



უძრავი ქონება
REAL ESTATE

Diversified Real Estate Company

Bond Presentation

Content

- Key features of the bond
- Business description
- Ownership structure
- Use of proceeds
- Cash flow projections
- Appendix 1: Past performance
- Appendix 2: Use of proceeds in details
- Appendix 3: Tbilisi residential market
- Appendix 4: Georgia macro overview

Content

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- Ownership structure
- Use of proceeds
- Cash flow projections
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- Appendix 2: Use of proceeds in details
- Appendix 3: Tbilisi residential market
- Appendix 4: Georgia macro overview

Key features of the bond

Issuer	JSC m2 Real Estate
Bonds	Unsecured and unsubordinated obligation
Regulatory treatment	Georgian law
Issue size	US\$20 million
Issuance date	20 March 2015
Maturity date	20 March 2017
Coupon rate*	9.50%
Listing	GSE's official list

* 5% income tax applies in most cases

Content

- ❑ Key features of the bond
- ❑ **Business description**
- ❑ Ownership structure
- ❑ Use of proceeds
- ❑ Cash flow projections
- ❑ Appendix 1: Past performance
- ❑ Appendix 2: Use of proceeds in details
- ❑ Appendix 3: Tbilisi residential market
- ❑ Appendix 4: Georgia macro overview

Business description

Brief overview

- JSC m2 Real Estate (m2RE) was established in 2006 by Bank of Georgia to become a diversified real estate company with a focus on commercial properties.
- In 2010 the management of the company saw an opportunity in housing developments and launched its pilot project offering innovative product in Tbilisi housing market: turn-key apartments targeting Georgia's growing middle class.
- Following successful completion and sales of pilot project with 123 units m2RE raised US\$20 million of senior debt internationally from Dutch Development Bank (FMO) and launched its second project with 522 apartments in 2012 completing it ahead of the physical completion deadline generating an IRR of 46%. m2RE has prepaid FMO debt in 2013.
- In response to growing demand for newly built apartments with full fit-out m2RE raised US\$14 million of debt from International Finance Corporation (IFC) and Canada Climate Change Program (CCCP) for 3 new housing developments offering this time yet another innovative product: energy efficient living space giving customers an opportunity to cut their utility costs on average by 20%-25%. The projects were launched in 2014 and significantly better than planned sales allowed the company to prepay IFC debt in December 2014.
- In September 2014 m2RE launched its low cost housing project Optima Isani targeting households with lower income. Optima line is a compact apartment with full fit-out which meets price and living area expectations of lower income households.

Business description, cont'd

Diversified Real Estate Company

Mainstream residential developments:

- m² standard (midscale mainstream product with IRR of 35% +)
- m² optima (low cost mainstream product with IRR of 30% +)

Diversify m² Real Estate “core business” - residential developments - by capturing mass market with a new product line targeting families with lower purchasing power (\$29K 1-bedroom turn key apartments in Tbilisi).

Third party projects using m² platform:

- Small to medium scale residential developments on third party land plots
- Generate sales & marketing, project management and incentive fees

Using m² brand and its franchise, develop small to medium size projects on third party land plots. m² Real Estate to use its platform to design and manage the projects, sell the units and raise funding if need be.

Opportunistically acquire or develop income generating properties:

- retail and other commercial real estate
- Target annual asset yield: 10%

Acquire and/or develop opportunistically retail and other commercial real estate with capital gain upside and create portfolio of income generating properties with c.10% annual gross yield.

Business description, cont'd

Total sales of US\$ 111.2mn since 2011



Significant potential of the project from sales of US\$29,000 price apartments with current IRR of c. 31%

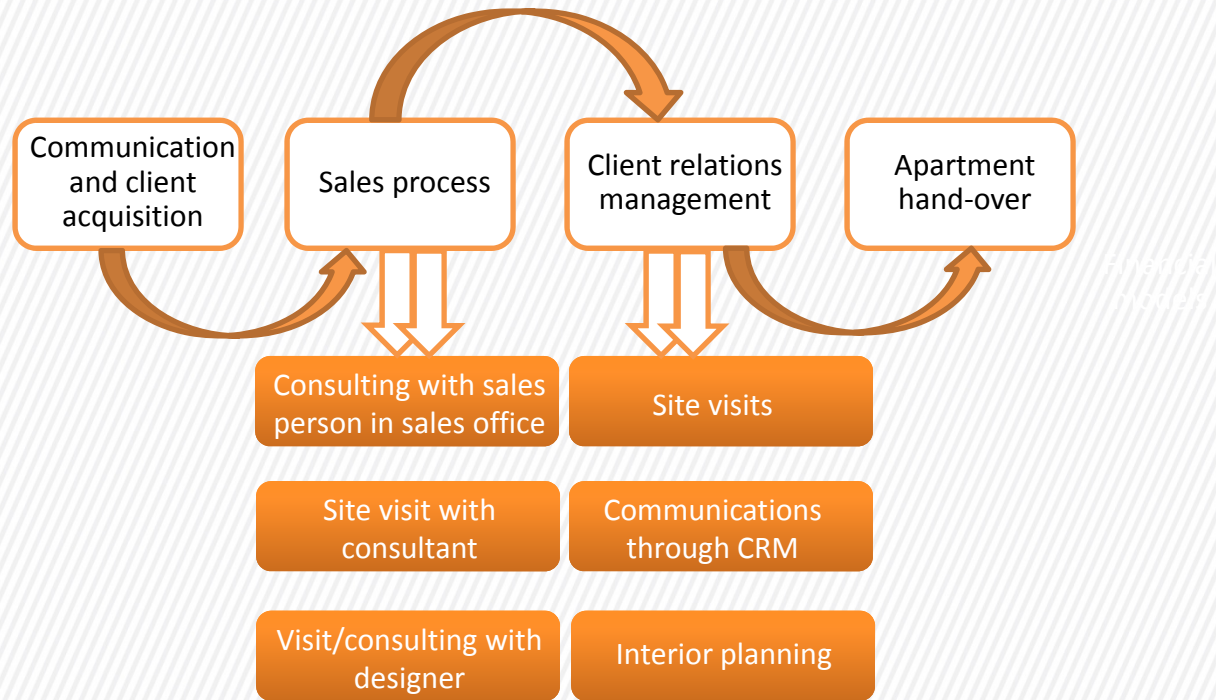
Business description, cont'd

Planning of residential developments



Business description, cont'd

Sales and marketing process (residential developments)



