# *Investment Proposal*



# Section



# Appendices

## Section 1: Executive summary and background

### History of the Business Plan

The full business plan for the valuation of assets and the arrangement of mineral water production for the present project, using forecast parameters, was first prepared on 15 May 2019 by Grant Thornton, an international giant ranked among the top five global audit companies. The business plan is presented in Appendix F.

**The present investment offer has been developed by the auditors of the future founders of Borjomi Mineral Water LLC through the reconstruction of the business plan prepared by Grant Thornton, in which actual parameters and existing factual data have already been used instead of forecast indicators (approved water reserves, additionally acquired real estate, the new location of the bottling plant and the accordingly amended construction cost estimate, the optimal route of the water pipeline from the deposit to production, etc.).**

### Overview

The project envisages the establishment of a modern plant for the production of natural mineral water in Georgia, in the Samtskhe-Javakheti region, in the city of Borjomi. The objective of the project is the production of the mineral water ZANAVI from BORJOMI.

In the modern world, demand for natural products and, in particular, bottled water is growing at a rapid pace and is becoming one of the dominant industries on the international market. As noted in Grant Thornton's business plan, mineral water consumption increased by 35 percent over only 6 years. This impressive statistic confirms that there is significant potential in this industry for new participants, provided that they offer consumers a high-quality product at an affordable price. Consumer health awareness has increased sharply due to the spread of many diseases associated with low-quality food and carbonated beverages. We, the representatives of Borjomi Mineral Water LLC, a company established in Borjomi, Georgia, believe that our business concept will fully meet the needs of the modern consumer and offer them an ideal product, which will ultimately ensure successful production and its sale on the world market.

Borjomi Mineral Water LLC plans to commence the production (bottling) of the existing mineral water in the Borjomi Valley, in the vicinity of the villages of Tsemi and Tba. Borjomi, this beautiful mountain resort located in southern Georgia, is renowned for its diverse and

valuable carbonated and still waters. Our source is also one of the distinguished representatives of the 4 mineral water deposits existing in Borjomi; it has unique properties and an optimal composition, which provide numerous health benefits and a pleasant taste. Accordingly, this is an excellent investment opportunity in one of the fastest-developing industries, in the most famous Borjomi region.

First of all, our water is a fully natural product that contains no chemical additives or modifications; its natural composition contains neither hazardous nor toxic elements. The well-known Georgian product - the mineral water BORJOMI, which has typological compatibility and analogous chemical classification with our water, lacks some of these characteristics, because it contains an excessive amount of barium and chemical intervention is required to remove it from the extracted liquid.

After the commencement of production, carbonation of the bottled mineral water (before bottling) will be carried out using natural (naturally occurring, obtained from an underground borehole) $CO_2$, which is produced by Aspindza Product LLC, where Giorgi Talakhadze owns a 25% share and will also retain a share in Borjomi Mineral Water LLC, the company created for the production of mineral water. The extract from the Register of Entrepreneurs of Aspindza Product LLC and the Analytical Findings (Quality Certificate) of the natural $CO_2$ produced by it are presented in Appendix G. It should be noted that the Analytical Findings were prepared in the laboratory of the world-renowned SGS Institut Fresenius in Germany.

Taking into account the orientation of modern consumers toward organic and natural products, carbonated water saturated with natural $CO_2$ will be an ideal product for daily consumption.

The experience of the Borjomi Mineral Water LLC team in mineral water production, as well as the mineral water extraction licenses, real estate, trademark and domains owned by us, will be an important guarantee of successful operation on the international market. The mineral water extraction licenses are presented in Appendix B, and the real estate intended for the construction of the plant and warehouse, as well as the trademark certificate, are presented in Appendix C.

As mentioned in the above-mentioned business plan prepared by Grant Thornton, according to various articles, mineral water producing companies are experiencing rapid growth and the compound annual growth rate (CAGR) is high compared with other industries.

In the specific case of the production of our water, the internal rate of return (IRR) on investment in the project is also impressive.

**Conclusion:** the present offer represents a unique opportunity to create a high-technology enterprise in Georgia, specifically on the basis of a mineral water deposit located in Borjomi Municipality. The project is based on a solid legal and technical foundation, which includes two state licenses (No. 10001448 and No. 1299) and three privatized cadastral units (64.23.03.085, 64.23.03.500 and 64.23.03.086) owned by the Georgian founders. The total value of only the licenses and one real estate property, according to the official valuation of Grant Thornton, an international audit giant, amounts to USD 3,250,000 (including USD 2,700,000 for the licenses and USD 550,000 for the real estate existing under cadastral unit 64.23.03.085), which emphasizes the initial capitalization of the project and its credibility for international investors.

The commercial potential of the project is directly linked to its strategic logistics plan, which provides for the construction of a main water pipeline from the deposit directly to the Borjomi freight railway station. It is here that a modern production hub will be arranged, which radically reduces transportation costs and makes it possible to supply the product efficiently to global markets. The financial model, in the case of production in the amount of 55 cubic meters per day, which has been validated by Grant Thornton, forecasts rapid growth of revenues and an impressive internal rate of return (IRR) on investment in the project. The dynamics of net profit are stable from the very first years and increase significantly by the third operating year, which ensures the rapid recovery of investment capital and high profitability; the approved exploitable reserve under the licenses is, admittedly, less than 55 cubic meters per day (the forecast indicator assumed in the business plan) and amounts to 37.2 cubic meters per day, but this will not substantially change the internal rate of return (IRR) on investment and the other impressive parameters of the project, taking into account that the required investment amount is already lower due to three factors: first, a bottling line of lower capacity and, accordingly, lower value; second, because after the preparation of the business plan, 2 additional real estate properties (cadastral units 64.23.03.086 and 64.23.03.500) were acquired, the purchase of the land plot valued at USD 447,000, as indicated in the business plan, is no longer necessary; third, because both the plant and the warehouses will be arranged at one location (at the Borjomi freight railway station), through the reconstruction and repair of existing buildings, the construction cost estimate is significantly reduced compared with the scenario in which a new plant would have been built at a second location from foundation to completion, the cost of which, according to the business plan, would have been USD 1,650,000. If the investor is interested, the Georgian party is ready to order a renewed financial recalculation of the business plan from Grant Thornton.

This offer provides for the transfer of an 80% share in Borjomi Mineral Water LLC, the project implementing company, to the investor. The investment will be fully directed toward the construction of infrastructure compliant with international standards, the installation of bottling

lines and the conduct of a marketing campaign in priority markets, such as the European Union (50%), the post-Soviet area (30%) and the Gulf countries (20%). The exclusive resource provided by the Georgian party, accredited geophysical conclusions and prepared business architecture create a solid foundation for this brand to become a leader in the global segment of premium mineral waters, using the historical reputation of the Borjomi region and the natural resource of the highest quality.

## Information on the Mineral Water Sources (Deposit)

A mineral water deposit is located in Borjomi, in the vicinity of the village of Tsemi, 1 km south of the village of Tba; it is represented by gryphons located on the left bank of the Borjomula River. The mineral source has been known since ancient times and has been studied many times. Chemical analyses carried out at different times indicate the stability of its chemical composition and physical characteristics.

The water is bacteriologically pure and of the highest quality.

The water temperature is stable and varies within the range of 14.0-21.5 °C. The composition of the water is hydrocarbonate-chloride-calcium-sodium, with total mineralization of 4.0-4.2 grams per liter, which is, in fact, an ideal composition for mineral water. It contains balneologically active components. The content of naturally dissolved carbon dioxide ($CO_2$) in the mineral water is quite high and amounts to 1,458 mg per liter. pH - 6.4.

Giorgi Talakhadze owns long-term licenses for the extraction of mineral water from the sources of the above-mentioned deposit - the license for extracting 10.4 cubic meters of mineral water per day is valid until October 18, 2042, while the license for extracting 26.8 cubic meters of mineral water per day is valid until July 8, 2046. Within the framework of the above-mentioned licenses, based on hydrochemical-regime observations, the State Reserves Commission approved the reserves of extractable mineral water in the amount of 13,578 $m^3$ per year (37.2 $m^3$/day), and the licenses (No. 10001448 and No. 1299) acquired their final, reserves-approved status. For the purpose of conducting hydrochemical-regime observations and sanitary-bacteriological control, captage structures have been arranged on the gryphons of the deposit and meters have been installed. Photos of the licenses and sources are presented in Annex B. The total discharge of the sources has been assessed through empirical observation at 78 $m^3$/day. The forecast indicator scientifically substantiated by geological studies of the 1980s reaches 120 $m^3$/day. In addition, for the analysis of the overall picture of the deposit, a geophysical survey of

the gryphons (sources) was carried out using a special German-manufactured device, the results of which are also presented in Annex B.

