



cutting through complexity

Business Climate in Georgia

June 2013

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Foreword

We are pleased to introduce to you our new publication, “Business Climate in Georgia”, issued by KPMG Georgia. The publication includes basic information for foreign businesses and individuals who are thinking about or intend to make an investment in Georgia. It includes general information about the country, economy, legal and taxation requirements, and business opportunities by sectors, as well as some examples of foreign companies or individuals who chose to invest in Georgia.

Georgia has recovered after the financial crisis in 2008-2009, which had a negative impact on the economy of the country. A number of sectors have shown growth during the last few years, including infrastructure, financial services, construction, energy and mining. In particular, there has been an increase in the investments from foreign companies and international financial institutions.

It is worth mentioning that, for the first time in Georgia’s history, the country went through a peaceful change of government as a result of a parliamentary election held on 1 October 2012. Despite the change of the ruling political party, there have been no dramatic changes in the country, and the economic and political situation remains stable.

We believe that Georgia will continue to prosper and will be an increasingly attractive country for foreign and local investors alike.

Country Profile

Area: 69,700 sq km

Population (2012): 4.7 million

Average life expectancy: 74 years

Official language: Georgian

Ethnic groups: Georgian (71%), Russian (9%), Armenian (7%), Azeri (6%), Others (7%)

Religion: Christian orthodox (84%), Muslim (10%), Other (6%)

Capital: Tbilisi

Other large cities: Telavi, Rustavi, Kutaisi, Batumi, Poti, Sokhumi

Currency: Lari (GEL)



Global Rankings

Georgia has made significant progress during the last 10 years in creating a dynamic business environment. It is the top reformer in institutional regulatory reforms since 2005 in Eastern Europe and Central Asia and globally. With 35 such reforms since 2005, Georgia has improved in all areas measured by – Doing Business 2013, World Bank, IFC.

According to The World Bank and IFC, Georgia ranks 9th in the Ease of Doing Business.

Georgia's position in the Index of Economic Freedom has improved as well. Georgia ranks 21st in the 2013 survey made by the Heritage Foundation, compared to its neighboring countries Armenia and Azerbaijan ranking 38th and 88th respectively.

According to Transparency International, the Corruption Perception Index for Georgia is 51, which is the best ranking in the region.

Country	Ease of Doing Business	Index of Economic Freedom	Corruption Perception Index
Georgia	9	21	51
Russia	112	139	133
Azerbaijan	67	88	139
Armenia	32	38	105
Turkey	71	69	54
Source	The World Bank, IFC, 2013	Heritage Foundation, 2013	Transparency International, 2012

Regulatory Environment

“Georgia has distinguished itself by following a relatively balanced regulatory reform path.” – Doing Business 2013, World Bank, IFC.

Since 2005, Georgia has adopted more than 35 institutional and regulatory reforms, which has had a significant impact on the country’s economy.

According to the study made by the World Bank and IFC, Georgia has made the most significant improvements towards strengthening its legal institutions by making legal and administrative services simple, transparent and inexpensive.

Georgia is party to the EU initiative, the European Neighborhood Policy, which, from a legislation standpoint, means that Georgian legislation should be brought in line with the EU laws.

Furthermore, Georgia has recognized technical regulations of the European Council, the Organization for Economic Cooperation and Development (OECD), and its main trading partner countries, which will consequently promote the development of the business environment and the reduction of technical obstacles in trading.

The competitive regulatory framework is conducive to entrepreneurial activity. It takes only two procedures and two days to register a business, and no minimum capital is required.

Foreign and domestic investments receive equal treatment. There are no restrictions on the ownership structure for foreign investors, i.e. **they are not required to have a local partner.**

Work permits for foreigners are not required.

Several new “Public Service Halls” quickly deliver inexpensive legal documents such as birth certificates, passports, entity registration and property titles. Other efforts are underway to improve the security of property rights, however protection of intellectual property rights remains ineffective.

Business activities in Georgia are regulated by the following major laws and codes:

- Law on entrepreneurs;
- Tax code;
- Labor code;



Regulatory Environment - Law on Entrepreneurs

The law defines the following legal forms of entrepreneurs:

Legal form	Joint Liability Company (JLC)	Commandite Company (CC)	Cooperative	Joint Stock Company (JSC)	Limited Liability Company (LLC)	Branch (permanent establishment)
Legal entity	Yes	Yes	Yes	Yes	Yes	No
Minimum charter capital	N/A	N/A	N/A	N/A **	N/A	N/A
Number of owners	Unlimited	Unlimited	Unlimited	Unlimited	Unlimited	N/A
Owner(s) obligations towards creditors	Unlimited	Comandites – limited to guarantee amount; Complementars - Unlimited	No obligations	No obligations	No obligations	Branch is a part of the foreign-based company. Owner's liability depends on the legal structure of the foreign-based company
Corporate income tax (15%)	Yes	Yes	Yes	Yes	Yes	Yes
Tax on dividend (5%)	Yes	Yes	Yes	Yes	Yes	N/A

** It is required only for Banks – GEL 12 mln and for MFOs – GEL 250 k

Individuals or an entity willing to set up any of the abovementioned legal entities should apply to the Public Service Hall, acting as the registering body. Registration is completed within one day after the submission of necessary documents.

Branch

Enterprises may establish Branch Office(s) which shall not be legal entities. Georgian entities do not need to register a branch establishment, whereas foreign entities establishing a branch office in Georgia are required to complete branch (permanent establishment) registration. The registration process is similar to the above.

There are many different forms of legal entity, but the most commonly used legal form in Georgia is the Limited Liability Company (LLC).

Accounting and Audit

The law “On Financial Accounting and Audit of the Financial Statements” was adopted on June 29, 2012, with an effective date of January 1, 2013. Since that date, accounting and audit services became self-regulated professions in Georgia. The law aims to refine the legal and institutional framework for accounting, financial reporting and audit in Georgia, to simplify and improve the accounting system for small and medium enterprises and form a transparent business environment resulting from improved accountability.

Georgia follows International Financial Reporting Standards (IFRS) and International Standards on Auditing (ISA), as there are no local accounting and auditing standards in the country. Audit is mandatory only for those entities that are under the supervision of the National Bank of Georgia (NBG), for the entities determined as subject of mandatory audit by other normative acts of Georgia and for those meeting certain criteria as determined by the Government of Georgia (not defined as of yet) such as Bank and Micro Finance organizations (MFO). Mandatory audits are carried out on an annual basis, if different rules of other normative acts do not apply.

Regulatory Environment - Tax Code

All entities must be registered as taxpayers in the Revenue Service (a division of the Ministry of Finance) where they will be provided with:

- Tax and VAT payer ID number/code;
- User name and password;

This user name and password is used to access their page on the Ministry of Finance (MoF) website since all tax declarations as well as VAT invoices are submitted through this website.

