

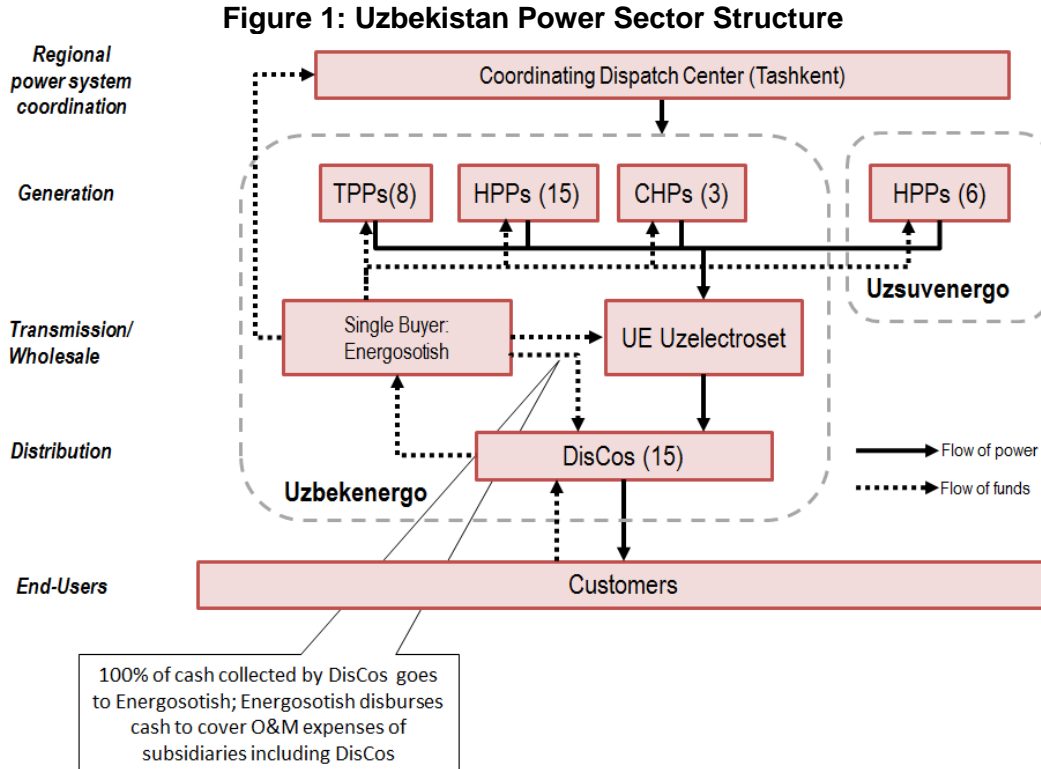
FINANCIAL PERFORMANCE AND PROJECTIONS

A. Introduction

1. An analysis of the historical financial performance and financial statements projection of the State Joint-Stock Company Uzbekenergo (Uzbekenergo) was conducted for the Takhiatash Power Plant Efficiency Project (the project). These reports were reviewed as part of this assessment in order to identify major changes/ deviations in accordance with relevant ADB guidelines.

B. Background and Methodology

2. Uzbekenergo is a state-owned vertically integrated monopoly with 52 subsidiaries in the power sector of Uzbekistan. It was established under the Cabinet of Ministers and Ministry of Finance. Figure 1 illustrates the operation of Uzbekenergo in the country's power sector. Transmission, dispatch and network are operated by UE Uzelectroset which is a wholly-owned subsidiary of Uzbekenergo. Uzsuvenergo, the other state-owned utility company, owns 6 hydro power plants and sells 100% of its power generated to Uzbekenergo.



CHP = combined heat and power, DisCos = distribution companies, HPP = hydro power plant, = TPP = thermal power plant
 Source: PPTA Consultants.

3. As part of its long-term sustainability development program of Uzbekenergo, the company has undergone a series of organizational restructurings. One of the key initial steps was the creation of the Executive Office at the parent company level. The Executive Office is a standalone unit within the parent company and is designed to serve as the entity that carries the consolidated financial results of the entire company. Through LLC Energosotish as showed in Figure 1, the Executive Office acts as the single buyer transacting with the generation,

transmission and distribution companies owned by Uzbekenergo, as well as Uzsuvenergo. It collects tariff income from the distribution companies and pays the generation and transmission companies for the power supply and services. The accounts of the Executive Office therefore, consolidate the revenues and expenses of the Uzbekenergo operations.

