


**NEW INVESTMENT PROGRAM IN GREENFIELD HPPs INITIATED**

 GEL/US\$: 1.4660 GEL/EUR: 2.2812  
 Galt & Taggart Index: 720

The Government of Georgia has approved the standard terms and conditions for the greenfield investments in hydro power plants (HPPs). The Ministry of Energy has 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 by the Ministry of Energy on its website ([www.minenergy.gov.ge](http://www.minenergy.gov.ge)). The list comprises 87 sites, with the prospective capacity 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 greenfield HPPs from the list are required 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 site will be marked as "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 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 [www.minenergy.gov.ge](http://www.minenergy.gov.ge).

**About the Georgian Energy Sector**

Annual consumption of electricity in 2007 was approximately 8.5 billion kWh, or 1.85 kWh per capita and 0.73kWh per US\$1 of GDP. The domestic consumption is expected to grow rapidly driven by the growth of the economy and modernization of the industrial sector. Peak consumption is in winter.

Electricity sector in Georgia is mostly privately owned and partially liberalised. Vertically integrated companies (owning both generation and distribution assets) are allowed. Only Transmission, Dispatch and the largest Hydro power plant are owned by the state, whereas all the other generation and distribution assets are privately owned. Wholesale generation tariffs are fully liberalized and any generation company is permitted to sell electricity to any wholesale customer at a directly negotiated tariff. Retail tariffs are regulated by GNEWRC, the independent electricity, gas and water regulator. However, small generation plants (less than 15 MW capacity) can sell electricity at unregulated tariffs to any wholesale or retail customer. The Ministry of Energy expects that the electricity sector will be fully liberalised in the next 10 years.

Approximately 85% of the electricity is generated by existing hydro power plants, with aggregate installed 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.

In 2007, Georgia became a net exporter of electricity. High voltage transmission lines connect Georgia with Turkey, Russia, Azerbaijan and Armenia. The government anticipates the construction of additional high voltage transmission lines as more generation capacity is built in the country, with a view to turning renewable energy into a significant export industry and a significant contributor to the improvement of the current account balance.

<b>Georgia: Key Economic Data</b>	<b>2004A</b>	<b>2005A</b>	<b>2006A</b>	<b>2007A</b>
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	1,563
Current Account Deficit as % of GDP	-6.6%	-10.7%	-14.9%	-18.8%
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+/B'	Positive
FitchRatings	Long Term Issuer Default Rating/Short Term Issuer Default Rating/Country Ceiling	'BB-/B/BB-'	Stable

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