
Georgia Global Utilities

Speakers:

Archil Gachechiladze, CEO GGU

Giorgi Vakhtangishvili, CFO GGU

Giorgi Tskhadadze, CEO Water Business

BGEO Investor Day

22 November 2016 | Tbilisi, Georgia




Contents

- **Strategy**
- Business and performance overview
- Annexes

GGU strategy

	① UTILITY	② ENERGY
BUSINESS	WATER UTILITY	HYDRO & other renewables
CURRENT STANDING	REVENUE 2016E: GEL 129.4mln EBITDA 2016E: GEL 68.2mln 70% water losses	HYDROs: 149MW operating 50MW ready to build 85MW pipeline
MEDIUM TERM GOAL	EBITDA 2018: GEL 80mln+ 50% water losses	HYDROs: 200MW operating 100MW ready to build 100MW pipeline WIND & SOLAR: 20-20MW ready to build
TARGETING	DIVIDEND PROVIDER	VALUE CREATION UPSIDE



IPO in 2-3 years time

Note: The numbers given under water utility column refer to GGU financial results – out of 2016E total revenue and EBITDA, share of existing electricity segment amounts to GEL 16.0mln and GEL 12.7mln, respectively. As for 2018E EBITDA, the share of electricity segment equals to GEL 18.3mln.

Contents

- Strategy
- **Business and performance overview**
- Annexes

GGU – a privately-owned natural monopoly

GGU is the only profitable water-utility player in Georgia with plenty of room for efficiency

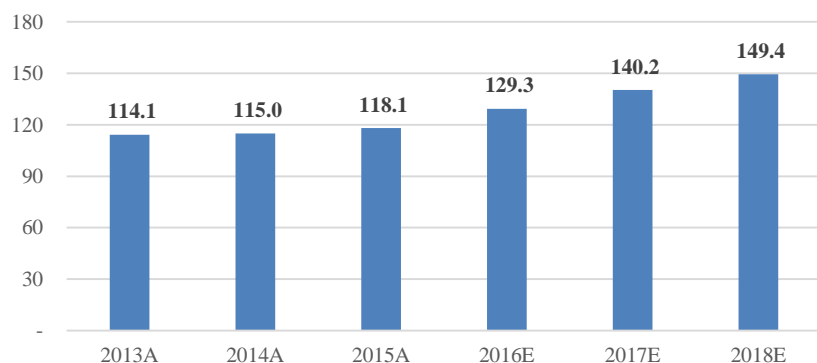
GGU is the largest privately owned water utility company in Georgia

- Natural monopoly in Tbilisi, Rustavi and Mtskheta
- 2 major business lines:
 - **Water supply** (including wastewater collection and processing)
2015A: 536mln m³ / 2016A 9M: 391mln m³
 - **Generation of electric power**: 149.1MW installed capacity
- Revenue
2015A: GEL 118.1mln | 2016A 9M: GEL 91.2mln
- EBITDA
2015A: GEL 61.8mln | 2016A 9M: GEL 44.3mln

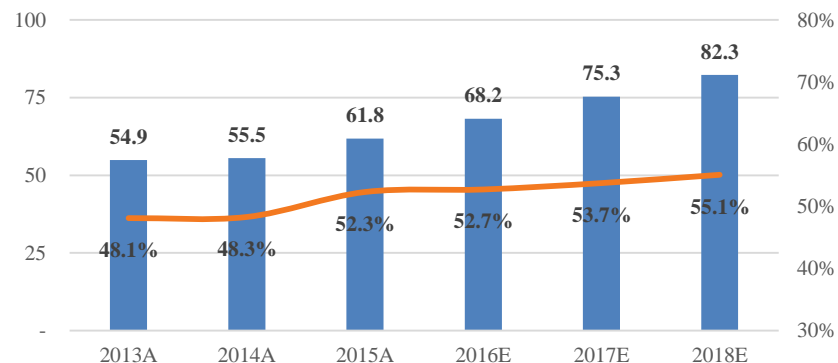
Company has strong execution track record & financial strength

- Management team with 10+ years of experience in utility business
- “BB-” rating assigned by Fitch Ratings to major subsidiary of GGU – Georgian Water and Power in 2015 (currently Georgia’s sovereign rating is “BB-” and the country ceiling is BB by Fitch)
- First bond placement by utility company in Georgia (GEL 8.6mln) through Georgian Water and Power in 2015
- Strong EBITDA growth in 2015 of 11.2% y-o-y
- Low leverage (2015A Debt/EBITDA: 1.2x)
- Strong and supportive shareholder: 100% owned by BGEO Group

Sales Evolution 2013-2018E (in GEL mln)



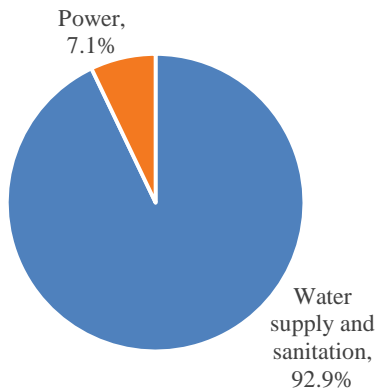
EBITDA (in GEL mln) & EBITDA margin (in %)



GGU business lines

Two revenue streams, each with solid cash generation capabilities

Revenue



Operating figures (2016A 9M)

Overview

1

Water Supply and Sanitation
92.9% of total Revenues

- Revenue – GEL 84.7mln
- Number of customers – 544K
- Collection rates – c. 97%

- Owns and operates entire network for water supply and sanitation services - pumping stations, reservoirs, collectors, wastewater treatment plant and complementary infrastructural elements

2

Power
7.1% of total Revenues

- Revenue – GEL 6.5mln
- Total installed Capacity – 149.1 MW
- Generation – 283GWh

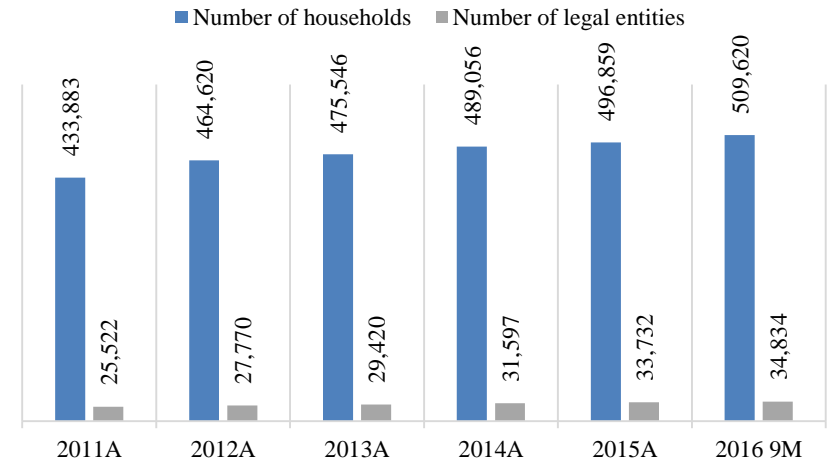
- Owns and operates 3 Hydro power plants, Zhinvali, Tetrichevi and Saguramo (146.4MW in total)
- Leases and operates Pshavela HPP with 2.7MW installed capacity

