

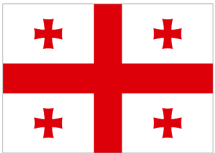
Transaction Services

Automotive sector

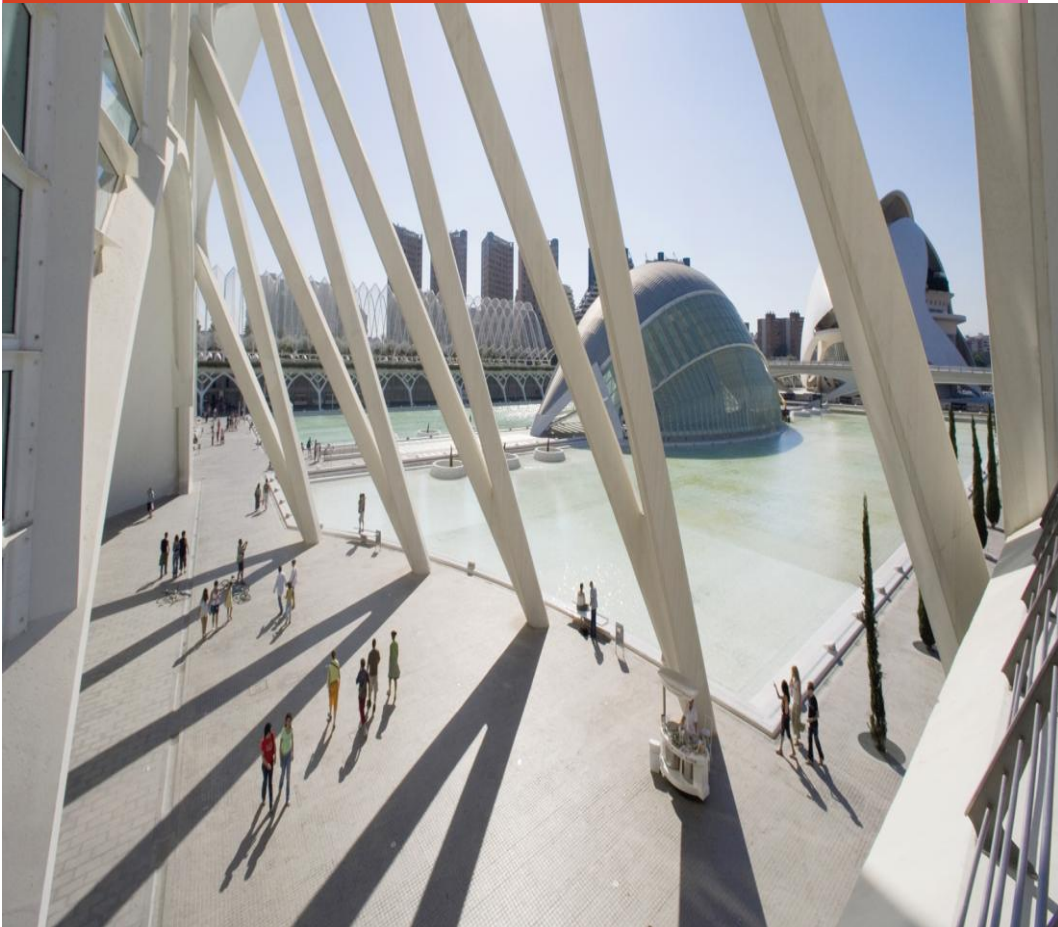
Invest in Georgia ...explore the long-term potential of the region

*Strictly Private
and Confidential*

August 2011



INVEST IN GEORGIA
NATIONAL INVESTMENT AGENCY



pwc

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Summary – Introduction to Georgia (1 of 2)



Why Georgia is the right destination for your investment:

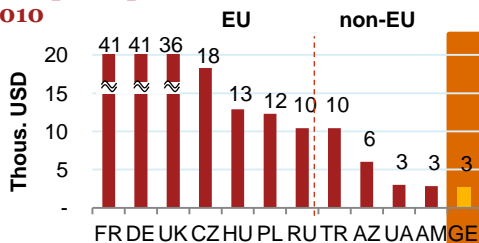
Georgia (2010)	
Population	4,4 million
Labor force	1,9 million
Unemployment	16,0% ~50% is aged between 20-34 years
GDP p.c. USD (PPP)	USD 5.057
Inflation	7,1% CPI annual change 09-10
Area	69,7 k sq. km

Source: Geostat



1. Affordable labor force

GDP per capita, current USD, 2010



2. An easy place to do business

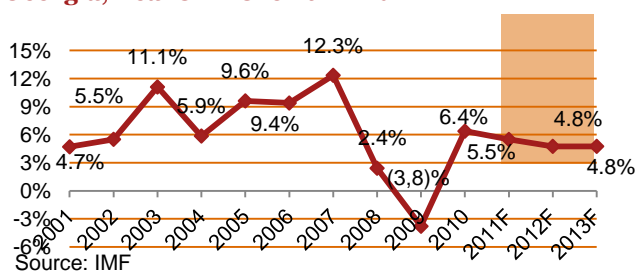
#12

3

- Georgia is #12 in the World Bank's global Ease of Doing Business ranking (2010)
- It takes only 3 days to establish a new business in Georgia

3. Strong economic recovery path

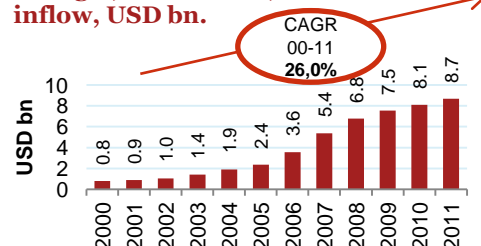
Georgia, Real GDP Growth in %



Automotive sector • Invest in Georgia
...explore the long-term potential of the region

4. Strong historical FDI track record

Georgia, Inward FDI, Cumulative inflow, USD bn.



5. Other reasons to come to Georgia

- **Others have done it and benefited** - More than 4.600 companies have been established by foreign investors in Georgia. These firms have capitalised upon an affordable yet skilled and talented Georgian multi-lingual labor force
- **Apart from salaries other inputs are cost competitive as well**
 - The average gross monthly salary is lower than European equivalents – USD 346 in 2010;
 - Energy – prices of oil, gas and electricity are competitive within the region;
 - Ease of buying land and its affordability – the government incentivizes foreigners to buy land.
- **Transparent and favorable tax regime** including tax exemptions and benefits of free trade/industrial zones
- **High quality standard of living**

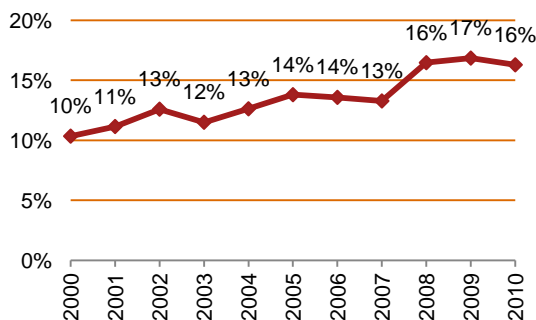
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Summary – Introduction to Georgia (2 of 2)

Georgia's labor force – your competitive advantage

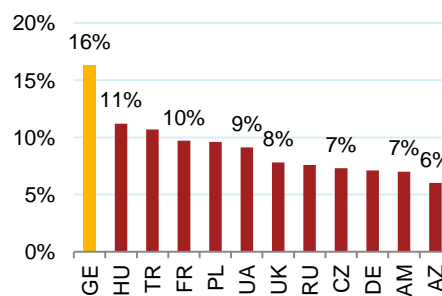
Labor force

Georgian unemployment rate, % share of total labor force



Source: Geostat

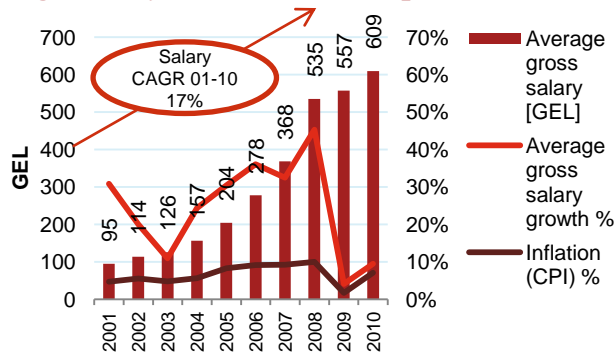
Relative unemployment rate % share of total labor force, 2010



Source: National statistical offices, World Bank

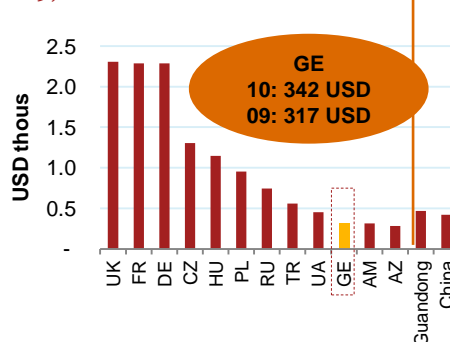
- The largest group of unemployed, c. 50% is aged between 20-34 years, which confirms the availability of a young labor force.
- In 2009/10 there were c. 102k students enrolled in tertiary education courses, which represents c. 31% of population in 20-24 age group.

Georgia, salary vs. inflation development



Source: Geostat, IMF

Average gross monthly salary, 2009, USD thous.



Source: National statistical offices, World Bank

- Salary levels differ across Georgian regions. Unsurprisingly, the highest average salary is in Tbilisi (GEL c. 760 in 2010, or c. 25% above the national average), where c. 25% of the population resides.
- Regions with other significant cities, i.e. Adjara (with Batumi) and Imereti (with Kutaisi) have below average salary levels, i.e. GEL 460 or USD 258 (25% below) and 383 GEL or USD 214 (33% below), respectively
- In 2008, c. 22% of the population lived below the poverty line compared to c. 50% in 2000. However, the growth in salaries was associated with high inflation.

Note: Please refer to section 2 and 3 of this report for more information on Georgia's investment environment

- **Availability of labor force** in Georgia remains high compared to other countries in the region.
- This may be cause for significant social concerns, but also indicates availability of labor force for a potential investor.

- Although the average **salary levels** in Georgia have grown over the last decade, they still **remain at a much lower level** compared to other European markets and **even to China!**
- This provides a significant labor cost advantage for a potential investor.

Summary – Key reasons to invest in Georgia

Three sources of competitive advantage you can capture by investing in the Georgian automotive sector:

Positive demand outlook in the region over the longer term

- It is estimated the demand for cars in the wider region will grow by 11-12% CAGR over the next five years as the GDP and income levels increase.
- Your potential production plant in Georgia can serve the whole CIS/Middle East region.

Largest potential in tractors and trucks

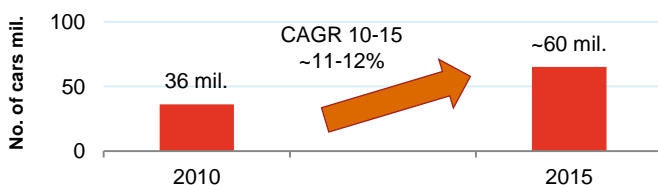
- Within the automotive segments, the largest potential is seen in tractors and trucks assembly and production. Growing demand is expected to be driven primarily by significant investments in agriculture and construction/mining.

Availability of attractive production sites together with an affordable labor force

- There are locations in Georgia with a tradition in industrial manufacturing and that are able to provide workers with the necessary skills. These locations offer competitive cost of production. i.e. low cost of land, competitive cost of labor, etc., (e.g. Rustavi) and/or several tax incentives (e.g. Free Industrial Zone in Kutaisi)

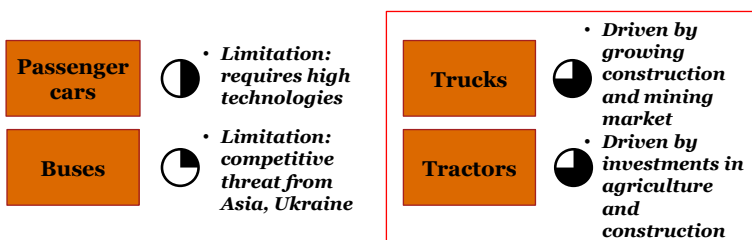
1 Growing demand for cars

Current and projected number of passenger cars in the “catchment area”



Note: “Catchment area”: Georgia, Azerbaijan, Armenia, Turkey, Ukraine, Belarus, Turkmenistan, Kazakhstan, Iran; excludes Russia
Source: BMI, Demirsar, AMA, PwC Analysis

2 Largest potential in tractors and trucks



Key: ● high potential ○ Low potential

3 Attractive locations at competitive cost

Kutaisi (Imereti region)

- Former Kutaisi Automotive plant
- Current Free Industrial Zone
- Well-connected to Poti port by rail
- Railway connection

Rustavi (Kvemo Kartli region)

- Former large industrial conglomerate
- Competitive cost of land
- Availability of educated labor

Other reasons why investing in Georgian automotive is worth considering:

Competitive cost of labor and energy:

- The average salary in the regions of Imereti and Kvemo Kartli is 10-35% lower than the already low Georgian national average. Furthermore the large cities of Kutaisi and Rustavi can provide a sufficient labor force.
- The cost of electricity is competitive regionally (i.e. significantly lower compared to Turkey)

Availability of customer support

infrastructure, i.e. dealership and servicing network. Leading distributors are:

- **Tegeta Motors:** 14 outlets in Georgia, licensed distribution and servicing of passenger cars, buses and trucks (e.g. MAN, JBB)
- **Mate Motors:** 8 outlets in Georgia, distribution and servicing of passenger cars (Nissan, Honda, Suzuki, Mitsubishi, etc.)

