DOCUMENT OF THE EUROPEAN BANK FOR RECONSTRUCTION AND DEVELOPMENT

Approved by the Board of Directors on 23 July 2020[1]

GEORGIA

GOGC: ESSENTIAL INFRASTRUCTURE SUPPORT

[Redacted in line with the EBRD's Access to Information Policy]

[Information considered confidential has been removed from this document in accordance with the EBRD's Access to Information Policy (AIP). Such removed information is considered confidential because it falls under one of the provisions of Section III, paragraph 2 of the AIP]

1 As per section 1.4.8 of EBRD's Directive on Access to Information (2019), the Bank shall disclose Board reports for State Sector Projects within 30 calendar days of approval of the relevant Project by the Board of Directors. Confidential information has been removed from the Board report.

As permitted by paragraph 2.6 of Section III of the Access to Information Policy, disclosure of this Board Report was deferred.

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ABBREVIATIONS / CURRENCY CONVERSIONS

Capex	Capital Expenditures
CCGT	Combined Cycle Power Plant
COVID-19	Corona Virus Disease 2019
EBIDTA	Earnings before Interest, Tax, Depreciation and Amortisation
EBIT	Earnings before Interest and Taxes
EH&S	Environmental Health and Safety
EOAP	Equal Opportunities Action Plan
ESAP	Environmental & Social Action Plans
ESDD	Environmental and Social Due Diligence
EURIBOR	Euro Interbank Offered Rate
E&S	Environmental & Social
FX	Foreign Exchange
FY	Financial Year
GDP	Gross Domestic Product
GEL	Georgian Lari
GET	Green Economy Transition
GGTC	Georgian Gas Transportation Company
GoG	Government of Georgia
GOGC	Georgian Oil and Gas Corporation
HR	Human Resources
IDR	Issuer Default Rating
IFRS	International Financial Reporting Standards
IRR	Internal Rate of Return
PF	JSC Partnership Fund
PR	Performance Requirements
SCP	South Caucasus Pipeline
SDGs	Sustainable Development Goals
TCFD	Task Force for Climate-Related Financial Disclosures
TSO	Transmission System Operator
UGS	Underground Gas Storage Facility
URP	Unfunded Risk Participation
YE	Year End
YoY	Year-on-year
YTD	Year-to-date

CURRENCY EQUIVALENTS

Current USD 1.00	=	GEL 3.20
Current EUR 1.00	=	GEL 3.51
Current EUR 1.00	=	USD 1.15

MEASURES

Bcm	Billion Cubic Metres
Bcma	Billion Cubic Metres per Annum
GWh	Gigawatt hours
kWh	Kilowatt hours
mcm	Thousand Cubic Metres
mmcm	Million Cubic Metres
mm	Million

PRESIDENT'S RECOMMENDATION

This recommendation and the attached Report concerning an operation in favour of Georgian Oil and Gas Corporation ("GOGC", the "Company" or the "Borrower"), a state-owned joint stock company incorporated in Georgia, are submitted for consideration by the Board of Directors.

The facility will consist of a senior unsecured loan to the Company of up to USD 250 million in EUR equivalent (c. EUR 217mm) to refinance a corporate Eurobond maturing in April 2021. [REDACTED] The Company is a major electricity supplier in Georgia providing c.20% of Georgia's electricity, as well as the key Government entity ensuring the reliability of gas supplies. In addition to pressure on the profitability of the Company, the impact of the COVID-19 pandemic on the capital markets has disrupted the Company's proposed bond issue in April 2020 to refinance its existing corporate Eurobond.

The expected transition impact of the project will result from the provision of liquidity support to this vital utility provider as revenue generation has been negatively impacted by the economic slowdown caused by COVID-19 alongside high refinancing risk faced through the inability to access the capital markets (*Resilient*). The proposed fully amortising loan will improve the risk profile of the Company's liabilities and incentive mechanisms included in the loan will encourage the Borrower to return to the capital markets once the crisis has abated.

A comprehensive TC package will explore opportunities to introduce sector reform, through the development of a gas exchange in the country, and two further TCs will focus on corporate level improvements by developing and adopting action plans focused on: (i) improving the Borrower's climate corporate governance, and (ii) an Equal Opportunities Action Plan to support the role of women in technical positions in the energy sector (*Well-Governed*).

