PRIVATE & CONFIDENTIAL
RESTRICTED CIRCULATION

Investment Proposal

Apparel Industry In The Making In Georgia

January 2012

CONTACTS

Keti Bochorishvili
Director
+995 32 2 991098;
k.bochorishvili@investingeorgia.org

George Tsikolia
Deputy Director
+995 32 2 106392 ;
g.tsikolia@investingeorgia.org

Nick Gilauri
Prime Minister

13 February 2012

Dear prospective investors,

The Georgian Government is pleased to support and facilitate any investments undertaken in the apparel/textile industry in Georgia. This sector is one of the most unpenetrated in our economy with quite compelling growth potential and prospects. Favorable logistics, rather cheap labor, low and flat taxes, efficient export regimes and additional investment incentives initialed by the Georgian Government lead the country to be the hub of the apparel industry in the CIS/CEE region.

I would like to reiterate the Georgian Government's strong commitment to support and facilitate investments in the apparel/textile industry in Georgia.

Regardless of worldwide economic uncertainties, I am pleased to emphasize that Georgian Economy has been showing quite tolerable performance with rather favorable external debt outlook (32% of 2011 GDP). The successful Eurobond placement in April 2011 (5.3x oversubscribed) means an increased investors' confidence toward Georgian economy. Last but not least, irreversible reforms, healthy macroeconomic policy, investor-friendly business climate, "BB-" long-term credit ratings in foreign and local currencies from S&P and Fitch Ratings prove our economy to be resilient and robust.

Yours sincerely

Nika Gilauri
Prime Minister of Georgia

Dear Sir/Madam,

This publication presents you the recent trends of the apparel industry in Georgia. With it we would like to invite you to first learn about and later explore in detail some of the excellent opportunities available in this sector today.

Georgian government has identified and targeted the apparel sector as one of its main economic priorities for investment, job-creation and growth. In support of the investors willing to work with us to further develop this industry in Georgia, we have put together a package that covers necessary infrastructure, appropriate legislation, special incentives, privatization opportunities and some other economic benefits. We are confident that this effort on our side has prepared an excellent ground for very successful private investment projects.

Georgia aims to become the country that any partner can rely on. For the past few years, our government conducted major reforms in order to liberalize and deregulate our economy and as a result create an investment-friendly business climate that frees business from bureaucratic barriers and high costs of doing business. We have fought and defeated corruption, making our country one of the most transparent in Europe.

In order to make sure that Georgia transformed into one of the most the business-friendly economies, we have removed and simplified as much regulation as possible, cut the red tape and streamlined the government services. We have reduced number of taxes and today we have only six flat rate taxes left, making Georgia one of the least tax-burdened economies globally.

Today, Georgia is hailed as the top reformer in Europe and Central Asia by the Doing Business Reformer Club (2010). The World Bank's Ease of Doing Business report of 2012 ranks Georgia #16 out of 183 countries globally.

We have negotiated free trade agreements with Turkey, all CIS countries including Russia and have preferential regime with Europe and USA. Soon we will be launching negotiations on the Deep and Comprehensive Free Trade Agreement with the EU. We have invested billions of Euros to match excellent trade regimes with appropriate physical transport and logistics infrastructure.

In short, we are a young, open, democratic free-market country that offers business a friendly investment environment and is open to all to benefit from this.

As the Minister of Economy and Sustainable Development of Georgia I would like to personally invite you to explore the opportunities we have opened to investors and consider capitalizing on them starting an apparel production operation in Georgia.

Yours sincerely

Vera Kobalia
Minister of Economy and Sustainable Development of Georgia

Dear Investor,

On behalf of the National Investment Agency of Georgia (GNIA), I would like to present the current trends in Georgia's light manufacturing sector and invite apparel/textile manufacturers to explore the investment opportunities that are available here.

The Government of Georgia has identified and targeted the apparel sector as one of its main economic priorities for investment and growth and is now actively supporting this sector with the establishment of needed infrastructure, appropriate legislation, investment incentives, privatization opportunities and other economic benefits.

Georgia offers many meaningful and attractive opportunities for expansion, collaboration and partnering with local firms. Aside from these specific opportunities, Georgia also offers a number of overall competitive advantages for the apparel manufacturing sector. First and foremost are its cost advantages. Labor costs are significantly lower than in most surrounding countries. Electricity costs, which are a major input for apparel production, are also very low due to Georgia's vast hydropower resources. Georgia's open, simple and transparent business environment (Georgia ranks 16th in the World Bank's 2012 Ease of Doing Business Report, up from 112 in 2005) allows for competitively low time and cost to market. These advantages make the Georgian apparel manufacturing sector very attractive to producers and distributors alike.

Additional benefits for investors include preferential market access, simplified import and export procedures, a liberal tax regime, an educated labor force and government incentives to ensure the success of your investment. We believe that, together, these benefits make Georgia the number one new destination for investment in apparel manufacturing.

The Georgian National Investment Agency is always available to answer your questions, to provide you with additional information, and to assist you in identifying investment sites and local partners and navigating the local market.

Thank you in advance for your consideration, and I look forward to hearing from you.

Best regards,

Keti Bochorishvili

Director
National Investment Agency of Georgia

JSC Partnership Fund

Partnership Fund is inviting strategic investors to co-invest in a US$ 9.5 million Greenfield project aiming at full service apparel manufacturing plant development.

- JSC Partnership Fund ("Fund") is a private equity fund established by the Government of Georgia. The Fund has over USD 1,5 bn. worth of assets under management
- The Fund has two main products: Insurance and Investment. Insurance is mostly applied in energy sector through guaranteeing the off take agreement liabilities Investment is usually made in SPVs through preferred equity of sub-debt
- The Fund is aiming to be concentrated its investments in four main sectors: Energy, Agriculture, Manufacturing and Real Estate. Current portfolio consists of Transport, Oil & Gas and Energy assets.
- Objective of the Fund is to maximize risk-adjusted return.
- Fund's ultimate shareholder is the Government of Georgia. The Supervisory Board of the Fund is chaired by the Prime Minister and composed of Minister of Justice, Minister of Finance, Minister of Economy and Sustainable Development, Minister of Energy & Natural Resources.

Business Case

Global USD 448 bn. apparel manufacturing industry undergoes significant changes. An increasing number of customers demanding quality products at reasonable prices with shorter lead times and value added services

The study encompasses the establishment of a Greenfield full service apparel manufacturing plant in western Georgia with an annual production capacity of six mil. pieces of wide variety of designed garments manufactured for global wholesalers and retailers under their private labels

The business is aiming to leverage Georgia's unique position in terms of:
1. Availability of affordable and qualified workforce
2. Location - proximity to markets and sourcing destinations with developed infrastructure and transportation system
3. Liberal business environment and preferential terms of access to key regional markets
4. Government support
5. Availability of competitively priced inputs (energy, water, etc.) ... to enjoy shorter lead times, competitive quality and lower cost base advantage for western markets compared to major Asian sourcing destinations.

Investment Required

The investment requirement stands at USD 9.5 mil. Financing structure considered is as follows:
1. The Investor's contribution of US$ 2.4 million in common equity
2. Partnership Fund's matching contribution of US$ 2.4 million In preferred equity
3. Debt of US$ 4.7 million – acquired with the assistance of Partnership Fund (if needed)

30% of investment is allocated to the production facility development. The remaining 70% covers initial working capital requirements.

Investment Return Indicators

Common Equity Holder NPV	US$3.1 million
Project NPV	US$7.2 million
Project IRR	25%
Payback Period	5 Yrs
Discounted Payback Period	7 Yrs

Important Notices

This report has been prepared by the National Investment Agency (the "Agency") on a strictly confidential basis solely for qualified prospective investors (the "Investors") who are interested in and/or considering investments in the textile and apparel industry in Georgia. Therefore, this report sets out the investment opportunities in the textile and apparel industry in Georgia.

Given the wide range of opportunities, Agency expects that both strategic and financial investors will find something of interest and of suitable size/investment commitment. In line with the overall high degree of economic liberty in Georgia, the textile and apparel industry has become one of the attractive investment landscapes over the last few years. In addition, proximity of the Turkish market presents highly attractive export opportunities, described in greater detail herein.

Facilitate exports of the textile and apparel production has become one of the top priorities for the Government of Georgia (the "GoG"). Thus, all interested investors may expect very tight cooperation, significant assistance and the following investment incentives from the GoG:

- **Land for nominal price**: GoG will provide a Land in the various areas throughout the whole Georgia, mostly in the Guria region (western Georgia). Land will be offered at a nominal price without any prequalification criteria and/or special bidding procedure. The sole condition of the Cheap Land incentive will be the purpose of developing the apparel/textile business only on the proposed land for the next 7 years
- **Access to Main Infrastructure**: GoG will ensure full access to the nearest infrastructure network, including roads, electricity, water supply and natural gas. Water wells will be available on some land plots which is expected to decrease the project investment costs by 10%
- **Onsite Training**: GoG will finance the first year labor training costs (30 000 GEL (18 000 USD) if the factory employs 150-350 people; 60 000 GEL (36 000 USD) if the factory employs 350-500 people; 100 000 GEL (60 000 USD) if the factory employs more than 500 people)
- **Capital Expenditure Facility**: GoG will assist in negotiations with local financial institutions (including International Financial Institutions which are presented in the county) in respect of purchasing equipments via leasing and other financing scheme

In addition, according to the Georgian tax code, capital expenditure can be depreciated fully in the year it has been incurred of the operation, and 10-year loss carry forward is available.

Consequently, the GoG is open to establish a constructive dialogue with potential foreign investors in order to access elements where potential investors would require the support of the GoG. Worth mentioning that GoG doesn't intend to allow any tax benefits whatsoever.

The Agency is equipped to support investors in the entire investment evaluation process and thus will accompany interested parties through the various steps.

