



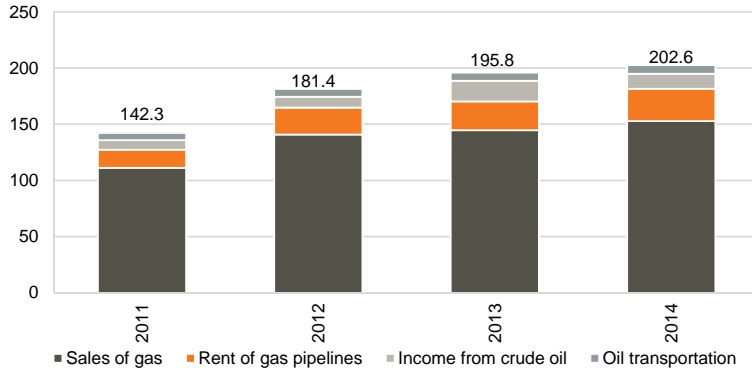
# Georgian Oil and Gas Corporation Solid Performance in FY14

Georgia | Energy  
Georgian Oil and Gas Corporation  
June 4, 2015

GOGC FY14 revenue amounted to US\$ 202.6mn, growing 3.5% y/y. Operating expenses climbed 5.6% y/y to US\$ 151.9mn, driven by the cost of gas. FY14 adjusted EBITDA stayed largely flat at US\$ 62.1mn (US\$ 62.9mn in FY13), decreasing by 1.3% y/y. Adjusted EBITDA margin decreased to 30.7% from 32.1% in FY13. Net income was at US\$ 47.5mn - a 16.2% y/y decline, mainly triggered by reduced finance income. FY14 net profit margin was at 23.4%. Net debt-to-adjusted EBITDA stood at 2.5x (2.2x in FY13), still well below the Eurobond covenant of 3.5x.

**FY14 revenue reached US\$ 202.6mn (US\$ 195.8mn in FY13), up 3.5% y/y (up 8.0% y/y in FY13).** In GEL terms, revenue amounted to GEL 357.8mn (GEL 325.8mn in FY13), rising by 9.8% y/y (up 8.7% y/y in FY13).

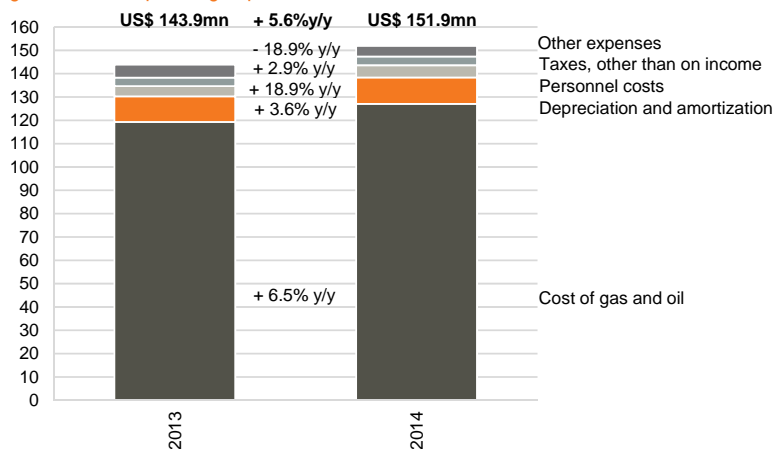
Figure 1: Revenue, US\$ mn



Source: Company data, Galt & Taggart Research

**FY14 operating expenses reached US\$ 151.9mn (US\$ 143.9mn in FY13) and GEL 268.2mn (GEL 239.3mn in FY13).** This translates into 5.6% y/y (4.3% y/y in FY13) and 12.1% y/y (5.1% y/y in FY13) growth in US\$ and GEL terms, respectively.

