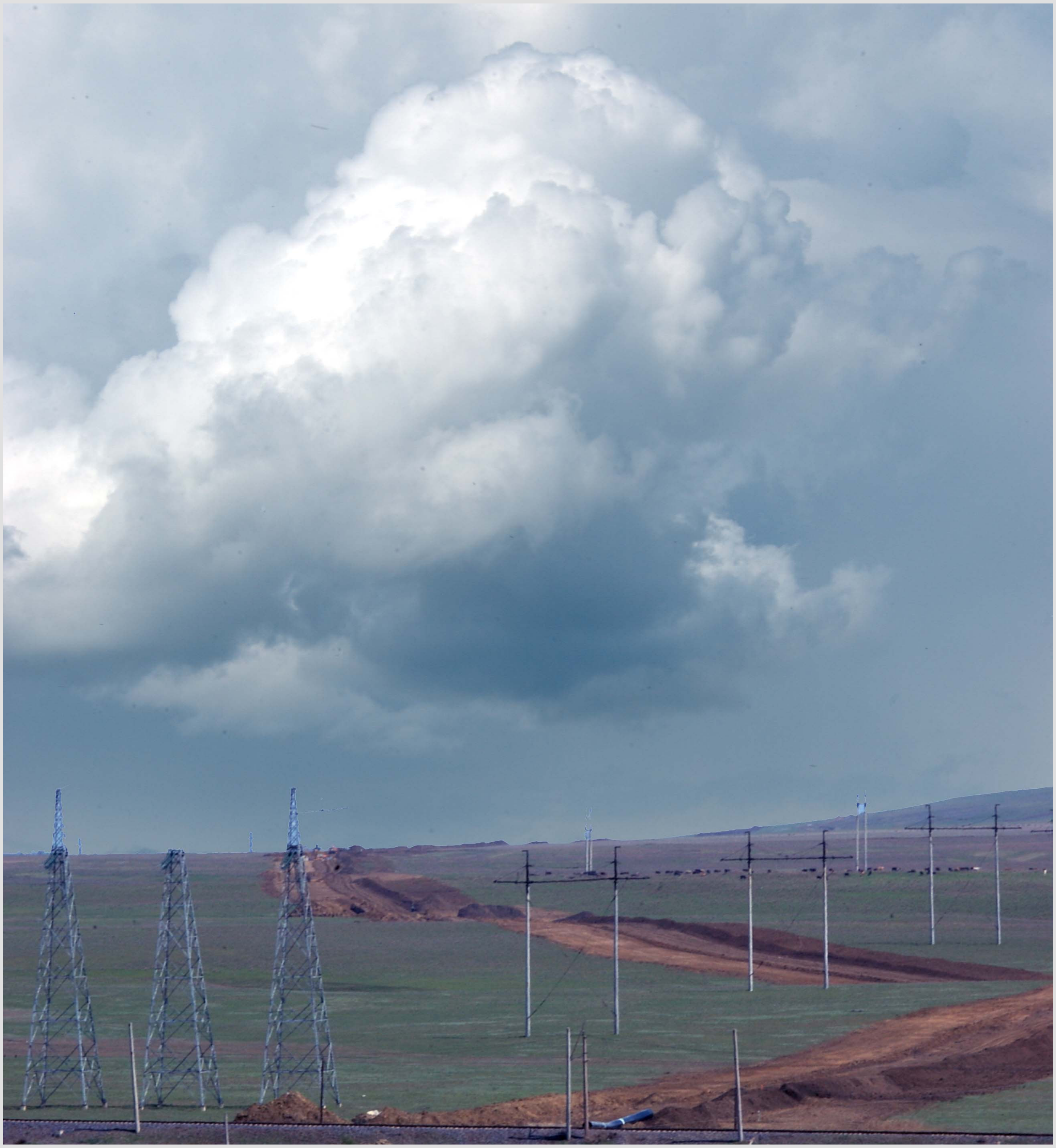
Advisory Assistance to the Ministry of Energy of Georgia

P.E.D. IQC – Contract No. DOT-I-00-04-00020-00 Task Order #800

BUSINESS PLAN FOR GEORGIAN OIL AND GAS CORPORATION (GOGC)



Dec 18, 2006

This publication was produced for review by the United States Agency for International Development. It was prepared by CORE International, Inc.

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1. GOGC Cover Letter – Business Plan

December 18, 2006

Alexander Khetaguri
President
Georgia Oil and Gas Corporation
Tbilisi Georgia

Dear. Mr. Khetaguri,

**Subject: GEORGIA OIL AND GAS CORPORATION,
BUSINESS PLAN 2007-2016**

In May 2006 the Ministry of Energy of Georgia requested that USAID, in the project Advisory Services to the Ministry of Energy of Georgia[1], undertake a business plan for the newly merging Government of Georgia-owned company Georgia Oil and Gas Corporation (GOGC). On June 15 2006 USAID and the Ministry agreed to undertake such study. Concurrently, the GOGC sought and secured the services of Booz Allen Hamilton (BAH) to undertake an analysis of the merger itself, especially as related to Saknavtobi and GGIC. Subsequently the two contractors worked closely. The attached Business Plan for the GOGC for the period 2007-2016 is the result of that common effort, and reflects common assumptions and recommendations as to purposes and structure of the merged company. As management further refines and refines the merger, aspects of this plan may then need further revision.

Brief Background:

Summarizing briefly, the GOGC will be an integrated national gas and oil transport, transit fee management, and oil and gas production management company. It will comprise those principal components of the three predecessor companies which will might remain after the reorganization is completed, and may include additional services as summarized here. The predecessor companies, Georgia International Oil Corporation (GIOC), Georgia Gas International Corporation (GGIC), and the National Oil Company of Georgia (Saknavtobi) will retain, if at all, separate identities only as subsidiaries of the GOGC.

[1] Through its contractor CORE International. This Business Plan represents only the views and opinions of the contractor and its employees and consultants. The Business Plan was compiled under direction of Paul Ballonoff, Chief of Party for CORE International, Mariam Valishvili as lead energy financial and accounts analyst for CORE International, Liana Jervalidze as analysis for storage operations and tariff examples, consulting geologist Robert Robinson, and consulting attorney Thea Khitarishvili an expert Georgian Oil and Gas law and institutions, and in international gas transit issues. The opinions expressed here may not be those of the USAID nor of the United States Government.

Prior to the merger, the three companies had different undertakings on behalf of the Government of Georgia.

- The GIOC represented the Government of Georgia in all Caspian oil and gas transportation projects passing through the territory of Georgia.
- The GGIC owned and operated the medium and high pressure gas pipeline network in Georgia, and handled domestic transportation as well as the gas transit to Armenia.
- Saqnavtobi represented the state in all Production Sharing Agreements (PSA's), served as the state's commercial agent in securing receipt of the state's share of oil and gas, monetizing it and transferring the taxes to the state budget; it was also a player in the upstream field and held several exploration and production licenses itself.

Assumed New Organization:

Based on discussions with Management, we assume that the reorganized structure will include as follows: There will be four principal operating departments, each with a Director (to whit: International Relations; Commercial operations for monetization of oil and gas revenues; Upstream Department for PSA monitoring, data management and analysis and shut-in well management; and Oil and Gas whose purposes include management oversight on a gas transportation subsidiary). There will be a Shared Services Department providing internal operations of the company. The GOGC will retain three subsidiaries: the Gas Transportation Company (GTC) as a regulated subsidiary providing domestic and international gas transit services, The Baku-Supsa pipeline under management contact, and an Oil Preparation company servicing the upstream industry.

Organization of Financial Statements:

To describe the financial status of the GOGC just prior to the merger, we estimate pro-forma financial statements (income statements, and balance sheets) for 2006 for each previously extant company, as well as create consolidated statements for the common entity, if it had been combined in all of 2006. These statements are our best estimates, based on information obtained from the respective companies, combined with our best judgments when required, of a reasonable representation of the status of those separate entities as of the end of 2006. We emphasize that the authors of this study are not engaged as auditors, nor was the required product an audited financial statement. Therefore, while we made best efforts, with support of the respective corporate accounting departments, to give a fair and accurate representation, we make no assurances that the accounts reflect accounting standards.

Assumed Accounting Principles

In general, we adopt the reporting style of "regulatory accounting". We do so since at least some major assets of the company are and will remain regulated by the GNERC, since other of the revenues and major revenue streams arise from contracts that often reflect regulatory account concepts. But also, we believe that the GOGC itself will in many ways act as a service company for government interests, and so we believe it should be best understood as a form of "public utility" in an accounting perspective. That is, the entity should be expected to operate on a business basis, which thus includes making returns (profits) from its operations, but those profits and related investment policies should reflect incentives and levels of return appropriate to a public utility in a market economy.

Treatment of Government Revenues

This public service role is emphasized by the recommendation that all revenues collected by GOGC on behalf of the Government (such revenues and in-kind volumes collected from international oil and gas transport services), be provided in full amount to the Government; therefore such revenues are not treated as "earnings" by the company. Thus, the amounts such revenues "earn" above costs are *not* "profits" of the company; these entire revenue streams belong to and are paid to, the Government. We assume that in return for those services, the GOGC or its respective parts, are paid cost-based fees, including normal profits, by separate accounts approved by the Government annually. In our cash flow estimates, we also estimate the amount of the fee thus required. To clearly emphasize that this is a fee to the company we show the amount explicitly. This in turn emphasizes that revenues paid to the Government from monetization activities as fees for transit rights, are not "profits" earned by the company (and thus, among other consequences, is not subject to profit tax); such revenues belong to the Government. The Government in turn pays the company for its services.

Structure of Statements for 2007 to 2016

We then project the effect of implementing the proposed restructure on the 2007 financial statements of each entity, and of the consolidated company. We assume that for 6 months the companies retain their present structure, and for the remaining 6 months of 2007, and all remaining years 2008 through 2016, have the new structures. The projections reflect our best estimates of actual conditions, on what we consider "conservative" methods. That is, in general we assumed the sales volumes and price levels also assumed in pre-existing corporate documents, or in transport contacts, and price levels commonly assumed at time of development of this analysis. Especially therefore, if fuels prices differ from the forecasts, then revenue estimates may differ significantly. However, all values beyond 2006 must be taken as simply our best current estimates. No warrantee of accuracy is made nor implied.

Summary of Principles Assumed

Based on the common analysis of the consultants of USAID and BAH, and extensive discussions between consultants and corporate management in the period August through November 2006, we base our projections on the following financial principles and organizational assumptions.

First, we assume that the integrated company will be operated on a business-basis, paying its own proper operating expenses from the revenues earned on services provided. The company will not be engaged in making nor conducting social nor other economic policies of the Government. Those parts of the integrated company (principally the GTC subsidiary), which provide services for fees set by the Georgian

National Energy Regulatory Commission (GNERC), will continue to operate based on such regulated fees and be expected to cover their operating costs from those fees.

Entities that operate as purely commercial entities (such as the oil production shares of the pre-existing Saknavtobi, to the extent that those remain), and other retained services of the former Saknavtobi in geological information management, will be applied by the company to the costs of providing those services. Revenues (in cash or in kind) from management of production sharing agreements (PSA's), if belonging to the Government as revenues or taxes, will be monetized at their market value and the full proceeds conveyed to the Government. Only PSA revenues, if any, belonging to the former Saknavtobi as from its own production, if any, may be attributed to the accounts of GOGC and potentially applied for expenses of the company.

The revenue collection services of the present GIOC will be retained in the form of a Commercial Department of the common company. The Commercial Department will perform the several services of the existing companies of receiving values in cash or in kind, and monetizing them at the reasonable market value returning the full proceeds to the Government. That is, the Commercial Department will receive cash from the Baku-Supsa subsidiary of the present GIOC; or commodity as in- kind payments for various natural gas transmission services of the North-South Pipeline of the GTC or the South Caucasus Pipeline, as fee revenues owed to the Government for various forms of transport, and will exercise option rights on behalf of the Government. All revenues thus obtained will be paid to the Government. We assume the purpose of the company, and especially the Commercial Department, is to maximize the values of these revenue streams on behalf of the Government, and to deliver to the Government the full cash value of all revenues derived.

Carbon Credit Revenues

The pre-merger GGIC, and its successor within GOGC, intended to sign an agreement with the World Bank which may earn substantial values, estimated as $120 million in total revenues, in "carbon credits" for various operations and improvements in the GTC system. We assume that revenues earned by the GTC as carbon credits will be applied by GOGC as required to (1) capital costs of organizational improvements in operation of financial and accounting systems of GTC and GOGC; (2) that 80 Million GEL will repay the principal of a Government of Georgia credit to be used for rehabilitation of the southern portion of the North-South line of the GTC; (3) that $45 million will be used to pay for the capital costs of creating a gas storage operation within Georgia, as a part of GOGC; and (4) remaining funds to the general revenues of the company. These assumptions would easily meet the requirement of the carbon credit facility, that at least 50% of all proceeds be used for capital improvements and operational maintenance of the gas pipeline system.

Gas Storage Analysis:

Annex 3 of this study presents our economic analysis of the proposed gas storage operation. We believe, based on that analysis, that if the storage operation is used by the Monetization Unit to maximize values from various "optional" and "supplemental" gas purchases from the SCP system, that the storage operation can be operated profitably at normal levels of return, and with substantial additional values realized to the revenues of the Government. While Annex 3 discusses alternative assumptions, we assume, and include in our forecasted accounts, that the one implemented is that which relies on carbon credit revenues for the capital financing of the construction, and that operation costs are paid on a normal regulated-type storage fee basis covering all proper fixed and variable costs.

