

FY2018 Earnings Call Presentation

Date : Wednesday, March 20, 2019

Time : 03:30 pm (Saudi)
04:30 pm (Dubai)
12:30 pm (London)
08:30 am (New York)

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Agenda

- 1. SEC Overview**
2. Key Business Highlights
3. Financial Performance

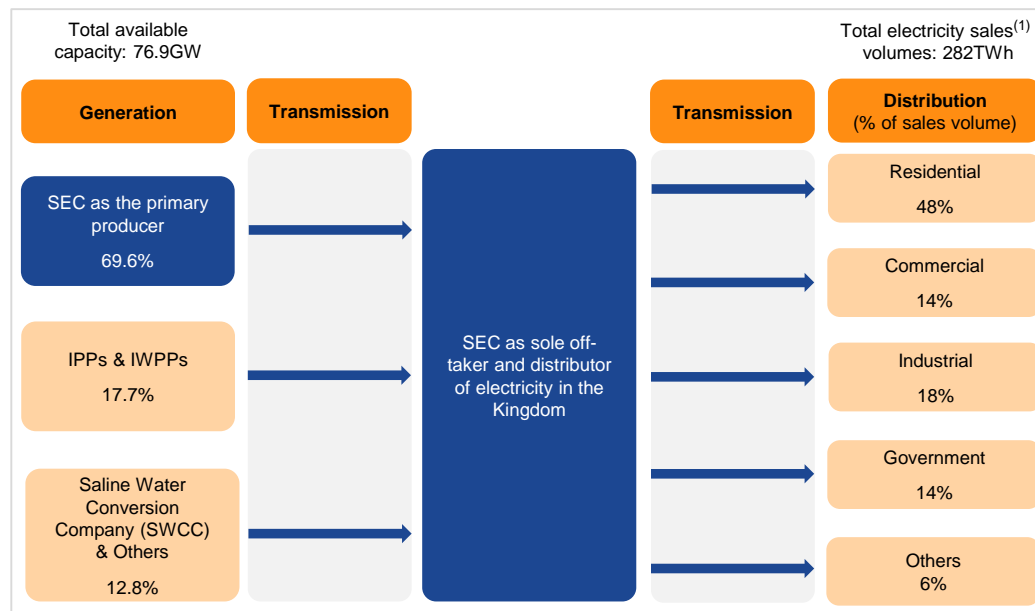
SEC is the national provider of electricity in the Kingdom

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% indirectly owned by the Kingdom of Saudi Arabia (74% owned by the Public Investment Fund and 7% by Saudi Aramco)
Ratings	A2 (Moody's) / A- (S&P) / A (Fitch)
Total assets⁽¹⁾	SAR 464.8 billion <i>USD 124 billion</i>
Revenues⁽¹⁾	SAR 64.1 billion <i>USD 17.1 billion</i>
Net income⁽¹⁾	SAR 1,8 billion <i>USD 476 million</i>
Power generation capacity⁽¹⁾	53,534 MW
Power transmission network⁽¹⁾	83,714 c.km
Power distribution network⁽¹⁾	666,374 c.km
Fibre optic network⁽¹⁾	72,857 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

(1) as per the financial statements for year ended 31 December 2018 (unaudited)

Exchange rate: 1 USD = 3.75 SAR

2018 key developments

1 | 2018 tariffs increase implemented

- 2018 tariffs increase primarily impacted residential and commercial segments
- added SAR14.7bn of new electricity sales revenues, however it was implemented as a pass through government fees.

2 | New Board elected by AGM

- Chaired by ministerial level PIF representative (H.E. Dr. Khaled Al Sultan)
- new Board comprise 5 members representing PIF, 3 members representing private shareholders, and one member representing Saudi Aramco
- Some of board members hold senior positions at key government owned entities.

3 | A Cabinet resolution settles dispute with Saudi Aramco regarding its dividends.

- SEC will include Saudi Aramco's shares among beneficiaries in any future dividends might be due

4 | AGM approves the establishment of one power generation subsidiary.

- SEC AGM approved the established of one power generation subsidiary which will assume ownership and responsibility of generation assets

5 | Successful return to international debt capital markets with a US\$2.0bn Sukuk issuance

- Strong demand with 3.5x oversubscribed book in excess of US\$7bn for both tranche issued (long 5y, 10y).
- A high quality mix of global institutional investors from Asia, Europe and the Middle East participated in the transaction

6 | SEC Board recommends for 2018 a dividend of 0.70 SAR per share, in line with previous years

- SEC's Board in its meeting held on 12th March 2018, has recommended to the Shareholders' AGM a payment of a cash dividend to shareholders for the fiscal year 2018 of 0.70 SAR per share.

