Smart grid with world-class reliability
- Interconnection with neighboring and European countries

Distribution

- The Kingdom's distribution company
- Smart and self-healing distribution grids
- A smart meter in every home enables advanced applications
- Fiber-to-home
- Leading enabler for energy distribution
- Enabler for Smart infrastructure

Customer Service

- Competition-ready
- Customer-centric
- Trusted B2B service partner
- Digital customer experience
- Leading enabler for energy efficiency
- Flexible DSM capacities

New Businesses

- Maximize asset utilization through targeted quick wins
- Leading Energy Services Company (ESCO)
- Targeted investments to diversify the sources of revenue.
- Power exporter in and beyond the region

Enables

Developing the Kingdom's brightest talents

Priority in the areas of safety, security and the environment

World-class IT services meeting highest security standards

Activation of research and development programs

Financial stability

Accelerated Strategic Transformation Program (ASTP)

Towards a world-class utility and a KSA National Champion

ASTP

Accelerated Strategic Transformation Program

In light of our expectations for the future market situation and review of external opportunities and internal performance, the company has decided to launch the largest transformation program in SEC's history as yet – the Accelerated Strategic Transformation Program (ASTP). This initiative will accelerate the company's transformation, both internally and externally, and set SEC on the path to becoming a world-class utility company

The Transformation Program achieved tangible results in many initiatives, thanks to the new strategy defined for SEC. This includes approving a new organizational structure where 66% of the milestones have been completed. More than 1,000 employees have been and are currently actively teamed up with international experts to manage the program's detailed initiatives.

Reasons for change

The Kingdom has witnessed a great economic expansion last year and SEC has managed to successfully overcome all obstacles along the way. But the dynamics are changing and the environment is becoming more challenging. **Of all the challenges, four specific areas are worth highlighting:**

- **First:** As the Saudi economy continues to grow, so do the requirements on the electricity sector. The next five years will witness nearly 30% increases to power demand in the Kingdom. We will require an unprecedented volume and speed of investment – which need to be managed carefully.

- **Second:** The electricity market structure in the Kingdom is changing with the introduction of unbundling programs. SEC will need to closely collaborate with the Electricity Cogeneration Regulatory Authority (ECRA) to identify and implement a viable future structure for the electricity sector in the Kingdom.

- **Third:** The government provides SEC with strong financial support, but SEC has the intent to rely on itself for funding future projects. We have vast fortunes and huge capabilities that must be invested in decreasing costs of our operations and increasing work productivity – while keeping our safety and quality standards.

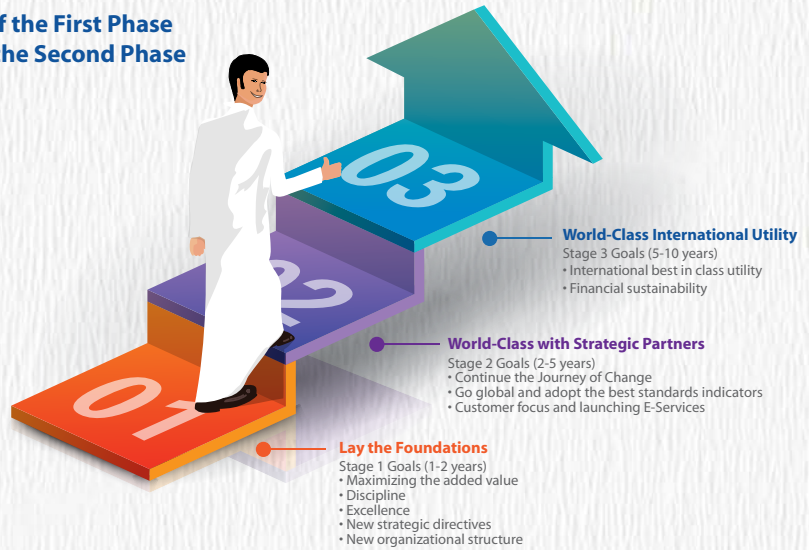
- **Fourth:** In light of the strong competition we face, there are challenges in the area of staff retention. Attracting talented employees and convincing them to stay with SEC is becoming increasingly competitive as other employers hunt for talent in the Kingdom.

While there is a clear need for SEC to overcome these obstacles, they also represent an opportunity to change SEC and turn it into a world-class utility that competes on a global scale.

Transformation path

The need for change has become abundantly clear, so we must face the challenges of the future head on and with a detailed plan, if we are to overcome them and turn SEC into a world-class utility that competes on a global scale. Reaching this ambition will be a long journey, and will be realized in three major stages:

In the first stage:



This is a "building the foundation" stage, by improving the company's performance in all fields, maximizing the added value, and renewing the commitment to excellence in all of our business. Most of the requirements of this phase were completed by the end of 2015. We intend to finalize this stage during 2016.

In the second stage:

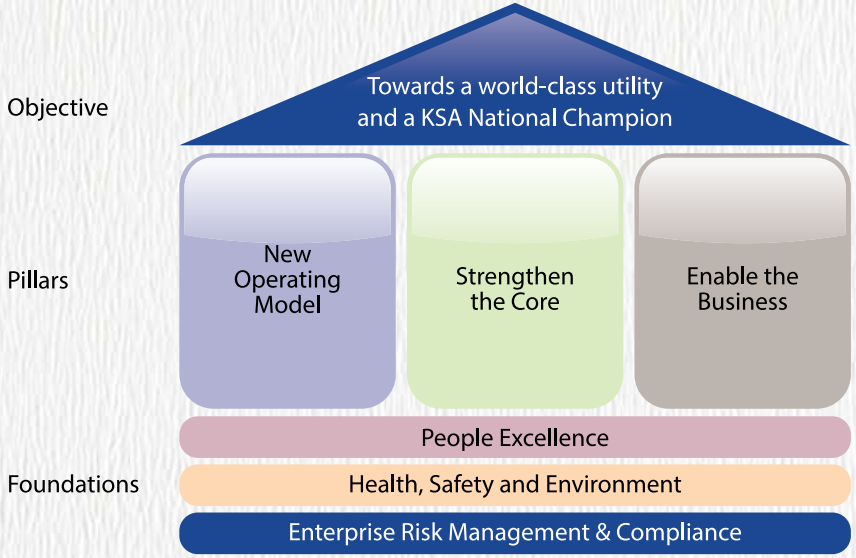
Will start in early 2016. With a newly structured ASTP 2.0, we will raise the bar and improve SEC's performance to the level of world-class benchmarks while going global as we explore strategic partnerships. Within the next five years, we aim to be a champion in operational performance and productivity, significantly surpassing regional and even many global peers. We desire to become truly customer centric and offer smarter, more flexible solutions.

In the third stage:

SEC will maintain world-class standards across the company's operations. This includes achieving financial sustainability, which will ensure that we will be the best and most reasonably priced service provider in the Kingdom.

Accelerated Strategic Transformation Program (ASTP)

The ASTP in its current structure focuses on building the foundation for future growth and achieving its long-term vision towards world-class service through six pillars:



1. New Operating Model:
We will help shape the new world of the Saudi electricity sector by adjusting our operating model and setup for the betterment of both KSA and SEC, while complying with all requirements of ECRA, yet still removing bureaucratic hurdles and roadblocks.

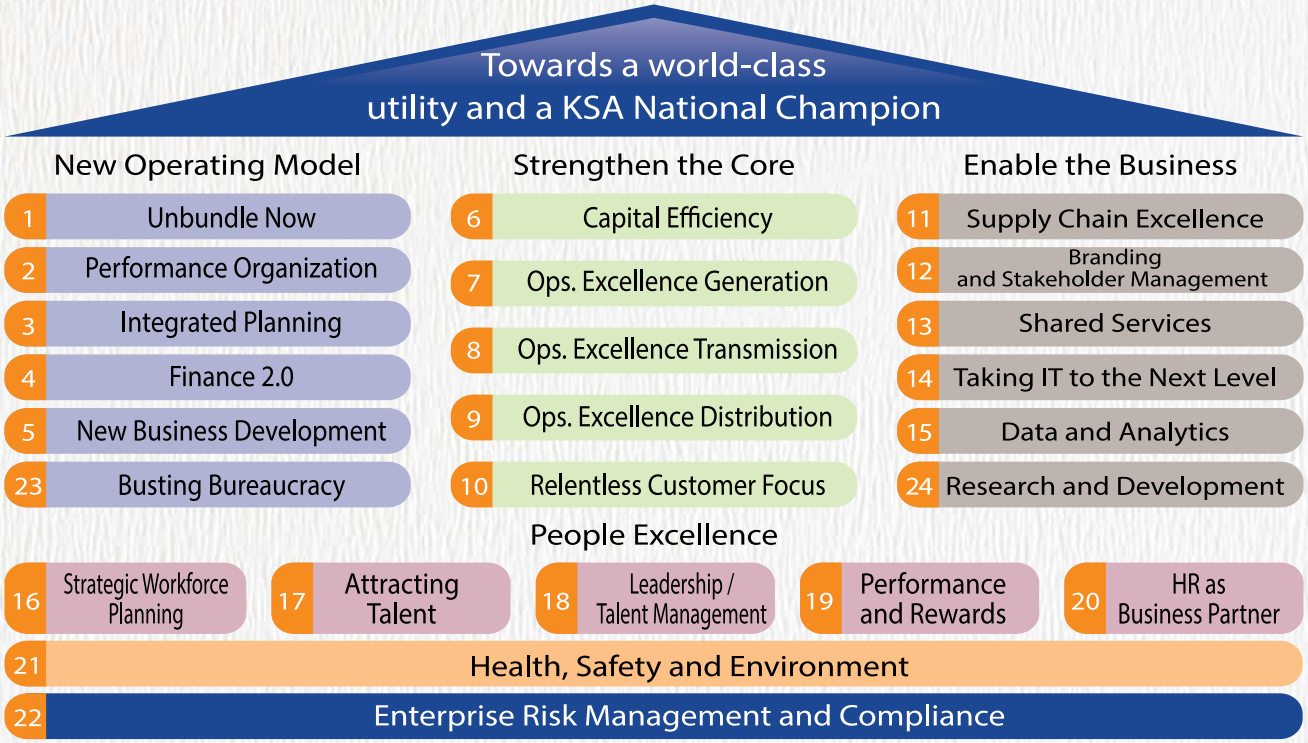
2. Strengthen the Core:
We will continue striving to increase the effectiveness and efficiency of our core business operations in generation, transmission and distribution, and optimizing our capital spending, while relentlessly focusing on better serving our customers.

3. Enable the Main Business:
We will achieve excellence in our support functions, especially the backbone and business platforms of SEC: Shared Services, Supply Chain, Information Technology, Research and Development, and Branding. All with the goal of building a brand that is respected by everyone.

4. People Excellence:
SEC's staff really run the engine of excellence. We are doing our utmost to become the employer of choice in KSA with major step-changes in planning, identifying, attracting, developing and retaining the best talent and leadership.

5. Health, Safety and Environment:
We keep improving our care for SEC's personnel and suppliers' health and safety, and we lead the country in environmental protection.

6. Enterprise Risk Management:
We seek to identify risks that may be faced by the company through developing a holistic view of risk across the organization, understanding related trade-offs and systematically deploying mitigation measures. Moreover, we ensure strict risk management compliance across SEC by enforcing our code of conduct.



Program initiatives:

To ensure control over the transformation, the ASTP Office is providing support in scoping initiatives and aligning them within ASTP. This helps resolve roadblocks, reach management decisions, challenges initiatives, measures impacts through KPIs and supports and synchronizes communication.

The program was set up, pillars were formed, initiatives defined, senior leaders appointed and the program office (ASTPO) was established, and a top-notch group of leaders to lead the initiatives and draw plans and objectives for them were selected and appointed.

The program transitioned into implementation last year when the initiatives were launched. We should start to see initial benefits this year and we aim to achieve significant savings reaching more than 19 billion SAR by the end of 2020. Improving the efficiency of power plants alone will save 238 million barrels of equivalent fuel during the next five years (2016-2020).

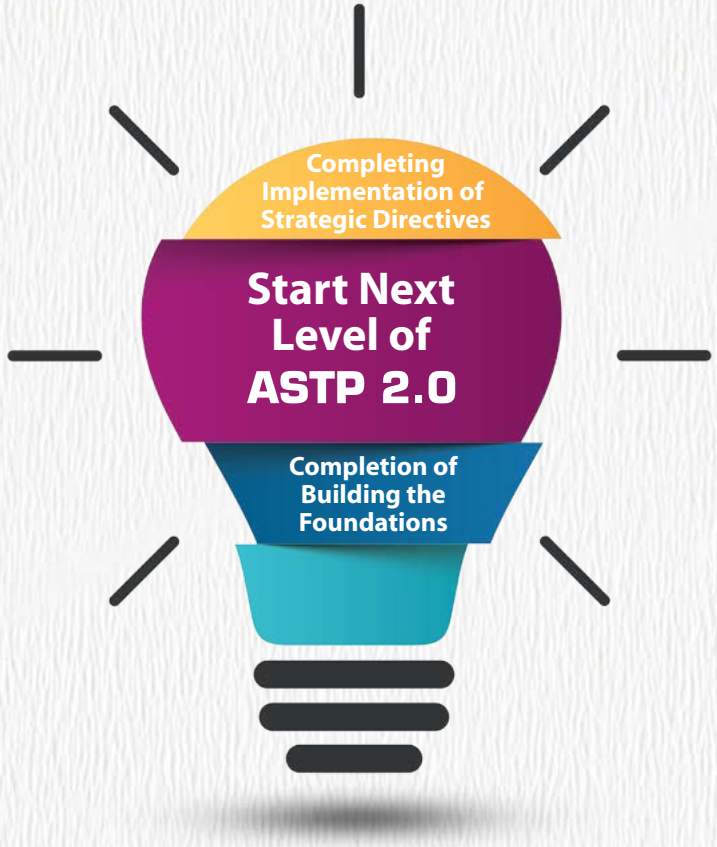
Some goals have been achieved already. The most notable are:

- Preparing all the necessary competition agreements and contracts for power generation companies.
- Preparing the first strategy for the company, including the vision, mission, strategic goals, and details for a long-term plan until 2030.
- Receiving the first place award for the best call center and launching the company's website to provide all services to subscribers.
- Automating all procurement and tendering system for direct competition electronically (online), in order to facilitate operations in addition to movement and traveling costs.
- Providing shuttle bus service for 1,500 employees to and from power plants to reduce traffic accidents. In addition, training 6,800 employees on first aid and 12,500 employees on defensive driving skills.
- Launching of Executive Leadership Development Center, as well as training and developing more than 597 company leaders within the framework of the integrated program for managing leaders and talents.

Our Target is to **SAVE** **19** Billion of Company's Operational & Capital Costs Within 5 Years

SAR

Improve Power Plant Efficiency to Save Fuel in the Quantity of **2338** Million barrels of fuel equivalent Within 5 years



Next Steps:

During the upcoming period, we will continue our journey of change and we will be oriented towards becoming a world-class utility. During 2016, we expect changes in SEC's organizational structure and the establishment of a new culture based on SEC's strategic directions, namely:

1. World class operations. Efficient and reliable.
2. Solutions and services provider. Smart and customer-centric.
3. Financial sustainability. Diversified and international.

Introduction:

The Board of Directors has the pleasure to submit to our shareholders the annual report on the performance of the company and financial results for the financial period ending 31/12/2015. These results were achieved by the company's efforts to upgrade performance and achieve the goals of its shareholders, providing customers and clients more confidence in the company.
This report includes a brief summary of company performance, discusses the strategic situation and the steps adopted by the company towards social responsibility, research developments, and programs designed for employees. The report also reflects the final audited statements of the company, the accompanying explanatory notes, and the external auditor's report for the year 2015.

This report also includes a summary of the applied corporate governance and related disclosures such as the structure, benefits, missions of the board of directors, the structure and missions of its committees, and the benefits for its senior executives.
The report was prepared as per the requirements of the Capital Market Authority stipulated in Article 43 of the regulations.

1- Description of the main activities of the company:

The main activities of the company include the generation, transmission, and distribution of electric power. The company is considered the main producer of electric power across the Kingdom of Saudi Arabia, and it provides its services to different governmental, industrial, agricultural, commercial, and residential sectors. Its organizational structure involves mainly electrical organizational activities (business units) working in the generation, transmission, distribution and customer services fields, as well as other supporting activities.

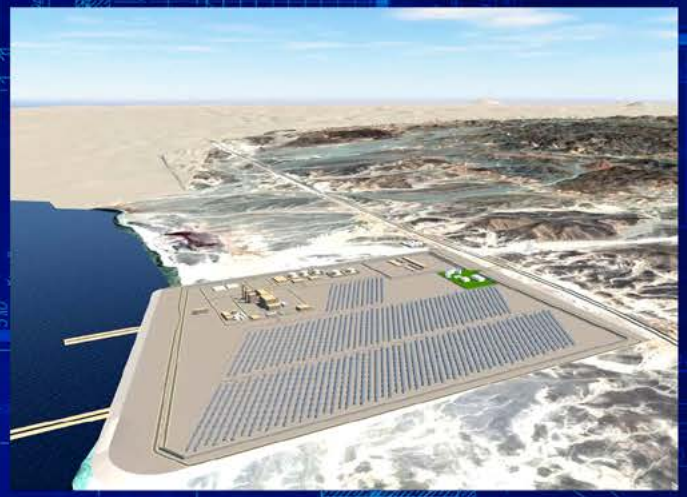
The following is a description of the main activities of the company and the influence of each activity on its works:
The main activities of the company are represented in the generation, transmission, and distribution of electric power in addition to the customer services. The company is developing intra-selling prices between generation, transmission, and distribution and customer services. The Company currently generates revenues from the sale of electricity to end customers as per the applicable official tariff in the state.
The distribution and customer services activities, along with the financial department, collect revenues from the sale of electricity to different types of customers. The following table shows the fixed assets of each activity as a percentage of the total fixed assets of the company and the percentage of the operating expenses of each activity as a percentage of the total operational expenses of the company:

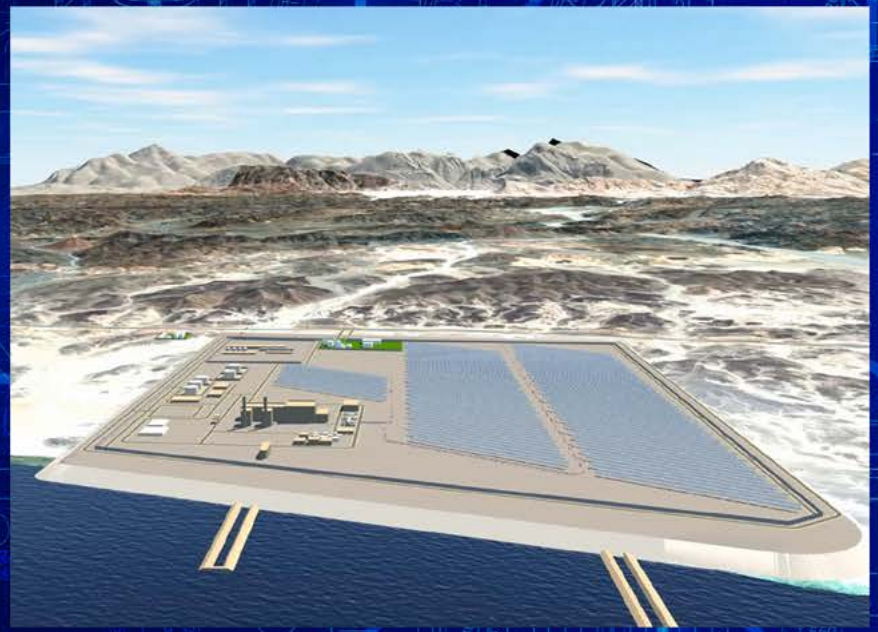
Activity	% Fixed assets	% Operational expenses
Generation	40%	42%
National Grid S.A. Company	31%	32%
Distribution and Customer Services	27%	24%
Organizational support activities	2%	2%
Total	100%	100%

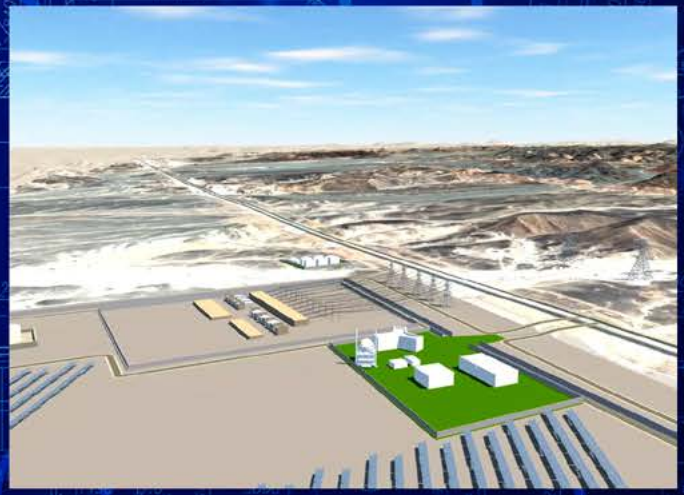
Electric Power Generation

Available generation capacities reached more than 69,000 MW with a growth rate of 10.2%

The maximum peak load was recorded on 30th August 2015 at 1:00 pm







Electric Power Generation Activity

The following is a description of the nature of the activities and their main achievements:

Power generation is considered the Company's principal activity. Its mission is to provide electricity and enough generating capacity using highly reliable and high readiness production techniques to meet the growing demand for electricity. The company achieves this with an optimum use of resources and investing all capabilities towards reaching its main purpose, i.e. decreasing the cost of electrical power production. The transmitted power from generation stations is regarded as the main source of revenue from sales of electricity, equal to 62% of the total transmitted power on all grids across the Kingdom for different customers.

