

INVESTMENT OPPORTUNITIES IN GEORGIA

Designed by BMG Consulting





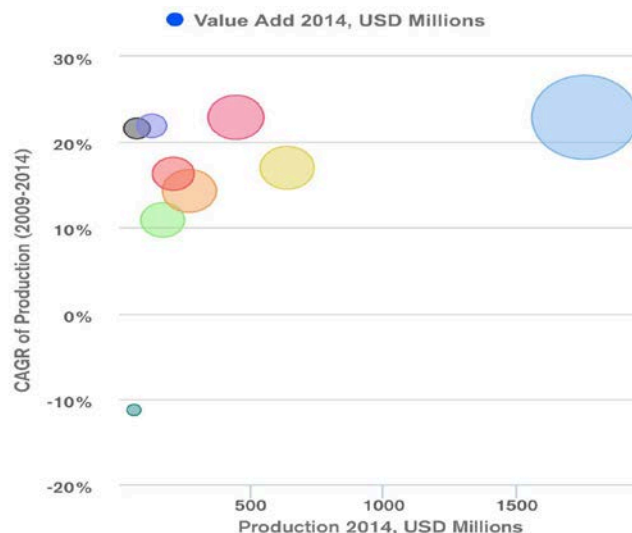
Manufacturing in Georgia

Georgia's natural advantage as a gateway between Europe and Asia provides many benefits to investors in the manufacturing sector. In particular, Georgia offers competitive labor and energy costs, low taxes, and a corruption-free environment for serving the region, as well as numerous preferential/free trade agreements.

Large import overhang on goods that are not usually traded extensively between the countries, provides regional import substitution potential in food processing, paints and coatings, construction materials, washing and polishing preparations, 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.










- Manufacturing accounts for 11% of GDP and around 5% of employment.

The food and non-metallic mineral products industries provide the largest industrial base for Georgia, while non-metallic mineral products, chemicals and food are the fastest growing industries. With the establishment of the Free Industrial Zones in Georgia there are new incentives and opportunities to produce and export goods with a minimal tax burden - in the FIZs, businesses are exempted from all tax charges except Personal Income Tax.





Companies operating in Georgia can benefit from the growing regional market and various import substitution opportunities, specifically in the following industries: food processing, chemicals, plastics, construction materials, packaging, household goods, ceramic and glass products, etc.

