GALT & TAGGART RESEARCH

Georgian Oil and Gas Corporation
Resilient Growth

Georgia | Energy
Georgian Oil and Gas Corporation
August 14, 2015

S&P B+ / Fitch BB-

GOGC posted promising FY14 results given the high regional uncertainty in 2014, especially in the oil and gas sector. FY14 revenue showed modest, yet welcoming growth. Gardabani Combined Cycle Power Plant (CCPP) was completed ahead of schedule and is expected to commence operations in 2015, providing profitable revenue diversification. Keeping in mind the regional economic slowdown, we believe revenue growth from existing sources will be subdued and align with that of GDP's. Despite its slight deterioration to 2.5x, FY14 net debt-to-adjusted EBITDA is well below the Eurobond covenant. We expect FY15 net debt-to-adjusted EBITDA to increase slightly to 2.8x before sliding to 1.3x in FY16. GOGC is considering two major capital projects including an underground gas storage reservoir and Gardabani CCPP II. In addition, the company is negotiating a potential sale of Gardabani CCPP.

Profitability declined slightly in FY14, set to rebound in FY16

FY14 revenue grew by a respectable 3.5% y/y, fueled by sale of gas and pipeline rental. We expect the top line to grow 9.3% y/y in FY15 thanks to the addition of electricity sales from Gardabani CCPP. FY14 operating expenses grew 5.6% y/y, mainly due to a 6.5% y/y increase in cost of gas, the largest operating expense with an 83.7% share. We see operating expenses growing slower than revenue starting end-FY15, as the company enters the more profitable electricity generation sector.

FY14 adjusted EBITDA shrank 1.3% y/y to US$ 62.1mn. The adjusted EBITDA margin narrowed to 30.7% in FY14 from 32.1% in FY13. We forecast adjusted EBITDA to increase 3.3% y/y in FY15 and 62.4% y/y in FY16 (the first fully operational year for Gardabani CCPP). FY14 EBIT saw a one-off drop mainly due to the reclassification of customer penalties from other income to finance income. A hike in finance costs weighed on net income of US$ 47.5mn - down 16.2% y/y. The FY14 net profit margin fell to 23.4% from 28.9% in FY13. Due to a significant expected FX loss in FY15, we expect net income to more than halve in FY15. However, the FX loss is an unrealized non-cash charge and not a cause for concern.

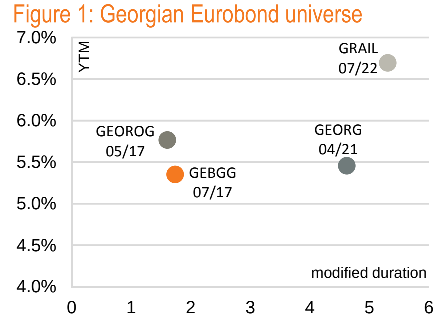
Two major capital projects considered, Gardabani CCPP may be sold

GOGC is considering building an underground gas storage reservoir, with a capacity of 230-250 mmcm (10-15% of current annual consumption), which would increase Georgia's energy security. A feasibility study should be completed by early 2016. In addition, GOGC is considering building Gardabani CCPP II with similar technical characteristics to Gardabani CCPP. GOGC is also negotiating a potential sale of Gardabani CCPP for at least US$ 290.0mn. A final decision is expected in late 2015.

Compliant with Eurobond covenants

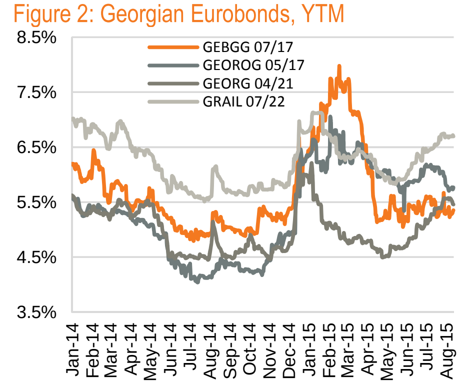
Decreased adjusted EBITDA, together with increased net debt due to reduced cash (down 12.9% y/y), led to a worsened net debt-to-adjusted EBITDA ratio of 2.5x. Still, the figure is well below the Eurobond covenant of 3.5x. Due to CCPP-related investing outflows in 1H15, we expect the year-end ratio to increase slightly to 2.8x before sliding to 1.3x in FY16 on the back of significantly increased EBITDA.

Figure 1: Georgian Eurobond universe



Source: Bloomberg, Galt & Taggart Research

Figure 2: Georgian Eurobonds, YTM



Source: Bloomberg, Galt & Taggart Research

Table 1: Key financials (US$ '000) and margins

	FY14	FY15F	Change, y/y
Revenue	202,628.5	221,520.1	*9.3%*
Gross profit	75,582.0	81,596.6	*8.0%*
Gross profit margin	*37.3%*	*36.8%*	*-0.5 pp*
EBITDA	63,477.4	65,248.9	*2.8%*
EBITDA margin	*31.3%*	*29.5%*	*-1.8 pp*
Adjusted EBITDA	62,113.8	64,162.7	*3.3%*
Adjusted EBITDA margin	*30.7%*	*29.0%*	*-1.7 pp*
EBIT	52,119.7	51,438.0	*-1.3%*
EBIT margin	*25.7%*	*23.2%*	*-2.5 pp*
Net income	47,506.1	20,233.6	*-57.4%*
Net profit margin	23.4%	9.1%	*-14.3 pp*
Assets	660,500.1	589,049.1	*-10.8%*
Equity	362,719.5	312,582.0	*-13.8%*
Liabilities	297,780.6	276,467.2	*-7.2%*

Source: Company data, Galt & Taggart Research

US$-GEL	FY11	FY12	FY13	FY14	Beyond FY14
Year-end	1.67	1.66	1.74	1.86	2.26
Average	1.69	1.65	1.66	1.77	2.22

Source: NBG, Galt & Taggart Research

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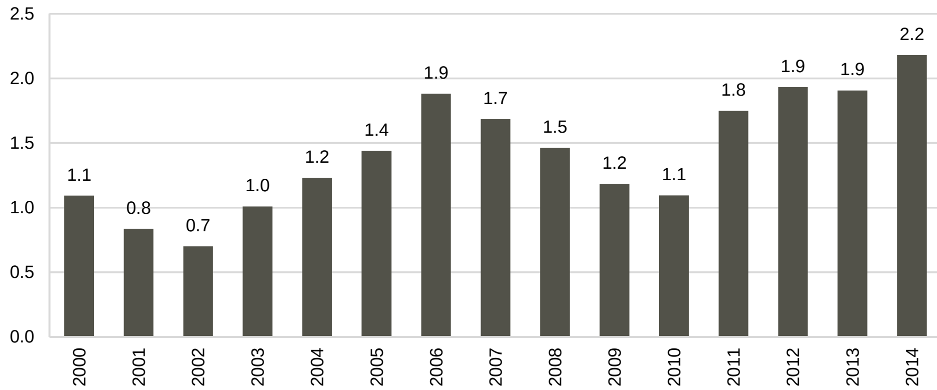
National gas consumption on the rise

In 2014, national natural gas consumption increased 14.3% y/y and hit 2.2 bcm. It was mainly driven by an increase of 34.0% y/y or 80 mmcm in usage of gas in vehicles (accounting for 350 mmcm or 15.9% of national consumption). Gas used in power generation increased 14.0% y/y or 70 mmcm (accounting for 570 mmcm or 25.9% of national consumption). In 2014, the household sector used 597 mmcm of gas, growing 4.0% y/y.

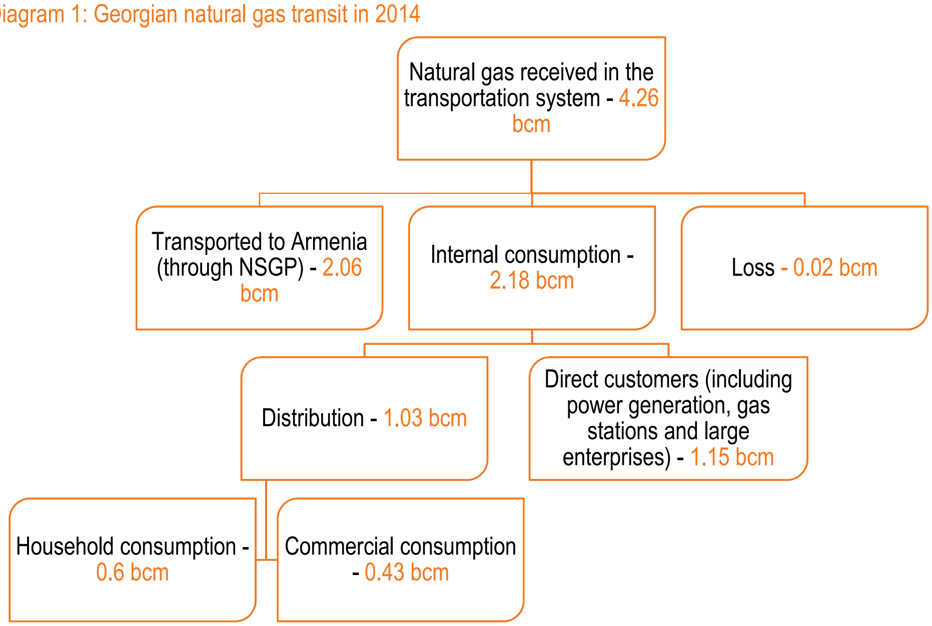
Figure 3: Annual national natural gas consumption, bcm



Source: GNERC, Galt & Taggart Research

Georgian natural gas transit is dependent on Georgian and Armenian natural gas consumptions at 2.2 bcm and 2.1 bcm, respectively. In the absence of a major shift among energy sources, gas transit volumes are going to grow in line with consumption.

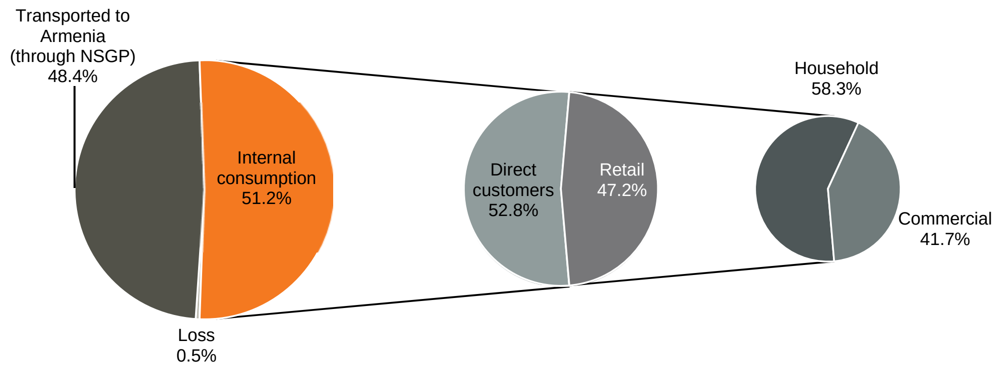
Diagram 1: Georgian natural gas transit in 2014



Source: GNERC, Galt & Taggart Research

In 2014, Frontera Resources Corporation expanded natural gas production at its private gas well by 94.0% y/y to 10.2 mmcm (0.5% of the national consumption).

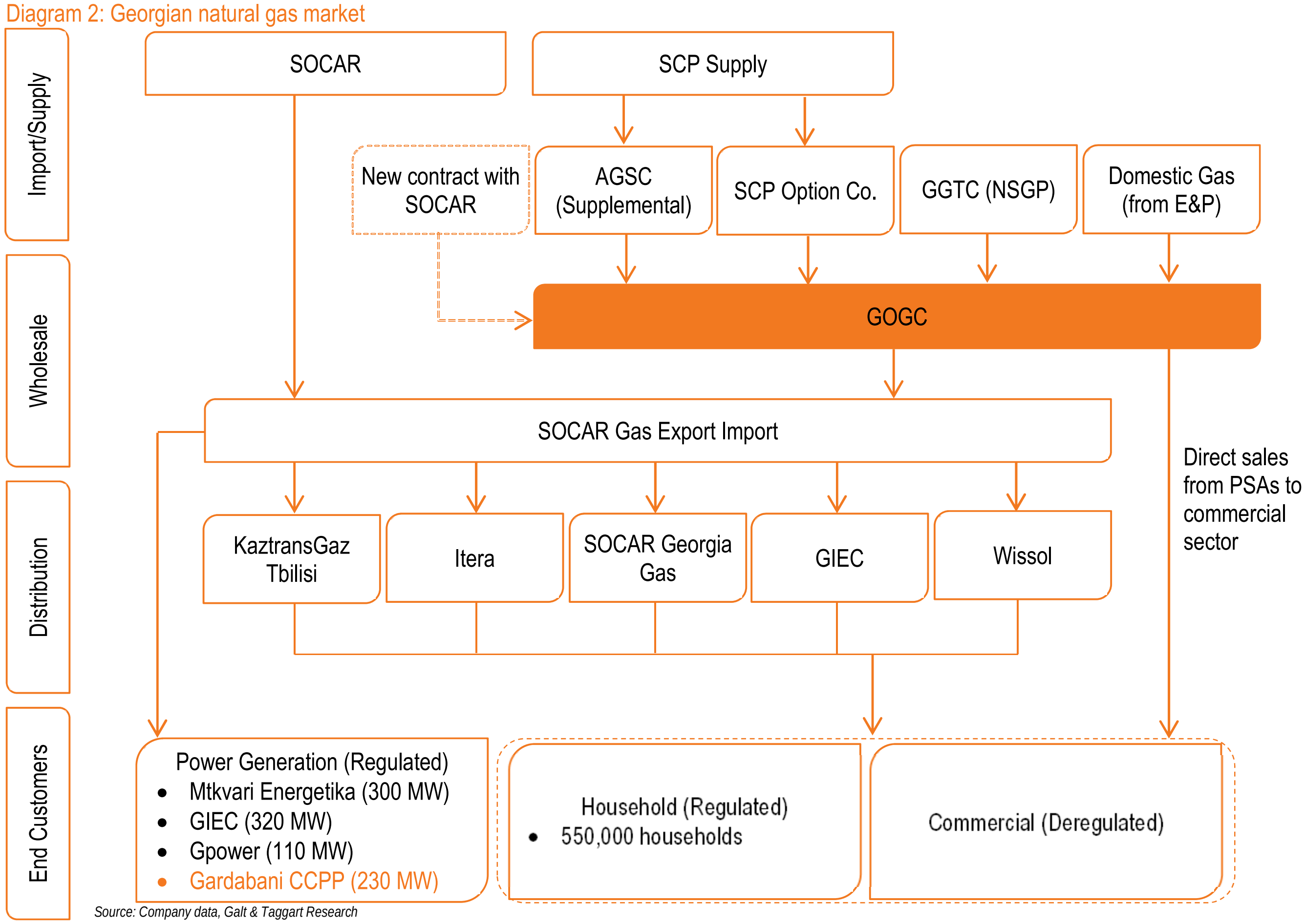
Figure 4: Georgian natural gas transit



Source: GNERC, Galt & Taggart Research
Note: Direct customers include power generation, gas stations and large enterprises

