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**Tbilgazi Gas Distribution Company
Tbilisi, Georgia**

Information Memorandum

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TBILGAZI

INFORMATION MEMORANDUM

This Information Memorandum ("Memorandum") is based on information provided by the Georgian Ministry of State Property Management ("MSPM") and Tbilgazi ("Tbilgazi" or the "Company"), a Joint Stock Company ("JSC") engaged in the distribution of natural gas in Tbilisi, Georgia. It is being delivered on behalf of the Company by the MSPM to a limited number of parties who may be interested in the potential acquisition of seventy-five (75) percent of the shares of Tbilgazi. The sole purpose of this Memorandum is to assist the recipient in deciding whether to proceed with a further investigation of the Company. This Memorandum is not, and does not purport to be, all-inclusive or to necessarily contain all the information that a prospective purchaser may desire in investigating the Company.

This Memorandum has been prepared for informational purposes only, and is being delivered upon the express understanding that it will be used for only the purposes set forth above. The Memorandum contains unaudited financial statements and other statements related to the assets, liabilities and operating data of the Company that have not been independently verified. The Memorandum also may include certain statements, estimates and projections related to the anticipated or potential future performance of the Company. Such statements, estimates and projections reflect various assumptions made by the Company, which may or may not prove to be correct. It is expected that any person or entity who wishes to purchase the Company will be a sophisticated and knowledgeable investor familiar with the natural gas sector and the privatization of State-owned assets in developing countries. Each such investor should conduct its own independent investigation and analysis of the Company. Accordingly, neither the Company, MSPM nor the Government of Georgia makes any express or implied representation or warranty as to the accuracy or completeness of the information contained herein or made available in connection with any further investigation of the Company. The Company, MSPM and the Government each expressly disclaim any and all liability that may be based on such information, errors therein or omissions therefrom. The recipient shall be entitled to rely solely on the representations and warranties, if any, made to it by the Company or the Government in any final purchase agreement.

In furnishing this Memorandum, neither the Company, MSPM nor the Government undertakes any obligation to provide the recipient with access to any additional information. This memorandum shall not be deemed an indication of the state of affairs of the Company nor shall it constitute an indication that there has been no change in the business or affairs of the Company since the date hereof.

All communications, inquiries and requests for information relating to these materials should be addressed to representatives of the MSPM listed below. Under **NO** circumstances should the management of the company be contacted directly.

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1. EXECUTIVE SUMMARY

1.1. Background to the Transaction

The Government of Georgia acting through the Ministry of State Property Management is privatizing certain State-owned enterprises in the natural gas and electricity sector. As part of this continuing program, the Government will offer Tbilgazi, a Georgian JSC engaged in the distribution of natural gas in Tbilisi, Georgia, for privatization via a competitive tender process.

The Government intends to sell a controlling interest (75%) in Tbilgazi to a strategic private investor ("Investor"). As required by current Georgian legislation, up to ten (10%) percent of the Company's shares will be offered to employees of the Company and ultimately, the remaining State shares may be offered at auction to the public.

The privatization of Tbilgazi offers a strategic investor a unique opportunity to participate in and benefit from the rehabilitation and development of the natural gas sector in Georgia. The Georgian natural gas sector and, in particular, the local gas distribution system within the capital city of Tbilisi has significant growth potential.

In January 1998, the Government began the process of privatizing several of the larger municipal gas distribution companies in Georgia. This effort resulted in the sale of a controlling interest in the municipal distribution companies Kutaisgazi, Bolnispazi, Rustavgazi, Marneulgazi, Kaspigazi and Gorigazi.

During the second half of 1998, the Government conducted a commercial tender for 76% of the shares of Tbilgazi. The MSPM's tender announcement stated a selling price of US\$6 million and required the purchaser to invest not less than US\$30 million within 2 years for rehabilitation and development of the gas distribution system. In August 1998, the MSPM approved Intergaz (later renamed JSC Sakgaz) as winner of the commercial tender. Subsequent discussions between the MSPM and JSC Sakgaz related to the level of debt assumption by JSC Sakgaz led to non-payment of the purchase price and the MSPM cancelled the tender award in February 1999.

This offering follows the successful privatization of Telasi, the electric distribution company serving Tbilisi, in late 1998. The Telasi privatization, conducted by the MSPM with assistance from the investment bank Merrill Lynch, is the largest and most recent energy sector privatization in a program that began in 1994. AES Corporation, an owner and operator of electric generation facilities throughout the world, was the successful purchaser of Telasi. The MSPM is continuing the privatization process of the electric sector with a current offering of distribution and generation assets which includes Gardabani, the large thermal generation plant near Tbilisi.

1.2. Tender Process

The Tbilgazi privatization will be conducted via a two stage bidding process and will be concluded in an expeditious manner and is expected to close prior to year-end. Potential Investors will be required to submit a formal qualification application in order to bid for Tbilgazi.

If the formal qualification application is accepted by the MSPM, Investors will be invited to conduct detailed due diligence on the Company in Tbilisi, Georgia. The due diligence process will include, without limitation, meetings with senior officials of the MSPM and the Company, review of data room materials and inspection of physical facilities.

Investors should refer to the Request for Formal Proposal that will be dispatched shortly for additional detailed information on the privatization process, including the timing and evaluation criteria for offers. Proposals will be evaluated primarily on the basis of cash consideration, level of debt

assumption, future investment and system rehabilitation commitments, a clear long-term commitment to customer service, and the experience and expertise of the Investor in owning and operating natural gas distribution systems. The Government of Georgia and the MSPM expressly reserve the right to reject any or all offers for Tbilgazi without providing the reason or reasons therefor.

1.3. Business Overview

Tbilgazi purchases, transports, and distributes natural gas to residential customers, commercial and industrial enterprises and State-owned entities in Tbilisi, Georgia. Tbilgazi, founded as a State-owned enterprise in 1958, was reestablished in 1997, as a JSC owned by the Government.

Sector, system and customer attributes are described in detail in Sections II and III of this Memorandum. In 1989, prior to the disruption of gas supplies to Tbilisi and attendant deterioration of the distribution system, the Company delivered 2.02 bcm of natural gas per annum to nearly 300,000 customers in its service area. Natural gas was delivered to 290,700 residential customers, 240 commercial enterprises, 598 communal customers, and 96 rayon and residential heating boilers.

The recent unbundling of the Georgian natural gas sector, economic and political stability, and a strong political commitment to economic reform and attraction of foreign capital combine to provide the private Investor with a unique opportunity to invest in a Company with tremendous growth potential.

1.4. Georgia - Facts and Investment Climate

1.4.1. Geography, History and Demographics

Georgia is located in the southern Caucasus and is bordered by the Russian Federation, Azerbaijan, Armenia, Turkey, and the Black Sea. Georgia's landmass approximates 69,700 square kilometers, which includes external boundaries of 1,460 kilometers, and a Black Sea coastline of 310 kilometers.



Georgia's recorded history dates to the 6th century BC. In the centuries that followed, Georgia warred with and was, on many occasions, occupied by Persian, Arab, Mongol and Turkish invaders. Georgia's association with Russia began via a protectionist treaty in 1783 that was followed by a Russian annexation of Georgia in 1801. Following a brief period of independence, Russian

Bolsheviks once again annexed Georgia in 1921. In 1922 Georgia became a member of the Transcaucasian Socialist Federation, and in 1936 Georgia became a republic of the Soviet Union.

At the end of 1998, the total population was officially estimated at 4.8 million with over 2.0 million people residing in the eight largest cities. The capital city of Tbilisi is located in the southeast part of the country and has a population of approximately 1.4 million people or over 25% of the country total. Other major population centers include Kutaisi (240,000), Rustavi (158,000), Batumi (137,000) and Gori (70,000).

Approximately 70% of the population is Georgian. The largest ethnic minorities include Armenians 9%, Russians 6% and Azerbaijanis 6%. The remainder of the population is comprised of other ethnic minorities.

The predominant religion of the Georgian community is Orthodox. In addition to Christianity, the Islamic and Jewish and other religions are also represented in Georgia.

The climate in Tbilisi is considered continental. Average temperatures range from 0 to 2 Celsius in winter, 7 to 11 Celsius in spring and 21 to 24 Celsius in summer.

1.4.2. Post Soviet Political History

In November of 1990, Georgia held its first democratic parliamentary elections with the Round Table alliance led by Mr. Zviad Gamsakhurdia winning a majority of votes. Georgia declared independence in April 1991 and, in May, Mr. Gamsakhurdia was elected as the first President of independent Georgia. Following the declaration of independence and presidential elections, Georgia underwent a period of political instability and civil unrest.

Opposition to the policies of President Gamsakhurdia led to a two-week civil war in Tbilisi during December and January of 1991-1992. The conflict ended with the departure of President Gamsakhurdia and the return of Mr. Eduard Shevardnadze to Georgia in March of 1992 to become Chairman of the State Council. In October 1992, elections were held and Mr. Shevardnadze was elected Chairman of Parliament and Head of State.

Regional succession movements led also to arm conflict in Tskhinvali (South Ossetia) and Abkhazia during 1991, 1992 and 1993. Armed hostilities in Abkhazia ended in late 1993, and Government efforts to negotiate a political resolution have moved forward slowly.

Following adoption of a new constitution in August 1995, national elections were conducted in November with Mr. Shevardnadze being elected as the second post Soviet-era President.

President Shevardnadze's Government has been diligent in developing structural reforms and pursuing a program of economic stability. The Government has initiated a wide range of programs directed towards commercialization and privatization of State-owned enterprises and development of a transparent legal and regulatory framework for economic activity. The effort to promote economic stability and transition to a market economy has received the support of many western countries and numerous donor organizations including the United States Agency for International Development, World Bank, International Monetary Fund, European Union and the European Bank for Reconstruction and Development.

1.4.3. Government Structure

Post Soviet Georgia has adopted a presidential republic form of government. The new Georgian Constitution was ratified in 1995 prior to the national elections and segregates government into three branches; executive, legislative and judicial. Parliamentary elections are conducted every four years

and presidential elections are held every fifth year. The next parliamentary elections are scheduled in November 1999, and will be followed by a presidential election in November 2000.

The Constitution specifies the executive powers of the President of Georgia. The President may exercise executive power directly or indirectly through a number of established Government agencies. The 1997 Georgian law "On the Structure and Activities of Executive Power" refined the structure and function of executive government and created the State Chancellery, twenty-one ministries, eighteen state departments and two state inspectorates.

Legislative authority is vested in Parliament, comprised of 233 members. The Constitution gives the President, Members of Parliament and factions the right to initiate legislation. Holding a referendum to adopt or abrogate a law is prohibited. The current majority party is the Citizens Union of Georgia, a union of politically and ideologically mixed groups that support President Shevardnadze's program of economic and market reform. The Citizens Union won 108 seats in the 1995 elections.

The Constitution separates an independent judiciary from the other two branches of government. The judiciary in Georgia is governed by the Constitution, the 1996 organic law "On the Constitutional Court" and the 1997 organic law "On General Court System in Georgia." The highest court in Georgia is the Supreme Court whose three justices are appointed by the President. The Constitutional Court, established in 1996, is comprised of nine justices, three members each appointed by Parliament, the President and the Supreme Court. The judicial system is generally considered by western standards to be underdeveloped. Recently, the Government has undertaken a program of judicial reform resulting in the adoption of a certification program and the recent appointment of 178 new judges.

1.4.4. Investment Climate

Georgia's program of economic recovery has resulted in a gradual revision of the legal and regulatory framework to promote foreign investment by encouraging transparency, simplification of foreign investment requirements, and providing protection against future changes in legislation.

The legislative framework affecting foreign investment includes the Constitution, the Tax Code, the Civil Code, the Law on Entrepreneurs, the Law on Promotion and Guarantees of Investment Activity, and the Law on Privatization of State Property. The 1999 Georgian Law on Electricity and Natural Gas will be of particular importance to potential investors. The recent legislation dealing with electricity and natural gas is discussed in Section 2.6 of this Memorandum.

The 1994 Law on Entrepreneurs grants private entities the basic right to establish business enterprises and generate profit. The law also sets forth various forms of approved private enterprise structures including individual enterprises, joint liability companies, limited liability companies, joint stock companies, and cooperatives. The law includes general provisions related to governance, registration, accounting, records and liquidation, and includes certain requirements specific to individual forms of enterprise.

The 1997 Law on Promotion and Guarantees of Investment establishes a framework for foreign and domestic investments, provides certain guarantees for their protection, and contains registration requirements for investments over US\$100,000. The law provides foreign investors a level of protection against legislative changes and the uncompensated taking of privately owned assets by the State. The legislation also grants foreign investors the right of conversion and repatriation of profits and certain other assets related to the investment.

One of the main components of the Government's strategy of economic recovery centers upon redevelopment of international trade routes between Central Asia and continental Europe. Established

transportation links will increase direct revenue to the Government and, importantly, are likely to facilitate indirect trade and investment in Tbilisi creating economic expansion.

This effort achieved a milestone in April 1999 when the "early oil" pipeline from the Caspian Sea across Georgia to the Black Sea port of Supsa began operation. Rehabilitation of existing facilities and the construction of new pipeline were affected through a joint effort of Georgia International Oil Corporation and Azerbaijan International Operating Company, a consortium of several international oil companies operating in the Caspian region. Efforts continue between the Governments of Georgia, Azerbaijan and Turkey to establish an "east-west" main export pipeline from Baku, across Georgia and Turkey to the Mediterranean port Ceyhan.

In October 1998, Turkey and Turkmenistan signed an intergovernmental protocol for the supply of Turkmen gas to Turkey. More recently, a consortium (named PSG International) between Bechtel Corporation and GE Capital was formed and has signed a contract with the Turkmen government to develop a Trans-Caspian natural gas pipeline from Turkmenistan across Azerbaijan and Georgia to Turkey. Shell Exploration recently announced an agreement with the Turkmen government to collaborate in the exploration and development of Turkmenistan's hydrocarbon resources. Simultaneously, Shell announced that the company had reached agreement with PSG International to become a partner in the Trans-Caspian pipeline project. Realization of this long-term project is of strategic importance to the future development of the natural gas sector in Georgia.

In the trade arena, Georgia's application to join the World Trade Organization continues to move forward. In late 1988, Japan became the first country to sign a protocol reflecting the successful conclusion of bilateral negotiations with Georgia concerning obligations on tariffs and trade policy. Georgia has adopted many of the legislative changes required for WTO membership and has concluded negotiations with a number of other countries required for World Trade Organization membership. Sources familiar with the process indicate that accession to the organization may occur in late 1999.

2. KEY INVESTMENT CONSIDERATIONS

2.1. The Georgian Natural Gas Sector

Construction of the Georgian natural gas pipeline network began in early 1958, and gas from Azerbaijan reached Tbilisi in 1959. See Section 2.3 of this Memorandum for a description of the main pipeline network.

By 1989, natural gas had become the single most important energy source for the Georgian economy, supplying nearly 62 percent of Georgia's energy needs. Historically, gas supply in Georgia under Sakgaz was nearly ubiquitous; 46 cities and 230 villages had access through local distribution points, as did more than 800 industrial facilities, and about 3,500 communal installations.

Following the breakup of the former Soviet Union, the price of imported natural gas in Georgia increased substantially. The inability of Georgia to pay for gas deliveries resulted in significant internal and external debt, and a near total interruption of supply. Lack of natural gas and electricity has in turn resulted in a reduction of enterprises producing export commodities, which provided currency to pay for imported energy. Moreover, the reduction in gas supply and years of minimal investment has resulted in a deterioration of system facilities. Thus, gas consumption has dropped from a high of over 6.0 bcm in 1989 to an estimated 0.7 to 0.9 bcm per annum in 1996, 1997 and 1998.

Currently, the natural gas sector is composed primarily of companies either wholly owned by the Government either as a State-owned enterprise or JSC. Georgian International Gas Company ("GIC") was established by Presidential Decree in 1997 as a JSC for the purpose of managing Georgia's main

natural gas pipeline network, and to represent the State in contracts and negotiations on gas imports with foreign suppliers. Saktransgazmretsvi was established as a State-owned enterprise in 1996 by Order of the Minister of Fuel and Energy as a successor entity to the Department of Sakgaz and Saktransgaz. GIC is now responsible for the transport and sale of natural gas, and the day to day operation of the pipeline system.

In 1996, responsibility for the management of local gas distribution was conveyed to municipal governments in each locality. The State retained ownership of the distribution systems and the capital stock of each distribution company. As earlier mentioned, in January 1998 the Government began the process of privatizing several of the larger municipal gas distribution companies in Georgia. This effort resulted in the sale of a controlling interest in the municipal distribution companies Kutaisgazi, Bolnisi, Rustavi, Marneuli, Kaspigazi and Gorigazi. The private enterprise Intergaz (now renamed JSC Sakgaz) purchased all six distribution companies as well as controlling interest in the Rustavi cement plant, a major gas consumer.

2.2. Industry Regulation

2.2.1. Regulatory Authority

One of the most important developments in the Georgian energy sector in the post-Soviet era was enactment of the Georgian Electricity Law in June 1997. Significant features of the Electricity Law include:

- creation of the Georgian National Electric Regulatory Commission, renamed the Georgian National Energy Regulatory Commission in 1999, (GNERC or Commission), an independent regulatory agency with comprehensive jurisdiction over the rates, terms and conditions of service of electricity sector enterprises; GNERC has three full time Commissioners appointed by the President of Georgia
- establishment of a system of licenses and tariffs to regulate the operation of electricity sector enterprises, with different requirements for generation, transmission, dispatch, and distribution licensees

During its first full year of operation in 1998, GNERC began to set in place the framework for efficient regulation of the electricity sector. The Commission has:

- issued interim licenses for electricity sector enterprises
- issues interim rates for certain generation facilities
- adopted a tariff methodology for cost based rates
- developed model licenses for generation, transmission, and distribution licensees
- adopted an interim rate increase to 6 tetri per kWh (from 4.5 tetri), pending completion of longer term rate proceedings
- adopted longer term rates in the 8 to 9 tetri range per kWh during June of 1999

2.2.2. 1999 Amendments to the Electricity Law

Amendments to the Electricity Law, including major provisions dealing with natural gas regulation, were enacted by Parliament and signed by the President in May of 1999. The Law, as amended, is now known as the Law on Electricity and Natural Gas. The amendments dealing with natural gas establish GNERC as the sole regulatory authority for the domestic natural gas sector in Georgia and create a system of regulation for the gas supply, transportation and distribution functions.

