

2 0 0 5 A n n u a l R e p o r t



Our Commitments and Achievements

بسم الله الرحمن الرحيم



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



His Royal Highness
Sultan Ibn Abdul Aziz Al-Saud
Crown Prince, Deputy Prime Minister
Minister of Defense and Aviation and Inspector General

Our Strategic Goals

- Taking joint ventures and capital investment in electricity generation, transmission and distribution projects within and outside the Kingdom.
- Working towards completing the interconnected national grid to provide highly reliable electricity supply.
- Achieving a high and dominant level of customer satisfaction by meeting their needs, exceeding expectations and positively interacting with them.
- Promoting the level of electricity supply provision for all customer segments.
- Ensuring continuous interaction in providing community services and contributing to charity projects.
- Preparing and tailoring required training programs and mode of implementation to develop the Company's human resources.
- Conducting and supporting research to raise the Company's performance level in all activities and to protect the environment.

Our Vision

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

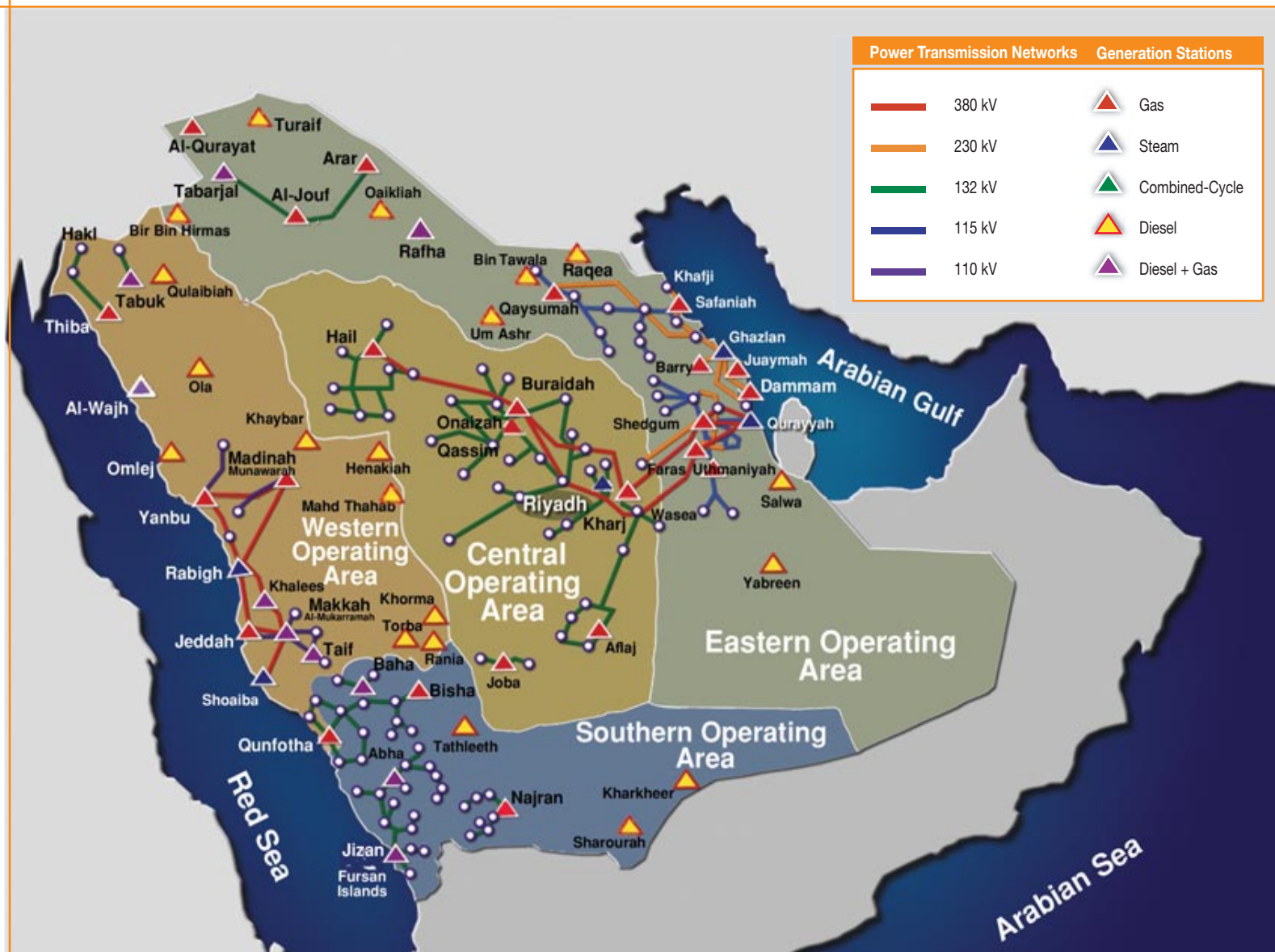
Our Mission

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

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Legend:	Kilovolt-ampere	KVA	Volt	V	Megawatt-hour	MWH	Circular kilometer	ckm
	Megavolt-ampere	MVA	Kilovolt	kV	Gigawatt-hour	GWH	Degree Centigrade	C°
	Megawatt	MW	Kilowatt-hour	KWH	Kilometer	km	Saudi Riyal	SR

Our Scope of Operations



Statement By the Chairman Of The Board

“The past years in the Company’s history have been rich with numerous achievements. They were the period during which the Company dedicated all its efforts to complete the merger and change processes, carrying out large organizational developments, adopting policies, programs and plans, making a comprehensive revision of the existing systems and issuing new ones that would correspond to the new situation and coping with the developments.”



The Annual Report for the year 2005 comes five years after the establishment of the Saudi Electricity Company during which the Company was able to accomplish a number of distinctive achievements; thanks to God Almighty and for the generous support of the authorized parties, may God grant them success and assist them. This report reflects the right methodology to which the Company has been committed ever since its inception. The past years in the Company’s history have been rich with numerous achievements. They were the period during which the Company dedicated all its efforts to complete the merger and change processes, carrying out large organizational developments, adopting policies, programs and plans, making a comprehensive revision of the existing systems and issuing new ones that would correspond to the new situation and coping with the developments.

Over the years, the Company has consistently worked on promoting its financial position. It achieved a significant increase in shareholders’ equity and handled various important issues, namely its commitment to meeting the increasing demand for electricity, improving the services provided to customers, and giving more attention to economic development issues by pursuing its efforts towards supplying electricity to non-electrified regions. In that regard, the Company was able to supply electricity to a number of large and small villages, bringing their total to 10,385 cities, villages and settlements by the end of 2005. Over the 5-year period extending from 2000 to 2005, the Company has supplied electricity to a total of 2,775 villages and settlements, with an average annual growth rate of 6.4%.

The Company has linked its obligations and commitments with directed efforts towards developing the human resources; improving their capabilities and effectiveness. Consequently, it has worked on completing several programs and unified procedures at all Company levels, including all training programs and total quality management programs, thereby achieving a notable improvement in job Saudization - an important national strategic orientation. In figures, the Saudization rate reached around 83% of the total Company staff by the end of 2005, with an average annual growth of 2.4% for the period of 2000 - 2005.

The Company was able to achieve these distinctive accomplishments, thanks to God Almighty, by following the method of planning for the future, committing to its responsibilities. Since its establishment, the Company has spent more than SR 40 billion on new electricity projects and has adopted annual capital budget, ranging between 7 and 10 billion Saudi Riyals over the past five years. This confirms the significance of the financial challenges which the Company is facing in order to meet its commitments. This is also manifested by other indicators falling within the Company's efforts to change for the future and to meet the increasing demand for electricity, namely the signing of two project contracts in 2005 related to generation, transmission, distribution, and relevant services, with a total value of SR 7,363 million.

Other than the financial challenges facing the Company in order to finance huge electricity projects, the outlook for the future is a positive and assuring one. The Company owns the assets and it has the national human resources necessary for it to keep up its support of the national economy. In fact, the Company is preparing the electricity industry in the Kingdom for competition by creating investment opportunities for the private sector to allow it to compete in the construction and management of electricity projects.

Moreover, the Company is contributing to the Gulf Cooperation Council Interconnection Authority in order to integrate the electricity networks in the region. It is also giving extraordinary attention to scientific research and development and cooperating with specific universities and institutions interested in developing this vital field.

To conclude, and on behalf of the Company's directors, I am honored to convey the most sincere gratitude and thanks to the Custodian of the Two Holy Mosques and his Royal Crown Prince; may God protect them in view of their continuous support for the Company in particular, and the electricity industry at large .

And God is the endower

Abdullah Abdul Rahman Alhosayn



Minister of Water and Electricity
SEC Chairman of the Board

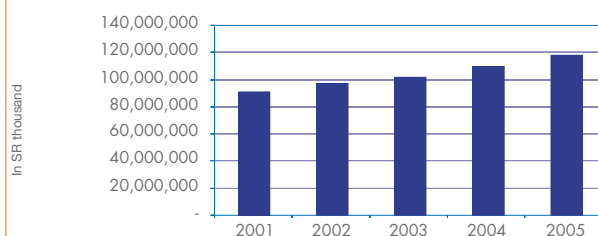
Five Years' Financial Performance

In SR thousand, except for earning per share	2005	*2004	2003 Year-ending December 31	2002	**2001
Assets					
Total Current Assets	28,490,778	26,087,133	21,525,932	18,461,422	16,052,113
Total Non-Current Assets	89,072,072	83,119,163	79,850,922	78,307,756	74,557,312
Total Assets	117,562,850	109,206,296	101,376,854	96,769,178	90,609,425
Liabilities and Shareholder's Equity					
Total Current Liabilities	34,282,570	30,376,207	25,251,695	22,329,852	17,617,628
Total Non-Current Liabilities	22,079,884	18,955,590	17,313,700	17,036,310	16,156,895
Government Loan	14,938,060	14,552,136	14,552,136	14,552,136	14,552,136
Shareholders' Equity	46,262,336	45,322,363	44,259,323	42,850,880	42,282,766
Total Liabilities and Shareholders' Equity	117,562,850	109,206,296	101,376,854	96,769,178	90,609,425
Operating Receipts					
Electricity Sales	17,429,591	16,320,524	16,373,914	14,853,519	26,230,799
Meter Reading and Maintainance and Bill Preparation Tariff	660,372	637,219	609,282	580,387	916,294
Electrical Service Connection Tariff	671,326	618,049	562,145	495,671	1,198,697
Other Income and Expenses (net)	266,901	338,785	147,436	167,105	282,703
Total Receipts	19,028,190	17,914,577	17,692,777	16,096,682	28,628,493
Operating Expenses					
Total Operating Expenses	17,502,130	16,572,589	16,235,053	14,982,208	25,518,340
Zakat	43,018	42,356	49,281	37,130	70,231
Total Operating Expenses and Alms Allocation	-	-	-	-	2,329,114
Total Expenses	17,545,148	16,614,945	16,284,334	15,019,338	27,917,685
Income					
Operating Income	1,259,159	1,003,203	1,310,288	947,369	2,827,450
Income Before Zakat	1,526,060	1,341,988	1,457,724	1,114,474	781,039
Net Income	1,483,042	1,299,632	1,408,443	1,077,344	710,808
Earning Per Share	1.78	1.56	1.69	1.28	0.85

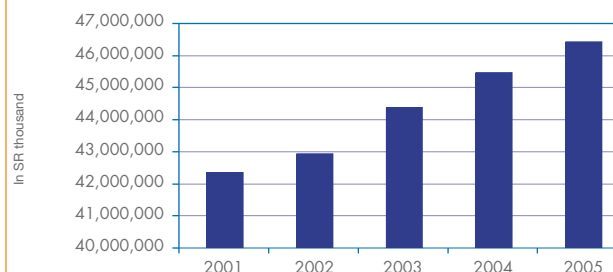
* The modification to the 2004 fiscal year was due to corrections of the meter readings of a major customer, the receipts of which were already calculated in 2004 as a total of SR 131,441 thousand. This led to a decrease in the net income of 2004 from 1,431,073 to 1,299,632 SR thousand.

** The income statement for the first fiscal year (2001) cover the period following the merger on 05/04/2000, i.e. a total of 21 months.

Overall Assets



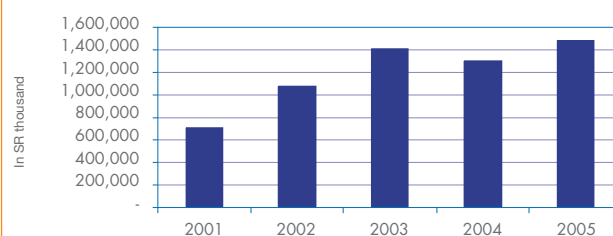
Total Shareholders Equity



6.7%

average annual growth
in Company's assets

Net Income



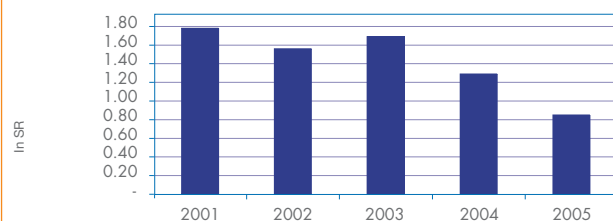
14.1%

average increase in
net profit in 2005
compared to 2004,
with SR 1,483 million

2.3%

average annual growth
in shareholders' equity

Yield Per Share



The yield per share reached 1.78 SR - equivalent to 3.56% of the share's 50 SR nominal value - with a 14.10% increase compared to the yield per share achieved in 2004 (1.56 SR). Furthermore, the book value per share reached 55.52 SR, with 5.52 SR increase compared to the share's nominal value, and with a 2.08% increase compared to the book value of 2004 (54.39 SR). The yield per share was calculated based on the total number of the Company's capital shares, including the shares of the government and AramCo.

by the end of 2005, the
capital and shareholder
shares, Government (74%),
Saudi Aramco (7%),
Others (19%) remained
unchanged, equal to
833,318,763 shares
of a 41,665,838,150
Saudi Riyal capital.

The overall annual
investments between
2001 and 2005 reflect
our commitment to
implementing electricity
projects toward securing
the reliability of the
power system and
the electricity supply to
our customers.

Development in the Volume of Investments in Projects Under Implementation

	2005	2004	2003	2002	2001
Generation	4,890,297	2,647,793	1,255,286	5,195,081	12,035,793
Transmission	5,030,056	4,397,074	3,106,386	3,562,065	4,658,400
Distribution	2,676,857	1,131,974	970,751	769,789	739,568
Others	614,031	365,592	211,227	259,337	332,976
Total	13,211,241	8,542,433	5,543,650	9,786,272	17,766,737

54.7%

2004 to 2005
increase in investment
projects under
implementation

Our Main Achievements Timeline

2005	2004	2003
<ul style="list-style-type: none"> ■ Approval of the 2006 Operational Budget, the 2007-2010 Operational Plan, and the 2006 Capital Budget with an overall sum of SR 11,031 million ■ Coping with the volume of capital investments, increasing the maximum limit of the loan concluded with commercial banks to SR 9,500 million, with a SR 3,500 million increase ■ 54.7% increase in investment projects under implementation compared to 2004 ■ Overall operational receipts of SR 18,761 million and an overall operational expenses of SR 17,502 million ■ Supplying electricity to 242,295 new customers, bringing the total number of customers to 4,727,371 at year end. ■ The Water and Electricity Company signs agreements to construct phase-3 of Al-Shoaiba project at a cost of SR 9 billion ■ Supplying electricity to 225 new villages and settlements, bringing the total number of electrified villages, settlements and cities to 10,385 by the end of the year ■ Increasing installed generation capacity to 29,051 MW, with an overall available generation capacity of 32,301 MW ■ The produced energy by the Company power plants reached 150,214 GWH to meet 85% of the Kingdom's national grid demand ■ Growth in the overall sold energy to 153,283 GWH, with a 6.2% increase compared to 2004 ■ Transmission networks reached 35,144 ckm ■ The total number of transmission substations' transformers reached 1,522 ■ The lengths of distribution network reached 147,109 ckm, and the customers' connection lines to 155,001 ckm with the addition of 6,082 ckm and 6,342 ckm respectively ■ Growth in Saudization rate to 82.31% of the overall Company staff (28,895) ■ Launching the first phase of the Enterprise Resource Planning Project "Nebras", which is focused on the operations and procedures of the Human Resources and Finance business lines. ■ We have achieved net profits equivalent to SR 1,483 million 	<ul style="list-style-type: none"> ■ Approval for the Implementation of the Enterprise Resource Planning Project (Nebras) ■ Organizing a forum on promising investment opportunities in the Company's projects and joint projects with the Water and Electricity Company ■ The Company signs a loan agreement of SR 6 billion with seven banks ■ Signing of Al-Shoaiba power plant project in Jeddah, phase 2 ■ Signing a contract for the expansion of Power Plant-9 in Riyadh ■ Commissioning of the first 380/110 kV substation in Taif ■ Approval by the Company's Board of Directors of the SR 7,106 million 2005 Capital Budget, and Operational Plan for 2006-2009 ■ Signing of 3-year agreement with King Fahd University of Petroleum and Minerals to chair developmental studies and researches on electrical power systems. ■ The Company Training Institute in Dammam receives an international accreditation from ACCET ■ Net profits of SR 1,299 million 	<ul style="list-style-type: none"> ■ Approval of the transitional organizational structure ■ Approval of the Five-Year Plan (2004 -2008) to supply electricity to developing areas, villages and settlements ■ Launching of Power Plant 9 in Riyadh under the auspices of the Crown Prince ■ Defining the power generation and transmission projects and issuing the guide to investment opportunities in power generation and transmission ■ Contribution in the establishment of the GCC Interconnection Authority with a 31.6% of capital ■ Company and Saline Water Conversion Corporation jointly created a limited liability company - the Water and Electricity Company - with equally owned share capital. ■ Supporting the research and development program in collaboration with universities and institutions that are involved in research and development studies on power system. ■ The Company is awarded the Prince Nayef Prize for Saudization for two consecutive years ■ Net profits of SR 1,408 million

2002

- Adoption of Level-I of the new transitional organizational structure, the functional phase for functional separation by type of operation
- Operation of Units 2 and 3 of Al-Shoaiba power plant within the first step of the initial phase of the project which includes the addition of 1,100 MW
- Signing of 11 contracts for implementing research projects with King Fahd City of Science and Technology, King Saud University and King Fahd University of Petroleum and Minerals, as well as one of the specialized national companies with a total cost of SR 10.8 million.
- The Company is awarded Prince Nayef Prize for Saudization
- Net profits of SR 1,077 million

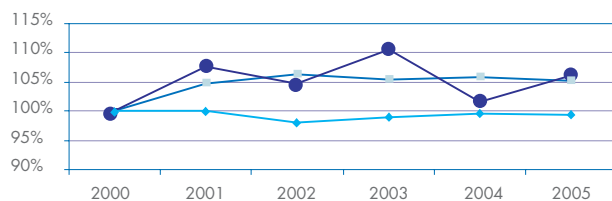
2001

- Clearance of the shareholders dividends in the past fiscal years
- Adoption of the strategic plan that would carry the Company to the next phase and allow it to cope with the development in electric power technology
- Unification of the customer service measures and adoption of the economic operational base in exporting power and transferring it to different regions in the Kingdom
- We achieved the first profits following the Company's establishment: SR 710 million

2000

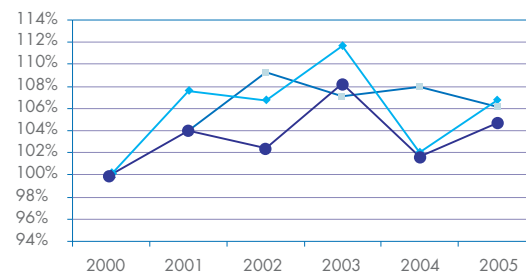
- Establishment of the Saudi Electricity Company as a Saudi joint stock Company by virtue of Royal decree number M/16 dated 06/09/1420 H or 13/12/1999
- Formation of the first Board of Directors for the Saudi Electricity Company
- Appointment of the first CEO and President for the Company
- Commencement of the merger procedures and systems unification.