GGU water sales

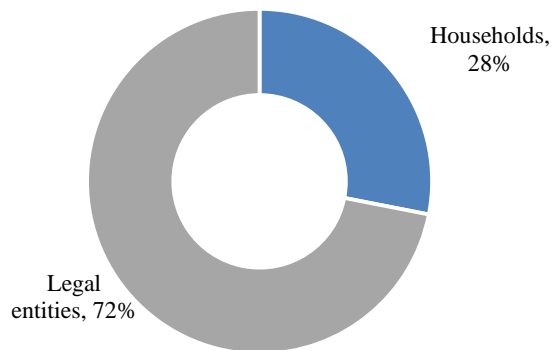
Overview

- Water is sourced from Zhinvali reservoir (90%) and Mukhrani/Natakhtari (10%) aquifer to feed the cities of Tbilisi, Rustavi and Mtskheta
- Customer pool includes both legal entities and households:
 - Legal entities - metered clients. Water meters are read on a cyclical basis. Collection rates are close to 100%
 - Households - significant portion of this client base remains non-metered (c. 75%). Non-metered customers are billed based on the number of individuals formally registered by the civil registrar and by application of the relevant tariff fixed per capita per month

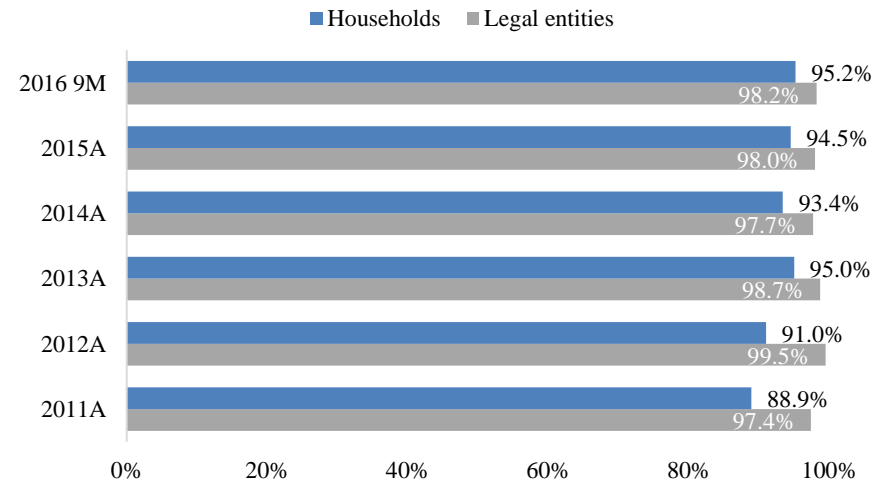
Number of Clients 2011-2016 9M



Water Sales Split per Type of Clients 2016 9M (in %)