GNERC has recently developed a natural gas tariff methodology that is in the process of being officially registered by the Ministry of Justice. GNERC is also moving forward to develop the form of supply, transportation and distribution licenses discussed in Section 2.2.3 below.

2.2.3. Licensing Regime

Under the new Law, each entity involved in the supply, transportation and distribution of natural gas within Georgia is required to have a license issued by GNERC. The Commission is authorized to grant three types of natural gas licenses: supply, transportation, and distribution.

Natural gas supply licenses issued by the Commission will authorize the licensee to purchase volumes of natural gas for sale to customers. The Commission is authorized to regulate the rates charged for natural gas and impose terms and conditions of service.

Gas transportation licenses will authorize the licensee receive deliveries of natural gas and to provide transportation services to one or more distribution licensees, direct customers or delivery points. Transportation licensees may be authorized by GNERC to hold supply licenses as well. Again, the Commission is authorized to regulate the rates, terms and conditions of service.

Natural gas distribution licenses issued by the Commission will grant a license holder the right to distribute natural gas to consumers within a defined geographic or distribution area. Gas distribution licensees may be authorized by GNERC to hold supply licenses as well (in order to be permitted to sell gas as well as to distribute it). As in the case of supply and transportation, the Commission is authorized to regulate the rates, terms and conditions of service.

2.3. Natural Gas Pipeline Network

Georgia International Gas Company is responsible for the main natural gas transmission system, and arranges transportation of imported gas to municipalities, certain industrial customers, as well as transit gas to the Armenian border. Pursuant to the terms of a management contract, Saktransgazmretsvi operates the pipeline system. Approximately half of the cities in Georgia currently receive at least partial gas supply including Tbilisi, Kutaisi, Gori, Kaspi, Rustavi, Marneuli and Bolnisi.

The main natural gas pipeline system comprises a network of pipelines 1940 kilometers in length, some of which is in need of significant rehabilitation. There are two main transit lines: a 1,200 mm diameter mainline connecting Georgia to Russia and a 1,000 mm diameter line to Armenia and Azerbaijan. The design capacity of the main system is reported to be 20 bcm, that of the North Caucasus – Trans Caucasus line is 16.4 bcm and that of the line to Armenia and Azerbaijan is 3.6 bcm. The pipeline specifications are shown in Table 1.

Table 1.

Characteristics of the Georgian Gas Pipeline Network			
Pipeline	Diameter (mm)	Length (km)	Year of Construction
N. Caucasus – Trans Caucasus	1200	135	1988 – 1994
Kazakh – Saguramo	1000	112	1980
Karadakh – Tbilisi	800, 700, 500	110	1959 – 1968
Vladikavkaz – Tbilisi	700	266	1963 – 1966
Saguramo – Kutaisi	700, 500	370	1967 – 1975
Kutaisi – Sukhumi	700, 500	338	1986 – 1989
Rustavi – Telavi – Jinvali	500, 300, 200	370	1969 – 1975
Krasny Most – Tsalka – Alastan	500, 300	180	1978 – 1990
Gomi – Khashuri – Bakurani	500, 300	59	1972 – 1989

The age of the pipeline network, reduced usage, and lack of routine maintenance due to financial constraints have combined to result in deterioration of the pipeline and related facilities. The system is in need of significant rehabilitation including work related to the repair and replacement of existing pipe, anti-erosion measures, and the repair or replacement of corrosion protection, communication, and metering facilities.

2.4. Gas Supply

Historically, Georgia has received natural gas supply from Azerbaijan, Russia, Iran and Turkmenistan. In the late 1980s Georgia began receiving natural gas from Turkmenistan; these delivery were curtailed in 1995 due to non-payment.

Currently, Itera International Energy, LLC delivers natural gas to the Georgia's northern border via the North Caucasus. Tbilgazi purchases natural gas directly from JSC Sakgas with transportation services provided by Saktransgazmretsvi. The purchase contract expires December 31, 1999. Effective August 1, 1999, the current contract price is GEL 160.00 per mcm, inclusive of taxes. Current tariffs and collections are discussed in Sections 3.2 and 5.2 of this Memorandum.

Table 2 sets forth the monthly volumes of natural gas delivered to Tbilgazi during 1998.

Table 2.

1998 Tbilgazi Monthly Volumes (mcm)		
Month	Purchased for Resale	Transported Volumes
Jan	7187.4	-
Feb	7189.9	-
Mar	6071.4	-
Apr	4749.0	-
May	4056.0	443.0
Jun	3676.0	-
Jul	3427.8	33.2
Aug	3639.0	2100.0
Sep	3826.4	2037.8
Oct	4349.1	1877.9
Nov	6200.0	1714.0
Dec	8400.0	2744.0
Total	62772.0	10949.9

Source: Tbilgazi Management

Current tariffs and customer categories are discussed in Section 3.2 of this Memorandum.

2.5. Competition

Use of propane for cooking and, to a lesser extent, residential heating is relatively common in Georgia. Estimates of imported propane range as high as 100,000 metric tons per annum. Retail prices in Tbilisi are currently in the 10 to 12 GEL range per 10 kilograms. Private companies engaged in the importation and sale of propane are, depending upon the source, reported to have a market share of 50 to 90 percent of the trade. Sakthevadgazi a State-owned enterprise engaged in storing, transporting and distributing propane imported approximately 16,000 metric tons during 1988. Sakthevadgazi operates ten storage depots with an estimated capacity of metric tons.

3. ASSET DESCRIPTION AND CUSTOMER INFORMATION

3.1. Distribution System

Tbilgazi's gas distribution system is 1,935 kilometers in length, approximately 82% of which is underground. A map of the distribution is included as an exhibit to this Memorandum.

The pipeline system consists of 198 kilometers of high-pressure (to 12 bar) pipe, 551 kilometers of medium-pressure (to 3 bar) pipe, and 1,186 kilometers of low-pressure (to .03 bar) pipe. The system is depicted in Table 3 by diameter for each category of pipe.

Table 3.

Number	Diameter	Above Ground - km			Below Ground - km			Total
		High Pressure	Medium Pressure	Low Pressure	High Pressure	Medium Pressure	Low Pressure	
1	700 mm	0.5	-	-	18.5	-	-	19.0
2	500 mm	9.5	1.5	-	135.5	4.5	-	191.5
3	400 mm	4.0	2.5	-	30.0	20.5	-	57.0
4	300 mm	-	3.5	-	-	11.0	-	14.5
5	250 mm	-	4.0	10.0	-	9.0	11	34.0
6	200 mm	-	3.5	15.0	-	5.5	14.0	41.0
7	150 mm	-	9.0	26.0	-	82.0	31.0	148.0
8	100 mm	-	111.0	65.0	-	194.0	884.0	1254.0
9	80 mm	-	3.0	40.0	-	18.0	29.0	90.0
10	70 mm	-	3.0	25.0	-	15.0	21.0	64.0
11	50 mm	-	2.0	5.0	-	5.0	10.0	22.0
TOTAL		14.0	146.0	186.0	184.0	405.0	1000.0	1935.0

Source: Tbilgazi Management

In 1989, Tbilgazi received natural gas from three main distribution stations, and gas pressure to the system was regulated by 7 gas-regulating stations, 1 automatic regulating station, two hundred sixteen gas regulating facilities, and one hundred ninety-five case type regulating facilities. Eight hundred sixty nine units provided electric-chemical protection to the system. Gas supply was provided to customers via 2 main distribution stations.

Currently, gas is supplied via 1 main distribution station, 2 of the gas regulating stations are in use, and sixty-nine of the regulating facilities are operational. Only 6 of the anti-corrosion units are functional.

Investors should make their own assessment concerning the current status and rehabilitation requirements of the distribution system.

3.2. Current Tariffs and Customer Information

The reduction in the cost of purchased gas that occurred in August resulted in a corresponding decrease in customer tariffs. The current tariff for metered residential connections is GEL .25 per cubic meter or GEL 250 per mcm. Unmetered residential tariffs are determined by multiplying a monthly consumption norm by GEL .25 per cubic meter. Single member households are deemed to consume 26 cubic meters per month (GEL 6.50), tariffs for two member households are based on 40 cubic meters per month (GEL 10.00). For three member households and above, the norm increases by 10 cubic meters per month up to and including five member households. For households of six and above, the norm increases at a reduced rate. Historically, administrative decisions by the Tbilisi

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Municipality Board have resulted in subsidized natural gas purchases by unmetered customers and small bakeries at a tariff rate below Tbilgazi's cost of gas.

In 1998, Tbilgazi transported approximately 11,000 mcm of gas to the Tbilisi Tbokseli Combined Heat and Power Plant. Tbilgazi received a distribution fee of 90 GEL per mcm for the transportation service that was booked as an offset on debt owed to JSC Sakgas.

Tbilgazi's 1998 gas supply by customer category is set forth in Table 4.

Table 4.

1998 Monthly Gas Service by Customer (mcm)							
Month	Industrial	Local Budget	Central Budget	Population	Other	Leakage	Population - excess
Jan	1584.6	172.2	229.4	1197.3	423.6	1495.1	2085.2
Feb	1429.6	86.0	251.4	1257.5	349.7	1526.7	2289.0
Mar	1656.3	64.0	178.0	995.7	305.8	1293.0	1578.6
Apr	1660.3	9.0	66.2	1053.0	132.6	1016.9	811.0
May	1564.9	16.3	33.2	870.7	138.1	987.5	445.3
Jun	1509.9	11.0	31.5	748.8	142.9	1231.9	0
Jul	1486.3	6.0	38.8	702.4	140.2	1054.1	0
Aug	1355.5	6.2	22.5	695.6	154.6	1404.6	0
Sep	1506.8	14.5	26.1	733.9	183.3	1361.8	0
Oct	1577.9	4.0	24.2	799.3	229.7	1714.0	0
Nov	1475.1	13.3	79.9	941.7	337.8	2347.3	1251.1
Dec	1040.5	44.7	227.3	1272.7	499.0	3428.3	233.9
Total	17847.7	447.3	1203.5	11268.6	3037.3	18861.2	10106.4

Source: Tbilgazi Management

3.3. Potential for New Customer Service

In 1989, Tbilgazi delivered approximately 2.0 bcm of Natural gas to nearly 300,000 customers. Residential and industrial customers accounted for approximately 48% of the delivered volumes. Gas delivered to district heating systems approximated 49% of the total.

Table 5 depicts 1989 Tbilgazi customers by category and delivered volume.

Table 5.

1989 Tbilgazi Consumers			
Customer Type	Number of Connections	Delivered Volume (BCM)	Percent of Total
Industrial	246	0.50	24.75
Municipal Entities	598	0.06	2.97
District Heating	96	1.00	49.50
Residential	290,700	0.46	22.77
Total	291,604	2.02	100.00

Source: Tbilgazi Management

It is apparent that Tbilgazi has been unable to leverage off its extensive and potentially attractive residential customer base. This inability is reflected by the Company's inability to pay suppliers and relatively high commercial losses, both of which have affected the company's cash flow and profitability.

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Natural gas service has been restored to approximately 41,000 residential units in Tbilisi. Tbilgazi currently delivers gas to approximately 23,400 residential customers, representing approximately 14% of the residential market.

Table 6 depicts current residential connections by method of billing and connection status.

Table 6.

Apartments Connected to the Distribution System – May 1999						
District	Total Apartments	Customers without Meters	Customers with Meters	Disconnected (non-payment)	Temporarily Disconnected (non-payment)	Total Residential Units Receiving Gas
Right Bank Total	15,714	1,403	10,877	2,531	893	12,290
Dighomi	3,366	671	1,743	523	429	2,414
Vake	7,022	307	5,314	1,270	131	5,621
Saburtalo	2,888	60	2,287	462	19	2,347
Mtatsminda	1,250	9	1,038	205	7	1,047
Krtsanisi	1,238	356	504	71	303	860
Left Bank Total	25,326	1,513	9,585	6,794	7,432	11,098
Gldani	5,542	23	949	2,000	2,570	972
Nadzaladevi	8,253	78	2,689	1,780	3,706	2,767
Chugureti	2,572	194	1,865	275	238	2,059
Didube	2,697	59	1,970	408	260	2,029
Isani	1,931	143	1,318	383	87	1,461
Samgori	4,331	1,016	794	1,950	571	1,810
Total	41,040	2,916	20,472	9,327	8,325	23,388

Source: Tbilgazi Management

While it is unlikely there will be any meaningful rehabilitation of district heating stations, there is significant upside potential for natural gas to be used by residential and commercial customers for space heating, hot water generation and cooking.

Currently the main fuels being used by the population for heating are kerosene, propane and wood. Many large consumers of heat such as government buildings, universities, and private commercial enterprises have installed their own hot water heating boilers utilizing diesel oil, and have disconnected their units from the district heating system. Many of these customers are likely to switch to natural gas when continuous supply is assured.

3.4. Potential for Improvement - Distribution System and Collections

Tbilgazi suffers from significant lost volumes of natural gas due to leakage resulting from deterioration of the distribution system. Technical leakage or outright theft during 1998 accounted for 18,861 mcm or approximated 25% of total volumes.

In 1998, Tbilgazi recorded GEL 5.22 million in customer collections. Approximately 2.46 million GEL, or 47% of the total, is recorded as either an offset or barter transaction. Customers in this category include residential units consuming unmetered gas in excess of established norms, central and local budget entities, subsidized bakeries, and Tbilisi Electricity Central. Privatization of Tbilgazi and implementation of the Law on Electricity and Natural Gas should work to eliminate these transactions.

3.5. Metering, Billing and Collections

The methods of payment for gas deliveries may be generally classified as either cash or non-cash. Cash payments include cash paid directly to the Company and bank transfers. Non-cash payments include various types of settlements, offsets, and barter transactions that frequently involve State and local budget entities and State-owned enterprises.

Cash payments are the predominant method of payment for most residential customers. Inspectors, who are employees of the Company, make monthly visits to the residential units and are responsible for simultaneously performing the metering, billing and collection functions.

Bank transfers are deposits made by customers to a designated Tbilgazi bank account. When the Company is notified of the deposit appropriate credits are made to the customer account. The bank transfer method is used by many of the non-budget industrial and commercial accounts, and generally involves transactions of higher monetary value.

Mutual settlements and offsets currently represent an unacceptably high level of Tbilgazi's collections. In 1998, settlements, offsets and barter transactions accounted for GEL 2,465,754 or nearly 47% of total collections.

Settlement and offset transactions are typically between the Company and either State or local budget entities and State-owned enterprises. The transactions may be concluded either directly with the entity or through one or more intermediaries, and result in a reduction of outstanding debt between the parties without the actual transfer of cash. Payments for natural gas consumption by budget organizations are normally completed by mutual settlement involving the appropriate budget accounts.

3.6. Distribution License and Tariffs

The Georgian National Energy Commission will issue the successful investor a comprehensive license to distribute natural gas within its service area, and will also issue a natural gas supply license upon request.

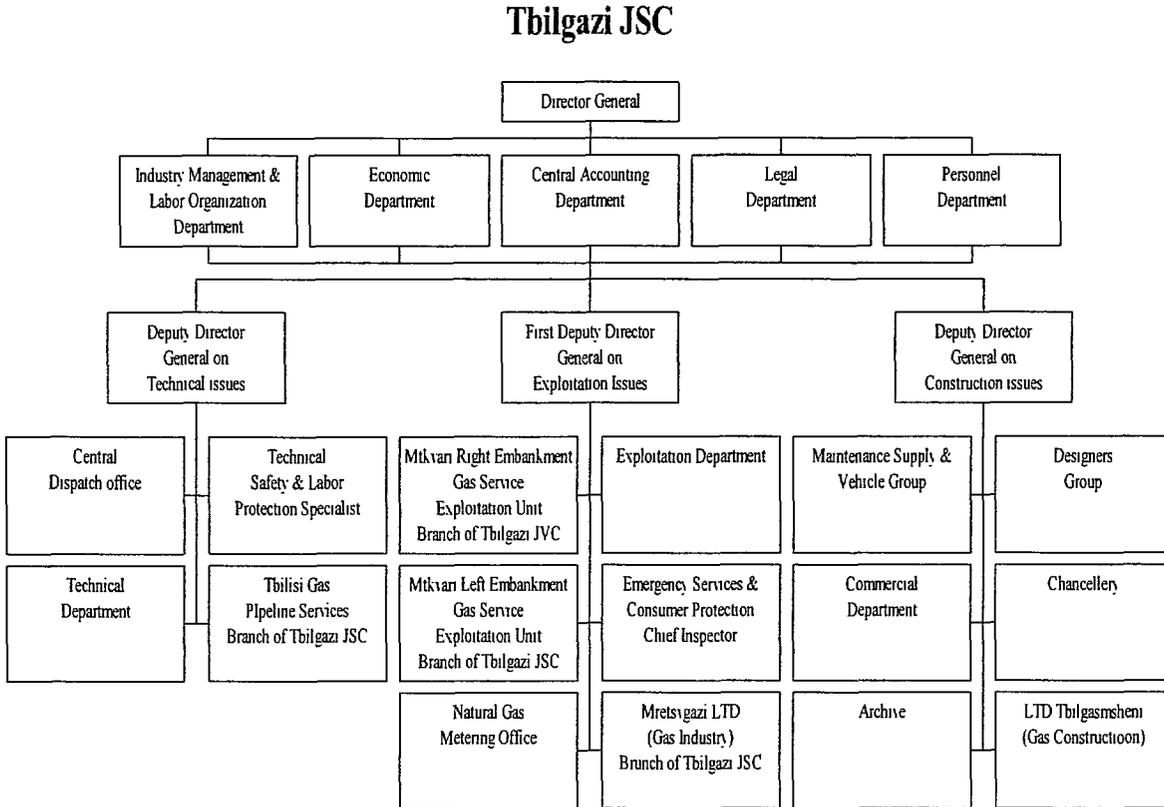
In addition to issuing supply, transportation, and distribution licenses, the Commission is authorized to regulate the rates, terms and conditions of distribution service. The Commission is currently developing a tariff methodology that will allow for cost recovery and a reasonable rate of return for licensees. Cost elements are likely to include cost of purchased gas, capital costs, operating expenses, taxes, bad debt allowances, a reasonable allowance for technical losses, and debt service.