In 2014, GOGC imported 55.8% of Georgian national gas consumption. The imported gas is then sold to the wholesaler, SOCAR Gas Export Import, which resells the gas to distribution companies. The remaining 44.2% of gas consumed in Georgia is imported by SOCAR directly. The Georgian natural gas market remains dominated by GOGC and SOCAR and is largely unchanged, with the only additions being a new contract with SOCAR and Gardabani CCPP.

Diagram 2: Georgian natural gas market

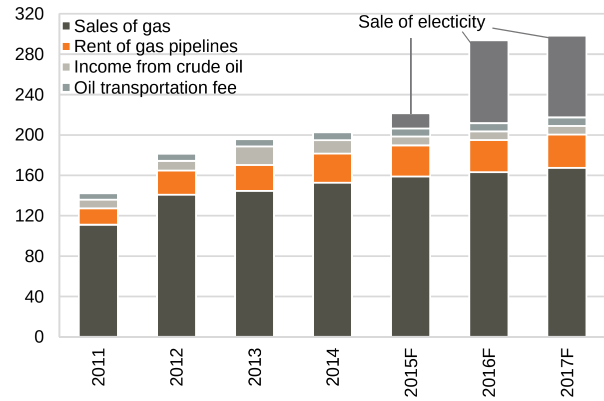


Source: Company data, Galt & Taggart Research

Top line grows gradually, driven by sale of gas

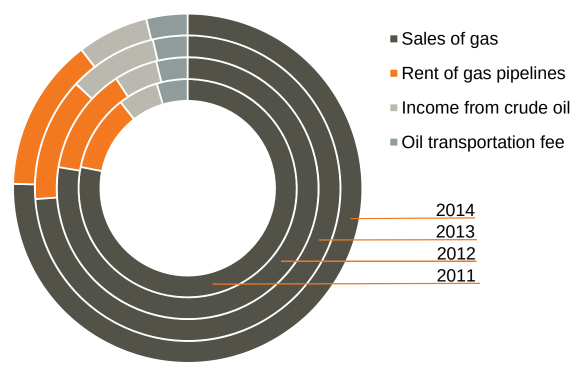
FY14 revenue reached US$ 202.6mn (US$ 195.8mn in FY13), posting an increase of 3.5% y/y (up 8.0% y/y in FY13). In FY15, we expect electricity sales to drive revenue up by 9.3% y/y to US$ 221.5mn. In GEL terms, FY14 revenue reached GEL 357.8mn (GEL 325.8mn in FY13), expanding 9.8% y/y (up 8.7% y/y in FY13), partly due to the 6.2% y/y appreciation of US$ against GEL in FY14.

Figure 5: Revenue, US$ mn



Source: Company data, Galt & Taggart Research

Figure 6: Revenue composition



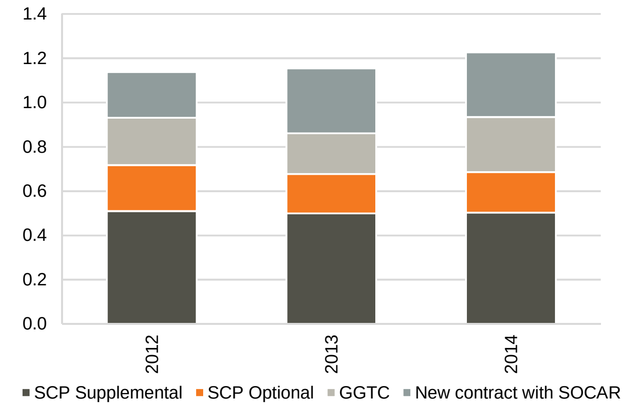
Source: Company data, Galt & Taggart Research

In FY14, sale of gas remained the largest contributor to revenue with a 75.4% share (73.9% in FY13), adding US$ 152.8mn (US$ 144.7mn in FY13) to the top line and growing 5.6% y/y (up 2.8% y/y in FY13). From FY15 onwards, we expect sale of Gardabani CCPP-generated electricity to be the new driving force behind revenue growth by adding US$ 15.1mn and US$ 82.1mn to the top line in FY15 and FY16, respectively. We expect sale of gas to grow 3.9% y/y in FY15 and reach US$ 158.8mn, retaining the lion's share (71.7%) in revenue.

GOGC's gas purchase price is fixed through long-term purchase contracts. The company has long-term contracts with the operators of SCP (South Caucasus Pipeline) and NSGP (North-South Gas Pipeline) and a new contract with SOCAR used for additional volumes. Pursuant to the National Oil Company (NOC) status, GOGC also receives gas via PSAs, but the share is insignificant.

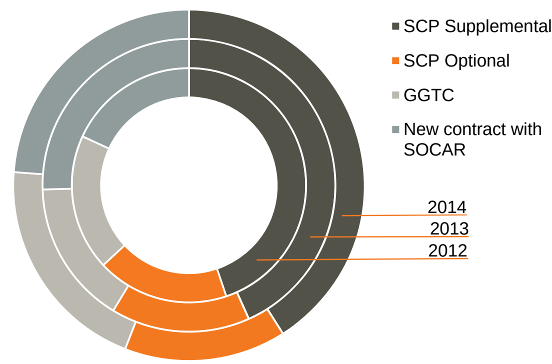
In FY14, GOGC mainly relied on SCP's supplemental and optional gas sources (accounting for more than half of the gas received). In FY14, SCP supplemental, SCP optional and GGTC sources held 41.0%, 14.9% and 20.3% shares in total gas purchased, respectively, compared to 43.3%, 15.4% and 15.9% a year earlier. In both years, the rest (around 25.0%) was purchased through the new contract with SOCAR. We consider SCP optional and GGTC (NSGP) contracts to be stable sources of gas, as competition from other pipelines should be rather limited in the coming years. Starting from FY15, GOGC will need additional volumes of gas for Gardabani CCPP operation. However, gas purchase price will not have a negative financial effect on GOGC. Pursuant to national electricity tariff methodology, the company's operating expenses are accounted for by the regulator in setting a guaranteed capacity fee, which GOGC will receive for guaranteeing capacity, regardless of the volume of generated electricity.

Figure 7: GOGC's gas volumes by source, bcm



Source: Company data, Galt & Taggart Research

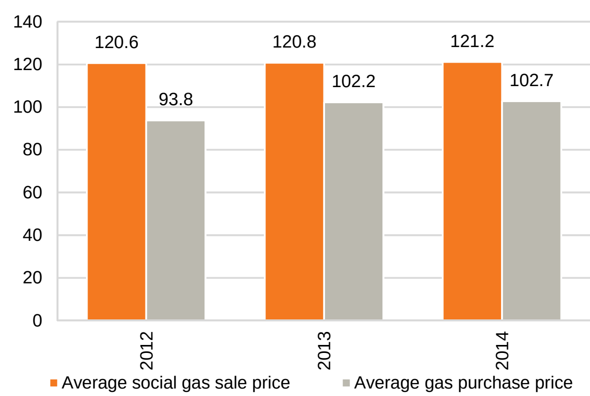
Figure 8: GOGC's gas volumes by source



Source: Company data, Galt & Taggart Research

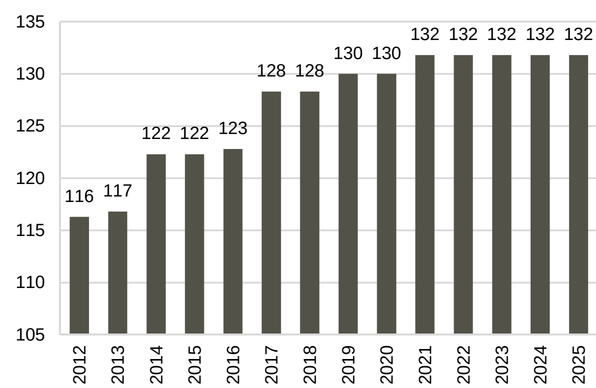
In FY14, GOGC charged SOCAR US$ 122.3 per mcm (US$ 120.8 per mcm in FY13) for social gas - a 1.2% y/y increase (up 0.2% y/y in FY13). The sale price for social gas is pre-determined through 2025, pursuant to a long-term agreement between the two parties. However, since March 1, 2015, by the decision of the government of Georgia, GOGC is subsidizing the difference between US$ 122.3 and US$ 115.5 for household gas sold to SOCAR Gas Export-Import. The subsidy is in force until March 1, 2016.

Figure 9: Average sale and purchase price per mcm by sector, US$



Note: Social sector includes household and power generation
Source: Company data, Galt & Taggart Research

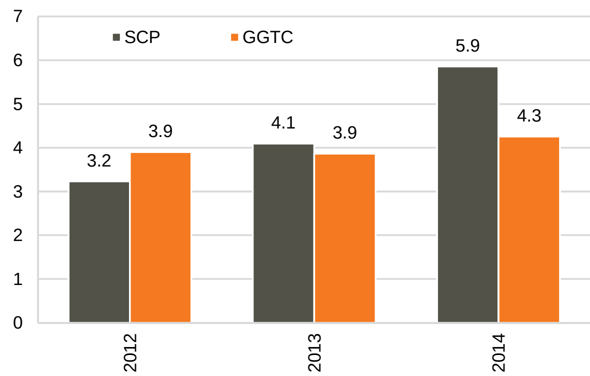
Figure 10: Social gas sale price per mcm, US$



Source: Company data, Galt & Taggart Research

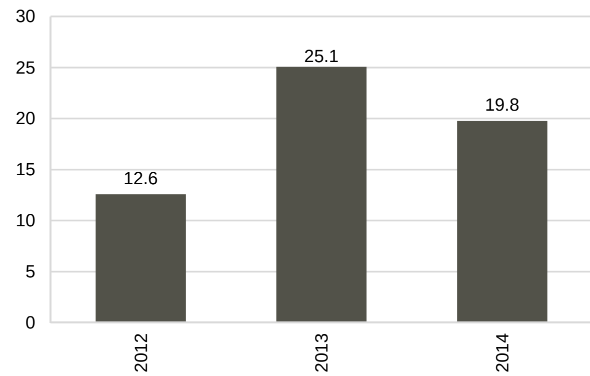
Rent of gas pipelines held the second-largest share at 14.2% (13.1% in FY13) of revenue, contributing US$ 28.8mn (US$ 25.6mn in FY13) and growing 12.1% y/y (up 7.0% y/y in FY13). We expect pipeline rental to increase 7.5% y/y in FY15, generally in line with Armenian natural gas demand, and account for US$ 30.9mn.