Annual Growth Indicators



Work Force —◆— Sold Energy —●— Number of customers —■—

Annual Performance Indicators



Energy sold per employee —◆— Sold energy per capita —●— Number of customers per employee —■—

Statement by the Chief Executive Officer

“Moreover, we are working on preparing a thorough study to develop customer service practices and on adopting a clearly outlined strategy that focuses on the needs and expectations of different customer segments. The study will also include a development work for all products and services that add value and build long term relationships of mutual benefit with our customers.”



Dear Stakeholders,

The fifth fiscal year report reflects the implications of the continued change we are trying to achieve as manifested by our achievements over the past five years. We are now moving towards a better future through an integrated operational methodology for the coming phase, based on strategic planning for developing our operations which aim at respecting our obligations and satisfying the requirements of our customers to secure a brighter future.

The significance of the Company's efforts over the past five years was reflected in the positive financial results which will contribute, God willing, to the achievement of our strategic goals. Net profits registered at SR 1,483 million in 2005, an increase of SR 183 million compared to 2004. This was due to the increase in the Company's receipts and well managed expenditures. The total operational receipts reached SR 18,761 million in 2005, with over 6.1% increase compared to 2004, and operational expenses registered at SR 17,502 million.

In facing the challenges related to electricity, the company accomplished several achievements, mainly the produced energy of 150,214 GWH in 2005, with a 7.7% increase over the period 2000-2005. Produced energy by the Company power plants represents 85% of the overall national demand for electricity. The transmission network (110 kV – 380 kV) was significantly expanded, whereby the lengths of overhead lines and underground cables reached 35,144 ckm by the end of 2005, bringing the annual growth rate in transmission network lengths to 3.5% for the period (2000-2005). Annual growth rates reached 3.2%, 3.9%, and 5.2% respectively for the number of substations, transformers, and transformers' capacities for the same period.

Moreover, the lengths of distribution networks (13.8 kV – 69 kV) were also increased to 147,109 ckm, bringing the average annual growth rate to 5.8% for the period 2000-2005. The number of customers reached 4,727,371 by the end of 2005, with a 5.5% growth for the same period. With an overall sold energy of 153,283 GWH by the end of 2005, the annual growth rate reached 6.1% for the years 2000-2005. Furthermore, 225 new villages and settlements were electrified in 2005, bringing the total number of electrified cities, villages and settlements to 10,385.

Alongside these accomplishments come our sincere efforts to develop the human resources and upgrade their capabilities and effectiveness, as well as our attention to creativity and total quality management programs towards continuous improvement. We are looking forward to implement several motivating programs that would lead to more creativity, innovation and maintain a high morale.

Within the framework of our sincere commitment to continuously strive for the best, increase the reliability of the power system and meet the growing demand for electricity supply, we will focus during the coming phase on an integrated work program based on a long term plan extending until 2023. This plan will identify the requirements of capital investments in electricity projects related to generation, transmission, and distribution in order to meet the electricity demand of the national grid and to define the main parameters for our strategic partnerships in those projects. The work program will also include in the coming phase the strategic plan necessary to restructure the Company's activities that would define its future conditions, interests, responsibilities, and roles within the trend towards liberating the electricity industry for competition. Preparations for this phase fall within this plan, whereby we will be working on the financial section through categorizing the Company's business lines and sectors into profit and cost centers so that it may draw up the financial linkages between business lines. The plan also includes service level agreements (SLAs) which aim at pricing the general services

offered to business lines; and it comprises a set-up of investment indicators, including the prices of electricity trading between core businesses within the Company.

In this approach, we are working with the Ministry of Petroleum and Minerals and with Saudi Aramco in order to devise a fuel supply plan and to define the appropriate qualities for the best of our goals and public interest.

Moreover, we are working on preparing a thorough study to develop customer service practices and on adopting a clearly outlined strategy that focuses on the needs and expectations of different customer segments. The study will also include a development work for all products and services that add value and build long term relationships of mutual benefit with our customers.

Finally, I am pleased to express on behalf of all the Company's staff my deepest thanks and appreciation to his Excellency the Minister and to the esteemed chairman and members of the Board whose term ended in 2005; as well as to the previous President and Chief Executive Officer Mr. Sulaiman Abdullah Alkadi. They have all played a big and important role in the Company's achievements from the time of its inception on April 5, 2000 until the end of 2005; we give them our heartfelt thanks, commendation and gratitude. It is also my pleasure to thank all governmental bodies and private institutions, as well as all our customers and shareholders for their support. And finally, I highly value the great effort and hard work of all the Company's affiliates which have given way to all these important achievements.

Abdulaziz Abdullah Sugair



President and Chief Executive Officer

Board Of Directors



H.E. Abdullah Abdul Rahman Alhosayn
Chairman of the Board



H.E. Engr. Mahmoud Abdullah Taiba
Vice Chairman of the Board



Mr. Ali Saleh Al-Sugair
Member



Mr. Ahmed Ibrahim Al-Hakmi
Member



Mr. Abdulrahman M. Abdul Karim
Member



Dr. Saleh Hussein Al-Awajji
Member



Mr. Ali Daghaleeb Al-Otaibi
Member



Dr. Ibrahim A. Al-Madeemaigh
Member



Mr. Rashid Abdulaziz Al-Rashid
Member



Engr. Aamir Saeed Barqan
Member



Dr. Ibrahim Ali Al-Khudair
Member



Mr. Abdulrahman Fahd Al-Wuhaib
Member

Executive Committee Members



Abdulaziz Abdullah Sugair
President and CEO



Yousif S. Balghanaim
Executive Vice President, Generation



Tariq A. Al-Betairi
Executive Vice President, Transmission



Ali S. Al-Barrak
Executive Vice President,
Distribution and Customer Services



Idrees A. Tairi
Senior Vice President and
Internal Auditor, Internal Auditing



Fahad K. Al-Hajri
Senior Vice President,
General Services



Amer M. Al-Swaha
Senior Vice President,
Human Resources



Mohammed I. Al-Molhem
Senior Vice President,
Planning and Programs



Mutlaq M. Al-Mutlaq
Senior Vice President,
Legal Affairs



Abdul Salam A. Al-Yemni
Senior Vice President,
Public Affairs and
Shareholders Relation

Our Corporate Social Responsibility

**We are committed
to our responsibilities.**



We are committed to our responsibilities

Society

We actively participate in improving and developing the electricity supply in order to satisfy the needs of growing activities in various social sectors. This is done through continuous development of network system reliability and quality of supply. We persist in such contribution to support the Kingdom's economic growth and to satisfy the needs of the different customer segments.

Our practices also include supporting and sponsoring local economic events, as well as participating in numerous activities such as seminars, conferences, exhibitions and national awareness programs. Our program, dedicated to serving the society, is rich with various contributions and participations in sponsoring a number of various activities such as Traffic Safety Day, Career Day, World Day for Civil Defense, and supporting health and environment awareness campaigns. We also give high priority to humanitarian issues through annual donations, which we allocate to charitable associations within the Kingdom. In fact, we were able to donate the amount of one million Saudi Riyals to charities. The number of charities has reached 293 throughout the Kingdom's regions in 2005.

We also give particular attention to the products and services of the local private sector. We stir up the role of this sector by encouraging it to participate in our business activities. We subcontracted the implementation of several projects to numerous local companies and establishments. During 2005, 96% of the total number of contracts was given to local contractors, and the percentage of purchases by the Company from the local market reached 97%.

During 2005, the number of contracts awarded to local contractors was equivalent to

96%

of the overall number of contracts

Saudization

Following our continuous actions to develop and bolster the skills of university graduates and graduates of Company training institutes and prepare them for their future careers and for running various Company programs, we were able to bring the Saudization ratio to 82.31% out of the total number of employees (28,895) by the end of year 2005, as compared with 80.92% in 2004; an average annual growth of 2.4% for the 2000-2005 period. This achievement was made possible by attracting, encouraging and enabling the capacity of the local work force for jobs related to the transitional organizational structure. This allowed us to receive the first place award in Prince Nayef Ibn Abdul Aziz Prize for Saudization for two consecutive years, 2003 and 2004. We were given the Prize for Excellence in Saudization as a result of this notable achievement, which benefits the employees and makes them active performers within the society and in the Kingdom.

We received the first place award in Prince Nayef Ibn Abdul Aziz Prize for Saudization for two consecutive years,

2003 & 2004

We give particular attention to the challenges of the Company's future transitory phases and to the electricity industry market by training the employees on a personal level for the desired performance levels. A career path plan is set for each employee according to the annual performance management programs: Lists of tasks for various particular programs are administered through developing and training the human resources, and improving the employees' personal, administrative and technical abilities and capacities to contribute in job Saudization according to the best international work practices.

The Environment

We deal with environment protection as one of the principal issues aligning our operational and capital plans. In fact, we conduct a continuous evaluation of our annual operational performance indicators in all our core business practices, especially in power generation whereby a continued collaboration is pursued with the Presidency for Meteorology & Environment Protection on preserving the environment and obtaining environmental regulations, as well as the names of companies accredited by The Presidency in all environment-related fields. This is part of our attempts to provide an environment-friendly energy.

We are also committed to consider environmental protection as we draw up plans for electricity projects, programs and developmental plans, and educating our employees in general and the decision makers in particular, to be more responsible towards the environment, and therefore achieve sustainable development goals. While designing power plants, we are keen on minimizing the noise that they create to internationally accepted standards, as well as to increase the height of chimneys of new power plants to more than 35m in order to minimize the concentration of air polluting gases.

With regard to enhancing our partnership with local universities, a training program for engineers and specialists was implemented. Special studies related to various types of pollutants produced by power plants and their destructive effects on the environment are being organized and set to be taught to specialists. We also conduct regular visits to the main power plants in order to evaluate and study the environmental situation by conducting surveys on gas emissions resulting from fuel use and comparing them with the Kingdom's environmental standards. This is done by installing Electrostatic Precipitators to collect the carbon ashes and transport them in special vehicles to special sealed dumps in conformity with the specifications of the Presidency for Meteorology & Environment Protection.

Our policy of using clean fuel such as natural gas for the generation stations reflects one of our commitments to use the cleanest types of fuel that emit the least amount of polluting agents - such as sulfur, mercury, nitrogen, carbon dioxide – resulting from combustion, compared to other types of fuel.

After this comes the purity of the refined oil used in the power plants, such as diesel, and crude oil, which are cleaner than the fuel produced by distillation or by fossil fuel which is used in most countries to produce electricity. One of the most important achievements we have reached on this level is the conversion of the main power plants in Central Operating Area – PP9, PP8 and PP7 from crude oil to natural gas. This had a better effect on the protection of the environment compared to the previous one. Also, the liquid fuel used to produce electricity is treated in order to eliminate some of its polluting agents such as sulfur and vanadium.

We also use advanced burning machinery, or machinery that produces less nitrogen oxide in the boilers. Nitrogen oxide is considered to be one of the most polluting agents in power plants that use fossil fuel.

We contribute to the protection of the environment by decreasing the effect of the power plants in inhabited areas and by building power plants in safe areas away from the public and in conformance with international standards.

Whereas water is considered to be one of the main agents in steam-turbines along seashores, we must take into account that no chemicals are added to the cooling water that gets recycled back to the sea except for chlorine that is added in order to control the growth of water bacteria that harms power plant equipment. A controlled process of adding chlorine is watched continuously in order to avoid exceeding the amount of chlorine allowed by the Kingdom's environmental protection standards. This is done through the use of devices that measure the average chlorine content in the water so that the operators are constantly in control of quantity. Recycled wastewater is

used in the power plants for irrigation purposes and in the adjacent residential areas.

We have signed contracts with companies specialized in removing fuel and oil wastes and separating polluted water that get mixed with oil at different stages of electricity production, through environmentally approved techniques, in order to guarantee a pollution-free environment.

Moreover, we do not use oils containing carcinogenic elements such as PCB in order not to pollute the soil, the surface water, or the groundwater for safety.

We have arranged a scope of work that is set to operate a complete environmental survey for the main power plants so as to assess and study gas emissions and their effect on air and water, and to suggest solutions for controlling and reducing them. An evaluation of proposals by specialized companies will be carried out during 2006. We will continue to apply the contractors' specific recommendations that eliminate petroleum and oil waste in power plants, through safe techniques that do not harm the environment; and we will guarantee our commitment to protect the environment through the fuel-supply contracts.

We have stopped using some of the chemicals that are harmful to health and the environment such as Chromate, Varion-12, Methane Trioxide, Halon and Asbestos, replacing them with agents that are safe for the environment. We were assisted by the companies and establishments qualified by the Presidency of Meteorology & Environment Protection in conducting evaluation studies in order to assess the effect of these actions on the environment.

Moreover, we are developing future operational and financial plans related to environmental protection, such as implementing complete regulations for surveying air and water quality, and developing the existing laboratories in the power plants to convert them into chemical and environmental laboratories.

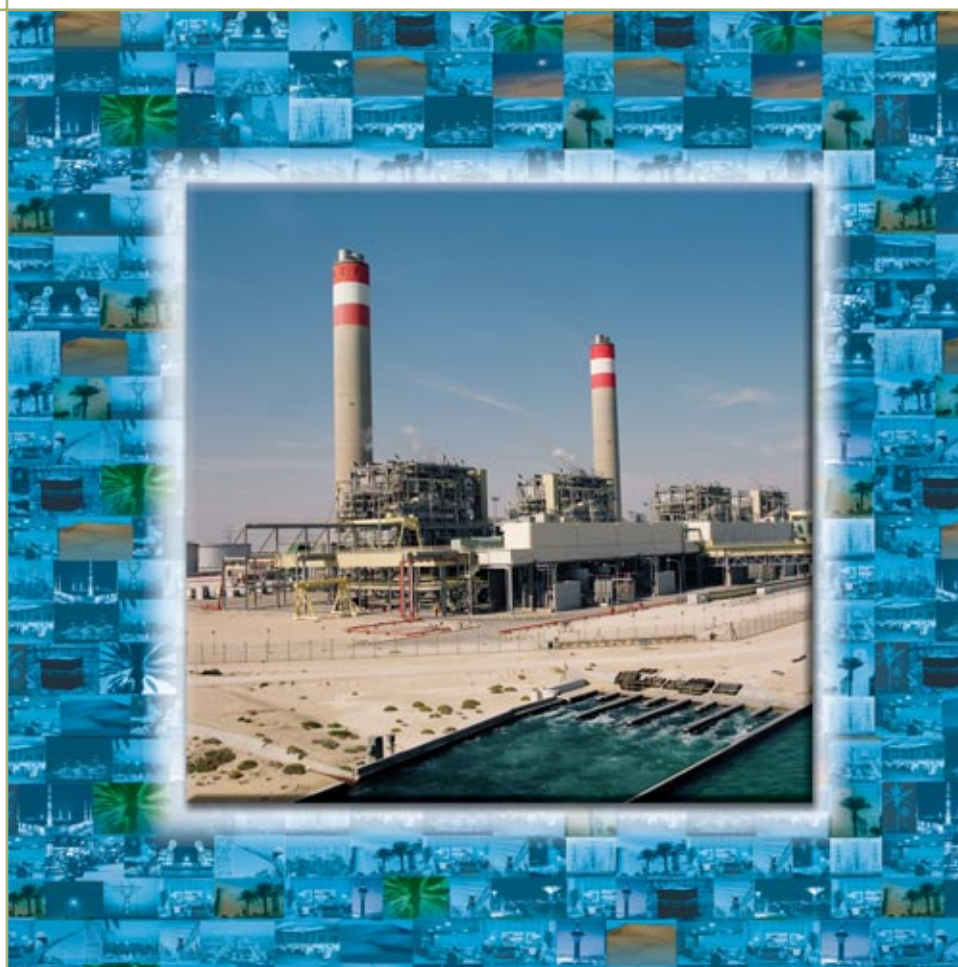
In collaboration with the Presidency for Meteorology & Environment Protection on the subject of research for substitute chemicals with a permissible effect on the environment, we are working on developing the devices used in measuring the various types of pollution, and discussing the issue with the relevant parties in order to obtain fuel that produces less fumes. We are pursuing our joint effort with the local and international universities as well as with research institutions in order to find appropriate solutions to the carbon ashes problem. Moreover, we are increasing the number of specialization courses for the employees working in the environmental field, and sharing experiences between experts and specialists whether in Company or with external parties interested in environmental issues.

