

## **FINANCIAL STATEMENTS AND AUDITORS' REPORT FOR THE YEAR ENDED DECEMBER 31, 2007**

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## AUDITORS' REPORT

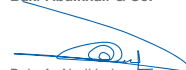
To the shareholders  
**Saudi Electricity Company**  
 (A Saudi Joint Stock Company)  
 Riyadh, Kingdom of Saudi Arabia

We have audited the accompanying balance sheet of **Saudi Electricity Company** (a Saudi joint stock company) as of December 31, 2007, and the related statements of income, cash flows and changes in shareholders' equity for the year then ended, and notes 1 to 30 which form an integral part of these financial statements as prepared by the Company in accordance with Article 123 of the Regulations for Companies and presented to us with all the necessary information and explanations. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above, present fairly, in all material respects, the financial position of the Company as of December 31, 2007, and the results of its operations and its cash flows for the year then ended in conformity with generally accepted accounting standards appropriate to the nature of the Company, and comply with the relevant provisions of the Regulations for Companies and the articles of the Company as these relate to the preparation and presentation of these financial statements.

**Deloitte & Touche**  
**Bakr Abulkhair & Co.**



Bakr A. Abulkhair  
 License No. 101  
 Safr 12, 1429  
 February 19, 2008



## Balance Sheet

As of December 31, 2007

| In SR thousand  | Notes | 2007               | 2006               |
|---|-------|--------------------|--------------------|
| <b>ASSETS</b>   |       |                    |                    |
| <b>Current Assets</b>   |       |                    |                    |
| Cash and cash equivalents                                       | 3     | 5,589,304          | 4,200,669          |
| Receivables from electricity consumers and accrued revenue, net | 4     | 13,424,736         | 10,541,391         |
| Prepayments and other receivables, net                          | 5     | 1,719,272          | 1,580,227          |
| Inventories, net  | 6     | 6,587,084          | 4,695,973          |
| <b>Total Current Assets</b>                                     |       | <b>27,320,396</b>  | <b>21,018,260</b>  |
| <b>Non-Current Assets</b>                                       |       |                    |                    |
| Receivables from electricity consumers                          | 4     | 4,825,000          | 11,125,000         |
| Equity investments in companies and others                      | 7     | 1,659,595          | 748,063            |
| Construction work in progress                                   | 8     | 15,050,529         | 13,674,707         |
| Fixed assets, net   | 9     | 87,654,690         | 80,642,235         |
| <b>Total Non-Current Assets</b>                                 |       | <b>109,189,814</b> | <b>106,190,005</b> |
| <b>TOTAL ASSETS</b>   |       | <b>136,510,210</b> | <b>127,208,265</b> |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>                     |       |                    |                    |
| <b>Current Liabilities</b>                                      |       |                    |                    |
| Accounts payable  | 10    | 32,201,873         | 25,348,879         |
| Accruals and other payables                                     | 11    | 1,494,488          | 1,250,130          |
| Current portion of long-term loans                              | 13    | 979,300            | 741,114            |
| <b>Total Current Liabilities</b>                                |       | <b>34,675,661</b>  | <b>27,340,123</b>  |
| <b>Non-Current Liabilities</b>                                  |       |                    |                    |
| Long-term loans   | 13    | 3,846,118          | 9,015,415          |
| Sukuk   | 15    | 5,000,000          | -                  |
| End-of-service indemnities                                      |       | 4,008,747          | 3,973,971          |
| Deferred revenue, net   | 17    | 11,574,810         | 10,533,997         |
| Customers' refundable deposits                                  |       | 1,036,738          | 982,217            |
| Long-term Government payables                                   | 10    | 13,295,613         | 13,295,613         |
| Government loan   | 18    | 14,938,060         | 14,938,060         |
| <b>Total Non-Current Liabilities</b>                            |       | <b>53,700,086</b>  | <b>52,739,273</b>  |
| <b>Total Liabilities</b>  |       | <b>88,375,747</b>  | <b>80,079,396</b>  |
| <b>Shareholders' Equity</b>                                     |       |                    |                    |
| Share capital   | 19    | 41,665,938         | 41,665,938         |
| Statutory reserve   |       | 894,598            | 739,309            |
| General reserve   | 20    | 532,418            | 531,563            |
| Retained earnings   |       | 5,041,509          | 4,192,059          |
| <b>Total Shareholders' Equity</b>                               |       | <b>48,134,463</b>  | <b>47,128,869</b>  |
| <b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>               |       | <b>136,510,210</b> | <b>127,208,265</b> |

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

## Statement of Income

For the Year Ended December 31, 2007

In SR Thousand

|   | Notes | 2007                | 2006                |
|---|-------|---------------------|---------------------|
| <b>Operating Revenues</b>                               |       |                     |                     |
| Electricity sales                                       |       | 19,463,327          | 18,284,878          |
| Meter reading, maintenance and bills preparation tariff |       | 722,994             | 707,997             |
| Electricity connection tariff                           | 17    | 793,131             | 713,782             |
| <b>Total Operating Revenues</b>                         |       | <b>20,979,452</b>   | <b>19,706,657</b>   |
| <b>Operating Expenses</b>                               |       |                     |                     |
| Fuel expenses   |       | (4,937,677)         | (4,758,872)         |
| Purchased energy  |       | (1,370,984)         | (1,195,470)         |
| Operations and maintenance                              | 21    | (6,760,312)         | (6,349,688)         |
| Depreciation  | 9     | (6,371,536)         | (6,065,179)         |
| General and administrative expenses                     | 22    | (284,173)           | (182,874)           |
| <b>Total Operating Expenses</b>                         |       | <b>(19,724,682)</b> | <b>(18,552,083)</b> |
| <b>Operating Income</b>                                 |       | <b>1,254,770</b>    | <b>1,154,574</b>    |
| Other income and expenses, net                          | 23    | 338,798             | 259,258             |
| <b>Net income before zakat</b>                          |       | <b>1,593,568</b>    | <b>1,413,832</b>    |
| Deferred zakat expenses                                 | 12    | (40,677)            | -                   |
| <b>NET INCOME FOR THE YEAR</b>                          |       | <b>1,552,891</b>    | <b>1,413,832</b>    |
| <b>Earnings Per Share (SR)</b>                          |       | <b>0,37</b>         | <b>0,34</b>         |

