

## **The Silk Road Group: Its History and Vision for the Future**

### **A vision of integration**

At the core of the Silk Road Group (“SRG”) is the idea of Georgia as a bridge between different parts of the world and the belief that only through cross-border connectivity will the country be able to fully contribute to the wider region and achieve its potential. It is a vision rooted in the firm belief that Georgia is an integral part of the historic Silk Road trading route, the ancient geopolitical axis connecting Asia with Europe, where currents from the East link to those from the West, diverse ideas are exchanged and differences bridged by common values.

Every SRG business has been established with this vision in mind, and continues to be shaped by it. Transportation, to which SRG can trace its origins, has evolved by linking together regional rail networks allowing the movement and distribution of goods from Central Asia to the Black Sea and vice versa. Through its investments in the hospitality sector, SRG has created the infrastructure to welcome a diverse mix of people to Georgia and, in so doing, enhance not only commercial ties, but also cultural exchanges. And while its energy business exploits Georgia’s unique geophysical features to produce clean electricity for consumption by neighbouring countries, SRG’s telecommunications infrastructure overcomes the country’s natural barriers enabling Georgia to be part of an interconnected regional network for information and knowledge sharing.

It is this vision that has made SRG one of the largest long-term value creators in Georgia, channeling investment of USD 500 million into the local economy, employing 5,000 people and attracting leading international brands, while tirelessly promoting Georgia, its people and its culture to the outside world.

### **Origins**

SRG’s roots can be traced back to the late 1990s, at a time when Georgia had begun to stabilize after a decade of turmoil and instability featuring, amongst other dramatic events, a traumatic civil war and separatist conflicts in two regions of the country. While the majority of Georgians were pursuing business opportunities by looking westward, SRG’s founder George Ramishvili, true to his vision of Georgia as a crucial node in the historical Silk Road axis, turned his attention to the country’s transit potential and its ability to act as a gateway between East and West.

The most immediate opportunity was in the movement of oil products, by rail, from landlocked Central Asian producers to Georgian Black Sea ports. Following the establishment of a successful initial route from Azerbaijan to Georgia in 1997, SRG’s transportation network expanded dramatically to integrate rail links to Afghanistan, Iran, Kazakhstan, Uzbekistan, Turkmenistan, Azerbaijan and, of course, Georgia. The key to SRG’s early success was its ability to leverage its operational know-how, local expertise and network of contacts, to provide unique custom-tailored solutions to its clients in a region in which many international companies were struggling to operate effectively. In forging these links, SRG put into practice what many had only talked about: transforming Georgia into a regional hub.

Another component to SRG’s success was the technological innovation developed by the company which allowed it to operate a complex transport and logistical network with a degree of efficiency that was unprecedented in the region. At its peak, SRG’s transportation business operated from 25 regional offices, employed 350 people and was moving up to 2,500 rail cars per month, shipping a variety of cargoes ranging from oil-related products for multinational oil corporations, to commodities on behalf

of leading global trading firms, to jet fuel for international military forces, to food products for US agricultural conglomerates.

### **Development and diversification**

SRG's transportation and logistics business allowed the company to establish a strong commercial reputation, domestically and internationally, not only with its business partners but also with financial institutions. This would prove crucial to SRG's ability to further expand following the substantial changes that would shape the Georgian landscape in the early 2000s.

The Rose Revolution of November 2003 marked the beginning of a period of renewed interest from international investors and multinational companies eager to play a role in the Georgia's future. A new legal and business framework started to develop and international norms and standards started to shape the practice of commerce to a greater extent than they had in the past. SRG responded to the political and economic changes in Georgia in a way that would in subsequent years result in growth, diversification and international expansion.

SRG was among the very first Georgian businesses to understand the need to make material changes in its corporate and governance structures in order to engage with international financial institutions and investors. Starting in 2004 SRG underwent a radical overhaul of the company's legal and compliance processes, financial reporting and management tools. Over time, SRG developed one of the strongest legal and financial teams in Georgia, adopted International Financial Reporting Standards, and engaged international auditing firms to audit the vast majority of the group's companies.

This period in Georgia also presented SRG with the first real opportunity to make significant, high-profile investments into the domestic Georgian economy, from real estate, to telecommunications, to energy. A key partner for SRG during this time was Kazakh-based BTA Bank; building on a relationship first established through its transportation business, in 2004 SRG joined forces with BTA Bank to create the Georgian subsidiary of BTA bank, which subsequently became the principal vehicle through which SRG was able to access financing for a number of its future investment projects.

