

## Geo Hydro Power PLC SPV

[To be founded in the agreed jurisdiction]

### Request for an expression of interest

#### Background

##### **Quick Sector introduction:**

Already at soviet times the potential of hydro power generation in Georgia was recognized. As the Georgian economy must import 30% of its energy today, the focus of the Ministry of Economy in Georgia is on realizing the potential of HPPs in Georgia with the following initiatives:

- Setting up procedures for PPP solutions
- Adapting the law with clear contracts for guaranteed feed in prices for electricity
- Supporting private initiatives building HPPs in Georgia.

##### **Overview of the initiators:**

The **Phazisi Energy Group** is active in the electricity sector in Georgia since 2000. The founders, **Mogeli Tkebuchava**, holding an MBA in economics and being a business lawyer since 2004, together with his brother, **Anguli Tkebuchava**, Civil Engineer with international experience, are key drivers in the development of HPPs in Georgia:

- legal and business consulting (for example advising the state in reforming Georgian energy sector legal basis)
- Engineering and projecting with Gross Energy Group: Preparing different HPP projects and feasibility studies for the state and the private sector.
- Prepared more than 80 different projects with the total estimated capacity of up to 900 MW from which 9 projects with the installed capacity of 130 MW are already finalized and successfully operating.
- Attracting Foreign Direct Investments into the Georgian Power Energy Generation Sector

##### **Example of implemented projects by Phazisi Energy Group:**

- Pre-feasibility study for Clean Energy Invest Limited (Norway) to develop HPPs a Cascade located in Adjara, Georgia. The three step HPP cascade with planned capacity of 400MW. Today, 185MW are finalized and 12MW is already in operation. The project is part of the energy policy of Government of Georgia.
- Initiating and executing 2MW Nabeghlavi HPP Project. The HPP operates since 2017. They hold 25% shares in the project company, the remaining 75% is owned by Alliance Energy partially American owned.
- Together with the Belgium engineering & consulting company MTBE (Merytherm SA) they performed a pre-feasibility and mid-term feasibility for 1 MW Tashiskari HPP project. After obtaining all necessary permits the HPP is now under construction and will start operating September 2020. Phazisi Energy Group is owing 100% of the HPP.

- Feasibility Study and new investor for Tekhuri HPP (114MW) and Khaishura HPP (36MW). RazGal Energy (Israel) bought the project with Phazisi Energy Group having 20% ownership. Expected date for projects to start operating is September 2020.

With its long experience in the sector, Phazisi selected the most promising and realistic HPPs in Georgia and consolidated them into the new company **Phazisi Energy & Yenigun** with the goal to develop those projects and to build and operate them.

**Yenigun Construction Industry & Commerce Inc. (Turkey)** – the second partner - is one of the largest privately owned internationally active Turkish construction Groups rated amongst the top 250 Construction companies in the World founded in 1973. Yenigun specialized in energy construction projects. With this expertise Yenigun is the strategic partner in the development of the selected HPPs in Georgia.

Main projects carried out by Yenigun:

International and Energy related examples:

- Socar&Turcas Aegean Refinery (STAR) project
- Alpaslan II Dam & HEPP construction works
- Construction of Sarioglan Dam
- Construction of Kayalikoy Dam
- Construction of Yenice Dam & HEPP
- Construction of Sogutlukaya Dam POSOF & HEPP

Yenigun is also engaged in housing projects, sport facilities, shopping malls, hotel and military buildings, water networks, airport runways, aprons and taxiway projects in Turkey and abroad.

### **Short Project description**

LLC “Phazisi Energy and Yenigun” is a newly founded company set up by LLC “Phazisi Energy” and Yenigun Construction Industry & Commerce Inc. (Turkey), where (according to terms and conditions agreed in the MoM dated 28.06.2018) LLC “Phazisi Energy” has contributed Metekhi, Majieti, Ghebi, Sakaura, Ghere, Budja 1, 2, 3 and Udzilaurta HEPP projects (licenses, feasibility studies, signed PPAs with the government for a planned total installed capacity for the 7 seven projects of around 97 MW) as a capital contribution in kind, while Yenigun Construction Industry & Commerce Inc. (Turkey) has deposited the above mentioned 10ML USD bank guarantee for the State.

