

Saudi Electricity Company ('SEC')
Financial results for the six months ended 30 June 2017

Continued growth in customer base drives a 0.6% revenues growth, however net income significantly grows due to municipalities fees cancellation

Riyadh, 19 July 2017 – 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 2017.

Figures in SAR million	Quarterly Periods			Six Months Periods		
	Q2 2017	Q2 2016	% change	H1 2017	H1 2016	% change
Description						
Revenues	13,302	13,194	0.8%	22,222	22,089	0.6%
Gross Profit	2,691	2,791	(3.6)%	2,037	2,449	(16.8)%
Gross Profit Margin %	20.2%	21.2%	(1.0)pp	9.2%	11.1%	(1.9)pp
Operating Profit	2,925	2,817	3.8%	8,207	2,409	240.7%
Operating Profit Margin %	22.0%	21.3%	(0.7)pp	36.9%	10.9%	26.0pp
Net profit/losses	2,232	2,242	(0.5)%	7,167	1,444	396.3%
Reported Earnings/losses per share (SAR)	0.54	0.54	-	1.72	0.35	391.4%
EBITDA ⁽¹⁾	6,784	6,128	10.7%	15,792	8,954	76.4%
EBITDA Margin %	51.0%	46.44%	4.6pp	71.1%	40.5%	30.6pp
One-off items	n/a	n/a	n/a	5,888	-	n/a
Excluding one-off items						
Underlying EBITDA ⁽²⁾	n/a	n/a	n/a	9,904	8,954	10.60%
Underlying EBITDA Margin%	n/a	n/a	n/a	44.6%	40.5%	4.1pp
Underlying Net profit/losses ⁽³⁾	n/a	n/a	n/a	1,279	1,444	(11.4)%

(1) EBITDA = Net profit/losses + depreciation + net interest expense + Zakat expense

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

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

HIGHLIGHTS

- A slight growth YoY in total operating revenues during Q2 2017 and H1 2017 primarily driven by continued growth in customer base and higher transmission system revenues.
- Continued optimization of operations and maintenance costs, improvement in fuel efficiency and optimization of fuel mix partially offset higher operating costs arise from higher depreciation and purchased power costs, signifying SEC's rigorous efforts to control costs.
- EBITDA and net profit are significantly positively impacted by one-off items including :
 - 1) a substantial reversal of accrued historical municipalities fees of SAR 6.1 billion post issuance of a royal decree to cancel municipalities fees in Feb 2017; and
 - 2) this was partially offset by a charged one-off expense of SAR 232 million relating to employees early retirement plans under the company's human resources productivity improvement program.
- Major capital expenditure program continues. SAR 21.8 billion invested in capital projects and fixed assets during the first six months of 2017.
- SEC's Board recommends and the General Assembly approves a dividend payment for 2016 of SAR 0.70 a share, which is in line with the payout in previous years.
- SEC continues to be among 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 2017	% of total	H1 2016	% of Total	Change
Electricity Sales	19,691	88.6%	19,741	89.37%	(0.3)%
Meter reading, maintenance and bill preparation income	618	2.8%	587	2.66%	5.3%
Electricity Connection Tariff	1,223	5.5%	1,091	4.94%	12.1%
Transmission System Revenues	608	2.7%	410	1.86%	48.3%
Other Operating Revenues	82	0.4%	260	1.18%	(68.4)%
Total Operating Revenues	22,222	100.00%	22,089	100.00%	0.6%

- H1 2017 total revenues increased by 0.6% to SAR 22.2 billion, primarily driven by increased electricity connection tariff revenues due to 6% YoY growth in customer base and higher transmission system revenues.
- A slight decline of 0.3% in electricity sales in H1 2017 over corresponding period of 2016 is due to:
 - i) 0.4% YoY decline in overall electricity consumption and a change in the sales mix (see below). In H1 2017, SEC sold 127.8 TWh (H1 2016: 128.4 TWh) of electricity.

Customer base split by sales volume and relative revenue contribution						
Segment	Volume contribution %			Value contribution %		
	H1 2017	H1 2016	Change	H1 2017	H1 2016	Change
Residential	49.2%	46.8%	2.4pp	25.7%	25.2%	0.5pp
Industrial	17.2%	17.6%	(0.4)pp	19.9%	19.9%	-
Commercial	16.4%	16.3%	0.1pp	24.0%	23.5%	0.5pp
Governmental	13.0%	13.1%	(0.1)pp	27.3%	27.1%	0.2pp
Other	4.2%	6.3%	(2.1)pp	3.2%	4.3%	(1.1)pp

- Higher revenues of transmission system due to increased backup service/wheeling charges on major industrial facilities who have their own onsite captive generation and use SEC's transmission national grid to transmit power.
- 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.
- As end of H1 2017 SEC's customer base grew 6% YoY from 8.3 million to 8.8 million.

