

Independent Audit's Conclusion**TO THE FOUNDER OF
THE ELECTRICITY SYSTEM COMMERCIAL OPERATOR, LTD**

We have conducted an audit of financial reporting of the Electricity System Commercial Operator, Ltd which consists of the Balance Sheet as of December 31, 2009 as well as the Profit and Loss Statement concluded on 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

The management is responsible for preparation and truthful presentation of this financial reporting as per International Financial Reporting Standards. This responsibility includes: the planning, implementation and functioning of internal control, which it deems necessary for preparation of such financial reporting that will be free from essential errors caused by the forgery or mistake, also choosing and utilizing appropriate accounting policy and accounting estimates, uniquely provided in compliance with actual circumstances.

Responsibility of the Auditor

Our responsibility includes expressing our opinion regarding the presented financial reporting, based on the audit conducted by us. We have conducted audit in accordance with the International Standards of Audit. These Standards provide for the strict adherence to ethics requirements, and planning and execution of the audit to obtain proof of whether given financial reporting contains essential errors.

The audit provides for execution of procedures aiming at getting evidence on the amounts and explanatory notes, reflected in the financial reporting. The choice of procedures depends on the judgment of an auditor, including the assessment of risks of essential errors of financial reporting, caused by forgery or mistake. While assessing these risks, the auditor reviews whether internal control is appropriate for the preparation and fair presentation of financial reporting of economic facility, in order to plan relevant auditing procedures relevant to the specific circumstances, without aiming at offering his opinion on the effectiveness of internal control.

In addition, the audit means assessment of relevance of the accounting policy used by the management and important accounting estimates, as well as overall estimate of financial reporting.

We believe that auditing evidence obtained by us is sufficient and appropriate to creating well-grounded basis for expressing our opinion.

Opinion

In our view, presented financial reporting taking into account all its essential aspects, fairly covers financial performance of the Ltd "Electricity System Commercial Operator" as of December 31, 2010 as well as financial results of its business and cash flow for the year ended at given date, conformably with the International Financial Reporting Standards.

Auditor**K. Datiashvili****CONSAUDI Ltd****Director****R. Dzadzamia**

Statement of Financial Position

As at December 31, 2009

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

Legal Address: *32 Saburtalo Street, Tbilisi, Georgia*

Field of Activity: *Service*

Currency: *GEL*

		31.12.09	31.12.08
ASSETS			
Non-current Assets			
Property, plant and equipment	1	308 168	272 162
Intangible Assets	2	3 000	4 000
Investment in the Capital of Other Enterprise	3	720	
Deferred Tax Assets			2 810
Total Non Current Assets		311 888	278 972
CURRENT ASSETS			
Inventory holdings	4	12 188	16 133
Trade and Other Receivables	5	14 726 412	31 442 903
Tax Receivables	6	82 211	
Cash and Its Equivalent		5 236 701	1 606 698
Total Current Assets		20 057 512	33 065 734
Total Assets		20 369 400	33 344 706
EQUITY AND LIABILITIES			
EQUITY			
Share Capital		200	200
Undelivered Profit-loss		1 590 335	2 293 714
Current Profit-Loss		2 251 609	2 077 363
Total Equity		3 842 144	4 371 277
NON -CURRENT LIABILITIES			
Deffered Profit Tax		41 191	40 914
Total Non-Current Liabilities		41 191	40 914
SHORT-TERM LIABILITIES			
Trade and Other Liabilities	7	15 196 955	28 068 877
Tax Liabilities	8	1 289 111	863 637
Other Current Liabilities			
Total Shrt-term Liabilities		16 486 066	28 932 515
Total Equity and Liabilities		20 369 401	33 344 706