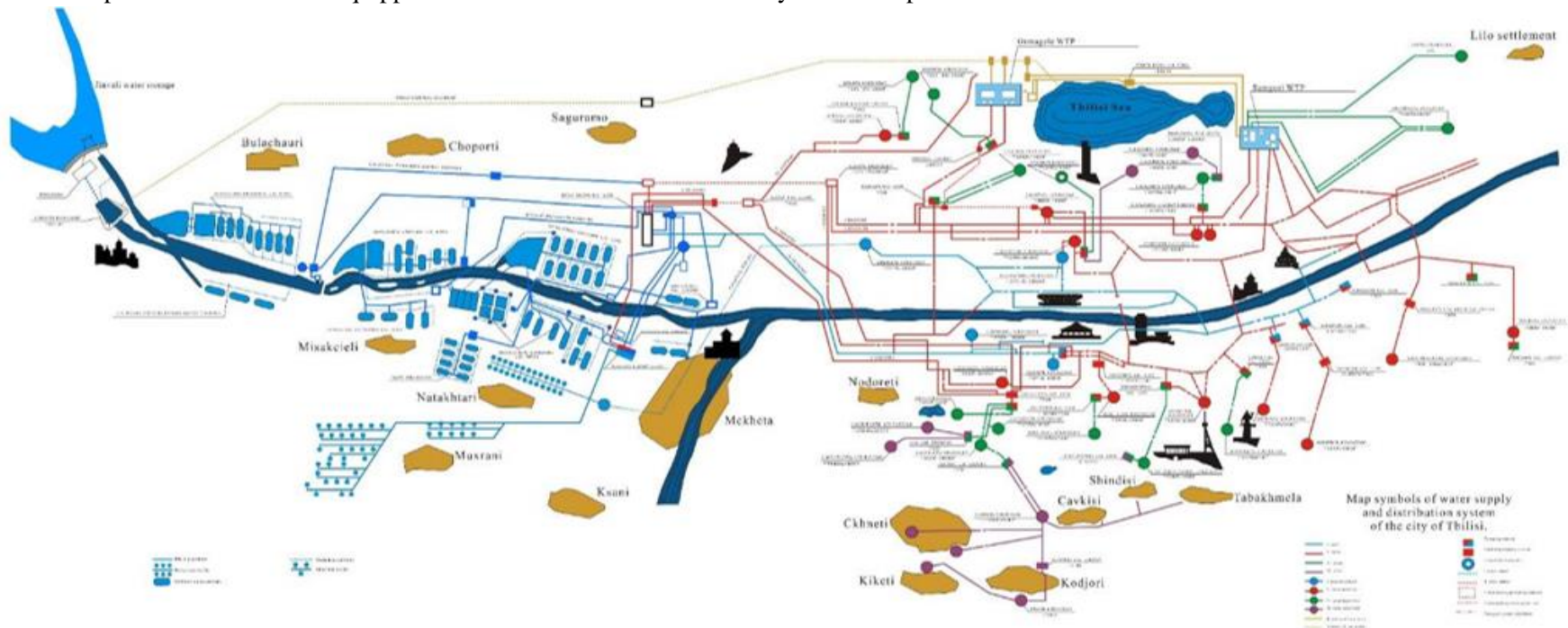
Collection Rates 2011-2016 9M



GGU infrastructure network overview - Tbilisi

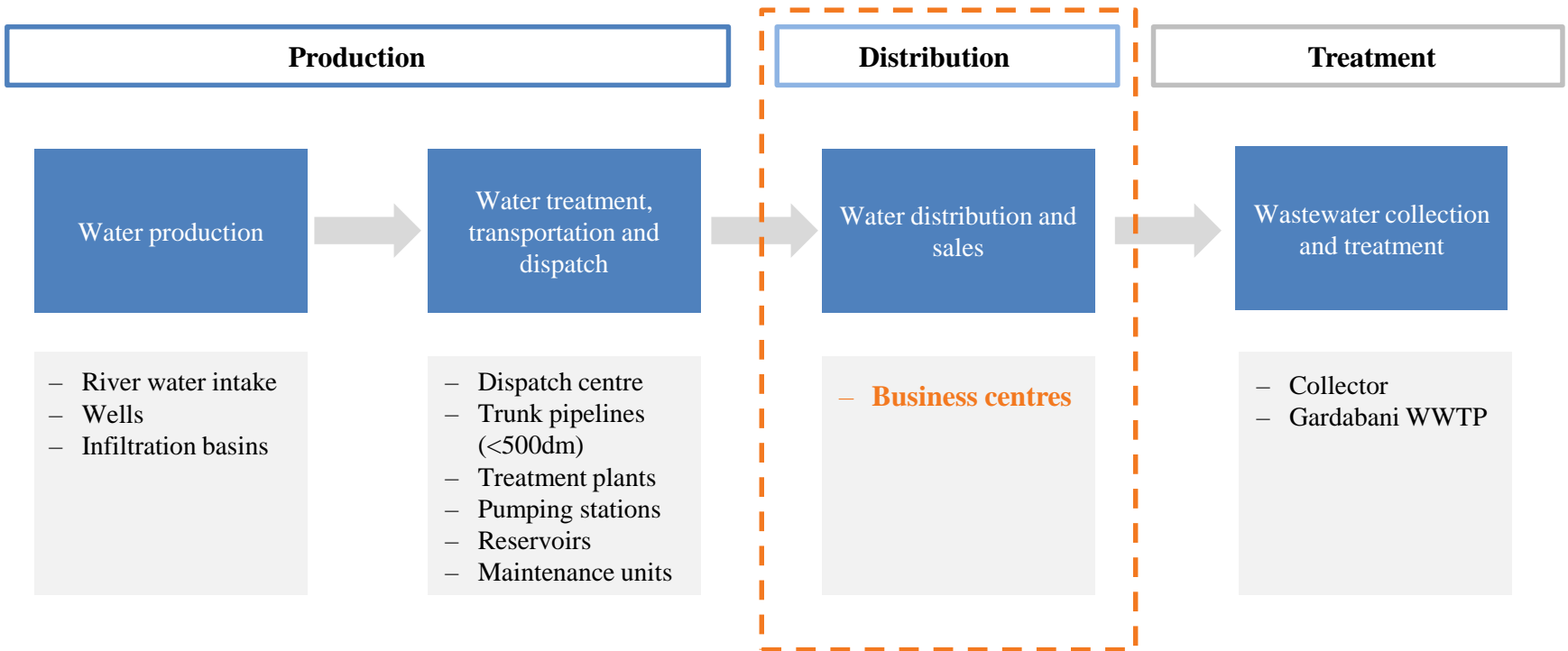
GGU owns 100% of the infrastructure

- **Company operates c. 2,700km of water supply and c. 1,700km of wastewater pipeline network** which consists of: trunk lines, tunnels of potable water and aqueducts, distribution networks to customers
- **Around 536mln m³ of potable water is supplied** from water production/treatment facilities in Bulachauri, Natakhtari, Saguramo, Samgori and Grmaghele on an annual basis
- Water quality monitoring is conducted on a daily basis, along with planned recurrent monitoring procedures in Tbilisi and its surroundings on **374 points of water supply network**
- In total the enterprise has **45 pumping stations, 104 reservoirs of pure water with total capacity of approx. 300,000 m³**. The most important reservoirs are equipped with level detectors monitored by central dispatch service



GGU business cycle

Description of business cycle



GGU business centre concept

Introducing business centre concept

– WATER LOSSES

Key challenge is to minimize water losses through prudent investments and efficiency initiatives, managing technical and commercial losses

– ZONING CONCEPT

The essence of the concept is to identify and localize the water losses within the specific areas of the city, through measuring the supply and consumption on a zonal basis

– 5 BUSINESS CENTRES

Based on the zoning concept the organizational structure of the company has been reframed into the business centre dimension. This arranges for the proper management of water distribution and sales

– SCADA

The majority of the water distribution elements are being equipped with the data loggers, transmitting collected information to the data centre for further analysis and pressure management

– TRAINING PROGRAM

Special program has been developed for the employees of newly created business centres, upgrading their skills and providing instructions for the efficient performance. The program includes 13 training modules with 125 academic hours

Note: Pilot business centre is already operational, 4 additional business centres will be launched by the end of 2016

GGU business centre concept – pilot business centre

General Information

Description	Tbilisi characteristics	Share of pilot business centre
Area, km2	502	29%
Length of water network, km	2,338	31%
Length of waste water network, km	1,389	29%
Volume of water supplied, 3Q16, m3 mln	135	25%
Total number of customers	473,804	25%

Operational highlights

Description	2016E	2015A	% change
Volume of water supplied, m3 mln	133.9	145.7	-8%
Volume of water delivered, m3 mln	38.8	37.6	3%
Volume of water losses, m3 mln	95.1	108.1	-12%
Number of failures	1,952	2,568	-24%
Energy consumption, kWh mln	43.5	48.9	-11%

- Pilot business centre **project cost** amounts to **GEL 0.7mln**
- **Total annual upside** from the efficiencies shall amount to **GEL 1.1mln** (consisting of savings GEL 0.68mln from energy consumption/sales and GEL 0.38mln from decrease in failures)
- The same ratio applied to the **entire City** would result in **annual reduction of water losses** by **c. 47mln m3** (implying the introduction of 4 remaining business centres)

GGU management team

GGU group management



Archil Gachechiladze
Chief Executive Officer

- Joined GGU in November 2016
- Previously served as Deputy CEO, Corporate & Investment Banking at Bank of Georgia (BOG), prior to that he served as BGEO Group CFO and Deputy CEO Investment management at BOG. Archil joined Bank of Georgia in October 2009 as Deputy CEO Corporate Banking.
- Holds MBA degree from Cornell University and also is a CFA charterholder



Giorgi Vakhtangishvili
Chief Financial Officer

- Joined GGU in April 2015
- Previously held different managerial positions at BGEO Group's companies; before joining GGU, Giorgi served as CEO of m2 Real Estate, the leading real estate development company in Georgia
- Holds BBA degree from European School of Management (ESM)



Giorgi Tskhadadze
Head of Water

- Joined GGU in December 2014
- Previously held executive positions at several leading local companies, holding position of CFO at IDS Borjomi and Poti Sea Port. Prior to joining GGU, Giorgi was acting as a partner at Proxima Prime Partners
- Holds BSc degree in Economy and Engineering from Tbilisi State University



Zurab Gordeziani
Head of Hydro

- Joined GGU in January 2015
- Joined BGEO Group in 2013 to develop hydro projects. Before that, he was involved in the energy sector of Georgia for 14 years and was part of the team that developed current legislative framework for the energy sector in Georgia. He also served on executive positions in JSC Energo-Pro Georgia, Georgian Electrosystem and Ministry of Energy
- Holds degrees in Law and Economics from Tbilisi State University



Giorgi Bezhushvili
Head of Wind and Solar

- Joined GGU in July 2016
- Previously held executive positions at several leading local companies, among them serving as General Director at Georgian Energy Development Fund. Before joining GGU, Giorgi served at GRPC as Deputy CEO, wind and solar
- Holds a master's degree from Paris-Sud University in Economics, Technology and Territories

Water business management



Giorgi Tskhadadze
Chief Executive Officer

- Joined GGU in December 2014
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- Holds BBA degree from European School of Management (ESM)



Irakli Babukhadia
Chief Commercial Officer

- Joined GGU in April 2015
- Previously worked as a management consultant both independently and at Tetra Tech Inc. and PA Consulting Group. Before joining GGU, he was first Deputy CEO (finance and commerce) at Mixori Ltd. (construction company)
- Holds a degree in International Business Law from Tbilisi State University



Mamuka Kikalishvili
Chief Operating Officer

- Joined GGU in April 2015
- Has an extensive experience of working on infrastructural projects; before joining GWP, he held a position of manager of field operations at Tetra Tech ENE-Georgia (USAID/Power and Gas Infrastructure Oversight Project).
- Holds MBA degree from Caucasus School of Business and is the Doctor of Technical Science (Georgian Technical University)



Jaba Mamulashvili
Chief Legal Officer

- Joined GGU in February 2016
- Before joining GWP he held a position of a partner at Begiashvili & Co. Limited, one of the leading Georgian law firms. Jaba specializes in commercial law and has a notable experience in equity investments, corporate and project financing, etc.
- Holds a master's degree in International Business Law from University of Manchester