Figure 11: Annual throughput volume, bcm



Source: Company data, Galt & Taggart Research

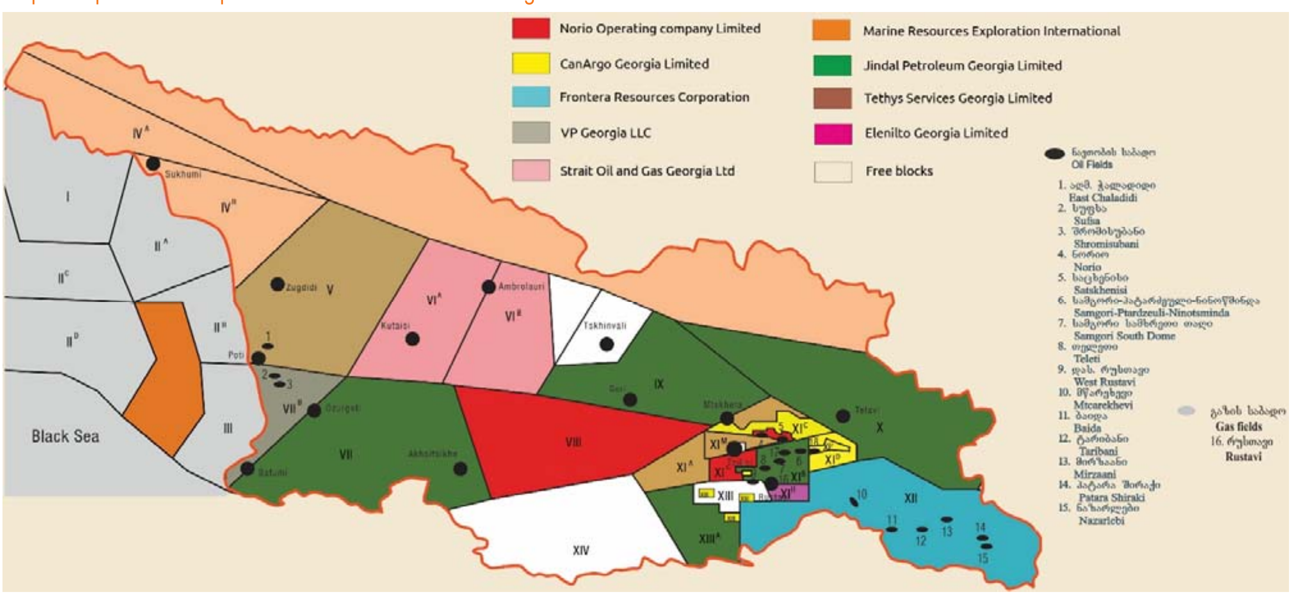
Figure 12: Crude oil purchased through PSAs, '000 tonnes



Source: Company data, Galt & Taggart Research

Income from crude oil had a 6.6% revenue share (9.4% in FY13) and accounted for US$ 13.4mn (US$ 18.4mn in FY13), dropping 27.2% y/y. With depressed oil prices expected to endure for some time, the downtrend in income from crude oil is likely to continue, as it is going to be less profitable for investors to invest in oil exploration. However, current projects will be unaffected. 'Manavi-13' is one of the promising oil fields in the eastern part of Georgia, where a feasibility study is underway. The estimated cost of the oil well is US$ 21.0mn.

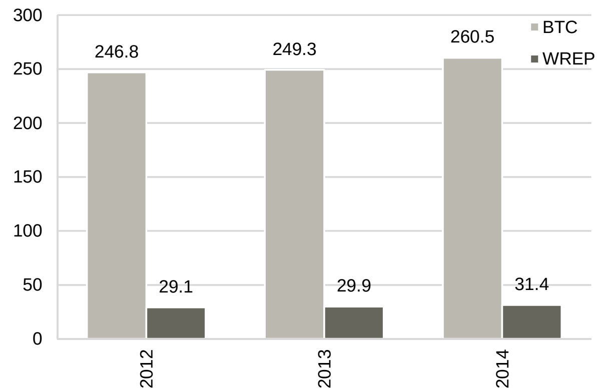
Map 1: Exploration and production license blocks of Georgia



Source: Company data, Galt & Taggart Research

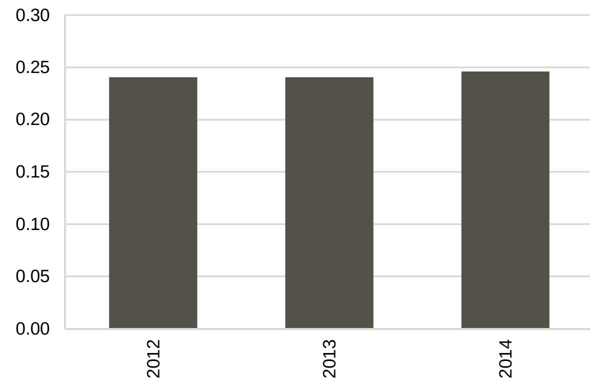
Oil transportation fee, representing 3.8% of revenue (3.7% in FY13) stood at US$ 7.7mn (US$ 7.2mn in FY13), expanding 7.6% y/y (up 2.6% y/y in FY13). We project oil transportation revenue to grow steadily by 3.5% y/y, in line with WREP throughput volume.

Figure 13: Pipeline crude oil throughput volume, mn bbl.



Source: Company data, Galt & Taggart Research
Note: The Baku-Tbilisi-Ceyhan pipeline (BTC) transits crude oil from Azerbaijan to Turkey on the Mediterranean Sea. The pipeline is owned by the Baku-Tbilisi-Ceyhan Pipeline Company, which is owned by a consortium of 11 international oil companies. GOGC does not own any part of the BTCP but acts as the representative of the Georgian state in the implementation of Environmental and Social Impact Assessment projects. GOGC receives no compensation for these activities.

Figure 14: WREP rental fee per bbl., US$

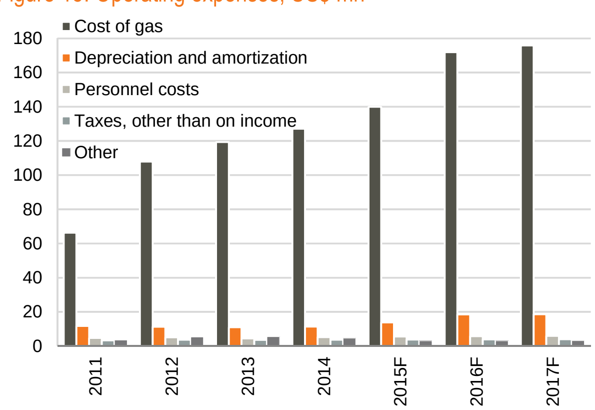


Source: Company data, Galt & Taggart Research

Cost of gas drives operating expenses up

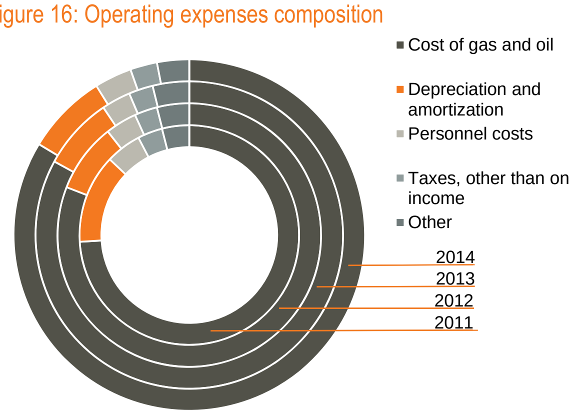
Operating expenses increased 5.6% y/y (up 4.3% y/y in FY13) to hit US$ 151.9mn (US$ 143.9mn). In GEL terms, operating expenses grew 12.1% y/y (up 5.1% y/y in FY13), accounting for GEL 268.2mn (GEL 239.mn in FY13).

Figure 15: Operating expenses, US$ mn



Source: Company data, Galt & Taggart Research

Figure 16: Operating expenses composition



Source: Company data, Galt & Taggart Research

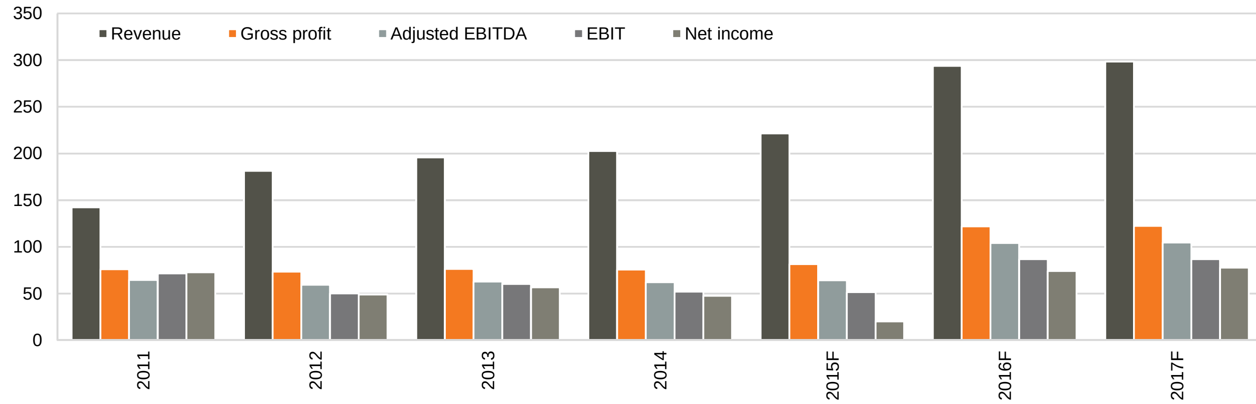
Cost of gas, accounting for US$ 127.0mn (US$ 119.3mn in FY13) and growing 6.5% y/y (up 10.5% y/y in FY13), held the lion's share of operating expenses with 83.7% (82.9% in FY13). Personnel costs saw a one-off increase of 18.9% y/y (down 14.8% y/y in FY13), and hit US$ 5.2mn (US$ 4.4mn in FY13).

Profitability hurt slightly

FY14 adjusted EBITDA saw a decrease of 1.3% y/y (up 6.1% in FY13) to US$ 62.1mn (US$ 62.9mn in FY13). Further, a drop of 13.6% y/y (up 20.1% y/y in FY13) in EBIT to US$ 52.1mn (US$ 60.3mn in FY13) was caused mainly by the reclassification of customer penalties for late payment of US$ 5.0mn (US$ 6.1mn in FY13) from other income to finance income. Rise in finance costs weighed on the bottom line, decreasing 16.2% y/y (up 15.5% y/y in FY13) to US$ 47.5mn (US$ 56.7mn in FY13). In FY15, we project a 3.3% y/y adjusted EBITDA growth, reaching US$ 64.2mn, driven by the addition of the electricity generation. We expect FY15 net income at US$

20.2mn, due to a substantial unrealized FX loss caused by the weaker GEL against US$ in FY15.

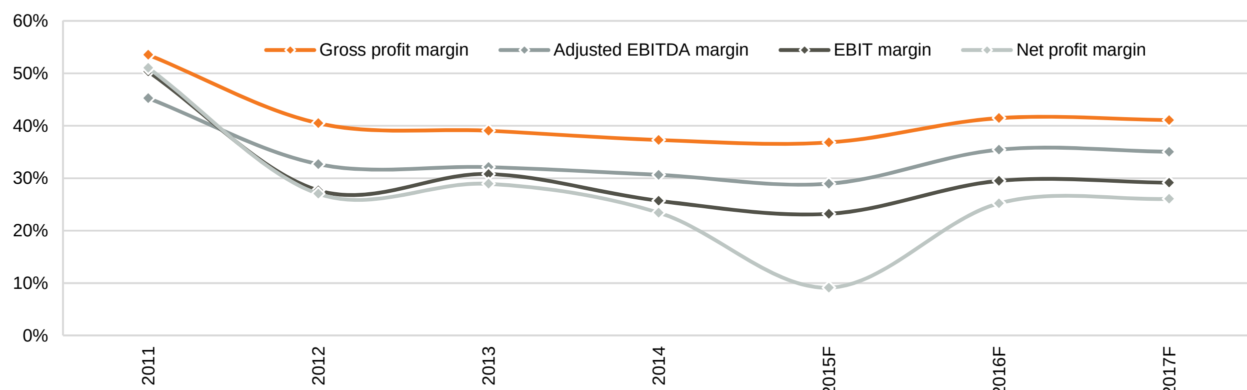
Figure 17: Revenue, gross profit, adjusted EBITDA, EBIT and net income, US$ mn



Source: Company data, Galt & Taggart Research

Adjusted EBITDA margin contracted to 30.7% in FY14 from 32.1% in FY13. In the same vein, the net profit margin fell to 23.4% from 28.9% in FY13. In FY15, we expect the adjusted EBITDA margin at 29.0% and the net profit margin at 9.1%, largely reflecting the significant projected FX loss due to the revaluation of the Eurobond.

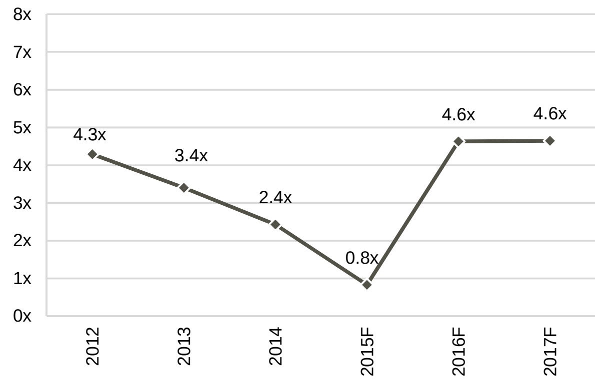
Figure 18: Gross profit, adjusted EBITDA, EBIT and net profit margins



Source: Company data, Galt & Taggart Research

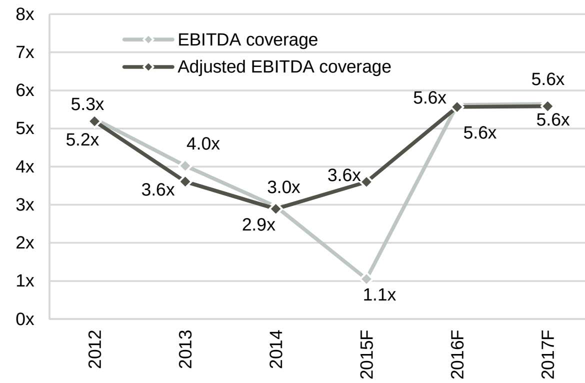
Higher finance costs in FY14, mainly inflated by an FX loss of US$ 5.9mn (US$ 0.3mn in FY13), led to a worsened EBIT coverage ratio of 2.4x (3.4x in FY13).

