



## GEORGIA PROJECTS

Profile No.	PROJECT NAME	LOCATION
GE1	Privatization and Expansion of Telecom Georgia	Nationwide
GE2	Privatization of Georgian Local Lines Company	Nationwide

## GEORGIA

### Privatization and Expansion of Telecom Georgia

Project Summary	
<b>Subsector</b>	Telecommunications
<b>Location</b>	Georgia
<b>Project Cost</b>	US\$50+ Million (expected share price)
<b>Export Potential</b>	US\$30 Million
<b>Project Type</b>	Privatization
<b>Project Executing Agency</b>	Ministry of State Property Management



### Project Outline

This project relates to privatization of Telecom Georgia (TG) with the proposed sale of 51% of the company's shares to a strategic technical operating partner. The project also involves the anticipated expansion of the telecommunications network of TG that is likely to be undertaken once the proposed privatization is completed late in 2001. TG is the long distance and international operator in the Republic of Georgia.

TG is presently 51% owned by the government, while two foreign partners hold the remaining 49% shareholding. Parallel to this privatization process, the government is also selling 75% of Georgia Local Lines Company (GLLC), a company providing fixed line service to domestic customers. Once the controlling stakes in those two government telecommunications companies have been sold by the end of 2001, there are expected to be significant opportunities for U.S. telecommunications equipment and services providers.

During the on-going privatization process, prospective strategic investors may be given the opportunity to bid for stakes in both companies individually or as a single package. The Georgian government's financial advisor for these transactions has suggested that a combined entity affords an opportunity for an investor to create an integrated national operator with significant market share and potential to expand its services and customer base.

## Technical Description

### The Privatization Process

Recently, the privatization process in Georgia entered a new stage when the Ministry for State Property Management developed a program to privatize the telecommunication, energy and transport sectors. As part of the Government's strategy on reorganization of

the telecoms sector, a telecommunications legislation was passed in August 1999 and an independent regulatory body for the telecommunications sector subsequently was created. One of the regulator's principal goals is to establish appropriate licensing and tariff systems in the sector in order to provide a more liberal and transparent market structure.

### **Background on Telecom Georgia**

Telecom Georgia was established as a limited liability company in 1994 to provide domestic and international long distance services in Georgia. Presently, the Government of Georgia owns 51% and International Telcell, Inc., a subsidiary of Metromedia Communications Group (USA), owns 30% of the company. The remaining 19% interest is controlled by Bulcom, a Cyprus based investment company.

The company was founded to develop a modern international satellite gateway in Georgia. Until the company was formed, international outgoing traffic from Georgia was routed through Moscow. The company has retained more than 50% of the Domestic Long Distance (DLD) and International Long Distance (ILD) market despite the recent opening of the market to competition. The company's core assets include two Siemens EWSD switches in Kutaisi and Tbilisi. International connectivity is through an 8 Mbps link via Intelsat and a 2 Mbps link to Russia. TG has a subscriber base of 250,000 and its total international and NIS traffic amounted in 1999 to 220.3 million minutes (a 17% increase from 1998). TG had 508 employees at the end of 1999.

Currently, TG is planning several new investment projects, including entry into Internet and data businesses. It is also planning the introduction of new value-added services for its customers, principally ISDN, IP-telephony, a pre-paid card system, and a premium business service. In addition, the company has the potential to exploit Georgia's strategic geographic location and become a partner in international transit projects to link Europe and Asia through Georgia, bypassing both Russia and Iran. The company is currently a partner in a project to build a Tbilisi-Baku digital radio-relay link, and lay a fiber-optic submarine cable connecting Georgia's Black Sea Port of Poti with Turkey's port city of Rize.

TG's current domestic long distance tariffs are about US\$0.10/min., while for international calls these are set at US\$.22/min. within the NIS and at \$1.25/min. to the rest of the world. In 1999 revenues were about US\$11.45 million.

### **Key Financials of Telecom Georgia (Millions US\$)**

	<b>1997</b>	<b>1998</b>	<b>1999</b>
Operating revenues	12.57	12.28	11.45
EBITDA	8.31	9.32	5.48
Net income	6.57	3.91	3.34
Extraordinary items	-0.98	-0.40	-5.02
Adjusted net income	5.59	3.52	-1.69

Proforma IAS accounts. Source: Commerzbank Consortium

Until recently, TG was a very profitable company, but performance declined in recent years due to poor management. In part due to the current regulatory regime, TG has

not adapted to the liberalizing of the ILD and DLD markets in Georgia and has not been aggressively competing with the emerging competition. Also, TG has been required by government regulations to continue to provide service to certain non-paying customers, such as Georgian Government ministries and agencies, several state-controlled enterprises and, to its largest delinquent customer, the Autonomous Republic of Adjara.

