



Investment Climate and Energy Sector of Georgia

Regional Energy Hub



- Reliable transit country and regional energy hub
- Attractive cross border trading opportunities with well developed infrastructure and new developing interconnections under implementation
- Huge untapped hydro resources
- HPP Greenfield potential of 40 TWh
- Only 18% of the country's hydro potential has been utilized



Power Sector - Major Stakeholders



Ministry of Energy

- policy developer and implementer
- creates rules of the game between market players

Independent regulator – GNWERC*

- tariff calculation, licensing
- relations between customers and companies

Technical operator/Transmission Services - HV lines, HV substations and dispatching

- GSE and ET (100% state owned)
- SakRusEnergy (50% state owned)

Electricity System Commercial operator – ESCO

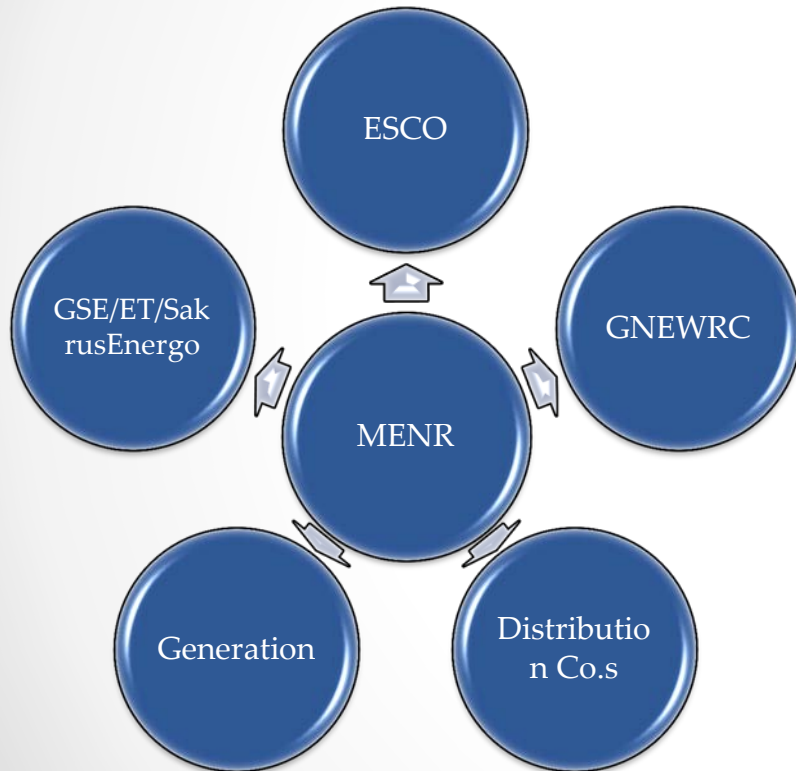
- balancing market, emergency import/export
- Reserve capacity trader

Generation

- 53 Hydropower plants
- 3 Thermal plants

Distribution Companies

- All 3 Distribution Co.s under the private ownership
- Telasi, Energo-pro Georgia, Kakheti Distribution

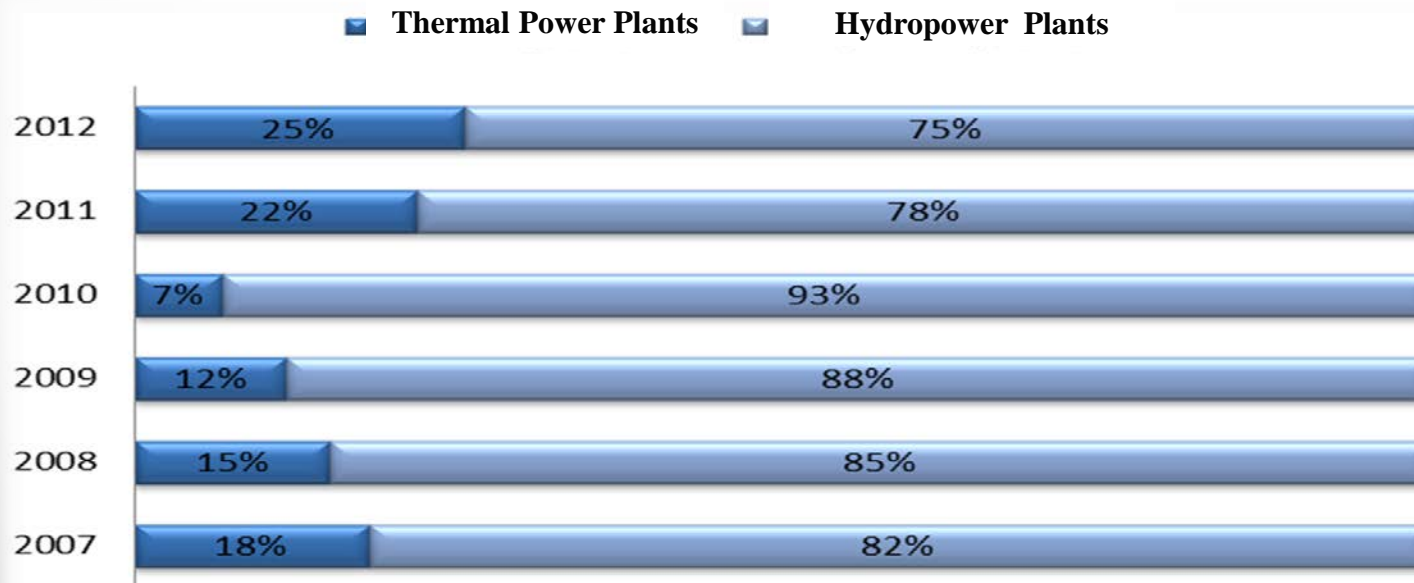
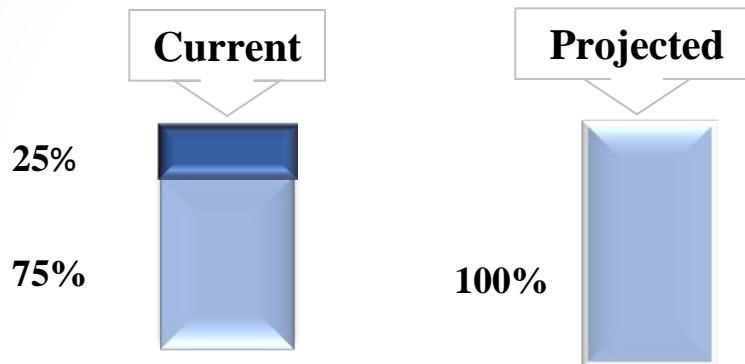


