Investment Climate & Opportunities in Georgia

Georgian National Investment Agency (GNIA)

2015

INVEST IN GEORGIA
GEORGIAN NATIONAL INVESTMENT AGENCY

Georgia - Country Overview

Area:	69,700 sq km
Population:	3.7 mln
Life expectancy:	75 years
Official language:	Georgian
Literacy:	100%
Capital:	Tbilisi
Currency (code):	Lari (GEL)

GDP 2014 (E):	USD 16.5 bln
GDP real growth rate 2014 (E):	4.8%
GDP CAGR 10 -14 (USD) (E):	5.6%
GDP per capita 2014 (E):	US$ 3681
Inflation rate 2014 :	3.1%
Total Public Debt to Nominal GDP (%) 2014 (E):	36.4%

Advantages of Investment Climate in Georgia

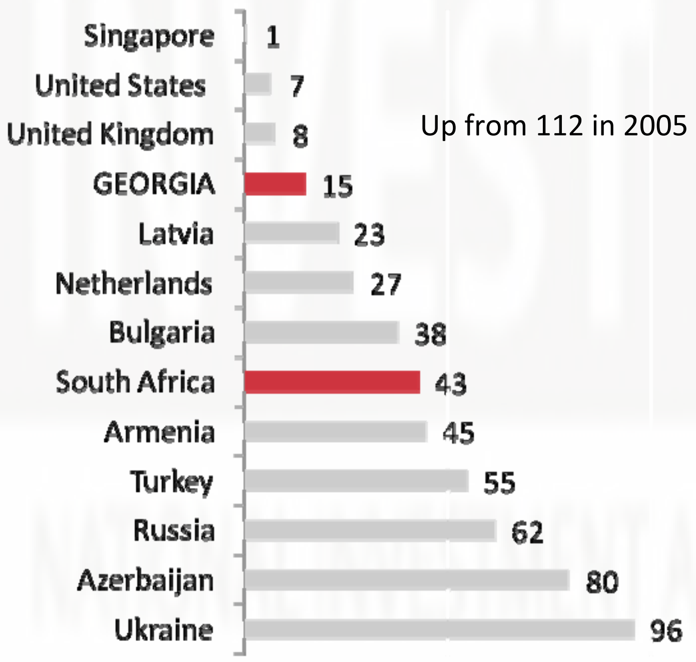
- A politically stable investment destination
- Efficient, pro-business and corruption-free government
- Enlargement of market size by Free Trade Agreements
- Competitive cost of labor and energy
- Entry gate in the region
- Solid sovereign balance sheet
- Stable banking sector
- Very low crime-rate

Standard & Poor's	Fitch Ratings	Moody's Investors Service
BB- Stable	BB- Stable	Ba3 Positive

Doing Business in Georgia

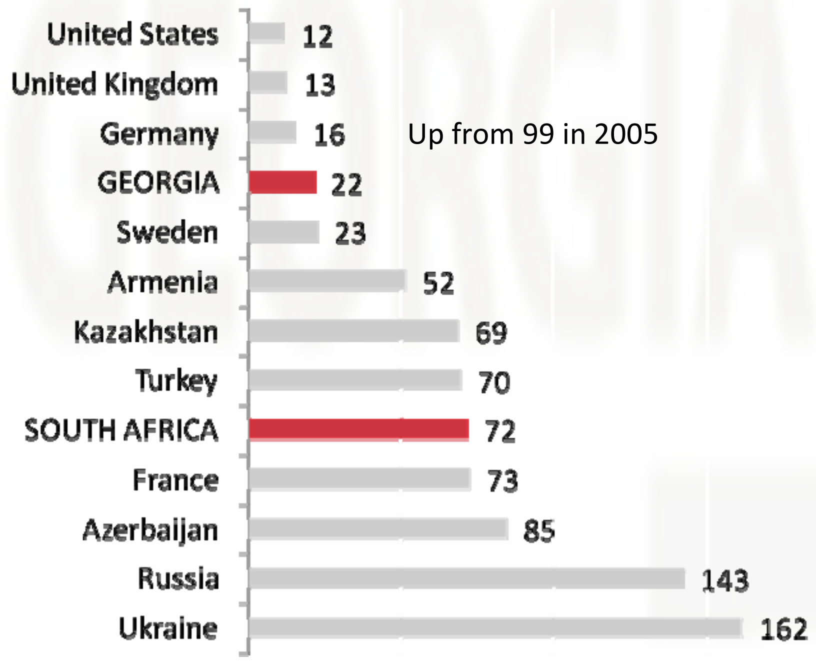
Country's impressive progress in improving business climate has been well documented in a number of international indices.

Ease of Doing Business



Source: World Bank, DB 2015 (Rank out of 189 countries)