GGU consolidated income statement (2015 9M-2016 9M)

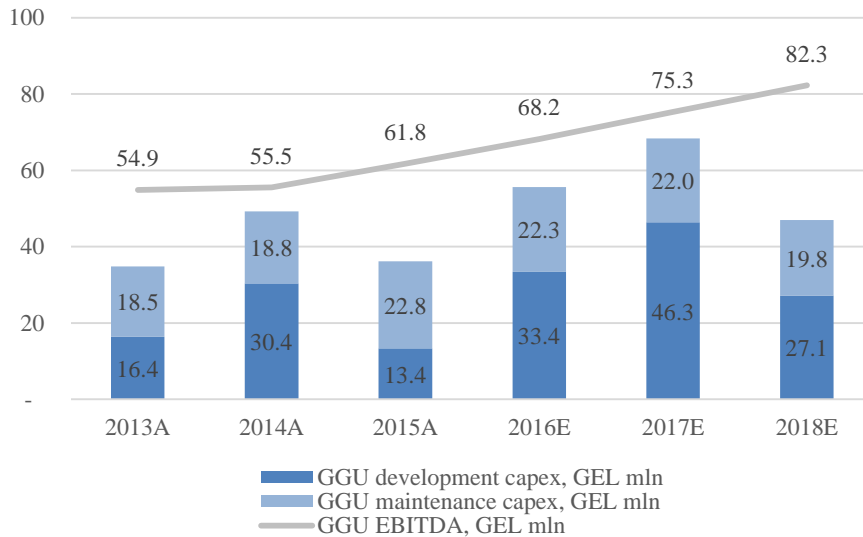
Numbers are given in GEL, thousand

	2016A 9M	2015A 9M	y-o-y % change
REVENUES			
Revenue from water supply to legal enteties	58,589	57,094	3%
Revenue from water supply to individuals	22,867	21,950	4%
Revenue from electric power sales	6,471	8,823	-27%
Revenue from technical support	2,110	2,655	-21%
Other income	1,149	839	37%
Total revenue	91,186	91,360	0%
OPERATING EXPENSES			
Provision of trade receivables	(2,885)	(313)	823%
Salaries and benefits	(13,171)	(16,544)	-20%
Electricity and transmission costs	(13,635)	(8,293)	64%
Raw materials, fuel and other consumables	(2,932)	(3,802)	-23%
Infrastructure assets maintenance expenditure	(2,000)	(2,678)	-25%
General and administrative expenses	(2,285)	(2,033)	12%
Taxes other than income tax	(2,363)	(2,423)	-2%
Professional fees	(1,531)	(1,135)	35%
Insurance expense	(524)	(248)	111%
Other operating expenses	(5,549)	(3,474)	60%
Total operating expenses	(46,874)	(40,943)	14%
EBITDA	44,313	50,417	-12%
<i>EBITDA Margin</i>	49%	55%	
Depreciation and amortisation	(12,842)	(14,976)	-14%
EBIT	31,470	35,441	-11%
<i>EBIT Margin</i>	35%	39%	
Finance income	190	123	54%
Finance cost	(7,905)	(18,960)	-58%
Foreigns exchange gains(losses)	(666)	(170)	292%
EBT	23,089	16,435	40%
Income tax expense	(2,920)	(5,193)	-44%
NET INCOME/LOSS FOR THE PERIOD	20,169	11,242	79%
<i>Net Income Margin</i>	22%	12%	

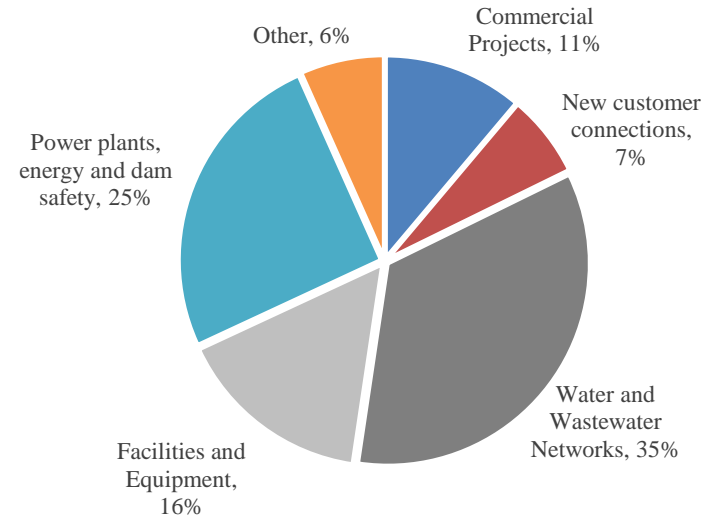
- Total water sales increased by 3% as compared to LY comparative results
- Drop of electric power sales is due to lower selling price (28% down compared to LY) and less generation because of the tunnel repair works in June and July
- Decrease of maintenance expenses compared to LY by GEL 1.5mln is due to prudent rehabilitation works
- Decrease of the income tax expense is due to the write-off of the accumulated deferred tax liability and retention of only those charges which may be realized before 1-Jan-2017
- Increase in electricity and transmission costs is mainly attributable to rise of guaranteed capacity fee in 2016 due to commissioning of the new TPP
- Increase in other operating expenses is mostly due to one-off litigation losses encountered during the year

CAPEX evolution

Capex and EBITDA evolution 2013-2018E



Capex split by type in 2016E (%)



Highlights

- Significant CAPEX in 2014 is a result of contractual obligation of 24 hour water supply within new borders of Tbilisi
- Increase in CAPEX in 2017 is attributable to Gardabani WWTP rehabilitation works
- Stable CAPEX volume undertaken annually results in steady growth of EBITDA

Note: EBITDA for 2016, 2017 and 2018 are normalized for transmission fees

Contents

- Strategy
- Business and performance overview
- **Annexes**

GGU consolidated income statement (segments)

Numbers are given in GEL thousand

	2016A 9M		2015A 9M		y-o-y % change	
	Electricity	Water	Electricity	Water	Electricity	Water
REVENUES						
Revenue from water supply to legal entities	-	58,589	-	57,094		3%
Revenue from water supply to individuals	-	22,867	-	21,950		4%
Revenue from electric power sales	10,786	-	13,137	-	-18%	
Revenue from technical support	-	2,110	-	2,655		-21%
Other income	13	1,136		839		35%
Total revenue	10,799	84,702	13,137	82,537	-18%	3%
OPERATING EXPENSES						
Provision of trade receivables	-	(2,885)	-	(313)		823%
Salaries and benefits	(912)	(12,259)	(1,145)	(15,399)	-20%	-20%
Electricity and transmission costs	(144)	(17,806)	(88)	(12,520)	64%	42%
Raw materials, fuel and other consumables	(59)	(2,872)	(77)	(3,725)	-23%	-23%
Infrastructure assets maintenance expenditure	(32)	(1,968)	(42)	(2,636)	-25%	-25%
General and administrative expenses	(81)	(2,204)	(72)	(1,961)	12%	12%
Taxes other than income tax	(143)	(2,220)	(146)	(2,276)	-2%	-2%
Professional fees	(31)	(1,500)	(23)	(1,135)	32%	32%
Insurance expense	(206)	(318)	-	(248)		28%
Other operating expenses	(333)	(5,216)	(208)	(3,266)	60%	60%
Total expenses	(1,939)	(49,249)	(1,802)	(43,479)	8%	13%
EBITDA	8,860	35,453	11,336	39,058	-22%	-9%
<i>EBITDA Margin</i>	82%	42%	86%	47%		
Depreciation and amortisation	(1,400)	(11,442)	(1,437)	(11,747)	-3%	-3%
EBIT	7,460	24,011	9,899	27,311	-25%	-12%
<i>EBIT Margin</i>	69%	28%	75%	33%		
Finance income	20	170	13	110	54%	54%
Finance cost	(1,260)	(6,645)	(3,022)	(15,938)	-58%	-58%
Foreigns exchange gains(losses)	(96)	(571)	(24)	(146)	292%	292%
EBT	6,124	16,965	6,865	11,338	-11%	50%
Income tax expense	(1,206)	(1,714)	(2,145)	(3,048)	-44%	-44%
NET INCOME/LOSS FOR THE PERIOD	4,918	15,251	4,720	8,291	4%	84%
<i>Net Income Margin</i>	46%	18%	36%	10%		