The generation activity aims to establish new generation stations, operating and maintaining existing generation stations, and reinforcing capacities to meet the growing demand for electrical power. In this respect, in 2015, the generation activity accomplished many notable achievements, including the addition and operation of 2,076 MW, a 4.3 % increase to total capacities over the end of 2014. The added capacities are as follows:

The Central sector:

- Eight gas generation units in Power Plant 12 (171.7 MW capacity each), with a total added capacity of 1,374 MW.

The Eastern sector:

- Two gas generation units in Arar (77 MW capacity each) with a total added capacity of 154 MW.

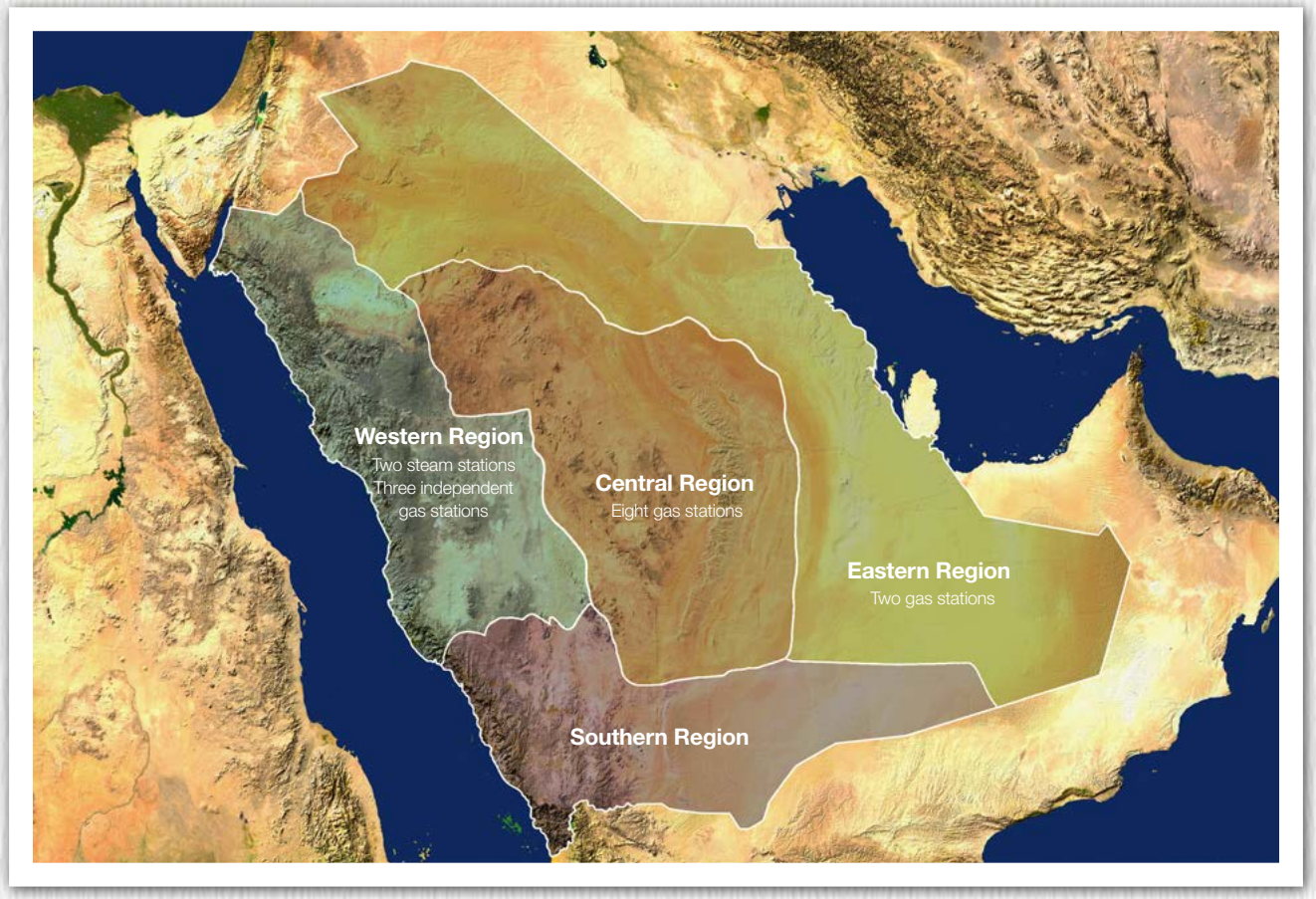
The Western sector:

- Two steam generation units in the Shoaiba Combined Cycle Power Plant (228 MW capacity each), with a total added capacity of 456 MW.
- Three independent gas generating mobile units in Duba and Madina 1 Power Plants, with a total added capacity of 52 MW.

The following generation projects were also completed:

- **The tenth steam station received three steam generating units with a capacity of 345.3 MW.**
- **Rafha station:** a gas station with a capacity of 77.5 MW.

The distribution of the added capacity at the end of 2015



نقل الكهرباء

National Grid SA

Additional overhead networks and ground networks at a length of 5,389 km-circular

57 New transmission substations

The National Grid SA

This is a company fully owned by the Saudi Electricity Company. It was established on January 1, 2012, with a structure that includes six main activities: operations and control, maintenance, planning, engineering, projects, and technical services, in addition to two central departments.

The company is responsible for: operating and maintaining the electrical grid of 110/380 KV, continuing its reliability and stability to ensure transmission of electric power to load centers across the Kingdom, and to enhance the electric grid with transmission substations and high voltage cable networks of 110/132 KV through different stages, including the operations of planning, designing, implementing projects, and ensuring the development of programs and operations in different sectors.

The company's mission is to run the electrical system, transmit electrical power from its production sites to consumption centers, study the expected loads, develop plans to enhance the electrical system to meet the expected demand, communicate with major customers and determine their needs and the best way to supply them with electricity. The company also cooperates with independent producers to sign purchase and energy exchange agreements and to represent SEC as a prime buyer of independent producers.

The plans and objectives of the company are dedicated to promoting the electricity supply, reducing costs, and completing the national electric network. Based on these plans, throughout 2015 the company accomplished several projects as well as enhanced ongoing projects aimed at improving and developing the transmission networks, as well as increasing their efficiency. Below is a review of the most significant achievements of the National Grid SA:

Transmission Networks

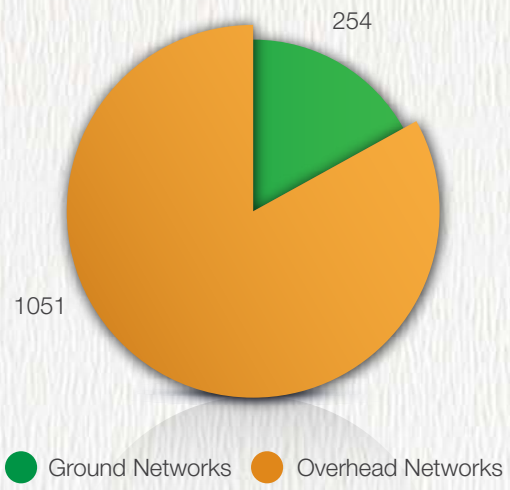
Added overhead networks and ground cables to the existing networks, measuring about 5,389 km-circular, which represents nine percent of the existing networks by the end of 2014 as follows:

- Ultra High Voltage 230/380 KV: adding 3,602 km-circular, of which 142 km-circular are underground cable networks and 3,460 km-circular are overhead networks.
- High Voltage 132 KV: adding 1,305 km-circular, of which 254 km-circular are underground cable networks and 1,051 km-circular are overhead networks.
- High Voltage 115 KV: adding 136 km-circular, of which 57 km-circular are underground cable networks and 79 km-circular are overhead networks.
- High Voltage 110 KV: adding 346 km-circular, of which 168 km-circular are underground cable networks and 178 km-circular are overhead networks.

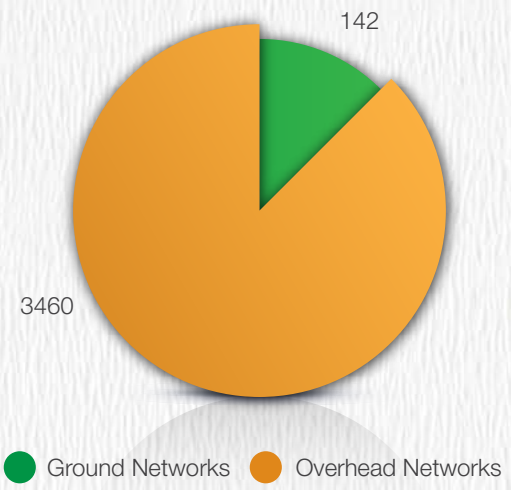
Transmission Substations

- Established 57 new transmission substations with 205 new transformers with a total capacity of 40,111 MVA.
- Enhanced 16 substations by adding 16 transformers with a net capacity of 2,696 MVA and replacing 3 transformers with a total capacity of 131 MVA.
- Added 3,186 substations, of which 363 substations for voltage 230 KV or more and 2,823 substations for voltage 132 KV or less.
- Enhanced existing substations with capacitors.

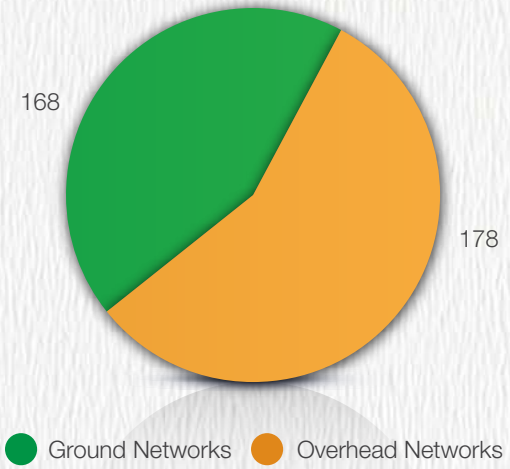
High Voltage 132 KV - adding 1,305 km-circular



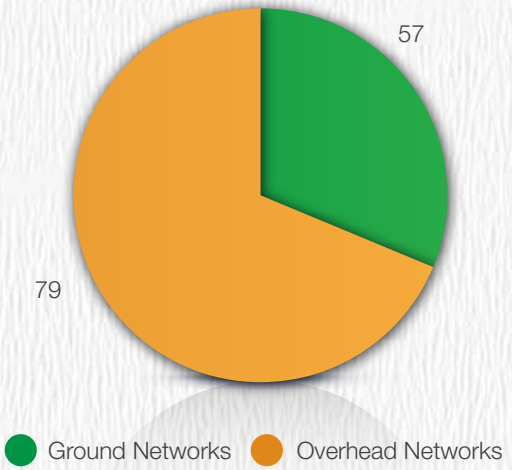
Ultra High Voltage 380/230 KV - adding 3,602 km-circular



High Voltage 110 KV - adding 346 km-circular



High Voltage 115 KV - adding 136 km-circular



Distribution and Customer Services

500,000 New Customers

Electricity App
ALKAHRABA
ALKAHRABA
Social Media Accounts
@ALKAHRABA
Website
www.se.com.sa
Social Media Accounts
/ALKAHRABA
SMS service
STC 7555
Zain 715555
Mobily 6555
sms
Electricity Friend Service
@alkahrabaFriend
Emergency Call Center
933
You
Tube
Social Media Accounts
/ALKAHRABA
E-MAIL
Email
920001100@se.com.sa
Customer Services Call Center
920001100

Distribution and Customer Services

One of our prime activities is to receive and distribute power from transmission networks and supply customers with electricity safely and reliably, while developing the quality of the supplied service. The customer service center issues and distributes electrical power consumption bills to customers, and implements annual plans and programs for the supply of high-quality services using cutting-edge techniques and the facilitation of the procedures for having such service.

Distribution is based on various core points, objectives, and performance standards such as: increasing the level of electricity service connection to new customers in the cities, towns, and residential communities, enhancing distribution networks to ensure meeting the expected supply, enhancing power efficiency, facilitating the procedures for electricity service connection, developing customer services centers, applying cutting-edge techniques, enforcing skills of the employees in respect of calculating consumption and bills reading for customers, and enhancing the efficiency and performance of first-line employees.

The activity centers of Distribution and Customer Services have fulfilled many goals in 2015, including:

- Added new transformers for 69 KV and less, measuring 31,633 transformers with a growth rate of 7.4 percent of the total distribution transformers at the end of 2014, with a total capacity of 17,300 MVA, representing 8.5 percent of the total capacity at the end of 2014.
- Added overhead networks and underground networks for 69 KV and less, with a length of 42,170 km-circular and a growth rate of 8.5 percent of the total networks at the end of 2014.
- Supplied electricity service to 515,000 new customers.
- Supplied electricity service to 149 new residential communities.

515,000
New customers

42,170
KM-Circular of overhead and ground networks

149
New residential communities

17,300
MVA: the total capacity of distribution transformers

31,633
New transformers

The Financial Activities

The Financial Activities

The safety of the company's strategic orientations, the success of its administrative and operational policies, and its management effectiveness have enabled the company to obtain credit ratings from specialized international rating agencies. These positive ratings have supported the company in its efforts to implement new financial policies that aim to strengthen SEC's financial standing and furnish the necessary cash flow to spend on its future projects.

The Credit rating:

SEC's credit Rating: is the highest among all competitors in the Kingdom according to the rating agencies (Standard & Poor's(S&P), Moody's, and Fitch Group) (A1, AA-, A+), respectively, which is partly linked to the sovereign credit rating of the Kingdom.

In the quest to find new sources of funding and diversify its already existing investors for major projects, the company has pursued efforts to plan and support new investments in order to meet the growing demand for electricity, due to the requirements stemming from the enormous economic and development projects in the Kingdom.

Therefore, the following agreements have been concluded:

Revolving Facilities Agreement:
On 16/12/2015, corresponding to 05/03/1437 AH, the company concluded - in Riyadh- a revolving credit facilities agreement in Saudi Riyal. The signing of this agreement has been reached with the National Commercial Bank and Samba Financial Group, in the amount of 2,500 million Saudi riyals without any guarantees from the company, with a tenure of three years and within a plan announced by the company in August 2015. This plan aims at obtaining revolving credit facilities split into a Saudi Riyal tranche and a US Dollar tranche, in order to fund some of the company's capital projects, within the framework of its programs to enhance the electrical system and meet the growing demand for electricity.

Activating the memorandum of understanding with The Export–Import Bank of Korea K-EXIM and signing a framework agreement under which the company would access up to 3 billion USD.
SEC and The Export –Import Bank of Korea K-EXIM signed on 7/12/2015, in Seoul City/South Korea, corresponding to 25/2/1437 AH, a framework agreement under which the company would access up to 3 billion USD in credit facilities. This agreement came as a result of a memorandum of understanding concluded previously in March 2015.

The Financial Separation of the Company's Activities:

In preparation for future steps in restructuring the company's activities, many measures have been taken in the field of the financial separation of the company's activities, including the preparation of the financial system in a way that is in line with converting the company's main activities into affiliated companies.

Human Resources

The Nation's Wealth

Human Resources Activities

The company considers human resources crucial to bringing about the company's desired growth and in upgrading our production efficiency. Hence, it adopted programs aimed at staff development and selection, as well as mapping out their career paths, including improving and ensuring their technical competence to take on all positions in the company.

Within these continuing efforts to develop human resources and to enhance staff's competencies to achieve greater performance efficiency, in 2015, 2,752 graduates of the training institutes were welcomed to the company, and 377 university graduates were employed and enrolled in the professional development program.

Consequently, in the field of jobs localization, the company has attained a leading position among those working in the Kingdom. By the end of 2015, local labor reached 88.9 percent of the total 37,769 employees, thus qualifying the company to earn considerable appreciation awards at the local and regional levels for its prominent efforts in the fields of qualification, training, and job localization

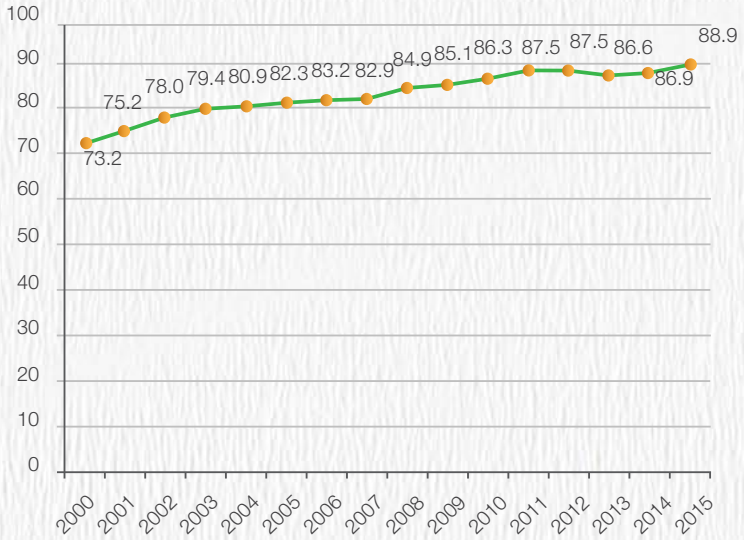
In the field of training and developing the skills and capabilities of human resources staff in 2015, the company implemented new programs, which included staff enrollment in internal and external courses. The total number of participants in these short developmental courses reached 91,776.

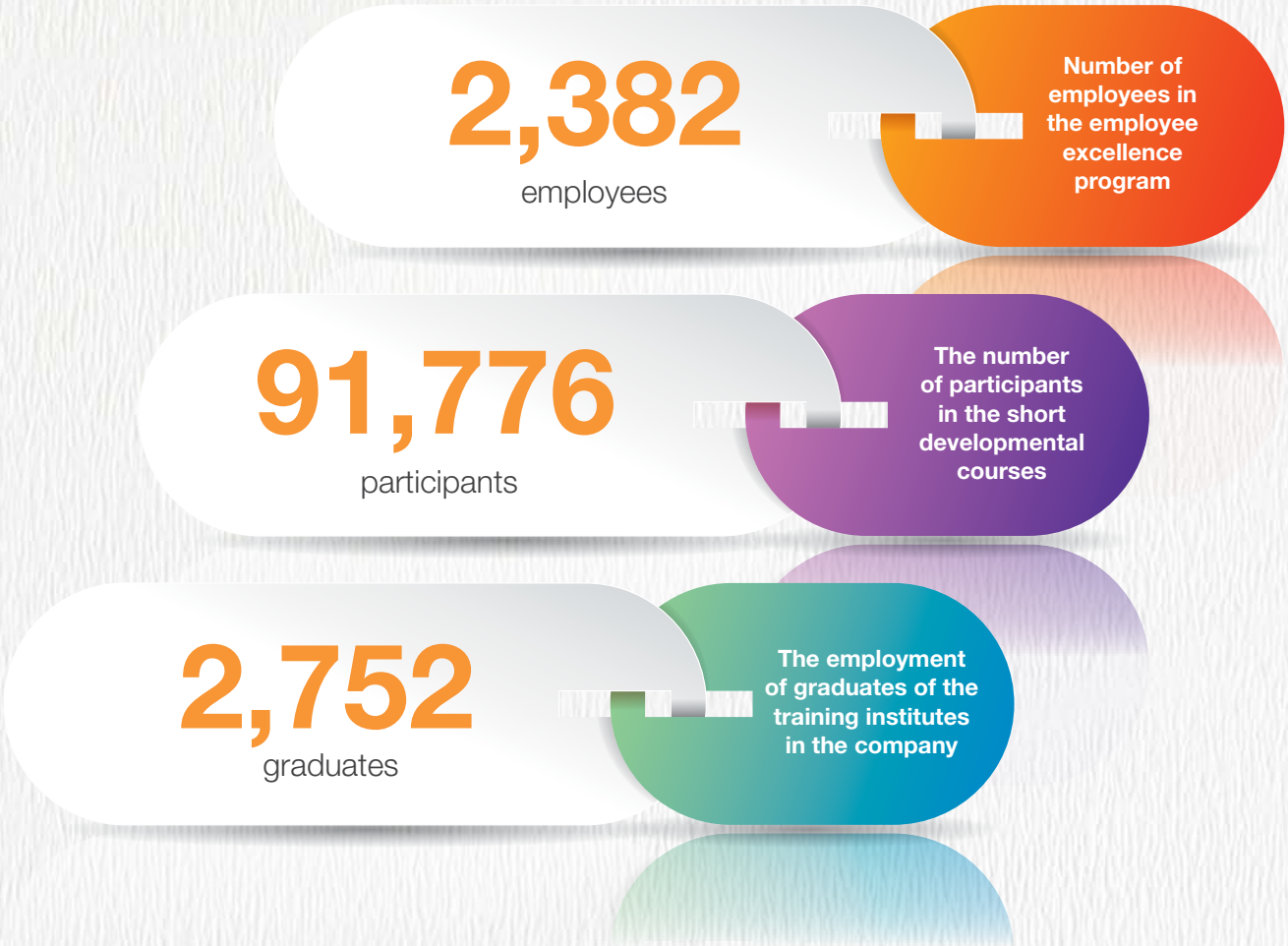
Furthermore, various training programs continued through the online self-education application "I-Learn." By the end of 2015, the number of participants in these programs reached 2,344, which benefited 1,365 employees, in addition to measurement centers in which 248 leading employees participated in order to design appropriate and effective personal developmental plans.

In the promising leaders program, which seeks to prepare employees who have exceptional leadership skills so that they may fill leading positions in the company, there were 165 participants. In this context, the company continued to apply quality programs and the number of teams formed during the year reached 208.