Index Of Economic Freedom

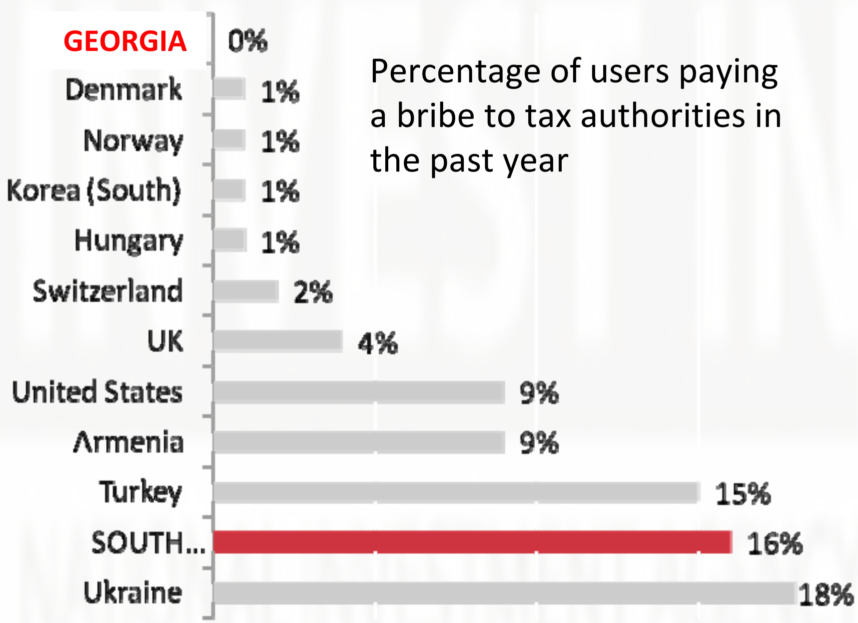


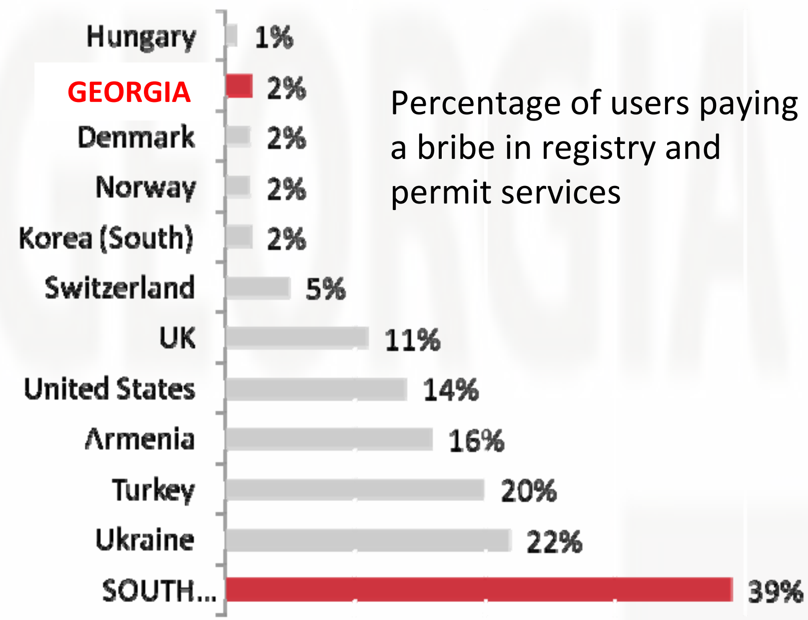
Source: The Heritage Foundation, 2015 (Rank out of 178 countries)

Corruption Free Country

Georgia is considered as essentially a corruption-free investment destination

Global Corruption Barometer

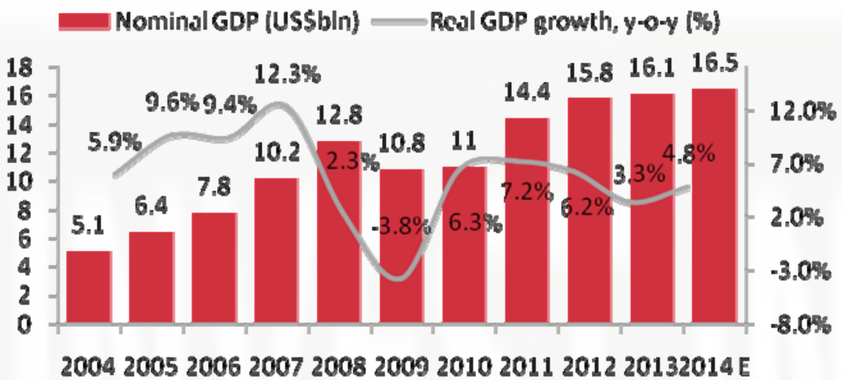




Source: Transparency International 2013 (GLOBAL CORRUPTION BAROMETER)

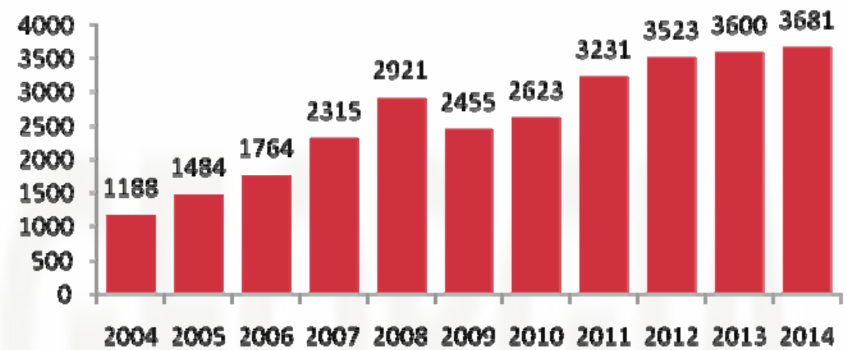
Economic Structure and Trends

GDP: Strong rebound after a relatively small contraction in 2009



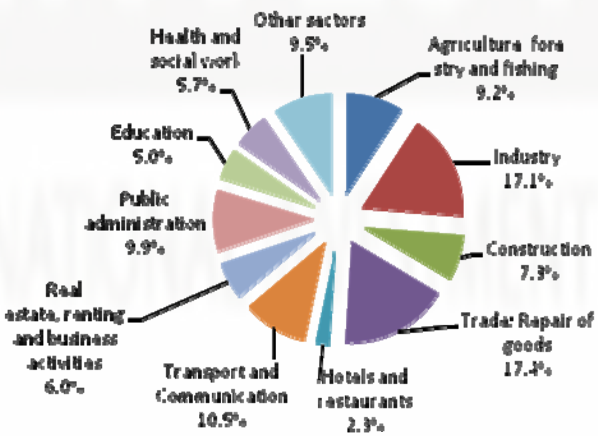
Source: Geostat

Rapidly growing GDP per capita



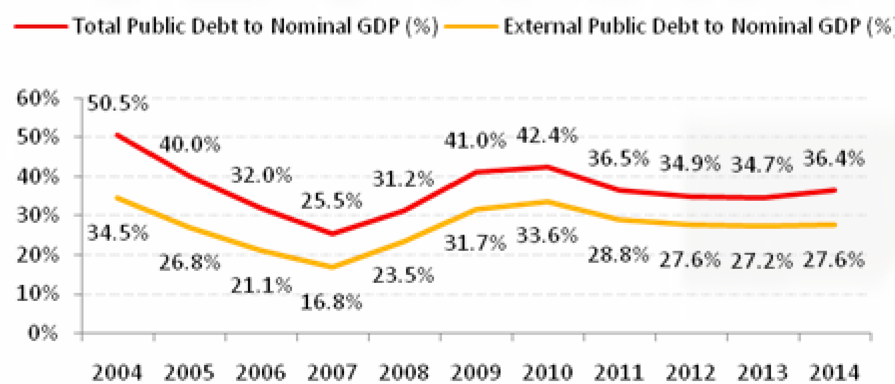
Source: Geostat

Diversified nominal GDP structure in 2014



Source: Geostat

Favorable public debt situation



Source: Geostat, MOF

Liberal Trade Regimes

- Very simple and service oriented customs policy and administration – customs clearance in 15 minutes
- ~80% of goods free from import tariffs
- No quantitative restrictions