Business description, cont'd

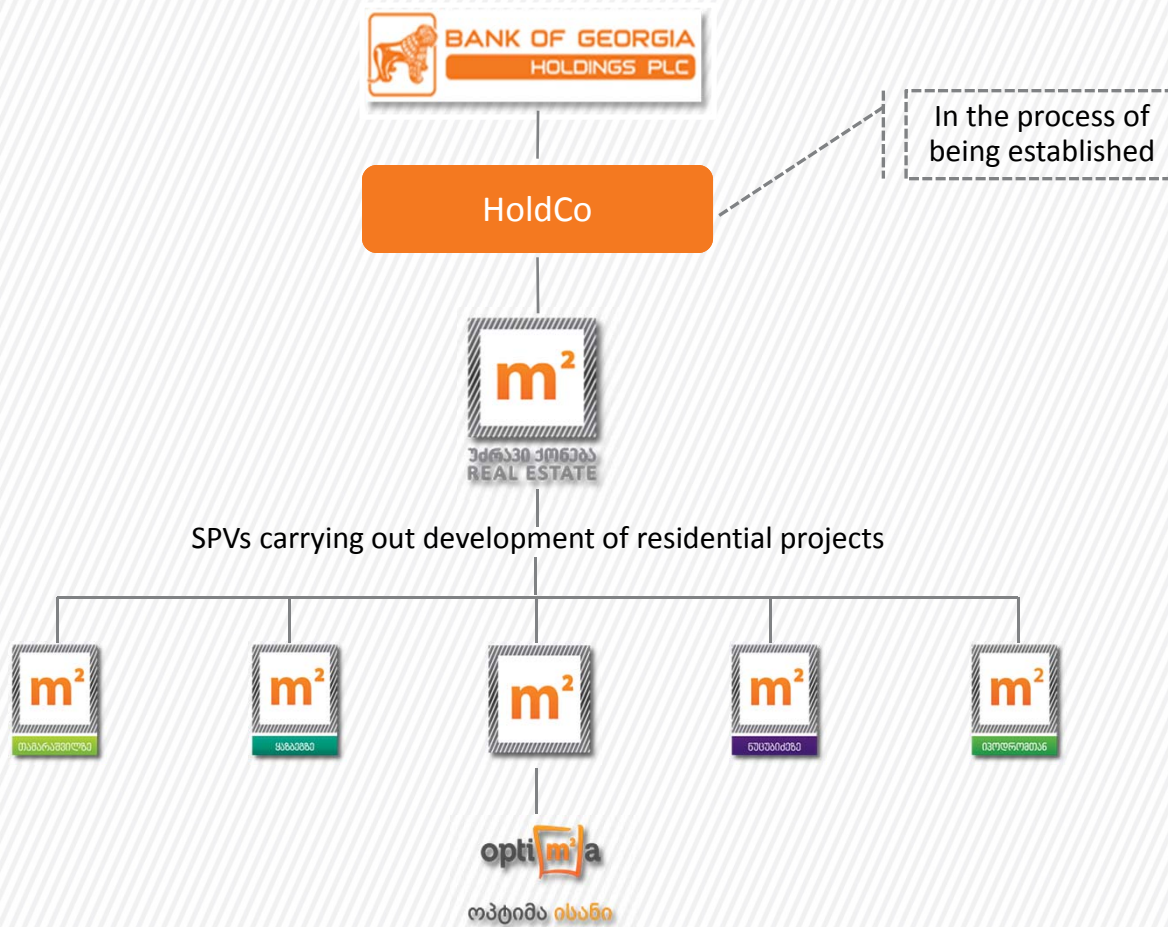
The group organizational chart and corporate governance



Content

- ❑ Key features of the bond
- ❑ Business description
- ❑ **Ownership structure**
- ❑ Use of proceeds
- ❑ Cash flow projections
- ❑ Appendix 1: Past performance
- ❑ Appendix 2: Use of proceeds in details
- ❑ Appendix 3: Tbilisi residential market
- ❑ Appendix 4: Georgia macro overview

Ownership structure



Content

- Key features of the bond
- Business description
- Ownership structure
- **Use of proceeds**
- Cash flow projections
- Appendix 1: Past performance
- Appendix 2: Use of proceeds in details
- Appendix 3: Tbilisi residential market
- Appendix 4: Georgia macro overview

Use of proceeds

US\$ 20mn proceeds from bond issuance

US\$ 5mn: Kavtaradze project

US\$ 15mn: New Hippodrome project

Project cost breakdown (numbers are given in USD)

Soft costs	408,976
Land cost	2,720,000
Construction costs	14,109,662
Other costs (marketing, insurance, taxes, etc.)	1,158,912
VAT	2,744,022
Contingency	725,932
Total costs	21,867,504

Project assumptions (numbers are given in USD)

Land area, m2	19,616
Net sellable area (NSA), m2	27,807
Expected revenue, USD (incl. VAT)	28,151,379
Estimated ROEA of the project	87.0%
Estimated IRR of the project	40.0%

Financing options:

Equity	2,720,000
Pre-sales	14,147,504
Debt	5,000,000

Project cost breakdown (numbers are given in USD)

Soft costs	2,078,320
Land cost	5,800,548
Construction costs	39,089,050
Other costs (marketing, insurance, taxes, etc.)	5,345,364
VAT	7,780,633
Contingency	2,058,369
Total costs	62,152,284

Project assumptions (numbers are given in USD)

Land area, m2	14,079
Net sellable area (NSA), m2	61,608
Expected revenue, USD (incl. VAT)	78,018,336
Estimated ROEA of the project	33.1%
Estimated IRR of the project	30.9%

Financing options:

Equity	11,800,548
Pre-sales	35,351,736
Debt	15,000,000

Content

- Key features of the bond
- Business description
- Ownership structure
- Use of proceeds
- **Cash flow projections**
- Appendix 1: Past performance
- Appendix 2: Use of proceeds in details
- Appendix 3: Tbilisi residential market
- Appendix 4: Georgia macro overview

Cash flow projections

Cash flow projection

Budgeted cash flow, GEL '000	2015	2016	2017
Operating cash inflows			
Cash inflows from development	98,158	108,864	89,720
In house finance	17,724	4,143	-
Cash inflows from operating lease	1,631	2,338	2,606
Total cash inflows	117,513	115,344	92,326
Operating cash outflows			
General Contractor	104,909	47,860	35,428
Soft Costs	6,271	21	-
Marketing Costs	3,600	3,663	3,597
Management Fee	4,426	2,285	1,704
Insurance	148	314	196
Brokerage	1,256	2,166	1,286
Interest Expense	4,725	3,895	1,948
Contingency	4,949	2,810	1,785
Operating Taxes	4,830	6,045	10,478
General and Administrative Expenses	6,572	7,256	8,233
Total operating cash outflows	141,685	76,315	64,653
Net cash flows from operating activities	(24,172)	39,029	27,673
Cash flows from Investing activities			
Cash inflows from Investing activities	-	-	-
Cash outflows from Investing activities	-	-	-
Net Cash flows from Investing activities	-	-	-
Cash flows from Financing Activities			
Proceeds from loan	41,000	-	-
Cash from time deposits	11,994	-	-
Loan repayment	(34,645)	-	(41,000)
Net Cash flows from Financing activities	18,349	-	(41,000)
Net Cash Flow	(5,823)	39,029	(13,327)
Cash at the beginning of period	23,897	18,074	57,103
Cash at the end of period	18,074	57,103	43,776

Debt service coverage ratio calculation

GEL '000	2015	2016	2017
Beginning cash	23,897	18,074	57,103
Net cash inflows	33,547	42,924	29,620
Cash available for debt service	57,444	60,998	86,723
Loan repayment	(39,370)	(3,895)	(42,948)
Debt service coverage ratio	1.5	15.7	2.0

Stress test results

Stress test assumption: 20% slowdown in pre-sales

GEL '000	2015	2016	2017
Beginning cash	23,897	4,587	29,340
Net cash inflows	20,060	28,648	21,620
Cash available for debt service	43,957	33,235	50,960
Loan repayment	(39,370)	(3,895)	(42,948)
Debt service coverage ratio	1.1	8.5	1.2

Cash flow projections, cont'd

*Cash flow projections based on existing projects in active construction phase
(assumes no new projects and no bond issuance)*

Existing projects cash flow, GEL '000	2015	2016	2017
Operating cash inflows			
Cash inflows from development	74,474	4,621	-
In house finance	17,724	4,143	-
Cash inflows from operating lease	1,795	2,571	2,866
Total cash inflows	93,993	11,335	2,866
Operating cash outflows			
General Contractor	49,385	9,914	2,129
Soft Costs	254	21	-
Marketing Costs	379	16	-
Management Fee	1,121	283	-
Insurance	14	4	-
Brokerage	305	49	-
Interest Expense	2,778	-	-
Contingency	1,974	771	-
Operating Taxes	5,246	6,503	589
General and Administrative Expenses	6,572	7,256	-
Total operating cash outflows	68,029	24,817	2,718
Net cash flows from operating activities	25,964	(13,482)	149
Cash flows from Investing activities			
Cash inflows from Investing activities	-	-	-
Cash outflows from Investing activities	-	-	-
Net Cash flows from Investing activities	-	-	-
Cash flows from Financing Activities			
Proceeds from loan	-	-	-
Cash from time deposits	11,994	-	-
Loan repayment	(34,645)	-	-
Net Cash flows from Financing activities	(22,651)	-	-
Net Cash Flow	3,313	(13,482)	149
Cash at the beginning of period	23,897	27,210	13,728
Cash at the end of period	27,210	13,728	13,877

