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# بسم الله الرحمٰن الرحيم



The Custodian of the Two Holy Mosques

King Abdullah Ibn Abdulaziz Al-Saud



His Royal Highness

Prince Sultan Ibn Abdulaziz Al-Saud
Crown Prince, Deputy Prime Minister
Minister of Defense and Aviation
And Inspector General



Our thanks are extended to the Supreme Commission for Tourism for providing photos of prominent tourist sites in the Kingdom.

## **Our Mission**

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

## **Our Vision**

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



#### Legend

Kilovolt- ampere	KVA	Megawatt-hour	MWH	Volt	V	Circular kilometer	ckm
Megavolt-ampere	MVA	Gigawatt-hour	GWH	Kilovolt	KV	Kilometer	KM
Megawatt	MW			Kilowatt-hour	KWH		
Saudi Riyal	SR						

#### Statement by the Chairman of the Board



"It is the state support that made it possible for the Company to complete the projects implementation process required to keep up with the growing demand for power. This generous support by the Custodian of the Two Holy Mosques has every positive impact on the performance of the Company and quality of its services."

On behalf of the Board of Directors, I would so much like to extend my sincere thanks, appreciation and gratitude to His Majesty The Custodian of the Two Holy Mosques King Abdullah ibn Abdulaziz Al-Saud and His Royal Highness Prince Sultan ibn Abdulaziz Al-Saud, The Crown Prince, Deputy Premier and Minister of Defense and Aviation and Inspector General (May God save the King and the Crown Prince) for such generous support being extended over the years by the state to the Company.

Needless to say, the state support, as ordered by the Custodian of the Two Holy Mosques in 2006, was yet another extension of assistance being granted to the electricity industry throughout the history of our beloved Kingdom. It is the state support that made it possible for the Company to complete the projects implementation process required to keep up with the growing demand for power. This generous support by the Custodian of the Two Holy Mosques has every positive impact on the performance of the Company and quality of its services. Since its establishment, the Company has invested huge funds in order to boost the power network reliability. However, the volume of spending has fallen short of keeping up with such increasing demand for power, which has been setting scoring record at an annual growth rate of about 7% during the last five years. This is due to the huge leaps witnessed in almost all the national economic sectors, i.e. commercial, industrial, agricultural, and construction. Given the accelerating pace of the Kingdom's economic development, the Company has laid down a plan extending up to the year 2015, wherein the total investments and future capital projects required to guarantee the stability of the Kingdom's power system have been identified. During this period, the requirements for generation, transmission and distribution projects have been estimated to reach SR 190 billion.

And soon the Company's continuous efforts for further growth and development have brought remarkable results and the Company managed to balance evenly the enhancement and provision of service to all customers along with meeting the shareholders' expectations and upgrading its capabilities. To do so, the Company has directed its efforts to boost further its power system infrastructure in order to meet the ongoing challenges head-on for continuous power supply.

During 2006 alone, the Company, in vivid manifestation of its plan to further boost the Kingdom's power system has awarded three hundred and nine (309) power projects in the fields of generation, transmission and distribution with total value of 15,527 million Saudi Riyals.

On the other hand, the Company has equally paid special attention to extending its power supply to areas not reached before. Three hundred and twenty-eight (328) villages and settlements have been electrified by the Company, thus bringing the total number of the cities, villages and settlements served with electricity to ten thousand and seven hundred and thirteen (10,713) at year end.

Given its belief that the human resources are the real power that contribute outstanding achievements, the Company's efforts to further boost the Kingdom's power system infrastructure were evenly matched with the development of human resources and upgrading their productivity. This has been materialized in laying down the policies of Saudization and the selection of workforce that meet high standard of efficiency and productivity. As these policies bore fruit, a considerable growth in Saudization has been achieved so much so that the Saudization rate has reached as high as 83.19%.

The Company has eventually managed to translate its financial resources development policy through the systematic adoption of such methodology that can boost up cash inflow required by its capital and operational plans on the one hand, and strengthen its financial position through spending rationalization,

cost reduction and revenue increasing policies on the other hand.

However, the Company did not stop at this point but rather went on with its plans to set up effective programs to further develop its investments in the private sector with power generation projects and continued its cooperation with universities, institutes and firms that have interest in scientific research and development in the electricity industry. Moreover, the Company took share in the capital of the GCC Interconnection Authority which is expected to help in upgrading the reliability of the GCC power systems.

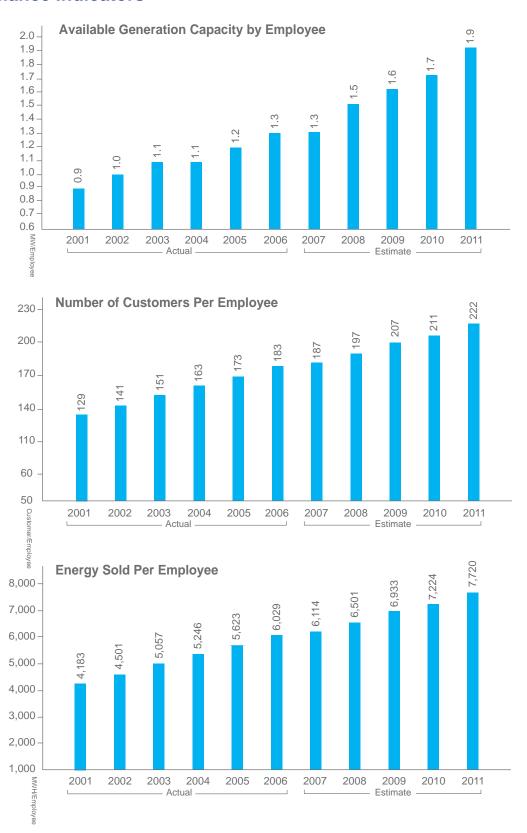
Locally, the Company has participated in the establishment of Shoaiba Water and Electricity Company, as a Saudi joint stock company with the objective to build, develop and operate Shoaiba Plant Project Phase III for dual production of water and electricity. Likewise, the Company has participated in the capital of various water and power projects elsewhere in the Kingdom.

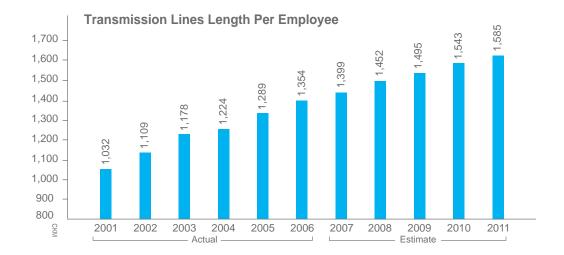
Finally, on behalf of the Board, I would like to express my sincere thanks and appreciation to our shareholders and stakeholders. My thanks and appreciation also go to the Company employees; praying to God Almighty to guide us all in our march to achieve our objectives and mission.

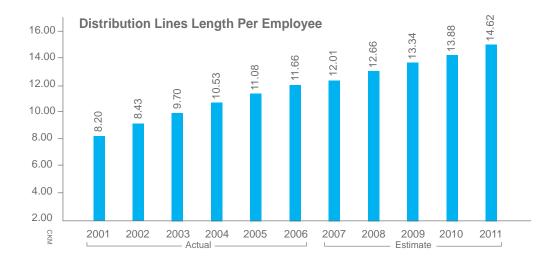
#### Mahmoud A. Taiba

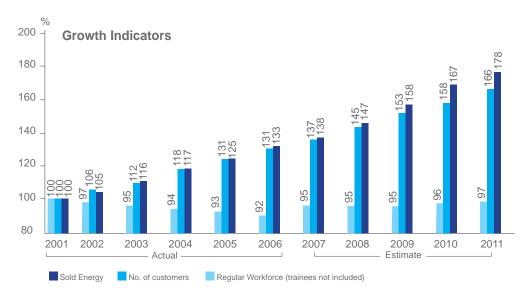
Chairman of the Board of Directors

#### **Performance Indicators**









#### **Statement by the Chief Executive Officer**



"The Company showed no hesitation in pursuing innovative means and new sources to finance its capital enterprises in power generation, transmission and distribution; one of which is seeking Company's credit rating which aims at strengthening the Company's financial position locally and regionally. Another innovative project is the issuance of Islamic Bonds....."

2006 Annual Report highlights many accomplishments within the framework of strengthening power system infrastructure and keeping up with the increasing demand for electricity. All such accomplishments reflect the on-going effort started since the Company's establishment in 2000. Our plans in this respect has eventually given rise to several positive indicators, such as the increasing number of customers, amount of sold energy, transmission and distribution networks' lengths, reduction in cost per kilowatt-hour, in addition to a number of benefits acquired through the application of efficiency upgrading and rationalization of spending.

The Company's objective to keep up with the increasing demand for power as being a fundamental factor for economic and social growth had witnessed major developments over the last years. However, what has been accomplished in this year alone is remarkable. The Company has added 1,858 MW of generation capacity through the commissioning of 12 new units at its various power plants. This is coupled with the increase in the actual generation capacity of the existing units as a result of cooling technology enhancement in certain power plants such as at Riyadh Power Plant 8 and the improvement of the thermal rating of fuel consumption for gas units.

During the period 2001-2006, the added generation capacity was 9,034 MW, representing 41% increase in the Company overall generation capacity. This, in return, has contributed to the upgrading of the employee productivity per watt hour and performance rating, as well as in increasing the sold energy per employee up to 6,029 MWH at year-end 2006 as compared with 3,919 MWH in year 2000. This represents 53% increase.

Similarly, we have continued our efforts upgrading and developing the transmission network in order to boost its power network reliability and serving to new power supply requests. In terms of extra high voltage networks (230KV-380KV), 260 ckm of overhead lines and underground cables were added to the service. Three (3) new substations were commissioned and other substations were further reinforced.

In terms of high voltage networks (110KV–132KV), 1,248 ckm of overhead lines and underground cables were added and 14 new substations were commissioned.

In the field of power distribution, huge volume of new requests for power was met, distribution networks were expanded and services provided to our customers were considerably enhanced and upgraded. In this regard, 244,604 new customers were served. This represents 4.8% growth in the total number of customers as compared with year-end 2005; thus power coverage reached to 98.2% of inhabited residential areas.

However, despite all that, there is a slight decrease in the operating profit as compared with that achieved in the year 2005. This is due to several reasons; on top of which is the fact that the increase in sales turns to be less than the increase in amount of energy sold. Also, it can be due to the increase in sales to lower tariff categories as well as the decrease in energy sold to the industrial sector at the rate of 3.7%, as compared with previous year. Further, it was also due to the fact that the assets depreciation expenses have witnessed considerable rise with the admission of several new projects into service. However, we showed no hesitation in pursuing innovative means and new sources to finance its capital projects in power generation, transmission and distribution; one of which is seeking Company's credit rating which aims at strengthening our financial position locally and regionally. Another innovative project is the issuance of Islamic Bonds.

Customer service is of extreme importance so that it has occupied a place at the center of our attention through starting the Customer Service Strategy Development initiative, aiming at reviewing the entire customer service practices and processes, developing a customer-focused strategy that puts the customer segments' needs and expectations as a guide leading to the right direction which our development efforts should take.

Internally, we carried out projects like "Employees Rightsizing" and reviewing the organizational structure, completing first phase of the "Enterprise Resource Planning (ERP)" the so-called "Nebras" which was given considerable priority for implementation in year 2006. Likewise, we are currently working on releasing our creative energy through adopting teamwork concepts, workforce skills and competencies development, creating a suitable work culture, enhancing work procedures, increasing efficiency levels and automation of the work processes.

In its vision for wider horizons, we will focus, during the coming stage, on implementing our capital and operational plans to meet the increasing demand for electricity. This is supported by the cooperation of our Board of Directors which plays an active role in boosting the Company's financial position.

Finally, on behalf of the Company employees, I would like to convey my thanks and appreciation to the Chairman and Members of the Board of Directors for their efforts in supporting the Company, resulting in distinguished achievements. I further extend my thanks to the government bodies and private institutions for their support. I thank all of our customers and shareholders. My special thanks go to our employees who stand behind each and every achievement made throughout the previous years. I look forward to seeing everyone exerting added effort in order to further develop our performance, upgrade the productivity efficiency and strengthen our capabilities in various fields and in every aspect.

Ali Saleh Al-Barrak

Chief Executive Officer

### **Our Financial Performance in Brief**

In SR thousand, except for earning per share	2006	2005
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Assets		
Total Current Assets	32,143,260	28,490,778
Total Non-Current Assets	95,065,005	89,072,072
Total Assets	127,208,265	117,562,850
Liabilities and Shareholder's Equity		
Total Current Liabilities	40,635,736	34,282,570
Total Non-Current Liabilities	24,505,600	22,079,884
Government Loan	14,938,060	14,938,060
Shareholders' Equity	47,128,869	46,262,336
Total Liabilities and Shareholders' Equity	127,208,265	117,562,850
Operating Revenue		
Electricity Sales	18,284,878	17,429,591
Meter Reading and Maintainance and Bill Preparation Tariff	707,997	660,372
Electrical Service Connection Tariff	713,782	671,326
Other Income and Expenses (net)	259,258	266,901
Total Operating Revenue	19,965,915	19,028,190
Operating Expenses		
Total Operating Expenses	-18,552,083	-17,502,130
Zakat	-	-43,018
Unrepeated Adjustments	-	-
Total Operating Expenses and Zakat Allocating	-18,552,083	-17,545,148
Income		
Operating Income	1,154,574	1,259,159
Income Before Zakat	1,413,832	1,526,060
Net Income	1,413,832	1,483,042
Earning Per Share	0.34	0.35

#### **Our Shareholders**

It is the very realization of our shareholders' expectations, returns and proceeds that form one of the main axles of our mission. Accordingly, we spare no effort in boosting relationships with our shareholders by providing them with quality services, safeguarding their rights, informing them of matters of interest, inviting them in the general assembly meetings, facilitating the payment of their dividends, keeping their records, effectively responding to their queries, and finalizing their transactions with the Company as well as other concerned parties.

