

JOINT STOCK COMPANY “TELASI”

APPROVED:

By the JSC “Telasi” Shareholders Meeting of
“ 28 ” june 2011
Minutes №1 of “28 ” june 2011

PROVISIONALLY APPROVED:

by the JSC “Telasi” Supervisory Board of
“27 ” May 2011
Minutes №38 of “ 27 ” May 2011

Chairman of the Supervisory Board

_____ A. Zavrazhnov

ANNUAL REPORT on performance results in 2010

Director General



Y. Pimonov

Financial Director



E. Oganesyanyan

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I. Address of the Supervisory Board Chairman

Dear Shareholders,

Introducing to your attention Annual Report for 2010 of the Joint Stock Company “Telasi”, one of the notable enterprises of the INTER RAO UES Group, I would like to underline that the Company management has met the assigned tasks aiming at growth of revenues and rise in effectiveness of its business.

As a result of performance in 2010, the volume of the loading of electric power into the grid ran up to 1947 mil. kWh against planned 1905 mil. kWh, total losses of electric power in the grids amounted to 16% of the grid load (in 2009 - 17%), sales of electric power amounted to the total of GEL222,150 thousand, grid services made GEL7,839 thous., and profit from sales made GEL69,310 thous.

In the activity of the Supervisory Board in 2010, the following issues remained priority: the Company management improvement, further overhaul of the energy sales business and formation of the strategy of key business processes, as well as decisions relating to the organizational development and corporate management of the Company, facilitating corporate integration in INTER RAO UES Group and enabling to set up an effective system of the Company management.

The business of the Supervisory Board of the Company was directed at guaranteeing stability of development and profitability of the Company’s activity and rise of its investment attractiveness; protection of rights and interests of the shareholders of the Company; compliance with the effective legislation of Georgia in the course of the Company business.

Supervisory Board of JSC “Telasi” has ensured real participation of shareholders in the Company governance and strategic decision-making. The activity of the Supervisory Board was transparent for the shareholders. The effective course of business, access to information and prompt notices to the shareholders on all decisions taken by the Supervisory Board have contributed to lack of corporate conflicts among shareholders, Supervisory Board and the Company.

In future activity of the Supervisory Board will be targeted at facilitation of the development of the Company, rise of its investment attractiveness, growth of the capitalization of the Company, as well as effective resolution of tasks facing the Company.

2011 will be the year of further development of all traditional directions of our business and intensive accumulation of efforts at new ones like implementation of innovative approaches, application of energy-effective and energy-saving technologies.

Supervisory Board of the Company considers the work of the managers to be positive both in day-by-day activity and in designing priority directions for the Company.

I believe that in the current year the team of managers and employees of JSC “Telasi” will successfully cope with the tasks to sustain and consolidate positions of the Company in the market of Tbilisi.

Andrey Zavrazhnov
Chairman, Supervisory Board, JSC “Telasi”



II. Address of the Director General

Dear Shareholders,

Joint Stock Company "Telasi" is a largest distribution company in Georgia, its core business being purchase and sale of electric power and rendering of grid services. The Company buys electric power from generation companies of Georgia, Armenia and Russia and sells it to more than 450 thousand private and commercial customers of the city of Tbilisi.

In 2010 the Company has met its liabilities to its customers having guaranteed them full scope of high quality and reliable energy supplies.

In the reporting period efforts directed at increasing of facilities reliability have been implemented. Reconstruction works of 0,4 kV aerial line were completed. 5,8 km of isolated aerial lines were stretched out, inter-stairwell cable lines laid outdoors were replaced for 12580 customers, meters were installed outside the customer's territory with new isolated lead-ins for 1827 customers. By implementing the 0,4 kV aerial line reconstruction project, optimal re-distribution of load between neighboring TSs and uniform distribution of load by phases have been achieved.

Priority attention was paid to the autumn and winter periods of 2010-2011. Thanks to these efforts, the Company fully and on schedule completed its preparation program for the autumn and winter periods.

In the reporting period the works on implementation of the Program of Arrangements for Implementation of Integrated Management System of Enterprise Resources SAP ERP have continued and the Program was launched in effective operation in Q1 of 2011.

According to the Law of Georgia "On Energy and Natural Gas" and Resolution No24/3 of the Georgian National Energy and Water Supply Regulatory Commission of October 13, 2010 "On Payments for Power, Water Supply and Cleaning Utilities through Integrated and Coordinated System in the City of Tbilisi", JSC "Telasi" was assigned to administer collection of payments for services of water supply and refuse collection within the administrative boundaries of the Tbilisi city. On the basis of its operations JSC "Telasi" in 2010 was able to ensure the Company functioning with net profit of GEL48,356 thous.

JSC "Telasi" is one of the largest taxpayers in Tbilisi. Tax payments to budgets of all levels and extra-budget funds made up GEL45,801 thousand. This places the power Company in the line of leading enterprises fundamentally influencing social and economic conditions in the region.

In 2011 the main task of the Company remains ensuring of profitable operation of the Company. The work to renovate non-current assets, modernize and reconstruct energy equipment of the Company will continue.

We intend to make the Company profitable, modern and dynamic as much as possible in the interests of its shareholders.

Yury Pimonov
Director General, JSC "Telasi"

III. Report of the Supervisory Board on Priority Directions of the Company Activity

Priority directions of the operation of Joint Stock Company are as follows:

- Electric power sales (purchase and sale);
- Service and operation of electric grids;
- Power transit services;
- Technical services to subscribers;
- Billing and payments collection services for external service organizations.

Supervisory Board estimates the results of the Company operation in priority directions of its activity in 2010 as successful. In the course of this period Joint Stock Company “Telasi” was able to ensure the company operation with net profit in the amount of GEL48,356 thousand.

Summing up the activity of the Supervisory Board of JSC “Telasi” in 2010, it could be emphasized that in 2010 14 meetings of the Supervisory Board were held and 52 issues were considered, and the most important decisions which have considerably influenced the Company activity in the reporting period were as follows:

1. Resolutions with reference to preparation and holding of the Annual Shareholders’ Meeting.
2. Resolutions with reference to activity of executive and control bodies of the Company (including regular hearings of reports of Director General of the Company on the results of Company activity).
3. Resolutions defining financial and economic policy of the Company (approval of the benchmarks of the budget, business plans, funding current assets (credit policy) of the Company, investment program and development plans of the Company, implementation of Integrated System of Enterprise Resource Planning SAP ERP).
4. Resolutions relating to improvement of purchase activity of the Company.
5. Resolutions relating to issues of organizational development and corporate management of the Company (approval of organizational structure, policy of the Company in the field of management of local regulation documentation of the Company) ensuring corporate integration of the Company in the Group of OJSC “INTER RAO UES” and enabling to set up an effective system of management, including: development and maintenance of unified rules of implementation of works in the Company; help for the employees of the Company to access information on the rules of work performance; guarantees of the effectiveness of interaction of structural divisions and officials of the Company within the frame of performed tasks (improvement of business processes, infrastructure and communications); ensuring supervision and transparency of works performed in the Company.

The Supervisory Board plays the most important role in safeguarding the rights of shareholders, in forming and fulfilling the strategy of the Company development, as well as in securing its successful financial and economic activity.

The whole activity of the Supervisory Board in the reporting year remained transparent for shareholders, since all minutes of the meetings of Supervisory Board are accessible for any shareholder of the Company at his request.

The activity of the Supervisory Board was arranged in accordance with the approved Action plan, implementation of decisions was under regular control. There are no unfulfilled decisions in the reporting period.

Appreciating the work done by the members of the Supervisory Board of the Company, it is worth pointing that during the execution of their respective rights and responsibilities all of them acted in the interests of the Company, in good faith and reasonably, took active part in all its meetings which always enjoyed 100% attendance.

In the forthcoming years the Supervisory Board will pay paramount attention to the matters of improving the quality of corporate management, increase of the Company returns as well as stable, reliable and competitive policy in the main sales markets (of goods, works and services).

IV. Position of Company in the Field: Market, Marketing, Sales

4.1. General Data

4.1.1. Brief History

The Joint Stock Company “Telasi” was founded under the Law of Georgia “On Entrepreneurs” by the Resolution of Cabinet Council of the Republic of Georgia № 228, 14.04.1993 «On Organizational Arrangements for Transformation of Public Enterprises and Associations of Public Enterprises into Joint Stock Companies” and by the Decree of State Property Management Department of the city of Tbilisi №1-3/188, 06.05.1998.

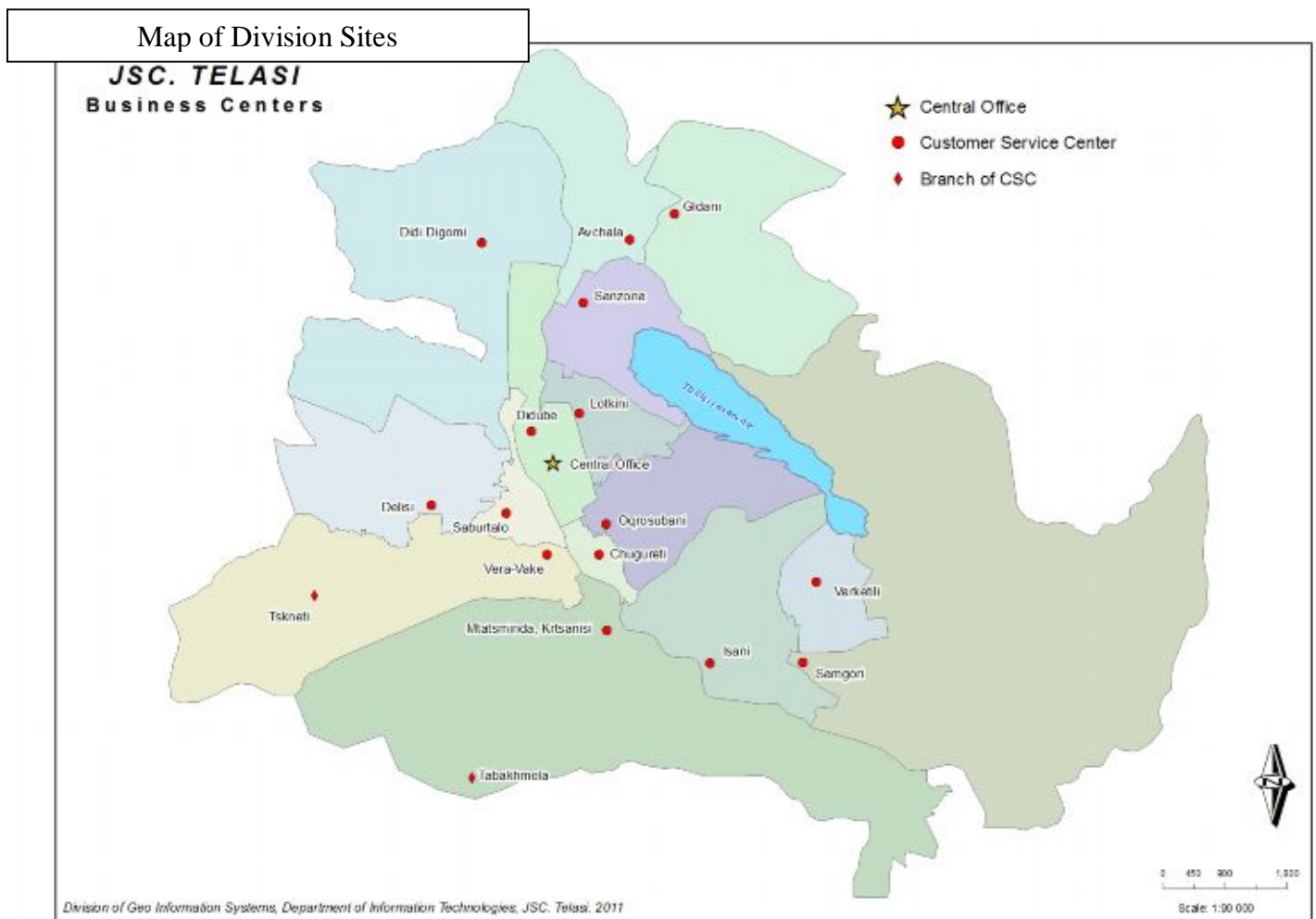
The Joint Stock Company “Telasi” was registered on May 14, 1995 by the court of Didube district of Tbilisi, Georgia.

On December 21, 1998, AES Silk Road Holdings B.V., an AES Corporation, purchased 75% shares of the Joint Stock Company “Telasi”.

In August, 2003, AES Corporation, the ultimate owner, sold 100% package of Silk Road Holdings B.V. shares to a Finnish company, Joint Stock Company RAO Nordic Oy (INTER RAO Holdings B.V.), the sole shareholder of which is CJSC INTER RAO UES (OJSC INTER RAO UES).

Major areas of business are: purchase and sale of electric power; service and operation of electric grids; power transit services; technical services of subscribers; administration of a unified integrated and coordinated system of power, water supply and cleaning services in the city of Tbilisi.

Service to customers and maintenance of power grids is carried out in 15 customer service centers, 2 operational service sites and 10 maintenance districts located in all administrative districts of Tbilisi.



4.1.2. Corporate Management

Principles of Corporate Management. Corporate policy of JSC “Telasi” is carried out under Company Articles of Association, internal documents, as well as fundamental normative and legal acts of Georgia in the field of corporate legal relationship regulation: Laws “On Entrepreneurs”, “On Securities Market” and other normative and legal acts of Georgia.

Securing of Company Shareholders and Investors Rights. The Supervisory Board of the Company and Director General ensure protection of rights and lawful interests of shareholders, as well as investors of the Company.

Basic right of a shareholder – right to receive dividends and right to participate in the management of the Company is secured by the Law of Georgia “On Entrepreneurs” and Articles of Association of the Company.

Company shareholders are entitled to participate in the management of the Company, in the first place, by taking decisions in connection with the issues covered by their competence at the Shareholders Meeting.

Shareholders have the right of free disposal of their shares under the provisions of current legislation. The accounting system ensures the reliability of recording the property rights in shares, as well as possibility of free and prompt disposal of shares owned by the shareholders. Protection of the shareholder’s property right in the Company shares from any encumbrance is ensured by recording and safe-keeping of the Shareholders Register with the independent registrar.

At the Shareholders’ Meeting the Company may declare payout of dividends to the shareholders taking into account rights and privileges in the profit to be distributed. Company is not entitled to take decisions on payout of dividends at want of profit; distribution of dividends in the quantity exceeding the recommendation of Supervisory Board is also inadmissible.

Information Transparency and Disclosure. Under the existing legislation, shareholders of the Company have unimpeded access to information relating to Company operations. Information policy with reference to shareholders is performed in view of completeness, efficiency, impartiality and reliability. Company ensures access for shareholders to the documents provided for by paragraph 6.3. of the Articles of Association. At the request of a shareholder, the Company is obliged to make available for him copies of documents as provided for by paragraph 21.4 of the Articles of Association.

Control and Estimation of Business Management Quality. Control on financial and economic operations of the Company is carried out by the Supervisory Board of the Company, Audit Committee under Supervisory Board of the Company, independent Auditor of the Company, Audit Commission (Auditor) and Internal Audit Department of the Company.

In order to ensure the rights of shareholders, JSC “Telasi” has adopted the following internal acts regulating operation of management bodies of the Company:

Articles of Association. Articles of Association is a constituent instrument of the Company. It includes information on the legal status of the Company, aims and types of its activity, authorized capital, shareholders rights, outline of the management bodies of the Company, their powers and business procedure. The current wording of the Articles was approved on 11.03.2009 by the Shareholders’ Extraordinary Meeting of JSC “Telasi” (Minutes No1 of 11.03.2009).

Regulations on Rules of Preparation and Holding of Shareholders’ Meeting. Regulations on Rules of Preparation and Holding of Shareholders’ Meeting was approved on 13.12.2006 by Annual Shareholders’ Meeting of JSC “Telasi” (Minutes No2 of 13.12.2006). Regulations provide for procedures of preparation and holding of Shareholders’ Meeting, format of Meeting, clarifies functions of the working bodies of the Shareholders’ Meeting.

Regulations on Rules of Calling and Holding of Supervisory Board Sessions. Regulations on Rules of Calling and Holding of Supervisory Board Session was approved on 13.12.2006 by the annual Shareholders’ Meeting of JSC “Telasi” (Minutes No2 of 13.12.2006). Regulations provide for procedures of preparation and holding of Supervisory Board sessions, clarifies functions of Chairman of the Supervisory Board, rights and obligations of the Supervisory Board members.

Regulations on Payment of Remunerations and Compensations to Supervisory Board Members. Regulations on Payment of Remunerations and Compensations to Supervisory Board Members were approved by the Resolution of Shareholders’ Extraordinary Meeting of JSC “Telasi”

(Minutes No13 of 11.03.2009). Regulations provide for procedure and amount of remunerations and compensations paid out to the Supervisory Board members. According to the Regulations, remunerations and compensations to the Chairman and Supervisory Board members are paid for participation in the Supervisory Board sessions irrespective of its format. A member of Supervisory Board is compensated for expenses related to participation in sessions of the Supervisory Board as per rules of per diem compensations effective for the day of a session adopted by the Company.

Regulations on Audit Commission (Auditor) of the Company. Regulations on Audit Commission (Auditor) of the Company were approved by the Resolution of Shareholders' Extraordinary Meeting of JSC "Telasi" (Minutes No3 of 24.12.2009). Regulations provide for tasks of Audit Commission, rights and obligations, stipulate procedure of conducting auditor reviews.

