



ELECTRICITY SYSTEM COMMERTIAL OPERATOR, LTD

ACTIVITY REPORT, 2010

MAIN ACTIVITY DIRECTIONS

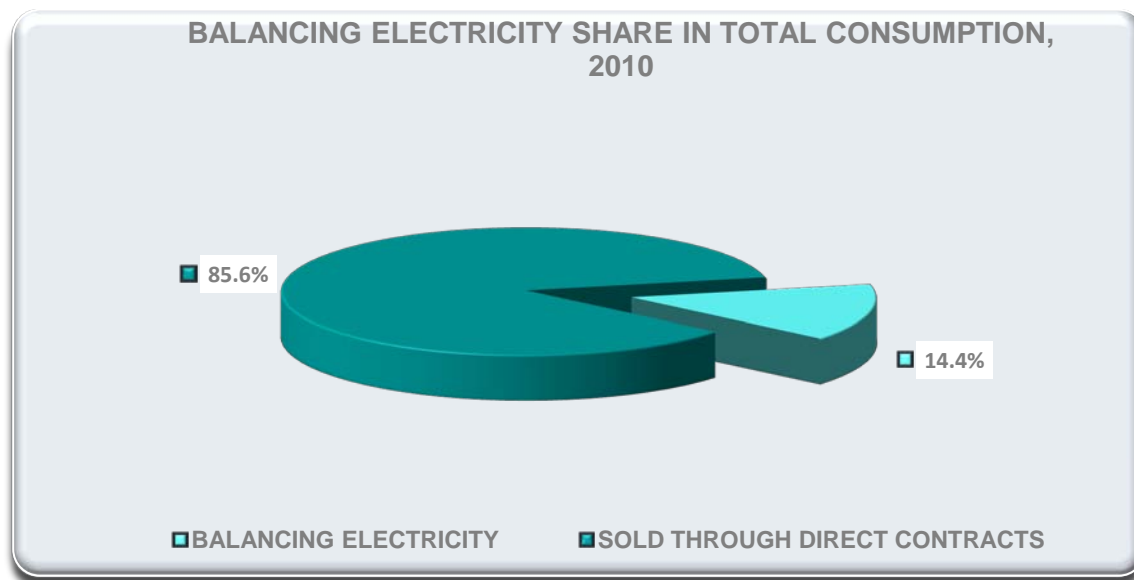
- BALANCING ELECTRICITY TRADE
- CAPACITY SYSTEM RESERVE TRADE

GUARANTEED CAPACITY TRADE (FROM SEPTEMBER 1, 2010)

- ELECTRICITY IMPORT/EXPORT
- METERING CONTROL

BALANCING ELECTRICITY TRADE

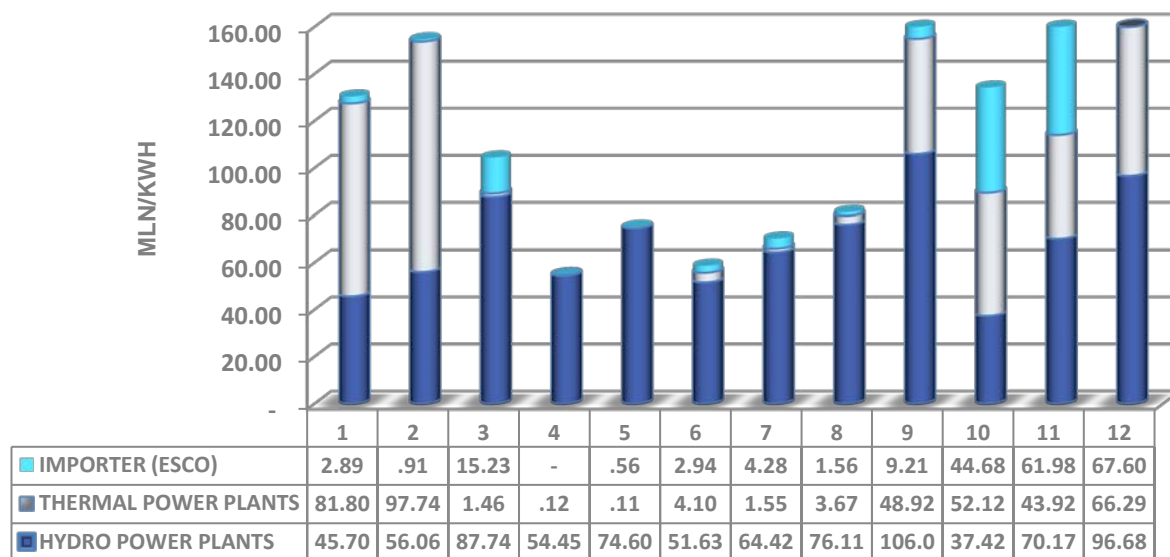
- BALANCING ELECTRICITY TRADE REMAINS AS ONE OF THE MAIN DIRECTIONS OF THE ESCO ACTIVITIES.
- IN 2010, THE SHARE OF BALANCING ELECTRICITY IN WHOLESALE TRADE WAS 14.4%.



BALANCING ELECTRICITY SUPPLIERS

IN 2010, BALANCING ELECTRICITY, PURCHASED BY ESCO CONSISTS OF THE POWER, GENERATED BY THERMAL AND HYDRO POWER PLANTS AND IMPORTED BY ESCO. THERE SHARE BY MONTHS IS GIVEN IN THE DIAGRAM .

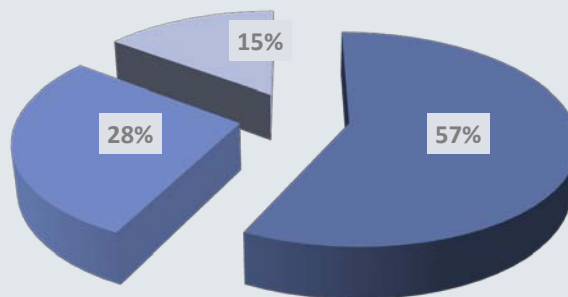
BALANCING ELECTRICITY BOUGHT BY ESCO, 2010



PARTICIPATION OF THE ELECTRICITY SUPPLIERS IN FORMING OF BALANCING ELECTRICITY

| ELECTRICITY SELLERS | 2010 | |
|----------------------|------------------|----------|
| | KWH | SHARE, % |
| HYDRO POWER PLANTS | 820 989 580.39 | 57% |
| THERMAL POWER PLANTS | 401 817 198.09 | 28% |
| IMPORTER (ESCO) | 211 821 489.00 | 15% |
| TOTAL | 1 434 628 267.48 | 100% |