Figure 2: FY14 operating expenses, US\$ mn

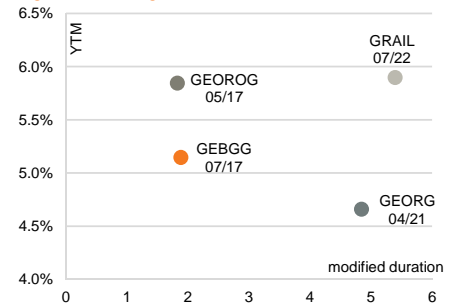


Source: Company data, Galt & Taggart Research

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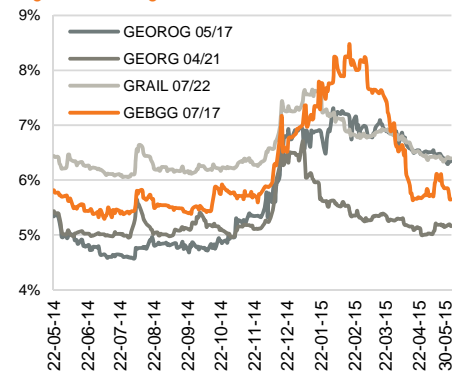
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Figure 3: Georgian Eurobond universe



Source: Bloomberg

Figure 4: Georgian Eurobonds, YTM



Source: Bloomberg

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

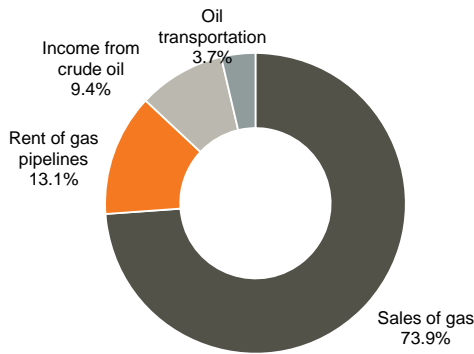
	FY13	FY14	Change, y/y
Revenue	195,838.3	202,628.5	3.5%
Gross profit	76,515.9	75,582.0	-1.2%
Gross profit margin	39.1%	37.3%	-180 bps
EBITDA	71,299.0	63,477.4	-11.0%
EBITDA margin	36.4%	31.3%	-510 bps
Adjusted EBITDA	62,939.1	62,113.8	-1.3%
Adjusted EBITDA margin	32.1%	30.7%	-140 bps
EBIT	60,333.0	52,119.7	-13.6%
EBIT margin	30.8%	25.7%	-510 bps
Net income	56,686.3	47,506.1	-16.2%
Net profit margin	28.9%	23.4%	-550 bps
Assets	607,552.3	660,500.1	8.7%
Equity	327,664.0	362,719.5	10.7%
Liabilities	279,888.3	297,780.6	6.4%

Source: Company data, Galt & Taggart Research



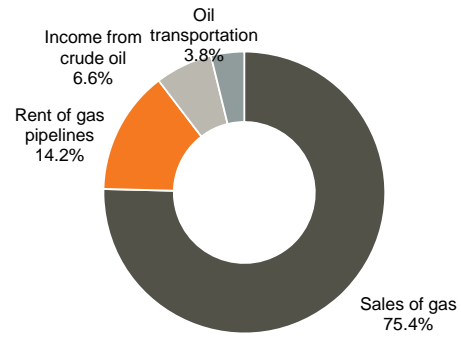
**Sale of gas maintained its biggest slice of total revenue with a 75.4% share (73.9% in FY13), adding US\$ 152.8mn (US\$ 144.7mn in FY13) to the top line in US\$ and GEL 269.8mn (GEL 240.6mn in FY13) in GEL terms. Gas pipelines rental came in second with a 14.2% share (13.1% in FY13) and contributed US\$ 28.8mn (US\$ 25.6mn in FY13) or GEL 50.8mn (GEL 42.7mn in FY13). Sale and transportation of crude oil held 6.6% (9.4% in FY13) and 3.8% (3.7% in FY13) shares of total revenue, respectively, representing US\$ 13.4mn (US\$ 18.4mn in FY13) and US\$ 7.7mn (US\$ 7.2mn in FY13).**