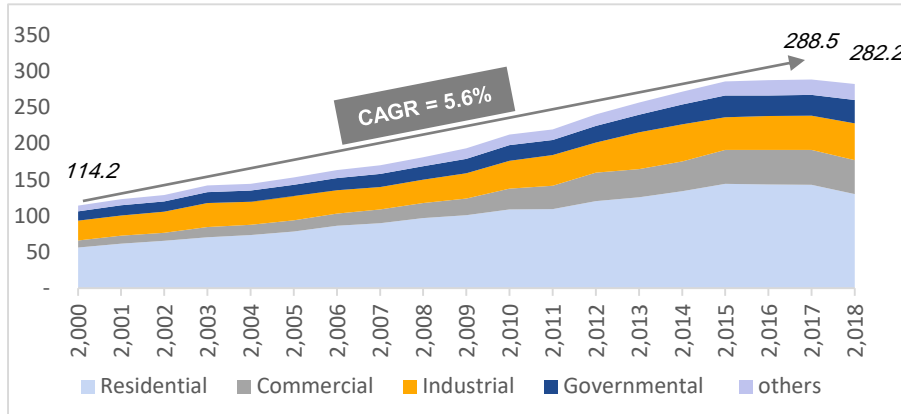
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Pressure to add capacity easing, we continue to invest in T&D

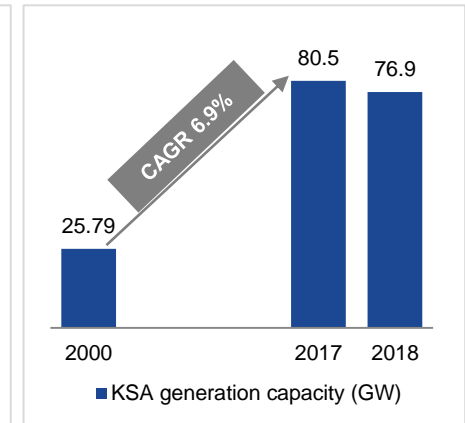
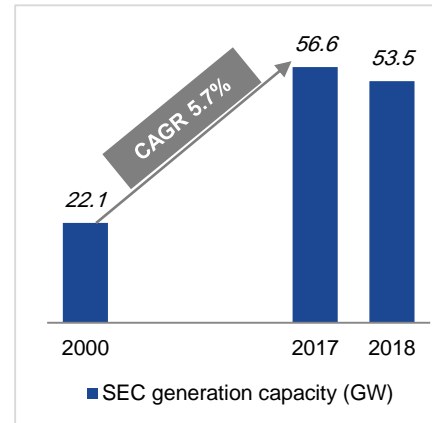
Electricity consumption is stabilizing...

TWh

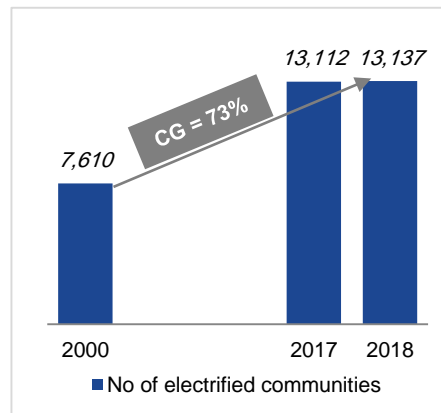
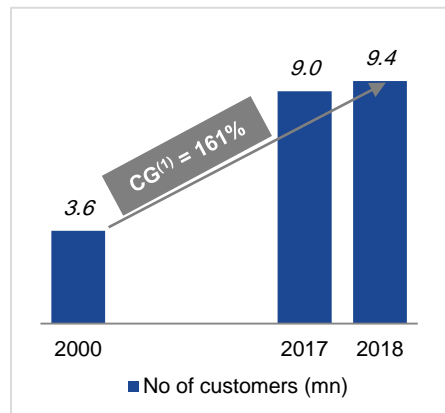


Generation capacity growth abating...

GW

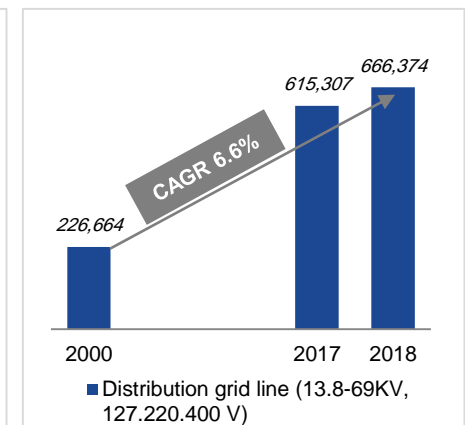
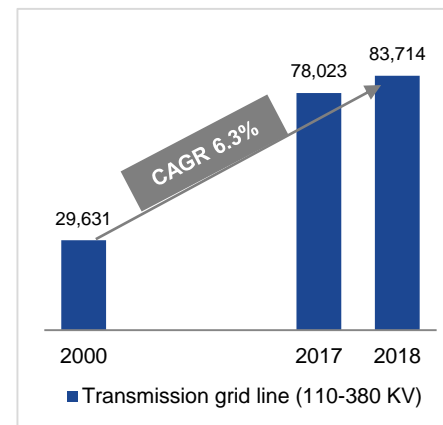


We continue to grow our consumer base and electrified communities...