General Director

I. Milorava

Chief Accountant

Kh. Chaduneli

Statement of Comprehensive Income

For the Year Ended on December 31, 2009

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

Legal Address: **32 Saburtalo Street, Tbilisi, Georgia**

Field of Activity: **Service**

Currency: **GEL**

		2009	2008
Revenue	9	128 584 253	174 772 946
Other Income	10	1 235 052	982 404
Changes in inventories of finished goods and work in progress		(3 945)	6 991
Work performed by the entity and capitalised		19 048	
Purchased consumable and materials		(121 650 265)	(166 887 014)
Employee Wages Expense		(2 435 791)	(2 400 951)
Depreciation and Amortization Expenses		(107 184)	(52 671)
Expenses for Acquired Services	11	(1 123 097)	(1 867 457)
Tax Expense		(2 937)	(1 929)
Other expences	12	<u>(2 02 455)</u>	<u>(2 114 094)</u>
Finance Cost			(133)
Profit before Tax		<u>2 512 679</u>	<u>2 438 092</u>
Profit Tax	13	<u>(261 070)</u>	<u>(360 729)</u>
Net Profit-loss for the period		<u>2 251 609</u>	<u>2 077 363</u>

General Director

I. Milorava

Chief Accountant

Kh. Chaduneli

Statement of Changes in Equity

For the Year Completed on December 31, 2009

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

Legal Address: **32 Saburtalo Street, Tbilisi, Georgia**

Field of Activity: **Service**

Currency: **GEL**

		Share Capital	Reserve	Retained earnings	TOTAL
BALANCE ON 31.12.2007		200		3 983 862	3 984
Error Correction	14	-	(950)		(950)
BALANCE ON 31.12.2007		200	(950)	3 983 962	3 983 112
Transfer to retained earnings		-	2 294 664	(2 294 664)	
Net Profit (loss) for the Period				2 077 363	2 077 363
Dividends				(1 689 198)	(1 689 198)
BALANCE 31.12.2008		200	2 293 714	2 077 363	4 371 277
Transfer to retained earnings		-	1 178 756	(1 178 756)	
Net Profit (loss) for the Period				2 251 609	2 251 609
Dividends		-	(1 882 135)	(898 607)	(2 780 742)
BALANCE ON 31.12.2009		200	1 590 335	2 251 609	3 842 144

General Director

I. Milorava

Chief Accountant

Kh. Chaduneli

Statement of Cash Flow

For the Year Completed on December 31, 2009

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

Legal Address: *32 Saburtalo Street, Tbilisi, Georgia*

Field of Activity: *Service*

Currency: *GEL*

Cash Flow Statement with Direct Method

	2009	2008
Cash Flow from Operations		
Cash receipts from Customers	129 882 259	186 103 595
Cash Paid to Suppliers	(111 756 254)	(171 196 070)
Cash Paid to Employees	(2 446 777)	<u>(1 795 234)</u>
Cash Generated from the Operation:	15 679 228	13 112 281
Paid Interests		(133)
Paid Taxes	<u>(9 703 959)</u>	<u>(12 194 056)</u>
Cash Flow on Extraordinary Items	5 975 269	918 102
Net Cash from Operatios	<u>5 975 269</u>	<u>918 102</u>
Cash Flow from the Investing Activities		
Purchase of property, plant and equipment	(142 191)	(224 749)
Purchase of Intangible Assets		(4 000)
Received Interest	1 167 585	
Purchase of the Enterprise Share	<u>(720)</u>	
Net Cash Used in Investing Activities	<u>1 024 675</u>	<u>(228 749.00)</u>
Cash Flow from the Financial Activities		
Paid Dividends	(3 363 940)	(1 100 000)
Long Term Loans		300 000
Paid Long Term Loans	<u></u>	<u>(3 000 000)</u>
Net Cash Used for the Financial Activities	<u>(3 363 365)</u>	<u>(1 100 000)</u>
Net Increase of Cash and Cash Equivalents	<u>3 630 004</u>	<u>(410 647)</u>
Cash and Cash Equivalents at the Beginning of Period	<u>1 606 698</u>	<u>2 017 345</u>
Cash and Cash Equivalents at the End of Period	<u>5 236 702</u>	<u>1 606 698</u>

General Director

I. Milorava

Chief Accountant

Kh. Chaduneli

EXPLANATORY NOTES

Accounting Policy

Annual Financial Report of the enterprise has been developed based on main allowances of functionality and billing method.