In the field of employees' innovation and excellence, 2,463 proposals were submitted during 2015. Within the excellence program, the number of Employees of the Month was 2,382, and the number of Employees of the Year were 523. Through the students' summer training program, 292 students completed their summer training in the company, and 900 students completed the cooperative training program.

The Percentage of Localization in the Saudi Electricity Company From 2000 to 2015




2,382
employees
Number of employees in the employee excellence program
91,776
participants
The number of participants in the short developmental courses
2,752
graduates
The employment of graduates of the training institutes in the company

Investing in Electricity Generation Projects

Increase the investment in solar energy
(Green Duba, Wa'ad Alshamal, Aflaj)
Annually provide two hundred million barrels of equivalent fuel by 2030

Program for Private Sector Participation in Electricity Projects

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

There are other independent production projects under construction, as follows:

- The Qurayyah project for independent production in the Eastern Province with a capacity of 3,927 MW and considered the largest independent power production plant in the world having combined-cycle system run by natural gas. A contract was signed on 21/9/2011 with a consortium of companies, namely ACWA Power International, Samsung C&T Corporation, and MENA fund to finance the infrastructure projects. Production has begun in the third quarter of 2014. It is expected to enter commercial operation in the first quarter of 2016, God willing, by 100%.
- The Rabigh-2 project in Mecca has a capacity of 2,060 MW using a combined-cycle system run by natural gas. A contract was signed at the end of 2013 with a consortium of companies, namely ACWA Power International and Samsung C&T Corporation. It is expected to start commercial operation in June 2017.
- Saudi Electricity Company has formed a partnership with Saudi Aramco to develop the Al-Fadhili station as a joint venture co-generation power project (electricity and steam) with the capability of 1,400-1,500 MW. The project is currently at the proposal phase and is scheduled to enter the contract signing phase with the winning coalition during the second quarter of 2016. The station should be ready for commercial operation on 31 October 2019.

The following table shows the draft of the Program for Private Sector Participation in the Electricity Projects (IPP). The Saudi Electricity Company buys the complete production of these electricity projects.:

Project Name	Production Capacity (MW)	Private sector investment in the project capital	Date of completion
Qurayyah-1 project for independent production (project is in financial closure phase)	3,927	50%	2016/ 03
Rabigh-2 project for independent production	2,060	50%	06/2017
Fadhili Project for dual production in cooperation with Saudi Aramco (Under construction)	1,400-1,500	40%	10/2019
Jazan project for dual production in cooperation with Saudi Aramco	3,800	20%	Under construction

Shareholders Service

-25.35
91.22
-37.25
57.11
37.22
10%
70.25
32%
55.22

Shareholders Service

The company has committed to the rules and regulations of the Capital Market Authority and has complied with the principles of disclosure and transparency provided in Article 43 of the listing and registration rules and Corporate Governance Regulations issued by the Capital Market Authority. The company has worked to fulfill the aspirations of the shareholders, to promote their rights, and to facilitate their access to information. It also attaches great importance to enhancing the disclosure quality of financial statements, important developments and essential changes, with a focus on timely delivery to shareholders.

The company has made continuous efforts to enhance effective ways of communication with its shareholders and to motivate them to deposit the certificates in their possession in the portfolios, thus facilitating smooth profit deposits into their accounts, which are linked to their portfolios in different banks during the first day of profits disbursement.
It is always ideal to effectively communicate with concerned authorities at Capital Market and to exchange relevant information with the company's investors and financial and investment institutions.

- Complying with the principles of disclosure and transparency
- Fulfilling the aspirations of the shareholders
- Facilitating access to information
- Enhancing the quality of disclosures of the financial statements

Research and Development

Research and Development

The research and development sector seeks to achieve multiple benefits for the core activities of the company and achieve added value for the company's services. They also seek to build and develop local scientific qualifications and expertise through closer cooperation with universities. These competencies are specialized in research and development to serve the company, and the use of international experts to know the latest global developments and experiments discovered and then adopted locally.

The following are some of the company objectives:

In the field of power generation: Improving the efficiency of fuel usage, extending the useful life of assets and their spare parts, maximizing the production capacities of these assets, preserving the environment, and supporting renewable energy sources.

In the field of transmission: Extending the useful life of existing assets, increasing capacity and improving the performance of these assets, rationalizing the maintenance system for these assets, increasing the reliability and stability of the electrical system, integrating renewable energy with the power grid while focusing on its impact on the stability and reliability of the grid, and creating innovative solutions for meeting electricity needs.

In the field of distribution: Maximizing the efficient use of assets, developing bill preparation and collection processes, achieving a minimum rate of energy loss and reducing the ultimate rate by following international standards, improving the quality of electric service, further develop controlling and monitoring functions by automation in the distribution network, and using smart meters and networks.

In the field of electrical loads: Rationalizing energy use, improving the efficiency of energy use, improving the expected growth loads, and developing and implementing a program to stimulate the demand of loads management to achieve the optimum utilization of existing assets. In particular: of load management to programs, transmission loads programs, distributed generation programs, and others.

The progress of the research and development stages:

First stage: The programs that have been implemented:

This stage began after the founding of the company, specifically in April 2002. Research that has been implemented up until 2012 has reached approximately 42 projects, which cost more than 60 million SR, and these projects included the following:

Improved stability and reliability of the electrical system and enhanced its potential capacity. Improved handling for ineffective reactive power and the modern technologies that control it.

Improved endurance of equipment, solved operational problems and improved turbine performance, including improving the hot path components for turbine maintenance.

Automated the distribution network. Improved the electric cables, electrical transformers, the transmission and distribution lines performance, and the services of passing and selling power; managing and controlling the loads, developing the grounding in the stations, developing gas-insulated circuit breakers testing. Reduced losses in the distribution network, the fuel and its properties, the effect of electromagnetic fields on humans and its measure near the energy sources. Improved equipment compatibility with international standards, including renewable energy (especially wind energy), and reduced environmental impact of power factories.

This stage also included the creation of three scientific engineering chairs in three Saudi universities worth a total 15 million SR (5 million SR each), carried out by scientific institutes in the Kingdom in cooperation with the company:

A. The load management chair, improving the efficiency of using electric power in the Kingdom. It was carried out by King Abdul Aziz University (KAU).
B. The reliability and security of the electrical system chair, which was carried out by King Saud University (KSU).
C. The protection and control chair, which was carried out by King Fahd University of Petroleum and Minerals (KFUPM).

Second stage: The ongoing programs:

This stage began in the second half of 2012, and it is characterized by the creation of a special management team for research and development in the company.

During this stage, 47 proposals for research projects have been studied, which was required for specific parties in the company, of which ten were selected for signing and are currently being implemented as follows:

No.	Project Name	Project Value Project Name (SR)	Research Implementing Agency
1	Voltage selection, and the best technology for the expansion of the electrical transmission network (comparative study between 765 KV and 380 KV).	3,688,680.00	King Fahd University
2	Assessment of the impacts of steel industrial furnaces on SEC's electrical networks, especially when located near generating stations; practical and cost-effective solutions to mitigate these impacts.	1,614,572.00	King Fahd University
3	Assessment of the reliability of electric supply in five major Saudi Arabian cities, recommending techno-economic feasible options to enhance it.	1,152,941.00	King Saud University
4	The effect of industrial load on the distribution network.	1,576,471.00	King Saud University
5	The non-tripping of fallen long overhead line feeder	1,647,059.00	King Saud University
6	Cable condition assessment using partial discharge techniques to predict cable faults.	1,764,705.88	King Saud University
7	Failure of power transformer due to corrosive sulfur.	2,159,620.00	King Fahd University

8	Advanced Metering Infrastructure (AMI).	1,054,591.00	King Fahd University
9	Effect of the units' partial load on the hot parts, and the harmful emissions on the environment	835,294	King Saud University
10	Effect of temperature on the electronic meters.	1,194,194.00	King Fahd University
Total		**16,688,127.88**	

This stage also included registering clean energy projects with the United Nations, on the basis of the Saudi Electricity Company owning 51% of CES company for the activities and services of carbon emissions. This issue is still in process.

Third stage: Associated with the accelerated strategic transformation initiatives:
This stage began by including research and development as an accelerated strategic transformation initiative. The most important characteristic of this stage is developing a strategy which gives research and development a fundamental role in solving problems and fixing technical barriers which impede the company in achieving goals on all levels.
This research will also play a key role in the technical empowerment of the company's ambitious strategy plan. To realize this strategy, centers of excellence in the areas most needed by the company were established. Including all the requirements set in place for specialized human resources, equipment, and finances, all strengthened by strategic relations with national universities and linked to global industry research.

The centers of excellence for research:

Three research centers of excellence were established, and another three centers in 2016 are in the process of being established. They are as follows:

1. **The techno-digital simulation of an electrical network factory in Dhahran Valley:**
   This factory represents a quantum leap forward in studies on the network of planning, operations, and protection. It will contribute to developing the company's employees and university students taking electrical engineering course and research. This factory contains 44 units (Racks) of digital processors, making it one of the largest electrical grid simulated factories in the world, and the facility includes simulation devices to control dynamic compensators and power systems.

2. **Smart Grid Center at King Abdulaziz City for Science and Technology:**
   King Abdul Aziz City for Science and Technology agreed to establish this center, and it will be funded equally between the two sides. The most important advantage of this center is that it coincides with the company's projects, in particular changing traditional meters to smart meters and transforming the distribution network into an advanced, intelligent network that can be monitored and controlled easily. It is hoped that this center will technically assist these projects. In addition, under this center's guidance, we can develop experimental projects to install solar panels in schools and mosques with smart networks. It has also been discussed whether localizing some industries, such as static var compensator (SVC) after their experience in remote villages, is feasible to improve the voltage rate.

3. **The center of excellence for fuel research in King Abdullah University of Science and Technology in Thuwal village:**
   A Memorandum of Understanding for research collaboration was signed and the center of excellence with King Abdullah University of Science and Technology was established. Two research programs in the field of fuels are being awarded to the university, which are worth more than two million USD. The center of excellence takes responsibility for improving combustion efficiency and its chemical properties, while reducing environmental pollution and the impact of fuel on hotspot track components in turbines. Additionally, it seeks to increase the useful life and efficiency of these components while simplifying maintenance.

4. **Renewable Energy Center:**
   King Saud University agreed to proceed with the generation project to condense the sun's rays to heat sand and produce electricity as an experimental project. A heating tower was built with reflecting mirrors, and the turbine manufacturing and heat exchanger construction has been completed. The project will be extended to about 10 megawatts to serve remote areas where costly and polluting diesel fuel is being transferred to. Also in progress is a researching project designed to take advantage of geothermal energy for air-conditioning and electricity generation.

5. **Strategies and regulations within the Energy Research Center.**
6. **A center of excellence for designing and selecting transmission lines.**

Scientific cooperation with universities and research institutes in the Kingdom:

The company is relying heavily on local universities for specialist engineering research and studies, and also to reduce the involvement of commercial third parties. Based on that goal, the company has begun a strategic shift to create a sustainable and strategic relationship with universities to integrate the scientific and practical aspects of the national interests. This relationship began with the high authorities of the Kingdom, such as King Abdul Aziz City for Science and Technology, King Saud University, King Abdul Aziz University, King Fahd University, and King Abdullah Center for Petroleum Research and Studies. We will continue working to establish relationships with others as well.

International scientific cooperation:

This cooperation is aimed at the latest global developments in electrical research, in preparation for molding the company into global power companies:

1. Signing membership agreement with American Electric Power Research Institute (EPRI).
2. Signing the Memorandum of Understanding with the French Electric Company (EDF) to help establish smart network factories.
3. Signing a Memorandum of Understanding with a team that includes specialized companies in the field of electrical network simulation. This includes the University of Manitoba, Manitoba Electric Company, and the "RTDS" factory, along with some consultants to support the operation of a simulation center.
4. Taking steps to signing a Memorandum of Understanding with Tokyo Electric Power Co. (TEPCO) is in progress, along with efforts to work with ELSEVIER Company for scientific publication.

Electricity Industries Localization

20%
5%
60%
15%
.81
.72
.78
.23

Electricity Industries Localization

The company adopted the localization of the electricity industry strategy, which aims to increase local content and localized industry, as well as create added value for our national economy.
The strategy includes three key initiatives:

First initiative: Set policies and mechanisms to motivate the contractors:

Evaluate the offered and accepted proposals based on the following criteria:
The bid price (85 points), the percentage of local employees (5 points), the percentage of locally manufactured materials (10 points).
Bid price + labor localization points + points of using locally-manufactured products = total points.
The winning bid is the one with the highest points.

Second initiative: Set policies and mechanisms to motivate local factories:

First stage: National products are given the priority over purchasing from foreign counterparts by 10%.
Second stage: A preference for the local manufacturers is based on the following criteria:

- Tender price.
- Local content for the plant.
- The importance of the product to the company.

To become an option, the equation is as follows:
Price differentiation = bid price (1- local preference ratio).
Percentage of local preference = local content ratio of the plant x percentage of the product's importance to the company.

The third initiative: Identifying localization opportunities for materials:

- Identify localization opportunities in materials and spare parts, and work with investors and international companies to draw attractions to establish local factories.
- Strengthen coordination and communication with government agencies, large companies in the Kingdom, and the shared committees between the Kingdom and other relevant authorities to localize the industry.
- Making strategic business partnerships with investors who wish to open factories for spare parts and materials that are not available locally.
- Transparency, with information and data on investment opportunities being readily available concerning the manufacturing of materials and spare parts. This is the biggest motivation for each investor who wishes to invest in the electrical services industry.

The company issued a booklet (Investment Opportunities in Materials and Spare Parts Manufacturing), which included 85 opportunities worth about 52 billion SR through the next five years. It is considered unique among local companies and it is available on the company's website.

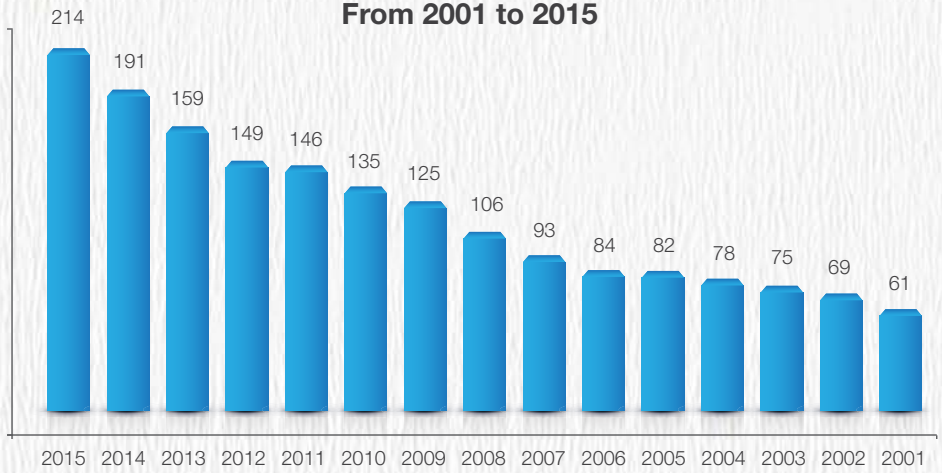
The company aims to increase the number of local factories, while providing a local supply base to help increase the reliability of electric power. This will create added value to our economy. We seek to contribute to national industrial investment opportunities and establish some local factories that follow such procedures:

The party	Factory specialty
Bahra Cables Company	Power transformers factory
Bahra Cables Company	Electrical switches factory
Al-Baeez Holding Company	Overhead supplement factory
Al-Khalifa Company	Breakers factory
Hwaa Company	Breakers factory
Al-Fanar Company	Pillar factory
Al-Tamimi	Valves factory

Contributing to localized raw materials, such as using recycled aluminum cables instead of copper that are imported from abroad, creates added value for the national economy. With this strategy, our annual contribution was 2.34 billion SR during 2015, and is expected to reach 10 billion SR during the next five years due to the price difference between the two metals.

With the efforts of the Saudi youth, we were able to localize some spare parts for steam power. This reduced purchase prices by more than 60% in contrast to foreign factories, all by manufacturing locally in the company's workshops and, for example, Ghazlan Steam Station. The company also contributed to localizing some spare parts through local factories, which outpaced the foreign factories in both price and supply availability. Finally, it also increased the registration and rehabilitation of a number of local factories, numbering upwards of 214.

The number of registered and eligible local factories
From 2001 to 2015



Corporate Social Responsibility

Committed toward our employees, customers, partners and society

Corporate Social Responsibility

Our Strategies:

1 -Toward the Employees:

Securing a fair work environment, preparing equal training and development opportunities, providing motivating excellence and innovation initiatives, instilling the culture of quality in word and in deed, embodying the values governed by the work codes of ethics, involving employees through e-mails and opinion polls on the programs, activities, and services provided to them.

2 -Toward Society:

Effectively contributing to social and economic development by: supporting social welfare activities and programs; interacting with the development and humanitarian issues and concerns of the society; involving the society in the initiatives; leading the programs of rationalization of electric power consumption and dissemination of safety and security culture against risks of electricity consumption; supporting the research centers through adopting and supporting initiatives and research chairs, which would contribute to the rationalization of electric power consumption; improving the electrical systems performance; maintaining the environment; and supporting renewable energy initiatives and projects.

3 -Toward Our Partners and Customers:

Our responsibility for the generation, transmission, and distribution of electric power was a strong motivation to prove our capabilities in order to build strategic relationships on the basis of fairness and transparency. In this field, we communicate with our customers and partners to ensure the sustainability of interaction, trust, and partnership. We also motivate them to participate in the electricity industry's issues and to follow up with its development. We listen to their views and suggestions about the level of our performance in order to enhance our position and public image.

4 -Social Activities:

Implementing various programs and events, lectures, graduation ceremonies, and honorary and private parties; promoting social communication with employees and their families through the implementation of an internal communication plan; organizing sports and cultural activities at the company's social clubs; and providing training opportunities for the children of employees to learn the English language and computer skills in agreement with specialized training institutes.

During 2015, the company implemented

12,111

internal and external activities

(e.g. social responsibility programs, conferences, symposia, workshops, etc.)

Electronic Communication Channels

Company's Website:

The number of visits reached 7.9 million during 2015 and the rate of increase was 44 percent compared to the previous year.

Company's Accounts on Social Networking Websites:

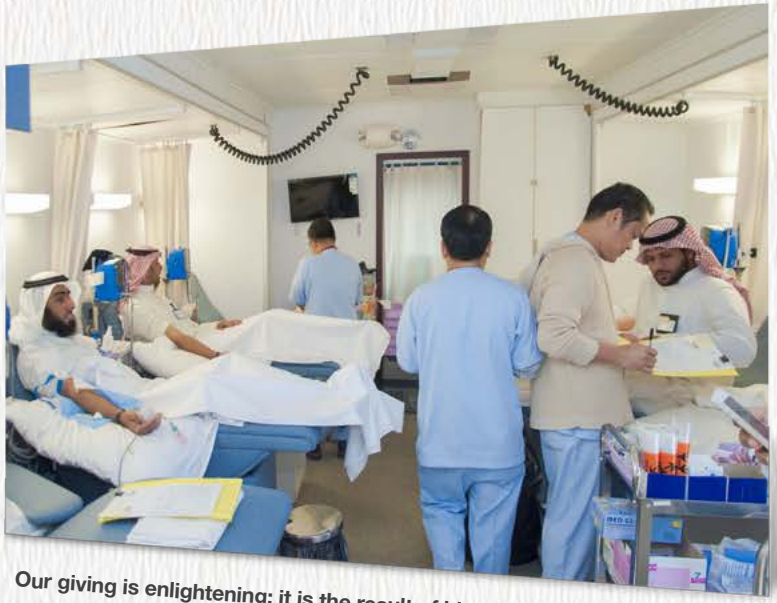
Twitter: 15 million hits and an increase of 39 percent
YouTube: 87,754 hits and an increase of 23 percent
Facebook: 760,029 visitors and an increase of 29.2 percent

We have opened the doors for the energies of the future to establish the concepts of environment conservation (More Beautiful Environment Program)

We take care of the appearance of our garden (More Beautiful Environment Program)

Our goal ... a more beautiful environment

More Beautiful Environment Program



Our giving is enlightening; it is the result of blood, sweat, and tears that we are able to save the lives of patients (Social Responsibility Program)

Defensive Driving (Allah Ya'ateek Khairha)

In the libraries of the company's clubs, we witness the support for arts, culture, and knowledge

In Hail, the company supported the domestic tourism activities

The new generation competition for cleaning their homeland (More Beautiful Environment Program)

After doing their job duties, the technicians contributed additional hours of farming and preserving the environment

Maintaining the Environment

The company focuses on environmental compatibility, clean energy, preserving natural resources, and environmental awareness and communication

Maintaining the Environment

As the largest producer of electric power in the Middle East, SEC must shoulder the responsibility of meeting the nation's ever-growing demand for electricity and manage the associated environmental effects at the local and regional levels. In spite of the significant challenges facing the company, SEC is committed to achieving these goals while complying with all environmental laws and regulations in order to reduce pollution, protect the environment and support public health. With careful management, SEC can support sustainable development without disrupting the company's commitment to providing its customers with their energy needs.

In view of this accelerated strategic program, the company seeks to attain clear leadership in the field of environmental protection throughout the Kingdom of Saudi Arabia by achieving compatibility with the updated environmental standards issued by the General Presidency of Meteorology and Environmental Protection on 2/5/1435 and by implementing an environmental management system compliant with the International Standard ISO14001-2015, thereby increasing the production of clean energy and reducing the consumption of nonrenewable resources.

The Environmental Compatibility:

To better protect the Kingdom's environment, all of the company's projects are designed to be compatible with the latest environmental standards and to meet the emissions and discharge limits set by the International Finance Corporation. Especially at the Rabigh 6 Power Plant, with a capacity of 2,800 MW, and the South Jeddah, first phase, with a capacity of 2,640 MW.

