
Investment Climate & Opportunities in Georgia

Regional Logistics Corridor

Georgian National Investment Agency
(GNIA)

May, 2013

Advantages of Investment Climate in Georgia

- ✓ *Business friendly environment*
- ✓ *Efficient, pro-business and corruption-free government*
- ✓ *Enlargement of market size by FTAs*
- ✓ *Entry gate in the region*
- ✓ *Competitive cost of labor and energy*
- ✓ *Solid sovereign balance sheet*
- ✓ *Stable banking sector*
- ✓ *Very low crime-rate*
- ✓ *Young labor – 50% of unemployed population are aged between 20-34*
- ✓ *Tax Misery & Reform Index (Forbes Business & Financial News) the fourth least tax burden country*

**STANDARD
& POOR'S**

BB- Stable
(Upgraded from B+ Positive
in November 2011)

FitchRatings

BB- Stable
(Upgraded from B+ Positive
in December 2011)

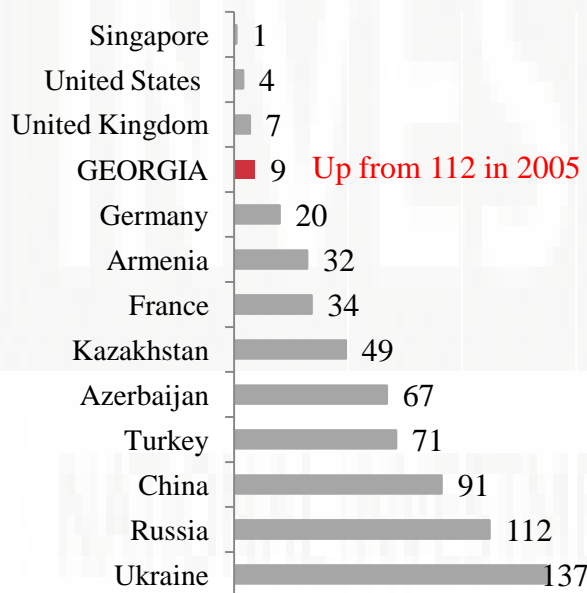
MOODY'S
INVESTORS SERVICE

Ba3 Stable
(Affirmed in August 2012)

Doing Business in Georgia

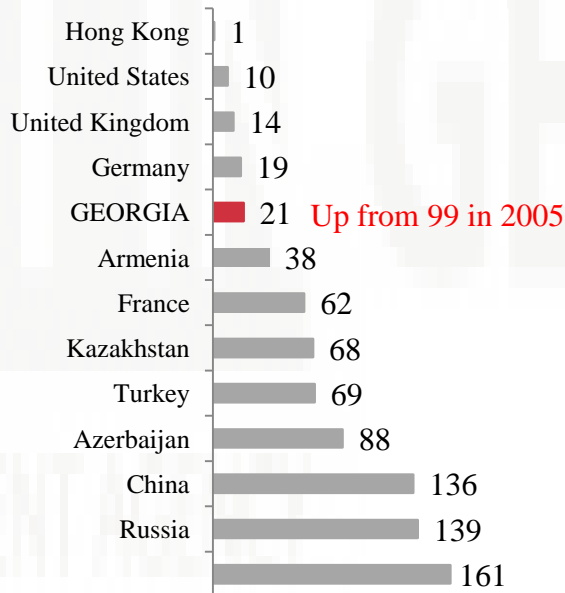
Country's impressive progress in improving business climate has been well documented in a number of international indices. Georgia today is essentially a corruption-free investment destination where rule of law have been given the right way

Ease of Doing Business



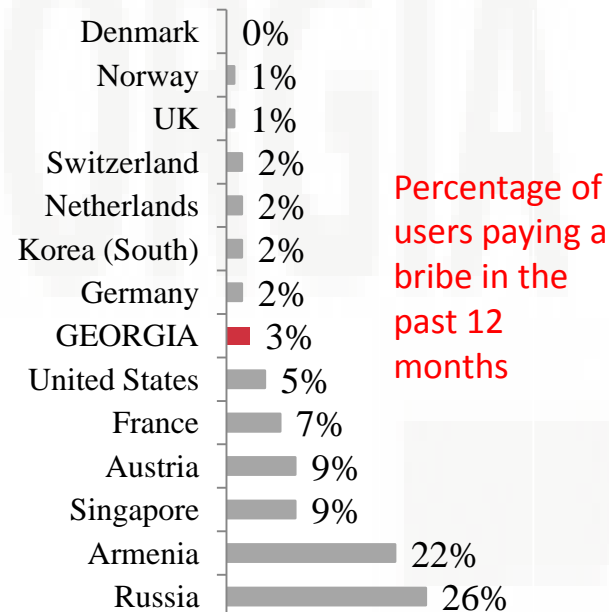
Source: World Bank, 2013 (Rank out of 183 countries)

Index Of Economic Freedom



Source: The Heritage Foundation, 2013 (Rank out of 183 countries)

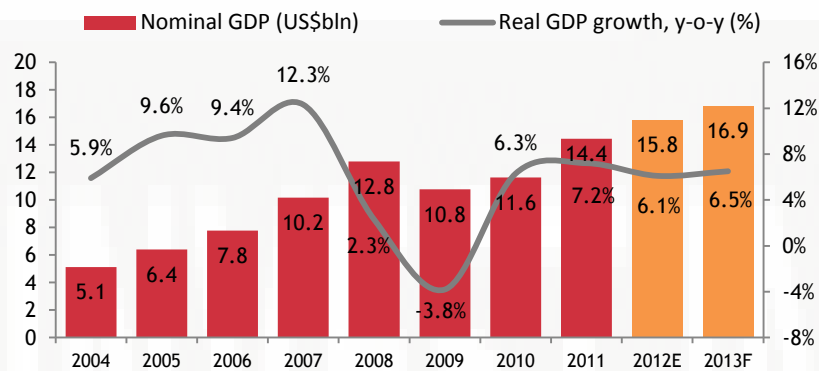
Global Corruption Barometer



Source: Transparency International's Global Corruption Barometer, 2011 (Rank out of 176 countries)

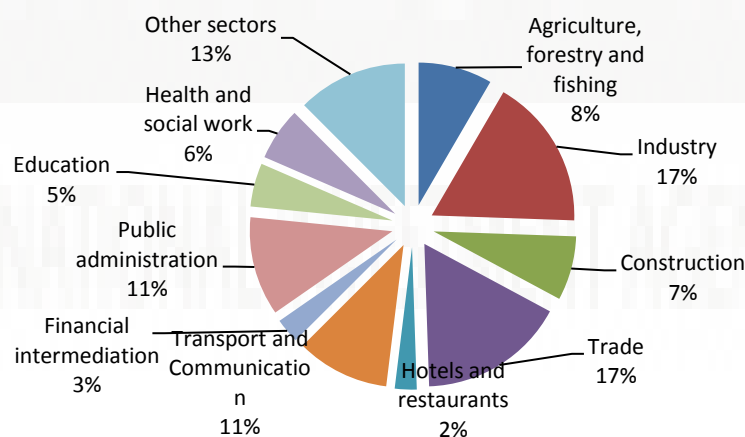
Economic Structure and FDI

GDP: strong rebound in 2010 after a relatively small contraction in 2009, robust growth potential



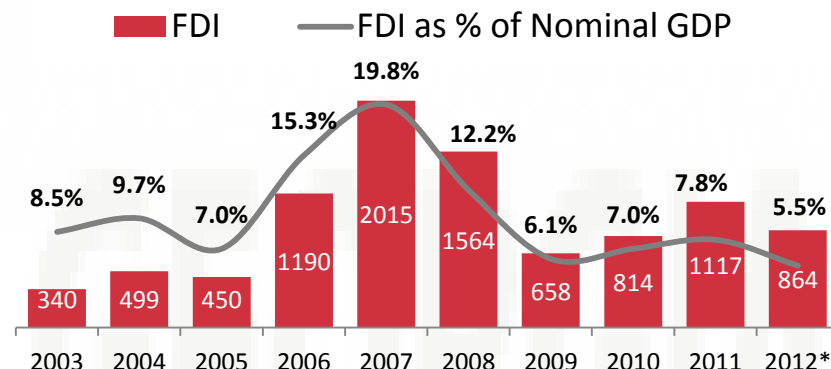
Source: Geostat, MOF

Broad-based and diversified nominal GDP structure 2012

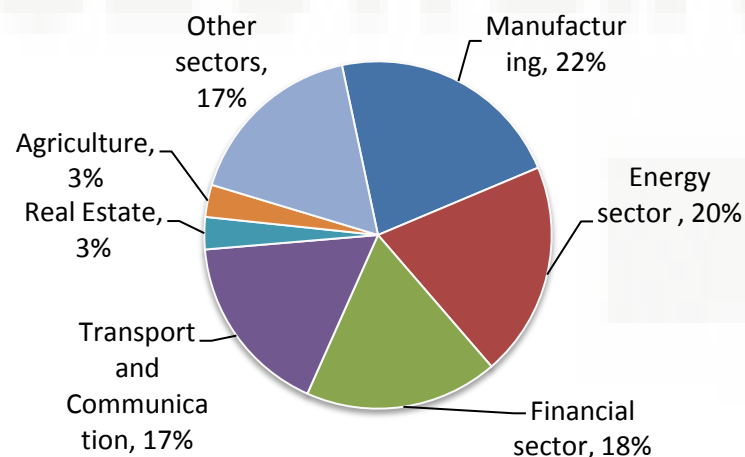


Source: Geostat

Favorable FDI/GDP ratio



FDI Breakdown by sectors 2012*



Opportunity - Market Size

- Very simple and service oriented customs policy and administration
- ~90% of goods free from import tariffs
- No quantitative restrictions
- **Preferential (liberal) Trade Regimes:**
 - ✓ GSP+ with EU (7200 products)
 - ✓ GSP with USA, Norway, Switzerland, Canada, Japan (3400 products)
 - ✓ Member of WTO
 - ✓ Existing FTA (CIS countries and Turkey)
+350 million
 - ✓ DCFTA with EU (will be signed next year)
+ 0,5billion