Regulations on Payment of Remunerations and Compensations to Audit Commission (Auditor) of the Company. Regulations on Payment of Remunerations and Compensations to Audit Commission (Auditor) of the Company were approved by the Resolution of Shareholders' Extraordinary Meeting of JSC "Telasi" (Minutes #13 of 11.03.2009). Regulations provide for the amount, type and timing of payments to the members of Audit Commission as well as specialists (experts) invited by Audit Commission. According to the Regulations, remunerations and compensations for participation in the review (audit) of financial and economic activity of the Company, a member of Audit Commission (Auditor) is paid out a one-time remuneration. The member of Audit Commission (Auditor) is compensated for expenses related to participation in the session of Audit Commission and administration of a review as per rules of per diem compensations effective for the day of a session or a review adopted by the Company.

Regulations on the Audit Committee under Supervisory Board. Regulations on the Audit Committee under Supervisory Board of Joint Stock Company "Telasi" were approved by the JSC "Telasi" Supervisory Board on May 21, 2010, Minutes No23. Regulations provides for the status and powers of the Committee, rights and obligations, membership, procedure of formation, operation and interaction with management bodies of the Company.

Regulations on the System of Interaction with Shareholders of the Company. Regulations on the System of Interaction with Shareholders of the Company were approved by Director General's Order No178 of October 8, 2010. Regulations provide for aims, tasks of functioning, methodological approaches and rules applied within the framework of the System during planning, implementation and control.

Methodology of Working with Applications and Requests of Shareholders of the Company. Methodology of Working with Applications and Requests of the Company Shareholders was approved by the Director General Order No212 of November 22, 2010. The Methodology regulates work of the Company with applications of shareholders.

4.1.3. Structure of Company Management and Control Bodies

According to the Articles of Association of JSC "Telasi", the management and control bodies of the Company are as follows:

- Shareholders' Meeting;
- Supervisory Board;
- Director General.
- Audit Commission (Auditor)
- Audit Committee under the Supervisory Board

Shareholders' Meeting. The Shareholders' Meeting is a superior management body. The Shareholders' Meeting provides for the shareholders an opportunity to realize their right to participate in the Company management by taking decisions on the most essential issues of the Company business within the competence of Shareholders' Meeting. The Supervisory Board, executive bodies, Audit Commission are accountable before the Shareholders' Meeting. Powers of the Shareholders' Meeting, timing, procedure of preparation and holding of meetings, formats of holding are provided for in the Law of Georgia "On Entrepreneurs", Articles of Association and Regulations on Rules of Preparation and Holding of Shareholders' Meeting.

Supervisory Board of the Company. Supervisory Board carries out general management of the Company activity by making decisions on the core issues of its business in accordance with the scope

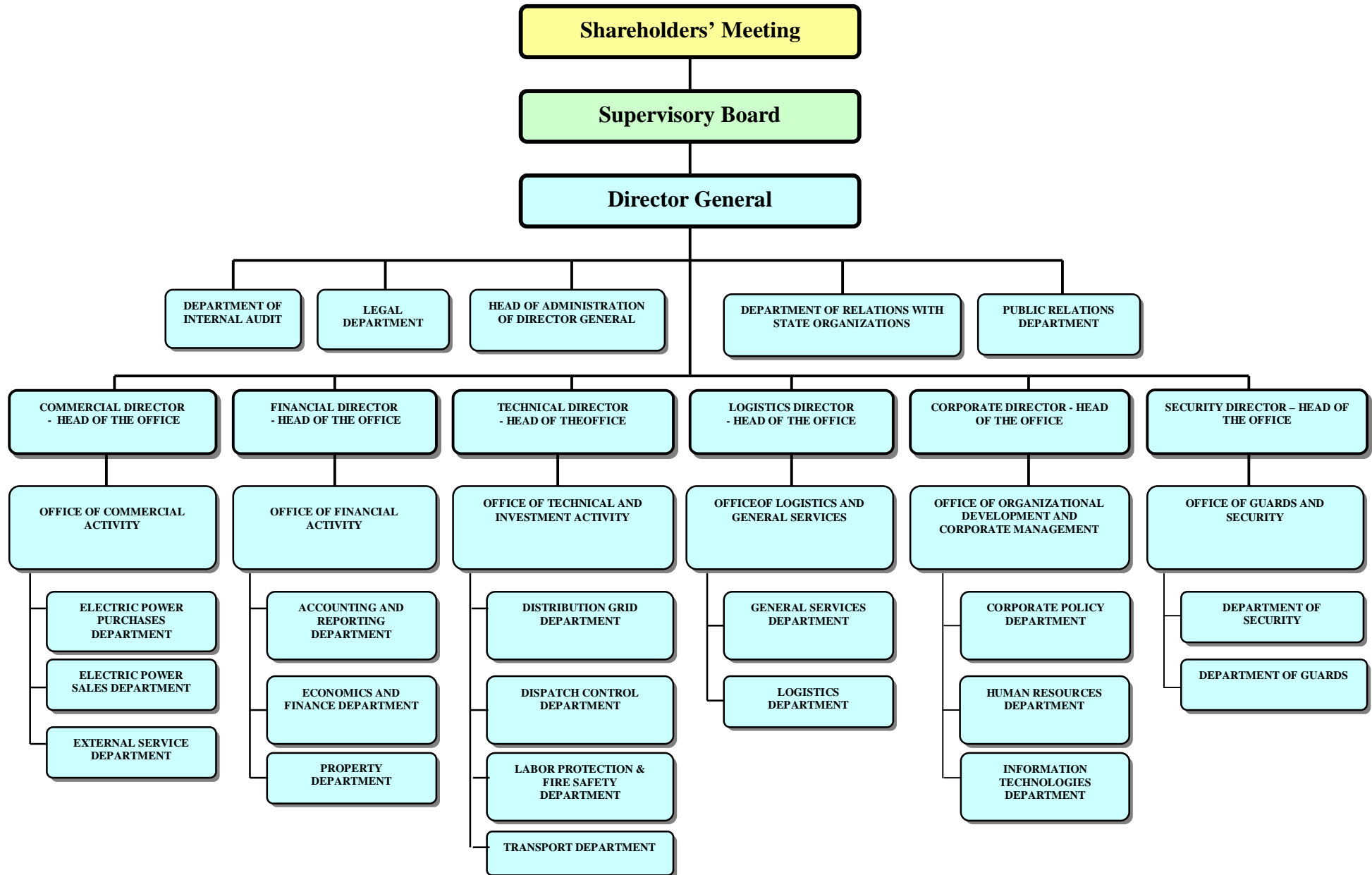
pursuant to the Articles of Association. Procedure of the Supervisory Board operation is regulated by the Articles and Regulations on Rules of Calling and Holding of Supervisory Board Session. Supervisory Board is a collective panel with 6 members. Members of the Supervisory Board Company are elected at the Shareholders' Meeting of the Company. All members of the Supervisory Board are elected for four years term after expiry of which their powers continue until calling of the next Shareholders' Meeting. By decision of the Shareholders Meeting, the powers of all members of Supervisory Board may be cancelled pre-term. Individuals elected to the Supervisory Board may be re-elected without limitation. By decision of the Company Shareholders' Meeting, it is possible to re-elect a member of Supervisory Board before expiry of the term.

Director General. Director General runs day-by-day operation of the Company. He is a sole executive body of the Company. The Director General performs daily management and control of the Company, as well as representative capacity of the Company.

Audit Commission (Auditor) of the Company. Audit Commission (Auditor) of the Company is a permanent body of the Company internal control implementing regular control over financial and economic operations of the Company, its separate subdivisions, officials and structural subdivisions of the Company executive bodies, to ensure compliance with the effective legislation of Georgia, Articles of Association and internal acts of the Company.

Audit Committee under the Supervisory Board. The purpose of the Committee is to develop and offer recommendations (conclusions) to Supervisory Board of the Company in the field of audit and internal control. Audit Committee ensures actual participation of the Supervisory Board in conducting control over financial and economic activity of the Company. One of the most important functions of the Committee is to work out recommendations on choosing independent auditor company as well as to interact with the Company Audit Commission and Department of Internal Audit. Membership of the Committee has been limited by the Company Supervisory Board to 3 persons.

Organizational Structure of JSC “Telasi” as at 31.12.2010



4.2. Assets of the Company

4.2.1. Property, plant and equipment

Property, plant and equipment are subject to revaluation with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of reporting period. Increases in the carrying amount arising on revaluation are credited to other comprehensive income and increase the revaluation reserve in equity. Decreases that offset previous increases of the same asset are recognized in other comprehensive income and decrease the previously recognized revaluation reserve in equity; all other decreases are charged to profit or loss for the year. Any accumulated depreciation, aggregated with accumulated impairment losses, at the date of revaluation, is eliminated against the gross amount of the asset, and the net amount is restated to the revalued amount of the asset. The revaluation reserve in equity is transferred directly to retained earnings for the difference between depreciation based on the revalued carrying amount of the assets and depreciation based on the assets original cost. The revaluation reserve in the equity is transferred directly to the retained earnings, when the surplus is realized at retirement or disposal of an asset.

Depreciation. Depreciation is charged in profit or loss on a straight-line basis over the estimated useful lives of the individual assets. Depreciation commences, when an asset is ready for use. Land is not depreciated.

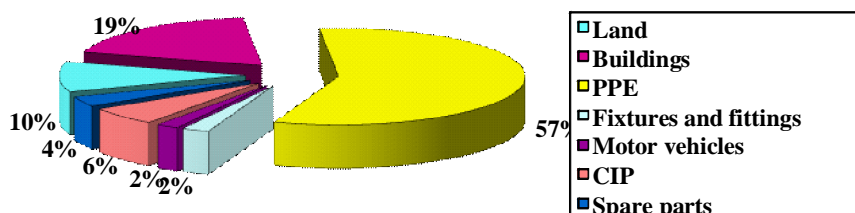
The estimated useful lives are as follows:

- Buildings up to 50 years
- Plant and equipment 15 to 30 years
- Fixtures and fittings 5 to 15 years
- Motor vehicles 5 years

Carrying amount as at December 31 of the reporting period (thous. GEL)

№№	Name	2008	2009	2010
1	2	3	4	5
1	Land	25,065	16,255	17,213
2	Buildings	7,151	29,420	32,101
3	Plant and equipment	75,336	92,876	97,723
4	Fixtures and fittings	5,150	2,337	4,020
5	Motor vehicles	3,504	2,860	3,333
6	Construction in progress	5,336	4,515	10,454
7	Spare parts	9,557	6,330	5,783
	IN TOTAL	131,099	154,593	170,626

The spare parts relate to items held for repair or replacement of the Company's PPE elements, for example, components of transformer stations and lengths of cable. Accordingly, they are classified within PPE but not depreciated pending their incorporation into the designated assets, and they do not depreciate over the remaining life of that asset.



4.2.2. Management of Property

Efficient property management of JSC “Telasi” is based on the established system of preparation, consideration and validation of property transactions and property rights.

Disposal of property is carried out under the civil legislation of Georgia, Laws of Georgia “On Entrepreneurs”, “On Registration of Ownership Rights in Immovable Objects”, “On Land Registration”, “On Management and Disposal of Non-agricultural Land in Public Property” and other legislative acts of Georgia and the Articles of Association of JSC “Telasi”.

According to these documents, on February 13, 2008 by the Order №9 “Rules of Purchase, Leasing and other Forms of Transactions at Transfer of Property Rights in Immovable Assets to JSC “Telasi”, and on August 7, 2008 by the Order №101 “Rules on the Procedures of Gratuitous Transfer of Immovable Assets (Land and Energy Facilities)” determining qualitative and quantitative criteria of different transactions related to property, and JSC “Telasi” Commission of Immovable Assets Transactions were approved.

At present the Articles of Association of JSC “Telasi” is a main document determining the rules of decision-making for transactions related to property or property rights in assets of JSC “Telasi”. The Articles of Association of JSC “Telasi” classify all transactions in three groups:

1. Transactions, decisions on which are made by the Company Supervisory Board;
2. Transactions, considered by the Supervisory Board to determine Company’s (its representatives) position with regard to the issues of the agenda of Shareholders’ Meetings and Supervisory Board sessions;
3. Transactions not requiring decision of the Supervisory Board or determination of the position of the Company (or its representatives) with regard to the issues of agenda of Shareholders’ Meetings and Supervisory Board sessions.

Ranking of transactions to one of three groups is based on the value of the property (cost of transaction).

At considering and preparing draft decisions for transactions related to the first two groups, there provided for the examination of the planned transactions by the subdivisions of the OJSC “Inter RAO UES” within their competence enabling to ensure the Company’s and shareholders’ property interests in whole, and facilitate to the improvement of the quality of property management.

Reviewing and approval of transactions attributed to the third group is performed by the Company under the Articles of Association and internal regulations.

The adopted rules of decision-making in relation with the property transactions increase independence and responsibility of the Company, ensure efficient decision-making with regards to the property transactions and, thus, increase efficiency of the Company operation and provide necessary control over disposal of property in the shareholders’ interest.

4.2.3. Transactions with Immovable Property in 2010

№№	Name of immovable asset			Office and industrial premises area (sq.m)
	Land area (sq.m)	Installed capacity of the equipment (PTSCT, TS) (kW)	Office and industrial premises area (sq.m)	
1	2	3	4	5
1	Immovable property received by gratuitous transfer			
1.1	368	12 740	-	467
2	Purchased immovable property			
2.1	101	1430	373	78
Total	469	14 170	373	545

4.3. Judicial Proceedings

Legal Department of the Company works for the protection of legitimate rights and interests of the Company and its shareholders in all government agencies and authorities, institutions, enterprises and organizations irrespective of property forms, tax bodies, arbitration courts and general jurisdiction courts. Judicial proceedings conducted by the JSC “Telasi” Legal Department in 2010 may be subdivided into claims and lawsuits (litigations) of different categories:

1. Claims and Lawsuits Related to Fixed Charge. According to the Decision of Georgian National Energy Regulatory Commission (GNERC) № 29 of June 19, 1999, the JSC “Telasi” was granted the right to perform fixed charge of subscribers before installation of meters out of the customer’s territory. Frequently, subscribers do not agree with the charges and apply to courts. Fixed charging is performed without meters as well, frequently giving rise to litigation.

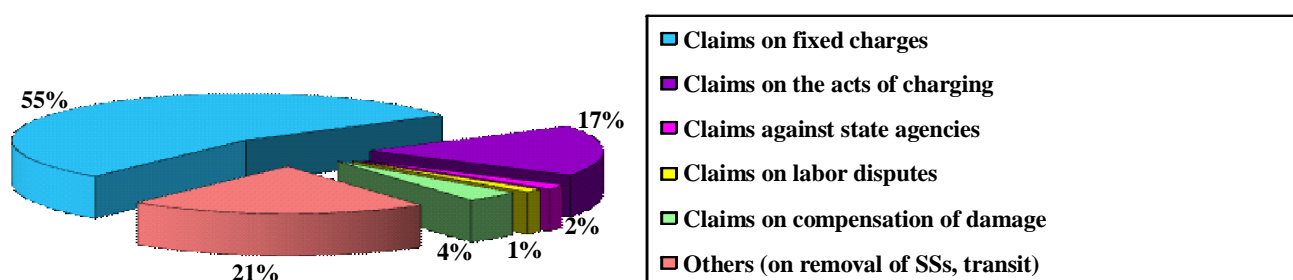
2. Claims and Lawsuits Related to the Acts of Charge. By the Decision № 15 of December 31, 2001, GNERC adopted the Procedure of charging unrecorded consumed electricity under which violation of electric power metering should be fixed and registered in the form of an Act on Violation, usually appealed against by the customer.

3. Claims and Lawsuits versus State Authorities, Basically Comprising Litigations with Customs and Tax Agencies. In such cases JSC “Telasi” is mostly a plaintiff. The court refrains from creation of precedents; such charges being an approved method of the budget replenishment.

4. Labor Disputes, Comprising Litigations with Workers and Employees of JSC “Telasi” Concerning Dismissals. Employer-employee disputes in the labor process, lawsuits concerning compensation of moral and material damages as a result of disability or death of employees of JSC “Telasi” owing to the occupational injury received at work.

5. Claims and Lawsuits Related to Compensation of Moral and Material Damages to JSC “Telasi” Customers as a Result of a Fire. In case of fire, as a rule, criminal case is commenced, an examination is carried out and where the JSC “Telasi” fault is proved, the offended party in the court proceedings demands from JSC “Telasi” a compensation for moral and material damages. Where the examination proves the fault of JSC “Telasi”, chances to win the case are minimal and in litigation the amount of compensation, not the fact of fire is challenged.