All interested parties should contact directly to the National Investment Agency at any time with a clear, albeit preliminary, proposal detailing within reasonable ranges:

- The size of the intended investment
- The size of the required workforce
- Desired areas of support from the GoG

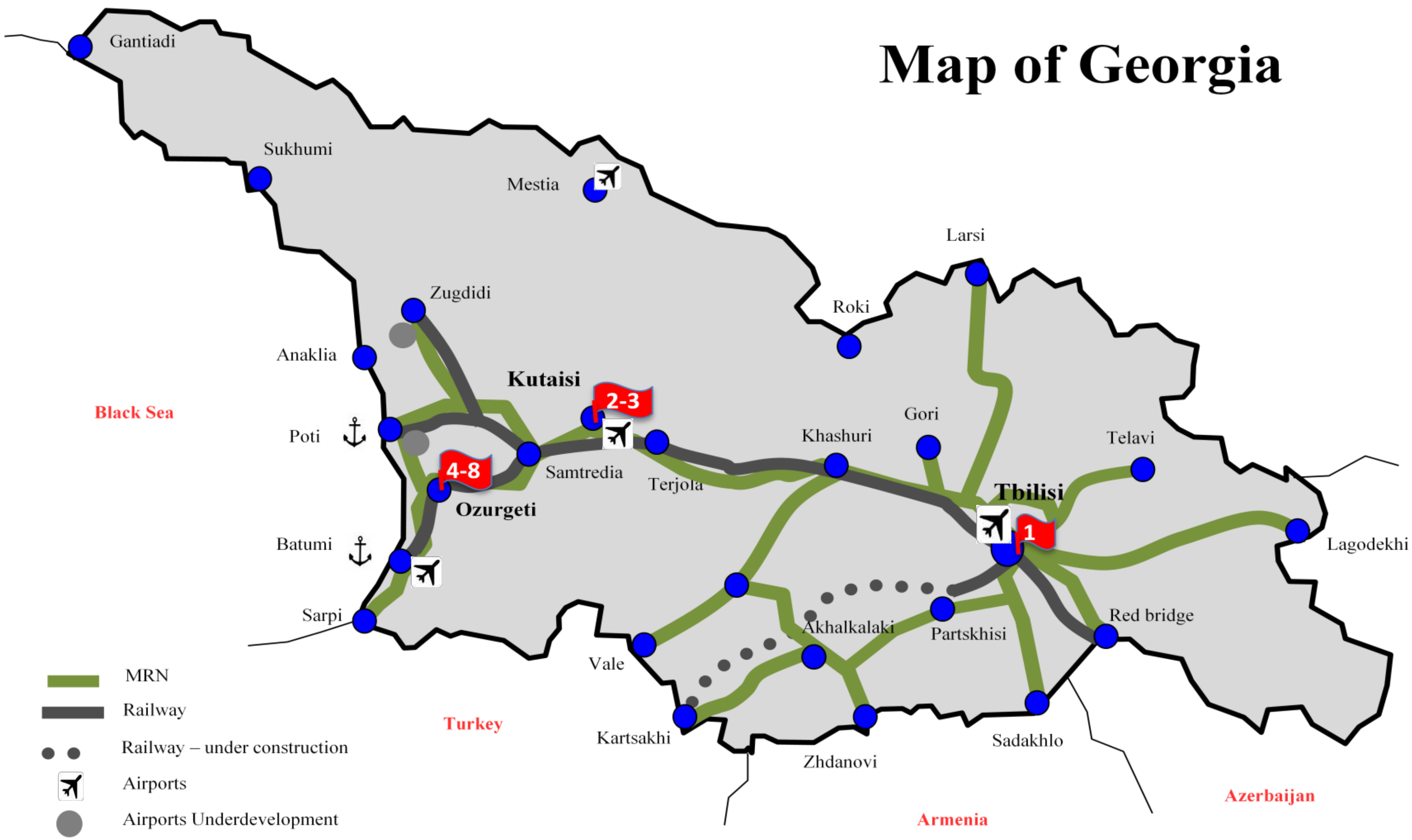
Any proposal should be emailed in the PDF format at apparel@investingeorgia.org (+995 32 2 106 392).

Such document will constitute the basis of the conversation between the parties.

Location of Lands offered by Georgian Government

№	Location	Address	Land area	Land Category	Building Space	Access to communications	Ownership
1	Tbilisi	Orkhevi, near Tbilisi airport	4 000 m^2	Non- agricultural land	-	Utilities includes	State
2	Imereti (West part of Georgia)	Kutaisi City Gamsakhurdia str. lane 3, # 9	4 000 m^2	Non- agricultural land	2 037 m^2	Utilities includes	State
3	Imereti (West part of Georgia)	Kutaisi City Sulkhan-saba str. 10	3 800 m^2	Non- agricultural land	3 620 m^2	Utilities includes	State
4	Guria (West part of Georgia)	Ozurgeti City Besiki str. 17	7 937 m^2	Non- agricultural land	3 180 m^2	Utilities includes	State
5	Guria (West part of Georgia)	Ozurgeti City Shemoqmedeli str. 45	9 605 m^2	Non- agricultural land	1 490 m^2	Utilities includes	State
6	Ozurgeti, Guria (West part of Georgia)	Ozurgeti City Akaki str. 1	22 800 m^2	Non- agricultural land	-	Utilities includes	State
7	Ozurgeti, Guria (West part of Georgia)	Ozurgeti City Ninoshvili str. 2	15 583 m^2	Non- agricultural land	1 050 m^2	Utilities includes	State
8	Ozurgeti, Guria (West part of Georgia)	Ozurgeti Village	4 390 m^2	Non- agricultural land	2 014 m^2	Utilities includes	State

Location of Lands offered by Georgian Government on the Map



Forward-Looking Statements

This document includes forward-looking statements. Such statements may be identified by forward-looking words such as “may”, “will”, “expect”, “anticipate”, “believe”, “estimate” and “continue” or similar words. They can also be identified by the fact that they do not relate strictly to historical or current facts.

Such statements should be read carefully because they discuss the future expectations, contain projections of the future results of macroeconomic performance or state other “forward-looking” information. The Agency believes that it is important to communicate its future expectations to investors. However, there may be events in the future that the Agency is not able to accurately predict or control and that may cause its actual results to differ materially from those discussed as a result of various factors. By their very nature, forward-looking statements involve inherent risks and uncertainties. These factors should be considered carefully and readers should not place undue reliance on the forward-looking statements, especially in light of the political, economic, social and legal environment in which the country operates.

Prior to investing, prospective investors should be aware that the occurrence of the events described in the “Risk Factors” section and elsewhere in this document could harm the country’s performance, macroeconomic results and industry condition. The Agency does not make any representation, warranty or prediction that the results anticipated by such forward-looking statements will be achieved, and such forward-looking statements represent, in each case, only one of many possible scenarios and should not be viewed as the most likely or standard scenario. The Agency is under no duty to update any of the forward-looking statements after the date of this document or to conform these statements to actual results.

Investment Highlights

Georgia has passed important reforms, such as dramatically simplified licensing and permitting requirements, easing constraints on business and a liberalized Labor Code; modernized the civil service, initiated the legislation allowing the establishment of free industrial zones and reduced corruption. As a result of the Government's efforts to combat corruption, Georgia has improved from 133rd on Transparency International's *Corruption Perception Index* in 2004 to 68th in 2010.

In the field of taxation, the Government reformed and simplified the tax code in 2004 and further amended the tax code in 2010, combining existing tax legislation with the Customs Code to create a unified tax code. These measures have improved tax administration and enforcement, while reducing the number of taxes and a number of tax rates. The economy has experienced cumulative 17.6% growth in Real GDP for the years 2006-2010, and State Budget expenditures increased by 78.7% in nominal terms between 2006 and 2010.

Georgia's rapid economic reforms have been recognised internationally. The Heritage Foundation's 2011 Index of Economic Freedom ranked Georgia as the 29th freest economy. In the Doing Business 2011: Making a Difference for Entrepreneurs report published by the International Finance Corporation (the "IFC") and the World Bank, Georgia was ranked as the sixteenth easiest country in the world in which to do business, ahead of all its neighbouring countries and many EU countries and second in terms of ease to register a property, with only one required procedure noted.

In November 2011, S&P raised its long-term foreign and local currency ratings on the Government of Georgia to "BB-" from "B+". At the same time, the short-term foreign- and local-currency ratings were affirmed at 'B'. The outlook on the ratings is stable with the recovery rating of '4'. The transfer and convertibility (T&C) assessment is 'BB'. Fitch Ratings also upgraded Georgia's Long-term foreign and local currency Issuer Default Ratings (IDR) to 'BB-' from 'B+' in December 2011. The Outlooks on the ratings are Stable. The agency has also upgraded the Country Ceiling to 'BB' and affirmed the Short-term foreign currency IDR at 'B'. The rating on senior unsecured debt has been upgraded to 'BB-' from 'B+'.

In the medium-term, the Government intends to pursue the following strategic initiatives in order to eradicate poverty through sustained private-sector economic growth:

- promote sustained and broadly-based Real GDP growth;
- further develop Georgia's infrastructure in order to increase efficiency in the economy and attract investment;
- further liberalize trade and reduce remaining administrative barriers;
- further encourage institutional de-regulation of the economy;
- support job creation;
- further develop Georgia's hydropower energy resources to strengthen Georgia's energy independence and also allow for export of power to neighboring countries; and
- continue to encourage FDI and promote economic sectors that attract FDI, such as logistics, transportation, energy, banking and tourism

Georgian textile and apparel sector is quite unpenetrated with circa 200 apparel manufacturing companies (about 95% of which are micro-enterprises), of which approximately 15 employ merely more than 40 people;

Turkish investments account for the major part of the industry whereas there are several significant Georgian investments as well. Approximately 5,000 workers are employed by the sector that produce in the rage of GEL40 million-GEL 43 million textiles and apparel output per annum. Sector is far at the net importer stage, importing almost six times more than it exports

At present, Georgian apparel sector is characterized with a whole range of benefits and opportunities, such as extremely cheap workforce - around US$1.1 per hour (lowest in the world after Bangladesh and Pakistan), quite cheap utilities costs (about 0.065 USD/kwh incl. taxes, twice below than the average price in Turkey at 0.146 – 0.154 USD/kwh incl. all taxes), quite meaningful Government support and incentives, outstanding transportation and logistics environment, low and flat taxes, favorable trade regimes and proximity to the largest export markets in the world (EU, Turkey, Russia, Ukraine, Belarus, Kazakhstan, etc)

Given the investor friendly business environment and wide range of investment opportunities, it is estimated that prospective investors should be expecting 30%+ IRR per annum when having an exposure in the Georgian apparel industry

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Economy of Georgia

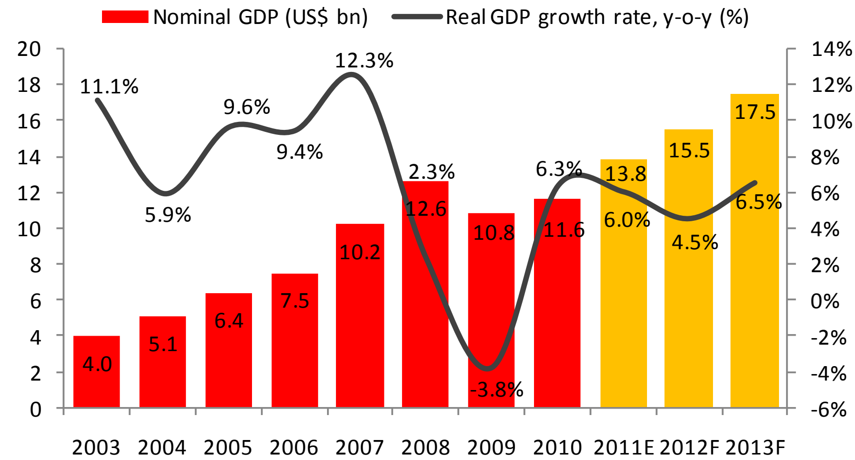
Georgia is a small country with high skill potential. It has a good track record in sustaining high growth. The IMF in its most recent review under the Stand-By Arrangement it has with Georgia painted a positive scenario, the GDP growth was 6.4% in 2010. Latest 2011 growth forecast based on the IMF is 5.5%. Remittances to Georgia have also picked up, and there are already indications of a revival of FDI inflows.

