



Hospitality & Tourism Sector Overview

Georgia: The Place to Be



Georgia | Hospitality & Tourism Sector Overview
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Executive Summary

“From its green valleys spread with vineyards to its old churches and watchtowers perched in fantastic mountain scenery, Georgia is one of the most beautiful countries on earth...”

Georgia is a country moving forward in the 21st century, with spectacular contemporary buildings, a minimal crime rate and ever-improving facilities for the visitors who are a growing part of its future”

Lonely Planet

Over the last decade Georgia transformed itself from a lesser-known destination into a competitive regional tourist destination for the CIS and Middle Eastern visitors, with strong prospects to attract more tourists from Europe and Asia. Georgia boasts among the world’s highest growth rates of foreign visitors: since 2007, arrivals to Georgia have grown at a 24% CAGR to 5.9mn in 2015, compared to a worldwide growth rate of 3.4%.

Tourism has become a key pillar of the economy. Its consistent growth has turned it into a reliable source of currency inflows. Tourist receipts totaled US\$ 1.8bn in 2014 (10.8% of GDP), equal to over 60% of merchandise exports.

Tourists come mainly from neighboring countries Armenia, Azerbaijan, Turkey, and Russia, which account for 88% of arrivals. Future growth is expected to come from Russia, the Middle East, and the EU, especially on the back of the recently signed Association Agreement and visa liberalization.

The growth rate of arrivals has settled in the single digits over the last two years after a decade of high double-digit gains. Despite healthy tourist numbers, per-capita spending lags behind Eastern European peers. The challenge now is to increase the number of higher-spending visitors. Average income per visitor has remained relatively stable since 2007 at US\$ 325-400, well below the Eastern European average of US\$ 750. Georgia has the potential to attract higher-spending visitors from the EU, Russia, and the Middle East. These regions have already generated impressive growth over the last decade in both the number of visitors and income.

Georgia has additional potential to increase tourist inflows by further developing winter resorts and wellness and spa destinations. In recent years brand-name hotels have started to penetrate previously untapped areas as more international travelers visit Georgia’s regions. MICE (Meetings, Incentives, Conferencing, Exhibitions) tourism is another segment that could further attract higher-spending visitors to Georgia. Georgia hosted several high-profile events in recent years, with more

scheduled for the near future. In July 2016, the Organization for Security and Cooperation in Europe's (OSCE) Parliamentary Assembly will be held in Tbilisi, hosting around 700 foreign delegates.

Over the last 5 years a number of international upscale hotel chains have entered the Georgian market. Since 2009, Radisson, Hilton, Rixos, and others have added 1,800 rooms; prior to 2009, just three brand-name international hotels were operating in Georgia – Marriot, Courtyard Marriot, and Sheraton – with 464 rooms. By 2020, Millennium, Intercontinental, Park Inn by Radisson, Crowne Plaza and several local upscale hotels are planning to open operations in Georgia, adding more than 4,000 hotel rooms to Tbilisi and Batumi.

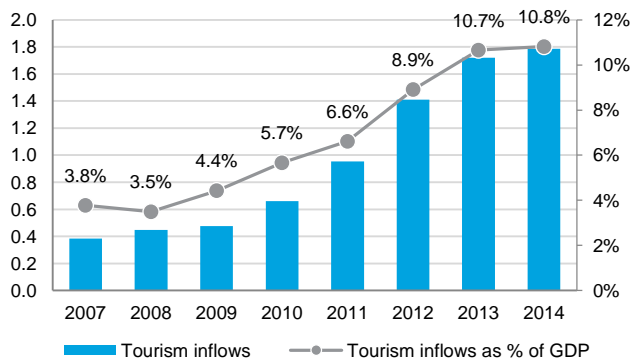
Over 2010-2014, more than GEL 500mn was invested in the hotel and tourism sectors in Georgia. The key recipients were Tbilisi (58%) and Batumi (18%). But despite the investment, Georgia's number of beds per 1,000 visitors remains well below Eastern European peers. In 2015, Georgia had 8.7 beds per 1,000 visitors (down from 16.0 in 2010), far below the 42.6 average for Eastern European peers in 2014. With further development of tourism and hospitality infrastructure Georgia has a potential to attract higher spending visitors, which should be the key driver of the sector.

Tourism: A Key Segment of the Economy

Over the past decade, Georgia has transformed itself from a lesser-known destination into a competitive regional destination for tourists from the CIS and the Middle East. Tapping new visitors from Europe and Asia is on the horizon as a strong prospect. A wave of reforms began in 2003, which transformed Georgia from a state with high crime and corruption rates into one of the least corrupt countries in the world¹ and one of the safest in Eastern Europe. Georgia also invested massively in tourism infrastructure and launched PR campaigns on CNN, Euronews, and other leading Western outlets to promote Georgia as an attractive tourist destination. The efforts have paid off: the number of international visitors annually rose from 0.3mn in 2003 to 5.9mn in 2015.

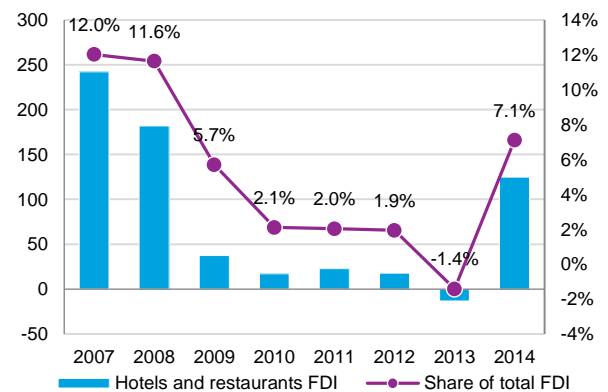
The tourism industry’s consistent growth has made it one of the most reliable sources of currency inflows. Tourism inflows totaled US\$ 1.8bn in 2014 (10.8% of GDP), equivalent to more than 60% of merchandise exports. Unlike goods exports and remittances, the tourism industry largely dodged the recent regional difficulties and 9M15 inflows increased 8.1% y/y to US\$ 1.5bn. The growing inflows are an important cushion for the depreciation of the Lari. Moreover, the tourism sector also was the recipient of large FDI inflows: US\$ 631mn in FDI from 2007 to 2014 (6.4% of total FDI).

