XXII. Addendum №1 to the Annual Report – Non-consolidated Financial and Accounting Statements as per IFRS for the year 2010

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Independent auditors' report to the shareholders and management of JSC Telasi

We have audited the accompanying financial statements of JSC Telasi, which comprise the statement of financial position as at 31 December 2010, and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of JSC Telasi as at 31 December 2010, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of matter

We draw attention to Note 29 to the financial statements, which discloses a significant concentration of the Company's transactions and significant amounts of financing transactions with Company's major shareholder and other related parties.

ERNST & YOUNG LLC

15 March 2011

JSC TELASI
Statement of comprehensive income

In thousands of GEL	Note	2010	2009
Income			
Revenue	6	229,989	215,687
Other income	7	12,571	6,635
Costs and other deductions			
Purchased electrical power	8	(91,601)	(95,953)
Salaries and other employee benefits	9	(44,817)	(43,135)
Reversal of provisions and impairment	10	705	11,297
Depreciation and amortisation	15, 16	(11,154)	(5,754)
Revaluation of property, plant and equipment	15	-	(48,099)
Taxes other than on income	11	(3,347)	(4,761)
Other operating expenses	12	(22,109)	(24,095)
Operating profit		**70,237**	**11,822**
Finance income	13	2,131	297
Finance costs	13	(18,887)	(13,759)
Profit/(loss) before income tax		**53,481**	**(1,640)**
Income tax expense	14	(5,125)	(597)
Profit/(loss) for the year		**48,356**	**(2,237)**
Other comprehensive income			
Revaluation of property, plant and equipment	15	-	56,466
Income tax on revaluation	14	-	(8,470)
Total comprehensive income for the year		**48,356**	**45,759**

Approved for issue and signed on behalf of Management on 15 March 2011

General Director

Yuri Pimonov

Finance Director

Eduard Oganesyan

The accompanying notes on pages 6 to 40 form an integral part of these financial statements.

In thousands of GEL	Note	31 December 2010	31 December 2009
ASSETS			
Non-current assets			
Property, plant and equipment	15	170,627	154,593
Deferred tax asset	14	-	3,195
Intangible assets	16	4,066	1,494
Restructured trade receivables, non-current portion	17	4,909	5,044
Total non-current assets		**179,602**	**164,326**
Current assets			
Inventories	19	12,347	9,591
Trade receivables	17	32,869	37,149
Prepayments and other receivables	18	7,110	9,254
Cash and cash equivalents	20	15,244	3,660
Total current assets		**67,570**	**59,654**
Total assets		**247,172**	**223,980**
EQUITY AND LIABILITIES			
Equity			
Share capital	21	81,148	81,148
Revaluation reserve	21	79,384	80,103
Accumulated losses		(139,897)	(188,972)
Total equity		**20,635**	**(27,721)**
Non-current liabilities			
Interest bearing loans and notes	22	66,440	76,426
Deferred tax liability	14	584	-
Restructured tax liability	24	-	3,424
Total non-current liabilities		**67,024**	**79,850**
Current liabilities			
Interest bearing loans and notes	22	11,207	4,633
Trade and other payables	23	130,960	136,928
Income tax payable		-	1,638
Other taxes payable	24	16,677	20,157
Provisions	10	669	8,495
Total current liabilities		**159,513**	**171,851**
Total equity and liabilities		**247,172**	**223,980**

The accompanying notes on pages 6 to 40 form an integral part of these financial statements.

JSC TELASI
Statement of cash flows

In thousands of GEL	**2010**	**2009**
Cash flows from operating activities		
Cash received from customers	278,681	262,802
Cash paid to suppliers for purchased electrical power	(104,249)	(105,741)
Cash paid to and on behalf of employees	(43,260)	(43,629)
VAT and taxes other than on income paid	(41,673)	(39,475)
Other operating expenses paid	(26,131)	(26,966)
Cash generated from operations	**63,368**	**46,991**
Income tax paid	(4,128)	(983)
Net cash from operating activities	**59,240**	**46,008**
Cash flows from investing activities		
Acquisition of property, plant and equipment and	(28,149)	(26,334)
Disposal of property, plant and equipment	20	148
Interest received on bank accounts	671	296
Net cash used in investing activities	**(27,458)**	**(25,890)**
Cash flows from financing activities		
Proceeds from loans and borrowings	-	18,200
Repayment of loans and borrowings	(13,176)	(30,685)
Interest paid	(5,923)	(6,984)
Up-front fees paid for attracting financing (Note 22.d)	(713)	-
Net cash used in financing activities	**(19,812)**	**(19,469)**
Effect of exchange rate changes on cash and cash equivalent	(386)	3
Net increase in cash and cash equivalents	**11,584**	**652**
Cash and cash equivalents at the beginning of the year	3,660	3,008
Cash and cash equivalents at the end of the year	**15,244**	**3,660**

Significant non cash transactions:

Property, plant and equipment with a fair value of GEL 3,538 thousand (2009: nil) were transferred by the Government as a grant (Note 7);

Property, plant and equipment with a fair value of GEL 477 thousand (2009: GEL 677) were transferred by customers free of charge (Note 7).

JSC TELASI
Statement of changes in equity

In thousands of GEL	**Share capital**	**Revaluation reserve**	**Accumulated deficit**	**Total**
Balance at 31 December 2008	**81,148**	**32,390**	**(187,018)**	**(73,480)**
Loss for the year	-	-	(2,237)	(2,237)
Other comprehensive income for the year	-	47,996	-	47,996
Total comprehensive income for the year	**-**	**47,996**	**(2,237)**	**45,759**
Depreciation transfer for revalued property, plant and equipment	-	(283)	283	-
Balance at 31 December 2009	**81,148**	**80,103**	**(188,972)**	**(27,721)**
Profit for the year	-	-	48,356	**48,356**
Total comprehensive income for the year	-	-	48,356	**48,356**
Depreciation transfer for revalued property, plant and equipment	-	(719)	719	-
Balance at 31 December 2010	**81,148**	**79,384**	**(139,897)**	**20,635**

1 Corporate information

JSC Telasi (the "Company") is a joint stock company incorporated and domiciled in Georgia. The Company"s registered
office is at 3 Vani Street, Tbilisi 0154, Georgia.

The Company"s principal activity is the purchase and distribution of electrical power to residential and industrial customers in Tbilisi, Georgia.

The Company is wholly owned by Silk Road Holdings B.V (the Parent) and the ultimate parent of the Company is OJSC INTER RAO UES (the Ultimate Parent).

The party with ultimate control over OJSC Inter RAO UES is the Government of the Russian Federation.

The majority of the Company" s funding is from parties under common control. As a result, the Company is economically dependent upon decisions of the Ultimate Parent. In its letter dated 5 March 2011, the Ultimate Parent confirmed its ability and intention to provide support to the Company in order for it to meet its financial obligations as they become due for at least twelve months after the date of the said letter, if such need arises. Related party trans actions are disclosed in Note 29.

2 Summary of significant accounting policies

(a) Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board (IASB), under the historical cost convention, as modified by the initial recognition of financial instruments based on fair value and by the revaluation of property, plant and equipment which is stated at revalued amount.

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise indicated.

(b) Functional and presentation currency

The national currency of Georgia is the Georgian Lari ("GEL"), which is the Company"s functional currency. All amounts
in these financial statements are presented in GEL, unless otherwise indicated.

(c) Foreign currencies

Monetary assets and liabilities denominated in foreign currencies are translated into GEL at the official exchange rate of the National Bank of Georgia at the end of the reporting period. Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at historical cost are translated to GEL at the exchange rate ruling at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to GEL at the exchange rates ruling at the dates the fair values were determined. Gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss for the year.

(d) Property, plant and equipment

Property, plant and equipment are initially recorded at cost and subsequently measured at revalued amount. Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment. When an item of property, plant and equipment comprises major components having different useful lives, those are accounted for as separate items of property, plant and equipment.

2 Summary of significant accounting policies (continued)

(d) Property, plant and equipment (continued)

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 the 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 recognised in other comprehensive income and decrease the previously recognised 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 when the revaluation surplus is realised on the retirement or disposal of the asset, as well as through an annual transfer from the asset revaluation reserve 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 Company charges deferred tax liabilities from revaluation of property, plant and equipment directly to equity.

Gains and losses on disposals determined by comparing proceeds with carrying amount are recognised in profit or loss for the year.

At each end of the reporting period management assesses whether there is any indication of impairment of property, plant and equipment. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset" s fair value less costs to sell and its value in use. The carrying amount is reduced to the
recoverable amount and the impairment loss is recognised in profit or loss for the year to the extent it exceeds the previous revaluation surplus in equity. An impairment loss recognised for an asset in prior years is reversed where
appropriate if there has been a change in the estimates used to determine the asset" s value in use or fair value less costs
to sell.

(I) Subsequent expenditure

Expenditure incurred to replace a component of an item of property, plant and equipment that is accounted for separately, is capitalised with the carrying amount of the component being written off. Cost of repair and maintenance works is recognised in the carrying amount of the plant and equipment if the recognition criteria are satisfied. All other repair and maintenance costs recognised in the income statement as incurred.

(II) 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

(e) Intangible assets

Intangible assets, which are acquired by the Company and which have finite useful lives, are stated at cost less accumulated amortisation. If impaired, the carrying amount of intangible assets is written down to the higher of value in use and fair value less costs to sell.

Intangible assets are amortised on a straight-line basis over their estimated useful lives from the date the asset is available for use. The estimated useful lives are as follows:

- Software and software licenses up to 10 years

2 Summary of significant accounting policies (continued)

(f) Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

The cost of inventories is determined on the weighted average cost basis and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition.

