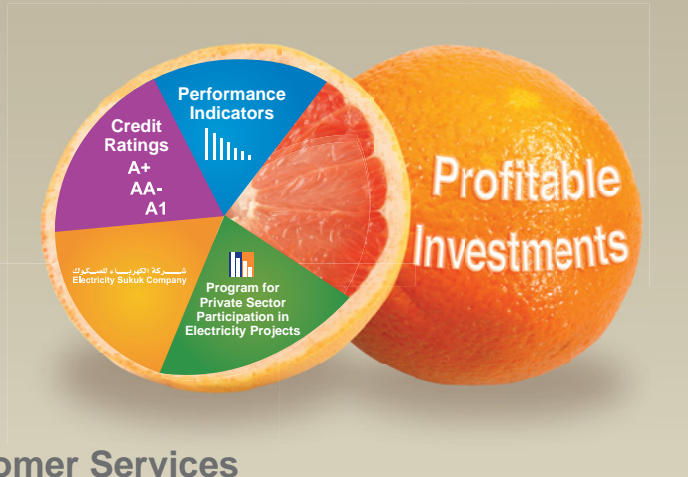


Contents

- 2007 Overview
- Human Resources
- Generation
- Transmission
- Distribution and Customer Services
- Our Corporate Social Responsibility
- Investments
- Financial Statements



بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ



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



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

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

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

Statement by the Chairman of the Board

First of all, the Members of the Board of Directors and I have the pleasure to express our sincere thanks, appreciation and gratitude to His Majesty King Abdullah Ibn Abdul Aziz Al-Saud, the Custodian of the Two Holy Mosques, and His Royal Highness Prince Sultan Ibn Abdul Aziz Al-Saud, the Crown Prince and Deputy Prime Minister and Minister of Defense and Aviation and Inspector General, for the consistent generous support provided by the State to the Company throughout the electricity sector's history. Such support has allowed the Company to implement numerous projects that have contributed to meeting the electricity requirements of the developing sectors.

Also, we wish to express our thanks to H.E. Eng. Abdullah Abdul Rahman Alhosayn, Minister of Water and Electricity for his continuous support to the Company in particular, and to the electricity sector in general.

The Company was able to accomplish several distinctive achievements during this year that witnessed substantial accelerating demand for electric power reaching 10% growth rate in some regions of the Kingdom. Moreover, the Company has continued its efforts aiming at maintaining and ensuring stability of electric power supply and seeking continuously to meet the future needs and enhance the services provided to all its customers.

The Company continues to pursue supplying electricity to all villages and settlements. The outcomes of this effort include providing electricity supply to 240 villages and settlements, so that the total electrified towns, villages, and settlements reached 10,953 at year-end 2007, as compared with 10,713 at year-end 2006. This represents a 5.3% growth rate.

The achievements realized this year further strengthen the Company's continuous efforts at anticipating increase in the future requirements for electric power by establishing numerous projects in the fields of electric power generation, transmission and distribution, thereby enhancing the Company's performance, building up an acceptable electric power reserve reaching 10-15% of the peak load, promoting and developing Company's facilities infrastructure.

In this context, the total project expenditure in the areas of electric power generation, transmission, and distribution reached SR 13,465 million at year-end 2007, bringing the total costs of projects implemented since the establishment of the Company in the year

2000 to SR 93,943 million. This includes projects that are still under implementation. Moreover, the Company's 2008 budget includes a number of new projects in power generation, transmission, and distribution amounting to SR 27,642 million.

The Company continues to exert efforts to secure cash inflows required for its capital and operational plans and promote the Company's financial position. The Company received high credit ratings from a number of major international credit rating agencies and issued bond offering known as "Sukuk" (Islamic bond). The Company managed to restructure its loans this year. It also ensured strict compliance with the Corporate Governance Regulations issued by the Capital Market Authority as well as the procedures related to disclosure and transparency.

The Company has initiated a study on the extent of compliance of its systems, regulations, procedures and policies with the provisions of the Corporate Governance Regulations issued by the Capital Market Authority. It has also exerted considerable efforts in encouraging national and international investors to participate in the generation projects consistent with the program for private sector participation in the electricity projects that aims at promoting investment attraction factors. Through such program, the Company introduced numerous projects in the area of electric power generation.

A great level of attention is given to the development of the human resources through a large variety of training and development programs. Also, the Company gave a considerable thought to an important strategic issue, namely the nationalization of job positions in the Company, thereby bringing the Saudization rate to 83.85%, compared with 73% when the Company was first established seven years ago.

In the area of research and development, the Company continues its close cooperation with several universities, institutes and other institutions addressing scientific research and development in the area of electricity industry in order to prepare for the future that is hoped to be a prosperous future.

Finally, on behalf of the Board, I would like to express our sincere thanks and appreciation to our shareholders, stakeholders, Company management, and employees, praying to Allah to bless their efforts and help us all in ensuring what we look forward to, serving our country and our citizens to the best of our abilities.

Mahmoud Ibn Abdullah Taiba
Chairman of the Board of Directors

Board of Directors



Eng. Mahmoud A. Taiba
Chairman of the Board



Dr. Saleh H. Al-Awajji
Vice Chairman of the Board



Ali S. Al-Sugair
Member



Sulaiman A. Alkadi
Member



Abdulrahman A. Al-Tuwaijri
Member



Dr. Abdullah M. Basodan
Member



Eisa M. Al-Eisa
Member



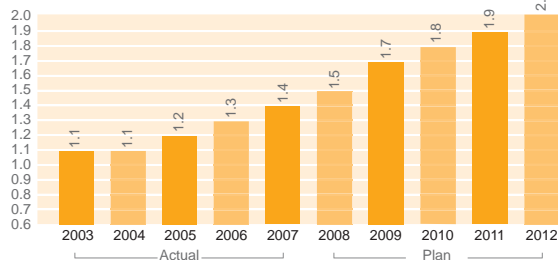
Dr. Khaled A. I. Al-Sabti
Member



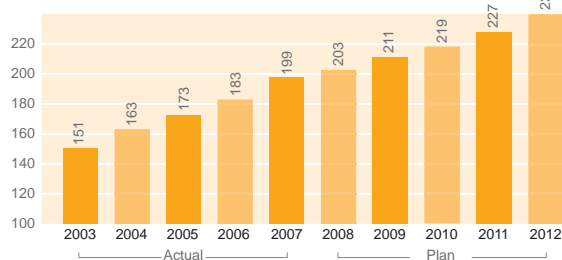
Eng. Isam A. Al-Bayat
Member

Performance Indicators

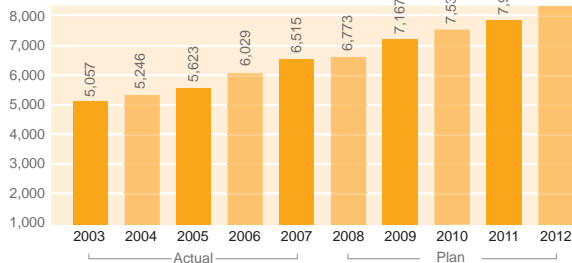
Available Generation Capacity by Employee (MW / Employee)



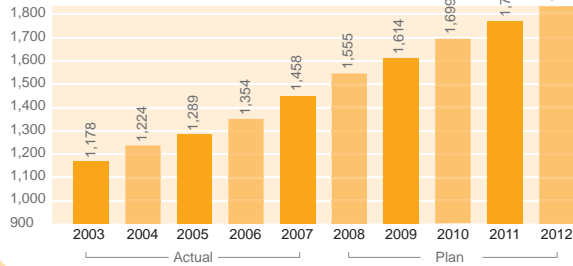
Number of Customers Per Employee



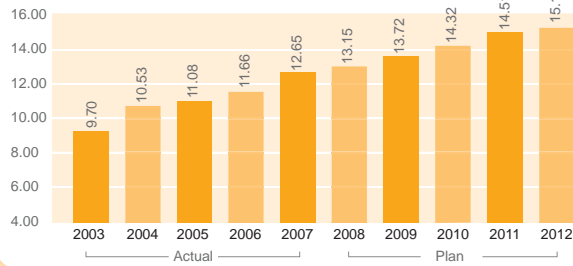
Energy Sold Per Employee (MWH/Employee)



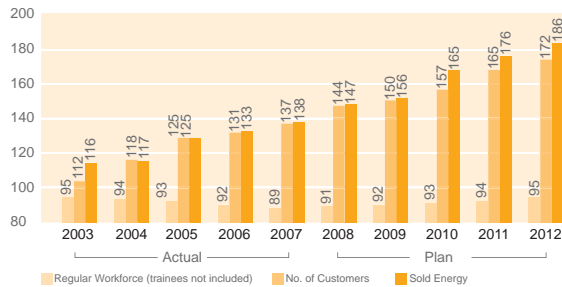
Transmission Lines Length Per Employee (ckm)



Distribution Lines Length Per Employee (ckm)



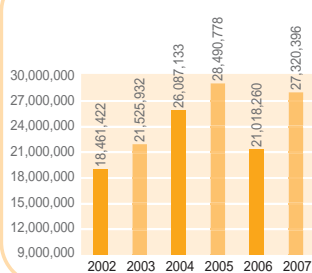
Growth Indicators (%)



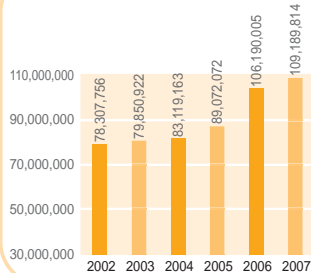
Our Financial Performance 2002 - 2007

In SR thousand	2002	2003	2004	2005	2006	2007
Total Current Assets	18,461,422	21,525,932	26,087,133	28,490,778	21,018,260	27,320,396
Total Non-Current Assets	78,307,756	79,850,922	83,119,163	89,072,072	106,190,005	109,189,814
Total Liabilities	53,918,298	57,117,531	63,883,933	71,300,514	80,079,396	88,375,747
Total Shareholders' Equity	42,850,880	44,259,323	45,322,363	46,262,336	47,128,869	48,134,463
Operating Income	947,369	1,310,288	1,003,203	1,259,159	1,154,574	1,254,770
Net Income	1,077,344	1,408,443	1,299,632	1,483,042	1,413,832	1,552,891

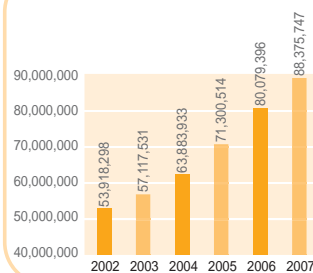
Total Current Assets 2002 - 2007



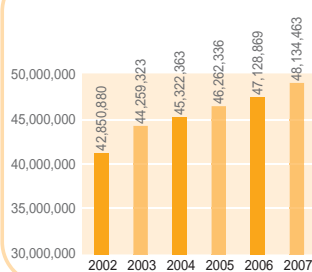
Total Non-Current Assets 2002 - 2007



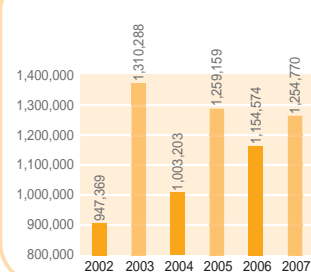
Total Liabilities 2002 - 2007



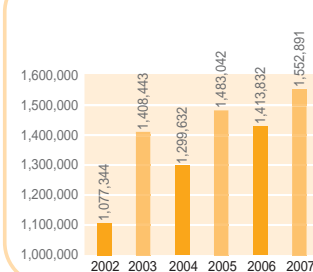
Total Shareholders' Equity 2002 - 2007



Operating Income 2002 - 2007



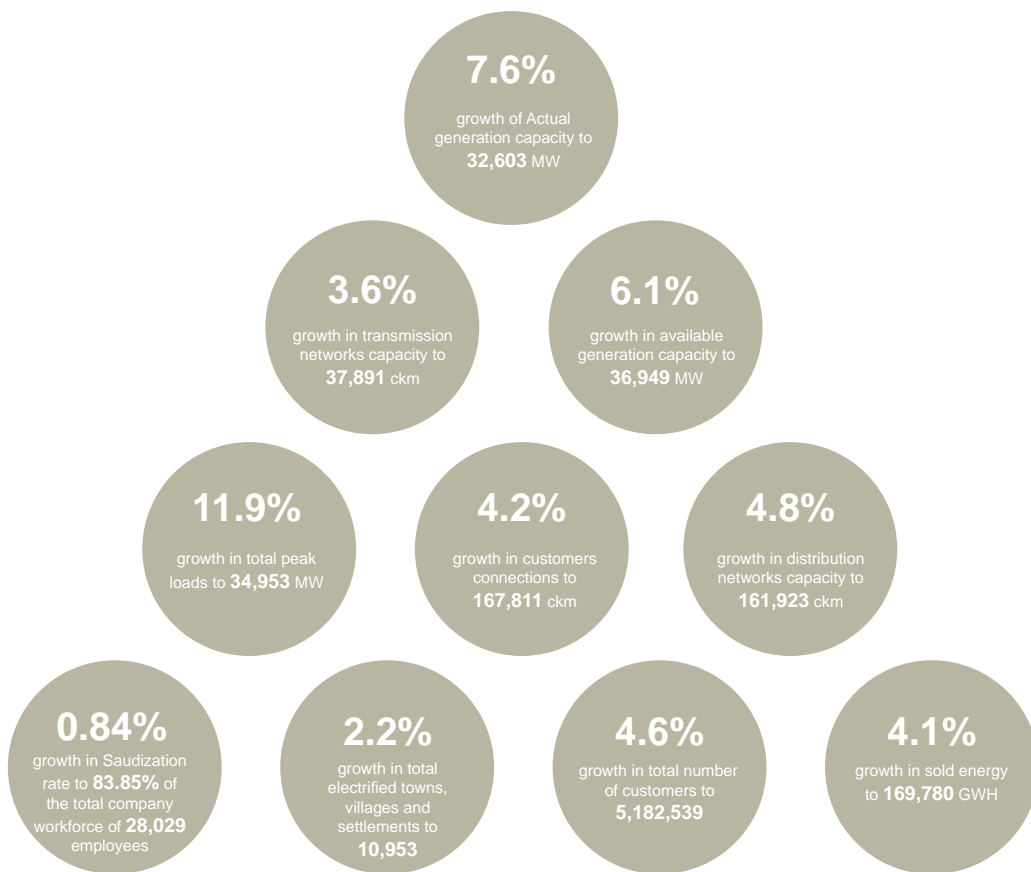
Net Income 2002 - 2007



Our Financial Performance in Brief

In SR thousand, except for earning per share	2007	2006
As of December 31		
Assets		
Total Current Assets	27,320,396	21,018,260
Total Non-Current Assets	109,189,814	106,190,005
Total Assets	136,510,210	127,208,265
Liabilities and Shareholders' Equity		
Total Current Liabilities	34,675,661	27,340,123
Total Non-Current Liabilities	38,762,026	37,801,213
Government Loan	14,938,060	14,938,060
Shareholders' Equity	48,134,463	47,128,869
Total Liabilities and Shareholders' Equity	136,510,210	127,208,265
Revenue		
Electricity Sales	19,463,327	18,284,878
Meter Reading and Maintenance and Bill Preparation Tariff	722,994	707,997
Electrical Service Connection Tariff	793,131	713,782
Other Income and Expenses (net)	338,798	259,258
Total Revenue	21,318,250	19,965,915
Operating Expenses		
Total Operating Expenses	(19,724,682)	(18,552,083)
Zakat	(40,677)	-
Unrepeated Adjustments	-	-
Total Operating Expenses and Zakat Allocation	(19,765,359)	(18,552,083)
Income		
Operating Income	1,254,770	1,154,574
Income Before Zakat	1,593,568	1,413,832
Net Income	1,552,891	1,413,832
Earning Per Share	0.37	0.34

Major 2007 Indicators Compared With 2006



Our Shareholders

Assuring to meet our shareholders' expectations, attending to their requirements and ensuring them of the best returns constitute the focus of our mission and the key bases of our operations.