Preferential Trade Regimes:

- Free Trade Agreement (FTA) with post-soviet countries and Turkey
- Deep and Comprehensive Free Trade Agreement (DCFTA) with EU was singed on June 27, 2014

•GSP agreement with USA, Norway, Switzerland, Canada, Japan

•Member of WTO

Access to ~900 million market without customs duty

Taxation - simple, low, efficient and fair

	Before	Current	Change year
Number of Taxes	21	6	2005-2007
VAT	20%	18%	2005
Personal Income Tax	12-20%	20%	2004 - 2009
Social Tax	33%	-	
Corporate Profit Tax	20%	15%	2008
Customs/ import Tax	0%, 5% or 12%		
Excise Tax	Depends on goods		
Property Tax	Up to 1%		

- No payroll tax or social insurance tax
- No capital gains tax
- No wealth tax and inheritance tax
- Personal income tax for interest, dividend, royalty – 5%
- Foreign-source income of individuals fully exempted
- Accelerated depreciation on capital assets
- Loss carry forward for corporate profit tax purposes (10 years)
- No restrictions on currency convertibility or repatriation of capital & profit
- Double taxation avoidance treaties with 47 countries

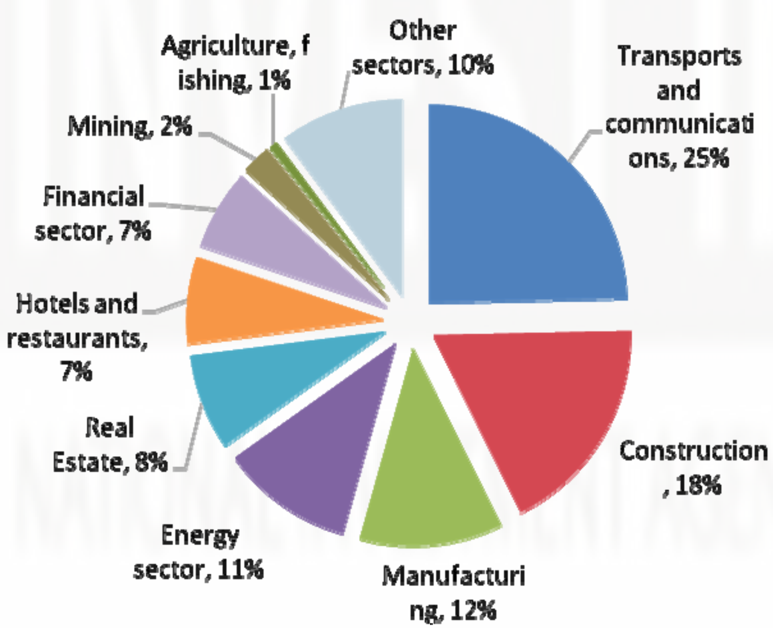
Labor Availability

- Unemployment rate – 12.4 %
- Young labor – 50% -of unemployed population are aged between 20-34
- Average monthly salary in 2014 – 490 USD (including white and blue-collar workers)
- Flexible Labor Code
- All ILO core conventions are ratified by Georgia
- Vocational Education Training Centers around Georgia provide professional courses in different types of practical subjects and most of the course's fees are financed by the Government of Georgia.

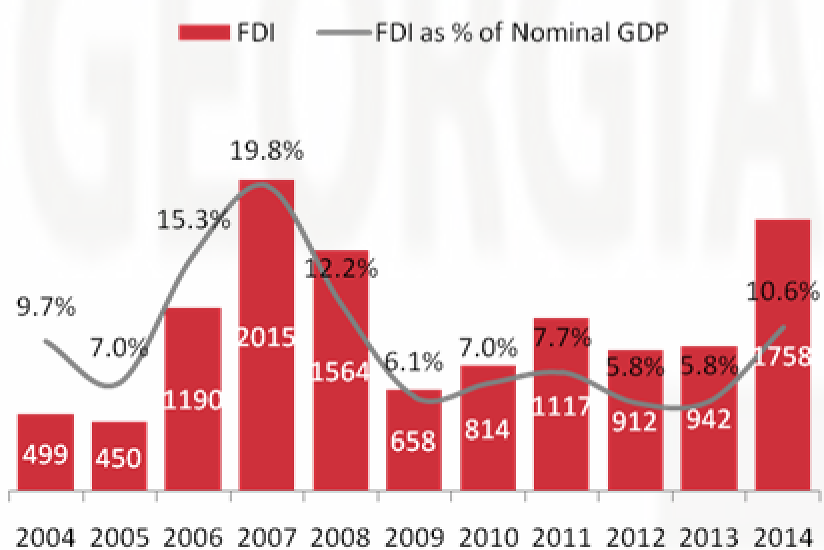
Foreign Direct Investment

- Georgia has signed Bilateral Investment Treaties (BIT's) with 32 countries and is member of ICSID Convention since 1992.
- FDI in 2014 amounted to USD 1758 million, which is 87% increase compared to last year.

FDI Breakdown by sectors 2014



FDI by years



Investment Opportunities in Georgia

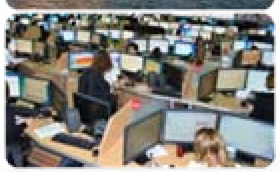
HYDRO POWER HUB

HOSPITALITY & REAL ESTATE

MANUFACTURING

AGRICULTURE AND FOOD PROCESSING

REGIONAL LOGISTICS CORRIDOR



REGIONAL SERVICES HUB

AREA OF NATURAL RESOURCES EXTRACTION

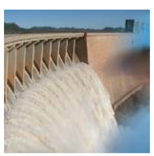
Overview of Georgia's Energy Sector

Strong demand growth prospects

- Domestic Demand growth and increasing share of renewable energy requires an extension of hydropower generation by around 65% until 2020
- Export: Georgia is surrounded by countries with a projected structural power deficit (e.g. Turkey, Russia South) or expensive power generation, opening up attractive export opportunities