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

## Statement of Cash Flows

For the Year Ended December 31, 2007

In SR thousand

|  | 2007                | 2006                |
|--|---------------------|---------------------|
| <b>OPERATING ACTIVITIES</b>  |                     |                     |
| Net income before zakat  | 1,593,568           | 1,413,832           |
| <b>Adjustments to reconcile net income to net cash provided by operating activities:</b> |                     |                     |
| Provision for doubtful receivables   | 74,559              | 225,614             |
| Provision for slow-moving inventory  | (65,760)            | (21,982)            |
| Company's share in net income of investee companies                                      | (11,344)            | 1,199               |
| Depreciation   | 6,371,536           | 6,065,179           |
| Gain on sale of fixed assets, net  | (128,778)           | (35,133)            |
| End-of-service indemnities, net  | 34,776              | 131,344             |
| Deferred revenues, net   | 1,040,813           | 576,867             |
| <b>(Increase) decrease in operating assets and liabilities:</b>                          |                     |                     |
| Receivables from electricity consumers and accrued revenue                               | 3,342,951           | 859,669             |
| Prepayments and other receivables  | (139,045)           | (503,442)           |
| Inventories  | (1,825,351)         | (1,019,588)         |
| Accounts payable   | 6,852,994           | 6,529,844           |
| Accruals and other payables  | 250,364             | 47,362              |
| Net proceeds and refunds from customers' refundable deposits                             | 54,521              | 51,485              |
| <b>Net cash from operating activities</b>  | <b>17,445,804</b>   | <b>14,322,250</b>   |
| <b>INVESTING ACTIVITIES</b>  |                     |                     |
| Equity investments in companies and others   | (900,188)           | (413,519)           |
| Dividend received from investments   | -                   | 3,896               |
| Fixed assets and construction work in progress   | (14,778,115)        | (11,668,285)        |
| Proceeds from sale of fixed assets   | 147,080             | 53,730              |
| <b>Net cash used in investing activities</b>   | <b>(15,531,223)</b> | <b>(12,024,178)</b> |
| <b>FINANCIAL ACTIVITIES</b>  |                     |                     |
| Sukuk  | 5,000,000           | -                   |
| Net proceeds (repayment) of long-term loans  | (4,931,111)         | 1,415,912           |
| Dividends paid to shareholders and Board of Directors' remuneration                      | (594,835)           | (521,231)           |
| <b>Net cash (used in) from financing activities</b>                                      | <b>(525,946)</b>    | <b>894,681</b>      |
| <b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>   | <b>1,388,635</b>    | <b>3,192,753</b>    |
| Cash and cash equivalents beginning of the year  | 4,200,669           | 1,007,916           |
| <b>CASH AND CASH EQUIVALENTS, END OF THE YEAR</b>  | <b>5,589,304</b>    | <b>4,200,669</b>    |

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

## Statement of Changes in Shareholders' Equity

For the Year Ended December 31, 2007

In SR Thousand

|  | Notes | Share<br>Capital | Statutory<br>Reserve | General<br>Reserve | Retained<br>Earnings | Total      |
|--|-------|------------------|----------------------|--------------------|----------------------|------------|
| Balance, January 1, 2006                     |       | 41,665,938       | 597,926              | 530,510            | 3,467,962            | 46,262,336 |
| Net income for the year                      |       | -                | -                    | -                  | 1,413,832            | 1,413,832  |
| Dividends for 2005                           | 24    | -                | -                    | -                  | (547,252)            | (547,252)  |
| Board of directors'                          |       |                  |                      |                    |                      |            |
| Remuneration for 2005                        | 25    | -                | -                    | -                  | (1,100)              | (1,100)    |
| Electricity fee collections<br>(individuals) | 20    | -                | -                    | 1,053              | -                    | 1,053      |
| Transfer to statutory reserve                |       | -                | 141,383              | -                  | (141,383)            | -          |
| Balance, December 31, 2006                   |       | 41,665,938       | 739,309              | 531,563            | 4,192,059            | 47,128,869 |
| Net income for the year                      |       | -                | -                    | -                  | 1,552,891            | 1,552,891  |
| Dividends for 2006                           | 24    | -                | -                    | -                  | (547,252)            | (547,252)  |
| Board of directors'                          |       |                  |                      |                    |                      |            |
| Remuneration for 2006                        | 25    | -                | -                    | -                  | (900)                | (900)      |
| Transfer to statutory reserve                |       | -                | 155,289              | -                  | (155,289)            | -          |
| Electricity fee collections<br>(individuals) | 20    | -                | -                    | 855                | -                    | 855        |
| Balance, December 31, 2007                   |       | 41,665,938       | 894,598              | 532,418            | 5,041,509            | 48,134,463 |

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



## 1. ORGANIZATION AND ACTIVITIES

The Saudi Electricity Company "the Company" was formed pursuant to the Council of Ministers; Resolution Number 169 dated Sha'ban 11, 1419H (corresponding to November 29, 1998), which reorganized the electricity sector in the Kingdom of Saudi Arabia by merging the majority of the local companies that provided electricity power services (10 joint stock companies, that covered most of the geographical areas of the Kingdom), in addition to the projects of the General Electricity Corporation, a governmental corporation related to the Ministry of Industry and Electricity (11 operating projects, that covered various areas in the north of the Kingdom) in Saudi Electricity Company.