## **Project Site**

The privatization process involves the entire TG network throughout Georgia. The corporation has its headquarters in Tbilisi.

## **Project Status/Timeline**

Prospective investors wishing to participate in the bidding process must submit their expressions of interest to Commerzbank, the advisor to the Government of Georgia for the privatization process. Commerzbank is heading a consortium with the following members: Bank of Georgia; LeBoeuf, Lamb, Green, & MacRae; and ARC Associates. The deadline for expressions of interest has not been set yet, but it will be approximately one to one and a half months prior to the bidding deadline which is September 16, 2001.

Over the next several years, there will be export opportunities for U.S. companies as the winning bidder expands and modernizes the Telecom Georgia network.

## **Equipment and Services**

There is a high potential for U.S. exports once the privatization process has been completed. In the modernization of the network, there will be a large demand for equipment and opportunities for U.S. suppliers. As discussed earlier, TG is planning several new investment projects that include ISDN, IP-telephony, a pre-paid card system, a premium business service, and other international communications opportunities. Each of these expansion projects will provide export opportunities for U.S. companies. Also, should one of the U.S. fixed network operators successfully bid for control of TG and/or GLLC, long-term sales opportunities for American telecommunications equipment, software and service providers will be substantially enhanced. Export opportunities as a result of the network upgrade and expansion could total as much as US\$30 million.

## **U.S. Competitiveness**

The market for communication services in Georgia has been growing substantially within the last four years. Georgia's teledensity is 25 lines per 100 inhabitants in urban areas

and approximately 10 lines per 100 inhabitants in rural areas. Liberalization of the market started early and a number of new competitors have established themselves in the market.

Telecom Georgia is facing competition from several new entrants in the long distance market. Egrisi is the largest and most successful of these new entrants with up to 25% market share. Other competitive long distance companies are Goodwillcom, Global One, Macrocom and Saktelkomplus. The competitive long distance providers have their own satellite antennas, but route their traffic through Telecom Georgia's international exchange. Egrisi is reported to have built its own international exchange recently, enabling it to completely by-pass Telecom Georgia.

U.S. companies will have significant opportunities to supply the equipment and service needs of the newly privatized company. A new entrant in the Georgia market will have some competition from several international companies already present in Georgia. The two most prominent of these international companies are Metromedia Communications Group (MCG) and Turkcell. MCG holds stakes in Paging One (45%), Paging Ajara (35%), Magticom (35%), Radio Georgia (51%), Ayety TV (49%), and Telecom Georgia (30%). Turkcell, the leading Turkish mobile operator, holds an equity stake in excess of 80% in Geocell, Georgia's second largest mobile operator.

## **Project Financing**

This privatization project relates to the sale of 51% of equity shares in TG. The successful bidder will undoubtedly be required to commit to a long-term infrastructure renovation and expansion plan for TG.

## **Conclusion**

Potential strategic U.S. technical investors are actively encouraged by the Georgian government to participate in this privatization tender. There remains a strong potential for U.S. exports. As a result of the planned investments for the expansion of TG's services, there will be opportunities for U.S. equipment and services suppliers. These opportunities will be enhanced if a U.S. operator successfully bids for 51% of the shares of TG.

Until the privatization process has been completed, the executing agency for this prospective project is the Ministry of State Property Management of the Government of Georgia.

**Key Decision Makers**

<b>Organization or Company Name</b>	Ministry of State Property Management
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## GEORGIA

### Privatization of Georgian Local Lines Company

Project Summary	
<b>Subsector</b>	Telecommunications
<b>Location</b>	Georgia
<b>Project Cost</b>	US\$80+ Million (expected share price)
<b>Export Potential</b>	US\$20 Million
<b>Project Type</b>	Privatization
<b>Project Executing Agency</b>	Ministry of State Property Management



### Project Outline

This project relates to the privatization of the Georgian Local Lines Company (GLLC) with the proposed sale of 75% of the company's equity shareholding. The project also involves the anticipated telecommunications expansion process that GLLC is likely to undertake once the privatization process is completed late in 2001.