INDUSTRY	VALUE ADD (USD MILLIONS, 2014)	PRODUCTION VALUE (USD MILLIONS, 2014)	TOP 3 PRODUCTS (VALUE ADD)	TOP 3 EXPORTS	TOP 3 COMPANIES BY PRODUCTION
 Food & beverages	515	1756	<ul style="list-style-type: none"> Mineral waters & soft drinks (133) Wine (101) Bread, fresh pastry goods and cakes (46) 	<ul style="list-style-type: none"> Nuts (183) Wine (181) Mineral waters & soft drinks (166) 	<ul style="list-style-type: none"> IDS Borjomi Georgia CocaCola Bottlers Georgia Agara company
 Metals	108	637	<ul style="list-style-type: none"> Ferro-alloys (40) Tubes (24) Precious and non-ferrous metals (15) 	<ul style="list-style-type: none"> Ferro-alloys (286) Copper ores (248) Bars and rods (64) 	<ul style="list-style-type: none"> Georgian Manganese GeoSteel Rustavi Steel
 Non-metallic mineral products	121	444	<ul style="list-style-type: none"> Cement (40) Ready-mixed concrete (38) Concrete products for construction purposes (16) 	<ul style="list-style-type: none"> Cement (15) Cyanides, cyanide oxides and complex cyanides (10) Glassware (4) 	<ul style="list-style-type: none"> Heidelbergcement Georgia Heidelbergbeton Georgia Mina
 Chemicals	112	269	<ul style="list-style-type: none"> Basic chemicals (74) Pharmaceuticals (32) Coloring materials (3) 	<ul style="list-style-type: none"> Fertilisers (138) Pharmaceuticals (92) Beauty, perfumes, make-up preparations etc. (19) 	<ul style="list-style-type: none"> Rustavi Azot GMP Aversi
 Machinery, Equipment & Others	60	209	<ul style="list-style-type: none"> Furniture (27) Machinery and equipment (12) Electrical machinery and apparatus (8) 	<ul style="list-style-type: none"> Machinery and mechanical appliances (41) Furniture (6) Electric instantaneous or storage water heaters (5) 	<ul style="list-style-type: none"> Fresh Georgia OGT Embawood Georgia
 Wood & Paper	65	169	<ul style="list-style-type: none"> Printing (21) Publishing (14) Articles of paper and paperboard (12) 	<ul style="list-style-type: none"> Wood (22) Paper (4) Books, Pictures, Magazines (1) 	<ul style="list-style-type: none"> Star RG Sharavandi Palitra L
 Rubber and Plastics	30	128	<ul style="list-style-type: none"> Plastic products (30) Rubber products (1) 	<ul style="list-style-type: none"> Rubber products (20) Plastics (15) 	<ul style="list-style-type: none"> Caucasian PET company Alfa PET Polymer 1
 Textile, Apparel & Leather	26	72	<ul style="list-style-type: none"> Apparel (18) Textiles (5) Tanning and dressing of leather(2) 	<ul style="list-style-type: none"> Apparel (91) Leather (6) Footwear (4) 	<ul style="list-style-type: none"> AjaraTextile BTM textile Batumitex
 Transport Equipment	17	61	<ul style="list-style-type: none"> Manufacture of other transport equipment (16) Manufacture of motor vehicles, trailers and semi-trailers (1) 	<ul style="list-style-type: none"> Rail locomotives (22) Parts of aircrafts (13) Self-propelled railway or tramway coaches (3) 	<ul style="list-style-type: none"> Elmavalshenebeli Vagonmshenebeli Train Repair Factory



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The average monthly salary in manufacturing industry is 355 USD and given the high level of unemployment in Georgia, salary growth is expected to remain low. Additionally, companies can benefit from Free Training Opportunities – there are over 100 Vocational Education Training Centers around Georgia, which provide professional courses in different types of practical subjects and most of the course's fees are financed by the Government of Georgia.

Georgia Association of Manufacturers (GAM) has steadily diversified its membership and broadened its reach and the scope of issues it addresses. While its mission has remained constant over the years, today GAM works on behalf of all Georgia manufacturers to enhance their competitiveness in a global marketplace. Members enjoy the benefits of a long history of meaningful accomplishments on major issues from taxation to energy costs to environmental compliance. GAM achieves measurable results for its members, historically yielding a return far in excess of their dues investment. Recent legislative and regulatory accomplishments have yielded in excess of \$300 million in annual tax, energy and other savings to Georgia manufacturers.

Agriculture and Food Processing

Georgia has rich agricultural traditions, which are integral part of country's history, mentality and cultural heritage. Agriculture played an important role in maintaining its unique identity, self-positioning and economic development. However, up today, agriculture and food producing significantly lagged to the rest of economic growth.

Due to having 22 micro-climates varying from cool and dry to warm and humid, agriculture is one of Georgia's most productive economic sectors. These diversified micro-climates allow for a longer than normal harvesting season and a wide range of growing conditions. Soils are of volcanic origin located in the river valleys. They tend to be quite fertile and reasonably easy to cultivate.

- Agriculture and agribusiness account for 9.2% of the GDP and 17.5% of trade volume.