Unneeded Oil Field Gathering Pipe

In the course of this study, it became apparent that within the oil and gas producing fields, are many oil collection system pipes, which serve no apparent proper purpose in the operation of the fields, and lead to risks of improper use of, or under-reporting of, oil production. It is assumed that a special project of the Oil and Gas Transportation Department will be created by the Management of GOGC for the purpose of removing these unnecessary pipes, and rehabilitating and reusing them or selling them.

Summary of Longer Term Structure

Thus, after the middle of 2007, we assume the GOGC will consist of the following principal operating units:

- An Oil and Gas Transportation Division, whose duties will include oversight of the GTC, which will remain a GNERC-regulated gas transmission company for services within Georgia; and the Baku-Supsa oil pipeline which will remain under management contract.
- The Oil and Gas Transportation Division will have as a special project, the removal of excess oil field gathering system pipes.
- The Oil and Gas Transportation Division will include a "Gas Storage entity" operated under a separate account, providing service to the Commercial Department of GOGC.
- A Commercial Department GOGC, whose duties will include maximizing value to the Government of oil and gas transit revenues, in-kind payments of natural gas and oil, oil production "profit" in-kind payments, and rights to "optional" and "supplemental" gas under the SCP contract.
- An Upstream Management Department, whose duties will include a PSA management unit, a geological information services unit, and a shut-in well management unit.
- A Department of Common Services for internal corporate management. other common services

For convenience, we continue to show the separate accounts of the operating companies within the same organizational frameworks as at present, through the first half of 2007.

Staff Reductions:

A major problem faced by the integrated company is that of likely staff reductions. Some part of that may be achieved by spin-offs of certain business units, especially from Saknavtobi. However, some may be required as simple layoffs. For the purposes of accounting cost estimates, in 2007 we assume that the costs of any lay-offs which occur reflect that each laid off employee is paid at least three months normal wage, and that he/she receives paid health insurance for their family for one year, paid by GOGC. The statutory minimum requirement is simply 30 days notice, so this assumption reflects costs above the minimum of what the law requires. Other options for achieving staff reductions are noted in Appendix 2 to this cover letter and in Annex A to the Business Plan.

<u>Additional Issues</u>

In addition, we have analyzed certain issues at the request of the Management, and include those analyses in Annexes of the Business Plan. Those special issues are:

(1) analysis of the legal and regulatory framework of the existing companies, and how it will be affected by the merger (Annex A). Conclusions of that analysis with recommendations are also included as Appendix 2 to this letter;
(2) geological overview of the prospects for oil and gas recovery in Georgia (Annex B);
(3) analysis of the economics of natural gas storage operations within Georgia, if owned by the GOGC (Annex C); and
(4) examples of how capacity fees might be charged for use of the GTC pipeline services (Annex D).

<u>Organization of this Report</u>

The organization of this Business Plan is therefore as follows:

- Cover Letter with two Appendices:
  - Appendix 1: Description of the Georgian Oil and Gas Industry.
  - Appendix 2: Recommendations on Legal and Regulatory Issues.
- Pro-forma 2006 Financial Statements of GGIC, GIOC, Saknavtobi, and a consolidated 2006 statement for GOGC
- Estimated 2007 Financial Statements reflecting restructuring in course of that year for GGIC, GIOC, Saknavtobi, and a consolidated 2007 statement for GOGC.
- Projected 2008-2016 Financial Statements for the consolidated GOGC.
- Explanatory Annexes:
  - Notes to the Statements
  - Annex A: Analysis of Legal and Contractual Framework of the GOGC;
  - Annex B: Geological Overview of Georgian Oil and Gas Prospects;
  - Annex C: Analysis of Potential Georgian Gas Storage Operations;
  - Annex D: Examples of Gas Transmission Pipeline Capacity Tariffs.

We hope you may find this a useful analysis.

Paul Ballonoff
Chief of Party
CORE International
USAID Advisory Services to the Ministry of Energy of Georgia

2. Appendix 1: Brief overview of the current status of the oil and gas sector in Georgia[2]

Exploration and Production

The Georgian upstream sector has nearly 80 years of history in oil and gas exploration and production in Georgia. Having been centrally governed during the Soviet Era, Saqnavtobi had undergone substantial changes during the 90s, when it became the National Oil Company,[3] and then recently, when it has been merged in Georgian Oil and Gas Corporation along with the GGIC and GIOC, Georgia's state owned oil and gas transportation companies. Since the declaration of Georgia's independence, the oil and gas sector has been opened up for foreign investment. A number of international oil and gas companies have invested in Georgia's upstream fields. At present there are 7 leaseholders operating in the country under the Production Sharing Agreements schemes that are negotiated or modified according to the Oil and Gas Law of Georgia. These exploration and production licenses are held by the following investors: Anadarko Georgia Company CanArgo Energy Corporation, Swiss National Petroleum Limited (NPL), Frontera Recourses Georgia and Saqnavtobi itself.

The recent bid held on June 15, 2006 shortlisted three companies for 5 license blocks, and the Georgian National Regulatory Commission for Oil and Gas Resources is currently negotiating production sharing agreements with Aksai BMC (block V), Starait Oil and Gas Ltd (blocks VIA and VIB), and Global Oil & Energy Ltd (blocks VII B and VIII).

Even though current Georgian legislation allows for other types of upstream development agreements, namely Service and Risk Service Agreements, there are no operators currently operating under these types of agreements in the country.

The investment guide for Georgia provides the following information on the country's oil and gas potential: "Eleven oilfields have confirmed reserves of 28 million tons of oil yet to be explored. Larger oil reserves are assumed to exist. The oil potential of the Black Sea shelf is estimated at 70 million (1.3 billion barrels) of oil. Larger volumes of natural gas are also thought to exist along the black sea cost in Ajara. Gas potential is thought to be about 125 billion cubic meters, while 8.5 billion cubic meters have already been exploited".[4]

Pipelines

Georgia's pipelines can be divided into two groups: pipelines built during the Soviet Era and inherited after the break-up of the Soviet Union, and newly built pipelines for

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[2] Abstracted from Annex 1, Legal and Contractual Framework Analysis of the GOGC, by legal consultant Thea Khitarishvili.

[3] Established in 1929 as a trust, Saqnavtobi changed its status under the Oil and Gas Law of 1999 to become the National Oil Company, and later restructured as the 100% state owned joint stock company as of April 5, 2005 (is that so? – Salome)

[4] Investment Guide of Georgia: Energy http://www.investmentguide.ge

the transportation of oil and gas resources from the landlocked countries of the Caspian Sea region to the world markets/Turkey and beyond.

There are three new pipelines in Georgia transporting oil and gas from the Caspian region: the Early Oil Pipeline (western route, from Baku to Supsa), operating from 1999, the Baku Tbilisi Ceyhan Oil Pipeline (BTC), operating from 2005, and the South Caucasus Pipeline (also referred to as the SCP or Shah Deniz Gas Pipeline), construction of which will be completed by the end of 2006 and is expected to be commissioned in early 2007. Negotiations on all three pipelines, as well as state participation and implementation of state undertakings are carried out by the Georgian International Oil Corporation (GIOC)[5], a 100 % state-owned Joint Stock Company created by special presidential decree for this purpose only.

As for domestic pipelines, Georgia has a 1,940-km high and medium pressure gas pipeline network, built during the Soviet Era and owned and operated by the former Georgian International Gas Corporation (GGIC),[6] along with its subsidiary company GTC. At present, these are the facilities supplying the Georgian market with natural gas and which also have major importance for transit to Armenia, as the north-south branch of this pipeline network is Armenia's only source of natural gas supply.

A similar presidential decree established the Georgian International Gas Corporation, now as GOGC, with the mandate to own, operate and govern the pipeline network and to undertake activities related to transiting Russian Gas to Armenia.

The domestic transportation licenses and tariffs for the transportation service within the territory of Georgia are set by the Georgian National Regulatory Commission of Oil and Gas Resources.

Transit tariffs for all pipelines are set by relevant international agreements and are not subject to internal regulations.

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[5] Georgian International Oil Corporation has been established as a 100% state owned joint stock company in accordance with the Presidential Decree Nr.178 of 20 February 1996

[6] Georgian Gas International Corporation has been established as a 100% state owned joint stock company in accordance with the Presidential Decree Nr. 206 of 20 April 1997

Governing legislation

The energy sector in Georgia was the one of those fields that had strategic importance for Soviet management and therefore was centrally governed. After the break-up of the Soviet Union, Georgia found itself unprepared for managing the field on its own and had very limited legislation essential for developing the sector. The mid 90s had an inflow of foreign investors interested in the Caspian region and growth in exploring possibilities for upstream projects in Georgia. Georgia opened its doors wide to foreign investment and passed legislation to encourage foreign investment in the country. However this did not appear to be enough to govern the sector without a sound legislative framework. The first investors in Georgia interested in upstream petroleum development included a Swiss investor operating under Ioris Valley Company, the British Ramco and JKX, and the American Frontera Resources.

These investors initially obtained subsoil mineral usage licenses, required under legislation governing the country's natural resources, which they regarded as licensing agreements. However, Georgian Oil treated those licenses as merely the permit to explore and develop Georgia's oil and gas resources and required entering into separate production-sharing agreements. This triggered the need for drafting sound oil and gas legislation that would provide for clear procedures that any investor would have to follow. The new law on Oil and Gas was passed on April 16, 1999 which gave Saqnavtobi the status of the National Oil Company with the exclusive right to represent the Government in all production sharing agreements and provided for setting up the regulatory agency to act on behalf of the state in the licensing process and to protect the state's sovereign interests in all upstream petroleum projects.

Almost in parallel, amendments to the existing law on Electricity were prepared and adopted on April 30, 1999 with the aim to allow Georgian National Energy Regulatory Commission (GNERC) to regulate midstream and downstream arrangement for natural gas. This meant adding requirements for licensing the natural gas supply and transportation and distribution activities through the domestic natural gas networks.

Recent changes to the Oil and Gas Law substantially changed the above structure by:

a) Changing the State Agency for the Regulation of Oil and Gas Resources into the independent National Regulatory Commission of Oil and Gas Resources[7]. The regulators are not yet appointed and therefore the activities of the Commission are on hold at present.
b) Changing the authority issuing the licenses for transportation as well as setting tariffs for domestic pipelines from GNERC to the National Regulatory Commission of Oil and Gas Recourses[8].

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[7] Amendments to the Oil and Gas Law, May 25, 2006

[8] Amendments to the Oil and Gas Law, May 25, 2006

c) Removed the reference to Saqnavtobi from the Oil and Gas law and put the onus on the president to nominate the National Oil Company[9].

Transit pipelines are governed by project-related bilateral or multilateral agreements, developed for specific pipelines (also referred to as project-related intergovernmental agreements).

All other downstream activities are subject to commercial legislation as for any other commodity trades (except for refining and domestic transportation activities, recently being made subject to licensing regimes).

In addition to this, all three companies are subject to the general application of national legislation in their everyday activities (i.e. civil, employment, tax codes, etc.).

State Energy Policy course

The most recent policy[10] direction of the Energy Sector aims at replacing old and outdated technologies in the Energy Sector, diversification of energy supplies, and developing an economic model for the sector's commercial viability.

The section of the energy policy on Energy Security prioritizes the need for the rehabilitation of Georgia's trunk pipelines and distribution networks, as well as proposing the building of new pipelines to connect up with neighbouring countries with oil and gas resources, an extension of the TransCaspian Energy Corridor, and building on- and underground storage facilities.

Section 2.3 of the energy policy addresses issues related to the exploration and production of local petroleum resources. It underlines the importance for the exploration of those fields with potential projection, and the increase and intensification of current productions.

The policy does not suggest any need for structural changes in the sector nor for any substantial changes to the existing energy legislation.

[9] Amendments to the Oil and Gas Law, October 24, 2006

[10] Based on the draft Principal Directions of the State Policy for Energy Sector, April 2006.

3. Appendix 2: Recommendations on Legal and Regulatory Issues[11]

Introduction:

The three companies merged into the newly established Georgian Oil and Gas Corporation have different undertakings on behalf of the Government of Georgia.

- The Georgian International Oil Corporation represents the Government of Georgia in all Caspian oil and gas transportation projects passing through the territory of Georgia.
- The Georgian International Gas Corporation owns and operates the medium and high pressure gas pipeline network in Georgia, and handles domestic transportation as well as the gas transit to Armenia.
- Saqnavtobi, the Georgian National Oil Company, represents the state in all Production Sharing Agreements, serves as the state's commercial agent in securing receipt of the state's share of oil and gas, monetizing it and transferring the taxes to the state budget; it is also a player in an upstream field and a holds and operates few exploration and production licenses itself.

Government undertakings under the existing projects of all three companies need to be unified in a way that does not jeopardize any existing commitments of the Government. There are no impediments to transferring the rights in any of the existing contracts; however, the need for detailed assessment of specific requirements under each agreement (for actual procedures for change of names or transfer of rights) should not be underestimated.

The sector is governed by the Constitution of Georgia, international agreements of general application (international public law), project specific bilateral and multilateral agreements, host government agreements, Energy and Oil and Gas Laws of Georgia (amongst other applicable national legislation), existing licenses, transit and transportation agreements and production-sharing agreements. A careful observation of the above legislation is essential for error free merger and for avoidance of potential conflicts between and parties of current contractual arrangements throughout the merger process and for GOGC's further business relationships.

Recommendations

Transfer of rights in existing agreements

The new GOGC Company will need to assume all rights and responsibilities of the three merged companies. Even if the change of name and transfer of all rights happens through the amendments to the existing legislation, there still remains a need for careful assessment of all existing agreements individually in order to comply with the requirements of each individual agreement on transferring ownership rights. The impact of the change of name and transfer of legal rights and responsibilities,

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[11] Abstracted from Annex 1, Legal and Contractual Framework Analysis of the GOGC, by legal consultant Thea Khitarishvili.

duties and liabilities should be individually assessed. It cannot be assumed that all this will happen automatically, since state undertakings in these agreements differ.

