



شركة كهرباء مزون ش.م.ع.م
Mazoon Electricity Company S.A.O.C

إحدى شركات مجموعة نماء
Member of Nama Group

Investor Presentation

March 2019

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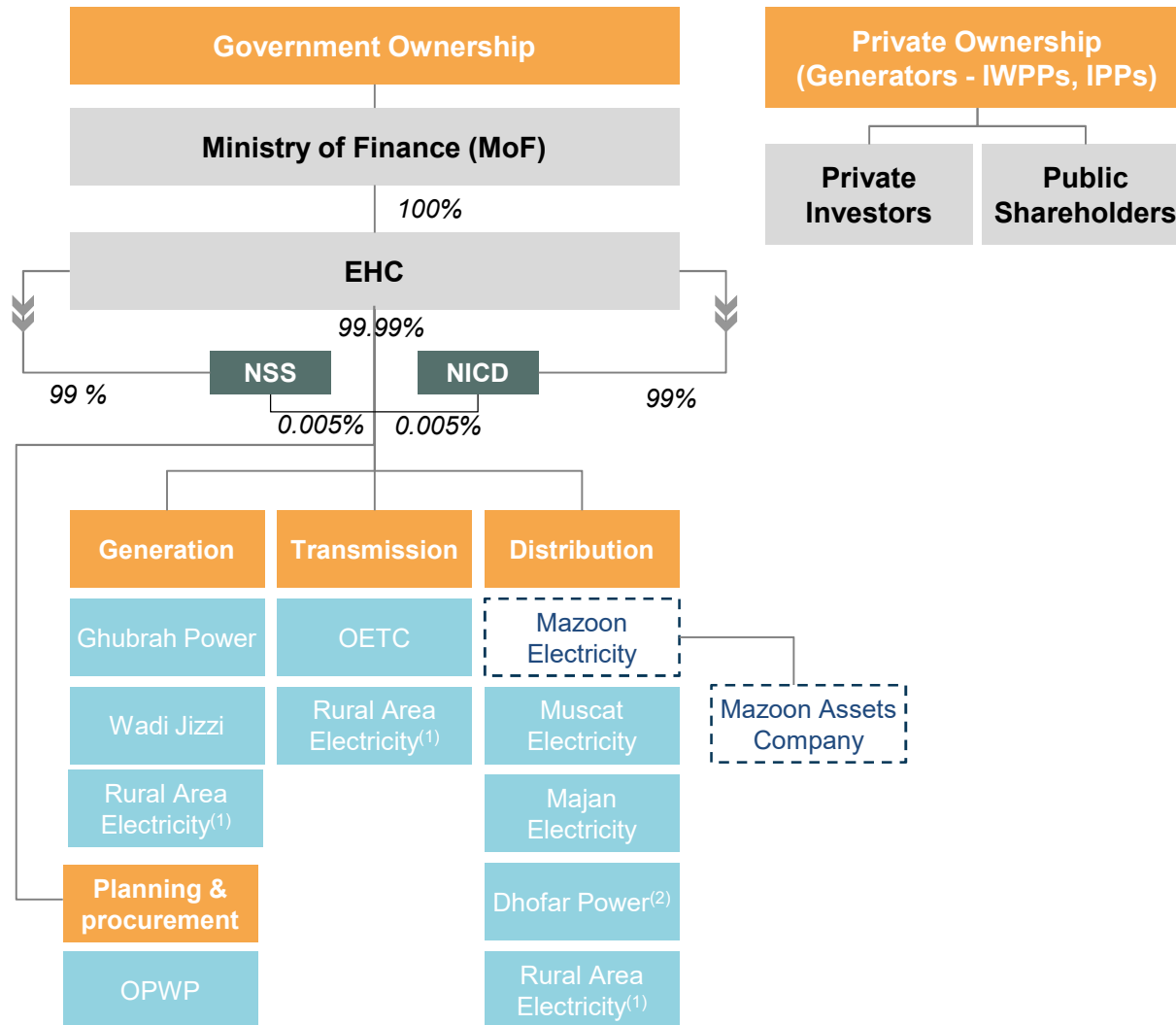
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Mazoon's Role in the Omani Utilities Sector

Current Structure of the Omani Utilities Sector



Overview

- Mazoon commenced its commercial operations in 2005, and exclusively undertakes regulated distribution and supply of electricity in Dakhilyah, North Sharqiya, South Sharqiya and South Al Batinah governorates
- Mazoon operates under a transparent and supportive regulatory system, which implements price controls through Authority for Electricity Regulation (“AER”)
- Functions and duties of Mazoon as a licensed distribution system operator and supplier as per the Sector Law mainly include;
 - to finance, operate, maintain, develop and expand the Distribution System comprising of 33KV, 11KV and LT network, in a safe manner and in accordance with the relevant performance Security Standards
 - to meet all reasonable demand for the Supply of electricity to Premises located within its Authorised Area and
 - to arrange for the meter reading and to submit bills to customers and to collect amounts due to it in accordance with the conditions of its licence
- Shareholders: 100% government owned (indirectly via Electricity Holding Company)
- Mazoon Assets Company is formed as a special purpose vehicle which is a 99.99% owned subsidiary of Mazoon Electricity Company

¹ Rural Areas Electricity Company (“RAECO”) is one company present in all three business lines

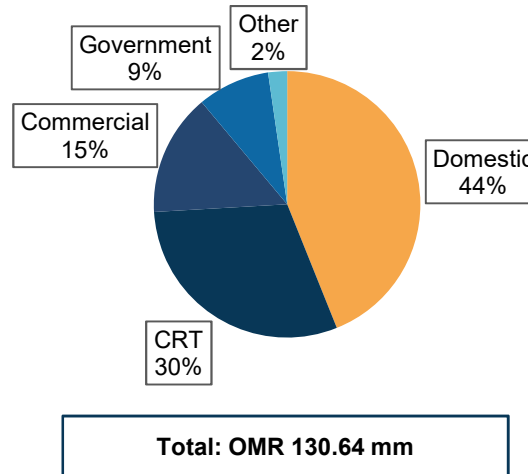


Operational Highlights of Mazoon Electricity Company

Operational Highlights

- Mazoon owns and operates the electricity distribution network below 132 KV down to the customer's point of supply, which includes the 33 kV, 11 kV and the low voltage distribution networks and intermediate primary distribution substations
- In order to further reduce network losses, ensure reliable and safe operations, meet Oman's growing needs for electricity and connecting new customers, in particular in tourist and industrial areas, Mazoon estimates its capital expenditure will be financed through borrowings in the international and domestic capital and loan markets and through retained earnings