Growth in network lines to continue

c.km



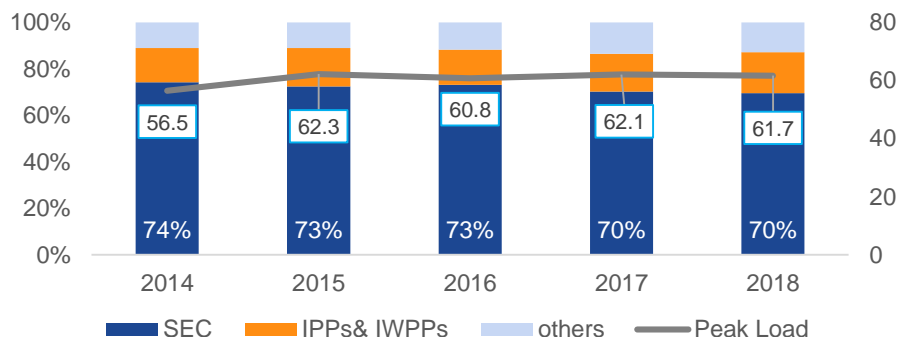
(1) Cumulative growth

Generation overview

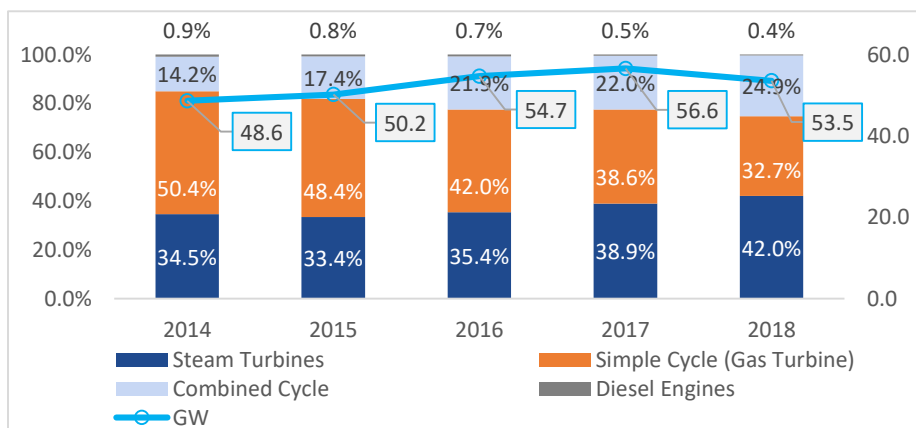
SEC is the largest electricity provider in the Kingdom with assets representing c.70 % of the total installed generation capacity

- During 2018, SEC has added 1,146 MW of new generation capacity.
- Consumption rationalization and demand efficiency drives plateauing peak load and demand curve
- As of 2018 end, SEC had generation capacity of 53.5 GW and owned and operated 40 power plants throughout the Kingdom
- improvements of thermal efficiency and fuel mix yields significant fuel saving for SEC and the kingdom. SEC achieved saving of 52 MMBOE and reduced diesel consumption by 63 MB during the last 3 years

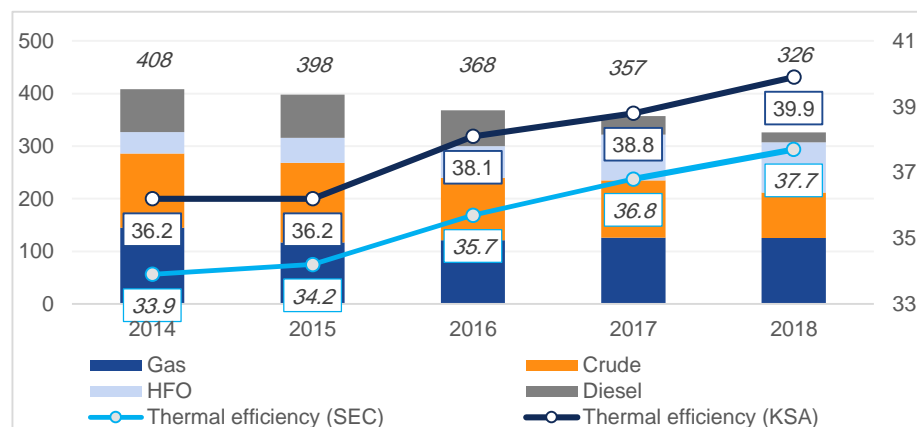
SEC's contribution to the Kingdom's power generation GW % (lhs) and GW (rhs)



Shift in technology mix: SEC's capacity mix % (lhs) and GW (rhs)



Improving in efficiency & reducing fuel consumption MMBOE (lhs) & % of efficiency (rhs)



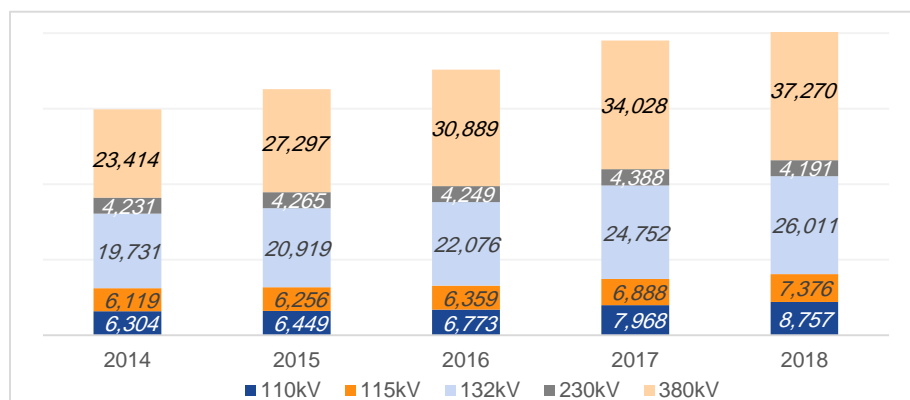
Sources: the Company's annual reports, Moody's and S&P's credit research reports, Bloomberg, as of 6/3/2018