The stability of the deposit and the stable temperature regime guarantee a continuous production cycle without any technological risk.

In the business plan prepared by Grant Thornton, the license for extracting each 1 m³ of mineral water from our sources is valued at approximately USD 72,560. The licenses owned by the Georgian party provide for the extraction and bottling of 37.2 m³ of mineral water per day, which means that, according to Grant Thornton's valuation, their market value is approximately USD 2,700,000.

The mineral water sources provided for by the above-mentioned licenses, as well as the first (main) wells of the BORJOMI mineral water deposit located within the geographical boundaries of the appellation of origin of BORJOMI, which were discovered as early as the nineteenth century by soldiers of the Grenadier Regiment, are located on the bank of the Borjomula River. Incidentally, some of the other wells of the BORJOMI deposit discovered later are not located on the bank of the Borjomula River at all and are situated on the bank of the Mtkvari River, which did not prevent them from being included in the BORJOMI mineral water group. It should be taken into account that the sources located within the extraction area of the licenses owned by us are the closest to the first (main) wells of the BORJOMI mineral water deposit (approximately 3,320 meters away); for example, the wells of Kvibisi, Vashlovani and Likani, which are located within the conditional boundaries of the BORJOMI mineral water deposit, are 4,120, 3,440 and 4,660 meters away from the first (main) well, respectively, and, moreover, are located on the left bank of the Mtkvari River, unlike the first (main) well.

As for the organoleptic properties, chemical composition and physical characteristics of the mineral water, in this case as well, typological compatibility and analogous chemical classification are evident between the sources located within the extraction area of the licenses owned by us and the BORJOMI mineral water located within the geographical boundaries of the appellation of origin of BORJOMI.

Thus, the typological compatibility and analogous chemical classification between the above-mentioned mineral waters are expressed both in the type of mineral water (hydrocarbonate-chloride-sodium-potassium-calcium) and in the stability of chemical composition and physical characteristics, bacteriological purity, content of naturally dissolved carbon dioxide ($CO_2$), and therapeutic properties. As for the total mineralization of the mineral water, the mineralizations of the Likani well of BORJOMI and of the sources located within the

extraction area of the licenses owned by us are close to each other (5.66 and 4.2), whereas at some BORJOMI wells it reaches as high as 7.5-8.5, which does not prevent those wells as well from being included in the BORJOMI mineral water group. Based on all of the above, it is evident that the sources located within the extraction area of the above-mentioned licenses should also be included in the BORJOMI mineral water group.

## Additional Important Information

As noted above, after the commencement of production, carbonation of the bottled mineral water (before bottling) will be carried out by means of natural (naturally occurring, obtained from an underground well) $CO_2$.

Carbonation with natural $CO_2$ will give the mineral water products not only a significant advantage over competitors on the global market, but will also increase the selling price of the products, as is the case with the French brand Perrier.

The potential investor is given an exclusive opportunity, together with the Georgian side, to produce world-class premium mineral water, which implies the organic quality and absolute naturalness of the product (mineral water + $CO_2$).

Aspindza Product LLC is ready, on the basis of an agreement, to ensure the continuous, exclusive supply of natural carbon dioxide (Natural $CO_2$) to the mineral water production facility in Borjomi. It is impressive that the purity of the natural carbon dioxide (Natural $CO_2$) produced by Aspindza Product LLC is very high - more than 99.9 percent.

This offer gives the project three decisive advantages:

- Marketing advantage: the product receives the highest international status - carbonated with natural $CO_2$, which sharply distinguishes it from mass beverages carbonated with $CO_2$ obtained by other means.
- Technological excellence: 99.9% purity ensures the ideal organoleptic properties, neutral taste and stable structure of the water.
- Strategic independence: the mineral water production facility is fully freed from dependence on scarce and volatile industrial $CO_2$, which is a guarantee of production safety and stable cost price.

$CO_2$ not only ensures an increase in the product's shelf life, but also has a major influence on its taste properties; therefore, carbonation of mineral water with natural $CO_2$ is very important.

It is important that the owner of the trademark "Zanavi" (ZANAVI) is also Giorgi Talakhadze (certificate of "Sakpatenti" M 17790). The trademark certificate is presented in Annex C. It should be noted that obtaining ownership of a trademark is difficult substantively, procedurally and financially, whereas extending its term each time for 10 years is a very simple and inexpensive procedure. Giorgi Talakhadze also owns the 2 domains needed for the present project: zanavi.ge and borjomimineralwater.ge

### Brief Information on the Additional Products to Be Produced in the Future

Considering that Giorgi Talakhadze also owns a 40% share in Borjomi Product Company LLC, which produces 100% natural fruit juices in the village of Zanavi, Borjomi Municipality, in the future it is also possible to produce two additional new products under the same brand (ZANAVI) at the mineral water bottling plant of Borjomi Mineral Water LLC (in which Giorgi Talakhadze will also retain a share): one - mineral water flavored with fruit juice, in which the mineral water will be flavored with 100% natural fruit juices, and the second - carbonated natural fruit juice. It is very important that everything in both of these products (mineral water + juice + $CO_2$) will be 100% natural, which will also give these products organic quality and absolute naturalness, and the products (fruit-juice-flavored mineral water and carbonated fruit juice), in the case of proper marketing, will gain an advantage over competitors on the global market from the very beginning. The extract of Borjomi Product Company LLC from the Entrepreneurs Registry is presented in Annex H.

## Section 2: Company Ownership and Management

### List of Owners and Their Shares

The founders' structure is defined as follows:

- **Investor - 80%**
- **Giorgi Talakhadze - 20%.**

Giorgi Talakhadze - Doctor of Technical Sciences. His CV is presented in Annex A.

Giorgi Talakhadze was a Member of the Parliament of Georgia in 2008-2012, Chairperson of the Borjomi Municipality Council in 2006-2008, Head of the Borjomi Municipality Administration in 2005-2006, and a member of the Borjomi Municipality Council in 1991-1992, 1998-2002, 2002-2005, 2006-2008 and 2014-2017.

Giorgi Talakhadze is one of the founders of Aspindza Product LLC (he owns a 25% share). This company holds a license for a natural CO2 deposit in the Aspindza region and produces natural carbon dioxide (Natural CO2). Its clients are almost all producers of carbonated beverages operating in Georgia: Pepsi-Cola, Healthy Water (Nabeghlavi), Lomisi (Natakhtari), Georgian Beer Company (Zedazeni), Argo (Argo, Zandukeli, Kasteli), Bagrationi-1882, Aqua Geo (Kobi, Sno), Tsagveri, Anamari, Heineken, Georgian Juice and others.

Giorgi Talakhadze is also one of the founders of Borjomi Product Company LLC (he owns a 40% share). This company owns a fruit and vegetable processing and natural juice production hub in the village of Zanavi, Borjomi Municipality.

Giorgi Talakhadze also owns the hotel Ecorest Likani Palace (www.ecorest.ge) in Borjomi, which is located near the Borjomi-Kharagauli National Park (Borjomi Reserve). For information, the Borjomi-Kharagauli National Park is part of WWF and PAN Parks. The extract from the Public Registry for the hotel www.ecorest.ge is presented in Annex H.

The office of Borjomi Mineral Water LLC will be located in one of the cottages of this hotel until the completion of construction of the mineral water production hub. The founders of the company (the investor) and their accompanying persons, as well as invited specialists necessary for launching production, will be able to stay here, in fact free of charge, for any length of time.

**Conclusion:** Giorgi Talakhadze is an experienced professional who is well familiar with the trends of the international bottled water industry and also has deep knowledge of mineral waters in the Borjomi region and their extraction.

