

FY2019 Earnings Call Presentation

SEC's investor relations contacts:

Email: IR@se.com.sa

Telephone: +966 11 80 77161 or +966 11 80 77978

Website: www.se.com.sa

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Agenda

SEC Overview

Key Business Highlights

Financial Performance

SEC is the national provider of electricity in the Kingdom

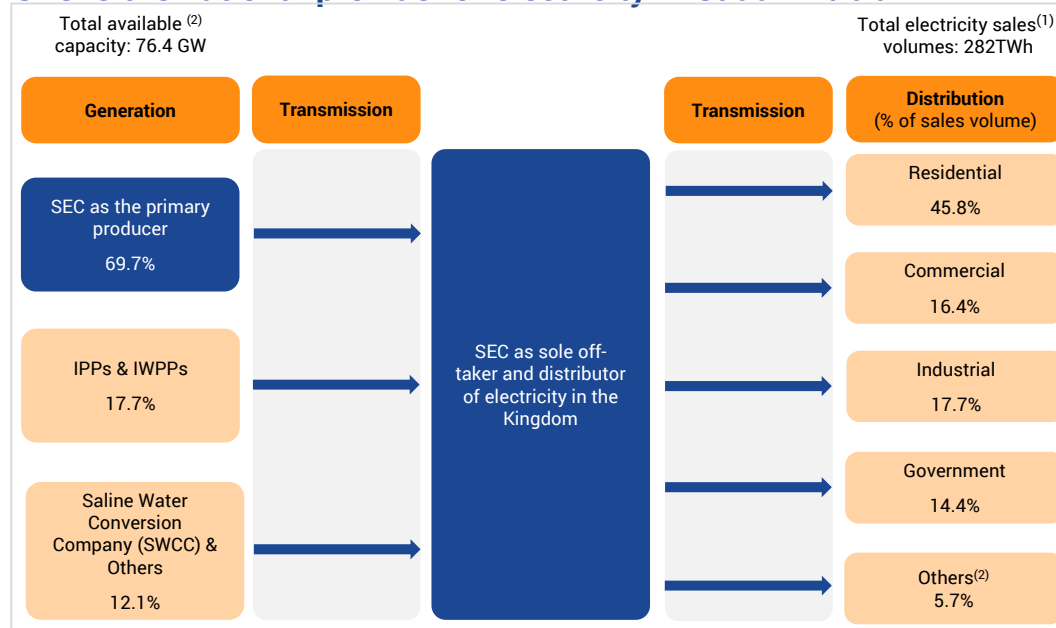
As the leading producer of electricity with monopoly on transmission and distribution services within the Kingdom of Saudi Arabia, SEC plays a critical and strategic role in the Kingdom's economy

Overview of SEC

Date of establishment	1999 Founded pursuant to the Royal Decree No. M/16 dated 13 Dec 1999
Shareholding structure	81.2% indirectly owned by the Kingdom of Saudi Arabia (74.3% owned by the Public Investment Fund and 6.92% by Saudi Aramco)
Ratings	A2 (Moody's) / A- (S&P) / A (Fitch)
Total assets⁽²⁾	SAR 479.8 billion USD 128 billion
Revenues⁽¹⁾	SAR 65.0 billion USD 17.3 billion
Net income⁽¹⁾	SAR 1.39 billion USD 373 million

Power generation capacity⁽¹⁾	53,200 MW
Power transmission network⁽¹⁾	84,787 c.km
Power distribution network⁽¹⁾	671,339 c.km
Fibre optic network⁽¹⁾	76,133 km

SEC is the national provider of electricity in Saudi Arabia



SEC's key strengths

Monopoly integrated market provider in the electricity sector in the Kingdom

A continuous and strong support from the Government which increases SEC's competitive strength

Long term fuel supply agreements at attractive prices set by the Government to meet the increasing demand

2019 key developments and highlights

1 | The Balancing account approved and activated for 2019.

- Approval and activation of the balancing account of electricity sector boosts SEC's 2019 net profit to SAR 1.4 billion, and along with other items largely alleviate higher depreciation and finance charges impact on net profit.

2 | Continued growth in subscribers base.

- 4% YoY growth in subscribers' base up to 9.8 million partially offsets consumption decline and drives continued growth in metering and billing revenues as well as electricity connection revenues.

3 | Plateauing consumption and peak load trend continues

- 0.9% YoY decline in consumption is primarily driven by change in consumer behavior towards rationalization.
- Energy demand growth is expected to continue stable in upcoming year and to resume modest growth from 2021 onward.

4 | Efficiency improvements continue to yield cost reductions, alleviating the impact of stagnant or declining demand.

- Continued optimization of O&M and G&A results in YoY reduction of 3.6% and 14.5% respectively in 2019.
- Continued decline in fuel costs for the 3rd consecutive year in a row, with 1.2% YoY decrease in 2019, and a reduction of 16.1% versus 2017 level.
- Continued headcount reduction driven by the HR productivity improvement program, with 642 FTE net reduction in 2019.
- Continued decline in Capex for the third consecutive year in a row, with more flexibility to reduce Capex 21.8% YoY in 2019.
- Electricity connections process jumps 42 position to 18th in the ease of obtaining electricity connections metric by the World Bank, contributing to KSA's rating improvement in ease of doing business by the World Bank to the 62nd position.
- SEC continues to focus on implementing efficiency drive through the digitalization and smartification of the transmission and distribution networks, which are expected to yield further efficiency gains.

