


GOVERNMENT OF GEORGIA ANNOUNCES THE SALE OF 100% EQUITY STAKE OF ORTACHALA HYDRO POWER PLANT TO ENERGO-PRO GEORGIA

 GEL/US\$:1.6620 GEL/EUR: 2.3205
 Galt & Taggart Index: 195

Government of Georgia (GoG) announces that it has successfully completed the sale of 100% equity interest in the 18 MW JSC Ortachala Hydro Power Plant ("OHPP") to ENERGO-PRO Georgia (wholly-owned subsidiary of ENERGO-PRO Group, Czech Republic). The consideration paid for the 100% equity interest in OHPP is US\$25.3 million (equivalent to GEL 42 million at the exchange rate of the National Bank of Georgia as of 19th December 2008).

ENERGO-PRO Georgia is engaged in the power generation and distribution activities, serving approximately one million customers. ENERGO-PRO Group acquired in 2007 two distribution companies and six hydro power plants with the total capacity of 362 MW. The consideration paid for these assets was US\$123 million plus investment commitment of US\$140 million over the next 10 years. Currently, Energo-Pro Georgia operates eight hydro power plants in Georgia with the total installed capacity of approximately 400 MW.

Privatisation proceeds booked year to date exceed US\$450 million – a record amount.

"I am delighted that ENERGO-PRO Georgia continues investing in the Georgian power sector and wish them further success in Georgia and beyond", commented **Alexander Khetaguri**, the Minister of Energy of Georgia.

About the New Investment Program in Greenfield HPPs Initiated in Spring 2008

The GoG has approved, in April 2008, the standard terms and conditions for the greenfield investments in hydro power plants (HPPs). The Ministry of Energy announced the solicitation of expressions of interest by investors in greenfield HPPs and other renewable energy plants under the build-operate-own (BOO) structure.

A list of prospective greenfield HPP sites has been published and regularly updated by the Ministry of Energy on its website (<http://www.minenergy.gov.ge>). The list comprises 78 sites, with the prospective individual capacities ranging from 5 MW to 60 MW. Most of the prospective HPPs comprising the list are expected to be run-of-the-river facilities.

Investors interested in investing in the said greenfield HPPs are invited to submit a standard application form to the Ministry of Energy, available on its website. Once an application is received for a particular greenfield site, the HPP site will be marked as being "Under Offer" on the Ministry of Energy website, and will remain available for other investors to submit competing applications during a 30-day period. If no competing application is submitted during this period, the initial prospective investor is automatically declared the winner upon submitting a bank guarantee in the amount of US\$170,000 per MW of prospective capacity, and is invited to sign a standard Memorandum of Understanding with the Ministry of Energy, as well as other standard documentation. In the event that more than one prospective investors apply for the same greenfield site, the winner will be declared in accordance with a transparent formula assigning equal weights to the size of the bank guarantee (per MW of prospective capacity) and declared time to completion.

The winner will be able to purchase the land of the greenfield site at a nominal price following the execution of a land sale and purchase agreement with the Ministry of Economic Development.

The investor will be free to sell the electricity generated by the HPP either domestically or abroad without any restrictions, except for a three-month period during the winter season (1 October – 1 April) as specified by the Ministry of Energy, during which the electricity may only be sold domestically. The domestic electricity tariff in this case is not subject to any regulations or caps. If so desired, the investor will be able to sign a 10-year agreement entitling the investor to sell, in its sole discretion, part or all of the electricity to the state-owned Energy System Commercial Operator, but at tariffs set by the independent regulator. No other restrictions or limitations shall apply to the greenfield sites in the approved list.

Additionally, the Government of Georgia invites interested prospective investors to initiate discussions regarding the terms and conditions of investing in several large greenfield HPP sites, with prospective capacities ranging from 60 MW to 600 MW. The list of these large HPP sites is also published on <http://www.minenergy.gov.ge>.

Georgia: Key Economic Data	2004A	2005A	2006A	2007A
Nominal GDP (GEL mln)	9,824.3	11,621.0	13,783.9	16,998.6
Real GDP Growth (y-o-y: %)	5.9%	9.6%	9.4%	12.4%
GDP per Capita (US\$)	1,187.2	1,478.4	1,758.7	2,315.2
CPI (e-o-p; %)	7.5%	6.2%	8.8%	11.0%
Net FDI (US\$ mln)	483	542	1,076	2,014.8
Current Account Deficit as % of GDP	-6.6%	-10.7%	-14.9%	-18.9%
GEL/US\$ (e-o-p)	1.83	1.79	1.71	1.59
GEL/EUR (e-o-p)	2.49	2.12	2.26	2.33
Galt & Taggart Index (e-o-p)	194	320	790	1,041

Source: Department of Statistics, Ministry of Economic Development, Ministry of Finance, National Bank of Georgia

Georgia has, as of the date hereof, the following sovereign credit ratings:

Standard & Poor's	Sovereign Credit Rating	'B/ Stable/B'
FitchRatings	Long Term Issuer Default Rating/Short Term Issuer Default Rating/Country Ceiling	'B+/ Negative /B/B+'

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**About the Georgian Power Sector**

Georgia is one of the most energy-efficient economies among its post-Soviet peers, measured by energy consumption per unit of GDP (0.73 TOE/US\$ in 2007 - one of the lowest in the region). Per capita electricity consumption in Georgia is low, reaching 1,800 kWh in 2007. The power sector in Georgia is mostly privately owned and nearly fully liberalised. Only Transmission, Dispatch and the largest HPP and thermal power plants (TPPs) are owned by the state, whereas all the other generation and distribution assets are privately owned. Bundled ownership of generation and distribution assets is allowed. Wholesale generation tariffs are fully liberalised and any generation company is permitted to sell electricity to any wholesale customer at a directly negotiated tariff. Retail tariffs are regulated by Georgian National Electricity and Water Regulatory Commission (GNEWRC). However, small HPPs (less than 13 MW capacity) can sell electricity at unregulated tariffs to any wholesale or retail customer. The Ministry of Energy of Georgia expects that the electricity sector will be fully liberalised by 2017.

Approximately 80% of the electricity is generated by the existing hydro power plants, with aggregate peak capacity of approximately 1,600 MW. The Ministry of Energy believes that the installed hydro power generation capacity is approximately 20% of the total prospective capacity available in the country.

TPPs account for approximately 15% of the country's electricity supply, whilst imports contribute another 5%. There are two main electricity consumption groups in Georgia - three regional distribution companies, which cumulatively account for approximately 69% of the country's total electricity consumption and about 30 large industrial enterprises, accounting for 23% of the country's total electricity consumption and are allowed to directly purchase electricity from suppliers. In 2007, Georgia became a net exporter of electricity, with exports accounting for 7% of energy consumption.

The electricity transmission network in Georgia comprises 500, 300, 220, 110, 35, 10 and 6 kV lines, connecting Georgia with Turkey, Russia, Azerbaijan and Armenia. The government anticipates the construction of new 400-500kV transmission lines (connecting Georgia to the Turkish power grid) as more generation capacity is built in the country, with a view to turning renewable energy into a significant export industry. The IFIs have indicated that they are committed to provide the financing on concessional terms to build a new line which also includes construction of 500/400 HVDC sub-station.