Inflows from tourism, US\$ bn



Source: Geostat

FDI in the hotel industry in US\$, mn

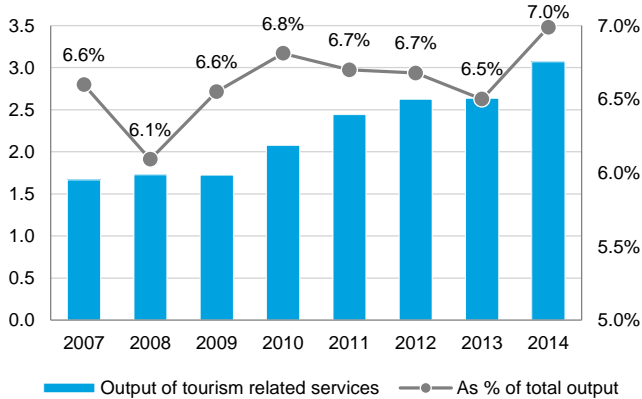


Source: Geostat

¹In 2015, Transparency International in its Corruption Perceptions Index ranked Georgia 52th (out of 168) in the world, ahead of Turkey, Bulgaria and Italy.

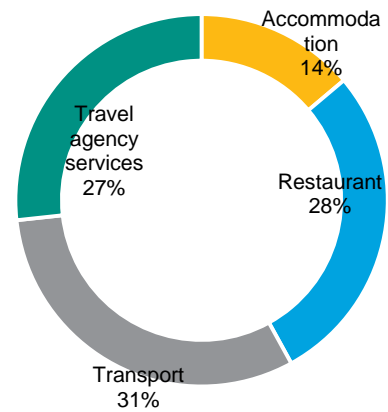
Tourism has become a key pillar of the Georgian economy. Tourism-related services accounted for 7.0% of total economic output in 2014. Despite regional economic difficulties tourism continued to grow in 2015, accounting for 7.7% of economic output in 9M15.

Output of tourism-related services, GEL bn



Source: Geostat

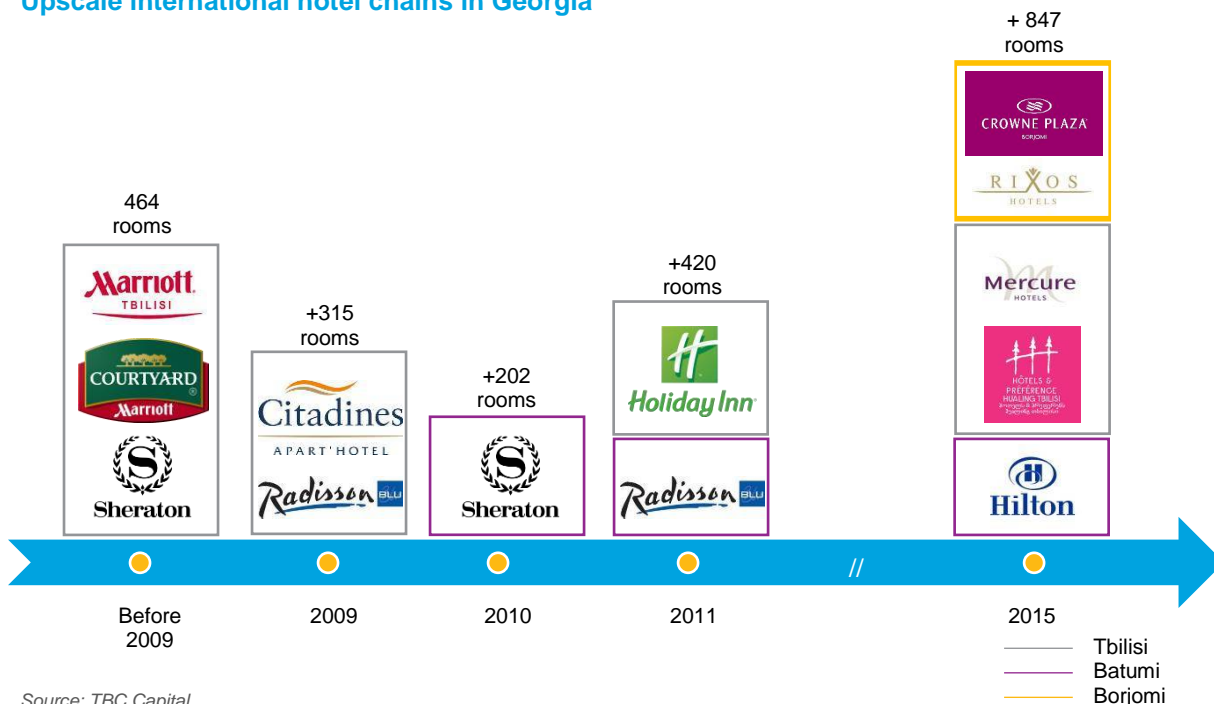
Breakdown of tourism-related services, 2015



Source: Geostat

Over the last 5 years, international upscale hotel chains have entered the Georgian market. Top international hotel chains like Radisson, Hilton, Rixos, and others have set up shop in Georgia (see chart below) adding an estimated 1,800 rooms. Prior to 2009, only three international hotels operated in Georgia – Marriot, Courtyard Marriot, and Sheraton – with just 464 rooms.

Upscale international hotel chains in Georgia



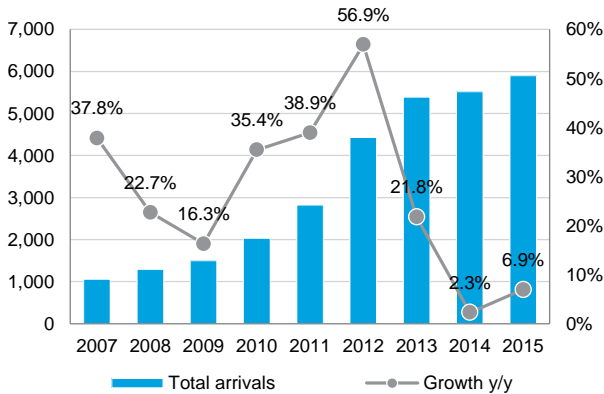
Source: TBC Capital

Georgia: The Gem of the Caucasus

Georgia has one of the world's highest growth rates of international visitors. Since 2007, the number of foreign visitors annually increased 5.6x to 5.9mn in 2015. This translates into a 24.0% CAGR, compared to just a 3.4% CAGR worldwide.

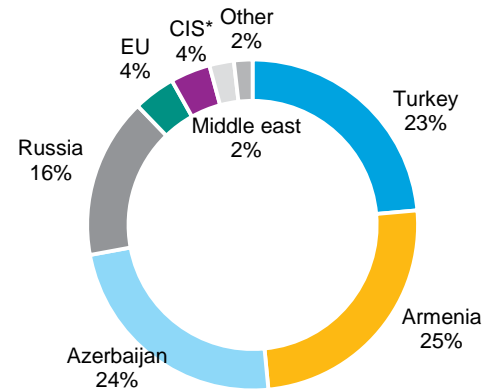
Visitor inflows were resilient during the recent regional turmoil. Growth rates slowed but remained in positive territory at 2.3% in 2014 and 6.9% in 2015 after a decade of double-digit growth. The deceleration was driven largely by a decline in visitors from Turkey on the back of the Lira depreciation. Nevertheless, tourism revenues continued to grow, 3.9% y/y in 2014 and 8.1% in 9M15, compared to annual declines in other categories including exports and remittances.