5 | Dawiyat continues to roll-out FTTH connection and recently obtains IOT-VNO License.

- 24,000 km of fiber rolled out, with 488k Households connected as end of 2019.
- 232k Households delivered to Zain and ITC, out of which 21% is activated thus far.



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SEC Overview

Key Business Highlights

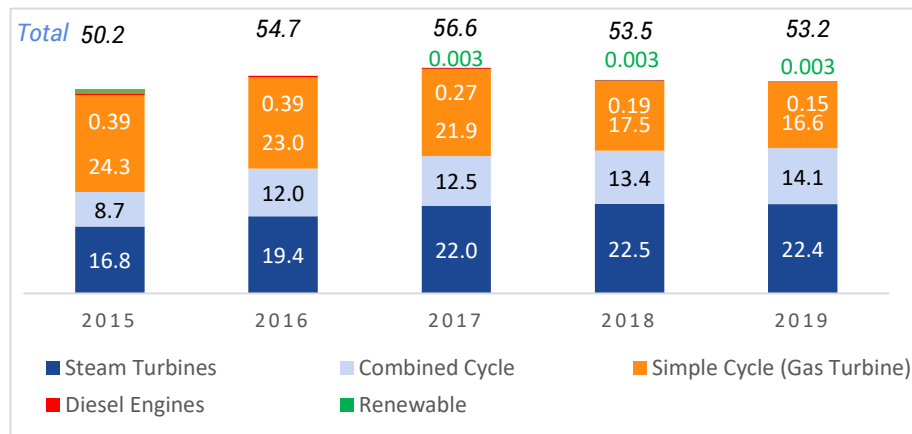
Financial Performance

Generation overview

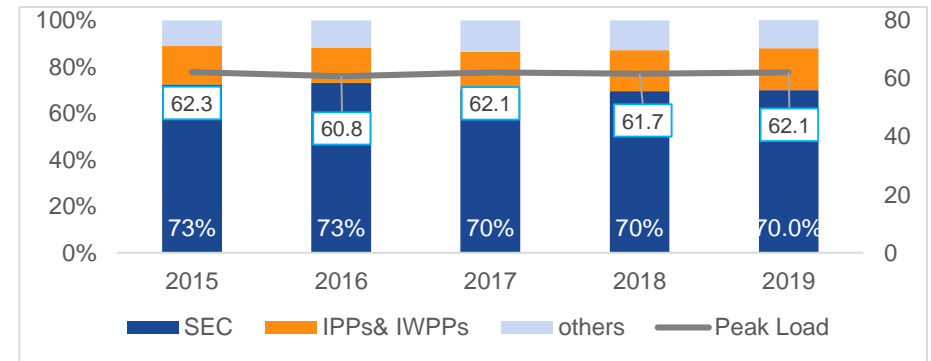
SEC is the largest electricity provider in the Kingdom with assets representing c.70 % of the total installed generation capacity

- As of 2019 end, SEC had generation capacity of 53.2 GW and owned and operated 40 power plants throughout the Kingdom
- Total added new capacities during 2019 were 396 M.W
- Consumption rationalization and demand efficiency drives plateauing peak load and demand curve.
- Slight easing in SEC's fleet thermal efficiency due to unplanned IPP/IWPPs outages that resulted in lower load factor during FY 2019.
- Skaka solar PV plant started production in Q4 2019.

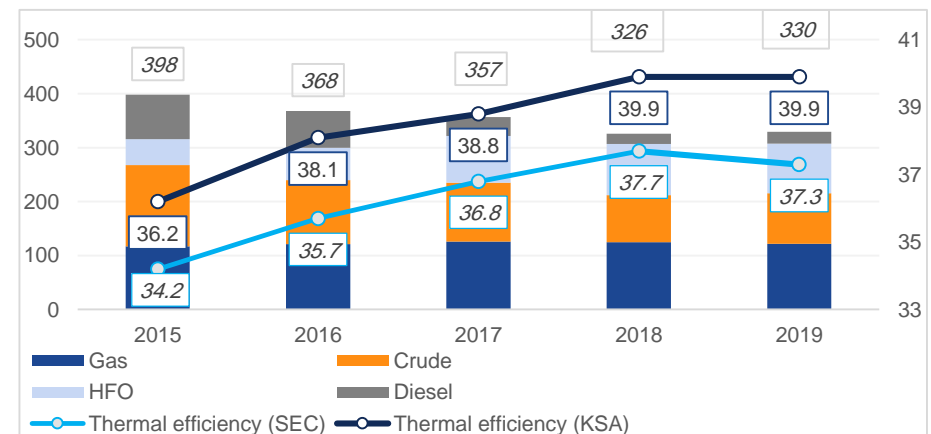
Shift in technology mix: SEC's capacity mix



SEC's contribution to the Kingdom's power generation



Improving in efficiency & reducing fuel consumption



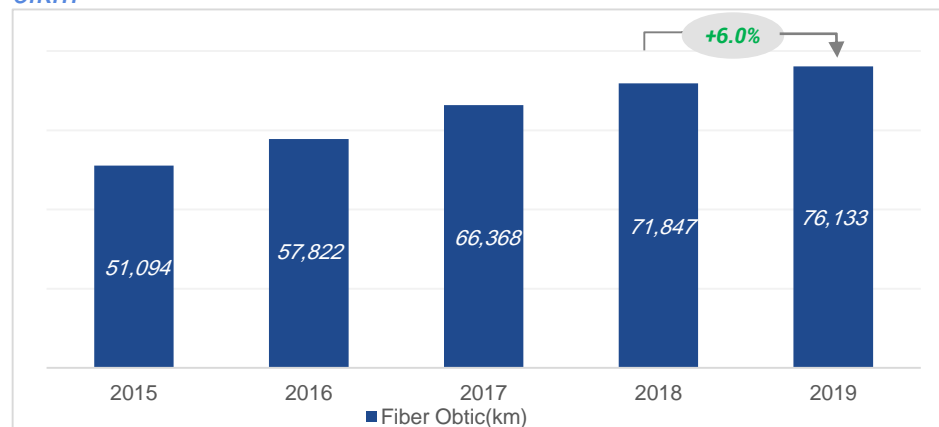
Sources: the Company's annual reports, Moody's and S&P's credit research reports, Bloomberg, as of 6/3/2018