Transmission overview

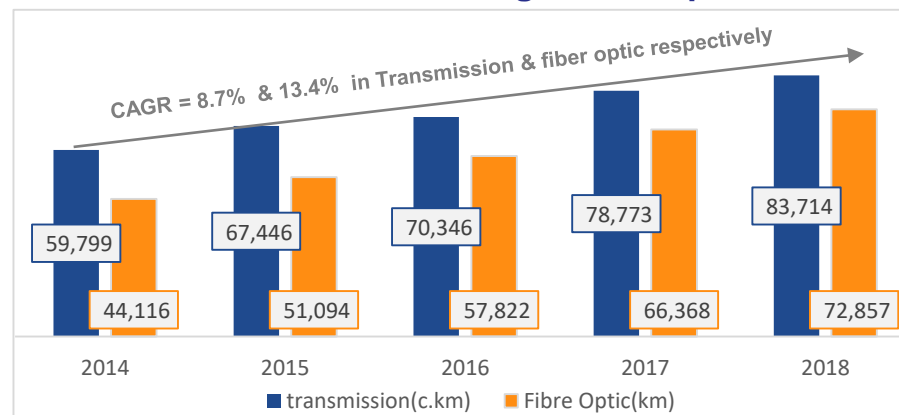
SEC has a regulated monopoly position for the transmission of electric power throughout the Kingdom and its transmission network currently connects almost 99% of the Kingdom

- As of 2018 end, SEC's electricity transmission network arrived approximately at 83,714 c.km, in 2018 SEC added 4,427 c.km of new transmission lines.
- The Kingdom's four operating regions are almost fully interconnected through the transmission network and as at 2018 end, interconnectivity of the transmission network was almost 99% with major grids in all four regions connected
- SEC bolstered its extra high voltage lines and transformers capacities
- As part of the Government's initiative to promote greater competition in the electricity industry, the transmission business has been transferred into a wholly-owned subsidiary of SEC – National Grid S.A., an independent system operator within the group – to oversee the development plan for the electricity system