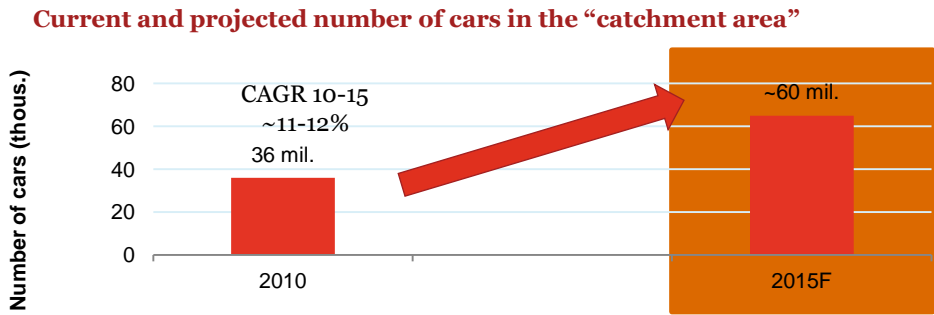
Favorable trade regimes with most of the CIS countries

- Opening trade with Russia may represent a potential upside in the long term

Section 1

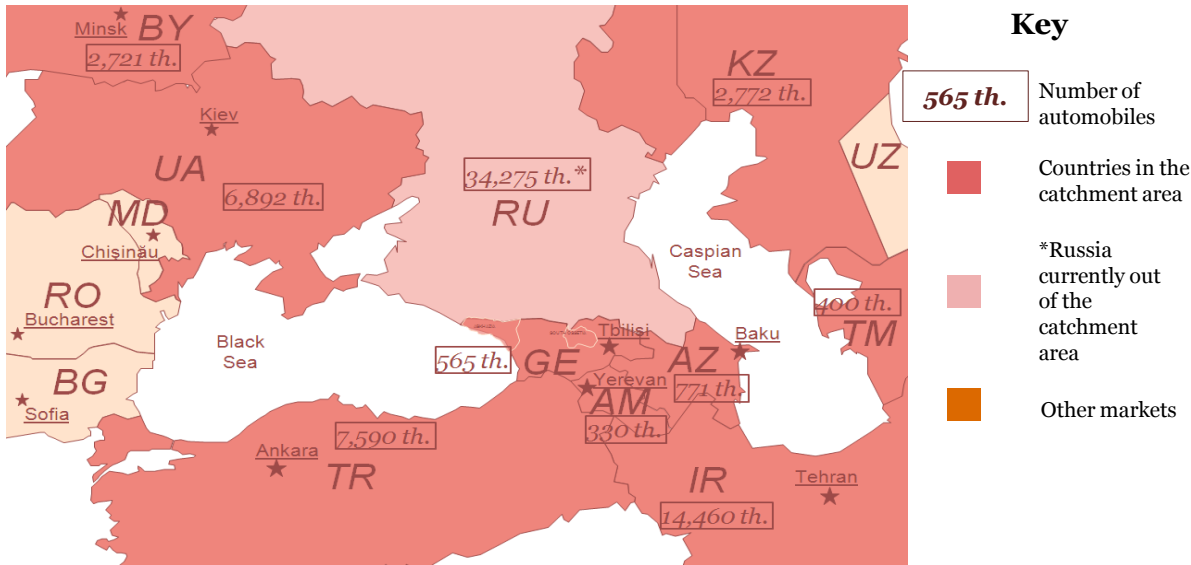
Automotive industry

It is estimated that Georgian car ownership will grow strongly over the next 5 years driven by promising GDP growth prospects (1 of 2)

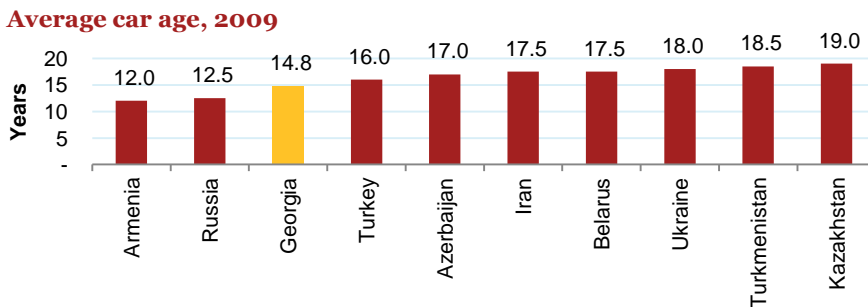


Source: BMI, Demirsar, AMA, PwC Analysis

“Catchment area” – that could be served by your assembly/production facility in Georgia



Source: BMI, Demirsar, AMA



Source: AMA, GEM, Autostat, UN

Definition of “catchment area”

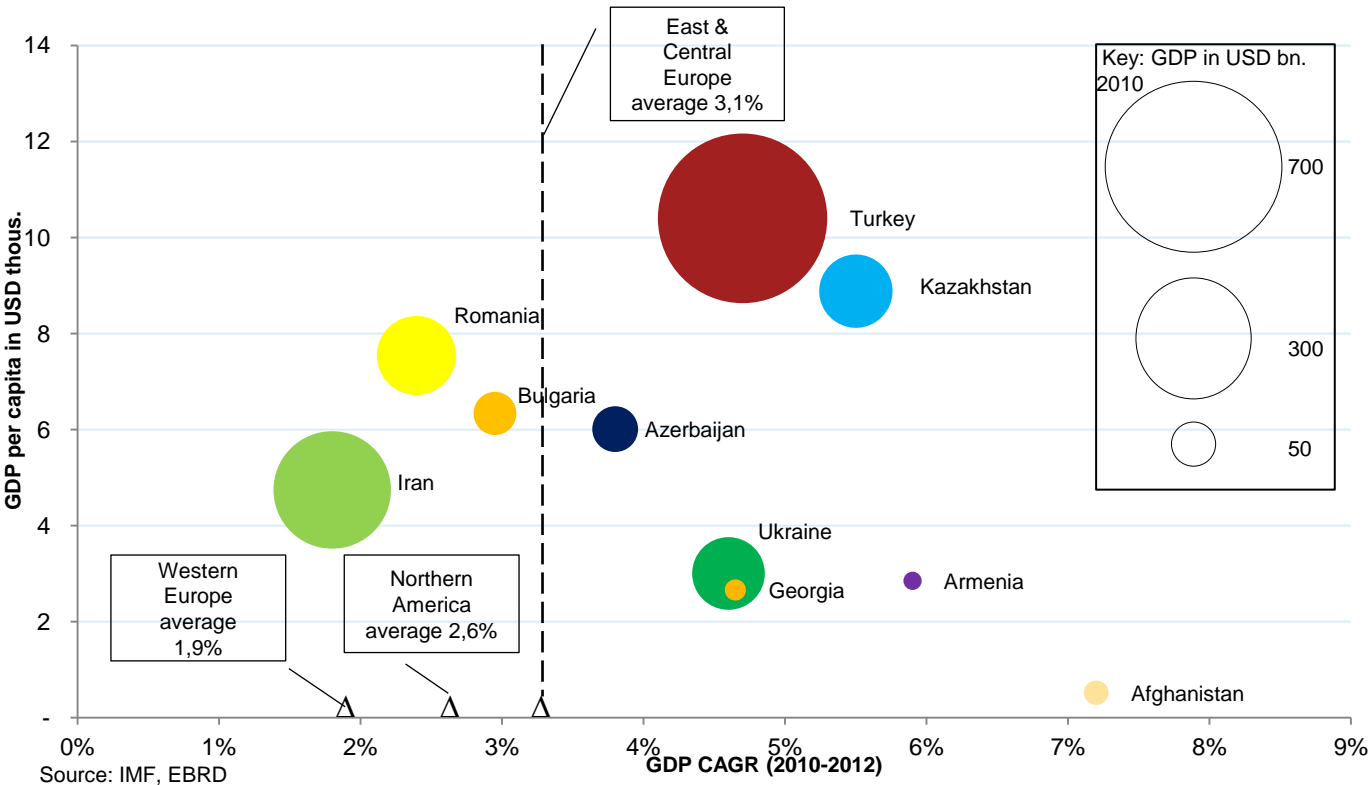
- Due to its convenient location and liberalized trade relations with the neighboring countries, Georgia has the potential to serve a broader region (“catchment area”) that includes:
 - Georgia, Armenia, Azerbaijan, Turkey, the Ukraine, Belarus, Kazakhstan, Turkmenistan, Iran
- Due to trade restrictions, Russia is not covered in the “catchment area”

Forecast demand

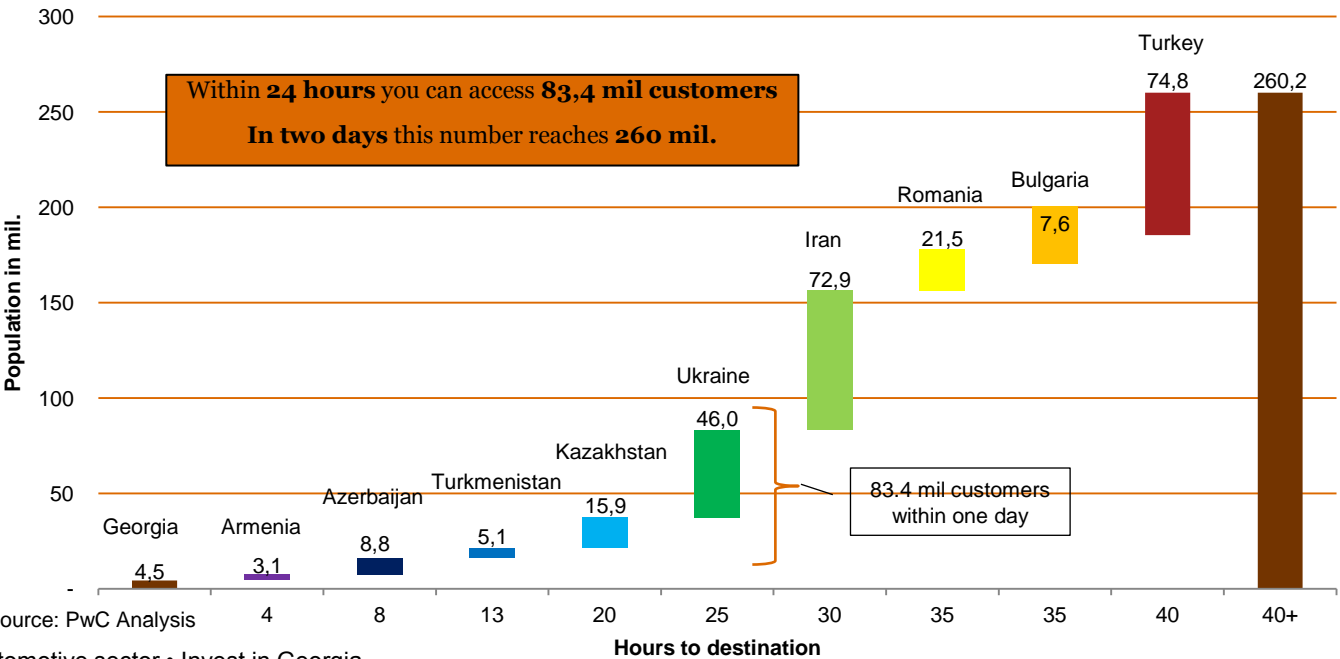
- Demand in the “catchment area” is forecast to grow at ~11-12% CAGR over the next five years. This will be driven by:
 - Projected GDP growth and car sales
 - Gradual convergence to car ownership levels in more mature markets
 - Expected replacement of older cars

It is estimated that the Georgian car ownership will grow strongly over the next 5 years driven by promising GDP growth prospects (2 of 2)

GDP growth prospects of countries easily accessible from Georgia



Time to market from Georgia



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Trade relations in the “catchment area” are mostly favorable, making Georgia an attractive base for your exports

Trade relations for Georgian car exporters

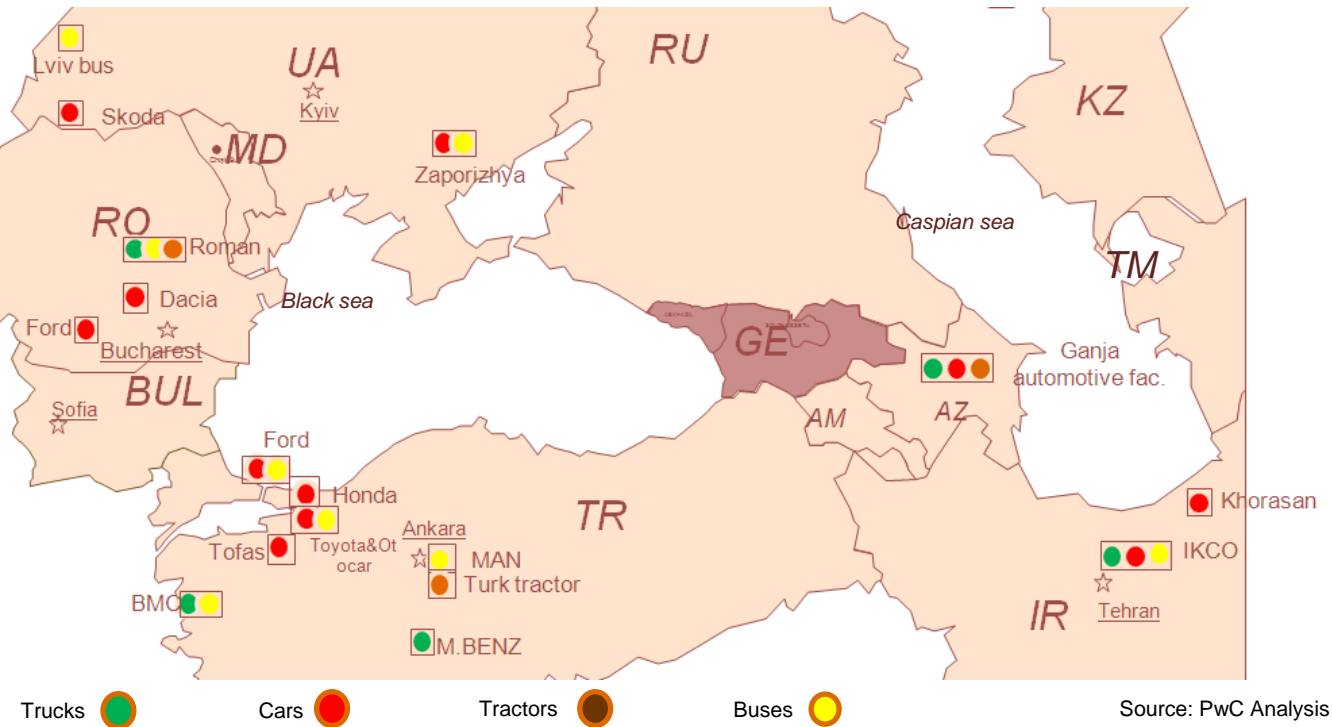
Country	No of cars (th.)	Population (mil.)	No. of cars per 100 capita	Trade regimes /import tariffs / taxes	Applies to
Kazakhstan	2, 722	15,6	29	Euro 5 per cubic centimeter	To most of the importers, except free trade for Japan
Turkmenistan	400	5,4	7	Cars with the engine's volume 2000 or less than 2000 cubic cm USD 0,25 per each cubic cm.	To all importers
Azerbaijan	771	9,0	9	Up to 2000 Manats (USD 0,5) for each cubic cm.	To most of the importers, except free trade for Armenia, Belarus, Russia, Kazakhstan, Kyrgystan, Tajikistan, Uzbekistan
Turkey	7, 500	71,3	12	10%	To most of the importers, except free trade for Egypt
Belarus	2,771	9,4	18	10%	To all importers
Ukraine	6,892	45,5	15	Customs duty for imported cars: 23%	To all importers
Armenia	2, 722	3,3	10	32% for 1-5 year old cars	To all importers
Iran	14,406	75,4	19	70%	To all importers
Russia	34,275	140,4	24	Currently Georgia does not have a trade relationship with Russia. Lifting the embargo represents a potential long-term upside	To Georgia only

