GEORGIA
COUNTRY OVERVIEW

Area: 69,700 sq. km
Population: 3.7 mln
Life expectancy at birth 2018: 72.5 years
Official language: Georgian
Literacy: 99.8%
Capital: Tbilisi
Currency (code): Lari (GEL)

GDP 2018: USD 17.6 billions
GDP real growth rate 2018: 4.8%
GDP CAGR 2013-2018 (GEL): 4 %USD
GDP per capita 2018: 4722
Inflation rate (December) 2018 (Y-o-Y): 1.5%
Total Public Debt to Nominal GDP (%) 2018: 42.2%
GEORGIA
PROMISING MARKET FOR INVESTMENTS

- A politically stable investment destination
- Gateway between East and West
- Association Agreement with the EU establishing a long-term foundation for EU-Georgia’s political association and economic integration
- Sound macroeconomic environment, backed by prudent fiscal, monetary and financial policies
- Simple, low and fair taxation

SUPERIOR BUSINESS CLIMATE

Doing Business

Economic Freedom

Corruption Perceptions Index

Up from #112 in 2005
Up from #99 in 2005
Up from #130 in 2005

WORLD BANK GROUP
The Heritage Foundation
TRANSPARENCY INTERNATIONAL
PREMIER COST-EFFICIENT AND ACCESSIBLE COUNTRY FOR AUTOMOTIVE AND AEROSPACE INDUSTRIES IN EASTERN EUROPE AND CENTRAL ASIA

Access to 2.3 billion markets without Customs Duty - Georgia has Deep and Comprehensive Free Trade Area (DCFTA) with EU and Free Trade Agreements (FTA) with Turkey, Ukraine, People’s Republic of China (including Hong Kong), EFTA and CIS countries

Shortest transit route between Western Europe and Central Asia - Transit networks running through Georgia can bring goods from China to Europe in 10-15 days instead of 45 days of traditional route

Young, Skilled and Competitively Priced Labour Force - the average monthly salary in manufacturing industry is USD 360 (2018) including white and blue-collar workers

0% Corporate Profit Tax - reinvested profit is exempted from corporate profit tax

Low utility costs - currently up to 80% of power is generated via hydropower plants leading to cheaper energy cost. Electricity costs for industrial consumers is USD 0.06 per kWH

Availability of raw materials in Georgia and/or neighboring countries - The territory of Georgia is rich in deposits of copper, manganum and lead ore. In addition, some other raw materials such as plastic, steel, aluminum, nickel, lithium are available in neighboring countries with which Georgia has 0% import tax

Availability of Customized Trainings for Labour - Training centers can provide short-term training courses per investor’s request
OVERVIEW OF GEORGIA’S AEROSPACE AND AUTOMOTIVE INDUSTRY

OVERVIEW

Georgia has rich history of manufacturing of auto, aircraft and locomotive products. During Soviet Union period auto, aircraft and locomotive manufacturing companies were operating in Tbilisi and Kutaisi.

Since the collapse of the Soviet Union, these enterprises redesigned the operating activities via manufacturing various spare parts:

- **Kutaisi Auto Mechanical Plant** produces different spare parts for agricultural products; ropeway, railway and mining products.

- **Locomotive manufacturer company** – Elmaval-mshenebeli assembles electric locomotives and plans to create a double tact and eight-axis induction motor locomotive.

- **Tbilisi Aircraft Manufacturing (TAM)’s** activities comprise production, modernization, overhaul and repair of military aircrafts and production of different military products.

The auto business is an important component of Georgia’s economy. Georgia imports cars from various countries and re-exports them to neighboring markets. This in turn led to the development of a strong domestic auto parts and auto servicing sector as the vehicles that are imported are mostly used, then repaired and sold on in the domestic and external markets.

Auto business turnover posted impressive growth of 14.8% CAGR over 2010-18.

Sale of automobile parts in Georgia reached USD 309 million in 2018.
OVERVIEW OF GEORGIA’S AEROSPACE AND AUTOMOTIVE INDUSTRY

In the recent years, Georgia saw gradual revival of Aerospace Industry

Aero-Structure Technologies Cyclone (ATC), a joint venture between the Israeli firm Elbit Systems and the Georgian state-owned Partnership Fund opened a production facility for composite aircraft parts in Georgia in 2018.

ATC produces composite parts for the major players of the world air industry, such as Boeing, Bombardier, Airbus, etc. The certification process has already been completed at the factory and Boeing has already bought the first products produced in Georgia.

