

LTD "ELECTRCITY SYSTEM COMMERTIAL OPERATOR"

A series of horizontal lines in teal and light blue colors, some solid and some dashed, extending across the width of the slide below the title.

ESCO ANNUAL REPORT

2007-2009

MAIN DIRECTIONS OF THE ACTIVITY IN 2007-2009

- **BALANCE ELECTRICITY TRADE**
- **TRADE WITH THE CAPACITY SYSTEM RESERVE**
- **ELECTRICITY IMPORT/EXPORT**
- **METERING CONTROL**

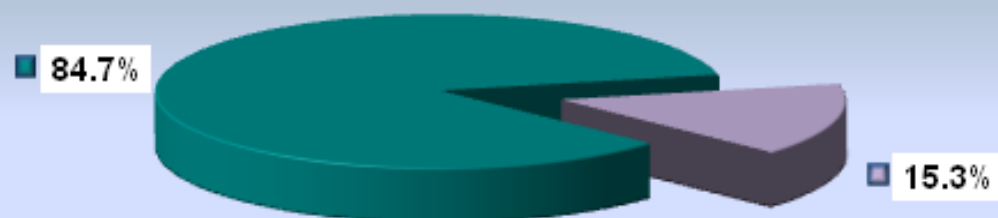
BALANCE ELECTRICITY TRADE

BALANCE ELECTRICITY TRADE REPRESENTS ONE OF THE MAIN DIRECTIONS OF THE ESCO ACTIVITIES.

THE BALANCE ELECTRICITY SHARE IN WHOLESALE TRADE HAS MADE UP:

- **16.1%- IN 2007**
- **15.5% - IN 2008**
- **14.1% - IN 2009**

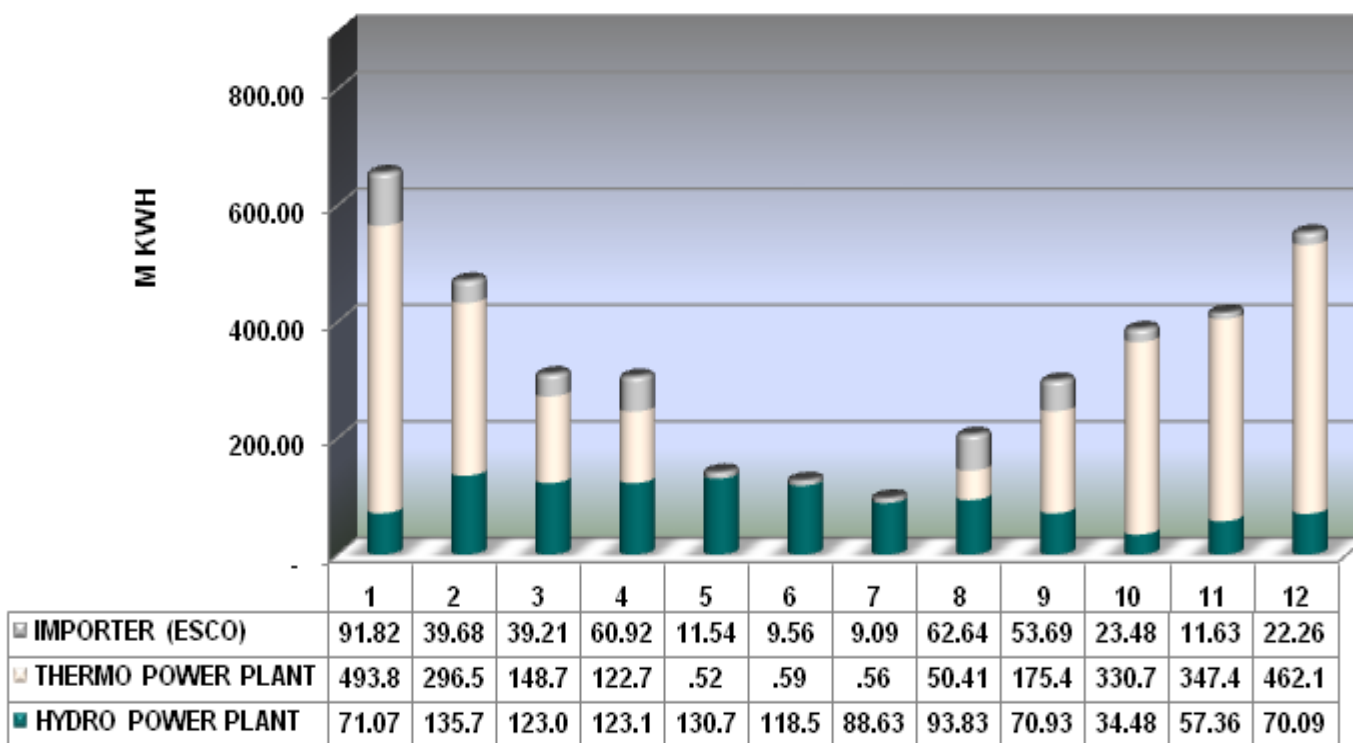
**BALANCE ELECTRICITY SHARE IN TOTAL
CONSUMPTION, 2007-2009**



