

Water utility and renewable energy businesses

Speaker: Giorgi Vakhtangishvili, CEO

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Content

1 Water utility and renewable energy businesses | snapshot

2 Water utility business – 3Q20 & 9M20 results

3 Water utility business – performance against the strategy

4 Renewable energy business – 3Q20 & 9M20 results

5 Renewable energy business – pipeline projects

6 Medium-term outlook

Water utility and renewable energy businesses | snapshot

Water utility business

Providing



Water production and supply services



Wastewater collection and treatment services



Electricity generation and sale

Serving

c. 1.4m population

c. 36,000 commercial customers

Owning & operating

149MW HPPs linked to water utility services

c. 3,700km of water network

At a glance

Renewable energy business

Commissioned (91MW)



50MW Mestiachala HPPs



20MW Hydrolea HPPs



21MW Qartli WPP

Pipeline (172MW)



46MW Zoti HPP



17.5MW Darchi HPP



54MW Tbilisi WPP



54MW Kaspi WPP

Key highlights

- **Natural monopoly with full asset ownership** of water and wastewater network in the capital city of Georgia and surrounding areas
- **Regulated business with fair returns** – current regulatory WACC set at 15.99%
- **Outstanding cash collection rates of 95%+**
- Self-sufficient in terms of electricity consumption by **operating 149MW installed capacity hydro power plant**

- **Opportunity to establish one of the largest renewable energy platforms** (c. 412MW) and capitalize on favorable electricity market conditions
- **Build cheaply (below USD 1.5m per MW)** due to underinvested hydro and wind potential in Georgia
- **High cash-flow visibility**, as operational and pipeline projects benefit from **long-term fixed price PPAs** formed with the Government-backed entity
- **The natural hedge of FX risk from USD denominated electricity sales**, as the whole electricity market operates in US dollars

Regulatory environment

Water tariff setting methodology fully aligned with EU best practice

Water utility business is regulated by an independent regulatory body – GNERC (Georgian National Energy and Water Supply Regulatory Commission)



Main goals of the regulator include:

- Increase of transparency and trust among regulated companies and customers
- Harmonization of laws and regulations with EU legislation
- Enforcing fair KPI's to measure service quality

Transparent price setting methodology, enabling the company to efficiently plan its capital investments

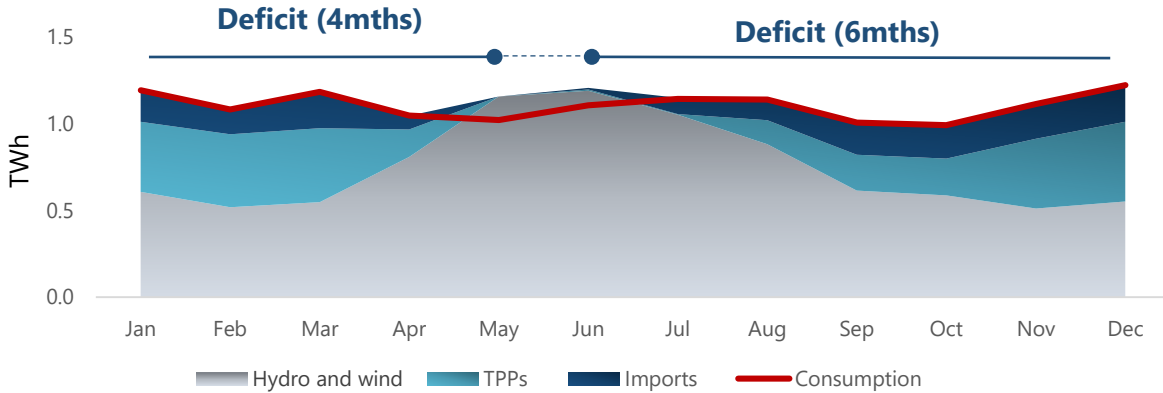


- Georgia took an important step towards EU integration by signing the Association Agreement in June 2014
- One of the major reforms was the introduction of a new model for setting prices for regulated utilities for three year regulatory period
- Regulatory WACC for the current 3-year regulatory period of 2018-2020 is set at 15.99%, up from the previous 13.5%
- Water tariff to be reset from 1st January 2021 for 3-year regulatory period

