### Financing Challenges 2009 -2018









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



His Royal Highness

Prince Sultan Ibn Abdul Aziz Al-Saud

Crown Prince, Deputy Prime Minister,

Minister of Defense and Aviation, and Inspector General



His Royal Highness

Prince Naef Ibn Abdul Aziz Al-Saud

Second Deputy Prime Minister and Minister of Interior

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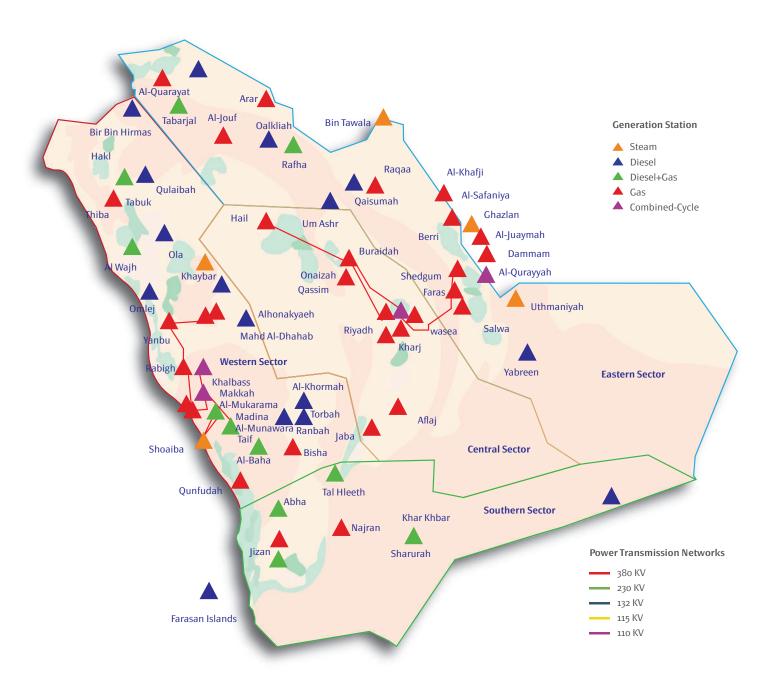
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# **Our Vision**

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



# **Scope of Our Operations**



Board Of Directors



Saleh Ibn Hussein Al-Awajji Acting Chairman of the Board



Sulaiman Ibn Abdullah Alkadi Member 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



#### Statement of the Acting Chairman of the Board

A brief glance into the accomplishments of the Company during the year 2009 shows the Company's ongoing efforts in boosting the electric system. The achievements that have been accomplished in this respect constitute an aspect of its proactive approach and effort to anticipate future requirements by continuing to establish further projects in the fields of electric power generation, transmission, and distribution so as to cope with the increasing growth in demand for electric power, upgrading the standard of

the Company's performance, building an appropriate electric power reserve at a rate of 10% of the peak load of the combined power capacity, boosting, and developing the Company's electrical infrastructure.

From its inception in the year 2000 and up till the year 2009, the Company has raised its available generation capacity to approximately 45,000 MW, a percentage increase of about 73%, whereas the length of the power transmission grids reached up to 43,000 ckm (circuit-kilometer) signifying a percentage increase of 45%, with electric power connections length reaching 364,000 ckm representing a percentage increase of 61%.

This year has witnessed the Company's further continuous efforts in maintaining the supply of electricity and ensuring its stability while endeavoring to meet future needs, upgrading the services provided to the customers, the total number of which rose to five million seven hundred one thousand five hundred sixteen customers (5,701,516) at year-end 2009. The Company has also continued implementing its policy aiming at covering the electricity requirements of all villages and settlements which enabled it to deliver electric services to 377 new villages and settlements at year-end, thereby increasing further the total number of cities, towns, villages, and settlements provided with electricity to 11,800.

Meanwhile, the Company exerts its constant utmost efforts in meeting the growing demand for electric power which has been increasing by about 8% annually. Thus, it prepared and developed a plan for boosting the electric system during the next decade (2009-2018) based on the load expectation of 65,000 MW by the end of the plan period. This plan is based on a well-established scientific methodology and a purposeful study of future needs which aims to add 32,000 MW and to complete the project of the national network for connecting all parts of the Kingdom which shall allow readily exchanging electric power among all regions of the Kingdom, in addition to paving the way to operate economically. The plan also anticipates all future possibilities so as to accomplish more achievements to meet the challenges arising from growth in population, construction industry, and agriculture in the Kingdom and sustaining its economic development.

In a parallel context, the Company has continued its drive to diversify its financing sources and to ensure availability of the required cash flow for investment and operational activities. This year, the efforts exerted by the Company to secure the targeted financing included issuing Islamic bonds called "Sukuk" valued at SR 7 billion, encouraging investments, and establishing joint ventures with the private sector. The Company has maintained its high creditworthiness ratings accorded to it by international credit rating agencies which reflect its strong standing and position; enhancing the role it plays in the national economy. In this regard, the Company has also benefited from export promotion agencies in developed countries as a source of finance when it successfully obtained a loan of SR 4.1 billion from the US Export-Import Bank and the Export Development Canada.

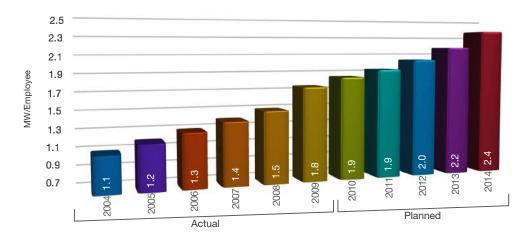
The Company has continued such financial policies aiming at promoting its financial position and enhancing the trust of its investors to attract them to invest in its projects. In this respect and in line with the Program for Private Sector Participation in Electricity Projects which aims to further attract investments, the Company achieved important steps in encouraging domestic and international investors to participate in its power generation projects. Within such program, the Company has already introduced the Rabigh Project in the Western Region and the Power Plant 11 project in Riyadh through which a number of projects in the field of power generation shall be introduced.

As for human resources development, the Company has exerted efforts and accorded substantial attention to the development of its human resources by further focusing on a bundle of programs dealing with the development of employees, improving performance competency through the On-the-Job Training Program, total quality management program, and endeavoring to solicit national qualified personnel so that the overall job nationalization rate in the Company has reached 85%.

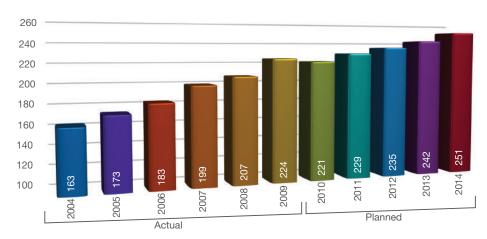
Finally, on behalf of the members of the Board of Directors, I would like to express our sincere thanks, appreciation, and gratitude to The Custodian of the Two Holy Mosques King Abdullah Ibn Abdul Aziz Al-Saud, His Royal Highness Prince Sultan Ibn Abdul Aziz Al-Saud, the Crown Prince, Deputy Prime Minister, Minister of Defense and Aviation, and Inspector General, and His Royal Highness Prince Naef Ibn Abdul Aziz Al-Saud, Second Deputy Prime Minister and Minister of Interior, for their generosity and the invaluable support the State has provided to the Company; an extension of support the electricity industry has enjoyed throughout its history, and which allowed the Company to implement numerous projects which have contributed to meeting the electricity needs of the Kingdom's developing sectors. I also wish to express our thanks to HE Eng. Abdullah Ibn Abdul Rahman Alhosayn, Minister of Water and Electricity, for the support he has provided to the Company's efforts in particular and to the electricity sector in general. Moreover, on behalf of the members of the Board of Directors, I would like to extend our sincere thanks and appreciation to the Company shareholders, its customers, and to the management of the Company and all its employees; praying for Allah to bless their efforts and help us all in ensuring what we look forward to as we do our best in serving the Company's shareholders, all its customers, and our beloved country.

### **Performance Indicators**

Available Generation Capacity Per Employee

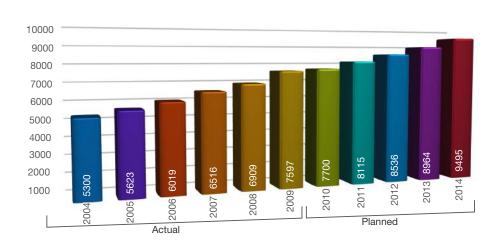


Number of Customers Per Employee

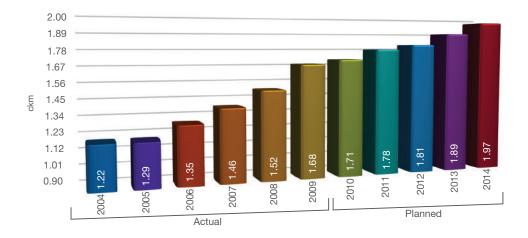


Sold Energy Per Employee

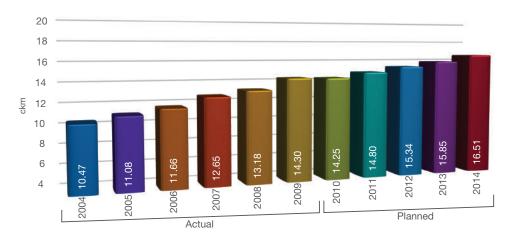
MWH/Employee



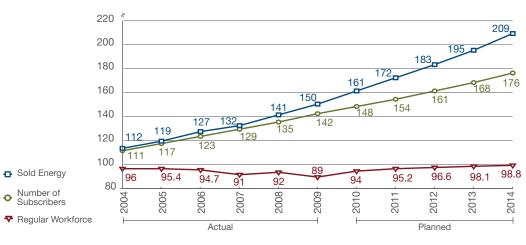
#### Length of Transmission Lines Per Employee



#### Length of Distribution Lines Per Employee



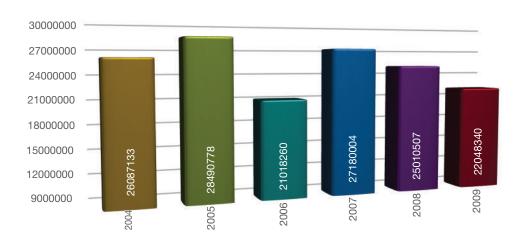
#### **Key Indicators**



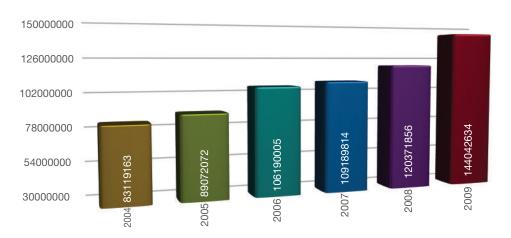
# Summary of Our Financial Performance 2004-2009

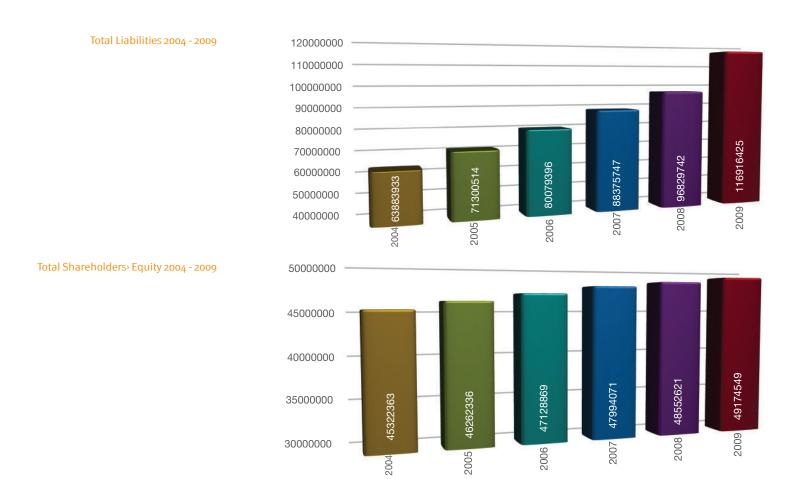
	2004	2005	2006	2007	2008	2009
Total Current Assets	26,087,133	28,490,778	21,018,260	27,180,004	25,010,507	22,048,340
Total Non-Current Assets	83,119,163	89,072,072	106,190,005	109,189,814	120,371,856	144,042,634
Total Liabilities	63,883,933	71,300,514	80,079,396	88,375,747	96,829,742	116,916,425
Total Shareholders' Equity	45,322,363	46,262,336	47,128,869	47,994,071	48,552,621	49,174,549
Operating Income	1,003,203	1,259,159	1,154,574	1,114,378	764,046	812,123
Net Income	1,299,632	1,483,042	1,413,832	1,412,499	1,104,447	1,169,614

#### Total Current Assets 2004 - 2009



Total Non-Current Assets 2004 - 2009





# Summary of Our Financial Performance 2004-2009

### Operating Income 2004 - 2009 Net Income 2004 - 2009

	4 (24 D	2000
(In SR thousand, except for earning per share)	As of 31 December 2009	2008
Assets		
Total Current Assets	22,048,340	25,010,507
Total Non-Current Assets	144,042,634	120,371,856
Total Assets	166,090,974	145,382,363
Liabilities and Shareholders' Equity		
Total Current Liabilities	49,618,932	40,102,750
Total Non-Current Liabilities	52,359,433	41,788,932
Government Loan	14,938,060	14,938,060
Shareholders' Equity	49,174,549	48,552,621
Total Liabilities and Shareholders' Equity	166,090,974	145,382,363
Operating Revenue		
Electricity Sales	22,040,360	20,651,799
Meter Reading, Maintenance, and Bills Preparation Tariff	794,852	752,359
Electricity Connection Tariff	1,015,737	884,584
Other Income and Expenses (net)	357,491	340,401
Total Operating Revenue	24,208,440	22,629,143
Operating Expenses		
Total Operating Expenses	(23,038,826)	(21,524,696)
Zakat	-	-
Unrepeated Adjustments	-	-
Total Operating Expenses and Zakat Provision	(23,038,826)	(21,524,696)
Income		
Operating Income	812,123	764,046
Income Before Zakat	1,169,614	1,104,447
Net Income	1,169,614	1,104,447
Earning per share	0.28	0.27



#### Statement of the Chief Executive Officer

The year 2009 has witnessed a number of key achievements in spite of serious challenges faced by the Company which include a growing demand for electric power, a requirement for extra cash flow to cover project expenditures for a widely increasing number of projects, amortizations for a number of generation units, transmission, and distribution grids, coupled with power reserve deficiency. Despite such challenges, we have succeeded in developing our services by implementing a

number of projects in the fields of power generation, transmission, and distribution, and investing in all capabilities to accomplish the main goal which the Company seeks to achieve by providing excellently-manufactured and supported services, decreasing the costs of electric power generation, and completing the ongoing extension of power services throughout the Kingdom as the number of cities and towns supplied with electricity service reached up to 11,800, while the number of customers reached five million seven hundred thousand customers by year-end.

As regards power generation, the Company made numerous enhancements this year which include an added capacity of 3,510 MW representing 10.2% of the combined capacity of the Company. As for power transmission, 25 new transmission substations (110 KV and over) have been built having a total capacity of 5,024 MVA. Other existing substations have been enhanced with a total capacity of 2,279 MVA. Moreover, new transmission grid lines have been added with a total length of 2,910 ckm (circuit-kilometer), of which 212 ckm were underground cables and 2,698 were overhead networks. Such additions resulted in an increase of 7% compared with year 2008. Overhead networks and underground cables have been installed in distribution grids totaling 19,000 ckm, an increase of over 5.6 %.

In the context of applying the Kingdom's policies regarding specialization and competition, the Company has paved the way for the private sector to participate in electricity projects that have been determined for implementation in partnership with the private sector. The Company achieved a number of projects within the "Program for Private Sector Participation in Electricity Projects," which include the Water and Electricity Company (WEC), a business venture jointly owned by the Company and Saline Water Conversion Corporation.

During the year, Phase 3 of Shoaiba IWPP has become the first project of the dual production of water and electricity in partnership with the private sector wherein a generation capacity of 900 MW has been added. Also during the year, the Jubail Water and Electricity Company (the Marafiq Jubail IWPP) has started its operation with expected capacity of 2,750 MW. Within the Program for Private Sector Participation in Electricity Projects, on the level of power production, the first stage IPP includes three projects, the first contract of which has been signed for the Rabigh IPP

project having a total capacity of 1,200 MW. In addition, the Riyadh Power Plant 11 project goes up for bids. The second project falls within the program for independent power production having a production capacity of 1,800 MW to be completed in 2013. The total investment value of these projects is estimated at 12 billion Saudi Riyals.