TC support will also be provided to assess the investment requirements in Georgia for green hydrogen generation, as well as to upgrade the Company's assets to transport blended hydrogen to end users.

I am satisfied that the operation is consistent with the Bank's Strategy for Georgia, the Energy Sector Strategy, the Strategy for the Promotion of Gender Equality 2016-2020, and with the Agreement Establishing the Bank.

I recommend that the Board approve the proposed loan substantially on the terms of the attached Report.

Jürgen Rigterink
First Vice President, Acting President

BOARD DECISION SHEET

GEORGIA – GOGC: Essential Infrastructure Support – DTM 52188	
Transaction / Board Decision	Board approval[2] is sought for a senior unsecured loan of up to USD 250mm in EUR equivalent (c.EUR 217mm) in favour of Georgian Oil and Gas Corporation ("GOGC", the "Company", or the "Borrower"), a state-owned Georgian utilities provider. The loan proceeds will not be used for upstream oil and gas extraction or coal-fired generation. The loan proceeds will be used exclusively to refinance an existing Eurobond, issued in 2016 on the London Stock Exchange. The 2016 Eurobond also did not finance upstream fossil fuel extraction or coal generation. [REDACTED]
Client	The Company is 100% owned by JSC Partnership Fund (the "PF"), a national investment fund owned 100% by the Government of Georgia. The Company's principal activities are electricity generation, the import and sale of natural gas, and the ownership and leasing of pipelines. The Company owns and operates two CCGTs that together supply c.20% of Georgia's total electricity generation and act as a guaranteed source of electricity, to ensure the security and reliability of the electricity system in the country considering the high proportion of intermittent hydropower generation. The Company is rated BB- / BB by S&P and Fitch, respectively.
Main Elements of the Proposal	<u>Business purpose:</u> Supporting a vital infrastructure provider in Georgia at a time of stressed economic conditions caused by the COVID-19 crisis. <u>Transition impact:</u> *Primary Quality – Resilient:* The loan will ease cash flow pressure [REDACTED] and address liquidity constraints for the Company resulting from the significant economic turmoil caused by COVID-19 and the inability for the Company to access the capital markets. *Secondary Quality – Well-Governed:* The Bank will assist the Company in the design and implementation of a gas exchange. The project also involves a comprehensive ESAP, entailing the addition of specific E&S functionality in the Company at the corporate level, and support for development of a strategic long-term roadmap [REDACTED]. The Project also includes the development of an Equal Opportunities Action Plan ("EOAP"). <u>Additionality:</u> EBRD financing effectively bridges a funding gap due to the current macroeconomic and capital market challenges faced by the Company due to the COVID-19 pandemic. [REDACTED] <u>Sound banking:</u> The Company is an established player operating in a regulated environment, providing a vital service with a stable market positions and a good track record. [REDACTED]
Key Risks	<u>COVID-19 outbreak:</u> Due to the current economic situation, [REDACTED] the Company is unable to refinance its maturing Eurobond in the capital markets, which the proposed loan will refinance. The proposed fully amortising loan will reduce refinancing risk going forward and improve the risk profile of the Company's liabilities. <u>Gas supply risk:</u> As the Company has a limited number of natural gas sources, changes in current contractual arrangements could reduce the volume of natural gas available. However, Georgia is a key transit country for the Southern Gas Corridor and as such ensures the alignment of interests between Georgia and Azerbaijan – its key supplier.
Strategic Fit Summary	The Project is a response to the COVID-19 pandemic and economic downturn in Georgia affecting the Company. A comprehensive TC package will encompass sector reform, [REDACTED] and quantify the investment requirements in the country to generate and transport green hydrogen as well as to upgrade the Company's assets to transport the blended hydrogen to end users domestically or regionally. This support is consistent with the Bank's Strategy for Georgia, the Energy Sector Strategy, the Strategy for the Promotion of Gender Equality 2016-2020, and with the Agreement Establishing the Bank.