Population of Georgia: 4,5 million

Georgia: 4,5 million population
Access to the 0,9 billion market

Taxation - simple, low, efficient and fair

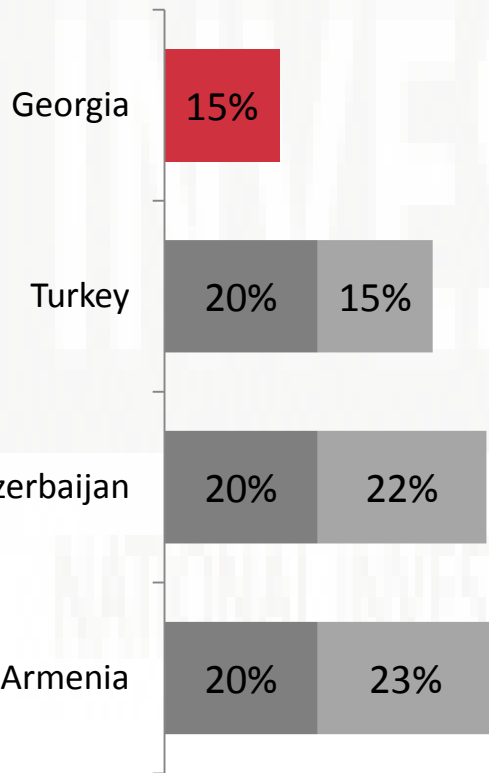
	'04	'05	'06	'07	'08	'09	'10	'11	'12
Number of Taxes	21	7	7	7	6	6	6	6	6
VAT	20%	20%	18%	18%	18%	18%	18%	18%	18%
Income Tax	12-20%	12% flat	12% flat	12% flat	Social Tax + Income Tax 32% → 25%	Social Tax + Income Tax → 20%	20%	20%	20%
Social Tax	33%	20%	20%	20%	-	-	-	-	-
Corporate Profit Tax	20%	20%	20%	20%	15%	15%	15%	15%	15%
Dividend & Interest Income Tax	10%	10%	10%	10%	10%	5%	5%	5%	5%

- ✓ No payroll tax or social insurance tax
- ✓ No capital gains tax
- ✓ No wealth tax and inheritance tax
- ✓ 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 40 countries

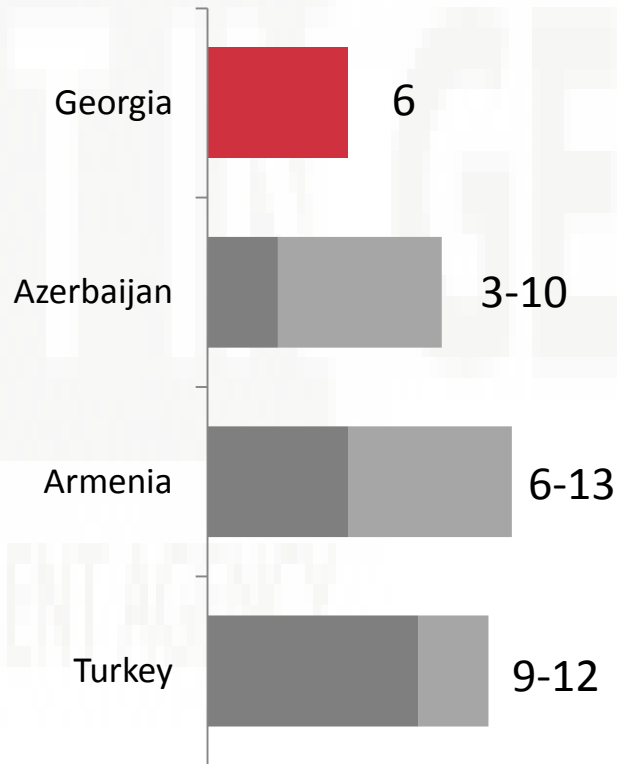
Competitive Factor Costs at a Regional Level

Highly Competitive Tax Rates

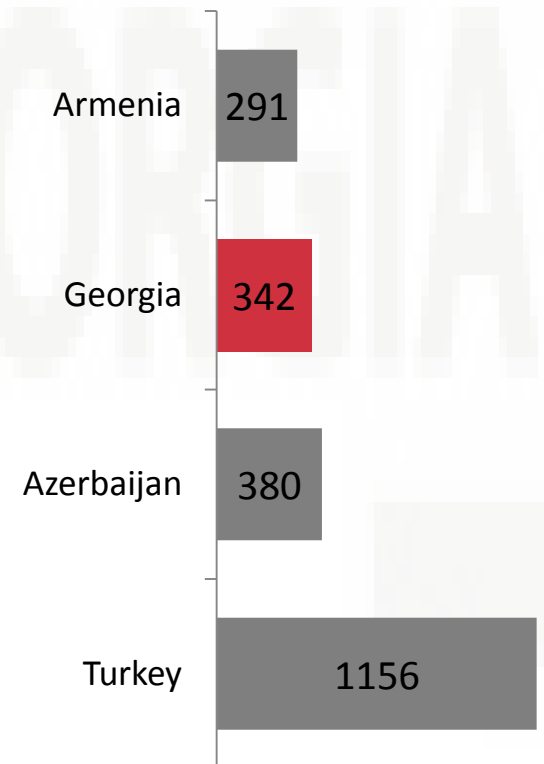
■ Employer Social Security
■ National Corporate Income Tax Rate



Low cost for power US cents per kWh



Comparable labor cost Gross avg. wage, USG/month



Investment Opportunities in Georgia



Hydro Power Hub



Tourism



Manufacturing



Agriculture



Regional Logistics Corridor



Regional Services Hub

Regional Logistics Corridor

Trans-Caucasian route

- Strategic location: It serves as an entry gate to the Caucasus and Central Asia as well as a stepping stone to the region
- Around 80% of port cargo and 60% of freight rail 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 (PanaMax)
- Containerization and logistical centers
- Direct connection with European and Central Asian railway networks (BTK project)



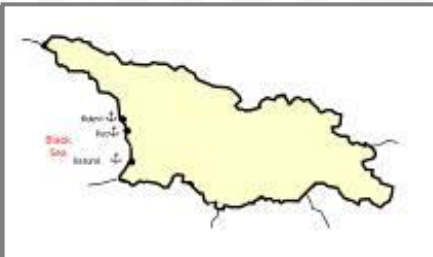
Georgia's transport infrastructure

Mode of transport

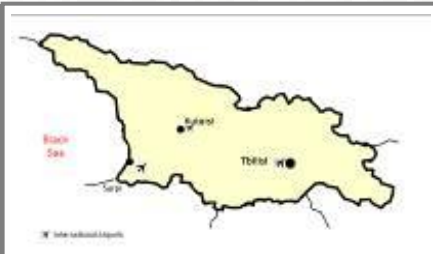
Road/Rail



Maritime



Air



Existing infrastructure and flows

Rail

- 1,500 km (90% electrified)
- ~7,000 rolling stock, 180 locos

Road

- 1,500 km international road
+ 20,000 km internal and local roads

Poti seaport

- 13 berths, 8-10m draft
- Container and bulk (210k TEU)
- Owned/operated by Maersk/RAKIA

Batumi seaport

- 5 berths, 1 offshore mooring, 11m draft
- 90% petroleum/oil, 10% containers (44k TEU)
- Operated by JSC KazTransOil

Kuhlevi seaport

- Crude oil, petroleum, and lubricants
- Owned/operated by State Oil Company Azerbaijan

Tbilisi international airport

- ~1 million passengers
- capacity: 3 million passengers
- Serving 28 destinations

Batumi international airport

- 100,000 passengers

Upgrades

Rail

- Baku-Tbilisi-Kars railway project
- Modernization
- Tbilisi bypass
- ~2500 new rolling stock

Road

- East-West highway construction/upgrade

Poti seaport

- New container berth (2014)

Deep-sea port

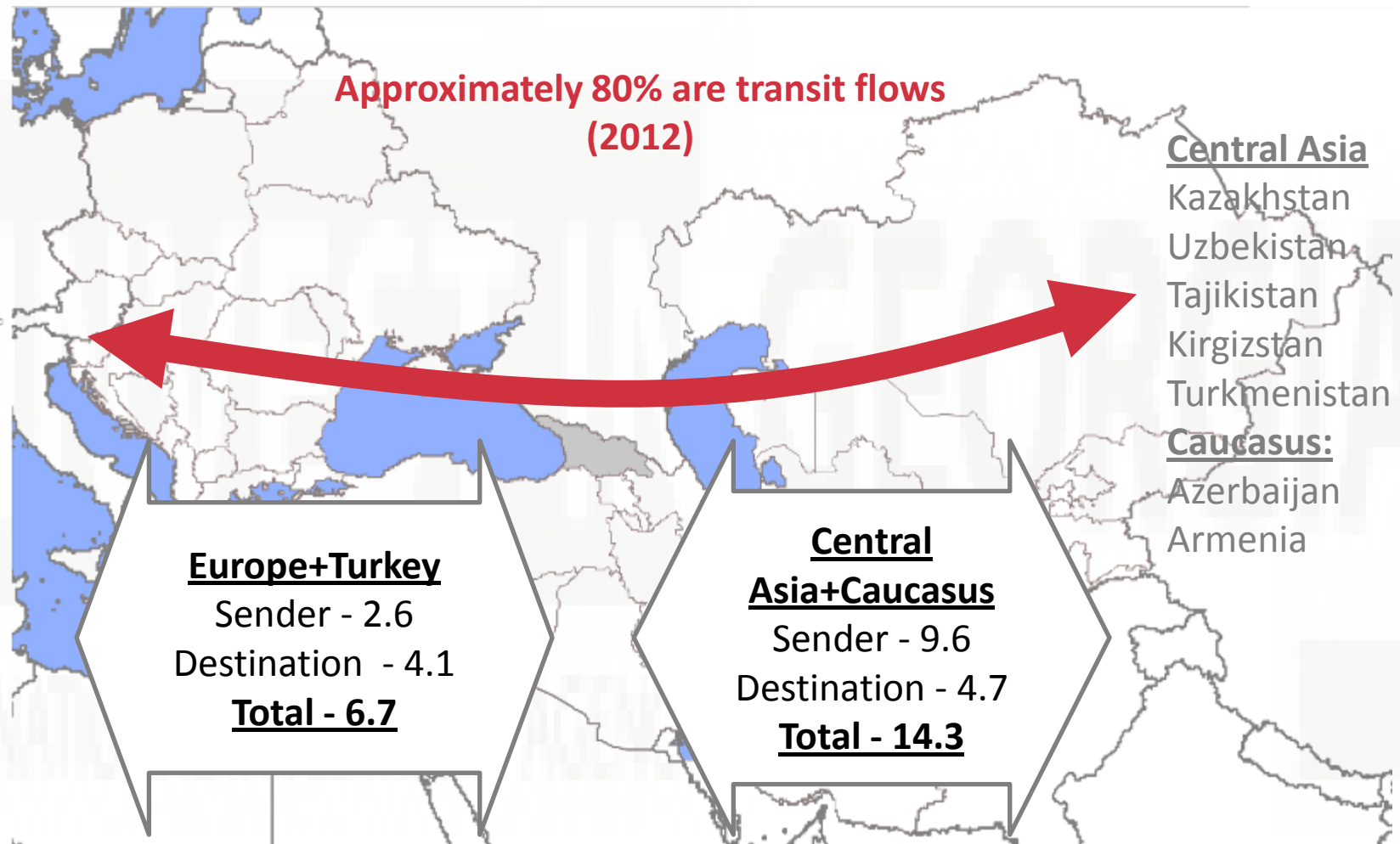
- Min. 2 berth of 20m draft (PanaMax)
- First phase: Dry bulk (10m tons) and containers (200k TEU)
- USD 200 mn investment volume