(g) Financial assets

(i) Classification and measurement of financial assets

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. All financial assets that the Company owns at 31 December 2010 and
2009 are classified as loans and receivables and comprise the following classes of assets: trade receivables (Note 17), restructured receivables (Note 17), prepayments and other receivables (Note 18) and cash and cash equivalents (Note 20).

All financial assets are recognised on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate method (EIR), less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance income in the income statement. The losses arising from impairment are recognised in the statement of comprehensive income. in finance costs.

(II) Derecognition of financial assets

The Company derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Company is recognised as a separate asset or liability.

(III) Restructured trade receivables

In order to facilitate collection of overdue trade receivables the Company, from time to time, enters into agreements to restructure overdue receivables into portions payable by customers on monthly basis. The Company does not charge interest on restructured receivables; accordingly it recognises loss from restructuring equal to a difference between a net book value of the overdue receivable before restructuring and its fair value at the date of restructuring. Fair value of restructured receivables is determined with reference to market interest rates for similar loans as published in a statistical bulletin of National Bank of Georgia.

(iv) Impairment of financial assets

The Company assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred „loss event") and that loss event has an impact on the estimated future cash flows of the
financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include
indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

2 Summary of significant accounting policies (continued)

(g) Financial assets (continued)

(iv) Impairment of financial assets (continued)

For trade accounts receivable and restructured trade receivables delinquency in scheduled payments is considered to be an objective evidence of impairment. Amount of allowance is estimated based on the relative value of delinquent payments as compared to total receivables due and past statistical history of customer behaviour under similar circumstances.

The Company assesses each of its financial assets for impairment on individual basis.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial assets original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

Loans and receivables, together with the associated allowance, are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Company. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to finance costs in the statement of comprehensive income.

(h) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and bank deposits with maturities at initial recognition of three months or less.

(I) Financial liabilities

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Company determines the classification of its financial liabilities at initial recognition. All financial liabilities that the Company owes at 31 December 2010 and 2009 are classified as loans and borrowings and comprise the following classes of liabilities: trade and other payables (Note 23) and interest bearing loans and notes (Note 22).

Financial liabilities are recognised initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

All financial liabilities are recognised initially at fair value plus directly attributable transaction costs.

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in the statement of comprehensive income, when the liabilities are derecognised as well as through the effective interest rate method amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance costs in the statement of comprehensive income.

The Company derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the statement of comprehensive income.

(j) Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

2 Summary of significant accounting policies (continued)

(k) Prepayments

Prepayments are carried at cost less provision for impairment. A prepayment is classified as non-current when the goods or services relating to the prepayment are expected to be obtained after one year, or when the prepayment relates to an asset which will itself be classified as non-current upon initial recognition. Prepayments to acquire assets are transferred to the carrying amount of the asset once the Company has obtained control of the asset and it is probable that future economic benefits associated with the asset will flow to the Company. Other prepayments are written off to profit or loss when the goods or services relating to the prepayments are received. If there is an indication that the assets, goods or services relating to a prepayment will not be received, the carrying value of the prepayment is written down accordingly and a corresponding impairment loss is recognised in profit or loss for the year.

(i) Impairment of non-financial assets

The carrying amounts of the Company" s non-financial assets are reviewed at each end of the reporting period to
determine whether there is any indication of impairment. If any such indication exists, the assets" recoverable amo unts
are estimated.

An impairment loss is recognised when the carrying amount of an asset or its cash-generating unit (CGU) exceeds its recoverable amount. Impairment losses are recognised in profit or loss for the year.

(i) Calculation of recoverable amount

The recoverable amount of CGU is the greater of its fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

(ii) Reversals of impairment

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to
determine the recoverable amount. An impairment loss is reversed only to the extent that the asset" s carrying amount
does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no
impairment loss had been recognised.

(m) Provisions

A provision is recognised in the statement of financial position when the Company has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

(n) Income tax

Income taxes have been provided for in accordance with Georgian legislation enacted or substantively enacted by the end of the reporting period. The income tax charge comprises current tax and deferred tax and is recognised in profit or loss for the year except if it is recognised in other comprehensive income or directly in equity because it relates to transactions that are also recognised, in the same or a different period, in other comprehensive income or directly in equity.

Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits for the current and prior periods.

2 Summary of significant accounting policies (continued)

(n) Income tax (continued)

Deferred income tax is provided, using the balance sheet liability method, for temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax assets are recorded to the extent that it is probable that future taxable profit will be available, against which the temporary differences can be utilised. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax balances are measured at tax rates enacted or substantively enacted end of the reporting period which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised.

(o) Value added tax

Value added tax ("VAT") is recorded as a liability at the point of recognition of a sale. Where the VAT is only payable to the tax authorities when the underlying receivable is either received or written off, the amount is recorded as deferred VAT at the nominal amount.

(p) Revenues

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The Company assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Company has concluded that it is acting as a principal in all of its revenue arrangements. The following specific recognition criteria must also be met before revenue is recognised:

(i) Sale of electrical power

Sale of electrical power is recognised on the basis of metered usage of power by residential and non-residential customers.

Due to the timing differences between date when metering data is collected and period end date, at any reporting date the Company has certain sales of electrical power which have occurred but are not yet billed. The calculation of revenues earned but not yet billed is based on the management"s best estimate of the volume of cut-off deliveries, their allocation
between various number of customers and technical losses related to delivery available at the reporting date. Management believes that the differences between actual and estimated unbilled revenues are immaterial.

(ii) Rendering of services

Revenue from services is recognised when services are provided and receipt of compensation is probable. Various types of services provided by the Company to its customers are detailed in Notes 7 and 8.

(iii) Interest income

For all financial instruments measured at amortised cost interest income or expense is recorded using the effective interest rate (EIR), which is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability. Interest income is included in finance income in the income statement.

(iv) Assets transferred from customers

When the Company receives from customers a transfer of an item of property, plant and equipment, it first assesses whether the transferred item meets the definition of an asset. If the Company concludes that the definition of an asset is met, it recognises the transferred asset as an item of property, plant and equipment and measures its cost on initial recognition at its fair value.

2 Summary of significant accounting policies (continued)

(p) Revenues (continued)

(iv) Assets transferred from customers (continued)

In accordance with IFRIC 18 *Transfer of Assets from Customers* such a transaction is regarded as a transaction which generates revenue. The Company first determines the types of services rendered in exchange for the assets received, than the fair value of the total consideration received or receivable is allocated to each service and the revenue recognition criteria are then applied to each service.

(v) Government grants

Government grants are recognised where there is reasonable assurance that the grant will be received. In the cases where conditions are attached to a grant, it is recognised where there is reasonable assurance that all attached conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the period necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, it is recognised as deferred income and released to income in equal amounts over the expected useful life of the related asset. When grant relates to income, it is recognised as income in the period when it is received.

Where the Group receives non-monetary grants, the asset and the grant are recorded gross at fair values of non- monetary assets received.

3 Changes in accounting policy and disclosures

The accounting policies adopted are consistent with those of the previous financial year, except for the following new and amended IFRS and IFRIC interpretations effective as of 1 January 2010:

- IFRS 2 Share-based Payment: Group Cash-settled Share-based Payment Transactions effective 1 January 2010
- IFRS 3 Business Combinations (Revised) and IAS 27 Consolidated and Separate Financial Statements (Amended) effective 1 July 2009, including consequential amendments to IFRS 2, IFRS 5 IFRS 7, IAS 7, IAS 21, IAS 28, IAS 31 and IAS 39
- IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items effective 1 July 2009
- FRIC 17 Distributions of Non-cash Assets to Owners effective 1 July 2009
- Improvements to IFRSs (May 2008)
- IFRS 5 Non-current Assets Held for Sale and Discontinued Operations
- Improvements to IFRSs (April 2009)
- IFRS 5 Non-current Assets Held for Sale and Discontinued Operations
- IFRS 8 Operating Segments
- IAS 7 *Statement of Cash Flows*
- IAS 36 *Impairment of Assets*
- IFRS 2 Share-based Payment
- IAS 1 Presentation of Financial Statements
- IAS 17 Leases
- IAS 34 Interim Financial Reporting
- IAS 38 Intangible Assets
- IAS 39 Financial Instruments: Recognition and Measurement
- IFRIC 9 Reassessment of Embedded Derivatives
- IFRIC 16 Hedge of a Net Investment in a Foreign Operation

The amendments and interpretations did not have any significant effect on the Company" s financial statements.

Certain amounts in the comparative information presented have been reclassified to conform to 2010 presentation. Details of reclassifications are presented in Note 30.

4 Standards issued but not yet effective

Standards issued but not yet effective up to the date of issuance of the Company" s financial statements are listed below. This listing is of standards and interpretations issued, which the Company reasonably expects to be applicable at a future date. The Company intends to adopt those standards when they become effective.

IAS 24 *Related Party Disclosures (Amendment)*
The amended standard is effective for annual periods beginning on or after 1 January 2011. It clarified the definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application. The revised standard introduces a partial exemption of disclosure requirements for government related entities. The Company does not expect any impact on its financial position or performance. Early adoption is permitted for either the partial exemption for government-related entities or for the entire standard.

IAS 32 *Financial Instruments: Presentation – Classification of Rights Issues (Amendment)*
The amendment to IAS 32 is effective for annual periods beginning on or after 1 February 2010 and amended the definition of a financial liability in order to classify rights issues (and certain options or warrants) as equity instruments in
cases where such rights are given pro rata to all of the existing owners of the same class of an entity" s non - derivative
equity instruments, or to acquire a fixed number of the entity" s own equity instruments for a fixed amount in any currency.
This amendment will have no impact on the Company after initial application.

