

GEORGIA

A different angle

With

a thriving, open and resilient economy, and a strategic location on the cusp of Europe and Asia, Georgia is currently a hive of activity in the Trans-caucasus region. Worldwide investors are waking up to the numerous opportunities.

One of the region's primary electricity exporters, Georgia boasts booming industrial and agricultural sectors, producing steel, aircraft, machinery tools, electrical appliances, manganese, copper, chemicals, wood products, wine, grapes, citrus fruits and hazelnuts.

Last year, the country of 4.4 million people secured 12th place in the influential World Bank's "Ease of Doing Business Report." It ranked 112th in 2006. Despite the global financial crisis, and a period of armed conflict with Russia in 2008, Georgia continues to record high growth rates year-on-year.

As Prime Minister Nika Gilauri explains: "When the Rose Revolution [a peaceful demonstration that saw tens of thousands of people take to the streets to protest against the flawed results of a parliamentary election] took place in 2003, we had to define Georgia's niche in this part of the world. We began tackling corruption and we looked at every single regulation and every single law."

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Prime Minister Nika Gilauri

A report published in 2011 by Transparency International, the global anti-corruption coalition, recognized that petty bribery within the public sector has been all but wiped out in Georgia, and that the country has "adopted numerous important anti-corruption laws in recent years and a supreme audit institution and internal audit system," noting, however, that these laws need to be enforced more robustly.



President of SOCAR Mr. Rovnag Abdullayev and SOCAR Energy Georgia management

As the westward-looking Prime Minister knows, a transparent business framework will give Georgia a substantial edge on the other former Soviet countries in the region.

"Our single biggest aim is to create jobs, and this can only be done through the private sector," he says. "For private businesses to flourish, we needed to create an enabling environment: we have gotten rid of 80% of licenses and permits and simplified the tax code considerably."

Major reforms implemented under law enforcer Minister of Internal Affairs, Vano Merabishvili, have seen policing, security and registration systems modernized in line with international law and human rights standards. Integrated public service halls have been erected, offering 250 different government services, from birth certificates to business registration documents, under one roof. Services are growing all the time.

Construction work on the Baku-Tbilisi-Ceyhan oil pipeline, the Baku-Tbilisi Erzerum gas pipeline and Kars-Akhalkalaki rail-road, coupled with a \$4.5 billion boost in the form of long-term loans and grants from the E.U./World Bank, will see the country's

Tbilisi
The city that loves you





Nika Gilauri
Prime Minister



Dimitri Gvindadze
Minister of Finance



Alexander Khetaguri
Minister of Energy and
Natural Resources

dream of becoming a Europe-Asia hub fulfilled sooner rather than later.

"We have always spent in excess of 20% on capital infrastructure," Dimitri Gvindadze, Minister of Finance, says.

Georgia was ranked B+ positive, B+ positive and Ba3 stable by Standard&Poors, Fitch and Moody's respectively in 2011, and Minister Gvindadze is understandably upbeat. "We moved from a 9% fiscal budget deficit to GDP ratio in 2009 down to 6.7% in 2010, and then to 3.6% last year. This is probably one of fastest fiscal consolidation trends not only in the region, but in the broader area," he says.

Engines Of Growth

The engines of growth have also been expanded. Tourism numbers are shooting up and Georgia has invested hundreds of millions of dollars into the hydropower transmission grid. The government has set up a dedicated public-private partnership unit and more than 4,600 companies have been established by

foreign investors, capitalizing on the country's multilingual and highly educated workforce.

"Trade with the E.U. has been growing incrementally and we are negotiating the Deep and Comprehensive Free Trade Agreement, along with Moldova, which will be important economically and politically," the Finance Minister says.

Minister of Energy and Natural Resources, Aleksander Khetaguri, expands on Georgia's pivotal role in the region. "We export electricity to Russia, Azerbaijan, Armenia and Turkey, and the volumes are increasing," he says. "We are a major transit country and are ready to bridge Asia to Europe. We are facilitating talks between energy producers in Azerbaijan and Kazakhstan, and oil and gas consumers in the West."

"The development and growth of our economy and interest from the private sector speaks for itself. There is confidence now. We have liberalized the whole market, cut the red tape and deregulated prices on electricity and natural gas."