Changes to the legislation

Oil and Gas Law

Despite of the post merger changes to the Oil and Gas Law adopted on May 25 and October 24, 2006, the need to amend the oil and gas law still remains valid. One of the most immediate and clear changes will be required to the Article 9 of the Law on Oil and Gas, which provides the functions of the National Oil Company. It would be highly advisable to distinguish clearly the rights and responsibilities between the regulator and GOGC. The decision on a complete pull-out from exploration and production activities may need to be reassessed.

The issues that would need to be specifically addressed in the addendum should include:

- Requiring National Oil Company to transfer all revenues received from the state share of oil and gas in full to the state budget/or under the clear and transparent mechanism defined by the legislation[12].
- Allowing National Oil Company to participate in exploration and production, even if at present the decision is made to pull out from its current licenses/operations. The National Oil Company should not be deprived the right to explore and develop petroleum resources.
- Allowing National Oil Company to retain and manage existing data and develop, receive, classify, analyse, store and manage all information and geological data related to the Georgia's petroleum reserves and operations, until state remains the 100% owner of the NOC.

  NOTE: Although creation and management of a centralized information bank on oil and gas resources and operations in Georgia (including the collection, systematization, analysis, storage and management of information and data) is one of the main functions of the Commission it has not been implemented to date. The Saqnavtobi is still in possession of the historic and current geological data related to the petroleum operations in Georgia. It is the consultant's firm belief, that as long as the National Oil Company is delegated the power to represent the Government in the arrangements with investors, it is the best placed to maintain and manage the data for proper implementation of the PSAs. Obviously that should not hinder the Commissions access to the databank at any time. NOC should be obliges to take requests of the Commission on any data processing related to/necessary for the implementation of oil and gas operations under production sharing agreements and the licenses.

- Adding requirements for licensing (or referring to the exiting licensing procedures) for the underground gas storage; additions to deal with the operational issues and tariff/service charge structures of such storage facilities.

[12] At present it has the right to dispose the state share of oil and gas produced in Georgia and transfer all taxes to state budget according to Production Sharing Agreements, Article 9.2.c of the Oil and Gas Law

Law on Subsoil Minerals

The licensing authority for usage of underground natural vacuums for the underground gas storages is the ministry of Environment and Natural Resources. Law on Subsoil Mineral Resources[13] provides for the particulars for obtaining it, however does not deal with neither its operational issues of such underground storage, nor with the tariff structures or methods for its operation. These issues would be advisable to be handled within the same scope and the authority dealing with the upstream licensing. This would require modifications in Oil and Gas as well as Subsoil Mineral laws.

National policy review for management of oil and gas resources

1) Recent changes to the Oil and Gas Law of Georgia modified the status of the authority managing the national reserves of the petroleum resources from the State Agency to the Regulatory Commission. The new regulatory authority is an independent body, which by law is not allowed to be subordinated by any state body or institution[14].

The independence of the authority, dealing with the upstream sector and in particular disposing country's natural resources that are exclusively owned by the state, seem to be out of the countries constitutional frame. It is consultant's firm belief that this issue needs urgent review/revisions. The relevant precedent of exiting regime, governing country's other natural resources, could be found under the Subsoil Mineral Law. Decisions for opening up the natural resources for exploration and development have to be made by the government, however tendering of the licensing process and monitoring licensees could be outsourced to the Commission

2) The country continues to utilize old Soviet geological data. Any recent data developed under existing licenses are not unified and Georgia does not possess a modern assessment of its geological potential. There are talks on outsourcing this to a firm with the necessary experience and allowing it to own the data in exchange for funding the study. Aside from the need to have open, transparent bidding procedures for outsourcing such an important study, it is this consultant's firm belief that a study of this nature should be fully funded by the government, and that proprietary rights on any data related to the country's natural resources should be exclusively owned by the state.

3) And finally, the merger should not jeopardize the status of the National Oil Company. It is important to develop a clear policy to what extent would it represent the state in upstream operations and whether it should retain the right to explore and develop oil and gas resources itself. This is especially relevant if there are any expectations of major oil and gas discoveries in Georgia.

Existing Production Sharing Agreements

Even though the existing Production Sharing Agreements in Georgia may not offer the best possible deal for the country, it is highly advisable not to open negotiations

[13] Adopted on May 17, 1996
[14] Article 7.1 as per the modifications to the Oil and Gas Law, adopted on May 25, 2006

on any existing PSAs. Instead, the focus should be shifted to the best methods to oversee the implementation of investor's obligations under these PSAs. The mechanisms of state control and supervision should be clearly assessed, and a transparent monitoring policy would need to be developed.

Georgia would send negative signals to the international community if it starts amending the PSAs at this stage, regardless of how unsatisfactory they may be for the country. An exception would be those cases where assessment proves that parties are in breach of their contractual obligations, in which case agreed dispute resolution procedures should be invoked.

New production sharing agreements

The most recent bids short-listed three candidates for the new license awards, and negotiations on new production sharing agreements are underway. All efforts should be made to avoid unsatisfactory provisions that are in existing production-sharing arrangements.

Accounting Procedures

Clear and transparent accounting procedures should be developed at all levels of the Company's activities.

NOTE: The model form of International Accounting Procedures developed by the Association of International Petroleum Negotiators, as a suggested guide to the accounting requirements for joint operations, is attached to the report as Annex II.

Human Resources

The merger may result in a staff reduction of 700 to 900 employees, by spin-off of subsidiaries, and by direct lay-offs. There is a risk of losing highly skilled staff. Therefore, sound policies for staff lay-offs should be developed.

This process could include the dismissal of staff with specific technical knowledge that would be difficult to keep under the company's umbrella since there are ready markets for their expertise. It would be highly advisable to develop redundancy packages, which might include offering possible share options that would promote setting up new commercial entities from the existing subsidiaries. All such share options and exercising of the rights of joint stock companies should be carefully assessed in light of the privatization legislation of Georgia. This could include an option for the right of first refusal in acquiring the machinery the Company decides to dispose of. Apart from the political gesture, this will encourage the market and allow staff with specific technical know-how to create new commercial entities serving the market on a competitive basis. The open market would be the best test for their future existence.

In the longer term, the need for clear definitions, functions and drafting of possible job descriptions will be vital. It is best that this should take place as the merger process develops further.

Merger documentation

The completeness of arrangements for establishing the new entity is disputable, based on the documents the consultant has to hand. The requirements for the establishment of the new entity under Georgian legislation differ from the merger procedures. All three entities are 100% government-owned and there is no doubt that it falls under the government's full discretion to choose whatever form it may wish the new entity to have. However, documents issued by the ministry responsible (the Ministry of Economy) establishes the new entity (in which case other entities named in the document should be dissolved through the bankruptcy procedures according to the Georgian legislation) while the document itself includes statements that are more likely to fall under the merger procedures described under the Law on Entrepreneurs.[15] Even though the merger is a process that will take some time towards completion, it is essential that all the required procedures are be straightened up throughout in order to ensure an error-free merger.

The statute of the newly created company GOGC does not specify its sphere of activities. This should either derive from existing statutes of other entities that are to be merged, or should be clearly defined by Law.

The latest changes to the Oil and Gas Law removed the references to Saqnavtobi as being the National Oil Company. The President is given an exclusive authority to nominate the National Oil Company. The changes to the Law were adopted on 24 October 2006. The consultant is not in a possession of a presidential decree appointing the National Oil Company. Even though this may not have an immediate affect on the management of oil and gas operations under the Production Sharing Agreements, It would be strongly advisable to avoid existence of gaps in the merger process, in order to prevent any complications at a later date.

[15] Georgian Law on Entrepreneurs, October 28, 1994

4. Revenues of GOGC by Sources (2007-2016)

Summary Of Revenue Reallocation (GEL)							
Year	TOTAL Collected Revenues	GOGC Revenues from Operations	Gross Revenues Collected on Behalf of the Government of Georgia	Total GOGC Operating Expenses (including normal profit rate) + Capital Outlays	Additional Fee to GOGC from the Government of Georgia for services provided	Net Revenues Collected on Behalf of the Government of Georgia	Excess Earnings by GOGC to be paid as Dividends to the Government
2007	338,824,892	177,638,676	161,186,216	221,563,028	43,924,352	117,261,864	-
2008	332,364,589	105,567,763	226,796,826	171,691,048	66,123,285	160,673,541	-
2009	366,696,921	91,284,883	275,412,038	191,487,504	100,202,620	175,209,417	-
2010	398,382,457	99,523,854	298,858,603	186,858,070	87,334,216	211,524,387	-
2011	461,336,868	105,163,654	356,173,214	193,645,506	88,481,852	267,691,362	-
2012	508,973,982	92,757,516	416,216,466	169,631,275	76,873,759	339,342,707	-
2013	486,443,789	60,219,676	426,224,113	157,601,030	97,381,354	328,842,759	-
2014	504,906,671	61,187,101	443,719,570	161,180,583	99,993,482	343,726,088	-
2015	511,269,283	62,460,381	448,808,901	154,812,686	92,352,305	356,456,596	-
2016	514,766,207	62,460,381	452,305,826	63,052,132	591,751	451,714,075	-
Sum	***4,423,965,660***	***918,263,887***	***3,505,701,772***	***1,671,522,862***	***753,258,975***	***2,752,442,797***	***0***

Summary Of Revenues From All Sources										
Year	TOTAL GOGC Revenues	Internal Volume Transportation Revenues	Revenues from Armenia Transit	Distribution Margin Revenues from Armenia Transit	Baku Supsa Pipeline Forecasts	BTC Pipeline Forecasts	Shah Deniz Transit Fee Volume Estimates	Carbon Credit Revenues	Sakanvtobi Revenues	Total Other Revenues
2007	**$ 195,852,538**	$ 17,272,000	$ 11,000,000	$ 3,335,260	$ 11,336,000	$ 24,576,000	$ 33,000,000	$ 12,500,000	$ 9,923,963	$ 72,909,316
2008	**$ 192,118,260**	$ 17,504,000	$ 11,000,000	$ 4,851,287	$ 11,544,000	$ 32,874,667	$ 66,250,000	$ 17,000,000	$ 9,427,765	$ 21,666,541
2009	**$ 211,963,538**	$ 26,248,000	$ 16,000,000	$ 4,851,287	$ 11,752,000	$ 42,989,333	$ 79,500,000	$ 20,000,000	$ 8,956,376	$ 1,666,541
2010	**$ 230,278,877**	$ 24,904,000	$ 16,000,000	$ 5,457,698	$ 11,960,000	$ 44,782,080	$ 91,500,000	$ 25,500,000	$ 8,508,558	$ 1,666,541
2011	**$ 266,668,710**	$ 26,664,000	$ 18,000,000	$ 5,457,698	$ 12,168,000	$ 46,629,341	$ 121,000,000	$ 27,000,000	$ 8,083,130	$ 1,666,541
2012	**$ 294,204,614**	$ 27,280,000	$ 18,000,000	$ 6,670,520	$ 12,376,000	$ 48,532,579	$ 154,000,000	$ 18,000,000	$ 7,678,973	$ 1,666,541
2013	**$ 281,181,381**	$ 26,472,000	$ 22,000,000	$ 6,670,520	$ 12,584,000	$ 50,493,295	$ 154,000,000	$ -	$ 7,295,025	$ 1,666,541
2014	**$ 291,853,567**	$ 26,728,000	$ 22,000,000	$ 6,973,726	$ 12,792,000	$ 52,513,027	$ 162,250,000	$ -	$ 6,930,273	$ 1,666,541
2015	**$ 295,531,377**	$ 27,464,000	$ 23,000,000	$ 6,973,726	$ 13,000,000	$ 54,593,351	$ 162,250,000	$ -	$ 6,583,760	$ 1,666,541
2016	**$ 297,552,721**	$ 27,464,000	$ 23,000,000	$ 6,973,726	$ 13,208,000	$ 56,735,882	$ 162,250,000	$ -	$ 6,254,572	$ 1,666,541
Sum	**$ 2,557,205,584**	***$ 248,000,000***	***$ 180,000,000***	***$ 58,215,449***	***$ 122,720,000***	***$ 454,719,556***	***$ 1,186,000,000***	***$ 120,000,000***	***$ 79,642,393***	***$ 107,908,185***

Summary Of Revenues From All Sources (GEL)										
Year	TOTAL Collected Revenues	Internal Volume Transportation Revenues	Revenues from Armenia Transit	Distribution Margin Revenues from Armenia Transit	Baku Supsa Pipeline Forecasts	BTC Pipeline Forecasts	Shah Deniz Transit Fee Volume Estimates	Carbon Credit Revenues	Sakanvtobi Revenues	Total Other Revenues
2007	**338,824,892**	**29,880,560**	**19,030,000**	**5,770,000**	**19,611,280**	**42,516,480**	**57,090,000**	**21,625,000**	**17,168,456**	**126,133,116**
2008	**332,364,589**	**30,281,920**	**19,030,000**	**8,392,727**	**19,971,120**	**56,873,173**	**114,612,500**	**29,410,000**	**16,310,033**	**37,483,116**
2009	**366,696,921**	**45,409,040**	**27,680,000**	**8,392,727**	**20,330,960**	**74,371,547**	**137,535,000**	**34,600,000**	**15,494,531**	**2,883,116**
2010	**398,382,457**	**43,083,920**	**27,680,000**	**9,441,818**	**20,690,800**	**77,472,998**	**158,295,000**	**44,115,000**	**14,719,805**	**2,883,116**
2011	**461,336,868**	**46,128,720**	**31,140,000**	**9,441,818**	**21,050,640**	**80,668,760**	**209,330,000**	**46,710,000**	**13,983,814**	**2,883,116**
2012	**508,973,982**	**47,194,400**	**31,140,000**	**11,540,000**	**21,410,480**	**83,961,362**	**266,420,000**	**31,140,000**	**13,284,624**	**2,883,116**
2013	**486,443,789**	**45,796,560**	**38,060,000**	**11,540,000**	**21,770,320**	**87,353,401**	**266,420,000**	**0**	**12,620,392**	**2,883,116**
2014	**504,906,671**	**46,239,440**	**38,060,000**	**12,064,545**	**22,130,160**	**90,847,537**	**280,692,500**	**0**	**11,989,373**	**2,883,116**
2015	**511,269,283**	**47,512,720**	**39,790,000**	**12,064,545**	**22,490,000**	**94,446,497**	**280,692,500**	**0**	**11,389,904**	**2,883,116**
2016	**514,766,207**	**47,512,720**	**39,790,000**	**12,064,545**	**22,849,840**	**98,153,077**	**280,692,500**	**0**	**10,820,409**	**2,883,116**
Sum	***4,423,965,660***	***429,040,000***	***311,400,000***	***100,712,727***	***212,305,600***	***786,664,832***	***2,051,780,000***	***207,600,000***	***137,781,340***	***186,681,160***

