

FINANCIAL STATEMENTS
and INDEPENDENT AUDITORS' REPORT

for the Year Ended December 31, 2003 and 2002

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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, 2003 and 2002 and the related statements of income, changes in shareholders' equity and cash flows for the year then ended, including the related notes from 1 to 26. 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, 2003 and 2002 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.



Dr. Mohamed A. Al-Amri
Certified Public Accountant
Registration No. 60



Muharram 09, 1425 (H)
February 29, 2004 (G) 2/19

BALANCE SHEET

		December 31	
		Thousands of SAR	
Assets	Notes	2003	2002
Cash and cash equivalents	(4)	1,782,086	1,912,846
Short-term investments	(5)	–	7,759
Consumers receivable and accrued revenue – net	(6)	15,907,855	11,986,009
Prepayment and other receivables – net	(7)	687,611	1,101,843
Inventories – net	(8)	3,148,380	3,452,965
Total Current Assets		21,525,932	18,461,422
Long-term investments	(5)	80,185	65,218
Construction in progress	(9)	5,543,650	9,786,172
Fixed assets – net	(10)	74,227,087	68,456,366
Total Non-current Assets		79,850,922	78,307,756
Total Assets		101,376,854	96,769,178

December 31
Thousands of SAR

Liabilities and Shareholders' Equity	Notes	2003	2002
Accounts payable	(11)	22,253,516	19,032,988
Accruals and other payables	(12)	1,767,835	1,998,340
Current portion of long-term loans	(15)	1,230,344	1,298,524
Total Current Liabilities		25,251,695	22,329,852
Non-current portion of long-term loans	(15)	4,034,974	4,998,541
End of service benefits		3,518,220	3,133,704
Deferred revenue – net	(16)	8,929,723	8,119,435
Consumer deposits		830,783	784,630
Total Non-current Liabilities		17,313,700	17,036,310
Government loan	(17)	14,552,136	14,552,136
Total Liabilities		57,117,531	53,918,298
Shareholders' Equity			
Share capital	(18)	41,665,938	38,287,771
Statutory reserve		319,659	178,815
General reserve	(19)	213,668	213,668
Government's electricity fee fund	(18)	–	3,378,167
Retained earnings		2,060,058	792,459
Total Shareholders' Equity		44,259,323	42,850,880
Total Liabilities and Shareholders' Equity		101,376,854	96,769,178

The accompanying notes from No. (1) to No. (26) form an integral part of these financial statements.

STATEMENTS OF INCOME

For the Years Ended December 31 Thousands of SAR			
Operating Revenue	Notes	2003	2002
Electricity sales		16,373,914	14,853,519
Meter reading and maintenance and bill preparation tariff		609,282	580,387
Electrical service connection tariff		562,145	495,671
Total operating revenue		17,545,341	15,929,577
Operating Expenses			
Fuel		(4,015,105)	(3,757,840)
Purchased power		(931,484)	(908,587)
Operations and maintenance	(20)	(4,498,481)	(4,033,550)
Depreciation	(10)	(5,484,092)	(5,063,515)
General and administrative expenses and provisions	(21)	(1,293,598)	(1,218,716)
Total operating expenses		(16,222,760)	(14,982,208)
Operating Income		1,322,581	947,369
Other income and expenses - net	(23)	135,143	167,105
Income before Zakat		1,457,724	1,114,474
Zakat	(14)	(49,281)	(37,130)
Net Income		1,408,443	1,077,344
Earning per share (in SR)	(13)	1.69	1.29

The accompanying notes from No. (1) to No. (26) form an integral part of these financial statements.

