



ARCI - COP REPORT, 2008

“Amplification of country importance through the creation of valuable climate – this has been Arci's mission for almost twenty years now. Arci's mission-based attitude towards its business is the feature, which differentiates it from any other company. Arci never builds just for gaining higher profits, but rather for the architectural environment developed by it in order to create the best conditions for human life, leisure and work and consequently increase Georgia's importance as a country. Nothing creates history better than the architecture. Respectively, we try to find the distinguished place within the country history via the architecture, developed by us. And nothing is so important for each of us, than the architectural outlook of our city and country.

2008 was rather difficult year for the development of any business. Despite these difficulties, we can say that this year was quite successful for our Company. Our expectations exceeded the actual results; despite the recent occurrences in the country, 2008 still proved to be successful for our Company. “The Company managed to develop in several directions and maintain twenty years' standing stability this year, despite everything” – Executive Director of Arci Company Tornike Abuladze.

About the Company

The Company Arci was founded in 1989 as the first private architectural firm and today it is one of the oldest development companies in Georgia.

Arci's mission is the increase of country's importance through the creation of worthy climate. Arci strives to become the best development company on the real estate market of Georgia and also become the most desirable partner for the investors. Arci has the ambition to return the old beauty to the capital of Georgia. Due to this reason Arci is oriented on the construction of campuses of such scale, which have sizable and positive impact on the outlook of the city.

Based on the experience accumulated for twenty years now and with the help of correct investments and banking financial models, Arci completes full cycle of construction works of any scale starting from designing and finishing with putting the buildings into exploitation.

Today, Arci is becoming twenty years old and it is the most experienced company on the real estate market. Overall volume of projects implemented by Arci for these years exceeds 190 000 sq m. Residential complex on Chikovani Street, residential complex on Gabashvili Street, residential house in Bagebi, Arci district on T.Abuladze Street consisting of 28 cottage-type houses and one 21-apartment residential block, office center on Vukol Beridze Street – this is non-exhaustive list of projects implemented by Arci Company since 1992.

The net volume of current projects exceeds 350 000 sq m. The construction works are being conducted both in Tbilisi and Batumi. The Company is engaged in the construction of large district-type residential complexes with integrated commercial and retail infrastructure. Arci is the second largest company on the real estate market according to the volume of construction works.

Currently the Company is implementing 8 projects:

- The residential complex Ortachalis Turpa is being developed on the territory of 3 hectares. This is the first residential complex in Georgia, which will have one kilometer long Boulevard. The Development of Ortachalis Turpa is divided into three phases. Currently the first phase is being under way. This unit is located in the South-East part of Tbilisi, on the bank of the river Mtkvari. It is the most known and grandiose complex under construction in Tbilisi;
- Arci made its first step in Avlabari six years ago and currently it has two current and planning several future projects in this area. Avlabari became very interesting and the best ecological and residential area for the development, what was followed by the increased interest of the largest developers and investors in this district for the past three years. Arci district in Avlabari – Dolabauri consists of 6 residential houses and total construction area of the project is 28 000 sq m.
- Arci's new multifunctional complex Small Avlabari will be built on Ketevan Tsamebuli Avenue. The campus consists of three independent blocks of apartments and includes 1 500 sq m of office area, 3 000 sq m of commercial area and 6 000 sq m of residential area. This complex is located in one of the best places of entire Avlabari and looks over the old districts of Tbilisi and Narikhala Castle.
- In Nadzaladevi, one of the largest Tbilisi districts, Arci has two ongoing projects. The first one – Karvasla is being built together with the corporation “My House” and known as the largest commercial unit constructed in Tbilisi in 2009. Karvasla will be located on Tsoetne Dadiani Avenue, behind the Railway Station and total construction area will be 32 000 sq m.
- Arci's residential complex Karvasla Square will be located behind Karvasla, with the total area of 68 000 sq m. This is the first residential complex in Georgia, which will have Public Square in it. This is one of the largest amongst Arci's projects and it will consist of 450-500 units of residential, commercial and office premises.
- The new 18 storey residential house will be built on Chavchavadze Avenue, in front of the Vake Park and its construction area totals 9 000 sq m. From point of prestige and exclusiveness this unit will be built on one of the most popular and demanded territory.
- The residential complex on Kavtaradze Street will be completed in September 2009. The campus consists of two: 7 and 10 storey residential houses.
- The first multifunctional complex in Batumi is being built in the historical part of the city. The complex will consist of residential and hotel-type apartments, as well as office and commercial premises. Total construction area is 5 000 sq m. This unit will become one of the most beautiful areas of current Batumi and will be fully harmonized with the city architecture.