GLLC is presently a 100% state-owned company. Parallel to this privatization process, Telecom Georgia (TG), the long distance and international operator in Georgia, is also being privatized with 51% of its shareholding soon being tendered to a strategic investor. Once the stakes in the two companies have been sold by the end of 2001, there are expected to be significant opportunities for U.S. telecommunications equipment and services providers.

Prospective strategic investors interested in the privatization process may be given the opportunity to bid for stakes in both companies individually or as a single package. The Georgian Government's financial advisor for these transactions has suggested that a combined entity affords an opportunity for an investor to create an integrated national operator with significant market share and potential to expand its services and customer base.

## Technical Description

### The Privatization Process

Recently, the privatization process in Georgia entered a new stage. The Ministry for State Property Management developed a program to privatize the telecommunication, energy and transport sectors. As part of the Government's strategy on reorganization of the telecommunications sector a Law on Telecommunications was passed in August 1999 and an independent regulatory body for the telecommunications sector was

subsequently created. One of the regulator's principal goals is to establish appropriate licensing and tariff systems in the sector in order to provide for a more liberal and transparent market structure.

The Georgian Government invites strategic technical investors capable of implementing significant investments in GLLC to ensure uninterrupted nation-wide communication, meeting modern standards to participate in the privatization process. Considering the country's geopolitical position, the Government of Georgia is also willing to create a telecommunication system fully integrated into the international communication network based on modern technologies.

### **Background on Georgian Local Lines Company**

GLLC is presently a 100% state-owned company and is structured as a holding company of 66 local companies. With the exception of the autonomous regions of Abkhazia, Adjara and S. Ossetia, GLLC provides fixed line local telephony service throughout Georgia. It has a staff complement of close to 7,700 employees.

While Georgia has a population of 5.4 million, GLLC's subscriber base is over 361,000, half of whom live in the relatively affluent capital city of Tbilisi. The company currently does not offer full International Long Distance (ILD) or Domestic Long Distance (DLD) and depends almost exclusively upon TG for those services. GLLC has obtained the necessary licenses to operate fixed-line and Internet services, data transmission, a fiber optic cable network, and a satellite gateway and, with relatively modest investments in a gateway antenna and modern switching equipment, is in a position to provide those services to its customers in the future. Furthermore, GLLC has recently been issued a GSM 1800 license and could realistically become a major factor in Georgia's booming Internet market. GLLC also has the exclusive rights to the country's entire fixed-line numbering capacity of approximately 510,000 numbers. With respect to the company's existing infrastructure, however, the company needs to commit substantial capital investment funds to install new switches and to upgrade its trunk network.

Residential tariffs of GLLC are low, with the basic rental set at US\$1/month and with unmetered local calling. This tariff relates to 90% of the company's subscribers and does not cover GLLC's costs of offering that service, which are estimated at around US\$3/month. At US\$5/month, business rental charges are somewhat higher. Installation charges are set at around US\$50 for residential customers and US\$190 for businesses.

GLLC presently has an unfavorable revenue sharing agreement with TG for DLD and ILD traffic. GLLC's interconnection agreements with several mobile operators disproportionately favor the latter. GLLC is also required to provide telecommunications service to various government agencies that have consistently failed to pay for these services since 1996.

As can be seen from the following table, GLLC lost US\$220,000 in 1999 on total revenues of US\$12.6 million.

**Key Financials of GLLC (Millions US\$)**

	1997	1998	1999
Operating revenues	10.45	11.79	12.64
EBITDA	1.43	3.29	2.97
Net income	-0.08	-0.07	-0.22
Extraordinary items	0.00	-3.15	-0.95
Adjusted net income	-0.08	-3.22	-1.17

Proforma IAS accounts. Source: Commerzbank Consortium

Several factors, which for the most part can be mitigated in the near future, contributed to the erosion of GLLC's financial position since 1997:

- The government's telecommunications tariff policy;
- Disadvantageous interconnect agreements;
- Stagnant management; and
- Failure to implement innovative marketing to respond to market changes.

These circumstances have been recognized by the Government, which according to its financial privatization advisors will do everything possible to create favorable conditions for prospective investors. GLLC is expected to benefit substantially from the establishment of an even-handed regulatory scheme to be implemented in late 2001 by the newly formed independent regulatory committee for the telecommunication sector. The committee is advised by experts from the EBRD and will seek to provide an equitable tariff structure for the GLLC and TG in relation to competition.