Georgia has undertaken major economy wide reforms since early 2000. These have yielded impressive results. Economic expansion averaged ten percent per annum from 2003-2007. The business environment improved drastically, lifting Georgia from #112 in the World Bank's 2005 Doing Business Index to #16 in 2012. Corruption has also been reduced sharply, and important steps have been taken to reform the role of the state vis-à-vis the private sector.

The shocks from the August 2008 conflict with Russia and the global economic downturn somewhat derailed the government's well sequenced reform program. Growth slowed to 2.3% in 2008, and sank into negative territory in 2009. Progress in trade and transport facilitation halted. Remittances and FDI were reduced. This resulted in the overall economy not measuring up to its potential in competitiveness.

The following table sets forth certain information about Georgia's GDP for the periods indicated

Economic expansion averaged ten percent per annum from 2003-2007



Source: National Statistics Office of Georgia - GeoStat

In spite of this, Georgia has come through the twin shocks of 2008. While this is partly due to official balance of payments (BOP) support from the IMF, the prognosis for a return to rapid economic expansion is good. This confidence is reflected in the country's agreement to exit from official BOP support well before repayments peak in 2013-2014.

Main Economic Indicators and Forecasts to 2013

	2009	2010	2011E	2012F	2013F
Real GDP growth rate (%)	-3.8	6.3	6.0	4.5	6.5
Consumer price index (period average)	1.7	7.1	8.0	7.0	7.0
Lending rate (%)	24.2	22.0	19.0	17.0	15.0
Government balance (% of GDP)	-9.2	-6.7	-3.7	-3.0	-2.3
Exports of goods, FOB (US$ bn)	1.1	2.2	2.7	3.4	4.2
Imports of goods, FOB (US$ bn)	-4.3	-5.0	-5.9	-6.9	-8.1
Current account balance (US$ bn)	-1.2	-1.4	-1.9	-2.3	-2.4
Current account balance (% of GDP)	-11.3	-12.1	-14.5	-15.8	-14.4
Net foreign direct investments (US$ mn)	658	814	900	NA	NA
Net other capital inflows (US$ mn)	1,119	705	834	NA	NA
External debt (as % of GDP)	31.7%	33.6%	32.2%	30.6%	27.9%

Source: GeoStat, Ministry of Finance of Georgia, National Bank of Georgia

Foreign Direct Investments

Continued economic expansion in Georgia is partly predicated on a steady increase in private capital inflows, mainly FDI, which by 2011-2012 should enable the country to return to a path of privately financed high economic growth.

Georgia has attracted significant amounts of FDI in the past, evenly distributed between Industry, Transport, Construction and other services, while low productive Agriculture has been unable to attract much investor interest to date. There is clear potential for improvement.

Joint effects of the 2008 Conflict with Russia and the global financial crisis on Georgia, impacted on Georgia's net FDI, thus de creasing it to US$1,564 million in 2008, a decrease of 22.4%, as compared to 2007. Private capital inflows, including FDI, portfolio investment, privatization proceeds and new foreign debt incurred by Georgian banks, had exceeded US$500 million in the first quarter of 2008, which is believed to be the highest quarterly figure to date.

Net FDI decreased to US$658 million in 2009 a decrease of 57.9%, as compared to 2008. In 2010, net FDI further decreased to US$553 million, a decrease of 16.0%, compared to the same figures of 2009. During the first three quarters of 2010, net FDI in Georgian companies (other than banks) and the Georgian banking sector accounted for 83.0% and 17.0%, respectively, of net FDI inflows.

There are no restrictions on foreign ownership of property or assets in Georgia, except that a foreign natural or legal person may only own agricultural land through a Georgian registered legal entity. There are no restrictions on the repatriation of profits from Georgia, subject to compliance with applicable tax laws.

World known brands in Georgia:

State Budget Revenues

Taxes are the Government's main source of revenues. Total revenues increased during the past five years from GEL 3,695 million in 2006 to GEL 5,866 million in 2010, an increase of 58.8% year to year. Total revenues increased by 34.6% in 2007 and 17.7% in 2008, before declining by 10.1% in 2009 due to the combined effects of the 2008 Conflict and the global financial crisis on Georgia. Total revenues increased in 2010 up to GEL 5,866 million, as compared to GEL 5,264 million in 2009 respectively an increase of 11.4%.

Total revenues increased during the past five years from GEL 3,695 million in 2006 to GEL 5,866 million in 2010, an increase of 58.8% year to year

The overall growth of the state budget since 2006 is a result of the Government's improved revenue collection capacity. In 2010, tax revenues accounted for 83.0% of total revenues. Tax revenues include personal income tax, profit tax, VAT, excise, import tax and property tax.

Fundamental Policies and Reforms

Georgia has created and continues to strengthen fundamental policies that reflect a forward looking liberalized economic environment for the country.

Broad areas of focus have included a range of opportunities to support efficiency and encourage growth. Some of these include the following.

- Rule of Law
- Property Rights
- Reduction of the State's fiscal footprint
    - Few, low and flat tax structures
    - Minimal social security burden for business
- Inflation targeting (single digit inflation)
- Free trade; no customs tariffs or non-tariff barriers
- Flexible labor market with minimal State interference
- Limited government
    - Aggressive deregulation
    - Dramatically reduced and simplified licensing
    - Transparent privatization
- Means tested and focused social assistance
- Lean and efficient civil service sector

Georgia has created and continues to strengthen fundamental policies…

Georgia's commitment to driving favorable market conditions in general, is admirable. The country has been recognized over the past several years for its aggressive approach to redefining its economic and financial structure – and its future outlook.

Recognition of Georgia's reforms are reflected vis-à-vis the following indicators.

STANDARD &POOR'S

April 12, 2010

Foreign Currency

- **Long Term: BB-**
- Short Term: B

Local Currency

- Long Term: BB-
- Short Term: B

Outlook: Stable

FitchRatings

March 3, 2011

Foreign Currency

- **Long Term: BB-**
- Short Term: B

Local Currency

- Long Term: BB-
- Country Ceiling: BB

Outlook: Stable

MOODY'S INVESTORS SERVICE

October 6, 2010

Foreign Currency

- **Long Term: Ba3**
- Short Term: Not-Prime

Local Currency

- Long Term: Ba3
- Short Term: Not-Prime

Outlook: Stable

Major Rating Strengths:

- Government's political commitment to market oriented policies and structural reforms
- Relatively strong economic structure and growth prospects
- Low tax regime and business friendly environment
- High potential growth rate
- Moderate levels of government debt

Major Rating Strengths:

- Strong economic recovery with strong GDP growth prospects
- Reduction in both budget and current account deficits
- Long track record of low and stable inflation
- Strong banking sector due to improvement in asset quality, growth in deposits and rising profitability
- Favourable business climate, low corruption, sound governance and easing of political risk
- High level of human development
- Strong support from the international community

Other Rating Indicators:

Bond (Country) Ceiling

- Foreign currency: Ba1
- Local Currency: Baa3

Bank Deposits Ceiling

- Foreign Currency: B1
- Local currency: Baa3

Major Rating Strengths:

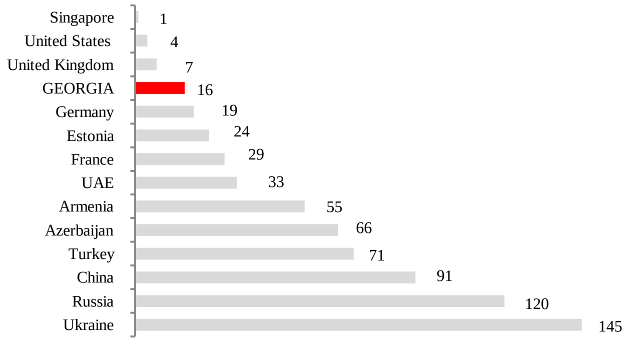
- Marked progress in building social, political and economic institutions
- Healthy operating business environment that is unique in the region
- Credible fiscal and monetary framework
- Government debt at affordable levels on very favorable terms

The government adopted the Economic Liberty Act that will contain (1) a coherent package of bold measures to constitutionally enshrine our basic policies, reassuring investors that no policy reversal or policy drift is possible, (2) returning to citizens to the power to tax – no new taxes or tax rate increases without a nationwide referendum and (3) fiscal responsibility, such as:

- Government expenditure capped at 30% of GDP
- Budget deficit capped at 3% of GDP
- Government debt capped at 60% of GDP
- No budget earmarks

The law is expected to enter into force on 31 December 2013

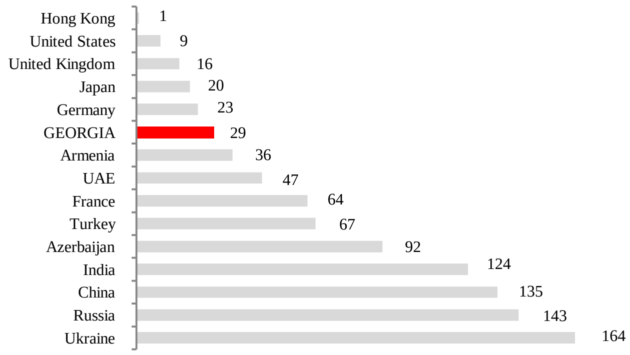
Ease of Doing Business, 2011



up from 112 in 2005

Source: World Bank, 2012 (Rank out of 183 countries)

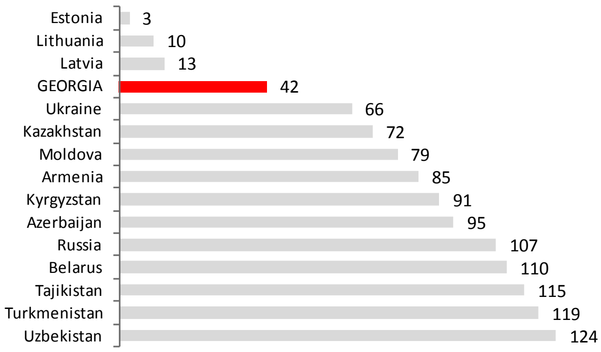
Economic Freedom Index, 2011



up from 99 in 2005

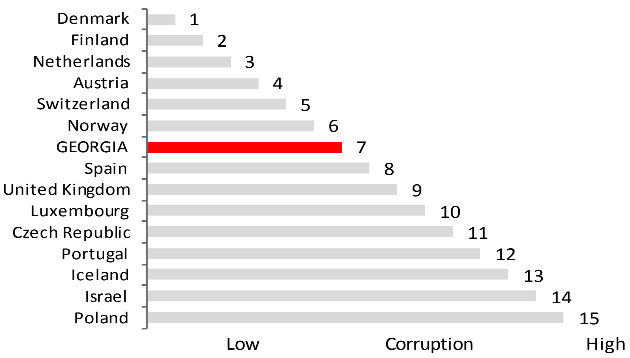
Source: The Heritage Foundation , 2010 (Rank out of 183 countries)

