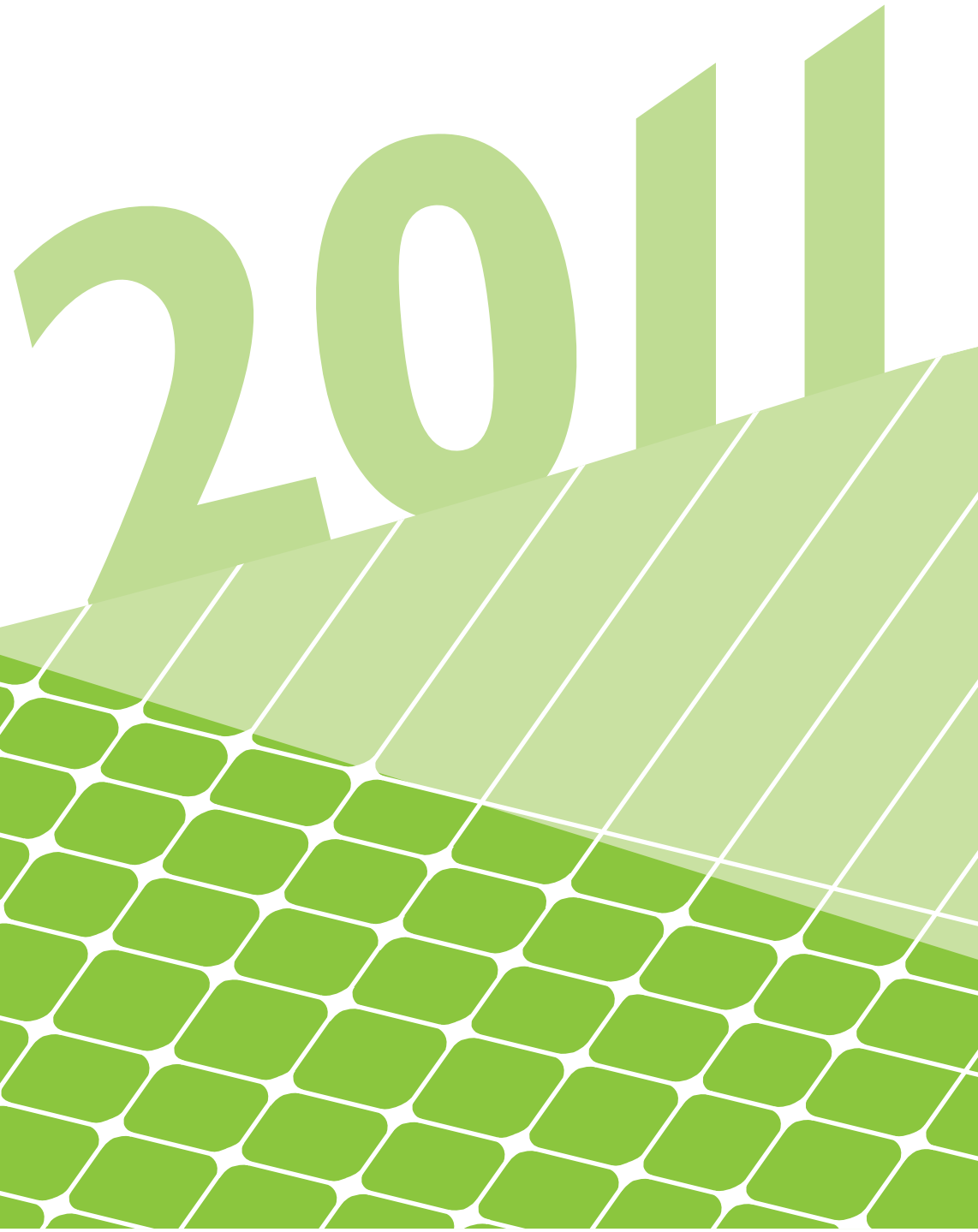


# Annual Report







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



**HRH Prince Nayef Ibn Abdul Aziz**  
**Crown Prince, Deputy Prime Minister,**  
**and Minister of Interior**





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# **Members of the Board of Directors**

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



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



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



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



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



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



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



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







## **Our Vision**

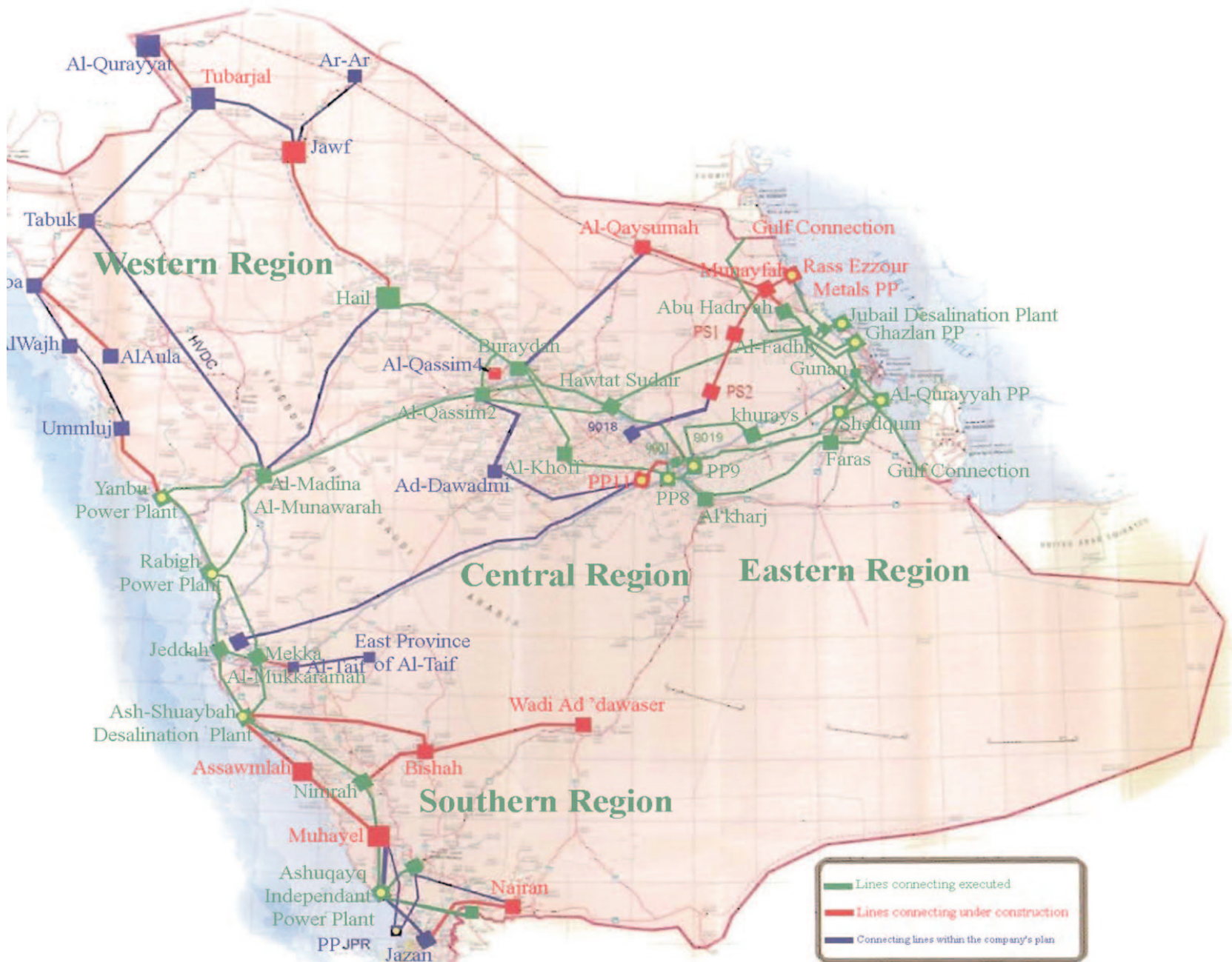
**To help and improve the standards of living and enhance the economic competitiveness of the Kingdom of Saudi Arabia.**



## **Our Mission**

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

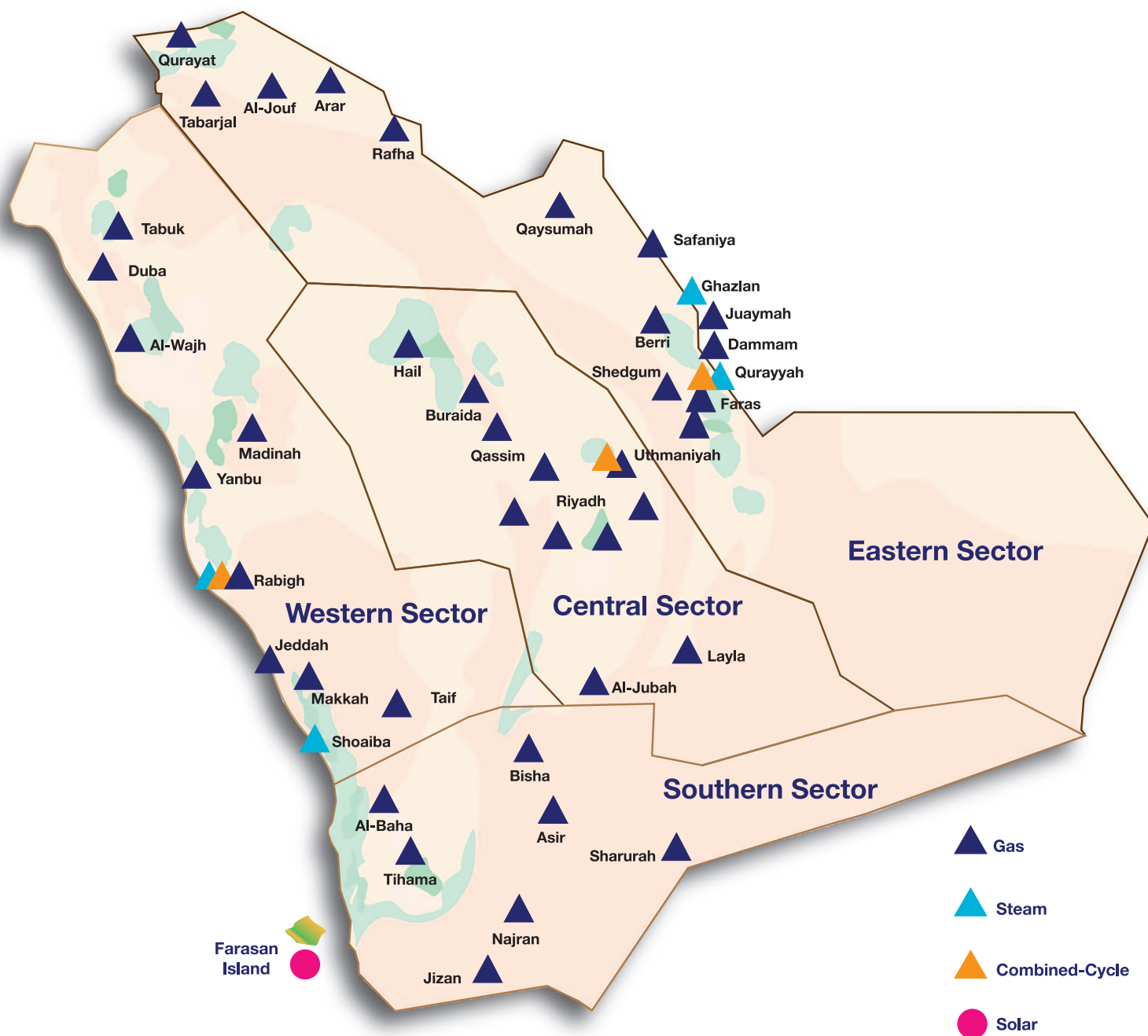
# Strategic Connection Plan of the Kingdom





# Scope of our Operation

2011





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



The Company's annual report for 2011 presents the achievements we have obtained at a time when the increasing and continuous demands are directed on electricity. They are based on the Company's care to provide the best service levels as there are electrical projects in various stages of implementation with costs exceeding SR 100 billion. The Company, in 2011, was preparing an integrated plan for the forthcoming ten years (2012-2021) in order to address the accelerating load growth as a result of the continuing economic development and prosperity the Kingdom is currently witnessing. In the light of this plan, the anticipated total costs of the capital projects till the end of 2021 are expected to be approximately SR 452 billion. The plan aims at providing a service which is consistent with accredited international performance criteria. As a result, the Company will build an appropriate electrical reserve margin which is about 10% of the installed capacity during peak times.

The Company is continuing to exert efforts towards developing the human resources, improving the technical, financial, and administrative efficiency to foster its position, improve its service level, achieve the expectations of the shareholders and increase their equities. Since its establishment in 2000, the Company has regularly distributed its annual profits to its shareholders. This year (2011), the Company had already paid cash dividends to its individual shareholders and the like amounting to SR 547 million which is equivalent to 7% of the total share value of the Company. The shareholders' dividends amounted to SR 306 million for the fiscal years 2000 - 2001; the total assets amounted to SR 213,448,554 billion and the total shareholders' equities reached SR 51,893,078 billion.

The Company continues to encourage the private sector to invest in the program for private sector participation in the Company's electricity projects. The program for completing the electrical interconnection throughout the territories of the Kingdom is about to be completed which will enable the exchange of electricity among the regions, lower the cost of operation, obtain more achievements to meet the challenges arising from growth in population, construction industry, and agriculture in the Kingdom and to achieve sustainable development. Our valued readers may find in this report more details about the key achievements of the Company in 2011.

Finally, on behalf of the Board of Directors and the Company's employees, I would like to express our utmost thanks, appreciation, and gratitude to our wise government - may Allah safeguard it - headed by the Custodian of the Two Holy Mosques King Abdullah Ibn Abdul Aziz and His Royal Highness Prince Nayef Ibn Abdul Aziz, Crown Prince, Prime Minister, Minister of Interior, may Allah protect them, for their generosity and the support the state has provided to the Company which is an extension of support the electricity industry has enjoyed throughout its long history. Such support enabled the Company to implement various projects which contributed to meeting the needs of the power development projects in the Kingdom. I further thank His Excellency Eng. Abdullah Ibn Abdul Rahman Alhosayn, Minister of Water and Electricity, for his support and assistance to the Company in particular and the electricity sector in general. I would also like to express, on behalf of the members of the Board of Directors, our sincere thanks and appreciation to the Company's shareholders, customers, management, and employees. We pray to Almighty Allah to grant us all success to achieve our aspirations to serve our valued country and to serve the Company's shareholders and customers as well. **Saleh Ibn Hussein Al-Awajji**

Chairman of the Board of Directors



## **Our Achievements**



# Our Achievements

2011

Particulars	Since the Company's Establishment in 2000	2011	Percentage of Change
Available Generation Capacity (MW)	24,083	51,148	↑ 124 %
Length of Transmission Network Lines (ckm)	29,166	49,675	↑ 70 %
Length of Distribution Network Line (ckm)	219,076	409,289	↑ 86.8 %
Number of Customers (Million)	3.5	6.3	↑ 80.2 %
Electrified Towns, Villages, and Settlements	7,406	12,256	↑ 65.4 %
Nationalization Percentage (%)	71.60 %	87.5 %	↑ 22.2 %



# **Statement of the Chief Executive Officer**

The 2011 Annual Report reflects the Saudi Electricity Company's commitment to cope with the increasing demand for electricity through the plans, programs, and objectives which defined the projects as well as the technical and financial requirements and human needs. It further utilized the performance indicators as mechanisms for managing the strategic orientations and performance control.

Through its efforts the Company has succeeded in attaining concrete achievements in the areas of development and reinforcement of the electrical system's capacities in the Kingdom in a manner which is in line with the great economic growth being witnessed by the Kingdom as can be seen vividly in the increasing demand for electric power at an annual rate of 8%.

During the past eleven years, the Company has completed 96% of the national plan for interconnecting the national network with the extra-high voltage 380 KV network which resulted in power being supplied to the entire regions of the Kingdom through the power transmission network.

The achievements attained are as follows:

- The available electric power generation capacity has increased by 124% from 24,083 MW to about 51,148 MW.
- The electric power transmission networks length has increased by 70% from 29,166 ckm to 49,675 ckm.
- The electric power distribution networks length has increased by 86.8% from 219,076 ckm to 409,289 ckm.
- The number of customers has increased by 80.2% from 3.5 million to 6.3 million.
- The total number of electrified cities, villages, and settlements reached 12,256 as compared with 7,406, indicating an increase of 65.4%.

In another realm, the Company has established its relations with its partners based on fairness and transparency and encouraged the national industries as well. Consequently, the Company's purchases from the national industries in the field of electricity reached up to (SR) 6 billion or 90% of the Company's total purchases. The Company further provided open opportunities to the private sector urging them to participate in the Company's electricity projects with investments amounting to SR 28 billion to generate a capacity of 7 thousand MW.

The Company has provided a healthy work environment and equal opportunities for training and development and setting this issue at the top of its priorities for the employees to be able to continue to maintain and improve efficiency and productivity levels. This is quite purposeful as the rates of job nationalization reached 87.5%. Furthermore, productivity has improved as the employee's share in the sold energy reached 111% and the rate of increase in the number of customers per employee reached 92.7%.

Social responsibility and community service were given particular attention by supporting research and development programs for the purpose of rationalizing the use of electric power, improving its systems, and implementing programs for environmental conservation, reduce the costs of investment, operation and maintenance in addition to the public safety programs.

The company headed towards the utilization of modern technologies and gained noticeable advancement in this area as all its operations and customers' transactions are now run by modern technologies and highly advanced communication system.

In conclusion, on behalf of the Company's employees, I am pleased to take this opportunity to extend our thanks and appreciation to their excellencies the Chairman and members of the Board of Directors for their important role in directing and supporting the management of the Company. It further gives me pleasure to sincerely thank all the governmental authorities and private sector institutions for their continued support to the Company. Similarly, we are grateful to our valued customers and shareholders for their support and that through them we know we are blessed. I further thank those who stand actively and fruitfully behind the stage, the employees and workers who continue to spare no effort at their various positions and locations, and making sacrifices for the prosperity and status of this nation, and bringing happiness and ease to the citizens and residents. We wish to express our gratitude, appreciation, and respect to them all.

May Allah bestow success on all of us.

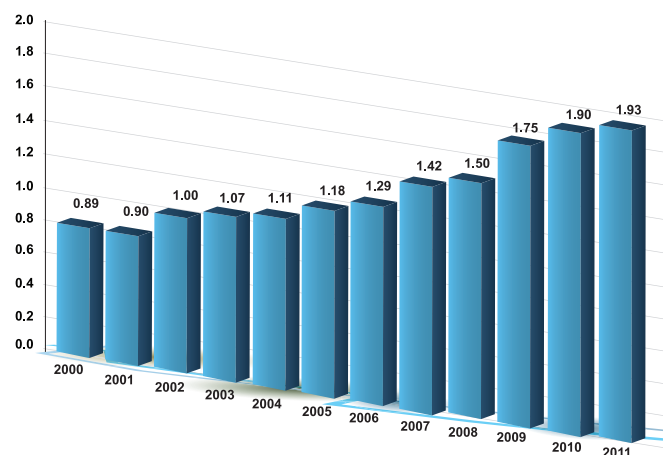
**Ali Ibn Saleh Al-Barrak**  
Chief Executive Officer



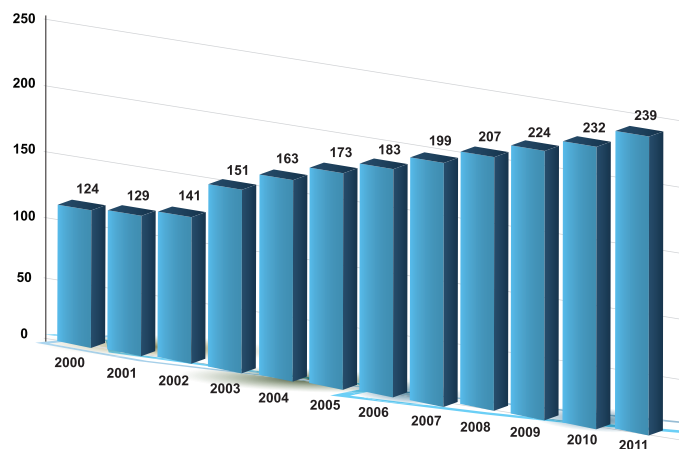


# Members of the Board of Directors

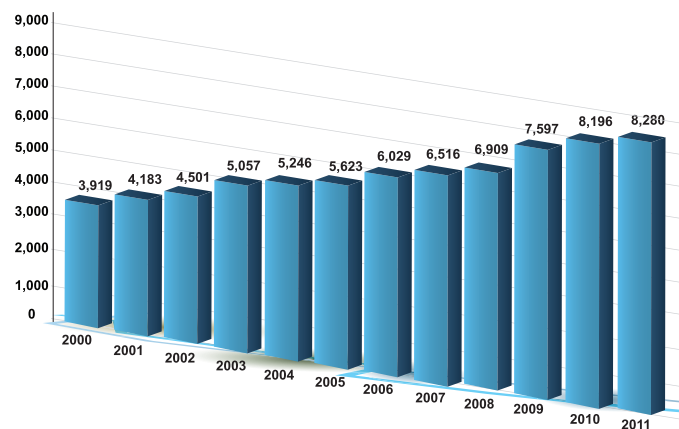
## Available Generation Capacity Per Employee (MW/Employee)



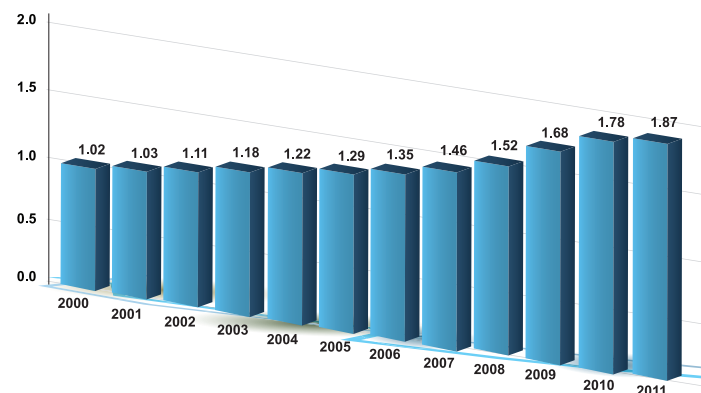
## Number of Customers Per Employee



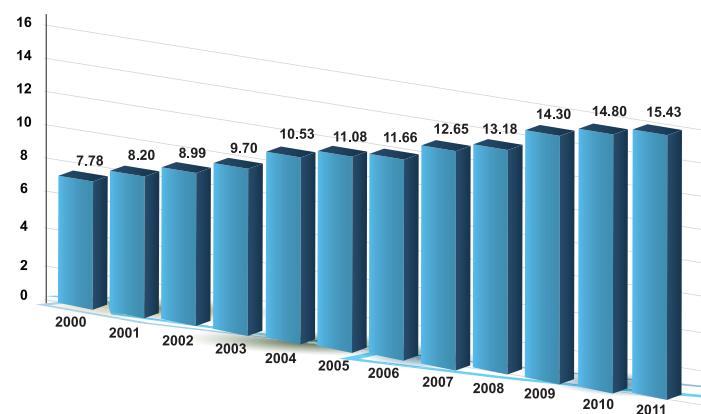
## Sold Energy Per Employee (MWH/Employee)



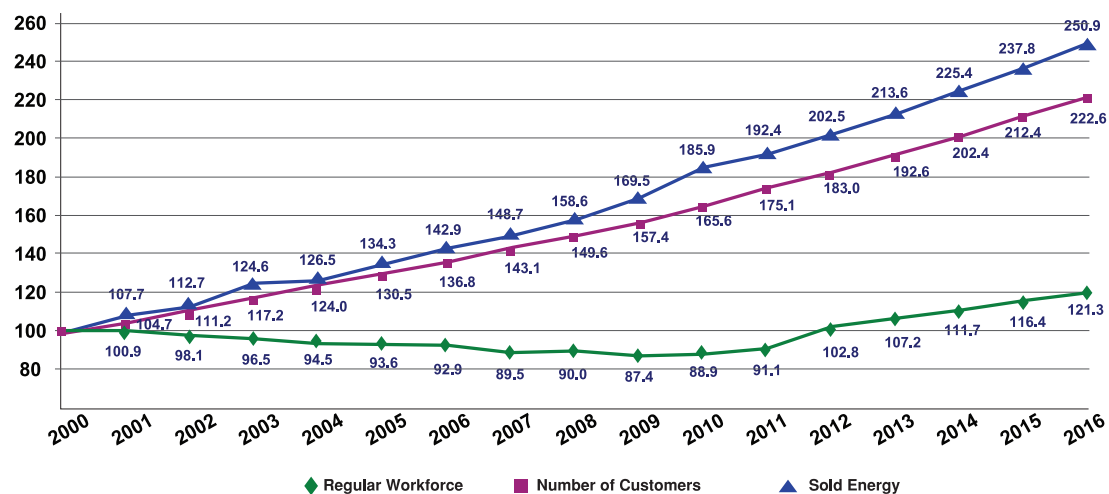
## Length of Transmission Lines Per Employee (ckm)



## Length of Distribution Lines Per Employee (ckm)



## Growth Indicators





# Key Indicators of Year 2011 Compared with Year 2010

**4.9%**

Growth of the actual generation capacities of the company to 41,924 MW

**4.1%**

Growth of the available generation capacities to 51,148 MW

**7.6%**

Growth of the power transmission networks to 49,675 ckm

**7.3%**

Growth of the distribution networks (69/ 13.8 KV) to 205,516 ckm

**6.2%**

Growth of the customers' connections to 203,773 ckm

**5.9%**

Growth of total peak loads to 48,367 MW

**3.5%**

Growth of the sold energy to 219,662 GWH

**5.7%**

Growth of the number of customers to 6,341,025

**2.2%**

Growth of the total number of electrified towns, villages, and settlements to 12,256

**87.52%**

Growth of the nationalization rate to 87.5% of the total 28,414 employees





# Our Financial Policy

2011

The Company has maintained the creditworthiness ratings which were awarded to it by international credit rating agencies. This is a clear proof of the soundness of its strategic orientations, success of its managerial and operational policies, and business administration. These positive ratings have contributed to the continuous implementation of the Company's financial policy aiming at reinforcing its financial position, and ensuring sufficient cash flows for project expenditures through the existing financing sources, such as issuance of Islamic bonds and obtaining various types of commercial loans. The positive results of the Company's business operations enabled it to obtain funds for the projects with the best possible conditions and rates.

