

Saudi Electricity Company ('SEC')

Financial results for the fiscal year ended 31 December 2019

Approval and activation of the balancing account of electricity sector boasts SEC's 2019 net profit by SAR 1.1 billion, and a long with other items largely alleviate higher depreciation and finance charges impact on net profit.

Riyadh, 26 February 2020 – Saudi Electricity Company ("SEC"), the largest utility company in the Middle East and North Africa region, announces its annual financial results for year ended 31 December 2019.

Description (Figures in SAR million)	2019	2018	% change
Revenue	65,040	64,064	1.5%
Gross profit	6,124	5,920	3.5%
<i>Gross profit margin %</i>	9.4%	9.2%	<i>0.2 pp</i>
Operating profit	6,535	6,016	8.6%
<i>Operating profit margin %</i>	10.1%	9.4%	<i>0.7 pp</i>
Net profit	1,388	1,757	(21.4%)
Net comprehensive income	641	2,364	(72.9%)
Reported earnings per share (SAR)	0.33	0.42	(21.4%)
EBITDA ⁽¹⁾	24,041	21,674	10.9%
<i>EBITDA margin %</i>	37.0%	33.8%	<i>3.2 pp</i>

(1) EBITDA = net profit/losses + depreciation + net interest expense + zakat and tax expense + net amortization

(2) pp : percentage points

HIGHLIGHTS

- Ministry of Finance notified SEC of the approval and activation of the balancing account for 2019, accordingly SEC's 2019 operating revenue of SAR 65,040 million was decided. This resulted in an additional other operating revenues of SAR 1.1 billion which positively impacted margins and net profit.
- 1.5% YoY growth in 2019 operating revenue is primarily driven by activation of the balancing account, continued growth in subscribers' base, higher wheeling charges, higher fibre optic revenue and others.
- Consumption rationalization continues to reduce the burden of capital expenditure on SEC and indicates the success of KSA's power sector reform policy in raising demand-side consumption efficiency.
- SAR 23 billion invested in capital projects during 2019 (2018: SAR 29.8 billion), representing a 27.8% 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

Revenue

Item (SAR million)	2019	% of total	2018	% of Total	%Change
Electricity sales	58,865	91%	59,624	93%	(1.3)%
Meter reading, maintenance and bill preparation income	1,348	2.07%	1,304	2%	3.4%
Electricity connection tariff	1,834	2.82%	1,608	3%	14.0%
Transmission system revenue	1,131	1.74%	1,006	2%	12.5%
Other operating revenue	1,862	2.86%	523	1%	256.3%
Total operating revenue	65,040	100%	64,063	100%	1.5%

- Marginal decline in electricity sales in 2019 is reflecting lower electric power volume sold 279.7Twh (2018: 282.1Twh ⁽¹⁾), which is primarily driven by change in consumer behaviour toward rationalization. Below is 2019 consumption mix.

Segment	Volume (Gwh)	Volume Contribution %	Value SAR million	Value Contribution %
Residential	128,143	45.82%	23,814	40%
Commercial	45,778	16.37%	11,421	19%
Industrial	49,457	17.68%	8,836	15%
Governmental	40,337	14.42%	12,881	22%
Others	15,962	5.71%	1,912	3%
Electricity sales	279,677	100%	58,864	100%

⁽¹⁾The sold volume is adjusted in this period to exclude one-off adjustments related to previous years' consumption.

- Higher revenue from the tariffs charged for meter reading, maintenance and bills preparation is principally reflecting 3.7% YoY growth in the subscriber base to 9.41 million from 9.76 million.
- 14.1% YoY increase in electricity connection fee revenue is principally attributable to new connections added over the period and is in line with the continued growth in subscribers' base.
- Higher transmission system revenue is due to increased wheeling charges on other producers who use SEC's transmission national grid to transmit power.
- Substantial YoY increase of in other operating revenue is primarily driven by recognised revenue from the balancing account, higher revenue for reconnecting customers, higher fibre optic lease revenue, higher reactive power charges and others.

Cost of Sales

Item (SAR million)	2019	% of total	2018	% of total	Change
Fuel	7,576	13%	7,670	13%	(1.2)%
Purchased energy	7,805	13%	8,254	14%	(5.4)%
Operation and maintenance	10,678	18%	11,082	19%	(3.6)%
Government fees	14,494	25%	14,704	25%	(1.4)%
Depreciation ⁽²⁾	18,363	31%	16,434	28%	11.7%
Cost of Sales	58,916	100%	58,144	100%	1%

⁽²⁾Depreciation relating to operating assets and the right of use of assets

- Marginal decrease in fuel costs is reflecting change in the fuel mix toward usage of more diesel and crude oil in 2019 compared to similar prior year period's fuel mix. The thermal efficiency of the overall generation fleet in kingdom remained stable in 2019 at 39.9% (2018: 39.8%).
- 5.4% 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 2019.
- 3.6% YoY decrease in operations and maintenance costs is mainly due to lower labour and materials costs.
- 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 1% YoY primarily due to continued consumption rationalization.
- 11.7% YoY increase in depreciation is reflecting the growth in the operating asset base as projects amounting to SAR 31.7 billion were completed and became operational over the course of 2019, this as well as the first time application of IFRS 16 which added about SAR 158.5 million from right of use asset depreciation.

Margin, and Net Profit

- Reflecting the foregoing items, EBITDA is 10.9% up YoY in 2019 to SAR 24,041 million. EBITDA margin is up to 37% during 2019 (2018: 33.8%).
- 21% YoY decrease in net profit in 2019 compared to 2018 is mainly reflecting higher depreciation cost and finance charges, which was partially offset by increase in operating revenue and lower purchased power costs, operations and maintenance costs and general and administrative expenses.

Cash Flow and Capital Expenditure

- 4.1% YoY Increase in cash flow from operations of SAR 26.1 billion in 2019 (2018: SAR 25.1 billion) is reflecting higher depreciation charged and positive working capital movement in 2019.
- 25.7% YoY decrease in overall net outflow of cash due to investing activities to SAR 21.1 billion in 2019 (2018: SAR 28.4 billion), in line with SEC's strategy to rationalize Capex to meet the demand, improve reliability of supply, connect new customer.
- Net cash outflow from financing activities during 2019 of SAR 5.5 billion compared to net inflow of SAR 4.7 billion in 2018 is primarily driven by proceeds drawn down from commercial loan facilities totaling SAR 16.16 billion and receipts of government grant of SAR 0.453 billion, This is as opposed to total repayments of loans of SAR 16.34 billion, paid finance costs of SAR 4.44 billion, lease contracts obligations of SAR 0.168 billion and dividend disbursements of SAR 1.16 billion.

- SEC closed 2019 with a gross cash position of SAR 1.92 billion (2018: SAR 2.43 billion).

Asset and Equity Base

- The growth in the asset base reflects SEC's continuing investments into its generation, transmission and distribution capabilities. During 2019, SEC's asset base had grown 3.3% to SAR 479.8 billion (2018: SAR 464.6 billion), with shareholders' equity remaining stable at SAR 73.6 billion (2018: 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 full year ended 31st December 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 77.6 billion (US\$23.6 billion) as at 31 December 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 9.76 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 Consolidated financial statements and independent auditor's report for the year ended 31 December 2019, please refer to the corporate website: www.se.com.sa

End of Release.