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

Thousands of SAR	Paid-in Capital	Statutory Reserve	General Reserve	Government's Electricity Fee Fund	Retained Earnings	Total
For the Year Ended December 31, 2003						
Balance, January 1, 2003	38,287,771	178,815	213,668	3,378,167	792,459	42,850,880
Capitalization of Government's Electricity fee fund	3,378,167	—	—	(3,378,167)	—	—
Net income for the year	—	—	—	—	1,408,443	1,408,443
Transfer to statutory reserve	—	140,844	—	—	(140,844)	—
Balance, End of the Year	41,665,938	319,659	213,668	—	2,060,058	44,259,323
For the Year Ended December 31, 2002						
Balance, January 1, 2002	38,287,771	71,081	213,668	3,378,167	332,078	42,282,765
Net income for the year	—	—	—	—	1,077,344	1,077,344
Transfer to statutory reserve	—	107,734	—	—	(107,734)	—
Proposed dividend (Note 13)	—	—	—	—	(508,129)	(508,129)
Board of directors' remuneration (Note 22)	—	—	—	—	(1,100)	(1,100)
Balance, End of the Year	38,287,771	178,815	213,668	3,378,167	792,459	42,850,880

The accompanying notes from No. (1) to No. (26) form an integral part of these financial statements.

STATEMENTS OF CASH FLOWS

For the Years Ended
December 31
Thousands of SAR

	2003	2002
Cash flows from operating activities		
Net income	1,408,443	1,077,344
Adjustments to reconcile net income to net cash provided by operating activities :		
Allowance for doubtful receivables	117,979	151,507
Allowance for slow moving inventory	11,004	7,942
Gain on sale of investments	(165)	—
Depreciation	5,484,092	5,063,515
Gain on sale of fixed assets	(4,016)	(3,789)
Provision for end of service benefit	384,516	211,283
Electrical service connection tariff	810,288	472,408
Proceeds from customer deposits, net of refunds	46,153	42,299
Provision for zakat	49,281	37,130
(Increase) Decrease in operating assets		
Consumers receivable and accrued revenue	(4,039,825)	(3,512,667)
Prepayments and other receivables	410,632	65,001
Inventories	293,581	(213,977)
Increase (Decrease) in operating liabilities		
Accounts payable	3,220,528	4,324,463
Accruals and other payables	168,272	220,885
Net cash provided by operating activities	8,360,763	7,943,344

	For the Years Ended December 31 Thousands of SAR	
	2003	2002
Cash flows from investing activities		
Net (payments for) proceeds from investments	(7,043)	25,145
Fixed assets and construction-in-progress	(7,023,875)	(8,828,305)
Proceeds from sale of fixed assets	19,200	8,320
Net cash used in investing activities	(7,011,718)	(8,794,840)
Cash flows from financing activities		
Net (settlement of) proceeds from bank loans	(1,031,747)	44,266
Dividends paid related to prior years	(448,058)	(270,325)
Net cash used in financing activities	(1,479,805)	(226,059)
Net Decrease in Cash and Cash Equivalents	(130,760)	(1,077,555)
Cash and Cash Equivalents – Beginning of the year	1,912,846	2,990,401
Cash and Cash Equivalents – End of the Year	1,782,086	1,912,846

The accompanying notes from No. (1) to No. (26) form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended December 31, 2003 and 2002

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, 1419H corresponding to November 29, 1998. This resolution was made with a view to reorganize and restructure 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 getting the electricity to the consumer. The company does not have transfer prices between these activities, and revenues are recognized from selling electricity to end consumer for the company as a whole based on the official tariff decided by the government.

Electricity Tariff SEC is a tariff regulated electric utility. Electricity tariffs are determined by the Council of Ministers based on recommendations from the Electricity Services Regulatory Agency (ESRA). ESRA was established in November 2001 according to Resolution No. 236 dated 27 Sha’ban 1422H.

The last change in tariff was made through the Council of Ministers Resolution No. 170 dated 12 Rajab 1421H to be effective from 1 Sha’ban 1421H. 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.

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 principles 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 judgements 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 from the balance sheet date.

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. Revenues from such investments are recognized when received.

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:

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 the access to, or usage of electric power. Electricity sales revenue is based on Kilowatts/hours of electric power consumed. Revenue on power consumed by the consumers but not yet billed at the Balance Sheet date are accrued.

Revenue of 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. 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.

1. 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.

3. ACCRUED REVENUES AND EXPENSES

Since its merger, the Company has been working on improving its financial and accounting systems, including its revenue and expenses systems. During the current year, the Company was able to convert its billing system to calculate the revenue based on the Gregorian calendar, which is the financial period of the company, while keeping the issuance of the invoice to consumers on Hijri calendar. As a result, the revenues and expenses of the current period were determined more accurately.