2 Article 27 of the AEB provides the basis for this decision.

ADDITIONAL SUMMARY TERMS FACTSHEET

EBRD Transaction	A senior unsecured loan of up to USD 250mm in EUR equivalent (c. EUR 217mm) with an up to 10-year tenor to the wholly state-owned JSC Georgian Oil and Gas Corporation (the "Company", the "Borrower" or "GOGC") to refinance a corporate Eurobond maturing in April 2021. GOGC's principal activities are electricity generation, the import and sale of natural gas, and the ownership and leasing of pipelines. The Company owns two CCGTs, which together provide c.20% of Georgia's electricity and act as a guaranteed source of electricity, to ensure the security and reliability of the electricity system in the country considering the high proportion of intermittent hydropower generation.[REDACTED] The proposed loan will provide liquidity support to a vital infrastructure provider and mitigate the current refinancing risk [REDACTED] caused by COVID-19 and the inability for the Company to access the capital markets, thus ensuring the continued provision of essential services.
Existing Exposure	None.
Maturity / Repayment	10 years [REDACTED]
Potential AMI eligible financing	The Bank expects to sign URPs. [REDACTED]
Use of Proceeds	[REDACTED] The loan proceeds will be used exclusively to refinance the existing Eurobond issued in 2016 on the London Stock Exchange and maturing in April 2021. [REDACTED]
Financing Plan	[REDACTED]
Key Parties Involved	JSC Georgian Oil and Gas Corporation
Conditions to disbursement	Standard for this type of financing, including, without limitation, duly executed originals of financing agreements, obtaining all the requisite approvals and authorisations, receipt of satisfactory legal opinions. The Borrower will also be required to provide half-year 2020 financial statements, certified by the Chief Financial Officer or Chief Accountant.
Key Covenants	Change of control, negative pledge and restriction on asset disposals. [REDACTED]
Security / Guarantees	Not applicable. Senior unsecured loan.
Other material agreements	None.
Associated Donor Funded TC and co-investment grants/concessional finance	<u>TC support</u> is envisioned post-signing to: • TC1: Identify and quantify the investment requirements in Georgia to generate green hydrogen as well as to upgrade the Company's assets to transport the blended hydrogen to end users. The [REDACTED]assignment is [REDACTED]proposed to be financed under the GET Project Preparation and Implementation Framework • TC2: Implement policy-advisory support for the development of a gas exchange in Georgia. The [REDACTED] assignment is [REDACTED] proposed to be financed by an international donor or the SSF. • TC3: Develop and support the adoption of an action plan to improve the Borrower's climate corporate governance, reflecting Task Force for Climate Related Financial Disclosures recommendations. The

	[REDACTED] assignment is [REDACTED] proposed to be financed under the GET Project Preparation and Implementation Framework. • TC4: Develop and implement an Equal Opportunity Action Plan to support the role of women in technical positions in the energy sector. The [REDACTED] assignment is [REDACTED] proposed to be financed under the Inclusion Technical Assistance Framework. Reimbursement: The above assignments are non-reimbursable. Cost sharing: The Company will provide in-kind support, in the form of office space, communication connections, etc., for the consultants' work, presumed to amount to three per cent of the total budget. The Company will also provide a [REDACTED] cash contribution under TCs3&4.

[REDACTED]

INVESTMENT PROPOSAL SUMMARY

1. STRATEGIC FIT AND KEY ISSUES

1.1 Strategic Context

I. Sector Background

Georgia benefits from plentiful hydropower resources, accounting for 75% of generation in 2019, however this resource is of a highly seasonal nature, with far greater hydropower generation in the summer and low generation during the winter. This seasonal profile of low hydrology during the winter months necessitates the country to rely on electricity generated from the country's thermal resources – including the recently-commissioned, high-efficiency Gardabani-1 and -2 CCGTs, key assets of the Borrower – to ensure generation and energy security during periods of low hydrology. The solar and wind renewable energy sources currently under development through the Bank-assisted auctions, will also require a source of flexible baseload capacity to balance the system with a high proportion of intermittent power.

II. Future-Proofing the Company

The seasonal nature of Georgia's hydropower generation results in an excess of electricity in the summer that is either exported at low prices or curtailed. In the context of the project, the Ministry of Economy and Sustainable Development of Georgia requested the Bank to implement a technical cooperation project aimed at exploring the possibility of capturing this systematic seasonal excess of hydropower generation and converting it into green hydrogen to be blended with natural gas in the Company's existing gas infrastructure for use within the country or exported to the region. Production of green hydrogen, especially when coupled with low-value, curtailed electricity, is rapidly becoming economically attractive in many markets. At the same time, a number of gas TSOs in Europe and elsewhere have already successfully completed pilot projects of hydrogen/gas blending in existing gas infrastructure. This first-of-its-kind assignment will therefore identify and quantify the investment requirements in the country to generate green hydrogen as well as to upgrade the Company's assets to transport the blended hydrogen to end users. [REDACTED] [T]his project could become a regional milestone in exploring synergies between decarbonised fuel production and existing transportation infrastructure and could support Georgia to become a regional green hydrogen hub.

