

## **Independent Audit Report**

### **To Management of ESCO, Ltd**

We have conducted an audit of financial reporting attached hereunder which relates to the Balance Sheet as at December 31, 2010, as well as Profit and Loss Statement as at the same date, Statement of Own Capital Changes and Statement of Cash Flow, short review of all important accounting policy issues and other comments and notes.

### **Responsibility of the Management on Financial Reporting**

Management is responsible on the preparation and equitable presentation of this financial reporting as per International Financial Reporting Standards, as well as on internal control, which it deems necessary for preparation of such financial reporting that will be free from material faults caused by forgery and errors.

### **Responsibility of the Auditor**

Our responsibility includes putting forward our impressions on the presented financial reporting within the frames of the audit conducted by us. We have conducted audit in accordance with the International Standards of Audit. These Standards provide for strict adherence to ethics requirements, and planning and execution of the audit to obtain proof of whether given financial reporting contains material faults.

Audit provides for execution of procedures aiming at getting evidence on the numbers and notes contained in the financial reporting. Choice of procedures depends on the judgment of an auditor, including assessment of material faults of financial reporting, caused by forgery or mistake. While assessing these risks an auditor reviews whether internal control is fit for preparation and fair presentation of financial reporting of the enterprise, in order to plan relevant auditing procedures which will be in sync with given concrete circumstances, and not aiming at offering opinion on the effectiveness of the internal control system. Audit also includes assessment of the relevance of the accounting policy used by the management and important accounting estimates, as well as assessment of the financial reporting as a whole.

We believe that auditing evidence obtained by us is enough and conducive to creating necessary basis for expression of our opinion.

### **Opinion**

In our view, presented financial reporting taking into account all its essential aspects, equitably covers financial position of ESCO, Ltd as at December 31, 2010, as well as financial results of its business and cash flow for the year ended at the given date, as per International Financial Reporting Standards.

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Director

R. Dzadzamia

## Statement of Financial Position

At December 31, 2010

Name of the Company: *Electricity System Commercial Operator Ltd.*

Legal Address: *2 Baratashvili str. Tbilisi, Georgia*

Field of Activity: *Service*

Currency: *Georgian lari (GEL)*

	31.12.2010	31.12.2009
<b>ASSETS</b>		
<b>LONG-TERM ASSETS</b>		
Fixed Assets	1 267 305	308 168
Intangible Assets	2 3 785	3 000
Investment in the Capital of Other Enterprise	3 720	720
Deferred Tax Assets	5 277	
Total Non Current Assets	<u>277 087</u>	<u>311 888</u>
<b>CURRENT ASSETS</b>		
Inventory	4 6 783	12 188
Trade and Other Receivables	5 22 738 974	14 726 412
Tax Receivables	6 6 122	82 211
Cash and Equivalents	5 586 791	5 236 701
Total Current Assets	<u>28 338 671</u>	<u>20 057 512</u>
TOTAL Assets	<u><b>28 615 758</b></u>	<u><b>20 369 400</b></u>
<b>LIABILITIES AND OWNER'S EQUITY</b>		
<b>OWNER'S EQUITY</b>		
Owner's investment	200	200
Retained earnings	475 687	1 590 335
Revaluation Reserve of Fixed Assets	83 276	
Current Profit-Loss	4 669 973	2 251 609
Total Equity	<u>5 229 136</u>	<u>3 842 144</u>
<b>LONG TERM LIABILITIES</b>		
Deffered Profit Tax	<u>40 096</u>	<u>41 191</u>
Total Long Term Liabilities	<u>40 096</u>	<u>41 191</u>
<b>CURRENT LIABILITIES</b>		
Trade and Other Liabilities	7 21 452 954	15 196 955
Tax Payable	8 1 893 572	1 289 111
Other Current Liabilities		
Total Current Liabilities	<u>23 346 526</u>	<u>16 486 066</u>
Total Equity and Liabilities	<u><b>28 615 758</b></u>	<u><b>20 369 401</b></u>