Debt service coverage ratio calculation

GEL '000	2015	2016	2017
Beginning cash	23,897	27,210	13,728
Net cash inflows	40,735	(13,482)	149
Cash available for debt service	64,632	13,728	13,877
Loan repayment	(37,423)	-	-
Debt service coverage ratio	1.73	n/a	n/a

Stress test results

Stress test assumption: 20% slowdown in pre-sales

GEL '000	2015	2016	2017
Beginning cash	23,897	15,841	5,098
Net cash inflows	29,366	(10,743)	149
Cash available for debt service	53,263	5,098	5,247
Loan repayment	(37,423)	-	-
Debt service coverage ratio	1.42	n/a	n/a

Content

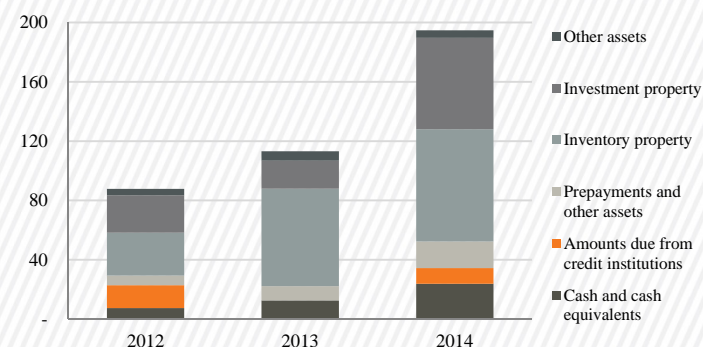
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- ❑ Business description
- ❑ Ownership structure
- ❑ Use of proceeds
- ❑ Cash flow projections
- ❑ **Appendix 1: Past performance**
- ❑ Appendix 2: Use of proceeds in details
- ❑ Appendix 3: Tbilisi residential market
- ❑ Appendix 4: Georgia macro overview

Past performance

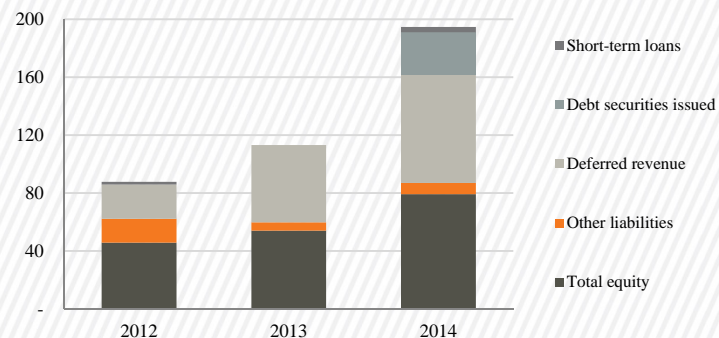
Balance sheet

	2014	2013	2012
Assets			
Non-current assets	102,482	39,269	54,727
Investment property	61,611	18,796	25,245
Inventory property	37,745	16,849	27,213
Deferred tax assets	473	1,555	1,671
Other non-current assets	2,653	2,069	598
Current assets	92,195	73,885	33,066
Inventory property	37,918	48,891	1,661
Prepayments and other assets	17,882	9,593	6,417
Trade and other receivables	522	1,612	899
Amounts due from credit institutions	10,589	-	15,475
Investment securities available for sales	1,387	1,165	1,145
Cash and cash equivalents	23,897	12,624	7,469
Total assets	194,677	113,154	87,793
Equity and liabilities			
Share capital	3,524	2,782	3,301
Share premium	71,813	53,544	52,098
Treasury shares	-	-	(519)
Retain earnings/Accumulated losses	3,862	(2,244)	(9,088)
Total equity	79,199	54,082	45,792
Non-current liabilities	28,449	8,874	37,831
Long-term loans	-	-	14,178
Deferred revenue	26,880	6,562	23,653
Deferred tax liabilities	261	163	-
Retention guarantee payable to contractor	1,308	2,149	-
Current liabilities	87,029	50,198	4,170
Short-term loans	3,539	-	1,896
Debt securities issued	29,176	-	-
Deferred revenue	48,152	46,846	-
Trade and other payables	6,162	3,352	2,274
Total liabilities	115,478	59,072	42,001
Total liabilities & equity	194,677	113,154	87,793

Asset structure, GEL million



Equity and liabilities structure, GEL million

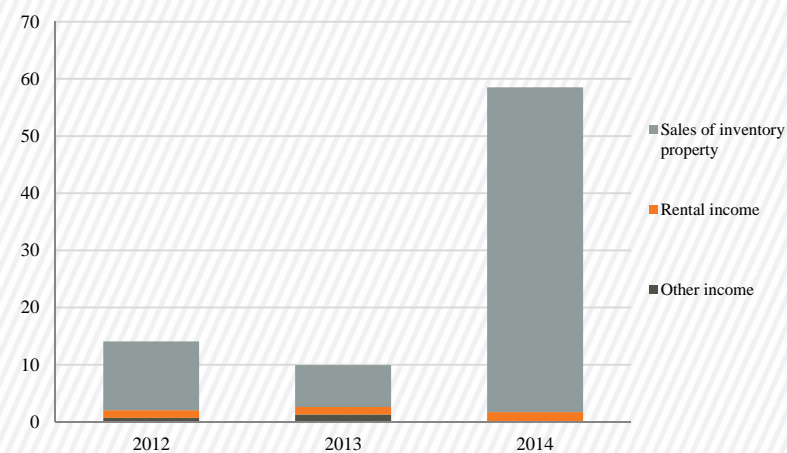


Past performance, cont'd

Profit and loss statement

	2014	2013	2012
Sales of inventory property	56,835	7,347	12,044
Cost of sales-inventory property	(46,720)	(5,848)	(10,056)
Profit on sale of inventory property	10,115	1,499	1,988
Rental income	1,585	1,315	1,331
Property operating expense	-	(16)	(89)
Net rental income	1,585	1,299	1,242
Net gain from revaluation of investment property	1,910	7,168	-
Net gain from investment property	1,910	7,168	-
Other revenue	130	151	245
Employee benefits expense	(1,300)	(1,282)	(795)
Other general and administrative expenses	(1,877)	(1,094)	(1,168)
Marketing and selling expenses	(2,289)	(940)	(687)
Depreciation	(155)	(216)	(121)
Non-recurring expenses	(33)	(808)	-
Operating profit	8,086	5,777	704
Finance income	(14)	1,131	453
Net foreign exchange gain/loss	(889)	215	(230)
Non-operating income	-	-	2,073
Profit before income tax expense	7,183	7,123	3,000
Income tax expense	(1,077)	(279)	(423)
Profit for the year	6,106	6,844	2,577

Revenue breakdown, GEL million



Content

- Key features of the bond
- Business description
- Ownership structure
- Use of proceeds
- Cash flow projections
- Appendix 1: Past performance
- **Appendix 2: Use of proceeds in details**
- Appendix 3: Tbilisi residential market
- Appendix 4: Georgia macro overview

Use of proceeds

m² on Tamarashvili St (“new hippodrome” project)

m² Real Estate residential development project summary

Amounts in US\$ if not specified otherwise

	New Hippodrome
Land area, m2	14,079
Gross buildable area (GBA), m2	104,895
Net sellable area (NSA), m2	61,608
Project starting date	2015
Project duration, years	2.25
Expected revenue, US\$ (incl. VAT)	78,018,336
Project estimated cost (incl. VAT but excl. cost of debt)	62,152,284
VAT	4,120,469
EBITDA	11,745,583
Estimated ROEA of the project	33%
Estimated IRR of the project	31%
Estimated IRR of the project (leveraged)	67%
Net income	7,812,638
Net income margin	12%

Financing options:

Equity land	5,800,548
Equity cash	6,000,000
Equity	11,800,548
Pre-sales	35,351,736
Debt	15,000,000
Total	62,152,284