IFRS 9 *Financial Instruments: Classification and Measurement*
IFRS 9 as issued reflects the first phase of the IASBs work on the replacement of IAS 39 and applies to classification and measurement of financial assets as defined in IAS 39. The standard is effective for annual periods beginning on or after 1 January 2013. In subsequent phases, the IASB will address classification and measurement of financial liabilities, hedge accounting and derecognition. The completion of this project is expected in early 2011. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Company" s financial assets. The Company will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

IFRIC 14 *Prepayments of a minimum funding requirement (Amendment)*
The amendment to IFRIC 14 is effective for annual periods beginning on or after 1 January 2011 with retrospective application. The amendment provides guidance on assessing the recoverable amount of a net pension asset. The amendment permits an entity to treat the prepayment of a minimum funding requirement as an asset. The amendment will have no impact on the financial statements of the Company.

IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments*
IFRIC 19 is effective for annual periods beginning on or after 1 July 2010. The interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability qualify as consideration paid. The equity instruments issued are measured at their fair value. In case that this cannot be reliably measured, the instruments are measured at the fair value of the liability extinguished. Any gain or loss is recognized immediately in profit or loss. The adoption of this interpretation will have no effect on the financial statements of the Company.

Improvements to IFRSs (issued in May 2010)
The IASB issued *Improvements to IFRSs*, an omnibus of amendments to its IFRS standards. The amendments have not been adopted as they become effective for annual periods on or after either 1 July 2010 or 1 January 2011. The amendments listed below, are considered to have a reasonable possible impact on the Company:

- IFRS 3 Business Combinations
- IFRS 7 Financial Instruments: Disclosures
- IAS 1 Presentation of Financial Statements
- IAS 27 Consolidated and Separate Financial Statements
- IFRIC 13 Customer Loyalty Programmes

The Company, however, expects no impact from the adoption of the amendments on its financial position or performance.

5 Significant accounting judgments, estimates and assumptions

The preparation of the Company"s financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

(a) Judgments

In the process of applying the Company"s accounting policies, management has made the following judgments which have the most significant effect on the amounts recognised in the financial statements:

(i) Going concern

As at 31 December 2010, the Company"s current liabilities exceeded its current assets by GEL 91,943 thousand. The Company"s operations and financial liquidity will to a large extent depend on the continued financial support from the Ultimate Parent. The Management believes that such support will be available to the Company, if required, to carry on its business without a significant curtailment of operations for the foreseeable future. This has been confirmed by a letter issued by the Ultimate Parent dated 5 March 2011. Accordingly, these financial statements have been prepared on a going concern basis, which contemplates the realisation of assets and the satisfaction of liabilities in the normal course of business

(ii) Sustainability of the Company's tax position

Tax legislation of Georgia is in the process of formation. Changes in the legislation occur frequently and its many provisions are subject to varying interpretations. As discussed in Note 28, due to ambiguities existing in the current and past tax legislations there are certain areas that management believes can be challenged by Georgian Tax Authorities ("GTA"). Management believes that its position related to these matters is sustainable and hence it has not accrued any additional tax provisions in the financial statements related to these matters.

The Company's uncertain tax positions are reassessed by Management at the end of every reporting period. Liabilities are recorded for income tax positions for which Management assessment of a risk of additional taxes being levied is probable.

(iii) Identification of services rendered in exchange for assets received from customers

The Company receives items of property, plant and equipment from its customers which must be used to connect those customers to a network and provide them with ongoing access to a supply of electrical power. The Company needs to make judgment as to the services provided to the customers in exchange to assets received. After analysing all facts and circumstances, the Company believes that services rendered to its customers in exchange of assets transferred are fully related to connection to electricity network and, accordingly, are recognised when assets are transferred to the Company and a connection of a customer is completed. Judgment related to the services rendered has significant impact on timing of revenue recognition. Revenue recognised on assets transferred from customers in 2010 amounted to GEL 477 thousand (2009: GEL 677 thousand) (Note 7).

(iv) Classification of Government grants

From time to time the Company receives assets from the Government free of charge or for a nominal consideration. These assets are usually already an integral part of the electricity distribution network of Tbilisi and have not been transferred to the Company during its initial privatisation due to deficiencies in the property rights which continue to exist after dissolution of once unified Soviet electricity distribution network. Management of the Company believes that such grants represent grants related to income since their primary condition is not purchase, construction or acquisition of long-term assets. Judgment related to the classification of Government grants has significant impact on timing of revenue recognition. Revenue recognised on assets transferred by Government in 2010 amounted to GEL 3,538 thousand (2009: nil) (Note 7).

5 Significant accounting judgments, estimates and assumptions (continue)

(b) Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Company based its assumptions and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments however, may change due to market changes or circumstances arising beyond the control of the Company. Such changes are reflected in the assumptions when they occur.

(i) Impairment testing of non-financial assets

Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on available data from binding sales transactions in an arm" s length transaction of similar assets or observable market
prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the budget for the next ten years and do not include restructuring activities that the Company is not yet committed to or significant future investments that will enhance the performance of the cash generating unit being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash
flow model as well as the expected future cash inflows. The key assumptions used to determine the recoverable amount for the Company" s non-current assets, including a sensitivity analysis, are further explained in Note
15.

(ii) Determination of the fair value of property, plant and equipment

Fair value of property, plant and equipment and the remaining useful life of property, plant and equipment of the Company has been determined by an independent appraiser as at 31 December 2009. The carrying value and depreciation of property, plant and equipment are affected by the estimates of replacement cost, depreciated replacement cost and remaining useful lives. At each reporting date management analyses whether indicators exist to indicate that net book value of its property, plant and equipment is materially different from their fair value to determine whether additional revaluation is necessary (Note 15).

(iii) Allowances for uncollectible receivables

The impairment provision for accounts receivable is based on the Company" s assessment of the collectibility of specific customer accounts. If there is deterioration in a major customer's creditworthiness or actual defaults are higher than those estimated, the net book value of accounts receivable and restructured accounts receivable recorded in the financial
statements may not be fully recoverable. The Company" s total credit exposure as well as relevant risks are described in further detail in Note 25.

6 Revenue

In thousands of GEL	**2010**	**2009**
Electricity sales to residential sector	117,243	110,929
Electricity sales to commercial and industrial sector	83,120	76,278
Electricity sales to public sector	21,787	20,799
Transit of electricity to central customers	7,839	7,681
Total revenues	**229,989**	**215,687**

Sales tariffs for electricity within Georgia are regulated by Georgian National Energy and Water Supply Regulatory Commission (GNEWSRC). Sales tariff set for the Company is differentiated based on the voltage of the connection to the network by the customer and, in case of residential sector, tariff is also linked to the monthly amount of consumed electricity. Sales tariffs approved for the Company were as follows:

Type of customer	**GEL per kwt/hr**	
	2010	**2009**
Customers with connection at 6/10,000 volts	0.12618	0.12618
Customers with connection at 35/110,000 volts	0.07280	0.07280
Customers with connection at 220/380 volts for first 100 kwt/hr	0.11424	0.11424
Customers with connection at 220/380volts for 101 kwt/hr to 300kwt/hr	0.13560	0.13560
Customers with connection at 220/380 volts for more than 300 kwt/hr	0.14998	0.14998

Revenues from transit of electricity to customers represent fees charged by the Company for the transit of electrical power, which is purchased by the customers directly from JSC Electric System Commercial Operator (ESCO),
through the Company" s network. Transit tariff approved for the Company by GNEWSRC amounted to GEL 0.0241 per kwt/hr transferred both in 2010 and 2009.

7 Other income

In thousands of GEL	**2010**	**2009**
Government grants related to income (a)	3,538	-
Write-off of accounts payable (b)	3,283	-
Interest on restructured receivables (Note 17)	2,227	2,373
Installation and repair services (c)	1,405	1,503
Collection fees (d)	1,055	1,117
Assets transferred from customers	477	677
Other income	586	965
Total other income	**12,571**	**6,635**

7 Other income (continued)

(a) Government grants related to income

Significant transfers of assets from the Government in 2010 were mainly related to a transfer of four substations, including respective transmission equipment and land plots, and a transfer of low voltage distribution network consisting of 22 6/10 to 0.4 volt transformer stations. These assets were transferred to the Company in order to provide reliable service to subscribers and implement rehabilitation works on transferred property. In line with its accounting policy, the Company has recognised a fair value of these assets as gains in the period when assets were received.

(b) Write-off of accounts payable

The Company had accounts payable to Sakenergo in the amount of GEL 3,283 thousand which originated prior to 1 January 2009. Sakenergo was liquidated on 27 April 2010 by a court decree No B10053558, without re-assigning of an obligation to other party. Legal claims of the entity do not survive its liquidation, unless they are assigned, thus the Company has written-off the payable in 2010.

(c) Installation and repair services

Customers who have no sufficient technical expertise, hire the Company to perform electrical installation and repair services for them. Usually such installations and repairs are not of a long-term nature and their fees depend on the volume and complexity of the work performed.

(d) Collection fees

Collection fees relate to billing and collection services provided to Georgian Water and Power LLC and Municipal Cleaning Service of Tbilisi, which is done together with electricity bills. Since the Company" s billing system and
infrastructure is more developed than that of some other utility companies, it is more efficient for such companies to outsource billing and collection function to the Company.

8 Purchased electrical power

In thousands of GEL	**2010**	**2009**
Electricity purchased	63,570	71,034
Transmission and dispatch of electricity	16,411	15,784
Reserve capacity fee	11,620	9,135
Total purchased power	**91,601**	**95,953**

The Company purchased power mainly from entities under common control (Note 29).