The Hydro power stations shall be privately owned and financed in Georgia, Tbilisi and operate the 7 power stations with a total planned capacity of up to 98 MW. The Metekhi HPP (located in the vicinity of Metekhi City around 180 km south east of Kutaisi City) has a design capacity of 36.7 MW, whereas Oni HPPs with its 4 HEPP (Majieti, Ghebi, Sakaura, Ghere) facilities in the vicinity of Oni City (located around 60 km east of Kutaisi City) has a designed capacity of 47.1 MW. The Buja HPPs with its 3 HEPP facilities (located in 15 KM from city Chiatura) has a designed capacity of 5MW. The Udzilaurta HPP (located in 30 KM from city Dusheti) has a designed capacity of 8.2MW. All projects comply with Equator Principles. Environmental studies will be conducted, and all required mitigation plans will be put in place in order to safeguard environmental protection. Preliminary studies confirm that the project will comply with all required environmental conditions. The projects are planned with 36 months of realization and will follow the concepts of Build, Operate and Own (BOO). Estimated total CAPEX is 203,5 mil. USD

For Metekhi HPP in Kaspi Municipality, Georgia, bankable Feasibility Study is completed. For the rest of the HPP projects (Majieti, Ghere, Sakaura, Ghebi, with consolidated name: Oni HPPs in Racha Region, Georgia, and Buja 1, 2,

3 in Chiatura, Georgia, consolidated name Buja HPPs in Imereti Region, Georgia, and Udzilaurta HPP in Mtskheta-Mtianeti Region, Georgia) the feasibility Studies are fulfilled according to the requirements of Government of Georgia (GOG).

According to the signed MoUs with the Government of Georgia (GOG), Oni HPPs, (Majieti, Ghebi, Sakaura, Ghere), Metekhi 1 HPP, Buja HPPs and Udzilaurta HPP have been granted a PPA of 0.06USD/KWh for 8 months during the year and free sale for the left 4 months period, with an export licenses through all (exportation) transmission lines of Georgia.

According to signed MoUs with Government of Georgia (GOG), all needed licenses and permissions for the planned Energy Generation and Electricity Export will be supplied by the state during the project implementation process.