Bertelsmann Transformation Index, 2010



Source: Bertelsmann Stiftung, 2010 (Rank out of 125 countries)

Global Corruption Barometer, 2009 (EU, Selected Countries & Georgia)



Source: Transparency International, 2009 (Rank out of 69 countries)

Apparel and Textile Industry Overview

Georgia has a rich history in the apparel and textile sectors, dating back to Soviet times. During those times, textile and apparel manufacturing was far developed compared to other Soviet Republics. Georgia produced high quality apparel, silk and wool blend fabrics. After the collapse of the Soviet Union, Georgia's textile and apparel sectors fell on difficult economic period - almost all manufacturers in these sub-sectors stopped operating. After Georgian independence, Georgian entrepreneurs, wishing to return to a sector they were skilled in, began refurbishing old factories, purchasing state-owned inventory, and engaging in cut, make, trim (CMT) activities for the local market. Presently, there are more than 200 apparel manufacturing companies in Georgia, about 95% of which are micro-enterprises. Approximately 15 of them employ more than 40 people; Four of which are Turkish investments based in Adjara (southwestern corner of Georgia, bordered by Turkey to the south), two significant Georgian investments in Kutaisi (second largest city and the capital of the western region of the country - Imereti) and Tkibuli, and the rest companies are mainly located in Tbilisi (and its surroundings). Combined, these firms employ approximately 5,000 workers, 85% of whom are women. Annual apparel and apparel production has boosted since 2004, from about GEL 8 million in 2004 to around GEL 40 million in 2010

200 companies, about 95% of which are micro-enterprises

Five Turkish investments based in Adjara and Tbilisi; Significant Georgian investments in Kutaisi, Tkibuli and Tbilisi

Textiles and accessories almost all are imported from Turkey, with a smaller percentage of textiles sourced from China. These inputs enter Georgia via two main routes, directly to the apparel producers in Batumi (Adjara region), Kutaisi and Tbilisi, and via road to the Lilo Market (the largest open-market, a bazaar in Georgia, situated in Tbilisi suburb). In addition to Lilo Market, there are small retail seamstress and tailor supply shops that provide small amounts of inputs to smaller producers and designers in Tbilisi. However, Lilo Market is still the main input materials market in the country because of the large choice of inputs and low prices compared to those small retailers in Tbilisi. Outside of these two markets, firms in Adjara import their inputs directly from Turkish suppliers, as stipulated by their Turkish parent companies.

Main Products: sweaters, jackets, coats, shirts, pants, T- shirts, trousers, sport clothes, socks, textiles

Major end markets: Turkey, CIS (incl. Russia) and the EU

Manufacturing companies in Tbilisi (and its surroundings) in total employ about 1,500 people in Tbilisi. Their main products stream comprise of uniforms: military clothes, police clothes, state security clothes, trousers, jackets, shirts, and sweaters. The products are price-competitive enough to meet the government standards in tenders' requirements, which emphasize low cost. Most of the companies possess modern sewing and cutting machines imported from Turkey, Germany, Japan, and China. They import inputs (textile, zippers, buttons, etc.) mainly from Turkey and China.

Georgia is currently producing apparel for the world famous brands like Tommy Hilfiger, Marks & Spencer, Hawes & Curtis, Zara, Lebek, Koton and etc

All four large apparel producers in Adjara and one in Tbilisi are Turkish investments in the region. Turkish firms, in this context, view Georgia not only as a low-cost producer, but also as an export base that can provide it with access to consumer markets such as CIS, the US, and the EU. About 95% of their production is exported to their parent companies in Turkey, and then from Turkey to the EU markets. The end buyers are Tommy Hilfiger, Marks & Spencer, Zara, Next, Mexx, Lebek, Hawes & Curtis, Koton and others. The production consists of sweaters, jackets, coats, shirts, trousers, T-shirts, pants, sportswear, etc. In total, these companies employ about 3,000 people (90% women). All the input materials come from Turkey, including boxes and hangers.

In Kutaisi, "Imeri," a manufacturer, has been operating since 1996. It is a Georgian investment that employs 450 workers. It manufactures and exports the product to its partner, "Lebek", in Germany. Their main products are coats, dresses, trousers, and shirts. All their inputs come from Lebek. In 2010, about 270,000 pieces were produced. The company also sells its product in the local market in Kutaisi and Tbilisi clothes shops. In the nearest future, company plans to focus more on the local market as it sees increasing demand for its product. Company estimates to increase the number of employees up to 600 workers.

Georgian apparel sector mostly serves Turkish, UK, German and Ukrainian markets.

Garments sold in the local wholesale and retail market are mostly imported products. The local markets are retail shops and shopping centers in Tbilisi, couple of open markets and Lilo Market. The products are imported primarily from Turkey, as well as from India, China, EU, and Asian countries. However, a very small percentage of locally made products made by very few apparel manufacturers are sold in Lilo and retail shops in Tbilisi. In Adjara, BTM Textile Ltd possesses its own retail shop with a variety of clothes for women and men. Batumi Textile has begun selling clothes in Goodwill Hypermarket (the largest and the only hypermarket in Georgia) in Tbilisi.

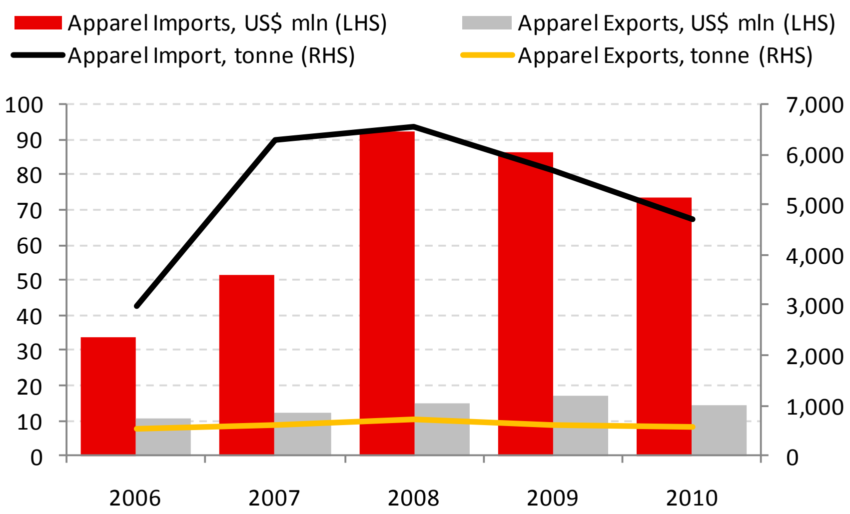
The Georgian police, Ministry of Defense, Ministry of Finance, Ministry of Environment, and many other government organizations purchase uniforms via tender for their employees each year. Local apparel manufacturers produce primarily in response to these tenders, producing and supplying the uniforms. This growing market has been the largest sales opportunity for local producers for the last five to seven years.

Approximately 5,800 employees

In addition to the Government tenders, Georgian apparel companies supply uniforms to the private sector via custom orders. The main buyers are hotels, restaurants, banks, fuel stations, and other companies. These days, this market is smaller compared to the Government tenders as the Government has been the largest buyer for uniforms in the country. However, according to the local apparel producers in Tbilisi, this custom order market seems to be growing.

The following table sets forth trade information about Georgia's apparel sector

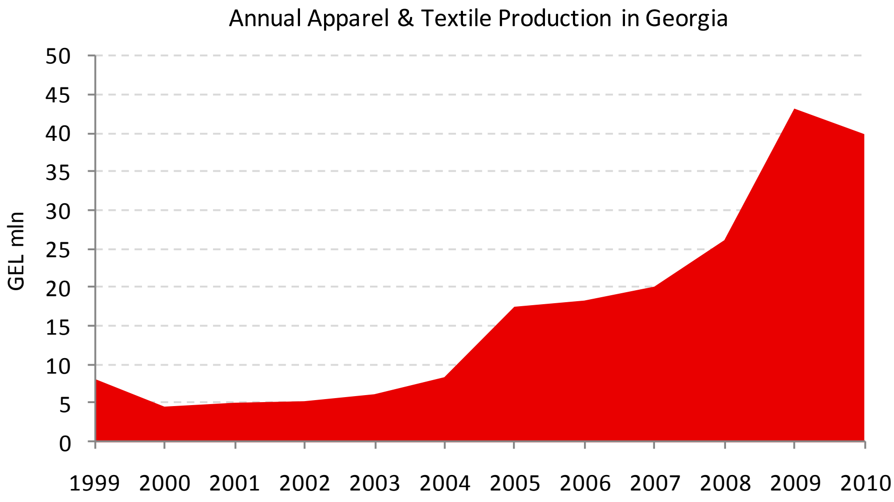
Key Processes - Cut, Make, Trim (CMT), made to order, boutique high-end fashion



Source: National Statistics Office of Georgia - GeoStat

Georgia is a net importer of apparel, whereas the largest international export markets are Turkey, followed by Germany and the United Kingdom. Exports of apparel and textile goods declined slightly to 588 tons in 2010 from 600 tons in 2009, whilst imports of apparel and textile dropped to 4,699 tons in 2010 from 5,669 tons in 2009. Exports of apparel and textile was US$14.4 million in 2010 as compared to 17.1 million in 2009, whereas imports of apparel and textile declined to US$ 73.5 million in 2010, down from US$ 86.6 million in 2009.

Textile and Apparel exports have been mainly driven by companies working in Adjara region followed by companies operating in Kutaisi and Tbilisi. Adjara's exports in 2010 were concentrated in four firms: BTM Textile (about 31%), Batumi Tex (28%), Adjara Textile (21%), and Georgiana Textile (19%).



Source: ITC, TradeMap

Annual apparel and textile production has increased considerably since 2004, from approximately GEL 8 million in 2004 to around 40 million in 2010.

Georgia represent a viable solution (thanks to important comparative advantages vs. other countries) for apparel and textile companies that are currently subject to important sector-wide trends:

- Increasing labor costs (even in geographies that are historical apparel centers)
- Shortening of the product lifecycles (i.e., growth of "fast-fashion" trend)
- Innovations in new fibers and fabrics requiring investments in new machinery and equipment

First, most brands are forced to consider relocation of production to lower cost destinations. Georgia with its low labor costs (and the likelihood to maintain labor costs low for a long period of time due to a large pool of worker) can certainly compete with other countries in the region for manufacturing. In addition, most of the companies supply their contract manufacturers with inputs necessary for production to ensure consistency and quality on materials. This is a great mitigation to the current lack of a supplier industry in Georgia.

Second, in addition to the EU market, several companies are looking to supply their finished products to "new" and high potential geographies (e.g., CIS region at large). In addition, factoring in the "Zara effect" for differentiated yet quick to market production, collection cycles have become shorter and the product "lead times" progressively gained strategic importance. Leveraging on its strategic geographic position, Georgia can offer shorter lead time vs. other production countries and thanks to that even off-set currently lower labor productivity levels.

