



الشركة السعودية للكهرباء
Saudi Electricity Company

Empowering Energy

Annual Report



2003

بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ



Custodian of the Two Holy Mosques

King Fahd Ibn Abdul Aziz Al-Saud



His Royal Highness

Crown Prince Abdullah Ibn Abdul Aziz Al-Saud

Deputy Premier and Head of the National Guard










His Royal Highness

Prince Sultan Ibn Abdul Aziz Al-Saud

Second Deputy Premier, Minister of Defence
and Aviation and Inspector General

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THE MERGER

Gradual corporate transformation aimed at encouraging business involvement within the Kingdom of Saudi Arabia and abroad.

RESTRUCTURING

Saudi Electricity Company (SEC) switched its organizational set-up from geographical branches into functional and operational structures.

PRIVATIZATION

SEC promotes a broader involvement of the private sector in the areas of electric power generation, trading and customer services, ensuring that this sector is encouraged and made competitive.

INVESTMENT OPPORTUNITIES

SEC creates a favorable environment for profitable investments in the areas of electricity generation and transmission in the next two decades.

SEC at a Glance

THE CHAIRMAN'S MESSAGE



... in order to attract business investors, the Company promoted SR55 billion worth of investment opportunities, including its own projects in the field of electric power generation and transmission, and joint ventures with the Water and Electricity Company.

The growth realized by the Saudi Electricity Company (SEC) as shown by the Annual Report for the year 2003 reflects SEC's qualitative evolution since its inception. The Company was able to reap the rewards of its dedication to achieving remarkable results while addressing continuous challenges. These challenges consist of ensuring a reliable power supply meeting the Kingdom's annual demand, improving the quality of electric services to the public, enhancing the performance and business practices while minimizing the operational costs, and building state-of-the-art electric power facilities. They also include SEC's commitment to deliver electric services all over the Kingdom in support of the national economy, through meeting the requirements of developments, relying on the Almighty Allah, and

then on the Company's own financial resources. Addressing these challenges requires high efficiency rates and value-adding performance, backed by a strong financial position, thus enabling the Company to achieve its strategic goals and keep up success.

In accordance with its objectives and business plans to provide a fair competitive environment and to encourage private sector participation in constructing and operating electric power facilities, the Company promoted SR55 billion worth of investment opportunities, including its own projects in the field of electric power generation and transmission, and joint ventures with the Water and Electricity Company. May I, therefore, seize this occasion to welcome

businessmen to consider investing in these projects in the light of the projected high return on investment compared with alternative opportunities.

In the framework of cooperation with local and regional entities and companies sharing similar purposes and line of business, SEC acquired a 40% shareholding in the Gulf Cooperation Council Interconnection Authority (GCCIA), capitalized at USD869 million. Each shareholder was required to pay the equivalent of 5% of the nominal value of the subscribed shares to complete the first stage of interconnection. The Company has also established a limited liability company called the Water and Electricity Company, through an equally-owned partnership and equally owned share capital of SR30 million, with the Saline Water Conversion Corporation (SWCC). The declared purpose of the company is to purchase electricity from potential investors for resale to SWCC and SEC. Also included among its responsibilities is its own fuel procurement.

As for Research and Development (R&D), the Company pursued in 2003 the implementation of Chapter II of its R&D programme, in collaboration with universities and research institutes concerned with a variety of applications in the electric power industry. Ten research projects that were designed and approved, related to SEC's various activities, are being started.

On behalf of the Members of the Board, I hereby acknowledge that these achievements could not have been possible without the support, assistance and care granted to SEC by the Custodian of the Two Holy Mosques, King Fahd Ibn Abdul Aziz Al-Saud, H.R.H. Crown Prince Abdullah Ibn Abdul Aziz Al-Saud, Deputy Premier, and H.R.H. Prince Sultan Ibn Abdul Aziz Al-Saud, Second Deputy Premier.

May I, also, take this opportunity to thank my colleagues, the Members of the Board, the Executive Management, and all SEC employees for their dedication, loyalty, and relentless efforts to realizing the Company's goals, safeguarding its interests and achievements, strengthening its financial position and enhancing its competitive edge. I sincerely hope that this dedication and enthusiasm will be sustained in the future.

Asking Allah, Glory be to Him, to bless our efforts and bring prosperity that will translate in additional positive results for the country and the Company.

Dr. Ghazi Abdulrahman Al-Qusaibi
Minister of Water & Electricity
SEC Chairman of the Board

SEC AT A GLANCE

Our Vision

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

Our Mission

Saudi Electricity Company is committed to provide its customers with safe and reliable electric services, to meet the expectations of its shareholders, caring for its employees, and ensuring optimum utilization of available resources.



The Merger

The Saudi Electricity Company, since its incorporation on April 5, 2000 as a Saudi joint-stock corporation, following the merging of all electric utilities in the Kingdom and Electricity Corporation Projects into one single entity, pursues an independent business path through self financing its own projects designed to achieve its strategic goals that consist of:

1. Attaining a high level of customer satisfaction by fulfilling the expectations of all customer segments and interact with them positively.
2. Enhancing the quality of electrical services delivered to all customer segments.
3. Initiating and monitoring tailored training programmes and modules aimed to develop Company's human resources.
4. Delivering a reliable business performance

in constructing interconnected electricity networks throughout the Kingdom for delivery of electrical services.

5. Taking capital investments in joint ventures in the areas of electricity generation, transmission, and distribution within the Kingdom and abroad.
6. Ensuring continuous interaction with the community and contributing to humanitarian projects.
7. Undertaking and supporting research with emphasis on upgrading the performance of the Company in all of its businesses and keeping environmental protection concerns.

Restructuring

Following the completion of the merger, the Company undertook a gradual and systematic approach towards restructuring its businesses to ensure the continuous delivery of high-value



services to its customers. The Company used the same approach in preparing its human resource base to adapt to changes necessary to achieve the designed strategic goals.

After the inception of the Company and the appointment of the CEO, the preparation phase for functional separation, by type of operation, was initiated by means of setting up a temporary structure; an ad hoc executive committee empowered with specific tasks by type of business (i.e. power Generation, Transmission, Distribution and Customer Services, Finance, General Services, Human Resources, and Legal Affairs). Their tasks include that of supervising the work of advisors involved in the restructuring of the various specialized activities, overseeing the coordination committees that were designated to

ensure implementation of standardized operating procedures and guidelines, and to adopt the best practices being implemented in various branches of the Company. The major branches located in the Eastern, Central, Western and Southern Operating Areas were given the task of overseeing the operations of electric utilities located in the Northern Operating Area, and of other projects undertaken by the Electricity Corporation.

Beginning 2002, the Board of Directors implemented Level-I of the new transitional organizational structure designed towards functional businesses for specialized activities. Strategic business functions emerged (i.e. Generation, Transmission, Distribution and Customer Services), in addition to shared businesses and support services.

Beginning 2003, the transitional organization was activated and Level-II of the new structure was implemented. Sectors and managing departments by type of business were defined with clear terms of reference, assignment of responsibilities, and job descriptions and purposes. The restructuring trickled down to the remaining organizational levels. This operation is scheduled for completion by the end of the third quarter of 2004.

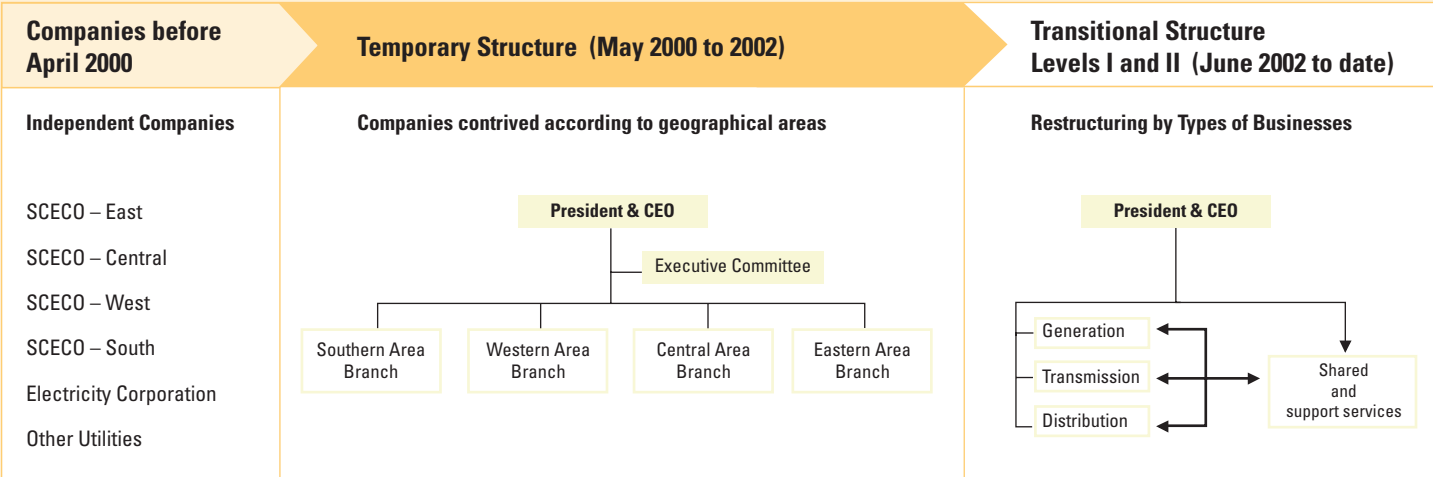
Privatization

The ongoing process of restructuring the electrical energy sector in the KSA will contribute to increase the competitiveness of the Kingdom’s economy in all areas by creating investment opportunities, helping to establish a competitive market for the generation and trading of electricity, and by involving entrepreneurs from the private sector - encouraging them to invest and compete over electrical services supply.

This sector will be made competitive, resulting in electricity tariffs that yield returns while taking into account low income customers and allowing the customers to select from among a broad spectrum of electrical services suppliers.

Investment opportunities

The growing demand for electric energy is an indicator of the promising investment prospects in the core businesses of the Company (electricity supply related activities): Generation, Transmission, Distribution and Customer Services. Phase-I of these prospects has been initiated. Investment opportunities were defined in order to encourage the private sector to invest in power generation projects that have been launched. These projects were designed to boost additional generation capacity of up to 14,175 MW at an investment cost of SR 27 billion. They include transmission projects that will extend overhead



transmission lines (380 KV, \pm 500 KV) by an additional network length of 3,860 km amounting to an investment cost of SR 8,025 million. These projects are scheduled for implementation over the next decade.

The Company promotes pro-actively these investment opportunities made available in the framework of its investment schemes in addition to other electricity and water joint ventures via:

1. Publication of "Investment Opportunities Guide", in coordination with the Saudi Arabia General Investment Authority (SAGIA) and the Council of Chambers of Commerce and Industry, and the various Chambers, targeting national businessmen and foreign investors.
2. Organizing conferences and introductory meetings aimed at providing the businessmen with the required adequate information.

3. Launching mass media campaigns to promote these opportunities.

In-depth exploration of these joint ventures is available on our website:

www.se.com.sa

Our Partners

The SEC and Saline Water Conversion Corporation (SWCC) have jointly created a limited liability company called "Water and Electricity Company" with an equally owned share capital of SR30 million. The company has for its purpose the purchase and sale of water and electricity, and the procurement of the required fuel to realize this purpose. Indeed, as stated in the Higher Council for Economic Development's Resolution No. 5/23 dated 23 Rabi-I 1423H corresponding to 5 June 2002, the main outlined objective was the creation of an independent corporate entity specialized in water and electricity procurement. This company will effectuate purchases from companies that own water and electricity production plants for eventual resale of purchased water to SWCC, and resale of purchased electricity to SEC.

In the framework of cooperation with local and regional entities and companies having similar purposes and line of work, SEC acquired 40% of the capital share of the Gulf Cooperation Council Interconnection Authority (GCCIA), capitalized at USD 869 million. Each shareholder was required to pay the equivalent of 5% of the nominal value of the subscribed shares.

Moreover, a joint stock company with head office in the city of Dammam was incorporated. Its sole purpose is to administer the electrical power interconnection grid of the GCC countries. The proposed grid will allow the reduction of surplus power output, improve the economics of electric power systems, and lay down the basis for a feasible trading in electrical power, thus enhancing the reliability of electric power supply.



THE CEO'S MESSAGE



Hard facts bear witness to the company's scrupulous concern about meeting the needs and expectations of customers, and namely, the highest growth rate of energy sales ever recorded.

Dear stakeholders,

The SEC's third Annual Report shows the result of the efforts made during the year 2003. These efforts were focused on the completion of the restructuring process and the struggle to instill expertise and necessary competencies to meet the requirements and specifications of each Company business. The report clearly illustrates how, by God's grace, we were able to conciliate between this endeavor and the uninterrupted and stable generation and supply of energy services, conquering obstacles that hinder meeting foreseen needs for electrical services. The SEC stands out as a company with a long-term vision based on strategic planning which takes into consideration the acceleration of the economic development in the Kingdom, R&D oriented, and

active in building linkages with universities and research agencies involved in studies and in developing electric power applications.

During this year, the first step in identifying and assessing the requirements and needs for electric power over the forthcoming two decades was taken. The specification for investment opportunities corresponding to specific projects in the field of power generation and transmission were set and spelled out according to time frames for clear plans of action. A pro-active promotion of these opportunities was launched, in addition to the joint venture with the Water and Electricity Company, in order to involve new private sector parties to compete over electrical services supply.

Although focusing on reorganizing the company's structures and laying down the basis of its work practice during the past year, SEC recorded remarkable achievements in a variety of areas. SEC's financial performance at year-end was positive, reflecting its marked ongoing evolution towards becoming a profit generating joint-stock company. It shows a profit of SR 1,408,443 thousand, 31% growth above previous year. The financial strengthening of the company is thus evidenced.

Reinforcing the generation capacity remains the true criterion and the most prominent landmark on the goal achievement's path. The year 2003 witnessed an emphasis on that side, concretized by the boosting of the actual generation capacities totaling 27,018 MW on the national level thus recording an average increase of 6.1%. Henceforth, the actual aggregate available generation capacity amounts to 30,091 MW after adding the contribution of the desalination plants of SWCC and other major customers.

Hard facts bear witness to the company's scrupulous concern in meeting the needs and expectations of customers, and namely, the highest growth rate (10.5%) of total energy sales (142,194 GWH) ever recorded since its inception, thus meeting this challenge and fulfilling all customer requirements for electrical services. At the end of 2003, the absolute number of customers has reached 4,246,898, an increase of 5.4% over the previous year. This was coupled with a leap forward in the quality of services delivered to customers. In this context, 615 new villages and remote settlements were electrified. Consequently, the total number of towns, villages, and remote settlements connected to electric power supply networks reached 9,864 at the end of year 2003.

To ensure continuity of success and excellence, with the ability to research new development strategies and follow up with the latest innovations, the Company has emphasized on the wide use of a concoction of new techniques, and focused on human resources development, considered to be the pillars for improving competencies and pooling creative energies, and innovating adequate solutions to the rapid changes in the international energy markets. Likewise, emphasis was put on social responsibilities and community service; considered to be one vital area.

In conclusion, I am glad to extend my deep thanks and appreciation to the Chairman and Members of the Board of Directors for their unequivocal support and to the various government and private institutions for their cooperation and assistance.

Also, I am glad to acknowledge the dedication of all staff members and employees, and appreciate their talents, concern, and their effort to achieve the Company's goals, safeguarding its interests, strengthening its position, and enhancing its competitive capabilities. Here's hoping that the enthusiasm for higher performance will be sustained, asking Allah, Glory be to Him, to bless our efforts and bring upon the country in the forthcoming years prosperity that will trickle down to the Company's customers, shareholders, and employees.

Sulaiman Ibn Abdullah Alkadi
President and CEO

2003 DEVELOPMENTS AND ACHIEVEMENTS



Strategic planning resulted in a significant growth in the Company's projects and practices, and a net income of SR 1,408 million representing a profit growth rate of 31%.

Earnings per share reached a high of SR 1.69, 31% increase over previous year. Declared dividends of SR 3.5 per share were paid to shareholders or to their proxies.

Phase-I and Phase-II of the new transitional organizational structure were implemented. Training programmes aimed at inducting a new generation of Saudi national competencies and upgrading overall performance were initiated and piloted.

A set of support services were designed to better the cost/quality equation. The promising results of effective service system, as a result of standardized procedures and guidelines, ascertain the principles underlying the proper operations of customer service and economic resources management.

The Company's actual generation capacities were boosted by 1,675 MW. Power plants generate an aggregate produced energy totaling 128,371 MWH.

The Company contributes up to 84% of the aggregate national energy output.



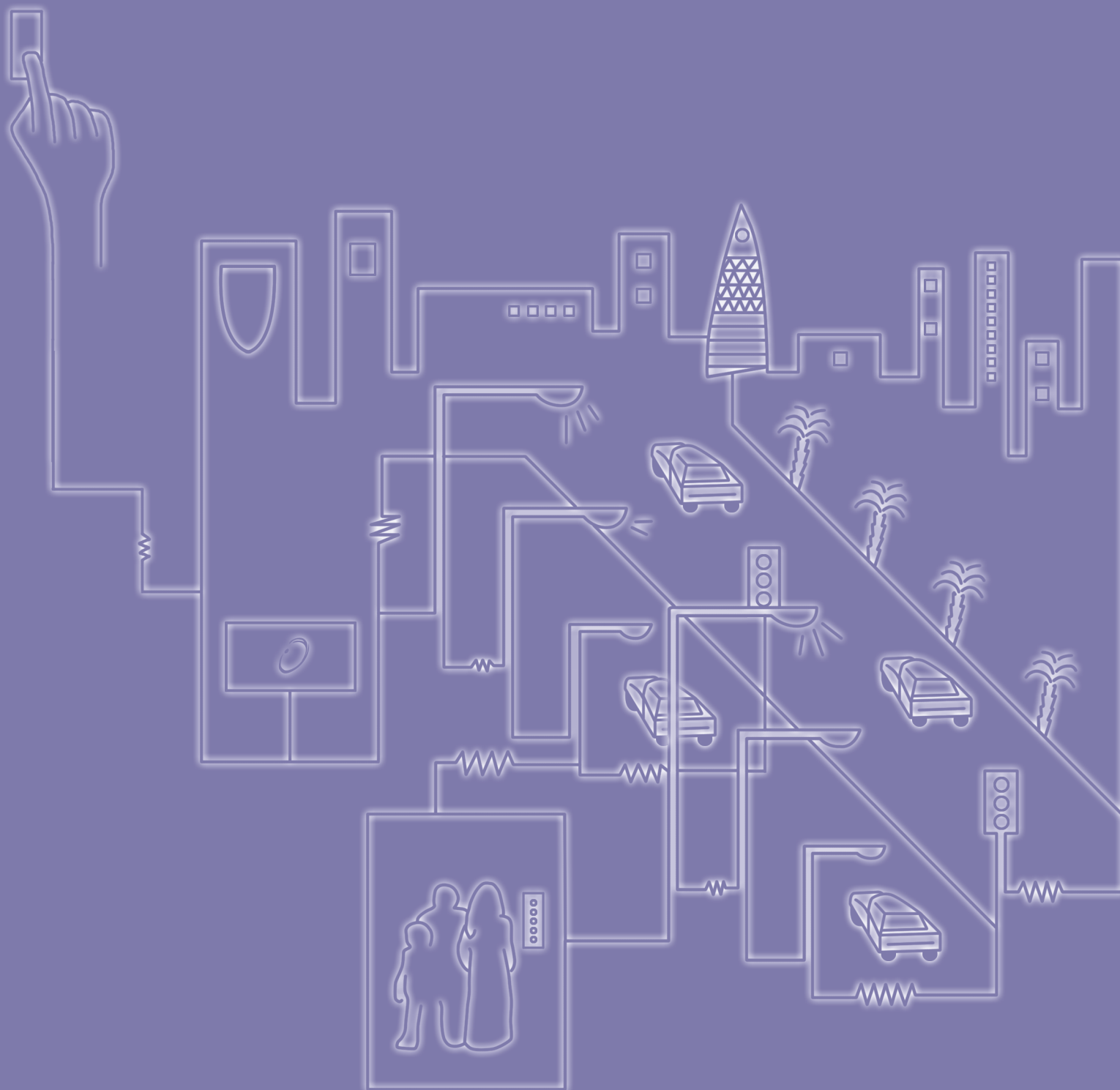
Investment opportunities reflect the new direction of the Company, involving the private sector that were encouraged to contribute to developing and strengthening power generation and transmission on the national level for greater reliability of functioning by the electricity power supply system.