The company invests huge sums to control and monitor emissions. Some examples include: the Dry Low NOx (DLN) combustion system, which reduces emissions of nitrogen oxide by up to 60 percent; the Electrostatic Precipitators in units operated by heavy fuel to reduce emissions of suspended residues by up to 96 percent; using Flue Gas Desulphurization (Seawater FGD) technology to reduce emission of the air-contaminating sulfuric oxide gas by up to 90 percent, without any liquid or solid waste; treating wastewater from boilers; separating fuel residue from the water tanks prior to sending it to the evaporation ponds; and controlling the degree of cooling water drained into the sea, within the allowed limits.

The company also carefully monitors compatibility with the updated environmental standards of 2014 at all of its facilities and applies an environmental audit protocol that is compatible with ISO 19011:2011. Thanks to these efforts, the company has developed and implemented a detailed plan to meet or exceed these standards.

This plan includes solutions that improve compatibility in an urgent manner, such as raising awareness among all stakeholders with updated environmental standards, preparing for and applying the relevant environmental documents, and conducting surveys and environmental studies. It also includes other medium and high cost solutions to assure compliance with these standards, such as the installation of volatile organic compound recovery systems and environmental monitoring and control systems.

Clean Energy:

The company has achieved outstanding success with its environmental efforts. Especially by generating more clean electric power through combined-cycle system. The combined-cycle method uses the exhaust pipes of the generating units as thermal sources for the boilers instead of burning fuel. Last year, the company produced 18 percent of its total power through the combined-cycle, compared to only 8 percent in 2010. The simple-cycle use decreased from 50 percent in 2010 to 38 percent in 2014.

The company also began to produce more electricity from renewable energy sources such as wind and solar power. The power plant at Farasan Island generates 864 MW of clean solar energy. The company signed a contract with King Abdulaziz City for Science and Technology to produce 10 megawatts of renewable energy, and signed another contract to implement the Green Duba power plant project, which will generate 50 megawatts of solar energy. Moreover, a

study is under consideration to produce 420 megawatts in several locations such as Sharurah, Rafha, Mahd adh Dhahab, Al Qurayyat, Najran, Juba, Al-Jawf, and more.

Preserving Natural Resources:

The company has significantly reduced the use of natural resources, achieving a savings of 1,600,000 barrels of equivalent fuel last year. Total energy loss decreased from 7.35 percent in 2013 to 6.95 percent in 2014.

In the past year alone, the company was able to treat 3,000,000 liters of transformer oils and re-use them after they were previously disposed of as hazardous waste. The company has also added advanced stages to the electrical linkage among regions in the Kingdom, GCC, and Egypt. Such investments contributed significantly to reducing the revolving reserve in the electricity network from 1,800 megawatts to 1,050 megawatts per hour, thus reducing consumption of 1,070,000 barrels of equivalent fuel per annum.

Moreover, installing thermal insulation in buildings, a program introduced last year, will further contribute to reducing energy consumption. Presently, the power plants reuse treated sanitary water in order to increase green usage. The tenth and twelfth generating stations also use treated sanitary water instead of non-renewable groundwater in the production of electricity.

Environmental Awareness and Communication:

The company continues promoting environmental awareness among all employees, customers, and suppliers. For example, SEC enables its concerned employees to attend qualification courses and obtain the highest international certificates in the field of environmental protection, such as IOSH, IEMA, NEBOSH, and Environmental Lead Auditor, in addition to providing specialized courses and awareness programs in various environmental fields.

The company's entire staff celebrated World Environment Day. The celebration included submitting a number of working papers and hosting several prominent environmental specialists and personalities, along with the participation of private companies at the accompanying green innovation exhibitions.

The company understands the importance of cooperating with the community to support their environmental programs and activities by: sponsoring important events such as the Gulf Environment Forum, which is supervised by the General Presidency of Meteorology and Environment Protection; participating in environmental conferences through working papers; raising public awareness of the importance of maintaining the environment and of rationing electricity consumption by printing guidelines on electricity bills and by distributing brochures and pamphlets via customer services offices; contributing to articles and publications in newspapers; delivering lectures in schools; conducting awareness campaigns such as "A Cleaner Environment;"and participating in world events such as "Earth Hour" and "Earth Day."

2- Description of the Company's Important Plans, Decisions, and Future Prospects:

A) Restructuring the Company's Activities:

Continuing the electricity sector development and privatization plan in the Kingdom, sponsored by the government—may Allah save it—in 2015, the company made significant progress by considering many options and strategic plans to restructure its activities. It also coordinated with all concerned parties in the government.

By restructuring, the company aims to improve electrical service by creating competition between the various energy providers in the Kingdom, which will be reflected in the quality of service provided to subscribers from all walks of life, in all cities, villages, and hamlets of the Kingdom. The restructure will increase the trust of investors and the private sector when investing in the electrical sector.

The plan to restructure the entire electricity sector, implemented through the coordination of SEC and the Electricity and Cogeneration Regulatory Authority, aims to develop the electrical market in the Kingdom by creating competition in a way that increases operating efficiency, reduces costs, and increases the reliability of the network.

The company has applied an organizational structure that complies with the requirements of the restructuring plan adopted by the Electricity and Cogeneration Authority. The first fruits of this plan have been the:

- Creation of an independent system operator's entity
- Creation of the main buyer's entity

The company will continue completing the remaining steps to restructure its activities in coordination with the Electricity and Cogeneration Regulatory Authority and according to the objectives and strategies that contribute to the development of the electricity market, which will play a major role in advancing the national economy and the comprehensive development plans in the Kingdom, God willing.

B) Important Decisions:

Pursuant to the Royal Decree issued by the Custodian of the Two Holy Mosques King Salman bin Abdulaziz Al Saud (May Allah Protect Him), ordering two months' bonus salary be issued for all Saudi state employees, including civilians and military personnel, the company will be giving two months' bonus salary for all Saudi employees and trainees, provided that the total sum does not exceed 50,000 riyals. The total amount that will be paid to the employees is about 545,000,000 riyals.

On Tuesday, 12/5/1436 A.H. (corresponding to 3/3/2015), the company signed four memorandums of understanding (MoU), which are as follows:

1. A memorandum of understanding with General Electric company to consider creating a partnership, with the view to maintain and operate power plants, within three years of the date of signing this MoU.
2. A memorandum of understanding with the Korean National Electricity Company to discuss mutual cooperation in the fields of research, development, training, electricity transmission, nuclear and renewable energy generation, and development of projects, within three years of the date of signing this MoU.
3. A memorandum of understanding with Doosan Heavy Industries and Construction Co., Ltd. to discuss mutual cooperation in the fields of training, development of power plants, and renewable energy generation, within two years of the date of signing this MoU.
4. A memorandum of understanding with The Export–Import Bank of Korea K-EXIM to study a framework agreement, within three years of the date of signing this MoU, under which the company would be able to obtain financing guaranteed by Korea KEXIM bank totaling 3 billion USD. This three-year framework agreement was signed on 25/02/1437A.H (corresponding to 07/12/2015). Under this framework agreement, the company could access up to a 3 billion USD loan from Korea KEXIM bank directly or through its support in the future. The signing of this framework agreement does not create any binding financial obligations for the company.

On Sunday, 30/8/2015, the executive committee approved the negotiations regarding obtaining revolving credit facilities split into a Saudi Riyal tranche of no more than 3 billion riyals and a USD tranche of no more than 1.5 billion USD, with a tenure from three to five years. The committee also approved the company to prepare a program to issue instruments of several USD-denominated issues, which shall not exceed 1.5 billion USD, to finance some of the company's capital projects. On Wednesday, 16/12/2015 (corresponding to 5/3/1437 A.H), the company signed a Saudi Riyal denominated tranche agreement with a maximum of 2.5 billion riyals and a tenure of three years. Those facilities have been restructuring in the form of Islamic Murabaha since they are unsecured. Those facilities were signed with the National Commercial Bank and Samba Financial Group.

On 2nd Muharram 1437 A.H. (corresponding to 15/10/2015), the company signed contracts to provide electrical service for the Ministry of Housing's various projects, at a cost of 4 billion riyals. An agreement was also signed with the Ministry of Water and Electricity for the company to provide 29 planned sites with electrical services at a cost of 14 billion riyals. According to this agreement, electrical service for the Ministry of Housing's projects and grants will be implemented within three years.

The company announced that, as a result of both the Council of Minister's decision to increase tariffs for electrical power sales, as well as an increase in fuel prices, will significantly impact some items on the income statement of the company. These effects will appear during 2016:

- An increase in energy-selling revenue, as a result of the increase in some of the electrical consumption tranches.

- An increase in the cost of produced energy, as a result of an increase in the new fuel prices. Thus, the increase in the revenue and in the cost of production balance out.

C) Future Plans and Expectations:

In light of the steady growth of the national economy and expansion in all aspects of life in the Kingdom, the company has prepared a five-year plan for 2016 to 2020 to accomplish the following:

- Per the company's plan to meet growing loads on the electrical infrastructure, new net generation capacities of the company's plants will be expanded by about 13,166 MW.
- Within the private sector participation program to increase generation capacity to meet future loads, about 11,593 MW capacity will be added.
- In the context of the company's plan to strengthen the transmission networks and to raise their reliability, 34,000 km-circular of transmission lines and 370 transmission substations will be added.
- There will be about 2 million new customers to electricity service during the five-year plan (2016 to 2020). The total number of customers will reach 10 million by the end of 2020.
- Within the framework of the development plan of urban areas in the Kingdom, the electrification of 643 residential quarters will be completed.
- To strengthen the distribution networks, 191,000 km will be added to those networks, and about 172,000 more switches will be installed.

3.5% training days to work days by the end of 2020. As a part of the Company's work and community development programs, fresh University graduates will be employed during the plan's timeframe (2016-2020); during this timeframe, technical high school and college graduates will also be enrolled into the training programs affiliated to the company. The goal is to increase the population of these programs to 89% by 2020.

D) Potential Risks and Difficulties:

The company might face some risks such as those related to: the production of electrical power in the short-term, suppliers, customers, and partner risks, developmental challenges, rapid change in technology, rising prices of materials, change of fuel use, new regulations on environmental protection, and the maintenance of human competencies.

Risks and Difficulties Related to the Production, Transmission, and Distribution of Electricity:

The large annual increase in electrical loads resulting from significant development and growth of all economic sectors, in conjunction with broadening the prospects for internal and external investments, has led to an increase in the rate of demand for electricity; loads have increased over 10% in 2015 compared with 2014, the equivalent of 5,776 MW.
There are other difficulties, however, such as the initiation projects at the pre-set time due to both the difficulty of securing paths, locations of stations and overhead lines, as well as the difficulty of providing the necessary funds for these projects. In 2015, investment spending reached about 50 billion riyals.

The following requirements are needed to face the aforementioned difficulties:

1. Provide an adequate generating reserve (10 to 15%) of the peak load, enabling the system to:
   - Cope with any possible delay or error that might occur during the regulatory procedures for awarding contracts for installing the required generating units.
   - Avoid delays with implementing the power plants project by the private sector (IPP).
   - Avoid power cuts or disconnecting the feeding of some loads as a result of: the forced exit (shutdown) of some generating units, the presence of congestions in the old distribution networks, unanticipated maintenance, customer connections, or climate factors.
   Using a global consultant, the company has conducted a study on the impact of interruptions on the national economy. Presently, the Executive Committee of the Board of Directors follows up with the efforts to implement the study's recommendations
2. Provide a strong and interrelated transmission network that is capable of transmitting and exchanging energy between the different regions of the Kingdom.
3. Find a suitable electric tariff that reflects the real cost needed to cover the operational costs and the capital investments of the production, transmission, and distribution of electric power, with a profit return on investment.
4. Request the government's assistance to obtain sites for transmission stations and paths for lines, as to avoid any delay in the initiation of the company's projects.

Risks and Difficulties Related to Suppliers, Customers, and Partners:

The company faces risks associated with suppliers, customers, and partners in the field of private sector investment, whether in cogeneration or electricity production projects. **These risks are:**

1. The growing global demand for the construction of new power plants intensifies competition for reliable specialists. This adds to the challenges posed by the accelerated industrial developments, principally the increase in energy demand in the Kingdom due to remarkable population growth, improving the infrastructure in all regions and cities of the Kingdom, and the establishment of large industrial commercial and urban projects.
2. The commitment to maintain the environment and the subsequent increase in production costs.
3. Attracting national and foreign capital to not just maintain, but increase investment rates in this field, along with attracting modern technologies.
4. The rising prices and costs of shipping, insurance, and raw materials due to the scarcity in the global market of some key materials, as well as high wages, regional conflicts, and the dangers of war.

Risks Related to the Rules and Regulations that Govern the Electricity Sector in the Kingdom:

The company might face unforeseen risks as a result of the government amending the rules, regulations, and commercial decisions that impact the electricity sector.

Risks and Difficulties Related to the Rapid Change and Development of Technology:

The company faces risks due to the rapid development of disruptive technologies and the rising prices of global and local technical programs and applications. The company adopts only the best modern technologies that have proven to be successful in serving similar companies locally and globally, and that are produced by specialized international companies to guarantee the best prices and continuity of technical support and development.

Risks and Difficulties Related to Maintaining Competencies (Human Resources):

The company faces risks due to the existing opportunities and incentives in the local market that lead to the leakage of qualified and trained national competencies to other companies and institutions. The company currently strives to reduce such leakage in order to maintain the national competencies and to encourage experienced specialists to continue working with the company. This includes a number of procedures and regulations such as the provident fund scheme, housing soft loans, free training and scholarships.

Credit Risks:

The company pursues a policy that largely reduces exposure to liquidity and credit risks. Cash reserves, which are maintained at a minimum level of one billion Saudi Riyals, are deposited with banks with high credit ratings. Moreover, the company's ability to cut off the electricity service for most customers who do not pay their bills reduces its exposure to credit risks related to accounts receivable assets of its customers.

These accounts receivable are registered after deducting the allowances for doubtful debts, which usually does not have a significant effect on the company's financial performance.

With regard to the financing risks related to the company's capital expenditure, SEC is always keen to retain sufficient flexibility while managing the expenses related to this program. This requires careful tracking and management of available funds, which are obtained from several sources, including operating cash flows, interest-free government loans, and different business financial formulas.

With regard to the risks of foreign exchange exposure, there is no substantial exposure that must be covered against this type of risk, as most of the company's transactions are performed in US Dollars or Saudi Riyals. There is also a continuous control on the fluctuations of exchange rates as a further precaution.

With regard to commission rates change exposure, which mainly results from the company's loans that have been obtained to finance capital expenditure rates, there is always a periodic review of the commission rates to determine how best to limit the effects of these risks. These risks have been mitigated by fixing part of their exposure to the floating commission rates, and switching them to fixed rates through certain hedging instruments as well.

By the end of 2015, the company's management did not find any significant effects of the aforementioned risks on the company's business.

3- Summary of Financial Results:

The following is a statement on the balance sheet and income statement of the company and the following tables illustrate the asset details and liabilities, shareholders' equity, income and expenses, and net income for the year 2015, compared to the previous four financial years (More details can be found in the accompanying financial statements and their accompanying explanations):

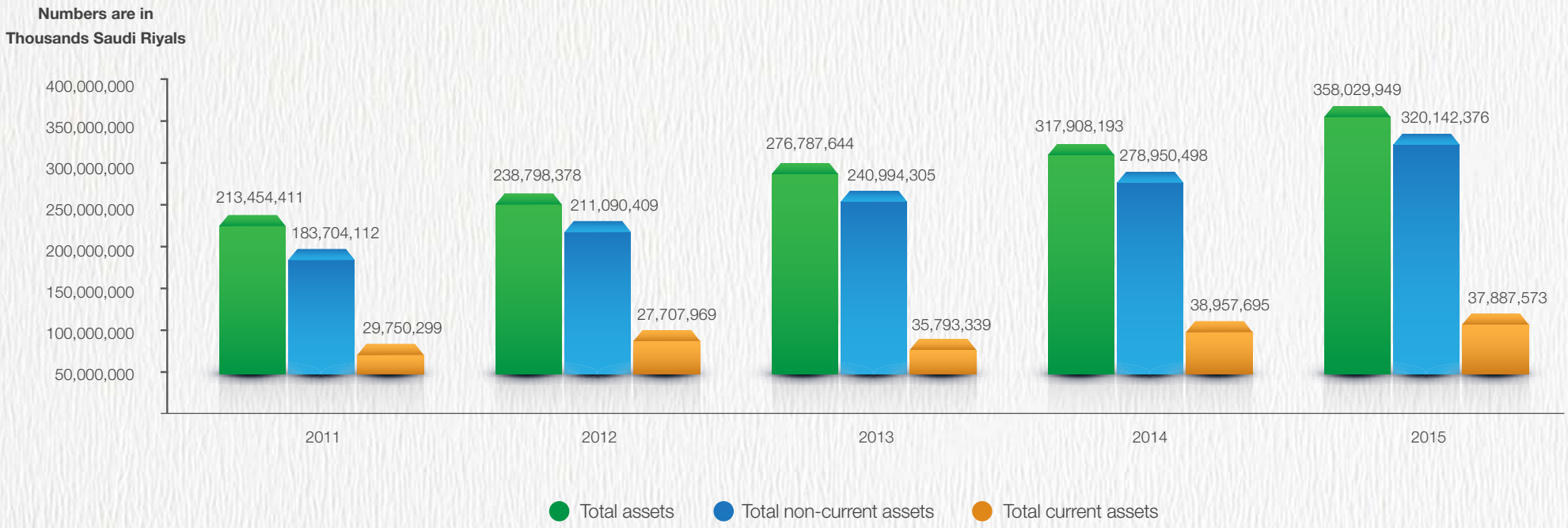
Balance Sheet:

(Numbers are in Thousands Saudi Riyals)

Index	2015	2014	2013	2012	2011
Current Assets	37,887,573	38,957,695	35,793,339	27,707,969	29,750,299
Other Long Term Assets	90,148,607	63,577,108	57,431,113	42,438,309	25,030,853
Fixed Assets, Net	229,993,769	215,373,390	183,563,192	168,652,100	158,673,259
Total Assets	358,029,949	317,908,193	276,787,644	238,798,378	213,454,411
Current Liabilities	62,691,531	46,949,382	41,743,868	40,932,503	38,980,244
Long-Term Loans	57,207,444	52,360,618	36,741,452	32,759,976	27,581,788
Other Liabilities	177,781,847	159,355,697	142,026,011	111,656,445	94,999,301
Total Liabilities	297,680,822	258,665,697	220,511,331	185,348,924	161,561,333
Paid Share Capital	41,665,938	41,665,938	41,665,938	41,665,938	41,665,938
Reserves and Retained Earnings	18,683,189	17,576,558	14,610,375	11,783,516	10,227,140
Shareholders' Equity	60,349,127	59,242,496	56,276,313	53,449,454	51,893,078
Total Liabilities and Shareholders' Equity	358,029,949	317,908,193	276,787,644	238,798,378	213,454,411

Comparison of assets, liabilities, and shareholders' equity
During the years 2011 -2015

Comparison of current and non-current assets with total assets
During the years 2011- 2015



Revenues and operating expenses and net income
During the years 2011- 2015

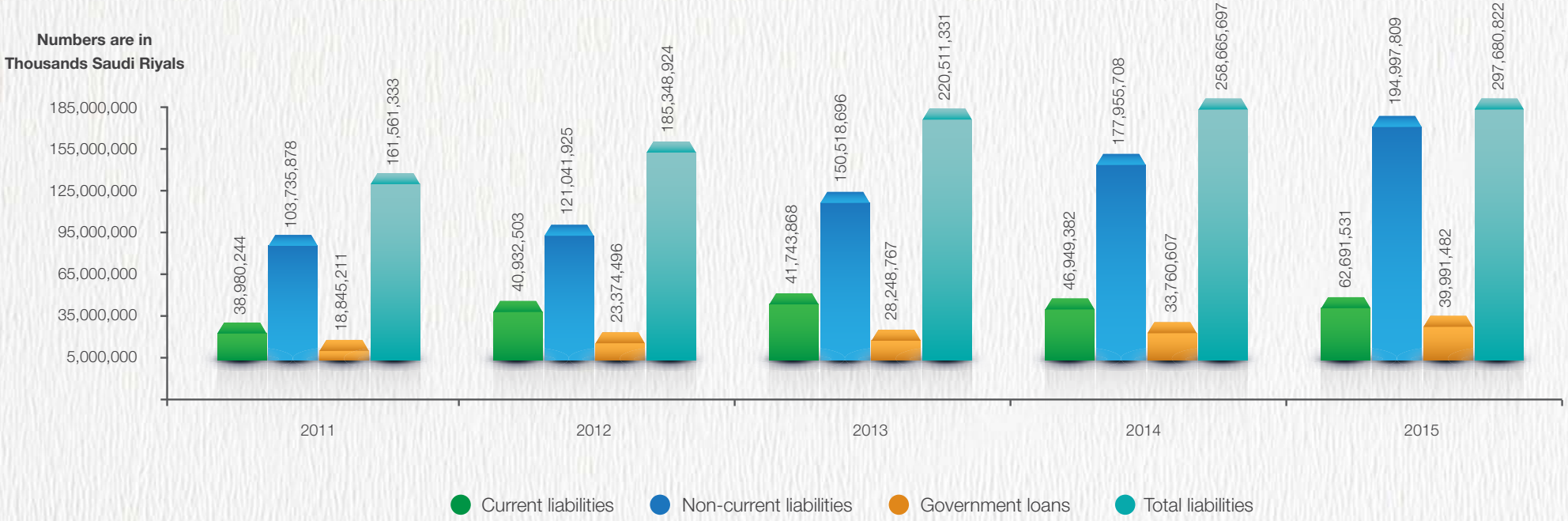
b) Income statement

Numbers in thousands of Riyals

Description	2015	2014	2013	2012	2011
Operating revenues	41,538,732	38,490,670	35,672,129	33,646,259	30,569,598
Cost of sales	(38,953,467)	(36,462,927)	(33,030,721)	(30,038,017)	(27,868,105)
Gross profit	2,585,265	2,027,743	2,641,408	3,608,242	2,701,493
General and administrative expenses	(992,421)	(929,495)	(660,579)	(708,814)	(769,818)
Total operating revenues	(39,945,888)	(37,392,422)	(33,691,300)	(30,746,831)	(28,637,923)
Operating income	1,592,844	1,098,248	1,980,829	2,899,428	1,931,675
(Reversal of) provision for doubtful receivables	-	2,635,181	-	-	-
Deferred revenue (expenses)	201,513	(537,239)	729,186	-	-
Enhancing productivity of human resources program	-	-	-	(634,268)	(125,265)
Other revenue and expenses (net)	(250,715)	410,404	325,854	295,906	406,749
Net profit	1,543,642	3,606,594	3,035,869	2,561,066	2,213,159

The statement items from previous years were regrouped to be compatible with the classifications of 2015.

