

Saudi Electricity Company ('SEC')
Financial results for the six months ended 30 June 2016

Tariff increase drives revenues growth but margins impacted by operating costs increase at a higher proportion

Riyadh, 20 July 2016 – 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 2016.

Figures in SAR million	Quarterly Periods			Six Months Periods		
	Q2 2016	Q2 2015	% change	H1 2016	H1 2015	% change
Description						
Revenues	13,213	11,917	+10.9%	22,115	19,403	+14.0%
Gross Profit	1,563	2,122	(26.3)%	359	876	(59.0)%
Gross Profit Margin %	11.8%	17.8%	(6.0)pp	1.6%	4.5%	(2.9)pp
Operating Profit	1,274	1,869	(31.8)%	(109)	467	n/a
Operating Profit Margin %	9.6%	15.7%	(6.1)pp	(0.5)%	2.4%	n/a
Net profit/losses	1,426	1,971	(27.7)%	52	31	+69.4%
Reported Earnings/losses per share (SAR)	0.34	0.47	(27.7)%	0.007	0.013	+69.4%
EBITDA ⁽¹⁾	5,698	5,638	+1.1%	8,485	7,304	+16.2%
EBITDA Margin %	43.1%	47.3%	(4.2)pp	38.4%	37.6%	+0.8pp
One-off items	n/a	n/a	n/a	-	(561)	n/a
Excluding one-off items						
Underlying EBITDA ⁽²⁾	n/a	n/a	n/a	8,485	7,865	+7.9%
Underlying EBITDA Margin%	n/a	n/a	n/a	38.4%	40.5%	(2.1)pp
Underlying Net profit/losses ⁽³⁾	n/a	n/a	n/a	52	592	(91.2)%

(1) EBITDA = Net profit/losses + Depreciation

(2) Underlying EBITDA = EBITDA excluding one-off items

(3) Underlying Net profit/losses = Net profit/losses excluding one-off items

HIGHLIGHTS

- 10.9% and 14% growth YoY in total operating revenues during Q2 2016 and H1 2016 respectively. The growth is primarily driven by higher electricity sales due to the tariff increase.
- Despite the tariff increase margins were impacted during Q2 2016 and H1 2016 due to increasing operating costs at a higher proportion which is primarily driven by:
 - (1) 67.5% and 72% YoY increase in fuel costs during Q2 2016 and H1 2016 respectively which is attributable to the fuel prices increase.
 - (2) Higher depreciation reflecting the growth in the operating asset base: projects amounting to SAR 45.8 billion became operational over the course of the last 12 months.
- H1 2016 EBITDA grew 16.2% to SAR 8,485 million (H1 2015 : 7,304 million) implying a positive impact from the tariff increase. Excluding the impact of a one-off item in H1 2015, the growth in EBITDA on an underlying basis would be 7.9%.
- Major capital expenditure program continues. SAR 27.8 billion invested in capital projects and fixed assets during H1 2016 (H1 2015: SAR 27.1 billion).
- SEC's AGM approved a dividend payment for 2015 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 with A2/A-/A+ ratings by Moody's, S&P and Fitch, respectively.

PERFORMANCE REVIEW

Revenues

Item (SAR million)	H1 2016	% of total	H1 2015	% of Total	Change
Electricity Sales	19,741	89.3%	17,340	89.4%	13.8%
Meter reading, maintenance and bill preparation income	587	2.7%	551	2.8%	6.5%
Electricity Connection Tariff	1,117	5.1%	1,015	5.2%	10.0%
Transmission System Revenues	410	1.9%	375	1.9%	9.5%
Other Operating Revenues	260	1.2%	123	0.6%	111.4%
Total Operating Revenues	22,115	100.0%	19,403	100.0%	14.0%

- H1 2016 total revenues increased by 14% to SAR 22.1 billion, primarily driven by electricity sales growth.
- 13.8% growth in electricity sales in H1 2016 over corresponding period of 2015 is due to:
 - i) 16.2% increase in average sale price from 13.23 to 15.38 Halala/KWh primarily driven by the tariff increase, and
 - ii) Supported by an improvement in the sales mix with higher contribution from high margin customer (see below).