Figure 5: FY13 revenue



Source: Company data, Galt & Taggart Research

Figure 6: FY14 revenue

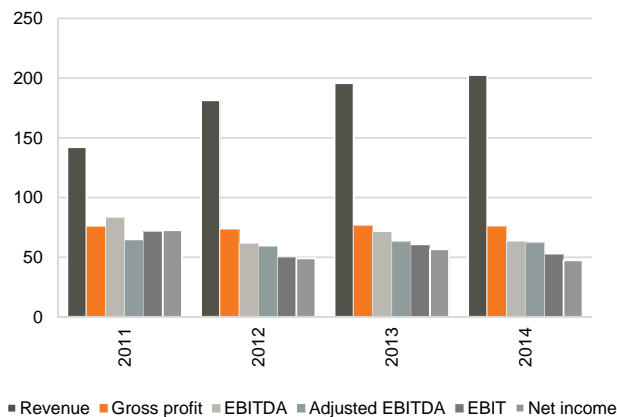


Source: Company data, Galt & Taggart Research

**Cost of gas and oil grew 6.5% y/y (up 10.5% in FY13) and made up US\$ 127.0mn (US\$ 119.3mn in FY13), at 83.7% (82.9% in FY13) of operating expenses. Depreciation and amortization expense, with a 7.5% share (7.6% in FY13), constituted US\$ 11.4mn (US\$ 11.0mn in FY13), translating into 3.6% y/y growth (3.0% y/y decline in FY13).**

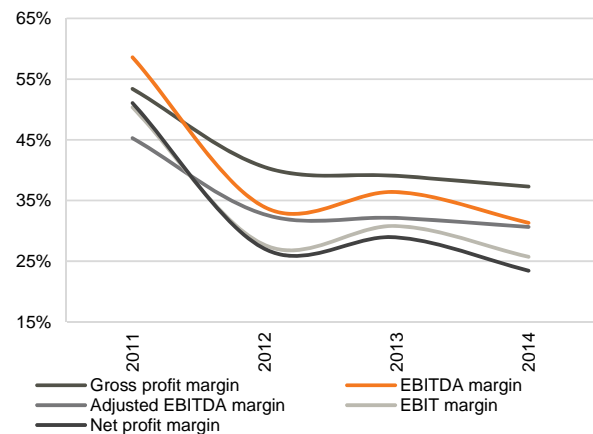
**FY14 adjusted EBITDA hit US\$ 62.1mn (US\$ 62.9mn in FY13) - a decrease of 1.3% y/y (6.1% y/y increase in FY13). Adjusted EBITDA margin stood at 30.7% in FY14 compared to 32.1% in FY13. EBIT shrank to US\$ 52.1mn (US\$ 60.3mn in FY14), declining by 13.6% y/y (20.1% y/y increase in FY13). Similarly, EBIT margin contracted to 25.7% in FY14 from 30.8% in FY13.**

Figure 7: Revenue, gross profit, EBITDA, adjusted EBITDA, EBIT and net income, US\$ mn



Source: Company data, Galt & Taggart Research

Figure 8: Gross profit, EBITDA, adjusted EBITDA, EBIT and net income margins



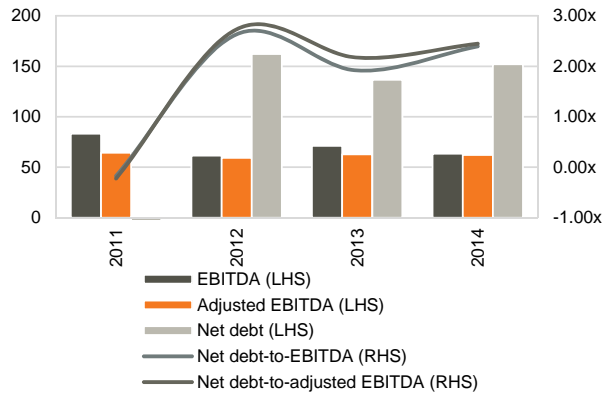
Source: Company data, Galt & Taggart Research



**FY14 net income was at US\$ 47.5mn** (US\$ 56.7mn in FY13) - a 16.2% y/y decline (15.5% y/y increase in FY13), mainly due to a 72.3% y/y decrease (39.4% y/y increase in FY13) in finance income, which stood at US\$ 6.8mn (US\$ 24.5mn in FY13). Net profit margin was at 23.4% in FY14 compared to 28.9% in the previous year.