## Sequence of Procedures for Company Establishment and Subsequent Transfer of a Share to the Investor

The sequence of procedures for company establishment and subsequent transfer of a share to the investor is as follows:

At the first stage, Giorgi Talakhadze has already established Borjomi Mineral Water LLC with issued capital of GEL 7,200,000 (seven million two hundred thousand). Following the positive completion of preliminary negotiations with a potential investor, Giorgi Talakhadze will contribute to the capital the licenses of this value (No. 10001448 and No. 1299), after which the licenses will become the property of the company. At the second stage, the investor will purchase an 80% share of this company for GEL 5,760,000 (five million seven hundred sixty thousand) (approximately USD 2,100,000). At the third stage, by decision of the partners, the company's capital will be increased by GEL 10,800,000 (ten million eight hundred thousand) (approximately USD 4,000,000), during which Giorgi Talakhadze will buy out from Giorgi Kiraghiani and Zaza Saralidze and contribute to the capital real estate valued at GEL 2,160,000 (two million one hundred sixty thousand) (approximately USD 800,000) (3 cadastral units: 64.23.03.085, 64.23.03.086, 64.23.03.500), as well as the trademark (ZANAVI) and the domains (zanavi.ge and borjomimineralwater.ge), while the remainder, i.e. GEL 8,640,000 (eight million six hundred forty thousand) (approximately USD 3,200,000), will be contributed by the investor in cash, which will be used for CAPEX (reconstruction and repair of existing buildings, laying the pipeline from the deposit to the plant, purchasing equipment, and working capital required before the start of production). It is noteworthy that the Georgian party's asset also includes the so-called know-how (the business idea of mineral water production) and the obligation of the Georgian party - the so-called GR (on-site management/operation together with the investor or its representative and communication with central and local state authorities). Extracts from the Public Registry for the real estate designated for the construction of the plant and warehouse (3 cadastral units) and the trademark certificate are presented in Annex C, while the extract from the Entrepreneurs Registry, the founding agreement, and the charter of Borjomi Mineral Water LLC are presented in Annex D.

Based on Investment Banking standards and the practice of similar Mining/Water projects, the Georgian party fairly requests that CAPEX-type costs (reconstruction and repair of

existing buildings, laying the pipeline from the deposit to the plant, purchasing equipment, and working capital required before the start of production) be funded 100% in full with the amounts contributed to the capital by the investor. The logic of this request is as follows:

- In-kind Contribution revaluation, i.e. the 20% license + 3 land plots with buildings + trademark + domains + GR + know-how left in the project by the Georgian party — all of this is capital that is fully sufficient for the 20% share; furthermore, the Georgian party will be a motivated "operating partner" and will do everything to ensure that the project has no problem with the state.
- Free-Carried Interest In international practice, this is called Free-Carried Interest. This means that the local partner (the Georgian party) retains the share (20%) even if the amounts contributed to the capital prove insufficient to start production. In this case, the investor covers the required amount, because without the Georgian party's land plots and GR the plant could not be built; furthermore, the mineral water extraction licenses are already owned, which saves the partners years of bureaucracy.
- Cash-out and Cash-in principle. What the investor paid to the Georgian party for 80% of the company (effectively, of the licenses) was Cash-out (the Georgian party's reward for creating the asset). Whereas what must be invested in the plant is Cash-in (business development). This implies the following: the Georgian party sold an 80% share to the investor in order to bring in a strong financial partner. The remaining 20% is the Georgian party's share, which is secured by the real estate contributed by the Georgian party to the business and by operational management (together with the investor or its representative). Therefore, at the construction phase, no additional cash contribution by the Georgian party is planned, i.e. the principle of Dilution Protection operates, which implies clearly specifying in the LOI that the Georgian party's 20% is Non-dilutable until the completion of the initial investment phase.

If this position of the Georgian party is unacceptable to the investor, then, for the development of the project, a comparatively worse but still discussable path for the Georgian party may be considered — Equity Loan, which means that the investor itself also contributes the Georgian party's 20% as a loan, which the company will repay to that same investor from future profits (dividends).

## Legal Structure

Borjomi Mineral Water LLC is considered, in legal form, as a limited liability company (LLC), because, according to the auditors' assessment, this business form is the most flexible for those who wish to start their own production.

## Company Goals, Philosophy and Vision

The company has clearly defined short- and long-term goals. It already owns long-term licenses for mineral water extraction located in Borjomi.

The company's main goal is, taking into account the traditions of the Borjomi region, at the first stage, to start production of world-class premium mineral water, which will fully meet the highest quality standard; at the second stage of production development, for the purpose of business diversification, to additionally produce fruit juice-flavored mineral water, in which the mineral water will be flavored with 100% natural fruit juices; and, at the third stage, to additionally produce carbonated natural fruit juice. It is very important that in all three of these products everything (mineral water + juice + $CO_2$) will be 100% natural, which will impart organic character and absolute naturalness to these products, and the products, in the case of proper marketing, will gain an advantage over competitors in the global market from the outset.

Thus, the high quality, organic character and absolute naturalness of the products are the values on which the company and its management firmly stand.

## Key Personnel of the Plant

The structure of the plant's key personnel includes the Director, Chief Technologist, Technical Manager, and Marketing Manager.

## Director

Manages the production process, the company's financial/tax policy, and performs the following key functions:

- management of the company's personnel;
- control of the production process;
- formation and management of the company's financial and pricing policy;

- organization of financial reporting, budgeting, and planning processes;
- relations with tax authorities, other supervisory bodies, and important clients;
- obtaining the necessary certificates and licenses.

### Chief Technologist

Fully manages the production process and is responsible for the quality of the final products:

- proper management of the production technological cycle;
- achievement of the product quality that will satisfy the applicable standards.

### Technical Manager

His function is to monitor the proper operation of machinery and equipment and, together with the Chief Technologist, to plan the production process:

- maintenance of machinery and equipment, planning and management of current and capital repair works;
- supervision of the installation of machinery and equipment.

### Marketing Manager

Fully manages matters related to product sales, advertising policy, procurement of auxiliary materials, and logistics:

- obtaining the maximum share in the existing markets for mineral water;
- identifying additional markets for product sales;
- identifying and purchasing high-quality and relatively inexpensive auxiliary materials (bottles, caps, labels, etc.);
- organization of proper logistics (transportation and other matters) in the process of supplying products and auxiliary materials.

### Other Personnel

Logistics Specialist - assisting the Marketing Manager in identifying, purchasing, and organizing the transportation of auxiliary materials, and resolving customs matters during export/import operations.

Chemist-Laboratory Technician - chemical inspection of the quality of raw materials and final products, as well as laboratory testing of other parameters.

Accountant - maintaining accounting records in accordance with modern standards.

In total, 27 people, including workers, will be employed at the plant. The average salary per employee will be the equivalent of USD 700 per month in GEL (including income tax and the contribution to the pension fund).

### Product

The company plans to produce natural mineral water by extracting water from the spring yields of the Borjomi Gorge, holding it (natural filtration), processing it (production filtration), saturating it with natural $CO_2$, and bottling the final product. The products will be sold in the domestic market of Georgia and in international markets (at the initial stage, mainly in the post-Soviet space, Europe, and the Gulf countries) through distribution companies.

### Problem Solved by the Product

Mineral water, especially fully natural mineral water, is a scarce product on the global market. Some waters lack acceptable taste properties, while others require the addition or removal of significant quantities of chemical substances in order to be transformed into a product acceptable to consumers.

The most important uniqueness in the case of ZANAVI from BORJOMI mineral water is its composition - all constituent components are within the standards established by the European Commission.

### Product Prices and Cost Structure

At the first stage, the company plans to produce natural mineral water in four different assortments: in a 0.75-liter glass bottle, a 0.5-liter glass bottle, a 0.5-liter aluminum can, and a 0.33-liter aluminum can.

The cost price of one bottle of mineral water, as well as the cost structure, is presented in Appendix F.

Production is planned to commence within six months from the date of implementation of the investment.

### Licensing / Patent / Law

The most important asset for the production of natural mineral water is the mineral water extraction license. As noted above, Giorgi Talakhadze already owns long-term licenses for the extraction of mineral water - the license for the extraction of 10.4 cubic meters of mineral water per day is valid until October 18, 2042, and the license for the extraction of 26.8 cubic meters of mineral water per day is valid until July 8, 2046. The licenses (both the original and the English translation) are presented in Appendix B.