Workplace

Given our commitment to perform all tasks according to the highest standards of safety and operational performance, we are pursuing our efforts to carry out numerous programs, training courses and activities that promote awareness among the employees and developing their aptitudes to apply latest rules and procedures concerning security and safety to reduce the risks of work accidents and to protect lives and properties. We work regularly on revising emergency plans in all Company operating areas and performing a number of field exercises whereby twenty-seven staged-accidents were carried out in various work areas with the assistance of governmental bodies like the Civil Defense, the General Security Administration and the Red Crescent. We use the company intranet to send various awareness messages related to safety in the field and inside the offices. We are committed to guarantee a healthy work environment as we prohibit smoking in all Company facilities. As regards Company projects that require digging, we make sure that we do regular site visits to make sure that safety and security standards are met and that regulations and conditions imposed by the municipality are adhered to in order to guarantee non-disruption of basic public services and accidents are prevented.

GENERATION

Developing the
Generation Efficiency



“Generation has followed numerous strategies in order to fulfill its functions, including the elaboration of its operational and capital plans with the highest efficiency, controlling their applications, providing sufficient energy and adequate reserve to meet the needs and demands for electricity, as well as upgrading the existing power plants, and constructing new ones in various regions of the Kingdom. These strategies include developing staff technical capabilities in order to achieve high performance and high quality services according to the standards of safety and environmental protection, using modern maintenance techniques, and focusing on using the best types of fuel relative to economic and environmental issues for the generation of electricity, whenever feasible.”



Generation contributes to the task of offering highly reliable electricity services. In order to achieve this, we undertake various functions and responsibilities such as the production of highly reliable energy with the lowest possible cost, and carrying out all operation and maintenance within the power plants and their affiliates. We are also responsible for conducting regular testing on all power plant components thereby reducing operational costs. Generation is also charged with improving the operational performance of the generation system, and achieving an optimum utilization of the power generating units by collaborating with the Transmission business line on the subject of economical operation of the system to reduce cost of energy production.

Generation has followed numerous strategies in order to fulfill its functions, including the elaboration of its operational and capital plans with the highest efficiency, controlling their applications, providing sufficient energy and adequate reserve to meet the needs and demands for electricity, as well as upgrading the existing power plants, and constructing new ones in various regions of the Kingdom. These strategies include developing staff technical capabilities in order to achieve high performance and high quality services according to the standards of safety and environmental protection, using modern maintenance techniques, and focusing on using the best types of fuel relative to economic and environmental issues for the generation of electricity, whenever feasible.

During the 2000-2005 period, produced energy from the company power plants increased by 8.3%: it went up from 111,000 GWH in 2001 to 148,000 GWH in 2005. Moreover, all types of electricity generation capacities increased from 23,230 MW in 2001 to 28,372 MW in 2005. The growth during 2005 reached 1,378 MW. The Saudization rate in the Generation business line in 2005 reached 73.55% of the overall Company staff.

We work on creating long-term strategic partnerships with scientists in order to achieve common interests on the local, regional and international levels, through the implementation of numerous works related to power plants. We deal with different types of suppliers in order to secure the materials required for the operation and maintenance of all machines and equipment in generation stations.

We are also committed to protecting the environment through our collaboration with the Presidency for Meteorology & Environment Protection in order to observe and survey the operations related to the pollution resulting from energy production.

With regard to research, an agreement was signed in collaboration with King Fahd University of Petroleum and Minerals in order to activate the technological and academic team effort regarding the development of some university studies and complementary field visits to power plants. Research is also promoted with the participation of electrical power engineers, along with work site contract related to the operations and maintenance of power plants as well as the restoration and rehabilitation of gas turbines.

In order to achieve the vision of Generation business line, we have to be able to adapt with the changes in the Kingdom's electricity industry market which is characterized by business self sufficiency regarding future competition. This shall be possible through applying the best measures and international operation and maintenance techniques, as well as focusing on the operational performance and developing the electricity Generation business line within a commercial approach. This is to prepare the business for the forthcoming competition in order to be able, in the future, to transform the business into one or several world class Generation Companies.

Yousif S. Balghanaim



Executive Vice President, Generation

Our Performance

We consider the increasing demand for electricity and the performance indicators of power generation systems in all power plants as the bases of our annual operational plan. We apply the necessary procedures for an economical and reliable operation of power generation units, taking into account the possible alternatives for securing sufficient capacity to meet the network's peak load. In the year 2005, installed generation capacity reached 29,051 MW, including the contribution of diesel generators leased during the Company's peak period. The overall growth was 4.8% higher than 2004, bringing the average annual growth to 5.7% for the period 2000-2005. And during 2005, there was an increase of 1,378 MW in overall power generation capacity; due to the completion of new projects and improvement in the operational performance of power generation units.

In 2005, the contribution of desalination plants during peak period reached 2,539 MW, with an average growth of 3.8% compared to 2004. It is worth noting that this ratio had decreased by an annual average of 5.9% for the period 2000-2005. Concerning our strategic partnerships with large producers, the contribution of their plants during peak period increased by 92% during 2004, reaching 711 MW, with an average annual growth of 19.3% for the 2000-2005 period. Thus, the total generation capacities reached 32,301 MW by the end of 2005, including the participation of the Saline Water Conversion Corporation and the large producers, with a

5.8% increase from 2004 and 25.2% since 2000, which brought the average annual growth to 4.6% for the years 2000-2005.

At the end of 2005, we supplied 89.9% of the total available electricity generation compared to 7.9% and 2.2% by the desalination plants and the large producers respectively. Compared to

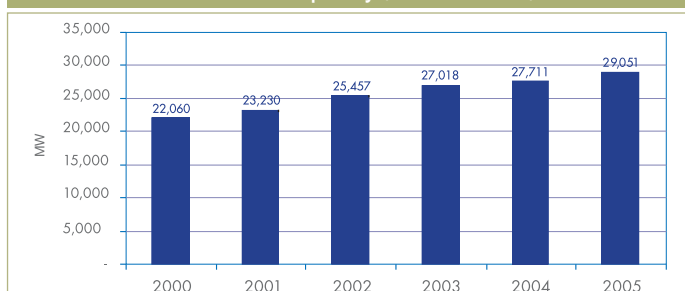
2000, our contribution increased by 5.2%. This fact reflects our competitive capabilities and our continued commitment towards providing the necessary effective power from the Company's power plants to meet the significantly increasing demand for electricity within the national network.

Main New Capacities Installed in 2005

Generation Station	Unit Type	Quantity	Volume (MW)	Total (MW)
PP7 in Riyadh	Gas	2	85	170
PP8 in Riyadh	Improvement in Generation Units' Cooling System	-	140	140
Central Plant in Qassim	Improvement in Generation Units' Cooling System	-	90	90
PP3 in Jeddah	Gas	8	60	480
PP2 in Tabuk	Gas	2	60	120
Central Plant in Asir	Gas	1	70	70
Central Plant in Bisha	Gas	2	73	146
Jizan Power Plant	Gas	2	66	132
Fursan Power Plant	Diesel	6	5	30
Total Added Capacities*				1,378

*Generation capacities were reinforced in various power plants as a result of the improved generation operational efficiency and optimum utilization of generation units.

Installed Capacity (2000 - 2005)



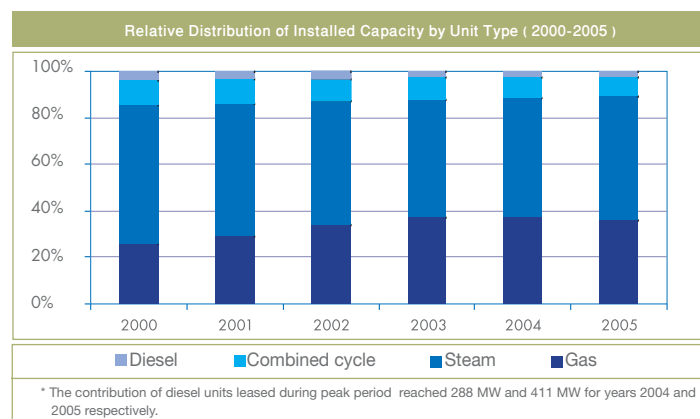
In the year 2005, installed generation capacity reached

29,051 MW

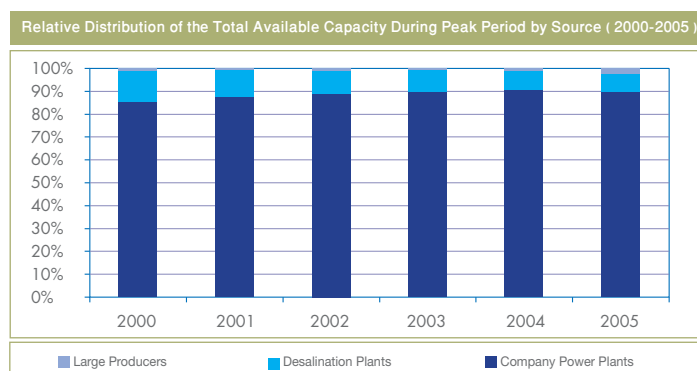
During 2005, the contribution of desalination plants during the peak period increased by

3.8%

compared to 2004



The energy produced by the Company's power plants reached 150,214 GWH at the end of 2005, with an increase of 10.6% over 2004, bringing the total contribution of the Company's power plants to 85.3% of the total produced energy, compared to the contribution of desalination plants and large producers by 11.9% and 2.8% respectively. The energy was produced by the Company's power plants in order to satisfy the electricity demand at the national level in 2005, with an average production of 47.5% from the steam turbines. Gas turbines produced 40% and the combined cycle units and diesel generators produced 10.5% and 2% respectively.



Our Partners

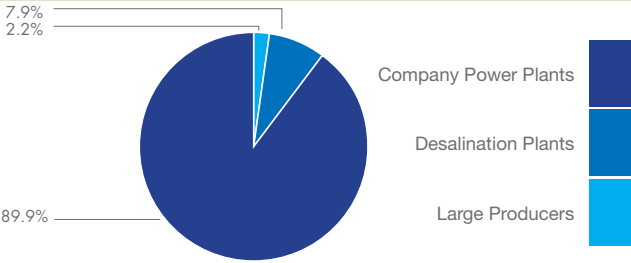
We have been working on establishing long-term strategic partnerships with our stakeholders in order to achieve common interests on the local, regional and international levels. This is done through the implementation of numerous common tasks related to power plants. We have dealt with different categories of suppliers in order to import the materials required for the operation and maintenance of all machines and equipment in power plants.

Moreover, generation units, devices and equipment, as well as spare parts, are meticulously and carefully selected. Continuous cooperation is pursued with various fields of expertise in order to carry out maintenance work on spare parts and perform restoration jobs for some of the generation units' main parts.

Our efforts regarding environmental protection are discussed with the Presidency of Meteorology & Environment Protection for the observation and supervision of activities related to pollution created by electricity generation processes. Short, medium and long-term plans regarding the supply of fuel such as gas or liquid fuel to the generation stations are adopted in coordination with Saudi Aramco. We also work in collaboration with various consulting companies in order to carry out studies on technical and economic performance, to set specifications, and to solve some of the operational problems, as well as to manage the implementation of power plants contracts including the contractors responsible for the transportation of fuel from refineries to power plants within the Kingdom.

There is also continuous collaboration with universities and an agreement was made with King Fahd University of Petroleum and Minerals in order to start field visits to power plants and obtain the participation of electrical power engineers in giving lectures in order to focus on practical applications and to give university students the opportunity to take part in technical projects in the power plants. Moreover, annual meetings are held by way of workshops related to operation and maintenance of generation units as well as repair and rehabilitation of gas and steam turbines.

Distribution of Available Capacity by Source for 2005

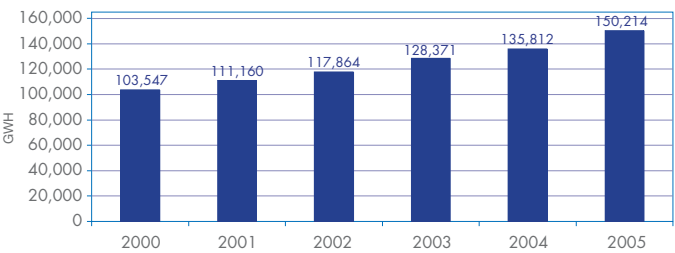


The Company power plants provide

89.9%

of the available capacities for year 2005 at the national level

Total Energy Produced by Company Power Plants (2000-2005)

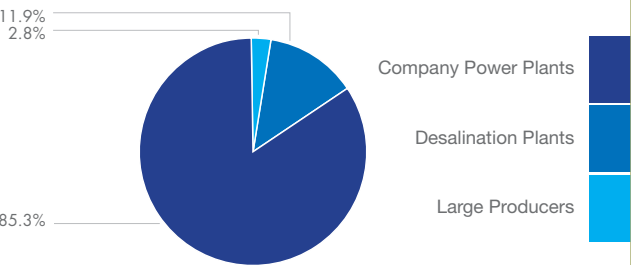


The energy produced by the Company power plants reached

150,214 GWH

by the end of year 2005

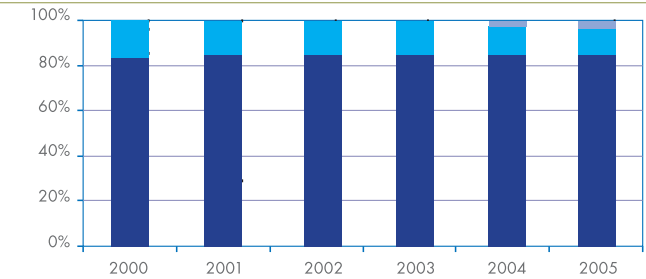
Distribution of Available Energy by Source (2000-2005)



The total produced energy by Company power plants manifests Company's effort to meet electricity demand Kingdomwide for the year 2005, with a production rate of

85.3%

Distribution of Available Energy by Source (2000-2005)



In 2005, the installed capacity was increased by

1,378 MW

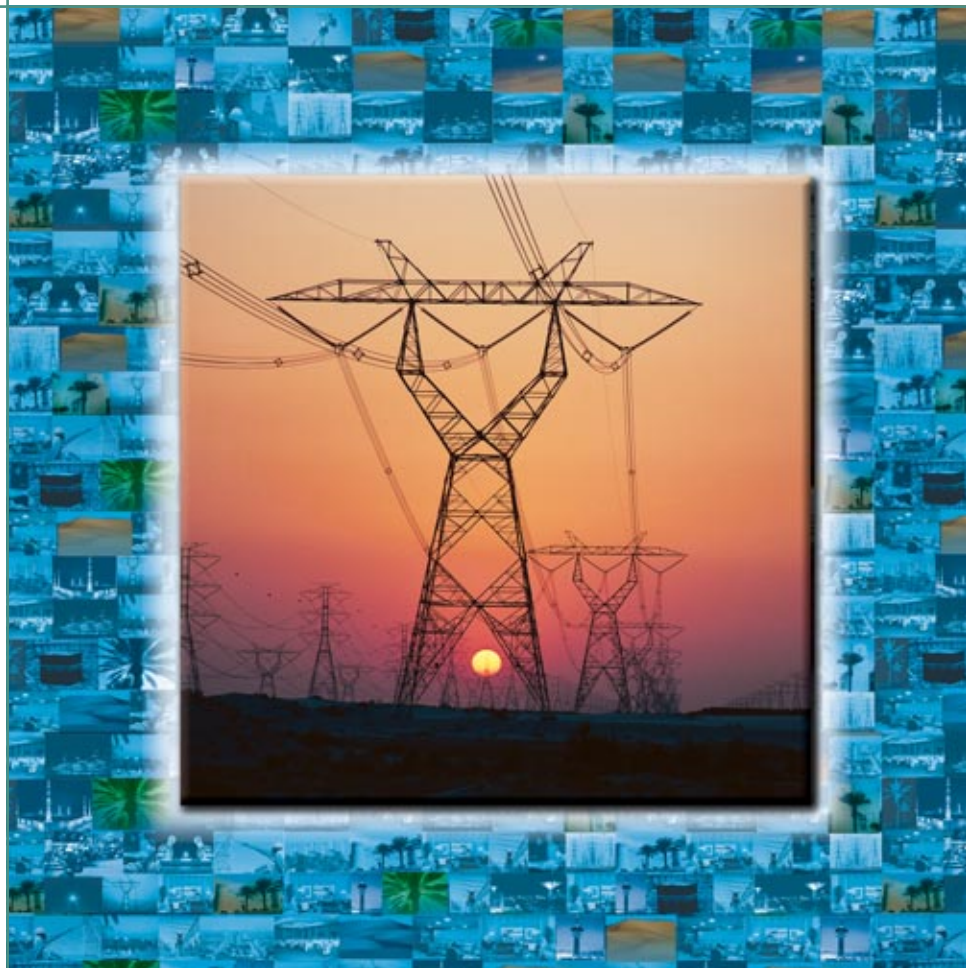
due to the completion of new projects and efficiency as well as the optimum optimization of the units

■ Imported Energy from Large Producers ■ Imported Energy from Desalination Plants ■ Company Power Plants



TRANSMISSION

**Developing the
National Network's
Reliability**



“...continuous efforts are in position towards upgrading the capacities of all power transmission substations facilities throughout the Kingdom. Many new projects were commissioned, the cost of which exceeded billions, in order to follow up with the growing demand for electricity and to reduce the pressure on the existing substations.”



