

LAW OF GEORGIA

ON THE PROCEDURES FOR ISSUING CONCESSIONS TO FOREIGN COUNTRIES AND COMPANIES

Law of Georgia No 396 of 19 September 1996 - The Official Gazette of the Parliament of Georgia No 24-25/3, 6.11.1996, p.15

This Law determines general principles and procedures for issuing concessions to foreign investors for the procession of natural resources and for other related economic activities in the territory of Georgia, on the basis of a special agreement.

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Chapter I - General Provisions

Article 1 - Concept of Concessions

A Concession is a long-term lease agreement signed by the State for the exploitation of renewable and non-renewable natural resources, and for other related economic activities for the purposes of investing foreign capital.

Particular terms of relations in the field of concessions shall be determined on the basis of an agreement.

Article 2 - Legal protection of the rights of foreign investors and guarantees

Protection of the rights of foreign investors and ensuring guarantees on the basis of concession shall be performed in accordance with applicable legislation.

Products and income from the implementation of the terms of a concession agreement by a concessionaire remaining after the payment of mandatory taxes shall be his/her property. Material and other assets, which were not included in the transferred property and were created (bought) by a concessionaire at his/her own expense and upon the consent of the owner, shall be his/her property.

The execution of a concession agreement shall not result in the transfer of the right to own natural resources and economic facilities.

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Article 3 - Basic principles of a concession agreement

Basic principles of a concession agreement are:

A long-term contractual nature of the right to use land or other natural resources with the right to manage particular activities;

A competitive approach towards the selection of a concessionaire on the basis of a bidding (a tender), the procedures for which shall be determined by the legislation of Georgia.

The observation of the norms and regulations applicable in Georgia on labour, social security of the population, the use of natural resources and on protection of the environment.

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Article 4 - Subject and scope of a concession agreement

The subject of a concession agreement shall be the right to explore, process and exploit renewable and non-renewable natural resources in the territory of Georgia, as well as the right to lead certain types of economic, scientific-technical and exploration activities in such territory with the participation of foreign investments and within a specific period of time.

Properties, scope and types of activities, the transfer of which shall be prohibited or limited by a concession agreement, shall be determined by the legislation of Georgia t .

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Article 5 - Parties to a concession agreement

A concession agreement shall be awarded to foreign investors with an authorised body or the bodies authorised thereby as provided for by the legislation of Georgia.



Foreign natural and legal persons and foreign governmental and international organisations may be concessionaires.

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Chapter II - Preparation of a Concession Agreement

Article 6 - Coordination of the activities related to awarding a concession agreement

All activities in the territory of Georgia related to awarding a concession agreement shall be coordinated by an authorised body determined by the legislation of Georgia or by bodies authorised thereby.

A proposal for a concession agreement shall be developed and assessed in consideration of the development prospects and the distribution of production forces of Georgia and other administrative and territorial units of Georgia.

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Article 7 - Principles of the development of a concession proposal

An authorised body determined by the legislation of Georgia and appropriate bodies authorised thereby, within their scope of authority, shall compile and publish a list of properties transferrable to foreign concessionaires on the basis of a concession agreement, as well as conditions precedent of the concession agreements and a list of organisations of Georgia that shall develop a draft concession agreement in collaboration with foreign investors.

The preparation of properties transferrable to foreign investors under concession envisages their exact delineation and the determination of the composition of and inventory of properties and the assessment of mineral deposits, natural resources and productive and non-productive assets.

A draft concession agreement shall be accompanied by a feasibility study with an assessment of its economic feasibility and its impact on the environment, as well as by guarantees of solvency of concessionaires.

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Article 8 - Basic provisions of a concession agreement

A concession agreement shall include:

- a) parties to the agreement;
- b) validity of the agreement and concession fees;
- c) subject of the concession agreement, property to be transferred to the concessionaire and the procedures for transfer;
- d) limitations within the scopes of which the concession agreement may be awarded in view of the requirement of environmental protection;
- e) obligation of a concessionaire with regard to the scrupulous observance of the legislation of Georgia;
- f) obligations of a concessionaire within the scope of a concession agreement with regard to carrying out additional constructions, equipping enterprises, maintaining them in good operating condition, to good quality of manufactured products, labour and environmental protection, purchasing the raw materials and with regard to possible reproduction of the resources transferred for concession;
- g) dates of commissioning of such enterprises;
- h) general organisational plan of the processing of natural resources;
- i) procedures for returning land plots;
- j) matters related to the development of infrastructure, staff training, and the introduction of advanced technological processes;
- k) amount of minimal capital;
- l) amount of share participation of the parties in the profit from the project implementation;
- m) procedures for the reimbursement of an unamortised part of the costs of the property of a concessionaire;
- n) liability of the parties for violation of the terms of the agreement;
- o) the terms for transfer of concession enterprises to Georgia;
- p) guarantees of the parties, their legal addresses and bank details.



Article 9 - Expert Examination

The review of the matters related to awarding a concession agreement by foreign concessionaires requires a preliminary detailed expert appraisal involving ecological, economic, scientific and technical, sanitary and hygienic, social and financial matters, as well as matters related to state defence and security.

Procedures for the mandatory state expert appraisal shall be defined by an authorised body determined by the legislation of Georgia.

An expert appraisal shall be carried out by special commissions of experts, which shall be established on the basis of a decision by an authorised body determined by the legislation of Georgia, or by the bodies authorised thereby within the scope of their jurisdiction. The commissions shall include representatives of economic, social and other organisations.

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Article 10 - Registry

An authorised body determined by the legislation of Georgia, or a body authorised thereby, shall establish a special registry for the purpose of registration of concession agreements.