Kutaisi international airport

- Passenger, incl. low-cost airlines

Cargo Turnover

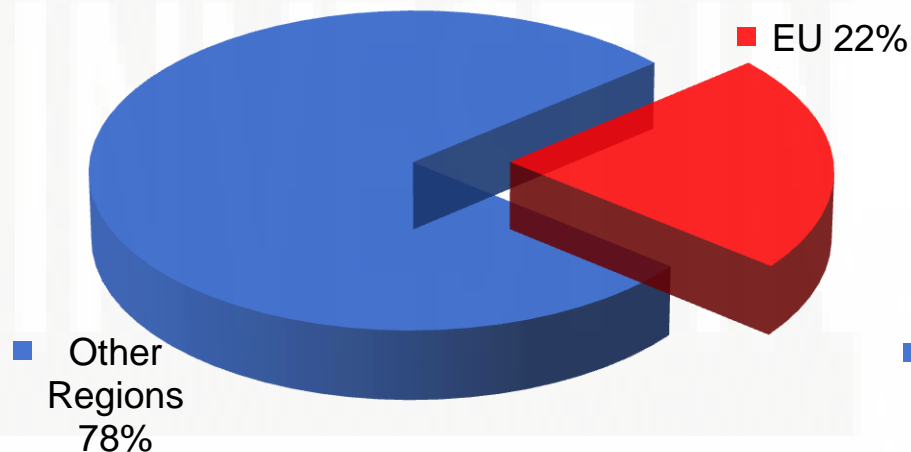
Transit flows through the Corridor (million tons per year)



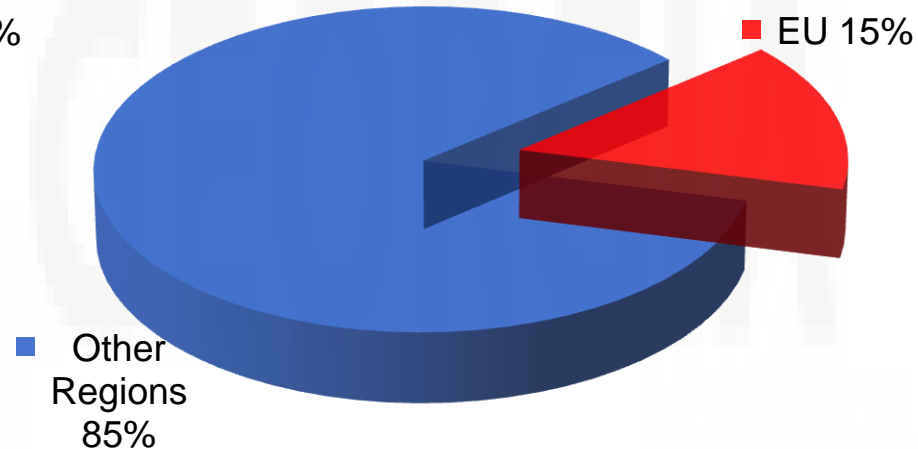
Potential Markets

Annual Cargo Flow of Caucasus & Central Asia

EXPORT



IMPORT



	Export	Import	Grand Total
TOTAL	255 ml. ton	68 ml. ton	323 ml. ton
EU	56 ml. ton	10 ml. ton	66 ml. ton

*Source : IGC TRACECA

Georgia serves as the entry gate to a landlocked region boosting significant resource reserves



Oil

3%

USD 100 bn



Gas

14%

USD 9 bn



Coal

5%

USD 28 bn



Iron ore

2%

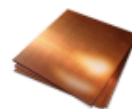
USD 4 bn



Zinc

5%

USD 1 bn



Copper

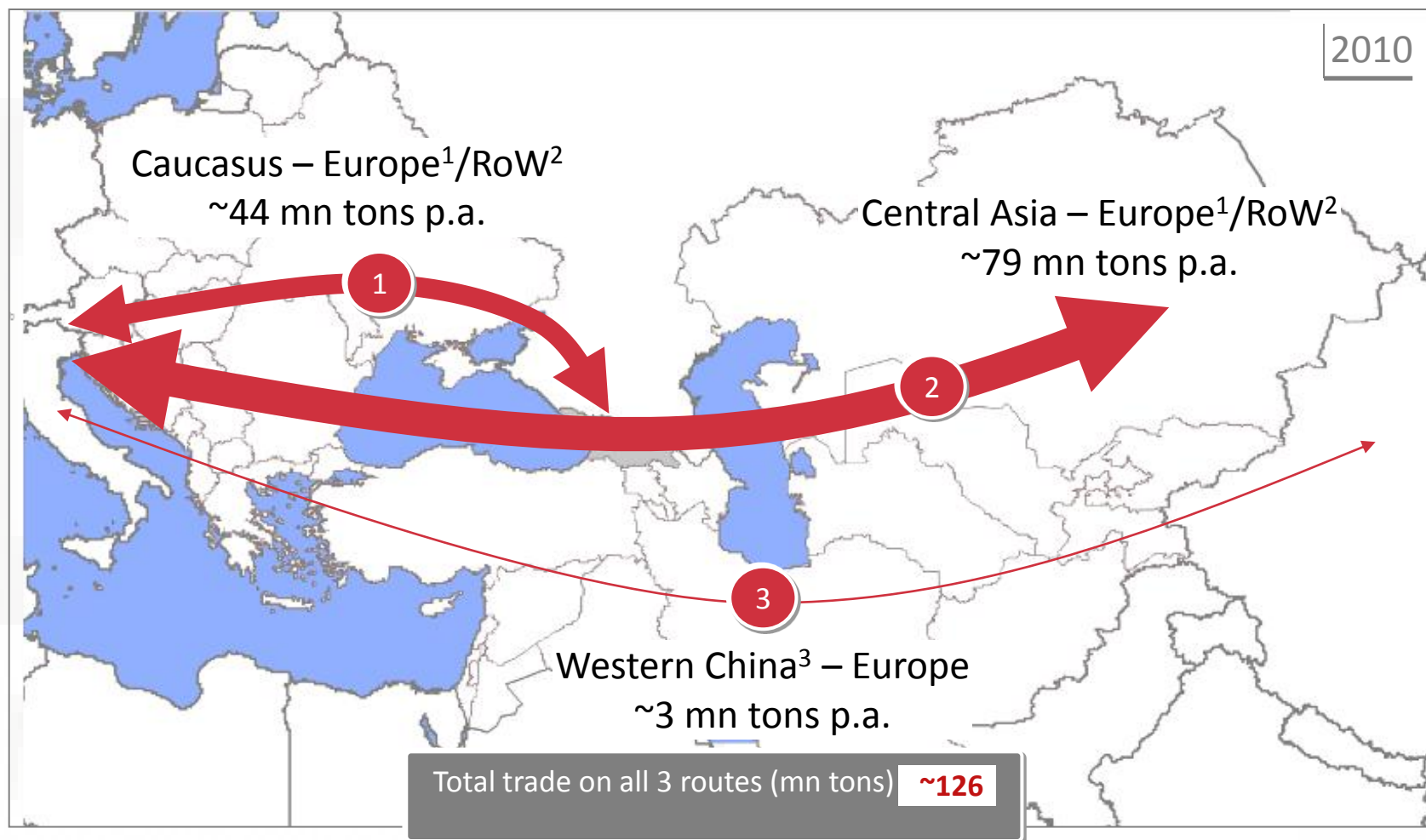
3%

USD 3 bn



**Other (bauxite,
gold, nickel,
PGMs)**

Georgia can utilize its location to address several flows on the major European-Central Asian trading routes



1 Including Eastern Europe, Balkans and Turkey

2 Excluding Central Asia, Asia and Middle East

3 Estimated using total export volume by province

In total, the addressable flows relevant for transit through Georgia amount to ~126 million tons

Million tons,
2010


Origin	Destination					Total addressable
	Caucasus	Central Asia	Europe	Western China	RoW	
Caucasus	2	1	21	0	14	38
Central Asia	2	12	60	1	11	73
Europe	3	2	N/A	2	N/A	7
Western China	0	1	1	N/A	4	1
RoW	4	4	N/A	22	N/A	8
Total addressable	11	7	82	2	25	126

Liquid bulk – Most relevant addressable flows are between Caucasus and Europe and Central Asia and Europe