Potential investors should pay particular attention to the 1999 Law on Electricity and Natural Gas included as an exhibit to this Memorandum.

4. TBILGAZI ORGANIZATION AND MANAGEMENT

4.1. Organizational Structure

Tbilgazi is currently organized into four principal divisions each comprised of several units or departments. There are five administrative departments reporting directly to the General Director.



Source: Tbilgazi Management

4.2. Senior Management and Staff

Tbilgazi's senior management is uniquely qualified to assist the Investor in realizing the Company's potential value and in rehabilitating of the distribution system. Table 7 provides a summary of the professional qualifications and experience of senior management.

Table 7.

Tbilgazi Senior Management	
Name & Position	Professional Experience
Valeri Chakhnashvili General Director	<ul style="list-style-type: none"> ➤ Manager, General Director since 1996 ➤ Deputy Chairman of Sakgazi 1993 to 1996 ➤ Manager of various organizations 1971 to 1993
Avtandil Gobechia First Deputy General Director	<ul style="list-style-type: none"> ➤ First Deputy Director since 1998 ➤ State Committee on Gasification 1983 to 1998 ➤ Tbilgazi employee 1960 to 1982
Otar Shengelia Deputy General Director	<ul style="list-style-type: none"> ➤ Deputy Director – Construction since 1995 ➤ Tbilgazi employee since 1964

Tengiz Arshilava Deputy General Director	➤ Deputy Director of Technical Department since 1997 ➤ Engineer for Tunnel Construction 1981 to 1983
Otar Sisauri Head, Economic Department	➤ Head of the Economic Department since 1997 ➤ Sakgazi employee 1970 to 1997
Maia Khutsishvili Head, Accounting Department	➤ Head of the Accounting Department since 1996 ➤ Tbilgazi accountant 1983 to 1996

Source: Tbilgazi Management

The Company has approximately 736 employees. The distribution of personnel by broad category is shown Table X.

Table 8.

Tbilgazi Employees	
Category	Employees
Management Staff	63
Technical Specialists	214
Building Staff	11
Blue Collar Staff	448
Total	736

Source: Tbilgazi Management

4.3. Security Ownership

In 1996 responsibility for the supervision of Tbilgazi was transferred to the Tbilisi municipal government. The State, however, through the MSPM retained ownership of the distribution system and the capital stock of the Company.

5. FINANCIAL PERFORMANCE

5.1. Summary

Tbilgazi is insolvent as demonstrated by its inability to fully pay for gas supply, service debt or fund capital improvement projects necessary to rehabilitate the distribution system. Inadequate tariffs, offsets, and excessive technical and commercial losses have combined to prevent the Company from pursuing even the most modest programs of system maintenance and repair.

Although we have attached Tbilgazi's unaudited balance sheet and income statement for 1996, 1997 and 1998 as exhibits to this Memorandum we have not undertaken a detailed review or analysis of the financial statements. Given the current low utilization rate of the system, high level of offset collections and inadequate tariffs, any restatement of the financial statements according to International Accounting Standard is likely of little value in evaluating the enterprise.

The Government is in the process of reviewing certain liabilities of Tbilgazi related to the nonpayment of gas supply. Upon resolution of this issue, which is expected to occur during the privatization process and result in a significant reduction of debt, Tbilgazi's financial statements will be revised accordingly.

5.2. 1998 Collections and Payment Data

Table 9 depicts Tbilgazi payment and collection data for 1998. Given the high level of customer collection via offset transaction, the company 1998 cash flow was negative.

Table 9.

Tbilgazi – 1998 Collections and Payment Data (GEL)					
	Customer Collections			Gas Supply Payments	Other Payments
Month	Cash	Barter	Offset	Cash	Cash
January	309,845	1966	136,047	335,866	11,199
February	313,595	561	205,523	413,053	106,626
March	315,681	983	231,057	444,397	103,324
April	200,900	-	219,744	324,630	96,014
May	212,587	-	206,090	310,377	108,300
June	102,795	-	209,549	215,310	97,034
July	185,024	-	186,722	273,446	98,300
August	204,286	-	143,299	242,495	105,090
September	209,786	2671	175,369	272,626	115,200
October	263,457	-	251,318	396,271	118,504
November	161,996	700	265,064	307,560	120,200
December	279,529	2596	226,495	386,220	122,400
Total	2,759,481	9477	2,456,277	3,922,251	1,302,984

Source: Tbilgazi Management

6. LEGAL, SAFETY AND ENVIRONMENTAL

6.1. Legal

According to information provided by management, Tbilgazi is not subject to any claim or litigation material to the ongoing operations of the Company. The Company has, in the past, been subject to local court decisions requiring compensation for damages caused by leakage of natural gas and attendant explosions.

Potential Investors will need to review carefully the debt obligations of the Company, including those to Sakgazi to determine the possibility and extent of contingent liabilities related thereto.

6.2. Safety and Environmental

We have not conducted a safety or environmental review of the distribution system or the internal practices of the Company. Given the age and deteriorated condition of the system, potential Investors should, of course make their own detailed assessment of safety and environmental issues related to the Company.

ATTACHMENT 2

1996 UNAUDITED FINANCIAL STATEMENTS

Approved
by Ministry of Finance of
Georgia

Form No. 1

Balance Sheet of Enterprise

for 12 month of 1996 year

Firm name Tbilgazi.

Organisational and legal form Joint-Stock Company

Legal address 18, Mitkevichi St. Tbilisi, 380060, Geo.

Field (kind of activity) Gas Distribution

Unit _____ lari

Assets	Code Line	In the beginning of the year	In the end of fiscal period
1	2	3	4
I. Contributions not paid yet to the enterprise charter capital(75)	010		
<i>Including: contributions with the expired date due</i>	011		
.....	012		
<i>I section in total</i>	020		
II. Capital employed			
<i>Fixed assets:</i>			
Land with buildings and premises (01)	030		
Land without buildings and premises (01)	040		
Buildings and premises on the other's land (01)	050	3523	467798
Machines, equipment, facilities and automobiles (01)	060		
Store and office supplies (01)	070		
Perennials (01)	080		
Other fixed assets (01,03)	090		
Equipment to be installed (07)	100		
Capital investments in work (08)	110		
.....	111		
<i>Intangible assets:</i>	120		
Concessions, intellectual property and licenses (04)			
Firm value (goodwill) (04)	130		
Other intangible assets (04)	140		
.....	141		
<i>Investments:</i>			
Participation in other companies (06)	150		
Bonds and other securities (06)	160		
Loans issued for the term of more than one year (06)	170		
Including: those one under land mortgage	171		
.....	172		
Section II in total	180	3523553	3457204

III. Working assets			
<i>Stock:</i>			
<i>Supplies (10,15,16)</i>	190		220717
Low-price and quick-wear things (12)	200	118202	68935
Cattle to be grown up and run to fat (11)	210		
Production in progress (20,21,23,29,30,36,44)	220		
Finished product (40)	230	14484	12809
Goods (41)	240		5494
Value added tax on purchased valuables (19)	250		
.....	251		
<i>Other working assets:</i>			
Unearned revenues paid to suppliers and lessors (61)	260	18729732	20447330
Claims arisen from supply and service (45,62,76)	270		
Received notes (62)	280		
Cheques (55)	290		
Cash in hand (50)	300	946	1478
Moneys on bank accounts (51)	310	6765	69809
Currency account (52)	320		73
Other moneys (55,56,57)	330		
Short-term investments (58)	340		
Claims against affiliates (subsidiaries and other similar enterprises) (78)	350		
Claims occurred from credits issued to enterprise managers and members of supervisory council (73)	360		
Claims occurred from credits issues to the enterprise partners (73)	370	4936	
.....			
<i>Other working assets (09,63,71,73,76)</i>	380		162
.....	381		
<i>Section III in total</i>	390	18875063	20826797
IV. Expenses of future period (31)	400	1615	5085
Balance (total 020,180,390 and 400 lines)	410	22400233	24288086

Liabilities	Code Line	At the beginning of the year	At the end of fiscal period
1	2	3	4
I. Owner's equity			
Capital (85)	500	3728463	3430916
Reserves (86)	510		454804
Target financing (96)	520		
Retained earnings of past years (87)	530		
Uncovered loss of past years (87)	540	- 16852191	-16645653
Loss of fiscal year (87)	550	x	- 376708
Earnings:			
of the fiscal year* (80)	560	x	
Used ** (81)	570	x	
Retained earnings of fiscal year (87)	580	x	
.....	581		
Section I in total	590		
II. Allowance:			
Allowance for doubtful claims (82)	600		
Allowance for expected expenditures and payments (89)	610		
Section II in total	620	- 13123728	-13136641
III. Attracted Capital and other Liabilities:			
Long-term liabilities before the banks (92)	630		
Short-term liabilities before the banks (90)	640		
including: under the land mortgage	641		
Long-term loans (95)	650		
Short-term loans (94)	660		
Liabilities occurred from supply and services according to the notes (60)	670	35385726	37264124
unearned payment (64)	680		
Liabilities before affiliates (subsidiaries and other enterprises) (78)	690		
Liabilities before partners (75)	700		
Liabilities before the employees (70)	710		
Liabilities before the budget (68)	720	25423	26887
	730	14972	34924

Liabilities with the social welfare and other similar funds (69)	740	65413	54146
Other liabilities (65,67,97)	750	32427	45646
.....	751		
<i>Section III in total</i>	760	35523961	37425727
IV. Gains of future period (83)	770		
Balance (total 590, 620, 760 and 770 lines)	780	22400233	24289086

Manager

Chief Accountant

* Data of the said lines are less the total of I section of liabilities

** Data of the said lines are not included in the balance total

Approved

by Ministry of Finance of Georgia

Form 2

Report on Profit and Loss
(applying the method of cost of goods sold)

Firm name _____

Organisational and legal form _____

Legal address _____

Field (kind of activity) _____

Unit _____ lari

Name of indices	Code (line)	Profit (income)	Losses (expenses)
1	2	3	4
Gains from sale of goods (works, services)	010	472 8966	
Costs of goods (works, services) sold	020	x	5157754
Sale returns	030		
Trade costs	040	x	
Management costs	050	x	
Other production returns	060	52080	x
Other production costs	070	x	
Gains from participation in other enterprises	080		x
Gains from other investments	090		x
Different interest and similar income	100		x
Writing off financial investments	110	x	
Different interest and similar costs	120	x	
Profit (loss) from ordinary economic activity	130		
Unforeseen income	140		x
Unforeseen expenses	150	x	
Profit (loss) of fiscal year	160		428788
Profit to be transferred to concern	170	x	
Profit (income) tax	180	x	
Annual net profit	190		x
Directed to reserves and for other purpose	200	x	

Retained earnings (unrealized loss) of fiscal year	210		
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Manager

Chief Accountant

ATTACHMENT 3

1997 UNAUDITED FINANCIAL STATEMENTS

Approved
by Ministry of Finance of
Georgia

Form No. 1

Balance Sheet of Enterprise

for 12 month of 1998 year

Firm name BILGAZI

Organisational and legal form Joint-Stock Company

Legal address 18, Mitskevichi St. Tbilisi, 380060, Geo

Field (kind of activity) Gas Distribution / Services

Unit _____ lari

Assets	Code Line	In the beginning of the year	In the end of fiscal period
1	2	3	4
I. Contributions not paid yet to the enterprise charter capital(75)	010		
<i>Including: contributions with the expired date due</i>	011		
.....	012		
<i>I section in total</i>	020		
II. Capital employed			
<i>Fixed assets:</i>			
Land with buildings and premises (01)	030	132665	132036
Land without buildings and premises (01)	040		
Buildings and premises on the other's land (01)	050		
Machines, equipment, facilities and automobiles (01)	060	95606	146027
	070	63	
Store and office supplies (01)	080		
Perennials (01)	090	2628703	3050906
Other fixed assets (01,03)	100		10873
Equipment to be installed (07)	110	467798	42223
Capital investments in work (08) (500mg 2030000)	110	132369	
.....			
<i>Intangible assets:</i>			
Concessions, intellectual property and licenses (04)	120		
Firm value (goodwill) (04)	130		
Other intangible assets (04)	140		
.....	141		
<i>Investments:</i>			
Participation in other companies (06)	150		
Bonds and other securities (06)	160		
Loans issued for the term of more than one year (06)	170		
Including: those one under land mortgage	171		
.....	172		
Section II in total	180	3457204	3382065

III. Working assets			
<i>Stock:</i>			
<i>Supplies (10,15,16)</i>	190	220717	95885
Low-price and quick-wear things (12)	200	68935	32377
Cattle to be grown up and run to fat (11)	210		
Production in progress (20,21,23,29,30,36,44)	220		
Finished product (40)	230	12809	12809
Goods (41)	240	5484	9364
Value added tax on purchased valuables (19)	250		
.....	251		
<i>Other working assets:</i>			
Unearned revenues paid to suppliers and lessors (61)	260		
Claims arisen from supply and service (45,62,76)	270	20447330	19628101
Received notes (62)	280		
Cheques (55)	290		
Cash in hand (50)	300	1478	8373
Moneys on bank accounts (51)	310	69809	12664
Currency account (52)	320	73	32674
Other moneys (55,56,57)	330		330
Short-term investments (58)	340		200
Claims against affiliates (subsidiaries and other similar enterprises) (78)	350		
Claims occurred from credits issued to enterprise managers and members of supervisory council (73)	360		
Claims occurred from credits issues to the enterprise partners (73)	370		130819
.....			
<i>Other working assets (09,63,71,73,76)</i>	380	162	6111
.....	381		
Section III in total	390	20826797	19969707
		5085	24944
IV. Expenses of future period (31)	400		
Balance (total 020,180,390 and 400 lines)	410	24289086	23376716

Liabilities	Code Line	At the beginning of the year	At the end of fiscal period
1	2	3	4
I. Owner's equity			
Capital (85)	500	3730910	3955554
Reserves (86)	510		
Target financing (96)	520	454804	52053
Retained earnings of past years (87)	530		
Uncovered loss of past years (87)	540	-17022361	-17022361
Loss of fiscal year (87)	550	x	
Earnings:			
of the fiscal year* (80)	560	x	-324471
Used ** (81)	570	x	
Retained earnings of fiscal year (87)	580	x	
.....	581		
Section I in total	590	-13136644	-13339225
II. Allowance:			
Allowance for doubtful claims (82)	600		
Allowance for expected expenditures and payments (89)	610		
Section II in total	620		
III. Attracted Capital and other Liabilities:			
Long-term liabilities before the banks (92)	630		
Short-term liabilities before the banks (90)	640		100 000
including: under the land mortgage	641		
Long-term loans (95)	650		
Short-term loans (94)	660		
Liabilities occurred from supply and services according to the notes (60)	670		
unearned payment (64)	680	37264124	36387610
Liabilities before affiliates (subsidiaries and other enterprises) (78)	690		
Liabilities before partners (75)	700		
Liabilities before the employees (70)	710		83393
Liabilities before the budget (68)	720	26887	50289
	730	34929	

Liabilities with the social welfare and other similar funds (69)	740	54146	81884
Other liabilities (65,67,97)	750	45641	12765
.....	751		
<i>Section III in total</i>	760	37425727	36715941
IV. Gains of future period (83)	770		
Balance (total 590, 620, 760 and 770 lines)	780	24289086	23376716

Manager

Chief Accountant

* Data of the said lines are less the total of I section of liabilities

** Data of the said lines are not included in the balance total

Approved

by Ministry of Finance of Georgia
Form 2Report on Profit and Loss
(applying the method of cost of goods sold)

Firm name _____

Organisational and legal form _____

Legal address _____

Field (kind of activity) _____

Unit _____ lari

Name of indices	Code (line)	Profit (income)	Losses (expenses)
1	2	3	4
Gains from sale of goods (works, services)	010	4400432	
Costs of goods (works, services) sold	020	x	5054616
Sale returns	030		
Trade costs	040	x	
Management costs	050	x	
Other production returns	060	329713	x
Other production costs	070	x	
Gains from participation in other enterprises	080		x
Gains from other investments	090		x
Different interest and similar income	100		x
Writing off financial investments	110	x	
Different interest and similar costs	120	x	
Profit (loss) from ordinary economic activity	130		
Unforeseen income	140		x
Unforeseen expenses	150	x	
Profit (loss) of fiscal year	160		324471
Profit to be transferred to concern	170	x	
Profit (income) tax	180	x	
Annual net profit	190		x
Directed to reserves and for other purpose	200	x	

35

Retained earnings (unrealized loss) of fiscal year	210		
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Manager
Chief Accountant