Favorable

Unfavorable

Sources: www.armtown.com, www.unep.org, www.axrates.cc

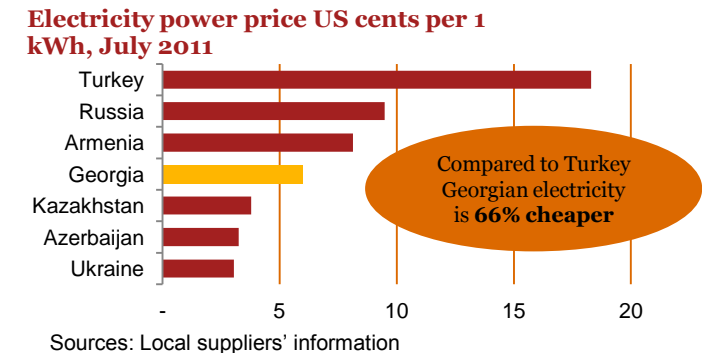
Automotive production is present in neighboring countries. Georgia is a cost competitive alternative offering access to a wide region in the medium term



Leading producers in the catchment area

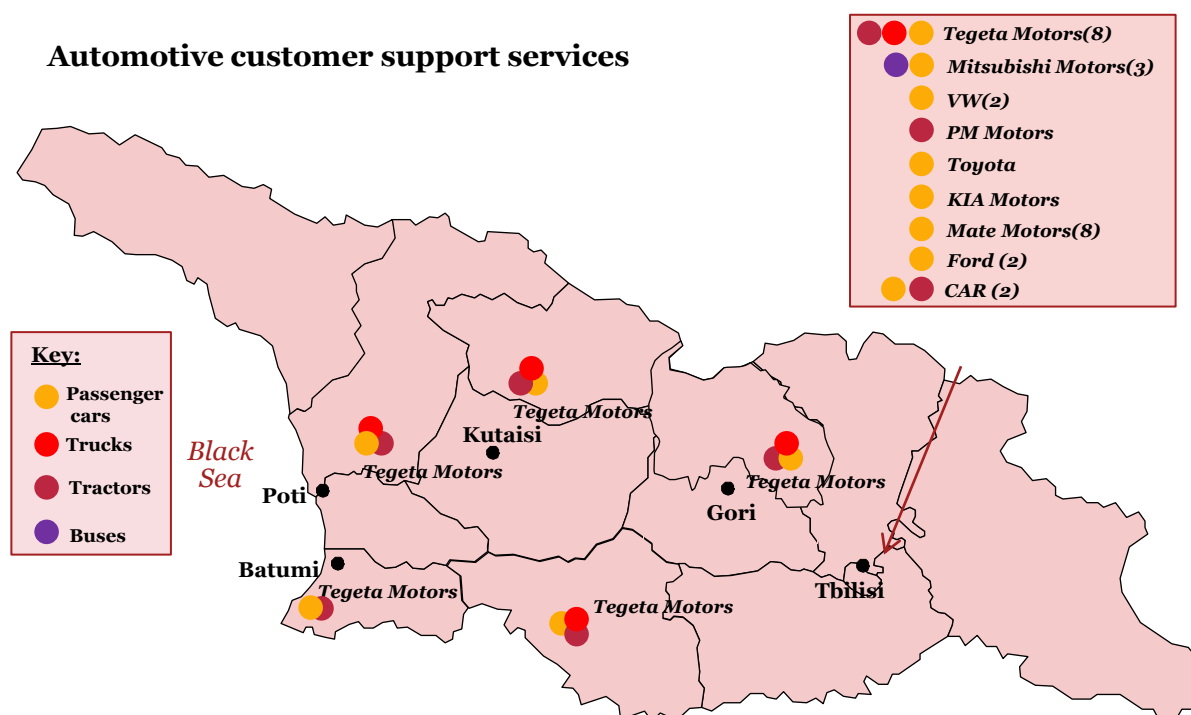
Company /Brand	Countries of presence	Product portfolio
Ford	Turkey	Buses
MAN	Turkey	Buses
Turk tractor	Turkey	Tractors
M.BENZ	Turkey	Trucks
Skoda	Ukraine	Cars
Roman	Romania	Tractors
IKCO	Iran	Cars

- The majority of the automotive production in the region is located in Turkey.
- High labor costs, energy and access to the CIS countries may trigger an interest in moving some of the production or assembly to Georgia.
- Georgia has an automotive production tradition coming back to 1940 – 1980’s when the Kutaisi plant was producing trucks (ZIS, KAZ)



Customer support infrastructure is a prerequisite for any producer. The Georgian dealership and service networks are continuously expanding

Automotive customer support services



- In **Rustavi**, there is the disorganized “Rustavi second hand car market”
- Initial plans for building a structured automobile trade market with modern indoor facilities has been announced. The investment is expected to be driven by a private investor (details undisclosed)

	No. of outlets	Location	Offerings
Tegeta motors	14	Tbilisi, Batumi, Poti, Kutaisi, Akhaltsikhe, Gori	Tractors, passenger cars & trucks (various brands)
Mate Motors	8	Tbilisi	Passenger cars (various brands)
Mitsubishi Motors	3	Tbilisi	Passenger cars & buses
Ford	2	Tbilisi	Passenger cars & commercial vehicles
VW	2	Tbilisi	Passengers car service & car parts
CAR	2	Tbilisi	Passenger cars and vehicle service centre; Daihatsu & Subaru
Toyota	1	Tbilisi	Passengers cars
PM Motors	1	Tbilisi	Trucks; Shmitz & Scania
Kia Motors	1	Tbilisi	Passenger cars

Tegeta Motors

- The largest distributor of various brands of trucks, buses and passenger cars
- Provider of authorized servicing
- 14 branches in Georgia (8 in Tbilisi)
- An official representative with the exclusive right to distribution of 30 World recognized brands in Georgia (e.g. JCB, MAN, etc.)

Mate Motors

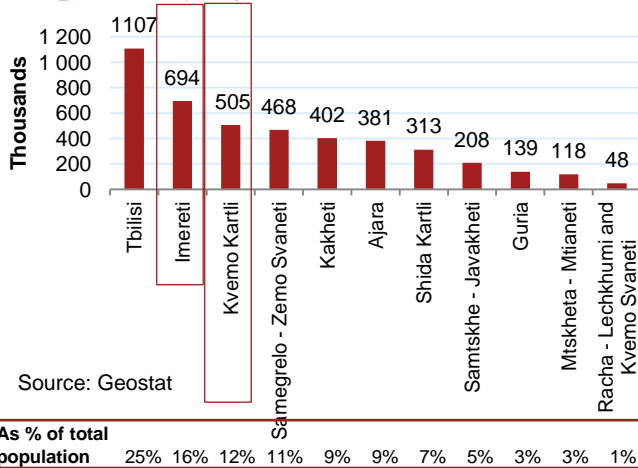
- Distributor and licensed servicing provider of Asian brands of passenger cars, e.g. Nissan, Honda, Suzuki, Infiniti, Mitsubishi

"We have entered the Georgian car market with our official dealership network because of good access to the other Caucasus countries, neutral political relationships with other Caucasus countries, extremely low corruption levels and availability of English speaking staff."

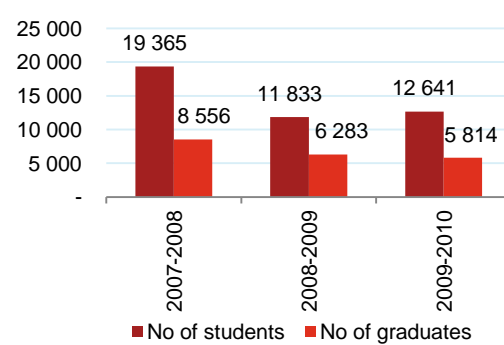
A.MATSUI
President Toyota Caucasus LLC

By setting up production in Georgia you will benefit from educated eager to learn staff – and competitive rates

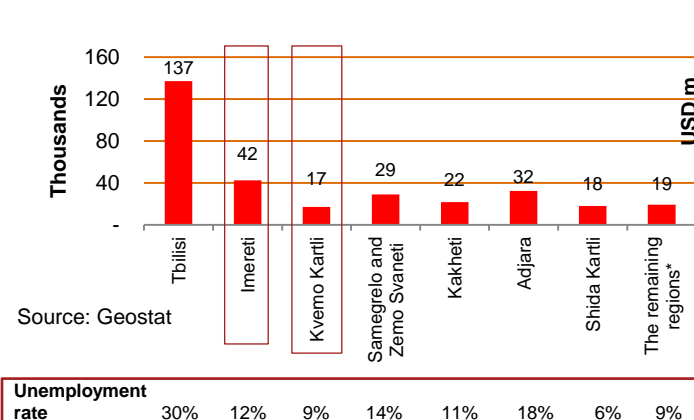
Population by region (2010)



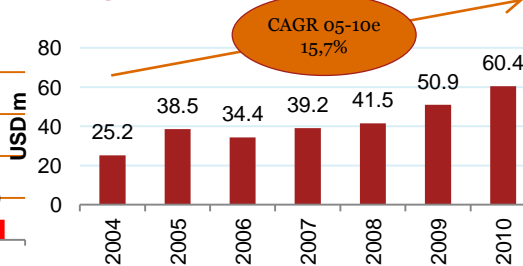
Number of students and graduates in engineering, manufacturing and construction



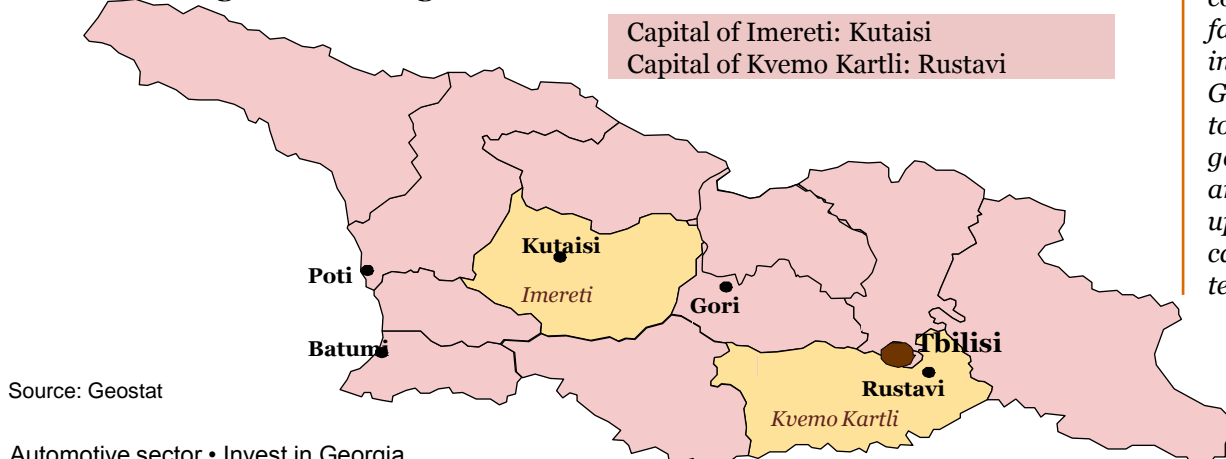
Number of unemployed in Georgia by regions (2010)



Private educational services market in Georgia, USD mil.



Regions of Georgia







- In our assessment we have focused on the Imereti and Kvemo Kartli regions that present the highest potential for an automotive production set-up
- The reasons are low wage costs, manufacturing skills heritage, location and infrastructure.
- Georgia can offer affordable yet skilled labor force. There are 5 higher education institutions with engineering faculties

"Competitive labor cost can be the key factor attracting investors into Georgia. In addition to that, people are generally well skilled and just need some upgrade trainings to catch with the new technologies"

Merab Chrelashvili,
Director of Kutaisi
Automotive Plant

Trucks and tractors appear to represent the most attractive FDI investment in the Georgian automotive sector – partnerships are already being discussed

Automotive industry – segment attractiveness assessment

Segment	Driven by	Description	Barriers to entry	Investment potential
Passenger cars	<ul style="list-style-type: none"> • GDP • Disposable income 	<ul style="list-style-type: none"> • We estimate the demand in the “catchment area” to grow of ~ 11 ~12 % CAGR over the next five years. • Refurbishment of aged car fleet will take place. 	<ul style="list-style-type: none"> • Lack of suppliers • Plants in Turkey unlikely to be moved • Intensive training necessary to meet technology / quality requirements 	
Busses	<ul style="list-style-type: none"> • GDP • Public investments in infrastructure • Disposable income 	<ul style="list-style-type: none"> • Old and insufficient fleet • Process of refurbishment of public transport 	<ul style="list-style-type: none"> • Cheap imports from: <ul style="list-style-type: none"> • Ukraine • China • India and other 	
Trucks	<ul style="list-style-type: none"> • Strong construction growth • Mining 	<ul style="list-style-type: none"> • Construction market growth in civil engineering as well as commercial and residential; CAGR 06-09 :15,4% • Mining companies are reopening; CAGR 06-09 : 7,7% 	<ul style="list-style-type: none"> • Investing in the full production may be challenging. However assembly represents an opportunity 	
Tractors	<ul style="list-style-type: none"> • Agriculture production • Growing mechanization of agriculture in Georgia • Public investments and FDI 	<ul style="list-style-type: none"> • Agricultural machinery and volume CAGR 05-08: 25% • Governmental/USAID programs supplying farmers with tractors • Traditions of assembling tractors (KAMP) 	<ul style="list-style-type: none"> • Importers from: <ul style="list-style-type: none"> • Turkey • Ukraine 	

Source: GNCC, ITU, Public information, PwC Analysis

Key: low potential for FDI



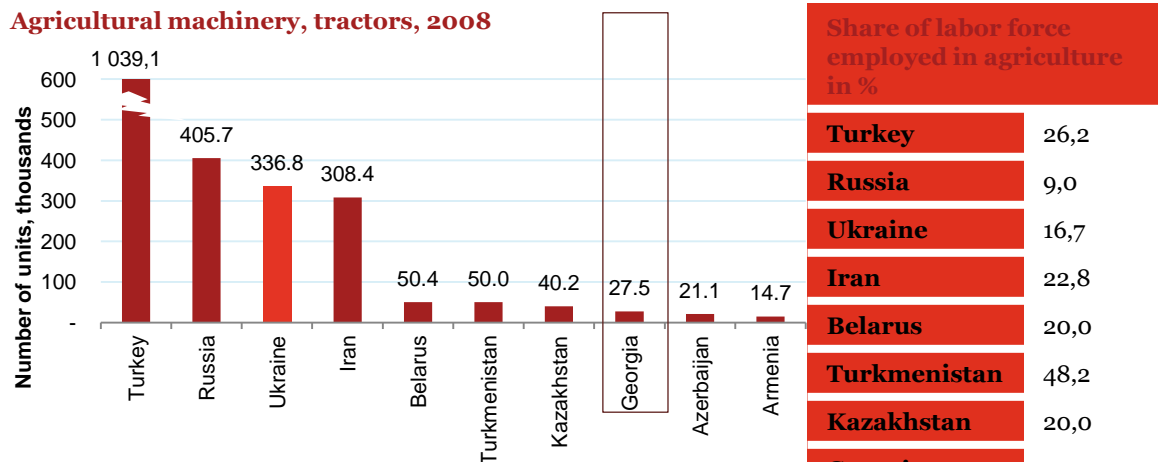
high potential for FDI

"Currently we do have two servicing centers in Georgia and do not run production or assembly line there yet. We may however consider this should the demand rise to roughly 200 tractors a year. We believe this can be achieved in medium term having also in mind the favorable position of Georgia with regards to Iraq, Iran, Turkey and the CIS countries."