Total number of visitors and y/y growth



Source: GNTA

Composition of countries of origin, 2015



*excluding Russia, Armenia and Azerbaijan
Source: GNTA

Georgia has become an increasingly attractive tourist destination for its four neighboring countries (Armenia, Azerbaijan, Turkey, and Russia), which represented 88% of all visitors in 2015. The rest of the CIS and the EU each represented 4%, followed by the Middle East with 2%.

Growth rate of visitors for selected regions/countries, y/y

	2007	2008	2009	2010	2011	2012	2013	2014	2015	CAGR 2007-2015
Turkey	69%	42%	9%	39%	38%	108%	4%	-10%	-4%	24%
Armenia	35%	16%	25%	56%	28%	32%	40%	3%	11%	25%
Azerbaijan	42%	22%	21%	19%	43%	30%	15%	19%	9%	22%
Russia	3%	25%	12%	33%	63%	85%	49%	6%	14%	34%
EU	22%	2%	6%	20%	25%	23%	22%	11%	4%	14%
CIS*	25%	10%	21%	33%	36%	21%	54%	16%	11%	25%
Middle east	94%	9%	-3%	14%	36%	54%	115%	-21%	43%	25%
Other	15%	7%	14%	45%	67%	52%	-12%	-23%	1%	15%
Total	38%	23%	16%	35%	39%	57%	22%	2%	7%	27%

*excluding Russia, Armenia and Azerbaijan
Source: GNTA

Armenia – One of the most stable sources of international visitors. From 2007-2015, arrivals grew at a 25% CAGR. Despite the economic slowdown in 2015, total visitors grew 11% y/y to 1.5mn, accounting for the largest portion at 25% of the total.

Azerbaijan – Arrivals grew at a 22% CAGR in 2007-2015, but it slipped in 2015 to 9% y/y growth to 1.4mn.

Turkey – Visitor arrivals increased at a 24% CAGR in 2007-2015. Starting in 2014, the total number of arrivals from Turkey began declining, largely due to Turkey's economic slowdown. In 2015, the total decreased 4% y/y to 1.4mn.

Russia – Despite economic difficulties, Russia remains one of the fastest growing sources of visitors. Since Georgia patched up relations with Russia, the growth rate of visitors has nearly doubled. Over 2007-2015, Russian visitors registered a 34% CAGR, and in 2015 the number grew 14% y/y to 0.9mn.

European Union – The EU accounts for just 4% of total visitors, but we expect the EU-Georgia Association Agreement will increase economic activity and result in a spurt of visitors. EU visitor rates grew at a 14% CAGR in 2007-2015 and 4% y/y in 2015 to 0.2mn.

Middle East – In 2013, the Government of Georgia stiffened its visa requirements for Iranian and Iraqi citizens, which nearly halved visitor arrivals from the two in 2014. The government reversed course in 2014 with a partial easing of restrictions, allowing visitor numbers to increase 43% y/y in 2015 back to near 2013 levels. Travel regulations were further relaxed in 2016 with 45-day visa-free travel being restored for the citizens of Iran. Over 2007-2015, the number of visitors from the region increased at a 23% CAGR.

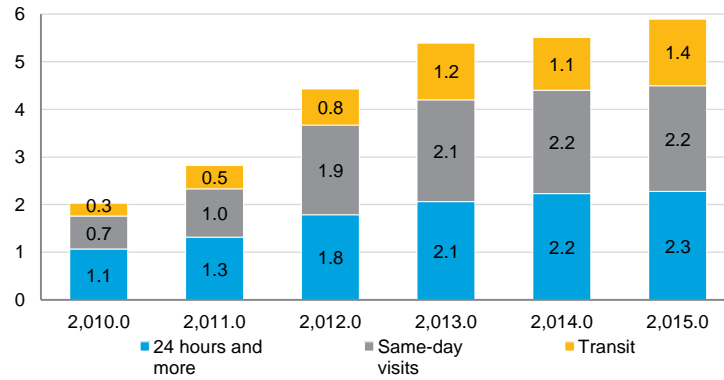
A main challenge for Georgia is to attract visitors who stay in country more than 24 hours. In 2015, total visitor growth was driven largely by transiting travelers (+26% y/y), while one-day and over 24-hour visits increased by just 2%. The flow of visitors into Georgia can be broken down into the following categories:

Visits of over 24 hours – This segment accounts for 39% of all visits and it remains the biggest source of revenue for the hospitality industry. Over 2010-2015, the number of visitors staying more than 24 hours increased at a 16% CAGR to 2.3mn in 2015.

One-day visits – One-day trips are mostly from Turkey, Armenia, and Azerbaijan and account for 38% of total visitors. Over the last 5 years, same-day visitors increased at a 26% CAGR to 2.2mn in 2015.

Transit visitors – Transiting travelers account for 24% of total visitors. Since 2010, these have grown at a 39% CAGR to 1.4mn.

Breakdown of visitors by amount of time spent in Georgia

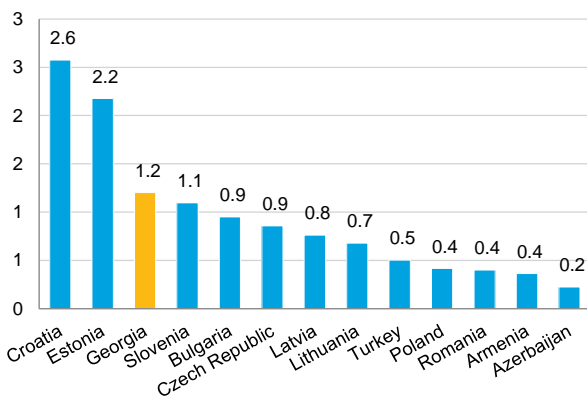


Source: Ministry of Internal Affairs

Bright Prospects on the Horizon

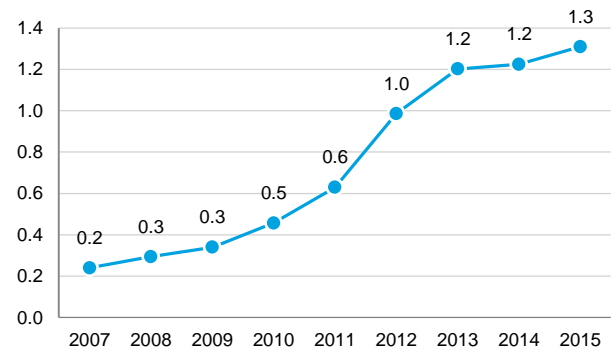
Georgia generates roughly the same number of foreign visitors per capita as Eastern European peers, but lags well behind in per-visitor spending. Over 2007-2015, per-capita visitor numbers increased 6.5x to 1.3 in 2015, in-line with the 1.1 average for Eastern Europe. However, average receipts per visitor remained relatively stable in the range of US\$ 325-400 (vs. US\$ 750 average for Eastern Europe) over the last decade despite a 6.5x increase in visitors. Over the mid-term we expect the visitor growth rate to stabilize at current levels, while growth of the higher-spending visitors becoming a key driver for the sector.