SHARE OF HYDROS, THERMALS AND IMPORT IN THE
BALANCING ELECTRICITY, 2010

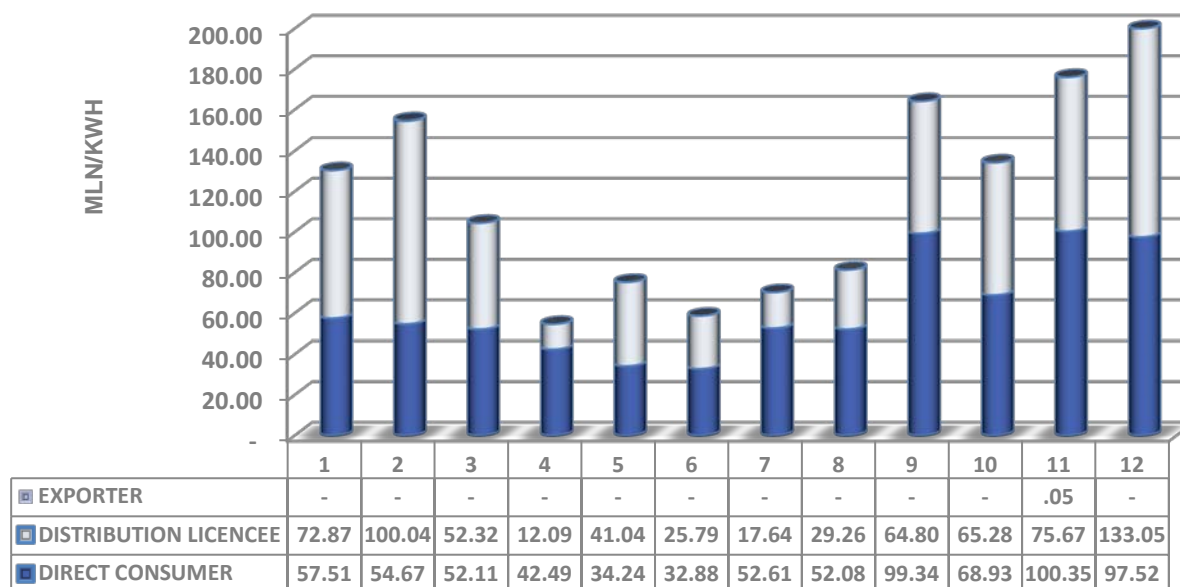


■ HYDRO POWER PLANTS ■ THERMAL POWER PLANTS ■ IMPORTER (ESCO)

BALANCING ELECTRICITY BUYERS

IN 2010, THE DISTRIBUTION COMPANIES AND DIRECT CUSTOMERS WERE THE MAIN BUYERS OF BALANCING ELECTRICITY. THE SHARE OF BALANCING ELECTRICITY BUYERS BY MONTHS IS GIVEN IN THE DIAGRAM.

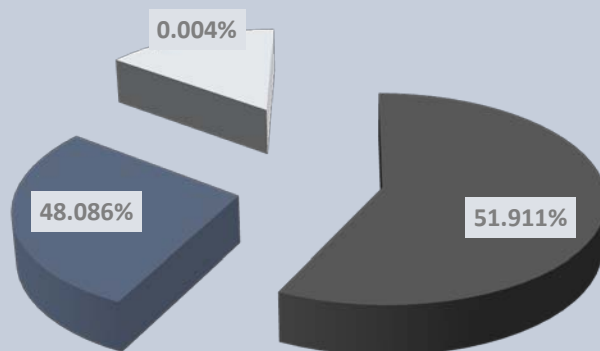
BALANCING ELECTRICITY SOLD BY ESCO, 2010



PARTICIPATION OF ELIGIBLE ENTREPRICES IN THE PURCHASE OF BALANCING ELECTRICITY

| ELECTRICITY BUYERS | 2010 | |
|-----------------------|------------------|----------|
| | KWH | SHARE, % |
| DIRECT CONSUMER | 744 727 880.19 | 51.911% |
| DISTRIBUTION LICENCEE | 689 848 827.02 | 48.086% |
| EXPORTER | 51 560.17 | 0.004% |
| TOTAL | 1 434 628 267.38 | 100% |

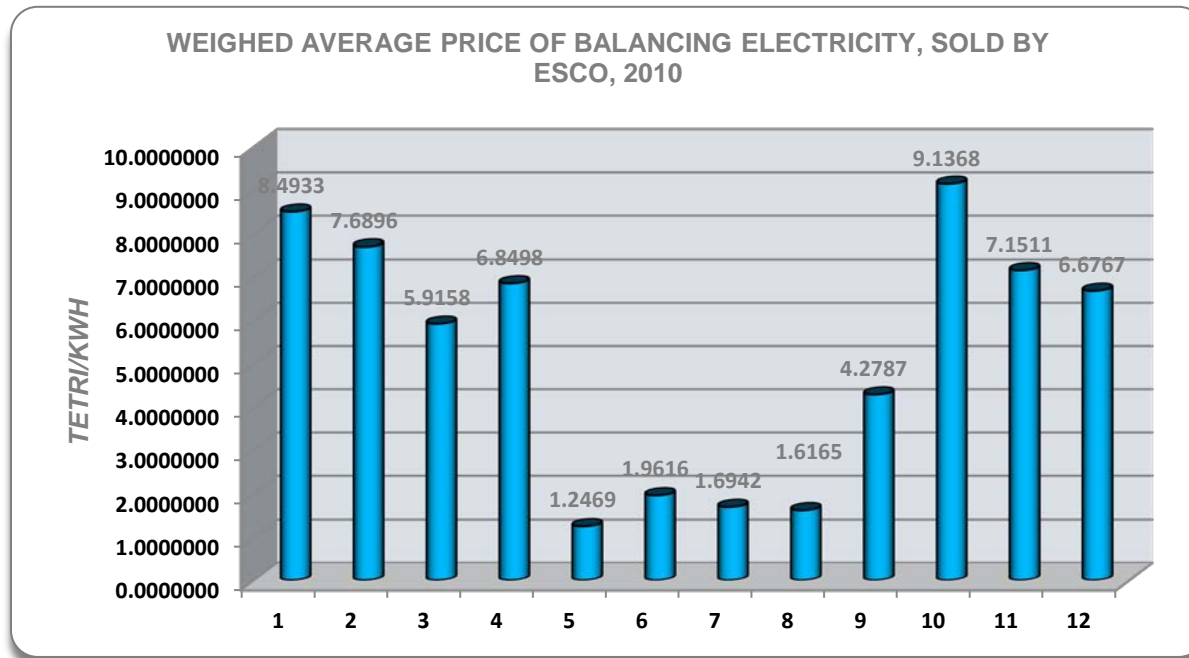
SHARE INDICATORS OF BALANCING ELECTRICITY PURCHASE BY THE DIRECT CUSTOMERS, DISTRIBUTION LICNECEES AND THE EXPORTERS, 2010