Given our dedication to abide by the complimentary procedures of the Capital Market Law, and equally, given our task of augmenting the shareholder's equity and preserving the Company's interests, we, in SEC maintain an on-going follow up of new issues released by the Capital Market Authority, whether being laws, regulations or instructions related to the Company and circulate the same to the concerned business lines within the Company. Currently, we are in the process of implementing most of the guidelines and provisions stated in the Corporate Governance Regulations issued by the Capital Market Authority, particularly as it is related to the shareholders equity disclosure and transparency requirement. As a preparatory step to implement the provisions of the Corporate Governance Regulations during the year 2007, we made a sweeping appraisal, to make sure that the our policies, procedures and systems are consistent with the regulations.

We also follow up the performance of the share in the stock exchange on a daily basis. Quarterly, annually, weekly, monthly reports on the share performance are being issued by the Company. Moreover, articles and writings published on newspapers or websites about the Company share are taken seriously and thoroughly analyzed. We rate our shareholders high and treat them as such. All information that matters and might have some bearing on the share value, such as those related to the Company's financial results, major developments and the like, are systematically disclosed in accordance with the Capital Market Authority's procedures regarding disclosure.

The most prominent accomplishments and services provided to our shareholders in the year 2006 are as follows:

- Transferring of the shareholders register to the Securities Depository Center.
- Studying of the Corporate Governance Regulations and preparing the Company's remarks and suggestions thereon.
- Preparing forms proposed for the Company announcements in accordance with the instructions of the Capital Market Authority.
- Preparing the report of the Company Board of Directors as per the forms issued by the Capital Market Authority.
- Finalization of the Company share splitting process successfully and smoothly.
- Payment of dividends to shareholders for the year 2005 and following up the process of having them deposited in their investment portfolios and accounts with their local banks.

#### **Distribution of Company Share Capital**

Shareholders	No. of Shares			
Government	3,096,175,320			
Saudi Aramco	288,630,420			
Public	781,788,075			
<b>Total</b>	<b>4,166,593,815</b>			

Percentage Distribution of the Company Shareholdings at Year-End 2006

Government Public Saudi Aramco

#### **Share Performance**

We are aware that the strength of the share depends on several factors including those related to the mechanism of demand and offer and those related to internal issues within the Company such as: strength of the financial status, confidence and trust of investors, management and future trends, attractiveness of the electricity industry from the point of view of investment and competitiveness, our methodology in promoting profits, shareholders' equity growth, protection of investors rights', quality of financial statements disclosure and degree of

transparency in whatsoever concerns the investors and shareholders, and the effective communication with the concerned legislative and regulations parties in the Capital Market Authority. Regarding the last two issues, we pay high attention to enhance the trust of the financial community and investors in our share through pursuing all necessary activities to communicating our directions and approaches in implementing the capital and operational projects in addition to news relevant to the share.

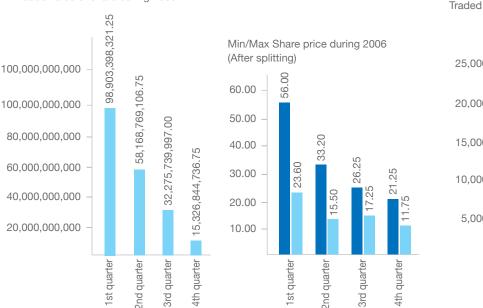
At the end of 2006, the electricity sector index at the Saudi Stock Exchange (Tadawul) closed at 1,323.94 points compared with 2,949.04 points at the end of 2005, witnessing a decrease of 55.11%. On 25/02/2006, the index attained 5,714.40 points; the highest figure reached during 2006.

As for the performance of the share, closing at SR 13 in 2006, as compared with 29.1 (SR 145.5 before splitting) in 2005, the share price closed at 55.33% decrease at the end of 2006.

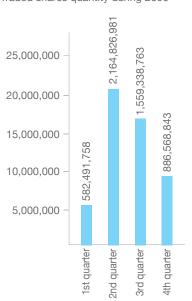
At the level of traded share quantities and value as well as the total number of trading transactions, the trading of the share continued to occupy the first three ranks among the stock companies during 2006. The share ranked as first at the level of traded quantities, second in terms of circulated shares value, and third in terms of the total number of trading transactions; thus achieving an increase of 270%, 11.18%, and 87% respectively in comparison with 2005.

	2006	2005	Change (%)
Electricity Sector Index	1,323.94	2,949.04	-55.11
Traded Shares Quantities	5,193,226,345	1,403,060,546	270.14
Traded Shares Value	204,674,752,161.75	184,098,480,109.75	11.18
No. of Transactions	2,877,373	1,538,510	87.02
Highest Share Value	(*55) 280	(*30.5) 152.5	83.61
Lowest Share Value	11.75	(*19.80) 99	-40.66
Share Closing Value	13	(*99.1) 145.5	-55.33
* share value after splitting			

Traded value of share during 2006



Traded shares quantity during 2006



#### 2006 Main Indicators Compared with 2005



generation capacity up to **30,308** MW

4.3%

Growth of power transmission networks up to **36,652** ckm

7.8%

Growth of available generation capacity up to **34,823** MW

5.0%

Growth of distribution networks up to **154,505** ckm

3.9%

Growth of customers connections up to **161,098** ckm

4.4%

Growth of daily peak load of national network up to **31,240** MW

6.4%

Growth of sold energy up to **163,151** GWH

4.8%

Growth of number of customers up to 4,955,906

3.2%

Growth of total cities, villages and settlements served with electricity up to 10,713

1.1%

Growth of Saudization rate up to **83.19%** of the total company workforce of **28,679** employees

#### **Private Sector Investment Development**

Consistent with our endeavors to participate in preparing the electricity industry market for competition through availing investment opportunities to the private sector and enabling it to participate in the Company's generation projects, a task team has been formed to follow up the process of implementing a consistent plan to develop such projects. Such initiative is considered to comply with the decisions of organizing investments in these projects including the very decision providing for the restructuring and opening the electricity industry to private sector with the aim of achieving a competitive business environment in building and managing power projects. The Company's bylaws were reformulated in such a way as to facilitate the participation and investment in power generation and transmission projects whether being in-kingdom or out-of-kingdom, as per the instructions of the Ministry of Water and Electricity.

The summary of the decisions as regards organizing investments process contains the "Electricity Law" issued by a Royal Decree whereby the private sector is encouraged to participate in the systematic expansion and development of the electricity industry, protection of investment, and enabling it to achieve a fair economic return while taking into consideration the necessity for a fair restructuring of electricity tariff currently in application. Obviously, the creation of open electricity market, governed by competing forces, is the ultimate goal which these decisions are aiming at.

The economic development witnessed in the Kingdom, in almost all sectors, has brought about the need to build a large number of power generation

plants. Therefore, we, within the concept of fair competition and spirit of open market, have oriented our steering towards encouraging investors to participate in Independent Power Production (IPP) projects by building new power generation plants, similar to other Company projects or other projects set up in the region and abroad.

Needless to say, there is a real need for IPP Projects in order to finance our projects. Record estimates indicate that there shall be quite considerable rise in peak load from 33 GW in 2006 up to 53 GW in 2015. It is expected that the IPP projects shall cover around 25% of the future demand.

However, currently there are private sector investments, which until now are being materialized, namely Shoaiba, Shuqaiq, Sadaf, Saudi Aramco, Marafeq (Jubail), and Rabigh, and soon to materialize are power projects such as, Ras Alzor, Marafeq Yanbu and Maden, having a total combined capacity of 11 GW. This breaking development serves as a clear evidence of the kind of interest taken by the major investors to invest in electricity industry in general and cogeneration in particular. For this reason, we formed a team to develop Independent Power Production Projects and to encourage the private sector to invest in the field of power generation. Wasting no time, we started to prepare the documentation required by the team to carry on with this program and identify the targeted power generation plants, prepare timetable, and milestone schedules to materialize this program. Investors are encouraged to contact our team through the email: swaha.am@se.com.sa.

#### Summary of Company Joint Venture Projects with the Private Sector Up to Year-End 2006

Company	SEC Share	Otl	ner Partners Sha	e	Power Generation Capacity	Water Production Capacity (daily)	Cost in Saudi Riyals
Shoaiba Water and Electricity Co. (build, own, and operate for 20 years)	8%	Public Investment Fund (32%)		Private Sector (60%)	900 MW	888,000 m <sup>3</sup>	9 Billion
Shuqaiq Water and Electricity Co. (build, own, and operate for 20 years)	8%	Public Investment Fund (32%)		Private Sector (60%)	850 MW	212,000 m <sup>3</sup>	7 Billion
Jubail Water and Electricity Co. (build, own operate for 20 years and transform)	5%	Public Investment Fund (5%)	Marafeq Electricity and Water Co. in Jubail and Yanbu (30%) MARAFEQ	Private Sector (60%)	2,748 MW	800,000 m <sup>3</sup>	12 Billion

5%

Percentage of SEC
Shareholding
in Jubail Water and
Electricity Company

Percentage of SEC
Shareholding
in Shuqaiq Water and
Electricity Company

8%
Percentage of SEC
Shareholding
in Shoaiba Water and
Electricity Company

#### **Our Corporate Social Responsibility**

We, believe that our responsibility should not only be centered to boosting, developing and extending electricity supply to meet the economic growth requirements and respond to the needs of various developmental sectors and social segments, but also to interacting, at all times, with our various groups of stakeholders, through a wide spectrum of participations and active presence in order to create and sustain a long-term relationships and common interest with our community. This vital role is being played through various programs that cover social and public activities and workplace.

As part of our social responsibility, we, in 2006, had participated in supporting and sponsoring many government activities and events, the most prominent of which were the sponsoring of the Jeddah Economic Forum, participating in Gulf Traffic Week, International Civil Defense day, Career Day, Traffic Campaign under the slogan "Enough", 10th Gulf Engineering symposium, "Towards Secured School Environment" a national campaign launched by General Administration

for Girls Education in Riyadh, 7th Scientific Forum for Pilgrimage Research and the last, but not the least, taking part in the National Day celebration held at King Abdulaziz Historical Center.

We had participated in 22 exhibitions, events, festivals and public ceremonies. We also provided financial sponsorships and supported various public events and activities. Moreover, we, within the framework of the company orientation visits, received delegations from our major partners and large customers as well as 17 foreign delegations.

Also, this year has witnessed several campaigns being launched in our efforts to create public awareness of products, services and activities.

Charity work received special attention with up to one million Saudi Riyals donated to various charities. We also continued to encourage the private sector by supporting the process for implementing various contracts through local companies and establishments.

Internally speaking, our efforts went on stronger than ever to intensify the bonds with our employees and boost their affinity and loyalty to the Company. This was manifested in the holding of welcome parties for newcomers, congratulatory ceremony for trainee graduates and appreciation parties for retirees, in addition to organizing many sports and cultural events and various workshops and seminars.

As to mass media, we have continued this year releasing and publicizing via mass media the latest

updates, accomplishments and developments witnessed by the Company locally and internationally.

Our relation with media parties and the press was further strengthened through various orientation visits to the company facilities.

In our efforts to maintain a safe workplace and have our entire works executed in full conformity with top safety standards, we have continued applying emergency plans to prevent and control fires, leakages, safeguard security, tackle natural disasters and the like. In this regard, close contact, smooth exchange of information and systematic coordination have been maintained with concerned government and public bodies, so much so that, we in addition to our internal emergency plans in place, have linked with Civil Defense and Red Crescent to set up joint emergency plans.

Several evacuation exercises were staged in various cities with the participation of Civil Defense. These exercises were exceptionally useful in having our employees become well aware and properly trained in cases of emergencies and how to react to safety and fire prevention. We have extended our effort, in this area, to bringing volunteers into the scene and providing training courses to them as a standby force in case of need.

Safety awareness is equally important to us as manifested in certain operating procedures, including periodic inspections of our safety gear and equipment and identifying defects and weak points at various sites in order to eliminate the same. These procedures were also coupled with ongoing implementation of training programs and various awareness activities.



Thanks to SEC for the kind support extended to me.

#### **Nebras**

The Enterprise Resource Planning project "Nebras" can be best defined as a set of subprograms built on shared database. These programs have been developed based on the best practices adopted worldwide in terms of work procedures and administrative processes. Nebras aims at creating total integration among all Company business lines via one electronic network within one unified system to provide precise and relevant information to help in making timely decisions. "Nebras" is the kind of tool that we utilize to help in upgrading the overall performance standards, bringing about total unification and harmony between various Company systems in order to achieve top level efficiency and accountability, enhancing our customer services and applying the best international practices. With Nebras being in place, we shall be in a better position to eliminate system duplication and unify our information sources.

Given its extensive magnitude, Nebras was planned to be carried out over several phases, the first of which was launched in 2005, where the areas of human resources, finance, planning, programs, generation and transmission, customer services and public services had been addressed.

The following accomplishments have been achieved in the year 2006.

- Implementation of human resource and finance project which includes all procedures falling under the areas of human resources, finance, planning and programs in addition to the balanced scorecard of power transmission business.
- Orientation and training of Company employees on the integrated work procedures in the above areas.
- Nebras is being managed by Saudi workforce.
- Launching exceptional awareness campaigns and programs at various levels within the Company.

Scope	No.	No. of Participants
Finance and Human Resources	159	282
Distribution and Customer Service	es 8	149
Materials	7	89
Transportation	2	11
Substations Maintenance	6	172
Logistics (combined procedures)	2	30
Total	184	733

- Application of balanced scorecard in power transmission business.
  - Designing procedures for distribution and customer services areas, which include all applications and the entire units concerned with the distribution and customer services business (billing, systems, meter reading, customer accounts, electricity connection and maintenance).
- Designing procedures for materials, transmission, substations maintenance operations (generation, transmission and general services).