Accordingly, the Company spares no effort in promoting its relationship with its shareholders, providing them with quality services, safeguarding their rights, informing them of all matters of their interest, inviting them to the General Assembly Meetings, facilitating payment of their dividends, maintaining their records, responding to their queries, and finalizing their transactions with the Company and other concerned parties.

Given our keenness to comply with the executive regulations of the Capital Market Law, and to develop the shareholder's equity and to preserve the Company's interests, we constantly follow up on all new relevant regulations and instructions issued by the Capital Market Authority, and communicate them to concerned divisions and departments within the Company.

Currently, we are implementing most of the guidelines contained in the "Corporate Governance Act" issued by the Capital Market Authority, particularly in respect to the shareholders equity, and the rules on disclosure and transparency requirements. We have already started a comprehensive examination of our own internal regulations, procedures and policies to ensure due compliance with such Act and to prepare for the full application of the Act during 2008.

We also regularly follow up the performance of Company shares on a daily basis, and issue weekly, monthly, quarterly and annual reports, in addition to analyzing all such materials or articles as may be published in the newspapers or posted on the websites regarding Company shares.

All information affecting the share value, such as those related to the Company's financial results, major developments and the like, are regularly disclosed in accordance with the Capital Market Authority Regulations and its executive rules.

Key achievements of the Company and major services provided to its shareholders in 2007 include:

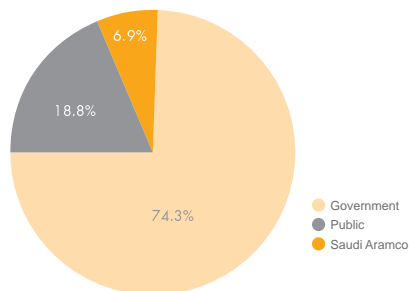
- Highly smooth payment of 2006 dividends to the shareholders amounting to 93% of the total profits, which is 5% higher than that of last year.

- Rate of investment portfolios returned in the previous year decreased to only 309 portfolios from a total of 94,978 portfolios.
Rate of investment portfolio holders eligible to receive dividends increased by 5%.
- Rate of certificate holders eligible to receive dividends decreased from 11% to 5% only due to the efforts exerted to encourage the shareholders to open investment portfolios instead of the certificates.
- The Company was ranked second among all joint stock companies with respect to the application of disclosure and transparency standards and principles contained in the Corporate Governance Regulations.
- A team was formed to develop the regulations of the Company's Corporate Governance.

Distribution of Company Share Capital

Shareholders	Number of Shares
Government	3,096,175,320
Saudi Aramco	288,630,420
Public	781,788,075
Total	4,166,593,815

Percentage Distribution of the Company Shareholdings at Year - End 2007



Company Share Performance

The strength of Company shares in the stock exchange depends on several factors including those related to the demand and offer in the market, and those related to internal issues within the Company, such as the strength of the Company's financial position, the trust of investors in the Company share, its performance and its future trends, the attractiveness of the electricity sector from the investment and competitiveness perspective, in addition to the Company's approach to the distribution of the profits, the development of shareholders equity, and the protection of investors, as well as the quality of disclosure and degree of transparency with respect to all matters of interest to the investors and shareholders, and the effective communication with the competent regulatory and executive parties in the Capital Market Authority in order to promote the confidence of the financial and investment community in the Company and its share through introducing its attitudes and approaches to the implementation of capital and operational projects and disclosing all news affecting

the performance of Company shares.

At year-end 2007, the index of the electricity sector closed at 1,502.17 points, compared with 1,323.94 points at year-end 2006, representing an increase of 13.46%. The Company's share realized highest trend at 1,680.39 points on 24 December 2007.

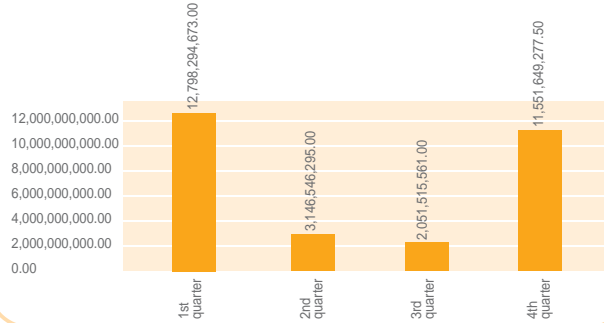
As for the performance of Company share, its closing price at the end of 2007 was SR 14.75, which was 13.46% higher than its closing price of SR 13.00 at year-end 2006.

As regards the traded share quantities, Company share was ranked second among all joint stock companies in the stock exchange during the year 2007, as 2,205,185,499 shares were traded, with a rate of 3.75% of the total shares traded in the stock exchange amounting 58,862,003,681 shares.

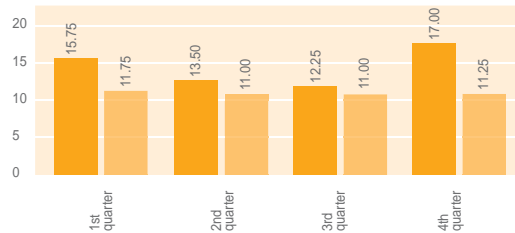
Description	2007	2006	Change (%)
Electricity Sector Index	1,502.17	1,323.94	13.46
Traded Shares Quantity	2,205,185,449	5,193,226,345	57.54-
Traded Shares Value	29,548,005,806.50	204,674,752,161.75	85.56-
No. of Transactions	517,191	2,877,373	82.03-
Highest Share Value	17.00	56.00	69.64-
Lowest Share Value	11.00	11.75	6.38-
Share Closing Value	14.75	13.00	13.46

Fluctuations witnessed by the stock exchange during 2007 significantly affected the performance of Company share in spite of the growth of the Company's profitability.

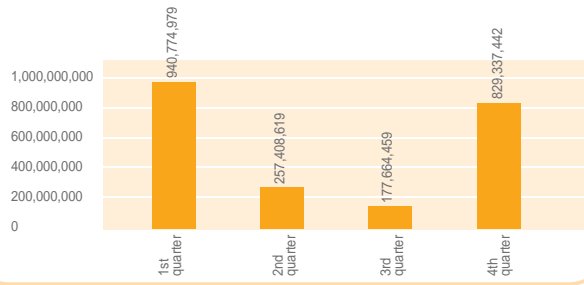
Traded Value of Company Share During 2007



Minimum / Maximum Price of Company Share During 2007



Traded Share Quantity During 2007



Statement of the Chief Executive Officer

The 2007 annual report reflects the outstanding performance of Saudi Electricity Company with respect to supporting the economic and social development, and identifying the key characteristics of the coming period in the context of the Company's direction and future trends, particularly given the fact that the high accelerating economic growth witnessed by the Kingdom in all areas has resulted in the rising demand for electric power, which requires large investments that far exceeds the Company's own resources; so that borrowing and issuing Islamic bonds (Sukuk) and allowing participation of the private sector in electric power production facilitated the funding requirements.

Through its role in promoting the electric infrastructure system and in keeping up with the increasing growth in electric power demand, the Company has added 2,346.3 MW, that include the installation of three 393 MW-capacity steam generation units in Shoaiba Power Plant, for a total of 1,179 MW. This year, the Company has also added 15 new gas generation units in various areas of the Kingdom with a total capacity of 862.5 MW.

Similarly, we have continued our efforts in upgrading and developing the transmission network in order to boost its power network reliability and serving to new power supply requests. In terms of extra-high networks (230/380 KV), 92 ckm of overhead lines and underground cables were added to the service. One new substation was commissioned and three substations were further reinforced. In terms of high-voltage networks (110/132 KV), 1,237 ckm of overhead lines and underground cables were added and 13 substations were commissioned and 19 substations were reinforced.

As for the area of the energy distribution, electricity supply was delivered to 242,547 new customers, thus increasing the total number of customers to 5,182,539 by year-end 2007, compared with 4,955,906 in 2006, resulting in 4.6% growth rate. This is in addition to upgrading the distribution networks.

Such efforts indicate the success of the operational and strategic management policies adopted by the Company, which resulted in raising the Company's profits to SR 1,553 million in 2007 compared with SR 1,414 million in 2006, thus reflecting a 10% growth rate. Such policies ultimately led major international credit rating agencies to raise the credit rating of the Company. This includes a rating of "A+" from Fitch Ratings Ltd, in addition to a rating of "AA" from another major international credit rating agency, namely the Standard and Poors. Furthermore, the Company was also rated as "A1" by Moody's Agency for Credit Classification. Such high credit ratings confirm the substantial success of the Company and the soundness of its strategic attitudes with respect to enhancing the position of the electric energy in the Kingdom.

These excellent credit ratings proved to be beneficial to the Company as manifested in the offering of Sukuk wherein the total subscriptions reached as high as six billion Saudi Riyals, thus far exceeding the high limit originally estimated by the Company at SR 2.5 billion. Such high demand for Sukuk motivated the Company to issue Sukuk amounting to SR 5 billion, which were fully covered, thereby allowing the Company

the opportunity to repay some of its previous loans which in turn resulted in reduced cost for financing the capital projects.

The Company continued its efforts aiming at the development of its national human resources and upgrading their performance efficiency. In this context, the Company achieved a remarkable growth rate in the nationalization of jobs, reaching as high as 83.9% of the Company's total workforce. Thereupon, the Company was awarded a shield and a certificate of recognition by the twenty fourth session of the GCC Board of Ministers of Labor and Social Affairs in appreciation of the outstanding efforts exerted by the Company towards the realization of such high rating with respect to the provision of providing employment opportunities to citizens and the nationalization of its existing jobs.

The social responsibility and community service received considerable attention in the Company, as it continues to provide electric service to villages and settlements, although the provision for such service is not economically feasible to the Company. The Company also gave considerable attention to research and development programs with a view to rationalizing the uses of the electricity and upgrading its systems, in addition to programs aiming at protecting and maintaining the environment, supporting and sponsoring certain social and economic activities and events.

As regards the implementation of the program for private sector participation in electricity projects, the Company started the program by offering an IPP project for the establishment of a 1,200 MW-capacity Rabigh Power Plant which is the first of three power generation projects having a total capacity of 5,200 MW; an initial step towards entering into permanent partnerships with independent producers.

The Company will also focus, during the next stages, on implementing its plans aiming at meeting the growing demand for electric energy. In this respect, the Company has approved the budget for the financial year 2008 along with the 2009-2013 Operating Plan. The budget includes SR 11,896 million for the costs of generation projects, while the overall costs of the generation projects throughout the operating plan period is estimated at SR 42,331 million. The budget also covers the costs of transmission projects amounting to SR 10,256 million during 2008, while the total costs of the transmission projects throughout the operating plan is estimated at SR 38 billion. Moreover, SR 1,859 million is allocated to the distribution projects, while total amount estimated for distribution projects throughout the operating plan is placed at SR 10 billion.

Finally, on behalf of the Company employees, I would like to express our sincere thanks and appreciation to the Chairman and Members of the Board of Directors for their valuable role in guiding and supporting the Company's management which had a positive impact on our overall achievements. I would also like to express our sincere thanks to all government bodies and private institutions for their support. I thank all our customers and shareholders for their support to the Company. For the employees of the Company, whose considerable effort was a major factor in all our achievements throughout the previous years, I would like to convey my sincere thanks and appreciation to them all for every effort they have exerted to further develop the Company.

Ali Saleh Al-Barrak
Chief Executive Officer

Executive Committee Members



Ali S. Al-Barrak
President and CEO



Yousif S. Balghanaim
Executive Vice President, Generation



Saleh M. Al-Onaizan
Executive Vice President
Transmission



Saad H. Al-Mansour
Executive Vice President
Distribution and Customer Services



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



Ali S. Al-Ayed
Executive Vice President, Finance



Fahad K. Al-Hajri
Senior Vice President
General Services



Saud A. Al-Shammari
Senior Vice President
Human Resources



Mutlaq M. Al-Mutlaq
Senior Vice President
Legal Affairs



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



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

2007 Major Events

January

- The Company organized the Sixth Human Resources Forum.
- The Company received the GCC CIGRE Award for excellence in applied research.
- Eng. Ali Saleh Al-Barak, Chief Executive Officer, was elected Chairman of the Arab Union of Electricity Producers, Transmitters, and Distributors.

February

- The Board of Directors approved the 2007 capital budget.
- Signing of contracts amounting SR 3,867 million for the expansion of Power Plant No. 9 in Riyadh.

March

- The Company celebrated the graduation of 639 trainees from its training institutes.
- The Board of Directors approved the financial results of 2006 including the operating profit amounting to SR 1,414 million, and the distribution of dividends to shareholders amounting to SR 547 million.

April

- In the 5th meeting of the Ordinary General Assembly, 70 halala per share was approved to be paid as dividends for the year 2006.
- Announcing the financial results of the first quarter of 2007.
- Prince Nayef Ibn Abdul Aziz paid honor to the Company for its participation in sponsoring the Fourth Media Annual forum.

May

- Introducing a pilot program for early retirement.
- Signing of two contracts amounting to SR 690 million for additional 656 MW to the generation capacity of Power Plants No. 8 and 9 in Riyadh.
- Launching of Safety Awareness Program (Misbah Campaign).

June

- Organizing the First Maintenance and Operation Forum.
- Both the international credit rating agencies Fitch Ratings Ltd and Standard and Poors gave the Company a rating of "A+" for creditworthiness.
- Signing of a contract amounting to two billion Saudi Riyals for the installation of 15 gas generation units in Al Qurayyah Power Plant.

July

- Announcing the semi-annual financial results, under which the Company realized SR 351 million in profits within six months
- Signing of a contract amounting to SR 585 million for the installation of gas generation units in Faras Power Plant in the Eastern Region.
- Offering Sukuk (Islamic bond) amounting to five billion Saudi Riyals for investment subscription with the Company.

August

- Launching the "Bader Project" for studying the development of customer service strategy.
- Standard and Poors raised the Company's credit rating to "AA."

September

- Started operating the Enterprise Resource Planning (ERP) project called "Nebras" (Human Resource project).
- Signing of an agreement with Saudi Organization for Industrial Estates for the provision of electric services to a number of industrial estates.

November

- Organized the Twelfth Annual Total Quality Forum in Jeddah.
- Declaration of the financial results of the third quarter, under which the Company realized over two billion Saudi Riyals in profits.
- Repayment of SR 4,550 million of Company debts to a number of banks; part of a loan restructuring process.
- The Company won the Madina Charity Award for the year 2007 (1428 Hijra).

December

- Organized the Fifth Customer Service Forum in Al-Ihsa'a.
- The Company was ranked second in the list of 100 largest Saudi companies.
- Started the application of the new amendments to the organizational structure of the Company.
- The Company was ranked second among 20 joint stock companies in terms of disclosure and transparency as per a study conducted by King Abdulaziz University, Jeddah.
- The Company was ranked eighth in the Middle East Region, and fourth in Saudi Arabia, in terms of market value and sales volume, according to Forbes magazine.