Project costs

Demolition costs	0
Soft costs	2,078,320
Land cost	5,800,548
Construction costs	39,089,050
Other costs (marketing, management, insurance and brokerage fees and taxes)	5,345,364
VAT	7,780,633
Interest	2,554,244
Contingency	2,058,369
Total	64,706,528

- 14,079 sq. m of land on Tamarashvili Street is located next to the project successfully completed by m² in 2014
- Upper-middle class affordable housing complex for mid-income group families



Render of the development

Use of proceeds, cont'd

m² on Kavtaradze St (Optima line project)

m² Real Estate residential development project summary

Amounts in US\$ if not specified otherwise

	Kavtaradze st.
Land area, m2	19,616
Gross buildable area (GBA), m2	40,898
Net sellable area (NSA), m2	27,807
Project starting date	2015
Project duration, years	2
Expected revenue, US\$ (incl. VAT)	28,151,379
Project estimated cost (incl. VAT but excl. cost of debt)	21,867,504
VAT	1,550,256
EBITDA	4,733,619
Estimated ROEA of the project	87%
Estimated IRR of the project	40%
Estimated IRR of the project (leveraged)	71%
Net income	3,306,194
Net income margin	14%

Financing options:

Equity land	2,720,000
Equity cash	0
Equity	2,720,000
Pre-sales	14,147,504
Debt	5,000,000
Total	21,867,504

Project costs

Demolition costs	0
Soft costs	408,976
Land cost	2,720,000
Construction costs	14,109,662
Other costs (marketing, management, insurance and brokerage fees and taxes)	1,158,912
VAT	2,744,022
Interest	843,979
Contingency	725,932
Total	22,711,483

- 19,616 sq. m of land on Kavtaradze Street is in close proximity of Tbilisi State University Campus
- Middle class affordable housing complex for average income group families



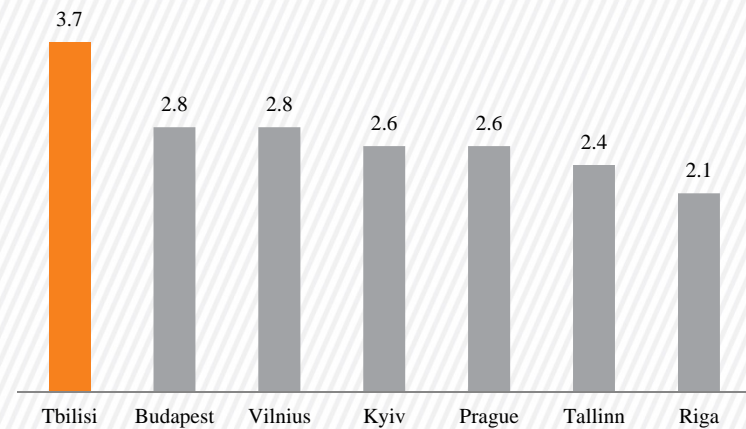
Render of the development

Content

- ❑ Key features of the bond
- ❑ Business description
- ❑ Ownership structure
- ❑ Use of proceeds
- ❑ Cash flow projections
- ❑ Appendix 1: Past performance
- ❑ Appendix 2: Use of proceeds in details
- ❑ **Appendix 3: Tbilisi residential market**
- ❑ Appendix 4: Georgia macro overview

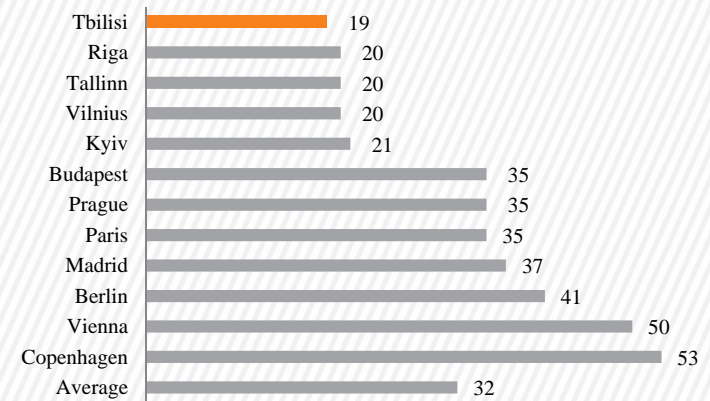
Tbilisi residential market

Average number of people per household 2013



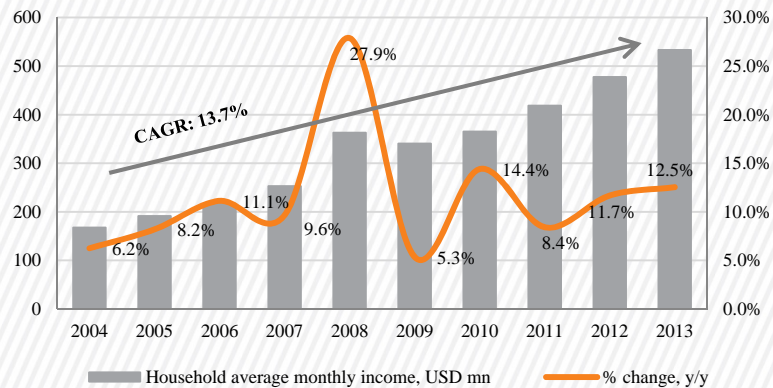
Source: NAPR, Gremic, Company data

Housing stock per capita 2013 (m²)



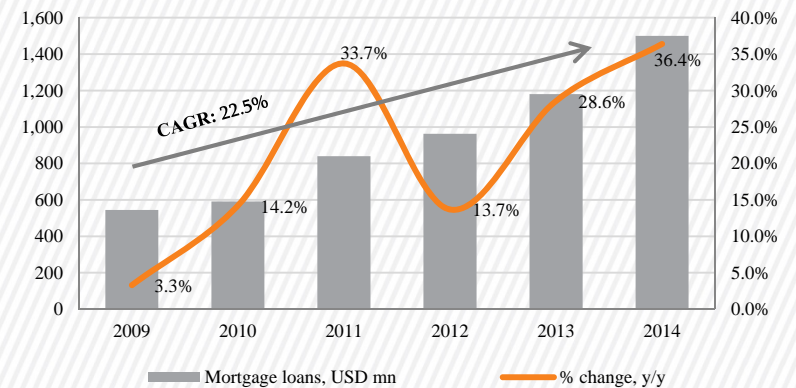
Source: NAPR, Gremic, Company data

Household average monthly income dynamics



Household average monthly income, USD mn | % change, y/y

Mortgage loans dynamics



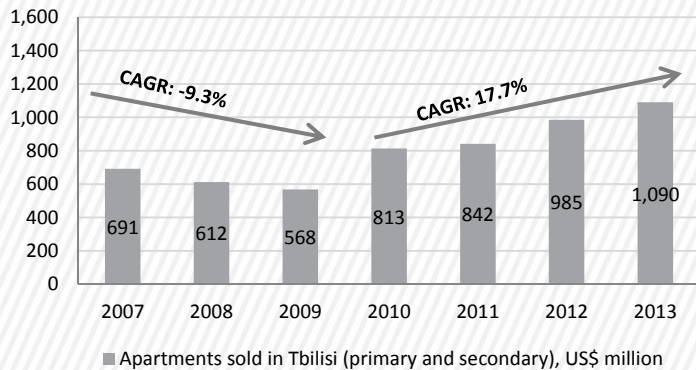
Mortgage loans, USD mn | % change, y/y

Source: NBG



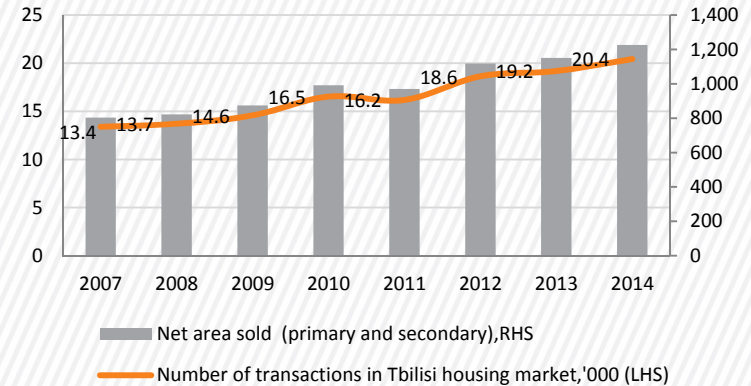
Tbilisi residential market, cont'd

Tbilisi housing market size (USD million)



