

# FINANCIAL STATEMENTS

And Independent Auditors Report For The Years Ended December 31, 2006 And 2005



Financial Statements And Independent Auditors Report For The Years Ended December 31, 2006 And 2005

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## INDEPENDENT AUDITORS' REPORT

TO: THE SHAREHOLDERS OF SAUDI ELECTRICITY COMPANY Riyadh – Kingdom of Saudi Arabia

We have audited the accompanying balance sheet of Saudi Electricity Company (A Saudi Joint Stock Company) as of December 31, 2006 and 2005 and the related statements of income, changes in shareholders' equity and cash flows for the years then ended, including the related notes from 1 to 27. These financial statements are the responsibility of the Company's management and have been prepared in accordance with the provisions of Regulations for Companies and presented to us together with all the information and explanations which we required. Our responsibility is to express an opinion on these financial statements based on our audit.

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

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

present fairly, in all material respects, the financial position of Saudi Electricity Company as of December 31, 2006 and 2005 and the results of its operations, changes in shareholder's equity and its cash flows for the years then ended in conformity with accounting principles generally accepted in Saudi Arabia.

 comply with the requirements of the Regulations for Companies and the Company's Articles of Association with respect to the preparation and presentation of financial statements.

For Dr. M. Al-Amri & Co.

Jamal Mohamed Al-Amri Certified Public Accountant Registration No. 331

> Safar 06, 1428 (H) February 24, 2007 (G)

For Ahmed A. Bajnied & Co.

Asaad Saleh Basudan Certified Public Accountant Registration No. 342

Ahmed A. Bajnied & Co. Certified Public Ascountants

# **Balance sheets**

# As of December 31

Assets	Notes	2006 In SR thousand	2005 In SR thousand
Cash and cash equivalents	(3)	4,200,669	1,007,916
Consumers receivable and accrued revenue - net	(4)	21,666,391	22,750,051
Prepayment and other receivables - net	(5)	1,580,227	1,078,408
Inventories - net	(6)	4,695,973	3,654,403
Total Current Assets		32,143,260	28,490,778
Long-term investments	(7)	748,063	339,639
Construction in progress	(8)	13,674,707	13,211,241
Fixed assets - net	(9)	80,642,235	75,521,192
Total Non-current Assets		95,065,005	89,072,072
TOTAL ASSETS		127,208,265	117,562,850
Liabilities And Shareholders' Equity			
Accounts payable	(10)	38,644,492	32,114,648
Accruals and other payables	(11)	1,250,130	1,176,700
Current portion of long-term loans	(13)	741,114	991,222
Total Current Liabilities		40,635,736	34,282,570
Non-current portion of long-term loans	(13)	9,015,415	7,349,395
End of service benefits		3,973,971	3,842,627
Deferred revenue - net	(15)	10,533,997	9,957,130
Consumers deposits		982,217	930,732
Total Non-current Liabilities		24,505,600	22,079,884
Government loan	(16)	14,938,060	14,938,060
Total Liabilities		80,079,396	71,300,514
Shareholders' Equity			
Share capital	(17)	41,665,938	41,665,938
Statutory reserve		739,309	597,926
General reserve	(18)	531,563	530,510
Retained earnings		4,192,059	3,467,962
Total Shareholders' Equity		47,128,869	46,262,336
Total Liabilities and Shareholders' Equity		127,208,265	117,562,850





# **STATEMENTS OF INCOME**

# For the years ended on December 31

Operating Revenue	Notes	2006 In SR thousand	2005 In SR thousand
Electricity sales		18,284,878	17,429,591
Meter reading and maintenance and bill preparation tariff		707,997	660,372
Electrical service connection tariff		713,782	671,326
Total operating revenue		19,706,657	18,761,289
Operating Expenses			
Fuel		(4,758,872)	(4,573,978)
Purchased power		(1,195,470)	(1,151,615)
Operations and Maintenance	(19)	(6,124,074)	(5,766,420)
Depreciation	(9)	(6,065,179)	(5,623,944)
General and administrative expenses and provisions	(20)	(408,488)	(386,173)
Total operating expenses		(18,552,083)	(17,502,130)
Operating Income		1,154,574	1,259,159
Other income and expenses - net	(22)	259,258	266,901
Income before Zakat		1,413,832	1,526,060
Provision for Zakat	(12)	-	(43,018)
Net Income for the Year		1,413,832	1,483,042
Earning per share (in SR)	(23)	0,34	0,35

# STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

	Paid-in Capital			Retained Earnings	Total	
For the Year Ended on Dec 31, 2006	In SR thousand	In SR thousand	In SR thousand	In SR thousand	In SR thousand	
Balance, January 1, 2006	41,665,938	597,926	530,510	3,467,962	46,262,336	
Dividends for 2005	-	-	-	(547,252)	(547,252)	
Board of directors' remuneration for 2005	-	-	-	(1,100)	(1,100)	
Consumers' Electricity Fund Collections	-	-	1,053	-	1,053	
Net income for the year	-	-	-	1,413,832	1,413,832	
Transfer to statutory reserve	-	141,383	-	(141,383)	-	
Balance, December 31, 2006	41,665,938	739,309	531,563	4,192,059	47,128,869	

# For the Year Ended Dec 31 2005

Balance, January 1, 2005 as previously reported	41,665,938	462,766	525,327	2,799,773	45,453,804
Prior year adjustment (Note 26)	-	(13,144)	-	(118,297)	(131,441)
Balance, January 1, 2005 as restated	41,665,938	449,622	525,327	2,681,476	45,322,363
Dividends for 2004	-	-	-	(547,252)	(547,252)
Board of directors' remuneration for 2004	-	-	-	(1,000)	(1,000)
Consumers' Electricity Fund Collection	-	-	5,183	-	5,183
Net income for the year	-	-	-	1,483,042	1,483,042
Transfer to statutory reserve	-	148,304	-	(148,304)	-
Balance, December 31, 2005	41,665,938	597,926	530,510	3,467,962	46,262,336





# **STATEMENTS OF CASH FLOWS**

# For the years ended on December 31

Cash flows from operating activities :	2006 In SR thousand	2005 In SR thousand
Net Income before zakat	1,413,832	1,526,060
Adjustments to reconcile net income to net cash provided by operating activities :	, -,	,,
Allowance for doubtful receivables	227,237	144,022
Allowance for slow moving inventory	(21,982)	-
Loss (gain) from investments, net	1,199	712
Depreciation	6,065,179	5,623,944
(Gain) loss on disposal of fixed assets, net	(35,133)	(53,113)
Provision for end of service benefit	131,344	182,086
Electrical service connection tariff	576,867	377,015
Proceeds from customer deposits, net of refunds	51,485	47,012
(Increase) Decrease in operating assets :	,	,
Consumers receivable and accrued revenue	858,046	(3,506,242)
Prepayments and other receivables	(503,442)	860,871
Inventories	(1,019,588)	(89,698)
Increase (Decrease) in operating liabilities :		, ,
Accounts payable	6,529,844	4,705,392
Accruals and other payables	47,362	(118,306)
Net cash provided by operating activities :	14,322,250	9,699,755
Cash Flows from Investing Activities :		
Net (payments for) proceeds from investments	(413,519)	(262,918)
Divident received from investments	3,896	10,331
Fixed assets and construction-in-progress	(11,668,285)	(11,334,410)
Proceeds from disposal of fixed assets	53,730	62,545
Net cash used in investing activities :	(12,024,178)	(11,524,452)
Cash Flows from Financing Activities :		
Bank overdrafts	-	(200,456)
Net proceeds from (settlement of) bank loans	1,415,912	2,360,571
Dividends paid related to prior years	(521,231)	(513,377)
Net cash provided by financing activities	894,681	1,646,738
Net Incerease (Decrease) in Cash and Cash Equivalents	3,192,753	(177,959)
Cash and Cash Equivalents – Beginning of the year	1,007,916	1,185,875
Cash and Cash Equivalents – End of the Year	4,200,669	1,007,916
Non-cash flow from Government loan	-	385,924

# Notes to the financial statements for the year ended on December 31, 2006 and 2005

# 1) Organization And Activities

The formation of Saudi Electricity Company (hereinafter referred to as "SEC" or "the Company") came as a result of the Council of Ministers' Resolution Number 169 Dated Sha'ban 11, 1419 H corresponding to November 29, 1998. The resolution stipulated the reorganization and restructuring of the electricity energy sector in the Kingdom of Saudi Arabia (KSA) by merging all the former public Utility joint stock companies (10 public companies covering almost the whole Kingdom) and General Electricity Corporation projects (11 projects covering different areas in the northern region of the Kingdom) in Saudi Electricity Company.