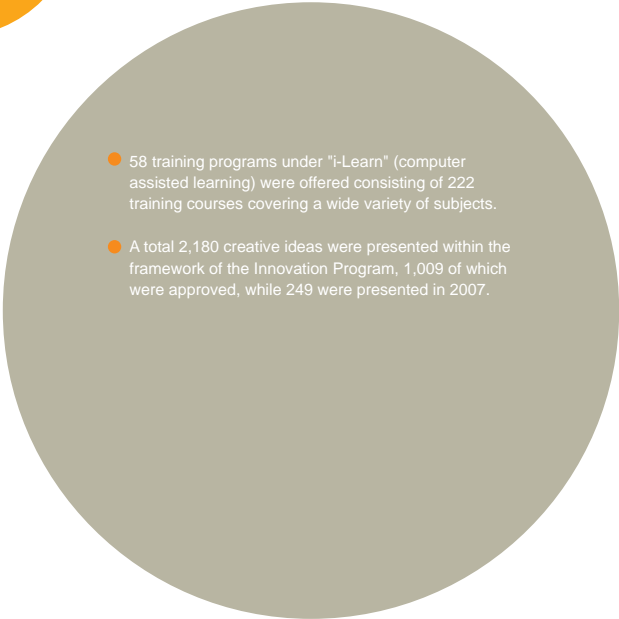
A close-up photograph of a person's hand holding a large, ripe orange. The orange is bright yellow-orange with a textured, bumpy skin. The hand is light-skinned and positioned in the lower half of the frame. In the background, there are green leaves and a clear blue sky. Another orange is visible in the background to the right. A white circular graphic is overlaid on the right side of the image, containing the text 'Human Resources'.

Human Resources



83.85%

growth in Saudization rate
of the total workforce of
28,029 employees.

- 
- 58 training programs under "i-Learn" (computer assisted learning) were offered consisting of 222 training courses covering a wide variety of subjects.
 - A total 2,180 creative ideas were presented within the framework of the Innovation Program, 1,009 of which were approved, while 249 were presented in 2007.

Highlights of Our Operations

We continued our efforts aiming at investing, motivating and developing the employees given the fact that recruitment, qualification and training of human resources contribute to help achieve the desired growth, enhancing the Company's productivity efficiency and developing its overall performance over the long run.

Based on our belief in the importance of the human resources as a real power for the success in the radical change processes aiming at developing the overall performance and transforming to business-oriented operation approach, our efforts continued during 2007 to work as a joint organizational supporting unit in terms of continuous planning and development of Company employees to effectively contribute to the realization of the Company's mission requiring highly efficient, qualified and trained workforce with the ability to adapt to the accelerating developments of the business environment in the Company.

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

In the area of prequalification and training to meet the Company's requirements for various technical and administrative functions, 612 graduates from Company training institutes were successfully enrolled into the On-job Training (OJT) Program in 2007, bringing the total number of OJT trainees to 1,231. Furthermore, 455 university graduates were hired and joined the Company's Professional Development Program (PDP), bringing the total number of university graduate employees registered in this program to 741 by year-end 2007. Numerous short courses were conducted to further develop our employees' skills, benefiting a total of 29,563 participants.

We have also adopted a modern development program, namely the Competency-Based Development Program, as a non-conventional step towards the development of human resources. The total number of participants in this program is over 1,800 employees occupying supervisory and managerial positions. Such a program serves the other development programs, and constitutes a powerful support to the replacement processes of the Company. Furthermore, we have adopted a special program for the development of promising employees with the specific objective of creating adequately integrated organizational channels devoted to

take care of Saudi university graduate employees who show proven talents and personal aptitudes to assume further specialized and leadership responsibilities. The total number of participants in this program reached 69 employees at year-end 2007

Just like the previous years, we organized the annual forum on the development of human resources in coordination with the Chamber of Commerce and Industry of the Eastern Region. Within such coordination, six forums were conducted in the past years, which provided participation opportunities to over 200 of Company employees each year.

In 2007, and in the context of our efforts to encourage self-development, 65 training programs were made available to our employees through "i-Learn"; a computer assisted self-study program, which include 222 training courses covering a wide range of administrative and technical subjects, to enable them to efficiently and effectively perform their job tasks.

The application of the Total Quality Management programs has also continued. In 2007, 69 teams were formed and were specifically assigned the task of enhancing the key operations carried out by the business units represented by employees in various administrative levels. Total number of Total Quality Management teams formed since such programs was first introduced has reached as many as 1,339 teams that came up with 6,584 recommendations, of which 5,425 were adopted thus helping in enhancing the various business processes, upgrading their efficiency, reducing their operating costs and promoting the services rendered to our customers.

A total of 2,180 creative ideas were presented through the Innovation Program, 1,009 of which were approved, while 249 of the approved ideas were presented in 2007. Also, several training seminars were conducted in preparation for the implementation of Employee Excellence and Innovation Program for all employees throughout the Company's operating areas.

On the other hand, as a result of our ongoing efforts towards the prequalification and development of university graduates, as well as the graduates from Company training institute for preparing them to join the Company's workforce and activating the replacement programs, we have managed, by year-end 2007, to raise the nationalization rate to 83.85% of the 28,029 employees constituting the total workforce of the Company, compared with 83.19% in 2006.

It should be noted that in appreciation for the Company's outstanding efforts in respect to recruitment, employment and training of national labor, the Company was awarded the Prince Nayef Ibn Abdul Aziz Prize for Saudization Award in recognition of its achievement in attaining such an outstanding rate which placed the Company in the top rank for the fourth consecutive year. Also, the Company was then the only company that was awarded the Saudization Award among all companies in the Kingdom.

In 2007, the Company received the award and certificate of recognition from H.E. the Minister of Labor, President of the 24th Session of the Ministers of Labor and Social Affairs of GCC States, in appreciation for its outstanding efforts in achieving high rates in respect to employment opportunities given to citizens and the nationalization of jobs.


455 university graduates were hired and participated in the Professional Development Program

29,563 employees participated in specialized multidiscipline courses

Total of **2,180** innovative ideas were submitted through the Innovation Program of which **1,009** were approved including **249** in **2007**

612 Company institute graduates were employed, bringing up the total on-the-job trainees to **1,231**

Saudization rate reached **83.85%** of the total workforce of **28,029** employees



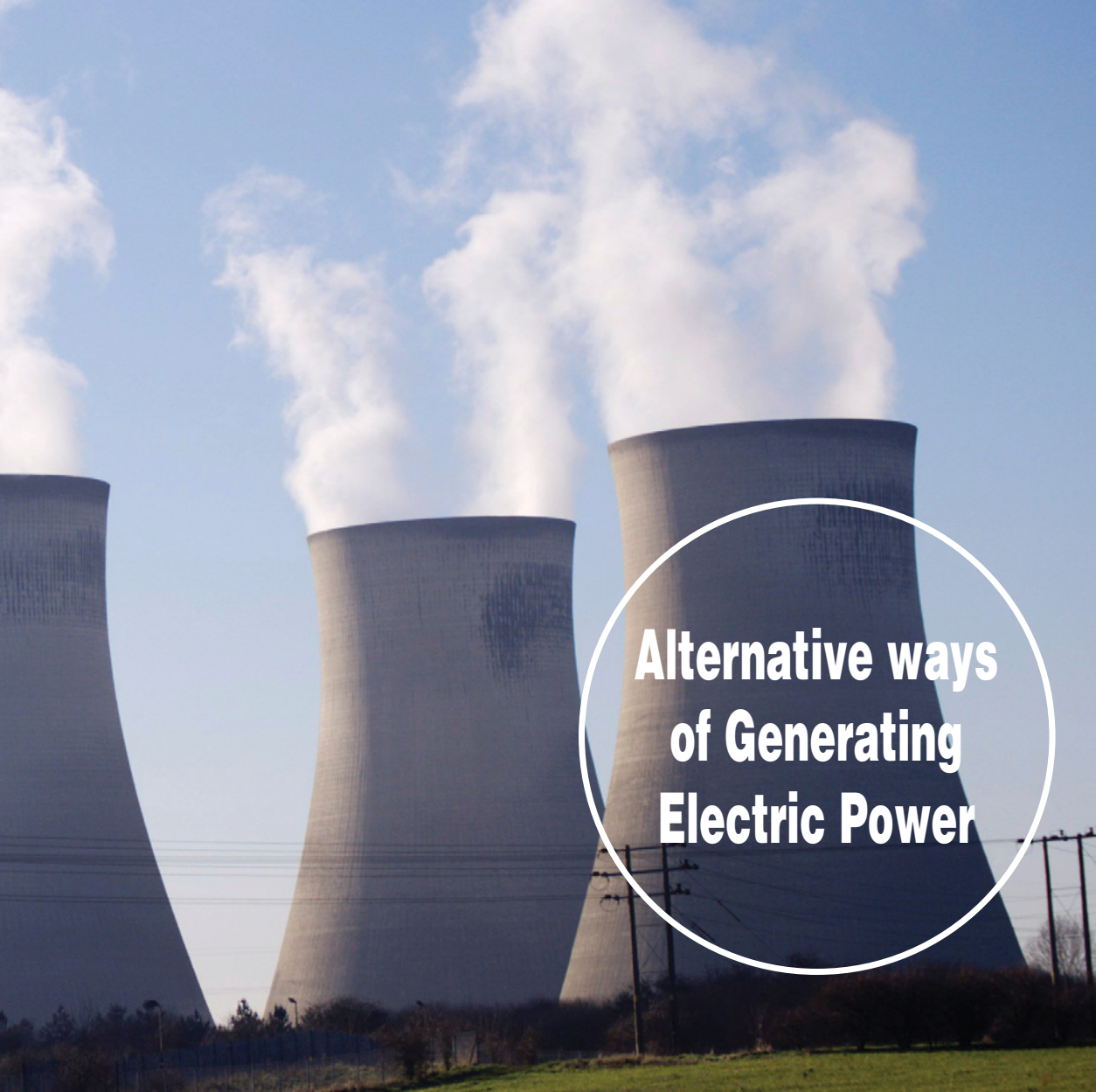
At present most electricity is made by burning fossil fuel like coal and crude oil (or diesel and gas which is more common in the Middle East) to boil water which makes steam to drive turbines and magnets so as to produce electricity. Electricity can also be produced using the energy that comes from the sun, or from the power of falling water, or the force of wind to turn turbines and magnets.

Another major form of energy is nuclear energy; the energy inside each atom in nuclear substances. Nuclear substances are substances that can be split apart; a key component of a nuclear fuel used in producing nuclear energy arising from fission or splitting the nucleus of atom(s). The initial use of nuclear energy was for military purposes during World War II. However, only in the fifties did the world start to accord significant attention to the peaceful uses of the nuclear splitting and its role in generating electric energy.

Nuclear power generation plant is a type of steam thermal generation plant where steam is generated from the heat emitted from the reactor furnace. In a nuclear power plant, there is a nuclear furnace where fuel is burnt. Such nuclear furnace requires an insulating wall for protection against nuclear radiation, which consists of baked brick layer, water layer and steel layer then 2-meter thick cement layer, in order to protect the plant personnel and the environment against pollution from atomic radiation.

Nuclear energy in the world today represents 20% of total power generated all over the world. Scientists view it as a real source of natural inexhaustible energy. However, involved costs, public fears related to safety, and difficulty of safe disposition of radioactive residues give rise to doubts on the part of many people regarding the future of the nuclear energy.

Throughout the world today, there are 439 nuclear reactors for electricity generation in 31 countries, which contribute to 16% of total production of electricity. In addition, 34 reactors are being built in 13 developed and developing countries, most important of which are: Russia, India and China. Major countries using nuclear energy in producing electricity are: France (78%), Lithuania (72%), Slovakia (55%), Belgium (55%), Sweden (51%), Ukraine (51%), Bulgaria (41%), Switzerland (40%), Armenia (38%), Slovenia (38%) and South Korea (37%).

The image shows three large, grey, hyperboloid-shaped cooling towers of an industrial facility, likely a power plant. They are arranged in a row, with the one on the right being the most prominent. Each tower is emitting a thick plume of white steam or smoke that rises into the sky. The sky is a clear, pale blue. In the foreground, there is a green grassy field and some dark, leafless trees. A white circle is superimposed on the right side of the image, containing the text.

Alternative ways of Generating Electric Power

GENERATION

- Total available capacity in 2007 reached 36,949 MW compared with 34,823 MW in 2006, thus reflecting a growth rate of 6.1%

7.6%

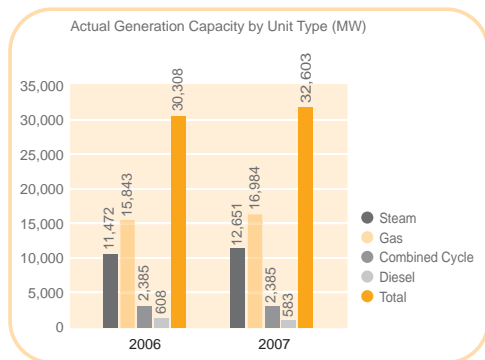
growth rate, raising the actual generation capacity to 32,603 MW

Our Major Achievements

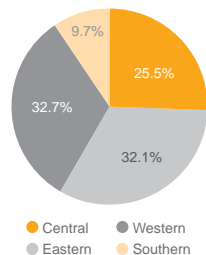
The generation activity constitutes a major activity of the Company given that it is the key source of electricity production in the Kingdom. Our mission is to provide an adequate and highly reliable electricity supply to customers and reduce the cost of producing electricity with optimum utilization of available resources.

In 2007, the contributions of desalination plants, the large customers, and the rental diesel units during peak period were 6.5%, 4.3% and 1% respectively. By the end of 2007, the total contributions of Company's power plants in the Central, Eastern, Western and Southern Regions yielded 25.5%, 32.1%, 32.7% and 9.7% respectively.

The Company is keen to increase the economic efficiency in the operation of its gas generation units, as both gas and steam generation units make up the highest rates of the actual generation capacity in all of the Company's power plants, with 52.1% and 38.8% respectively, while the combined cycle units yielded 7.3% and the diesel units yielded 1.8% of the overall actual generation capacity of Company owned power plants.



Percentage Distribution of Capacity by Area of Company Owned Generation Units in 2007



The growth in the actual generation capacity reflects the constant efforts of the Company to keep up with the increasing demand for electricity. During 2007, a number of projects were launched to boost up the generation capacity of the Company's power plants with 2,346.3 MW. Major outcome of such projects includes:

Increased actual generation capacity as a result of enhancing the cooling efficiency of the generation units:

- 259 MW at Riyadh Power Plant 9

Increased actual generation capacity as a result of the re-operation of generation plants:

- Three units each at Shagra and Majma'a Power Plants with a capacity of 4.3 MW/unit.

Increased actual generation capacity as a result of introducing new generation units:

Steam:

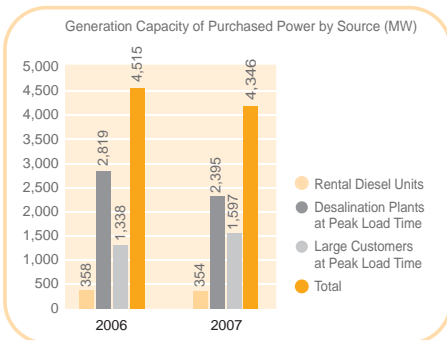
- 3 units at Shoaiba Power Plant with a capacity of 393 MW/unit.