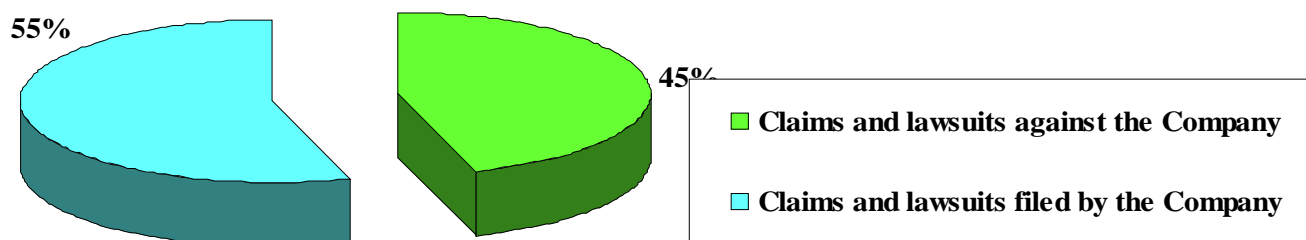
Structure of Judicial Proceedings by Categories



4.3.1. Legal Proceedings Initiated in 2010

№№	Description	Quantity (case)	Amount (thous. GEL)
1	2	3	4
1	Claims and lawsuits against the Company	297	11,330
2	Claims and lawsuits filed by the Company	16	13,773
	Total	313	25,103

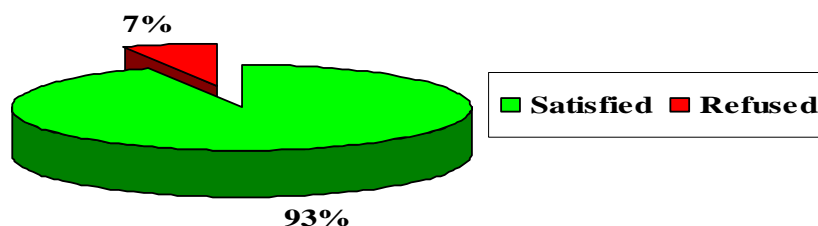
Structure of Filed Legal Claims



4.3.2. Legal Cases Completed in 2010

№№	Description	Quantity (case)	Amount (thous. GEL)		
			Total	including	
				Satisfied*	Refused
1	2	3	4	5	6
1	Claims and lawsuits against the Company	147	4,550	4,170	380
2	Claims and lawsuits filed by the Company	9	7,984	7,536	448
Total		156	12,534	11,706	828

*) Court rulings in favor of JSC "Telasi" related to claims and lawsuits against the Company and claims and lawsuits filed by the Company.



V. Information on the Consumption of Energy Resources

In 2010 the Company consumed the following energy resources:

№№	Name	Measure unit	Quantity	Value (thous. GEL)
1	2	3	4	5
1	Electric power, total	thous. kW/h	1 645 225	261 352
	including:			
1.1	- for sale	thous. kW/h	1 639 888	260 902
1.2	- for own needs, total	thous. kW/h	5 337	450
	including:			
1.2.1	office buildings	thous. kW/h	2 721	-
1.2.2	substations	thous. kW/h	2 616	-
2	Petroleum for automobiles	thous. litre	546	824
3	Diesel fuel	thous. litre	239	347
TOTAL		-	-	262 523

VI. Major Financial Aggregates of the Company Business. Production Operations.

The dynamics of major financial aggregates of the Company may be characterized as follows:

№.№	Aggregate	Measure unit	2009	2010			
				Plan	Fact	Deviation	
						+/-	%
1	Profit from sales	thous. GEL	58,721	47,273	69,310	22,038	47
2	Net profit	thous. GEL	(2,237)	25,407	48,356	22,949	90
3	Profit before taxation without interest (modified EBIT)	thous. GEL	9,990	43,999	65,792	21,793	50
4	Capital investments	thous. GEL	-	-	-	-	-
	- financing	thous. GEL	26,334	25,605	28,149	2,544	10
	- disbursement		22,342	22,865	30,720	7,854	34
	- recorded in the balance sheet		20,536	24,760	31,380	6,620	27
5	Net cash flow on all types of activity	thous. GEL	701	1,847	11,584	9,737	527
6	Current assets	thous. GEL	64,698	68,287	72,478	4,191	6
7	Short-term liabilities	thous. GEL	171,851	172,267	159,512	-12,755	-7
8	Return on sales	%	27	21	30	9	43
9	Return on net profit	%	(1)	11	21	10	91
10	Return on assets (ROA)	%	(1)	11	20	9	82
11	Return on equity (ROE)	%	-	-	234	234	0
12	Profit from sales without amortization (modified EBITDA)/efficient loading	thous. GEL	34	29	41	12	41
13	Current (liquidity) ratio	kW	0.41	0.40	0.50	0.1	25
14	Quick (liquidity) ratio	kW	0.35	0.32	0.38	0.1	19
15	Level of payments for electric power	%	103	100	101	1	1
16	Self-sufficiency ratio	kW	-	-	0.08	0.08	0
17	Debt ratio (loans to own funds)	kW	-	-	10.98	10.98	0
18	Average weighted rate of credit	%	15	15	17	2	13
19	Debt/profit from sales without amortization (modified EBITDA)	kW	1.25	1.49	0.96	(0.53)	(36)
20	Profit from sales without amortization (modified EBITDA)/(interest for payment +bank fees)	kW	5.39	4.36	6.19	1.83	42

Aggregates of financial and economic activity describe positive dynamics of profit from sales (GEL 69,310 thous.) compared with the plan for the relevant period (GEL 47,273 thous.), displayed by the increase of such indices as the return on sales. In the reporting period the Company received net income of GEL48,356 thous.

The solvency and level of credit risk are improving, as indicate positive dynamics of aggregates on the level of payments for electric power, current liquidity ratio and debt/modified EBITDA ratio.

6.1. Financial Activity

6.1.1. Basic Conditions of Company Activities in 2010

Tax policy. According to the effective Tax Code of Georgia, during the reporting period the following tax rates were in force:

- Income tax – 20%
- Profit tax – 15%

Technical Condition of the Grid. On the current stage technical condition of the grid may be characterized as satisfactory but requiring substantial spendings on modernization and maintenance for the increase of reliability and decrease of power losses.

Interest Rate on Loans. In the business plan for 2010 the cost of loans on the effective agreements fluctuates between annual 14% - 15% interest.

On December 15, 2010 a long-term Loan Agreement in the amount of US\$25 million was signed with EBRD. The goal of the loan is to refund bank credits and to finance investment programs for 2011. Interest rate is LIBOR plus annual 3.5-5% interest.

Tariff Policy. Tariff was not changed in the reporting period. The Company tariff is approved by the Georgian National Energy and Water Supply Regulatory Commission (GNEWSC) after review of appropriate application. The components of the tariff are as follows:

- Basic tariff;
- Compensation for changes of inflation indices;
- Compensation for extra investments;
- Changes in the legislation.

Inflation and Currency Rate. The government of Georgia along with the National bank of Georgia pursues the strict monetary policy on curtailing inflation within parameters stipulated by the state budget against the backdrop of maintaining a positive balance of payments. While composing the dynamics of the currency rate hereunder, the following factors have been taken into account:

- Analysis of the swings of currency rate for 2004-2009;
- Estimated level of inflation of GDP in the budget of Georgia for 2010;
- Balance of payments of Georgia.

With respect to the surge of world financial crisis, the rate of GEL against US dollar is difficult to estimate. For planning purposes in 2010, the Company forecast for the national currency rate against the US dollar is GEL1.65 for US\$1.

The Level of Extra-Standard Losses. The level of extra-standard losses depends on the following factors:

- Smoothness of commercial cycle;
- Existence of an apt distribution grid of power transmission.

Level of Payment Collection. Within the frames of investments made by the Company for improvement of material and technical base, increase of the level of distribution and metering of electric power make positive impact on the collection of payments. The level of payments collection in 2010 amounted to 101.54% against the planned 100.14 %.

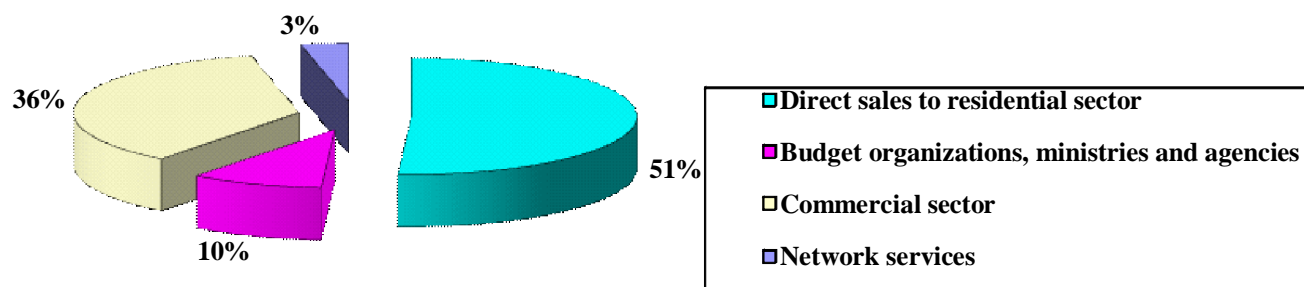
6.1.2. Revenues from Realization of Goods, Works, Services

In 2010 the cumulative revenues from realization of goods, works and services amounted to GEL 232,362 thous., that is GEL9,863 thous. more than planned. In the total sum of realization, the revenues from electric power sales made up GEL222,150 thous., or 96% of the total volume of revenues, the revenues from realization of network services - GEL7,839 thous., or 3% of the total volume of revenues. The table below represents the structure of revenues from realization of goods and works:

(thous. GEL)

№№	Name of Index	Fact		2010			
		2008	2009	Plan	Fact	Deviation	
						(+/-)	%
1	2	3	4	5	6	7	8
1	Sales of electric power in the internal market	204,594	208,006	211,592	222,150	10,558	5
	including:						
1.1	Organized national energy market	-	296	27	0	(27)	(100)
1.2	Direct sales to residential sector	108,859	110,590	112,759	117,109	4,350	4
1.3	Budget organizations, ministries and agencies	19,682	75,982	20,889	21,787	898	4
1.4	Commercial sector	75,636	20,798	77,522	83,120	5,598	7
1.5	Other direct sales	417	339	395	134	(261)	(66)
2	Revenue from sales of other goods, works, services	11,851	10,268	10,907	10,212	(695)	(6)
	including:						
2.1	Sales of network services	7,748	7,681	7,499	7,839	340	5
2.2	Sales of other services	3,751	2,236	3,408	2,373	(1,035)	(30)
	Revenue from sales of goods, works, services	216,445	218,274	222,499	232,362	9,863	4

Structure of Revenues in 2010

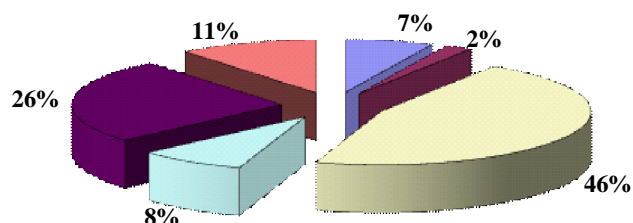


6.1.3. Production and Realization Expenses

The cost of realization of goods, works, services during 2010 made GEL163,051 thous., that is GEL 12,175 thous. less than was planned. The main portion of cost price make expenses for electric power purchases - GEL74,939 thous., or 46% of the total amount of the cost price, expenses on salaries and wages - GEL42,100 thous., or 26% from the total volume of expenses, and the transit service costs - GEL13,482 thous., or 8% from the total volume of expenses. The table below represents the structure of expenses for production and realization.

(thous. GEL)

№№	Name of Index	Fact		2010			
		2008	2009	Plan	Fact	Deviation	
						(+/-)	%
1	2	3	4	5	6	7	8
1	Depreciation of PPE and IA	4,905	5,754	7,313	11,154	3,841	53
2	Repair expenses	1,695	3,353	4,577	3,466	(1,111)	(24)
3	Other operation costs	1,319	258	734	332	(402)	(55)
4	Cost of purchased electric power	81,247	80,187	87,620	74,939	(12,681)	(14)
5	Transit services	16,572	16,233	14,790	13,482	(1,308)	(9)
6	Salary and wage costs	40,659	40,504	42,826	42,100	(726)	(2)
7	Compensations to members of management body and Audit Commission	-	-	24	50	26	108
8	Other expenses for production and realization	9,634	13,264	17,342	17,528	186	1
	Total	156,031	159,553	175,226	163,051	(12,175)	(7)



■ Depreciation of PPE and IA
■ Repair expenses
□ Cost of purchased electric power
□ Transit services
■ Salary and wage costs
■ Other expenses for production and realization

Hereunder are given items of expenses with substantial changes:

Depreciation of PPE and IA. Deviation under this item in the amount of GEL3,841 thous. was caused due to the increase in PPE and IA by revaluation of PPE in 2009.

Repair Expenses. Decrease of repair expenses and operation by GEL1,111 thous. was brought due to factors given below:

- decrease of prices compared with the planned prices of purchased materials
- unscheduled signing of contracts due to recurrent holding of tenders
- supply of materials in the reporting period in breach of schedule

Cost of Purchased Electric Power. Actual price of purchased electric power in the reporting period amounted to GEL74,939 thous. that is GEL12,681 thous. less than planned. This deviation was basically caused by the fact that in the first half of the year imported electric power was substituted by purchases from ESCO in the local market for lower tariff. Decrease in the level of losses at transmission of electric power also had contributed to the shrinking costs of power purchases.

Other Operating Costs. Decrease of expenses by GEL402 thous. was conditioned by the fact that expenses for write-off of special clothes and tools in the reporting period were less than the appropriate plan.

6.1.4. Cash Flow

Cash flow balance. Cash flow balance as at 01.01.11 amounted to GEL3,660 thous. As a result of the Company operations during the reporting period the positive balance of cash flow was increased by GEL9,737 thous. as compared with the plan and made GEL11,584 thous.

(thous. GEL)

№№	Name of Aggregate	Fact		2010			
		2008	2009	Plan	Fact	Deviation	
						(+/-)	%
1	2	3	4	5	6	7	8
1	Income from operational activity	247,885	262,851	262,443	278,634	16,191	6
2	Expenses on operational activity	204,471	216,794	225,249	212,098	(13,151)	(6)
3	Total cash flow from operational activity	43,413	46,057	37,194	66,536	29,342	79
4	Cash received from investment activity	35	148	8	20	12	150
5	Cash outflow for investment activity	29,674	26,334	25,605	28,149	2,544	10
6	Total cash flow from investment activity	(29,639)	(26,186)	(25,597)	(28,129)	(2,532)	10
7	Cash received from finance activity	51,335	18,593	120	671	551	459
8	Cash outflow for finance activity	63,868	37,763	9,870	27,494	17,624	179
9	Total cash flow on finance activity	(12,533)	(19,170)	(9,750)	(26, 822)	(17,072)	175
10	Cash balance at the beginning of the period	1,623	2,864	3,005	3,660	655	22
11	Balance of cash inflow and outflow on all types of activity for the period	1,241	701	1,847	11,584	9,737	527
12	Cash balance at the end of period	2,864	3,565	4,852	15,244	10,392	214

6.1.5. Dynamics and Analysis of Accounts Receivable and Payable

6.1.5.1. Accounts Receivable

Amount of receivables for supplied electric power in the reporting period decreased by GEL14,436 thous. and made GEL143,869 thous. In connection with the risk of non-payments, every month the Company reconsiders the allowance for doubtful accounts which as at December 31, 2010 amounted to GEL106,091 thous. The allowance for doubtful accounts consists of 2 parts:

- The estimate of allowance for doubtful accounts for preparation of financial statements;
- The estimate of allowance for doubtful accounts for planning purposes.

The Estimate of Doubtful Accounts Allowance for Preparation of Financial Statements. In order to estimate the allowance for doubtful accounts the customers are subdivided into different categories. The indebtedness of a customer is determined as at reporting date. Analysis of the allowance does not apply to the customers with zero debts. For the group “Annulled Customers” the allowance for doubtful accounts is estimated as being equal to 100%.

For other customers, for each of them, the data relating to charges and collections during the reporting period are studied:

- Where collections turn out to be less than charges for the year, this means that the customer’s debt as at the end of the year consists of non-paid charges for the year (current debts) and a debt as at the beginning of the year (old debts). Accordingly, the allowance for customer’s

accounts is estimated in proportion to the ratio of the remaining current debt charged for the year.

- Where collections for the year exceed the charges, this means that the customer in the course of the year has paid off some portion of his old debt. For this customer the period of debt payments, namely, a number of years necessary to pay off a debt shall be defined provided that he will keep up payments with the same pace. Afterwards, the debt of customer available as at close of the year shall be recounted by discounting for the period of debt payments by a rate of borrowings.

The Estimate of Allowance for Doubtful Accounts for Planning Purposes. To make estimate for the purpose of planning, a quotient of doubtful debts is calculated against general indebtedness based on abovementioned calculations. This quotient is multiplied by the changes in current accounts receivable.

6.1.5.2. Accounts Payable

The accounts payable to power suppliers and other contractors as at the end of 2010 amounted to GEL147,610 thous. of which GEL96,258 thous. applies to intra-Group companies. Debts to electric energy supplier companies amount to 65% of accounts payable. During reporting period the Company fully paid the current debts for supplied power.