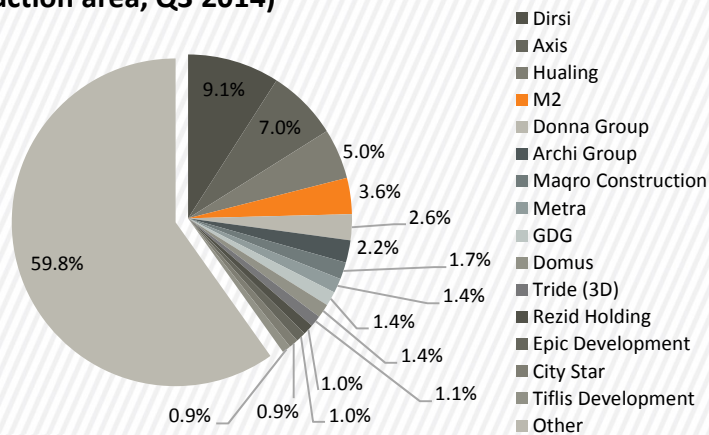
Source: NAPR, Gremic, Paragon, Company data

Housing stock sold in Tbilisi (m², thousands)



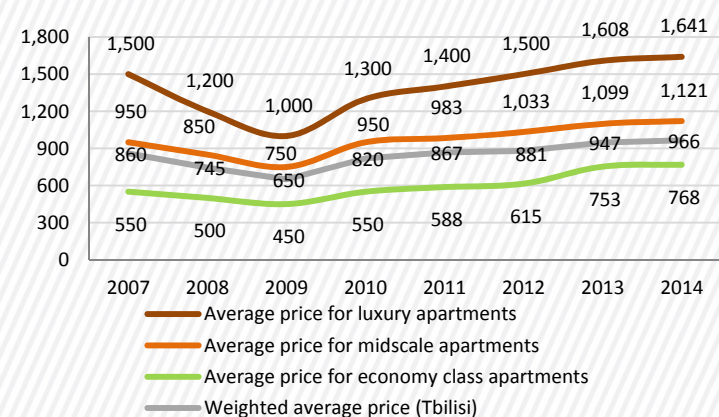
Source: NAPR, Gremic, company own data

Market segmentation by companies (share in total construction area, Q3 2014)



Source: Colliers International Georgia

Price dynamics (USD/m²)



Source: NAPR, Gremic, Company estimates

Content

- Key features of the bond
- Business description
- Ownership structure
- Use of proceeds
- Cash flow projections
- Appendix 1: Past performance
- Appendix 2: Use of proceeds in details
- Appendix 3: Tbilisi residential market
- **Appendix 4: Georgia macro overview**

Georgia macro overview

▶ General Facts:

-  Area: 69,700 sq km
-  Population (2012): 4.5 mln
-  Life expectancy: 77 years
-  Official language: Georgian
-  Literacy: 100%
-  Capital: Tbilisi
-  Currency (code): Lari (GEL)

▶ Economy:

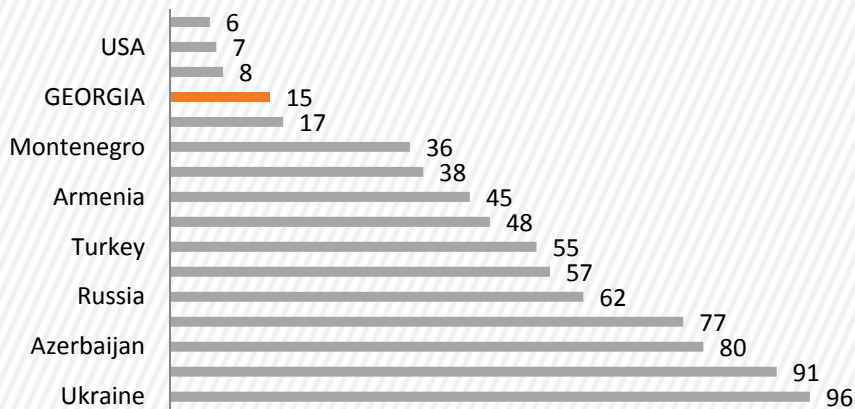
-  Nominal GDP (Geostat) 2013: GEL 26.8 bn (US\$16.1 bn)
-  Real GDP growth rate 2011: 7.2%, 2012: 6.2%, 2013: 3.3% 2014P:4.7%
-  Real GDP average 10 yr growth rate: 5.8%
-  GDP per capita 2014E (PPP) per IMF: US\$7,665.6
-  Inflation rate (e-o-p) 2014: 2.0%
-  External public debt to GDP 2013: 27.0%

-  Sovereign ratings:
 - S&P** BB-/B/Stable, affirmed in May 2014
 - Moody's** Ba3/NP/Positive, affirmed in September 2014 with upgraded outlook
 - Fitch** BB-/B/Positive, affirmed in October 2014 with upgraded outlook

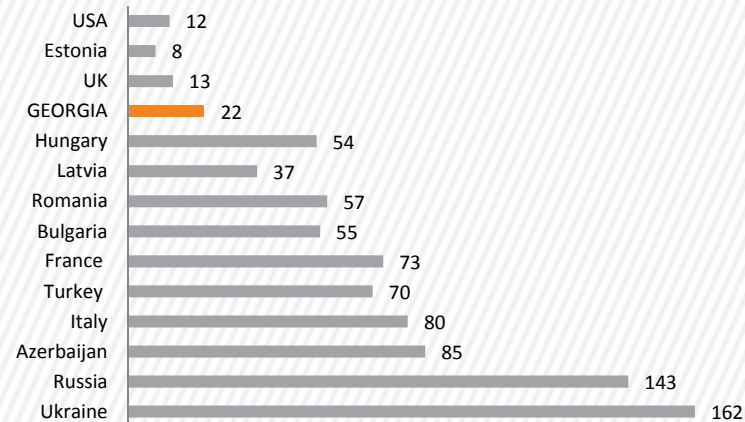


Georgia macro overview, cont'd

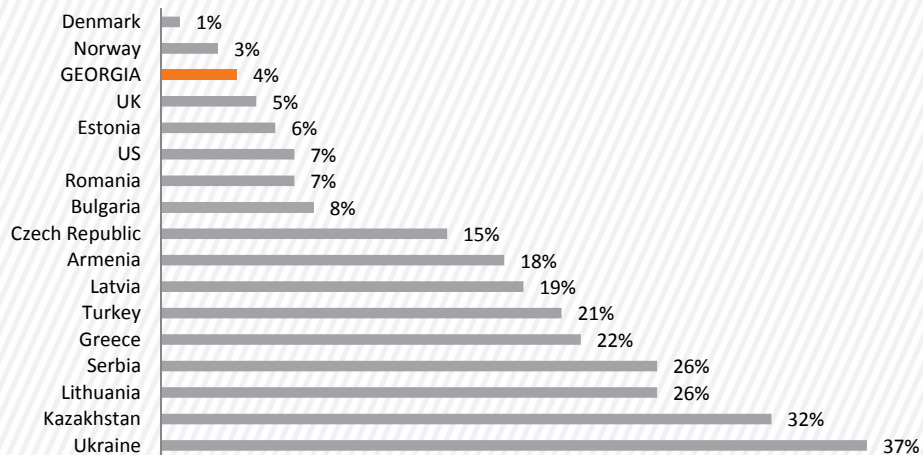
Ease of Doing Business | 2015 (WB-IFC Doing Business Report)



Economic Freedom Index | 2015 (Heritage Foundation)