The Company was founded pursuant to the Royal Decree No. M/16 dated Ramadan 6, 1420H corresponding to December 13, 1999, in accordance with the Council of Ministers' Resolution Number 153, dated Ramadan 5, 1420H., corresponding to December 12, 1999, and the Minister of Commerce Resolution Number 4027, dated Dhu Al Hijjah 30, 1420H., corresponding to April 5, 2000 and registered under Commercial Registration Number 1010158683, dated Muharram 28, 1421 H., corresponding to May 3, 2000 in Riyadh.

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

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

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

According to the Company's Article of Association, the Company's financial year begins on January 1, and ends on December 31, of every calendar year.

The accompanying financial statements include Sukuk Electricity Company accounts "a wholly owned limited liability company" registered under Commercial Registration Number 1010233775 dated Jumad Al-Awal 16, 1428 H., corresponding to June 2, 2007.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements have been prepared in accordance with the Standard of General Presentation and Disclosure issued by the Ministry of Commerce and in compliance with the accounting standards issued by the Saudi Organization for Certified Public Accountants.

The following is a summary of significant accounting policies applied by the Company:

**Accounting Convention**

The financial statements are prepared under the historical cost convention.

**Accounting Estimates**

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

**Cash and Cash Equivalents**

Cash and cash equivalents include cash on hand and at banks and time deposits, with original maturities of three months or less.

**Electricity Consumers Receivables**

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

**Inventories**

Inventory items of generators, transmission and distribution materials, supplies and fuel are stated at weighted average cost basis, net of provision for slow moving and obsolete items.

Inventory items that are considered an integral part of the generation plant, transmission and distribution networks, and general property such as strategic and stand-by spare parts, are included in fixed assets.

**Investments in Companies' Equity and Other**

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

Investments of less than 20% owned for which there is no readily available market are stated at cost. Revenue is recognized from these investment upon declaration of dividends by the investee companies.

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

**Fixed Assets**

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

|   | <u>Year</u> |
|---|-------------|
| Generation plant, equipment and spare parts     | 20 to 25    |
| Transmission network, equipment and spare parts | 20 to 30    |
| Distribution network, equipment and spare parts | 15 to 25    |
| Buildings                                       | 20 to 30    |
| Other assets                                    | 4 to 20     |

**Impairment**

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

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. Impairment losses are recognized as an expense immediately.

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

**Capitalization of Borrowing Costs**

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

**End-of-Service Indemnities**

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

**Zakat**

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

**Revenues**

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

**Expenses**

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

**Statutory Reserve**

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

**Foreign Currency Transactions**

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

## 3. CASH AND CASH EQUIVALENTS

|                     | In SR thousand |           |
|---------------------|----------------|-----------|
|                     | 2007           | 2006      |
| Cash on hand        | 2,695          | 1,638     |
| Cash at banks       | 428,588        | 177,990   |
| Short-term deposits | 5,158,021      | 4,021,041 |
|                     | 5,589,304      | 4,200,669 |

## 4. RECEIVABLES FROM ELECTRICITY CONSUMERS AND ACCRUED REVENUE, NET

|   | In SR thousand    |                   |
|---|-------------------|-------------------|
|   | 2007              | 2006              |
| <b>Electricity Consumers Receivable</b>               |                   |                   |
| Governmental institutions                             | 12,698,672        | 16,439,149        |
| Non-current portion of Governmental institutions (4a) | (4,825,000)       | (11,125,000)      |
| Current portion of Governmental Institutions          | 7,873,672         | 5,314,149         |
| Commercial and residential                            | 2,797,830         | 2,724,021         |
| Special customers                                     | 1,686,602         | 1,549,295         |
| Saudi Aramco (Notes 26 & 28)                          | 1,071,019         | 747,124           |
| Saline Water Conversion Corporation                   | 557,900           | 814,811           |
| Electricity connection receivables                    | 394,088           | 284,735           |
| Total electricity consumers receivable                | 14,381,111        | 11,434,135        |
| <b>Less:</b> Provision for doubtful receivables (4b)  | (1,878,782)       | (1,804,223)       |
| <b>Net Electricity Consumers' Receivable</b>          | <b>12,502,329</b> | <b>9,629,912</b>  |
| Accrued revenues                                      | 922,407           | 911,479           |
| <b>Total</b>  | <b>13,424,736</b> | <b>10,541,391</b> |

4 a) Receivables from Governmental institutions for the period from 5/4/2000 to 31/12/2005, has been agreed to be settled over a period of three years effective 2007 and has been classified to consumer receivables due within one year under current assets, while the remaining balance has been classified as non-current consumers receivables.

