

Saudi Electricity Company ('SEC')

Financial results for the three months ending 31st March 2018

Tariff increase drives strong revenues growth, but almost with a neutral impact on the bottom line

Riyadh, 8 May 2018 – Saudi Electricity Company ("SEC"), the largest utility company in the Middle East and North Africa region, announces its interim financial results for the period ended 31st March 2018.

Figures in SAR million	Periods		
Description	Q1 2018	Q1 2017	% change
Revenues	11,401.3	8,920.3	27.8%
Gross Losses	(624)	(555)	12.4%
Gross Losses Margin %	(5.5%)	(6.2%)	0.7pp
Operating Losses/Profits	(642.5)	5,282.6	-
Operating Losses/Profit Margin %	(5.6%)	59.2%	-
Net Losses/Profits	(1,214)	4,935.8	-
Reported Losses/Earnings per share (SAR)	(0.29)	1.18	-
EBITDA ⁽¹⁾	3,478.2	9,008	(61.4)%
EBITDA Margin %	30.5%	101.0%	(70.5)pp

(1) EBITDA = Net profit/losses + depreciation + net interest expense + Zakat expense

(2) pp : percentage points

HIGHLIGHTS

- 27.8% YoY growth in total operating revenues primarily driven by higher electricity sales due the tariff increase and continued growth in customer base.
- Tariff increase contributes SAR 2.6 billion to electricity sales; however, it was offset by a similar amount charged as a government fee in our operating costs, resulting in an almost neutral impact in net profit.
- Cost savings from continued improvement in thermal efficiency, optimization of fuel mix and rigorous control of operations and maintenance costs offsets the increase in the other costs arise from depreciation and purchased power.
- EBITDA down 61.4% YoY to SAR 3,478.2 million, due to one-off items impact in Q1 2017, which includes a reversal of accrued historical municipalities fees of SAR 6.1 billion and an expense of SAR 232 million relating to the company's human resources productivity improvement program.
- SAR 7.3 billion invested in capital projects during the first three months of 2018 (Q1 2017: SAR 12.3 billion).
- SEC's Board recommends a dividend payment for 2017 of SAR 0.70 a share (subject to the general assembly meeting approval), which is in line with the payout in previous years.
- SEC continues to be one of the highest rated corporate in Saudi Arabia with A2/A/A- ratings by Moody's, Fitch and S&P respectively.

PERFORMANCE REVIEW

Revenues

Item (SAR million)	3M 2018	% of Total	3M 2017	% of total	Change
Electricity Sales	10,264.0	90.0%	7,549.8	84.6%	36%
Meter reading, maintenance and bill preparation income	322.1	2.8%	306.6	3.4%	5%
Electricity Connection Tariff	333.6	2.9%	594.2	6.7%	(43.9)%
Transmission System Revenues	435.1	3.8%	424	4.8%	2.6%
Other Operating Revenues	46.4	0.4%	45.6	0.5%	1.8%
Total Operating Revenues	11,401.3	1.00	8,920.3	100.0%	27.8%

- Q1 2018 total revenues increased by 27.8 % to SAR 11.4 billion, primarily driven by electricity sales growth.
- 36% increase in electricity sales in Q1 2018 over corresponding period of 2017 is due to:
 - 32% increase in average sale price from 17.9 to 23.7 Halala/KWh primarily driven by the tariff increase;
 - 5% YoY growth in the customer base to 9.14 million from 8.70 million, mainly driven by increase in residential and commercial segments; and
 - supported by a change in the consumption mix with higher contribution from commercial and industrial segments.
- 3% YoY decline in overall electricity consumption primarily driven by declining consumption from residential segment (down 12% YoY). In Q1 2018, SEC sold 48.2TWh (Q1 2017: 49.7 TWh) of electricity.
- 43.9% decline in electricity connection fee revenues following adoption of IFRS 15, which entails connection fee revenues to be recognized over the useful lives of connection equipments. For further details, refer to note 2.1 (Effect of changes in accounting policies as a result of application of new standards) can be read in the notes of the consolidated interim financial statements for the three months ended 31 March 2018.
- Higher revenues of transmission system is due to increased wheeling charges on other producers who use SEC's transmission national grid to transmit power.
- Higher revenues from the tariffs charged for meter reading, maintenance and bills preparation are in line with the continuing increase in the customer base.