Figure 19: EBIT coverage ratio



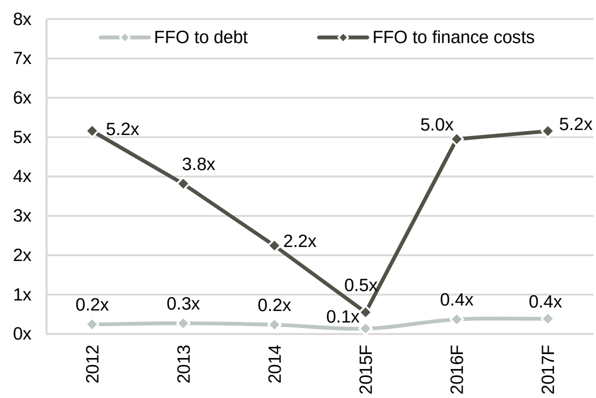
Source: Company data, Galt & Taggart Research
Note: 2014 EBIT coverage has been adjusted for netted finance costs

Figure 20: Adjusted coverage ratios



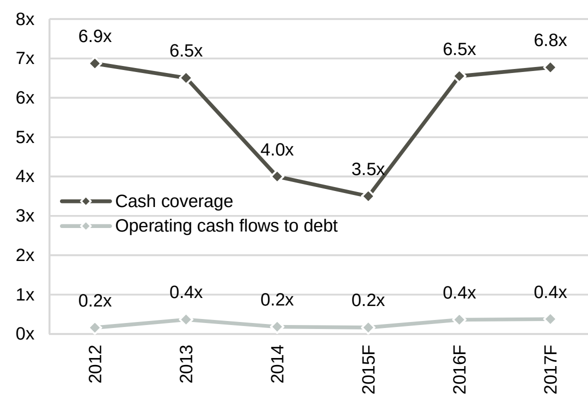
Source: Company data, Galt & Taggart Research
Note: 2014 EBITDA and EBIT coverage ratios have been adjusted for netted finance costs

Figure 21: FFO coverage ratios



Source: Company data, Galt & Taggart Research

Figure 22: Cash coverage ratios

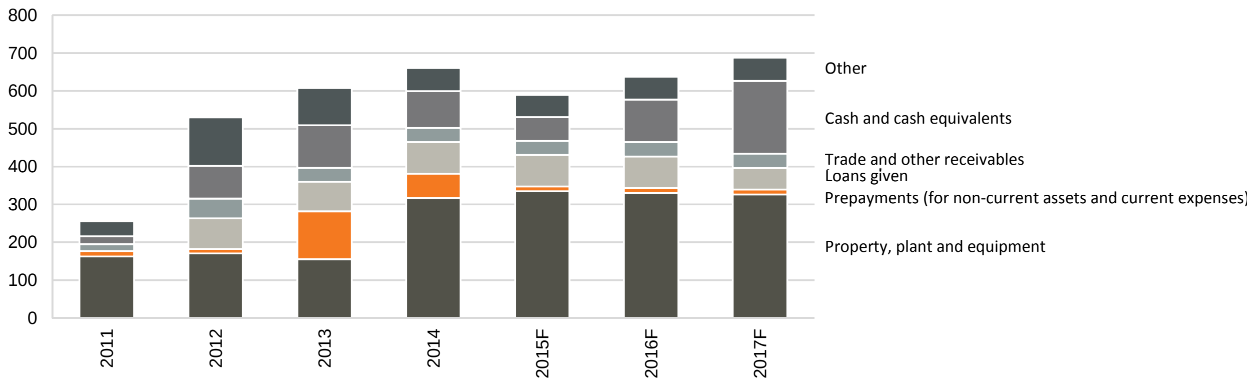


Source: Company data, Galt & Taggart Research

Balance sheet looks healthy

Neither liquidity nor leverage should be an issue for GOGC in the near future due to a significant cash balance of US$ 97.6mn (US$ 112.0mn in FY13) and increased cash generation capacity thanks to Gardabani CCPP.

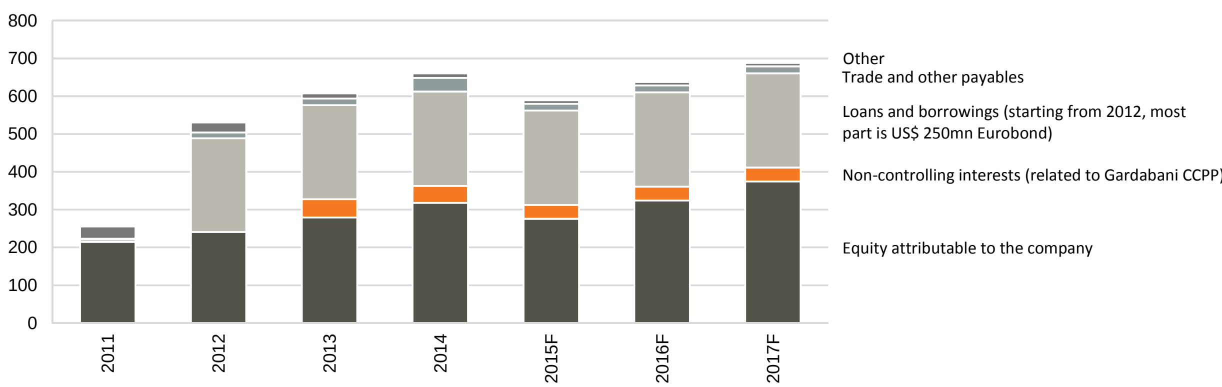
Figure 23: Asset composition, US$ mn



Source: Company data, Galt & Taggart Research

GOGC's capital structure is largely the same for the last 3 years with a tilt towards equity funding (equity to invested capital of 59.2%) versus debt (debt to invested capital of 40.8%).

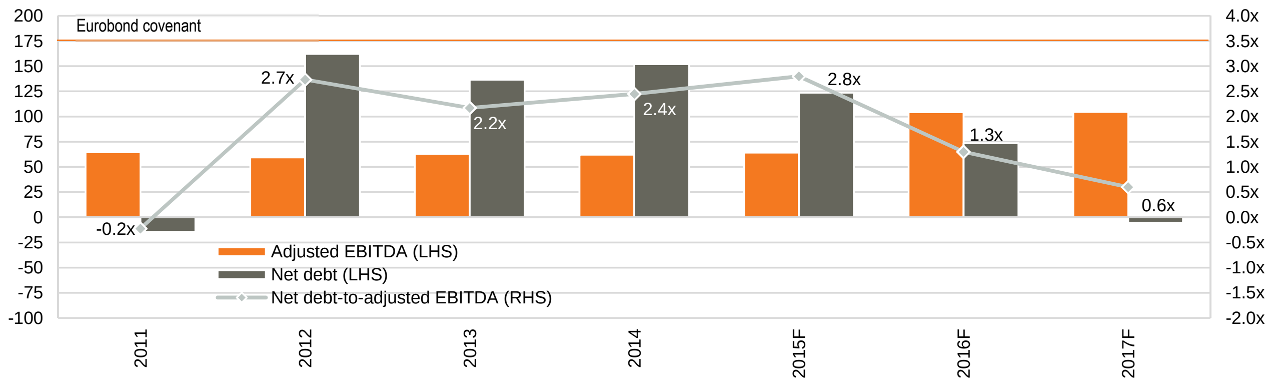
Figure 24: Equity and liabilities composition, US$ mn



Source: Company data, Galt & Taggart Research
Note: Non-controlling interests represents Partnership Fund JSC's contribution to the charter capital of the subsidiary, LLC Gardabani CCPP

Decreased adjusted EBITDA, together with increased net debt on the back of reduced cash (down 12.9% y/y), led to a higher net debt-to-adjusted EBITDA ratio of 2.5x (2.2x in FY13). Still, the latter is well below the Eurobond covenant of 3.5x. Due to CCPP-related investing outflows in 1H15, we expect year-end net debt-to-adjusted EBITDA to increase slightly to 2.8x before sliding to 1.3x in FY16 (the first fully operational year of Gardabani CCPP) on the back of increased adjusted EBITDA and cash.

Figure 25: Adjusted EBITDA and net debt, US$ mn and net debt-to-adjusted EBITDA

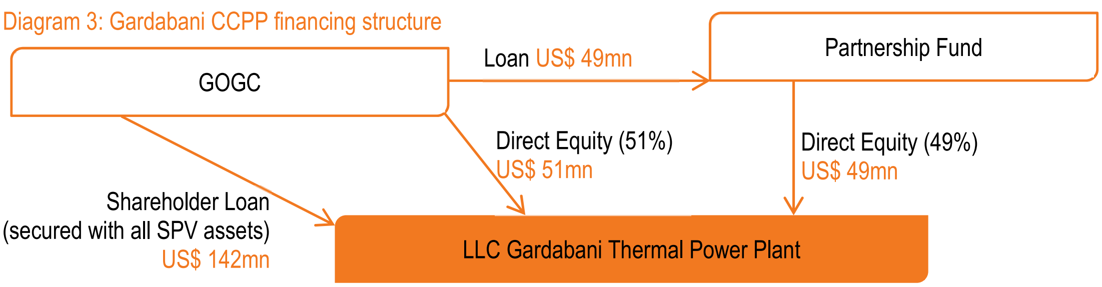


Source: Company data, Galt & Taggart Research

Two major capital projects and Gardabani CCPP sale considered

The government of Georgia (the ultimate shareholder of GOGC), LLC 'Gardabani Thermal Power Plant,' and JSC 'Electricity System Commercial Operator' entered into an implementation agreement with Pegasus EastWest about the sale of Gardabani CCPP. A final decision regarding the sale is expected by the end of November 2015, unless further extended by three months. In our base case, we assume GOGC will retain Gardabani CCPP, starting operations in late FY15. In Appendix 1, we have provided an alternative model, whereby Gardabani CCPP is sold and cash is received in two equal tranches in FY15 and FY16.

Diagram 3: Gardabani CCPP financing structure



The Gardabani CCPP SPV was funded by both GOGC and PF, each investing equity and GOGC providing additional debt financing. PF's equity investment was financed through a loan of the same amount that GOGC made to PF in 2012.

GOGC is considering building an underground gas storage reservoir in Samgori. It would be a strategically important gas storage facility for Georgia, increasing energy security by ensuring gas supply in critical situations and by mitigating the seasonal imbalance between supply and demand. The storage capacity would be 230-250 mmcm, about 10-15% of current annual consumption. Notably, Georgia is currently the only country in the region with no gas storage. A feasibility study should be completed by early 2016. If a decision is made to proceed with the project, the construction would commence in 2016 with expected completion in 2019. The estimated project cost is around US$ 250.0mn. According to company sources, GOGC will discuss the financing with commercial and state owned banks, international financial institutions, and private companies. Placement of Eurobonds is considered as one of the means of financing the project, especially given the experience in this area.

GOGC is also considering building a new combined cycle power plant, Gardabani CCPP II, with similar technical characteristics and in proximity to

Gardabani CCPP. Given the experience gained in building Gardabani CCPP, which was completed ahead of schedule, GOGC is likely to benefit from significant savings on the construction of Gardabani CCPP II. However, it is too early to provide specific guidance as the final decision will depend on whether Gardabani CCPP is sold.

The Southern Gas Corridor project, aimed at improving the security and diversity of EU energy supply, will bring natural gas from the Caspian region to Europe. It is comprised of several separate energy projects, representing a total investment of roughly US$ 45.0bn:

- The Shah Deniz Stage 2 development, drilling wells and producing gas offshore in the Caspian Sea;
- Expansion of the natural gas processing plant at the Sangachal Terminal on the Caspian Sea coast in Azerbaijan;
- Three pipeline projects:
  - South Caucasus Pipeline Expansion (SCPX) - Azerbaijan, Georgia;
  - Trans Anatolian Pipeline (TANAP) - Turkey;
  - Trans Adriatic Pipeline (TAP) - Greece, Albania, Italy;
- Expansion of the Italian gas transmission network;
- Possibilities for further connection to gas networks in South Eastern, Central and Western Europe.

Shah Deniz Stage 2, one of the largest gas developments in the world, will add 16.0 bcm per year of gas production to the approximately 9.0 bcm produced by Shah Deniz Stage 1. This should gradually increase SCP pipeline's throughput from 5.9 bcm in 2014 to 20.0 bcm in 2021. Pursuant to SCP Option Gas Agreement, GOGC has the right (but not the obligation) to purchase up to 5.0% of the natural gas transported through Georgia via the SCP, which would translate into 1.0 bcm of natural gas solely from SCP Option Gas Agreement by 2021. With additional volumes of natural gas, GOGC is likely to enter the more profitable commercial sector, which would have a positive effect on margins.