“Mtkvari Energy, LLC”	72,663
JSC “Khrami HPP-1”	3,213
JSC “Khrami HPP-2”	1,396
TGR Energy Electricity Trade Co	3,162
Silk Road Holdings B.V.	15,824
TOTAL	96,258

6.1.6. Balance Sheet of the Company for Reporting Period

(thous. GEL)

№№	Name of Aggregates	2010			
		Plan	Fact	Deviation	
				(+/-)	%
1	2	3	4	5	6
ASSETS					
I	NON-CURRENT ASSETS	164,185	174,693	10,508	6
II	CURRENT ASSETS	68,288	72,478	4,191	6
	BALANCE	232,473	247,171	14,698	6
LIABILITIES					
III	CAPITAL AND PROVISIONS	(23,894)	20,634	44,529	(186)
IV	LONG-TERM LIABILITIES	84,099	67,024	(17,075)	(20)
V	SHORT-TERM LIABILITIES	172,268	159,513	(12,755)	(7)
	BALANCE	232,473	247,171	14,698	6

6.1.7. Financial Performance

During the reporting period the Company received proceeds from sale of goods, works and services in the amount of GEL232,362 thous., that is GEL9,863 thous. more than planned. The marginal revenues amounted to GEL139,889 thous. with the plan of GEL116,308 thous. The revenues from sales were GEL69,310 thous. against the planned profit of GEL47,273 thous. After the estimate of the balance of operational and non-operational expenses, the revenues before taxation amounted to GEL53,481 thous. against the planned GEL31,616 thous. Net profit amounted to GEL48,356 thous. The table below represents the structure of the Company financial performance:

(thous. GEL)

№№	Name of Aggregates	Fact		2010			
		2008	2009	Plan	Fact	Deviation	
						+	-
1	2	3	4	5	6	7	8
1	Revenues from sales of goods, goods, works and services	216,445	218,274	222,499	232,362	9,863	4
	Imputed-variable expenses	98,664	97,405	106,190	92,473	(13,717)	(13)
2	Marginal revenues	117,781	120,869	116,308	139,889	23,581	20
	Imputed-variable expenses without depreciation	52,462	56,394	61,722	59,425	(2,297)	(4)
3	Profit (loss) from sales without depreciation charges	65,319	64,475	54,586	80,464	25,878	47
	Depreciation charges	4,905	5,754	7,313	11,154	3,841	53
4	Profit (loss) from sales	60,414	58,721	47,273	69,310	22,037	47
	Other operational revenues/expenses	(5,774)	(46,898)	(3,298)	876	4,174	(127)
	Financial revenues/expenses	51,230	(13,462)	(12,383)	(16,754)	(4,371)	35
5	Profit (loss) before taxation	105,870	(1,640)	31,616	53,481	21,865	69
	Current income tax and other taxes	(22,240)	(597)	6,208	5,125	(1,083)	(17)
	Income tax effective rate, %	15	15	15	0	(15)	(100)
6	Net profit (loss)	83,630	(2,237)	25,407	48,356	22,949	90
	Net profit margin, %	39	-	11	21	10	91
	EBITDA [formula]	59,545	6,979	51,312	81,389	30,077	59
	EBITDA margin, %	28	3	23	35	12	52

6.2. Production Operations
6.2.1. Description and Technical Condition of Electric Grids

№№	Description	Measure unit	Indices
1	2	3	4
1	Total length of power transmission lines	km	3737
	including:		
1.1	Aerial power transmission lines (by circuits), total	km	1660
	amongst:		
1.1.1	- voltage level 110 kV	km	247
1.1.2	- voltage level 35 kV	km	88
1.1.3	- voltage level 10 kV	km	108
1.1.4	- voltage level 6 kV	km	182
1.1.5	- voltage level 500 volt and lower	km	1035
1.2	Cable transmission lines, total	km	2077
	amongst:		
1.2.1	- voltage level 35 kV	km	30
1.2.2	- voltage level 10 kV	km	282
1.2.3	- voltage level 6 kV	km	918
1.2.4	- voltage level 500 volt and lower	km	847
2	Reducer substations 35 kV and higher		
2.1	Quantity of substations, total	unit	35
	including:		
2.1.1	Reducer substations 35/6 -10 kV	unit	12
2.1.2	Reducer substations 110 kV	unit	23
2.2	General installed capacity	megawatt	1 694
	including:		
2.2.1	Reducer substations 35/6 -10 kV	megawatt	335
2.2.2	Reducer substations 110 kV	megawatt	1359
3	Transformer substations 10/6/0,4 kV		
3.1	Quantity of substations	unit	1613
3.2	General installed capacity	megawatt	1048
	including:		
3.4	Package	unit	182
		megawatt	79
3.5	Closed	unit	1431
		megawatt	969

Equipment of High-Voltage Substations – since 2006 an investment project of amortized oil switches replacement with vacuum switches of new generation and improvement of the arrangement of ODD (Open Distribution Devices) and substations management systems has been under way. As a result of performed works, the technical condition of the high voltage substations equipment is considered to be good.

Equipment of Low-Voltage (Transformer) Substations - since 2006 an investment project of technical overhaul of substations has been implemented due to which the technical condition of 6-10 kV distribution devices is good.

35 and 110 kV Power Transmission Lines - technical condition is satisfactory.

6 and 10 kV Power Transmission Lines - aerial and, in particular, underground transmission lines are in a very poor technical condition. Depreciation is approximately 68%. The high level of depreciation may be explained by two main reasons:

- long term of operation;
- complex conditions of operation regime.

0,4 kV Power Transmission Lines (Aerial):

- 3% of the total length (bare wires) has been repaired and satisfy technical standards;
- 97% of the total length have been constructed in 2001-2010, technical condition is good (self-bearing insulated wires).

0,4 kV Power Transmission Lines (Cable) – condition satisfactory. In 2000-2010 majority of rundown lines have been replaced in the process of installation of meters out of the customers' territory.

6.2.2. Motor Vehicles and Special Mechanisms

№№	Name of Vehicles	Quantity
1	2	3
1	Self-propelled machines and special mechanisms in electric grids, total, unit	164
	including:	
1.1	Truck cranes with lifting capacity of 6-20 t, unit	3
1.2	Crane-boring machines, unit	2
1.3	Autohydraulic rams, telescopic towers, unit	27
1.4	Mobile electric laboratories, unit	11
1.5	Motor vehicles: linear, brigade, off-roaders, unit	8
1.6	Motor vehicles linear, brigade, networking with 1 driving axle, unit	17
1.7	Service automobiles, off-roaders, unit	31
1.8	Service automobiles, with 1 driving axle, unit	47
1.9	Buses with 8-40 seats, unit	3
1.10	One-axle motor trucks, unit	5
1.11	Dumpers, unit	8
1.12	Caterpillar bulldozers, bush cutters, tree-dozers, wheel tractors, caterpillar tractors, unit	2
2	Special trailers and mechanisms on trailers – total, unit	13
	including:	
2.1	Trailer - heavy truck (trailer) with carrying capacity 20-40 t., unit	1
2.2	Biaxial trailer (tractor trailer) with carrying capacity of up to 5 t., unit	1
2.3	One-axle trailer - with carrying capacity 1,5-3 t., piece, unit	6
2.4	Mobile compressor output 5-10 m ³ , unit	4
2.5	Tank lorry, unit	1
	TOTAL	177

6.2.3. Production Data

Dynamics of the major production data of the Company may be characterized as follows:

№№	Name of Aggregate	Measure Unit	2009	2010			
				Plan	Fact	Deviation	
						+/-	%
1	2	3	4	5	6	7	8
1	Purchase by JSC “Telasi”	mil. kW/h	1,921	1,950	1,981	31	2
1.1	Losses at transmission	mil. kW/h	32	43	34	(9)	(21)
		% of purchase	2	2	2	0	0
1.2	Sale of power to organized National Energy Market	mil. kW/h	25.30	2	0	(2)	(100)
2	Received (load) to grid	mil. kW/h	1,863	1,905	1,947	42	2
2.1	Losses of power in grids, total	mil. kW/h	317	327	302	(25)	(8)
		% of loading to grid	17	17	16	(1)	(6)
	including:						
2.2	Technological losses	mil. kW/h	231	236	241	5	2
		% of loading to grid	12	12	12	0	0
2.3	Commercial losses	mil. kW/h	86	90	61	(29)	(32)
		% of loading to grid	5	5	3	(2)	(40)
3	Net delivery of power	mil. kW/h	1,546	1,578	1,645	67	4
4	Delivered electric power, received for transit	mil. kW/h	318	309	323	14	5

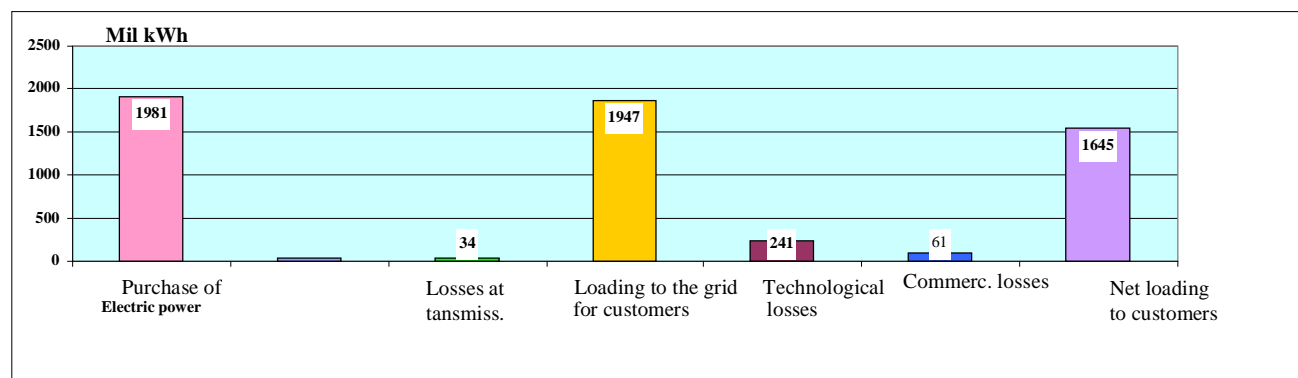
Balance of purchases has been made on the basis of unified energy balance of Georgia prepared by Ministry of Energy of Georgia. In the reporting period the Company purchased power in the internal market in the amount of 1,981 mil. kW/h (plan - 1,950 mil. kW/h).

The Company purchases power by direct agreements with generating companies and compensates the producers of electric power for actual value of losses in high voltage grids.

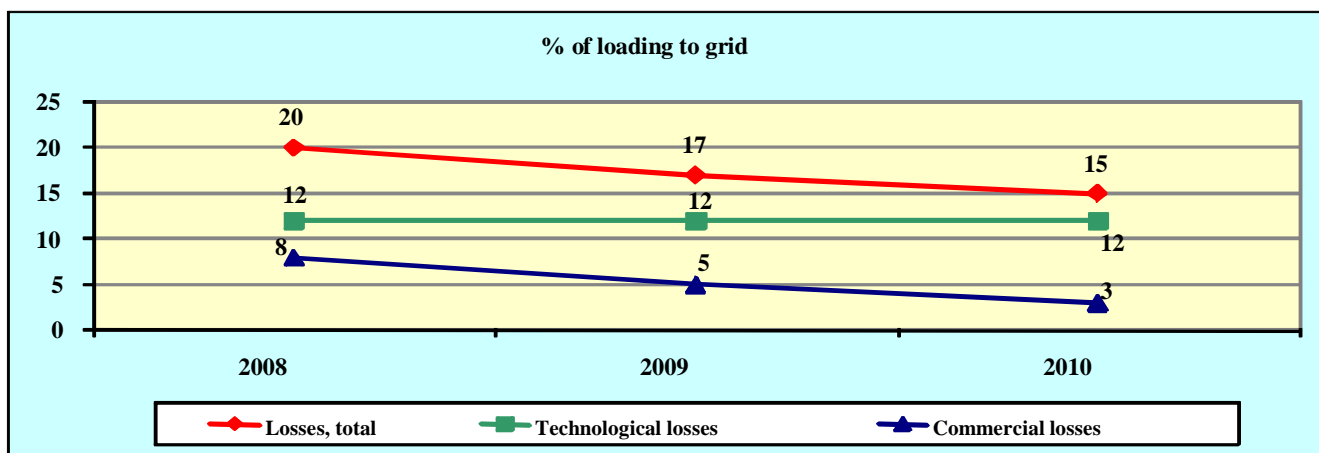
Since June 1, 2006, the Georgian National Energy Regulatory Commission (GNERC) has established the threshold of normative (technological) losses of 12.4% for the Company.

6.2.4. Losses of Electric Power in Electric Grids

In 2010 the Company purchased 1,981 million kWh electric power. Losses at transmission made 34 million kWh. Load to the grid comprised 1,947 million kWh. Net load to customers made 1,645 million kWh. Total losses of electric power in JSC “Telasi” grid made 302 million kWh that is 15 million kWh less than in 2009. Value of losses of the electric power in 2010 against loading to the grid was 16% versus 17% in 2009.



Realization of Measures Directed at Reduction of Losses in 2010. To reduce losses of power, organizational and technical measures are being taken, including improvement of the electric power metering system in electric grids (installation of meters beyond the territory of customers). Within the scope of these measures, during 12 months of 2010, works for reconstruction of 0,4 kV aerial circuits have been performed comprising installation of 5.8 km of isolated aerial wires, change of cable lines stretched between stairwells outside of building blocks for 12580 subscribers, setting up of meters outside the consumers territory with arrangement of new insulated inputs for 1827 subscribers. According to the project of reconstruction of 0,4 kV aerial circuit, optimal redistribution of loads between neighboring TS, equal distribution of loads between the phases were carried out. Below is represented a diagram of power loss dynamics against loading to the grid in 2008-2010.



6.2.5. Condition of Electric Power Metering, Introduction of ASMME (SCADA)

For metering of electric power the inductive electric meters are mainly used. At points of electric power purchase and for large customers the digital electric meters were installed. Company has its own laboratory of electric meters, certified by the state standard agency. Laboratory calibrates and seals all electric meters as well as provides expert examination of second-hand electric meters. The Company at its own expense changes defected, damaged and malfunctioning meters.

For the time being the project of ASMME (SCADA) has been developed for implementation which has important advantages for operational management of “Telasi” grids (availability of electronic and digital format of dispatch management), spotting of emergency points on-line and, therefore, limiting electric power cut-off periods for customers to minimum and as well as related to that volume of useful loading losses. No less important is exercise of control over quality of distributed electric power, breach of which leads to substantiated claims from customers and additional unplanned expenses. After implementation of the project, it will enable to spot malfunctioning segments and make operative response. The project is long-term (planned to fulfill in the period of 2010-2013). Within the frames of this project, works on arranging wireless communication with the function of data transmission simultaneously providing radio communication to 300 customers have been fulfilled in 2010.

In the forthcoming period of 2011-2013, within the scope of this project, installation of digital analyzers of grid parameters at all control points (on feeders of 10(6) kV of 39 HV SSs and on the exit bus bars of power transformers of 10(6)/0,4 kV at LV SSs) is planned.

6.2.6. Technical Supervision over Power Grid Objects

In 2010 the Supervision Division over technical condition of grids and fire safety of JSC “Telasi” carried out full complex of organizational and technical, information and methodological, supervisory and preventive measures directed at prevention of fire, failures and other technological infringements, increase of operational reliability of the equipment and personnel, reduction of

breakdown cases and traumatism rate at all power grid objects of all voltage classes. The summarized data of carried out inspections of power grid objects are represented in the table below:

№№	Inspection data	2008	2009	2010
1	2	3	4	5
1	General number of object inspections	3557	1269	1313
2	Number of instructions	334	197	367
3	Number of measures in the instructions	668	554	627
	including:			
3.1	Executed	607	483	528
3.2	Deferred measures	61	71	99

During the reporting period, overall inspections regarding compliance with labor and industrial safety requirements by the personnel were carried out at all subdivisions of Company. The results of inspections were analyzed, the dangerous trauma-inflicting situations and factors were revealed and preventive measures were developed.

Breakdown Rate. Technological Infringements. During operation of electric grids of JSC “Telasi” in 2010 occurred 6372 technological infringements (incidents) against 5613 incidents in 2009 that corresponds to increase of the rate by 14 %. There were no breakdowns in the reporting period. Undersupply of electric power in 2010 made up 5411 thous. kW/h that is more than last year by 37 %. Economic damage in 2010 amounted to GEL562 thous. that is 37% more than in 2009.

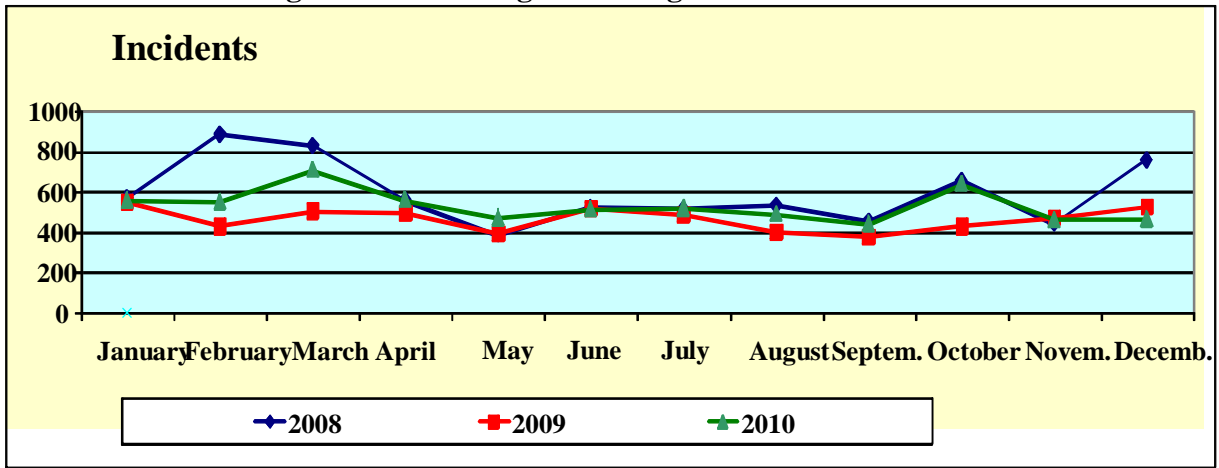
Increase in the number of technological infringement cases and, accordingly, increase of economic damage from undersupply of electric power was caused by the following: during intensive installation works with optic cables performed by “Silknet” and “Caucasus Online” companies, mechanical damages were inflicted on cable transmission lines of 10/6/0.4 kV owned by JSC “Telasi”.