Number of international visitors per capita, 2013



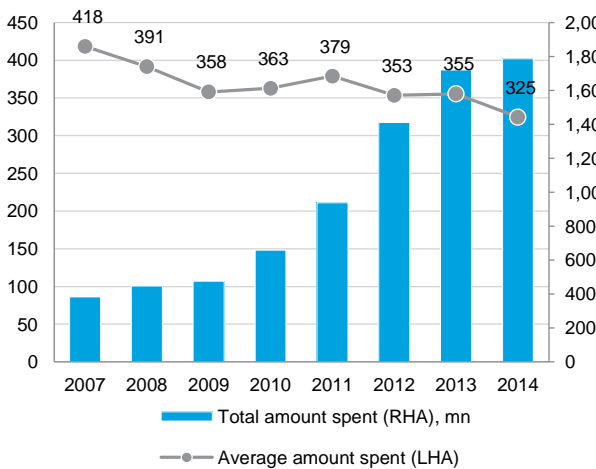
Source: WB, TBC Capital

Per capita number of visitors to Georgia



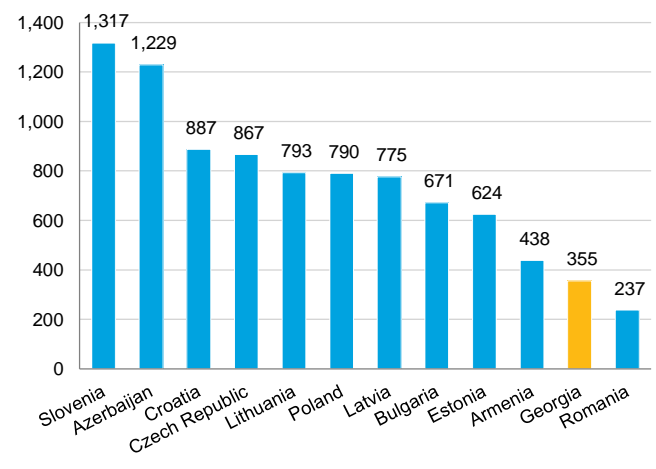
Source: Geostat, TBC Capital

Total and average spending per foreign visitors to Georgia, 2007-2014, US\$



Source: WB, GNTA

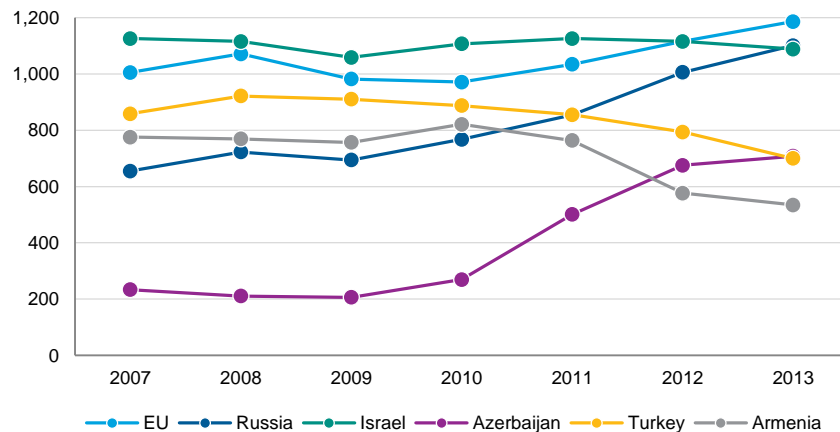
Average receipts received per international visitor in 2013, US\$



Source: WB, TBC Capital

Georgia will focus on attracting visitors from higher spending regions/countries like the EU, Russia, and the Middle East. Europeans, Russians, and Israelis spend US\$ 1,190, US\$ 1,100 and US\$ 1,090 on average, respectively, compared to US\$ 710, US\$ 700 and US\$ 535 for Azeris, Turks, and Armenians, respectively.

Average annual expenditure per tourist for selected countries, US\$



Source: TBC Capital, WB

Georgia has the potential to attract higher spending visitors from the EU, Russia, and the Middle East. These regions have already generated impressive growth over the last decade in the number of tourists and revenue income. We believe the following factors will further boost growth:

The EU-Georgia Association Agreement and visa liberalization is set to increase bilateral economic activity, which will translate into growth of incoming visitors from the EU.

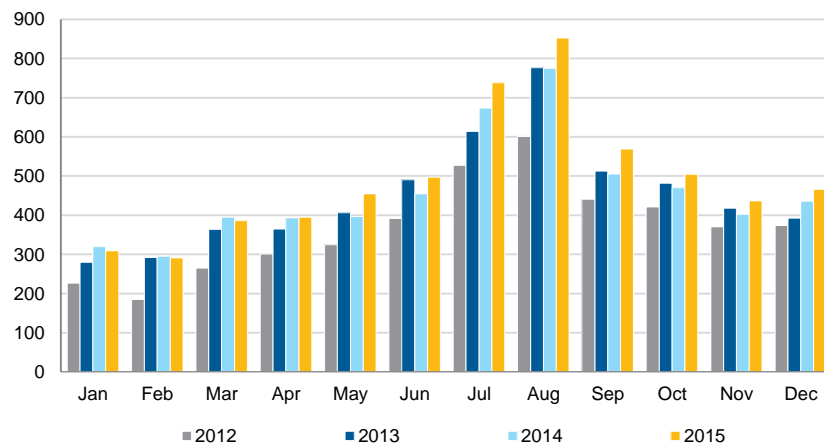
Relatively stable relations between Georgia and Russia will help visitor flow, while the recent increase in tension between Russia and Turkey may also carry a positive effect for Georgia. Turkey has been a key summer destination for Russian tourists, and Georgia’s summer resorts could – at least temporarily – replace Turkey.

The Georgian Government is actively supporting the sector’s development by promoting Georgia as a tourist destination and supporting the development of the MICE segment. The government and National Tourism Administration are investing in advertising and branding to increase recognition of Georgia as a destination among the higher income countries of Europe and the Middle East. Ads promoting Georgia are airing on top international channels like CNN and Euronews. In 2015, Georgia hosted several high-profile international conferences, including the Annual EBRD Meeting, the 2015 Silkroad Forum, and the BSTDB Board of Directors Meeting.

A further expansion of tourism infrastructure and development of new resorts will attract higher spending visitors. Over the next 5 years, top international hotel chains are scheduled to open roughly 3,000 new hotel rooms and new ski (Tenuldi, Mestia and Goderdzi) and spa (Tkaltubo, Sairme) resorts are under development.