4 b) Movements in the provision for doubtful receivables during the year is as follows:

|                      | In SR thousand |           |
|----------------------|----------------|-----------|
|                      | 2007           | 2006      |
| Balance, January 1   | 1,804,223      | 1,578,609 |
| Charge for the year  | 74,559         | 225,614   |
| Balance, December 31 | 1,878,782      | 1,804,223 |

## 5. PREPAYMENTS AND OTHER RECEIVABLES, NET

|   | In SR Thousand   |                  |
|---|------------------|------------------|
|   | 2007             | 2006             |
| Advances to suppliers and contractors     | 1,039,183        | 1,304,923        |
| Outstanding letters of credit             | 447,141          | 208,393          |
| Prepaid expenses                          | 25,412           | 27,813           |
| Other                                     | 288,730          | 118,996          |
| <b>Total</b>                              | <b>1,800,466</b> | <b>1,660,125</b> |
| <b>Less: Provision for doubtful debts</b> | <b>(81,194)</b>  | <b>(79,898)</b>  |
|   | <b>1,719,272</b> | <b>1,580,227</b> |

## 6. INVENTORIES, NET

|  | In SR Thousand   |                  |
|--|------------------|------------------|
|  | 2007             | 2006             |
| Distribution network materials and supplies        | 3,540,919        | 2,120,978        |
| Generation plant materials and supplies            | 2,532,444        | 2,217,004        |
| Transmission network materials and supplies        | 313,224          | 236,701          |
| Fuel and oil                                       | 215,650          | 223,320          |
| Others   | 174,105          | 152,988          |
| <b>Total</b>                                       | <b>6,776,342</b> | <b>4,950,991</b> |
| <b>Less: Provision for slow moving inventories</b> | <b>(189,258)</b> | <b>(255,018)</b> |
|  | <b>6,587,084</b> | <b>4,695,973</b> |

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

|                            | In SR Thousand |          |
|----------------------------|----------------|----------|
|                            | 2007           | 2006     |
| Balance, January 1         | 255,018        | 277,000  |
| Write offs during the year | (65,760)       | (21,982) |
| Balance, December 31       | 189,258        | 255,018  |

## 7. EQUITY INVESTMENTS IN COMPANIES AND OTHERS

|   | In SR Thousand |         |
|---|----------------|---------|
|   | 2007           | 2006    |
| Investments accounted for under the equity method (a) | 1,415,318      | 746,663 |
| Other investment, at cost (b)                         | 1,210          | 1,400   |
| Held to maturity investments (c)                      | 243,067        | -       |
|   | 1,659,595      | 748,063 |

**a) Investment accounted for under the equity method.**

|  | Shareholding | In SR Thousand |         |
|--|--------------|----------------|---------|
|  | %            | 2007           | 2006    |
| Gulf Cooperation Council Interconnection Authority (a-1) | 31,60        | 1,403,382      | 735,727 |
| Water Electricity Company (a-2)                          | 50           | 10,936         | 10,936  |
| Rass Al Zoor Water and Electricity Company (a-3)         | 20           | 1,000          | -       |
| Total investments accounts for under the equity method   |              | 1,415,318      | 746,663 |

**a 1) Gulf Cooperation Council Interconnection Authority**

The Company has participated in the capital of the Gulf Cooperation Council Interconnection Authority (hereafter referred to as "GCCIA") by 31.6% to enhance the electricity transmission and distribution between the member countries. The Company's participation in GCCIA amounted to USD 347.6 million, equivalent to SR 1,305 million. The company has paid on account of the above investment an amount of USD 372 million, equivalent of SR 1,396 million, and has requested to increase its share in the capital of GCCIA with the excess amount paid. As of the report date of the accompanying financial statements, the financial statements of the Company for the year 2007 have not been issued.

**a 2) Water and Electricity Company**

The Company entered into a partnership agreement with Saline Water Conversion Corporation to establish a jointly owned limited liability company in the name of Water and Electricity Company pursuant to the Supreme Economic Council's decision No. 5/23 dated 23/3/1423, for the encouragement of the private sector in the participation in water desalination projects. The Company's share amounting to SR 15 million was paid in full and represented 300,000 shares (50% of the capital). As of the report date of the accompanying financial statements, the financial statements of the Company for the year 2007 have not been issued.

**a 3) Rass Al Zoor Water and Electricity Company**

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

**b) Other investment, at cost.**

|  | Shareholding | In SR Thousand |       |
|--|--------------|----------------|-------|
|  | %            | 2007           | 2006  |
| Al-Shuaiba Water and Electricity Company | 8            | 400            | 400   |
| Al-Shuqaiq Water and Electricity Company | 8            | 400            | 1,000 |
| Al-Jubail Water and Electricity Company  | 5            | 250            | -     |
| Al-Shuaba Holding Company                | 8            | 160            | -     |
| Total other investments, at cost         |              | 1,210          | 1,400 |

**c) Held to maturity investments**

|  | In SR Thousand |      |
|--|----------------|------|
|  | 2007           | 2006 |
| Saudi Sabc Industries Corporation Sukuk  | 150,000        | -    |
| Ras Al-Khimah Investment Authority Sukuk | 93,067         | -    |
| Total held to maturity investments       | 243,067        | -    |

**d) Share in net income (loss) of investees accounted for under equity method.**

|  | In SR Thousand |         |
|--|----------------|---------|
|  | 2007           | 2006    |
| Gulf Cooperation Council Interconnection Authority (Note 23) | 11,344         | 1,959   |
| Water and Electricity Company                                | —              | (3,158) |
|  | 11,344         | (1,199) |

**8. CONSTRUCTION WORK IN PROGRESS**

|                           | In SR Thousand |            |
|---------------------------|----------------|------------|
|                           | 2007           | 2006       |
| Transmission projects     | 6,549,777      | 4,820,604  |
| Power generation projects | 4,403,073      | 5,825,028  |
| Distribution projects     | 3,691,284      | 2,499,251  |
| General projects          | 406,395        | 529,824    |
|                           | 15,050,529     | 13,674,707 |

Net financing cost capitalized on projects under construction during the year amounted to SR 634 million (2006: SR 691 million).