Internal Volume Transportation Revenues			
Year	Transported Volume cm/year	GNERC Regulated* Transit Tariff per 1000cm	Transportation Fee Revenue
2007	2,259,000,000	$8	$ 17,272,000
2008	2,288,000,000	$8	$ 17,504,000
2009	3,381,000,000	$8	$ 26,248,000
2010	3,213,000,000	$8	$ 24,904,000
2011	3,433,000,000	$8	$ 26,664,000
2012	3,510,000,000	$8	$ 27,280,000
2013	3,409,000,000	$8	$ 26,472,000
2014	3,441,000,000	$8	$ 26,728,000
2015	3,533,000,000	$8	$ 27,464,000
2016	3,533,000,000	$8	$ 27,464,000

Pipeline Losses					
Year	Transported Volume cm/year	Pipeline Losses %	Pipeline Losses cm/year	Gas Price (per 1000 c.m)	Pipeline Losses ($)
2007	2,259,000,000	3.0%	67,770,000	$ 110	$ 7,454,700
2008	2,288,000,000	3.0%	68,640,000	$ 160	$ 10,982,400
2009	3,381,000,000	3.0%	101,430,000	$ 160	$ 16,228,800
2010	3,213,000,000	2.5%	80,325,000	$ 180	$ 14,458,500
2011	3,433,000,000	2.5%	85,825,000	$ 180	$ 15,448,500
2012	3,510,000,000	2.5%	87,750,000	$ 220	$ 19,305,000
2013	3,409,000,000	2.0%	68,180,000	$ 220	$ 14,999,600
2014	3,441,000,000	2.0%	68,820,000	$ 230	$ 15,828,600
2015	3,533,000,000	1.5%	52,995,000	$ 230	$ 12,188,850
2016	3,533,000,000	1.5%	52,995,000	$ 230	$ 12,188,850
SUM	**32,000,000,000**		**734,730,000**		**$ 139,083,800**

Revenues from Armenia Transit				
Year	Initial Volume cm/year	Fee Volume 10%	Gas Price (per 1000 c.m)	Revenues from Optional Gas Sales
2007	1,000,000,000	100,000,000	$110	$ 11,000,000
2008	1,000,000,000	100,000,000	$160	$ 16,000,000
2009	1,000,000,000	100,000,000	$160	$ 16,000,000
2010	1,000,000,000	100,000,000	$180	$ 18,000,000
2011	1,000,000,000	100,000,000	$180	$ 18,000,000
2012	1,000,000,000	100,000,000	$220	$ 22,000,000
2013	1,000,000,000	100,000,000	$220	$ 22,000,000
2014	1,000,000,000	100,000,000	$230	$ 23,000,000
2015	1,000,000,000	100,000,000	$230	$ 23,000,000
2016	1,000,000,000	100,000,000	$230	$ 23,000,000

Distribution Margin Revenues from Armenia Transit					
Year	Initial Volume/ cm/year	Fee Volume 10%	Gas Price (per 1000 c.m)	Gas Sale Price (per 1000 c.m)	Margin Revenues
2007	1,000,000,000	100,000,000	$110	$143	$ 3,335,260
2008	1,000,000,000	100,000,000	$160	$209	$ 4,851,287
2009	1,000,000,000	100,000,000	$160	$209	$ 4,851,287
2010	1,000,000,000	100,000,000	$180	$235	$ 5,457,698
2011	1,000,000,000	100,000,000	$180	$235	$ 5,457,698
2012	1,000,000,000	100,000,000	$220	$287	$ 6,670,520
2013	1,000,000,000	100,000,000	$220	$287	$ 6,670,520
2014	1,000,000,000	100,000,000	$230	$300	$ 6,973,726
2015	1,000,000,000	100,000,000	$230	$300	$ 6,973,726
2016	1,000,000,000	100,000,000	$230	$300	$ 6,973,726

Baku Supsa Pipeline Forecasts			
Year	Transit Volume Tons/year	Fee	Transit Fee Revenue
2007	52,000,000	$0.22	$ 11,336,000
2008	52,000,000	$0.22	$ 11,544,000
2009	52,000,000	$0.23	$ 11,752,000
2010	52,000,000	$0.23	$ 11,960,000
2011	52,000,000	$0.23	$ 12,168,000
2012	52,000,000	$0.24	$ 12,376,000
2013	52,000,000	$0.24	$ 12,584,000
2014	52,000,000	$0.25	$ 12,792,000
2015	52,000,000	$0.25	$ 13,000,000
2016	52,000,000	$0.25	$ 13,208,000

BTC Pipeline Forecasts				
Year	Transit Volume Tons/year	% Growth	Fee $/ton	Transit Fee Revenue
2007	204,800,000		$0.12	$ 24,576,000
2008	268,000,000		$0.12	$ 32,874,667
2009	343,000,000		$0.13	$ 42,989,333
2010	349,860,000	2.00%	$0.13	$ 44,782,080
2011	356,857,200	2.00%	$0.13	$ 46,629,341
2012	363,994,344	2.00%	$0.13	$ 48,532,579
2013	371,274,231	2.00%	$0.14	$ 50,493,295
2014	378,699,715	2.00%	$0.14	$ 52,513,027
2015	386,273,710	2.00%	$0.14	$ 54,593,351
2016	393,999,184	2.00%	$0.14	$ 56,735,882

Shah Deniz Transit Fee Volume Estimates							
	Fee Percent:	5%			Contract Price:	$55	
Year	Transit Volume	Transit Fee Volume (Optional)	Transit Fee Volume (Supplemental)	Gas Market Price (per 1000 c.m)	Revenues from Optional Gas Sales	Net Revenue from Supplemental Gas Sales at Market Price	Total Revenues
2007	3,500,000,000	175,000,000	250,000,000	$110	$ 19,250,000	$ 13,750,000	$ 33,000,000
2008	5,000,000,000	250,000,000	250,000,000	$160	$ 40,000,000	$ 26,250,000	$ 66,250,000
2009	6,000,000,000	300,000,000	300,000,000	$160	$ 48,000,000	$ 31,500,000	$ 79,500,000
2010	6,000,000,000	300,000,000	300,000,000	$180	$ 54,000,000	$ 37,500,000	$ 91,500,000
2011	6,500,000,000	325,000,000	500,000,000	$180	$ 58,500,000	$ 62,500,000	$ 121,000,000
2012	9,000,000,000	325,000,000	500,000,000	$220	$ 71,500,000	$ 82,500,000	$ 154,000,000
2013	13,000,000,000	325,000,000	500,000,000	$220	$ 71,500,000	$ 82,500,000	$ 154,000,000
2014	15,000,000,000	325,000,000	500,000,000	$230	$ 74,750,000	$ 87,500,000	$ 162,250,000
2015	15,000,000,000	325,000,000	500,000,000	$230	$ 74,750,000	$ 87,500,000	$ 162,250,000
2016	15,000,000,000	325,000,000	500,000,000	$230	$ 74,750,000	$ 87,500,000	$ 162,250,000

Sakanvtobi Revenues				
Year	Own Production	PSA	Decline Rate	Total
2007	$ 5,265,085	$ 4,658,878	5%	$ 9,923,963
2008	$ 5,001,831	$ 4,425,934	5%	$ 9,427,765
2009	$ 4,751,739	$ 4,204,637	5%	$ 8,956,376
2010	$ 4,514,152	$ 3,994,405	5%	$ 8,508,558
2011	$ 4,288,445	$ 3,794,685	5%	$ 8,083,130
2012	$ 4,074,022	$ 3,604,951	5%	$ 7,678,973
2013	$ 3,870,321	$ 3,424,703	5%	$ 7,295,025
2014	$ 3,676,805	$ 3,253,468	5%	$ 6,930,273
2015	$ 3,492,965	$ 3,090,795	5%	$ 6,583,760
2016	$ 3,318,317	$ 2,936,255	5%	$ 6,254,572

Carbon Credit Revenues	
Year	Total
2007	$ 12,500,000
2008	$ 17,000,000
2009	$ 20,000,000
2010	$ 25,500,000
2011	$ 27,000,000
2012	$ 18,000,000
2013	
2014	
2015	
Total	$ 120,000,000

Total Other Revenues					
Year	MCG Grant	Other Operating Revenues	State Budget Funding	Other Non-Operating Revenues	Total Other Revenues
2007	$ 25,000,000		$ 46,242,775	$ 1,666,541	$ 72,909,316
2008	$ 20,000,000			$ 1,666,541	$ 21,666,541
2009				$ 1,666,541	$ 1,666,541
2010				$ 1,666,541	$ 1,666,541
2011				$ 1,666,541	$ 1,666,541
2012				$ 1,666,541	$ 1,666,541
2013				$ 1,666,541	$ 1,666,541
2014				$ 1,666,541	$ 1,666,541
2015				$ 1,666,541	$ 1,666,541
2016				$ 1,666,541	$ 1,666,541

5. Pro-forma Financial Statements 2006

COMPANY:
GOGC
PERIOD: CALENDAR 2006

	2005	2006
ASSETS		
NON-CURRENT ASSETS:	**(GEL)**	**(GEL)**
Property, plant and equipment, net	79,921,184	79,885,330
Intangible assets, net	18,037	18,037
Investments available for sale	6,600	6,600
Other non-current assets	12,389,100	11,596,319
Total non-current assets	**92,334,921**	**91,506,286**
CURRENT ASSETS:		
Inventories	2,914,340	1,475,699
Prepaid Expenses	8,502,558	9,173,820
Taxes refundable and prepaid	9,748,262	11,710,539
Accounts receivables, net	23,802,938	10,746,141
Cash and Cash equivalents	5,254,747	31,117,093
Total current assets	**50,222,846**	**64,223,291**
TOTAL ASSETS	**142,557,766**	**155,729,578**
LIABILITIES AND SHAREHOLDERS" EQUITY		
SHAREHOLDERS" EQUITY:		
Share Capital	91,310,431	91,310,431
Additional paid in capital	-	-
Retained Earnings	(10,476,051)	(4,019,097)
Reavaluation Reserves	8,354,100	8,354,100
Total shareholders' equity	**89,188,480**	**95,645,434**
NON-CURRENT LIABILITIES		
Deferred revenue	-	-
Long-term debt	15,782,436	15,608,436
Taxes payable	-	-
Other non-current liabilities	9,661,061	9,661,061
Total non-current liabilities	**25,443,497**	**25,269,497**
CURRENT LIABILITIES:		
Trade and other payables	22,044,347	32,921,452
Short-term loans	462,000	-
Accrued expenses	125,367	348,012
Taxes payable	4,747,475	1,545,183
Other current liabilities	546,600	-
Total current liabilities	**27,925,790**	**34,814,647**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**142,557,766**	**155,729,578**

COMPANY: GOGC PERIOD: CALENDAR 2006	2006
Gross Revenues	(GEL)
Operating Income	85,015,757
Non-operating Income	2,904,237
Gross Revenues	**87,919,994**
Operation and Maintenance Expenses	
Labor Costs	4,998,070
Special Projects	400,000
Consulting Fees	372,096
Non-income taxes	13,595,184
Maintenance and repair costs	1,438,641
Insurance	293,153
Production Costs	10,183,432
Losses and stolen gas	11,693,438
Bad debt expense	12,493,857
Other operating expenses	1,009,573
Total O& M Expenses	**56,477,444**
General and Administrative Expenses	
Travel, training and related costs	356,405
Office Supplies	766,565
Headquarters Labor Expenses	4,988,395
Other G&A Expenses	414,485
Total G&A Expenses	**6,525,849**
Non-Operating Expenses	
Non-operating expenses	0
Net Foreign Exchanges losses (gain)	-285,668
Interest on loans	1,191,592
Total Other Non-Op. Exp	**905,924**
Expensed Changes in Capital	
Depreciation (of capital assets)	5,898,535
Amortization (of consumable assets)	1,067,407
Amortization (of other assets or liabilities)	6,032
Impairment of current assets	0
Total Capital Related Expenses	**6,971,974**
Total Expenses:	**70,881,191**
Gross Profit	**17,038,803**
Income Taxes	3,407,761
Inc. Tax Effect of items not deductible for income tax purposes	0
Total Income Taxes	**3,407,761**
Net Income (after taxes)	**13,631,042**
Other non-operating expenses	
UNDP Co-financing	6,800,000
Net Profit	**6,831,042**
(Net Change in Assets and Liabilities)	

