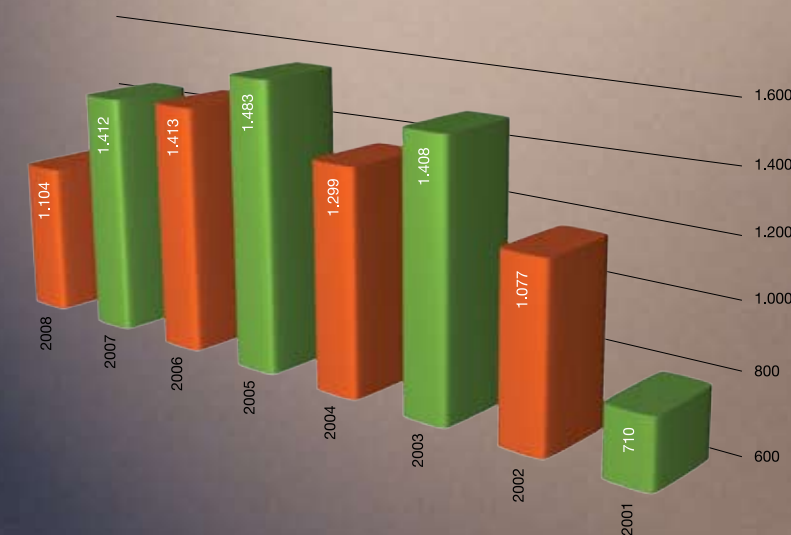


FINANCIAL STATEMENTS



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Deloitte & Touche
Bakr Abulkhair & Co.
Public Accountants - License No. 96
P.O. Box 213, Riyadh 11411
Kingdom of Saudi Arabia

Tel : +966 (1) 4630018
Fax: +966 (1) 4630865
www.deloitte.com
Head Office: Riyadh

AUDITORS' REPORT

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

Scope of Audit

We have audited the balance sheet of **Saudi Electricity Company** (a Saudi joint stock company) as of December 31, 2008, 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.

Unqualified 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, 2008, 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 bylaws 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
Safar 29, 1430
February 24, 2009



Audit • Tax • Consulting • Financial Advisory

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BALANCE SHEET

AS OF DECEMBER 31, 2008

	Notes	2008 SR'000	2007 SR'000 (Restated)
ASSETS			
Current assets			
Cash and cash equivalents	3	1,232,097	5,589,304
Receivables from electricity consumers and accrued revenue, net	4	15,073,847	13,284,344
Prepayments and other receivables, net	5	2,897,890	1,719,272
Inventories, net	6	5,806,673	6,587,084
Total current assets		25,010,507	27,180,004
Non-current assets			
Receivables from electricity consumers	4	-	4,825,000
Equity investments in companies and others	7	2,159,924	1,659,595
Construction work in progress	8	20,103,986	15,050,529
Fixed assets, net	9	98,107,946	87,654,690
Total non-current assets		120,371,856	109,189,814
TOTAL ASSETS		145,382,363	136,369,818
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Accounts payable	10	38,278,944	32,201,873
Accruals and other payables	11	1,313,587	1,494,488
Current portion of long-term loans	13	556,127	979,300
Total current liabilities		40,148,658	34,675,661
Non-current liabilities			
Long-term loans	13	4,647,991	3,846,118
Sukuk	14	5,000,000	5,000,000
End-of-service indemnities		4,350,845	4,008,747
Deferred revenue, net	16	13,352,786	11,574,810
Customers' refundable deposits		1,095,789	1,036,738
Long-term Government payables	10	13,295,613	13,295,613
Government loan	17	14,938,060	14,938,060
Total non-current liabilities		56,681,084	53,700,086
Total liabilities		96,829,742	88,375,747
Shareholders' equity			
Share capital	18	41,665,938	41,665,938
Statutory reserve		991,004	880,559
General reserve	19	534,573	532,418
Retained earnings		5,361,106	4,915,156
Total shareholders' equity		48,552,621	47,994,071
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		145,382,363	136,369,818