Currently there are two types of taxes in Georgia including:

Nationwide Taxes:

1. Individual Income Tax – 20%;
2. Corporate Income Tax – 15%;
3. Withholding taxes for the payments made to nonresidents:

Description / Year	2012	2013	2014 and afterwards
Dividends	5%	3%	0%
Interest	5%	5%	0%
International transportation	10%	10%	10%
International Communications	10%	10%	10%
Other Georgia-source income	10%	10%	10%
Employment income	20%	18%	15%
Rent income paid to individuals	20%	18%	15%

4. Value Added Tax (VAT) – 18%;
5. Excise – rates are fixed per physical unit of excisable good (liter, kg, ton, etc.);
6. Import Tax (Customs) – 0%, 5% or 12% (most goods are subject to the 0% rate);

Local Taxes:

7. Property Tax (except for land) – up to 1% (exact rate is established by local municipality) of annual average net book value of property;
8. Property Tax (land) – depends on type of land and is calculated based on certain rates per hectare/square meter.

Countries	Corporate Income tax rate (%)	VAT (%)	Personal Income tax rate (%)	Social Tax
 Georgia	15%	18%	20%	N/A
 Russia	20%	18%	13%	26%
 Azerbaijan	20%	18%	14%	22%
 Armenia	20%	20%	24.4 - 36%	N/A
 Turkey	20%	18%	15-35%	19.5 - 25%

Georgia has negotiated a number of agreements for the avoidance of double taxation (DDT), of which 34 have entered into force. The majority of DDTs are drafted in accordance with the Organization for Economic Co-operation and Development (OECD) model tax conventions; however some are more in line with the UN model convention. Current DDT countries include::

- Austria
- Armenia
- Azerbaijan
- Bahrain
- Belgium
- Bulgaria
- China
- Czech Republic
- Denmark
- Egypt
- Estonia
- Finland
- France
- Germany
- Greece
- Hungary
- India
- Iran
- Ireland
- Israel
- Italy
- Kazakhstan
- Latvia
- Lithuania
- Luxemburg
- Malta
- Netherlands
- Norway
- Poland
- Qatar
- Romania
- Serbia
- Singapore
- Slovakia
- Spain
- Switzerland
- Turkey
- Turkmenistan
- Ukraine
- United Arab Emirates
- United Kingdom
- Uzbekistan

Georgia has a multilateral free trade regime with CIS countries (except for the Russian Federation), which is regulated by the CIS multilateral agreement “on creating free trade zone” (1994).

Georgia has also concluded bilateral free trade agreements (FTA) with Turkey and several CIS countries (Ukraine, Azerbaijan, Kazakhstan, Moldova, Armenia, Turkmenistan and Uzbekistan). Georgia is actively working with the EU and the USA to promote free trade negotiations.

Regulatory Environment - Labor Code

The Labor Code is very flexible and currently favorable for employers. They are free to design and include basically any term in a labor contract in any way in order to make their work more efficient and effective.

Some of the major points of the labor code are as follows:

Discrimination – In labor relationships, it is not acceptable for any type of discrimination such as: race, language, social status, ethnicity, nationality, sexual orientation, religious views, etc.

Employee age – A person is considered as work capable from the age of 16. To hire a person between 14-16, an employer must obtain consent of his/her parents, a legal representative or guardian. Children below 14 are allowed to work only in the fields of sport, culture, art and advertising;

Labor contract – Labor contracts may be concluded in written or verbal form with finite or infinite period. It can be written in several languages, however the ruling language needs to be indicated which will prevail in case of a discrepancy between the texts;

Hiring – Employers are free to hire any person whether it's a Georgian resident or not. Foreigners do not need work permits.

Remuneration – There are no minimum salary requirements. The salary can be set in any foreign currency, however, actual payment should be made in equivalent GEL;

Vacation – The employee has the right to get not less than 24 working days of paid and 15 calendar days of unpaid leave per year;

Employment Termination – If termination is initiated by an employee, a written notification should be submitted to the employer 30 calendar days prior. If termination is initiated by an employer a minimum of one month remuneration should be paid to the employee.

Georgia has one of the most liberal Labor Codes in the World. According to the Heritage Foundation, Georgias ranking on the Labor Freedom Index was 99.9.



Georgia is a member of the International Labor Organization and investors are guaranteed authorization to hire foreign workers, who are permitted to transfer their income abroad once they have complied with all state duties and levies.

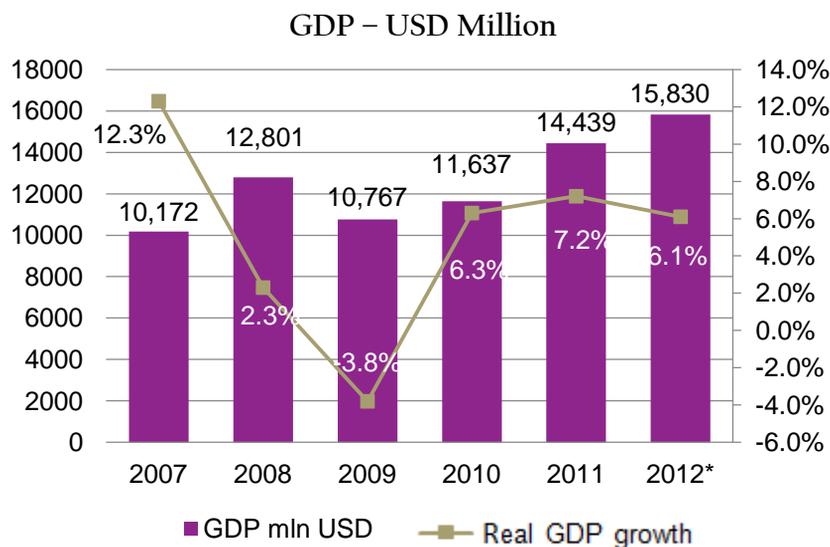
It is expected that the labor code will be amended by the newly elected government in mid 2013.

The proposed changes will result in a less employer-friendly labor code.

Macroeconomic Environment

Nominal GDP for 2012 was equal to USD 15,830 million (estimated), which was an increase of 9.6% in nominal terms over the last year.

Real GDP has increased by 2.9% per year in 2007-2011 according to the National Statistics office of Georgia (NSOG). Furthermore, the International Monetary Fund (IMF) predicts an average of 5.5% growth in real GDP per year for the period of 2013-2017 in Georgia.



Source: NSOG * - estimates

KEY ECONOMIC INDICATORS

	2011	2012 forecast
Nominal GDP	USD 14,439 million	USD 15,830* million
Nominal GDP per capita	USD 3,231	USD 3520*
GDP per capita (PPP, current international dollar)	5,491	5900*
Real GDP growth	7.2%	6.1%*
Inflation (period average, p-o-p)	8.5%	0.9% deflation
FDI	USD 1,117 million	USD 865* million

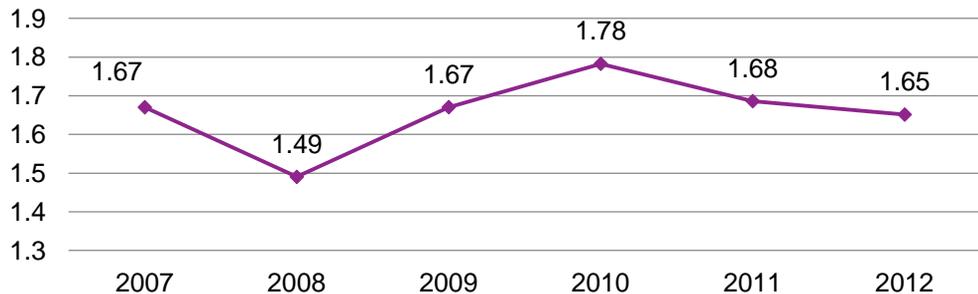
* - estimation

Source: NSOG, IMF, www.indexmundi.com

Macroeconomic Environment (continued)

The Lari (GEL) has been relatively stable against the USD since late 2011.