Third, the fibers as well as the fabric industry is continuously developing with new products being introduced to the market. With its very favorable investment climate, general ease of doing business, and overall supporting environment, Georgia represents a great place where to invest for the long term and continuously update the machinery stock (i.e., make new investments) in a confident way.

Georgia Competitive Advantage in the Apparel Sector

The success of apparel investments comes from a clear advantage on cost competitiveness of input factors. More specifically on **labor costs** (with availability of labor as a key factor in determining labor cost over the mid to longer term), **energy costs** and **logistic costs** (both in terms of transportation to final market as well as contribution to final cost of raw materials – e.g., when raw materials need to be imported from abroad).

Depending on the stage of the apparel value chain (i.e., yarn, fabric, textiles), the relative importance of such elements changes slightly but nonetheless their overall importance remains consistent throughout. The table below illustrates the cost breakdown in the apparel value chain.

Production Cost Breakdown	Yarn	Fabric	Apparel
Raw Materials + Materials (%)	55-65	65	55-65
Labor (%)	5-8	12-18	20
Energy (%)	5-10	5-8	5-8
Other - Transportation, Finance, communication, etc. (%)	17-35	9-18	17-20

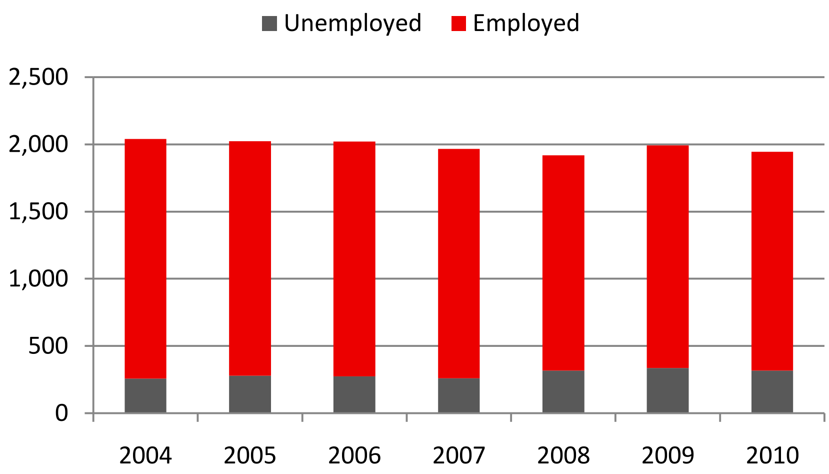
Source: Textile, Apparel, Leather and Leather Goods Report, Undersecretary of Foreign Trade, 2004

There are clearly other factors that investors consider such as size of the national market, export potential to large customer market trade regimes, and general trade regimes. This section illustrates Georgia current position on availability of labor, labor cost, other input factor (e.g., energy) costs and national and export market potentials. The following section will address logistic costs and trade regimes.

Availability of Labor

While Georgia's total population was 4.44 million in 2010, the active population was around 2 million with a 16.3% (316,900 people) unemployment rate.

No minimum wage regulations.



Labor Freedom Index for Georgia is 92.1 (6th place) according to the Heritage Foundation's Index of Economic Freedom for 2011.

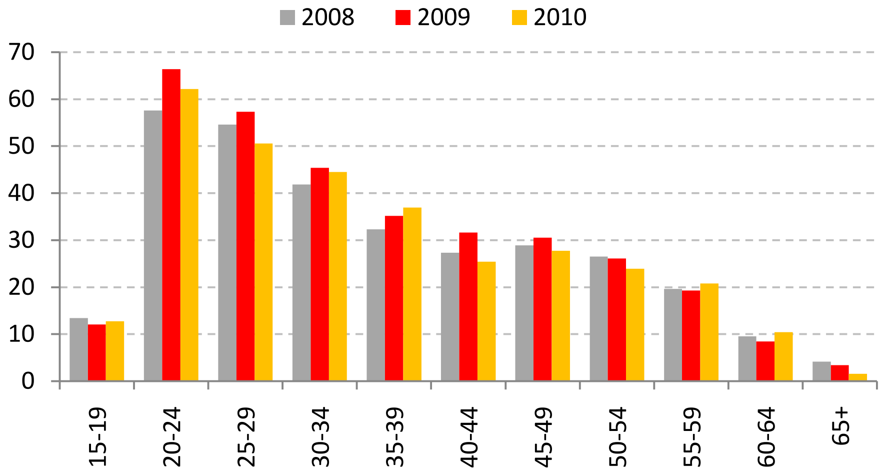
Source: National Statistics Office of Georgia - GeoStat

Georgia has a score of zero in difficulty of the hiring & firing indices, according to the World Bank Doing Business Survey 2011.

As a labor intensive industry, apparel companies are in need of young labor force. An average size would require a production with between 200 and 300 employees. Georgia more than satisfies this request across the entire country, and in particular in certain regions where the unemployment rate is higher.

In addition, in Georgia, 49.6% of the unemployed population (157,300 people) is aged between 20 – 34. As said, there is high percentage of young labor availability especially in the Guria region of Georgia which is also strategically positioned to serve the local market as well as the nearby Turkish market.

Work ethics of the labor force, another important factor for consideration, is also relatively high, and would thus represent a point of confidence for apparel investors.



Source: National Statistics Office of Georgia - GeoStat

49.6% of the unemployed population (157,300 people) is aged between 20 – 34. There is high percentage of young labor availability especially in the Guria region of Georgia

Labor Costs

Georgia has highly competitive labor costs specially compared with Turkey, a world leader in apparel. Based on figures of Georgia-based companies, minimum gross wages (including benefits such as meal, transportation, health insurance as well as income taxes) for the apparel industry in Georgia is around 100 US$/month. The average is around 200 US$/month and maximum wage is around 350 US$/month in Georgia.

Labor Costs:

- *Minimum gross wage - 100 USD/month*
- *Average gross wage - 200 USD/month*
- *Maximum gross wage - 350 USD/month*

It is indicated that the salaries are lower in Guria region (western Georgia) compared to Batumi, Tbilisi, etc. further enhancing the region as a very attractive investment destination. However, it should be noted that these salaries are mainly for machine operators while other employees (e.g., designers) require a comparatively higher salary level.

For general comparative terms, in Turkey for instance the cost of an employee with minimum wage is around 800[1] USD/month (including taxes and excluding meal, transportation, etc.). The gap between Turkey and Georgia widens depending on the location: labor in cities such as Istanbul is more expensive compared to most of the cities in Anatolia. Overall however, Georgia maintains significant cost competitiveness vs. Turkey. In addition to labor cost absolute levels, it is key to understand the productivity-weighted labor cost (i.e., the effective labor cost per unit produced, depending on the productivity of the labor force). Based on current average productivity levels in Turkey and in Georgia, the existing a less than half absolute labor cost in Georgia would make it more attractive than Turkey. Yet it should be noted that productivity levels can be quickly enhanced and the Government is willing to facilitate the training process through specifically designed incentives schemes.

[1] Based on 1 USD: 1.6 TL. This is the total cost of labor to the employer. The employee receives 800 USD net wages per month.

Other Input Factor Costs

In addition to labor, energy costs represent another important factor (between 5% and 10% of total production cost) albeit certainly not as key as labor. Also in this regard, Georgia compares favorably with other countries. The price of electricity in Georgia is extremely low (thanks to significantly availability of water reservoirs for hydropower generation) at about 0.065 USD/kwh[2] (incl. taxes). This is roughly half of the average price in Turkey (at 0.146 – 0.154 USD/kwh[3] incl. all taxes). Natural gas prices on the other hand are almost equal in the two countries.

Electricity - 0.065 USD/kwh (incl. taxes)

Natural Gas - 0.43 USD/m^3 (incl. taxes)

Water - 0.118 USD/ 1m^3

Lastly raw material is an important element to consider where Georgia does not rank favorably due to the lack of a supplier industry base. Apparel companies in Georgia would thus have to bear the logistics costs associated with importing raw material in the country. This may be an immaterial problem when the target markets are "on the way through" Georgia (e.g., Russia) while may be material, say for a Turkish company looking to export to the EU. The Government of Georgia may look for ways to minimize the impact of cross-country trades in specific situations.

Market potential (domestic and export potential to key consumer markets)

As Georgia is a 4.44 million populated country, the domestic demand for textile products is of limited strategic interest for investments. Even when taking into account nearby markets, the potential demand appears to be relatively small

Thus, as mentioned before and further detail afterward, Georgia can represent an "export" base to have access to large consumer markets such as Russia, Ukraine, Kazakhstan, Belarus, US and EU. In fact, based on the value of imported apparel products the world's largest apparel importer is US followed by many EU countries as well as Russia.

Duty free trade opportunities with large consumer markets such as CIS and Russia are certainly critical, for instance to potential investors from Turkey. Russia is one of the key markets that Turkish investors would like to export to and the customs duties are significantly high, limiting Turkey's export capacity. Georgia thus represents a great platform to reach to high growth potential economies in the greater region

[2] Based on 1 GEL: 0,578 USD

[3] EPDK, TEDAS. Based on 1 USD: 1.6 TL

SWOT Analysis of Georgian Apparel & Textile Industry

Strength	Weaknesses
• Cheap labor • Cheap electricity • Government support and incentives • Inexpensive land • Short transit time to key export markets • Favorable trade regimes • No tariff on imports and exports with turkey • Favorable business environment • Low and flat taxes • Growing domestic market • Access to debt fudging from local commercial banks and international financial institutions (IFIs) • Strong historical records in apparel and textile manufacturing	• Technological obsolescence and Lower efficiencies • Lack of strong market linkages • A lack of strong linkages between raw material supplier and the apparel manufacturer • Lower productivity per employee • Heavy dependence on imported inputs • Poor market information • Little evidence of horizontal collaboration

Opportunities	Threats
• Regional apparel hub to have access to large consumer markets such as Russia, Ukraine, Kazakhstan, Belarus, US and EU • Quotas carried on in China after 2005 • Further improvements in infrastructure and deregulations of the markets • Research and product development • Understanding buyers need because of language advantage, at least in CIS region	• Exchange rate possible fluctuations • Volatility on the global financial markets • Consumer confidence erosion due to huge uncertainties in the global economic outlook • Geopolitical instability • Upcoming elections in the various countries in the region • Enhanced competition from other countries from the region

World Trade Organisation and Other Trade Regimes

MFN Tariffs with WTO Members

Georgia joined the WTO on 14 June 2000 and immediately entered a round of multilateral trade negotiations, as well as bilateral negotiations with the other member states.

Georgia benefits from a Generalized System of Preferences (GSP) when trading with the USA, Canada, Switzerland, Japan and Norway; accordingly lower tariffs are applied on goods exported from Georgia to those countries.