The accompanying notes form an integral part of these financial statements

STATEMENT OF INCOME

FOR THE YEAR ENDED DECEMBER 31, 2008

	Notes	2008 SR'000	2007 SR'000 (Restated)
Operating Revenues			
Electricity sales		20,651,799	19,322,935
Meter reading, maintenance and bills			
Preparation tariff		752,359	722,994
Electricity connection tariff	16	884,584	793,131
Total operating revenues		22,288,742	20,839,060
Operating Expenses			
Fuel expenses		(5,477,362)	(4,937,677)
Purchased energy		(1,477,634)	(1,370,984)
Operations and maintenance	20	(7,608,182)	(6,760,312)
Depreciation	9	(6,744,453)	(6,371,536)
General and administrative expenses	21	(217,065)	(284,173)
Total operating expenses		(21,524,696)	(19,724,682)
Operating Income		764,046	1,114,378
Other income and expenses, net	22	340,401	338,798
Net income before zakat		1,104,447	1,453,176
Deferred zakat expenses	12	-	(40,677)
NET INCOME FOR THE YEAR		1,104,447	1,412,499
Earnings per share (SR)			
From operating income for the year	23	0.18	0.27
From net income for the year	23	0.27	0.34

The accompanying notes form an integral part of these financial statements

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31, 2008

	2008 SR'000	2007 SR'000 (Restated)
OPERATING ACTIVITIES		
Net income before Zakat	1,104,447	1,453,176
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for doubtful receivables	116,561	74,559
Provision for slow-moving inventory	-	(65,760)
Company's share in net income of investee companies	(42,006)	(11,344)
Depreciation	6,744,453	6,371,536
Gain on sale of fixed assets, net	(40,784)	(128,778)
Gain on sale of the investments	(1,050)	-
End-of-service indemnities, net	342,098	34,776
Deferred revenues, net	1,777,976	1,040,813
(Increase) decrease in operating assets and liabilities:		
Receivables from electricity consumers and accrued revenue	2,921,091	3,483,343
Prepayments and other receivables	(1,178,618)	(139,045)
Inventories	780,411	(1,825,351)
Accounts payable	6,077,071	6,852,994
Accruals and other payables	(199,816)	250,364
Net proceeds and refunds from customers' refundable deposits	59,051	54,521
Net cash from operating activities	18,460,885	17,445,804
INVESTING ACTIVITIES		
Equity investments in companies and others	(513,463)	(900,188)
Fixed assets and construction work in progress	(22,281,324)	(14,778,115)
Proceeds from sale of fixed assets	70,942	147,080
Proceeds from sale other investments	56,190	-
Net cash used in investing activities	(22,667,655)	(15,531,223)
FINANCING ACTIVITIES		
Sukuk	-	5,000,000
Net proceeds (repayment) of long-term loans	378,700	(4,931,111)
Dividends paid to shareholders and Board of Directors' remuneration	(529,137)	(594,835)
Net cash used in financing activities	(150,437)	(525,946)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(4,357,207)	1,388,635
Cash and cash equivalents, beginning of the year	5,589,304	4,200,669
CASH AND CASH EQUIVALENTS, END OF THE YEAR	1,232,097	5,589,304

The accompanying notes form an integral part of these financial statements

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEAR ENDED DECEMBER 31, 2008

	Notes	Share capital SR'000	Statutory reserve SR'000	General reserve SR'000	Retained earnings SR'000	Total SR'000
Balance, January 1, 2007		41,665,938	739,309	531,563	4,192,059	47,128,869
Net income for the year – restated	24	-	-	-	1,412,499	1,412,499
Dividends for 2006	25	-	-	-	(547,252)	(547,252)
Board of directors' remuneration for 2006	26	-	-	-	(900)	(900)
Electricity fee collections (individuals)	19	-	-	855	-	855
Transferred to statutory reserve – restated		-	141,250	-	(141,250)	-
Balance, December 31, 2007 – restated		41,665,938	880,559	532,418	4,915,156	47,994,071
Net income for the year		-	-	-	1,104,447	1,104,447
Dividends for 2007	25	-	-	-	(547,252)	(547,252)
Board of directors' remuneration for 2007	26	-	-	-	(800)	(800)
Electricity fee collections (individuals)	19	-	-	2,155	-	2,155
Transferred to statutory reserve	13	-	110,445	-	(110,445)	-
Balance, December 31, 2008		41,665,938	991,004	534,573	5,361,106	48,552,621