Distribution of Electricity Gross Revenue Breakdown by Customer Type (YE2018)

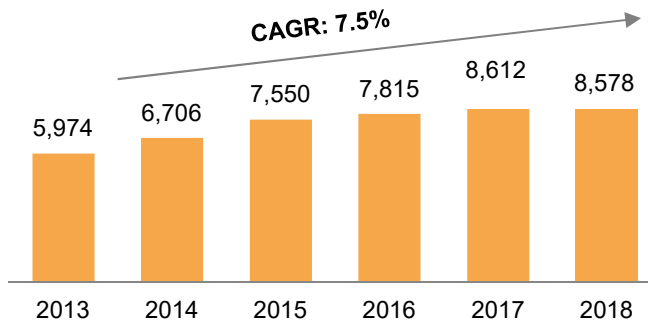


Distribution Network

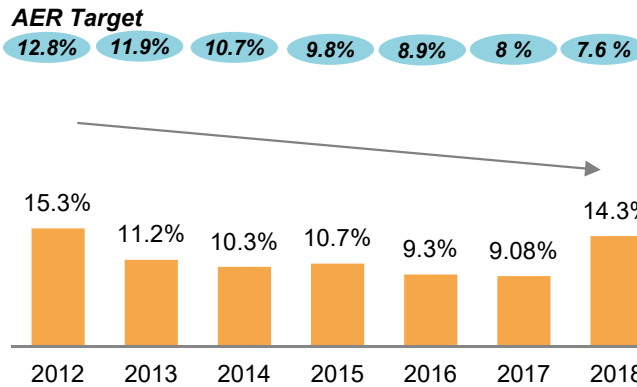
YE 2017	#No.
33/11 KV substation	273
11/0.433 KV substation	17,983
33/11 KV transformer	485
33/0.433 KV transformer	7
11/0.433 KV transformer	18,128

YE 2017	KM
33 KV network overhead line	3,944
33 KV network underground cable	1,334
11 KV network overhead line	9,935
11 KV network underground cable	3,063
0.433 KV network overhead line	10,249
0.433 KV network underground cable	7,978

Total Regulated Units Supplied (GWh)



System Performance – Annual System Loss %



¹ Other includes agriculture / fisheries, hotels / tourism and industrial customers

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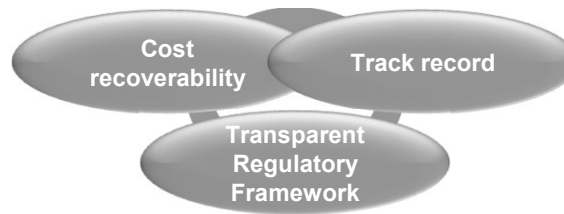
Oman Benefits from a Robust and Stable Regulatory Regime for the Power and Water Sector

Stability of Direct & Indirect Subsidies

- Total subsidy support from MoF for the electricity sector is estimated to be OMR 633 million in 2019 (MZEC 198mn)
 - Article 18 of the Sector Law provides that MoF will provide annual subsidies to licensed electricity suppliers
- Solid regulatory track record of over 12 years

Ultimate Financial Undertaking of MoF

- Ultimately owned by the Government
- Article 67 of the Sector Law provides that the MoF will secure the availability of adequate finance to borrowing subsidiaries (as long as borrowing subsidiaries are 100% owned by the government)



Transparent Framework

- Formula and methodology is well documented with an independent regulator
- Stable track record since initiation (established 2004) by sector law
- By the sector law, 70% of recoverable revenue is fixed as per formula and 30% dependent on volumes for PCR V since 2018

Capital Spending Regulated by AER

- AER's price-control framework in place since 2005
 - Provides for recovery of capex, opex and adequate return on capital
 - Capex plans preapproved by AER reducing risk of aggressive capital expansion plans
 - Penalties/incentive mechanism imposed for monitoring performance
 - Capital expenditure plan reviewed on a 3-4 year basis in connection with PCR

Regulated Activities Mandated by Law

- Mazoon's operations are subject to Government supervision and regulation and the terms of the distribution and supply licence granted to it by the AER pursuant to the Sector Law to undertake the regulated activities of distribution and supply within the north-east corner of Oman