### **Strengthening Georgia's connection to the world**

The investments made by SRG following the Rose Revolution were once again guided by its vision of Georgia as a bridge to the wider region. The company first turned its attention to the hospitality sector, seeking to further integrate Georgia internationally by bringing people to the country, be it for business or tourism.

The first project financed under the SRG – BTA Bank partnership was the reconstruction of the Hotel Iveria, a run-down Soviet-era hotel which had been acquired by SRG's founders in the early 1990s and become a temporary housing solution for internally displaced persons from Georgia's separatist conflicts. With the deepening of structural reforms in the country, SRG realized there was the potential to achieve much more than simply redevelop a hotel; there was an opportunity to create a symbol of the country's future, combining great modern architecture, professional management and the hospitality that is an intrinsic part of Georgian culture.

The basic idea underpinning the redevelopment was to bring an entire area of Tbilisi back to life by restoring a human dimension and making it accessible to its people. This required a sustainable

approach that was mindful of the needs of all stakeholders involved, from the internally displaced persons who had taken shelter there, to the hotel's old management, to the architects and city planners. After complex negotiations, construction work began in 2006.

Shortly after commencing the redevelopment of the hotel, SRG made its first investment in the Georgian telecommunications sector. Teaming up with a group of investors, SRG acquired United Telecoms Company of Georgia (UTCG) at a privatisation auction in 2007.

Once again, the rationale behind the telecoms investment was rooted in the overarching vision of regional integration that was at the heart of the group's expansion. SRG saw the opportunity to turn an old, dilapidated fixed-line telecoms infrastructure dating back to Soviet times into a modern, technologically advanced company that was interconnected with the communications networks of all its regional neighbors and linked to European internet traffic. What was required was major investment aimed at modernizing its core assets, combined with the vision and management capability necessary to implement sweeping operational changes.

### **Dealing with adversity**

In mid-to-late 2008 three events combined to create a perfect storm which left SRG fighting for its very survival: the global financial crisis; a Russian invasion; and the collapse of BTA Bank, the lender with whom SRG had kick-started its investments in Georgia. As a result, SRG rapidly found itself operating amid political instability, with no access to credit and with heavily devalued investment projects, many of which were still years away from completion.

The collapse of BTA Bank had a particularly negative impact on SRG. While there is no doubt that the early stage of the relationship with BTA Bank was beneficial to SRG, as it allowed the company to leverage its local know-how and expertise to expand well beyond what it could have done without access to BTA Bank funding, it is equally true that by late 2008, as the global financial crisis unfolded and BTA Bank's own financial difficulties came to light, the knock-on effect for SRG was severe.

By July 2008, when the last tranche of financing to SRG was released, BTA Bank had provided just over half of the investment capital required to complete the projects that were under way, which left SRG with unfinished, devalued and non-income generating assets. Compounding SRG's difficulties was that the bank's new leadership, appointed in early 2009, initiated legal proceedings against SRG, wrongly suspecting the Georgian projects had been part of a wide-scale fraud carried out by its former Chairman.

All such suspicions were unfounded and the *bona fide* nature of SRG's relationship with BTA Bank was in later years confirmed by the outcome of two independent legal processes, during which SRG's activities were scrutinized by BTA Bank's Credit Committee, BTA Bank's new management (at a time when it was pursuing legal claims around the world), the auditing firm KPMG and the Georgian Prosecutor's Office. All comprehensively reviewed SRG's conduct and drew the conclusion that there had been no wrongdoing on the part of the company.

### **Coming back stronger**

In late 2008, when faced with a catalogue of difficulties that would have caused many investors to walk away, SRG stuck to its vision for Georgia and took the very bold decision to continue the development of its projects by investing more of its own money as well as raising funds from every reasonable and

lawful source. As part of this effort, in 2008 SRG established the Silk Road Trans-Atlantic Alliance which operated as an economic and commercial bridge between the United States and Georgia.

The Hotel Iveria redevelopment was at the time two-thirds complete and considerable capital was required to take the project over the finish line. SRG announced its decision to continue construction at a press conference held in Rose Square, in the midst of the Russian invasion of August 2008, with military helicopters flying combat missions close to Tbilisi. The company's unwavering commitment to the country was on display for all to see. A year later the hotel opened to the public under the Radisson Blu brand and has since received numerous accolades and awards.

The concept has proved so successful that SRG is currently working on the development of a fourth hotel. The company also has plans for the mixed-used development of a two-hectare property in the center of Tbilisi, which will include retail, offices, serviced apartments and residential buildings. As part of this proposed development, SRG has recently commissioned an innovative Master Plan involving some of the most reputable international architectural firms.

