



Georgia's Energy Sector Electricity Market Watch

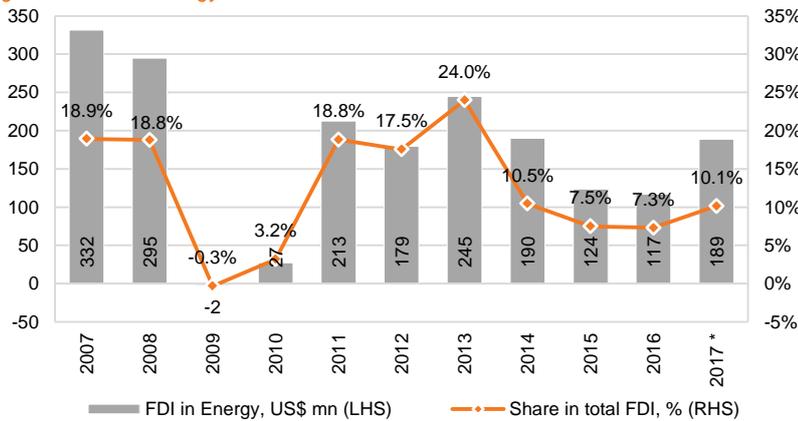
Georgia | Energy
Monthly Bulletin
April 12, 2018

FDI in energy sector increased 61.0% y/y to US\$ 188.6mn in 2017. The largest FDI providers were: Energo-pro Georgia and related companies - Energo-pro Generation and G-Power; Adjaristskali Georgia - investor of Shuakhevi HPP, Mtkvari Holding and Nenskra Hydro - investors of Mtkvari HPP and Nenskra HPP, respectively.

Eva Bochorishvili
Head of Research
evabochorishvili@gt.ge
+995 322 401 111 ext.8036

Mariam Chakhvashvili
Analyst
mchakhvashvili@gt.ge
+995 322 401 111 ext.7897

Figure 1: FDI in energy sector

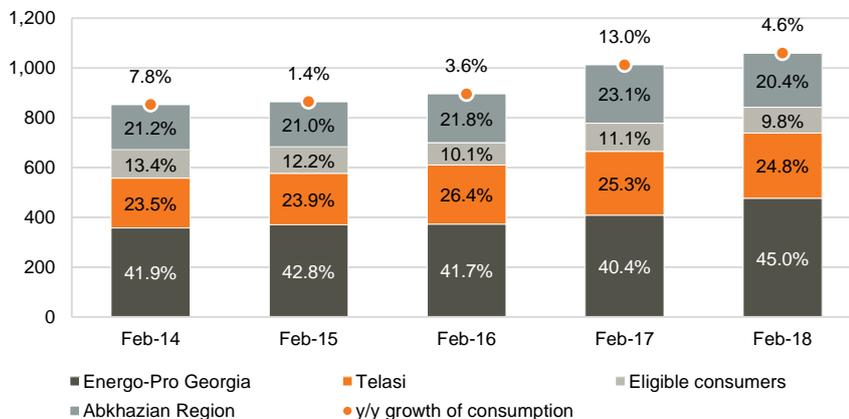


Source: GeoStat
Note: Preliminary data, 2017 final FDI figures will be published on 15 August 2018

Electricity Consumption, Exports, and Generation - February 2018

Domestic electricity consumption increased 4.6% y/y to 1.1TWh, slightly below the planned level (-2.5%). The sole contributors to consumption growth were distribution licensees: 1) Energo-Pro Georgia subscribers' consumption increased by 16.3% y/y. The growth can be explained by addition of new subscribers; 2) Telasi consumption was up 2.3% y/y, albeit from a high base in February 2017 (+8.3% y/y).

Figure 2: Domestic electricity consumption, GWh



Source: ESCO
Note: Kakheti Energy Distribution was purchased by Energo-Pro Georgia in August, 2017

Table 1: Demand growth breakdown, Feb-18

Consumer	Growth rate, y/y	Share in consumption
Domestic consumption	+4.6%	100.0%
Abkhazian region	-7.4%	20.4%
Eligible consumers	-7.6%	9.8%
Distribution	10.9%	69.7%
Energo-Pro Georgia	16.3%	45.0%
Telasi	2.3%	24.8%



There was no electricity export in February 2018, while transit from Azerbaijan to Turkey was 13.4GWh (-17.6% y/y).

Electricity generated by domestic sources increased by 15.4% y/y to 0.9TWh in February 2018, slightly above (+3.5%) the planned level.