SEC was formed by Royal Decree No. M/16 dated Ramadan 6, 1420H corresponding to December 13, 1999 as a Saudi Joint Stock Company in accordance with the Council of Ministers' Resolution number 153, dated Ramadan 5, 1420H corresponding to December 12, 1999 approving the Company's Articles of Association, and the Minister of Commerce resolution number 4027, dated Dhu Al Hijjah 30, 1420H corresponding to April 5, 2000 under Commercial Registration number 1010158683 dated Muharram 28, 1421H corresponding to May 3, 2000.

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

The company is divided, based on its organization chart, into the main activities of generation, transmission, and distribution and related supporting activities such as finance, human resources, general services and planning. Generation, transmission and distribution activities complement each other for the purpose of delivering the electricity to the consumer. 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.

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

The financial year of the Company commences on January 1, and ends on December 31, every calendar year.





# 2) Summary Of Significant Accounting Policies

The Company prepares its financial statements under the historical cost convention on the accrual basis of accounting in accordance with accounting standards generally accepted in the Kingdom of Saudi Arabia. Significant accounting policies adopted in the preparation of these financial statements are summarized below:

## **Accounting Estimates**

The preparation of financial statements in accordance with generally accepted accounting principles requires the use of estimates and judgments which might effect the valuation of recorded assets, liabilities and the disclosure of contingencies in the notes to the financial statements at the balance sheet date. Although these estimates are based on the best information available to management at the date of issuing the financial statements, the actual end results might differ from those estimates.

# **Cash and Cash Equivalents**

Cash and cash equivalents include cash on hand, balances and deposits with banks, and other investments with original maturities of three months or less.

#### **Consumers Receivable**

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 by the management.

#### **Inventories**

Generation, transmission and distribution inventories of materials, supplies and fuel are stated at the weighted average cost, net of allowances 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**

Investments in entities, the Company has at least 20% shareholding, are accounted for by Equity Method under which the investments are stated initially at cost and adjusted thereafter for the post acquisition changes in the net assets of the investee company. Revenues or losses from such investments are recognized in the income statement when financial statements of investee entities are issued.

Investments in entities, the Company has less than 20% shareholding and are held for maturity are stated at fair market value. Fair market value is determined as market value quoted in the financial instruments market. The resultant unrealized gains or losses are recorded as part of shareholders' equity. If the shares of Investee Company are not listed in an active security market and if there are other indicators which can enable the determination of fair value, then those investments are stated at cost. The carrying amount of investment is reduced to recognize other than temporary diminution in the value. Revenue is recognized from these investments upon declaration of dividends by the investee company.

#### **Fixed Assets**

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

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

# **Capitalization of Finance Costs**

Net finance cost, long-term loans' finance charges and any other finance costs charged to the company net of any 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 finance cost to be capitalized on each project is calculated using the capitalization rate on the average amounts spent on the projects.

#### **End of Service Benefits**

End of service benefits are accrued in accordance with the Saudi Labor and Workmen Regulations.

#### Zakat

Zakat is accrued in accordance with the regulations of the Department of Zakat and Income Tax in KSA. Adjustments arising from final Zakat assessments, if any, are recorded in the year in which such assessments are made.

#### Revenue

Revenue from electricity sales is recognized when bills are issued to consumers based on their consumption of electric power measured in Kilowatts/hours. Revenue from electricity consumed but not 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.

Electrical 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, which is estimated to be 20 years.

#### **Expenses**

Operations 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 those 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, which is evaluated on yearly basis.

# **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 dates of such transactions. Monetary assets and liabilities denominated in foreign currencies at the Balance sheet date are translated to Saudi Riyals at the exchange rates prevailing at that date. Exchange gains and losses arising on the settlement of foreign currency transactions and all unrealized gains and losses on foreign currency denominated monetary balances are recorded in the statement of income.

There were no material exchange gains or losses incurred during the year as a result of such transactions.

# As of December 31

3) Cash And Cash Equivalents	2006 In SR thousand	2005 In SR thousand	
Cash on hand	1,638	1,918	
Cash at banks	177,990	983,616	
Short-term deposits	4,021,041	22,382	
	4,200,669	1,007,916	

The increase in the cash and cash equivalent as of December 31, 2006 is due to collection of SR 3.6 billion from the government in December 2006 against their electricity consumption (Note 4).

