

Saudi Electricity Company ('SEC')
Financial results for the nine months ended 30 September 2016

Net Income up by over 50%

Driven by tariff increase, improved sales mix and operational efficiency

Riyadh, 20 October 2016 – Saudi Electricity Company ("SEC"), the largest utility company in the Middle East and North Africa region, announces its interim financial results for nine month period ended 30 September 2016.

Figures in SAR million	Quarterly Periods			Nine Months Periods		
	Q3 2016	Q3 2015	% change	9M 2016	9M 2015	% change
Description						
Revenues	17,146	13,176	30.1%	39,261	32,580	20.5%
Gross Profit	4,617	3,023	52.7%	4,976	3,899	27.6%
<i>Gross Profit Margin %</i>	26.9%	22.9%	4.0pp	12.7%	12.0%	0.7pp
Operating Profit	4,418	2,855	54.7%	4,309	3,322	29.7%
<i>Operating Profit Margin %</i>	25.8%	21.7%	4.1pp	11.0%	10.2%	0.8pp
Net profit/losses ⁽¹⁾	4,404	2,921	50.8%	4,456	2,952	50.9%
Reported Earnings/losses per share (SAR)	1.06	0.70	50.8%	1.07	0.71	50.9%
EBITDA ⁽²⁾	8,744	6,650	31.5%	17,229	13,954	23.5%
<i>EBITDA Margin %</i>	51.0%	50.5%	0.5pp	43.9%	42.8%	1.1pp
One-off items	n/a	n/a	-	-	(561)	n/a
Excluding one-off items						
Underlying EBITDA ⁽³⁾	n/a	n/a	n/a	17,229	14,515	18.7%
<i>Underlying EBITDA Margin%</i>	n/a	n/a	n/a	43.9%	44.6%	(0.7)pp
Underlying Net profit/losses ⁽⁴⁾	n/a	n/a	n/a	4,456	3,513	26.8%

(1) Interest expenses are capitalized. No Zakat/Tax.

(2) EBITDA = Net profit/losses + Depreciation

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

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

HIGHLIGHTS

- 30.1% and 20.5% growth YoY in total operating revenues during Q3 2016 and 9M 2016 respectively. The growth is primarily driven by the tariff increase, improved sales mix and 6.6% YoY growth in the customer base.
- Improved operational efficiency and optimization of operations and maintenance costs positively impacts margins. Consequently, total operating revenues increased at a higher proportion than operating costs despite the increase in fuel prices.
- Major capital expenditure program continues, financed by SEC's internal cash flows and external funding from various sources. SAR 38.5 billion invested in capital projects during the period (9M 2015: SAR 39.4 billion).
- 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.
- SEC's Accelerated Strategic Transformation Program (ASTP) enters the second phase ASTP 2.0 "NAMA" focusing on optimizing operational & capital efficiencies and the continuing roll-out of our performance-oriented corporate culture.

PERFORMANCE REVIEW

Revenues

Item (SAR million)	9M 2016	% of Total	9M 2015	% of Total	Change
Electricity Sales	35,786	91.1%	29,585	90.8%	21.0%
Meter reading, maintenance and bill preparation income	886	2.3%	833	2.6%	6.4%
Electricity Connection Tariff	1,705	4.3%	1,541	4.7%	10.6%
Transmission System Revenues	513	1.3%	454	1.4%	13.0%
Other Operating Revenues	371	0.9%	167	0.5%	122.2%
Total Operating Revenues	39,261	100%	32,580	100%	20.5%

- 9M 2016 total revenues increased by 20.5% to SAR 39.2 billion
- 21.0% increase in electricity sales in 9M 2016 over corresponding period of 2015 due to:
 - The tariff increase applied in Jan 2016 resulted in 21.1% increase in average sale per Kwh from 13.07 halala in 9M 2015 to 15.83 halala in 9M 2016, and
 - Supported by an improvement in the sales mix (see below).