Electricity market dynamics

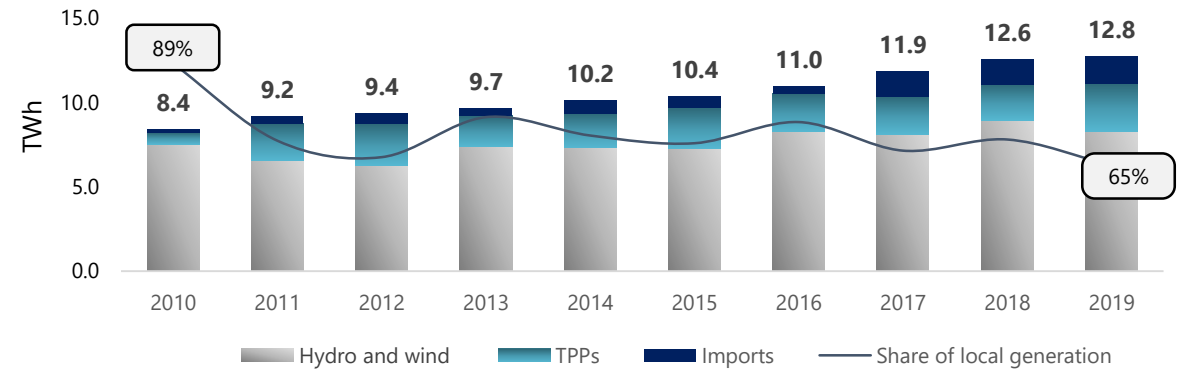
Significant electricity deficit anticipated notwithstanding the COVID-19 outbreak

1. Electricity deficit during 10 months of the year (2019)

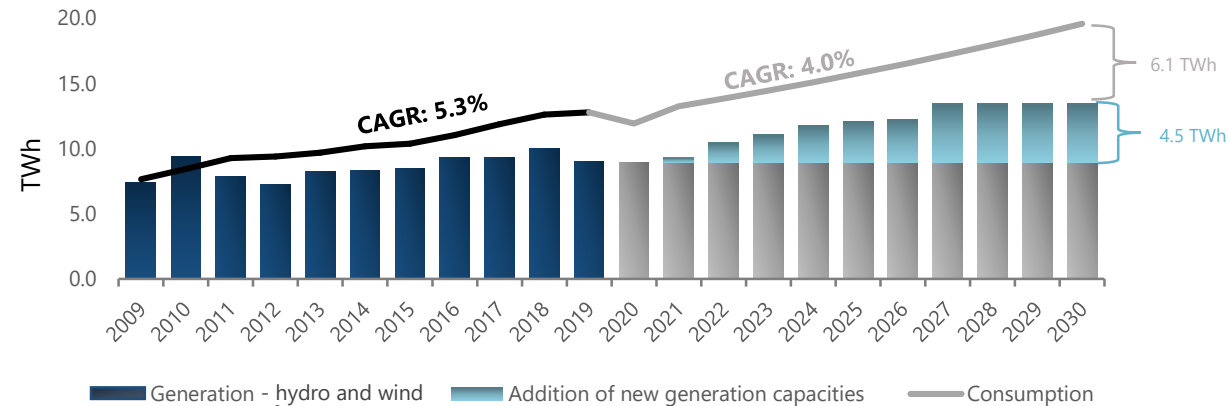


Note: TPPs (thermal-power plants) work on imported gas

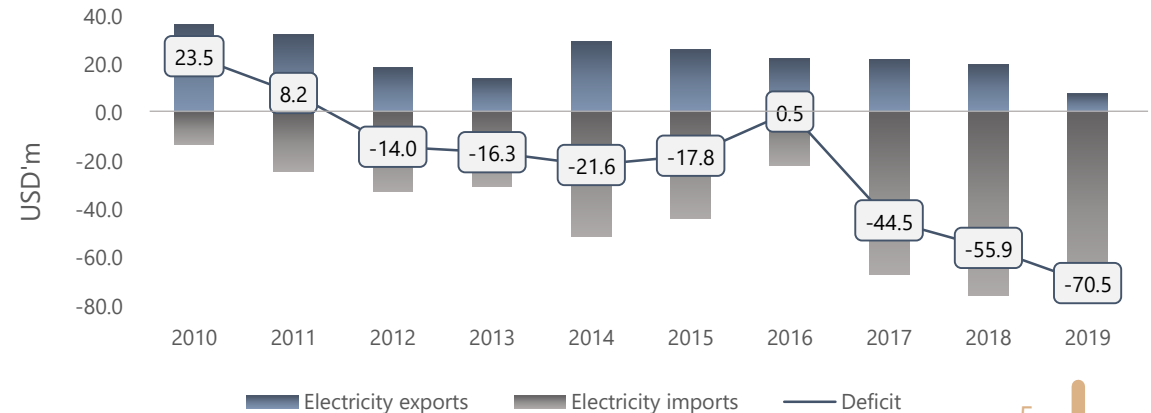
2. Incremental electricity consumption satisfied by import



