TBC CAPITAL

ALCOHOLIC BEVERAGES

AUGUST 2023

Sector Report

Ia Katsia
Senior Research Associate

Irakli Urgebashvili
Analyst

Irina Kvakhadze
Vice President

Outline

- **Industry Overview**
  - Market structure
  - Market size
  - Number of companies
  - Turnover
- **Wine supply**
  - Production of grapes
  - Production of wine
  - Vineyard total area
- **Wine demand**
  - Wine export
  - Export destinations
  - Target countries
- **Global Tendencies in Wine industry**
  - International trade
  - Wine importing countries
- **Price and Consumption**
  - International prices
  - Export prices of Georgian wine
  - Consumption of alcoholic beverages
- **Beer Market Overview**

Summary

The Alcoholic Drinks market is set to achieve a revenue of approximately 1,609.00 bln. USD in the year 2023. This market is anticipated to exhibit a steady annual growth rate (CAGR) of 5.42% between the years 2023 and 2027. Global wine industry is experiencing a resurgence after facing challenges due to the COVID-19 pandemic.

Wine sector is also increasing in Georgia. Although, wine production has been volatile over the decade, however, maintained a positive trend, especially after an embargo lift in 2013. The formal wine production in 2022 reached 119 million liters, almost matching the level achieved in the previous year, 2021.

Production of sparkling wine has strong increasing trend over last five years. In 2022, 4.7 mln. liters of sparkling wine were produced, which is up by 4.5% compared to last year level.

In 2022, Georgian wine exports hit the all-time high, both in terms of volume and revenues. Georgia exported nearly 133 million bottles of wine; a 26% increase compared to a prior year.

Russia remains as the most significant market for Georgian wine. In terms of revenue, Russia's share in the total revenue of the Georgian wine industry reached 64% in 2022, which is the highest level recorded since 2014. European countries (13%) and CIS states (8%) are among the 3 top markets for Georgian wine.

Average export price for Georgian wine has been decreasing in recent years. In 2022, an average export price for 1-liter Georgian wine amounted to 2.49 USD, which is 16% less compared to a year before.

In 2022, the total annual household consumption of wine and spirits in Georgia reached 23 million liters. This amount indicates a 12% decline when compared to the consumption figures from the previous year. Wine remains the dominant alcoholic beverage in Georgian households, accounting for 95% of total wine and spirits consumption in 2021.

The total turnover of wine and alcoholic beverages reached 1.37 bln. GEL in 2022, which represents a 4.5% year-on-year (YoY) growth. Total revenues generated by local wine producers increased at a CAGR of 18% over an 8-year period. This indicates significant and consistent growth in the industry over that timeframe.

Georgian wine producers included in the financial performance analysis have generated total revenue of GEL 730 million in 2021, constituting 75% of total wine production in Georgia. Gross profit has been marginally declining over the analyzed years, indicating the reduced profitability of the companies.

Similar to wine sector, beer sector in Georgia has been steadily growing, and the country has seen an increasing number of local breweries and beer brands emerging in recent years. The total turnover of beer reached 495 mln. GEL in 2022, which represents a substantial 30% year-on-year (YoY) growth.

Beer production has been on the rise in recent years and amounted to 111 million liters in 2021, an increase of 2.4% compared to 2020. In terms of value, production increased by 6.5%, reaching 214 million GEL.

In 2022, the total annual household consumption of beers in Georgia reached 2.7 million liters. This amount indicates a 5.6% increase when compared to the consumption figures from the previous year. A noteworthy point to highlight beer consumption in Georgia has been steadily increasing over the years.

INDUSTRY OVERVIEW

Industry Overview
Turnover

The total turnover of wine and alcoholic beverages reached 1.37 bln. GEL in 2022, which represents a 4.5% year-on-year (YoY) growth.

Total revenues generated by local wine producers increased at a CAGR of 18% over an 8-year period. This indicates significant and consistent growth in the industry over that timeframe. The modest decline observed in 2020 during the pandemic is not unexpected, given that the wine industry, like various other sectors, grappled with challenges arising from COVID-19.

In 2023, the production is expected to increase further and surpass 2022 level.

The number of active registered businesses in the wine industry has been steadily increasing over time, and it reached its peak in 2022 with 823 entities in wine production. The count of active companies engaged in spirits production has not seen significant changes.

The sector is dominated by Large number of small-size registered companies. Furthermore, there are even more individuals or households producing wine, spirits, for personal consumption or local distribution that are not part of the official registered count.

Figure 1. Alcoholic beverages producers' turnover (mln. GEL)

Figure 2. Number of active companies

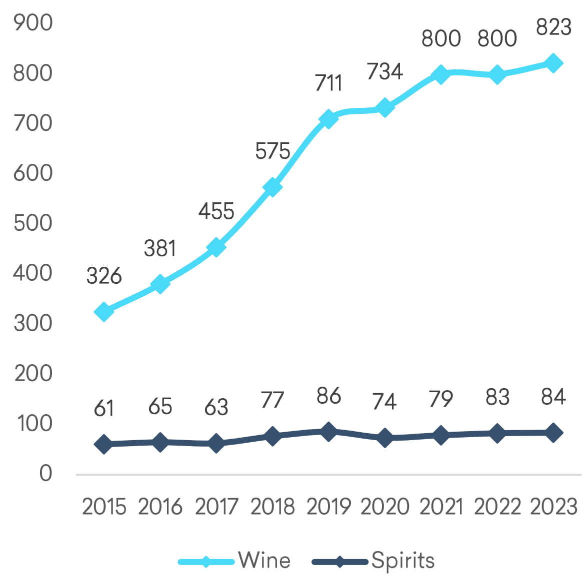


Table 1. Distribution of companies by size,

	Large	Medium	Small
Spirits	2	9	66
Wine	6	26	734

Source: Geostat, 2023
Note: Preliminary data for 2022

WINE SUPPLY

Supply of Alcoholic Beverages
Production Volume

Wine production has been volatile over the decade, however, maintained a positive trend, especially after a embargo lift in 2013.

The formal wine production in 2022 reached 119 million liters, almost matching the level achieved in the previous year, 2021. While the wine production might have shown a positive trajectory post-pandemic, it is likely that the industry is still working towards recovering the production levels seen before the pandemic hit.

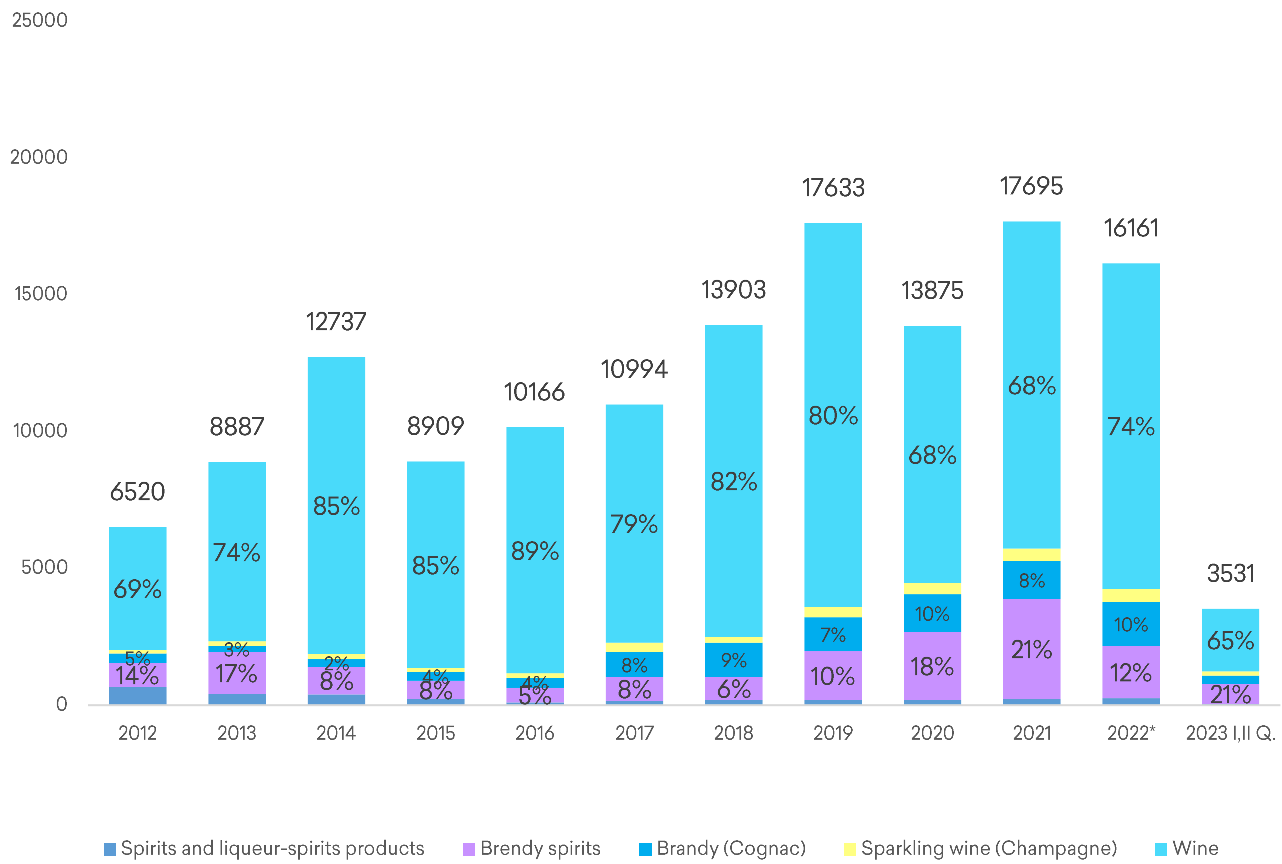
Production of sparkling wine has strong increasing trend over the last five years. In 2022, 4.7 mln. liters of sparkling wine were produced, which is up by 4.5% compared to last year level.