Gas:

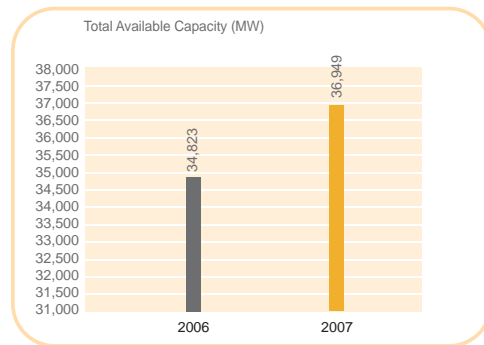
- 10 Units at Riyadh Power Plant 9 with a capacity of 55.5 MW/unit.
- 1 Unit at Hail Power Plant 2 with a capacity of 55.5 MW/unit.
- 2 Units at Tehama Power Plant with a capacity of 60 MW/unit.
- 2 Units at Jizan Power Plant with a capacity of 66 MW/unit.

Diesel:

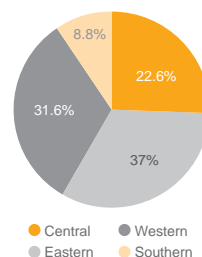
- 2 Units at Sharurah Power Plant with a capacity of 10 MW/unit.



The total available capacity achieved in 2007 reflects a growth rate of 6.1%, bringing up the total available capacity to 36,949 MW, compared with 34,823 MW in 2006. The rental diesel units, desalination plants and large customers contributed, at peak load time, 354 MW, 2,395 MW and 1,597 MW respectively, bringing up their joint contribution to 4,346 MW, which reflects the new trend adopted by the Company in terms of forming strategic partnerships in order to diversify the generation sources and increase the national generation capacity to keep up with the increasing demand for power.

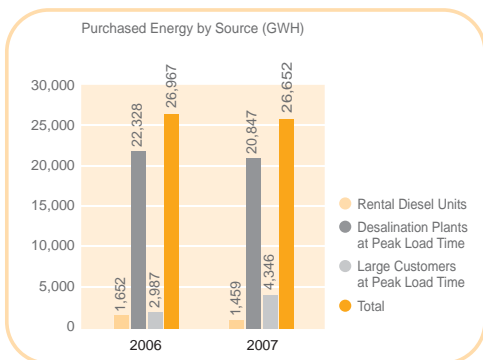
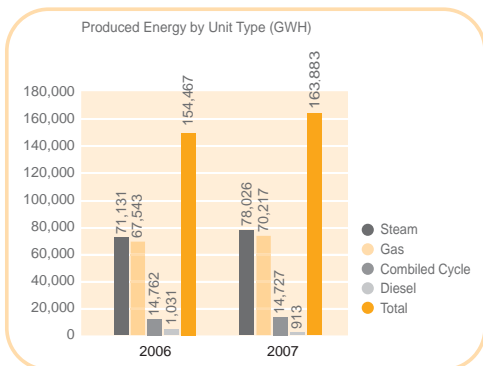


Percentage Distribution Per Area of Total Capacity Available in 2007



Likewise, the Company spares no effort in raising the operational performance in order to build an acceptable level of power reserve with the range of 10-15% of peak load, boosting and developing the infrastructures of the generation facilities which constitute, in terms of its fixed assets alone, to be 34% of the Company's net fixed assets.

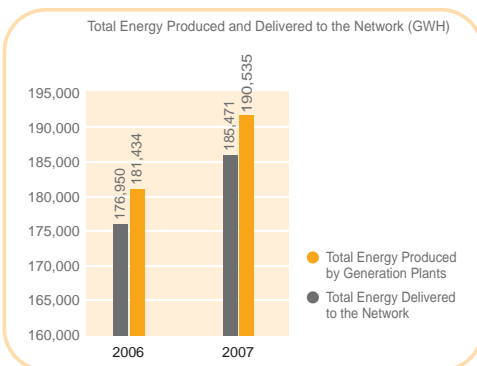
By the end of 2007, the total produced energy of Company power plants reached 163,883 GWH, with a growth rate of 6.1% as compared with 2006. By comparing the Company's total produced energy with the total contributions of rental diesel units, desalination plants and large customers' plants which amounts to 26,652 GWH, our Company contributes 86% of the total available power, as compared with 14% by all other producers combined. This reflects our commitment to meet the requirements of the national power

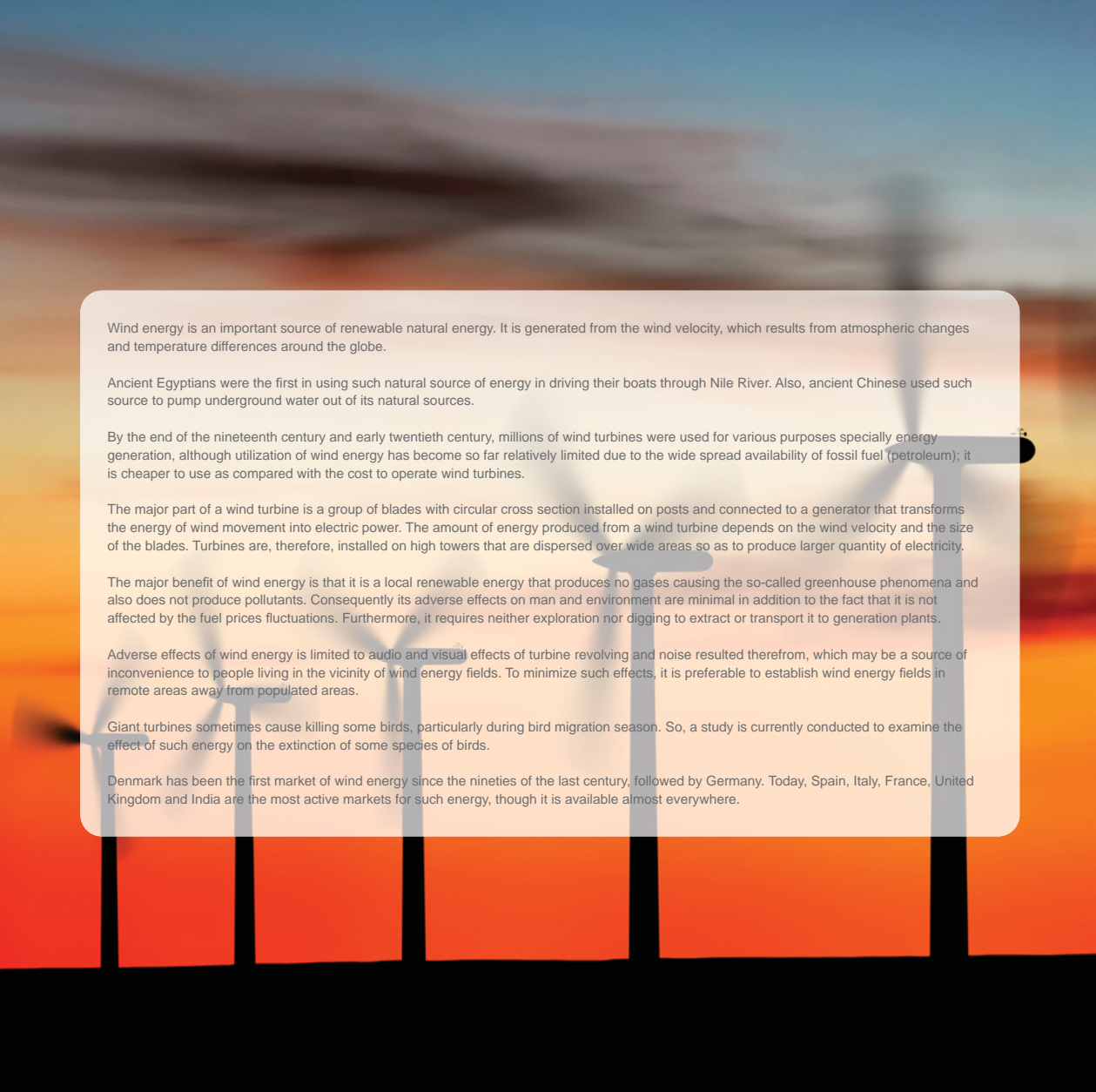


network. The volume of electric energy transmitted to the networks constituted 97.3% of the total available energy amounting to 185,471 GWH, compared with 176,950 GWH in 2006.

Readiness rates during 2007 were close to the planned rates, while the rates of emergency outages during 2007 were better than planned. However, the gas and combined cycle units were close to the plan. The negative deviation, however, was due to unplanned emergency outages; such as the cases involving Qurayyah and Ghazlan Power Plants transformers, and a unit at the fourth plant. The accumulated deficit in the required generation capacity for the systems during the past years was the cause behind the failure in achieving the planned periodic maintenance program targets, thus affecting the rates of forced outages.

The enhancement of the thermal rates for fuel consumption in gas units has yielded about 2% growth, and also in combined cycle units has yielded approximately 5% growth compared with the plan, while the steam units fell short of achieving the planned rates, though they were close to the rate achieved in 2006.





Wind energy is an important source of renewable natural energy. It is generated from the wind velocity, which results from atmospheric changes and temperature differences around the globe.

Ancient Egyptians were the first in using such natural source of energy in driving their boats through Nile River. Also, ancient Chinese used such source to pump underground water out of its natural sources.

By the end of the nineteenth century and early twentieth century, millions of wind turbines were used for various purposes specially energy generation, although utilization of wind energy has become so far relatively limited due to the wide spread availability of fossil fuel (petroleum); it is cheaper to use as compared with the cost to operate wind turbines.

The major part of a wind turbine is a group of blades with circular cross section installed on posts and connected to a generator that transforms the energy of wind movement into electric power. The amount of energy produced from a wind turbine depends on the wind velocity and the size of the blades. Turbines are, therefore, installed on high towers that are dispersed over wide areas so as to produce larger quantity of electricity.

The major benefit of wind energy is that it is a local renewable energy that produces no gases causing the so-called greenhouse phenomena and also does not produce pollutants. Consequently its adverse effects on man and environment are minimal in addition to the fact that it is not affected by the fuel prices fluctuations. Furthermore, it requires neither exploration nor digging to extract or transport it to generation plants.

Adverse effects of wind energy is limited to audio and visual effects of turbine revolving and noise resulted therefrom, which may be a source of inconvenience to people living in the vicinity of wind energy fields. To minimize such effects, it is preferable to establish wind energy fields in remote areas away from populated areas.

Giant turbines sometimes cause killing some birds, particularly during bird migration season. So, a study is currently conducted to examine the effect of such energy on the extinction of some species of birds.

Denmark has been the first market of wind energy since the nineties of the last century, followed by Germany. Today, Spain, Italy, France, United Kingdom and India are the most active markets for such energy, though it is available almost everywhere.

The image features two wind turbines in silhouette against a vibrant sunset sky. The sky transitions from a deep orange at the horizon to a pale blue at the top. The turbines are positioned on the left and right sides of the frame. A white circle is superimposed on the right turbine, containing the text "Wind Energy" in a bold, white, sans-serif font.

Wind Energy

TRANSMISSION

- A number of new projects were launched in addition to boosting existing projects in order to upgrade and develop the power transmission networks and raise their operational efficiency. Establishment of 14 new additional substations operated by 64 transformers with a total capacity of 5,485 MVA and new networks with additional length of 1,329 ckm.
- Total number of high voltage and extra-high voltage transmission substations reached 570 with 1,653 transformers having a total capacity of 148,088 MVA.

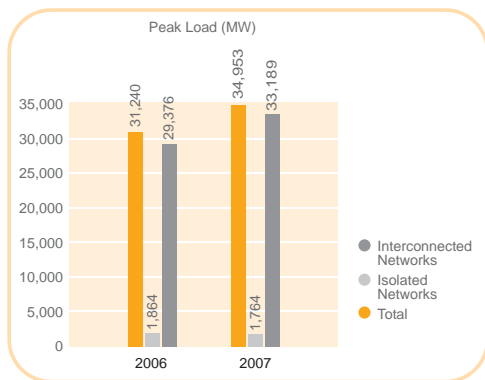
3.6 %

growth rate, bringing up the total length of the power transmission networks to 37,981 ckm

Our Major Achievements

Top priority is accorded to the operation of the national power network with high reliability to ensure that power is supplied to the load centers throughout the Kingdom through our 110/380 KV power transmission lines. This reflects our commitment in all our operational and capital activity to accomplish our mission as an electric utility to ensure smooth, stable and uninterrupted transmission of electric power from its production sites to its consumption locations at the lowest possible costs in addition to providing opportunities to all power producers and large customers to use the power transmission facilities at reasonable prices. A major achievement in respect to operation is our successful preservation of the stability of the national power network during the year 2007 and dealing very efficiently with the increasing demand for electricity supply.

In 2007, the peak load in various regions of the Kingdom reached as high as 34,953 MW, with a record increase of 11.9% over 2006. Maximum peak load of the interconnected networks and isolated networks witnessed a growth of 13% and -5.6% respectively as compared with 2006. Maximum load of interconnected and isolated networks in 2007 reached as high as 33,189 MW and 1,764 MW respectively.



In 2007 several new projects were launched in addition to boosting existing projects to enhance the power transmission network and upgrade its operational efficiency. The following are the major projects undertaken in this respect:

Extra-high Voltage 230/380 KV

- Addition of a new substation with two transformers of 1,004 MVA capacity (Abu Hadriyah, Eastern Region).
- Addition of new overhead line circuits and underground cables having a total length of 92 ckm.
- Boosting 3 existing substations with 3 transformers having a total capacity of 962 MVA and power breakers as well.

High Voltage 110/132 KV

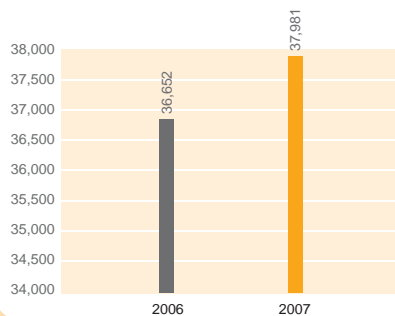
- Addition of 13 new substations with 39 transformers having a total capacity of 2,418 MVA.
- Addition of new overhead line circuits and underground cables having a total length of 1,237 ckm.
- Boosting 19 existing substations including 11 transformers having a total capacity of 1,131 MVA and power breakers as well.

Total of 169 breakers were added including 5 extra-high voltage circuit breakers.

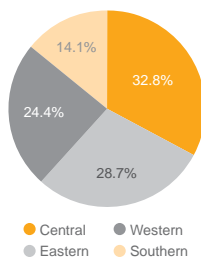
Such projects reflect the growth in the power transmission networks by 3.6% to bring the total transmission network length up to 37,981 ckm at year-end 2007, compared with 36,652 ckm in 2006.

The power networks are spread all over the Company Operating Areas throughout the Kingdom. The percentage distribution per operating area of the power transmission networks length reached 32.8%, 28.7%, 24.4% and 14.1% for Central, Eastern, Western and Southern Operating Regions respectively.

Transmission Networks Lengths (110KV- 380KV)

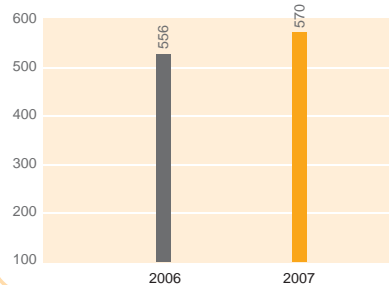


Percentage Distribution of Transmission Networks (110KV - 380KV) in 2007

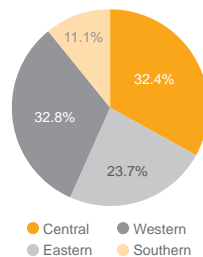


Furthermore, the power transmission networks were boosted up with 14 new substations, bringing the total number of transmission substations at year-end 2007 to 570, representing a growth rate of 2.5% over 2006. As a result of this growth in the number of transmission substations, the overall percentage distribution of the Company's power transmission substations in the Central, Eastern, Western and Southern Regions has witnessed a slight variation bringing the rates to 32.4%, 23.7%, 32.8%, and 11.1% respectively.