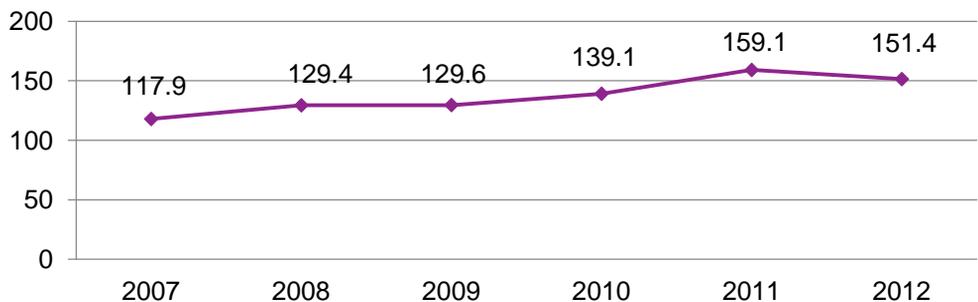
Annual Average GEL/USD Exchange Rates



Source: NBG, KPMG Analysis

The Consumer Price Index (CPI) remains stable. There are no expectations of significant fluctuations in the foreseeable future.

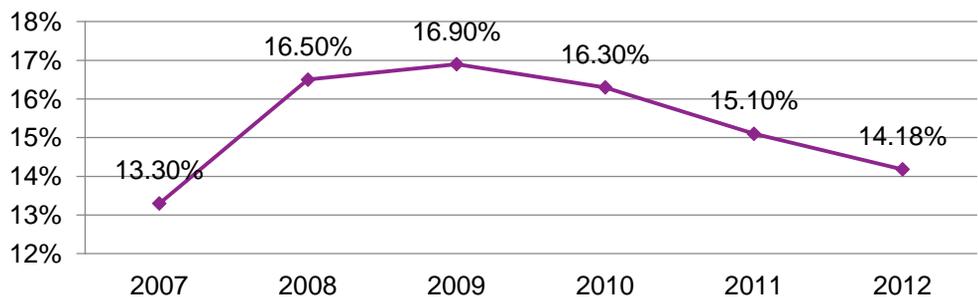
Consumer Price Index (average of 2005 = 100)



Source: NSOG

The unemployment rate has decreased for the last several years, however these official statistics may differ from reality due to the fact that people involved in agriculture are assumed to be self-employed.

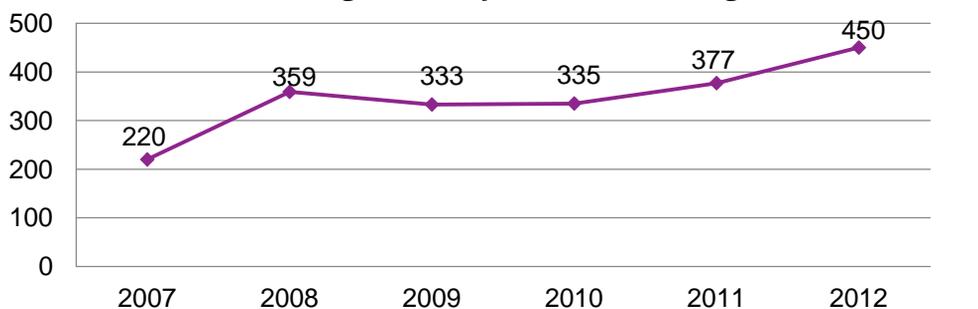
Unemployment Rates



Source: NSOG

The monthly average nominal wage has increased since 2009. The average nominal wage reached USD 450 in Georgia in 2012.

Average Monthly Salaries and Wages



Source: NSOG, GNIA

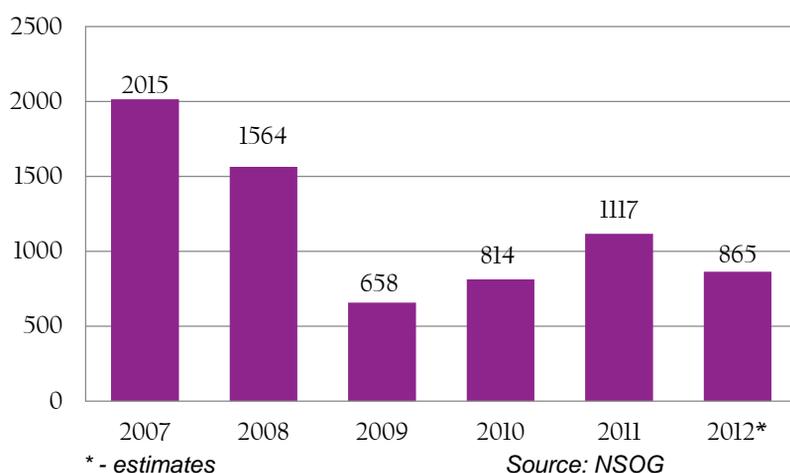
Macroeconomic Environment (continued)

The highest level of FDI in Georgia in the last five years was recorded in 2007 when FDI reached USD 2,015 million. FDI to Georgia decreased to USD 658 million in 2009 but it is recovering since 2010. In 2011, it again exceeded USD 1 billion. FDI for 2012 was USD 865 million, which was a decrease of 23% compared to 2011.

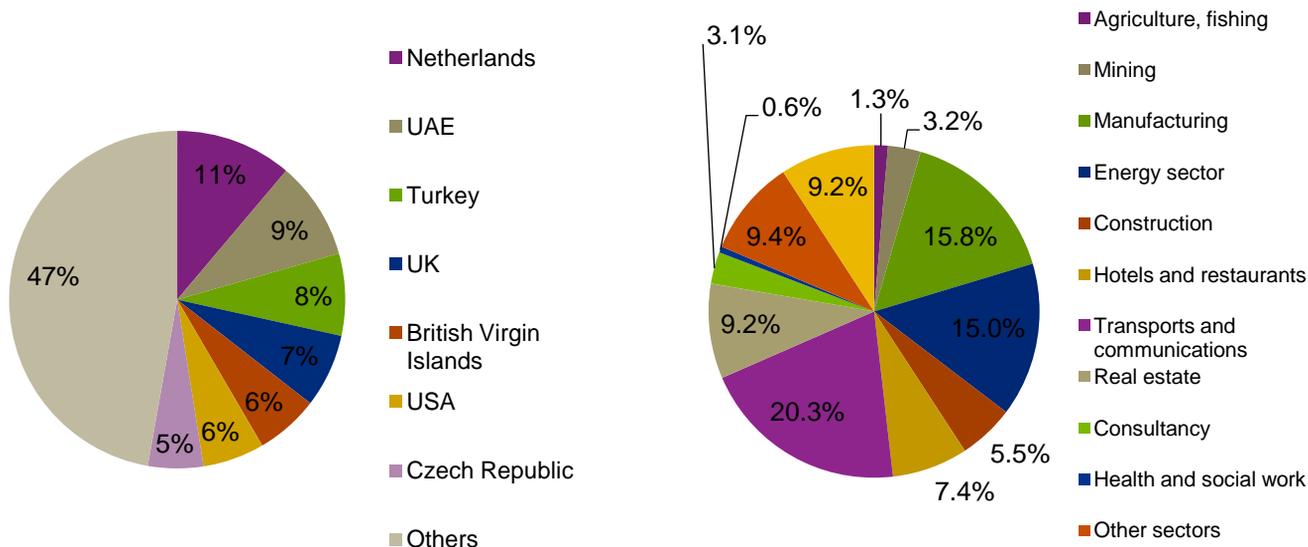
The Netherlands has accounted for approximately 12.7% of the total FDI in Georgia in 2007-2011, followed by UAE (9.8%), Turkey (8.5%), the UK (7.8%) and the British Virgin Islands (7.5%).