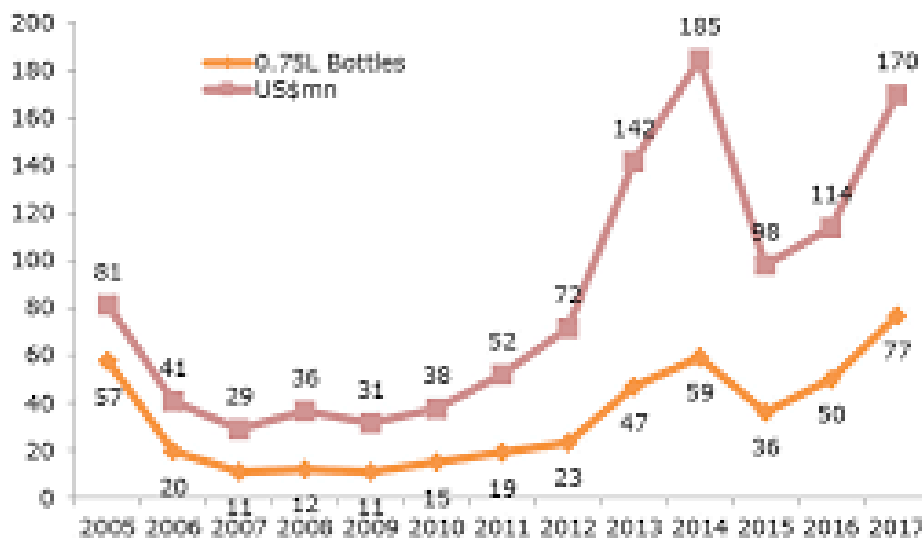


Wine Making

The wine making technology of Georgia in its traditional form utilizes ancient methods reminiscent of other old world wine making cultures. The use of earthen amphorae placed in the ground for fermentation is a signature feature of Georgian winemaking. While traditional methodology is used widespread for the production of authentic Georgian wines, European methods are also employed, pending on varietals and blends, their respective regions, and the desired quantity of output.

The diverse natural conditions of Georgia create the best environment for the development of high quality viticulture-winemaking. Georgia has a history of 8,000 years of continuous wine making tradition, evidence is found by numerous archaeological discoveries. In addition to 525 indigenous grape varieties there are many foreign ones, which showed high results in production and wine quality. Wine produced in Georgia is distinct with its unique and diverse flavors, rich buckets. Wine export was 22% of agricultural export in 2014 with a total value of 183 Million USD.