Number of Power Transmission Substations



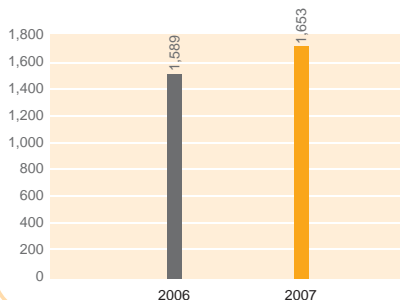
Distribution of the Number of Power Transmission Substations in 2007



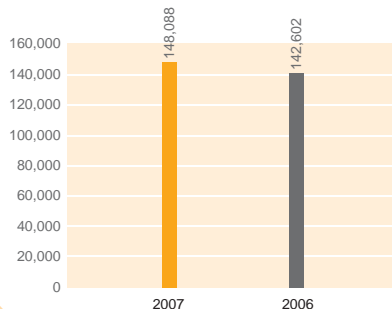
The number of transformers witnessed a growth of 4% bringing the total number to 1,653 in 2007, compared with 1,589 in 2006. Likewise, the capacity of power transformers witnessed a growth of 3.8%, bringing the total capacity to 148,088 MVA in 2007, compared with 142,602 MVA in year 2006.

As a result of this further development in the power transmission networks, the percentage distribution of the total number of transformers at year-end 2007 reached 29.9%, 22%, 38.6%, and 9.5% for the Company's Central, Eastern, Western and Southern Operation areas respectively. Likewise, the percentage distribution of the total capacity of the transformers in 2007 reached 28.2%, 33.3%, 31.5% and 7.0% for the Company's Central, Eastern, Western and Southern Operating Areas respectively.

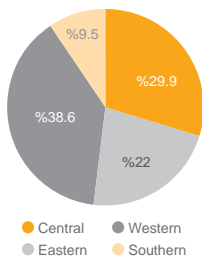
Number of Transformers in Power Transmission Substations



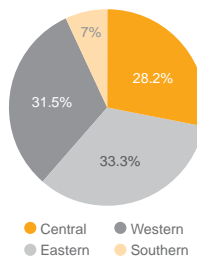
Total Capacity of Power Transmission Substations (MVA)



Distribution of the Number of Transformers in the Power Transmission Substations in 2007



Distribution of Total Capacity of Power Transmission Substations in 2007

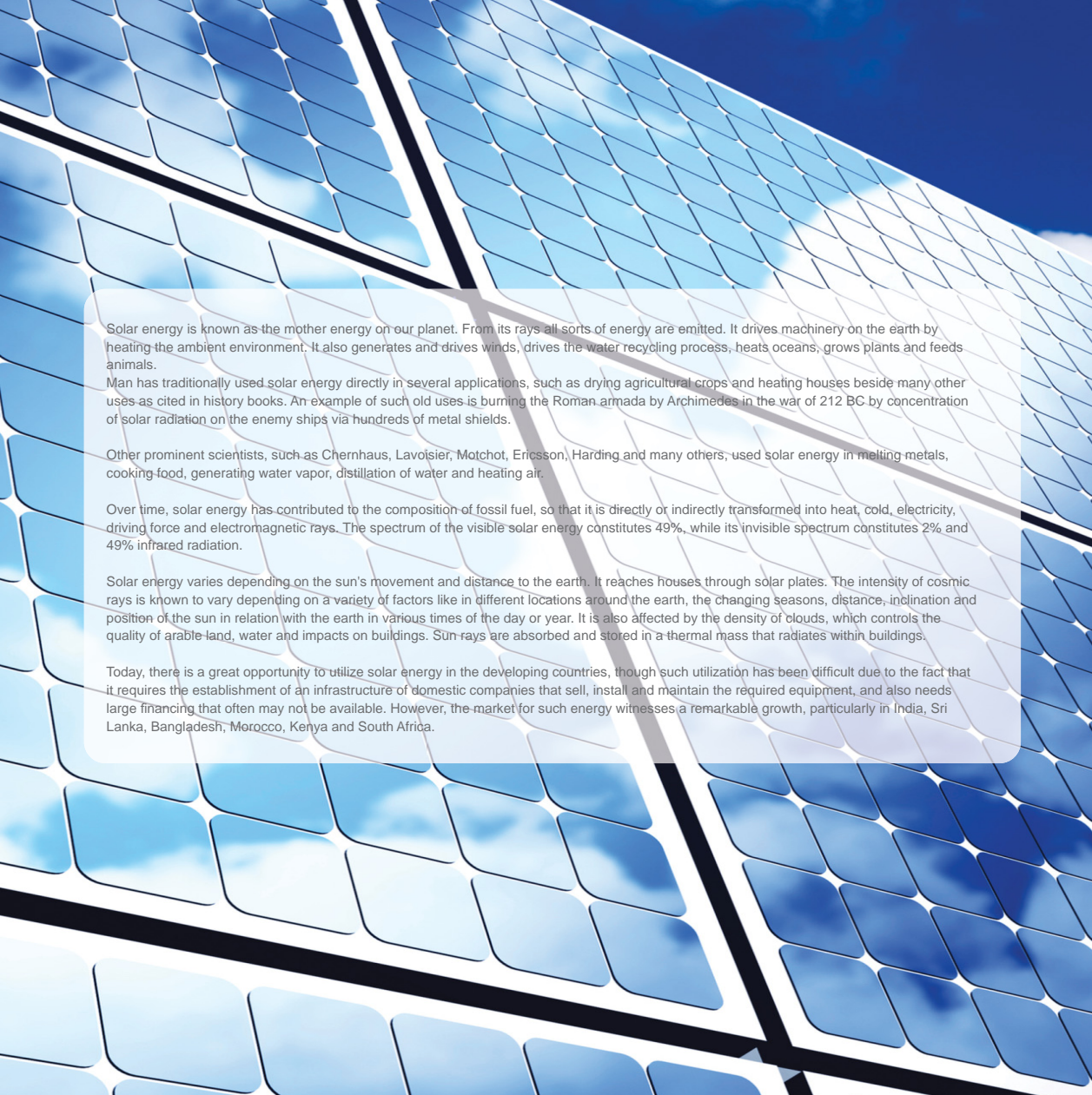


In respect to the projects supporting the electric network for 110 KV and over in the interconnected network, 818 km of optical fiber lines were added to the telecommunication system 'Itesalat', and 11 standby transformers were purchased to cover the potential failures, in addition to the establishment of automated control system for monitoring the performance of the transmission network.

As regards customer services in so far as the Company's transmission network is concerned, several agreements were signed for delivering the electric power to the projects of the transmission customers of 110 KV and over. Such agreements comprise 9 projects, the most important of which are the projects of Saudi Aramco, King Abdullah University of Science and Technology, Rabigh, Hael University, King Saud University, Saudi Organization for Industrial Estates, Dar Alarkan Real Estate Development Company, Al-Fanar Company and Dorrat Al-Riyadh Company. Also, other contracts were signed for 4 major extra-high voltage projects,

namely the establishment of Al-Jubail 380/230 KV stations, connection of the expansion for Power Plant 9 in Riyadh, connection of the Qurayyah Power Plant II and connection of the Rabigh Power Plant II.

Also, major achievements include the approval of the Code of Power Transmission by the Board of Directors of the Electricity and Cogeneration Regulatory Authority in its meeting held on June 18, 2007. Thus, the Kingdom of Saudi Arabia has made a further major step towards the structuring of the electricity industry, given the fact that the existence of the Code of Power Transmission provides a guarantee to the participants in the market in accordance with their anticipated objectives. It comprises the legal principles and technical regulations that govern connection to the public power transmission networks and their uses. The Code will also ensure the application of fair, unbiased principles to all users of the power transmission services in addition to guaranteeing the safe, reliable and effective operation of the networks.



Solar energy is known as the mother energy on our planet. From its rays all sorts of energy are emitted. It drives machinery on the earth by heating the ambient environment. It also generates and drives winds, drives the water recycling process, heats oceans, grows plants and feeds animals.

Man has traditionally used solar energy directly in several applications, such as drying agricultural crops and heating houses beside many other uses as cited in history books. An example of such old uses is burning the Roman armada by Archimedes in the war of 212 BC by concentration of solar radiation on the enemy ships via hundreds of metal shields.

Other prominent scientists, such as Chernhaus, Lavoisier, Motchot, Ericsson, Harding and many others, used solar energy in melting metals, cooking food, generating water vapor, distillation of water and heating air.

Over time, solar energy has contributed to the composition of fossil fuel, so that it is directly or indirectly transformed into heat, cold, electricity, driving force and electromagnetic rays. The spectrum of the visible solar energy constitutes 49%, while its invisible spectrum constitutes 2% and 49% infrared radiation.

Solar energy varies depending on the sun's movement and distance to the earth. It reaches houses through solar plates. The intensity of cosmic rays is known to vary depending on a variety of factors like in different locations around the earth, the changing seasons, distance, inclination and position of the sun in relation with the earth in various times of the day or year. It is also affected by the density of clouds, which controls the quality of arable land, water and impacts on buildings. Sun-rays are absorbed and stored in a thermal mass that radiates within buildings.

Today, there is a great opportunity to utilize solar energy in the developing countries, though such utilization has been difficult due to the fact that it requires the establishment of an infrastructure of domestic companies that sell, install and maintain the required equipment, and also needs large financing that often may not be available. However, the market for such energy witnesses a remarkable growth, particularly in India, Sri Lanka, Bangladesh, Morocco, Kenya and South Africa.



Solar Energy

Distribution and Customer Services

- Electricity supply was connected to 242,547 new customers, while 240 villages and settlements were electrified, bringing up the total number of electrified towns, villages and settlements to 10,953
- Boosting the distribution networks with additional 15,484 transformers having a total capacity of 7,058 MVA, as well as added networks lengths of 14,517 ckm. At year-end, the total number of distribution transformers was 273,785 having a total capacity of 127,780 MVA, and total distribution networks length of 329,734 ckm

4.6%

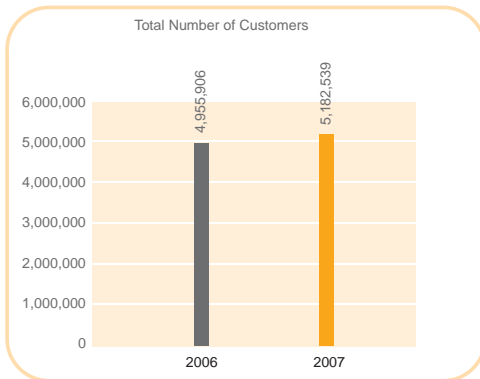
growth in the number of customers, bringing up the total number to 5,182,539 customers

Our Major Achievements

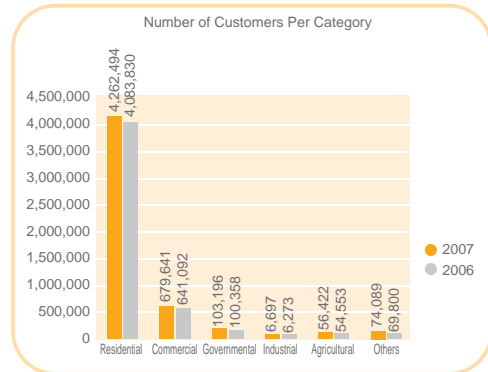
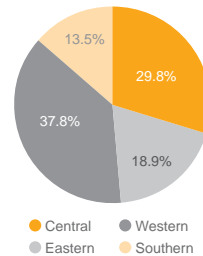
As always, we constantly pursue development of our products and services and ensure that power utility requirements meet the expectations and needs of our customers. Being an organizational unit having direct and constant contact with our customers, we focus our efforts on achieving our mission, including providing safe and highly reliable electricity supply, continuously upgrading our services in order to achieve customer satisfaction at the lowest possible cost through the optimum utilization of our available resources.

By the end of 2007, the total number of customers reached 5,182,539 representing a growth of 4.6% as compared with 2006. During 2007, the number of new customers reached 242,547, covering our four operating areas namely Central, Eastern, Western, and Southern at the rate of 29.8%, 18.9%, 37.8% and 13.5% respectively.

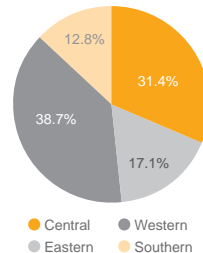
The percentage distribution of the total number of customers per the Company operating areas, i.e. Central, Eastern, Western and Southern was 31.4%, 17.1%, 38.7% and 12.8% respectively.



Percentage Distribution of New Customers in 2007



Percentage Distribution Per Area of the Number of Customers in 2007



Serving the Two Holy Mosques and the Sacred Monuments

At year-end 2007 the operational plan for the 1428H pilgrimage season was accomplished with high efficiency and without any significant power disconnection incident. Such plan included the delivery of 12 MVA power to the third phase of the project for the development of the Stones Bridge at Mina, which led to the total load of 36 MVA. Also, Al-Rahma Mountain Hospital was provided with additional loads (2 MVA), thereby increasing the total load to 4.5 MVA. Furthermore, a part of the loads required for King Abdullah Medical City at Mina was also provided.

Customer Services

In the context of focusing on the development of services provided to the customers, a call center was operated to respond to customers' queries during regular working hours in all of Central and Western sectors, as well as the development of the voice response system (IVR). Also, 22 self-service sets were installed in the Customer Services office to enable customers to inquire on various services, such as requests for delivery of electric power, printing of bills, registration in various services and other services that customers may require.

We also expanded our electronic services provision for customers, such as introducing SMS service. Two short numbers were assigned to such service, namely 75555 and 6555 for Al Jawal and Mobily telephone line users respectively, to facilitate communication with customers via short messages through their own mobile phone. Other expansion was undertaken in the delivery of electronic bills (E-Bills), through which electric power consumption bills are sent to the customers' e-mail address if they have already registered to this service.

In the Eastern Region, a new customer service office was opened West of Dammam.

Upgrading Networks Performance

During 2007, a contract was signed for supplying electronic meters that meet the standard specifications of meters to be used in activating the Company's program related to the automation of the distribution network. Also, estimates of materials for the distribution

network needed to cope up with the anticipated growth in the demand for electric power were prepared.

Consistent with the organizational structure of the Company's operating areas, Northern Borders and Al Jouf Departments have been divided into two separate, independent departments. Also, to keep pace with the development in the electricity industry and to reduce the costs of materials, 17 technical standard specifications for distribution network materials were unified, as well as two processes of the distribution networks operation and maintenance have also been unified. Furthermore, the project requirements for a comprehensive application of the distribution activity was finalized, while the project for remote meter reading was undertaken in the Diplomatic District in Riyadh as an initial step towards its implementation in all cities of the Kingdom.

In order to increase productivity and speed up the process of reconnecting electricity supply to the customers, a GPS system was put into operation in the Riyadh Area for keeping track of emergency team vehicles thereby improving the performance efficiency of the emergency and power reconnection teams. As regards our contractors, a standard contract was developed and its articles were amended, with a view to increase its uses.

Performance Development

During 2007, our front staff in Jeddah Electricity Department received training through a contract with a specialized firm that conducts diagnostic study to evaluate the suitability of employees' competencies and personal attributes to handle a customer service job. Various training courses were identified and conducted on the basis of the findings of such a diagnostic study. Thereupon, post-training evaluations of employees were conducted to identify how far they have improved. To achieve this objective, interpersonal skills seminars were given to the employees to upgrade the standard of customer service. Several developmental studies were also undertaken in various operations and maintenance departments which resulted in a number of recommendations that are now being implemented.