GGU consolidated balance sheet (2015 9M-2016 9M)

Numbers are given in GEL, thousand

	2016A 9M	2015A 9M	Y-o-Y % change	2015A YE	Y-o-Y % change
ASSETS					
Non-current assets					
Property, plant and equipment	312,295	283,970	10%	288,335	8%
Investment Property	19,417	19,417	0%	19,417	0%
Intangible assets	979	842	16%	1,206	-19%
Restricted Cash	2,667	2,646	1%	2,545	5%
Deffered income tax asset	-	279	-100%	1,388	-100%
Other non-current assets	1,020	1,021	0%	-	
Total non-current assets	336,378	308,174	9%	312,891	8%
Current assets					
Inventories	3,727	4,264	-13%	3,282	14%
Trade and other receivables	27,148	29,141	-7%	23,762	14%
Current income tax prepayments	591	840	-30%	1,340	-56%
Cash and cash equivalents	5,399	11,283	-52%	11,634	-54%
Total current assets	36,864	45,528	-19%	40,018	-8%
TOTAL ASSETS	373,243	353,702	6%	352,908	6%
EQUITY					
Charter capital	2	2	0%	2	0%
Retained earnings/(accumulated loss)	83,149	72,707	14%	75,316	10%
Revaluation reserve	180,040	153,979	17%	153,894	17%
TOTAL EQUITY	263,191	226,688	16%	229,212	15%
LIABILITIES					
Non-current liabilities					
Long term borrowings from third parties	64,388	63,024	2%	45,689	41%
Deffered income tax liability	260	27,483	-99%	28,434	-99%
Total non-current liabilities	64,647	90,508	-29%	74,123	-13%
Current liabilities					
Current borrowings from third parties	19,855	12,253	62%	28,354	-30%
Trade and other payables	20,363	22,074	-8%	19,207	6%
Provisions for liabilities and charges	848	1,406	-40%	1,318	-36%
Other taxes payable	4,338	771	463%	693	526%
Total current liabilities	45,404	36,504	24%	49,572	-8%
TOTAL LIABILITIES	110,051	127,012	-13%	123,695	-11%
TOTAL LIABILITIES AND EQUITY	373,243	353,700	6%	352,907	6%

- 13% decrease in inventories compared to the LY 9M is a result of better inventory management systems introduced in 2016
- 17% decrease of revaluation reserve compared to LY is due to the write-off of the deferred tax based on the new tax code regulation concerning income tax
- 14% increase of the total borrowings of GGU is attributable to the GEL 17.8mln loan obtained in 2016
- Respective dividend payout is observed in the change of retained earnings compared to the LY

GGU consolidated cash flow statement (2015 9M-2016 9M)

Numbers are given in GEL, thousand

	2016A 9M	2015A 9M	y-o-y % change
CASH FLOW FROM OPERATING ACTIVITIES			
Cash receipt from customers	98,844	101,721	-3%
Cash paid to suppliers	(37,792)	(25,661)	47%
Cash paid to employees	(11,880)	(15,191)	-22%
Interest received	186	125	49%
Interest paid	(7,735)	(5,330)	45%
Taxes paid	(8,885)	(15,754)	-44%
Cash flow from operating activities	32,737	39,910	-18%
Maintenance capex	(13,629)	(9,220)	0%
Operating cash flow after maintenance capex	19,107	30,690	0%
CASH FLOW FROM INVESTING ACTIVITIES			
Purchase of PPE and intangible assets	(21,769)	(15,043)	45%
Proceeds from PPE sale	-	(4)	-100%
Loans issued	-	(36)	-100%
Restricted cash in Bank	(889)	-	
Restricted cash withdrawn from Bank	1,263	-	
Cash flow from investing activities	(21,395)	(15,083)	42%
CASH FLOW FROM FINANCING ACTIVITIES			
Proceeds from borrowings	17,885	1,120	1497%
Repayment of borrowings	(7,467)	(18,269)	-59%
Dividends paid out	(13,159)	(187)	6940%
Cash flow from financing activities	(2,741)	(17,335)	-84%
Exchange gains/(losses) on cash equivalents	(1,207)	(229)	426%
TOTAL CASH INFLOW/OUTFLOW	(6,235)	(1,958)	-7%
CASH BALANCE			
Cash beginning Balance	11,634	13,241	-12%
Cash Ending Balance	5,399	11,283	-13%

- Collections rates for legal entities was 92%, while for households – 94%; resulting in GEL 7.4mln of current overdue payables
- Proceeds from borrowings constitute the loans obtained for: a) dividend payout GEL 13.0mln (Bank Republic); b) Saguramo HPP construction GEL 4.8mln (TBC Bank)
- Increase of amounts paid to suppliers compared to LY is due to the increased electricity transmission costs which took place in 2016
- Increase of interest paid compared to LY is due to the refinancing of US\$ denominated loans into Lari loans
- Decrease of the taxes paid compared to the LY is due to the advance ruling received 2016 regarding the tax charges upon the normative losses
- Increase in purchase of PPE is mostly attributable to Saguramo HPP construction which started in 2016

GGU consolidated income statement – quarters (2016)

Numbers are given in GEL, thousand

	1Q16A	2Q16A	3Q16A
REVENUES			
Revenue from water supply to legal entities	17,034	19,353	22,203
Revenue from water supply to individuals	7,837	7,295	7,735
Revenue from electric power sales	3,267	895	2,309
Revenue from technical support	337	454	1,319
Other income	268	230	648
Total revenue	28,743	28,227	34,213
OPERATING EXPENSES			
Provision of trade receivables	(745)	(727)	(1,412)
Salaries and benefits	(4,286)	(4,319)	(4,566)
Electricity and transmission costs	(4,357)	(4,702)	(4,575)
Raw materials, fuel and other consumables	(882)	(1,090)	(958)
Infrastructure assets maintenance expenditure	(666)	(546)	(788)
General and administrative expenses	(686)	(899)	(700)
Taxes other than income tax	(823)	(734)	(806)
Professional fees	(608)	(400)	(523)
Insurance expense	(67)	(199)	(258)
Other operating expenses	(1,523)	(2,155)	(1,869)
Total operating expenses	(14,645)	(15,771)	(16,455)
EBITDA	14,098	12,456	17,758
<i>EBITDA Margin</i>	49%	44%	52%
Depreciation and amortization	(4,127)	(4,224)	(4,441)
EBIT	9,971	8,232	13,317
<i>EBIT Margin</i>	35%	29%	39%
Finance income	110	61	19
Finance cost	(2,477)	(2,586)	(2,841)
Foreign exchange gains (losses)	(63)	(472)	(131)
EBT	7,540	5,235	10,364
Income tax expense	(2,108)	355	(1,168)
NET INCOME/LOSS FOR THE PERIOD	5,432	5,590	9,197
<i>Net Income Margin</i>	19%	20%	27%