Importance of the sector low in terms of GDP and employment

- Power generation accounts for 3% of GDP and ~ 1% of employment but is of high strategic importance to Georgia and Energy sector accounted for 26 % of FDI in 2013
- ~ 7% of power production are exported, but Georgia still needs to import power during winter



Power sector with strong focus on cost competitive HPP

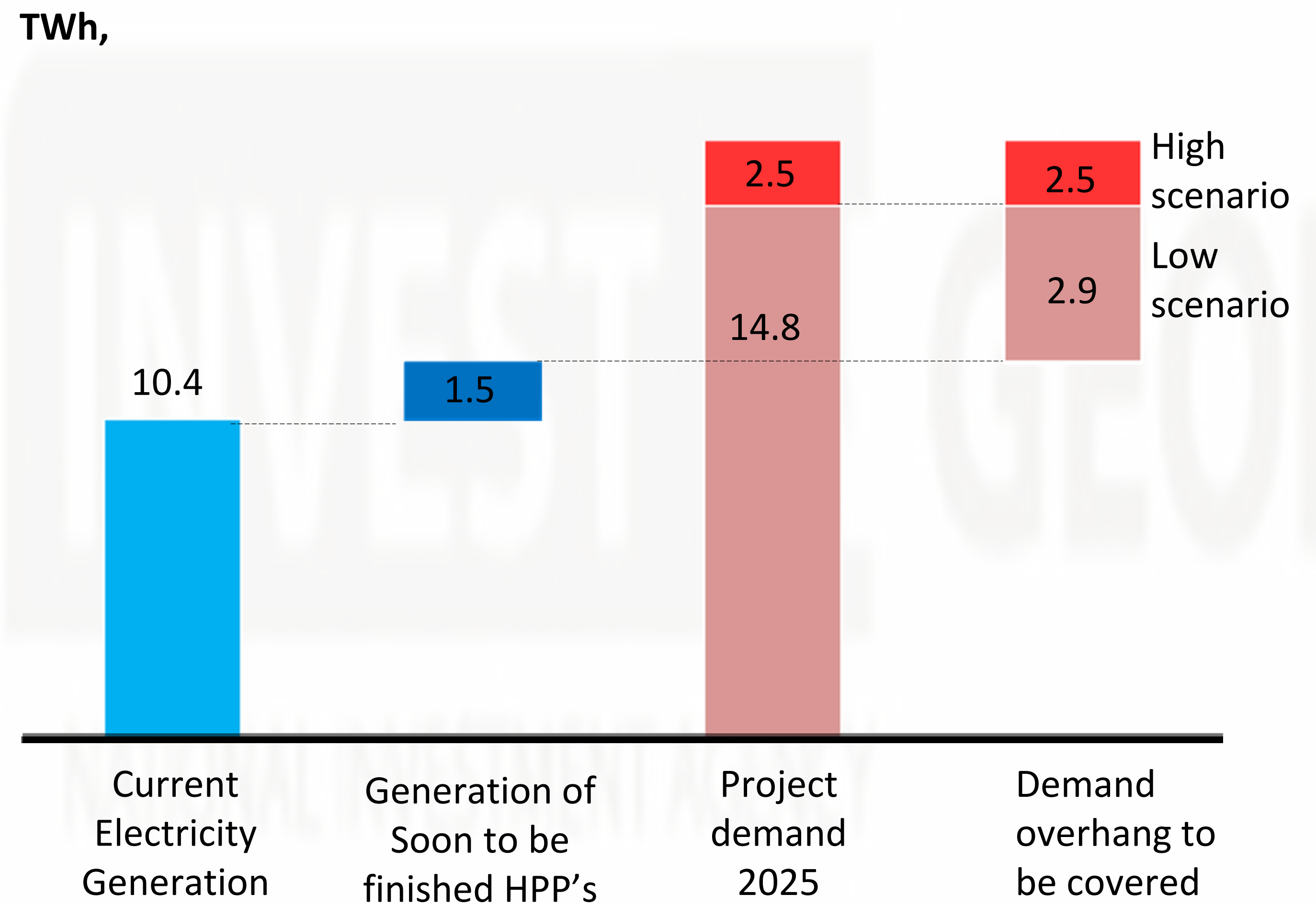
- Georgia boasts significant and economically viable HPP potential – already out of 10.4 TWh generated today 80% was via HPPs – 19.6% via thermal (mainly gas)
- All new HPPs operate in a liberalized market (HPPs with Installed Capacity of 13MW or less are fully deregulated and require no generation license)
- Cost of hydropower generation is very competitive in the region

Some large projects kick-started and pipeline is still robust

- 75% of economically viable potential not yet exploited(Aporximately 24TWh)
- 16 HPP Projects are under construction(combined installed capacity 550MW)
- 40 HPP projects are under feasibility study and permitting (1940MW)
- ~70 potential HPP projects (<100MW) on the Pre-feasibility Study Level with Financial and Technical projection