Extra high voltage transmission networks were enhanced through extending overhead lines by an additional network length of 425 circular km, and extending high voltage transmission network lines by an additional network length of 984 circular km. Two additional transmission stations were commissioned and are currently operating with a capacity of 2,000 MVA and 1,626 MVA respectively.

The number of customers increased by 5.4%. The Company expanded its service-umbrella to 228,174 new customers. The absolute number of customers throughout the Kingdom totaled 4,246,898 at the end of the year 2003.

Sold energy recorded the highest growth rate (10.5%) since the inception of the Company. Generated energy, reaching 142,194 GWH, was provided in order to meet this challenge and answer the needs of all types of electric power services consumption.

Isolated generation added to a variety of new products and services prior to delivery of electrical services and after connection of supply, added value to the customers' operations thus guaranteeing their satisfaction.



Comprehensive Change

A gradual process that begins with changing the structure of the Company by separating the core businesses, setting up an appropriate organizational management and support service structures, then moves on to improving the overall performance at all business functioning levels.

Strategic Direction

The emphasis is on strategies that address power-demand challenges, as well as on ensuring the stability and reliability of the national electric power system as a means to realize the common interests of the Company and its stakeholders.

Power-Demand Challenges

SEC relies on strategic planning to take up power-demand challenges well into the future. The Company designs and implements appropriate programmes and projects, able to guarantee the continuity and stability of electric service, and conducts research and studies aimed at increasing the efficiency of the electric system.

Summary of Financial Performance

Successful results are concretized by substantial profit growth, and by a leading traded share that accounts for most of the trading in the Saudi stock market, thereby gaining the highest records in the number of transactions, and in the volume and value of traded shares.

New Trends and Strategic Direction

New Trends and Strategic Direction

Comprehensive Change

By the end of 2003, the Company had already realized 70% of its renewed transitional structure that covered most of its activities, with emphasis on spurring positive attitude and enthusiasm among the staff and the middle management as a means of implementing the integral change process. This policy was preliminary to Phase-II of the change process corresponding to leading and supervising the overall improvement in performance.

In order to brace the enhancement and improvement in overall performance, the Company has focused on the transformation of core business functions' standard practices by defining the design-strategy of liaisons between the core business functions and the remaining shared businesses of the Company, the support structures, and the external parties, as follows:

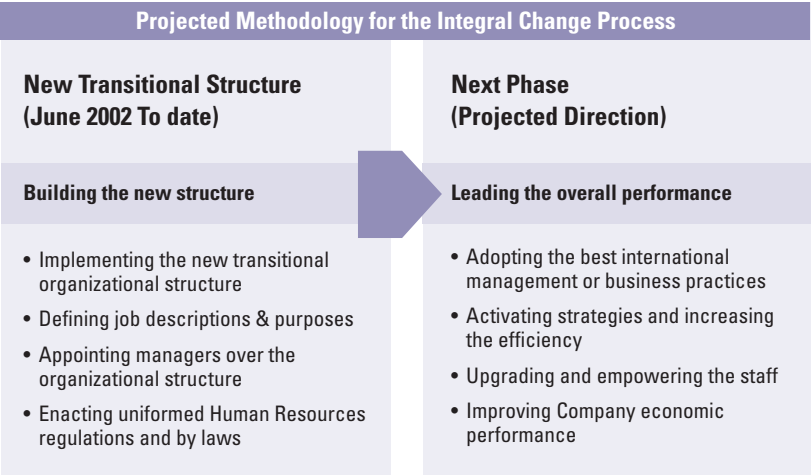


Tasks of the Core Businesses (Electric Power Functions)

- To generate, transmit, and distribute electric power.
- To function as independent business functions tasked with the realization of an appropriate level of profitability.
- To become the technical decision-makers whose decisions are based on economic and financial criteria.
- To assume full responsibility of incurring expenses and staffing as a means of boosting efficiency.
- To assume responsibility of identifying and defining the nature and level of the required services (cost of these services are chargeable to the core business functions).

Organizational units (shared businesses)

- They are composed of the CEO and the structures that embody the general direction of the Company, i.e. Internal Auditing, Legal Affairs,





as well as particular segments of the Financial unit, and of the Human Resources, Planning and Programmes, and Public Affairs and Shareholders Relation.

- They are responsible for designing the Company's overall policy as a way to ensure goal unity, information-exchange, and cross-organizational cooperation and coordination.
- They liaise directly with the Executive Committee, and their authority is limited to the cases identified by the Committee composed of the CEO and his deputies.

Organizational Support Businesses (Services)

- These support service functions are designed to support the Company's operations by providing valuable services that could be outsourced. They include services rendered by

General Services business as well as certain departments of Finance, Human Resources, and Planning and Programmes units.

- Transactions between organizational units and support bodies are similar to deals entered into between contractors: these parties sell their services to the functional units on internal sale-contracts basis.

The comprehensive change process included the rolling-out, by the core business functions, of major operations through the design and implementation of developing projects such as defining financial liaisons developing between various functions, service level agreements, and information technology by Enterprise Resource Programme (ERP), as well as devising the electricity tariffs-ladder and load-management programme.

BOARD OF DIRECTORS

- 1 **HE Dr. Ghazi Abdulrahman Al-Qusaibi**
Chairman of the Board
- 2 **HE Eng. Mahmoud A. Taiba**
Vice-Chairman
- 3 **Mr. Ali S. Al-Sugair**
- 4 **Mr. Ahmed I. Al-Hakmi**
- 5 **Mr. Abdulrahman M. Abdul Karim**
- 6 **Dr. Saleh H. Al-Awajji**
- 7 **Mr. Ali D. Al-Otaibi**
- 8 **Dr. Ibrahim A. Al-Madeemaigh**
- 9 **Mr. Rashid A. Al-Rashid**
- 10 **Eng. Aamir S. Barqan**
- 11 **Dr. Ibrahim A. Al-Khudhair**
- 12 **Mr. Abdulrahman F. Al-Wuhaib**



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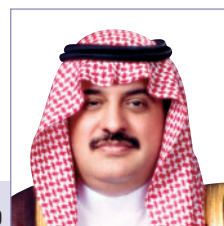
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Our Strategic Direction

The Company has adopted a number of strategic policies aimed at upgrading the quality of the performed service and at realizing the outlined objectives so as to accommodate the fast-growing demand for energy and the increasing number of customers, and at ensuring the stability and continuity of electric power supply. SEC approved the required projects and investments for all core business functions and made strategic decisions based on identified common interests to the Company and its customers in order to win their satisfaction and strengthen the company's financial situation. These policies are summarized as follows:

1. Achieving 100 percent of electric-power coverage within the Kingdom by 2011.
2. Enabling the core business functions (i.e. Generation, Transmission, and Distribution and Customer Services) to work independently by laying the foundations of financial and administrative management, defining the roles and responsibilities of key executive positions, the nature of inter-functional relations, and the core business functions' relations with the remaining businesses of the Company.
3. Promoting the participation of the private sector in the Company's investments projects, and examining the investment prospects in collaboration with the private sector in order to implement new projects, taking into account interests that are shared by the Company, its shareholders and customers, and potential investors.
4. Planning to contract with firms for the distribution of electric power to customers. The contractors will be in charge of receiving/ processing customer service requests, installing electric meters and taking meter-readings, issuing and collecting bills, as well as receiving customer complaints and other customer service matters. However these contractors will obtain the energy supply from the Distribution and Customer Service business function.
5. Planning to sell energy to large customers on a long-range sale-contract basis in a way that yields mutual benefits whereby the customer

places his order for a certain quantity of energy for a specific time frame and at a fixed constant price.

6. Striving to reduce power generation cost of producing 1KWH. The Company and mostly the customers will reap the rewards of this cost-saving plan.
7. Making the most out of public providers of energy by striking fair price-deals in counterpart of the available sources of energy supplied by these utilities, so as to outweigh production costs in the various Company power plants.
8. Investing in Human Resources development by piloting appropriate training and upgrading programmes in harmony with the company's goal, and consistently pursue the Saudization of job positions.
9. The Human Resource business function seeks to create an appropriate working environment. It embraces career and development planning to meet employees' life needs and ensure retirement benefits.





Generation

The Generation business function abides by the strategic direction of the Company through strategic reasoning that governs the designing of short, medium and long-term plans. These plans focus on meeting the demand requirements as identified by the remaining functions and by the infrastructure needed to achieve dependability via cost-effective investment projects. Furthermore, the Generation business function develops dynamic plans aimed at examining optimum alternatives to satisfy the power generation demand all over the Kingdom in order to meet the increasing load requirements. These dynamic plans are based on actual data and findings that reflect power requirements by the remaining core business functions, until the private sector participation in power projects is in evidence.

The components of strategic planning adopted by the Generation business function comprise:

1. Identifying and selecting the specifications and optimal size of power stations in all operating areas.
2. Investigating the cost-effective use of the most favorable combustion fuel while taking into account the maintenance and operating costs, efficiency enhancement of production units, environmental hazards, fuel provision on the medium and long range operation, and assessing trade-offs and implications.
3. Implementing regular maintenance programmes that ensure the essential dependability, and upgrading of power plant assets.
4. Providing continuous on-the-job training aimed at enhancing the expertise and skills of Saudi staff, thus ensuring the efficiency of the Generation business function.

In addition, research studies and technical reviews of new technologies related to cost-effective power generation were conducted. They included:

- Assessing the impact of major power stations upon the environment, searching for adequate solutions to the problems of fuel specification degradation and its instability and the formation of particle matter; examining technically efficient, economically feasible, environmentally friendly methods to reduce adverse reaction pollutants in the fuel system.
- Developing cost-effective methods of managing the stand-by spare parts inventory in the power generation stations.
- Life assessment of the hot components of gas-fired turbines to evaluate alloy and mechanical characteristics, identifying causes of mechanical failures, writing life-cycle specifications for the hot pathway components, and investigating economically feasible alternatives.

Transmission

The strategic plans of action include distinct and innovative mechanisms that contribute to achieving the Company's overall and specific objectives during the next constantly challenging decade. The focus is on implementing programmes and projects that guarantee the safety and stability of electric power supply all over the Kingdom with suitable operating margins in all the electric utilities. They empower the participating private sector in electric-power projects as a way to boost transmission capabilities. Investors can either contribute to add more multi-purpose productive assets e.g. electricity and water, or lease the actual power transmission network in order to exploit it cost-effectively, thus enhancing the efficient allocation of the country's economic resources and the Company's financial gains to Company shareholders, customers, and employees.

Several characteristics common to these plans and projects can be identified as follows:

1. Pooling creative and acquired human proficiency and skills, and increasing the efficiency of capital expenditures and operational investments in power transmission assets.
2. Completion of constructing the national power transmission grid designed to allow greater flexibility in choosing power plant locations in proximity to oil or gas fields, and to load centres through identifying their optimum dimensions and output, and setting up distinct time-schedules so as to enhance fair competition and reduce the electricity bill to benefit national economy.
3. Since it is an acknowledged fact that investing in maintenance projects in rather new expansion projects is highly profitable, potential investors are prompted with appropriate incentives, pinpointing the arguments in favor of investing in electric power assets by focusing on maintenance-programmes, and technical system-design enhancement devised to increase the readiness of these installations.





4. Coordinating with the authorities that supervise the electric power industry, and contributing to the emergence of electricity market mechanisms.
5. Raising public awareness toward the importance, for the national economy, of implementing power projects within the required time-schedules in accordance with technical, environmental, and economical standards, as a means to facilitate Company access to suitable project locations and right of ways ensuring the safety and reliability of transmission utilities without undue investment costs.

Distribution and Customer Services Business

The Company has approved a number of strategies, and namely, the launching of a “customer satisfaction” survey so as to improve customer services, delivering the required energy supply all over the Kingdom in support of development projects and programmes, in addition to reducing the operating costs by means of increased efficiency and optimal use of available resources, making use of cost-effective asset-management so as to yield returns on investments, and delivering new products and services to serve the customers and increase Company revenues.

From this starting point, the Company planners carefully designed an organizational structure that embodied both distribution function and customer services. This business function thus created a combined centralized planning with decentralized implementation. The need to be closer to the customer led to the formation of four operating areas i.e. Central, Eastern, Western, and Southern operating areas that also serve as cost-accounting centers. Customer service branches were opened in each administrative area; in addition to the establishment of a centralized system for both distribution and customer service activities, tasked with the elaboration of plans and programmes to develop both activities and

supporting the development efforts all throughout the operating areas.

These efforts led to the setting of standard procedures and practices within a short period of time, thus improving the Company’s image and enhancing the employees’ performance. This encouraged the need to provide standardized services in all customer service centers, specifications for distribution materials were written, and customer affairs procedural guidelines delivered.

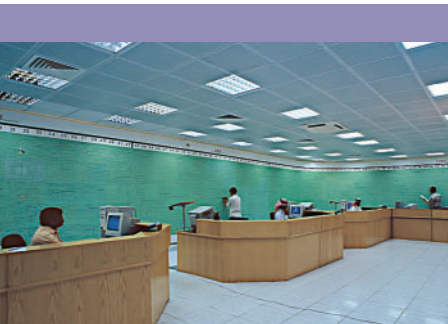
The Company hopes to transfer, in the future, both distribution and customer service functions to one or several independent distribution companies and looks forward to the participation of new competitors involved in selling and delivering energy to various categories of customers. It is possible to have more than one formula: some companies could engage either in selling and delivering electricity via their own distribution networks, or in distributing electric power for a certain fee, while some other companies could take over buying and selling energy directly to consumers; meter reading and bills collection included.

General Services

This is one of the pillars of electric utility functions. Its new structural design was tailored to Company strategic plans of action, in agreement with its objectives and guidelines, and compatible with a competitive market and its requirements for cost-effective-service and cost-saving management as a way to boost profitability.

The preliminary results of these plans of action can be summarized as follows:

1. Grouping all service providers under one single service umbrella, and under one leadership, thus spurring internal cooperation and intercommunication, owing to the unified goal, objectives and policies. The new structure contributes to implement a set of uniform



Commitment to Meet Power-Demand Challenges

procedures and practices in all operating areas, thus improving overall efficiency and the quality of service delivered to electric power consumers, which are considered to be the Company's first priority.

2. The trend is toward operating as an independent service company in the forthcoming future. This is one of the specific objectives of the changing structure that is cost-effective and profit-oriented.
3. Managing the Company's resources in the most advantageous ways, such as disinvesting in stocks (investments in stocks decreased by SR305 million during 2003 in comparison with the previous year), and seeking the lowest-cost solutions and offers.
4. Initiating the design and implementation of pilot service-agreements with the main business functions, with clear terms of reference.
5. Outsourcing to switch from purchasing to renting a vehicle, and from owning to leasing

computers and accessories in order to alleviate overhead expenses.

SEC relies on business planning to address the challenges of the demand for electric power well into the future as a means to elaborate adequate programmes and projects aimed at ensuring continuity and stability of electric power supply. The Company conducts surveys and research studies that focus on enhancing the efficiency of the electric system and boosting its feasibility. Such actions are listed as follows:

1. Publication of a memorandum of standard procedures on planning that is appropriate to the Company's core business functions to unify methods, norms, regulations and processes, and to identify the Company's requirements and assist in the implementation of its projects.
2. Provide statements on the methods of preparing electricity-load forecasts, considering all conditions that impact on load growth.
3. Preparing medium and long-term business



Research and Development

plans, operating budgets and maintaining balance sheets, annual financial reports, including capital investment projects aimed at enhancing the stability and reliability of electric power supply and extending the networks of electric power supply in all parts of the Kingdom to achieve 100% coverage. Issuing statements on Capital and Operating Expenses, Cash Flows, project financing, sources of funding reports, and Income Statements which include energy sales revenues and other operating revenues.

4. Reaping benefits from the power system interconnection that allows the use of power surplus, and makes better use of its power-generating capacities, depending on different peak-load timings in each operating area. The Company integrated all the transmission systems in the operating areas and engaged in connecting the Kingdom's grid with the grids of the neighboring countries. The interconnection will allow SEC to sell electric power to GCC countries and to gain from oil price variations.
5. Conduct studies that focus on minimizing peak loads especially during periods of high demand in summer to address unexpected and sudden increases. Therefore, SEC adopted demand side management programmes and energy conservation programmes.
6. Conduct in-depth surveys on how to invest in new ventures, focusing on how to yield returns on investments, and on designing policies and programmes aimed at attracting investors.
7. Study and analyze the economic and social environment of the Company, drawing conclusions and indicators pertinent to power-demand and load projections, and identifying new investment prospects and studying their feasibility for the Company.
8. Co-owning and managing the Energy Conservation Programme in collaboration with King Abdul-Aziz City for Science and Technology (KACST), Saudi Aramco, and SABIC .

SEC keeps close ties with universities and builds linkages with research institutes concerned with a variety of applications in the electricity industry. During 2003, the Company followed up the implementation of Chapter II of its R&D programme. Research projects that were concluded in 2002 are unfolding as per set-goal, work plan, duration, and time schedule. Project managers were appointed to pilot and follow up each project. SEC staff members with project-management experience, planning and monitoring skills, and evaluation expertise, were delegated to this post.

R&D Programme II comprised 10 research projects related to the Company's business functions. SEC has finalized the evaluation of the offers made by King Abdul Aziz University (KAU), King Saud University (KSU), King Fahd University of Petroleum and Minerals (KFUPM), King Abdul Aziz City for Science and Technology (KACST), and by international consultants.

The framework agreement has been made with KACST for it to supervise the research projects developed by universities and research institutes. Accordingly, SEC collaborates with KACST in technically supporting and financially assisting a research entrusted to KSU with emphasis on causes of power outages. The Company co-sources with KACST and Riyadh Cables another project with KSU about cable tolerance strengthening.

Closed ties are being developed with major shareholders namely large electric-power consumers such as Saudi Aramco, SABIC, and a group of companies specialized in manufacturing electric machinery and equipments. Pooling financial assistance and support, they are conducting a study about the feasibility of creating a central testing laboratory for electric power machinery and equipments.



FINANCIAL HIGHLIGHTS

Summary of Operations for Year 2003

Year-over-year revenues and profits comparisons indicate that SEC operating revenues totaled SR17,545 million in 2003 compared to SR15,930 million in 2002, which represent additional revenue of SR1,615 million, and an annual increase of 10 percent. SEC's assets were up 5 percent over previous year, totaling SR101,377 million at the end of 2003. Yet the cost for every 1KWH of electricity sold was down by 1.3 percent, averaging 11.50 Halalah in 2003.