ATTACHMENT 4

1998 UNAUDITED FINANCIAL STATEMENTS

Approved
by Ministry of Finance of
Georgia

Form No. 1

Balance Sheet of Enterprise

for 12 month of 1998 year

Firm name Tbilgazi

Organisational and legal form Joint-Stock Company

Legal address 18, Mitskevichi St, Tbilisi, 380060, Geo

Field (kind of activity) Gas Distribution

Unit _____ lari

Assets	Code Line	In the beginning of the year	In the end of fiscal period
1	2	3	4
I. Contributions not paid yet to the enterprise charter capital(75)	010		
<i>Including: contributions with the expired date due</i>	011		
.....	012		
<i>I section in total</i>	020		
II. Capital employed			
<i>Fixed assets:</i>			
Land with buildings and premises (01)	030	132036	269755
Land without buildings and premises (01)	040		
Buildings and premises on the other's land (01)	050		
Machines, equipment, facilities and automobiles (01)	060	140027	116169
	070		
Store and office supplies (01)	080		
Perennials (01)	090	3050906	6428417
Other fixed assets (01,03)	100	10873	350
Equipment to be installed (07)	110	42223	11152
Capital investments in work (08)	111		
.....			
<i>Intangible assets:</i>	120		
Concessions, intellectual property and licenses (04)			
Firm value (goodwill) (04)	130		
Other intangible assets (04)	140		
.....	141		
<i>Investments:</i>			
Participation in other companies (06)	150		
Bonds and other securities (06)	160		
Loans issued for the term of more than one year (06)	170		
Including: those one under land mortgage	171		
.....	172		
Section II in total	180	3382065	6825843

III. Working assets			
<i>Stock:</i>			
<i>Supplies (10,15,16)</i>	190	95885	227694
Low-price and quick-wear things (12)	200	32377	39552
Cattle to be grown up and run to fat (11)	210		
Production in progress (20,21,23,29,30,36,44)	220		
Finished product (40)	230	12809	12809
Goods (41)	240	9364	—
Value added tax on purchased valuables (19)	250		
.....	251		
<i>Other working assets:</i>			
Unearned revenues paid to suppliers and lessors (61)	260	19628101	20841306
Claims arisen from supply and service (45,62,76)	270		
Received notes (62)	280		
Cheques (55)	290		
Cash in hand (50)	300	8373	54862
Moneys on bank accounts (51)	310	12664	106800
Currency account (52)	320	32674	2083
Other moneys (55,56,57)	330	330	
Short-term investments (58)	340	200	
Claims against affiliates (subsidiaries and other similar enterprises) (78)	350		
Claims occurred from credits issued to enterprise managers and members of supervisory council (73)	360		
Claims occurred from credits issues to the enterprise partners (73)	370	130819	115096
.....			
<i>Other working assets (09,63,71,73,76)</i>	380	611	
.....	381		
Section III in total	390	19969707	21400303
		24944	3159
IV. Expenses of future period (31)	400		
Balance (total 020,180,390 and 400 lines)	410	23376716	28229305

Liabilities	Code Line	At the beginning of the year	At the end of fiscal period
1	2	3	4
I. Owner's equity			
Capital (85)	500		
Reserves (86)	510	3955554	8649305
Target financing (96)	520	52053	1452
Retained earnings of past years (87)	530		
Uncovered loss of past years (87)	540	-17342839	-17342839
Loss of fiscal year (87)	550	-324171	-2666326
Earnings:			
of the fiscal year* (80)	560	x	
Used ** (81)	570	x	
Retained earnings of fiscal year (87)	580	x	
.....	581		
Section I in total	590	-13339225	-11358408
II. Allowance:			
Allowance for doubtful claims (82)	600		
Allowance for expected expenditures and payments (89)	610		
Section II in total	620		
III. Attracted Capital and other Liabilities:			
Long-term liabilities before the banks (92)	630		
Short-term liabilities before the banks (90)	640	100 000	
including: under the land mortgage	641		
Long-term loans (95)	650		
Short-term loans (94)	660		
Liabilities occurred from supply and services according to the notes (60)	670		
unearned payment (64)	680	36387610	39493461
Liabilities before affiliates (subsidiaries and other enterprises) (78)	690		
Liabilities before partners (75)	700		
Liabilities before the employees (70)	710	83393	30461
Liabilities before the budget (68)	720	50289	14.510
	730		

Liabilities with the social welfare and other similar funds (69)	740	81884	36621
Other liabilities (65,67,97)	750	12765	12660
.....	751		
<i>Section III in total</i>	760	30715941	39587713
IV. Gains of future period (83)	770		
Balance (total 590, 620, 760 and 770 lines)	780	23376716	28229305

Manager

Chief Accountant

* Data of the said lines are less the total of I section of liabilities

** Data of the said lines are not included in the balance total

*Approved**by Ministry of Finance of Georgia*
Form 2**Report on Profit and Loss**
(applying the method of cost of goods sold)

Firm name _____

Organisational and legal form _____

Legal address _____

Field (kind of activity) _____

Unit _____ lari

Name of indices	Code (line)	Profit (income)	Losses (expenses)
1	2	3	4
Gains from sale of goods (works, services)	010	5652494	
Costs of goods (works, services) sold	020	x	8245192
Sale returns	030		
Trade costs	040	x	
Management costs	050	x	73628
Other production returns	060		x
Other production costs	070	x	
Gains from participation in other enterprises	080		x
Gains from other investments	090		x
Different interest and similar income	100	.	x
Writing off financial investments	110	x	
Different interest and similar costs	120	x	
Profit (loss) from ordinary economic activity	130		-2666326
Unforeseen income	140		x
Unforeseen expenses	150	x	
Profit (loss) of fiscal year	160		
Profit to be transferred to concern	170	x	
Profit (income) tax	180	x	
Annual net profit	190		x
Directed to reserves and for other purpose	200	x	

Retained earnings (unrealized loss) of fiscal year	210		-2666326
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Manager
Chief Accountant

ATTACHMENT 5

GEORGIAN LAW ON PRIVATIZATION OF STATE PROPERTY

LAW ABOUT PRIVATIZATION OF STATE PROPERTY

The law determines legislative, economic, organizational and social bases of privatization of state property of Georgia; main principles of implementation of privatization; promotes the process of acquisition of state property by physical and legal persons, or their mergers. Objective of the law is to assure establishment of ownership relations, that encourage development of efficient and socially oriented market economy.

Article 1.

General Provisions

Clause 1. Definitions Used in the Law

For the purpose of this Law, the following words shall have the following meanings:

1. "State Property" - shall mean enterprises, or their subdivisions that can be separated as independent enterprises; buildings, constructions, facilities or other tangible and non-tangible asset, both liquidated or subject to liquidation; shares and stocks being in governmental ownership.
2. "Privatization" - shall mean acquisition by physical or legal persons, or their mergers, of ownership rights over state property, that results in revocation of the State's rights to own, use and control the privatized property, whereas the state agencies - rights to manage the same.

Clause 2. Georgian Legislation on Privatization of State Property

1. Privatization of state property in Georgia shall be conducted in accordance to the Georgian Constitution, the Civil Code, the present law and the other laws and sub-law normative acts. The present law does not regulate the issues concerning the privatization of lands and of the state household asset.
2. Purchaser of the state property can be a Georgian or foreign physical and legal person, if the Georgian state or local government's (in transition period - local authority) share in his capital does not exceed 25%.

Clause 3. Body of Implementation and Control of Privatization of State Property

1. Control and privatization of the state property shall be responsibility of the Ministry of State Property Management.
2. Appropriate bodies of state property management shall be created in autonomous republics, whereas appropriate structural sub-divisions - in regions and cities.
3. In order to promote an omnibus privatization policy in Georgia the Ministry shall:
 - a. represent an authorized owner of the state property, that holds, controls and manages the state property.
 - b. elaborate, in conjunction with appropriate structures of executive power and in other governmental bodies, and submit to the President for approval, sole draft plan on omnibus privatization for individual branches of the economy, considering specifics of each branch, as well as, if necessary, amendments and changes to this plan.
 - c. provide methodical and organizational guidance and supervision to the process of privatization in the State, identify decisions and facts in this area conflicting with a Law and undertake measures to eliminate such.
4. During the privatization and management of the state property, the Ministry of State Property Management and its regional bodies are authorized to act through their representatives (Trustees) , or through intermediaries.
5. The list of utilities to be privatized shall be approved by the Ministry of State Property Management in conjunction with the Ministry Economy and with corresponding ministries and agencies. The list of utilities of state municipal subordination, subject to privatization, shall be approved by corresponding local authority in conjunction with the Ministry of State Property Management.
6. Privatization of the state property shall be implemented by the Ministry of State Property Management, and of the state municipal property - by its local body. The Ministry of State property Management shall be authorized to transfer the rights of privatization of the state property (except shares) to its local bodies.
7. Transfer of the rights to control the state shares shall only be made upon bidding

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Clause 4. State Property Exempt From Privatization

1. State property as follows shall not be subject to be privatized:
 - a. mineral, water resources, territorial waters, continental shelves, special economic and boundary zones, forest reserves, air space, natural territories protected or subject to usage by special rules;
 - b. objects of historical-cultural and art treasury, state archives of historical and cultural importance, state funds of audio and video documentation, state museums, theaters, archives and funds of scientific-research institutions of Georgian ministries (agencies);
 - d. state contingency stocks, state reserves, precious metals' reserves;
 - e. electricity transmission/dispatch services;
 - f. institutions of fundamental sciences of the Georgian Academy of Science, institutions of state higher education and scientific-research institutes subordinated to such and financed by the state budget;
 - g. piers of the sea ports of general state importance, hydro-technical constructions, light-houses, buoys and territorial waters;
 - h. railway of state importance, main gas pipeline, highways (in case of absence of the parallel state road), air traffic control systems and runways;
 - i. current and reserve property of security, interior, defense, prosecution and judicial systems;
 - j. frequency spectrum of state mail links, TV and broadcasting, inter-city and international telephone communications, facilities of governmental communication and positions of the Georgian property on geo-station orbit.
 - k. enterprises manufacturing radioactive and military materials, property of their pilot/construction and scientific institution;
 - l. state cemeteries and pantheons;
 - m. common system of the state water supply and sewage water supply;
 - n. state medical institutions of vital importance, subject to listing with regard to the existing rules;
 - o. administrative buildings of the state bodies.

Clause 5. Social Guarantees and Bonuses to the Employees

1. For the purpose of protection of interests of employees in enterprises, after the filing of the privatization application (regardless of initiator of privatization) and before the purchaser acquires rights of possession over the property, without approval of the Ministry of State Property Management forbidden shall be:
 - a. reorganization or liquidation of the enterprise;
 - b. changes in personnel system, as well as increase or reduction of number of employees;
 - c. selling or trade, lease or rent, mortgage, suspension or termination of earlier agreements on use of the main asset.
2. Prior to the time of establishment of the enterprise as a Joint Stock Company, the employees shall be given up to 10% of shares the entire charter capital free, but not exceeding 100 times of the minimal salary rate, fixed in Georgia, per employee. The said bonuses apply to:
 - a. employees for whom the enterprise is a main affiliation;
 - b. persons, who have a right to return to the enterprise, according to the existing legislation;
 - c. pensioners, retired from the enterprise and had worked at the enterprise for not less than 5 years;
 - d. persons, downsized during the year prior to the establishment of the enterprise as a Joint Stock Company, and registered as unemployed.
3. Within three months after registration of acquisition of rights on property, purchaser of an enterprise shall draw the agreement with employees; such agreement shall reflect all commitments concerning the labor organization, labor protection and salary issues.
4. Amount of simultaneous financial support and labor arrangements for the employees, dismissed by an initiative of purchaser of the enterprise shall be made with regard to the existing legislation.

Article 2.

Forms and Rules of Privatization

Clause 6. Forms of Privatization of the State Property

1. Privatization shall be made thorough acquisition of property by bidding, auction, lease -purchase or direct selling.
2. Purpose of the bidding is to grant the rights on property to the purchaser, that offers the best conditions.
3. Purpose of the auction is to grant the rights on property to the purchaser, who offers the highest price during the auction.
4. Purpose of lease-purchase of the state property is to grant the rights of operational ownership and use of tangible values for the fixed period of time to assure independent economic activity.
5. Purpose of direct selling is to attract investments on the basis of proposed business-plan and considering specific of the property to be sold.
6. Decision on form of privatization of the state property shall be made by the Ministry of State Property Management or its regional body, except the cases of direct selling, subject to be decided by the President of Georgia.
7. By-laws of individual forms of privatization of the state property shall be approved by the Ministry of State Property Management, according to the Georgian legislation.

Clause 7. Rules of Determination of Initial Price of the Property and of Payment

1. Rules of determination of initial privatization price shall be approved by the President of Georgia.
2. Price of the state property to be sold by budding, auction and lease-purchase forms shall be determined bidding system.
3. Payment for the property acquired can be made simultaneously or by installment.
4. Full price of the state property sold by bidding shall be paid within two years.

5. Full price of the state property sold by auction shall be paid within thirty calendar days.
6. Full price of the state property, privatized by lease-purchase form, shall be paid within ten years from the day the lease agreement was signed.
7. Full price of the state property sold directly shall be paid wholly within thirty days from the day the decision was made.
8. If the state property fails twice to be privatized by bidding, auction or lease-purchase, the initial price of the property shall be reduced up to 50%.

Clause 8. Allocation of the Funds from Privatization

1. Funds received from privatization of the state property shall be allocated in priority as follows:
 - a. financing measures on development of small business;
 - b. financing measures on creation of new labor positions in industry;
 - c. financing logistic expenses of the privatization process;
 - d. financing contingency expenses, as decided by the President of Georgia.
2. Rationing of allocation of the funds from privatization shall be determined by the President of Georgia according to the existing legislation.

Clause 9. Information on the Property to be Privatized

1. The information about the state property to be privatized through bidding, auction, lease-purchase and direct selling shall be published by formal bulletins of the Ministry of State Property Management or by local releases (if privatization is conducted by the local authority of the Ministry of State Property Management). Other sources of information may also be used.
2. The information about privatization of the state property shall be released at least one month before the bidding, auction, lease-purchase or direct selling is held.
3. The information released shall contain the data on square space of the objects to be privatized, as well as characteristics of the facilities on such space, address and conditions of selling. Purchaser may request for additional information, if necessary.

Article 3.

Rules of Completion of Agreements

Clause 10. Agreements on Privatization

1. While privatizing by bidding, auction and direct selling, the purchaser and the seller shall enter into Purchase-Sell Agreement, subject to notary rules. Lease agreement shall be drawn for Lease-Purchase cases.
2. The agreement shall contain: information about the Purchaser and the Seller, title of the property, its composition and price, addresses of the parties, purchaser's commitments on prospective use of the property purchased.
3. Pursuant to the Clause 10.1 of the present law, the Purchaser acquires rights on the property upon issuance for the Purchaser of the evidence of ownership. Such evidence shall be issued not later than two months after the full price of the property was paid out, subject to prove.
4. Purchaser of the state property shall become a legal successor. Extent of successorship shall be determined by the share of the Purchaser in the charter capital.

Clause 11. Cancellation of Privatization Agreements

1. Disputes and issues on cancellation concerning the privatization shall be subject to review by the Court.
2. Legal and ownership results of cancellation of privatization agreements shall be determined pursuant to the Georgian legislation.
3. Dispute cases concerning the privatization of the state property shall be valid during three years.
4. Examination of legitimacy of documentation about the privatized state property shall be conducted solely by the Chamber of Control of Georgia through the coordinated rule, with participation of appropriate specialists and in the central and regional structures of state property management. Review of individual issues directly in privatized enterprises may be allowed, in exceptional cases, with participation of representatives of the Ministry of State Property Management and of its local representatives, also in cases determined by the legislation. The financial information on stocks, shares of the legal or physical persons can be made available only by the person's or court's decision.

Article 4

Transition Provisions

Clause 12. The Rules and Regulations which shall be adopted for Enforcement of this Law

1. Within three months from the day the present law becomes effective, the Ministry of State Property Management shall prepare and submit for presidential approval items as follows:
 - a. draft plan on privatization of individual branches of the national economy;
 - b. rules of determination of initial prices for the property to be privatized;
2. Within three months from the day the present law is valid, the Minister of State Property Management approves the by-laws as follows:
 - a. about privatization of the state property through bidding;
 - b. about privatization of the state property through auction;
 - c. about privatization of the state property through lease-purchase;
 - d. about privatization of the state property by direct selling;
 - e. about the bidding form of transferring the rights on management of the state shares;
3. The government of Georgia, and the National Bank of Georgia shall prepare within two months and submit to the Parliament for consideration proposals about feasibility of participation of account holders in the privatization process (prior to April 1, 1993) and the mechanism of their participation.

Article 5

Conclusive Provisions

Clause 13. Effectiveness of the Law and the List of Superseded Rules and Regulations

1. The present law shall become effective upon its publication.

2. from the day the present law is effective, following shall be superseded:

- a. Statement #342-1S of the Supreme Council of the Republic of Georgia "About Privatization of the State Enterprises", August 9, 1991, making effective the law of the Republic of Georgia (Georgian Supreme Council Herald, 1991, # 8, Article. 583);
- b. The Law of the Republic of Georgia "About Privatization of the State Enterprises" August 9, 1991 Georgian Supreme Council Herald, 1991, # 8, Article. 582);
- c. Statement #209-1S of the Parliament of Georgia "About Delegation of Right to Approve the List of the Utilities to be Privatized According to the State Program of 1993 to the Cabinet of Ministers of the Republic of Georgia", April 6, 1993 (Georgian Parliament Herald, 1993, # 6, Article. 84).
- d. Decree #238 of the Head of the State of Georgia "About Extension of Validity and About Partial Amendment of the State Program of Privatization of the Republic of Georgia", November 26, 1993.
- e. Order #80 of the Head of the State of Georgia "About Indispensable Measures on Improvement of Privatization of the State Enterprises of the Republic of Georgia", April 11, 1994.
- f. Order # 120 of the Head of the State of Georgia "About Some Issues Concerning the Control of Privatization Process of the State Property in the Regions of the Republic", June 22, 1994
- g. Decree #278 of the Head of the State of Georgia "About Additional Measures on Privatization of Incomplete Constructions", August 26, 1994.
- h. Decree #13 of the Head of State of Georgia "About Amendments and Changes in the State Program of Privatization of the State Enterprises of the republic of Georgia as of 1995", January 17, 1995
- i. Decree #63 of the Head of the State of Georgia "About Organization-Economic Measures of Promotion of Massive Privatization", March 13, 1995.
- j. Decree # 228 of the Head of the State of Georgia "About Establishment of the State Holding Company "Georgian Oil Product", June 11, 1995.
- k. Order #88 of the Head of the State of Georgia "About the Measures on Improvement of Massive Privatization and Participation of Georgian Citizens", June 21, 1995.