Domestic demand growth requires an extension of power generation

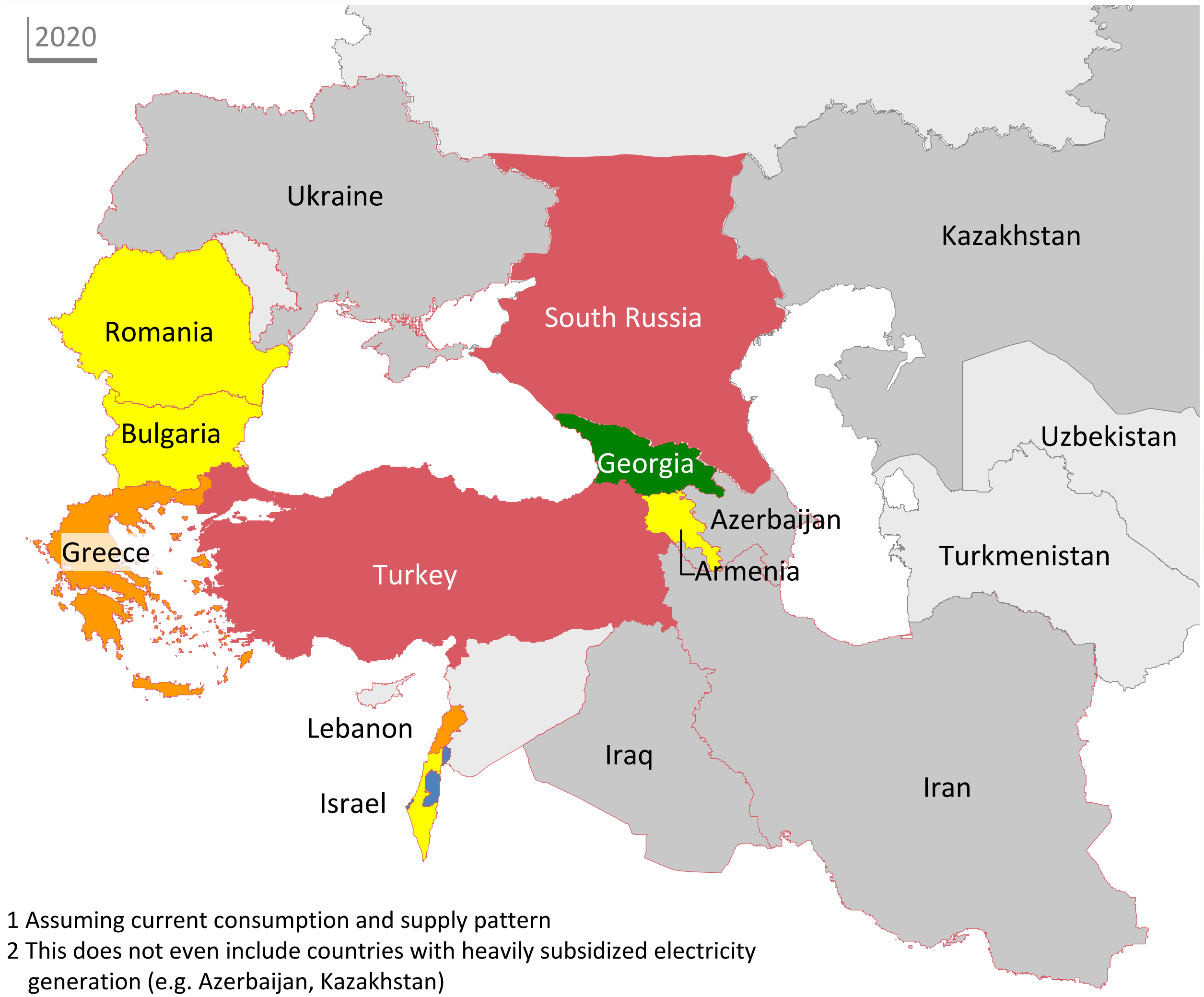
Domestic demand and supply projections



- Georgia's demand for electricity is increasing in line with expected GDP growth, requiring more HPP generation capacity
- Commissioned HPP developments likely to saturate the demand growth

High scenario assumes 5% CAGR of demand, low scenario assumes 3.5%

Georgia surrounded by countries with a structural power deficit or expensive power generation



Structural deficit by 2020

Ad hoc deficits projected

No deficit, but current tariffs > Georgia's generation cost

No deficit, but subsidized tariffs

- Turkey is expected to have deficit of up to 80-120 TWh by 2020, with seasonality of its demand matching Georgia's supply
- Russia’s Southern districts will also experience a structural deficit of up to 40 TWh by 2020[1]
- In other markets, Georgia’s hydropower is very cost-competitive compared to local tariffs[2]

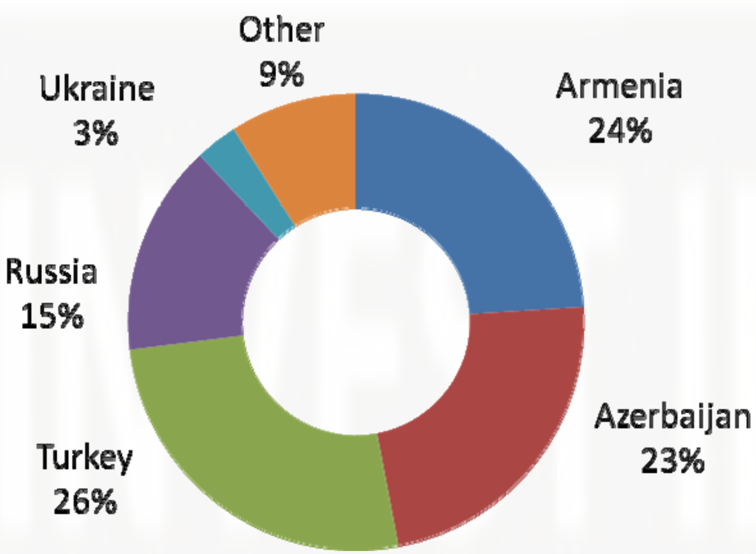
1 Assuming current consumption and supply pattern
2 This does not even include countries with heavily subsidized electricity generation (e.g. Azerbaijan, Kazakhstan)

Why to Invest in Hospitality & Real Estate in Georgia

- Fast Growing Sector
- Continuous Increase of International Visitors
- Incentives Available
- Various Type Of Resorts and Investment Opportunities
- No Real Estate Ownership Restrictions
- Very Low Crime-rate
- Rich Natural And Cultural Resources

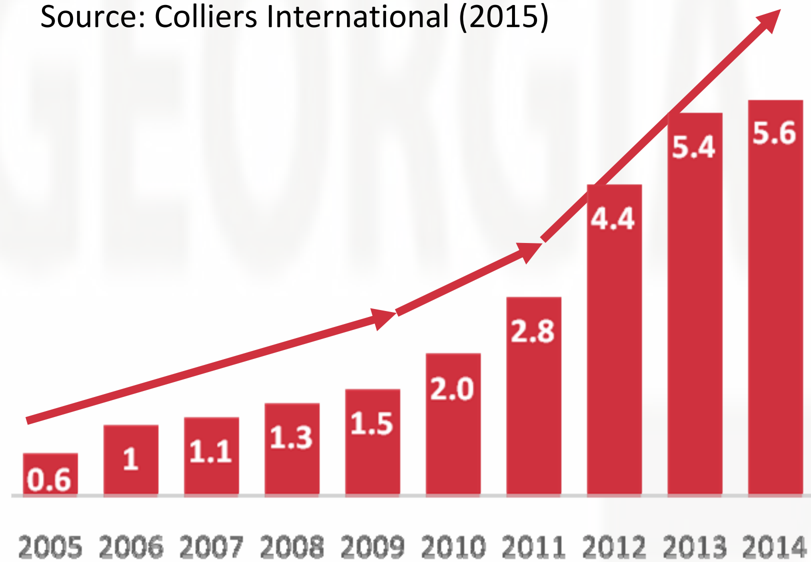



Georgia is expecting significant growth trajectory in tourist arrivals



- Georgia has predominantly proved to be a highly desirable location for the hospitality and real estate sector.
- Number of international tourists' arrivals is expected to grow by 8-10% during the next five years.

