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Financial Statements and Independent Auditor's Report

Georgian State Electrosystem Limited Liability Company

December 31, 2008

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Independent auditor's report

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To the owner of Georgian State Electrosystem Limited Liability Company

We have audited the accompanying financial statements of Georgian State Electrosystem LLC (the "Company"), which comprise the balance sheet as of December 31, 2008, and the income statement, 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.

The financial statements of the Company as of and for the year ended December 31, 2007 were audited by another auditor who expressed a disclaimer of opinion on those statements on November 15, 2008, due to certain disagreements with the management and limitations in the scope of audit. The disagreements and limitations described above were resolved as of the date of this report and hence have no effect on the financial statements as of and for the year ended December 31, 2008.

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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the 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 financial statements are free of 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 Company'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 Company's internal control. An audit includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall financial statement presentation.

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

Basis for Qualified Opinion

As described in the note 3.2, the Company applies the diminishing balance method of depreciation for its property and equipment. As required by International Accounting Standard 16 *Property, plant and equipment*, the depreciation method used should reflect the pattern in which the asset's future economic benefits are expected to be consumed by the Company.

In our opinion, the method and depreciation rates currently used by the Company do not take into account the actual useful lives of the assets, hence no systematic and rational allocation of the cost of the assets is made over the expected useful lives of the assets.

Had the Company applied straight-line method of depreciation using more reasonable depreciation rates, the carrying amount of property and equipment as of December 31, 2008 would have been significantly lower. The effect of application of other depreciation rates and method on these financial statements has not been determined.

Qualified Opinion

In our opinion, except for the effects of the matter described in the *Basis for Qualified Opinion* paragraph, the financial statements give a true and fair view of the financial position of the Company as of December 31, 2008, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

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Emphasis of Matter

As described in the note 18, the process of physical counting and valuation of property and equipment has started in 2009, which is performed by an external expert. The valuation works are to be completed in November 2009. Following the valuation the Company will change its accounting policy in respect of property and equipment. Meanwhile the Company management believes that the results of valuation will not result in substantial impairment of property and equipment. However, the actual results may or may not confirm the management expectations.

September 11, 2009

Armand Pinarbasi, CA

Managing Partner

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"GRANT THORNTON AMYOT"
LIMITED LIABILITY COMPANY

Lilit Arabajyan, CCA

Engagement Partner

Balance sheet

In thousand Georgian lari	Note	As of December 31, 2008	As of December 31, 2007 (restated)
Assets			
Non-current assets			
Property and equipment	4	158,078	114,185
Intangible assets		70	70
		158,148	114,255
Current assets			
Inventories		3,880	4,707
Trade and other receivables	5	30,282	23,198
Current income tax assets		452	1,166
Cash and bank balances	6	14,293	4,408
		48,907	33,479
Total assets		207,055	147,734
Equity and liabilities			
Capital and reserves			
Registered charter capital	7	381,136	380,410
Unregistered charter capital	7	2,089	1,240
Accumulated loss		(365,513)	(393,276)
		17,712	(11,626)
Non-current liabilities			
Long-term loans	8	86,129	61,715
Restructured liabilities	9	50,364	55,180
Grants related to assets	10	5,814	6,343
Deferred income tax liabilities	12	9,193	7,570
Deferred value added tax liabilities	13	8,041	6,722
		159,541	137,530
Current liabilities			
Trade and other payables	11	23,047	15,785
Short-term portion of long-term loans	8	6,755	6,045
		29,802	21,830
Total equity and liabilities		207,055	147,734

The financial statements were approved on September 4, 2009 by:

Sulkhan Zumburidze
Rehabilitation Manager

Natella Kobakhidze
Chief Accountant

The balance sheet is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 8 to 38.

GEORGIAN STATE ELECTROSYSTEM LTD
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