As a result of improving the company's financial and accounting systems including revenues and expenses measurement, the company is currently estimating revenues for unread meters at the end of the period based on the number of days unread rather than on a total base. Moreover, accrued expenses at the end of the period are more accurately estimated. These improvements resulted in a net non-recurring increase of SR 146 million in operating and net income for the year.

	December 31	
	Thousands of SAR	
4. CASH AND CASH EQUIVALENTS	2003	2002
Cash on hand	360	336
Cash at banks	741,494	847,685
Short-term deposits	1,040,232	1,062,769
Saudi Government Bonds	—	2,056
Total	1,782,086	1,912,846

5. INVESTMENTS

Short-term Investments

Saudi Government Bonds	—	7,759
Total	—	7,759

Long-term Investments

Gulf Cooperation Council Interconnection Authority (Note 5a)	65,185	65,185
Water and Electricity Company (Note 5b)	15,000	—
Saudi Cement Company	—	33
Total	80,185	65,218

5a. Gulf Cooperation Council Interconnection Authority

SEC participated in 31.6% of 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 participation in share equals SR 1,300 million of which 5% was paid as initial capital. The remaining balance of subscription amounting to SR 1,235 million will be paid based on dates to be set by the Board of Directors of GCCIA. As of the date of issuing these financial statements, GCCIA has not released its first financial statements, nor any capital calls have been made.

5b. Water and Electricity Company

During 2003, 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 was fully paid. The newly established company has not yet started its operations and no financial statements have been issued by it up to the date of issuing these financial statements.

	December 31 Thousands of SAR	
6. CONSUMERS RECEIVABLE AND ACCRUED REVENUE - NET	2003	2002
Consumers Receivable		
Governmental	11,607,500	8,765,424
Saudi Aramco	441,432	478,268
Saline Water Conversion Corporation	512,782	405,325
Commercial and residential	2,589,311	2,026,881
VIPs	1,152,154	1,037,525
Connection fees receivable	86,094	75,710
Allowance for doubtful receivables	(1,278,925)	(1,160,946)
	15,110,348	11,628,187
Accrued revenue	797,507	357,822
Total	15,907,855	11,986,009
7. PREPAYMENTS AND OTHER RECEIVABLES - NET		
Advances to suppliers and contractors	78,977	136,300
Prepaid expenses	2,963	19,401
Purchases on open letters of credit	369,786	411,426
Other	278,368	577,199
Provision for doubtful debts	(42,483)	(42,483)
Total	687,611	1,101,843

	December 31 Thousands of SAR	
8. INVENTORIES - NET	2003	2002
Generation plant materials and supplies	1,742,848	1,782,682
Transmission network materials and supplies	410,863	547,111
Distribution network materials and supplies	951,594	1,098,060
Fuel and oil	241,733	244,114
Others	191,306	159,958
Allowance for slow moving inventory	(389,964)	(378,960)
Total	3,148,380	3,452,965

Items amounting to SR 402 million were not included in the allowance for slow moving inventory. These items are being studied by the related divisions as to whether they can be utilized or reclassified as capital spare parts. The study might result in charging future years with amounts relating to those items.

	December 31 Thousands of SAR	
9. CONSTRUCTION-IN-PROGRESS	2003	2002
Power generation projects	1,255,286	5,195,081
Transmission projects	3,106,386	3,562,065
Distribution projects	970,751	769,689
General projects	211,227	259,337
Total	5,543,650	9,786,172

Net financing cost capitalized on projects under construction during the year amounted to SR 319 million (2002: SR 305 million).