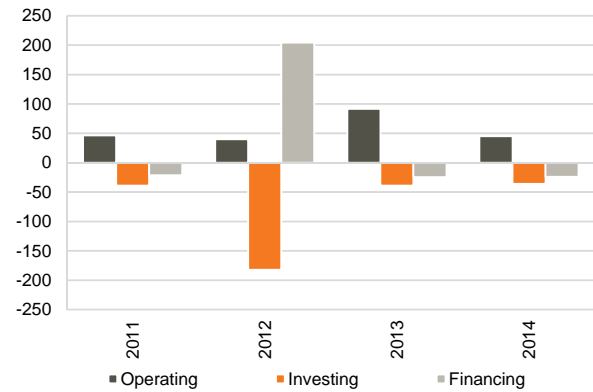
**Net debt-to-adjusted EBITDA worsened to 2.5x** (2.2x in FY13). Cash and cash equivalents decreased 12.9% y/y (30.1% y/y increase in FY13) to US\$ 97.6mn (US\$ 112.0mn in FY13). Total debt stayed largely unchanged at US\$ 249.6mn (US\$ 248.7mn in FY13) - a slight increase of 0.4% y/y (0.2% y/y increase in FY13).

Figure 9: EBITDA and net debt, US\$ and net debt-to-EBITDA and net debt-to-adjusted EBITDA



Source: Company data, Galt & Taggart Research

Figure 10: Operating, investing and financing cash flows, US\$



Source: Company data, Galt & Taggart Research



# Financial statements

## Income statement

	US\$, '000	2011	2012	2013	2014
<b>Revenue</b>		<b>142,295.9</b>	<b>181,409.0</b>	<b>195,838.3</b>	<b>202,628.5</b>
Sales of gas		111,170.4	140,743.3	144,653.4	152,781.9
Rent of gas pipelines		16,143.1	23,977.0	25,649.6	28,759.4
Income from crude oil		8,476.1	9,686.6	18,350.2	13,355.6
Oil transportation fee		6,506.4	7,002.0	7,185.2	7,731.7
<b>Operating expenses</b>		<b>(73,939.4)</b>	<b>(137,926.7)</b>	<b>(143,865.2)</b>	<b>(151,872.4)</b>
Cost of gas and oil		(66,314.4)	(107,936.6)	(119,322.4)	(127,046.5)
Personnel costs		(4,689.1)	(5,152.5)	(4,390.4)	(5,219.0)
Taxes, other than on income		(3,271.0)	(3,729.3)	(3,664.7)	(3,771.0)
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)
Regulatory expenses		(551.6)	(697.0)	(433.4)	(454.2)
Representative and business trip expenses		(331.0)	(365.8)	(310.8)	(164.2)
Office and related equipment maintenance		(234.3)	(270.1)	(218.8)	(386.2)
Transportation, materials and repair and maintenance		(236.1)	(273.1)	(197.2)	(162.0)
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)	-	-
Penalties		-	-	-	-
Legal fees		-	-	-	(1,069.2)
Benefits to employees		-	-	-	(265.6)
Write off and disposal of assets		-	-	-	(445.1)
Other		(1,617.4)	(1,403.2)	(2,650.0)	(1,253.8)
Other income		3,306.0	6,745.2	8,359.9	1,363.6
Operating expenses excluding depreciation and amortization		(62,209.0)	(126,624.9)	(132,899.2)	(140,514.8)
EBITDA		83,392.9	61,529.3	71,299.0	63,477.4
<b>Adjusted EBITDA</b>		<b>64,433.1</b>	<b>59,317.6</b>	<b>62,939.1</b>	<b>62,113.8</b>
Depreciation and amortization		(11,730.4)	(11,301.8)	(10,966.0)	(11,357.7)
Results from operating activities		71,662.5	50,227.5	60,333.0	52,119.7
Finance income		6,653.4	17,560.7	24,483.9	6,778.0
Finance costs		(1,007.1)	(11,706.9)	(17,724.3)	(5,968.8)
Net finance income		5,646.4	5,853.8	6,759.6	809.2
Profit before income tax		77,308.8	56,081.3	67,092.6	52,929.0
Income tax expense		(9,652.2)	(7,011.7)	(10,406.3)	(5,422.9)
Profit from continuing operations		67,656.6	49,069.6	56,686.3	47,506.1
Discontinued operations					
Profit from discontinued operation (net of income tax)		5,008.2	-	-	-
<b>Profit and total comprehensive income for the year</b>		<b>72,664.8</b>	<b>49,069.6</b>	<b>56,686.3</b>	<b>47,506.1</b>
Profit and total comprehensive income attributable to:					
Owners of the Company		72,664.8	49,069.6	57,007.9	48,506.2
Non-controlling interests		-	-	(321.6)	(1,000.1)