“A highly qualified, technology-driven workforce and strong manufacturing capabilities are attracting high-tech businesses to Georgia” - Aero-Structure Technologies Cyclone (ATC), Manufacturing of Aircraft Composites
OVERVIEW OF GEORGIA’S AEROSPACE AND AUTOMOTIVE INDUSTRY

KUTAISI, SECOND LARGEST CITY OF GEORGIA, REGAINS ITS OLD STATUS AS THE CAPITAL OF AUTOMOTIVE & MECHANICAL ENGINEERING

Chinese vehicle manufacturer Changan and Georgian Aigroup have already begun to design & build an electric car manufacturing factory in Kutaisi, Georgia, which is scheduled to go into full operation in 2021.

The facility will produce 500 electric vehicles for the first phase and serve both domestic and export markets.

Georgia's average salary in the Auto industry is USD 491, nevertheless, actual starting level of average gross salary amount to USD 240
YOUNG, SKILLED AND COMPETITIVELY PRICED LABOUR FORCE

**COMPETITIVE LABOUR COSTS**
- Average monthly salary in manufacturing industry amounts to USD 370 (2018)
- According to Heritage Foundation, Georgia ranks 20th globally on Labor Freedom Index

**LOW TAX BURDEN**
- The only tax payable based on the salary is personal Income tax, which is flat 20%
- Insurance isn’t mandatory in Georgia
- Pension Contribution - 2% paid by Employer, 2% paid by Employee, 2% by Government
- Georgia doesn’t have the Social Security Tax

**YOUNG LABOR FORCE**
- 56% of the unemployed population is in the 20-40 age category
- Unemployment rate is 12.7% (2018)

**FAVORABLE LABOR CODE**
- The country doesn’t have minimum wage regulations and compensation for labor depends on the agreement between employee and employer
- All core ILO conventions are ratified by Georgia

**FLEXIBLE REGULATIONS**
- No working permits are required
- Citizens of 98 countries can stay in Georgia without visa during whole 1 year, which helps attracting professional employees from other countries in the wider region
Georgia has 62 higher educational institutions and over 66 professional education centers.

Government promotes vocational education and Vocational Education Training Centers around Georgia provide professional courses in various of practical subjects and most of the course's fees are financed by the Government of Georgia.

**EDUCATION SYSTEM OF GEORGIA**

<table>
<thead>
<tr>
<th>Level</th>
<th>Education</th>
</tr>
</thead>
<tbody>
<tr>
<td>PRE-SCHOOL</td>
<td>Academic Education</td>
</tr>
<tr>
<td>ELEMENTARY SCHOOL</td>
<td>PROFESSIONAL EDUCATION I LEVEL</td>
</tr>
<tr>
<td>PRIMARY SCHOOL</td>
<td>PROFESSIONAL EDUCATION II LEVEL</td>
</tr>
<tr>
<td>SECONDARY SCHOOL</td>
<td>PROFESSIONAL EDUCATION III LEVEL</td>
</tr>
<tr>
<td>BACHELOR</td>
<td>PROFESSIONAL EDUCATION IV LEVEL</td>
</tr>
<tr>
<td>DOCTORATE</td>
<td>PROFESSIONAL EDUCATION V LEVEL</td>
</tr>
<tr>
<td>MAGISTRATE</td>
<td>INVESTMENT OPPORTUNITIES</td>
</tr>
<tr>
<td></td>
<td>IN AEROSPACE AND AUTOMOTIVE INDUSTRIES</td>
</tr>
</tbody>
</table>

**KUTAISI TECHNOLOGICAL UNIVERSITY - REGIONAL HUB OF SCIENCE AND TECHNOLOGY**

- One of the most important and largest-scale projects in the modern history of Georgia in the field of education
- Georgia’s guide in the era of technological explosion
- Educational space equipped with modern infrastructure and technologies, which will ensure the accessibility of high quality higher education for Georgian and foreign students in Georgia.
- The total budget of the project amounts to 1 billion Euros.
- University is designed for 60,000 students and will be ready to receive the first wave of students in September 2020.
TALENT POOL

Fresh Talent

During the past 5 years, over 118000 students graduated from HEIs and VETs.

During the past 5 years, 113759 students graduated from bachelor, master and professional programs.

During the past 5 years, 24239 students graduated from the field of science, Engineering, manufacturing and Construction.

Unemployed Talent

Unemployment rate in Georgia stood at 12.7% in 2018. Total amount of unemployed population amounts to 245 000 persons.