Global Corruption Barometer | TI 2013

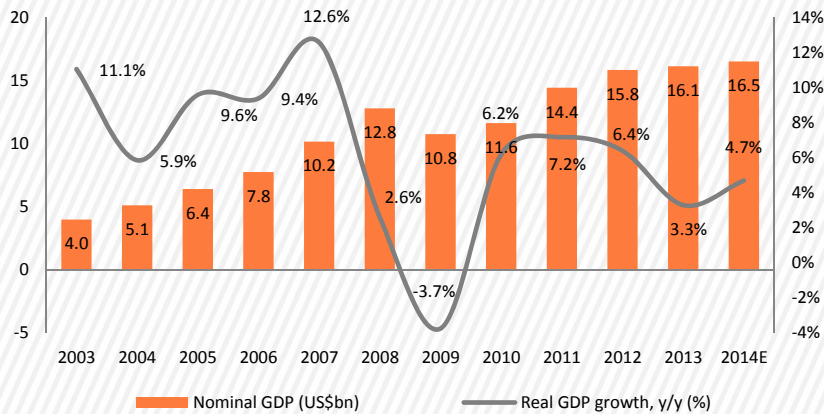


**GEORGIA - No 1 Reformer
2005-2012**

(WB-IFC Doing Business Report)

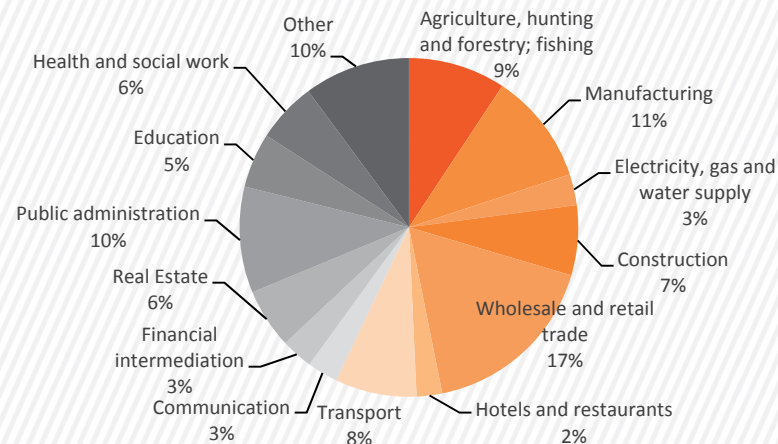
Georgia macro overview, cont'd

Gross domestic product



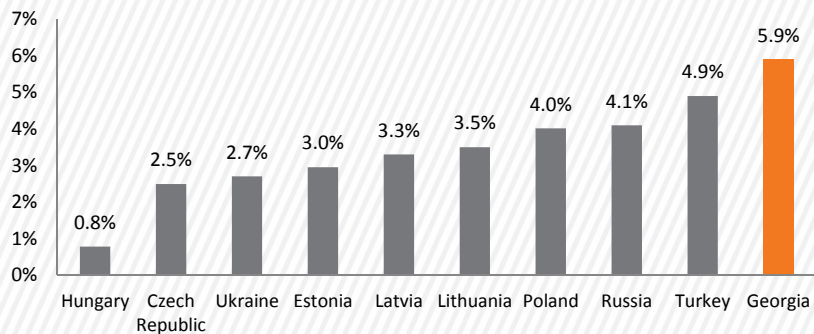
Source: Geostat, Galt & Taggart Research

GDP composition, FY 2013



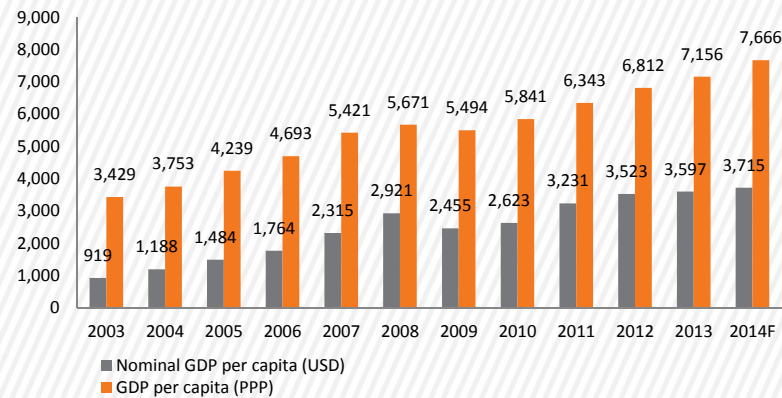
Source: Geostat

Comparative real GDP growth rates, % (2004-2013)



Sources: IMF, Geostat

GDP per capita

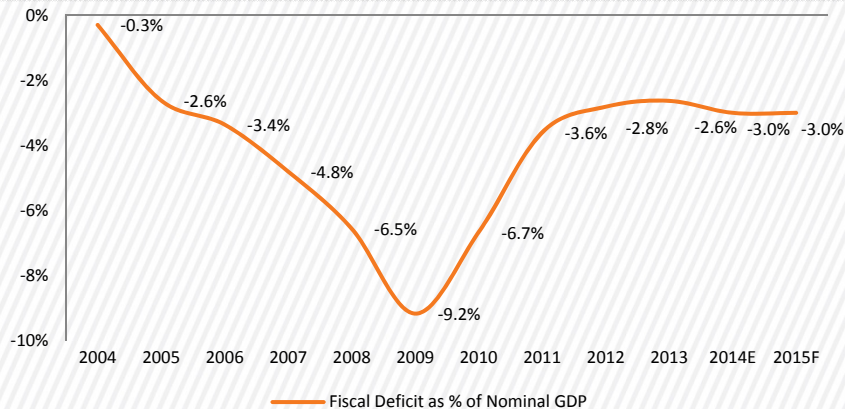


Sources: IMF



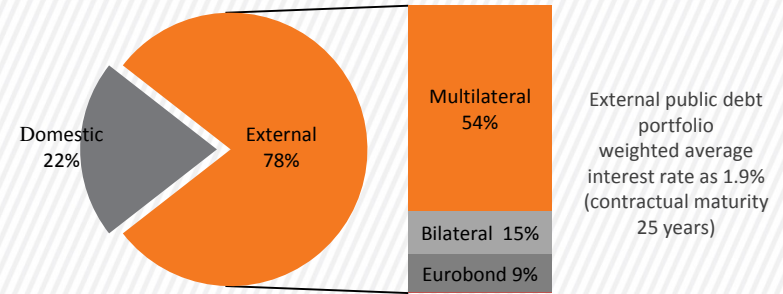
Georgia macro overview, cont'd

Fiscal deficit as % of GDP



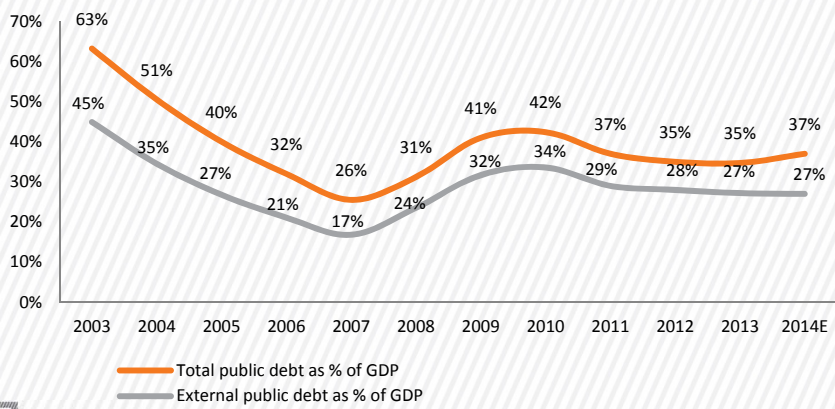
Source: Ministry of Finance of Georgia, Galt & Taggart Research