Since 2007, according to amendments to Law on Electricity and Natural Gas and newly-revised electricity market rules, the Company was charged with the reserve capacity fee calculated as a product of 10% of consumed electric power during the year and a tariff of GEL 0.05319 per kwt/hr set by GNEWSRC. The Law was further amended on 14 April 2009, setting expected reserve capacity equal to 25% of consumed electric power during the year multiplied by a tariff of GEL 0.025 per kwt/hr.

9 Salaries and other employee benefits

In thousands of GEL	**2010**	**2009**
Wages and salaries	42,154	40,042
Other employee benefits	2,224	2,656
Key management accommodation and security expenses	439	437
Total salaries and other benefits	**44,817**	**43,135**

10 Reversal of provisions and impairment

In thousands of GEL	**2010**	**2009**
Movement in provisions and impairment	772	11,297
Derecognition of other payables (Note 23)	(1,477)	-
Reversal of provisions and impairment	**705**	**11,297**

Movement in provisions and allowances in 2010 and 2009 can be analysed as follows:

In thousands of GEL	**Allowance for accounts receivable (a)**	**Allowance for restructured accounts receivable (a)**	**Allowance for advances given**	**Allowance for other receivables (b)**	**Allowance for taxes receivable other than income tax (c)**	**Provision for legal claims (d)**	**Total**
1 January 2009	**125,799**	**4,306**	**517**	**4,120**	**3,259**	**9,355**	**147,356**
Additional charges/(reversals) for the period	(9,134)	(1,054)	(316)	48	-	(841)	**(11,297)**
Utilised during the period	(6,219)	-	-	(1,074)	-	(19)	**(7,312)**
31 December 2009	**110,446**	**3,252**	**201**	**3,094**	**3,259**	**8,495**	**128,747**
Additional charges/(reversals) for the period	(2,372)	(956)	(67)	4,562	-	(395)	**772**
Utilised during the period	(4,279)	-	-	(2,623)	-	(7,431)	**(14,333)**
31 December 2010	**103,795**	**2,296**	**134**	**5,033**	**3,259**	**669**	**115,186**

10 Reversal of provisions and impairment (continued)

(a) Allowance for accounts receivable

Allowance for accounts receivable is made when there is an objective evidence indicating inability of a customer to meet its payment obligations, which is in most cases evidenced by existence of overdue receivables from the customer. Refer to Note 17 for further details on accounts receivable.

(b) Allowance for other receivables

Additional allowances on other receivables in 2010 mainly relate to allowance on a receivable from Orion LLC in the amount of GEL 804 thousand and Georgian State Electro System JSC (GSE) in the amount of GEL 3,750 thousand.

Utilisation of the allowance is mainly related to a write of a receivable from Georgian Wholesale Electricity Market (GWEM) in the amount of GEL 2,477 thousand.

Please refer to Note 18 for further details on these matters.

(c) Allowance for taxes receivable

Allowance relates to VAT recoverable claimed by the Company which was disallowed by Georgian Tax Authorities due to deficiencies during filing of VAT declarations by the Company. The Company believes that successful collection of these tax assets is doubtful.

(d) Provision for legal claims

The Company evaluates probability of unfavourable resolution of court cases, both existing and pending, where the Company acts as a plaintiff. If the Company believe that risk of unfavourable resolution is probable, it accrues relevant provisions. All other known cases are disclosed as contingent liabilities in Note 28.

On 2 February 2010, the Chamber of Administrative Cases at Supreme Court of Georgia pronounced a decision, based on which the Company was found liable to pay Ministry of Economic Development of Georgia (MEDG) GEL 7,431 thousand contented by the Company. Accordingly the Company has reclassified amounts previously recorded as provisions into accounts payable. By the same decisions the Company and the MEDG agreed that the liability would be waived by the MEDG if the Company performs investments into rehabilitation of an electricity network and metering of 9,618 customers in the settlement of internally displaced people by the end of May 2011.

11 Taxes other than on income

In thousands of GEL	**2010**	**2009**
Value added tax related to electricity losses (a)	2,131	2,973
Property tax	1,141	1,644
Other	75	144
Total taxes other than on income	**3,347**	**4,761**

11 Taxes other than on income (continued)

(a) Value added tax related to electricity losses

Tax Code of Georgia (" TCG") allows electrical power losses of not more than 12.4%. Technical losses which represent the difference between the amount of electricity received by the Company in any given month and the amount of electricity billed to customers by the Company in that particular month. If losses exceed 12.4%, TCG requires to discontinue recognition of additional losses for taxation purposes. Thus under TCG any difference between actual losses and 12.4% should be treated as taxable sales by the Company and accordingly taxed by VAT
and included into determination of taxable profit for the purposes of income taxes. The Company" s actual losses in
2010 amounted to 15.5% (2009: 17.0%), which resulted in accrual of additional VAT liabilities which will not be
collected by the Company from its customers, and hence were expensed directly to income statement.

12 Other operating expenses

In thousands of GEL	**2010**	**2009**
Repairs and maintenance	5,484	5,780
Loss from initial recognition of restructured receivables (Note 17)	2,906	4,791
Utilities and communication expenses	2,571	2,544
Insurance	1,769	1,774
Office rent and maintenance	1,458	1,414
Fines & indemnity fees	1,367	1,187
Travel and transportation	1,305	958
Charity and social expenditure	1,260	472
Membership fee	701	565
Professional services	465	457
Electric power purchase commission fees	430	420
Stationary	293	381
Other	2,100	3,352
Total other operating expenses	**22,109**	**24,095**

13 Finance income and costs

In thousands of GEL	**2010**	**2009**
Finance income		
Interest income	671	297
Gain from reassessing of future cash flows on loan from the Parent (Note 22)	1,460	-
Total finance income	**2,131**	**297**

13 Finance income and costs (continued)

Finance costs		
Interest expense (Notes 22, 29)	(12,982)	(11,926)
Foreign exchange loss, net	(5,905)	(1,833)
Total finance costs	**(18,887)**	**(13,759)**

Foreign exchange losses are mainly caused by the revaluation of assets and liabilities of the Company denominated in US Dollars (USD). For more details on the foreign currency risk please refer to Note 25.

14 Income tax

In thousands of GEL	**2010**	**2009**
Current tax	1,346	2,481
Deferred tax expense/(benefit)	3,779	(1,884)
Income tax expense for the year	**5,125**	**597**

The income tax rate applicable to the Company is 15%.

Reconciliation between the expected and the actual taxation charge is provided below:

In thousands of GEL	**2010**	**2009**
IFRS profit/(loss) before tax	53,481	(1,640)
Theoretical tax (charge)/benefit at 15%	(8,022)	246
Additional taxable income from technical losses over the norm (a)	(1,225)	(641)
Non-deductible VAT expense from technical losses (a)	(320)	(464)
Deductions from interest and foreign exchange losses on a loan from the Parent (b)	5,019	1,008
Cost of property not used for deductions (c)	(870)	-
Tax effect of other items not deductible or assessable for taxation Purposes	293	(746)
Income tax expense for the year	**(5,125)**	**(597)**

(a) Additional taxable income from technical losses over the norm (a)

As discussed in Note 11.a the Company incurs technical losses in excess of approved norms. In accordance with TCG the Company is obliged to recognise potential sales of electrical power lost in excess of approved norms, which creates taxable revenues not recognised under IFRS. The Company is also obliged to tax such potential revenues by VAT, which is also a non-deductible cost.

14 Income tax (continued)

(b) Deductions from interest on a loan from the Parent

As discussed in Note 22.c loan from the Parent is repayable in 2059 and has no fixed dates for interest repayments. Accordingly amortised cost of the loan is significantly less than its nominal value. Interest expenses were deductible for income tax purposes based on their nominal values on accrual basis. Starting from 2011 interest expenses are deductible on cash basis. The Company has not recognised a deferred tax asset with regard to a difference between IFRS and tax base of loan from the Parent since both timing and occurrence of future repayments under a loan cannot be assessed with sufficient reliability. Moreover first repayments would have to be used to offset interest accruals of previous periods, for which tax deductions have been already taken.

(c) Cost of property not used for deductions

Value of certain items of inventory classified as construction in progress under IFRS was reduced subject to property revaluation performed in 2009 (Note 15). Results of these revaluations were reflected in the inventory records of the Company. In 2010 these items were transferred from construction in progress to finished property, plant and equipment at values below their cost. Although Tax Code of Georgia allows capitalisation of inventory into taxable base of property, plant and equipment at cost, the Company elected to use revalued amounts both for IFRS and taxation purposes, since it believes using different values would expose the Company to tax risks.