The accompanying notes form an integral part of these financial statements

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008

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, 1420 H., corresponding to December 12, 1999, and the Minister of Commerce Resolution number 2047, dated Dhu Al Hijjah 30, 1420 H., 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, as per with 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 Kilowatts/hours, has not been changed thereafter. According to the Company's bylaws, 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 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 except for investments in Company's equity which are accounted for under the equity method.

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 and highly liquid investments which are convertible to cash 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. Cost and 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:

	Years
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

The Company conducts periodic review of 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 year, 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.

Derivative financial instruments and hedge accounting

The Company use derivative financial instruments to hedge the exposure to certain portions of interest rate risks arising from financing activities. The Company designates these as cash flow hedges of Murabaha rate risk. The use of financial derivatives is governed by the Company's policies approved by the Board of Directors, and consistent with the Company's risk management strategy. The Company does not use derivative financial instruments for speculative purposes. Derivative financial instruments are measured at fair value on the contract date and are re-measured to fair value at subsequent reporting dates. If the financial instruments do not qualify for hedge accounting in accordance with generally accepted accounting standards, the changes in the fair value of the derivatives financial instrument is recorded as part of finance charges.

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 from 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 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 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

	2008 SR'000	2007 SR'000
Cash on hand	2,664	2,695
Cash at banks	578,287	428,588
Short-term deposits	651,146	5,158,021
	1,232,097	5,589,304

4- RECEIVABLES FROM ELECTRICITY CONSUMERS AND ACCRUED REVENUE, NET

	2008 SR'000	2007 SR'000
Electricity consumers receivable		
Governmental institutions	8,997,728	12,558,280
Non-current portion of Governmental institutions (4a)	-	(4,825,000)
Current portion of Governmental institutions	8,997,728	7,733,280
Commercial and residential	2,854,451	2,797,830
Special customers	1,817,886	1,686,602
Saudi Aramco (Notes 27 & 29)	1,413,753	1,071,019
Electricity connection receivables	713,970	394,088
Saline Water Conversion Corporation	454,717	557,900
Total electricity consumers receivable	16,252,505	14,240,719
Less: Provision for doubtful receivables (4b)	(1,995,343)	(1,878,782)
Net electricity consumers receivable	14,257,162	12,361,937
Accrued revenues	816,685	922,407
Total	15,073,847	13,284,344

4a. 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.

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

	2008 SR'000	2007 SR'000
Balance, January 1	1,878,782	1,804,223
Charge for the year	116,561	74,559
Balance, December 31	1,995,343	1,878,782

5- PREPAYMENTS AND OTHER RECEIVABLES, NET

	2008 SR'000	2007 SR'000
Advances to suppliers and contractors	2,590,405	1,039,183
Outstanding letters of credit	125,321	447,141
Prepaid expenses	20,712	25,412
Other	242,646	288,730
Total	2,979,084	1,800,466
Less: Provision for doubtful debts	(81,194)	(81,194)
	2,897,890	1,719,272

6- INVENTORIES, NET

	2008 SR'000	2007 SR'000
Generation plant materials and supplies	2,708,662	2,532,444
Distribution network materials and supplies	2,575,524	3,540,919
Transmission network materials and supplies	237,790	313,224
Fuel and oil	304,229	215,650
Other	169,726	174,105
Total	5,995,931	6,776,342
Less: Provision for slow moving inventories	(189,258)	(189,258)
	5,806,673	6,587,084

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

	2008 SR'000	2007 SR'000
Balance, January 1	189,258	255,018
Write offs during the year	-	(65,760)
Balance, December 31	189,258	189,258

7- EQUITY INVESTMENTS IN COMPANIES AND OTHERS

	2008 SR'000	2007 SR'000
Investments accounted for under the equity method (a)	1,721,836	1,415,318
Other investment, at cost (b)	1,210	1,210
Held to maturity investments (c)	436,878	243,067
	2,159,924	1,659,595

a) Investments accounted for under the equity method.