Source: Company information



Key Roles of the Regulatory Regime

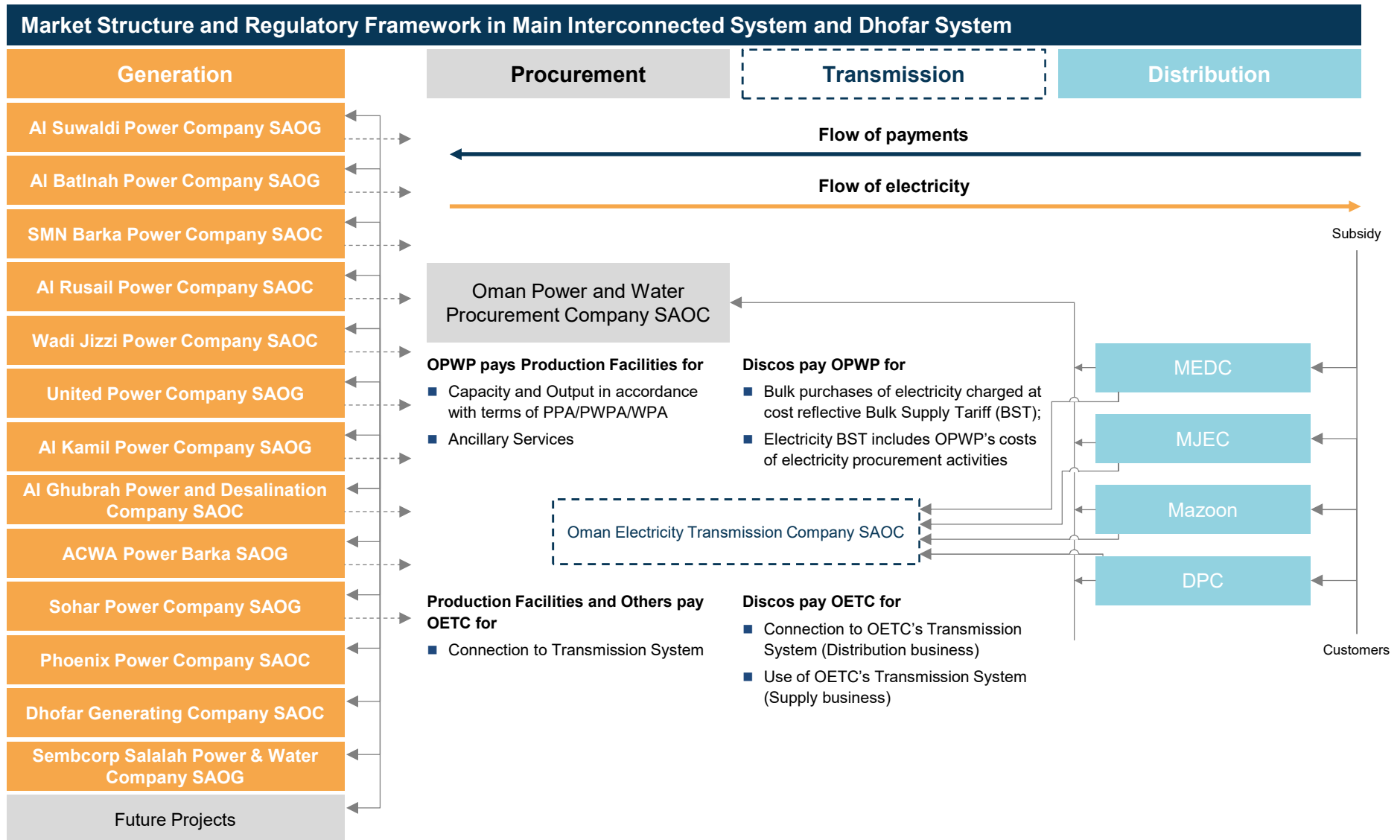
The Sector Law provides:

- The regulatory framework for the 'single buyer' industry structure of the electricity and related water sector in Oman, under which each of power generation/water desalination, electricity transmission and electricity distribution and supply is required to be operated separately (and regulated accordingly), with a single entity responsible for procuring that the generation capacity meets the anticipated demand for electricity
- Establishment of an industry regulator, the Authority for Electricity Regulation, Oman, with functions, powers and duties for the grant, monitoring, modification and enforcement of licences for regulated activities in order to regulate the sector
- The entitlement of Supply Companies (including Mazoon) to charge customer tariffs approved by the Council of Ministers
- A statutory mechanism for the calculation by AER and payment to Distribution and Supply Companies (including Mazoon) of subsidy, to the extent that revenue to which it is entitled based on customer tariffs) is less than the Maximum Allowed Revenue which it is entitled to earn according to the arrangements for regulation of its revenue established under its licence
- Provisions that contemplate AER reporting over time on the readiness of Oman's electricity market for the potential further liberalisation of the market, including the possible introduction of supply competition
- The basis for the transfer of relevant assets and liabilities of the MHEW to a number of successor companies (the Transfer Scheme)

Regulatory structure supportive of efficient governance and customer satisfaction