Statement of changes in equity

	US\$, '000	2011	2012	2013	2014
Share capital, 1 January		296,672.5	288,991.4	293,323.7	273,422.4
Increase in share capital		6,524.2	18,672.6	151.5	35,756.6
Decrease in share capital		(15,849.5)	(185.9)	-	-
Transfer of subsidiary		(615.0)	-	-	-
<b>Share capital, 31 December</b>		<b>286,638.3</b>	<b>307,417.2</b>	<b>293,468.9</b>	<b>307,303.6</b>
Fair value adjustment reserve for non-cash owner contributions, 1 January		(168,940.3)	(170,327.2)	(162,518.6)	(151,417.1)
Fair value adjustment of non-cash owner contributions		-	-	-	-
<b>Fair value adjustment reserve for non-cash owner contributions, 31 December</b>		<b>(168,940.3)</b>	<b>(170,327.2)</b>	<b>(162,518.6)</b>	<b>(151,417.1)</b>
Additional paid-in-capital, 1 January		44,644.7	43,289.7	41,305.1	38,483.6
Distributions of non-cash assets		(1,691.5)	-	-	-
<b>Additional paid-in-capital, 31 December</b>		<b>42,937.2</b>	<b>43,289.7</b>	<b>41,305.1</b>	<b>38,483.6</b>
Retained earnings, 1 January		35,037.4	54,421.4	57,550.0	100,017.7
Profit and total comprehensive income for the year		72,664.8	49,069.6	57,007.9	48,506.2
Contributions by and distributions to owners		(53,900.8)	(43,156.5)	(5,025.2)	(23,573.8)
<b>Dividends to equity holders</b>		<b>(26,689.7)</b>	<b>(24,224.1)</b>	<b>(5,025.2)</b>	<b>(18,687.8)</b>
Other cash distributions		(2,491.0)	-	-	-
Distributions of non-cash assets net of tax		-	-	-	(549.3)
Distributions of non-cash assets net of tax of GEL 1,250 thousand		(4,200.4)	-	-	-
Distributions of non-cash assets net of tax of GEL 5,517 thousand		-	(18,932.4)	-	-
Transfer of subsidiary retained earnings		(20,519.6)	-	-	(4,336.7)
<b>Retained earnings, 31 December</b>		<b>53,978.3</b>	<b>60,315.1</b>	<b>107,350.7</b>	<b>123,642.4</b>
Total contributions by and distributions to owners		7,132.1	24,399.7	52,134.2	60,688.9
Equity attributable to owners of the Company		214,613.5	240,694.8	279,606.1	318,012.4
Non-controlling interests, 1 January		-	-	-	44,775.2
Profit and total comprehensive income for the year		-	-	(321.6)	(1,000.1)
Foundation of subsidiary with non-controlling interests		-	-	50,485.2	-
Other contributions		-	-	-	928.2
Non-controlling interests, 31 December		-	-	48,057.9	44,707.0
<b>Total equity</b>		<b>214,613.5</b>	<b>240,694.8</b>	<b>327,664.0</b>	<b>362,719.5</b>