Arci plans the implementation of future projects both in Tbilisi and Batumi. The net volume of the new projects exceeds 400 000 sq m.

Arci-Contestus

Arci-Contestus is the independent construction management company, which is undertaking the management of construction of development projects of Arci and other companies. This joint venture was created in 2008 cooperation with the well-known Lithuanian Construction company Contestus, and was a very important step forward for us with a view to sharing the new experience and development of our business. Company offers the following services to its customers: Revision of project decisions:

- ▣ Streamlining of projects;
- ▣ Making construction schedules;
- ▣ Making the schedules for tender proceedings;
- ▣ Arrangement for tender proceedings;
- ▣ Analysis of tender data and preparation of reports;
- ▣ Representation of client's interest during the negotiations with potential contractors and protection of the interests of the customer.
- ▣ Preparation of construction contracts;
- ▣ Representation of the customer's interests in the negotiations with the contractors;
- ▣ Preparation of and supervision over the construction breakdown;
- ▣ Financial analysis of the construction unit;
- ▣ Supervision over the conduct of contractual works;
- ▣ Analysis of and reporting on the construction schedule, flow of construction works and quality;
- ▣ Preparation of the necessary documents in order to submit to municipal authorities.

The last phase of the construction is so-called “full carcass”. This is the new standard of completion of an apartment, introduced in Georgia by Arci. “Full carcass” means apartment with individual heating system – the buyer has to arrange painting works and sanitary arrangements.

The Company uses the following materials when constructing buildings:

- ▣ concrete;
- ▣ concrete admixtures and plasticizers;
- ▣ steel-concrete reinforcements;
- ▣ molding system (only during the construction)
- ▣ polyethylene drainage pipes and their accessories;
- ▣ hydraulic (asphalt-polymer) insulating materials;
- ▣ thermal insulators
 - ▣ polypropylene
 - ▣ optical fiber

- ❑ filler block and baked clay bricks;
- ❑ sand and cement solution;
- ❑ plaster;
- ❑ plaster boards and aluminum assembly profiles;
- ❑ metal-plastic fittings;
- ❑ aluminum fittings;
- ❑ glass;
- ❑ inert materials:
 - ❑ pumice
 - ❑ construction sand
- ❑ monolith and multicostate wires;
- ❑ polyethylene pipes and their accessories for water supply system;
- ❑ metal-plastic pipes and their accessories for heating systems;
- ❑ metal panel-type radiators;
- ❑ ceramic and natural stone tiles for facing works;
- ❑ metal items (entrance doors, railings, bars);
- ❑ tin-plate coverings and water drainage systems;
- ❑ water soluble and oil paints;
- ❑ Concrete items and asphalt for the arrangement of recreation zones and garages.

No materials that may pose danger to the health of the customers are used during the construction of the buildings. Furthermore, the workers' safety is safeguarded during the construction works on the bases of instructions and recommendations accompanying the supplied materials (for example, special protective clothes, gloves and respirators are used when working with mineral fiber).