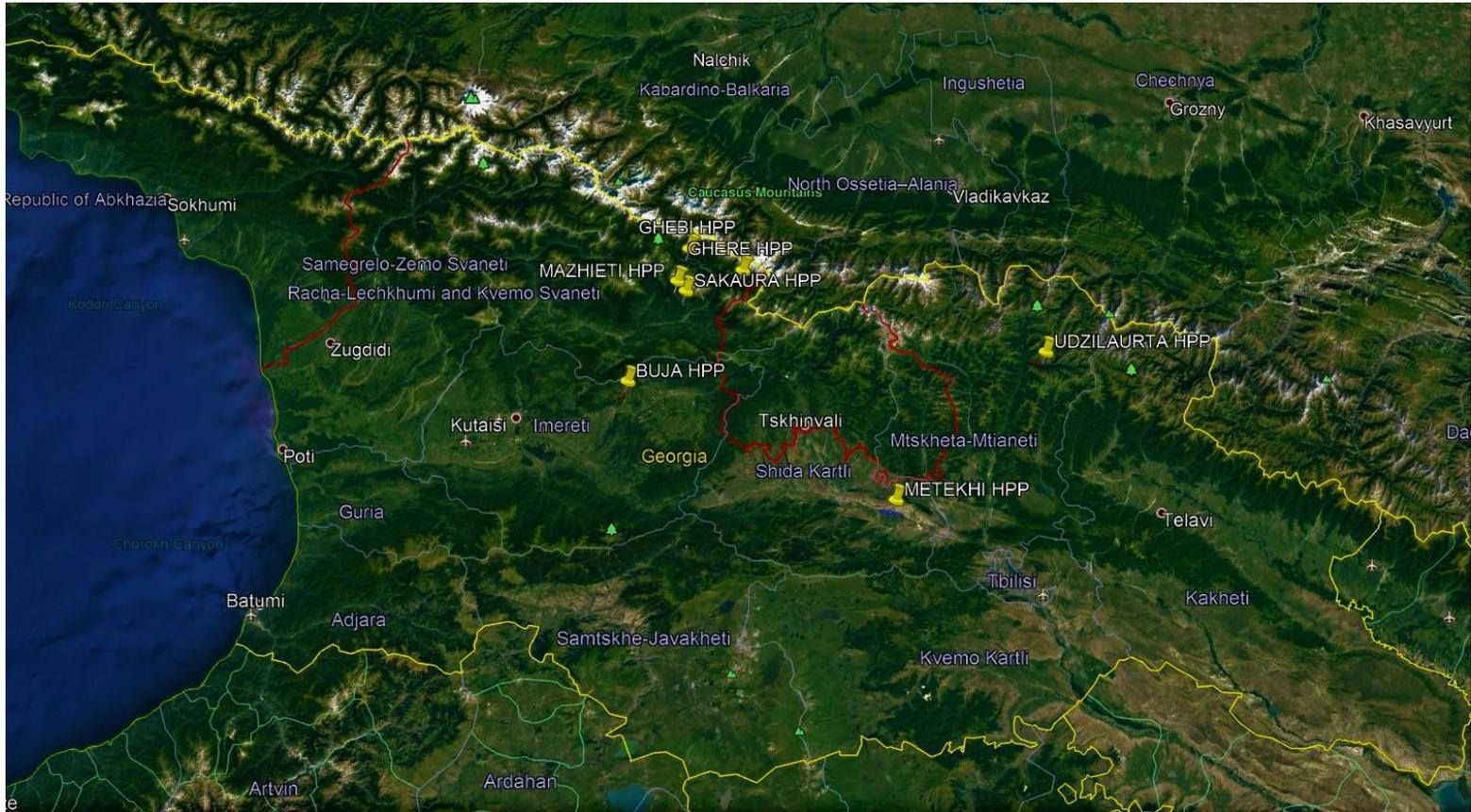
As per February 2019 all necessary procedures for the in-kind contributions of the projects and the deposit of the bank guarantee have been completed.

**Yenigun Construction Industry & Commerce Inc. (Turkey)** as 70% equity owner in LLC “Phazisi Energy and Yenigun” (up to 50%of which are reserved in trust for the finance providers together with the share-holding of Phazisi as well) and the future project EPC contractor expresses its readiness to provide all required EPC guarantees the way the company has already provided 10ML USD performance bank guarantee to the Government of Georgia (GOG).

### Overview of the proposed Hydro Power Plants in Georgia

Financial Information USD mio.	Metekhi 1	Majieti	Ghebi	Sakaura	Ghere	Budja 1, 2, 3	Udzilaurta
Cost (CAPEX):	64	31,52	34,62	25,98	24,75	6,65	15,98
Installed Capacity (MW):	36,73	12,28	14,34	12,00	9,41	4,76	8,48
Annual Production (Average, tMWh):	151,87	63,26	70,95	61,00	41,30	9,61	41,48
Annual Gross Income (USD /MWh):	8,90	3,71	4,16	3,57	2,42	1,41	2,07
Annual EBITDA(USD):	8,16	3,47	3,93	3,34	2,19	1,07	1,80
Per MW CAPEX Cost of New Installation:	1,74	2,57	2,41	2,17	2,63	1,40	1,88
Annual working hour (%): efficiency	50,00	58,78	56,7	58,52	50,11	62,53	55,86
IRR Value (%):	15,73	13,7				13,7	13,9

## Location Overview



## The existing financial offer

Phazisi Energy and Yenigun LLC have been offered a 100% financing by London based Pension Fund managers on the following terms and conditions:

Financing:	Cash financing 100%
Equity offer:	Equity only
Price/Financing:	maximum USD 220 million including financial intermediation cost and pre project development cost
Proposed Financing:	Equity only
Target Financing Period:	from 20 to 40 years