Simply for the purpose of creating a general understanding, we also attach here the English translation of one license:

Legal Entity under Public Law

## National Agency for Mineral Resources

Tbilisi, David Aghmashenebeli Ave. No. 150 Tel: 0 32 2 95 00 30

# LICENSE – ORDER No. 1299

25 / June / 2024

**Regarding Amendments to the License for the Extraction of Useful Minerals Issued to Individual Entrepreneur Giorgi Talakhadze (Personal No. 01026004370)**

Pursuant to Article 63 of the General Administrative Code of Georgia; sub-paragraphs "i" and "l" of the first paragraph of Article 7 of the Regulation on the Procedure and Conditions for Issuing a License for the Extraction of Useful Minerals, approved by Decree No. 136 of the Government of Georgia dated 11 August 2005; Order No. 508/s of the Head of the LEPL National Agency for Mineral Resources dated 7 June 2024 "On Approval of Operational Reserves of the Mineral Spring Located on the Territory of the Village of Tsemi"; sub-paragraph "v" of Article 4 of the Statute of the Legal Entity under Public Law – National Agency for Mineral Resources, approved by Order No. 1-1/2 of the Minister of Economy and Sustainable Development of Georgia dated 4 January 2018; and on the basis of the application of Individual Entrepreneur Giorgi Talakhadze (registered with the Agency under No. 5666, dated 12.06.2024),

**I O R D E R:**

**1.** To amend License No. 10002198 for the Extraction of Useful Minerals issued to Individual Entrepreneur Giorgi Talakhadze (Personal No. 01026004370) for the purpose of exploration and extraction of useful minerals (mineral water from a spring) in the territory adjacent to the village of Tsemi, Borjomi Municipality, on the basis of Order No. 884/s of the Head of the LEPL National Agency for Subsoil dated 7 July 2021, and to set the volume of underground mineral (bottling) water to be extracted at **9,782 $m^3$ per year** until the expiry of the License-Order (until 8 July 2046);

**2.** The license holder shall be obligated to comply with the conditions defined by Order No. 884/s of the Head of the LEPL National Agency for Subsoil dated 7 July 2021;

**3.** The License-Order shall be served for acknowledgment to Individual Entrepreneur Giorgi Talakhadze (Personal No. 01026004370);

**4.** The License-Order may be appealed by any interested party within one month from the date of its official notification at the Ministry of Economy and Sustainable Development of Georgia (Tbilisi, Sanapiros St. No. 2).

Head of the LEPL National Agency for Mineral Resources

**Andro Aslanishvili**

For the analysis of license prices, in addition to Grant Thornton's valuation, Appendix E presents Order No. 296 of the Government of Georgia dated February 21, 2017 - "On Determining the Initial Auction Price and Approving Additional Licensing Conditions When Issuing a License for the Extraction and Exploration of a Subsoil Resource (Mineral Water 'Zanavi')". For the three wells of 'Zanavi' mineral water (No. 143, No. 39 and No. 144), whose total flow rate is 28.6 $m^3$ per day, the initial auction price is determined at GEL 5,000,000; a GEL 500,000 bid increment is added, and even in the case of one participant the license price is GEL 5,500,000.

In our case, the water flow rate is 37.2 $m^3$ per day and the value of its extraction licenses is assessed at GEL 7,200,000.

- The patenting of the products/production considered in the present project does not require any special permit under law; at the same time, the circumstance should be taken into account that the owner of the trademark "Zanavi" (ZANAVI) is also Giorgi Talakhadze (certificate M 17790 of "Sakpatenti").
- Legislative basis: The technology, conditions and methods for the production of mineral water are regulated by Resolution No. 574 of the Government of Georgia dated December 15, 2022. From January 1, 2027, they will also apply to the bottling/production of the mineral water indicated in the present project. There are no other specific production conditions and methods characteristic of the geographical place. Resolution No. 574 of the Government of Georgia dated December 15, 2022 is presented in Appendix E.
- Investment security: The inflow and repatriation of foreign capital are guaranteed by the Law of Georgia "On the Promotion and Guarantees of Investment Activity", which neutralizes jurisdictional economic risks.
- Right to use subsoil: The basis of production consists of long-term licenses issued within the framework of the applicable legislation (the Law of Georgia "On Subsoil") and validated by the state.
- After the commencement of production, our company will begin the procedure for obtaining a certificate of compliance with the international standard ISO 22000:2018 for Food Safety Management Systems, as well as, where necessary, the implementation of EFSA, ESMA and SFDA recommendations in the production processes.

## Section 3: Marketing Plan

### Sales Seasonality

Future sales of the products are not seasonal in nature, as is supported by the experience of mineral-water-producing companies operating in Georgia.

### Market Research

Increased interest in health and the shortage of bottled water, both still and sparkling, throughout the world have driven the rapid growth of the sparkling water industry. Due to the increase in diseases and health problems caused by sugary carbonated beverages, an increasing share of consumers are trying to remove such beverages from their daily diet.

Instead, consumers more often choose sparkling water, which provides an effect similar to that of a carbonated beverage, offers various beneficial properties, and contains no additional calories. Since obesity has become one of the causes of mortality worldwide, warnings from physicians and medical professionals have had a particular effect on young people, who are more attentive to the healthfulness of the products consumed daily and their impact on health.

The positive trends existing in the global sparkling water industry give the company the opportunity to implement the present investment project and introduce the natural mineral water ZANAVI from BORJOMI to international markets. Its special properties, taste, and composition will help the company establish a worthy position. This process is supported by the history of the ZANAVI trademark (brand) owned by Giorgi Talakhadze: in the first decade of the twenty-first century, this mineral water was successfully sold in Georgia, Armenia, Azerbaijan, Russia, Ukraine, Belarus, Kazakhstan, Uzbekistan, Lithuania, Poland, Greece, Cyprus, Germany, Israel, Canada, and the USA. Production of the water ceased in 2010 due to the expiration of the mineral water extraction license - it was short-term (from 1999 through 2009).

### Market Entry Barriers

In the mineral water production business, the main market entry barrier for a company is, as a rule, obtaining a license to use mineral water, which is an expensive process and requires significant financial resources to achieve the desired result at auction. Nevertheless, Giorgi Talakhadze was able to obtain long-term mineral water extraction licenses which, apart from

payment of a quarterly fee to the budget (GEL 39,200 per year, or approximately USD 14,500), do not require any other additional expenses. The conditions established by the licensing authority and set at the auction have already been duly fulfilled by Giorgi Talakhadze, and the related expenses have been fully incurred.

## SWOT Analysis

### Strengths

- Ownership of long-term mineral water extraction licenses already in place.
- Carbonation of mineral water with natural (naturally occurring) $CO_2$.
- The absence of additional chemical additives in the mineral water and the absence of the need to remove any harmful substance from the water, as a result of which the product ZANAVI from BORJOMI (mineral water + $CO_2$) acquires an organic character and absolute naturalness.
- Ownership of real estate, which creates appropriate conditions for locating the plant.
- Ownership of the ZANAVI trademark.
- The license owner's many years of valuable experience and knowledge in mineral water production.
- The existence of a unique prospect: the future production of additional products - fruit-juice-flavoured mineral water (in which the mineral water will be flavoured with 100% natural fruit juices) and carbonated natural fruit juice. It is very important that everything in both of these products (mineral water + juice + $CO_2$) will be 100% natural, which will also give these products an organic character and absolute naturalness.

### Weaknesses

- A large number of competitors in both national (Georgian) and international markets, which currently have more financial resources available.
- Improper use of empty bottles; numerous cases have been recorded where branded empty bottles were filled with other water, damaging companies' image.
- Potentially high costs related to the transportation of final products to the international markets of Western Europe and America.

### Opportunities

- The rapidly growing bottled water industry, which creates an opportunity for a unique product, distinct from existing brands, to capture a significant share of the world market.
- Long-term valid licenses, which allow the company to define long-term goals and generate highly significant profit during the same period.
- High demand for carbonated natural mineral water due to growing health awareness and the increasing prevalence of obesity problems caused by sugary carbonated beverages.
- Broad international markets for large-scale export of ZANAVI from BORJOMI mineral water.

### Threats

- The rapid growth of the industry and the availability of free market shares, alongside high demand for carbonated water, may facilitate the entry of new players and further intensification of competition.
- Possible changes in consumer tastes and preferences (less likely, since water resources are becoming increasingly scarce and demand growth is stable).
- Cheap local competitors in international markets, which may attract consumers with a relatively affordable price.
- An economic crisis or other types of market shocks, which may affect the company's sales.