■ DIRECT CONSUMER ■ DISTRIBUTION LICENCEE ■ EXPORTER

PRICE FORMATION OF THE BALANCING ELECTRICITY, WHICH IS FOR SALE

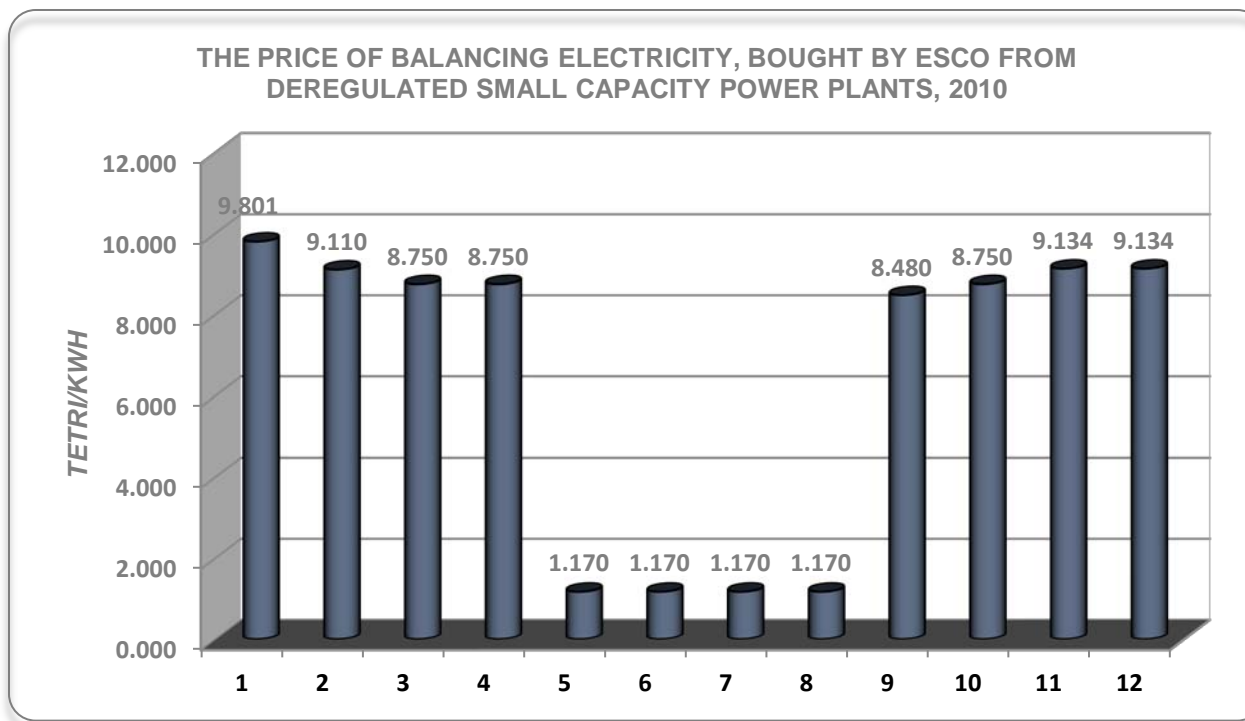
THE PRICE OF BALANCING ELECTRICITY FOR SALE IS FORMED FROM THE *WEIGHED AVERAGE TARIFF* OF BALANCING ELECTRICITY, SOLD BY ESCO.



BALANCING ELECTRICITY PRICE OF DEREGULATED SMALL CAPACITY POWER PLANTS

ESCO BUYS THE BALANCING ELECTRICITY FROM DEREGULATED SMALL CAPACITY POWER PLANTS:

- DURING THE PERIOD OF SEPTEMBER-MAY – FOR THE HIGHEST TARIFF OF BALANCING ELECTRICITY, SOLD TO ESCO DURING THE SAME PERIOD;
- DURING THE PERIOD OF MAY-SEPTEMBER – FOR THE TARIFF (1.17 TETRI/KWH) OF REGULATORY POWER PLANT, WHICH HAS THE LOWEST TARIFF.



BALANCING ELECTRICITY PRICE PAYMENT INDICATOR

- **IN 2010, ESCO PAID TO THE ELECTRICITY SUPPLIERS 85 964 293.91 GEL, WHICH IS 99.06% OF TOTAL BILLING (TAKING INTO ACCOUNT THE STARTING BALANCE);**
- **IN 2010, ELIGIBLE ENTREPRICES PAID 91 912 350.70 GEL (VAT INCLUDED) FOR THE BALANCING ELECTRICITY, BOUGHT FROM ESCO, WHICH IS 99.5% OF BILLED AMOUNT (TAKING INTO ACCOUNT THE STARTING BALANCE).**

PROVIDING WITH THE CAPACITY SYSTEM RESERVE (CSR)

- ❑ UNTIL SEPTEMBER 2010, *ESCO* WAS FULLY PROVIDING THE ENTIRE ENERGY SECTOR WITH THE CAPACITY SYSTEM RESERVE;
- ❑ THREE GENERATION LICENSEES (THERMAL PLANTS) BELOW HAD SERVED AS THE SOURCES OF CAPACITY SYSTEM RESERVE:
 - ENERGY INVEST
 - TBILSRESI
 - MTKVARI ENERGY
- ❑ THE DISTRIBUTION LICENSEES, DIRECT CUSTOMERS AND EXPORTERS WERE THE PURCHASERS OF CAPACITY SYSTEM RESERVE .