	Shareholding %	2008 SR'000	2007 SR'000
Gulf Cooperation Council Interconnection Authority (a-1)	40	1,703,285	1,403,382
Water Electricity Company (a-2)	50	15,551	10,936
Rass Al Zoor Water and Electricity Company (a-3)	20	1,000	1,000
Rabeq Electricity Company (a-4)	100	2,000	-
Total investments accounts for under the equity method		1,721,836	1,415,318

(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") to enhance the electricity transmission and distribution between the member countries. The Company's participation in GCCIA amounted to USD 442,3 million, equivalent to SR 1,658 million. During 2008, the Company increased its capital contribution in GCCIA to 40% instead

of 31,6%. The financial statements of the GCCIA for the year 2008 have not been issued as of this report date.

(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 consist of 300,000 shares representing 50% of the Company's share capital. The financial statements of the investee Company for the year 2008 have not been issued as of this report date.

(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 represents 20% of the investees' capital. The investee has not yet started operation, accordingly, no financial statements have been issued as of this report date.

(a-4) Rabeq Electricity Company

Based on the Company's Board of Directors resolution No. 06/76/2008 dated 26/5/1429H, corresponding to June 3, 2008, the Company established Rabeq Electricity Company. The Company's share capital amounting to SR 2 million was paid in full and represents 100% of the investees' capital. The investee has not yet started operation, accordingly no financial statements have been issued as of this report date.

b) Other investment, at cost.

	Shareholding %	2008 SR'000	2007 SR'000
Al-Shuaiba Water and Electricity Company	8	400	400
Al-Shuqaiq Water and Electricity Company	8	400	400
Al-Jubail Water and Electricity Company	5	250	250
Al-Shuaba Holding Company	8	160	160
Total other investments, at cost		1,210	1,210

c) Held to maturity investments

	2008 SR'000	2007 SR'000
Saudi Basic Industries Corporation Sukuk	300,000	150,000
Bin Laden Company Sukuk	50,000	-
SAAB Sukuk	50,000	-
Ras Al-Khimah Investment Authority Sukuk	36,878	93,067
Total held to maturity investments	436,878	243,067

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

	2008 SR'000	2007 SR'000
Gulf Corporation Council Interconnection Authority	37,391	11,344
Water and Electricity Company	4,615	-
Total (Note 22)	42,006	11,344

8- CONSTRUCTION WORK IN PROGRESS

	2008 SR'000	2007 SR'000
Power generation projects	8,972,627	4,403,073
Power transmission projects	7,351,004	6,549,777
Distribution projects	3,514,045	3,691,284
General projects	266,310	406,395
	20,103,986	15,050,529

Net financing cost capitalized on projects under construction during the year amounted to SR 613 million (2007: SR 634 million).

9- FIXED ASSETS, NET

	Land SR'000	Buildings SR'000	Machinery & equipment SR'000	Capital spare parts SR'000	Vehicles and heavy equipment SR'000	Others SR'000	Total SR'000
Cost:							
January 1, 2008	1,410,099	12,942,472	173,337,129	2,437,754	1,069,286	3,402,588	194,599,328
Additions	35,639	338,564	10,783,542	168,930	69,035	5,837,925	17,233,635
Disposals	-	(50,651)	(85,744)	-	(23,072)	(4,151)	(163,618)
December 31, 2008	1,445,738	13,230,385	184,034,927	2,606,684	1,115,249	9,236,362	211,669,345
Accumulated depreciation:							
January 1, 2008	-	7,810,616	95,366,294	1,544,232	950,121	1,273,375	106,944,638
Charged for the year	-	428,481	5,915,587	82,229	42,616	275,540	6,744,453
Disposals	-	(23,893)	(76,575)	-	(23,072)	(4,152)	(127,692)
December 31, 2008	-	8,215,204	101,205,306	1,626,461	969,665	1,544,763	113,561,399
Net book value:							
December 31, 2008	1,445,738	5,015,181	82,829,621	980,223	145,584	7,691,599	98,107,946
December 31, 2007	1,410,099	5,131,856	77,970,835	893,522	119,165	2,129,213	87,654,690

The land referred to above includes plots of land with a book value of SR 151 million.