SEC transmission grid line network per voltage level c.km

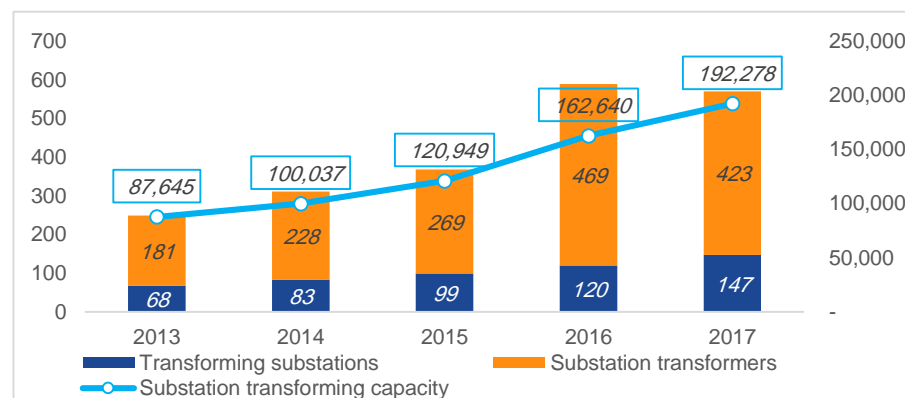


SEC transmission network length development



Extra high voltage transforming capacity evolution

Number of transformers / substations (rhs) & MVA (rhs) – 380kV

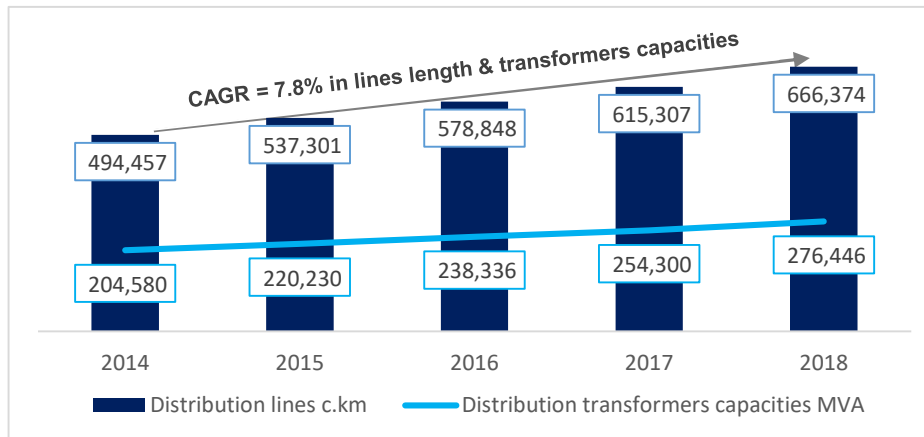


Distribution overview

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

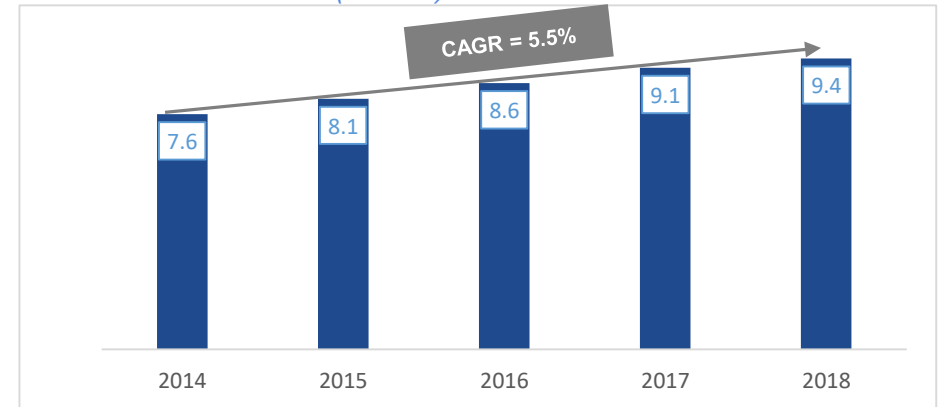
- SEC's distribution business is responsible for medium and low voltage power lines, metering, billing, collection of payments and electrical service connections
- As of Q4 2018 end, SEC's total circuit length for its distribution network stood at 666,374 c.km, which comprises of medium-to-low voltage power distributions lines and low voltage lines of customers connections
- During 2018, SEC added 33,978 c.km of new distribution lines and connected 393K new customer
- SEC installed 30,470 distribution transformers with total capacity of 17,169 MVA into its distribution network in 2018.
- 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



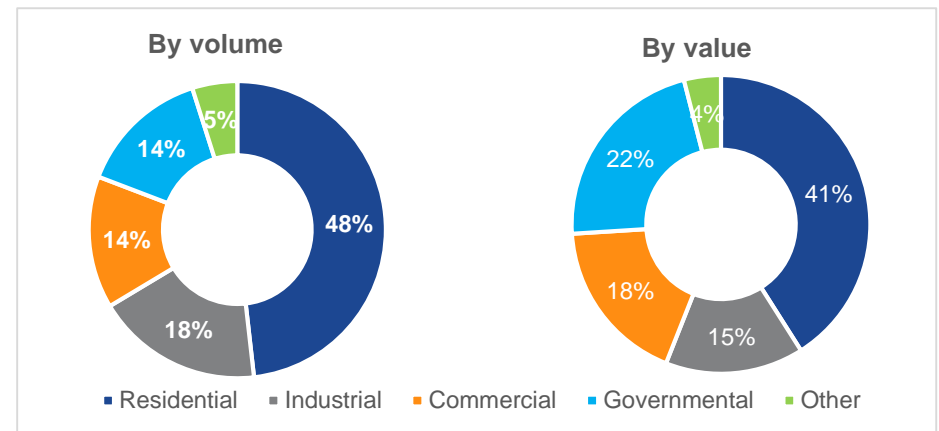
Population coverage via SEC's distribution network

Number of customers (million)



2018 consumption split

Volume and value contribution



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

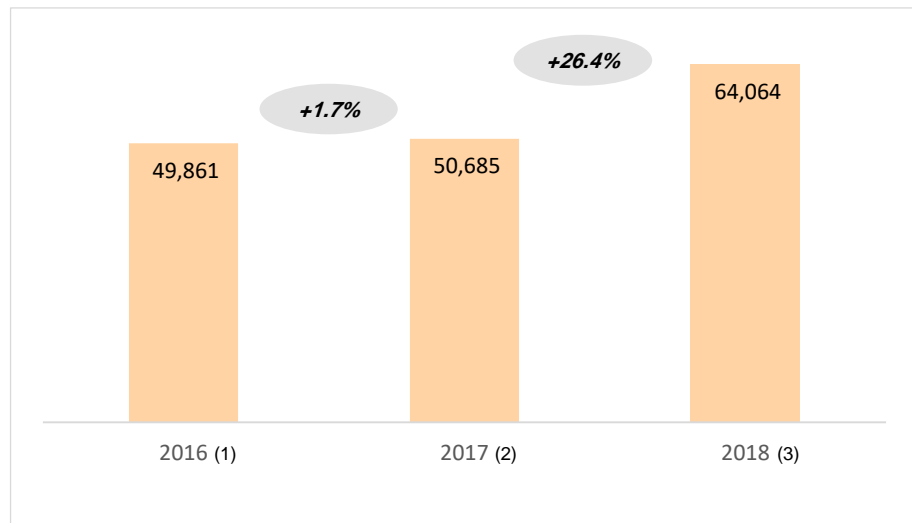
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Financial performance highlights