In order to maintain a sustainable pace and level of achievements, several specialized taskforces have been formed and assigned to carry out these projects under the supervision of Nebras Management, which has applied international standard methodology in overseeing the overall implementation of Nebras. Along the way, obstacles do emerge and assistance was given by Nebras Management to the concerned taskforce to overcome such obstacles and avoid delays. Primary importance is being given to maintaining cooperation and one-team-spirit between these taskforces. This methodology yielded positive results which have been harvested during the process. However, it is worth mentioning here that projects similar to Nebras, given its technical complexity, yield modest rate of success; as low as 50%. Yet, Nebras looks exceptional, as it surpasses all expectations. This is due to the methodology of implementation adopted at the very outset of Nebras, which can be detailed as follows:

- Phased implementation of the project.
  - Project management based on the best international management methods and practices.
- Only employees experienced in work procedures have been assigned full time into the taskforces.
- Adopting best ready-made practices along with maintaining the policy of "Evolution rather than Revolution."

Scope	No.	No. of Attendees
Finance and Human Resources	43	1,969
Distribution and Customer Services	23	648
Materials, Transportation and Substations	27	935
Maintenance (Logistics)		
Total	93	3,552

#### **Prominent Events in 2006**



▲ H.E. Eng. Mahmoud A. Taiba and Dr. Saleh H. Al-Awajji were elected as Chairman and Vice Chairman of the Board of Directors respectively while Mr. Abdul Salam A. Al-Yemni was elected as the Secretary of the Board of Directors in addition to his job as Senior Vice President of Public Relations and Shareholders Affairs.



- ▲ Company employees welcomed with a spirit of interaction the former President and CEO Eng. Abdulaziz A. Sugair, when he made a series of visits and held meetings in all four Company operating areas.
- ▲ The Company exceptionally participated in the Middle East Power Generation 2006 Exhibitions and Conference held in Abu Dhabi.



- ▲ Opening of the first advanced customer service office in the Central Operating Area.
- ▲ Providing electricity supply to 80 villages in Mecca and Madina areas at a cost of 180 million Saudi Riyals.
  - ▲ Holding appreciation party for Mr. Sulaiman A. Alkadi, first Company President and CEO.
    - ▲ Signing of a SR 2,583 million expansion contract for Power Plant 9 in Riyadh.
      - ▲ Graduation of 476 trainees from Company training institutes.
    - ▲ Holding appreciation gathering for the employees of continuous services.



- In the Arab world level, we held 3rd place in the list of 2000 major international companies in terms of its market value of 48.66 billion US dollars.
  - ▲ Issuance of consumption bills to customers within 5 days from date of meter reading.
- Approval for the payment of 70 Halala /share dividend for the year 2005 by Company's 4th Ordinary General Assembly.
- ▲ Giving bonuses to more than 8 thousand employees attaining excellent and very good ratings in their performance appraisals.



- ▲ Special reception gathering held by the Company for the Chairman and Members of the Board of Directors during the Board's first session.
- ▲ H.R.H. Prince Salman Bin Abdul Aziz, the Governor of Riyadh, conferred upon the Company the shield of honor for its vital contribution in recruiting trainees who graduated from the General Organization for Technical Education and Vocational Training.
  - ▲ Signing of 8 power projects costing 1,641 million Saudi Riyals.
- ▲ The resignation of Eng. Abdulaziz A. Sugair, the Company's Chief Executive Officer, was accepted by the Company Board of Directors which expressed its appreciation for his efforts during his tenure of office.



- ▲ Launching of experimental self-service monitor screens (kiosk) at Jeddah Customer Service Offices.
- ▲ Holding special reception party for the Orphan Care Charity Society "INSAN" and organizing a recreational day for them at Riyadh Social Club, as a part of our community service programs.
  - ▲ Admission of 694 new trainees from a group of 1000 applicants at the training institutes in the four operating areas.



- ▲ In record time, our technicians managed to re-operate Qurayyah Power Plant which was down due to technical failure affecting the protection system of one transformer.
  - ▲ Commencement of application of time of use tariff program in the Central Operating Area which take into consideration the time-of-use of power by operating electronic meter technology being installed for more than 80 customers during summer.



- ▲ Issuance of instructions by His Majesty King Abdullah Ibn Abdul Aziz Al-Saud, Custodian of the Two Holy Mosques, to provide electricity with the required financial, organizational and planning support in order to enable the electricity industry to meet the short and long term challenges of providing power services.
  - ▲ Holding a gathering honoring Eng. Abdulaziz A. Sugair, the former Chief Executive Officer
- ▲ Signing an agreement with the General Organization for Technical and Vocational Training for the implementation of non-employee training program in technical colleges in certain fields and specialties needed by them.
  - ▲ Holding the 11th Total Quality Management Forum in Riyadh city which was attended by more than 550 interested individuals.



- ▲ Appointment of Eng. Ali S. Al Barrak as the Company's President and CEO.
- ▲ Opening the 4th Customer Service Seminar in Abha by Eng. Ali S. Al-Barrak. The seminar witnessed extensive attendance by interested individuals.
- ▲ Signing a contract for power plant expansion projects in the Central and Eastern Operating Areas costing 3,650 million Saudi Riyals.
  - ▲ Holding the 3rd Jeddah Power Plant Operation and Maintenance Workshop.
    - ▲ Success of the 1427H, (2006) Hajj Operational Plan.

#### **Board of Directors**



Mahmoud A. Taiba Chairman of the Board



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



**Ali S. Al-Sugair** Member



**Sulaiman A. Alkadi** Member



**Abdulrahman A. Al-Tuwaijri** Member



**Ibrahim A. Al-Madeemaigh** Member



**Eisa M. Al-Eisa** Member



Khaled A. I. Al-Sabti Member



**Isam A. Al-Bayat** Member

#### **Executive Committee Members**



Ali S. Al-Barrak
President and CEO



Yousif S. Balghanaim Executive Vice President, Generation



**Tariq A. Al-Betairi**Executive Vice President,
Transmission



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



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



**Ali S. Al-Ayed** Executive Vice President, Finance



Fahad K. Al-Hajri Senior Vice President, General Services



Amer M. Al-Swaha Senior Vice President, Human Resources



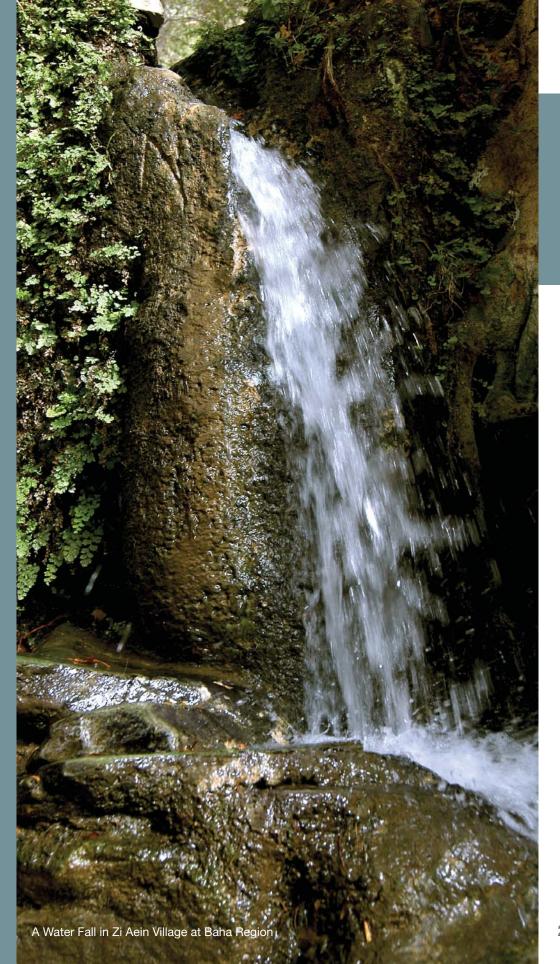
Mutlaq M. Al-Mutlaq Senior Vice President, Legal Affairs



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

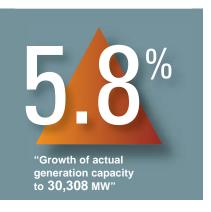


Abdul Salam A. Al-Yemni Senior Vice President, Public Relations and Shareholders Affairs

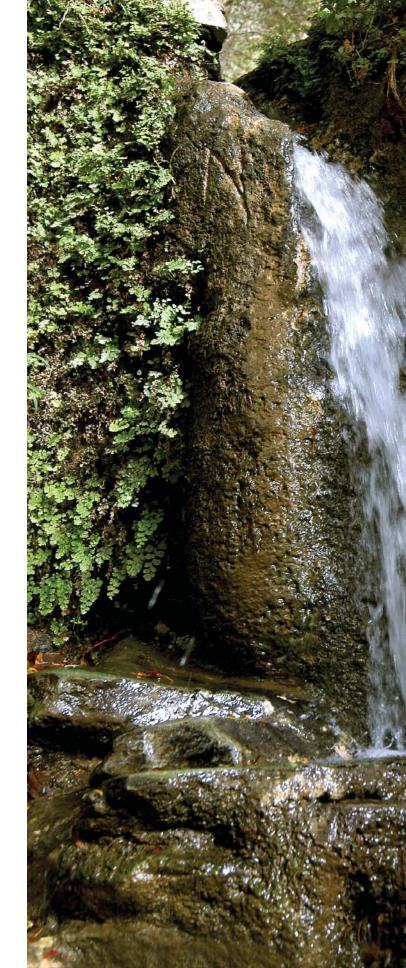


# GENERATION

2006 Annual Report



- Remarkable growth in the volume of investment in capital project under construction in power generation amounting to 5,747.776 million Saudi Riyals representing an increase of 17.5% compared with year 2005.
- Total available capacity witnessed in year 2006 a growth of 7.8%, reaching to 34,823 MW compared with 32,301 MW in year 2005.





#### **Our Prominent Achievements**

To begin with, it is worth mentioning that the power generation activities are the main source of electricity in the Kingdom.

Given the Generation business unit mission to provide sufficient and highly reliable electricity on one hand and to reduce the cost of power production by the optimum utilization of the available resources on the other hand, the overall performance can serve as an eyewitness to the kind of dedication we have in order to achieve this mission.

Year 2006 has witnessed a remarkable growth in the volume of investment in capital projects under construction in power generation amounting to 5,747.776 million Saudi Riyals representing an increase of 17.5% compared with year 2005, reduction in use of rental diesel units by 20%, increase in desalination plants contribution by 11% and 88.2% for large customers at peak load in order to preserve the generation reserve. Our contribution in the available generation capacity decreased by 1.6%, reaching 87.1% compared with the year 2005 which was 88.7%.

Our actual generation capacity reached 30,308 MW, scoring a growth of 5.8% compared with the year 2005 which was 28,640 MW. By the end of 2006, our generation plants in the Central, Eastern, Western and Southern Operating Areas have contributed with rates of 24.4%, 34.7%, 31.3% and 9.6% respectively. We are keen to increase the economic and operational efficiency of all gas and steam generation units providing the major share in the actual generation capacity of the Company power plants with 52.3% and 37.9% respectively, while the combined cycle units provided 7.9% and only 2% by the diesel units.

Actual Generation Capacity by Unit Type (MW) 30,308 ,640 28, Percentage Distribution of Capacity by Area 25,000 of Company Owned Generation units in 2006 Total Diesel Combined Cycle Central Eastern Steam Western Southern The growth in the actual generation capacity reflects our continuous efforts extended to keep up with the ever increasing demand for electricity supply. At year-end of 2006, a number of projects were being added to boost up the generation capacity in the operating areas with 1,858 MW. Such additional generation capacity can be detailed as follows:

Increase of the actual generation capacity by enhancing the cooling systems of the generation units:

60 MW at Riyadh PP8

70 MW at Hail PowerPlant

42 MW at Joba Power Plant

Increase of the actual generation capacity by operating new units:

#### Steam

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

#### Gas

2 Units at Arar Power Plant with a capacity of 60 MW/unit.

2 Units at Rafha Power Plant with a capacity of 30 MW/unit.

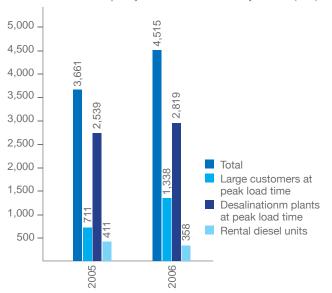
2 Units at Jizan Power Plant with a capacity of 66 MW/unit.

1 Unit at Bisha Power Plant with a capacity of 73 MW

1 Unit at Asir Power Plant with a capacity of 70 MW

1 Unit at Najran Power Plant with a capacity of 52 MW

Generation Capacity of Purchased Power by Source (MW)

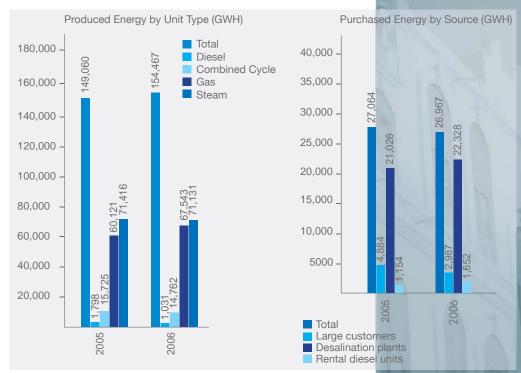


The total available capacity achieved in 2006 reflects a growth of 7.8% as it brought up the total available capacity to 34,823 MW compared with 32,301 MW in 2005. Rental diesel units, desalination plants and large customers contributed with, at peak load time, 358 MW, 2,819 MW and 1,338 MW respectively, thus, bringing up their joint contribution to 4,515 MW, representing a growth of 23.3% which reflects our new direction of forming strategic partnerships in order to diversify the generation sources and increase the national generation capacity to keep up with the increasing demand for electricity supply. Equally, the Company spares no effort in raising the operational performance in order to build an acceptable power reserve margin with the range of 10-15% of peak load, boosting and developing the infrastructures of the power plants facilities which constitute, in terms of its fixed assets alone, 34% of the Company's net fixed assets.