Million tons, 2010

		Destination					Total addressable
Origin		Caucasus	Central Asia	Europe	Western China	RoW	
Liquid bulk	Caucasus	1	0	21	0	13	35
	Central Asia	0	4	55	1	6	61
	Europe	1	1	N/A	0	N/A	2
	Western China	0	0	0	N/A	0	0
	RoW	1	1	N/A	8	N/A	2
Total addressable		3	2	76	0	19	100


Legend: ■ Addressable flows ■ Other flows



Dry bulk – Most relevant addressable flows are between Central Asia and Europe/RoW

Million tons, 2010

		Destination					■ Addressable flows	■ Other flows
Dry bulk	Origin	Caucasus	Central Asia	Europe	Western China	RoW	Total addressable	
	Caucasus	0.5	0	1.0	0	0.5	2.0	
	Central Asia	1.5	6.5	3.5	0.5	5.5	10.5	
	Europe	1.0	1.0	N/A	0.5	N/A	2.5	
	Western China	0	0	0	N/A	1.0	0	
	RoW	1.5	0.5	N/A	11.5	N/A	2.0	
	Total addressable	4.5	1.5	4.5	0.5	6.0	17.0	



Container – Most relevant addressable flows are between Central Asia and Europe/RoW

Million tons, 2010

Destination

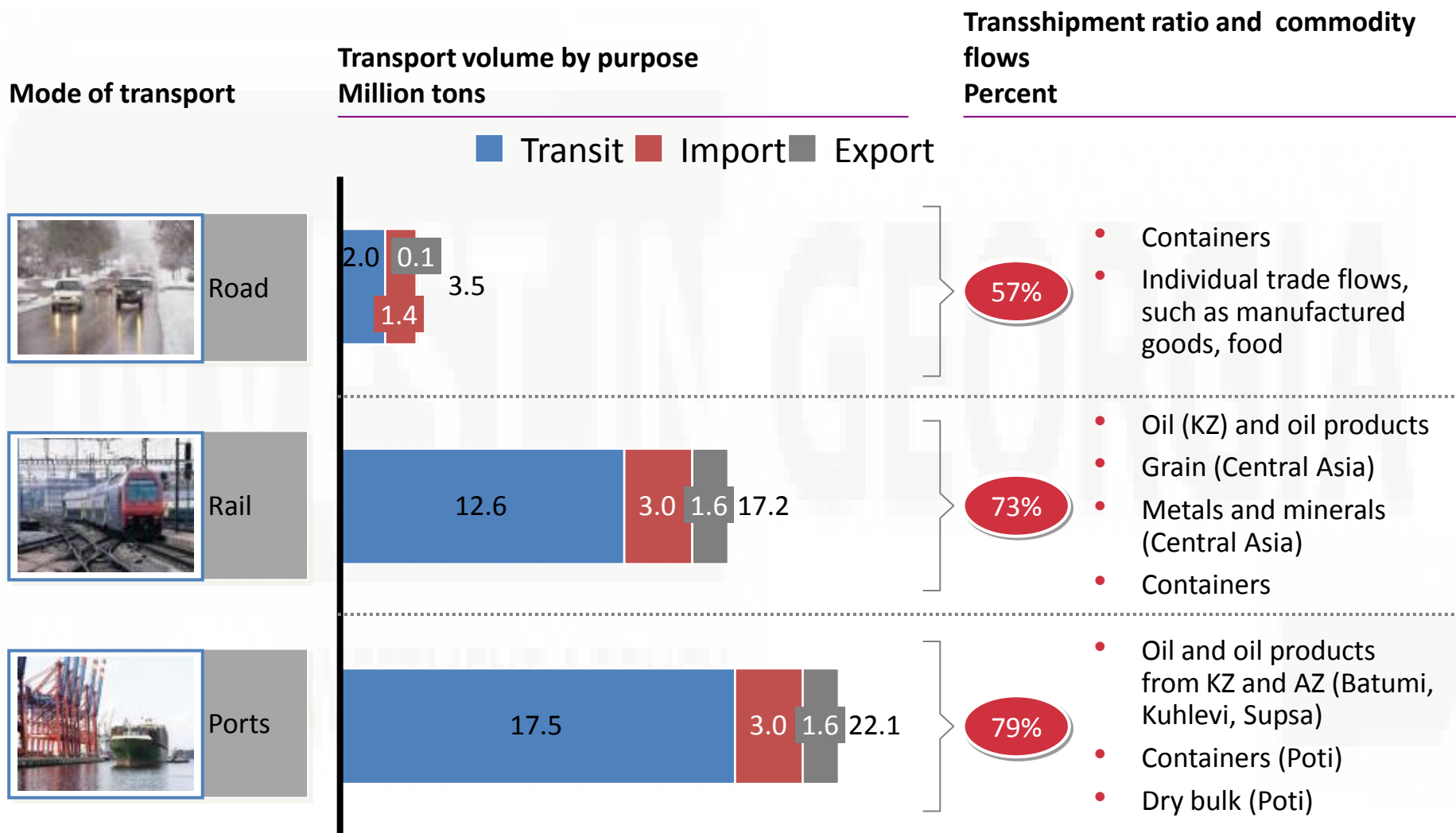
■ Addressable flows ■ Other flows

Origin	Destination					Total addressable
	Caucasus	Central Asia	Europe	Western China	RoW	
Caucasus	0.1	0.0	0.2	0.0	0.2	0.5
Central Asia	0.0	1.4	0.7	0.0	0.1	0.8
Europe	0.8	1.6	N/A	0.8	N/A	3.2
Western China	0.0	0.1	1.0	N/A	2.3	1.0
RoW	1.5	1.5	N/A	1.6	N/A	3.0
Total addressable	2.4	3.1	1.9	0.8	0.3	8.5

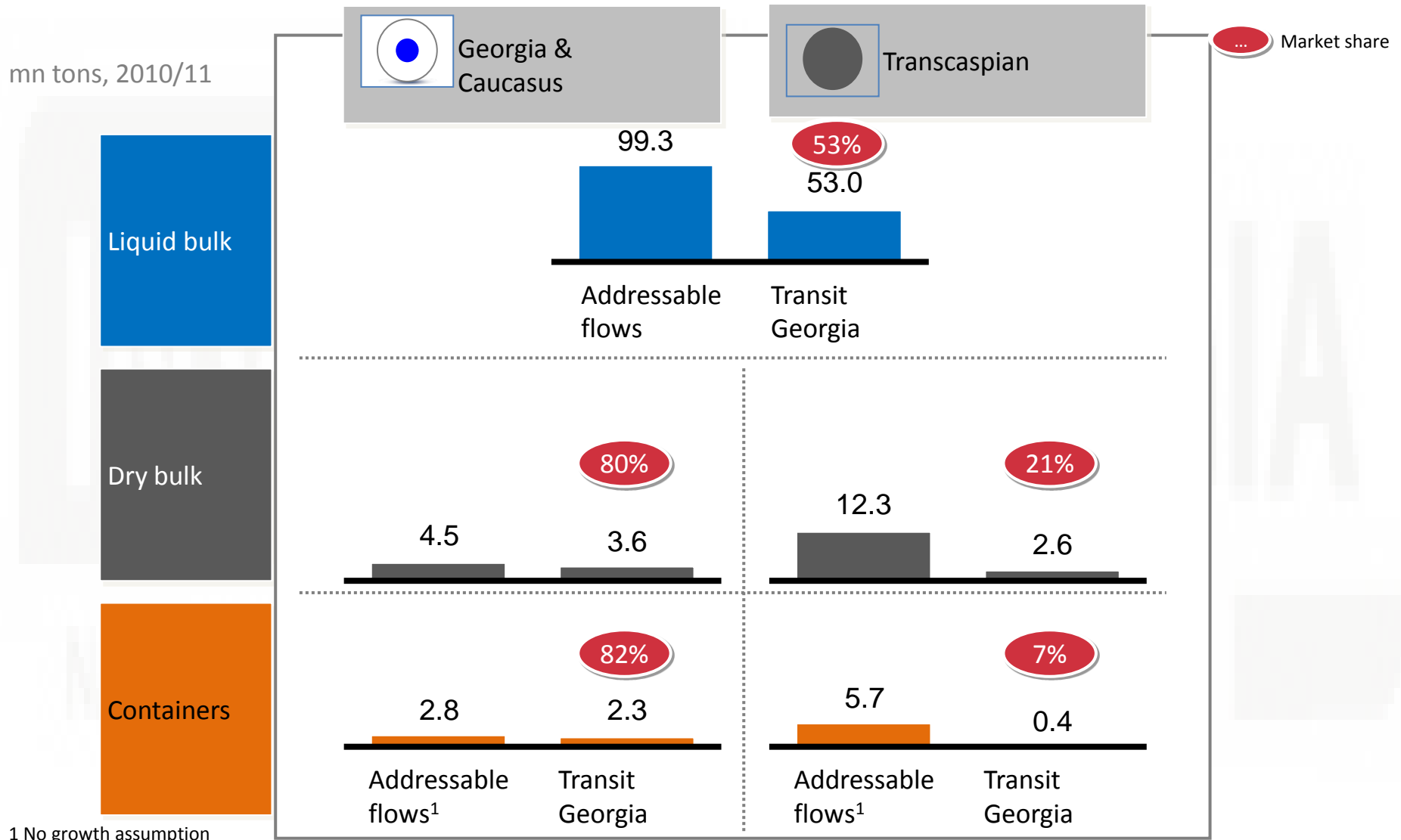
Container



Answering this demand, Georgia's existing transport economy is already transshipment based – rail and ports have transshipment ratios of >70%