■ BALANCE ELECTRICITY

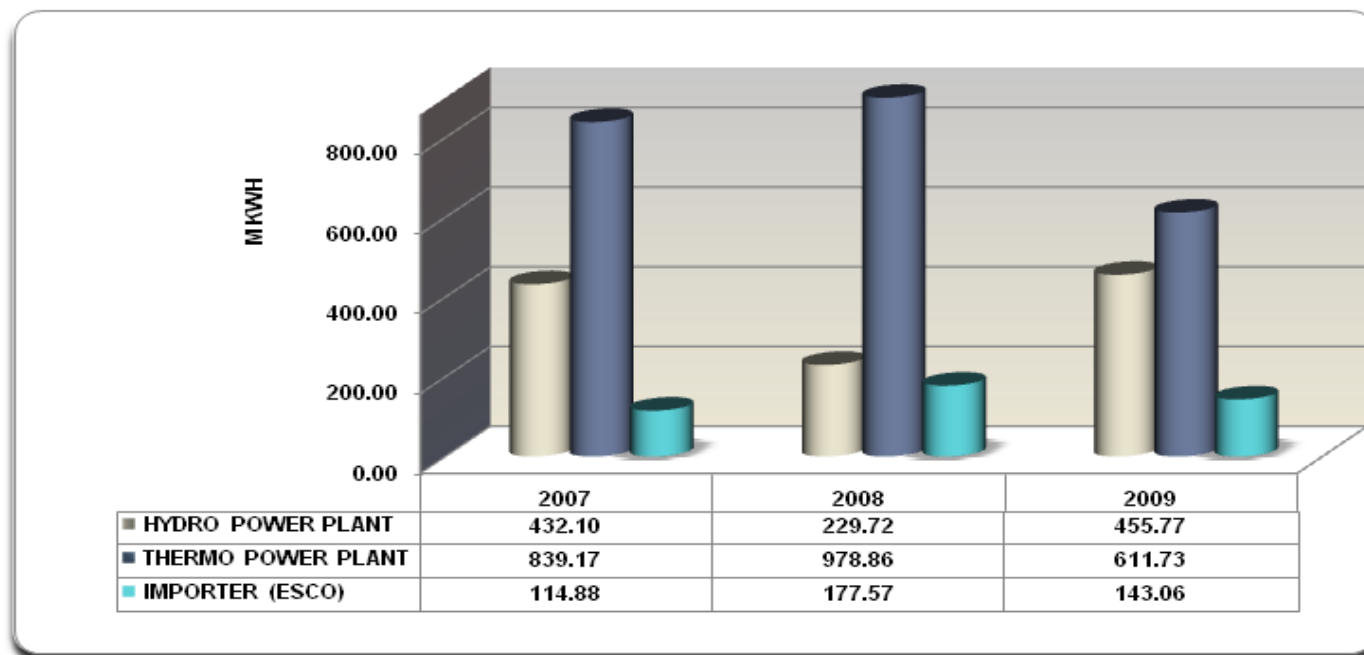
■ SOLD BY DIRECT CONTRACT

BALANCE ELECTRICITY SUPPLIERS, 2007-2009

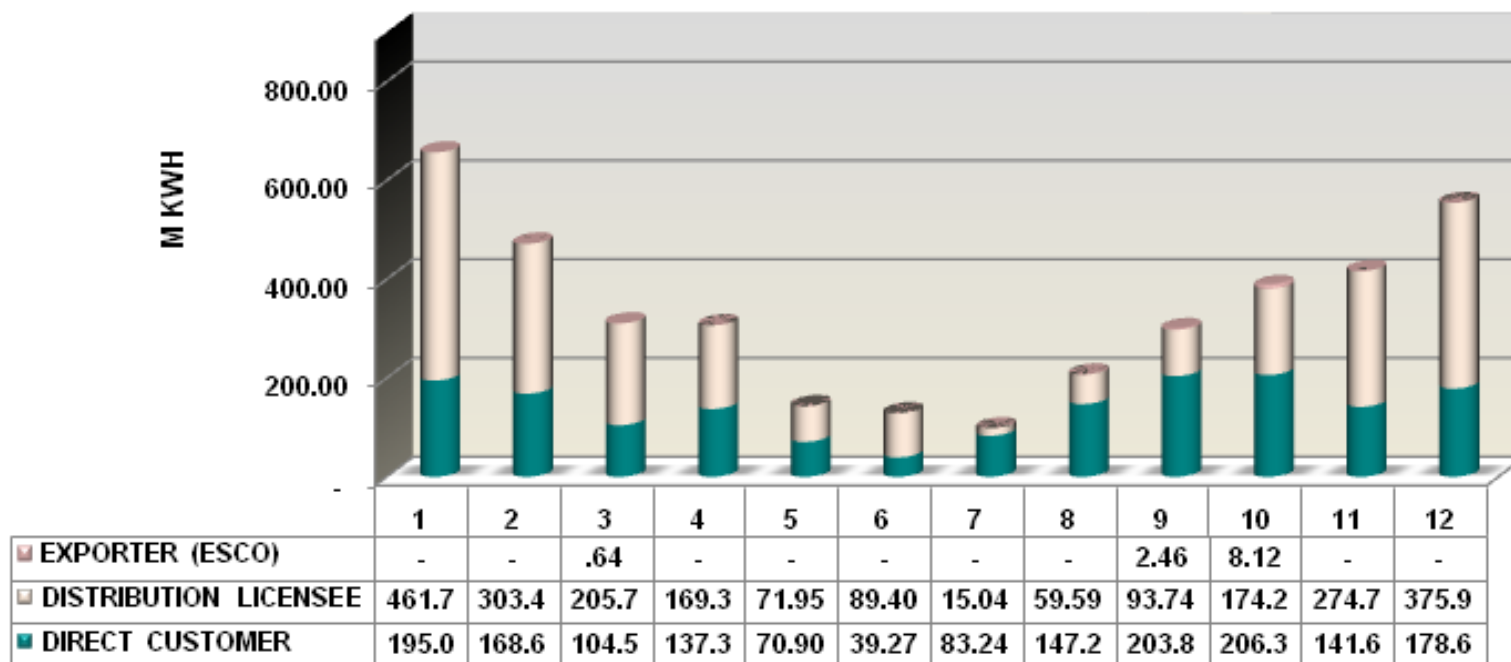


ELECTRICITY SUPPLIERS' PARTICIPATION IN BALANCE ELECTRICITY FORMATION, 2007-2009

IN WINTER PERIOD, THERMAL POWER PLANTS ARE MAIN SUPPLIERS OF BALANCE ELECTRICITY. ALTHOUGH THE 2009 DATA SHOWS THAT THERE SHARE IS DECREASING IN COMPARISON WITH PASSED YEARS. RESPECTIVELY, THE SHARE OF HYDRO POWER PLANTS IS INCREASING.

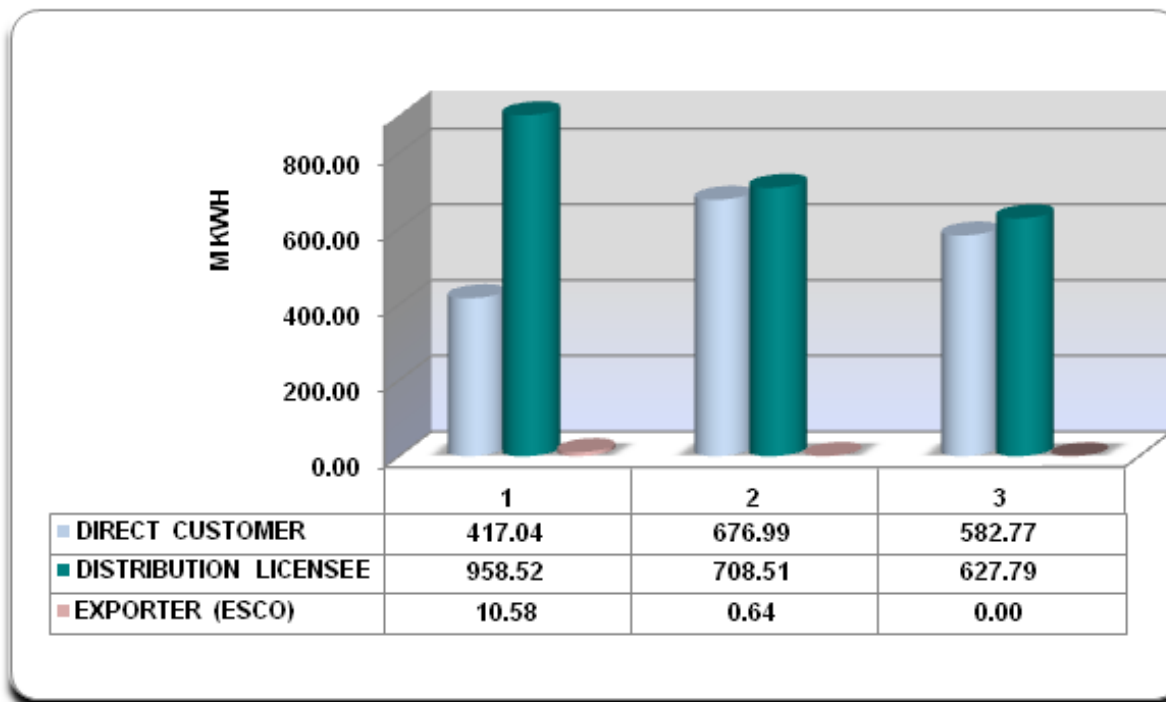


BALANCE ELECTRICITY SALES INDICATORS BY THE CATEGORY OF BUYERS, 2007-2009



PARTICIPATION OF QUALIFIED ENTREPRICES IN BALANCE ELECTRICITY PURCHASE, 2007-2009

PARTICIPATION OF QUALIFIED ENTREPRICES IN BALANCE ELECTRICITY PURCHASE WAS ALMOST IDENTICAL IN 2007-2009. THE INDICATORS OF BALANCE ELECTRICITY PURCHASE BY THE EXPORTERS, WHICH CAME DOWN TO ZERO IN 2009 WERE THE EXCEPTION.