4. The major deviation from the previous reports is therefore that as a result of this evolving development, the financial statements that this analysis is based on are different from the financial statements the previous analyses by ADB were based on. The previous assessment reports were based on the combined financial accounts of 33 (out of the total 52) subsidiaries available then. This analysis, in contrast, is based on the financial statements of the Executive Office of Uzbekenergo which covers the same 33 entities but presented with reclassified accounting entries.

5. Key reclassifications are presented as below:

- The accounts of the Executive Office capture the income and expenses of the entire operation of Uzbekenergo. However the operational revenue of the Executive Office only includes sales of electricity while the proceeds from sale of heat and other operations are recorded in the subsidiaries' accounts;
- Non-core operation companies such as the design institutes, manufacturing companies and coal mining operations are not included in the accounts of the Executive Office;
- The Executive Office only accounts for assets which reside in the headquarter of Uzbekenergo in Tashkent, equities of the subsidiaries and new long-term large capital investments (including this Project);
- The equities of the subsidiaries held by Uzbekenergo are accounted for as Long-Term Investment whereas in the previous combined financial statements they were recorded as fixed assets;
- All past accrued accounts receivables and payables are only included in the subsidiaries' accounts and are classified as Other Receivables and Other Payables in the accounts of the Executive Office;
- Construction of large generation, transmission and distribution projects are accounted for as turn-key contracts (Long-Term Receivables) in the Executive Office's accounts. As soon as the projects are completed, these assets are transferred to the subsidiaries which would result in an increase in the Long-Term Investment of the Executive Office;
- Liabilities resulted from the construction projects remain in the accounts of the Executive Office; and
- Smaller investment projects and/or working capital are recorded in the subsidiaries' accounts and financed by the Executive Office.

C. Historical Financial Performance

6. Financial performance of Uzbekenergo has been analysed for the period of 2008-2012. Uzbekenergo has operated profitably over the past 5 years. Profitability grew between 2008 and 2010 but decreased thereafter. Gross profit margin has decreased from 18% in 2010 to 8% in 2012, largely due to reduced operational efficiency as a result of aging plants and higher maintenance costs. Limited by capacity, sales volume growth has also been slow. Average annual growth of electricity sales was approximately 1.5%. The situation has however improved in 2012 with the addition of new generation facility in Navoi and is expected to improve further with the commissioning of other new facilities including ADB's Talimarjan Power Project, Advanced Electricity Metering Project and this Project. Table 1 shows the historical sales volume of electricity.

Table 1: 2008-2012 Electricity Sales Volumes (MWh)

	2008	2009	2010	2011	2012
Electricity Sales	38,654	39,691	40,074	40,505	42,260
Annual Increase, %	-1.5%	2.7%	1.0%	1.1%	4.3%

Source: Uzbekenergo.

7. The other main factor contributing to the profitability of Uzbekenergo is the comparative growth in electricity tariff and gas price. Uzbekenergo benefits from a low price of natural gas which accounts for approximately 75% of its total generation costs.¹ However, as shown in Figure 2 below, despite that tariff is adjusted by the Ministry of Finance twice each year and that average annual tariff increase over the past 5 years is between 12% (2010) and 22% (2008), it has not always matched the growth of gas price and has been directly impacting the profitability of the company.

Figure 2: Percentage Growth of Electricity Tariff vs. Gas Price

Sources: Uzbekenergo statistics and PPTA consultants.

8. As stated in the previous financial performance analyses conducted by ADB, Uzbekenergo had inherited a significant amount of accounts receivables and accounts payables from the Ministry of Energy and Electrification. Also due to its relatively low collection rate, accounts receivable has increased by approximately SUM 300-400 billion per annum (about 10% of annual sales revenue). However situation has improved significantly since 2012 as a result of gradually improving collection management practice. It is estimated that collection rate will reach 95% within the next 2 years. Resolution on treatment of past overdue (i.e. more than 3 years) accounts receivables and payables has not been reached.