The information concerning materials used during the construction works is being provided to regulatory authorities commensurate with the regulations envisaged by the Georgian legislation. The main construction materials are being agreed in the course of legalization of the project. The scheduled control of the quality of concrete and steel-concrete reinforcements is being undertaken at the construction phase by the respective licensed research laboratories. The results of these assessments are being submitted to state authorities upon handing over the units into exploitation. In the case of use of innovative materials and technologies the goods are accompanied with quality and safety certificates.

The goods used during the construction works are fully compatible with the standards and requirements applicable in Georgia. With respect to goods, which are not subject to regulation under the aforementioned norms, the Company applies the EC standards.

When conducting construction works Arci employs the standards that are developed in Georgia and the European Union.

The share of locally produced construction materials used by Arci Company in the course of construction works of ordinary units amounts for:

- ▣ 55-65% in the case of monolith construction (100% of steel-concrete reinforcements provided, which are to be used, are imported),
- ▣ 60-70% in the case of facing works, except for the cases, when expensive facing tiles are being used for the implementation of a specific project.

Arci is undertaking construction works in Tbilisi, Batumi and Gori. The employment of local resources is as follows:

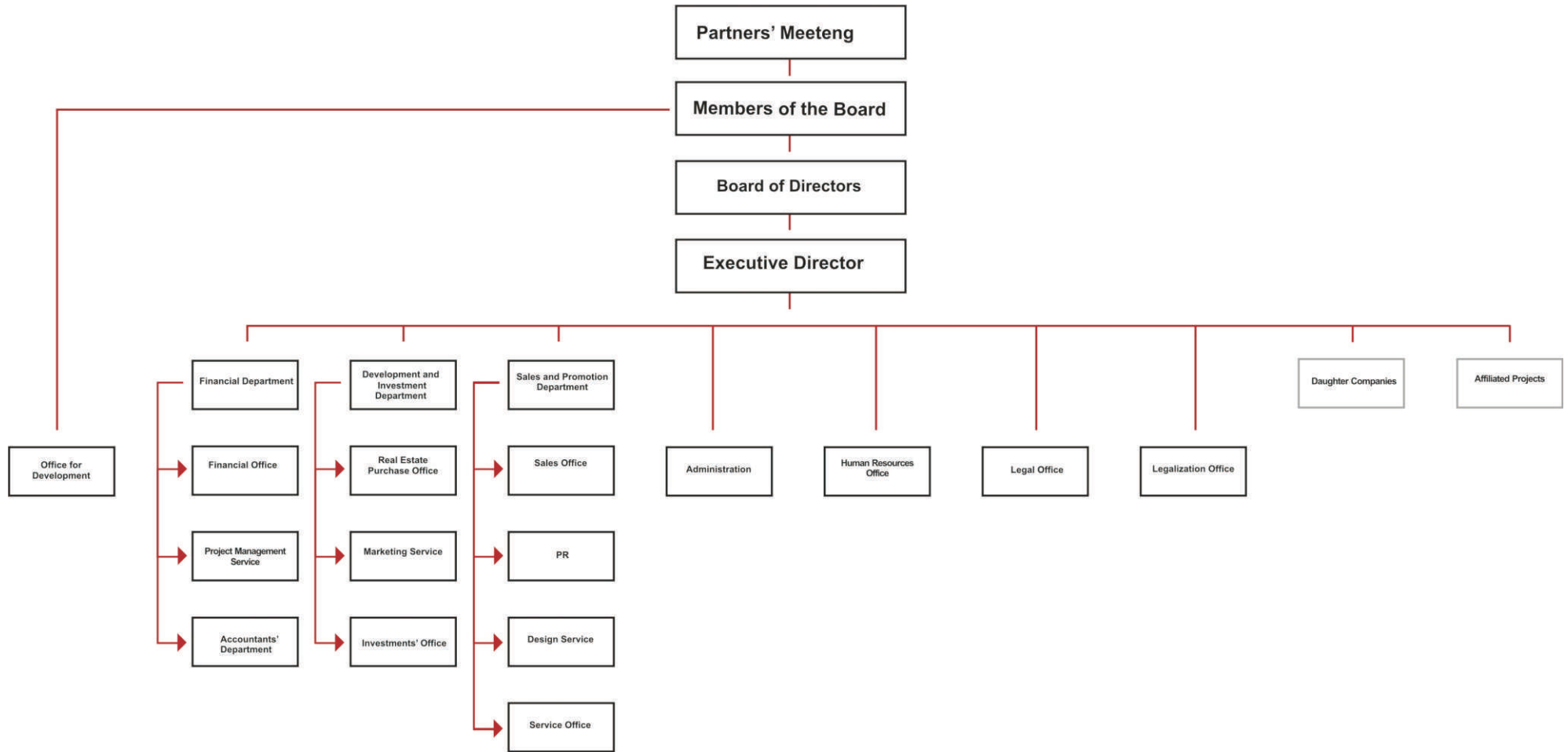
- ▣ The monolith works on 4 478 sq m of construction area in Batumi (Mazniashvili Street) were conducted by the local construction company Anagi;
- ▣ The number of local employees amounted for 70% during the reconstruction works in Gori (12, Sukhitashvili Street).