The transport and communications sectors have attracted approximately 20.7% of the total FDI to Georgia in the 2007-2011 period. The other sectors for FDI were manufacturing (14.9%), energy (14.3%) and real estate and lease (10%).

FDIs (USD Million)



FDIs by Countries and Sectors in 2007-2012



Source: NSOG

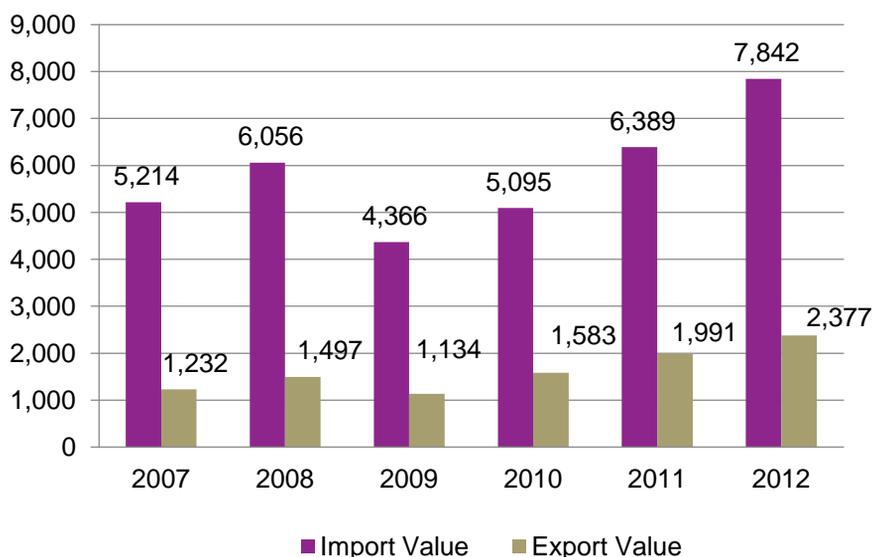
Source: NSOG

Macroeconomic Environment (continued)

The value of imports/exports to/from Georgia has had a rising tendency during the last ten years, except for 2009.

The value of imports reached USD 7,842 million and the value of exports reached 2,377 million in 2012 increasing by 22.7% and by 19.4%, respectively, compared to 2011.

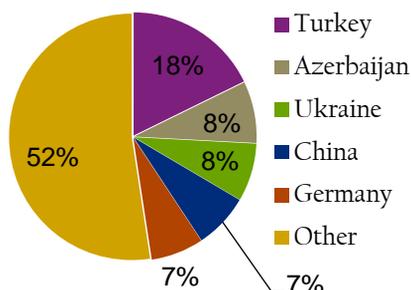
Imports / Exports – USD Million



Source: NSOG

Percentage of Import Value by Countries in 2012

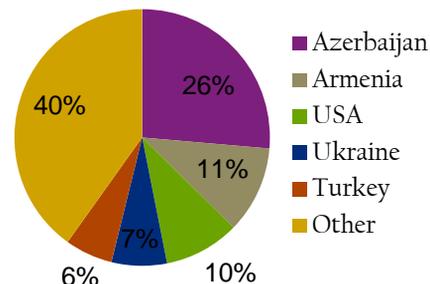
Turkey, Ukraine and Azerbaijan were the top three importers to Georgia in 2012 and represented 18%, 8% and 8% of total imports to Georgia, respectively.



Source: NSOG

Percentage of Export Value by Countries in 2012

Azerbaijan, Armenia and USA were the top three export countries from Georgia in 2012 and represented 26%, 11% and 10% of total exports, respectively.

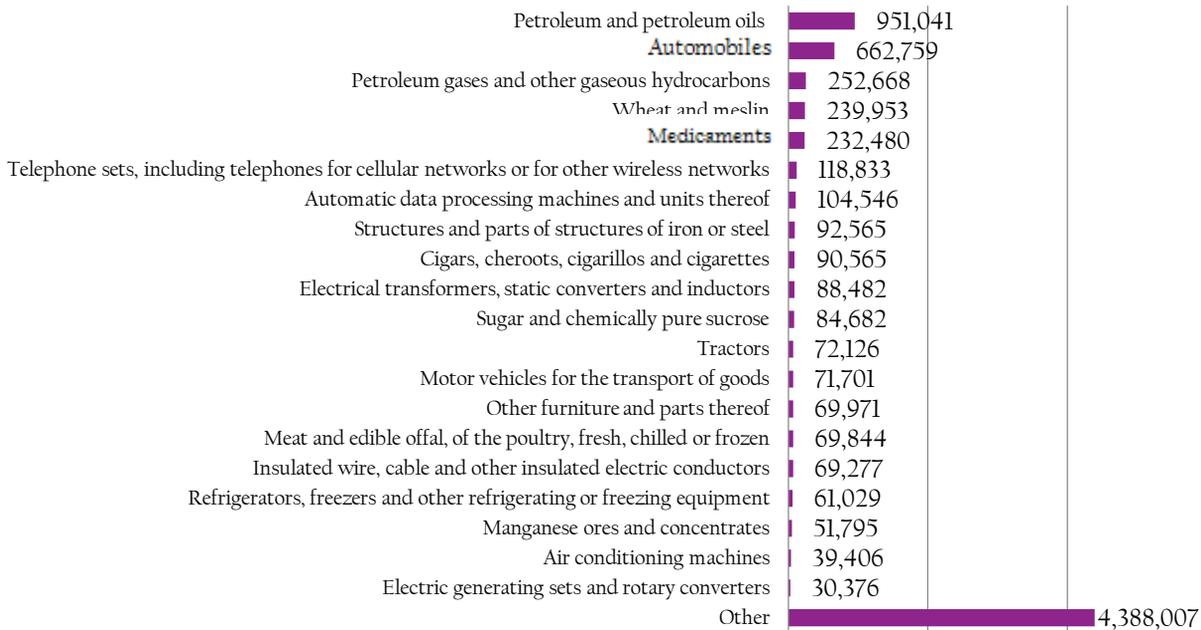


Source: NSOG

Macroeconomic Environment (continued)