Georgia is currently seen as a summer destination for regional travelers. International arrivals typically increase in the summer months when tourists from Armenia and Azerbaijan visit the Black Sea coast. The summer months (July-September) average 600,000 visitors compared with 350,000 during the rest of the year. The seasonality of the industry is a clear challenge for revenue stability. The government and tourism boards are trying to extend the tourism season along the Georgian seaside and promote other seasonal destinations. Most promising among these are ski resorts and all-season resorts. The development of winter resorts should further support growth as Georgia is able to position itself as a more affordable alternative to European getaways. Georgia is already developing new ski destinations like Tetnudli, Mestia and Goderdzi in the northeast and expanding and further developing existing destinations like Gudauri and Bakuriani.

Monthly number of international visitors, 2012-2015, ths



Source: GNTA

MICE (Meetings, Incentives, Conferencing, Exhibitions) tourism could also attract higher spending visitors. In addition to several high-profile events in recent years, Georgia will host other prominent events in the next few years. Perhaps most notably, Tbilisi will host the Organization for Security and Cooperation in Europe’s (OSCE) Parliamentary Assembly in July 2016, with around 700 foreign politician delegates.

Recent major international events:

Tbilisi hosted the **European Youth Olympic Festival in 2015**. Over 4,000 athletes from 49 countries participated with more than 10,000 total visitors in Tbilisi from July 26 to August 1.

On August 11, 2015, Tbilisi hosted the **UEFA Super Cup**, an annual football match between the winners of the Champions League and the Europa League. The game was held at Dinamo Arena and brought together football fans from all over the world.

In May 2015, Tbilisi hosted the annual meeting and business forum of the **European Bank for Reconstruction and Development (EBRD)**, the first Caucasus country to host the event. The EBRD has 64 member countries and two international organizations (the EU and EIB). In total, 1,200-1,500 guests attended, including the EBRD governors, 34 Ministers of Finance, alternate governors, business representatives from business and international organizations.

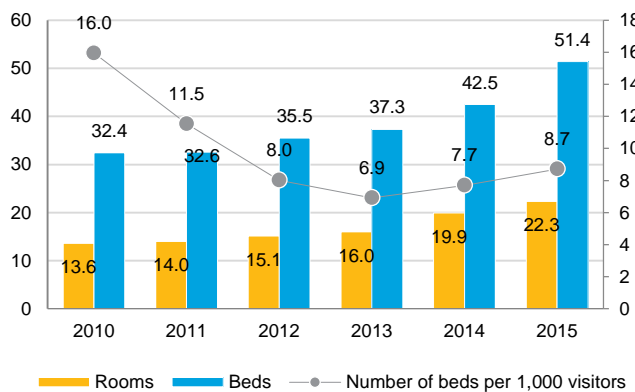
The Board of Governors of the Black Sea Trade and Development Bank (BSTDB) held its 17th Annual Meeting in Tbilisi in June 2015 under the chairmanship of Giorgi Kadagidze, President of the National Bank of Georgia.

The Tbilisi Silk Road Forum 2015 was the first annual high-level meeting organized by the Government of Georgia, with the support of the Government of China and the Asian Development Bank, to allow states and international organizations explore opportunities, align visions, and enhance partnerships in 4 main areas of cooperation: transport, energy, trade, and business-to-business contacts.

Development of Relevant Services and Infrastructure

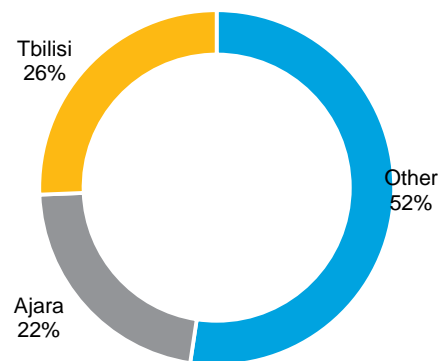
Over the last decade, Georgia has actively developed tourism infrastructure. Major provincial cities like Batumi, Signagi, Mtskheta, Borjomi, and others were fully renovated. Both the public and private sectors invested actively in tourist infrastructure. Over the last 5 years, the stock of hotel beds increased 1.6x to 51,381 (22,300 rooms). Well-known international chains like Radisson, Holiday Inn, Hilton, and Rixos have entered Georgia. Almost all the upscale international hotels like Marriott, Hilton, Sheraton, and Radisson are located in Tbilisi or Batumi, while the rest of the country is served by local hotels offering a cheaper alternative.

Rooms and beds in the hospitality sector, '000



Source: GNTA, TBC Capital

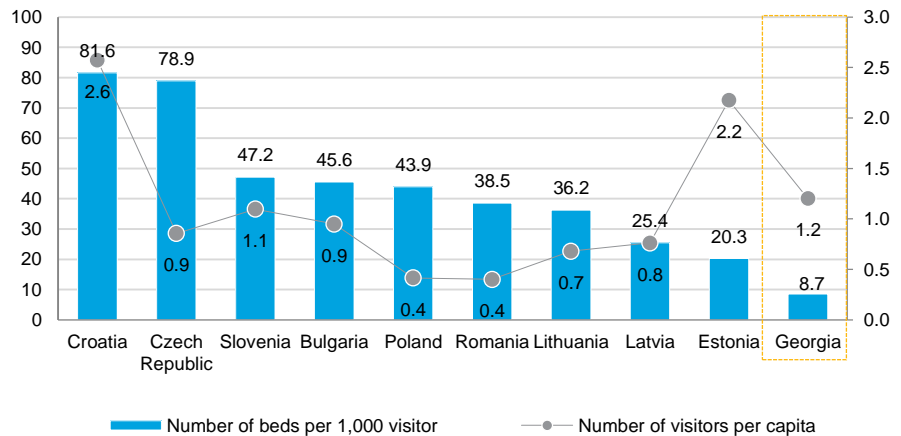
Beds in the hospitality sector by region



Source: GNTA, TBC Capital

Despite significant investments, Georgia lags far behind Eastern European peers by number of beds. In 2010-2014, more than GEL 500mn was invested in hotels and the tourism business. As of 2015, Georgia had 8.7 beds per 1,000 visitors (down from 16.0 in 2010), far below the 42.6 average (2014) in Eastern European peers. The reason why Georgia is far behind EE peer country's average is that growth of visitors far outpaced hospitality infrastructure growth. Since 2010 number of beds in hospitality sector increased by 59% to 51.4ths, while number of visitors increased by 1.9x to 5.9mn in 2015.