Comparison of current and non-current liabilities, and government loans to the total liabilities



4 - Geographical analysis of company revenue:

The company works throughout the Kingdom. The following is a geographical analysis of the sales of the company as per areas (sectors) covered:

Year	Description	Operating Areas				Total
		Central	Eastern	Western	Southern	
2015	Revenue / sales	12,124,212	11,240,139	11,148,545	3,067,640	37,580,536
2014	Revenue / sales	11,154,197	10,783,715	10,226,250	2,798,022	34,962,184

5 - Clarification of the operating results compared to the results of previous years:

Description	2015	2014	-/+ Changes	Change percentage
Revenue / sales	41,538,732	38,490,670	3,048,062	8
Operating expenses	(39,945,888)	(37,392,422)	(2,553,466)	7
Gross profit from operations	1,592,844	1,098,248	494,596	45
(Reversal of) provision for doubtful receivables	-	2,635,181	(2,635,181)	100
Deferred revenue (expenses)	201,513	(537,239)	738,752	(138)
Other revenues and expenses (net)	(250,715)	410,404	(661,119)	(161)
Net profit / losses	1,543,642	3,606,594	(2,062,952)	(57)

The analysis of changes between 2015 and 2014 is as follows:

Sales have increased by seven percent due to the growing demand for electrical power.

Profits from operations have increased due to the increase in the operating revenue being higher than the operating expenses.

Zakat is calculated against zakat provision and net-amended profits.

Net income has decreased because the net profit for the same period of the previous year includes previous debt settlements. A cross allowance was established. There is an improvement in the operating revenue and a decrease in fuel cost due to an increase in the operating capacity.

6 - Clarification of any difference from the accounting standards:

The financial statements of the company for the financial year ended 31 December 2015 were prepared according to the applicable accounting standards in the Kingdom issued by the Saudi Organization for Certified Public Accountants (SOCPA).

The plan for applying international accounting standards:
A summary of the plan set by the company to begin in November 2014 and to be completed in 2016 is explained in the following table, which also shows the progress in this project:

Stage	Works	Current status
Plan stage	- A meeting was held with the Saudi Organization for Certified Public Accountants (SOCPA) to discuss the replacement plan. - An invitation to major specialized consultancy companies was made to submit technical offers for the application of this replacement. - Contracting was done with the consultant PWC to study policies adopted by the company and to compare them to the international standards and define the gaps.	Completed
First stage: Gaps analysis	- Defining gaps between the accounting policies adopted by the company and the international standards. - Preparing work papers related to handling these gaps. - Defining the level of difference expected to be applied to company systems.	Completed
Second stage: Studies and treatments	- Making detailed studies of the gaps and defining the accounting treatment and the replacement of procedures. - Determining the accounting policies for the company using various the available various standards. - Contracting with a specialized company to apply such a replacement with the international standards on company systems.	Completed
Third stage: Application	- Defining replacement requisites for financial systems. - Establishing a general ledger in the digital financial system, in accordance with international standards.	Completed
	- Making adjustments and submitting the opening balances of the year 2016 in accordance with the international accounting standards. - Finalizing all work papers, officially adopting them, and adapting the system accordingly. - Issuing the financial reports of the first quarter of 2016 in accordance with the international accounting standards.	In progress, to be completed in April 2016
After application stage	- Reflecting all amendments on the evidence of policies and detailed procedures of the company. - Abiding by the new applied standards.	2017 - 2016

7 - Subsidiaries and associates:

The company owns shares in the capital of each of the subsidiaries and associates as per the following table:

Sr.	Subsidiaries and associates	Place of in-corporation	Place of activity	Capital	Activity	Ownership percentage
1	Gulf Cooperation Council Interconnection Authority	Kingdom of Saudi Arabia	Gulf states	1,407,000,000 US dollars	Transferring power between member states	31.6%
2	Water and Electricity Company		Kingdom of Saudi Arabia	30,000,000 Riyal	Purchasing and selling electricity and necessary fuel for the achievement of its purposes	50%
3	Electricity Sukuk Company			500,000 Riyal	Providing service and support needed to sukuk and bonds issued by Saudi Electricity Company	100%
4	Dawiyat Telecom Company			1,000,000 Riyal	Establishing, leasing, managing, and operating electricity and fiber optic networks to provide telecommunication services	100%
5	National Grid S.A. Company			10,000,000,000 Riyal	Transmitting electricity, operating, controlling, and maintaining power systems, and leasing line capacities of transmission networks	100%
6	Dhuruma Electricity Company			4,000,000 Riyal	Developing, establishing, owning, operating, and maintaining Dhuruma project for electricity production in Riyadh	50%
7	Hajr for Electricity Production Company			2,506,230,000 Riyal	Owning, generating, producing, transferring, and selling electricity in Qurayyah project in the Eastern area	50%
8	Rabigh Electricity Company			923,750,000 Riyal	Developing, establishing, owning, operating, and maintaining Rabigh in Holy Mecca area	20%
9	Al Mourjan for Electricity Production Co.			10,000,000 Riyal	Developing, establishing, owning, operating, and maintaining Rabigh-2 in Holy Mecca area	50%
10	Saudi Electricity Company for Project Development			5,000,000 Riyal	Managing construction projects, setting detailed designs, purchasing materials, and implementing projects in power sector.	100%

8 - The shares and debt instruments issued for each subsidiary and investee:

	Name of Subsidiary	Number of shares/ quotas	Debt instruments
1	Gulf Cooperation Council Interconnection Authority	1,407,000 shares	none
2	Water and Electricity Company	600,000 shares	none
3	Electricity Sukuk Company	10,000 quota	none
4	Dawiyat Telecom Company	20,000 quota	none
5	National Grid S.A. Company	200,000,000 quota	none
6	Dhuruma Electricity Company	400,000 shares	none
7	Hajr for Electricity Production Company	250,623,000 shares	none
8	Rabigh Electricity Company	92,375,000 shares	none
9	Al Mourjan for Electricity Production Co.	1,000,000 shares	none
10	Saudi Electricity Company to develop projects	100,000 quota	none

9 - The company's policy to distribute profits:

The annual net profits earned are distributed after deducting all general expenses and other costs, as follows:
10% is withheld from the net profit to form a statutory reserve, but the regular General Assembly has the right to stop this withholding when the mentioned reserve reaches half of the capital. The company may also keep a ratio of the net profits, which must not exceed 10%, to form another reserve and dedicate it for a purpose or purposes, taking into account the following:

A. The provisions contained in paragraph (2) of the (second) clause of the Council of Ministers Resolution No. 169 dated 11/8/1419 A.H., which was amended by the Council of Ministers Resolution No. 327 dated 09/24/1430 A.H., to approve an extension of the government's concession to its share of the profits for a period of ten years from 30/12/1430 A.H.; after that down payment, the rest will be distributed to shareholders of not less than 5 percent of the paid-out capital.
B. A bonus is distributed to each member of the Board of Directors in accordance with the principles and instructions in place and after deducting expenses, depreciation, and reserves established by the General Assembly, in accordance with the decisions of the statute of the company, and after distribution of dividends to shareholders of at least 5% of the company's profit, in accordance with the provisions of the Companies Law and the instructions issued by the Ministry of Commerce and Industry.
C. The rest of the profits will be distributed to shareholders as additional share of the profits, or it will go towards the coming years, as approved by the General Assembly.

During 2015, the company achieved a net profit of 1,543,642,000 Saudi Riyals, after the deduction of Zakat and before the distribution of the Board of Directors' bonus. The Board of Directors proposes the distribution of these profits, according to the company's structure, as follows:

Details	In thousands Saudi Riyals
Net profit	1,543,642
Deduct the following:	
10% statutory reserve	154,364
Payment to shareholders and their equivalent	547,252
Board of Directors' bonus	932
Retained earnings	841,094

10 - The interests of the people in the company's shares:

During the financial year ended December 31, 2015, there were no interests conferred to any person in the voting shares. The following table shows a list of shareholders who own at least 5% and any changes in ownership during 2015:

Name	The number of shares at the beginning of the year	The percentage of ownership at the beginning of the year	Net change in number of shares during the year	The Change Percentage during the year	Total equity at the end of the year	Total percentage of ownership at the end of the year
Government Shares	3,096,175,320	74.31%	-	-	3,096,175,320	74.31%
Saudi Aramco	288,630,420	6.91%	-	-	288,630,420	6.91%

11 - The interests and rights of the members of the Board of Directors and senior executives in the company's shares and debt instruments:

A. The interests and rights of the members of the Board of Directors in the shares and the company's debt instruments during 2015:

Name	Role	The beginning of the year		The end of the year		Net change	Change percentage
		Number of Shares	Debt instruments	Number of Shares	Debt instruments		
Saleh Hussein Al-Awajji	legal	1000	-	1000	-	-	-
Sulaiman Abdullah Alkadi	Personal	1,050	-	1,050	-	-	-
Isam Alwan Al-Bayat	legal	1000	-	1000	-	-	-
Yousif Abdulaziz Al-Turki	legal	1000	-	1000	-	-	-
	Personal	25,750	-	25,750	-	-	-
Ali Ahmed Al-Muhareb	Personal	1000	-	1000	-	-	-
Saleh Saad Al-Mehanna	legal	1000	-	1000	-	-	-
Abdulhamid Ahmed Al-Omair	legal	1000	-	1000	-	-	-
Abdulmajed Abdullah Al-Mubarak	legal	1000	-	1000	-	-	-
Saud Mohammed Al-Nemer	Personal	1000	-	1000	-	-	-

• The percentage of the above shareholdings is "0" because the ratio of shares held against 4,166,593,815 shares, representing the total shares of the Company, is so marginal that it is almost equal to "0".

B. The interests and rights of the senior executives, and their spouses and minor children, in the shares of the company's debt instruments during 2015:

Name	The beginning of the year		The end of the year		Net change	Percentage change
	Number of Shares	Debt instruments	Number of Shares	Debt instruments		
Osama Bin Abdulwahab Khondena	2,250	-	2,250	-	-	-
Abdulaziz Bin Abdullah Al-Mulhim	1,058	-	1,058	-	-	-

• The percentage of the above shareholdings is "0" because the ratio of shares held against 4,166,593,815 shares, representing the total shares of the Company, is so marginal that it is almost equal to "0".

12 - Information related to the loans of the company:

a) Commercial long-term loans as of 31/12/2015:

Numbers in thousand Riyal

Statement	Murabaha loan 1	Murabaha loan 2	The Public Investments Fund	Export American Canadian Bank	Export French Bank	Export Korean Bank	Export Japanese Korean Bank	Ahli Bank and Samba revolving Loan	Total
Total value of basic loans	6,000,000	5,000,000	2,583,375	4,057,419	3,709,125	5,250,000	7,500,000	2,500,000	36,599,919
Expiry date of repayment	2020	2025	2024	2021	2024	2026	2028	2018	-
Loans balance at the beginning of the year as of 1/1/2015	3,000,000	4,230,400	2,046,033	2,322,395	2,824,991	5,250,778	-	-	19,674,597
Loan withdrawals during the year	-	-	-	-	-	-	7,240,715	1,000,000	8,240,715
Loan repayments during the year	(545,454)	(384,800)	(214,936)	(362,920)	(309,258)	(437,538)	(46,330)	-	(2,301,236)
Loan balance at the end of the year as of 31/12/2015	2,454,546	3,845,600	1,831,097	1,959,475	2,515,733	4,813,240	(7,194,385)	1,000,000	25,614,076

b) Statement of the governmental loans as of 31/12/2015:

Numbers in thousand Riyal

Statement	Governmental loan (due to settlement)	Ministry of Finance Good loan from government (1)	Ministry of Finance Good loan from government (2)	Ministry of Finance Good loan from government (3)	Total
Total value of basic loans	Due to settlement with government	15,000,000	51,100,000	49,400,000	130,438,060
Expiry date of repayment	-	2035	2036	2038	-
Loan balance at the beginning of the year as of 1/1/2015	14,938,060	15,000,000	30,660,000	7,000,000	67,598,060
Loan withdrawals during the year	-	-	7,665,000	7,075,000	14,740,000
Loan repayments during the year	-	-	-	-	-
Recognized differences between received and current values	-	(7,999,729)	(24,471,968)	(9,874,881)	(42,346,578)
Loan balance at the end of the year as of 31/12/2015	14,938,060	7,000,271	13,853,032	4,200,119	39,991,482

* Government loans to the company in the financial statements are reflected in real value in accordance with relevant accounting standards. The difference between the received and current values is recognized in the item of long-term governmental debts.

13 - Description of classes and the number of convertible debt bonds, contractual securities, and subscription bonds:

There were no convertible debt bonds, contractual securities, or subscription bonds issued or granted by the company within the financial year ended 31/12/2015.

14 - Description of conversion, subscription, or contractual securities rights:

There were no conversion or subscription rights through convertible debt bonds or contractual securities, or subscription bonds or other similar rights issued or granted by the company during 2015.

15 - Description of recoverable debt bonds:

There was no retrieving, purchasing, or cancelling of any recoverable debt bond by the company.

16 - Meetings of the Board of Directors and the list of attendees:

The Board of Directors of the company held eight meetings during 2015. The following table contains the names of the Board of Directors members and the number of meetings attended by each member:

Attended √ Did not attend ×

Name	Number and date of meetings								Total
	1	2	3	4	5	6	7	8	
	5/1/2015	23/2/2015	19/4/2015	8/6/2015	5/7/2015	14/9/2015	1/11/2015	21/12/2015	
Saleh bin Hussein Al-Awajji (chairman of the board)	√	√	√	√	√	√	√	√	8
Sulaiman bin Abdullah Alkadi (vice chairman of the board)	√	√	√	√	√	√	√	√	8
Isam bin Alwan Al-Bayat (board member)	√	√	√	√	√	√	√	√	8
Saleh bin Saad Al-Mehanna (board member)	√	√	√	√	√	√	√	√	8
Saud bin Mohammed Al-Nemer (board member)	√	√	√	√	√	√	√	√	8
Ali Ahmed Al-Muhareb (board member)	√	√	√	√	√	√	√	√	8
Yousif bin Abdulaziz Al-Turki (board member)	√	√	√	√	√	√	√	√	8
Abdulmajed Abdullah Al-Mubarak (board member)	√	√	√	√	√	√	√	√	8
Abdulhamid Ahmed Al-Omair (board member)	×	√	√	√	√	√	√	√	7

17 - Description of any transaction between the company and a related party:

There were no transactions between the company and any related party during 2015.

18 - Interests of company contracts:

There were no contracts in which the company had a part, nor in which any board members, the CEO, the financial officer, or any person who is related to any of them.

19 - Assignments of salaries, remunerations, and profits:

There were no arrangements or assignment agreements under which a member of the Board of Directors or a chief executive assigned any salary or remuneration.

20 - Shareholders assignment of rights in profits:

Based on the Council of Ministers' Resolution No. 327, dated 24/9/1430 A.H., the government agreed to extend its assignment of its share of the profits distributed by Saudi Electricity Company for another ten years, starting on 30/12/1430 A.H. During 2015, there were no arrangements or assignment agreements where any of the shareholders assigned his right in the profits.

21 - Accrued official payments:

The following table explains/itemizes obligatory payments made to official or regulatory bodies in the government:

Statement	In thousand Saudi Riyal	
	2015	2014
Customs fees	3,118	4,861
Zakat and tax	44,420	18,743
GOSI	962,785	860,127
Municipality fees	622,398	528,206
Others	10,746	12,881
Total	1,643,467	1,424,818

22 - Employee Incentive Programs:

a) Savings program:

The company founded an optional savings program designed to motivate employees, reinforce their loyalty to and association with the company, increase their performances, attract qualified Saudi staff, and motivate them to stay with the company, and to help employees accumulate savings for retirement or at the end of their service.

For participating employees, the company allocates a monthly contribution that matches the amount shared by the employee. The company chooses a range of suitable investments for the program, in accordance with Islamic Investment Rules, which offer low-risk portfolios in such a way that ensures the benefits of the subscribing employees. The company contribution is equivalent to 100% of the value of the employee's monthly subscription and records it in his account. The calculation of employee's entitlement to the company's contribution is based on the program rules ranging from 10% upon completion of the first year of subscription and up to 100% upon reaching the end of the tenth year of participation. The amount payable to an employee from such contribution is calculated at the end of the subscription based on legal regulations. The following table explains the changes in the contributions of participating employees and their entitlements from the company's contributions during the year:

Statement	Employee Contributions	Employee entitlements from contributions of the company
Balance at the beginning of the year	369,062,164	196,459,293
Net additions/withdrawals during 2015	91,243,786	84,866,939
Balance at the end of the year	460,305,950	281,326,232

b) Loans Program:

For the seventh year, the company continued its housing loans program that offers housing loans to Saudi employees in accordance with the terms and conditions of the program to finance the acquisition, construction or completion of building construction of houses, by financing its cost up to SR 1,200,000 with repayment period of twenty years. The company participates in 70% of the funding costs. The company can stop its contribution at the end of the employee's service for whatever reason. During 2015, a total of 159 employees benefitted from the program.

23 - Accounting records, internal control system, and the ability of the company to proceed with its activity:

The Company's internal audit system is prepared on solid foundation designed for risk management, preservation of the Company's assets, and provision for a reasonable assurance of the integrity of the accounting records. The Audit Committee which reports to the Board of Directors reviews the remarks and findings submitted to it by the external auditors, the internal auditors, and the results of their study of the efficiency and effectiveness of the Company's internal control procedures in order to draw relevant recommendations for improvement and submits them to the Board of Directors. The Company has applied an integrated financial accounting system to record all financial transactions and assures that all accounts have been prepared in a right manner and it has in place an independent internal auditing department reporting to the Audit Committee which executes its functions according to the Internal Auditing Rules approved by the Board of Directors. It constantly examines the internal control system to ensure its effectiveness and efficiency, performing financial and operational audits to assess the Company's businesses.

24 - Commitment to corporate governance regulation

The Board of Directors approved the company's corporate governance system in line with the provisions contained in the Corporate Governance Regulations, issued by the Capital Market Authority. Moreover, the company applies all the guidelines of most of the provisions stated in the Corporate Governance Regulations issued by the Capital Market Authority.

A) The provisions of the regulation yet to be applied:

The table below shows the regulation yet to be applied, while stating the reasons for the lack of application:

Article	Clause	Article requirements	Reasons for not applying
3 and Item A of Article 4	5	The right to monitor the work of the Board of Directors and file a claim of responsibility against the members of the Board.	The system includes the basic right of the shareholders to file a claim of responsibility against the Board of Directors, but it does not include the company's right to monitor the work of the Board of Directors as guaranteed by virtue of the companies systems.
6	D	Access to annual reports by investors that hold a legal status.	We consider this paragraph as a commitment of investors that hold a legal status and act on behalf of others.
8	-	Does the company have disclosure policies, procedures, and supervisory regulations in writing and in accordance with the system?	The board has approved disclosure policy within the system of Corporate Governance which will be included in the rules of Corporate Governance being prepared.
10	H (1)	Stakeholders' compensation mechanisms in case of violation of their rights recognized by the regulations and protected by contracts.	There are applicable rules in place regarding these requirements; the company will complete the development and documentation of the policies and procedures related to this subject.
	H (2)	Mechanisms for settling complaints or disputes that may arise between the company and other stakeholders.	
	H (3)	Appropriate mechanisms to establish good relations with customers and suppliers and to maintain the confidentiality of the information.	
	H (4)	The rules of professional conduct for managers and employees of the company that are in agreement with sound professional and ethical standards that regulate the relationships between them and the stakeholders.	
	H (5)	The company's contribution to social development.	
	O	Have you developed policies and procedures which guarantee respect for the company's rules and regulations and its commitment to the disclosure material information to shareholders, creditors, and other stakeholders?	The Board of Directors has adopted a policy pertaining to the issue of transparency and disclosure within the system of corporate governance and will consider developing policies and procedures to ensure respect for Company rules and regulations.
11	O	Did the Board of Directors make sure that written procedures were established for acquainting new Board members to the operations of the Company, and in particular, the financial and legal aspects, and to undergo training as well if necessary?	The council has unwritten procedures for acquainting new members with the Company's operation; work is underway to adopt a written procedure.
13	B (4)	Did the Board of Directors approve the work regulations of all standing committees under its supervision?	Work is underway to adopt a written procedure.