Revenues

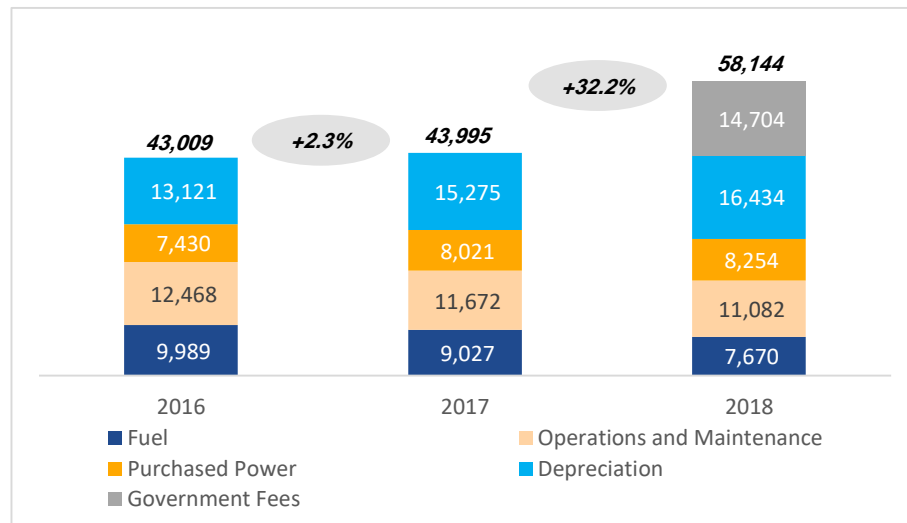
SAR million



- 26.4% YoY growth mainly driven by 31.2% YoY growth in electricity sales revenues.
- growth in electricity sales revenues is driven by the following:
 - the tariff increase effected in Jan 2018, which primarily impacted the residential and commercial segments
 - increase in government and industrial consumption part.
 - continued growth in subscribers base
 - 2.2% YoY decline in the overall sold energy to 282.1 Twh (2017: 288.5 Twh).
- IFRS 15 adaption had a SAR1.34bn impact on electricity connection fee revenues. This impact was partially offset by a 4% YoY in subscribers base. The net decline in electricity connection fee revenues was about SAR1bn

Costs of sales

SAR million

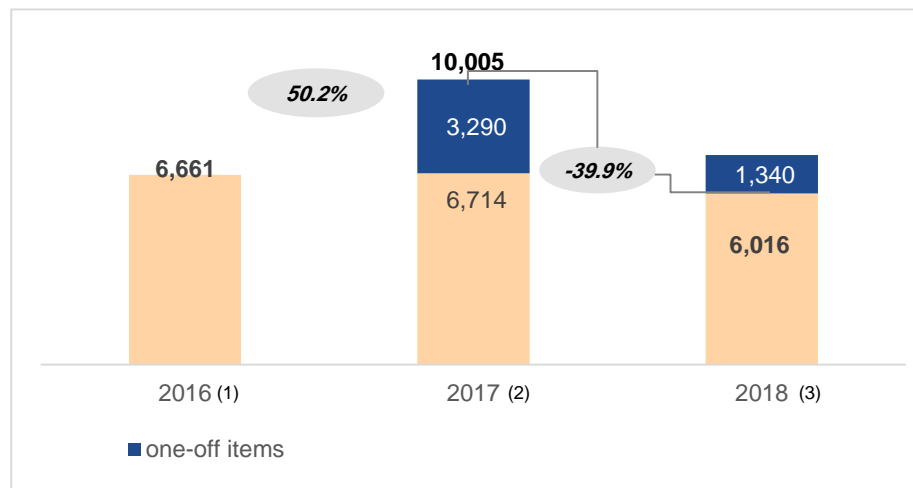


- Operational efficiency improvement trend continues as demonstrated on the decline trend in fuel and operations and maintenance costs.
- Continued improvement in overall thermal efficiency, which arrived at 39.9% in 2018 (2017: 38.8%).
- Diesel displacement and improved SEC's thermal efficiency (2018:37.7% vs 2017:36.7) delivers SAR692mn of efficiency gains.
- 5% YoY decrease in operations and maintenance costs mainly arrived from lower material and contracts cost.
- SAR 44.1bn of projects added to the depreciable operating assets base increases depreciation 7.6% YoY
- Reduction in fuel and O&M fully offset increase in purchased power and depreciation costs and alleviate the impact of application of IFRS15, and lower consumption on gross profit