As regards finance, the Company has maintained such high creditworthiness ratings conferred upon it by international credit rating agencies in the previous year which reflect the Company's strong standing and financial position. The Company continued fulfilling its strategy aiming at securing the necessary cash flows by benefiting from available multiple funding sources. In July 2009, the Company has successfully issued Islamic Bonds (Sukuk) valued at SR 7 billion which was covered by approximately three times its original amount. The Company has also obtained loans from the US Export-Import Bank, the Export Development Canada, and the Public Investment Fund (PIF) which have better credit facility conditions in addition to the support provided by the State through payment of its invoices for power consumption as they fall due.

With regard to human resources development, the Company took a number of decisions with the aim of continuously improving the work environment which helps to inspire and motivate employees, improving their production competency, thereby paving the way for more creativity. In accordance with the Kingdom's strategic orientation, the Company continues to pay much attention and significance to nationalizing job positions and to provide qualified and trained national personnel who are highly competent and efficient. During the year, the Company hired more than 400 Saudi nationals with bachelor's degree in various areas of specialization, in addition to 1,000 new graduates from technical colleges, secondary schools, and vocational schools who were then enrolled in specialized training courses in the Company training institutes as a prerequisite to joining the Onthe-Job training program; after which, they shall commence work in various organizations and functions in the Company. Job nationalization rate in the Company has reached 85% of the Company's total manpower.

In view of the Company's concern for environmental issues, it has incorporated in the specification plans for new steam power generating stations the inclusion of the Flue Gas Desulfurization (FGD) technology for removing sulfur dioxide (SO2) from the exhaust flue gases which costs around 10% of the value of the projects. With regard to the restructuring of the Company's business functions, the Company has completed a restructuring plan which aims to transfer the major business functions (Generation, Transmission, and Distribution) to affiliates and subsidiaries owned by the Saudi Electricity Company, the holding company. Such plan shall commence beginning the year 2011 as a transitional stage in order to set the Company for future competitive market in the electricity industry.

Finally, on behalf of the Company employees, I would like to express our sincere thanks and appreciation to the Board of Directors for its valuable role in guiding and supporting the management of the Company which had its positive impact on our achievements. More so, I would like to express our sincere thanks to all government bodies, private institutions, our shareholders, and customers for their support to the Company. And for the employees of the Company whose considerable effort was a major factor in all our achievements throughout the previous years, I would like to convey my sincere gratitude and appreciation to you for every effort you have exerted to further develop the Company.

Ali Ibn Saleh Al-Barrak

# **Key Indicators of 2009 Compared with 2008**

10%

Growth of actual generation capacity to 37,913 MW

13.6%

Growth of available generation capacity to 44,582 MW

7.3%

Growth of power transmission networks to 42,703 ckm

6.2%

Growth of distribution networks to 180,967 ckm

4.7%

Growth of customers' connections to 183,172 ckm

8.4%

Growth of total peak loads to 41,200 MW

6.8%

Growth in sold energy to 193,472 GWH

5.2%

Growth in total number of customers to 5,701,516 customers

3.3%

Growth in total number of electrified towns, villages, and settlements to 11,782

0.01%

Growth in job nationalization rate to 85.12 % of the 27,601 employees

# **Our Financial Policy**

The Company has succeeded in maintaining its creditworthiness ratings conferred to it by international credit rating agencies which ensured the integrity of the Company's adopted strategic approaches and the success of its administrative and operational policies as well as in managing its businesses. The Company continuously implements its financial policy aiming at enhancing its financial position and ensuring availability of cash flows required for expenditures related to its projects through available funding sources. The Company issued Islamic Bonds (Sukuk) valued at SR 7 billion and obtained loans from the US Export-Import Bank, the Export Development Canada, and the Public Investment Fund (PIF).

The Company has already accomplished several achievements in the financial area, the most important of which are:

#### **Credit Rating**

During 2009, while achieving the objectives of its financial policy and supporting its strategic standing, the Company has managed to maintain the high creditworthiness ratings it obtained which materialized its strong position and the role it plays in the national economy. On the other hand, it was considered a meritorious achievement under the current global financial crisis, when last year the Company obtained significant credit worthiness ratings from major international credit rating agencies, as follows:

- · Moody's A1
- · Fitch AA-
- · Standard and Poor's AA-

These ratings enabled the Company to obtain the required funding for its projects under the best credit terms and most appropriate rate.

#### Second Issuance of Islamic Bonds (Sukuk) Valued at SR 7 Billion

The Company has managed to obtain the required funding by issuing Islamic Bonds (Sukuk) valued at SR 7 billion in spite of the implications of the global financial crisis and abstention of investors from investing in the Company and the decrease of credit instruments to a record level. This issuance marks the first issuance of its kind in the Kingdom and was considered the biggest public offering in terms of issuance value during the year 2009. The issuance was covered approximately 3 times its value which came to over SR 20 billion despite low liquidity levels witnessed on the markets. The issuance was subscribed to by a diversity of subscribers with subscriptions amounting to 26% going to governmental bodies, 56% to banks, while 18% was subscribed to by investment funds and major corporations.

#### Loan Facilities Obtained from the US Export-Import Bank and Export Development Canada

Seeking to secure new sources of funding and diversifying financing sources for its major projects, the Company signed an agreement with the US Export-Import Bank and the Export Development Canada whereby the two banks agreed to provide loan facilities of up to US\$ 1,110 million (equivalent to SR 4,163 million). This shall provide the Company with the opportunity to obtain further funding from European and Asian export promotion banks.

This type of direct funding marks the first of its kind that a Saudi company has obtained at less cost when compared with traditional commercial loans; in addition, it has become a source for additional funding which shall be used in improving the Company's liquidity.

#### **Loan Facility from Public Investment Fund (PIF)**

The Company has signed, this year, an agreement with the Public Investment Fund (PIF) pursuant to which the Public Investment Fund (PIF) shall grant the Company an amount equivalent to SR 2,583 million to finance part of the costs of engineering, procuring, and upgrading Power Plant 9. The loan facility shall enhance the ability of the Company to meet the capital expenditures for its projects. It comes as the first governmental support at less cost than other financing means.

#### **Financial Segregation of the Company's Business Functions**

In anticipation of the future steps to be taken with respect to the restructuring of the Company's business functions, several measures have been taken as regards financial segregation of the business functions, including:

- · Adopting a financial system (SAP) in order to be consistent with the segregation of the Company's business functions.
- Fulfilling the requirements for implementing the following financial processes:
  - Classification of Company's functions into cost/profitability/investment centers
  - Service Level Agreement (SLA)
  - Calculating the cost of capital rate by various activities
  - Fixing the power exchange rates

The Company is in the process of developing and drafting the Power Exchange Rate Agreements among the major business functions. Such process shall allow the Company to measure the profitability, performance, and effectiveness of its various business functions with a view to ensure accurate reporting in such a way as to help the management in taking sound decisions and contributing to performance development of the Company's activities.

### Focusing on our Shareholders

The Company spares no effort in ensuring that shareholders' expectations are met, their requirements are fulfilled; making sure their rights are protected, assisting in the exercise of their rights, providing them with the information they require, inviting them to attend General Assembly meetings, facilitating payment of their dividends, and responding to their queries. The Company pays special attention to boosting the quality of disclosure with respect to financial results, significant developments, and core changes in the Company in terms of quantity, quality, and timing. The Company continues its efforts aiming at developing effective communication channels with its shareholders, inspiring them to deposit their share certificates in investment portfolios to facilitate in depositing their dividends in their respective portfolios maintained with various banks on the first day of dividend payment.

The Company ensures constant communication with the concerned parties in the financial market and sharing relevant information with investors and organizations as regards the Company and its shares.

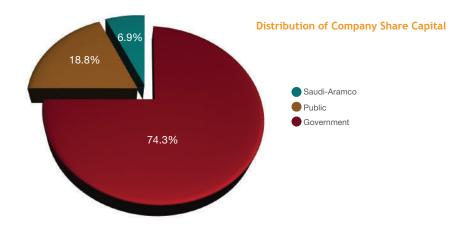
The Company pays close attention to implementing the guidelines contained in the "Corporate Governance Act" as may be relevant to the Company's business and activities, particularly as related to the shareholders' rights and compliance with all instructions and guidelines related to disclosure and transparency and conformity of its internal regulations with the rules of Capital Market Authority and its Executive Regulations.

#### Key Achievements of the Company and Major Services Provided to Its Shareholders in 2009 included:

- Highly smooth payment of dividends to shareholders amounting to 95% of the total profits to be distributed to shareholders.
- Rate of portfolios returned last year decreased to only 123 portfolios from a total of 65,954 portfolios.
- · Company's weekly, monthly, quarterly, and annual Shares Reports were timely posted on the Company's website.
- All announcements posted on Tadawul's (Saudi Stock Exchange) website as well as all information which may interest the shareholders and investors were also posted on the Company's website.
- A Committee consisting of senior executives of the Company was formed to develop the Company's own Corporate Governance Regulations in order to conform to the provisions as set forth in the Regulations of Corporate Governance issued by the Capital Market Authority.

#### Distribution of Company Share Capital

Shareholders	Number of Shares
The Government	3,096,175,320
Saudi-Aramco	288,630,420
Public (national and the like)	781,788,075
Total	4,166,593,815



### **Share Price Performance**



At the end of 2009, the overall index of Saudi Stock Exchange (Tadawul) closed at 6,121.76 points, compared with 4,802.99 points at year-end 2008, thereby showing an increase of 1,318.77 points (27.46%). The highest closing point during 2009 of that index was 6,568.47 points on 24 October 2009.

At year-end 2009, the index of the power and service utilities sector closed at 4,210.69 points, compared with 3,415.18 points at year-end 2008, representing a 23.29 % increase. The closing price of shares at year-end 2009 was SR 11.25 which was 21.62% higher than its closing price of SR 9.25 at year-end 2008.

For traded share quantities, Company shares decreased by 63.04% from 1,526,730,075 in 2008 to 564,233,387 in 2009. Also, value of traded Company shares decreased by 72.64% from 20,797,308,761.85 in 2008 to 5,689,486,868.15 in 2009.

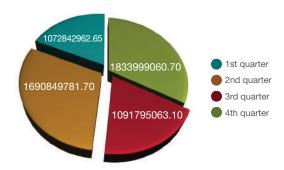
Number of transactions also decreased from 360,560 in 2008 to 110,494 in 2009, representing a decrease of 69.35 %.

Highest share value in 2009 was SR11.75 compared with SR 17.25 in 2008, while the lowest share value in 2009 was SR 9.10, compared with SR 8.85 in 2008.

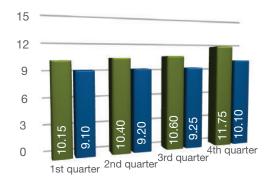
Description	2009	2008	Change (%)
Overall Saudi Capital Market Index	6,121.76	4,802.99	27.46%
Power and Service Utilities Sector Index	4,210.69	3,415.18	23.29%
Traded Shares Quantity	564,233,387	1,526,730,075	(63.04%)
Value of Traded Shares	5,689,486,868.15	20,797,308,761.85	(72.64%)
No. of Transactions	110,494	360,560	(69.35%)
Highest Share Value	11.75	17.25	(31.88%)
Lowest Share Value	9.10	8.85	2.82%
Share Closing Value	11.25	9.25	21.62%

<sup>\*</sup> The new sectors of the market were adopted as from 5/4/2008

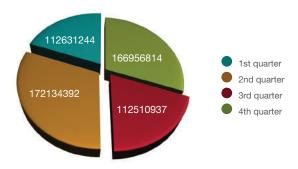
#### Traded Value of the Company Share During 2009



#### Highest/lowest Price of the Company Share During 2009



**Traded Share Quantity During 2009** 



### Major Events Of 2009



#### **January**

• Signing of two research agreements with King Saud University amounting to SR 3.1 million based on the Company's fourth program for research valued at SR 8 million Saudi Riyals.

#### **February**

- The Board of Directors held its third session naming Saleh Ibn Hussein Al-Awajji as Vice Chairman of the Board and Mr. Abdul Salam Ibn Abdul Aziz Al-Yemni, Senior Vice President for Public Affairs, as Secretary of the Board.
- The Company entered into two agreements with the Human Resources Development Fund to encourage Saudization programs.
- Addition of 2,009 MW to the Company's power generation capacity and electrification of 452 villages and settlements.

#### March

- The 13th Forum for Total Quality Management was held in the city of Abha.
- Members of the Board of Directors of the Company visited Power Plant 9 in the city of Riyadh.
- The Company announced the commencement of the home mortgage loan program for Saudi nationals which shall provide home ownership for a funding of up to 1.2 million Saudi Riyals.

#### **April**

- The Company participated in the Saudization Forum for the year 2009 which was organized by the Eastern Province Chamber of Commerce and Industry.
- The Company hosted the graduation celebration for 608 new employees at its training facilities.
- Recognition of the Chairman and Members of the Board of Directors in its session (2006-2008).
- The Company held its ordinary General Meeting chaired by Dr. Saleh Ibn Hussein Al-Awajji, Vice Chairman of the Board.

#### May

- Issuance of the Company's Annual Report for the year 2008, including the detailed plan for enhancing the power system (2009-2020).
- CEO met with journalists from Jeddah in the presence of Company's senior vice presidents and other officials. This event was arranged by the Public Affairs to tackle the issue of electrical services in the Eastern Province.



#### June

- 2,144 employees were granted mortgage loans amounting SR 2 billion; provided conditions of the bank are met.
- The Company was ranked among the top 100 Saudi companies in a report prepared by an independent committee based on the most accurate international standards.

#### July

- The Company concluded a financing agreement with the US Export-Import Bank and the Export Development Canada to procure generation units for its plants.
- The Company managed to raise SR 7 billion in the second issuance of Islamic Bond "Sukuk."
- Entry of the first unit of the Power Plant Extension Project in Wadi Al-Dawasir before its scheduled completion date.
- The first agreement for purchasing electric energy was signed with Rabigh Electricity Company.

#### **August**

- 2,300 MW of new power generation capacity was put into service.
- An agreement was concluded to draft the Corporate Governance Regulations for the Company.

#### **October**

- The Board of Directors agrees to award projects in power generation and transmission valued at SR 7.6 billion.
- · Inauguration of the academic research chair for load management with the King Abdulaziz University.
- The Company sponsored the Fifth GCC CIGRE in Riyadh.

#### **November**

• The Company prepared its operational plan for the year's Hajj pilgrimage season.

# **Financing Challenges**





### **Financing Challenges**





Since its inception and commencement of its operations dating back to the year 2000, the Company has confronted a number of challenges including the adoption of tariff meters for power consumptions that provide the Company with the necessary cash flows for power system projects expenditures in the fields of power generation, transmission, and distribution to enable the Company to match the increasing demand for electric power with high efficiency throughout the Kingdom. However, after a period of 7 months, the tariff was decreased by 30% without adopting a mechanism for compensating the Company which in turn resulted in the decrease of its revenues by SR 4 billion annually (SR 40 billion till year-end 2009). The decrease in revenues had the following impacts to the Company:

- · A number of projects related to the enhancement of power generating plants that were approved in the plan were postponed.
- · Projects for connecting the main transmission grids between regions were postponed.
- · The Company could not afford to replace generation units and old networks that have expired useful life.
- The Company could not afford to upgrade its generation capacities to provide enough power during peak times thereby rendering the power systems in the Kingdom to become deficient in the event the main generation units are down for hours during the summer season. It is commonly known in the power generation industry to have a power reserve of 15% to 20% capacity.

Under such circumstances, the Company paid special attention to enhance the power system according to its capabilities and available financial support. Till year end 2009, the Company has carried out projects in the fields of power generation, transmission, and distribution at a cost of SR 160 billion, and continued applying its financial policies aiming at boosting its financial position and promoting trust of investors in the Company and encouraging them to invest in the Company's projects. The Company has taken strides in terms of consistently encouraging local and international investors to participate in its power generation projects under the Program for Private Sector Participation in Electricity Projects aiming at promoting the factors for investment solicitation. In this regard, the Company introduced in 2009 the Rabigh Project in the Western Province as well as the Power Plant 11 Project in Riyadh which comes second in line within the Program for Independent Power Production which has a generation capacity of 1,800 MW and is scheduled for completion in the year 2013. Subsequent projects shall be introduced in the electric power generation industry as per plan.

