

CEI: Information regarding proposed distribution of cash to shareholders. Recommendation for upcoming EGM

Dear CEI Shareholders,

CEI's main asset, the Mtkvari Hydro Power Plant construction project ("MHPP"), was divested in May 2014 for USD 11M. Of the proceeds, USD 0.7M was used to pay off debts, and another USD 0.2 has been used to cover CEI's costs for 6 months. Today (as of December 1, 2014), CEI assets comprise of USD 10.1M in cash and three pieces of real estate: one large land plot (10ha) next to the airport, one building in the old town of Tbilisi and agricultural land near Mtskheta (5ha). The real estate assets were acquired already before 2008 and have since then been on the company's balance sheet without earning any returns.

After the divestment of MHPP, the company has hired a new CEO, and also changed the composition of the Supervisory Board, which now consists of three members representing the three largest shareholders.

Since June 2014, the new Supervisory Board and CEO have been working for selling the real estate at highest possible price, and then distributing all cash of CEI to its shareholders. However, it has become obvious that the market for the company's real estate is illiquid. During the past 4 months, no firm offer has been received, despite of the real estate being marketed through several brokers.

The management now estimates that it may take another 1-2 years to sell the real estate, and that the sales proceeds may amount to USD 2-4M.

In parallel, the company has engaged a reputable law firm to explore all possibilities of cash distribution to all shareholders *pro rata* to their holding in the company. The report of the law firm is available upon request from any shareholder.

Given the illiquidity of the real estate and based on the report of the law firm, the company is proposing an alternative method for distributing cash to shareholders. The goal of this plan is to distribute as much cash as possible now, while giving all shareholders the right to the proceeds of the real estate, once divested.

In brief, the proposal is as follows:

- 1) The real estate assets of the company are transferred to CEI's 100% owned subsidiary, "Alegro" LLC, which is subsequently transformed into a joint stock company.
- 2) CEI is liquidated. All shareholders receive USD 0.36-0.38 per share (GEL 0.70-0.74) or USD 3.60-3.80 per GDR in cash plus a number of shares in Alegro proportional to his/her current holding in CEI.
- 3) The assets of Alegro will consist of the real estate assets plus USD 0.3M of cash – to be used to cover the operational, marketing and selling costs of Alegro as well as some money for potential project development documentation. The goal of Alegro is to maximize the value of the real estate through exit within 1-2 years. When realized, cash proceeds will be distributed to shareholders. It is difficult to forecast the exact sales proceeds, but management estimates that another USD 0.08 – 0.16 per share (GEL 0.15-0.31) may be distributed to shareholders within 1-2 years.
- 4) Alegro shares will be tradable through a broker. The company will have IFRS financials and publish annual audited statement. Press releases will be published in case any of the real estate is sold.

The following steps are required to realize this plan:

1. Approval of General Meeting of Shareholders on change of CEI Charter in terms of number of votes required for liquidation of CEI. General Meeting of Shareholders to be held on December 30. Approval of 67% of participating shareholders' votes is required.

2. Transfer of real estate assets into Alegro. Requires approval of the Board of Directors. To be held in January 2015.
3. Approval of General Meeting of Shareholders of CEI liquidation. General Meeting of Shareholders to be held in the beginning (February) of 2015. Approval of 75% of participating shareholders' votes is required.
4. Distribution of cash (approximately USD 0.36-0.38 per share) and Alegro shares to CEI shareholders: upon finalization of liquidation process, estimated between September and November 2015.

The supervisory board recommends all shareholders that are in favor of the above proposal to participate and vote in favor at the upcoming EGM's.

For the record, it should be noted that this proposal is supported by two out of three supervisory board members. The third member voted against the proposal.