(d) Movement in temporary differences

In thousands of GEL	31 December 2009	Credited/ (charged) to profit or loss	Recognised in OCI*	31 December 2010
Property, plant and equipment	(3,773)	(4,135)	-	**(7,908)**
Intangible assets	66	(21)	-	**45**
Trade and other receivables	4,776	428	-	**5,204**
Inventories	179	(36)	-	**143**
Provisions	1,274	(59)	-	**1,215**
Trade and other payables	673	44	-	**717**
Net deferred tax assets/(liability)	**3,195**	**(3,779)**	-	**(584)**

In thousands of GEL	31 December 2008	Credited/ (charged) to profit or loss	Recognised in OCI*	31 December 2009
Property, plant and equipment	1,239	3,458	(8,470)	(3,773)
Intangible assets	78	(12)	-	66
Trade and other receivables	4,903	(127)	-	4,776
Inventories	115	64	-	179
Provisions	1,400	(126)	-	1,274
Trade and other payables	1,040	(367)	-	673
Tax loss carry-forwards	1,006	(1,006)	-	-
Net deferred tax assets	**9,781**	**1,884**	**(8,470)**	**3,195**

(*) OCI – other comprehensive income

15 Property, plant and equipment

In thousands of GEL	**Land**	**Buildings**	**Plant and equipment**	**Fixtures and fittings**	**Vehicles**	**Construction in progress**	**Total**
Valuation							
At 1 January 2009	**25,065**	**7,582**	**79,887**	**7,286**	**4,291**	**14,893**	**139,004**
Elimination of accumulated depreciation	-	(655)	(7,962)	(3,257)	(994)	-	(12,868)
Revaluation increases recognised in OCI	-	18,370	48,942	112	584	-	68,008
Revaluation decreases recognised in OCI	(8,204)	(27)	(1,722)	(1,147)	(442)	-	(11,542)
Revaluation increases recognised in income statement	-	3,851	3,221	8	203	-	7,283
Revaluation decreases recognised in income statement	(752)	(3,221)	(42,235)	(1,588)	(661)	(6,925)	(55,382)
Additions	212	1,833	6,753	1,395	580	11,423	22,196
Transfers	-	1,735	6,812	-	-	(8,547)	-
Disposals	(66)	(48)	(820)	(471)	(701)	-	(2,106)
At 31 December 2009	**16,255**	**29,420**	**92,876**	**2,338**	**2,860**	**10,844**	**154,593**
Additions	1,006	2,162	1,730	2,608	1,072	20,149	28,727
Transfers	-	1,422	12,746	-	-	(14,168)	-
Disposals	(48)	(65)	(1,001)	(158)	(73)	(588)	(1,933)
At 31 December 2010	**17,213**	**32,939**	**106,351**	**4,788**	**3,859**	**16,237**	**181,387**
Accumulated depreciation							
At 1 January 2009	**-**	**431**	**4,551**	**2,136**	**787**	**-**	**7,905**
Elimination of accumulated depreciation and impairment	-	(655)	(7,962)	(3,257)	(994)	-	(12,868)
Depreciation charge	-	262	3,580	1,328	447	-	5,617
Disposals	-	(38)	(169)	(207)	(240)	-	(654)
At 31 December 2009	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Depreciation charge	-	852	8,724	803	532	-	10,911
Disposals	-	(14)	(96)	(35)	(6)	-	(151)
At 31 December 2010	**-**	**838**	**8,628**	**768**	**526**	**-**	**10,760**
Carrying amount							
At 31 December 2009	16,255	29,420	92,876	2,338	2,860	10,844	154,593
At 31 December 2010	**17,213**	**32,101**	**97,723**	**4,020**	**3,333**	**16,237**	**170,627**

15 Property, plant and equipment (continued)

Construction in progress represents the carrying amount of property, plant and equipment that has not yet been put into operation, spare parts and advances to construction companies. The spare parts relate to items held that will be used for capital repairs or replacement of the Company" s property, plant and equipment, for example, components of transformer stations and lengths of cable. Accordingly, they are classified within property, plant and equipment but not depreciated pending their incorporation into the designated assets and depreciation over the remaining life of that asset.

As at 31 December 2010, property, plant and equipment amounting to GEL 1,571 thousand were pledged as security under payables to Customers Authorities for amounts payable for custom clearance of imported electricity.

(a) Property, plant and equipment – at historical cost

In thousands of GEL	**Land**	**Buildings**	**Plant and equipment**	**Fixtures and fittings**	**Vehicles**	**Construction in progress**	**Total**
Carrying amount at 31 December 2009	7,047	17,415	90,033	6,230	5,944	17,770	144,439
Carrying amount at 31 December 2010	**8,032**	**20,464**	**95,187**	**6,425**	**5,761**	**16,828**	**152,697**

(b) Impairment testing of non-current assets

As at 31 December 2010 the Company tested the value of its non-current assets for impairment. Management considers the relationship between anticipated results of operations used during revaluation of property, plant and equipment in the past with actual results of operations, among other things, when reviewing for indicators of impairment. Actual operating results for 2010 were different than those anticipated during 2009 revaluation, indicating a need for an impairment testing at 31 December 2010.

Management believes that the Company consists of a single cash generating unit. The recoverable amount of the cash-generating unit has been determined based on a value in use calculation using cash flow projections from financial forecasts approved by management covering a ten-year period. The pre-tax discount rate applied to cash flow projections was 18.92%, cash flows beyond the ten-year period were deemed to be constantly growing at an
average rate of 2.6% per annum. As a result of this analysis, value in use of the Company" s non-current assets was determined to be GEL 176,429 thousand which is greater than their net book value.

(i) Key assumptions used in value in use calculations

The calculation of value in use for is most sensitive to the following assumptions:

- Discount rate;
- Sales volumes;
- Growth rate used to extrapolate cash flows beyond the forecasted period;

Discount rate – Discount rates represent the current market assessment of the risks specific to the Company, regarding the time value of money and individual risks of the underlying assets which have not been incorporated in the cash flow estimates. The discount rate calculation is based on the specific circumstances of the Company and derived from its weighted average cost of capital (WACC). The WACC takes into account both debt and equity. The cost of equity is derived from the expected return on investment by the Company" s investors. The cost of debt is
based on the interest bearing borrowings with the comparable risks and timing as the Company" s since the Company
has no standard loans from third parties. Company-specific risk is incorporated by applying individual beta factors. The beta factors are evaluated annually based on publicly available market data.

Sales volumes – Sales volumes represent management" s best estimate of future demand for electricity in Tbilisi, Georgia. Many factors influence actual electricity sales and results may be different than those anticipated. Factors such as average winter temperatures, availability of alternative suppliers, performance of Georgian economy and other factors may influence actual sales.
Growth rate estimates – Rates are based on published research for Georgian

economy.

15 Property, plant and equipment (continued)

(b) Impairment testing of non-current assets (continued)

(ii) Sensitivity to changes in assumptions

With regard to the assessment of value in use of the Company" s property, plant and equipment, management believes that an adverse change in key assumptions may result in an impairment loss. The implications of the key assumptions for the recoverable amount, other variables held constant, are summarised below:

	Change in value in use subject to a 1% decrease in a key assumption	Impairment loss will be necessary after a drop of assumption by more than
Discount rate	(7,600)	1%
Sales volumes	(13,523)	1%
Growth rate	(7,264)	2%

(c) Revaluation of property, plant and equipment in 2009

In 2009, management commissioned professional valuator to independently appraise the property, plant and equipment of the Company in order to determine its fair value for the purpose of revaluation as at 31 December 2009.

The fair value of property, plant and equipment was determined to be USD 91.7 million which was comprised of:

	31 December 2009	31 December 2009
	In millions of US Dollars	*In millions of GEL*
Land	9.7	16.3
Buildings	17.5	29.4
Plant and equipment	54.8	92.9
Fixtures and fittings	1.4	2.3
Vehicles	1.8	2.9
CIP & spare parts	6.5	10.8
Total	**91.7**	**154.6**

As the majority of the Company" s property, plant and equipment is specialised in nature and is rarely sold on the
open market other than as part of a continuing business. The market for similar property, plant and equipment is not active in Georgia and does not provide a sufficient number of sales of comparable property, plant and equipment for using a market-based approach for determining fair value. Consequently, the fair value of property, plant and equipment was primarily determined using depreciated replacement cost. This method considers the cost to
reproduce or replace the property, plant and equipment, adjusted for physical, functional or economical depreciation, and obsolescence. Due to the lack of detailed technical information, the depreciated replacement cost was estimated based on the aggregated information provided by the Company. The depreciated replacement cost was estimated based on internal sources and analyses of the Russian, Georgian and international markets for similar property, plant and equipment. Various market data were collected from published information, catalogues, statistical data, etc. and industry experts and suppliers of property, plant and equipment were contacted in Georgia and abroad.

15 Property, plant and equipment (continued)

(c) Revaluation of property, plant and equipment in 2009 (continued)

The following key assumptions were made in performing the discounting cash flow analyses, with the significant sensitivities indicated:

- Applied WACC discount rate in 2009 was 18.9% per annum;
- Electricity sales (output) tariff is expected to increase by approximately 1% per annum until 2021;
- Electricity purchase (input) tariff is expected to increase by approximately 3% per annum until 2021;
- Abnormal (commercial) losses were forecasted at a level of 4.7% per annum until 2021;
- Losses in high voltage transmission lines were forecasted at a level of 2.2 % per annum until 2021;
- Payroll expenses were forecast to grow at approximately 4% per annum until 2021;
- The expectation was that the Company will spend approximately GEL 158 million overall in 2010-2021 for the replacement/repair of components of property, plant and equipment; and
- The values assigned to the key assumptions represent management" s assessment of future trends in the business and are based on both external sources and internal sources (historic data).

A change in the expected weighted average cost of capital discount rate by 2%, the expected payroll expenditure by 2% would impact the carrying value of property, plant and equipment by approximately 22%.

A change in the expected sales tariff by 2%, the expected sales volume by 2% would impact the carrying value of property, plant and equipment by approximately 31%.

16 Intangible assets

In thousands of GEL	Software	Software under implementation	Total
Cost			
At 1 January 2009	**799**	**-**	**799**
Additions	682	699	1,381
At 31 December 2009	**1,481**	**699**	**2,180**
Additions	1,296	1,519	2,815
At 31 December 2010	**2,777**	**2,218**	**4,995**

16 Intangible assets (continued)

Amortisation			
At 1 January 2009	**549**	**-**	**549**
Charge for the year	137	-	137
At 31 December 2009	**686**	**-**	**686**
Charge for the year	243	-	243
At 31 December 2010	**929**	**-**	**929**
Net book value			
At 31 December 2009	795	699	1,494
At 31 December 2010	**1,848**	**2,218**	**4,066**

Intangible assets consist mainly of accounting and other software solution and relevant software licenses.

Software under implementation relates to the Company" s efforts to implement SAP enterprise resource planning system, which is planned to go live in 2011.