For SOCAR Energy Georgia, an offshoot of Azeri energy giant SOCAR, the focus has been on extending its reach across the country. "During the last five years, our investment in Georgia has been around \$750 million," Mahir Mammedov, SOCAR Energy Georgia's director, says. "From that, we have invested \$80 million into the gas distribution infrastructure, \$450 million into the new Black Sea Terminal in Kulevi, and some \$100 million into building petrol stations."

SOCAR Energy Georgia, which comprises SOCAR Georgia Petroleum and SOCAR Georgia Gas, is currently working on the

Georgian Industrial Giant Puts Energy Into Expansion

With a strong ambition to become one of the Caucasus region's five largest energy exporters, Georgian International Energy Corp.-part of the Georgian Industrial Group (GIG)-is raising its profile to attract European partners.

Formed 18 years ago, GIG has grown entirely on Georgian investment to become an integral part of the economy, employing more than 3,000 professionals in its core activities of energy, coal mining and real estate. The country's largest industrial group is also moving into heavy industry.

The liberalization of the Georgian energy and coal mining markets, and the introduction of important market reforms have exacerbated growth, while the government's investment in sufficient transmission infrastructure has allowed Georgian businesses to export any kind of energy year-round. That means that right now investors are not just limited to the local market, but can develop and build new hydropower plants and coal-powered thermal plants to meet the local demand, and the demand of the region.

The switch to thermal plants powered by Georgian coal in place of imported gas will also strengthen Georgia's position and reap global benefits for the economy. The country is more competitive now than at any time in its history, and is proving it is not only a small country of four million people, but a strategic part of the whole Caucasus region.

Georgian Industrial Group

0177 Tbilisi, Delisi Street third turning #22

Tel: +995 32 210 187 Fax: +995 32 210 189

gig@gig.ge www.gig.ge

 **Georgian Industrial Group**

Georgia's Universal Bank Gives Customers More

Bank of Georgia (BoG) is Georgia's leading bank, providing a wide range of retail and corporate banking, wealth management, insurance, trade finance, leasing and brokerage services. With 36 % market share by total assets, the bank serves approximately one million clients through its network of 143 branches, 408 ATMs and other delivery channels. The bank's net income for 1H 2011 amounted to \$38.2 million while its total assets stood at \$2,474 million. On June 30, 2011, the bank's ROAE and ROAA were 22 % and 3.8 %, respectively.

On December 20, 2011, the bank launched a tender offer for all outstanding shares following its prior announcement of the intention to seek premium listing on the London Stock Exchange (LSE) of the newly incorporated holding company in England and Wales, Bank of Georgia Holdings Plc (BGH). On completion of the tender offer, BGH will have a premium listing on the LSE and be eligible for FTSE index inclusion. Since 2006, the bank's shares are listed on the LSE in the form of GDRs (LSE: BGEO). The bank is the only Georgian entity to be rated by all three global rating agencies: 'B1/NP' (FC) & 'Ba3/NP' (LC) by Moody's, and since December 16, 2011, 'BB-/B' by Standard & Poor's, and 'BB-/B' by Fitch Ratings, at the sovereign level.

Bank of Georgia

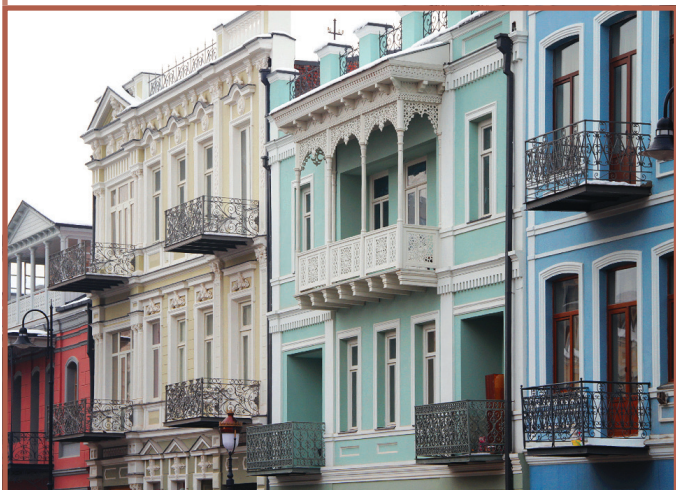
29a Gagarin Street, Tbilisi 0160, Georgia.