Strategic planning and optimal use of resources impacted positively on Company financial performance in 2003. SEC's net profit totaled SR1,408 million at the end of the year 2003. Profits grew 31 percent over previous year, thus reflecting the Company's keenness to optimum investment of resources and efforts in order to realize SEC shareholders' expectations, and to develop close ties with customers.

	Thousands of SAR	
	2003	2002
Assets		
Total Current Assets	21,525,932	18 ,461,422
Total Non-Current Assets	79,850,922	78,307,756
Total Assets	101,376,854	96,769,178
Liabilities		
Total Current Liabilities	25,251,695	22,329,852
Total Non-Current Liabilities	17,313,700	17,036,310
Total Shareholders' Equity	44,259,323	42,850,880
Government Loan	14,552,136	14,552,136
Total Liabilities and Shareholders' Equity	101,376,854	96,769,178
Revenues		
Electricity Sales	16,373,914	14,853,519
Meter Reading, Maintenance, Bills' Collection fees	609,282	580,387
Electric Service Connection Tariff	562,145	495,671
Other Revenues and Expenses (Net)	135,143	167,105
Total Revenues	17,680,484	16,096,682
Expenses		
Total Operating Expenses	16,222,760	14,982,208
Zakat Provision	49,281	37,130
Total Operating Expenses and Zakat Provision	16,272,041	15,019,338
Net Income (Profit)	1,408,443	1,077,344
Earnings per Share	1.69	1.29

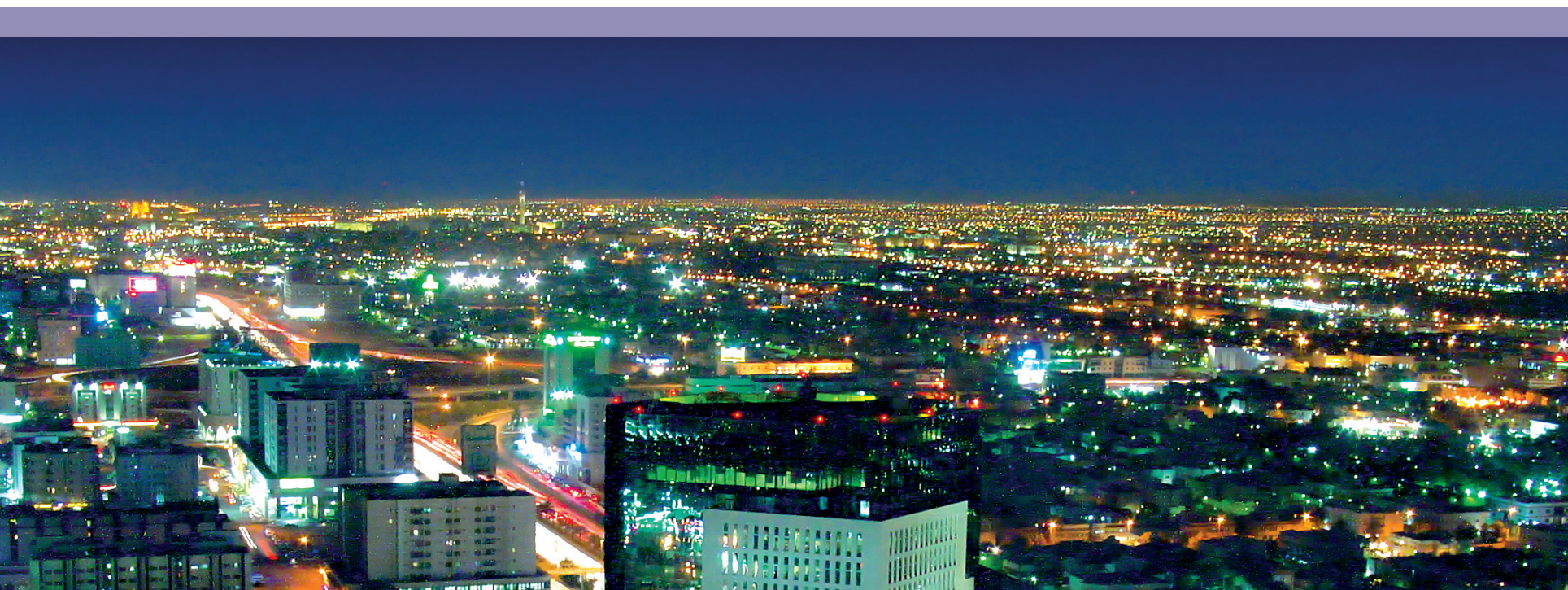
SEC Share Upward Trend

Having fully fledged after the inception and merger period, the Company moved forward having sharpened its competitive edge and improving its financial performance, which at year end has translated in positive financial results, thus enhancing its financial position. SEC was able to manage without government subsidies and turned into a profit-earning joint-stock company. The Company's share movement topped the all-share trade. Indeed, SEC share trade accounted for most

of the trading in the Saudi stock market, whether in the number of transactions (15.13% of the total), or in the volume of traded shares (23.21% of the entire trading activity), or the value of traded shares (17.93% of the total value of traded shares). The glamour of the SEC share reflected the shareholder's growing trust in the overall performance of the Company. Hence, the leading SEC share closing price at year end December 31, 2003 was at SR101.25.

Trading Activity During the Year 2003

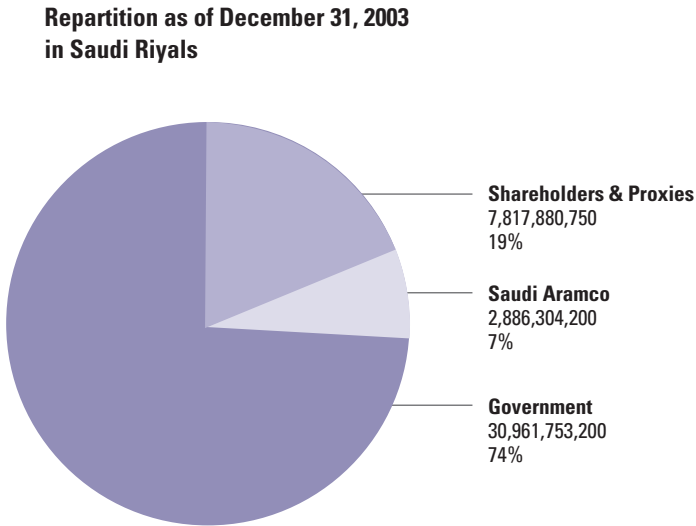
	Securities Portfolios	Share Certificates	Total
Number of Transactions	568,927	723	569,650
Volume of Traded Shares	1,266,632,070	3,130,164	1,269,762,234
Value of Traded Shares	107,132,698,316.25	313,016,400	107,445,714,716.25



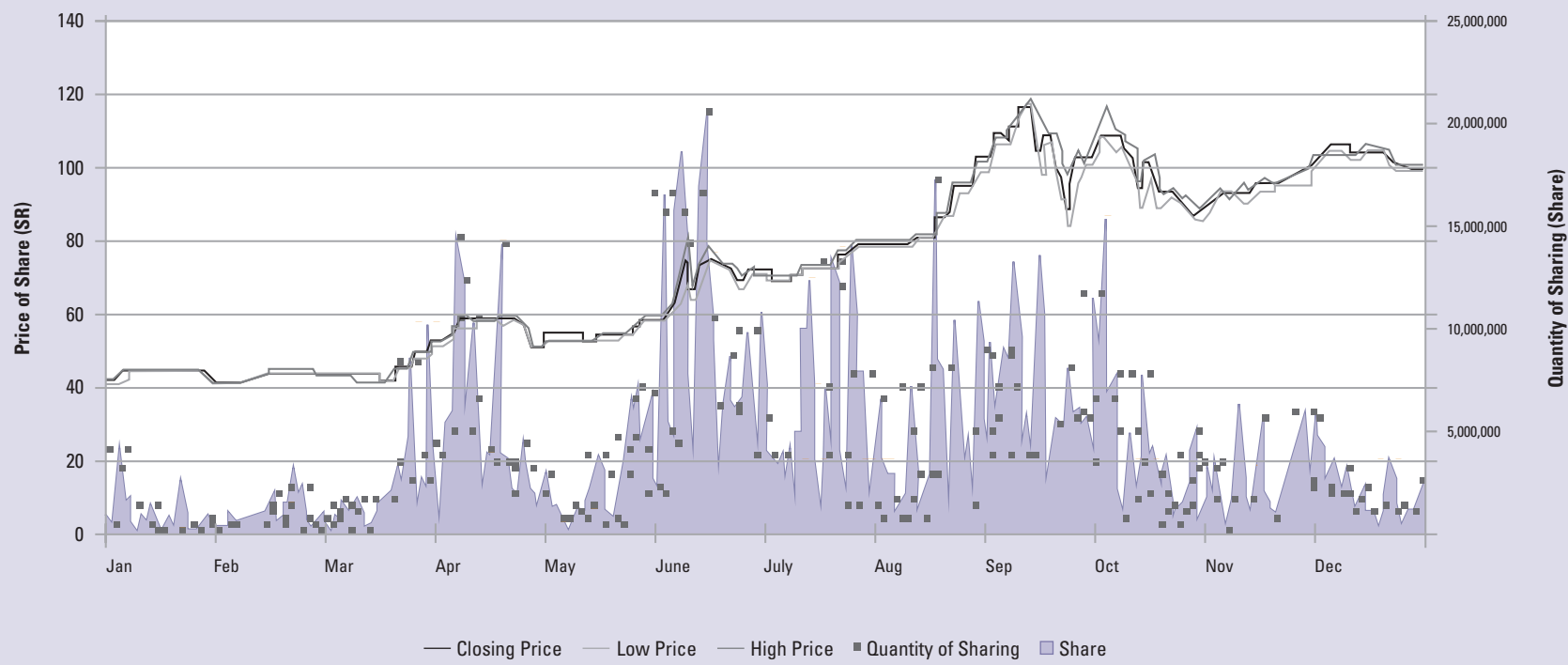
Total shareholders' equity for the year ended December 31, 2003, amounted to SR44,259 million, compared to SR42,581 million for the year ended December 31, 2002, an annual increase of 3.2 percent. Earning per share amounted to SR1.69, representing 3.38 percent of nominal value of SR50. Earning per share grew 31 percent in the year 2003, in comparison with its value in the year 2002 (SR1.29). The share book-value amounted to SR53.11 which represents an increase of 6 percent and a growth rate of 3.3 percent over the year 2002, when the book value of the SEC share was estimated at SR51.42. Earning-per-share estimation was based on the total number of SEC's capital shares, Government and Saudi Aramco's shares included.

Capitalization was again restructured following the first increase in equity capital on July 13, 2002. Then, 89 SEC shares were distributed by the Company for each 100 shares held by shareholders or their proxies, and 54 SEC shares were distributed to each 100 shares held by Saudi Aramco and the Government. On November 15, 2003, another 7.89 SEC shares were distributed to all shareholders for each 100 shares, which constituted the outstanding electricity fund fee. The impact on the Company translated in an estimated market value of SR84,373 billion, which constitutes 14.3 percent of the total worth of all Saudi companies listed on the Saudi stock market, and placed SEC in third position on the worth's chart.

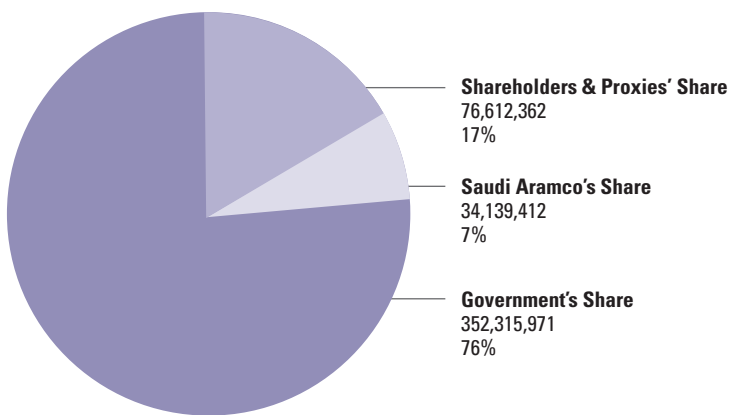
Summary of Restructuring of Capital and Shareholders' Equity in 2003



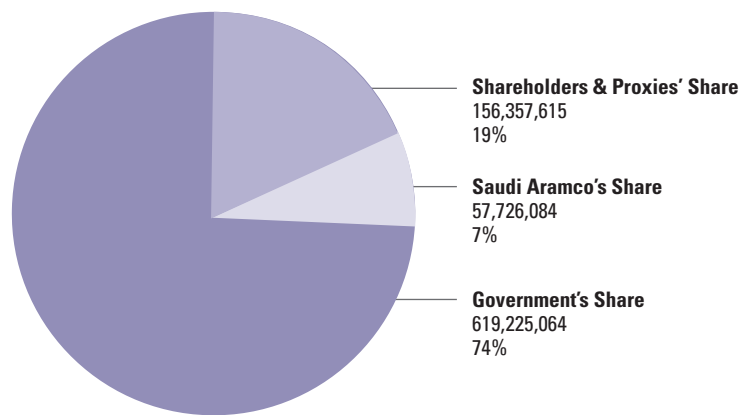
SEC Shares Volume and Price Movements

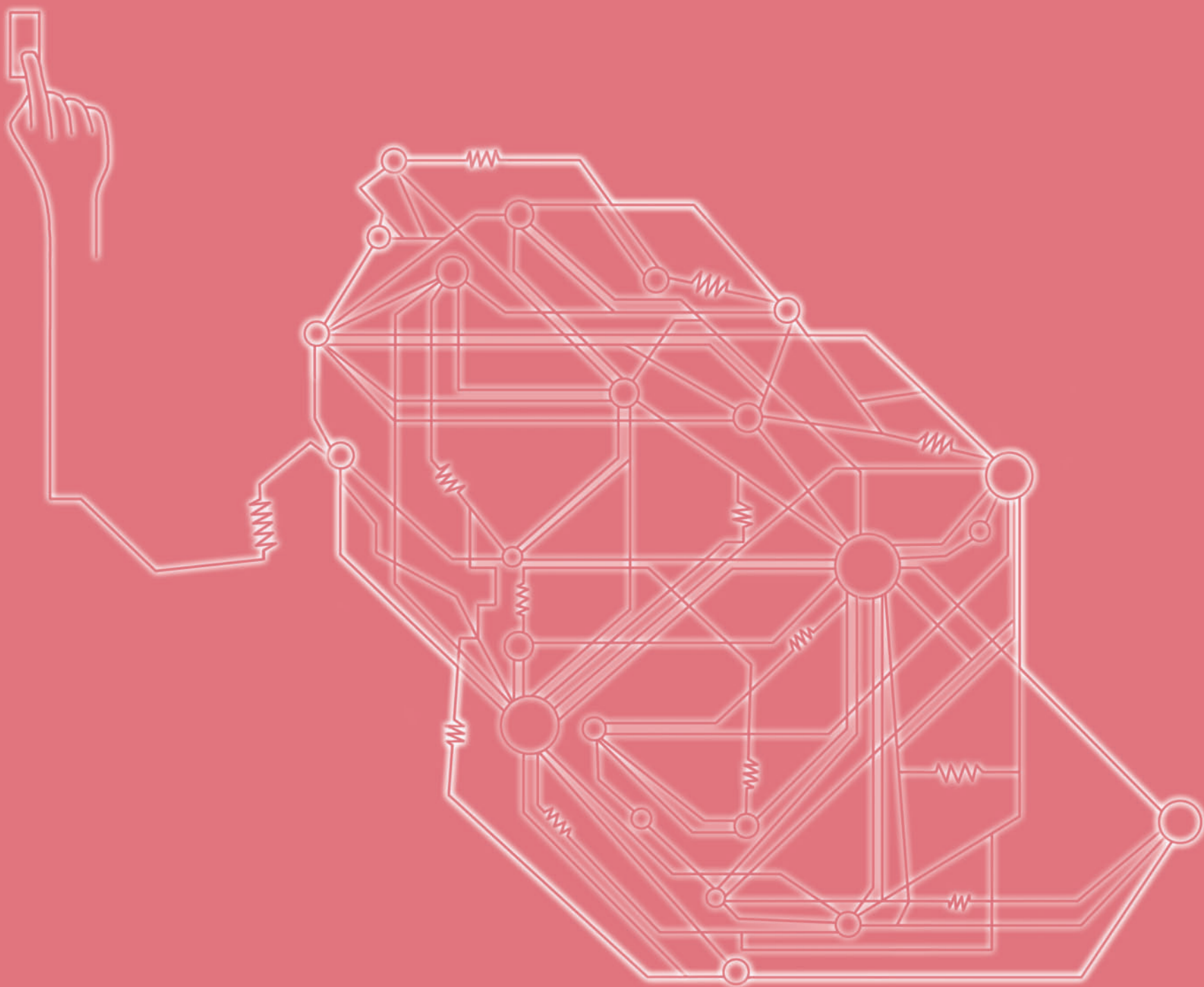


Distribution of SEC Share Capital on Date of Merger



Distribution of SEC Shares after the Second Capital Increase on 15/11/2003





GENERATION BUSINESS

128,371 GWH produced by SEC power plants capacity and cost-effective strategic policies to ensure economic operations.

TRANSMISSION BUSINESS

New classification of Voltage levels and new electric power transmission projects aimed at enhancing reliability of the national transmission grid so as to accommodate the dramatic increase in demand.

DISTRIBUTION AND CUSTOMER SERVICES BUSINESS

Implementation policies geared toward delivering electric service and providing new services to all categories of customers.

Core Businesses

Generation Business

The purpose of the Generation business function is to implement a variety of applications in the electric power industry, namely the energy requirements of the other functions, so as to satisfy the needs of all customer categories i.e. governmental, industrial, commercial, residential, etc. These applications include operation and maintenance of the various power plants all over the Kingdom through building new power stations and modernizing and expanding existing ones to meet the growth in demand and achieve aimed reliability level. Moreover, short, medium, and long-term plans are being designed and maintenance programmes are devised and carried out so as to upgrade and improve the efficiency of the generation assets to ensure readiness and reliability of facilities. The applications also include designing new power plants setting and writing specifications and other required documents.

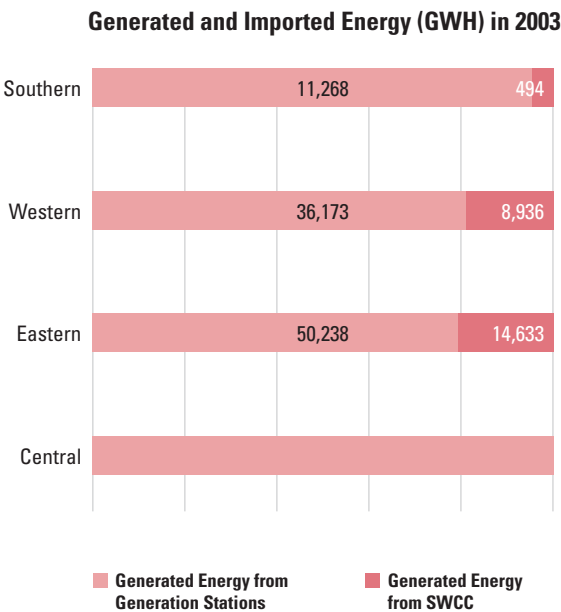
The electric power output of all SEC's power plants totaled 128,371GWH in 2003. SEC was able to provide 84 percent of the total energy requirements of the economy (152,389GWH). A comparison of SWCC plants in the Eastern, Western, and Southern Operating Areas indicates that SWCC with an output of 24,018GWH is a secondary producer, supplying only 16 percent of the economy's needs for electric power. Yearly comparisons show steadiness of these figures.