Complementing this, the Company will benefit from support from the Bank to develop and adopt an action plan towards improving its climate change governance, including reporting the anticipated impacts of climate change and climate policies on its business in line with the Task Force for Climate Related Financial Disclosures[3] ("TCFD") recommendations as appropriate. Demand for climate-related disclosure has increased significantly since the release of the TCFD recommendations in 2017, with major asset-managers and institutional investors increasingly requesting such disclosures from

3 The TCFD framework is a voluntary, climate-related financial risk disclosure framework, providing an insight to investors and other stakeholders as to how climate-related issues may affect a company's business, strategy, and financial planning over the short, medium and long-term.

companies. Proactively engaging and implementing TCFD recommendations will better position the Company for future capital market participation.

III. Environmental & Social Governance Improvements

The ESAP, as further described in Section 6.1, has been developed and agreed with the Borrower, and stipulates that the Company will develop a suitably-resourced centralised management team; develop policies, procedures and management systems in line with EBRD's Performance Requirements ("PRs"); and will review the current and future business activities of the Company against the EBRD's PRs. This is a significant change in management approach, away from decentralised minimum requirements methods, and will demonstrate a material positive impact of the EBRD's involvement with the Company by way of this transaction, not least through the Company's commitment to achieve EU Best Available Techniques ("EU BAT") for all operating assets.

Additionally, the Company will be supported in the review and improvement of its Human Resources ("HR") policies and practices, to develop a gender-responsive HR strategy and a comprehensive Equal Opportunity Action Plan ("EOAP") to support the role of women in technical positions in the energy sector. This is particularly relevant for GOGC as women represent only 19% of specialist and professional positions.

IV. Impact of COVID-19 on the Borrower

On 16 March 2020, the Government of Georgia declared a State of Emergency and announced special measures, including a lockdown, following the outbreak of COVID-19 in the country. As at 22 May 2020, the lockdown has been lifted however, special measures remain in place to prevent further spread of the disease and loss of life. Impact of the coronavirus-induced crisis on the Georgian economy is expected to be significant. Uncertainty and tightening of global financial markets, reduced FX inflows and pressure on the domestic FX market has already led to currency volatility. Domestic demand is dropping on the back of public health measures put in place to contain the virus spread and, with tourism receipts amounting to nearly one fifth of overall GDP, the negative impact of containment measures will be widespread across many sectors. The expected drop in remittances will likely further suppress household disposable income and according to preliminary estimates, GDP contracted by 3.6% YoY in the first four months of 2020. [REDACTED]

As a source of vital financing, the Company was planning to issue a EUR-denominated bond in April 2020, mainly to refinance its outstanding Eurobond. However, due to the COVID-19 pandemic, GOGC has been unable to issue the proposed new Eurobond. [REDACTED] If the Borrower were unable to secure emergency liquidity support [REDACTED], there would be probable far-reaching and long-lasting consequences for both the Borrower and Georgia, including impacts on the future availability and cost of funding for the Government and other state-owned entities, as well as serious consequences for the continued provision of essential services by the Borrower.

[REDACTED] Further, the Bank's involvement in supporting a vital Georgian utilities provider will send a positive message of solidarity to the market, thus reiterating the EBRD's mandate as a rapid-response source of critical support.

V. Sector Reform

There is interest from a number of gas market participants to establish a gas exchange in Georgia – an important step in the development and liberalisation of the Georgian gas market as it continues to move away from dependence on a single monopoly supplier. The Ministry of Economy and Sustainable Development requested EBRD policy advisory support to explore the different options of setting up such a gas exchange in the country. The Bank has been involved in a similar project in Ukraine with the Energy Community Secretariat and therefore has relevant experience in assisting with such a request. The assignment would seek to understand how such an exchange could be established and, in coordination with other stakeholders, identify a preferred approach and outline its implementation.

Multiple dimensions of the project contribute to the United Nations Sustainable Development Goals ("SDGs"): *7. Affordable and Clean Energy*, *9. Industry, Innovation and Infrastructure*, *11. Sustainable Cities and Communities* and *17. Partnerships for the SDGs*.