Overview of Oman Electricity Flows and Cash Flows

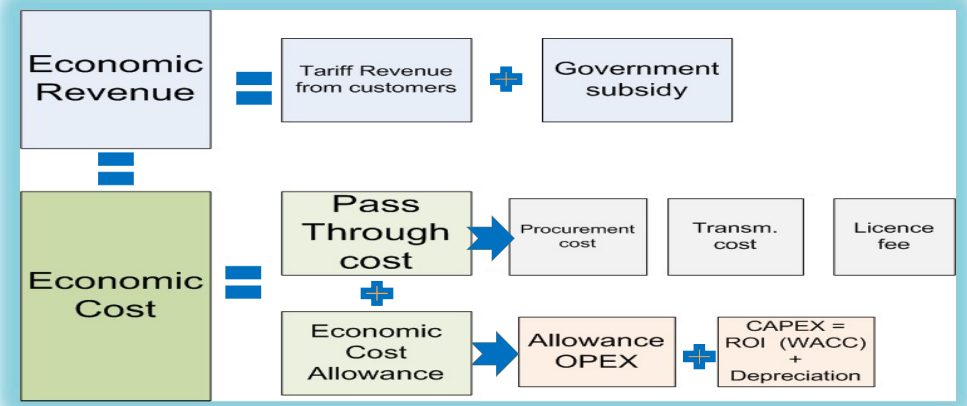
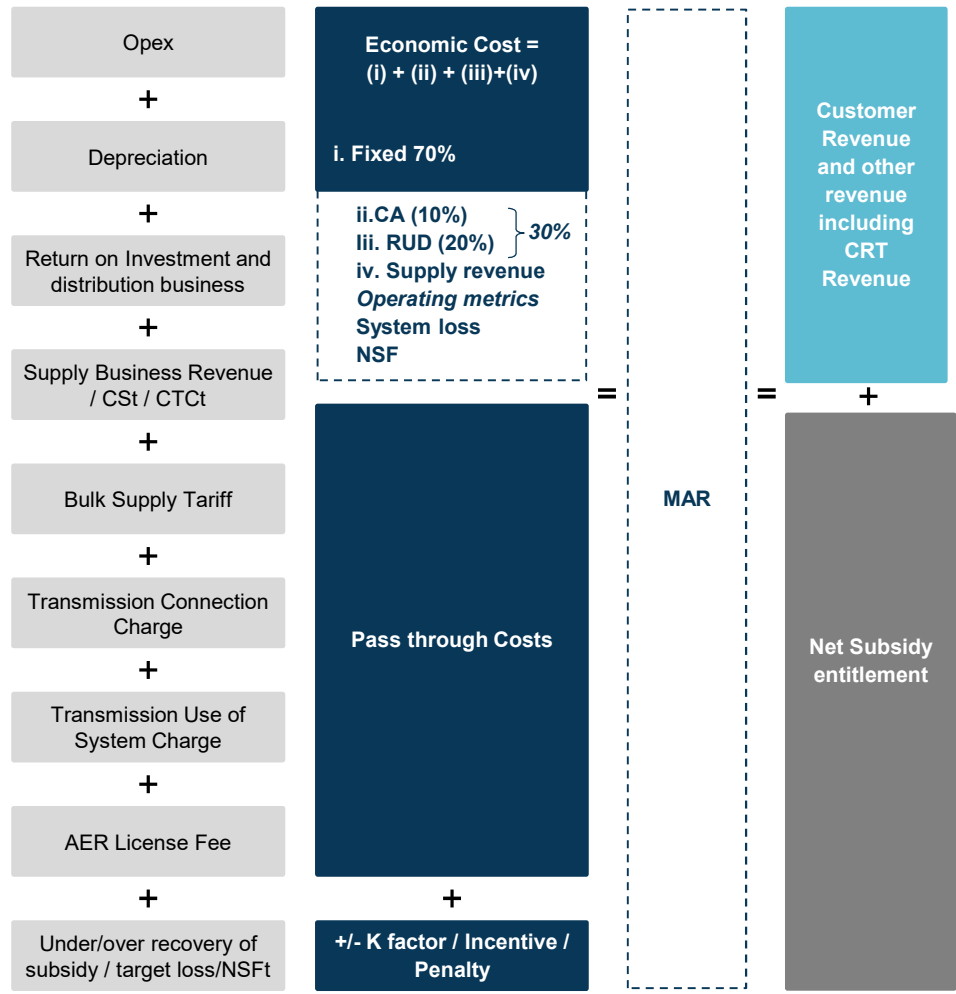


All intra sector transactions: (i) regulated (ii) cost reflective (no direct subsidy)
 RAECO is not included in this framework as it is part of Rural Area Electricity Systems and is a vertically integrated company



Price Control Overview

Build-up of Maximum Allowed Revenue (MAR)



- The AER notifies Mazoon of its calculation of these values in the first year of the price control period and recalculates these values for subsequent years using the consumer price index and efficiency factor. The net present value of the cash outflows and the supply margin in the supply business are recovered based on expected customer accounts during the price control period.
- In addition, the AER has introduced two schemes to encourage improvements in customer performance: guaranteed standards of service and customer satisfaction incentives.
- Moreover, the power purchase costs paid to OPWP, transmission connection charges and transmission use of systems charges paid to OETC and the licence fee paid to the AER are recoverable as pass-through costs as part of the MAR. The MAR is also adjusted to reflect performance incentives / penalties.
- Cost reflective tariff (CRT) was introduced on January 1st, 2017 for large industrial, commercial and Government customers who consume over 150 MWh annually
- Introduction of Cost Reflective Tariff in Regulatory Framework is Cash Flow Neutral as MAR Remains Unchanged but Revenues from Customers Increase and Subsidy Reduces
- Apart from the reduction in subsidy burden CRT is expected to aid in achieving balanced demand for power, smoothen the peak demand profile and accordingly help in rationalising procurement of new generation capacity

Notes: Opex: Operating Expenses, WACC: Weighted Average Cost of Capital, CA: Customer Accounts, RUD: Regulated Units Distributed, NSF: Network Security Factor



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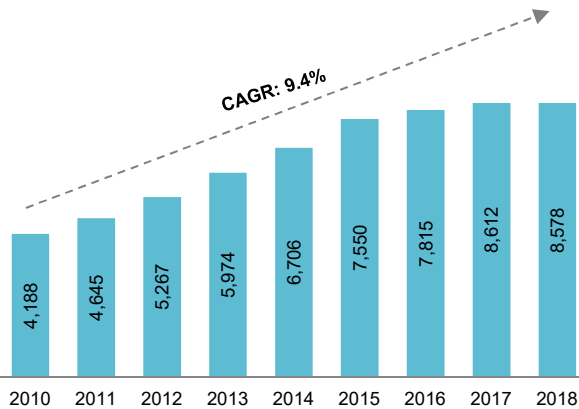


Operational & Financial Highlights

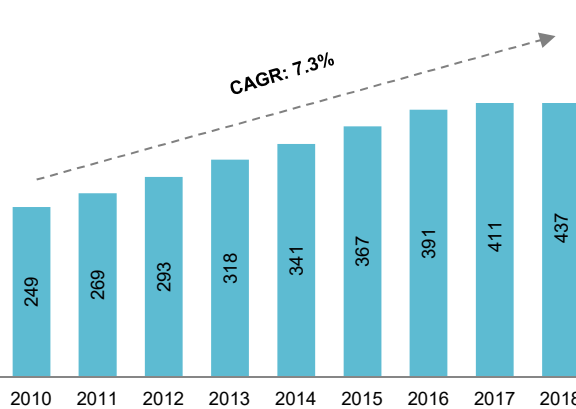
Consistent Track Record of Operational & Financial Performance