10. FIXED ASSETS - NET

Fixed assets at December 31, 2002 and 2003 comprised of the following:

	Thousands of SAR					
	Generation	Transmission	Distribution	General Property	Total 2003	Total 2002
Cost						
Land	246,757	541,451	224,655	202,697	1,215,560	1,172,022
Buildings	5,605,969	2,823,609	477,371	2,819,919	11,726,868	11,450,019
Machinery & equipment	44,638,011	44,948,684	49,240,270	1,608,869	140,435,834	130,048,486
Capital spare parts	1,450,069	630,655	9,730	16,855	2,107,309	1,774,302
Vehicles	49,230	24,367	155,656	1,111,063	1,340,316	1,354,962
Others	272,802	344,706	363,717	961,926	1,943,151	1,862,157
Total	52,262,838	49,313,472	50,471,399	6,721,329	158,769,038	147,661,948
Accumulated depreciation						
Buildings	(2,818,866)	(1,371,012)	(285,972)	(1,640,432)	(6,116,282)	(5,707,626)
Machinery & equipment	(23,207,796)	(20,666,821)	(29,349,690)	(1,197,588)	(74,421,895)	(69,697,393)
Capital spare parts	(902,609)	(278,163)	(5,732)	(15,412)	(1,201,916)	(1,114,455)
Vehicles	(43,334)	(21,454)	(141,061)	(925,154)	(1,131,003)	(1,116,039)
Others	(241,595)	(321,809)	(334,978)	(772,473)	(1,670,855)	(1,570,069)
Total	(27,214,200)	(22,659,259)	(30,117,433)	(4,551,059)	(84,541,951)	(79,205,582)
Net book value						
Land	246,757	541,451	224,655	202,697	1,215,560	1,172,022
Buildings	2,787,103	1,452,597	191,399	1,179,487	5,610,586	5,742,393
Machinery & equipment	21,430,215	24,281,863	19,890,580	411,281	66,013,939	60,351,093
Capital spare parts	547,460	352,492	3,998	1,443	905,393	659,847
Vehicles	5,896	2,913	14,595	185,909	209,313	238,923
Others	31,207	22,897	28,739	189,453	272,296	292,088
Total	25,048,638	26,654,213	20,353,966	2,170,270	74,227,087	68,456,366

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

	Thousands of SAR	
	2003	2002
Generation	1,864,528	1,622,895
Transmission	1,589,340	1,459,766
Distribution	1,739,969	1,683,268
General property	290,255	297,586
Total	5,484,092	5,063,515

	December 31 Thousands of SAR	
11. ACCOUNTS PAYABLE	2003	2002
Saudi Aramco for fuel cost	14,355,109	10,420,252
Saline Water Conversion Corporation for power purchased	3,094,246	2,248,718
Contractor payables and retentions	2,357,673	3,345,931
Supplier payables	803,624	1,174,787
Municipality fees	725,133	523,131
Advances received for construction of projects	89,203	460,493
Others	828,528	859,676
Total	22,253,516	19,032,988

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 above mentioned Resolution stipulated that if the need arose to change fuel prices used in determining electricity tariff, ESRA 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 2003 is SR 2,237 million, and the cumulative amount from the Company's inception to December 31, 2003 is SR 9,286 million. Based on the above mentioned Resolution, the 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.

	December 31	
	Thousands of SAR	
12. ACCRUALS AND OTHER PAYABLES	2003	2002
Payroll accruals	229,190	251,031
Accrued expenses	495,953	362,858
Unclaimed dividends	233,731	173,660
Proposed dividend (Note 13)	—	508,129
Provision for Zakat (Note 14a)	103,190	91,039
Other	705,771	611,623
Total	1,767,835	1,998,340

Unclaimed dividends include SR 112 million representing cash dividends declared by former SCECOs before 1414H and for 1419H and 1420H which have not been claimed by the shareholders (2002: SR 125 million).

13. 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.

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 31/12/2002 amounted to SR 321 million. SEC believes that Aramco is not entitled to cash dividends being a government entity, and that the above mentioned Resolution No. 169 applies to Aramco.

The Board of Directors, in its meeting held on 17/3/2004 has proposed dividend distribution for the year 2003 for other shareholders of SR 547 million in cash at SR 3.5 per share representing 7% of paid share capital (2002: SR 508 million), subject to the General Assembly approval.

Earning per share was calculated using the total number of shares outstanding at December 31, 2003 of 833,318,763, including the government and Saudi Aramco shares (Note 18).