# 4) Consumers Receivable And Accrued Revenue - Net

Consumers Receivable		
Governmental	16,439,149	17,873,774
Saudi ARAMCO	747,124	426,625
Saline Water Conversion Corporation	814,811	712,358
Commercial and residential	2,724,021	2,961,177
VIPs	1,549,295	1,392,294
Connection fees receivable	284,735	199,080
Total	22,559,135	23,565,308
Less: Allowance for doubtful accounts	(1,804,223)	(1,578,609)
Net consumers receivable	20,754,912	21,986,699
Accrued revenues	911,479	763,352
	21,666,391	22,750,051
5) Prepayments And Other Receivables - Net		
Advances to suppliers and contractors	1,304,923	742,331
Prepaid expenses	27,813	9,908
Purchases on open letters of credit	208,393	270,064
Other	118,996	134,380
Total	1,660,125	1,156,683
Less: Allowance for doubtful debts	(79,898)	(78,275)
	1,580,227	1,078,408

# As of December 31

6) Inventories - Net	2006 In SR thousand	2005 In SR thousand
Generation plant materials and supplies	2,217,004	1,945,966
Transmission network materials and supplies	236,701	228,834
Distribution network materials and supplies	2,120,978	1,377,485
Fuel and oil	223,320	219,990
Others	152,988	159,128
Total	4,950,991	3,931,403
Less: Allowance for slow moving inventory	(255,018)	(277,000)
	4,695,973	3,654,403

## In thousand Saudi Riyals

7) Long Term Investments	Balance, 01/01/2006	Additions during the year	Investment Profit (loss)	Dividends received	Balance on 31/12/2006
Gulf Cooperation Council Interconnection Authority (7a)	325,145	412,519	1,959	(3,896)	735,727
Water and Electricity Company (7b)	14,094	-	(3,158)	-	10,936
Al-Shuaiba Company for Water and Electricity (7c	400	-	-	-	400
Al-Shuqaiq Water and Electricity Company (7D)	-	1,000	-	-	1,000
	339,639	413,519	(1,199)	(3,896)	748,063

# 7a. Gulf Cooperation Council Interconnection Authority

SEC has 31.6% ownership interest in the Gulf Cooperation Council Interconnection Authority (hereinafter referred to as "GCCIA") capital. This entity was established by the Gulf Cooperation Council "GCC" member countries to enhance the efficiency of electricity transmission and distribution within the member countries. SEC's ownership interest in GCCIA equals USD 347.6 million equivalent to SR 1,305 million of which 57% is paid as of December 2006 (2005: 25%). The remaining balance of subscription will be paid based on dates to be specified by the Board of Directors of GCCIA. GCCIA has not released its 2006 financial statements as of the date of issuance of these financial statements.

# 7b. Water and Electricity Company

SEC in participation with Saline Water Conversion Corporation established an equally owned new limited liability company called Water and Electricity Company based on the Supreme Economic Council Decision no. 5/23 dated 23/3/1423, which includes encouragement of the private sector participation in water desalination projects. The participation of SR 15 million representing 300,000 shares which is 50% of the company's capital was fully paid. The 2006 financial statements of the company have not been issued as of the date of issuance of these financial statements.

# 7c. Al-Shuaiba Water and Electricity Company

SEC participated in establishing Al-Shuaiba Water and Electricity Company (a joint stock company). The purpose of the company is to establish, develop, and operate Al-Shuaiba III project for the dual production of water and electricity. SEC's share of the investment is SR. 400 thousand and is fully paid. The amount represents 8,000 shares which is 8% of the total capital. The Company is still in construction phase and no financial statements have been issued as of the date of issuance of these financial statements.

#### 7d. Al-Shugaig Water and Electricity Company

During the current year, SEC, in participation with General Investment Fund, established Al-Shuqaiq Water and Electricity Company. The main objective of the company is to establish, develop and operate Al-Shuqaiq Project for the dual production of Water and Electricity in Al-Shuqaiq Area. The Company's share of investment is SR 1 million and is fully paid. The amount represents 100,000 shares, which is 20% of the total capital. The Company is still in construction phase and no financial statements have been issued as at the date of issuance of these financial statements.



# As of December 31

	2006	2005	
8) Contruction-in-progress	In SR thousand	In SR thousand	
Power generation projects	5,747,776	4,890,297	
Transmission projects	4,823,072	5,030,056	
Distribution projects	2,542,064	2,676,857	
General projects	561,795	614,031	
	13,674,707	13,211,241	

Net financing cost capitalized on projects under construction during the year amounted to SR 691 million (2005: SR 526 million).