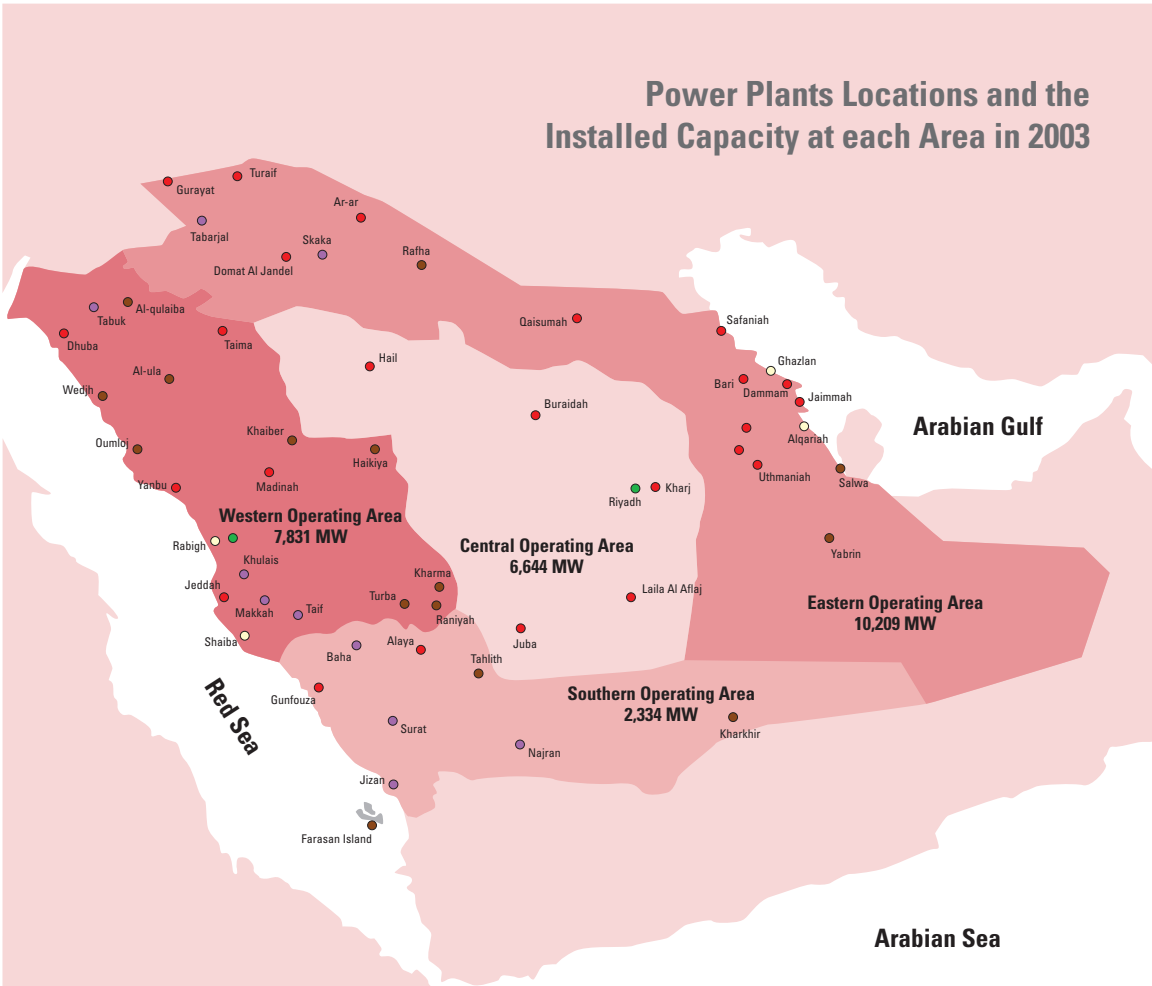
The actual installed generation capacities of SEC's power plants amounted to 27,018MW in 2003, an increase of 6.1 percent over the previous year. The overall available power-generating capacity of the country totaled 30,091MW. This figure includes the contribution of SWCC's desalination plants amounting to 2,866MW and the contribution of major stakeholders amounting to 207MW. The availability of 27,018MW of generating capacity in 2003 was due to the installation of new power-generating units with an additional aggregate capacity amounting to 1,625MW,

as follows:

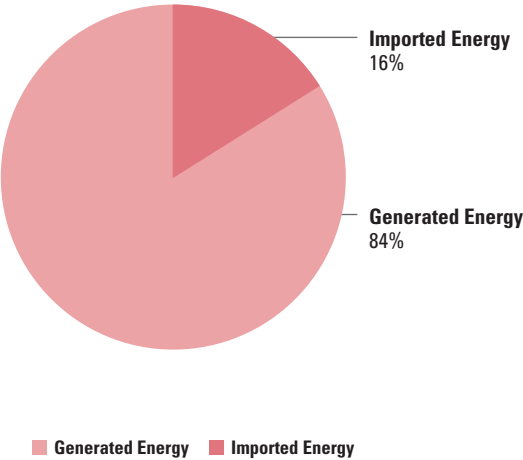
- 664MW : Unit 8, Ghazlan steam power plant, Eastern Operating Area
- 786MW : Unit 4 and 5, Al-Shuaiba steam power plant, Western Operating Area
- 55MW : Gas-fired turbine unit, Assir central power station
- 60MW : Gas-fired turbine unit, Jizan central power station
- 60MW : Gas-fired turbine unit, Tehama central power station

Boosting the generating capacity of Al-Qassim central power station in Central Operating Area with 50MW, partially due to the installation of units cooling systems. This brought the annual increase to 8.9% from the total generated power output for 2003 compared to 117,864GWH in 2002.

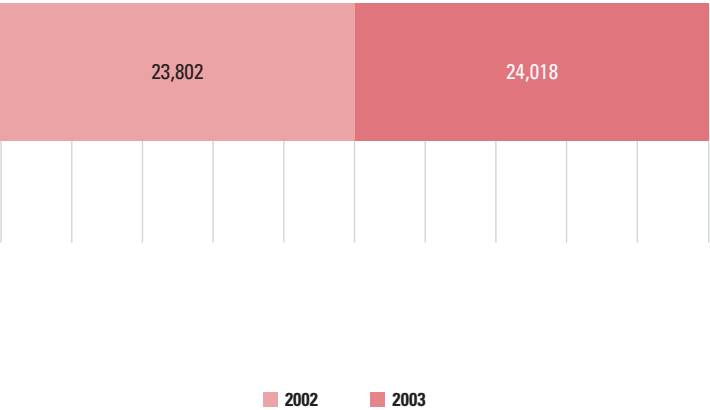




Generated & Imported Energy in 2003



Imported Energy from SWCC Desalination Plants (GWH)



Fuel Use Policy

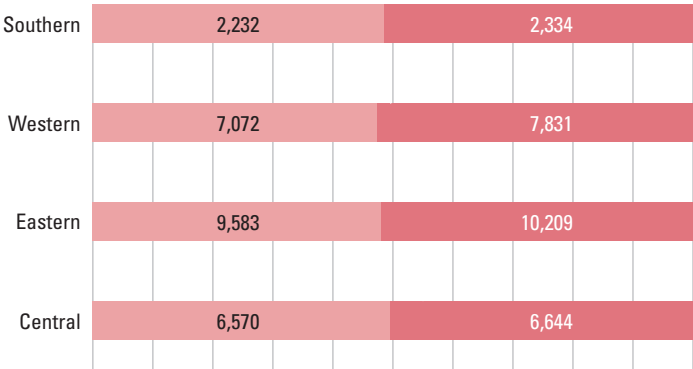
The economics of switching from the use of crude oil to natural gas in the power-generating stations located in the vicinity of gas fields were evidenced, as translated in one of the Company's sound policies. The use of natural gas for electric generation proved to be cost-effective by lowering maintenance and operating costs, thus enhancing the productive efficiency of power generation units. Since natural gas fields are exclusively located in Eastern and Central Operating areas (EOA & COA), SEC started using natural gas for combustion purposes in all EOA power plants, with the exception of northeastern power plants. The most distinct result of this policy was the lowering of the combustion fuel cost down to 2.97 Halalah per KWH, and the decreasing of maintenance and operating costs of power generation down to 0.91 Halalah per KWH.

Natural gas is being used in Riyadh's power stations 7, 8, and 9. Only these power stations are equipped with gas-fired turbines in COA. As a result, the cost-coefficient of generating 1 KWH decreased by 2.8 percent in COA, owing to the reduction of both fuel and maintenance cost-coefficients. Likewise, the coefficient of net thermal-capacity improved owing to regular maintenance and cost-effective unit-operating system. The economics of fuel supply and alternative use of natural gas and fuel-oil are based on the specific operational conditions in each power plant. Indeed, some gas-fired turbine units in COA and EOA switch to the use of diesel-fuel or crude oil for very short periods of time during the year, in full coordination with Saudi Aramco, just in case of a unit failure or in case of maintaining the natural gas supply system. Also, crude oil or diesel or fuel-oil is used to operate Western Operating Area's (WOA) power plants, whereas crude oil and diesel are utilized in

Southern Operating Area's (SOA) power plants. In order to produce the required electric power output with high level of efficiency, the generation units are programmed to operate economically. Priority is to operate the most cost-effective units, not including inoperative units due to sudden power failure (unscheduled power outage) or due to scheduled outage or maintenance. Unreliable units are also excluded as they might impact negatively on the stability and reliability of the entire electric power system.



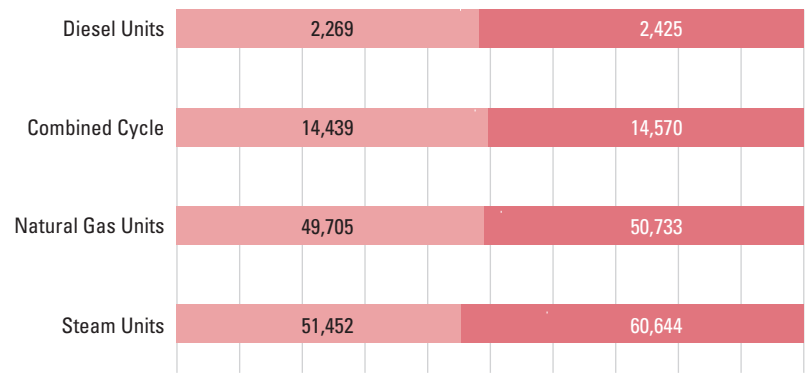
Installed Generating Capacity (MW)
by Operating Area in the Years 2002 and 2003



2002 2003

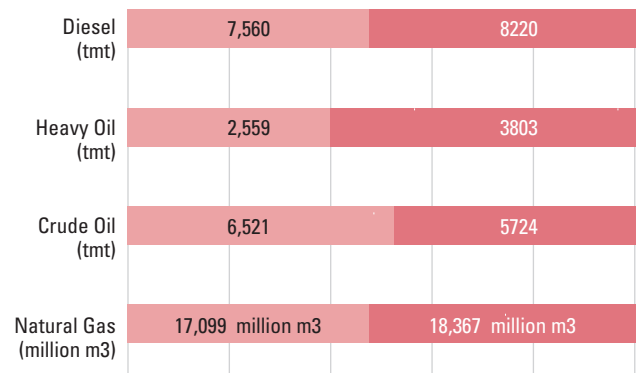


**Generated Energy by Unit Type (GWH)
in the Years 2002 and 2003**



2002 2003

**Consumption of Fuel in Power Plants
Thousand Metric Tons (tmt)**



2002 2003

Transmission Business

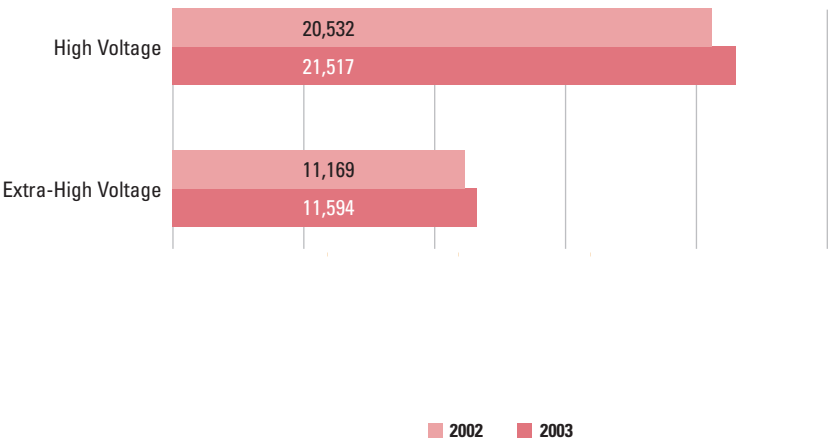
Electric power transmission is a major function in the electricity industry. It ensures stability and safety of energy supply via a transmission grid and controls the flow of electricity from power plants to load centres at cost effective basis. The purposes of the Transmission business function include reducing costs of transmission projects, ensuring fair competition to encourage potential investors’ participation, and striking a balance between producers’ means and consumers’ needs.

In the framework of restructuring and long-term visioning with a set-goal of implementing the National Electric Power Transmission Grid, work is divided into clear levels of authority and responsibility. Managing work-teams were created to plan transmission project activities, track progress, plan for and procure resources, and develop transmission facilities all over the Kingdom. And, in order to carry on the tasks involved in operating the transmission facilities (actual and future facilities, such as substations, transmission grid, etc.) operational work-teams were created, organized along two departments: the first is designated as the sector of the Interconnected Network, in reference to its responsibility of all transmission facilities located in COA and EOA areas; the second is designated as the sector of the Newly Developed Network, and is in charge of WOA and SOA facilities.

Organizational structure and field operation of these teams are very flexible. They allow the application of highly technical and professional standards in the operation, maintenance and expansion of the power transmission facilities. Yet, a uniform set of procedures and practices is enacted to ensure unity of decision-making in all matters concerning major customers, and to guarantee the safety of employees, equipment and sites, in conformity with local and environmental standards. Indeed, business decisions are aimed at ensuring the stability and safety of power transmission all over the Kingdom, reducing the cost of transmission for the benefit of end-users, and providing for adequate margins between power demand, power generation sources, and power transmission capacity. The structure of these teams also provides for private sector participation in power transmission projects.



Growth in Network Lengths by Level of Voltage (circular-km)





Transmission Substations Development

Transmission Capacity (MVA)	117,460	122,453
Number of Transformers	1,329	1,375
Number of Substations	486	499

2002 2003

Operating areas Loads on Transmission Grids (MW)
by Type of Networks (The Interconnected Network)

Isolated Network	155	455	631	260
Interconnected Network	8,415	10,629*	7,411	1,637

*Including 2,318MW for Central Operating Area

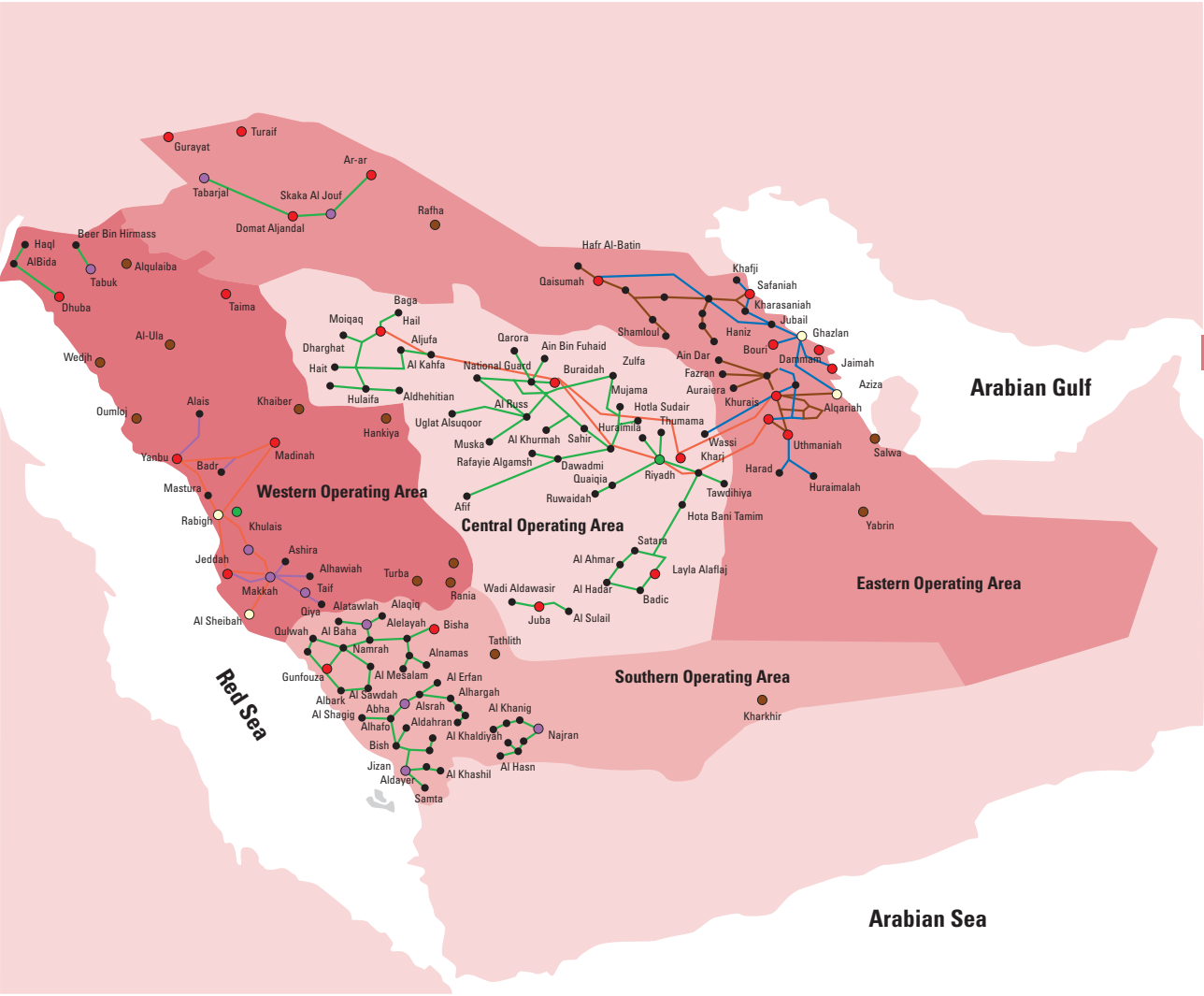
Central Eastern Western Southern

Power Transmission Grids

Electric power transmission facilities have been classified in two major categories according to electric voltage in order to assign the adequate human resources, improve work practices and assets management to be in conformity with international professional standards. Extra-high voltage refers to all transmission facilities operating at a voltage range of 230KV-380KV, whereas high voltage category includes facilities of 110KV-132KV.

The national grid's maximum load totaled 26,272 Megawatt during 2003. New facilities were commissioned while existing ones were boosted in order to accommodate the annual load growth and to meet the demand requirements, and extend electric power to new areas and users.

In the framework of extra-high voltage (230KV-380KV), new facilities were commissioned all over the Kingdom as follows:



- 425 circular-km of overhead transmission lines and underground cables.
 - 2 new substations with a total capacity of 2000 MVA: Al-Hawaya in EOA and Substation 9015 in Riyadh equipped with 3 transformers.
 - boosting the transmission capacity of existing substation by adding a 300MVA transformer.
- And in the context of high-voltage (110KV-132KV), the following new facilities were commissioned:
- 984 circular-km of high-voltage power lines and cables.
 - 11 new substations including 31 transformers with an overall capacity of 1626MVA
 - boosting the transmission capacity of the existing substations with a total capacity of 1067MVA.