1.2 TRANSITION IMPACT

The tables below set out the Transition Impact Objectives and details of the project. The Transition Impact scoring chart is presented in Annex 3.

Primary Quality: Resilient

No.	Objective	Details
1.1	*The project entails addressing current liquidity shortages of the company resulting from a sudden, significant change in economic activity due to a crisis event*	The revenues of the company are negatively impacted by the economic slowdown caused by COVID-19, alongside the high refinancing risk faced through the inability to issue new bonds.

Secondary Quality: Well-Governed

No.	Objective	Details
2.1	The project entails a policy dialogue initiative that has been assessed as Good by the sector economist.	The project entails EBRD policy advisory support for the establishment of a gas exchange in Georgia. The establishment of a gas exchange is an important step in the development and liberalisation of the Georgian gas market as it continues to move away from dependence on a single monopoly supplier. The gas exchange has the potential to be a systemic reform that can help the country progress faster towards EU integration, increase competition in the market and foster progress of other structural reforms. [REDACTED] The first phase of the initiative is expected to contribute to the mapping of the current local gas market, developing a detailed blueprint of both what a Georgian gas exchange should entail and a detailed roadmap to achieve this as well as collecting interest from local and international stakeholders. This process will be part of the gas market design which aims at boosting the liberalisation of the energy

		sector, which is currently under development by the Georgian authorities and development partners.
2.2	The project goes beyond current country standards and EBRD requirements in terms of environmental, occupational health and safety management	In addition to the implementation of a corporate level ESAP, developed in accordance with the EBRD requirements, which represents an environmental and social governance gain compared to the current operations of the company, GOGC will also adopt improvements in HR and other policies and practices in line with an Equal Opportunities Action Plan. Furthermore, the Company will develop and adopt an action plan towards improving its climate change corporate governance, including reporting the anticipated impacts of climate change and climate policies on its business in line with the TCFD recommendations as appropriate.

[REDACTED]

1.3 ADDITIONALITY

Identified triggers	Description
A significant share of the project is for refinancing purposes	The Loan will be used to refinance the Eurobond issued in 2016.

Additionality sources	Evidence of additionality sources
Financing Structure	EBRD offers essential financing that is currently not available in the market [REDACTED]. EBRD offers longer tenor financing compared to what would be available in the bond market or local bank market. The longer tenor is appropriate for the long-term nature of the Company's assets. [REDACTED] The Bank is also mobilising participation from a number of URP providers.
Conditionalities	The project involves a comprehensive TC package including: an assignment to assess the investment requirements in Georgia for green hydrogen generation, as well as to upgrade the Company's assets to transport blended hydrogen to end users; and support for corporate level improvements by developing and adopting an action plan focused on improving climate corporate governance and an EOAP.
Knowledge, innovation and capacity building	EBRD offers extensive capacity building support and will engage with the Company through the implementation of a corporate level ESAP to better align the Company with international best practices.
Standard setting	The Company seeks EBRD expertise to incorporate higher gender standards and an EOAP. A TC will support the Company in the review and improvement of its HR policies and practices, in order to develop a gender-responsive HR strategy and a comprehensive EOAP to support the role of women in technical positions in the energy sector. The ultimate aim will be

	to promote women's access to economic opportunities across all of the Client's operations, including (i) attraction, (ii) recruitment, (iii) retention, (iv) development, (v) retrenchment, (vi) governance, and (vii) promotion to managerial positions.