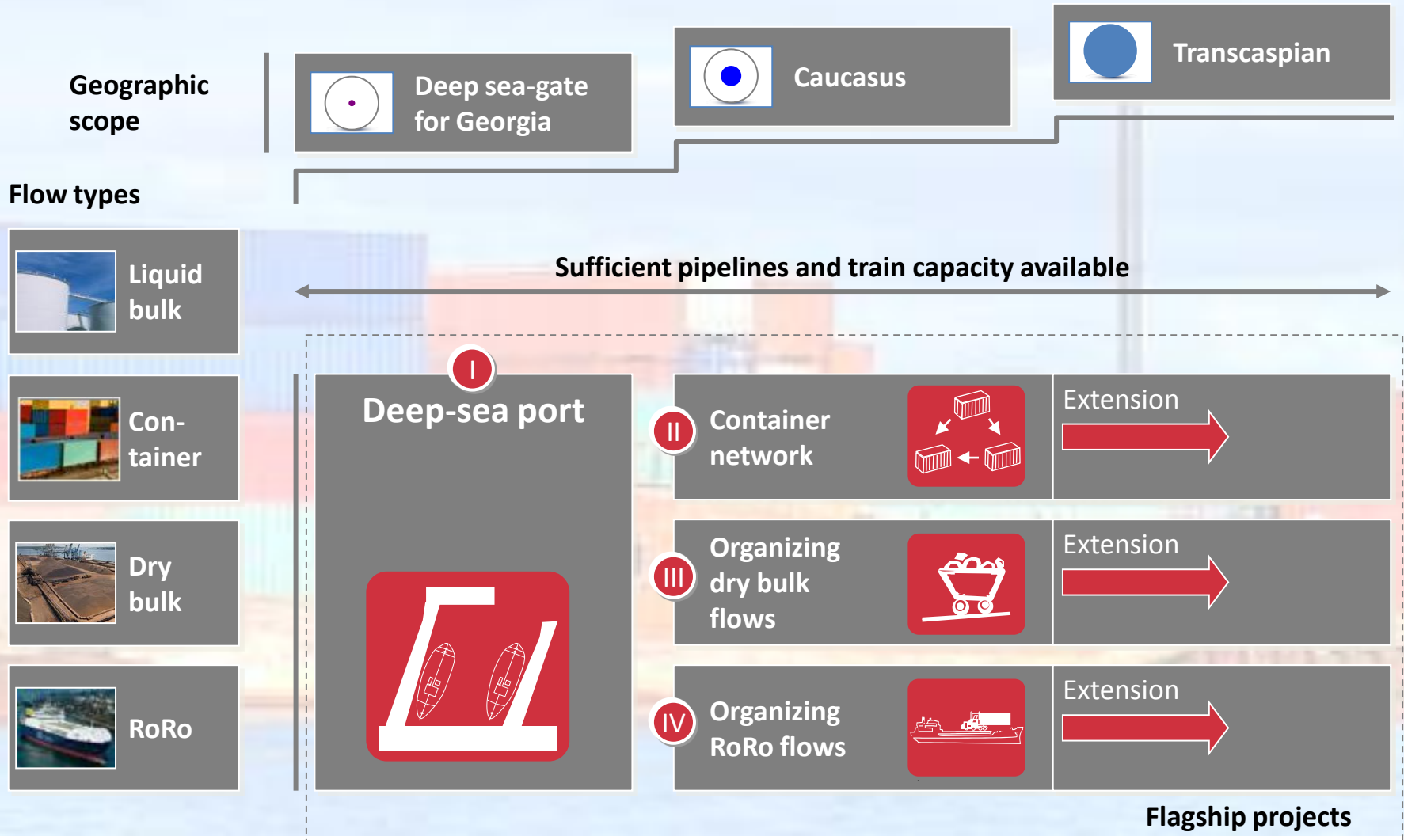
Nevertheless, the market share of Georgia in addressable flows is still quite low – particularly in Central Asia



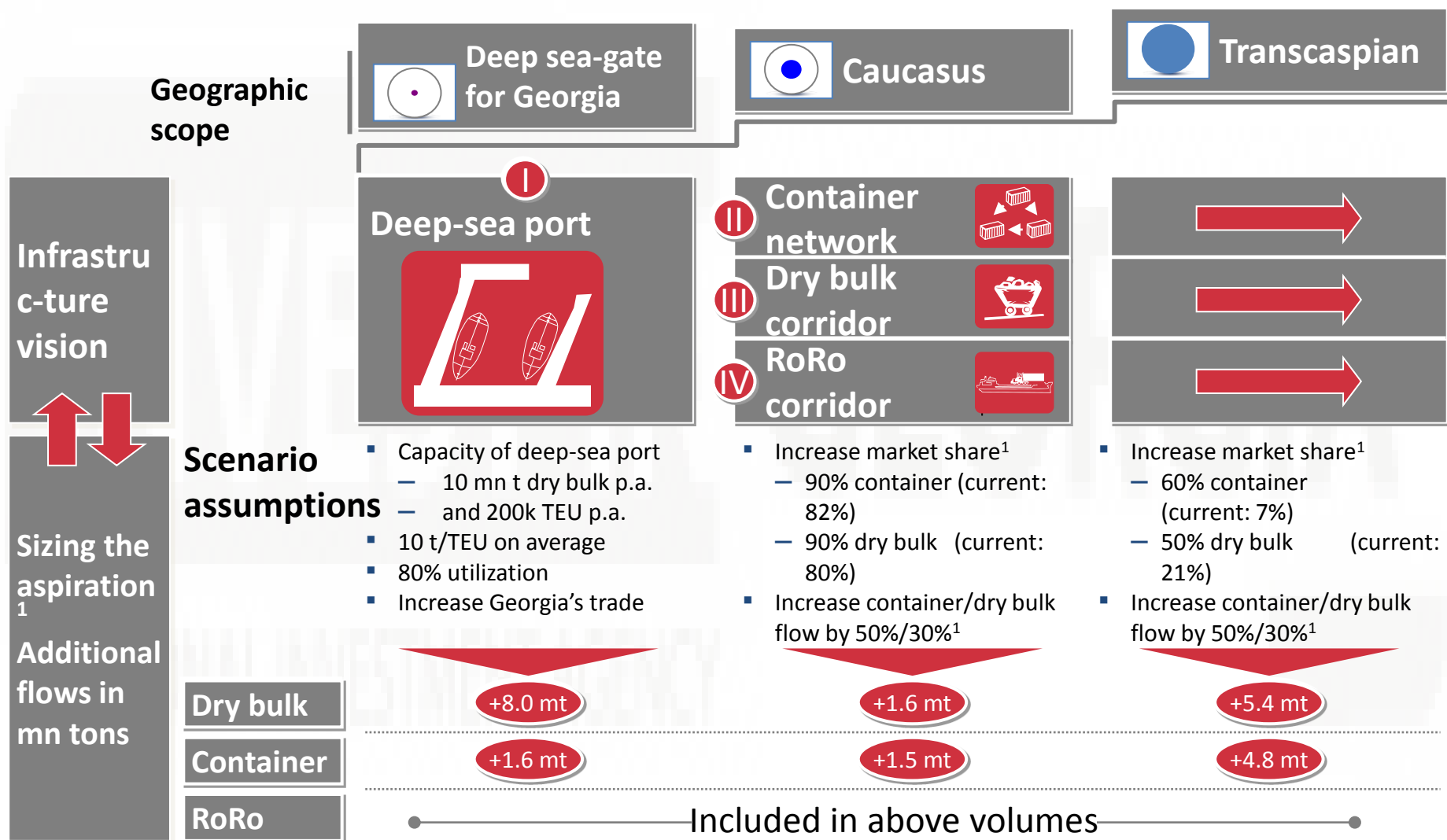
■ Capacity
■ Current load

21

The opportunity space – Georgia needs to build a deep-sea gateway to its economy and to organize trade flows of its natural hinterlands



The vision for the logistics corridor needs to be backed by sizing the aspiration for additional flows

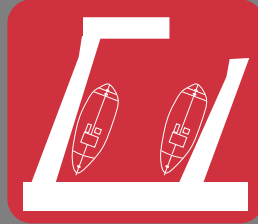


Aspiration needs to be translated into concrete flows to justify deep-sea port and transport corridor infrastructure investments

Pre-condition/ aspiration for flows

Potential ways to secure required flows

I Deep-sea port



- Large dry bulk and/or container flows that exceed current port capacity
- Sufficient interest for Panamax/capesize vessel traffic

- Involve current port owners to evaluate actual market demand for
 - Increased capacity
 - Improved port economics
- Involve owners of commodity flows (container, bulk) in superstructure investment to secure baseload flows

II

III

IV

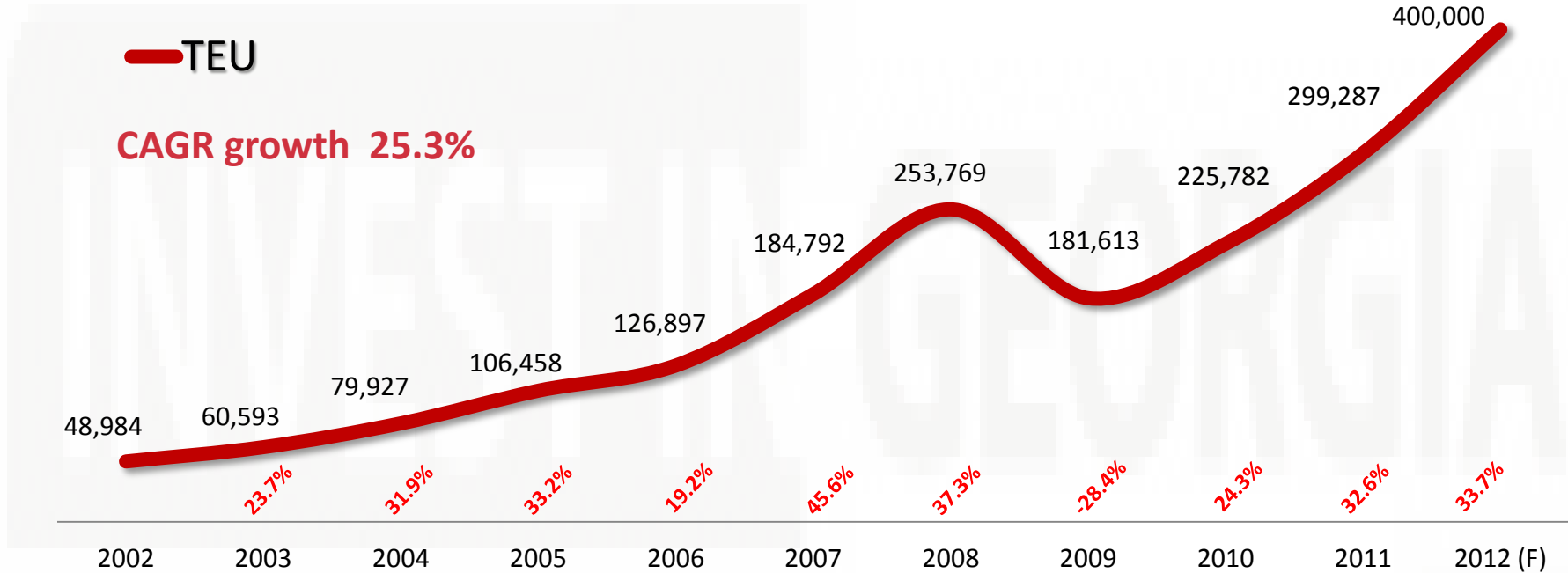
Transportation corridors



- Container: additional containerization of goods on relevant routes
- Dry bulk: large flows to justify infrastructure investments
- Ro-Ro: Capacity limits on current network