Cost of Sales

Item (SAR million)	3M 2018	% of total	3M 2017	% of total	Change
Fuel	1,149.7	9.6%	1,455.4	15.4%	(21%)
Purchased energy	1,885.6	15.7%	1,716.5	18.1%	9.8%
Operation and maintenance	2,369.3	19.7%	2,677	28.3%	(11.5)%
Government fees	2,602.7	21.6%	-	-	100.0%
Depreciation ⁽¹⁾	4,018	33.4%	3,626.4	38.3%	10.8%
Cost of Sales	12,025.3	100%	9,475.2	100%	26.9%

⁽¹⁾ Depreciation relating to operating assets

- 21% YoY decrease in fuel costs is reflecting savings from improved thermal efficiency in SEC generation fleet to 36.8% in Q1 2018 (Q1 2017: 35.6%) and continued optimization of the fuel mix towards lower consumption of the diesel as a feedstock. The thermal efficiency of the overall generation fleet in the kingdom improved to a record level of 40.3% in Q1 2018 (Q1 2017: 38.1%).
- 9.8% YoY increase in purchased power cost mainly driven by commissioning of new IPPs generation and higher output from other producers.
- 11.5% YoY decrease in operations and maintenance costs mainly driven by lower labour, contracts and materials costs.
- The differential tariff amounts between the previous and current tariff are charged as Government fee, starting from Q1 2018.
- 10.8% increase in depreciation reflecting the growth in the operating asset base: projects amounting to SAR 46 billion were completed and became operational over the course of the last 12 months.

EBITDA, Margins, and Net Profit/ Losses

- EBITDA down 61.4% YoY to SAR 3,478 million, due to one-off items impact in Q1 2017. The one-off items includes a reversal of accrued historical municipalities fees of SAR 6.1 billion and an expense of SAR 232 million relating to the company's human resources productivity improvement program. Excluding the impact of one-off item in Q1 2017, the YoY growth in EBITDA would be 11%.
- Reported net loss attributable to SEC shareholders in Q1 2018 is SAR 1,214 million as against a net profit of SAR 4,936 million in Q1 2017; Excluding the aforementioned on-off item in 1Q 2017, reported net loss on an underlying basis would have an increase of 27.5% over corresponding previous year period.

Cash Flow and Capital Expenditure

- 72.5% decrease in cash flow from operations to SAR 2.9 billion (Q1 2017: SAR 10.6 billion) mainly driven movement in working capital primarily arrived from trade payables payment and higher receivables.
- Overall SAR 7.4 billion in Q1 2018 (Q1 2017: SAR 13.6 billion) net outflow of cash due to investing activities, in line with SEC's strategy to meet the demand, improve reliability of supply, connect new customer.
- Net cash inflow from financing activities during Q1 2018 of SAR 10.3 billion (Q1 2017: SAR 2.8 billion) was primarily from proceeds drawn down from commercial loan facilities (totaling SAR 10.3 billion).
- SEC closed Q1 2018 with a gross cash position of SAR 1.1 billion (Q1 2017: SAR 1.3 billion).

Balance Sheet

- The growth in the asset base reflects SEC's continuing major investments into its generation, transmission and distribution capabilities. During Q1 2018, SEC's asset base had grown 1.6% to SAR 453 billion (2017 end: SAR 445.8 billion), with shareholders' equity declining 2.2% to SAR 70.7 billion (2017 end: SAR 72.3 billion).
- Starting from 1st January 2018, SEC has adopted IFRS 9 (financial instruments). The actual impact of the application of IFRS 9 had reflected on an increase in provision for trade receivables of SAR 454.2 million and an increase in provision for debt investments at amortised cost of SAR 76 thousands. The difference in the carrying amounts of financial assets and financial liabilities arising from the adoption of IFRS 9 is recognized in retained earnings as at 1 January 2018. For further details, note 2.1 (Effect

of changes in accounting policies as a result of application of new standards) can be read in the notes of the consolidated interim financial statements for the three months ended 31 March 2018.

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Overview of Saudi Electricity Company (“SEC”)

SEC is the largest utility in the MENA region with a market capitalization of SAR 86.4 billion (US\$ 23 billion) as at 31 March 2018, and is one of the largest companies listed on the Saudi Tadawul by market size. It is a national vertically integrated company involved in the generation, transmission and distribution of electricity to about 9.14 million customers in Saudi Arabia. Saudi Arabia is one of the Top 20 economies globally whose demand for electricity is growing driven by favorable demographic makeup and an increasingly diversified and growing economy.

For further information on SEC and the full financial statements for the year ended 31 December 2017, please refer to the corporate website: www.se.com.sa

End of Release.