3. Significant electricity deficit of 6.1 TWh by 2030



4. Electricity trade deficit at USD 70.5m



Electricity market liberalization

Georgia is on track to the harmonization of current energy market structure with EU directives leading to liquid, competitive and transparent market

Deregulation of electricity market by moving large industrial customers out of regulated scheme to free market

1H19

Adoption of new Electricity Market Model Concept

1H20

Launch of Day-Ahead Market and Balancing Market platform

2H21

Foundation of Georgian Energy Exchange, which will operate on Nord Pool Consulting's trading platform

2H19

Introduction of feed-in tariff mechanism. Adoption of rules for day-ahead, intraday markets, balancing and ancillary services

2H20

Launch of Intraday Market platform

2H22

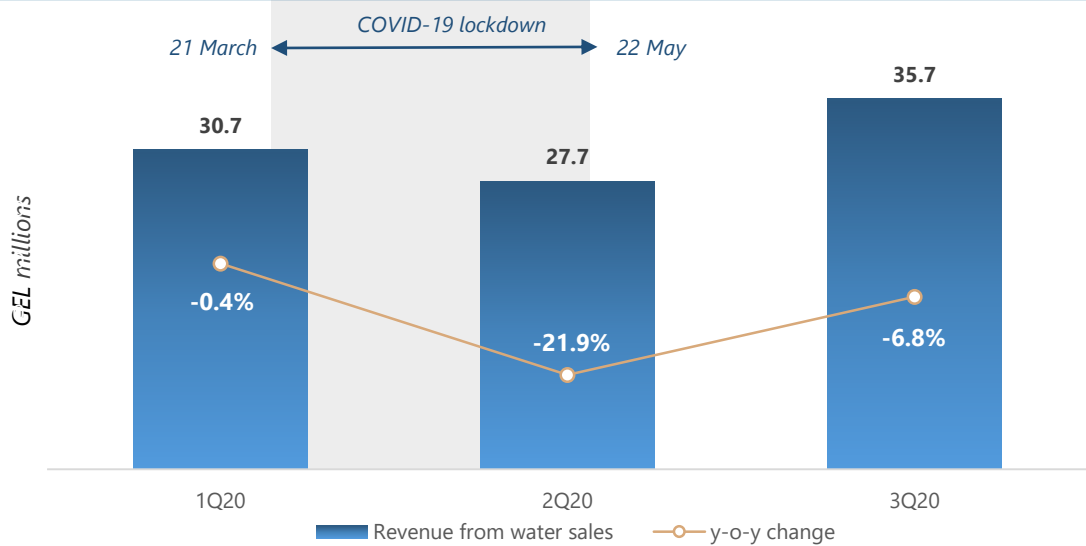
 Already implemented

 To be implemented