Automated Systems

During 2007, several automated systems were implemented with a view to upgrade the performance in serving the customers and in auditing their accounts. One of these systems is the Report

Manager Program; designed for collecting data from the electric meters of major customers whose average monthly electricity consumption reaches 10,000 KWH or over, and sending the related data to the concerned electricity departments for assessment and audit. In addition, the electronic system for customer use was provided with new screens for displaying and entering data of major customers (public) whose monthly consumption reaches up to 50,000 KWH or over. A program for dealing with non-operating consumption meters will be operational in early 2008.

In the Western Region, an electronic program was attached to the customers' data to review, and update the customers' data in all departments of such region so as to match the corresponding data in the Company's electronic systems.

A program in OLAP was prepared to allow timely access to the private subscriptions data. A program was also prepared on M/F for payment of amounts received from the Ministry of Finance and posting them to the claims account.

On 3.7.2007 a payment system has been implemented aiming at quick posting of customers' payments to their respective accounts with the Company (less than 30 seconds from the time of payment). Additionally, the databases of villages and settlements have been updated in our Geographic Information System (GIS). Efforts are being made to complete the application of the GIS system in all our electricity departments.

Load Displacement and Upgrade of Electric Power Efficiency

During the summer of 2007, displacement of more than 800 MW was effected through the load displacement program; including programs in air-conditioning loads control, cold storage, standby generators and variable tariff.

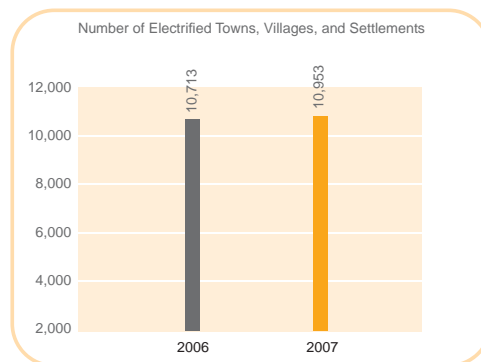
At peak time during the summer of 2007, we applied the variable tariff program in the Central, Western and Northern Regions to reduce loads, thereby contributing to the reduction in the amount of the customers' electricity bills due to reduced tariff applicable beyond peak time.

We participated with the Ministry of Water and Electricity in preparing the national plan for enhancing the energy efficiency as well as the master plan for informative campaign. Moreover, we published the electricity manual for engineering offices and distributed copies of it in all distribution sectors.

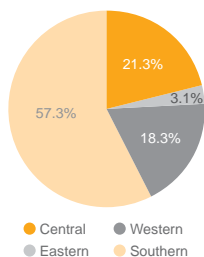
Isolated Generation

During 2007, we signed an agreement for the operation and maintenance of all Company equipment at a very competitive price (9.5 halala/KWH). Such agreement covered also the generation units in Al-Ola, Al-Hanakia, Mahd Al-Zahab, Turba, Al-Kharm, Rania, Amlaj and Al-Qolaiba.

There was a noticeable growth in the total number of electrified towns, villages, and settlements. Electricity was delivered to 204 villages, and settlements during 2007, bringing up the total of electrified towns, villages and settlements to 10,953 at year-end 2007, compared with 10,713 in 2006. Such growth reflects our contribution to the realization of the mission of the Company and our commitment towards the needs and aspirations of our customers in all categories.

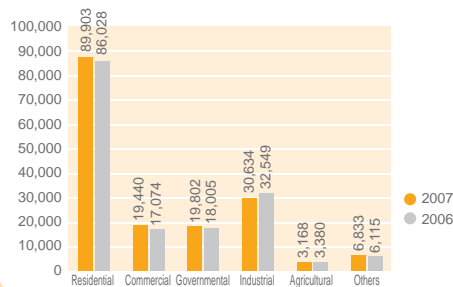


Percentage Distribution of Number of Electrified Towns, Villages, and Settlements in 2007

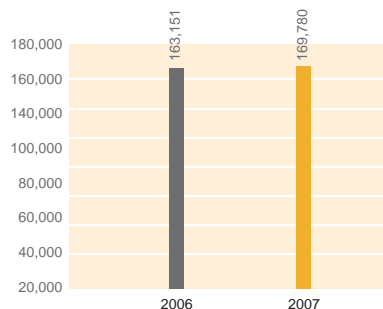


The sold energy witnessed a growth of 4.1%, bringing up the total sold energy at year-end 2007 to 169,750 GWH, compared with 163,151 GWH in 2006. Thus, the percentage distribution of the sold energy in the Central, Eastern, Western and Southern Regions was 30.7%, 31.0%, 30.6% and 7.7% respectively.

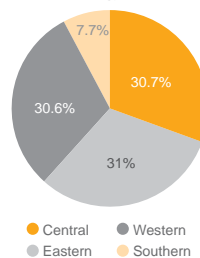
Sold Energy as Per Customer Category (GWH)



Total Sold Energy (GWH)

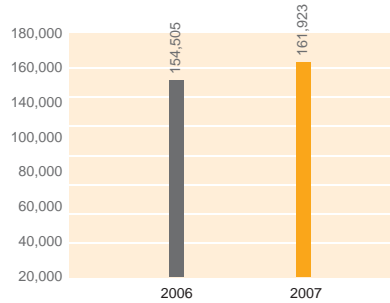


The Relative Distribution of Sold Energy in 2007



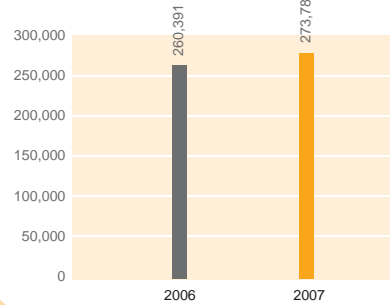
Numerous projects have been accomplished in boosting the power distribution networks for low voltage 13.8KV/69KV resulting in 4.8% growth in 2007, thus bringing the total length to 161,923 ckm compared with 154,505 ckm in 2006. Moreover, the customer connections length for 127V, 220V, and 380V reached up to 167,811 ckm, representing a growth rate of 4.2% in 2007 compared with 2006.

Distribution Networks Lengths (13.8KV - 69KV)

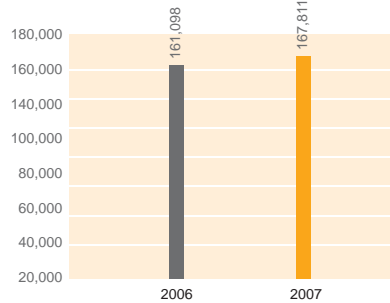


thus boosting the total capacity of the transformers to 127,780 MVA by the end 2007, scoring a growth rate of 5.4% over 2006.

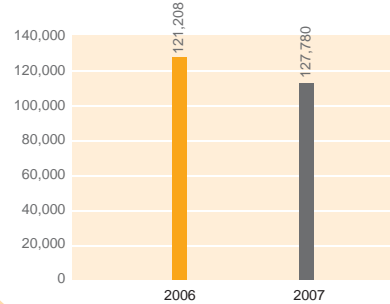
Number of Power Distribution Transformers



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



Total Capacity of Power Distribution Transformers (MVA)



On the other hand, the total number of distribution transformers in 2007 was 273,785, compared with 260,391 transformers in 2006,



**Our Corporate
Social
Responsibility**

- 
- We contributed in supporting and sponsoring social, humanitarian, and charitable activities. We also accomplished a number of initiatives to serve the Company's community.
 - We launched awareness and guidance campaign with the safety program under the theme "Misbah Campaign," which targeted over 600 thousand students.
 - We won the 1427H Madinah Al-Munawara Charity Award for public services in the field of utilities and services in recognition of our outstanding efforts in providing electricity supply to villages and settlements in the Madinah Al-Munawara area.

Our Corporate Social Responsibility

Since the Company's establishment in 2000, Company continues to provide comprehensive electrical services and, at the same time, has been actively involved in activities that are both social and humanitarian in nature with a view to concentrate in charity services as an essential activity in the developing areas that complement our constant efforts to upgrade the human resources. During such short period, we have already performed various roles in several areas, which have led to expand our programs covering both human and social activities.

We intend to keep working in both fields, with the aim at expanding the base of users of services we provide in those areas. We also seek to provide a model for other institutions and companies, which would enrich various areas of community service.

We are continuing this approach which is based on mutual understanding, confidence, and cooperation, to carry on with our responsibility towards all levels and classes of the community with an expression of our close attachment to society. Our support to the community has been based on two fundamental attitudes, namely serving the community as a whole and serving the specific internal community of the Company.

First: Serving the Community as a Whole

1. Contributing to the realization of the overall economic development by providing electric services to villages and settlements.
2. Research and Development
3. Environmental Maintenance and Protection
4. Security and Safety
5. Supporting and Sponsoring Various Activities
6. Supporting Charity Programs
7. Contributing to Support Issues Related to Electricity
8. Summer-hire Program for Students

Second: Our Responsibility Towards the Company's Own Community

1. Continuously and actively involved in ensuring creation of appropriate working environment that is conducive to creativity and innovation, and high-efficiency performance.
2. Adopting high principles and values of business ethics.
3. Organizing social activities for Company employees.
4. Employee awareness campaigns
5. Training and providing employment to our employees' sons during summer season.

Our major achievements in 2007 in respect to our social responsibility related to serving the overall community are:

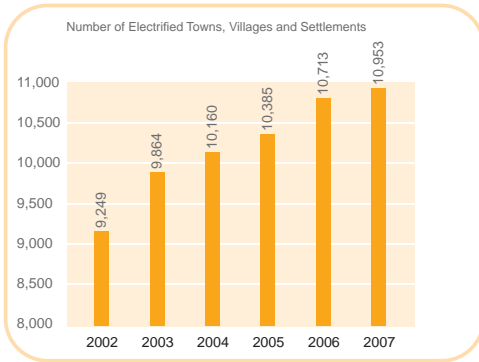
1. Continue Implementing Delivery of Electricity to Villages and Settlements

A great attention is accorded to delivering electricity service to the villages and settlements although we are aware of the fact that provision for such a service lacks economic feasibility to the Company.

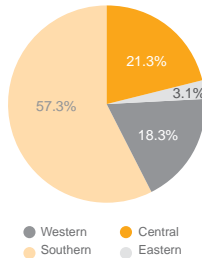
The Company allocated SR 1,890 million for the electrification of villages and settlements during the period 2001 to 2007. Total actual expenditure in this respect during such period was SR 1,187 million.

Moreover, we plan to cover all villages and settlements that have not yet been provided with electricity. During this year, electricity supply has been provided to 240 villages and settlements, which brought up the total of electrified towns, villages and settlements to 10,953 at year-end 2007, compared with 10,713 in 2006, thus a growth rate of 5.3%. Overall rate of total electrified villages and settlements at year-end 2007 was 98.68%, compared with 89.4% in 2000.

We won the 1427H Madinah Al-Munawara Charity Award for Public Services in the fields of utilities and services in recognition of our outstanding efforts in providing electricity supply to the villages and settlements in the Madinah Al-Munawara area, with an overall rate of 99% of the total populated locations according to the data of the regional plan of the area.



Percentage Distribution of Number of Electrified Towns, Villages, and Settlements in 2007



2. Research and Development

The Research and Development Program include the following:

Generation

Upgrade the efficiency of fuel utilization, prolong the usefulness of the assets and parts and maximize their production capacities.

Transmission

Prolong the usefulness of the assets, boost their capacity, upgrade their performance in various operating areas and rationalize their maintenance programs.

Distribution

Optimization of assets utilization efficiency, develop the processes of billing and collection and ensure minimum power loss.

Electricity Load

Develop Demand-Management Programs and promote them so as to increase the annual rates of utilization of existing assets.

Electricity Utilization

Rationalize and upgrade the efficiency of electricity utilization and ensure right balance in their time, horizontal, vertical and sectorized growth rates in various regions of the Kingdom.

Our research and development program consists of four stages, as follows:

First Stage: started in 2005 and most of its programs were completed except for two projects that are still in progress. We continuously support the research and development long-term projects that are implemented in collaboration with certain Saudi universities and research centers.

Second Stage: includes a contract entered into in 2006 with King Abdulaziz City for Science and Technology to study the distribution network load expectations, the actual work of which has started in 2007.

Third Stage: includes contracts, the actual work of which has started in 2007:

- A contract entered into with King Fahd University of Petroleum and Minerals to study the impact of compatibilities on the capacity system and ways of addressing it.
- A contract entered into with King Abdulaziz City for Science and Technology to study the loss in the distribution network.

- A contract entered into with King Abdulaziz City for Science and Technology to study the diagnosis on the condition of termination of cables in transformers and circuit breakers.
- A contract entered into with King Abdulaziz City for Science and Technology to study the development of a model of air-conditioning that simulates the condition of returned load in the transmission network.
- A contract entered into with King Saud University to study the environmental evaluation in power generation plants.

Joint Projects with King Abdulaziz City for Science and Technology:

- In December 2007, we signed an agreement with King Fahd University of Petroleum and Minerals and a foreign consultant to develop the standards of the power quality in the transmission network, the total amount of which was SR1,041,700 to be equally financed by the Company and King Abdulaziz City for Science and Technology.

Fourth Stage: includes pursuing two projects of the first program of research and development and the projects of the second program. In this stage, contracts for the third programs' projects as well as the joint research projects were signed. Also, requests for soliciting proposals on other new projects were prepared, including three related to generation activity, three related to transmission activity and one related to distribution and customer services.

3. Environmental Maintenance and Protection

Maintaining the environment is a major element considered in preparing the Company's operational and capital plans. All environmental aspects are taken into consideration in the projects planning process and developmental programs and plans in addition to promoting awareness among employees of their responsibility towards the environments.

Within such efforts aiming at maintaining the environment, we coordinate with the Presidency of Meteorology and Environment that aims at maintaining and protecting the Kingdom's environment and improving its natural resources and contributing to develop sound environmental policies in all aspects in addition to conducting studies on evaluating the environmental impact.

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

Efforts Exerted to Control Environmental Pollution:

Humans:

We exert utmost efforts, in both design and construction stages, to minimize the environmental effects of power transformers in the populated areas so that the noise level resulting from transformers is based on accepted international standards. Also, we ensure that our power lines are established within safe paths and in conformance with established international standards in this respect.

Moreover, we accord substantial attention to the aesthetic aspects in the visitors' reception buildings in addition to compatibility with the overall appearance of Company buildings and ensuring convenience for the customers.

Air:

Electric power generation plants use several kinds of fuel, such as natural gas, diesel fuel and crude oil. In this respect, we exert utmost efforts in minimizing gas and particles emitted through the chimneys of generation rooms by building power generation plants away from towns and populated areas. We also prevent constructing power generation plants in industrial areas and other utilities so as not to contribute to increasing air pollution rates in those locations.

In preventing pollution, we use clean fuel such as natural gas and diesel fuel as both have less emission compared with the other types of fuel. We have already achieved excellent successes in this

respect as the main power generating plants (such Power Plants 8 and 9 in Riyadh) are operated using natural gas instead of crude oil. Advanced burners in gas turbine boilers are used given the fact that they produce less nitrogen oxide which is known to be a major pollution agent in power generation plants operating on fossil fuel. We have also accomplished the scope of work for conducting comprehensive environmental survey covering the main power generation plants with a view to control and study gas emissions and their effects on air and water, and find suitable solutions to control and minimize such effects. The proposals submitted for the implementation of such survey from the specialized companies will be evaluated.