Transmission overview

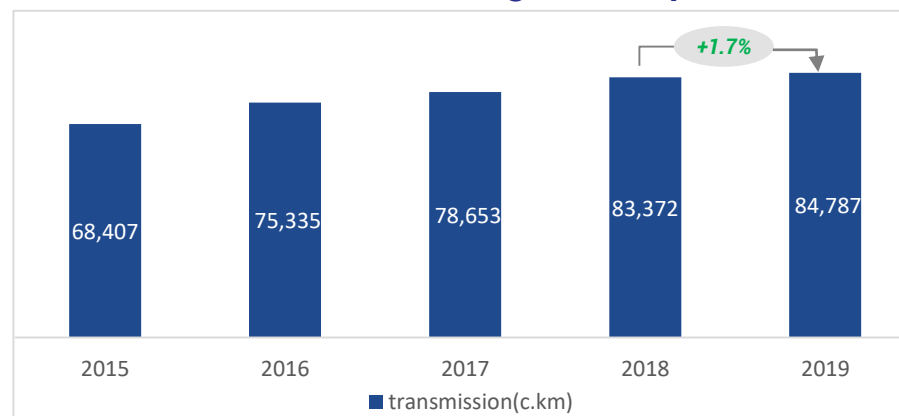
SEC has a regulated monopoly position for the transmission of electric power throughout the Kingdom and its transmission network currently connects almost 99% of the Kingdom

- In 2019, SEC added 1,415 c.km of new transmission lines. SEC's electricity transmission network arrived approximately at 84,787 c.km, at end of FY 2019.
- The Kingdom's four operating regions are almost fully interconnected through the transmission network and as at 2019 end, interconnectivity of the transmission network was almost 99% with major grids in all four regions connected
- SEC continues to bolster its extra high voltage lines and transformers capacities
- SEC continues to invest in growing its fibre optic infrastructure.

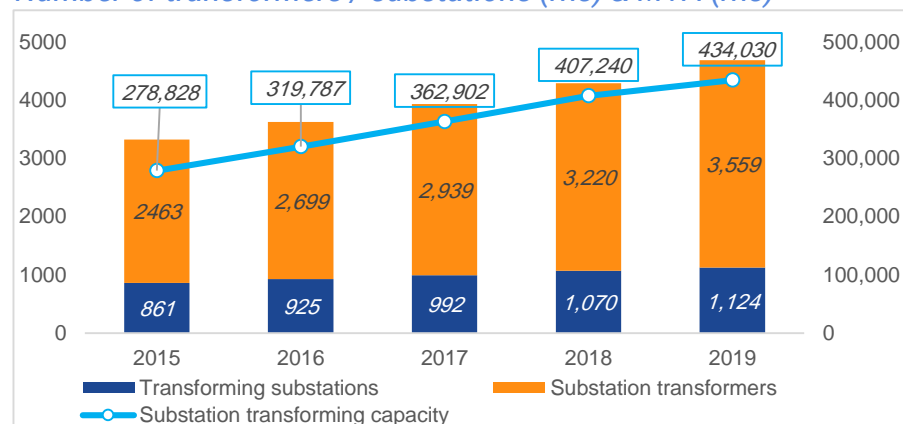
SEC's fiber optic network length development c.km



SEC's transmission network length development



Transmission transforming capacity evolution Number of transformers / substations (lhs) & MVA (rhs)

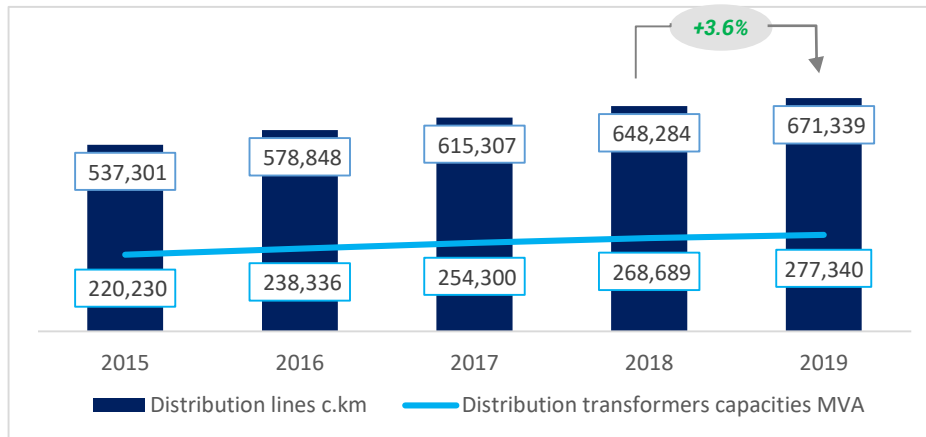


Distribution overview

Focused on enhancing the delivery of power supply to meet market needs given the growing population and the increasing industrialization within the Kingdom