During 2005, great achievements have been accomplished relative to power transmission despite the enormous challenges the Company and the work teams had to confront. But these achievements are still less than our ambitions, and we hope, God willing, that they would be to the satisfaction of others in light of the fundamental changes the Company is going through in preparation for future phases.

On the internal level, continuous efforts are in position towards upgrading the capacities of all power transmission substations facilities throughout the Kingdom, as the following pages will show. Many new projects were commissioned, the cost of which exceeded billions, in order to follow up with the growing demand for electricity and to reduce the pressure on the existing substations. Throughout the year, projects were proposed concerning the first phase for implementing a 380 kV network in the southern region –the project cost is over SR 900 million. Also, a contract was signed for the construction of the Al-Fadili–Sodair line (third line) to increase the power transmission capacities between the central and eastern regions. The cost will exceed SR700 million. Projects targeting the western region, equivalent to more than 40% of the total costs of power transmission projects, continued in order to meet the new load growth and to relieve pressure from the electricity network. In order to strengthen the method of equally expanding all power system (Generation, Transmission, Distribution), meet the increasing demand for electricity and improve the network’s general performance in a way better than 2005, Transmission business line was able to increase its share of projects from the Company’s 2006 total capital budget. This will positively affect, God willing, the performance of the power transmission system during the next three years.

Also, during the report year, agreements were made with many new customers in order to bring the 110 kV voltage network service to their load centers. The highest and the largest are the projects supporting works in the oil, gas and petrochemicals in Kharsaniya, Rabigh and Jubail Industrial City, thus improving the contribution of the Transmission business line in the economic domestic product. Also, during the first quarter, the Third Annual Conference was held in Jeddah to discuss the quality of supply offered to the power transmission customers, to plan for the Fourth Conference in the Eastern Province, and consider the publication of the second edition of the annual report on the failures of the transmission networks which occurred during 2004 (published by the Disturbance Analysis Working Group "DAWG"). The Transmission business line participated within the work team in charge of finding procedures for the internal pricing of the electricity supply between its various stages

within the Company (generation/transmission/ distribution). The team is led by an official from the Finance business line. It is expected that the implementation of this plan will result in clarity of the financial performance components for the various phases of electricity service, and the levels of its operations performance as well. This will contribute to a high level of calculating total costs in a detailed manner as well as in the meticulous work on reducing costs and comparing them with the practices of others.

With the aim of developing work methodologies within the Transmission business line, we applied for the first time in the company a Balanced Score Card by the efforts of the business line employees in order to better follow up the implementation of the 2005 operational plan. This has significantly contributed to raising awareness and commitment towards the goals of the plan in all sectors, departments, and divisions. And God willing, during 2006, the application of this plan will be expanded and the means for its measurement will be developed so that it would become the principal methodology in the Enterprise Resource Planning project (Nebras). Moreover, achievements will be measured in order to raise the levels of awareness relative to the business plans, making commitments and implementing them in order to reach unprecedented levels.

On the external level and during the last quarter of the year, the Water and Electricity Company signed, with God's blessing, agreements to purchase water and electricity from the Shoaiba joint project (IWPP) which is a 50/50 Company joint ownership with the Saline Water Conversion Corporation. The project will produce 900 MW, which will build a link with the western region's power system during year 2009, God willing. The project has accomplished many distinguished achievements, which led to it being mentioned in the annual report of the Ministry of Finance, concurrently to the publication of the nation's budget for year 2006 citing it as the second best economic progress achieved in the Kingdom in the year 2005. The project received many internationally renowned prizes in the fields of desalination and electricity, and boosted project financing, environment protection, and the implementation of the organizational, technical and financial frameworks of the private sector's giant projects to enhance the economic infrastructure. Concerning joint projects, Shuqaiq joint project was proposed to the private sector in a competition for its implementation in the southern region. It should be contracted, God willing, in the last quarter of year 2006.

God be thanked, in coordination with the Electricity and Cogeneration Regulatory Authority, the final draft of the technical code for connection with power transmission facilities was completed; thanks to the individual efforts of the Transmission employees. This clarifies the procedures and standards necessary for linking all the power generation projects with the load centers in a way that preserves the safety and stability of electricity supply throughout the Kingdom while equally taking into consideration the interests of all parties. Its periodic publication will hopefully be carried out during 2006.

Also during this period, contracts were signed in the city of Al-Khobar relative to the implementation of the first phase of the gulf interconnected grid, at a cost exceeding USD 1 billion, in order to launch the service during 2008. As for the promotion of the alliance with scientific parties on research and development of power systems and the Company's continuous commitment to protect the environment, two scientific studies were completed by King Saud University in Riyadh and King Fahd University of Petroleum and Minerals in Dhahran, in order to assess the preventive measures in the electromagnetic field produced by transmission facilities and its effect on the workers and on the public alike. Thanks be to God, the results proved these facilities are safe within their respective areas. God willing, the Company will present to the concerned parties within the General Awareness Program the results of both studies that were conducted concerning electromagnetic field as well as other related scientific researches, its technical standards, and the plan to eliminate the imprecise opinions of some non-specialized individuals. God willing, this will help in better implementation of the power transmission lines projects, which will in turn help improve the growth of the national economy, reduce the imported components, and resolve the need for land for these projects.

Tariq Abdul Rahman Al-Betairi



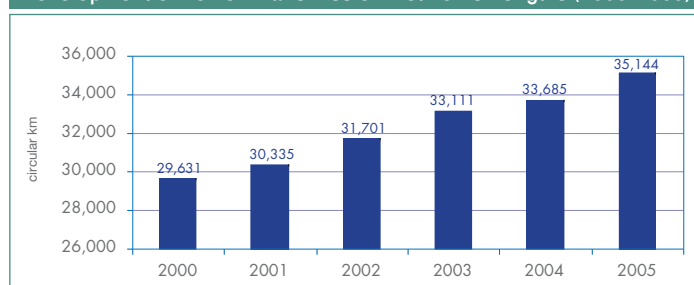
Executive Vice President, Transmission

Our Operations

Given our commitment to promoting the reliability and stability of the national grid, we have renewed our efforts during 2005 to manage the change processes necessary to unify the power transmission operations for the voltages (110 kV–380 kV), in order to assure the economic operations, and prepare the power transmission practices for the future transition phases, including the completion of the process to separate financial accounts for the core business lines, and preparation for competition in power generation within the Kingdom.

In this regard, we have worked on developing our programs to improve the performance of power transmission systems, that includes the quality of electricity supply, performance and preventive maintenance indicators, expansion plans, the construction of new projects, and improving the existing projects.

Development of Power Transmission Networks Lengths (2000-2005)



The circuit lengths of overhead lines and underground cables reached

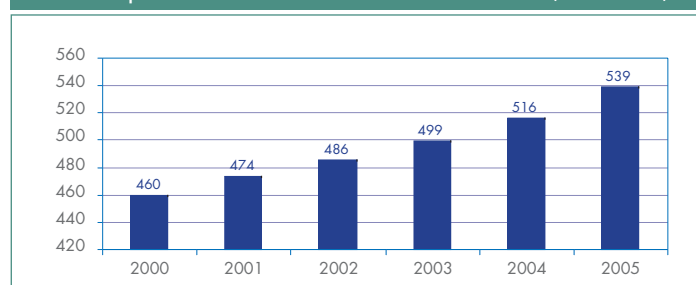
35,144 ckm

with an increase of 4.3% compared to 2004

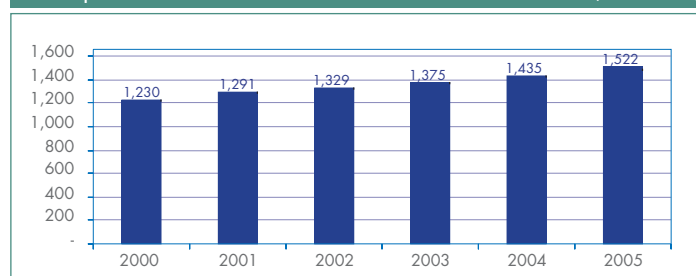
While devoting our efforts to supplying electricity service to load centers and to confront the increasing peak load during 2005, the national network was significantly expanded (110 kV–380 kV), bringing the circuit lengths of overhead and underground cables to 35,144 ckm with the addition of 1,459 ckm, compared to a total of 33,685 ckm in 2004. Thus the increase of 4.3%, bringing the average annual growth in transmission networks' lengths to 3.5% for the 2000-2005 period.

Parallel to the progress in the electric power transmission networks, six new substations were commissioned with eight extra

Development of Power Transmission Substations (2000-2005)



Development of Power Transmission Substations Transformers (2000-2005)

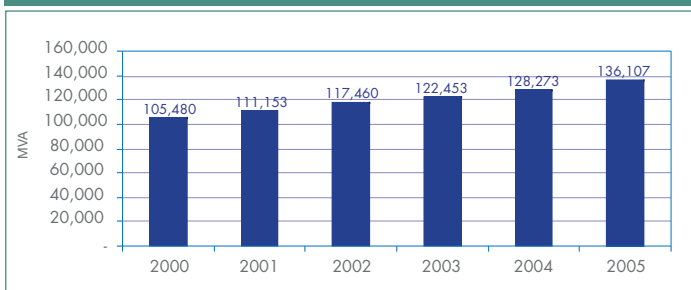


voltage transformers (230 kV–380 kV) with a total capacity of 3,287 MVA.

Also, two transmission substations were reinforced by adding three transformers with a capacity of 360 MVA at the end of year 2005. As for high voltage (110 kV–132 kV), seventeen new transmission substations were operated with 44 transformers, for a capacity of 2,501 MVA. Furthermore, 28 existing transmission substations were upgraded by adding thirty five transformers with a total capacity of 1,685 MVA. With this, the number of transmission substations went up to 539 compared to 516 in the year 2004, a fact which led to an increase in the number of transformers reaching 1,522 transformers, and the growth of the power transmission transformers' capacity by 6.1% for year 2005, bringing the total capacity to 136,106 MVA, a 4.8% increase compared to 2004.

Thus, the average annual growth for the 2000-2005 period reached 3.2% for substations, 4.4% for the transformers and 5.2% for transformers' capacities.

Development of the Capacity of Power Transmission Transformers (2000-2005)



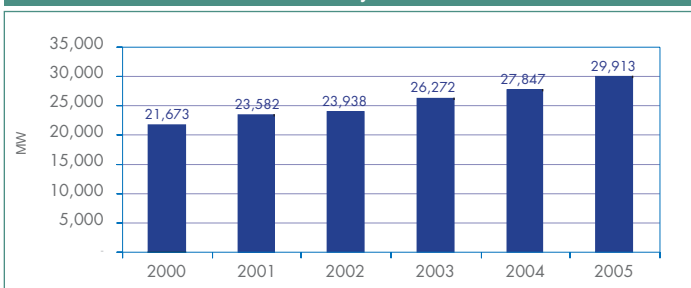
Increase in the average annual growth of the power transmission transformers capacities reached

5.2%

for the 2000-2005 period

During 2005, the interconnected network peak load reached 28,317 MW, a 7.1% increase compared to 2004. On the isolated network, the peak load reached a notable increase compared to the last five years, with 1,596 MW and 13.4% increase over 2004, bringing the average annual growth to 3% for the 2000-2005 period, compared to 6.9% in the interconnected network for the same period.

Total National Grid Daily Peak (2000-2005)



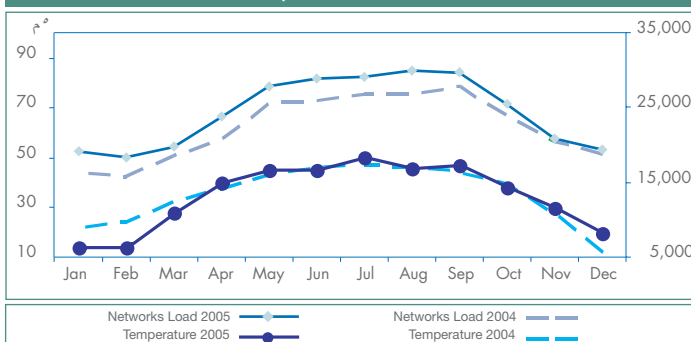
During 2005, the nonsynchronous Daily Power Peak load for the interconnected network reached

29,913 MW

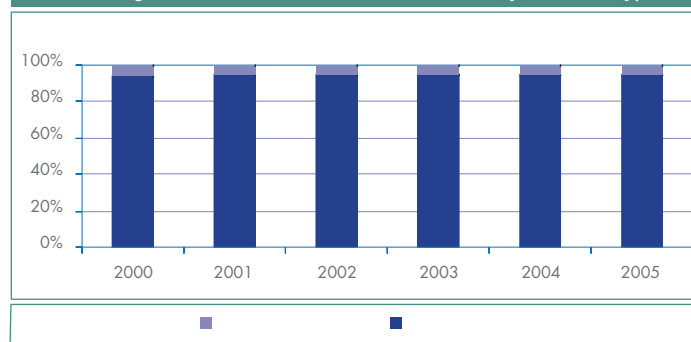
an increase of 7.4% compared to 2004

The national network's nonsynchronous peak load was recorded on August 27, 2005, at 29,913 MW, a 7.4% increase compared to 27,847 MW on September 11, 2004: thus bringing the average annual growth of the network's daily peak load to 6.7% for the 2000-2005 period.

Peak Load and Temperature for Years 2004 and 2005

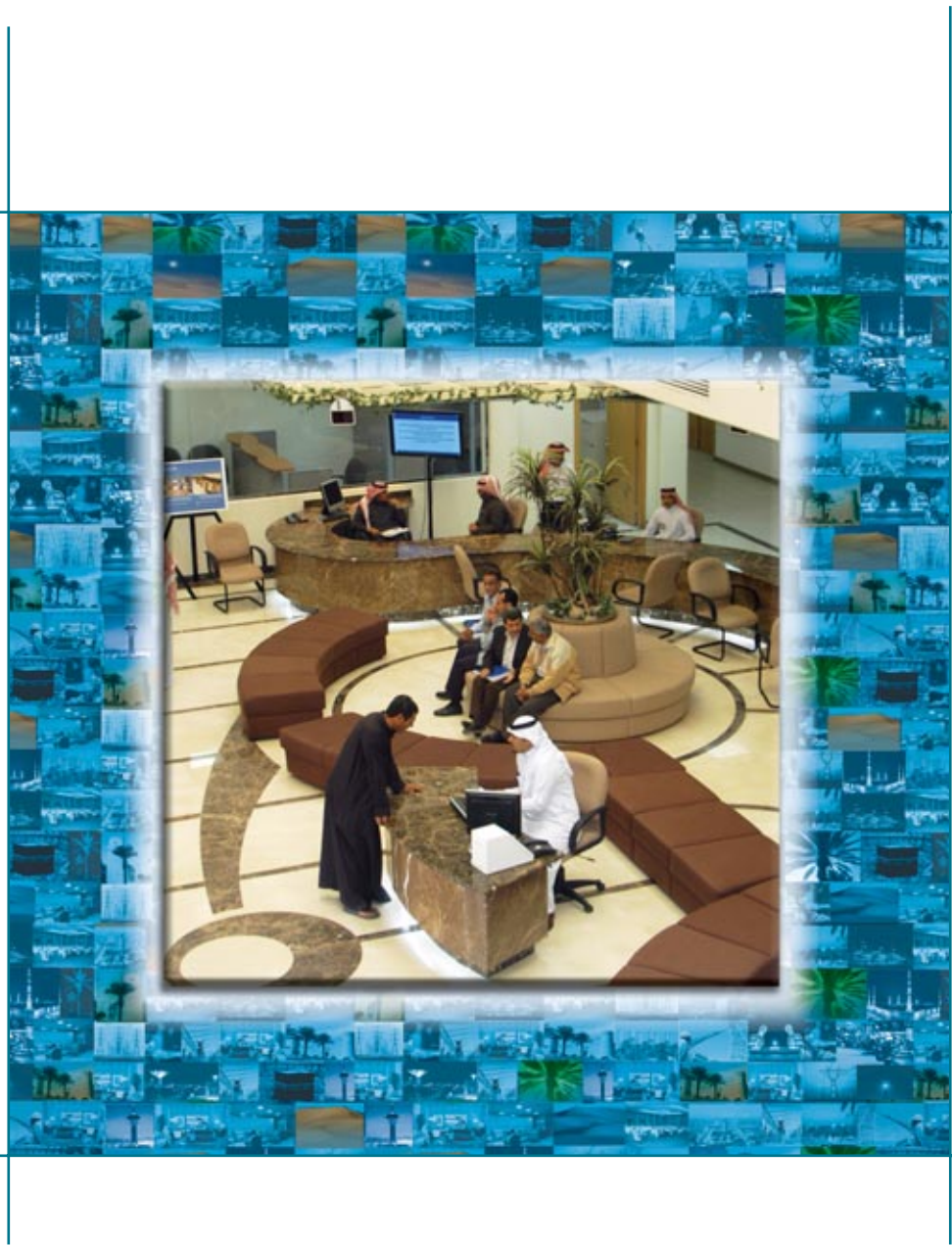


Percentage Distribution of the Total Peak Load by Network Type



DISTRIBUTION AND CUSTOMER SERVICES

**We strive to promote
the added value
to better serve our
customers.**



“In order to achieve such goal, we have set a strategic plan for the Distribution and Customer Services business line, which covers a number of perspectives, goals and performance indicators to be achieved during 2005. They include promoting the average number of electricity supply connections relevant to new customers in cities, villages and settlements, as well as the continuous improvements of the distribution network to increase its reliability, and thus, to reduce the rate and periods of scheduled and forced service interruptions.”