In 2023, the production is expected to increase further and surpass 2022 level.

Wine companies also engage in the production of brandy and other spirits, and vice versa. The share of brandy and spirits production, as reported by the wine companies, constitutes approximately 5-10% of their total production.

Furthermore, the brandy segment has been experiencing an increasing trend, with an impressive average growth rate of 7% over the last five years. This growth is significant and indicates a rising demand for brandy both domestically and internationally.

Figure 3. Production of alcoholic beverages in Georgia ('000 decaliters)



Source: Geostat, 2023
Note: Preliminary data for 2022

Supply of Alcoholic Beverages

Production Value

In 2022, wine production in terms of monetary value reached nearly 1 billion GEL, showing a significant increase of 7% compared to the level in 2021.

The fact that the wine industry not only bounced back in terms of the production value, from the challenges posed by the pandemic but also surpassed its previous performance indicates a strong recovery and resilience within the sector.

It is important to note that, while the overall trend in the production of beverages seems to be positive with an increase in monetary value in 2022 compared to previous year, there were exceptions with spirits & liqueurs and brandy spirits. In 2022, these two categories experienced a decrease in value compared to the previous year.

Figure 4. Production Value of wine in Georgia (mln.GEL)

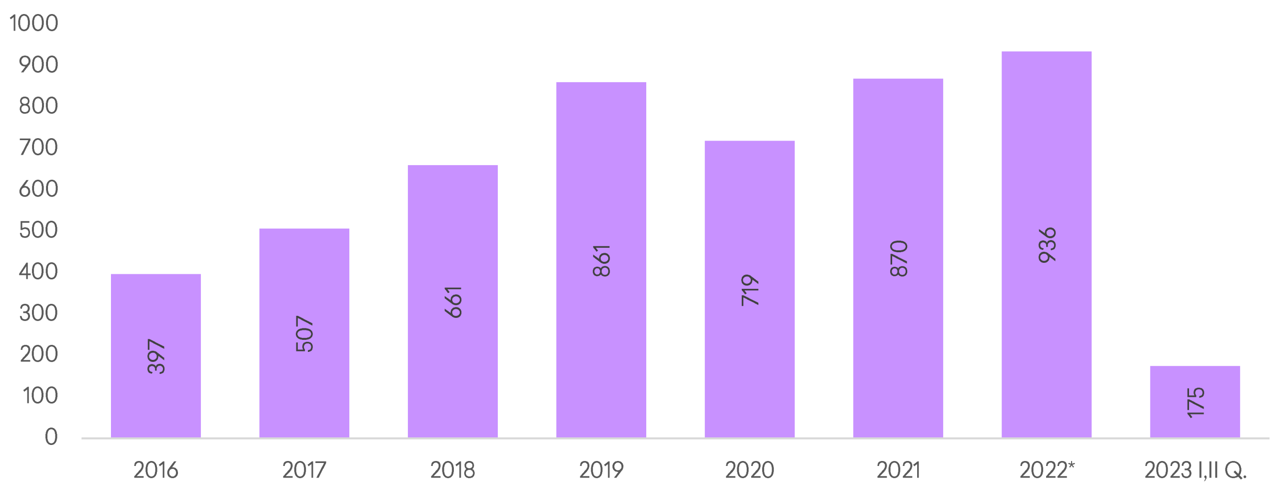
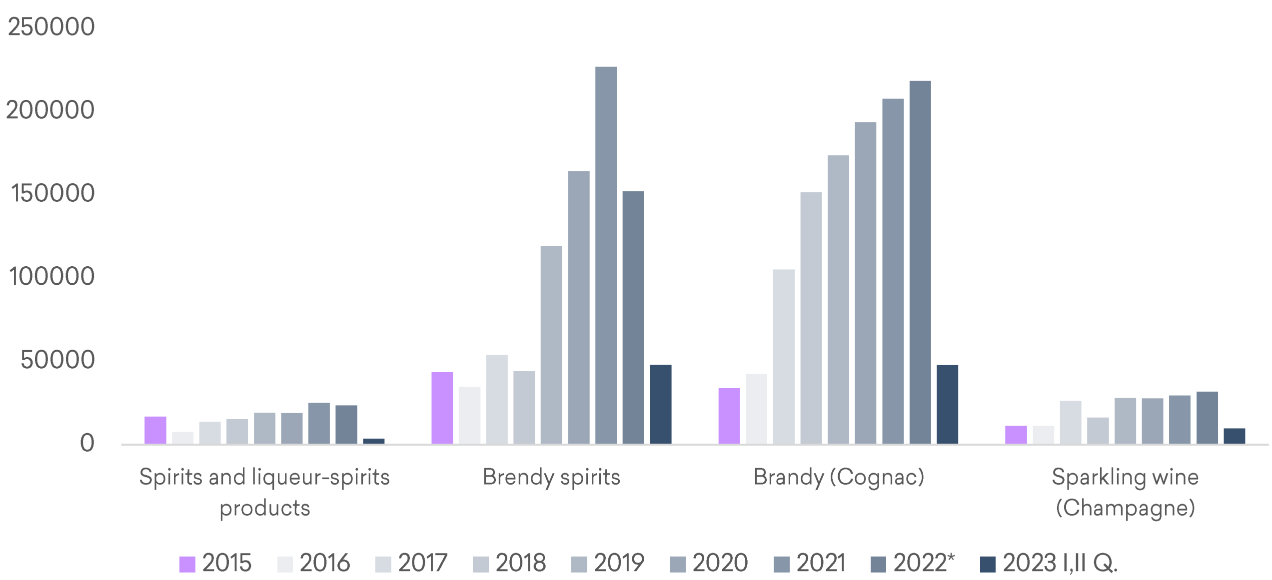


Figure 5. Production Value of alcoholic beverages in Georgia (mln.GEL)



Source: Geostat, 2023

Note: Preliminary data for 2022

Wine Supply

Production

Since 2016, grapes harvested had an upward growing trend, which was reversed in 2021 due to heavy hailstorm in Kakhetian region. The harvest partially recovered in 2022.

Kakheti is the dominant region in Georgia's grape production, accounting for almost three quarters of the total output. About 73% of all Georgian vineyards are concentrated in Kakheti, and this region contributed to 77% of the total grape harvest in 2022.

Another significant contributor is the Imereti region, representing 10% of the production.

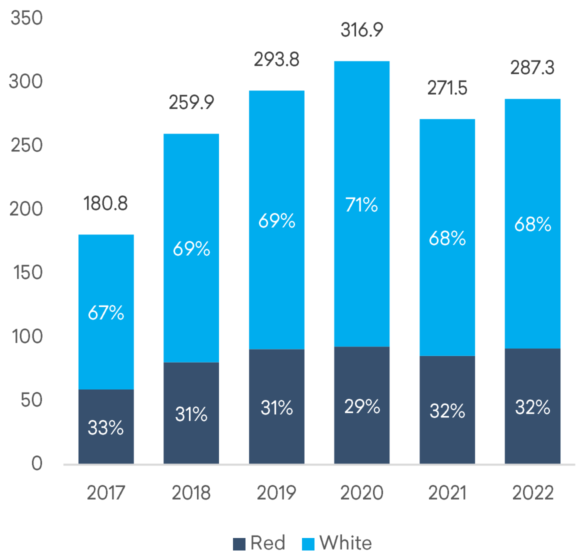
On the other hand, the Racha-Lechkhumi and Kvemo Svaneti regions have limited vineyard areas, comprising up to 2% of the total production. Despite their small share of the overall harvest, these regions are of great importance in the Georgian wine industry due to their unique micro-zones.

Regions often attract the attention of wine enthusiasts and connoisseurs who seek unique and lesser-known wine experiences.

White grapes currently dominate the production of grapes in Georgia, accounting for a larger portion of the total harvest. As of 2022, approximately 32% of the total grape harvest consisted of red grapes, showing almost same level as in 2021.

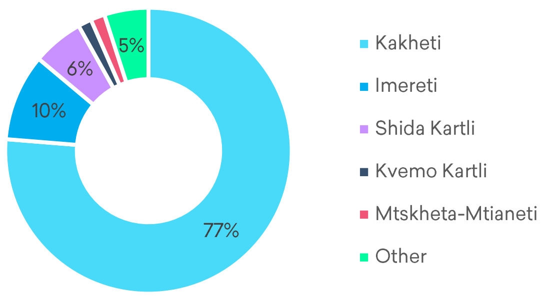
To adapt to changing market demands and explore niche-type wines, it is crucial for the industry to shift towards cultivating non-common grape species. These grape varieties have the potential to produce high-quality wines that cater to specific and diverse small-scale markets with unique tastes worldwide. Introducing more grape varieties, each produced on a small scale, can help satisfy the preferences of different niche markets.

Figure 6. Grape total harvest by type of grapes, 000' tons



Source: Geostat, 2023

Figure 7. 2022 Harvest Breakdown by Regions



Wine Supply
Production

Rkatsiteli and Saperavi are the predominant grape varieties in Georgia, together accounting for over 90% of the total grape production in the country in 2022. However, their individual shares in the total grape harvest have shown some changes over a seven-year period.

For the seven-year period, the share of Rkatsiteli in the total grape remained at same level as it was last year, and it accounts for more than 55% of the total harvest in 2022. It worth to mention that, share of Rkatsiteli has decreasing trend in total wine processing.

On the other hand, the share of Saperavi increased marginally by 3 percentage point, reaching 35% of the total grape harvest in the same period.

The reason for the dominance of Rkatsiteli and Saperavi is their relative ease of cultivation and good resilience to unfavorable weather conditions, which have made them popular choices among Georgian grape growers.