During the last nine years, the Company spared no effort in implementing plans and programs that promote its capital, operational ability, and production capacities. In the field of power generation, the available electric power generation capacities reached 46,000 MW compared with 25,800 MW in the year 2000, a percentage increase of 73%, whereas the length of power transmission grids reached 43,000 ckm from 29,600 ckm in the year 2000 representing an increase of 45%. The lengths of distribution grids and electrical power connections reached 360,000 ckm representing an increase of 59% as compared to only 226,664 ckm during the year 2000. The Company continued its efforts aiming at maintaining, stabilizing, and optimizing power supply to its customers the number of which reached 5.7 million customers at year-end 2009 compared with 3.5 million customers in the year 2000 representing an increase of 57%. In addition, the Company continued applying its policies aiming to supply the towns and villages with electricity which resulted in an increase of 377 in the number of newly electrified towns and villages so that the total number of electrified cities, towns, and villages reached 11,800. Despite these achievements, it is clear that under a high rate of growth and increased demand for electric power at the rate of 8%, it is obligatory for the Company to execute more projects through a new strategic plan.

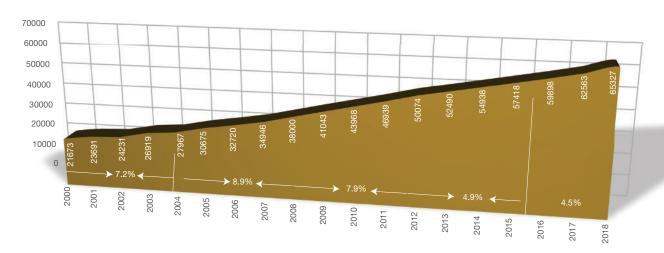
#### The following table shows the achievements of the Company till year- end 2009:

Description	2000	2009	Change
•			
Power Generation Capacities (MW)	25,800	44,582	72.8%
Length of Transmission Networks (ckm)	29,600	42,703	44.3%
Length of Distribution Networks and Electric Power Connections to Customers (ckm)	226,664	364,139	60.6%
Numbers of Customers (million)	3.5	5.7	62.9%
Number of Electrified Cities, Towns, and Villages	7,610	11,782	54.8%
Number of Employees	31,000	27,601	-11%
Job Nationalization Rate	73 %	85.12%	16.6%

#### 2009 -2018 Plan for Boosting the Electric System

The Company has adopted its second plan which covers the 2009-2018 plan period to boost and enhance its power systems and complete the transmission grid infrastructure projects. The objectives of the plan were based on the results of a study of potential future power loads which were estimated to reach 65,000 MW over the plan years. The actual loads for the following years were 21,000 MW in the year 2000, 23,000 MW in year 2001, 24,000 MW in the year 2002, 26,000 MW in the year 2003, 27,000 MW in the year 2004, 30,000 MW in the year 2005, 32,000 MW in the year 2006, 34,000 MW in the year 2007, 38,000 MW in the year 2008, 41,000 MW in the year 2009 and 43,000 MW in the year 2010. It is anticipated that such load capacities shall reach 46,000 MW by the year 2011, 50,000 MW by the year 2012, 52,000 MW by the year 2013, 54,000 MW by the year 2014, 57,000 MW by the year 2015, 59,000 by the year 2016, 62,000 MW by the year 2017 and 65,000 MW by the year 2018.

#### Illustration Showing Recorded and Anticipated Capacities in the Kingdom



# Financing Challenges

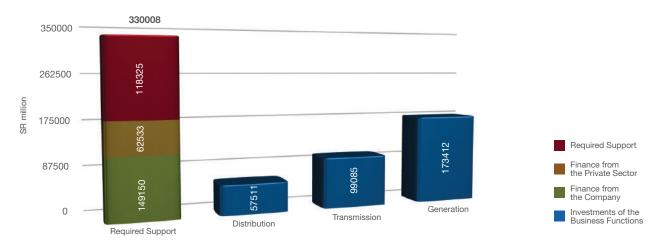




Based on plan expectations, the number of customers shall reach seven million six hundred thousand customers, and electricity supply shall be provided to more than 12,000 cities, towns, and villages by year end 2018. The Company has developed strategies necessary for improving the power system and determining the projects, some of which shall be jointly executed by the Company and the private sector; whereas the Company shall execute some other projects on its own. All such projects that have already been scheduled for implementation shall add over 32 thousand megawatts. The plan also includes a number of projects for electric power transmission, including the project for electric connection which shall become one of the largest projects executed by the Company which shall contribute to a more effective interchange of electric power throughout the regions of the Kingdom, ensure more economic operation of the generation units, and boost the Kingdom's electric system. The plan also includes a number of projects in the area of electric power distribution, and a number of substations throughout the regions of the Kingdom.

The total capital investment value of the plan amounts to SR 330 billion of which the power generation projects shall cost SR 173.4 billion, SR 99 billion for transmission projects, and SR 57.5 billion for distribution and customer connection projects through all the regions of the Kingdom.

#### Required investments for major business functions till the year 2018 compared with finance sources:



#### **Notes on Required Investments**

The Company requires additional funding sources to help in achieving future plans and programs to ensure additional cash flows which can be achieved by either revising the consumption tariffs for some customer categories or through direct support from the government by providing soft loans or by directly investing in some projects.

Inability to secure timely required funds shall result in the Company being unable to proceed with the necessary action to meet the increasing demand for power, resulting in failure to provide electric power supply to some customers including industrial customers which may have its adverse impact on the total economic development.



#### **Credit Rating**

In the year 2007, the Company sought out new funding sources for its projects by issuing Islamic bonds "Sukuk," obtaining loans from local and international entities, and soliciting investors for independent power production projects.

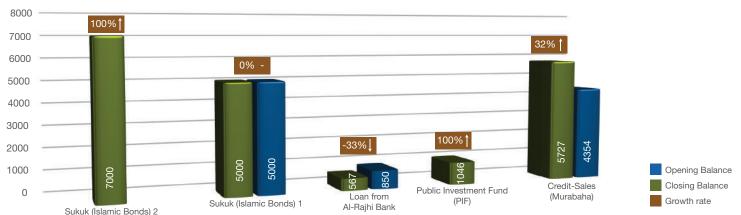
In order to attain such goals, the Company had to obtain high creditworthiness ratings to ensure success in marketing its projects for favorable terms, conditions, and lower costs without providing any guarantee, be it financial or in-kind. In this context, we partnered with three international credit rating agencies. These agencies namely Moody's, Fitch, and Standard and Poor's have assigned the following credit ratings to the Company.

Credit Rating Agencies	2009	2008	2007
Moody's Corporation	A1	A1	A1
Fitch Inc.	AA-	AA-	A+
Standard and Poor's	AA-	AA-	AA-

#### **Borrowings from Local Banks**

Current Loans Up to Year-end 2009 (in million Saudi Riyals)	Year-End 2009	Year-End 2008
Credit-sales (Murabaha)	5727	4354
Loan from Al-Rajhi Bank	567	850
Public Investment Fund (PIF)	1046	0
Total	7340	5204

#### **Current Loans**



# **Financing Challenges**





#### **Incorporation of Electricity Sukuk Company**

The main objective of the Electricity Sukuk Company is to promote and enhance the marketing of bonds and Sukuk in the Kingdom's capital markets and to participate in creating a minor market for future trading of these securities. Accordingly, the Electricity Sukuk Company was established during the year 2007.

#### Sukuk Issuance

In view of its huge capital projects, be they current or future projects, the Company being unable to afford their funding has sought to find alternative long-term financing sources and channels. The issuance of a brand-new type of Islamic bond was among the alternatives. The major reason behind turning to this source of funding is to diversify the funding sources and rely on a wider base of financiers and to decrease financing costs by issuing low cost bonds instead of borrowing through a traditional method of lending.

Hence, we issued bonds for the Company in the year 2007, maturing in the year 2027, valued at SR 5 billion marking the largest issuance of this type in that period. HSBC-Saudi Arabia Ltd was then assigned the lead manager and sole recipient of offerings.

In July 2009, after receiving a rating of AA- from one of the world's major credit rating agencies "Fitch Incorporated," the Company issued Islamic Bonds valued at SR 7 billion maturing in the year 2029.

Despite the circumstances being witnessed in the global market, the issuance received an overwhelming response from investors as subscription offers exceeded SR 20 billion which indicated an increase of approximately three folds of the targeted sum. Issuance was priced at 160 basis points above SIBOR for a period of three months, which according to experts is an attractive rate. The issuance was named the best in the year 2009 in the Kingdom by the Islamic Financing News magazine.

The success of the issuance showed that local investors are interested in the Company despite current global financial crisis.

#### **Current Sukuk Up Till Year 2009 (million Saudi Riyals)**

	Year-End 2009	Year-End 2008
Sukuk I	5000	5000
Sukuk II	7000	0
Total	12000	5000



#### **Diversification of Finance Sources**

By having a clear understanding of the significance of finance in the timely implementation of projects, the company took proactive steps to seek out new ways for securing funds.

Notwithstanding the foregoing, the Company has begun to search for new funding sources for its huge projects with positive results. The Company has ascertained that among the financing sources available is to obtain loans and guarantees from agencies and banks of exports promotion in developed countries, such as the USA, Canada, and a number of European and Asian countries to issue Islamic bonds locally and internationally in the near future.

#### **Financing through International Markets**

The Export-Import Bank of the United States (Ex-Im) and Export Development Canada

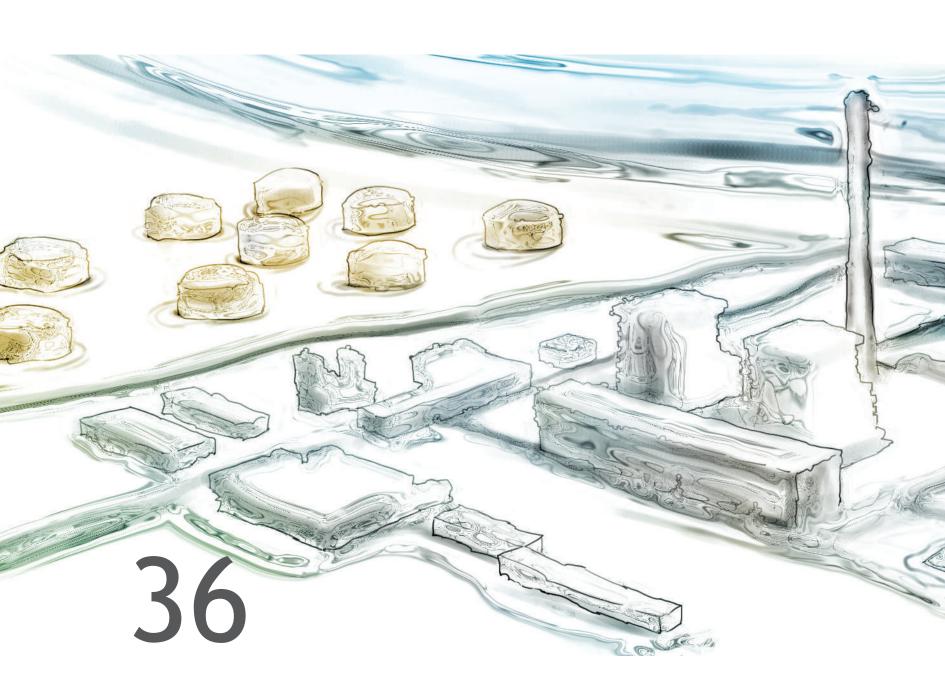
International agencies for export promotion were reluctant in providing credit to Gulf corporations due to uncertainty of these companies' positions, especially group companies. Yet in spite of unfavorable circumstances the Company was able to secure a loan of SR 2.4 billion (US\$ 1.1 billion dollars) during the fiscal year 2009 from the Export-Import Bank of the United States and Export Development Canada.

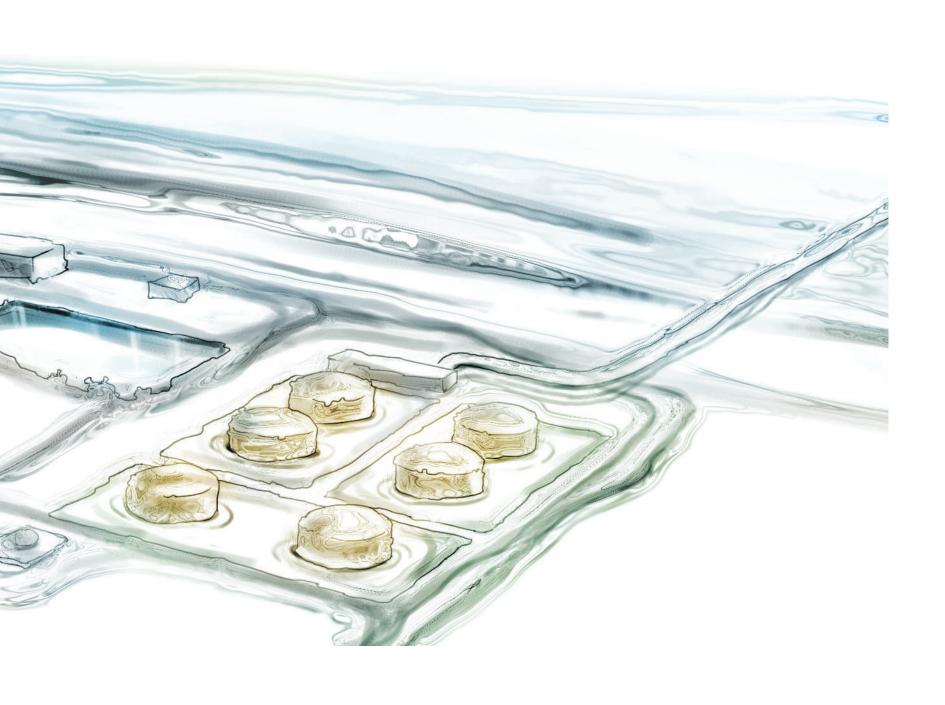
By this, the Company achieved the following goals:

- Direct finance from such entities despite the fact that they often grant only guarantees; but for the Company it was a special case.
- Loan term is up to 12 years.
- · Very favorable and fixed interest rate.

This success led to the signing of the agreement with Export-Import Bank of the United States in order to enhance the trust of investors in the Company thereby contributing to a successful second issuance of Sukuk.

### **Program for Private Sector Participation in Electricity Projects**







In compliance with the Kingdom's policies with respect to privatization and competitiveness, the opening of opportunities for the private sector to invest in the electric power industry, and in recognizing the large-scale economic development being witnessed in the Kingdom requires the establishment of a large number of power generating stations, the Company has already taken significant steps to encourage the private sector to invest in the electric power generation projects. A dedicated taskforce was formed and assigned the task of overseeing the related program. In addition, agreements were made with renowned group of experts having technical, financial and legal know-how, and specialized experience in the area of investment in the projects of electric power production.

In 2007, the Company adopted the "Program for Private Sector Participation in Electricity Projects" and is currently working on the preparation of the documents required for soliciting offers so that such projects shall be offered to the investors to invest therein under a long-term build-own-operate scheme. Within the first phase of this program are three projects with a required estimated investment value of over SR 29 billion. Details are as follows:

- The first project shall be in Rabigh in the Western Region, with a capacity reaching 1,200 MW. This Project has been awarded during the second quarter of 2009 to the successful bidder. The project shall be completed in 2013.
- The second shall be in Riyadh, with a capacity estimated at 1,800 MW. During the second quarter of 2009, the Company introduced the project to the private sector for bids. Five bid proposals to build-own-operate from prequalified developers were received and opened and are currently being studied and analyzed in terms of their commercial, technical, and legal aspects to identify the successful proposal. It is expected to conclude the preparation and signing of commercial agreements as well as financial closing of the project by the end of May 2010. The first stage is expected to be completed in May 2012 and the project shall start operation in 2013.
- The third shall be in Al-Qurayyah in the Eastern Region, with a capacity of 2,000 MW. In the first half of 2010, the Company plans to invite interested bidders to express their willingness to participate in such project. This project is scheduled for completion in 2015.

We continued dealing with accelerated growth in demand for electric power which is estimated at 8% per annum. By 2018, the number of power generating plants to be operated jointly with the private sector shall reach 6 generating plants having a capacity of 10,530 MW to cope with the increased growth in demand for electric power from various economic activities and to achieve a reserve generation capacity of no less than 10% during peak time.