Georgia's Wine Exports



Source: National Wine Agency of Georgia

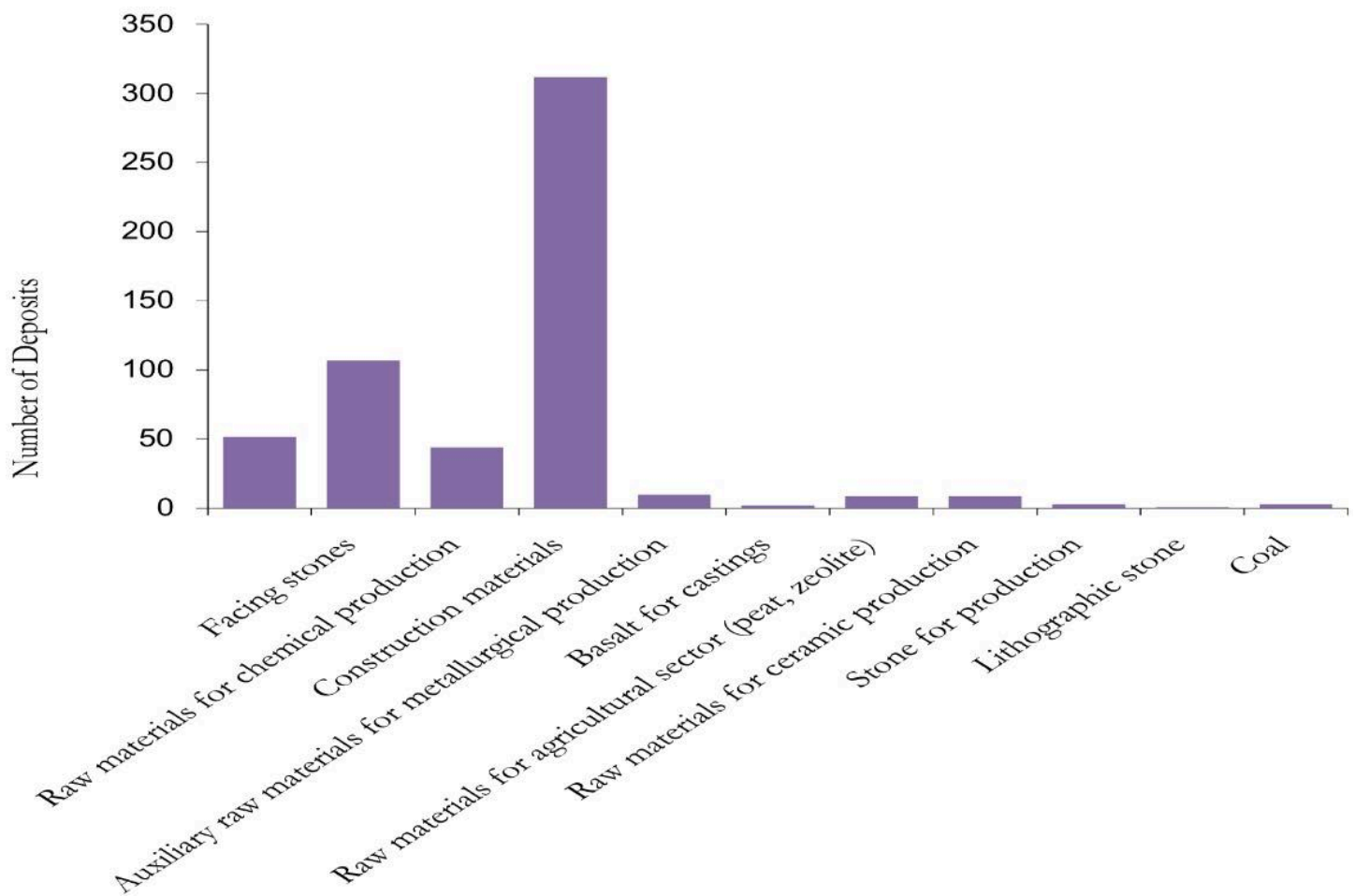


Construction Materials

Georgia is located at the edge of Eurasian and Afro-Arabian tectonic Plates, with a diverse geological structure and mineral wealth, revealed in 522 small and medium sized deposits. During last decade the substantial increase in construction activity boosted the construction materials industry, including sales of construction materials.

- During 2010-2015 years GDP grew by CAGR 5.6% and it is widely expected to maintain a growth trajectory.

Notably, as seen in the chart below, Construction Materials and Facing Stones comprise 419 of these deposits, 312 and 107 respectively. Majority of these deposits are located within Imereti, Kvemo Kartli and Shida Kartli regions.





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Although, the reserves for construction and facing materials are quite significant, they are not adequately utilized. In fact, the utilization level for production purposes is only 10% for facing stones, and 25% for inert and construction materials. This leaves a significant room for development of this sector in future.

Georgia has very significant facing and building stone reserves that amount to 1.5 Billion m³ distributed among 231 deposits all over the country. They include reserves of Marble, Tuff, Limestone, Granite, Basalt, Andesite, Diabase, etc. South Caucasus countries are developing with fast pace and demand for construction materials is growing yearly. Global imports of worked Marble, Travertine and Alabaster amounted to 1.9 Billion USD in 2014, thus Georgia imported 2 Million USD of these products in 2014 and import grew by CAGR of 21% since 2010.

- For comparison, Georgia imported 54.3 million USD ceramic tiles in 2014, while Azerbaijan and Armenia imported 33 and 17 million USD respectively.

Georgia has construction materials and facing stones small and medium sized deposits, 312 and 107 respectively. There are nine marble mines in Georgia, holding 24.5 million m³ reserves. The availability of raw materials enables production capacity of 8 800 tons per year to substitute import and create export potential mainly to neighbor countries. The optimal initial investment is USD 3.5 Million.