PURCHASE PRICE OF BALANCE ELECTRICITY

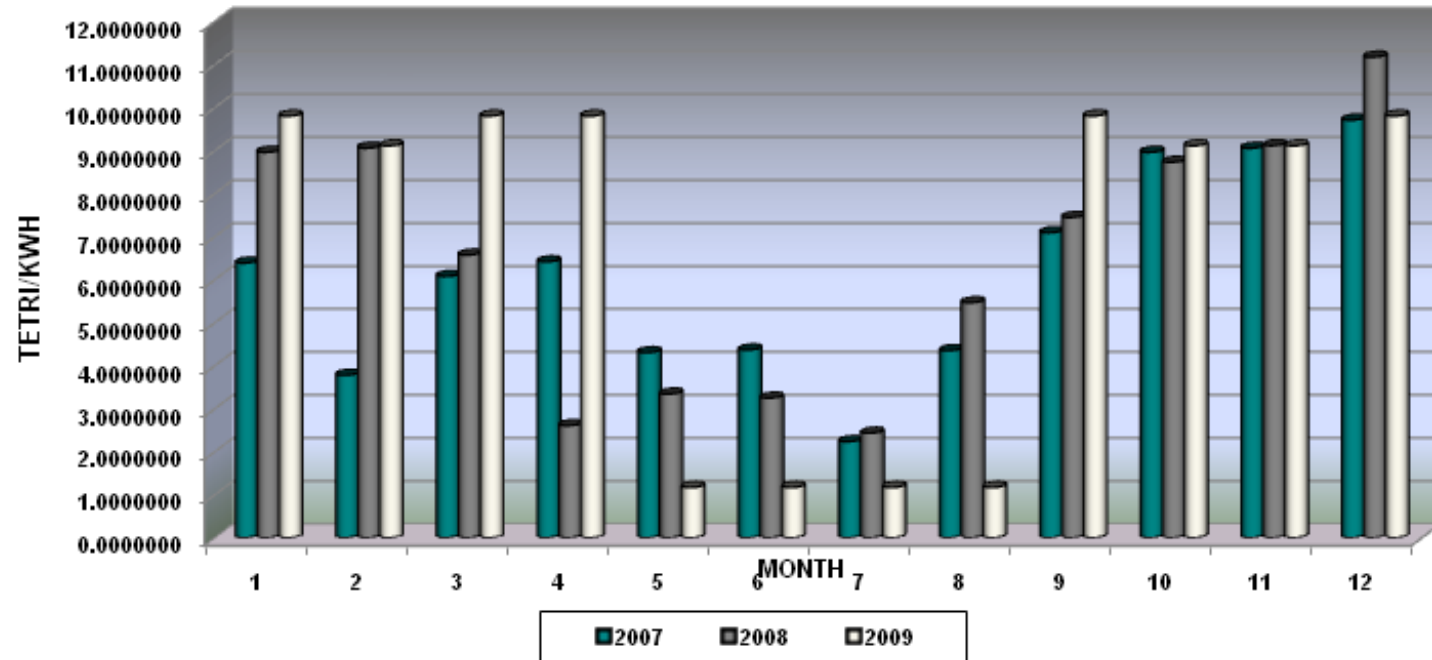
2007-2008

- ESCO BUYS BALANCE ELECTRICITY FROM REGULATORY HYDRO POWER PLANTS WITH THE TARIFF ESTABLISHED BY THE COMMISSION FOR RESPECTIVE LICENCEES;
- ESCO BUYS BALANCE ELECTRICITY FROM PARTLY DEREGULATED HYDRO POWER PLANTS DURING THE SEPTEMBER-MAY PERIOD - WITH THE UPPER MARGIN OF GENERATION TARIFF ESTABLISHED BY THE COMMISSION FOR RESPECTIVE LICENCEES;
- ESCO BUYS THE BALANCE ELECTRICITY FROM DEREGULATED HYDRO POWER PLANTS DURING THE RESPECTIVE CALCULATION PERIOD WITH WEIGHTED AVERAGE PRICE (DOES NOT INCLUDING PARTICIPATION OF SMALL CAPACITY POWER PLANTS) OF BALANCE ELECTRICITY PURCHASED BY ESCO (SLIDE #12);
- ESCO BUYS THE BALANCE ELECTRICITY GENERATED BY THE RESERVE SOURCE AS THE RESULT OF USING CAPACITY SYSTEM RESERVE WITH THE RESERVE TARIFF ESTABLISHED BY THE COMMISSION;
- THE BALANCE ELECTRICITY IMPORTED BY ESCO PARTICIPATES IN FORMING THE SELLING PRICE OF BALANCE ELECTRICITY WITH THE UPPER MARGIN OF IMPORT TARIFF ESTABLISHED BY THE COMMISSION.

PURCHASE PRICE OF BALANCE ELECTRICITY 2009

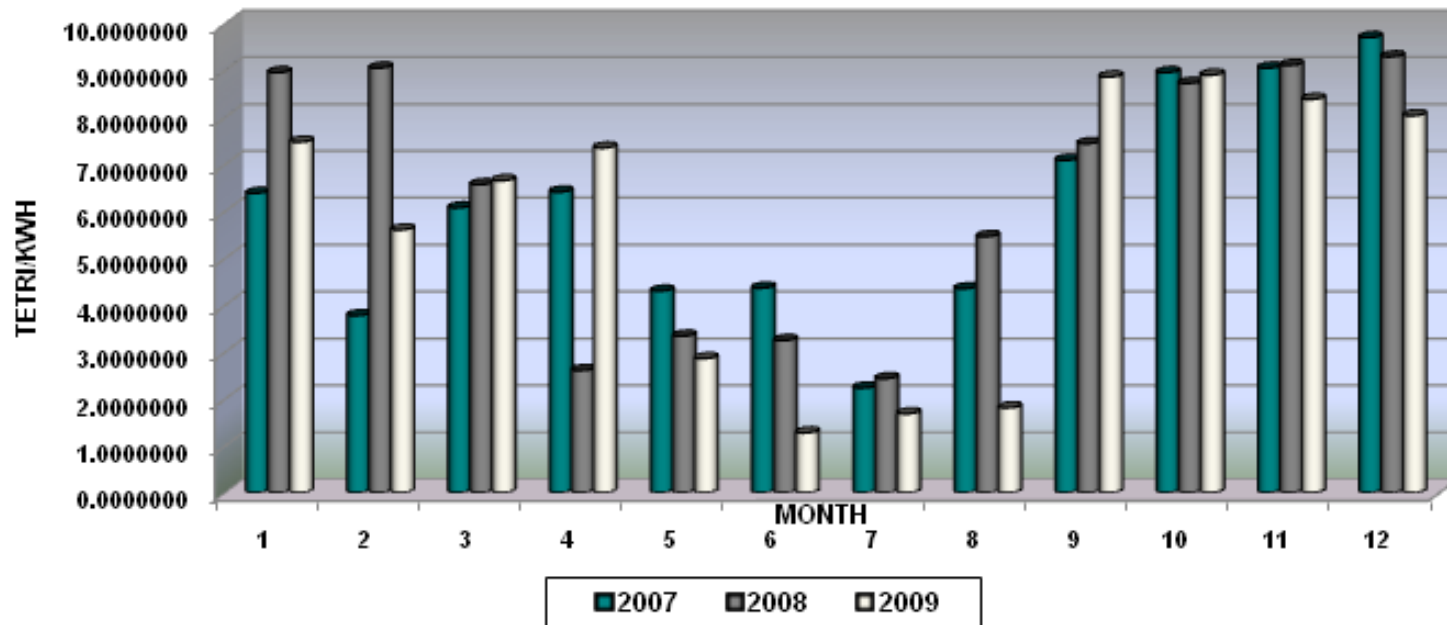
- ESCO BUYS BALANCE ELECTRICITY FROM REGULATORY HYDRO POWER PLANTS WITH THE TARIFF ESTABLISHED BY THE COMMISSION FOR RESPECTIVE LICENCEES;
- ESCO BUYS BALANCE ELECTRICITY FROM PARTLY DEREGULATED POWER PLANTS:
 - DURING THE SEPTEMBER-MAY PERIOD - WITH THE UPPER MARGIN OF GENERATION TARIFF ESTABLISHED BY THE COMMISSION FOR RESPECTIVE LICENCEES;
 - DURING THE MAY-SEPTEMBER PERIOD - WITH THE LOWEST GENERATION TARIFF OF REGULATORY POWER PLANTS (1.17 TETRI/KWH);
- ESCO BUYS THE BALANCE ELECTRICITY FROM DEREGULATED POWER PLANTS (SLIDE #12):
 - DURING THE SEPTEMBER-MAY PERIOD - WITH THE HIGHEST TARIFF OF BALANCE ELECTRICITY SOLD TO ESCO DURING THE SAME CALCULATION PERIOD;
 - DURING THE MAY-SEPTEMBER PERIOD - WITH THE LOWEST GENERATION TARIFF OF REGULATORY POWER PLANTS (1.17 TETRI/KWH);
- ESCO BUYS THE BALANCE ELECTRICITY GENERATED BY THE RESERVE SOURCE AS THE RESULT OF USING CAPACITY SYSTEM RESERVE WITH THE RESERVE TARIFF ESTABLISHED BY THE COMMISSION;
- THE BALANCE ELECTRICITY IMPORTED BY ESCO PARTICIPATES IN FORMING THE SELLING PRICE OF BALANCE ELECTRICITY WITH THE UPPER MARGIN OF IMPORT TARIFF ESTABLISHED BY THE COMMISSION.