## Credit Rating

The creditworthiness ratings of the Company are the highest in the Kingdom and similar to the Kingdom's sovereign rating i.e. AA1, AA-, A1 conferred to it by credit rating agencies Standard and Poor's, Fitch, and Moody's respectively.

Within the framework of the Company's endeavor to obtain new financing sources and to diversify its funding resources for its major projects, it continued its efforts and entered into the following financing agreements:

### First: Loan Agreement between the Ministry of Finance and SEC.

The Council of Ministers, chaired by the Custodian of the Two Holy Mosques King Abdullah Ibn Abdul Aziz, has approved the granting of SR51 billion loan-without-interest to the Saudi Electricity Company to be repaid over a period of 25 years. This loan was to cover the anticipated financial deficit to implement urgently required electricity projects which are to be contracted during the years 1432 and 1433 H.

### Second: Finance with Support from the French Bank of Exports Promotion (COFAS)

The Company has signed a long-term loan agreement with a repayment period of 12 years amounting to USD 989.1 million (equivalent to SR 3.7 billion) with a number of international banks namely: HSBC Group, Bank of Tokyo-Mitsubishi, City Bank, Deutsche Bank, and Sumitomo Mitsui Financial Group. This is the first financial loan the Company obtained under the guarantee of the Export Development Bank, France, for the purpose of purchasing equipment from the French company Alstom. The loan is intended for the expansion of Shoaiba Power Plant 3 located on the coast of the Red Sea, 120 km south of Jeddah. The plant is expected to generate additional 1,200 MW once the project is completed.

### Third: Short-Term Loan from Bank of Tokyo-Mitsubishi:

The Company has signed a loan agreement with the Bank of Tokyo-Mitsubishi amounting to USD 500 million (equivalent to SR 1,875 million) for the purpose of financing a number of Company capital projects; such loan falls within the Company's strategy.

### Financial Segregation of Company's Activities:

In preparation for future steps towards the restructuring of the Company's activities, a number of measures were taken relevant to the financial segregation issue:

- Preparation of the financial system in a manner consistent with the Company's policies to assign its different activities to subsidiary companies,
- Completion of the requirements to apply the following financial processes:
  - Classification of the Company's activities into cost/profitability/investment centers.
  - Implementation of Service Level Agreements between activities.
  - Calculation of the cost of capital according to activities.

Work is ongoing to prepare and finalize power exchange agreements between the holding company and the generation companies as well as arrangements to lease the transmission and distribution networks.

# Care of Our Shareholders

The Company is always keen to use its very best efforts to effectively communicate with the stakeholders in the securities and stock exchange markets and exchange related information with the investors and financial and investment institutions. The company is committed to apply the guidelines contained in the Governance of Companies particularly in terms of the shareholders equities, compliance with the instructions and procedures concerning disclosure and transparency, as well as the conformance of the Company's by-laws with the rules of the Capital Market Authority and its executive regulations.

## The most important achievements and services provided to the shareholders in 2011 were as follows:

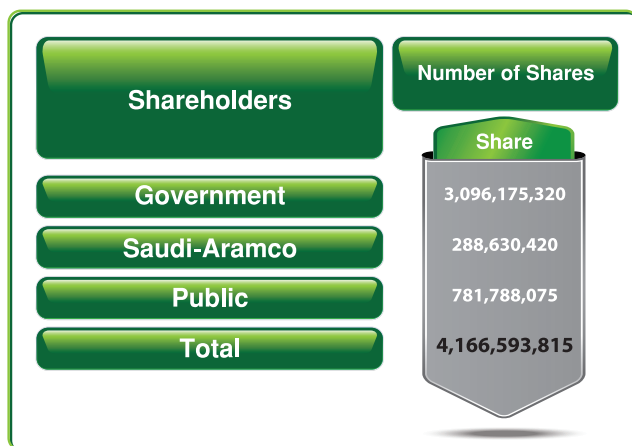
- Smooth payment of the dividends amounting to 95% of the total profits for distribution to the shareholders has been made.
- The number of returned portfolios has decreased last year to only 129 of a total of 56,591 portfolios.
- Publishing of the Company's weekly, monthly, quarterly and annual share performance reports on the Company's website.
- Publishing all of the Company's announcements on Tadawul's website as well as information of interest to the shareholders and investors were likewise posted on the Company's website.
- An agreement was reached with Consultant Experts Bureau to design the Company's corporate governance regulation that conforms to all the provisions stated in the Corporate Governance Regulations issued by the Saudi Capital Market Authority.

The company is highly concerned with being abreast of the technological progresses, providing electronic services to the shareholders as well as using advanced automated systems that are in compliance with the rules, regulations and instructions of the Ministry of Commerce and Industry, Capital Market Authority and the Saudi Stock Exchange (Tadawul). Therefore, the Company has provided automated systems which include the following:

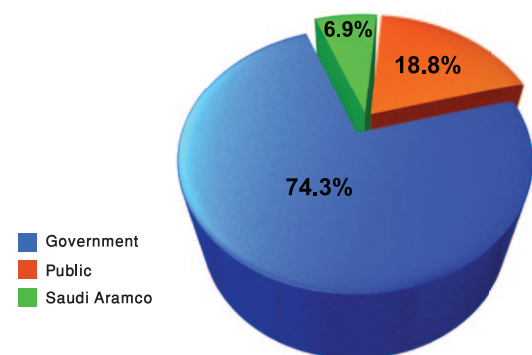
- Holding general assembly meetings.
- Shareholder information.
- Share performance movement .

This automated system, will provide ease in organizing meetings of the general assembly, processing of shareholders' data, extracting the required reports, electronic historical archiving, and following up of the share performance movement.

## Distribution of the Company's Share Capital



## Percentage Distribution of the Company's Capital by the End of 2011



# Company Share Performance

2011

By the end of 2011, the Saudi Stock Exchange (Tadawul) closed at 6,417.73 points as compared with 6,620.75 points at year-end 2010, marking a decrease of 203.02 points (3.07%). The indicator realized the highest closing point during the year on 16 January when it closed at 6,788.42 points. The index of power and service utilities closed at 4,976.27 points as compared with 5,017.16 points at year-end 2010, with 40.89 points lower representing -0.82% decrease.

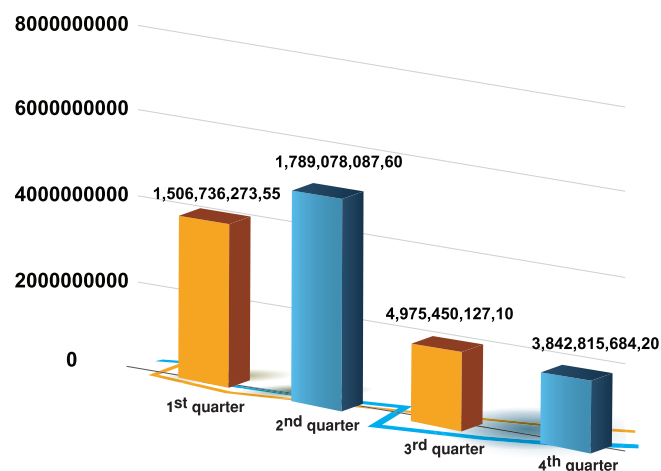
As for the Company share, it closed at SR 13.90 by the end of 2011 as compared with SR 14.05 at year-end 2010, making a -1.07% decrease. Furthermore, the number of traded shares of the Company decreased by 13.99% from 1,022,721,312 shares in 2010 to 879,653,388 shares in 2011.

The value of the traded shares decreased by 10.03% from SR 13,464,766,435.35 in 2010 to SR 12,114,080,171.45 in 2011. Similarly, the number of transactions decreased by 14.77% from 187,543 in 2010 to 163,405 transactions in 2011.

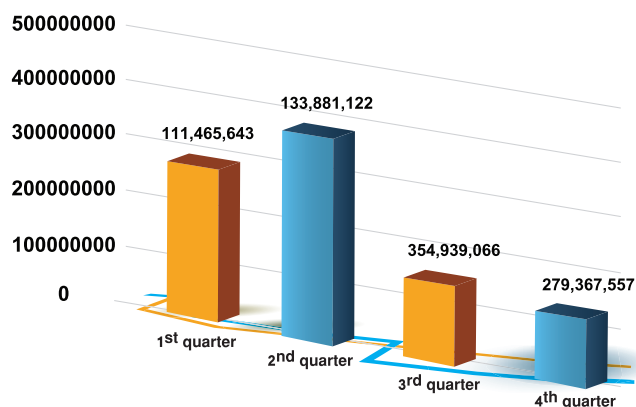
The highest share value was SR15.05 in 2011 compared with SR 15.60 in 2010. By contrast the lowest share value was SR 12.05 in 2011 as compared with SR 10.50 being the lowest share value in 2010.

Particulars	2011	2010	Change
Overall Saudi Stock Exchange (Tadawul) Index	6,417.73	6,620.75	% 3.07-
Power and Service Utilities Sector Index	4,976.27	5,017.16	%0.82-
Quantity of Traded Shares	879,653,388	1,022,721,312	%13.99-
Value of Traded Shares	12,114,080,171.45	13,464,766,435.35	%10.03-
Number of Transactions	163,405	187,543	%14.77-
Highest Share Value	15.05	15.60	%3.53-
Lowest Share Value	12.05	10.50	%14.76
Share Closing Value	13.90	14.05	%1.07-

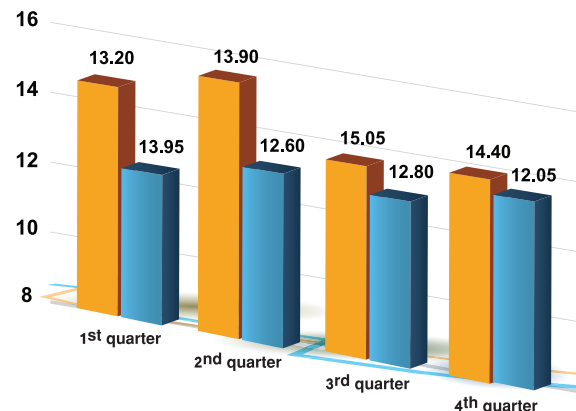
Traded Value of the Company's Share in 2011



Trading Price of the Company's Share in 2011



Highest and Lowest Value of the Company's Share in 2011





# Events and Activities in 2011

## January

- Minister of Labor awarded the Company with the Prince Nayef Ibn Abdul Aziz Award for Saudization.
- The Company, as a large service firm, wins the King Abdul Aziz Quality Award.

## February:

- HRH Prince Salman Ibn Abdul Aziz praises the Company's efforts which deserve being awarded the King Abdul Aziz Quality Award and the Prince Nayef Ibn Abdul Aziz Saudization Award.
- Board of Directors approves the housing loans program of the Saudi employees for 2011.
- Formation of the first Board of Directors for the National Electricity Transmission Company.
- The company honors the 14 quality meeting teams.

## March:

- The Company signs a contract for the supply of electronic gauges worth SR 62 million.
- The Media Affairs organizes the meeting of the electricity industry in media.

## April:

- HRH Prince Sultan Ibn Abdul Aziz, may Allah rest his soul in peace, admires the Company's efforts in promoting job nationalization and the Quality Award granted to the Company.
- Saleh Al-Awajji, Chairman of the Board of Directors, signs two contracts amounting to SR 815 million for the enhancement of the generation capacities of power generation plants at Hail and Al-Jouf.
- The Chief Executive Officer briefs the officials of the Southern and Western Sectors about Company's plans and objectives.
- The Company's General Assembly approves payment of cash dividends to the shareholders at the rate of SR 0.70 per share.
- The Company finalizes contracts amounting to SR 1.8 billion for the establishment of 6 transmission substations and a transmission line for the Express Train project of the Two Holy Mosques in Makkah Mukarramah.
- The Company celebrates the graduation of 682 trainees from four institutes.
- The company celebrates with the employees who received their continuous service certificates and the distinguished departments for employing the performance criteria.
- Honors 256 prominent managers for applying the performance management system.
- The Company's Public Affairs participates in the program for environmental protection and preservation in Riyadh, Jeddah, Abha, and Dammam.

## May:

- Chairman of the Board of Directors signs sponsorship agreements for the forum on electricity consumption efficiency and rationalization.
- The Company sponsors the Economic Forum Media.
- The Company participates in the activities e.q. "Career Day" at King Fahd University of Petroleum and Minerals.
- Okaz newspaper hosts "The Electricity Tariff Workshop" in Jeddah.
- Generation sector organizes the activities of the Second Annual Meeting for the Performance Indicators.

**June:**

- HRH Prince Faisal Ibn Salman honors the Company for sponsoring the First Social Responsibility Exhibition.
- Mr. Saleh Al-Awajji, Chairman of the Board of Directors, expresses his sincere thanks and appreciation to the Custodian of the Two Holy Mosques, may Allah protect him, for his approval to grant the company a SR 51 billion loan.
- The Company signs two contracts amounting SR 781 million to establish the Northern Makkah Mukrarramah transmission substation, and Jizan-Najran substation.
- The company ranks third among the largest 100 Saudi companies for 2011.
- Signing the contract for linking Al-Qurayat and Tabarjal power generation plants for SR 230 million.
- Opening the admittance for joining the training programs in the Company's training institutes.
- Signing a memorandum of understanding with a Japanese company to generate solar energy in Farasan.

**July:**

- The Company earns profits amounting SR 1,355 million in 6 months.

**August:**

- The Company is the recipient of the Best Arab Electricity Generation Company Award.
- The Company organizes communication and loyalty meeting with the presence of the Chairman of the Board of Directors and the former employees of the Company.
- The Company signs a 20-year electricity purchase agreement for the procurement of 3,900 MW of power from the private sector.
- Opening the customer services building at Al-Diriyah.
- Inauguration of the project for managing engineering documents at the Southern Generation Plant.
- The Company's Public Relations organized a contest among the employees and allocated SR 20 thousand for the prizes.

**October:**

- Inauguration of the first solar energy generation plant in the Kingdom at Jizan.
- Specifications and Standards honor the Company for becoming the recipient of the Quality Award.
- The Company signs a cooperation agreement with Siemens Co. of Germany for the training of Saudi Electricity Company employees in Germany.
- The Company sponsors the meeting and workshop of the air-conditioning systems energy efficiency legislations.
- Arar Electricity honors one of its employees for foiling theft of 36 thousand liters of diesel.
- Industrial Safety holds its fourth meeting on security and safety at work sites.
- Riyadh Training Institute applies, for the first time, the program of the Central Practical Examination for all technical specializations.

**November:**

- Al-Diriyah governor officially opens the Company offices in the governorate.
- Success of the 1432H year pilgrimage plan for providing electrical services to 3 million pilgrims.
- The Company organizes the meeting of project management in Riyadh.
- Opening of the protection and tests laboratory at the main network operations department.

**December:**

- HRH the Governor of Madina Al-Munawara confers to the Company the Shield of Excellence in pilgrimage service.
- HRH the Governor of Jizan inaugurates the project of Al-Thuwal transmission substation.
- The Materials sector of the Company completes the indexing project for inventory items and manages to order and photograph 531 thousand items in the warehouses.





## **Human Resources**

## Human Resources

**87.52% is the percentage of Saudi Employees.**

The Company pays utmost attention to the development of its human resources through the application of specialized programs for the selection and development of employees and planning their careers to enhance and assure their efficiency to fill in job positions in the company. To continue the efforts in the development of its human resources, the Company, in 2011, received 642 graduates of the Company's training institutes, bringing the total number of on-job-trainees to 1,107. Furthermore, 529 university graduates were employed and were enrolled in the Professional Development Program, bringing up the total number of participants in this program to 779 by the end of 2011.



# Human Resources

## Saudi Electricity Company's Outstanding Job Nationalization Efforts and Leadership Quality.

### Job Nationalization Efforts

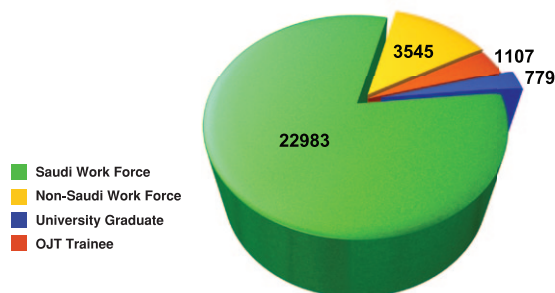
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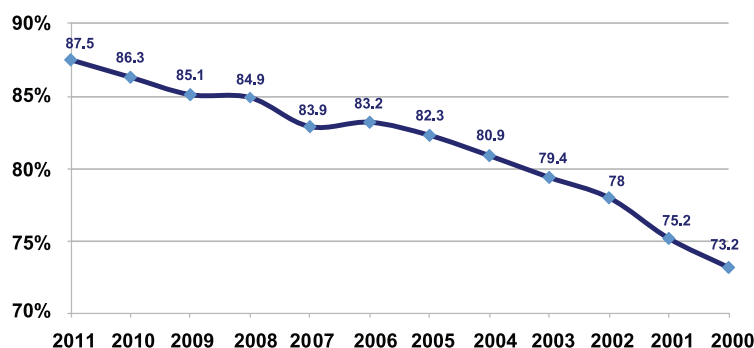
These efforts resulted in achieving a tangible growth in job nationalization as the percentage of Saudi employees reached 87.52% of a total work force of 28,414 at year-end 2011.

It is worth mentioning that as a result of these efforts the Company has reaped several awards in the fields of recruitment, training, and employment of Saudi work force which include shields of excellence, certificates and acknowledgment awards for its outstanding role in the area of job nationalization, the most prominent of which was the award of HRH Prince Nayef Ibn Abdul Aziz for Saudization in four previous years. And in 2011, the Company's efforts culminated in winning the same award on Saudization in its seventh season.

### Manpower Classification at Year-End 2011



### Job Nationalization (Saudization) in the Company at Year-End 2011



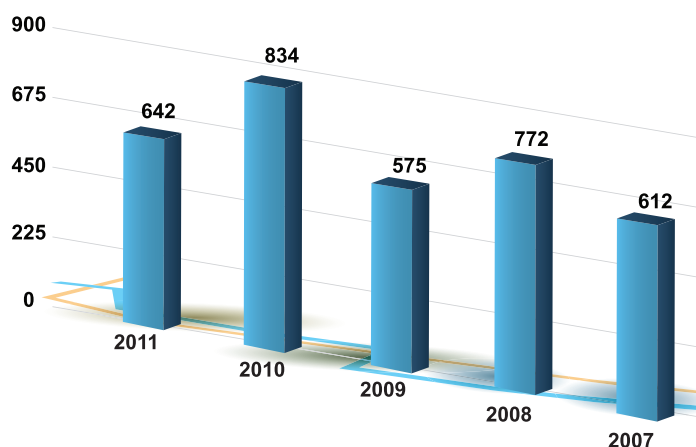


## Training and Development Programs

### On-Job-Training Program:

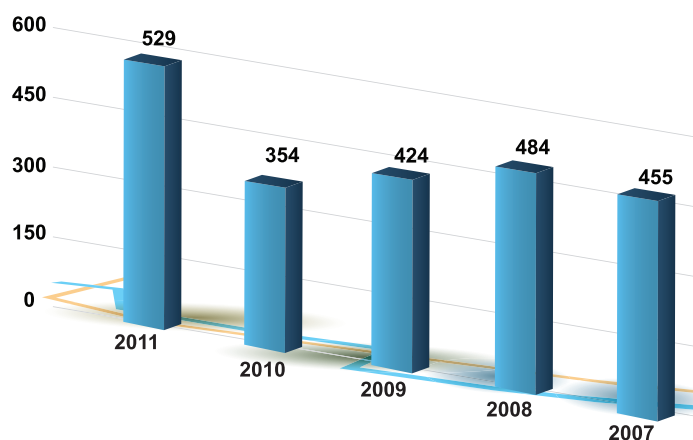
This is an integrated development program to train and qualify non-employee trainees through which they gain the ability to perform specific assignments in real work environment with the aim of assuming a targeted job. Training takes place at the work site by the targeted department under supervision of specialized trainers and followed up at the work area by the Training Department.

During 2011, the company employed 642 graduates from its training institutes, who joined the On-Job-Training Program. By the end of 2011, the total number of OJT trainees was 1,107.



### Qualification Program:

This program aims at speeding up the empowerment of employees who are fresh graduates from university to perform their targeted jobs through work assignments and training courses within a scheduled development plan period of 24 months. During 2011, 539 university graduates joined the Qualification Program bringing the total number of participants in this program to 779.





# Human Resources

## Experience Development Program

This program is oriented to university graduate employees and aims at preparing national competencies capable of performing technical and administrative work, and able to keep up with the technological developments in the electric power industry, in addition to achieving self-sufficiency in work force with highly developed skills. The number of participants in this program was 72 in 2011, and new participants are added every year depending on the future needs of the Company.

## Leadership Program

This program aims at developing the employees who are currently holding leadership positions and candidates for leading positions as well (department head and higher) without time limit for the program.

In this program, developmental plans are set and measuring centers are utilized. It also aims at preparing suitable substitutes to fill in leading positions, so that every position will have a readily available substitute, both on short and long term basis.

In 2011, the number of participants in this program was 859; developmental plans are reviewed and revised according to the actual needs, and new participants are added every year.

## Promising Leaders Program

This program aims at preparing promising leaders in general, and achieving sustainable human resources development in the Company by preparing qualified leaders to lead the Company in the future. This program seeks to identify remarkable employees who have high leadership capabilities. These capabilities will be developed through organized developmental programs designed to prepare them to fill in leading positions in the Company. By the end of 2011, the number of participants in this program was 65; additional numbers are added yearly.

## Computer Assisted Learning “I-Learn”

This program provides interactive training through a website utilizing the most advanced technologies to provide an ideal environment for electronic training, which was specially designed to promote self-development among employees. It comprises 447 training courses covering the various disciplines (computer, technical, and administrative courses) to enable the employees to perform their assigned tasks efficiently and effectively.

Through the “I-Learn” site, the trainee can get the training courses he needs using his own PC duly linked to the website. Audiovisual technology is applied in these courses.

In 2011, the number of participations in this program was 9,075 of which 1,846 employees made use of these participations.

## Supported Training

This developmental program targets the Company's national work force who need to develop their skills related to the nature of their current or targeted jobs; or it serves as a tool in developing their efficiency and improving their performance level. In this program, courses are given outside the Company's official duty hours, and conducted at Company accredited training companies. In this concern, the Company pays 80% of the total training costs.

## Short Courses

In addition to the abovementioned training courses, many other short courses were held for the development of the employees' skills with total participation of 37,370 in 2011.

## Leadership in Total quality

The Company continued applying total quality programs aiming at improving the major operations and upgrading their efficiency levels while decreasing their costs, as well as promoting the quality of the services provided to the internal and external customers. In the beginning of the year, the Company received the King Abdul Aziz Quality Award in its 2nd round.

Furthermore, the Company had completed preparations for the fifteenth meeting of the total quality management scheduled to be held at Riyadh under the slogan "Towards Organizational Excellence." (The meeting actually took place on 14/02/2012.)

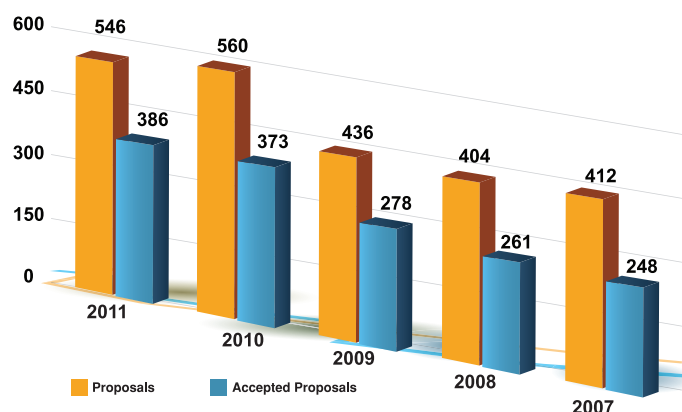
## Improvement Program

The Improvement Program is one of the pioneering development programs applied by the Company. It aims at improving the operations falling within the scope of each administrative unit in the Company. They are studied, on a part time basis, by a team led by one its employees to acquire recommendations for improvement which will be approved and applied within its area of responsibility. The application of this program results in high decrease in direct expenditures and less work time required in completing a procedure. Since its very beginning and until the end of 2011, this program achieved remarkable results as the improvement teams formed for this purpose reached 1,745 teams and the total number of approved recommendations made by these teams was 8,143; the number of implemented improvement recommendations was 6,789 with an implementation percentage of 93%.

# Human Resources

## Employees' Innovation Program

This program aims at encouraging Company employees to initiate innovation and creativity with the purpose of upgrading performance effectiveness, safety, productivity, and customer services. The program further endeavors to improve the procedures and develop the use of equipment, facilities, and utilities. It also aims at encouraging the employees to contribute new ideas which can help raise the operational effectiveness, reduce cost and increase the revenues. The program targets all the employees at the administrative levels below a department manager. The results of the program showed that the number of proposals till the end of 2011 was 4,182 of which 2,048 were approved, and 1,590 were applied at the rate of 78% of the total approved proposals. The innovative ideas yielded the Company a savings of about SR 760 million.