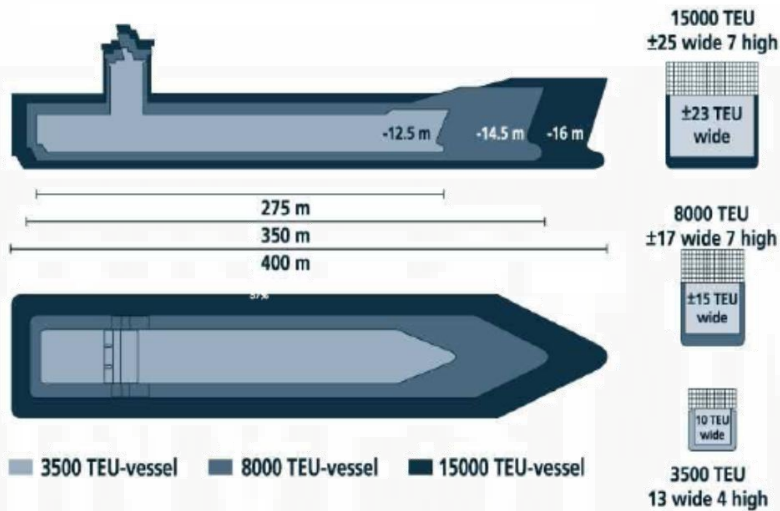
- Involve owners of commodity flows (container, bulk) in infrastructure investments to secure baseload flows

Container Turnover



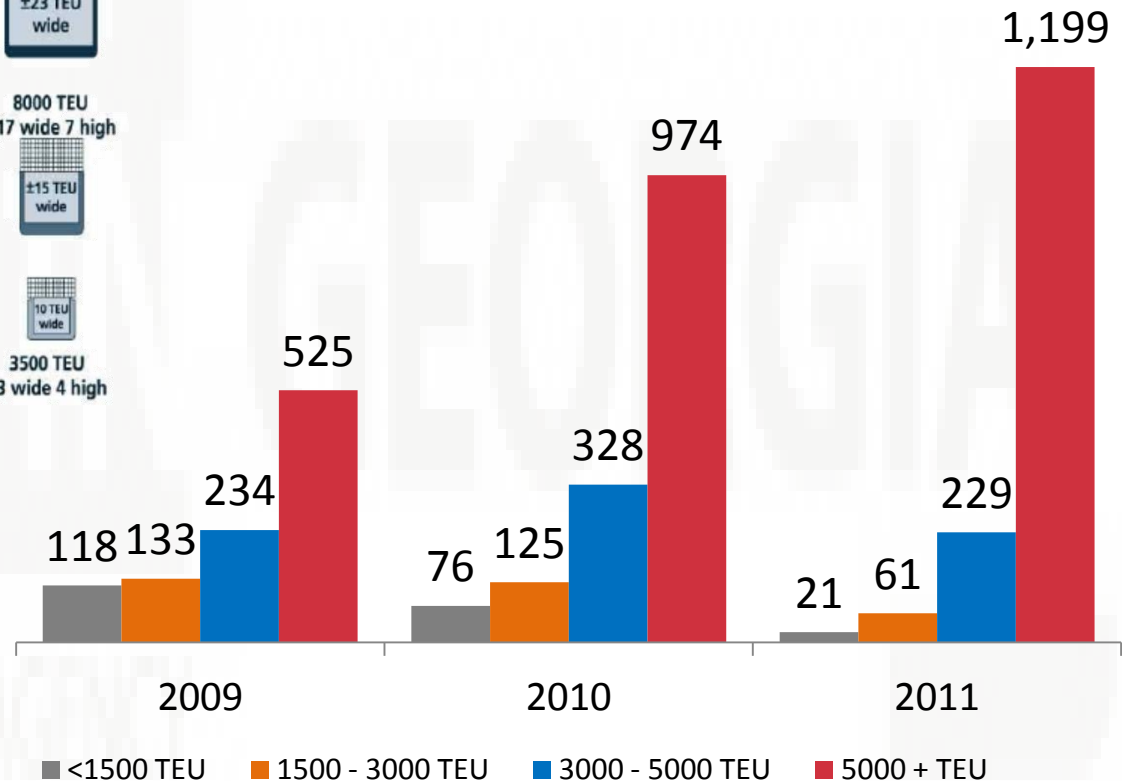
Feeder vessels connecting Georgian Ports with main hubs of Mediterranean & Black Sea.

Shipping Perspectives

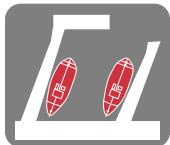


Containership Orderbook ('000 TEU)

2009 – 2013	Fleet Growth
<1500 TEU	+15%
1500 – 3000 TEU	+13%
3000 – 5000 TEU	+30%
5000 + TEU	+72%



* Source: Drewry Sep.2009



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

The vision – a deep-sea port¹



- Adds capacity to existing ports
- Changes port economics

Required infrastructure

- Deep sea port
 - Min. 2 berths for PanaMax size
 - 20 m depths²
- Handling capacity/equipment
 - Dry bulk terminals, storage, and handling equipment for 10 million tons
 - Container terminals, storage, and handling equipment for 200k TEU
- Railway connection (only ~17 km to main railway line)
- Potential extension by a liquid terminal³

**USD
200-250 mn**

1 New location (earmarked) or alternatively extension of existing port 2 Can also serve Capesize

3 Not included in investment size estimation

Deep Sea Port



5 Key Advantages

- Strategic Location
- Modern deep sea port
- One stop shop solutions
- Fast & simple procedures
- All year round safe navigation

First Phase : Year 2015

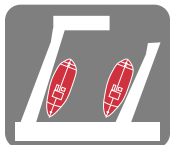
Capacity 700.000 TEU/year;
Total Quay wall 500 m;
Draft 14,0 m.

Second Phase : Year 2016

Capacity 3.000.000 mt/year;
Added Quay wall 300 m;
Draft 14,0 m.

Third Phase : Year 2018

Capacity 1.000.000 TEU/year;
Added Quay wall 300 m;
Draft 16,0 m.



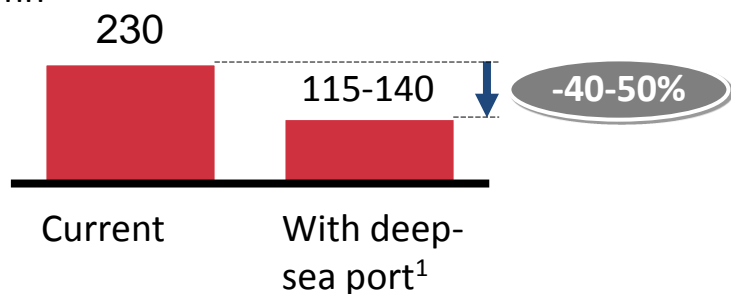
... and can change the economics of transportation, reducing the cost of trade and benefiting the economy of Georgia

Deep-sea port reduces cost of trade

Imports

Total cost of marine shipment

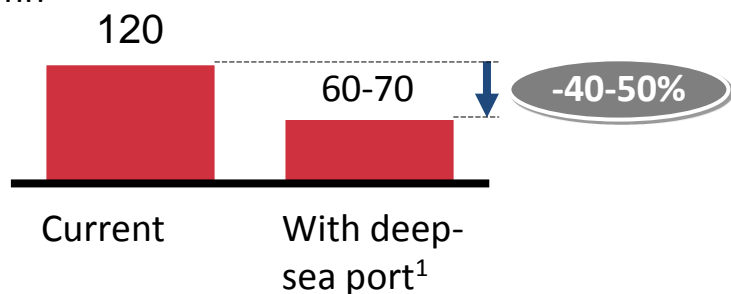
USD mn



Exports

Total cost of marine shipment

USD mn



Benefits to Georgia's economy

Increase purchasing power by decreasing prices of everyday consumer goods



Stimulate investment by decreasing cost of investment goods



Improve balance of payments and decrease FX outflows



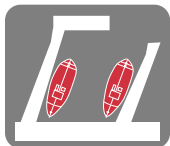
Increase competitiveness of Georgian exporters



Improve balance of payments and decrease FX outflows



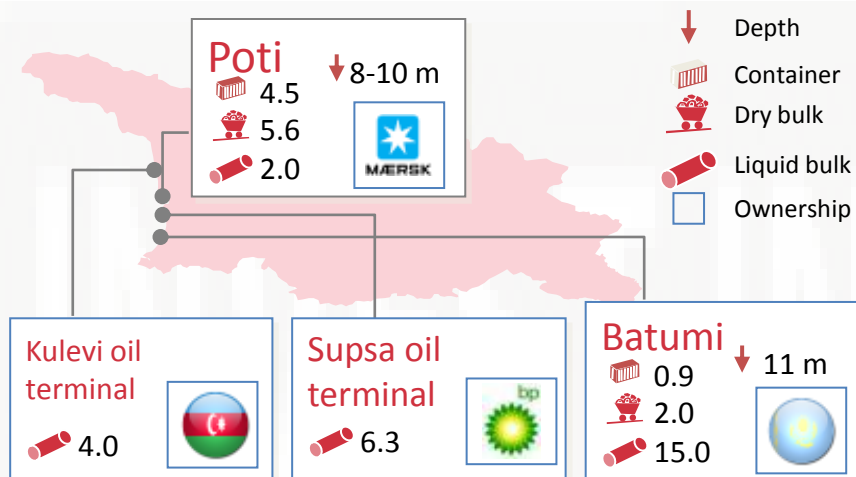
¹ Assumptions: Total imports through ports 3.0 mn tons; total exports through ports 1.6 mn tons (current volumes); 70% bulk/30% containers; average travel distance 2000 miles; current port capacity for Handymax ships, deep-sea port for Capesize