BALANCE ELECTRICITY PRICE OF DEREGULATED HYDRO POWER PLANTS, 2007-2009



FORMATION OF BALANCE ELECTRICITY PURCHASE PRICE, 2007-2009

SELLING PRICE BALANCE ELECTRICITY IS FORMED WITH *WEIGHTED AVERAGE PRICE* OF BALANCE ELECTRICITY BOUGHT BY THE ESCO.



BALANCE ELECTRICITY PRICE PAYMENT INDICATOR, 2007-2009

- **IN 2007, ESCO PAID THE BALANCE ELECTRICITY SUPPLIERS 99 538 795 GEL, WHICH IS 96.47% OF TOTAL BILLING (TAKING INTO ACCOUNT THE BALANCE AVAILABLE AT THE BEGINNING OF THE PERIOD);**
- **IN 2007, THE EQUALIFIED ENTREPRICES PAID FOR THE BALANCE ELECTRICITY BOUGHT FROM ESCO 105 691 551 GEL, WHICH IS 97% OF BILLED AMOUNT (TAKING INTO ACCOUNT THE BALANCE AVAILABLE AT THE BEGINNING OF THE PERIOD).**

- IN 2008, ESCO PAID THE BALANCE ELECTRICITY SUPPLIERS 103 461 888 GEL, WHICH IS 92.6% OF TOTAL BILLING (TAKING INTO ACCOUNT THE BALANCE AVAILABLE AT THE BEGINNING OF THE PERIOD);
- IN 2008, THE QUALIFIED ENTREPRICES PAID FOR THE BALANCE ELECTRICITY BOUGHT FROM ESCO 112 237 194 GEL, WHICH IS 93.88% OF BILLED AMOUNT (TAKING INTO ACCOUNT THE BALANCE AVAILABLE AT THE BEGINNING OF THE PERIOD);
- IN 2009, ESCO PAID THE BALANCE ELECTRICITY SUPPLIERS 88 943 813 GEL, WHICH IS 97.61% OF TOTAL BILLING (TAKING INTO ACCOUNT THE BALANCE AVAILABLE AT THE BEGINNING OF THE PERIOD);
- IN 2009, THE QUALIFIED ENTREPRICES PAID FOR THE BALANCE ELECTRICITY BOUGHT FROM ESCO 96 901 707 GEL (VAT INCLUDED), WHICH IS 99.96% OF BILLED AMOUNT (TAKING INTO ACCOUNT THE BALANCE AVAILABLE AT THE BEGINNING OF THE PERIOD).

PROVIDING FOR THE CAPACITY SYSTEM RESERVE

- IN 2007-2009, ESCO WAS SUPPLYING THE ENERGY SECTOR WITH THE CAPACITY SYSTEM RESERVE;
- THREE LICENSEES (THERMAL POWER PLANTS) BELOW ARE THE CAPACITY SYSTEM RESERVE SOURCES:
 - JSC “ENERGY INVEST”
 - JSC “TBILSRESI”
 - LTD ”MTSKVARI ENERGY”
- DISTRIBUTION LICENSEES, DIRECT CUSTOMERS AND EXPORTERS ARE THE BUYERS OF CAPACITY SYSTEM RESERVE.

CAPACITY SYSTEM RESERVE SALES INDICATORS, 2007-2009

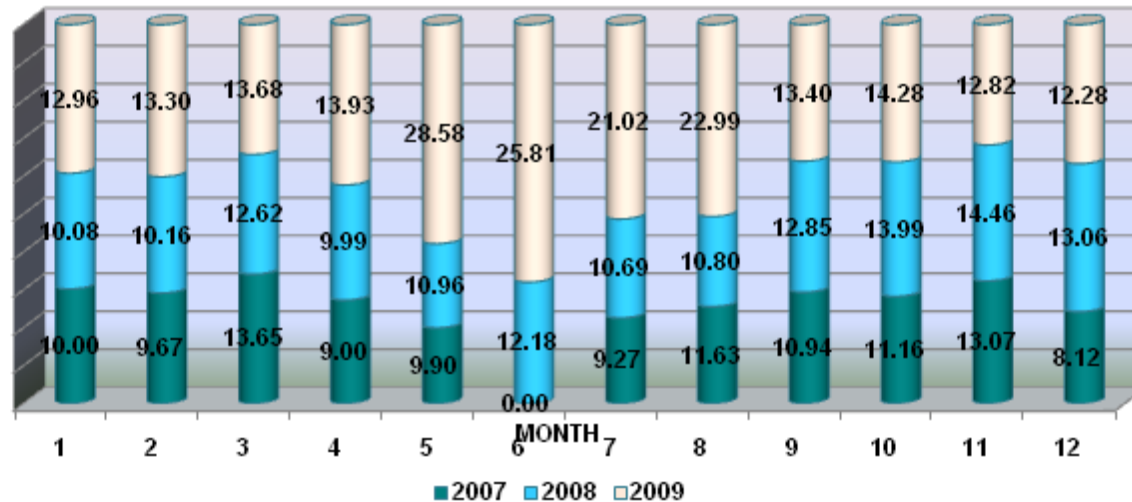
- IN 2007, THE CAPACITY SYSTEM RESERVE SOLD BY THE LTD "ELECTRICITY SYSTEM COMMERTIAL OPERATOR" AMMOUNTED TO **462 908 113.00 KWH** AND COSTED **23 694 255.75 GEL**; IN 2008, RESPECTIVELY, THE MENTIONED INDICATOR WAS – **868 675 906.00 KWH** AND **45 146 990.87 GEL**, WHERAS IN 2009 IT WAS **1 203 071 341 KWH** AND **34 969 570.63 GEL**.

| YEAR | JSC "ENERGY INVEST" | | JSC "TBILSRESI" | | LTD "MTKVARI ENERGY" | |
|-------------|---------------------|--------------------|--------------------|--------------------|----------------------|--------------------|
| | RESERVE (M KWH) | BILLING (M GEL) | RESERVE (M KWH) | BILLING (M GEL) | RESERVE (M KWH) | BILLING (M GEL) |
| 2007 | 449. 09 | 23. 59 | 13. 81 | 0. 96 | 0.00 | 0.00 |
| 2008 | 868.67 | 45. 14 | 0.00 | 0.00 | 0.00 | 0.00 |
| 2009 | 868. 24 | 29. 56 | 200. 64 | 3. 26 | 134. 20 | 2. 15 |

CAPACITY SYSTEM RESERVE SHARE AGAINST THE CONSUMPTION, 2007-2009

- INCREASE OF THE CAPACITY SYSTEM RESERVE SHARE AGAINST THE NET CONSUMPTION OF THE COUNTRY DURING MAY-AUGUST PERIOD WAS COINDITIONED FROM THE QUANTITY OF RESERVE SOURCE AND RESPECTIVELY, THE VOLUME OF CAPACITY SYSTEM RESERVE, PREDETERMINED BY THE AMENDMENTS INTRODUCED TO THE LEGILSATION.