Likewise, in 2010 the state transferred to JSC “Telasi” 45.5 km amortized cable and 10/6/0.4 kV aerial grid (amortized were both the grid and electric equipment) that significantly increased the number of incidents.

The table below represents data on incidents, breakdowns and technological infringements in the power grid of JSC "Telasi" in 2008-2010.

№№	Name of Index	Fact		2010		
		2008	2009	Fact	Deviation	
					(+/-)	%
1	2	3	4	5	6	7
1	Incidents	7122	5613	6372	759	14
2	Breakdowns	-	-	-	-	-
3	Undersupply of electric power (thous. kWh)	4140	3957	5411	1454	37
4	Economic losses (thous. GEL)	428	410	562	152	37

Diagram of technological infringements in 2008 – 2010

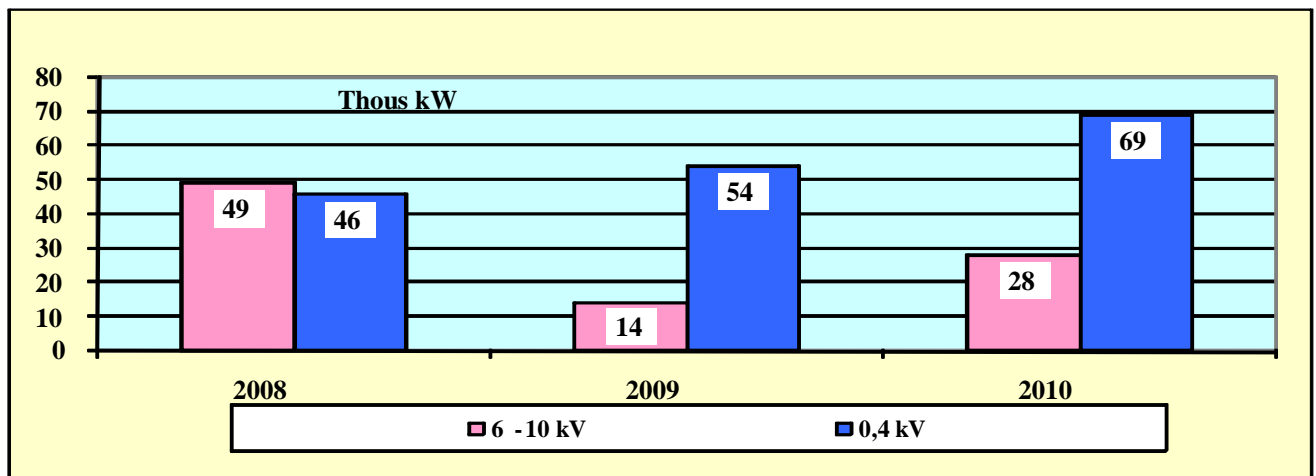


**6.2.7. Technological Connections
to JSC " Telasi " Power Grid in 2008 – 2010**

During the last three years 9843 technological connections of customers to the power grid were carried out with total capacity of 260 thous. kW. 9673 of these connections have general total capacity of 169 thous. kW at 0,4 kV voltage (98% from total capacity of connections), and 170 connections have general total capacity of 91 thous. kW at 6/10 kV voltage (2% from total capacity of connections).

№№	Connection voltage	Quantity of full connections under contracts and technical conditions, case			Actual capacity of connections, thous. kW		
		2008	2009	2010	2008	2009	2010
1	6 -10 kV	64	43	63	49	14	28
2	0,4 kV	3363	3220	3090	46	54	69
	TOTAL	3427	3263	3153	95	68	97

Diagram of technological connections in 2008 – 2010



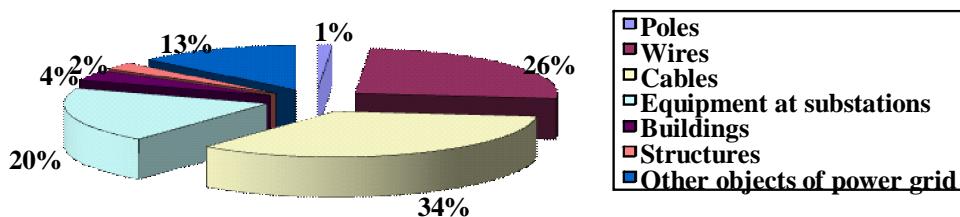
6.2.8. Organization of Repair Activity

Maintenance and repair services of the power grid objects of JSC “Telasi” were carried out by the services of the Distribution Grids Department, as well as independent contractors, and were performed depending on technical condition of transmission lines and according to the “Rules of Organization of Maintenance and Repair of Equipment”. Repairs of substation equipment were carried out in terms and volumes as determined by the Rules, instructions and requirements of manufacturers of the equipment. In 2010 actual repair expenses made up GEL3,608 thous., that is GEL1,831 thous. less, than was planned. Reduction of expenses were conditioned due to the decrease of prices in comparison with the planned prices of purchased materials, delay in signing of contracts due to recurrent tender procedures, supply of materials with breach of schedule in the reporting period. The table below represents the structure and description of performed works.

(thous. GEL)

№№	Name	Fact		2010			
		2008	2009	Plan	Fact	Deviation	
						(+/-)	%
1	2	3	4	5	6	7	8
1	Poles	43	61	155	43	(112)	(72)
2	Wires	51	977	157	924	767	489
3	Cables	952	1,057	859	1,229	370	43
4	Equipment at substations	424	860	3,357	708	(2,649)	(79)
5	Buildings (electric grids)	81	153	127	142	15	12
6	Structures (electric grids)	72	54	-	94	94	-
7	Other objects of power grid	225	344	783	468	(315)	(40)
	TOTAL	1,848	3,506	5,438	3,608	(1,831)	(34)

Structure of Repairs in 2010



Poles. Adjustment and reinforcement of poles, repair and replacement of cross bars, ground loop.

Wires. Repair and replacement of small-size wires at breakdowns and fusion (on insulator neck, at span), adjustment of wire tension, elimination of dimensions infringement of aerial circuits. Repair and replacement of fixing fixture insulator pins.

Cables. Emergency repair of cables in fault locations - installation of couplers (coupling and end bell) with a cable insert. Emergency repair of small-size sections of cable lines - with the purpose of replacement of the burned (destroyed) sections, cutting of clusters of couplers, avoidance of obstacles.

Equipment at substations. Examination and regulation of the equipment, repair and replacement of worn-out and damaged non-basic elements of the equipment, bus bars, connections, ground loops, metal structures, cases and doors. Maintenance of premises, installation of locks, repair of lighting and replacement of bulbs, etc.

Other objects in power grids. Repair of out-of-substation equipment, measuring devices and metering units; repair and purchase of tools, repair of laboratory equipment accessories and transformer shop process equipment, etc.

6.3. Power Sales Activity

6.3.1. Tariff Policy

The tariff for Company is approved by the Georgian National Energy and Water Supply Regulation Commission (GNEWSRC) after consideration of relevant application of the Company. The Company is entitled to place the application for tariff change twice a year. During the reporting period tariffs established under the Resolution of GNERC №26 of September 24, 2008 were in force (all tariffs are given net of value-added tax):

Power Distribution Tariffs

№№	Voltage	Tetri/kwh
1	220/380 volt (on average)	8.080
2	6 - 10 kilovolt	7.138
3	35 - 110 kilovolt	1.800

Electrical Power Tariffs for Customers

Electric Power Distribution Tariffs for Customers of JSC “Telasi”

№	Voltage	Tetri/kWh
1	220/380 volt (on average)	13.560
2	6 - 10 kilovolt	12.618
3	35 - 110 kilovolt	7.280

For additional guarantees for social protection of population and facilitation to the rational consumption of electric power by the Tbilisi population – customers of JSC “Telasi” at 220/380 voltage, the tariffs of power purchase according to volume of consumption are established:

№№	Volume of consumed electric power in a month	Tetri/kWh
1	100 kWh inclusive	11.424
2	from 101 kWh till 300 inclusive	13.560
3	301 kWh and more	14.998

Tariffs (Gross) for Electric Power Purchase by Power Distribution Companies and Direct Customers

№№	Name	Tetri/kWh
1	Weighted average production tariff (including import and component of normative losses in power grid)	4.615
2	Electric power transmission tariffs:	
	a) “State Electrical System of Georgia”, LLC: 35-110-220 kV 6-10 kV	0.535 1.115
	b) JSC “SAKRUSENERGO”	0.180
3	Electric power dispatching tariff (“State Electrical System of Georgia” LLC)	0.150
	Total: 35-110-220 kilovolt	5.480
	Total: 6-10 kilovolt	6.060

Electric Power Transit Services

№№	Voltage	Tetri/kWh
1	220/380 V (on average)	3.600
2	6 - 10 kV	2.590
3	35 - 110 kV	1.275

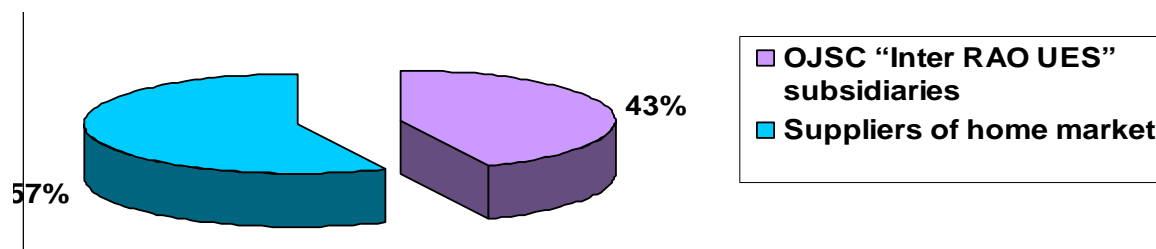
**Sale Tariffs, Established for Electric Power Producers
(Suppliers of the JSC «Telasi» as at December 2010)**

№№	Purchased electric power	Measure unit	Value
1	“Mtkvari Energy”, LLC	GEL/kWh	0.08092
2	JSC “Khrami HPP – 1”	GEL/kWh	0.02300
3	JSC “Khrami HPP – 2”	GEL/kWh	0.03500
4	Zhinvali HPP	GEL/kWh	0.02238
5	“Enguri Hpp”, LLC	GEL/kWh	0.01187
6	Energo-Pro Georgia	GEL/kWh	0.03500
7	Vardnili HPP	GEL/kWh	0.06500
8	Reserve capacity	GEL/kWh	0.02890
9	Commercial Operator of Electric Power System	GEL/kWh	0.06678 ¹

6.3.2. Purchase of Electric Power

Purchase of electric power is performed under the “Rules of Electric Power (Capacity) Market of Georgia”. From total amount of purchased electric power – 856 mln kWh (43 % from the total volume of purchases) was purchased from the affiliated companies of the OJSC “Inter RAO UES”.

№№	Name	Volume of purchased electric power (mln kWh)	Portion in total volume of purchased power (%)
1	Purchased electric power, total	1981	100
	- inclusive at home market	1981	100
	inclusive:		
1.1	“Mtkvari Energy”, LLC	188	9
1.2	JSC “Khrami HPP – 1”	288	15
1.3	JSC «Khrami HPP – 2”	380	19
1.4	Enguri HPP	729	37
1.5	Commercial Operator of Power System	201	10
1.6	Vardnil HPP	65	3
1.7	Energo-Pro Georgia	46	2
1.8	Georgian Water and Power	84	4



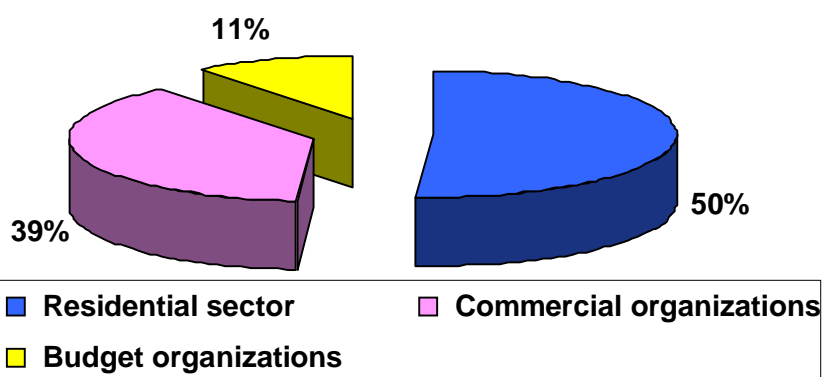
¹ Average tariff is given. Electric power purchase factual tariff is determined each month.

6.3.3. Structure of Electric Power Consumption

Total net release of electric power in 2010 was 1,645 mln. kWh. The table below represents the structure of electric power consumption by categories of customers in 2008-2010.

(mln. kWh)

№№	Name	Fact		2010			
		2008	2009	Plan	Fact	Deviation	
						(+/-)	%
1	2	3	4	5	6	7	8
1	Residential sector	781	798	813	838	25	3
2	Budget organizations, ministries and agencies	90	101	164	173	9	5
3	Commercial organizations	577	579	595	633	39	6
4	Other direct sales	71	68	3	1	(2)	(67)
5	Organized National Power Market	-	-	2	0	(2)	(100)
	Total	1,519	1,546	1,577	1,645	69	4



6.3.4. Electric Power Sales

The total volume of electric power sales in 2010 made GEL 222,150 thous., that is by GEL 10,558 thous. more than planned.

(thous. GEL)

№№	Name	Fact		2010			
		2008	2009	Plan	Fact	Deviation	
						(+/-)	%
1	2	3	4	5	6	7	8
1	Residential sector	108,859	110,590	112,759	117,109	4,350	4
2	Budget organizations, ministries and agencies*	19,682	20,798	20,889	21,787	898	4
3	Commercial organizations	75,636	75,982	77,522	83,120	5,598	7
4	Other direct sales**	418	339	395	134	(261)	(66)
5	Organized national power market	-	296	27	0	(27)	(100)
	Total sales	204,594	208,006	211,592	222,150	10,558	5

*) Budget organizations, ministries and agencies: refugees, budget sector.

***) Other direct sales: central customers.

6.3.5. Collections for Supplied Electric Power

Total volume of collections from electric power sales in 2010 made GEL 225,572 thous. (excluding VAT), that is by GEL 13,680 thous. more than planned.

(thous. GEL)

№№	Name	Fact		2010			
		2008	2009	Plan	Fact	Deviation	
						(+/-)	%
1	2	3	4	5	6	7	8
1	Residential sector	105,633	115,829	114,289	122,287	7,998	7
2	Other direct customers	93,160	96,019	97,580	103,285	5,705	6
3	Organized National Power Market	-	251	23	0	(23)	(100)
	Total sales	198,793	212,099	211,892	225,572	13,680	6

*) Other direct customers: commercial sector, budget sector, refugees and central customers.

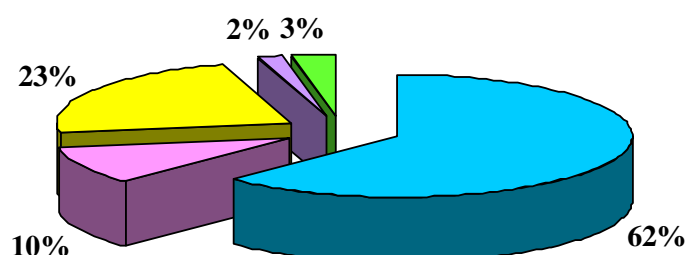
Collection from electric power sales to direct customers in 2010 was 101.54%, against planned - 100.14%

6.3.6. Accounts Receivable from Customers

Level of accounts receivable from customers for delivered electric power in 2010 has decreased by GEL14,436 thous. and made GEL 143,869 thous. Below is given the structure of accounts receivable from customers (without provision).

(thous. GEL)

№№	Name	As at December 31 2009	As at December 31 2010	Deviation	
				(+/-)	%
1	2	3	4	5	6
1	Residential sector	106,795	89,591	(17,204)	(16)
2	Budget organizations, ministries and agencies	14,193	14,461	268	2
3	Commercial organizations	34,186	32,838	(1,348)	(4)
4	Central customers	3,131	2,742	(389)	(12)
5	General customers	-	4,237	4,237	-
	Total	158,305	143,869	(14,436)	(9)



■ Residents
■ Budget organizations, ministries and agencies
■ Commercial organizations
■ Central customers
■ General customers

VII. Company Development Prospects

Perspective plan of Company's development is based on the energy balance of Georgia, approved by the Decision №3190 of the Parliament of Georgia "On Basic Directions of the State Policy in Power Sector of Georgia" of June 7, 2006, which takes into account effect of investment program and comprises achievement of the following financial and economic parameters:

№№	Name of Index	Meas. unit	2011	2012	2013	2014	2015
			Project	Progn.	Progn.	Progn.	Progn.
1	2	3	4	5	6	7	8
1	Revenue (net) from sales of goods, works, services	thous. GEL	230,306	235,521	240,838	246,557	252,412
2	Imputed-variable expenses	thous. GEL	110,430	109,602	116,784	121,473	125,032
3	Marginal revenues	thous. GEL	119,876	125,919	124,054	125,084	127,381
4	Imputed fixed expenses less depreciation	thous. GEL	71,453	68,611	69,633	69,633	69,633
5	Profit from sales less depreciation	thous. GEL	48,423	57,307	54,421	55,451	57,748
6	Depreciation	thous. GEL	10,655	10,655	10,655	10,655	10,655
7	Profit (loss) from sales	thous. GEL	37,768	46,653	43,766	44,796	47,093
8	Interests receivable	thous. GEL	621	121	121	121	121
9	Interests payable	thous. GEL	(9,952)	(9,436)	(9,303)	(9,063)	(8,825)
10	Other operational and non-operational profit	thous. GEL	2	98	98	98	98
11	Other operational and non-operational expenses	thous. GEL	(12,424)	(4,496)	(9,680)	(5,550)	(5,429)
12	Profit (loss) before taxation	thous. GEL	16,016	32,939	25,002	30,402	33,057
13	Income tax	thous. GEL	4,944	(5,767)	(5,571)	(6,216)	(6,442)
14	Reference: income tax rate,%	%	15	15	15	15	15
15	Net profit (loss)	thous. GEL	20,960	27,172	19,432	24,186	26,615

In 2011-2015 Company plans to implement the following investment projects and capital works for the total amount of GEL 89,059.64 thous.

