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Saudi Electricity Company
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Saudi Electricity Company ('SEC')

Financial results for the six months period ended 30 June 2019

Consumption rationalization has driven revenue decline along with higher finance charges impacting net profit. However, it was partially offset by improved operational efficiency.

Riyadh, 24 July 2019 – 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 2019.

Figures in SAR million	Quarterly Periods			Six Months Periods		
Description	**Q2 2019**	Q2 2018	% change	**H1 2019**	H1 2018	% change
Revenues	**16,520**	17,701	(6.7)%	**27,916**	29,102	(4.1)%
Gross Profit	**1,821**	2,939	(38)%	**1,184**	2,315	(48.8)%
Gross Profit Margin %	***11.0%***	*16.6%*	*(5.6) pp*	***4.2%***	*8.0%*	*(3.8)pp*
Operating Profit	**1,933**	2,836	(31.9)%	**1,338**	2,193	(39.0)%
Operating Profit Margin %	***11.7%***	*16.0%*	*(4.3) pp*	***4.8%***	*7.5%*	*(2.7) pp*
Net Profit / Loss	**789**	1,847	(57.3)%	**(700)**	633	-
Earnings / Loss per Share (SAR)	**0.19**	0.44	(57.0)%	**(0.17)**	0.15	-
Net Comprehensive Income / Loss	**587**	1,857	(68.4)%	**(1,039)**	719	-
EBITDA[1]	**6,186**	6,780	(8.8)%	**9,937**	9,965	(0.3)%
EBITDA Margin %	***37.4%***	*38.3%*	*(0.9) pp*	***35.6%***	*34.2%*	*1.4 pp*

(1) EBITDA = net profit/losses + depreciation + net interest expense + zakat and tax expense + net amortization
(2) pp : percentage points

HIGHLIGHTS

- 4.1% and 6.7% YoY decline in operating revenue during H1 2019 and Q2 2019 respectively is primarily driven by lower electricity sales due to consumption rationalization.
- Lower operating revenues and higher finance charges impacted net profit during H1 2019 and Q2 2019, despite continuous efficiency in managing operating costs, G&A expenses and higher other income.
- EBITDA margins is up in H1 2019, reflecting continued improvement in operating performance, despite the topline decline.
- Consumption rationalization continues to reduce the burden of capital expenditure on SEC and indicates the success of KSA's reform policy in raising demand-side consumption efficiency. SAR 9 billion invested in capital projects during the first six months of 2019 (H1 2018: SAR 14.5 billion), representing a 37.9% YoY decline.

- SEC continues to be one of the highest rated corporates in Saudi Arabia with A2/A/A- ratings by Moody's, Fitch and S&P respectively.

PERFORMANCE REVIEW

Revenues

Item (SAR million)	H1 2019	% of total	H1 2018	% of Total	%Change
Electricity sales	25,512	91.4%	26,823	92.2%	(4.9)%
Meter reading, maintenance and bill preparation income	669	2.4%	646	2.2%	3.6%
Electricity connection tariff	786	2.8%	712	2.4%	10.4%
Transmission system revenues	544	1.9%	643	2.2%	(15.4)%
Other operating revenues	405	1.5%	278	1.0%	45.7%
Total operating revenues	27,916	100%	29,102	100%	(4.1)%

- 4.1% decrease in H1 2019 total operating revenues is mainly driven by lower electricity sales, which was partially offset by higher other operating revenues.
- 4.9% YoY decline in electricity sales in H1 2019 is reflecting lower electric power volume sold in H1 2019 of 123.2 Twh (H1 2018 : 126.2 Twh), which is primarily driven by 7.6% and 3% YoY reduction in residential and commercial consumption respectively, moreover there is a change in the sales mix toward higher contribution of consumption of lower tariff slabs. Both residential and commercial consumption makes up about 60% of the consumption mix.
- 10.4% YoY increase in electricity connection fee revenues is attributable to 3.9% YoY growth in the customer base to 9.59 million from 9.23 million.
- Lower revenues of transmission system is due to a one-off settlement related to a previous year wheeled energy volume to one of the producers who use SEC's transmission national grid to transmit power. Excluding this one-off settlement, transmission system revenues would be up 10.2% YoY.
- Higher revenues from the tariffs charged for meter reading, maintenance and bills preparation are in line with the continuing increase in the customer base.
- 45.7% YoY increase of in other operating revenues is primarily driven by higher revenues for reconnecting customers, higher fibre optic lease revenues and a one-off penalty charge related to a violation for surpassing agreed consumption limits by an industrial consumer in Q1 2019.