Our concern on the issue of investment in electric power generation is based on many factors which include a decree from the honorable Cabinet as regards the restructuring of the electricity sector which provides for private sector, local or foreign, to participate and invest in the fields of power generation and transmission. Consequently, we directed our attention and efforts to this critical area in order to prepare the power industry for competition by giving the opportunity to the private sector to invest and participate in the Company's electricity projects. In addition, the enormous and accelerated economic growth in all fields being witnessed in the Kingdom has raised the demand for electric power, rendering the Company in need to upgrade its power generation and distribution capacities by implementing a number of projects which require enormous investments in build-own-operate scheme through borrowing and partnering with the private sector in power generation.



Project	Production Capacity of the Project (MW)	Percentage of the Private Sector Share in the Capital	Completion Date	Purchase of Power
Projects of phase I in the Program for Private Sector Participation in Electricity Projects (IPP)				Уu
Rabigh IPP (in progress)	1200	80%	2013	shall be purchased by the Saudi Electricity Company
Riyadh Power Plant 11 IPP (closing phase)	1730	50%	2013	
Al-Qurayyah IPP (under preparation)	2000	80%	2015	urchased by tl
Projects of phase II in the Program for Private Sector Participation in Electricity Projects (IPP)				ts shall be pi
Dheba IPP (planned)	1600	80%	2016	of such projec
Al-Shuqaiq IPP (planned)	1600	80%	2017	Full production of such projects
Ras Alzor IPP (planned)	2400	80%	2019	Ē

## **Human Resources**

## 85.12%

Nationalization rate rose to 85.12% of the 27,601 employees constituting the total workforce of the Company at year-end

In 2009, we provided the Company employees with 54 "I-Learn" training programs (computer assisted learning) consisting of 153 training courses covering a wide variety of subjects.

Total number of creative ideas presented through the Innovation Program was 3,072 of which 1,497 were approved, 439 of which were presented in 2009.



40



## Human Resources



#### **Our Major Achievements**

We continue our efforts aiming at investing, motivating, and developing the employees given the fact that recruitment, qualification, and training of the human resources contribute to ensuring the desired growth, enhancing the productivity efficiency of the Company, and developing its overall performance on the long run. Based on our belief in the importance of the human resources as a critical power for the success in the radical change processes which aim to develop the overall performance and transformation to business-oriented operation approach, our efforts continued during 2009 to work as a joint organizational, supporting unit in terms of continuous planning and development of the Company employees in order to effectively contribute to the realization of the Company's mission which requires highly efficient, qualified, and trained workforce capable to adapt with the accelerating developments of the Comapny's business environment.

We, therefore, give special emphasis to human resource development by providing carefully structured specialized programs for the selection and development of employees and planning their careers in such way that would ensure permanently filling in all positions in the Company with highly competent employees.

In the area of prequalification and training to meet the Company's requirements for various technical and administrative functions, 575 graduates of the Company training institutes were successfully absorbed in 2009 into the Company's On-the-Job Training Program, bringing the total number of on-the-job trainees to 1,299. Furthermore, 424 university graduates were employed and have joined the Professional Development Program, bringing the total number of university graduate employees registered in this program to 836 at year-end 2009. To further develop our employees' skills, numerous short courses were conducted, and the total number of participants therein reached 28,598. We also provided developmental programs designed for our professional and managerial employees with a view to preparing and qualifying them to fill higher positions and to perform more complex tasks within their careers. Examples of such programs are the Career Development Program and the Leadership Program. The total number of participants in both programs was 11,873 employees.

We have also adopted a modern developmental program, namely the Competency-Based Development Program, as a non-conventional step towards the development of human resources. Such program serves the other developmental programs and constitutes a powerful support to the replacement processes of the Company. Furthermore, we have adopted a special program for the development of the promising employees with the specific objective of creating adequately integrated organizational channels devoted to take care of Saudi university graduate employees who show proven talents and personal aptitudes to assume further specialized and leadership responsibilities in 2010.

To encourage self-development, we made available to our employees 54 training programs in 2009 through the computer-assisted self-study program called "I-Learn" which includes 153 training courses covering a wide range of administrative and technical subjects to enable our employees to efficiently and effectively perform their given tasks. A total of 6,433 courses have already been delivered through this program, and 2,033 employees have benefited from it. Given the importance of performance management in promoting the standard of business and its personnel, we have adopted a sophisticated performance management system using the world's best known practices and applications. In our efforts to ensure that our employees absorb such a system, and for us to expand the responsibility base in the application of such system to cover all functions, sectors, and departments, we have already provided 49 training courses on performance management to the benefit of 820 participants. Also, educational symposia covering the same subject have been delivered and joined by 867 participants coming from all divisions in the Company.

We have also continued the implementation of the Total Quality Management Program. In 2009, ninety-four (94) teams were formed and specifically assigned the task of enhancing the key operations carried out by the business units in various managerial levels. Total number of Total Quality Management teams formed from the time the program was first introduced has reached as many as 1,541 teams which came up with 7,367 recommendations, of which 6,202 have been adopted and helped in enhancing

Within the framework of the Innovation Program, total creative ideas presented were 3,072, from which 1,497 ideas were approved, of which 439 were presented in 2009. Providers of the approved ideas were honored which significantly encouraged the employees of the Company to submit more contributions to the Program.

various operations, upgrading their efficiency, reducing their operating costs, and promoting the services rendered to both the internal and external customers.

Also, within the Excellence Program, a program aiming at honoring excellent employees, 1,657 employees were honored which raised the total number of excelling employees to 6,577 employees since the start of the program. Furthermore, 415 high performers were honored in 2009 which raised the total number of honored high performers to 2,321 employees from the time the program was first introduced.

We held the 13th Annual Forum for Total Quality Management under the theme "For Effective Implementation of Total Quality Management" on 10-11/03/2009 in the City of Abha as the Company seeks to develop the skills and capabilities of its employees, to develop and start an exchange of information about comprehensive quality control. The Forum was attended by 650 specialists and concerned parties from within and outside the Company. A total of 17 papers were submitted, while 10 improving and distinguished team members and 10 best creative proposals from all activities of the Company were honored. The Company has also participated in a number of forums and seminars held by external entities where the achievements of the Company in the field of total quality management were presented.

Moreover, we accomplished the application of Balanced Scorecard which is based on modern technologies used in managing performance of facilities. It is an administrative system and strategic plan for evaluating activities and performance of facilities based on their vision and strategy. This system is used to create balance between financial measures and customer satisfaction and between the efficiency of internal operations, areas of learning, development, and creativity in a facility. We are still working on the project that shall be applied in four phases. By the end of the fourth phase at year-end 2012, it shall have been applied in all relevant functions, departments, and human resources activities, and shall have provided support to the recipients by means of intensive workshops targeting all participants in the project.

During 2009, we completed the second phase of the project covering the activities of the Generation, Distribution and Customer Services, Finance, General Services, Human Resources, and Planning and Programs. The third phase was entered into with a consultant; 50% of the tasks have been completed for the activities of the Internal Audit, Legal Affairs, and Public Affairs. Seventeen (17) workshops were held for all sectors of Transmission, Distribution and Customer services, Planning and Programs and 6 meetings were held with sector directors providing two training days and 29 workshops to 12 sectors.

As a result of our ongoing efforts to prequalify, develop, and prepare our university graduate employees as well as graduates of the Company's training institutes to join the Company workforce and activate the replacement programs, we have managed, by the end of 2009, to raise the nationalization rate to 85.12% of the 27,601 employees constituting the total workforce of the Company, compared with 84.86% in 2008.





#### **Mortgage Loan Program for Saudi Nationals:**

The Company has adopted a Mortgage Loan Program for Saudi nationals through the local banks and in accordance with legal regulations, benefits, terms, and procedures issued and posted for Company's employees. This program which was adopted in 2009 has several characteristics:

- Funding method is compatible with the Islamic Sharia (Murabaha).
- Provides the opportunity for the employees to own a house or have a house built on the land they own, or obtain full funding to complete the construction of the house they own.
- Repayment term for the funding is 20 years.
- Funding amount is calculated according to the equation used by the bank, provided funding value does not exceed one million two hundred thousand riyals.
- The Company bears 70% of the funding costs (profit margin of the bank), whereas employee is responsible for the remaining 30% of the costs. The Company's support continues until the amount is paid during the employment of the employee. Such support ceases if his employment is terminated for any reason. A total of 8,088 employees met the conditions of the mortgage loan program, of which 871 employees have completed the bank procedures, whereas 414 employees are still in the process of completing the procedures to obtain a mortgage loan.

#### **Activate the Internal Communication within the Company:**

The business activities of the Saudi Electricity Company comprise an integrated framework of activities which require inter-communication between these activities to achieve the required level of coordination and cooperation. Due to the positive impact of inter-communication in a work environment which strengthens loyalty of the employees and improves the operational activities of the Company, the outcomes of the previous meetings have been reviewed and alternative proposals have been studied to start internal communication program within the Company.

The program aims to activate a communication process within the Company, seeking to create a work environment wherein the members can communicate and dedicate their work in a team spirit fashion and through the following discussion meetings:

#### **Weekly Discussion Meeting with the CEO:**

This meeting is held simultaneously with the weekly discussion meetings held in all operating areas either through video or telephone conference for a period not exceeding 15 minutes. The CEO delivers his message and information to the operating areas after which the local areas shall continue with their local area meeting.

#### **Weekly Discussion Meeting in Operating Areas:**

This meeting is simultaneously held in all operating areas with the CEO. Any information or messages is communicated in the first 15 minutes to all attendees comprising the executive management.

### **Meeting of the Coordinating Administrative Committee:**

This meeting of the activity representatives aims to discuss information pertaining to the business status and updates on Company's projects, discussing the difficulties and issues being encountered, developing and adopting appropriate solution and submitting the same to the proper approving authority who shall then make a suitable decision.

#### **Communication Meetings within Organizational Units:**

The aim is to exchange information and updates on issues pertaining to the Company within the organizational unit and at various levels:

- First Level: Activity representatives with line management heads/direct managers
- Second Level: Line management heads with department managers/ direct managers
- Third Level: Department managers with division managers/direct division heads
- · Fourth Level: Division managers with section managers/direct section heads
- Fifth Level: Section managers with units heads
- · Sixth Level: Unit heads with unit staff
  - 25,598 employees participated in specialized courses in various disciplines.
  - 424 university graduates were employed and have joined the Professional Development Program for university graduates.
  - 575 graduates of the Company's training institutes were employed in the Company in 2009, thereby bringing the total number of on-the-job trainees to 1,299 by year-end 2009.
- Job nationalization rate rose to 85.12% of the 27,601 employees constituting the total workforce of the company.
- Total number of creative ideas presented through the Innovation Program was 3,072 of which 439 were presented in 2009.

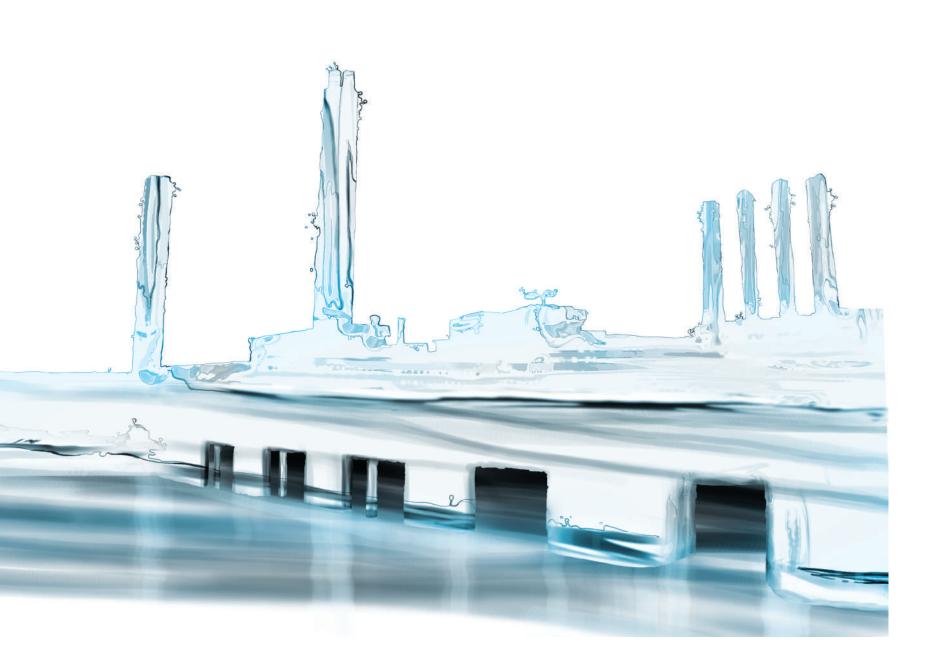
## **Generation**

10%

Growth of actual generation capacities to 37,913 mw.

Growth of available power in 2009 by 13.4% to reach 44,485 mw compared with 39,242 mw in 2008.





# Generation

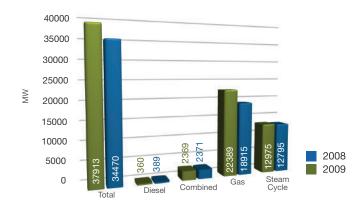


#### **Our Major Achievements**

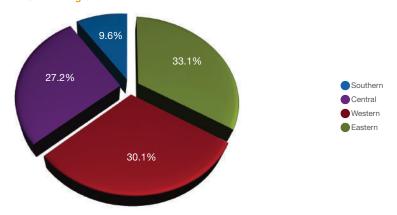
Based on our mission as a business function with a task to provide adequate, highly reliable electric energy, and to reduce the cost of producing electric energy by the optimum utilization of available resources, the Generation business function constitutes a major activity of the Company given that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

In 2009, the percentage rates of contributions of the desalination plants, the large customers, as well as the rental diesel units during the peak period were 4.4%, 8.7%, and 1.7%, respectively, of the total available generation capacity. By year-end 2009, the Company's generation stations in the Central, Eastern, Western, and Southern regions yielded 27.2%, 33.1%, 30.1%, and 9.6%, respectively, of the total generation capacity of the Company. The Company is keen to increase the economic efficiency of its generation units, taking into consideration that both gas and steam generation units account for the highest portion of the actual generation capacity of all the power generating stations of the Company, with 59.1% and 33.7% from gas and steam power stations, respectively, while the combined cycle units yielded 6.2% and 1% from the rental diesel units of the overall actual generation capacity of all the power generating stations of the Company.

#### **Actual Generation Capacities by Unit Type**



## Percentage Distribution of Generation Capacities By Area of Company Owned Generating Units in 2009



The growth in the actual generation capacity reflects the constant efforts of the Company to keep up with the required electric power to meet the requirements of the national network. During the year 2009, a number of projects were launched to boost up the generation capacity of the Company's power generating stations by a total capacity of 3,510 MW. The major outcomes of such projects include:

#### **Central Sector**

- Power Plant 8: Four (4) gas units with total capacity of 480 MW
- Wadi Al-Dawasir Power Plant: One (1) gas unit with a capacity of 55 MW



#### **Western Sector:**

• Rabigh Power Plant: Twelve (12) gas units with total capacity of 720 MW.