Financial Report 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

FIXED ASSETS

(GEL)

Remark 1

	Item Name	Balance on 31.12.2009	Additions	Disposal	Balance on 31.12.2008
	Purchase Cost				
1	Office Equipment	29 927	10 356		19 570
2	Furniture and Other Inventory	72 985	54 670		18 315
3	Transportation Means	197 955			197 955
4	Computer, Peripheral Equipment	101 807	17 713		84 094
5	Other Equipment	50 667	19 837		30 830
6	Rehabilitation of the Rented Office	39 614	39614		
	Total	492 955	142 191	0	350 764
	Depreciation	Balance on 31.12.2009	Accumulated Depreciation	Depreciation written off	Balance on 31.12.2009
1	Depreciation of office Equipment	11 227	6 962		4 265
2	Depreciation of Furniture and Other Stocks	21 229	13 626		7 603
3	Depreciation of the Transportation Means	74 431	39 591		34 840
4	Depreciation of Computers, Peripheral Equipment	46 863	23 602		23 261
5	Depreciation of Other Equipment	20 474	11 841		8 633
6	Depreciation of Loaned Office Space	10 564	10 564		
	Total	184 787	106 184	0	78 602
	Book Value	308 168			272 162

* Depreciation charge for the fixed assets is made by means of Rectilinear Method.

**Fixed assets are reflected in the Balance Sheet after the deduction of accumulated funds for depreciation from the cost price. The assets have not been tested for the inflation.

Remark 2

Intangible assets of depreciation is subtracted from the current assets given in the Balance Sheet. Depreciation has been billed by means of Rectilinear Method.

Remark 3

In 2009, ESCO, Ltd became the co-founder of Turkish Company Wholesale Energy and Electricity Seller JSC "Karchali". The capital of Joint Stock Company Consists of 1,200,000 Shares. 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 GEL 720. The rest of the shares should be covered on June 30, 2012.

Remark 4

INVENTORY

(GEL)

	Data	31.12.09	31.12.08
1	Reserve Recognized as the Expense	121 623 571	166 866 455
2	Stock Balance at the End of the Year	12 188	16 133
3	Including Industrial Reserve	12 188	16 133
	Balance	12 188	16 133

*Acceptance of the inventories is recognized as the prime cost of purchase, output is recognized as the Weighted Average V

TRADE AND OTHER RECEIVABLES

Remark 5

	Name	31.12.09	31.12.08
1	Receivables from the Supply*	14 131 586	31 263 944
2	Receivables from the Service	568 613	176 790
3	Receivables from the Enterprise Personnel		
4	Disbursed Advance Payments	16 571	1 174
5	Billed Receivables		
6	Expenses made in Advance	9 641	995
7	Revenue Taxes		
8	VAT		
	Total	14 726 412	31 442 903

* GEL 31,263,944 and GEL 14,131,586 are the penalties billed to the buyers due to the non payment on time.

The lawsuit with one of the buyers was in motion for the moment of presentation of 2008 financial Report and respectively, the

The dispute with the buyer regarding GEL 114 956, billed as a penalty was in motion for the moment of presentation of 200

TAX RECEIVABLES

Remark 6

	Name	31.12.09	31.12.08
1	Welfare Tax	601	
2	Profit Tax	81 611	
	Total	82 211	0

TRADE OBLIGATIONS

Remark 7

	Name	31.12.09	31.12.08
1	Liabilities Towards the Sellers of Electricity	15 135 740	25 502 129
2	Responsibility Towards the other Suppliers	43 382	29 580
3	Received Advance Payments	17 833	1 947 946
4	Responsibility Towards the Enterprise Personnel		26
5	Liabilities on Dividends		589 198
	Total	15 196 955	28 068 877

TAX OBLIGATIONS

Remark 8

	Name	31.12.09	31.12.08
1	Property Tax	1 055	2 192
2	VAT	1 287 918	645 926
3	Profit Tax		210 906
4	Welfare Tax		1 244
5	Revenue Tax	137	3 369
	Total	1 689 111	863 637