David Pipal, Business Development Leader
ZETOR TRACTORS a.s. – Czech tractor producer

Upgrading the ageing tractor fleet represents a domestic sales opportunity

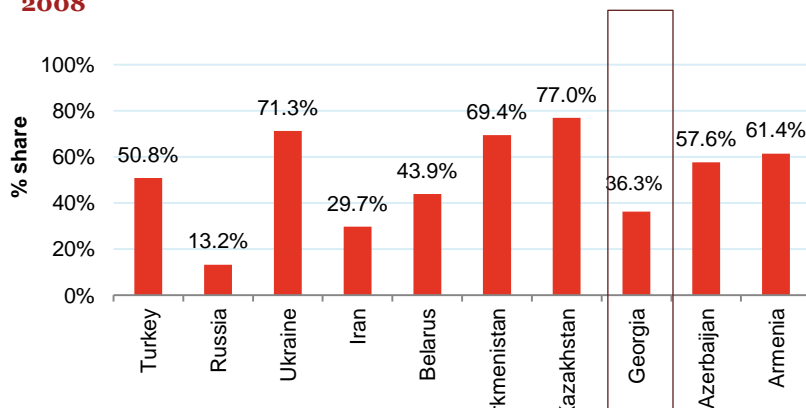
Agricultural machinery, tractors, 2008



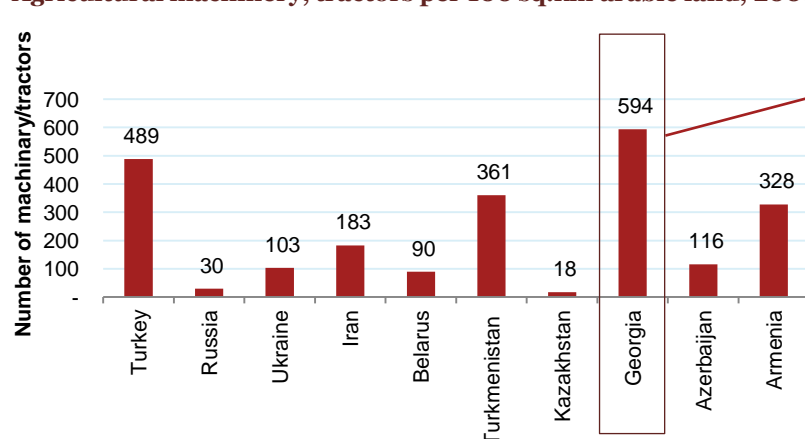
Share of labor force employed in agriculture in %

Turkey	26,2
Russia	9,0
Ukraine	16,7
Iran	22,8
Belarus	20,0
Turkmenistan	48,2
Kazakhstan	20,0
Georgia	53,4
Azerbaijan	38,7
Armenia	46,2

% Share of agricultural land on total country area, 2008



Agricultural machinery, tractors per 100 sq.km arable land, 2008



This figure includes old and obsolete tractors. In reality, the mechanization is very low which causes the low productivity of the Georgian agriculture :
"The biggest issue of the Georgian agriculture is very poor and insufficient mechanization"

George Jakhutashvili
 General director
 Georgian Agriculture
 Corporation

Source: All World Bank

- More than 50% of the Georgian labor force is employed in agriculture. However, productivity remains low due to low mechanization.

- Due to mountainous areas, only c. 37% of the land is arable. However, independent studies suggest the land is very fertile and significant public and private investments are being made.

- Replacing old and obsolete tractors represents a large source of potential sales.

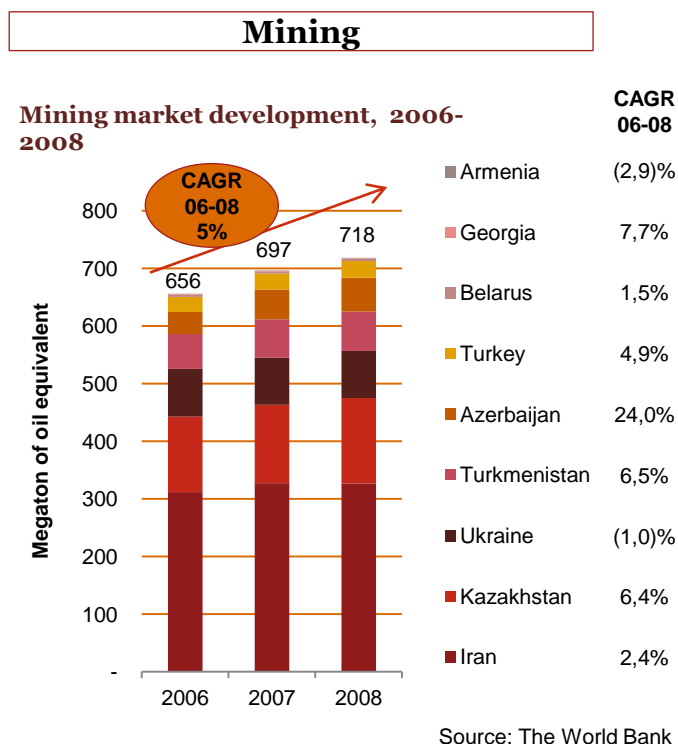
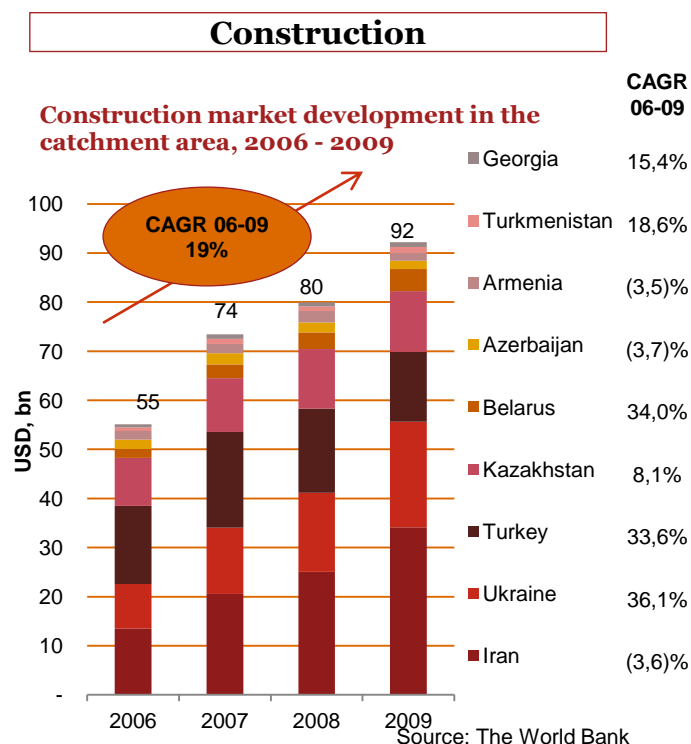
Private investments in agricultural equipment, including tractors, are being supported by the Government and external agencies

Key projects aimed at development of the agricultural infrastructure in Georgia

Project /Area	Project /Area	Overview	Driven by	Status
Georgia	USAID: Access to Mechanization Georgia	Project in cooperation with GAC: <ul style="list-style-type: none"> The 30-month, USD 5.1 mil. will establish 25-30 Machinery Service Centres nationwide; Custom machinery services - up to 14,000 small farmers expected to benefit from the project; Grants will average approximately USD 105,000 per centre; 60-100 new tractors of various capacities will be purchased including spare parts and other equipment. 	<ul style="list-style-type: none"> USAID 	<ul style="list-style-type: none"> Ongoing
	GAC Ltd: Mechanization Georgia	The mission of GAC is to improve Georgian agriculture efficiency through various projects such as: <ul style="list-style-type: none"> Supply of agriculture equipment/technology including service; Implementation of modern technologies in agricultural productions; Investments in various agricultural productions. 	<ul style="list-style-type: none"> GAC Ministry of Economy and Sustainable Development 	<ul style="list-style-type: none"> Ongoing Launched in 2009
Other 'catchment area'	National Rural Development Program Belarus	<ul style="list-style-type: none"> The Government has allocated c. USD 17 mil to the agricultural industry, equivalent to USD 190 per each hectare of farmland; National rural development program set up 1481 agro-towns in the country. Around 8,000 houses with a total area of 714.5 square meters were built in the agro-towns to support the industry growth. 	<ul style="list-style-type: none"> The government of Belarus 	<ul style="list-style-type: none"> Completed in 2010
	Grain of Ukraine	<ul style="list-style-type: none"> In the next 5 years up to 5000 harvesters will be supplied by John Deere Corporation, 1000 each year; Highly efficient rotary combines will be supplied. As the first step 15% of the modernization requirements will be covered; The objective is to increase grain output up to 80 million tons a year by 2015 and to increase the oil-bearing crops up to 15 million tons. 	<ul style="list-style-type: none"> The government of the Ukraine FAO EBRD 	<ul style="list-style-type: none"> Ongoing Until 2015
	Other projects supporting agriculture in the region	<ul style="list-style-type: none"> Examples of other projects in the region aimed at the development of agricultural infrastructure and equipment include: <ul style="list-style-type: none"> In Azerbaijan, the World Bank & EBRD allocated c. USD 80 mil. for enhancement of drainage networks and other agricultural infrastructure; In Armenia, MCA-Armenia invested USD 180 mil. For the development of infrastructure. 	<ul style="list-style-type: none"> The World Bank The government of Azerbaijan The government of Armenia Millennium Challenge Armenia 	<ul style="list-style-type: none"> Ongoing

Source: Public information, PwC Analysis

Also, the growing construction and mining sectors are expected to drive demand for trucks over the longer term



Drivers of demand for trucks in the 'catchment area'

- Growing construction market – 19% CAGR (06-09)

- Recovery of the mining sector after the global economic downturn

- Availability of governmental and external donor funds for civil engineering projects (e.g. projects in infrastructure)

- Recommissioning of mines which were shut down after the collapse of the Soviet Union (e.g. in Georgia)

- Old fleet requiring replacement

- Over 200 mining companies operating in the catchment area

Potential customers of your trucks - major mining and civil engineering companies operating in the region

Selected leading civil engineering + mining companies = your potential customers in the region purchasing trucks

Country	Civil engineering	Land mines
Armenia	<ul style="list-style-type: none"> • Gerezman Solutions NGO • Khachhar Road Construction Company • Tonus Constructions Building Company 	<ul style="list-style-type: none"> • Zangezur Copper and Molybdenum Combine • Armenian Molybdenum Production LLC • Global Gold Mining
Azerbaijan	<ul style="list-style-type: none"> • Qartal Construction Company • Azerinshaatservis LLC • Altes Group 	<ul style="list-style-type: none"> • GRATA • Baku Steel Company • Caspian Drilling Company
Belarus	<ul style="list-style-type: none"> • RITM Company • The Architecture and Construction Company of Julia Skorynina • Belsvyazstroy 	<ul style="list-style-type: none"> • Boule Mining Group • Belorussian Autoworks (Belaz) • Belaruskali
Georgia	<ul style="list-style-type: none"> • Arsi • Centrepont • Realty Group 	<ul style="list-style-type: none"> • Madneuli JSC • Chiaturmanganum Georgia • Rusmetali
Iran	<ul style="list-style-type: none"> • MAPNA Group • Heavy Equipment Production Company • Khatam al-Anbia 	<ul style="list-style-type: none"> • Chadormalu Mining and Industrial Company • Kerman Coal Company • Mobarakeh Steel Mill
Kazakhstan	<ul style="list-style-type: none"> • Vek Corporation • Komsnabstroy • TechnoSteel 	<ul style="list-style-type: none"> • Kazakhmys PLC • Alhambra Resources • OJSC Polymetal
Russia	<ul style="list-style-type: none"> • Inteco • Capital Group • Mirax Group 	<ul style="list-style-type: none"> • Petropavlovsk PLC • Amur Minerals • ZAO ALROSA
Turkey	<ul style="list-style-type: none"> • Çukurova • ETS Eser • GAMA Endustri 	<ul style="list-style-type: none"> • Istanbul Gold Refinery • Newmont Mining Corporation • Aldridge Minerals
Turkmenistan	<ul style="list-style-type: none"> • Çukurova • ETS Eser • GAMA Endustri 	<ul style="list-style-type: none"> • Eurasian Natural Resources Corporation PLC • MMC Norilsk Nickel • Belgorkhimprom
Ukraine	<ul style="list-style-type: none"> • Kyivmiskbud • Integral-Bud • TMM Company 	<ul style="list-style-type: none"> • EVRAZ • Anika LLC • AgroPromService

Source: PwC Analysis

Automotive sector • Invest in Georgia

...explore the long-term potential of the region

PwC

August 2011

Georgia's three Free Industrial Zones offer tax-free advantages for your company

- Low labor costs, access to your key customers and end markets in the region and ease of doing business represent strong competitive advantages that Georgia can offer you.
- In addition to these, Georgia has set up 3 Free Industrial Zones (of which one is still under construction) that will allow you to operate your business and trade efficiently, while enjoying tax-free status:

1. Kutaisi FIZ

- Established in: 2009
- Area: 27 hectares – half of the area is ready for operation
- Established by: The initiator and the owner of the territory is LTD "Georgian International Holding"
- Companies already present: "Fresh", Egyptian house appliances producer
- USD 55.8 mil. has already been invested in 2009 and a further USD 396 mil. will be invested in the next few years.

