

JSC Electricity System Commercial Operator

Financial statements

Together with the Independent Auditor's Report

For the year ended 31 December 2011

JSC Electricity System Commercial Operator

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE FINANCIAL STATEMENTS

As and for the year ended 31 December 2011

The following statement, which should be read in conjunction with the independent auditors' responsibilities stated in the independent auditors' report set out on page 4, is made with a view to distinguishing the respective responsibilities of management and those of the independent auditors in relation to the financial statements of **JSC Electricity System Commercial Operator** (hereinafter - the Company).

Management is responsible for the preparation of the financial statements that present fairly the financial position of the Company at 31 December 2011 and the results of its operations, cash flows, and changes in equity for the year then ended, in accordance with International Financial Reporting Standards ("IFRS").

In preparing the financial statements, management is responsible for:

- Selecting suitable accounting principles and applying them consistently;
- Making judgments and estimates that are reasonable and prudent;
- Stating whether IFRS have been followed, subject to any material departures disclosed and explained in the financial statements; and
- Preparing the financial statements on a going concern basis, unless it is inappropriate to presume that the Company will continue in business for the foreseeable future.

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls, throughout the Company;
- Maintaining proper accounting records that disclose, with reasonable accuracy at any time, the financial position of the Company, and which enable them to ensure that the financial statements of the Company comply with IFRS;
- Maintaining statutory accounting records in compliance with local legislation and accounting standards in the respective jurisdictions in which the Company operates;
- Taking such steps as are reasonably available to them to safeguard the assets of the Company; and
- Preventing and detecting fraud and other irregularities.

The financial statements for the year ended 31 December 2011 were approved on behalf of the management on _____ 2012 by:

Irina Milorava
General director

Khatuna Chaduneli
Head of Department of Accounting and
Reporting

INDEPENDENT AUDITORS' REPORT

To the Shareholders and management of JSC Electricity System Commercial Operator

Report on the Financial Statements

We have audited the accompanying financial statements of the **JSC Electricity System Commercial Operator** (hereinafter - the Company), which comprise the statement of financial position as at 31 December 2011, and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. Except as discussed in the "Basis for qualified opinion" paragraph below, we conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects the financial position of **JSC Electricity System Commercial Operator** as of December 31, 2011, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

18 June, 2012

Tbilisi, Georgia

JSC Electricity System Commercial Operator

STATEMENT OF FINANCIAL POSITION

As at 31 December 2011

(In GEL)

	Note	2011	2010	2009
Assets				
Non-current assets				
Intangible assets		2,238	3,785	3,000
Property, plant and equipment	4	390,945	267,305	308,168
Deferred income tax asset	10	422,458	-	-
Investment available for sale		720	720	720
		816,361	271,810	311,888
Current assets				
Inventory	5	11,162	6,783	12,188
Current income tax asset		254,862	-	81,611
Trade receivables	6	35,054,950	22,129,501	12,963,577
Other receivables	7	309,874	12,713	26,956
Cash and cash equivalents	8	5,049,634	5,586,791	5,236,701
		40,680,482	27,735,788	18,321,033
		41,496,843	28,007,598	18,632,921
Equity and liabilities				
Owner's equity				
Statutory capital	9	87,309	200	200
Non-cash owner distribution reserve	9	(15,660)	-	-
Fixed assets revaluation provision		83,276	83,276	-
Retained earnings		3,111,123	5,145,227	3,838,619
		3,266,048	5,228,703	3,838,819
Non-current liabilities				
Deferred income tax liability	10	-	34,819	41,191
		-	34,819	41,191
Current liabilities				
Trade payables	11	37,230,180	20,399,263	13,405,196
Other payables	12	1,000,615	1,853,243	1,347,715
Current Income tax liability		-	491,570	-
		38,230,795	22,744,076	14,752,911
		41,496,843	28,007,598	18,632,921

Financial Statements for the year ended 31 December 2011 were approved on behalf of the management on 18 June 2012 by:

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General director

Khatuna Chaduneli
Head of Department of Accounting and Reporting

JSC Electricity System Commercial Operator

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2011

(In GEL)

	Note	2011	2010
Gross Receipts		240,342,044	150,678,354
Income from agent's operations		(50,487,563)	(52,390,510)
Net income	13	189,854,481	98,287,844
Charge on agent's operations		50,487,563	52,390,510
Cost of goods sold/ service rendered	13	(183,711,529)	(90,505,971)
Gross profit		6,142,952	7,781,873
General and administrative expenses	14	(3,191,851)	(3,157,916)
Bad and doubtful debt expense	6	(3,106,585)	(65,919)
Loss from fixed assets write off		-	(45,668)
Finance income (expense), Net	15	799,629	611,571
Foreign exchange gain (loss), Net	16	44,911	(42,208)
Other income	17	352,963	317,152
Profit before taxation		1,042,019	5,398,885
Income tax expense	18	(38,345)	(728,912)
Net profit		1,003,674	4,669,973
Revaluation of property, plant and equipment	4	-	97,972
Income tax expenses from revaluations	10	-	(14,696)
Total comprehensive income for the period		1,003,674	4,753,249

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STATEMENT ON CHANGES IN EQUITY

For the year ended 31 December 2011

(In GEL)

	Note	Statutory Capital	Retained Earnings	Revaluation Reserve	Total
Balance at 31 December 2009		200	3,838,619	-	3,838,819
Dividends paid		-	(3,363,365)	-	(3,363,365)
Total comprehensive income for the period		-	4,669,973	83,276	4,753,249
Balance at 31 December 2010		200	5,145,227	83,276	5,228,703
Addition to share capital		87,109	-	-	87,109
Non-cash owner contribution reserve	9	(15,660)	-	-	(15,660)
Dividends paid		-	(2,136,825)	-	(2,136,825)
Transfer of non-cash assets to the founders		-	(900,953)	-	(900,953)
Total comprehensive income for the period		-	1,003,674	-	1,003,674
Balance at 31 December 2011		71,649	3,111,123	83,276	3,266,048

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STATEMENT OF CASH FLOWS

For the year ended 31 December 2011

(In GEL)

	Note	2011	2010
Cash flows from operating activities:			
Profit for the year		1,042,019	5,398,885
Adjustments to:			
Depreciation and amortization	4,14	65,020	97,557
Transfer of non-cash assets to the founders		(900,953)	-
Bad debt expense	6	3,106,585	65,919
Write off of fixed asset		-	45,668
Interest income (expenses), net	15	(799,629)	(611,571)
Gain (loss) from exchange rate difference	16	44,911	(42,208)
Operating Cash inflows before working capital changes		2,557,954	4,954,250
Decrease/Increase:			
Decrease/(increase) in inventory		(4,379)	5,405
Increase in trade receivables		(15,781,877)	(9,112,212)
Decrease/(increase) in other receivables		(297,161)	14,243
Increase/(decrease) in trade payables		16,535,847	6,916,645
Increase/(decrease) in other payables		(852,628)	505,528
Cash generated from operations		(400,198)	(1,670,391)
Income tax paid		(1,242,053)	(176,800)
Net cash provided from operating activities		915,703	3,107,059
Cash flows from investing activities:			
Purchase of property, plant and equipments		(115,663)	(2,985)
Purchase of intangible assets		-	(2,190)
Received interest		799,629	611,571
Net cash outflow from investing activities		683,965	606,396
Cash flows from financing activities:			
Dividends paid		(2,136,825)	(3,363,365)
Net cash outflow from financing activities		(2,136,825)	(3,363,365)
Net Increase/(decrease) in cash and cash equivalents		(537,157)	350,090
Cash and cash equivalents at beginning of year		5,586,791	5,236,701
Cash and cash equivalents at end of year		5,049,634	5,586,791

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Notes on pages 9-26 are the integral part of these financial statements.