A second, larger, mixed-use development is also being planned in the Black Sea city of Batumi. Initially SRG contemplated to develop this project under the Trump brand, in an effort to raise the international profile of Georgia and build important relationships with US investors within the Silk Road Trans-Atlantic Alliance initiative. However, following Mr Trump's election to the US Presidency and his withdrawal from the Batumi development in 2016, the development of the complex is now scheduled to continue under the "Silk Tower" brand and will be located on a six-hectare plot adjacent to a seaside park and marina; it will include entertainment, commercial and residential components.

The 2008 difficulties did not stop SRG from further investing in the telecommunications sector either. Following the initial acquisition of UTCG, SRG subsequently acquired two smaller telecommunication companies, Adjara Telecom and Wanex. These acquisitions gave the group ownership of a number of Georgian fixed line telecoms assets which had strong but decreasing revenues as its copper network became obsolete and users increasingly switched to mobile phones.

In 2010, SRG consolidated all its telecoms assets into a new company called Silknet. Approximately USD 100 million was invested into Silknet, transforming it into the largest cable network in Georgia offering fixed telephony, internet service provision, cable television as well as fixed and mobile CDMA services. In 2015 Silknet began to offer 4G LTE data services and today boasts the largest carrier service operations in the region. In similar fashion to its vision for its transportation and logistics business, SRG is leveraging the transit potential intrinsic to a telecommunications network and digitally linking Georgia to its regional neighbours, including Armenia, Azerbaijan, Turkey and Russia.

As the international and domestic environments continued to stabilise, SRG further diversified by investing in the production of clean energy which is exported to Georgia's regional neighbours, mainly Turkey. Since 2013, SRG has invested in hydropower plants, with a current installed capacity of 10 MW and a further capacity of 40 MW under development.

### **Investing in the community**

From its very early years of development, SRG has actively invested in the promotion of Georgia and the development of its people. Culture, sports and environment are all areas in which SRG has actively engaged with remarkable results.

In a push to rediscover Georgian heritage through the revival of the country's wine making traditions, SRG invested in a project to restore and promote the famous Tsinandali estate and gardens in the Kakheti region. This comprises the 19<sup>th</sup> Century Chavchavadze family manor house, its landscaped garden, a historic winery, wine cellar, hotel, museum and café, and operates as a cultural and educational center. Tsinandali hosts numerous events and exhibitions, including an international classical music festival of growing importance.

Reflecting its true spirit as a "patriotic" investment, the Tsinandali project has been about reviving Georgian culture and exposing it to the wider world, and fits within SRG's vision of creating a new form of tourism centered on Georgian wine. When SRG's involvement with Tsinandali first began, the estate was attracting about 1,000 tourists per year. Today, this figure has grown to over 100,000, and is expected to increase as the Tsinandali Radisson Blu branded hotel starts welcoming guests.

Another form of "new Georgian tourism" that SRG has pioneered revolves around winter sports. For two decades SRG's founder has been the main sponsor of the Georgian national ski team, not only allowing young athletes to pursue their sporting ambitions but also showcasing the country's potential. These efforts have led to Georgia's candidacy to host the FIS Freestyle Ski and Snowboard World Championships in 2023, which is likely to lead to significant development of relevant infrastructure and resorts, once again aimed at promoting the country internationally and bringing people to Georgia.

SRG, through its subsidiary Silknet, is also the publisher and financier of the Georgian-language version of National Geographic magazine. National Geographic is an iconic brand and publication, famous for over 125 years in promoting knowledge of peoples all over the world, and the conservation of nature and traditional cultures. SRG's support of National Geographic is yet another piece of its mission to integrate Georgia into the wider world: bringing knowledge of the world to Georgians in their own language, and sharing stories about Georgia's nature and traditional culture with the world.

#### *Focus on excellence*

Alongside its wider vision of linking Georgia with the rest of the world, SRG's focus has been on turning Soviet era, loss-making assets into best-in-class profitable operations. The company immediately recognised that this was only possible by combining local know-how, networks and expertise with the highest standards of quality available internationally. A key to the company's development has been SRG's ability to partner with several prominent brands from a variety of sectors and countries.

Throughout its existence SRG has serviced, or partnered with, leading international oil companies, commodity traders, financial institutions, engineering companies, technology providers and professional services firms. These include, but are not limited to, the following: ELF, Total, BP, Glencore, Vitol, Hurricane Hydrocarbons, ISAF (the NATO-led International Security Assistance Force in Afghanistan), the Carlson Rezidor Hotel Group (owner of the Radisson Blu brand), BNP Paribas, Banque Cantonale de Geneve, Fortis Bank, ABN Amro, ING, TBC Bank, Bank of Georgia, Huawei, ZTE, Orange, the Smithsonian Institute and National Geographic.