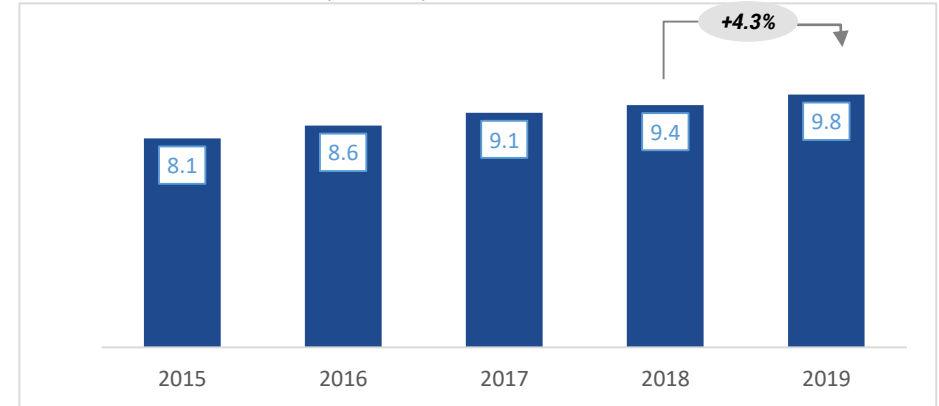
- SEC's distribution business is responsible for medium and low voltage power lines, metering, billing, collection of payments and electrical service connections
- As of FY 2019 end, SEC's total circuit length for its distribution network stood at 671,339 c.km, which comprises of medium-to-low voltage power distributions lines and low voltage lines of customers connections
- During FY 2019, SEC added 16,390 c.km of new distribution lines and connected 371K new customer
- The Group will continue to focus its investment in improving the efficiency of the network by installing electronic meters and developing smart grids

SEC distribution network & Transformers capacities

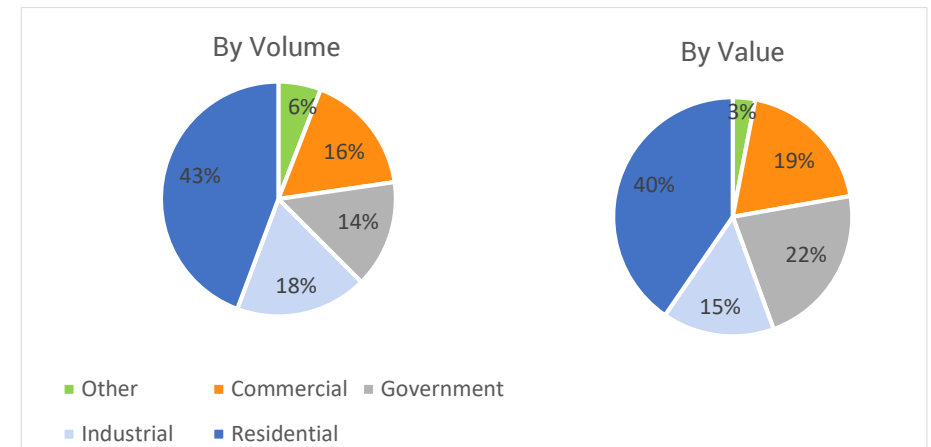


Population coverage via SEC's distribution network

Number of customers (million)



2019 consumption split



Dawiyat's NBI progress



Roll-out across 30 cities so far



24,000 km of fiber rolled out



488,000 HHs⁽¹⁾ connected since inception



386K HHs leased to Zain. 213.2 K HHs delivered, out of which 22% activated till 2019YE



89K HHs leased to ITC. 19K HHs delivered, out of which 13% activated till 2019YE.



Fiber Open Access FTTH agreement has been signed with all Telco in 2019.

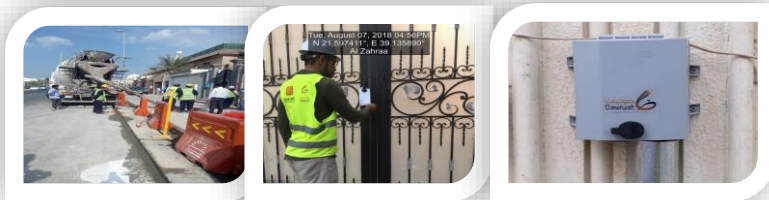


Telecom Services for Mega-projects and Data Centers

- Deals and MoUs signed with MODON, SPARK project, MOH projects respectively
- Tier – 3 Certified DC Global Data Hub (GDH) data center in KAUST is nearing completion

Dawiyat Telecom licenses:

- ✓ **Wholesale Infrastructure Provider license** to deploy, operate and commercialize¹ defined infrastructure elements, including dark fibers and ducts, towers and masts, etc.
- ✓ **Carrier Service Provider license** to lease spare dark fiber capacity to data service providers
- ✓ **ISP License** Internet Service Provider License
- ✓ **IoT-VNO license** : to offer IOT Services such as Smart Homes, Smart Cities (Parking, Lighting), Connected Car.