B) Memberships of the Board of Directors members in the other joint-stock companies:

The following are members of the Board of Directors who have membership in other joint-stock companies:

	Name	The memberships in in the other joint-stock companies Board of Directors
1	**Saleh Hussein Al-Awajji**	Gulf Cooperation Council Interconnection Authority
2	**Sulaiman Abdullah Alkadi**	Saudi United Cooperative Insurance Co.
		Saudi Basic Chemical Industries
		Chemical Development Co.
		Saudi Holland Bank
3	**Abdulmajed Abdullah Al-Mubarak**	First Real Estate Development Co.
		Care Medical Services Co.
4	**Saleh Saad Al-Mehanna**	Arab Bank - Amman - Jordan.
		Saudi International Company for Ports
5	**Saud Mohammed Al-Nemer**	Saudi Solidarity (Takaful)

C) The structure of the Board of Directors and the classification of its members:

All members of the Board of Directors are non-executive directors, including three independent members. The following are the names of the members of the Board of Directors and their membership classification in the Company:

	Name	Title	Member Ranking	Remarks
1	Saleh Hussein Al-Awajji	Chairman of the Board	non-executive	
2	Sulaiman Abdullah Alkadi	Vice Chairman of the Board	independent	
3	Isam Alwan Al-Bayat	Board Member	non-executive	
4	Yousif Abdulaziz Al-Turki	Board Member	non-executive	
5	Abdulmajed Abdullah Al-Mubarak	Board Member	non-executive	
6	Saleh Saad Al-Mehanna	Board Member	non-executive	
7	Abdulhamid Ahmed Al-Omair	Board Member	non-executive	
8	Ali Ahmed Al-Muhareb	Board Member	independent	
9	Saud Mohammed Al-Nemer	Board Member	independent	

D) Board of Directors Committees:

Four standing committees emerged from the Board of Directors during 2015, which are:

1. Audit Committee.
2. Executive Committee.
3. Nomination, Remunerations and Human Resources Committee.
4. The Risk Committee, which was created by Governing Council Resolution No. 01/135/2015 on 05/07/2015.

What follows is a summary of the Standing Committees of the Board of Directors in 2015:

1- Audit Committee:

The Audit Committee consists of five non-executive members, including specialists in financial and accounting affairs. The company's General Assembly has approved the proposal of the Board of Directors on the rules of selection of its members, their membership duration and the working method of the committee. The Audit Committee held seven meetings during 2015, and the following table shows the Audit Committee members and the attendance of each:

	Name	Position	Number of attendance times
1	Saleh Saad Al-Mehanna	Chairman of the Committee	7
2	Isam Alwan Al-Bayat	Vice Chairman of the Committee	7
3	Abdul Rahman Bin Ibrahim Al-Hamid	Committee member	6
4	Abdul Rahman Bin Sulaiman Al-Tareeqi	Committee member	7
5	Yahya Bin Ali Al-Jaber	Committee member	7

The Audit Committee specializes in:

- Recommending, first to the Board of Directors and then to the General Assembly the selection of the external auditors, determination of their fees and dismissal, making sure that they are independent at the time of recommending their appointment.
- Reviewing the reports of the internal and external auditors particularly the administration's commitment to special rules and regulations and the internal and external accounting standards that have been adopted.
- Monitoring the company's internal audit in order to ensure its effectiveness in the implementation of the tasks as set forth by the Board of Directors.
- Studying the internal control system and compiling a written report stating its opinion and recommendations in this regard.
- Studying the internal audit reports and following up on the implementation of corrective actions mentioned in the notes.
- Following up the work of certified public accountants and certifies any work outside the scope of audit work that is assigned to them during their audit work.
- Studying the audit plan with the certified public accountant and providing comments.
- Studying the chartered accountant's notes on the financial statements and following up to see what has been done about it.
- Studying the interim financial statements and the annual financial statements prior to submitting them to the Board of Directors and expressing opinions and recommendations.
- Studies the accounting policies used, the opinion and the recommendations of the Board of Directors.
- Raising the findings of the proposals and recommendations to the Board of Directors for their approval.

2- Executive Committee:

The Executive Committee consists of six members. The Executive Committee held nine meetings during 2015. The following table shows the names of the members of the Executive Committee and the attendance record of each:

	Name	Position	Number of times present	Remarks
1	Saleh Hussein Al-Awajji	Chairman of the Committee	9	
2	Saleh Saad Al-Mehanna	Vice Chairman of the Committee	9	
3	Isam Alwan Al-Bayat	Committee member	9	
4	Abdulmajed Abdullah Al-Mubarak	Committee member	9	
5	Abdulhamid Ahmed Al-Omair	Committee member	9	
6	Ziyad Bin Mohammed Alshiha	Committee member - President and CEO	9	

The Executive Committee specializes in:

- Reviewing plans and studies related to the restructuring of the company's activities.
- Reviewing the general budget (capital and operating) and the proposed projects by the executive management, as well as studies, plans, and methods of financing related thereto.
- Periodically reviewing the company's achievements compared to the approved budgets.
- Considering the company's other matters as brought up by the Governing Council.

3- Nomination, Remunerations and Human Resources Committee:

The Nomination, Remunerations and Human Resources Committee consists of six members. It held seven meetings during 2015. The following table shows the names of Nomination, Remunerations and Human Resources Committee members and the attendance of each:

	Name	Position	Number of times present	Remarks
1	Sulaiman Abdullah Alkadi	Chairman of the Committee	7	
2	Saud Mohammed Al-Nemer	Vice Chairman of the Committee	7	
3	Saleh Hussein Al-Awajji	Committee member	7	
4	Yousif Abdulaziz Al-Turki	Committee member	6	
5	Ali Ahmed Al-Muhareb	Committee member	7	
6	Ziyad Mohammed Alshiha	Committee Member - President and CEO	7	

- The Committee's work rules include that the CEO should not attend the discussions of the topics that fall under the mandate of the Committee, contained in the Corporate Governance Regulation issued by the Capital Market Authority, or the confidential subjects of the CEO, and attendance is limited to the designated members of the Board of Directors of assigned to the Committee.

The Nomination, Remunerations and Human Resources Committee specializes in:

- Recommending for candidates for Board of Directors membership in accordance with approved policies and standards, making sure not to nominate any person previously convicted of any crime involving moral turpitude and dishonesty.
- Conducting annual review of the appropriate skills required for board membership and preparing a description of the required capabilities and qualifications for members of the Board of Directors including identifying the length of time devoted by the member to the works of the Board of Directors.
- Reviewing the structure of the Board of Directors and making recommendations regarding changes that can be made.
- Identifying the weaknesses and strengths of the Board of Directors, and proposing solutions on how to deal with them in accordance with the Company's interest.
- Ensuring the application of corporate governance requirements for the Board of Directors, its committees its Chief Executive Officer making sure on an annual basis that the independent members are indeed independent. Also, making sure of the absence of any conflict of interest regarding potential affiliation of a member if he is also a member of the Board of Directors of other companies.
- Developing clear policies for compensation and bonuses for directors and senior executives, and taking into account when setting these policies that performance-based criteria are used.
- Reviewing public policies and systems for Human Resources.
- Reviewing the salary scale, housing and transportation allowances of company employees.
- Nominating CEO, reviewing the CEO's remunerations and rewards, and recommending to the Board of Directors the extension of the CEO's services.
- Reviewing amendments to the organizational structure of the company for ranks 57 and above, and the recommendations of the Board of Directors members associated with it.
- Reviewing the basics of the distribution of annual bonuses, which are approved by the Board of Directors, and the recommendations of the Governing Council associated with it.
- Reviewing human resources rules and regulations related to retirement, health services, cooperative funds, savings funds, and reviewing the list of the Company's disciplinary actions which are certified by the Ministry of Labor.
- Reviewing the basis of annual bonuses for all employees of the company, and taking into account the recommendations of the members of the Board of Directors in this respect.
- Reviewing all matters referred by the Board of Directors related to Human Resources in the company.

4- Risk Committee:

The Risk Committee was established by virtue of the Board of Directors Resolution No. 01/135/2015 dated 07/05/2015, consisting of five members. The Risk Committee held three meetings during 2015. The following table contains the names of the members of the Risk Committee and the attendance of each:

Sr.	Name	Capacity	No. of attendances	Remarks
1	Abdulmajed Abdullah Al-Mubarak	Chairman of the committee	3	
2	Saud bin Mohammed Al-Nemer	Vice chairman	3	
3	Isam bin Alwan Al-Bayat	Committee member	3	
4	Thaleb bin Ali Al-Shamrani	Committee member	2	
5	Ziyad bin Mohammed Alshiha	Committee member - President and CEO	3	

The Risk Committee has the following powers:

- Supervising the preparation and adopting the suitable structure for risk management within the Company's structure, defining and adopting management tasks, and preparing rules and regulations that enable the Risk Committee to effectively perform its role.
- Identifying the main risks related to the Company's operation, applying suitable systems for managing risks, and informing the Board of Directors of the risks facing the Company's operation.
- Supervising the review and evaluation of strategic risks and creating annual reports of the current and potential strategic risks.
- Assuring there is enough positive culture in the Company for managing opportunities, threats, and uncertainties, and assuring that this culture become an integral part of the Company and its works.
- Setting policies and decisions related to matters that may lead to financial or other risks, or that may affect principles of the company. Conducting periodic review of performance quality, safety, and effectiveness of risk management.
- Assuring that the strategy of the company includes defining and understanding the main risks the company may face as it strives to achieve its goals through strategies and work plans.
- Providing oversight of information related to the growing risks to the Company, and assuring that the Board of Directors are informed of such risks.

E) Benefits and remunerations of the members of the Board of Directors and senior executives:

The following table contains details of the benefits and remunerations paid to the members of the Board of Directors and five senior executives, including the CEO and the financial manager, who received the highest benefits and remunerations:

Statement	Executive members of the board	Non-executive / independent members of the board	Senior executives
Salaries and remunerations	-	-	7,094,891
Allowances	-	914,482	1,643,003
Annual and regular benefits	-	2,141,250	1,721,000
Incentive Plans	-	-	-
Any other material remunerations or benefits paid monthly or annually	-	-	-
Total	-	3,055,732	10,458,894

F) Punishment and penalties imposed on the company:

The Telecommunications Dispute Settlement Commission issued eight resolutions that stipulated imposing fines with a total amount of 17,000 Riyal in relation to causing harm to communication networks. The Company, in light of what is available supported by its pleas and arguments, appealed these resolutions before the Board of Grievances of the Administrative Court which issued the following decisions:

1. Three decisions were issued for the benefit of the company, stating that the other party shall pay a total amount of 3,000 Saudi Riyals.
2. Four decisions were issued against the Company, stating that the Company shall pay a total amount of 13,000 Saudi Riyals. The Company is appealing these decisions.
3. There was one deliberated case, with a total value of 1,000 Riyal.

G) Results of the annual review of the effectiveness of internal control procedures:

The Audit Committee under the Board of Directors consisting of five members, three of whom are independent from the Board of Directors, studies periodic reports prepared by the Company's internal auditor and the remarks of the Company's external auditor, to better evaluate the internal control procedures in terms of design and application. The Audit Committee follows up the findings of the internal and external auditors and their recommendations for remedial action that is required for any shortcoming. The Committee also reviews all matters which are related to the effectiveness of internal control procedures in general through internal audit reports in relation to the fairness of financial statements in particular, while taking into account the fact that any system of internal control, regardless of the extent of its good design and effectiveness of its application, cannot provide absolute assurance.

25 - Report of the Chartered Accountant:

The fourteenth ordinary general assembly, held on 20/04/2015, approved the appointment of Ernst & Young & Co. as chartered accountants of the Company for the financial year ended 31/12/2015. The report of the Company's chartered accountant did not include any reservations on the annual financial statements from the Company's legal accountants.

26 - Recommendations of the Board of Directors in relation to the chartered accountant of the company:

The Board of Directors has not made any recommendations for replacing the chartered accountant since its adoption in the previous General Assembly.

Conclusion:

The Board of Directors of Saudi Electricity Company has the pleasure to express its sincere thanks and appreciation to all of the employees of the Company for their continuous and faithful efforts for achieving the Company's goals, protecting its gains and interests, and raising its reputation and competitiveness. We hope Allah - Glory be to Him - to bless all of these efforts so that the Company continuous to achieve its plans and programs for the support and upholding of socioeconomic development in the Kingdom and to always meet its demand for electric power.

Financial Statements

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Auditor's Report to The Shareholders of
Saudi Electric Company
(A Saudi Joint Stock Company)

Scope of audit

We have audited the accompanying' consolidated balance sheet of Saudi Electricity Company - a Saudi joint stock company ("the Company") and its subsidiaries ("the Group") as at 31 December 2015 and the related consolidated statements of income, cash flows and changes in shareholders' equity for the year then ended. These consolidated financial statements are the responsibility of the Group's management and have been prepared by them in accordance with the provisions of Article 123 of the Regulations for Companies and submitted to us together with all the information and explanations which we required. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the Kingdom of Saudi Arabia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable degree of assurance to enable us to express an opinion on the consolidated financial statements.

Unqualified opinion

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

i. Present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2015 and the consolidated results of its operations and its cash flows for the year then ended in accordance with accounting standards generally accepted in the Kingdom of Saudi Arabia.
ii. Comply with the requirements of the Regulations for Companies and the Company's by-laws in so far as they affect the preparation and presentation of the consolidated financial statements.

For Ernst & Young

(sgd.) Rashid S. AlRashoud
Certified Public Accountant
Registration No. 366

Riyadh: 13 Jumad Awal 1437H, 22 February 2016.

Saudi Electricity Company
(A Saudi Joint Stock Company)
Consolidated Balance Sheet
As at 31 December 2015
(In Thousands Saudi Riyals)

	Note	2015	2014
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	4	2,038,229	6,943,507
Receivables from electricity consumers and accrued revenues, net	5	20,512,384	15,843,675
Prepayments and other receivables, net	6	8,841,894	9,568,104
Inventories, net	7	6,495,066	6,602,409
TOTAL CURRENT ASSETS		**37,887,573**	**38,957,695**
NON-CURRENT ASSETS			
Loans to associated companies	8	859,885	2,250,125
Equity investments in companies and others	9	3,572,487	2,253,230
Construction work in progress	10	85,716,235	59,073,753
Fixed assets, net	11	229,993,769	215,373,390
TOTAL ASSETS		**358,029,949**	**317,908,193**
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES			
Accounts payable	12	52,460,414	39,122,255
Accruals and other payables	13	6,883,995	5,572,658
Short-term loans and current portion of long-term loans	15	3,347,122	2,254,469
TOTAL CURRENT LIABILITIES		**62,691,531**	**46,949,382**

NON-CURRENT LIABILITIES			
Long-term loans	15	22,266,954	17,420,128
Sukuk	16	34,940,490	34,940,490
Employees' indemnities	17	6,019,260	5,642,755
Deferred revenues, net	18	29,370,073	25,999,271
Consumers' refundable deposits		1,743,429	1,649,999
Government loans	19	39,991,482	33,760,607
Long-term Government payables	20	100,445,372	91,936,039
Provision for cash flows hedging contracts	21	212,231	367,026
TOTAL NON-CURRENT LIABILITIES		**234,989,291**	**211,716,315**
TOTAL LIABILITIES		**297,680,822**	**258,665,697**
Shareholder's equity			
Share capital	22	41,665,938	41,665,938
Statutory reserve		2,629,210	2,474,846
General reserve	23	557,898	554,912
Retained earnings	28	16,046,267	15,205,107
Cash flows hedging contracts reserve	21	(550,186)	(658,307)
TOTAL SHAREHOLDERS' EQUITY		**60,349,127**	**59,242,496**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**358,029,949**	**317,908,193**

Saudi Electricity Company
(A Saudi Joint Stock Company)
Consolidated Statement of Income
For The Year Ended 31 December 2015
(In Thousands Saudi Riyals)

	Note	2015	2014
OPERATING REVENUES			
Electricity sales		37,580,536	34,962,184
Meter reading, maintenance and bills preparation tariff		1,118,053	1,055,029
Electricity connection tariff	18	2,072,710	1,851,606
Revenue of transmission system		543,866	467,477
Other operating revenues		223,567	154,374
TOTAL OPERATING REVENUES		**41,538,732**	**38,490,670**
COST OF SALES			
Fuel		(5,977,520)	(6,232,252)
Purchased power	33/b	(7,313,327)	(6,430,276)
Operations and maintenance	24	(11,113,771)	(10,580,584)
Fixed assets depreciation – Operations and maintenance	11	(14,548,849)	(13,219,815)
TOTAL COST OF SALES		**(38,953,467)**	**(36,462,927)**
GROSS PROFIT FOR THE YEAR		**2,585,265**	**2,027,743**
General and administrative expenses	25	(607,762)	(589,340)
Fixed assets depreciation - General and administrative	11	(384,659)	(340,155)
INCOME FROM OPERATING ACTIVITIES		**1,592,844**	**1,098,248**
Reversal of provision for doubtful receivables	5	-	2,635,181
Non-recurring income (expenses)	26	201,513	(537,239)
Other (expenses) income, net	27	(250,715)	410,404
NET INCOME FOR THE YEAR		**1,543,642**	**3,606,594**
BASIC EARNINGS PER SHARE (SR):			
From operating activities		**0.38**	**0.26**
From net income for the year		0.37	0.87

Consolidated Statement of Cash Flows
For The Year Ended 31 December 2015
(In Thousands Saudi Riyals)

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income for the year	1,543,642	3,606,594
Adjustments to reconcile net income for the year with net cash from operating activities:		
Addition to (reversal of) provision for doubtful receivables, net	236,359	(2,635,181)
Provision for slow-moving inventories	-	16,866
Company's share in net earnings of investee companies accounted for under the equity method	(54,015)	(133,302)
Fixed assets depreciation	14,933,508	13,559,970
Gain on disposal of fixed assets, net	(85,072)	(91,736)
Accrued employees' indemnities, net	376,505	460,202
Changes in operating assets and liabilities:		
Receivables from electricity consumers and accrued revenues	(4,905,068)	5,243,150
Prepayments and other receivables	726,210	(2,851,808)
Inventories	107,343	18,981
Accounts payable	13,338,159	10,867,366
Deferred revenues, net	3,370,802	2,032,861
Accruals and other payables	1,297,974	892,640
Net proceeds and payments of customers' refundable deposits	93,430	94,437
Net cash from operating activities	**30,979,777**	**31,081,040**

CASH FLOWS FROM INVESTING ACTIVITIES		
Fixed assets and construction work in progress	(56,207,458)	(50,311,822)
Proceeds from sale of fixed assets	96,161	141,093
Loans to associated companies, net	142,125	(1,120,183)
Equity investment in companies and others	(63,801)	(173,451)
Net cash used in investing activities	**(56,032,973)**	**(51,464,363)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Net collection from Government loans and payables	14,740,208	14,813,478
Net proceeds from short and long-term loans	5,939,479	2,180,666
Issuance of global Sukuk	-	9,376,000
Net payment of local Sukuk	-	(2,500,000)
Dividends paid to shareholders and Board of Directors' remuneration	(531,769)	(530,456)
Net cash from financing activities	**20,147,918**	**23,339,688**
Net change in cash and cash equivalents during the year	**(4,905,278)**	**2,956,365**
Cash and cash equivalents, beginning of the year	6,943,507	3,987,142
CASH AND CASH EQUIVALENTS, END OF THE YEAR	**2,038,229**	**6,943,507**
Non-cash transactions:		
Transfer from loan for an associated company to equity investment (note 9 (a-3))	1,248,115	-
Change in cash flows hedging contracts reserve	108,121	(101,946)

Consolidated Statement of Changes in Shareholders' Equity
For The Year Ended 31 December 2015
(In Thousands Saudi Riyals)

	Note	Share capital	Statutory reserve	General reserve	Retained earnings	cash flows hedging contracts reserve	Total
For the year ended 31 December 2014							
Balance as at 1 January 2014		41,665,938	2,114,186	545,262	12,507,288	(556,361)	56,276,313
Net income for the year		-	-	-	3,606,594	-	3,606,594
Dividends paid to shareholders for 2013	28	-	-	-	(547,252)	-	(547,252)
Board of Directors' remuneration for 2013	29	-	-	-	(863)	-	(863)
Net change in cash flows hedging contracts reserve	21	-	-	-	-	(101,946)	(101,946)
Reconciliation of Electricity collection fee (individuals)	23	-	-	9,650	-	-	9,650
Transfer to statutory reserve		-	360,660	-	(360,660)	-	-
Balance as at 31 December 2014		41,665,938	2,474,846	554,912	15,205,107	(658,307)	59,242,496
For the year ended 31 December 2015							
Net income for the year		-	-	-	1,543,642	-	1,543,642
Dividends paid to shareholders for 2014	28	-	-	-	(547,252)	-	(547,252)
Board of Directors' remuneration for 2014	29	-	-	-	(866)	-	(866)
Net change in cash flows hedging contracts reserve	21	-	-	-	-	108,121	108,121
Reconciliation of Electricity collection fee (individuals)	23	-	-	2,986	-	-	2,986
Transfer to statutory reserve		-	154,364	-	(154,364)	-	-
Balance as at 31 December 2015		**41,665,938**	**2,629,210**	**557,898**	**16,046,267**	**(550,186)**	**60,349,127**

Saudi Electricity Company
(A Saudi Joint Stock Company)
Notes to The Consolidated Financial Statements
For The Year Ended 31 December 2015

1- Organization and Activities:

The Saudi Electricity Company (the "Company") was formed pursuant to the Council of Ministers' Resolution Number 169 dated 11 Sha'ban 1419H corresponding to 29 November 1998, which reorganized the Electricity Sector in the Kingdom of Saudi Arabia by merging all 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 belonging to the Ministry of Industry and Electricity (11 operating projects that covered various areas in the north of the Kingdom) in the Company.