	December 31	
	Thousands of SAR	
14. PROVISION FOR ZAKAT	2003	2002
a) Zakat Provision Movement		
Balance, beginning of the year	91,039	124,110
Provision for the year	(37,130)	(70,201)
Zakat paid during the year	49,281	37,130
Balance, end of the year/period	103,190	91,039

b) Calculation of Zakat Provision

The following is a summary of Zakat provision computation for the two years ended December 31:

	Thousands of SAR	
Adjusted net income computation	2003	2002
Income before Zakat	1,457,724	1,114,474
Add: Zakat adjustments	513,499	370,732
Adjusted net income	1,971,223	1,485,206

	Thousands of SAR	
Zakat base computation	2003	2002
Share capital	41,665,938	38,287,771
Adjusted net income	1,971,223	1,485,206
Retained earnings	792,459	332,078
Reserves	392,483	284,749
Government's Electricity fee fund	—	3,378,167
Provisions	4,770,002	4,345,361
Long-term loans	5,265,318	6,297,065
Government loan	14,552,136	14,552,136
Contractor payables and retentions	2,357,673	3,345,931
	71,767,232	72,308,464
Less:		
Fixed assets	(71,767,232)	(68,456,366)
Construction in progress	(5,543,650)	(9,786,172)
Long-term investments	(80,185)	(65,218)
Inventory of supplies and spare parts	(2,484,244)	(2,742,282)
Zakat Base - Negative	(8,108,079)	(8,741,574)
Zakat due at 2.5% of the adjusted net income	49,281	37,130

c) Zakat Status

All former SCECOs have appealed and did not finalize their zakat status up to 1420H (the date of their merger) against the final Zakat assessments issued by the Department of Zakat and Income Tax (DZIT). The DZIT's final Zakat assessments related to former SCECOs up to 1419H amounted to SR 1,256 million. However, these companies have disputed such assessments and have only accepted SR 54 million as a liability. SEC's management believes that the Company will not be liable to pay more than the recorded amounts since the difference claimed by the DZIT was not included in the opening financial position of the merging companies. Moreover, in case the amount is approved by the regulatory authorities, it will be charged to the pre-merger accounts (government subsidy). Upto the date of issuing these financial statements, there has been no settlement.

Subsequent to the date of these financial statements, the company received a final assessment for the period from 5/4/2000 (merger date) to 31/12/2001. The assessment has a zakat difference of 9 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 difference for the above mentioned period amounted to SR 350 million. The management did not accrue any liability for this SR 9 million as it does not expect Aramco to pay the claimed amount, and zakat should not be used on unrecognized revenue which have not been accounted for in the accounting records. The final assessment for the year 2002 has not been received till the date of issuing these financial statements.

	December 31 Thousands of SAR	
15. LONG-TERM LOANS	2003	2002
Balance, beginning of the year	6,297,065	6,252,799
Received during the year	199,432	856,757
Paid during the year	(1,231,179)	(812,491)
Balance end of the year	5,265,318	6,297,065
Current portion of long-term loans	1,230,344	1,298,524
Non-current portion of long-term loans	4,034,974	4,998,541

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

	December 31 Thousands of SAR	
	2003	2002
Between one and two years	1,089,723	1,241,176
Between two and three years	932,030	1,089,723
Between three and four years	741,114	932,030
Between four and five years	611,525	741,114
Beyond five years	660,582	994,498
	4,034,974	4,998,541

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

The unutilized portion of the above mentioned loans as of December 31, 2003 amounted to SR 354 million (2002: SR 553 million).

	December 31 Thousands of SAR	
16. DEFERRED REVENUE - NET	2003	2002
Electrical service connection tariff		
Balance at beginning of the year	8,119,435	7,647,027
Proceeds during the year	1,372,433	968,079
Revenue for the year	(562,145)	(495,671)
Deferred revenue - net	8,929,723	8,119,435

17. 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 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.

18. SHARE CAPITAL

As at December 31, 2003, the share capital of the company amounted to SR 41,665,938,150 consisting of 833,318,763 shares of SR 50 par value each (2002: SR 38,287,770,900 consisting of 765,755,418 shares).