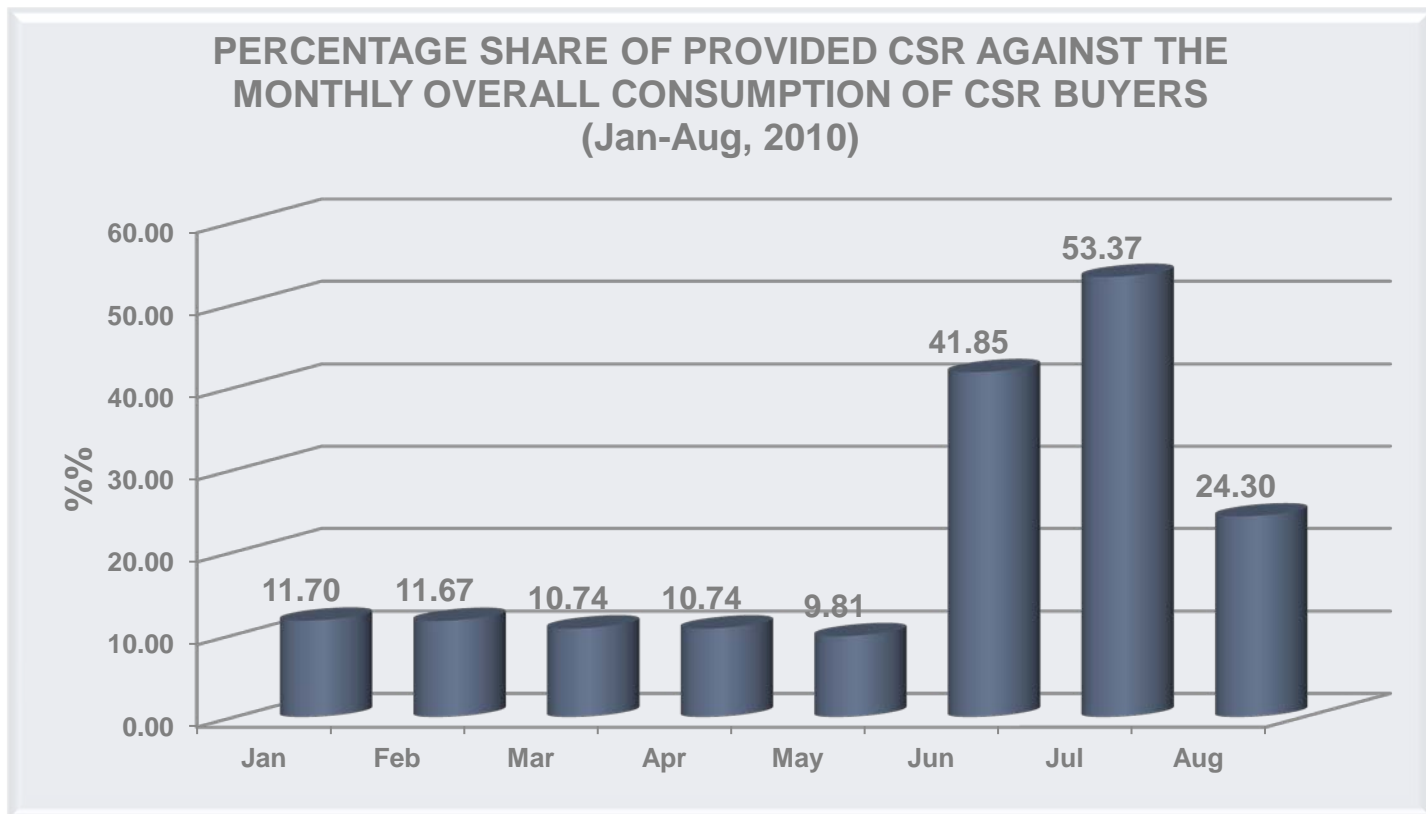
CAPACITY SYSTEM RESERVE SALES INDICATORS

UNTIL SEPTEMBER 2010, THE QUANTITY OF CAPACITY SYSTEM RESERVE, SOLD THROUGH *ESCO* WAS 1 456 345 231 KWH, WITH THE TOTAL VALUE OF GEL 35 132 009.

| PERIOD | ENERGY INVEST | | TBILSRESI | | MTKVARI ENERGY | |
|----------------------|------------------|----------------------|------------------|----------------------|------------------|----------------------|
| | CSR (MLN/kWh) | BILLING (MLN/GEL) | CSR (MLN/kWh) | BILLING (MLN/GEL) | CSR (MLN/kWh) | BILLING (MLN/GEL) |
| 01.2010 - 08.2010 | 571.264 | 20.851 | 498.201 | 8.091 | 386.880 | 6.190 |

CSR PERCENTAGE SHARE AGAINST THE CONSUMPTION

THE DIAGRAM BELOW REFLECTS THE PERCENTAGE SHARE OF PROVIDED CSR, PURCHASED BY THE ELIGIBLE ENTERPRISES AGAINST THEIR OVERALL MONTHLY CONSUMPTION IN JAN-AUG, 2010.

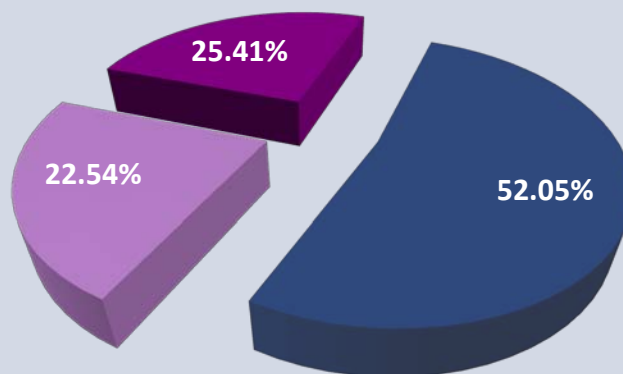


THE SHARE OF CSR BUYER ELIGIBLE ENTERPRISES IN TOTAL CSR PROCUREMENT

THE DISTRIBUTION LICENSE-HOLDERS, DIRECT CONSUMERS AND EXPORTERS ARE THE ENTERPRISES, ELIGIBLE FOR CSR PROCUREMENT .

PROVIDED THAT THE DISTRIBUTION LICENSE-HOLDERS STAND FOR THE HEAVIEST CONSUMERS OF ELECTRICITY, THEIR PARTICIPATION IN CSR PROCUREMENT IS PREVALENT.

THE SHARE OF CSR BUYER COMPANIES IN TOTAL CSR PROCUREMENT, NAT-AUG 2010



■ Distribution Companies ■ Direct Consumers ■ Exporters

CAPACITY SYSTEM RESERVE PURCHASED BY ESCO

IN 2010, *ESCO* WAS EXPORTING THE ELECTRICITY TO THE REPUBLIC OF AZERBAIJAN AND RUSSIAN FEDERATION. DURING THIS PERIOD, *ESCO* WAS BUYING THE CAPACITY SYSTEM RESERVE FOR THE PURPOSE OF EXPORT.