9) Fixed Assets - Net							
	Land	Buildings	Machinery & Equipment	Spare Parts	Vehicles	Others	Total
	SR thousand	SR thousand	SR thousand	SR thousand	SR thousand	SR thousand	SR thousand
Cost							
Balance on January 1st 2006	1,288,984	11,920,584	151,994,807	2,311,619	1,280,572	1,865,667	170,662,233
Reclassifications	2,802	(2,273)	(237,507)	8,654	4	228,320	-
Additions	37,343	462,711	10,504,764	74,374	43,389	82,238	11,204,819
Disposals	-	(25,357)	(165,312)	-	(31,209)	(9,327)	(231,205)
Balance on December 31st 2005	1,329,129	12,355,665	162,096,752	2,394,647	1,292,756	2,166,898	181,635,847
Accumulated Depreciation:							
Balance January 1, 2006	-	(6,896,705)	(84,083,494)	(1,380,230)	(1,128,570)	(1,652,042)	(95,141,041)

Balance January 1, 2006	-	(6,896,705)	(84,083,494)	(1,380,230)	(1,128,570)	(1,652,042)	(95,141,041)
Reclassifications	-	-	(196,570)	10	(2,113)	198,673	-
Depreciation for the year	-	(440,779)	(5,377,544)	(91,464)	(50,665)	(104,727)	(6,065,179)
Disposals	-	24,089	147,983	-	31,209	9,327	212,608
Balance on December 31, 2006	-	(7,313,395)	(89,509,625)	(1,471,684)	(1,150,139)	(1,548,769)	(100,993,612)

# **Net Book Value**

As of December 31, 2006	1,329,129	5,042,270	72,587,127	922,963	142,617	618,129	80,642,235
As at December 31, 2005	1,288,984	5,023,879	67,911,313	931,389	152,002	213,625	75,521,192

Net book value of fixed assets based on the Company's main activities at December 31, 2006 were as follows:

Discription	Generation In SR thousand	Transmission In SR thousand	Distribution In SR thousand	General Property In SR thousand	Total 2006 In SR thousand	Total 2005 In SR thousand
Land	246,566	600,482	226,292	255,789	1,329,129	1,288,984
Buildings	2,434,825	1,490,460	155,241	961,744	5,042,270	5,023,879
Machinery and equipment	23,615,843	26,364,567	22,239,680	367,037	72,587,127	67,911,313
Capital spare Parts	547,533	375,414	16	-	922,963	931,389
Vehicles	-	-	-	142,617	142,617	152,002
Other	462,210	27,850	2,322	125,747	618,129	213,625
Total	27,306,977	28,858,773	22,623,551	1,852,934	80,642,235	75,521,192

Depreciation expense charged to different activities during the years ended December 31 were as follows:

	2006 In SR thousand	2005 In SR thousand
Generation	2,084,999	1,907,365
Transmission	1,849,550	1,675,751
Distribution	1,839,432	1,751,124
General property	291,198	289,704
	6,065,179	5,623,944

As of Dec	cember 31	
2006	2005	
In SR thousand	In SR thousand	
26,102,026	21,635,805	
5,436,373	4,590,953	
2,214,285	1,654,851	
1,174,381	1,273,473	
1,445,003	1,186,050	
588,328	261,316	
1,684,096	1,512,200	
38,644,492	32,114,648	
	2006 In SR thousand 26,102,026 5,436,373 2,214,285 1,174,381 1,445,003 588,328 1,684,096	





The dispute between SEC and Saudi Aramco relating to the diesel prices has been resolved according to the minutes of the meeting between H.E. the Minister of Finance and H.E. the Minister of Petroleum and Mineral Resources dated 15/5/1427H, corresponding to 11/6/2006, in which it is decided that Saudi Aramco should adjust its books for the additional amount charged for diesel. The amount booked by Saudi Aramco should be based on prices set prior to the Council of Ministers' Resolution number M/8 dated 25/7/1415 on the ground that the Ministerial Committee referred to in the resolution mentioned above did not discuss the revised prices and it was not approved by a Royal Decree.

The above mentioned minutes did not sort out the difference in the crud oil handling fees and the dispute is still pending. The cumulative difference in the crud oil handling fees from the inception of SEC on April 5, 2000 upto December 31, 2006 amounted to SR 1,294 million. Based on the above mentioned resolution, the management does not expect any liability on the company and therefore the amount has not been reflected in the company's accounting records.

During 2006, SEC received an invoice from Saudi Aramco amounting to SR 103 million for the electricity exported from Saudi Aramco's generation units to SEC's network for the period from April 5, 2000 to December 31, 2006. The issue is still under investigation by the management of the two companies.

The other payables constitute pending amounts between the Company and Government mainly due to the accounts of merger.