Georgia vs. peers: Beds per 1,000 visitors and visitors per capita, 2013

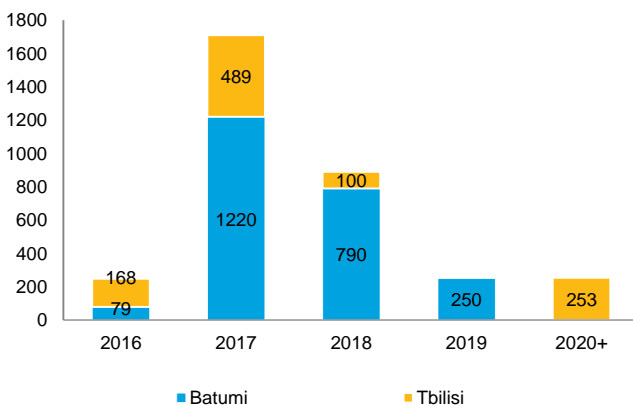


Source: GNTA, TBC Capital

Over the next 5 years, the construction of new international and local upscale hotels will add more than 4,000 hotel rooms in Tbilisi and Batumi. 68% of the planned hotel projects are international medium and upscale brand hotels. By 2020 international chains like Millennium, Intercontinental, Park Inn by Radisson, and Crowne Plaza are expected to launch operations in Georgia.

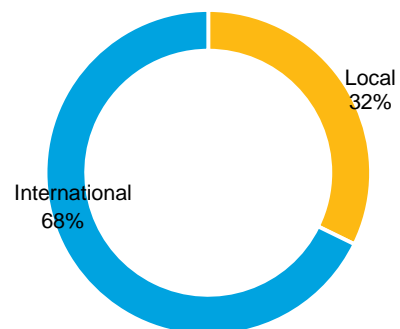
Upscale hotels in Tbilisi and Batumi could experience a temporary decrease of occupancy rates if the increased bed capacity is not met with a growth of tourists. Georgia’s two main tourist destinations already account for nearly 50% of the country’s hotel bed capacity, and over the next 5 years they will see an additional 4,000 upscale/mid-market hotel rooms. There is, however, still room for the development of budget hotels in these cities. Higher-end opportunities are now mostly outside Tbilisi and Batumi – Rixos has already built a hotel in Borjomi and Radisson is expected to start operations in Gudauri in the coming years.

Hotel construction pipeline, number of rooms



Source: TBC Capital, Company data

Breakdown of hotels construction pipeline



Source: TBC Capital, Company data

Georgia has the potential to increase tourist inflows by further developing winter resorts and wellness and spa destinations. In recent years brand-name hotels have started to penetrate previously untapped regions as more international travelers visit Georgia's regions. In the remote and mountainous parts of the country, guest houses and family hostels provide most of the local accommodation. Dedicated small resort locations have also been developed in recent years. These small hotels and châteaux are located away from populated areas, usually near a lake, and offer a relaxing environment for visitors and require a relatively minimal initial investment compared with large hotels.

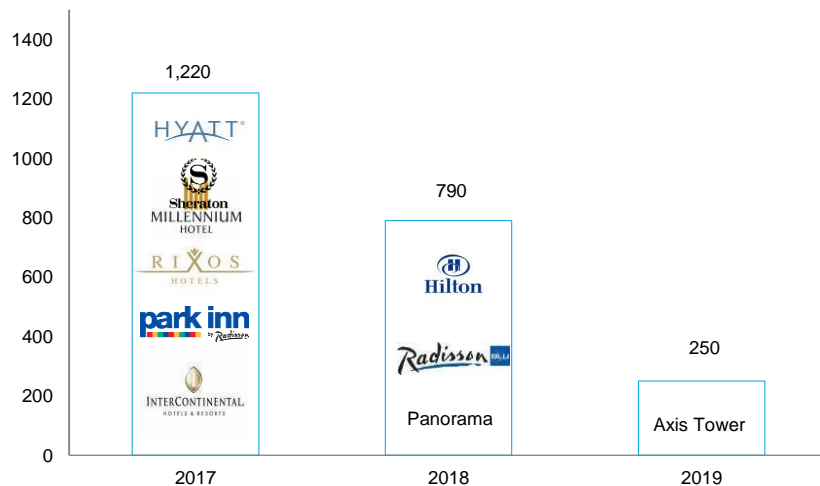
Key Tourist Destinations and Development Potential

Tbilisi: Capital City and a Top Tourist Destination

The capital Tbilisi is a key destination for tourists and business travelers and it is becoming an increasingly global city with a vibrant expat community. In recent years, Tbilisi hosted several high-profile international business and sporting events, including the European Youth Olympic Festival in 2015, UEFA Super Cup, EBRD Forum, Annual Meeting of the Board of Governors of the BSTDB, Tbilisi Silk Road Forum 2015

Over the last 5 years, hotel occupancy rates in Tbilisi have been above 70%. Hotel operators have responded to rising demand with new hotel projects, and over the next 5 years, 7 new international upscale/mid-market hotels are scheduled to open. The new projects by Millennium, Hyatt, Intercontinental, Rixos, Park Inn by Radisson, Sheraton Metekhi Palace (refurbishment), Blu by Radisson, and Hilton Garden Inn will increase Tbilisi’s international chain hotel rooms by 1.4x to 2,700. In addition, 3 local upscale hotels are scheduled to open their doors – Panorama Freedom Square, Panorama King Erekle, and Axis Tower will add 675 hotel rooms by 2019.

Hotel construction pipeline in Tbilisi, number of hotel rooms



Source: TBC Capital

Batumi and Black Sea Coast Resorts

Over the last decade, significant infrastructure developments have transformed Batumi into a key tourist destination. Several international brand hotels have been built, including Radisson (168 rooms), Sheraton

(202 rooms), and Hilton (247 rooms). Batumi has become the fastest growing city in Georgia in recent years.

Over the last few years, occupancy rates in Batumi have been low relative to Tbilisi at 40-60%, as Batumi is a seaside city and largely summer destination. In the short-term, hotel occupancy rates could be negatively affected with the expected addition of up to 1,000 rooms over the next 5 years.

The Georgian Black Sea coast has established itself in recent years as the destination of choice for regional tourists. Investor activity has been heavy in the Ajara region and Batumi in particular, while other destinations inside Ajara and in other regions have remained untapped. Among other locations, Anaklia has strong potential thanks to a wide lineup of summer festivals. The government has invested actively in infrastructure in Anaklia and a new port is slated to be built in the coming years.

Wine and Eco-Tourism: A High-Growth Segment

Over the last 5 years several small château type hotels were built in the Kakheti region, a key wine producing region located a two-hour drive from the capital. These destinations are frequently built next to a private lake and offer a full range of on-site hotel and entertainment services. They are becoming popular among foreign and local visitors.

There are several guesthouse-type local hotels and 7 small upscale hotels in the Kakheti region. Radisson with 141 rooms is also expected to start its operations by 2017. These hotels are more weekend destinations – the occupancy rate hits 100% over the weekend and drops during the work week. Room rates average GEL 200-400.