Customer base split by sales volume and relative revenue contribution						
Segment	Volume contribution %			Value contribution %		
	9M 2016	9M 2015	Change	9M 2016	9M 2015	Change
Residential	51.1%	51.1%	0.0pp	29.8%	31.3%	(1.5)pp
Industrial	15.6%	16.5%	(1.1)pp	17.7%	18.2%	(0.5)pp
Commercial	16.9%	15.9%	1.0pp	24.1%	22.1%	2.0pp
Governmental	12.7%	12.9%	(0.2)pp	25.6%	25.6%	0.0pp
Other	3.7%	3.5%	0.2pp	2.8%	2.8%	0.0pp

- Overall electricity consumption slightly declined by 0.1% YoY due to lower demand from industrial and governmental segments. In 9M 2016, SEC sold 226.0 TWh (9M 2015: 226.4 TWh) of electricity.
- Sales volume and value contribution from Industrial customers fell 1.1pp and 0.5pp 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 13% increase in revenues from transmission system that arise from backup service/wheeling charges.
- 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.
- SEC's customer base grew 6.6% YoY to stand at 8.5 million with higher margin commercial, customers continuing to grow their share of the sales mix.

Cost of Sales

Item (SAR million)	9M 2016	% of total	9M 2015	% of total	Change
Fuel	7,840	22.9%	4,678	16.3%	67.6%
Purchased energy	5,864	17.1%	5,528	19.3%	6.1%
Operation and maintenance	8,143	23.8%	7,752	27.0%	5.0%
Depreciation ⁽¹⁾	12,437	36.3%	10,723	37.4%	16.0%
Cost of Sales	34,285	100%	28,680	100%	19.5%

⁽¹⁾ Depreciation relating to operating assets

- Fuel consumption volumes declined 6% YoY despite an almost flat YoY change in electricity volume produced, reflecting favorably optimized fuel mix and improved generation efficiency. The 67.6 % net increase in fuel cost is primarily driven by increase in fuel prices effected in late Dec 2015.
- 6.1% increase in purchased energy as a result of higher output produced by other producers and increase in fuel prices.
- 5.0% 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 and slow moving inventory. The marginal increase in operations and maintenance despite the high expansion in our fleet capacity is a clear demonstration of our focus on operating cost rigorous control.
- 16.0% increase in depreciation reflecting the growth in the fixed asset base: projects amounting to SAR 53.9 billion were completed and became operational over the course of the last 12 months.

EBITDA, Margins, and Net Profit/ Losses

- 9M 2016 EBITDA grew 23.5% to SAR 17,229 million (9M 2015: 13,954 million) implying a positive impact from the tariff increase. Excluding the impact of a one-off item of (SAR 561 million) in 9M 2015, the growth in EBITDA on an underlying basis would be 18.7%. 9M 2015 included a non-recurring expense item (SAR 561 million) of grant of two months' salary to SEC's Saudi employees following the royal succession in January 2015.

- Reported net profit attributable to SEC shareholders during the 9M 2016 is SAR 4,456 million as against SAR 2,952 million in 9M 2015; excluding the one-off items of previous corresponding period, underlying net profit in 9M 2016 increased by 26.8%.

Cash flow and Capital Expenditure

- Cash flow from operations for the first nine months of 2016 was SAR 21.3 billion (9M 2015: SAR 18.2 billion), an increase of 16.9%. The increase is primarily driven by revenue increase and improved working capital management.
- Overall SAR 39.7 billion in 9M 2016 (9M 2015: SAR 39.9 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 of SAR 17.3 billion (9M 2015: SAR 17.8 billion) was primarily from proceeds drawn down from commercial loan facilities (totaling SAR 19.2 billion) that were partially offset by a repayment of SAR 1.4 billion relating to long term facilities and a total dividend payment of SAR 534 million relating to 2015.
- SEC closed 9M 2016 with a gross cash position of SAR 912 million (9M 2015: SAR 3 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 September 2016, SEC's asset base had grown 12.3% yoy to SAR 395.4 billion (9M 2015: SAR 352.3 billion), with shareholders' funds growing 4.3% yoy to SAR 64.2 billion (9M 2015: SAR 61.6 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 70.2 bn (US\$ 18.7bn) as at 30 September 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 8.5 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 nine months and third quarter ended 30 September 2016, please refer to the corporate website: www.se.com.sa

End of Release