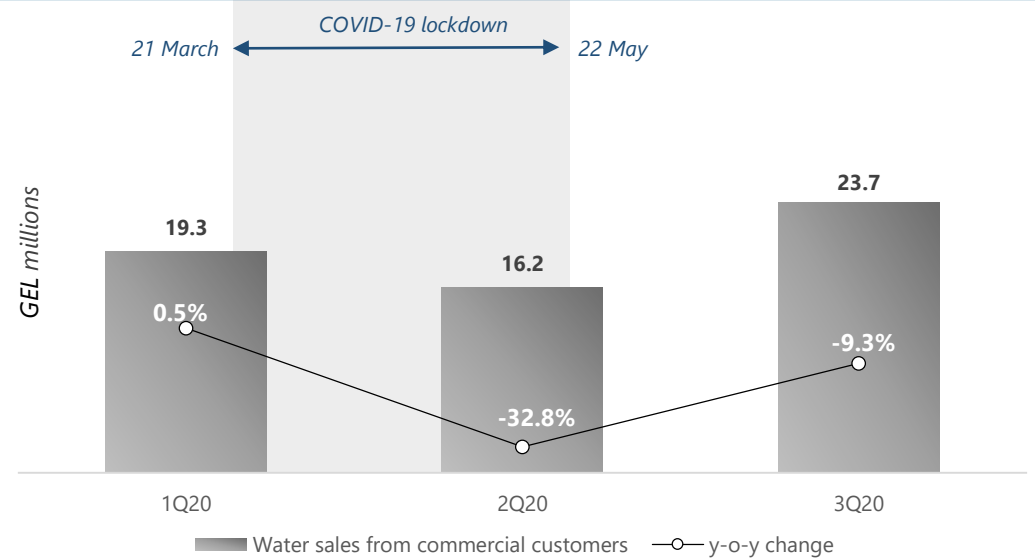
COVID-19 impact – water sales

Water sales affected by COVID-19, though unearned revenues to be reimbursed through tariff in the next regulatory period

1. Quarterly revenues from water sales – total



2. Quarterly revenues from water sales – commercial customers



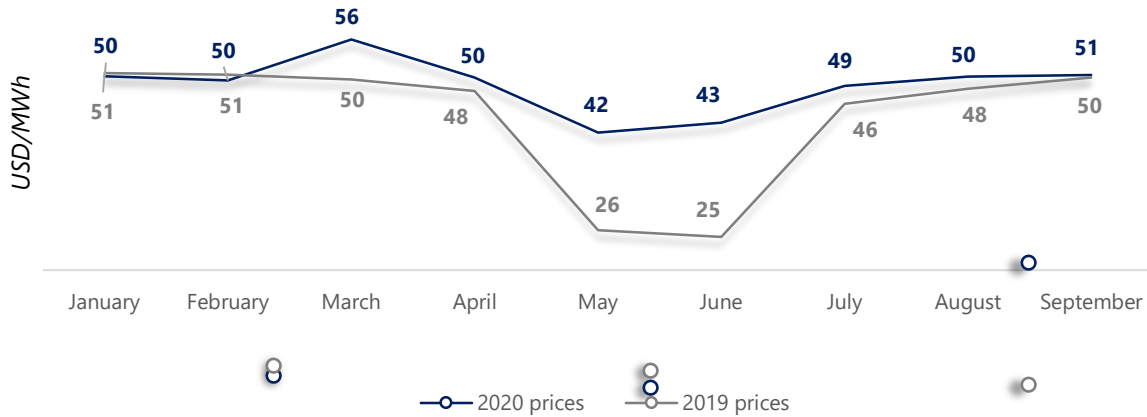
COVID-19 impact highlights

1. 10.0% y-o-y decrease in water revenues in 9M20, was primarily driven by a drop in demand from commercial customers due to reduced economic activities during the COVID-19 outbreak
2. Water sales to residential customers remain broadly stable
3. Rebound in water sales from May-20 gradually normalising at prior year levels
4. Cash collections remain strong at 95%+ for both commercial and residential customers, further supported by the Government’s subsidy of water utility bills during the lockdown