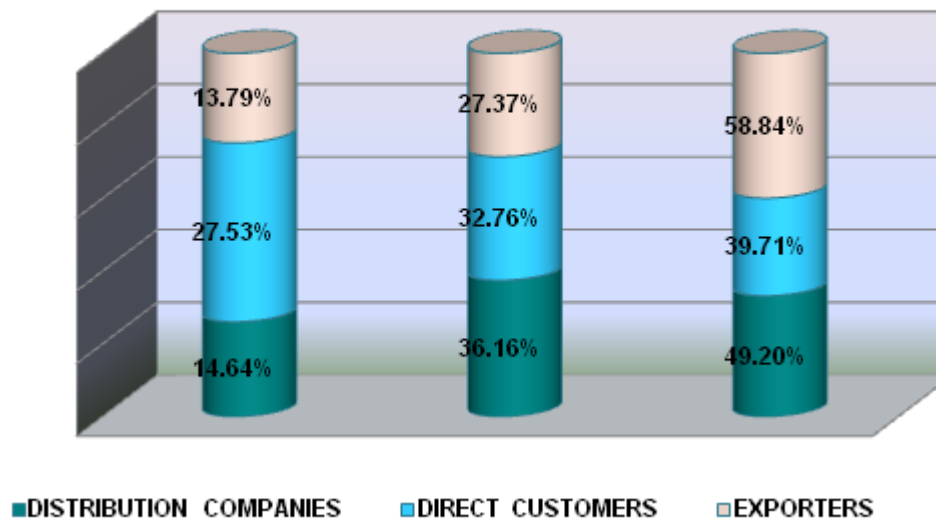
PERCENT OF PROVIDED CAPACITY SYSTEM RESERVE AGAINST THE TOTAL CONSUMPTION OF CAPACITY SYSTEM RESERVE BUYER QUALIFIED ENTREPRICES IN 2007-2009



THE SHARE OF CAPACITY SYSTEM RESERVE BUYER QUALIFIED ENTREPRISES IN TOTAL PURCHASE, 2007-2009

TAKING INTO CONSIDERATION THE FACT THAT DISTRIBUTION LICENCEES STILL REMAIN AS THE LARGEST CONSUMERS, THEIR PARTICIPATION IN TOTALLY PURCHASED CAPACITY SYSTEM RESERVE IS THE HIGHEST.

PERCENTAGE OF THE CAPACITY SYSTEM RESERVE, BOUGHT BY THE DISTRIBUTION COMPANIES, DIRECT CUSTOMERS AND EXPORTERS IN 2007-2009, AGAINST THE TOTAL QUANTITY OF PROVIDED CAPACITY SYSTEM RESERVE



CAPACITY SYSTEM RESERVE PURCHASED BY ESCO, 2007-2009

IN 2007-2009, ESCO CARRIED OUT THE EXPORT OF ELECTRICITY TO REPUBLIC OF AZERBAIJAN AS WELL AS RUSSIAN FEDERATION. DURING THIS PERIOD, ESCO WAS BUYING THE CAPACITY SYSTEM RESERVE FOR THE EXPORTING PURPOSES.

| YEAR | EXPORT TO RUSSIAN FEDERATION | | EXPORT TO REPUBLIC OF AZERBAIJAN | |
|------|-------------------------------|------------------|----------------------------------|------------------|
| | PURCHASED RESERVE (IN KWH) | BILLING (IN GEL) | PURCHASED RESERVE (IN KWH) | BILLING (IN GEL) |
| 2007 | 9 786 496.08 | 520 543.73 | 1 287 178.35 | 68 640.21 |
| 2008 | 31 977 944.14 | 1 719 588.46 | 3 743 569.53 | 183 426.41 |
| 2009 | 2 822 020.12 | 103 568.14 | 3 296 527.95 | 101 632.56 |

ESCO'S IMPORT AND EXPORT, 2007-2009

- **IN 2007-2009, ESCO WAS IMPORTING THE ELECTRICITY FROM TWO NEIBOURING COUNTRIES:**

- ***RUSSIAN FEDERATION–***

- BASED ON THE AGREEMENTS #01-268/2007-2 AND #02-268/2007-2 “ABOUT THE IMPORT OF ELECTRICITY DURING THE EMERGENCY SITUATIONS FROM RUSSIAN FEDERATION TO GEORGIA”, SIGNED BETWEEN THE LTD “ELECTRICITY SYSTEM COMMERTIAL OPERATOR” AND THE JOINT STOCK COMPANY “INTER RAO EES ON MAY 11, 2007;
- THE AGREEMENT #400-07-12/2007 “ABOUT THE IMPORT AND EXPORT OF ELECTRICITY BETWEEN THE POWER GRIDS OF RUSSIA, GEORGIA AND TURKEY”, SIGNED BETWEEN THE LTD “ELECTRICITY SYSTEM COMMERTIAL OPERATOR” AND “TGR ENERGY”;
- BASED ON THE AGREEMENT #140708 “ABOUT THE IMPORT AND EXPORT OF ELECTRICITY BETWEEN THE POWER GRIDS OF RUSSIA, GEORGIA AND TURKEY”, SIGNED BETWEEN THE LTD “ELECTRICITY SYSTEM COMMERTIAL OPERATOR” AND THE LTD “MULTYPLEX ENERGY TRADINGS” ON JULY 14, 2008.

- ***REPUBLIC OF AZERBAIJAN –***

BASED ON THE AGREEMENT #291106 “THE ELECTRICITY EXCHANGE” SIGNED BETWEEN THE LTD “ELECTRICITY SYSTEM COMMERTIAL OPERATOR” AND “AZENERGY TRADINGS” ON NOVEMBER 29, 2006.

ESCO'S IMPORT AND EXPORT, 2007-2009

- **IN 2007-2009, ESCO EXPORTED THE ELECTRICITY TO TWO NEIBOURING COUNTRIES:**

- ***RUSSIAN FEDERATION–***

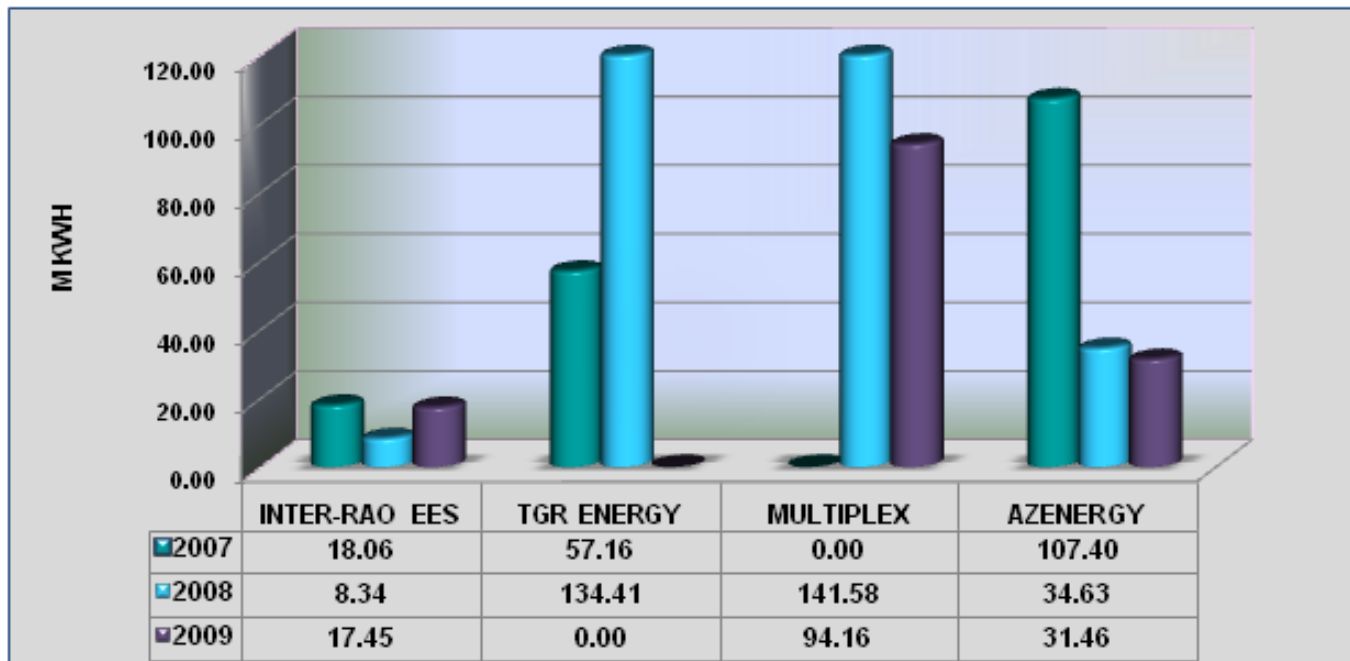
- BASED ON THE AGREEMENTS #01-268/2007-2 AND #02-268/2007-2 “ABOUT THE IMPORT OF ELECTRICITY DURING THE EMERGENCY SITUATIONS FROM RUSSIAN FEDERATION TO GEORGIA”, SIGNED BETWEEN THE LTD “ELECTRICITY SYSTEM COMMERTIAL OPERATOR” AND THE PUBLIC CORPORATION“INTER RAO EES ON MAY 11, 2007;
- THE AGREEMENT (#400-07-12/2007) “ABOUT THE IMPORT AND EXPORT OF ELECTRICITY BETWEEN THE POWER GRIDS OF RUSSIA, GEORGIA AND TURKEY”, SIGNED BETWEEN THE LTD “ELECTRICITY SYSTEM COMMERTIAL OPERATOR” AND “TGR ENERGY”;
- THE AGREEMENT (#400-07/15 13.03.08) “ABOUT THE EXPORT OF ELECTRICITY FROM GEORGIA TO RUSSIAN FEDERATION”, SIGNED BETWEEN THE “TGR ENERGY” AND THE LTD “ELECTRICITY SYSTEM COMMERTIAL OPERATOR”
- BASED ON THE AGREEMENT #140708 “ABOUT THE IMPORT AND EXPORT OF ELECTRICITY BETWEEN THE POWER GRIDS OF RUSSIA, GEORGIA AND TURKEY”, SIGNED BETWEEN THE LTD “ELECTRICITY SYSTEM COMMERTIAL OPERATOR” AND THE LTD“MULTYPLEX ENERGY TRADINGS” ON JULY 14, 2008.