Hydro generation showed significant increase (+64.3%y/y) in February 2018 from a very low base (-33.1%y/y) in February 2017:

- Enguri/Vardnili generation more than doubled increasing 119.6% y/y from last year's low base when Enguri was stopped due to tunnel expertise. Abkhazian region consumed 94.8% of electricity generated from Enguri/Vardnili.
- Generation of other regulated and deregulated HPPs also increased significantly by 40.2% y/y and 44.6% y/y, respectively, due to high water flow and addition of new HPPs (Dariali and Khelvachauri) to the group of deregulated HPPs.

The surplus in hydro generation resulted in 24.4% y/y decline in **thermal generation**, about 16.6% below the planned level. **Wind generation** showed 7.0% increase to 6.2GWh and contributed 0.6% of total supply.

Electricity imports were down by 32.8% y/y from last year's high base, when interruption in Enguri increased demand for imports drastically. Import came fully from Azerbaijan and accounted for 15.2% of total electricity supplied to the grid.

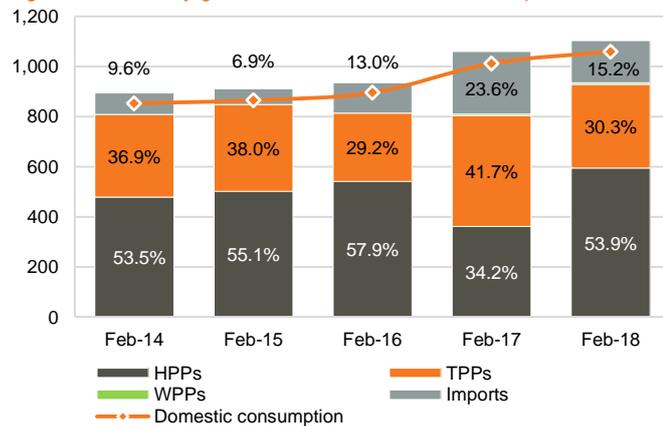
The guaranteed capacity fee was down 3.4% y/y to 1.7tetri/kWh in February 2018, due to increase in consumption, which serves as a base for guaranteed capacity fee calculation. Gardabani CCGT and Mtkvari Energy operated at full capacity for almost the entire month, while the other three thermal power plants were mostly on standby.

Table 2: Supply growth breakdown, Feb-18

Supply source	Growth rate, y/y	Share in supply
Total Supply	4.1%	100%
Imports	-32.8%	15.2%
Domestic generation	+15.4%	84.8%
TPPs	-24.4%	30.3%
WPPs	+7.0%	0.6%
HPPs	+64.3%	53.9%
Enguri and Vardnili	+119.6%	20.7%
Other regulated HPPs	+40.2%	19.7%
Deregulated HPPs	+44.6%	13.5%

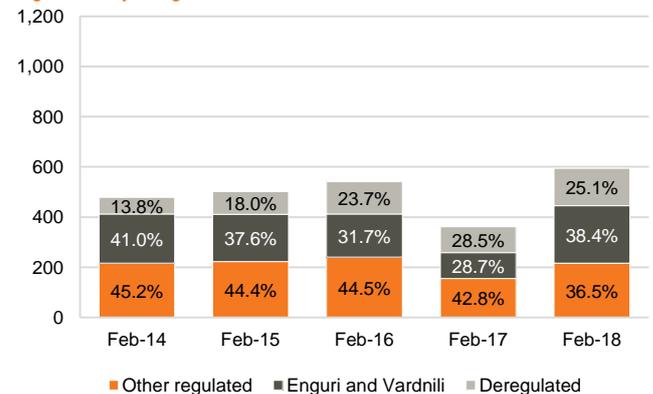
Source: ESCO

Figure 3: Electricity generation and domestic consumption, GWh



Source: ESCO

Figure 4: Hydro generation, GWh



Source: ESCO



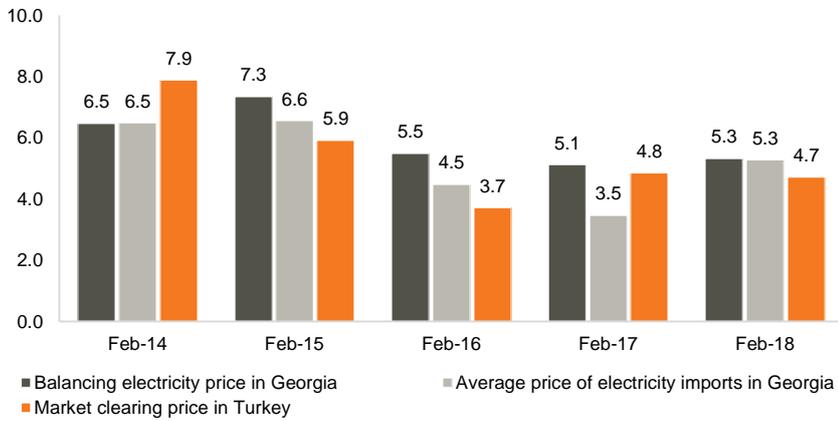
Electricity Prices in Georgia and Turkey

Average import price increased by 52.2% y/y and reached USc 5.3/kWh, from last year's low base (-22.6% y/y). In February 2017, there was a subsidized electricity import from Russia via Salkhino line to satisfy the excess needs of Abkhazian region.