However, the growing diversification of tastes among consumers has sparked interest in other endemic grape varieties as well. Over the past years, there has been an increase in the processing of grape varieties like Kakhuri Mtsvane, Tsolikauri, Ojaleshi, and others.

Figure 8. Processed grape, (ths. tons)

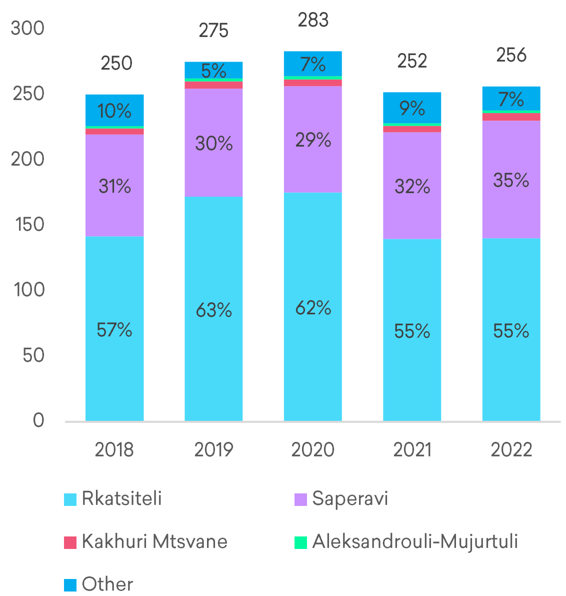
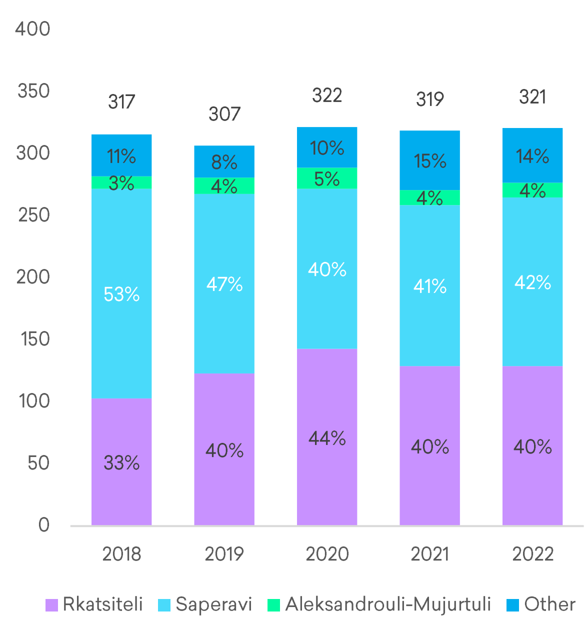


Figure 9. Share of processed grape value, (mln. GEL)



Source: Georgian Wine Agency, 2023

WINE DEMAND

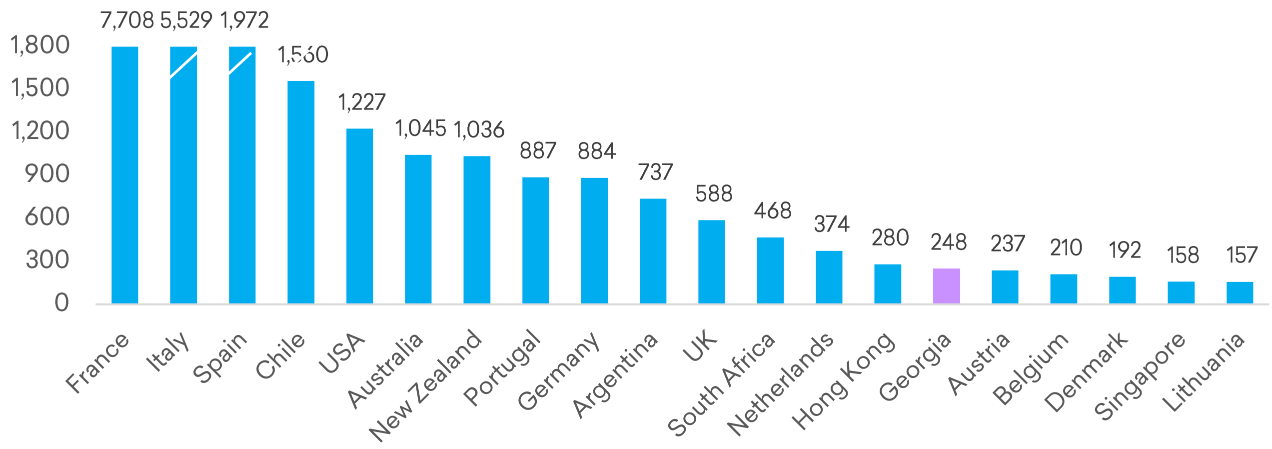
Demand
Export Destinations

Historically, wine has been one of Georgia's main export products. In 2022, the country collected 248 million USD in revenue from wine exports, accounting for a 4.4% share of total exports. Georgia is among the top 20 wine-exporting countries and consistently maintains its ranking, holding the 15th position in 2022.

In 2022, Georgian wine exports hit the all time high, both in terms of volume and revenues. Georgia exported nearly 133 million bottles of wine, a 26% increase compared to the prior year, while revenues increased by 6% in the same period.

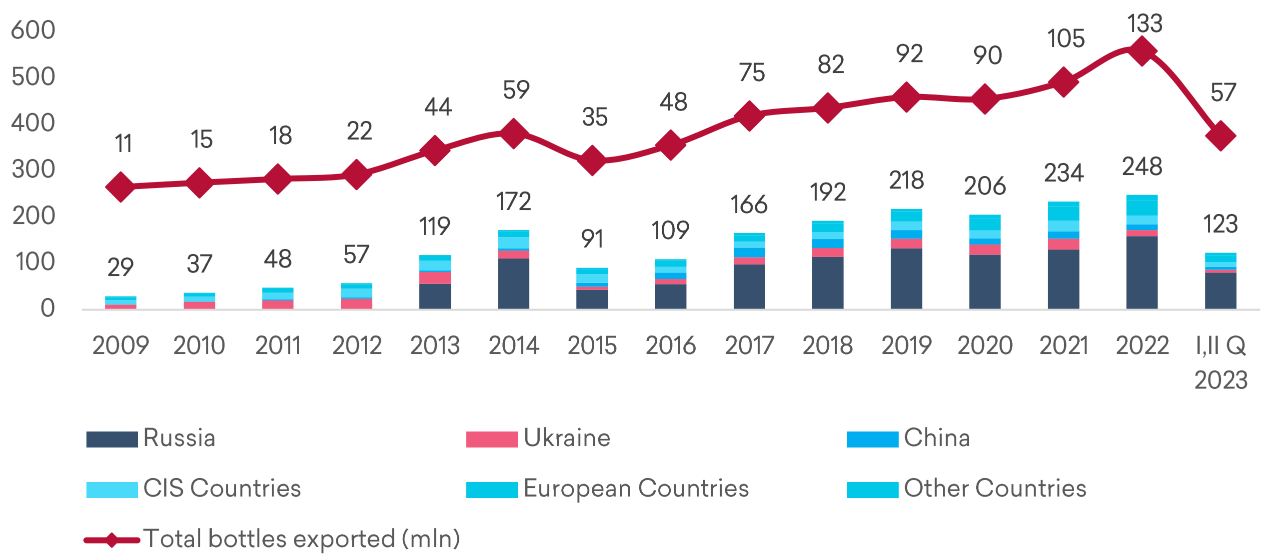
After the embargo was lifted in 2013, Russia emerged as the most significant market for Georgian wine. In terms of revenue, Russia's share in the total revenue of the Georgian wine industry reached 64% in 2022, which is the highest level recorded since 2014. European countries (13%) and CIS states (8%) are among the 3 top markets for Georgian wine.

Figure 10. TOP Wine Exporters (mln. USD), 2022



Source: Comtrade, 2023

Figure 11. Georgia's Wine Export Destinations, mln. USD



Source: Geostat, 2023

Note: Wine as defined by 220421 sub-position in HS

Demand
Target Countries

Wine companies emphasize that the success of Georgian companies in foreign markets does not solely depend on the company's marketing activities but heavily relies on raising awareness about Georgian wine as a product. To enhance awareness of Georgian wine in different markets, specific steps have been taken, with a focus on selected target markets. These target markets include Poland, China, the Baltic states, the US, the UK, Germany, and Japan.

In 2022, Poland (31%), China (27%), and the Baltic states (18%) were the main markets for Georgian wine. Historically, China had been the largest market among the target countries, however, its share has been decreasing over years and in 2022 was overtaken by Poland. Some companies report export spikes in Poland after the Russian invasion of Ukraine.

It is worth mentioning that in 2022, 19% of the total revenues from Georgian wine were collected in the target markets.