2. Poti FIZ

- RAKIA Georgia FIZ was established in June 2008 by RAK Investment Authority
- Poti FIZ is situated nearby the existing port of Poti, which is one of the oldest and most known sea ports in the Black Sea. Recent acquisition by Maersk-Moller will drive more investments
- RAKIA has 300 hectares of land around the port for the FIZ purpose

3. Tbilisi FIZ

- By June 2012 another FIZ will be opened in Tbilisi
- The proposed Tbilisi FIZ provides a tax-free area only 13 km from the city centre
- The 11 hectare project is equipped with all available transportation communications, including rail, road and air
- The newly built airport shuttle station and newly renovated Tbilisi International Airport is only 1.2 km from the FIZ



FIZ in numbers:					Distance to in km.			
	# of citizens in thous	Unemployment rate	Average salary	Land rental per m ² a month	Tbilisi	Poti (Port)	Sarpi (Turkish Border)	Red-Bridge (Azerbaijan Border)
Kutaisi	190	11,6%	400	USD 5	250 km	100 km	170 km	320 km
Poti	47	14,3%	520	USD 6	350 km	0	90 km	400 km
Tbilisi	1,100	30,1%	752	Not applicable	0	350 km	400 km	70 km

Tax benefits of operating in FIZ in Georgia

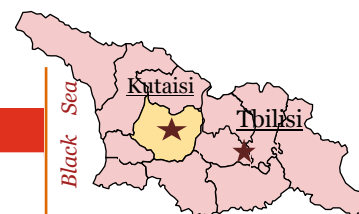
Corporate Income Tax	0%
Value Added Tax	0%
Customs Tax	0%
Property Tax	0%
Personal Income Tax	20%

There are locations with a strong automotive and industrial tradition – Kutaisi

Kutaisi

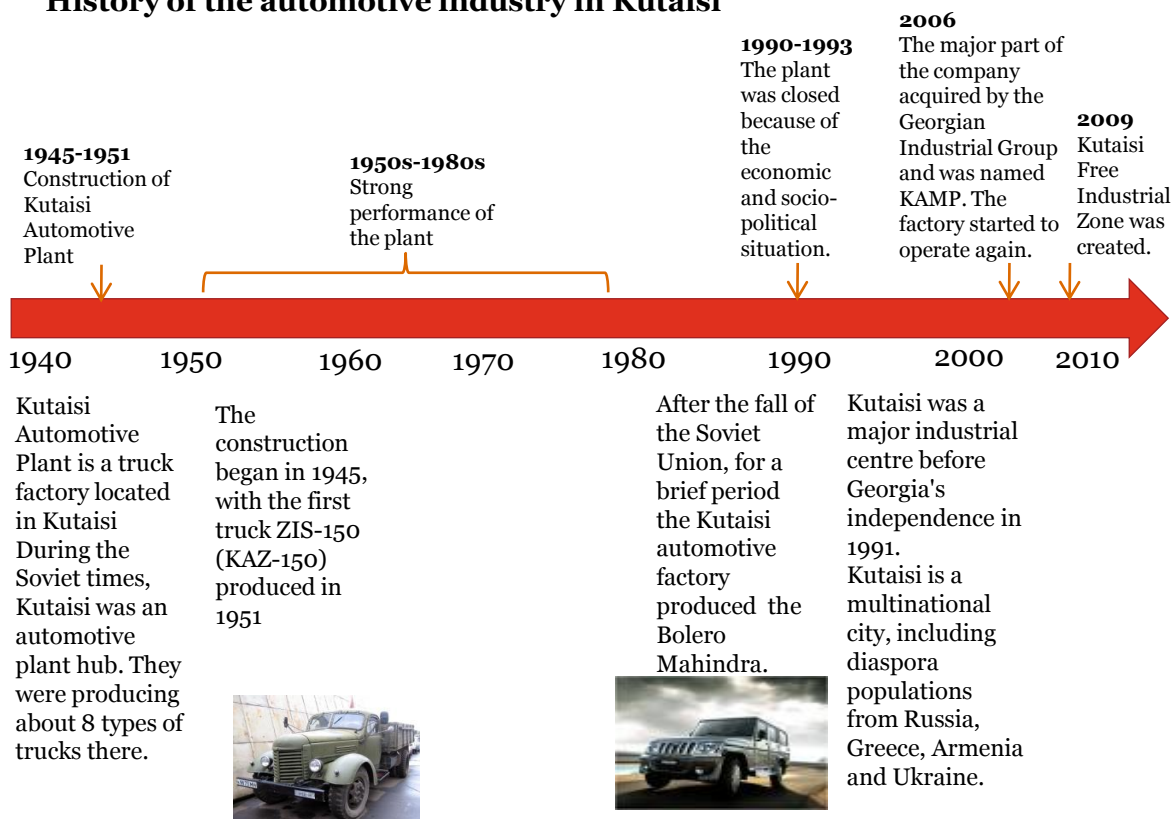
Key metrics	Kutaisi/ Imereti region	Tbilisi	Georgia average
Population in thousands (% of total population in Georgia)	Kutaisi: 192,5 (4,3%) Imereti: 700,4 (15,8%)	1152,5 (26% of total)	4 436,4
Urban population, % of total	44%	100%	53%
Estimated labor force in thousands	Imereti: 366	455,3	1 944,9
Unemployment	Imereti: 11,6%	30,1%	16,3%
Monthly salary USD	Imereti: 214,8	403,9	342,9
Purchase price of land m² USD	USD 100-150	USD 450-500	USD 50-80 (est.)

Source: Geostat, Ministry of Economy



Kutaisi - Tbilisi 220km
Kutaisi - Poti 100km
Railway connections available
Airport

History of the automotive industry in Kutaisi



"Indeed, the automobile factory of Kutaisi has a long history and tradition. Despite some downtime in the 1990s, we are now approaching the reorganization and refurbishment of infrastructure as we are expecting the growth in the demand. Kutaisi automotive plant is in discussions with several foreign companies about future partnership"

Mr. Merab Chrelashvili
Director of Kutaisi Automotive Plant
director

There are also locations with strong historic automotive and industrial tradition – Rustavi

Rustavi

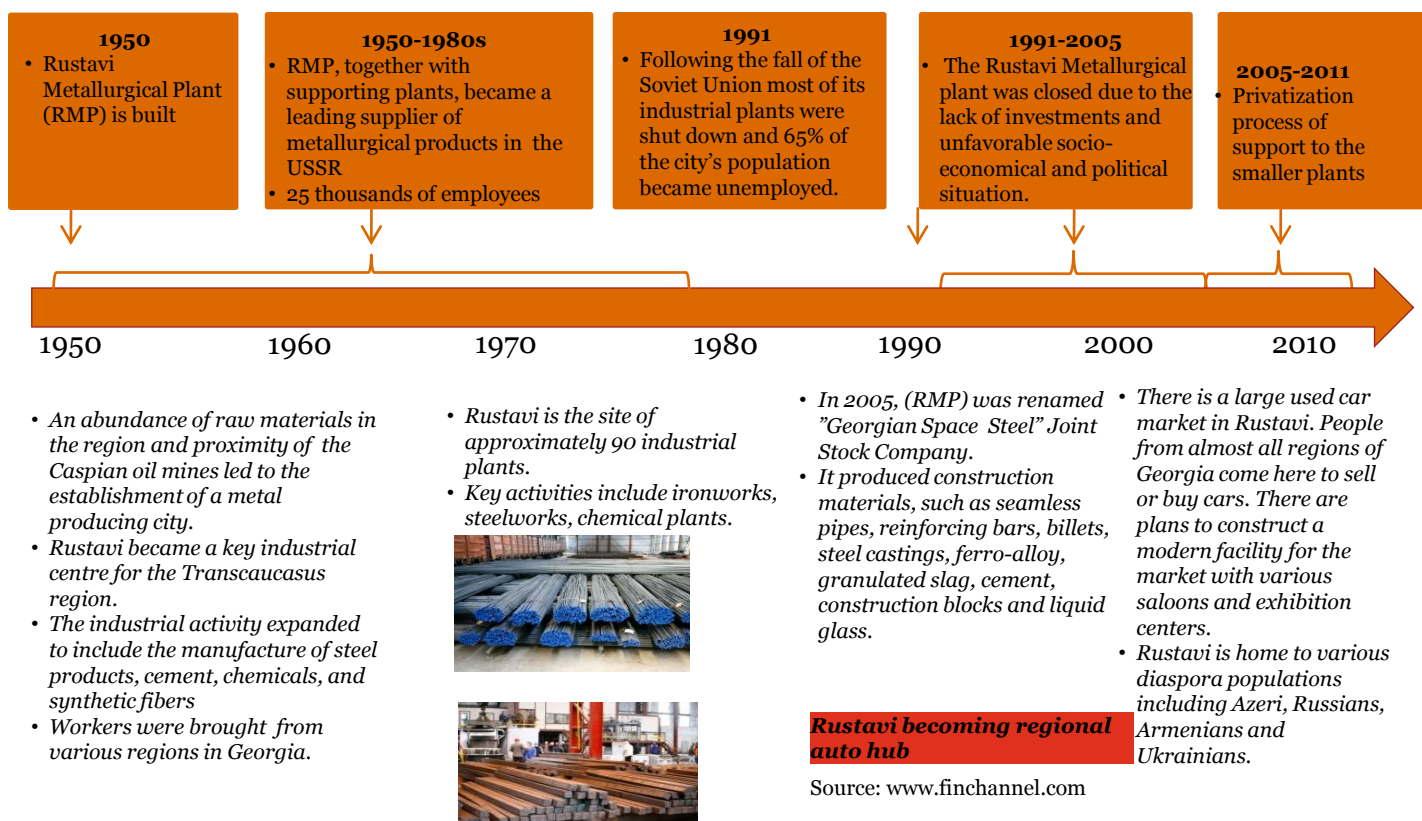


Rustavi-Tbilisi 32km
Rustavi-Poti 349km
Railway connections available
• Easy access to Baku

Key metrics	Rustavi/ Kvemo Kartli region	Tbilisi	Georgia average
Population in thousands (% of total population in Georgia)	Rustavi: 119,5 (2,7%) Kvemo Kartli: 500 (11,7%)	1152,5 (26% of total)	4 436,4
Urban population, % of total	26%	100%	53%
Est. labor force in thous.	Kvemo Kartli: 185,7	455,3	1 944,9
Unemployment	Kvemo Kartli: 9,2%	30,1%	16,3%
Monthly salary USD	Kvemo Kartli: 252,2	403,9	342,9
Purchase price of land m² USD	USD 30-40	USD 450-500	USD 50-80 (est.)

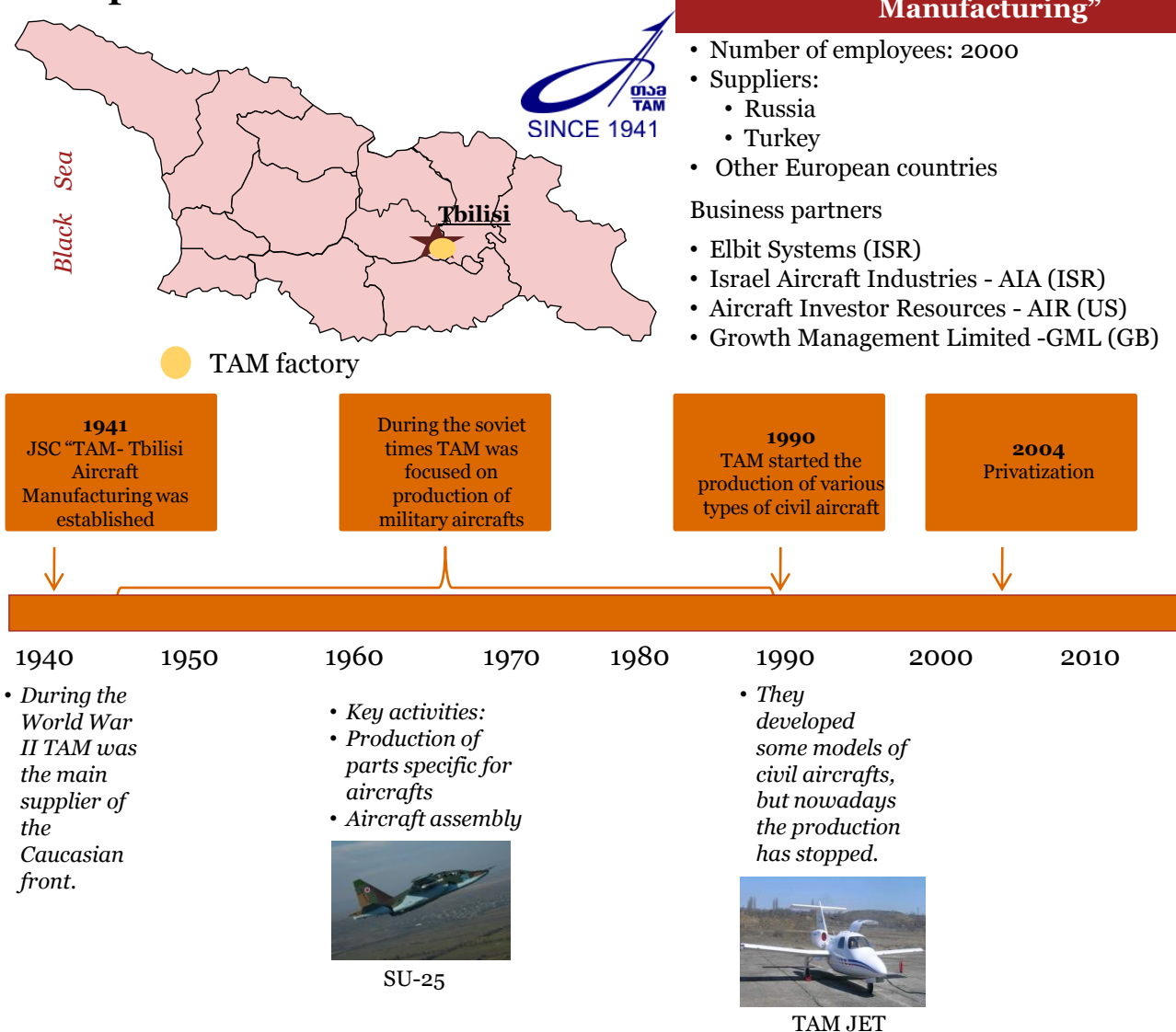
Source: Geostat, Ministry of Economy

History of industry in Rustavi



A skilled manufacturing labor force has been established by the local aerospace industry that automotive producers can draw from.