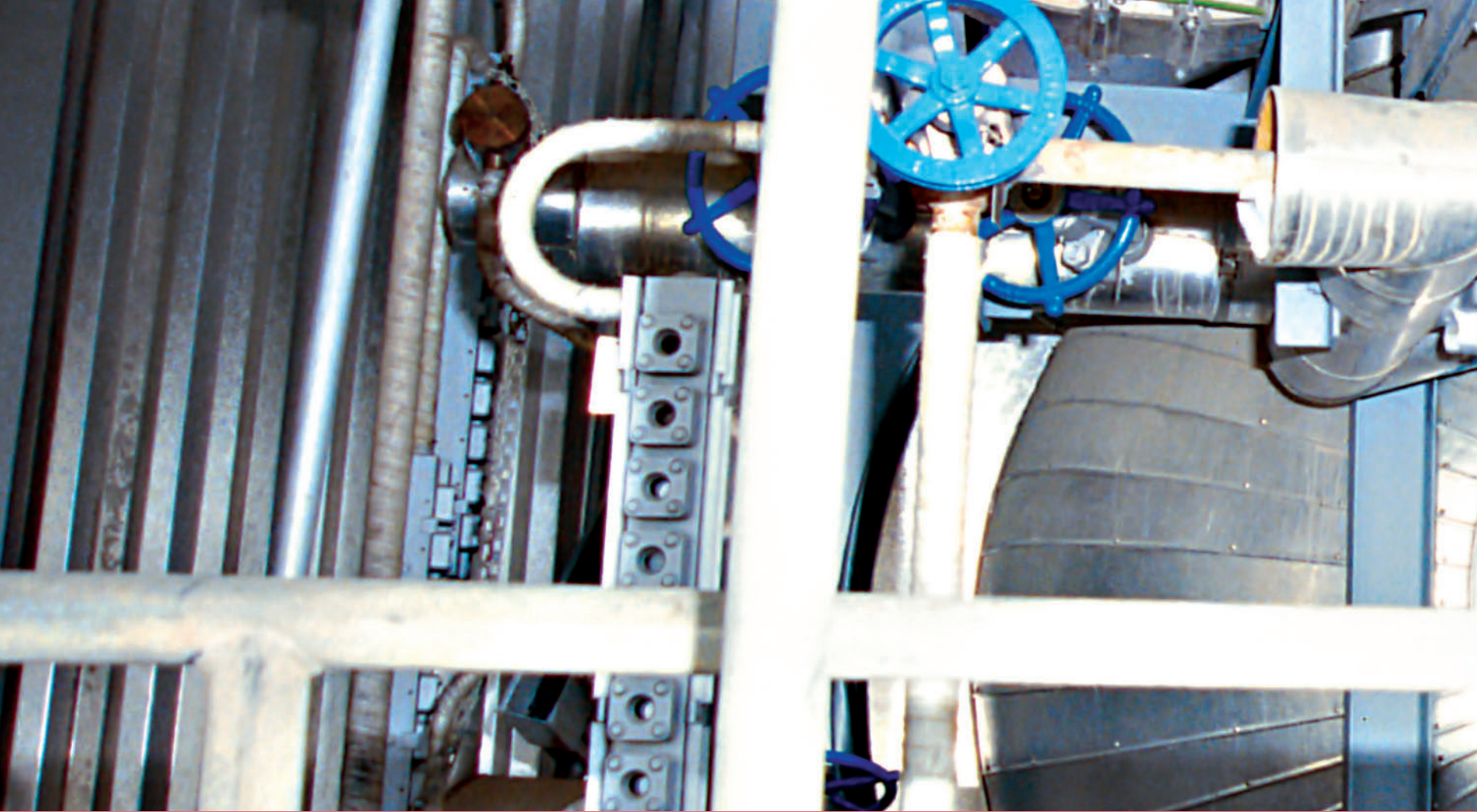
The Transmission business function management continues to deliver highly reliable service to large customers (110KV and above). In that context, SEC Transmission officials signed a tariff-agreement with Sadaf Company, in accordance with Article 8

of the Government's Resolution No. 169 of 1419A.H. The agreement will be enacted when the first electric power/steam unit constructed by Sadaf Company will become operational.

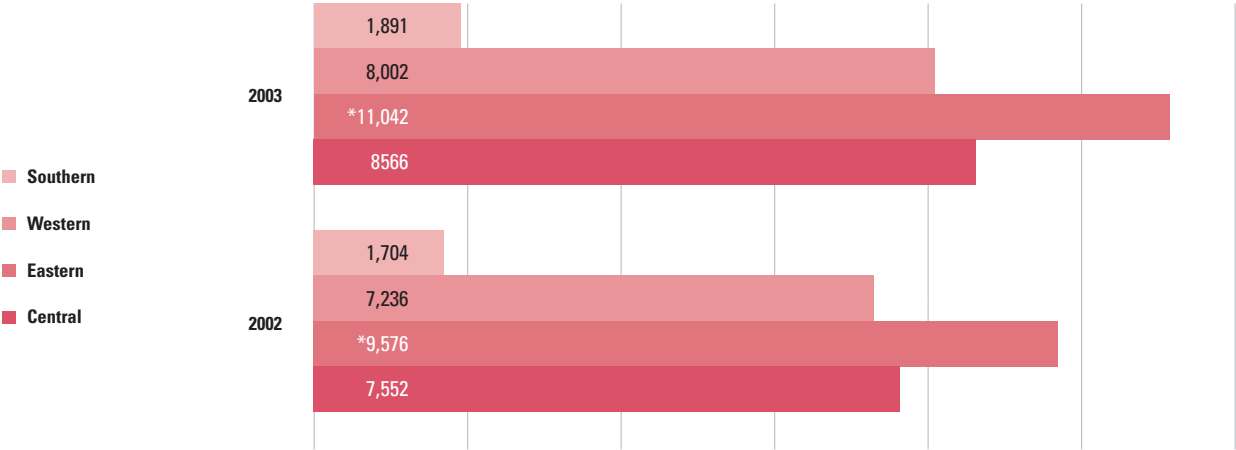
SEC officials are negotiating with Saudi Aramco and a few SABIC companies in order to conclude similar agreements. On the other hand, SEC organized in January 2003, a workshop about the quality of transmission service delivered to major customers in the city of Al-Khobar.

Transmission business function management tracks the implementation of maintenance programmes as per schedules, in a constant attempt to intensify and improve maintenance as a means to enhance the network's readiness and, as much as possible, to reduce the frequency of transmission failures. Company officials are in the process of managing operations and maintenance schedules so as to ensure the safety, stability, and reliability of electric power supply.





Total Loads on Networks (MW) by Operating Area for the year 2003



*The Interconnected Network of EOA represents an additional source for COA estimated at 1771MW and 2318MW for the years 2002 and 2003 respectively.



Timing Records of Registered Daily Maximum Load – Load Growth Rate

Operating Area	Recorded on		Timing		Growth Rate
	2002	2003	2002	2003	%
Central	June 2	June 14	15:00	15:00	13.4
Eastern	August 13	July 17	15:00	15:00	15.3
Western	August 3	August 18	13:30	15:00	10.6
Southern	August 12	September 6	23:00	22:00	11.0
National Transmission Grid	August 3	June 17	12:00	15:00	9.8

Total Maximum Load of the National Grid (MW)



2002 2003

Distribution and Customer Services Business

The results of the merger and the restructuring process were translated into direct measures of action in the field of electric power distribution practises, namely ensuring a reliable electric service delivery to all categories of customers. The Company proved its ability to build ties with customers, enabling them in the future to obtain electric power and service from competing investors involved in electric power industry, offering competitive tariffs, and providing a full range of electric services to all users, in accordance with their developing expectations.

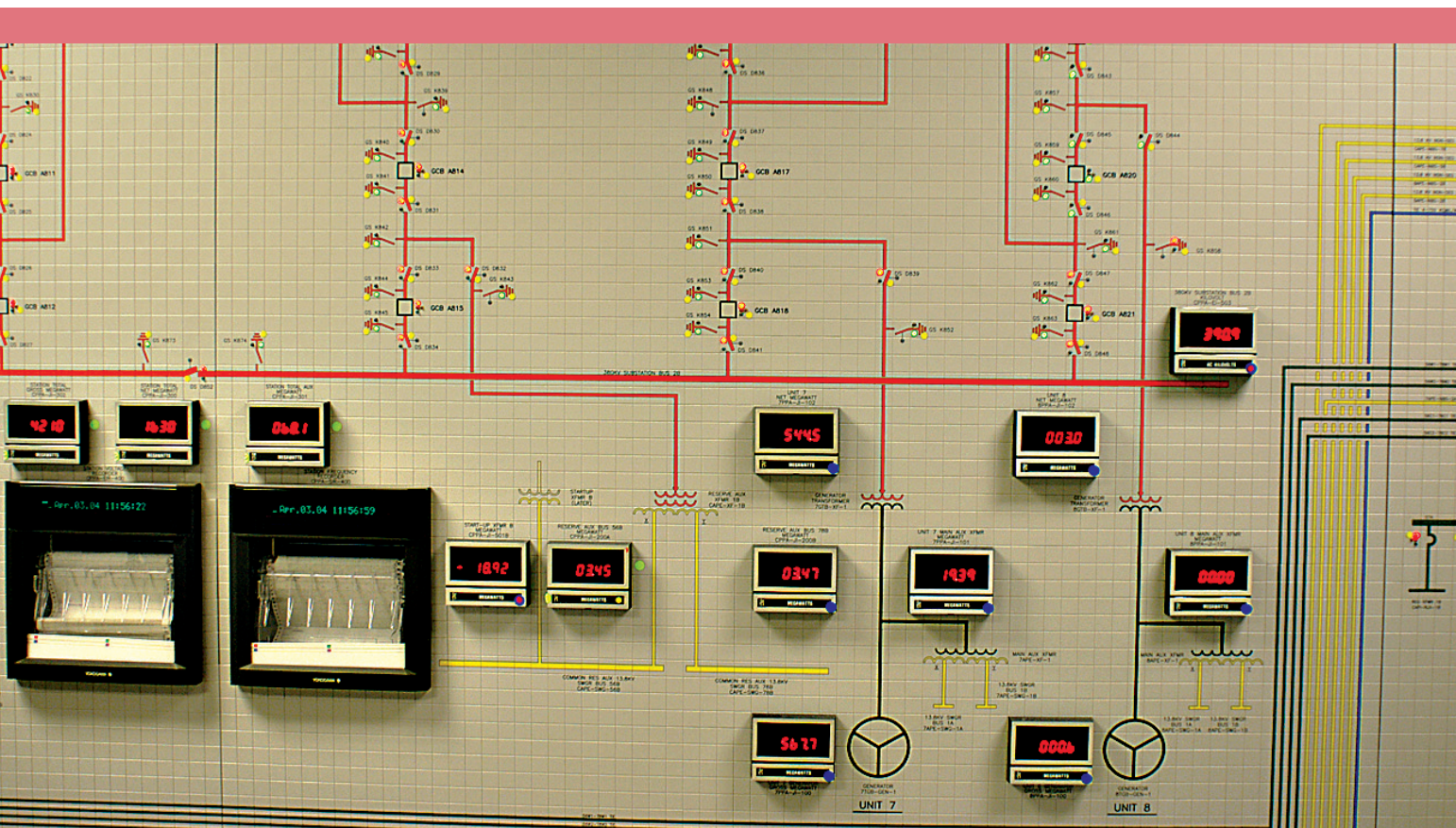
Energy Supply Delivery Policy

Direct measures of action involved building close ties with the Company's customers. They reflected the purpose and focus of activities of the Company that consist of supplying customers with highly reliable and safe electric service. Customer-oriented, the distribution function is about satisfying the customers' requirements

through delivering improved and accessible electric service at the lowest possible cost, owing to the optimal use of available resources. Hence, the distribution function involves the installation and implementation of state-of-the-art equipment and technical guidelines and specifications, skillfully operated and monitored, throughout the distribution network. Emphasis is on developing the expertise and competencies of SEC staff and on strengthening linkages with customers and facilitating their access to electric power, and on maintaining excellent after-sales service.

SEC relies on a long-range idealistic strategy translated in five plans of action aimed at delivering electric service to whoever needs it, and to wherever needed. Four of these plans are summarized as follows:

1. Keep on delivering electric service to all categories of customers within the urban areas.



2. Approval of a five-year plan (2004-2008) to extend electric power supply and services to the developing areas, and to villages and remote settlements in all operating areas.
3. Schedule the implementation of a long-term plan to extend electric service to agricultural lands and farms in all the operating areas.
4. Implement a long-term plan to electrify the new urban design and land development projects.

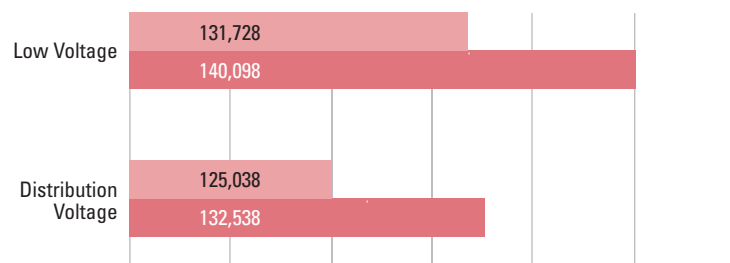
Distribution and Customer Services

The Customer Services composed of all practises relevant to distribution networks nation-wide. These services are provided in all operating areas: Central, Eastern, Western and Southern. Before the merger and the restructuring of SEC, differences in norms on the design and operational levels in the distribution system were noticeable: substations, distribution lines, voltage levels, customer service lines. Thus, there was a great

challenge to apply a set of uniform norms and standards, and yet take into consideration all kinds of conditions and constraints, namely the quality and nature of load, the climate and the topography of the area, the load centres, etc. To address this challenge, and in compliance with executive plans of action, the distribution-voltage levels were classified as follows: 13.8KV, 33KV, 34.5KV, 69KV. Low-voltage levels in all operating areas were also classified as follows: 120 volts, 220 volts, 380 volts. Furthermore, up to 80 percent of the distribution specifications were standardized, and up to 40% of the process of preparing a set of uniform norms and procedures was completed in all operating areas.

The results of implementing a set of uniform standards and procedures to the design and operational level of the distribution system were translated in positive economic and technical

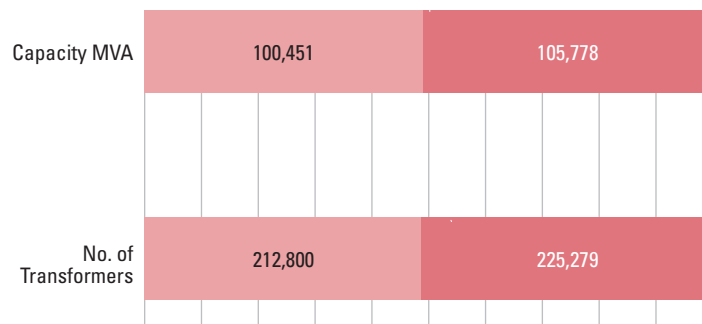
Development of Distribution Networks according to Voltage and CKM(circular-km)*



* Responsibilities of 33 kv voltage networks were transferred to Distribution Function

2002 2003

Development of Transmission Substations



2002 2003

*Including 2,318MW for Central Operating Area



results during the year 2003. Year-over-year comparisons show that distribution network lengths were up by 6.4% in 2003, above previous year. Electric service was distributed to 228,174 new customers all over the kingdom in 2003, an annual increase of 5.4%. The result exceeded the projected estimations by 42%. The new customers belonged to all categories of consumption in all the operating areas: residential, commercial, industrial, agricultural, in addition to municipalities and mosques, etc.

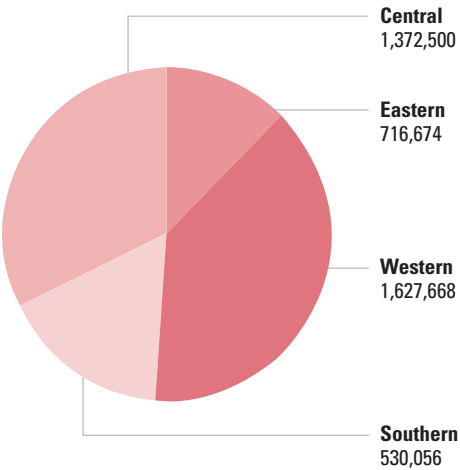
Power-Demand Challenges

The output of sold energy through the national electric power distribution network amounted to 142,194GWH during 2003, a growth rate of 10.5% over the year 2002. This tremendous increase in demand for power is unique since the inception of the Company,

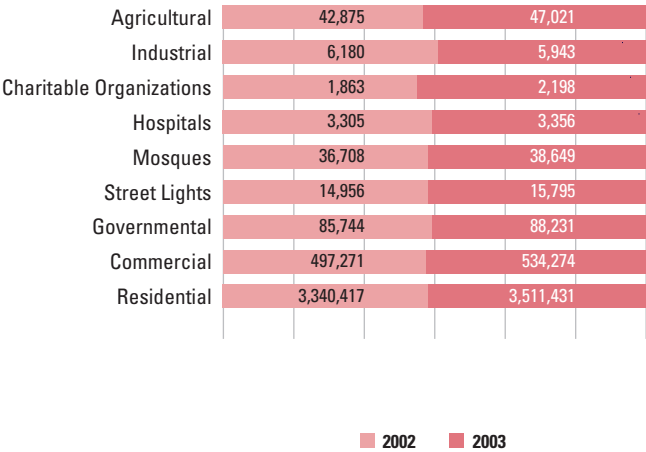
considering that the annual increase in sold energy during the first few years was in the range of 4.5 to 5.5 percent. This leap in power demand is due to the increased number of customers and to the rise in climate temperature. The Company was able to address this challenge and to accommodate this additional demand for electric service, owing to the optimum utilization of power sources, load management programmes, and public information and communication programmes aimed at guiding customers to cost-effective electric consumption.

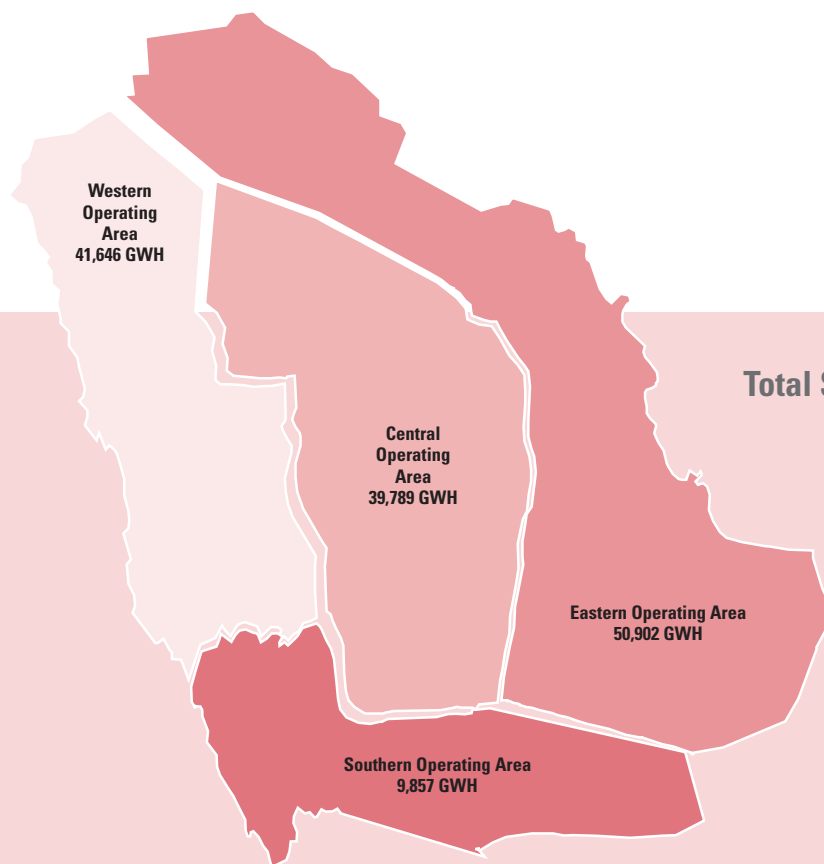
By the end of the year 2003, electric power supply was extended to 615 new villages and remote settlements all over the Kingdom, thus delivering electric power services to 15,230 new customers. As of this year the absolute number of towns, villages, and remote settlements, supplied with electric power, totals 9,864.