Director

I. Milorava

Chief Accountant

Kh. Chaduneli

## Comprehensive Income Statement

For the year ended on December 31, 2010

Name of the Company: **Electricity System Commercial Operator Ltd.**

Legal Address: **2 Baratashvili str. Tbilisi, Georgia**

Field of Activity: **Service**

Currency: **Georgian Lari (GEL)**

		2010 ₾.	2009 ₾.
Revenue	9	150 994 467	128 581 562
Other income	10	821 244	1 235 052
Changes in Inventories and Enterprise in Progress		(5 404)	(3 945)
Finished and Capitalized Works			19 048
Purchase of Material Goods		(141 990 652)	(121 650 265)
Wage Expenses of hired personell		(1 894 883)	(2 435 791)
Depreciation and Amortization Expenses		(97 557)	(107 184)
Expenses for Acquired Services	11	(2 011 546)	(1 123 097)
Tax Expenses		(2 911)	(2 937)
Other operation expenses	12	(413 872)	(1 999 764)
Profit Before Taxation		<u>5 398 885</u>	<u>2 512 679</u>
Income Tax	13	<u>(728 912)</u>	<u>(261 070)</u>
Profit for Reporting Year:		<u><b>4 669 973</b></u>	<u><b>2 251 609</b></u>
Other Gross Revenue:			
Gain from Property Revaluation		97 972	
Profit Tax related to Other Components of Gross Revenue		(14 696)	
Other Gross Revenue for Reporting Year, Taxes Excluded		83 276	
<b>TOTAL GROSS REVENUE FOR THE REPORTING YEAR</b>		<b>4 753 249</b>	

**Director**

**I. Milorava**

**Chief Accountant**

**Kh. Chaduneli**

# Statement of Changes in Equity

For the Year ended on December 31, 2010

Name of the Company: *Electricity System Commercial Operator Ltd.*

Legal Address: *2 Baratashvili str. Tbilisi, Georgia*

Field of Activity: *Service*

Currency: *Georgian Lari (GEL)*

	Owner's investment	Reserve Amount	Surplus from Reevaluation	Retained Earning	Total
<b>BALANCE ON 31.12.2008</b>	<b>200</b>	<b>2 293 714</b>		<b>2 077 363</b>	<b>4 371 277</b>
Move to retained earnings	-	1 178 756		(1 178 756)	-
Net Profit and Loss in Given Period	-	-		2 251 609	<b>2 251 609</b>
Dividends	-	(1 882 135)		(898 607)	<b>(2 780 742)</b>
<b>BALANCE ON 31.12.2009</b>	<b>200</b>	<b>1 590 335</b>		<b>2 251 609</b>	<b>3 842 144</b>
Error Correction				(2 892)	<b>(2 892)</b>
			14		
Recounted Balance	200	1 590 335	-	2 248 717	<b>3 839 252</b>
Move to retained earnings	-	67 000		(67 000)	-
Total Income for the Year	-	-	83 276	4 669 973	<b>4 753 249</b>
Dividends	-	(1 178 756)		(2 184 609)	<b>(3 363 365)</b>
<b>BALANCE ON 31.12.2010</b>	<b>200</b>	<b>478 579</b>	<b>83 276</b>	<b>4 667 081</b>	<b>5 229 136</b>

Director

I. Milorava

Chief Accountant

Kh. Chaduneli

# Cash Flow Report

For the Year Ended on December 31, 2010

Name of the Company: *Electricity System Commercial Operator Ltd.*

Legal Address: *2 Baratashvili str. Tbilisi, Georgia*

Field of Activity: *Service*

Currency: *GEL*

## DIRECT CASH FLOW REPORT

	2010	2009
Operations		
Cash Receipts from Customers	135 116 817	129 882 259
Cash paid:		
to the Providers	(118 091 948)	(111 756 255)
Salary expenses	(1 452 380)	(2 446 777)
<i>Cash-flow from operations</i>	15 572 489	15 679 227
Paid Interests		
Paid taxes	(12 465 431)	(9 703 959)
Cash Flow before Special Items	3 107 059	5 975 266
<b>Net Cash from Operations</b>	<b><u>3 107 059</u></b>	<b><u>5 975 268</u></b>
<b>Investing Activities</b>		
Acquisition of Fixed Assets	(2 985)	(142 191)
Acquisition of Intangible Assets	(2 190)	
Received Interest	611 571	1 167 585
Purchase of Enterprise Share		(720)
<b>Net Cash from Investing Activities</b>	<b><u>606 396</u></b>	<b><u>1 024 674.10</u></b>
<b>Financing Activities</b>		
Paid Dividends	(3 363 365)	(3 369 940)
Long-Term Loans		
Paid Long-Term Loans		
<b>Net Cash flow from Financing Activities</b>	<b><u>(3 363 365)</u></b>	<b><u>(3 369 940)</u></b>
<b>Net Increase in Cash and Cash Equivalents</b>	<b><u>350 090</u></b>	<b><u>3 630 002</u></b>
<b>Cash and Cash Equivalents at the Beginning of the Reporting Period</b>	<b>5 236 701</b>	<b>1 606 698</b>
<b>Cash and Cash Equivalents at the End of the Reporting Period</b>	<b>5 586 791</b>	<b>5 236 701</b>