## 9. FIXED ASSETS, NET

|                                  | Land             | Buildings         | Machinery & Equipment | Capital Spare Parts | Vehicles and Heavy Equipment | Others           | Total              |
|----------------------------------|------------------|-------------------|-----------------------|---------------------|------------------------------|------------------|--------------------|
| In SR Thousand                   |                  |                   |                       |                     |                              |                  |                    |
| <b>Cost:</b>                     |                  |                   |                       |                     |                              |                  |                    |
| January 1, 2007                  | 1,329,129        | 12,355,668        | 162,774,141           | 2,394,648           | 1,185,226                    | 1,597,038        | 181,635,850        |
| Additions                        | <b>80,970</b>    | <b>605,521</b>    | <b>10,818,072</b>     | <b>50,490</b>       | <b>32,568</b>                | <b>1,814,672</b> | <b>13,402,293</b>  |
| Disposals                        | -                | (18,717)          | (255,084)             | (7,384)             | (148,508)                    | (9,122)          | (438,815)          |
| December 31, 2007                | <b>1,410,099</b> | <b>12,942,472</b> | <b>173,337,129</b>    | <b>2,437,754</b>    | <b>1,069,286</b>             | <b>3,402,588</b> | <b>194,599,328</b> |
| <b>Accumulated Depreciation:</b> |                  |                   |                       |                     |                              |                  |                    |
| January 1, 2007                  | -                | 7,313,585         | 90,066,028            | 1,470,832           | 1,049,424                    | 1,093,746        | 100,993,615        |
| Charged for the year             | -                | <b>513,609</b>    | <b>5,539,613</b>      | <b>80,784</b>       | <b>48,970</b>                | <b>188,560</b>   | <b>6,371,536</b>   |
| Disposals                        | -                | (16,578)          | (239,347)             | (7,384)             | (148,273)                    | (8,931)          | (420,513)          |
| December 31, 2007                | -                | <b>7,810,616</b>  | <b>95,366,294</b>     | <b>1,544,232</b>    | <b>950,121</b>               | <b>1,273,375</b> | <b>106,944,638</b> |
| <b>Net Book Value:</b>           |                  |                   |                       |                     |                              |                  |                    |
| December 31, 2007                | 1,410,099        | 5,131,856         | 77,970,835            | 893,522             | 119,165                      | 2,129,213        | 87,654,690         |
| December 31, 2006                | <b>1,329,129</b> | <b>5,042,083</b>  | <b>72,708,113</b>     | <b>923,816</b>      | <b>135,802</b>               | <b>503,292</b>   | <b>80,642,235</b>  |

The land referred to above includes plots of land with a book value of SR 151 million the title deed of which is currently not in the name of the Company. The legal formalities to transfer the title deed of the land to the Company's name is in process.

Net book value of fixed assets based on the Company's main activities as of December 31, 2007 was as follows:

|                       | 2007              |                   |                   |                  |                   | 2006              |
|-----------------------|-------------------|-------------------|-------------------|------------------|-------------------|-------------------|
|                       | Generation        | Transmission      | Distribution      | General Property | Total             | Total             |
| Land                  | <b>246,567</b>    | <b>600,482</b>    | <b>226,292</b>    | <b>336,758</b>   | <b>1,410,099</b>  | 1,329,129         |
| Buildings             | <b>2,540,870</b>  | <b>1,491,195</b>  | <b>149,916</b>    | <b>949,875</b>   | <b>5,131,856</b>  | 5,042,083         |
| Machinery & equipment | <b>26,617,107</b> | <b>26,992,022</b> | <b>23,877,338</b> | <b>484,368</b>   | <b>77,970,835</b> | 72,708,113        |
| Capital spare parts   | <b>517,208</b>    | <b>375,956</b>    | <b>104</b>        | <b>254</b>       | <b>893,522</b>    | 923,816           |
| Motor                 | -                 | -                 | -                 | <b>119,165</b>   | <b>119,165</b>    | 135,802           |
| Others                | <b>1,848,427</b>  | <b>175,432</b>    | <b>37,897</b>     | <b>67,457</b>    | <b>2,129,213</b>  | 503,292           |
| <b>Total</b>          | <b>31,770,179</b> | <b>29,635,087</b> | <b>24,291,547</b> | <b>1,957,877</b> | <b>87,654,690</b> | <b>80,642,235</b> |

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

|  | In SR thousand |           |
|--|----------------|-----------|
|  | 2007           | 2006      |
| Generation depreciation expenses       | 2,422,869      | 2,084,999 |
| Transmission depreciation expenses     | 1,822,576      | 1,849,550 |
| Distribution depreciation expenses     | 1,836,348      | 1,839,432 |
| General property depreciation expenses | 289,743        | 291,198   |
|  | 6,371,536      | 6,065,179 |

#### 10 - ACCOUNTS PAYABLE

|   | In SR thousand |              |
|---|----------------|--------------|
|   | 2007           | 2006         |
| Saudi Aramco for fuel cost (Notes 26& 28)               | 30,651,387     | 26,102,026   |
| Transferred to Government account (10-a)                | (13,295,613)   | (13,295,613) |
| Saudi Aramco receivable for fuel cost                   | 17,355,774     | 12,806,413   |
| Saline Water Conversion Corporation for power purchased | 6,211,819      | 5,436,373    |
| Payables to contractors and retentions                  | 2,716,432      | 2,214,285    |
| Payables to suppliers                                   | 1,599,746      | 1,174,381    |
| Municipality fees                                       | 1,739,598      | 1,445,003    |
| Advances received for construction of projects          | 679,696        | 588,328      |
| Others (10-b)   | 1,898,808      | 1,684,096    |
|   | 32,201,873     | 25,348,879   |

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

**10 b)** Other payables include an amount of SR 112 million and is still under consideration between the Company and the Government and pertains to the accounts prior to merger the discussed in note 1.