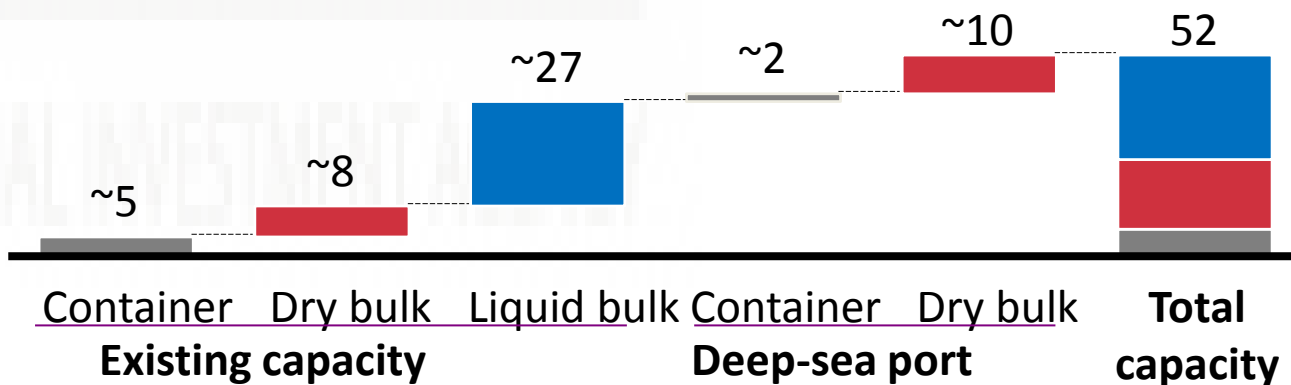
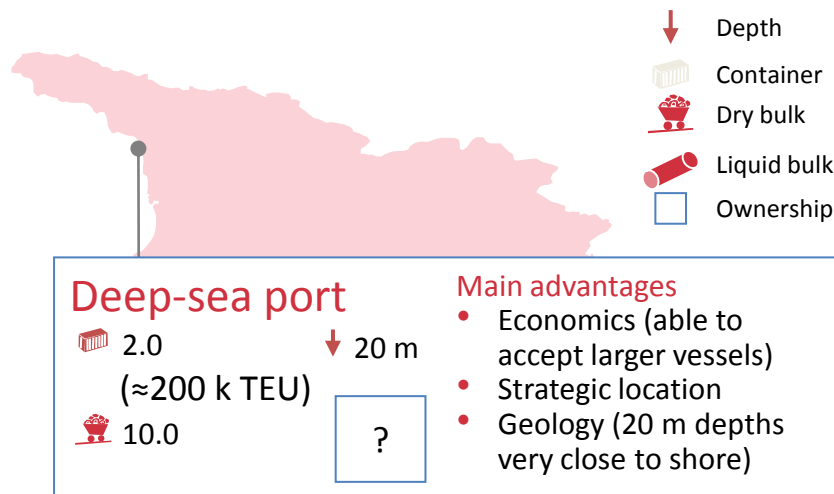
Deep-sea port will add significant capacity to current ports ...

Million tons

Current port capacity

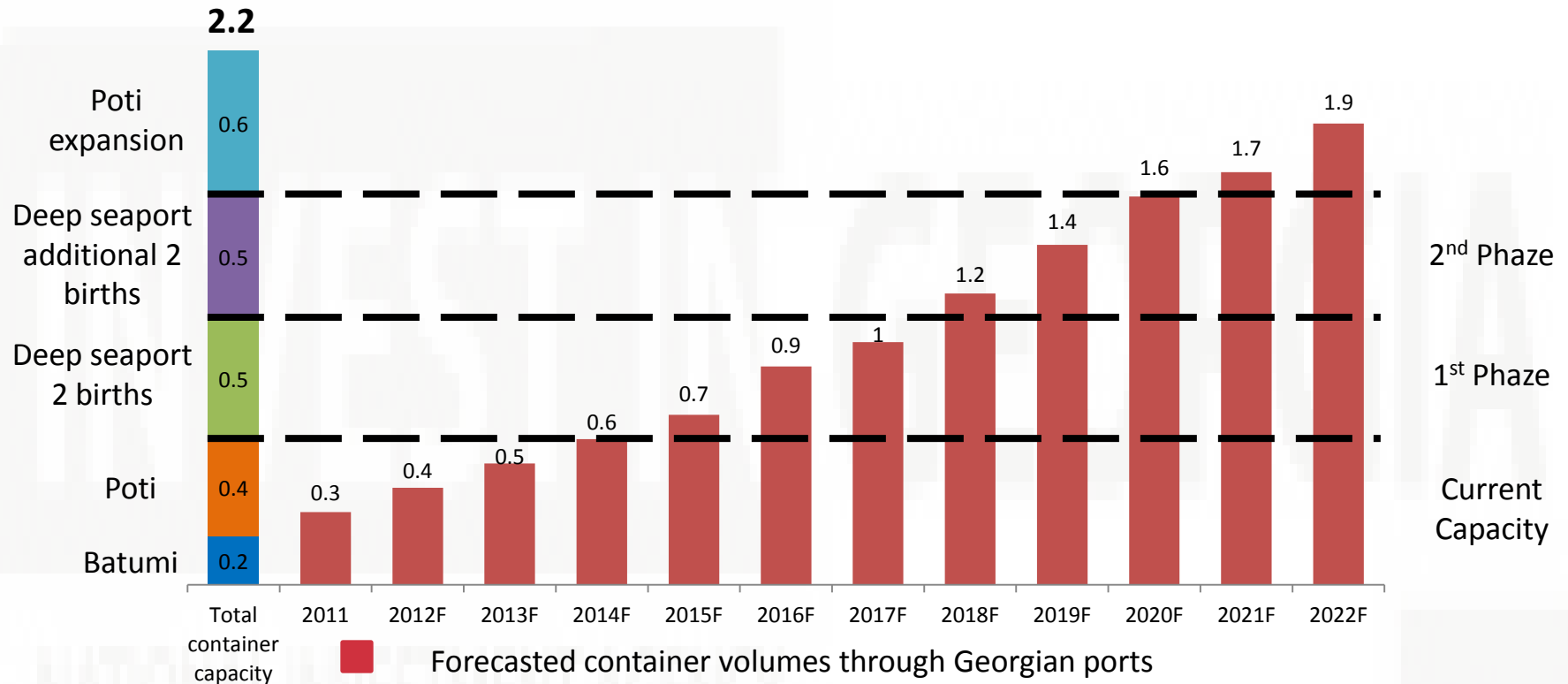


New deep-sea port



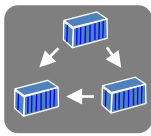
Georgian capacities comparison with forecasted volumes

Million ton



Growth synergies between Georgian Railway and Lazika port due are identified due to higher total throughput of containers through Georgia:

- Lazika will provide additional container capacities to currently congested container terminals in Georgia
- Lazika will capture additional cargo from foreign competing ports in Ukraine, Lithuania and Russia



The infrastructure vision – Organizing container flows requires the buildup of a network of terminals

The vision – a terminal network



Required infrastructure for terminals

- Network of 3-5 container terminal platforms to handle ~1 mn TEU including (circa USD 500 – 1 000 million investment need)
- Connectivity:
 - Railway
 - Motorway
 - International Airport
 - Close to the Border with neighbor countries
- Extension of network into other countries of the corridor

Cold Storage near Tbilisi (capital)

ongoing project – option 1

Profile: **Gardabani Land Plot**

Location: Akhtaklia village, Gardabani Region, Georgia

Land Area: 258,821 sq m (25.8 hectares)

Land Category: Non- agricultural land

Status of Ownership: Private, Registered at National Agency of Public Registry, free from liabilities (tax, mortgage, etc.).

Access to infrastructure/communications:

- On the crossroad of road (Tbilisi bypass) and central railway line
- Water and sewage – available
- Electricity source – available
- Gas supply source – available

Google Earth: 41°36' 35.90"N, 44°58' 54.24"E

(To locate the area please copy the coordinates in the “Fly to” search window in the Google Earth).



Cold Storage near Tbilisi (capital)

ongoing project – option 1

Property Description

Land plot is located at Southeast outskirts of Tbilisi in Gardabani Region 25 kilometers (15,6 miles) or 20 minutes drive from the capital's downtown. Located next to Tbilisi bypass and railway the land area is situated at a very center of important crossroads.

It is 18 kilometers away from Tbilisi International Airport and only 9 kilometers away from Kvemo Kartli's regional center Rustavi.