### Product/Service Features and Benefits

The extraction of ZANAVI from BORJOMI natural mineral water will be carried out in the beautiful Borjomi Gorge - Georgia's exceptional balneological resort, which is known throughout the world for mineral waters with a unique chemical composition. This same wonderful place is also the home of the very popular mineral water BORJOMI, which is produced in the city of the same name. However, ZANAVI from BORJOMI must not be confused with BORJOMI mineral water - the main distinguishing feature of ZANAVI from BORJOMI is its moderate mineralization (4.0 g/dm³), unlike BORJOMI's relatively high mineralization (5.5-8.5 g/dm³), which makes its taste and aroma more pleasant for the consumer. According to reports prepared by hydrogeologists, the temperature of ZANAVI from BORJOMI mineral water is moderate and averages 14.0-21.5 °C. The water is bacteriologically pure.

## Target Customer

Our target customers include a broad spectrum of social groups, since bottled water is an essential product for everyone. Accordingly, the premium quality of our product and its acceptable price compared with other major market players will attract carbonated water consumers from all social strata. In addition, because young people are more informed about health risks existing in the modern world, we assume that they will constitute a significant share of our customers. The elderly population will also be an important segment, for whom our product will be particularly beneficial in terms of issues related to health, excess weight and obesity.

## Main Competitors

It is not surprising that the company's main competitor, especially in post-Soviet countries, will be another mineral water originating from the Borjomi Gorge - BORJOMI. Although BORJOMI is presumably one of the most popular and well-known Georgian products on the international market, ZANAVI from BORJOMI mineral water has several significant advantages over it, which gives us grounds to state that the company will successfully compete in the market from the very start of its business. To support this view, the advantages of ZANAVI from BORJOMI should be highlighted: first of all, unlike BORJOMI, ZANAVI from BORJOMI does not contain the poisonous chemical substance barium at all (see the table 'Indicators of the Chemical Composition of Mineral Water'). Accordingly, the company will not incur any additional cost required for removing barium from the water, whereas for BORJOMI's owners this is an expensive procedure and requires artificial chemical intervention in the composition of the water. In addition, ZANAVI from BORJOMI mineral water will be carbonated with natural (naturally occurring) $CO_2$, which is an important advantage for us, since demand for natural products is sharply increasing. Thus, all these natural advantages of ZANAVI from BORJOMI mineral water, if also supplemented by the experience of the management team, give us grounds to state once again with confidence that the company will be able to handle competition successfully.

## Our Product's Marketing and Advertising Campaigns

Marketing is a very important part of business, and the company will try to make maximum use of the opportunities created by the 21st century and technological progress. The

product will be actively presented and advertised on social media, with administration ensuring prompt communication with consumers. We will also create a business website for the product (www.zanavi.ge), where the main unique characteristics of ZANAVI from BORJOMI natural mineral water, its history and an overview of the production process will be presented, so that visitors can clearly see the premium quality of the final product.

### Advertising Budget

During the first year, the company plans to spend approximately 6 to 9 percent of annual profit on marketing and advertising; however, this indicator may change during negotiations with investors or after the start of production.

### Pricing

In the bottled water and soft drinks industry, price is not a decisive factor, because consumers increasingly give preference to health benefits and to the composition of the product they purchase; this trend is growing throughout the world. Accordingly, the premium quality and properties of ZANAVI from BORJOMI mineral water will attract a significant share of consumers, while the price of the product will not be significantly higher compared with competitors.

### Location

The mineral water sources are located in Borjomi Municipality, in the vicinity of the villages of Tsemi and Tba. The production hub (plant and warehouses) will be located in Borjomi, in the vicinity of the railway freight station. This location is 300 meters from the international central highway; there are short distances to Georgia's main transport hubs (Poti Sea Port - 210 km, Batumi Sea Port - 220 km, Tbilisi and Kutaisi international airports - 150 km), which, together with the location of the production hub at the railway freight station, represents an additional advantage in terms of international transportation of the product.

Because the Borjomi Gorge is widely known for mineral waters, this industry has become the main source of income for many people living in the region. Accordingly, it will be easy to employ personnel from local areas, since most of them have already acquired the knowledge and experience necessary to work in this field.

### Distribution Channels

We will enter into contracts and agreements with distribution companies operating in various countries, which will be responsible for delivering ZANAVI from BORJOMI natural mineral water to consumers and target markets throughout the world.

## Section 4: Operations Plan

### Location and Cadastral Data of the Plant and Warehouses

The mineral water bottling plant will be located in the vicinity of the Borjomi railway station [Borjomi city, Tori Street (near Sabargo Street)], in a building situated on a land plot of 1,835 sq.m, which will be renovated. The cadastral code of this immovable property is 64.23.03.085 (www.napr.gov.ge), and it is privately owned by the Georgian party.

The warehouses of the mineral water bottling plant will also be located in the vicinity of the Borjomi railway station [Borjomi city, Tori Street (near Sabargo Street)], in buildings situated on land plots of 1,203 and 157 sq.m, which will also be renovated. The cadastral codes of these immovable properties are 64.23.03.086 and 64.23.03.500 (www.napr.gov.ge), and they are also privately owned by the Georgian party.

All necessary utilities are installed on all three land plots - electricity, natural gas, water and sewerage - and they are ready for connection to the networks.

As a result of consultations with specialists of ICES, one of the leading companies in factory-type construction in Georgia, it was determined that the construction of the plant (renovation of the existing building) will cost approximately USD 488,000 (see Annex F), while the construction of the warehouses (renovation of the existing buildings) will cost approximately USD 182,000.

The warehouses will be used for the preparation and subsequent transportation of the final products (packaged mineral water), including under EXW, CIP, DAP, DDP and other terms.

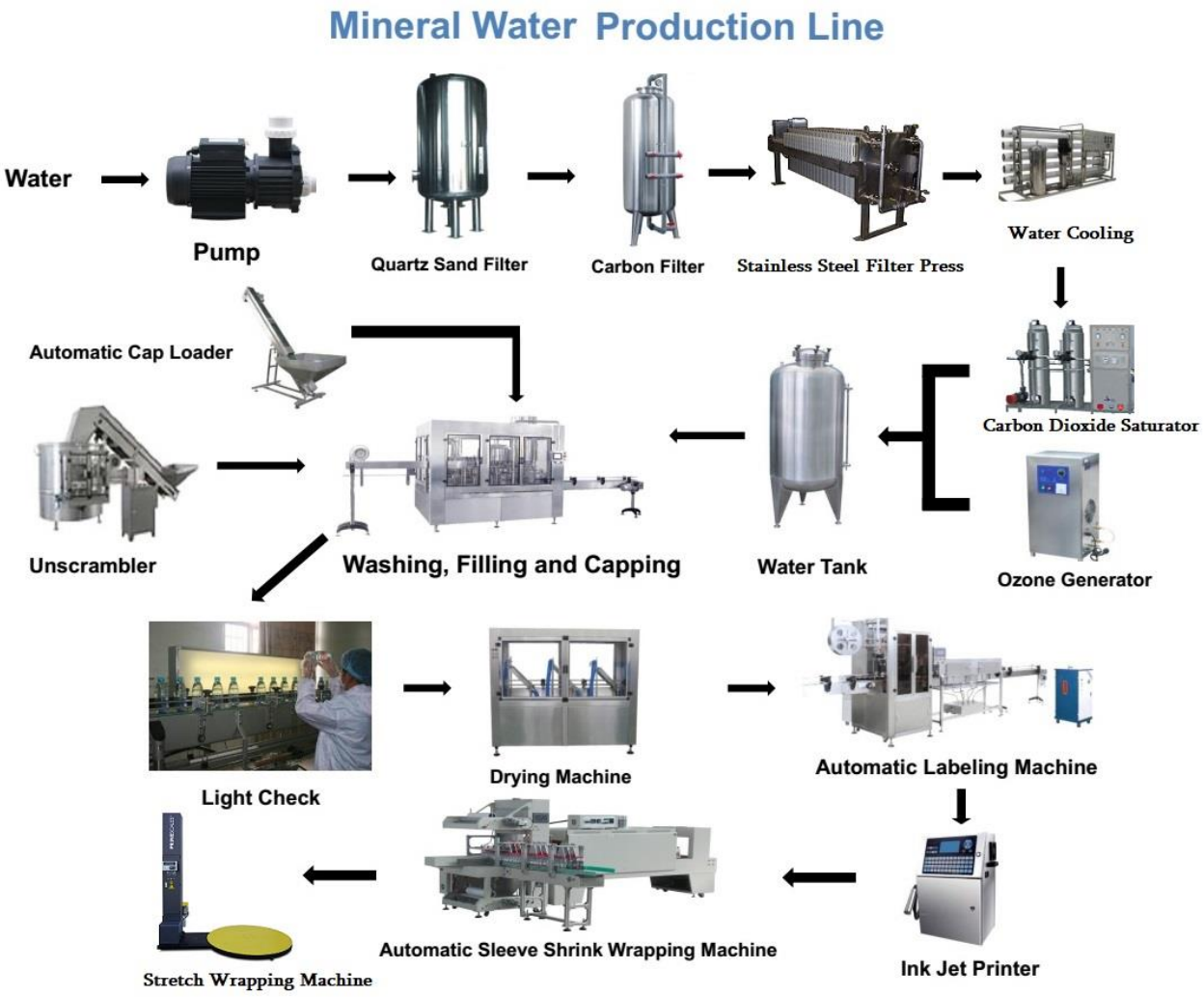
The preliminary design of the plant and warehouses after reconstruction and renovation is presented here, while photographs showing the current condition of the existing buildings are presented in Annex C.