## 11. ACCRUALS AND OTHER PAYABLES

|                             | In SR Thousand |           |
|-----------------------------|----------------|-----------|
|                             | 2007           | 2006      |
| Accrued expenses            | 455,357        | 352,937   |
| Accrued employers' benefits | 336,677        | 232,511   |
| Unclaimed dividends         | 283,081        | 329,764   |
| Other                       | 419,373        | 334,918   |
|                             | 1,494,488      | 1,250,130 |

Unclaimed dividends include SR 97 million as of December 31, 2007 representing cash dividends declared by Saudi Consolidated Electricity Company due to the shareholders (2006: SR 98 million).

## 12. PROVISION FOR ZAKAT

The principle elements of the zakat base are as follows:

|  | In SR Thousand     |                     |
|--|--------------------|---------------------|
|  | 2007               | 2006                |
| <b>Adjusted Net (loss) Income Computation:</b> |                    |                     |
| Income before Zakat                            | 1,593,568          | 1,413,832           |
| Add: Zakat adjustments                         | (8,209,550)        | (9,289,492)         |
| <b>Adjusted Net (Loss) Income</b>              | <b>(6,615,982)</b> | <b>(7,875,660)</b>  |
| <b>Zakat base computation:</b>                 |                    |                     |
| Share capital                                  | 41,665,938         | 41,665,938          |
| Adjusted net (loss) income                     | (6,615,982)        | (7,875,660)         |
| Reserves                                       | 1,270,872          | 1,128,436           |
| Retained earnings                              | 3,643,907          | 2,919,610           |
| Provisions                                     | 6,113,110          | 5,724,529           |
| Long-term loans and Sukuk                      | 9,825,418          | 9,756,529           |
| Government loan                                | 14,938,060         | 14,938,060          |
| Contractor payables                            | 2,999,513          | 2,214,285           |
| Total  | 73,840,836         | 70,471,727          |
| <b>Less:</b>                                   |                    |                     |
| Fixed assets and construction-in-progress      | (72,179,125)       | (87,916,913)        |
| Long-term investments                          | (1,648,251)        | (748,063)           |
| Inventory of material and spare parts          | (5,109,270)        | (3,659,746)         |
| <b>Zakat Base – Negative</b>                   | <b>(5,095,810)</b> | <b>(21,852,995)</b> |

No provision for zakat has been made due to the negative adjusted net income and the zakat base. The Company has considered the temporary depreciation differences which resulted to a deferred zakat amounting to SR 41 million approximately.

The zakat status of the former Saudi Consolidated Electricity Company was finalized up to the end of the year 1420 H. (date of the merger) by offsetting the zakat differences due to the Zakat Department against the Government's subsidies due to the Company. However, as of the date of the accompanying financial statements, the Company has not received the final assessments from the Zakat Department to indicate the finalization of the zakat status of the said Company.

The Company has obtained a restricted Zakat certificate up to 2006. According to the final assessment received from the DZIT for the period from April 5, 2000 (date of merger) to December 13, 2001 and for the year 2002, zakat differences amounted to SR 13 million due to amounts claimed by the Company from Aramco for the electricity consumption on residential properties based on the residential tariff rather than the industrial tariff which Aramco has used for settlement. The management has not provided for this difference as it believes that zakat should not be levied on revenues which have not receive any response from DZIT regarding its objection against the above assessment. The final assessment for the year 2003 to 2006 has not been received till the date of issuing these financial statements.

### 13. LONG-TERM LOANS

|   | In SR thousand   |                  |
|---|------------------|------------------|
|   | 2007             | 2006             |
| Balance, beginning of the year                  | 9,756,529        | 8,340,617        |
| Draw downs during the year                      | 950,293          | 2,407,083        |
| Payments during the year                        | (5,881,404)      | (991,171)        |
| Balance end of the year                         | 4,825,418        | 9,756,529        |
| <b>Less: Current portion of long-term loans</b> | <b>(979,300)</b> | <b>(741,114)</b> |
|   | <b>3,846,118</b> | <b>9,015,415</b> |

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

|                              | In SR thousand   |                  |
|------------------------------|------------------|------------------|
|                              | 2007             | 2006             |
| Between one and two years    | 979,300          | 1,403,192        |
| Between two and three years  | 979,300          | 1,239,130        |
| Between three and four years | 968,958          | 1,075,067        |
| Between four and five years  | 695,900          | 1,064,432        |
| Beyond five years            | 222,660          | 4,233,594        |
|                              | <b>3,846,118</b> | <b>9,015,415</b> |

On 3/11/2007, the Company has accelerated the repayment of certain outstanding loans, by repayment paid an amount of SR 4,550 million to a group of national and international commercial banks.

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

#### 14. DUE TO BANKS

The Company has unused credit facilities from local bank as of December 31, 2007 amounting to SR 500 million. These facilities are secured by promissory notes.