- Decrease of electric power sales in Q2 is due to repair works of the Zhinvali HPP tailrace tunnel
- Increase of water sales in Q3 and Q4 is due to the seasonal fluctuations of water consumption
- Increase of technical support sales in Q3 and Q4 is due to the acceleration of works related to the new connections and the write-off of advance payments received
- Increase of the costs related to salaries & benefits and raw materials in Q4 is due to the lower capitalization rates initially utilized for the forecasting purposes

Acquisition of remaining 75% interest in GGU

Acquired remaining 75% interest in GGU

- Acquired remaining 75% stake in GGU
- The settlement of the cash consideration of US\$ 70.0 million
- The transaction values GGU's enterprise value at GEL 287.5 million, or 4.2x EV / EBITDA 2016E
- GGU distributed dividends in the aggregate amount of GEL 13.0 million to the existing shareholders
- The transaction is both, P/E and B/V accretive from day one
- BGEO funded the acquisition through a combination of the BGEO's existing unallocated cash and additional debt
- GGU's existing senior management team continues to lead the business following the buy-out

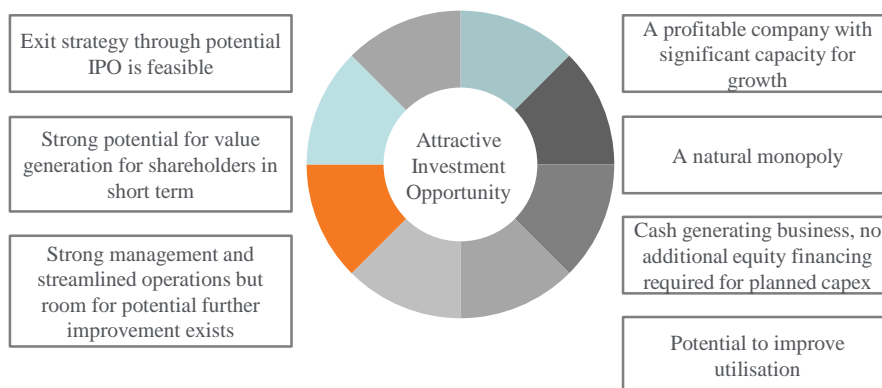
Overview of 25% acquisition in 2014

- Transaction was structured in several steps:
 - Acquisition of 25% shareholding for GEL47.6m (US\$26m)
 - Option to acquire an additional 24.9% within 10 months for GEL47.6m (US\$26m), plus 20% per annum accrued on the call option consideration over the period from closing date to exercise date less any dividends distributed through the call option period. Subsequently, BGEO did not exercise the call option
- Attractive valuation with GGU valued at EV / EBITDA 2014E deal multiple of 4.7x, while industry peers were trading at 8.5x average EV / EBITDA 2014E multiple(1)
- BGEO also provided a US\$25mn loan to GGU with proceeds paid as dividend to the selling shareholders
- The transaction was earnings accretive

Notes:

- (1) Universe of comparable companies includes Penmon Group, Acea, Artesian Resources, American State Water Company, Athens Water and Thessaloniki Water Supply.
- (2) The latest available data (from 2005)

Transaction Rationale



GGU's strategy

GGU is an established business, targeting further EBITDA growth as a result of its strategy, which implies strong cash flow generation post prudent capital expenditures.

- **Stable cash collection rate.** Average collection rates at only 65% in major cities. And average collection rates from households in Georgia only 45%⁽²⁾. GGU's collection rates are currently 96%.
- **Increase of the energy efficiency and water loss reduction.** Cost saving from reduction in water delivery losses to 40%, from current 50%. Existing high level of water losses is about 4-5 times higher than that in the Western Europe, creating an opportunity for efficiency gains. There is dual-effect from water delivery loss reduction, as freed-up energy can be sold to third parties.
- **Generation of additional income streams.** This implies utilizing GGU's existing infrastructure and developing hydropower plants to increase electricity sales to third parties; installing micro HPPs to achieve more efficient water supply

Georgian water utility sector – capitalizing on efficiency gains

Underdeveloped industry, with significant efficiency and long term growth potential

- Significant funding-gap in the past has led to largely depreciated pipeline infrastructure causing on average 50% water loss, which is about 4-5 times higher than that in the western Europe, creating an opportunity for efficiency gains
- Excessive water consumption due to high level of non-metered customers led to excessive consumption
- **GGU has introduced extensive measures to reduce water losses in the network (e.g. zoning, bulk metering) and has motivational schemes for staff to identify water larceny**

Concentrated WSS supply, with only one profitable player and low collection rates that GGU was able to dramatically improve on

- Average collection rates from households in Georgia was 45%
- Majority of WSS companies are operating on state subsidies due to low collection rates and unauthorized water consumption
- **GGU's collection rates are currently 96% with the means day-to-day efficient collection management and metering**

Further capital investments expected in the sector as Georgian government goes for 100% WSS coverage rate goal by 2020

- 50.7% of the population gets serviced on the municipal level with a very poor service quality and poor coverage
- With 100% population coverage goal incentives for intensive capital investments in WSS sector are to be expected

Highlights and Summary

- Underdeveloped WSS industry holds an ample potential of development and efficiency gains, as GGU group companies have already proven by increasing collection rates and decreasing water losses
- Economic development and government's commitment to development of WSS supply and 100% coverage by 2020 should accelerate investment which should in turn be depicted in WSS pricing as Georgia's WSS prices are already 90% lower on average than in its peer countries

Snapshot of Georgia's WSS market

Company	Coverage area	% of urban population serviced	Ownership type	Revenue source
GGU	Tbilisi, Rustavi, Mtskheta	24.9%	Private	Revenues collected from the customers
BWC	Batumi	3.7%	Public	Revenues collected from the customers, state subsidies
UWSCG	Part of Georgia	20.7%	Public	Revenues collected from the customers, state subsidies
Other	Rest of Georgia	50.7%	Municipal	State and municipal subsidies

Georgia's electricity market – *stable outlook, sustainable growth*

Despite a significant upgrade of installed capacity in past 3 years (up 445 MW¹) a US\$ 380,000/day electricity deficit remains to be bridged

- 75% of Georgia's installed capacity is hydropower - the only domestic resource
- Georgia imports 30% of its electricity consumption to fill the gap
- Import bill as high as US\$ 140mn² in 2015 financed 2.5mn kWh of natural gas³ and 0.7mn kWh of direct electricity imports

Friendlier rules, liberalization of power generation, ample hydro-potential and proximity to Turkish market has made Georgia an investment of choice for risk-averse yield-seeking investors for years