Map 2: The Southern Gas Corridor

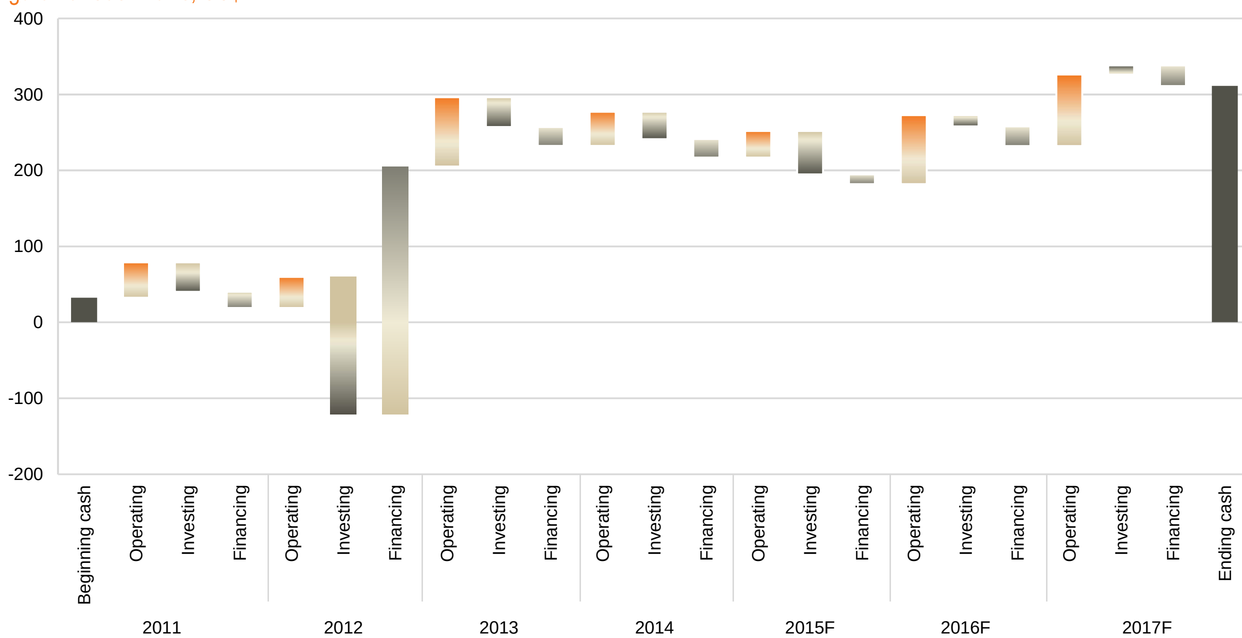
Source: BP, Galt & Taggart Research

As of end-1Q15, the SCP expansion project was 31.0% completed and the Shah Deniz Stage 2 project continued to move ahead with a number of milestones achieved ahead of schedule. First gas is targeted in late 2018, with supplies to Georgia and Turkey. Gas deliveries to Europe are expected in 2020. The South Caucasus Pipeline Expansion project does not require any investment outflows from GOGC as it will be carried out by its owner, South Caucasus Pipeline Company. The latter is owned by a consortium of 11 international oil companies including BP and Statoil (25.5% each).

Cash position likely to improve considerably

In FY14, cash from operating activities decreased 50.5% y/y (up 130.3% y/y in FY13). The substantial drop is largely due to the high base effect, as the 2013 figure was considerably higher than the previous two. Decreased cash from customer receipts (down 6.6% y/y) and significantly lower finance income (down 48.0% y/y), in addition to increased cash outflow for suppliers and employees (up 21.2% y/y), were the key components of the decrease. Cash generating capacity is going to increase substantially by end-FY15 as Gardabani CCPP becomes operational.

Figure 26: Cash flows, US$ mn



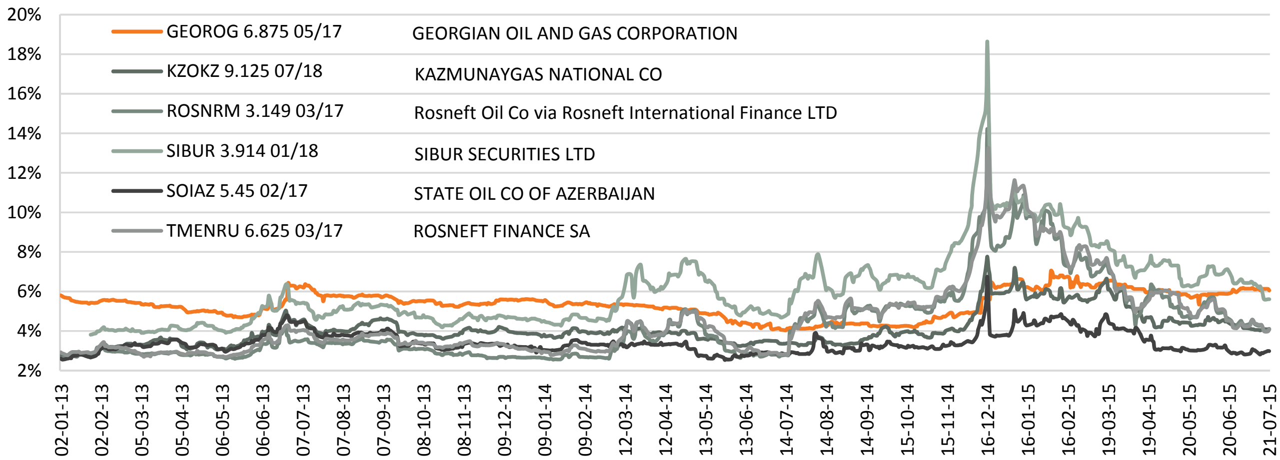
Source: Company data, Galt & Taggart Research

Foreign exchange rate exposure is limited

With 100.0% of revenue and 85.0% of expenses either denominated in or linked to US$, FX rate exposure is subdued. On the balance sheet side, the current currency mismatch between the GEL-denominated Gardabani CCPP and the US$-denominated Eurobond might lead to a profit/loss in case of FX rate fluctuations. However in case of Gardabani CCPP sale, the FX risk is going to be eliminated.

Comparable analysis

Figure 27: GEOROG 05/17 comparable securities, YTM



Source: Bloomberg, Galt & Taggart Research

Table 2: GEOROG 05/17 comparable securities

Company	Country of Risk	Security	Price, %	YTM	Z-Spread, bps
GEORGIAN OIL AND GAS CORPORATION	Georgia	GEOROG 6.875 05/17	101.1	6.2%	534
KAZMUNAYGAS NATIONAL CO	Kazakhstan	KZOKZ 9.125 07/18	113.8	4.1%	287
Rosneft Oil Co via Rosneft International Finance LTD	Russia	ROSNRM 3.149 03/17	98.4	4.2%	341
SIBUR SECURITIES LTD	Ireland	SIBUR 3.914 01/18	96.0	5.6%	450
STATE OIL CO OF THE AZERBAIJAN	Azerbaijan	SOIAZ 5.45 02/17	103.6	3.1%	227
ROSNEFT FINANCE SA	Russia	TMENRU 6.625 03/17	103.8	4.2%	346

Source: Bloomberg, Galt & Taggart Research

Table 3: GOGC's benchmarking against peers

Company	Country of Risk	Gross profit margin	Adjusted EBITDA margin	Net profit margin	Net Debt-to-EBITDA	Long-term debt to assets	EBITDA coverage	Current ratio	Dividend payout ratio
CIMC ENRIC HOLDINGS LTD	China	18.8%	n/a	9.1%	-0.9x	0.2%	46.3x	1.9x	29.3%
ANHUI TIANDA OIL PIPE CO - H	China	8.6%	n/a	2.0%	-1.3x	0.0%	38.3x	2.5x	279.0%
ALTAGAS LTD	Canada	32.4%	15.6%	5.4%	7.8x	36.3%	3.4x	1.4x	224.0%
AKTOBE OIL EQUIPMENT PLANT	Kazakhstan	n/a	n/a	7.8%	n/a	12.2%	11.3x	n/a	n/a
BLUE DOLPHIN ENERGY CO	US	5.7%	n/a	4.1%	1.0x	17.9%	12.5x	0.8x	0.0%
BOARDWALK PIPELINE PARTNERS	US	43.1%	n/a	18.9%	5.4x	45.0%	4.2x	0.7x	42.5%
DCP MIDSTREAM PARTNERS LP	US	14.3%	n/a	11.6%	4.1x	35.9%	6.6x	1.0x	105.7%
ENLINK MIDSTREAM LLC	US	12.2%	17.5%	3.6%	3.2x	20.0%	n/a	1.4x	158.5%
ENLINK MIDSTREAM PARTNERS LP	US	12.2%	17.6%	5.2%	3.3x	23.5%	n/a	1.2x	252.2%
IEV HOLDINGS LTD	Singapore	11.7%	n/a	2.8%	n/a	4.0%	0.1x	1.4x	0.0%
INTER PIPELINE LTD	Canada	57.3%	44.8%	21.5%	4.6x	36.4%	7.5x	0.1x	126.4%
LIQUEFIED NATURAL GAS LTD	Australia	n/a	n/a	n/a	n/a	0.0%	n/a	13.1x	n/a
MAGELLAN MIDSTREAM	US	47.9%	49.4%	36.4%	2.6x	54.1%	9.2x	0.8x	67.8%
HANSON INTERNATIONAL TBK PT	Indonesia	36.9%	n/a	1.3%	5.4x	1.9%	1.4x	1.1x	0.0%
OILTANKING PARTNERS LP	US	n/a	n/a	n/a	n/a	25.8%	19.7x	n/a	n/a
RELIANCE INDUS INFRASTRUCT	India	n/a	n/a	28.5%	-0.9x	0.0%	n/a	2.2x	21.9%
SHAWCOR LTD	Canada	38.3%	16.1%	5.0%	1.4x	21.6%	11.2x	1.9x	37.2%
TRANSPORTADORA DE GAS SUR-B	Argentina	40.4%	n/a	2.4%	1.1x	35.0%	3.8x	1.6x	n/a
WILLBROS GROUP INC	US	8.0%	1.9%	-3.9%	8.0x	40.5%	n/a	1.8x	n/a
WILLIAMS PARTNERS LP	US	46.2%	63.2%	28.9%	5.9x	47.0%	3.9x	1.9x	192.8%
Median		25.6%	17.5%	5.3%	3.2x	22.6%	7.5x	1.4x	67.8%
Georgian Oil and Gas Corporation	Georgia	37.3%	30.7%	23.4%	2.4x	37.1%	2.4x	3.7x	39.3%

Source: Bloomberg, Galt & Taggart Research

Financial statements

Income statement

US$, '000	2011	2012	2013	2014	2015F	2016F	2017F
Revenue	**142,295.9**	**181,407.3**	**195,838.3**	**202,628.5**	**221,520.1**	**293,856.0**	**298,386.1**
Sales of gas	111,170.4	140,742.1	144,653.4	152,781.9	158,803.2	163,099.9	167,405.7
Rent of gas pipelines	16,143.1	23,976.8	25,649.6	28,759.4	30,923.6	31,912.3	32,997.3
Income from crude oil	8,476.1	9,686.5	18,350.2	13,355.6	8,722.7	8,573.0	8,573.0
Oil transportation fee	6,506.4	7,001.9	7,185.2	7,731.7	8,005.6	8,182.8	8,510.2
Sale of electricity	-	-	-	-	15,065.0	82,088.0	80,900.0
Operating expenses	**(73,939.4)**	**(137,925.4)**	**(143,865.2)**	**(151,872.4)**	**(171,168.3)**	**(208,212.7)**	**(212,474.9)**
Cost of gas and oil	(66,314.4)	(107,935.6)	(119,322.4)	(127,046.5)	(139,923.5)	(171,971.1)	(175,783.2)
Personnel costs	(4,689.1)	(5,152.4)	(4,390.4)	(5,219.0)	(5,570.2)	(5,748.3)	(5,920.7)
Taxes, other than on income	(3,271.0)	(3,729.3)	(3,664.7)	(3,771.0)	(3,844.5)	(3,891.8)	(3,969.7)
Gardabani CCPP operating expenses	-	-	-	-	(5,000.0)	(5,000.0)	(5,000.0)
Reversal of impairment loss of property, plant and equipment	15,653.8	-	-	-	-	-	-
Impairment of assets related to Namakhvani project	-	(4,533.5)	-	-	-	-	-
Provision for litigation case	-	-	(1,013.6)	-	-	-	-
Banking, consulting and other professional services	(454.3)	(1,379.6)	(698.0)	(278.1)	(237.0)	(239.9)	(247.1)
Regulatory expenses	(551.6)	(697.0)	(433.4)	(454.2)	(470.3)	(480.7)	(499.9)
Representative and business trip expenses	(331.0)	(365.8)	(310.8)	(164.2)	(162.2)	(164.2)	(169.1)
Office and related equipment maintenance	(234.3)	(270.1)	(218.8)	(386.2)	(399.9)	(404.8)	(417.0)
Transportation, materials and repair and maintenance	(236.1)	(273.1)	(197.2)	(162.0)	(162.5)	(162.9)	(166.2)
Materials granted to a state controlled entity	-	(650.4)	-	-	-	-	-
Impairment of investment in other companies	(68.2)	(161.1)	-	-	-	-	-
Communication expenses	(95.5)	(72.7)	-	-	-	-	-
Legal fees	-	-	-	(1,069.2)	(42.6)	(25.1)	(20.1)
Benefits to employees	-	-	-	(265.6)	(266.5)	(269.8)	(277.9)
Write off and disposal of assets	-	-	-	(445.1)	-	-	-
Other	(1,617.4)	(1,403.2)	(2,650.0)	(1,253.8)	(1,278.2)	(1,294.0)	(1,332.8)
Other income	3,306.0	6,745.1	8,359.9	1,363.6	1,086.1	1,067.5	1,067.5
Operating expenses excluding depreciation and amortization	(62,209.0)	(126,623.8)	(132,899.2)	(140,514.8)	(157,357.4)	(189,652.7)	(193,803.7)
EBITDA	83,392.9	61,528.7	71,299.0	63,477.4	65,248.9	105,270.8	105,649.9
Adjusted EBITDA	**64,433.1**	**59,317.1**	**62,939.1**	**62,113.8**	**64,162.7**	**104,203.3**	**104,582.5**
Depreciation and amortization	(11,730.4)	(11,301.7)	(10,966.0)	(11,357.7)	(13,810.9)	(18,560.1)	(18,671.2)
Results from operating activities	71,662.5	50,227.0	60,333.0	52,119.7	51,438.0	86,710.7	86,978.7
Finance income	6,653.4	17,560.5	24,483.9	6,778.0	34,361.3	19,221.4	23,272.3
Finance costs	(1,007.1)	(11,706.8)	(17,724.3)	(5,968.8)	(61,995.1)	(18,722.2)	(18,722.2)
Net finance income	5,646.4	5,853.7	6,759.6	809.2	(27,633.8)	499.2	4,550.1
Profit before income tax	77,308.8	56,080.8	67,092.6	52,929.0	23,804.2	87,209.9	91,528.8
Income tax expense	(9,652.2)	(7,011.6)	(10,406.3)	(5,422.9)	(3,570.6)	(13,081.5)	(13,729.3)
Profit from continuing operations	67,656.6	49,069.1	56,686.3	47,506.1	20,233.6	74,128.5	77,799.5
Discontinued operations							
Profit from discontinued operation (net of income tax)	5,008.2	-	-	-	-	-	-
Profit and total comprehensive income for the year	**72,664.8**	**49,069.1**	**56,686.3**	**47,506.1**	**20,233.6**	**74,128.5**	**77,799.5**
Profit and total comprehensive income attributable to:							
Owners of the Company	72,664.8	49,069.1	57,007.9	48,506.2	19,916.0	57,934.0	62,187.1
Non-controlling interests	-	-	(321.6)	(1,000.1)	317.5	16,194.5	15,612.4