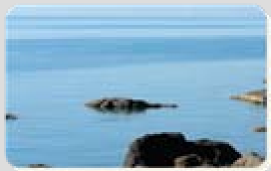
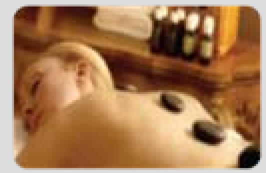
Source: Colliers International (2015)



Source: Georgian National Tourism Administration

- Number of international travelers: 5 600 000
- The same period 2013: 5 392 303
- Tourist number from Europe in 2014 increased by 3 %
- Increase (over the same period 2013) 1.9%
- Top 5 countries by the number of arrivals:
- Average duration of stay - 5 nights, average spend - USD 650

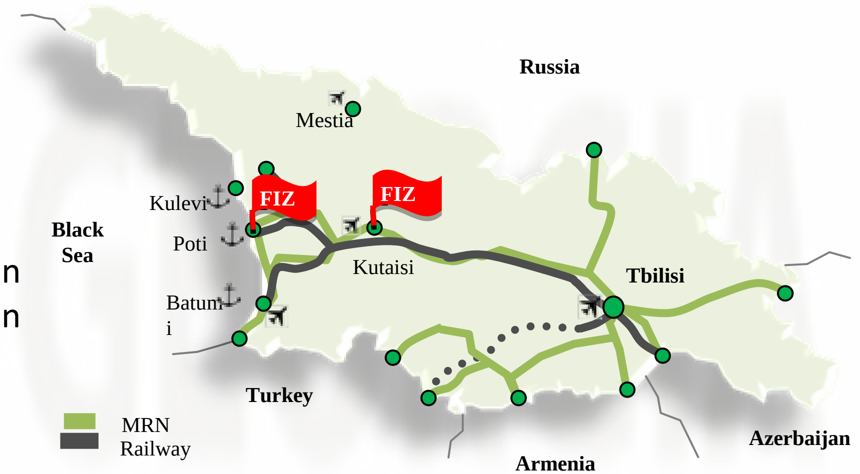
Hospitality & Real Estate Investment Opportunities

	"Sun-beach" Resorts	Winter Ski Resorts	Four Season Resorts	Medical & Wellness Resorts	Gambling
					
Description	New Master resort development All inclusive summer resorts	Master development of winter resorts with unique profile equivalent to the Alps	Majestic landscapes allow for a wide range of tourism activities such as camping, climbing, rafting, fishing, hunting etc.	Include hotels, different types of clinics, fitness, outdoor activities	Development of large-scale integrated casino complex Fiscal incentives available
Potential location	▪ Batumi ▪ Gonio ▪ Anaklia ▪ Kobuleti ▪ Other Black Sea locations	▪ Mestia ▪ Gudauri ▪ Bakuriani ▪ Goderdzi	▪ Mestia ▪ Gudauri ▪ Bakuriani ▪ Goderdzi ▪ Kazbegi ▪ Other locations	▪ Tskhaltubo ▪ Akhtala ▪ Borjomi ▪ Abastumani ▪ Other locations	▪ Batumi ▪ Tbilisi ▪ Other locations

Manufacturing Sector

Overview:

- Georgia`s natural advantage as a gateway between the Europe and Asia provides many benefits to investors in manufacturing sector. Specifically, Georgia offers competitive labor and energy costs, logistics network and business friendly environment for serving the region, as well as numerous preferential/free trade agreements.
- Average monthly nominal salary in the manufacturing sector is 410 USD (including white and blue-collar workers). Furthermore, salaries can be expected to remain competitively low given the high level of unemployment in Georgia.
- Manufacturing account for around 11% of GDP and ~ 5% of employment
- 3 Free Industrial Zones - In FIZ, businesses are exempted from all tax charges except Personal Income Tax



Opportunities:

- Large import overhang on goods that are not usually traded extensively between the countries, provides **regional import substitution potential** in food processing, construction materials, household goods etc.
- Georgia's current advantages in terms of handling large transshipment flows, business stability, low cost of power generation, existing raw materials and intermediate products provide opportunities for **large industrial projects**, such as production of iron, aluminum and steel products.

Several highly attractive regional production opportunities

Chemicals

- Paints, varnishes and other coatings
- Washing, cleaning and polishing preparations
- Nitrogen fertilizers
- Perfumery and cosmetics

Plastics

- Packaging materials
- Tubes, pipes and hoses
- Other articles of plastics

Construction-Building materials

- Articles of stone, plaster, cement, asbestos, concrete and similar materials
- Articles of iron and steel - structures, tubes, pipes etc.
- Articles of wood - plywood and laminated wood

Construction-Finishing elements

- Ceramic products - tiles, sanitary ware
- Glass - windows and glassware
- Furniture

Food Processing

Overview:

- Agriculture accounts for 9.2% of GDP
- Traditionally Georgia has strengths in wine and other alcoholic beverages, which accounts to ~35% of agriculture exports
- The average monthly salary in Georgia in agriculture industry amounts to USD 305 (including white and blue-collar workers)

Opportunities:

- Import substitution opportunities – poultry, beef, port, dairy products (milk, cream, yogurt, butter), etc
- Export opportunities - wine, hazelnuts, walnuts, citruses, fruits, sheep meat, etc
- Opportunities for processing – tomatoes, apples, cucumbers, potatoes, stone fruits, citrus, olive oils, etc

Regional Logistics Corridor

Trans-Caucasian route

- Latent gateway between Europe and Central Asia
- Up to 60% of overland international freight are transits
- Great potential of better integration and development of the region

Transport Infrastructure

- Rapidly developing road infrastructure
- Ports are cost-competitive vs. alternative routes
- FDI inflows in the logistics sector have primarily targeted transport infrastructure