The title deeds of the land are not yet transferred to the Company's name.

Net book value of fixed assets based on the Company's main activities as of December 31, 2008 are as follows:

	2008 SR'000					2007 SR'000
	Generation	Transmission	Distribution	General Property	Total	Total
Land	246,095	588,559	223,984	387,100	1,445,738	1,410,099
Buildings	2,443,234	1,500,123	132,861	938,963	5,015,181	5,131,856
Machinery & equipment	26,927,558	28,500,171	26,978,381	423,511	82,829,621	77,970,835
Capital spare parts	609,044	367,085	3,875	219	980,223	893,522
Vehicles and heavy equipment	-	-	-	145,584	145,584	119,165
Others	5,503,667	1,666,550	293,015	228,367	7,691,599	2,129,213
Total	35,729,598	32,622,488	27,632,116	2,123,744	98,107,946	87,654,690

Depreciation expense charged to various activities during the years ended December 31, 2008 were as follows:

	2008 SR'000	2007 SR'000
Generation depreciation expenses	2,567,165	2,422,869
Transmission depreciation expenses	1,920,651	1,822,576
Distribution depreciation expenses	1,962,132	1,836,348
General property depreciation expenses	294,505	289,743
	<u>6,744,453</u>	<u>6,371,536</u>

10- ACCOUNTS PAYABLE

	2008 SR'000	2007 SR'000
Saudi Aramco for fuel cost (Notes 27 & 29)	35,654,789	30,651,387
Transferred to Government account (10-a)	(13,295,613)	(13,295,613)
Saudi Aramco receivable for fuel cost	22,359,176	17,355,774
Saline Water Conversion Corporation for power purchased	6,926,483	6,211,819
Payables to contractors and retentions	3,116,309	2,716,432
Municipality fees	2,063,862	1,739,598
Payables to suppliers	1,037,904	1,599,746
Advances received for construction of projects	786,379	679,696
Other (10-b)	1,988,831	1,898,808
	<u>38,278,944</u>	<u>32,201,873</u>

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 meetings held between the Ministry of Finance and the Ministry of Petroleum and Mineral Resources signed on 15/05/1427 whereby the Company's liability to Saudi Aramco was transferred to the account of the Ministry of Finance.

10-b) Other payables include SR 1,281 million which are still under reconciliation between the Company and the Government and pertains to the accounts prior to merger referred to in note 1.

11- ACCRUALS AND OTHER PAYABLES

	2008 SR'000	2007 SR'000
Accrued expenses	327,421	455,357
Accrued employers' benefits	394,908	336,677
Unclaimed dividends	301,996	283,081
Other	289,262	419,373
	<u>1,313,587</u>	<u>1,494,488</u>

Unclaimed dividends include SR 96 million as of December 31, 2008 representing cash dividends declared by Saudi Consolidated Electricity Company prior to merge due to the shareholders (2007: SR 97 million).

12- PROVISION FOR ZAKAT

The principle elements of the Zakat base are as follows:

	2008 SR'000	2007 SR'000
Adjusted net income computation:		
Income before Zakat	1,104,447	1,453,176
Add: Zakat adjustments	(7,198,442)	(8,209,550)
Adjusted net loss income	<u>(6,093,995)</u>	<u>(6,756,374)</u>
Zakat base computation:		
Share capital	41,665,938	41,665,938
Adjusted net loss	(6,093,995)	(6,756,374)
Reserves	1,412,977	1,270,872
Retained earnings	4,367,104	3,643,907
Provisions	5,989,240	6,113,110
Long-term loans and Sukuk	10,204,118	9,825,418
Government loan	14,938,060	14,938,060
Contractor payables	3,060,236	2,999,513
Total	<u>75,543,678</u>	<u>73,700,444</u>
Less:		
Fixed assets and construction-in-progress	(80,234,137)	(72,179,125)
Long-term investments	(2,117,918)	(1,648,251)
Inventory of material and spare parts	(4,417,581)	(5,109,270)
Zakat Base – Negative	<u>(11,225,958)</u>	<u>(5,236,202)</u>