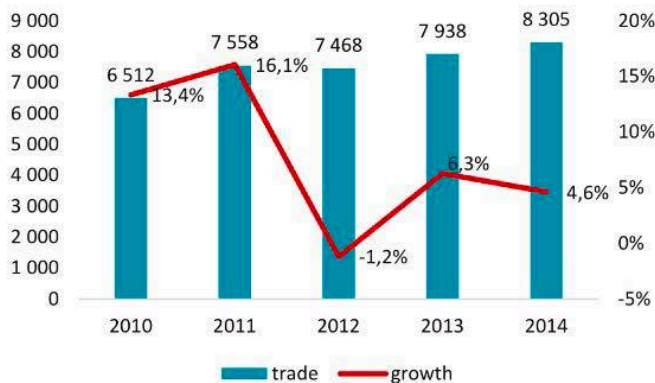
- Georgia has a good opportunity for production of refractory bricks, which has the robust import growth rate in South Caucasus;
- Georgia has 36.4 million tons reserves of fireproof clay, the main raw material for the production. The optimal initial investment is USD 3 Million;
- Georgia has several mines of glass sand, the main raw material for glass wool production, with the total reserves of 132.9 million m³. The optimal initial investment is USD 6 Million for production capacity of 2 000 tons per year;



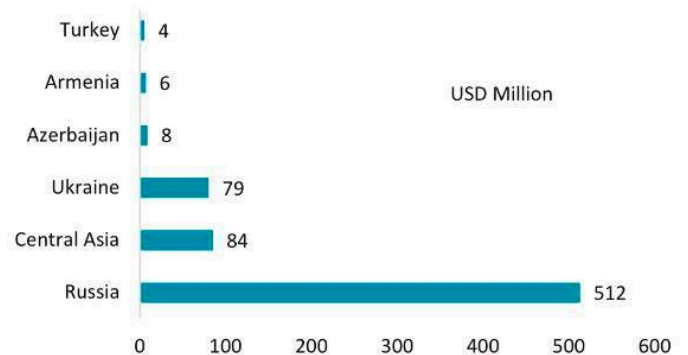
Construction industry is growing rapidly in the South Caucasus, Turkey and other countries of the region, therefore, demand on chemicals used in the construction is also growing rapidly. The global trade of the glaziers putty, grafting putty, resin cements and painters fillings reached USD 8.3 Billion in 2014 and it grew by CAGR 6.3% from 2010. CIS countries imported USD 807 Million of these products in 2014 and trade gap accounted USD 744 Million, while Turkey imported USD 184 million. In 2014 South Caucasus countries imported USD 34 Million glaziers putty, grafting putty, resin cements and painters fillings.

The demand of these products exceeds supply in neighbor and Central Asian countries, and there is a big gap between the import and export in the regional countries. Since these kind of chemicals have quite significant transportation cost compared to total value of product and these products aren't traded extensively between distant countries, Georgia has excellent location for regional import substitution.