Despite higher import price, the **wholesale market price** was up only by 3.5% y/y to USc 5.3/kWh, due to low electricity imports. Electricity traded at the wholesale price through the market operator was 22.9% of total electricity supplied to the grid, down from 33.0% in February 2017.

Turkish electricity prices decreased 2.7% y/y to USc 4.7/kWh from a significantly high base in February 2017 (+30.8% y/y).

Figure 5: Electricity prices in Georgia and Turkey, USc/kWh



Source: ESCO, GeoStat, EPIAS
Note: There were no exports in February 2018



Table 3: Electricity Balance (GWh)

	Mar-17	Apr-17	May-17	Jun-17	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17	2017	Jan-18	Feb-18	2M18
Domestic consumption, total	1,019	933	856	870	985	1,037	918	947	1,032	1,163	11,856	1,168	1,059	2,227
% change y/y	8%	8%	1%	3%	10%	14%	16%	7%	7%	0%	7.7%	8%	5%	6.2%
<i>Of which:</i>														
- Abkhazian Region	205	171	132	102	113	119	101	136	194	241	2,002	247	216	464
% change y/y	7%	14%	8%	1%	3%	2%	-8%	-4%	-1%	-5%	3.9%	-2%	-7%	-4.6%
- Eligible consumers	129	128	95	131	136	138	122	121	107	102	1,427	108	104	212
% change y/y	12%	5%	-27%	6%	21%	66%	91%	62%	32%	-17%	18.1%	1%	-8%	-3.5%
- Distribution Companies	685	634	629	637	736	780	695	690	732	819	8,427	812	738	1,551
% change y/y	8%	7%	6%	3%	9%	10%	13%	4%	6%	4%	7.1%	12%	11%	11.4%
<i>Of which:</i>														
- Energo-Pro Georgia	439	417	420	426	496	519	456	457	481	528	5,493	521	476	997
% change y/y	8%	6%	6%	4%	11%	11%	13%	5%	10%	8%	8.1%	17%	16%	16.8%
- Telasi	246	216	209	211	240	261	239	233	251	292	2,935	291	262	553
% change y/y	8%	9%	7%	0%	5%	9%	12%	1%	-1%	-2%	5.2%	4%	2%	2.9%
Domestic Generation, total	741	817	1,093	1,138	1,247	1,035	821	828	968	1,080	11,531	1,014	934	1,948
% change y/y	-12%	-7%	2%	4%	18%	8%	3%	-9%	-3%	-9%	-0.4%	6%	15%	10.4%
<i>Of which:</i>														
- HPPs	544	722	1,085	1,128	1,234	944	706	583	658	682	9,211	676	594	1,270
% change y/y	-22%	-1%	1%	3%	16%	6%	10%	-11%	2%	0%	-1.3%	20%	64%	37.2%
- TPPs	188	86	0	1	5	83	107	239	304	393	2,233	331	334	665
% change y/y	26%	-40%	N/A	-76%	321%	31%	-32%	-6%	-14%	-21%	-0.1%	-14%	-24%	-19.6%
- WPPs	9	9	8	9	7	8	7	7	5	6	88	7	6	13
% change y/y	N/A	178%	-19%	NM	10%	7%	8.4%							
Imports	311	147	2	0	1	73	133	157	110	135	1,497	202	168	370
% change y/y	134%	493%	-41%	-100%	-78%	597%	449%	832%	766%	302%	212.6%	13%	-33%	-13.7%
Exports	-	-	200	230	222	32	-	-	1	-	686	-	-	-
% change y/y	N/A	N/A	5%	9%	71%	16%	N/A	N/A	N/A	N/A	22.7%	N/A	N/A	N/A
Net Export/Import	(311)	(146)	199	230	221	(41)	(133)	(157)	(109)	(135)	(811)	(202)	(168)	(370)
Transit	4	5	4	-	-	93	32	15	23	53	254	-	13	13
% change y/y	-84%	-90%	N/A	N/A	N/A	-33%	-69%	-89%	-83%	-61%	-70%	N/A	-18%	-48%

Source: ESCO

Note: Energo-pro Georgia includes consumption of Kakheti Energy Distribution before Aug-17



Disclaimer

This document is strictly confidential and has been prepared by JSC Galt & Taggart ("Galt & Taggart"), a member of BGEO group plc ("Group") solely for informational purposes and independently of the respective companies mentioned herein. This document does not constitute or form part of, and should not be construed as, an offer or solicitation or invitation of an offer to buy, sell or subscribe for any securities or assets and nothing contained herein shall form the basis of any contract or commitment whatsoever or shall be considered as a recommendation to take any such actions.