- l. Decree #250 of the Head of the State of Georgia "About Acceleration of Privatization of Non-living Spaces and About Organization of Control Over the Real Estate in Kutaisi", June 21, 1995.
- m. Order #209 of the Head of the State of Georgia "About additional Measures on further Acceleration of Privatization Process of the State Enterprises", September 27, 1995.
- n. Decree of The Governmental Council of the republic of Georgia "About the State Commission of Management of Privatization of the State Property", may 20, 1992.
- o. Statement #943 of the Government of the Republic of Georgia "About Transfer of the Right of Possession and Use of the State Property to Ministries and Agencies", September 21, 1992.
- p. Statement #268 of the Cabinet of Minister of the republic of Georgia "About Some Measures on Promotion of Privatization Process", March 5, 1992.
- q. Statement # 612 of the Government of the republic of Georgia "About Approval of By-Laws Concerning the Adoption of the Law of Georgia About Privatization", May 29, 1992
- r. Statement #829 of the Government of the Republic of Georgia "About the State Program of Privatization of State Enterprises", August 11, 1992
- s. Statement #287 of the Cabinet of Ministers of the Republic of Georgia "About Establishment of Coordinating Council and of Regional Committees for Enforcement of Privatization Vouchers", April 14, 1993
- t. Statement #628 of the Cabinet of Ministers of Georgia "About Introduction in Georgia of Privatization Vouchers", August 19, 1993.
- u. Statement #634 of the Cabinet of Ministers of Georgia "About Establishment of Holding Companies and Approval of By-Laws Concerning the Activity", August 20, 1993.
- v. Statement #809 of the Cabinet of Ministers of Georgia "About Extensions of Validity and Partial Amendment of the State Program of Privatization of State Enterprises", November 17, 1993.
- w. Statement of the Cabinet of Ministers of the Republic of Georgia "About Approval of By-Laws Concerning the Bidding Form of Privatization of State (Municipal) Utilities", January 21, 1994.

- x. Statement #725 of the Cabinet of Ministers of the Republic of Georgia
"About Improvement of the Process of Privatization of Utilities Located
in the Buildings of Rustavi Living/Accommodating System", October
10, 1994.
- y. Statement #916 of the Cabinet of Ministers of the Republic of Georgia
"About Amendments and Changes in the State Program of Privatization
of State Enterprises as of 1995", December 31, 1994.
- z. Statement #20 of the Cabinet of Ministers of the Republic of Georgia
"About Determination of Rules of Payment and Amount of Lease
During the Leasing of State Enterprises", January 8, 1995
- aa. Statement #14 of the Cabinet of Ministers of the Republic of Georgia
"About the Measures on Enactment of the Privatization Vouchers in the
Republic of Georgia", January 18, 1995.
- bb. Statement #128 of the Cabinet of Ministers of the Republic of Georgia
"About Acceleration of Privatization of Utilities Located in Non-Living
Spaces under the Jurisdiction of Municipal Living-Accommodating
Authorities", March 10, 1995.
- cc. Statement #248 of the Cabinet of Ministers of the Republic of Georgia
"About The Measures Accelerating Privatization and
Commercialization of Enterprises and Institutions of the Department
"SakGas", may 10, 1995.
- dd. Statement #267 of the Cabinet of Ministers of the Republic of Georgia
"About the Organizational Measures of Circulation of and Payment for
the Privatization Vouchers", May 20, 1995
- ee. Statement #329 of the Cabinet of Ministers of The Republic of Georgia
"About Specialized Investment Funds of Privatization", June 6, 1995.

President of Georgia

E. Shevardnadze

Tbilisi,
May 30, 1997

ATTACHMENT 6

GEORGIAN LAW ON ELECTRICITY AND NATURAL GAS

GEORGIAN LAW ON ELECTRICITY AND NATURAL GAS

ARTICLE 1.

GENERAL PROVISIONS

Clause 1. Objectives and Purposes of Law.

1. This law shall regulate relations and activities of Individuals and Legal persons in the areas of electricity generation, transmission, dispatch, distribution, import, export and consumption, as well as in the areas of natural gas supply, transportation and distribution and promotes development of the electricity and natural gas sectors in Georgia on the basis of market economy principles. The present law shall not apply to activity, which includes exploration, production, purification, processing, storage of natural gas, also to relations between the producer of natural gas and Supply Licensee and to electricity or natural gas transit through the territory of Georgia
2. The objectives of this Law, are:
 - a. Based on a development of the competition and through the regulation of existing non-competitive market, provide establishment of the Wholesale Electricity and Natural Gas Markets and tariff systems, which shall accurately reflect economically justified electricity generation, transmission, dispatch, distribution, export, import, and consumption costs, as well as costs associated with Natural Gas transportation, distribution, supply and consumption;
 - b. Provide the legal basis for reliable electricity and natural gas supply for all categories of consumers; and
 - c. Encourage domestic and foreign investment participation in rehabilitation and development of electricity and natural gas sectors
 - d. Encourage the use of indigenous gas resources
3. The purposes of this Law are to:
 - a. Assign responsibility for elaboration and implementation of the State Energy Policy in the electricity and natural gas sectors to the Ministry of Fuel and Energy, and relieve the Ministry of Fuel and Energy from regulatory, ownership and operational responsibilities in these sectors;
 - b. To determine the main principles of electricity sector regulation of electricity generation, transmission, dispatch, distribution, import, export, as well as

natural gas supply, transportation and distribution licensees and consumers, and for these purposes to establish a basis for creation of independent regulatory framework.

c. c. Promote growth of efficiency in the areas of electricity generation, transmission, dispatch, distribution, import, export and consumption, as well as in the areas of natural gas supply, transportation, distribution and consumption.

d. Promote competition in Georgia's electricity and natural gas markets.

Clause 2. Definitions.

For the purpose of this Law, the following words shall have the following meanings:

- a. "Transmission License" shall mean a License granted by the Commission under this Law to own or control, and operate, the Transmission Grid, but not to dispatch electricity over the Transmission Grid.
- b. "Transmission Grid" shall mean all the transmission facilities, which connect the Receiving Points to the Delivery Points, owned or controlled, and/or operated, by the Transmission Licensee. Transmission grid includes all transmission facilities operating above 35kV, including substations and transmission lines, also electricity circuits operating at 35kV and relevant substations that are specifically identified in the Transmission License. Other 35 kV networks shall be included in distribution facilities.
- c. "Distribution Grid" shall mean all the electricity distribution facilities, which connect the Delivery Points to consumers, owned or controlled, and/or operated, by the Distribution Licensee. Distribution grid includes all 0.4 - 6 - 10 distribution facilities, which are not the part of Transmission grid. Upon Commissions permission 35 and 110 kV lines may be included in distribution network, provided, that these lines are not intended for purposes of system's or international transit of electricity (capacity). The same terms shall apply to natural gas distribution network, which includes 1.2 - 0.6 - 0.3 - 0.005 M Pascal pressure pipes.
- d. "Distribution License" shall mean a License granted by the Commission under this Law to operate distribution network, to receive electric capacity and energy deliveries from one or more Delivery Points and distribute and sell electricity to consumers within a defined administrative or geographic area or certain distribution network.
- e. "Dispatch License" shall mean a License granted by the Commission under this Law to exercise dispatch rights over all Generation and transmission Licensees and, in order to meet the requirements of Distribution, Import, Export Licensees and Direct or other consumers. Upon Commission's approval the other rights may also be granted to the Dispatch licensee.
- f. "Commission" shall mean the Georgian Energy Regulatory National Commission.

- g. "License" shall mean a Generation License, a Transmission License, a Dispatch License, Import License, Export License or a Distribution License, as well as Natural Gas Supply, Transportation and Distribution license granted by the Commission.
- h. "Licensee" shall mean a legal Person or an Individual, who owns one or more licenses determined by the present law.
- i. "Receiving Point" shall mean a point at which the Transmission Licensee receives electric capacity and energy on the Transmission Grid, including import of electricity from foreign electricity systems or a point, where a natural gas transportation licensee, within the transportation system, receives natural gas, including imports.
- j. "Delivery Points" shall mean the point, where the Transmission Licensee, from the transmission grid, supplies electricity to the Distribution Licensee's facilities, the facilities of any Direct Consumer and foreign electricity systems or a point, where a natural gas transportation licensee, from the transportation system, supplies natural gas to its distribution licensee, direct consumer or foreign energy systems.
- k. "Direct Consumer - shall mean an Natural or Legal person, which receives electricity or natural gas directly from the transmission grid, generation licensee, transportation system, and is not a Distribution Licensee.
- l. "Regulatory Fee" shall mean a fee to be annually imposed to generation licensee, transmission licensee, dispatch licensee, import licensee, export licensee, distribution licensee, natural gas supply licensee, transportation licensee, distribution licensee, such fee designed to cover the expenses of the Commission's activity
- m. "Generation License" shall mean a License granted by the Commission under this Law to generate electricity and to connect electricity generation facilities to the Transmission and Distribution Grids at a Receiving Points.
- n. "Export License" shall mean a permit granted by the Commission under this Law to sell electricity and capacity outside of Georgia from the delivery points.
- o. "Import License" shall mean a permit granted by the Commission under this Law to receive electric capacity and energy deliveries from the source external to Georgia at one or more reception points at the Georgian border for reselling and/or self-consumption purposes."
- p. "Georgian Wholesale Electricity Market" (briefly - El. Market) shall mean an independent, non-governmental Legal Person of private justice, created with a purpose of gradual development of the competition within the electricity sector".
- q. "Executive Board of the Georgian Wholesale Electricity Market" shall mean body wholesale electricity market's management body, which defines main directions of the Wholesale Market's operation and development, settles disputes between the Market Members, monitors implementation of the requirements of the "Market Rules" and "Technical Standards."

- r. "General Director of the Georgian Wholesale Electricity Market – shall mean a person which conducts direct management of the electricity market according the Market Rules and the Grid Code, and shall be accountable to the Executive Board. The General Director is appointed by the Executive Board and approved by the Commission."
- s. "Market Rules" shall mean a legal act regulating operation, management of the Wholesale Market, as well as commercial inter-relations among the licensees. Market Rules shall be approved by the Commission and shall be mandatory for all Licensees, Market members and Consumers."
- t. "Technical Standards" shall mean a document, developed by a Dispatch Licensee in conjunction with other licensees and which determine technical requirements of the functioning of the Wholesale Market. Technical Standards shall be approved by the Commission and shall be mandatory for all the Licensees, Market Members and Consumers."
- u. "Natural Gas" or "Gas" shall means hydrocarbons which are in a gaseous state at an pressure of 1.2 M Pascal and at a temperature of 20 degrees Celsius ("C") and have a heating content of not less than 31.8 M Joule (7600 KCal/m³).
- v. "Natural Gas Transportation Network" or "Transportation Network" shall mean all the pipelines, compressor stations, metering stations and other related facilities which are used for transportation of natural gas; operate, or are designed to operate, at or above 1.2 MPa pressure; connect Receiving Points and Delivery Points; and are owned or managed, and/or operated by a Transportation Licensee. Transportation network shall include all pipelines and relevant facilities, operating, or designed to operate. At or above 1.2 Mpa pressure, including compressor stations, metering stations, as indicated in transportation license.
- w. "Natural Gas Transportation License" or "Transportation License" shall mean a License granted by the Commission under this Law to operate transportation facilities, receive natural gas from one or more Receiving Points and to transport natural gas to one or more Natural Gas Distribution Licensees, or Direct Consumer, or Delivery Points.
- x. "Natural Gas Distribution License" shall mean a License granted by the Commission under this Law to receive natural gas from one or more sources, to operate distribution network and to distribute natural gas within a defined geographic or certain distribution area as the License is in effect.
- y. "Natural Gas Supply License" or "Supply License" shall mean a License granted by the Commission under this Law to acquire volumes of natural gas for selling to other Natural Gas Supply Licensees or other customers.

ARTICLE 2.

NATIONAL ENERGY POLICY

Clause 3. Electricity and Natural Gas Policy Formation and Implementation.

1. The Ministry elaborates the main directions of the State Electricity Policy and upon approval by the Parliament of Georgia coordinates the implementation of the policy. In this purpose, the main functions of the Ministry are, to:
 - a. Elaborate electricity and natural gas programs based on the short, medium, and long term strategy and priorities and to coordinate their implementation;
 - b. Promote an attraction of investments in the electricity and natural gas sectors for the short, medium, and long term;
 - c. Promote the optimal management of processes on restructuring and privatization of State enterprises in the electricity and natural gas sectors and the promotion of competition in electricity and natural gas markets, and establish strategies for the conservation or liquidation of State-owned electricity and natural gas sectors' facilities;
 - d. Participate in elaboration and development of legal and regulatory framework, monitor the technical and economic condition of the sectors;
 - e. Develop and coordinate implementation of uniform State program on efficiency increase in the areas of electricity generation, transmission, dispatch, distribution, import, export and consumption, as well as in the areas of natural gas supply, transportation and distribution;
 - f. Promote programs on scientific research, projection-construction and education in electricity and natural gas sectors.
 - g. Promote the environmental protection of all energy activities, and optimally incorporate environmental protection goals in the formulation and implementation of energy programs;
 - h. Promote the establishment of relationships between Licensees and electricity and natural gas sector entities in foreign countries, and promote the establishment of transit and import/export relationships in the electricity and natural gas sectors;
 - i. Promote development of state strategies for electricity and natural gas sectors' emergency situations; and
 - j. Elaborate the policy on Georgia's energy security.
2. The Ministry of Fuel and Energy shall relinquish ownership, regulatory and operational rights in the electricity and natural gas sectors.

3. The Ministry of Fuel and Energy shall be responsible under the Laws of Georgia for granting permits regarding the siting of generation facilities and granting all licenses and permits for electricity or natural gas transit facilities, which are not to be connected to the Transmission Grid and to natural gas transportation system.

ARTICLE 3.

GEORGIAN ENERGY REGULATORY NATIONAL COMMISSION

Clause 4. Georgian Energy Regulatory National Commission. Status and Functions.

1. The Georgian Electricity Regulatory National Commission ("Commission") is established as a permanent independent State Body, which does not conduct economic activities and has the status of a legal entity of public justice, and is not subordinated in any way to any other governmental agencies or institutions.
2. The Legal base for Commission's activities is the Georgian Constitution, International Treaties, the Present Law, the Charter of the Commission, and other Legal Regulations.
3. The Charter, Structure and Personnel Schedule of the Commission shall be elaborated and approved by the Commission.
4. The Commission has authority to regulate Licensees and grant Licenses within the Electricity and Natural Gas Sectors of Georgia, except Licenses mentioned in clause 3.3 of this Law.
5. The main functions of the Commission are, to:
 - a. set the rules and requirements, grant, modify, discontinue and revoke electricity generation, transmission, dispatch, distribution, import, export, as well as natural gas supply, transportation, distribution licenses, except cases mentioned in clause 3 of this Law;
 - b. Setting and regulation of wholesale and retail tariffs for electricity generation, transmission, dispatch, distribution, import, export and consumption, as well as for natural gas supply, transportation, distribution and consumption.;
 - c. within its competence, resolve arguments between generation, transmission, dispatch, distribution, import, export, as well as natural gas supply, transportation, distribution Licensees; and between Licensees and consumers;
 - d. establish control over the conditions of the Licensing within the Electricity and Natural Gas Sectors of Georgia, and for violation of the conditions, shall combine the relevant administrative sanctions, which are determined by the existing Georgian Legislation.
 - e. organization and coordination of activities, with regard to mandatory certification within the energy sector;
 - f. regulation of electricity import and export activities;
 - g. supervision over the operation of the Wholesale Market and approval of the Market Rules.

Clause 5. Rules and Regulations of the Commission

1. Commission within its competence issues Rules and Regulations. The Rules and Regulations of the Commission are issued by Resolutions; The Commission by resolution approves the Charter, operational rules and procedures, rules for receipt and review of Licensing and tariff applications, rules and requirements for granting, modification, discontinuation or cancellation of the Licenses and procedures for consideration of the arguments, Market Rules, Technical Standards of the Wholesale Market, electricity import/export regulating rules, retail and wholesale tariffs; as well as methodology for setting and regulating such tariffs, rules of calculating regulation and tariff setting fees, also expenses of the licensees associated with the membership in the Wholesale Electricity market. The resolution of the Commission also may be made in cases set by the present law and other Normative Acts.
2. On each particular issue, considered in the present Law, Commission within its competency makes decisions.
3. Resolutions and decisions of the Commission are made on the meetings of the Commission by the majority of votes. The meeting of the Commission is authorized if, at least two members of the Commission attend the meeting. Resolutions and decisions of the Commission are mandatory for licensees and consumers.
4. The Chairman of the Commission issues orders on administrative issues.

Clause 6. Members of the Commission and Terms.

1. The Commission shall consist of three members. President of Georgia appoints and dismisses the members of the Commission.
2. An individual may be appointed as a Commissioner if: is a citizen of Georgia, is at least 35 years old, has a university degree, and is qualified by training and experience to discharge the duties prescribed by this Law.
3. The members of the Commission are appointed, upon nomination by the Chairman, for six-year term. A member who has served one complete six-year term may be re-appointed for additional six-year term. Whenever a vacancy in the Commission exists prior to the expiration of a term, the President, upon nomination by the Chairman, shall appoint a new member to serve for the remainder of the unexpired term.
4. Each member shall have one vote in Commission decisions.

Clause 7. The Discontinuation of Authority and Dismissal.

1. Premature interruption of the terms of a Commissioner is due in cases as follows:
 - a. if voluntarily quits;
 - b. if accusatory decision has been taken against him according to the Georgian legislation;

- c. if the court recognizes him disabled or missing;
 - d. if his citizenship changes;
 - e. if violates provisions of the Georgian Law "On Conflict of Interests and Corruption in Public Service"
 - f. if does not perform his duties constantly, during four months period;
 - g. if dies.
2. The member of the Commission can only be dismissed according to the provisions mentioned above.
 3. The Member of the Commission has a right to appeal his dismissal according to the rules and procedures established by the existing legislation.

