

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

Independent Auditors' Report

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Statements**



Dr. M. Al-Amri & Co.

P.O. Box 8736
Riyadh 11492
Kingdom of Saudi Arabia

(A member firm of Baker Tilly
International)

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

P.O. Box 87293
Riyadh 11642
Kingdom of Saudi Arabia



INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying balance sheet of Saudi Electricity Company (A Saudi Joint Stock Company) as of December 31, 2005 and 2004 and the related statements of income, changes in shareholders' equity and cash flows for the years then ended, including the related notes from 1 to 27. These financial statements are the responsibility of the Company's management and have been prepared in accordance with the provisions of Regulations for Companies and presented to us together with all the information and explanations which we required. Our responsibility is to express an opinion on these financial statements based on our audit.

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

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

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

For Dr. M. Al-Amri & Co.

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



For Ahmed A. Bajnied & Co.

Asaad Saleh Basudan
Certified Public Accountant
Registration No. 342



Muharram 27, 1427H
February 26, 2006G

Balance sheets

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

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

Statements Of Income

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

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

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

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

For the Year Ended on Dec 31 2004

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

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

STATEMENTS OF CASH FLOWS

For the Years Ended on December 31

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

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

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

1) ORGANIZATION AND ACTIVITIES

Name of the Company: Saudi Electricity Company (hereinafter referred to as "SEC" or the "Company")

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

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

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

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

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

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

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

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

2) Summary of Significant Accounting Policies

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

a- Accounting Estimates

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

b- Cash and Cash Equivalents

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

c- Consumer Receivables

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

d- Inventories

Generation, transmission and distribution inventories of materials, supplies and fuel are stated at the weighted average cost, net of allowances for slow moving and obsolete items.

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

e- Investments

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

Investments in entities in which the Company has less than 20% ownership are accounted by following the cost method. Dividends from such entities are recognized as income when declared.

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

f- Fixed Assets

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

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

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

g) Capitalization of Finance Costs

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

h) End of Service Benefits

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

i) Zakat

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

j) Revenue

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

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

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

k) Expenses

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

l) Statutory Reserve

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

m) Foreign Currency Transactions

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

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

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

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

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

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

7a. Gulf Cooperation Council Interconnection Authority

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

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

7b. Water and Electricity Company

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

7c. Al-Shuaiba Company for Water and Electricity

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

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

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

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

9) Fixed Assets – Net

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

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

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

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

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

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

10) Bank – Overdrafts

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

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

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

Article 2.11 of the Council of Ministers' Resolution 169 stipulated that if the need arose to change fuel prices used in determining electricity tariff, SERA would review production cost, and report its recommendations to the concerned government authority in charge of tariff determination. Fuel price changes per this Article shall not take effect until the authority issues its decision with respect to the tariff.

The impact of price differences between what is accepted by SEC and what is claimed by Saudi Aramco for the year 2005 is SR 2,651 million, and the cumulative amount from the date of Company's inception to December 31, 2005 is SR 14,296 million. Also, the company has another dispute with Aramco relating to crude oil handling fee amounting to SR 1,090 million as of December 31, 2005 (2004: SR 897 million). Based on the above mentioned Resolution, management does not expect any liability on the Company and therefore this amount has not been reflected in its accounting records. Saudi Aramco still insists on its claim as of the date of these financial statements.

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

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

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

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

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

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

c- Zakat Status

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

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

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

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

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

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

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

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

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

16) Government Loan

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

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

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

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

17) Share Capital

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

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

18) General Reserve

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

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

19) Operating and Maintenance Expenses

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

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

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

20) General and Administrative Expenses and Provisions

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

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

21) Board of Directors Remuneration and Allowances

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

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

22) Other Income and Expenses – Net

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

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

23) Proposed Dividend and Earnings per Share (EPS)

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

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

Saudi Aramco raised a claim for its share of yearly cash dividends as well as dividends that will be declared in the future. The claim for the period from the inception of the company on 5/4/2000 to 31/12/2004 amounted to SR 725 million. SEC believes that Aramco is not entitled to cash dividends being a government entity fully owned by the government, and that the above mentioned Resolution No. 169 applies to Aramco.

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

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

24) Commitments And Contingencies

a) Commitments

SEC has entered into contractual agreements to construct and erect utility plants and other assets. Such commitments amount to approximately SR 13,806 million at the balance sheet date (2004: SR 15,823 million). The expected time to fulfill such commitments is between one to three years.

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

b) Contingencies

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

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

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

25) Related Party Transactions

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

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

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

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

26) Prior Year Adjustment

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

27) Comparative Figures

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