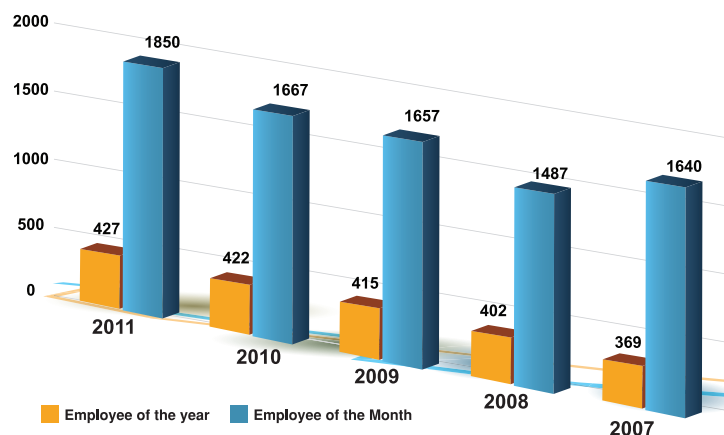


## Outstanding Employees Program

The Company began applying the Outstanding Employees Program throughout the Company's work locations since 2005 and it consists of two sub-programs:

- Monthly Excellence Program (Employee of the Month).
- Yearly Excellence Program (Employee of the Year).

The purpose of applying the program is to incite employees to distinguish themselves through excellent performance; assessing, and then rewarding them. It further aims at creating a positive competitive atmosphere among the Company employees targeting all the non-supervising employees. At year-end 2011, the number of distinguished employees for the monthly program was 10,094 employees and 3,171 for the yearly program.



## Change and Development

### Balanced Scorecard

The balanced scorecard is one of the modern management tools and techniques contributing to the quality control in a company. It is deemed a strategic performance management system to assess the performance and activities of a company according to its vision and strategy. This system is an equilibrium between the financial measures and customer satisfaction and between the effectiveness of internal operations and the measures of learning, development, and innovation in a company. The last quarter of 2011 witnessed the preparations to start applying the fourth stage of the balanced scorecard.

### Performance Management System

Performance management system is one of the most important human resources management systems adopted by companies as it is related to many other systems. In addition, it is a base channel in realizing the strategic objectives of a company upon which the job benefits and compensation are based. It further assists in identifying the training needs, ensuring and exploring supervision and leadership abilities as well as their potential merit.

The Company is continuously looking forward to upgrading its employees' performance and eliminating the hindrances that may impede the performance. It highly appreciates every effort spent towards performance improvement. A developed performance management system was inaugurated in 2009 in cooperation with large international consulting companies and making use of the best administrative and technical practices while taking into consideration the particular nature of the Company at both the domestic and foreign levels.

## Motivation and Loyalty Enhancement

### Collaborative Trainer Program

The Company is concerned with making use of its human resources who are currently in service or those who have retired from service yet still have maintained abilities and capabilities which effectively qualify them to design and prepare technical and administrative programs needed by the different sectors of the Company and who meet certain conditions in lieu of financial compensations offered by the Company in compliance with approved regulations.

### Employee Savings Program

The Company has approved a savings system which complies with the Sharia rules aiming to assist the Saudi employee to accumulate his savings and make use of them upon retirement or service termination. The system further stimulates employees to continue in service and to enhance their loyalty, contribute in raising the performance level and recruiting qualified Saudi cadres who are needed by the Company.

The Company allocates a contribution against the subscribed amount paid by the employee amounting to 100% of the monthly subscription value. The employee receives the Company's contributions upon retirement or service termination proportional to the subscription period and according to the program rules.



# Human Resources

## Employees Housing Loan

The Company has adopted the housing loan program for its Saudi employees (through local banks) in accordance with the Sharia rules and regulations. The criteria for identifying the utilization priority of the program were set automatically and fairly, and the program features:

- Providing the opportunity to own a residential house (villa/duplex/apartment) or building on a land owned by the employee or funding an incomplete house owned by the employee.
- A finance reaching SR 1,200,000, as per regulations.
- Repayment period extending up to 20 years provided this period shall not surpass the remaining years for the employee to approach the normal retirement age (60 hijra years).
- The company bears 70% of the financing costs as its contribution. The Company's contribution will cease when the employee's employment service is terminated for whatever reason.

The total number of employees who benefited from this program since its application was 3,043 of which 707 were in 2011.

## Medical Services

The company provides health care services for its employees and their families through several means, including providing medical service required by the labor regulations in the Kingdom of Saudi Arabia. The Company also maintains several clinics and medical centers owned by it in the Eastern and Western Regions to directly serve its Saudi employees and their families while the non-Saudi employees are served through health insurance company in addition to direct medical treatment contracts throughout the territories of the Kingdom, thus the number of medical providers was 146 for providing medical services to the Saudi employees and their families. The company further extended the health insurance contract for the second year to provide medical care for the non-Saudi employees and their families at more than 800 medical centers throughout the Kingdom. Aside from the Company clinics, the Company always seeks to develop and improve its health services to achieve efficient and effective health care services.

## Communication Within the Company

The Company sought to reinforce a work environment that achieves intercommunication among its individual employees and devotes a team-spirit work culture in order to support the decision-taking process and develop the different internal processes of the Company. The Company is currently applying an approved mechanism to activate and develop intercommunication among all management levels. All administrative units of the Company are now applying this mechanism through the following meetings:

- The weekly discussion meeting with the chief executive officer
- The weekly discussion meetings in operating areas
- Communication meetings within the organizational unit
- Meetings of the Coordination Administrative Committee in operating areas

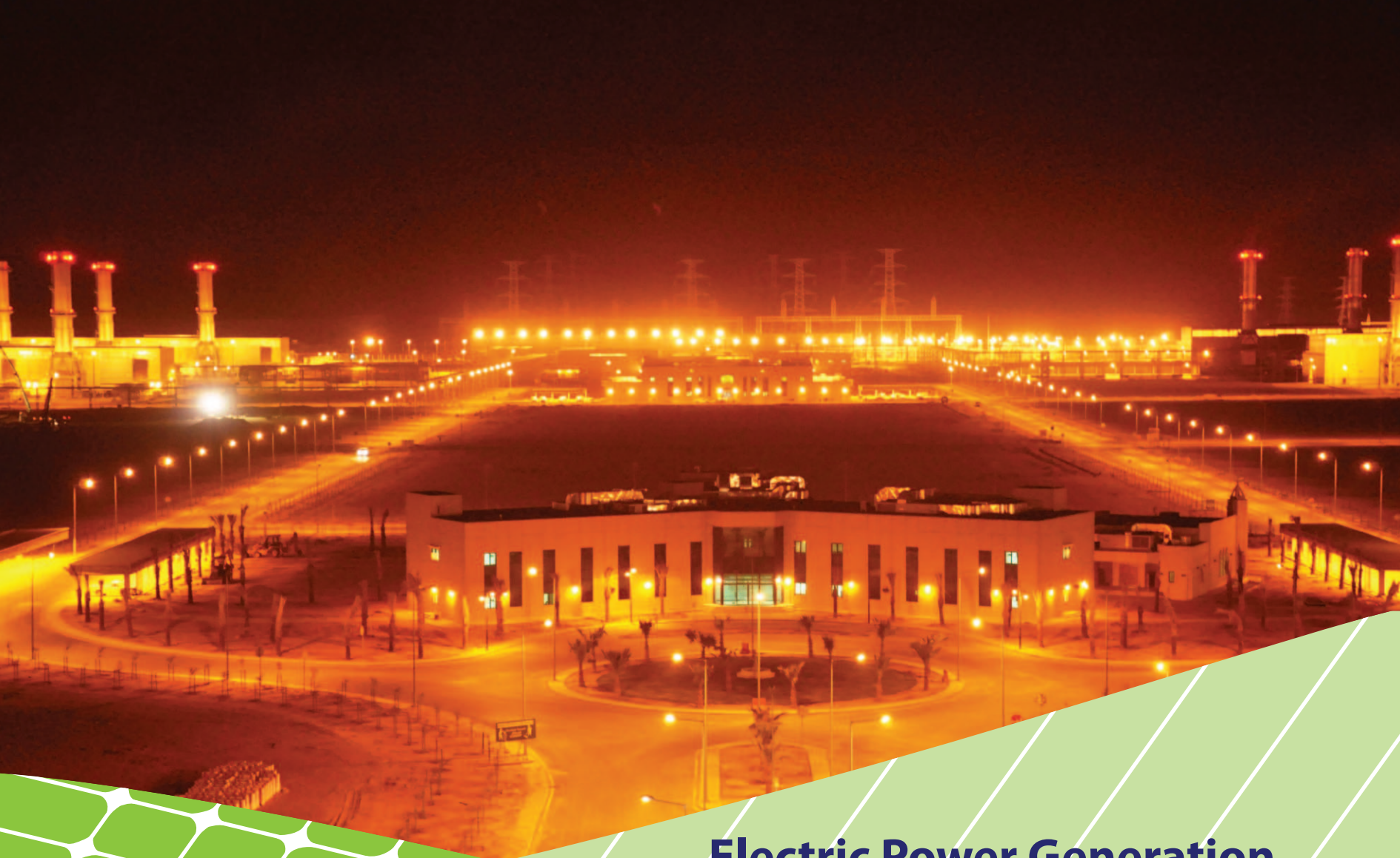
## Community Service

The Company has remarkable efforts in the area of community service, including:

- **Employment agreements with the Human Resources Development Fund:** Company has signed three agreements prior to 2011 which will contribute to the hiring of 3,189 individuals. The Company signed the first comprehensive agreement to support employing 740 employees in 2011. The second comprehensive agreement to hire 1,300 employees was prepared and expected to be signed during the first quarter of 2012.
- **Cooperation between the Company and the Technical and Vocational Training Corporation** by contributing to the creation of specialized institutes for training on electricity sector related works.
- **Recruitment of a number of graduates from technical and industrial schools** as well as from Jubail Technical College and the Institute of Public Administration on certain specializations needed by the Company; directly employing and enrolling them in the On-Job-Training Programs for the departments that will benefit from the services of those employees.
- **Participation in the specialized annual forums and conferences** in the areas of human resources development and total quality management.
- **Activating the role of the Company with the community through public lectures** the topic of which revolves around the effective contributions of the Company in satisfying the needs of the community and the expected positive role of the beneficiaries of the Company's activities in this field, mainly in rationalization of consumption.
- **Various exhibitions held in operating areas throughout the year** in which the Company participates in or contributes to. It also takes part in public events such as the Traffic Week and the like. In addition, it publishes brochures and issues bulletins in this concern.
- **Participation in Career Day activities** held by a number of universities in the Kingdom to promote awareness of the Company's activities as well as the available job opportunities for the required positions within the Company offering a chance at employment for concerned people.
- **Contribution in the success of the Cooperative Training Program** for university students in various levels by giving them practical training opportunities at various Company facilities and allow them to acquire suitable practical experiences at both the administrative and technical levels. The number of students in this program was 917 in 2011, of which 364 are non-paid trainees.
- **Contribution to the success of the Summer Training Program** by admitting a number of secondary school students for a part-time employment with monthly stipend during the summer period so as to get them accustomed with work environment. The total number of participants in this program was 612 in 2011.
- **Supporting the research activities in the Saudi universities and other scientific and research institutions**, which include: signing joint-ventures with King Abdulaziz City for Science and Technology and sponsoring scientific chairs with the King Abdulaziz University, King Saud University, and King Fahd University of Petroleum and Minerals. The universities held specialized workshops for scientific chairs which were attended by a large number of Company engineers and Saudi-Aramco engineers.
- **Environmental preservation is taken into consideration in the preparation of the Company's operational and capital plans.** With a deep sense of responsibility for the environment the Company coordinates with the Presidency of Meteorology and Environment (PME) in order to contribute in setting sound environmental policies. In addition, the Company conducted studies about assessing the environmental effect. The Company's care and concern towards the environment is quite clear in combating air, water, and soil pollutions, as well as recessing the effects of the environmental pollution on the humans, and participation in environment and energy exhibition.
- **Awareness campaigns to rationalize consumption and the optimal utilization and dealing with the electrical current.**

In conclusion, we emphasize that the Saudi Electricity Company fully believes that it is essential to carry out ongoing development and changes, to review and evaluate performances to go in line with recent developments; Company has the flexibility and experience to achieve this.





## **Electric Power Generation**



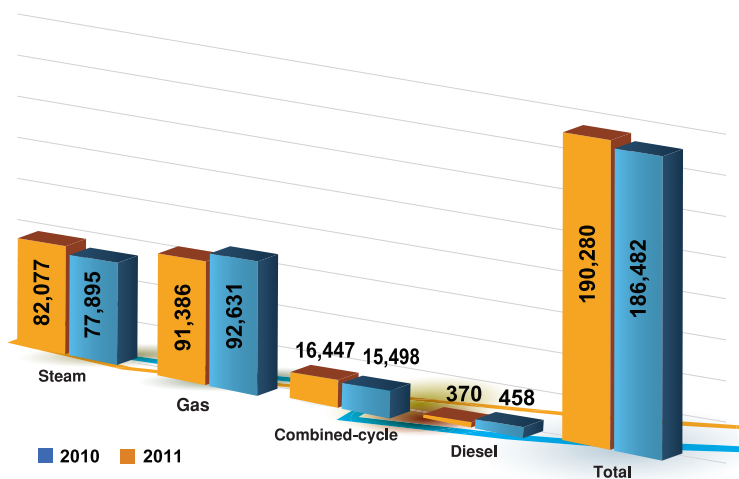
## Electric Power Generation

The total power produced by the Company's Generation activity during 2011 was approximately 190,280 gigawatt hours. A 2% increase was attained as compared with the year 2010. There is also an increase in load amounting to 48,367 MW, equivalent to a rate of 5.9% over the previous year. The Company has handled this increase in load by increasing the combined generation capacities to 41,924 MW, equivalent to a rate 4.9% at year-end 2011.

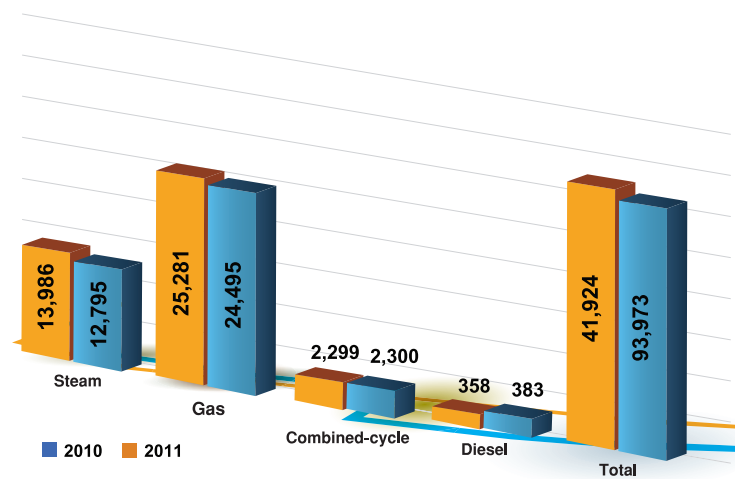
Particulars	Since Company's Establishment in 2000	Percentage of Change During the Previous Eleven Years ▲
Available electric generation capacities (MW)	24,083 %	124 %

# Electric Power Generation

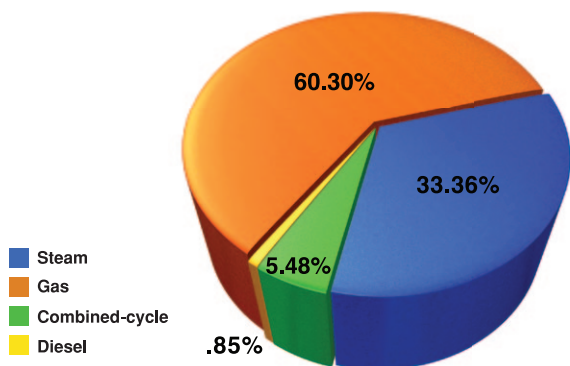
Power Produced from the Company's Generation Plants by Unit Type (GWH)



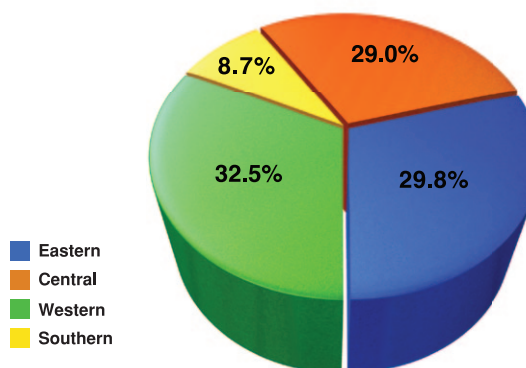
Actual Generation Capacities of the Company by Unit Type (MW)



Percentage Distribution of Generation Capacities of Company Owned Units in 2011



Percentage Distribution of Total Installed Capacity of the Company by Sector in 2011



The Generation activity indicators recorded a noticeable improvement in the Weighted Equivalent Availability Factor, most important of which are: increase in the thermal efficacy of most of the generation units and decrease in the planned maintenance work period as Weighted Equivalent Availability Factor recorded was 86.4% gaining a 2.7% increase over 2010.

### Technical Performance Indicators on the Activity Level

Comparing the performance indicators of activity levels in the years 2010 and 2011, we find that the WEAFF increased in 2011 recording 86.4% as compared with 83.7% in 2010 due to the decrease in the Weighted Equivalent Planned Outage Factor (WEPOF) in 2011, as the factor recorded 8.7% as compared with 10.7% in 2010. Furthermore, the Weighted Equivalent Maintenance Outage Factor (WEMOF) decreased in 2011 recording 2.3% as compared with 3.1% in 2010 in spite of the relatively limited increase in the Weighted Equivalent Forced Outage Rate (WEFOR) in 2011, as it recorded 4.3% compared with 4.1% in 2010.

### Technical Performance Indicators by Generation Technologies

#### Steam Units (ST)

Comparing the performance indicators of the steam units' activity levels in 2010 and 2011, we find that the WEAFF increased in 2011 recording 84.5% as compared with 83.7% in 2010. This was a result of the decrease in the WEPOF in 2011 recording 13.6% as compared with 15.0% in 2010 in spite of the relatively limited increase in the Weighted Equivalent Forced Outage Rate (WEFOR) in 2011, as it recorded 1.2% compared with 1.0% in 2010.

#### Combined-Cycle Units (CC)

Comparing the performance indicators of the combined-cycle units' activity levels in 2010 and 2011, we find that the WEAFF increased in 2011 recording 88.1% as compared with 82.4% in 2010. This was a result of the decrease in the WEPOF in 2011 recording 7.4% as compared with 15.0% in 2010 in spite of the relatively limited increase in the Weighted Equivalent Forced Outage Rate (WEFOR) in 2011, as it recorded 2.5% compared with 1.9% in 2010.

# Electric Power Generation

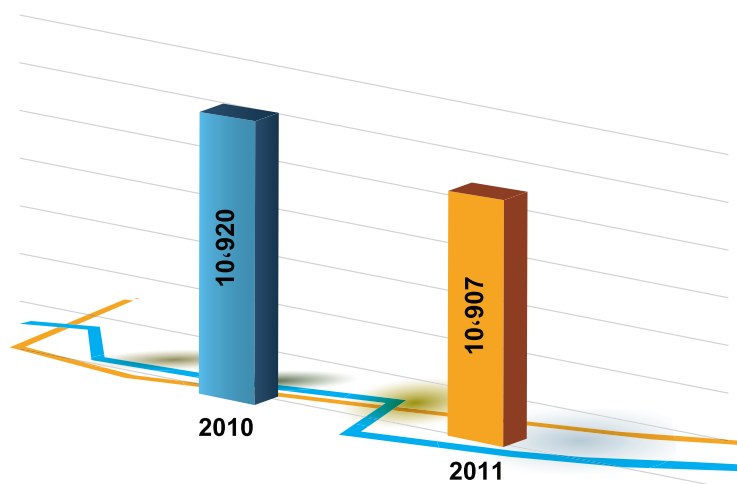
## Gas Units (GT)

Comparing the performance indicators of the combined-cycle units' activity levels in 2010 and 2011, we find that the WEAFF increased in 2011 recording 87.0% as compared with 83.7% in 2010. This was a result of the decrease in the WEPOF in 2011 recording 6.7% as compared with 8.6% in 2010. Furthermore, the Weighted Equivalent Maintenance Outage Factor (WEMOF) decreased in 2011 reaching 2.8% as compared with 4.3% in 2010 in spite of the relatively limited increase in the Weighted Equivalent Forced Outage Rate (WEFOR) in 2011, as it recorded 6.7% compared with 6.3% in 2010.

## Thermal Average (BTU/KWH)

The BTU/KWH (BTU = British Thermal Unit, KWH = Kilowatt Hour), of the generation activity decreased to 10,907 BTU/KWH in 2011 as compared with 10,920 BTU/KWH in 2010. While taking into consideration the extreme importance of this average in the costs of total power generation of the Company, any rationalization effort in the fuel will have great effect on the fuel costs. This decrease, though it looks too little, represents 106 million as a rationed saving in 2011 (taking into account that the fuel is priced at the international oil prices i.e. about USD 60 per barrel).

## Average Heat Generation at the Level of Activity (BTU /KWH)



## Objectives of the 2011 Maintenance Program

The total number of comprehensive maintenance processes was 89 as compared with the 104 planned maintenance processes which is 14.4% less than the projected plan. This drop is ascribed to the introduction of new units into service and increase of dependency on the independent power production plants along with the saline water conversion plants, as well as operating the units at higher efficiencies. As a result, the number of operational hours of some units was lower than expected in 2011 in addition to the postponement of the planned output of some units to the fourth quarter of 2011 and to the first quarter of 2012.

The medium maintenance processes were 118 as compared with 117 planned maintenance processes i.e. 10.2% over the planned number.

As for the light maintenance processes there were 231 as compared with 268 planned processes i.e. 13.8% less than the plan.

## Generation Projects During 2011

### Central Sector

Power Plant 10: 12 gas units with a total capacity of 671 MW.

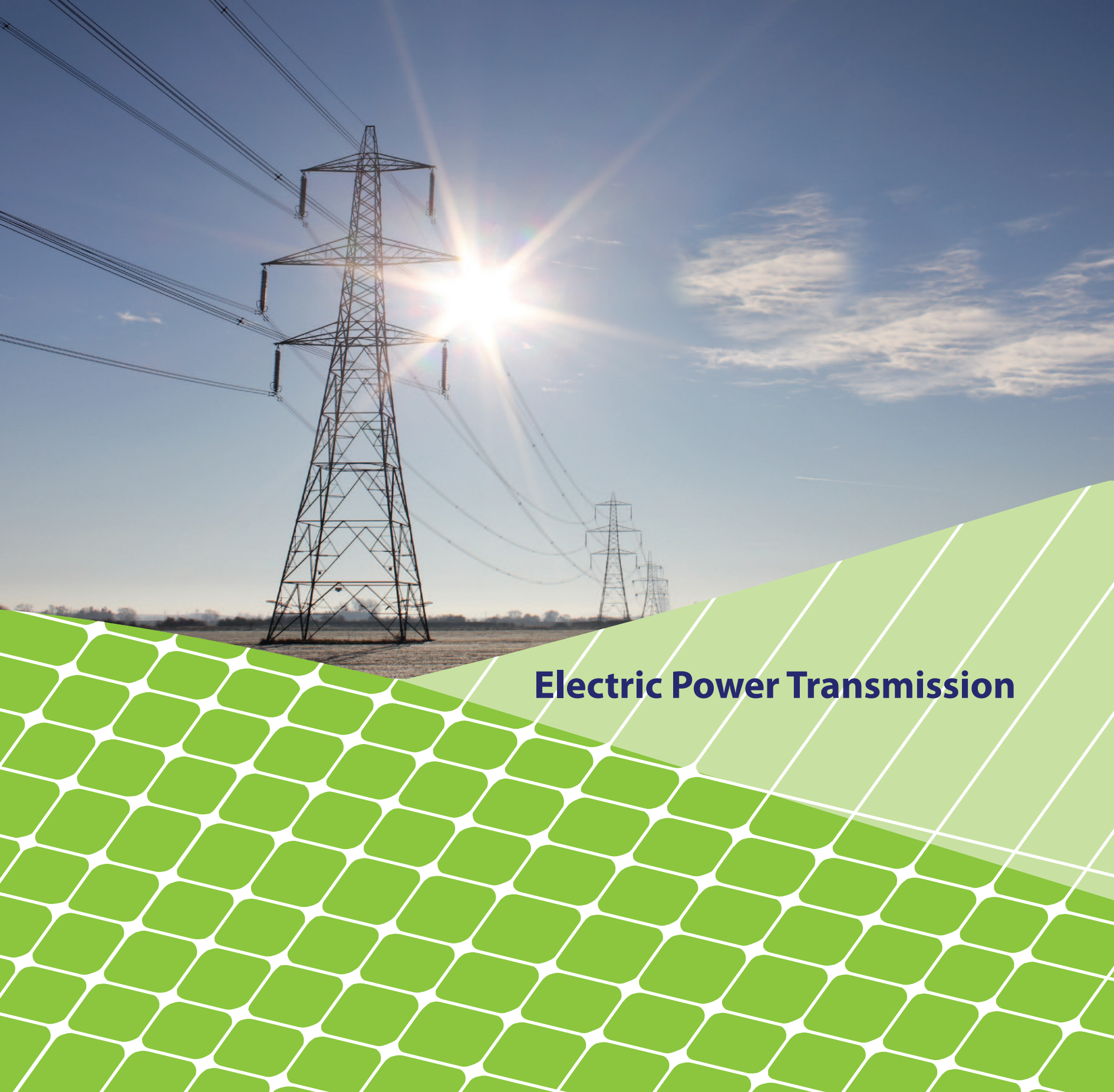
Hail Power Plant: 2 gas units with a total capacity of 126 MW.