Statement of financial position

	US\$, '000	2011	2012	2013	2014
<b>Assets</b>					
Property, plant and equipment		162,609.1	170,610.2	155,258.9	316,909.2
Prepayments for non-current assets		409.5	-	115,090.7	51,852.3
Intangible assets		132.9	99.6	65.7	54.2
Finance lease receivable		25,788.2	27,694.8	28,142.6	27,925.0
Loans given		-	51,501.2	51,336.8	74,460.7
Other non-current assets		-	64.6	-	-
Deferred tax assets		-	-	-	1,107.0
Term deposits		-	63,636.1	23,085.3	23,809.8
<b>Non-current assets</b>		<b>188,939.7</b>	<b>313,606.6</b>	<b>372,979.9</b>	<b>496,118.3</b>
Loans given		-	29,404.2	27,100.7	8,844.2
Non-current assets held for distribution		12,409.7	-	657.1	-
Inventories		440.0	322.9	378.4	106.2
Current tax assets		452.6	3,996.5	622.6	-
Taxes other than on income		-	597.6	421.6	7,819.8
VAT recoverable		-	-	-	-
Prepayments for current assets and expenses		13,943.6	12,055.3	11,552.2	12,528.4
Trade and other receivables		18,182.4	52,151.9	36,589.3	37,530.6
Term deposits		-	31,903.2	45,207.0	-
Cash and cash equivalents		21,001.6	86,118.2	112,043.4	97,552.6
<b>Current assets</b>		<b>66,430.0</b>	<b>216,549.8</b>	<b>234,572.4</b>	<b>164,381.8</b>
<b>Total assets</b>		<b>255,369.7</b>	<b>530,156.3</b>	<b>607,552.3</b>	<b>660,500.1</b>
<b>Equity and liabilities</b>					
Share capital, 31 December		286,638.3	307,417.2	293,468.9	307,303.6
Fair value adjustment reserve for non-cash owner contributions, 31 December		(168,940.3)	(170,327.2)	(162,518.6)	(151,417.1)
Additional paid-in-capital, 31 December		42,937.2	43,289.7	41,305.1	38,483.6
Retained earnings, 31 December		53,978.3	60,315.1	107,350.7	123,642.4
Equity attributable to owners of the Company		214,613.5	240,694.8	279,606.1	318,012.4
Non-controlling interests, 31 December		-	-	48,057.9	44,707.0
<b>Total equity</b>		<b>214,613.5</b>	<b>240,694.8</b>	<b>327,664.0</b>	<b>362,719.5</b>
Loans and borrowings		391.5	245,176.0	245,175.9	245,176.0
Deferred tax liabilities		6,367.1	5,774.1	9,494.9	7,621.3
<b>Non-current liabilities</b>		<b>6,758.7</b>	<b>250,950.1</b>	<b>254,670.9</b>	<b>252,797.3</b>
Loans and borrowings		6,203.7	3,072.4	3,528.2	4,453.2
Trade and other payables		1,607.5	14,982.8	17,655.9	36,008.8
Dividend payable		24,965.6	19,315.5	-	-
Current tax liabilities		-	-	-	836.6
VAT payable		971.7	1,140.8	3,062.3	2,780.1
Provisions		249.1	-	971.0	904.7
<b>Current liabilities</b>		<b>33,997.5</b>	<b>38,511.5</b>	<b>25,217.4</b>	<b>44,983.4</b>
<b>Total liabilities</b>		<b>40,756.2</b>	<b>289,461.6</b>	<b>279,888.3</b>	<b>297,780.6</b>
<b>Total equity and liabilities</b>		<b>255,369.7</b>	<b>530,156.3</b>	<b>607,552.3</b>	<b>660,500.1</b>



### Statement of cash flows

	US\$, '000	2011	2012	2013	2014
<b>Cash flows from operating activities</b>					
Cash receipts from customers		161,622.2	159,792.0	224,320.0	209,561.1
Cash paid to suppliers and employees		(108,603.4)	(108,032.9)	(133,556.9)	(161,864.8)
VAT refund from the State		-	-	-	8,494.5
Cash from operations before income taxes and interest		53,018.8	51,759.1	90,763.1	56,190.8
Income tax paid		(10,758.9)	(7,870.4)	(2,681.2)	(4,399.6)
Interest paid		(396.8)	(8,674.1)	(17,140.6)	(17,218.8)
Interest received		4,545.0	4,490.5	20,485.5	10,654.9
<b>Net cash from (used in) operating activities</b>		<b>46,408.1</b>	<b>39,705.1</b>	<b>91,426.8</b>	<b>45,227.3</b>
<b>Cash flows from investing activities</b>					
Acquisition of property, plant and equipment and intangible assets		(26,406.8)	(13,996.1)	(70,652.7)	(77,744.1)
Decrease/(Increase) in term deposit		-	(85,239.2)	29,506.1	42,021.5
Repayment of loans given		-	-	2,228.5	-
Loans given		-	(78,745.9)	-	-
Acquisition of non-current assets held for distribution		(12,293.9)	(4,023.0)	-	-
Investing in other companies		(68.2)	(64.8)	-	-
<b>Net cash from (used in) investing activities</b>		<b>(38,768.9)</b>	<b>(182,069.1)</b>	<b>(38,918.1)</b>	<b>(35,722.6)</b>
<b>Cash flows from financing activities</b>					
Dividends paid		(3,262.1)	(28,766.1)	(24,262.7)	(18,687.8)
Proceeds from borrowings		-	240,686.6	-	16,918.1
Repayment of borrowings		-	(6,383.7)	(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)	-	-	-
<b>Net cash from (used in) financing activities</b>		<b>(21,312.6)</b>	<b>204,204.5</b>	<b>(24,640.2)</b>	<b>(23,945.9)</b>
Net increase in cash and cash equivalents		(13,802.3)	61,637.0	26,698.7	(13,683.7)
Cash and cash equivalents, 1 January		34,478.2	21,174.0	82,170.1	104,389.9
Effect of exchange rate fluctuations on cash and cash equivalents		325.7	3,307.2	3,174.6	6,846.4
<b>Cash and cash equivalents, 31 December</b>		<b>21,001.6</b>	<b>86,118.2</b>	<b>112,043.4</b>	<b>97,552.6</b>