Customer base split by sales volume and relative revenue contribution						
Segment	Volume contribution %			Value contribution %		
	H1 2016	H1 2015	Change	H1 2016	H1 2015	Change
Residential	48.2%	46.4%	1.8pp	25.5%	27.4%	(1.9)pp
Industrial	17.1%	20.6%	(3.5)pp	19.5%	21.2%	(1.7)pp
Commercial	16.6%	15.7%	0.9pp	23.8%	21.9%	1.9pp
Governmental	13.6%	13.6%	0.0pp	28.0%	26.7%	1.3pp
Other	4.5%	3.7%	0.8pp	3.2%	2.8%	0.4pp

- Sales volume and value contribution from Industrial customers fell 3.5% and 1.7% respectively, reflecting that major industrial facilities who have their own onsite captive generation were able to source a greater proportion of their electricity requirements through internally generated means, implying a lower contribution from industrial segment. However, this was partially offset by 9.5% increase in revenues from transmission system that arise from backup service/wheeling charges.
- In H1 2016, SEC sold 128.4 TWh compared with 131.0 TWh in H1 2015. the reduction of 2.1% is primarily because lower sales volume to the Industrial segment.
- In H1 2016, The customer base grew 6.5% YoY to 8.35 million from 7.84 million mainly driven by residential and commercial segments.
- Operating revenues from the tariffs charged for meter reading, maintenance and bills preparation and one-off tariffs charged for making initial electricity connections were higher, in line with the continuing increase in the customer base and higher revenues realized from connection tariff services projects.

Cost of Sales

Item (SAR million)	H1 2016	% of total	H1 2015	% of total	Change
Fuel	4,324	19.9%	2,514	13.6%	72.0%
Purchased energy	3,676	16.9%	3,592	19.4%	2.3%
Operation and maintenance	5,548	25.5%	5,335	28.8%	4.0%
Depreciation ⁽¹⁾	8,208	37.7%	7,085	38.2%	15.9%
Cost of Sales	21,756	100.0%	18,527	100.0%	17.4%

⁽¹⁾ Depreciation relating to operating assets

- 72% increase in fuel costs reflecting the increase in fuel prices.
- 2.3% YoY increase in purchased power cost mainly driven by slight increase in output from IPPs generation and change in the purchased power mix from IPPs/IWPPs.
- 4% increase in operations and maintenance costs mainly arose from higher labor cost driven by headcount growth, increased municipality fees and higher provisions taken against doubtful receivables.
- 15.9% increase in depreciation reflecting the growth in the operating asset base: projects amounting to SAR 45.8 billion were completed and became operational over the course of the last 12 months.

EBITDA, Margins, and Net Profit/ Losses

- H1 2016 EBITDA grew 16.2% to SAR 8,485 million (H1 2015 : 7,304 million) which was positively impacted by the tariff increase. H1 2015 included a non-recurring expense item (SAR 561 million) of grant of two months' salary to SEC's Saudi employees in line with all government controlled entities, following the royal succession in January 2015. Excluding this one-off item, the growth in EBITDA on an underlying basis would be 7.9%.
- H1 2016 EBITDA margins have improved by 0.8pp over the corresponding previous period from 37.6% to 38.4%. Excluding the aforementioned one-off item, underlying EBITDA margin for H1 2016 would have declined by 2.1pp from 40.5% to 38.4%.
- Reported net profit attributable to SEC shareholders for H1 2016 is SAR 52 million as against SAR 31 million for H1 2015, an increase of 69.4%. The increase is mainly due higher other income during H1 2016.

Cash flow and Capital Expenditure

- Cash flow from operations for H1 2016 is SAR 17.7 billion (H1 2015: SAR 11.8 billion), an increase of 49.4%. The increase is principally due to a rise in non-cash items and improved working capital management.
- Overall SAR 28.7 billion in H1 2016 (H1 2015: SAR 26.8 billion) net outflow of cash due to investing activities, in line with SEC's commitment to meet the needs of Saudi Arabia's growing economy through increasing generating capacity and improving and extending transmission and distribution networks.
- The net cash inflow from financing activities in H1 2016 of SAR 9.9 billion (H1 2015: SAR 10.9 billion) is primarily from proceeds drawn down from commercial loan facilities (totaling SAR 10.5 billion) that is partially offset by total dividend payment of SAR 532 million relating to 2015.
- SEC closed H1 2016 with a gross cash position of SAR 1 billion (H1 2015: SAR 2.9 billion).

Balance Sheet and Funding

- The growth in the asset base reflects SEC's continuing major investments into its generation, transmission and distribution capabilities. As at 30 June 2016, SEC's asset base grew 13.3% YoY to SAR 384.2 billion (H1 2015: SAR 339.1 billion), with shareholders' funds growing 2% YoY to SAR 59.9 billion (H1 2015: SAR 58.7 billion).
- Due to SEC's strategic importance to the economy, the Saudi Government has always demonstrated strong support for SEC including the provision of long term free interest loans.

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 81.4 bn (US\$ 21.7bn) as at 30 June 2016, 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 8.35 million customers in Saudi Arabia. Saudi Arabia is one of the Top 20 economies globally whose demand for electricity is growing at 7-8% per annum, driven by a growing population, rising per capita consumption and an increasingly diversified and growing economy.

For further information on SEC and the full financial statements for the six months and second quarter ended 30 June 2016, please refer to the corporate website: www.se.com.sa

End of Release