	As of De	cember 31
11) Accruals And Other Payables	2006 In SR thousand	2005 In SR thousand
Payroll accruals	232,511	262,664
Accrued expenses	352,937	169,487
Unclaimed dividends	329,764	303,743
Provision for Zakat (Note 12-b)	-	43,018
Other	334,918	397,788
	1,250,130	1,176,700

Unclaimed dividends include SR 98 million representing cash dividends declared by former SCECOs which have not been claimed by the shareholders (2005: SR 103 million).

For the	year er	nded 31	l, Decem	ber
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2) Provision for Zakat	2006 In SR thousand	2005 In SR thousand
a- Calculation of Zakat Provision		
Adjusted net income computation:		
Income before Zakat	1,413,832	1,526,060
Add: Zakat adjustments	(9,289,492)	194,667
Adjusted net (loss) income	(7,875,660)	1,720,727
Zakat base computation:		
Share capital	41,665,938	41,665,938
Adjusted net (loss) income	(7,875,660)	1,720,727
Reserves	1,128,436	988,093
Retained earnings	2,919,610	2,251,521
Provisions	5,724,529	5,450,403
Long-term loans	9,756,529	8,340,406
Governmental loan	14,938,060	14,938,060
Contractor payables and retentions	2,214,285	1,654,851
Total	70,471,727	77,009,999
Less:		
Fixed assets and construction-in-progress	(87,916,913)	(75,289,272)
Long-term investments	(748,063)	(339,639)
Inventory of material and spare parts	(3,659,746)	(2,841,828)
Zakat Base - Negative	(21,852,995)	(1,460,740)

	As of Dec	ember 31
	2005 In SR thousand	2004 In SR thousand
b- Zakat Provision Movement		
Balance, beginning of the year	43,018	42,356
Zakat paid during the year	-	(42,356)
Adjustments during the year (13c)	(43,018)	-
Provision for the year	-	43,018
	-	43,018



## c) Zakat Status

The responsible government agency agreed to settle the Zakat differences claimed by the Department of Zakat and Income Tax (DZIT) from the former SCECOs for the years up to 1420H (date of merger) against the government subsidy due to the said companies. As of the date of issuing these financial statements, the company has not received a final clearance from the DZIT for the years up to 1420H.

The company has obtained its restricted Zakat certificate up to 2005. According to the final assessment received from the DZIT for the period from April 5, 2000 (merger date) to December 13, 2001 and for the year 2002, there are zakat differences of SR 13 million relating to amounts being claimed from Aramco for electricity consumption in their residential property based on the residential tariff rather than the industrial tariff which Aramco used for settlement. The management has not accrued any liability for this SR 13 million as it believes that zakat should not be levied on unrecognized revenues which have not been accounted for in the accounting records. The company did not receive any reply from DZIT regarding its appeal against the above assessment. The final assessment for the year 2003 to 2005 has not been received till the date of issuing these financial statements.

	As of D	ecember 31
13) Long-term Loans	2006 In SR thousand	2005 In SR thousand
Balance, beginning of the year	8.340,617	5,980,046
Received during the year	2.407,083	3,450,000
Paid during the year	(991,171)	(1,089,429)
Balance end of the year	9,756,529	8,340,617
Current portion of long-term loans	(741,114)	(991,222)
Non-current portion of long-term loans	9,015,415	7,349,395

The following are the scheduled repayments of long-term loans as of December 31:

	2006 In SR thousand	2005 In SR thousand
Between one and two years	1,403,192	741,114
Between two and three years	1,239,130	1,403,192
Between three and four years	1,075,067	1,239,130
Between four and five years	1,064,432	1,040,749
Beyond 5 years	4,233,594	2,925,210
	9,015,415	7,349,395

Bank loans represent long-term borrowings obtained from commercial banks to finance construction work. Some of the borrowings are secured by SEC's revenue from major customers, and notes payable to banks.

The unutilized portion of the above mentioned loans as of December 31, 2006 amounted to SR 2,111 million (2005: SR 4,518 million).

# 14) Bank Overdraft

The company has signed agreements with two local banks for overdraft facilities of SR 500 million each aggregating SR 1,000 million. These overdrafts are secured by notes payable. As of December 31, 2006 and 2005 the overdrafts had no outstanding balance.