# Industrial building


# Finished goods warehouse and transshipment point

## Production Process

An example of the technological scheme and a description of the product production process are provided below, according to the following functional principles:




Detailed description of the production process (water extraction, treatment, bottling and packaging):

Process I - accumulation of mineral water: water flows from the griffons/springs into the respective captage structures, from which it passes into an accumulator tank to be located near the springs.

Process II - water will be pumped from the tank through a special 12 km-long pipeline to the plant, into the reservoirs installed there. The volume of the reservoirs is twice the water flow rate.

Process III - water will remain in the receiving reservoirs for 12 hours for the purpose of natural purification and separation of sediment.

Process IV - due to the pressure created by the difference in elevation (the receiving reservoirs are located at the appropriate height), the settled and purified water passes through three types of filtration (quartz sand filter, carbon filter, filter press) and then proceeds to the heat exchanger.

Process V - the filtered water is cooled in the heat exchanger to 4-6 °C. This is necessary so that, at the next stage, $CO_2$ is properly saturated into the water.

Process VI - the cooled water from the heat exchanger passes into the saturator, where it is saturated with $CO_2$. Saturation with $CO_2$ gives the water a better taste, while its antiseptic properties increase the shelf life to up to two years.

Process VII - the $CO_2$-saturated mineral water is supplied to the bottling equipment through an intermediate reservoir. The equipment operates by the isothermal method (the principle of equalizing the water level in the bottle with the pressure).

Process VIII - before the bottling equipment, the bottles are rinsed with specially treated and filtered water.

Process IX - the cleaned bottles are filled with $CO_2$-saturated water and closed with caps.

Process X - the bottles filled with water and securely closed pass through light-screen control, then drying, labeling, marking (with indication of the bottling and expiry dates), packaging with polyethylene film into 6-piece packs or, in certain export cases, into cardboard boxes, then stacking on pallets, stretch-wrapping of pallets and, finally, warehousing.

### Plant Equipment

To start the business, the plant must be equipped with modern and appropriate machinery for the entire production cycle - from the collection of extracted mineral water to the labeling and packaging of the final products in bottles. Accordingly, the equipment should be ordered from KOSME, the Italian subsidiary of the German company KRONES AG (which is one of the world's leading manufacturers of bottling lines for glass bottles or aluminum cans). The total price

of the complete set, including all necessary parts, is approximately USD 1,500,000 (excluding customs VAT in Georgia).

## Quality Control

The structure of the plant provides for the creation of a modern, highest-quality laboratory with all necessary materials, where both the mineral water prepared for bottling and the bottled products will be tested. The existence of such a laboratory is critically important for ensuring the highest quality of our products. In addition, the fact that mineral water does not belong to the group of perishable foods and that no chemical additives are used in the production process allows the company to confidently state that only the highest-quality products will be sold both on the domestic and international markets.

Below are the quality indicators and chemical composition of the mineral water:

# INDICATORS OF THE CHEMICAL COMPOSITION OF MINERAL WATER

## ORGANOLEPTIC AND PHYSICAL QUALITY INDICATORS

## MINERAL WATER

| № | Indicator name | Parameters | Maximum allowable concentrations according in the CIS |
|---|---|---|---|
| 1 | Flow rate, m3/day | 78 | - |
| 2 | Appearance | Transparent liquid, without foreign matter | - |
| 3 | Color | Colorless liquid (0) | - |
| | Color in degrees | 2 | 20 |
| 4 | Odor at $20^0$C in points | 0 | 2 |
| 5 | Taste at $20^0$C in points | 1 | 2 |
| 6 | Water temperature at the well, $^0$C | 18 | - |
| 7 | Turbidity, FTU | 35,37 | - |
| 8 | Hydrogen Index, pH | 6,35 | 6,0...9,0 |
| 9 | Dry residue, mg/dm$^3$ | 3228,158 | - |
| 10 | Specific electrical conductivity, Cm/m | 0,49530 | 0,01...1,0 |
| 11 | Hardness, mg.eq. | 25,977 | - |
| 12 | Alkalinity | N. D. | - |
| 13 | Sediment | free of sediment | free of sediment |
| 14 | Dissolved $O_2$ | N. D. | - |
| 15 | Orthophosphoric acid ($H_3PO_4$), mg/dm$^3$ | N. D. | - |
| 16 | Hydrogen sulfide ($H_2S$) | N. D. | 0,05 |
| 17 | Residual Cl | - | - |
| 18 | Mineralization, g/dm$^3$ | 4,033 | 7,5 |

## INDICATORS OF THE CHEMICAL COMPOSITION OF MINERAL WATER

| № | Indicator name | Parameters | | | Maximum allowable concentrations according in the CIS, mg/dm$^3$ |
|---|---|---|---|---|---|
| | | mg/dm$^3$ | mg.eq/dm$^3$ | eq. % | |
| | CATIONS | | | | |
| 1 | Calcium (Ca) | 322,000 | 16,1000 | 28,70 | - |
| 2 | Magnesium (Mg) | 120,000 | 9,8765 | 17,61 | - |
| 3 | Natrium (Na) | 682,000 | 29,7817 | 53,10 | - |
| 4 | Kalium (K) | 2,370 | 0,0608 | 0,11 | - |
| 5 | Iron (Fe) | 4,400 | 0,2364 | 0,42 | - |
| 6 | Manganese (Mn) | 0,380 | 0,0138 | 0,02 | - |
| 7 | Lithium (Li) | 0,150 | 0,0216 | 0,04 | - |
| 8 | Strontium (Sr) | 0,670 | 0,0153 | 0,03 | 25,0 |
| 9 | Ammonium ($NH_4$) | N. D. | N. D. | N. D. | - |
| 10 | Copper (Cu) | N. D. | N. D. | N. D. | 1,00 |
| 11 | Aluminum (Al) | N. D. | N. D. | N. D. | 0,50 |
| 12 | Zinc (Zn) | N. D. | N. D. | N. D. | 5,00 |
| 13 | Cobalt (Co) | N. D. | N. D. | N. D. | 0,10 |
| 14 | Chromium (Cr) | N. D. | N. D. | N. D. | 0,05 |
| 15 | Barium (Ba) | N. D. | N. D. | N. D. | 0,10 |
| 16 | Nickel (Ni) | N. D. | N. D. | N. D. | 0,10 |
| 17 | Silver (Ag) | N. D. | N. D. | N. D. | 0,20 |
| | **Amount** | **1131,300** | **56,0908** | **100** | |
| | ANIONES | | | | |
| 1 | Hydrocarbonate ($HCO_3$) | 1634,800 | 26,8000 | 45,27 | - |
| 2 | Chloride (CI) | 1142,908 | 32,2400 | 54,45 | 350,00 |
| 3 | Bromum (Br) | 5,960 | 0,0746 | 0,13 | 20 |
| 4 | Fluoride (F) | 0,74 | 0,0389 | 0,07 | 5,00 |
| 5 | Sulfate ($SO_4$) | 2,000 | 0,0417 | 0,07 | 500,00 |
| 6 | Iodide (I) | 1,260 | 0,0099 | 0,02 | - |
| 7 | Carbonate ($CO_3$) | N. D. | N. D. | N. D. | - |
| 8 | Nitrite ($NO_2$) | N. D. | N. D. | N. D. | 0,3 |
| 9 | Nitrate ($NO_3$) | - | - | - | 45,00 |
| 10 | Dihydrophosphate ($H_2PO_4$) | N. D. | N. D. | N. D. | 0,50 |
| 11 | Hydrophosphate ($HPO_4$) | N. D. | N. D. | N. D. | 5,00 |