Clause 8. Chairman; Duties of the Chairman.

1. The President from among the members of the Commission shall appoint the Chairman of the Commission. The Chairman of the Commission may resign from the position of the Chairman and remain a member of the Commission for the remainder of the member's term. The Chairman of the Commission may, from time to time, designate one of the other Commissioners to serve as Acting Chairman.
2. The Chairman of the Commission shall be responsible for presiding over the meetings of the Commission, for publishing and carrying out the Commission's decisions, and for the administration of the Commission.

Clause 9. Employees to be Appointed, Dismissed by the Commission.

For the proper discharge of the Commission's duties the Commission has the staff. The Chairman of the Commission, in consultation with the Commission and according to the Georgian legislation, may appoint or dismiss any employee. The employees of the Commission shall be equally subordinated to the members of the Commission, except the issues related to the administrative management.

Clause 10. Political Activities of the Commissioner.

The member of the Commission shall discontinue the membership of any party. The creation of political or social organizations within the Commission is prohibited.

Clause 11. Powers and Duties Generally.

1. The Commission shall, give careful consideration to the main directions of the state energy policy, national security, economic, environmental, and other policies of the Government.

2. The Commission shall allow the interests of the parties, including electricity and natural gas consumers, to be represented in proceedings.
3. The Commission and each of its employ, within its competence shall have full and prompt access to the personnel and records of every Licensee.
3. Within its competency, the Commission is authorized to conduct inspection of all presented records and data.

Clause 12. Public Sessions; Exception for Confidential Information.

1. The sessions of the Commission shall be public. Commission's decisions and resolutions, shall be made published according the set rules.
2. The Commission shall keep a record of all proceedings and other relevant documents for the period determined by the Commission. A member of the Commission shall have open access to any information, records and documentation of the Commission.
3. All resolutions and decisions, orders, records and other documents shall be open to public examination. The Commission shall adopt appropriate rules to ensure confidential information received by it remains confidential, whenever confidentiality is necessary.

Clause 13. Conducting Meetings of the Commission.

Before promulgating any resolution or decision the Commission shall give reasonable notice of its contents and shall give interested Persons an opportunity to attend the meeting. In order to keep information confidential, Commission is authorized to conduct meetings closed for the public. The resolutions and decisions made on closed meetings shall be published.

Clause 14. Liability for Violation of the Law

1. Commission, in accordance with the legislation, is authorized to hold liable all legal persons or individuals, who violates the provisions of this law or resolutions and decisions made by the Commission.

Clause 15. Appeals.

1. A resolution and decision made by the Commission may be appealed, by affected person, to the Constitutional or Supreme Court of Georgia, in accordance with the existing rules and procedures.

Clause 16. Meetings and Communications between the Commission and Parties.

1. The Commission shall promulgate rules controlling meetings between members or employees of the Commission and any other party. The rules shall provide that no member of the Commission shall consult with any party or Legal Person or individual acting on behalf of any party with respect to such a proceeding without giving notice, and an opportunity to participate, to all parties.

Clause 17. Conflicts of Interest.

1. The Georgian Law "On Conflict of Interests and Corruption in Public Service" determines the rules on suspension of the Commissioner's activities and the conflict of interests.
2. No staff member of the Commission shall directly or indirectly own any securities of, have any economic interest in, or hold any position with any Licensee.
3. This Clause shall not prevent any staff member of the Commission from being a customer of any Licensee, but no Licensee shall offer, nor shall any staff member of the Commission accept, free or discounted service or service at other than the rates and conditions generally applicable to the public.

Clause 18. Personal Security and Assistance in Further Employment

1. Threatening, violence or any other illegal actions against the member of the Commission, or its employ, while they are fulfilling their responsibilities, are prohibited. Any person who violates this provision shall be prosecuted in accordance with procedures established by the existing legislation.
2. The State shall provide assistance to the Commissioner in further employment upon completion of his membership term in the Commission

Clause 19. Budget of Commission; Regulatory Fee.

1. The Commission shall, by October 1 of each year, approve its detailed budget for the following year, which shall indicate all the expenses of the Commission, including the salaries and benefits of the members and employees of the Commission. On the basis of load forecasts for the following year received from the Licensees by September 15, the Commission shall establish a Regulatory Fee to be paid by electricity Generation, Transmission, Dispatch, Export, Import and Distribution Licensees, as well as natural gas transportation, supply and distribution licensees, at a level sufficient to cover the budgeted expenses of the Commission for the next year. The budget of the Commission shall published.
2. Regulatory Fees shall be deposited in a separate account for the use of the Commission, which shall have sole access to the funds. Any funds in the Commission account not used in one year shall be carried forward to the next year, and the next year's Regulatory Fees reduced accordingly. The Commission shall be entitled to borrow

from the State Treasury to meet capital or operating expenses that cannot be met from current Regulatory Fees; the Commission shall repay the loans, with interest at the appropriate government borrowing rate, from future Regulatory Fees. The State Treasury may also allocate funds, including grants, for the Commission's use.

Clause 20. Financial Report; Audit.

1. By March 31 of each year the Commission shall prepare and publish a financial report that shall include an accounting of the Regulatory Fees paid to the Commission's account and the Commission's expenses from this account, during the prior year. The financial report shall also identify any loans taken during the year, and any other funds made available to, and/or used by, the Commission. The Commission shall make financial report available to the public.
2. Review of the fiscal activities of the Commission, shall be conducted in accordance with Georgian legislation and implemented by relevant authorized bodies, including independent auditors appointed by the Commission. Review shall not cause the suspension of the Commission's ongoing activity.

Clause 21. Annual Report.

By March 31 the Commission shall make a report regarding its activities during past year and present it to the President, Parliament and the Ministry. Copies of the report shall be made available to the public.

Article 4

Georgian Wholesale Electricity Market

Clause 22. Status and Functions of the Wholesale Market

1. The Georgian Wholesale Electricity Market is a Legal Person of private justice, created with a purpose of governing the wholesale electricity (capacity) trading activities and gradual development of the competition within the electricity sector. Its organizational-legislative form shall be a Union (Association) of licensees and direct consumers.

2. The Wholesale Electricity Market shall conduct its operations independently and according to this Law. The Normative Document for operation, management and regulation of the commercial relations between the Licensees, are the "Market Rules" and "Technical Code", which are based on this Law, are approved by the Commission and are mandatory for all Licensees, Market Members and electricity consumers.

3. Wholesale trading of the entire amount of electricity generated in, or imported to, Georgia, as well as sale and purchase by the Dispatch and Transmission licensees (except for the amounts covering direct contracts) shall be conducted within the Wholesale Electricity Market. There shall be only one Wholesale Electricity Market admitted in Georgia."

4. The limits for electricity (capacity) trading, as well as of import-export, through Direct Contracts shall be determined by the Commission, for balancing of electricity generation and consumption within the country. Licensees and Market Members shall seek for the Wholesale Market's consent on the amounts of electricity traded through the Direct Contracts and shall supply the information about such amounts of electricity (capacity), as well as of export-import and transit transactions.

5. Wholesale Electricity Market shall conform in its activity with the main principles of the State Energy Policy and State Energy Security."

6. Membership fees imposed to all market members shall cover the services of the Wholesale Electricity Market. Such fees, subject to be recovered through electricity tariffs, shall be defined by the Executive Board of the Wholesale Market and approved by the Commission. Membership in the Georgian Wholesale electricity market is mandatory for all Licensees and Direct Consumers.

7. Georgian Security Council, within the competence, shall develop the list of the consumers exempted from curtailment or disconnection with regard to the State Security policy. Along with the approved list of such consumers, the said bodies shall define rules and sources of guaranteed recovery for the electricity so consumed, according to the "Market Rules.

8. The Wholesale Market, together with the Dispatch Licensee approves the electricity (capacity) balances and makes their corrections, if necessary. The Licensees and direct customers shall provide the Wholesale Market with all information, necessary for elaboration of the electricity (capacity) balances, and for efficient performance of the

Market, including proper settlement and metering, the relevant information on electricity generation, transmission, import, export, transit and consumption shall also be available to the Georgian Wholesale Electricity Market.

Clause 23. The Main Principles of the Wholesale Electricity Market's Operation.

The main principles of the Wholesale Electricity Market's operation are as follows:

- Independence;
- Economic viability and soundness;
- Guaranteed and timely financial settlement;
- Equality of Market Members;
- Transparency.

ARTICLE 5.

LICENSES AND LICENSING PROCEDURES

Clause 24. Commission to Issue Licenses; Licensed Activities, Exceptions.

1. The Commission shall be entitled to issue electricity Generation, Transmission, Dispatch, Distribution, Import and Export Licenses, as well as natural gas supply, transportation and distribution, according to the present law and procedures and to the rules and regulations as approved by Commission. The Commission shall also be entitled to monitor fulfillment of the License requirements by the Licensees.
2. Electricity Generation, transmission, dispatch, Distribution, Import and Export as well as natural gas supply, transportation and distribution without the relevant License, shall be forbidden, except for the cases described in the Point 3 of this Clause.
3. Person, who generates electricity only for its own consumption and is not connected to the transmission or distribution grids, is not required to obtain the license.

Clause 25. Procedures.

The Commission shall establish procedures necessary to implement requirements of the present Law. The procedures shall specify the information required to obtain a License, including information regarding financial strength, credit rating, experience, and compliance with all Laws and regulations, as well as the issues related to the Regulatory Fee established by the Commission.

Clause 26. Competence Required; General License Provisions; Discontinuation of Service.

1. The Commission shall issue Licenses only to Legal Persons and Individuals, who have established competence to operate within the electricity and natural gas sectors and to satisfy the service obligations under this Law and the conditions to be included in each License.
2. Licenses shall describe the type of service to which the License applies, the location of the facilities or territory to which the License applies, the duration of the License, the requirement of timely payment of Regulatory Fees, and the conditions of License modification, suspension, or revocation.
3. No Licensee shall be entitled to discontinue, reduce or increase service under any License, except as permitted in the License for non-payment by the customer or technical and/or safety reasons. In such cases The Licensee shall submit an application on discontinuation or reduction of the service to the Commission. After Commission approves discontinuation or reduction of the service, the Licensee relinquishes the License.

4. No Licensee shall be required by the terms of its License, by its tariff, or otherwise to continue supplying electricity or other electricity services in any case where another Licensee, a Direct Consumer, or any other Legal Person or individual has failed to meet its payment obligations under a contract or approved terms and conditions of service.
5. Each Licensee who holds a Natural Gas Supply License, shall submit to the Commission any reports, statements, and information that the Commission deems necessary for the economically prudent, safe, and reliable operation of the Natural Gas Transportation Network and related facilities. If required by the Commission, the Licensee shall submit to the Commission data and other information deemed relevant by the Commission concerning commercial terms, including, but not limited to pricing terms, paid to acquire natural gas supplies. The Commission shall hold all such information on price and other matters in strictest confidence, if so required by the applicable law and by the Licensee.

Clause 27. Rights and Duties of Licensees; Information Filings.

1. Each Licensee must comply with all conditions set forth in its License, the resolutions and decisions adopted by the Commission, and the Laws of Georgia.
2. Licensees shall operate at least cost principle and in accordance with economic efficiency requirements.
3. Each Licensee, with the exception set in clauses 25, section 4, shall submit to the Commission, to the Ministry, and make available to the public the following information:
 - a. An annual summary of the Licensee's activities for the past year;
 - b. An annual work plan describing the Licensee's anticipated activities for the following year; and
 - c. Other information as the Commission determines to be necessary or appropriate.
4. Each Licensee who holds a Generation License, granted following a finding that the power sales contract was determined on a competitive basis, shall submit to the Commission any reports, statements, and information that the Commission, deems necessary for the safe and reliable operation of the Transmission Grid and connected facilities.

Clause 28. Electricity Metering, Sales, Metering Equipment

1. Licensees shall measure the quantity of electricity flowing through their facilities by use of metering equipment and procedures that satisfy rules, standards and other requirements and shall make this information available. The Commission and Wholesale Electricity Market are authorized to conduct inspections of metering equipment.

2. Wholesale trade of electricity shall only be made within the Wholesale Market (except for those made by direct contracts) according the following procedures:
 - a. Generation Licensee sells electricity only to Distribution Licensee, and/or Export Licensee, and/or Electricity Market, and/or Direct Consumer;
 - b. Distribution Licensee purchases electricity only from Generation, and/or Import Licensees, and/or Electricity Market.
 - c. Import Licensee sells electricity to Distribution Licensee, and/or Export Licensee, and/or Direct Consumer, and/or Electricity Market.
 - d. Export Licensee purchases electricity from generation licensee and/or wholesale market and sells outside of Georgia.

Clause 29. Disputes.

Any Licensee, Direct Consumer, or customer of any Distribution Licensee may refer the dispute to the Commission for resolution; the Commission may in its discretion order the matter to be resolved through the court.

Clause 30. Bonds.

Before issuance of any License, or the reinstatement of a suspended License, the Commission may require a bond or any other form of financial security necessary to ensure adherence to this Law and the conditions of the License, including the payment of Regulatory Fees.

Clause 31. Modifications, Suspensions, Revocations.

Except where a License is modified pursuant to its terms and conditions or suspended or revoked for non-compliance with its terms and conditions, the Commission may modify, suspend, or revoke a License issued under this Law only with the prior consent of the Licensee; *provided*, that upon granting a License the Commission may require the Licensee to comply with different, or more stringent requirements than the requirements included in any prior License.

Clause 32. Restrictions on Ownership of Shares and Licensees; Restricted Transactions.

1. No Licensee may hold more than one License or own shares in any other Licensee without Commission approval. No Legal Person or Individual that exercises, directly or indirectly, owns or controls the shares of a Generation Licensee, Transmission Licensee, Dispatch Licensee, Export Licensee, Import Licensee or Distribution Licensee, as well as Natural Gas Supply Licensee, Transportation Licensee and Distribution Licensee without Commission approval, may own any shares of any other Licensee.

2. A Licensee may not, without the Commission's prior approval, transfer its License in any form to any other Persons. The Commission, according this law or public interest, may approve, disapprove, or restrict, the following activities by Licensees:

- a. Conducting a business merger or a major acquisition or sale of assets or securities;
- b. Expanding the Licensee's business activities; and
- c. Undertaking a reorganization of the Licensee's corporate structure, and/or changing of ownership and/or organizational-legal status.

ARTICLE 6.

LICENSES; PROVISIONS AND CONDITIONS

Clause 33. Generation Licenses.

1. The Commission may issue Licenses that in each case authorize a Legal Person or an Individual to generate energy and connect specifically identified generation facilities to the Transmission Grid for the purpose of supplying electricity capacity and/or energy to a specific Receiving Point.
2. The duration of each License shall be the expected useful life of the generation facility. Commission may, for violation of the terms of the License, revoke the generation License
3. According to the License Conditions, each Generation Licensee shall, for the duration of the License:
 - a. Submit the rates, terms, and conditions for power sales contracts with other Licensees for review and approval by the Commission under Article 6; *provided*, that such review and approval shall not be required once the Commission has determined that the Generation Licensee is either intending (1) to produce electricity solely for his own consumption, (2) to produce electricity solely for export or (3) conducts power sales in the competitive conditions; and *provided further*, that each Individual or Legal Person applying for a Generation License shall also submit to the Commission the technical, safety, and interconnection standards for the proposed generation facility.
 - b. Make the licensed generation facilities available to the Dispatch Licensee at the Receiving Point for the safe, reliable, non-discriminatory, and economic dispatch and operation of the Transmission Grid and connected facilities, pursuant to the terms of its power sales contracts or its approved rates and terms and conditions of service;
 - c. Comply with the requirements of the Market Rules, Technical Standards, the wholesale Market, as well as with all applicable requirements regarding the coordination of the operation of generation facilities with the Transmission Grid and distribution facilities, including instructions issued by the Dispatch Licensee; and
 - d. Timely pay the Regulatory Fees set by the Commission and comply with all other terms and conditions of the License.

Clause 34. Transmission License.

1. The Commission may issue a License granting a Legal Person the right to provide transmission service using the Transmission Grid.
2. The License shall identify the transmission system included in the Transmission Grid to be operated by the Licensee, which shall include the facilities between the Receiving Points and the Delivery Points. Where a Generation Licensee's facility is to be directly connected to a Distribution Licensee's or a Direct Consumer's facilities, the

Commission may deem the interconnection point a Receiving Point and a Delivery Point separated by a minimum section of the Transmission Grid for purposes of establishing parameters for transmission services.

3. When a new transmission facility is required in the Transmission Grid, the Transmission Licensee shall apply for a modification to its License proposing the new transmission facility. If, after notice and hearing pursuant to the rules promulgated by the Commission, the Commission determines that the new facility is required, and further determines that the proposed route for the facility, as may be amended at or following the hearing; will reasonably minimize adverse impacts on the area concerned, is consistent with the State Policy concerning the proposed route as expressed to the Commission during the proceeding; and complies with the requirements of Law, the Commission shall issue to the Transmission Licensee a modified Transmission License that includes the new transmission facility and authorizes its construction on the approved route.
4. If, following the hearing described in present Clause, section 3, the Transmission Licensee is authorized to construct a new transmission facility along an approved route, the Transmission Licensee shall be entitled to acquire any lands required to construct this facility.
5. The duration of a License shall be indefinite, but subject to revocation by the Commission for violations of the License.
6. According to the License Conditions, the Transmission Licensee shall, for the duration of the License:
 - a. Ensure functioning of the Transmission Grid in a manner adequate to satisfy the needs of Generation Licensees, Distribution Licensees, Export Licensees, Import Licensees, Direct consumers, and according to the requirements of the "Market Rules" and "Grid Code of the Wholesale Market;
 - b. Develop, submit to the Commission, and make publicly available an investment program;
 - c. Develop and make available reasonable instructions for the safe, reliable, and non-discriminatory interconnection and operation of the transmission network and connected facilities;
 - d. Charge only those rates, and impose only those conditions of service, approved by the Commission under Article 6; and
 - e. Timely pay all Regulatory Fees imposed by the Commission and comply with all other terms and conditions of the License.