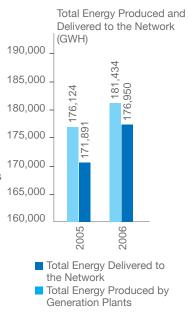


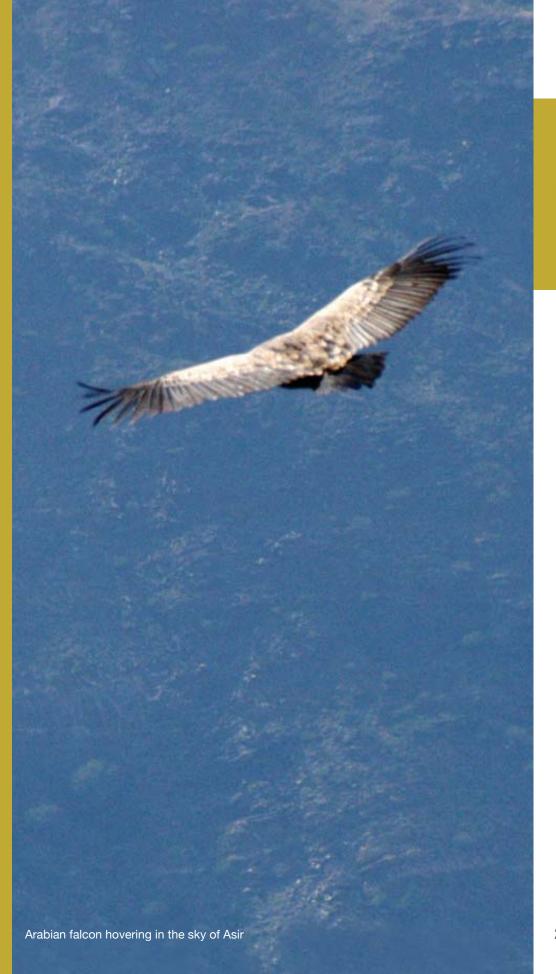
By the end of 2006, the total produced energy of our power plants is 154,467 GWH yielding a growth rate of 3.6% compared with 2005. By comparing the Company's total produced energy with the total contribution of rental diesel units, desalination plants and large customers' plants amounting to 26,967 GWH, our company contributes 85.1% as compared with 14.9 by all other producers combined.

This by itself can shed light on the enormity of the burden being borne by the Company and equally the kind of commitment to meet the requirements of the national power network. The energy delivered to the networks forms 97.5% of the total available energy amounting to 181,434 GWH compared with 176,124 GWH in year 2005.



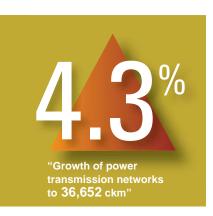
Readiness and rate of forced outages during 2006 were close to the planned rates, while the passive deviation was due to unplanned forced outages; for example, such events involving Qurayyah power plant and Ghazlan power plant transformers. The accumulated deficit in the required generation capacity of the systems during previous years was behind the failure in 165.000 achieving the planned targets of the periodic maintenance programs, thus affecting the rate of forced outages. The enhancement of the thermal rates for fuel consumption in gas units has yielded about 3% growth, while the steam and combined cycle units fell short of achieving the planned rates. However, they still can be considered in good shape, if compared with those of 2005.





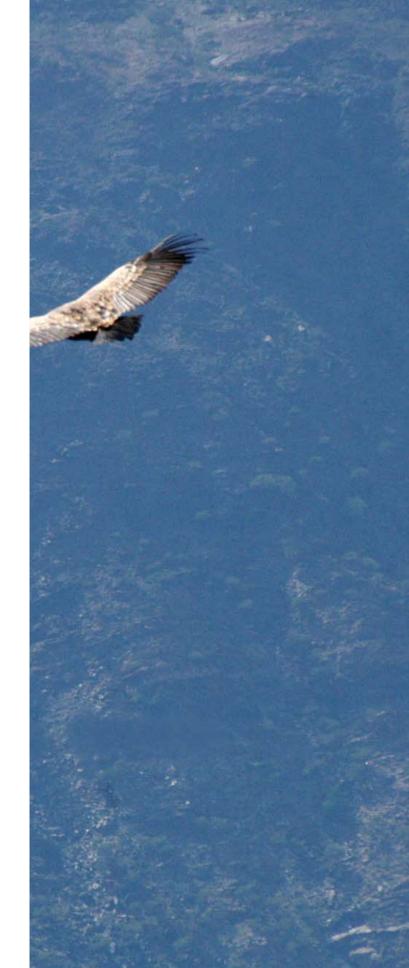
# TRANSMISSION

2006 Annual Report



Commissioning of new projects and reinforcing of existing projects in order to upgrade the operational efficiency and expand the coverage of our power transmission networks, with the introduction of new additional 17 substations operated by 67 transformers in total capacity of 6,496 MVA and expansion of the transmission networks with additional length of 1,508 ckm.

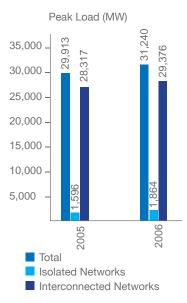
Total number of extra-high and high voltage transmision substations reaches 556 and 1,589 transformers for a total capacity of 142,602 MVA. The total length of power transmission networks is 36,652 ckm.



#### **Our Accomplishments Highlights**

On top of our priorities comes the operation of national power network with high reliability to guarantee electricity supply to the load centers all over the Kingdom through our 110 KV – 380 KV power transmission networks. This is the benchmark that reflects and measures how far we are committed to our mission as a business unit. Indeed, we are committed in all our operational and capital projects; that electricity is transmitted from production sites to the load centers at the least possible cost and high stability levels. In this respect, the door is left open to all power producers and customers to utilize our power transmission facilities at fair prices.

One prominent achievement in the operation domain was our successful preservation of the national network stability during 2006 by efficiently handling the forced outages of two generation units at Ghazlan and Qurayyah power plants during the summer peak season.



In 2006, the daily peak load of national network has reached as high as 31,240 MW, recording an increase of 4.4%, compared with the year 2005. This peak was recorded on the 9th of September 2006 as compared with 27th August 2005. In the year 2006, as compared with 2005, the peak load of both the interconnected networks and isolated networks witnessed notable growths of 3.7% and 16.8% respectively.

Year 2006 witnessed the commissioning of a number of new projects and reinforcing the existing projects through enhancing the power transmission network and upgrading its operational efficiency.

The following are the major projects undertaken by the Transmission business unit.

#### Extra-high Voltage 230KV - 380KV

- Commissioning of 3 new transmission substations equipped with 6 transformers having a total capacity of 2,265 MVA.
- Adding new overhead line circuits and underground cables having a total length of 260 ckm.
- Reinforcing of 6 existing transmission substations with additional 3 transformers having a total capacity of 860 MVA as well as circuit breakers.

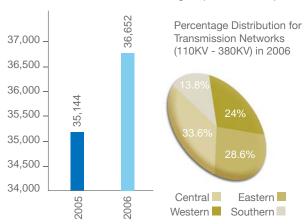
#### High Voltage 110KV - 132KV

- Adding new overhead lines circuit and underground cables having a total length of 1,248 ckm.
- Commissioning of 14 new transmission substations equipped with 35 transformers having a total capacity of 1,932 MVA.
- Reinforcing of 33 existing transmission substations with 23 transformers having a total capacity of 1,439 MVA as well as circuit breakers.

These projects have brought the total transmission length up to 36,652 ckm by the end of 2006 compared with 35,144 ckm in the year 2005, thus reflecting a growth of 4.3% in transmission networks.

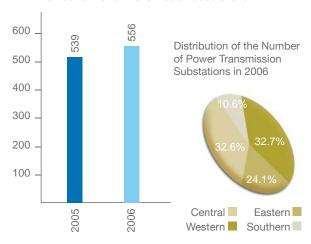
Transmission networks are spreading all over Operating Areas Kingdom wide. Comparatively, the percentage distribution per operating area of the power transmission networks lengths were 33.6%, 28.6%, 24% and 13.8% for Central, Eastern, Western and Southern Operating Areas respectively.

Transmission Networks Lenghts (110KV- 380KV)



Furthermore, the power transmission networks were boosted up with 17 new substations, thus bringing the total number of transmission substations by the end of 2006 to 556 and recorded a growth of 3.2% compared with 2005. As a result of this growth in the number of transmission substations, the overall distribution of the power transmission substations in Company's Central, Eastern, Western and Southern Operating Areas has witnessed a slight variation bringing the rates to 32.6%, 24.1%, 32.7% and 10.6% respectively.

#### Number of Power Transmission Substations

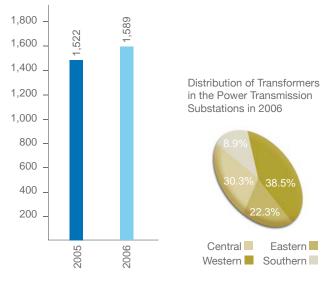


The number of transformers has witnessed a growth of 4.4% bringing their total number to 1,589 in 2006, compared with 1,522 in 2005. Likewise, the capacity of power transformers has witnessed a growth of 4.8%, reaching to 142,602 MVA in 2006 compared with 136,107 MVA in year 2005.

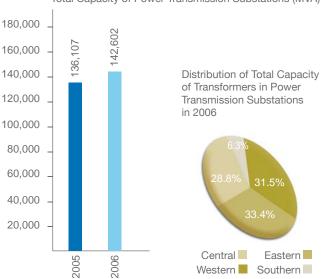
As a result of this kind of further development being witnessed in the power transmission networks, the percentage distribution of the total number of transformers at the end of 2006 reached 30.3%, 22.3%, 38.5% and 8.9% in the Company's Central, Eastern, Western and Southern Operating Areas respectively.

Likewise, the percentage distribution of the total capacity of the transformers has become 28.8%, 33.4%, 31.5% and 6.3% in the Company's Central, Eastern, Western and Southern Operating Areas respectively.

Number of Transformers in Power transmission Substations

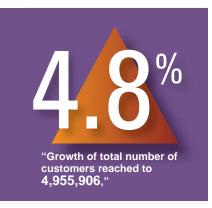


Total Capacity of Power Transmission Substations (MVA)





# **DISTRIBUTION** & Customer Services



- Electricity supply was connected to 244,604 new customers and 328 villages and settlements bringing the total number of electrified cities, villages and settlements to 10,713
- The distribution networks were further reinforced with the addition of 12,071 transformers having a total capacity of 5,354 MVA and networks lengths of 13,724 ckm. By year-end 2006 the total number of transformers reached 260,391 having a total capacity of 121,208 MVA and networks lengths of 315,603 ckm



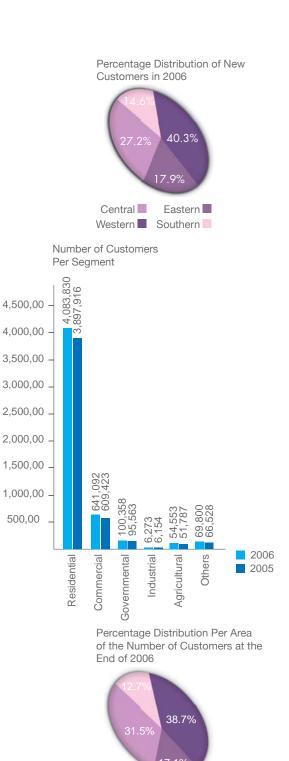
#### **Our Main Achievements**

As we pursue development of our products and services and achieve the electricity supply requirements that meet the expectations and needs of our customers, we recognize that the effort is a non-stop march.

We, as business unit, having direct and constant contact with our customers, our energy and efforts are devoted to achieving our mission; providing safe and highly reliable electricity supply, continuously upgrading our services in order to achieve customer satisfaction at the least possible cost through utilization of our available resources.

By the end of 2006, the total number of our customers has reached 4,955,906, representing a growth of 4.8% compared with 2005. Again, by the end of 2006, electricity supply has been provided to 244,604 new customers, covering our four operating areas namely Central, Eastern, Western and Southern at the rate of 27.2%, 17.9%, 40.3% and 14.6% respectively. Percentage wise, the distribution of the total number of customers per operating area, i.e. Central, Eastern, Western and Southern were 31.5%, 17.1%, 38.7% and 12.7% respectively.





Central

Western Southern

Eastern

By the end of 2006, a special operational plan for the Pilgrimage Season was implemented with high level of efficiency and without incidence of power disconnection.

In our effort to boost our operational efficiency and upgrade our service quality, the control center and emergency call center have been modernized to accommodate state of the art systems and facilities. Our operation teams are equipped with GPS sets to guarantee speedy reporting of breakdown sites. Bravo service has also been introduced to improve our wireless communications and 181 Bravo sets have so far been secured. The effort is in progress to link Bravo with GPS and GIS. Furthermore, phase-1 of Time of Use (TOU) tariff has been commissioned and 46 customers using this service have so far been registered, thus relieving our network of about 18 MW during summer period and reducing the power bill.

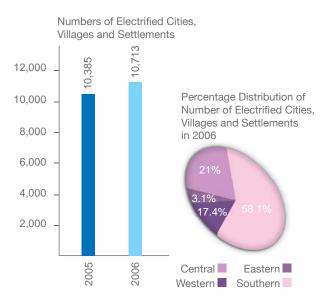
In line with our mission to upgrade our customer service quality, a contract has been made with a qualified consulting company to conduct a study to develop a Customer Service Strategy, with the objective to review all the current customer service practices. Under this contract, a customer-focused strategy shall be developed, in such a way that our customers' requirements and expectations are used as a basis for such process of development. This project shall include several other activities such as formulating the customer service strategy, service standards and requirements needed to strengthen our competitive capabilities, conducting gap analysis for current processes, re-engineering the relevant processes, benchmark the best practices in utilities Customer Service and identify the requirements of performance evolution in terms of executing these processes. The main targeted business processes are: connection of power supply, meter reading, collection management, credit control, billing, direct contact points management and call centers (emergency and commercial). In the area of billing and related enquiries, a toll-free telephone service has been regionally unified and made available in the Kingdom. With this service in place, customers wherever they might be in the Kingdom can call the toll-free number to enquire about electricity supply connection applications and can also apply for all services related to billing and supply connection. In yet another step of improving communications with our customers, we have introduced "Al Kahraba SMS" service through SMS numbers 75555 and 6555 for Al Jawal and Mobily users respectively. Through this service, our customers are better provided with a touch of comfort, an element of intimacy and direct flow of interaction, not to mention that we can, at any single moment, provide our customers with reminders and awareness messages.