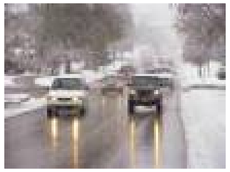
Opportunities

- Deep-sea port with natural drafts for PanaMax vessel
- Containerization and logistical centers
- Direct connection with European and Central Asian railway networks (BTK project)

Georgia is in a Highly Strategic Location for Transshipment

Georgia’s existing transport economy is already transit based – cross-border shipments road/rail and pipelines have transit ratios of ~65% and ~95% (2014)

Modal Split

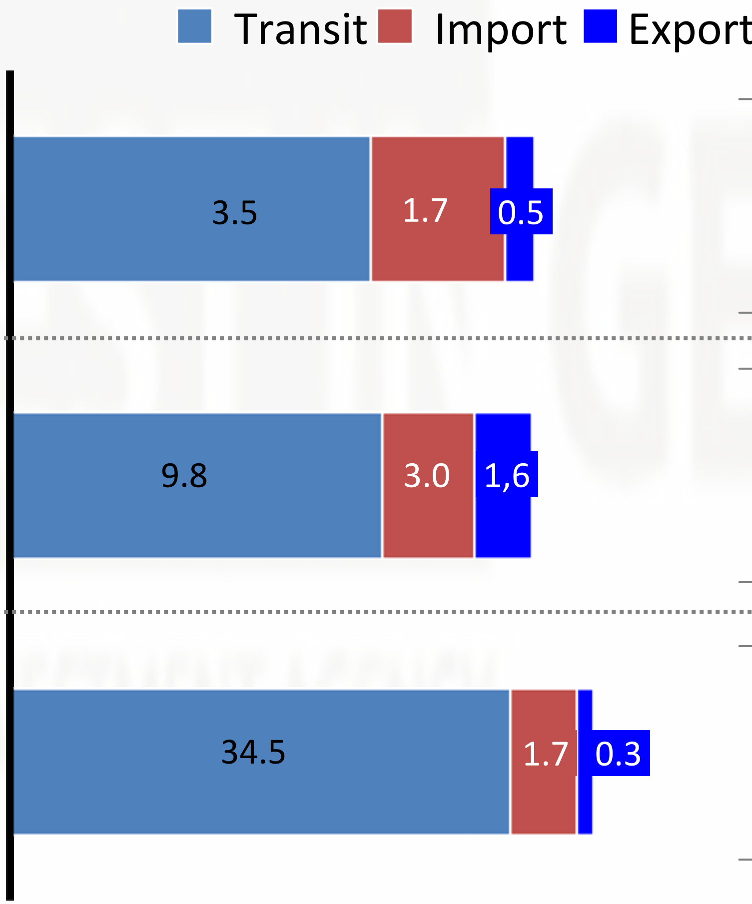


Road

Rail

Pipelines

Transport volume by purpose
Million tons



Transshipment ratio and commodity flows
Percent

66%

- Containers
- General cargo flows, such as manufactured goods, food

68%

- Oil (KZ) and oil products
- Grain (Central Asia)
- Metals and minerals (Central Asia)
- Containers

94.5%

- Oil

&

- Gas (8 Bln $m^{3)}$ from KZ and AZ (BTC, WREP(Supsa), SCP, NS

The infrastructure vision – Anaklia deep-sea port opens up a gate for Georgia's and the corridor's trade flows

The vision – a deep-sea port

- **Adds capacity to existing ports**
- **Changes port economics**

Required infrastructure - *First Phase*

- Deep sea port of Anaklia
  - berths for PanaMax and larger sizes
  - 18-20 m natural draft
- BOT project for 49 years
- ✓ I phase - in 3 years 7 million tons annual turnover
- ✓ II phase - in 7 years 20 million tons annual turnover
- ✓ III phase - in 12 year 40 million tons annual turnover
- ✓ IV phase 12 years and more, 100 million tons annual turnover
- ✓ The GOG will provide 1000 ha of land with necessary infrastructure Railway connection
- The port to be able to receive vessels with capacity at least 6,500 containers

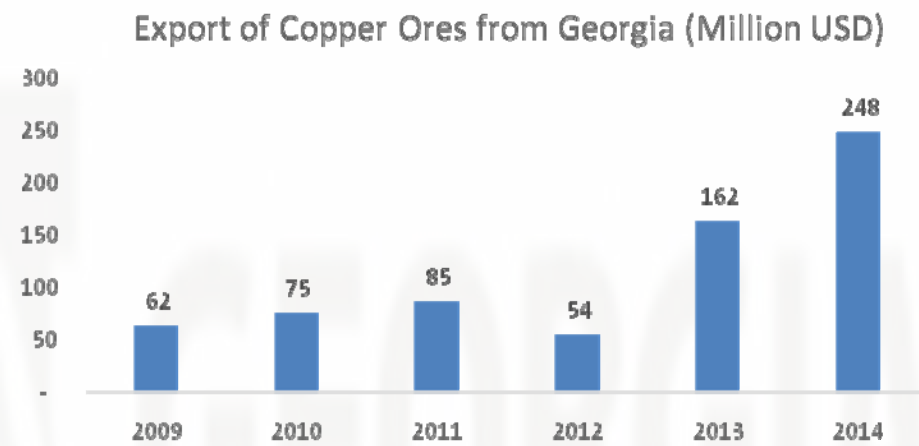
Regional Services Hub

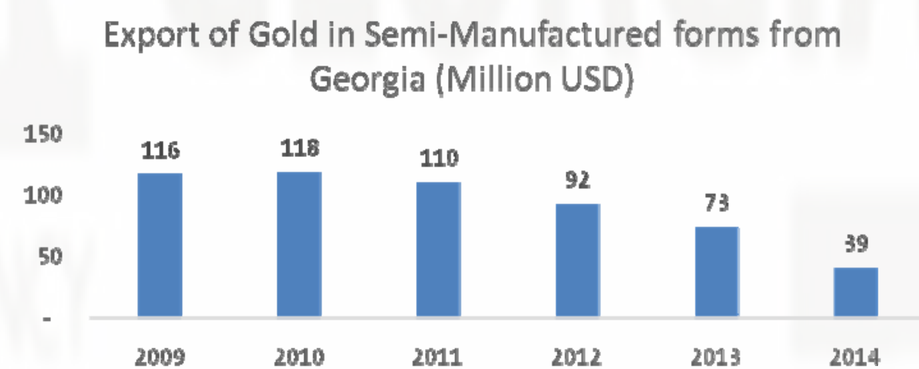
- Leading ranks among regional economies in terms of value added and trade
- Potential in R&D Commercialization & Export Growth:
  - Biotechnology & Genetics, Alternate Energy, Pharmacology & Toxicology, ICT, Mathematics, Creative Industries
- “An undersaturated small gem“ - Georgia ranks 6th in 2015 Global Retail Development Index by A.T. Kearney
- Services have major share of FDI inflow -73% in 2014. Construction, Transports and Communications were highest contributors to FDI with 50% of total inflow
- Services account 53% of GDP