17 Trade receivables

In thousands of GEL	**31 December 2010**	**31 December 2009**
Restructured trade receivables, non-current portion		
Restructured trade receivables	7,205	8,296
Less: provision for impairment (Note 10)	(2,296)	(3,252)
Total non-current restructured trade receivables	**4,909**	**5,044**
Current		
Residential sector	78,412	84,812
Public sector	14,461	14,151
Commercial and industrial sector	32,838	34,070
Central customers	2,742	3,131
Restructured trade receivables, current portion	8,211	11,431
Less: provision for impairment (Note 10)	(103,795)	(110,446)
Total current trade receivables	**32,869**	**37,149**
Total trade receivables	**37,778**	**42,193**

17 Trade receivables (continued)

(a) Restructured trade receivables

In order to facilitate collection of past-due receivables from customers the Company enters into restructuring agreements with its customers, whereby past-due receivables are allocated to future periods by equal monthly instalments. No interest is charged on restructured receivables to customers. Restructuring causes amortised cost of a restructured receivable to be significantly different from its net book value prior to restructuring, the difference is recorded in the income statement at the date of restructuring, as part of other operating expenses. Initially recognised restructuring losses are unwound in subsequent periods using effective interest rate method. If customer fails to follow schedule of restructured receivable the Company prepares an allowance for entire balance receivable from this customer. Percentage of allowance depends on the magnitude of delinquency.

The discount rate used for each customer category for determination of amortised cost at restructuring is based on rates set out in the monetary and banking bulletin of the National Bank of Georgia, namely:

Residential sector – based on annual weighted average rate of interest on loans issued to individuals by commercial banks in national currency, which was 20.4% in 2010 (2009: 23.1%);

Receivable from public sector & Central Customers – based on annual weighted average rate of interest on trade loans issued to resident public legal entities by commercial banks in national currency, which was 15.6% in 2010 (2009: 17.5%);

Commercial and Industrial Sector – based on annual weighted average rate of interest on trade loans issued to resident private legal entities by commercial banks in national currency, which was 15.6% in 2010 (2009: 17.5%);

Loss from initial recognition of restructured receivables amounted to GEL 2,906 thousand in 2010 (2009: GEL 4,791 thousand) (Note 12).

Interest income from unwinding of previously recognised restructuring losses amounted to GEL 2,227 thousand in 2010 (2009: GEL 2,373 thousand) (Note 7).

(b) Impairment of trade receivables

As at 31 December, the aging analysis of trade receivables is as follows:

			Past due but not impaired				
	Total	**Neither past due, nor impaired**	**<60 days**	**60-120 days**	**120-180 days**	**180-360 days**	**>360 days**
2010	**37,778**	20,519	552	569	361	517	15,260
2009	**42,193**	21,493	1,120	675	365	802	17,738

Past due but not impaired accounts receivable primarily relate to restructured amounts. All accounts receivable are individually tested for impairment. For a movement in allowance for uncollectible accounts please refer to Note 10.

18 Prepayments and other receivables

In thousands of GEL	**31 December 2010**	**31 December 2009**
Advances given to suppliers	4,432	4,468
Less: Provision for impairment (Note 10)	(134)	(201)
Total advances given to suppliers, net	**4,298**	**4,267**
VAT recoverable	3,449	3,397
Prepaid income tax	857	-
Other tax assets	1,289	122
Less: Provision for impairment (Note 10)	(3,259)	(3,259)
Total tax assets, net	**2,336**	**260**
Other accounts receivable (a)	5,509	7,821
Less: Provision for impairment (Note 10)	(5,033)	(3,094)
Total other accounts receivable, net	**476**	**4,727**
Total other receivables	**7,110**	**9,254**

(a) Other accounts receivable

Other accounts receivable balances include receivables from GSE, an entity controlled by the State of Georgia, in the amount of GEL 3,750 thousand, which were factored by the Company from various counterparties of GSE in 2005. Face value of factored receivables is GEL 5,711 thousand. GSE is currently under a bankruptcy protection. All of GSE" s old liabilities, including those due to the Company, have been grouped by their seniority. Based on GSE" s current bankruptcy remedial action plan it is expected that GSE will start repayment of liabilities toward the Company in 2030. Management created a full allowance on these receivables, since GSE" s adherence to the bankruptcy remedial plan is subject to number of uncertainties which cannot be reliably predicted.

Receivable from GWEM in the amount of GEL 2,477 thousand, together with a full allowance created on its balance, has been written off in 2010 due to GWEM" s liquidation on 29 January 2010 as per court decree No B10007723/6.

19 Inventories

In thousands of GEL	**31 December 2010**	**31 December 2009**
Materials and supplies	8,545	7,219
Other inventory	3,802	2,372
Total inventories	**12,347**	**9,591**

20 Cash and cash equivalents

In thousands of GEL	**31 December 2010**	**31 December 2009**
Current accounts (interest rate: 7-8% p.a)	15,024	3,493
Cash on hand	21	24
Corporate cards	55	39
Special accounts	144	104
Total cash and cash equivalents	**15,244**	**3,660**

All cash and cash equivalents are classified as current and not impaired.

21 Equity

(a) Share capital

	31 December 2010	**31 December 2009**
Number of shares issued and fully paid	81,147,886	81,147,886
Value in GEL thousands	**81,148**	**81,148**

The authorised number of ordinary shares is 81,147,886 with a nominal value per share of GEL 1. The shares rank equally and each share carries one vote. There were no movements in the number of shares issued during 2010 or 2009.

(b) Shareholders

	31 December 2010	**31 December 2009**
The Parent	75.00%	75.00%
Agency of State Property Management of Georgia	24.53%	24.53%
Individuals (300 people)	0.47%	0.47%
Total	**100.00%**	**100.00%**

22 Interest bearing loans and notes

In thousands of GEL	**31 December 2010**	**31 December 2009**
Non-current		
Loan from the Parent (c)	45,103	37,524
Funds borrowed from local banks (b)	20,734	38,184
Notes payable (a)	603	718
Total non-current loans and borrowings	**66,440**	**76,426**
Current		
Funds borrowed from local banks (b)	11,068	4,494
Current portion of notes payable (a)	139	139
Total current loans and borrowings	**11,207**	**4,633**
Total loans and borrowings	**77,647**	**81,059**

22 Interest bearing loans and notes (continued)

(a) Long term notes

The Company has a number of long-term non-interest bearing notes payable denominated in GEL. These notes were issued during the initial privatisation of the Company in 1998 on the waiver of previous debt obligations by the Company to certain former suppliers. The carrying value of these notes payable has been calculated using a discount rate of 15.4% until the specified date of maturity. This discount rate is considered to approximate to the equivalent yield on loan borrowings in the Georgian market at the time of their origination and has not been changed thereafter.

For the majority of the notes, as a consequence of the maturity dates not being for at least 80 years from 31
December 2010, the amortised cost for these notes is recorded as nil (2009: nil) in the financial statements. For these notes, the discounted amount does not exceed GEL 0,5 for any individual loan or in aggregate.

The notes payable were as follows:

In thousands of GEL	**Maturity**	**Face value as at 31 December 2010**	**Carrying value as at 31 December 2010**	**Face value as at 31 December 2009**	**Carrying value as at 31 December 2009**
Sakenergo	2098	-	-	132,000	-
Ministry of Finance	2098	132,000	-		
Ortachala	2098	388	-	388	-
Zahesi	2098	119	-	119	-
Satskhenisi	2098	73	-	73	-
SSS Telasi	2098	50	-	50	-
Orbi	2098	9	-	9	-
Elektrogadatsema	2021	1,302	742	1,598	857
Total notes payable		**133,941**	**742**	**134,237**	**857**

Sakanergo was liquidated in 2010 and subject to an amended agreement notes were re-assigned to Ministry of Finance.

Interest expense accrued on the notes payable amounted to GEL 252 thousand (2009: GEL 245 thousand) (Note 13).

(b) Funds borrowed from local banks

On 15 December 2009, the Company signed a loan agreement with JSC Bank of Georgia for USD 5,000 thousand. As at 31 December 2009, the Company had fully utilised this facility. The loan is denominated in US Dollars and bears an interest rate of 14% per annum and matures on 15 December 2014. Carrying amount of the loan at 31 December 2010 amounted to GEL 8,397 thousand (2009: GEL 8,429 thousand).

On 17 July 2008, the Company signed a loan agreement with JSC VTB Bank Georgia for USD 14,000 thousand. As at 31 December 2008, the Company had fully utilised this facility. The loan is denominated in USD and bears an interest rate of 14% per annum and matures on 17 July 2012. Carrying amount of the loan at 31 December 2010 amounted to GEL 23,405 thousand (2009: GEL 24,353 thousand).

On 9 October 2009, the Company signed a loan agreement with JSC Kor Standard Bank for USD 5,860 thousand. As at 31 December 2010, the Company had fully repaid the loan. Carrying amount of the loan at 31 December 2009 amounted to GEL 9,896 thousand.

Interest expense accrued on the loans from local banks amounted to GEL 5,846 thousand (2009: GEL 3,710 thousand) (Note 13).

22 Interest bearing loans and notes (continued)

(c) Loan from the Parent

On 27 October 2008, the Company concluded an agreement with the Parent according to which the outstanding loan amount of USD 388,336 thousand, including principal and accrued interest on loans issued by the Parent as of that date, was restructured into a new loan. Restructured loan matures on 31 December 2059 and bares an interest of 1% per annum. Repayments of the interest should be made when the Company reports profits from its operations. The Company used 18% to assess a fair value of restructured loan at the date of restructuring, since management believes 18% was reflective of a fair interest on similar instruments at that date.