Moreover, we continue executing the agreements with contractors for the right disposal of petroleum and oil wastes from the generation plants in such a way that it will not cause any adverse effects on the environment.

Water:

Water is a key element in power generation process; as it is evaporated while generating electric power in the coastal areas, it is condensed back into the sea. We, therefore, take into consideration that no other chemical substances are added to the cooling water returning to sea, except for chlorine to control the growth of organisms causing adverse effects to generation plant equipment.

The process of controlling the quantity of chlorine being added is carefully monitored to ensure that it does not exceed limits permissible under the Kingdom's environmental protection standards. This process is constantly checked by a rate-measuring instrument that measures the rates of chlorine concentration in water thereby allowing our operators to control such concentration rates in a timely manner.

Also, biologically treated waste water is used in the area of power plants for irrigation purposes and in the plants' housing complex. Through contracts entered into with specialized companies, fuel and oil residues are safely disposed of regularly so as to prevent environmental pollution from such residues. In this process, oil-polluted water passes through several stages for separating oils from the water and then disposing such oils using environmentally safe methods.

Furthermore, we regularly develop environment-oriented operational and capital plans, such as the development of an integrated air and water control system and upgrading the existing laboratories within the generation plants fitting them with pollution measuring equipment so that they become chemical and environmental laboratories .

Through coordination with the Presidency of Meteorology and Environment, we negotiated with relevant parties to ensure a provision for the type of fuel with less emissions and alternative chemical substances having the least negative impact on the environment.

Soil:

We always take care not to use oils containing carcinogens, such as PCBs, in order to ensure that soil, ground surface and underground water are free of contamination to protect human and animal health.

We, also, constantly cooperate with national and international universities and research institutes to find appropriate solution to the problem of carbon ashes, in addition to organizing specialized courses delivered to our personnel in respect to environment and for sharing experiences with experts and specialists in the environmental issues from both within and outside the Company. We stopped the use of certain chemical substances causing adverse effects on the environment and health, and instead use other non-harmful alternatives. Moreover, studies on the evaluation of the environmental effect of such measures are conducted with the assistance of specialized firms certified by the Presidency of Meteorology and Environment.

4. Security and Safety

- Participation in the public campaign on safety, electricity hazards and prevention.
- Sponsored and supported a workshop on "Electric Equipment Safety Requirements in Buildings and How to Check Them" which was organized with GCC Standardization Organization.

- Participated in the GCC Traffic Week and the accompanying exhibition.
- Participated in the activities of the Arab Traffic Week.
- Participated in the 21st Conference of Civil Defense and the accompanying exhibition.
- Participated in the Safety Exhibition in Riyadh.

Implementation of Safety Program "Misbah Campaign"

In the context of keeping to our social commitment towards our citizens and to deeply establish the principle of public safety, we launched a new awareness and guidance campaign within the Safety Program entitled "Misbah Campaign" through which we targeted over 600 thousand students whose ages range from 6 to 18 in all primary, intermediary and secondary schools in both the Northern and Southern Regions where there were high rates of accidents resulting from misuse of electrical equipment and installations.

Such campaign was a significant form of our cooperation with the Ministry of Education represented by the Department of Student Guidance and the General Directorate of Civil Defense. For this campaign, we devised the cartoon character named "Misbah" to act as the communication channel with junior people with a view to ensure highest rate of acceptance and response to the Safety Program.

The campaign included numerous activities, starting from launching the campaign in both the Northern and Southern Regions, then distributing packages of awareness and guidance publications to all school students, establishing Misbah exhibitions within shopping malls and commercial centers, production of cartoon episodes based on our recognition of the maximum importance of the educational and entertainment side of the campaign. We also launched Misbah website that includes educational, informative and entertaining sections specifically related to safety.

Finally, we launched Misbah competition as a kind of encouraging competition among school students. The competition received such a wide acceptance that 3,816 students participated therein. The winners in such competition were honored in the final celebration

event held at Abha.

In this respect, we managed to achieve during 2007 the first stage of the campaign, and we will continue exerting our utmost efforts to expand such campaign to cover all regions of the Kingdom in the coming years.

5. Supporting and Sponsoring Various Activities

Social Activities

- We participated in diversified campaigns, such as World Day for Smoking Prevention, World Day for Blood Donation and Drug Control.
- We participated in Career Day organized by various Saudi universities, where we introduced the Company and its role in providing electric service, the available employment opportunities and the training programs it provides, so as to encourage national cadres to join the Company.
- We welcomed visitors from various schools and universities, government and military organizations and private sector establishments, etc. as part of annual plan to acquaint visitors of the Company's activities and its role and the services it provides by giving them orientation tours of power generation plants, subscription offices and other facilities and show them our efforts in the establishment of generation, transmission and distribution projects, with a view to illustrate our commitment to the community.

Health Activities

- Participated in the World Day for Smoking Prevention.
- Participated in the World Day for Blood Donation
- Participated in the World Day for AIDS Control.
- Participated in the World Day for Drug Control. Cultural and Scientific Activities
- We organized religious and cultural seminars hosting a selection of topics of religion, science and culture presented by high specialists. We, also, participated in other forums, including the Fourth Annual Media Forum organized by the Saudi Society for Media and Communication.

- We organized an annual forum on Total Quality Management with a view to develop the skills and abilities of Company employees and contributing to introduce the culture and applications of total quality management and sharing information on the latest and best modern concepts and applications in the area of total quality management. Such forums, which have so far been 12 forums, involved academics, managers and quality specialists from business, industrial, service, educational, financial and governmental organizations in addition to Company employees.
- We also organized an annual forum on human resources to address the experiences and latest application and trends in the area of human resources.
- We organized, as well, a seminar on customer service to consider the best approach to develop customer service and promote mutual trust between the Company and its customers, and sharing experiences with other service providers in the area of developing customer service to ensure customer satisfaction. Such seminars, five of which have so far been held, involved a number of high specialists in the area of customer service in the Gulf area and other Arab countries.

6. Charity Activities

Charity Societies

During 2007, there were several open activities and programs in addition to supporting certain activities performed by some societies in order to promote their programs or realize their financial targets. This included our donations to more than 340 charitable societies and institutions throughout the Kingdom in coordination with the Ministry of Social Affairs.

Supporting the Programs for People with Special Needs

Consistent with our social role, we have accorded a particular attention to people with special needs, to give contributions to enable them to develop their abilities and be able to positively

interact with others. In this context, we contributed for the needs of and provision for the handicapped by donating to a special program in order to support the operating expenses of society centers and their free services.

Orphan Care Program

We organized an open day for the Charity Society for Orphans (Insan) at the entertainment center, Riyadh, where the orphans have participated in a number of sport and recreational activities. We presented them with gifts as well as a package containing materials related to Misbah Program.

7. Support Issues Related to Electricity

Sponsoring Conferences, Seminars and Forums

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

- In support of our relationships with Saudi institutions and companies and various scientific initiatives, we supported the scientific forum organized by King Abdulaziz City for Science and Technology in collaboration with the Council of Chambers of Commerce and Industry under the theme "Role of Bold Capital in Utilization of Research Findings in the Kingdom", besides our presentation of several papers, including a paper on the efforts and activities in respect to research and development.
- We participated in sponsoring the Seventh Engineering Conference organized by the Faculty of Engineering, King Saud University, in coordination with the Saudi Engineers Society under the theme "Towards a Competitive Environment in the Global Economy" by participation in the exhibition accompanying the conference.
- We sponsored the exhibition on graduation projects of the Faculty of Engineering, King Saud University.

Rationalization of Electric Energy Consumption

We participated in the National Program for Management and Rationalization of Energy Consumption being managed and implemented by King Abdulaziz City for Science and Technology with a financial contribution amounting SR 1,500,000 per year for four years. Such program aims at conducting studies on auditing energy consumption and disseminating awareness on upgrading the efficiency of energy consumption and sound management of loads as well as upgrading the efficiency of energy consumption in both oil and gas sectors. That was in addition to the following achievements so far accomplished:

- Specialized informative campaign to disseminate awareness on, and marketing of, the time-of-use tariff to the customers, and disseminating information on the optional variable tariff to encourage the targeted sectors to adopt it.
- We started preparation of a plan to launch a comprehensive specialized informative campaign to disseminate awareness among customers on the efficiency of electrical equipment power consumption.
- Conducting studies on the status of pricing capacity coefficient.

Tariff

In respect to the tariff on electric energy consumption, we introduced an experimental variable tariff plan which is a technique used internationally that we have gradually applied to both the industrial and commercial sectors from year 2006.

Such adequately flexible experiment was based on a system for availing incentives that are offered to factories and the industrial sector in the form of reducing the amount of customer bills in return for the displacement of loads at peak time, which contributed, in spite of their short duration, to reducing peak loads leading to a balance in the stability of the electric network. We continued the application of such experiment during 2007, and it is expected that it will lead, if widely applied, to minimize the large investments required in the generation sector.

8. Summer-Job Program for Students

The Company's Human Resources aims at providing opportunity for student employment during summer holidays in order to contribute to their performance and ability development through sharing of experiences, giving them hands-on practice experiences to acquire useful information and know-how that are business in nature and to become accustomed to discipline in addition to investing in student leisure time in this period every year. The total number of students who participated in such program kingdom-wide was 450 students.

Second: Our Responsibility Towards the Company Community

As we perform our social responsibility towards serving the internal community of the Company, we continued in 2007 to provide various articles, materials and information that promote fellowship and loyalty among our employees and motivate them to cooperate and provide the best service to all Company customers, in addition to disseminating news and information about the Company's achievements and activities.

We also continued, through the Company Intranet, providing the employees with information on all services and products available in the local market as appropriate to them and their families. We also post on the Intranet informative messages on the available offers and facilities. This is in addition to electronically disseminating information on various aspects to employees, such as congratulatory messages, condolences, decision announcements and circulars.

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

Code of Business Ethics

A Code of Business Ethics was approved in the context of our efforts to create an ideal working environment and commitment to the best ethical values in achieving our objectives. Such Code

consists of two documents. The first contains the Company's principles and values, which aim at preserving the reputation of the Company and effective performance standards. The second consists of the Company's work ethics, which emphasize compliance with high level of honesty and integrity in all operational activities of the Company and prevents non-ethical conducts in all levels.

We are committed to strictly comply with such Code by providing the necessary training to our employees to introduce them to the values contained in the Code of Ethics and develop internal standards, policies and procedures and control mechanisms and creating the appropriate working environment as well as specifying accountability levels.

Social Activities

Orientation Visits

As part of our annual plans, we welcomed visitors coming from various universities, schools, government and military organizations, and private sector establishments, etc., arranging for them visits to power generation plants, subscription offices and Company facilities to acquaint them with the Company's activities, its role and the services it provides and show them our efforts in the establishment of generation, transmission and distribution projects, with a view to illustrate our commitment to the community. In addition, we organized for Company employees, a total of 24 visits to various sites and facilities of the Company throughout the Kingdom.

We, also, organized a visit to Power Plant 9 in Riyadh for a delegation consisting of the Chairman and Members of the Board of Directors of the Chamber of Commerce and Industry of Riyadh, the Secretary General and Chairman and members of the Industrial Committee of the Chamber, and a selected group of commercial and industrial sectors businessmen, a delegation from King Abdulaziz City for Science and Technology an organization that takes care of talented people, to introduce them to the plant expansion project that reflects constant efforts to promote the

electric infrastructure system. Moreover, we organized visits for a number of Arab and foreign delegations to tour some Company facilities.

Cultural Activities

- We organized religious and cultural seminars hosted by selected prominent religious, scientific and cultural specialists who addressed a variety of issues with the aim of promoting awareness among Company employees in regard to those issues.

Disseminating Awareness

- Publishing awareness messages aiming at cultivating the concept of the environmental culture among all Company employees.
- Publishing awareness messages aiming at enhancing positive attitudes and practices of Company employees.
- Launching of "Misbah" campaign designed for the Company employees' children in order to introduce them to the hazards of improper use of electricity.
- Publishing awareness messages aiming at warning Company employees on viruses affecting computers.
- Publishing awareness messages in respect with security and safety.

Training and Employment of Employees' Sons

The Company's Human Resources policy aims at promoting the efforts intended to serve the Company's community through the program of training and employing the sons of Company employees during summer holidays, which provide an opportunity for them to receive training during summer holidays within the Company's training institutes or with approved training institutions in various areas, such as in fields of computer training, English language, and self-Development. The total number of courses given in this respect during 2007 was 48 courses. The total number of participants and users of the said program reached 415.



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- Credit Ratings
 - Electricity Sukuk Company
 - Program for Private Sector Participation in Electricity Projects

Credit Ratings

The strong and accelerating economic growth in all areas in the Kingdom has resulted in rising demand for electric power, thus requiring the Company to expand its generating capacity, and upgrade its power transmission and distribution infrastructure by implementing a number of projects for the years 2007 and to continue in 2008 necessitating additional large investments, the funding of which comes partially from the Company's resources itself and through borrowing and providing the opportunity for partnering with the private sector in the production of electricity.

We, therefore, sought new sources for financing its projects by issuing Islamic bond (Sukuk), and also by borrowing from both domestic and international sources and seeking for investors willing to participate in independent power production projects.

To achieve such an objective, we had to ensure a credit rating that will enable the Company to market its projects under the most appropriate terms and conditions and lowest possible costs, and without providing any guarantee neither in money nor in kind. In this context, arrangements were made with three major international credit rating agencies, namely Fitch Ratings Ltd, Standard & Poors, and Moody's to assess the Company in terms of its creditworthiness. Such assessment was based on the following strengths:

- Monopolistic position of the Company in the fields of electric power generation, transmission and distribution in the Kingdom.
- Share ownership of the State in the Company, reaching 74%.
- Constant support received by the Company from the State as represented in the facilities provided to the Company in the form of non-interest bearing long term loans.
- Good financial position compared with similar electricity companies in various countries throughout the world.

After a thorough research and evaluation work conducted over a period of several months by the said credit rating agencies, we were given the following credit ratings: credit rating of "A+" from Fitch Ratings Ltd, a credit rating of "AA-" from Standard & Poors and a credit rating of "A1" from Moody's. All three credit rating agencies are world-renowned firms specialized in providing credit risks evaluation and ratings.

Such high credit ratings of the Company, as rated by globally recognized credit rating agencies, confirm the soundness of the attitudes and performance of the Company. Furthermore, such high ratings reflect the strength of the Company and its solid and sound financial and operational position, allowing the Company to achieve its objectives in financing its future developmental plans and projects under the ever increasing needs for electric power in the Kingdom.

The Company is highly rated as it is a key economic development element of the Kingdom and because of its active outstanding record in coping with the increasingly growing demand for electric power, in addition to the fact that it has always effectively led the production of electric power all over the Kingdom.

Such high ratings will also enable the investors to effectively participate in the program for private sector participation in the electricity projects, particularly given the strong high financial indicators of such projects based on the highest standards generally applied in this respect.

A+ AA- A1

New Sources for Additional Funds

Since its establishment, Saudi Electricity Company has endeavored to finance all its capital projects from its own resources as well as from borrowing in the form of syndicated loans often extended to the Company by a group of domestic banks.

Due to the very large volume of the current and future capital projects of the Company and the impossibility of funding the projects all by itself, the Company had to seek alternative sources and channels for long term financing. Among such alternatives considered by the Company was the issuance of Islamic bonds (Sukuk), the first of its kind. Of the major reasons underlying using such a source is the desire of the Company to diversify its financing sources, depend on a larger base of financiers and reduce financing costs through issuing relatively low cost bonds (Sukuk) compared with other standard borrowing forms.