Another popular destination is the Kazbegi Rooms hotel, an upscale local hotel with casino located north of Tbilisi, 1,740 meters above sea level in Kazbegi, near the Russian border.

Regional mid-market / upscale hotels

Name	Number of Rooms
Kvareli Eden	31
Kvareli Lake Resort	20
Royal Batoni	31
Shato Mere	14
Lopota	110
Kazbegi Rooms	156
Rixos	151
Ambadori Kachreti	75
Crowne Plaza Borjomi	100
Kabadoni	21

Source: TBC Capital

Ski Resorts: Strong Growth Prospects

Georgia has two primary winter ski resorts: Gudauri in the north west near the Russian border (2 hours driving from Tbilisi) and Bakuriani in south-central Georgia. Both have strong potential to attract regional tourists. Several local hotels have established operations in Gudauri over the last 5 years, and Radisson is due to open its doors by 2017. The state has invested heavily in the resort with the addition of artificial snowmaking capabilities and new trails. There is still upside as the vast majority of slopes remain underdeveloped, while year-round activities remain entirely undeveloped. In addition to Gudauri and Bakuriani, new winter resorts like Tetnuldi, Mestia and Goderdzi are under development.

Spa and Wellness: Upside Potential

During the Soviet period, Georgia was known for prominent spa and balneotherapy resorts . The Tskaltubo Spa Resort in west-central Georgia, 20 minutes away from the Kutaisi International Airport, attracted up to 125,000 visitors per year but has fallen into disrepair since the breakup of the Soviet Union. A plan is in place to revive the resort by privatizing unused sanatoriums, hotels, and other properties, which are still state-owned. Similar privatization plans are underway for other unused properties across the country, like the Akhtala Mud-cure Resort in western Georgia.

Gambling: Regional Competitive Advantage

Casinos and other gambling facilities can be built as a complex with hotels and other infrastructure to provide a one-stop destination for gambling tourists. These kinds of complexes have huge upside in a region where most countries partially restrict or entirely ban gambling. Typically, these

complexes would be built with a casino and hotel, which would then partner with regional tourist agencies to offer travelers gambling tours.

Gambling restrictions*



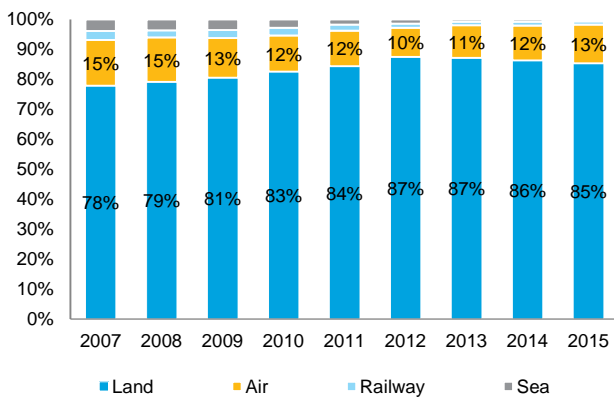
**Countries highlighted dark gray are where gambling is restricted*

Source: GNTA, TBC Capital

Transportation in Detail

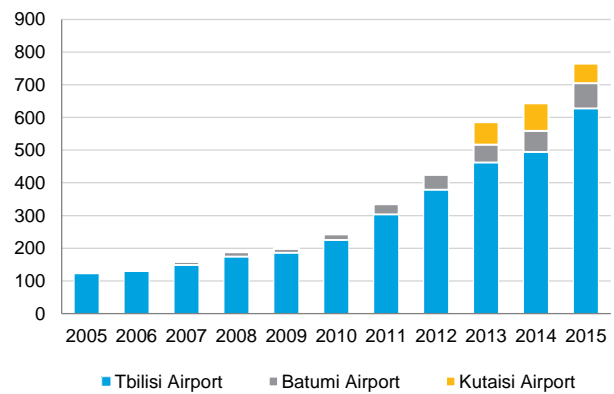
Overland travel remained the primary arrival mode for visitors (85% in 2015), as tourists from neighbouring countries most frequently cross into Georgia by car or bus. Although Georgia has a passenger rail link with Armenia and Azerbaijan, this mode accounted for just 1% because it currently does not offer high-speed premium services and is used by lower income travellers.

Share by arrival method



Source: GNTA

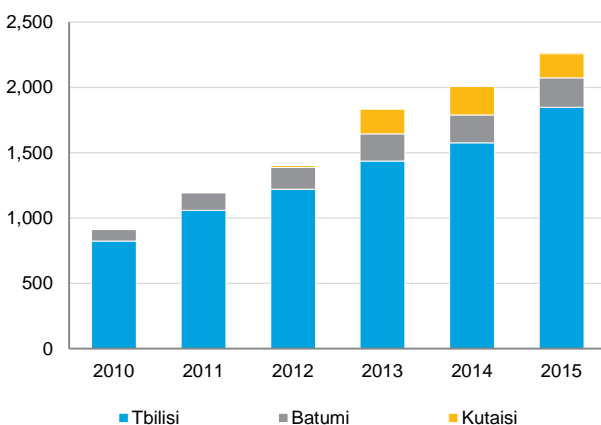
Arrival numbers by airports, '000



Source: GNTA

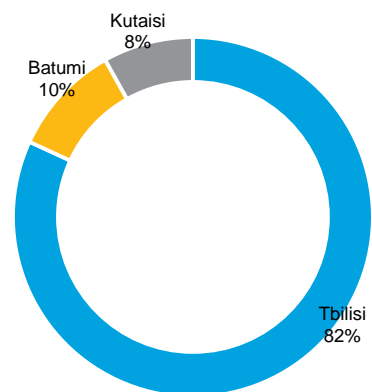
In 2015, airport arrivals grew 19% y/y to 794,296, 13% of all visitors. Tbilisi International Airport accounted for 82% of all airport arrivals in Georgia.

Total number of passengers served, '000



Source: GCAA

Arrival numbers by airports, '000



Source: GCAA

Tbilisi International Airport is the country's main airport with a modern terminal constructed in 2007, high capacity infrastructure, and a strategic location. It is located 20 minutes by car from downtown

Tbilisi and is accessible by highway and a regular rail link. In 2015, the airport served 1.9mn passengers (arrival and departure), up 17.2% y/y from 1.6mn in 2014. The hub can handle up to 2.5mn passengers, and there are expansion plans in place that include the reconstruction of an unused second runway to boost capacity.

The newly renovated **Kutaisi International Airport** was opened in fall 2012 and boasts a new runway and terminal, among other infrastructure. Since 2013, Kutaisi has played an increasingly important role in the country's air travel, becoming a hub for low-cost airlines Wizz Air and Pegasus thanks to its location in the heart of Georgia and low cost base. Kutaisi Airport has the potential to serve as a regional hub for low-cost airlines for international connecting flights. In 2015, the airport handled 182,954 passengers, down 16.0% y/y.