With the support of a qualified strategic technical investor, GLLC has an opportunity to transform itself into a growth company that maintains its dominant market share in its traditional business and captures additional revenues by providing new services to its customers. According to the government's financial advisors, Commerzbank consortium, prospective investors could consider integrating GLLC with TG or to build out its own international gateway to profit fully from its DLD and ILD traffic.

**Domestic Competitors**

The market for communication services in Georgia has been growing substantially within the last four years. Georgia has a relatively high teledensity level at 25 lines per 100 inhabitants in urban areas and 10 lines per 100 inhabitants in rural areas. Liberalization of the market started early and a number of new competitors have since established themselves in the market.

GLLC previously had over 500,000 lines in operation, but increased competition from new entrants such as New Net and its subsidiary, Akhteli, has resulted in a loss of 140,000 subscribers. New Net operates the most advanced exchanges in the country and is GLLC's main competitor with about 18% of the communications market.

There is also competition in the mobile telephony market, but with considerable opportunity for further expansion given that the penetration rate of mobile telephony was only 1.9% as of January 2000. There are three major cellular operators in Georgia: Magticom with 60,000 or 58.5% of the mobile customers, Geocell (both GSM 900) with

37,000 or 36.1% of the mobile customers and Megacom (AMPS) with 5,500 or 5.4% of the mobile customers.

The two most prominent international companies are: Metromedia Communications Group (holding stakes in Paging One (45%), Paging Ajara (35%), Magticom,(35%), Radio Georgia (51%), Ayety TV (49%), and Telecom Georgia (30%); and Turkcell, the leading Turkish mobile operator (41% owned by Sonera), holds an equity stake in excess of 80% in Geocell, Georgia's second largest mobile operator.

## **Project Site**

The privatization process involves the entire GLLC network located throughout Georgia. GLLC's corporate headquarters are based in Tbilisi, Georgia.

## **Project Status/Timeline**

Prospective investors wishing to participate in the bidding process must submit their expressions of interest to Commerzbank, the advisor to the Government of Georgia for the privatization process. Commerzbank is heading a consortium with the following members: Bank of Georgia; LeBoeuf, Lamb, Green, & MacRae; and ARC Associates. The deadline for expressions of interest has not been set yet, but it is expected that it will be approximately one to one and a half months prior to the bidding deadline which is September 16, 2001.

Over the next several years, there will be export opportunities for U.S. companies as the winning bidder modernizes the GLLC network.

## **Equipment and Services**

There is a high potential for U.S. exports as an adjunct to the privatization process. In the tender process, the Government of Georgia is intent on attracting telecommunications operators and/or investors capable of creating a new modern network for GLLC. Stemming from this anticipated modernization of the existing network, there will be a large demand for equipment and thus, opportunities for U.S. suppliers.

As discussed earlier, GLLC will need substantial investment to install and upgrade its trunk network. There will be significant other procurement opportunities if GLLC also expands into mobile telephone, Internet and data communication services. Should one of the U.S. fixed network operators successfully bid for control of GLLC, long-term sales opportunities for American telecommunications equipment, software and service providers will be substantially enhanced. Export opportunities as a result of the network upgrade and expansion could total as much as US\$20 million.

## U.S. Competitiveness

U.S. companies will have significant opportunities to provide the equipment and services needed by the newly privatized company. As GLLC has not undertaken any significant modernization program in the recent past, there should be a fairly level playing field in providing infrastructure equipment to expand the existing network and to build-out the company's cellular network. These opportunities will be enhanced if U.S. investors are successful in bidding for control of GLLC and/or TG.

## Project Financing

This project relates to the sale of 75% of equity shares in GLLC. The successful bidder is likely to be required by the Government of Georgia to provide an acceptable financial plan to modernize and build-out the GLLC network prior to being awarded the tender for the share purchase.

## Conclusion

Potential strategic U.S. technical investors are actively encouraged by the Georgian government to participate in this privatization tender. There is a high potential for U.S. telecommunications exports as part of the process. As a result of the need for upgrading of the GLLC network and the potential expansion of GLLC's services, there will be opportunities for U.S. equipment and services suppliers. These opportunities will be enhanced if a U.S. operator successfully bids for 75% of the shares of GLLC.

Until the privatization process has been completed, the executing agency for this prospective project is the Ministry of State Property Management of the Government of Georgia.

## Key Decision Makers

<b>Organization or Company Name</b>	Ministry of State Property Management
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