COMPANY:
GOGC
PERIOD: CALENDAR 2006

	(GEL)
Cash Flows from Operating Activities	
Cash collected from buyers and clients	88,482,935
Gas purchase and related costs	(5,346,992)
Cash paid to suppliers	(9,178,805)
Paid non-profit taxes	(17,995,801)
Paid profit tax	(5,692,401)
Cash paid to employees	(8,158,889)
Net cash provided by operating activities	**42,110,047**
Cash Flows from Investing Activities	
Purchase of fixed and intangible assets	(1,797,901)
Purchase of long-term investments	-
Gain of long term investments	(19,800)
Cash from joint ventures	-
Received Dividend	-
UNDP Project	(6,800,000)
Net cash used for investing activities	**(8,617,701)**
Cash Flows from Financing Activities	
Purchase of Investments	-
Repayment of long-term loans and other liabilities	(385,000)
ITOCHU Credit	(1,045,000)
Paid dividends	(6,200,000)
Net cash provided by financing activities	**(7,630,000)**
Net increase in Cash	**25,862,345**
Cash Balance, December 31, 2005	**5,255,102**
Cash Balance, December 31, 2006	**31,117,448**

COMPANY:
SAKNAVTOBI
PERIOD: CALENDAR 2006

	2005	2006
ASSETS		
NON-CURRENT ASSETS:	**(GEL)**	**(GEL)**
Property, plant and equipment, net	19,475,300	19,512,908
Intangible assets, net	9,800	9,800
Investments available for sale	-	-
Other non-current assets	4,918,100	4,125,319
Total non-current assets	**24,403,200**	**23,648,027**
CURRENT ASSETS:		
Inventories	1,150,700	839,933
Prepaid Expenses	688,300	-
Taxes refundable and prepaid	-	817,465
Accounts receivables, net	1,250,300	1,250,300
Cash and Cash equivalents	4,074,900	8,620,888
Total current assets	**7,164,200**	**11,528,585**
TOTAL ASSETS	**31,567,400**	**35,176,612**
LIABILITIES AND SHAREHOLDERS" EQUITY		
SHAREHOLDERS" EQUITY:		
Share Capital	18,837,300	18,837,300
Additional paid in capital	-	-
Retained Earnings	6,817,200	11,344,355
Reavaluation Reserves	4,073,100	4,073,100
Total shareholders' equity	**29,727,600**	**34,254,755**
NON-CURRENT LIABILITIES		
Deferred revenue	-	-
Long-term debt	-	-
Taxes payable	-	-
Other non-current liabilities	-	-
Total non-current liabilities	**-**	**-**
CURRENT LIABILITIES:		
Trade and other payables	236,200	921,857
Short-term loans	-	-
Accrued expenses	-	-
Taxes payable	1,057,000	-
Other current liabilities	546,600	-
Total current liabilities	**1,839,800**	**921,857**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**31,567,400**	**35,176,612**

COMPANY:
SAKNAVTOBI
PERIOD: CALENDAR 2006

	2005	2006
ASSETS		
NON-CURRENT ASSETS:	**(GEL)**	**(GEL)**
Property, plant and equipment, net	19,475,300	19,512,908
Intangible assets, net	9,800	9,800
Investments available for sale	-	-
Other non-current assets	4,918,100	4,125,319
Total non-current assets	**24,403,200**	**23,648,027**
CURRENT ASSETS:		
Inventories	1,150,700	839,933
Prepaid Expenses	688,300	-
Taxes refundable and prepaid	-	817,465
Accounts receivables, net	1,250,300	1,250,300
Cash and Cash equivalents	4,074,900	8,620,888
Total current assets	**7,164,200**	**11,528,585**
TOTAL ASSETS	**31,567,400**	**35,176,612**
LIABILITIES AND SHAREHOLDERS" EQUITY		
SHAREHOLDERS" EQUITY:		
Share Capital	18,837,300	18,837,300
Additional paid in capital	-	-
Retained Earnings	6,817,200	11,344,355
Reavaluation Reserves	4,073,100	4,073,100
Total shareholders' equity	**29,727,600**	**34,254,755**
NON-CURRENT LIABILITIES		
Deferred revenue	-	-
Long-term debt	-	-
Taxes payable	-	-
Other non-current liabilities	-	-
Total non-current liabilities	**-**	**-**
CURRENT LIABILITIES:		
Trade and other payables	236,200	921,857
Short-term loans	-	-
Accrued expenses	-	-
Taxes payable	1,057,000	-
Other current liabilities	546,600	-
Total current liabilities	**1,839,800**	**921,857**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**31,567,400**	**35,176,612**

COMPANY: Saknavtobi PERIOD: CALENDAR 2006	2006
Gross Revenues	(GEL)
Operating Income	19,198,602
Non-operating Income	296,374
Gross Revenues	**19,494,976**
Operation and Maintenance Expenses	
Labor Costs	1,763,327
Special Projects	0
Consulting Fees	4,388
Non-income taxes	39,936
Maintenance and repair costs	310,767
Insurance	188,153
Production Costs	4,836,440
Losses and stolen gas	0
Bad debt expense	0
Other operating expenses	738,130
Total O& M Expenses	**7,881,139**
General and Administrative Expenses	
Travel, training and related costs	136,004
Office Supplies	101,303
Headquarters Labor Expenses	2,127,019
Other G&A Expenses	414,485
Total G&A Expenses	**2,778,811**
Non-Operating Expenses	
Non-operating expenses	0
Net Foreign Exchanges losses (gain)	110,510
Interest on loans	0
Total Other Non-Op. Exp	**110,510**
Expensed Changes in Capital	
Depreciation (of capital assets)	772,792
Amortization (of consumable assets)	792,781
Amortization (of other assets or liabilities)	0
Impairment of current assets	0
Total Capital Related Expenses	**1,565,573**
Total Expenses:	**12,336,033**
Gross Profit	**7,158,943**
Income Taxes	1,431,789
Inc. Tax Effect of items not deductible for income tax purposes	0
Total Income Taxes	**1,431,789**
Net Income (after taxes)	**5,727,155**
Other non-operating expenses	
Charity and donations	0
Net Profit	**5,727,155**
(Net Change in Assets and Liabilities)	

COMPANY:
Saknavtobi
PERIOD: CALENDAR 2006

Cash Flows from Operating Activities	
Cash collected from buyers and clients	19,494,976
Gas purchase and related costs	-
Cash paid to suppliers	(5,163,800)
Paid non-profit taxes	(2,461,000)
Paid profit tax	(1,431,789)
Cash paid to employees	(3,862,200)
Net cash provided by operating activities	**6,576,188**
Cash Flows from Investing Activities	
Purchase of fixed and intangible assets	(810,400)
Purchase of long-term investments	-
Gain of long term investments	(19,800)
Cash from joint ventures	-
Received Dividend	-
UNDP Project	-
Net cash used for investing activities	**(830,200)**
Cash Flows from Financing Activities	
Purchase of Investments	-
Repayment of long-term loans and other liabilities	-
ITOCHU Credit	-
Paid dividends	(1,200,000)
Net cash provided by financing activities	**(1,200,000)**
Net increase in Cash	**4,545,988**
Cash Balance, December 31, 2005	**4,074,900**
Cash Balance, December 31, 2006	**8,620,888**

COMPANY:
GGIC
PERIOD: CALENDAR 2006

	2005	2006
ASSETS		
NON-CURRENT ASSETS:	**(GEL)**	**(GEL)**
Property, plant and equipment, net	52,965,884	49,152,484
Intangible assets, net	4,237	4,237
Investments available for sale	6,600	6,600
Other non-current assets	-	-
Total non-current assets	**52,976,721**	**49,163,321**
CURRENT ASSETS:		
Inventories	1,751,640	623,766
Prepaid Expenses	1,399,258	1,399,258
Taxes refundable and prepaid	9,748,262	10,893,075
Accounts receivables, net	20,648,638	7,591,841
Cash and Cash equivalents	1,108,847	22,496,560
Total current assets	**34,656,646**	**43,004,500**
TOTAL ASSETS	**87,633,366**	**92,167,822**
LIABILITIES AND SHAREHOLDERS" EQUITY		
SHAREHOLDERS" EQUITY:		
Share Capital	64,669,131	64,669,131
Additional paid in capital	-	-
Retained Earnings	(25,735,251)	(30,605,691)
Reavaluation Reserves	-	-
Total shareholders' equity	**38,933,880**	**34,063,439**
NON-CURRENT LIABILITIES		
Deferred revenue	-	-
Long-term debt	15,608,436	15,608,436
Taxes payable	-	-
Other non-current liabilities	9,661,061	9,661,061
Total non-current liabilities	**25,269,497**	**25,269,497**
CURRENT LIABILITIES:		
Trade and other payables	21,028,147	31,999,595
Short-term loans	-	-
Accrued expenses	125,367	125,367
Taxes payable	2,276,475	709,923
Other current liabilities	-	-
Total current liabilities	**23,429,990**	**32,834,885**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**87,633,366**	**92,167,822**

COMPANY: GGIC PERIOD: CALENDAR 2006	2006
Gross Revenues	(GEL)
Operating Income	46,817,155
Non-operating Income	2,607,863
Gross Revenues	**49,425,018**
Operation and Maintenance Expenses	
Labor Costs (GTC)	3,234,743
Special Projects	0
Consulting Fees	147,709
Non-Income Taxes	13,494,049
Maintenance and repair costs	1,127,873
Insurance	100,000
Cost of Gas Purchase for Resale	5,346,992
Losses and stolen gas	11,693,438
Bad debt expense	12,493,857
Other operating expenses	29,444
Total O& M Expenses	**47,668,105**
General and Administrative Expenses	
Travel, training and related costs	180,401
Office Supplies	45,262
Headquarters Labor Expenses	1,950,376
Other G&A Expenses	0
Total G&A Expenses	**2,176,038**
Non-Operating Expenses	
Non-operating expenses	0
Net Foreign Exchanges losses (gain)	-396,178
Interest on loans	96,592
Total Other Non-Op. Exp	**-299,586**
Expensed Changes in Capital	
Depreciation (of capital assets)	4,470,243
Amortization (of consumable assets)	274,626
Amortization (of other assets or liabilities)	6,032
Impairment of current assets	0
Total Capital Related Expenses	**4,750,901**
Total Expenses:	**54,295,458**
Gross Profit	**-4,870,440**
Income Taxes	0
Inc. Tax Effect of items not deductible for income tax purposes	0
Total Income Taxes	**0**
Net Income (after taxes)	**-4,870,440**
Other non-operating expenses	
Charity and donations	0
Net Profit	**-4,870,440**

(Net Change in Assets and Liabilities)

COMPANY:
GGIC
PERIOD: CALENDAR 2006

Cash Flows from Operating Activities	
Cash collected from buyers and clients	49,987,958
Gas purchase and related costs	(5,346,992)
Cash paid to suppliers	(2,481,717)
Paid non-profit taxes	(15,060,601)
Paid profit tax	(1,144,813)
Cash paid to employees	(3,628,622)
Net cash provided by operating activities	**22,325,214**
Cash Flows from Investing Activities	
Purchase of fixed and intangible assets	(937,501)
Purchase of long-term investments	-
Gain of long term investments	-
Cash from joint ventures	-
Received Dividend	-
UNDP Project	-
Net cash used for investing activities	**(937,501)**
Cash Flows from Financing Activities	
Purchase of Investments	-
Repayment of long-term loans and other liabilities	-
ITOCHU Credit	-
Paid dividends	-
Net cash provided by financing activities	**-**
Net increase in Cash	**21,387,713**
Cash Balance, December 31, 2005	**1,108,847**
Cash Balance, December 31, 2006	**22,496,560**

COMPANY:
GIOC
PERIOD: CALENDAR 2006

	2005	2006
ASSETS		
NON-CURRENT ASSETS:	**(GEL)**	**(GEL)**
Property, plant and equipment, net	7,480,000	11,219,938
Intangible assets, net	4,000	4,000
Investments available for sale	-	-
Other non-current assets	7,471,000	7,471,000
Total non-current assets	**14,955,000**	**18,694,938**
CURRENT ASSETS:		
Inventories	12,000	12,000
Prepaid Expenses	6,415,000	7,774,562
Taxes refundable and prepaid	-	-
Accounts receivables, net	1,904,000	1,904,000
Cash and Cash equivalents	71,000	(355)
Total current assets	**8,402,000**	**9,690,206**
TOTAL ASSETS	**23,357,000**	**28,385,144**
LIABILITIES AND SHAREHOLDERS" EQUITY		
SHAREHOLDERS" EQUITY:		
Share Capital	7,804,000	7,804,000
Additional paid in capital	-	-
Retained Earnings	8,442,000	15,242,240
Reavaluation Reserves	4,281,000	4,281,000
Total shareholders' equity	**20,527,000**	**27,327,240**
NON-CURRENT LIABILITIES		
Deferred revenue	-	-
Long-term debt	174,000	-
Taxes payable	-	-
Other non-current liabilities	-	-
Total non-current liabilities	**174,000**	**-**
CURRENT LIABILITIES:		
Trade and other payables	780,000	-
Short-term loans	462,000	-
Accrued expenses	-	222,645
Taxes payable	1,414,000	835,260
Other current liabilities	-	-
Total current liabilities	**2,656,000**	**1,057,905**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUIT	**23,357,000**	**28,385,145**