It is approximately 40 minutes drive (44 km) to Georgia-Azerbaijan border and nearly one hour drive (74 km) to Georgia-Armenian border



Tbilisi Logistics Center

ongoing project – option 2

The project offers high returns on investments. LCT will offer its customers world-class infrastructure at reasonable rates. The new facilities will significantly benefit consumers by reducing logistics costs. LCT partners and customers will enjoy operational freedom and flexibility

Tbilisi Logistics Centre at a glance

Perfect location

- Road – 12 km to Tbilisi City, direct access to the major city roads and city road bypass.
- Rail – direct connection to the main railway line from Poti/Batumi to Azerbaijan and Armenia.
- Air – 20 km to Tbilisi International Airport.
- 1/3 of Tbilisi City's population is reachable within a 7 km radius
- 14 ha area ready for development



Tbilisi Logistics Center

ongoing project – option 2

	Warehouse (first step)	Warehouse extension
Warehouse Area:	25,000 sqm	7,800 sqm
W/H dimensions:	280m x 95m	84m x 93m
Inbound gates:	28 gates	9 gates
Outbound gates:	28 gates	9 gates
Pallet places:	30,000 pp	9,360 pp
Throughput capacity:	450,000 pallets (270,000 t)	140,400 pallets (84,240 t)
Office space:	16.800 sqm	3.720 sqm
Staff parking area:	16.600 sqm	-

Service Portfolio:

- Container handling
- Warehousing
- Customs cleaning
- Distribution and consolidation
- Packaging

Total investment: USD 36 mn

- Existing Equity share USD 9 mn
- IFI dept: USD 27.6 mn
- **Gap of investment: USD 5.4 mn**

Projected 10 year IRR: 29.3%

Warehouse near Tbilisi (capital)

option 3



It is located in the suburb of Tbilisi, on the Kakheti Highway which is located in industrial zone. Location is near to Tbilisi International Airport. Given its quite important site location and we see this property as an good target for developing industrial property and storage facilities .

- Location: Tbilisi, Kakheti Highway 7th km.
- Land area: 23 705 sq.m
- Railway Lane 1 - 95 m
- Railway Lane 2 - 114 m
- State Ownership: 100%
- Google Map: 41°41'19.79"N / 44°56'1.14"E
- Cadastral Code: 01.19.24.007.039
(01.00.784; 01.00.785)



Warehouse near Tbilisi (capital)

option 4



It is located in the suburb of Tbilisi, on the Kakheti Highway which is located in industrial zone. Location is near to Tbilisi International Airport. Given its quite important site location and we see this property as an good target for developing industrial property facilities.

- Location: Tbilisi, Kakheti Highway 20th km.
- Land area: 23 794 sq.m
- State Ownership: 100%
- Google Map: 41°41'30.00"N / 44°57'16.50"E
- Cadastral Code: 01.19.15.001.027



Warehouse near Tbilisi (capital)

option 5



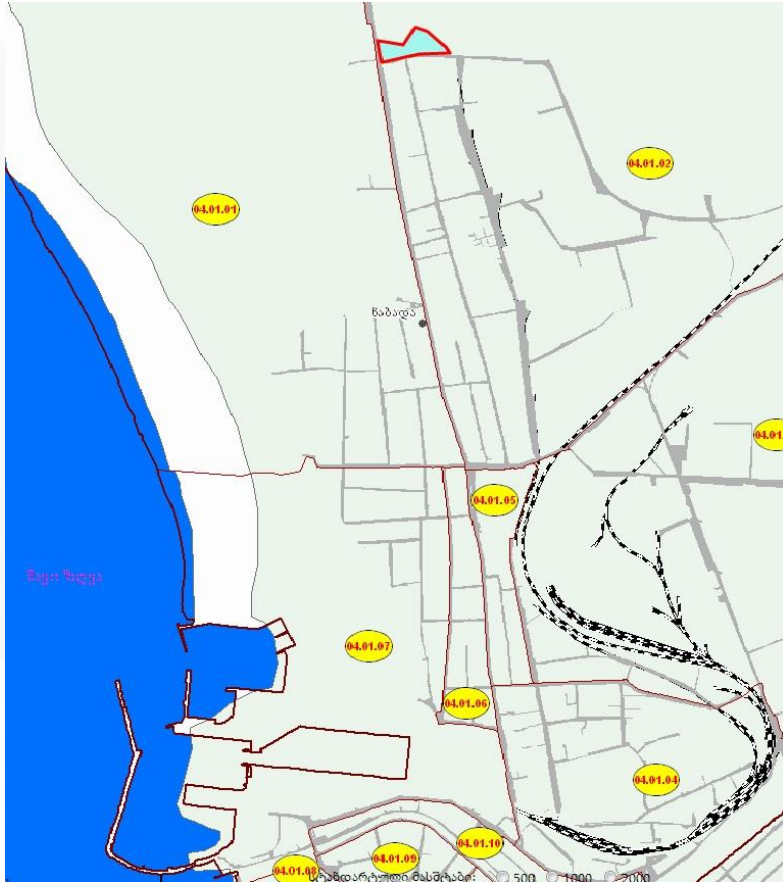
It is located in the suburb of Tbilisi, on the Kairo str which is located in industrial zone. The property location represents the main industrial center of the city. Given its quite important site location and we see this property as an good target for developing industrial property facilities.

- Location: Tbilisi, Kairo str.20
- State Ownership: 100%
- Building space: 34721 sq.m
- Google Map: 41°40'45.81"N / 44°53'17.57"E
- Cadastral Code: 01.19.21.002.045



Warehouse near Poti Seaport

option 6

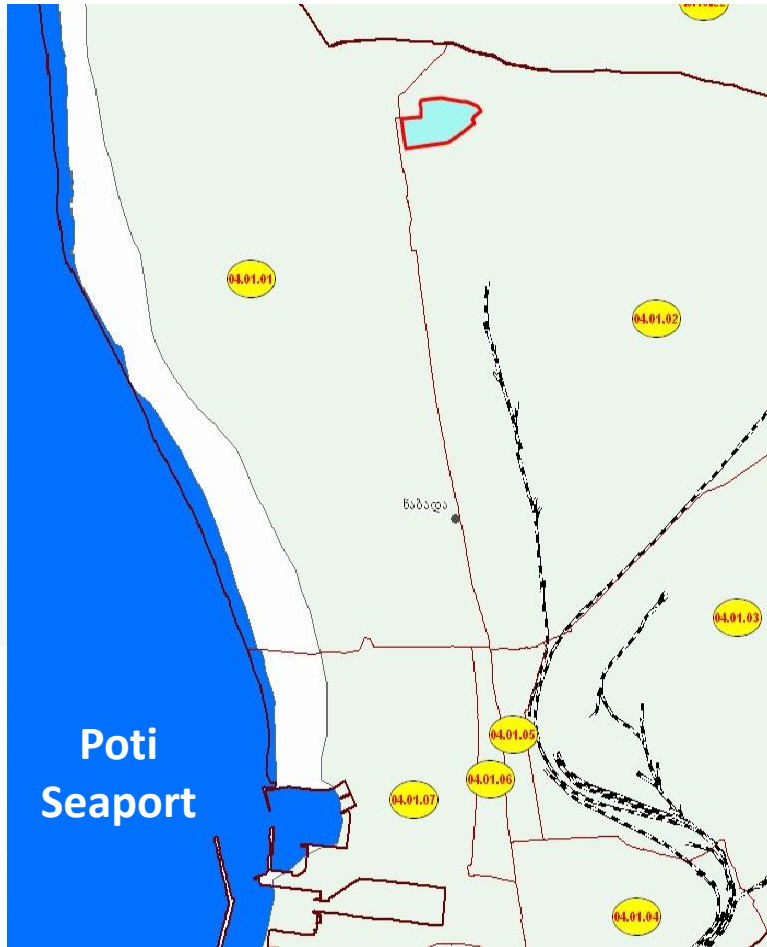


It is located near the Poti Seaport (~4 km by road). Direct connection to the road and rail infrastructure. Good opportunity to develop logistics center/warehouse/storage.

- Location: Poti
- State Ownership: 100%
- Land space: 22110 sq.m
- Cadastral Code: 04.01.02.821

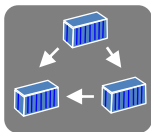
Warehouse near Poti Seaport

option 7



It is located near the Poti Seaport (~5 km by road). Direct connection to the road and the nearest access to the rail infrastructure is in ~2 km. Good opportunity to develop logistics center/warehouse/storage.

- Location: Poti
- State Ownership: 100%
- Land space: 56000 sq.m
- Cadastral Code: 04.01.02.812



Organizing the container corridor could provide additional opportunities for investors to engage

Container transport flow

Inter-national shipping

Port

Rail

Inland terminals

Road transit

Warehousing

Distribution

Organize reverse flows or containers redistribution



**Shipment company/
freight forwarder**



Infra-structure operators



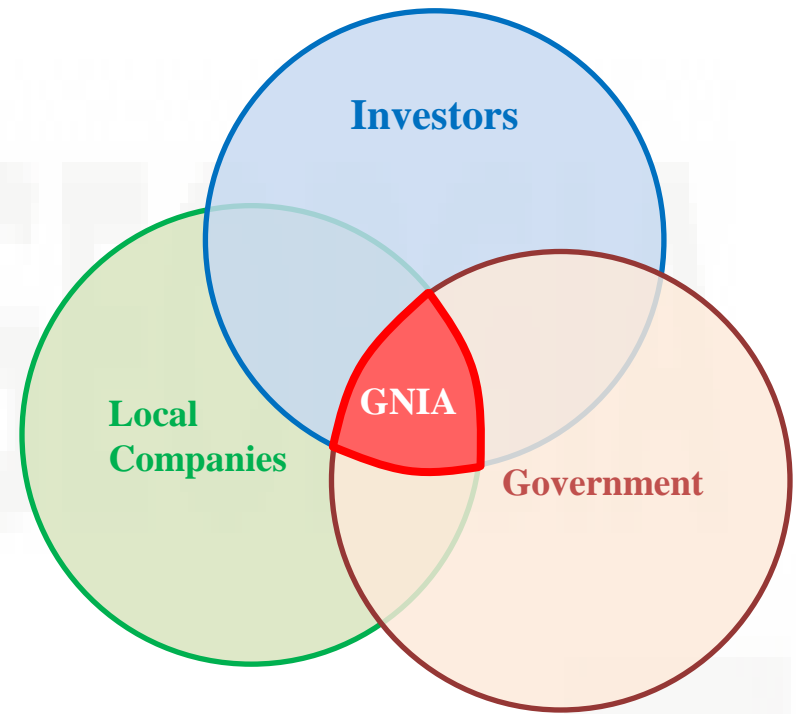
Logistic service providers



Opportunity for investors to engage into corridor development & coordination

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 and accompanying investors

After care - Legal advising/Supporting services



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