Operational Performance

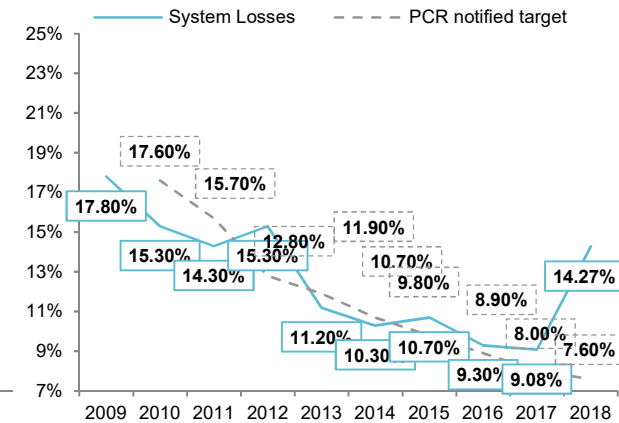
Total Units Supplied (GWh)



Customer Accounts ('000)

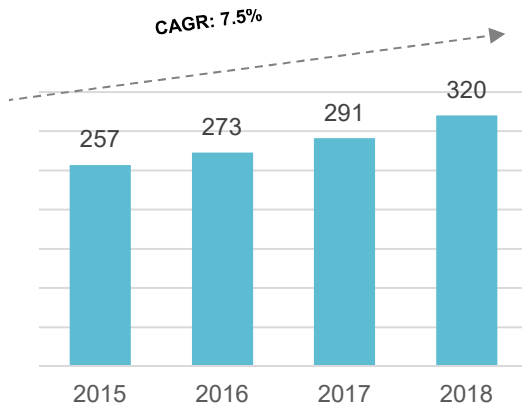


Distribution System Losses (%)

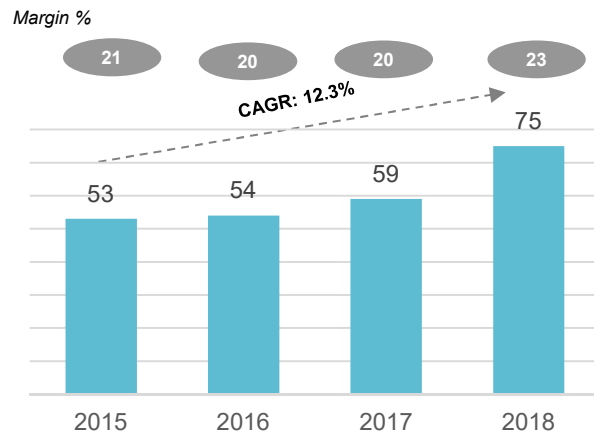


Financial Performance

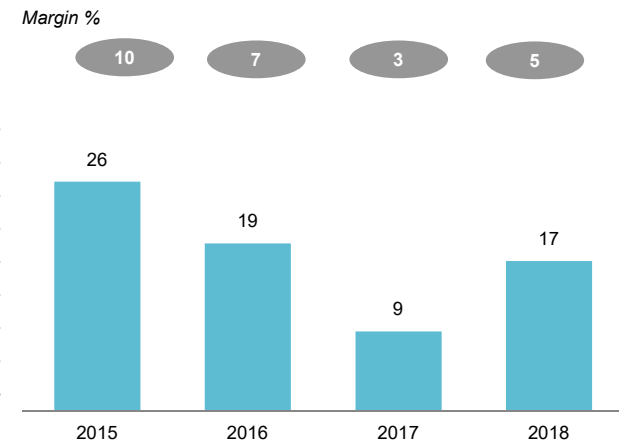
Revenues (RO'mn)



EBITDA (RO'mn)



Net Income (RO'mn)



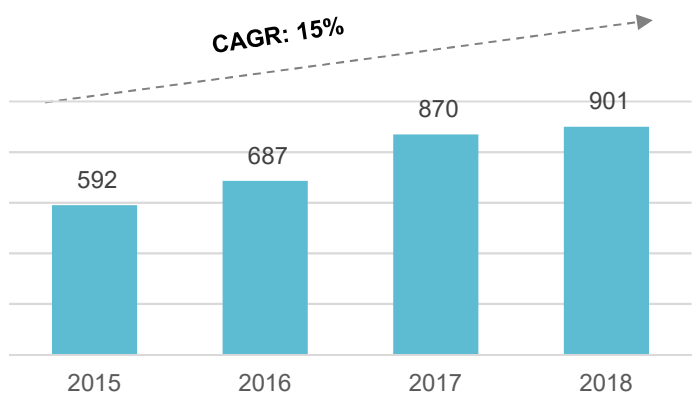
Note : During the year 2018 the Company carried out a customer database cleansing project wherein estimated billed units and the corresponding billed amounts were actualized based on actual reading or have been reversed wherever the estimates were found to be excessive. The effect of such reversal effected in the current year has resulted in reduction of RUD and Sales Revenue in the current year and consequential increase in system losses.



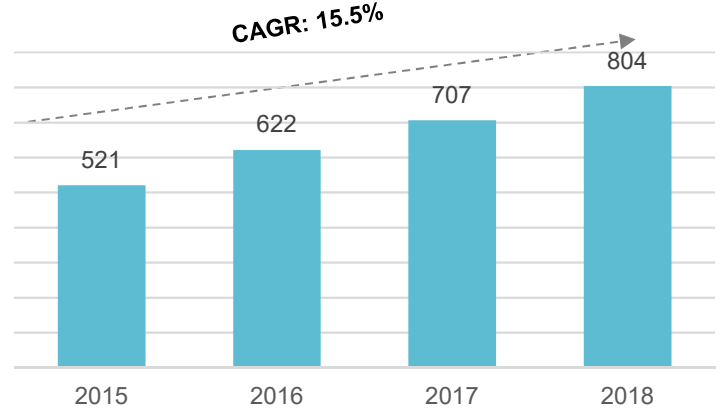
Financial Highlights – Balance Sheet

Despite the large capex program, Mazoon maintains a conservative funding strategy utilizing its equity base and cash flows