Director

I. Milorava

Chief Accountant

Kh. Chaduneli

## Explanatory Notes

Financial Statement of Ltd ESCO (hereinafter referred to as the Enterprise) has been compiled on the International Accounting Standards of 2004 edition for practical application endorsed by the Commission of Accounting Standards under the Parliament of Georgia. The amendments on operation of the Enterprise made later in the IAS have also been taken into account.

### Accounting Policy

Preparation of annual financial statement of the Enterprise is based on the assumptions of functionality and accrual methods. Annual financial statement is made as of December 31, 2010.

Financial statement is based on the accounting information, reflected in the financial reports of 2009 and reliable information on revenues, expenses, receivables and payables of accounting period available before publishing the statements following the date when balance sheet was prepared.

Fixed Assets

(GEL)

Remark 1

	Name	Balance on 31.12.2010	Income	Revaluation and Impairment Results	Expences	Balance on 31.12.2009
	<b>Purchase Cost</b>					
1	Office Equipment	269 303	1 094	(2 505)	1 586	29 927
2	Furniture and Other Inventory	51 842		(17 756)	3 387	72 985
3	Means of Transportation	141 370		(56 585)		197 955
4	Computer, Peripheral Equipment	42 367		(42 313)	17 127	101 807
5	Other Fixed Assets	8 147	1 891	(39 649)	4 762	50 667
6	Rehabilitation of Rented Office	0			39614	39614
	<b>Total</b>	<b>270 656</b>		<b>(155 808)</b>	<b>66 476</b>	<b>492 955</b>
	Depreciation	Balance on 31.12.2010	Depreciation	Revaluation and Impairment Results	Depreciation of Current Assets	Balance on 31.12.2009
1		2 945	1 716	8 854	1 144	11 227
2	Depreciation of Furniture and Other Stocks	0		19 400	1 829	21 229
3	Depreciation of Vehicles	0		74 431		74 431
4	Depreciation of Computers, Peripheral Equipment	0		42 401	4 462	46 863
5	Depreciation of Other Fixed Assets	406	407	16 954	3 521	20 474
6	Depreciation of Loaned Office Space	0			10564	10564
	<b>Total</b>	<b>3 351</b>	<b>2 123</b>	<b>162 040</b>	<b>21 520</b>	<b>184 788</b>
	<b>Book Value</b>	<b>267 305</b>				<b>308 167</b>

\*Depreciation Charge for Fixed Assets is Made by Means of Liniar Method.

\*\*Fixed assets in the Balance Sheet are Given as of December 31, 2010, at Value Assessed by the Property Valuator.

Remark 2

Accumulated amounts of depreciation is subtracted from the current assets given in the balance sheet. Depreciation was made by means of rectilinear method.

Remark 3

In 2009, the Ltd ESCO Became a co-founder of the Turkish Wholesale Energy Seller, JSC Karchali. Capital of the Joint Stock Company is made of 1,200,000 Shares, the Nominal Price of One Share is TRL1. ESCO Owns 2,400 Shares. As Per Charter of JSC, in 2009 ESCO Covered 25% of Its Price – TRL600, or GEL720. The Rest of the Shares Should be Paid for on June 30, 2012.

Remark 4

### INVENTORY

(GEL)

	Data	31.12.2010	31.12.2009
1	Reserve Recognized as an Expense	141 995 056	121 634 074
2	Stock Balance at the End of the Year	6 783	12 188
3	Including Industrial Reserve	6 783	12 188
	<b>Balance</b>	<b>6 783</b>	<b>12 188</b>

\*Acceptance of Inventories Recognized at the Cost of Purchase, Release at Weighted Average Value.

**TRADE AND OTHER RECEIVABLES**

Remark 5

	Name	31.12.2010	31.12.2009
1	Receivables from Supply	22 361 992	14 131 586
2	Correction of Doubtful Debts	(34 648)	
3	Receivables from Service	367 178	568 613
4	Receivables from Enterprise Personnel	150	
5	Disbursed Advance Payments	38 752	16 571
	Expenses in Advance	5 550	9 643
	<b>Total</b>	<b>22 738 974</b>	<b>14 726 413</b>

\* GEL 22,361,992 and GEL 14,131,586 are penalties charged at buyers because of non payment in due time.