Indicators of Efficient Performance of the Company

Arci believes that its employees are the most important wealth of the Company and consequently pays particular attention to every issue that is related thereto. Upon the selection of our new employees we pay paramount importance to the compatibility of personal values of an individual with the Company culture. The intellect, education and experience are of course important, but Arci has always been regarding these criteria as less important than the values.

Arci Company has 54 employees. Structurally the Company is being managed through the departments and offices.

Structure of Company



All company employees are full-timers. The Company does not have part-time employees. At least one-year employment contract is made with each of the employees.

The fluctuation rate of personnel was rather low during reporting period, what can be illustrated by the following figures: in 2008 three employees left the Company under the motivation of changing jobs.

Quantity	Sex	Age
3	male	20-30

The account should as well be taken of fundamental changes implemented during the reporting year, which resulted in redundancy of several staff. The decision was made with respect to 12 employees:

Quantity	Sex	Age
7	male	30-40
5	female	<30

For several years now the Company has been fully covering the health insurance expenses of its personnel and making contributions to the person fund for their benefit. All the members of the Company staff are included into health and pension insurance schemes.

The redundant employees have been paid 40% of their salaries for three months after the dismissal. The pension and health insurance were also maintained until the end of the reporting year.

The health insurance scheme, which is not limited to minimum insurance portfolio, but rather covers more sophisticated and protected aspects, can be regarded as one of the measures, undertaken in the light of protection of the health of the personnel. As regards labor safety, the mention should be made of suitable for work environment, safe working conditions and protected territory. For example: Arci has significantly contributed to the restoration of the building in Gori, badly damaged during the August events. During the reconstruction works, particular attention was paid to working conditions of each of the employees in relation with safety rules. Furthermore, each of them was insured against health damage and other risks.

In May 2008 the Company invited the marketing research organization ACT for the conduct of the intercompany survey. The survey aimed to determine the quality of internal communication channels, satisfaction of the employees with the working environment and identification Company's loyalty towards employees.

The personnel of all the departments were provided with questionnaires. The confidentiality of the personnel was guaranteed.

The survey has demonstrated that 85% of the personnel are quite happy with the working environment. It turned out that the company personnel has very strong feeling of identification with the Company – they recognize their contribution to the success of the Company, share Company goals and values and are sure of the quality of products, produced by the Company. They believe that they are the members of the team of the Leader Company.

At least one week prior notice is required before the implementation of some major changes in the Company activities. However, the Company has no rigid attitude towards this issue and always opts for the solution, which is oriented on full understanding and better comprehension of the matter. Apart from the familiarization with major decisions by the Board of the Directors, it should as well be mentioned that the issues, initiated by mid-level managers are also often discussed. The management often employs the so-called “brainstorming” method, which enables each of the employees to freely express their opinion about any issues in the company, and each of these opinions are important resource for our company as an employer.