VIII. Investment Activity

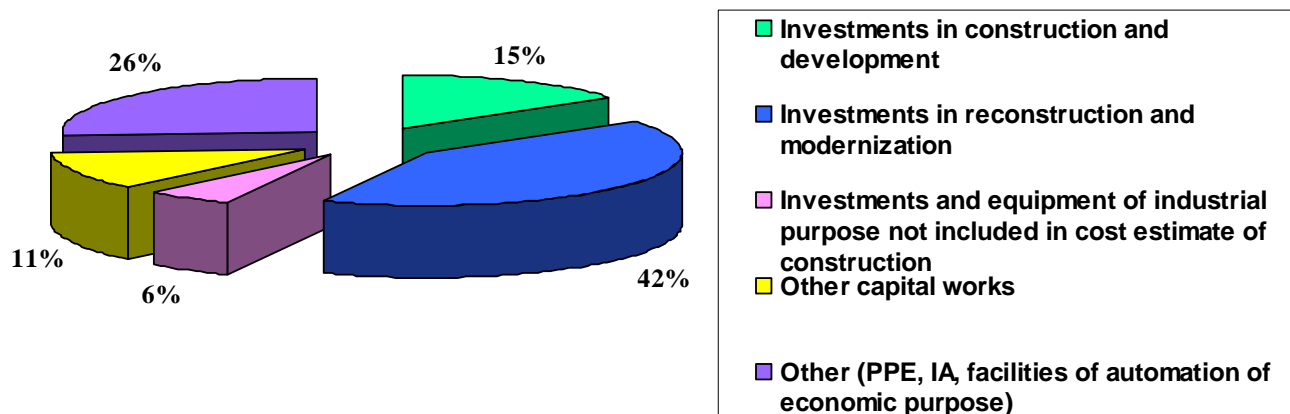
Company works out its investment policy on the assumption of the principles of economic efficacy and suitability. The main directions of Company's investment activity are as follows: decrease of commercial losses, decrease of breakdown rate, increase of reliability and security of electric grid and expansion of industrial capacity.

In 2010 investments of Company made GEL 30,720 thous., that is GEL 7,855 thous. more than was planned.

8.1. Quantity and Structure of Capital Inputs in 2010

(thous.GEL)

№№	Name	Plan	Fact	Deviation	
				(+/-)	%
1	2	3	4	5	6
1	Investments in construction and expansion	1,704	4,571	2,867	168
2	Investments in reconstruction and modernization	12,086	12,862	776	6
3	Investments and equipment of industrial appointment not included in the construction cost estimate	1,225	1,721	496	40
4	Other capital works	3,492	3,445	(47)	(1)
5	Investments in non-industrial field	51	-	(51)	(100)
6	Other (PPE, IA, facilities of automation of economic purpose)	4,308	8,121	3,813	89
	Total investments in capital assets	22,865	30,720	7,855	34



8.2. Data on Putting of Main Facilities into Operation in 2010

In 2010 setting into operation of PPE according to investments in fixed capital amounted to GEL 31,380 thous. against GEL 24,760 thous. as planned.

Description of performed works:

Investments in residential sector. In 2010 actual expenses of Company amounted to GEL 3,143 thous., that is by GEL 1,448 thous. more than planned. This amount includes the following projects:

- | | |
|---|------------------|
| ▪ Installation of metering units | GEL 41 thous. |
| ▪ Mounting of self-bearing isolated cable | GEL 68 thous. |
| ▪ Removal of cables from basements | GEL 35 thous. |
| ▪ ASMME | GEL 2,999 thous. |

Investments in high-voltage and low-voltage grids. In the reporting period actual expenses of the Company amounted to GEL 9,719 thous. that is GEL 672 thous. less than planned.

Capital works. In the reporting period actual expenses of Company amounted to GEL 3,445 thous., that is by 47 thous. less than planned. This amount includes the following:

- | | |
|---|------------------|
| ▪ Energy repair production in HV and LV grids | GEL 549 thous. |
| ▪ Energy repair production (ASMME) | GEL 0.01 thous. |
| ▪ Rehabilitation of metering units | GEL 1,416 thous. |
| ▪ Other capital works (technical part) | GEL 777 thous. |
| ▪ Other capital works (economic part) | GEL 704 thous. |

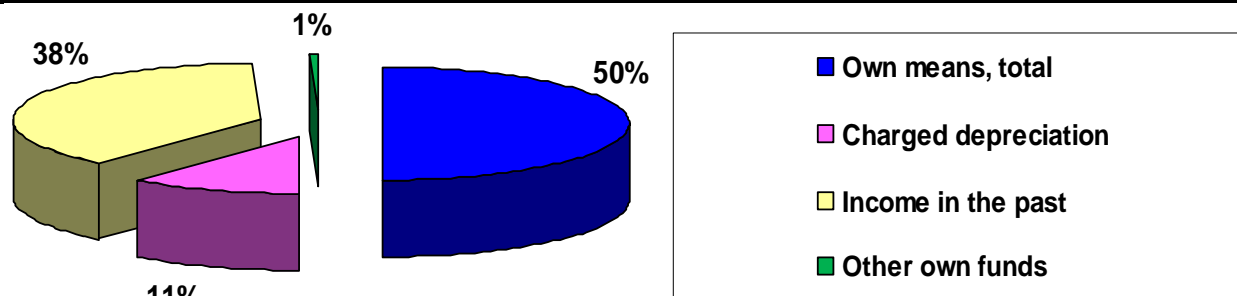
Other investments in PPE and IA. In the reporting period actual expenses of the Company amounted to GEL 8,121 thous. that is GEL 3,813 thous. more than was planned.

8.3. Sources of Investment Activity Funding in 2010

In 2010 the sources of funding of projects and works were Company's own resources. The table below presents the structure of funding of investments.

(thous. GEL)

№№	Name of item	Plan	Fact	Deviation	
				(+/-)	%
1	2	3	4	5	6
1	Own funds, total	22,865	30,720	7,690	34
	including:				
1.1	Accrued depreciation	7,313	6,975	(338)	(5)
1.2	Income in the past	15,552	23,358	7,806	50
1.3	Other own funds	-	387	387	-



8.4. Aims and Tasks of Investment Activity in 2011-2015

In the forthcoming 5 years Company plans implementation of the following investment projects:

№№	Investment project	Estimated volumes of funding per year (thous. GEL)					
		Total	Including years:				
			2011	2012	2013	2014	2015
1	2	3	4	5	6	7	8
1	Technical modernization and reconstruction	40 251	6 795	8 364	8 364	8364	8 364
2	New construction and development	11 600	3 464	2 034	2 034	2034	2 034
3	Other investments as capital inputs	20 926	7 366	3 390	3 390	3390	3 390
4	Other works of capital nature	16 282	3 418	3 216	3 216	3216	3 216
	TOTAL	89 059	21 043	17 004	17 004	17004	17 004

IX. Purchasing Activity

9.1. General Information. Organization of Purchasing Activity

Purchasing activity of the Company is guided by the Regulations on Restricted Purchases of Goods, Works, Services for the Needs of JSC "Telasi" (approved by the Supervisory Board of JSC "Telasi" on March 31, 2005, Minutes №21) and Regulations on the Business Process of Organization and Control of the Purchasing Activity of JSC "Telasi" (approved by the Supervisory Board of JSC "Telasi" on August 14, 2009).

The regulations ensure the organization of purchases of goods, works and services on uniform methodical base, with application of modern competitive forms of purchases, mainly on the competitive basis.

Members of the Central Tender Commission which in the reporting period executed the functions of a central purchasing body were approved by the Company Supervisory Board (Minutes №7 of April 17, 2009).

As per decision of the Supervisory Board (Minutes №3 of June 30, 2006) the following newspapers were chosen for publication on the performed purchases: “Rezonansi”, “Alia” and “Svobodnaya Gruzia”, as well as the Company’s site www.telasi.ge.

Separate structural subdivision of the Company – Department of Logistics deals with the arrangement and conclusion of transactions on restricted purchases of goods, works and services.

In special cases at conducting tender and restricted out-of-tender purchases, Company invites consultants.

In its purchasing activity Company does not use Internet technologies (e-commerce).

9.2. Information on Purchases in 2010

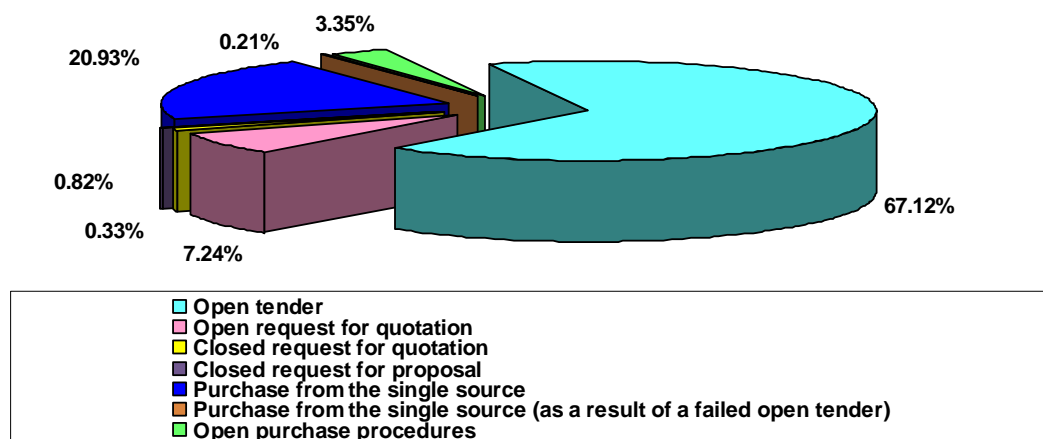
In 2010 purchases were performed on the basis of approved Annual Complex Program of Purchases. 160 tenders and restricted out-of-tender purchases were carried out.

Total volume of actual expenses for purchase of goods, works, services for JSC “Telasi” needs in 2010 made GEL 46,846 thous., amongst them GEL 31,507 thous. (67% from total volume of actual purchases) were expenses on tender purchases, and GEL 15,339 thous. (33% from the total volume of actual purchases) were expenses for restricted out-of-tender purchases. The table below represents the report of fulfillment of the Annual Complex Program of Purchases for 2010:

Structure of Restricted Purchases by Categories for 2010

№№	Name	Quantity	Total value of purchases incl. VAT (thous. GEL)	% from total amount of purchases
1	Open tender	59	31,507	67.3
2	Open request for quotation	54	3,388	7.2
3	Closed request for quotation	16	392	0.8
4	Open request for proposal	-	-	-
5	Closed request for proposal	1	155	0.3
6	Purchase from the single source	26	9,745	20.8
7	Purchase from the single source (as a result of a failed open tender)	1	100	0.2
8	Open purchase procedures *	3	1,559	3.4
	Total	160	46,846	100

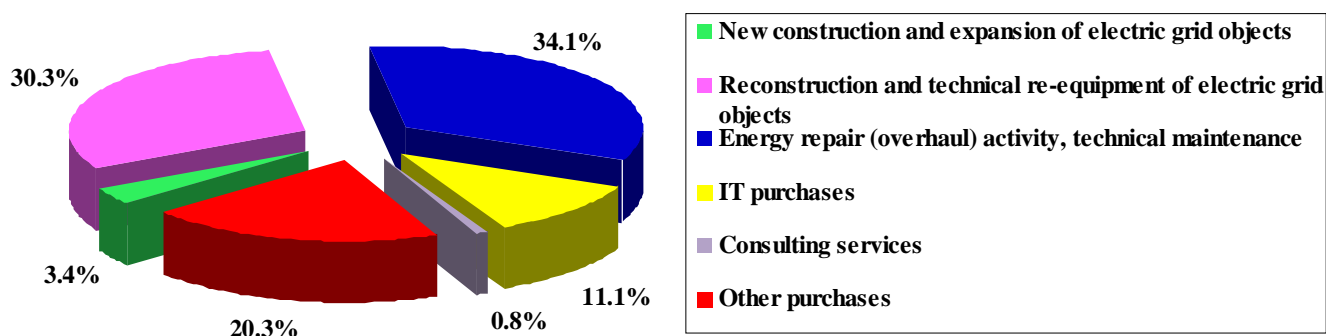
Structure of Restricted Purchases by Categories



Structure of Restricted Purchases by Fields of Activity for 2010

№№	Name	Total value of purchases incl. VAT (thous.GEL)	% from total amount of purchases
1	2	3	4
1	New construction and expansion of electric grid objects	1, 590	3.4
2	Reconstruction and technical re-equipment of electric grid objects	14, 218	30.3
3	Energy repair (overhaul) activity, technical maintenance	15, 961	34.1
4	IT purchases	5, 189	11.1
5	Research and development (R&D)	-	-
6	Consulting services **	385	0.8
7	Services of an appraiser ***	-	-
8	Other purchases	9,503	20.3
Total		46, 846	100

Structure of Restricted Purchases by Fields of Activity



X. Description of Main Risk Factors in Company Activity

The principal activity of JSC “Telasi” is distribution of electric power to customers and network services (electric power transmission) in Tbilisi. Therefore, at this moment the JSC “Telasi” has no competitors, and they are not expected to emerge in the nearest future. Possible risks in activity of Company that may affect the Company activity and ways of mitigation and/or minimization of the specified risks negative influence are as follows:

Branch-wise Risks. The risk of unreasonable regulation of tariffs by the state. The risk related to possibility of approval by the Georgian National Energy and Water Supply Regulation Commission (GNEWSRC) of tariffs, inadequate to the costs of Company. Company carries out regular work with the GNEWSRC for prevention of the given risk.

Country and Regional Risks. The risks connected with changes in Georgian legislation, tax policy and state regulation conditions are attributed to the country and regional risks. During the reporting period there were no changes in the tax regulation that could affect the financial position of JSC “Telasi”. Taking into consideration stable political and economic development during the last years in Tbilisi and in the country as a whole, Company has not incurred any significant country and regional risks.

At present there are no preconditions for the negative changes concerning Company in the legislation of Georgia, tax policy and conditions of state regulation. Economic development of Tbilisi, influencing financial and economic activities and return of operations of JSC “Telasi”, basically, is favorable.

There are no risks in the region with respect to possible military conflicts, introduction of the state of emergency and industrial actions.

The risks related to geographical features of the region, are estimated as insignificant, there is no heightened danger of natural disasters. To decrease these risks, power complex is tested on the regular basis, as well as works for protection from consequences of breakdowns, accidents and natural disasters are conducted.

Financial Risks. In the course of its activities, Company is exposed to various factors of financial risks, including the influence of changes in the exchange rate of foreign currency, interest rates, breach of conditions of credit agreements. .

- *Risks Related to Fluctuations in Interest Rates.* Income and cash flow, basically, per se do not depend on fluctuations in the market interest rates. Company is exposed to the interest rate risk due to the fluctuations of market value of long-term credits with interest rate. Reinforcement of Company's positions in the market requires considerable extra investments. In order to satisfy its investment requirements, Company shall need to attract additional financing. Increase of interest rates in the market may compel Company to involve more expensive cash means for funding of its investment program and day-to-day operation. If Company is unable to obtain sufficient means on commercially beneficial conditions, it will be probably compelled to reduce development expenses that could negatively affect its financial and economic activities. At the same time, increase of the interest rates shall reduce costs of services in real expression of already existing loans with the fixed rates. The interest rate in attracted bank credits in 2010 has been 14%-15%.

- *Risks Related to Conditions of Credit Agreement.* The management of Company considers that the risk of non-observance of the conditions of credit agreements in the future is unlikely.

- *Inflation and Exchange Rate.* The Government of Georgia together with the National Bank of Georgia pursues the tough monetary policy for retention of inflation in the range of parameters, provided for in the state budget against the background of maintaining the positive balance of payments. Company is exposed to the currency risk in connection with purchases and credits, expressed in currency other than GEL. The currency giving start to such risk is first of all the US dollar. Company does not hedge the exchange rate risk. One of the directions in state monetary policy is maintenance of the low exchange rate of national currency with respect to leading world currencies. The table below represents the dynamics of GEL exchange rate against the USD during the reporting period:

Month	Plan	Fact	Month	Plan	Fact
January	1.6500	1.7415	July	1.6500	1.8391
February	1.6500	1.7360	August	1.6500	1.8330
March	1.6500	1.7494	September	1.6500	1.7591
April	1.6500	1.7738	October	1.6500	1.7780
May	1.6500	1.7847	November	1.6500	1.7528
June	1.6500	1.8442	December	1.6500	1.7728

Legal Risks. Legal risks may arise as a result of changing the state regulation in the tax and currency field, as well as in the customs legislation. Company management considers that changes in state regulation of tax and currency fields, as well as customs legislation in the nearest future is unlikely.

