



London, 23 June 2016

BGEO announces the purchase of the remaining 75% stake in Georgian Global Utilities

BGEO Group PLC (“**BGEO**” or the “**Group**”) announces that JSC BGEO Investments, a wholly owned subsidiary of BGEO, has signed a Share Purchase Agreement (“**SPA**”), to acquire a 75% equity stake in Georgian Global Utilities Limited (“**GGU**”) for cash consideration as described below. As a result of this buy-out, the Group will own 100% of GGU. The transaction values GGU’s enterprise value at GEL 287.5 million, or 4.2x EV / EBITDA 2016E. The transaction is expected to be both earnings and book value accretive from day one.

GGU is a privately-owned company, which benefits from a natural monopoly that supplies water and provides wastewater services through its wholly owned subsidiaries to 1.4 million people (approximately one third of Georgia’s total population) in Tbilisi, Mtskheta and Rustavi. In addition, GGU owns and operates three hydropower generation facilities with a total capacity of 143MW. GGU was privatised in 2008. The terms of the privatisation include certain commitments by the Government and the investor, part of which have been discharged, and it is expected that the remaining commitments (primarily requiring refurbishment of assets) will be discharged in 2018. BGEO believes that GGU operates in a stable regulatory environment.

In December 2014, BGEO acquired a 25% shareholding in GGU for c.GEL47.6 million (US\$26.25 million). The acquisition was earnings as well as book value accretive in year one. In addition, BGEO had a call option to acquire an additional 24.9% shareholding within a 10-month period for a further US\$26 million, plus interest at 20% per annum accrued on the option consideration from the closing date of the initial shareholding acquisition until the call option exercise date, less any dividends distributed through the call option period. Subsequently, BGEO did not exercise the call option mainly due to Lari devaluation which made the exercise of the option unattractive at that time.

The outstanding performance of GGU in 2015 was primarily driven by efficiency improvements achieved following the appointment of a new management team. Since 2014, GGU put in place a strong management team and streamlined operations, however there remains room for significant further improvement. GGU has reported growing revenues, with a 3.6% CAGR 2010-2015 and revenues of GEL 117.7 million for 2015, up 2% y-o-y. EBITDA was GEL 61.5 million in 2015, up 10% y-o-y, with an EBITDA margin of 52%, up 300bps y-o-y. GGU’s debt to EBITDA ratio stood at 1.2-times at the end of 2015.

The combination of GGU’s strong performance during 2015 and the prospect of significant further improvement over the medium term let the BGEO Board of Directors to make the decision to step up the Group’s investment in GGU by purchasing the remaining 75% stake. In exchange for the 75% stake in GGU, BGEO will pay cash consideration of US\$ 70.0 million (c.GEL 152.6 million). This cash consideration will be paid in full at the closing of the transaction, within one month following the signing of the SPA. Additionally, as contemplated by the SPA, GGU plans to distribute dividends in the

aggregate amount of GEL 13.0 million to its existing shareholders (including BGEO Group PLC), on a pro rata basis, before the completion of the GGU acquisition. BGEO will fund the acquisition through a combination of the BGEO's existing unallocated cash and/or additional debt. GGU's planned capital expenditure programme is fully funded and, accordingly, BGEO does not expect that GGU will require any additional equity financing in the medium term.

BGEO expects that GGU's existing senior management team will continue to lead the business following the acquisition and believes that GGU is well placed to further improve its financial condition and results over the medium term.

The management team of GGU is led by Mr Giorgi Tskhadadze, who has been the chief executive officer of GGU's operating subsidiaries since December 2014. Mr. Tskhadadze previously served as chief financial officer of Borjomi, a leading beverage company in Georgia. Giorgi will continue to lead GGU's operating subsidiaries. BGEO believes that, since joining GGU, he has demonstrated an ability to capture efficiencies and streamline operations. Under his leadership, GGU has strengthened its overall management team and improved its internal processes.

Mr Giorgi Vakhtangishvili became GGU's chief financial officer in April 2015, as BGEO's nominee. He previously served as chief executive officer of m2 Real Estate. BGEO believes that he has also made a significant contribution to the success of GGU by implementing a prudent financial management function supported by advanced information technology systems, in addition to improving the financial stability of GGU's subsidiaries.