COMPANY: GIOC PERIOD: CALENDAR 2006	2006
Gross Revenues	(GEL)
Operating Income	19,000,000
Non-operating Income	0
Gross Revenues	**19,000,000**
Operation and Maintenance Expenses	
Labor Costs	0
Special Projects	400,000
Consulting Fees	220,000
Taxes	61,200
Maintenance and repair costs	0
Insurance	5,000
Cost of Gas Purchase for Resale	0
Losses and stolen gas	0
Bad debt expense	0
Other operating expenses	242,000
Total O& M Expenses	**928,200**
General and Administrative Expenses	
Travel, training and related costs	40,000
Office Supplies	620,000
Headquarters Labor Expenses	911,000
Other G&A Expenses	0
Total G&A Expenses	**1,571,000**
Non-Operating Expenses	
Non-operating expenses	0
Net Foreign Exchanges losses (gain)	0
Interest on loans	1,095,000
Total Other Non-Op. Exp	**1,095,000**
Expensed Changes in Capital	
Depreciation (of capital assets)	655,500
Amortization (of consumable assets)	0
Amortization (of other assets or liabilities)	0
Impairment of current assets	0
Total Capital Related Expenses	**655,500**
Total Expenses:	**4,249,700**
Gross Profit	**14,750,300**
Income Taxes	2,950,060
Inc. Tax Effect of items not deductible for income tax purposes	0
Total Income Taxes	**2,950,060**
Net Income (after taxes)	**11,800,240**
Other non-operating expenses	
UNDP Co-financing	6,800,000
Net Profit	**5,000,240**

(Net Change in Assets and Liabilities)

COMPANY:
GIOC
PERIOD: CALENDAR 2006

Cash Flows from Operating Activities	
Cash collected from buyers and clients	19,000,000
Gas purchase and related costs	-
Cash paid to suppliers	(1,533,289)
Paid non-profit taxes	(474,200)
Paid profit tax	(3,115,800)
Cash paid to employees	(668,067)
Net cash provided by operating activities	**13,208,645**
Cash Flows from Investing Activities	
Purchase of fixed and intangible assets	(50,000)
Purchase of long-term investments	-
Gain of long term investments	-
Cash from joint ventures	-
Received Dividend	-
UNDP Project (Non-operating expense)	(6,800,000)
Net cash used for investing activities	**(6,850,000)**
Cash Flows from Financing Activities	
Purchase of Investments	-
Repayment of long-term loans and other liabilities	(385,000)
ITOCHU Credit	(1,045,000)
Paid dividends	(5,000,000)
Net cash provided by financing activities	**(6,430,000)**
Net increase in Cash	**(71,355)**
Cash Balance, December 31, 2005	**71,355**
Cash Balance, December 31, 2006	**(0)**

6. Pro-forma Financial Statements 2007

COMPANY:
GOGC
PERIOD: CALENDAR 2007

	2006	2007
ASSETS		
NON-CURRENT ASSETS:	**(GEL)**	**(GEL)**
Property, plant and equipment, net	79,885,330	198,950,215
Intangible assets, net	18,037	18,037
Investments available for sale	6,600	6,600
Other non-current assets	11,596,319	11,596,319
Total non-current assets	**91,506,286**	**210,571,171**
CURRENT ASSETS:		
Inventories	1,475,699	1,475,699
Prepaid Expenses	9,173,820	9,173,820
Taxes refundable and prepaid	11,710,539	11,710,539
Accounts receivables, net	10,746,141	10,746,141
Cash and Cash equivalents	31,117,093	95,179,649
Total current assets	**64,223,291**	**128,285,848**
TOTAL ASSETS	**155,729,578**	**338,857,019**
LIABILITIES AND SHAREHOLDERS" EQUITY		
SHAREHOLDERS" EQUITY:		
Share Capital	91,310,431	91,310,431
Additional paid in capital	-	-
Retained Earnings	(4,019,097)	101,651,165
Reavaluation Reserves	8,354,100	8,354,100
Total shareholders' equity	**95,645,434**	**201,315,696**
NON-CURRENT LIABILITIES		
Deferred revenue	-	-
Long-term debt	15,608,436	79,608,436
Taxes payable	-	-
Other non-current liabilities	9,661,061	9,661,061
Total non-current liabilities	**25,269,497**	**89,269,497**
CURRENT LIABILITIES:		
Trade and other payables	32,921,452	45,919,028
Short-term loans	-	-
Accrued expenses	348,012	348,012
Taxes payable	1,545,183	2,004,786
Other current liabilities	-	-
Total current liabilities	**34,814,647**	**48,271,827**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**155,729,578**	**338,857,019**

COMPANY: GOGC PERIOD: CALENDAR 2007	(Jan-Jun)	(Jul-Dec)	2007
Gross Revenues	(GEL)		
Operating Income	106,909,160	106,345,888	213,255,047
Non-operating Income	1,579,185	1,303,931	2,883,116
Gross Revenues	**108,488,344**	**107,649,819**	**216,138,163**
Operation and Maintenance Expenses			
Labor Costs	2,499,035	3,392,412	5,891,446
Special Projects	0	0	0
Consulting Fees	186,048	183,854	369,903
Non-income taxes	18,725,066	18,890,811	37,615,877
Maintenance and repair costs	719,320	563,937	1,283,257
Insurance	146,577	120,300	266,877
Production Costs	2,418,220	0	2,418,220
Losses and stolen gas	3,727,350	3,727,350	7,454,700
Bad debt expense	0	0	0
Other operating expenses	504,787	330,687	835,474
Total O& M Expenses	**28,926,402**	**27,209,351**	**56,135,753**
General and Administrative Expenses			
Travel, training and related costs	178,202	55,100	233,303
Office Supplies	213,282	46,667	259,949
Headquarters Labor Expenses	2,494,198	0	2,494,198
Other G&A Expenses	207,242	69,081	276,323
Total G&A Expenses	**3,092,925**	**170,848**	**3,263,772**
Non-Operating Expenses			
Non-operating expenses	0	0	0
Net Foreign Exchanges losses (gain)	-142,834	-142,834	-285,668
Interest on loans	2,848,296	2,848,296	5,696,592
Total Other Non-Op. Exp	**2,705,462**	**2,705,462**	**5,410,924**
Expensed Changes in Capital			
Depreciation (of capital assets)	3,034,003	2,565,821	5,599,824
Amortization (of consumable assets)	523,817	127,427	651,244
Amortization (of other assets or liabilities)	2,799	2,799	5,597
Impairment of current assets	0	0	0
Total Capital Related Expenses	**3,560,619**	**2,696,047**	**6,256,666**
Total Expenses:	**38,285,408**	**32,781,707**	**71,067,115**
Gross Profit	**70,202,936**	**74,868,112**	**145,071,048**
Income Taxes	14,040,587	14,973,622	29,014,210
Inc. Tax Effect of items not deductible for income tax purposes	0	0	0
Total Income Taxes	**14,040,587**	**14,973,622**	**29,014,210**
Net Income (after taxes)	**56,162,349**	**59,894,490**	**116,056,838**
Other non-operating expenses			
MCG	21,625,000	21,625,000	43,250,000
Net Profit	**34,537,349**	**38,269,490**	**72,806,838**

(Net Change in Assets and Liabilities)

COMPANY:
GOGC
PERIOD: CALENDAR 2007

(GEL)

Cash Flows from Operating Activities	Jan-June	July-December	**2007**
Cash collected from buyers and clients	108,488,344	107,649,819	216,138,163
Gas purchase and related costs	-	-	-
Cash paid to suppliers	(4,589,403)	(1,632,200)	(6,221,603)
Paid non-profit taxes	(18,725,066)	(18,890,811)	(37,615,877)
Paid profit tax	(14,040,587)	(14,973,622)	(29,014,210)
Cash paid to employees	(4,979,160)	(3,392,412)	(8,371,571)
Net cash provided by operating activities	**66,154,129**	**68,760,774**	**134,914,903**

Cash Flows from Investing Activities			
Purchase of fixed and intangible assets	(62,523,951)	(62,807,500)	(125,331,451)
Purchase of long-term investments	40,000,000	40,000,000	80,000,000
Gain of long term investments	(9,900)	-	(9,900)
Cash from joint ventures	-	-	-
Received Dividend	-	-	-
UNDP Project	-	-	-
Net cash used for investing activities	**(22,533,851)**	**(22,807,500)**	**(45,341,351)**

Cash Flows from Financing Activities			
Purchase of Investments	-	-	-
Repayment of long-term loans and other liabilities	(8,000,000)	(8,000,000)	(16,000,000)
ITOCHU Credit	-	-	-
Paid dividends	-	-	-
Net cash provided by financing activities	**(8,000,000)**	**(8,000,000)**	**(16,000,000)**

Net increase in Cash	**35,620,278**	**37,953,274**	**73,573,552**
Cash Balance, December 31, 2006	**31,117,448**	**99,503,379**	**31,117,448**
Cash Balance, December 31, 2007	**99,503,379**	**174,803,198**	**174,803,198**

COMPANY: Saknavtobi PERIOD: CALENDAR 2007	(Jan-Jun)	(Jul-Dec)	2007
Gross Revenues	(GEL)		
Operating Income	9,147,500	8,584,228	17,731,727
Non-operating Income	275,253	0	275,253
Gross Revenues	**9,422,753**	**8,584,228**	**18,006,980**
Operation and Maintenance Expenses			
Labor Costs	881,663	0	881,663
Special Projects	0	0	0
Consulting Fees	2,194	0	2,194
Non-income taxes	0	0	0
Maintenance and repair costs	155,384	0	155,384
Insurance	94,077	0	94,077
Production Costs	2,418,220	0	2,418,220
Losses and stolen gas	0	0	0
Bad debt expense	0	0	0
Other operating expenses	369,065	194,965	564,030
Total O& M Expenses	**3,920,602**	**194,965**	**4,115,567**
General and Administrative Expenses			
Travel, training and related costs	68,002	0	68,002
Office Supplies	50,651	0	50,651
Headquarters Labor Expenses	1,063,510	0	1,063,510
Other G&A Expenses	207,242	0	207,242
Total G&A Expenses	**1,389,405**	**0**	**1,389,405**
Non-Operating Expenses			
Non-operating expenses	0	0	0
Net Foreign Exchanges losses (gain)	55,255	55,255	110,510
Interest on loans	0	0	0
Total Other Non-Op. Exp	**55,255**	**55,255**	**110,510**
Expensed Changes in Capital			
Depreciation (of capital assets)	468,182	0	468,182
Amortization (of consumable assets)	396,390	0	396,390
Amortization (of other assets or liabilities)	0	0	0
Impairment of current assets	0	0	0
Total Capital Related Expenses	**864,573**	**0**	**864,573**
Total Expenses:	**6,229,835**	**250,220**	**6,480,055**
Gross Profit	**3,192,918**	**8,334,008**	**11,526,925**
Income Taxes	638,584	1,666,802	2,305,385
Inc. Tax Effect of items not deductible for income tax purposes	0	0	0
Total Income Taxes	**638,584**	**1,666,802**	**2,305,385**
Net Income (after taxes)	**2,554,334**	**6,667,206**	**9,221,540**
Other non-operating expenses			
Charity and donations	0	0	0
Net Profit	**2,554,334**	**6,667,206**	**9,221,540**

(Net Change in Assets and Liabilities)

COMPANY:
Saknavtobi
PERIOD: CALENDAR 2007

Cash Flows from Operating Activities	Jan-June	July-December	**2007**
Cash collected from buyers and clients	9,422,753	8,584,228	18,006,980
Gas purchase and related costs	-	-	-
Cash paid to suppliers	(2,581,900)	-	(2,581,900)
Paid non-profit taxes	-	-	-
Paid profit tax	-	-	-
Cash paid to employees	(1,931,100)	-	(1,931,100)
Net cash provided by operating activities	**4,909,753**	**8,584,228**	**13,493,980**
Cash Flows from Investing Activities			
Purchase of fixed and intangible assets	(405,200)	-	(405,200)
Purchase of long-term investments	-	-	-
Gain of long term investments	(9,900)	-	(9,900)
Cash from joint ventures	-	-	-
Received Dividend	-	-	-
UNDP Project	-	-	-
Net cash used for investing activities	**(415,100)**	**-**	**(415,100)**
Cash Flows from Financing Activities			
Purchase of Investments	-	-	-
Repayment of long-term loans and other liabilities	-	-	-
ITOCHU Credit	-	-	-
Paid dividends	-	-	-
Net cash provided by financing activities	**-**	**-**	**-**
Net increase in Cash	**4,494,653**	**8,584,228**	**13,078,880**
Cash Balance, December 31, 2006	**8,620,888**	**13,115,540**	**8,620,888**
Cash Balance, December 31, 2007	**13,115,540**	**21,699,768**	**21,699,768**

COMPANY: GGIC PERIOD: CALENDAR 2007	(Jan-Jun)	(Jul-Dec)	2007
Gross Revenues	(GEL)		
Operating Income	38,152,780	38,152,780	76,305,560
Non-operating Income	1,303,931	1,303,931	2,607,863
Gross Revenues	**39,456,711**	**39,456,711**	**78,913,423**
Operation and Maintenance Expenses			
Labor Costs (GTC)	1,617,372	1,617,372	3,234,743
Special Projects	0	0	0
Consulting Fees	73,854	73,854	147,709
Non-Income Taxes	0	0	0
Maintenance and repair costs	563,937	563,937	1,127,873
Insurance	50,000	50,000	100,000
Cost of Gas Purchase for Resale	0	0	0
Losses and stolen gas	3,727,350	3,727,350	7,454,700
Bad debt expense	0	0	0
Other operating expenses	14,722	14,722	29,444
Total O& M Expenses	**6,047,234**	**6,047,234**	**12,094,469**
General and Administrative Expenses			
Travel, training and related costs	90,200	90,200	180,401
Office Supplies	22,631	0	22,631
Headquarters Labor Expenses	975,188	0	975,188
Other G&A Expenses	0	0	0
Total G&A Expenses	**1,088,019**	**90,200**	**1,178,219**
Non-Operating Expenses			
Non-operating expenses	0	0	0
Net Foreign Exchanges losses (gain)	-198,089	-198,089	-396,178
Interest on loans	2,848,296	2,848,296	5,696,592
Total Other Non-Op. Exp	**2,650,207**	**2,650,207**	**5,300,414**
Expensed Changes in Capital			
Depreciation (of capital assets)	2,074,199	2,074,199	4,148,398
Amortization (of consumable assets)	127,427	127,427	254,854
Amortization (of other assets or liabilities)	2,799	2,799	5,597
Impairment of current assets	0	0	0
Total Capital Related Expenses	**2,204,424**	**2,204,424**	**4,408,849**
Total Expenses:	**11,989,885**	**10,992,066**	**22,981,951**
Gross Profit	**27,466,826**	**28,464,645**	**55,931,471**
Income Taxes	5,493,365	5,692,929	11,186,294
Inc. Tax Effect of items not deductible for income tax purposes	0	0	0
Total Income Taxes	**5,493,365**	**5,692,929**	**11,186,294**
Net Income (after taxes)	**21,973,461**	**22,771,716**	**44,745,177**
Other non-operating Revenues			
MCG Grant	21,625,000	21,625,000	43,250,000
Net Profit	**43,598,461**	**44,396,716**	**87,995,177**