1.4 SOUND BANKING - KEY RISKS

Risks	Probability / Effect	Comments
COVID-19 risk	High / Medium	The COVID-19 pandemic is forecast to put pressure on the profitability of the gas-supply segment of the Company [REDACTED]. However, the Borrower will benefit from the start of operations of the Gardabani-2 CCGT, [REDACTED] and the proposed fully amortising loan that will improve the liability management of the Company.
Gas price risk	Medium / High	The Company sells natural gas at a pre-determined [REDACTED] price. [REDACTED] *Mitigants*: The financial model shows that the Company is able to service its debt [REDACTED].
Gas supply risk	Low / High	The Company acquires natural gas from a limited number of sources and any changes in current arrangements with these suppliers, including renegotiations of price, could reduce the volumes of natural gas available to the Company. *Mitigants:* Azerbaijan is the principal supplier of natural gas to Georgia (estimated at 92% in 2020). Georgia acts as a key transit country for the Southern Gas Corridor – with the South Caucasus Pipeline traversing Georgia – enabling the export of natural gas from Azerbaijan to Turkey and Europe. This ensures a key alignment of interest between the two countries. GOGC also benefits from a number of long-term contracts with key gas suppliers.
Political or regulatory risk	Low / High	[REDACTED] Through the TC engagement, the Bank will help the Company better understand the related risks and start planning mitigation strategies, including the gradual diversification to low-carbon fuels.
UGS project implementation risk	Low / Medium	The Company plans to construct an Underground Gas Storage ("UGS") facility. [REDACTED] The Company will only proceed with the project if the results are positive and funding is available. [REDACTED].
CCGT spark spread risk	Low / Medium	[REDACTED] The two CCGTs operate under implementation agreements with the Government. [REDACTED]
FX risk	Low / Low	Most of the Company's revenue, capex, and costs are denominated in USD or EUR. [REDACTED]

2. MEASURING / MONITORING SUCCESS

Primary Quality: Resilient

No.	Monitoring indicator	Details	Baseline	Target	Duration
1.1	Profitability Ratio: NET DEBT/EBITDA	Net Debt/ EBITDA not more than 4x	[REDACTED]	[REDACTED]	[REDACTED]
1.2	Profitability Ratio: Interest Coverage	EBITDA/ Interest Expense of more than 3.75x	[REDACTED]	[REDACTED]	[REDACTED]
1.3	Practices of the relevant stakeholder improved	Successful recourse to the capital markets	[REDACTED]	[REDACTED]	[REDACTED]

Secondary Quality: Well-Governed

No.	Monitoring indicator	Details	Baseline	Target	Duration
2.1	Legal, institutional or regulatory framework in target areas improved	Effective balancing and settlement mechanism improved. The TSO launches daily balancing of natural gas in Georgia.	[REDACTED]	[REDACTED]	[REDACTED]
2.2	Client engages in policy dialogue	Agreement on a roadmap to establish a Gas Exchange in Georgia.	[REDACTED]	[REDACTED]	[REDACTED]
2.3	Memorandum of Understanding signed	A MOU is signed among relevant stakeholders and with GOGC public support with the envisaged steps to the establishment of a gas exchange in Georgia.	[REDACTED]	[REDACTED]	[REDACTED]
2.4	Environmental and Social Action Plan implemented as targeted	Implementation of the ESAP and EOAP in line with EBRD recommendations.	[REDACTED]	[REDACTED]	[REDACTED]
2.5	Corporate governance improved: Transparency and disclosure	The Company adopts and implements an action plan to improve climate corporate governance including non-financial information publicly disclosed.	[REDACTED]	[REDACTED]	[REDACTED]

3. KEY PARTIES

GOGC was established in March 2006, following the merger and consolidation of three Georgian state-owned entities, and is 100% owned by JSC Partnership Fund (the "PF"), a national investment fund formed in 2011 and owned 100% by the Government of Georgia. Alongside GOGC, the PF holds assets including Georgian Railways, the Georgian State Electrosystem, and the Georgian Electricity System Commercial Operator on behalf of the Government of Georgia.

GOGC's activities are: (i) electricity generation and supply [REDACTED], (ii) the import and sale of natural gas [REDACTED], (iii) ownership and leasing of pipelines [REDACTED], and (iv) oil and gas exploration and extraction in Georgia [REDACTED]. The Company is responsible for ensuring the country's gas supply, which it does through the management of its pipeline network.

The Company's key assets are the Gardabani-1 and Gardabani-2 Combined Cycle Power Plants ("CCGT"). The 230 MW Gardabani-1, owned 51% by the Company and 49% by PF, located in the Kvemo Kartli region of Georgia, is a guaranteed capacity supplier, and reserve capacity to supply the country's grid with 25 to 30 minutes of electricity in case of national power failure. In 2017, GOGC embarked on the construction the neighbouring 230 MW Gardabani-2 CCGT, wholly owned by GOGC, which finished construction and began electricity generation in December 2019. Gardabani-1 and -2 together are anticipated to supply c.20% of Georgia's total electricity generation. [REDACTED]

