

Saudi Electricity Company ('SEC')
Financial results for the nine months ended 30 September 2018

Tariffs increase drives strong revenues growth. Improved operational efficiency supports gross profit; however, one-off item, IFRS15 adoption and higher finance charges affect net profit

Riyadh, 11 November 2018 – Saudi Electricity Company ("SEC"), the largest utility company in the Middle East and North Africa region, announces its interim financial results for the nine months ended 30 September 2018.

Figures in SAR million	Quarterly Periods			Nine Months Periods		
	Q3 2018	Q3 2017	% change	9M 2018	9M 2017	% change
Revenues	22,135	16,986	30.3%	51,033	39,208	30.2%
Gross Profit	6,175	5,609	10.1%	8,286	7,646	8.4%
Gross Profit Margin %	27.9%	33.0%	(5.1)pp ⁽²⁾	16.2%	19.5%	(3.3)pp
Operating Profit	5,982	5,604	6.7%	8,175	13,850	(41.0)%
Operating Profit Margin %	27.0%	33.0%	(6.0)pp	16.0%	35.3%	(19.3)pp
Net Profit	4,925	5,262	(6.4)%	5,558	12,429	(55.3)%
Net Comprehensive Income	5,072	5,274	(3.8)%	5,791	12,412	(53.3)%
Reported Earnings per Share (SAR)	1.18	1.26	(6.4)%	1.33	2.98	(55.3)%
EBITDA ⁽¹⁾	10,048	9,670	3.9%	20,625	25,462	(19.0)%
EBITDA Margin %	45.4%	56.9%	(11.5)pp	40.4%	64.9%	(24.5)pp

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

(2) pp : percentage points

HIGHLIGHTS

- 30.3% and 30.2% YoY growth in Q3 2018 & 9M 2018 total operating revenues respectively, primarily driven by higher electricity sales due to the tariff increase and higher governmental and industrial consumption.
- Tariff increase differential contributes SAR 5 billion and SAR 11.8 billion to electricity sales in Q3 2018 and 9M 2018 respectively; however, it is offset by the same amount charged as a government fee in operating costs.

- 10.1% and 8.4% YoY growth in Q3 2018 & 9M 2018 gross profit respectively, demonstrates savings of continued improvement in operational efficiency.
- Improvement in operational efficiency underpinned by continuous improvement trend in generation thermal efficiency, optimization of fuel mix and rigorous control of operations and maintenance costs.
- EBITDA down 19% YoY in 9M 2018 to SAR 20,625 million, mainly due to one-off items impact in Q1 2017.
- SAR 20.8 billion invested in capital projects during 9M 2018 (9M 2017: SAR 32.1 billion).
- Successful placement of a US\$2bn a dual tranche RegS Sukuk issuance (long 5-year US\$0.8bn and 10-year US\$1.2bn) in the international markets during Q3 2018.
- 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)	9M 2018	% of total	9M 2017	% of Total	%Change
Electricity sales	47,804	94%	35,450	90%	34.8%
Meter reading, maintenance and bill preparation income	974	2%	932	2%	4.5%
Electricity connection tariff	1,068	2%	1,915	5%	(44.2)%
Transmission system revenues	779	2%	691	2%	12.7%
Other operating revenues	408	1%	220	1%	85.3%
Total operating revenues	51,033	100%	39,208	100%	30.2%

- 9M 2018 total revenues increased by 30.2% YoY to SAR 51 billion, primarily driven by electricity sales growth.
- 34.8% increase in electricity sales in 9M 2018 over corresponding period of 2017 is due to i) the tariff increase effected in Jan 2018; and ii) supported by a change in the consumption mix with higher contribution from government and industrial consumption. The overall electricity consumption in 9M 2018 was 226.6 Twh.
- 44.2% 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 nine months period ended 30 September 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 9M 2018 SEC's customer base grew 4% YoY from 8.92 million to 9.31 million customer.

Cost of Sales

Item (SAR million)	9M 2018	% of total	9M 2017	% of total	Change
Fuel	6,046	14%	7,331	23%	(17.5)%
Purchased energy	5,900	14%	5,437	17%	8.5%
Operation and maintenance	6,909	16%	7,441	24%	(7.2)%
Government fees	11,753	27%	-	-	100.0%
Depreciation ⁽¹⁾	12,139	28%	11,353	36%	6.9%
Cost of Sales	42,747	100%	31,562	100%	35.4%

⁽¹⁾ Depreciation relating to operating assets

- 17.5% YoY decrease in fuel costs is reflecting continued saving from improved thermal efficiency that arrived at 37.8% in 9M 2018 (9M 2017: 36.6%), and improvements in the fuel mix because of reduction in diesel and crude oil usage.
- 8.5% YoY increase in purchased power cost due to higher output from IPPs generation primarily driven by commissioning of new IPP capacity in 2018.
- 7.2% YoY decrease in operations and maintenance costs mainly arrived from lower material, contracts and labour costs, because of a reduction in headcount as at 9M 2018 end and decreasing provisions for doubtful debts.
- Government fees of SAR 11.8 billion comprise an amount equal to the additional revenue generated as a result of the new tariffs introduced effective from 1 January 2018 as compared to the previous tariffs.
- 6.9% increase in depreciation reflecting the growth in the depreciable operating assets base: projects amounting to SAR 47 billion were completed and became operational over the course of the last 12 months.

Gross profit, EBITDA, and Net Profit/ Losses

- Reflecting the above factors, gross profit increased 8.6% in 9M 2018 to SAR 8,303 million, demonstrating positive impact from improved operational efficiency.
- EBITDA down 19% YoY in 9M 2018 to SAR 20,625 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 items in 2017, the YoY growth in EBITDA would be 5.5%.
- In Q3 2018, EBITDA up 3.9% YoY to SAR 10,048 million, highlighting improved operations performance despite the IFRS 15 first time adoption impact.
- 6.4% YoY decline in reported net profit attributable to SEC shareholders in Q3 2018 is primarily due to increased financing charges driven by increased borrowings. This is partially offset by savings resulted from improved operational efficiency.
- 55.3% YoY decline in reported net profit attributable to SEC shareholders in 9M 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

- 22.8% YoY decrease in net cash generated from operating activities to SAR 20.3 billion in 9M 2018 (9M 2017: SAR 26.3 billion) mainly reflects the increase in electricity receivables.

- Overall SAR 22.3 billion in 9M 2018 (9M 2017: SAR 34.2 billion) net outflow of cash due to investing activities, in line with SEC's strategy to meet the evolving demand trend, improve reliability and efficiency of supply, and connect new customer.
- Net cash inflow from financing activities during 9M 2018 of SAR 15.3 billion (9M 2017: SAR 9.1 billion) was primarily from proceeds drawn down from commercial loan facilities and Sukuks (totaling SAR 21.5 billion). This is partially offset by repayments of loans of SAR 3.1 billion, dividend disbursements of SAR 537 million and paid finance costs of 2.5 billion.
- SEC closed 9M 2018 with a gross cash position of SAR 14.4 billion (H1 2017: SAR 2.8 billion).

Asset and Equity Base

- The growth in the asset base reflects SEC's continuing investments into its generation, transmission and distribution capabilities. As at Q3 2018 end, SEC's asset base had grown 9.3% to SAR 487.4 billion (2017 end: SAR 445.8 billion), with shareholders' equity growing 6.6% to SAR 77.1 billion (2017 end: SAR 72.3billion).

Further enquiries

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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 66.7 bn (US\$17.8 bn) as at 30 September 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 9.31 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 nine months period ended 30 September 2018, please refer to the corporate website: www.se.com.sa

End of Release