The Company was founded pursuant to the Royal Decree No. M/16 dated 6 Ramadan 1420H corresponding to 13 December 1999, in accordance with the Council of Ministers' Resolution Number 153, dated 5 Ramadan 1420H corresponding to 12 December 1999 and the Minister of Commerce's Resolution Number 2047 dated 30 Dhul-Hijjah 1420H corresponding to 5 April 2000 as a Saudi joint stock company and registered in Riyadh under Commercial Registration Number 1010158683, dated 28 Muhurram1421H corresponding to 3 May 2000.

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

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

This was further amended by the Council of Ministers in its Decision Number 333 dated 16 Shawwal 1430H, corresponding to 5 October 2009, which granted the Board of Directors of the Electricity and Co-generation Regulatory Authority the right to review and adjust the non-residential (commercial, industrial and governmental) electricity tariff and approve them as long as the change does not exceed 26 Halala for each kilowatt per hour, taking into consideration, among other matters, the electrical consumption at peak times. This tariff was implemented starting 19 Rajab 1431H, corresponding to 1 July 2010.

On 17 Rabi Awal 1437H corresponding to 28 December 2015, Council of Ministers issued its resolution number 95, increasing power products prices effective from 18 Rabi Awal 1437H corresponding to 29 December 2015, and increasing electricity consumption tariff for all consumers, starting from 1 Rabi Thani 1437H corresponding to 11 January 2016. Therefore, it is expected that this resolution will have material effect on Group's financial statements and its future operations results.

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

The subsidiaries included in these consolidated financial statements are as follows:

Name of Subsidiary	Country of incorporation	Ownership % (direct & indirect)	Principal Activity
National Grid S.A. Company	Saudi Arabia	%100	Transmission of power from generation stations to distribution network and operation and maintenance of electricity transmission system.
Dawiyat Telecom Company	Saudi Arabia	%100	Establishing, leasing, managing and operating electricity and fiber optic networks to provide telecommunications services.
Electricity Sukuk Company	Saudi Arabia	%100	Provide services and support needed in relation of local bonds and Sukuk.
Saudi Electricity Global Sukuk Company	Cayman Islands	%100	Provide services and support needed in relation of international bonds and Sukuk.
Saudi Electricity Global Sukuk Company – 2	Cayman Islands	%100	Provide services and support needed in relation of international bonds and Sukuk.
Saudi Electricity Global Sukuk Company – 3	Cayman Islands	%100	Provide services and support needed in relation of international bonds and Sukuk.
Saudi Electricity for Projects Development Company	Saudi Arabia	%100	Management of construction projects, making of detailed design work, procurement of materials and executing projects in the energy sector.

2- Basis of Consolidation:

These consolidated financial statements include the assets, liabilities and operations' results of the Company and its subsidiaries (the "Group") set out in note (1) above.

A subsidiary company is that in which the Company has a long term investment comprising an interest of more than 50% in the voting capital or over which it exercises practical control. A subsidiary company is consolidated from the date of which the Company obtains control until the date that control ceases.

All significant inter-group balances and transactions have been eliminated upon the preparation of these consolidated financial statements.

3- Summary of Significant Accounting Policies:

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

Accounting Convention:

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

Accounting Estimates:

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

Cash and Cash Equivalents:

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

Electricity Consumers Receivables:

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

Inventories:

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

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

Investments:

Investments in Companies' Equity:

Investments in companies of which the Group hold 20% and more of interest are accounted for using the equity method, whereby the investment is initially stated at cost, adjusted thereafter by the post acquisition change of the Group's share in the net assets of the investee company. The Group's share in the results of these companies is recognized in consolidated statement of income.

Investments of less than 20% of share capital of unquoted companies are stated at cost. Income from these investments is recognized in consolidated statement of income when dividends are received from the investee companies.

Investments Held to Maturity:

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

Fixed Assets:

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

Expenditure for repair and maintenance are charged to the consolidated statement of income. Betterments that materially increase the value or extend the life of the related assets are capitalized.
The estimated operational useful lives are as follows:

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

Impairment of Non-Current Assets:

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

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

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

Capitalization of Borrowing Costs:

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

Government Loan with Definite Payment Terms:

The Government loan with definite payment terms is recognized at present value using an estimated discount rate for Group's borrowing. The difference between the amount received and the present value is recorded as deferred income (Government grant) and presented under the long-term Government payables and recognized over the remaining period of the loan against the corresponding expenses.

Derivative Financial Instruments and Hedge Accounting:

The Group uses derivative financial instruments to hedge its cash flow exposures to interest rates. Such derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

Changes in the fair value of derivatives determined as effective cash flows hedges are taken directly to the equity, while the ineffective portion of cash flow hedges, is recognized in the consolidated statement of income.

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

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

Accounts Payable and Accruals:

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

Employees' Indemnity:

Provision for employees' indemnity consists of the following:

Provision for end of Service Benefits:

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

Savings Program:

The Group contributes in saving fund for eligible employees based on approved policy. The Group's share of the contribution in the saving fund is charged monthly to the consolidated statement of income.

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 consolidated statement of income for the year in which such assessment is obtained.

Statutory Reserve:

In accordance with the Regulations for Companies and the Company's bylaws, 10% of net income for the year is transferred to statutory reserve. The Company's General Assembly may discontinue such transfer when the reserve equals 50% of the share capital. This reserve is not available for distribution.

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 consolidated balance sheet date are accrued for.

Revenue from meter reading, maintenance and bills preparation tariff 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 tariff that is not billed at the consolidated balance sheet date is accrued for.

Electricity service connection tariff received from consumers is deferred and recognized on a straight-line basis over the average useful lives of the equipment used in serving the consumers, estimated between (20 – 30) years.

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

Expenses:

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

Operating lease:

Leases on which terms of capital lease are not applicable are classified as operating leases. Payments under operating leases are recognized as an expense in the consolidated statement of income on a straight-line basis over the term of the lease.

Basic Earnings (Losses) Per Share for The Year:

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

Foreign Currency Transactions:

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

4- Cash and Cash Equivalents:

	In Thousands Saudi Riyals	
	2015	**2014**
Cash on hand	4,065	3,967
Cash at banks	1,461,683	1,100,068
Short-term deposits	572,481	5,839,472
	2,038,229	**6,943,507**

5- Receivables from Electricity Consumers and Accrued Revenues, Net:

	In Thousands Saudi Riyals	
	2015	**2014**
Electricity consumers' receivable		
Governmental institutions	10,063,733	5,254,601
Commercial and residential	3,874,535	4,484,536
Electricity service connection projects receivables	3,046,279	2,294,234
Saudi Arabian Oil Company ("Saudi Aramco")	1,315,670	1,685,658
VIPs consumers	385,571	351,121
Saline Water Conversion Corporation	227,540	458,373
Total electricity consumers' receivable	18,913,328	14,528,523
Less: Provision for doubtful receivables (a)	(485,937)	(249,578)
Net electricity consumers' receivable	18,427,391	14,278,945
Add: Accrued revenues	2,084,993	1,564,730
Total	**20,512,384**	**15,843,675**

(a) The movement in the provision for doubtful receivables during the year is as follow:

	In Thousands Saudi Riyals	
	2015	**2014**
Balance at the beginning of the year	249,578	2,884,759
Charge for the year	236,359	-
Reversal of provision for doubtful receivables *	-	(2,635,181)
Balance at the end of the year	**485,937**	**249,578**

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

6- Prepayments and Other Receivables, Net:

	In Thousands Saudi Riyals	
	2015	**2014**
Advances to contractors and suppliers	4,915,993	5,949,272
Other Government receivables	2,875,875	2,875,442
Prepaid expenses	10,089	18,781
Outstanding letters of credit	1,022	1,990
Other receivables, net	1,099,131	782,835
Total	8,902,110	9,628,320
Less: Provision for other doubtful receivables	(60,216)	(60,216)
	8,841,894	**9,568,104**

7- Inventories, Net:

	In Thousands Saudi Riyals	
	2015	**2014**
Generation plant materials and supplies	3,200,217	3,085,755
Distribution network materials and supplies	2,567,466	2,908,842
Fuel and oil	441,135	423,678
Transmission network materials and supplies	371,156	348,057
Other	408,446	329,431
Total	6,988,420	7,095,763
Less: Provision for slow moving inventories (a)	(493,354)	(493,354)
	6,495,066	**6,602,409**

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

	In Thousands Saudi Riyals	
	2015	**2014**
Balance at the beginning of the year	493,354	476,488
Charge for the year	-	16,866
Balance at the end of the year	**493,354**	**493,354**

8- Loans to Associated Companies:

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

Associated company	Ownership %	In Thousands Saudi Riyals	
		2015	2014
Dhuruma Electricity Company	50	731,567	825,317
Rabigh Electricity Company	20	72,950	105,950
Jubail Water and Power Company	5	28,500	43,875
Hajr for Electricity Production Company (note 9 (a-3))	50	26,868	1,274,983
Total		**859,885**	**2,250,125**

9- Equity Investments in Companies and Others:

	In Thousands Saudi Riyals	
	2015	2014
Investments accounted for under the equity method (a)	3,089,584	1,834,129
Other investments, at cost (b)	272,631	272,631
Held to maturity investments (c)	210,272	146,470
	3,572,487	**2,253,230**

A) Investments Accounted for under The Equity Method:

31 December 2015	Ownership %	In Thousands Saudi Riyals					
		Opening balance before Company's share in cash flows hedging contracts reserve as of 1 January 2015	Addition during current year	Share in net income (loss)	Gross investment balance before Company's share in cash flows hedging contracts reserve as of 31 December 2015	Share in cash flows hedging contracts reserve **	Net investment balance as of 31 December 2015
Gulf Cooperation Council Interconnection Authority (a-1)	31.6	1,663,189	-	(55,966)	1,607,223	-	1,607,223
Water and Electricity Company (a-2)	50.0	14,508	-	191	14,699	-	14,699
Hajr for Electricity Production Company (a-3)*	50.0	88,962	1,248,115	11,589*	1,348,666	(103,705)	1,244,961
Rabigh Electricity Company (a-4)*	20.0	273,057	-	35,806*	308,863	(86,162)	222,701
Dhuruma Electricity Company (a-5)*	50.0	81,047	-	62,670*	143,717	(143,717)	-
Al Mourjan for Electricity Production Company (a-6)*	50.0	4,647	-	(275)*	4,372	(4,372)	-
		2,125,410	**1,248,115**	**54,015**	**3,427,540**	**(337,956)**	**3,089,584**

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

* The Company purchases power produced by Hajr for Electricity Production Company, Rabigh Electricity Company and Dhuruma Electricity Company which are engaged in the power production. The Company's share in net income of these companies together with the equivalent costs of power purchased have been eliminated being inter-company transactions. The Company's share in those companies net income during the year ended 31 December 2015 amounted to SR 110 million (2014: SR 186 million).

** These amounts represents Company's share in unrealized losses from change in cash flows hedging contracts reserve recognized within the equity of investees to the extent of investment balance. Additional reserves were created to account for further commitments exceeding the investment balance amounting to SR 138 million as of 31 December 2015 (2014: SR 201 million) (note (21)).

(A-1) Gulf Cooperation Council Interconnection Authority:

The Company has contributed in the capital of the Gulf Cooperation Council Interconnection Authority (hereafter referred to as "GCCIA") at inception to enhance the electricity transmission and distribution between the member countries. The Company's contribution in GCCIA amounts to USD 484.8 million equivalent to SR 1.8 billion.

(A-2) Water and Electricity Company:

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

(A-3) Hajr for Electricity Production Company:

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

During the current year, the Company contributed in the capital increase of Hajr for Electricity Production Company –according with its ownership percentage- by an amount of SR 1,248 million which was transferred from loan extended previously. The Company's share in Hajr for Electricity Production Company capital became SR 1,253 million.

(A-4) Rabigh Electricity Company:

Pursuant to the Board of Directors' Resolution No. 06/76/2008 dated 26 Jumad Awal 1429H corresponding to 3 June 2008, the Company established Rabigh Electricity Company with a share capital of SR 2 million. During 2009, Rabigh Electricity Company increased its capital from SR 2 million to SR 10 million by admission of new partners and Company's share became 20% of the partners' shareholding.

During 2013, the Company contributed in the capital increase of Rabigh Electricity Company – according to signed partner's agreement- by an amount of SR 183 million which was transferred from loan extended previously. The Company's share in Rabigh Electricity Company capital became SR 185 million

(A-5) Dhuruma Electricity Company:

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

(A-6) Al-Mourjan for Electricity Production Company:

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

B) Other investments, at cost:

	Ownership %	In Thousands Saudi Riyals	
		2015	2014
Shuaiba Water and Electricity Company	8	124,840	124,840
Shuqaiq Water and Electricity Company	8	89,600	89,600
Jubail Water and Power Company	5	44,125	44,125
Shuaibah Expansion Holdings Company	8	14,066	14,066
Total		**272,631**	**272,631**

C) Held to maturity investments:

	In Thousands Saudi Riyals	
	2015	2014
Saudi British Bank's Sukuk "SABB"	70,000	70,000
Almarai Company Sukuk "Almarai"	40,000	-
Sadara Company for Basic Services' Sukuk "Sadara"	25,000	25,000
Arab National Bank Sukuk "ANB"	25,000	-
Arabian Aramco Total Services Company's Sukuk "SATORP"	23,272	24,470
National Commercial Bank's Sukuk "NCB"	17,000	17,000
National Petrochemical Company's Sukuk "PetroChem"	10,000	10,000
Total	**210,272**	**146,470**

10- Construction Work in Progress:

In Thousands Saudi Riyals						
	2015					2014
	Generation projects	Transmission projects	Distribution projects	General projects	Total	Total
At the beginning of the year	21,769,044	30,310,178	5,273,601	1,720,930	59,073,753	54,181,456
Additions during the year	14,042,072	26,465,205	14,042,446	641,973	55,191,696	49,507,140
Transfer to fixed assets	(7,412,207)	(13,495,445)	(6,400,645)	(1,240,917)	(28,549,214)	(44,614,843)
Balance at 31 December 2015	**28,398,909**	**43,279,938**	**12,915,402**	**1,121,986**	**85,716,235**	
Balance at 31 December 2014	21,769,044	30,310,178	5,273,601	1,720,930		59,073,753

Net borrowing costs capitalized on projects under construction during the year amounted to SR 1.75 billion (2014: SR 1.95 billion).

11- Fixed Assets, Net:

In Thousands Saudi Riyals								
	2015							2014
	Land	Buildings	Machinery and equipment	Capital spare parts	Vehicles and heavy equipment	Others	Total	Total
Cost:								
At the beginning of the year	2,663,465	23,320,105	350,882,941	4,577,145	1,355,544	6,596,524	389,395,724	344,509,654
Additions	505,164	1,076,526	26,614,355	277,752	290,030	819,881	29,583,708	45,443,043
Disposals	-	(7,003)	(465,662)	-	(32,093)	(7,905)	(512,663)	(556,973)
At the end of the year	3,168,629	24,389,628	377,031,634	4,854,897	1,613,481	7,408,500	418,466,769	389,395,724
Depreciation:								
At the beginning of the year	-	11,855,738	155,081,616	2,411,111	1,128,273	3,545,596	174,022,334	160,946,462
Charge for the year	-	1,000,108	13,143,060	164,434	82,087	543,819	14,933,508	13,559,970
Disposals	-	(5,389)	(437,690)	-	(32,093)	(7,670)	(482,842)	(484,098)
At the end of the year	-	12,850,457	167,786,986	2,575,545	1,178,267	4,081,745	188,473,000	174,022,334
Net book amounts:								
At 31 December 2015	3,168,629	11,539,171	209,244,648	2,279,352	435,214	3,326,755	229,993,769	
At 31 December 2014	2,663,465	11,464,367	195,801,325	2,166,034	227,271	3,050,928		215,373,390

Land includes plots of land with book value of SR 60 million (2014: SR 188 million), the title deeds of which have not yet been transferred to the Company's name.

Net book value of the Group's fixed assets is allocated to the main activities as follows:

In Thousands Saudi Riyals					
2015					
	Generation	**Transmission**	**Distribution**	**General Property**	**Total**
Land	238,335	597,374	225,230	2,107,690	3,168,629
Buildings	6,959,679	3,317,090	224,686	1,037,716	11,539,171
Machinery & equipment	80,697,273	65,794,638	62,284,072	468,665	209,244,648
Capital spare parts	1,615,015	528,333	135,938	66	2,279,352
Vehicles and heavy equipment	-	209	-	435,005	435,214
Others	1,884,840	379,025	385,699	677,191	3,326,755
	91,395,142	**70,616,669**	**63,255,625**	**4,726,333**	**229,993,769**

In Thousands Saudi Riyals					
2014					
	Generation	**Transmission**	**Distribution**	**General Property**	**Total**
Land	238,335	587,244	225,151	1,612,735	2,663,465
Buildings	7,418,927	2,804,612	232,996	1,007,832	11,464,367
Machinery & equipment	79,133,938	56,245,955	60,032,084	389,348	195,801,325
Capital spare parts	1,626,809	442,063	97,069	93	2,166,034
Vehicles and heavy equipment	-	208	-	227,063	227,271
Others	2,074,951	368,585	399,634	207,758	3,050,928
	90,492,960	**60,448,667**	**60,986,934**	**3,444,829**	**215,373,390**

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

	In Thousands Saudi Riyals	
	2015	**2014**
Generation depreciation expense	6,528,195	5,923,473
Transmission depreciation expense	3,907,474	3,458,711
Distribution depreciation expense	4,113,180	3,837,631
General property depreciation expense	384,659	340,155
	14,933,508	**13,559,970**

12- Accounts Payable:

	In Thousands Saudi Riyals	
	2015	**2014**
Saudi Aramco payable for fuel cost	73,668,251	68,315,477
Transferred to the Government account (a)	(57,200,552)	(57,200,552)
Saudi Aramco payable for fuel cost, net	16,467,699	11,114,925
Advances received for electricity service connection projects	11,159,364	9,038,979
Saline Water Conversion Corporation for purchased power cost	10,049,688	9,631,861
Municipality fees	5,390,308	4,767,910
Contractors and retention payables	3,637,297	679,971
Purchased power payable	2,882,403	1,345,415
Payables to suppliers	459,653	426,246
Other (b)	2,414,002	2,116,948
	52,460,414	**39,122,255**

A. This amounts represents payables for fuel for the period from 5 April 2000 to 31 December 2012 which have been transferred from the liability to Saudi Aramco to long-term Government payables, latest transfer was before the end of 2013 (note (20)).

B. Other payables include SR 1.2 billion (2014: SR 1.2 billion) which are still under reconciliation between the Company and the Government and pertain to pre-merge accounts (refer to note (1)).

13- Accruals and Other Payables:

	In Thousands Saudi Riyals	
	2015	**2014**
Accrued expenses	5,301,660	3,890,440
Accrued employees' benefits	745,531	696,875
Dividends payable *	385,182	368,833
Accrued interests on loans	266,483	376,964
Other	185,139	239,546
	6,883,995	**5,572,658**

* Dividends payable as of 31 December 2015 includes unclaimed cash dividends declared by Saudi Consolidated Electricity Company prior to the merge, amounting to SR 86.4 million (2014: SR 86.5 million).

14- Zakat:

Zakat Base:

The major components of zakat base are as follows:

	In Thousands Saudi Riyals	
	2015	**2014**
Net income for the year	1,543,642	3,606,594
Add: Zakat adjustment	(11,961,268)	(10,981,070)
Net adjusted loss	(10,417,626)	(7,374,476)

Zakat base is calculated as follows:

Share capital	41,665,938	41,665,938
Net adjusted loss	(10,417,626)	(7,374,476)
Retained reserves	3,029,758	2,659,448
Retained earnings	14,656,989	11,960,030
Retained allowances	6,684,073	6,326,159
Long term loans and sukuk	60,554,566	54,177,087
Government loans and payables	83,236,302	68,496,094
Contractors accruals and others	4,022,479	955,148
Total	203,432,479	178,865,428
Deduct:		
Fixed assets and construction work in progress, net	(202,319,090)	(173,696,528)
Difference on depreciation of fixed assets for previous years	(87,212,078)	(75,845,674)
Long term investments	(3,362,215)	(1,999,675)
Material and spare parts inventories	(4,911,071)	(5,135,919)
Zakat base (negative)	(94,371,975)	(77,812,368)

No Zakat is due on the Company for the year ended 31 December 2015 and 2014 due to the net adjusted loss and zakat base is negative.

Zakat Status:

The Company has received the Zakat assessments for the period ended in 31 December 2001 and for the years from 2002 to 2008 which showed Zakat differences of SR 37.5 million for the period ended 31 December 2001 and the years 2002, 2003 and 2004, the Company has agreed on the zakat assessments for the years from 2005 to 2008. The Company has filed appeals against those differences which were rejected by the Department of Zakat and Income Tax ("DZIT") and referred them to the First Preliminary Zakat and Tax Appeal Committee ("PAC"), PAC has rejected the appeal in form, per its resolution No. 29 for the year 1433H. The Company has filed an appeal before Higher Appellate Committee ("HAC") which has reviewed the Company's appeal and rejected it per its ruling No. 1458 for the year 1436H. Consequently, the Company has settled the differences of SR 24 million for the years 2002, 2003 and 2004 as per HAC ruling.

The Company has filed the Zakat returns for the years 2009 to 2014 which are still under review by DZIT.