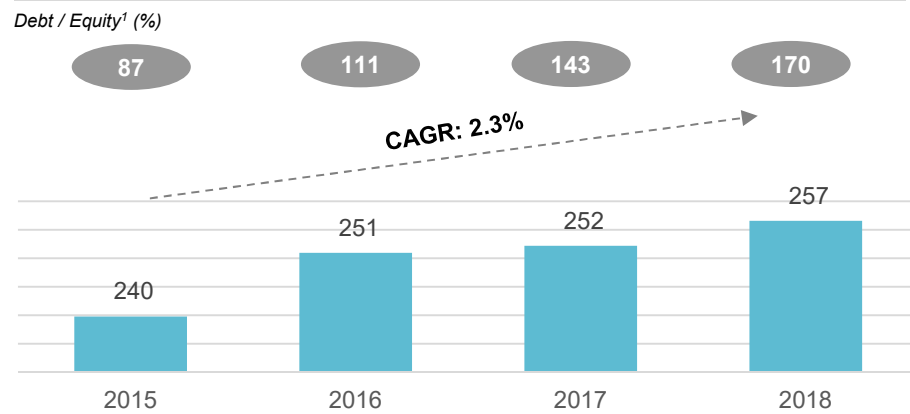
Total Assets (RO' mn)



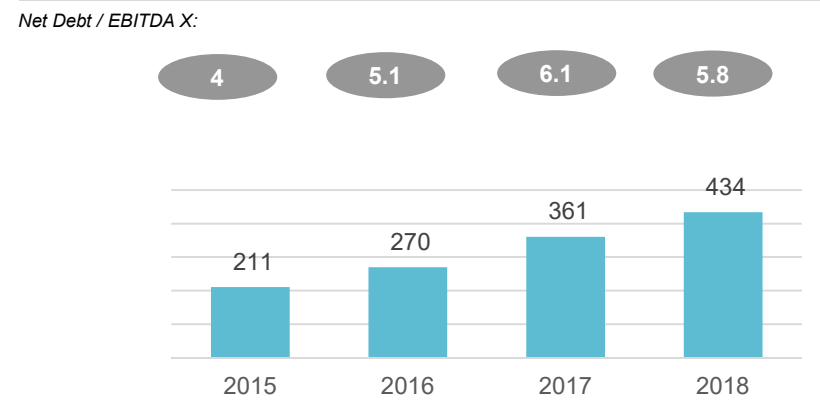
Net PP&E (RO'mn)



Total Equity (RO'mn)



Net Debt (RO'mn)

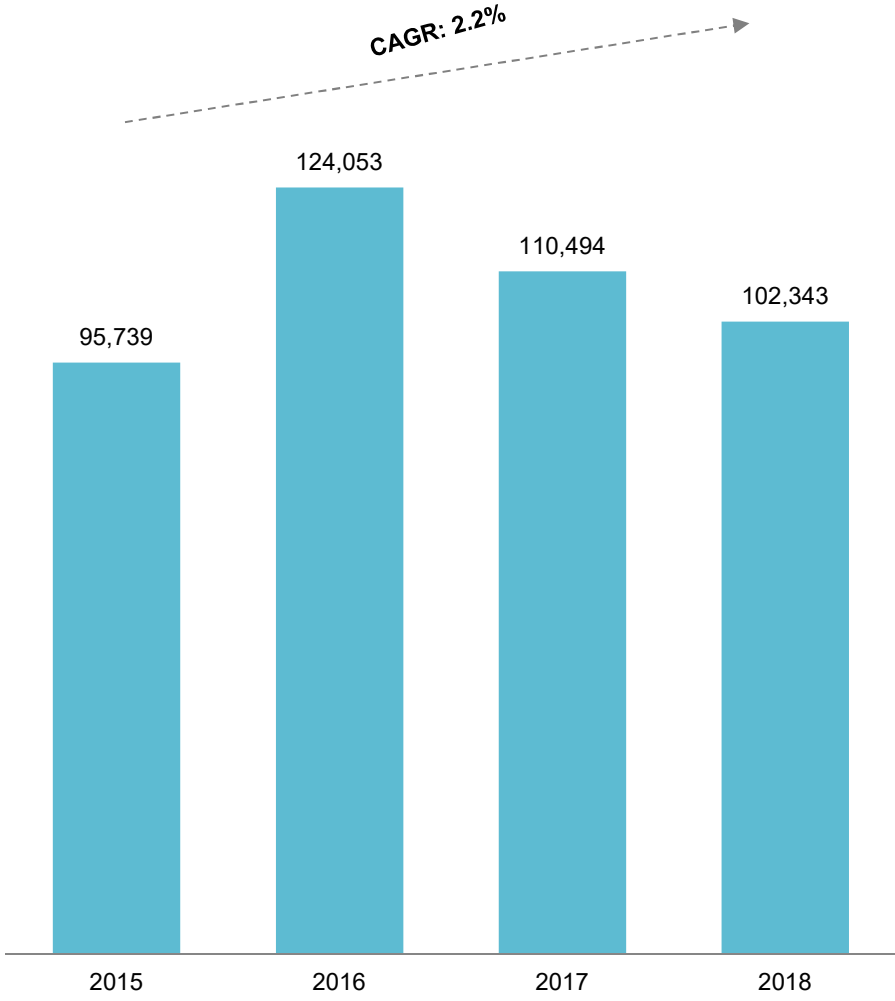


Source: Company Information
¹ Equity is total equity; debt is long term and short term borrowings and intercompany borrowings



Capital Expenditure Program

Historical CAPEX (RO 000)