The key 2015 income statement and balance sheet information for GGU follows. Figures are unaudited and derived from GGU's management accounts.

SELECTED FINANCIALS⁽¹⁾

(GEL millions, unless otherwise mentioned)

	<i>(Year ended 31 December 2015)</i>
Revenue	117.7
<i>of which:</i>	
Revenue from water supply to legal entities	74.4
Revenue from water supply to individuals	30.4
Revenue from electric power sales	9.2
Revenue from technical support	3.2
Other income	0.5
EBITDA	61.5
Net profit	12.1
	<i>(As at 31 December 2015)</i>
Total gross assets	350.3
Equity	228.5

Note⁽¹⁾: Currently, the Group reports its share of GGU's profits as profit from associates. Following the buy-out of the remaining 75% stake, the Group will consolidate GGU financials and will report GGU as a separate segment. In addition, subject to certain regulatory and tax considerations, BGEO may, in the future, transfer its existing 25%-stake in GGU and consolidate ownership of the stake under JSC BGEO Investments.

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. Key measures to increasing operational cash flow are outlined below:

- **Stable cash collection rate.** The Georgian water utility sector has low, but improving collection rates among households. The latest available data (from 2005), shows average collection rates at only 65% in major cities. The average collection rate from households throughout Georgia was only 45%. GGU's collection rate was 96% in 2015.
- **Increasing energy efficiency and reducing water loss rates.** The Georgian water utility sector is also characterized by the existing high level of water losses of an average 50%, which is about 4-5 times higher than that in Western Europe, creating an opportunity for efficiency gains. Cost savings from reduction in water delivery losses to 40%, from the current 50% level creates an opportunity for significant 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 will require the utilisation of GGU's existing infrastructure and the development of hydropower plants to increase electricity sales to third parties; and installing turbinators to achieve more efficient water supply.

Strong cash flow generation is expected to enable GGU to sponsor stable dividend payouts to shareholders starting from 2018.

“I am delighted to announce the successful purchase of the remaining stake in GGU. The buy-out of the remaining 75% of GGU fits into our strategy to acquire attractive businesses which can be monetized within a six year period, via an IPO or an M&A trade. We remain committed to our principle of buying attractive businesses, and this purchase at a 4.2x EV / EBITDA multiple is expected to be earnings accretive from day one. I want to thank GGU's existing management team for delivering a strong improvement in the performance of GGU during the past year. This track record was important to our decision to step-up our investment and become the 100% shareholder of the business. I look forward to working with the GGU team to deliver its expected strategy and to grow the business with an aim to crystalize the value within 3-5 years”, said **Irakli Gilauri**, CEO of BGEO Group PLC.

About BGEO Group PLC

BGEO Group PLC is a UK incorporated holding company of a Georgia-based banking group with an investment arm. Its primary business is the leading Georgian bank JSC Bank of Georgia, which has a market share of 33.5% (based on total assets), 32.3% (based on total loans) and 33.2% (based on client deposits). The banking business offers a broad range of retail banking, corporate banking, investment management and P&C insurance services. As of 31 March 2016, the bank served approximately 2.0 million client accounts through one of the largest distribution networks in Georgia, with 266 branches, the country's largest ATM network, comprising 753 ATMs, 2,627 Express pay (self-service) terminals and a full-service remote banking platform and a modern call center. The investment business primarily consists of the largest healthcare group in Georgia (Georgia Healthcare Group), real estate business (m2) and utility business (Georgia Global Utilities).

Bank of Georgia has, as of the date hereof, the following credit ratings:

Standard & Poor's	'BB-/B'
FitchRatings	'BB-/B'
Moody's	'B1/NP' (FC) & 'Ba3/NP' (LC)

For further information, please visit www.bgeo.com or contact:

Irakli Gilauri
Group CEO
+995 322 444 109
igilauri@bog.ge

Michael Oliver
Adviser to the CEO
+44 203 178 4034
moliver@bog.ge

Ekaterina (Eka) Shavgulidze
Head of Investor Relations
+995 322 444 205
eshavgulidze@bog.ge

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