Within this context of innovation, the Company has introduced the electronic bill whereby power consumption bills are sent to email addresses for customers who registered for this service. In addition to the electricity bill, the customer receives periodic notices and reminders. The technology evolution knows no stop. Payment of electricity bill, which used to cause so much inconvenience to our customers, waiting in long queues at banks, can now be made via teller machines, bank on-line service or the internet anywhere inside or outside the Kingdom. Even cash payment via bank was not left alone; thanks to the magic touch of technology, we managed, with the cooperation of local banks, to have point of sale service and cash accepting teller machines installed at various Company sites to facilitate payment of electricity bill. With respect to contractors, we have commenced the application of e-contract service whereby contractors can receive invitation for bids and pregualification notices for projects to be released by the Company through their e-mail addresses instead of spending much time in personally visiting and revisiting Company offices.

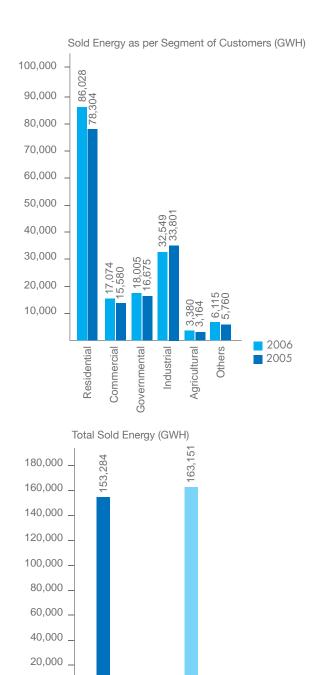




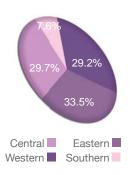
With respect to the total number of electrified cities, villages and settlements, a remarkable growth of 3.2% was achieved in 2006 compared with 2005 as 328 new villages and settlements were supplied with electricity, thus bringing the total number to 10,713 electrified cities, villages and settlements compared with 10,385 in 2005. This growth reflects our contribution as a business to achieving the Company's mission and illustrates our commitment to meeting the expectations and needs of all segments of our customers.



Regarding the sold energy, a growth of 6.4% was achieved by the end of 2006, bringing the total sold energy to 163,151 GWH compared with 153,284 GWH in 2005. The percentage distribution of sold energy was 29.7%, 33.5%, 29.2% and 7.6% for the Central, Eastern, Western and Southern Operating Areas respectively.



The Relative Distribution of Sold Energy in 2006



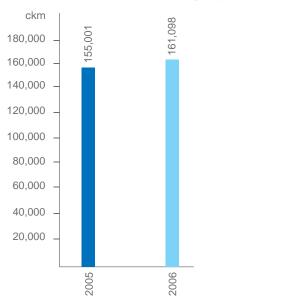
As a result of many projects carried out in our non-stop endeavour to further boost the power distribution networks, the distribution networks length (low voltage 13.8 KV– 69 KV) has scored 5% growth in 2006, thus bringing the total length to 154,505 ckm compared with 147,109 ckm in 2005. Moreover, the customers' connections length (for 127V, 220V and 380V) was increased to 161,098 ckm representing a growth of 3.9% in year 2006 compared with 2005.

Distribution Networks Lengths (13.8 KV - 69 KV)

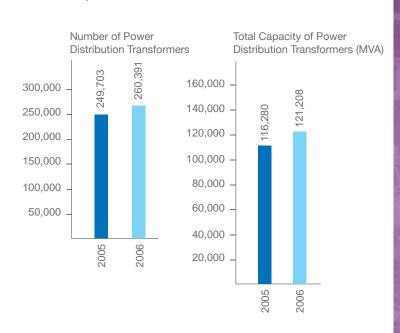
ckm

180,000 - 60,000 - 120,000 - 60,000 - 60,000 - 40,000 - 20,000 - 20,000 - 6

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



On the other hand, the total number of power distribution transformers was increased to 260,391, representing a growth of 4.3% compared with 2005 where the total number of transformers was 249,703. This brought the total capacity of transformers to 121,208 MVA at the end of 2006 scoring a growth of 4.2% compared with 2005.



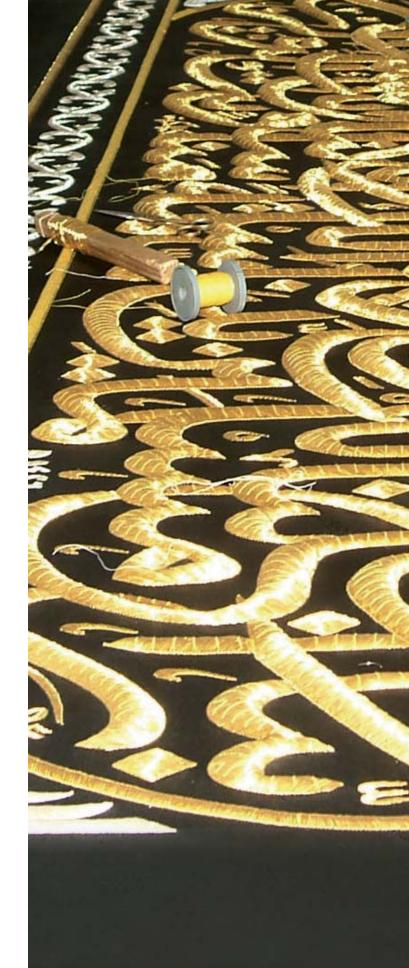


# **HUMAN**Resources



A special program called "Promising Employee Development" was adopted in order to develop the skills of promising employees, and pave the way for all to benefit from 308 training courses available through the "i-Learn" online self-study program.

1,819 creative ideas were presented through the Innovation Program, while 20 workshops were held within the framework of the Enterprise Resource Planning project called "Nebras".





## **Our Pillar of Growth**

Given our belief that human resources form the very core foundation of growth and progress, we have bolstered efforts and capabilities to invest and develop our workforce.

Indeed, qualified and well trained workforce can make our target growth a reality, upgrade our productivity efficiency and promote the overall performance.

Human resources are the real energy that can empower success in achieving our strategic plans for drastic changes in terms of efficiency in production and performance and above all self-transformation into a commercially oriented Company.

As a joint organizational unit, our efforts have been focused on the on-going development plans and programs dedicated mainly to our employees throughout the year 2006. We believe that our contribution to the Company's mission is being actively maintained by our dedication to help create highly skilled, qualified, trained workforce and equally adaptable to the changing workplace environment. Special emphasis has been devoted to specialized programs, selection of candidates, development of employees and planning of their personal career.

Our ultimate goal is that only highly competent personnel shall be allowed to occupy top and leading positions in the Company.

In the area of pregualification and training to meet the Company's requirements in terms of various technical and administrative specialties, 627 graduates of the Company's training institutes were successfully absorbed into the Company's On-Job-Training (OJT) program bringing the total number of OJT trainees to 1,026 in the year 2006. Furthermore, in this direction, 295 university graduates have been hired and joined the Professional Development Program thus bringing the total number of university graduate employees registered in this program to 592 by year-end 2006. In the course of further developing our employees' skills, countless technical and administrative short courses along with specialized courses in various fields were conducted and by the end of the year 2006 the total number of participants reached as high as 24,563 attendees.

In furtherance of our efforts within the realms of human resource development, the "Promising Employee Development" program has been adopted with the specific objective to create adequately integrated organizational channels devoted to take care of the Saudi university graduate employees who show proven talents and personal aptitudes to receive, in the future, further doses of specialization and leadership responsibilities. In this respect, each manager is asked to nominate such promising employees from within his department.

The Management and Career Development Department will then measure the candidates' competencies through specialized questionnaires. Thereafter, the subject employees' superiors are informed of the detailed results and guide them to the best method to plan for the development of their subordinates through the utilization of in-house and external training programs, carry out developmental tasks, and given professional job rotational and substitution assignments. At the first stage of this program, the total number of registered employees reached 72 in various Company business lines.

Within the framework for activating the mutual cooperation and direct constant contact being maintained over the years between our Company and the General Organisation for Technical Education and Vocational Training (GOTEVOT), an agreement was signed by the two parties to organize the relationship between them within the scope of having 118 trainees enrolled in the non-employee training and prequalification programs conducted by the GOTEVOT Colleges of Technology in Riyadh, Dammam, Jeddah and Abha for specialization training in Power Distribution Electrician, Overhead Power Lines Technician and Underground Cable Technician.

The program commenced during the training year 2006–2007. As per program schedule, trainees are required to successfully complete the first foundation year in their respective colleges, while the second specialization year shall be taken in the Company's training institute. At the conclusion of this training program, trainees shall be awarded a "Diploma in Technology" in the field of their specialization in addition to a certificate issued by the Company training institute attesting to their successful completion of the training program. There are ongoing discussions with GOTEVOT to further utilize the agreement by increasing the number of specializations for the coming stage.

Our employees are encouraged to utilize as much as 308 training programs, made available by the Company under the umbrella of "I-LEARN" program; an electronic self-study program considered as a pioneering leap made by our Company in the field of online self-study technology. By the very essence of its design to provide multiple development options to all employees, "I-Learn" covers a wide range of administrative and technical subjects which are most needed by our employees to perform their job tasks effectively and smoothly.

On the other hand, owing to the fruitful outcome of our ongoing drive for having the university and Company institute graduates prequalified and trained to join the Company workforce, the Company has managed, by the end of 2006 to Saudize 83.19% of the Company's total of 28,679 jobs as compared with 82.31% in the year 2005. In this respect, we received the first place award in

Prince Nayef Ibn Abdul Aziz Prize for Saudization Award for two consecutive years. We won the Prize for Excellence in Saudization as a result of this notable achievement.

In the social sector, our efforts in community service were materialized in various social contributions and participations in numerous local events.

We participated in the "Career Day" held by certain universities. Also in the year 2006, we provided training to 596 and 469 students through the Summer Training Program and Cooperative Training Program respectively.

In yet another domain, Total Quality Management (TQM) program was brought to our center of attention. In year 2006 alone, 78 teams were formed and specifically assigned to enhance the main operations being carried out by the busines units in various administrative levels. It is worth mentioning, however, that the total number of TQM teams formed since the very onset of implementing the TQM program has reached as many as 1,267 teams that came up with 6,108 recommendations, 4,987 of which were adopted, thus helping in the enhancement of various business processes, upgrade of efficiency and reduce operating costs and promote our services rendered to our customers.

With the "Innovation Program" in place, the creative ideas had their share of Company attention as well.

A total of 1,819 ideas were presented within the framework of the program, 760 of which were approved while 137 of the approved ideas were for the year 2006.

We were also behind the organization of numerous seminars and training courses in our efforts to wrap up the preparations required for the applications of "Employee Excellence and Innovation Program" in operating areas. A total of 395 and 1,086 employees received the "Employee of the Year" and the "Employee of the month" awards respectively.

Consistent with the accelerating changes in work procedures, particularly with the application of Enterprise Resource Planning system called "Nebras", twenty (20) awareness and educational workshops were organized at Company level and in all operating areas and attended by no less than one thousand employees.

Moreover, "Service Level Agreements" project, a giant project targeting each and every employee of the Company, was the subject of ongoing support with as many as 23 workshops conducted within the Company and attended by 240 employees.

In regard to "Nebras", groups of teams have been formed to take over the tasks of risk management. As part of their assignment, any possible problems and obstacles which may be encountered in the application of "Nebras" shall be identified, solutions shall be formulated and plans shall be made to eliminate or minimize their adverse effects.

295 University
graduates were hired
and joined the Company
"Professional
Development Program"

24,563 Employees have participated in specialized courses in various fields

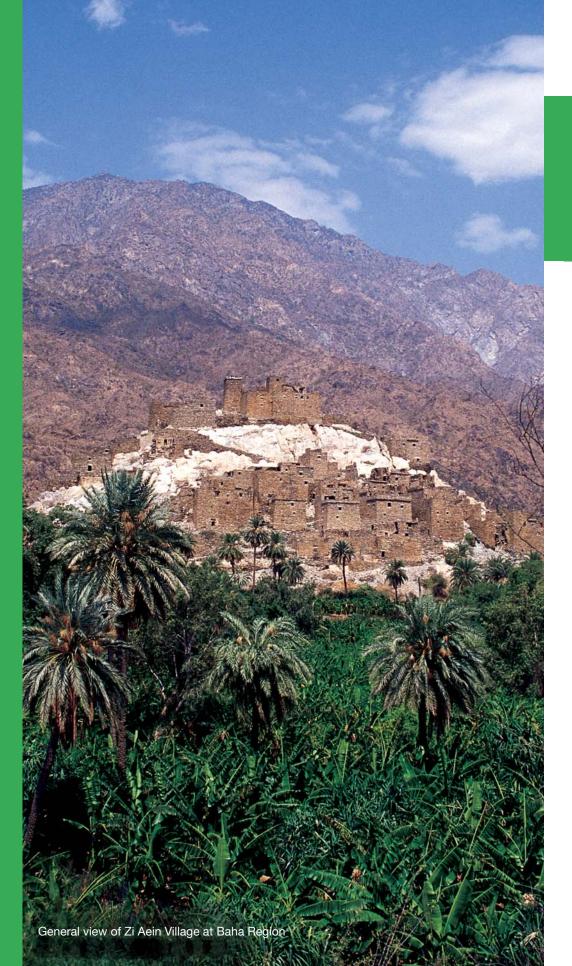
A total of **1,819** creative ideas were presented within the framework of the Innovation Program, **760** of which were

approved while 137 of

them were for 2006

reaches as high as 83.19% of the total workforce of 28,679 employees

In 2006, a total of **627**Company institute
graduates were absorbed
into the OJT Training
Program bringing the
total number of the OJT
trainees to **1,026** 



# **ENVIRONMENT**Protection

- We spare no effort to minimize the environmental effects of power transformers in urban areas. We pay high attention to use only clean fuel with minimal emissions and advanced burners.
- We continue our cooperation with local and foreign universities and research centers to overcome the carbon ashes problems. We have established an integrated system to control & monitor air and water as well as develop specialized laboratories in power plants.