Figure 12. Georgian wine export to target countries and share in total wine export, Mln. USD

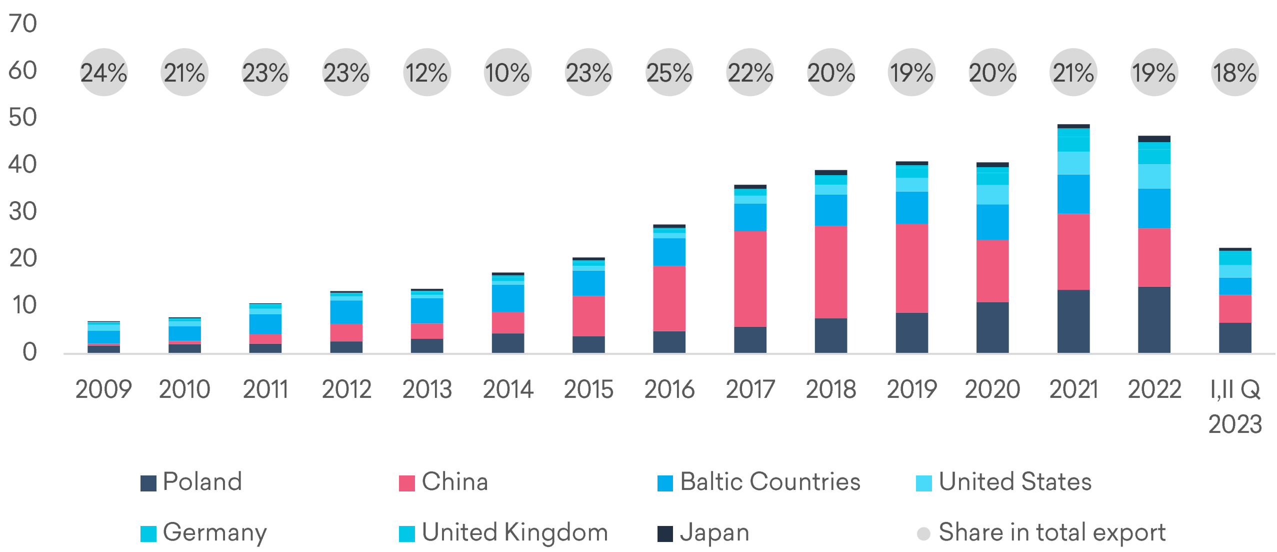
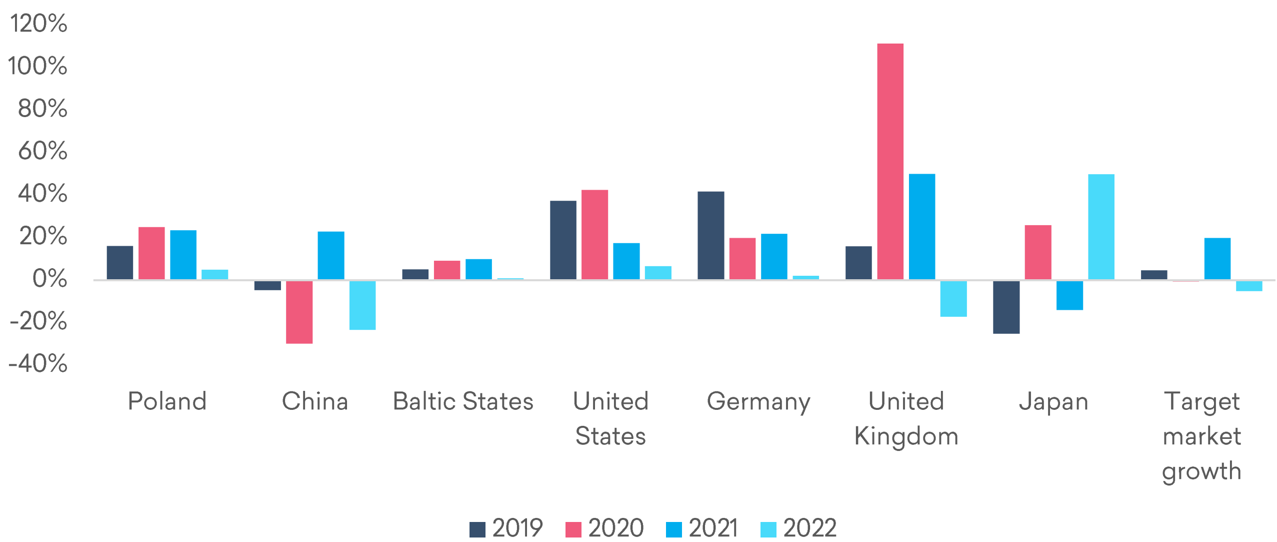


Figure 13. YoY Growth of Georgian Wine Export to Target Markets



Source: Geostat, 2023

Demand
Wine Export

In the first half of 2023, Georgian wine exports experienced a remarkable 25% increase in monetary terms, amounting to 123.5 million USD, compared to the same period last year. Consecutive high-growth digits were recorded, however, mainly on the back of low base effect due to war outbreak in Ukraine and halted trade in the Black Sea region.

In terms of monetary value, Russia remains as the main source of greenback in exchange of Georgian wine, constituting 65% of exports, followed by Poland (5%), and Ukraine (5%).

In the first half of 2023, the growth of Georgian wine exports was greatly attributed to the Russian market, with Russia making a positive contribution to this expansion. The contribution varied over the span of six months, ranging from a 5 percentage point to a substantial 69 percentage point. Notably, Ukrainian market showed a positive contribution after March, however, mostly on the back of low base effect.

Figure 14. TOP 5 Export Destinations, I,II Q 2023

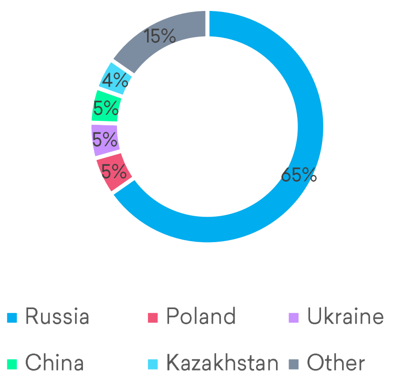


Figure 15. Contribution to Growth, I,II Q 2023 I,II Q 2022

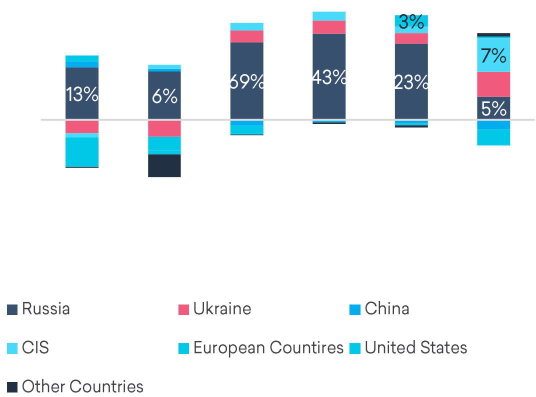
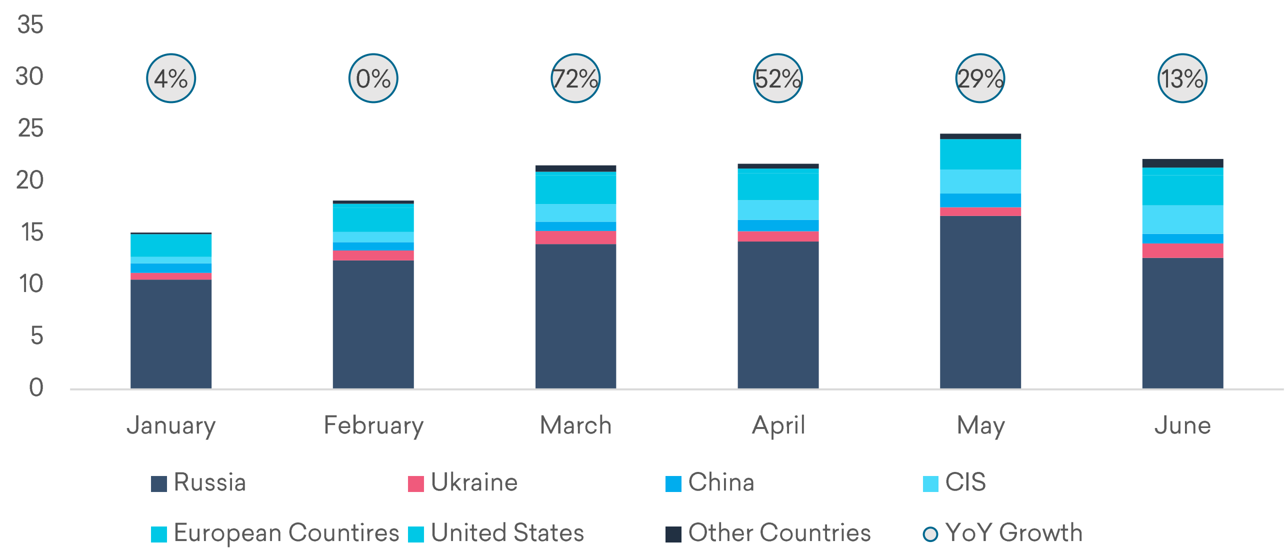


Figure 16. Georgia's wine exports for the I,II Q 2023 and the corresponding year-on-year growth, mln. USD



THE GLOBAL TENDENCIES IN THE WINE INDUSTRY

Wine Industry
International Trade

The United States, the United Kingdom, and Germany rank among the world's leading countries in wine consumption. Collectively, the United States, the United Kingdom, and Germany imported approximately 10 billion dollars' worth of wine, representing a significant 43% share of the total global wine imports.

Apart from the top three wine-importing countries, the LEPL National Wine Agency is actively pursuing opportunities in large markets such as China and Japan. While Georgian wine imports to these countries are currently insignificant compared to their imports, it presents a very promising opportunity for Georgian winemakers to gain access to markets with high purchasing power.

Despite being among the top wine-exporting countries, the USA had a trade deficit in terms of wine trade. In 2022, the USA recorded a 3.9 Billion USD trade deficit in wine trade. Similarly, the UK and Germany, despite being among the top wine-producing countries, also experienced trade deficits in wine trade. .

France, Italy, and Spain had the highest trade surplus from global wine trade. They are considered traditional wine-making countries and have consistently maintained a high trade surplus from global wine trade.