EPC Contractors:	Yenigun Construction Industry & Commerce Inc. (Turkey)
O&M Contractor:	to be selected by this process of a submission of interest
Financial Guarantee:	The newly accepted Preferred Financial Shareholders shall be granted a preferred dividend on a guaranteed basis (the legal structure to be negotiated) before any dividends will be paid to all the owners. It is anticipated that the guarantee will be committed to the investors, by the Hydro Power Station O&M Operator, on an unconditional and irrevocable annual basis (a contingent liability in accordance with IAS 37 and IFRS section 12).
Return of Preferred Shares:	The 50% Preferred Equity stake shall be returned to the Initiators on a pre-agreed basis at the latest at the end of the targeted financing period, or before in particular in the event of a potential future IPO or other liquidity events on pre-agreed terms
Estimated annual revenues:	USD [29] million (considering 2019 rates)
Corporate Governance:	A Board of Directors will be set up to ensure a balanced representation of all stakeholders including the Preferred Shareholder representative
Documentation:	to be agreed

### **Invitation to O&M Companies for negotiations**

**This is a call to negotiate with the Initiators for the functions of the O&M management company in line with the terms and conditions of the World Bank O&M Draft contract. The company who wishes to bid for the position of an O&M manager must be rated BBB- from S&P or Moody's equivalent or better. The bidding company must express its willingness to negotiate on the terms and conditions of the available financing proposal that has been made to Phazisi Energy and Yenigun from London based Pension Fund managers as a potential partner of the to be established PPP-consortium.**

**If the bidding company does not wish to express its readiness to negotiate with the London based Pension Fund managers on this proposal, or the bidding company is not having a rating BBB- from S&P or Moody's equivalent or better, than the bidding company must make a non-binding financing proposal which details the full terms and conditions of a 100% financing and the full cost of financing to the current shareholders of the Georgian company LLC Phazisi Energy & Yenigun.**

**All Interested Parties will be provided with a full Information Memorandum in exchange of a confidentiality declaration on request.**

**Arguments for investment:**

1. Unique project

The proposed Hydro Power project is unique, of overall national and economic importance and will further entice local growth.

2. Tested model

The proposed transaction and related project represent a tested model in other countries such as [f.ex. Italy and France, but also in the US and Asia.]

3. Stable revenues

The implied development dynamics ensure stable and continuously growing revenues strong enough to service financial commitments, maintenance cost and operational cost.

4. Government protection

The project enjoys high level of protection, as a private transaction will improve the country's FDI position.

**Risks:**

1. Country risk

The country currently holds a BB rating by Moody's. The country has been enjoying relative stability for the past five years and has signed the EU-Association Agreement in 2017. It is training with NATO forces and is member of the military alliance intervening in Afghanistan under the command of the US. Recent elections and the recent government changes have given the country a stable new government. The country's unique geopolitical position continues to carry significant risk.

2. Currency risk

The local currency markets have been highly volatile in line with developments in the oil and gas markets. The Georgian Lari has been suffering strongly from current account and trade account imbalances and has depreciated strongly. Strong tourism growth has recently improved the currency position. The outlook will further depend amongst others on the successful realization of big infrastructure works.

3. Interest rates

While the refinancing rates for the government and government entities still remain low at levels [5-6 %] in the Euro markets, local business do have to pay much higher interest rates, making local projects overly expensive even through the larger privately held banking structures also still maintain competitive levels. The risk of a general rise in global interest rates will put enormous pressure on the local debt market.

4. Equity risk

There are no trading local equity markets. Private equity is closely held and not transparent. However, in larger transactions local business and international lawyers are well equipped to close on transactions successfully. Georgian Private Banks and Georgian Healthcare Group have successfully been listed at the

London Stock Exchange. International exits by IPO's may represent a mitigating possibility for international investors.

#### 5. Liquidity risk

The economy is very small and the local capital formation relative to it. Local exits can therefore represent a problem and thus represent risk. However, a big number of large FDI investments are currently taking place with investment horizons of more than 20 years. International exits are possible, as a small number of international IPO's have successfully taken place.

#### 6. Technology risk

Technology risks are imbedded in further industrial research and development and thus further radical improvement of machinery. However, as the technology for hydro power plants are well established, no significant risks can be recognized at the moment.

### **Contact details**

For further information please contact our consultants

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