Imports by commodity groups in 2012 – USD Thousand

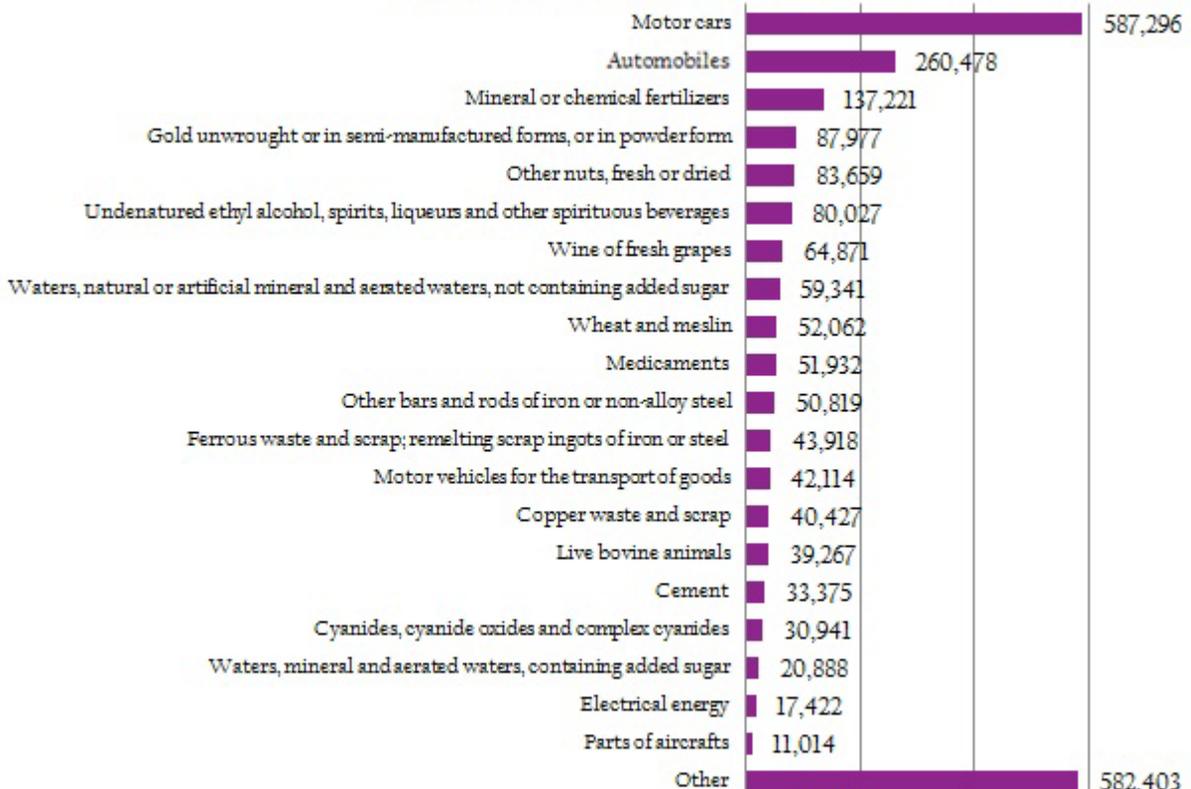
12% of the imports in terms of value to Georgia were petroleum and petroleum oils. Automobiles accounted for 8%, petroleum gases and other gaseous hydrocarbons account for 3% of imports.



Source: NSOG

Exports by commodity groups in 2012 – USD Thousand

25% of the exports in terms of value were automobiles as Georgia has become a regional hub in this field and most of the imported cars are exported to Armenia, Azerbaijan and Kazakhstan. Ferro-alloys accounted for 11% and mineral or chemical fertilizers, nitrogenous account for 6% of exports.



Source: NSOG

Banking and Financial System

Banking is one of the fastest growing sectors in the Georgian economy. It has demonstrated an average annual growth rate of 15% in assets, and a 20% growth rate in deposits for the past four consecutive years. The Georgian banking system comprises 20 commercial banks. Current loan interest rates start from 11% for consumer loans, mortgage loans, auto loans, etc.

The economic reforms implemented since 2004 have greatly boosted the stability of the banks and financial institutions in Georgia. This sector has gained strength and stability in several areas, including: capital adequacy, profitability, asset quality and risk management.

Georgia's financial services sector has proven to be resilient despite the global financial crisis and brief periods of political instability.

Currently, there are foreign commercial banks operating in Georgia from Turkey, Azerbaijan, Kazakhstan, Russia and France. The share of foreign capital in Georgian banks is approximately 77.4%.

The National Bank of Georgia (NBG) facilitates the financial stability and transparency of the financial system, as well as protection of the rights of the financial consumers and investors. It implements monetary policy according to the monetary and foreign exchange policy approved by the Parliament of Georgia and exercises supervision over the financial sector. The status and mandate of NBG is defined by the Constitution of Georgia.

Georgian Stock Exchange

The Georgian Stock Exchange (GSE) - is the only organized securities market in Georgia. Designed and established with the help of USAID and operating within the legal framework drafted with the assistance of American experts, GSE tries to comply with global best practices in securities trading and offers an investment facility to both local and foreign investors. The automated trading system of GSE can accommodate thousands of securities that may be traded by brokers from the workstations at the GSE floor or remotely from their offices. As of April 1, 2013 133 companies were traded on GSE, with a total market capitalization of USD 0.88 billion and the average daily turnover of USD 4K.

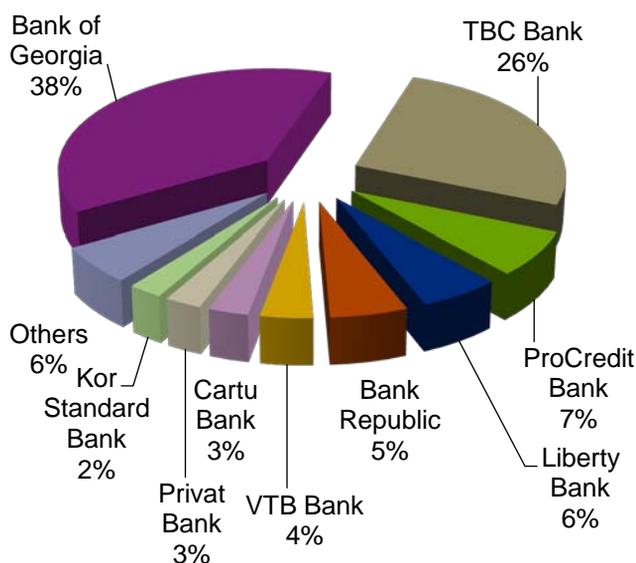
The GSE's low levels of trading and lack of liquidity makes the GSE an unattractive investment platform at this time.

Insurance Industry

There are seven insurance companies in Georgia, from which five are international insurance carriers. These insurance companies provide the following major services: Health Insurance, Motor Insurance, Travel Insurance, Property Insurance, Pension Insurance, Corporate Insurance, Business Insurance (SME), Agro Insurance, Legal Insurance, Life Insurance and Liability Insurance.

Currently there are no Pension Funds in Georgia.

Market Share According to Total Assets as of 31/12/2012



Infrastructure

Georgia has a strategic geographical location which serves the function of being a key transit point for the Caucasus and beyond. Consequently, improving the transport infrastructure is crucial for the country to achieve its full economic and social development objectives. In response to this context, the European Union (EU) is actively involved in assisting Georgia to improve its transport networks (aviation, railways and marine transportation).

Located at the crossroads of Europe, Central Asia, Russia, the Middle East and Asia, Georgia is a bridge connecting several important global economic regions with a total potential market of more than one billion people.