Examples of connected sectors



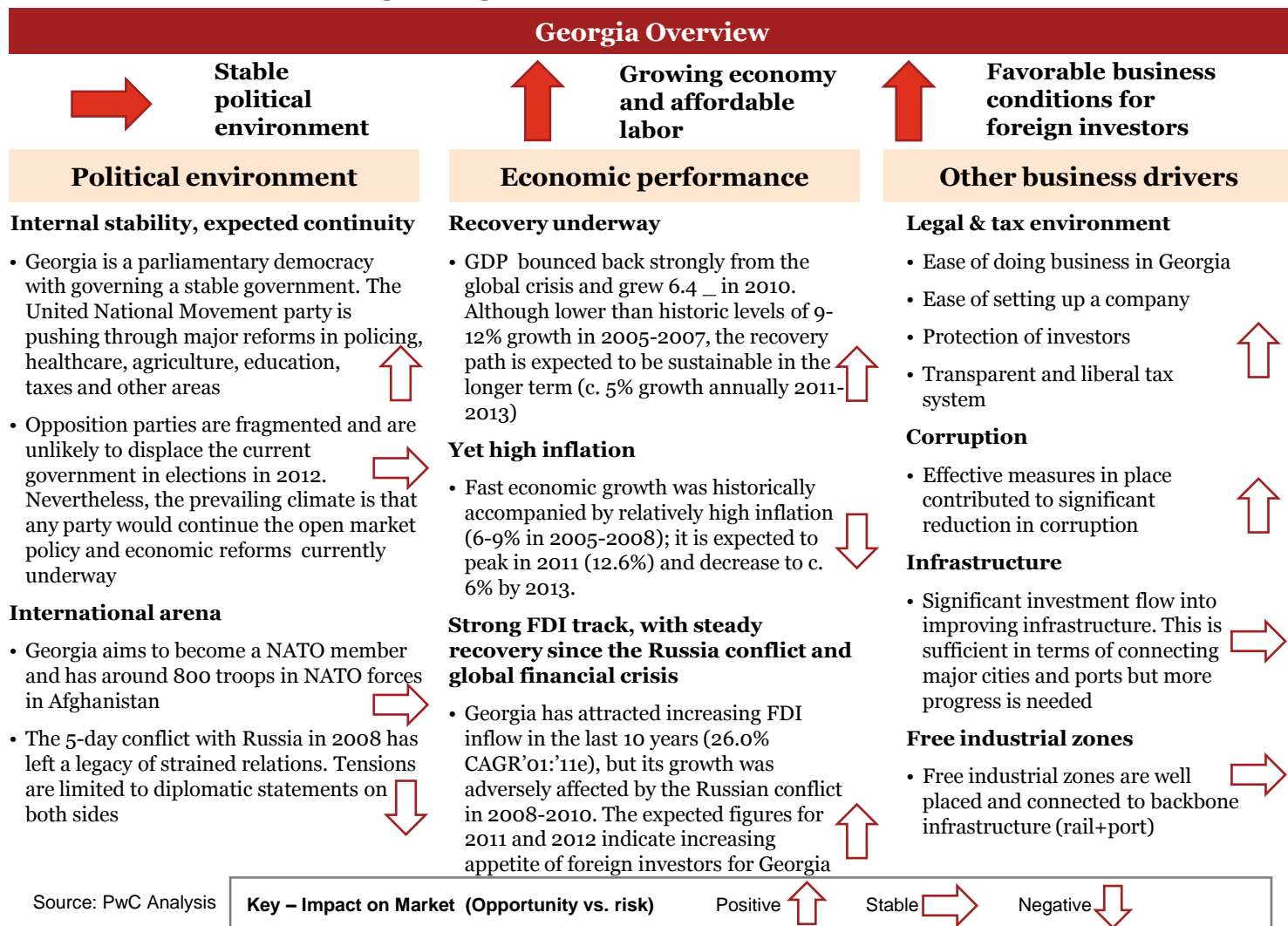
"We have all that is needed for potential car assembly. We have a skilled labor force and technologies. We just need some specific machinery that is used in car manufacturing. Generally, we have a strong base to produce cars in the future if there is demand and investment."

Mr. Vaja Tordia
General director of TAM

Section 2

Introduction to Georgia

Georgia provides favorable conditions for your business – historically tense relationship with Russia does not seem to limit ongoing FDI



Overview of the brief 2008 conflict with Russia and its business implications

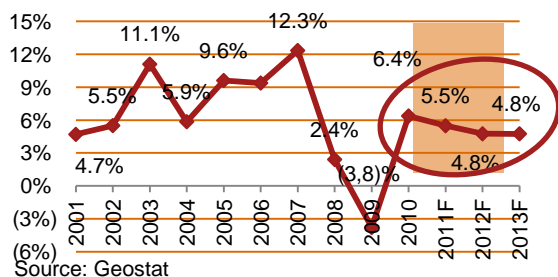
- The 2008 Russo-Georgian 5-day War negatively affected Georgia and its economy. Three years later, other countries and international organisations are involved in the conflict mediation and Georgia has announced its intention not to use force. European Mission is monitoring the area surrounding administrative borders, which coupled with the pressure that international community has put on Russia, practically erases the threat that the military conflict between Russia and Georgia will be renewed.
- Russians invest in Georgia and visit the Georgian coast for holidays. Up to one million Georgians live in Russia, and a huge number of Georgians have Russian friends.
- Interviews with some business leaders revealed their belief in the improvement of the situation over time and in the reopening of the markets.
 - "Looking at Georgia and the situation with Russia, I just do not see the embargo being in place in the coming 10 years. I see the opening of trade between Russia and Georgia as a long term upside for businesses in both countries." Leading representative of a major trade organisation in Georgia
- Ongoing historic FDI track shows investors do not see this situation as something making them reconsider investment in Georgia:
 - HIPP – German producer of baby and toddler food entered in 2007 and continued investing during the conflict
 - Ferrero – Italian confectionary producer entered in 2007 and has been growing the business since
 - Fresh – Egyptian home appliances manufacturer entered in 2009 investing USD 157 mil.
 - Russian investors include Lukoil, VTB or Beeline

Georgia in numbers

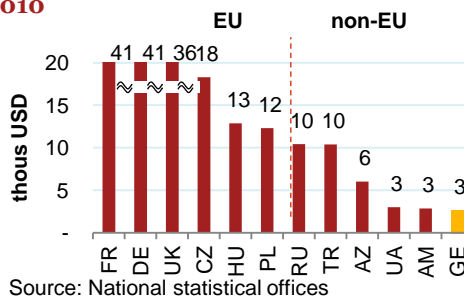
Country overview - Macroeconomic situation (1/2)

Key macroeconomic indicators

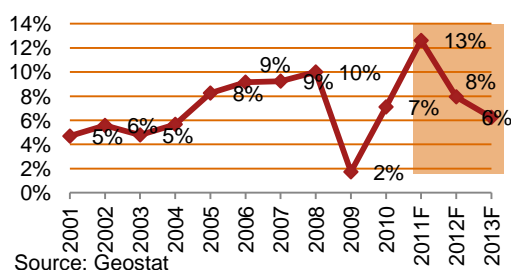
Georgia, Real GDP Growth in (%)



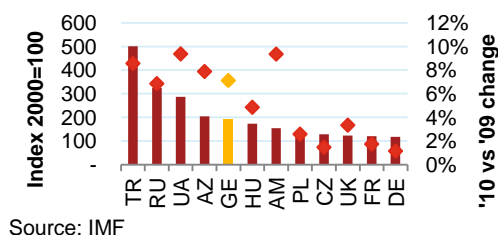
GDP per capita, current USD, 2010



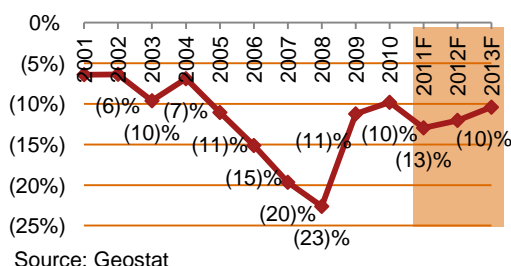
Georgia, Inflation (CPI) rate (%)



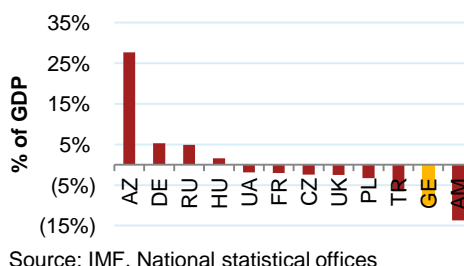
Inflation (CPI), Index 2000=100 and '10 vs. '09 change



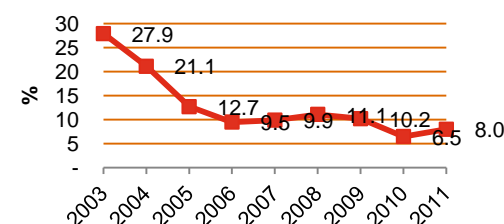
Georgia, Current account balance (%)



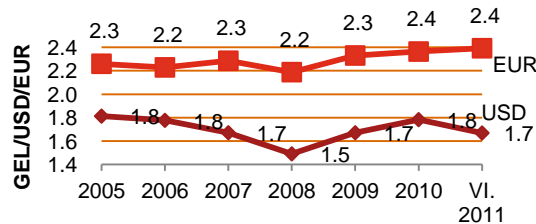
Current account balance, % of GDP, 2010



Real interest rates in Georgia, 2003-2011



GEL/USD/EUR average annual exchange rate



• Just like almost every economy in the world, Georgia **was exposed to the global economic downturn in 2008/2009**. However, it is now on a significant recovery track, with a **strong potential for economic development** in the longer term

• Benchmark indicators confirm that Georgia is still **an economy in transition**

Georgian infrastructure can support your business – investments are being made to further improve it

- The transport and logistics infrastructure in Georgia is continuously extending. While it is already viewed as sufficiently developed to connect business, new construction projects are underway and more are planned.

- Transport infrastructure in Georgia offers road, rail and sea connections...



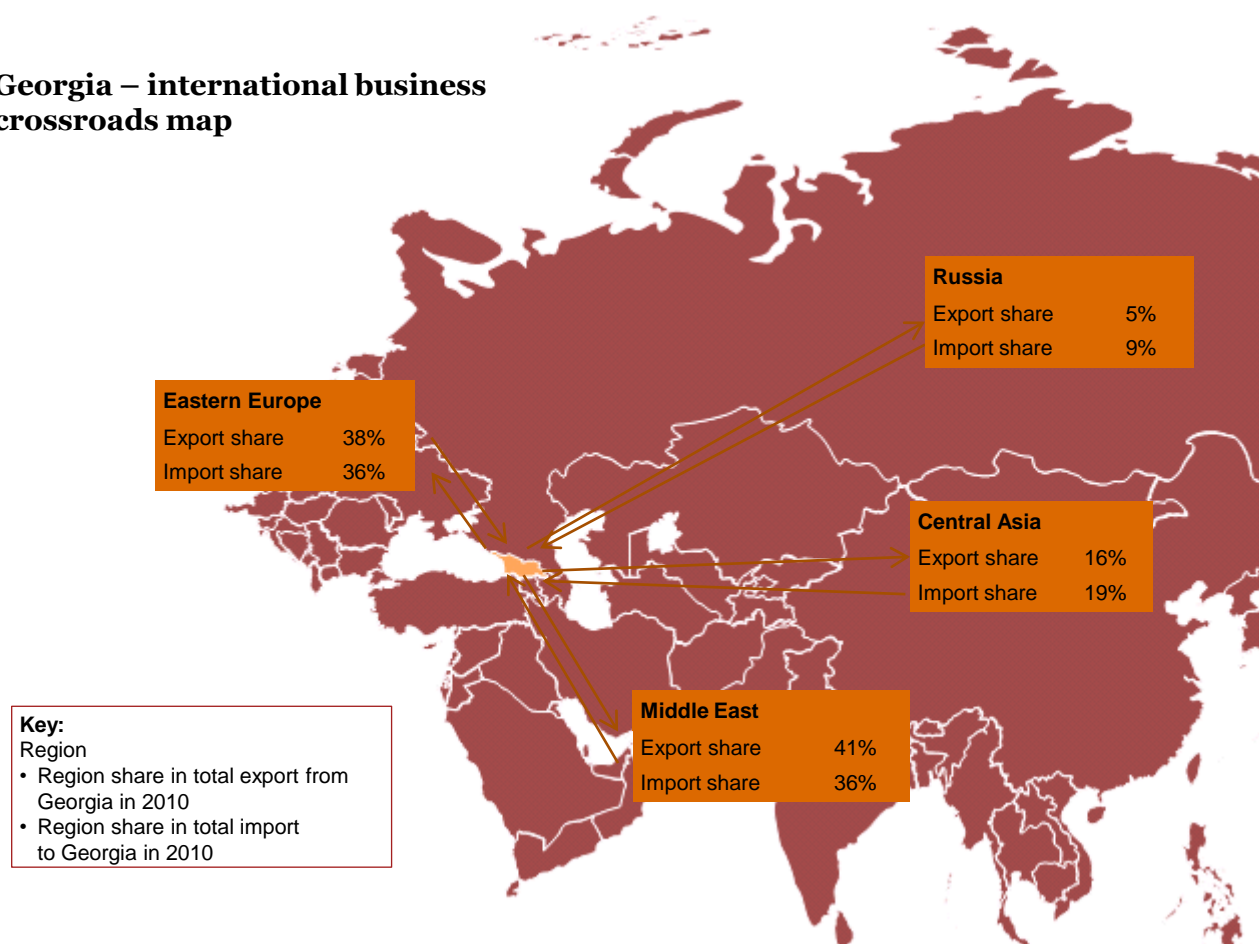
Key ongoing projects in Georgian infrastructure

Road	Rail	Sea
<ul style="list-style-type: none"> East-West highway improvement → USD 1 bn, TBD by June '13 Adjara Bypass road → USD 240m Vaziani-Gombori-Telavi Road → USD 30m. TBD by Nov '13 South Georgia road – USD 200m Secondary and local roads → USD 70m TBD October 2011 	<ul style="list-style-type: none"> Tbilisi By-Pass project → USD 270m Baku-Tbilisi-Kars Railway (Georgia-Turkey connection) → USD c. 0,5 bn. – TBD by 2013 High Speed Railway Project → TBC 	<ul style="list-style-type: none"> Modernisation of Batumi Sea Port (oil cargo) → c. USD 100m TBD mid. 2012
USD ~1,5 bn.	over USD 0,8 bn.	USD ~0,1 bn.