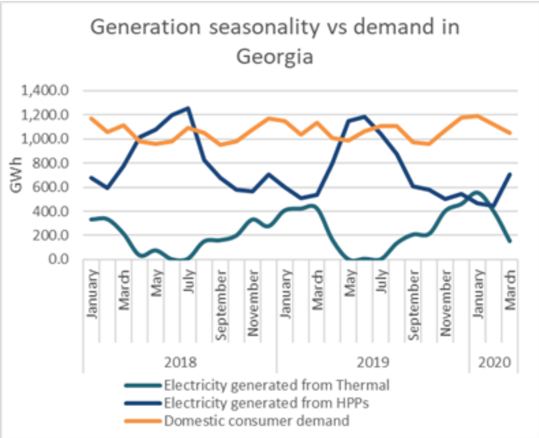
The Company imports gas from neighbouring countries (mainly Azerbaijan) principally under long term import contracts and subsequently sells it either to the wholesale customer, which in turn sells gas to the social sector via the distribution network, or directly to the commercial sector via public auction. The Company also acts as the National Oil Company of Georgia and as such receives and sells the state's share of extracted oil and gas in Georgia in accordance with Production Sharing Agreements signed between the State and investors. Volumes of domestically extracted oil and gas are small [REDACTED].

The Company plans to construct an Underground Gas Storage ("UGS") facility, primarily to guarantee security of supply for the country, and particularly for the social customer segment, which includes households and the power generation sector. [REDACTED]

4. MARKET CONTEXT

4.1 ELECTRICITY GENERATION

Georgia's electricity generation profile is composed of between c.75-80% hydropower resources (with hydropower resources serving c.66% of total domestic electricity demand in the country), which provide significant electricity generation particularly during the summer months, as per the graph below.



However, due to this generation seasonality and inter-annual variability in hydrology, Georgia relies on thermal generation to meet its electricity needs, particularly in the winter. This necessitated the construction of the Gardabani-1 and Gardabani-2 CCGTs, which ensure the security and reliability of the electricity system in Georgia. The efficiency ratio of the Gardabani-1 CCGT was estimated at approximately two times that of the existing power plants in Georgia. In 2019, thermal generation accounted for 24% of Georgia's total electricity production, up from 17% in 2018, the YoY increase compensating for lower hydrology in Georgia during 2019, and as such lower generation from hydropower resources.

4.2 NATURAL GAS SOURCES

Georgia relies on imports principally from Azerbaijan (expected to provide c.92% of natural gas in 2020) and Russia (2020: c.8%) for its source of natural gas; domestic natural gas production accounts for less than 1% of total supply and through GOGC, Georgia imports gas under several key long-term contracts. GOGC owns the gas transportation infrastructure whilst Georgian Gas Transportation Company ("GGTC") is the only transportation licensee in the country and as such is responsible for the operation and maintenance of the transit systems, leasing infrastructure from GOGC for a fee. Georgia acts as a key transit country for the Southern Gas Corridor – with the South Caucasus Pipeline ("SCP") traversing Georgia – enabling the export of natural gas from the Shah Deniz field in Azerbaijan to Turkey and Europe, with a design throughput capacity of 20 bcma. The North-South Main Gas Pipeline transits Russian gas to Armenia with a design throughput of 12 bcma.

5. FINANCIAL / ECONOMIC ANALYSIS

5.1 FINANCIAL PROJECTIONS

[REDACTED]

5.2 PROJECTED PROFITABILITY FOR THE BANK

[REDACTED]

6. OTHER KEY CONSIDERATIONS

6.1 ENVIRONMENT

The project is Categorised as B under the EBRD's 2019 ESP and project appraisal has been carried out by ESD staff in line with EBRD's COVID Response procedure.

ESDD included review of disclosures provided by the Borrower in addition to a series of follow up interviews with the Company's corporate management team. ESDD indicated that E&S governance is currently decentralised to an operational asset level and that the benchmark for E&S performance is Georgian national legal requirements. As a result, an ESAP has been developed, and agreed with the Borrower, which stipulates that the Company will develop a suitably resourced centralised management team; develop policies, procedures and management systems in line with EBRD's PRs; and will review the current and future business activities of the Company against the EBRD's PRs. This is a significant change in management approach and will demonstrate a material positive impact of the EBRD's involvement with the Company by way of this transaction, not least through the Company's commitment to achieve EU Best Available Techniques ("EU BAT") of all operating assets within the Company portfolio.