# Our Contribution to Environment Protection

Healthy environment comes as one of our top priorities. It plays an important role in laying down our operational and capital plans. We do care about the environment and all environmental aspects are taken into consideration in the process of planning for projects and development programs and throughout the implementation stage thereof. Moreover, environment protection culture and awareness are taken seriously and the sense of responsibility towards the environment is made a part of our in-Company education. Close coordination is being maintained with the Presidency of Meteorology and Environment (PME), and as its name suggests, is devoted to the environmental protection in the Kingdom, safeguarding and enhancing the natural resources and laying down efficient policies and plans for environmental protection. Our cooperation with PME covers all aspects of environmental protection relevant to our practices, particularly in terms of carrying out studies on evaluation of environmental effects.

Our interest in the environment is best manifested in our efforts to control air, water and soil pollution as well as minimize the environmental pollution effects on humans.

#### **Humans**

In order to minimize the effects of environmental pollution on humans, the environmental effects of our power transformers in urban areas should be made to a minimum by bringing the level of noise caused by transformers within the range of internationally accepted noise level. We carry out this task well ahead of time and right from design, engineering and installation of transformer units. We also make sure that our power lines are installed within safe routes and in conformance with international standards.

On the other side, the esthetic view of our customer reception hall is well maintained to reflect the general image of the Company and provide our customers with the comfort they deserve. Smoking is prohibited in all Company offices. Periodic inspection tours of work places in Company operating areas are conducted with the participation of various Company departments.

- We work hard to minimize the environmental effects of power transformers in the urban areas.
- We arrange to have our power lines take safe routes and installed in conformance with international standards.
- We take care of the esthetic view of our buildings and customer reception halls.

  Smoking is prohibited in Company offices.

#### Air

As it is known, power generation plants use various types of fuels such as natural gas, diesel, crude oil and heavy fuel oil. All these fuels do cause air pollution. However, we are keen to minimize the effects of emissions on humans and public health by building our power generation plants outside the cities and over populated areas. We also avoid constructing our power plants in industrial areas, lest they will increase the rate of air pollution in those areas.

In our efforts to avoid causing pollution, we use clean fuel, such as natural gas and diesel, for one good reason; both have less emissions as compared with crude oil or heavy fuel oil. For example, our Riyadh main power generation plants (PP7, PP8 and PP9) use natural gas instead of heavy fuel oil. Furthermore, advanced burners in gas turbine boilers are used in order to guarantee minimum Nitrogen Oxide emissions, which have a bad reputation for being the main pollution agent in power plants operating on fossil fuel.

We have finalized the scope of work for conducting a comprehensive environmental survey of the main power generation plants in order to monitor and study the gas emissions and their effect on air and water and to come up with solutions to control and minimize them. Specialized companies have been invited to participate and their bids shall be evaluated in due time. We will continue implementing the agreements reached with the contractors, providing for elimination of petroleum and oil wastes at generation plants through environmentally safe means.

- We are keen to control the effects of gas emissions on environment and for this very reason we construct our generation plants outside cities and away from over populated areas.
- We use clean fuel with minimum emission and advanced burners in gas turbine boilers.
- Completing scope of work on a package tender for conducting a comprehensive environmental survey of main generation plants aiming to monitor and study the gas emissions and their effect on air and water.

#### Water

Water being an essential element for life, it is treated as such by our Company. As part of the process of power generation at seashores, water is evaporated; it is condensed back and returned to where it belongs, the sea. However, if it is contaminated with chemicals during the process, it can harm the environment and cause sea pollution. We took this issue seriously and spared no effort to make sure that the cooling water returning to sea is free of any chemical additives except chlorine, which is of course added to water to control the aquatic organisms which may cause harm to plant equipment. However, the process of dosing chlorine into the system is thoroughly monitored in order to make sure that the chlorine content is maintained within the limits permissible under the Kingdom's environmental protection standards at all times. In order to achieve this, we have adopted a sustainable process of chlorine control by using state of the art instruments to continuously measure chlorine's rates of concentration in water and depending on the readings, our field technicians can control such concentration rates. On the other hand, recycled waste water is used in the power plants for irrigation purposes and in the plants' residential areas.

Under contracts with specialized companies, fuel and oil wastes are systematically removed in order to guarantee a pollution free environment. It is a highly delicate process. Oil contaminated water, for instance, is channeled through multi-phased process to have oil separated and eliminated by environmentally safe means.

Within this context, we spare no effort in further developing effective environment-oriented capital and operational plans, such as setting up of an integrated air and water control system and upgrading the existing laboratories in power plants by introducing new pollution measuring instruments. In this direction, we, in coordination with the Presidency of Meteorology and Environment, are in the process of having a negotiation with the concerned authorities to obtain fuel of minimum emissions on one part, and identify substitute chemicals having the least environmental effects on the other part.

- We do care not to add any chemicals other than chlorine into cooling water returning to sea.
- Fuel and oil wastes are systematically removed from our systems to guarantee a pollution free environment.
- An integrated air and water control system was set up. Our power plants laboratories are currently undergoing a wide scale modification to enable them to handle most types of pollution tests.

#### SOIL

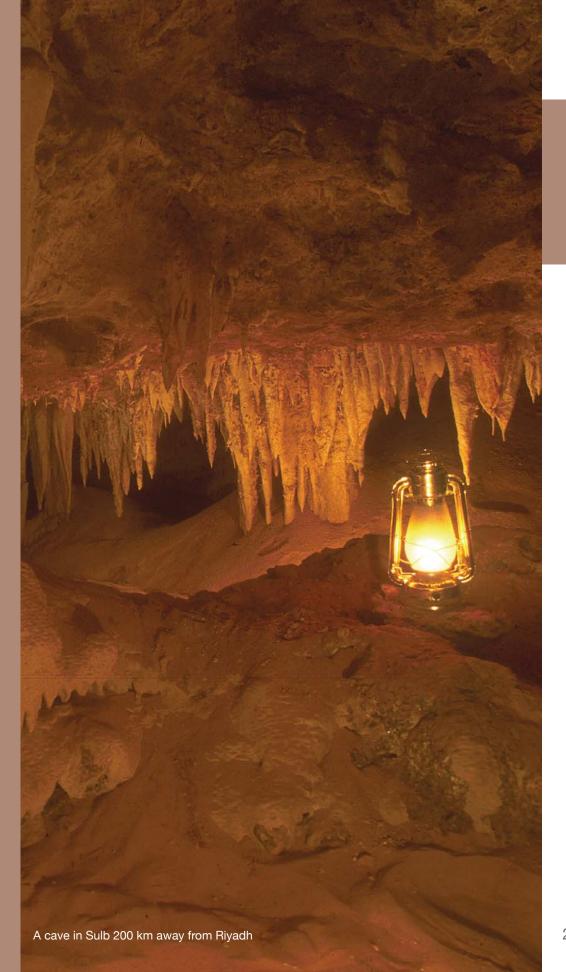
In the application of our environment protection policy, oils containing carcinogens such as PCB are prohibited, thus keeping our soil surface and underground water free of contamination.

In the research and awareness aspects of this issue, we continue to cooperate with the local and international universities and research centers to come up with an adequate solution to carbon ashes problems and organize large scale specialized courses for individuals interested in sharing experiences with environment specialists and experts whether being coming from within or outside the Company.

The use of certain chemicals having detrimental effects on human health, such as Chromate, freon-12, trichloride, methane, halon, and asbestos, have been suspended and replaced with environmentally friendly substances. In order to assess the environmental effects of these measures, we asked certain specialized companies, duly certified by the Presidency of Meteorology and Environment to conduct the required studies.

- Use of oils containing carcinogens such as PCB are prohibited in order to maintain pollution free soil
- Close cooperation with local and international universities and research centers is being maintained to find adequate solution to carbon ashes problem
- Use of certain chemicals harmful to the environment has been suspended and replaced with environmentally friendly substances.





# RESEARCH & DEVELOPMENT

2006 Annual Report



Through the 4th phase of our Research and Development program (December 2005 to November 2006), the projects of 1st and 2nd as well as the offers of the 3rd phase for joint research projects are being consistently followed up.





# **Program in Brief**

Research and Development program form one pillar that we depend on to develop and upgrade our practices.

We find ourselves strongly motivated to pursue our efforts in promoting the on-going research and development by the following compelling factors:

1- Mandatory commitment to implement the Council of Ministers Resolution No. 169, Article 1 (Para 2/E), which reads as follows:

"The Company must allocate portion of its income – to be determined by the Board of Directors to include a provision in its budget to cover the research and development activities in its field of specialization. Out of this provision, the Company shall support and finance such research conducted by the universities and specialized institutes and centers, particularly those related to power consumption conservation, power system upgrade and environmental protection."

This obligation is further emphasized in Article 3, which reads as follows:

"The Saudi Electricity Company shall cooperate with the universities and qualified institutes and centers to lay down a sustainable comprehensive program to conserve power consumptions so much so that the state's objectives in this respect are realized.

Further significance of the Company's obligation towards research and development comes from Article 2-7 of the Company's Articles of Association, which reads as follows:

"Conducting and supporting research in any of the domains which shall enhance the quality of service, upgrade the performance and operational efficiency and achieve power consumption conservation, environmental protection, and cost reduction."

- 2- In a world of free market and open competition, there should be an economic necessity that strongly pushes for ideal exploitation of the existing assets and reduction of operational and capital costs.
- 3- Research and development form an integral part of the nation's advancement towards the creation of strong economic and cultural growth. It is the research and development effort which can help realize human resource development, technology transfer, energy consumption efficiency, and pollution control.

In 2001, our research and development program commenced with a consultation service contract entered into with King Fahd University of Petroleum and Minerals to set up the Company's research and development system, a system which was officially approved by His Excellency the Minister of Industry and Electricity.

During the period from November 2001 to March 2002, the following activities were carried out:

- 1. Bid preparation specifications manual.
- Bid writing specification manual, periodic reports and final reports.
- Periodic and final reports content specification manual.
- 4. Unified research contract

Research and development program can be divided into four phases during the period from April 2002 upto December 2006. Phase-4 is currently in progress.

# **Objectives**

#### Generation

Improving fuel consumption efficiency, extending the useful life of assets and spare parts, and the optimization of their productivity

#### Distribution

Optimization of assets utilization efficiency, development of bill preparation and collection process and the realization of the ideal power loss

#### **Electricity Load**

Development of Demand Side Management Programs and promoting them to increase the annual rates to benefit from the existing assets

#### **Electricity Utilization**

Achieving the ideal utilization of electricity, increasing the efficiency of its usage and balancing between its timing, horizontal, vertical and sectoral growth in various regions Kingdom wide

# Identifying Subjects of Research and Development

At the current stage, various issues subject to research and development are to be determined through the

process of identifying the problems facing our core businesses (Generation, Transmission, Distribution and Customer Services).

It is expected that we will, in the near future, support the main and long term research projects, such as: electricity conservation, environmental protection, as well as those projects being conducted with the assistance of Saudi universities for the development of electrical engineering laboratories, as currently being required for upgrading the qualifications of Saudi university graduates, and equally those required to conduct such researches needed by the Company.

# Research Centers Participating in the Preparation of Research Bids:

- Research Institute of King Fahd University of Petroleum and Minerals
- King Abdullah Research and Consulting Institute at King Saud University
- Research and Consultations Institute of King Abdulaziz University
- Research Institute at King Abdulaziz City for Science and Technology
- Other local and foreign specialized consultation offices are being identified and invited by the Research and Development Committee which issues the order for any given research requirement. Such research centers having previously served the Company are given priority for award.

# **Project Follow-up Mechanism**

A project manager is appointed to take the role of following up the work progress of the project he is assigned to. The project manager is accountable for the following tasks:

- To participate, together with his project research team, in setting up the timetable and milestone sheet for the execution and completion of the relevant projects.
- 2. To provide the concerned contractor with the Company's instructions related to the implementation of the project.

- To follow up the work progress of the relevant project and make sure that all matters related to the project are being implemented in full conformity with the offer
- To prepare and submit, every three months, a brief report to the Research and Development Committee on the project's progress of work.
- To prepare, at the end of the project, a detailed report containing a summary of the results, project recommendations and plan of application thereof.
- Upon elapse of one year, following completion of the project, to prepare and submit a report to the Research and Development Committee containing such items as project recommendations that have been put into application.

## **Research Bid Analysis**

Each research bid is analyzed and evaluated by four members specialized in the field of the project, two of them are from within the Company while the other two are faculty members of a local university or research center. Clear-cut criteria are set up to govern the process of bid evaluation.

In this respect, adequate controls are implemented in order to eliminate any possible conflict of interests affecting those evaluators from outside the Company. Moreover, forms with pre-determined elements, subject to evaluation, are used to govern the process of evaluation. (Such elements are: viability and clarity of the scientific method adopted for a given research, how well the research can achieve its objectives, participation of Saudi cadres in the work of research, period of research and its cost.)

# Phase Four (December 2005 - November 2006)

During this phase, projects of the first and second phases, along with the bids for the projects of the third phase, as well as the joint research projects, are all being followed up. Furthermore, during this phase, the bids for the fourth phase projects of research and development on the activities involving generation, transmission, distribution and customer services have been prepared.