(Net Change in Assets and Liabilities)

COMPANY:
GGIC
PERIOD: CALENDAR 2007

Cash Flows from Operating Activities	Jan-June	July-December	**2007**
Cash collected from buyers and clients	39,456,711	39,456,711	78,913,423
Gas purchase and related costs	-	-	-
Cash paid to suppliers	(1,240,858)	(1,500,000)	(2,740,858)
Paid non-profit taxes	-	-	-
Paid profit tax	-	-	-
Cash paid to employees	(2,592,560)	-	(2,592,560)
Net cash provided by operating activities	**35,623,293**	**37,956,711**	**73,580,005**
Cash Flows from Investing Activities			
Purchase of fixed and intangible assets	(62,093,751)	(62,625,000)	(124,718,751)
Purchase of long-term investments	40,000,000	40,000,000	80,000,000
Gain of long term investments	-	-	-
Cash from joint ventures	-	-	-
Received Dividend	-	-	-
UNDP Project	-	-	-
Net cash used for investing activities	**(22,093,751)**	**(22,625,000)**	**(44,718,751)**
Cash Flows from Financing Activities			
Purchase of Investments	-	-	-
Repayment of long-term loans and other liabilities	(8,000,000)	(8,000,000)	(16,000,000)
ITOCHU Credit	-	-	-
Paid dividends	-	-	-
Net cash provided by financing activities	**(8,000,000)**	**(8,000,000)**	**(16,000,000)**
Net increase in Cash	**5,529,543**	**7,331,711**	**12,861,254**
Cash Balance, December 31, 2006	**22,496,560**	**28,026,103**	**22,496,560**
Cash Balance, December 31, 2007	**28,026,103**	**35,357,815**	**35,357,815**

COMPANY: GIOC PERIOD: CALENDAR 2007	Jan-June	July-December	2007
Gross Revenues			(GEL)
Operating Income	59,608,880	59,608,880	119,217,760
Non-operating Income	-	-	-
Gross Revenues	**59,608,880**	**59,608,880**	**119,217,760**
Operation and Maintenance Expenses			
Labor Costs	-	-	-
Special Projects	-	-	-
Consulting Fees	110,000	110,000	220,000
Taxes	-	-	-
Maintenance and repair costs	-	-	-
Insurance	2,500	2,500	5,000
Cost of Gas Purchase for Resale	-	-	-
Losses and stolen gas	-	-	-
Bad debt expense	-	-	-
Other operating expenses	121,000	121,000	242,000
Total O& M Expenses	**233,500**	**233,500**	**467,000**
General and Administrative Expenses			
Travel, training and related costs	20,000	20,000	40,000
Office Supplies	140,000	140,000	280,000
Headquarters Labor Expenses	455,500	-	455,500
Other G&A Expenses	-	-	-
Total G&A Expenses	**615,500**	**160,000**	**775,500**
Non-Operating Expenses			
Non-operating expenses	-	-	-
Net Foreign Exchanges losses (gain)	-	-	-
Interest on loans	-	-	-
Total Other Non-Op. Exp	**-**	**-**	**-**
Expensed Changes in Capital			
Depreciation (of capital assets)	491,622	491,622	983,245
Amortization (of consumable assets)	-	-	-
Amortization (of other assets or liabilities)	-	-	-
Impairment of current assets	-	-	-
Total Capital Related Expenses	**491,622**	**491,622**	**983,245**
Total Expenses:	**1,340,622**	**885,122**	**2,225,745**
Gross Profit	**58,268,258**	**58,723,758**	**116,992,015**
Income Taxes	11,653,652	11,744,752	23,398,403
Inc. Tax Effect of items not deductible for income tax purposes	-	-	-
Total Income Taxes	**11,653,652**	**11,744,752**	**23,398,403**
Net Income (after taxes)	**46,614,606**	**46,979,006**	**93,593,612**
Other non-operating expenses			
UNDP Co-financing	-	-	-
Net Profit	**46,614,606**	**46,979,006**	**93,593,612**
(Net Change in Assets and Liabilities)			

COMPANY:
GIOC
PERIOD: CALENDAR 2007

Cash Flows from Operating Activities	Jan-June	July-December	2007
Cash collected from buyers and clients	59,608,880	59,608,880	119,217,760
Gas purchase and related costs	-	-	-
Cash paid to suppliers	(766,644)	(200,000)	(966,644)
Paid non-profit taxes	-	-	-
Paid profit tax	-	-	-
Cash paid to employees	(455,500)	-	(455,500)
Net cash provided by operating activities	**58,386,736**	**59,408,880**	**117,795,616**

Cash Flows from Investing Activities			
Purchase of fixed and intangible assets	(25,000)	(25,000)	(50,000)
Purchase of long-term investments	-	-	-
Gain of long term investments	-	-	-
Cash from joint ventures	-	-	-
Received Dividend	-	-	-
UNDP Project (Non-operating expense)	-	-	-
Net cash used for investing activities	**(25,000)**	**(25,000)**	**(50,000)**

Cash Flows from Financing Activities			
Purchase of Investments	-	-	-
Repayment of long-term loans and other liabilities	-	-	-
ITOCHU Credit	-	-	-
Paid dividends	-	-	-
Net cash provided by financing activities	**-**	**-**	**-**

Net increase in Cash	**58,361,736**	**59,383,880**	**117,745,616**
Cash Balance, December 31, 2006	(0)	58,361,735	(0)
Cash Balance, December 31, 2007	58,361,735	117,745,615	117,745,615

7. Pro-forma Financial Statements 2008-2016

COMPANY: GOGC PERIOD: CALENDAR YEAR 2007-2016 (GEL)	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
ASSETS										
NON-CURRENT ASSETS:										
Property, plant and equipment, net	198,950,215	223,580,741	257,808,156	293,285,626	290,229,387	290,269,391	291,319,855	292,704,229	294,199,391	295,731,359
Intangible assets, net	18,037	18,037	18,037	18,037	18,037	18,037	18,037	18,037	18,037	18,037
Investments available for sale	6,600	6,600	6,600	6,600	6,600	6,600	6,600	6,600	6,600	6,600
Other non-current assets	11,596,319	11,596,319	11,596,319	11,596,319	11,596,319	11,596,319	11,596,319	11,596,319	11,596,319	11,596,319
Total non-current assets	**210,571,171**	**235,201,698**	**269,429,112**	**304,906,583**	**301,850,344**	**301,890,347**	**302,940,812**	**304,325,186**	**305,820,347**	**307,352,315**
CURRENT ASSETS:										
Inventories	1,475,699	1,475,699	1,475,699	1,475,699	1,475,699	1,475,699	1,475,699	1,475,699	1,475,699	1,475,699
Prepaid Expenses	9,173,820	9,173,820	9,173,820	9,173,820	9,173,820	9,173,820	9,173,820	9,173,820	9,173,820	9,173,820
Taxes refundable and prepaid	11,710,539	11,710,539	11,710,539	11,710,539	11,710,539	11,710,539	11,710,539	11,710,539	11,710,539	11,710,539
Accounts receivables, net	10,746,141	10,746,141	10,746,141	10,746,141	10,746,141	10,746,141	10,746,141	10,746,141	10,746,141	10,746,141
Cash and Cash equivalents	95,179,649	156,036,509	358,350,667	607,485,361	1,056,012,229	1,583,746,211	2,068,190,000	2,571,096,671	3,080,365,954	3,593,132,161
Total current assets	**128,285,848**	**189,142,708**	**391,456,866**	**640,591,560**	**1,089,118,428**	**1,616,852,409**	**2,101,296,199**	**2,604,202,870**	**3,113,472,153**	**3,626,238,360**
TOTAL ASSETS	**338,857,019**	**298,810,134**	**269,429,112**	**304,906,583**	**301,850,344**	**301,890,347**	**302,940,812**	**304,325,186**	**305,820,347**	**307,352,315**
LIABILITIES AND SHAREHOLDERS" EQUITY										
SHAREHOLDERS" EQUITY:										
Share Capital	91,310,431	91,310,431	91,310,431	91,310,431	91,310,431	91,310,431	91,310,431	91,310,431	91,310,431	91,310,431
Additional paid in capital	-	-	-	-	-	-	-	-	-	-
Retained Earnings	101,651,165	184,424,668	296,445,735	432,212,116	704,413,855	1,016,697,708	1,306,277,676	1,607,295,606	1,916,706,720	2,302,833,489
Reavaluation Reserves	8,354,100	8,354,100	8,354,100	8,354,100	8,354,100	8,354,100	8,354,100	8,354,100	8,354,100	8,354,100
Total shareholders' equity	**201,315,696**	**284,089,199**	**396,110,266**	**531,876,647**	**804,078,385**	**1,116,362,238**	**1,405,942,206**	**1,706,960,137**	**2,016,371,250**	**2,402,498,019**
NON-CURRENT LIABILITIES										
	-	-	-	-	-	-	-	-	-	-
Deferred revenue										
Long-term debt	79,608,436	63,608,436	47,608,436	31,608,436	15,608,436	15,608,436	15,608,436	15,608,436	15,608,436	15,608,436
Taxes payable	-	-	-	-	-	-	-	-	-	-
Other non-current liabilities	9,661,061	9,661,061	9,661,061	9,661,061	9,661,061	9,661,061	9,661,061	9,661,061	9,661,061	9,661,061
Total non-current liabilities	**89,269,497**	**73,269,497**	**57,269,497**	**41,269,497**	**25,269,497**	**25,269,497**	**25,269,497**	**25,269,497**	**25,269,497**	**25,269,497**
CURRENT LIABILITIES:										
Trade and other payables	45,919,028	64,632,912	105,203,936	142,064,942	179,991,248	223,941,902	260,444,213	298,380,694	330,020,407	361,660,121
Short-term loans	-	-	-	-	-	-	-	-	-	-
Accrued expenses	348,012	348,012	348,012	348,012	348,012	348,012	348,012	348,012	348,012	348,012
Taxes payable	2,004,786	2,004,786	101,954,268	229,939,045	381,281,629	552,821,108	712,233,083	877,569,716	1,047,283,334	1,143,815,026
Other current liabilities	-	-	-	-	-	-	-	-	-	-
Total current liabilities	**48,271,827**	**66,985,710**	**207,506,215**	**372,351,999**	**561,620,889**	**777,111,022**	**973,025,307**	**1,176,298,422**	**1,377,651,753**	**1,505,823,159**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**338,857,019**	**424,344,406**	**660,885,978**	**945,498,143**	**1,390,968,772**	**1,918,742,757**	**2,404,237,011**	**2,908,528,056**	**3,419,292,500**	**3,933,590,676**