Tel: +995 32 (2) 444 256

Fax: +995 32 (2) 444 289

ir@bog.ge; www.bog.ge





As a result of reforms, Tbilisi has gained a new lease on life. Visit: tbilisi.gov.ge

Azerbaijan-Georgia-Romania Interconnection (AGRI), a project which will supply roughly 6-8 billion cubic meters of liquefied Azeri natural gas per year via Black Sea tankers to ensure a gas supply to Romania, Hungary, and other potential E.U. markets, circumventing Russia and Turkey.

"We constantly control and analyze the quality of the oil products that we transport to Georgia," Mammedov continues. "We established the department at SOCAR Georgia Gas on the basis of the Kyoto protocol and have developed a plan of how to lessen or lower atmospheric methane emission, which we have sent to the U.N. "We cooperate with BP by providing them with oil products, which obviously have to meet their standards. In addition, at the Black Sea Terminal, we are working closely with the Georgian Ministry of Environment and have spent 700,000 euros per year on this issue. We're working towards attaining the ISO standard in the field of environmental responsibility."

Future plans include a scheme to make the Black Sea Terminal multifunctional and the company is in talks about a second gas pipeline in the Sha-Deniz project. "Our goal is to improve customer satisfaction and modernize the gas distribution network," Mammedov says.

Securing Energy

Corporate social responsibility is also taken seriously. "We are involved in youth education programs, and provide scholarships and grants. We also invest in medicine, schools, and infrastructure; we have helped the Georgian government lay water pipelines in remote areas, for example," Mammedov says. "We are also a big sponsor of sports in the country."

Meanwhile, for the Georgian Oil and Gas Corporation, the Rose Revolution brought in a new management team that was determined to leave what had become routine electricity blackouts, pipeline breakdowns and gas outages firmly in the past. Since then, it has successfully diversified the technical routes of energy supply and is recognized as a world-class company and a key part of Georgia's growth.

"We are proud to have multiple sources of gas imports along with long-term commercial arrangements in place to secure

guaranteed supply for all households and the power generation sectors of the country," says Zurab Janjgava, director general. "Georgia already benefits from increased energy security and a stable commodity market. Our energy sector is not affected by externally imposed adverse political reactions, which is very important for investors."

Georgia's tourism sector is also taking off. With a mesmerizing landscape, proud traditions, ski resorts and hot springs, it has been dubbed a land of "endless wonders."

Tbilisi, the capital, reflects Georgia's transformation. With 1.2 million people, it represents around 70% of the entire Georgian economy and is being given a huge facelift.

Mayor Gigi Ugulava says: "Tbilisi has always been important in the region. It's open, tolerant, architecturally beautiful, and visitor numbers are increasing by 25% year-on-year."

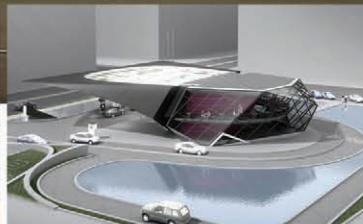
Indeed, in 2010 the city received two million visitors, two thirds of which were from neighbors Turkey, Azerbaijan and Armenia. Of the rest, 200,000 were from Russia, 30,000 from Ukraine, 20,000 from Iran, and 150,000 from the E.U., of which 20,000 were from the U.K.

"We are hoping to implement an open sky policy which will allow the low-cost airlines to come in," Ugulava says. "There are also very profitable construction opportunities, and we need more three and four-star hotels. You can visit the mountains and the beach during the same vacation. There are not many countries with this option."



Georgian Oil & Gas Corporation

www.georgia.gov.ge



SOCAR

Moving Georgia in the right direction

SOCAR—State Oil Company of Azerbaijan Republic, one of the world's most prolific energy companies—is a major investor in Georgia. SOCAR Energy Georgia Ltd. was founded in 2006 and provides energy security for the nation via a large and growing network of modern gas stations and imports of oil products, petroleum and liquid gas. Since its foundation, SOCAR Energy Georgia Ltd. has been able to find the leading position in the energy sector of Georgia. SOCAR Energy Georgia Ltd. established several daughter companies that successfully carry out the import and sale of competitive, high standard oil products, implement a large-scale gasification project and build oil terminals and other infrastructure, thus maximizing Georgia's strategic potential.



SOCAR - State Oil Company of Azerbaijan Republic
Str. 300 Aragveli, #24, 0144 TBILISI, GEORGIA
Tel: +995 32 243 97 77 | Fax: +995 32 243 97 47 | info@socar.ge