Galt & Taggart is authorized to perform professional activities on the Georgian market. The distribution of this document in certain jurisdictions may be restricted by law. Persons into whose possession this document comes are required by Galt & Taggart to inform themselves about and to observe any and all restrictions applicable to them. This document is not directed to, or intended for distribution, directly or indirectly, to, or use by, any person or entity that is a citizen or resident located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would require any registration or licensing within such jurisdiction.

Investments (or any short-term transactions) in emerging markets involve significant risk and volatility and may not be suitable for everyone. The recipients of this document must make their own investment decisions as they believe appropriate based on their specific objectives and financial situation. When doing so, such recipients should be sure to make their own assessment of the risks inherent in emerging market investments, including potential political and economic instability, other political risks including without limitation changes to laws and tariffs, and nationalization of assets, and currency exchange risk.

No representation, warranty or undertaking, express or implied, is or will be made by Galt & Taggart or any other member of the Group or their respective directors, employees, affiliates, advisers or agents or any other person as to, and no reliance should be placed on, the fairness, accuracy, completeness or correctness of this document and the information contained herein (and whether any information has been omitted from this document) and no reliance should be placed on it. This document should not be considered as a complete description of the markets, industries and/or companies referred to herein. Nothing contained in this document is, is to be construed as, or shall be relied on as legal, investment, business or tax advice, whether relating to the past or the future, by Galt & Taggart any other member of the Group or any of their respective directors, employees, affiliates, advisers or agents in any respect. Recipients are required to make their own independent investigation and appraisal of the matters discussed herein. Any investment decision should be made at the investor's sole discretion. To the extent permitted by law, Galt & Taggart, any other member of the Group and their respective directors, employees, affiliates, advisers and agents disclaim all liability whatsoever (in negligence or otherwise) for any loss or damages however arising, directly or indirectly, from any use of this document or its contents or otherwise arising in connection with this document, or for any act, or failure to act, by any party, on the basis of this document.

The information in this document is subject to verification, completion and change without notice and Galt & Taggart is not under any obligation to update or keep current the information contained herein. The delivery of this document shall not, under any circumstances, create any implication that there has been no change in the information since the date hereof or the date upon which this document has been most recently updated, or that the information contained in this document is correct as at any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same. No representation or warranty, expressed or implied, is made by Galt & Taggart or any other member of the Group, or any of their respective directors, employees, affiliates, advisers or agents with respect to the accuracy or completeness of such information.

The information provided and opinions expressed in this document are based on the information available as of the issue date and are solely those of Galt & Taggart as part of its internal research coverage. Opinions, forecasts and estimates contained herein are based on information obtained from third party sources believed to be reliable and in good faith, and may change without notice. Third party publications, studies and surveys generally state that the data contained therein have been obtained from sources believed to be reliable, but that there is no guarantee of the accuracy or completeness of such data. Accordingly, undue reliance should not be placed on any such data contained in this document. Neither Galt & Taggart, any other member of the Group, nor their respective directors, employees, affiliates, advisers or agents make any representation or warranty, express or implied, of this document's usefulness in predicting the future performance, or in estimating the current or future value, of any security or asset.

Galt & Taggart does, and seeks to do, and any other member of the Group may or seek to do business with companies covered in its research. As a result, investors should be aware of a potential conflict of interest that may affect the objectivity of the information contained in this document.

This document is confidential to clients of Galt & Taggart. Unauthorized copying, distribution, publication or retransmission of all or any part of this document by any medium or in any form for any purpose is strictly prohibited.

The recipients of this document are responsible for protecting against viruses and other destructive items. Receipt of the electronic transmission is at risk of the recipient and it is his/her responsibility to take precautions to ensure that it is free from viruses and other items of a destructive nature.

Address: 79 D. Agmashenebeli Avenue, Tbilisi 0102, Georgia

Tel: + (995) 32 2401 111

Email: research@gt.ge

Head of Research

Eva Bochorishvili | evabochorishvili@gt.ge

Economist

Lasha Kavtaradze | lashakavtaradze@gt.ge

Head of Analytics Unit

Giorgi Iremashvili | giremashvili@gt.ge

Analyst

Mariam Chakhvashvili | mchakhvashvili@gt.ge

Analyst

Bachana Shengelia | bshengelia@gt.ge

Analyst

Ana Nachkebia | ananachkebia@gt.ge

Analyst

Kakhaber Samkurashvili | ksamkurashvili@gt.ge

Analyst

Ioseb Kumsishvili | ikumsishvili@gt.ge