### Western Sector

Shoaiba Power Plant: 3 steam units with a total capacity of 1,191 MW.

Tabuk Power Plant: 2 gas units with a total capacity of 156 MW.

Dheba Power Plant: 2 gas units with a total capacity of 36 MW.



# **Electric Power Transmission**

# Electric Power Transmission

**7.6%**

Growth in the length of power transmission networks to 49,675 ckm

Inauguration of a number of new projects and reinforcement of existing networks to improve and develop the power transmission as well as raising their operational efficiencies. Thirty-eight (38) new transmission substations containing 100 transformers were added with a total capacity of 13,286 MVA. Moreover, 8 existing substations were boosted by installing 9 transformers with a total capacity of 1,464 MVA. In addition, 4 transformers were replaced with a total net capacity of 286 MVA, bringing the total number of new transformers to 113, with total capacity of 15,036 MVA, as well as the addition of transmission networks length of 2,120 ckm.

The total number of high voltage and extra-high voltage transmission substations was 642 with 1,875 transformers having a total capacity of 173,531 MVA while the total length of the power transmission networks was 49,675 ckm.

Particulars	Since Company's Establishment in 2000	Percentage of Change During the Previous Eleven Years ▲
Length of Transmission Networks (ckm)	29,166	70.3%

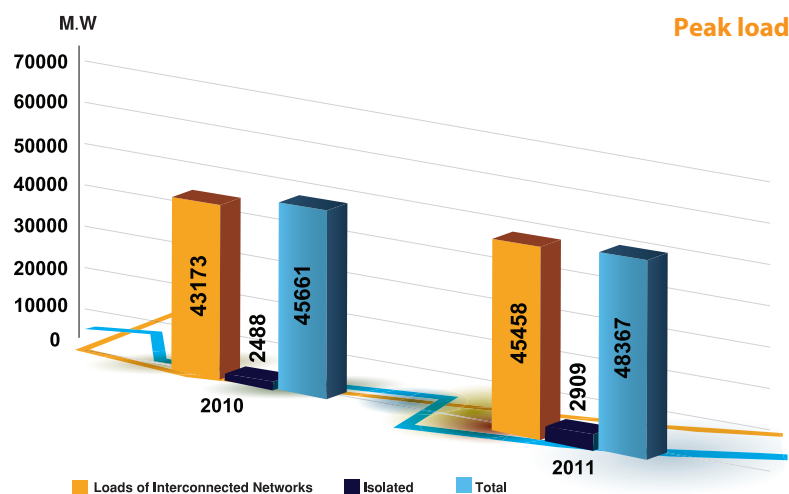


# Electric Power Transmission

## Our Major Works

The Power Transmission activity periodically performs work on improving and developing the 380/110 KV transmission networks in all the sectors (i.e. Central, Eastern, Western and Southern Sectors). The aim is to raise the networks availability and readiness, and ensure a smooth, stable, and uninterrupted transmission of power through achieving the strategic goals of the activity. The Transmission activity accords high attention to the annual pilgrimage season to avoid any interruptions that may affect the pilgrims of the Almighty Allah's Holy House. This was achieved by prior planning for maintenance works, load anticipations, carrying out the emergency works at the soonest possible time, and removal of all hindrances that obstruct the implementation thereof.

The peak load in the different territories of the Kingdom in 2011 was 48,367 MW, a 5.9% increase over 2010. The peak load contributions of each interconnected and isolated networks in 2011 made an increase of 5.3% and 16.9% respectively over 2010. The peak loads of the interconnected and insulated networks reached 45,458 MW and 2,909 MW respectively in 2011.



The 2011 year witnessed the inauguration of a number of new projects and reinforcement projects to improve and develop the power transmission networks and raise their operational efficiencies. The most important projects were:

### Extra-high voltage (380/ 230 KV)

- Addition of 8 transmission substations with 19 transformers having a total capacity of 7,794 MVA.
- Addition of new overhead and underground cable networks with a total length of 1,176 ckm.
- Enhancement of an existing transmission substation with 3 electrical switches.

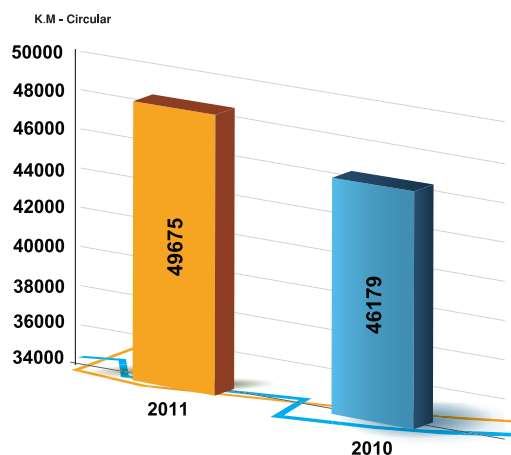
### High Voltage (132 /110 KV)

- Addition of 30 new transmission substations with 94 transformers having a total capacity of 7,240 MVA.
- Addition of new overhead and underground cable networks with a total length of 944 ckm.
- Enhancement of existing transmission substations with 6 transformers having a total capacity of 400 MVA.
- Replacement of 4 transformers with total capacity of 286 MVA.

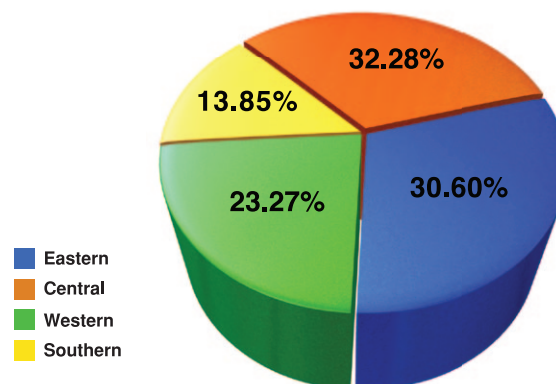
These projects reflect the growth in the power transmission networks by 7.6% to bring about the total length of the network lines to 49,675 ckm by the end of 2011, as compared with total length of 46,179 ckm in 2010.

The network spans the Company's sectors in the Kingdom where the percentage rates of distribution of the power transmission network length in the Central, Eastern, Western and Southern sectors were 32.3%, 30.6%, 23.3% and 13.8% respectively.

### Lengths of Power Transmission Networks (110 /380 KV)

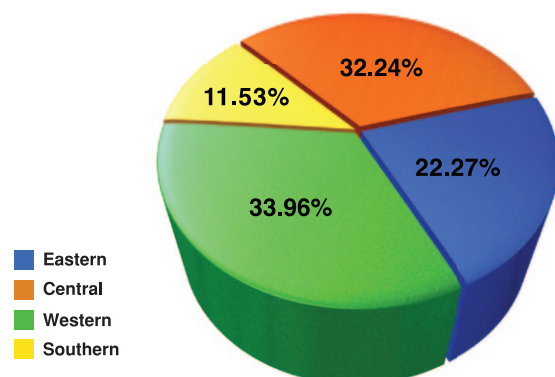


### Percentage Rates of Distribution of the Power Transmission Network Length (132 /110 KV) 2011



On the other hand, the power transmission networks were supported by 38 new transmission substations, so that the total number of the substations by the end of 2011 was 642; this growth changed the percentage rates of distribution of the transmission substations in the Central, Eastern, Western and Southern sectors to 32.2%, 22.3%, 34.0% and 11.5% respectively.

### Percentage Distribution of the Power Transmission Substations in 2011.

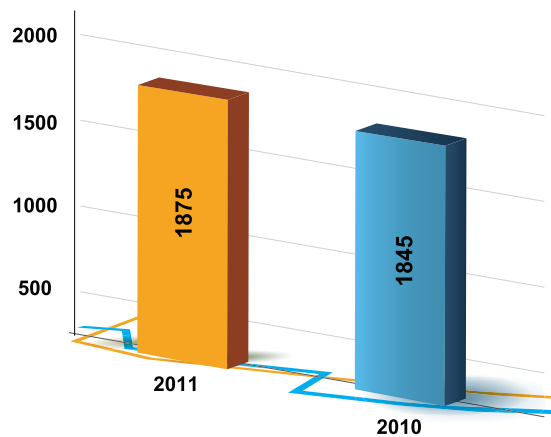


# Electric Power Transmission

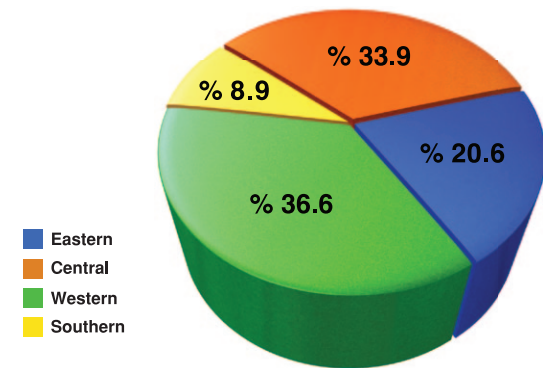
The rate of growth in the number of transformers was 2% in 2011, so that the total number of transformers reached 1,875 as compared with 1,845 in 2010 while the capacity of the transformers amounted to 173,531 MVA by the end of 2011.

As a result of this development in the power transmission networks, the percentage rates of distribution of the number of transformers were 33.9%, 20.6%, 36.6% and 8.9% in the Central, Eastern, Western and Southern sectors, respectively in 2011. The percentage rates of distribution of the transformers' capacities in the abovementioned sectors were 31.8%, 28.8%, 29.8% and 9.6%, respectively.

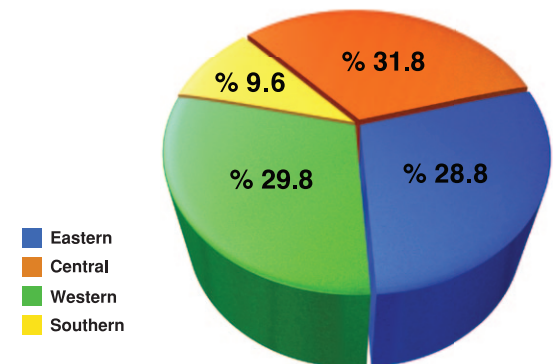
**Total Number of Transformers**



**Percentage Distribution of Power Transmission Transformers in 2011**



**Percentage Distribution of Power Transmission Transformers Capacities in 2011**



## Most Important Achievements of the Transmission Activity in 2011

### Preparations for Summer

The Power Transmission activity periodically performs works on setting the plans for electrical loads during the summer season to identify the requirements and needs of the electric network. The Company also promptly includes new projects as per the prepared plan ahead of time. In the meanwhile, the Company continues to carry out preventive maintenance works on the Company's electrical system and equipment, as well as holding periodic meetings with the work teams targeting the enhancement of the network to meet the growing demand for electric loads in the different areas of the Kingdom. One of the strategies of the transmission activity is to have the executive management visit existing electric projects and those under process in order to get a close idea of the technical problems, if any, and to remedy them on site.

### Added Facilities:

The total added power to the network amounted to 15,036 MVA from the new substations as well as from expanded substations. The total number of the electrical circuit breakers which were added to the network reached 1,729 breakers and a total added network length of 2,120 ckm.

The company saved renting of generation units during 2011 summer by operating the (SVC) dynamic power compensator for ineffective capacity, 100 megavar (MVAR) at Plant No. 8603 at Afif City. Further, 90 condensers operated in 37 plants, 875 megavar capacity at different areas in order to improve the voltage level, and the first phase of the Plant No. 9005 was commissioned with a 380 KV voltage.

The second phase of the strategic connection line was completed between Al-Qassim and Madinah Munawara, even as the Rabigh transmission substation was operated and linked with the network; generation operations are expected to begin during 2012.

### Restructuring Transmission Activity

In 2011, many committees and teams were formed and have accomplished the restructuring of the National Electricity Transmission Company and the transfer of the tasks and responsibilities. Work is ongoing to complete the restructuring requirements such as clarification of the tasks and assignments, interrelations inside the company and with the holding company. Meantime, the technical and administrative responsibilities were defined.

### Gulf Interconnection

Gulf Cooperation Council Interconnection Authority realized many achievements over the past three years. The most prominent was the completion of the electric grid interconnection project with the connection of the UAE network to the main network. The second phase of the gulf interconnection 380 KV project was operated to interconnect the Kingdom's networks to those in UAE and Oman.

### The Power Transmission Saudi Code

The committee on supervision revised the transmission code and discussed the amendment applications received from all the code users, and were approved by the authority of the Board of Directors. The title of the code was amended from Saudi Transmission Code to the Power Transmission Saudi Code. Since 2008, thirteen (13) meetings were held and the exceptions on the code were also discussed. The recommendations were sent to the Electricity Co-Generation Regulatory Authority (ECRA) where numerous exception applications were approved, and an application control guide was prepared, presented, and discussed with the executive department of the transmission activity.

### Human Resources Development:

The Transmission activity endeavors to develop its human resources by introducing specialized programs, such as the "Expert Program" to develop leading and administrative efficiencies, with the international companies as well as other programs aiming to improve the workers' efficiencies to create new leaderships, such as the "Promising People" program.

This activity has representatives to the Employee Performance Management Committee who play a major role in accomplishing the setting of performance criteria through holding many workshops setting performance criteria by holding numerous workshops with departments' training heads.



**Electronic Bill**



**Phone Banking**



**The Internet**



**Mobile SMS**



**ATM**



**Advanced Payment**



**Easy Payment**

**Distribution and  
Customer Services**

## Distribution and Customer Services

**5.22%**

Growth in the number of customers to 6,341,025 customers.

Electricity service was delivered to 363,318 new customers and 266 villages and settlements were provided with electric power, so that the total number of the cities, villages, and settlements duly provided with electricity services reached 12,256.

The distribution networks were reinforced by adding 24,866 transformers having a total capacity of 10,939 MVA and installing additional networks length of 26,042 ckm. By the end of the year, the total number of transformers reached 344,292 with total capacity of 160,277 MVA and 409,289 ckm network lines length.

Particulars	Since Company's Establishment in 2000	Percentage of Change During the Past Eleven Years 
Distribution and Customer Services (ckm)	219,076	86.8%





# Distribution and Customer Services

## Serving the Two Holy Mosques and the Holy Places

By the end of 2011, the executive plan for the 1432H pilgrimage season was successfully implemented without any interruptions which provided comfort to the pilgrims in Makkah Mukarramah and other holy places including Madina Munawara as well. In this concern, the following services were provided:

- Providing service for additional loads of 6 MVA to cool down the “Masa’a” at Makkah Holy Mosque, which brought the total delivered load to 13 MVA.
- Providing service for the additional loads in the Prophet’s Mosque and supporting the central area of Madina Munawara to keep up with the increasing demands for loads as a result of the new construction in the area and to provide the customers with safe and reliable electric services.
- Completion of 95% of the extensions of the connection cables for Mena Transmission Substation 3 in Makkah Mukarramah and assuring its reliability in the event that a complete transmission substation is taken out of service along with 2 medium voltage feeders.
- Successful implementation of the operational plan for the Umrah and Hajj season for the year 1432H and the preparation of a performance report about the its results.
- Preparation of a report about the results of the implementation of the Hajj plan for 1431H.
- Delivering the service for additional loads of 35 MVA at the King Abdul Aziz Endowment for the Two Holy Mosques.
- Completion of the extension of connection cables for Mena Transmission Substation 3, Makkah Mukarramah, and assuring its reliance in the event that a complete substation is taken out of service or in the event that 2 medium voltage feeders are also taken out of service, with one feeding island.
- Approval of the diversification of the feeding source for the building of King Abdul Aziz Endowment for the Two Holy Mosques.
- Developing the third phase of the project for the enhancement of the low voltage network at Mena and providing reserve sources for the low voltage feeders in that area.

## Customer Service

In our effort to develop the services provided to the customers, awareness workshops were held to discuss the revenues for providing the electricity services which were attended by 420 employees. We expanded our electronic services to our valued customers such as SMS service to communicate with the customers by means of short messages to their mobile phones. Also, water and electricity bill customers were linked to the mobile SMS service. The total number of subscribers to SMS service was 1,779,937 by the end of 2011 while the number of sent messages reached 39,559,801 messages till 31/12/2011. In addition, the eBill service by which the electric power consumption bills are sent to the email addresses of customers who subscribed to this service was also expanded. The total number of subscribers to this service was approximately 201,321 and the total of the emailed messages concerning the eBills was 8,289,791.

As far as bills are concerned, we inaugurated this year a supporting program for the payment of electricity bills for beneficiaries under social welfare. The supporting systems to bring this program to success were configured and in this regard we obtained the consent of the Ministry of Islamic Affairs to approve a total of 3,826 non-government mosques for the payment of their debts amounting to 9,794,657 and for them to be added to the group of registered mosques with the government.

## Networks Performance Improvement

In 2011, all praise and thanks to Allah the Exalted, the following achievements were realized:

1. Completion of the last phase of the project for converting the voltage to the main network at Makkah Mukarramah, and completion of the project for converting the voltage of the Royal Diwan at the building of the Royal Palaces at Safa and Taif.
2. Within the Company’s campaign to reduce meter failure and to reduce energy losses, 3,500 old single-phase meters were replaced with new ones. In this context, the company has completed the inspection and maintenance of 52,000 meters in view of the automated programs on meter reading and performance.
3. Towards the improvement of power distribution network performance, network reliability systems were installed on the networks suffering from decreased voltage and repeated interruptions. Mobile generators in the power distribution networks were used and activating the medium voltage flexible cables as well as in mobile units which contributed to the speedy restoration of service to those affected by unpredicted power interruptions in all cities and villages of the Kingdom.



4. As regards expanding and reinforcing the electric distribution system, numerous projects were implemented at the cost exceeding SR 5,385 million. They include network expansion to more than 21,000 ckm, installation of more than 24,800 transformers with installed capacity of 10,939 MVA, and providing electricity service to 363 thousand customers.

### Performance Development:

Within the framework of developing the new employees, a contract to train 141 front-line employees was entered into during 2011. In this context, two programs to train 1,648 were conducted (Yom Tazkiri and Amal Khafi) .

### Automated Systems

**First: Customers' Systems:** A number of systems were developed and applied as follows:

#### 1- Bill Automation

As a result of the Company's efforts to develop automated systems and circulate them over the activity departments, the billing project (SAP) was signed on 02/04/2011, which is planned to be completed in the third quarter of 2012.

#### 2- Variable Tariff

The variable tariff had been applied on all the industrial parties during the summer of 2011 following the efforts of replacing all of their old meters with electronic meters and applying special reading system.

#### 3- Standardized Checking System

The new standardized system for checking the readings was completed and applied in the City of Abha, and application is under process in all the sectors using new advanced reading systems.

**Second: Distribution System:** This system had been developed and applied on a number of systems as follows:

#### 1- Standardized Distribution System.

A standardized distribution system was applied in the Western and Southern sectors and the system application was completed in Dammam Electricity Directorate in the Eastern sector. In this regard, it will be applied in Al-Hassa Electricity Directorate during 2011 and in 2012 in the Central sector.

#### 2- Field Teams Management System

This is a system for automated tracking of field teams which was applied in Riyadh, Jeddah, Makkah, and Madina. Furthermore, other contracts were written to apply the system in Hofuf, Jubail, and Abha, which are scheduled to be completed during 2012. Projects of this system will be started in Al-Qassim, Hail, Taif and Tabuk during the first quarter of 2012.

#### 3- Geographic Information System

This system was applied in Makkah, Jeddah, Madina, Taif, and Tabuk; application projects of this system are currently being executed in Riyadh, Abha, Hofuf, Jubail, Qassim, and Hail and is expected to be completed by the end of 2012. A contract was also signed to apply this system in Jizan with its completion expected by the end of 2013.

#### 4- Distribution Automation System (DAS)

Distribution Automation System projects are under processing in the central area (Makkah Mukarramah) and in the Industrial City in Jeddah which are scheduled for completion during 2012. Furthermore, we are working with a highly experienced strategic partner (KEPCO) to set up the requirements and technical specifications of these systems and apply the latest technologies in this concern.



# Distribution and Customer Services

## 5- Automated Meter Reading (AMR)

More than 12,000 electronic meters were installed for the large customers (industrial, commercial) with the aim of applying the variable tariff program which was approved by the organizer. These equipment will be connected to an automated meter reading system which will allow remote reading mode. In addition, an expansion plan is already being implemented to install 40,000 new electronic meters during 2011-2013.

## 6- Electrical Network Analysis and Design Systems

This system had been applied in all sectors to ensure optimal utilization of the system; contracts were concluded to increase the number of the users thereof.

## Distribution and Customer Service

Load displacement and upgrade of power efficiency

In 2011, we continued applying the variable tariff program for displaced loads in all sectors, as all the variable meters of the industrial sector were installed which contributed in reducing the customer bill as a result of the utilization of the reduced rate outside the peak period. The program further contributed in load displacement at the peak period owing it the significant role of the media. We held 30 exhibitions as regards upgrading the electric power efficiency which were held in various commercial centers. We completed preparing the annual plan for load displacement in coordination with the Ministry of Water and Electricity. The displaced load during the year was 1,201 MW (approximately as per the plan). We also held a number of workshops and awareness lectures for the school students through the national program for rationalization.

The Saudi Electricity Company assures electrical power for the customers and is committed to provide related services as regards sending bills and bill payment and the like. The Company is planning to carry out a study to measure customer satisfaction about the provided services for the purpose of introducing more improvements and comparing the customer service performance of the Company with other companies in advanced countries.

A contract with a 6-month duration was signed on 12/08/2010 to conduct a study which covers all the customer service offices in all four sectors. Surveys will include 16,000 customers from all the sectors.

Distribution of the total survey by sector as follows:

<b>Central Sector:</b>	5000 customers
<b>Western Sector:</b>	5000 customers
<b>Eastern Sector:</b>	4000 customers
<b>Southern Sector:</b>	2000 customers

Distribution of the total survey by category as follows:

<b>Residential:</b>	73 %
<b>Commercial:</b>	15 %
<b>Industrial:</b>	5.4 %
<b>Governmental:</b>	4.6 %
<b>Agricultural:</b>	2 %

## Isolated Generation

A number of contracts concerning power distribution and customer services during 2011 were awarded as follows:

1. Supporting the system during summer by a total capacity of 277 MW at the cost of SR 131 million.
2. Securing the energy required to serve the remote and isolated territories with a total capacity of 955 MW.

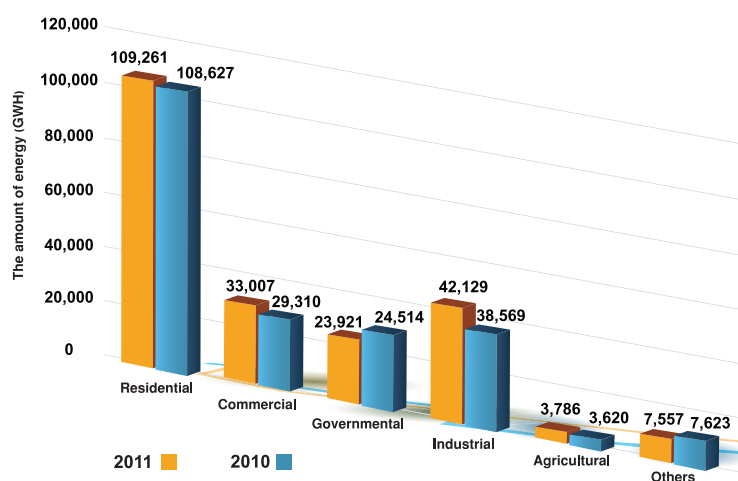
## Electricity Hedge

Electric power service was delivered to the remote areas which include 308 villages and settlements and public gatherings during 2011.

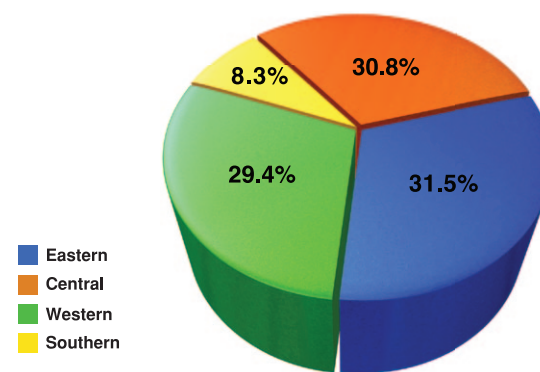
## Sold Energy

1. Collection of a subsidy amount from the Ministry of Social Affairs amounting to SR 160,441,767 for the months of January, February, March and April in 2011. Currently work is under processing to settle the claims covering the period from May to September 2011.
2. Introduction of a new mechanism for electronic exchange between the Social Security Agency and the Company for the purpose of developing existing procedures which will guarantee ease and speed of data exchange and settling the subsidy amounts by the ministry. A memorandum of understanding is prepared and is in the approval stage by the Ministry of Social Affairs and the Company.
3. Preparation of the sales plan till 2017 by categories.
4. Revision for updating and correcting customers' data as regards low tariff with the sectors and amending errors committed during the application of the tariff, especially in the residential and commercial categories which actually resulted in increasing the income.
5. The total sold energy during 2011 reached 219,662 GWH with a 3.5% increase over 2010.