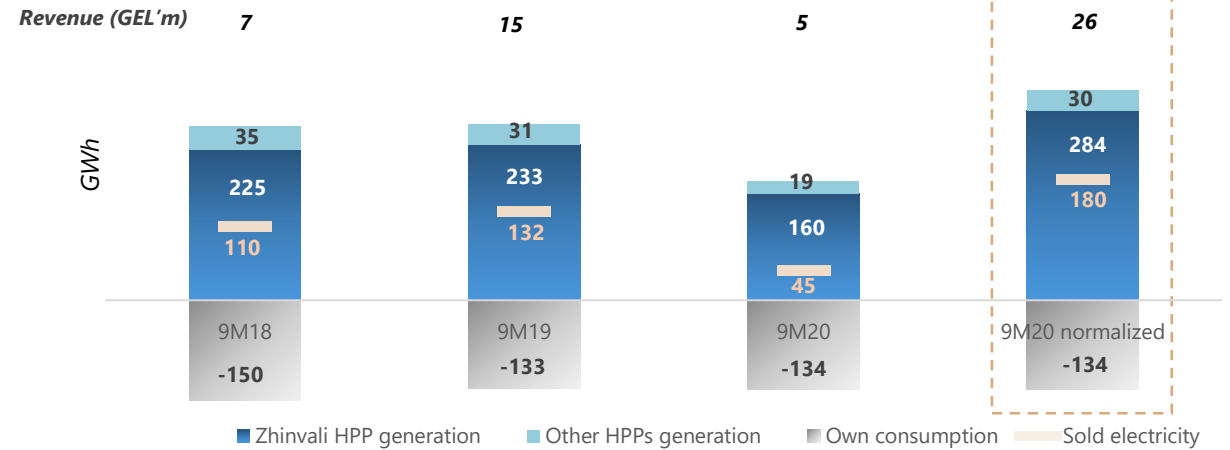
COVID-19 impact – electricity sales

Electricity prices demonstrate resilience towards COVID-19 outbreak

1. Balancing prices showing y-o-y uptrend in 2020



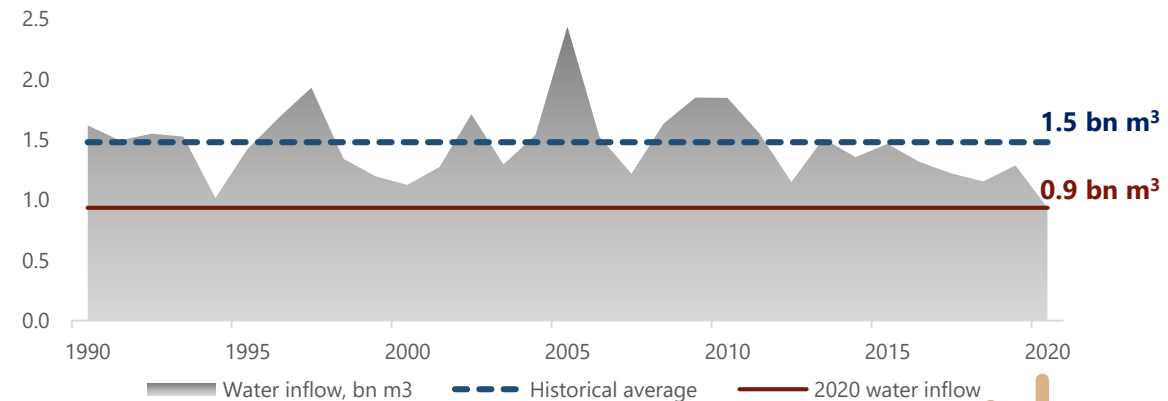
2. Increasing electricity sales price offset by low generation levels



Key Highlights

- ✓ Balancing price represents a weighted average price of imported electricity and PPAs
- ✓ Despite a 6.5% y-o-y decrease in 9M20 electricity demand, balancing price increased by 7.2% y-o-y during this period
- ✓ 9M20 water inflows to Zhinvali HPP were 37.2% lower than historic average inflows of past 30-year period

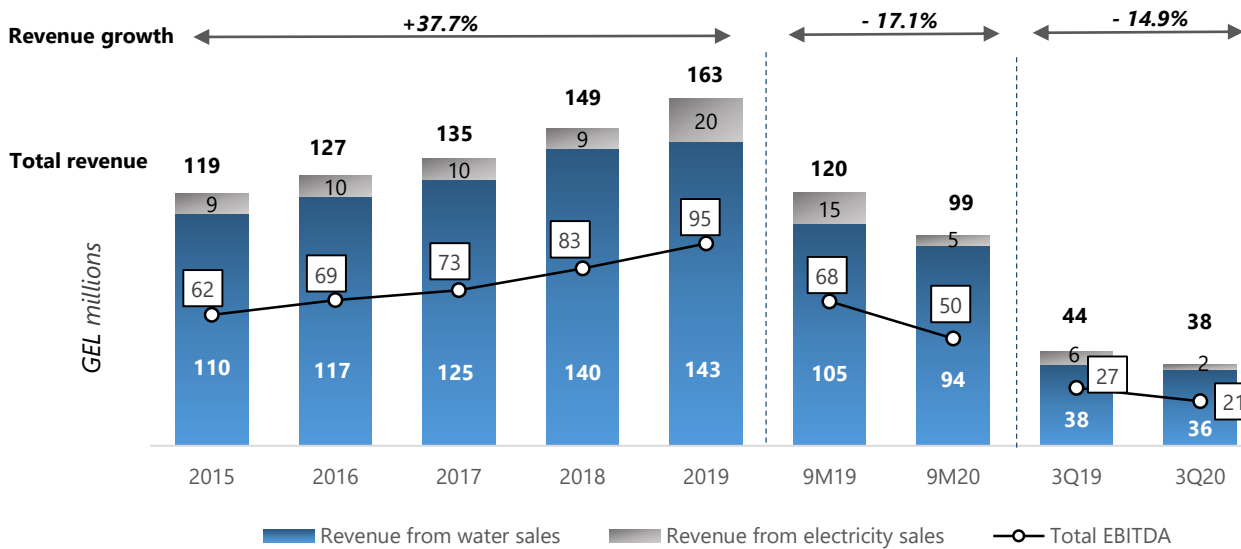
3. 2020 water inflows to Zhinvali reservoir – the lowest in 30 years