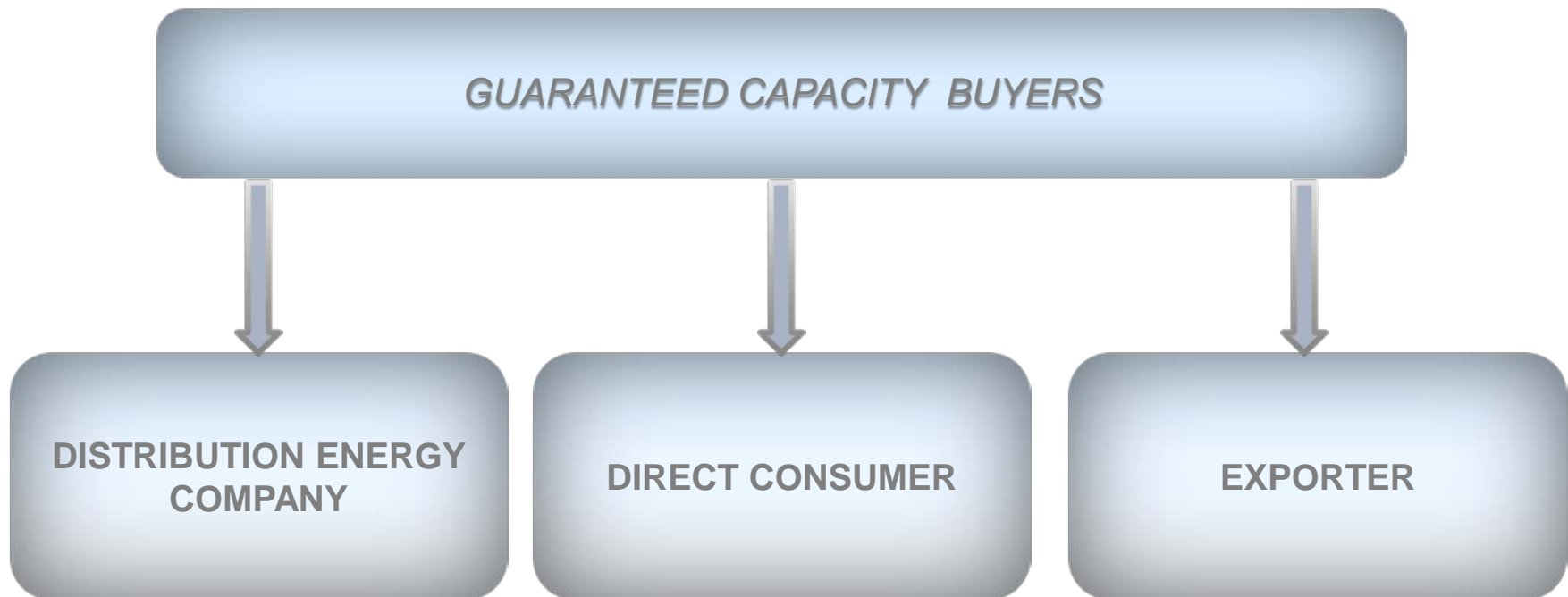
| PERIOD | EXPORT TO RUSSIAN FEDERATION | | EXPORT TO THE REPUBLIC OF AZERBAIJAN | |
|-------------------|------------------------------|------------------|--------------------------------------|------------------|
| | PURCHASED RESERVE (KWH) | BILLING (GEL) | PURCHASED RESERVE (KWH) | BILLING (GEL) |
| 01.2010 - 08.2010 | 4 442 134 | 162 138 | 511 631 | 18 674 |

GUARANTEED CAPACITY (GC)

- *COMMENSURATE TO THE AMENDMENTS AND ADDENDA, INTRODUCED TO THE GEORGIAN LAW ON ELECTRICITY AND NATURAL GAS, STARTING FROM SEPTEMBER 2010, THE GUARANTEED CAPACITY IS PROVIDING FOR THE STABILITY, SAFETY AND RELIABLE FUNCTIONING OF THE COUNTRY'S UNIFIED ELECTRIC ENERGY SYSTEM;*
- *THE GUARANTEED CAPACITY IS TRADED ONLY THROUGH ESCO BY STANDARD CONDITIONS OF THE DIRECT CONTRACT;*
- *THE GOVERNMENT OF GEORGIA DETERMINES THE SOURCE OF GUARANTEED CAPACITY AND MINIMUM AMOUNT OF GUARANTEED CAPACITY TO BE PROVIDED BY EACH GUARANTEED CAPACITY SOURCE;*
- *THE GEORGIAN NATIONAL ENERGY AND WATER SUPPLY REGULATORY COMMISSION SETS THE PRICE FOR EACH GUARANTEED CAPACITY SOURCE ON A DAILY BASES.*

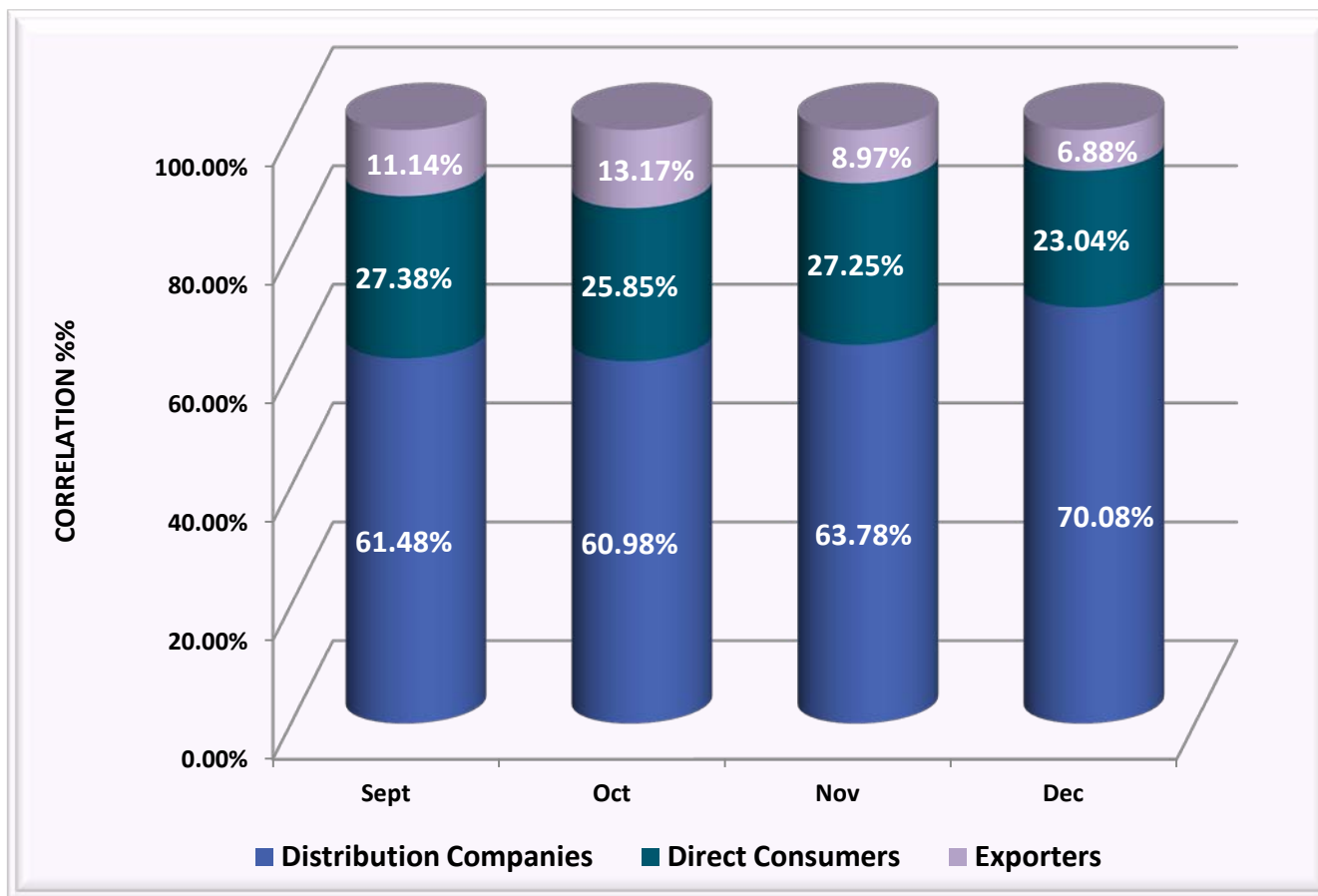
FUNDS RECEIVED BY THE GUARANTEED CAPACITY SOURCES FOR THE SUPPLIED GUARANTEED CAPACITY, DURING SEP-DEC 2010