GRADUATES OF SCIENCE AND ENGINEERING, MANUFACTURING AND CONSTRUCTION

Source: Geostat.ge
PREFERENTIAL TRADE REGIMES

- Deep and Comprehensive Free Trade Area (DCFTA) with EU
- Free Trade Agreement with the People’s Republic of China (Including Hong Kong)
- Free Trade Agreements (FTA) with EFTA Countries (Iceland, Norway, Switzerland, and Liechtenstein), Ukraine, Turkey and CIS countries
- GSP agreement with USA, Canada and Japan
- Member of WTO

- Very simple and service oriented customs policy and administration – customs clearance in about 20 minutes
- 80% of goods are free from import tariffs
- No quantitative restrictions

FREE TRADE AGREEMENTS WITH ~ 2.3 BILLION MARKET AND ACCESS WITHOUT CUSTOMS DUTY
TAXATION IS SIMPLE, LOW, EFFICIENT AND FAIR

- Pension contribution – 2% paid by Employer, 2% paid by Employee, 2% paid by Government
- 0% Corporate Profit Tax on retained profit
- Personal Income taxes for interest, dividends and royalties are reduced to just 5%
- Double taxation avoidance treaties with 56 countries
- No capital gains, wealth or inheritance tax
- No restrictions on currency convertibility or repatriation of capital & profit
- **4 Free Industrial Zones (FIZ)** - In FIZ, businesses are exempt from all taxes except Personal Income Tax (20%), which is paid from employee salaries

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**TAXATION SYSTEM**

- **15 %** Corporate Profit Tax
- **18 %** Value Added Tax
- **Select Items** Excise Tax
- **20 %** Personal Income Tax
- **<1%** Property Tax
- **0%, 5%, or 12%** Import Tax (depending on goods imported)
0% CORPORATE PROFIT TAX

From 2017 companies pay Profit Tax only on distributed earnings, reinvested profit is exempt from corporate profit tax

TAXATION OF CORPORATE PROFIT TAX

Under previous legislation
According to new legislation

- Profit distributed to shareholders as a dividend
- Profit repatriated from permanent establishments to its head office
- Non-arm’s length cross-border transactions with related parties
- Non-arm's length transactions with persons exempt from profit or income tax
- Non-arm’s length transactions with related persons not covered under the new system
UTILITY COSTS

**ELECTRICITY**

Starting from 2017, deregulation of electricity consumer market has begun and by 2025 all non-residential customers will be trading on electricity market through the direct agreement and they can negotiate on any price. Below are prices of balancing electricity as well as current tariffs for residential and non-residential customers, varying depending on the region and voltage.

<table>
<thead>
<tr>
<th>Category</th>
<th>GEL kWh including VAT (18%)</th>
<th>USD kWh including VAT (18%)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Tbilisi</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>220/380 volt (average)</td>
<td>0.213</td>
<td>0.079</td>
</tr>
<tr>
<td>6–10 kv</td>
<td>0.169</td>
<td>0.062</td>
</tr>
<tr>
<td>35 – 110 kv</td>
<td>0.161</td>
<td>0.06</td>
</tr>
<tr>
<td><strong>Rest of Georgia</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>220/380 volt (average)</td>
<td>0.211</td>
<td>0.078</td>
</tr>
<tr>
<td>6–10 kv</td>
<td>0.163</td>
<td>0.06</td>
</tr>
<tr>
<td>35 – 110 kv</td>
<td>0.149</td>
<td>0.055</td>
</tr>
</tbody>
</table>

**WATER**

Maximum rates of drinkable water and water for sewerage system are determined by Government decree and are as follows:

<table>
<thead>
<tr>
<th>Category</th>
<th>GEL/m3 including VAT</th>
<th>USD/m3 including VAT</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Tbilisi:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Drinkable water</td>
<td>4.4</td>
<td>1.63</td>
</tr>
<tr>
<td>Sewerage system water</td>
<td>1.07</td>
<td>0.4</td>
</tr>
<tr>
<td><strong>Batumi:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Drinkable water</td>
<td>2.5</td>
<td>1.92</td>
</tr>
<tr>
<td>Sewerage system water</td>
<td>1.5</td>
<td>0.55</td>
</tr>
<tr>
<td><strong>Other parts of Georgia (there are few exemptions):</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Drinkable water</td>
<td>3.65</td>
<td>1.35</td>
</tr>
<tr>
<td>Sewerage system water</td>
<td>0.66</td>
<td>0.24</td>
</tr>
</tbody>
</table>

**GAS**

Natural gas rates are deregulated for industrial use and companies can negotiate the price with supplier. Average cost of gas per cubic meter amounts to around USD 0.21 - 0.30 cents.
BENCHMARK ANALYSIS OF GEORGIA WITH COMPETITOR COUNTRIES

AUTOMOTIVE LABOUR COST OVERVIEW

Annual labour costs results for the Auto components manufacturing plant. The costs are based on a head count of 400 across 10 different job functions.