No provision for Zakat has been made due to the negative adjusted net income and 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 2007. According to the final assessment received from the DZIT for the period from April 5, 2000 (date of merger) to December 31, 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 been unrecognised and accounted for in the accounting records. The Company did not receive any response from DZIT regarding its objection against the above assessment. The final assessment for the year 2003 to 2007 has not been received till the date of issuing these financial statements.

13- LONG-TERM LOANS

	2008 SR'000	2007 SR'000
Balance, beginning of the year	4,825,418	9,756,529
Withdrawals during the year	4,364,260	950,293
Payments during the year	(3,985,560)	(5,881,404)
Balance end of the year	5,204,118	4,825,418
Less: Current portion of long-term loans	(556,127)	(979,300)
	4,647,991	3,846,118

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

	2008 SR'000	2007 SR'000
Between one and two years	828,854	979,300
Between two and three years	828,854	979,300
Between three and four years	545,454	968,958
Between four and five years	545,454	695,900
Beyond five years	1,899,375	222,660
	4,647,991	3,846,118

During the year, the Company has obtained a sharia compliant loan for SR 6 billion from a group of local banks. The utilized amount of the loan up to December 31, 2008 amounted to SR 4.35 billion which was used to repay the outstanding loans. The loan is subject to certain financial covenants, in which the Company was in compliance with as of December 31, 2008.

During 2007, the Company has accelerated the repayment of certain outstanding loans, by repayment 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.

The Company has unutilized credit facilities from local bank as of December 31, 2008 amounting to SR 1,2 billion. These facilities are secured by promissory notes.

14- 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 in accordance with certain arrangement.

15- 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 as of December 31, 2008; 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 in accordance with the loans original amount every six months.

16- DEFERRED REVENUE – NET

	2008 SR'000	2007 SR'000
Balance at beginning of the year	11,574,810	10,533,997
Proceeds during the year	2,662,560	1,833,944
Electrical connection tariff	(884,584)	(793,131)
	13,352,786	11,574,810

17- 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 of the Company to 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 Minister of Finance on 15/07/1426 for the loan due to the Government amounting to SR 14,938,060.

18- SHARE CAPITAL

The share capital of the Company as of December 31, 2008 amounting to SR 41,665,938,150 consists of SR 4,166,593,815 shares with a par value of SR 10 each.

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

	Numbers 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%

19- 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 fees from individuals subsequent to December 31, 2001 amounting to SR 25,929 thousand till December 31, 2008 (2007: SR 23,774 thousand). Accordingly, the balance of the general reserve amounted to SR 534,573 thousand as of December 31, 2008 (2007: SR 532,418 thousand).

20- OPERATING AND MAINTENANCE EXPENSES

	2008 SR'000				2007 SR'000
	Generation	Transmission	Distribution	Total	Total
Employees' expenses and benefits	1,013,120	678,235	1,953,217	3,644,572	3,330,311
Materials	994,169	113,259	235,818	1,343,246	1,248,270
Operation and maintenance (contractors)	378,232	86,677	379,701	844,610	819,924
Provision for doubtful receivables	-	-	116,561	116,561	74,559
Municipality fees	-	-	324,808	324,808	296,541
Others	877,386	73,909	383,090	1,334,385	990,707
Total	3,262,907	952,080	3,393,195	7,608,182	6,760,312

Others referred to the above include indirect expenses related to storage services which were treated as period expenses during the year ended December 31, 2008, based on the availability of additional information about the nature of such services.