**Sold Energy by Customer Category in 2010 and 2011 (GWH)**



**Percentage Rates of Distribution of the Sold Energy by Sector in 2011**

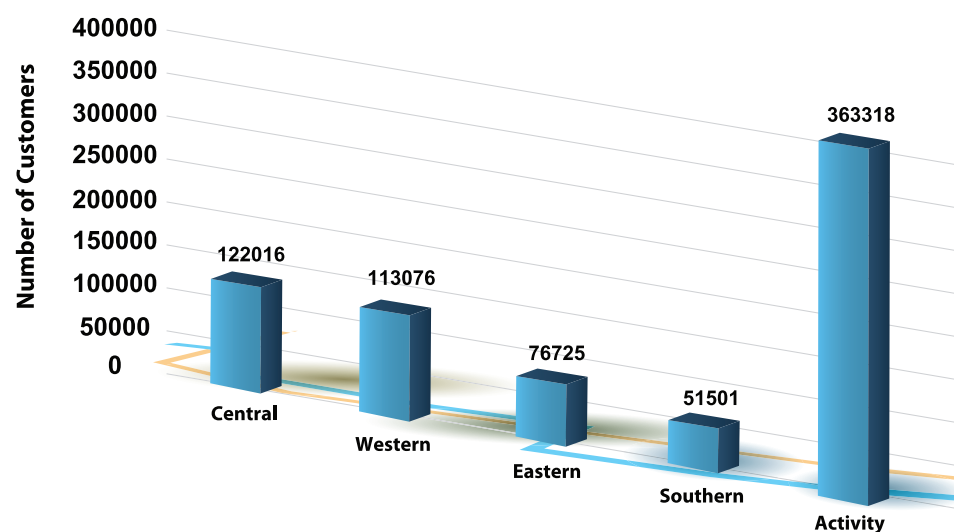




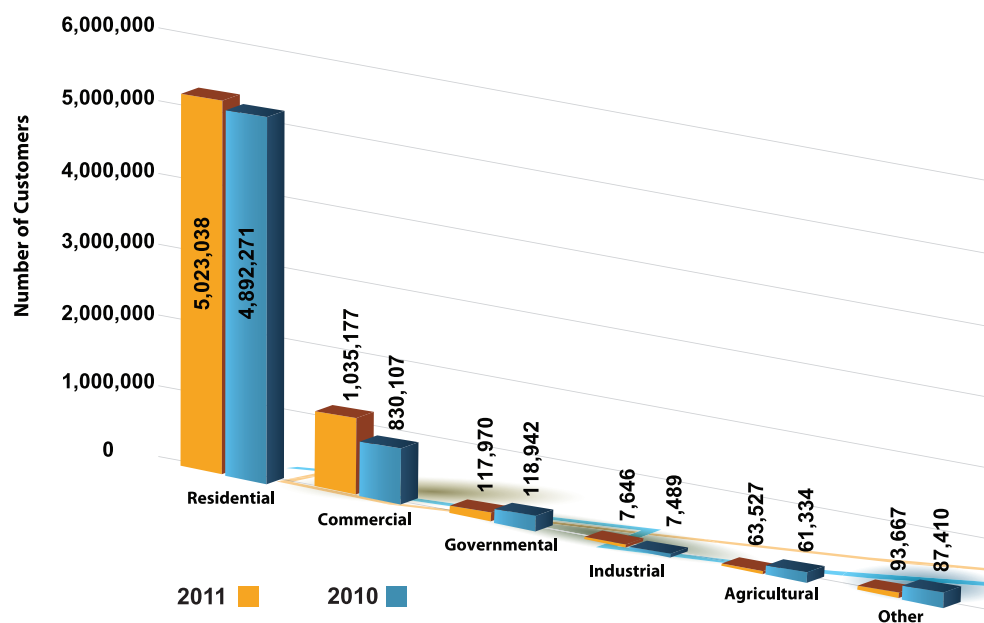
# Distribution and Customer Services

By the end of 2011, the number of customers increased to more than 6,341,025 with a 5.7% growth over 2010. The total number of new customers was 363,318 coming from all the Company sectors as follows:

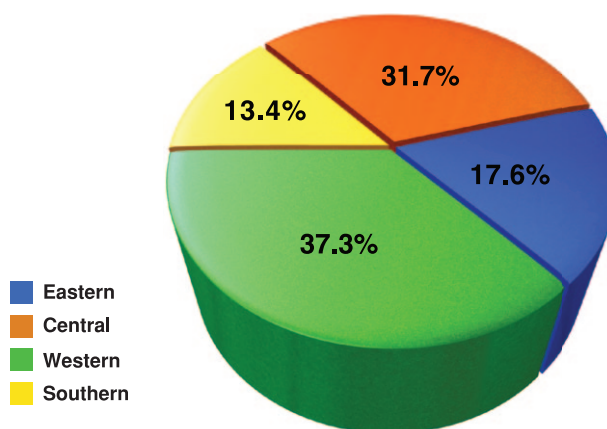
## Total Number of Customers:



Number of Customers by Customer Category in 2010 and 2011.



Percentage Rates of Distribution of the Number of Customers by Sector in 2011.







## **Investment in Electricity Production Projects**



## Investment in Electricity Production Projects

Rabigh Independent Power Production Project (Under Execution)	Project Productive Capacity (MW)	Private Sector Investment in the Project Capital	Project Completion Date
	1200	80%	2013
Riyadh Project (11) Independent Power Production (Under Execution)	Project Productive Capacity (MW)	Private Sector Investment in the Project Capital	Project Completion Date
	1729	50%	2013
Qurayyah Independent Power Production Project (Under Execution)	Project Productive Capacity (MW)	Private Sector Investment in the Project Capital	Project Completion Date
	3927	50%	2014

## Future Projects

	Project Productive Capacity (MW)	Private Sector Investment in the Project Capital	Project Completion Date
Rabigh 2 Independent Power Production Project	1700	50%	2017
Dheba Independent Power Production Project (Under Execution)	1700	50%	2018







# Investment in the Electricity Production Projects

## Program for Private Sector Participation in the Electricity Projects

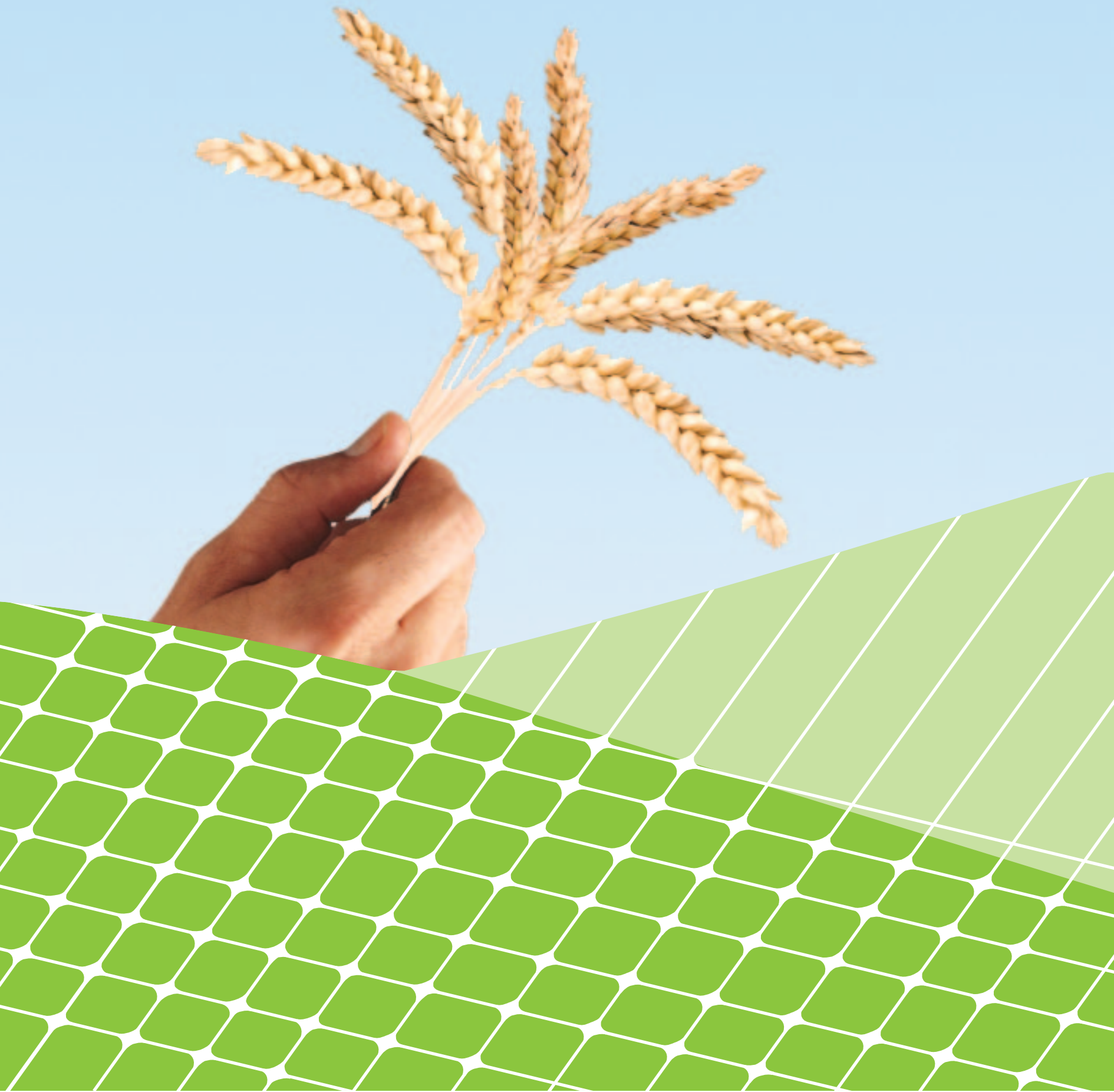
As a result of the Company's awareness of the importance of the economic development taking place in the Kingdom which requires providing enormous amount of electric power to keep abreast of the developments, it was inevitable to establish a large number of power generating plants through direct investments by the company and through the participation of investments coming from the private sector as part of the Company's Program for Private Sector Participation in the Electricity Projects (IPPs) which was approved in 2007; a dedicated team was formed to supervise it.

In order to support this team, the Company signed contracts with international consulting firms with proven experience and equipped with the knowledge to execute technical, legal, and financial matters related to the independent electric power production projects. The company targeted, in the first stage of the program, three projects on the basis of build-own-operate with investments estimated at more than SR 25 billion, as detailed below:

- The first project is in Rabigh in the Western Region for a power generating station with 1,200 MW capacity. A contract was signed during the second quarter of 2009 with a consortium of companies namely Korea Electric Power Company (KEPCO) and ACWA Power International (ACWA Power). Production will begin in the second quarter of 2012 and the project will be completed in 2013.
- The second project is in Dharma in the Riyadh area for a power generating station with 1,729 MW capacity. A contract was signed during the second quarter of 2010 with a consortium of companies namely Suez Company, Al-Jomaih Group, and Sojitz Company. Production will begin in the second quarter of 2012 and the project will be completed in 2013.
- The third project is in Qurayyah in the Eastern Region for a power generating station with 3,927 MW capacity. A contract was signed during the third quarter of 2011 with a consortium of companies namely ACWA Power International and Samsung C&T Corporation. Production will begin in the first quarter of 2014 and the project will be completed in the third quarter of the same year.
- The independent power production project for solar energy production in Farasan with a 500 KW capacity and 864,000 KWH annual production is one of the clean energy program projects of the Company. A memorandum of understanding was signed with the developer of the program, Japan's Showa Shell, in June 2011. The objective of the project is to introduce solar energy to the remote territories and connect them with the distribution networks at Farasan to save on cost and transportation of diesel fuel as well as reduce the emissions in the Peninsula (environment friendly). The project was completed and commissioned in August 2011, on the basis of build-own-operate. The share of the Company in the project is SR 4.5 million, representing one third of the total project value and will be paid on annual installments at the rate of USD 20 thousand, and the balance will be paid upon disposition after 15 years.

The following table shows the projects of private sector participation program in electricity production (IPP) program (SEC purchases the entire electricity production of these projects).

Project Name	Project Productive Capacity (MW)	Private Sector Investment in the Project Capital	Project Completion Date
	M.W	%	Year
Rabigh Independent Power Production Project (Under Execution)	1200	%80	2013
Riyadh Project (11) Independent Power Production (Under Execution)	1729	%50	2013
Qurayyah Independent Power Production Project (Under Execution)	3927	%50	2014
Rabigh (2) Independent Power Production Project	1700	%50	2017
Dheba Independent Power Production Project (Under Execution)	1700	%50	2018



## **Our Social Responsibility**

- **Our Strategy**
- **Our Activities Towards Our Employees**
- **Our Activities Towards the Society**
- **Our Partners and Customers**
- **Our Commitment to Preserve the Environment**



# Our Social Responsibility

## Our Strategy:

### Employees

- Providing a suitable work environment
- Availing equal opportunities for training and development
- Promoting the excellence and innovation initiatives.
- Inculcation of quality culture, idea and practice.
- Embodying the values organized by the work code of ethics.
- Employees' participation through email messages and getting their views about the programs, activities and services provided to them.

### Community

Effective participation in achieving the social and economic development through:

- Supporting the social care activities and programs
- Interaction with the community development and humanitarian issues and concerns.
- Community participation in the initiatives and leading the rationalization program for electric power utilization, as well as dissemination of the safety and security culture on the dangers of the use of electricity.
- Supporting the research centers through adopting and assisting the initiatives and research chairs which will contribute in rationalizing the use of electricity, improving the electric systems performance, preserving the environment, and supporting the plans and projects of renewable energy.

### Our Partners and Customers

Our responsibility on electric power production, transmission and distribution formed a strong motive to prove our abilities and capabilities to build strategic relations based on fairness and transparency:

- We communicate with our customers and partners to secure sustenance of interaction, trust and partnership.
- We encourage them to participate in issues of the electricity industry and follow up of their developments.
- We carefully listen to their views and suggestions on the performance level to reinforce our position and corporate image.

## Environment Protection:

Because we are a company using many types of fuel and oil, in addition to chemicals in the processes for producing electric power, we have a responsibility to protect the environment through:

- Building electric power generation plants outside the cities and public places.
- Using clean fuel.
- Use of Dry Low NOx Burner (DLN).
- Use of the Electrostatic Precipitators in the units run by heavy fuel in order to reduce emission of the precipitating residues.
- Use of the Flue Gas Desulphurization (FGD) technology to reduce the emission of the environment-polluting sulfur oxides gases.
- Use of the high efficiency combined-cycle units which use exhausts and generation units as a thermal source for the boilers instead of fuel burning.

And since we use water, we are working to decrease contamination levels through:

- Not adding any chemicals to the water drained back to the sea, except chlorine which is added to control the growth of the harmful water organisms in plant equipment.
- Treatment of waste water from boilers and isolation of fuel residues from the drainage tank before sending to the evaporation pools.
- Control the degree of cooling water which will be drained to the sea within the permissible limits.
- Removing fuel residues and oil by entering into contracts with qualified companies to ensure that no pollution is caused to the environment.

In order to limit soil pollution, we are very concerned to reduce waste levels through:

- Preparation and application of programs to reduce spills, leakages, seepages, and reduce the quantities of wastes generated from operations and activities of the Company, and achieving prominent successes in the recycling and reuse of materials.
- Getting rid of all the power transformers using oils containing carcinogenic substances such as PCB to assure that no contamination is caused to the soil, surface water and groundwater, and secure the safety of humans, animals, and plants.
- Use of the safe pesticides and substances that are less harmful to the environment.
- Implementing agreements with qualified contractors to get rid of petroleum and oil wastes in the power generating plants through appropriate means that do not cause harm to the environment.
- Cooperation with local and international universities as well as with research centers to find suitable solutions to the problem of carbonic ashes.

We contribute in improving the general aesthetic appearance of the cities of the Kingdom and reducing the sight and sound pollution through:

- Spending large amounts of money to do away with aerial electric power lines by installing them in safe underground conduits.
- Assuring the presence of architectural aesthetic appearance when designing the company's buildings.



# Our Social Responsibility

## Our Activities Towards Employees:

### Social Activities:

- Implement numerous communication programs, graduation ceremonies, recognition, sports, cultural and social activities.
- Orientation visits for staff to discover and learn about power generating plants and the company's various facilities.
- Promote social networking with the staff and their families through the implementation of internal communication plan.
- Organize sports, cultural and social programs through different clubs in the company
- Organize lectures associated with community and cultural awareness.
- Provide training opportunities for the employees children to learn English and computer skills in agreement with the specialized training institutes.

### Communication Enhancement

We carried out the internal communication programs:

- **Panorama program**  
In this program, we published the honoring of 427 distinguished employees who received the "Employee of the Year" award and displayed their photos and names on display screens in the Company's headquarters.
- **Group Breakfast Program**  
In this program, we implemented 126 group breakfasts for various departments/divisions with the presence of senior Company officials the aim of which is to have the opportunity to have a communication between the employees and top management level.
- **"We Are Happy for You" Program.**  
In this program, we implemented 264 gatherings hosted by various Company departments and strengthened by the presence of Company official for employees following a happy occasion (marriage, birth of a child).
- **"Thanks God for Safety" Program.**  
In this program we conducted 79 visits to employees who have been hospitalized employees with the aim of providing support and assistance.
- **"Thank You for Your Family" Program**  
In this program, we honored 22 remarkable employees at year-end and provided dinner invitations to them and their families to increase the loyalty of the employees and their families to the company.



## Communication Enhancement

2011

- **“We Develop Together” Program**  
In this program, we held two meetings with the Vice Presidents to give their experiences and scientific knowledge to the employees.
- **Family Program**  
In this program, we executed 11 programs to contribute to the development and enhancement of the skills of the employees’ families.
- **Employee Orientation Visits Program**  
In this program we organized 25 visits and field trips to Company’s major facilities for the employees.
- **Employees’ Children Visits Program**  
In this program, we organized 11 visits and field trips to the headquarters and important facilities of the Company for the employee’s children.





# Our Social Responsibility

## Our Activities towards the Society

We implemented the external communication programs as follows:

- **Visits of the Company's Senior Staff Program**  
In this program, we conducted 10 visits to reinforce and establish relation and extend contact bridges for the Company and Company-related external parties.
- **Community Sector Visits to the Company Program**  
We carried out 32 programs to invite and receive various community sectors (educational, governmental, private, etc) to visit the company and peruse the Company's prominent facilities.
- **Cooperative Program with the Gifted**  
We implemented a cooperative program to support the gifted and introduce the company as a strategic partner.
- **"More Beautiful Environment" Program**  
We implemented 4 programs in Riyadh, Dammam, Jeddah and Abha to contribute in cleaning the public parks in the touristic sites of the Kingdom.
- **"Invest Your Energy" Program.**  
We implemented a program for people with special needs through art/drawing contests at the Kingdom level.

## Exhibitions, Seminars, and Conferences

- We participated in the Fourteenth Annual Forum on Quality and the concurrent exhibition under the theme Total Quality: An Oasis of Creativity.
- We participated in organizing 290 internal activities.
- We held 40 exhibitions in various universities with the participation of other parties who are related to the nature of the Company's operations, such as exhibition on the rationalization of energy, load displacement exhibitions, career day, etc.. We further participated in the International Civil Defense Day and the Gulf Traffic Day.
- We held 30 visits to various communities, schools, universities, specialized colleges, as well as certain military sectors and community organizations inviting them to visit the facilities and utilities of the Company.
- We organized 10 periodic visits to schools and universities, to raise awareness and the importance of rationalizing the use energy as well as the importance of dealing with electricity to avoid accidents, may Allah forbid.

## Spreading Social Awareness

We contributed in the printing of Clean Development Mechanism (CDM) "Sustainable Development" booklet for the Saudi Geographic Society, (King Saud University, Ministry of Higher Education), for the purpose of spreading social awareness about the meaning and concept of sustainable development; that is meeting the needs of the present without touching or bargaining about the future generations ability to face their particular needs. Issues about economics, natural environment, and the community within the framework of applying the economic activities, residence, education, and health have been taken into consideration.



Picture drawn by a Girl  
Wejdan Mansour Al-Jabiri  
(9 years old)



Picture drawn by a Girl  
Angham  
(7 Years Old)



Picture drawn by a Boy  
Abdul elah Al-Ghamidi  
(12 years old)



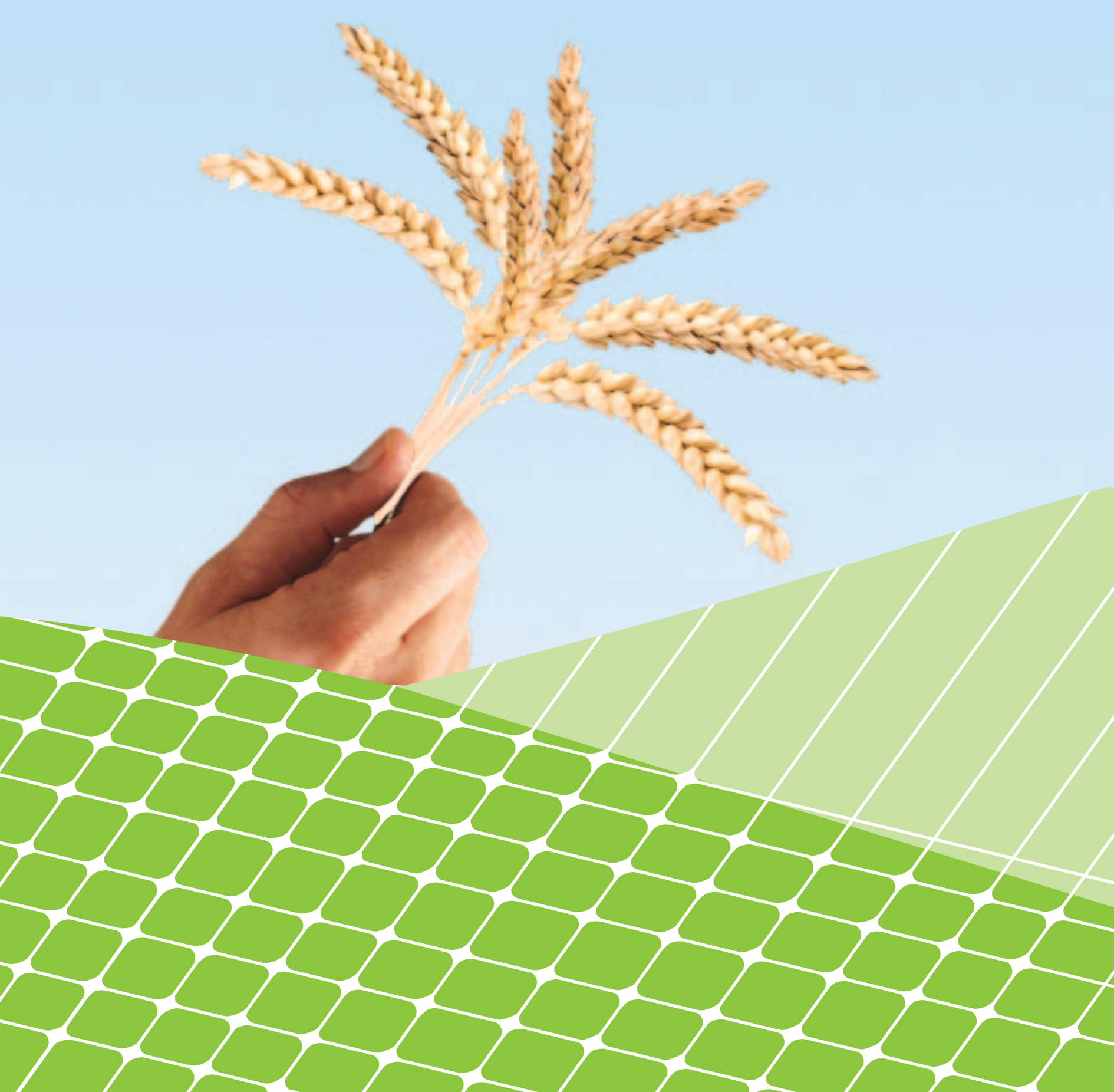
Visitation Program for the  
Employees' Children



"More Beautiful Environment"  
Program, Jeddah shores.



Cooperative Program with the  
Gifted



## Our Commitment Towards Environment Preservation

- Air
- Water
- Soil





# Environment Preservation

## Objectives of the Program

The Saudi Electricity Company, since its establishment as a unified company on 05/04/2000, has recognized the importance of keeping and preserving the environment and made this issue as one of its objectives as set forth in its Article of Association. The Saudi Electricity Company is committed to observe all the environmental aspects in all of its future plans, as well as the sound management of its environment which accompany its various operations to protect the air, water, and soil in a manner that ensures protection of the environment and public health.

In this concern, we, in conjunction with all the activities of the Company, have prepared the Company's environmental policy and formed the Environmental Protection Team which is represented by all activities of the Company. Through it, the Company has set an ambitious executive plan that includes the objectives, goals, time schedules, duties and responsibilities to activate its environmental policy and translate it into reality ensuring its continuous commitments to the requirements of the General Environmental Regulations issued by the Presidency of Meteorology and Environment (PME).

Our interest in the environment is apparent through our work to reduce air, water, and soil pollution, improve the environmental health contributing to the human welfare, and preserve the environment and its constituents.

## Air

It is well established that the power generation plants burn fuel to produce electric power and emit air-polluting gases and pollutants in the air through chimneys and generation units. In this aspect, we are highly concerned on building power plants outside the cities and communities and avoid building them in places crowded with factories and other utilities so as not to contribute to the increasing rates of air pollution in these places. To limit this pollution, we took the following measures:

- Use of clean fuel, within the available resources, such as natural gas and diesel since the contaminators are less in their ingredients. In this aspect we achieved outstanding successes as many generation plants use natural gas in producing the electric power. Furthermore, we spent very large amounts to modify the generation units in Power Plants 7, 8, and 9 in Riyadh, which were operated using crude fuel and are now operating on natural fuel.
- Use of advanced Dry Low NOx (DLN) burners that produce lower proportion of nitrogen oxides, a major pollutant emitted from power plants using fossil fuel which have an impact on the environmental preservation.
- Use of the Electrostatic Precipitators in units run by heavy fuel to reduce the emission of suspended residues.
- Use of the Flue Gas Desulphurization (FGD) technology to reduce the emission of environment-polluting sulfur oxides. In this concern, the Company invested billions in its new projects.
- Use of high efficiency combined-cycle generation units, as these units use exhausts of the generation units as a thermal source for the boilers instead of fuel burning.
- Implementation of the advanced level of electrical interconnection between the regions of the Kingdom, which contributed in reducing the rotating reserve in the network, and subsequently reduced the emission of the air pollutants resulting from burning more fuel.
- Termination of the use of some environment and health harming chemicals such as the Freon 12, trimethyl-chloride, halon, asbestos, and replacing them with non-harmful elements.