The survey has evidenced, that the Company personnel is quite happy with the attitude of the Management towards them. However the survey has also made the Management see, that although the personnel is continuously aware of the innovations in the Company disclosed to them via the e-mail or directly by their immediate superiors, it is important for them to get the information about the current occurrences within the Company directly from the Company Management. This fact turned out to be particularly important for the Management. As of today, the Company personnel are informed about the important novelties within the Company directly by the Management.

The survey has also demonstrated that 20% of the Company personnel were willing to participate in various trainings and seminars. Based on the results of the survey the employees of three departments took respective training courses. Average 50 hours were expended on the training of top managers during the reporting year and 70 hours – on training of mid-level managers. The training courses were held outside Company premises and related expenses were fully covered by the Company. One representative of the Company spent two months in the United Kingdom on educational leave.

Customer Service

Arci always paid particular attention to the relationships with the customers and customer care. More than 500 families have been living for several years now in four areas built by Arci. The Company maintains permanent contacts with them. The residents inform customer service manager concerning any problem occurring within the district. All these problems are dealt through the involvement of respective services. Customer Service Manager provides the Board of Directors of the Company with the information about the current situation in Arci areas and also about the desires and problems of customers on a weekly basis.

We are always aware of the problems, encountered by our customers in their everyday life in Arci areas. In 2008 we decided to learn more about their attitude towards the Company, whether or not they were content with their decisions and what they wished.

In April 2008 the marketing research company ACT conducted the survey amongst the population of Arci areas under the assignment of the Company. The focus group was selected as the type of the survey.

The survey has evidenced that the majority of the population is content with their decisions. As it turned out, they have confidence in us, as we have fulfilled all the promises, that we gave them upon the purchase of the apartments. They believe that the houses, built by Arci are oriented on family comfort. They also stress that they have acquired the certain way of life – what can be felt in the areas build by Arci. The customers are of the opinion that the entrance door opens not into their own apartments, but rather into the whole area. They are proud of living in Arci area.

The Company arranges annual New Year Parties for customer's children in Arci Gallery. Customers are given the possibility to get better acquainted with each other and also to communicate with Arci personnel.

The survey proved that this New Year Party is already a tradition for the customers and this gathering is very important for them. The Company tries to generate warm and hearty relationships amongst the customers with the help of such events, what ultimately will be transformed into “neighborhood relations” compatible with Georgian traditions. The “neighborhood relations” have always been and still are crucial for Georgian families. When planning Arci areas particular attention is paid to this Georgian tradition and there always is an inner yard in the design, which promotes gathering of and communication between the neighbors.

Project “Georgian House”

The project Georgian House was created in 2002 under the initiative of Arci Company. This project aims at searching for Georgian traditional secular architecture and design elements, revival of the traditions of Georgian architecture and their adaptation to modern Georgian design and architecture.

The project slogan is – The Past Develops in Future.

Current directions of the Project are as follows:

- ❑ Training course – Georgian House for the students of the Faculty of Architecture;
- ❑ Rehabilitation of the Museum in the Open Air;
- ❑ Salvage of Mutso architectural complex (Khevsureti)

Salvage of the architectural complex in the village Mutso, Khevsureti:



Mutso, alias Mitsu (in some sources – Mutsu) is the remains of micro-urban settlement in Khevsureti, Mutso-Ardoti Gorge, on the right bank of the river Andakistskhali (1880 meter above the sea) with vertical terrace development – up to thirty houses, four fighting towers, narrow passages, small squares and burial vaults. Insofar as it is very difficult to reach Mutso like the other complexes of Khevsureti, it managed to almost fully maintain its initial outlook.