Batumi International Airport was renovated in 2007 and has the capacity to handle up to 600,000 passengers annually. The airport mainly services foreign visitors to the Ajara coastal region, but in recent years has also started to handle Turks transiting from Batumi south to the Turkish border. In 2014 Batumi Airport handled 213,000 travellers, up 2.2% y/y.

Flight	Airline	Flights per week
Batumi-Istanbul	Turkish Airlines	7
Batumi-Minsk	Belavia	0-2
Batumi-Moscow	Georgian Airways, S7 Airlines	4
Kutaisi-Budapest	Wizz Air Hungary	2
Kutaisi-Katowice	Wizz Air Hungary	2
Kutaisi-Minsk	Belavia	2
Kutaisi-Moscow	Georgian Airways, Ural Airlines	2
Kutaisi-Vilnius	Wizz Air Hungary	2
Kutaisi-Warsaw	Wizz Air Hungary	1
Tbilisi-Aktau	Skat	3
Tbilisi-Almaty	Air Astana	5
Tbilisi-Amsterdam	Georgian Airways	2
Tbilisi-Athens	Aegian Airlines	2
Tbilisi-Baku	Azerbaijan Airlines	7
Tbilisi-Batumi	Georgian Airways	3-7
Tbilisi-Dnepropetrovsk	Dniprovia	1
Tbilisi-Doha	Qatar Airways	7
Tbilisi-Dubai	Fly Dubai	7
Tbilisi-Ekaterinburg	Ural Airlines	1
Tbilisi-Istanbul	Turkish Airlines, Atlasjet Airlines, Pegasus	35
Tbilisi-Kiev	Ukraine Intern. Airlines	12
Tbilisi-Kutaisi	Georgian Airways	1-2
Tbilisi-Minsk	Belavia	7
Tbilisi-Moscow	Georgian Airways, Aeroflot, S7 Airlines	20
Tbilisi-Munich	Lufthansa	7
Tbilisi-Riga	Air Baltik	3
Tbilisi-Rome	Air Italia	3
Tbilisi-Saint Petersburg	China Southern Airlines	2
Tbilisi-Samara	Georgian Airways	1
Tbilisi-Sharja	Air Arabia	4
Tbilisi-Sharm Al Sheikh	Air Cairo	3
Tbilisi-Tel Aviv	Georgian Airways, Izrail, Arkia	8
Tbilisi-Urumchi	China Southern Airlines	1-3
Tbilisi-Vienna	Georgian Airways	2
Tbilisi-Warsaw	LOT	7

Source: Georgian Civil Aviation Agency

Annex 1: SWOT Analysis

Strength

- Low cost destination of choice
- Growing number of visitors
- Full range of vacation destination types
- Supportive legislative environment

Weakness

- Lack of high quality services
- Underdeveloped infrastructure

Opportunities

- Attracting high spending visitors
- Development of new resorts
- Development of MICE segment

Threats

- Regional turmoil might affect tourist inflows
- Change in government priorities and regulations
- Political risks

Annex 2: Tourist Destinations in Georgia (Map)



Source: GNTA, TBC Capital

Annex 3: Tax, Legal, and Regulatory Framework

Tax Incentives in the Hospitality Sector

The Government of Georgia has introduced tax and regulatory incentives for potential investors in the hospitality sector who satisfy certain legal requirements and are willing to assume investment commitments.

The Law of Georgia on the Facilitation of the Development of **Free Tourist Zones** was adopted in 2010 and offers tax breaks and reduced legal and economic requirements to investors who build and operate hotels in designated tourist areas. Key benefits for investors include:

- Exemption from corporate income tax until January 1, 2026

- Exemption from property tax until January 1, 2026

- Exemption from construction permit fee

- Sale of the land plot for the asset's construction for a symbolic 1 GEL

Three areas on the Black Sea coast – in Kobuleti, Ganmukhuri, and Anaklia – have been granted this status. New areas can be designated after approval by the Commission on the Facilitation of the Development of Free Tourist Zones set up under the Ministry of the Economy and Sustainable Development of Georgia.

Prospective investors must satisfy the following requirements to qualify for the exemptions:

- Commit to at least a GEL 1 mn investment per hotel

- Provide a bank guarantee for at least 10% of the investment commitment for the duration of construction plus two months

- Construct, operate, and maintain a mid- or high-class hotel as defined by the Ministry of the Economy and Sustainable Development

In case of non-adherence, ownership of the land plots and property can be transferred to the state.

In addition, corporations that finance the construction of hotels can apply for the status of a **Tourism Enterprise**, which offers VAT and other tax breaks for the construction, leasing, and leaseback of hotel assets. Individuals employed by a Tourism Enterprise can qualify for a 5% reduction in personal income tax.

Gambling Regulation and Incentives

Gambling is legal in Georgia, which gives the country a unique competitive advantage in a region where other countries ban or restrict gambling. Casinos are legal throughout Georgia and not restricted to certain areas. Casino operators can be subject to an annual license fee of up to GEL 5mn, but the government offers a range of incentives that can reduce or eliminate the fee:

Operating a casino in Gudauri, Bakuriani, Tskaltubo, or Signaghi – GEL 0

Building a casino together with a hotel with at least 100 units in Batumi, Kobuleti, or Khelvachauri, or at least 80 units in Anaklia or Ganmukhuri – GEL 0

Operating a casino in Batumi, Kobuleti, Borjomi, or around Lake Bazaleti – GEL 250,000

Citizens of countries that can enter Georgia without a visa for up to one year

Albania	Finland	New Zealand
Andorra	France	Norway
Antigua and Barbuda	Germany	Oman
Argentina	Greece	Panama
Armenia	Holy See	Poland
Australia	Honduras	Portugal
Austria	Hungary	Qatar
Azerbaijan	Iceland	Romania
Bahamas	Ireland	Russian Federation
Bahrain	Israel	Saint Vincent & the Grenadines
Barbados	Italy	San Marino
Belarus	Japan	Saudi Arabia
Belgium	Kazakhstan	Serbia
Belize	Kingdom of Thailand	Seychelles
Bosnia and Herzegovina	Korea	Singapore
Botswana	Kuwait	Slovak Republic
Brazil	Kyrgyz Republic	Slovenia
Brunei	Latvia	South Africa
Bulgaria	Lebanon	Spain
Canada	Liechtenstein	Sweden
Colombia	Lithuania	Switzerland
Costa Rica	Luxembourg	Tajikistan
Croatia	Malaysia	Turkey
Cyprus	Malta	Turkmenistan
Czech Republic	Mauritius	Ukraine
Denmark	Mexico	United Arab Emirates
Dominican Republic	Moldova	United Kingdom
Ecuador	Monaco	United States
El Salvador	Montenegro	Uzbekistan
Estonia	Netherlands	

Source: Government of Georgia (Decree 255)

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