Figure 17. Countries with Wine Trade surplus, 2020-2022, bln. USD

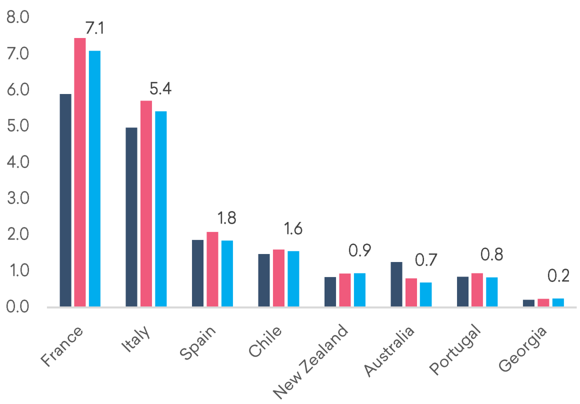


Figure 18. Countries with Wine Trade Deficit, 2020-2022, bln. USD

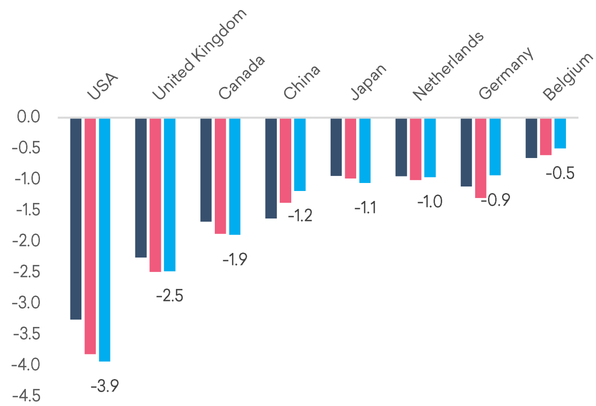
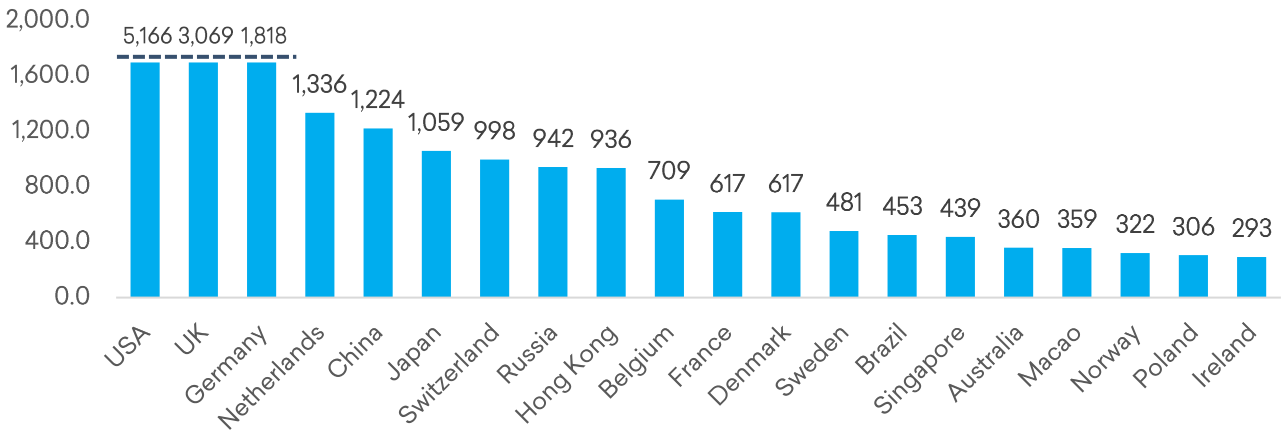


Figure 19. Top Wine Importing Countries, 2022, mln. USD



Source: Comtrade, 2023

Note: Datum for Russia is for 2021, a latest available one

WINE PRICES

Wine Prices
Export Markets

Average export price for Georgian wine has been decreasing in recent years. In 2022, an average export price for 1 liter Georgian wine amounted to 2.49 USD, which is 16% less compared to a year before.

As a consequence of the ruble's depreciation in Russia, the average export price of Georgian wine registered a significant decline when denominated in dollars. Additionally, in the aftermath of the Russian-Ukrainian war, the purchasing power in Russia dwindled, prompting a higher demand for budget-friendly wine options. This shift in consumer preferences further contributed to the reduction in the overall average wine price.

Germany, the United States, and Japan are the markets that, on average, pay premium prices for Georgian wine, compared to other countries.

Scrutinizing average export prices for selected countries, it turns out that US stands as a wine exporter of a pricey wine with a growing price trends. On average, in 2022, the United States exported one liter of wine at a price of 8.43 USD, which represents a 6% increase compared to the previous year.

Apart from the United States, only Argentina among the selected countries managed to maintain an upward trend in wine prices.

Figure 20. Average Export Price for Wine, Selected Countries, USD/Liter

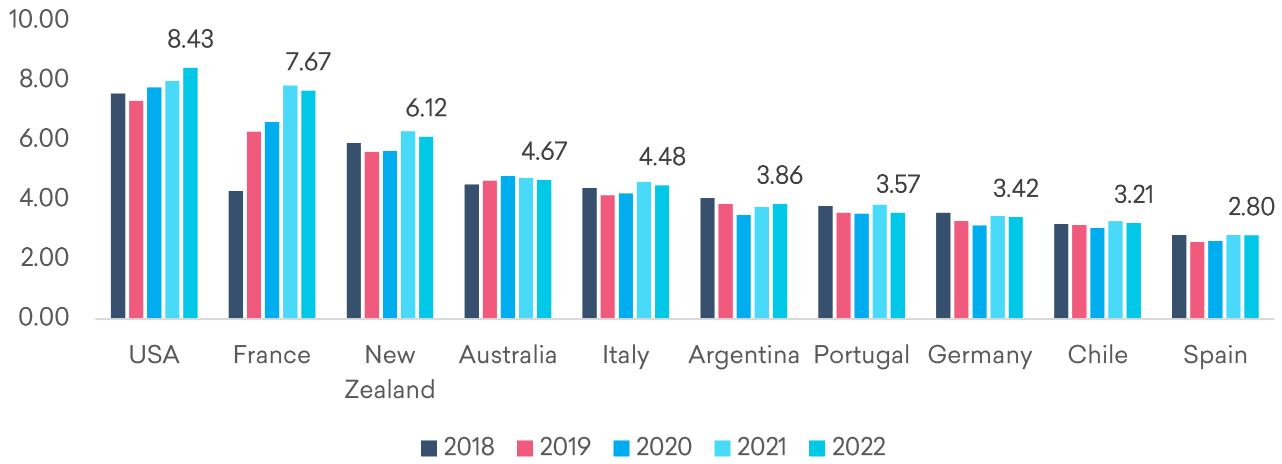
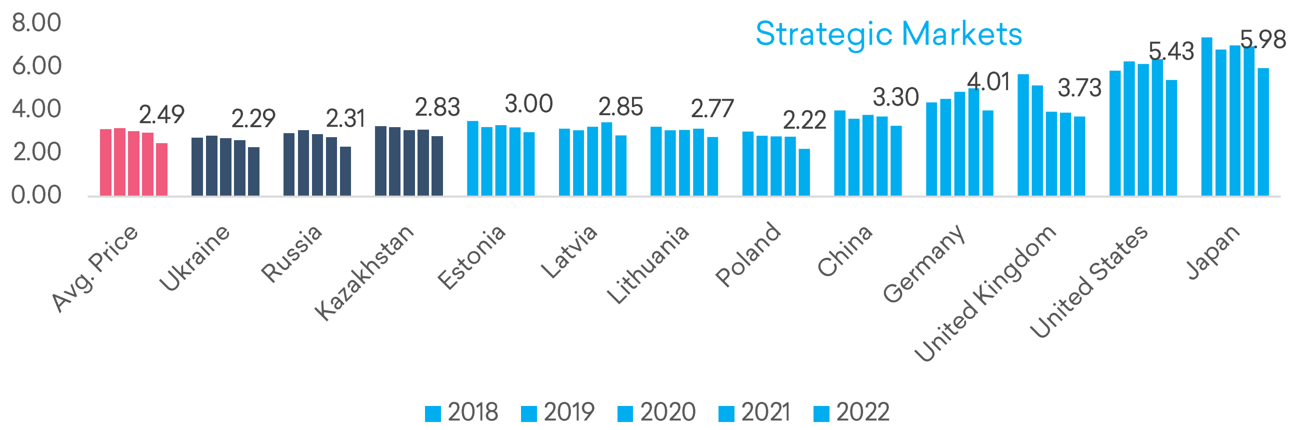


Figure 21. Average Export Price of Georgian Wine, Selected Countries, USD/Liter



Source: Comtrade, Geostat, 2023

Wine Price
Local Market

According to the wine companies, Georgian exported wine falls within the medium price segment in the world market.