Paying Ability of Population. The growth trend observed during the last years in production and reduction of unemployment rate is favorably reflected on the increase of the general money stock.

Risks Related to Company Activities:

- *Risks Related to Current Judicial Proceedings in which Company Participates.* At present Company participates in the judicial proceedings that may result in risks related to Company's activities.

- *Risks Related to Lack of Capability to Extend Duration of License of Company for Conduct of Certain Kind of Activities or Use of Objects Turnover of which is Limited (Including Natural*

Resources). Where Company is not able to obtain/extend the license required for its further operations, it shall have an insignificant effect upon its operations. Probability of such events is small.

- Risks Related to Contingent Liabilities of Company for Debts of Third Parties, amongst for Subsidiaries. The risks of occurrence of liabilities for debts of subsidiaries and associated companies are absent.

- Other Risks Related to Company's Operations. Income of Company is exposed to seasonal fluctuations (actual load is changed seasonally). As a result there is a risk of considerable cash gap in Q1 and Q4. Company does not hedge seasonal risks.

Constructive relations with the Ministry of Energy of Georgia, Georgian National Energy and Water Supply Regulation Commission (GNEWSRC) and Tbilisi Administration, availability of the developed electric grid structure, good knowledge of energy consumers market, positive credit history of the Company, qualified personnel, experience in management of expenses, experience in funding of investment programs enables Company to carry out its operations in accordance with the modern requirements of the electrical power engineering.

XI. Report on the Payment of Announced (Distributed) Dividends on Company's Shares

According to the article 6, clause 6.3 subparagraph 5 of Company Articles of Association shareholders are entitled to receive the dividends declared by Company.

For the last three completed fiscal years the dividends weren't paid by decisions of Company Annual Shareholders Meetings. All the net profit of Company was directed on repayment of the last years' losses.

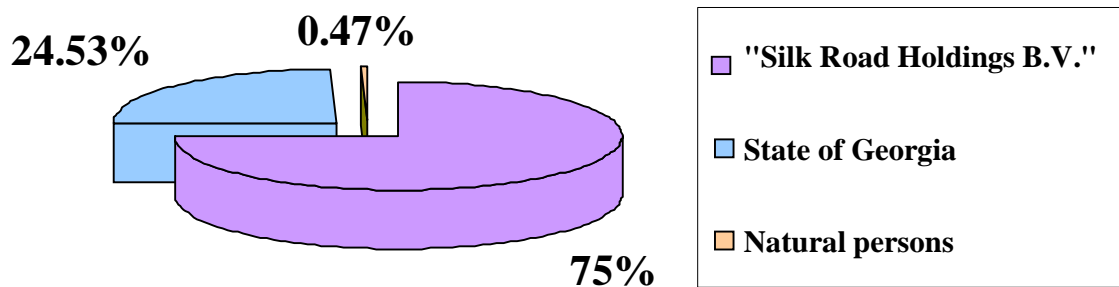
In 2010 JSC "Telasi" has managed to provide functioning of Company with the net profit in amount of GEL 48,356 thous. Decision on distribution of profit and payment of dividends to the shareholders of JSC "Telasi" following the results of 2010 will be accepted at Company Annual Stockholders Meeting which will take place on June, 28th, 2011.

XII. Structure of Company Share Capital

Share capital of Company makes GEL 81 147 886 and consists of 81 147 886 common shares with a par value of GEL1 (one) each.

General structure of the share capital as at December 31, 2010 is as follows:

Rank of securities	Name, Surname of the beneficiary-owner	Amount in ownership and type of ownership	Percentage of securities in ownership
1	2	3	4
Common stock	"Silk Road Holdings B.V." – the Netherlands	GEL 60 861 452.00 type of ownership - shares	75.0
Common stock	State (Georgia) – Ministry of Energy of Georgia (with management right) Tbilisi	GEL 19 904 783.00 type of ownership - shares	24.53
Common stock	Natural persons	GEL 381 651.00 type of ownership - shares	0.47
TOTAL		81 147 886 shares	100



Trading with the Securities of Company

“Silk Road Holdings B.V.” and “Agency of State Property Management” of the Ministry of Economic Development of Georgia and since 29.12.2010 - Ministry of Energy of Georgia on behalf of the State (Georgia) during the reporting period did not participate in trading at the Georgian stock exchange. The table below represents data of participation in the trading of securities owned by 2 186 shareholders (legal and natural persons):

Name of Index	2008				2009			2010		
	Q1	Q2	Q3	Q4	Q 1-2	Q 3	Q 4	Q 1	Q 2	Q 3-4
Highest price at trading for 1 share (GEL)	1,15	1,1	0,8	-	-	0,70	-	1,0	1,0	-
Lowest price at trading for 1 share (GEL)	1,0	1,0	0,8	-	-	0,70	-	1,0	1,0	-
Number of shares, participating in trading (thous. shares)	0,75	2,1	16	-	-	0,60	-	0,150	0,300	-

Total number of securities, owned by the natural persons, participating in the trading at the Georgian stock exchange in 2008 – 2010 was 19 900 shares, including:

- 2008 - 18850 shares,
- 2009 - 600 shares
- 2010 - 450 shares

The principal shareholders as of December, 31, 2010 are:

№№	Shareholder	Shares in ownership (pieces)	% from authorized capital	% from voting shares
	“Silk Road Holdings B.V.” – the Netherlands	60,861,452	75.00066	75.00066
	Ministry of Energy of Georgia (with managing right)	19,904,783	24.52902	24.52902
	Sevelevitsius Giedrius	16,000	0.01972	0.01972
	JSC AO "Central Depository of Securities of Georgia"	13,142	0.01620	0.01620
	Chigogidze Zurab	10,000	0.01232	0.01232
	Khrkats Alexander	7,650	0.00943	0.00943
	Mikadze Nikoloz	2,970	0.00366	0.00366
	Avaliani Irakli	2,000	0.00246	0.00246
	Aladashvili Ketevan	2,000	0.00246	0.00246
	Tkernaladze Irakli	2,000	0.00246	0.00246

EXTRACT FROM REGISTER

INDEPENDENT REGISTRAR OF SECURITIES



საქართველოს რეგისტრირებული
GEORGIAN REGISTRAR

“UNITED SECURITIES REGISTRAR OF GEORGIA” JSC

(License #70006)

Address: 74a, I. Chavchavadze av., Tbilisi
Phone: 22-53-51; 890-115-100; Fax: 25-15-60; Email: info@usr.ge

This document certifies that in accordance with the stock
register of Joint Stock Company

“TELASI”

(the capital stock: 81 147 886 GEL,
number of stocks - 81 147 886
nominal value of a share: 1GEL)
(address: #3 Vani str., Tbilisi, Georgia)

According to share register, the shareholders by the state
of December 31th 2010, hold:

Silk Road Holdings B.V. – on personal account # 192-00318 with property rights
holds 60 861 452 (sixty million eight hundred and sixty one thousand four hundred and
fifty two) common shares, 75.0007 % of chartered capital.

Ministry of Energy of Georgia– on personal account # 192-02405 with right of
direct holds 19 904 783 (nineteen million nine hundred and four thousand seven hundred
and eighty three) common shares, 24.529 % of chartered capital.

The rest 2 184 shareholders - on personal accounts with property rights hold 381
651 (three hundred and eighty one thousand six hundred and fifty one) common shares,
0.47 % of chartered capital.

Empowered person of Registrar: _____

Date of issue of the extract: **December 31, 2010**

This extract from the register does not represent a security. This is only a document which confirms
that, at the moment of its issuance, the above mentioned person is registered in the register and the
securities indicated in the extract, are reckoned on its personal account.

For transferring the whole number or part of securities indicated in the extract, the following actions
are necessary to be performed:

1. The certified transfer order must be produced to the registrar.
2. If there are materialized securities or certificates, they must be produced to the registrar with the
transfer order.
3. It is not obligatory to produce the extract from register to the registrar.

XIII. Members of the Supervisory Board of Company

Supervisory Board of the JSC "Telasi" as at December 31, 2010:

1. Zavrazhnov Andrey Aleksandrovich – Chairman of the Supervisory Board
2. Chincharauli Temur – Deputy Chairman of the Supervisory Board
3. Ishkhneli Lasha – Member of the Supervisory Board
4. Tolstoguzov Sergey Nikolaevich – Member of the Supervisory Board
5. Bobrishev Mikhail Vasilievich – Member of the Supervisory Board
6. Salimova Natalia Vladimirovna – Member of the Supervisory Board

In 2009 according to the decision of the General Meeting of Shareholders of 29.06.2010, Tolstoguzov Sergey Nikolaevich – was elected as a member of the JSC "Telasi" Supervisory Board:

Information on Members of the Supervisory Board of JSC "Telasi"

Zavrazhnov Andrey Aleksandrovich – Chairman of the Supervisory Board



Date of birth:	1966
Nationality:	RF
Principal place of business:	OJSC "Inter RAO UES"
Education:	Higher education, Moscow Institute of Steel & Alloys
Job title:	Head of Geographical Division "Transcaucasia, Turkey & Middle East" OJSC "Inter RAO UES"

Date of the first election in the Supervisory Board	24.12.2009
Share in the authorized capital of Company, %	0
Number of the JSC "Telasi" shares in ownership %	0
Information on transactions between the Supervisory Board member and Company	No transactions were performed
Information on claims against the Supervisory Board member	No claims were declared

Chincharauli Temur Grigorievich – Deputy Chairman of the Supervisory Board



Date of birth:	1944
Nationality:	Georgia
Principal place of business:	Georgian Technical University
Education:	Higher education, Georgian State Polytechnic Institute
Job title:	Professor of the Georgian Technical University

Date of the first election in the Supervisory Board	15.12.1998
Share in the authorized capital of Company, %	0
Number of the JSC "Telasi" shares in ownership %	0
Information on transactions between the Supervisory Board member and Company	No transactions were performed
Information on claims against the Supervisory Board member	No claims were declared

Tolstoguzov Sergey Nikolaevich - Member of the Supervisory Board



Date of birth: 1964
Nationality: RF
Principal place of business: OJSC "Inter RAO UES"
Education: Higher education, Magnitogorsk G.I. Nosov Mining & Smelting Institute
Job title: Member of the Management Board, Head of Assets Block Management OJSC "Inter RAO UES"

Date of the first election in the Supervisory Board 10.08.2007
Share in the authorized capital of Company, % 0
Number of the JSC "Telasi" shares in ownership % 0
Information on transactions between the Supervisory Board member and Company No transactions were performed
Information on claims against the Supervisory Board member No claims were declared

Bobrishev Mikhail Vasilievich - Member of the Supervisory Board



Date of birth: 1973
Nationality: RF
Principal place of business: OJSC "Inter RAO UES"
Education: Higher education, Moscow State Law Academy
Job title: Deputy Head of Geographical Division "Transcaucasia, Turkey & Middle East" - Head of Management & Development Department OJSC "Inter RAO UES"

Date of the first election in the Supervisory Board 24.12.2009
Share in the authorized capital of Company, % 0
Number of the JSC "Telasi" shares in ownership % 0
Information on transactions between the Supervisory Board member and Company No transactions were performed
Information on claims against the Supervisory Board member No claims were declared

Ishkhneli Lasha - Member of the Supervisory Board



Date of birth: 1971
Nationality: Georgia
Principal place of business: "Post of Georgia", LLC
Education: Higher education, Juilliard School, USA
Job title: Director General of "Post of Georgia" LLC

Date of the first election in the Supervisory Board 11.03.2009
Share in the authorized capital of Company, % 0
Number of the JSC "Telasi" shares in ownership % 0
Information on transactions between the Supervisory Board member and Company No transactions were performed
Information on claims against the Supervisory Board member No claims were declared

Salimova Natalia Vladimirovna - Member of the Supervisory Board



Date of birth: 1978
Nationality: RF
Principal place of business: OJSC "Inter RAO UES"
Education: Higher education, Moscow State Institute of Economics, Statistics & Information
Job title: Head of Corporate Governance Management Board of Corporate & Property Relations Block OJSC "Inter RAO UES"

Date of the first election in the Supervisory Board 24.12.2009
Share in the authorized capital of Company, % 0
Number of the JSC "Telasi" shares in ownership % 0
Information on transactions between the Supervisory Board member and Company No transactions were performed
Information on claims against the Supervisory Board member No claims were declared

Vagner Alexander Evgenievich was also member of the Supervisory Board from 01.01.2010 until 29.06.2010.

Information on Members of the Supervisory Board from January 01, 2010 until January 29, 2010

Vagner Aleksandr Evgenievich - Member of the Supervisory Board



Date of birth: 1965
Nationality: RF
Principal place of business: OJSC "Inter RAO UES"
Education: Higher education, Grozno Oil Institute
Job title: Head of Fuel & Resources Provision Department of the Assets Management Block OJSC "Inter RAO UES"

Date of the first election in the Supervisory Board 11.03.2009
Share in the authorized capital of Company, % 0
Number of the JSC "Telasi" shares in ownership % 0
Information on transactions between the Supervisory Board member and Company No transactions were performed
Information on claims against the Supervisory Board member No claims were declared

In 2010 members of the Supervisory Board of Company did not conclude any deals with the shares of Company.

XIV. Information on Members of Executive Directorate

In accordance with the Articles of Association of Company, the authority of a sole executive body rests with the Director General. The collective executive body is not stipulated.

Director General administers current activity of Company, day-by-day management of Company and holds representative powers of Company. Supervisory Board concludes with the Director General labor contract discretely providing for the limits of powers, rights and liabilities of a Director General. Functions of a Director General cannot be transferred to the Supervisory Board.

As per decision of the Supervisory Board of October 27, 2005, Minutes № 10, Mr. Pimonov Yury Pavlovich was appointed Company's Director General.

Executive Directorate of JSC "Telasi" as at 31.12.2009:

1. Pimonov Yury Pavlovich – Director General
2. Kobalia Mamuka Igorevich – Head of Technical & Investment Activities Office, Technical Director
3. Oganesyanyan Eduard Sergeevich – Head of Financial Activities Office, Financial Director
4. Kartvelishvili David Yurievich – Head of Commercial Activities Office, Commercial Director
5. Dzneladze Vladimir Shotaevich – Head of Procurement & General Service Office, Logistics Director
6. Kakulia Soso Vakhtangovich – Head of Organizational Development & Corporate Management Office, Corporate Director
7. Shatyrov Vladimir Leonidovich – Head of Security & Guards Office, Security Director

Information on the Director General and Members of the Executive Directorate

Pimonov Yury Pavlovich – Director General



Date of birth:	1955
Nationality:	RF
Principal place of business:	JSC "Telasi"
Education:	Higher education, Novochoerkask Polytechnic Institute
Job title:	Director General
Date of the first appointment on position of the sole executive board	27.10.2005

Share in the authorized capital of Company, %	0
Number of the JSC "Telasi" shares in ownership %	0

Kobalia Mamuka Igorevich – Technical Director



Date of birth:	1963
Natioality:	Georgia
Principal place of business:	JSC "Telasi"
Education:	Higher education, Georgian Polytechnical Institute
Job title:	Technical Director
Date of the first appointment on position of the sole executive board	17.11.2006

Share in the authorized capital of Company, %	0
Number of the JSC "Telasi" shares in ownership %	0

Oganesyanyan Eduard Sergeevich – Financial Director



Date of birth: 1974
Nationality: Georgia
Principal place of business: JSC “Telasi”
Higher education, Georgian
Education: Technical Institute
Job title: Financial Director
Date of the first appointment on position
of the sole executive board 10.09.2007
Share in the authorized capital of Company, % 0
Number of the JSC “Telasi” shares in ownership % 0

Kartvelishvili David Yurievich – Commercial Director



Date of birth: 1973
Nationality: Georgia
Principal place of business: JSC “Telasi”
Higher education, Georgian State
Education: University
Commercial Director
Job title: Commercial Director
Date of the first appointment on position
of the sole executive board 01.11.2006
Share in the authorized capital of Company, % 0
Number of the JSC “Telasi” shares in ownership % 0

Dzneladze Vladimir Shotaevich – Logistics Director



Date of birth: 1970
Nationality: Georgia
Principal place of business: JSC “Telasi”
Higher education, Tbilisi
Education: Independent Institute “Egrisi”
Job title: Logistics Director
Date of the first appointment on position
of the sole executive board 03.01.2007
Share in the authorized capital of Company, % 0
Number of the JSC “Telasi” shares in ownership % 0

Kakulia Soso Vakhtangovich – Corporate Director



Date of birth:	1950
Nationality:	Georgia
Principal place of business:	JSC “Telasi”
Education:	Higher education, Moscow Energetics Institute
Job title:	Corporate Director
Date of the first appointment on position of the sole executive board	04.03.2009
Share in the authorized capital of Company, %	0
Number of the JSC “Telasi” shares in ownership %	0

Shatyrov Vladimir Leonidovich – Security Director



Date of birth:	1953
Nationality:	RF
Principal place of business:	JSC «Telasi»
Education:	Higher education, S.M. Kirov Caspian Higher Military & Naval Academy
Job title:	Security Director
Date of the first appointment on position of the sole executive board	17.05.2007
Share in the authorized capital of Company, %	0
Number of the JSC “Telasi” shares in ownership %	0

In 2010 members of the Company Executive Office did not conclude any deals with the shares of Company.