Breakdown of public debt



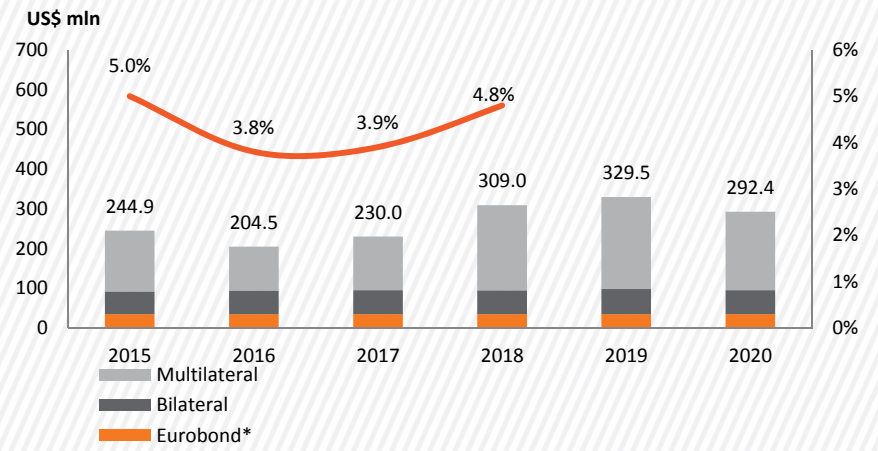
Source: Ministry of Finance of Georgia

Public debt as % of GDP



Sources: Ministry of Finance of Georgia, Geostat

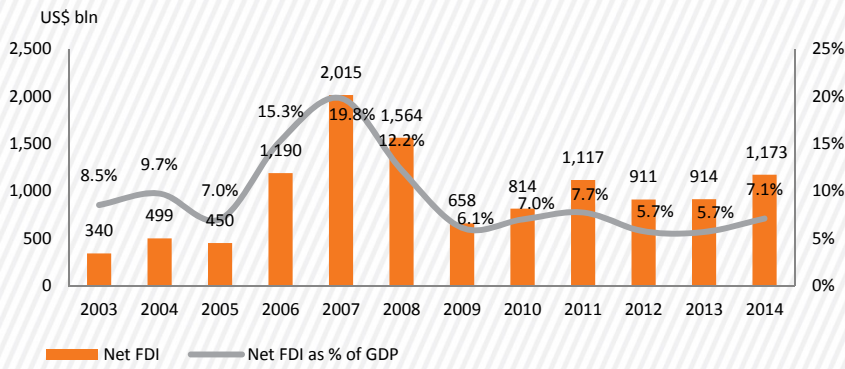
Government external debt service



*Coupon payments only, Eurobonds mature in 2021
Source: Ministry of Finance of Georgia, IMF

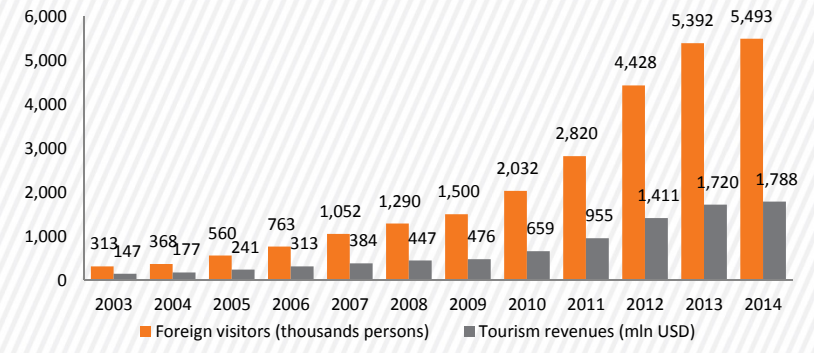
Georgia macro overview, cont'd

FDI inflows



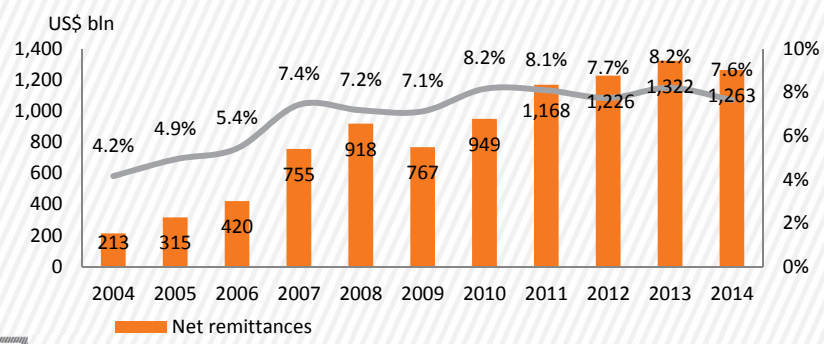
Sources: Geostat, Galt & Taggart Research

Number of tourists



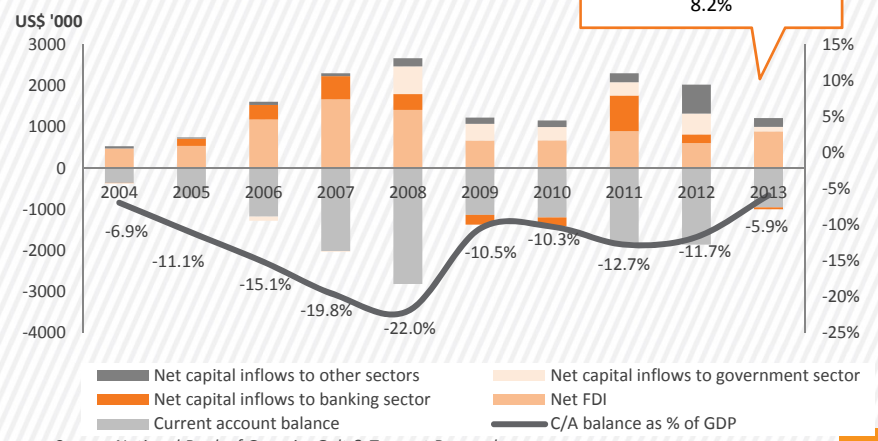
Sources: Georgian National Tourism Agency, National Bank of Georgia, Bank of Georgia estimates

Net remittances



Source: National Bank of Georgia, Galt & Taggart Research

Current account deficit

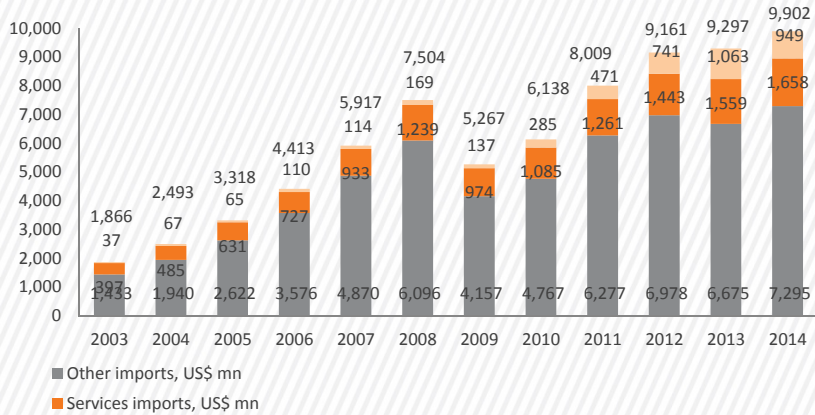


Source: National Bank of Georgia, Galt & Taggart Research



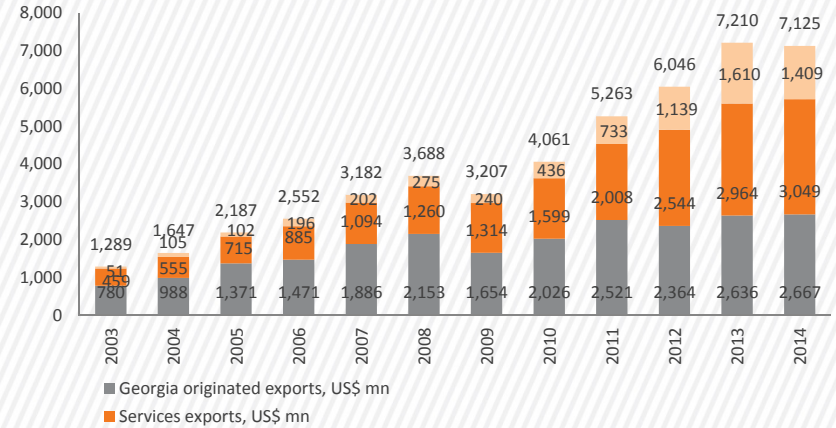
Georgia macro overview, cont'd

▶ Import of goods and services



Note: Foreign trade data for goods imports and exports are adjusted to BOP statistics
Source: Geostat, NBG, Galt & Taggart Research