Total Number of Customers by Operating Area for the year 2003

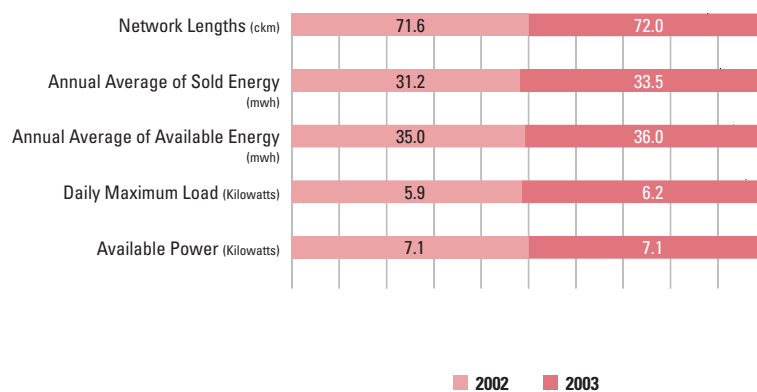


Growth in the Number of Customers by Category of Consumption

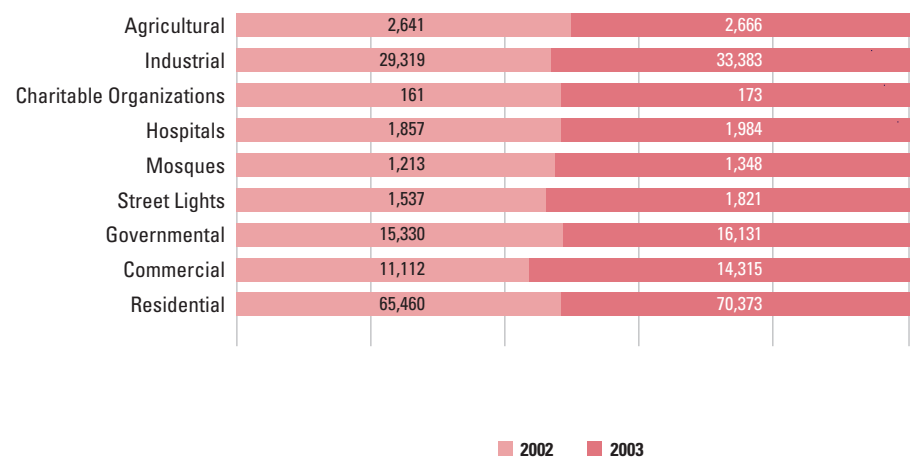




Electric Power Aggregates per Customer
(the customer's share from electric service)



Sold Energy by Category of Customers (GWH)

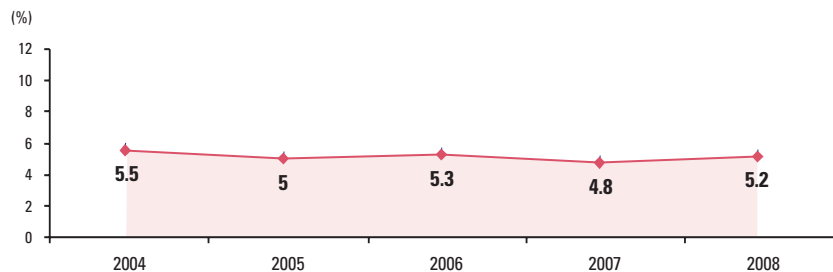


New Services

A full range of new electric services has been added to the existing power-supply service and after-sales service. The use of new products and services is promoted in order to increase their value, thus meeting the expectations of customers. The ingredients of the new services are:

- **Isolated generation:** SEC uses this programme to extend electricity to the developing remote areas all over the Kingdom. Due to lack of infrastructure and financial investments required to connect these remote areas to the national power grid, the Company initiated this service, relying on its own financial resources yet opening the market for private sector participation. Private investors took over the delivery of this service successfully to some of the developing areas. It was indeed an economically sound decision, both investment-saving and cost-effective, on behalf of the Company's shareholders. It relieved the Company from its commitment to reach remote customers by encouraging private investors to participate in electric power service delivery.
- **Call Centre:** As of the end of the first quarter, the interactive call centre system was implemented throughout all operating areas, immediately satisfying all customers' need for information.
- **Customers individual accounts:** A 'customer account system' was initiated and implemented in June 2003. Customers can obtain this service via telephone calls.
- **Average consumption bill:** As of the beginning of the year, an average- consumption bill system was implemented wherein a customer pays a fixed monthly bill based on his average yearly consumption of electricity, thus enabling the customer to manage his/her budget and plan a timely settlement of electricity bills.

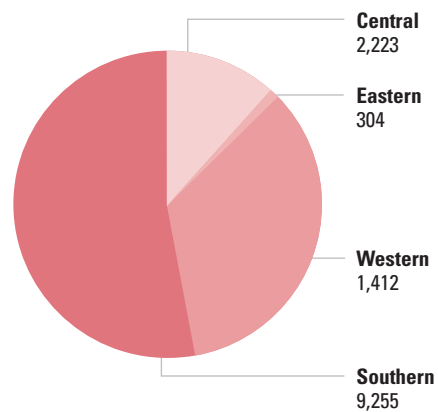
Projections of the Growth Rate of Sold Energy in the Kingdom for the period 2004-2008



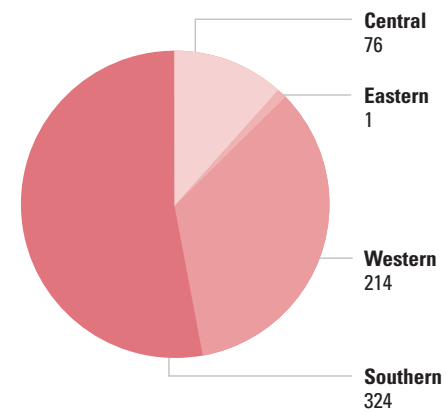
- **Payment modalities:** In addition to the usual payment of electricity bills through the banks, the customer was given the option to use either phone-banking, e-banking or ATM service.



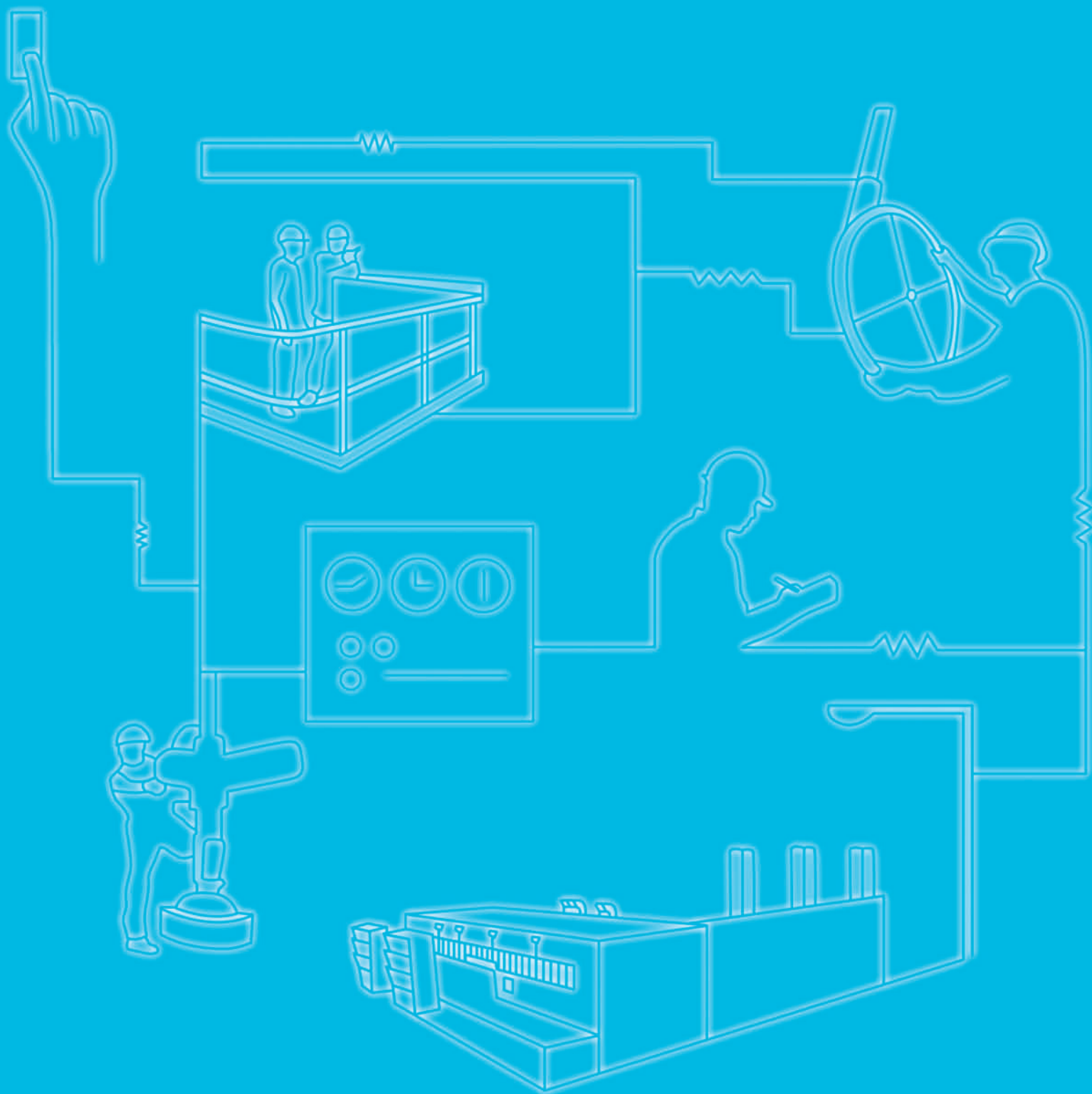
Total Number of Electrified Towns & Villages & Remote Settlements * at the end of the year 2003 by Operating Area



Total Number of Electrified Villages & Remote Settlements during the year 2003 by Operating Area



*Excluding remote settlements electrified by isolated generators.



THE EMPLOYEE

Developing his abilities and providing a safe working environment are the Company's priority. The employee's satisfaction with his job is one determinant of Company's organizational commitment and, that of employee well-being and his productivity.

TRAINING, CAREER DEVELOPMENT, LEADERSHIP

Continuous training to improve competency and exposure of SEC staff to modern procedures and information tools through the institution of modern practices in human resource development, and promoting career development among Saudi employees.

IMPROVEMENT, DEVELOPMENT, INNOVATION

Total quality management programmes to empower human resources and improve the overall performance.

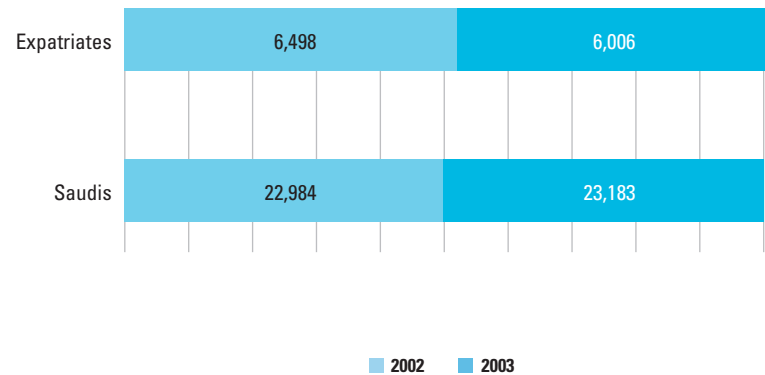
Manpower



One of the objectives of the Company, as reflected in its medium and long-term plans and in the new organizational structure, consists in raising the proportion of Saudi nationals among SEC staff in all positions. In that perspective, staff members were delegated to managerial, technical, and administrative positions in the new structure, based on job-performance assessment, qualifications and competencies, degrees and expertise. Furthermore, SEC offers new job opportunities for young national competencies, and is always looking to recruit Saudi nationals, inviting them to join its administrative and technical teams. At the end of the year 2003, the number of Saudi regular employees totaled 22,112 and trainees were 1,071. The Saudization rate on job positions grew up to 79.4 percent of total employment. The Company strives to increase the level of Saudization to a higher level by providing continued training of existing national staff and designing specific training programmes for groups of new recruits, assisting

in the placement of new recruits and planning their job rotational assignments, and ensuring career planning of key staff. Modern human resource management policies were adopted based on computerized HR database and the establishment of links between training and employee career-development. SEC has a clear remuneration policy based on qualifications and experience, and a salary and benefit policy based on a standard of fairness of rewards implemented as of 1/1/2003 providing competitive above-market-rates salaries. SEC enhanced its website for public access to various information materials, including training courses, schedules and the option to register on-line, information on job opportunities and career development opportunities for SEC employees. Also, the Company provides free medical care and insurance package for the employees and their families, either within the Company owned medical facilities, or through hospitals and medical centers that have existing contracts with SEC.

Development of Transmission Substations



Training and Career Development Programmes

The Company focuses on improving competencies and on developing its national human resources through continuous exposure of its staff and employees to modern procedures and innovative applications, providing continued training operations in its own training centers and with the technical assistance of research institutes. The desired outcomes of the multiple training programmes are HR development, and improved efficiency and overall performance.

- 1) Training
 - a. Vocational Training for new candidates: The Company provides general and vocational



high school graduates, as well as fresh graduates from vocational technical and industrial colleges, the opportunity to join the Company's own training centers located in Riyadh, Dammam, Jeddah, and Abha under the supervision of the Human Resource business function. This programme comprises 22 specialized technical components that cover all SEC activities and applications. Duration and schedule of training modules, and stipends paid to trainees depend on the nature of the programme.

b. On-the-Job Training: This programme aims at inducting candidates who are graduates from the Vocational Training Programme.

Recruited by the Company, they benefit from on-the-job training in their assigned positions. The duration of this programme is two years to enable new recruits to gain the required skills, experience and qualifications in the field of their specialization, thus ensuring high professional working practices.

By the end of 2003, HR business function has provided on-the-job training to 672 recruits, of which 431 were recruited in 2003. During this year, 295 trainees graduated and were inducted.

Vocational and on-the-job training are the two pillars of the Saudization project and the guarantor for its realization.



c. Specific training programmes: These training programmes are available for SEC staff and employees, consisting of short selective training modules of diversified technical and administrative themes. They aim at enhancing the skills of existing staff and employees. They include an English language training programme, an information technology training programme which builds skills in using major productivity tools, and delivering specialized training on information systems designed for specific departments.

2) Career Development Programme

Specially designed to induct a new generation of Saudi Nationals who recently graduated from universities. The duration of this programme is 24 months. It assists in the job placement of new recruits and provides for their job rotational assignments. It also provides them with individual career development plan the

opportunity to upgrade their qualifications and competencies based on their profiles and potential functions. By the end of 2003, the number of new recruits reached 480 employees.

Employee Training and Tracking System

This programme aims at defining the best career tracks of existing staff and employees. It provides career development opportunities within the corporate ladder, ensuring their aptitude in undertaking their assigned tasks, and preparing them to develop their skills and expertise and move to higher level positions. The programme includes all Saudi employees not belonging to supervisory positions, or grade code rank 48 and above. Some 8,224 employees were included in this programme at the end of the year 2003. Those who have exhibited a higher level of competence are selected to join the leadership development programme.



Total Quality Management

The Company, aware of the extreme importance of human resource development as well as developing competencies linked to a comprehensive training programme, adopted the concept of total quality management as a policy to induce the required corporate cultural-change, to involve SEC staff in the institutional change process, and review procedures and work practices and operations and services: mastering details, looking for the most innovative customer service initiatives and applications, and optimizing the utilization of available resources.

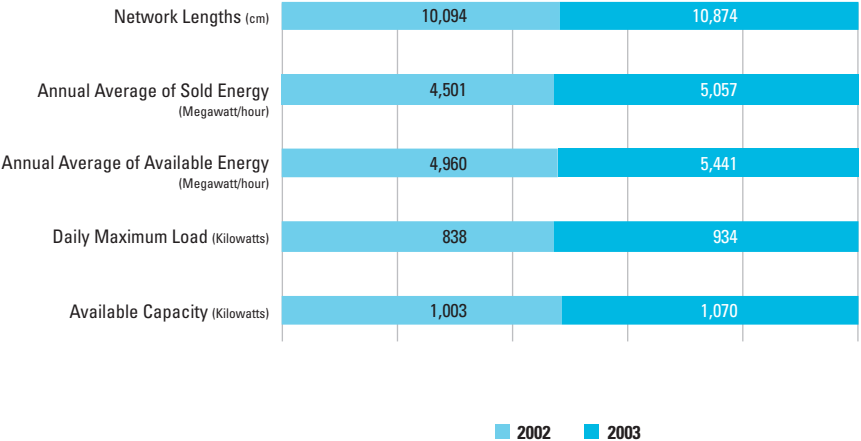
Improvement Programme

This is the first programme implemented under the umbrella of total quality management, with emphasis on the operations within the limited spheres of the Company, i.e. one division or one department at a time.

This programme was initiated in 1994. During the year 2003, a total of 155 “improvement-teams” was formed, bringing the total number of “improvement-teams” formed since 1994 to 929. Around 6,000 employees joined these teams. Out of 4,136 improvement recommendations proposed by team members, 3,266 recommendations were implemented, accounting for 79 percent of the total. The recommendations have resulted in improved quality of products and services, reduction of customer-service work hours and of operating expenses.

The implementation of Improvement Programme contributed to improving the skills and expertise of the members of the “quality teams.” Moreover, the participation of SEC employees to the quality teams was an excellent training toward strong group interaction and communication, good team work, project analysis and evaluation, decision making, creative thinking, and positive interaction with change.

Productivity of SEC Employee by Function
(based on the Network's Data)



Leadership Programme

This training programme aims at building the aptitude of Saudi employees, developing their expertise and competencies to occupy managerial, supervisory and key positions. The programme provides training on ethics, good team work, leadership and management skills. It includes updating existing information and keeping individual records of employees, supervises and continuously makes assessments based on profiles and potential functions, and on computerized HR database and the establishment of links between training Saudi nationals on one hand, and employees' career development and Saudization of management positions on the other hand. There is no definite duration for this programme: exactly 1,242 employees were included at the end of the year 2003.



Innovation Programme

This programme was initiated in 1997, three years after the implementation of Improvement Programme. The emphasis of this programme is on the main functions and operations that involve more than one division or department in the Company’s organizational structure. Therefore, innovation teams cut across the Company’s divisions and departments, because the members of the teams are themselves members of the specialized departments or divisions.