#### 15. SUKUK

On July 1, 2007, the Company issued Sukuk for SR 5 billion, at par value of SR 500,000 each without discount or premium, maturing in year 2027.

The Sukuk bears a rate of return based on SIBOR plus a margin per annum payable quarterly in arrears from the net income received under the Sukuk assets held by the Sukuk custodian "Electricity sukuk Company" a wholly owned subsidiary of the Company. At the end of each five year period, the Company shall pay an amount equal to 10% of the aggregate face value of the Sukuk as bonus to the Sukuk holders.

The Company has provided an undertaking to the Sukuk holders to repurchase the Sukuk from the Sukuk holders in the years 2012, 2017, 2022 at an amount equivalent to 90%, 60% and 30% of the face value respectively.

#### 16. DERIVATIVES

The Company entered into interest rate hedging agreements with several banks to hedge the fluctuation in loans interest rates for an amount of SR 4,750 million which includes a US Dollar portion representing approximately 15%.

The hedging agreements are based on the swap between the Company and the banks of fixed rates against floating rates, every six months.

## 17. DEFERRED REVENUE – NET

|                                  | In SR Thousand |            |
|----------------------------------|----------------|------------|
|                                  | 2007           | 2006       |
| Balance at beginning of the year | 10,533,997     | 9,957,130  |
| Proceeds during the year         | 1,833,944      | 1,290,649  |
| Electrical connection tariff     | (793,131)      | (713,782)  |
|                                  | 11,574,810     | 10,533,997 |

## 18. GOVERNMENT LOAN

Pursuant to the resolution number 169 dated 11/8/1419, the net dues of Saudi Electricity Company to the Government and the net dues 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 issuance of the Royal Decree for the incorporation of the Company, to be an interest free subordinated long-term loan with a grace period of twenty five years starting from the date of the announcement of the incorporation of the Company. The loan is to be reviewed thereafter subject to the financial position of the Government and the Company.

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

## 19. SHARE CAPITAL

The share capital of the Company as of December 31, 2007 amounting to SR 41,665,938,150 consists of 4,166,593,815 shares with a par value of SR 10 each.

The share capital referred to above is owned by the following:

|                    | Number<br>of Shares | Ownership<br>Percentage |
|--------------------|---------------------|-------------------------|
| Government         | 3,096,175,320       | 74.31%                  |
| Saudi Aramco       | 288,630,420         | 6.93%                   |
| Other shareholders | 781,788,075         | 18.76%                  |
|                    | 4,166,593,815       | 100%                    |

## 20. GENERAL RESERVE

General reserve represents the balances of the reserves that were reflected in the books of the Saudi Consolidated Electricity Company at the date of the merger amounting to SR 213,668 thousand and the returns on investing the Electricity Fee Fund amounting to SR 294,976 thousand. In addition, it also includes collections of electricity bills from individuals amounting to SR 23,774 thousand (2006: SR 22, 919 thousand) after December 31, 2001. accordingly, the balance of the general reserve amounted to SR 532,418 thousand as of December 31, 2007 (2006: SR 531,563 thousand).

## 21. OPERATING AND MAINTENANCE EXPENSES

|                                   | 2007             |                |                  |                  | 2006             |
|-----------------------------------|------------------|----------------|------------------|------------------|------------------|
|                                   | Generation       | Transmission   | Distribution     | Total            | Total            |
| Employees' expenses and benefits  | 1,303,356        | 648,802        | 1,990,447        | 3,942,605        | 3,755,497        |
| Materials                         | 876,383          | 81,870         | 290,017          | 1,248,270        | 851,168          |
| Provision for doubtful receivable | -                | -              | 74,559           | 74,559           | 225,614          |
| Municipality fee                  | -                | -              | 296,541          | 296,541          | 258,953          |
| Others                            | 767,885          | 67,264         | 363,188          | 1,198,337        | 1,258,456        |
| <b>Total</b>                      | <b>2,947,624</b> | <b>797,936</b> | <b>3,014,752</b> | <b>6,760,312</b> | <b>6,349,688</b> |

## 22. GENERAL AND ADMINISTRATIVE EXPENSES

|                                     | In SR Thousand |                |
|-------------------------------------|----------------|----------------|
|                                     | 2007           | 2006           |
| Employees' expenses and benefits    | 103,000        | 98,094         |
| Administrative materials            | 51,973         | 195            |
| General and administrative expenses | 129,200        | 84,585         |
|                                     | <b>284,173</b> | <b>182,874</b> |

## 23. OTHER INCOME AND EXPENSES, NET

|  | In SR Thousand |                |
|--|----------------|----------------|
|  | 2007           | 2006           |
| Gain on disposal of fixed assets, net                      | 128,778        | 35,133         |
| Penalties  | 108,094        | 107,275        |
| Share in net income (loss) of investee companies accounted |                |                |
| Under the equity method (Note 7d)                          | 11,344         | (1,199)        |
| Sales of tender documents                                  | 17,565         | 11,782         |
| Fees for reconnection                                      | 8,328          | 11,977         |
| Others   | 64,689         | 94,290         |
|  | <b>338,798</b> | <b>259,258</b> |

## 24. PROPOSED DIVIDEND AND EARNINGS PER SHARE (EPS)

In compliance with the Company's Articles of Association, a preliminary distribution of dividend of not less than 5% of paid up share capital is to be made after deducting reserves in accordance with the condition stated by Resolution 169 dated 11/8/1419, which stipulates that the Government would waive its share from the dividend distribution for a period of ten years from the date of the Company's formation provided that such dividends do not exceed 10% of the par value of the shares. If dividends exceed 10% of the par value of the shares then the Government's share shall be treated similar to the shares of the other shareholders.