(1) HHs means households



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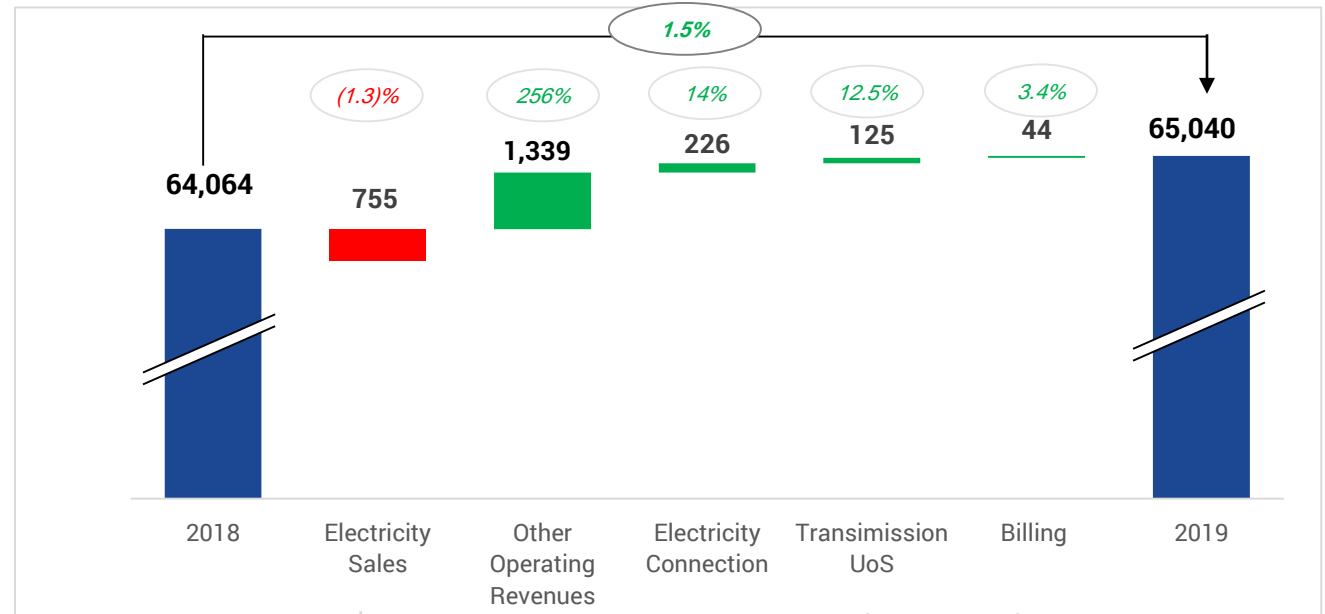
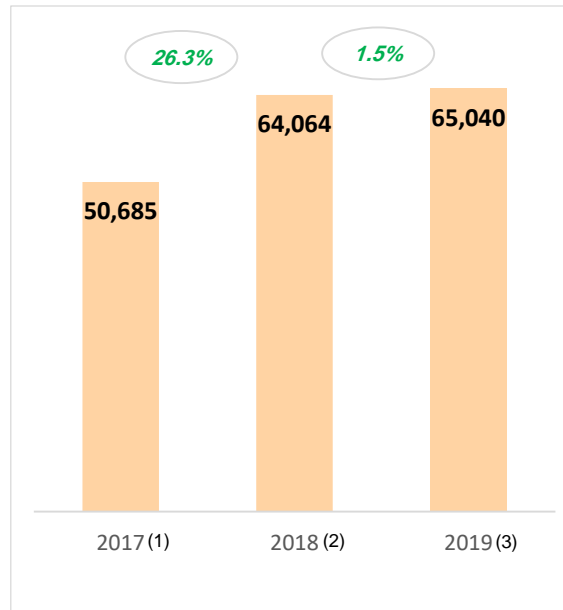
SEC Overview

Key Business Highlights

Financial Performance

Revenues

SAR million



lower electric power volume which is primarily driven by change in consumer behavior toward rationalization.

As a result to activation of the balancing account as well as increase in fibre optic revenues and others.