With a view to the salvage of this complex Arci Company and TBC Bank launched the project Georgian House – Mutso in 2004. The project aims at physical reconstruction and rehabilitation of Mutso. In August 2004 the first expedition was arranged to Mutso. This was the first phase of the project, during which the measurement and recording works were undertaken.

With a view to promotion of Mutso project within the society Arci Company and TBC Bank issued the calendar for 2005 within the framework of project Georgian House – Mutso.

The second, rehabilitation phase of the project was launched in 2008.

Under the initiative and funding of the Ministry of Culture, Protection of Monuments and Sport of Georgia and also under the participation of Arci Company and TBC Bank the second expedition was arranged to Mutso from 27 July to 7 August 2008, this expedition aimed at recording of the current situation (measurement, making graphical sketches and photo-taking), comparison with the data collected four years ago and collection of the information necessary for the rehabilitation project. The project for the rehabilitation Mutso was prepared on the basis of collected materials, according to which the implementation of the third phase of Mutso rehabilitation – its physical reconstruction – is being planned for the future.

Publication of the Literary Bohemia of Old Tbilisi by I.Grishashvili:

In 2008 Arci Company published Ioseb Grishashvili's book: The Literary Bohemia of Old Tbilisi within the framework of the project: Georgian House.

The Company hopes that the new publication will give a new life to this book and the generation, which grew in “Khrushchev's” and “Czech” houses, will recover the love and respect for their city. The publication of this book was not a commercial undertaking. Total 1500 copies of the book were printed and the budget of the publication amounted for 14.898 GEL.



On 8 July 2008 the evening Literary Bohemia of Old Tbilisi was arranged in Arci area, which aimed at the promotion of the restoration-renewal of the unique books, kept at Ioseb Grishashvili Library-Museum, the subordinated unit of the Scientific Library. At this event I. Grishashvili annual prize was launched under the initiative of the Company, which will be awarded to persons and companies particularly contributing to remembering and maintenance of Old Tbilisi. This year the prize, the symbolic value of which is 1000 GEL, was awarded to the widow of Avto Varazi, Manana Gvtisiashvili.

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Arci Gallery

For two years now Arci's Gallery has been intensively serving one of the basic directions of the Company activities – caring about cultural values and promotion of creative thinking. The Gallery hosts various events free of charge: the exhibitions, competitions, presentations, workshops, actions...

Arci Gallery aims at the promotion of implementation of interesting ideas, assisting artists in publicizing their creations. This enhances the generation and implementation of interesting ideas on the one hand, whilst on the other, the Company gets intensively involved in cultural processes ongoing within the country.

In 2008 Arci Gallery hosted 39 events, amongst them: personal and collective exhibitions of paintings and photos, presentations, demonstrations of documentary films, charity actions, days of foreign embassies accredited in Georgia, international art forum Artisterium and meetings with artists.



Arci's main slogan is: "Before you buy an apartment, find out what Arci is offering."

We believe, that we can always offer the best solution to our customers.

In 2008 Arci was the first, who offered to its potential customers the simplified conditions for buying an apartment.

In March 2008 it was possible to buy Arci's apartment with a ten-year loan, subject to approval on the basis of only a personal identity card – this meant that no certificate of salary or additional security was required from a potential customer. The bank representatives were present at Company office, what was an additional convenience for the customers. They were relieved of the necessity of leaving Arci office for the purpose of approval of the loan. Just one day was needed for the approval of the loan.

The Company has sold 77 apartments within three months under this condition.

From 10 December Arci started offering the longest-term loans on the market for the purchase of an apartment independently from the banks. The Company offered the possibility of purchasing an apartment by installments for a period of 3-15 years.