XV. Criteria of Fixing the Amount of Remuneration Payable to the Members of the Company Control Bodies

Principal criteria of fixing the amount of remuneration paid to the members of the JSC “Telasi” control bodies of are:

- for members of the Company Supervisory Board: participation in the work of the Supervisory Board, irrespective of the form of its holding and extra fee in case of decision of Shareholders Annual General Meeting on payment of dividends following the results of a fiscal year are determined by the Regulations on Remunerations and Compensations of the Members of Supervisory Board of JSC “Telasi” approved by the Shareholders Extraordinary General Meeting of March 11, 2009. The expenses connected with participation in the Supervisory Board sessions are compensated to a member of the Supervisory Board according to the established in Company norms of travel and accommodation expenses compensation.

- for Director General and top managers: execution of official duties as well as fulfillment of quarter and annual KIEs by the Company. Procedure of fixing, approving and changing of the size of executive salaries; requirements for granting bonuses and its types; rule of calculation of bonuses; terms and conditions for granting bonuses; procedure of taking decisions is determined by the Regulations on Material Incentives of Director General and other Top Managers of JSC “Telasi” approved by the Company Supervisory Board on 16.08.2010, Minutes № 27.

XVI. Description of the Company Internal Control System

The Company internal control system has been created with the purpose of conducting regular control over the financial and economic operations of Company, its separate subdivisions, officials of the control bodies and structural subdivisions of executive personnel on the issue of compliance with the legislation of Georgia, Articles of Association and internal documents of Company, and includes the Audit Commission (Auditor), the Audit Committee of the Supervisory Board and internal audit service (Department of Internal Audit).

Audit Committee of the Supervisory Board. Audit Committee of the Company Supervisory Board was created by the decision of the Company Supervisory Board (Minutes №20 of 03.03.2010) aiming at in-depth study of individual cases and development of corresponding recommendations to the Company Supervisory Board intended for execution of supervising duties by the Supervisory Body by means of supervision and control over:

- Process and procedures of preparation of reporting by executive bodies of Company;
- Efficiency of internal control and risks management systems
- Work of external and internal auditors;
- Observance of the legislation and corporate standards.

One of the main functions of Committee is the development of recommendations for selection of independent audit company as well as interaction with the Audit Committee of Company and audit organization (auditor) of Company.

The Audit Committee by commission of the Supervisory Board may participate in discussions of Company strategy and business plans, budgets, large investment projects, other important issues.

The Audit Committee in its activity is accountable to the Supervisory Board of Company and operates within the limits of the powers given to Committee by the Supervisory Board of Company.

All decisions elaborated by Committee, are recommendations directed for consideration to the Company Supervisory Board.

The basic documents regulating activity of the Audit Committee are: Articles of Association of Company, Regulations on Audit Committee of the Supervisory Board of Company (approved by decision of the Supervisory Board of Company, Minutes № 23 of May 21, 2010) and other internal documents of Company approved by General Meeting of Shareholders and the Supervisory Board of Company.

Structure of Audit Committee of the Supervisory Board of JSC "Telasi":

Chairman of Committee – Abramkov Alexander Evgenievich	Head of Internal Audit, Controlling & Risk Management Block of OJSC “Inter RAO UES”, is not an independent director.
Member of Committee - Badenkov Anton Yurievich	Adviser of Chairman of Directorate of OJSC “Inter RAO UES”, is not an independent director.
Member of Committee - Ivanova Elena Fiodorovna	Head of Financial Audit Management of the Internal Audit Department of the Internal Audit, Controlling and Risk Management Block of OJSC “Inter RAO UES” is not an independent director.

Members of the Supervisory Board of Company aren't included into the structure of Audit Committee.

During the reporting period four sessions of Audit Committee were held on: 16.04.2010, 31.05.2010, 20.08.2010 and 29.11.2010, where 11 issues have been considered.

Audit Commission (Auditor) of Company. The Audit Commission is a standing body of Company internal control, carrying out the regular control over financial and economic operations of Company, its separate subdivisions, officials of the control bodies and structural divisions of the

executive personnel of Company on the issue of compliance with the legislation of Georgia, Articles of Association and internal documents of Company.

The Audit Commission acts in the interests of the Company shareholders and is accountable to the Company Shareholders General Meeting. During his activities the Auditor is independent of control bodies officials and heads of structural subdivisions of the executive personnel of Company.

The main tasks of the special Audit Commission are as follows:

- Control of financial and economic operations of Company;
- Supervision over compliance of the financial and economic operations of Company with legislation of Georgia and Articles of Association of Company;
- Independent assessment of information on financial performance of Company.

The basic documents, regulating activities of the Accountant, are Company Articles of Association, Regulations on Audit Commission (Auditor) of Company, Regulations on Paying Remunerations and Compensations to Audit Commission (Auditor) of Company and other internal documents approved by the Meeting of Shareholders.

For participation in the audit of financial and economic operations of Company the lump-sum is paid to the members of Audit Commission. For each audit of financial and economic operations of Company performed, the members of Audit Commission may be paid extra remuneration under the resolution of the Supervisory Board of Company.

Payment of remuneration and compensations to external specialists (experts) involved by the Auditor that are not members of the commission is performed by Company on the basis of contracts concluded with Company. Conditions of such contracts are approved by the Supervisory Board of Company.

A member of Audit Commission (Auditor) is refunded for expenses connected with participation in the sessions of the commission and conduct of audits.

The Audit Commission (Auditor) of Company – Ivanova Elena Fiodorovna, Head of Financial Audit Management of the Internal Audit Department of the Internal Audit, Controlling and Risk Management Block of OJSC «Inter RAO UES» was elected by the Extraordinary Meeting of Shareholders, held on 25.03.2010

Internal Audit Department of Company. The Internal Audit Department of Company has been created for daily internal control over the rules of performance of all the economic operations that permits to promptly reveal, prevent and minimize financial and operational risks, as well as facts of abusive acts by Company officials. The internal control facilitates the regular reduction of Company costs and efficient control of its resources.

The basic documents, regulating activities of the Department of Internal Audit of Company are Regulations on Department of Internal Audit and internal documents approved by the Meeting of Shareholders and Supervisory Board of Company.

The purpose of the control system over financial and economic operations of Company is to ensure the exact execution of financial and economic plan. The Supervisory Board of Company quarterly considers and approves the reports of the Director General on results of operations and reports on fulfillment of business-plan enabling to promptly trace financial rates of economic activities and supervise the quality of Company business management. In addition, the Supervisory Board approves the quarter and annual key efficiency indices of Company and their execution reports.

The Department of Internal Audit of Company has been created for daily internal control over the rules of performance of all the economic operations that permits to promptly reveal, prevent and minimize financial and operational risks, as well as facts of abusive acts by Company officials. The internal control facilitates the regular reduction of Company costs and efficient control of its resources.

The purpose of the control system over financial and economic operations of Company is to ensure the exact execution of financial and economic plan. The Supervisory Board of Company quarterly considers and approves the reports of the Director General on results of operations and reports on fulfillment of business-plan enabling to promptly trace financial rates of economic activities and

supervise the quality of Company business management. In addition, the Supervisory Board approves the quarter and annual key efficiency indices of Company and their execution reports.

XVII. Personnel and Social Policy. Social Partnership

Human resource policy of JSC “Telasi” is a constituent part of management activity and production strategy of Company.

The priority directions of the human resource policy of JSC “Telasi” is planning and administration of a non-stop professional education of the employees of Company, including preparation and retraining of personnel and improvement of professional skills, as well as labor safety issues.

Training of the personnel is based on the individual plans of study aiming at acquisition by an employee of new body of knowledge on important directions for Company, development of skills for resolution of concrete situations in the working process and getting experience of behavior in the professionally sensitive situations. The main purpose of this program is to prepare employees for execution of more complex professional functions and responsibilities, to claim new positions, to bridge a gap between requirements to the employee and the skills of a real specialist or manager (professional development).

Based on the worked up Program of Training, Professional Development and Education of the Personnel of Company, in 2010 employees were trained on the following directions:

- improvement of the Company management,
- legal support of Company,
- economic issues of the Company activity,
- financial issues,
- accounting and taxation,
- industrial issues,
- information technologies,
- HR management.

In 2010 187 employee passed competency test, training and retraining.

Among them were trained:

- Managers of different levels - 2 persons;
- Specialists – 20 persons;
- Technical personnel – 165 persons;

In general, Company’s HR policy is targeted at:

- development of the staff, attraction of young specialists,
- arrangement of training, education and improvement of professional skills of employees,
- planning and development of business carrier of employees,
- formation of a personnel reserve,
- improvement of the system of motivation of personnel,
- advancement of social partnership,
- enhancement of the role of corporate policy.

The operating staff is fully filled with the qualified personnel. Training of the personnel is carried out at educational centers and at the own training centre-study. During 2010, 187 persons have passed competency tests. 26 persons passed the training courses. During the reporting period for the indicated purposes were spent GEL 5 185.

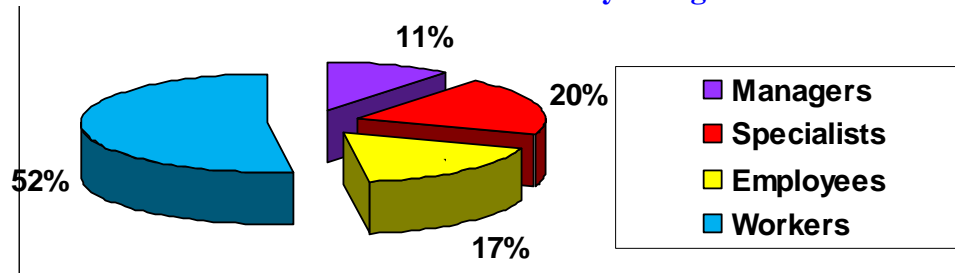
The average listed number of employees in 2010 amounted to 2184 persons. The number of employees as at December 31, 2010 was 2210 persons. In 2010 as compared with 2009 the number of

personnel increased by 1.66 %. In 2010, 53 persons were dismissed and 89 persons recruited in Company.

Number of Employees by Categories

Year	Management	Specialists	Office-workers	Workers	Total
2008	224	406	313	1202	2145
2009	230	413	381	1150	2174
2010	240	432	381	1157	2210

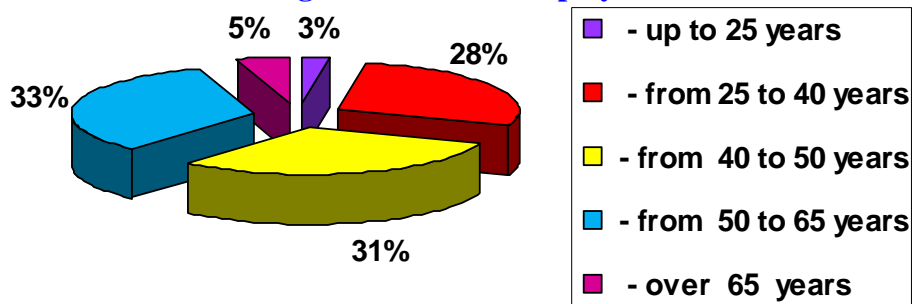
Structure of the Personnel by Categories



Age Structure of Employees

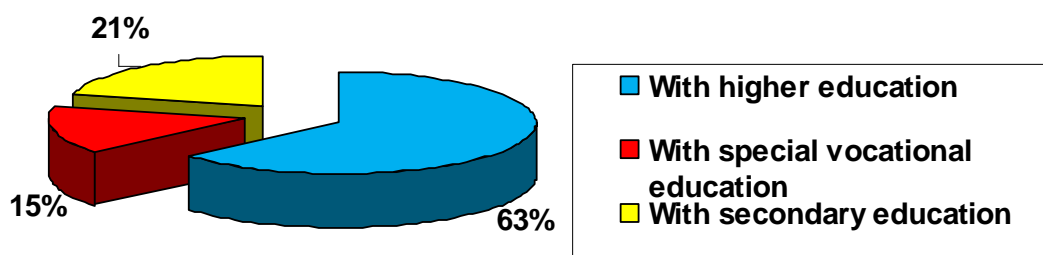
Age structure of employees of JSC “Telasi” is as follows: up to 25 years-56 persons, from 26 to 40 years – 620 persons, from 41 to 50 years – 686 persons, from 51 to 65 years – 742 persons, and over 65 years – 106 persons.

Age Structure of Employees



Qualitative Structure of Employees

The qualitative structure of the JSC “Telasi” employees is as follows: with higher education – 1414 persons, with vocational special education – 335 persons, and with secondary education - 461 persons.



Social Policy

The social partnership between the employer and employees of JSC “Telasi” is carried out in the format of the Collective Agreement between the Trade Union Committee of workers and Administration of Company. The agreement is directed at protection of social and economic rights and interests of employees, sufficient standard of life and effective work of Company. Special attention is focused on perfection of protection of life and health of employees, prevention of an industrial traumatism. Special categories of workers in due time and free-of-charge are provided with overalls and other means of an individual protection relevant to working conditions and existing industry standards. All employees of Company have medical insurance. The Collective Agreement was fully implemented, salaries were paid in due time.

Social Benefits Paid According to the Collective Agreement

№№	Types of Benefits	Paid amounts (GEL)		
		2008	2009	2010
1	2	3	4	5
1	Employee benefits for ritual services	25	119	143
2	Compensation of transport expenses and services to employees	657	679	702
3	Lump sum payments in connection with anniversaries (50, 55 and 60 years) and for continuous work at Company	221	556	463
4	Discount of electric power consumption fee for employees	331	454	461
	Total	1,234	1,809	1,769

XVIII. Protection of Environment

Environment protection legislation in Georgia is under development and forms of its application are constantly under review by the government agencies. Company from time to time reconsiders its liabilities according to the legislation on the protection of environment. No sooner the liabilities are identified, they are immediately recognized. Potential liabilities which can emerge as a result of amendments in the existing rules, as well as court procedures on civil cases or based on the civil law, cannot be predicted, however they can be substantial. Under administration regime of the existing legislation in force, the management believes that there are no substantial liabilities stemming from damage inflicted on the environment. Under Georgian legislation (law of Georgia “On the Protection of Environment”) JSC “Telasi” does not belong to the kinds of enterprises whose business can damage environment. Therefore, any ecological type actions to protect environment were not planned and executed.

XIX. Information on Big Deals Concluded by Company in the Reporting Year

In the reporting year Company did not close big deals with respect to acquisition, disposal, lien or rent of immovable property listed in the PPE, intangible assets, facilities under construction, as well as purchase or sale of stock.

XX. Information on Deals with Interest Concluded by Company in the Reporting Year

Relationship in the field of control. The parent company of JSC “Telasi” is Silk Road Holdings B.V. which is controlled by OJSC “RAO UES” («Ultimate parent company»). The party with the ultimate control over Company is the government of the Russian Federation.

The management believes that transactions with the ultimate parent and other affiliated companies through the Group controlled by the ultimate parent company, are conducted at market rates which are no more favorable than rates of transactions with unrelated parties. The most important transactions are connected with the regular transactions in the ordinary course of business of Company – supply of electric power for its further distribution, and these transactions are fulfilled according to the tariff rates adopted by the Government of Georgia.

Operations connected with the management and close members of family. Remuneration of the Supervisory Board and the top management comprised the short-term employee benefits GEL 28 976 and GEL 2,767 thousand, respectively.

Transactions with other related parties. The Government of Georgia owns 24.53% of Company through Ministry of Energy of Georgia. As a result, entities controlled by the Georgian Government also represent affiliated (related) parties of Company. There are no special arrangements in place with such entities and management consider that all transactions take place as part of Company’s normal course of business and are conducted at market rates that are no more favorable than for transactions with unrelated parties. Transactions with the state owned entities are not disclosed when they are done in the ordinary course of business with terms consistently applied to all public and private entities and where there is no choice of supplier such as electricity transmission services, telecommunications and etc.

XXI. Extra Information for the Shareholders

Legal address of JSC “Telasi”: 3 Vani Str., Tbilisi, 0154, Georgia, JSC “Telasi”

Mailing address of JSC “Telasi”: 3 Vani Str., Tbilisi, 0154, Georgia, JSC “Telasi”

E-mail address:

E-mail: inform@telasi.ge

Website:

<http://www.telasi.ge>

Contact persons:

Pimonova Alla Nikolayevna	Head of Administration of Director General	E-mail: alla.tikhomirova@telasi.ge Telephone: (99532) 27-44-47
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Milashvili Magdalena Shotayevna	Assistant of Director General	E-mail: lina.milashvili@telasi.ge Telephone: (99532) 77-99-79
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Shareholders can get access to information on the following addresses:

Nizharadze Irina Chenkovna	Head of the Division of Corporate Management (Shareholders Service)	E-mail: irina.nizharadze@telasi.ge Telephone: (99532) 17-27-68
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Jincharadze Giorgi	Head of the Division of Strategies and Investments (Investors Service)	E-mail: gia.jincharadze@telasi.ge Telephone: (99532) 77-97-74
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Registrar of Company

The registrar of the Company shareholders is JSC “United Registrar of the Securities of Georgia” – an independent registrar of securities, license №70-0006, issued January 26, 2000 by the National Commission of Securities. Administration of the register of securities is implemented according to the Agreement №cp-228 of March 1, 2010.

Address: 74a, Chavchavadze Ave. (11, Mosashvili Str.), Tbilisi, 0162, Georgia

Tel.: (99532) 22-53-51, 25-15-60

Fax: (8832) 25-15-60

Auditor of Company

The auditor of Company is “Ernst&Young” LLC. Auditing services are rendered in accordance with the Agreement №/10/11-470 of September 30, 2010.

Address: 44, Kote Abkhazi Str., Georgia, Tbilisi 0105.