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Saudi Electricity Company ('SEC')

Financial results for the fourth quarter and twelve months period ended 31 December 2018

Tariffs increase drives strong revenues growth. Continued improvements in operational efficiency alleviate the impact of application of IFRS15, one-off items, lower consumption and higher finance charges on net profit

Riyadh, 5 February 2019 – Saudi Electricity Company ("SEC"), the largest utility company in the Middle East and North Africa region, announces its interim financial results for the fourth quarter and the twelve months period ended 30 December 2018.

Figures in SAR million	Quarterly Periods			Twelve Months Periods		
Description	Q4 2018	Q4 2017	% change	FY 2018	FY 2017	% change
Revenues	**13,032**	11,476	13.6%	**64,064**	50,685	26.4%
Gross profit/losses	**(2,377)**	(957)	148.4%	**5,909**	6,690	(11.7)%
Gross profit/ losses *margin %*	***(18.2)%***	*(8.3%)*	*(9.9)pp*	***9.2%***	*13.2%*	*(4.0)pp*
Operating profit/losses	**(2,133)**	(3,845)	(44.5)%	**6,042**	10,005	(39.6)%
Operating profit/ losses *margin %*	***(16.4)%***	*(33.5%)*	*17.1pp*	***9.4%***	*19.7%*	*(10.3)pp*
Net profit/losses	**(3,773)**	(5,521)	31.7%	**1,785**	6,908	(74.2)%
Net comprehensive income/losses	**(3,399)**	(5,278)	35.6%	**2,392**	7,134	(66.5)%
Reported earnings/losses per share (SAR)	**(0.91)**	(1.33)	31.5%	**0.43**	1.66	(74.2)%
EBITDA[(1)]	**2,189**	105	1980.0%	**22,814**	25,567	(10.8)%
EBITDA margin %	***16.8%***	*0.9%*	*15.9pp*	***35.6%***	*50.4%*	*(14.8)pp*

(1) EBITDA = Net profit/losses + depreciation + net interest expense + Zakat expense
(2) pp : percentage points
(3) Some comparative figures have been reclassified

HIGHLIGHTS

- 13.6% and 26.4% YoY growth in Q4 2018 & FY 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 3 billion and SAR 14.7 billion to electricity sales in Q4 2018 and FY 2018 respectively; however, it is offset by the same amount charged as a government fee in operating costs.

- Continued improvement in operational efficiency fully offset the increase in depreciation and purchased power costs, and alleviate the impact arrived on revenues from IFRS15 application and consumption rationalization in the residential and commercial segment.
- EBITDA down 10.8% YoY in 2018 to SAR 22,814 million, mainly due to a SAR 3.3 billion one-off items impact in 2017. Excluding this impact, EBITDA up 2.4% YoY in 2018.
- SAR 29.5 billion invested in capital projects during 2018 (2017: SAR 43.3 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)	FY 2018	% of total	FY 2017	% of Total	%Change
Electricity sales	59,623	93%	45,446	90%	31.2%
Meter reading, maintenance and bill preparation income	1,304	2%	1,249	2%	4.4%
Electricity connection tariff	1,608	3%	2,591	5%	(37.9)%
Transmission system revenues	1,006	2%	1,096	2%	(8.2)%
Other operating revenues	523	1%	303	1%	72.6%
Total operating revenues	64,064	100%	50,685	100%	26.4%

- 31.2% YoY increase in electricity sales in 2018 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.
- Industrial and government consumption grew 10.7% (51.3 vs 46.3 Twh) and 5.8% (42 vs 39.6 Twh) respectively, while residential and commercial consumption declined 4.9% (135.1 vs 142 Twh) and 13.9% (42 vs 48.8) respectively.
- The overall electricity consumption in 2018 was 282.1 Twh compared with 288.4 Twh in 2017.
- 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 2018 SEC's customer base grew 4% YoY from 9.05 million to 9.41 million customer.
- 37.9% YoY decline in electricity connection fee revenues due to a SAR 1.34 billion impact arrived from application 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 financial statements for the twelve months period ended 31 December 2018.
- 8.2% YoY decrease in revenues of transmission system is due to lower wheeling charges on other producers who use SEC's transmission national grid to transmit power.