- ***REPUBLIC OF AZERBAIJAN –***

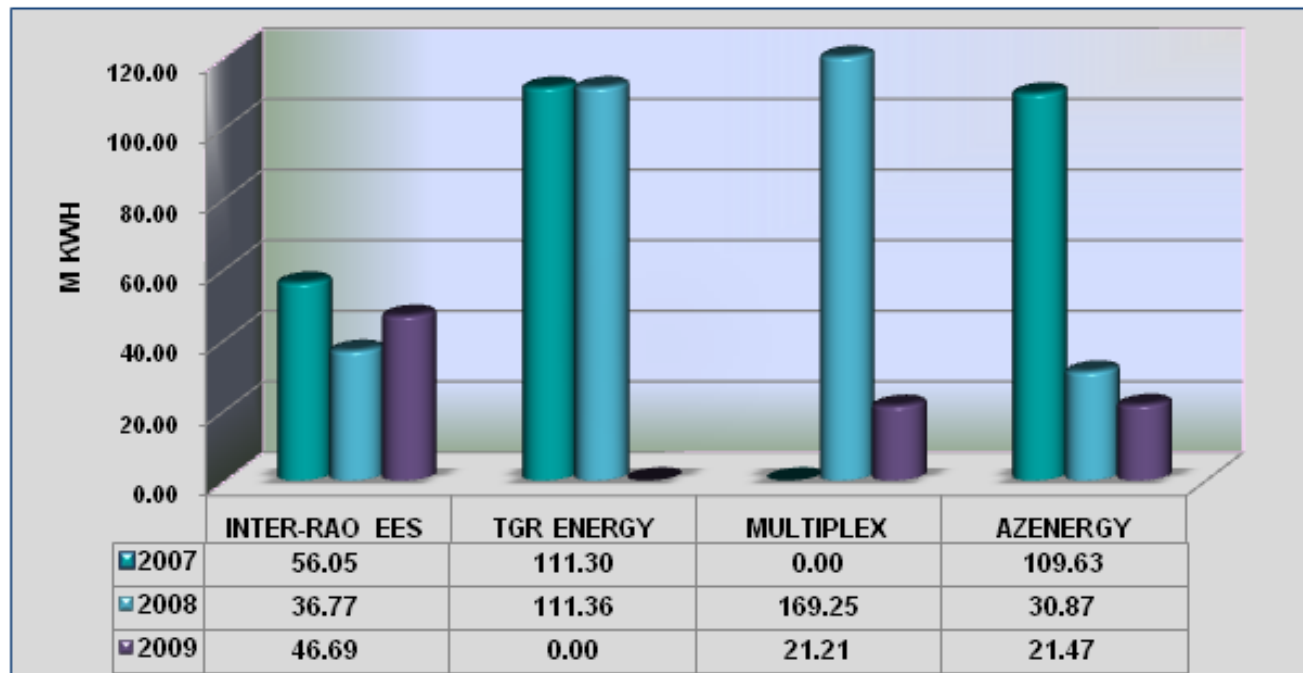
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IMPORT AND EXPORT CARRIED OUT BY ESCO, 2007-2009