During 2003, the operation development project “Designing, Building and Commissioning Power Distribution Facilities to the Customers” was completed. This brings the total number of completed development projects to 12. The implementation of modern cost-effective and time-saving techniques and practices were the results of the Innovation Programme.

Creativity Programme

This programme aims at spurring the creativity of management staff and employees, by encouraging them to make creative recommendations concerning solving technical problems, and submit propositions related to the enhancement of the overall Company performance by means of incentives and a fair rewards system.

Employees Creativity Programme was initiated in mid-2001 in one operating area. Presently, it is being implemented in all operating areas. Some 1114 technical and administrative propositions were made by the end of 2003 of which 428 were approved, whereas 267 pending propositions are being examined, and 177 propositions were enacted with the desired outcome reflected by a cost-reduction and increase in efficiency in the work procedures and practices.

Description	End of 2003
Total Quality Management Improvement Teams	929
Total Number of Propositions made by Improvement Teams	4,136
Total Number of Implemented Propositions made by Improvement Teams	3,266
Number of Studies Conducted by Innovation Teams	12



Maintaining a clean environment is one of our primary goals. We continue to participate in keeping the environment clean and healthy by reducing waste, preventing pollution, conserving resources and using energy efficiently in all our operations.

Our Environmental Responsibilities

Protection of the Environment

SEC is dedicated to providing safe working conditions to protect the health and safety of employees, to reducing waste, preventing pollution, conserving resources, and using energy efficiently in all its operations. Complying with all applicable environmental, health, and safety legislations and regulations - SEC pledges its commitment to protect the environment.

Contribution of the Generation Business

Power Generation business function contributes to protect the environment owing to the utilization of modern electric power-generation techniques. Indeed, power plants all over the Kingdom use steam turbines and combined-cycle units for the generation process, in addition to gas-fired turbines and diesel units.

Different types of combustion fuel are utilized in these power stations: natural gas, diesel fuel, crude oil, and heavy fuel oil. The combustion of heavy fuel oil causes the emission of carbon dioxide and molecules that are discharged in the atmosphere through the power station chimneys.

Generation business function officials took several measures to significantly reduce emissions and yet meet growing energy needs well into the future. Primarily, they are keen on building and commissioning power plants distantly from towns and residential areas, and as far as possible from industrial areas already packed with industrial plants in order not to increase the existing pollution. The Generation business function initiated the use of clean energy such as natural gas in the new power plants, taking into consideration the economics of energy supply, the availability of alternative sources of energy. They also initiated the use of state-of-the-art controls, namely installation of gas detectors to control gas emissions, and air-purifying systems. SEC, upon conducting a comprehensive survey, is about to sign an agreement with a research and consultation institute to periodically monitor, measure and assess the environmental impacts of major power plants. The multi-stage study will undertake air sample collection and analysis to ensure compliance with International Water and Air Pollution Control Standards. The study will provide a framework for analysis and evaluation of the environmental impact of these major power stations

in trying to mitigate environmental damages. The study will help in setting provisions that specify acceptable activities and allowable tolerances for environmental impacts. The findings of the study will help SEC engineers make similar evaluations. Moreover, a specialized training programme will expose SEC engineers to assessment tools enabling them to periodically undertake similar evaluations for the remaining power stations.

Contribution of the Transmission Business

Power Transmission business function contributes to protect the environment through reducing the environmental impact of power-transformers in the urban areas to ensure a minimum level of noise; in compliance with international standards on designing and building transmission substations and grids, to ensure safety of facilities, grids, pathways and poles, and noise control.

Contribution of the Distribution and Customer Services Business

In their effort to build linkages with the community of customers and the public at large, Distribution and Customer Service business function officials have set meaningful objectives and targets while taking into consideration the significance of environment, health and safety aspects, business and legal requirements. They train employees to work in a safe and environmentally responsible manner. These objectives are:

- Contributing to enhance the outlook of the Company through the use of aesthetic architectural designs in all Company edifices and provides well designed reception areas that bring comfort to customers.
- Designating no-smoking areas within the work premises and in the Company's offices.
- Constructing isolated power-generating units that adhere to high-standard specifications, in coordination with the manufacturer, in order to reduce the impact of the exhaust emissions.
- Coordinating with contractors to ensure that excavations are in compliance with municipal regulations and legislations.
- Regularly visiting the work sites in all operating areas (delegated inspectors must come from all SEC business functions and divisions).





Top Safety Performance

Complying with the best norms on safety and efficiency, SEC ensures safe working conditions to protect the health and safety of employees with all applicable safety regulations and legislations. Continually improving Company safety management systems and performance, SEC provides continued training of its employees to work in a safe and environmentally responsible manner; periodically monitoring and evaluating safety performance as it relates to applicable requirements and established objectives and targets; establishing and maintaining procedures to identify the potential causes of and responses to accidents and emerging situations, and preventing and mitigating the impacts associated

with them. Each employee is responsible for supporting these commitments within his area of responsibility.

SEC reaffirmed its leadership in this realm through organizing the 13th Conference on Industrial safety and participated in all related conferences and expositions that took place during 2003.

REWARDING INTERACTION WITH THE COMMUNITY

In addition to its role in providing electric service to all the customers all over the Kingdom, SEC is aware of the importance of linkages and networking with customers and the community as a whole; developing close ties with the public through contributions to the community and active participation to the various national and public events.

Interaction with major stakeholders in the field of mass media and communication is maintained as a means to promote Company efforts toward ensuring the customers' satisfaction well into the future.

Our Customers and the Community

Our Corporate Responsibilities to Customers



SEC, aware of the importance of building linkages with its partners and major stakeholders in the community and with its employees and customers and shareholders, strives to realize its vision for improving the livelihood of members of the community, and the quality of life in the country, and enhances the competitive edge of the Saudi economy. The Company knows the importance of its responsibilities that consist of providing all categories of consumption to all end-users in all operating areas with reliable and safe electric service in a constant attempt to improve the quality and level of service by using state-of-the-art technologies. SEC was able to reap the rewards of its efforts in this area, through building linkages with major customers and business partners leading to a long-term mutually beneficial relation.

The Company pursued during 2003 its economic, social and humanitarian contributions. In the field of sustained economic development, the

Company contributed pro-actively in improving and developing the electric service, supporting the development efforts by all the sectors of the economy. The desired outcome of this policy was translated in the continuous economic and social growth of the Kingdom.

Methodology

Considering the importance of electricity as a product that enhances the living standards of all categories of customers and the utmost importance of analyzing the impressions of end-users and assessing their satisfaction by way of interacting with them so as to understand their expectations from the Company, their criticisms and complaints about the services they receive, SEC has conducted a survey on "customer satisfaction", a study of the "company's public image," and a study of the "media content." The results of these survey and studies contributed in identifying SEC responsibilities towards various sectors of the community.





Indeed, analysis of these findings contributed actively in designing and implementing all public information and communication strategies and programmes during 2003. Advertising campaigns set multiple targets, namely rationalization of the electric power use, and informing and educating the public about available services. Moreover, an emergency information campaign provided media coverage of all the achievements, events, and activities of that year. SEC kept close contacts with news and media people, through supplying them with reports and highlights about the Company's achievements and its various programmes; and through interacting with those who sent letters of complaints about the quality of services.

Another aspect of the Company's interaction with the community is charity giving and humanitarian

actions. SEC actively contributes to programmes that benefit non-profit organizations. Areas of emphasis for this programme are: education, civic and social pursuits. SEC encourages programmes that help to meet the needs of the disadvantaged, the elderly, and people with disabilities.

Interaction with shareholders, on the other hand, reflects the Company's awareness of their vital role, and its constant effort to meet their expectations. The Company pro-actively encourages private sector participation, through tasking local investors and national companies with the mission of implementing electric power projects, and via prioritizing local service and product procurement. Indeed, local bidders were favored in 92 percent of the cases. Also, 85 percent of the Company's procurement comes from the local market.

Rewarding Interaction with the Community

In the framework of community outreach, SEC encouraged private sector participation to its projects and activities and provided investment opportunities to private investors. Communication and public information campaigns were implemented to promote these opportunities.

The Company also contributed in supporting and sponsoring various economic programmes and events that took place during the year 2003.

In harmony with its goals and plans to provide business opportunities, SEC published an “ Investment Opportunities Guide” in the field of electric power generation and transmission, in coordination with the Public Investment Authority and the Council of Chambers of Commerce and Industry, and the various Chambers, targeting Saudi national businessmen and foreign investors.

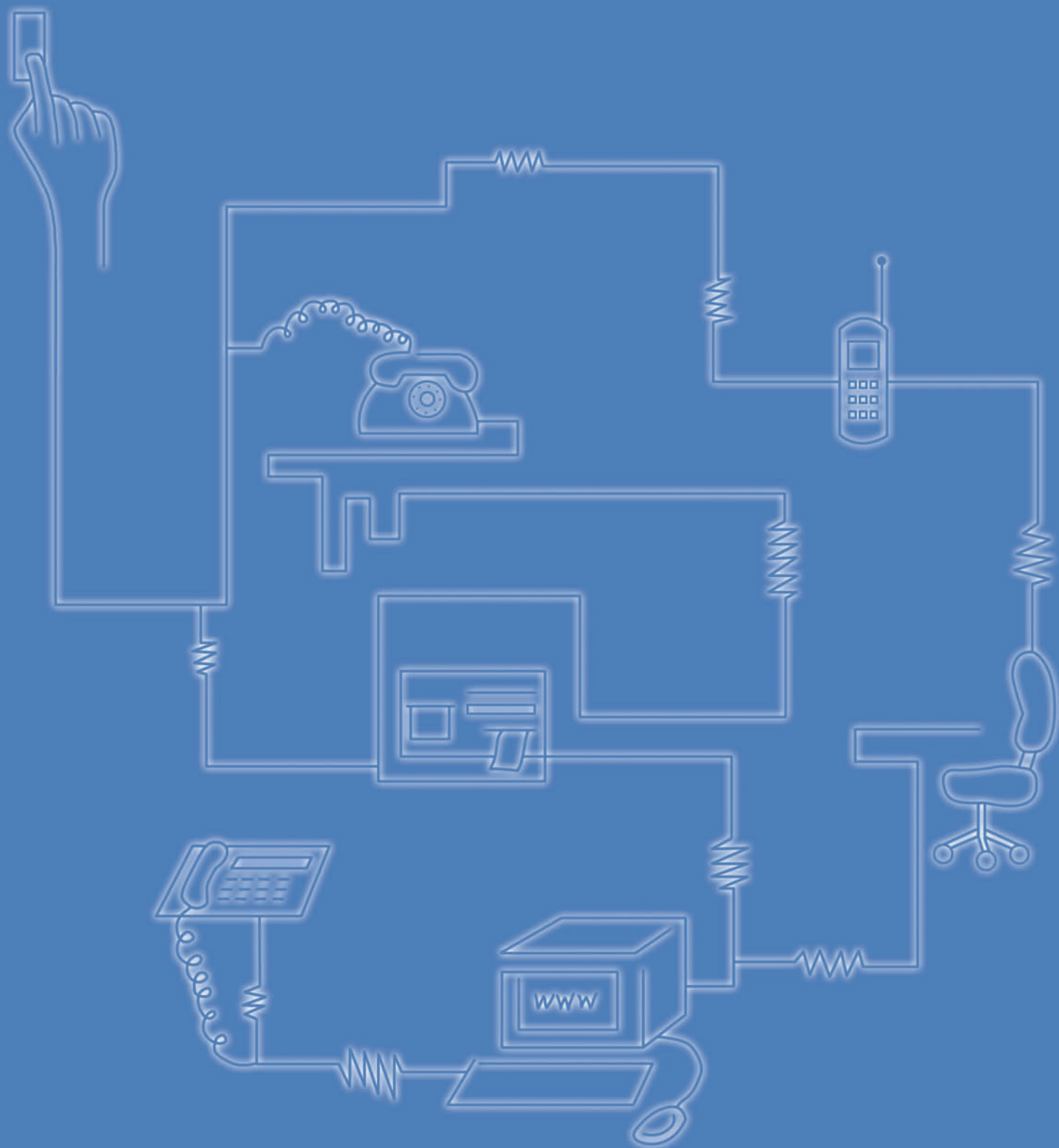
Linkages with the community have resulted in sponsoring 13 seminars and workshops and 24 expositions. SEC officials organized 33 educational visits about electric power applications and public awareness toward rationalizing the consumption of electricity.

Interaction with the community resulted in Company's active participations in various public events such as Arab Traffic Week, Gulf Traffic Week, the Fourth National Public Awareness Campaign about road accidents, Career Day in various universities, International Civil Defense Day, and several health and environment public awareness campaigns.

The Company also has organized public awareness campaigns about the rationalized use of electric power. SEC continues to provide support and financial assistance to charitable organizations in the Kingdom.







FINANCIAL STATEMENTS
and INDEPENDENT AUDITORS' REPORT

for the Year Ended December 31, 2003 and 2002

Independent Auditors' Report

Balance Sheet

Statement of Income

Statement of Changes in Shareholders' Equity

Statement of Cash Flows

Notes to the Financial Statements

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, 2003 and 2002 and the related statements of income, changes in shareholders' equity and cash flows for the year then ended, including the related notes from 1 to 26. 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, 2003 and 2002 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.



Dr. Mohamed A. Al-Amri
Certified Public Accountant
Registration No. 60



Muharram 09, 1425 (H)
February 29, 2004 (G) 2/19

BALANCE SHEET

		December 31	
		Thousands of SAR	
Assets	Notes	2003	2002
Cash and cash equivalents	(4)	1,782,086	1,912,846
Short-term investments	(5)	–	7,759
Consumers receivable and accrued revenue – net	(6)	15,907,855	11,986,009
Prepayment and other receivables – net	(7)	687,611	1,101,843
Inventories – net	(8)	3,148,380	3,452,965
Total Current Assets		21,525,932	18,461,422
Long-term investments	(5)	80,185	65,218
Construction in progress	(9)	5,543,650	9,786,172
Fixed assets – net	(10)	74,227,087	68,456,366
Total Non-current Assets		79,850,922	78,307,756
Total Assets		101,376,854	96,769,178

		December 31	
		Thousands of SAR	
Liabilities and Shareholders' Equity	Notes	2003	2002
Accounts payable	(11)	22,253,516	19,032,988
Accruals and other payables	(12)	1,767,835	1,998,340
Current portion of long-term loans	(15)	1,230,344	1,298,524
Total Current Liabilities		25,251,695	22,329,852
Non-current portion of long-term loans	(15)	4,034,974	4,998,541
End of service benefits		3,518,220	3,133,704
Deferred revenue – net	(16)	8,929,723	8,119,435
Consumer deposits		830,783	784,630
Total Non-current Liabilities		17,313,700	17,036,310
Government loan	(17)	14,552,136	14,552,136
Total Liabilities		57,117,531	53,918,298
Shareholders' Equity			
Share capital	(18)	41,665,938	38,287,771
Statutory reserve		319,659	178,815
General reserve	(19)	213,668	213,668
Government's electricity fee fund	(18)	–	3,378,167
Retained earnings		2,060,058	792,459
Total Shareholders' Equity		44,259,323	42,850,880
Total Liabilities and Shareholders' Equity		101,376,854	96,769,178

The accompanying notes from No. (1) to No. (26) form an integral part of these financial statements.

STATEMENTS OF INCOME

		For the Years Ended December 31 Thousands of SAR	
Operating Revenue	Notes	2003	2002
Electricity sales		16,373,914	14,853,519
Meter reading and maintenance and bill preparation tariff		609,282	580,387
Electrical service connection tariff		562,145	495,671
Total operating revenue		17,545,341	15,929,577
Operating Expenses			
Fuel		(4,015,105)	(3,757,840)
Purchased power		(931,484)	(908,587)
Operations and maintenance	(20)	(4,498,481)	(4,033,550)
Depreciation	(10)	(5,484,092)	(5,063,515)
General and administrative expenses and provisions	(21)	(1,293,598)	(1,218,716)
Total operating expenses		(16,222,760)	(14,982,208)
Operating Income		1,322,581	947,369
Other income and expenses - net	(23)	135,143	167,105
Income before Zakat		1,457,724	1,114,474
Zakat	(14)	(49,281)	(37,130)
Net Income		1,408,443	1,077,344
Earning per share (in SR)	(13)	1.69	1.29

The accompanying notes from No. (1) to No. (26) form an integral part of these financial statements.

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

Thousands of SAR	Paid-in Capital	Statutory Reserve	General Reserve	Government's Electricity Fee Fund	Retained Earnings	Total
For the Year Ended December 31, 2003						
Balance, January 1, 2003	38,287,771	178,815	213,668	3,378,167	792,459	42,850,880
Capitalization of Government's Electricity fee fund	3,378,167	—	—	(3,378,167)	—	—
Net income for the year	—	—	—	—	1,408,443	1,408,443
Transfer to statutory reserve	—	140,844	—	—	(140,844)	—
Balance, End of the Year	41,665,938	319,659	213,668	—	2,060,058	44,259,323
For the Year Ended December 31, 2002						
Balance, January 1, 2002	38,287,771	71,081	213,668	3,378,167	332,078	42,282,765
Net income for the year	—	—	—	—	1,077,344	1,077,344
Transfer to statutory reserve	—	107,734	—	—	(107,734)	—
Proposed dividend (Note 13)	—	—	—	—	(508,129)	(508,129)
Board of directors' remuneration (Note 22)	—	—	—	—	(1,100)	(1,100)
Balance, End of the Year	38,287,771	178,815	213,668	3,378,167	792,459	42,850,880

The accompanying notes from No. (1) to No. (26) form an integral part of these financial statements.

STATEMENTS OF CASH FLOWS

For the Years Ended
December 31
Thousands of SAR

	2003	2002
Cash flows from operating activities		
Net income	1,408,443	1,077,344
Adjustments to reconcile net income to net cash provided by operating activities :		
Allowance for doubtful receivables	117,979	151,507
Allowance for slow moving inventory	11,004	7,942
Gain on sale of investments	(165)	—
Depreciation	5,484,092	5,063,515
Gain on sale of fixed assets	(4,016)	(3,789)
Provision for end of service benefit	384,516	211,283
Electrical service connection tariff	810,288	472,408
Proceeds from customer deposits, net of refunds	46,153	42,299
Provision for zakat	49,281	37,130
(Increase) Decrease in operating assets		
Consumers receivable and accrued revenue	(4,039,825)	(3,512,667)
Prepayments and other receivables	410,632	65,001
Inventories	293,581	(213,977)
Increase (Decrease) in operating liabilities		
Accounts payable	3,220,528	4,324,463
Accruals and other payables	168,272	220,885
Net cash provided by operating activities	8,360,763	7,943,344

	For the Years Ended December 31 Thousands of SAR	
	2003	2002
Cash flows from investing activities		
Net (payments for) proceeds from investments	(7,043)	25,145
Fixed assets and construction-in-progress	(7,023,875)	(8,828,305)
Proceeds from sale of fixed assets	19,200	8,320
Net cash used in investing activities	(7,011,718)	(8,794,840)
Cash flows from financing activities		
Net (settlement of) proceeds from bank loans	(1,031,747)	44,266
Dividends paid related to prior years	(448,058)	(270,325)
Net cash used in financing activities	(1,479,805)	(226,059)
Net Decrease in Cash and Cash Equivalents	(130,760)	(1,077,555)
Cash and Cash Equivalents – Beginning of the year	1,912,846	2,990,401
Cash and Cash Equivalents – End of the Year	1,782,086	1,912,846

The accompanying notes from No. (1) to No. (26) form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended December 31, 2003 and 2002

1. ORGANIZATION AND ACTIVITIES

Name of the Company **Saudi Electricity Company** (hereinafter referred to as “SEC” or the “Company”)

Corporate Status The formation of SEC came as a result of the Council of Ministers’ Resolution number 169, dated Sha’ban 11, 1419H corresponding to November 29, 1998. This resolution was made with a view to reorganize and restructure 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.