## Water

Water pollution is one of the most crucial environmental problems in the Kingdom, and the Company is working towards reducing the water pollution resulting from its operations and activities through:

- Not adding any chemicals to the water drained back to the sea, except chlorine which is added to control the growth of water organisms which are harmful to power generating equipment. The processes of adding chlorine are monitored with the use of devices that measure the ratio of chlorine concentration so as not to exceed the allowable ratio in accordance with environmental protection standards of the Kingdom.
- Treatment of wastewater from boilers and separation of fuel residues from the water tanks prior to sending it to the evaporation pools.
- Control of the degree of cooling water drained to the sea within the allowable limits.
- Making use of the sanitary water drainage after being biologically treated for irrigation purposes to increase the green area inside the plants and in its residential areas, and reduce the use of fresh water.
- Working towards pulling out fuel and oil residues by entering into contracts with qualified companies to ensure that no pollution is caused to the environment. Oil contaminated water is passed through several stages to separate oil from water and discharge it in environmentally safe methods.
- Marine survey of the coastal areas to assess the environmental influences of the electric power generation plants on water quality and marine sediments, as well as the biological diversity in the marine environment.

## Soil

To reduce soil contamination, the Company does its best to reduce wastes, the disposal of which has become one of the largest sources of threat to the environment and public health. To control the use of environmentally harmful materials of various types, we succeeded in:

- Preparation and application of programs to: reduce spills and leakages, reduce the volume of wastes produced by the operations and activities of the Company, and achieve remarkable success in terms of recycling and reuse of materials.
- Removal of all the power transformers that use oils containing carcinogenic substances such as PCB to ensure that no contamination is caused to the soil, surface water and groundwater, and secure the safety of humans, animals, and plants.
- Use of SF6 isolation gas in the electrical switches instead of oils which contributed in reducing the substation areas and reducing the possibilities of leakage, seepage, and subsequently water and soil pollution.
- Use of XLPE type dry cables instead of the oil cables to reduce possibilities of leakage, seepage, water and soil pollution.
- Replacement of all the currently used insecticides with less harmful ones.
- Continuing the implementation of the agreements with qualified contractors to get rid of the petroleum and oil residues in the generation plants through appropriate methods that will not cause harm to the environment.
- Consistently cooperate with the local and international universities and research centers to create suitable solutions to carbonic ashes problem.





# Environment Preservation

## Environmental Hygiene

The Company is committed to prevent the prevalence of diseases related to its activities, operations, and applications, as well as protection of the health of its workers, their families and the public, and provide support for the payment of treatment costs and maintain a healthy work environment, through the following procedures:

- Collection and storage of medical wastes in the Company and keeping them in places specially designed for such residues; marking them with a distinguished color, and getting rid of them in a safe manner through specialized contractors.
- Assessing the quality of water used from the source to the network, to make sure that water is free from biological or chemical contaminants and that it is safe to use. In this concern, water sources such as wells, or distribution systems are subject to routine examination to make sure they are in compliance with the national standards.
- Monitoring sewage and industrial water drainage of Company facilities to ensure that the general environment system, public health, and environmental protection standards are observed.
- Monitoring wastes generation to ensure effective management of waste materials from production to disposal to prevent contamination of soil and groundwater.
- Commitment to reduce the negative effects of noise emitted from various activities of the Company right from the design stage and construction processes when building power generating plants in populated areas by bringing the noise level within internationally acceptable level.
- Installing power lines within safe routes in compliance with international specifications.
- Safe removal of all the wastes resulting from the activities and operations of the SEC, which weigh 15,170 tons.

## Rationalization of Energy Consumption

Natural resources depletion is one of the major environmental issues experienced by countries all over the world and the Kingdom in particular. Rationalization of water, power, and materials is the most effective way to protect the environment against pollution, and to preserve and develop its natural resources. In this area, we achieved many remarkable successes, such as:

- Completion of advanced phases in the electrical interconnection of the different regions of the Kingdom which will largely contribute in reducing emissions which contaminate the atmosphere.
- Use of combined-cycle generation units as these units are used as heating source for boilers to produce steam instead of burning fuel.
- Segregation and reuse of fuel residues from drain water tanks.
- Use of timing devices to switch off lighting, air-conditioning, and computer systems outside the duty hours, as well as replacement of the existing lighting and computer systems with energy-saving ones, and observing the availability of natural lighting during daylight when designing the modern buildings of the Company.
- Use of treated sewage water for irrigation instead of fresh water.
- Rationalize the use of water in Company's utility water closets.
- Printing on both sides of a sheet of paper, preventing color printing for the internal correspondences of the Company.
- Conducting periodic maintenance program for Company equipment, appliances systems to maintain their utmost operational efficiency.
- Establishment of solar power plant at Farasan Island which produces 860 thousand KWH annually.
- Installation of power generation plant using combined-cycle units (tenth plant) operated by treated sanitary water.

## Awareness and Training

We publish and distribute environmental awareness among the employees, contractors, and suppliers of the Company, through:

- Environment awareness lectures, brochures, leaflets and stickers in order for us to be within the reach of everybody.
- Allocation of a webpage in the Company's intranet dedicated to the environment.
- Publishing of environmental slogans on the importance of environmental protection, and rationalization on the use of energy, water, and material consumption.
- Providing specialized training courses on environmental protection, within the scope of the Company training programs.
- Qualifying the concerned cadres and enabling them attend training courses to obtain international certificates in environmental protection and to have access on the latest updates on this subject.
- Cooperation with the concerned parties from inside and outside the Kingdom, and getting involved in the exchange of experiences with the experts and specialists in the field of environmental protection through attendance and participation in the environmental seminars and conferences.
- Training of 117 employees during 2011; selected from the various activities of the Company on applying the "Environmental Management System."
- Training of 113 employees during 2011; selected from the various activities of the Company on applying the "Waste Management System."
- Training of 200 employees during 2011; selected from the various activities of the Company on assessing the "Environmental Consistency" program.
- Preparation and printing awareness booklets about the role of the Company in environmental protection "Beeatona" (Our Environment).
- Development of mechanism to deliver lectures on environmental awareness and their contents.
- Preparation of a guide for wastes management in the Company.

## Environmental Emergency Situations

In order to provide the highest level of readiness to face environmental emergency situations, the company has done the following during 2011:

- Updating all the emergency plans to deal with any emergent environmental issues.
- Preparation of a detailed plan in 2011 to respond to radiation and nuclear emergencies in all the Company power plants.



# Environment Preservation

## Visual Pollution

The Company contributes in improving the visual elements of the general landscape within the cities of the Kingdom and reducing the visual pollution through the following measures:

- The company spends huge amounts of money to secure overhead lines by installing them in safe underground conduits. In this regard, the Company has an advantage over many of the advanced countries that are still using the aerial networks inside their cities.
- The company takes into account, when designing its buildings, the aesthetic architectural view of these buildings, facilities, and utilities, particularly the customer reception buildings and halls.
- Preservation of the green area at a rate of 3% of the outer area of the Company.
- Taking part in the national campaign for cleaning Riyadh.

## Contributions of the Company

The Company participates and continues to participate with governmental bodies and agencies in many undertakings and activities aiming to protect the environment in the Kingdom, through:

- Participation in the development of national indicators for the environment and sustainable development - Clean Development Mechanism (CDM)
- Participation in preparing the national plan for responding to radiological and nuclear emergencies.
- Participation in setting and implementing the executive plan to protect the environment in Riyadh and attending the meetings of the high level technical committees.
- Participation with King Abdulaziz City for Science and Technology in organizing the scientific meeting on the effects of the electromagnetic fields emitted from the electric power transmission lines in the Kingdom of Saudi Arabia.
- Submission of a research thesis to participate in the GCC Award for the best environmental works, electric power production and air contamination in the Arab Gulf States.
- Participation in the GCC Award for environmental awareness.
- Participation in the KSA Award for environmental management.
- Participation in the Red Sea and Gulf of Aden for environmental excellence.
- Continuous coordination with the Presidency of Meteorology and Environment (PME) as well as the General Auditing Bureau (GAB) with regard to the environmental protection.









## **Research and Development (R&D)**

## Research and Development (R&D)

The current challenges facing the activities involved in producing, transmitting and distributing the energy in the Kingdom are pushing towards intensifying the scientific research and technological development to achieve stability and reliability of these important and vital activities of the Company, in particular, and throughout the Kingdom in general. In addition, the Company is in support of achieving the desired rates of development and to stay in line with the advanced countries in the world.

For this reason the Company's management has adopted this approach in the development of its work and in dealing with technical and operational aspects, maintenance works in particular. The Company is also heading forward to continue with its rationalization program on the use of energy which will result in raising the efficiency of the electrical system based on sound scientific rules, especially after the issuance of the Council of Ministers' Resolution No. 169, Article 1 (Para2/E) which mandated the Company to allocate a portion of its income, as determined by the Board of Directors, for the research and development works within its specialization. Furthermore, Article 3 of the Resolution has also obligated the Company to cooperate with the universities, institutes and specialized centers in the rationalization of electric power consumption, improving the efficiency and operational performance as well as preservation of the environment. In addition, Article 2/7 of the Company's Articles of Associations states that:

**"Company shall conduct and support research work in such fields as may improve service quality, upgrade performance operation efficiency, rationalize power usage, maintain and protect the environment and reduce the cost".**

There is no doubt that the adoption of this scientific method in developing the electricity system of the Company will lead to the development of the community by developing the skilled manpower and the use of technology in our country. It will increase the efficient use of energy and preserve the environment. In addition, it will achieve clean development mechanisms (CDM) (sustainable development requirements), and the recommendations of Kyoto Conference (Japan) for the United Nations in 1997 about climatic changes. On the other hand, it will lead into promoting production, raising the operational efficiency, and reducing costs incurred by the Company for providing service to all sectors of consumption at the highest level. From this standpoint, we set forth, and for these reasons, we insisted to continue our efforts in this direction.





# Research and Development (R&D)

## Program Objectives

- In the field of power generation, we endeavor to improve the efficiency of the fuel usage and prolong the useful lives of the assets and their spare parts, as well as to maximize their production capacities.
- In the field of transmission, we strive to prolong the useful lives of the existing assets and their capabilities, as well as improve their performance in various areas and rationalizing their maintenance programs.
- In the field of distribution, we seek to maximize efficient use of assets, develop the bill preparation and collection processes, and achieve minimal energy-loss rate.
- In the field of electrical loads, we strive to develop programs for demand management, and stimulate it to realize utmost utilization of the existing assets.
- In the field of energy use, we are doing our best to rationalize power consumption, raise the efficiency of use, and strike a balance among their chronic growth elements, both horizontally and vertically, at the Kingdom level.
- We are working on the harmonization of the Company objectives with the achievement of the requirements of the mechanism of clean development (CDM); in particular the renewable energy such as the solar, wind, underground thermal energy, and other sources of energy. In this concern, the Company is a member of the National Committee for Mechanism of Clean Development – Designated National Authority (CDM-DNA)

## Historical Overview of the Program

### First Stage from April 2002 to March 2003.

The company started off with a review and identification of important topics to include in the first program for research. Ten contracts were signed during this stage. An agreement for research collaboration was signed between the Company and King Abdulaziz City for Science and Technology.

### Second Stage from April 2003 to June 2004.

During this stage, three projects of the first program were implemented, and the second research program was issued consisting of seven requests for proposals from which contracts were signed. The total proposals received under this program was 35.

### Third Stage from July 2004 to April 2006

This stage consisted of seven projects. A total of 21 proposals were received by the Company of which five contracts were signed and completed. The periodic and final reports were received; some were received during this stage and the others during the second stage as follows:

- Contract for work study project on “Diagnosis on the Condition of Termination Cables in the Electric Transformers and Circuit Breakers” in coordination with the Transmission activity and King Abdulaziz City for Science and Technology.
- Contract for work study project on “Effects of Harmonics on the Power System and Ways of Dealing with It” with King Fahd University.
- Contract for work study project on “Creating a Model for the Air-Conditioning Loads to simulate the Returning Voltage State in the Transmission Network” with King Abdulaziz City for Science and Technology.
- Contract for work study project on “The Environmental Assessment in Power Generation Plants” with King Saud University.
- Contract for work study project on “The Electrical Waste in the Distribution Network” with King Abdulaziz City for Science and Technology.

## The Current Activity of the Program

### Fourth Stage from April 2006 to December 2011

This stage included the follow-up of the first, second and third stages of the project, as well as the joint research projects. Requests for quotations were prepared for the fourth stage of the research projects, which included two offers for the Generation activity and three offers for Transmission activity as follows:

1. As regards the comparative research work study on the effect of lowering the internal combustion temperature on the age of the turbine blades, the consultant "Era Consulting" (British company) submitted its final report in December 2010. The report included recommendations revolving around the fuels that feeds the turbines; that the fuel should be thoroughly, regularly, and quickly analyzed; that prompt measures should be taken when there is a decrease in fuel standard as compared to the required standards; understanding and characterization of the combustion pollution source on a daily basis in order to take the necessary preventive measures in the future which would ensure maintaining quality standards of the fuel feeding the turbines regularly.
2. As regards the research project to protect the water intakes at Qurayyah Power Plant against jellyfish, King Fahd University began work to achieve this objective in cooperation with the American and Japanese consultants and suggested building barriers to prevent the jellyfish getting into the water intakes of this plant. The Company is also developing structural and hydraulic designs in accordance with various measures accredited in Japan. The final report draft was submitted.
3. As regards the research project to assess the capacity quality of the Company's power transmission system, the consultant provided the Company with six quarterly technical reports, taking into consideration the Company's observations on this issue. The Company held a meeting with the consultant to discuss the time for submission of the draft of final report. The contract duration was extended as a result of the delay in completing the study. However, the draft of the final report is expected to be submitted and carried out by the Company by early 2012.
4. As regards the research project to study the possibility of utilizing restricted production capacity, a complete database was made on power plants that have restricted production in terms of plant capacity, voltage factor, plant credibility, maintenance and operation programs, etc. Balance between offer and demand on the constrained electric power was assessed. The fees on the use of the transmission network of the Saudi Electricity Company (SEC) were also assessed by setting major methodologies, such as the implicit costs, replacement cost, historical cost, and long term par cost. Furthermore, the electric reserve insurance fees were defined for the owners of these plants using the long term par cost method; the company was provided the form for an initial agreement draft to purchase power from these plants.
5. As regards the research project on pricing of reserve power provided by the Company to Saudi-Aramco which was implemented by King Saud University, the parties have achieved the value of the transactions for pricing the reserve capacity and power delivery. The concerned employees of Saudi Electricity Company will be trained on the methodologies, technologies, and simulation instruments to device pricing strategies of the reserve capacity and delivery of energy with the principal customers, through a revision of the current pricing policy in the shade of any changes that may occur in the future on the state of the electricity market and the electric system.
6. All the research projects of the fourth stage were signed in the beginning of 2009 and they are under processing till date.



# Research and Development (R&D)

## Joint Projects with King Abdulaziz City for Science and Technology

As part of the scientific cooperation and through the joint scientific committee formed with King Abdulaziz City for Science and Technology, the committee started its work in 1423H (2002G), jointly supported many research works of interest to the Company which benefitted the electricity industry in the Kingdom. The Company signed many joint projects with King Abdulaziz City for Science and Technology, as follows:

1. Contract with King Saud University for testing and assessing the polymer insulation materials used in medium voltage cables and their manufacturing methods to suit the local conditions. The project was completed and results were presented in the second scientific meeting of the City.
2. Contract with King Saud University for the study of the effects of frequent power interruption on a sample group of large customers in the Kingdom. The project was completed and among its most important recommendations were maintaining the system quality, improving the production level, and reducing the frequency of interruptions as far as possible because such interruptions have more negative effects on the company than on the major customers, especially at the high production levels.
3. Contract with King Fahd University for testing decomposition, thermal and electrical stress at cable joints and terminals that are used in electricity distribution networks. It was started in 2006 and extended as it was necessary and results were presented in the second scientific meeting in the City.
4. A scientific meeting was organized jointly by the City and the Company entitled "The Impact of Electromagnetic Fields Emitted from Power Transmission Lines in the Kingdom of Saudi Arabia" on 23/5/1429H corresponding to 28/05/2008 under the patronage of his Excellency the CEO of the Saudi Electricity Company. The meeting comprised 128 participants from 21 bodies and authorities, and 32 questionnaires were received to evaluate the meeting which proved its usefulness and relevance. The meeting has come up with very important recommendations.
5. The second scientific meeting was held on 10/06/2009 to review the research results on the transformers, transmission and distribution networks, distribution cables, testing and assessing the electrical insulation materials, decomposition testing, thermal and electrical stress at the cable joints and terminals to reduce downtime and study of the causes and effects of power supply interruption on the principal customers, as well as other research works.
6. The first scientific symposium for research and development (R&D) was held during the period 2-3 May 2010 in the presence of his Excellency the Chairman of the Board of Directors, the Chief Executive Officer (CEO), project managers and researchers to examine the results of the research projects and their recommendations. The total attendance of this seminar was 185 people, while the targeted number was only about 100, including participants and researchers. The results of the questionnaires showed that assessment average of the lectures scientific material was 85%, and assessment of the organizing committee and preparations was 89%. In this seminar, the managers of the reviewed research projects and some of their researchers were honored.
7. The scientific developmental research project to improve the electrical voltage in the distribution networks of the remote territories, was signed (by the help of Almighty Allah) with the Company on 04/04/2011, amounting to SR 20 million. The company will bear 50% of the costs of this project as per the agreement signed with King Abdulaziz City for Science and Technology, with implementation period of 24 months as of the date of signing.

## Sponsorship of the Scientific Chairs

In line with the Company's policy to reinforce and develop research programs, it initiated scientific chairs in Saudi universities and had signed the following agreements:

- Saudi Electricity Company chair in **"Load Management and Upgrading the Efficiency of Electric Power Consumption"** with King Abdulaziz University on 07 May 2008 a cost of SR 5 million over a 4-year period.
- Saudi Electricity Company chair in **"Reliability and Safety of the Electric System"** with King Saud University on 25 May 2008 at a cost of SR 5 million over a four-year period.
- Saudi Electricity Company chair in **"Electrical Protection and Control"** with King Saud University on 11 June 2008 at a cost of SR 5 million over a four-year period.

## Activation of the Scientific Chairs

In 2009, specialized scientific workshops were held as follows:

- A workshop was held in the area of load management and upgrading the efficiency of electric power consumption at King Abdulaziz University in Jeddah. Another scientific workshop was also held on protection and control in the electric network at King Fahd University of Petroleum & Minerals in Dhahran which was attended by more than 40 engineers from the Company, Saudi-Aramco, and Saudi Basic Industries Corporation (SABIC); a workshop on the reliability and safety of the electric system at King Saud University, Riyadh. Activation of these workshops has led into motivating of the Company's employees to conduct MA degree dissertations consistent with the Company's needs and specialized topics related to these chairs so that they will benefit the company in resolving technical problems that it is currently facing as well as those anticipated in future. On the one hand, they will also benefit the students from among the employees of the Company. These studies were published concurrently with the holding of the First Scientific Conference for Research and Development during the period from 2-3 May 2010 through scientific periodicals and specialized journals, such as research papers submitted by the research professors for international documentation, and for making use of them technically and economically to improve the Company's performance.
- Within the activities of the Saudi Electricity Company Chair in **"Power System Reliability and Security"** with King Saud University **"<http://seccrs.ksu.edu.sa>"**, a workshop entitled Intelligent Network Workshop and Participation in Its Management was organized. The Company participated in the workshop along with King Abdulaziz City for Science and Technology, King Saud University, Electricity Co-generation Regulatory Authority, University of California, and the University of Los Angeles. The workshop was held at the headquarters of King Abdulaziz City for Science and Technology during the period from 8-9 January 2011, which was also participated by many of the Company's engineers and university professors.



# Research and Development (R&D)

## King Abdulaziz University Chair in Load Management and Upgrading Power Consumption Efficiency

<http://saudielectricitychair.kau.edu.sa>

- The first annual report was issued on 30 December 2009, wherein the load curve of a sample of large Company customers was analyzed. A proposed new program “SRBP” for load management was submitted entitled “The Material Incentive to Reduce the Summer Loads” to encourage the large customers to reduce the loads, as they wish, at peak times. Incentives are paid to the customers depending on the level of reduction in consumption, a concept adopted by the Electricity & Co-generation Regulatory Authority at the time when the new tariff was approved for non-residential categories to motivate the reduction of consumption at peak hours and increase it in other times.
- Under the patronage of the University Undersecretary for Projects, Dr. Abdullah Bafel, the second workshop was held on 30 October 2010 titled “Load Management: Applications and Challenges” at King Abdulaziz University in Jeddah. The workshop was attended by Mr. Hans Erik, Director of the Load Management Program of the International Energy Agency and participated by a pool of Company Engineers, University faculty members and students, Company employees and businessmen.
- The second discussion session was held in June 2011 on “Improving Power Consumption Efficiency in the Buildings” which was held at King Abdulaziz University in Jeddah, through changing the building system and control, changing the lighting system and thermal insulation, control of heating and air-conditioning and power savings, by designing new buildings in a manner different from the existing situation thereby achieving savings in electric power consumption. The study is yet to be completed and studies are currently in progress to entitle the University to carry out studies on the same issue, and extend the scope of the study to include the residential sector with the industrial sector; the latter is about to be completed.

## Inventions:

The Company currently contributes in funding the inventions presented to it whether by the employees of the Company or any other inventions of which the Company is convinced that they will be beneficial in improving the Company's performance both technically and economically. The invention should have a patent license, technically proven, and of economical feasibility. The company has adopted the feasibility study of an invention presented by Professor Mohammed Al-Khamis of King Saudi University, with a patent license from the United States of America, on the electric loads management domain. It had been accredited as one of the research projects the idea of which is based on the rationalization of electricity production during peak times, as the production of electricity during these times cost the company huge amounts of money.

- Research and Development Program Site on the Company's Intranet:  
[http://w-jhq-moss2/sites/research\\_dev\\_prog/default.aspx](http://w-jhq-moss2/sites/research_dev_prog/default.aspx)

The program site contains a brief definition of the research program, reasons for its initiation, its performance, written reports, and the annual reports on the program's most important achievements. In addition, it contains a complete library of audio and video copies of lectures from major seminars, meetings, and scientific discussion sessions which may have benefited the site visitors in updating their knowledge about the scientific issues raised in these sessions, as well as the applications to problems, the possible solutions, and ways of overcoming these problems. The site also includes a number of scientific articles and international research sites as well as the scientific chairs sites of the Company at some universities in the Kingdom.





**Financial Statements**

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# Financial Statements



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## **Audit Report To the Shareholders Saudi Electricity Company**

### **The Audit Scope**

We have audited the accompanying balance sheet of Saudi Electricity Company (The Company) (a Saudi Joint Stock Company) as of 31 December 2011, and the related statements of income, cash flows, and the changes in shareholders' equities for the year ended on that date. These financial statements are the responsibility of the Company's management, who prepared it in accordance with Article 123 of the Regulations for Companies and presented to us with all the necessary information and explanations we have asked. Our responsibility is to express an opinion on these statements based on our audit. We conducted our audit in accordance with generally accepted auditing standards in the Kingdom of Saudi Arabia. Those standards require that we plan and perform the audit to obtain reasonable conviction about whether the financial statements are free of material misstatements or fundamental errors. The auditing includes examining, on a test or sample basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting standards used and significant estimates made by the management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable degree of conviction that enables us to express our opinion of the financial statements.

### **Unqualified Opinion:-**

In our opinion, the overall financial statements:

- 1) Present fairly, in all material aspects, the financial position of the Company as of December 31, 2011 and the results of its operations and cash flows for the year then ended are in conformity with generally accepted accounting standards in the Kingdom of Saudi Arabia.
- 2) Comply with the relevant provisions of the Regulations for Companies and the bylaws of the Company as these relate to the preparation and presentation of the financial statements.