| GAS TURBINE POWER PLANT | NO:3 ENERGY UNIT GARDABANI THERMAL POWER PLANT | NO:4 ENERGY UNIT GARDABANI THERMAL POWER PLANT | NO:9 ENERGY UNIT GARDABANI THERMAL POWER PLANT |
|----------------------------|--|--|--|
| 119 DAYS | 109 DAYS | 70 DAYS | 115 DAYS |
| 7.93 MLN GEL | 1.74 MLN GEL | 1.18 MLN GEL | 6.90 MLN GEL |

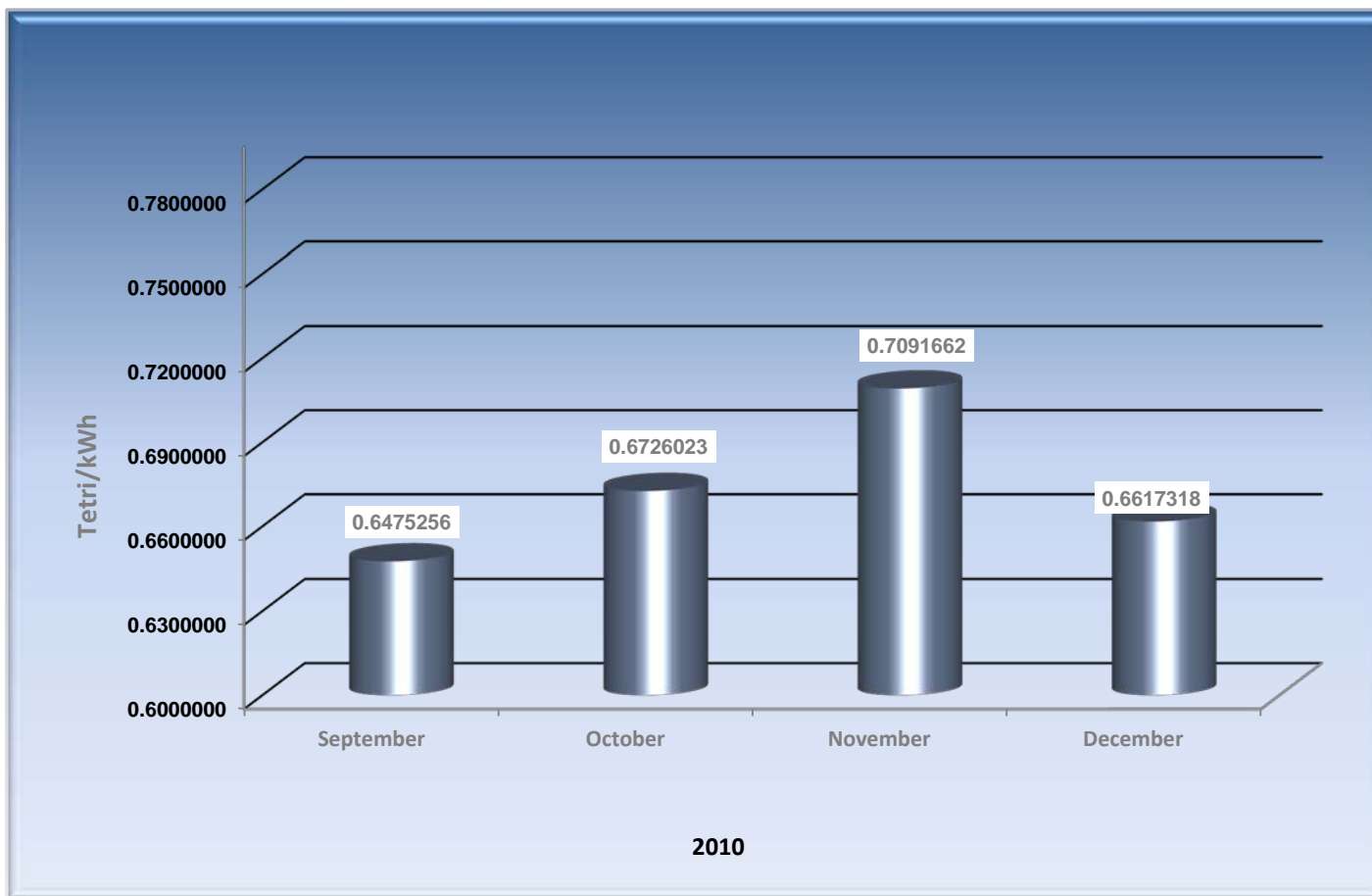


- ❑ *THE GUARANTEED CAPACITY BUYER IS RESPONSIBLE FOR THE PAYMENT OF GUARANTEED CAPACITY COST IN PROPORTION WITH IT'S SHARE IN TOTAL ACTUAL CONSUMPTION OF GUARANTEED CAPACITY BUYERS AND EXPORT OR IN PROPORTION WITH EXPORT SHARE.*