9. The cashflow of Uzbekenergo has eroded significantly in the past two years from a net cashflow of SUM 217 billion in 2010, to negative SUM 4 billion in 2012 mainly due to its recent investments as well as tax payment. Although the net cashflow from operating activities is steadily increasing, a negative net cashflow still presents a significant potential liquidity risk in the near term. However with improving collection rate and commissioning of new generation facilities as well as other rehabilitated infrastructure, it was indicated by the management of

¹ The price paid by Uzbekenergo in December 2012 was SUM 128 per cubic meter (US\$65 per thousand cubic meter).

Uzbekenergo that such potential liquidity risk would remain short-term and may be mitigated by short-term financing facilities with local banks.

D. Key Assumptions for Financial Projection

10. A conservative demand forecast used by Uzbekenergo for its budgeting purposes has been applied for the financial projection. Estimated country electricity demand growth is an average 1.3% per annum.

Table 2: Assumptions: Electricity Supply and Sales

	2013	2014	2015	2016	2017	2018	2019	2020
Electricity generation, MWh	53,500	54,570	55,116	55,392	55,946	56,505	57,070	57,641
Technical Losses, %	18.6%	18.5%	17.3%	16.9%	15.9%	14.4%	13.6%	13.9%
Electricity Sales, MWh	43,532	44,464	45,556	46,021	47,031	48,392	49,318	49,612
Annual increase, %	3.0%	2.1%	2.5%	1.0%	2.2%	2.9%	1.9%	0.6%

Sources: ADB and PPTA consultant estimates.

11. Table 3 presents the major capital expenditures approved by the government for Uzbekenergo for the period of 2013-2018 for the modernization and expansion of electricity generation and transmission capacity. Capital expenditure in 2015 will peak and reach approximately US\$2 billion with the construction of plants in Talimarjan, Turakurgan, Takhiatash and Samarkand etc. in progress.

Table 3: Uzbekenergo's Capital Expenditures and Financing Plan for 2013-2018
(\$ million)

Projects	Total Cost	IFI Financing	Gov. /Taxes	UFRD	Own Funds
Talimarjan CCGT	1 280.00	650.00	256.00	250.00	124.00
Turakurgan	1 000.00	650.00	-	250.00	100.00
Navoi CCGT	515.69	347.00	59.95	100.00	68.69
Tashkent CCGT	511.90	220.00	102.38	76.20	113.32
Samarkand Solar	333.00	90.00	62.30	155.00	25.70
Takhiatash CCGT	700.00	300.00	110.00	270.00	20.00
Angren – Rehabilitation	242.80	165.60	48.56	-	28.64
AEM	803.82	680.00	-	-	123.82
Kaskad HPPs (5 projects)	279.02	181.09	55.80	-	42.13
Other medium-scale projects	470.67	431.42	24.54	35.00	119.96
Total	6,136.90	3,514.91	719.54	1,136.20	766.25

Source: Uzbekenergo.

12. Terms for the financing plan applied are presented in Table 11 as below. Average depreciation rate of 8% was applied to fixed assets and income tax of 17% was used in the projection. It was also assumed that revenue collection would improve as a result of the smart metering program.

Table 4: Financing Terms for the Borrowings

Financier	Loan period	Grace period	Interest rate
Commercial bank (local) loans	12	3	5.00%
IFI loans (ADB, WB, JICA, IDB, Eximbank)	20	5	2.55%
Fund for Reconstruction and Development (UFRD)	24	1	2.55%

Sources: ADB PPTA consultants estimates.

E. Financial Projections and Conclusion

13. The projected financials of Uzbekenergo suggests that the company will continue to operate profitably throughout the forecasted period. Return on equity will remain at a satisfactory level of more than 30% over the forecasted period. Debt service coverage ratio will decrease to 1.2-1.3 in 2015 and rise again to above 2.0 thereafter. As mentioned earlier, the cashflow position of Uzbekenergo until 2015 will be susceptible to the impending capital expenditure programs. The levels of revenue collection and operational efficiency will have a direct impact on the cashflow position. Self-financing ratio will be above 45% in the next five years. The combined historical and projected income statement, balance sheet and cashflow statement are presented in Table 5, 6 and 7.