The Distribution and Customer Services works on achieving our most important goals which include providing our customers with highly reliable electricity supply, continuously developing our relationships with them and developing the standards of services, applying the latest technologies which help in the development of this service to better satisfy our customers and to achieve positive relationships with them through optimum use of the available resources.

In order to achieve such goal, we have set a strategic plan for the Distribution and Customer Services business line, which covers a number of perspectives, goals and performance indicators to be achieved during 2005. They include promoting the average number of electricity supply connections relevant to new customers in cities, villages and settlements, as well as the continuous improvements of the distribution network to increase its reliability, and thus, to reduce the rate and periods of scheduled and forced service interruptions.

Concerning billing, we have improved the accuracy in meter reading and issuing of bills, increased the number and distribution of monthly bills within five working days from meter reading date. This is one of our strategic goals which we continuously strive to achieve.

The increase in number of our customers all over the Kingdom reflects the importance of the challenge we must confront in order to apply such standards with the precision that we aim for. We were able, thank God, to achieve most of the goals we set. During 2005, the electricity supply has been connected to 242,292 new customers and 225 new villages and settlements.

To promote our relationships with our customers who are using the electronic services, we offer SMS service through which the Company notifies the customers about the issuance of their bills. It will remind them, in case they forget to pay them during the time limit. The SMS service also notifies the user concerning the importance of paying the bill ahead of the deadline to avoid disconnection of power supply.

With our commitment to offer excellent service to our customers and to spare them the trouble of having to visit the Company offices, we have implemented the first customer call center initially servicing Riyadh, which works according to the highest technical standards, offering various services concerning customer billing questions, as well as other services. This center will be developed throughout the two coming years to be able to offer all customer service functions such as electricity supply connection, billing, and other services throughout the Kingdom through a central call center.

We have also introduced the Time of Use (TOU) tariff where invoicing is according to the period of consumption of our main customers both in the industrial and commercial sectors, allowing our customers to use the power at will. This invoicing aims to help the customers reduce their bills in case of consumption pattern changes, through reducing consumption during the peak hours. This will allow the Company to benefit from the loads shifted during peak hours.

We also work on developing our employees' competence in order for them to effectively achieve their tasks. In this regard, we organized 12 workshops to enhance the skills of the employees working in customer service and in front lines. All the procedures

unification phases were completed and standardized in all operations relative to the requirements of the supply connection, starting from request to power service connection stage, in order to guarantee work completion and follow up to satisfy the customers' needs, and prepare to apply the Unified Power Supply System.

At the end of year 2005, the design and the use of Internet service for requesting power supply connection was achieved, as well as initiating necessary tests to apply the prepaid meters system in order to develop our services for targeted customer segments.

Ali Saleh Al-Barrak



Executive Vice President,
Distribution and Customer Services

We Strive to Promote Added Value

At the end of 2005, we completed the Company's first five years of operation. We continue to enhance our loyalty to our customers by providing electricity and services needed to meet demand growth as well as the notable increase in requirements and expectations of all customer segments. We strive on enhancing the added value of all products and services we offer to reach the highest satisfaction level among our customers and to achieve long-term relationships of mutual benefit. In addition, we work on being close to the customers through a number of programs related to studies, inquiries, events and activities which help us gather perceptions, needs and expectations, and make it easier for us to enhance our relationships with them by providing all the necessary solutions to solve all problems related to the network and the customers, developing high and positive performance rates regarding our operational activities. At the end of 2005 we have provided electricity supply to 242,295 new customers throughout the Kingdom, bringing the total number of customers to 4,727,371 customers, a growth of 5.2% compared to 2004, and an average annual growth of 5.5% for the 2000-2005 period. We have also given great care and importance to developmental projects as regards providing electricity to villages and settlements, thus reaching 225 new villages and settlements, an increase of 2.2%, bringing the total number of electrified villages, cities and settlements to 10,385 at year end.

In addition, the total energy sold reached 153,283 GWH, an increase of 6.2% compared to 2004, and 34.3% since 2000, bringing the average annual growth to 6.1% for the 2000-2005 period. The energy consumption of the main customers was 51.1% for the residential sector, 10.2% for the commercial sector, 10.9% for the government sector, 22.1% for the industrial sector, and 2.1% for the agricultural sector.

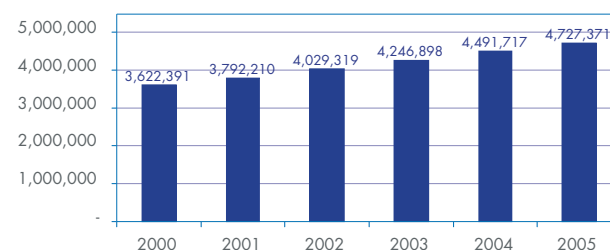
As regards the power distribution networks (13.8 KV-69 KV), we have given great interest in providing all customers with reliable power supply by focusing our strategic plans on improving the network operation performance, and developing the services and products. During 2005, a number of distribution substations and feeders were added to reach load centers, bringing the distribution network length to 147,109 ckm with the addition of 6,082 ckm, an increase of 4.3% compared to 2004, and a growth of 32.4% compared to 2000, thus bringing the average annual growth to 5.8% for the 2000-2005 period.

At the end of year 2005,
electricity supply was
delivered to

242,295

new customers in the
Kingdom

Development of Number of Customers (2000 - 2005)



On the other hand, the increase in lengths of customers' connections for low voltage (110V, 220V, 380V) reached 6,342 ckm, bringing the total length to 155,001 ckm, with a 4.2% increase compared to 2004, and an average annual growth of 6.1% for the 2000-2005 period.

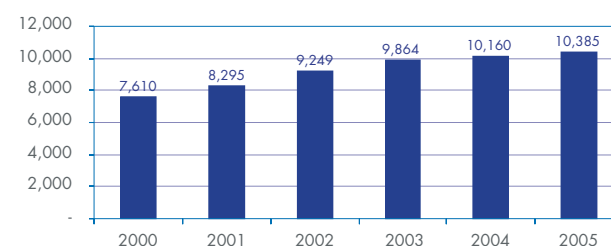
This indicates that 12,424 ckm were added to the distribution network during 2005, bringing the total circuits lengths to 302,110 ckm, comprising 51.3% of low voltage lines to customers.

Electricity was supplied to

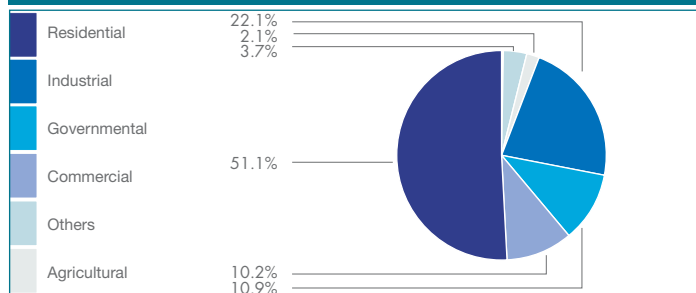
225

villages and settlements, with
a 2.2% increase

Development of the Number of Electrified Cities, Villages and Settlements (2000-2005)



Relative Distribution of Sold Energy by Customer Segment for Year 2005

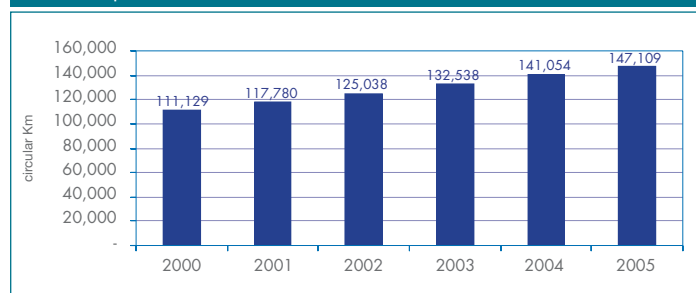
**6.2%**Increase in total energy sold
compared to 2004

"Alkaraba SMS..... a new service launched in 2005. Now you can apply for this service by sending your account number written on your electricity bill to the following number 75555 in order for us to be in touch with you free of charge to providing you with the values of your electricity bills as well as other information in the future.

Moreover, 11,000 distribution transformers were added during 2005 to the different voltages of the distribution networks, with a total capacity of 5,050 MVA, a 4.2% increase over 2004 for the transformers, and 4.1% for the transformers' capacity. Thus, for the 2000-2005 period the average annual growth of the number of transformers reached 6%, while for the transformers' capacity reached 4.7%.

Year 2005 witnessed numerous achievements and progress relevant to our practices. The project concerning the new invoice and its unification was launched Kingdomwide and the application of phase-1 of the "Combined Electricity and Water Invoice Project" in Dammam, in the Eastern region, was set off in collaboration with the Ministry of Water and Electricity. Similarly, the past year witnessed the launching of phase-1 of the "Riyadh Call Center", in addition to the

Development of the Power Distribution Networks (13.8 KV-69 kV) (2000-2005)



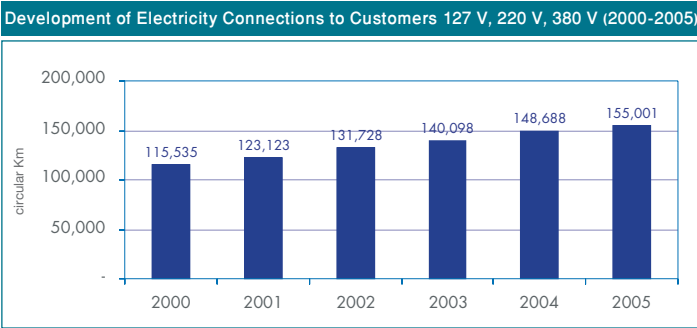
11,000 distribution transformers were added during 2005 to the different voltage distribution networks with an increase of

4.2%

compared to 2004

completion of the Customer Services Guide unification procedures, and the issuing of a number of indicators for unified procedures at the local level. In regard to ways of paying electricity bills, the electronic payment method of bills increased by 60%. We have set 12 workshops to improve the skills and competence of employees working in customer service and front lines. All the unification phases were completed and standardized in all operations related to power supply connection requirements starting from request to power service connection stage, in order to guarantee work completion and follow up has been made satisfying the customers' needs and prepare to apply the Unified Power Supply System. Also, we have completed the study regarding the methods of applying the project for electronic meter reading, and working on installing it in the distribution

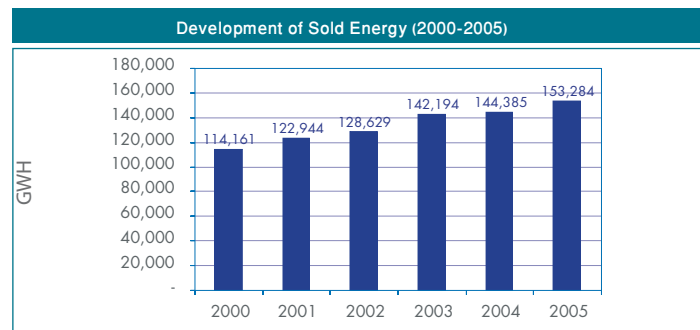
system in order to increase the precision levels in reading the amounts of electricity consumption. At the end of year 2005, the concept of using the Internet service for requesting power service connection was initiated, as well as setting the necessary tests to apply the prepaid meters system to develop our services for targeted customer segments.



In 2005, a number of distribution substations and feeders were added to load centers, bringing the total length of customer connections to

155,001ckm





Total number of customers in 2005 reached 4,727,371, a

5.2%

growth compared to 2004

The 3rd Annual Symposium for Customer Service through which we aim to promote the culture of customer satisfaction by exchanging experiences with various local, regional and national parties, was held on December 13 and 14, 2005 under the slogan "Towards a Distinguished Partnership with our Customers," with an impressive attendance of 950 participants.



HUMAN RESOURCES

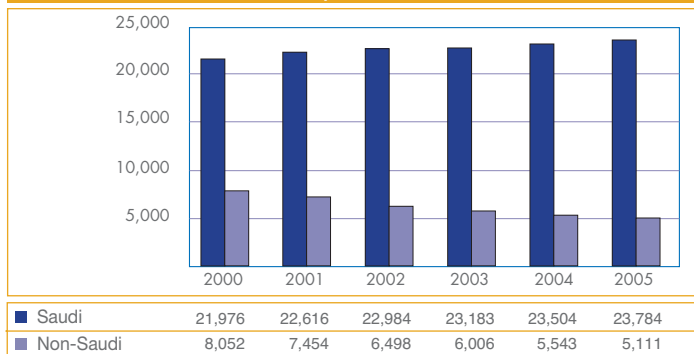
Our Real Energy



Our Real Energy

Since the beginning of the merging phases which the company underwent during 2000 and based on a methodology of functional separation by type of operation and given our belief in the importance of human resources as a real force in the restructuring process to develop a standardized operational procedures and shift functional businesses for specialized activities, we continued our efforts during 2005 as a shared and support organizational unit in providing planning and continuous development programs and services to the employees as internal customers to contribute in achieving the company's mission; a mission which requires a highly competent and qualified work force, able to adapt with the fast development in daily work in order to reach our desired new culture. We have also given particular importance to developing human resources through tailored programs, recruit and develop employees, plan their personal career path, and assign qualified personnel into suitable job positions.

Development of Workforce



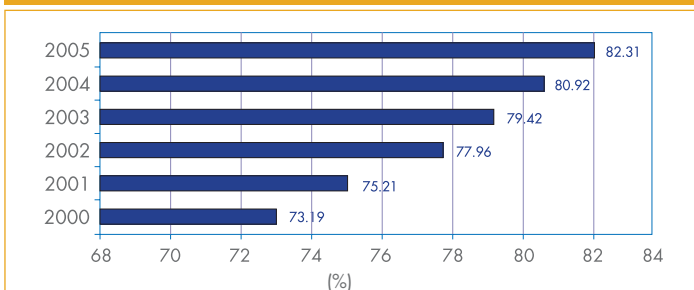
In 2005, 477 graduates from the Company's training institutes were recruited, bringing the total number of OJT trainees at the end of the year to

983

Also, 336 university graduates were hired and joined the Professional Development Program (PDP).

At the end of 2005, we achieved a notable progress in job Saudization; the rate of Saudi employees reached 82.3% of the total number of Company staff (28,895 employees). Thus, the average annual growth in Job Saudization reached 2.4% for the 2000-2005 period, a 1.72% increase compared to 2004.

Development of Job Saudization



Average annual growth of Saudization rate reached 2.4% for the 2000-2005 period, a

1.72%

increase in 2005 compared to 2004

As for the qualification and training programs set to meet the Company's requirements relative in all administrative and technical specializations, 477 graduates from the Company's training institutes were enrolled in On-Job-Training (OJT) Program in 2005, bringing the total number of OJT trainees by the end of the year to 983 trainees. Also, 336 university graduates were recruited and joined the company's "Professional Development Program (PDP)". And in order to develop the employees skills, many short courses were given to a total of 24,005 employees.

Furthermore, 7,458 employees participated in specialized courses on transportation, security and safety, as well as health care services.

Employee Competencies

After completing the field research during summer of 2003 in which 80 managers and vice presidents participated in order to reach a shared vision on developing the employees in a manner that reflects the Company's environment and all its transitional phases, the competence approach was approved on the basis of the Human Resources practices targeting supervisors and managers. This is to assess their competencies and to allow them to carry out their tasks in accordance with the highest performance and effectiveness standards. A guide was issued listing and defining sixteen competencies and strengths to distinguish the best employees in the Company.

The aptitudes of employees have been adopted as the basis for Human Resources' practices, such as employee selection, appointment, promotion, and career path planning, and as a tool for determining the employee's development and training needs. In fact, the competency concept makes a distinction between inherent competence which must be the basis in the selection and appointment of employees, and the apparent competencies which can be developed through targeted training and development programs. In order to achieve this, we decided to publish this guide which will become the principal reference for assessing competence practices on all Company levels, comprising the standard qualifications of the best employees classified according to three competency groups and relevant practices.

The year 2005 witnessed the completion of the program aiming at assessing and developing the competencies of vice presidents, department managers, division managers, and unit heads on all

Classification of Competency Groups

Internal energies: Aptitudes related to the manager's internal resources: the motivation to succeed, the ability to adapt, a sense for development, confidence, commitment, care for safety.

Relationship with others: Aptitudes which determine the way managers handle their relationships with others inside and outside the Company (presidents, colleagues, direct employees, customers): respect for others, directing change, customer service, developing others, influencing others, honesty, team work.

Intellectual capacities: Aptitudes which clarify the manager's ability to treat the available information and to use it: analytical mind, innovative mind, special experience.

Company levels. The number of employees participating in the program reached 998. All the competency assessments are based on the comparison between standard qualifications (excellence characteristics) and employees' actual competencies.

Thus, the benefit from the program for each employee depends on his knowledge of his personal competencies; it allows him to compare them to the standards of excellence defined in the guide in order to assess his strengths, and also give him the opportunity for personal development. This is done by taking a special competency test in order for the employee to learn about his personal competencies and his requirements regarding his present position and the targeted position.

Each targeted employee, along with his manager and three of his colleagues, answers the competency test questionnaire in order to guarantee precision in measuring his

competencies. The number of submitted applications is increased to eight by adding three direct employees when the aptitudes of department managers and vice presidents are being assessed.

"I-Learn... Our Method of Online Teaching

The launching of online education in the Company was meant to increase the number of training opportunities for employees wishing to develop their technical and managerial skills and work skills. Subsequently, online education has gone through three stages and overcame many obstacles until it reached its present status. The first of the three stages was the "Learning Resource Center (LRC)" followed by the Self-Study online system in 2003, and evolved in the development of the "I-Learn" online system in 2005.