| | | | | | |
|---|---|---|---|---|---|
| 12 | Phosphate ($PO_4$) | N. D. | N. D. | N. D. | - |
| 13 | Dihydroborate ($H_2BO_3$) | N. D. | N. D. | N. D. | - |
| 14 | Hydroborate ($HBO_3$) | N. D. | N. D. | N. D. | - |
| 15 | Borate (BO3) ($BO_3$) | N. D. | N. D. | N. D. | - |
| 16 | Hydrosulfide (HS) | N. D. | N. D. | N. D. | - |
| 17 | Sulfide (S) | N. D. | N. D. | N. D. | - |
| | **Amount** | **2787,668** | **59,2051** | **100** | |
| TOXIC COMPONENTS | | | | | |
| 1 | Arsenic (As) | 0,006 | 0,000 | - | 1,50 |
| 2 | Cadmium (Cd) | N. D. | N. D. | N. D. | 0,001 |
| 3 | Cyanides (CN) | N. D. | N. D. | N. D. | 0,15 |
| 4 | Mercury (Hg) | N. D. | N. D. | N. D. | 0,0005 |
| 5 | Plumbum (Pb) | N. D. | N. D. | N. D. | 0,1 |
| 6 | Selenium (Se) | N. D. | N. D. | N. D. | 0,05 |
| | **Amount** | **0,006** | **0,000** | - | |
| BACTERIOLOGICAL INDICATORS | | | | | |
| 1 | Number of mesophilic aerobic and facultatively anaerobic microorganisms in 1 ml, 22 $^0$C | 0 | - | - | 100 units of microbial colony progenitors |
| 2 | Number of mesophilic aerobic and facultatively anaerobic microorganisms in 1 ml, 37 $^0$C | 0 | - | - | 20 units of microbial colony progenitors |
| 3 | Total coliform bacteria in 250 ml | N. D. | N. D. | N. D. | 0 |
| 4 | Escherichia coli in 250 ml | N. D. | N. D. | N. D. | 0 |
| 5 | Sulfytreductive anaerobes in 50 ml | N. D. | N. D. | N. D. | 0 |
| 6 | Streptococcus faecalis in 250 ml | N. D. | N. D. | N. D. | 0 |
| 7 | Pseudomonas aeruginosa in 250 ml | N. D. | N. D. | N. D. | 0 |
| 8 | Pathogenic microorganisms | N. D. | N. D. | N. D. | 0 |

CHEMICAL FORMULA

$$\frac{Cl54\ HCO_3 46}{(Na+K)53\ Ca29\ Mg18}$$

## Section 5: Investment Plan

### Value of Assets and Investments

The table below summarizes the assets that the company needs for operations.

| Investment Name | Comment | Estimated Value (USD) | Financial Source |
|---|---|---|---|
| Licenses for mineral water extraction | The quantity of mineral water to be extracted according to the licenses is 37.2 m³/24 hours. The licenses are already owned by the Georgian party and registered in the name of Giorgi Talakhadze. | 2,700,000 | Already owned by the Georgian party |
| Building frame for arranging production | The frame of a building to be reconstructed, located on a 1,835 sq.m land plot near the freight railway station in Borjomi; cadastral code 64.23.03.085 (www.napr.gov.ge). The real estate is registered in the name of Giorgi Kiraghiani and will be bought out by Giorgi Talakhadze. | 550,000 | This cost will be borne by Giorgi Talakhadze |
| Building frames for arranging finished product warehouses | The frames of buildings to be reconstructed, located on 1,203 sq.m and 157 sq.m land plots near the freight railway station in Borjomi; cadastral code 64.23.03.086 (www.napr.gov.ge) and cadastral code 64.23.03.500 (www.napr.gov.ge). The real estate is registered in the name of Zaza Saralidze and will be bought out by Giorgi Talakhadze. | 250,000 | This cost will be borne by Giorgi Talakhadze |
| Reconstruction and repair of the building intended for production | In Georgia, specifically in Borjomi, for reconstruction and repair of such frame buildings, a maximum of USD 300 per sq.m is accepted. | 488,000 | This cost will be covered from the amount contributed by the investor to the company |
| Reconstruction and repair of the buildings intended for finished product warehouses | In Georgia, specifically in Borjomi, for reconstruction and repair of such frame buildings, a maximum of USD 300 per sq.m is accepted. | 182,000 | This cost will be covered from the amount contributed by the investor to the company |

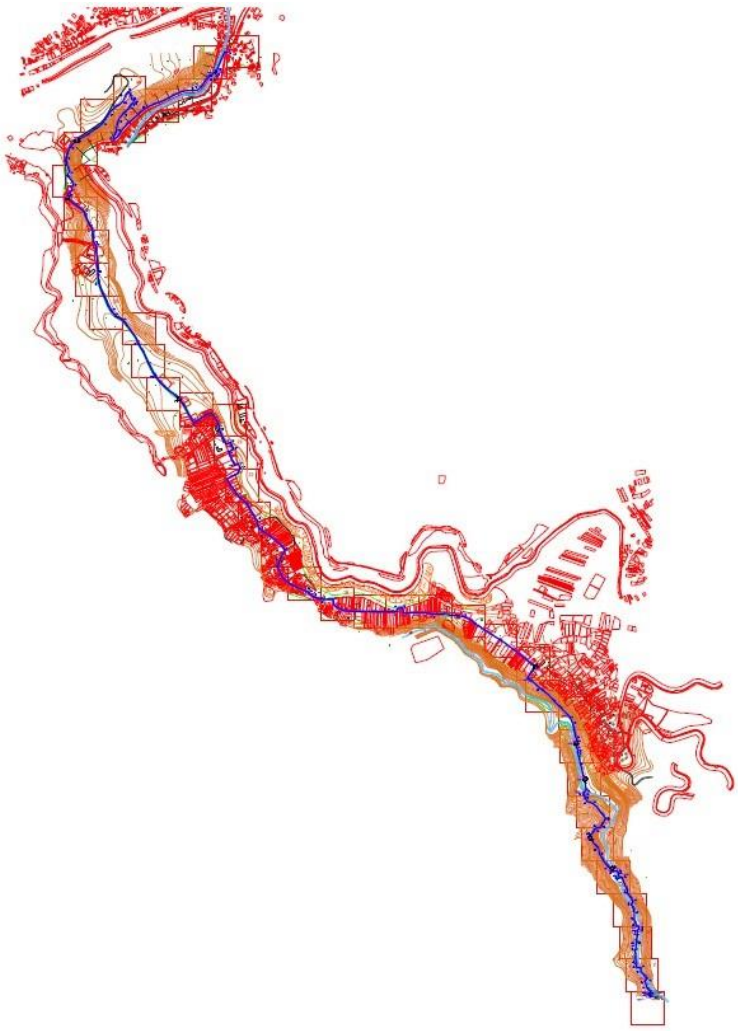
| Investment Name | Comment | Estimated Value (USD) | Financial Source |
|---|---|---|---|
| Pipeline construction | Laying a 12 km pipeline from the mineral water deposit (from the area adjacent to the villages of Tsemi and Tba) to the bottling plant (to the area adjacent to the freight railway station in Borjomi). In Georgia, specifically in Borjomi, on such terrain, construction (laying) of 1 linear meter of pipeline costs a maximum of USD 36.<br>Note: The pipeline layout (part of the already prepared project) is provided immediately after the end of this table | 432,000 | This cost will be covered from the amount contributed by the investor to the company |
| Purchase of the mineral water production line | One of the options for purchasing a mineral water production line is to purchase a complete set of a production line from KOSME, an Italian subsidiary of the German KRONES AG, including all necessary machinery and equipment. The total price is approximately USD 1,500,000 (excluding customs VAT in Georgia), including transportation, customs clearance, installation and commissioning. | 1,500,000 | This cost will be covered from the amount contributed by the investor to the company |
| Purchase of additional machinery and equipment | Approximate amount for the additional machinery and equipment that are not included in the KOSME bottling line, for example: tanks, auxiliary equipment, electric cart, transit van, etc. | 350,000 | This cost will be covered from the amount contributed by the investor to the company |
| Water pumping station | The water pumping station is installed at the mineral water deposit (at the borehole located closest to the river) and mainly includes a collecting reservoir and a pump, through which water is pumped from the deposit to the production facility via the pipeline | 55,000 | This cost will be covered from the amount contributed by the investor to the company |
| Glass bottle bottling mold (mould) | This cost will be incurred only if our company's marketing department decides to bottle the water not in an existing serial glass bottle, but to create an exclusive glass bottle of its own design | 46,000 | This cost will be covered from the amount contributed by the investor to the company |