GLAZIERS PUTTY, GRAFTING PUTTY, RESIN CEMENTS AND PAINTERS FILLINGS WORLD IMPORT AND GROWTH RATE, 2010-2014



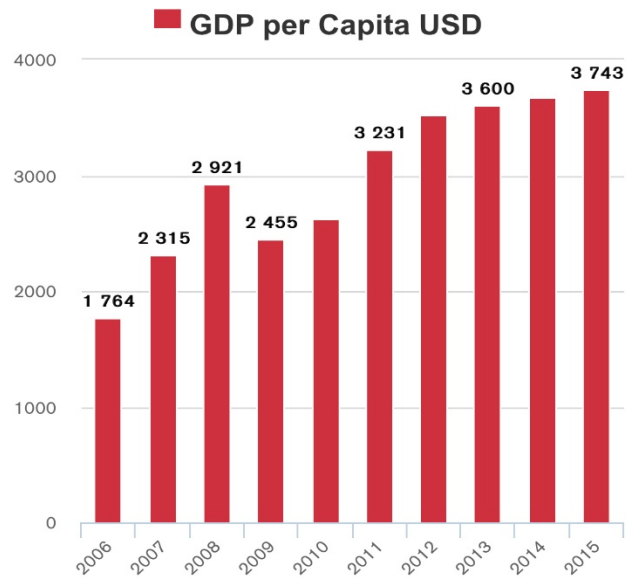
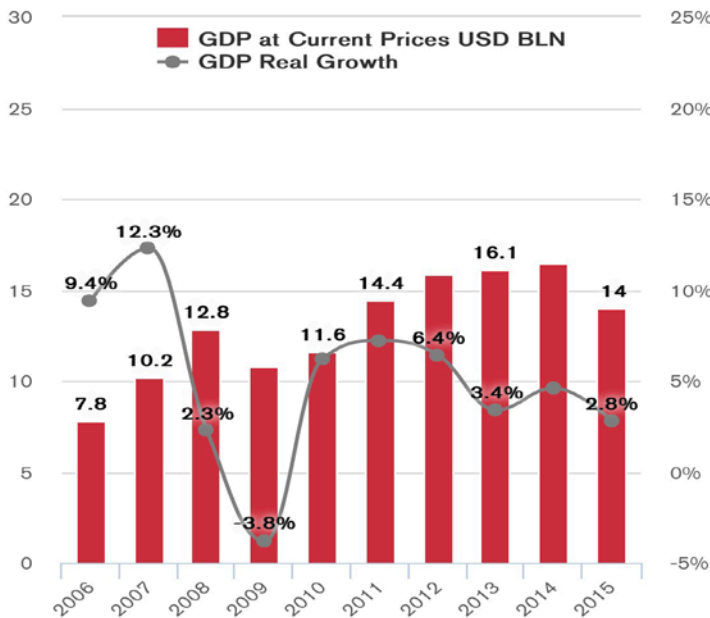
GLAZIERS PUTTY, GRAFTING PUTTY, RESIN CEMENTS AND PAINTERS FILLINGS IMPORT/EXPORT GAP IN TARGET COUNTRIES, 2014





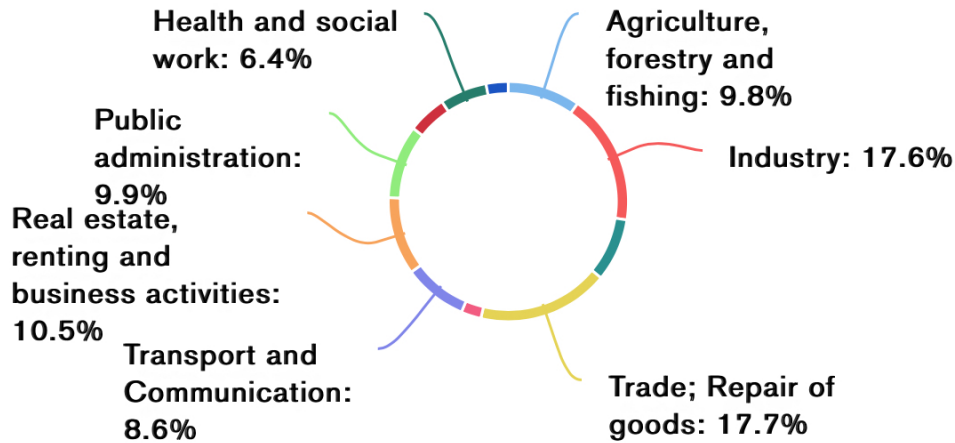
ECONOMY OF GEORGIA

The economy of Georgia is highly integrated with international markets due to the fact that it is located between Europe and Asia on a historical “Silk Road”. Being supported by a relatively free and transparent atmosphere in country, Georgia has diversified GDP structure which is well-positioned for sustainable growth. Attributable to the devaluation of GEL to USD, the total GDP pointed in USD shows a drop in 2015 but actually GDP real growth rate in 2015 was 2.8%. The GDP compound annual growth rate of last 5 years from 2010 to 2015 reached 4.9 %. Thus, Georgia is widely expected to maintain steady growth for the years to come as Georgia’s economic freedom score is 76.2, making its economy the 16th freest in the 2018 Index. Its overall score has increased by 0.2 point, with a substantial improvement in property rights offsetting modest declines in government integrity, judicial effectiveness, and fiscal health.