Early in the year 2005, we used for the first time the Company's I-Learn online system after a system trial period of around three months. The I-Learn online system is considered a unique leap in education techniques achieved by the Company; its benefits and capabilities have launched the platform for various individual and group teaching activities.

Given the need to apply modern techniques in online education which would offer all employees various opportunities for self-education, shifting to the "I-Learn" online system was a fundamental step compared to the Self-study online system, notably due to

For more brief and quick information on the advantages offered by the "I-Learn" online system, please visit our website at www.se.com.sa/skilltraining/ai/flash/start.asp

the following reasons:

- The big progress in the method of education on the technical and practical levels.
- Total compatibility of the system with the most modern online courses available in the market, as compared to the previous outdated online system.
- The possibility of linking it to the Internet in order to make easier access. Access can be made anywhere, at any time.
- The possibility of adding multilingual interfaces.
- The possibility of high speed processing and managing a large number of users and a huge amount of reports.
- Easy access to information and printing reports.
- Development tools for curriculum and tests are made available.
- Availability of inter-communication tools for users.
- Its compatibility with numerous information systems, such as:
 - The Enterprise Resource Planning systems (Nebras)
 - MS Active Directory
 - Virtual Classrooms



Advantages and Features of “I-Learn”

- 1 - General Features
- User accounts
 - Interface and various screens
 - Different types of user accounts
 - Working through the internet
 - Customizing the different languages and distinctiveness
- 2 - Individual Training
- Self-Study Training
 - Certificates of Completion
 - Certification Programs
- 3 - Group Training
- Training Groups
 - Message Inbox
 - Forums
 - Chat Rooms
- 4 - Features of the Curriculum and Test Developers
- Development of Online Curriculums
 - Development of Online tests
- 5 - Features of the System Managers
- System Management
 - System Reports Management
 - Competency Management
 - System Tools Management

Timeline of Company Self-Study Program

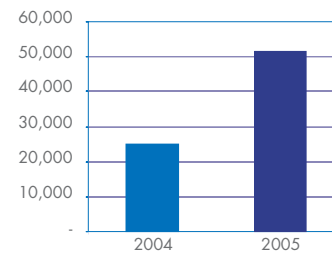
1998	June	Learning Resource Center (LRC) officially launched the first phase of online education in the Company.
2002	September	Start of the implementation of the online Self-Study on the intranet.
	October	Preliminary launching of the online Self-Study system.
2003	January	Launching of the online Self-Study system.
	November	Setting the system database in order to accommodate all the Eastern area employees.
2004	February	Arabisation of the online Self-Study system interface.
	April	Addition of 18 computer training courses in Arabic.
	May	Addition of 9 reports that provide detailed information for online Self-Study system users and the management.
	September	Fitting the online Self-Study system with option to print certificates and completion of the first batch of prints. Organizing classes for more than 400 employees to get acquainted with the online Self-Study system for an average of 100 users for each operating area.
	October	Addition of English Language teaching classes. Preliminary launching of the "I-Learn" online system.
	November	Transfer of user-data from the online Self-Study system to the "I-Learn" online system. Linking the "I-Learn" online system to the Company's employees database system.
2005	January	Official launching of the "I-Learn" online system – phase 3 – for the application of online education in the Company.
	May	Increasing the number of English language course licenses from 150 to 750 licenses.
	June	Organizing 5 training sessions for more than 50 training supervisors from the Eastern Operating Area under the title "Technical Support for I-Learn".



Training and Development Methods Available to Employees



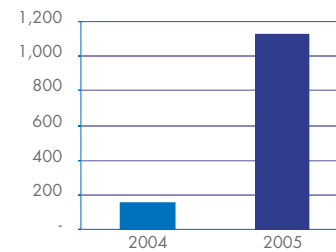
Comparative Number of Participants in the "I-Learn" Online Program



The participant receives a certificate upon successful completion of his chosen course and having obtained an average grade of not lower than

80%

Awarded Certificates*



*The participant receives a certificate upon successful completion of his chosen training course and having obtained an average grade of not lower than 80%.

Note that the big difference between the 2 comparative years is due to the activation of printing certificates by participants who have graduated successfully since the last quarter of year 2004.

Comparative Statistical Information on "I-Learn" Online Courses

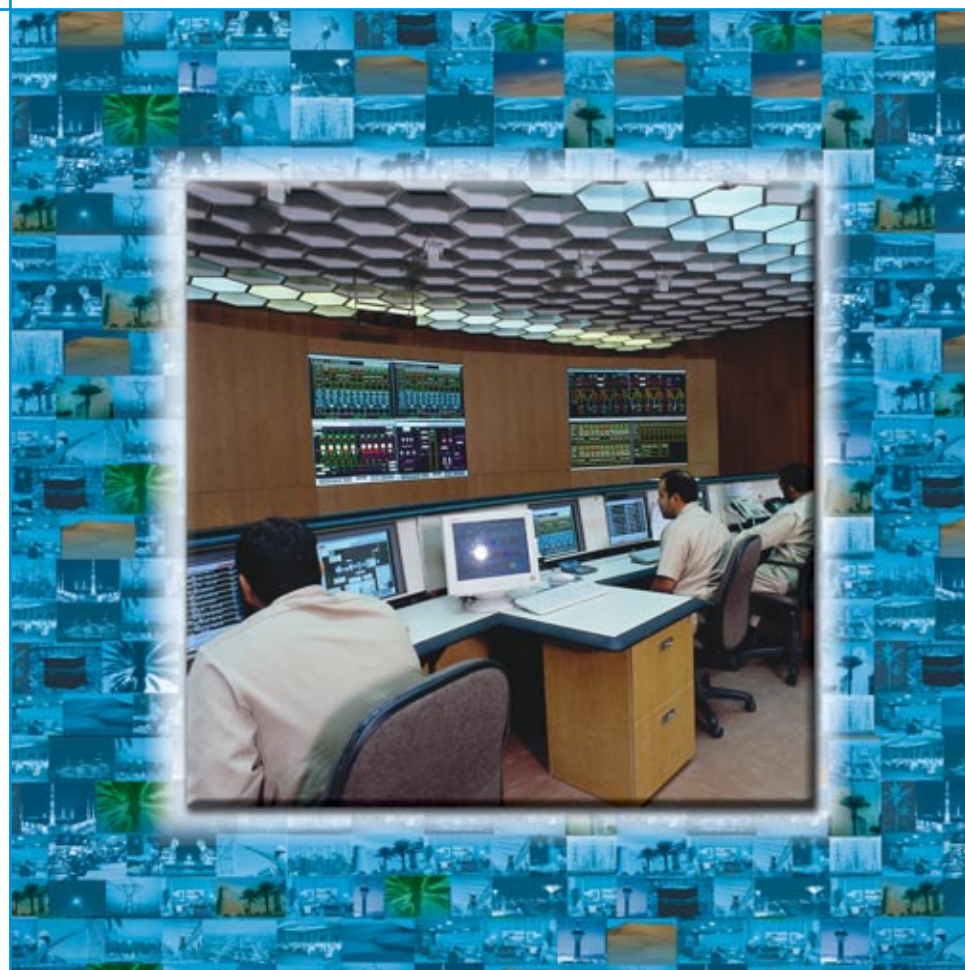
	2004	2005
Management Courses	98	147
Computer Courses	65	104
Technical Courses	*21	39
Computer Courses	**9	9
Total	193	299

* for only 4 months period in 2004

** for only 3 months period in 2004

TOTAL QUALITY MANAGEMENT

Our Potential for
Continuous
Improvement



Our Potential for Continuous Improvement

In view of our efforts to improve our performance, perk up customer satisfaction, and develop the capabilities of our employees, we have followed the concept of Total Quality Management (TQM) for the 11th year in a row, and the positive results we achieved have played an important part in accelerating its implementation.

Our experience is considered as a breakthrough, not only in the Kingdom, but also in the Gulf region.

Quality holds a special meaning for us: we are conscious that Total Quality Management is an administrative program based on teamwork and the participation of all employees, as well as the continuous improvement of the various business processes with an ideal development of the available resources in order to satisfy the internal and external customers.

Our main principles in applying the Total Quality Management program include getting to know the customers, defining their needs and expectations, working on satisfying their needs, promoting the spirit of teamwork, encouraging excellence, qualifying employees, focusing on quality in all business processes, applying measurement and analysis in decision making, and insisting on the fact that development and improvement are a permanent activity and that quality is each and everyone's responsibility.

Our objectives relative to the application of the Total Quality Management programs include providing a total-quality environment and culture to our employees in order to improve their capabilities and skills necessary for continuous improvement, as well as developing business teamwork processes through Total Quality Management concepts and methods.

The Total Quality Management programs influence the cultural and behavioral changes, as well as the corporate changes and innovation in business processes. The programs have helped in clarifying matters to employees. They are now better aware of the work and responsibilities expected from them, and they also know about the Company's vision for the future. These

programs also helped raise the employees' morale and gain positive outlook towards teamwork, as well as their proactive participation in solving problems, enabling and giving them knowledge and improved skills through their practice of the Continuous Improvement program techniques.

The implementation of the Total Quality Management programs has led to important changes which in turn led to improvement in work environment; starting with the management: a change from the traditional methods to a method of facilitating command, which helps in studying the needs and customer expectations, as well as in facilitating the exchange of information and data, thus helping in planning operations and daily management, improving strategic planning in an orderly manner through clear methods, and developing human resources to satisfy job requirements - including training and educating employees in order to improve the necessary capabilities and skills to perform efficiently. It also helps in the management of operations where business processes are designed, activated and directed, and clear systems are followed to develop and improve these processes in order to reach an ideal operational performance; assessing the operations and general performance results, especially the quality of product performance and of the services offered, and focusing on customer satisfaction. Special care was given to the strategies allowing us to learn about customers' present needs and future expectations with the aim of satisfying their needs and enhancing their loyalty to the Company.

Since the launching of Total Quality Management programs, they positively influenced the improvement and development of business processes, as well as the direct and actual results relative to the Company's changing operational performance. It can be measured by approved operational standards such as standard processing time, cost, improvement standards required by the customer and the technical specifications of products and services.

We have been committed, since the implementation of the Total Quality Management Programs, to participate in improving and developing business processes operations, as well as in improving general performance through expanding awareness of Total Quality Management concept and following approaches of continuous improvement, as well as through assuring an environment of excellence and innovation for the employees, to satisfy customers' needs and enhance their loyalty to the company. This is all done through a series of the Total Quality Management programs: the "Improvement Program", the "Development Program", and the "Employee Innovation and Excellence programs".

Since the beginning of
implementing the Improvement
Program in 1994

5,049

improvement proposals were
implemented. The results have
improved the quality of customer
service

Improvement Program

This program aims to improve the business processes. These processes are usually small to medium-sized and improved by teams formed by the concerned business unit and are trained to apply the methodology and tools of continuous improvement.

Since we began the implementation of the Improvement Program in 1994, 5,049 improvement proposals were implemented. Until now, the results have improved the quality of customer service, have shortened processing time and reduced cost. The implementation of the Improvement Program has helped in developing the employees' skills, through theoretical and practical training on teamwork skills, analytical thinking, decision-making, creative thinking, as well as positive interaction with change. The development of the number of improvement processes reflects the significant change in the Company's Total Quality Management culture.

Statistics on Improvement Program since the adoption of TQM until 2005

Number of improvement teams	1,189
Number of achieved improvement processes	992
Number of approved improvement proposals	5,745
Number of implemented improvement proposals	5,049
Ratio of implemented proposals to the approved proposals	87.9%

Excellence and Innovation Program

We work on providing a suitable work environment for our employees. As we are keen on their successful participation, we implemented in 2005 the Excellence and Innovation Program Companywide. The program comprises two parts:

Excellence Program

This program aims at motivating employees to improve their performance and capabilities, and rewarding them accordingly. It also helps create an environment of positive competition among employees through awarding of prizes to recipients in the Employee of the Month and the Employee of the Year awards.

The Excellence Program aims at motivating employees to improve their performance and capabilities, and rewarding them accordingly.

In 2005,

292

employees were recipients of prizes for their professional excellence.

Employee Excellence Awards Until 2005

Employee of the Month	449
Employee of the Year	292

Innovation Program

This program aims at motivating and enabling the employees to present their ideas and suggestions related to productivity improvement, cost reduction, innovation, effectiveness, safety, and customer service.

The Innovation Program aims at motivating and enabling the employees to present their ideas and suggestions.

The employees' suggestions yielded a total savings of

SR
2,802,605

in 2005

The program has also helped in providing a healthy environment for continuous improvement, as well as in enhancing loyalty and commitment to the Company, improving the Company's general performance indicators by developing the skills of our employees. The implementation of the program also helped identify distinguished and innovative employees and to reward them accordingly to serve as a motivating factor among their colleagues encouraging them to be creative as well.

The adoption of the Total Quality Management Program is a strategic initiative of the Company, based on strong confidence in its great benefits to our customers through improvement in service quality; and for our employees – by providing them with suitable work environment that encourages participation in continuous improvement and skill development; while for our shareholders – through increasing the corporate performance level, reducing costs and improving productivity.

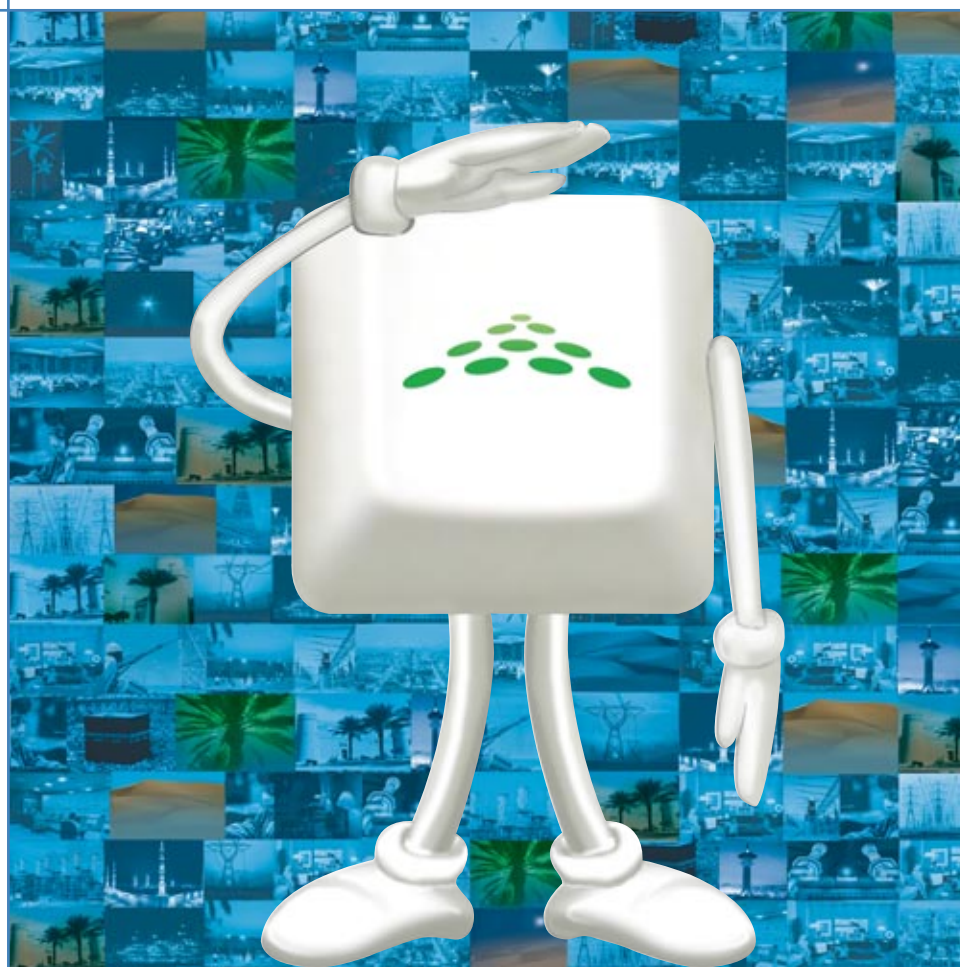
Employee Suggestions and Excellent Ideas in 2005

Number of Suggestions	1,438
Suggestions under Study	281
Accepted Suggestions	623
Refused Suggestions	534
Suggestions under Implementation	310
Implemented Suggestions	313
Total savings after implementation SR	2,802,605

The application of the Excellence and Innovation Program has become a motivating factor among our employees to make use of their creative thinking abilities, encourage them to present innovative ideas, and promote teamwork.

**Nebras... Enterprise
Resource Planning (ERP)**

Our Power To Change



Our Power to Change

The Company has taken a strategic initiative to begin unifying the systems and eventually the work procedures by implementing the Enterprise Resource Planning (ERP) from SAP Company, a project we named "Nebras." This initiative was taken to cope with the accelerating changes and the need to integrate the work procedures following the Company's establishment by merging all electric utility companies in the Kingdom and Electricity Corporation Projects in the year 2000; thereby allowing Company to operate in a more competent manner and in so doing attain the intended goals. This reflects the importance of the challenge that lies in unifying systems and procedures adopted in various Company operating areas. Thus we approved such project in order to confront this challenge and to increase the overall performance, as well as to maintain relationship and harmony between the Company's different systems and achieve the highest levels of competence, efficiency and excellence relevant to customer service, and implement the best international practices.

The first steps consisted of preparing a feasibility study for the project, which started in 2003. After its completion in mid 2004, the Executive Committee gave its approval for the gradual implementation of the project through three main stages to guarantee a successful change and integration of all systems in one unified system among the Company's various business functions. Through Nebras, the Company will apply business processes based

on the best practices, using the most modern techniques in a consistent manner comprising all Company operating areas. The successful implementation of Nebras will result in great benefits in all the Company's business functions: the concept of competence, precision and speed in handling transactions and business processes will be clear. The standard result for this project would be the integration of various changes to the existing procedures relative to the performance of the various tasks. To enhance the acceptance of these changes, we will encourage the participation of department managers and staff concerned in defining the parameters of the new systems and in intensifying training processes and introducing these systems.