- Opportunity to capitalize:
  - IT/BPO services
  - Regional headquarters
  - Retail hub as the destination-of-choice for shopping

Extraction of Natural Resources

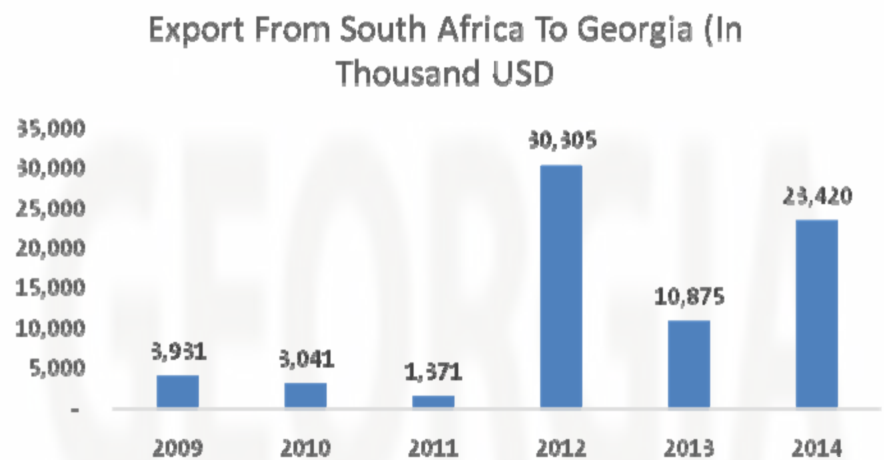
- Mineral Waters
- Manganese
- Gold
- Copper
- Building Materials
- Coal





Trade and FDI from South Africa

Main Product: Fruit Juices



Main Product: Manganese Ores

Main Export Products of Georgia

- Alcoholic and non-alcoholic beverages, spirits
- Iron and steel
- Ores, slag and ash
- Edible fruit, nuts, peel of citrus fruit, melons
- Pharmaceutical products

Access to Finance and Incentives

PARTNERSHIP FUND

•100% state owned fund

•Operating fields: Energy; Real Estate, Manufacturing, Agribusiness

•Finances up to 49% of equity in new investment projects

GEORGIAN ENERGY DEVELOPMENT FUND

- 100% state owned Joint Stock Company
- Mission: realization of country's alternative energy projects
- Finances up to 30% equity; exit option after commissioning

PRODUCE IN GEORGIA

•New project initiated by Government

•Mission: supporting of manufacture and agriculture industries

•Provides subsidies for loan interest payment and free lands for factory construction

AGRICULTURE PROJECTS MANAGEMENT AGENCY

•100% state owned NPO

•Mission: supporting development of new agriculture projects

•Provides subsidies for loan interest payment and grants for agro processing companies

GEORGIAN CO-INVESTMENT FUND

•Private fund with USD ~7 bln equity

•Operating fields: Energy, Logistics, Tourism & Real Estate, Manufacturing, Agribusiness

•GCF Role in Project: 7 years for investing/development and 2 years for Exit

INTERNATIONAL FINANCIAL ORGANIZATIONS

•European Bank of Reconstruction and Development (EBRD)

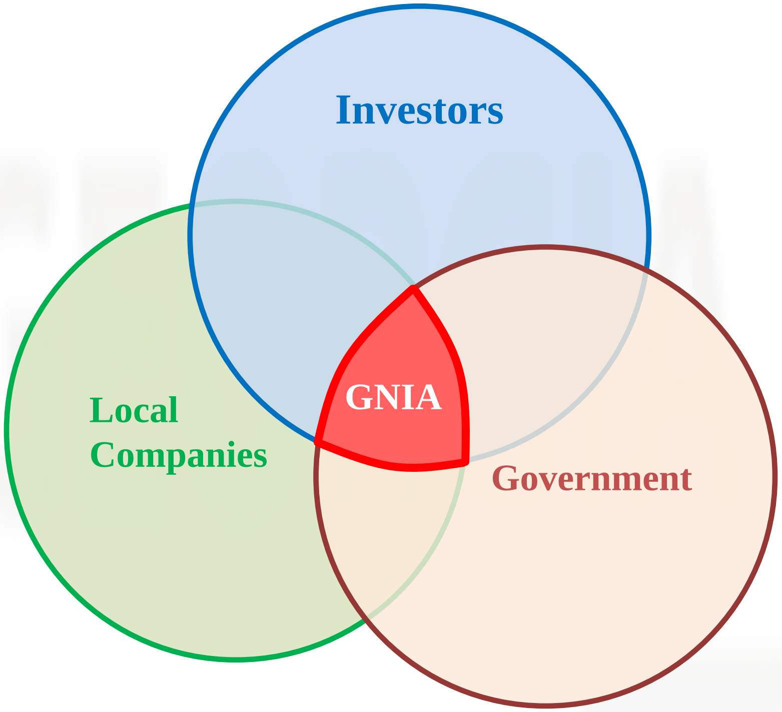
•International Finance Corporation (IFC)

•Asian Development Bank (ADB)

•European Investment Bank (EIB)

Georgian National Investment Agency

- State Agency
  - Promoting Georgia internationally
  - Supporting foreign investments and investors before, during & after investment process
- "One-stop-shop" for investors
- Moderator between Investors, Government and Local Companies



Mission *- Attracting Greenfield and M&A Investments*

What You Can Get From GNIA

- INFORMATION - General data, statistics, sector researches
- COMMUNICATION - Access to Government at all levels/Local partners
- Organization of site visits & Accompanying investors
- AFTER CARE - Legal advising & Supporting services

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