Existing and Planned Power Projects



Existing Power Plants Generating electricity in Georgia

- ✓ 53 Hydropower plants-75%-85%
- ✓ 3 thermal plants, including import- 15%-25%



Planned Power Projects



Ongoing Projects

- ✓ Under Construction
- ✓ Under Feasibility Study
- ✓ Under Negotiation

Major companies operating in Georgia

- ✓ Anadolu (Turkey)
- ✓ Peri (Georgia)
- ✓ Ağaoğlu (Turkey)
- ✓ Trans Electrica Ltd.(India)
- ✓ Energo Pro (Czech)
- ✓ Clean Energy Group (Norway)
- ✓ KGM (Turkey)
- ✓ Rusmetal (Georgia); and etc
- ✓ Tata Group (India)

Energy Balance

2007-2012

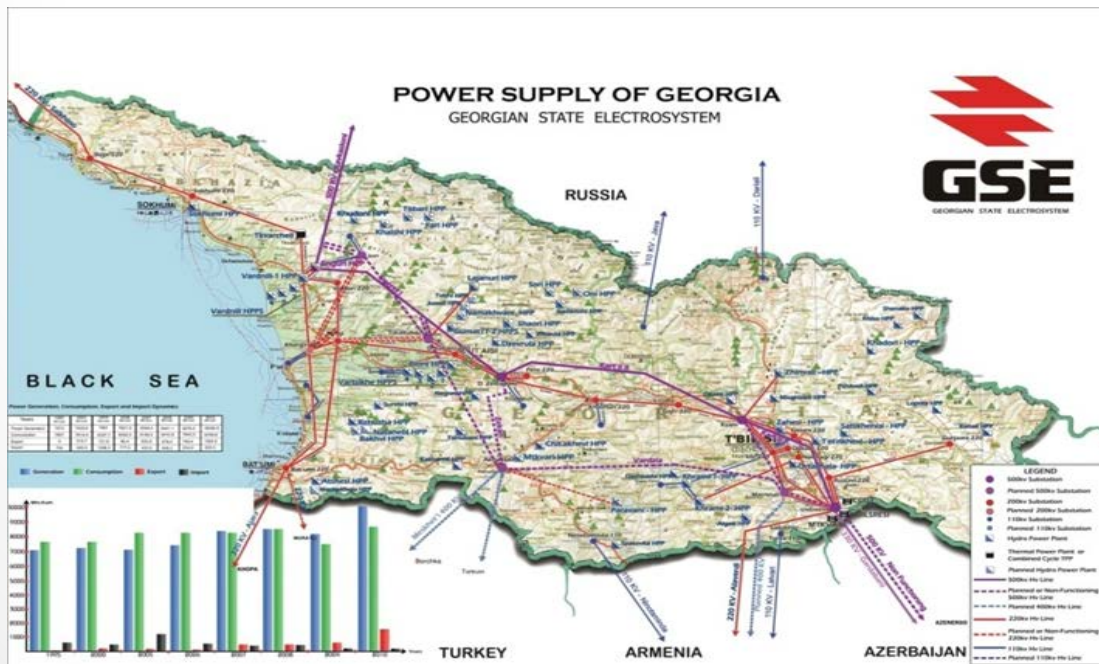


Year	Generation	Consumption	Import	Export	Net Export	% of Import in total Consumption	% of Export in total Generation
2007	8345.7	7815.4	433.3	625.5	192.2	6%	7%
2008	8450.5	8074.8	649	679.6	30.6	8%	8%
2009	8407.7	7642.1	254.8	749.4	494.6	3%	9%
2010	10057.6	8441.1	222.1	1524.3	1302.2	3%	15%
2011	10104.5	9256.6	471.0	930.6	459.6	5%	9%
2012	9694.7	9379.4	614.6	528.2	-86.4	7%	5%