At every reporting date management estimates future cash flows related to the loan. Since the Company has recorded profits in 2010, management estimates that payments under the loan will commence in 2011. Changes in the carrying value of the loan caused by reassessment of future cash flows are recognised as gains or losses in the income statement and amounted to GEL 1,460 thousand in 2010 (2009: GEL nil) (Note 13).

Interest expense accrued on the loans from the Parent amounted to GEL 6,884 thousand (2009: GEL 5,724 thousand) (Note 13).

(d) Loan from European Bank for Reconstruction and Development

On 15 December 2010, the Company concluded an agreement with European Bank for Reconstruction and Development (EBRD) for USD 25,000 thousand. The loan is denominated in USD and bears an interest rate of LIBOR plus 3.5%-5.0% per annum based on margin (financial debt to EBITDA) of the Company. Obligation of the Company under this facility is guaranteed by the Ultimate Parent.

The Company paid up-front commission fees amounting to GEL 713 thousand for approved financing facility.

23 Trade and other payables

In thousands of GEL	**31 December 2010**	**31 December 2009**
Trade payables	90,575	98,041
Fees payable to the Parent	15,824	15,130
Customer prepayments	5,751	5,153
Other	18,810	18,604
Total trade and other payables	**130,960**	**136,928**

Trade payables to suppliers as of the year ended 31 December 2010 include GEL 3,162 thousand (2009: GEL 3,007 thousand) of payables to TGR Energy, an entity under common control, for a supply of electricity in 2009. Under the provisions of a sales and purchase agreement, TGR Energy has an option to either request a payment in cash or delivery of electricity in the proportion of 1 to 1.1. If parties do not notify each other in advance the agreement is automatically prolonged for a period of one year subsequent to 31 December 2011, indefinitely. If agreement is not prolonged existing liabilities should be settled in cash. Cash settlement tariff defined by the agreement is USD 0.0273 per kwt/hr (approximately GEL 0.048). Under the agreement the Company has received 59 kwt/hr in 2008. The Company believes that payable for the 66kwt/hr in the amount of GEL 3,162 thousand represents a financial liability payable on demand and has accounted for it as part of accounts payable. The Company has not separately accounted for an option of TGR Energy to request repayment of the obligation by delivery of electricity, since it believes that the value of this option is immaterial.

Management and technical fees payable to the Parent originated prior to 2009. The Company makes payments under these accounts only when the Parent requested to do so.

Other payables include GEL 7,431 thousand payable to MEDG (Note 10) and payables to GSE in the amount of GEL 4,551 thousand.

Other payables at 31 December 2009 included GEL 1,477 thousand of fines and penalties on customs fees payable, which were disputed by the Company. The Supreme Court ruled in favour of the Company on 24 June 2009. The official ruling was delivered to the Company in 2010. Accordingly the related payables were derecognised in 2010 and recorded as part of reversal of provisions and impairment in income statement (Note 10).

24 Other taxes payable

In thousands of GEL	**31 December 2010**	**31 December 2009**
VAT payable	12,565	14,118
Road tax liability	3,424	4,584
Personal income tax	688	531
Property tax		924
Total other taxes payable – current	**16,677**	**20,157**
Restructured road tax liability - non current	-	3,424
Total other taxes payable	**16,677**	**23,581**

Included in the value added tax payable is the GEL 6,545 thousand (2009: GEL 7,696 thousand) that relates to deferred VAT which becomes payable to the authorities only when the underlying receivable balance is either recovered or written off. The amount is not discounted given that the timing of the recovery or write off of the underlying receivable balance is uncertain, since the receivable can be collected at any time.

On 30 June 2009 the Company signed an " agreement on restructuring overdue tax liability" with Ministry of Finance of Georgia to restructure road tax liability of GEL 10,273 thousand. The tax liability was restructured for 24 months with quarterly repayments of principal in equal portions with interest of 6% per annum. At 31 December 2010 outstanding tax liability comprised of GEL 3,424 thousand (2009: GEL 8,008 thousand). Interest accrued on restructured tax liabilities in 2010 amounted GEL 377 thousand (2009: GEL 137 thousand) (Note 13).

25 Financial risk management

The Company considers its risks in respect of financial risks (credit, market, foreign exchange, liquidity and interest rate), operational and legal risks. The primary objective of the Company" s financial risk management is to establish
risk limits, and then ensure that exposure to risk stays within these limits. The Company is continuing to develop its operational and legal risk management functions. The Company" s current arrangements, including the oversight
provided by the Ultimate Parent, and the improvements being introduced are intended to ensure the proper functioning of internal policies and procedures to minimise operational and legal risks both currently and in the future.

(a) Credit risk

The Company is exposed to credit risk, which is the risk that a counterparty will not be able to pay in full when due. Financial assets, which potentially subject the Company to credit risk consist principally of trade receivables, restructured trade receivables, prepayments and other receivables and cash and cash equivalents. The Company is in a monopolistic position in provision of its services in Tbilisi, thus its ability to select desired customers is limited. The Company manages credit risk by timely disconnection of non-paying customers from the network, however
considering the number of the Company" s customers and their geographical dispersion it is possible that not all non-paying customers will be timely disconnected. A risk of unauthorised connection by disconnected customers also exists. The Company also serves customers of social sphere, which it may not be able to disconnect even if their debt servicing is not appropriate. The management has introduced conservative provisioning policies to timely identify and adequately provide for any problematic customer. The carrying amount of accounts receivable, restructured accounts receivable, prepayments and other receivables, net of provision for impairment, and the total of cash and cash equivalents, represents the maximum amount exposed to credit risk. Although collection of receivables could be influenced by economic factors, management believes that there is no significant risk of loss to the Company beyond the provisions already recorded.

The Company has no significant concentration of credit risk since the customer portfolio is diversified across a wide number of residential and commercial customers.

Surplus cash balances are placed in financial institutions, which are considered at time of deposit to have a minimal risk

of default.

25 Financial risk management (continued)

(b) Market risk

The Company is exposed to market risks. Market risks predominately relate to the tariffs that are imposed on the Company and affect the price of the electricity purchased and the price that can be charged to subscribers for the electricity consumed. While the Company has influence in the setting of some of these tariff levels, the decisions on tariff levels are outside of its control. The Company has signed a memorandum with GNEWSRC by which a mutual agreement was reached that sales tariff for the Company will remain unchanged through year 2015.

In addition, the Company has open positions in interest rate and currency positions, which are exposed to general and specific market movements.

(c) Foreign exchange risk

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. The Company has exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows.

At 31 December 2010, if the Georgian Lari had weakened/strengthened by 10% against the US Dollar with all other variables held constant, post-tax profit for the year ended 31 December would change as follows:

	Strengthening	Weakening
2010		
USD (10% movement)	9, 260	(9,260)
2009		
USD (10% movement)	10,491	(10,491)

Due to undeveloped market of financial instruments in Georgia, the management is not able to hedge the Company" s foreign exchange risk.

The Company has the following foreign-currency denominated financial assets and liabilities:

	USD – denominated	
In thousands of GEL	**2010**	**2009**
Cash and cash equivalents	3 005	5
Loans and borrowings	(76 905)	(80 201)
Trade payables	(3162)	(9 581)
Fees payable to Silk Road Holdings B.V.	(15 824)	(15 130)
Net position at 31 December	**(92,886)**	**(104,907)**

(d) Capital risk management

The Company" s objectives related to the capital management up to 2011 was to achieve a positive equity position. Equity deficit was accumulated by the Company due to continuous losses recorded in the previous periods. As at 31 December 2010 the Company" s equity is GEL 20,635 thousand.

25 Financial risk management (continued)

(e) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities. The majority of the Company" s current liabilities is due to/from related parties and management believes that this provides the Company with sufficient flexibility with regard to the timing of payments as required for ensuring adequate liquidity in the business in the future, and as a result does not maintain significant surplus cash balances.

The table below shows liabilities analysed by their remaining contractual maturity. The amounts disclosed in the maturity table are the contractual undiscounted cash flows.

Foreign currency payments are translated using the spot exchange rate at the end of the reporting period.

The maturity analysis of financial liabilities at 31 December 2010 is as follows:

In thousands of GEL	**Less than 1 year**	**From 1 to 2 years**	**From 2 to 5 years**	**Over 5 years**	**Total**
Interest bearing loans	14,167	40,539	32,364	987,359	1,074,429
Promissory notes payable	139	139	418	133,245	133,941
Trade and other payables	130,960	-	-	-	130,960
Total future payments	**145,266**	**40,678**	**32,782**	**1,120,604**	**1,339,330**

The maturity analysis of financial liabilities at 31 December 2009 is as follows:

In thousands of GEL	**Less than 1 year**	**From 1 to 2 years**	**From 2 to 5 years**	**Over 5 years**	**Total**
Interest bearing loans	10,464	33,337	52,949	945,451	1,042,201
Promissory notes payable	139	139	418	133,541	134,237
Trade and other payables	136,928	-	-	-	136,928
Total future payments	**147,531**	**33,476**	**53,367**	**1,078,992**	**1,313,366**

As seen from the table above, the Company has significant amount of liabilities payable within a year from 31
December 2010. Most of these liabilities are towards entities under common control. The Company has obtained a letter from the Ultimate Parent dated 5 March 2011 that it does not intend to, and it will procure its subsidiaries not to request repayment of the current obligations at least during 12 months period from the date of their letter. The
Ultimate Parent also committed to provide funds to the Company, if needed, for it to continue operations without interruption.

(f) Interest rate risk

Interest rate risk is the exposure of the Company" s financial position to adverse movements in interest rates, which is expressed by an increase in the interest amounts against attracted funds or by a decrease in income received from allocated funds. As at 31 December 2010 and 2009 the Company is not exposed to the interest rate risk on attracted financing, since all loans and notes received are at fixed interest rate. Interest income earned on placed deposits and cash balances is not significant.