Financial performance highlights

Operating profit

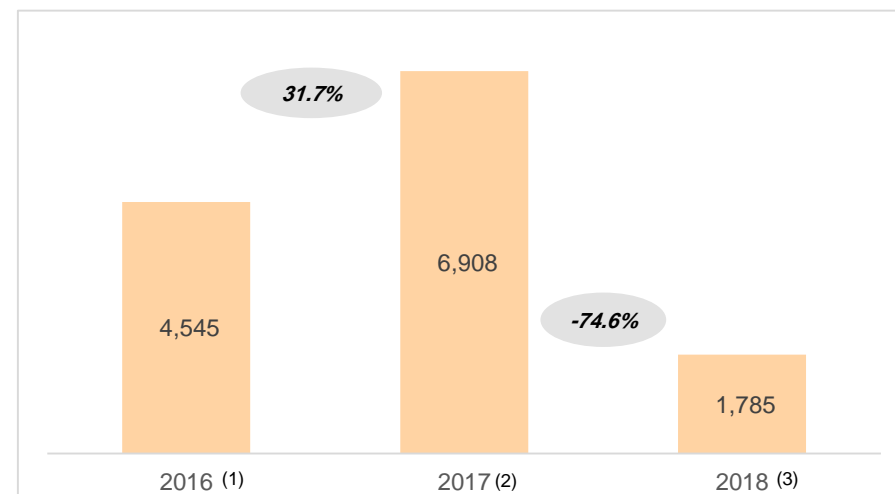
SAR million



- One-off items on both 2017, 2018 impacted reported operating profit
 - 2017 included one-off items related to municipal fee reversal of SAR6.1bn and SAR2.8bn a provision expense for HR productivity improvement program.
 - 2018 included a one-off impact of SAR1.34 bn from IFRS 15 first time application.
- Operational efficiency initiatives alleviated the impact of the one-off items, and lower consumption in 2018
- Normalized operating profit for one-off items in both 2017 and 2018 reveals a 9.5% YoY improvement in operating profit.

Net profit

SAR million

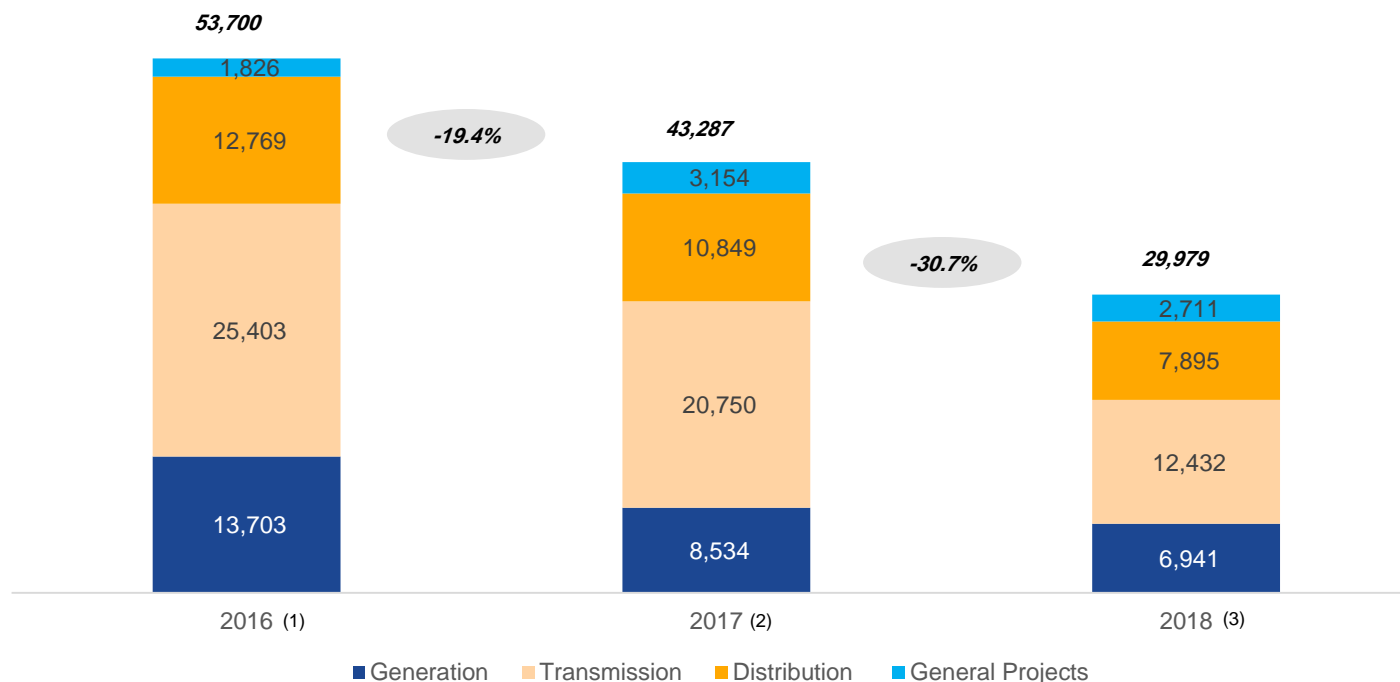


- 74.6% YoY decline in net profit is reflecting the following :
 - Consumption rationalization form residential and commercial segments, which was partially offset by increase government and industrial consumption
 - The aforementioned one –off items
 - Higher finance charges due to increase in borrowing and lower capitalized interest.
- Continued improvements in operational efficiency alleviate the impact of application of IFRS15, higher finance charges and lower consumption.