After signing the Protocol on Accession to the Marrakesh agreement establishing the WTO, Georgia joined several WTO agreements and made commitments under the WTO Annexes to this Protocol. Georgia is therefore bound by the maximum customs tariff rates on imports, subject to special consent of the WTO members. Since its accession to the WTO in 2000, Georgia has been working on reducing tariffs and non-tariff barriers to trade. In 2006, the government abolished import tariffs on almost 90% of goods.

GSP+ status with the EU allows Georgia to Export apparel and textile products to the EU market duty free or with lower tariffs

Georgia has most-favoured-nation trading relationships with all WTO members and has GSP arrangements with all EU countries (GSP+ status), Japan, Canada, Norway, the United States and Switzerland. In 2008, Georgia's GSP+ privileges granted by Turkey were replaced by a free trade agreement between Georgia and Turkey, pursuant to which customs tariffs on industrial products have been fully eliminated, although a number of agricultural products are excluded by both parties. In 2007, Georgia and the United States signed a Trade and Investment Framework Agreement and, in January 2009, Georgia signed the Georgia-U.S. Charter on Strategic Partnership, which, *inter alia,* covers issues of trade between the two countries

Georgia is under active negotiations on the Deep and Comprehensive Free Trade Agreement with EU

Georgia's GSP+ status with the EU has had a favorable result on the volumes of trade with EU member states, which has increased significantly between 2006 and 2010. Despite the global financial crisis on Georgia during the period, from 2006 to 2010 imports from EU countries increased by 30.3% and exports to EU countries increased by 32.0%. In 2010, imports from EU countries increased by 10.3% as compared to 2009, while exports to EU countries increased by 24.8%.

Certificate of Origin can be obtained based on Georgian as well as Turkish components

Free Trade Regime with CIS (Including Russia) Countries and Turkey

Georgia has signed a number of economic cooperation agreements with neighboring CIS countries. The most significant of these agreements are bilateral free trade agreements with Armenia, Azerbaijan, Kazakhstan, Turkmenistan and Ukraine, as well as Russia. The volume of trade with CIS countries has increased in recent years. Despite the combined effects of the 2008 Conflict and the global financial crisis on Georgia, as well as the impact of the Russian embargo, during the period, from 2006 to 2010 imports from CIS countries increased by 10.9% and exports to CIS countries increased by 64.7%. In 2010, imports from CIS countries increased by 23.6%, as compared to 2009, while exports to CIS countries increased by 54.8%.

Georgia is actively working with the EU and the USA to promote free trade negotiations.

In June 2007, a Trade and Investment Framework Agreement were signed between Georgia and the United States. Georgia has signed double taxation treaties with 30 countries.

In order to further liberalize its foreign trade relations, Georgia is actively working with the EU, the European Free Trade Association (the "EFTA") and the Gulf Cooperation Council to negotiate free trade agreements. In 2008, a feasibility study on potential future free trade agreements between the EU and Armenia and Georgia, respectively, concluded that such an agreement could bring significant economic benefits to both countries. Negotiations are expected to commence within the framework of the negotiations in respect of the two countries' bilateral association agreements with the EU, which were launched in July 2010.

Tariffs

Georgia does not apply quantitative restrictions or non-tariff barriers, except when justified by health, safety and environmental protection considerations. VAT and excise tax apply equally to imported and local products. Licensing requirements remain in effect for the import of certain medicine, weapons, explosive materials and radioactive products. Before September 2006, Georgia had 16 tariff rates ranging from 0% to 30%. The Law on Customs Tariffs, adopted in September 2006 and incorporated into the Customs Code passed in 2007, reduced customs tariffs, in most cases, to 0%. In 2010, the Customs Code was combined with the existing tax code to create the unified Tax Code, which came into effect on 1 January 2011. Pursuant to the Tax Code, tariffs on most agricultural products and certain construction materials that are produced in Georgia are subject to rates of 5% and 12%. Georgia's weighted average import tariff is among the lowest in the world

Low import tariffs (90% of goods free from import tariff)

Georgia does not have import tariffs on machinery and equipment

International Trade

No quantitative restrictions on import and export

Few export/import licenses and permits

Simplified export and import procedures

Georgia is an open economy, and the value of foreign trade in goods and services represented approximately 85% of GDP in 2010. Georgia's trade balance has been characterized by a structural deficit, as a result of the high prices for imported energy and commodities and the import of capital goods as Georgia re-industrializes with the benefit of increased private capital inflows. Georgia's external trade balance in services has been positive, as a result, in part, of the growing tourism sector. Turkey, the EU, Ukraine, the United States and Azerbaijan have been among Georgia's five largest trading partners over the past five years.

Imports

Georgian imports are primarily comprised of petroleum and petroleum products, motorcars, medicines and food products. Due to Georgia's status as a regional hub for trade, some of the goods imported into Georgia, such as motorcars, are subsequently re-exported to neighboring countries.

Over the period 2006-2010, the value of Georgia's imports of goods increased significantly from US$ 3,675 million in 2006 to US$ 5,095 in 2010. The increase over the period was principally due to the continued liberalization of trade 49 policy, generally increased FDI inflows, import tax reforms and increases in the price of oil products and other international commodities. Imports peaked at US$ 6,302 million in 2008, before falling to US$ 4,366 million in 2009. This represented a year-on-year decrease of 30.7%, which was followed by a 16.7% year-on-year increase in 2010 to US$ 5,095 million. The NBG estimates that total imports, including both goods and services and after certain statistical adjustments, amounted to US$ 6,083 million in 2010, as compared to US$ 5,267 in 2009.

Exports

No VAT on export

In 2010, Georgia's principal exports were ferro-alloys, motor cars, ferrous waste and scrap, gold, mineral or chemical fertilizers and copper ores and concentrates. Due to Georgia's geographic location, the transport services (including transit fees generated by the pipelines that traverse Georgian territory) and logistics sector has become a significant generator of export revenues, enabling Georgia to become a net services exporter.

No customs tariff on export and re-export

Over the period 2006-2010, the value of Georgia's exports of goods increased significantly from US$ 936 million in 2006 to US$ 1,583 in 2010. The increase over the period was principally due to the increased exports of ferro-alloys and motor cars, together with continued liberalization of trade policy and import tax reforms.

Notwithstanding the overall increase in the past five years, exports decreased by 24.1% in 2009, from US$ 1,495 million in 2008 to US$ 1,134 million in 2009. In 2010, exports recovered to surpass 2008 levels increasing by 39.6%, as compared to 2009, to US$ 1,583 million. Total exports, including both goods and services amounted to US$ 4,048 million in 2010, as compared to US$ 3,208 in 2009.

Transportation and Logistics

Georgia is located between Europe and Central Asia and is considered to be a bridge connecting several important economic regions with a total population of more than 827 million people. It is bounded to the west by the Black Sea, to the north by Russia, to the southwest by Turkey, to the south by Armenia, and to the southeast by Azerbaijan.

Strategic location - historical east west corridor…

Since 2004, investment in Georgia’s transport infrastructure has focused on reconstruction and rehabilitation in order to modernize the infrastructure after years of underinvestment. Transport services and communication systems are in need of further modernization. In 2010, the transport sector’s contribution to Georgia’s Nominal GDP grew by 25.6% to GEL 1,429 million, as compared to GEL 1,138 million in 2009, primarily due to the implementation of a number of infrastructure projects, including the construction of road systems, continuing projects involving Georgian Railway and work on the construction of the new Baku-Tbilisi-Kars railway line.

Georgia has good sea, air, rail and road connections to the main apparel market EU, CIS and Turkey.

Located at the crossroads of Europe and Central Asia, Georgia is a bridge connecting several important economic regions, including the EU, the CIS, Turkey and the Caucasus Region. It is a key link in the shortest transit route between Western Europe and Central Asia for the transport of oil and gas, as well as dry cargo. Georgia’s oil and gas pipelines, Black Sea ports, railway systems and airports are playing an increasingly important role in linking East and West.

There are two international airports in Georgia

In order to facilitate easy transport of goods through Georgian territory, the Government, in cooperation with private enterprises, continues its liberalization of regulations on international transport; development of transport infrastructure including roads, railways, sea ports and airports; simplification of customs and other administrative procedures; and the introduction of a number of economic reforms in this sphere.

There are three operating sea ports in Georgia

The Georgian road network is comprised of 22,490 km of international roads (with cross-border links), secondary roads (between major cities and regional centres) and local roads (between villages and regional centres). In 2010, 28.5 million tons of cargo and 317.9 million passengers were carried by road transport. Approximately GEL 708 million was invested in the construction and rehabilitation of Georgian roads in 2010, as compared to GEL 553 million in 2009, and more than GEL 500 million is budgeted for 2011.

Approximately 80 km of a four-lane highway connecting eastern and western Georgia have been constructed, which was jointly financed by the World Bank and the Government. In addition, the Japanese International Cooperation Agency has provided loans for a highway improvement project to upgrade the 40-km section of the East-West Highway in western Georgia and build a bypass around Kutaisi.
The Asian Development Bank has also provided loans for the construction of the Adjara bypass road, part of the East - West Highway with cross-border links to Turkey.

Noteworthy that, since 2003, more than 3,000 km of roads have been improved and refurbished

The Georgian railway, which is state-owned, runs on 1,554 km of track. In addition to serving the Georgian market, the Georgian railway connects with Azerbaijan State Railway to form part of the shortest rail link between the Black Sea and the Caspian Sea. In 2010, Georgian Railway carried 19.3 million tonnes of cargo, including 11.1 million tonnes of oil and oil products and three million passengers

In 2010, 22.7 million tonnes of cargo were processed at Georgia's sea ports and terminals on the Black Sea, Batumi Sea Port (8.0 million tonnes), Poti Sea Port (7.3 million tonnes), Kulevi Sea Terminal (3.4 million tonnes) and Supsa Sea Terminal (4.0 million tonnes).

In 2008, JSC National Company KazMunayGas, the Kazakh state-owned oil company, leased the Batumi port and oil terminal. In addition, in 2007, the Kulevi oil terminal, situated between Poti and Batumi on the Black Sea, was completed. The Kulevi oil terminal is majority-owned by SOCAR, the Azeri state-owned oil company. Georgia's ports and terminals serve as key links in the transportation corridor between Asia, the Caucasus and Europe. Additionally, they contribute to the growth of the Georgian railway, since oil and oil products originating in Central Asia and Azerbaijan and exported through the seaports are transported*, inter alia*, by rail across Georgia.

Georgian sea ports are linked with the ports of Iliychevsk and Kerch (Ukraine), Varna (Bulgaria) and Kavkaz (Russian Federation) by direct railway-ferry lines and with Novorossiysk (Russia) and Burgas (Bulgaria) ports by direct Ro-Ro lines. In addition, Georgia is currently in negotiations with Turkey and other countries to establish direct ferry connections.