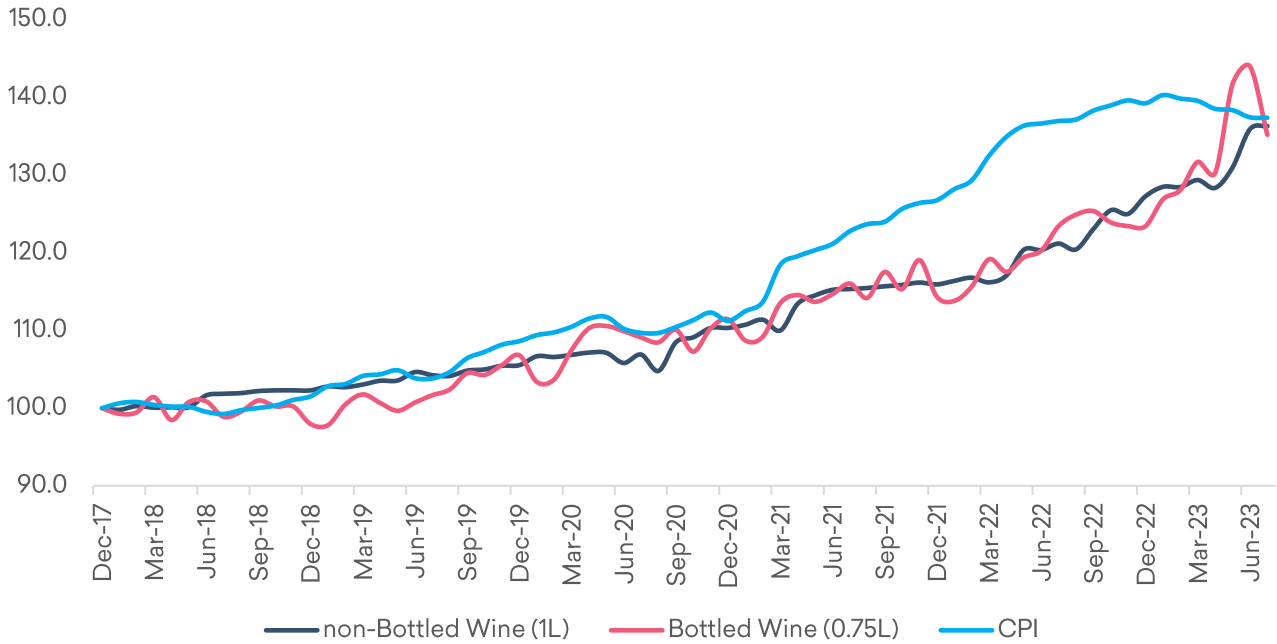
Wine prices can vary significantly based on various factors, including the type of wine, its quality, the vintage, and the market in which it is sold.

Prices for bottled and non-bottled wine have been growing on a slower pace than headline CPI in recent years. It can be partially attributed to the following factors: a decline in local consumption and price competition in local market.

In July 2022, general price level has grown by 37.3% compared to end of year level of 2017, while prices on bottled and non-bottled wine have increased by 35.2% and 36.3%, respectively.

Most of the time, bottled wines have been pricey and more volatile compared to non-bottled alternative over the period. volatility may be explained by seasonality of the bottled wine price, which tends to decrease around end of the year.

Figure 22. Domestic Price Indices for Bottled and non-Bottled Wine, and CPI (Dec-2017=100)



Source: Geostat, 2023

Local Market Consumption

In 2022, the total annual household consumption of wine and spirits in Georgia reached 23 million liters. This amount indicates a 12% decline when compared to the consumption figures from the previous year.

Wine remains the dominant alcoholic beverage in Georgian households, accounting for 95% of total wine and spirits consumption in 2021.

It is important to mention that the share of households who consume wine and spirits a has decreasing trend.

In 2022, the percentage of Georgian households that consume wine decreased significantly compared to the previous two years. Relative to 2021, the share of households consuming wine decreased by 2 percentage points, and compared to 2021, it decreased by 1.3 percentage points.

This indicates a notable shift in drinking preferences or behaviors within the country during that period.

Figure 23. Annual household consumption of alcohol beverages in Georgia, mln. liters

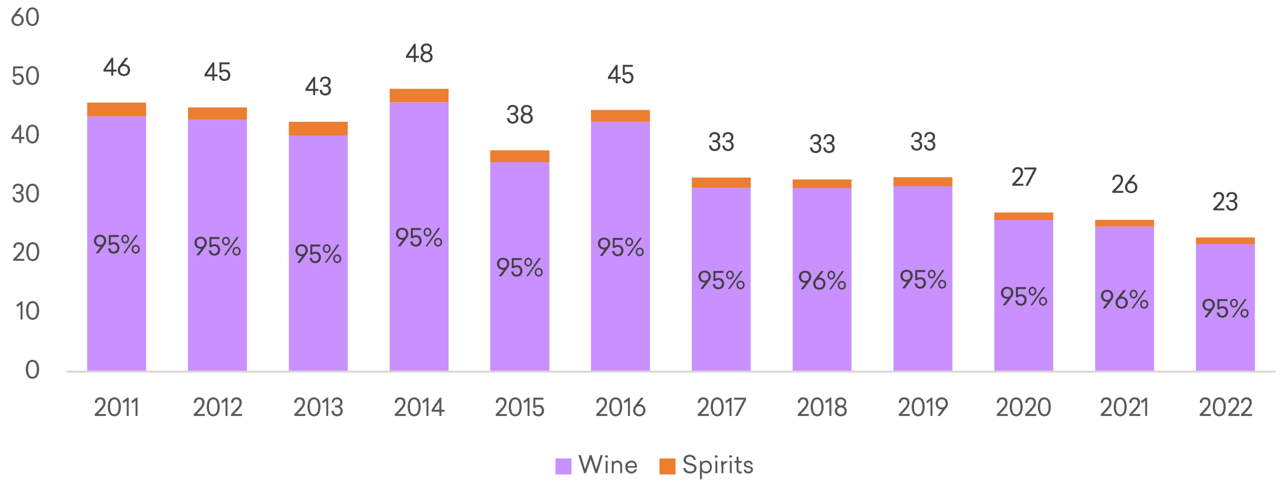
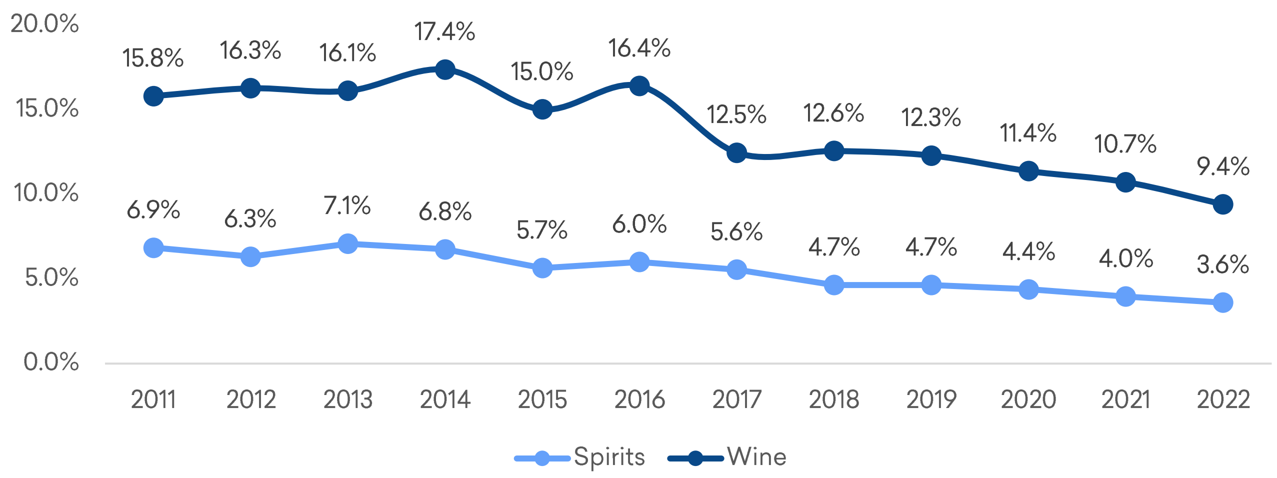


Figure 24. Share of domestic households who consume alcohol beverages in total households



Source: Geostat, 2023

INDUSTRY’S FINANCIAL PERFORMANCE

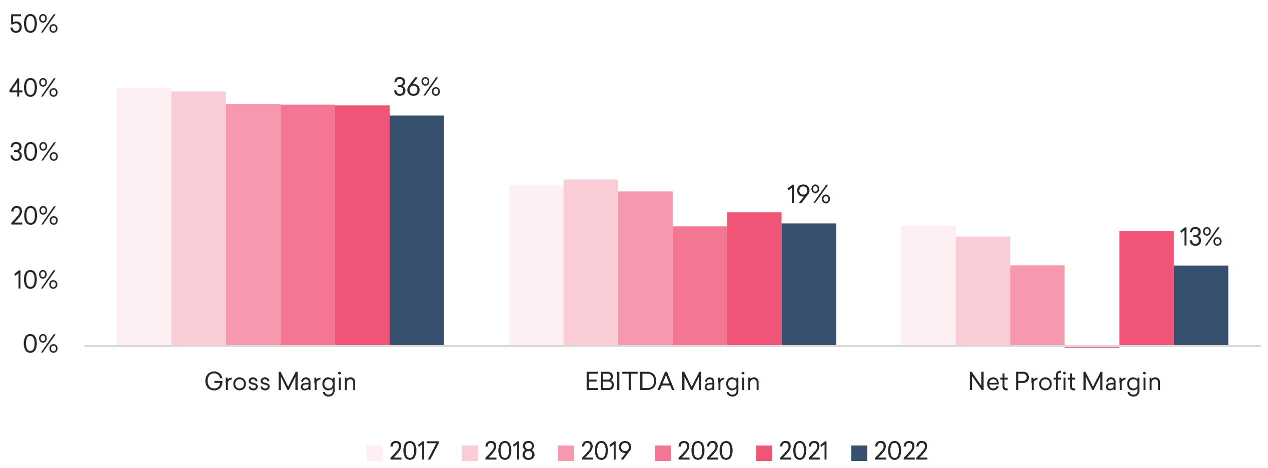
Wine Industry
Financial Performance

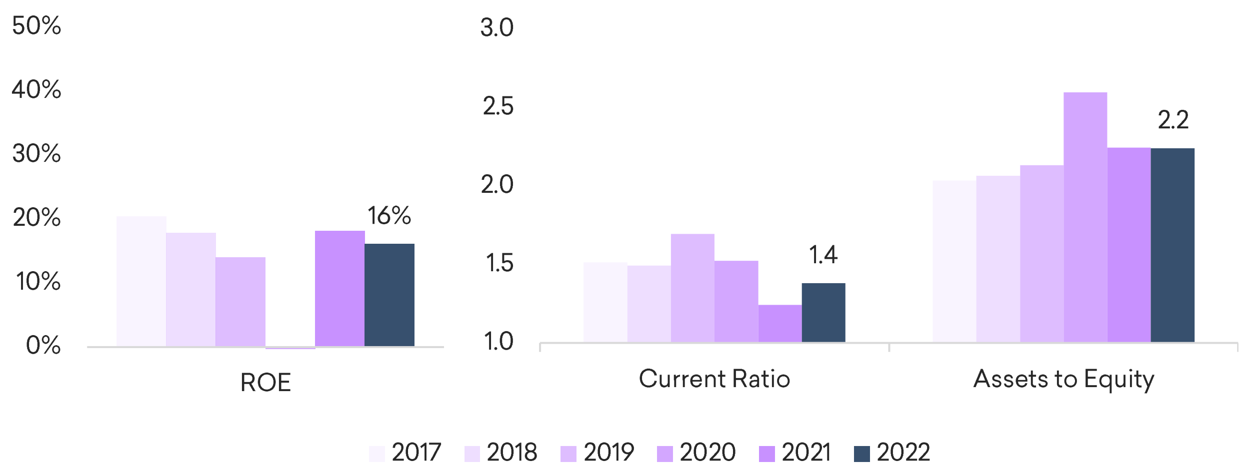
Georgian wine producers included in the financial performance analysis have generated total revenue of GEL 730 million in 2021, constituting 75% of total wine production in Georgia.