Clause 35. Dispatch License.

1. Dispatch License issued by the Commission authorizes a Legal person to conduct the management of the Georgian electricity sector through its central and regional dispatch centers.

2. The duration of a License shall be indefinite, but subject to revocation by the Commission for violations of the License.
3. According to the License Conditions, the Dispatch Licensee shall, for the duration of the License:
 - a. Plan for and secure dispatch service for transmission of electricity, in order to satisfy the needs of relevant Licensee and Direct Consumer at least cost principle, given that a Licensee or a direct Consumer have contracted directly with one or more Generation or Import Licensees and, partly or in whole, meets its requirements, also has contracted with Transmission Licensee. Dispatch Licensee shall not be liable for obtaining back-up electricity supplies, except for the cases when the Distribution, Export or Direct Consumer covers such services, at the rate approved by the Commission.
 - b. Install and operate all facilities necessary for safe and reliable control of the energy system, and develop regimes and utilize appropriate dispatch protocols for the efficient operation of the Wholesale Market and efficient satisfaction of electricity supply requirements of Distribution, Import, Export licensee and Direct Consumers.
 - c. Shall operate in accordance with the instructions of the Wholesale Market, regarding discontinuation or curtailment of electricity supply service to violators of the "Market Rules.
 - d. Develop, provide the Commission, and make publicly available an investment program;
 - e. Charge only those rates, and impose only those terms and conditions of service which are approved by the Commission.
 - f. Timely pay all Regulatory Fees imposed by the Commission and comply with all other terms and conditions of the License.

Clause 36. Distribution Licenses.

1. The Commission may issue Licenses that in each case authorize an Individual or Legal Person to exercise the right to engage in the distribution and sales of electric power within a defined geographic region or a particular distribution network.
2. The duration of each License shall be indefinite but subject to revocation by the Commission for violations of the License.
3. According to the License Conditions, each Distribution Licensee shall, for the duration of the License:
 - a. During the emergency periods, maintain strict regimes and limits of electricity supply, ensure priority supply of electricity to the objects of specific importance, given the due payment is provided.

- b. According to the "Market Rules", provide full, timely and guaranteed bill collection for received electricity and services; a Distribution Licensee who fails to meet requirements of this provisions, shall be liable in accordance with the existing legislation.
- c. According to the "Market Rules" and upon request from the Wholesale Market, open special credit account.
- d. Extend distribution services to consumers consistent with eligibility criteria established by the Commission and with the Licensee's investment program;
- e. Obtain rights to sufficient distribution capacity and electricity from the Transmission Licensee and/or the Dispatch Licensee, also from Generation and/or Import Licensees.
- f. Establish and submit to the Commission for approval procedures for service, metering, billing, and collections;
- g. Develop, provide to the Commission, and make publicly available an investment program;
- h. Charge only those rates, and impose only those terms and conditions of service which are approved by the Commission; and
- i. Make available to the public for review in the Licensee's offices:
 - (i) The License and approved tariffs;
 - (ii) The Licensee's approved terms of service, metering, billing, and collections.
 - (iii) A description of the performance standards applicable to the Licensee, including time required to connect new customers; and
- j. Timely pay all Regulatory Fees imposed by the Commission and comply with all other terms and conditions of the License.

Clause 37. Import License

- 1. The Commission may issue Licenses that in each case authorize a Natural or Legal Person to exercise the right to engage in the importing of electric power from a source outside of Georgia.
- 2. The duration of each License shall be defined and subject to revocation by the Commission for violations of the License.
- 3. According to the License Conditions, each Import Licensee shall, for the duration of the License:

- a. satisfy all the requirements of the Georgian Legislation regarding the electricity import activities;
- b. cooperate and coordinate its activities with Dispatch licensee, Wholesale Market and Transmission Licensee;
- c. Charge only those rates, and impose only those terms and conditions of service, which are approved by the Commission;
- d. Make available to the public:
 - (i) The License and approved tariffs;
 - (ii) The Licensee's approved terms of service governing procedures for obtaining and terminating services;
 - (iii) A description of the performance standards applicable to the Licensee.
- f. Timely pay all License Fees imposed by the Commission and comply with all other terms and conditions of the License.

Clause 38. Export License

- 1. The Commission may issue Licenses that in each case authorize an Individual or Legal Person to exercise the right to engage in the exporting of electric power from a source inside of Georgia to the delivery point outside of Georgia.
- 2. The duration of each License shall be defined and subject to revocation by the Commission for violations of the License.
- 3. According to the License Conditions, each Export Licensee shall, for the duration of the License:
 - a. satisfy all the requirements of the Georgian Legislation regarding the electricity export activities;
 - b. cooperate and coordinate its activities with Dispatch licensee, Wholesale Market and Transmission Licensee;
 - c. Charge only those rates, and impose only those terms and conditions of service, which are approved by the Commission;
 - a. Make available to the public:
 - (i) The License and approved tariffs;
 - (ii) The Licensee's approved terms of service governing procedures for obtaining and terminating services;
 - (iii) A description of the performance standards applicable to the Licensee.
 - g. Timely pay all License Fees imposed by the Commission and comply with all other terms and conditions of the License.

- h. According to the Market Rules, provide full, guaranteed and timely payment for received electricity and services."

Clause 39. Natural Gas Supply License.

1. The Commission may issue a Natural Gas Supply License granting an Individual or Legal Person the right to purchase natural gas and/or to sell it to other Natural Gas Supply Licensees or Customers.
2. The duration of a Natural Gas Supply License shall be for a fixed term. The License shall be subject to revocation by the Commission for violations of the License's terms and conditions.
3. For the duration of the License and in accordance with its conditions, the Supply Licensee shall:
 - a. Plan for and conduct reliable supply of natural gas and conduct its transportation shall satisfy the needs of its customers based on least cost principles;
 - b. Develop emergency plans to be implemented in emergency situations or conduct negotiations and enter agreements with other parties concerning the natural gas deliveries in such emergency situations;
 - c. Neither charge rates nor impose terms and conditions of service in excess of those established and approved by the Commission;
 - d. Timely pay all License Fees imposed by the Commission and comply with all other terms and conditions of the License.
4. In every case, when a Licensee enters an agreement on natural gas import, the Commission shall be authorized to request the information on capacities to be transported, as well as on payments and tariffs promulgated by the agreement. The Commission shall be authorized to request any other information too, as deemed necessary. The information so collected may be used by the Commission in setting the tariffs for transportation of the imported gas within the territory of Georgia.

Clause 40. Natural Gas Transportation Licenses.

1. The Commission may issue a License granting a Legal Person a right to provide natural gas transportation and transit services.
2. The License shall identify the proposed pipeline route and lines of pipe and other facilities, including the Receiving Points and the Delivery Points, to be operated by the Licensee.
3. When a new pipeline or other transportation facility is required, the party proposing such new pipeline or other facility shall apply for a Transportation License, or in the case of an existing Transportation License, apply for a modification to this License. If, after notice and hearing pursuant to the rules promulgated by the Commission,

the Commission determines that the new pipeline or facility is actually required, and further determines that the proposed route for such pipeline or facility will minimize negative impacts on the area concerned, is consistent with the State Policy and complies with the requirements of Law, the Commission shall issue a new or modified Natural Gas Transportation License, that includes the new pipeline or other facility and authorizes its construction on the approved route.

4. If, following the hearing as described in the above Point 3, the Transportation Licensee is authorized to construct a new pipeline or other facility along an approved route, the Transportation Licensee shall be entitled, following to the set rules, to utilize the lands required to construct such pipeline or facility.
5. The duration of a Natural Gas Transportation License shall be for a term as indicated in the license. The License shall be subject to revocation by the Commission for violations of its terms and conditions.
6. According to the License Conditions, the Transportation Licensee shall, for the duration of the License:
 - a. Develop and maintain the Natural Gas Transportation Network in a manner adequate to support the needs of Supply Licensees;
 - b. Develop, submit to the Commission, and make publicly available an investment program;
 - c. Develop and make available reasonable instructions for the safe, reliable, and non-discriminatory interconnection and operation of the transmission network and connected facilities;
 - d. Charge only those rates, and impose only those conditions of service, approved by the Commission under Article 6; and
 - e. Timely pay all License Fees imposed by the Commission and comply with all other terms and conditions of the License.

Clause 41. Natural Gas Distribution Licenses.

1. The Commission may issue a Licenses that in each case authorizes a Legal Person to exercise a right to operate the distribution network and distribute Natural Gas within a defined geographic region or distribution network.
2. The duration of a Natural Gas Distribution License shall be for a fixed term. The License shall be subject to revocation by the Commission for violations of its terms and conditions.
3. According to the License Conditions, each Distribution Licensee shall, for the duration of the License:

- a. Provide distribution services to consumers, with regard to the normative acts applicable to the sector, rules established by the Commission and with the Licensee's investment program;
- b. Establish and submit to the Commission for approval procedures for metering, billing and collections;
- c. Develop, provide to the Commission, and make publicly available an investment program;
- d. Charge only those rates, and impose only those terms and conditions of service which are approved by the Commission;
- e. Make available to the public for review in the Licensee's offices:
 - (i) The License and approved tariffs;
 - (ii) The Licensee's approved terms of service governing procedures for obtaining and terminating services, metering, billing, and collections;
 - (iii) A description of the performance standards applicable to the Licensee, including time required to connect new customers; and
- f. Timely pay all License Fees imposed by the Commission and comply with all other terms and conditions of the License.

ARTICLE 7

TARIFFS

Clause 42. Commission Authority for Tariff Setting.

1. The Commission shall be authorized to review and make a decision on approval, modification or rejection of a Licensee's application for prices and tariffs, as well as terms and conditions of his goods and services, except the cases considered in Clause 33 Section 3 point a. of this Law.

2. In order to protect the interests of the Licensees and/or the customers, considering tariff setting principles given in Clause 43 of this Law and the State Policy regarding National Security, Electricity Sector, Economy, Environment, social and other areas, the Commission is authorized, by its initiative, to make adjustments to the existing electricity tariffs, with respect to the applicable rules.

Clause 43. Tariff Setting Principles.

1. Tariffs established by the Commission shall:

- a. Protect consumers from monopolistic prices;
- b. Provide Licensees with an opportunity to recover their costs, including prudently incurred fuel, operating, and maintenance costs, the principal and interest costs of money borrowed for prudent investments and working capital. At the same time Tariff shall imply just and reasonable profit on invested equity sufficient to attract financing for the rehabilitation and further development of the sector;
- c. Encourage efficiency in internal operations and management practices by allowing a Licensee's financial returns to increase as a result of the Licensee having minimized its costs of providing service; *provided*, that the Licensee meets all requirements of its License concerning the provision and quality of service;
- d. Encourage economic efficiency within the electricity and natural gas sectors by setting a short run and long run marginal costs and by sending accurate price signals regarding the relative abundance or scarcity of the supply of electric power services;
- e. Allow Licensees to cover all economically reasonable expenses, including expenses for acquiring licenses on relevant services and covering Regulatory Fees, as well as expenses associated with tariff setting fee and Wholesale Market membership;
- f. Take into account State Policy in regard to categories of electricity and natural gas consumers, provided, that it shall not prevent a Licensee from exercising

any rights granted in its License to disconnect any customer for failure to meet its payment obligations;

- g. Take into account State Policy in regard to subsidies, but it is prohibited to subsidize any category of the consumers on account of Licensee or any other category of consumers.
 - h. Reflect cost differences between different categories of customers.
2. Costs shall be recovered from each customer category in proportion to the costs of serving that category.
 3. Different tariffs may be established for each customer category to reflect the quantity of peak, average, or overall usage, the season, the time of day, the types of services purchased, or similar parameters. Performance-based tariffs, including revenue indexing, price indexing, and other innovative tariff methodologies may also be used, if the Commission finds the use of such methodologies to be in the interest of Licensees and consumers.

Clause 44. Rules for Tariff Setting

In the process of tariff setting the Commission, according to the Clause 12 of the present Law, conducts open meetings on tariff setting issues and relies on the following documents:

- a. Evidentiary requirements for tariff applications, including audited financial information;
- b. Time frames for tariff applications and decisions;
- c. Procedures for customers and other interested parties to comment on tariff applications;
- d. Procedures for the Commission to obtain additional information as necessary to evaluate tariff applications; and
- e. Setting procedures for financial reimbursement of licensing service.

Licensees and/or Direct Consumers shall have a right to submit to the Commission application on setting or revision of the tariff.

Clause 45. Effectiveness of Tariffs; Tariff Refund.

Tariffs shall become effective within 150 days from submission to the Commission for review, providing that such application complies with the Commission rules for tariff applications. Tariff applicant shall cover the expenses of the Commission on tariff approval.

Clause 46. Uniform Accounting Standards.

The Commission shall establish a uniform and standardized system of accounts to be based on internationally accepted accounting standards. All Licensees for financial and economic reporting to the Commission shall use this system of accounts. The Commission shall use the financial and economic reporting by Licensees, and its own analysis using the system of accounts, as the basis for calculating tariffs.

ARTICLE 8.

TRANSITION PROVISIONS

Clause 47. Initial Terms of Commission Members.

The initial members of the Commission shall be appointed as follows: first member for 6 years, second member for 4 years and third member for 2 years.

Clause 48. Interim Licenses.

1. Each Legal Person engaged in activities requiring a License under this Law on the day this Law came into effect shall be deemed to hold an interim License ("Interim License") with a duration of two years. Each Interim License shall allow that Individual or Legal Person ("Interim Licensee") to continue to undertake those activities requiring a License engaged in on the day this Law came into effect. The Commission may issue additional Interim Licenses in special circumstances within two years of the day this Law came into effect. Interim Licenses are not transferable.
2. The Commission may, in case of necessity, impose on "interim licenses" the same requirements as in License. The Commission may by decision, modify, or terminate any Interim License for the purpose of effecting a reorganization of the electricity sector and promoting transition to the market economy principles. Interim Licenses may be modified or terminated by the Commission without suspending the performance of the Interim Licensee during the duration of the Interim License.
3. Commission may on its own motion, establish a proceeding for the extension, modification, or termination of an Interim License. Where the Commission is considering a modification or termination of an Interim License, the Commission shall provide advance notice to the Ministry of Fuel and Energy and the Interim Licensee and shall give an opportunity for the Ministry of Fuel and Energy and the Interim Licensee to attend the meeting.
4. When the Commission has adopted rules and regulations pursuant to Clause 25, each Interim Licensee may apply for a License under Clauses 33-36, as applicable.
5. All tariffs of Interim Licensees in effect when this Law is adopted shall remain in effect until reviewed by the Commission; *provided*, that the Commission shall be deemed to have approved rate changes for each Interim Licensee in order to determine interim Regulatory Fee according Clause 49.

Clause 49. Interim Regulatory Fees.

The Commission may establish Interim Regulatory Fees on Interim Licensees. The Commission need not set Interim Regulatory Fees on the basis of load forecasts, and may set Interim Regulatory Fees for any period and calculated on any basis that the Commission reasonably determines is likely to cover its budgeted expenses for its next budget period.

Clause 50. Effecting the Law.

This Law shall be effective upon publication.

Clause 51. The list of invalid Rules and Regulations

1. After this Law comes in effect, the following decrees are invalid:

a) The Law of the Republic of Georgia On Energy, September 22, 1994 (Georgian Parliament Herald, 1994, # 19-20, Article. 436) first clause of the Article 4 and second clause of the Article 5.

b) The Law of the Republic of Georgia On Energy, Article 4, clause 7. October 11, 1994. (Georgian Parliament Herald, 1994, # 21-22, Article. 446)

2. Executive Power shall adjust underlying regulations to this Law.

The President of Georgia

E. Shevardnadze

Tbilisi, May 21, 1999

ATTACHMENT 7

GEORGIAN LAW ON ENTREPRENEURS

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of the Republic of Georgia
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**Law of the Republic of Georgia
"On Entrepreneurs"**

1. GENERAL PROVISIONS

Article 1. Sphere of Application

- 1.1. The present Law regulates the organizational and legal forms of arranging the participants in entrepreneurship. Under the meaning of entrepreneurship is considered a legitimate and a repeated activity carried out independently and in an organized manner to gain a profit.
- 1.2. Creative, scientific, architectural, auditory, agricultural, timber-industry activity, medical, attorney and notary practice of individuals is not considered as entrepreneurship. The agricultural and timber-industry enterprises may be established in the organizational and legal forms pointed out in article 2.1. in case their owners are registered. The registration procedure is necessary if at least 5 persons, who are not members of the owner's family are permanently engaged at the enterprise.

Article 2. Organizational and Legal Forms of Enterprises. Their Establishment

- 2.1. The organizational and legal forms of enterprises are: an individual enterprise; a joint liability company; a limited partnership; a limited liability company; a joint-stock company; a cooperative.
- 2.2. An individual entrepreneur as an owner of the enterprise is a physical person, for whom the arranged book-keeping and cash organizing is necessary in order to conduct entrepreneurship.
An individual entrepreneur participates in legal relations on his own behalf.
- 2.3. The enterprises may be not only established by the State or local administrative bodies in the forms counted in the article 2.1. of the present Law, but they may also be governed directly by the said bodies (e.g. public enterprise). Such enterprises are the separate property of the State or local administrative bodies intended for the entrepreneurship purposes. The enterprises are legal entities participating in business relationships under their names recorded in the Enterprise Register. The said enterprises are subject to articles 1-10, 13, 14.6 and 14.7, 15-19.
By a decision of the State or the local administrative bodies the public enterprises may be re-organized into societies of limited responsibility or joint stock companies, if the requirements of article 5.4.3 of the present Law are observed and the enterprise is registered.
- 2.4. An enterprise except a cooperative, with more than 50 partners should be established in the form of a joint stock company only.
- 2.5. The registration of enterprises is necessary. Enterprises as the subjects of the rights and obligations determined by the present Law are to be established after their registration in the Enterprise Register only, except the enterprises pointed out in article 2.3.