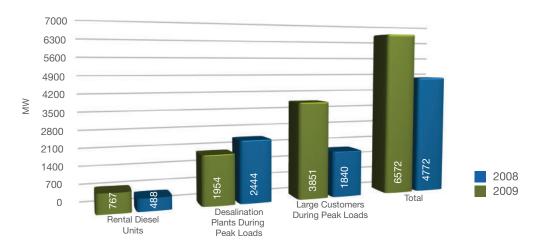
#### **Eastern Sector:**

- Faras Power Plant: Four (4) gas units with total capacity of 512 MW
- Qurayyah Power Plant: Eleven (11) gas units with total capacity of 1,408 MW

#### **Southern Sector:**

- Jizan Power Plant: Three (3) gas units with total capacity of 198 MW
- Tihama Power Plant: Two (2) gas stations with total capacity of 120 MW
- Sharurah Power Plant: One (1) gas unit with a capacity of 17 MW

#### **Purchased Generation Capacities by Source**



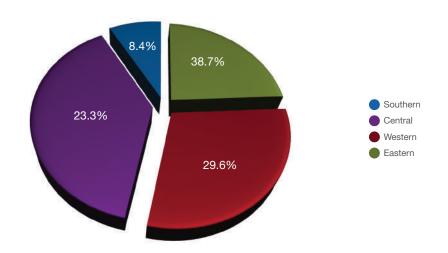
## **Generation**



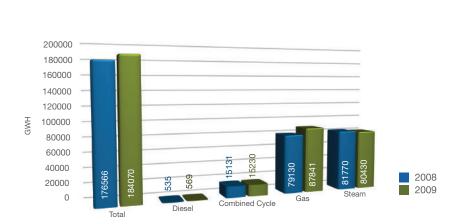


#### **Total Available Capacity**

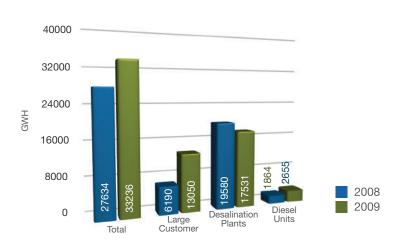
Percentage Distribution of Total Available Capacity by Area in 2009



#### Power Produced by the Company's Power Generating Stations by Unit Type



#### **Purchased Power by Source**



The total available capacity achieved in 2009 reflects a growth of 13.4%, bringing up the total available capacity to 44,485 MW, compared with 39,242 MW in 2008. The rental diesel units, desalination plants, and large customers contributed, at peak load time, 767 MW, 1,954 MW and 3,851 MW, respectively, bringing up their joint contributions to 6,572 MW which reflect the new trend adopted by the Company in terms of forming strategic partnerships in order to diversify the generation sources and increase the national generation capacity to keep up with the increasing demand for power. The Company spares no effort in raising the operational performance in order to build an acceptable power reserve having a range of 10-15% of peak load, boosting and developing the infrastructures of the generating station facilities which constitute, in terms of its fixed assets alone, 34% of the Company's net fixed assets.

By the end of 2009, the total produced energy by the Company's power generating stations was 184,070 GWH, representing a growth rate of 4.3% as compared with 2008. By comparing the Company's total produced energy with the total contributions of the rental diesel units, desalination plants, and large customers' plants totalling 33,236 GWH representing a rate of 15.3%, the Company has contributed 84.7% of the total available power. This reflects our commitment to meet the requirements of the national power network. The energy transmitted to the networks constituted 97.4% of the total available energy amounting to 211,611 GWH, compared with 198,809 GWH in 2008.

#### **Readiness Generation Capacities During 2009:**

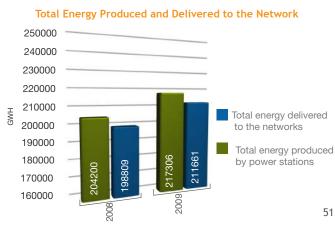
Readiness rate of the steam units during 2009 was 83.6%, compared with the 86% planned rate, which was due to extended shutdown of certain generation units in the Eastern and Western Sectors. Readiness rate of the gas units was 83.4%, compared with the 85% planned rate, which was due to shutdown of the gas units in the Central Sector. As for the combined cycle units, readiness rate was 84.3%, compared with the planned 83%, while such rate for the rental diesel units was 95%, compared with the planned 89%, which indicates that the planned target was achieved.

#### **Emergency Shutdown Rate During 2009:**

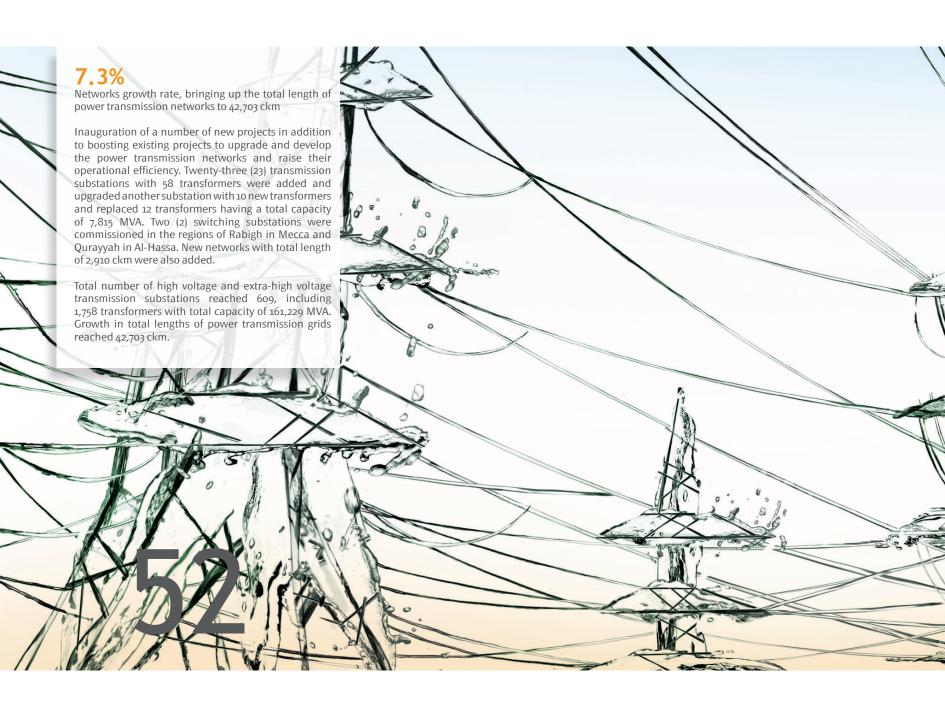
Emergency shutdown rate of the steam units was 0.40 compared with the planned rate of 0.53; as emergency outage coefficient improved and so the planned target was almost achieved. Such shutdown rate for the gas units was 3.95, compared with the planned rate of 4.15, due to the shutdown of certain generation units in the Central and Eastern Sectors. The shutdown rate of the combined cycle units was 1.26, compared with the planned 2.71. The rate for the rental diesel units was 0.81 compared with the planned 1.07, due to shutdown of some units in the North Eastern Sector.

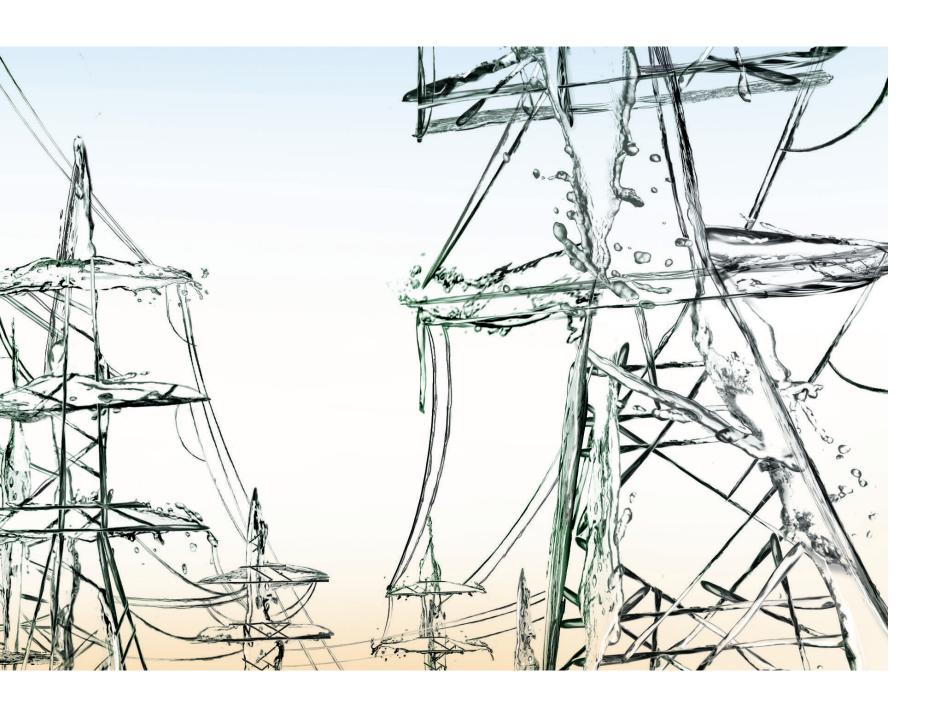
#### Planned Objectives of the Maintenance Programs During 2009:

One hundred thirty-one (131) comprehensive maintenance jobs were performed as compared with planned 105 representing an increase of 26 maintenance jobs over plan, and 109 medium maintenance operations were conducted, representing 14 maintenance jobs less than the planned 123. As for moderate maintenance, there were 230 maintenance operations performed compared with 252 planned operations representing a decrease of 22 maintenance operations resulting from an increase in comprehensive maintenance jobs due to emergency breakdowns and conversion of medium and moderate maintenance jobs into comprehensive maintenance jobs.



## **Transmission**







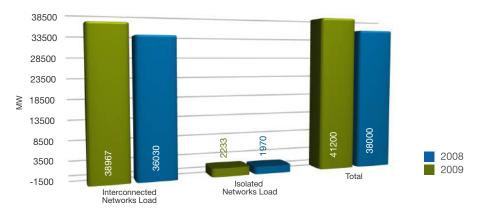


#### **Our Major Achievements:**

We pay great attention to the operation of the national power network with high reliability to ensure that power is supplied to the load centers throughout the Kingdom through our power transmission networks (380/110 KV). This reflects our commitment in all our operational and capital work to accomplish our mission as a business function to ensure a smooth, stable, and uninterrupted transmission of electric power from its production sites to its consumption locations at the lowest possible costs in addition to providing opportunities to all power producers and large customers to use the power transmission facilities at reasonable prices. A major achievement in respect to our operation is our successful preservation of the stability of the national power network during 2009 and our highly efficient dealing with the increasing demand for electric supply.

Peak load in various regions of the Kingdom in 2009 reached as high as 41,200 MW representing a growth rate of 8.4% over 2008. Peak load contributions of the interconnected networks and isolated networks increased in 2009 by 8.2% and 13.4% respectively as compared with 2008. Maximum load of interconnected and isolated networks in 2009 reached as high as 38,967 MW and 2,233 MW respectively.

Peak Load



The year 2009 witnessed the launching of several new projects in addition to boosting existing projects for enhancing and developing the power transmission network and upgrading its operational efficiency.

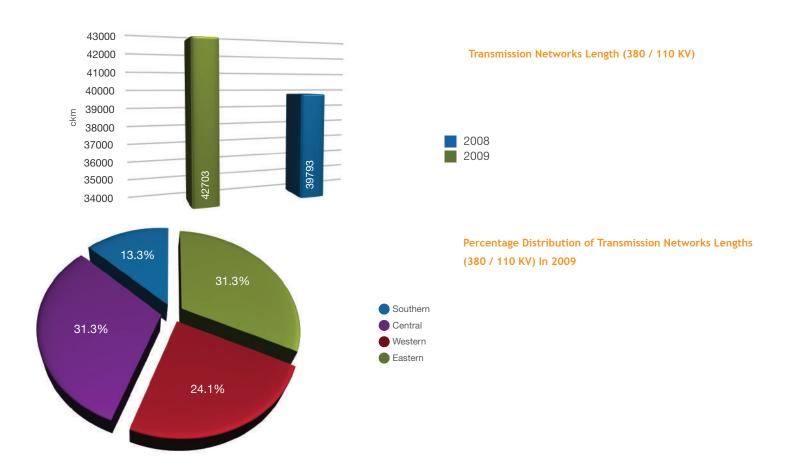
#### Extra-high Voltage 380 /230 KV:

- Addition of 3 new substations with 3 transformers having a total capacity of 1,500 MVA.
- Addition of new overhead line circuits and underground cables having a total length of 1,783 ckm.
- Commissioning of 2 switching substations.
- Boosting 4 existing substations with 4 transformers having a capacity 2,002 MVA as well as power breakers.

#### High Voltage 132/110 KV:

- Addition of 20 new substations with 55 transformers having a total capacity of 3,524 MVA.
- Addition of new overhead line circuits and underground cables having a total length of 1,127 ckm.
- Boosting 28 existing substations by adding 6 new transformers and replacing 12 transformers with a total capacity of 789 MVA.

Such added projects reflect the growth in the power transmission networks by 7.3% which brought the total transmission network length to 42,703 ckm at year-end 2009, compared with 39,793 ckm in 2008. The percentage rates of distribution of the transmission networks in the Kingdom are 31.3%, 31.3%, 24.1%, and 13.3% in the Company's Central, Eastern, Western, and Southern operating areas, respectively.

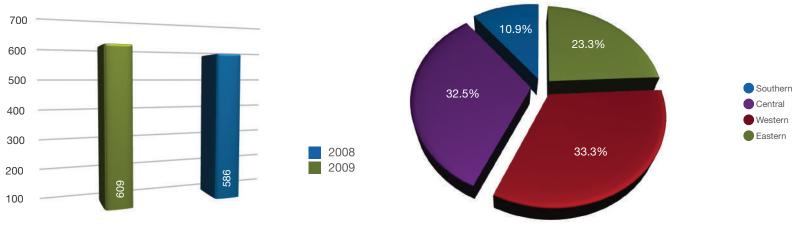






#### Number of Power Transmission Substations In 2009

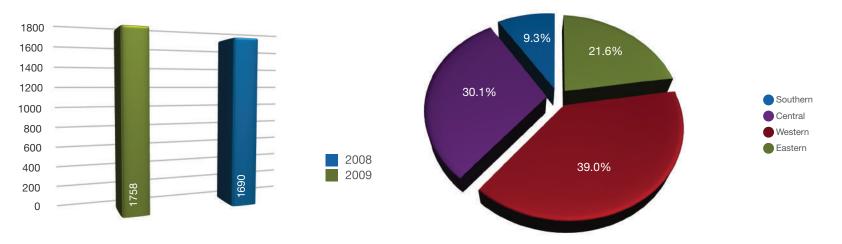
Percentage Distribution of Power Transmission Substations In 2009



Furthermore, the power transmission networks were boosted up with the addition of 23 new substations, bringing the total number of transmission substations to 609 by year-end 2009, representing a growth rate of 3.9% over 2008. As a result of this growth in the number of transmission substations, the overall percentage rates of distribution of the Company's power transmission substations in the Central, Eastern, Western and Southern regions were 32.5%, 23.3%, 33.3%, and 10.9%, respectively.

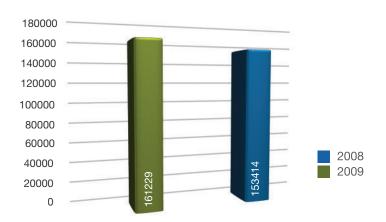
**Number of Power Transmission Transformers** 

Percentage Distribution of Power Transmission Transformers In 2009



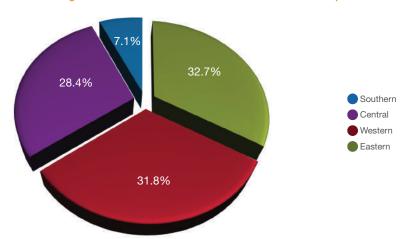


#### **Total Power Transmission Transformer Capacities**



and Southern operating areas in 2009 were 28.4%, 32.7%, 31.8%, and 7.1%, respectively.

#### Percentage Distribution of Power Transmission Transformer Capacities In 2009



Based on its plan for completing the strategic electric power connection between different parts of the Kingdom, the Company is implementing a project to interconnect the Western Region (Madina) and the Central Region (Al-Qassim) via a 380 KV grid line in addition to a project aimed at interconnecting the Western Region (Shoaiba) and the Southern Region (Al-Shuqaiq). These two projects shall commence operation during 2010, representing 80% of the strategic interconnection plan in the Kingdom.

The first phase of the GCC interconnection grid has been commissioned linking the grids (380 KV) of the Kingdom of Saudi Arabia with Kuwait, Qatar, and Bahrain.

During this year, the first special IPP project in Al-Shoaiba (Holy Mecca) having a production capacity of 900 MW has been connected, in addition to the commissioning of the first phase of the Marafiq Jubail Project with estimated power production capacity of approximately 2,750 MW upon completion next year.

The Company has issued request for tenders on projects for the connection of Al-Jouf region in Hail. The contracts shall be awarded in the year 2010. The Company has prepared documentations related to the project for series compensators between Al-Qassim and Madina to enhance connection capacity between the two regions. This project shall be introduced and awarded during the first half of 2010.

## **Distribution And Customer Services**

#### 5.18 %

Growth in the number of customers, bringing up the total number to 5,701,516 customers

Electricity was supplied to 304,522 new customers and 377 villages and settlements were electrified, bringing the total number of electrified towns, villages, and settlements to 11,800.

Boosting the distribution networks by adding 20,428 transformers having a total capacity of 8,648 MVA, as well as added distribution networks length of 19,464 ckm. At the end of the year, the total number of transformers reached 306,107 having total capacity of 142,506 MVA, with total distribution networks length of 346,139 ckm.