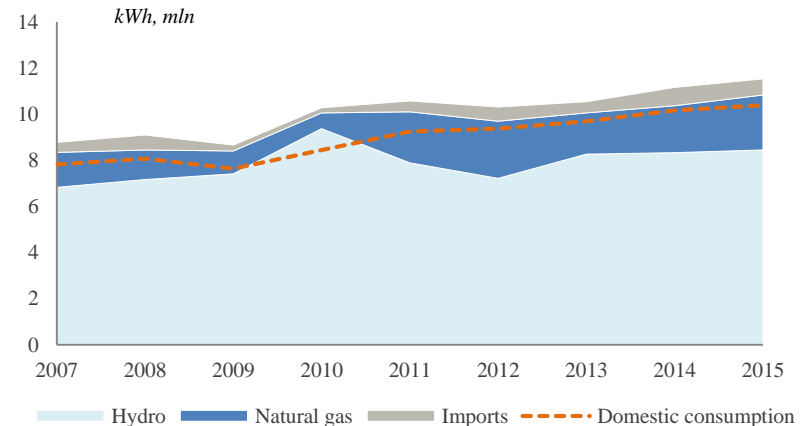
- 2008 Renewable Energy Act resulted in US\$ 1.3bn in FDI in 2008-2015
- Friendlier rules attracted energy giants such as Tata Group, Clean Energy, Anadolu Holding and Calik Enerji to Georgian market
- Most power producers have locked in and stable cash flow (PPAs) that provides for a flexible yet secure investment option
- US\$ 330mn investment has been made in renewable energy projects in past 3 years an estimated US\$ 3.0bn is in the pipeline for coming decade

Project development in a changing electricity market landscape is the main challenge market is currently facing but the opportunities come up as the direct consumer base is set to expand

- Georgia accessing the European Energy Community (EnC) will result in open, competitive electricity market
- The eligibility criteria to trade directly is being reduced to 1kWh per year broadening the direct consumer base
- Hourly supply and demand mechanisms, once in play, will balance the markets according to peak loads

Notes:
 (1) The installed capacity includes 15 HPPs, 1 WPP, 1 CPP and 1 CCPP
 (2) US\$ 140mn is the sum of direct electricity imports for 2015 (GeoStat) and TPP natural gas consumption at a price of US\$ 143/mcm
 (3) Electricity generated by natural gas fired aggregates of which there are 5

Snapshot of Georgia's electricity balance



Highlights and Summary

- Georgia's domestic consumption is expected to reach 16mn kWh by 2030 and with current production levels the deficit will only get larger, with import bill increasing annually
- Energy security measures call for increased domestic generation and tapping of renewable resources available inside the country – hydro, as well as solar and wind
- Currently low prices on Turkish market remain to be the main pain point for investors, however low crude oil prices affecting renewable investment is not region specific to Georgia and in medium term we see a rebound on Turkish market
- **Overall, we see renewables in Georgia as a resilient long term value-yielding investment**

Regulatory framework in Georgia

The main regulatory bodies



- Ministry of Regional Development and Infrastructure (MRDI);
- Ministry of Environment and Natural Resources (MENR), and;
- Georgian National Energy and Water Supply Regulatory Commission (GNERC);
- Ministry of Agriculture (MoA) and National Food Agency (NFA)



- Ministry of Energy (MoE), and
- Georgian National Energy and Water Supply Regulatory Commission (GNERC).

Elements of regulatory discretion

	MRDI	MoA	MENR	GNERC
Regulatory provisions and by-laws	✓	✓	✓	✓
Environmental safety and sustainability			✓	
Recovery of surface and underground waters			✓	
WSS infrastructure planning and development	✓			
WSS service licensing and regulation				✓
WSS services economic regulation				✓
Drinking water quality control		✓		

	MoE	GNERC
Develops national policy for the sector	✓	
Develops a national strategy for emergencies and safety	✓	
Approves the list of system and inter-system transmission lines	✓	
Monitors the energy market		✓
Regulates tariff		✓
Issues, modifies and revokes licenses		✓
Mediates disputes and imposes sanctions		✓

Water and Energy Tariff Setting Methodology Study (1/2)

We have upside from tariff increase, as there are strong arguments for increase and our current business plan is based on flat-tariffs

Water

Context:

- Regulator (GNERC - regulates all utility prices in Georgia, appointed by Parliament) sets tariffs (current tariff is valid till May 2017)
- Tariff setting methodology does not meet international standards and leads to revenue losses for providers
- GGU initiated tariff-methodology review process with regulator based on arguments developed together with Fichtner (leading consultants in energy sector)
- Upside from improved tariff is expected to be GEL 10mln (based on 2015 performance)

Going forward:

- Regulator is cooperating on tariff-methodology change initiative – wants to include operating companies (like GGU) in working team that will come-up with proposal
- Regulator also hired consultant to update the existing methodology

Electricity

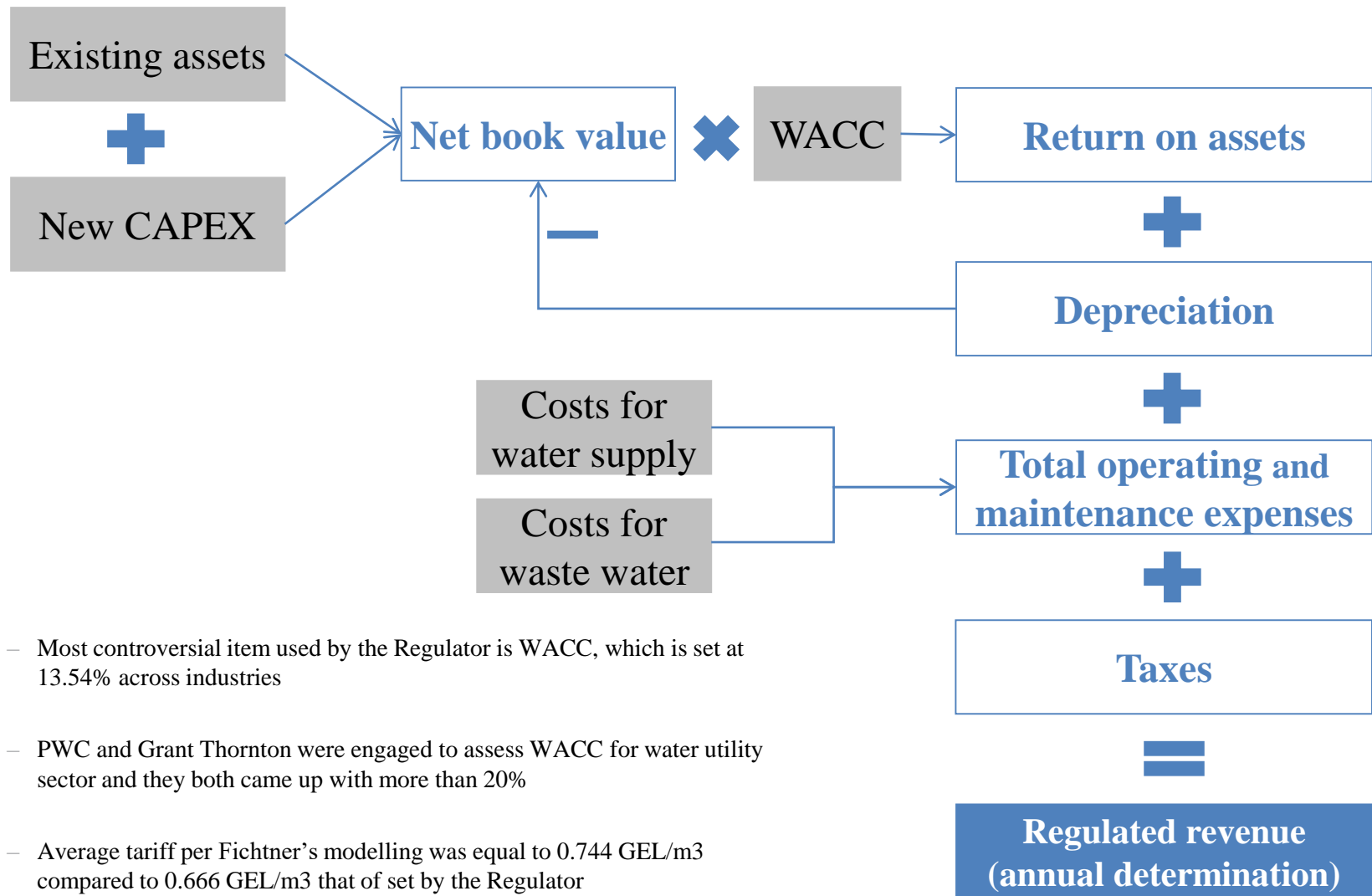
Context:

- Existing tariff is without concerns. Methodology was updated several years ago
- 130MW HPP operated by GGU is under regulated tariff (note: all HPPs built in Soviet times have regulated tariff). GGU's other HPPs (19MW in total) sell at market price
- Deregulation would incentivize GGU to optimize own consumption of electricity, and sell free-up generation on open-market. Additionally, GGU could make capital expenditures to enhance installed capacity of Zhinvali HPP

Going forward:

- We are actively in talks with Ministry of Energy to deregulate Zhinvali plant
- Recently, MOE has expressed readiness for deregulation

Water and Energy Tariff Setting Methodology Study (2/2)



- Most controversial item used by the Regulator is WACC, which is set at 13.54% across industries
- PWC and Grant Thornton were engaged to assess WACC for water utility sector and they both came up with more than 20%
- Average tariff per Fichtner’s modelling was equal to 0.744 GEL/m³ compared to 0.666 GEL/m³ that of set by the Regulator

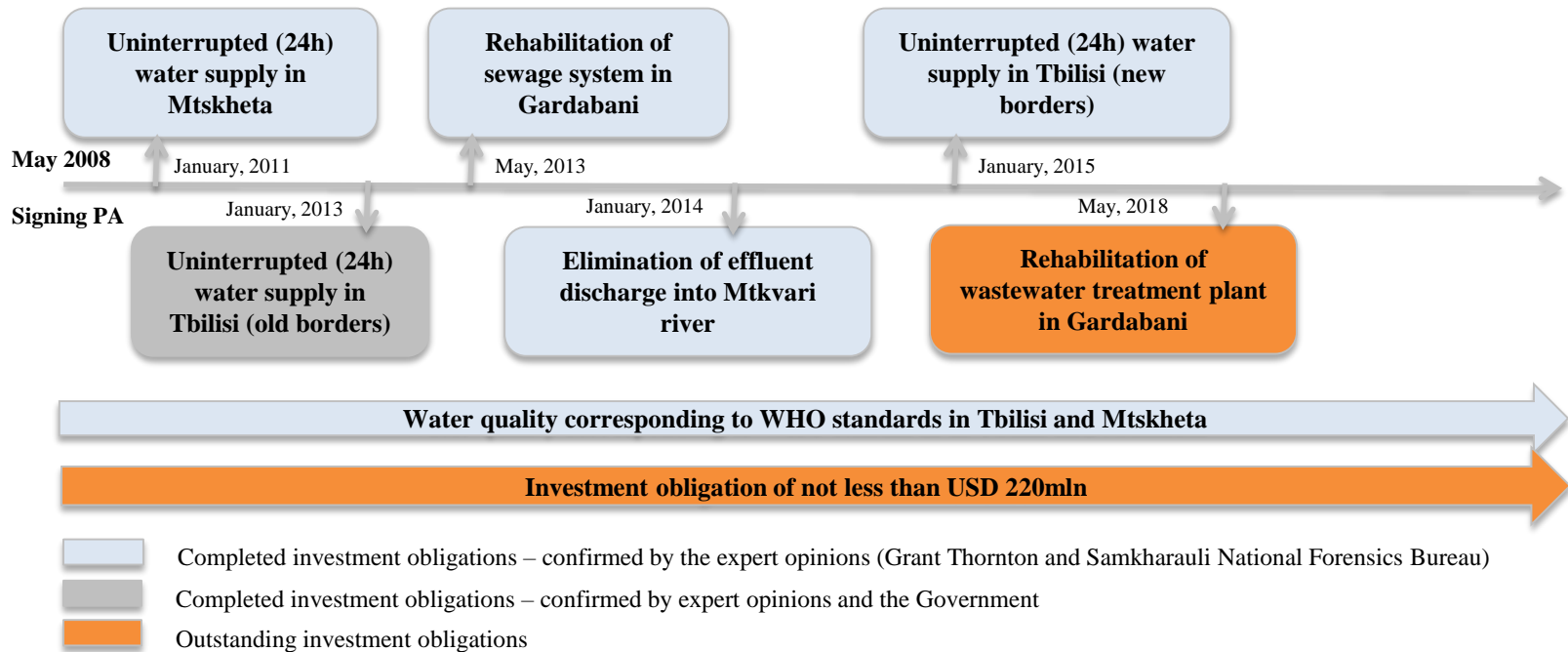
Key raw materials

GGU is self sufficient as it owns its major material inputs (water & electricity)

	Water	Electricity	Fuel	Chlorine	Coagulant
Use	<ul style="list-style-type: none"> • Key end-user consumable 	<ul style="list-style-type: none"> • Power source of distribution process 	<ul style="list-style-type: none"> • Operating Activities 	<ul style="list-style-type: none"> • Water treatment 	<ul style="list-style-type: none"> • Water treatment
Consumption in 2015	<ul style="list-style-type: none"> • 536,401,965 (m³) 	<ul style="list-style-type: none"> • 319,600,931 (KWh) 	<ul style="list-style-type: none"> • 1,184 (m³) 	<ul style="list-style-type: none"> • 753,170 (kg) 	<ul style="list-style-type: none"> • 425,600 (kg)
Self Sufficiency	<ul style="list-style-type: none"> • 100% 	<ul style="list-style-type: none"> • 100%* 	<ul style="list-style-type: none"> • 0% 	<ul style="list-style-type: none"> • 0% 	<ul style="list-style-type: none"> • 0%
2015 Prices	<ul style="list-style-type: none"> • 53,910 GEL (extraction fee) 	<ul style="list-style-type: none"> • N/A 	<ul style="list-style-type: none"> • 1.33 GEL /m³ 	<ul style="list-style-type: none"> • 1.74 GEL /kg 	<ul style="list-style-type: none"> • 0.65 GEL /kg
Regulated price	✓	✓	✗	✗	✗
Key Suppliers in 2014	Self sufficient production	Self sufficient production	Various suppliers (monthly tender)	Luzy Company (Turkey); Crystal; GTR Group (Iran)/(annual tender)	Ozge Kerestecilik (Turkey); Sieny (Turkey) (annual tender)

Share purchase agreement

- In 2008, the Government of Georgia, Ministry of Economic Development of Georgia and the Government of Tbilisi sold 100% shares in GWP, RWC and MWC to Georgia Global Utilities Ltd BVI
- Within the Share Purchase Agreement (SPA), the government required the buyer to carry out number of obligations:



- Big 4 audit firms, EY and PWC, conducted audit of the fulfillment of the investment obligations and came up with US\$ 231mln result as of May, 2015

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