For Ernst and Young



Rashed Saud Al-Rshoud  
Chartered Accountant  
Record in Registry of Chartered Accountants Number (366)

Riyadh: 27 Rabi-Al-Awal, 1433 H  
February 19, 2012

**Balance Sheet as of December 31, 2011** (In Thousand Saudi Riyal)

	Note	2011	2010
<b>Assets</b>			
<b>Current Assets</b>			
Cash and Similar (Bank) Balances	3	7.305.124	7.227.776
Receivables from Electricity Consumers and Accrued Revenues, net	4	12.027.200	9.965.007
Prepayments and Other Receivables, net	5	4.847.768	3.635.236
Inventories, net	6	5.562.850	5.704.886
<b>Total Current Assets</b>		<b>29.742.942</b>	<b>26.532.905</b>
<b>Non-Current Assets</b>			
Loan to Subsidiary		365.500	365.500
Equity Investments in Companies and Others	7	2.406.042	2.300.350
Construction Work in Progress	8	22.260.811	26.038.186
Fixed Assets, net	9/30	158.673.259	135.634.986
<b>Total Non-Current Assets</b>		<b>183.705.612</b>	<b>164.339.022</b>
<b>TOTAL ASSETS</b>		<b>213.448.554</b>	<b>190.871.927</b>

# Financial Statements

## Balance Sheet as of December 31, 2011 (In Thousand Saudi Riyal)

	Note	2011	2010
<b>Liabilities and Shareholders' Equity</b>			
<b>Current Liabilities</b>			
Accounts Payable	10	26,235.345	21,876.043
Accruals and Other Payables	11	4,605.942	4,402.218
Current Portion of Long-term Loans	13	3,133.100	1,189.317
Sukuk	14	5,000.000	-
<b>Total Current Liabilities</b>		<b>38,974.387</b>	<b>27,467.578</b>
<b>Non-Current Liabilities</b>			
Long-term Loans	13	13,581.788	10,632.390
Sukuk	14	14,000.000	19,000.000
Employees' Indemnities	15	4,838.509	4,690.218
Deferred Revenue, net	16	20,469.575	16,736.945
Customers' Refundable Deposits		1,367.628	1,295.442
Long-term Government Payables	17/30	49,046.508	44,244.007
Government Loans	18	18,845.211	16,147.711
A provision for the change in fair value of hedging contracts	19	431.870	387.928
<b>Total Non-Current Liabilities</b>		<b>122,581.089</b>	<b>113,134.641</b>
<b>Total Liabilities</b>		<b>161,555.476</b>	<b>140,602.219</b>

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

**Balance Sheet as of December 31, 2011** (In Thousand Saudi Riyal)

	Note	2011	2010
Shareholders' Equity			
Share Capital	20	41.665.938	41.665.938
Statutory Reserve		1.554.492	1.333.176
General Reserve	21	538.343	536.177
Retained Earnings	25/30	8.566.175	7.122.345
Change in fair value of hedging contracts (net)		(431.870)	(387.928)
<b>Total Shareholders' Equity</b>		<b>51.893.078</b>	<b>50.269.708</b>
<b>Total Liabilities and Shareholders' Equity</b>		<b>213.448.554</b>	<b>190.871.927</b>

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



# Financial Statements

## Income Statement for the Year Ended December 31, 2010 (In Thousand Saudi Riyal)

	Note	2011	2010
Operating Revenues			
Electricity Sales		28.280.494	25.872.780
Meter Reading, Maintenance and Bills Preparation Tariff		883.059	841.119
Electricity Connection Tariff	16	1.406.045	1.197.094
<b>Total Operating Revenues</b>		<b>30.569.598</b>	<b>27.910.993</b>
Cost of Sales			
Fuel		(5.771.379)	(5.796.633)
Purchased Energy		(4.256.237)	(3.741.739)
Operations and Maintenance	22	(8.438.277)	(7.752.943)
Depreciation – Operations and Maintenance	9	(9.601.779)	(8.027.017)
<b>Total Cost of Sales</b>		<b>(28.067.672)</b>	<b>(25.318.332)</b>
<b>(Gross Income)</b>		<b>2.501.926</b>	<b>2.592.661</b>
General and Administrative Expenses	23	(360.235)	(389.072)
Depreciation – General and Administrative	9	(335.281)	(353.189)
<b>Operating Income</b>		<b>(1.806.410)</b>	<b>1.850.400</b>
Other Income and Expenses, net	24	406.749	428.688
<b>NET INCOME FOR THE YEAR</b>		<b>2.213.159</b>	<b>2.279.088</b>
Earnings Per Share (SR)			
From Operating Income for the Year		0.43	0.44
From Net Income for the Year		0.53	0.55

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

## Statement of Cash Flows for the Year Ended December 31, 2011 (In Thousand Saudi Riyal)

	2011	2010
Operating Revenues		
Net Income for the Year	2.213.159	2.279.088
Adjustments to Reconcile Net Income to net Cash from Operating Activities:		
Provision for Doubtful Receivables	121.721	257.564
Provision for Slow-moving Inventories	62.960	11.180
Company's Share in Net Income (loss) of Investee Companies	45.747	21.670
Depreciation	9.937.060	8.380.206
Gain on Disposal of Fixed Assets, net	(25.860)	(97.833)
Gain on Sale of Other Investments	-	(765)
Employees' Indemnities, net	148.291	267.920
Changes in Operating Assets and Liabilities		
Receivables from Electricity Consumers and Accrued Revenues	(2.183.914)	363.647
Prepayments and Other Receivables	(1.190.571)	(1.434.955)
Inventories	79.076	(92.724)
Accounts Payable	4.359.302	4.951.175
Deferred Revenues, net	3.732.630	1.766.418
Accruals and Other Payables	195.481	193.924
Net Proceeds and Payments on Customers' Refundable Deposits	72.186	136.305
Net Cash from Operating Activities	17.567.268	17.002.820

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

# Financial Statements

## SEQUEL: Statement of Cash Flows for the Year Ended December 31, 2011 (In Thousand Saudi Riyal)

	2011	2010
<b>Cash Flows from Investing Activities</b>		
Equity Investments in Companies and Others	(152.439)	(5.500)
Time Deposits	-	1.000.119
Fixed Assets and Construction Work in Progress	(29.205.430)	(28.487.495)
Proceeds from Sale of Fixed Assets	33.332	106.342
Proceeds from Sale of Investments	1.000	37.643
Loan to a Subsidiary	(21.961)	-
<b>Net Cash Used in Investing Activities</b>	<b>(29.345.498)</b>	<b>(27.348.891)</b>
<b>Cash Flow from Financing Activities</b>		
Sukuk	-	7.000.000
Government Loan	7.500.000	3.750.000
Net Proceeds (repayment) of Long-term Loans	4.893.181	4.481.450
Dividends Paid to Shareholders and Board of Directors' Remuneration	(537.603)	(540.156)
<b>Net Cash from Financing Activities</b>	<b>11.855.578</b>	<b>14.691.294</b>
<b>Net Change in Cash and Cash Equivalents</b>	<b>77.348</b>	<b>4.345.223</b>
<b>Cash and Cash Equivalents, Beginning of the Year</b>	<b>7.227.776</b>	<b>2.882.553</b>
<b>Cash and Cash Equivalents, End of the Year</b>	<b>7.305.124</b>	<b>7.227.776</b>
<b>Change in fair value of hedging contracts</b>	<b>(43.942)</b>	<b>84.563</b>

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

## Statement of Changes in Shareholders' Equities for the Year Ended December 31, 2011 (In Thousand Saudi Riyal)

	Note	Share Capital	Statutory Reserve	General Reserve	Retained Dividends	Change in Fair Value of Hedging Contracts	Total
<b>Year Ended December 31, 2010</b>							
Balance, January 1, 2010		41.665.938	1.107.965	534.777	5.865.869	-	49.174.549
Prior Years Adjustments	30	-	(2.698)	-	(246.647)	(472.491)	(721.836)
Net Income for the Year (adjusted)		41.665.938	1.105.267	534.777	5.619.222	(472.491)	48.452.713
Dividends to the Shareholders for 2009	25	-	-	-	(547.252)	-	(547.252)
Board of Directors' Remuneration for 2009	26	-	-	-	(804)	-	(804)
Net Income for the Year		-	-	-	2.279.088	-	2.279.088
Change in Fair Value of Hedging Contracts - Net		-	-	-	-	84.563	84.563
Electricity Fee Collections (individuals)		-	-	1.400	-	-	1.400
Transferred to Statutory Reserve (adjusted)		-	227.909	-	(227.909)	-	-
<b>Balance, December 31, 2010 (adjusted)</b>		<b>41.665.938</b>	<b>1.333.176</b>	<b>536.177</b>	<b>7.122.345</b>	<b>(387.928)</b>	<b>50.269.708</b>
<b>For the year ended December 31, 2011</b>							
Dividends to the Shareholders for 2010	25	-	-	-	(547.252)	-	(547.252)
Board of Directors' Remuneration for 2010	26	-	-	-	(761)	-	(761)
Net Income for the Year		-	-	-	2.213.159	-	2.213.159
Change in Fair Value of Hedging Contracts - Net		-	-	-	-	(43.942)	(43.942)
Electricity Fee Collections (individuals)		-	-	2.166	-	-	2.166
Transferred to Statutory Reserve (adjusted)		-	221.316	-	(221.316)	-	-
<b>Balance as of December 31, 2011</b>		<b>41.665.938</b>	<b>1.554.492</b>	<b>538.343</b>	<b>8.566.175</b>	<b>(431.870)</b>	<b>51.893.078</b>

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



# Financial Statements

## Notes on the financial statements for the year ended December 31, 2011

### 1. Organization and Activities

The Saudi Electricity Company “the Company” was formed pursuant to the Council of Ministers’ Resolution Number 169 dated Sha’ban 11, 1419H corresponding to November 29, 1998, which reorganized the Electricity Sector in the Kingdom of Saudi Arabia, and merging local companies that provided electricity power services (ten 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 affiliated to the Ministry of Industry and Electricity (eleven operational projects that covered various areas in the north of the Kingdom) in Saudi Electricity Company.

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

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

The Company is a tariff regulated (subject to tariff control) electricity company. Electricity tariffs are determined by the Council of Ministers based on recommendations from the Electricity and Co-generation Regulatory Authority (the Authority) which was established on November 13, 2001 according to Resolution No. 169 dated Sha’ban 11, 1419H. The tariff was adjusted through the Council of Ministers’ Resolution No. 170, dated Rajab 12, 1421H, whereby the tariff on the highest segment was set at a rate of SR 0.26 (halala) per kilowatt hour, and was effective as of Sha’ban 1, 1421H corresponding to October 28, 2000.

This was further amended by the Council of Ministers in its Decision Number 333 dated Shawwal 16, 1430H, corresponding to October 5, 2009, which granted the Board of Directors of the Electricity and Co-generation Regulatory Authority the right to review and adjust the non-residential (commercial, industrial and governmental) electricity tariff and approve them as long as the change does not exceed SR 0.26 (halala) per each kilowatt hour, taking into consideration, among other aspects, the electrical consumption at peak times. This tariff was implemented starting as of Rajab 19, 1431H, corresponding to July 1, 2010.

The Company is the whole-owner of the subsidiaries: Sukuk Electricity Company, Daoiat (OPTICS) Telecom Company, which are limited liability companies. Moreover, the Company owns 50% of the Water and Electricity Company, Dharma Electricity Company, and Hajr Electricity Production Company.

According to the Company’s bylaws, the Company’s financial year begins on January 1 and ends on December 31, of each calendar (Gregorian) year.

## 2. Summary of Significant Accounting Policies

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

### Accounting Convention

The financial statements are prepared according to the principle of the historical cost, with exception to investments, derivatives and governmental loans (received after January 1, 2009) as they are measured by the fair value.

### Accounting Estimates

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

### Cash and Cash Equivalents

Cash and cash equivalents balance includes cash on hand, cash and time deposits at banks, and other liquefiable investments which are convertible to determined cash amounts the original maturities of which are within three months or less, from the date of its acquisition.

### Electricity Consumers' Receivables

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

### Inventories

Inventory items of generators, transmission, distribution, other materials, and fuel inventory are stated at the weighted average cost basis. Inventory is shown net after allocation of provision for slow moving and obsolete items. Inventory items that are considered an essential part of the generation plants, transmission and distribution networks, and other facilities such as strategic and reserve materials, are included in fixed assets.



# Financial Statements

## Investments

### Investments in Other Companies' Equities

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

Investments of less than 20% of share capital of unquoted companies are stated at fair value wherever it was possible, otherwise the cost will be considered as fair value. Revenues from these investments will be recorded at the time of acquisition of dividends from the investee companies.

### Investments Held to Maturity

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

## Fixed Assets

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

The estimated operational useful lives are as follows:

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

## Impairment of Fixed (Non-Current) Assets

The Company conducts periodic review of the book value of its tangible or fixed assets to determine any evidence or any indication that those assets have suffered an impairment loss. In case of the existence of such evidence, the recoverable amount of the asset is estimated in order to determine the loss (volume) or extent of the impairment loss. Wherever it is not possible to estimate the recoverable amount of that asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

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

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

## Capitalization of Borrowing Costs

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

## The Repayment Specified Governmental Loan

The Repayment Specified Governmental Loan is recorded at current or present value using an estimated discount rate for the Company's borrowing (for the loans received after January 1, 2009). The difference between the received value and the present value is recorded as deferred revenues (governmental grant) which appears in the long term government receivables and recognized throughout the remaining years of the loan and its incurred expenses.

## Derivative Financial Instruments and Hedge Accounting

The Company uses derivative financial instruments to minimize its exposure to certain interest rate risks arising from financing activities. Basically, the derivative financial instruments are recorded at fair value on the date of its contract. It will subsequently be measured/estimated at fair value. The derivative financial instruments are recorded as financial assets when their fair value is positive and as financial liabilities when their fair value is negative. The changes in the fair value of the derivative financial instruments which were specified as effective coverage for the cash flow risks are directly within the shareholders' equity, while the non-effective part of the coverage is recorded in the statement of income. For purposes of hedge accounting, hedges are classified as a hedge of fair value that hedges the risk of changes in cash flows, whether they are related to some risk associated with assets or liabilities that have been recognized/recorded or transaction that is expected to occur in large or foreign currency risks related to certain obligations which have not been recorded.

The risk hedge accounting shall be stopped at the end of the hedging instrument such as fair value hedge or its sale, termination or execution, or it becomes a disqualified instrument or tool for risk hedging.

At that time, as for the expected transactions, the accumulated profit or loss will be kept, previously recorded in the shareholders' equity, until the occurrence of that expected transaction. In cases where the expected hedged transaction is no longer expected to occur, the net accumulated profit or loss will be transferred, which was recorded in shareholders' equities, to the statement of income.



# Financial Statements

## Creditors and the Payables

The commitments to payables to be paid in the future for received goods or services, whether the suppliers submitted invoices for them or not.

## Employees' Indemnities

The employees' indemnities provision consists of the following:

### Provision for End-of-Service Indemnities

The provision for end-of-service indemnities is calculated in accordance with the Labor Law in the Kingdom of Saudi Arabia and carried down to the statement of income on a monthly basis.

### Employees' Savings Program

The Company contributes to the formation of provision for the qualified employees in the savings program according to the approved regulatory regulation. The Company's contribution in the savings' program is carried monthly to the 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. Any adjustments that may arise from final Zakat assessment are recorded in the statement of income for the year in which such final assessment is obtained.

## Statutory Reserve

In accordance with the Regulations for Companies and the Company's bylaws, 10% of the annual net income is transferred (retained) to statutory reserve. The Company may discontinue such transfer when the balance of such reserve becomes equal to half of the share capital.

## Revenues

Revenues from electricity sales are recorded when bills are issued to consumers based on their consumption of electric power measured by kilowatt/hour.

Accrued Revenue on power consumed by consumers but not yet billed, at the date of the balance sheet will be estimated. Revenue from meter reading, maintenance and bills preparation services represents the monthly fixed tariff based on the capacity of the meter used by the consumers, and the accrued revenues estimated from the unissued bills' tariff and are recorded once the bills are issued.

Tariff of electricity connection service received from consumers is deferred and recognized on a straight-line basis over the average useful lives of the equipment used in serving the consumers, estimated to be twenty years.

### Expenses

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

### Earnings (Loss) per Share for the Year

Earnings (losses) per share from operating income and earnings per share from net income for the year are calculated by dividing operating income and net income for the year by the outstanding number of weighted average shares, 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 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 transactions are recorded in the statement of income.

### 3- Cash and Cash Equivalent

	In SR' 000	
	2011	2010
Cash on Hand	3.040	2.959
Cash at Bank	1.766.494	2.526.650
Short-Term Deposits	5.535.590	4.698.167
	<u>7,305,124</u>	<u>7,227,776</u>

# Financial Statements

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

	In SR' 000	
	2011	2010
Electricity Consumers Receivable		
Governmental Institutions	2.870.026	1.071.839
Commercial and Residential	4.861.644	5.388.427
Special Customers (VIPs)	2.359.212	2.216.405
Saudi Aramco	1.908.179	1.468.493
Electricity Connection Receivables	1.011.039	571.858
Saline Water Conversion Corporation	335.981	362.984
<b>Total electricity Consumers Receivables</b>	<b>13.346.081</b>	<b>11.080.006</b>
<b>Less: Provision for Doubtful Receivables</b>	<b>(2.500.596)</b>	<b>(2.378.875)</b>
<b>Net Electricity Consumers Receivables</b>	<b>10.845.485</b>	<b>8.701.131</b>
<b>Add: Accrued Revenues</b>	<b>1.181.715</b>	<b>1.263.876</b>
<b>Total</b>	<b>12.027.200</b>	<b>9.965.007</b>

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

	In SR' 000	
	2011	2010
Balance, Beginning of the Year	2.378.875	2.121.311
Charge for the Year	121.721	257.564
<b>Balance, End of the Year</b>	<b>2.500.596</b>	<b>2.378.875</b>

## 5. Prepayments and Other Receivables, Net

	In SR' 000	
	2011	2010
Advances to Contractors and Suppliers	3.899.552	2.789.535
Other Government Receivables (Note 17-B)	244.173	244.173
Outstanding Letters of Credit	185.575	203.956
Prepaid Expenses	10.477	20.940
Other Receivables	568.780	437.421
<b>Total</b>	<b>4.908.557</b>	<b>3.696.025</b>
Less: Provision for Other Doubtful Receivables	(60.789)	(60.789)
	<b>4.847.768</b>	<b>3.635.236</b>



# Financial Statements

## 6. Inventories, Net

	In SR' 000	
	2011	2010
Generation Plant Materials and Supplies	3,086.034	3,130.904
Distribution Network Materials and Supplies	1,792.098	1,863.213
Transmission Network Materials and Supplies	394.866	290.027
Fuel and Oil	326.160	401.933
Other	227.713	219.870
<b>Total</b>	<b>5,826.871</b>	<b>5,905.947</b>
Less: Provision for Slow Moving Inventories	(264.021)	(201.061)
<b>Total</b>	<b>5,562,850</b>	<b>5,704,886</b>

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

	In SR' 000	
	2011	2010
Balance, Beginning of the Year	201.061	189.881
Charge for the Year	62.960	11.180
<b>Balance, End of the Year</b>	<b>264.021</b>	<b>201.061</b>

## 7. Equity Investments in Companies and Others

	In SR' 000	
	2011	2010
Investments accounted for under the equity method (a)	1.855.392	1.899.140
Other Investments, at cost (b)	125.650	1.210
Held to Maturity Investments (c)	425.000	400.000
	<u>2.406.042</u>	<u>2.300.350</u>

# Financial Statements

## a) Investments Accounted for Under the Equity Method

	In SR' 000		
	Shareholding Percentage	2011	2010
Gulf Cooperation Council Interconnection Authority (a-1)	31.6%	1,830,937	1,876,842
Water and Electricity Company (a-2)	50%	13,955	13,798
Ras Al-Zour Water and Electricity Company (a-3)	20%	-	1,000
Hajr for Electricity Production	50%	5,000	2,000
Daoiat (OPTIC) Communications	100%	1,000	1,000
Electricity Sukuk Company	100%	500	500
Rabigh Electricity Company (a-4)	20%	2,000	2,000
Dharma Electricity Company (a-5)	50%	2,000	2,000
Total investments accounted for under the equity method		1,855,392	1,899,140

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

The Company has participated in the capital of the Gulf Cooperation Council Interconnection Authority (hereafter referred to as "GCCIA") to enhance the electricity transmission and distribution between the member countries. The Company's participation in GCCIA amounts to USD 484.80 million equivalent to SR 1,818 million.

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

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

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

Based on the Company's Board of Directors Resolution No. 02/73/2007 dated Dhu Al-Hijjah 1, 1428H, and the Company entered into a partnership with the Public Investment Fund to establish the Ras Al-Zour Water and Electricity Company, a joint stock company established pursuant to Royal Decree No. 77 dated Ramadan 14, 1428H. The Company's share amounting to SR 1 million paid in full and represents 20% of the investee's share capital. In February 2011, a certificate was issued by the Ministry of Trade and Industry writing-off the commercial register of the company (Ras Al-Zour), because of the cancellation of Ras Al-Zour project competition for electricity and water, based upon closing the investment account in this company and the recovery of previously paid value.

**(a-4) Hajr Electricity Production Company**

Based on the Company's Board of Directors Resolution No. 04/95/2010 dated 12/09/1431H, corresponding to 22/8/2010AD, the Company established the Hajr Electricity Production Company with a capital of SR 2 million; during the year 2011 a partner entered into a partnership which increased the capital by SR 8 million thereby bringing the total capital to SR 10 million fully paid. The share of Saudi Electricity became 50% of partners' shares. The financial statements of Hajr Electricity Production Company were not consolidated due to the lack of relative importance.

**(a-5) Daoiat (OPTICS) Communications Company**

Based on the Company's Board of Directors Resolution No. 02/86/2009 dated 08/05/1430H, corresponding to 03/05/2009AD, the Company established the Daoiat (OPTICS) Communications Company with a capital of SR 1million; fully paid and represents 100% of the share capital of the new company.

The financial statements of Daoiat (OPTICS) Communications Company were not consolidated due to the lack of relative importance.

**(a-6) Electricity Sukuk Company**

Based on the Company's Board of Directors Resolution No. 03/67/2007 dated 22/03/1428H, corresponding to 10/04/2007AD, the Company established the Electricity Sukuk Company with a capital of SR 500 thousand; fully paid and represents 100% of the share capital of the new company. The financial statements of Electricity Sukuk Company were not consolidated due to the lack of relative importance.

**(a-7) Rabigh Electricity Company**

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

During the third quarter of 2009, Rabigh Electricity Company increased its capital from SR 2 million to SR 10 million through the joining of new partners which decreased Saudi Electricity Company's share from 100% to 20%.

**(a-8) Dharma Electricity Company**

Based on Company's Board of Directors Resolution No. 4/88/2009 dated Ramadan 18, 1430H corresponding to September 8, 2009, the Company established the Dharma Electricity Company (a closed joint stock company) with a share capital of SR 2 million. During the year, a new partner joined the Company and the share capital was increased by the same amount to become SR 4 million and the Saudi Electricity Company's share to become 50% of total shareholders' shares. The financial statements of Dharma Electricity Company were not consolidated due to the lack of relative importance.

# Financial Statements

## b) Other Investments, at Cost

	In SR' 000		
	Shareholding Percentage	2011	2010
Al-Shoaiba Water and Electricity Company	8%	124.840	400
Al-Shuqaiq Water and Electricity Company	8%	400	400
Al-Jubail Water and Electricity Company	5%	250	250
Al-Shoaiba Holding Company	8%	160	160
<b>Total Other Investments, at Cost</b>		<b>125.650</b>	<b>1,210</b>

## c) Held to Maturity Investments

	Generation	
	2011	2010
Saudi Basic Industries Corp. Sukuk	300.000	300.000
Bin Laden Company Sukuk	50.000	50.000
SAAB Bank Bonds (Saudi British Bank)	50.000	50.000
Satorb Company Sukuk	25.000	-
<b>Total Held to Maturity Investments</b>	<b>425.000</b>	<b>400.000</b>

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

	In SR' 000	
	2011	2010
Gulf Cooperation Council Interconnection Authority	(45.905)	(21.807)
Water and Electricity Company	158	137
<b>Total</b>	<b>(45.747)</b>	<b>(21.670)</b>



# Financial Statements

## 8. Construction Work in Progress

	2011				2010
	Generation Projects	Transmission Projects	Distribution Projects	General Projects	Total
Beginning of the year	15,424,059	6,407,377	3,930,639	276,111	26,038,186
Additions during the year	13,771,788	7,121,405	7,709,853	368,507	28,971,553
Transferred to fixed assets	(18,727,487)	(7,154,491)	(6,558,211)	(308,739)	(32,748,928)
Balance as of 31/12/2011	10,468,360	6,374,291	5,082,281	335,879	22,260,811
Balance as of 31/12/2010	15,424,059	6,407,377	3,930,639	276,111	26,038,186

Net financing cost capitalized on projects under construction during the year amounted to SR 1,151 million (2010: SR 1.070 million).

## 9. Fixed Assets, Net

	Land	Buildings	Machinery & Equipment	Capital Spare Parts	Vehicles and Heavy Equipment	Others	2011 Total	2010 Total
<b>COST:</b>								
Year beginning	1.579.661	14.851.163	241.348.391	3.428.258	1.274.831	2.610.858	265.093.162	230.793.514
Additions	56.090	805.908	30.586.847	368.593	97.704	1.073.967	32.989.109	34.673.046
Disposals	(85)	(22.496)	(212.825)	-	-	(8)	(235.414)	(373.398)
Reclassification	-	-	129.702	-	-	(129.702)	-	-
<b>Year End</b>	<b>1.635.666</b>	<b>15.634.575</b>	<b>271.852.115</b>	<b>3.796.851</b>	<b>1.372.535</b>	<b>3.555.115</b>	<b>297.846.857</b>	<b>265.093.162</b>
<b>Accumulated Depreciation:</b>								
Year beginning	-	9.199.208	115.831.695	1.834.861	958.962	1.633.450	129.458.176	121.433.903
Additions	-	543.846	8.642.288	160.960	98.561	491.405	9.937.060	8.380.206
Disposals	-	(18.734)	(202.900)	-	-	(4)	(221.638)	(355.933)
Reclassification	-	-	2.002	-	-	(2.002)	-	-
<b>Year End</b>	<b>-</b>	<b>9.724.320</b>	<b>124.273.085</b>	<b>1.995.821</b>	<b>1.057.523</b>	<b>2.122.849</b>	<b>139.173.598</b>	<b>129.458.176</b>
<b>Net Book Value:</b>								
31/12/2011	1.635.666	5.910.255	147.579.030	1.801.030	315.012	1.432.266	158.673.259	
31/12/2010	1.579.661	5.651.955	125.516.696	1.593.397	315.869	977.408		135.634.986

Land referred to above includes plots of land with a book value of SR 276 million (2010: SR 276 Million), the title deeds of which have not yet been transferred to the Company's name.