The shortest route from Europe to China and Asia — 400 km of highways and 600 km of air routes — passes through Georgia. The modern-day significance of Georgia’s geographic position reminds us of its location on the historic “Silk Road,” which connected Europe with Asia in ancient times. The corridor starts in Eastern Europe and ends at the borders of China and Afghanistan. There are two routes: one through Georgia’s Black Sea ports and the other, a land connection through Turkey.

Georgia is the transportation hub for the South Caucasus region (Georgia, Armenia, and Azerbaijan) and Central Asia (Kazakhstan, Uzbekistan, Kyrgyzstan, Tajikistan, and Turkmenistan). Georgia’s investment strategy is to attract technologically advanced, export oriented, efficiency-seeking foreign direct investment and includes two Free Industrial Zones (FIZ).

Georgia is the key link in the shortest transit route between Western Europe and Central Asia for transportation of oil and gas. Georgia’s oil and gas pipelines, Black Sea ports, well-developed railway systems, and airports with direct air services to 17 locations are playing an increasingly important role in linking East and West. By positioning itself as the central link in a chain connecting Europe with Russia, the Middle East, and Asia, Tbilisi is trying to turn its 4,000-year-old curse — its geographical sandwiching between Asian,

Mode of Transport



Source: GNIA

Existing infrastructure and flows

- Rail**
 - 1,500 km (90% electrified)
 - ~7,000 rolling stock, 180 locos
- Road**
 - 1,500 km international highway + 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 mn passengers (capacity: 3 mn)
 - Serving 28 destinations
- Batumi international airport**
 - 100,000 passengers

Upgrades

- Rail**
 - BTK connection to Turkey
 - Modernization
 - Tbilisi bypass
 - ~2500 new rolling stock
- Road**
 - East-West highway 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
 - Currently under construction

Middle Eastern and Russia — into a new source of strength, commerce, and job creation.

Georgia is quickly rediscovering its “Silk Road” heritage as Western goods and oil from the Caspian basin flow through its territory. The Georgian government’s Eurasia corridor policy will require substantial investment.



Source: GNIA

Free Industrial Zones

In Georgia, there are two Free Industrial Zones that will allow international firms to operate their business in a business climate that supports international trade efficiently, while enjoying tax-free status. Another, Tbilisi Free Industrial Zone is under development.



POTI FREE INDUSTRIAL ZONE

RAKIA Georgia FIZ was established in June 2008 by RAK Investment Authority (UAE).

Poti FIZ is developing a free and industrial zone near the existing port of Poti. This port – which is one of the oldest (150 years) and most famous sea ports on the Black Sea, handling both dry and wet cargo – has been a profitable port and is undergoing further expansion. Poti FIZ was the first in the south Caucasus region and it lies on the historic “silk road” linking the east to the west.

RAKIA has 300 hectares of land around the port to be used for a state-of-the-art FIZ. According to the development project plan, the Poti Free Industrial Zone will be spread over 3.0 million square metre for industrial and logistics parks and business centers.

Infrastructure is being developed to form the backbone of the zone. Poti FIZ expects to attract close to USD 1 billion to Georgia, and RAKIA will invest USD 200 Million to develop the project. The FIZ will employ approximately 5,000-10,000 people.

KUTAISI FREE INDUSTRIAL ZONE

The Kutaisi FIZ was created in 2009 by Georgian International Holdings, who serves as Administrator of the FIZ. Currently operating in the FIZ, the Egyptian firm Fresh Georgia has already invested USD 55.8 million in 2009 and will invest a further USD 396 million in the next few years. A modern factory satisfying international standards manufacturing household appliances has been constructed, and Fresh has already started production, with the first exports shipped on November 7, 2009.

The Kutaisi FIZ will consist of several theme-specific business parks, including:

- Trading and Services
- Heavy Industries
- Warehousing & Storage
- Manufacturing

Source: GNIA

Business Opportunities in Georgia

There are a lot of opportunities in Georgia you can invest in. We have highlighted only four of the many potential sectors for investment opportunity.

Energy



Pharmaceuticals



Manufacturing



Agriculture



Business Opportunities in Georgia - Energy

Georgia has one of the highest levels of hydro resources per capita in the world. There are more than 26,000 rivers in Georgia. It is estimated that the total hydropower potential of Georgia is 80 terawatt hours (TWh), with the economically viable potential estimated at 27 TWh. Presently, only about 11% of the technically feasible potential has been developed.

Georgia's installed power generating capacity is about 3,000 MW. Over 80% of Georgia's electricity is generated by hydro plants and 19.7% by thermal ones.

Due to rain and snowmelt patterns, Georgia's summer power production capacity far exceeds winter, during which Georgia has a deficit of over 400 MW that it meets through thermal (natural gas) generation and imports. Georgia cannot reach its summer hydro production potential because it currently has no outlet for it. As a result, Georgian authorities estimate that over one terawatt hour (one billion kilowatt hours) – at a local retail value of approximately \$85,000,000 – is lost in spilled water each year

Small and medium size hydropower plants ("HPPs") based on run-of-river diversion designs can quickly tap Georgia's tremendous hydropower potential, offset winter imports of electricity and gas, contribute greatly to Georgia's energy independence, and offset the adverse impacts of global climate change.

The electricity sector in Georgia is mostly privately owned and nearly fully liberalized. Only transmission, dispatch, and the largest hydropower plant and thermal power plant (TPP) are owned by the state, whereas all the other generation and distribution assets are privately owned. Bundled ownership of generation and distribution assets is allowed. The Ministry of Energy and Natural Resources of Georgia ("Ministry of Energy") expects that the electricity sector will be fully liberalized by 2017-2020.

New megaprojects above 100 MW capacity that are currently open for investment

Project	Capacity	Estimated Invest. volume USD millions
Namakhvani Cascade	450 MW	805
Khaishi HPP	400 MW	620
Oni Cascade	270 MW	599
Nenskra HPP	210 MW	570
Tobari HPP	200 MW	310
Fari HPP	180 MW	297
Lentekhi HPP	120 MW	189