Year 2005 and Nebras

Thanks be to God and thanks for the important support of the President and CEO and the Executive Committee for the launching of the first phase of Nebras project in August 2005. This phase comprises business processes and procedures of both the Human Resources and Finance business lines, due to their work processes being directly within the requirements of applying the Company's other operations which will be tackled in future phases.

The major motivating factors which encouraged the Company's Executive Committee to approve the Enterprise Resource Planning (ERP) are:

A Strategic Management Approach

ERP is considered an administrative strategy which guarantees implementation of management procedures based on the best international management methods and practices, and with what is compatible with the industry standards.

Focusing on the Main Processes

ERP systems spare the user company the trouble of developing the systems in order to bring the company to conform with its needs –existing or future requirements - through the updating and periodic development conducted by the manufacturers of these systems. Of course, this reduces the need for a larger workforce, especially in information technology. The manufacturing company plays the role of the establishment which uses these systems in determining the development requirements, which allows the organization to focus on its core activities.

Internationally Unified Work Procedures

Since ERP systems offer the best management practices, work procedures are thus integrated and documented. One can look them out on the system screens, sparing companies the trouble of having to document the work procedures, which requires a lot of time and money.

Securing Continuous Smooth Processes

Many companies rely on some selected employees to do specific tasks, and it is a known fact that resignation is one of the reasons which trouble the managers, especially when it is very difficult to find a replacement. ERP systems eliminate reliance on selected employees in the Company since the systems are easy to use; and are designed to simplify and enhance processes, performance and efficiency, and they also provide training to all employees - allowing them to carry out their work requirements.

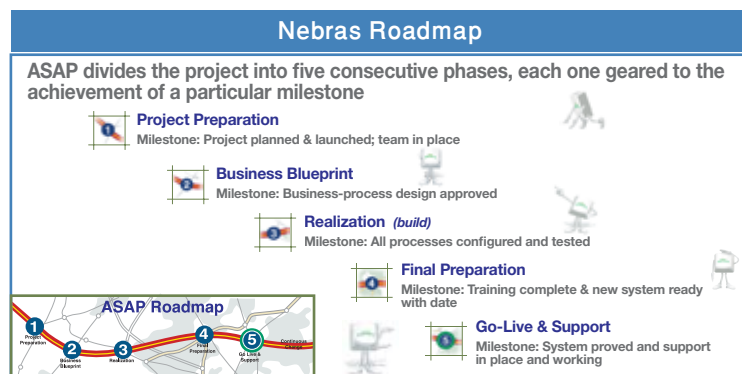
Providing Data and Information to Decision makers

One of the main characteristics of the ERP systems is their capacity to provide precise and relevant information to decision makers, with a possibility to go into the smallest details. These systems are equipped with strong monitoring systems which enhance the accuracy of information and data.

The first phase of Nebras Project started in the beginning of August 2005 and will last

21

months, during which the previous systems will be replaced with an integrated system Kingdomwide.



Phase-1 of Nebras Project focuses on fixing and improving the shared services in the following business functions:

- Human Resources
- Finance
- Work procedures relative to Human Resources and Finance
- User portals for Human Resources and Finance

This phase will last 21 months during which the previous systems in operating areas will be replaced by one system Kingdomwide. Also, it will ensure that the newly applied systems and action plans are based on the highest international expertise. By applying this system, the Company will be able to work better in terms of quality and competence in the targeted business functions.

For example: As regards Human Resources, the Nebras Project will organize the administration of employee relations, salaries, benefits, holidays, and other procedures. Numerous operations previously done manually will be implemented in an advanced automated manner. This will result in improved

service and quick response to management and to employees' needs. Concerning financial matters, this project will provide new solutions, appropriate and effective methods of controlling and managing various accounting processes.

As an important element of success for the Nebras Project and the new work methods it includes and which affect the company culture, and the requirements of the change process such as preparing all the Company's employees for these methods, a steering committee, a project manager and a specialized work team were formed to manage the implementation of the project with the counseling parties chosen to execute all the main tasks of Phase-1. Also, a lot of time and care were dedicated in choosing the regional coordinators and Nebras Project experts in work procedures. These members were chosen from among the employees in Finance and Human Resources business lines to make up the momentum of change intended through Nebras.

On the other hand, a communication strategy was set and reinforced with the creation of a character and an identity for the project, "Mr. Nebras", to help in the intensive awareness campaigns and to motivate employees in order to adopt the functions and relevant procedures of phase-1. All the project workshops will be equipped with all the available communication materials to allow the targeted employees in this phase to know about the activities and events of the project, and to encourage the employees to communicate with the project's team through numerous communication channels.

Nebras is one of the strategic initiatives of the Saudi Electricity Company which will integrate all business functions and management procedures into a single system.



The Added Value of Nebras

Adopting the best international practices will allow us to compete in an open market in the future. The immediate benefit for the Company is represented in the integration of internal procedures. All employees will feel this change as a result of the improved competence due to speed in carrying out work processes, elimination of redundant procedures, reduction in the use of paper forms, information availability...etc. All this will have a positive effect on the results of our works and applications, an improvement which our external customers will feel through our high standard and quality supply of services and products – in order to meet their requirements and expectations and enhance their satisfaction rate.

WHAT IS NEBRAS? ما هو نبراس؟

- Integrating four systems into one • دمج الأنظمة الأربعة الحالية في نظام واحد
- Driving efficiency • زيادة الفاعلية
- Ensuring integrity of data • التأكد من صحة البيانات
- Developing information security • تطوير إجراءات أمن المعلومات
- Improving customer service • تحسين خدمات العملاء
- Providing a single information source • توحيد مصادر المعلومات

Nebras will transform SEC نبراس نقلة للشركة السعودية للكهرباء

WHAT IS NEBRAS? ما هو نبراس؟

نبراس هو نظام جديد متكامل سيربط كافة أنظمتنا الأساسية وأنشطتنا الإدارية ببعضها البعض.

- Improved efficiency • كفاءة أفضل
- Enhanced capability • قدرة أعلى
- Superior customer service • خدمة عملاء أرقى

نبراس نقلة للشركة السعودية للكهرباء.

It is a new integrated system that will link all our core business and administrative activities together.

Nebras will transform SEC.

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS'
REPORT FOR THE YEARS ENDED
DECEMBER 31, 2005 & 2004**

Independent Auditors' Report

Balance Sheets

Statements of Income

**Statements of Changes in
Shareholders' Equity**

Statements of Cash Flows

**Notes to the Financial
Statements**



Dr. M. Al-Amri & Co.

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International)

Ahmed A. Bajnied & Co. B & Co.
Certified Public Accountant

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Riyadh 11642
Kingdom of Saudi Arabia



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, 2005 and 2004 and the related statements of income, changes in shareholders' equity and cash flows for the years then ended, including the related notes from 1 to 27. These financial statements are the responsibility of the Company's management and have been prepared in accordance with the provisions of Regulations for Companies and presented to us together with all the information and explanations which we required. Our responsibility is to express an opinion on these financial statements based on our audit.

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

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

- present fairly, in all material respects, the financial position of Saudi Electricity Company as of December 31, 2005 and 2004 and the results of its operations, changes in shareholder's equity and its cash flows for the years then ended in conformity with accounting principles generally accepted in Saudi Arabia.
- comply with the requirements of the Regulations for Companies and the Company's Articles of Association with respect to the preparation and presentation of financial statements.

For Dr. M. Al-Amri & Co.

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



For Ahmed A. Bajnied & Co.

Asaad Saleh Basudan
Certified Public Accountant
Registration No. 342



Muharram 27, 1427H
February 26, 2006G

Balance sheets

As of December 31			
Assets	Notes	2005 In SR thousand	2004 In SR thousand
Cash and cash equivalents	(3)	1,007,916	1,185,875
Consumers receivable and accrued revenue - net	(4)	22,750,051	19,349,198
Prepayment and other receivables - net	(5)	1,078,408	1,987,355
Inventories - net	(6)	3,654,403	3,564,705
Total Current Assets		28,490,778	26,087,133
Long-term investments	(7)	339,639	87,764
Construction in progress	(8)	13,211,241	8,542,433
Fixed assets - net	(9)	75,521,192	74,488,966
Total Non-current Assets		89,072,072	83,119,163
TOTAL ASSETS		117,562,850	109,206,296
LIABILITIES AND SHAREHOLDERS' EQUITY			
Bank overdrafts	(10)	-	200,456
Accounts payable	(11)	32,114,648	27,804,623
Accruals and other payables	(12)	1,176,700	1,222,296
Current portion of long-term loans	(14)	991,222	1,148,832
Total Current Liabilities		34,282,570	30,376,207
Non-current portion of long-term loans	(14)	7,349,395	4,831,214
End of service benefits		3,842,627	3,660,541
Deferred revenue - net	(15)	9,957,130	9,580,115
Consumers deposits		930,732	883,720
Total Non-current Liabilities		22,079,884	18,955,590
Government loan	(16)	14,938,060	14,552,136
Total Liabilities		71,300,514	63,883,933
Shareholders' Equity			
Share capital	(17)	41,665,938	41,665,938
Statutory reserve		597,926	449,622
General reserve	(18)	530,510	525,327
Retained earnings		3,467,962	2,681,476
Total Shareholders' Equity		46,262,336	45,322,363
Total Liabilities and Shareholders' Equity		117,562,850	109,206,296

The accompanying notes from No. (1) to No. (27) form an integral part of these financial statements.

Statements Of Income

For the years ended on December 31			
Operating Revenue	Notes	2005 In SR thousand	2004 In SR thousand
Electricity sales		17,429,591	16,320,524
Meter reading and maintenance and bill preparation tariff		660,372	637,219
Electrical service connection tariff		671,326	618,049
Total operating revenue		18,761,289	17,575,792
Operating Expenses			
Fuel		(4,573,978)	(4,171,344)
Purchased power		(1,151,615)	(952,047)
Operations and Maintenance	(19)	(5,766,420)	(5,399,635)
Depreciation	(9)	(5,623,944)	(5,591,586)
General and administrative expenses and provisions	(20)	(386,173)	(457,977)
Total operating expenses		(17,502,130)	(16,572,589)
Operating Income		1,259,159	1,003,203
Other income and expenses - net	(22)	266,901	338,785
Income before Zakat		1,526,060	1,341,988
Zakat	(13)	(43,018)	(42,356)
Net Income		1,483,042	1,299,632
Earning per share (in SR)	(23)	1.78	1.56

The accompanying notes from No. (1) to No. (27) form an integral part of these financial statements

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

For the Year Ended on Dec 31 2005	Paid-in Capital In SR thousand	Statutory Reserve In SR thousand	General Reserve In SR thousand	Retained Earnings In SR thousand	Total In SR thousand
Balance, January 1, 2005 as previously reported	41,665,938	462,766	525,327	2,799,773	45,453,804
Prior year adjustment (Note 26)	-	(13,144)	-	(118,297)	(131,441)
Balance, January 1, 2005 as restated	41,665,938	449,622	525,327	2,681,476	45,322,363
Dividends for 2004	-	-	-	(547,252)	(547,252)
Board of directors' remuneration for 2004	-	-	-	(1,000)	(1,000)
Consumers' Electricity Fund Collections	-	-	5,183	-	5,183
Net income for the year	-	-	-	1,483,042	1,483,042
Transfer to statutory reserve	-	148,304	-	(148,304)	-
Balance, end of the year	41,665,938	597,926	530,510	3,467,962	46,262,336

For the Year Ended on Dec 31 2004

Balance, January 1, 2004	41,665,938	319,659	213,668	2,060,058	44,259,323
Dividends for 2003	-	-	-	(547,251)	(547,251)
Board of directors' remuneration for 2003	-	-	-	(1,000)	(1,000)
Returns on Electricity Fee Fund	-	-	294,976	-	294,976
Consumers' Electricity Fund Collections	-	-	16,683	-	16,683
Net income for the year	-	-	-	1,299,632	1,299,632
Transfer to statutory reserve	-	129,963	-	(129,963)	-
Balance, end of the year	41,665,938	449,622	525,327	2,681,476	45,322,363

The accompanying notes from No. (1) to No. (27) form an integral part of these financial statements

STATEMENTS OF CASH FLOWS

For the Years Ended on December 31

	2005 In SR thousand	2004 In SR thousand
Cash flows from operating activities :		
Net Income	1,483,042	1,299,632
Adjustments to reconcile net income to net cash provided by operating activities :		
Allowance for doubtful receivables	144,022	191,454
Allowance for slow moving inventory	-	(112,964)
Loss (gain) from investments, net	712	(7,579)
Depreciation	5,623,944	5,591,586
(Gain) loss on disposal of fixed assets, net	(53,113)	(20,881)
Provision for end of service benefit	182,086	142,321
Electrical service connection tariff	377,015	650,392
Proceeds from customer deposits, net of refunds	47,012	52,937
Provision for zakat	43,018	42,356
(Increase) Decrease in operating assets :		
Consumers receivable and accrued revenue	(3,506,242)	(3,628,045)
Prepayments and other receivables	860,871	(1,304,496)
Inventories	(89,698)	(303,361)
Increase (Decrease) in operating liabilities :		
Accounts payable	4,705,392	5,451,107
Accruals and other payables	(118,306)	(213,373)
Net cash provided by operating activities :	9,699,755	7,831,086
Cash Flows from Investing Activities :		
Net (payments for) proceeds from investments	(252,587)	-
Fixed assets and construction-in-progress	(11,334,410)	(8,866,305)
Proceeds from disposal of fixed assets	62,545	34,938
Net cash used in investing activities :	(11,524,452)	(8,831,376)
Cash Flows from Financing Activities :		
Bank overdrafts	(200,456)	200,456
Net proceeds from (settlement of) bank loans	2,360,571	714,728
Dividends paid related to prior years	(513,377)	(511,114)
Net cash provided by financing activities	1,646,738	404,070
Net Decrease in Cash and Cash Equivalents	(177,959)	(596,211)
Cash and Cash Equivalents – Beginning of the year	1,185,875	1,782,086
Cash and Cash Equivalents – End of the Year	1,007,916	1,185,875
Non-cash flow from Government loan	385,924	-

The accompanying notes from No. (1) to No. (27) form an integral part of these financial statements

Notes to the financial statements for the year ended on December 31, 2005 and 2004

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, 1419 H corresponding to November 29, 1998. The resolution stipulated the reorganization and restructuring of the electricity energy sector in the Kingdom of Saudi Arabia (KSA) by merging all the former public Utility joint stock companies (10 public companies covering almost the whole Kingdom) and General Electricity Corporation projects (11 projects covering different areas in the northern region of the Kingdom) in Saudi Electricity Company.

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

Electricity Tariff: SEC is a tariff regulated electricity company. Electricity tariffs are determined by the Council of Ministers based on recommendations from the Saudi Electricity Regulatory Authority (SERA). SERA was established in November 2001 according to Resolution No. 169 dated 11 Sha'aban 1419H. The last change in tariff was made through the Council of Ministers Resolution No. 170 dated 12, Rajab 1421 to be effective from 1 Sha'aban, 1421. 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

Notes to the financial statements for the year ended on December 31, 2005 and 2004

2) Summary of Significant Accounting Policies

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

a- Accounting Estimates

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

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.

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. Dividends from such entities are recognized as income when declared.

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:

Notes to the financial statements for the year ended on December 31, 2005 and 2004

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 their consumption of electric power measured in Kilowatts/hours. Revenue from electricity consumed but not billed at the Balance Sheet date is accrued.

Revenue from meter reading, maintenance and bills preparation services represent the monthly fixed tariff based on the capacity of the meter used by the consumers, and is recognized when bills are issued.

Electrical service connection tariff received from consumers is deferred and recognized on a straight line basis over the average useful lives of the equipment used in serving the consumers, which is estimated to be 20 years.

k) Expenses

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

l) 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.

m) 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.

Notes to the financial statements for the year ended on December 31, 2005 and 2004

	As of December 31	
	2005	2004
	In SR thousand	In SR thousand
3) Cash and Cash Equivalents		
Cash on hand	1,918	347
Cash at banks	983,616	1,049,703
Short-term deposits	22,382	135,825
	1,007,916	1,185,875
4) Consumers Receivable and Accrued Revenue - Net		
Consumers Receivable		
Governmental	17,873,774	14,629,682
Saudi ARAMCO	426,625	675,573
Saline Water Conversion Corporation	712,358	624,013
Commercial and residential	2,961,177	2,812,459
VIPs	1,392,294	1,263,981
Connection fees receivable	199,080	114,344
Total	23,565,308	20,120,052
Less: Allowance for doubtful accounts	(1,578,609)	(1,465,627)
Net consumers receivable	21,986,699	18,654,425
Accrued revenues	763,352	694,773
	22,750,051	19,349,198
5) Prepayments and Other Receivables - Net		
Advances to suppliers and contractors	742,331	1,338,418
Prepaid expenses	9,908	4,732
Purchases on open letters of credit	270,064	429,925
Other	134,380	261,515
Total	1,156,683	2,034,590
Less: Allowance for doubtful debts	(78,275)	(47,235)
	1,078,408	1,987,355
6) Inventories - Net		
Generation plant materials and supplies	1,945,966	1,984,611
Transmission network materials and supplies	228,834	259,630
Distribution network materials and supplies	1,377,485	1,229,870
Fuel and oil	219,990	240,908
Others	159,128	126,686
Total	3,931,403	3,841,705
Less: Allowance for slow moving inventory	(277,000)	(277,000)
	3,654,403	3,564,705

Notes to the financial statements for the year ended on December 31, 2005 and 2004

7) Long Term Investments	In thousand Saudi Riyals				
	Balance on 01/01/2005	Additions during the year	Investment Profit (loss)	Dividends received	Balance on 31/12/2005
Gulf Cooperation Council Interconnection Authority (7a)	72,764	262,518	194	(10,331)	325,145
Water and Electricity Company (7b)	15,000	-	(906)	-	14,094
Al-Shuaiba Company for Water and Electricity (7c)	-	400	-	-	400
	87,764	262,918	(712)	(10,331)	339,639

7a. Gulf Cooperation Council Interconnection Authority

SEC has 31.6% ownership interest in the Gulf Cooperation Council Interconnection Authority (hereinafter referred to as "GCCIA") capital. This entity was established by the Gulf Cooperation Council "GCC" member countries to enhance the efficiency of electricity transmission and distribution within the member countries. SEC's ownership interest in GCCIA equals USD 347.6 million equivalent to SR 1,305 million of which 25% is paid as of December 2005 (2004: 5%).