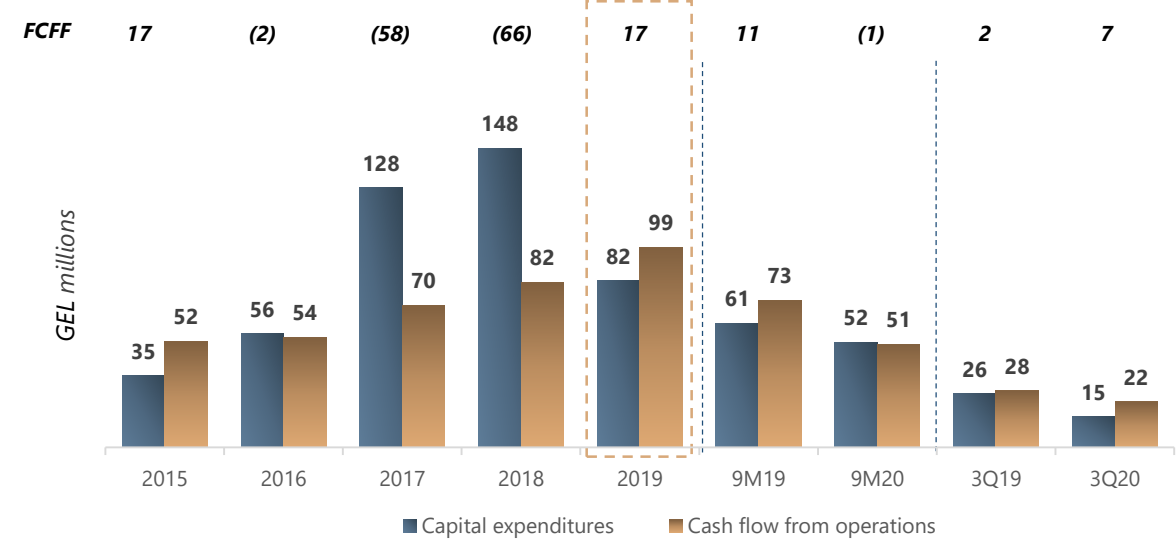
Performance against the strategy

Strong results on the back of implemented strategic priorities

1. Revenue and EBITDA build-up



2. FCFF turned positive in 2019



Note: Capital expenditure is the sum of cash flow from investing activities and maintenance capex