Asc	of D	ecem	her 31

15) Deferred Revenue - Net	2006 In SR thousand	2005 In SR thousand
Electrical service connection tariff	iii Sit tilousaliu	III 3N tribusariu
Balance at the beginning of the year	9,957,130	9,580,115
Proceeds during the year	1,290,649	1,048,341
Revenues for the year	(713,782)	(671,326)
	10,533,997	9,957,130

## 16) Government Loan

According to Resolution 169 dated 11/8/1419, SEC's net dues to the Government as well as net dues from 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 issue of the Royal Decree of incorporation of the Company, is to be considered an interest free subordinated long-term loan with a grace period of twenty five years starting from the date of public announcement of incorporation of the Company. This 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, included that the final settlement of government accounts will be subject to the reconciliation of invoices between the company and certain government entities, and the loan amount shall be adjusted accordingly. During the year 2005, the company has finalized the settlement and the result was an amount of SR. 385,924 thousand in favor of the government entities. The final loan amount was agreed at SR 14,938,060 thousand in a meeting held on 15/07/1426 between the Ministers of Water and Electricity, and Finance. The minutes of the above meeting were signed by both parties.

The Board of Directors of SEC is of the opinion that the repayment of this loan is not confirmed at the end of the 25 year grace period, and accordingly, it has not been discounted to its net present value.

# 17) Share Capital

The share capital of the Company as of December 31, 2006 is SR 41,665,938,150 consists of 4 166 593 815 shares with a par value of SR 10 each after share split (2005: SR 833,318,763 shares with a par value of SR 50 each).

Based on a resolution by the Council of Ministers, the Capital Market Authority issued decision number 4-154-2006 dated March 27, 2006, splitting the shares of joint stock companies. As a result, the nominal value of the company's shares became SR 10 instead of SR 50 per share.

The share capital amount comprises of the following:





		In SR thousand
Share capital of merging companies as at 29/12/1420H		23,153,387
Undistributed earnings of merging companies for the period from 1414H to 1418H		1,340,717
Proceeds for Electricity Fee Fund from its inception till 31/12/2001		12,618,340
Net assets of General Electricity Corporation Projects		1,175,327
Capitalization of amounts collected for Government Electricity Fee Fund after 31/12/2001		3,378,167
Total		41,665,938
The above-mentioned capital is owned by the follow	ina:	
The above mentioned capital to owned by the following	Numbers of Shares	Ownership Percentage
Government	3 096 175 320	%74,31
Saudi ARAMCO	288 630 420	%06,93
Other Shareholders	781 788 075	%18,76
Total	4,166,593,815	%100,00

# 18) General Reserve

General reserve represents the balances in reserves that were recorded in the books of the merging companies at the merger date amounting to SR 213,668 thousand and the returns on investing the Electricity Fee Fund amounting to SR 294,976 thousand. In addition, the general reserve as of December 31, 2006 also includes SR 22,919 thousand (2005: SR 21,866 thousand) collected from individuals pertaining to the Electricity fund after December 31, 2001. Accordingly, the balance in general reserve become SR 531,563 thousand as of December 31, 2006 (2005: SR 530,510 thousand).

# 19) Operating And Maintenance Expenses

Operating and maintenance expenses for the two years ended December 31 consist of the following:

			<b>006</b> thousand		2005 In SR thousand
	Generation	Transmission	Distribution	Total	Total
Employees' expenses and benefits	1,241,292	617,907	1,896,298	3,755,497	3,528,024
Materials	621,002	51,935	178,231	851,168	904,953
Municipality fees	-	-	258,953	258,953	251,634
Other	711,280	113,869	433,307	1,258,456	1,081,809
Total	2,573,574	783,711	2,766,789	6,124,074	5,766,420

# 20) General and Administrative Expenses and Provisions

General and administrative expenses, as well as provisions for the two years ended December 31 consist of the following:

	2006 In SR thousand	2005 In SR thousand
Employees' expenses and benefits	98,094	140,367
Materials	195	1,469
Allowances for doubtful accounts	227,236	144,022
General and administrative expenses	82,963	100,315
	408,488	386,173

# 21) Board of Directors Remuneration and Allowances

Costs and allowances relating to attending the board of directors, and other subcommittee meetings for the year amounted to SR 829 thousand (2005: SR 465 thousand).

The Board of Directors' remuneration of SR 0.9 million is due from profit after distribution of dividends of 5% to the Other Shareholders on the share capital held by them (Note 17 and 23). The remuneration is subject to the approval of the General Assembly (2005: SR 1.1 million).