AEROSPACE LABOUR COST OVERVIEW

Annual labour costs results for the Aerospace manufacturing plant. The costs are based on a head count of 250 across 11 different job functions.
MODERN AND VIBRANT TRANSPORT NETWORK MAKES GEORGIA WELL-CONNECTED INTERNATIONALLY THROUGH THE LAND, THE SEA AND THE AIR

Georgia lies on the strategically important section of the Silk Road on the route of the Belt and Road initiative. Transit networks running through Georgia can bring goods from Asia to Europe in 10-15 days instead of 45 days of traditional sea route.

The construction of Deep Sea port in Anaklia strengthens the transit function of the country as it enables Georgia to receive Panamax and Post Panamax type vessels with the capacity of 10,000 TEU.

Baku - Tbilisi - Kars New Railway Connection Line gives new impetus to the development of the historic Silk Road.
WELL DEVELOPED TRANSPORT INFRASTRUCTURE

Poti Sea Port
- Port has 15 berths
- Depth: 8-11m
- Annual Capacity: 4 mln tons of dry cargo, 1 mln tons of oil products, 1.0 mln. Ferry cargo, 500,000 TEU
- APM terminals

Batumi Sea Port
- Port has 11 berths
- Depth: 9-12m
- Annual Capacity: 15 mln tons of oil products, 2 mln tons of dry cargo, 0.7 mln. tons Ferry cargo, 100,000 TEU, 180,000 passengers
- JSC KazTransOil

Kulevi Oil Terminal
- Crude oil, petroleum and lubricants
- Capacity 6mln. t/year
- State Oil Company of Azerbaijan (SOCAR)

Supsa Oil Terminal
- Crude oil
- Capacity 8 mln t/year
- BP

New Anaklia Deep-sea port
- Depth: 18-20m
- Annual capacity of the Phase I: 8 mln tons of cargo
- Total investment: 2.5 bln USD
- Phase I: 586 mln USD
- LTD Anaklia Development Consortium

Main Road Network
- Total Length: 20 thousand km
- Capacity: min. 8-10 thousand motor vehicles per day, max. 50 thousand motor vehicles per day (highway)
- 190 km new Highway constructed

Tbilisi international airport
- 3,164,139 passengers in 2017

Batumi international airport
- 495,668 passengers In 2017

Kutaisi international airport
- 405,173 passengers in 2017 (incl. low-cost airlines)

Oil/Gas Pipelines
- Baku-Supsa (8 mln t/year)
- Baku-Tbilisi-Ceyhan (60 mln t/year)
GOVERNMENT INCENTIVES AND ACCESS TO FINANCE

FREE INDUSTRIAL ZONES

- Exemptions from all taxes except Personal Income Tax (20%), which is paid from employees’ salaries
- Four Free Industrial Zones (FIZs) operate in Poti (port city), Kutaisi (third largest city) and Tbilisi (capital)

INCENTIVES FOR MANUFACTURING

- Free lands & buildings for factory construction
- Subsidies for loan interest payment

FINANCING OF VOCATIONAL TRAINING

- 66 state owned vocational education centers
  Most of the course fees are financed by the Government
- Co-finance of customized trainings

PARTNERSHIP FUND

- 100% state owned investment fund
- Finances up to 49% of equity in new investment projects
- Operating fields: Energy; Hospitality & Real Estate, Manufacturing, Agribusiness

INTERNATIONAL FINANCIAL ORGANIZATIONS

- European Bank of Reconstruction and Development (EBRD)
- International Finance Corporation (IFC)
- Asian Development Bank (ADB)
- European Investment Bank (EIB)
- Overseas Private Investment Corporation (OPIC)

INVESTMENT OPPORTUNITIES IN AEROSPACE AND AUTOMOTIVE INDUSTRIES
LEPL “Enterprise Georgia” operates under the Ministry of Economy and Sustainable Development

“One-stop-shop” for investors to support companies before, during & after investment process

Moderator between investors, government and local companies

Mission: Attracting and Facilitating Investments

OUR SERVICES

Information
General data, statistics, sector researches

Communication
Access to Government at all levels & connection to local partners

Organization
Organization of site visits and accompanying of investors

Aftercare
Legal advising & Supporting services

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INVESTMENT OPPORTUNITIES
IN AEROSPACE AND AUTOMOTIVE INDUSTRIES