14. Uzbekenergo's financial performance is also highly sensitive to gas prices. Gas price increases should be factored into electricity tariff increases in order to ensure adequate cashflow for business operation and financing of investments. Uzbekenergo agrees to comply with financial covenants which will be set out in the loan agreement. Uzbekenergo will also cover market risks including adequate debt servicing, inflation, foreign exchange and interest risks.

Table 5 Historical and Projected Income Statement of the Executive Office of Uzbekenergo

Income Statement, UZ S Billion	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Operating Revenue													
Electricity Sales	1,492	1,752	2,067	2,486	2,704	3,601	4,462	5,525	6,336	7,300	8,423	9,586	10,735
Heat Sales	0	0	0	0	0	0	0	0	0	0	0	0	0
Revenue from Other Operations	0	0	0	0	0								
Total Operating Revenue	1,492	1,752	2,067	2,486	2,704	3,601	4,462	5,525	6,336	7,300	8,423	9,586	10,735
Operating Expenses													
Cost of Goods Sold	1,241	1,479	1,647	2,125	2,394	2,731	3,073	3,490	4,350	5,196	5,830	6,673	7,462
Other Operating Expenses	21	32	41	64	97	106	115	127	141	157	174	193	214
Total Operating Expenses	1,263	1,511	1,687	2,189	2,491	2,837	3,189	3,617	4,491	5,352	6,003	6,866	7,676
EBIT	229	241	380	297	212	764	1,274	1,908	1,845	1,948	2,419	2,720	3,059
Interest Expense	4	8	8	12	23	30	46	150	207	252	288	305	324
Operating Revenue						734	1,227	1,758	1,638	1,696	2,132	2,415	2,735
Foreign Exchange Losses	2	5	29	45	42	46	51	55	61	66	73	80	87
Other income from financial operations	1	24	48	65	42	46	50	55	60	66	72	79	86
Net Income before taxes	224	253	391	306	189	734	1,227	1,758	1,637	1,695	2,131	2,414	2,735
Less: Taxes	40	41	63	50	31	125	209	299	278	288	362	410	465
Net Income after taxes	184	212	328	255	157	609	1,018	1,459	1,359	1,407	1,769	2,004	2,270

Source: Uzbekenergo.

Table 6 Historical and Projected Balance Sheet of the Executive Office of Uzbekenergo