Legal Entity 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.

Commercial Registration SEC was incorporated in KSA under Commercial Registration number 1010158683 dated Muharram 28, 1421H corresponding to May 3, 2000.

Nature of Activities 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.

Company Segments 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 getting the electricity to the consumer. The company does not have transfer prices between these activities, and revenues are recognized from selling electricity to end consumer for the company as a whole based on the official tariff decided by the government.

Electricity Tariff SEC is a tariff regulated electric utility. Electricity tariffs are determined by the Council of Ministers based on recommendations from the Electricity Services Regulatory Agency (ESRA). ESRA was established in November 2001 according to Resolution No. 236 dated 27 Sha’ban 1422H.

The last change in tariff was made through the Council of Ministers Resolution No. 170 dated 12 Rajab 1421H to be effective from 1 Sha’ban 1421H. The maximum rate of 26 Halala per Kilowatts/hours, has not been changed since then.

Financial Year 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 principles generally accepted in the Kingdom of Saudi Arabia. Significant accounting policies adopted in the preparation of these financial statements are summarized below :

a. Accounting Estimates

The preparation of financial statements in accordance with generally accepted accounting principles requires the use of estimates and judgements 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.

b. 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 from the balance sheet date.

c. Consumer 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 by the management.

d. 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.

e. Investments

Investments in entities in which the Company has at least 20% ownership are accounted by following the equity method. Revenues or losses from such investments are recognized in the income statement when financial statements of investee entities are issued.

Investments in entities in which the Company has less than 20% ownership are accounted by following the cost method. Revenues from such investments are recognized when received.

Held to maturity investments consisting of Saudi Government Bonds are reported at cost and adjusted for amortization of premiums and accretion of discounts. Bonds maturing within 12 months from the balance sheet date are classified as short-term investments and bonds maturing beyond 12 months are classified as long-term investments.

f. 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

g. 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.

h. End of Service Benefits

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

i. 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.

j. Revenue

Revenue from electricity sales is recognized when bills are issued to consumers based on the access to, or usage of electric power. Electricity sales revenue is based on Kilowatts/hours of electric power consumed. Revenue on power consumed by the consumers but not yet billed at the Balance Sheet date are accrued.

Revenue of 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.

k. 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.

1. 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.

3. ACCRUED REVENUES AND EXPENSES

Since its merger, the Company has been working on improving its financial and accounting systems, including its revenue and expenses systems. During the current year, the Company was able to convert its billing system to calculate the revenue based on the Gregorian calendar, which is the financial period of the company, while keeping the issuance of the invoice to consumers on Hijri calendar. As a result, the revenues and expenses of the current period were determined more accurately.

As a result of improving the company's financial and accounting systems including revenues and expenses measurement, the company is currently estimating revenues for unread meters at the end of the period based on the number of days unread rather than on a total base. Moreover, accrued expenses at the end of the period are more accurately estimated. These improvements resulted in a net non-recurring increase of SR 146 million in operating and net income for the year.

	December 31	
	Thousands of SAR	
4. CASH AND CASH EQUIVALENTS	2003	2002
Cash on hand	360	336
Cash at banks	741,494	847,685
Short-term deposits	1,040,232	1,062,769
Saudi Government Bonds	—	2,056
Total	1,782,086	1,912,846

5. INVESTMENTS

Short-term Investments

Saudi Government Bonds	—	7,759
Total	—	7,759

Long-term Investments

Gulf Cooperation Council Interconnection Authority (Note 5a)	65,185	65,185
Water and Electricity Company (Note 5b)	15,000	—
Saudi Cement Company	—	33
Total	80,185	65,218

5a. Gulf Cooperation Council Interconnection Authority

SEC participated in 31.6% of 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 participation in share equals SR 1,300 million of which 5% was paid as initial capital. The remaining balance of subscription amounting to SR 1,235 million will be paid based on dates to be set by the Board of Directors of GCCIA. As of the date of issuing these financial statements, GCCIA has not released its first financial statements, nor any capital calls have been made.

5b. Water and Electricity Company

During 2003, 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 was fully paid. The newly established company has not yet started its operations and no financial statements have been issued by it up to the date of issuing these financial statements.

	December 31 Thousands of SAR	
6. CONSUMERS RECEIVABLE AND ACCRUED REVENUE - NET	2003	2002
Consumers Receivable		
Governmental	11,607,500	8,765,424
Saudi Aramco	441,432	478,268
Saline Water Conversion Corporation	512,782	405,325
Commercial and residential	2,589,311	2,026,881
VIPs	1,152,154	1,037,525
Connection fees receivable	86,094	75,710
Allowance for doubtful receivables	(1,278,925)	(1,160,946)
	15,110,348	11,628,187
Accrued revenue	797,507	357,822
Total	15,907,855	11,986,009

7. PREPAYMENTS AND OTHER RECEIVABLES - NET

Advances to suppliers and contractors	78,977	136,300
Prepaid expenses	2,963	19,401
Purchases on open letters of credit	369,786	411,426
Other	278,368	577,199
Provision for doubtful debts	(42,483)	(42,483)
Total	687,611	1,101,843

	December 31 Thousands of SAR	
8. INVENTORIES - NET	2003	2002
Generation plant materials and supplies	1,742,848	1,782,682
Transmission network materials and supplies	410,863	547,111
Distribution network materials and supplies	951,594	1,098,060
Fuel and oil	241,733	244,114
Others	191,306	159,958
Allowance for slow moving inventory	(389,964)	(378,960)
Total	3,148,380	3,452,965

Items amounting to SR 402 million were not included in the allowance for slow moving inventory. These items are being studied by the related divisions as to whether they can be utilized or reclassified as capital spare parts. The study might result in charging future years with amounts relating to those items.

	December 31 Thousands of SAR	
9. CONSTRUCTION-IN-PROGRESS	2003	2002
Power generation projects	1,255,286	5,195,081
Transmission projects	3,106,386	3,562,065
Distribution projects	970,751	769,689
General projects	211,227	259,337
Total	5,543,650	9,786,172

Net financing cost capitalized on projects under construction during the year amounted to SR 319 million (2002: SR 305 million).

10. FIXED ASSETS - NET

Fixed assets at December 31, 2002 and 2003 comprised of the following:

	Thousands of SAR					
	Generation	Transmission	Distribution	General Property	Total 2003	Total 2002
Cost						
Land	246,757	541,451	224,655	202,697	1,215,560	1,172,022
Buildings	5,605,969	2,823,609	477,371	2,819,919	11,726,868	11,450,019
Machinery & equipment	44,638,011	44,948,684	49,240,270	1,608,869	140,435,834	130,048,486
Capital spare parts	1,450,069	630,655	9,730	16,855	2,107,309	1,774,302
Vehicles	49,230	24,367	155,656	1,111,063	1,340,316	1,354,962
Others	272,802	344,706	363,717	961,926	1,943,151	1,862,157
Total	52,262,838	49,313,472	50,471,399	6,721,329	158,769,038	147,661,948
Accumulated depreciation						
Buildings	(2,818,866)	(1,371,012)	(285,972)	(1,640,432)	(6,116,282)	(5,707,626)
Machinery & equipment	(23,207,796)	(20,666,821)	(29,349,690)	(1,197,588)	(74,421,895)	(69,697,393)
Capital spare parts	(902,609)	(278,163)	(5,732)	(15,412)	(1,201,916)	(1,114,455)
Vehicles	(43,334)	(21,454)	(141,061)	(925,154)	(1,131,003)	(1,116,039)
Others	(241,595)	(321,809)	(334,978)	(772,473)	(1,670,855)	(1,570,069)
Total	(27,214,200)	(22,659,259)	(30,117,433)	(4,551,059)	(84,541,951)	(79,205,582)
Net book value						
Land	246,757	541,451	224,655	202,697	1,215,560	1,172,022
Buildings	2,787,103	1,452,597	191,399	1,179,487	5,610,586	5,742,393
Machinery & equipment	21,430,215	24,281,863	19,890,580	411,281	66,013,939	60,351,093
Capital spare parts	547,460	352,492	3,998	1,443	905,393	659,847
Vehicles	5,896	2,913	14,595	185,909	209,313	238,923
Others	31,207	22,897	28,739	189,453	272,296	292,088
Total	25,048,638	26,654,213	20,353,966	2,170,270	74,227,087	68,456,366

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

	Thousands of SAR	
	2003	2002
Generation	1,864,528	1,622,895
Transmission	1,589,340	1,459,766
Distribution	1,739,969	1,683,268
General property	290,255	297,586
Total	5,484,092	5,063,515

	December 31 Thousands of SAR	
11. ACCOUNTS PAYABLE	2003	2002
Saudi Aramco for fuel cost	14,355,109	10,420,252
Saline Water Conversion Corporation for power purchased	3,094,246	2,248,718
Contractor payables and retentions	2,357,673	3,345,931
Supplier payables	803,624	1,174,787
Municipality fees	725,133	523,131
Advances received for construction of projects	89,203	460,493
Others	828,528	859,676
Total	22,253,516	19,032,988

There is a dispute between SEC and Saudi Aramco, SEC's sole provider of fuel, on Diesel prices. This dispute started in 1415H when the Council of Ministers issued Resolution No. 96 dated 24/7/1415 imposing additional fee on diesel prices. The Resolution excluded electricity companies, subject to assessment by a government committee to determine the impact of such price increase on them. The committee has not issued its decision as of the date of these financial statements. However, Saudi Aramco applied the new prices on former SCECOs and subsequently on SEC.

Article 2.11 of the above mentioned Resolution stipulated that if the need arose to change fuel prices used in determining electricity tariff, ESRA would review production cost, and report its recommendations to the concerned government authority in charge of tariff determination. Fuel price changes per this Article shall not take effect until the authority issues its decision with respect to the tariff.

The impact of price differences between what is accepted by SEC and what is claimed by Saudi Aramco for the year 2003 is SR 2,237 million, and the cumulative amount from the Company's inception to December 31, 2003 is SR 9,286 million. Based on the above mentioned Resolution, the management does not expect any liability on the company and therefore this amount has not been reflected in its accounting records. Saudi Aramco still insists on its claim as of the date of these financial statements.

	December 31	
	Thousands of SAR	
12. ACCRUALS AND OTHER PAYABLES	2003	2002
Payroll accruals	229,190	251,031
Accrued expenses	495,953	362,858
Unclaimed dividends	233,731	173,660
Proposed dividend (Note 13)	—	508,129
Provision for Zakat (Note 14a)	103,190	91,039
Other	705,771	611,623
Total	1,767,835	1,998,340

Unclaimed dividends include SR 112 million representing cash dividends declared by former SCECOs before 1414H and for 1419H and 1420H which have not been claimed by the shareholders (2002: SR 125 million).

13. 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 31/12/2002 amounted to SR 321 million. SEC believes that Aramco is not entitled to cash dividends being a government entity, and that the above mentioned Resolution No. 169 applies to Aramco.

The Board of Directors, in its meeting held on 17/3/2004 has proposed dividend distribution for the year 2003 for other shareholders of SR 547 million in cash at SR 3.5 per share representing 7% of paid share capital (2002: SR 508 million), subject to the General Assembly approval.

Earning per share was calculated using the total number of shares outstanding at December 31, 2003 of 833,318,763, including the government and Saudi Aramco shares (Note 18).

	December 31	
	Thousands of SAR	
14. PROVISION FOR ZAKAT	2003	2002
a) Zakat Provision Movement		
Balance, beginning of the year	91,039	124,110
Provision for the year	(37,130)	(70,201)
Zakat paid during the year	49,281	37,130
Balance, end of the year/period	103,190	91,039

b) Calculation of Zakat Provision

The following is a summary of Zakat provision computation for the two years ended December 31:

	Thousands of SAR	
Adjusted net income computation	2003	2002
Income before Zakat	1,457,724	1,114,474
Add: Zakat adjustments	513,499	370,732
Adjusted net income	1,971,223	1,485,206

	Thousands of SAR	
Zakat base computation	2003	2002
Share capital	41,665,938	38,287,771
Adjusted net income	1,971,223	1,485,206
Retained earnings	792,459	332,078
Reserves	392,483	284,749
Government's Electricity fee fund	—	3,378,167
Provisions	4,770,002	4,345,361
Long-term loans	5,265,318	6,297,065
Government loan	14,552,136	14,552,136
Contractor payables and retentions	2,357,673	3,345,931
	71,767,232	72,308,464
Less:		
Fixed assets	(71,767,232)	(68,456,366)
Construction in progress	(5,543,650)	(9,786,172)
Long-term investments	(80,185)	(65,218)
Inventory of supplies and spare parts	(2,484,244)	(2,742,282)
Zakat Base - Negative	(8,108,079)	(8,741,574)
Zakat due at 2.5% of the adjusted net income	49,281	37,130

c) Zakat Status

All former SCECOs have appealed and did not finalize their zakat status up to 1420H (the date of their merger) against the final Zakat assessments issued by the Department of Zakat and Income Tax (DZIT). The DZIT's final Zakat assessments related to former SCECOs up to 1419H amounted to SR 1,256 million. However, these companies have disputed such assessments and have only accepted SR 54 million as a liability. SEC's management believes that the Company will not be liable to pay more than the recorded amounts since the difference claimed by the DZIT was not included in the opening financial position of the merging companies. Moreover, in case the amount is approved by the regulatory authorities, it will be charged to the pre-merger accounts (government subsidy). Upto the date of issuing these financial statements, there has been no settlement.

Subsequent to the date of these financial statements, the company received a final assessment for the period from 5/4/2000 (merger date) to 31/12/2001. The assessment has a zakat difference of 9 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 difference for the above mentioned period amounted to SR 350 million. The management did not accrue any liability for this SR 9 million as it does not expect Aramco to pay the claimed amount, and zakat should not be used on unrecognized revenue which have not been accounted for in the accounting records. The final assessment for the year 2002 has not been received till the date of issuing these financial statements.

	December 31 Thousands of SAR	
15. LONG-TERM LOANS	2003	2002
Balance, beginning of the year	6,297,065	6,252,799
Received during the year	199,432	856,757
Paid during the year	(1,231,179)	(812,491)
Balance end of the year	5,265,318	6,297,065
Current portion of long-term loans	1,230,344	1,298,524
Non-current portion of long-term loans	4,034,974	4,998,541

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

	December 31 Thousands of SAR	
	2003	2002
Between one and two years	1,089,723	1,241,176
Between two and three years	932,030	1,089,723
Between three and four years	741,114	932,030
Between four and five years	611,525	741,114
Beyond five years	660,582	994,498
	4,034,974	4,998,541

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, 2003 amounted to SR 354 million (2002: SR 553 million).

	December 31	
	Thousands of SAR	
16. DEFERRED REVENUE - NET	2003	2002
Electrical service connection tariff		
Balance at beginning of the year	8,119,435	7,647,027
Proceeds during the year	1,372,433	968,079
Revenue for the year	(562,145)	(495,671)
Deferred revenue - net	8,929,723	8,119,435

17. 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 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.

18. SHARE CAPITAL

As at December 31, 2003, the share capital of the company amounted to SR 41,665,938,150 consisting of 833,318,763 shares of SR 50 par value each (2002: SR 38,287,770,900 consisting of 765,755,418 shares).

The chairman of the Supreme Economic Council approved capitalization of the Government Electricity Fee Fund amounting to SR 3,378 million in accordance with Ministerial Resolution No. 169 dated 11/8/1419, and paragraph 3 of Ministerial Resolution No. 153 dated 5/9/1420. The appropriation of shares between the government and other share holders is in accordance with their percentage of ownership at the merger date. The legal procedures for changing the Articles of Association are in progress.

Based on the above the Company's share capital consist of the following as of December 31:

	Thousands of SAR	
	2003	2002
Share capital of merging companies as at 29/12/1420H	23,153,387	23,153,387
Undistributed earnings of merging companies for the period from 1414H to 1418H	1,340,717	1,340,717
Proceeds for Electricity Fee Fund from its inception till 31/12/2001	12,618,340	12,618,340
Net assets of General Electricity Corporation Projects	1,175,327	1,175,327
Capitalization of amounts collected for Government Electricity Fee Fund after 31/12/2001	3,378,167	—
Total	41,665,938	38,287,771

The above mentioned capital is owned by the following as of December 31:

	2003		2002	
	Ownership Percentage	Numbers of Shares	Ownership Percentage	Numbers of Shares
Government	74.31%	619,235,064	74.15%	567,830,823
Saudi Aramco	6.93%	57,726,084	6.89%	52,745,015
Other shareholders	18.76%	156,357,615	18.96%	145,179,580
	100%	833,318,763	100%	765,755,418

19. GENERAL RESERVE

General reserve represents the balances of reserves that were recorded in the books of the merging companies at the merger date.

20. OPERATING AND MAINTENANCE EXPENSES

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

	Thousands of SAR				
	2003		2002		
	Generation	Transmission	Distribution	Total	Total
Employees' expenses and benefits	953,673	424,277	1,146,169	2,524,119	2,313,764
Materials	924,593	101,776	353,697	1,380,066	1,276,473
Municipality fees	—	—	202,010	202,010	201,875
Others	175,050	113,747	103,489	392,286	241,438
Total	2,053,316	639,800	1,805,365	4,498,481	4,033,550

21. 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:

	Thousands of SAR	
	2003	2002
General and administrative expenses	1,164,615	1,059,267
Provision for doubtful debts	117,979	151,507
Provision for slow moving inventory	11,004	7,942
	1,293,598	1,218,716

22. 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 431,000 (2002: SR 657,000).

The Board of Directors' remuneration of SR 1 million is due from profit after distribution of dividends of 5% to the Other Shareholders on the share capital held by them. (Note 13 and 18). The remuneration is subject to the approval of the General Assembly. (2002: SR 1.1 million).

23. OTHER INCOME AND EXPENSES - NET

Other income represents gain on disposed assets, settlements of claims with contractors and suppliers, and other non-operating income and expenses.

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 8,763 million (2002: SR 7,269 million). The expected time to fulfill such commitments is between one to three years.

In addition, SEC has a commitment for SR 1,235 million representing the remaining balance of its investment in GCCIA (Note 5).

b) Legal Proceedings

There are certain legal proceedings pending against the Company as of December 31, 2003 aggregating to about SR 65 million. Most of these cases relate to ownership of lands utilized by the Company. Final settlements of such cases are still pending, however, management does not expect that the outcome would have an adverse effect on the Company due to its strong position in these cases and therefore has not made any provision in these financial statements.

c) Contingencies

SEC has outstanding letters of credit amounting to SR 94 million as of December 31, 2003 (2002: SR 149 million).

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 155 million for the current year was identified and a cumulative difference of SR 674 million since the Company's inception to December 31, 2003 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.

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

	Thousands of SAR	
	2003	2002
Revenue		
Revenue generated from the Government	4,397,593	4,263,479
Revenue generated from Saudi Aramco	1,865,758	1,689,917
	6,263,351	5,953,396
Expenses		
Fuel purchases from Saudi Aramco	4,015,105	3,757,840
Power purchases from SWCC	925,535	904,664
	4,940,640	4,662,504

26. COMPARATIVE FIGURES

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

Looking forward to receive your opinion
about the company performance and the
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