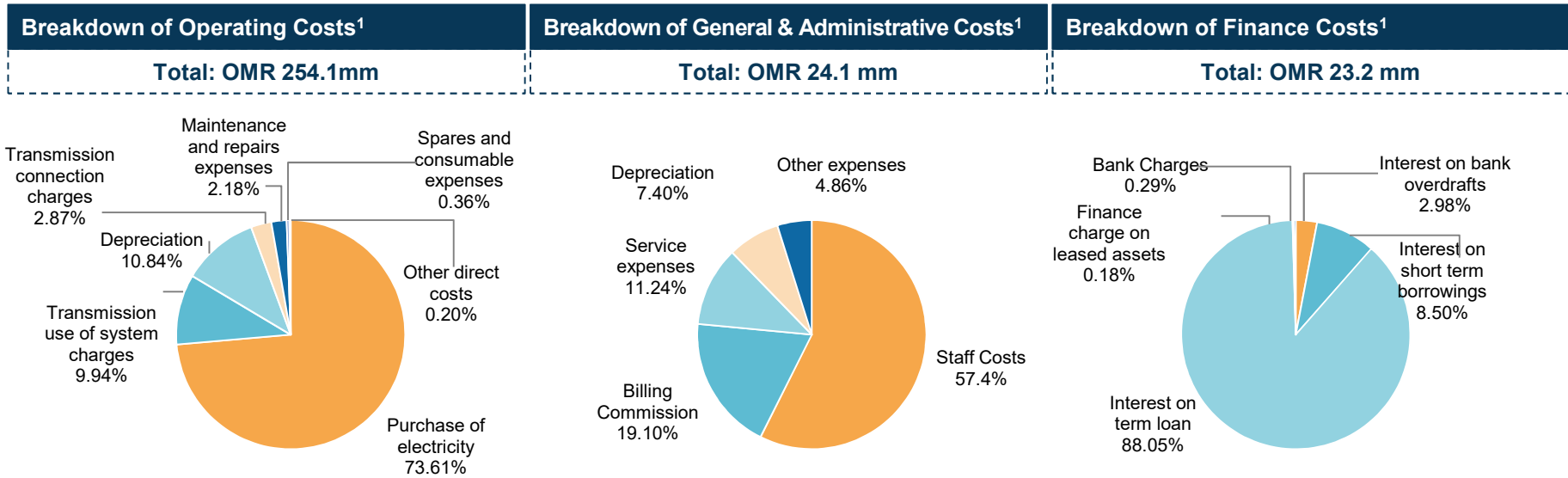
Source: Company Information

Summary of Capital Expenditure

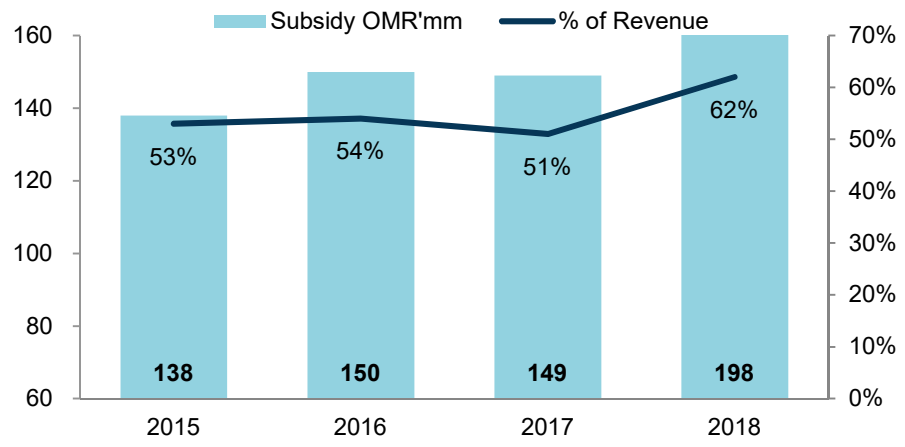
- Based on the new price control proposals, Mazoon is authorised to make cash capital expenditure at OMR 368 million for 2018 through 2021 (calculated at 2018 prices).
- The distribution network system of the Company comprises of network at various voltage levels; 33 KV, 11 KV & 0.433 KV and consisting of 33/11 KV primary substations, 11/0.433 KV distribution substations and 33/0.433 KV substations and the cables and overhead lines at these voltage levels
- 33 KV investments are mainly driven by the growth in demand and distribution system security standards requirements as identified in the distribution system capability statements produced and submitted to Authority every year
- LT and 11 KV load related capital expenditure mainly include Customer Extensions costs
- Common assets include buildings, vehicles, IT systems & computers and equipment /investments towards strategies implementation and system losses reductions
- The funding requirements to meet the capital expenditure program are expected to be met partly out of the internal cash accruals including retained earnings and the balance from borrowing



Other Indicators of Performance



Government Subsidies OMR mm



- The amount of the annual subsidy payable (if any) is calculated by the AER as being an amount equal to any shortfall between
 - (a) the revenue from customers and others in the relevant year and
 - (b) the amount of allowed revenue in the relevant year (i.e. the amount that was available to be earned by Mazoon as per price control formula)
- In particular, Mazoon’s key input costs include transmission connection and use of system charges charged by the electricity transmission companies and the bulk supply charges charged by the Oman Power and Water Procurement Company, which are included as pass through costs in the subsidy calculation

¹ OMR = US\$2.60



Key Business Highlights for Mazoon

1 Monopoly Position	<ul style="list-style-type: none">■ Enjoys monopoly position in distribution and supply sectors of Oman's electricity value chain in its license area■ One of the largest electricity distribution company in Oman by geographical area and number of customers, providing electricity to customers in the authorized area of around 75,000 KM² in four Governorates
2 100% Government Ownership	<ul style="list-style-type: none">■ 100% government ownership, with direct and indirect support mandated by law■ Two of the five members of the board of directors of Mazoon are Government officials
3 Transparent and Supportive Regulatory System	<ul style="list-style-type: none">■ Robust regulatory framework through the Sector Law and 13 year history of price control regime■ Quasi-monopolistic electricity distributor and supplier in its authorized area
4 Stable distribution and supply activities with low operating risk	<ul style="list-style-type: none">■ Mazoon's electricity distribution and supply activities are stable and comprise relatively simple operations and management believes Mazoon's business is characterised by and subject to low operating risks■ Due to the nature of its operations, Mazoon is exposed to limited commodity and foreign exchange risks
5 Strong and stable financial position	<ul style="list-style-type: none">■ Mazoon believes that it has a solid and stable financial position and capital structure■ Reflecting its natural monopoly and government ownership, Mazoon's revenue has grown at a compound annual growth rate of 7.5 per cent between 2015 and 2018
6 Experienced Management Team	<ul style="list-style-type: none">■ The majority of Mazoon's senior management team who are responsible for operations were transferred from the Ministry of Electricity and Water with a proven record in the electricity sector■ Mazoon is focussed on recruiting professionally qualified executives with strong managerial and commercial expertise