THE SHARE OF GUARANTEED CAPACITY BUYERS IN TOTAL PROCUREMENT OF GUARANTEED CAPACITY SEPTEMBER-DECEMBER 2010



GUARANTEED CAPACITY PRICE PAID BY THE ELIGIBLE ENTRTEPRICES PER ONE KWH IN 2010



IMPORT AND EXPORT CARRIED OUT BY THE ESCO

- ❑ IN 2010, ESCO IMPORTS THE ELECTRICITY FROM RUSSIAN FEDERATION AND REPUBLIC OF AZERBAIJAN. SIGNIFICANT SHARE OF IMPORT CARRIED OUT BY ESCO FLOWS THROUGH THE ELECTRICITY TRANSMISSION LINES CONNECTING WITH RUSSIAN FEDERATION.
- ❑ IN 2010, ESCO EXPORTS THE ELECTRICITY TO THREE NEIGHBORING COUNTRIES: RUSSIAN FEDERATION, REPUBLIC OF AZERBAIJAN AND TURKEY. SIMILAR TO THE IMPORT, RUSSIAN FEDERATION HAS MAIN SHARE IN THE EXPORT CARRIED OUT BY ESCO.

MLN/KWH



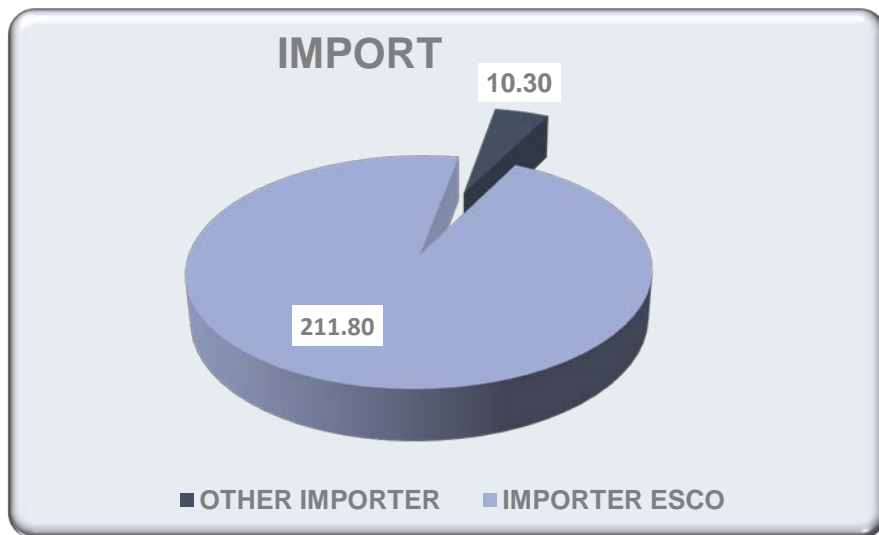
MLN/KWH



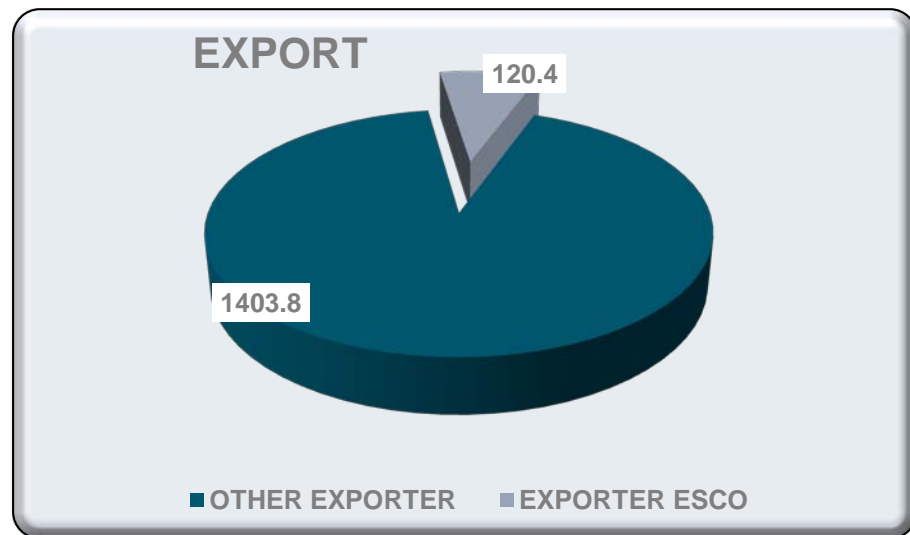
ESCO SHARE IN TOTAL VOLUME OF IMPORT/EXPORT

- IN 2010, THE QUANTITY OF ELECTRICITY THE SYSTEM COMMERTIAL OPERATOR IMPORTED WAS 211.8 MLN/KWH, WHICH IS 95.4% OF THE COUNTRY'S TOTAL IMPORT (222.1 MLN/KWH);
- IN 2010, ESCO EXPORTED 120.4 MLN/KWH OF ELECTRICITY, WHICH IS 7.9% OF ACTUAL EXPORT (1 524.3 MLN/KWH) CARRIED OUT FROM THE COUNTRY.