Cost of Sales

Item (SAR million)	FY 2018	% of total	FY 2017	% of total	Change
Fuel	7,668	13%	9,027	21%	(15.0)%
Purchased energy	8,254	14%	8,021	18%	2.9%
Operation and maintenance	11,108	19%	11,672	27%	(4.8)%
Government fees	14,704	25%	-	-	-
Depreciation[1]	16,420	28%	15,275	35%	7.5%
Cost of Sales	58,155	100%	43,995	100%	32.2%

[1] Depreciation relating to operating assets

- 15% YoY decrease in fuel costs is reflecting efficiency gains of SAR 692 million resulted from improved thermal efficiency (2018: 37.7%, 2017: 36.7%) and improvements in fuel mix driven by lower diesel consumption; This in addition to 6.5% lower SEC energy production (2018 191 Twh, 2017: 204 TWh).
- 2.9% YoY increase in purchased power cost due to higher output from IPPs generation primarily driven by commissioning of new IPP capacity in 2018.
- 4.8% YoY decrease in operations and maintenance costs mainly arrived from lower material and contracts cost. Saving in labour costs arrived from reduction in headcount was largely offset by the special cost of living allowance applied in 2018.
- Government fees of SAR 14.7 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.
- 7.5% increase in depreciation reflecting the growth in the depreciable operating assets base: projects amounting to SAR 44.1 billion were completed and became operational over the course of 2018.

Gross Profit, EBITDA, and Net Profit/ Losses

- Reflecting the above factors, gross profit declined 11.7% in 2018 to SAR 5,909 million.
- EBITDA down 10.8% YoY in 2018 to SAR 22,814 million, mainly due to a SAR 3.3 billion one-off items impact in 2017. The one-off items includes a reversal of cancelled municipalities fees of SAR 6.1 billion, which was partially offset by an expense of SAR 2.8 billion relating to the company's human resources productivity improvement program. Excluding this impact, the YoY growth in EBITDA would be 2.4%.
- 31.7% YoY decrease in reported net losses attributable to SEC shareholders in Q4 2018 is attributed primarily to the inclusion of a non-recurring costs related to the human resources productivity program of SAR 2.6 billion in Q4 2017.
  74.2% YoY decline in reported net profit attributable to SEC shareholders in 2018 is primarily due to the aforementioned one-off items in 2017, the IFRS 15 first time adoption impact, lower electricity consumption and higher financing charges due to increase in borrowing and lower capitalized interest.

Cash Flow and Capital Expenditure

- 31.4% YoY decrease in net cash generated from operating activities to SAR 25.3 billion in 2018 (2017: SAR 36.9 billion) mainly reflects the increase in electricity receivables and lower net income in 2018.

- Overall SAR 28.4 billion in 2018 (2017: SAR 43.2 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 customers.
- Net cash inflow from financing activities during 2018 of SAR 4.7 billion (2017: SAR 6.4 billion) was primarily from proceeds drawn down from commercial loan facilities and Sukuks (totaling SAR 32.1 billion). This is partially offset by repayments of loans of SAR 23 billion, dividend disbursements of SAR 539 million and paid finance costs of 3.9 billion.
- SEC closed 2018 with a gross cash position of SAR 2.6 billion (2017: SAR 1.1 billion).

Asset, Liabilities and Equity Base

- Fuel liabilities of SAR 11.9 billion transferred from Saudi Aramco's account to ministry of finance, and is reported currently as government payables.
- Legacy payables of SWCC and Royal Commission of Jubail and Yanbu amounting to SAR 11.5 billion were offset against government receivables for electricity sales.
- The growth in the asset base reflects SEC's continuing investments into its generation, transmission and distribution capabilities. As at 2018 end, SEC's asset base had grown 4.3% to SAR 464.8 billion (2017 end: SAR 445.8 billion), with shareholders' equity growing 1.9% to SAR 73.7 billion (2017 end: SAR 72.3 billion).

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 63.1 bn (US$16.8 bn) as at 31 December 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 *9.4* million customers in Saudi Arabia. Saudi Arabia is one of the Top 20 economies globally whose demand for electricity is driven by favorable demographic makeup and an increasingly diversified and growing economy.

For further information on SEC and the full financial statements for the twelve months period ended 31 December 2018, please refer to the corporate website: www.se.com.sa

End of Release