Balance Sheet, UZS Billion	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
ASSETS													
Current Assets													
Cash and cash equivalents	1	17	233	59	60	222	582	746	1,435	2,309	3,415	4,880	6,383
Accounts receivable - customers	7	11	11	17	14	19	23	29	33	38	44	50	56
Other receivables	1,315	1,750	2,080	2,401	2,492	2,729	2,988	3,272	3,583	3,923	4,296	4,704	5,151
Inventories	0.04	0.02	0.04	0.04	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05
Deferred expenses & prepayments	11	8	33	118	109	55	-	-	-	-	-	-	-
Total Current Assets	1,335	1,786	2,357	2,596	2,675	3,025	3,594	4,046	5,051	6,270	7,754	9,634	11,590
Long-Term Investments	442	630	1,192	1,212	1,420	1,420	2,161	6,067	10,067	12,736	15,677	15,677	15,677
Long-Term Receivables	1	13	377	722	1,114	2,455	3,761	5,036	3,466	2,293	201	201	201
Long-Term Deferred Charges	15	9	80	408	606	303	253	168	84	28	5	0	0
Net Fixed Assets	3	4	26	35	54	54	59	64	70	77	85	93	101
Total Assets	1,795	2,442	4,032	4,973	5,868	7,256	9,827	15,382	18,738	21,405	23,721	25,604	27,569
LIABILITIES & EQUITY													
Current Liabilities													
Accounts payable - suppliers	20	23	47	68	30	34	39	44	55	66	74	84	94
Other payables	1,044	1,263	1,664	1,950	1,915	2,184	2,458	2,791	3,479	4,155	4,662	5,336	5,967
Total Current Liabilities	1,064	1,286	1,711	2,018	1,945	2,218	2,497	2,835	3,534	4,221	4,736	5,420	6,061
Total Long-Term Debt	53	212	1,088	1,519	2,272	2,956	4,460	8,544	10,302	11,444	12,145	12,141	12,141
Total Liabilities	1,117	1,498	2,799	3,537	4,217	5,174	6,957	11,378	13,836	15,664	16,881	17,561	18,202
Equity	359	359	359	344	344	344	344	344	344	344	344	344	344
Reserves	11	11	59	59	60	1,144	1,574	2,362	3,496	4,395	5,233	6,333	7,535
Retained earnings	308	521	762	951	1,084	430	788	1,134	898	838	1,100	1,203	1,324
Special purpose funds	0	53	53	81	163	164	164	164	164	164	164	164	164
Total Equity	678	944	1,233	1,436	1,651	2,082	2,870	4,004	4,902	5,741	6,840	8,043	9,367
Total Liabilities & Equity	1,795	2,442	4,032	4,973	5,868	7,256	9,827	15,382	18,738	21,405	23,721	25,604	27,569
Current Ratio	1.25	1.39	1.38	1.29	1.38	1.36	1.44	1.43	1.43	1.49	1.64	1.78	1.91
Quick Ratio	1.25	1.39	1.38	1.29	1.38	1.36	1.44	1.43	1.43	1.49	1.64	1.78	1.91
Debt to Asset Ratio	0.62	0.61	0.69	0.71	0.72	0.71	0.71	0.74	0.74	0.73	0.71	0.69	0.66
Debt to Equity Ratio	1.65	1.59	2.27	2.46	2.55	2.48	2.42	2.84	2.82	2.73	2.47	2.18	1.94
ROE	34%	26%	31%	21%	13%	37%	44%	48%	38%	34%	35%	34%	33%
ROA	13%	11%	12%	7%	4%	12%	15%	15%	11%	10%	11%	11%	12%
Debt Service Coverage Ratio	-	-	-	-	-	1.95	2.35	1.28	1.93	2.02	2.19	2.55	2.56
Self-Financing Ratio	-	-	-	-	-	44%	49%	25%	45%	73%	176%	76%	78%

Source: Uzbekenergo.

Table 7 Historical and Projected Cash Flow Statement of the Executive Office of Uzbekenergo

Cashflow Statement, UZ \$ Billion	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Net cash-flow from operating activity	56	38	123	171	227	810	1,324	1,963	1,905	2,014	2,491	2,799	3,146
Change in working Capital						86	69	49	384	341	136	271	188
Purchase and sale of fixed assets	-	-	-	(0)	(0)	(0)	(5)	(6)	(6)	(7)	(7)	(8)	(9)
Long/short term investments	(2)	(1)	(641)	(1)	(3)	(1,038)	(1,996)	(5,097)	(2,345)	(1,441)	(824)	5	-
Other cash inflow and outflow	(0)	-	-	(343)	(381)								
Cash flow from Investment activity	(2)	(1)	(641)	(344)	(384)	(1,038)	(2,002)	(5,103)	(2,351)	(1,448)	(832)	(3)	(9)
Financial activity													
Interests received and paid	(7)	(7)	(17)	(33)	(40)	(76)	(97)	(206)	(268)	(319)	(360)	(385)	(411)
Dividends received and paid	0	2	0	1	(21)	(179)	(230)	(325)	(461)	(569)	(669)	(801)	(946)
Payments and receipts from loans	(16)	12	810	118	330	684	1,505	4,083	1,758	1,142	701	(5)	-
Other	(0)	(0)	(13)	-	-								
Cash Flow from Financial activity	(22)	7	781	85	270	429	1,177	3,553	1,030	255	(328)	(1,191)	(1,356)
Income/profit tax paid	(8)	(10)	(8)	(25)	(24)	(125)	(209)	(299)	(278)	(288)	(362)	(410)	(465)
Other taxes paid	(23)	(18)	(38)	(76)	(92)								
Taxes paid	(31)	(28)	(46)	(101)	(116)	(125)	(209)	(299)	(278)	(288)	(362)	(410)	(465)
Net cash-flow	1	15	217	(188)	(4)	162	360	163	689	874	1,106	1,465	1,503

Source: Uzbekenergo.