The Board of Directors in its meeting held on 19/02/2008G, proposed dividends for years 2007 for the shareholders amounting to SR 547 million in cash at SR 0.7 per share representing 7% of the par value of the shares (2006: SR 547 million). The proposed dividends for year 2007 requires the Company's General Assembly approval.



**25. BOARD OF DIRECTORS' REMUNERATION AND ALLOWANCES**

Costs and allowances relating to the Board of Directors meeting and other subcommittee meetings attendance for the year amounted to SR 442 thousand (2006: SR 829 thousand).

The Board of Directors' remuneration of SR 0.8 million is due from the profit of the year 2006 after distribution of dividends of 5% to the other shareholders (Note 19 and 24). The remuneration is payable after the General Assembly's approval (2006: SR 1.9 million).

**26. RELATED PARTY TRANSACTIONS**

SEC provides electricity power and connections to governmental agencies, ministries and Saudi Aramco. The rates charged related parties are approved by the Council of Ministers and are similar to the rates applied to other consumers, except for the rates used for Saline Water Conversion Corporation (SWCC) which are in accordance with a Government resolution, and except for the residential properties of Saudi Aramco. The Company believes that residential properties of Aramco fall under the commercial tariff while Saudi Aramco has rejected this tariff and is settling the electricity sales for all such properties based on the industrial tariff which resulted for a difference of SR 149 million for the current year and a cumulative difference of SR 1,310 million since the Company's inception to December 31, 2007 which has not been reflected in the accompanying financial statements. The issue is still under discussion between the two companies. In addition, SEC purchases fuel from Aramco and electric power from Saline Water Conversion Corporation, based on prices set by Government resolutions. Also, fees are paid to the municipalities based on electricity revenues.

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

|                                     | In SR thousand   |                  |
|-------------------------------------|------------------|------------------|
|                                     | 2007             | 2006             |
| <b>Sales:</b>                       |                  |                  |
| Government                          | 5,229,137        | 4,907,862        |
| Saudi Aramco                        | 1,234,487        | 1,633,961        |
| Saline Water Conversion Corporation | 109,603          | 87,402           |
|                                     | <b>6,573,227</b> | <b>6,629,225</b> |
| <b>Purchase and Other:</b>          |                  |                  |
| Saudi Aramco                        | 4,556,437        | 4,442,357        |
| Saline Water Conversion Corporation | 775,180          | 846,808          |
| Municipalities fees                 | 296,541          | 258,953          |
|                                     | <b>5,628,158</b> | <b>5,548,118</b> |

## 27. CAPITAL COMMITMENTS

Capital commitments represent the value of unperformed portions of the SEC contractual agreements for the construction and installation of utility plants and other assets amounting to approximately SR 35,550 million (2006: SR 29.613 million). The scheduled time to complete the commitments is between one to three years.

## 28. CONTINGENT LIABILITIES

(a) The total disputed amount between the Company and ARAMCO for handling crude oil fees since the Company's foundation on April 5, 2000 and up to December 31, 2007 amounted to approximately SR 1,500 million. The company's management is of the opinion that there will be no liability on the Company based on the Royal Decree number M/8 dated 25/7/1415 as this matter was not discussed by the Ministerial Committee that was formed by the Royal Decree referred to herein. Accordingly, the difference has not been recorded in the Company's books of account.

(b) Saudi Aramco has also a claim for the settlement of its share in the annual dividends from the date of the Company's foundation to December, 31, 2006, estimated at SR 1,129 million. The Company believes that Saudi Aramco has no right for this claim since it is a wholly owned government agency and accordingly, is governed by the Ministerial Resolution No. 169 dated 11/8/1419 H.

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

(d) The Company has a dispute with one of its power energy vendors relating to the purchase price per Kilowatt hour. The total price differences between the amount accepted by the Company and the amount billed by the vendor amounted to SR 146 million from the date of commencement of work up to December 31, 2007. The Company believes that the amount billed is overstated and there is no binding agreement, and therefore, these differences have not been booked in the Company's accounts.

(e) The Company has issued a guarantee to one of the commercial banks against its share for financing a loan granted to one of the companies it has invested. The guarantee amounted to \$ 101.4 million (2006: \$ 44.6 million) equivalent to SR 380 million.

(f) The Company has outstanding letters of credit amounting to SR 198 million (2006: SR 106 million).

## 29. RISK MANAGEMENT

Financial instruments carried on the balance sheet principally include cash and cash equivalents, accounts receivable, accounts payable and accrued expenses.

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

**Commission rate risk** is the exposure to various risks associated with the effect of fluctuations in the prevailing commission rate on the Company's financial position and cash flows. The Company monitors the fluctuations in commission rates and believes that the effect of the commission rate risk is immaterial. The Company manages its loan through hedging agreement to hedge the facilitation of interest rate, which has the economic benefit to transfer the interest loan from a floating to fixed rate.

**Liquidity risk** is the risk that Company will be unable to meet its funding requirements primarily for loan commitments. The Company maintains adequate funding to meet such obligations when they become due.

**Currency risk** is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Management monitors the fluctuations in currency exchange rates and believes that the currency risk is no material.

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

### 30. COMPARATIVE FIGURES

Certain figures for 2006 have been reclassified to conform with the presentation in the current year.