Financial performance highlights

Capital expenditures

SAR million

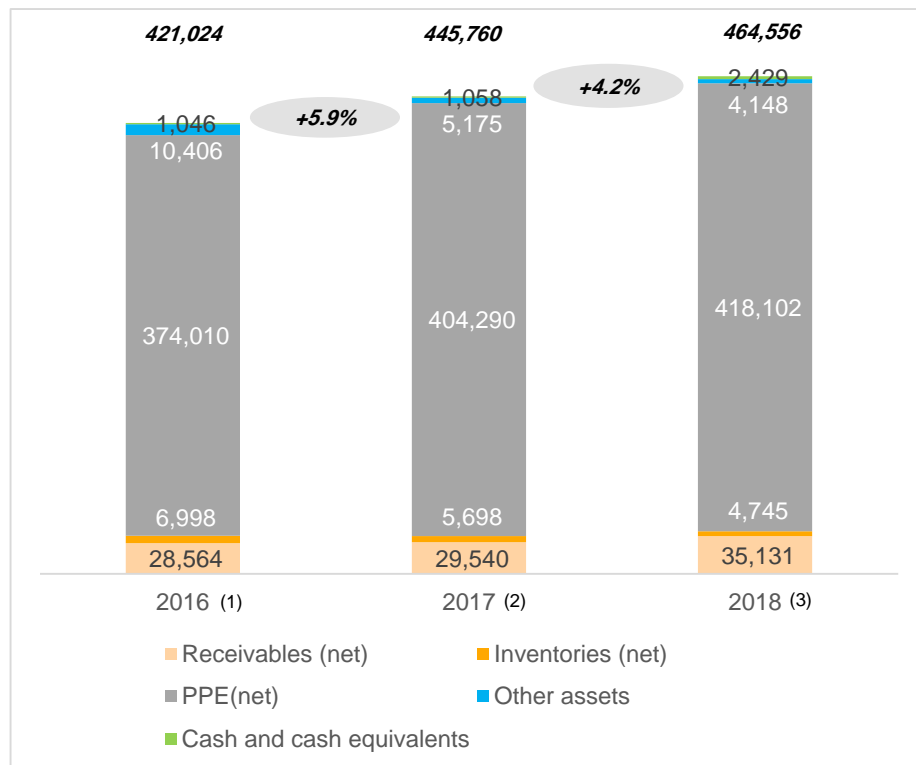


- Capex intensity eases in line with the current evolving demand trend in peak load and subscribers additions
- The upcoming investment will focus on efficiency and meeting the required growth in transmission and distribution network
- SEC retains full flexibility to prioritize its capital spending in line with the availability of funding

Financial performance highlights

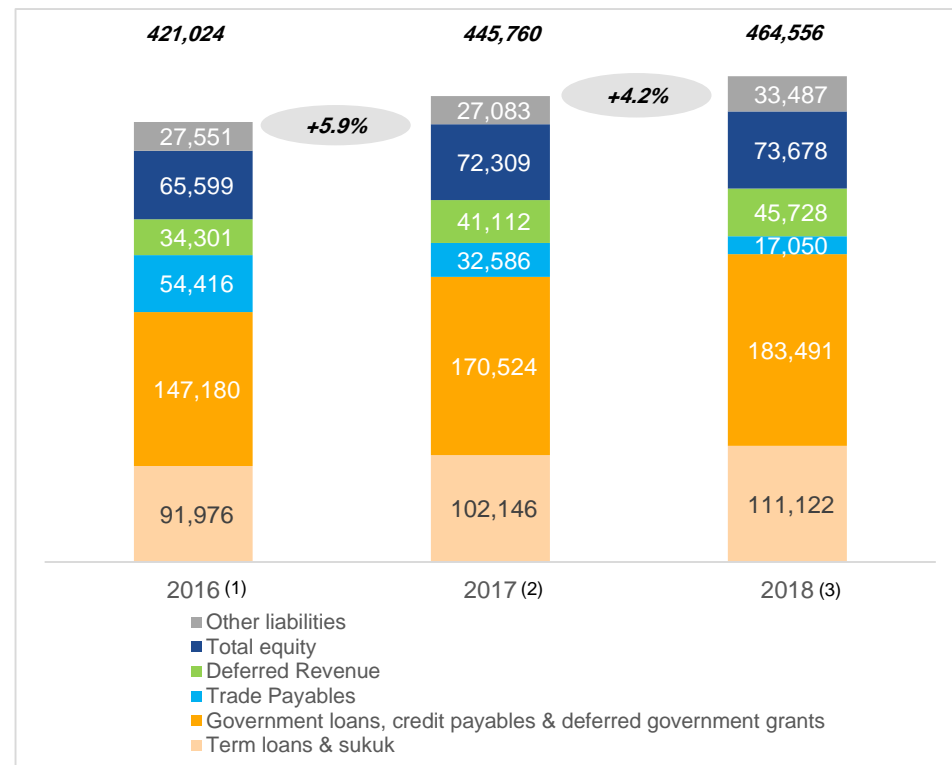
Assets split

SAR million



Liabilities split

SAR million



- As at 2018 end, SEC grew its asset base by 4.2% year-to-date (following a 5.9% year-on-year growth between 31st December 2016 and 31st December 2017) reflecting the company's continuing major investments into its generation, transmission and distribution capabilities and accounting for the impact of IFRS 9.
- As at 2018 end, c.40% of SEC's total liabilities comprise soft loans and credit payables the Government of Saudi Arabia (over 38% as at 31st December 2017) reflecting SEC's strong and continued government's support over the 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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