IMPORT

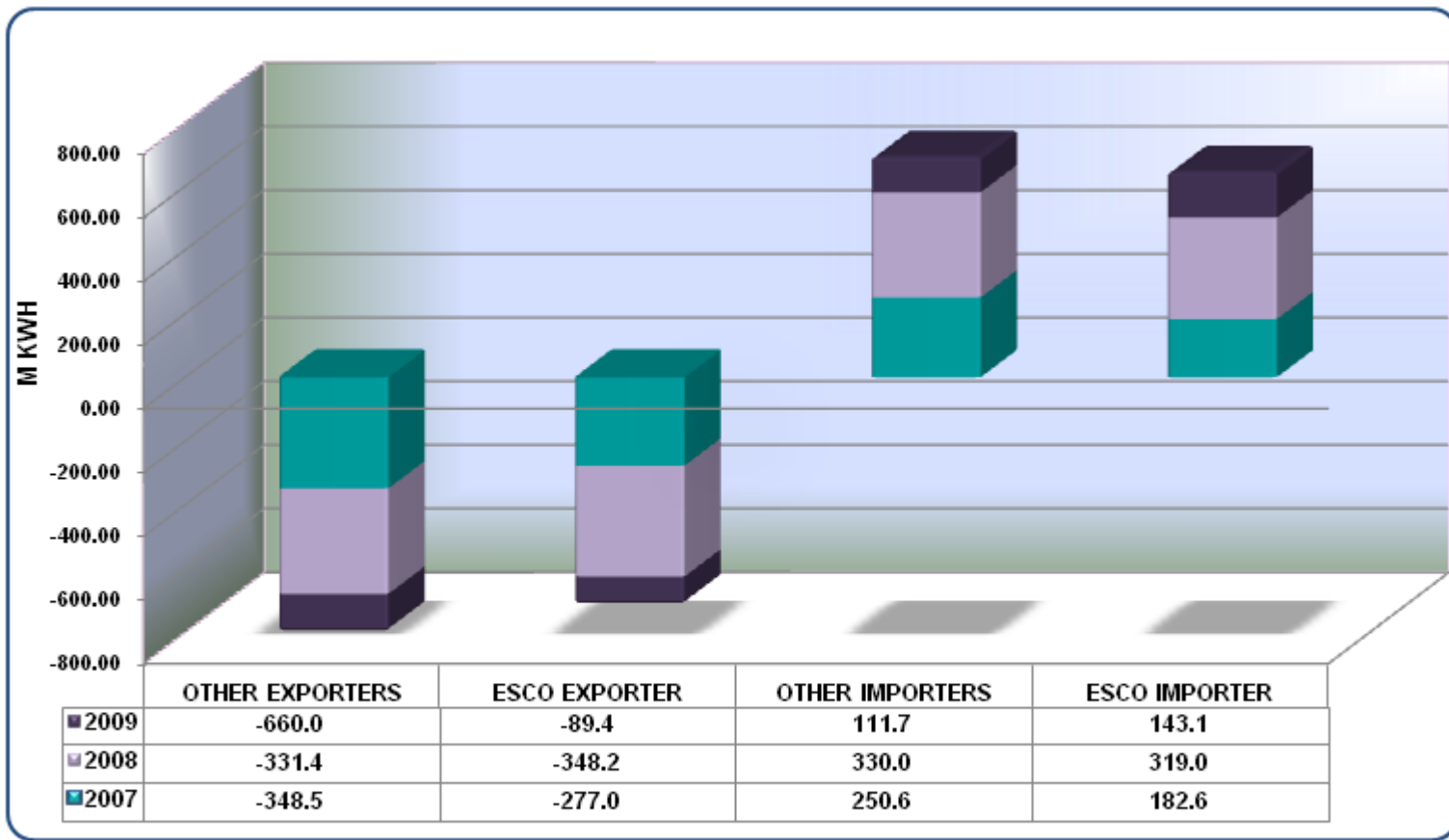


EXPORT



THE IMPORT AND EXPORT CARRIED OUT WITH “INTER-RAO” HAS SPECIAL SHARE IN IMPORT/EXPORT ACTIVITIES OF ESCO. ACCORDINGLY, SIGNIFICANT PART OF IMPORT/EXPORT IS CARRIED OUT AT THE ELECTRICITY TRANSMISSION LINES CONNECTING WITH RUSSIAN FEDERATION.

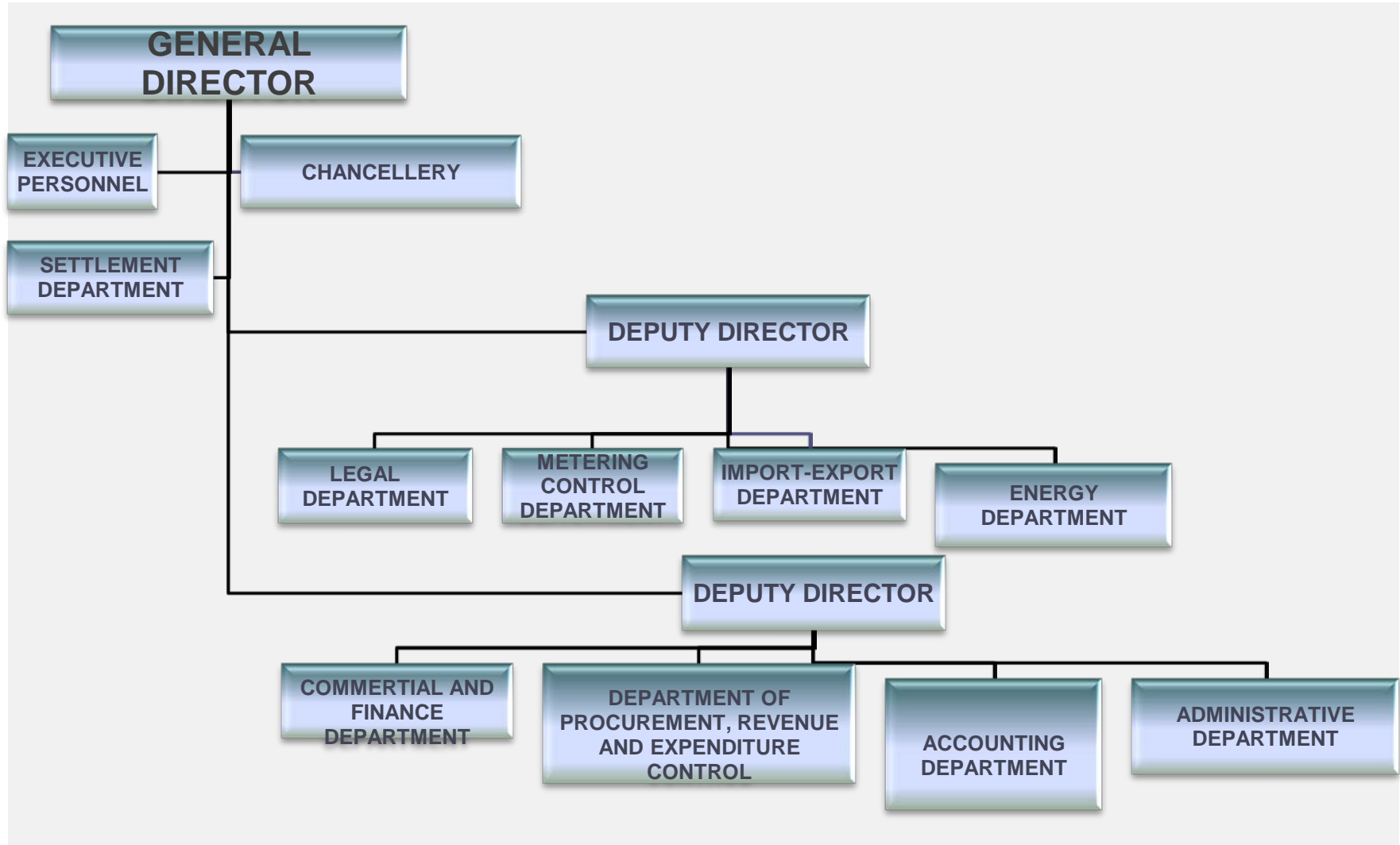
ESCO SHARE IN TOTAL VOLUME OF IMPORT/EXPORT, 2007-2009



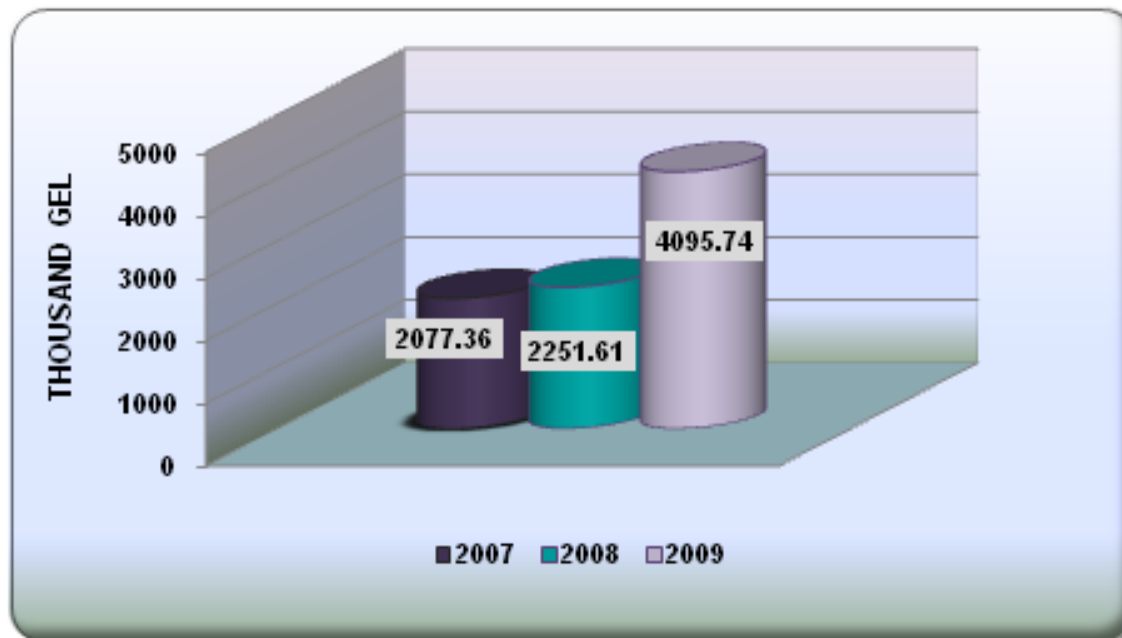
ESCO STRUCTURE BY DECEMBER 31, 2009

- **IN 2009, 74 EMPLOYEES WERE EMPLOYED AT THE ESCO;**
- **STRUCTURE OF ESCO CONSISTS OF THE MANAGEMENT – GENERAL DIRECTOR, TWO DEPUTIES AND 11 STRUCTURAL SUBUNITS - DEPARTMENTS;**
- **THE GENERAL DIRECTOR PERSONALLY IS IN CHARGE OF THREE DEPARTMENTS;**
- **THE DEPUTY GENERAL DIRECTORS ARE IN CHARGE OF FOUR DEPARTMENTS (EACH).**