Gross profit has been marginally declining over the analyzed years, indicating the reduced profitability of the companies. As large portion of the income earned by Georgian wine producers comes from export sales, the revenue is heavily influenced by the exchange rate fluctuations. With significant appreciation of GEL in 2022, revenues decreased in terms of local currency. As Georgian wine producers' expenses are usually incurred in the local currency, reduction in translated revenues resulted in decreased overall profitability figures.

Return on Equity (ROE) posted a marginal decrease in 2022, similar to other profitability ratios. Liquidity metric – current ratio recorded an improved figure and amounted to 1.4 in 2022, while Assets-to-Equity ratio remained almost unchanged.

Figure 25. Key Financial Metrics for Georgian Wine Producers





Source: SARAS, TBC Capital
Note: Part of the year 2022 metrics are based on the unaudited financial information provided by the Georgian wine producers and can differ from the final audited numbers publicly available in Fall 2023.

BEER MARKET OVERVIEW

Industry Overview
Turnover

Beer sector in Georgia has been steadily growing, and the country has seen an increasing number of local breweries and beer brands emerging in recent years. The total turnover of wine and alcoholic beverages reached 495 mln. GEL in 2022, which represents a substantial 30% year-on-year (YoY) growth.

The total revenues generated by local beer producers showed a Compound Annual Growth Rate (CAGR) of 12% over an 8-year period. Similar to other alcoholic beverages, the beer industry experienced a small decrease in turnover during the pandemic period in 2020. However, the sector swiftly recovered and managed to surpass the pre-pandemic levels.

The beer industry in Georgia has experienced a steady increase in the number of active registered businesses over time. In 2020, the industry reached its peak with 52 entities engaged in beer production, indicating a period of significant growth and interest in the sector.

However, over the last three years following 2020, the number of active beer companies has shown limited change, suggesting a period of relative stability in terms of new entrants or closures in the industry.

The sector is dominated by Large number of small-size registered companies. There are four large and one medium size company operating in beer sector.

Figure 26. Beer producers' turnover (ths. GEL)

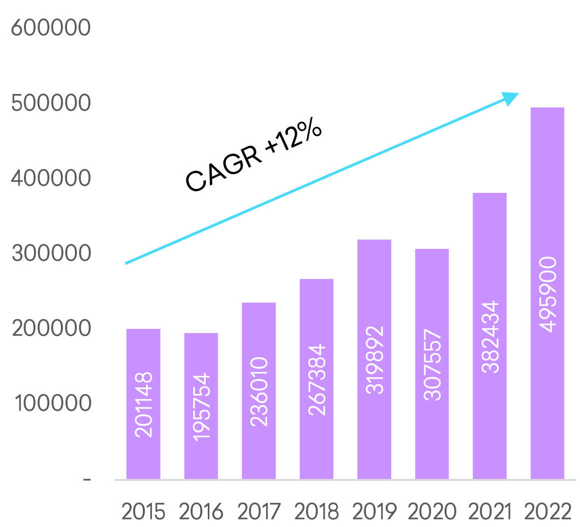


Figure 27. Number of active companies

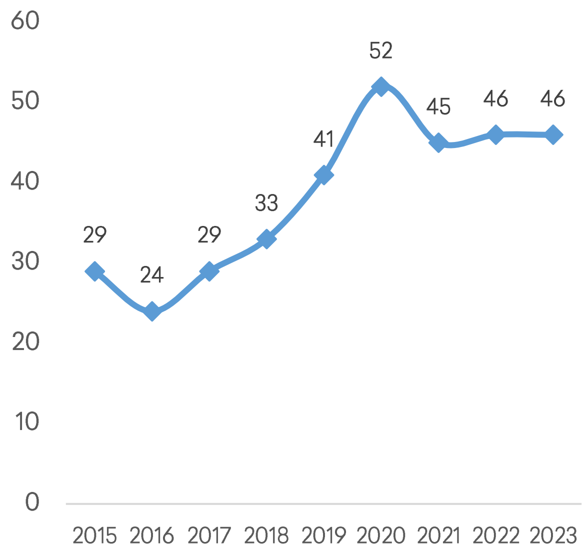


Table 2. Distribution of beer companies by size

	Large	Average	Small
2019	4	1	28
2020	4	1	28
2021	4	1	35
2022	4	1	40
2023	4	1	41

Source: Geostat, 2023

Note: Preliminary data for 2022

Beer Market
Production

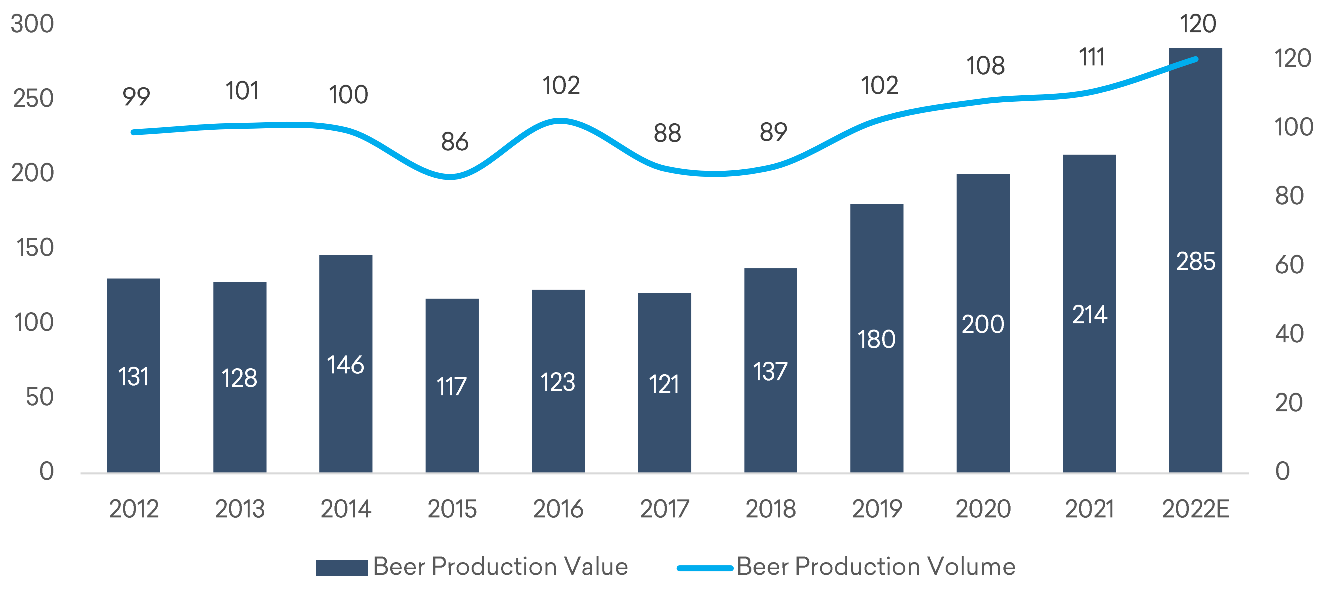
Beer production has been on the rise in recent years and amounted to 111 million liters in 2021, an increase of 2.4% compared to 2020. In terms of value, production increased by 6.5%, reaching 214 million GEL. Yet preliminary data suggests a production of 120 million liters in 2022, an 8.7% increase year-over-year. However, the data shows a spike in production value by a third, reaching 285 million GEL.

Beer production value increased by 64% up to 214 million GEL since 2012, however, production value increased only by a 11.7% (111 million liters). Georgian breweries witnessed two amendments in excise tax legislation, first in 2015, when the excise rate increased by 50%, up to 0.6GEL/Liter, and in 2017, when the excise rate is now determined according to alcohol content rather than volume.

According to sector players, HORECA sector and tourism activity act as a booster to beer production.

Exchange rate volatility remain as a main concern for companies operating in the sector due to import dependence of the main feedstock for beer brewing. Energy prices and overall inflation arise as another concerns for sector players. Less purchase power of customers shift the consumer preferences to an economy-grade beer and premium segment stagnates.

Figure 28. Volume and Value of produced beer (Formal)
RHS mln. GEL, LHS mln. liters



Source: Geostat, 2023

Local Market Consumption

In 2022, the total annual household consumption of beers in Georgia reached 2.7 million liters. This amount indicates a 5.6% increase when compared to the consumption figures from the previous year.

A noteworthy point to highlight beer consumption in Georgia has been steadily increasing over the years.