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Chapter III - Basic Provisions of a Concession Agreement

Article 11 - The rights of the party issuing a permit for awarding a concession agreement

The party issuing a permit for awarding a concession agreement shall have the right to:

- control the observance of the legislation of Georgia by concessionaires;
- appoint an auditor for the examination of the activities of concessionaires.

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Article 12 - Rights of a concessionaire

A concessionaire shall have the right to:

- a) carry out economic activities in the territory of Georgia in accordance with the legislation of Georgia and the terms of the concession agreement;
- b) dispose of his/her own products and profit remaining after the payment of mandatory taxes in accordance with the legislation of Georgia and the terms of the concession agreement;
- c) take profit abroad in accordance with the procedures provided for by the legislation of Georgia;
- d) use water, power, utilities and means of communication, improve the concession territory, create and maintain warehouses, stores and other trade facilities on a general basis;
- e) hire citizens of Georgia, foreign citizens and stateless persons as workers and employees of concession enterprises;
- f) enjoy the right to import equipment, tools, uniforms and food without the payment of import duties in order to ensure the manufacturing processes without the right to use and sell them beyond the concession;
- g) enjoy tax exemptions under the legislation of Georgia and other privileges determined by the tax legislation during the realisation of long-term investments and the reinvestment of earned profit, for the purposes of developing concession enterprises and infrastructure and/or carrying out charity activities;
- h) lodge an appeal with the court or arbitration against unlawful actions of state authorised bodies.

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Law of Georgia No 3806 of 12 November 2010 - LHG I, № 66, 3.12.2010, Art. 414

Article 13 - The obligations of the party issuing a permit for awarding a concession agreement



The party issuing a permit for awarding a concession agreement is obliged to:

- observe legislative acts of Georgia on foreign investments;
- create favourable conditions, within its authority, for the realisation of the existing concession;
- incur material liability for damages which may be inflicted by unlawful actions by state authorised bodies;
- not interfere in current activities of concession enterprises, except for the cases provided for by the agreement.

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Article 14 - Obligations of a concessionaire

A concessionaire is obligated to:

observe the legislation of Georgia;

observe contractual terms and the inadmissibility of changing such terms on an ex-parte basis; pay a fine in the case of violation of the agreement, reimburse damage caused by loss of minerals as a result of abnormal exploitation, abnormal environmental pollution and by other violations;

Prepay an amount for the reclamation works due to the possible damage of the soil surface as a result of excavation and for the works of liquidation or conservation of sites allotted for excavations. The prepaid amount shall be reimbursed to an excavator if he/she carries out the said works, otherwise the state shall use it in order to restore territory.

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Article 15 - Concession fees

Concession fees payable by a concessionaire shall be specified in a concession agreement. The fees may include payment for the concession, leasing fees, taxes, royalties, single premium payments (bonuses) and other taxes in the manner laid down by the applicable legislation. The amount payable for reclamation work for the damage caused by excavation and for the liquidation or conservation of the sites for excavation shall be determined by legislation.

Concession fees shall be paid in money or in kind (a part of the products of a concession enterprise), as well as by transferring the shares of the concession enterprises to the State or by means of combining the above-mentioned forms.

A concessionaire shall pay taxes and fees in the manner laid down by the legislation of Georgia.

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Article 16 – Provisions of labour recruitment and use

Provisions of labour recruitment and use shall be regulated in accordance with the legislation of Georgia on labour and employment within the framework of a concession agreement.

A regime of activities, labour and leisure of foreign citizens in the territory of Georgia, their remuneration policy, medical care, social insurance, labour protection and other conditions, as well as other social and economic matters related to the life and activities of foreign citizens shall be regulated in accordance with the relevant international legal standards and legislative acts of Georgia. In addition, a concession agreement may reflect specific matters related to the stay of foreign citizens in Georgia.

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Article 17 - Terms of a concession agreement

The terms of a concession agreement shall be determined by legislation.

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Article 18 - Extension and termination of the terms of concession

A concession agreement may include the extension of the term of a concession, unless such term exceeds the maximum term provided for by law.

Preliminary terms may be determined by a concession agreement. After the expiry of such terms certain provisions may be revised.

Provisions of a concession agreement may be changed, and the terms thereof may be extended or terminated in accordance with the legislation of



Georgia. Additional expertise, especially ecological expertise shall be conducted in the case of the extension of the terms of a concession taking into account possible changes.

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Article 19 - Procedures for reviewing disputes

Disputes related to a concession agreement shall be resolved through court proceedings.

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Article 20 - Insurance

A concessionaire is obligated to insure the property determined by a concession agreement from destruction, loss or damage at his/her own expense in an amount determined by the current insurance procedures established in the territory of Georgia.

Social insurance and provision for employees within the framework of a concession agreement shall be regulated by the legislation of Georgia, while social insurance and provision of the foreign employees shall be regulated by the legislation of Georgia, relevant international agreements and legal standards.

Article 21 - Accounting, reporting and auditing of the concession activities

A concessionaire shall conduct operational accounting and bookkeeping operation for its activities and shall submit statistical reports and balance sheet valuation in accordance with the procedures applicable in Georgia in the official monetary unit of Georgia.

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Article 22 - Responsibility of the parties

The parties who have violated a concession agreement shall be held responsible in accordance with the legislation of Georgia and the terms of the concession agreement.

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Chairperson of the Parliament of Georgia - Head of State

Eduard Shevardnadze

Speaker of the Parliament of Georgia

Vakhtang Goguadze

Tbilisi

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