As a result of August occurrences and global financial crises, all the businesses encountered problems in Georgia, including real estate development business. The banks suspended funding of construction works and issuance of mortgage loans to the customers. Arci Company managed to overcome the crises. Of course, the construction timelines were extended, but the construction of none of the units has been stopped. The problem was the consumer behavior. The population lost confidence in construction companies and started to expect the decrease of prices on real estate. The prices definitely went down by 10-12% in October at the expense of reduction of the cost value of construction works. However, the landslide of prices stopped after October. Arci took account of the disposition of the customers and introduced a new clause into the contract. Starting from 1 December the company has undertaken the contractual obligation to proportionally reduce the price of the apartment, purchased by a customer in the case of landslide of prices within a period of one year following the execution of a contract. The prices of remaining apartments will be reduced according to the same percentage rate as the prices of already sold apartments and the customers will have to pay the outstanding value in lesser amount. If a customer has fully covered the price of the apartment upon purchasing it, the difference between prices, that is – the difference between the initial and reduced price – will be refunded later.

Arci's offer turned out to be acceptable for many customers. 7 apartments were sold from 1 to 12 December inclusively under this condition.

Arci was the first company, which introduced free of charge consultations in 2006. The customers freely got answers to and advice concerning any real estate related question in 2008 as well. We were also pleased by the fact that the population started to regard Arci as a "friend" and even in the case of purchasing an apartment with some other company they were interested in our advice concerning payment terms and construction related issues.

Despite difficulties, this year was still successful for our Company. Of course, our expectations exceeded the actual results; however against the background of recent events in the country, 2008 still proved to be successful for our Company. This year the Company managed to develop in several directions and to maintain twenty years' standing stability, despite everything.

- ❑ This year Arci participated in two international exhibitions:
 - ❑ International exhibition in Cannes MIPIM 2008,
 - ❑ International exhibition in Munich EXPO REAL 2008, where close contacts were established with the investors,
- ❑ In 2008 the Company moved to the new phase – this was the first time when an internal audit was conducted in the Company;
- ❑ The number of Company consumers increased by 40%;
- ❑ Company revenues increased by 25% as compared with 2007;
- ❑ Total area of 9,195 sq m were sold in Arci in 2008;
- ❑ According to percentage rate the sale of apartments are 85% of total sales and the sale of commercial areas –15%;
- ❑ As compared with 2007 the prices on Arci units increased by 32%.

Arci was the company which took the initiative of construction of the block of apartments, which was damaged in Gori by bomb during August occurrences. The three-entrance, five storey residential house nearby tank base in Gori was particularly damaged as a result of Russian aggression. Under the initiative and funding of Tbilisi City Hall, Arci took over the construction of this house. Apart from construction works, the architectural design and construction drawings had been prepared according to which Arci Contestus completed the construction works.



The construction works were launched by the end of August and were completed in November. Total half a million GEL were expended for the restoration of the initial outlook of the building. This amount was allocated by Tbilisi City Hall.

The reconstruction of the house was conducted in several phases:

- ❑ During the first phase the diagnostic works were conducted and the plan of works necessary for the restoration was prepared,
- ❑ During the second phase the building was dismantled;
- ❑ During the third phase the reconstruction and inside works were undertaken.

The population gradually moved into their apartments. The repair works were undertaken in the apartments according to entrances. By the end of November all the inhabitants of the building adjoining Gori tank base territory were settled in their apartments.

In August thousands of refugees escaped to Tbilisi due to war actions ongoing in Georgia. According to the information on hand, which was provided by the Ministry of Refugees and Settlement, more than 60 000 refugees were in Tbilisi as of 13 August. On 13 August the Fund for the Assistance of Refugees was created in Arci office. Along with Company employees the Fund was joined by Arci consumers and partners as well. For five days the assistance was rendered to hundreds of refugees, who were settled in various schools and kindergartens. Based on the data supplied by the Ministry of Refugees and Settlement we identified the establishments, which were left unattended until then. Arci's Assistance Fund helped these very refugees. We set up a special group, which identified the refugees, their amount and needs. On the basis of this information they were provided with cloths, linen, beddings, living essentials and food.



During this period Arci took care of our consumers (total five families), who escaped from the conflict region. We found asylum for these people.



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