# Research Projects Completed and In Progress In 2006

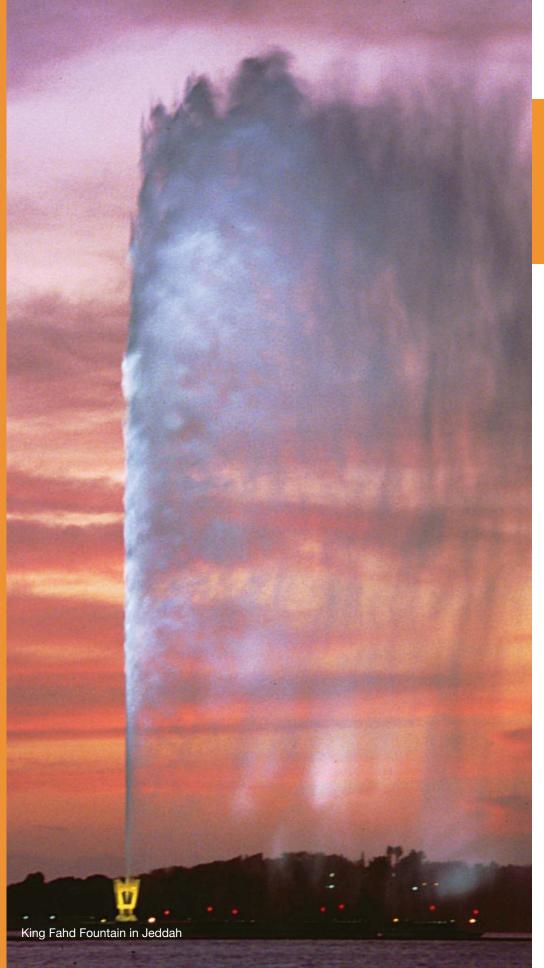
Project Title	Contractor	Start Date	End Date	Work Duration (In Month)
Environmental effect on the characteristics of polymer insulation-energy quality standards	Kind Fahd University of Petroleum and Minerals.	01/03/2003	01/04/2006	37
Power tariff during peak time and load reduction	King Fahd University of Petroleum and Minerals	01/03/2003	01/04/2006	37

Project Title	Contractor	Start Date	Work Duration (In Month)
Evaluation of useful life of the hot stream ports in gas turbines	ERA Technology Ltd. (English)	04/2005	24
The effect of high traffic frequency of the boiler feeding turbine pump's time on the deterioration of built-in/tied-in parts	King Fahd University of Petroleum and Minerals	11/2004	30
Non-stability of fuel characteristics and causes of oxidation, formation of glue-like substance and pollutions	King Fahd University of Petroleum and Minerals	09/2005	15
Upgrading of 13.8/33 KV aerial distribution network	Cooper (Greece)	09/2005	9
Grounding, connection and measurements of soil and earth resistance to distribution network	King Saud University	12/2005	18
Auto distribution system	King Abdulaziz City for Science and Technology	07/2005	18
Distribution network load expectations	King Abdulaziz City for Science and Technology	01/2007	20
Corrosion of upper distribution network	King Saud University	01/2007	24

Project Title	Contractor	Start Date	Work Duration (In Month)	Contracting Parties in the Project
Selection and evaluation of polymer insulation materials used in medium voltage cables and their manufacturing processes suitable to the local conditions	King Saud University	09/2003	42	King Abdulaziz City for Science and Technology and Riyadh Cables
Power failure effects on a sample of major consumers in the Kingdom	Kind Fahd University of Petroleum and Minerals	09/2003	30	King Abdulaziz City for Science and Technology
Feasibility of setting up a central lab to evacuate and test electrical meters	King Fahd University of Petroleum and Minerals	07/2003	18	King Abdulaziz City for Science and Technology

Project Title	Contractor	Start Date	Work Duration (In Month)
Thermal effects on the electrical transformers used in sensitive industries in the Kingdom	Kind Fahd University of Petroleum and Minerals	01/09/2003	15
Examining the thermo and electrolysis and stress at the cable connecting and terminals used in power distribution networks	King Fahd University of Petroleum and Minerals	01/09/2003	15





# FINANCIAL STATEMENTS

And Independent Auditors Report For The Years Ended December 31, 2006 And 2005



Financial Statements And Independent Auditors Report For The Years Ended December 31, 2006 And 2005



Balance Sheet

Statement of Income

Statement of Changes in Shareholders' Equity

Statement of Cash Flows

Notes to the Financial Statements







P O Box 8736 Riyadh 11492 Kingdom of Saudi Arabia

(an independent member of: Baker Tilly International)



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, 2006 and 2005 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, 2006 and 2005 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

> Safar 06, 1428 (H) February 24, 2007 (G)

For Ahmed A. Bajnied & Co.

Asaad Saleh Basudan Certified Public Accountant Registration No. 342

Ahmed A. Bajnied & Co. Certified Public Ascountants

# **Balance sheets**

## As of December 31

Assets	Notes	2006 In SR thousand	2005 In SR thousand
Cash and cash equivalents	(3)	4,200,669	1,007,916
Consumers receivable and accrued revenue - net	(4)	21,666,391	22,750,051
Prepayment and other receivables - net	(5)	1,580,227	1,078,408
Inventories - net	(6)	4,695,973	3,654,403
Total Current Assets		32,143,260	28,490,778
Long-term investments	(7)	748,063	339,639
Construction in progress	(8)	13,674,707	13,211,241
Fixed assets - net	(9)	80,642,235	75,521,192
Total Non-current Assets		95,065,005	89,072,072
TOTAL ASSETS		127,208,265	117,562,850
Liabilities And Shareholders' Equity			
Accounts payable	(10)	38,644,492	32,114,648
Accruals and other payables	(11)	1,250,130	1,176,700
Current portion of long-term loans	(13)	741,114	991,222
Total Current Liabilities		40,635,736	34,282,570
Non-current portion of long-term loans	(13)	9,015,415	7,349,395
End of service benefits		3,973,971	3,842,627
Deferred revenue - net	(15)	10,533,997	9,957,130
Consumers deposits		982,217	930,732
Total Non-current Liabilities		24,505,600	22,079,884
Government loan	(16)	14,938,060	14,938,060
Total Liabilities		80,079,396	71,300,514
Shareholders' Equity			
Share capital	(17)	41,665,938	41,665,938
Statutory reserve		739,309	597,926
General reserve	(18)	531,563	530,510
Retained earnings		4,192,059	3,467,962
Total Shareholders' Equity		47,128,869	46,262,336
Total Liabilities and Shareholders' Equity		127,208,265	117,562,850





# **STATEMENTS OF INCOME**

# For the years ended on December 31

Operating Revenue	Notes	2006 In SR thousand	2005 In SR thousand
Electricity sales		18,284,878	17,429,591
Meter reading and maintenance and bill preparation tariff		707,997	660,372
Electrical service connection tariff		713,782	671,326
Total operating revenue		19,706,657	18,761,289
Operating Expenses			
Fuel		(4,758,872)	(4,573,978)
Purchased power		(1,195,470)	(1,151,615)
Operations and Maintenance	(19)	(6,124,074)	(5,766,420)
Depreciation	(9)	(6,065,179)	(5,623,944)
General and administrative expenses and provisions	(20)	(408,488)	(386,173)
Total operating expenses		(18,552,083)	(17,502,130)
Operating Income		1,154,574	1,259,159
Other income and expenses - net	(22)	259,258	266,901
Income before Zakat		1,413,832	1,526,060
Provision for Zakat	(12)	-	(43,018)
Net Income for the Year		1,413,832	1,483,042
Earning per share (in SR)	(23)	0,34	0,35

# STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

	Paid-in Capital	Statutory Reserve	General Reserve	Retained Earnings	Total
For the Year Ended on Dec 31, 2006	In SR thousand	In SR thousand	In SR thousand	In SR thousand	In SR thousand
Balance, January 1, 2006	41,665,938	597,926	530,510	3,467,962	46,262,336
Dividends for 2005	-	-	-	(547,252)	(547,252)
Board of directors' remuneration for 2005	-	-	-	(1,100)	(1,100)
Consumers' Electricity Fund Collections	-	-	1,053	-	1,053
Net income for the year	-	-	-	1,413,832	1,413,832
Transfer to statutory reserve	-	141,383	-	(141,383)	-
Balance, December 31, 2006	41,665,938	739,309	531,563	4,192,059	47,128,869

#### For the Year Ended Dec 31 2005

-	- - 148,304	5,183 - -	- 1,483,042 (148,304)	5,183 1,483,042 -
	-	5,183 -	- 1,483,042	•
-	-	5,183	-	5,183
-	-	-	(1,000)	(1,000)
-	-	-	(547,252)	(547,252)
41,665,938	449,622	525,327	2,681,476	45,322,363
-	(13,144)	-	(118,297)	(131,441)
41,665,938	462,766	525,327	2,799,773	45,453,804
	41,665,938	- (13,144) 41,665,938 449,622 	- (13,144) - 41,665,938 449,622 525,327 	- (13,144) - (118,297) 41,665,938 449,622 525,327 2,681,476 (547,252)





# **STATEMENTS OF CASH FLOWS**

# For the years ended on December 31

Cash flows from operating activities :	2006 In SR thousand	2005 In SR thousand
Net Income before zakat	1,413,832	1,526,060
Adjustments to reconcile net income to net cash provided by operating activities :	, -,	,,
Allowance for doubtful receivables	227,237	144,022
Allowance for slow moving inventory	(21,982)	-
Loss (gain) from investments, net	1,199	712
Depreciation	6,065,179	5,623,944
(Gain) loss on disposal of fixed assets, net	(35,133)	(53,113)
Provision for end of service benefit	131,344	182,086
Electrical service connection tariff	576,867	377,015
Proceeds from customer deposits, net of refunds	51,485	47,012
(Increase) Decrease in operating assets :	,	,
Consumers receivable and accrued revenue	858,046	(3,506,242)
Prepayments and other receivables	(503,442)	860,871
Inventories	(1,019,588)	(89,698)
Increase (Decrease) in operating liabilities :		, ,
Accounts payable	6,529,844	4,705,392
Accruals and other payables	47,362	(118,306)
Net cash provided by operating activities :	14,322,250	9,699,755
Cash Flows from Investing Activities :		
Net (payments for) proceeds from investments	(413,519)	(262,918)
Divident received from investments	3,896	10,331
Fixed assets and construction-in-progress	(11,668,285)	(11,334,410)
Proceeds from disposal of fixed assets	53,730	62,545
Net cash used in investing activities :	(12,024,178)	(11,524,452)
Cash Flows from Financing Activities :		
Bank overdrafts	-	(200,456)
Net proceeds from (settlement of) bank loans	1,415,912	2,360,571
Dividends paid related to prior years	(521,231)	(513,377)
Net cash provided by financing activities	894,681	1,646,738
Net Incerease (Decrease) in Cash and Cash Equivalents	3,192,753	(177,959)
Cash and Cash Equivalents – Beginning of the year	1,007,916	1,185,875
Cash and Cash Equivalents – End of the Year	4,200,669	1,007,916
Non-cash flow from Government loan	-	385,924

## Notes to the financial statements for the year ended on December 31, 2006 and 2005

#### 1) Organization And Activities

The formation of Saudi Electricity Company (hereinafter referred to as "SEC" or "the Company") 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.

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 under Commercial Registration number 1010158683 dated Muharram 28, 1421H corresponding to May 3, 2000.

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.

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.

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 2001according 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 Sh'aban, 1421. The maximum rate of 26 Halala per Kilowatts/hours, has not been changed since then.

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 standards generally accepted in the Kingdom of Saudi Arabia. Significant accounting policies adopted in the preparation of these financial statements are summarized below:

#### **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.

#### **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.

#### **Consumers Receivable**

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.

#### **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.

#### Investments

Investments in entities, the Company has at least 20% shareholding, are accounted for by Equity Method under which the investments are stated initially at cost and adjusted thereafter for the post acquisition changes in the net assets of the investee company. Revenues or losses from such investments are recognized in the income statement when financial statements of investee entities are issued.

Investments in entities, the Company has less than 20% shareholding and are held for maturity are stated at fair market value. Fair market value is determined as market value quoted in the financial instruments market. The resultant unrealized gains or losses are recorded as part of shareholders' equity. If the shares of Investee Company are not listed in an active security market and if there are other indicators which can enable the determination of fair value, then those investments are stated at cost. The carrying amount of investment is reduced to recognize other than temporary diminution in the value. Revenue is recognized from these investments upon declaration of dividends by the investee company.

#### **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

#### **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.

#### **End of Service Benefits**

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

#### 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.

#### 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.

#### **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.

#### **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 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.

#### As of December 31

3) Cash And Cash Equivalents	2006 In SR thousand	2005 In SR thousand
Cash on hand	1,638	1,918
Cash at banks	177,990	983,616
Short-term deposits	4,021,041	22,382
	4,200,669	1,007,916

The increase in the cash and cash equivalent as of December 31, 2006 is due to collection of SR 3.6 billion from the government in December 2006 against their electricity consumption (Note 4).

#### 4) Consumers Receivable And Accrued Revenue - Net

Consumers Receivable		
Governmental	16,439,149	17,873,774
Saudi ARAMCO	747,124	426,625
Saline Water Conversion Corporation	814,811	712,358
Commercial and residential	2,724,021	2,961,177
VIPs	1,549,295	1,392,294
Connection fees receivable	284,735	199,080
Total	22,559,135	23,565,308
Less: Allowance for doubtful accounts	(1,804,223)	(1,578,609)
Net consumers receivable	20,754,912	21,986,699
Accrued revenues	911,479	763,352
	21,666,391	22,750,051
5) Prepayments And Other Receivables - Net		
Advances to suppliers and contractors	1,304,923	742,331
Prepaid expenses	27,813	9,908
Purchases on open letters of credit	208,393	270,064
Other	118,996	134,380
Total	1,660,125	1,156,683
Less: Allowance for doubtful debts	(79,898)	(78,275)

#### As of December 31

6) Inventories - Net	2006 In SR thousand	2005 In SR thousand
Generation plant materials and supplies	2,217,004	1,945,966
Transmission network materials and supplies	236,701	228,834
Distribution network materials and supplies	2,120,978	1,377,485
Fuel and oil	223,320	219,990
Others	152,988	159,128
Total	4,950,991	3,931,403
Less: Allowance for slow moving inventory	(255,018)	(277,000)
	4,695,973	3,654,403

#### In thousand Saudi Riyals

7) Long Term Investments	Balance, 01/01/2006	Additions during the year	Investment Profit (loss)	Dividends received	Balance on 31/12/2006
Gulf Cooperation Council Interconnection Authority (7a)	325,145	412,519	1,959	(3,896)	735,727
Water and Electricity Company (7b)	14,094	-	(3,158)	-	10,936
Al-Shuaiba Company for Water and Electricity (7c)	400	-	-	-	400
Al-Shuqaiq Water and Electricity Company (7D)	-	1,000	-	-	1,000
	339,639	413,519	(1,199)	(3,896)	748,063

#### 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 57% is paid as of December 2006 (2005: 25%). 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 2006 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 2006 financial statements of the company have not been issued as of the date of issuance of these financial statements.