The chairman of the Supreme Economic Council approved capitalization of the Government Electricity Fee Fund amounting to SR 3,378 million in accordance with Ministerial Resolution No. 169 dated 11/8/1419, and paragraph 3 of Ministerial Resolution No. 153 dated 5/9/1420. The appropriation of shares between the government and other share holders is in accordance with their percentage of ownership at the merger date. The legal procedures for changing the Articles of Association are in progress.

Based on the above the Company's share capital consist of the following as of December 31:

	Thousands of SAR	
	2003	2002
Share capital of merging companies as at 29/12/1420H	23,153,387	23,153,387
Undistributed earnings of merging companies for the period from 1414H to 1418H	1,340,717	1,340,717
Proceeds for Electricity Fee Fund from its inception till 31/12/2001	12,618,340	12,618,340
Net assets of General Electricity Corporation Projects	1,175,327	1,175,327
Capitalization of amounts collected for Government Electricity Fee Fund after 31/12/2001	3,378,167	—
Total	41,665,938	38,287,771

The above mentioned capital is owned by the following as of December 31:

	2003		2002	
	Ownership Percentage	Numbers of Shares	Ownership Percentage	Numbers of Shares
Government	74.31%	619,235,064	74.15%	567,830,823
Saudi Aramco	6.93%	57,726,084	6.89%	52,745,015
Other shareholders	18.76%	156,357,615	18.96%	145,179,580
	100%	833,318,763	100%	765,755,418

19. GENERAL RESERVE

General reserve represents the balances of reserves that were recorded in the books of the merging companies at the merger date.

20. OPERATING AND MAINTENANCE EXPENSES

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

	Thousands of SAR				
	2003		2002		
	Generation	Transmission	Distribution	Total	Total
Employees' expenses and benefits	953,673	424,277	1,146,169	2,524,119	2,313,764
Materials	924,593	101,776	353,697	1,380,066	1,276,473
Municipality fees	—	—	202,010	202,010	201,875
Others	175,050	113,747	103,489	392,286	241,438
Total	2,053,316	639,800	1,805,365	4,498,481	4,033,550

21. 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:

	Thousands of SAR	
	2003	2002
General and administrative expenses	1,164,615	1,059,267
Provision for doubtful debts	117,979	151,507
Provision for slow moving inventory	11,004	7,942
	1,293,598	1,218,716

22. 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 431,000 (2002: SR 657,000).

The Board of Directors' remuneration of SR 1 million is due from profit after distribution of dividends of 5% to the Other Shareholders on the share capital held by them. (Note 13 and 18). The remuneration is subject to the approval of the General Assembly. (2002: SR 1.1 million).

23. OTHER INCOME AND EXPENSES - NET

Other income represents gain on disposed assets, settlements of claims with contractors and suppliers, and other non-operating income and expenses.

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 8,763 million (2002: SR 7,269 million). The expected time to fulfill such commitments is between one to three years.

In addition, SEC has a commitment for SR 1,235 million representing the remaining balance of its investment in GCCIA (Note 5).

b) Legal Proceedings

There are certain legal proceedings pending against the Company as of December 31, 2003 aggregating to about SR 65 million. Most of these cases relate to ownership of lands utilized by the Company. Final settlements of such cases are still pending, however, management does not expect that the outcome would have an adverse effect on the Company due to its strong position in these cases and therefore has not made any provision in these financial statements.

c) Contingencies

SEC has outstanding letters of credit amounting to SR 94 million as of December 31, 2003 (2002: SR 149 million).

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 155 million for the current year was identified and a cumulative difference of SR 674 million since the Company's inception to December 31, 2003 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.

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

	Thousands of SAR	
	2003	2002
Revenue		
Revenue generated from the Government	4,397,593	4,263,479
Revenue generated from Saudi Aramco	1,865,758	1,689,917
	6,263,351	5,953,396
Expenses		
Fuel purchases from Saudi Aramco	4,015,105	3,757,840
Power purchases from SWCC	925,535	904,664
	4,940,640	4,662,504

26. COMPARATIVE FIGURES

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