The proceeds of the transaction (refinancing with no working capital or capex and no identified new development or expansions to existing projects) is unlikely to be associated with increase in the Company's physical footprint or operating base. However, in order to meet the requirements of the ESP and to ensure that the transaction has been structured to meet the EBRD's PRs the Company has agreed to align its corporate E&S management systems with the PRs and develop measures at the corporate level to manage the environmental and social risks associated with its business activity. This includes development of management systems aligned with Good International Practice, reviewing operational assets against EU BAT, and planning new projects in accordance with the PRs.

The Company has confirmed that there is no plan for significant labour restructuring in the coming two years as a result of the COVID pandemic. Should this change, the Borrower would be required to ensure that any such measures be conducted in accordance with PR2 and EBRD Workforce Retrenchment Guidance Note. The Company has disclosed that there are several issues associated with land-acquisition along existing pipeline corridors and the ESAP has committed the Company to resolving such disputes in accordance with Georgian law. Further, the Company has agreed to develop a stakeholder engagement plan and information dissemination procedure, as well as reviewing benefit sharing mechanisms for all future projects commensurate with the risks and impacts of such projects.

The Bank will work closely with the Company to monitor the ESAP implementation in accordance with the limitations of the current COVID-19 restrictions, thereafter, further engagement with the Company will be undertaken.

6.2 INTEGRITY

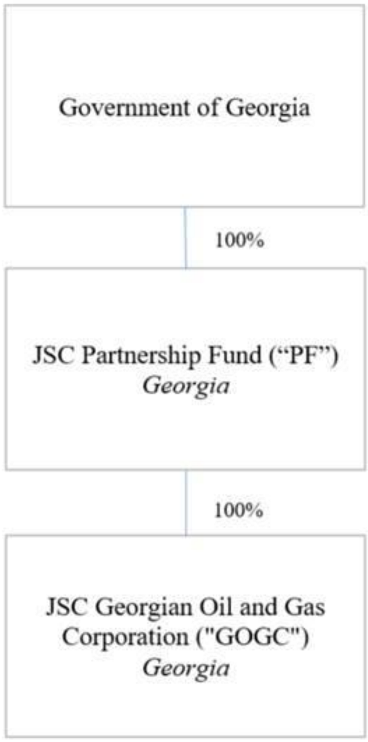
In conjunction with OCCO, internal integrity due diligence was undertaken on the Company, its shareholders, senior management and other relevant parties. [REDACTED] This transaction does not present an unacceptable integrity or reputational risk to the Bank. The Bank's previous experience with these entities has been positive and not raised any integrity concerns or red flags.

[REDACTED] All actions required by applicable EBRD procedures relevant to the prevention of money laundering, terrorist financing and other integrity issues have been taken with respect to the project, and the project files contain the integrity checklists and other required documentation which have been properly and accurately completed to proceed with the project.

ANNEXES TO OPERATION REPORT

ANNEX 1	Shareholding Structure
ANNEX 2	Historical Financials
ANNEX 3	Transition Impact Scoring Chart

ANNEX 1 – SHAREHOLDING STRUCTURE



GOGC, incorporated in Georgia, is owned 100-percent by the Government of Georgia through the wholly state-owned JSC Partnership Fund. As all parties within the ownership structure are incorporated in Georgia, a Domiciliation Annex is not required.

ANNEX 2 – HISTORICAL FINANCIALS

[REDACTED]

ANNEX 3 – TRANSITION IMPACT SCORING CHART

Score for primary transition quality

Quality: Resilient

Component: Overall

Quality average score: 60.0

Score for secondary transition quality

Quality: Well-Governed

Component: Overall

Quality average score: 60.0

ATQ adjustment

Country: Georgia

ATQ adjustment: Financial: -1.7%

Adjusted Quality score: 59.0

ATQ adjustment

Country: Georgia

ATQ adjustment: Overall: -2.9%

Adjusted Quality score: 58.5

Weighted TI score*

Base TI score (ATQ-adjusted): 58.9

Adjustment for Country Strategies

Adjustment: 2.0% – Strategic project alignment

CS **Adjusted score:** 60.1

Final TI score

Final TI score: 60

*****The Primary Quality score is weighted 75% for the calculation of the Base TI Score. The Secondary Quality is weighted 25%.