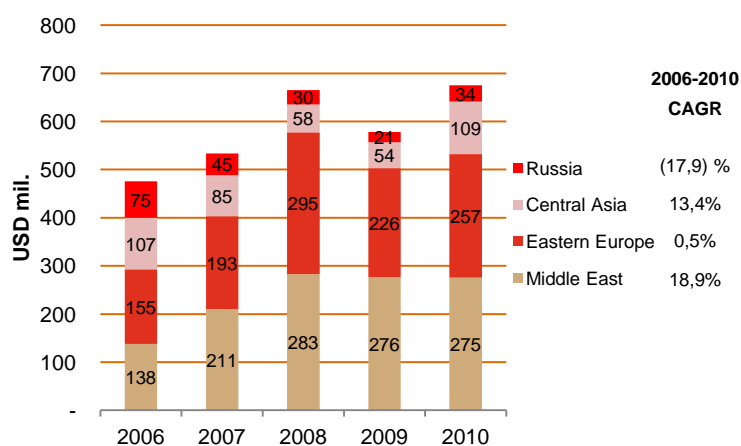
- ...and it is still being invested in to extend it

Georgia's geographical location makes it a natural international trade crossroads, and a great hub for your CIS / Euro-Asia expansion (1 of 2)

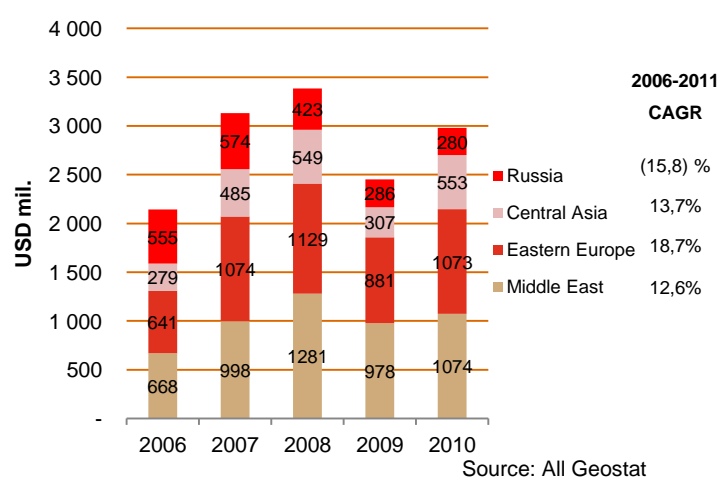
Georgia – international business crossroads map



Georgia exports by region, 2006-2010



Georgia imports by region, 2006-2010



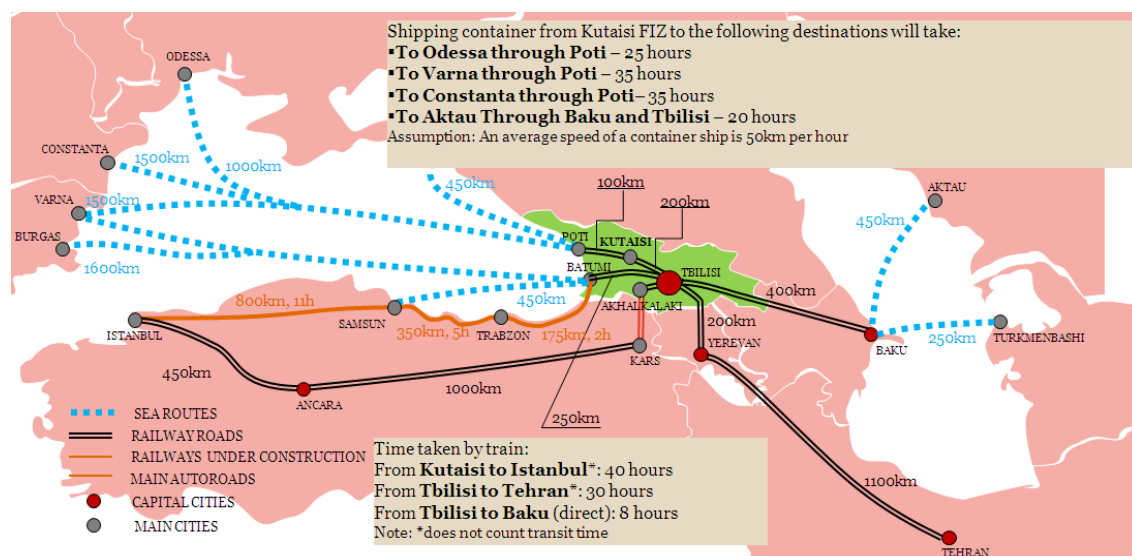
Source: All Geostat

Georgia's geographical location makes it a natural crossroads for international trade, and a great hub for your CIS / Euro-Asia expansion (2 of 2)

Regional hub

- Georgia is conveniently located with the potential to become a regional hub for the Caucasus and Central Asia (Kazakhstan, Turkmenistan, Kyrgyzstan, Uzbekistan and Tajikistan)
- Through the Poti Sea Port and the Batumi Sea Port, it can access other Black Sea ports to supply Turkey, Ukraine as well as EU markets (via Romanian and Bulgarian ports)
 - Railway corridors link Georgia with Turkey and Kazakhstan
- In addition, Georgia can be seen as a bridge to European and Middle East/Gulf Cooperation Council (GCC) markets

- Georgia is suitably located to be viewed as a **regional hub for Caucasus-Central Asia markets**



Customers you can access within 1-2 days maximum from Georgia

Country	Time to destination	Population in mil.	Households mil.	GDP per capita in USD
Romania	35 hours (Constanta)	21,5	5,6	7,542
Bulgaria	35 hours (Varna)	7,6	2,1	6,223
Ukraine	25 hours (Odessa)	46,0	18,4	2,542
Turkey	40 hours (Istanbul)	74,8	19,0	8,723
Armenia	4 hours (Yerevan)	3,1	0,95	2,668
Azerbaijan	8 hours (Baku)	8,8	1,9	4,807
Kazakhstan	20 hours (Aktau)	15,9	5,6	7,019
Turkmenistan	13 hours (Turkmenbashi)	5,1	0,75	3,904
Iran	30 hours (Tehran)	72,9	17,8	4,469
Afghanistan	N/A	29,8	5,3	486
Total	-	285,5	77,5	-

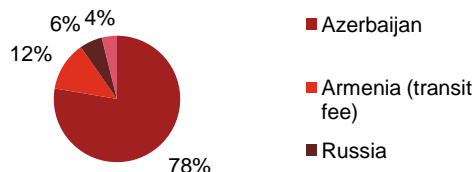


- The Poti Port was recently acquired by Moller-Maersk, which is planning to invest USD 100m over the next 5 years in the port's development

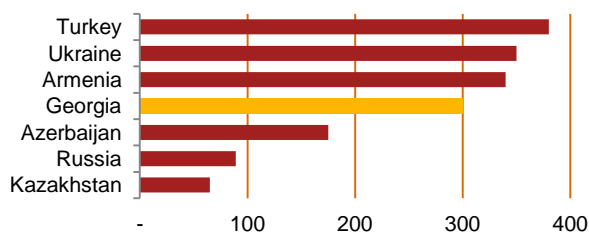
Source: PwC Analysis

Georgia has a stable and secured energy supply which is cost competitive

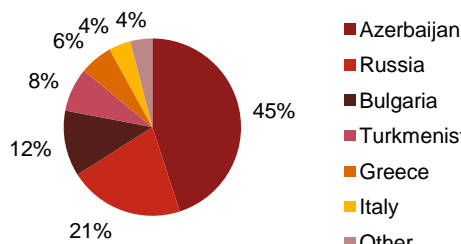
Natural gas importers by country, 2010



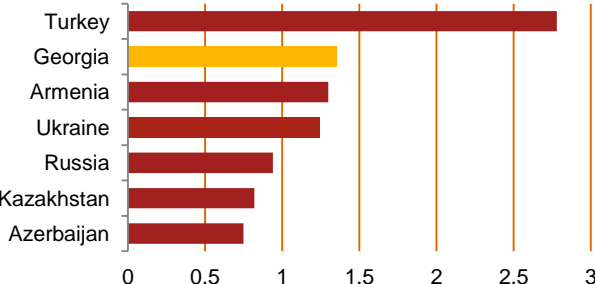
Natural gas prices, USD per 1000 cubic metres, July 2011



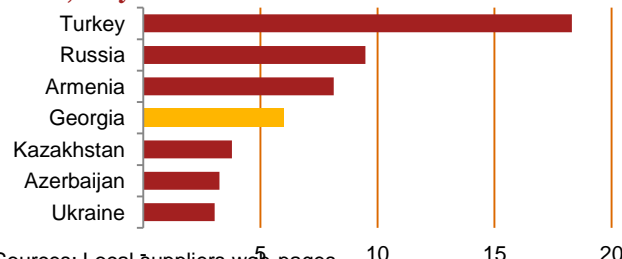
Petroleum and oil products import by country, 2010



Petrol 95 price - USD per 1 litre, July 2011



Electricity power price US cents per 1 kWh, July 2011

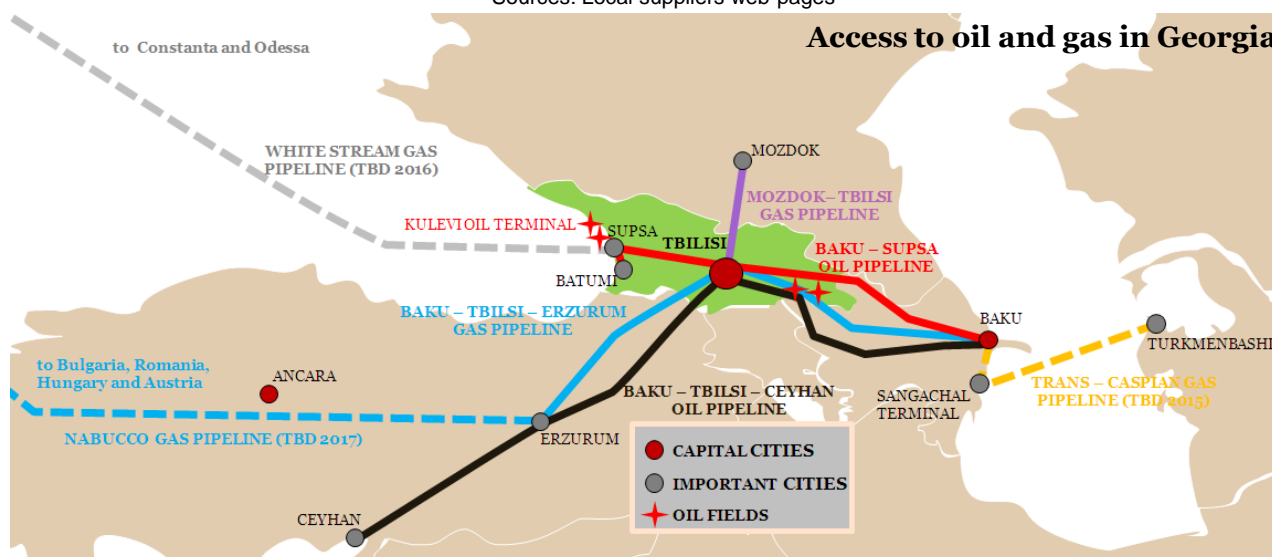


- Georgia was fully dependent on Russian energy in 2005. Today Georgia has **differentiated** its sources of energy and signed long-term contracts:
- 10-year gas supply contract with Azerbaijan
- 20-year gas supply contract with Shah Deniz

- In terms of cost of energy, **Georgia is cost competitive, significantly below Turkish levels**

Source: USAID

Sources: Local Suppliers web-pages



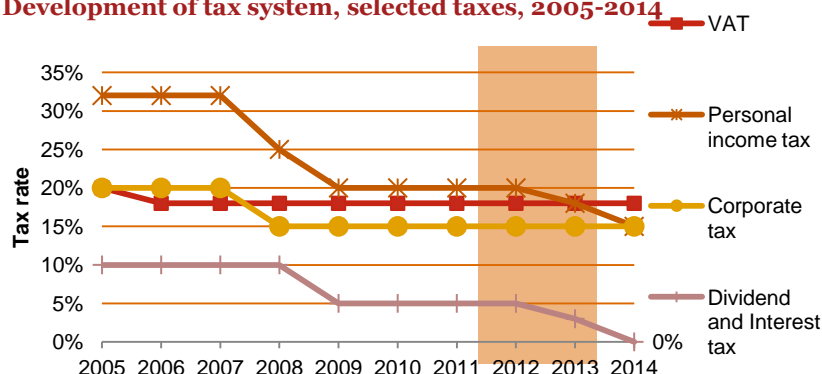
Section 3

Doing Business in Georgia

Doing Business in Georgia – Tax & legal environment

Tax & legal environment

Development of tax system, selected taxes, 2005-2014



Source: PwC Analysis

Key historical changes in the tax system

- In 2011, the new tax code was passed by the Parliament of Georgia. Slight adjustments and a further decrease into corporate and dividend tax planned for 2014 were introduced. The system underwent significant simplifications as early as 2004.
- Out of the total 21 taxes, there are 6 basic schemes, i.e., national taxes: income tax (personal and corporate), value added tax (VAT), excise duty, import tax; local taxes: property tax.
- In order to eliminate increasing tax paying evasion and a “grey economy”, the government aimed to simplify tax duties. New rates for other selected taxes were introduced.