Common size income statement

	2011	2012	2013	2014	2015F	2016F	2017F
Revenue	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**
Sales of gas	78.1%	77.6%	73.9%	75.4%	71.7%	55.5%	56.1%
Rent of gas pipelines	11.3%	13.2%	13.1%	14.2%	14.0%	10.9%	11.1%
Income from crude oil	6.0%	5.3%	9.4%	6.6%	3.9%	2.9%	2.9%
Oil transportation fee	4.6%	3.9%	3.7%	3.8%	3.6%	2.8%	2.9%
Sale of electricity	-	-	-	-	6.8%	27.9%	27.1%
Operating expenses	**52.0%**	**76.0%**	**73.5%**	**75.0%**	**77.3%**	**70.9%**	**71.2%**
Cost of gas and oil	46.6%	59.5%	60.9%	62.7%	63.2%	58.5%	58.9%
Personnel costs	3.3%	2.8%	2.2%	2.6%	2.5%	2.0%	2.0%
Taxes, other than on income	2.3%	2.1%	1.9%	1.9%	1.7%	1.3%	1.3%
Gardabani CCPP operating expenses	-	-	-	-	2.3%	1.7%	1.7%
Reversal of impairment loss of property, plant and equipment	11.0%	-	-	-	-	-	-
Impairment of assets related to Namakhvani project	-	2.5%	-	-	-	-	-
Provision for litigation case	-	-	0.5%	-	-	-	-
Banking, consulting and other professional services	0.3%	0.8%	0.4%	0.1%	0.1%	0.1%	0.1%
Regulatory expenses	0.4%	0.4%	0.2%	0.2%	0.2%	0.2%	0.2%
Representative and business trip expenses	0.2%	0.2%	0.2%	0.1%	0.1%	0.1%	0.1%
Office and related equipment maintenance	0.2%	0.1%	0.1%	0.2%	0.2%	0.1%	0.1%
Transportation, materials and repair and maintenance	0.2%	0.2%	0.1%	0.1%	0.1%	0.1%	0.1%
Materials granted to a state controlled entity	-	0.4%	-	-	-	-	-
Impairment of investment in other companies	0.0%	0.1%	-	-	-	-	-
Communication expenses	0.1%	0.0%	-	-	-	-	-
Legal fees	-	-	-	0.5%	0.0%	0.0%	0.0%
Benefits to employees	-	-	-	0.1%	0.1%	0.1%	0.1%
Write off and disposal of assets	-	-	-	0.2%	-	-	-
Other	1.1%	0.8%	1.4%	0.6%	0.6%	0.4%	0.4%
Other income	2.3%	3.7%	4.3%	0.7%	0.5%	0.4%	0.4%
Operating expenses excluding depreciation and amortization	43.7%	69.8%	67.9%	69.3%	71.0%	64.5%	65.0%
EBITDA	58.6%	33.9%	36.4%	31.3%	29.5%	35.8%	35.4%
Adjusted EBITDA	**45.3%**	**32.7%**	**32.1%**	**30.7%**	**29.0%**	**35.5%**	**35.0%**
Depreciation and amortization	8.2%	6.2%	5.6%	5.6%	6.2%	6.3%	6.3%
Results from operating activities	50.4%	27.7%	30.8%	25.7%	23.2%	29.5%	29.1%
Finance income	4.7%	9.7%	12.5%	3.3%	15.5%	6.5%	7.8%
Finance costs	0.7%	6.5%	9.1%	2.9%	28.0%	6.4%	6.3%
Net finance income	4.0%	3.2%	3.5%	0.4%	12.5%	0.2%	1.5%
Profit before income tax	54.3%	30.9%	34.3%	26.1%	10.7%	29.7%	30.7%
Income tax expense	6.8%	3.9%	5.3%	2.7%	1.6%	4.5%	4.6%
Profit from continuing operations	47.5%	27.0%	28.9%	23.4%	9.1%	25.2%	26.1%
Discontinued operations							
Profit from discontinued operation (net of income tax)	3.5%	-	-	-	-	-	-
Profit and total comprehensive income for the year	**51.1%**	**27.0%**	**28.9%**	**23.4%**	**9.1%**	**25.2%**	**26.1%**
Profit and total comprehensive income attributable to:							
Owners of the Company	51.1%	27.0%	29.1%	23.9%	9.0%	19.7%	20.8%
Non-controlling interests	-	-	0.2%	0.5%	0.1%	5.5%	5.2%

Statement of changes in equity

US$, '000	2011	2012	2013	2014	2015F	2016F	2017F
Share capital, 1 January	279,519.4	286,638.3	307,417.2	293,468.9	307,303.6	253,874.9	253,874.9
Increase in share capital	6,524.2	18,672.4	151.5	35,756.6	-	-	-
Decrease in share capital	(15,849.5)	(185.9)	-	-	-	-	-
Transfer of subsidiary	(615.0)	-	-	-	-	-	-
FX rate translation adjustment	17,059.4	2,292.4	(14,099.8)	(21,921.8)	(53,428.7)	-	-
Share capital, 31 December	**286,638.3**	**307,417.2**	**293,468.9**	**307,303.6**	**253,874.9**	**253,874.9**	**253,874.9**
Fair value adj. res. for non-cash owner cont., 1 Jan.	(159,172.5)	(168,940.3)	(170,327.2)	(162,518.6)	(151,417.1)	(125,091.3)	(125,091.3)
Fair value adj. of non-cash owner cont.	-	-	-	-	-	-	-
FX rate translation adjustment	(9,767.8)	(1,386.8)	7,808.6	11,101.4	26,325.8	-	-
Fair value adj. res. for non-cash owner cont., 31 Dec.	**(168,940.3)**	**(170,327.2)**	**(162,518.6)**	**(151,417.1)**	**(125,091.3)**	**(125,091.3)**	**(125,091.3)**
Additional paid-in-capital, 1 January	42,063.4	42,937.2	43,289.7	41,305.1	38,483.6	31,792.7	31,792.7
Distributions of non-cash assets	(1,691.5)	-	-	-	-	-	-
FX rate translation adjustment	2,565.3	352.5	(1,984.6)	(2,821.5)	(6,690.9)	-	-
Additional paid-in-capital, 31 December	**42,937.2**	**43,289.7**	**41,305.1**	**38,483.6**	**31,792.7**	**31,792.7**	**31,792.7**
Retained earnings, 1 January	33,011.6	53,978.3	60,315.1	107,350.7	123,642.4	114,759.5	146,748.5
Profit and total comprehensive income for the year	72,664.8	49,069.1	57,007.9	48,506.2	19,916.0	57,934.0	62,187.1
Contributions by and distributions to owners	(53,900.8)	(43,156.1)	(5,025.2)	(23,573.8)	(7,081.7)	(25,945.0)	(27,229.8)
Dividends to equity holders	**(26,689.7)**	**(24,223.9)**	**(5,025.2)**	**(18,687.8)**	**(7,081.7)**	**(25,945.0)**	**(27,229.8)**
Other cash distributions	(2,491.0)	-	-	-	-	-	-
Dist. of non-cash assets net of tax	-	-	-	(549.3)	-	-	-
Dist. of non-cash assets net of tax of GEL 1,250 thousand	(4,200.4)	-	-	-	-	-	-
Dist. of non-cash assets net of tax of GEL 5,517 thousand	-	(18,932.2)	-	-	-	-	-
Transfer of subsidiary retained earnings	(20,519.6)	-	-	(4,336.7)	-	-	-
FX rate translation adjustment	2,202.7	423.7	(4,947.1)	(8,640.6)	(21,717.2)	-	-
Retained earnings, 31 December	**53,978.3**	**60,315.1**	**107,350.7**	**123,642.4**	**114,759.5**	**146,748.5**	**181,705.8**
Total contributions by and distributions to owners	7,132.1	24,399.5	52,134.2	60,688.9	12,834.3	31,989.0	34,957.3
Equity attributable to owners of the Company	214,613.5	240,694.8	279,606.1	318,012.4	275,335.8	307,324.8	342,282.1
Non-controlling interests, 1 January	-	-	-	48,057.9	44,707.0	37,246.2	53,440.7
Profit and total comprehensive income for the year	-	-	(321.6)	(1,000.1)	317.5	16,194.5	15,612.4
Foundation of subsidiary with non-controlling interests	-	-	50,485.2	-	-	-	-
Other contributions	-	-	-	928.2	-	-	-
FX rate translation adjustment	-	-	(2,105.6)	(3,279.0)	(7,778.3)	0.0	-
Non-controlling interests, 31 December	**-**	**-**	**48,057.9**	**44,707.0**	**37,246.2**	**53,440.7**	**69,053.1**
Total equity	**214,613.5**	**240,694.8**	**327,664.0**	**362,719.5**	**312,582.0**	**360,765.5**	**411,335.1**

Common size statement of changes in equity

	2011	2012	2013	2014	2015F	2016F	2017F
Share capital, 1 January	130.2%	119.1%	93.8%	80.9%	98.3%	70.4%	61.7%
Increase in share capital	3.0%	7.8%	0.0%	9.9%	-	-	-
Decrease in share capital	7.4%	0.1%	-	-	-	-	-
Transfer of subsidiary	0.3%	-	-	-	-	-	-
FX rate translation adjustment	7.9%	1.0%	4.3%	6.0%	17.1%	-	-
Share capital, 31 December	**133.6%**	**127.7%**	**89.6%**	**84.7%**	**81.2%**	**70.4%**	**61.7%**
Fair value adj. res. for non-cash owner cont., 1 Jan.	74.2%	70.2%	52.0%	44.8%	48.4%	34.7%	30.4%
Fair value adj. of non-cash owner cont.	-	-	-	-	-	-	-
FX rate translation adjustment	4.6%	0.6%	2.4%	3.1%	8.4%	-	-
Fair value adj. res. for non-cash owner cont., 31 Dec.	**78.7%**	**70.8%**	**49.6%**	**41.7%**	**40.0%**	**34.7%**	**30.4%**
Additional paid-in-capital, 1 January	19.6%	17.8%	13.2%	11.4%	12.3%	8.8%	7.7%
Distributions of non-cash assets	0.8%	-	-	-	-	-	-
FX rate translation adjustment	1.2%	0.1%	0.6%	0.8%	2.1%	-	-
Additional paid-in-capital, 31 December	**20.0%**	**18.0%**	**12.6%**	**10.6%**	**10.2%**	**8.8%**	**7.7%**
Retained earnings, 1 January	15.4%	22.4%	18.4%	29.6%	39.6%	31.8%	35.7%
Profit and total comprehensive income for the year	33.9%	20.4%	17.4%	13.4%	6.4%	16.1%	15.1%
Contributions by and distributions to owners	25.1%	17.9%	1.5%	6.5%	2.3%	7.2%	6.6%
Dividends to equity holders	**12.4%**	**10.1%**	**1.5%**	**5.2%**	**2.3%**	**7.2%**	**6.6%**
Other cash distributions	1.2%	-	-	-	-	-	-
Dist. of non-cash assets net of tax	-	-	-	0.2%	-	-	-
Dist. of non-cash assets net of tax of GEL 1,250 thousand	2.0%	-	-	-	-	-	-
Dist. of non-cash assets net of tax of GEL 5,517 thousand	-	7.9%	-	-	-	-	-
Transfer of subsidiary retained earnings	9.6%	-	-	1.2%	-	-	-
FX rate translation adjustment	1.0%	0.2%	1.5%	2.4%	6.9%	-	-
Retained earnings, 31 December	**25.2%**	**25.1%**	**32.8%**	**34.1%**	**36.7%**	**40.7%**	**44.2%**
Total contributions by and distributions to owners	3.3%	10.1%	15.9%	16.7%	4.1%	8.9%	8.5%
Equity attributable to owners of the Company	100.0%	100.0%	85.3%	87.7%	88.1%	85.2%	83.2%
Non-controlling interests, 1 January	-	-	-	13.2%	14.3%	10.3%	13.0%
Profit and total comprehensive income for the year	-	-	0.1%	0.3%	0.1%	4.5%	3.8%
Foundation of subsidiary with non-controlling interests	-	-	15.4%	-	-	-	-
Other contributions	-	-	-	0.3%	-	-	-
FX rate translation adjustment	-	-	0.6%	0.9%	2.5%	0.0%	-
Non-controlling interests, 31 December	**-**	**-**	**14.7%**	**12.3%**	**11.9%**	**14.8%**	**16.8%**
Total equity	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Statement of financial position