58



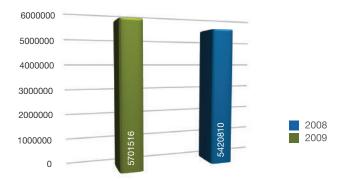


#### **Our Major Achievements:**

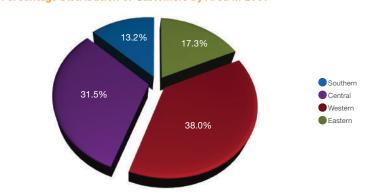
We constantly pursue development of our products and services and ensure that power utility requirements meet the expectations and needs of the customers. Being a business function having direct and constant contact with the customers, we focus our efforts on achieving our mission, including providing safe and highly reliable power supply, continuously upgrading our services in order to achieve customer satisfaction at the lowest possible cost through the optimum utilization of our available resources. By the end of 2009, the total number of customers reached 5,701,516, representing a growth rate of 5.18% as compared with 2008. During 2009, the number of new customers reached 304,522, whose percentage rates of distribution in the Company's Central, Eastern, Western, and Southern operating areas were 32%, 20%, 31%, and 17%, respectively.

The percentage rates of distribution of the total number of customers in the Company's Central, Eastern, Western, and Southern operating areas were 31.5%, 17.3%, 38%, and 13.2%, respectively.

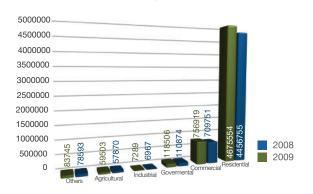
#### **Total Number of Customers**



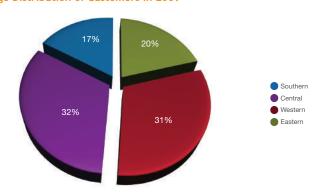
#### Percentage Distribution of Customers by Area In 2009



#### **Total Number of Customers by Category**



Percentage Distribution of Customers In 2009





#### Serving the Two Holy Mosques and the Holy Sites:

By the end of 2009 the operational plan for the pilgrimage season of the year 1430H was successfully implemented with high efficiency and without any significant power interruptions. We, therefore, achieved an unequalled success in the provision for the required electric service for ensuring the convenience of the pilgrims in Mecca and all holy sites as well as in Madina. The plan included removing all existing networks found within the project locations affected by the extension projects in the northern yards of the Holy Mosque in Mecca and re-supply them with the most highly reliable electric networks. In addition, we completed a study and obtained approval for supplying electricity to the Ajyad Project located adjacently to the Holy Mosque, and to conduct a study of the electrical design for the Jabal Omar Project's distribution grids in Mecca and an approval for a temporary power connection (22 MVA) for the Pilgrims Housing Project in the central region of Mecca. With these accomplishments, the Company continues its coordination efforts with the contracting party, implementing the overhead monorail train project for the holy sites and the rail project for the Two Holy Mosques.

#### **Customer Service:**

Within our constant focus on the development of services we provide to the customers, a process for the operation of a call center was developed to respond to queries of customers during regular working hours in all electricity departments in the Central and Western sectors, as well as the development of the voice response system (IVR). Also, the field survey for updating customer data in the system was accomplished. The Company organized informational workshops for its staff which were attended by 277 employees.

We also have expanded our service to provide electronic services to the customers by introducing SMS service. The total number of subscribers to the SMS service reached 1,164,441 at year-end 2009 while the total number of SMS sent was 20,620,368.

We also have expanded the system for the electronic delivery of electric bills (E-Bills) through which electric power consumption bills are sent to the customer's e-mail address if he has already registered to this service; the Company's website has also been developed.

As regards customer bills, we inaugurated this year a program supporting the payment of electricity bills for beneficiaries under social welfare. The system was configured in order to help the program to succeed. Consequently, we obtained the consent of the Islamic Affairs Ministry to approve a total of 3,826 private mosques for the payment of their debts amounting to SR 9,794,657 in order for them to be included in the group of registered mosques with the Government.

#### **Performance Enhancement of the Networks:**

During 2009, the electric network voltage was converted from 13.8 KV to 33 KV in some remote rural areas such as Al-Suwadera in Hunaykah and At-Thamad in Khaybar to reduce power loss and improve the voltage capacity for the customers. The first and third phases of the project for voltage change in Mecca were commissioned thereby changing the voltage from 11 KV to 13.8 KV, whereas the second phase is still in progress and the Company is commencing the fourth phase of the project which comprises four stages. A study was conducted about energy losses in steam network, while a study of the technical losses in the Southern Province was awarded to a local specialist consultant.



Within the efforts exerted to optimize performance of the networks, network accountability devices were installed for grids experiencing low voltage and repeated interruptions. Swift recovery programs were supported after the interruptions by using portable generators in the distribution grids and activating the use of flexible cables for medium voltage and portable units to accelerate the return of power to the affected areas.

In this context, a large number of enhancements and optimization projects for the Riyadh network were commissioned at a total cost of SR 124 million, with the replacement of and increase in capacity to 70 distribution substations in a number of locations in Riyadh. A number of transmission substations were connected to the national grid to meet the accelerated demand for electric power in Riyadh, Hail, and Qassim.

Skaka Industrial Plant II with voltage capacity of 33/11 KVA was commissioned including two transformers of 25 MVA each for a total capacity of 50 MVA as well as the commissioning of 1-CC1 and 2-CC1 switching substations of 5.43 KV each at the second industrial city in Jubail.

#### **Performance Development:**

During 2009, development of the front-line staff was accomplished through a contract with a specialized firm to provide training to over 859 customer service employees representing 11 departments in the Company. Training for 750 front-line employees shall be completed for the remaining 9 other departments next year. The project for live voltage was applied in the Electricity Department in Jizan, the first department in the Company to apply such a project to maintain electric meters.

The year 2009 witnessed the training of 750 managers on "Individual Performance Standards."

#### **Automated Systems:**

We completed applying the consolidated distribution system between the Southern and Western Sectors, adopting the FFMS system to electronically track down the follow-up teams (first Stage in Riyadh) whereas the second stage was awarded to achieve the whole city of Riyadh, Mecca, Madina, and Dammam. We continued applying the plan involving the geographic information system in the Electricity Departments in Asir, Muhayil, and Al-Qassim.

We completed replacing and installing 3,000 electronic meters for the large customers aiming to interface the same with the electronic reading and changing tariff system.

#### **Loads Displacement and Upgrading the Electric Power Efficiency:**

During 2009, we continued the application of the variable tariff program in the Central, Western, and Eastern Regions to displace loads with the installation of 912 variable tariff meters till year-end 2009 which positively benefited the customers' bills due to the reduced tariff for consumptions beyond peak times. The program, also, contributed to the displacement of loads during peak period owing it in particular to the substantial role of the media in the dissemination of awareness messages in this respect. Thirty (30) exhibitions were organized in shopping centers as regards upgrading the electric power efficiency. In addition, the annual plan for load displacement of 1,104 MW was prepared in coordination with the Ministry of Water and Electricity during the year. We have also conducted a number of educational workshops for students with regard to the National Program for Rationalization.



#### **Isolated Generation:**

To secure new agreements for the upcoming period, as the current agreement is to expire at the start of the year 2010; generation projects for isolated generation units, in all existing utilities, have been introduced where such locations are to be interfaced to the grid. During that time, a number of contracts were awarded as follows:

- An agreement for the supply of power generation and isolation capabilities to three transmission substations away from the interconnected grid and feeding directly from rental generation units as follows:
  - Khlys with 13.8 KV and a load of 32 MW.
  - Khaybar with 13.8 KV and a load of 20 MW
  - Amlaj with 13.8 KV and a load of 20 MW

The total cost of these units is SR 27 million including fuel.

• An agreement to isolate 8 locations in Al-Qassim and provide direct power supply, during peak summer of 2010, by means of rental power generating units with a total capacity of 120 MW at a total cost of SR 46.5 million which include fuel to ensure continuity of services to customers.

2008

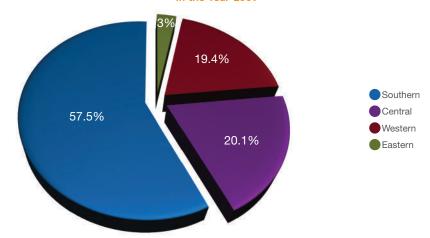
2009

· Renewing isolated generation agreements to service the remote and isolated regions from the grid.



#### 12000 10800 9600 8400 7200 6000 4800 3600 2400 1200 0

#### Percentage Distribution of Electrified Towns, Villages, and Settlements In the Year 2009



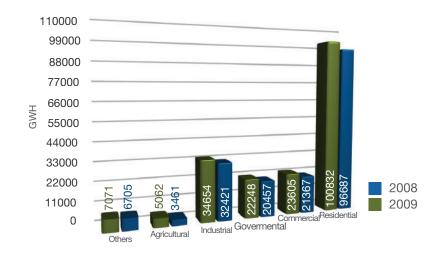


The sold energy has witnessed a growth of 6.8% at year-end 2009, bringing up the total sold energy in 2009 to 193,472 GWH, compared with 181,098 GWH in 2008. Thus, the percentage distribution rates of the sold energy in the Central, Eastern, Western, and Southern regions were 30.3%, 30.9%, 30.6%, and 8.2%, respectively.

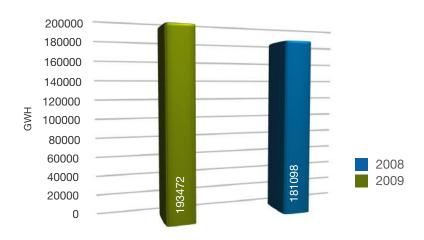
As a result of numerous project accomplishments for boosting the electric power distribution networks, total distribution (69/13.8 KV) networks length recorded a growth of 6.2% in 2009, bringing up the total lengths to 180,967 ckm, compared with 170,400 ckm in 2008. Also the customer connection lengths for 127V, 220V, and 380V reached up to 183,172 ckm, with a growth rate of 4.7% in 2009 compared with 2008.

Also, the number of transformers in the electric power distribution substations rose to 306,107 transformers representing a growth rate of 5.8 in 2009, compared with 289,266 transformers in 2008. Thus the total capacity of the transformers was boosted to reach 142,506 MVA by year-end 2009, representing a growth rate of 5.6% over 2008.

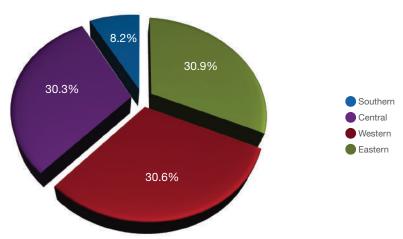
#### **Sold Energy by Customer Category**



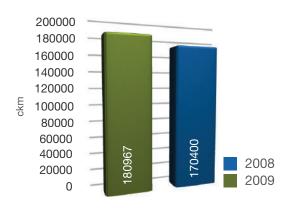
#### **Total Sold Energy**



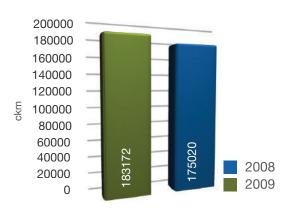
#### Percentage Distribution of Sold Energy



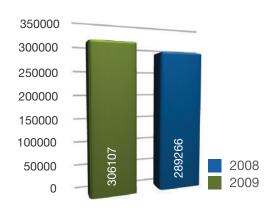
#### Power Distribution Networks Lengths (69 / 13.8 KV)



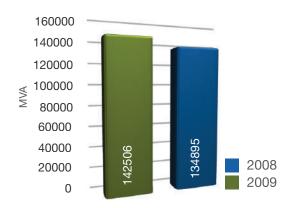
#### Customer Connections Lengths (127V, 220V, 380V)



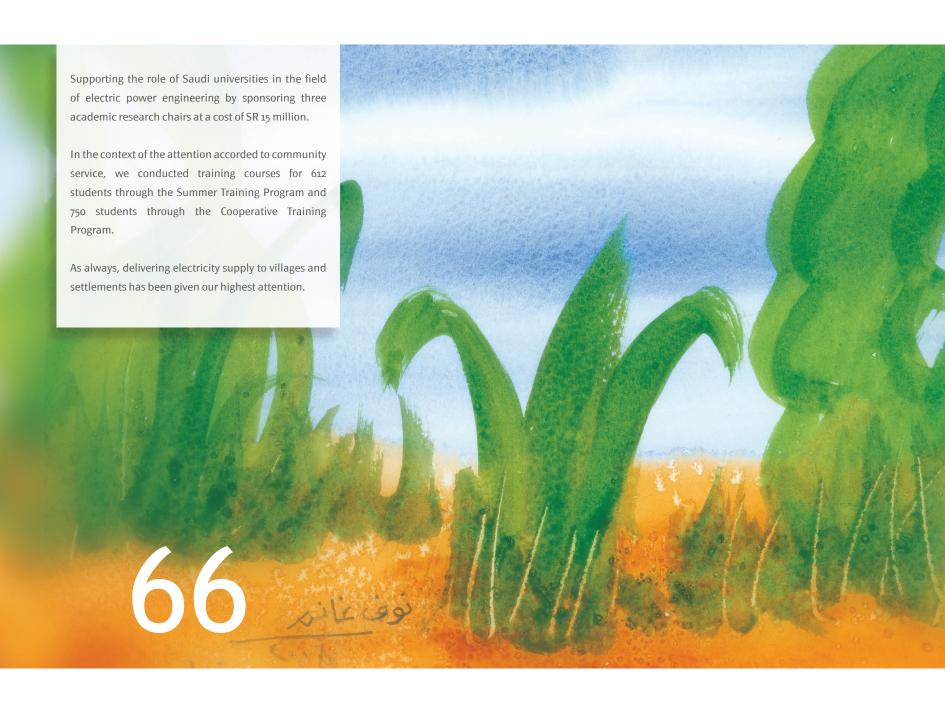
#### **Number of Power Distribution Transformers**



#### **Total Capacity of Power Distribution Transformers**



## **Our Social Responsibility**









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

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

As we continue to implement such an approach which is based on mutual understanding, confidence, and cooperation, we have assumed full responsibility towards all levels and classes of community as an expression of being an effective member of the community. Our support to the community has been based on two fundamental attitudes, namely serving the community as a whole and serving the specific internal community of the Company.

#### Responsibility of the Company Towards Serving the Two Holy Mosques:

Maintain continuous reliable delivery of power services to the Two Holy Mosques and take whatever steps are necessary to diversify supply sources and review the designs of electric supply loads for the Two Holy Mosques on a regular basis and perform the necessary amendments in coordination with competent parties in the General Presidency of the Two Holy Mosques. In this context, approval has been obtained during 2009 regarding the following:

- Coordination between Company control centers in Mecca and Madina and the General Presidency of the Two Holy Mosques (Holy Shrines Operations) through a hotline in order to ensure continuous and optimal delivery of highly reliable electric power supply to the Two Holy Mosques with high reliability and especially during peak times in coordination with other parties as applicable.
- Procure the required electric power for any new loads that provide service to the Two Holy Mosques. Recently, power was supplied to the Holy Haram Development and Expansion Project, fulfilling the supply for the last stage of the Al-Jamarat Bridge bringing the total supplied capacity to 60 MVA. Currently, the necessary connections are being installed to supply electric power to the project for developing and expanding the northern yards of the Holy Mosque in Mecca.
- Upgrade the capacities of the generation, transmission, and distribution grids at the two holy cities to maintain stability of their electric power systems.
- Develop operating plans for the annual Hajj and Umra seasons to ensure optimum level of assurance and provide all necessary actions to serve the guests of Allah and all governmental bodies and other relevant service utilities in addition to preparing a plan for emergencies.
- Procure electric power for major projects related to housing accommodations for pilgrims and Umra performers in the two holy cities. Recently, electric
  power was connected to a number of these houses, rendering total loads of 79 MVA in addition to connecting electric power to all applicants in the two
  holy cities.

#### First: Our Responsibility Towards Serving the Community as a Whole:

- · Contributing to the realization of the overall economic development by providing electric services to the villages and settlements.
- · Research and development
- · Environmental protection and maintenance
- · Security and safety
- · Supporting and sponsoring various activities
- Supporting charity programs
- · Contributing to support issues related to electricity
- Summer Hire Program for students

#### Second: Our Responsibility Towards the Company's Own Community:

- Ensuring active and continuous creation of appropriate working environment conducive to fostering creativity, innovation, and highly efficient performance.
- Adopting admirable principles and values of business ethics.
- Organizing social activities for the Company's employees.
- Disseminating awareness among our employees.
- Training and employing our employees' sons during the summer season.