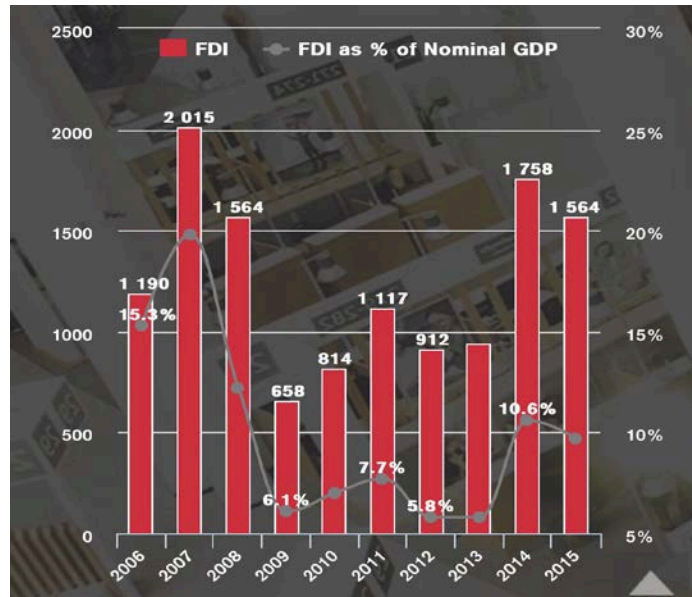
Diversified GDP Structure



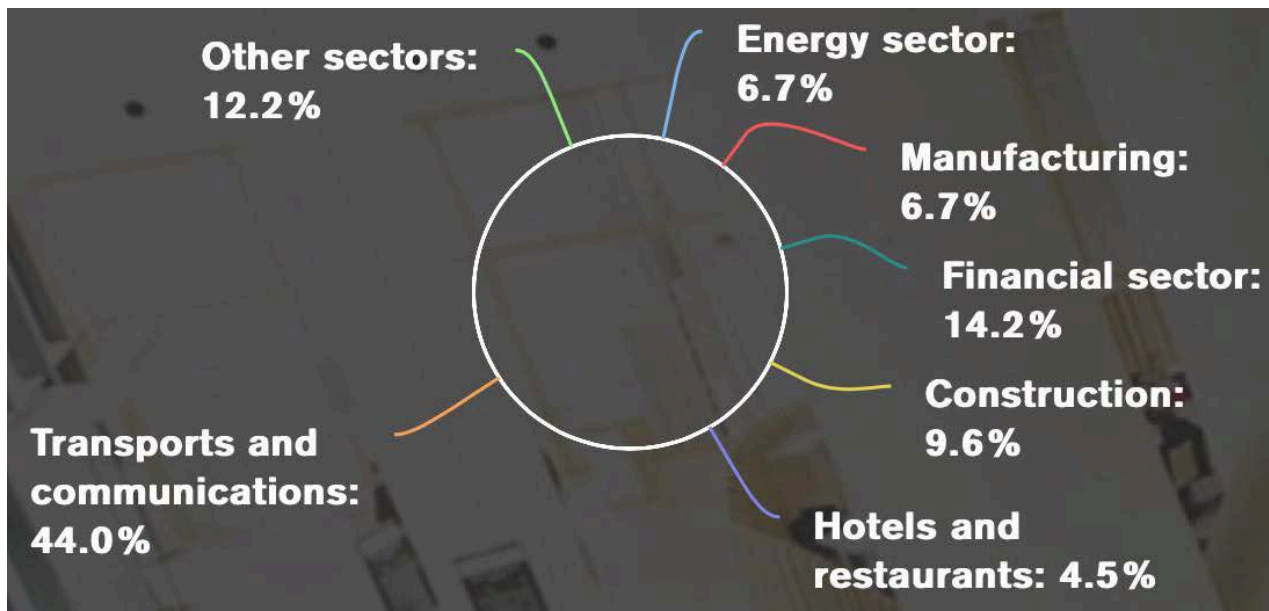
Foreign Direct Investments

Over the last few years, Georgia implemented broad and comprehensive reforms, that touched every aspect of the country's life. Economic reforms were addressed to liberalization of the economy and provision of sustainable economic growth, based on the private sector development. Establishment of an attractive business environment led to significant inflow of Foreign Direct Investment in the country, facilitating high economic growth rates.