### Financial ratios

	2011	2012	2013	2014
<b>Profitability</b>				
<b>Return on Revenue</b>				
Gross profit margin	53.4%	40.5%	39.1%	37.3%
EBITDA margin	58.6%	33.9%	36.4%	31.3%
Adjusted EBITDA margin	45.3%	32.7%	32.1%	30.7%
EBIT margin	50.4%	27.7%	30.8%	25.7%
EBT margin	54.3%	30.9%	34.3%	26.1%
Net profit margin	51.1%	27.0%	28.9%	23.4%
<b>Return on Investment</b>				
Operating ROA / Basic earning power	28.1%	9.5%	9.9%	7.9%
Return on assets (ROA)	28.5%	9.3%	9.3%	7.2%
Operating ROE	33.4%	20.9%	18.4%	14.4%
Return on equity (ROE)	33.9%	20.4%	17.3%	13.1%
Return on common equity	25.4%	16.0%	19.3%	15.5%
Return on capital employed (ROCE)	32.4%	10.2%	10.4%	8.5%
Return on invested capital (ROIC)	20.8%	5.1%	9.0%	4.7%
<b>Solvency</b>				
<b>Component percentage / debt ratios</b>				
Liabilities to assets	16.0%	54.6%	46.1%	45.1%
Liabilities to invested capital	18.4%	59.2%	48.6%	48.6%
Liabilities to equity	19.0%	120.3%	85.4%	82.1%
Liabilities to EBITDA	0.49x	4.70x	3.93x	4.69x
Debt-to-assets	2.6%	46.8%	40.9%	37.8%
Debt-to-invested capital	3.0%	50.8%	43.2%	40.8%
Debt-to-equity	3.1%	103.1%	75.9%	68.8%
Debt-to-EBITDA	0.08x	4.03x	3.49x	3.93x
Net debt-to-assets	-5.6%	30.6%	22.5%	23.0%
Net debt-to-invested capital	-6.5%	33.2%	23.7%	24.8%
Net debt-to-equity	-6.7%	67.4%	41.7%	41.9%
Net debt-to-EBITDA	-0.17x	2.64x	1.92x	2.40x
<b>Net debt-to-adjusted EBITDA</b>	<b>-0.22x</b>	<b>2.73x</b>	<b>2.17x</b>	<b>2.45x</b>
Long-term debt-to-assets	0.2%	46.2%	40.4%	37.1%
Long-term debt-to-invested capital	0.2%	50.1%	42.5%	40.0%
Long-term debt-to-equity	0.2%	101.9%	74.8%	67.6%
Long-term debt-to-EBITDA	0.00x	3.98x	3.44x	3.86x
Financial leverage (equity multiplier)	1.19x	2.20x	1.85x	1.82x
<b>Coverage ratios</b>				
EBITDA coverage	49.11x	3.18x	2.42x	6.02x
EBIT coverage	42.20x	2.60x	2.05x	4.94x
<b>Liquidity</b>				
Current ratio	1.94x	5.64x	9.71x	3.86x
Quick ratio (acid test)	1.92x	5.63x	9.69x	3.85x
Cash ratio	0.62x	2.24x	4.44x	2.17x





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