



31st May 2016

Management Comments

JSC Caucasus Energy and Infrastructure (the “**Company**”) was addressed by JSC Galt & Taggart, representing nominal holder of Company shares, with the request to provide further clarifications and recommendations pertaining to the agenda of the annual general meeting to be held on 31 May 2016. Two questions have been asked: (i) whether the income received by the Company as a result of sale of “Mtkvari HPP Project” and 100% shareholding interest in LLC “Alegro” can be distributed among the shareholders of the Company; (ii) request for update on the current standing of the Company related to cancellation of Regulation S Global Depository Receipts program (“**GDRs**”).

The Supervisory Board and the Director General have provided answers to these questions during the course of the annual general meeting. Upon request of Irakli Kirtava of JSC Galt & Taggart these comments are published along with the minutes of the Company annual general meeting.

1. **Distribution of Sales Proceeds**

At the outset, it shall be noted that assets of the Company can be distributed among the shareholders either through (i) dividend payout or (ii) liquidation of the Company and distribution of the assets (either in cash or in-kind) remaining after discharge of all debts of the Company.

(i) **Distribution of Dividends.** According to the Article 8 of Law of Georgia on Entrepreneurs, a joint stock company may decide on distribution of dividends only on the basis of annual and interim profits. Notwithstanding the sale of the assets in 2014 and 2015, accounts of the Company show that the Company incurred losses and generated no profit to be distributed as dividends.

(ii) **Liquidation.** Liquidation of a joint stock company is regulated by Law of Georgia on Entrepreneurs. Among other things, completion of liquidation entails satisfaction of all known creditors of a company. As you might already be aware, the Company is currently involved in a litigation with one of its shareholders. The case is under consideration of the court of first instance of Georgia. No hearing has been scheduled yet. Until the case is finally determined by the court or is otherwise settled, the Company is not in a position to

determine either the exact value of the claim or satisfy such creditor. It should also be noted that some of the assets of the Company are seized due to a court injunction over the same dispute and may not be sold or otherwise distributed during the liquidation procedure. Considering the procedural timeframes for hearing the disputes within the three-tier court system in Georgia, it is certain that the dispute will not be completed within the procedural deadline determined for completion of the liquidation process, i.e. four months after commencement of respective procedures. Therefore, pending dispute serves as legal impediment to commencement and completion of the liquidation of the Company at this stage.

2. Cancellation of GDRs

Following the resolution of the general meeting of shareholders dated 31 April 2014, the Company has been engaged in extensive discussions with Bank of New York Mellon (“BNY”), the depository of the GDRs, regarding cancellation of the GDRs owned by the Company and withdrawal of the deposited treasury shares pursuant to the Deposit Agreement dated 21 February 2008 (“**Deposit Agreement**”). In 2015 BNY has closed its books for Georgian issuers due to possible capital gains tax exposure of the depository bank. Notwithstanding Company’s numerous attempts to start the cancellation of Company-owned GDRs, BNY has suspended the process until clarification of the relevant tax implications of such cancellation. Company is ready to provide relevant input to assist BNY in assessment of possible tax consequences and cooperate in good faith to finalize the cancellation process in due course. Company has engaged legal and tax advisers to better understand the alleged capital gains tax risks for BNY and already provided its written position regarding absence of such risks as a matter of Georgian law.

Furthermore, on 13 May 2016, the Company has been informed by JSC Galt & Taggart that some shareholders are interested in cancelation of GDR program in its entirety. Currently, the Company is in an active correspondence with BNY regarding opening of the books.

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