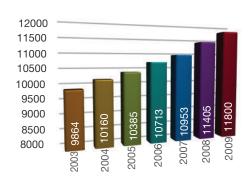
## Our Major Achievements in 2009 with Respect to Our Social Responsibility Related to Serving the Overall Community are:

#### 1. Continuing implementation of delivering electricity to villages and settlements:

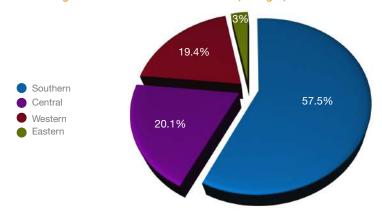
A great attention is accorded to delivering electricity services to the villages and settlements although we are aware of the fact that the provision for such service has no economic feasibility to the Company. The Company has allocated SR 2,092 million for the electrification projects in villages and settlements in the period from 2001 to 2009. Total actual expenditure in this respect during such period was SR 1,501 million. In this respect, our plan involves covering all villages and settlements that have not yet been provided with electricity. During this year, electric services were delivered to 377 villages and settlements which brought up the total number of electrified towns, villages, and settlements to 11,800 at year-end 2009, compared with 11,405 in 2008, representing a growth rate of 3.3%. Overall rate of total electrified villages and settlements up to the end of 2009 was 99,3%, compared with 89.4% in 2000.



#### Number of Electrified Towns, Villages, and Settlements



#### Percentage Distribution of Electrified Towns, Villages, and Settlements



#### 2. Research and Development Program:

#### Program background:

- Legal commitment to implementing the Resolution of the Council of Ministers No. 169, Article First (Clause/2) which reads: "The Company shall allocate a part of its income, as determined by the Council of Ministers, for research and development work in the areas of its operation. In accordance with this provision, the Company shall support and finance such researches conducted in universities, institutes, and specialized centers, particularly in respect with the rationalization of the uses of electric power, upgrading their systems, and maintaining and protecting the environment," as well as the third clause of the Resolution, which states: "Saudi Electricity Company, in collaboration with the universities, institutes, and specialized centers, shall develop a comprehensive continuing program for the rationalization of the uses of electric power to ensure achievement of the State's goals." In addition, Article 7/2 of the Company's Articles of Association 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 cost reduction."
- An economic need for ensuring optimum usage of the existing assets and reducing the investment, operation and maintenance costs.
- Promotion of advancement through the development of the human resources, nationalization of technology, increasing the efficiency of electric power usage, and reducing pollution.

#### Objectives of the Program:

- In generation: Upgrade the efficiency of fuel utilization, prolong the service life of the assets and parts, and maximize their production capacities.
- In transmission: Prolong the service life of existing assets, boost their capacity, upgrade their performance in various operating areas, and rationalize their maintenance programs.
- In distribution: Regulate the usage of the assets, develop the processes of billing and collection, and ensure ideal power loss.
- In electric loads: Develop and motivate demand management so as to increase annual rates of utilization of existing assets.
- Power uses: Rationalize and upgrade the efficiency of the uses of electric energy and ensure right balance as to time of usage, the horizontal/vertical growth rates in all sectors in the various regions of the Kingdom.



#### Stages of the Program

#### • First Stage: From April 2002 to March 2003 (First Program):

This stage started off with a review and identification of issues for inclusion in the first program of research. Ten (10) research contracts were concluded during the first stage. Also, an agreement for research collaboration was concluded between the Company and King Abdulaziz City for Science and Technology.

#### • Second Stage: From April 2003 to June 2004 (Second Program):

During this stage, three of the projects of the first program were executed and the second research work program was issued consisting of seven requests for proposals whose related contracts were concluded. Thirty-five (35) proposals were received under this program.

#### • Third Stage: From July 2004 to April 2006 (Third Program):

This stage includes 7 proposals. Approved proposals for this stage were 21 proposals and 5 contracts were concluded, as follows:

- A contract was entered into with King Abdulaziz City for Science and Technology to study the diagnosis on the condition of termination cables in transformers and circuit breakers.
- A contract was entered into with King Fahd University of Petroleum and Minerals to study the impact of compatibilities on the capacity system and ways of addressing it.
- A contract was entered into with King Abdulaziz City for Science and Technology to study the development of an air-conditioning model that simulates the condition of returned load in the transmission network.
- A contract was entered into with King Saud University to study the environmental evaluation in power generating plants.
- A contract was entered into with King Abdulaziz City for Science and Technology to study losses in the distribution network.

#### • Fourth Stage: From April 2006 to December 2008 (Fourth Program):

This stage includes following up the projects of the first, second, and fourth research programs as well as the joint projects. Also, in this stage, requests for proposals for the projects of the fourth research program were prepared, including two proposals on power generation activity, three proposals on power transmission, and one proposal on distribution and customer service. They are as follows:

- Comparative study of the impact of reducing the internal combustion temperature of the turbines on the useful life of turbine blades.
- Protection of water inlets in Qurayyah Power Plant against the large quantities of jellyfish.
- Evaluation of the capacity quality of Saudi Electricity Company's electric power transmission system.
- Study of policy and potentials of utilizing limited generation capacities.
- Study the supply and pricing of standby power provided by the Company to Saudi-Aramco.

All projects of the fourth research program were signed at the beginning of 2009.



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

In the spirit of scientific cooperation, several joint projects were concluded with the Joint Scientific Committee in King Abdulaziz City for Science and Technology which started work in the year 1423H and subsequently gained large scale support from several researches that are significant to the Company and which are of benefit to the electricity industry in the Kingdom, as follows.

- Project contract for testing and evaluating polymer insulation materials used in medium voltage cables and ways of manufacturing them to suit the local conditions, which was executed and accomplished at King Saud University.
- Project contract for conducting a study on the effects of electric power shutdowns on a sample group of large customers in the Kingdom, which was executed and accomplished at King Saud University.
- Project contract for the examination of thermolysis, electrolysis, and stress at cable joints and terminals used in electric power distribution networks, which was executed at King Fahd University of Petroleum and Minerals. The contract was concluded and work started in 2006, and which was later on given an extension.
- The Second Scientific Forum was held on 10/6/2009 to take up results of researches as regards transformers, transmission and distribution networks, distribution cables, testing and evaluation of electrical isolation materials, study of thermal dissolution and electrical stress at cable joints and terminals to decrease downtime, study of the effects of power interruptions on major customers and other researches.

#### **Sponsoring Academic Chairs:**

During the year 2009, specialized scientific workshops related to certain scientific research chairs were conducted, namely "Load Management and Upgrading the Efficiency of Electric Power Utilization" with King Abdulaziz University in Jeddah, and a workshop on "Protection and Electric Control" with King Fahd University of Petroleum and Minerals in Dhahran which were attended by a large group of 40 engineers from various Company operating areas, as well as engineers from Saudi-Aramco and SABIC. A workshop on "Reliability and Protection of Electric System" was also conducted with King Saud University in Riyadh. Such scientific research chairs resulted in the appointment of certain employees to conduct appropriate Master of Arts studies that are consistent with the requirements of the Company and to specialize in these research chairs so that scholars can benefit from the Company on the one hand and to help the Company resolve technical issues it currently experiences or that which may occur thereafter on the other hand.

Such studies shall be posted in scientific conferences and seminars in order to signify the importance of such studies on a global level and how the Company may benefit therefrom.

#### Inventions:

Currently, the Company is participating in the funding of inventions submitted to it by its employees or any other party which are deemed to be acceptable to the Company in so far as they may benefit the Company in upgrading its technical and economic performance. The Program for Research and Development is currently studying the invention, submitted by Mr. Mohamed Al-Khamees from King Saud University, which is related to "Electrical Loads Management." The concept of the invention is based on producing electricity during peak times, where the Company incurs huge sums of money in this regard.

## 3. Environmental Maintenance and Protection:

#### **Objectives of the Program:**

Since the commencement of its operations on 5/4/2000, the Saudi Electricity Company has recognized the significance of maintaining the environment, making it one of its objectives as set forth in its Articles of Association. Therefore, the Company has established the Department for Environment Protection Development to follow up, plan, and manage functions on environmental protection in the Company throughout the Kingdom of Saudi Arabia. The Department comprises a group of experienced and highly trained engineers and environmental consultants. The Company is committed to observe all aspects of environmental protection in all future plans and to manage adverse environmental impacts accompanying its operational activities in order to protect the air, water, and soil in such a way that ensures protection of the environment, health, and the public.

Within this context, we, in conjunction with all functions of the Company, have prepared the Company's environmental policy, formed an "Environmental Protection Team" which is represented by all activities of the Company and developed an ambitious executive strategy that includes objectives, goals, short-term programs, duties and responsibilities that were meant to activate its environmental policy and get it translated into reality, ensuring its continuous commitment to the requirements of the General Environmental Regulations issued by the Presidency of Meteorology and Environment.

Our high attention accorded to the environment is materialized in our efforts to control pollution in air, water, and soil and eliminate the effects of environmental pollution on humans.

#### Air:

As power generating plants use various types of fuel such as natural gas, diesel fuel, and crude oil, we exert utmost efforts in minimizing gas and particle emissions from the chimneys of power generation facilities by constructing power generating stations away from towns and populated areas. We also avoid constructing power generating plants in industrial areas and other utility areas so as not to contribute to increasing air pollution rates in such locations. In preventing pollution, we:

- Use clean fuel such as natural gas and diesel fuel as both have less emissions compared with other types of fuel. We have already achieved excellent successes in this respect as the main generating plants such as Power Plants 7, 8, and 9 in Riyadh are operated using natural gas instead of crude oil.
- Use advanced burners in gas turbine boilers that produce less nitrogen oxides given the fact that nitrogen oxides are a major pollutant in the power generating plants operating on fossil fuel.
- · Use electrostatic precipitators in units that operate on heavy fuel in order to minimize emission of suspended particles.
- Use FGD technology to minimize emission of sulfur oxides which contaminate the atmosphere; the Company spares no effort to invest in billions in this respect in its new projects.
- Use combined cycle generation units at very high level of efficiency, where exhausts of generation units are used as a heating source for boilers instead of burning fuels.
- Achieve advanced levels in the electrical interconnection of different regions of the Kingdom which in turn lead to minimizing rotating reserve in the grid and decreasing emissions that contaminate the atmosphere resulting from burning more fuel.
- Suspend the use of some malicious chemical substances which cause detrimental effects to the environment and health such as Freon-12, Trichloroethylene, halon, and asbestos, and replacing them with environmentally friendly substances.





#### Water:

Water is a key element of the generation process which is evaporated in the coastal areas when generating electric power. We, therefore:

- Take into consideration that no chemical substances are added to the cooling water returning to sea, apart from the chlorine that is added for controlling the growth of organisms causing adverse effects on the power generating equipment. The process of controlling the quantity of chlorine being added is carefully monitored to ensure that it does not exceed the allowed rates permissible under the environmental protection standards of the Kingdom. This process is constantly checked by using a rate-measuring equipment to measure the rate of chlorine concentration in the water thereby allowing the operators to control such rates in a timely manner.
- Treat the water used within the generating plants and separate fuel residues from water tank before draining the water into steaming pools.
- · Control the degree (contaminant) of cooling water that is disposed to the sea to conform to allowable limit.
- Sewage water is biologically treated within the generating plants for irrigation purposes within the plant area and the plant's housing complex.
- Oil-polluted water passes through several stages for separating oils from the water and then disposing such oils using environmentally safe methods. Furthermore, we regularly develop future operational and capital plans related to maintaining the environment, such as the development of an integrated air and water control system and developing the existing laboratories within the generating plants so that they become chemical and environmental laboratories by incorporating therein various types of pollution measuring equipment.

#### Soil:

To reduce soil contamination, we are keen to minimize waste products that are among the major hazards threatening the environment, public health, and the whole planet, and to control the use of non-recyclable and non-environmentally friendly materials of any kind. In this aspect, our successful achievements are as follows:

- The preparation and application of programs specially designed to reduce spills and leakage, minimize the volume of wastes arising from the operations and activities of the Company, and to achieve remarkable successes in terms of recycling/reuse of materials.
- The disposal of all power transformers that use oils containing carcinogens, such as PCB, in order to ensure that soil, ground surface and underground water are not polluted so as to protect the safety of humans, animals, and plants.
- The replacement of all insecticides that were in use with less harmful ones.
- Continuing the implementation of agreements with qualified contractors as regards oil waste disposal and oils used in the power generating plants by using appropriate methods causing no harm to environment.
- · We also constantly cooperate with national and international universities and research centers to find appropriate solution for the problem of carbon ashes.

#### **Environmental Health:**

The Company is committed to prevent diseases related to its activities, operations and applications, protect the health of its staff and their families, provide support for the payment of the cost of treatment, and maintain healthy work environment by:

• Evaluating the quality of water used from source to network, making sure it is free of any biological or chemical contaminants and is safe for use. Water sources such as wells or distribution systems are routinely checked to make sure the national standards are observed.

- Monitoring sewage and industrial water drainage of Company facilities to make sure that public water system standard is maintained while public health and the environment are protected.
- Monitoring waste generation process from start to finish, ensuring effective management of waste materials once produced and disposed of in order to prevent contamination of soil and underground water.
- Minimizing adverse impacts from noise coming from different activities of the Company right from the design 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 and in conformance to international standards.

#### **Rationalization of Energy Consumption:**

Exhausting natural resources is one of the major environmental issues experienced by countries all over the world and in the Kingdom. Rationalization of water, power, and materials is the most effective way to protect the environment from pollution and maintain natural resources. In this area, we achieved prominent results including:

- Achieving advanced levels in the electrical interconnection of the different regions of the Kingdom to minimize rotating reserve in the grid and decrease emissions which contaminate the atmosphere due to the burning of more fuel.
- Using combined cycle generation units with very high level of efficiency, where the exhausts of generation units are used as a heating source for boilers instead of burning fuels.
- Separating and recycling fuel residues from drain water tanks.
- Using timing devices to shut off lighting fixtures, air-conditioning systems, and computers after business hours, and replacing regular lighting fixtures and computers with energy saving ones, taking into consideration to provide natural lighting at daytime when designing new facilities for the Company.
- Using treated sewage water for irrigation instead of fresh water.
- Using ways to rationalize the use of water in Company utility water closets.
- · Printing on both sides of a sheet of paper and preventing color printing for internal documents within the Company.
- Conducting periodic maintenance programs for Company equipment and devices in order to maintain optimal operating performance.

#### **Education and Training:**

We continue to promote and encourage environmental education among our employees, contractors, and suppliers through:

- Conducting environmental education lectures, distributing pamphlets, booklets, and posters so as to reach everyone.
- Assigning a webpage dedicated to the environment on the Company's intranet.
- Providing specialized training courses about environment protection in the Company's training programs.
- Developing competent parties, enabling them to attend training courses to obtain international certificates on environmental protection and getting informed of the latest updates on this subject.
- Cooperating with concerned parties from inside and outside the Kingdom of Saudi Arabia, and getting involved in the exchange of experiences in the field of environmental protection by attending and participating in environmental forums and conferences.



#### **Achievements of the Company:**

The Company has participated and continues to participate, in conjunction with governmental bodies and agencies, in many works and activities aiming to protect the Kingdom's environment by:

- · Participating in the development of national indicators for the environment and sustainable development.
- · Participating in the preparation of a national plan to respond to radioactive and nuclear contingencies.
- Participating in the development and implementation of executive strategy plans to protect the environment in Riyadh and attending the meetings of the high level technical committees.
- Participating, in conjunction with King Abdulaziz City for Science and Technology, in organizing a scientific forum on the impacts of electromagnetic fields which are emitted from power transmission lines in the Kingdom of Saudi Arabia.
- · Conducting a research study to participate in the GCC Prize for the Best Environmental Works in "Electrical Power Production and Air Pollution in the GCC."
- Continuing coordination with the General Presidency for Meteorology and Environment and General Auditing Bureau regarding environmental protection.

#### **Visual Pollution:**

The Company works on improving the visual elements of the general landscape within the cities of the Kingdom and minimizing visual pollution by:

- Spending huge sums of money to secure overhead electrical lines by installing them in safe underground conduits; surpassing many developed countries who still use aerial grids within its cities.
- The Company takes landscape into consideration when designing its facilities and selects the most appropriate locations for its facilities and utilities.