# Financial Statements

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

2011					
	Generation	Transmission	Distribution	General Property	Total
Land	245.285	587.443	225.243	577.695	1.635.666
Buildings	2.722.760	2.120.588	152.154	914.753	5.910.255
Machinery & Equipment	61,584,469	46,955,880	38,746,741	291,940	147,579,030
Capital Spare Parts	1.365.071	415.759	20.017	183	1.801.030
Vehicles and Heavy Equipment	-	-	-	315.012	315.012
Others	900.059	394.846	44.714	92.647	1.432.266
	66,817,644	50,474,516	39,188,869	2,192,230	158,673,259

2010					
	Generation	Transmission	Distribution	General Property	Total
Land	245.236	587.388	225.249	521.788	1.579.661
Buildings	2.695.481	1.870.261	154.903	931.310	5.651.955
Machinery & Equipment	47.654.610	42.805.030	34.710.509	346.547	125.516.696
Capital Spare Parts	1.162.176	410.055	20.940	226	1.593.397
Vehicles and Heavy Equipment	-	-	-	315.869	315.869
Others	532.312	308.036	30.104	106.956	977.408
Total	52,289,815	45,980,770	35,141,705	2,222,696	135,634,986

**Sequel: Fixed Assets, Net**

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

	In SR' 000	
	2011	2010
Generation Depreciation Expense	4.199.706	3.201.761
Transmission Depreciation Expense	2.788.722	2.438.954
Distribution Depreciation Expense	2.613.351	2.386.302
Gen. Property Depreciation Expense	335.281	353.189
	<u>9.937.060</u>	<u>8.380.206</u>

# Financial Statements

## 10. Accounts Payable

	In SR' 000	
	2011	2010
Saudi Aramco for Fuel Cost	51.419.456	46.227.372
Transferred to Government Account (a)	(40.959.482)	(40.959.482)
Saudi Aramco Payable for Fuel Cost	10.459.974	5.267.890
Saline Water Conversion Corporation for Purchased Energy	8.453.968	8.080.770
Payables to Contractors and Retentions	761.301	691.138
Municipality Fees	3.241.135	2.804.236
Payables to Suppliers	93.587	613.496
Advances Received for Construction of Projects	633.768	1.966.612
Others (b)	2.591.612	2.451.901
	<u>26.235.345</u>	<u>21.876.043</u>

a) As it is shown in note (17-A), accounts payable to Saudi Aramco for fuel cost for the period from April 5, 2000 to December 31, 2009 amounted to SR 41 billion have been transferred from the accounts of Saudi Aramco into a long-term government payables.

b) Other payables include SR 1,280 million (2010: SR 1,280 million) which are still under reconciliation between the Company and the Government and pertain to prior-merger accounts (refer to Note 1).

## 11. Accruals and Other Payables

	In SR' 000	
	2011	2010
Accrued Expenses	3,631.647	3,386.288
Accrued Employees' Benefits	370.139	347.162
Dividends Payable*	339.940	329.530
Accrued Interests on Loans	82.389	125.292
Other	181.827	213.946
	<u>4,605.942</u>	<u>4,402.218</u>

\* Dividends payable include dividends in the amount of SR 91.5 million as of December 31, 2011 representing cash dividends declared by Saudi Consolidated Electricity Company prior to merger and unclaimed by the shareholders (2010: SR 93.8 million).



# Financial Statements

## 12- Zakat:

The principal elements of the Zakat base are as follows:

	In SR' 000	
	2011	2010
Net Income before Zakat	2,213.159	2,279.088
Add: Zakat Adjustments	(12.296.312)	(8,440.903)
Adjusted net loss	(10.083.153)	(6.161.815)
Zakat base computation:		
Share Capital	41.665.938	41.665.938
Adjusted Net Loss	(10.083.153)	(6.161.815)
Other Reserves	1.869.353	1.640.044
Retained Earnings	7.123.345	5.071.166
Other Provisions	7.050.373	6.761.296
Long-term Loans and Sukuk	36.816.001	30.821.707
Government Loans	67.891.719	18.688.060
Customers' Refundable Deposits, Government Payables, and Contractors' Payables	2.558.748	2.730.762
<b>Total</b>	<b>154.892.324</b>	<b>101.217.158</b>
Less:		
Fixed Assets and Construction Work in Progress – Net	(131.259.163)	(107.525.831)
Fixed Assets Depreciation Differences from Prior Years	(41.576.007)	(32.287.433)
Long-term Investments	(2.406.042)	(2.296.850)
Inventory of Matl. and Spare Parts	(4.218.398)	(4.563.909)
<b>Zakat Base – Negative</b>	<b>(24.567.286)</b>	<b>(45.456.865)</b>

No provision for Zakat has been made during the year ended December 31, 2011, due to the negative amounts for adjusted net income and Zakat base.

According to the final statements received from the Directorate of Zakat and Income Tax (DZIT) for the period from April 5, 2000 (date of merger) to December 31, 2001 and for the year 2002, there are Zakat differences amounting to SR 13 million that resulted from DZIT computing Zakat on amounts claimed by the Company from Aramco for Aramco's electricity consumption in the residential properties and paid by Aramco based on the industrial tariff rather than the commercial tariff. The Company has not provided for this difference as it believes that Zakat should not be levied on unrealized revenues and which have not been recorded in the Company's accounts. The Company received the final statements for the years 2003 to 2008 which showed Zakat differences for SR 24.5 million on accounts of the years 2003 and 2004; these differences have been objected, and the objection is still under consideration and study with DZIT. In addition, the Company had submitted its Zakat Affidavits or Declarations for the years 2009 to 2010 and is still under review by DZIT.

### 13- Long - Term Loans

	In SR' 000	
	2011	2010
Loans' Balance, Beginning of the Year	11.821.707	7.340.257
Loans' Withdrawals During the Year	6.084.670	5.594.548
Loans' Repayments During the Year	(1.191.489)	(1.113.098)
Loans' Balance, End of the Year	16.714.888	11.821.707
Less: Current Portion of Long-term Loans	(3.133.100)	(1.189.317)
<b>Total</b>	<b>13.581.788</b>	<b>10.632.390</b>

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

	In SR' 000	
	2011	2010
Between One and Two years	1.468.000	1.017.783
Between Two and Three years	1.468.000	1.123.000
Between Three and Four years	1.468.000	1.123.000
Between Four and Five years	1.468.000	1.123.000
Beyond Five years	7.709.788	6.245.607
<b>Total</b>	<b>13.581.788</b>	<b>10.632.390</b>



# Financial Statements

## Sequel: Long - Term Loans

A) On July 28, 2008, the Company obtained a Sharia compliant loan for SR 6 billion from a group of local banks which has been fully withdrawn. The loan must be repaid on 22 biannual installments from November 3, 2009. The loan balance was SR 4.6 billion as of December 31, 2011 (2010: SR 5.2 billion). The loan is subject to certain financial agreements to which the Company is committed as of December 31, 2011.

B) The Company has reached an agreement with the Export-Import Bank of the United States and the Export Development Canada on June 21, 2009 and signed a financing agreement on January 27, 2010 whereby the Company will receive a direct loan amounting to USD 1.1 billion equivalent to approximately SR 4.1 billion which has been withdrawn. The loan is repayable over 12-year period in 24 biannual payments starting from May 25, 2010. The loan balance was SR 3.4 billion as of December 31, 2011 (2010: SR 3.8 billion.)

C) On July 13, 2009, the Company has signed a financing agreement with the Public Investments Fund upon which the Company will receive a direct loan of SR 2.6 billion repayable over a 15-year period in 24 biannual installments. The loan balance was SR 2.6 billion as of December 31, 2011 (2010: 2.6 billion).

D) On December 13, 2010, the Saudi Electricity Company has signed an agreement with a group of local banks whereby the Company will obtain a Sharia compliant loan of SR 5 billion. The loan is repayable over 13 years in 26 biannual equal payments after the elapse of 24 months from signing of the agreement. The loan balance was SR 0.5 billion as of December 31, 2011 (2010: nil.)

E) On March 12, 2011, the Saudi Electricity Company signed an agreement with Tokyo Bank-Mitsubishi whereby the Company will obtain a loan of USD 0.5 billion equivalent to SR 1.9 billion; the loan was withdrawn in total. This loan must be repaid in one payment after 12 months from the date of the first withdrawal. The agreement allows the Company to extend the maturity date of the original loan for another 12 months. The loan balance was SR 1.9 billion as of December 31, 2011 (2010: Nil.)

F) The Company has signed an agreement with the French EXIM Bank on June 22, 2011 whereby the Company will obtain a loan of USD 989.1 million equivalent to SR 3.7 billion; the loan was withdrawn in total. The loan is to be repaid within 12 years in 24 equal biannual installments starting from January 11, 2012. The loan balance was SR 3.7 billion as on December 31, 2011 (2010: Nil.)

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

The Company has unutilized credit facilities from local banks as of December 31, 2011 amounting to SR 1 billion which will be used to purchase generating units for Company's projects (2010: SR 1 billion.)

## 14. Sukuk

Statement of existing instruments as of December 31, 2011

Issue	Date of Issue	Sukuk Face Value	Sukuk Total Value	Maturity Date
Sukuk 1	July 23, 2007	SR 500 thousand	SR 5 billion	2027
Sukuk 2	July 6, 2009	SR 100 thousand	SR 7 billion	2029
Sukuk 3	May 10, 2010	SR 10 thousand	SR 7 billion	2030

Sukuk, mentioned above, were issued at face value without discount or premium. Based on SIBOR plus the profit margin per annum is payable on a quarterly in arrears basis of the net income derived from the net income derived from the assets of Sukuk held by the custodian of the assets of the Sukuk – The Electricity Sukuk Company which is totally owned by the company.

The Company has pledged to buy these instruments from the holders on specific dates in the prospectus. At each date of purchase the Company will pay an amount equivalent to 10% of the total nominal value of the instrument in the ratio described against the date of purchase, according to the following table:

Percentage			
Issue	90% First Purchase Date	60% Second Purchase Date	30% Third Purchase Date
Sukuk 1	2012	2017	2022
Sukuk 2	2014	2019	2024
Sukuk 3	2017	2020	2025

# Financial Statements

## 15. Employees' Indemnities

	In Thousand Saudi Riyal	
	2011	2010
Provision for End-of-Service Indemnities	4,536.870	4,480.977
Savings Program	301.639	209.241
	<u>4,838.509</u>	<u>4,690.218</u>

## 16. Deferred Revenue, Net

	In Thousand Saudi Riyal	
	2011	2010
Balance, Beginning of the Year	16,736.945	14,970.527
Proceeds from Connection Tariff Service During the Year	5,138.675	2,963.512
Electrical Connection Tariff	(1,406.045)	(1,197.094)
	<u>20,469.575</u>	<u>16,736.945</u>

## 17. Government Long-term Payables

A) The accrued fuel credit payables for the period April 5, 2000 to December 31, 2009 amounting to SR 41 billion were reclassified from Current Liabilities to Non-Current (fixed) Liabilities (Government long term payables), based on the ministerial minutes dated 15 Jumada Al-Awal 1427H and 6 Safar 1433H in accordance with the Ministerial Resolution No. 277 which handled the accrued indebtedness of the Company to Saudi Aramco Company by transferring it the account of Ministry of Finance (Note 10-a.)

B) The Company during the fourth quarter of the year 2010 transferred some assets of the transmission and distribution networks located in Jubail Industrial City at the Royal Commission for Jubail and Yanbu (The Commission) to the ultimate ownership of the Company according to the terms agreed upon with the commission. The book value of those assets was SR 744 million which was recorded in the government long term payables while the amount of accumulated depreciation during the pre-merger period was estimated at SR 244 million and recorded as government receivables in the prepaid payments and other debit balances (Note 5). These accounting processes were applied retroactively (Note 30.)

## 18. Government Loans

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

The minutes of the meeting held on Rajab 21, 1422H between the Minister of Industry and Electricity and the Minister of Finance and National Economy in which the initial amount of the Government loan was determined, stated that the final settlement of Government accounts will be subject to final reconciliation of the Company's claim from Government entities, and the loan amount shall be adjusted accordingly. During 2005, the Company finalized the amount due which included the claims of the Company and the amounts due to the Government and the agreement was signed between the Minister of Water and Electricity and the Minister of Finance on Rajab 15, 1426H which brought the balance of government loan to SR 14.9 billion.

B) The Council of Ministers approved in its meeting held on Monday, Jumada Al-Awal 12, 1431H corresponding to April 26, 2010, to grant the Company a soft loan (Sharia compliant) amounting to SR 15 billion repayable over 25 years. The loan will be paid to the Company within 2 years in accordance with an agreement that will be prepared for this purpose between the Ministry of Finance and the Saudi Electricity Company. The agreement was signed on Ramadan 15, 1431H, corresponding to August 25, 2010; an amount of SR 11.3 billion from this loan has been withdrawn on December 31, 2011. The Company had recorded what was received from the government loan at the present value according accounting policies as shown in Note 2.

C) The Council of Ministers approved in its meeting held on Monday, Rajab 11, 1432H corresponding to June 13, 2011, to grant to the Company a soft loan (Sharia compliant) amounting to SR 51.1 billion repayable over 25 years. The loan will be paid to the Company within five years in accordance with an agreement that will be prepared for this purpose between the Ministry of Finance and the Saudi Electricity Company. The amount was not withdrawn until the date of the Balance Sheet.



# Financial Statements

## 19. Derivatives

The Company entered into interest rate hedging agreements with several banks to hedge the fluctuation in loans' interest rates on a notional amount of SR 3.4 billion as of December 31, 2011 which includes a US Dollar portion representing approximately 15% of the stated nominal value. The hedging agreements are based on the bartering between the Company and the banks of fixed rates against floating rates on the original loan amounts every six months.

Moreover, the Saudi Electricity Company has signed currency agreements with some local banks aimed at stabilizing the exchange rate of the euro against the U.S. dollar exchange rate in order to cover the Company's future obligations and protect it from fluctuations in exchange rates.

## 20. Share Capital

The share capital of the Company amounts to SR 41,665,938,150 and divided into 4,166,593,815 shares with a par value of SR 10 each. The Company's share capital referred to above is owned by the following:

	No. of Shares	Ownership Percentage
Government	3.096.175.320	74.31%
Saudi Aramco	288.630.420	6.93%
Other Shareholders	781.788.075	18.76%
	<b>4.166.593.815</b>	<b>100%</b>

## 21. General Reserve

General reserve consists of the balances of the reserves that were reflected in the books of the Saudi Consolidated Electricity Companies at the date of the merger amounting to SR 213,668 thousand and the returns from investing in the Electricity Fee Fund amounting to SR 294,976 thousand. In addition, it also includes the collections of electricity fees from individuals subsequent to December 31, 2001 amounting to SR 29,699 thousand till December 31, 2011 (2010: SR 27,533 thousand). Accordingly, the balance of the general reserve amounted to SR 538,343 thousand as of December 31, 2011. (2010: SR 536,177 thousand).

## 22. Operating and Maintenance Expenses

	2011				2010
	Generation	Transmission	Distribution	Total	Total
Employees' Expenses and Benefits	1.288.171	910.581	2.365.486	4.564.238	4.022.932
Materials	712.916	109.954	234.539	1.057.409	1.113.808
Operation and Maintenance (Contractors)	405.862	109.593	372.263	887.718	703.413
Provision for Doubtful Receivables	-	-	121.721	121.721	257.564
Provision for Slow Moving Inventory	36.740	8.070	10.950	55.760	9.490
Municipality Fees	-	-	436.969	436.969	394.083
Others	875.341	84.060	355.061	1.314.462	1.251.653
	<b>3.319.030</b>	<b>1.222.258</b>	<b>3.896.989</b>	<b>8.438.277</b>	<b>7.752.943</b>

# Financial Statements

## 23. General and Administrative Expenses

	In Thousand SR '000'	
	2011	2010
Employees' Expenses and Benefits	230.489	264.407
Materials	41.410	37.521
Provision for Slow Moving Inventory	7.200	1.690
Others	81.136	85.454
	<b>360.235</b>	<b>389.072</b>

## 24. Other Income and Expenses, Net

	In Thousand SR '000'	
	2011	2010
Gain on Disposal of Fixed Assets	25.860	97.833
Penalties	172.969	118.747
Share in Net Income/(loss) of Investee Companies Accounted for Under the Equity Method (Note 7-d)	(45.747)	(21.670)
Sales of Tender Documents	28.952	27.063
Others	224.715	206.715
	<b>406.749</b>	<b>428.688</b>

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

In compliance with the Company's bylaws, a preliminary distribution of dividends of not less than 5% of paid up share capital is to be distributed to shareholders after deducting reserves subject to the provisions stated in the Council of Ministers' Resolution No. 169 dated Sha'ban 11, 1419H, which stipulates that the Government has waived its share from the dividend distribution for a period of ten years from the date of the Company's formation provided that such dividends do not exceed 10% of the par value of the shares. If dividends exceeded the said percentage of the par value of the shares, then the Government's share shall be treated similar to the shares of the other shareholders. The Council of Ministers' Resolution No. 327 dated Ramadan 24, 1430H specified the extension of the government concession of its share of profits that Saudi Electricity Company distributes for a period of another 10 years.

The Board of Directors in its meeting held on April 4, 2011 proposed dividends for the year 2010 for the shareholders, individuals category, amounting to SR 547 million in cash at SR 0.7 per share representing 7% of the par value of the shares (for the year 2009: SR 547 million). The Board of Directors in its meeting held on February 19, 2012 proposed distribution of cash dividends for the year 2011 for the individual shareholders and the like amounting to SR 547 million in cash at SR 0.7 per share representing 7% of the par value of the shares. The proposed dividends' distribution for the current year requires the Company's General Assembly approval.

## 26. Board of Directors' Remuneration and Allowances

Expenses and allowances related to the attendance of the board members in the Board of Directors' meetings and other subcommittee meetings for the year amounted to SR 605 thousand (2010: SR 625 thousand).

The General Assembly in its meeting held on April 4, 2011 approved the remunerations for the members of the Board for the year 2010 amounted to SR 0.8 million from the retained earnings (2009: the amount was SR 0.8 million.)

The Board of Directors in its meeting held on February 19, 2012 had approved the provision of a remuneration for the board members amounting to SR 0.7 million from profits after the distribution of dividends of not less than 5% of the share capital to the individual shareholders and the like. The payment of this remuneration is due after the approval of the General Assembly.

# Financial Statements

## 27. Related Party Transactions

The Company connects and provides electric power to governmental agencies, ministries, and Saudi Aramco. The tariff charged to related parties is the same tariff approved by the Council of Ministers and charged to other consumers, except for the tariffs charged to Saline Water Conversion Corporation (SWCC) which are in accordance with a Government resolution, except for the residential properties of Saudi Aramco, which the Company believes that residential properties of Aramco fall under the commercial tariff while Saudi Aramco has rejected this tariff and is settling the electricity sales for all such properties based on the industrial tariff which resulted in a difference of about SR 1,831 million since the foundation of the Company until December 31, 2011 (cumulative difference of approximately SR 1,745 million since the Company's inception up to December 31, 2010), which has not been reflected in these financial statements.

The Council of Ministers in its Resolution No. 114 dated Rabi-II 10, 1430H resolved to end the dispute about the basis of charges to Aramco based on the residential and commercial tariff rather than the industrial tariff and requested the Electricity and Co-generation Regulatory Authority to determine the residential and commercial properties owned by Aramco and the party responsible for the construction costs, maintenance, and operations of voltage transformers and distribution networks. Accordingly, several meetings have been held between the Company, Aramco, and the Regulator (Electricity and Co-generation Regulatory Authority) to resolve this issue.

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

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

	In Thousand SR '000'	
	2011	2010
<b>Sales:</b>		
Government	7.150.973	6.927.911
Saudi Aramco	1.490.989	1.318.150
Saline Water Conversion Corp.	194.021	164.988
	<b>8.835.983</b>	<b>8.411.049</b>
<b>Purchases and Other:</b>		
Saudi Aramco	5.514.247	5.591.878
Saline Water Conversion Corp.	573.407	626.641
Municipalities Fees	436.969	394.083
	<b>6.524.623</b>	<b>6.612.602</b>

## 28. Contingent Liabilities

A) A dispute exists between the Company and Saudi Aramco about the issue of crude oil handling fees which Aramco is asking for some sites or locations. The total disputed amount between the Company and Saudi Aramco since the Company's formation on April 5, 2000 and up to December 31, 2011 is amounting to approximately SR 2,886 million (balance of 2010: SR 2.472 million). The Company's management believes that there will be no liability on the Company based on the Royal Decree No. M/8 dated Rajab 25, 1415H as this matter was not discussed by the Ministerial Committee that was formed by the Royal Decree referred to herein. Accordingly, the difference has not been recorded in the Company's accounting books. In addition, there is another dispute about an allegation to Saudi Aramco of supplying the Company with light fuel instead of heavy fuel oil to one of the plants, as per the company's requirements; this has resulted in accumulated difference which amounted to SR 858 million (2010: SR 566 million.) Thus, it was not accounted for or recorded in the Company's books.

B) Saudi Aramco is also asking for the settlement of its share from the annual dividends according to its share in the share capital of the company. The claim for profits from the date of the Company's formation to December 31, 2010 is estimated at SR 1,937 million. The Company believes that Saudi Aramco has no right for this claim during the first twenty years of its formation since it is a government agency wholly owned by the state and, accordingly, is governed by the Ministerial Resolution No. 169 dated Sha'ban 11, 1419H and the Ministerial Resolution No. 327 dated Ramadan 24, 1430H on extending the Government's waiver of its rights in the profits distributed by the Saudi Electricity Company for another ten years.

C) The Company has issued guarantees to some commercial banks for financing its share of the loan granted to some of the investee companies. The guarantee is valued at USD 117 million as of December 31, 2011 which is equivalent to the sum of SR 440 million (2010: USD 112, equivalent to SR 419 million.) The Company has also issued a guarantee for the benefit of DZIT equivalent to SR 13 million (2010: SR 13 million.)

D) The Company has contingent liabilities which resulted from outstanding letters of credit amounting to SR 0.30 million as of the balance sheet date (2010: SR 63 million.)

## 29- Sales of Electric Power

The sales of electric power have increased mainly due to the increase in the sold power quantities, as well as due to the tariff adjustment for the governmental, commercial, and industrial categories, as of July 1, 2010.

## 30. Prior Years' Adjustments

Towards the end of the first quarter of the year 2011, Saudi Electricity Company evaluated the hedge contracts of the fixed interest rate exchange against fluctuated rates of interest based on the fair value of the financial instruments' derivatives. That evaluation resulted in the adjustment of the opening balances of shareholders' equities – the change in the fair value of the hedge contracts – in the value of SR 388 million as of January 31, 2011, and SR 472 million as of January 1, 2010.

As shown in Note (17), certain transmission and distribution network assets in Jubail Industrial City owned by the Royal Commission for Jubail and Yanbu ("Commission") have been transferred to the Company's ownership retroactively, thus resulted in adjustment of the retained profits and statutory reserve opening balances for the year ended December 31, 2010.





# Financial Statements

## 31. Capital Commitments

Capital commitments represent the value of unperformed portions of the Company's contractual agreements for the construction and installation of utility plants and other assets amounting to approximately SR 48,073 million (2010: SR 63,961 million). The scheduled time to complete these undertakings ranges between one to three years.

## 32. Risk Management

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

### Credit Risk

The credit risk represents the failure of a party to commit to his or its obligations, and thus causing the other party to incur a financial loss. The Company has proper distribution of credit risk. Cash is substantially kept with those financial institutions of renowned credit ratings. Trade accounts receivable are carried down after deducting doubtful debts.

### Risk of Commission-Rates

Represents the risks emerging from exposure to fluctuations in the value of the financial instruments, which in turn is the result of fluctuations in the exchange rates prevailing at the market. The Company has no significant long-term assets associated with commission rates, but it has liabilities associated with commission rates as of December 31, 2011. The Company manages its floating-rate loans through utilizing commission rates hedging agreements linked with commissions having economic effect on the loans transference from floated into fixed rate loans.

### Liquidity Risk

The liquidity risk is a risk wherein the Company encounters difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from inability to quickly sell a financial asset at its approximate fair value. The liquidity risk is managed by regular surveillance to assure the availability of sufficient funding to meet any future obligations.

## Currency Risk

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

## Fair Value

The fair value is the amount for which an asset could be exchanged, or a liability settled between knowledgeable willing parties subject to fair and just terms and condition in the transaction. As the Company's financial statements are being prepared under the principle of historical cost convention, differences could emerge between the book value and the estimated fair value. Management may believe that the fair value of the Company's financial assets and liabilities are not materially different from their book value.

## 33. Future Restructuring of Company Activities

The Company is considered as a single intertwined operational unit. The main operational activities in the Company are divided into the activities of generation, transmission, and distribution which are looked upon as complementary to each other in the field of electric power generation and conveyance to the final consumer, as the present company revenues are realized from the sale of electricity to the final consumer based on the official tariff decided by the state. The Company is now working on the development of a home/interface selling price among the activities of generation, transmission and distribution. As well, the establishment of the National Electricity Transmission Company has been completed; the new company commenced its business on January 1, 2012 within the company's plan to split the main activities into independent companies, thus the revenues and expenses of each company shall be determined separately at the completion of the unbundling process. All operations of the Company and its customers are performed within the borders of the Kingdom of Saudi Arabia.

## 34. Comparative Figures

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

## 35. Subsequent Events

The Company has completed the registration and establishment procedures for the National Electricity Transmission Company, a wholly-owned company, which commenced business operation on January 1, 2012 by the transfer of all transmission activities into it.

Studies and Marketing  
Public Affairs Activity  
TSShowair@se.com.sa  
Emergency 933 | www.se.com.sa | Subscriber Service Center: 920 00 11 00  
A Saudi Joint Stock Company with a capital of 41,665,938,150 Riyals