Cost of Sales

Item (SAR million)	H1 2019	% of total	H1 2018	% of total	Change
Fuel	3,006	11%	3,354	13%	(10.4)%
Purchased energy	3,673	14%	3,934	15%	(6.6)%
Operation and maintenance	4,613	17%	4,529	17%	1.9%
Government fees	6,400	24%	6,792	25%	(5.8)%
Depreciation[(1)]	9,039	34%	8,178	30%	10.5%
Cost of Sales	26,731	100%	26,788	100%	(0.2)%

[(1)] Depreciation relating to operating assets and the right of use of assets

- 10.4% YoY decrease in fuel costs is reflecting lower SEC's produced energy and savings from continued optimization of the fuel mix towards the most low cost feedstock fuel types. The thermal efficiency of the overall generation fleet in kingdom improved in H1 2019 to 40.22% (H1 2018: 40.01%)
- 6.6% YoY decrease in purchased power cost is mainly due to lower purchased power volume from IPPs and IWPPs generation driven by unplanned/planned outages of some IPPs and IWPPs during H1 2019.
- 1.9% YoY increase in operations and maintenance costs is mainly due to the increase contracts and materials costs which are partially offset by decrease in labour costs driven by the human resources productivity improvement program.
- The Government fees which 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 decline 5.8% primarily due to continued consumption rationalization.
- 10.5% increase in depreciation reflecting the growth in the operating asset base as projects amounting to SAR 34.4 billion were completed and became operational over the course of the last 12 months.

EBITDA, Margin, and Net Profit/ Losses

- EBITDA is slightly down in H1 2019 to SAR 9,937 million demonstrating stable operating performance despite the decrease in the topline. EBITDA margin is up to 35.6% during H1 2019 (H1 2018: 34.2%).
- SEC reported net loss in H1 2019 of SAR 700 million as opposed to reported net profit of SAR 633 million in the same prior year period due to lower electricity sales and higher financing charges, this is despite lower fuel and purchased power costs driven by improvement in operational efficiency.
- 57.3% YoY decrease in net profit in Q2 2019 compared to Q2 2018 is mainly due to lower electricity sales and higher financing charges, this is despite lower fuel and purchased power costs driven by improvement in operational efficiency for the current quarter

Cash Flow and Capital Expenditure

- 35.7% YoY increase in cash flow from operations to SAR 11.4 billion (H1 2018: SAR 8.4 billion) is mainly driven by movement in working capital primarily arrived from higher advances from customers and improved receivable collection.
- Overall net outflow of cash due to investing activities of SAR 9 billion in H1 2019 (H1 2018: SAR 16 billion), in line with SEC's strategy to meet the demand, improve reliability of supply, connect new customer.
- Net cash outflow from financing activities during H1 2019 of SAR 0.618 billion compared to net inflow of SAR 8.3 billion in H1 2018 is primarily driven by proceeds drawn down from commercial loan facilities totaling SAR 11.7 billion and receipts of government grant of SAR 0.09 billion, This is as opposed to total repayments of loans of SAR 9.3 billion, paid finance costs of SAR 2.3 billion, lease contracts obligations of SAR 0.07 billion and dividend disbursements of SAR 0.733 billion.
- SEC closed H1 2019 with a gross cash position of SAR 4.1 billion (H1 2018: SAR 1.8 billion).

Asset and Equity Base

- The growth in the asset base reflects SEC's continuing investments into its generation, transmission and distribution capabilities. During H1 2019, SEC's asset base had grown 1.5% to SAR 471.5 billion (2018 end: SAR 464.6 billion), with shareholders' equity declining 2.4% to SAR 71.9 billion (2018 end: SAR 73.7 billion).
- Starting from 1st January 2019, SEC has adopted IFRS 16 (leases). 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 six months ended 30 June 2019.

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 77.3 bn (US$20. bn) as at 30 June 2019, 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 9.59 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 interim financial statements for the six months period ended 30 June 2019, please refer to the corporate website: www.se.com.sa

End of Release.