

Saudi Electricity Company ('SEC')
Financial results for the six months period ended 30 June 2018

Tariff increase drives strong revenues growth. Operating costs optimization improves gross profit; however, IFRS15 adoption and higher finance charges affect net income

Riyadh, 29 July 2018 – Saudi Electricity Company (“SEC”), the largest utility company in the Middle East and North Africa region, announces its interim financial results for six month period ended 30 June 2018.

Figures in SAR million	Quarterly Periods			Six Months Periods		
	Q2 2018	Q2 2017	% change	H1 2018	H1 2017	% change
Revenues	17,497	13,302	31.5%	28,898	22,222	30.0%
Gross Profit	2,734	2,691	1.6%	2,111	2,037	3.6%
Gross Profit Margin %	15.6%	20.2%	(4.6)pp	7.3%	9.2%	(1.9)pp
Operating Profit	2,836	2,925	(3.0)%	2,193	8,207	(73.3)%
Operating Profit Margin %	16.2%	22.0%	(5.8)pp	7.6%	36.9%	(29.3)pp
Net Profit	1,847	2,232	(17.3)%	633	7,167	(91.2)%
Reported Earnings per Share (SAR)	0.44	0.54	(17.3)%	0.15	1.72	(91.2)%
EBITDA ⁽¹⁾	7,099	6,784	4.7%	10,578	15,792	(33.0)%
EBITDA Margin %	40.6%	51.0%	(10.4)pp	36.6%	71.1%	(34.5)pp

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

(2) pp : percentage points

HIGHLIGHTS

- 31.5% & 30% YoY growth in Q2 2018 & H1 2018 total operating revenues respectively, primarily driven by higher electricity sales due the tariff increase and higher governmental and industrial consumption.
- Tariff increase contributes SAR 4.2 billion and SAR 6.8 billion to electricity sales in Q2 2018 and H1 2018 respectively; however, it was offset by a similar amount charged as a government fee in operating costs.
- Cost savings from continued improvement in SEC fleet's 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 33% YoY in H1 2018 to SAR 10,578 million, mainly due to one-off items impact in H1 2017.
- SAR 14.5 billion invested in capital projects during H1 2018 (H1 2017: SAR 21.8 billion).

- SEC's AGM approves a dividend payment for 2017 of SAR 0.70 a share, 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)	H1 2018	% of total	H1 2017	% of Total	%Change
Electricity sales	26,823	93%	19,691	89%	36.2%
Meter reading, maintenance and bill preparation income	646	2%	618	3%	4.6%
Electricity connection tariff	712	2%	1,223	6%	(41.8)%
Transmission system revenues	643	2%	608	3%	5.8%
Other operating revenues	74	0.00	82	0%	(10.4)%
Total operating revenues	28,898	100%	22,222	100%	30.0%

- H1 2018 total revenues increased by 30% to SAR 28.9 billion, primarily driven by electricity sales growth.
- 36.2% increase in electricity sales in H1 2018 over corresponding period of 2017 is due to:
 - i) 32% increase in average sale price from 17.4 to 22.9 Halala/Kwh primarily driven by the tariff increase;
 - ii) Supported by a change in the consumption mix with higher contribution from government and industrial consumption.
- 1.3% YoY decline in overall electricity consumption in H1 2018 to 126.2 Twh is primarily driven by 8% YoY decline in residential consumption to 57.9 Twh and 4% YoY decline in commercial consumption to 20 Twh.
- Decline in residential and commercial consumption was partially offset 9% YoY increase in government and industrial consumption collectively to 42.2 Twh.
- 41.8% 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 equipment. 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 six months period ended 30 June 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. As end of H1 2018 SEC's customer base grew 4.6% YoY from 8.82 million to 9.23 million customer.

Cost of Sales

Item (SAR million)	H1 2018	% of total	H1 2017	% of total	Change
Fuel	3,354	13%	4,099	20%	(18.2)%
Purchased energy	3,934	15%	3,642	18%	8.0%
Operation and maintenance	4,529	17%	5,057	25%	(10.4)%
Government fees	6,792	25%	-	0%	100.0%
Depreciation ⁽¹⁾	8,178	31%	7,386	37%	10.7%
Cost of Sales	26,788	100%	20,185	100%	32.7%

⁽¹⁾ Depreciation relating to operating assets

- 18.2% YoY decrease in fuel costs reflecting saving from improved thermal efficiency to 37.6% in H1 2018 (H1 2017: 36.4%) and continued shift in the fuel mix to lower consumption of the diesel.
- 8% YoY increase in purchased power cost due to higher output from IPPs generation primarily driven by commissioning of new IPP capacity in H1 2018.
- 10.4% YoY decrease in operations and maintenance costs mainly arrived from optimized material, contracts and labour costs and workforce reduction of 1,287 to 35,139 employee.
- The differential tariff amounts between the previous and current tariff are charged as government fee, starting from 2018.
- 10.7% increase in depreciation reflecting the growth in the operating asset base: projects amounting to SAR 43 billion were completed and became operational over the course of the last 12 months.

EBITDA, Margins, and Net Profit/ Losses

- EBITDA down 30% YoY in H1 2018 to SAR 10,578 million, due to one-off items impact in H1 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 items in H1 2017, the YoY growth in EBITDA would be 6.8%.
- In Q2 2018, EBITDA up 4.7% YoY to SAR 7,099 million, highlighting improved operations performance despite the IFRS 15 first time adoption impact.
- 17.3% YoY decline in reported net profit attributable to SEC shareholders in Q2 2018 is primarily due to increased financing charges driven by increased borrowings.
- 91.2% YoY decline in reported net profit attributable to SEC shareholders in H1 2018 is primarily due to the aforementioned one-off items in H1 2017, the IFRS 15 first time adoption impact and higher financing charges.

Cash Flow and Capital Expenditure

- 63.9% YoY decrease in cash flow from operating activities to SAR 6.6 billion (H1 2017: SAR 18.3 billion) reflects lower net profit achieved in H1 2018 and changes in working capital in respect of electricity receivables, advances from customers and employee benefits' obligations paid.
- Overall SAR 16 billion in H1 2018 (H1 2017: SAR 23.3 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 H1 2018 of SAR 10.1 billion (H1 2017: SAR 5.3 billion) was primarily from proceeds drawn down from commercial loan facilities (totaling SAR 11.7 billion). This is partially offset by repayments of loans of SAR 1.6 billion and dividend disbursements claims of SAR 9 million relating to previous years.
- SEC closed H1 2018 with a gross cash position of SAR 1.8 billion (H1 2017: SAR 1.8 billion).

Asset and Equity Base

- The growth in the asset base reflects SEC's continuing major investments into its generation, transmission and distribution capabilities. During H1 2018, SEC's asset base had grown 4.4% to SAR 466 billion (2017 end: SAR 445.8 billion), with shareholders' equity declining 0.4% to SAR 72 billion (2017 end: SAR 72.3 billion).

Further enquiries

Fahad A. Al-Mulhim
Head of Investor Relations

faMulhim@se.com.sa

(Tel # +966 11 80 77161)

Sayed Algohary
Investor Relations Manager

sgohary@se.com.sa

(Tel # +966 11 80 77161)

Overview of Saudi Electricity Company ("SEC")

SEC is the largest utility in the MENA region with a market capitalization of SAR 86.7 bn (US\$ 23.1bn) as at 30 June 2018, and is one of the largest companies listed on the Saudi Tadawul by market size. It is a vertically integrated company involved in the generation, transmission and distribution of electricity to over 9.23 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 six months period ended 30 June 2018, please refer to the corporate website: www.se.com.sa

End of Release