**TAX RECEIVABLES**

Remark 6

	Name	31.12.2010	31.12.2009
1	Welfare Tax	2 806	601
2	Profit Tax		81 611
3	Income Tax	2 983	
4	Real Estate Tax	333	
	<b>Total</b>	<b>6 122</b>	<b>82 212</b>

**TRADE OBLIGATIONS**

Remark 7

	Name	31.12.2010	31.12.2009
1	Liabilities Against the Sellers of Electric Power	21 001 397	15 135 740
2	Responsibility	432 333	43 382
3	Received Advance Payments	19 225	17 833
	<b>Total</b>	<b>21 452 955</b>	<b>15 196 955</b>

**TAX OBLIGATIONS**

Remark 8

	Name	31.12.2010	31.12.2009
1	Real Estate Tax		1 055
2	VAT	1 402 003	1 287 918
3	Profit Tax	491 570	
4	Welfare Tax		
5	Income Tax		137
	<b>Total</b>	<b>1 893 573</b>	<b>1 289 110</b>

**REVENUES**

Remark 9

	Name	31.12.2010	31.12.2009
1	Income from Electricity Supply	146 439 520	124 771 109
2	Income from Service	4 215 651	3 377 109
3	Other Sales	22 143	
4	Penalties and Compensations	317 152	433 345
	<b>Total</b>	<b>150 994 466</b>	<b>128 581 563</b>

**INCOME FROM OTHER TRANSECTIONS**

Remark 10

	Name	31.12.2010	31.12.2009
1	Interest Gain	611 571	1 167 585
2	Exchange Difference	209 673	67 466
	<b>Total</b>	<b>821 244</b>	<b>1 235 051</b>

**SERVICE CHARGES**

Remark 11

	Name	31.12.2010	31.12.2009
1	Insurance Expenses	7 080	7 853
2	Rental Expenses	941 756	283 809
3	Communication Expenses	37 078	44 497
4	Service to Third Persons	1 025 631	786 938
	<b>Total</b>	<b>2 011 545</b>	<b>1 123 097</b>

**EXPENCES FROM OTHER TRANSACTIONS**

Remark 12

	Name	31.12.2010	31.12.2009
1	Electricity Expense		
2	Business trip Expense	28 216	30 338
3	Exchange Difference	251 881	167 844
4	Tax Expense (VAT)	10 723	241 236
5	Tax Penalty		90 443
6	Representative Expense	11 465	3 661
7	Write-off of Debt	31 271	1 455 739
8	Correction of Questionable Debt	34 648	
	Loss from Fixed Assets Write-off	44 957	
	Loss from Fixed Assets Decrease	711	
	<b>Total</b>	<b>413 872</b>	<b>1 989 261</b>

**PROFIT TAX EXPENCE**

Remark 13

	Name	31.12.2010	31.12.2009
1	Expense from Current Profit Tax	749 980	257 984
2	Back-recognition of Delayed Tax Asset		2 810
3	Back-recognition of Delayed Profit Tax Asset with Change of Profit Tax Number	(15 791)	
4	Expenses of Delayed Profit Tax		277
5	Interest of Delayed Tax Asset	(5 277)	
	<b>Total</b>	<b>728 912</b>	<b>261 071</b>

**LINK BETWEEN THE TAX EXPENSE AND ACCOUNTED PROFIT**

	Data	31.12.2010	31.12.2009
1	Accounted Profit	5 398 885	2 512 679
2	Tax Amount Used with 15% Tax Rate	809 833	376 902
3	Tax Before Expenses Result for Profit	29 342	56 220
4	Profit Before Taxation	(89 194)	-175 138
5	Growth of Delayed Tax Asset with Reduction of Tax Rate	(5 277)	2 810
6	Reduction of Delayed Profit Tax with Reduction of Tax Rate	(15 791)	277
7	Tax Expense	728 912	261 070

Remark 14

In 2010, an error made in 2007-2009 was discovered. After the retroactive correction of the error, relevant information in the Profit and Loss Statement for 2009 is presented, including the amendments in the items of Revenues and Losses. Hereunder, find the impact of error correction on 2009 Financial Statement.

Items Corrected in 2009	Amount (GEL)
Revenues from Increase Sales	5 242
Increased Expenses	
<i>Expenses for Keeping the Personnel</i>	(7 681)
<i>Welfare Tax Expenses</i>	(453)
Decreased Profit Tax	
Decreased Net Profit	(2 892)