In 2022, the share of beer in the total alcohol consumption experienced an increase, reaching 11%.

Declining consumption of both wine and spirits indicates a notable change in drinking habits. This suggests that beer is gaining prominence as a preferred choice among consumers within the broader spectrum of alcoholic beverages in the country.

The proportion of domestic households consuming beer has remained relatively stable over the years. In 2022, 1.9% of domestic households consume beer.

Figure 29. Annual household consumption of beer in Georgia
RHS mln. liters , LHS share

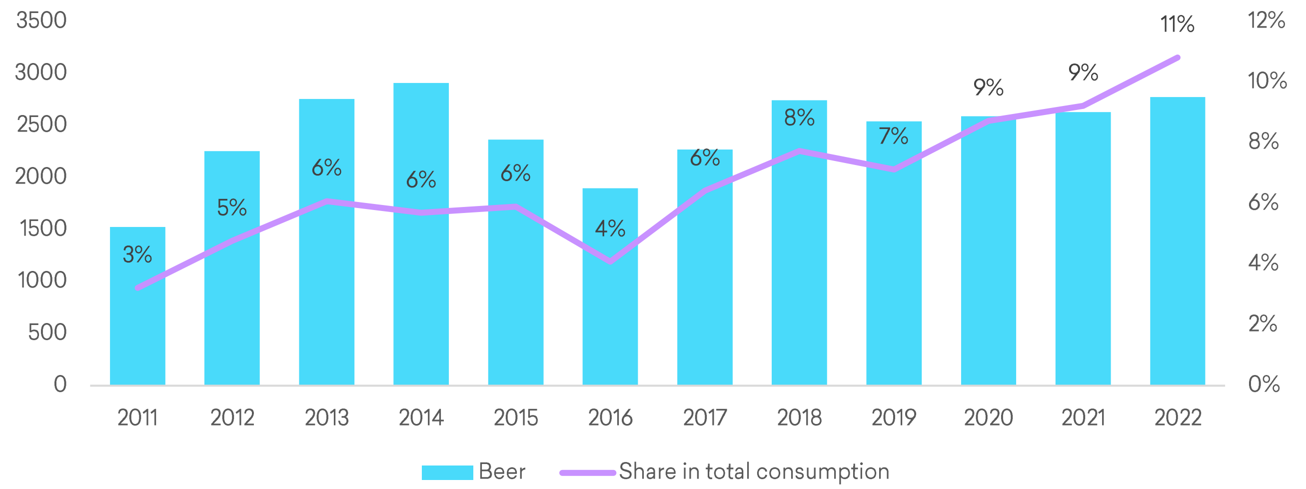
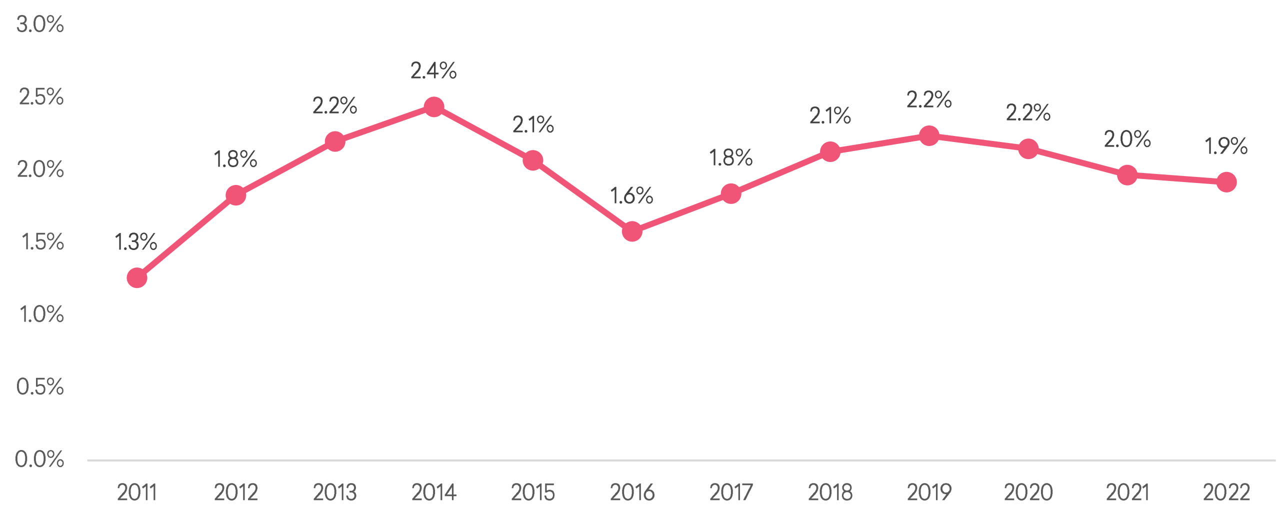


Figure 30. Share of domestic households who consume beer in total households



Source: Geostat, 2023

Beer Supply
International Trade

In 2022, Georgia exported 5.1 million liters of beer and collected 4.8 million USD in revenues. Figures increased both for monetary value (+83%) and physical quantity (+65%) compared to 2021. Azerbaijan, Israel, Russia and China has been the export countries with different shares over the year. In 2022, Georgia started exporting beer in Kazakhstan and the country became the main trade partner with a 25% share. Other main export countries include China (20%), Russia (11%), and Azerbaijan (8%).

The numbers for the first half of 2023 looks promising, totaling 3.6 million liters of beer export and mirroring 4.4 million USD in revenues, a fourfold growth of revenues compared to a prior year. Kazakhstan remains the main market for the first two quarters of 2023 with a 41% share.

Beer import is on the rise, both in terms of volume and value. Imported volume reached 10.7 million liters and mirrored 10.4 million USD outflow, a growth of 51% and 68% compared to a prior year, respectively.

Germany is the main import partner, accounting for a third of beer imports in 2022. Russia (17%) and Turkey (12%) are among the other top 3 countries. Other countries (30%) mostly include Belgium, Spain, Czech Republic, and Mexico.

Figure 31. Beer Export from Georgia, mln. USD

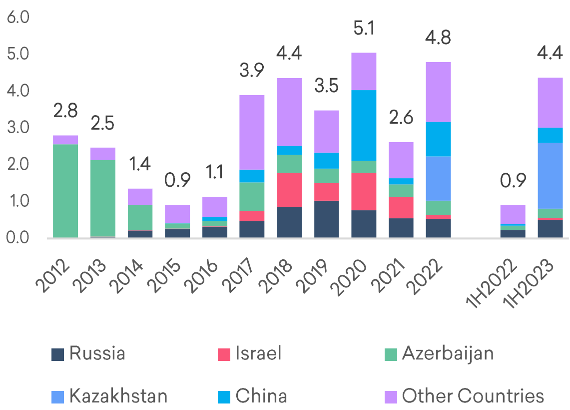


Figure 32. Beer Import, mln. USD

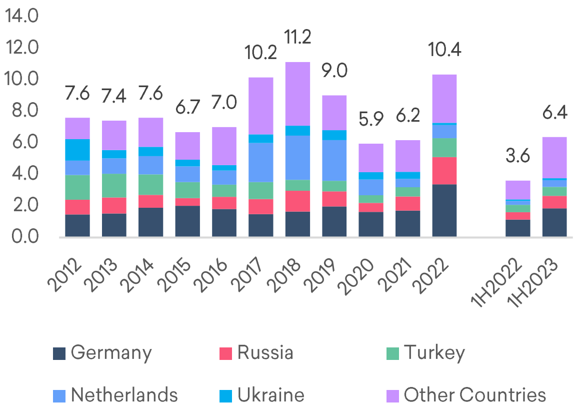
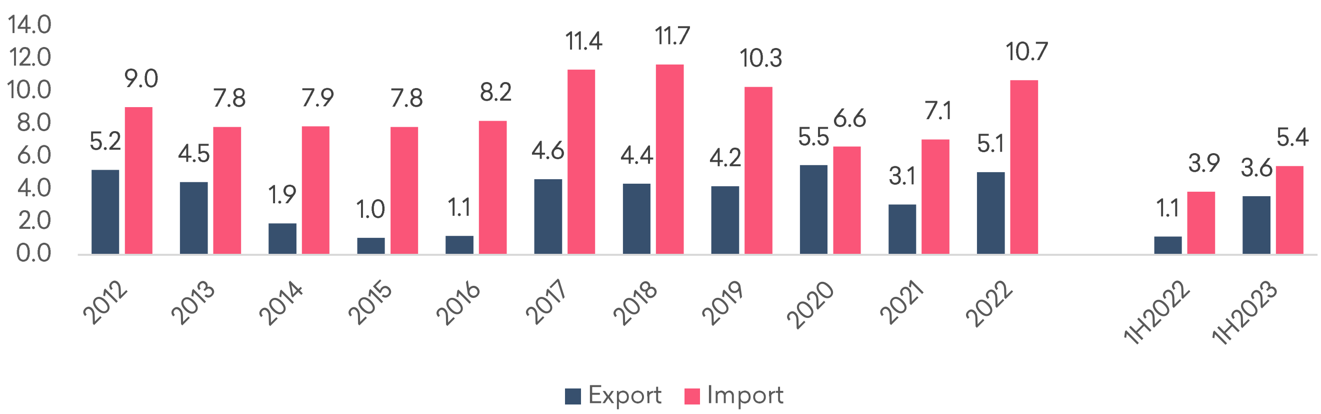


Figure 33 Foreign Beer Trade in Physical Quantities, mln. liters



Source: Geostat, 2023

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7 Marjanishvili Str., Tbilisi 0102, Georgia
Tel: +995 32 2 272727 | +995 32 2 272733
Email: Research@tbccapital.ge
Email: Macro@tbcbank.com.ge
www.tbccapital.ge
www.investing.tbccapital.ge

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