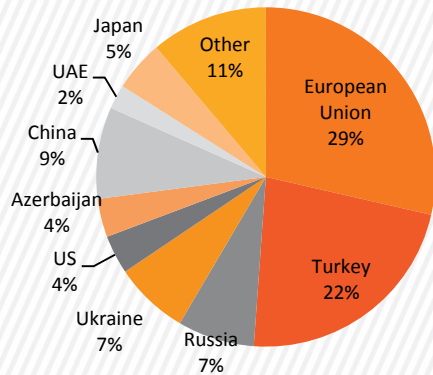
▶ Export of goods and services



Note: Foreign trade data for goods imports and exports are adjusted to BOP statistics
Source: Geostat, NBG, Galt & Taggart Research

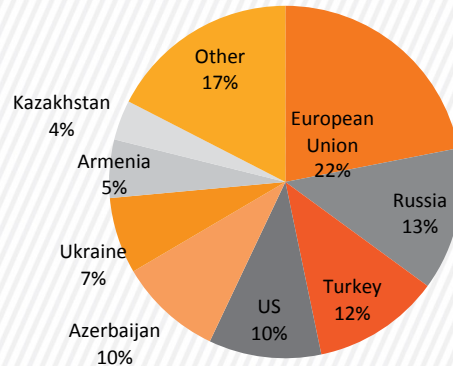
▶ Imports, 2014

Excluding re-exports



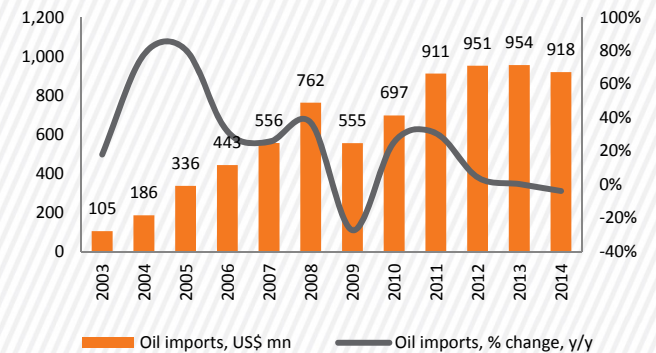
▶ Exports, 2014

originating from Georgia



Sources: Geostat, Galt & Taggart Research

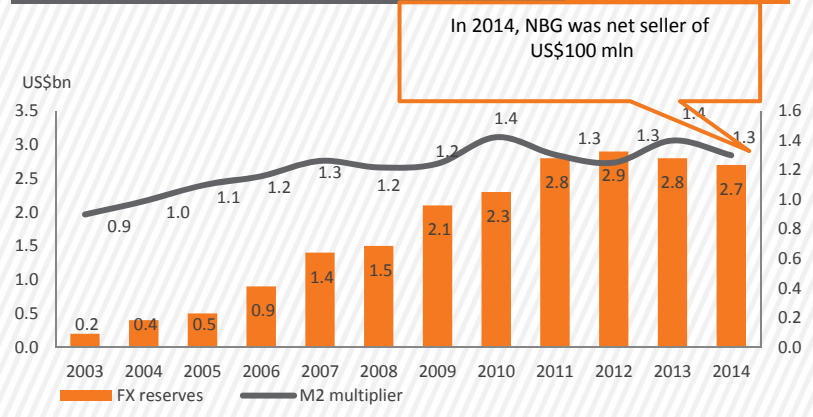
▶ Oil imports



Sources: GeoStat

Georgia macro overview, cont'd

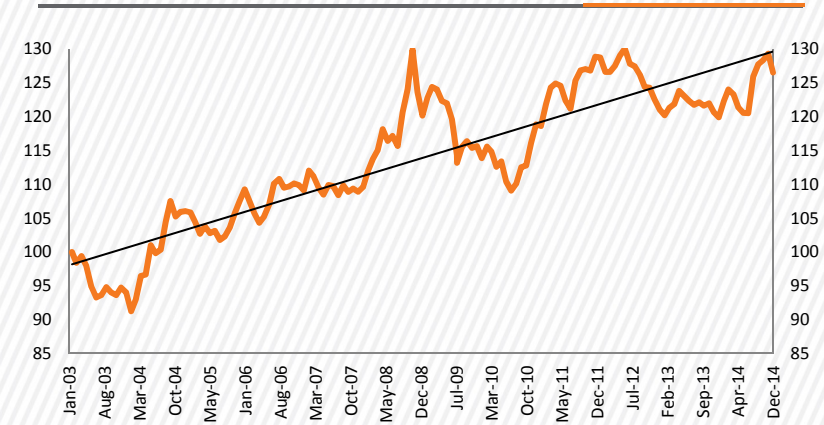
FX reserves



Source: National Bank of Georgia

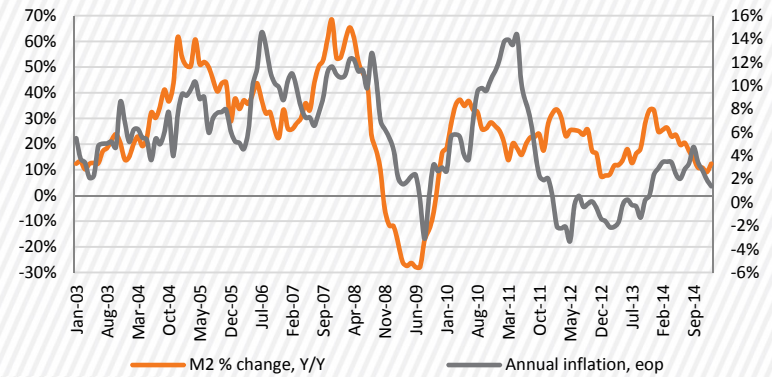
Sources: NBG

REER



Sources: NBG

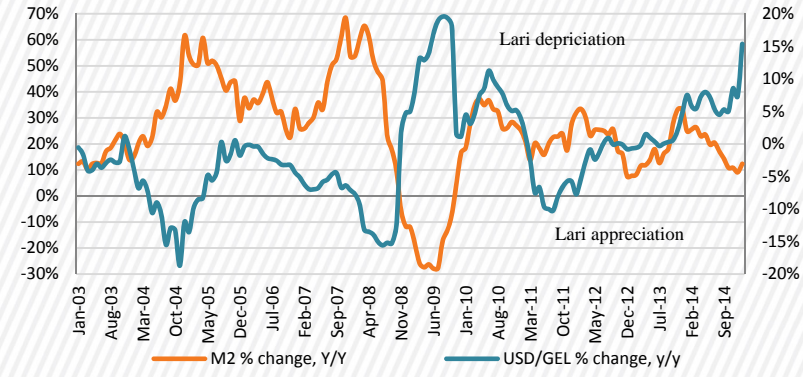
M2 and annual inflation



— M2 % change, Y/Y — Annual inflation, eop

Source: MOF
* Preliminary data for January 2015

M2 and GEL/USD



Source: MOF
* Preliminary data for January 2015



Forward looking statements

This presentation contains forward-looking statements that are based on current beliefs or expectations, as well as assumptions about future events. These forward-looking statements can be identified by the fact that they do not relate only to historical or current facts. Forward-looking statements often use words such as anticipate, target, expect, estimate, intend, plan, goal, believe, will, may, should, would, could or other words of similar meaning. Undue reliance should not be placed on any such statements because, by their very nature, they are subject to known and unknown risks and uncertainties and can be affected by other factors that could cause actual results, and JSC m² Real Estate plans and objectives, to differ materially from those expressed or implied in the forward-looking statements.

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