15- Loans and bank facilities

	In Thousands Saudi Riyals	
	2015	**2014**
Loans at the beginning of the year	19,674,597	17,493,931
Withdrawals during the year	8,240,715	3,997,635
Repayments during the year	(2,301,236)	(1,816,969)
Loans at the end of the year	25,614,076	19,674,597
Less: Short-term loans (i)	(1,000,000)	-
Less: Current portion of long-term loans (ii)	(2,347,122)	(2,254,469)
Total short-term loans and current portion of long-term loans	(3,347,122)	(2,254,469)
Long-term balance at the end of the year (ii)	22,266,954	17,420,128

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

	In Thousands Saudi Riyals	
	2015	**2014**
More than one year	2,857,747	2,254,469
Between two to three years	2,857,747	2,254,469
Between three to four years	2,857,747	2,254,469
Between four to five years	2,585,020	2,254,469
More than five years	11,108,693	8,402,252
Total	**22,266,954**	**17,420,128**

i) Short-term Loans:

On 16 December 2015, the Company signed a credit facility agreement in form of Saudi Riyals Islamic Murabaha with National Commercial Bank (NCB) and SAMBA Financial Group. The amount of the facility is SR 2.5 billion and for three years. The utilized balance of this facility amounted to SR 1 billion as of 31 December 2015 (2014: SR nil) and is due for repayment during March 2016.

ii) Long-term Loans:

A. On 28 July 2008, the Company obtained a sharia-compliant loan for SR 6 billion from a syndicate of local banks which has been fully withdrawn. The loan is repayable over 22 equal semi-annual installments starting 3 November 2009. The loan balance amounted to SR 2.5 billion as of 31 December 2015 (2014: SR 3 billion).

B. On 13 July 2009, the Company signed a financing agreement with the Public Investments Fund whereby the Company receive a direct loan of SR 2.6 billion which has been fully withdrawn. The loan is repayable within 15 years over 24 equal semi-annual installments starting 31 December 2012. The loan balance amounted to SR 1.8 billion as of 31 December 2015 (2014: SR 2 billion).

C. On 27 January 2010, the Company signed a financing agreement with the Export-Import Bank of the United States, and the Export Development Bank of Canada whereby the Company receive a direct loan amounting to SR 4.1 billion (US$ 1.1 billion) which has been fully withdrawn. The loan is repayable within 12 years over 23 equal semi-annual installments starting 25 May 2010. The loan balance amounted to SR 2 billion as of 31 December 2015 (2014: SR 2.3 billion).

D. On 13 December 2010, the Company signed an agreement with a syndicate of local banks whereby the Company obtains a sharia compliant loan of SR 5 billion which has been fully withdrawn. The loan is repayable within 15 years over 26 equal semi-annual installments starting 13 May 2013. The loan balance amounted to SR 3.8 billion as of 31 December 2015 (2014:SR 4.2 billion).

E. On 22 June 2011, the Company signed an agreement with Export and Import French Bank whereby the Company obtains a loan of SR 3.7 billion (US$ 989.1 million) which has been fully withdrawn. The loan is repayable within 12 years over 24 equal semi-annual installments starting 11 January 2012. The loan balance amounted to SR 2.5 billion as of 31 December 2015 (2014:SR 2.8 billion).

F. On 29 March 2012, The Company signed a loan agreement guaranteed by two Export Korean banks (K Shore and K Exim) where a syndicate of international banks participated in financing the loan led by HSBC Group, Tokyo-Mitsubishi Bank, Sumitomo Mitsui Banking Corporation, Mizuho Bank and KFW Bankengruppe. The loan amount is SR 5.3 billion (US$ 1.4 billion) which has been fully withdrawn. The loan is repayable within 12 years over 24 equal semi-annual installments starting 7 May 2015. The loan balance amounted to SR 4.8 billion as of 31 December 2015 (2014: SR 5.3 billion).

G. On 18 December 2013, The Company signed a loan agreement guaranteed by two Export Japanese banks (NEXI) and (JBIC) where Export Japanese bank (JBIC), Tokyo-Mitsubishi Bank, and Mizuho Bank participated in financing the loan. The amount of the loan is SR 1.4 billion (US$ 366 million). The loan is repayable within 12 years over 24 equal semi-annual installments starting 27 July 2015. The loan balance amounted to SR 1.1 billion as of 31 December 2015 (2014: SR nil).

H. On 19 December 2013, The Company signed a loan agreement guaranteed by two Export Korean banks (K Shore and K Exim), where Export Korean banks (K Shore and K Exim), and various international banks, Tokyo-Mitsubishi Bank, Mizuho Bank, Sumitomo Mitsui Banking Corporation, HSBC Group, Deutsche Bank and KfW IPEX-Bank have participated in financing the loan. The amount of the loan is SR 6.1 billion (US$ 1.6 billion) which has been fully withdrawn. The loan is repayable within 12 years with a grace period of 3 years. The loan balance amounted to SR 6.1 billion as of 31 December 2015 (2014: SR nil).

The long-term loans mentioned above are used in financing construction projects. These loans are secured by promissory notes singed by the Company for the nominal value of the loan plus the interest payments and/or Murabaha margin.

iii) Bank Facilities:

On 7 December 2015, The Company signed a framework financing agreement with Export Korean Bank (K-Exim) for three years starting from the date of signing. The agreement entitles

the Company to obtain various loans in the future at its option up to SR 11.25 billion (US$ 3 billion). The Company did not execute the agreement till 31 December 2015.

The Company has unutilized signed credit facilities with local commercial banks amounting to SR 1.2 billion as of 31 December 2015 (2014: SR 0.7 billion).

16- Sukuk:

The outstanding Sukuk as of 31 December 2015 are as follows:

Local Sukuk:

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

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

The Company has undertaken to purchase these Sukuk from Sukuk holders at dates specified in prospectus. At each purchase date, the Company shall pay an amount of 5% to 10% of the aggregate face value of the Sukuk as bonus to the Sukuk holders. The purchase price is determined by multiplying Sukuk's par value at the percentage shown against the purchase date, as follows:

	Percentage		
	90%	**60%**	**30%**
Issue	**First purchase date**	**Second purchase date**	**Third purchase date**
Sukuk 3	2017	2020	2025

	Percentage		
	95%	**60%**	**30%**
Issue	**First purchase date**	**Second purchase date**	**Third purchase date**
Sukuk 4	2024	2034	2044

On 15 July 2012, the Company has fully purchased its first Sukuk issued (Sukuk 1) amounting to SR 5 billion.
On 6 July 2014, the Company has fully purchased its second Sukuk issued (Sukuk 2) amounting to SR 7 billion.

Global Sukuk:

A. During April 2012, the Company issued Global Sukuk amounting to SR 6.6 billion equivalent to approximately (US$ 1.75 billion). The issuance consists of two types of Global Sukuk certificates. The first type amounting to US$ 0.5 billion maturing after 5 years with fixed rate of 2.665%, the second type amounting to US$ 1.25 billion maturing after 10 years with fixed rate of 4.211%.
B. During April 2013, the Company also issued Global Sukuk amounting SR 7.5 billion equivalent to (US$ 2 billion). The issuance consists of two types of Global Sukuk Certificates. The first type amounting to US$ 1 billion maturing after 10 years with fixed rate of 3.473%, the second type amounting to US$ 1 billion maturing after 30 years with fixed rate of 5.06%.
C. During April 2014, the Company also issued Global Sukuk amounting to SR 9.4 billion equivalent to (US$ 2.5 billion). The issuance consists of two types of Global Sukuk certificates, the first type amounting to US$ 1.5 billion maturing after 10 years with fixed rate of 4%, the second type amounting to US$ 1 billion maturing after 30 years with fixed rate of 5.5%.

17- Employees' Indemnities:

	In Thousands Saudi Riyals	
	2015	**2014**
Provision for end-of-service indemnities	5,010,083	4,750,868
Savings program	875,644	673,443
Human resources productivity improvement program (the "Program")-(a)	133,533	218,444
	6,019,260	**5,642,755**

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

18- Deferred Revenues, Net:

	In Thousands Saudi Riyals	
	2015	**2014**
Balance at the beginning of the year	25,999,271	23,966,410
Collected from electricity service connection projects	5,443,512	3,884,467
Realized during the year	(2,072,710)	(1,851,606)
	29,370,073	**25,999,271**

19- Government Loans:

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

   The minutes of the meeting held on 21 Rajab 1422H between the Minister of Industry and Electricity and the Minister of Finance and National Economy in which the initial amount of the Government loan was determined, states that the final settlement of 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 15 Rajab 1426H which brought the balance of Government loan amounted to SR 14.9 billion.

B. The Council of Ministers approved in its meeting held on Monday 12 Jumad Awal 1431H corresponding to 26 April 2010 to grant the Company a soft loan amounting to SR 15 billion repayable over 25 years. The loan will be paid to the Company within 2 years in accordance with an agreement made for this purpose between the Ministry of Finance and the Company. This loan has been fully withdrawn as at 31 December 2015 (2014: fully withdrawn). The Company has recognized the amount received from the Government loan above discounted to its present value.

C. The Council of Ministers approved in its meeting held on Monday 11 Rajab 1432H corresponding to 13 June 2011 to grant the Company a soft loan amounting to SR 51.1 billion repayable over 25 years. The loan will be paid to the Company within 5 years in accordance with an agreement made for this purpose between the Ministry of Finance and the Company. An amount of SR 38.3 billion from this loan has been withdrawn as at 31 December 2015 (2014: SR 30.7 billion). The Company has recognized the amount received from the Government loan above discounted to its present value. However, the loan agreement provides that the loan amount will be reduced by proceeds collected by the Company due to any increase in the residential sector tariff. In light of the latest tariff amendments (note 1), the Company is currently determining the effect on the loan maturity or future payments not withdrawn yet.

D. The Council of Ministers approved in its meeting held on Monday 9 Jumad Awal 1435H corresponding to 10 March 2014 to grant the Company a soft loan amounting to SR 49.4 billion repayable over 25 years. The loan will be paid to the Company within 5 years in accordance with an agreement made for this purpose between the Ministry of Finance and the Company. An amount of SR 14.1 billion from this loan has been withdrawn as at 31 December 2015 (2014: SR 7 billion). The Company has recognized the amount received from the Government loan above discounted to its present value.

20- Long-term Government Payables:

The long-term Government payable includes SR 57 billion representing the accounts payable for fuel for the period from 5 April 2000 to 31 December 2012 which has been reclassified from current liabilities to non-current liabilities (long-term Government payables) pursuant to the Ministerial minutes of meeting and resolutions which resolved to transfer the Company's liability of Saudi Aramco to the account of the Ministry of Finance according to specific procedures and approvals, the latest was before the end of 2013 (Note 12).

Also, the long-term Government payable includes an amount of SR 42.3 billion as at 31 December 2015 (2014: SR 34 billion) representing the difference between the amount proceed from Government as a soft loans and the discounted present value of these loans (Note 19- (b), (c) & (d)).

21- Derivatives:

The Company entered into interest rate hedging contracts with several banks to hedge the fluctuations in interest rates on loans for an amount of SR 1.4 billion on 31 December 2015 (2014: SR 1.8 billion) which includes a US Dollar portion representing approximately 15% of the notional amount. The hedging contracts are based on the swap between the Company and the banks of fixed rates against floating rates on the original loan amounts every six-months.

The cash flows hedging contracts reserve shown in the shareholders equity includes the Group's share in the unrealized gains and losses resulting from the change in the fair value of hedging contracts recognized within the equity of investees (note 9-(a)).

22- Share Capital:

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

	Number 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	**100.00%**

23- General Reserve:

General reserve consists of the balances of the reserves amounting to SR 214 million that were reflected in the financial statements of Saudi Consolidated Electricity Company at the date of the merge and investment income from electricity fund of SR 295 million as well as the collections of surcharge from individuals subsequent to 31 December 2001 amounting to SR 49 million up to 31 December 2015 (2014: SR 46 million). The total general reserve amounted to SR 558 million as at 31 December 2015 (2014: SR 555 million).

24- Operation and Maintenance Expenses:

	In Thousands Saudi Riyals				
	2015				2014
	Generation	Transmission	Distribution	Total	Total
Employees' expenses and benefits	1,762,736	1,114,310	2,961,742	5,838,788	5,794,821
Operation and maintenance (contractors)	530,052	201,795	563,106	1,294,953	1,303,839
Materials	745,998	42,991	212,501	1,001,490	1,055,530
Municipality fees	-	-	622,709	622,709	542,517
Provision for doubtful receivables	-	-	236,359	236,359	-
Provision for slow moving inventory	-	-	-	-	15,527
Others	1,031,283	262,179	826,010	2,119,472	1,868,350
	4,070,069	**1,621,275**	**5,422,427**	**11,113,771**	**10,580,584**

25- General and Administrative Expenses:

	In Thousands Saudi Riyals	
	2015	2014
Employees' expenses and benefits	346,540	401,036
Communication	68,503	44,795
Materials	66,282	52,828
Provision for slow moving inventory	-	1,339
Others	126,437	89,342
	607,762	**589,340**

26- Non-recurring Income (Expenses):

Non-recurring income for year ended 31 December 2015 represents reconciliations related to applying new billing system which resulted in net adjustments results in favor of the Group with an amount of SR 202 million (2014: SR 537 million representing an expense as a result of an adjustments related to the dispute with Saudi Aramco (Note 30/a)).

27- Other (Expenses) Income, Net:

	In Thousands Saudi Riyals	
	2015	**2014**
Penalties and fines	102,053	230,355
Gain on disposal of fixed assets, net	85,072	91,736
Sale of tender documents	22,099	34,443
Company's share in net loss of investee companies accounted for under the equity method (Note 9-(a))	(55,775)	(53,038)
Additional employees expenses (a)	(561,457)	-
Others, net	157,293	106,908
	(250,715)	**410,404**

(a) This item represents two month's salary as award to the Company's employees pursuant to the Royal Decree.

28- Dividends:

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

The General Assembly, in its meeting held on 20 April 2015, approved distributing cash dividends for the year 2014 to individual shareholders amounting of SR 547 million (SR 0.70 per share) representing 7% of the par value per share (for the year 2013: SR 547 million (SR 0.70 per share) representing 7% of the par value per share).

The Board of Directors in its meeting held on 13 Jumad Awal 1437H corresponding to 22 February 2016, proposed to distribute cash dividends for 2015 to individuals shareholders amounting to SR 547 million, (SR 0.7 per share), representing 7% of the par value per share. These is subject to the approval of the Company's general assembly meeting.

29- Board of Directors' Remuneration and Allowances:

The expenses and allowances attributable to attending the Board of Directors meetings and other subcommittee meeting for the year amounted to SR 822 thousand (2014: SR 799 thousand).

The General Assembly, in its meeting held on 20 April 2015, approved Board of Directors' remuneration for the year 2014 of SR 866 thousand from the retained earnings (for the year 2013: SR 863 thousand).

The Board of Directors in its meeting held on 13 Jumad Awal 1437H corresponding 22 February 2015, proposed board's remuneration of SR 932 thousand after the distribution of dividends to individual shareholders not less than 5% of the share capital. This is subject to general assembly meeting's approval.

30- Settlement of Dispute with Saudi Aramco:

a) Settlement of Dispute on Power Exchange:

During 2014, the Company has reached a settlement agreement with Saudi Aramco in respect of old outstanding claims related to cost of exchanged power for previous periods. Therefore, the Company has made additional provisions amounting to SR 537 million against these claims during the year ended 31 December 2014 (Note 26). The Company received net amount of SR 1.5 billion as a final settlement.

b) Settlement of Dispute on Electric Tariff:

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

The Council of Ministers has issued the resolution number 114 on 10 Rabi Thani 1430H to end this dispute and to charge Saudi Aramco on the basis of residential and commercial tariff instead of industrial tariff. The Electricity and Co-generation Regulatory Authority ("the regulator") will

have to specify the residential and commercial enterprises of Saudi Aramco Accordingly, the Company, Saudi Aramco and the regulator held several meetings to settle this matter where the regulator has specified the disputed residential and commercial enterprises of Saudi Aramco.

The Company has executed the regulator decree number 49/432 dated 8 Jumad Awal 1432H classifying Saudi Aramco electricity consumption tariff starting from 1 January 2012, accordingly, the disputed residential and commercial enterprises mentioned above were identified, and the agreed upon tariff were applied on Saudi Aramco consumption. Further, the Company has also completed the calculation of the previous years' consumption since date of inception up to 31 December 2011 according to regulator decree mentioned above and has submitted the invoices to Saudi Aramco with total amount of SR 729 million. During 2013, the Company has completed the reconciliation procedures with Saudi Aramco for these revenues and recognized them in the consolidated statement of income. The Company is currently following-up with Saudi Aramco the procedures to collect this amount.

31- Related Parties Transactions:

The significant transactions and related approximate balances are as follows:

	In Thousands Saudi Riyals	
	2015	**2014**
Sales		
Government	10,172,657	9,262,917
Saudi Aramco	521,310	418,280
Saline Water Conversion Corporation	183,479	179,935
	10,877,446	**9,861,132**
Purchases and Others		
Saudi Aramco	6,353,628	6,278,985
Hajr for Electricity Production Company	1,217,208	375,719
Rabigh Electricity Company	1,061,838	1,054,428
Dhuruma Electricity Company	1,037,581	1,066,110
Municipalities fees	622,709	542,517
Saline Water Conversion Corporation	568,609	524,672
	10,861,573	**9,842,431**

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

32- Contingent Liabilities:

a. There is a dispute between the Company and Saudi Aramco for handling crude oil fees. The disputed amount since the Company's inception on 5 April 2000 to 31 December 2015 amounted to approximately SR 4.4 billion (2014: SR 4 billion). The Company's management believes that there will be no liability on the Company based on the Royal Decree Number M/8 dated 25 Rajab 1415H as this matter was not discussed by the Ministerial Committee formed by the Royal Decree referred to above. Accordingly, the difference has not been recorded as part of the liabilities in the Company's books. In addition, Saudi Aramco is supplying the Company with light fuel oil rather than heavy fuel oil to one of its stations. This has resulted in an accumulated difference of SR 2.2 billion (2014: SR 1.9 billion) not accounted for as part of the liabilities in the Company's books.

b. Saudi Aramco has also a claim for the settlement of its share in the annual dividends since inception to 31 December 2014, estimated at SR 2.7 billion. 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 Council of Ministers' resolution no. 169 dated 11 Sha'aban 1419H and Council of Ministers' resolution no. 327 dated 24 Ramadan 1430H on extending the Government's waiver of its rights in the dividends distributed by the Company for another ten years.

c. The Company has provided guarantees to some of the commercial banks against its share for financing a loan granted to some of its investee companies. The guarantee amounted to US$ 15 million equivalent to SR 56.3 million as of 31 December 2015 (2014: US$ 14.8 million equivalent to SR 55 million). In addition, the Company has provided a guarantee for the Department of Zakat and Income Tax (DZIT) amounting to SR 13 million (2014: SR 37.5 million).

33- Capital Commitments:

a. These comprise the unexecuted portion – as of the consolidated balance sheet date - of capital contracts concluded by the Company for the erection and installation of power plants and other assets approximately amounting to SR 80,550 million (2014: SR 121,188 million).

b. The Company has long-term energy purchase agreements with independent power providers whereby the Company has undertaken to purchase the all energy produced by these providers according to specific terms and prices. These agreements are for periods up to 20 years, and renewable for further periods by mutual consent of both parties, in addition to the future commitments provided by the Company to finance certain investees in the form of subordinated loans or common equity amounting to SR 695 million (2014: SR 695 million).

34- Risk Management:

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

Credit Risk:

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

Commission Rate Risk:

Commission rate risk is the risk that the values of financial instrument will fluctuates due to changes in the market commission rates. The Group has no significant commission bearing long-term assets, but has commission bearing liabilities as of 31 December 2015. The Group manages its floating-rate loans using commission rates hedging agreements, which have the economic effects to transfer the interest on the loans from floating to fixed rate.

Liquidity Risk:

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

Currency Risk:

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

Fair Value Risk:

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

35- Segment Reporting and Future Restructure for The Group's Activities:

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

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

Generation: Generation and provision of electricity power.
Transmission: Transmission of electricity power from generation stations using transmission network, to distribution network and operation and maintenance of electricity transmission system.
Distribution and customer services: Receipt of electricity power from transmission network and distribute it to Company's consumers. It is also engaged in issuance, distribution and collection of electric consumption bills.

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

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

In Thousands Saudi Riyals					
31 December 2015	**Saudi Electricity Company**	**National Grid S.A. Company**	**Other subsidiaries**	**Inter- Group balances**	**Total**
Fixed assets, net	159,377,100	70,616,669	-	-	229,993,769
Total assets	352,263,352	87,360,804	278,614	(81,872,821)	358,029,949
Total liabilities	295,199,674	74,075,354	192,801	(71,787,007)	297,680,822

In Thousands Saudi Riyals					
31 December 2014	**Saudi Electricity Company**	**National Grid S.A. Company**	**Other subsidiaries**	**Inter- Group balances**	**Total**
Fixed assets, net	154,924,723	60,448,667	-	-	215,373,390
Total assets	312,708,884	72,965,270	135,291	(67,901,252)	317,908,193
Total liabilities	256,915,259	59,516,398	65,435	(57,831,395)	258,665,697

36- Subsequent Events:

On 6 January 2016, the Company signed US Dollars credit facility agreement for three years. Financing was made by Bank of Tokyo-Mitsubishi UFJ, Mizuho Bank, Sumitomo Mitsui Banking Corporation, HSBC Group, JP Morgan Bank, Crédit Agricole Group and Deutsche Bank. This facility amounted to SR 5.25 billion (US$ 1.4 billion).

37- Comparative Figures:

Certain comparative figures have been reclassified to conform with the current year's presentation.

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