The remaining balance of subscription will be paid based on dates to be specified by the Board of Directors of GCCIA. GCCIA has not released its 2005 financial statements as of the date of issuance of these financial statements.

7b. Water and Electricity Company

SEC in participation with Saline Water Conversion Corporation established an equally owned new limited liability company called Water and Electricity Company based on the Supreme Economic Council Decision no. 5/23 dated 23/3/1423, which includes encouragement of the private sector participation in water desalination projects. The participation of SR 15 million representing 300,000 shares which is 50% of the company's capital was fully paid. The 2005 financial statements of the company have not been issued as of the date of issuance of these financial statements.

7c. Al-Shuaiba Company for Water and Electricity

The company participated during the current year in establishing Al-Shuaiba Company for Water and Electricity (a joint stock company). The purpose of the company is to establish, develop, and operate Al-Shuaiba III project for the dual production of water and electricity. The company's share of the investment is SR. 400 thousand and is fully paid. The amount represents 8,000 shares which is 8% of the total capital. The commercial operations of the company are not yet commenced and no financial statements have been issued as of the date of issuance of these financial statements.

8) Construction-In-Progress	As of December 31	
	2005 In SR thousand	2004 In SR thousand
Power generation projects	4,890,297	2,647,793
Transmission projects	5,030,056	4,397,074
Distribution projects	2,676,857	1,131,974
General projects	614,031	365,592
	13,211,241	8,542,433

Net financing cost capitalized on projects under construction during the year amounted to SR 526 million (2004: SR 401 million).

Notes to the financial statements for the year ended on December 31, 2005 and 2004

9) Fixed Assets – Net

	Land	Buildings	Machinery & Equipment	Spare Parts	Vehicles	Others	Total
	SR thousand	SR thousand	SR thousand	SR thousand	SR thousand	SR thousand	SR thousand
Cost							
Balance on January 1st 2005	1,251,993	11,852,952	145,541,409	2,298,190	1,331,227	1,997,644	164,273,415
Reclassifications	(2,802)	2,797	180,284	-	3,261	(183,540)	-
Additions	39,828	86,304	6,441,118	13,429	38,296	51,866	6,670,841
Disposals	(35)	(21,469)	(168,004)	-	(92,212)	(303)	(282,023)
Balance on December 31st 2005	1,288,984	11,920,584	151,994,807	2,311,619	1,280,572	1,865,667	170,662,233
Accumulated Depreciation:							
Balance on January 1st 2005	-	(6,523,859)	(79,050,511)	(1,293,175)	(1,160,129)	(1,756,775)	(89,784,449)
Reclassifications	-	347	(205,209)	133	(1,381)	206,110	-
Depreciation for the year	-	(393,982)	(4,982,261)	(87,188)	(58,833)	(101,680)	(5,623,944)
Disposals	-	20,789	154,487	-	91,773	303	267,352
Balance on December 31st 2004	-	(6,896,705)	(84,083,494)	(1,380,230)	(1,128,570)	(1,652,042)	(95,141,041)
Net Book Value							
As of December 31, 2005	1,288,984	5,023,879	67,911,313	931,389	152,002	213,625	75,521,192
As of December 31, 2004	1,251,993	5,329,093	66,490,898	1,005,015	171,098	240,869	74,488,966

Net book value of fixed assets based on the Company's main activities at December 31, 2005 and 2004 were as follows:

Discription	In SR thousand					
	Generation	Transmission	Distribution	General Property	Total 2005	Total 2004
Land	244,235	576,375	226,292	242,082	1,288,984	1,251,993
Buildings	2,442,386	1,422,077	159,253	1,000,163	5,023,879	5,329,093
Machinery and equipment	21,871,476	25,262,228	20,393,897	383,712	67,911,313	66,490,898
Capital spare Parts	546,436	383,959	-	994	931,389	1,005,015
Vehicles	-	-	-	152,002	152,002	171,098
Other	23,130	21,116	11,487	157,892	213,625	240,869
Total	25,127,663	27,665,755	20,790,929	1,936,845	75,521,192	74,488,966

Notes to the financial statements for the year ended on December 31, 2005 and 2004

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

	2005	2004
	In SR thousand	In SR thousand
Generation	1,907,365	1,868,655
Transmission	1,675,751	1,583,149
Distribution	1,751,124	1,876,398
General property	289,704	263,384
	5,623,944	5,591,586

10) Bank – Overdrafts

The company has signed agreements with two local banks for overdraft facilities of SR 500 million each aggregating SR 1,000 million. These overdrafts are secured by notes payable. As of December 31, 2005 the overdrafts had no outstanding balance (2004: SR 200,456 thousand).

	2005	2004
	In SR thousand	In SR thousand
11) Accounts Payable		
Saudi ARAMCO for fuel cost	22,802,058	18,489,804
Saline Water Conversion Corporation for power purchased	4,590,953	3,869,901
Contractor payables and retentions	1,654,851	2,498,696
Supplier payables	1,273,473	942,383
Municipality fees	1,186,050	939,833
Advances received for construction of projects	261,316	197,825
Other	345,947	866,181
	32,114,648	27,804,623

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 Council of Ministers' Resolution 169 stipulated that if the need arose to change fuel prices used in determining electricity tariff, SERA 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 2005 is SR 2,651 million, and the cumulative amount from the date of Company's inception to December 31, 2005 is SR 14,296 million. Also, the company has another dispute with Aramco relating to crude oil handling fee amounting to SR 1,090 million as of December 31, 2005 (2004: SR 897 million). Based on the above mentioned Resolution, 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.

Notes to the financial statements for the year ended on December 31, 2005 and 2004

12) Accruals and Other Payables	As of December 31	
	2005 In SR thousand	2004 In SR thousand
Payroll accruals	262,664	217,553
Accrued expenses	169,487	333,719
Unclaimed dividends	303,743	269,868
Provision for Zakat (Note 13-b)	43,018	42,356
Other	397,788	358,800
	1,176,700	1,222,296

Unclaimed dividends include SR 103 million representing cash dividends declared by former SCECOs before 1414H and for 1419H and 1420H which have not been claimed by the shareholders (2004: SR 107 million).

13) Provision for Zakat	For the year ended 31, December	
	2005 In SR thousand	2004 In SR thousand
a- Calculation of Zakat Provision		
Adjusted net income computation		
Net Income before Zakat	1,526,060	1,473,429
Add: Zakat adjustments	194,667	220,811
Adjusted net income	1,720,727	1,694,240
Zakat base computation		
Share capital	41,665,938	41,665,938
Adjusted net income	1,720,727	1,694,240
Reserves	988,093	533,327
Retained earnings	2,251,521	1,511,807
Provisions	5,450,403	5,229,592
Long-term loans	8,340,406	5,980,046
Governmental loan	14,938,060	14,552,136
Contractor payables and retentions	1,654,851	2,498,696
Total	77,009,999	73,665,782
Less:		
Fixed assets and construction-in-progress	(75,289,272)	(71,971,542)
Long-term investments	(339,639)	(87,764)
Inventory of material and spare parts	(2,841,828)	(2,779,289)
Zakat Base - Negative	(1,460,740)	(1,172,813)
Zakat due at 2.5% of the adjusted net income	43,018	42,356

Notes to the financial statements for the year ended on December 31, 2005 and 2004

	As of December 31	
	2005 In SR thousand	2004 In SR thousand
b- Zakat Provision Movement		
Balance, beginning of the year	42,356	103,190
Zakat paid during the year	(42,356)	(49,281)
Adjustments during the year (13c)	-	(53,909)
Provision for the year (13a)	43,018	42,356
Balance, end of the year / period	43,018	42,356

c- Zakat Status

During 2004, the responsible government agency agreed to settle the amount of SR 1,313 million representing Zakat differences claimed by the Department of Zakat and Income Tax (DZIT) from the former SCECOs for the years up to 1420H (date of merger) against the government subsidy due to the said companies. As a result, an amount of SR 54 million representing the Zakat recorded in the accounts of former SCECOs was transferred from the zakat provision to the government clearance account. As of the date of issuing these financial statements, the company has not received a final clearance from the DZIT for the years up to 1420H.

The company has obtained its restricted Zakat certificate up to 2004. According to the final assessment received from the DZIT for the period from April 5, 2000 (merger date) to December 13, 2001 and for the year 2002, there are zakat differences of SR 13 million relating to amounts being claimed from Aramco for electricity consumption in their residential property based on the residential tariff rather than the industrial tariff which Aramco used for settlement. The management has not accrued any liability for this SR 13 million as it does not expect Aramco to pay the claimed amount, as the management believes that zakat should not be levied on unrecognized revenues which have not been accounted for in the accounting records. The company did not receive any reply from DZIT regarding its appeal against the above assessment. The final assessment for the year 2003 and 2004 has not been received till the date of issuing these financial statements.

	As of December 31	
	2005 In SR thousand	2004 In SR thousand
14) Long-term Loans		
Balance, beginning of the year	5,980,046	5,265,318
Received during the year	3,450,000	1,885,967
Paid during the year	(1,089,429)	(1,171,239)
Balance end of the year	8,340,617	5,980,046
Current portion of long-term loans	(991,222)	(1,148,832)
Non-current portion of long-term loans	7,349,395	4,831,214

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

	2005 In SR thousand	2004 In SR thousand
Between one and two years	741,114	932,030
Between two and three years	1,403,192	741,114
Between three and four years	1,239,130	1,111,525
Between four and five years	1,040,749	947,463
Beyond 5 years	2,925,210	1,099,082
	7,349,395	4,831,214

Notes to the financial statements for the year ended on December 31, 2005 and 2004

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

The unutilized portion of the above mentioned loans as of December 31, 2005 amounted to SR 4,518 million (2004: SR 4,468 million).

15) Deferred Revenue - Net	As of December 31	
	2005 In SR thousand	2004 In SR thousand
Electrical service connection tariff		
Balance at the beginning of the year	9,580,115	8,929,723
Proceeds during the year	1,048,341	1,268,441
Revenues for the year	(671,326)	(618,049)
	9,957,130	9,580,115

16) Government Loan

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

The minutes of the meeting held on 21/7/1422H between the Minister of Industry and Electricity and the Minister of Finance, in which the initial amount of the government loan was determined, included that the final settlement of government accounts will be subject to the reconciliation of invoices between the company and certain government entities, and the loan amount shall be adjusted accordingly. During the current year, the company has finalized the settlement and the result was an amount of SR. 385,924 thousand in favor of the government entities. The final loan amount was agreed at SR 14,938,060 thousand in a meeting held on 15/07/1426 between the Ministers of Water and Electricity, and Finance. The minutes of the above meeting were signed by both parties.

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

Notes to the financial statements for the year ended on December 31, 2005 and 2004

17) Share Capital

The share capital of the Company is SR 41,665,938,150 consists of 833,318,763 shares with a par value of SR 50 each. The amount comprises of the following:

	In SR thousand
Share capital of merging companies as at 29/12/1420H	23,153,387
Undistributed earnings of merging companies for the period from 1414H to 1418H	1,340,717
Proceeds for Electricity Fee Fund from its inception till 31/12/2001	12,618,340
Net assets of General Electricity Corporation Projects	1,175,327
Capitalization of amounts collected for Government Electricity Fee Fund after 31/12/2001	3,378,167
	41,665,938
The above-mentioned capital is owned by the following:	
	<div><div>Number of Shares</div><div>Ownership Percentage</div></div>
Government	<div>619,235,06474.31</div>
Saudi ARAMCO	<div>57,726,0846.93</div>
Other Shareholders	<div>156,357,61518.76</div>
	<div>833,318,763100</div>

18) General Reserve

General reserve represents the balances in reserves that were recorded in the books of the merging companies at the merger date amounting to SR 213,668 thousand and the returns on investing the Electricity Fee Fund amounting to SR 294,976 thousand.

In addition, the general reserve as of December 31, 2005 also includes SR 21,866 thousand (2004: SR 16,683 thousand) collected from individuals pertaining to the Electricity fund after December 31, 2001. Accordingly, the balance in general reserve become SR 530,510 thousand as of December 31, 2005 (2004: SR 525,327 thousand).

19) Operating and Maintenance Expenses

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

	2005 In SR thousand				2004 In SR thousand
	Generation	Transmission	Distribution	Total	Total
Employees expenses and benefits	1,146,330	620,502	1,761,192	3,528,024	3,136,657
Materials	684,000	59,071	161,882	904,953	1,018,028
Municipality fees	-	-	251,634	251,634	217,159
Other	570,713	99,574	411,522	1,081,809	1,027,791
Total	2,401,043	779,147	2,586,230	5,766,420	5,399,635

Notes to the financial statements for the year ended on December 31, 2005 and 2004

20) General and Administrative Expenses and Provisions

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

	2005 In SR thousand	2004 In SR thousand
Employees expenses and benefits	140,367	148,894
General and administrative expenses	1,469	15,850
Allowances for doubtful accounts	112,131	191,454
Allowance for slow moving inventory	132,206	101,779
	386,173	457,977

21) Board of Directors Remuneration and Allowances

Costs and allowances relating to attending the board of directors, and other subcommittee meetings for the year amounted to SR 465 thousand (2004: SR 547 thousand).

The Board of Directors' remuneration of SR 1.1 million is due from profit after distribution of dividends of 5% to the Other Shareholders on the share capital held by them (Note 17 and 23). The remuneration is subject to the approval of the General Assembly (2004: SR 1 million).

22) Other Income and Expenses – Net

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

	2005 In SR thousand	2004 In SR thousand
(Loss) income from long-term investments	(712)	7,579
Gain (loss) disposal of fixed assets	53,113	20,881
Reversal of allowances and accruals	77,400	138,221
Reconnection fees	34,844	34,413
Penalties	64,701	27,804
Sales of tender documents	15,765	18,250
Other income and expenses - Net	21,790	91,637
	266,901	338,785

23) Proposed Dividend and Earnings per Share (EPS)

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

Notes to the financial statements for the year ended on December 31, 2005 and 2004

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 31/12/2004 amounted to SR 725 million. SEC believes that Aramco is not entitled to cash dividends being a government entity fully owned by the government, and that the above mentioned Resolution No. 169 applies to Aramco.

The Board of Directors, in their meeting held on 04/03/2006 has proposed a subject to the approval of the General Assembly, a dividend distribution for the year 2005 to other shareholders amounting to SR 547 million (2004: SR 547 million) in cash at SR 3.5 per share, representing 7% of the par value of the shares.

Earning per share was calculated using the total number of shares outstanding at December 31, 2005 of 833,318,763, including the government and Saudi Aramco shares (Note 17).

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 13,806 million at the balance sheet date (2004: SR 15,823 million). The expected time to fulfill such commitments is between one to three years.

In addition, SEC has a commitment for SR 979 million representing the remaining balance of its investment in GCCIA (Note 7a).

b) Contingencies

SEC has outstanding letters of credit amounting to SR 146 million (2004: SR 187 million) as of balance sheet date.

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

The company has a dispute with one of its energy vendors which it started dealing with in late 2004. The dispute is related to the purchasing price for the Kilowatts/hours. The total difference between the amount accepted by the company and the amount billed by the vendor amounted to SR 71 million as of December 31, 2005. Management believes that the amount billed is overstated since there is no binding agreement, and therefore did not account for it in its books.

25) Related Party Transactions

SEC provides electricity power and connections to governmental agencies, ministries and Saudi Aramco. The rates used to charge related parties are the rates approved by the Council of Ministers which are similar to the rates applied to other Consumers, except for the rates used for Saline Water Conversion Corporation (SWCC) which are in accordance with a Government resolution, and except for residential property of Saudi Aramco. The Company believes that residential properties of Aramco fall under commercial tariff while Saudi Aramco is rejecting this and pays for electricity sales for all these properties based on industrial tariff. As a result of this, a difference of SR 157 million for the current year was identified and a cumulative difference of SR 993 million since the Company's inception to December 31, 2005 which has not been reflected in the accompanying financial statements. This issue is still under discussion between both companies. In addition, SEC purchases fuel from Aramco and electric power from Saline Water Conversion Corporation, based on prices set by governmental resolutions. Also, fees are paid to the municipalities based on electricity revenues.

Notes to the financial statements for the year ended on December 31, 2005 and 2004

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

	2005 In SR thousand	2004 In SR thousand
Sales		
Government	4,703,358	4,539,853
Saudi ARAMCO	1,788,779	1,943,317
Saline Water Conversion Corporation	80,044	93,508
	6,572,181	6,576,678
Expenses and other		
Saudi ARAMCO	4,396,604	4,225,902
Saline Water Conversion Corporation	739,227	842,235
Municipalities fees	251,634	217,159
	5,387,465	5,285,296

26) Prior Year Adjustment

Prior year adjustment represents a correction of meters reading for the consumption of a major consumer has been recognized as revenue in 2004. The total amount of the adjustment is SR. 131,441 thousand which reduced 2004 net income from SR. 1,431,073 thousand to SR. 1,299,632 thousand.

27) Comparative Figures

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