COMPANY: GOGC PERIOD: CALENDAR YEAR 2008-2016 (GEL)	2008	2009	2010	2011	2012	2013	2014	2015	2016
Gross Revenues									
Operating Income	329,481,473	363,813,805	395,499,341	458,453,752	506,090,866	483,560,673	502,023,555	508,386,167	719,483,091
Non-operating Income	2,883,116	2,883,116	2,883,116	2,883,116	2,883,116	2,883,116	2,883,116	2,883,116	2,883,116
Gross Revenues	**332,364,589**	**366,696,921**	**398,382,457**	**461,336,868**	**508,973,982**	**486,443,789**	**504,906,671**	**511,269,283**	**722,366,207**
Operation and Maintenance Expenses									
Labor Costs	3,234,743	3,234,743	3,234,743	3,234,743	3,234,743	3,234,743	3,234,743	3,234,743	3,234,743
Special Projects	0	0	0	0	0	0	0	0	0
Consulting Fees	367,709	367,709	367,709	367,709	367,709	367,709	367,709	367,709	367,709
Non-income taxes	60,533,683	65,079,774	71,334,441	80,451,646	87,027,946	84,482,579	87,541,035	90,153,208	
Maintenance and repair costs	1,127,873	1,127,873	1,127,873	1,127,873	1,127,873	1,127,873	1,127,873	1,127,873	1,127,873
Insurance	266,877	266,877	266,877	266,877	266,877	266,877	266,877	266,877	266,877
Production Costs	0	0	0	0	0	0	0	0	0
Losses and stolen gas	18,999,552	28,075,824	25,013,205	26,725,905	33,397,650	25,949,308	27,383,478	21,086,711	21,086,711
Bad debt expense	0	0	0	0	0	0	0	0	0
Other operating expenses	661,374	661,374	661,374	11,251,947	15,682,319	14,741,396	14,778,687	12,925,993	12,049,318
Total O& M Expenses	**85,191,811**	**98,814,174**	**102,006,223**	**123,426,700**	**141,105,117**	**130,170,485**	**134,700,401**	**129,163,113**	**38,133,230**
General and Administrative Expenses									
Travel, training and related costs	110,200	110,200	110,200	110,200	110,200	110,200	110,200	110,200	110,200
Office Supplies	93,333	93,333	93,333	93,333	93,333	93,333	93,333	93,333	93,333
Headquarters Labor Expenses	4,838,400	4,838,400	4,838,400	4,838,400	4,838,400	4,838,400	4,838,400	4,838,400	4,838,400
Other G&A Expenses	138,162	138,162	138,162	138,162	138,162	138,162	138,162	138,162	138,162
Total G&A Expenses	**5,180,095**	**5,180,095**	**5,180,095**	**5,180,095**	**5,180,095**	**5,180,095**	**5,180,095**	**5,180,095**	**5,180,095**
Non-Operating Expenses									
Non-operating expenses	0	0	0	0	0	0	0	0	0
Net Foreign Exchanges losses (gain)	-285,668	-285,668	-285,668	-285,668	-285,668	-285,668	-285,668	-285,668	-285,668
Interest on loans	3,236,994	2,589,595	1,942,197	1,294,798	0	0	0	0	0
Total Other Non-Op. Exp	**2,951,326**	**2,303,927**	**1,656,528**	**1,009,129**	**-285,668**	**-285,668**	**-285,668**	**-285,668**	**-285,668**
Expensed Changes in Capital									
Depreciation (of capital assets)	6,256,666	15,855,388	17,624,026	19,672,454	21,631,731	20,536,118	19,585,755	18,755,146	18,024,475
Amortization (of consumable assets)	0	0	0	0	0	0	0	0	0
Amortization (of other assets or liabilities)	0	0	0	0	0	0	0	0	0
Impairment of current assets	0	0	0	0	0	0	0	0	0
Total Capital Related Expenses	**6,256,666**	**15,855,388**	**17,624,026**	**19,672,454**	**21,631,731**	**20,536,118**	**19,585,755**	**18,755,146**	**18,024,475**
Total Expenses:	**99,579,898**	**122,153,584**	**126,466,872**	**149,288,379**	**167,631,275**	**155,601,030**	**159,180,583**	**152,812,686**	**61,052,132**
Gross Profit	**232,784,691**	**244,543,337**	**271,915,585**	**312,048,490**	**341,342,707**	**330,842,759**	**345,726,088**	**358,456,596**	**661,314,075**
Income Taxes	46,556,938	48,908,667	54,383,117	62,409,698	68,268,541	66,168,552	69,145,218	71,691,319	132,262,815
Inc. Tax Effect of items not deductible for income tax purposes	0	0	0	0	0	0	0	0	0
Total Income Taxes	**46,556,938**	**48,908,667**	**54,383,117**	**62,409,698**	**68,268,541**	**66,168,552**	**69,145,218**	**71,691,319**	**132,262,815**
Net Income (after taxes)	**186,227,753**	**195,634,670**	**217,532,468**	**249,638,792**	**273,074,165**	**264,674,208**	**276,580,870**	**286,765,277**	**529,051,260**
Other non-operating expenses									
MCG	34,600,000	0	0	0	0	0	0	0	0
Net Profit	**220,827,753**	**195,634,670**	**217,532,468**	**249,638,792**	**273,074,165**	**264,674,208**	**276,580,870**	**286,765,277**	**529,051,260**
(Net Change in Assets and Liabilities)									

COMPANY: GOGC PERIOD: CALENDAR YEAR 2008-2016 (GEL)	2008	2009	2010	2011	2012	2013	2014	2015	2016
Cash Flows from Operating Activities									
Cash collected from buyers and clients	332,364,589	366,696,921	398,382,457	461,336,868	508,973,982	486,443,789	504,906,671	511,269,283	722,366,207
Gas purchase and related costs	-	-	-	-	-	-	-	-	-
Cash paid to suppliers	(6,002,523)	(5,355,124)	(4,707,725)	(14,650,898)	(17,786,473)	(16,845,550)	(16,882,841)	(15,030,147)	(14,153,472)
Paid non-profit taxes	(60,533,683)	(65,079,774)	(71,334,441)	(80,451,646)	(87,027,946)	(84,482,579)	(87,541,035)	(90,153,208)	-
Paid profit tax	(46,556,938)	(48,908,667)	(54,383,117)	(62,409,698)	(68,268,541)	(66,168,552)	(69,145,218)	(71,691,319)	(132,262,815)
Cash paid to employees	(8,073,143)	(8,073,143)	(8,073,143)	(8,073,143)	(8,073,143)	(8,073,143)	(8,073,143)	(8,073,143)	(8,073,143)
Net cash provided by operating activities	**211,198,303**	**239,280,213**	**259,884,031**	**295,751,482**	**327,817,878**	**310,873,966**	**323,264,435**	**326,321,465**	**567,876,777**
Cash Flows from Investing Activities									
Purchase of fixed and intangible assets	(36,600,000)	(40,925,000)	(40,925,000)	(2,000,000)	(2,000,000)	(2,000,000)	(2,000,000)	(2,000,000)	(2,000,000)
Purchase of long-term investments	-	-	-	-	-	-	-	-	-
Gain of long term investments	-	-	-	-	-	-	-	-	-
Cash from joint ventures	-	-	-	-	-	-	-	-	-
Received Dividend	-	-	-	-	-	-	-	-	-
UNDP Project	-	-	-	-	-	-	-	-	-
Net cash used for investing activities	**(36,600,000)**	**(40,925,000)**	**(40,925,000)**	**(2,000,000)**	**(2,000,000)**	**(2,000,000)**	**(2,000,000)**	**(2,000,000)**	**(2,000,000)**
Cash Flows from Financing Activities									
Purchase of Investments	-	-	-	-	-	-	-	-	-
Repayment of long-term loans and other liabilities	(16,000,000)	(16,000,000)	(16,000,000)	(16,000,000)	-	-	-	-	-
ITOCHU Credit	-	-	-	-	-	-	-	-	-
Paid dividends	-	-	-	-	-	-	-	-	(207,008,249)
Net cash provided by financing activities	**(16,000,000)**	**(16,000,000)**	**(16,000,000)**	**(16,000,000)**	**-**	**-**	**-**	**-**	**(207,008,249)**
Net increase in Cash	**158,598,303**	**182,355,213**	**202,959,031**	**277,751,482**	**325,817,878**	**308,873,966**	**321,264,435**	**324,321,465**	**358,868,528**
Cash Balance, Current Year-1	**174,803,198**	**333,401,501**	**515,756,714**	**718,715,745**	**996,467,227**	**1,322,285,105**	**1,631,159,071**	**1,952,423,506**	**2,276,744,972**
Cash Balance, Current Year	**333,401,501**	**515,756,714**	**718,715,745**	**996,467,227**	**1,322,285,105**	**1,631,159,071**	**1,952,423,506**	**2,276,744,972**	**2,635,613,499**

8. Notes to the Financial Statements

1. ***Tax Rates*** applied in the calculations are based on the Tax Law of Georgia in compliance with the following Table:

Taxes	
Type of Tax	**Rate**
1	**2**
Income tax	**12%**
Social Tax	**20%**
Property Tax	**1%**
Profit Tax	**20%**
VAT	**18%**

2. ***Exchange Rate*** applied in the calculations is based on the average exchange rate (USD to GEL) for the period October-November, 2007 and equals 1,73.

3. ***Depreciation*** for the year 2006 is calculated based on the rates defined by Tax Law of Georgia in compliance with the following table:

Depreciation	
Group	Rate, %
Group 1	20
Group 2	20
Group 3	8
Group 4	5
Group 5	15

As for the years from 2008 through 2016, average depreciation rate is applied for the portion of the assets prior to 2008 and specific rate for new investments (capital projects for pipeline rehabilitation and construction of gas storage). Rate shown in table is for the most recent group of assets acquired. Details are given in the following table:

Depreciation												
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Book Value of Assets at the end of the year	92,334,921	91,506,286	216,837,737	253,437,737	294,362,737	335,287,737	337,287,737	339,287,737	341,287,737	343,287,737	345,287,737	347,287,737
Asset Purchase (Pipeline Capital Projects)		1,797,901	125,331,451	36,600,000	40,925,000	40,925,000	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000
Depreciation Rate for Pipeline/ Gas Storage	8%	8%	8%	8%	8%	8%	15%	15%	15%	15%	15%	15%
Total Depreciation & Amortization		6,971,974	6,256,666	15,855,388	17,624,026	19,672,454	21,631,731	20,536,118	19,585,755	18,755,146	18,024,475	17,378,092
Average Rate		8%	7%	7%	7%	7%	6%	6%	6%	5%	5%	5%

4. *Salaries*

GOGC Payroll (GEL)								
	Total Number	Net	Gross (Estimated)	Total Cost	Total Net	Total Gross	Payroll	Social and Income tax
President	1	5,280	6,000	7,200	5,280	6,000	7,200	1,920
Directors	7	4,400	5,000	6,000	30,800	35,000	42,000	11,200
Advisory Council	10	3,520	4,000	4,800	35,200	40,000	48,000	12,800
Middle Management	12	2,640	3,000	3,600	31,680	36,000	43,200	11,520
Experts	40	2,024	2,300	2,760	80,960	92,000	110,400	29,440
Leading Specialist	40	1,144	1,300	1,560	45,760	52,000	62,400	16,640
Specialists	60	880	1,000	1,200	52,800	60,000	72,000	19,200
Others	30	440	500	600	13,200	15,000	18,000	4,800
Total	**200**				**295,680**	**336,000**	**403,200**	**107,520**

Income and Social taxes are calculated based on the salaries for the employees. By special agreement, social taxes for Frontera employees are paid by Saknavtobi, (now by GOGC), which amounts to 80 000 GEL per month.

Assumed severance package payments to employees in 2007 include payment of three month salaries to those employees, who will be released in accordance with the new organizational structure. Assumptions and relative calculations are presented below:

	No of employees	Total Gross (GEL)	Average monthly Salary
GIOC	69	41,520	602
Saknavtobi without Subsidiaries	630	280,000	444
GGIC without Subsidiaries	79	132,000	1671
Total	**778**	**453,520**	**583**

However it appeared that salaries reported by the companies were underestimated. Assumption made in the business plan regarding average monthly salary to be paid within the severance packages is that instead of 583 it is 800 GEL (net 587 GEL). Based on this assumption total net severance package payment equals: 3(months)*587(monthly Net Payment)*678 (No of employees) = 1 193 820 GEL

5. *Capital Projects and Source of Funding*

Two major capital expenditures are planned to take place during the next 10 years

1. $ 45,000,000 grant from MCG, which will be spent during the years 2007-2008 on the rehabilitation of the North-South pipeline.
2. Rehabilitation of the southern part of the North-South Pipeline, for which 80 million GEL (about $ 46,000,000) will be allocated from the budget in 2007. This will be as a the state loan to GOGC which is planned to be covered starting from the end of 2007 from the Carbon Credit Revenues. The schedule for loan repayment and Carbon credit revenues are given below:

SCHEDULE OF BUDGET LOAN REPAYMENT

		Period	5 Years		Amount	
		Interest Rate	7%		80,000,000	GEL

	2007	2008	2009	2010	2011	Total
Base Amount	16,000,000	16,000,000	16,000,000	16,000,000	16,000,000	80,000,000
Interest	5,600,000	4,480,000	3,360,000	2,240,000	1,120,000	16,800,000
Annual Payment	21,600,000	20,480,000	19,360,000	18,240,000	17,120,000	96,800,000
Balance	64,000,000	48,000,000	32,000,000	16,000,000	-	

SCHEDULE OF CARBON CREDIT REVENUE ALLOCATION

Carbon Credit Revenues used to cover State Loan and Gas Storage Construction Cost (GEL)

Year	Carbon Credit Revenues	State Loan Repayment	Gas Storage	Accumulated Balance*
2007	21,625,000	21,600,000	0	25,000
2008	29,410,000	20,480,000	0	8,955,000
2009	34,600,000	19,360,000		24,195,000
2010	44,115,000	18,240,000	38,925,000	11,145,000
2011	46,710,000	17,120,000	38,925,000	1,810,000
2012	31,140,000	0		32,950,000
2013	0	0		32,950,000
2014	0	0		32,950,000
2015	0	0		32,950,000
2016	0	0		32,950,000
Total	**207,600,000**	**96,800,000**	**77,850,000**	

Note: Accumulated Balance at the end of the year is additional cash that may be available for other capitl projects and/or operating costs

3. Construction of Gas Storage starting from 2009 through 2010. This project supposed to be financed from carbon credit revenues as well (estimated cost is $45,000,000)

6. Baku-Supsa Pipeline Fee Forecast

Assumption applied in this forecast is: from 1997 to 2007 the tariff increased from 0,18 to 0,22 USD, which is 22% increase over 10 years (0,004 USD annually).

7. BTC Pipeline Forecast

Assumption applied in this forecast is the same as in case of Baku Supsa: 22% increase over 10 years (0,00267 USD annually).

8. Revenue Forecast from Oil Sales

Assumption applied to forecasted volumes of oil sales is: Oil Production will be sold to the Investors with the mandatory condition to retain current production level with 5 % of decline rate. No forecast is done regarding future PSA revenues. Sale price for oil and associated gas remains the same

9. There were no financial statements developed particularly for GTC (the daughter company of GIGC). The objective was to work on the consolidated statements for the companies, relatively consolidated financial statements for previous year was used for the future forecasts. But we may assume that Profit and Loss Statement and Cash flow of GGIC for 2006 basically reflects revenues and expenses for GTC minus labour expenses and other administrative expenses for Headquarters.

10. Annexes

Annex A – GOGC Legal Report
Annex B – Oil and Gas Potential
Annex C – GOGC Gas Storage
Annex D – Pipeline Tariff Models