| Investment Name | Comment | Estimated Value (USD) | Financial Source |
|---|---|---|---|
| Bottle and label design | This cost represents the remuneration paid to the bottle and label designers | 25,000 | This cost will be covered from the amount contributed by the investor to the company |
| Financing of working capital | Financing of operating working capital, basic and auxiliary materials (bottle, cap, label, $CO_2$ and others), as well as salaries, electricity, gas, water and advertising expenses until the company generates positive cash flow.<br>Note: If an additional amount is needed, the options are discussed in detail in the section "Sequence of the Procedure for Establishing the Company and Subsequently Transferring a Share to the Investor" | 122,000 | Investor |
| | **Total Project Value** | **6,700,000 USD** | |

## Planning for the Construction of the Water-Supply Main from the Mineral Water Deposit to the Water Bottling Plant Located in the Territory of Borjomi Railway Freight Station

## (Excerpt from the Project)

It is noteworthy that the preliminary engineering design of the water pipeline main and the pipeline layout (route alignment) have already been prepared and agreed with the Architectural Service of Borjomi Municipality (issues of road damage and restoration, etc.), MAGTICOM, IDS Borjomi, JSC Georgian Railway, GR Borjomi-Bakuriani LLC, LEPL National Forestry Agency, as well as with the 2 private owners along the boundaries of whose land plots the water pipeline must pass. The final stage remains to be completed - obtaining the final permit from the Borjomi Municipality Mayor's Office for the commencement of construction, which no longer presents any difficulty; it simply makes no sense to obtain it in advance, because the permit is time-limited and is valid for only 3 years.



## Important Explanation Related to the Investment

In this point and subsequently as well, we will often have to refer to the parameters presented in Annex F. Business plan, Borjomi Mineral Water LLC, created by Grant Thornton, May 15, 2019, therefore it is very important to clarify what differences exist between the initial parameters in the above-mentioned business plan and those in this investment proposal:

1. The old business plan was developed on the assumption that the quantity of extractable mineral water under the license is 55 cubic meters per 24 hours, whereas in this investment proposal the quantity of extractable mineral water under the licenses is 37.2 cubic meters per 24 hours, as the already approved and effective reserves.

2. In the old business plan, construction of the bottling plant was envisaged at a location quite far from the Borjomi freight railway station, because at that time the Georgian party had not yet purchased the additional 2 real estate properties on which, according to this investment proposal, the arrangement of finished product warehouses is planned. This sharply reduced investment costs and enabled us to locate both the bottling plant and the warehouses at one location. The above sharply reduced the combined cost of construction of the bottling plant and warehouses and removed from the agenda the purchase of a rather expensive land plot at another location and the even more expensive construction there of a new plant from foundation to completion.

3. Although the construction of the plant and warehouses at one location increased the cost of constructing the pipeline to be laid from the deposit to the production facility, the total volume of investments to be made decreased sharply, and if, according to the old business plan, the total amount of assets and investments to be made amounted to USD 13,538,731, in this investment proposal they amount to USD 6,700,000, which contributes to the fact that the financial indicators of the project, compared with the old business plan, have not worsened but, in certain cases, have even improved.

As already noted, in the event of investor interest, the Georgian party is ready to commission Grant Thornton to perform a new financial recalculation of the business plan

## Section 6: Financial Analysis

As we noted at the end of the previous section, the project's financial indicators, compared with the old business plan, have not deteriorated; on the contrary, in certain cases they have even improved. Therefore, in the present investment proposal, we will not proceed with a detailed discussion of the project's financial analysis; we will limit ourselves to a general overview and rely entirely on the financial parameters presented in Appendix F. Business plan, Borjomi Mineral Water LLC, created by Grant Thornton, May 15, 2019.

To prepare the financial balance sheet, the audit company Grant Thornton used the average financial ratios of the two largest mineral water producers in Georgia (the brands BORJOMI and NABEGHLAVI).

It is important that, in the case of successful sales, in mineral water production, positive cash flow is generated within as early as 12 months from the commencement of operations.

It should be noted that, before the start of production (bottling of mineral water), due to ownership of the licenses, the company pays a natural resource fee of GEL 39,200 (approximately USD 15,000) per year (GEL 3.0 for each 1,000 liters of mineral water extraction right), and after bottling begins, this fee is supplemented by a natural resource regulation fee of GEL 1.5 (approximately USD 0.55) for each 1,000 liters of bottled mineral water. No other tax payment is provided for in Georgia for the extraction of a natural resource (in our case, mineral water).

For comparison, it should be emphasized that the company producing the well-known brand BORJOMI pays a natural resource fee (GEL 30 for each 1,000 liters of mineral water extraction right) and a regulation fee (GEL 15 for each 1,000 liters of bottled mineral water) that are 10 times higher than those paid and to be paid in the future by our company. This is a very significant advantage for us in relation to our direct competitor.

### Other Important Explanations:

- The fixed assets reflected on the company's balance sheet (licenses, real estate, machinery and equipment, etc.) do not include value-added tax (VAT), and VAT is added only if the company disposes of them (or part of them).
- The sale of a company share at the price corresponding to the company's capital is not subject to any tax in Georgia. Only the sale of a company share above the price

corresponding to the company's capital is taxed, and it is taxed only with income tax, which amounts to 20% of the added price.

- According to the current Tax Code, the profit tax on distributed dividends is 15%, while the dividend tax is 5%. Except for the distribution of dividends, in other cases the company is not subject to profit tax.
- The company may return the invested amount to the founders without profit tax or dividend tax if they adopt a decision on capital reduction.
- Income tax on paid salaries, premiums, bonuses, etc. is 20%.
- VAT is 18%.
- The export of products from Georgia is not subject to value-added tax.
- The annual property tax is 1% of the value of the property.
- The annual land tax in Borjomi amounts to GEL 0.315 (USD 0.117) per 1 square meter.
- The cost of 1 kilowatt-hour of electricity amounts to GEL 0.3573 (USD 0.1323).
- The cost of 1 cubic meter of gas amounts to GEL 1.29 (USD 0.48).
- The combined cost of 1 cubic meter of technical water and wastewater disposal (sewerage) amounts to GEL 4.30 (USD 1.6).
- The cost of laboratory control and certification of finished mineral water products per container amounts to USD 400.
- Technological losses of mineral water and auxiliary materials are a maximum of 1.5%.
- The exchange rates are: 1 USD = 2.65-2.75 GEL; 1 EURO = 3.10-3.20 GEL.

To avoid making this Investment Proposal too long, appendices A, B, C, D, E, F, G, H are not included here, but are attached as a separate files titled:

Appendice A. The resume of Giorgi Talakhadze

Appendice B. Mineral water extraction licenses and photos of wells

Appendice C. Certificate of title to the real estate for the construction of a factory and warehouses and a trademark registration certificate

Appendice D. An Extract from Registry Entrepreneurs and Non-Entrepreneurial (Non-Commercial) Legal Entities, Articles of Incorporation and bylaws of Borjomi Mineral Water LLC

Appendice E. The decree of the government N 296, 02.21.2017 and the order of the government N 574, 12.15.2022

Appendice F. Business plan, Borjomi Mineral Water LLC, created by Grant Thornton, May 15, 2019

Appendice G. An Extract from Registry Entrepreneurs and Non-Entrepreneurial (Non-Commercial) Legal Entities of Aspindza Product LLC and the Analytical Findigs (quality certificate) for the natural $CO_2$ it produces

Appendice H. An Extract from Registry Entrepreneurs and Non-Entrepreneurial (Non-Commercial) Legal Entities of Borjomi Product Company LLC and An Extract from Public Registry of hotel www.ecorest.ge

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