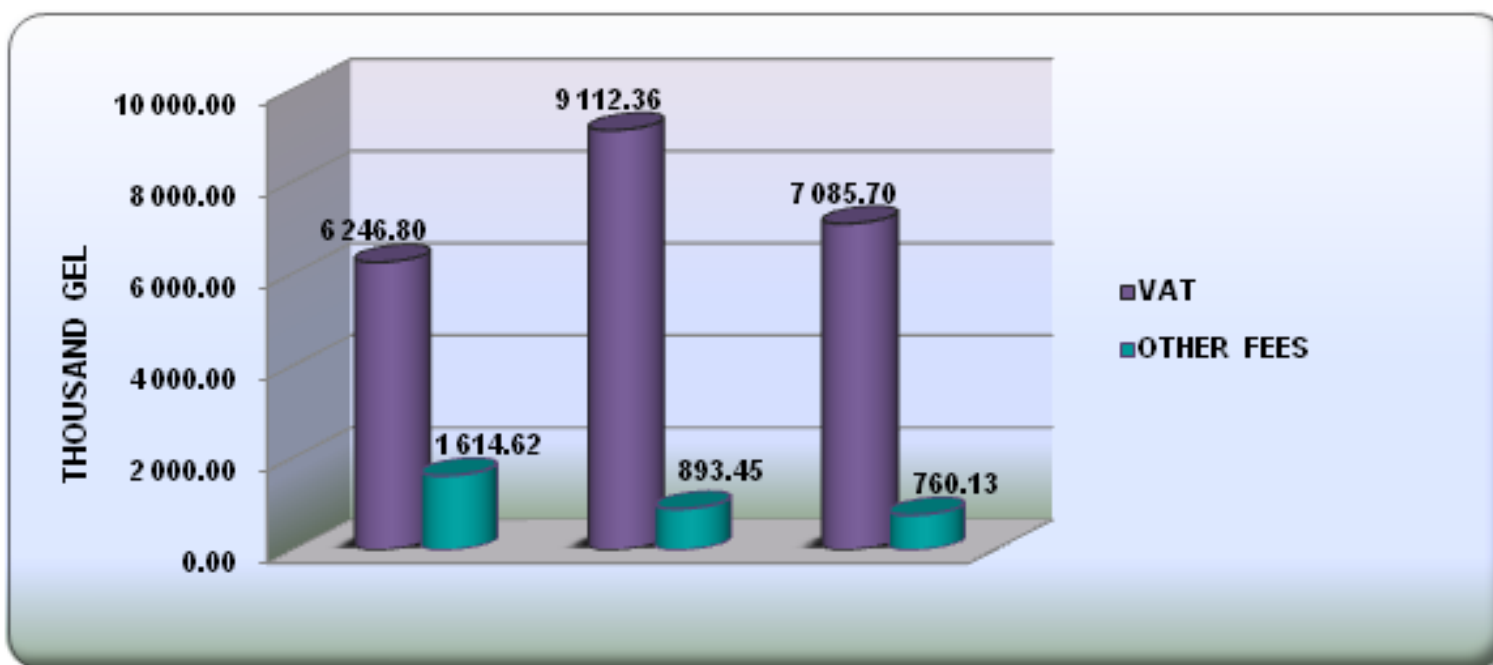
ESCO STRUCTURE, 2009



ESCO'S NET PROFIT INDICATORS, 2007-2009



ESCO'S PAYMENTS TO THE STATE BUDGET, 2007-2009



MONITORING OF METERING SYSTEMS, 2007-2009

THE YEAR 2007

- IN 2007, FOR THE PURPOSE OF MONITORING THE ELECTRICITY SETTLEMENT METERING POINTS, THE AUDITORS (ALONG WITH THE INTERESTED PARTIES) OF METERING CONTROL DEPARTMENT INSPECTED 895 SETTLEMENT METERING JUNCTIONS. RESPECTIVE ACTS HAVE BEEN DRAWN FOR EACH JUNCTION;
- ALL OVER GEORGIA, 189 ASSIGNMENTS HAVE BEEN ACCOMPLISHED, INCLUDING 171 ASSIGNMENTS BASED ON THE REQUEST OF QUALIFIED ENTREPRICES AND 18 ASSIGNMENTS IN COMPLIANCE WITH THE TIME SCHEDULE OF ELECTRICITY WHOLESALE METERING POINTS' INSPECTION, APPROVED BY THE LTD "ELECTRICITY SYSTEM COMMERTIAL OPERATOR";
- THE LTD "ELECTRICITY SYSTEM COMMERTIAL OPERATOR", IN COOPERATION WITH THE LTD "GEORGIAN STATE ELECTRICITY SYSTEM", HAS CARRIED OUT A BUSINESS TRIP TO TURKEY AND INSPECTED THE METERING JUNCTION "ACHARA" AT THE SUBSTATION "RIZE"; THREE BUSINESS TRIPS HAVE BEEN CARRIED OUT TO AZERBAIJAN. AT THE SUBSTATION "AXTAPHA", 330 KV ETL "GARDABANI" IMPORT-EXPORT METERS HAVE BEEN REPLACED BY THE ELECTRONIC METERS WITH MODEM AND METERING JUNCTUION HAVE BEEN INSPECTED;
- IN 2007, 463 SETTLEMENT METERING JUNCTIONS WERE PUT IN ORDER, INCLUDING THE REPACEMENT OF 367 OLD INDUCTIVE METERS WITH NEW ELECTRONIC METERS;
- THE LTD "ELECTRICITY SYSTEM COMMERTIAL OPERATOR" HAS REACTED RESPECTIVELY AT 143 DIFFERENT ERRORS REVEALED DURING THE INSPECTIONS.

THE YEAR 2008

- IN 2008, FOR THE PURPOSE OF MONITORING THE ELECTRICITY SETTLEMENT METERING POINTS, THE AUDITORS (ALONG WITH THE INTERESTED PARTIES) OF METERING CONTROL DEPARTMENT INSPECTED 1638 SETTLEMENT METERING JUNCTIONS. RESPECTIVE ACTS HAVE BEEN DRAWN FOR EACH JUNCTION;
- ALL OVER GEORGIA, 196 ASSIGNMENTS HAVE BEEN ACCOMPLISHED, INCLUDING 181 ASSIGNMENTS BASED ON THE REQUEST OF QUALIFIED ENTREPRICES AND 15 ASSIGNMENTS IN COMPLIANCE WITH THE TIME SCHEDULE OF ELECTRICITY WHOLESALE METERING POINTS' INSPECTION, APPROVED BY THE LTD "ELECTRICITY SYSTEM COMMERTIAL OPERATOR";
- A BUSINESS TRIP TO RUSSIA HAS BEEN CARRIED OUT IN COOPERATION WITH THE LTD "GEORGIAN STATE ELECTRICITY SYSTEM". THE METERING JUNCTIONS HAVE BEEN INSPECTED: AT THE SUBSTATION "CENTRALNAIA" (500 KV ETL "CAUCASIONI") AND SUBSTATION "PSOU" (220KV ETL "SALKHINO"). IN ADDITION, ONE BUSINESS TRIP HAS BEEN CARRIED OUT TO AZERBAIJAN. AT THE 330 ETL "GARDABANI", SECONDARY POWER AND VOLTAGE TRANSFORMERS HAVE BEEN REPLACED AND METERING POINTS INSPECTED;
- IN 2008, 455 SETTLEMENT METERING JUNCTIONS WERE PUT IN ORDER, INCLUDING THE REPACEMENT OF 257 OLD INDUCTIVE METERS WITH NEW ELECTRONIC METERS;
- THE LTD "ELECTRICITY SYSTEM COMMERTIAL OPERATOR" HAS REACTED RESPECTIVELY AT 186 DIFFERENT ERRORS REVEALED DURING THE INSPECTIONS.

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