Stable political environment, liberal and free market economy, competitively priced workforce, only 6 flat taxes, preferential trade regimes and developed transport infrastructure makes country an attractive destination for foreign investments, this explains why investors from around the globe are attracted by Georgia. The FDI inflow in 2013 amounted to USD 942 million and it reached USD 1,758 million in 2014, which is 87% increase compared to 2013. Preliminary number of FDI amounted to USD 1,351 million in 2015.

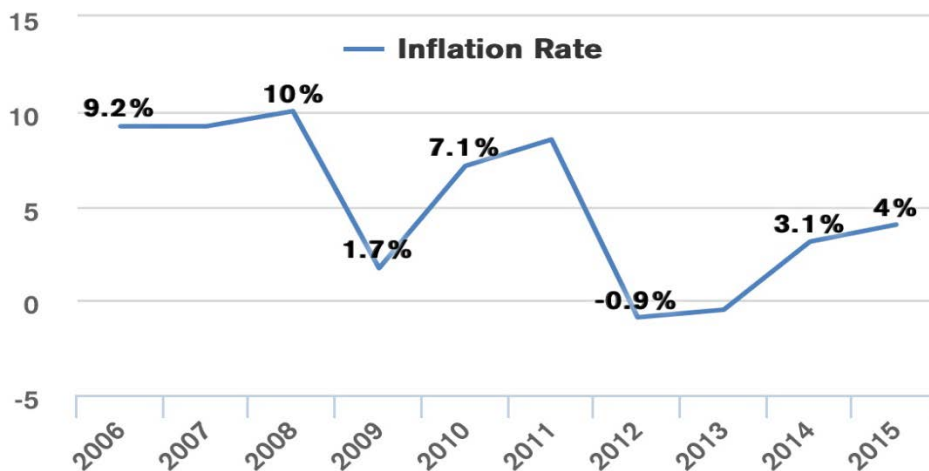


FDI by Sectors





Price stability is a fundamental factor for the country's sustainable economic growth. The monetary policy of the National Bank of Georgia relies on a regime of inflation targeting, to maintain price stability and to minimize fluctuations in economic growth. At the current stage of economic development in Georgia, the inflation target is set at 5% for 2016 years, and for 2017 - 4%. For 2018, the inflation target of the National Bank of Georgia will decrease to its long-run level of 3%.



Taxation

The Government of Georgia is dedicated to a fair and transparent tax environment, protection of business interests and reliable tax administration system. Recent reforms contributed to the simplification of the tax administration, optimization of sanctions, elimination of ambiguous provisions in the Tax Code, and facilitation of customs practices. Series of structural reforms were implemented to further liberalize the business environment and to facilitate the inflow of foreign direct investments to Georgia. According to the Doing Business Report commissioned by the World Bank and IFC, Georgia ranks 8th in the world in 2014 by ease of doing business. Moreover, Georgia is a country with the fourth smallest tax burden in the world, according to the Tax Misery Index Ranking by the Forbes Magazine. Economic Freedom Index of the Heritage Foundation 2014 ranks Georgian economy as the 22nd freest in the world and the 12th freest among 43 countries in Europe.



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In November 2013, Georgia initiated an Association Agreement, encompassing the Deep and Comprehensive Free Trade Agreement (DCFTA) with the European Union signed on June 27, 2014. Georgia's accelerated economic integration with Europe is one of the top priorities of the Georgian Government and will pave the way to strengthened cooperation with Europe in political, social and security areas.

Georgia is a country with low tax rates and transparent tax system. Tax and customs legislation is unified under one tax code and the collection of taxes and supervision of the tax environment is provided by Georgia Revenue Service. All tax administration procedures and customs clearances are online/web-based.

According to Global Corruption Barometer of Transparency International, 0% of interviewed reported paying bribe to the tax administration. World Economic Forum's Global Competitiveness Report named Georgia #9 among low tax rate economies. These emphasize the simplicity and reliability of Georgian tax system.



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About the BMG Consulting

The BMG Consulting is the business management group bringing together top tier talents who have long expertise in investment consulting, accounting and audit, legal services, project management, marketing and digital marketing.

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