## 22) Other Income and Expenses – Net

Other income and expenses for the two years ended December 31 consist of the following:

	2006 In SR thousand	2005 In SR thousand
(Loss) income from long-term investments	(1,199)	(712)
Gain (loss) disposal of fixed assets	35,133	53,113
Reversal of allowances and accruals	43,018	77,400
Reconnection fees	11,977	34,844
Penalties	107,275	64,701
Sales of tender documents	11,782	15,765
Other income and expenses - Net	51,272	21,790
	259,258	266,901





# 23) Proposed Dividend and Earnings per Share (EPS)

According to the Company's Articles of Association, a preliminary payment of dividend not less than 5% of paid share capital is to be declared from the remaining profits after deducting reserves and taking into consideration the conditions stated by Resolution 169 dated 11/8/1419, which stipulates that the Government would waive its share of dividends for a period of ten years from the date of the Company's formation provided that dividends do not exceed 10% of the par value of its shares. If dividends exceeded 10% of the shares par value, the Government's share shall be treated similar to the share of other shareholders.

Saudi Aramco raised a claim for its share of yearly cash dividends as well as dividends that will be declared in the future. The claim for the period from the inception of the company on 5/4/2000 to 31/12/2005 amounted to SR 927 million. SEC believes that Aramco is not entitled to cash dividends being a government entity fully owned by the government, and that the above mentioned Resolution No. 169 applies to Aramco.

The Board of Directors, in their meeting held on 24/02/2007 has proposed a subject to the approval of the General Assembly, a dividend distribution for the year 2006 to other shareholders amounting to SR 547 million in cash at SR 0.7 per share, representing 7% of the par value of the shares (2005: SR 547 million).

Earning per share was calculated using the total number of shares outstanding at December 31, 2006 of 4 166 593 815, including the government and Saudi Aramco shares (Note 17). Earning per share for the year 2005 has been restated retroactively to reflect the effect of the share split which took place in 2006.

# 24) Commitments and Contingencies

#### a) Commitments

SEC has entered into contractual agreements to construct and erect utility plants and other assets. Such commitments amount to approximately SR 29,613 million at the balance sheet date (2005: SR 13,806 million). The expected time to fulfill such commitments is between one to three years.

In addition, SEC has a commitment for SR 561 million representing the remaining balance of its investment in GCCIA (Note 7a).

#### b) Contingencies

SEC has outstanding letters of credit amounting to SR 106 million (2005: SR 146 million) as of balance sheet date.

The company provided a guarantee to a commercial bank on behalf of Al-Shuaiba Company for Water and Electricity for representing its portion of the loan given to the mentioned company. The guarantee amount is USD 44.6 million equivalent to SR 167 million (Note 7c).

The company has a dispute with one of its energy vendors is related to the purchasing price for the Kilowatts/hours. The total difference between the amount accepted by the company and the amount billed by the vendor amounted to SR 118 million as of December 31, 2006 (2005: SR 71 million). Management believes that the amount billed is overstated since there is no binding agreement, and therefore did not account for it in its books.

# 25) Related Party Transactions

SEC provides electricity power and connections to governmental agencies, ministries and Saudi Aramco. The rates used to charge related parties are the rates approved by the Council of Ministers which 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 residential property of Saudi Aramco. The Company believes that residential properties of Aramco fall under commercial tariff while Saudi Aramco is rejecting this and pays for electricity sales for all these properties based on industrial tariff. As a result of this, a difference of SR 168 million for the current year was identified (2005: SR 157 million) and a cumulative difference of SR 1,161 million since the Company's inception to December 31, 2006 which has not been reflected in the accompanying financial statements. This issue is still under discussion between both companies. In addition, SEC purchases fuel from Aramco and electric power from Saline Water Conversion Corporation, based on prices set by governmental resolutions. Also, fees are paid to the municipalities based on electricity revenues.

The following represents a summary of transactions that have taken place with related parties during the two years ended December 31:

	2006 In SR thousand	2005 In SR thousand
Sales		
Government	4,907,862	4,703,358
Saudi ARAMCO	1,633,961	1,788,779
Saline Water Conversion Corporation	87,402	80,044
	6,629,225	6,572,181
Expenses and other		
Saudi ARAMCO	4,442,357	4,396,604
Saline Water Conversion Corporation	846,808	739,227
Municipalities fees	258,953	251,634
	5,548,118	5,387,465

# 26) Prior Year Adjustment

Prior years adjustments relating to 2005 represent the correction of meter readings for the consumption of a major consumer amounting to SR 131,441 thousand that has been recognized as revenue in 2004.

## 27) Comparative Figures

Certain comparative figures in the financial statements have been reclassified to conform with the current figures.