PROFIT

Remark 9

	Name	31.12.09	31.12.08
1	Income from the Electricity Supply	124 773 778	170 583 019
2	Income from Service	3 377 130	2 227 941
3	Other Sales		7 703
4	Billed Fine	433 345	1 954 282
	Total	128 584 253	174 772 946

INCOME FROM OTHER TRANSECTIONS

Remark 10

	Name	31.12.09	31.12.08
1	Interest Gain	1 167 585	548 575
2	Exchange Difference	67 466	399 228
3	Cancelling of the Liability		34 601
	Total	1 235 052	982 404

SERVICE CHARGES

Remark 11

	Name	31.12.09	31.12.08
1	Insurance Expense	7 853	7 564
2	Advertising Expense		
3	Rental Expenses	283 809	209 140
4	Communication Expenses	44 497	43 204

5	Service to the Third Persons	786 938	1 607 549
	Total	1 123 097	1 867 457

EXPENCES FROM OTHER TRANSACTIONS

Remark 12

	Name	31.12.09	31.12.08
1	Electricity Expense	10 503	10 082
2	Business trip Expense	30 338	33 803
3	Exchange Difference	167 844	253 482
4	Tax Expense (VAT)	331 679	
5	Tax Penalty		
6	Representative Expense	3 661	1 104
7	Write-off of Debt	1 458 429	1 796 799
8	Correction of Bed Debt		18 823
	Total	2 002 455	2 114 094

PROFIT TAX EXPENCE

Remark 13

	Name	31.12.09	31.12.08
1	Expense from Current Profit Tax	257 984	342 641
2	Back-recognition of Delayed Tax Asset	2 810	
3	Back-recognition of Delayed Profit Tax Asset with Change of Profit Tax Numb		-5 004
4	Expenses of Delayed Profit Tax	277	25 902
5	Interest of Delayed Tax Asset		-2 810
	Total	261 070	360 729

LINK BETWEEN THE TAX EXPENSE AND ACCOUNTING PROFIT

	Data	31.12.09	31.12.08
1	Accounting Profit	2 512 679	2 438 092
2	Tax Amount Used with 15% Tax Rate	376 902	365 714
3	Tax Before Expenses Result for Profit	55 396	19
4	Profit Before Taxation		
5	Growth of Delayed Tax Asset with Reduction of Tax Rate	2 810	
6	Reduction of Delayed Profit Tax with Reduction of Tax Rate	277	-5 004
7	Tax Expense	435 384	360 729

Remark 14

In 2008, an error made in 2007 was discovered. After the retroactive correction of the error, relevant information in the Profit and Loss Statement for 2007 is presented, including the amendments in the items of Revenues and Losses. Hereunder, please, find the impact of error correction on 2007 Financial Reporting.

Items Corrected in 2007	Amount (GEL)
Revenues from Increase Sales	1 949
Increased Expenses:	
<i>Expenses for Keeping the Personnel</i>	(2 614)
<i>Welfare Tax Expenses</i>	(523)
Decreased Profit Tax	237
Decreased Net Profit	(950)

According to "The Electricity (Capacity) Market Rules", approved by the Energy Minister's Order #99 (dated August 30, 2006), the System Commercial Operator processes the final information of unified database of wholesale trade and settlement. The bases of final settlement between the parties is determination of balance electricity volumes by ESCO, through the comparison of generated, delivered and consumed electricity, reflected in the receipt-delivery acts and actual quantities of generated, delivered and consumed electricity recorded in the receipt/delivery acts.

According to the Article 26.10 of "The Market Rules", the same rule applies to the amendments introduced to the receipt/delivery acts of generated, delivered and consumed electricity as to the drawing up of this act. Current rule envisages submitting properly registered act confirmed by eligible enterprise to the dispatch licensee. The latter certifies

Prior to issuing the Financial Reporting and based on the available reliable information, the adjustments and changes were introduced to the information considered reliable in 2008 and 2009, after following relevant procedures of "Market Rules". The mentioned changes were reflected in the accounting data of 2009 and accordingly, in the Financial Reporting of 2009, as further correction to the balance, which took place after the date of composing the balance sheet.