Furthermore, the goals of the Company include contributing to enhancing the Sukuk market of the Kingdom and creating a secondary trading market for such instruments. Accordingly, the Company signed in 2007 several subscription agreements to its Sukuk which was then the first and largest issue of its kind. HSBC Saudi Arabia Limited has been appointed as the lead manager and the sole book runner for Sukuk, the value of which was five billion Saudi Riyals.

During the ten-day offering period, the Company organized a marketing campaign for Sukuk among the investors during which the order for subscriptions built up quickly to about SR 7,000 million, nearly three times SEC's original issuance target of SR 2,500 million. Such a large demand became the motif of encouragement for Saudi Electricity Company to issue Sukuk amounting to SR 5,000 million, the maximum limit permitted by the Capital Market Authority.

Investors that subscribed to Sukuk include a variety of retirement funds, mutual funds, insurance companies, Takaful companies and other companies, and domestic banks as well as foreign banks having branches in the Kingdom.

A part of such issue was allocated to accelerate repayment of high-cost debts as the amount of SR 4,550 million was repaid to a number of banks which resulted in the availability of substantial amounts to be directed to other purposes. The remaining portion of the proceeds was directed to financing the capital projects of the Company.

شركة الكهرباء السعودية
Electricity Sukuk Company

SAUDI ELECTRICITY COMPANY (SEC)
*(a joint stock company incorporated under
the laws of the Kingdom of Saudi Arabia)*
Commercial Register Number 1010158683

is Offering
SUKUK EXPIRING 2027

The Sukuk expiring 2027 (the "Sukuk") of Saudi Electricity Company (the "Issuer" or "SEC") are being issued at par, without discount or premium.

On the 15th of July, October, January, and April in each year, commencing on 15 October 2007 and up to and including 15 July 2027 or, if any such day is not a Business Day (as defined in the "Terms and Conditions" section on page 12 of this Offering Circular (the "Conditions")), the next following Business Day (such a "Periodic Distribution Date"), the Issuer is expected to pay an amount equal to the Periodic Distribution Amount (as defined in the Conditions) to the holders of the Sukuk (the "Holders") calculated on the basis of the Benchmark Rate (as defined in the Conditions) plus a specified margin, calculated as a percentage rate per annum, (the "Margin") of the face value of the Sukuk, as in current at the end of the relevant Periodic Distribution Date (as defined in the Conditions).

Under a purchase undertaking to be entered into by the Issuer for the benefit of the Custodian and the Sukukholders' Agent (such as defined herein) (to, and on behalf of, the Holders) on or about the Closing Date (as defined herein) (the "Purchase Undertaking"), the Issuer will undertake to purchase the Sukuk from Holders at a specified predetermined Purchase Price (as defined in the Conditions) which decreases over time, on the Periodic Distribution Dates falling on the 15 July of 2012, 2017 and 2022 (such a "Fifth-Year Date") (see Condition 11 (Disbursements)).

Lead Manager and Bookrunner
HSBC
HSBC SAUDI ARABIA LIMITED

Shariah Coordinator
SABB
Amanah

Co-Managers


This Offering Circular includes information given in compliance with the Listing Rules issued by the Capital Market Authority of the Kingdom of Saudi Arabia (the "Authority"). The Directors, whose names appear in the "Management and Employees" section on page 63 of this Offering Circular, collectively and individually accept full responsibility for the accuracy of the information contained in this Offering Circular relating to the Issuer and the Sukuk, and confirm having made all reasonable enquiries, due to the best of their knowledge and belief, there are no other facts the omission of which would make any statement herein misleading. The Authority and the Saudi Stock Exchange ("Tadawul") do not take any responsibility for the contents of this document, do not make any representation as to its accuracy or completeness, and expressly disclaim any liability whatsoever for any loss arising from, or incurred in reliance upon, any part of this document.

This Offering Circular is issued on 10 / 6 / 1428H (corresponding to 25 / 6 / 2007)


الشركة السعودية للكهرباء
Saudi Electricity Company
Empowering Energy

Program for Private Sector Participation in Electricity Projects

Our concern in investment in the electric power generation has been based on several elements, the top of which is the decision of the Council of Ministers on restructuring the electricity sector, including, among others, requiring participation and investment in the projects of electric power generation and transmission within and outside the Kingdom. We, also, direct our efforts in this vital area towards creating a competitive market for the electricity industry by opening opportunities to the private sector to invest and participate in the Company's generation projects.

Furthermore, the large, accelerating economic growth witnessed in the Kingdom in all areas has led to rising demand for electricity, giving rise to our need to expand power generation, transmission and distribution by implementing numerous projects which require large investments besides the Company's own resources.

Since its establishment and start of its operation on 5.4.2000 up to year-end 2007, the Company has accomplished outstanding achievements in spite of such relatively short period and the substantial financial difficulties that faced the Company, the reduction of the electric tariff in 1421H in addition to the efforts exerted by the Company in respect to the standardization of its processes and procedures, completion of the fundamental bases for restructuring its activities and the requirements arising therefrom as regards the development, training and nationalization of the human resources to meet the requirements of the Company's activities and upgrade the efficiency of its performance.

The Company managed to ensure the right balance between those tasks and continued to maintain a stable power supply while meeting the future requirements for electricity, taking into consideration the accelerating pace of the economic growth in the Kingdom and the intensification in the fields of construction, service, and industrial sector, and the establishment of a number of new industrial estates.

The annual maximum load growth rate climbed to over 10%, and the total number of customers reached as high as five million,

compared with about 3.5 million customers 8 years ago (a rate increase of 43%). Furthermore, the maximum load reached as high as 34 thousand MW at year-end 2007. It is expected that maximum load will reach 62 thousand MW by year 2017 based on the present and anticipated growth rates, which means that there is a dire need to add further 30 thousand MW during the next decade. To cope up with the high and accelerating demand for electric power, reaching as high as 10% in certain regions of the Kingdom during the summer of 2007, the Company has exerted substantial efforts in several areas as follows:

1. Establishment of New Projects

Total expenditure in 2007 on generation, transmission and distribution projects was SR 13,465 million, bringing the total costs of completed projects since the Company's establishment in 2000, as well as those projects that are still under implementation until year-end 2007, to over SR 93,943 million. Such projects which have already been completed or still in progress were financed by the Company itself.

2. Projects of Water and Electricity Company

We participated with the General Organization for Water Desalination in the establishment of Water and Electricity Company, a limited liability company for the production of desalinated water and electricity. Such company has entered into contracts to build two new plants and invited investors for building a third plant through joint ventures between the private sector and both Public Investment Fund and Saudi Electricity Company. The cost of such plant is estimated at SR 28 billion. The said three plants are expected to have a power generation capacity of 2,750 MW.

3. GCC Interconnection Authority:

We participated in the capitalization of the GCC Interconnection Authority with a view to upgrade the reliability of the electric power

systems and to reduce the volume of the required capital investments to create generation reserve and establish new generation plants. Our share, amounting SR 1,305 million, represents 31.6% of the total capital of GCC Interconnection Authority. We shall be able to benefit from such project after the completion of the first phase in 2009 interconnecting the power system networks of the Kingdom of Bahrain, the Kingdom of Saudi Arabia, Qatar and Kuwait.

4- Projects Already Approved and Under Implementation:

These projects include the Marafiq plant project in Jubail for producing electricity and desalinated water which carry an investment cost estimated at SR 13 billion. Production of electricity from such project will reach MW 2,750. Our share in such a project is 5%.

5- Independent Power Projects:

Consistent with the policies of the State with respect to privatization, competition, and availing opportunities offered to the private sector for participation in investment schemes in a number of activities, including electric power production, we have developed partnerships with the private sector in the field of electric power production. Some of the efforts exerted in this respect are as follows:

- Taking active steps to encourage the private sector to invest in our projects by forming a dedicated taskforce to implement a plan of development for such projects.
- Entering into contracts with international major consulting firms having the expertise, experience, technical know how and legal and financial knowledge and experience in all fields of electric power so as to support the above-mentioned taskforce.

Our related attitude in encouraging investors to enter into independent power projects is based on our recognition that the large-scale economic development being witnessed in the Kingdom requires the establishment of a large number of generation plants. We have already identified the targeted projects in this respect, and the required documents for soliciting offers have been prepared for distribution among investors inviting them to invest in such projects under a long-term "build-own-operate" scheme.

There are three projects within the first phase in this respect, as follows:

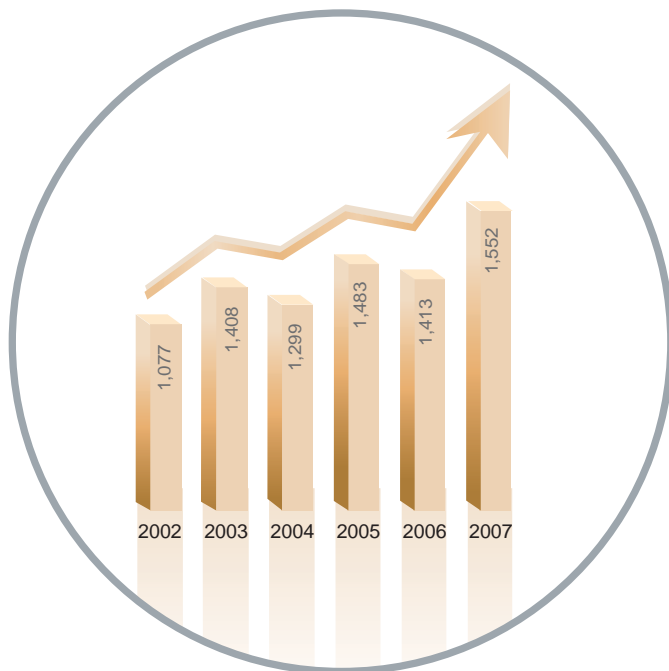
- The first will be at Rabigh in the Western Region, with a capacity reaching 1,200 MW. The documentation for such project has already been prepared, and it is anticipated that the project will start actual operation in 2012. Interested parties from the private sector were invited in December, 2007, to participate in such project.
- The second will be at Riyadh, with a capacity estimated at 2,000 MW, and will start operation in 2013. Interested parties from the private sector will be invited in 2008.
- The third will be at Qurayyah in the Eastern Region, with a capacity of 2,000 MW, and will start operation in 2014. Interested parties from the private sector will be invited in 2009.



Program for Private Sector Participation in Electricity Projects

For more information you can visit the SEC website
www.se.com.sa





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

- Auditors' Report
- Balance Sheet
- Statement of Income
- Statement of Cash Flows
- Statement of Changes in Shareholders' Equity
- Notes to the Financial Statements

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
ASSETS			
Current Assets			
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
Total Current Assets		27,320,396	21,018,260
Non-Current Assets			
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
Total Non-Current Assets		109,189,814	106,190,005
TOTAL ASSETS		136,510,210	127,208,265
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current Liabilities			
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
Total Current Liabilities		34,675,661	27,340,123
Non-Current Liabilities			
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
Total Non-Current Liabilities		53,700,086	52,739,273
Total Liabilities		88,375,747	80,079,396
Shareholders' Equity			
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
Total Shareholders' Equity		48,134,463	47,128,869
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		136,510,210	127,208,265

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
Operating Revenues			
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
Total Operating Revenues		20,979,452	19,706,657
Operating Expenses			
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)
Total Operating Expenses		(19,724,682)	(18,552,083)
Operating Income		1,254,770	1,154,574
Other income and expenses, net	23	338,798	259,258
Net income before zakat		1,593,568	1,413,832
Deferred zakat expenses	12	(40,677)	-
NET INCOME FOR THE YEAR		1,552,891	1,413,832
Earnings Per Share (SR)		0,37	0,34

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
OPERATING ACTIVITIES		
Net income before zakat	1,593,568	1,413,832
Adjustments to reconcile net income to net cash provided by operating activities:		
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
(Increase) decrease in operating assets and liabilities:		
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
Net cash from operating activities	17,445,804	14,322,250
INVESTING ACTIVITIES		
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
Net cash used in investing activities	(15,531,223)	(12,024,178)
FINANCIAL ACTIVITIES		
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)
Net cash (used in) from financing activities	(525,946)	894,681
NET CHANGE IN CASH AND CASH EQUIVALENTS	1,388,635	3,192,753
Cash and cash equivalents beginning of the year	4,200,669	1,007,916
CASH AND CASH EQUIVALENTS, END OF THE YEAR	5,589,304	4,200,669

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 Capital	Statutory Reserve	General Reserve	Retained 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 (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 (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
Electricity Consumers Receivable		
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
Less: Provision for doubtful receivables (4b)	(1,878,782)	(1,804,223)
Net Electricity Consumers' Receivable	12,502,329	9,629,912
Accrued revenues	922,407	911,479
Total	13,424,736	10,541,391

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
Total	1,800,466	1,660,125
Less: Provision for doubtful debts	(81,194)	(79,898)
	1,719,272	1,580,227

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
Total	6,776,342	4,950,991
Less: Provision for slow moving inventories	(189,258)	(255,018)
	6,587,084	4,695,973

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							
Cost:							
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	80,970	605,521	10,818,072	50,490	32,568	1,814,672	13,402,293
Disposals	-	(18,717)	(255,084)	(7,384)	(148,508)	(9,122)	(438,815)
December 31, 2007	1,410,099	12,942,472	173,337,129	2,437,754	1,069,286	3,402,588	194,599,328
Accumulated Depreciation:							
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	-	513,609	5,539,613	80,784	48,970	188,560	6,371,536
Disposals	-	(16,578)	(239,347)	(7,384)	(148,273)	(8,931)	(420,513)
December 31, 2007	-	7,810,616	95,366,294	1,544,232	950,121	1,273,375	106,944,638
Net Book Value:							
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	1,329,129	5,042,083	72,708,113	923,816	135,802	503,292	80,642,235

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

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
Adjusted Net (loss) Income Computation:		
Income before Zakat	1,593,568	1,413,832
Add: Zakat adjustments	(8,209,550)	(9,289,492)
Adjusted Net (Loss) Income	(6,615,982)	(7,875,660)
Zakat base computation:		
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
Less:		
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)
Zakat Base – Negative	(5,095,810)	(21,852,995)

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
Less: Current portion of long-term loans	(979,300)	(741,114)
	3,846,118	9,015,415

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
	3,846,118	9,015,415

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 of Shares	Ownership Percentage
Government	3,096,175,320	74.31%
Saudi Aramco	288,630,420	6.93%
Other shareholders	781,788,075	18.76%
	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
Total	2,947,624	797,936	3,014,752	6,760,312	6,349,688

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
	284,173	182,874

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
	338,798	259,258

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

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.



One of the prize-winning pictures in Al-Mishkat Media Art.

Achievements

up to 30 September 2007

Percentage	The establishment of SEC on 5 April 2000	After the establishment Up to the end of 2007	
Fixed Assets - Net	60 billion	103 billion	72% ▲
Total Shareholders' Equity	26 billion	48 billion	85% ▲
Generation Capacity (MW)	25,790	37,482	45% ▲
Transmission Network Length - (cKm)	29,600	37,981	28.3% ▲
Distribution Network Length - (cKm)	226,664	329,734	45.5% ▲
Number of Customers	3.5 million	5.18 million	48% ▲
No. of Towns, Villages & Settlements	7,600	10,953	44% ▲
Number of Employees	31,000	28,029	(9.6%) ▼
Saoudization Rates	73%	83.85%	15% ▲

Saudi Electricity Company will still face the challenges in meeting the increasing demand for electricity.

We look forward to receiving your comments on
the Company's performance and the 2007 Annual
Report at the following e-mail address:
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