Current tax schemes

- At the beginning of 2009, a flat rate without an income threshold was adopted for personal income tax. The previously separate social taxes were withdrawn and are now incorporated in a single 20% income tax.
- The corporate income tax has been lowered to a 15% rate. The VAT single rate was reduced from 20% to 18% in 2005.
- In order to compensate for the decrease in VAT and income tax, the government introduced increases in excise duties, primarily on alcohol, petroleum products, tobacco, automobiles and mobile telecommunication service providers.

Additional legal system characteristics important for investors

- Georgia has introduced a number of domestic regulations as well as signed a number of bilateral treaties to ensure investor protection, e.g. treaties on the avoidance of double taxation. It boasts low tariffs, streamlined border clearance procedures and preferential trade regimes with major partners, including the EU and the US and free trade with Turkey and the CIS countries.
- With few exceptions, foreign investors are guaranteed fair and equal treatment under the law, regardless of their nationality, and have the same rights and guarantees as Georgian companies.
- There is also room for foreign investors to choose the origin of the law applied to the governance of their contractual obligations.

- The **tax system** has been **significantly simplified** in recent years

- This was associated with limiting the number of tax duties, **lowering VAT and corporate tax rates**, and introducing increased excise duties for selected goods

- **The legal framework** related to international business operations is aimed at protecting foreign investors

Doing Business in Georgia – Ease of doing business

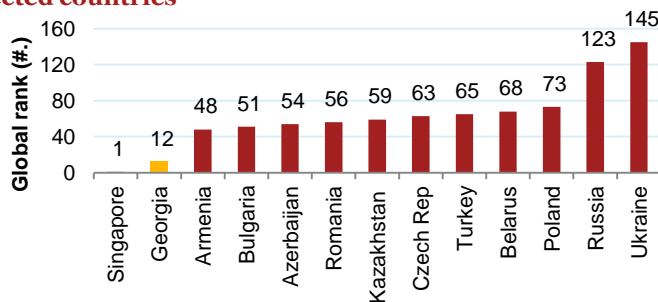
Ease of doing business

- Georgia is ranked remarkably high in international comparative studies, scoring well for its liberal and transparent business environment
- Starting a business is viewed as a quick and easy process. In particular, it takes only 3 procedures and 3 days to register a new economic activity

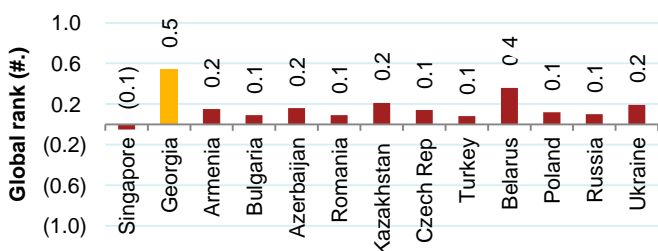
• The Georgian economy is highly ranked for its **ease of doing business**, economic freedom and transparency – and has been strongly improving

	2005		2010
World Bank/IFC: “Ease of doing business”	#115	↑	#12 out of 183 countries
The Heritage Foundation “Economic Freedom Index”	#99	↑	#29 out of 183 countries
Transparency International “Global Corruption Barometer – Transparent market”	#130	↑	#68 (2009) out of 178 countries
Bertelsmann “Transformation Index”	#61 (2006)	↑	#42 out of 128 countries

“Ease of doing business 2011”, Global ranking, selected countries



2011 vs. 2006 change in the World Bank/IFC composite index “Ease of doing business”



Source: World Bank

Georgia – Global rank 2011

Ease of Doing Business	#12
Starting a Business	#8
Dealing with construction permits	#7
Registering property	#2
Protecting investors	#20
Trading across borders	#35

Note: This ranking relates to 183 countries

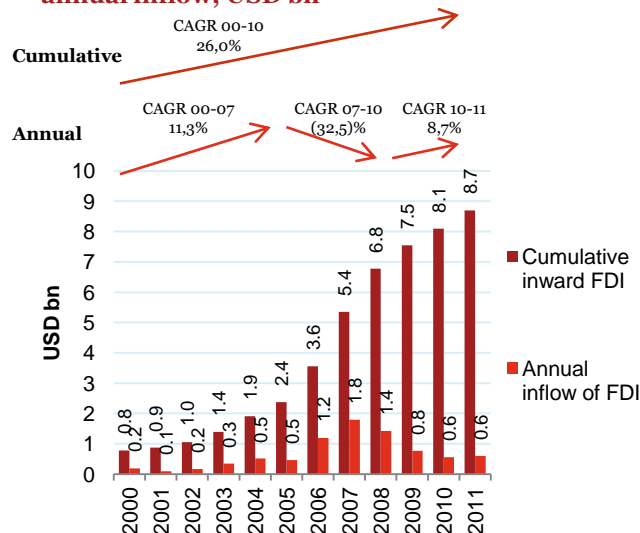
Liberal tax and legal systems promoting the ease of doing business has attracted a growing inflow of foreign investment in Georgia

Foreign direct investment

- A liberal tax system, sector-specific exemptions and incentives have attracted significant FDI inflow to Georgia. The cumulative FDI has grown at 26% CAGR (00-11e)
- The EU (i.e. UK, Netherlands, Czech Republic, Cyprus), the US as well as Turkey have been the most active sources of FDI
- Transport & communications, manufacturing, energy as well as real estate have been the main industries to attract investment

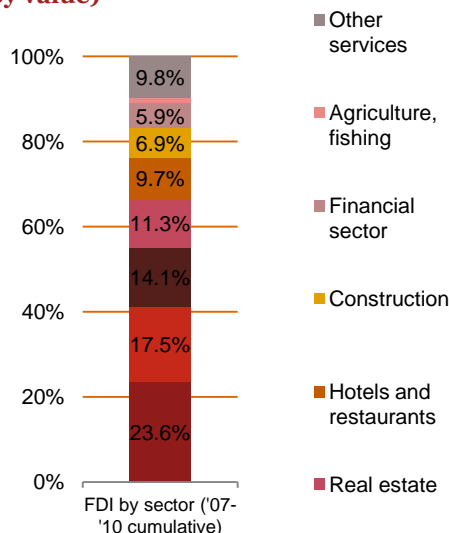
- Inward foreign direct investment** has grown exponentially in the last decade in Georgia, primarily thanks to a set of incentives introduced by the government

Georgia, Inward FDI, Cumulative vs. annual inflow, USD bn



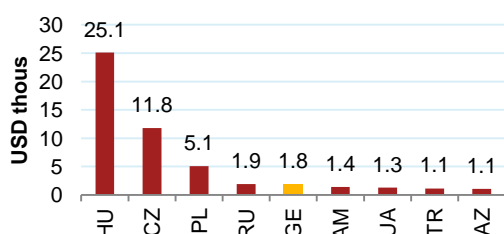
Source: UNCTAD, Geostat

Georgia, Inward FDI, cumulative 2007-2010 investments breakdown by sector (by value)



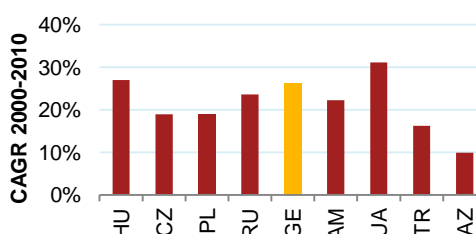
Source: Geostat

Inward FDI cumulative stock per capita, USD thous, 2010



Source: UNCTAD, Geostat

Growth in cumulative FDI stock, CAGR 2000-2010



Source: UNCTAD

- Georgia has shown one of the most significant FDI growths among its CEE and regional peers
- Some slowdown in annual flows was observed in 2008-2010 due to the global economic downturn. However, growth has already started again in 2011
- Continuous improvement of the credit rating should support this growth

Georgia – credit rating

Agency	2009	2010	2011
S & P	B/Stable/B	B+/Stable/B	B+/Positive/B
Fitch	B+/Stable/BB-	B+/Stable/BB-	B+/Positive/BB-

“We believe that Georgia's relatively low tax and business-friendly regime should continue to enable it to attract investment,” Standard & Poor's

Source: Fitch, Moody, S&P, Georgia.gov.ge

Automotive sector • Invest in Georgia

...explore the long-term potential of the region

PwC

August 2011

How can you finance investment in Georgia?

- Georgia has a functioning banking sector with 19 banks including international players. Interest rates have decreased significantly since 2003. However, high inflation remains an issue

List of major banks	Ownership
Bank of Georgia	Georgia
TBC Bank	Georgia
Republic Bank Societe Gen.	France
VTB Bank	Russia
HSBC Bank	UK
BTA	Kazakhstan
KOR Standard Bank	UAE
ProCredit Bank	Germany
TAO Private Bank	Ukraine
Ziraat Bankası	Turkey

Source: Central Bank of Georgia

- Furthermore, investments in a number of areas can be financed with the help of EBRD, IFC, WB and others.

EBRD financing conditions

- Since its establishment in Georgia, EBRD has invested EUR 1.4 billion in 107 projects - 85% of the portfolio has been invested since 2006.

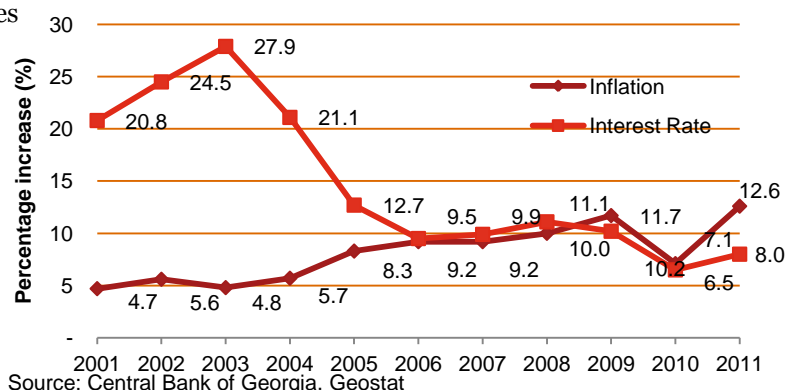
EBRD provides three sources of finance:

- Simple loan
- Purchase of an equity stake
- Combination of the two above

Main terms and conditions for applicants:

- Credibility of the client
- History – should have at least 3 years of revenue and profitability track
- Co-financing – the bank invests a maximum of 35% of the equity value

Real interest rate/Inflation



EBRD (European Bank of Reconstruction and Development)

The Georgian Agricultural Finance Facility plan to provide credit lines to Financial Intermediaries in Georgia for on-lending to farmers and other agricultural entities	Euro 40 m senior loan
The Bank of Georgia project to provide essential support for longer-term financing of corporates, micro, small and medium sized enterprises	USD 50 m package loan
The Poti Port Development Plan	EUR 8 m loan
Geo Steel: Plan to construct and operate a steel mini-mill of 175 k ton capacity in Rustavi	USD 28 m senior loan

IFC (International Finance Corporation)

Tbilisi International Airport construction	USD 27 m loan
Baku-Tbilisi-Ceyhan (BTC) oil pipeline development project	USD 60 m senior loan

The World Bank

The East-West Highway construction and development financing project	USD 35 m
The Electricity Market Support Project of rural areas transportation improvement	USD 9.1 m

Source: IFC, WB, EBRD

Doing Business in Georgia – Living in Georgia

Living in Georgia

- Georgia is an attractive destination for foreigners. It offers high quality housing, education and private healthcare services

Visitor's checklist

Housing

- The majority of business activities are located in Tbilisi, Batumi, Kutaisi and in the vicinity of the Poti Port. Long-term accommodation rental is very common in these areas, and prices range from USD 600 to USD 3,000 per month depending on size, amenities and, of course, location
- There are no real estate ownership restrictions for foreigners

Private healthcare

- Although the healthcare system in Georgia is still in transition, high quality private provision, concentrated primarily in the larger cities, has been rapidly developing
- Private insurance schemes are gaining in popularity and provide higher coverage insurance policies, especially for corporate clients

Education

- There are c. 130 universities and other higher education institutions in Georgia, as well as a growing number of international schools for children, incl. English, Russian, German, Turkish and other schools.
- Many courses are taught by international and multilingual tutors

Food & culture

Traditional food



World-famous winemaking



Georgian dance



Travel & leisure

Seaside close to Batumi



Mountains in the Kartli region



Georgian spa in Tbilisi



- Georgia is an attractive place to live



- “When you come to do business in the Caucasus-Caspian region, Georgia is probably the best starting point for a foreigner also in terms of quality of life.”

David Lee, President of the American Chamber in Georgia

Note: Pictures thanks to Georgian governmental agencies

Georgian National Investment Agency (GNIA) services – your right hand in business in Georgia

Who We Are

- The Georgian National Investment Agency (GNIA) is the sole public agency responsible for promoting and facilitating foreign direct investment in Georgia.
- GNIA acts as a moderator between foreign investors and the government. Being responsible for promotion of exports as well, the agency is the main bridge between investors and foreign and Georgian companies.

GNIA main mission:

- Promote Georgia internationally
- Increase awareness of Georgia as an investment destination
- Support FDI and registering new foreign investments
- Create an investment portfolio consisting of government initiated projects
- Foster public-private dialogue in order to build a better and more prosperous environment for private sector development and economic growth
- Promote Georgia's investment climate and investment opportunities abroad
- Support foreign investments and investors ***before, during & after the investment process***
- Promote the Georgian export process & Georgian export products
- Research export opportunities for Georgia worldwide and preparing local sector overviews for potential investors and traders
- Assist local businesses in finding foreign partners and exploring new markets

One-stop-shop services for investors

GNIA offers the following services free of charge to potential firms interested in locating their operations in Georgia:

- Research and analysis on Georgian markets
- Information on business opportunities
- Guidance on setting up businesses
- Introductions to Georgian businesses and authorities for investors
- Advice on market entry
- Identification of Georgian partners
- Facilitated investment into Georgia

Our Team:

- Multilingual (Georgian, English, Turkish, Russian, Italian, French, German and Korean) and dedicated professionals who can guide businesses to success for investments

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