#### 7c. Al-Shuaiba Water and Electricity Company

SEC participated in establishing Al-Shuaiba Water and Electricity Company (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. SEC'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 Company is still in construction phase and no financial statements have been issued as of the date of issuance of these financial statements.

#### 7d. Al-Shugaig Water and Electricity Company

During the current year, SEC, in participation with General Investment Fund, established Al-Shuqaiq Water and Electricity Company. The main objective of the company is to establish, develop and operate Al-Shuqaiq Project for the dual production of Water and Electricity in Al-Shuqaiq Area. The Company's share of investment is SR 1 million and is fully paid. The amount represents 100,000 shares, which is 20% of the total capital. The Company is still in construction phase and no financial statements have been issued as at the date of issuance of these financial statements.



## As of December 31

	2006	2005
8) Contruction-in-progress	In SR thousand	In SR thousand
Power generation projects	5,747,776	4,890,297
Transmission projects	4,823,072	5,030,056
Distribution projects	2,542,064	2,676,857
General projects	561,795	614,031
	13,674,707	13,211,241

Net financing cost capitalized on projects under construction during the year amounted to SR 691 million (2005: SR 526 million).

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 2006	1,288,984	11,920,584	151,994,807	2,311,619	1,280,572	1,865,667	170,662,233
Reclassifications	2,802	(2,273)	(237,507)	8,654	4	228,320	-
Additions	37,343	462,711	10,504,764	74,374	43,389	82,238	11,204,819
Disposals	-	(25,357)	(165,312)	-	(31,209)	(9,327)	(231,205)
Balance on December 31st 2005	1,329,129	12,355,665	162,096,752	2,394,647	1,292,756	2,166,898	181,635,847
Accumulated Depreciation:							
Balance January 1, 2006	-	(6,896,705)	(84,083,494)	(1,380,230)	(1,128,570)	(1,652,042)	(95,141,041)

Balance January 1, 2006	-	(6,896,705)	(84,083,494)	(1,380,230)	(1,128,570)	(1,652,042)	(95,141,041)
Reclassifications	-	-	(196,570)	10	(2,113)	198,673	-
Depreciation for the year	-	(440,779)	(5,377,544)	(91,464)	(50,665)	(104,727)	(6,065,179)
Disposals	-	24,089	147,983	-	31,209	9,327	212,608
Balance on December 31, 2006	-	(7,313,395)	(89,509,625)	(1,471,684)	(1,150,139)	(1,548,769)	(100,993,612)

## **Net Book Value**

As of December 31, 2006	1,329,129	5,042,270	72,587,127	922,963	142,617	618,129	80,642,235
As at December 31, 2005	1,288,984	5,023,879	67,911,313	931,389	152,002	213,625	75,521,192

Net book value of fixed assets based on the Company's main activities at December 31, 2006 were as follows:

Discription	Generation In SR thousand	Transmission In SR thousand	Distribution In SR thousand	General Property In SR thousand	Total 2006 In SR thousand	Total 2005 In SR thousand
Land	246,566	600,482	226,292	255,789	1,329,129	1,288,984
Buildings	2,434,825	1,490,460	155,241	961,744	5,042,270	5,023,879
Machinery and equipment	23,615,843	26,364,567	22,239,680	367,037	72,587,127	67,911,313
Capital spare Parts	547,533	375,414	16	-	922,963	931,389
Vehicles	-	-	-	142,617	142,617	152,002
Other	462,210	27,850	2,322	125,747	618,129	213,625
Total	27,306,977	28,858,773	22,623,551	1,852,934	80,642,235	75,521,192

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

	2006 In SR thousand	2005 In SR thousand
Generation	2,084,999	1,907,365
Transmission	1,849,550	1,675,751
Distribution	1,839,432	1,751,124
General property	291,198	289,704
	6,065,179	5,623,944

As of Dec	cember 31
2006	2005
In SR thousand	In SR thousand
26,102,026	21,635,805
5,436,373	4,590,953
2,214,285	1,654,851
1,174,381	1,273,473
1,445,003	1,186,050
588,328	261,316
1,684,096	1,512,200
38,644,492	32,114,648
	2006 In SR thousand 26,102,026 5,436,373 2,214,285 1,174,381 1,445,003 588,328 1,684,096





The dispute between SEC and Saudi Aramco relating to the diesel prices has been resolved according to the minutes of the meeting between H.E. the Minister of Finance and H.E. the Minister of Petroleum and Mineral Resources dated 15/5/1427H, corresponding to 11/6/2006, in which it is decided that Saudi Aramco should adjust its books for the additional amount charged for diesel. The amount booked by Saudi Aramco should be based on prices set prior to the Council of Ministers' Resolution number M/8 dated 25/7/1415 on the ground that the Ministerial Committee referred to in the resolution mentioned above did not discuss the revised prices and it was not approved by a Royal Decree.

The above mentioned minutes did not sort out the difference in the crud oil handling fees and the dispute is still pending. The cumulative difference in the crud oil handling fees from the inception of SEC on April 5, 2000 upto December 31, 2006 amounted to SR 1,294 million. Based on the above mentioned resolution, the management does not expect any liability on the company and therefore the amount has not been reflected in the company's accounting records.

During 2006, SEC received an invoice from Saudi Aramco amounting to SR 103 million for the electricity exported from Saudi Aramco's generation units to SEC's network for the period from April 5, 2000 to December 31, 2006. The issue is still under investigation by the management of the two companies.

The other payables constitute pending amounts between the Company and Government mainly due to the accounts of merger.

	As of De	cember 31
11) Accruals And Other Payables	2006 In SR thousand	2005 In SR thousand
Payroll accruals	232,511	262,664
Accrued expenses	352,937	169,487
Unclaimed dividends	329,764	303,743
Provision for Zakat (Note 12-b)	-	43,018
Other	334,918	397,788
	1,250,130	1,176,700

Unclaimed dividends include SR 98 million representing cash dividends declared by former SCECOs which have not been claimed by the shareholders (2005: SR 103 million).

Ear t	ho voor	anded 31	. December

2006	2005 In SR thousand
iii On tilotistiiti	iii on tiiotsana
1,413,832	1,526,060
	194,667
(7,875,660)	1,720,727
41,665,938	41,665,938
(7,875,660)	1,720,727
1,128,436	988,093
2,919,610	2,251,521
5,724,529	5,450,403
9,756,529	8,340,406
14,938,060	14,938,060
2,214,285	1,654,851
70,471,727	77,009,999
(87,916,913)	(75,289,272)
(748,063)	(339,639)
(3,659,746)	(2,841,828)
(21,852,995)	(1,460,740)
	1,413,832 (9,289,492) (7,875,660) 41,665,938 (7,875,660) 1,128,436 2,919,610 5,724,529 9,756,529 14,938,060 2,214,285 70,471,727 (87,916,913) (748,063) (3,659,746)

	As of December 31	
	2005	2004
	In SR thousand	In SR thousand
b- Zakat Provision Movement		
Balance, beginning of the year	43,018	42,356
Zakat paid during the year	-	(42,356)
Adjustments during the year (13c)	(43,018)	-
Provision for the year	-	43,018
	-	43,018



#### c) Zakat Status

The responsible government agency agreed to settle the 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 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 2005. 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 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 to 2005 has not been received till the date of issuing these financial statements.

	As of December 31		
13) Long-term Loans	2006 In SR thousand	2005 In SR thousand	
Balance, beginning of the year	8.340,617	5,980,046	
Received during the year	2.407,083	3,450,000	
Paid during the year	(991,171)	(1,089,429)	
Balance end of the year	9,756,529	8,340,617	
Current portion of long-term loans	(741,114)	(991,222)	
Non-current portion of long-term loans	9,015,415	7,349,395	

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

	2006 In SR thousand	2005 In SR thousand
Between one and two years	1,403,192	741,114
Between two and three years	1,239,130	1,403,192
Between three and four years	1,075,067	1,239,130
Between four and five years	1,064,432	1,040,749
Beyond 5 years	4,233,594	2,925,210
	9,015,415	7,349,395

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, 2006 amounted to SR 2,111 million (2005: SR 4,518 million).

#### 14) Bank Overdraft

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, 2006 and 2005 the overdrafts had no outstanding balance.

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15) Deferred Revenue - Net	2006 In SR thousand	2005 In SR thousand
Electrical service connection tariff		
Balance at the beginning of the year	9,957,130	9,580,115
Proceeds during the year	1,290,649	1,048,341
Revenues for the year	(713,782)	(671,326)
	10,533,997	9,957,130

#### 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 year 2005, 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.

#### 17) Share Capital

The share capital of the Company as of December 31, 2006 is SR 41,665,938,150 consists of 4 166 593 815 shares with a par value of SR 10 each after share split (2005: SR 833,318,763 shares with a par value of SR 50 each).

Based on a resolution by the Council of Ministers, the Capital Market Authority issued decision number 4-154-2006 dated March 27, 2006, splitting the shares of joint stock companies. As a result, the nominal value of the company's shares became SR 10 instead of SR 50 per share.

The share capital 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	e period from 1414H to 1418H	1,340,717
Proceeds for Electricity Fee Fund from its inception t	till 31/12/2001	12,618,340
Net assets of General Electricity Corporation Project	S	1,175,327
Capitalization of amounts collected for Government Electricity Fee Fund after 31/12/2001		3,378,167
Total		41,665,938
The above-mentioned capital is owned by the follow	ina:	
The above mentioned capital to owned by the tenem	Numbers of Shares	Ownership Percentage
Government	3 096 175 320	%74,31
Saudi ARAMCO	288 630 420	%06,93
Other Shareholders	781 788 075	%18,76
Total	4,166,593,815	%100,00

#### 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, 2006 also includes SR 22,919 thousand (2005: SR 21,866 thousand) collected from individuals pertaining to the Electricity fund after December 31, 2001. Accordingly, the balance in general reserve become SR 531,563 thousand as of December 31, 2006 (2005: SR 530,510 thousand).

#### 19) Operating And Maintenance Expenses

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

	2006 In SR thousand		2005 In SR thousand		
	Generation	Transmission	Distribution	Total	Total
Employees' expenses and benefits	1,241,292	617,907	1,896,298	3,755,497	3,528,024
Materials	621,002	51,935	178,231	851,168	904,953
Municipality fees	-	-	258,953	258,953	251,634
Other	711,280	113,869	433,307	1,258,456	1,081,809
Total	2,573,574	783,711	2,766,789	6,124,074	5,766,420

#### 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:

	2006 In SR thousand	2005 In SR thousand
Employees' expenses and benefits	98,094	140,367
Materials	195	1,469
Allowances for doubtful accounts	227,236	144,022
General and administrative expenses	82,963	100,315
	408,488	386,173

#### 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 829 thousand (2005: SR 465 thousand).

The Board of Directors' remuneration of SR 0.9 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 (2005: SR 1.1 million).

#### 22) Other Income and Expenses – Net

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

	2006 In SR thousand	2005 In SR thousand
(Loss) income from long-term investments	(1,199)	(712)
Gain (loss) disposal of fixed assets	35,133	53,113
Reversal of allowances and accruals	43,018	77,400
Reconnection fees	11,977	34,844
Penalties	107,275	64,701
Sales of tender documents	11,782	15,765
Other income and expenses - Net	51,272	21,790
	259,258	266,901





#### 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.

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 31/12/2005 amounted to SR 927 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 24/02/2007 has proposed a subject to the approval of the General Assembly, a dividend distribution for the year 2006 to other shareholders amounting to SR 547 million in cash at SR 0.7 per share, representing 7% of the par value of the shares (2005: SR 547 million).

Earning per share was calculated using the total number of shares outstanding at December 31, 2006 of 4 166 593 815, including the government and Saudi Aramco shares (Note 17). Earning per share for the year 2005 has been restated retroactively to reflect the effect of the share split which took place in 2006.

#### 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 29,613 million at the balance sheet date (2005: SR 13,806 million). The expected time to fulfill such commitments is between one to three years.

In addition, SEC has a commitment for SR 561 million representing the remaining balance of its investment in GCCIA (Note 7a).

#### b) Contingencies

SEC has outstanding letters of credit amounting to SR 106 million (2005: SR 146 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 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 118 million as of December 31, 2006 (2005: SR 71 million). 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 168 million for the current year was identified (2005: SR 157 million) and a cumulative difference of SR 1,161 million since the Company's inception to December 31, 2006 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.

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

	2006 In SR thousand	2005 In SR thousand
Sales		
Government	4,907,862	4,703,358
Saudi ARAMCO	1,633,961	1,788,779
Saline Water Conversion Corporation	87,402	80,044
	6,629,225	6,572,181
Expenses and other		
Saudi ARAMCO	4,442,357	4,396,604
Saline Water Conversion Corporation	846,808	739,227
Municipalities fees	258,953	251,634
	5,548,118	5,387,465

#### 26) Prior Year Adjustment

Prior years adjustments relating to 2005 represent the correction of meter readings for the consumption of a major consumer amounting to SR 131,441 thousand that has been recognized as revenue in 2004.

#### 27) Comparative Figures

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





We look forward to receive your comments on the Company performance and the 2006 Annual Report at the following e-mail address:

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