MLN/KWH

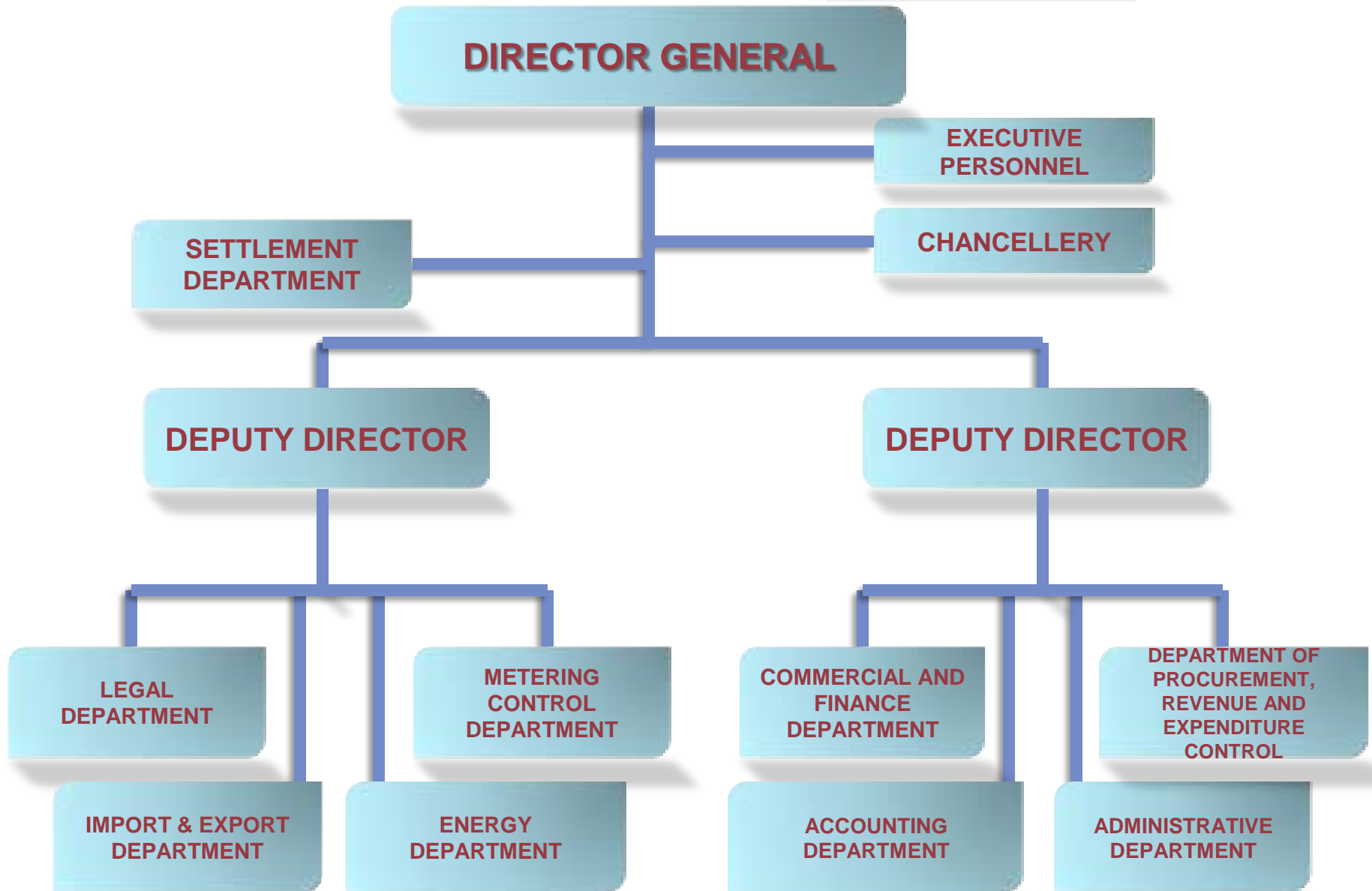


MLN/KWH



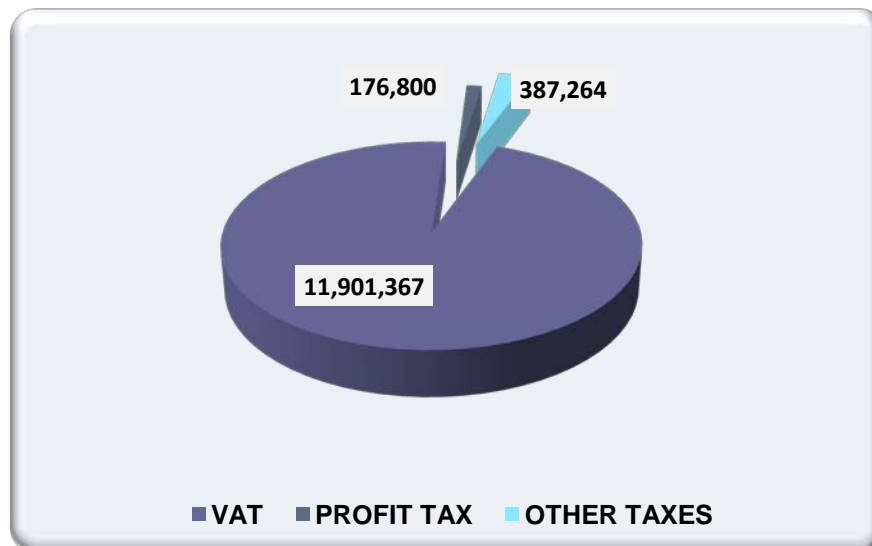
ESCO STRUCTURE BY DECEMBER 31, 2010

- IN 2010, ESCO EMPLOYED 61 EMPLOYEES;
- ESCO STRUCTURE CONSISTS OF THE MANAGEMENT (GENERAL DIRECTOR AND TWO DEPUTIES) AND 11 STRUCTURAL SUBUNITS - DEPARTMENTS;
- THREE DEPARTMENTS ARE DIRECTLY SUBORDINATED TO THE GENERAL DIRECTOR;
- EACH OF THE DEPUTY GENERAL DIRECTORS IS IN CHARGE OF FOUR DEPARTMENTS.



THE INDICATORS OF ESCO'S FINANCIAL ACTIVITIES

- ❑ IN 2010, TAXABLE PROFIT OF ESCO WAS 5 398 884 GEL AND THE NET PROFIT WAS 4 669 973 GEL;
- ❑ IN 2010, ESCO PAID TO THE BUDGET THE TAXES IN AMOUNT OF 12 465 431 GEL, INCLUDING:
 - *VAT - 11 901 367 GEL*
 - *PROFIT TAX- 176 800 GEL*
 - *OTHER TAXES- 387 264 GEL*



MONITORING OF METERING SYSTEMS

- ❑ IN 2010, FOR THE PURPOSE OF MONITORING THE ELECTRICITY SETTLEMENT METERING POINTS, THE AUDITORS (ALONG WITH THE INTERESTED PARTIES) OF METERING CONTROL DEPARTMENT INSPECTED 2151 SETTLEMENT METERING JUNCTIONS. RESPECTIVE ACTS HAVE BEEN DRAWN FOR EACH JUNCTION;
- ❑ ALL OVER GEORGIA, 47 ASSIGNMENTS HAVE BEEN ACCOMPLISHED, INCLUDING 18 ASSIGNMENTS UPON REQUEST OF ELIGIBLE ENTREPRICES AND 29 ASSIGNMENTS IN COMPLIANCE WITH THE TIME SCHEDULE OF ELECTRICITY WHOLESALE METERING POINTS' INSPECTION, APPROVED BY THE ELECTRICITY SYSTEM COMMERTIAL OPERATOR, LTD;
- ❑ THE ELECTRICITY SYSTEM COMMERTIAL OPERATOR, LTD HAS REACTED RESPECTIVELY AT 106 DIFFERENT ERRORS, REVEALED DURING THE INSPECTIONS.
- ❑ IN 2010, 94 SETTLEMENT METERING JUNCTIONS WERE PUT IN ORDER.



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