Cost of Sales

Item (SAR million)	H1 2017	% of total	H1 2016	% of total	Change
Fuel	4,099	20.3%	4,324	22.0%	(5.2)%
Purchased energy	3,642	18.0%	3,144	16.0%	15.8%
Operation and maintenance	5,057	25.1%	5,792	29.5%	(12.7)%
Depreciation ⁽¹⁾	7,386	36.6%	6,380	32.5%	15.8%
Cost of Sales	20,185	100.00%	19,640	100.0%	2.8%

⁽¹⁾ Depreciation relating to operating assets

- 5.2% YoY decrease in fuel costs reflecting saving from improved thermal efficiency to 36.4% in H1 2017 (H1 2016: 35%) and continued shift in the fuel mix to lower consumption of the diesel and light crude oil fuel types as a feedstock.
- 15.8% YoY increase in purchased power cost mainly driven by higher output from IPPs generation. This as opposed to temporary outage incidents for some of the IPPs during H1 2016.
- 12.7 YoY decrease in operations and maintenance costs mainly arose from optimized material and contracts costs and municipalities fees cancellation.
- 15.8% increase in depreciation reflecting the growth in the operating asset base: projects amounting to SAR 56 billion were completed and became operational over the course of the last 12 months.

EBITDA, Margins, and Net Profit/ Losses

- EBITDA up 76.4% to SAR 15.8 billion (H1 2016: SAR 9 billion) and significantly positively impacted by one-off items including:
 - 1) a substantial reversal of accrued historical municipalities fees of SAR 6.1 billion post issuance of a royal decree to cancel municipalities fees in Feb 2017; and
 - 2) this was partially offset by a charged one-off expense of SAR 232 million relating to employees early retirement plans under the company's human resources productivity improvement program. The program is intended to improve and align human resources with business requirements.
- Excluding the impact of the aforementioned one-off items in H1 2017, the growth in EBITDA would be 10.6%, signifying improvement in operating performance.
- Reported net profit up 396.5% to SAR 7,2 billion (H1 2016: SAR 1.4 billion); implying a significant positive net impact from the aforementioned on-off items in H1 2017. Excluding these on-off items, H1 2017 would reported net profit on an underlying basis of SAR 1.3 billion, implying 11.4% decline compared to corresponding previous year period.

Cash flow and Capital Expenditure

- Cash flow from operations for H1 2017 is SAR 18.3 billion (H1 2016: SAR 16.2 billion), an increase of 12.5%. The increase is principally due to improved working capital management driven by lower inventory and prepaid expenses.
- Overall SAR 23.3 billion in H1 2017 (H1 2016: SAR 28.6 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 2017 of SAR 5.3 billion (H1 2016: SAR 11.4 billion) is primarily from proceeds from borrowings (totaling SAR 10.7 billion) that is partially offset by repayments of loans and Sukuks of SAR 4.8 billion and dividend payment of SAR 570 million relating to 2015.
- SEC closed H1 2017 with a gross cash position of SAR 1.8 billion (H1 2016: SAR 1.3 billion).

Asset and Equity Base

- The growth in the asset base reflects SEC's continuing major investments into its generation, transmission and distribution capabilities. During the six month period ended on 30 June 2017 SEC's asset base had grown 4.7% to SAR 441.2 billion (2016 end: SAR 421.6 billion), with shareholders' equity growing 10.1% to SAR 72.2 billion during the same period (2016 end : SAR 65.6 billion).

IFRS Conversion.

- SEC has adopted the International Financial Reporting Standards (IFRS) effective 1 January 2017. Accordingly, some changes have been made to SEC's financial statements on a number of items in the measurement, presentation and disclosure method for the current and comparative periods in accordance with the accounting policies applied in accordance with International Standards For the financial reporting approved in Saudi Arabia and other publications and standards approved by the

Saudi Organization for Certified Public Accountants. For further details, note 5 (Application of IFRS for the first time) can be read in the notes of the interim consolidated financial statements for the period ended 30 June 2017.

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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 106.2 bn (US\$ 28.3bn) as at 30 June 2017, 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 8.8 million customers in Saudi Arabia. Saudi Arabia is one of the Top 20 economies globally whose demand for electricity is growing 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 period ended 30 June 2017, please refer to the corporate website: www.se.com.sa

End of Release