## 4. Security and safety:

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

- · Participation in the GCC Traffic Week and concurrent exhibit.
- Participation in the activities of the GCC Traffic Week.
- International Day for Civil Defense and Exhibition.
- Domestic Safety Week Exhibition in Saitek Summer Festival.
- Supporting and sponsoring a workshop on the "Safety Requirements of Electrical Equipment in Buildings and How to Check Them" which was organized with the GCC Standardization Organization.
- Conducting several fire prevention exercises in power generating stations to test the readiness of the civil defense teams of the Company in coordination with certain government authorities such as the Civil Defense Department and others.

## 5. Social activities:

- The Company is keen to effectively interact with all societies and communities in all occasions that promote culture and awareness to an individual and the society as a whole, by participating in:
- The 21st Conference on Civil Defense held in Riyadh Air Base.
- · GCC Traffic Week Exhibit.
- Job and Career Day organized by the Chamber of Commerce in Al-Qassim, King Saud University, King Fahd University of Petroleum and Minerals, and the Institute of Public Administration.
- · Participated in the Al-Janadria Festival in coordination with the Ministry of Water and Electricity.
- · Participated in several informational and presentation exhibits held during the Summer Festivals in the cities of the Kingdom (Abha, Dammam).

## 6. Charitable Activities:

#### **Charitable Societies:**

- The Company has donated SR 250,000 to over 200 charitable societies in the Kingdom in coordination with the Ministry of Social Affairs.
- Supports the Programs for People with Special Needs. Consistent with our social role, we have accorded particular attention to people with special needs, giving contributions to enable them to develop their abilities and be able to positively interact with others.
- We contributed to the provisions relating to the needs of the handicapped through our interaction with the "Congratulation Program" which constitute a way of supporting the operational expenses of the society's centers and its free services.
- Donated computer sets to support charitable societies.
- We organized an open day for the Charity Society for Orphans (Insan) at the entertainment center, Riyadh, where they participated in a number of sports and recreational activities. We presented them with gifts in the form of school bags complete with all their contents as well as a package containing materials related to Misbah Program in addition to SR 200 to each orphan.

## 7. Support Issues Related to Electricity:

We regularly organize and participate in numerous conferences, seminars, and forums either by providing financial support or by presenting papers, particularly in the conferences and forums addressing topics related to the activities of the Company, as follows:

- We participated and sponsored the Seventh Engineering Conference organized by the Faculty of Engineering of King Saud University in Riyadh.
- We supported a workshop on the safety requirements of electrical devices in facilities and verification tools organized by Measuring Entity in the GCC.
- We participated in sponsoring a graduation project at King Saud University.
- The Company has sponsored the Fifth GCC CIGRE in Riyadh in 2009.





## 8. Summer Hire Program for Students during Summer Holidays:

- The Company's Human Resources function aims to provide employment opportunity to students during summer holidays in conjunction with the "Summer Training" and "Cooperative Training" programs in order to contribute to the development of their performance and abilities through sharing experiences and the actual practice of their tasks to acquire useful information and experience as regards the business nature and to be accustomed to discipline in addition to investing students' leisure time in this period yearly. A total of 612 students participated in the "Summer Training" program and 750 in the "Cooperative Training" program. We also participated in the Career Day organized by Saudi universities.
- · We participated in the Saudi Employment Exhibition held in the premises of Dhahran International Exhibitions.
- Collaborated with the universities in the accomplishment of the graduation process and its requirements by providing the students with adequate access to practical applications in the Company.

## Our Major Achievements in 2009 as Regards Our Responsibility Towards the Company Community:

In 2009, as we fulfill our social responsibility towards serving the internal community of the Company, we continued providing articles, materials, and information that promote fellowship and loyalty among our employees and motivate them to cooperate and provide the best service to all customers of the Company, in addition to disseminating news and information on the Company's achievements and activities. We also continued providing the employees, through the Company's Intranet, with information about all services and products available in the local market that are appropriate for them and their families. We also post on our Intranet informative messages about the available offers and facilities. This is in addition to sending congratulatory messages, condolences, decision announcements, and circulars to our employees through the electronic mail.

Furthermore, we obtained special offers from hotels, private schools, sports clubs, newspapers and magazines that may be beneficial to the employees of the Company.

#### **Social Activities:**

- The Company is keen to enhance communication and acquaintance among its staff, and to build brotherhood and rapport with each other by sending them mass emails to express condolences in case of deaths, birth greetings or announcements to inform them of employees who have been admitted to hospitals so that hospital visits can be arranged or phone calls can be made.
- Organize celebration parties for Company's employees, graduation celebration for students of the training institute, and honoring retired employees and those who are still in service.
- Provide sales and discounts program to employees of the Company and their families.
- The Company is keen to communicate with external commercial parties to solicit special price rates about their products and services that may be of interest to the employees which include, for example, hotels, special schools, sports clubs, newspapers, and magazines.
- Conduct orientation visits to facilities and utilities of the Company which falls into two categories.
  - Organizing community visits to schools, universities, colleges, society organizations, such as King Abdulaziz Organization for Talent Sponsoring, in addition to arranging visits for foreign delegations from neighboring countries.



- Arranging quarterly orientation visits for employees to learn more about Company facilities and utilities and to get acquainted with other Company employees in all work locations.
- Participating in international events and occasions such as Diabetes Awareness Day, blood donation campaigns, exhibits on the dangers of drugs.
- Organizing sports and cultural contests/competitions for its staff at all Company locations.
- The Company pays special attention to religious education by organizing religious lectures in coordination with prominent religious scholars.
- The Company pays special attention to children of its staff by providing them with training opportunities in various branches of science to upgrade their skills and manage their time. During summer vacation, the Company organizes programs for students to receive training in the English language and computer, to include organizing sports activities, as it organize programs for swimming lessons with accompanying sports competitions.
- Organizing "Open Day" program for children of Company's employees to visit the club and participate in entertainment activities.
- Providing mortgage loan to employees to enable them to own a suitable home for their families and to motivate them to improve their performance.
- Organizing regular visits to Ouran recitation organizations, visits to sports clubs, and provide entertainment activities.
- Organizing regular visits to schools to learn about the significance of water consumption rationalization and importance of knowing how to deal with electricity to avoid accidents.
- Responding to contemporary issues relevant to the internal community of the Company to include organizing regular educational lectures on Swine Flu disease in addition to sending booklets and brochures via emails and weekly publications.
- Providing support to researchers and interested parties in electricity industry by facilitating the distribution of their questionnaires among Company employees.

### **Educational Messages to Company's Staff:**

- · Posting educational messages aiming at anchoring the notion of environmental culture in all employees.
- Posting educational messages aiming at enhancing positive attributes of the employees
- · Posting educational messages about risks of viruses in computers.
- · Posting educational messages about safety and security.

### **Program for Training and Employment of Employees' Sons:**

The human resources policy of the Company aims to promote the efforts intended to serve the Company's internal community through the program for training and employment of the Company employees' sons during the summer holidays which provide them the opportunity to receive training in computers, English language, and self-development during that period in conjunction with the Company's training institutes or with approved training institutions in various locations. The total courses delivered in this respect during the summer of 2009 were 48 courses. The total number of participants in the said program was 415.

## Financial Statements and Auditors' Report



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## Financial Statements and Auditors' Report



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

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AUDITORS' REPORT

To the shareholders Saudi Electricity Company (A Saudi Joint Stock Company) Riyadh, Kingdom of Saudi Arabia Deloitte & Touche Bakr Abulkhair & Co. Public Accountants - License No. 9 P.O. Box 213, Riyadh 11411 Kingdom of Saudi Arabia

Tel:+966 (1) 4630018 Fax:+966 (1) 4630865 www.deloitte.com Head Office: Riyadh

#### Scope of Audit

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

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

#### **Unqualified Opinion**

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

Deloitte & Touche Bakr Abulkhair & Co.

Bakr A. Abulkhair License No. 101

Rabi Al-Awal 9, 1431 February 23, 2010 Colores & Jouche & Abulichalt &

Audit. Tax. Consulting. Financial Advisory.

Member of Deloitte Touche Tohmatsu



## Balance Sheet as of 31 December, 2009

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

Current portion of long-term loans	13	828,400	556,127
Total current liabilities	_	49,618,932	40,102,750
Non-current liabilities			
Long-term loans	13	6,511,857	4,647,991
Sukuk	14	12,000,000	5,000,000
Employees indemnities	15	4,422,298	4,396,753
Deferred revenues, net	17	14,970,527	13,352,786
Customers' refundable deposits		1,159,138	1,095,789
Long-term Government payables	10	13,295,613	13,295,613
Government loan	18	14,938,060	14,938,060
Total non-current liabilities		67,297,493	56,726,992
	_		
Total liabilities		116,916,425	96,829,742
	_		
Shareholders' equity			
Share capital	19	41,665,938	41,665,938
Statutory reserve		1,107,965	991,004
General reserve	20	534,777	534,573
Retained earnings		5,865,869	5,361,106
Total shareholders' equity	_	49,174,549	48,552,621
	_		
Total liabilities and shareholders' equity	_	166,090,974	145,382,363

The accompanying notes constitute an integral part to these financial statements



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

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

The accompanying notes constitute an integral part to these financial statements

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

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



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

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

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

	Note	<b>Capital</b> SR'000	Statutory Reserve SR'000	General Reserve SR'000	Retained Profits SR'000	<b>Total</b> SR'000
Balance, January 1, 2008		41,665,938	880,559	532,418	4,915,156	47,994,071
Net income for the year		-	-	-	1,104,447	1,104,447
Dividends for 2007		-	-	-	(547,252)	(547,252)
Board of directors' remuneration for 2007		-	-	-	(800)	(800)
Electricity fee collections (individuals)	20	-	-	2,155	-	2,155
Transferred to statutory reserve		-	110,445	-	(110,445)	-
Balance, December 31, 2008		41,665,938	991,004	534,573	5,361,106	48,552,621
Net income for the year		-	-	-	1,169,614	1,169,614
Dividends for 2008	25	-	-	-	(547,252)	(547,252)
Board of directors' remuneration for 2008	26	-	-	-	(638)	(638)
Electricity fee collections (individuals)	20	-	-	204	-	204
Transferred to statutory reserve		-	116,961	-	(116,961)	-
Balance, December 31, 2009		41,665,938	1,107,965	534,777	5,865,869	49,174,549

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



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

#### 1. Organization And Activities:

The Saudi Electricity Company "the Company" was formed pursuant to the Council of Ministers' Resolution Number 169 Dated Sha'ban 11, 141 9H (corresponding to November 29, 1998), which reorganized the Electricity Sector in the Kingdom of Saudi Arabia by merging the majority of the local companies that provided electricity power services (10 joint stock companies, that covered most of the geographical areas of the Kingdom), in addition to the projects of the General Electricity Corporation, a governmental corporation related to the Ministry of Industry and Electricity (11 operating projects, that covered various areas in the north of the Kingdom) in Saudi Electricity Company.

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

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

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

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

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

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



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

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

#### **Accounting convention:**

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

#### **Accounting estimates:**

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

#### Cash and cash equivalents:

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

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

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

#### Inventories:

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

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

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

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



#### Fixed assets:

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

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

#### Impairment:

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

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

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

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

#### Derivative financial instruments and hedge accounting:

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



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

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

#### Zakat:

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

#### Revenues:

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

#### **Expenses:**

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

#### Statutory reserve:

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

#### Foreign currency transactions:

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



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

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

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

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

<b>2009</b> SR'000	2008 SR'000
4,022,863	8,997,728
3,095,487	2,854,451
1,958,339	1,817,886
1,623,446	1,413,753
757,592	713,970
339,077	454,717
11,796,804	16,252,505
(2,121,311)	(1,995,343)
9,675,493	14,257,162
910,725	816,685
10,586,218	15,073,847
	\$\text{SR'000}\$  4,022,863 3,095,487 1,958,339 1,623,446 757,592 339,077 11,796,804 (2,121,311) 9,675,493  910,725

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

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



#### Inventories - Net:

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

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

2009 SR'000	2008 SR'000
189,258	189,258
623	-
189,881	189,258
	189,258 623

#### 7- Equity Investments In Companies And Others:

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

#### (a) Investments recorded according to equity method

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

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

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

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

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

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

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

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

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

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

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



#### b) Other investments at cost

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

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

	<b>2009</b> SR'000	2008 SR'000
Gulf Corporation Council Interconnection Authority	36,153	37,391
Water and Electricity Company	(1,890)	4,615
Total (Note 23)	34,263	42,006
8- Construction Work In Progress:		

	<b>2009</b> SR'000	2008 SR'000
Power generation projects	16,837,518	8,972,627
Power transmission projects	11,935,612	7,351,004
Distribution projects	3,249,981	3,514,045
General projects	191,671	266,310
Total	32,214,782	20,103,986

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



#### 9- Fixed Assets, Net:

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

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

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

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

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

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



#### 10- Accounts Payable:

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

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

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

#### 11- Accruals And Other Payables:

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

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

## 12- Provision For Zakat:

The principle elements of the Zakat base are as follows:

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

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



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

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

#### 13- Long-Term Loans:

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

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

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

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

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

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

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

#### 14- Sukuk:

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

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

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

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



#### 16- Derivatives:

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

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

#### 17- Deferred Revenue - Net:

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

#### 18- Government Loan:

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

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

#### 19- Share Capital:

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

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

#### 20- General Reserve:

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

#### 21- Operating And Maintenance Expenses:

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



#### 22- General And Administrative Expenses:

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

## 23- Other Income And Expenses, Net:

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



#### 24- Earnings Per Share:

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

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

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

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

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

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

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

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

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



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

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

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

#### 28- Capital Commitments:

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

#### 29- Contingent Liabilities:

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



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

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

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

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

#### 30- Risk Management:

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

#### Credit risk:

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

#### Commission rate risk:

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



#### Liquidity risk:

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

#### **Currency risk:**

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

#### Fair value:

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

#### 31- Comparison Figures:

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



## **Our Services**

#### e-Billing:

We are always keen to upgrade the standard of our service so as to provide you with utmost convenience and peace of mind. The service enables the customers to obtain their monthly electric bills through e-mail service with periodic notices. To subscribe to the service and obtain more information, visit the Company's website.

#### **Electricity SMS:**

Send a text message containing your account number as written on the electric bill once to 75555 for STC users, to 6555 for Mobily users and to 715555 for Zein users to subscribe to the SMS service. The service provides you with all information related to your bill, in addition to important periodic information and informational messages in the form of SMS to your cell phone.

#### **Prepaid Payment:**

Dear customer, in order to provide you with utmost convenience and peace of mind, you can made an advance payment to the Company when paying your electric bill in order to have a prepaid balance to cover your electric power consumption while you are on vacation. For more information, visit the Company's website.

#### **Average Consumption:**

We present to you the Average Consumption service which allows you to pay the estimated amount of your annual consumption on equal monthly installments to help you control your budget and eliminate variations of payments from one month to another. For further information on the advantages of this service, please visit the Company's website.

## Bill Payment

We are always keen to upgrade our service standard so as to provide you with utmost convenience and peace of mind. This is an area of service related to bill payments to which we accord high attention and endeavor to continuously develop so as to save your time and effort. Now, you can pay your electricity bill using any of the following ways:

#### **Telebanking Service:**

If you have access to your bank's telebanking service, you can dial such service, select electricity bill payment, and then enter your account number as shown on the bill.

#### ATM:

If you have access to ATM machines, you can use your ATM card to pay your electricity bill; select electricity bill payment, and then enter your account number as shown on the bill.

#### Internet:

By visiting your bank website, you can make a payment by opening the bills payment page. This shall require authorization from your bank in order to use this type of service.

# Our Achievements

## Our Achievements For The Year 2009

Statement	At The Establishment Of The Company 5 April 2000	After The Establishment Of The Company Till Year-End Of 2009	Change %
Generation Capacity (Mw)	25800	44485	<b>1</b> 72.5 %
Length Of Electric Power Transmission Networks (Ckm)	29600	42703	<b>1</b> 44.3%
Length Of Electric Power Distribution Networks And Connections To Customers (Ckm)	226664	364139	<b>1</b> 60.6%
Number Of Customers	3.5	5.7	<b>1</b> 62.9%
Number Of Electrified Towns, Villages, And Settlements	7610	11800	<b>1</b> 54.8%
Number Of Employees	31000	27601	<b>J</b> -11%
Nationalization Rate	73%	85.12%	<b>1</b> 16.6%

We look forward to receiving your comments on the company's performance and the 2009 Annual Report at the following address: informus@se.com.sa

For further information on statistical data: p-is@se.com.sa