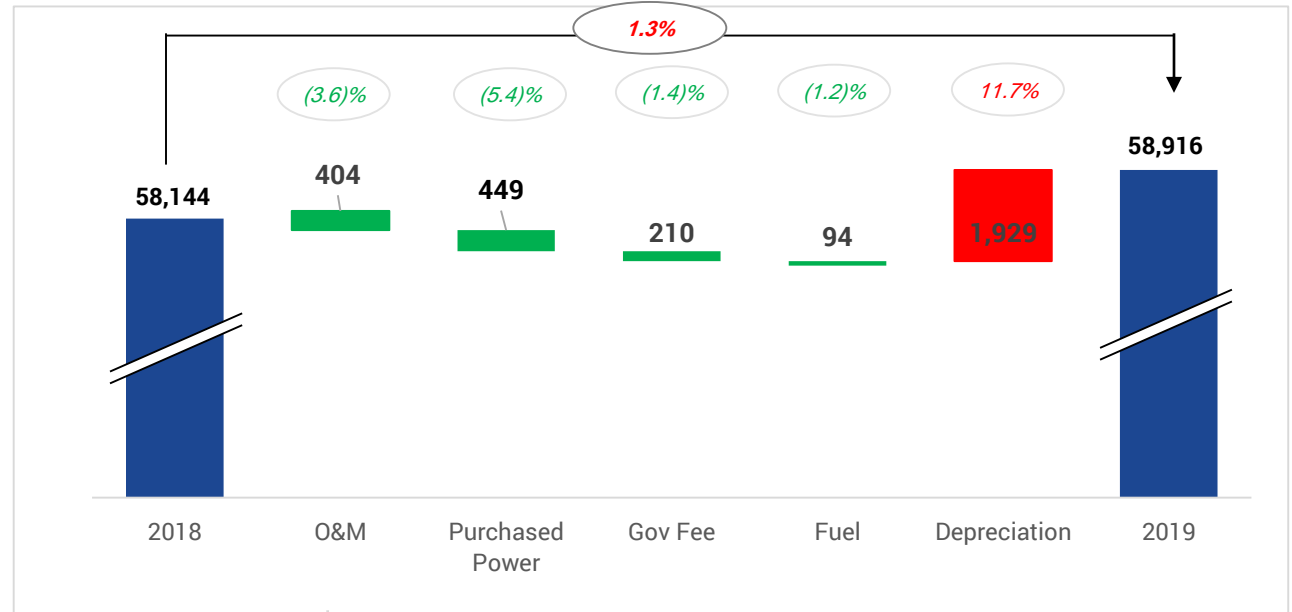
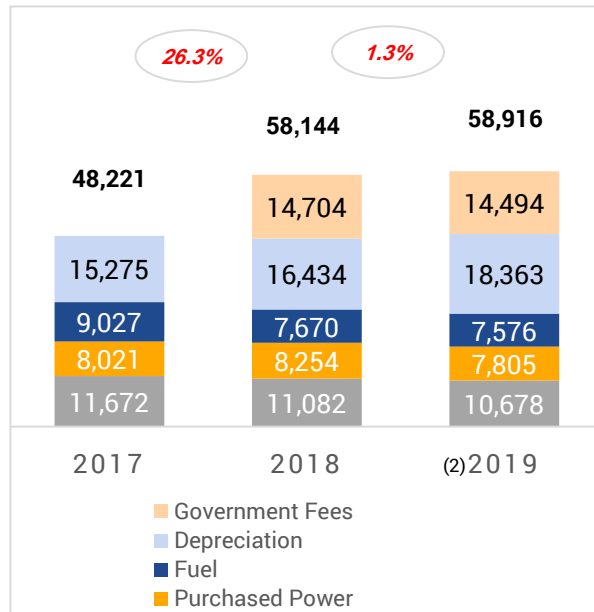
As a result to 360,000 new connections during 2019.

increased wheeling charges on other producers who use SEC's transmission national grid to transmit power.

Due to continued growth in the subscribers base.

Costs of sales

SAR million



Is mainly driven by lower labour and materials costs.

lower purchased power volume from IPPs/IWPPs driven by unplanned/planned outages of some IPPs and IWPPs in 2019

the decline is reflecting consumption rationalization.

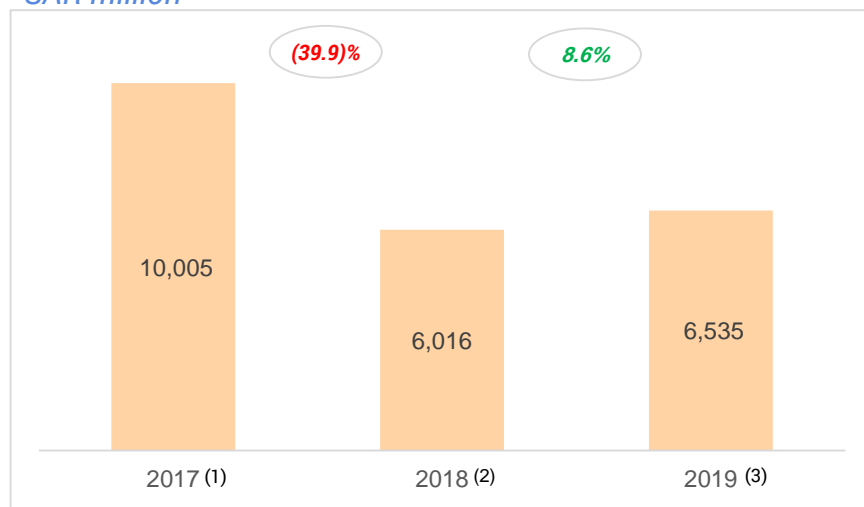
Is reflecting fuel mix optimization lower. thermal efficiency of the overall generation fleet remained stable at 39.9% (2018: 39.8%).

driven by projects addition amounting to SAR 31.7 billion operating asset during 2019

EBIT & Net profit

EBIT

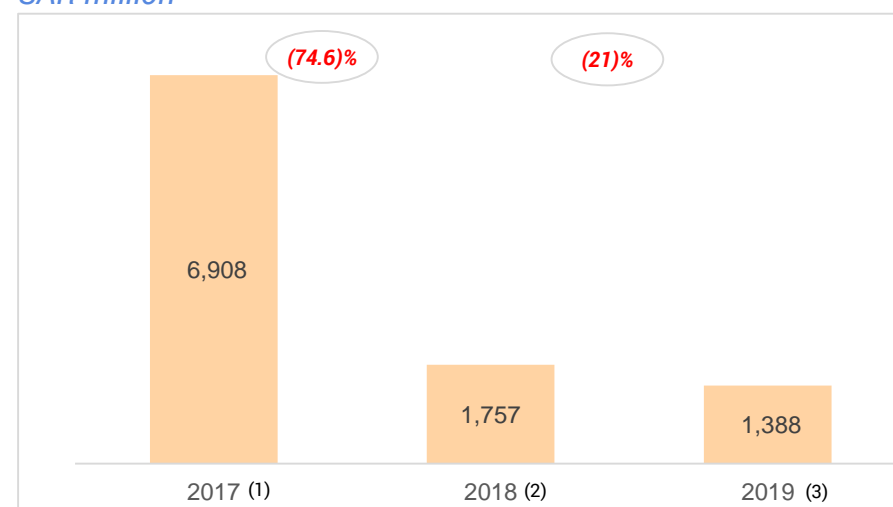
SAR million



- EBIT is up 8.6% YoY during 2019 due to the following:
 - Higher growth rate YoY in operating revenue than in operating costs.
 - 7.1% YoY decrease in general and administrative expenses mainly driven by lower contracts cost.
 - 15.3% YoY increase in other income is due to higher amortization of deferred government grant, dividend income, and penalties and fines.