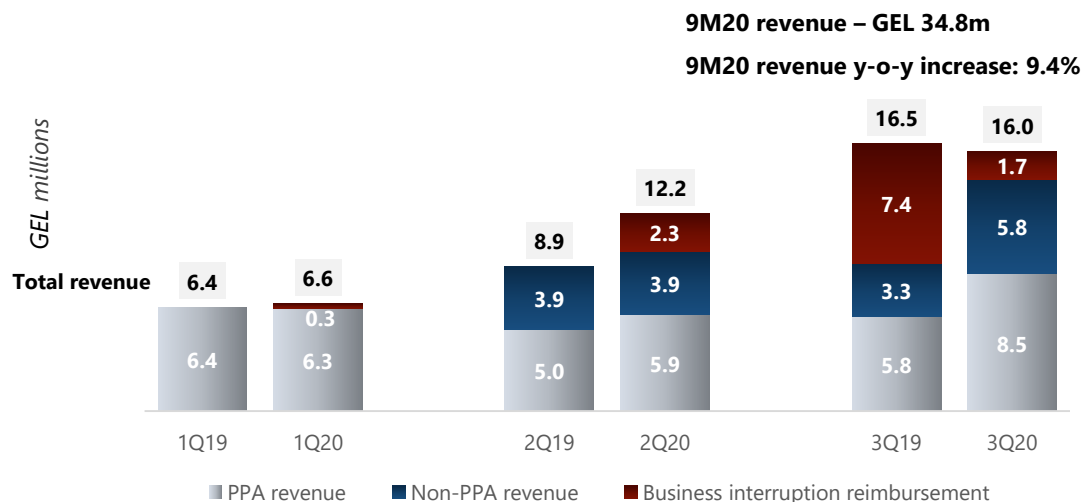
Strategy highlights

1. **Decreased self-produced electricity consumption by c. 45%** (by 145GWh) from 2015 to 2019 on the back of capital expenditures freeing up electricity for sale
2. 2017-2018 years of most intensive capital expenditures **focused on upgrading a significant part of water and wastewater networks**
3. As a result, Privatization Agreement formed with the Government was successfully exited in 2019 obtaining **unencumbered title over its assets**
4. Starting from 2019, **capital expenditures have been gradually decreasing** to run-rate level, **contributing to positive FCFF generation**

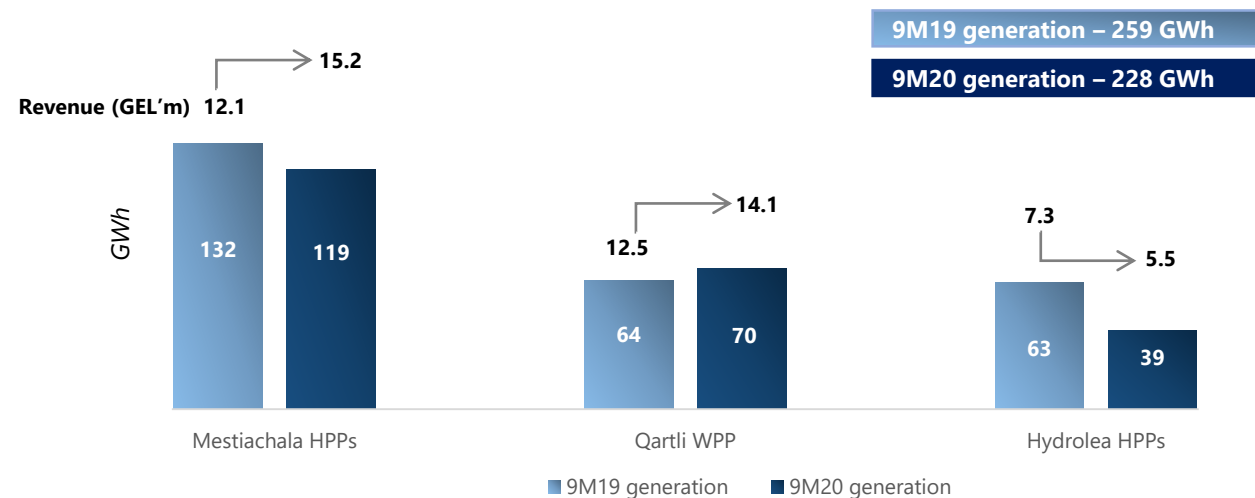
Renewable energy business performance

9M20 electricity sales increased by 9.4% y-o-y, despite the decrease in generation by 11.9%

1. 2020 quarterly revenue from electricity sales



2. 9M19 and 9M20 generations and revenues by power plants



Key highlights





1. Like-for-like y-o-y increase¹ in 9M20 revenue from electricity sales was 9.4%. Without considering 2019 BI reimbursement amount for 20MW Mestiachala HPP (Aug-Sep), the growth would be 20.6%²
2. 9M20 electricity sales price during non-PPA months amounted to 38.3 USD/MWh, increasing y-o-y by 34.5% on the back of electricity market deregulation and increasing electricity deficit on the Georgian market
3. EBITDA in 3Q20 and 9M20 amounted to GEL 13.4m and GEL 27.5m, with outstanding EBITDA margins of 83.8% and 78.8%, respectively
4. 9M20 electricity sales from Mestiachala HPPs increased by 25.9% y-o-y, despite the decrease in generation by 9.5%. Revenue from Hydrolea HPPs was down by 24.0% y-o-y, on the back of planned rehabilitation works