21- GENERAL AND ADMINISTRATIVE EXPENSES

	2008 SR'000	2007 SR'000
Employees' expenses and benefits	70,509	103,000
Materials	53,420	51,973
Others	93,136	129,200
	217,065	284,173

22- OTHER INCOME AND EXPENSES, NET

	2008 SR'000	2007 SR'000
Gain on disposal of fixed assets	40,784	128,778
Penalties	87,066	108,094
Share in net income of investee companies accounted under the equity method (Note 7d)	42,006	11,344
Sales of tender documents	13,434	17,565
Fees for reconnection	8,097	8,328
Others, net (a)	149,014	64,689
	340,401	338,798

(a) The department of the legal affairs of the Company performed a comprehensive review for the outstanding lawsuit against the Company. Accordingly, the provision for lawsuit was reduced by SR 78 million approximately. This amount was included in other revenues and expenses.

23- EARNINGS PER SHARE

Earnings per share from operating income and from net income for the year is calculated by dividing operating income and net income for the year by outstanding number of the weighted average share to 4,166,593,815 including governments shares.

24- PRIOR YEARS ADJUSTMENTS

During year 2008, the Company made adjustments resulted from meters reading amounted to SR 140.4 million, which resulted in increasing the electricity sales, the net income for the year and the receivable for electricity consumers by the same amount for year 2007. Accordingly, the Company has restated the previous reported balances and decreased them by the same amount. The following is a list of balances before and after restatement:

	December 31, 2007 SR'000 after restatement	December 31, 2007 SR'000 before restatement
Electricity sales	19,322,935	19,463,327
Net income for the year	1,412,499	1,552,891
Retained earnings	4,915,156	5,041,509
Statutory reserve	880,559	894,598
Receivable for electricity consumers	13,284,344	13,424,736

25- PROPOSED DIVIDEND AND EARNINGS PER SHARE (EPS)

In compliance with the Company's by laws, 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 2/24/2009G, proposed dividends for year 2008 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 (2007: SR 547 million). The proposed dividends for the current year requires the Company's General Assembly approval.

26- 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 420 thousand (2007: SR 442 thousand).

The Board of Directors' remuneration of SR 0,6 million is due from the profit of the year 2008 after distribution of dividends of 5% to the other shareholders (Note 18 and 25). The remuneration is payable after the General Assembly's approval (2007: SR 0,8 million).

27- 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 194 million for the current year and a cumulative difference of SR 1,504 million since the Company's inception to December 31, 2008 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:

	2008 SR'000	2007 SR'000
Sales:		
Government	5,471,953	5,229,137
Saudi Aramco	1,206,758	1,234,487
Saline Water Conversion Corporation	120,084	109,603
	6,798,795	6,573,227
Purchase and Other:		
Saudi Aramco	5,741,749	4,556,437
Saline Water Conversion Corporation	733,631	775,180
Municipalities fees	324,808	296,541
	6,800,188	5,628,158

28- 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 59,305 million (2007: SR 35,550 million). The scheduled time to complete the commitments is between one to three years.

29- 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, 2008 amounted to approximately SR 1,717 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, 2007, estimated at SR 1,331 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, Jomaih 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 178 million from the date of commencement of work up to December 31, 2008. 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-million (2007: \$ 101.4 million) equivalent to SR 379 million.

(f) The Company has outstanding letters of credit amounting to SR 313 million as of the balance sheet date (2007: SR 198 million).

30- RISK MANAGEMENT

Financial instruments carried on the balance sheet principally include cash and cash equivalents, accounts receivable, accounts payable, bank loans, accrued liabilities and other non-current liabilities.

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. Trade accounts receivable are carried net of provision for doubtful debts.

Commission rate risk is the exposure to various risks associated with the effect of fluctuations in the prevailing commission rates. The Company has no long-term assets associated with the commission rates but has liabilities associated with the commission rates as of December 31, 2008. The Company manages its loans through hedging agreement to hedge the fluctuation of interest rate, which has the economic effect to transfer the interest on loans from floating to fixed rate.

Liquidity risk is the risk that the Company will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at fair value. 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 charge differences to financial statements accordingly.

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.