Net profit

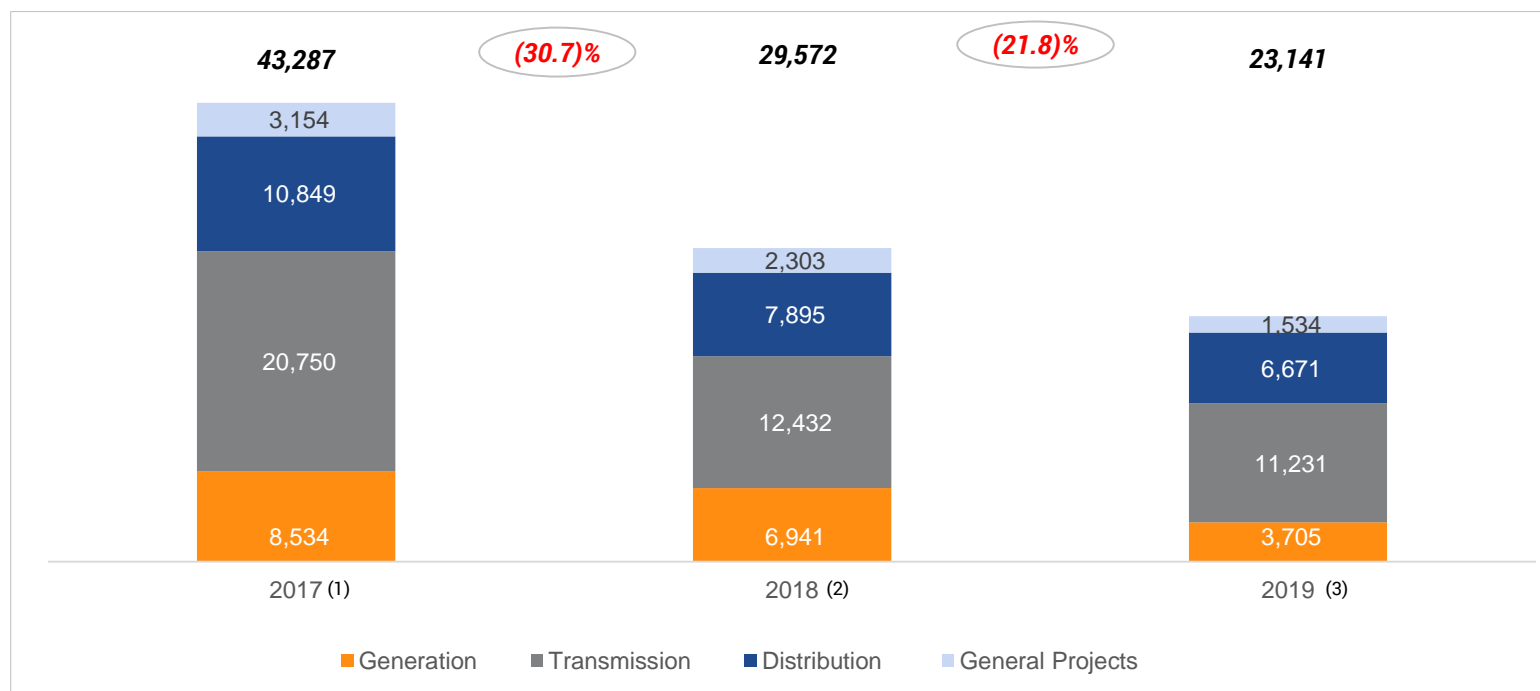
SAR million



- 21% YoY decrease in net profit in FY2019 is mainly reflecting the following
 - Higher depreciation costs of fixed assets and higher financing charges, this is despite the decrease in purchased power costs, operating and maintenance expenses, and general and administrative expenses, in addition to the increase in operating revenue which was positively impacted by the activation of the balancing account for the fiscal year 2019. The balancing account led to an increase of SAR 1.1 billion in the other operating revenue for 2019

Capital expenditures

SAR million



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.