US$, '000	2011	2012	2013	2014	2015F	2016F	2017F
Assets							
Property, plant and equipment	162,609.1	170,610.2	155,258.9	316,909.2	334,627.1	330,438.9	326,453.7
Prepayments for non-current assets	409.5	-	115,090.7	51,852.3	-	-	-
Intangible assets	132.9	99.6	65.7	54.2	53.1	53.1	53.1
Finance lease receivable	25,788.2	27,694.8	28,142.6	27,925.0	28,074.2	30,130.4	32,208.0
Loans given	-	51,501.2	51,336.8	74,460.7	74,460.7	74,460.7	48,233.0
Other non-current assets	-	64.6	-	-	-	-	-
Deferred tax assets	-	-	-	1,107.0	868.8	799.3	735.4
Term deposits	-	63,636.1	23,085.3	23,809.8	23,407.5	23,407.5	23,407.5
Non-current assets	188,939.7	313,606.6	372,979.9	496,118.3	461,491.5	459,289.9	431,090.7
Loans given	-	29,404.2	27,100.7	8,844.2	8,844.2	8,844.2	7,937.9
Non-current assets held for distribution	12,409.7	-	657.1	-	-	-	-
Inventories	440.0	322.9	378.4	106.2	108.0	110.1	112.3
Current tax assets	452.6	3,996.5	622.6	-	-	-	-
Taxes other than on income	-	597.6	421.6	7,819.8	5,814.2	5,349.1	4,921.1
VAT recoverable	-	-	-	-	-	-	-
Prepayments for current assets and expenses	13,943.6	12,055.3	11,552.2	12,528.4	12,730.8	12,985.4	13,245.1
Trade and other receivables	18,182.4	52,151.9	36,589.3	37,530.6	37,211.4	37,752.0	38,507.1
Term deposits	-	31,903.2	45,207.0	-	-	-	-
Cash and cash equivalents	21,001.6	86,118.2	112,043.4	97,552.6	62,849.2	112,858.9	191,927.2
Current assets	66,430.0	216,549.8	234,572.4	164,381.8	127,557.7	177,899.7	256,650.7
Total assets	**255,369.7**	**530,156.3**	**607,552.3**	**660,500.1**	**589,049.1**	**637,189.6**	**687,741.3**
Equity and liabilities							
Share capital	286,638.3	307,417.2	293,468.9	307,303.6	253,874.9	253,874.9	253,874.9
Fair value adj. res. for non-cash owner cont.	(168,940.3)	(170,327.2)	(162,518.6)	(151,417.1)	(125,091.3)	(125,091.3)	(125,091.3)
Additional paid-in-capital	42,937.2	43,289.7	41,305.1	38,483.6	31,792.7	31,792.7	31,792.7
Retained earnings	53,978.3	60,315.1	107,350.7	123,642.4	114,759.5	146,748.5	181,705.8
Equity attributable to owners of the company	214,613.5	240,694.8	279,606.1	318,012.4	275,335.8	307,324.8	342,282.1
Non-controlling interests	-	-	48,057.9	44,707.0	37,246.2	53,440.7	69,053.1
Total equity	**214,613.5**	**240,694.8**	**327,664.0**	**362,719.5**	**312,582.0**	**360,765.5**	**411,335.1**
Loans and borrowings	391.5	245,176.0	245,175.9	245,176.0	245,176.0	245,176.0	245,176.0
Deferred tax liabilities	6,367.1	5,774.1	9,494.9	7,621.3	5,792.5	5,560.8	5,338.4
Non-current liabilities	6,758.7	250,950.1	254,670.9	252,797.3	250,968.5	250,736.8	250,514.4
Loans and borrowings	6,203.7	3,072.4	3,528.2	4,453.2	4,453.2	4,453.2	4,453.2
Trade and other payables	1,607.5	14,982.8	17,655.9	36,008.8	17,623.9	17,976.4	18,335.9
Dividend payable	24,965.6	19,315.5	-	-	-	-	-
Current tax liabilities	-	-	-	836.6	635.8	610.4	586.0
VAT payable	971.7	1,140.8	3,062.3	2,780.1	2,113.0	2,028.5	1,947.3
Provisions	249.1	-	971.0	904.7	672.7	618.9	569.3
Current liabilities	33,997.5	38,511.5	25,217.4	44,983.4	25,498.6	25,687.3	25,891.8
Total liabilities	**40,756.2**	**289,461.6**	**279,888.3**	**297,780.6**	**276,467.2**	**276,424.2**	**276,406.2**
Total equity and liabilities	**255,369.7**	**530,156.3**	**607,552.3**	**660,500.1**	**589,049.1**	**637,189.6**	**687,741.3**

Common size statement of financial position

	2011	2012	2013	2014	2015F	2016F	2017F
Assets							
Property, plant and equipment	63.7%	32.2%	25.6%	48.0%	56.8%	51.9%	47.5%
Prepayments for non-current assets	0.2%	-	18.9%	7.9%	-	-	-
Intangible assets	0.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Finance lease receivable	10.1%	5.2%	4.6%	4.2%	4.8%	4.7%	4.7%
Loans given	-	9.7%	8.4%	11.3%	12.6%	11.7%	7.0%
Other non-current assets	-	0.0%	-	-	-	-	-
Deferred tax assets	-	-	-	0.2%	0.1%	0.1%	0.1%
Term deposits	-	12.0%	3.8%	3.6%	4.0%	3.7%	3.4%
Non-current assets	74.0%	59.2%	61.4%	75.1%	78.3%	72.1%	62.7%
Loans given	-	5.5%	4.5%	1.3%	1.5%	1.4%	1.2%
Non-current assets held for distribution	4.9%	-	0.1%	-	-	-	-
Inventories	0.2%	0.1%	0.1%	0.0%	0.0%	0.0%	0.0%
Current tax assets	0.2%	0.8%	0.1%	-	-	-	-
Taxes other than on income	-	0.1%	0.1%	1.2%	1.0%	0.8%	0.7%
VAT recoverable	-	-	-	-	-	-	-
Prepayments for current assets and expenses	5.5%	2.3%	1.9%	1.9%	2.2%	2.0%	1.9%
Trade and other receivables	7.1%	9.8%	6.0%	5.7%	6.3%	5.9%	5.6%
Term deposits	-	6.0%	7.4%	-	-	-	-
Cash and cash equivalents	8.2%	16.2%	18.4%	14.8%	10.7%	17.7%	27.9%
Current assets	26.0%	40.8%	38.6%	24.9%	21.7%	27.9%	37.3%
Total assets	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**
Equity and liabilities							
Share capital	112.2%	58.0%	48.3%	46.5%	43.1%	39.8%	36.9%
Fair value adj. res. for non-cash owner cont.	66.2%	32.1%	26.7%	22.9%	21.2%	19.6%	18.2%
Additional paid-in-capital	16.8%	8.2%	6.8%	5.8%	5.4%	5.0%	4.6%
Retained earnings	21.1%	11.4%	17.7%	18.7%	19.5%	23.0%	26.4%
Equity attributable to owners of the company	84.0%	45.4%	46.0%	48.1%	46.7%	48.2%	49.8%
Non-controlling interests	-	-	7.9%	6.8%	6.3%	8.4%	10.0%
Total equity	**84.0%**	**45.4%**	**53.9%**	**54.9%**	**53.1%**	**56.6%**	**59.8%**
Loans and borrowings	0.2%	46.2%	40.4%	37.1%	41.6%	38.5%	35.6%
Deferred tax liabilities	2.5%	1.1%	1.6%	1.2%	1.0%	0.9%	0.8%
Non-current liabilities	2.6%	47.3%	41.9%	38.3%	42.6%	39.4%	36.4%
Loans and borrowings	2.4%	0.6%	0.6%	0.7%	0.8%	0.7%	0.6%
Trade and other payables	0.6%	2.8%	2.9%	5.5%	3.0%	2.8%	2.7%
Dividend payable	9.8%	3.6%	-	-	-	-	-
Current tax liabilities	-	-	-	0.1%	0.1%	0.1%	0.1%
VAT payable	0.4%	0.2%	0.5%	0.4%	0.4%	0.3%	0.3%
Provisions	0.1%	-	0.2%	0.1%	0.1%	0.1%	0.1%
Current liabilities	13.3%	7.3%	4.2%	6.8%	4.3%	4.0%	3.8%
Total liabilities	**16.0%**	**54.6%**	**46.1%**	**45.1%**	**46.9%**	**43.4%**	**40.2%**
Total equity and liabilities	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Statement of cash flows

US$, '000	2011	2012	2013	2014	2015F	2016F	2017F
Cash flows from operating activities							
Cash receipts from customers	161,622.2	159,790.5	224,320.0	209,561.1	216,291.9	294,382.8	298,698.6
Cash paid to suppliers and employees	(108,603.4)	(108,031.9)	(133,556.9)	(161,864.8)	(171,554.9)	(189,145.6)	(193,327.6)
VAT refund from the State	-	-	-	8,494.5	(186.9)	(84.5)	(81.1)
Cash from operations before income taxes and interest	53,018.8	51,758.6	90,763.1	56,190.8	44,550.0	105,152.6	105,289.8
Income tax paid	(10,758.9)	(7,870.3)	(2,681.2)	(4,399.6)	(4,092.9)	(13,269.1)	(13,912.2)
Interest paid	(396.8)	(8,674.0)	(17,140.6)	(17,218.8)	(17,835.6)	(18,722.2)	(18,722.2)
Interest received	4,545.0	4,490.5	20,485.5	10,654.9	17,819.1	17,446.0	21,496.0
Net cash from (used in) operating activities	**46,408.1**	**39,704.8**	**91,426.8**	**45,227.3**	**40,440.7**	**90,607.3**	**94,151.3**
Cash flows from investing activities							
Acquisition of property, plant and equipment and int. assets	(26,406.8)	(13,996.0)	(70,652.7)	(77,744.1)	(44,322.6)	(14,371.9)	(14,686.0)
Sale of property, plant and equipment and intangible assets	-	-	-	-	-	-	-
Decrease/(Increase) in term deposit	-	(85,238.5)	29,506.1	42,021.5	(3,802.6)	-	-
Repayment of loans given	-	-	2,228.5	-	-	-	27,134.0
Loans given	-	(78,745.2)	-	-	-	-	-
Acquisition of non-current assets held for distribution	(12,293.9)	(4,023.0)	-	-	-	-	-
Investing in other companies	(68.2)	(64.8)	-	-	-	-	-
Net cash from (used in) investing activities	**(38,768.9)**	**(182,067.4)**	**(38,918.1)**	**(35,722.6)**	**(51,411.5)**	**(14,652.6)**	**12,146.7**
Cash flows from financing activities							
Dividends paid	(3,262.1)	(28,765.9)	(24,262.7)	(18,687.8)	(7,081.7)	(25,945.0)	(27,229.8)
Proceeds from borrowings	-	240,684.4	-	16,918.1	-	-	-
Repayment of borrowings	-	(6,383.6)	(377.5)	(16,855.8)	-	-	-
Other cash distributions to owners	(1,186.2)	(1,332.3)	-	-	-	-	-
Cash distributed on the transfer of subsidiaries	(15,790.2)			(5,320.4)	-	-	-
Cash distributed on the transfer of discontinued operation	(1,074.1)			-	-	-	-
Net cash from (used in) financing activities	**(21,312.6)**	**204,202.6**	**(24,640.2)**	**(23,945.9)**	**(7,081.7)**	**(25,945.0)**	**(27,229.8)**
Net increase in cash and cash equivalents	(13,802.3)	61,637.0	26,698.7	(13,683.7)	(17,742.6)	50,009.7	79,068.3
Cash and cash equivalents, 1 January	34,478.2	21,001.6	86,118.2	112,043.4	97,552.6	62,849.2	112,858.9
Effect of FX rate fluctuations on cash and cash equivalents	325.7	3,307.2	3,174.6	6,846.4	-	-	-
FX rate translation adjustment	-	172.4	(3,948.1)	(7,653.5)	(16,960.8)	(0.0)	-
Cash and cash equivalents, 31 December	**21,001.6**	**86,118.2**	**112,043.4**	**97,552.6**	**62,849.2**	**112,858.9**	**191,927.2**