Note (1): Like-for-like y-o-y changes, including revenues generated by Hydrolea HPPs and Qartli wind farm prior to their acquisitions (acquired in 4Q19)

Note (2): Restoration process in on-going For 20MW Mestiachala HPP, as it was flooded and taken offline in late July 2019

Renewable energy business – pipeline projects

172MW power plants are under advanced stage of development

	 Tbilisi WPP	 Kaspi WPP	 Darchi HPP	 Zoti HPP
Installed capacity (MW)	54.0	54.0	17.5	46.0
Generation (P50 ¹ , GWh)	175	174	85	173
Capacity factor	37%	37%	55%	43%
Target commissioning date	2H23	2H23	1H23	2H22
Target ROIC	11.0%	11.0%	13.2%	10.5%

Total installed capacity

172MW

Total annual generation (P50)

607GWh

Note (1): P50 figure is the annual average level of generation, where the output is forecasted to be exceeded 50% over a year

Debut green bonds from Georgia

Oversubscribed by 1.5x on debut green bond issuance amid COVID-19 outbreak

First ever green bonds from Georgia



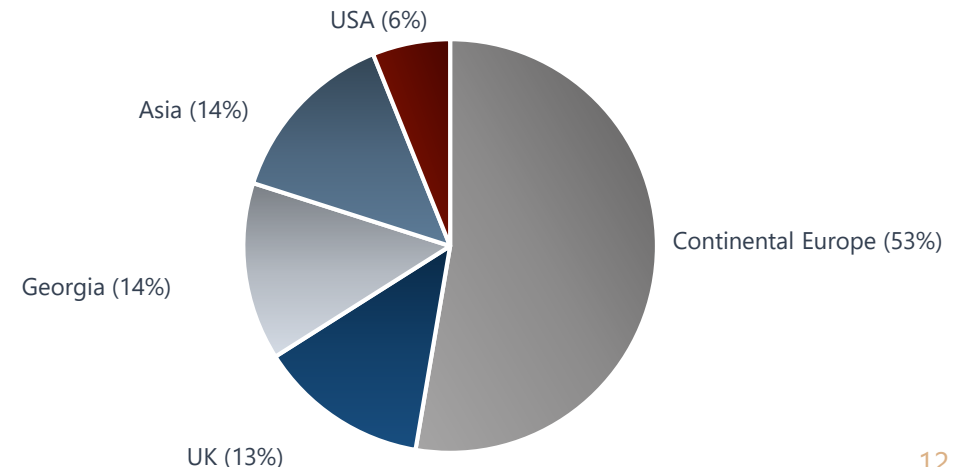
- In July 2020, the water utility business together with the operational/commissioned renewable energy assets, successfully priced and listed debut green bonds on the Irish Stock Exchange
- The issuance was met with significant interest both from institutional investors and IFIs
- The issuer obtained Second Party Opinion from Sustainalytics, a leading provider of environmental, social and governance research and analysis, for its Green Bond Framework

The issuance of the bonds significantly improves the financial flexibility of water utility business and boosts its liquidity profile by moving from amortizing to bullet repayment structure, contributing to healthy growth of the business and enhanced dividend capacity

Issuance overview

Notes:	USD 250 million, 5NC2, 7.75% Green Bonds
Uses of proceeds:	Water utility capex and refinancing of existing debt
Listing:	Irish Stock Exchange
Notes rating:	B+ (Stable) by Fitch / B (Positive) by S&P
Sole bookrunner, Green structuring agent, Development finance structuring agent:	J.P. Morgan
Co-manager:	TBC Capital
Demand:	Book was oversubscribed by 1.5x
Anchor investors:	FMO, DEG, ADB and TBC Bank

Investors by geography



Medium-term outlook

Key financial targets remain strong

	EBITDA Margin	ROIC	Operating cash-flow over debt service
WATER UTILITY	60-65%	13-15% in GEL	c. 4.0x
RENEWABLE ENERGY	75- 80%	11-13% in USD	c. 1.5x

VALUE CREATION DRIVERS



Water utility business's alignment with regulatory framework



Generation to reach run-rate level of c. 1.3 TWh



USD revenue streams from electricity sales



Water utility tariff increase from 2021



Electricity sales price increase



Bullet repayment structure for water utility business and operational renewable energy assets

Forward looking statement

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