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Income Statement

(OMR 000's)	As at 31 December			
	2015	2016	2017	2018
Revenue	257,203	272,633	290,609	320,120
Operating costs	(204,576)	(222,039)	(242,208)	(254,140)
Gross profit	52,627	50,594	48,401	65,980
General and administrative expenses	(21,722)	(22,394)	(23,776)	(24,068)
Other income	2,405	2,567	8,670	3,338
Profit from operations	33,310	30,767	33,295	45,250
Finance income	45	68	279	1,565
Finance costs	(4,017)	(8,418)	(13,914)	(23,202)
Profit before tax	29,338	22,417	19,660	23,613
Taxation	(3,003)	(3,756)	(10,873)	(6,600)
Profit for the year / period	26,335	18,661	8,787	17,013
Fair value loss arising during the year / period on cash flow hedge – net of tax	-	-	(53)	1,313
Total comprehensive income for the year / period	26,335	18,661	8,734	18,326



Balance Sheet

(OMR 000's)	Year ended 31 December			
	2015	2016	2017	2018
ASSETS				
Non-current assets				
Property, plant and equipment	520,688	621,831	706,754	780,174
Investment in Subsidiary	-	-	500	500
Other Asset				22,249
Derivatives				1,482
Total Non-current Assets	520,688	621,831	706,754	804,405
Current assets				
Inventories	4,473	3,774	4,196	1,986
Government subsidy receivable	24,694	-	21,446	35,040
Trade and other receivables	40,613	45,133	52,290	46,427
Other current assets	-	6,194	14,247	2,856
Short term deposits	-	-	70,000	5,000
Cash and cash equivalents	1,062	10,255	1,025	5,428
Total current assets	70,842	65,356	163,203	96,737
Total assets	591,530	687,187	870,457	901,142
EQUITY				
Capital and reserves				
Share capital	150,000	150,000	150,000	150,000
Legal reserve	50,000	50,000	50,000	50,000
General reserve	5,517	9,249	11,006	14,409
Cash flow hedge reserve	-	-	(53)	1,260
Retained earnings	34,276	41,705	41,235	40,903
Total equity	239,793	250,954	252,188	256,572
LIABILITIES				
Non-current liabilities				
Term loan – non- current portion	192,237	207,134	188,489	169,817
Long term borrowings-sukuk	-	-	191,404	191,496
Deferred tax liability	19,257	23,013	33,876	39,836
Deferred revenue	15,269	18,264	18,085	46,634
Derivatives	-	-	62	-
Provisions	1,615	1,500	1,506	1,460
Finance lease	463	496	373	248
Total non-current liabilities	228,841	250,407	433,795	449,491
Current liabilities				
Trade and other payables	108,079	117,446	136,992	119,474
Term loan – current portion	7,434	18,868	18,645	18,672
Short-term borrowings	-	47,020	19,250	46,537
Bank overdrafts	3,237	1,345	8,418	7,949
Finance lease – current portion	110	122	134	124
Amounts due to Holding Company	2,808	-	-	-
Deferred revenue – current portion	403	425	435	1,723
Other current liabilities	225	-	-	-
Provision for current tax	600	600	600	600
Total current liabilities	122,896	185,826	184,474	195,079
Total liabilities	351,737	436,233	618,269	644,570
Total equity and liabilities	591,530	687,187	870,457	901,142



Cash Flow Statement

(OMR 000's)	Year ended 31 December			
	2015	2016	2017	2018
Net cash from operating activities	60,028	80,270	39,197	65,759
Net cash used in investing activities	(95,676)	(123,855)	(180,996)	(37,751)
Net cash from financing activities	31,041	54,670	125,496	(23,136)
Net change in cash and cash equivalents	(4,607)	11,085	(16,303)	4,872
Cash and cash equivalents at the beginning of the year	2,432	(2,175)	8,910	(7,393)
Cash and cash equivalents at the end of the year	(2,175)	8,910	(7,393)	(2,521)



Key Ratios

	Year ended 31 December			
	2015	2016	2017	2018
EBIT ¹ (OMR'000)	33,309	30,767	33,296	45,249
EBITDA ² (OMR'000)	53,057	53,544	58,870	74,580
EBITDA ⁴ margin	20.63%	19.64%	20.26%	23.30%
EBIT ³ margin	12.95%	11.29%	11.46%	14.14%
Net income ⁵ margin	10.24%	6.84%	3.02%	5.31%
Interest coverage ratio ⁶	8.29x	3.65x	2.39x	1.95x
Debt Service coverage ratio	12.82x	2.59x	1.50x	1.69x
Net debt ⁷ / EBITDA	3.97x	5.03x	6.13x	5.82x
Debt ⁸ / equity ⁹	87%	111%	143%	170%
Current assets / current liabilities	0.58x	0.35x	0.88x	0.50x

(1) "EBIT" is profit for the year/period before finance income, finance costs, and taxation.

(2) "EBITDA" is profit for the year/period before finance income, finance costs, taxation, depreciation and amortisation of intangible assets.

(3) "EBIT margin" is EBIT divided by total revenue.

(4) "EBITDA margin" is EBITDA divided by total revenue.

(5) "Net income margin" is profit for the year/period divided by revenue.

(6) "Interest coverage ratio" is EBIT divided by finance costs, which include interest on borrowing including overdraft, bank charges, amortisation of transaction costs and finance charges on lease.

(7) "Net debt" is term loan (current and non-current), short-term borrowings, amounts due to Holding Company, bank overdrafts and finance lease (current and non-current) less cash and cash equivalents.

(8) "Debt" is term loan (current and non-current), short-term borrowings, amounts due to Holding Company, bank overdrafts, and finance lease (current and non-current).

(9) "Equity" is total equity.



THANK YOU