In 2010, over 918,660 passengers passed through Georgia's three main international airports, Tbilisi International Airport (822,818 passengers), Batumi International Airport (88,627 passengers) and Kutaisi International Airport (7,221 passengers). In early 2007, each of Tbilisi International Airport and Batumi International Airport were significantly upgraded. These airports are currently served by Georgian Airways, the national airline, and 12 foreign airlines, including, inter alia, Aerosvit, Air Baltic, Austrian Airlines, British Midland International, CZA, LOT Polish Airlines, Lufthansa, Pegasus Airlines, S7 Airlines, Turkish Airlines and Ukraine International Airways. Direct air connections are available from Tbilisi to inter alia, Amsterdam, Athens, Baku, Dubai, Frankfurt, Istanbul, Kyiv, London, Minsk, Moscow, Munich, Odessa, Paris, Riga, Tel Aviv, Vienna and Vilnius.

57 flights to Europe weekly
55 flights to CIS weekly

There are direct flights between Georgia and nine EU member states.

Over the last five years, passenger traffic between Georgia and the EU has increased by an average of 10% per year, while cargo traffic has increased by an annual average of 26%.

In 2005, the Government announced a civil aviation "open sky" policy under which new air service agreements were entered into with the aim of abolishing restrictions in relation to the number of air carriers permitted to operate flights, the capacity, frequency and destinations for such flights and the establishment of a liberal international tariff regime. Since 2005, Georgia has entered into new air service agreements and protocols amending existing agreements with Armenia, Austria, Azerbaijan, the Czech Republic, Latvia, Poland, Switzerland, Turkey, the United Kingdom and the United States.

Most Used Transportation Routes

	Western Europe	Central Asia	Russia
Road	Georgia-Turkey-Bulgaria-Romania-Hungary-Austria-Germany	Georgia-Azerbaijan–Kazakhstan	Georgia-Azerbaijan–Russia
	Georgia(Poti by Ferry)–Bulgaria-Romania-Hungary-Austria-Germany	Georgia-Azerbaijan–Kazakhstan-Central Asia	
	Georgia (Batumi by Ferry)-Ukraine-Poland-Germany	Georgia-Turkey-Middle East	
Sea	Georgia(Poti)–Turkey–Nederland or Germany		Georgia (Poti/Batumi)–Turkey–Russia
	Georgia (Batumi)–Turkey–Nederland or Germany		Georgia (Poti)–Egypt–Germany–Russia
	Georgia (Poti)–Egypt-Nederland or Germany		
Air	Tbilisi–Frankfurt	Georgia–Azerbaijan–Kazakhstan	Georgia–Russia
	Tbilisi-London		Georgia–Azerbaijan–Russia
	Tbilisi - Moscow		
	Tbilisi-Vienna		
Rail	Georgia-Turkey-Europe (under construction)	Georgia- Azerbaijan–Kazakhstan	Georgia-Azerbaijan–Russia
			Georgia (Poti)–Ukraine–Russia
			Georgia (Poti/Batumi)–Russia

Taxes and Tax Rates

There are six taxes currently in force in Georgia.

By the initiative of the Government of Georgia, decision regarding the increase of taxes can only be made after countrywide referendum.

Income Tax

The personal income tax rate is 20% and it is scheduled for further reductions to 18% through 1 January 2013 and to 15% by January 2014.

Corporate (Profit) Tax

Legal entities carrying out activities in Georgia are subject to corporate profit tax which is 15%. Georgian entities, meaning entities incorporated or managed in Georgia, pay corporate profit taxes on their worldwide income.

- *Corporate Income Tax - 15%*
- *Personal Income Tax - 20% (decreasing to 15% by 2014)*
- *Withholding Tax - Dividends distributed to individuals and non-residents are subject to 5% (decreasing to 0% by 2014)*
- *VAT - 18*
- *Property Tax - up to 1%*
- *Import/Customs Tax – 0%, 5%, 12%*

In contrast, foreign entities pay corporate profit taxes only on Georgian-sourced income. Taxable profit of Georgian entities, as well as that of foreign entities operating in Georgia through their permanent establishment, is equal to the difference between taxable income and tax-deductible expenses.

Foreign entities earning Georgian-sourced income () without a permanent establishment in Georgia are subject to withholding tax on this income at the source of payment (i.e. by the company paying income) at the rate of 10% or 15%. Certain relief on non-resident income withholding tax may be available through applicable Double Taxation Avoidance Treaties, if any.

Georgia has no separate tax on capital gains. Capital gains of resident natural persons, as well as Georgian-source capital gains of non-resident natural persons arising from the sale of any asset (including securities), are taxable at the flat personal income tax rate of 20%. The sale of tangible assets (including securities) held by an individual for more than 2 years is exempted from personal income tax.

Taxes can only be increased as the result of a national referendum.

Capital gains of Georgian entities, as well as Georgian-source capital gains of foreign entities, are taxable similarly to other taxable profit at the flat profit tax rate of 15%.

Withholding Tax on Dividend

At present 5% (0% by 2014) withholding tax is imposed on dividends paid to natural persons and foreign entities, subject to certain relief which may be available through applicable Double Taxation Avoidance Treaties. Dividends paid to Georgian entities or Georgian permanent establishments of foreign entities are not subject to withholding tax and are not included in taxable profit.

Foreign-source income of individuals fully exempted

Withholding Tax on Interest

A 5% (0% by 2014) withholding tax is imposed on interest payments made by Georgian entities or Georgian Permanent Establishments of foreign entities, provided that the source of interest income is in Georgia. Interest received from licensed financial institutions is no longer taxed at the source and is not included in the gross income of the recipient unless it is also a licensed financial institution. If the recipient is a licensed financial institution, the interest is not taxed; it is however included in its gross income.

Capital expenditure can be depreciated fully in the year it has been incurred of the operation, and 10-year loss carry forward is available

Relief on withholding tax on interest income may be available through applicable Double Taxation Avoidance Treaties.

Property Tax

Georgia applies property tax at a flat rate of up to 1% on the annual average net balance sheet value of tangible and intangible non-current assets of Georgian entities and Georgian permanent establishments of foreign entities. The property tax is a local tax. As such, its exact rate is determined by Units of Local Self Governance. Notably, land and certain movable property (cars, yachts, etc.) are taxed based on specific rules set out by domestic tax law.

No wealth tax, inheritance tax or stamp duty

Value Added Tax

The Tax Code of Georgia sets the value added tax at the rate of 18%. Taxable operations include supply (and import) of goods and services in Georgia. Certain business activities, such as, for instance, financial services, are exempt from VAT. The Tax Code of Georgia establishes a mechanism to, on a monthly basis, offset input VAT (VAT on purchase and import) against output VAT (VAT on sale). Surplus VAT payments can be reclaimed or offset against future VAT payments or current tax liabilities pursuant to the special provisions of the Tax Code of Georgia.

No payroll tax or social insurance tax

With respect to the electricity sector, VAT exemption applies to the import of goods and/or construction-installation, renovation, rehabilitation, testing and/or geological exploration services financed by the favorable credits issued by the foreign states and/or international organizations under international agreements ratified by the Parliament of Georgia for the purposes of rehabilitation of the Georgian electricity sector. Supply of electricity to the consumers (except to the retail consumers) is exempt from VAT until January 1, 2012.

Withholding Taxation and Double Taxation Avoidance Treaties

Income earned by foreign companies and individuals from Georgian sources not having a Permanent Establishment (PE) in Georgia is subject to withholding tax at the source of payment. Double taxation treaties may reduce the tax rates. In general, double taxation treaties provide relief from the payment of non-resident income withholding tax (such as on interest payments, for instance), as well as withholding tax on dividends and capital gains in Georgia when the non-resident has invested in the Georgian company in excess of a certain investment threshold, while taxing dividends and capital gains in other cases at lower tax rates compared to the statutory rates.

Currently Georgia has 30 OECD model double taxation avoidance treaties with: Armenia, Austria, Azerbaijan, Belgium, Bulgaria, China, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Iran, Ireland, Italy, Kazakhstan, Latvia, Lithuania, Luxemburg, Malta, The Netherlands, Poland, Romania, Singapore, Turkey, Turkmenistan, Ukraine, The United Kingdom, Uzbekistan.

Treaties with: State of Kuwait, State of Qatar, United Arab Emirates, Spain, State of Israel, Switzerland and Egypt are ratified by Georgia and will enter into force after ratification by a contracting state.

Treaties with: Cyprus, Kingdom of Norway, Kingdom of Bahrain, India, Slovenia, Slovakia, Hungary, Portugal are in line for the official signature.

Because Double Tax Avoidance Treaties vary from country to country, they must be analyzed in the light of the investor’s specific circumstances.

Customs Duties

Newly adopted Tax Code of Georgia (TCG) regulates both tax and customs issues. The TCG defines various customs regimes under which goods are brought in or taken out of the customs territory of Georgia. Taxpayers of customs duties are persons who cross the customs border of Georgia holding the goods.

Where imported goods are subject to customs duties, the importer or the importer’s authorized representative is responsible for the payment of any customs duties due at the time the goods are released by customs for free circulation within the territory of Georgia.

Customs duties include taxes and fees payable upon bringing goods in or taking them out of the customs territory of Georgia, and for some special goods a license fee is payable.

Taxes payable upon import include customs (import) tariff, VAT (payable on imported goods by both VAT registered and non-VAT registered persons) and excise tax (if applicable).

Customs Tax (Tariff)

Customs tax is based on either customs value or per physical unit of goods. The rate applicable to the customs value of the goods is fixed at 0%, 5% or 12%, depending on the classification of the goods. Most goods fall into the 0% rate. Most food products and construction materials fall under the 5% or 12% tax rates.

Customs Fees

Customs fees are payable at the time of declaration of the goods to customs and are due on import, export, or transit of goods into, out of, or through Georgian customs territory, as well as upon the registration of temporarily imported transportation means.

Tax Free Regimes in Georgia

Specialized tax rates and procedures have been adopted for 3 types of Tax-Free Regimes in Georgia. These include: 1. Free-Industrial Zones (FIZs); 2. Free Warehouse Enterprise; and Entities designated as *International Finance Companies*. These innovations are intended to establish new international financial institutions within the country, to attract inward investments and to encourage economic growth and sustainable development. The introduction of free warehouses and international enterprises into the tax and legal systems is intended to encourage the trade-transit function within Georgia.

*On any territory **exceeding 10 hectares**, except for the protected territories under the Georgian Law*

Free Industrial Zones

Free Industrial Zone legislation was introduced in Georgia in 2007 for the purpose of encouraging foreign investments, stimulating exports and developing Georgia's international trade-transit activities. A favorable tax and customs framework for FIZ is intended to provide incentives for international firms to develop their production bases within such zones. As of December 31, 2010 there are 3 FIZs in Georgia, which entitle FIZ-incorporated International Companies to operate in a tax-free environment.
In Free Industrial Zones firms can process, produce and export goods with minimal tax burden; export goods free of trade barriers to global markets; and export more than 7,200 types of goods under GSP+ terms to the EU.