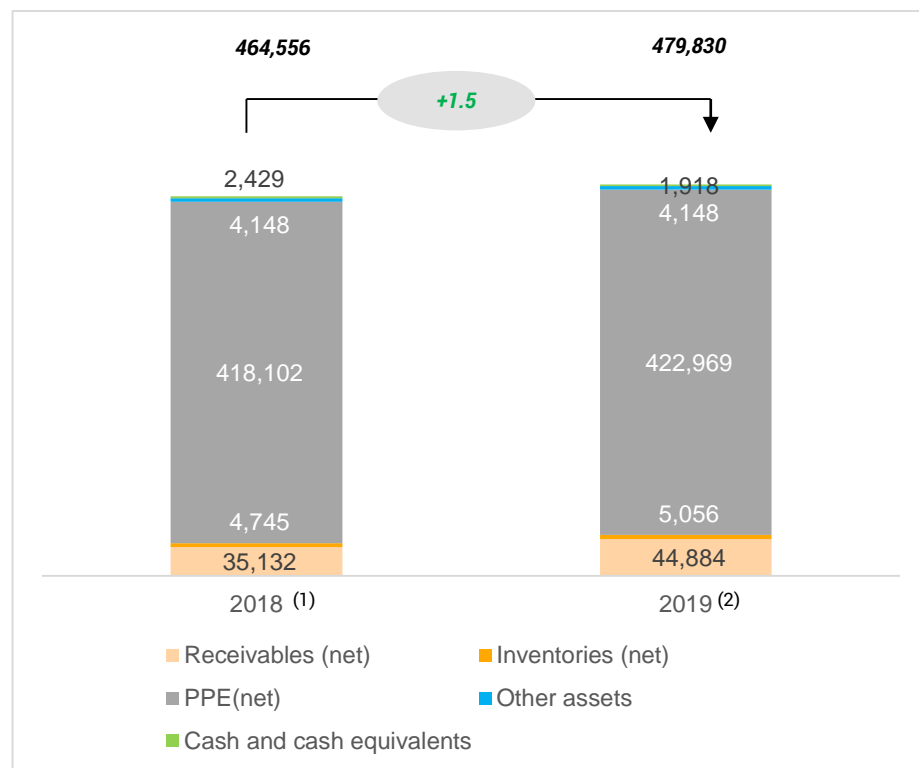
Key planned investments by SEC during 2020-2022 period includes:

- 3.8 GW generation capacity addition from SEC's existing generation project under development
- 8.6 GW generation capacity addition by the private sector
- 7.6K C.km of transmission lines
- About 125K C.km of distribution line
- 10 million smart meters.

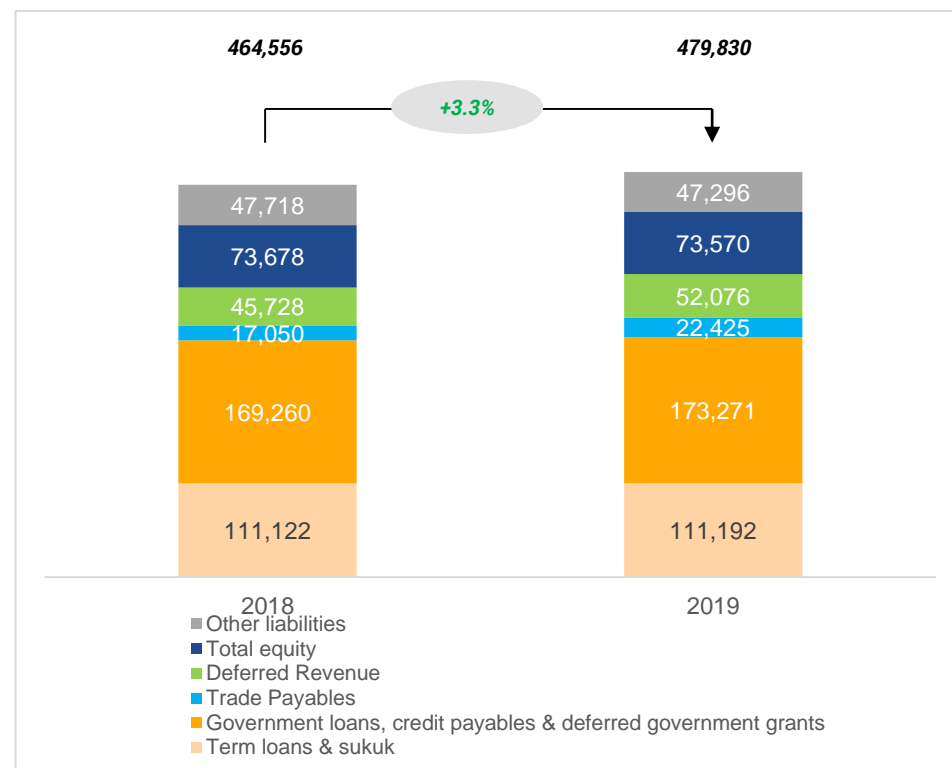
Balance sheet

SAR million

Assets split



Liabilities split



- The growth in the asset base reflects SEC's continuing investments into its generation, transmission and distribution capabilities. During FY 2019, SEC's asset base had grown 3.3% to SAR 479.8 billion (2018 end: SAR 464.6 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.

Key Messages Recap

1 Implemented tariffs reform reflects positivity on demand efficiency

2 Balancing account activation is expected to maintain the sector fiscal balance

3 Ongoing Capex rationalization is expected to reflect positively on SEC financial position

4 SEC's successfully achieves significant operational efficiency gains over the last few years

5 SEC sharpens focus on further improving customer services through digitalization

6 SEC is diversifying revenues through better utilizing its asset base (i.e. fibre optics network)

7 SEC's pursues to achieve further efficiency gains through implementing smart meters and smart grids

8 Growing population, urbanizations and expected KSA's GDP growth is expected to reflect positively on resuming modest consumption growth within the upcoming 2-3 years

Key investment highlights

1

Largest utility company in the MENA region⁽¹⁾ as the leading and incumbent generator and monopoly on transmission and distribution in the Kingdom of Saudi Arabia

2

Strong relationship with the Government of Saudi Arabia as a key stakeholder (majority owner⁽²⁾, regulator, key supplier, key off-taker, grantor of land and provision of financial and other support)

3

Strong credit ratings linked to Saudi Arabia's sovereign rating

4

Critical role in Saudi Arabia's Vision 2030

5

High level of operational excellence and prudent financial management

Q & A

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