Sources: GNIA

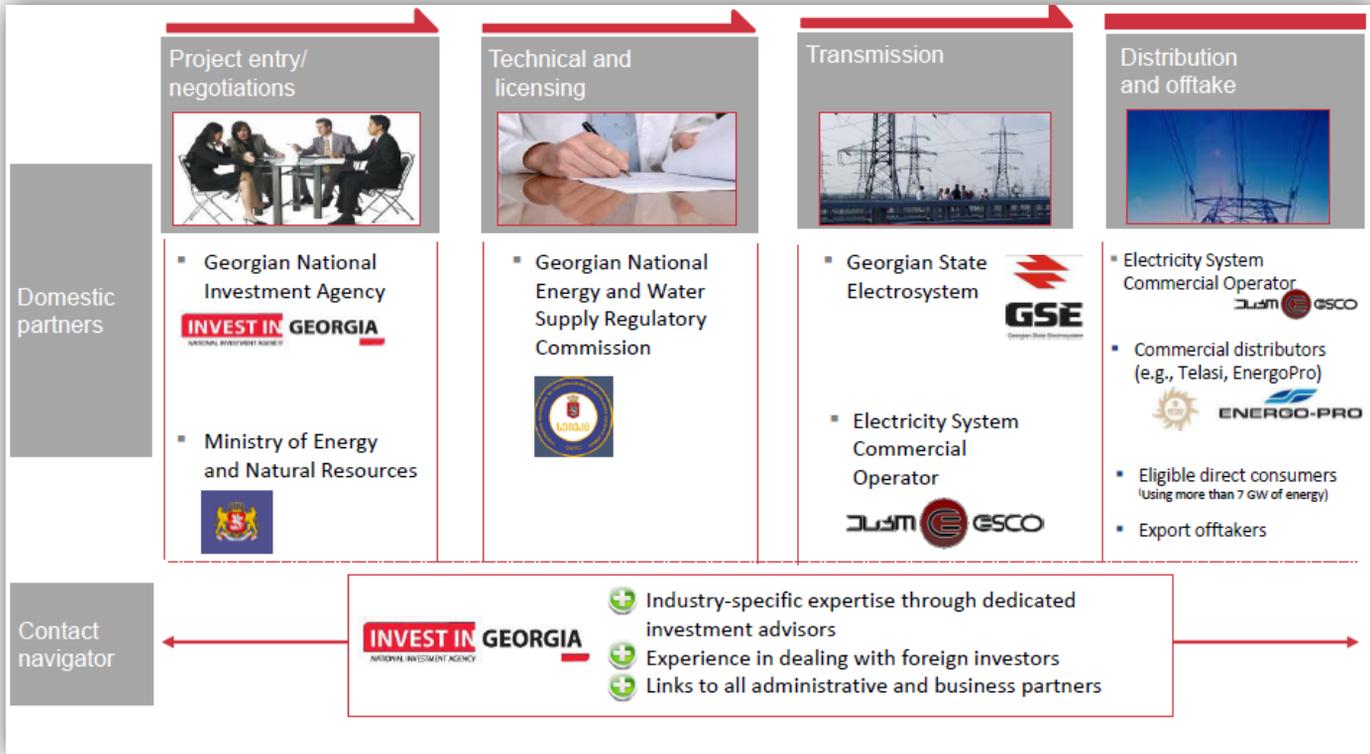
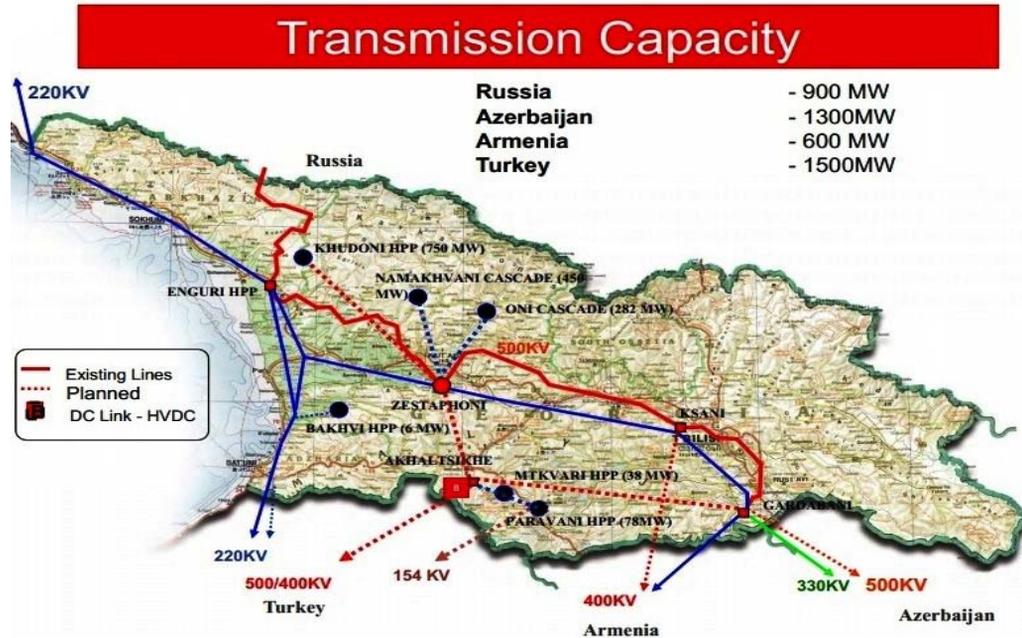
Business Opportunities in Georgia - Energy (continued)

Generation cost (0.06 USD) is among the lowest in the region and 50% lower than Georgia's target market of Turkey.

Export Capacity.

The only net electricity exporter in the region, with rapidly growing consumption rates.

Construction of a 400 KV power transmission line from Georgia to Turkey to be completed in 2013.



Business Opportunities in Georgia - Pharmaceuticals

Emerging markets are expected to drive growth in the global pharmaceutical market over the coming decade, Georgia and the surrounding region have significant room for growth. In this context, Georgia offers the key growth opportunities.

Pharmaceutical exports from Georgia have grown at an annual rate of 47% for last 6 years. Georgia already exports pharmaceuticals to 16 countries; with \$18.5 million in pharmaceutical exports in 2011.

Recognizing Georgia's future potential in the pharmaceutical sector, the Georgian Government is committed to continual enhancement of the regulatory environment, including plans to introduce a GMP certifying agency by 2016 which will enhance the ability of Georgian pharmaceutical producers to export to other countries.

Also making Georgia an attractive strategic base for pharmaceutical production are its low costs of energy and labor (average wages approximately 30% less than in nearby Turkey).

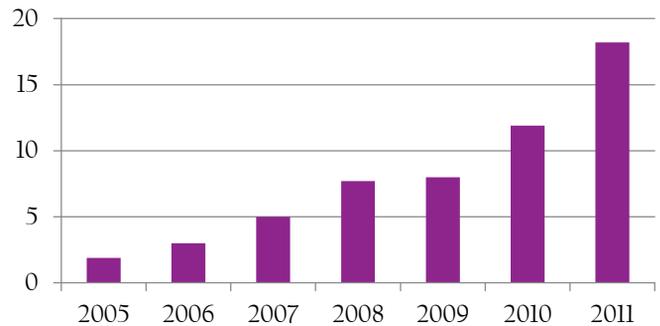
In Georgia, there are a number of representatives of foreign manufacturers of pharmaceuticals, also several foreign companies are doing clinical trials, and a number of distributors/wholesalers that are foreign owned or with foreign investment. There are also a number of institutes and private companies that have had foreign support or cooperation for pharmaceutical research.

Experts believe it is an ideal time to invest and enter the pharmaceutical market in Georgia. There are vast number of investment opportunities. Some of the most advantageous investable sectors include:

- Existing or start-up pharmaceutical manufacturers.
- Existing or start-up retail chains/distributors.
- Bacteriophages.
- Natural / herbal medicines.
- R&D / Clinical testing.