Common size statement of cash flows

	2011	2012	2013	2014	2015F	2016F	2017F
Cash flows from operating activities							
Cash receipts from customers	113.6%	88.1%	114.5%	103.4%	97.6%	100.2%	100.1%
Cash paid to suppliers and employees	76.3%	59.6%	68.2%	79.9%	77.4%	64.4%	64.8%
VAT refund from the State	-	-	-	4.2%	0.1%	0.0%	0.0%
Cash from operations before income taxes and interest	37.3%	28.5%	46.3%	27.7%	20.1%	35.8%	35.3%
Income tax paid	7.6%	4.3%	1.4%	2.2%	1.8%	4.5%	4.7%
Interest paid	0.3%	4.8%	8.8%	8.5%	8.1%	6.4%	6.3%
Interest received	3.2%	2.5%	10.5%	5.3%	8.0%	5.9%	7.2%
Net cash from (used in) operating activities	**32.6%**	**21.9%**	**46.7%**	**22.3%**	**18.3%**	**30.8%**	**31.6%**
Cash flows from investing activities							
Acquisition of property, plant and equipment and int. assets	18.6%	7.7%	36.1%	38.4%	20.0%	4.9%	4.9%
Sale of property, plant and equipment and intangible assets	-	-	-	-	-	-	-
Decrease/(Increase) in term deposit	-	47.0%	15.1%	20.7%	1.7%	-	-
Repayment of loans given	-	-	1.1%	-	-	-	9.1%
Loans given	-	43.4%	-	-	-	-	-
Acquisition of non-current assets held for distribution	8.6%	2.2%	-	-	-	-	-
Investing in other companies	0.0%	0.0%	-	-	-	-	-
Net cash from (used in) investing activities	**27.2%**	**100.4%**	**19.9%**	**17.6%**	**23.2%**	**5.0%**	**4.1%**
Cash flows from financing activities							
Dividends paid	2.3%	15.9%	12.4%	9.2%	3.2%	8.8%	9.1%
Proceeds from borrowings	-	132.7%	-	8.3%	-	-	-
Repayment of borrowings	-	3.5%	0.2%	8.3%	-	-	-
Other cash distributions to owners	0.8%	0.7%	-	-	-	-	-
Cash distributed on the transfer of subsidiaries	11.1%	-	-	2.6%	-	-	-
Cash distributed on the transfer of discontinued operation	0.8%	-	-	-	-	-	-
Net cash from (used in) financing activities	**15.0%**	**112.6%**	**12.6%**	**11.8%**	**3.2%**	**8.8%**	**9.1%**
Net increase in cash and cash equivalents	9.7%	34.0%	13.6%	6.8%	8.0%	17.0%	26.5%
Cash and cash equivalents, 1 January	24.2%	11.6%	44.0%	55.3%	44.0%	21.4%	37.8%
Effect of FX rate fluctuations on cash and cash equivalents	0.2%	1.8%	1.6%	3.4%	-	-	-
FX rate translation adjustment	-	0.1%	2.0%	3.8%	7.7%	0.0%	-
Cash and cash equivalents, 31 December	**14.8%**	**47.5%**	**57.2%**	**48.1%**	**28.4%**	**38.4%**	**64.3%**

Note: Financial statements have been prepared by translating company-reported audited GEL numbers into US$ (using year-end and average annual FX rates, whichever more appropriate)

Financial ratios

	2011	2012	2013	2014	2015F	2016F	2017F
Profitability							
Return on Revenue							
Gross profit margin	53.5%	40.5%	39.1%	37.3%	36.8%	41.5%	41.1%
EBITDA margin	58.6%	33.9%	36.4%	31.3%	29.5%	35.8%	35.4%
Adjusted EBITDA margin	45.3%	32.7%	32.1%	30.7%	29.0%	35.5%	35.0%
EBIT margin	50.4%	27.7%	30.8%	25.7%	23.2%	29.5%	29.1%
EBT margin	54.3%	30.9%	34.3%	26.1%	10.7%	29.7%	30.7%
Net profit margin	51.1%	27.0%	28.9%	23.4%	9.1%	25.2%	26.1%
Return on Investment							
Operating ROA / Basic earning power	28.1%	9.5%	9.9%	7.9%	8.7%	13.6%	12.6%
Return on assets (ROA)	28.5%	9.3%	9.3%	7.2%	3.4%	11.6%	11.3%
Operating ROE	33.4%	20.9%	18.4%	14.4%	16.5%	24.0%	21.1%
Return on equity (ROE)	33.9%	20.4%	17.3%	13.1%	6.5%	20.5%	18.9%
Return on common equity	25.4%	16.0%	19.3%	15.5%	8.0%	29.2%	30.6%
Return on capital employed (ROCE)	32.4%	10.2%	10.4%	8.5%	9.1%	14.2%	13.1%
Return on invested capital (ROIC)	20.8%	5.1%	9.0%	4.7%	2.3%	7.9%	7.7%
Solvency							
Component percentage / debt ratios							
Liabilities to assets	16.0%	54.6%	46.1%	45.1%	46.9%	43.4%	40.2%
Liabilities to invested capital	18.4%	59.2%	48.6%	48.6%	49.2%	45.3%	41.8%
Liabilities to equity	19.0%	120.3%	85.4%	82.1%	88.4%	76.6%	67.2%
Liabilities to EBITDA	0.49x	4.70x	3.93x	4.69x	4.24x	2.63x	2.62x
Debt-to-assets	2.6%	46.8%	40.9%	37.8%	42.4%	39.2%	36.3%
Debt-to-invested capital	3.0%	50.8%	43.2%	40.8%	44.4%	40.9%	37.8%
Debt-to-equity	3.1%	103.1%	75.9%	68.8%	79.9%	69.2%	60.7%
Debt-to-EBITDA	0.08x	4.03x	3.49x	3.93x	3.83x	2.37x	2.36x
Net debt-to-assets	-5.6%	30.6%	22.5%	23.0%	28.7%	21.5%	8.4%
Net debt-to-invested capital	-6.5%	33.2%	23.7%	24.8%	30.0%	22.4%	8.7%
Net debt-to-equity	-6.7%	67.4%	41.7%	41.9%	54.0%	37.9%	14.0%
Net debt-to-EBITDA	-0.17x	2.64x	1.92x	2.40x	2.59x	1.30x	0.55x
Net debt-to-adjusted EBITDA	**-0.22x**	**2.73x**	**2.17x**	**2.45x**	**2.80x**	**1.31x**	**0.55x**
Long-term debt-to-assets	0.2%	46.2%	40.4%	37.1%	41.6%	38.5%	35.6%
Long-term debt-to-invested capital	0.2%	50.1%	42.5%	40.0%	43.6%	40.2%	37.1%
Long-term debt-to-equity	0.2%	101.9%	74.8%	67.6%	78.4%	68.0%	59.6%
Long-term debt-to-EBITDA	0.00x	3.98x	3.44x	3.86x	3.76x	2.33x	2.32x
Financial leverage (equity multiplier)	1.19x	2.20x	1.85x	1.82x	1.88x	1.77x	1.67x
Coverage							
EBITDA coverage	82.81x	5.26x	4.02x	2.96x	1.05x	5.62x	5.64x
Adjusted EBITDA coverage	105.37x	5.19x	3.61x	2.89x	3.60x	5.57x	5.59x
EBIT coverage	71.16x	4.29x	3.40x	2.43x	0.83x	4.63x	4.65x
Adjusted EBIT coverage	117.19x	4.39x	3.46x	2.43x	2.88x	4.63x	4.65x
FFO to debt	12.80x	0.24x	0.27x	0.24x	0.14x	0.37x	0.39x
FFO to finance costs	83.80x	5.16x	3.82x	2.24x	0.55x	4.95x	5.15x
Liquidity							
Current ratio	1.95x	5.62x	9.30x	3.65x	5.00x	6.93x	9.91x
Quick ratio (acid test)	1.94x	5.61x	9.29x	3.65x	5.00x	6.92x	9.91x
Cash ratio	0.62x	2.24x	4.44x	2.17x	3.17x	4.39x	7.41x
Cash flow							
Cash flow to revenue	32.6%	21.9%	46.7%	22.3%	18.3%	30.8%	31.6%
Cash return on assets	19.2%	10.1%	16.1%	7.1%	6.5%	14.8%	14.2%
Cash return on capital	21.9%	11.2%	17.2%	7.6%	6.9%	15.5%	14.8%
Cash return on equity	22.6%	17.4%	32.2%	13.1%	12.0%	26.9%	24.4%
Cash flow to operating income	64.8%	79.1%	151.5%	86.8%	78.6%	104.5%	108.2%
Cash flow to debt	717.8%	31.2%	36.8%	18.2%	16.2%	36.3%	37.7%
Interest coverage	145.07x	6.87x	6.50x	4.00x	3.50x	6.55x	6.77x
Debt repayment	-	6.22x	242.17x	2.68x	-	-	-
Dividend payment	1.74x	1.64x	18.19x	2.42x	5.71x	3.49x	3.46x
Reinvestment	1.76x	2.84x	1.29x	0.58x	0.91x	6.30x	6.41x
Investing and financing	0.77x	1.79x	1.44x	0.76x	0.69x	2.23x	6.24x
Retained cash flows to net debt	0.57x	0.88x	0.17x	-0.10x	-0.10x	0.21x	0.81x

Note: 2014 EBITDA and EBIT coverage ratios have been adjusted for netted finance costs

Appendix 1: Scenario analysis – sale of Gardabani CCPP

Income statement

US$, '000	2014	2015F	2016F	2017F
Revenue	**202,628.5**	**206,455.1**	**211,768.0**	**217,486.1**
Operating expenses	**(151,872.4)**	**(156,751.3)**	**(158,778.3)**	**(163,060.7)**
Other income	1,363.6	71,086.1	1,067.5	1,067.5
EBITDA	63,477.4	132,547.9	64,007.8	65,574.9
Adjusted EBITDA	**62,113.8**	**61,461.7**	**62,940.3**	**64,507.5**
Depreciation and amortization	(11,357.7)	(11,757.9)	(9,950.7)	(10,082.0)
Results from operating activities	52,119.7	120,790.0	54,057.1	55,492.9
Finance income	6,778.0	34,361.3	17,873.3	37,814.6
Finance costs	(5,968.8)	(61,995.1)	(18,722.2)	(18,722.2)
Net finance income	809.2	(27,633.8)	(848.9)	19,092.4
Profit before income tax	52,929.0	93,156.2	53,208.3	74,585.3
Income tax expense	(5,422.9)	(13,973.4)	(7,981.2)	(11,187.8)
Profit and total comprehensive income for the year	**47,506.1**	**79,182.8**	**45,227.0**	**63,397.5**
attributable to:				
Owners of the Company	48,506.2	79,182.8	45,227.0	63,397.5
Non-controlling interests	(1,000.1)	-	-	-

Financial ratios

	2014	2015F	2016F	2017F
EBITDA margin	31.3%	64.2%	30.2%	30.2%
Adjusted EBITDA margin	30.7%	29.8%	29.7%	29.7%
EBIT margin	25.7%	58.5%	25.5%	25.5%
Net profit margin	23.4%	38.4%	21.4%	29.2%
Solvency				
Component percentage / debt ratios				
Debt-to-assets	37.8%	41.4%	39.5%	37.1%
Net debt-to-assets	23.0%	33.8%	-7.1%	-15.8%
Net debt-to-adjusted EBITDA	**2.45x**	**3.31x**	**-0.72x**	**-1.65x**
Coverage				
EBITDA coverage	2.96x	2.14x	3.42x	3.50x
Adjusted EBITDA coverage	2.89x	3.45x	3.36x	3.45x
Liquidity				
Current ratio	3.65x	12.76x	13.55x	15.73x

Statement of financial position

US$, '000	2014	2015F	2016F	2017F
Non-current assets	496,118.3	266,601.2	272,572.1	252,536.3
Current assets	164,381.8	335,654.6	359,049.0	420,286.2
Total assets	**660,500.1**	**602,255.8**	**631,621.1**	**672,822.6**
Total equity	362,719.5	324,980.4	354,378.0	395,586.3
Non-current liabilities	252,797.3	250,968.5	250,736.8	250,514.4
Current liabilities	44,983.4	26,306.9	26,506.3	26,721.8
Total liabilities	**297,780.6**	**277,275.4**	**277,243.1**	**277,236.2**
Total equity and liabilities	**660,500.1**	**602,255.8**	**631,621.1**	**672,822.6**

Statement of cash flows

US$, '000	2014	2015F	2016F	2017F
Net cash from (used in) operating activities	**45,227.3**	**40,440.7**	**90,607.3**	**94,151.3**
Net cash from (used in) investing activities	**(35,722.6)**	**(51,411.5)**	**(14,652.6)**	**12,146.7**
Net cash from (used in) financing activities	**(23,945.9)**	**(7,081.7)**	**(25,945.0)**	**(27,229.8)**
Net increase in cash and cash equivalents	(13,683.7)	(17,742.6)	50,009.7	79,068.3
Cash and cash equivalents, 31 December	**97,552.6**	**62,849.2**	**112,858.9**	**191,927.2**

Disclaimer

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