Infrastructure with neighboring countries

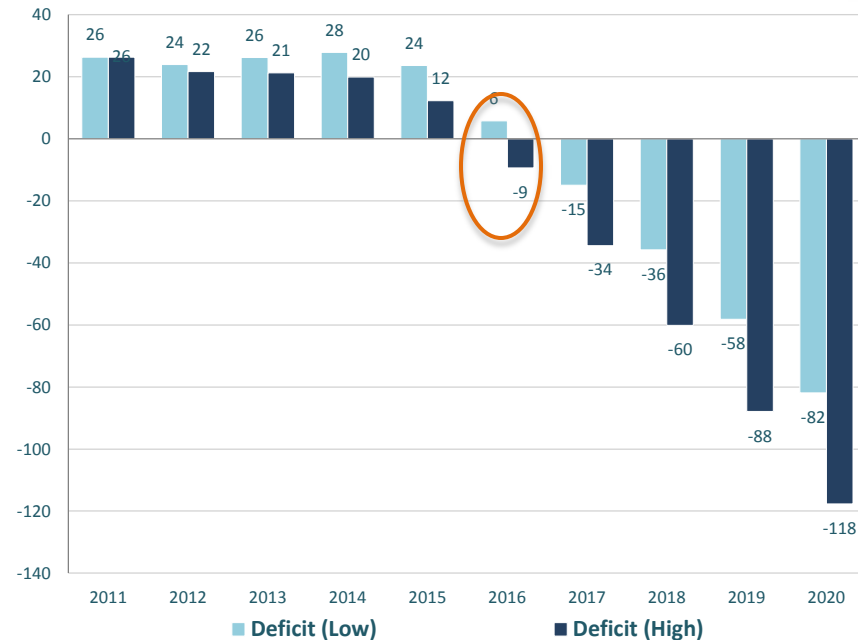
- ✓ Georgian power grid is connected to the grids of all of neighboring countries
- ✓ Construction of new high voltage 500/400 KV line to Turkey with B2B converter station is completed
- ✓ Construction of additional interconnections with Turkey is under negotiation
- ✓ Construction of new high voltage 500KV line to Azerbaijan is completed
- ✓ Further expansion of interconnection capacity with Armenia and Russia planned



Export Markets



- ✓ Growing demand of neighboring as well as of European countries
- ✓ Rapidly expandable Turkish market (over the last 10 years with 6.2 % of growth rate) with increasing prices
- ✓ By 2016-17 Turkey is expected to be a net importer of electricity with expected deficit of 9 TWH
- ✓ The peak demand season (summer) in many of neighboring countries occurs in Georgia's peak supply season



Government Regulations



- ✓ Renewable projects based on Build-Own-Operate (BOO)
- ✓ All new HP plants are totally deregulated - No tariff set for the newly built HPPs
- investor is free to choose the market and negotiate the price
- ✓ There is no fee for the connection to the transmission grid
- ✓ Free third-party access to the grid
- ✓ No license required to export and no tariff set
- ✓ Government offers power off-take agreement for 20% of total generation for domestic supplies
- ✓ Developer benefits from carbon credits (CER) trading
- ✓ New HPPs have priority access to the capacity on the new interconnection to Turkey (Long term contract with TSO)
- ✓ Generation and Export activities exempted from VAT

New Resolution of Government of Georgia



Approval of the rule of expression of interest for construction technical and economic feasibility study, construction, ownership and operation of hydropower plants in Georgia

- Selecting Investor – The only one criterion for revealing investor is lowest proposed price for 20% of annual generated electricity that will be sold to “Electricity System Commercial Operator” (ESCO) for 10 year period
- Bank Guarantee - Preconstruction Guarantee shall amount 5 000 (five thousand) U.S. dollars or its equivalent in euro. Construction Guarantee shall amount 100 000 USD (or equivalent in Euro) per one megawatt of installed capacity for project(s) with installed capacity of 100 megawatts or less, and 50 000 USD (or equivalent in Euro) for the projects with installed capacity of more than 100 megawatts
- Fining system - If company will not meet its obligation under the terms of the Memorandum of Understanding, it will be charged 0.5% of total bank guarantee amount for each overdue day (*according to old regulation, GoG was requesting full amount of bank guarantee*)
- New resolution - It applies to the projects located in the list of potential HPPs located on our website. Potential HPP that is not in our list is a subject of a direct negotiation between the Government and Investor.

Strategy of the Government of Georgia



- To ensure energy security of the country through diversification of energy sources and transit routes
- To develop east-west and north-south energy transportation infrastructure in order to increase transit capacity of the country
- To improve energy security through construction of new hydro and wind power plants and development of other renewable sources
- To rehabilitate existing and construct new infrastructure for electricity transmission.
- To attract foreign investments in the power generation sector
- To strengthen co-operation with the international organizations in order to accelerate integration of the country into European and Euro-Atlantic organizations



Thank You