26 Fair value of financial instruments

The estimates of fair value are intended to approximate the amount for which a financial instrument could be exchanged between knowledgeable, willing parties in an arm's length transaction. However given the uncertainties and the use of subjective judgment, the fair value should not be interpreted as being realisable in an immediate sale of the assets or settlement of liabilities.

Fair values of the Company" s financial assets and liabilities can be analyzed as follows:

In thousands of GEL	31 December 2010		31 December 2009	
	Carrying value	**Fair value**	**Carrying value**	**Fair value**
Financial assets				
Trade receivables, including restructured receivables (Note 17)	37,778	37,778	42,193	42,193
Cash and cash equivalents (Note 20)	15,244	15,244	3,660	3,660
Other receivables (Note 18)	476	476	4,727	4,727
Financial liabilities				
Interest bearing loans (Note 22)	77,647	91,202	81,059	89,709
Trade and other payables (Note 23)	130,960	130,960	136,928	136,928

The following methods and assumptions were used to estimate the fair values:

- The fair value of cash and cash equivalents, trade receivable, trade and other payable and other receivables approximate their carrying amounts due to the short-term maturities of these instruments;
- The fair value of restructured trade receivables approximate their fair values since they are discounted using prevailing market rates at recognition;
- The fair value of interest bearing loans is estimated by discounting future cash payments using the prevailing market rates at the reporting dates.

27 Commitments

On 20 June 2007, the Ultimate Parent concluded " Memorandum on development of cooperation in electro-energy sphere and realisation of the prior agreements" with the Government of Georgia. Major aspects of the memorandum related to: fixing of future long-term tariffs on electricity; investment program with total amount of USD 56.3 million for years 2007-2015; transfer of certain properties to the Company; construction of new hydro power station and resolution of certain operating problems of the Company. As of the date of approval of these financial statements no binding agreement has been signed on the basis of the said memorandum. However, on 24 September 2008, GNEWSRC issued a decree referring to the investment commitments stipulated in the above memorandum and established electricity tariff for the Company which will not be changed till 1 September 2015. According to the decree, the Company should also report to GNEWSRC annually its actual investments. Based on the reports filed and a draft report for 2010 total volume of investments for years 2007-2010 was USD 79.9 million (approximately GEL 132.1 million).

As discussed in Note 10, the Company is committed to complete rehabilitation of an electricity network and metering of 9,618 customers in the settlement of internally displaced people by May 2011. Management estimates total cost related to this commitment not to exceed GEL 4,500 thousand, of which GEL 2,492 thousand has already been invested by the Company as at 31 December 2010.

28 Contingencies

(a) Litigation

In the normal course of business the Company is a party to legal actions. As of the reporting date, other than as presented below, management is unaware of any actual, pending or threatened claims against the Company that would have a material impact on the Company.

	31 December 2010		31 December 2009	
In thousands of GEL	**Litigations and claims provided for (Note 10)**	**Known litigations and claims not provided for**	**Litigations and claims provided for (Note 10)**	**Known litigations and claims not provided for**
Customer complaints	669	394	1,064	413
Litigation with the State	-	-	7,431	-
Total litigations	**669**	**394**	**8,495**	**413**

(b) Taxation contingencies

The taxation system in Georgia is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are sometimes subject to varying interpretation.

Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Georgian tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these financial statements, if the authorities were successful in enforcing their interpretations, could be significant. Possible liabilities, which were identified by management at the balance sheet date as those that can be subject to different interpretations of the tax laws and regulations and are not accrued in the accompanying financial statements, could total up to approximately GEL 1,500 thousand.

The Company" s books are open for tax inspection for a period of six years, after which all tax claims are grandfathered.

(i) Allocating collection from customers

As explained in Note 24, as at 31 December 2010 GEL 6,545 thousand (2009: GEL 7,696 thousand) represents a value of deferred VAT payable. Deferred VAT originated in periods prior to 2006, when VAT for electrical power distribution companies was payable on cash collections from customers, rather than on value of sales. Accordingly, it relates to accounts receivable originated prior to 2006. Significant parts of these customers are currently served by the Company and perform regular payments on current deliveries of electrical power. The Company allocates collections from these customers by first covering most current deliveries, and allocating only payments in excess of current deliveries to recovery of old receivables. There is no clear guidance available how this allocation should be performed. The Company believes that it has sufficient evidence to conclude that allocation used by the Company is in line with current legislation. However if this position is challenged by tax authorities and a method of allocation is changed unfavourable to the Company, the Company will be requested to amend previously filed VAT returns and pay relevant fines and penalties for late payment of VAT. Currently it is not practicable to estimate possible value of fines and penalties if such change in allocation of payments is successfully assessed by the tax authorities.

(c) Contingencies on ownership of transmission lines and use of land plots

The current legislation in Georgia is unclear in relation to ownership issues with regard to land over which the
Company" s equipment for the transmission of electricity is located. On further clarification of the law, it is possible that
the Company may be required to acquire ownership to certain land plots or to pay rentals to other parties for the use of certain land plots.

The Company uses land plots owned by other parties for access to its network facilities which gives rise to servitude relationships with owner of land. Rapidly changing circumstances in real estate market of Georgia and certain claims that were raised in 2009 indicate that services in respect of servitude rights may become chargeable for current and prior periods.

28 Contingencies (continued)

(c) Contingencies on ownership of transmission lines and use of land plots (continued)

At the date of approval of these financial statements, management considers that it is not possible to quantify any additional expense, if any, which the Company might incur from the issues stated above and consequently, no provision has been made against such potential liabilities.

(d) Environmental matters

The enforcement of environmental regulation in Georgia is evolving and the enforcement posture of government authorities is continually being reconsidered. The Company periodically evaluates its obligations under environmental regulations. As obligations are determined, they are recognised immediately. Potential liabilities, which might arise as a result of changes in existing regulations, civil litigation or legislation, cannot be estimated but could be material. In the current enforcement climate under existing legislation, management believes that there are no significant liabilities for environmental damage.

29 Related party transactions

(a) Transactions with management

Remuneration of the supervisory board, consisting of six persons, and the top management, consisting of seven persons, comprised salary and other short-term employee benefits GEL 33 thousand and GEL 2,767 thousand, respectively (2009: GEL 48 thousand and GEL 3,101 thousand, respectively).

(b) Transactions with other related parties

The Company" s related party transactions are disclosed below:

(i) Income

In thousands of GEL	**2010**	**2009**
Gains from reassessment of future cash flows on loan from the Parent (Note 13)	1,460	-

(ii) Expenses

In thousands of GEL	**2010**	**2009**
Purchase of power:		
Entities under common control:		
Mtkvari Energy LLC	15,934	21,907
Khramhesi 1 JSC*	6,625	4,701
Khramhesi 2 JSC*	13,311	8,915
TGR Energy Electricity Trade Co	287	-
Interest expense:		
Parent companies:		
The Ultimate Parent	-	2,247
The Parent (Note 22)	6,884	5,724

29 Related party transactions (continued)

(iii) Balances

In thousands of GEL	**31 December 2010**	**31 December 2009**
Prepayments and advances (current assets):		
Entities under common control:		
TGR Energy Electricity Trade Co (Note 18)	1,617	1,617
Interest bearing loans :		
Parent companies		
The Parent (Note 22)	45,103	37,524
Trade and other payables:		
Parent companies		
The Parent (Note 23)	15,824	15,130
The Ultimate Parent (Note 23)	-	6,878
Other entities under common control:		
Mtkvari Energy LLC (Note 23)	72,663	76,354
TGR Energy Electricity Trade Co (Note 23)	3,162	3,007
Khramhesi 1 JSC* (Note 23)	3,213	3,212
Khramhesi 2 JSC* (Note 23)	1,396	834

* Khramhesi 1 JSC and Khramhesi 2 JSC are controlled by the Ultimate Parent by means of a long-term management contract.

30 Reclassification of comparative information

Effect of reclassifications in the previously reported amounts can be analysed in the table below:

In thousands of GEL	**2009 as previously reported**	**Reclassifications (a)**	**(b)**	**(c)**	**2009 as currently reported**
Statement of comprehensive income *(affected items)*					
Other income	4,262	-	2,373	-	6,635
Recovery of/(losses from) provisions and impairment	(39,644)	48,099	2,842	-	11,297
Revaluation of property, plant and equipments	-	(48,099)	-	-	(48,099)
Other operating expenses	(18,744)	-	(5,215)	(136)	(24,095)
Finance costs	(13,895)	-	-	136	(13,759)

(a) Separate presentation of revaluation losses

The Company has elected to presented losses from revaluation recorded through income statement as a separate line on the face of the financial statements due to the materiality of the amount. Relevant reclassifications were also reflected in Note 15.

30 Reclassification of comparative information (continued)

(b) Effect from restructuring of trade accounts receivable

In the previous periods the Company presented effects from restructuring of accounts receivable together with changes in the allowance of accounts receivable on net basis, while requirement of the IFRS is to disclose these amounts on gross basis. Relevant reclassifications were also reflected in Note 17.

(c) Interest charged on restructured tax payables

The Company has reclassified interest charged on restructured tax payables from finance costs to other operating expenses to confirm to 2010 presentation. Relevant reclassifications were also reflected in Notes 13 and 12.

31 Events after the reporting period

On 22 February 2011 the Company utilised USD 15,000 thousand (GEL 26,592 thousand) of its facility with EBRD (Note 22).

Loan facility from EBRD was mainly used to refinance outstanding VTB Bank Georgia loan amounting USD 12,833 thousand (equivalent of GEL 22,521 thousand) on 22 February 2011.