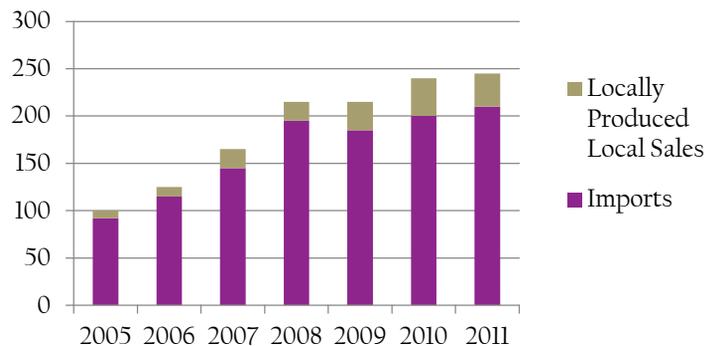
Source: GNIA

Export of Locally Produced Pharmaceuticals from Georgia – USD millions



Source: GNIA

Georgia's Pharmaceutical Market – USD Millions



Source: GNIA

Business Opportunities in Georgia - Manufacturing

Georgia's natural advantage as a Regional Hub in the Black Sea and South Caucasus regions – and as a gateway between the Caucasus and Central Asia – provides many benefits to investors in manufacturing and processing. Specifically, Georgia has the best cost factors, logistics and transport chain and business environment for serving the Southern Caucasus region, as well as many key raw materials.

Since 2004, Georgia has seen both domestic and international investment in manufacturing across all major sectors, including: apparel, textiles, pharmaceuticals, mining and excavation (e.g., gold, silver, coal and ores), building materials, natural resources processing, aircraft, shipbuilding, methane extraction and auto parts.

In 2010, Georgia's Total Output was GEL 13 billion. Major outputs include steel, aircraft, machine tools, electrical appliances, mining, chemicals, apparel, wood products and wine. Total export in 2009 were USD 1.6 Billion, of which natural ores, ferro-alloys, fertilizers, motor cars, wine, waters, fruits and nuts, electrical energy and vehicles were the major exports.

With the establishment of Georgia's Free Industrial Zones, there are new incentives and opportunities to process, produce and export goods with a minimal tax burden, because in FIZ, businesses are exempted from all tax charges except Personal Income Tax. Firms can export goods free of trade barriers to global markets of more than 500

million consumers.

Georgia's Manufacturing Sector is growing and expanding rapidly, generating attractive returns on capital. With the introduction of Georgia's 3 Free Industrial Zones, many new investment opportunities have been created:

- Apparel/Textiles
- Pharmaceuticals
- Medical Devices
- Packaging
- Electronics
- Household goods
- Wood Processing
- Metallurgy
- Petrochemicals
- Organic Fertilizers
- Construction Materials
- Automotive

Source: GNIA



Business Opportunities in Georgia - Agriculture

Agriculture in Georgia has been subject to various reforms since 2004, particularly in the areas of land reform, ownership rights and tax reform.

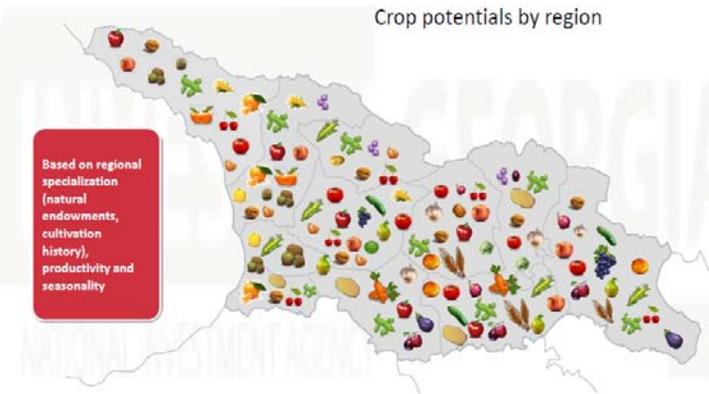
It has benefited from liberal Trade Regimes, such as the FTA & GSP+ agreements with Georgia's major trading partners. Likewise, Georgia has been a member of the World Trade Organization (WTO) since 2000 and has access to non-traditional markets and protection from dumping.

In 2010, the agriculture sector accounted to GEL 1.52 Billion, 8.4% of the total GDP. About 53% of the workforce of Georgia is employed in agriculture. Georgia's major crops are wheat, maize, barley, sunflower, potato, citrus fruits, tea, fruit and vegetables.

Georgian agriculture is in a period of transformation, which creates a vast number of investment opportunities. Some of the most advantageous investable sectors include:

- Wine
- Mineral and Portable Water
- Forestry
- Herbs and Medical Plants
- Fishery
- Citrus Production
- Intensive Apple Production
- Fresh Culinary Herbs
- Off-Season Storage
- Georgian Beef Fattening Operation
- Fruit Jam and Sauce Processing
- Integrated Dairy Production
- Pedigree Poultry Hatching Eggs

One key area of investment is in the introduction of modern agricultural technology and infrastructure, which can



significantly increase production and contribute to the overall export potential for Georgia's agricultural products. Likewise, significant growth potential exists in dairy, live stock breeding and fisheries, especially in the vertical supply chain development.

INCENTIVES FOR AGRICULTURE

In order to stimulate growth and investment in agriculture, Georgia has implemented the following incentives structure:

- 0% of property tax on small plots of land (less than 5 ha).
- 0% of property tax on property transaction.
- 0% VAT on primary supply of agricultural products.
- 0% of import duty on agricultural and other equipment.
- Opportunity to privatize agricultural land – 75% of all agricultural land is State-owned.

Source: GNIA



Brands Represented in Georgia

Pepsi	Socar
CocaCola	Heidelbergcement
McDonalds	TeliaSonera
Burger King	Carlsberg
Carrefour	Beeline
Radisson	DHL
Holiday Inn	TNT
Marriott	UPS
Sheraton	Gulf
EBRD	L'Oreal
IFC	Unilever
IMF	Henkel
Societe Generale	GAP
VTB	FedEx
TAV Urban Georgia	Procter & Gamble
Lufthansa	Intel
Turkish Airlines	Nestle
Qatar Airlines	ZARA
Fly Emirates	Burberry
Wizz Air	M&S
GlaxoSmithKline	Swatch
Rakeen	Cartier
Lukoil	Massimo Dutti

Abbreviations and Glossaries

BTK – Baku-Tbilisi-Kars	JLC – Joint Liability Company
CC – Commandite Company	JSC – Joint Stock Company
CIS – Commonwealth of Independent States	K – One Thousand
CPI – Consumer Price Index	KV – Kilovolt
DC – Direct Current	LLC – Limited Liability Company
DDT – Double Taxation Treaty	LLP – Limited Liability Partnership
ESCO – Electricity System Commercial Operator	MFO – Microfinance Organization
EU – European Union	MoF – Ministry of Finance
FDI – Foreign Direct Investment	MRN – Major Rail Network
FIZ – Free Industrial Zone	MW – Megawatt
FTA – Free Trade Agreement	N/A – Not Applicable
GDP – Gross Domestic Product	NBG – National Bank of Georgia
GEL – Georgian Lari	NSOG – National Statistics Office of Georgia
GNIA – Georgian National Investment Agency	OECD – Organization for Economic Co-operation and Development
GSE – Georgian State Electrosystem	R&D – Research and Development
GSP – General System of Preferences	TEU – Twenty-foot Equivalent Unit
HPP – Hydro Power Plant	TPP – Thermal Power Plant
HVDC – High-Voltage Direct Current	TWH – Terawatt hour
ID – Identification	UAE – United Arab Emirates
IFC – International Finance Corporation	UK – United Kingdom
IFRS – International Financial Reporting Standards	UN – United Nations
IMF – International Monetary Fund	USA – United States of America
ISA – International Standards on Auditing	VAT – Value-added Tax
	WTO – World Trade Organization



Should you require any clarification or additional information please do not hesitate to contact us



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