Decision on the creation of Free Industrial Zones is made by the Government of Georgia

Currently two FIZ operated in Georgia – Poti FIZ and Kutaisi FIZ

Free Warehouse Enterprise

Due to its geographic location, of Georgia's goals is to facilitate *shortest and fastest transit route* between Europe and Central Asia. This goal is supported by the legislation which enables incorporation of Free Warehouse Enterprises. Such an entity are intended to be an integral part of an international transit company and to benefit from exemptions from profit tax applied to income received from re-exporting goods from an independent warehouse via Free Warehouse Enterprise. The VAT rate on the supply of goods by a Free Warehouse Enterprise to a VAT taxpayer is 0%.

International Finance Company

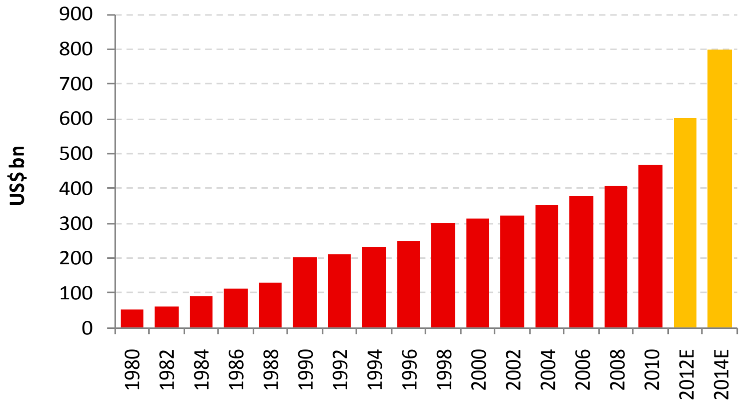
Georgian tax legislation offers incorporation of an International Finance Company. An International Finance Company is defined as an entity whose revenues received from financial operations implemented or financial services provided in Georgia do not exceed 10% of its gross revenues. An IFC is not required to obtain a license from the National Bank of Georgia. Activities of IFCs are exempt from taxes (i.e., it operates under a Tax-free Regime).

Comparative Table of Tax Exemptions

Tax	FIZ Int'l Company	Free Warehouse	Int'l Finance Co
Corporate Income Tax	0%	0%	0%
Value Added Tax	0%	0%	0%
Customs Tariff	0%	up to 1%	up to 1%
Property Tax	0%	0%	up to 1%
Personal Income Tax	20%	20%	20%

Global Apparel and Textile Industry

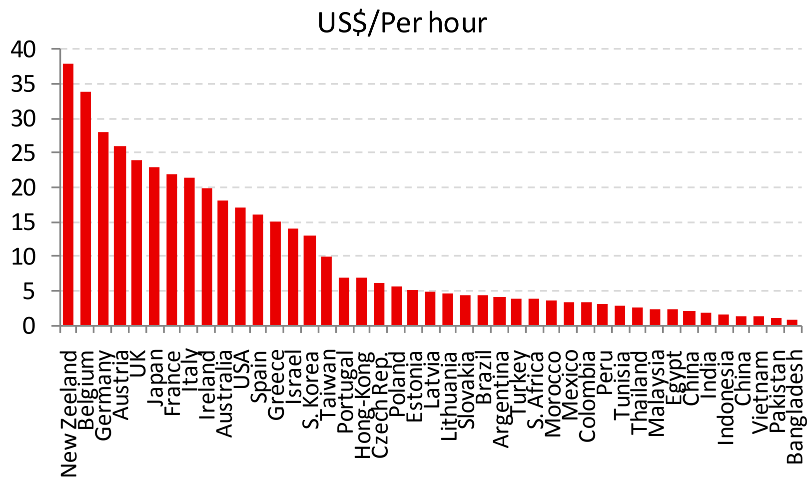
According to statistics, the global apparel market is worth of more than US$400 billion at present. In a more liberalized environment, the industry is facing competition as well as opportunities. It is predicted that Global apparel/textile production will grow up to 25% by the year 2010 and 50% by 2014. The world textile and apparel industry has gone into a phase of transformation since the elimination of quota in the year 2005. Many new competitors as well as consumers have entered the global market with their immense capabilities and the desire to grow:



India is rapidly expanding its role with new capacity build-up in management control of textile trades through vertical integration

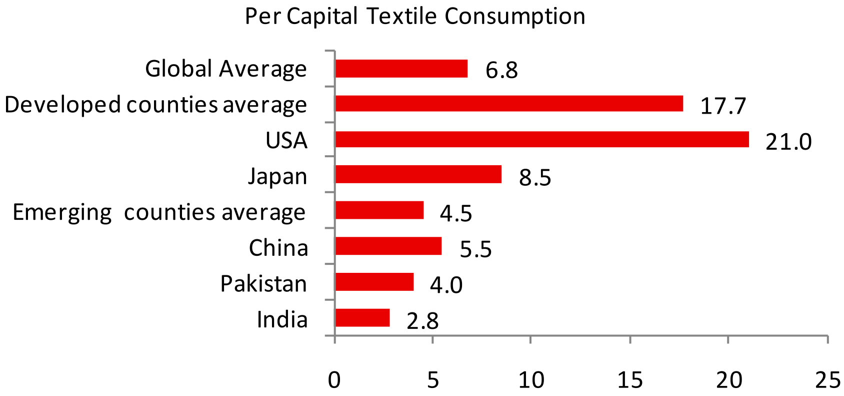
It is expected that China will represent around 45% of global trade by 2010. Inspire of its significant growth trend, China's rising costs and perceived risks are creating more opportunities for other low cost countries. It is also expected that India will represent around 20% of global trade by year-end 2011. India is rapidly expanding its role with new capacity build-up in management control of textile trades through vertical integration. Vertically integrated companies are organized in a hierarchy and share a common owner. Usually each member of the hierarchy produces a different product or service. The products are combined to achieve a common goal. The advantage of Vertical integration is that it avoids the hold-up problem.

Pakistan, Vietnam, Cambodia and Bangladesh are relying on their low manufacturing costs due to cheap labor available there. Thus they are building up more capacity in apparel/textile manufacturing.



Turkey, closely connected to Italy, is fast emerging as a critical regional player. It is creating a number of new regional brand players by providing them ' Turquality ' accreditation. The purpose of this accreditation is to strengthen the quality image and enhance the recognition and awareness of Turkish brands.

Egypt is presently working with new emphasis in apparel/textile sector. Eastern European countries, have suffered a slight set back due to their growing costs. As a result they are rapidly refocusing and repositioning on higher market segments. South and Central America maintain a relevant focus on apparel. Italy still leads in the luxury segments. In the western countries, imports have almost reached 85-90% of total consumption



Future Textile Industry- A Perspective

The future global market for textile and apparel is expected to expand in a significant way. The reasons for such expansion include growth of new consumption markets, Global expansion of modern retail business, boom of air and sea shipments, growth of textile and related production in Eastern Europe, ex Russian block, Turkey, Middle East, South East Asia, India, China and South America.

The future global market for textile and apparel is expected to expand in a significant way.

In future, It is going to be a challenging global market full of risks but also full of unbelievable opportunities. Strategic partnership among various interests will become more important than the traditional transactions through vendor relations with the two factors to be kept in mind - Skills & Competences and Key Trends.

Risk Factors

Developing Country Risk

Developing markets such as Georgia are subject to greater risks, than more developed markets, including significant economic, political and legal and legislative risks, and the global financial and economic crisis could have a particularly significant adverse effect on emerging markets such as Georgia.

Besides, investors should also note that developing economies are subject to rapid change and information set forth herein may become outdated relatively quickly. Moreover, during economic slowdown projects and companies operating in the country can face liquidity constraints as foreign funding sources are withdrawn.

The risk factors below focus on risks in Georgia. Accordingly, prospective investors should exercise particular care in evaluating the risks involved and must decide for themselves whether, in light of those risks, their investment is appropriate.

The following list includes several, but not all, risk factors that investors shall be beware of as they make long-term investment in Georgia:

Macroeconomic Risks

Significant decline of FDIs or inability of the country to borrow from abroad could increase its balance of payment that could result in worsening of its monetary conditions and exchange rate of the currency.

Although Lari has avoided significant crises since its inception (1995), its rate has been volatile during the economic downturns. The most significant instability in the Lari-U.S. Dollar exchange rate were observed following the Russian financial crisis of August 1998 and the 2008 Conflict. While the Lari generally appreciated against the U.S. Dollar and other major international currencies from 2001 to 2008, the Lari has generally depreciated since then. In addition, in November 2008, the NBG devalued the Lari by 16%, a measure aimed at alleviating the negative impact of the global financial crisis on the Georgian economy. The ability of the Government and the NBG to limit any volatility of the Lari will depend on a number of political and economic factors, including the NBG's and the Government's ability to control inflation, the availability of foreign currency reserves and FDI inflows, and any failure to do so or a major depreciation or further devaluation of the Lari could adversely affect Georgia's economy.

The inflation can be another significant macroeconomic risk. Large current account deficit make Georgia vulnerable to increasing prices abroad. The annual inflation increases as measured by the end-of-period Consumer Price Index ("CPI"), in Georgia was 5.5% in 2008, 3.0% in 2009 and 11.2% in 2010. Inflation has continued to rise in 2011, reaching 13.7% at the end of February 2011. High and sustained inflation could lead to market instability, a financial crisis, a reduction in consumer purchasing power and erosion of consumer confidence.

Although Georgian banking system weathered the financial crises without any bank failures is not strong enough to support large scale long-term capital investments

Risks Related to Legal System

The legal system is at the stage of the development. Hence, frequent changes in the laws and regulations may create uncertainties for the long-term investors. Several fundamental Georgian civil, criminal, tax, administrative and commercial laws have only recently become effective. The recent nature of much of Georgian legislation and the rapid evolution of the Georgian legal system place the quality and the enforceability of laws in doubt and result in ambiguities and inconsistencies in their application.

Besides, judges and courts in Georgia are generally less experienced in the area of business and corporate law than is the case in certain other countries, particularly the United States and EU countries. This may cause longer time for the litigation than in more developed countries. The uncertainties of the Georgian judicial system could have a negative effect on the economy, resulting slow economic growth and consumption.

Neighboring Country Regulation Risks

The proposed development projects are partially dependent on the regulatory framework of neighboring countries (namely Turkey, which is assumed to be major export market for the produced electricity). Currently, Turkish energy market is undergoing radical changes towards liberalization and privatization. The reversal of initiated changes or regulatory uncertainties may result in the reduction of the profitability of the Georgian power sector and hurt economic feasibility of some of the proposed projects.

Contacts

Keti Bochorishvili
Director
+995 32 2 991098;
k.bochorishvili@investingeorgia.org

George Tsikolia
Deputy Director
+995 32 2 106392;
g.tsikolia@investingeorgia.org

GEORGIAN NATIONAL INVESTMENT AGENCY
12 Chanturia Street, 0108 Tbilisi, Georgia.
Tel: +995 32 2433 433/2106 392
E-mail: apparel@investingeorgia.org