In case any action is carried out on behalf of a society until it is registered, the founders and the performers of such an action bear personal responsibility for any obligation resulted by the said

action as the representatives of the society of joint responsibility. This responsibility remains in force even after the registration of the society.

2.6. Societies of joint responsibility, limited partnerships, societies of limited responsibility, joint stock companies, cooperatives and enterprises mentioned in article 2.3. are the legal entities.

An individual entrepreneur is to conduct its rights and obligations in the business relationships as a physical person.

2.7. The Regulations of a society are to be certified notarially. The Regulations should be signed by participating partners. The signature of an authorized agent is permitted if it is performed on a basis of a notarized power of attorney only.

The constituent documents of societies of joint responsibility, limited partnerships, joint stock companies and cooperatives must include the registration terms and conditions pointed out in article 5. Regulations of a society may include extra rules only in the cases, if this is not prohibited by the Law or if it does not contradict the legal and economic relationships and does not change the provisions of the present Law relating to the forms of enterprises.

Article 3. Responsibility. Payment. Alterations in the Authorized capital. Equality. Rights to Receive and Control the Information.

3.1. An individual entrepreneur - bears personal responsibility before creditors for all his entrepreneurship obligations.

3.2. Partners of a society of joint responsibility and personally responsible partners of a limited partnership bear personal responsibility before creditors for the obligations of the society. It means that each partner bears immediate, full, direct and unlimited responsibility with his (her) whole property.

Any other agreement between the partners is void for the third persons.

3.3. In establishing the society or increasing the authorized capital an amount of contribution may be agreed and performed in any currency. In the book-keeping records of the society the sum of payment is to be fixed in the national currency unit. The contribution may also be presented in a property and non-property forms, within the societies of limited responsibility should be valued by an independent expert (valuation of non-monetary contribution).

The partner obliged to make a non-monetary contribution is responsible before the society for the value of the payment at the moment of the registration. If the value of the object is less than the agreed sum, it should be filled up by money. If the value of the object exceeds the agreed sum, it is not permissible to ask for return of the sum.

The return of the contrib: in limited partnerships, societies of limited responsibility and joint stock companies is permitted only if the authorized capital is reduced. For this purpose the appropriate alterations in the Regulations of the society are required. The reduction of the authorized capital should be registered in the Enterprise Register.

3.4. Partners bearing responsibility within the limits of their contribution are responsible before creditors according to article 3.2. until the total sum is paid. But, this does not make them free

from their duties if the responsibility limitation legal forms are abused. Under the meaning of abuse in this context is considered the mixing of the society's property with another property, or uncompleted formation of the enterprise capital necessary for its functioning.

The enterprises as per article 2.3. bear responsibility before creditors by their separate property. In case the property of the enterprise is not enough to meet the creditors requirements, the State or the local administrative bodies should satisfy these requirements (subsidized responsibility of the enterprise governed by the State or the local administrative bodies).

- 3.5. The half of the contribution is to be made at the moment the Regulations are signed, unless otherwise determined by the Regulations.

In case the partner delays the payment any partner can claim from him (her), in a written form and with the indication of the extra term, to make the payment and, at the same time, to notify him (her) that he (she) may be discharged from the society. Extra term for such cases should not be less than a month.

If after the expiry of the above term the payment is not made by the partner, he (she) loses the share and the results of his (her) partially performed obligations. The explanations concerning the above is to be done in a written form.

The rest of partners bear joint responsibility for the losses resulted from the non-payment. The responsibility of the discharged partner stays in force. In case of non-monetary payment it should be replaced with the equal amount of money. Unpaid sum is to be distributed between the partners proportionally to their contribution.

- 3.6. The authorized capital of the society, if it is reduced according to article 3.3., paragraph 2, should be filled up to the minimum level as established by legislation. If the authorized capital is reduced in order to return the contribution, or such a reduction is aimed to exempt from payment of the unpaid sum, the remaining contribution, for each partner should not be less than the equivalent of 50 USD in the national currency unit. The reduction of the authorized capital by returning the contributions which determine the level of responsibility of the partners can be fulfilled upon expiry of 12 months after the reduction of the authorized capital is registered and after its publication. In case these rules are violated, the norms of article 57.2. concerning the requirements for compensation of losses come in force.

If the payment sum is returned to any partner and the reduction of the authorized capital is not registered, such action should not be considered as the return of the sum to the creditor and, the partner must compensate this money to the society. This rule acts also in cases when a partner spends the money from the society's fund, and his (her) share is reduced in comparison with the already paid sum.

- 3.7. Refusal of a society concerning the meeting of claims established by the present Law shall be deemed null and void.
- 3.8. Other things being equal, partners shall have equal rights and obligations unless otherwise is provided for the present Law concerning the personal responsibilities and quotas; or, if, proceeding from the interests of the society, any other arrangement is not provided for.

3.9. Each partner has the right to receive the annual report and all publications of the society, as well as the rights to check up the correctness of the annual report and be acquainted with the book-keeping reports for these purposes himself or with the help of an independent expert and, to demand explanations from the society authorities after presentation of the annual report prior to its approval.

If the annual report is not composed correctly, all expenses for its checking up are to be paid by the society. These rights of control and verification may be limited by the present Law only, but their expansion is possible by the Regulations of the society or by another laws.

Article 4. Enterprise Register

4.1. Registration of an enterprise is to be carried out by the Court by making due records in the Enterprise Register.

4.2. The facts under the registration are to be recorded in the Register Card. The Register Card specimen is presented in the Appendix to the present Law.

4.3. The Court keeping the Enterprise Register publishes the data in official papers of the Republic of Georgia and notifies the local statistics bodies concerning the latter in written form. The data are to be published completely unless otherwise provided by legislation.

4.4. Any person can be acquainted with, and receive the extracts from the Enterprise Register.

Article 5. Terms of Registration

5.1. Any partner has the right to demand the registration if the application is made in compliance with of the requirements of article 5. The Court shall verify whether the application meets these requirements.

5.2. Individual entrepreneurs, or partners, as well as other potential members of the representative and observation bodies are obliged to sign the application of the society concerning registration. Individual entrepreneurs as well as other persons representing the society should present to the Court the samples of their signatures being used by them in business relationships.

Enterprises as per article 2.3 should also be registered in the Enterprise Register with the indication of name, first name, date and place of birth, occupation and juridical address of each member of representative and supervisory bodies. These persons should present to the Court the samples of their signatures being used by them in business relationships.

The application for registration, the exact samples of signatures, and appropriate documents enclosed and their copies are to be presented in a notarized form.

The application is to be presented to the Court at the juridical address of the society or the individual entrepreneur.

5.3. In case incorrect data are presented to establish a society, or because of the establishment expenditures a society has incurred losses, the partners as well as the directors of the society shall as joint debtors cover the unpaid sum and other losses.

5.4. The application form must include:

5.4.1. For all types of enterprises:

- a) firm name (firm);
- b) organizational and legal form;
- c) location (juridical address);
- d) subject of the activity;
- e) data on beginning and finishing the fiscal year;
- f) name, first name, date and place of birth, occupation and place of residence of entrepreneur - individual or each founder (not less than 2 partners - founders in case of cooperative);
- g) Representative authorities.

5.4.2. For a limited partnership, besides the documents as per article 5.4.1. the amount of contribution each partner, and the document indicating the total sum paid by each partner should be presented.

5.4.3. In addition to the documents as per article 5.4.1. the societies of limited liability, joint stock companies and cooperatives should present:

- a) the sum of the authorized capital and the document confirming the contribution made;
- b) the sum of contribution lay each founding partner, and their shares accordingly;
- c) the name, first name, date and place of birth, occupation and legal address of each director;
- d) documents concerning the appointment of the directors and the members of the council (if any).

5.5. The following documents should be enclosed to the application:

- a) Regulations of the society;
- b) the document on approving the assessment of the contributing in the case when the society is established by non-monetary contribution;
- c) reference issued by the Information Department of the Ministry of Internal Affairs of the Republic of Georgia to all persons having the representative rights confirming that these persons were not called to account for the property offence during the last 5 years;
- d) documents concerning the appointment of directors and members of the supervising council (if any), for the societies of limited liability and joint stock companies.

5.6. Any alteration of the facts necessary to be registered according to article 5.4. and paragraph 2, article 5.2. are to be re-registered. These alterations come in force after their registration only.

5.7. In case of bankruptcy or if the Court discovers essential shortcomings in the Regulations of the society, the Court should register the liquidation of the society with the indication of grounds for such an action.

5.8. If an enterprise is registered but does not meet the terms and conditions of the registration or, these terms and conditions are later on exterminated, the registration is to be annulled unless these shortcomings eliminated within three months. The registration can be annulled on the basis of claim of any partner of the society or any third person.

Unless the registration is annulled the enterprise registered incorrectly is considered as a correctly registered one except the cases when it does not contradict the essential interests of individuals and society, and the persons mentioned above have not claimed it.

5.9. The Court is obliged to carry out the registration procedure within the period of a week after the necessary documents have been presented. If the registration procedure is not made within the mentioned term or, the applicant is not informed about the refusal of the registration, the enterprise shall be considered as registered.

Article 6. The Firm Name (firm)

6.1. The Firm name (firm) is the name under which the enterprise carries out its activity.

6.2. An individual entrepreneur uses his name and first name as the firm name. Additions are permissible in the cases where terms and conditions of article 6.6 are observed.

6.3. The firm name of the company of joint responsibility must include the name and first name (or names) of at least one partner with the addition of "SLC" or, names and first names (or names) of all partners.

6.4. The firm name of a limited partnership must include the name and first name (or names) of at least one personally responsible partner with the addition of "LP".

6.5. In addition to the opportunity to use the partners' names, the societies of limited responsibility, joint stock companies, cooperatives and enterprises as per article 2.3. may choose the firm names with taking into consideration their subject of activity or, by fancy. But, in any case, the name must include indications: "Joint stock company" or "JSC", "Society of limited responsibility" or "LTD", "Registered cooperative" or "RC".

6.6. The firm name must not be supplemented by any word that can cause misunderstanding for third persons concerning the volumes and forms of activity of the enterprise or, concerning the relationships between the partners.

6.7. Additions to the names are to be made in cases when it is necessary to distinguish the concrete firm from other firms.

6.8. A new buyer of an enterprise may use the former name with or without the indication of hereditary relationships if the former owner or his (her) heirs agree to do so.

Article 7. Publicity of the Register

- 7.1. Until the facts to be registered are not recorded and published it will not be permissible to use them in relation to third persons except the cases when these data were known to them.
- 7.2. If the facts have been registered and published, their use in relation to third persons is permitted.
- 7.3. In case the necessary facts have been registered and published incorrectly, the third person may, in relations with the person, with regards to whom these facts were registered, refer to the registered and published data deserving his confidence, except the cases when the third person knew about the incorrectness.
- 7.4. Proceeding from these rules in relationships with the registered branch of the enterprise the decisive importance shall have the registration and publication carried out at the location of the branch.

Article 8. Responsibilities of Individual Enterprises, the Societies of Joint Responsibility, Limited Partnerships in Buying Another Enterprise.

- 8.1. Any person buying and conducting the activity of another individual enterprise with the former firm name, with or without the indication of hereditary relationships is responsible for all obligations of the former owner concerning the functioning of the enterprise bought.

Any other agreement shall be in force for the third person in the case only, if at the moment of buying the enterprise was registered and appropriate data were published, or the third person was informed about this, and if no debts were foreseen in the calculation of the purchase price.

The responsibility should not be excluded if the enterprise presented almost the sole property of the former owner and, the buyer knew, or was to know about it if he could have been more provident in his (her) business relationships.
- 8.2. In case a person becomes a partner of an individual enterprise, the society thus established shall bear responsibility for all obligations of the former owner's deals. Any agreement contradicting this rule is void for the third person.
- 8.3. A seller of an enterprise shall be responsible for all obligations existing at the moment the enterprise is handed over. In the case of long-term obligatory relationships he (she) is responsible for the obligations arisen from the deals prior to their termination or, until the first possible term of the termination after the alienation.
- 8.4. In case the successors continue the activity of the enterprise belonging to the hereditary property, they shall be responsible for the former owner's obligations arising from such an activity if within the term of three months from the moment the enterprise is handed over, they do not terminate the operations and continue them under the old firm name, with or without addition indicating their hereditary relationships to the firm name.
- 8.5. The rules of articles 8.1. - 8.4. are in force in relations to the partners of the societies of joint responsibility and personally responsible partners of limited partnerships accordingly.

Article 9. Management and Representation. Advisory Board.

9.1. The rights to manage the activity of a society shall have:

- all partners - in societies of joint responsibility;
- personally responsible partners - in limited partnerships;
- directors - in societies of limited responsibility, joint stock companies and cooperatives.

9.2. The managerial activity shall be the activity serving to realize directly or indirectly, the purposes of the society.

9.3. The Regulations of society may provide for the rights of management of the society's activity by:

- one partner or one director solely responsible; or
- two directors mutually responsible; or
- all directors mutually responsible.

Besides, according to the present Law the rights of management may be limited with the necessary consent of the observation bodies or the meeting of a society's members. This rule may also be determined by rules and regulations of the society.

9.4. Persons as per article 9.1. shall represent the society in legal relationships with third persons. The representation authorities in relationships with the third persons should not be limited.

It should be determined by the Regulations whether the authorized representatives act individually or jointly. The Regulations may also determine whether the authorized representatives will act individually, jointly and with procurators. The forms and the rules of representation are to be fixed in the Enterprise Register.

9.5. In case at the moment of signing the agreement the counterpart knew about the restriction of the society's management authorities, the society shall be entitled to declare the deal within 18 months from the date of signature.

The same rule applies in the cases where the authorized representative and the counterpart are acting in concert intentionally for the purpose to cause damage to the society represented by the authorized representative.

9.6. Persons as per article 9.1. shall not be entitled to conduct the activity similar to the one conducted by the enterprise or, to participate in the activity of other societies as personally responsible partners or directors without the consent of other partners of the society. In the societies of joint responsibility and limited partnerships such a consent may be granted by the meeting of partners; in societies of limited responsibility, joint stock companies and cooperatives the consent is granted by the Body appointing the directors.

The consent is considered granted if at the moment of a manager's appointment the partners knew that he (she) had carried out such kind of activity and they did not demand of him (her) clearly to terminate it (prohibition of competition).

If the rules of prohibition of competition are violated, the violator shall reimburse the benefits gained by such an action, renounce the claims for remuneration and cover the damages. The decision to use these rights should be made by other partners and, in availability of the supervising council - by this body.

9.7. Persons as per article 9.1. should take all the efforts in conducting the society's activity as real businessmen do. In case of default, they bear joint responsibility for the damages before the partners. Managers of the society must prove that they did not infringe their obligations.

Society's refusal concerning the demands of regressive compensation or, the compromise of the society shall be void if such a compensation is necessary in order to meet the creditors' claims. This rule is not applicable if a person responsible to compensate is insolvent or, in order to avoid bankruptcy and bankruptcy proceedings he (she) makes a deal with his (her) creditors. If the compensation is necessary meeting the creditors' claims, the obligations of the managers are not terminated because they had acted to perform the partners' decisions.

9.8. Directors, attorneys or partially authorized persons should not be granted with credits from the society's property that is necessary to ensure the authorized capital. If the credit is nevertheless granted it should be returned regardless of all of the other agreements.

9.9. For the purposes of managers' consultations in the societies of limited responsibility, limited partnerships and joint stock companies the Advisory boards can be established without the authority to make decisions. Directors and partners of the limited partnership cannot be elected as members of the Board.

Article 10. General Trade Warrant (Procuration) and the Authority to Fulfil Juridical Actions.

10.1. Persons as per article 9.1., and the individual entrepreneur can grant a written warrant to any person. The warrant can be simultaneously granted to two or more persons and specify that these two or all represent jointly the enterprise (general warrant)

10.2. The representation authority in fulfilling the juridical actions should be in accordance with the content of the warrant. In order to terminate the effect of the warrant it is necessary to annul the document or to declare it void. The declaration is to be published in official newspapers of the Republic of Georgia.

10.3. If a warrant is registered in the Enterprise Register, it is the General Trade Warrant (the Procuration).

The warrant provides for the authority to realize any activity and juridical actions in relationships with the Court and other institutions which are connected with the operations of the enterprise.

The holder of the warrant shall be entitled to alienate plots of land or to make related Commitments only if he has been granted special authority to do so.

The limitation of the warrant's volume is void for the third persons. This provision applies, in particular, to the limitation, of the warrant use only in the case of certain deals or for certain

types of deals, or only in the presence of the certain terms and conditions, or within definite period or in separate places.

The limitation of the warrant by one or several branches of the enterprise in relation to third persons shall be valid only, if these branches are governed under different firm names. According to this rule, the differences between the firm names are expressed in that the firm name of the branch shall be supplemented.

- 10.4. The procurator and the trade representative should supplement their name and first name and the addition indicating the availability of the warrant signing the documents.
- 10.5. The procuration and the trade warrant may, at any time, be annulled without the violation of the right to damage compensation as foreseen by appropriate agreement.

Article 11. Trade Representative and Independent Trader. Commissioner.

- 11.1. According to the present Law, a person shall be a trade representative if he (she) mediates or makes deals on behalf of other enterprise and with its expenditures in relationships of realization of goods, rights and services while not being engaged in the said enterprise.

According to the present Law, the trade representative shall also be an independent trader acting on his (her) behalf and with his (her) own expenditures but mainly engaged in other enterprise's of the trading organization in such a way that the permanent clients drawn by him belong to the other enterprise and after the execution of the agreement this clientele remains to be his.

According to the present Law, a person acting on his (her) behalf but with the expenditures of any other person in relationships of marketing of goods or rights, shall be the commissioner.

- 11.2. Trade representatives and commissioners are accountable to the enterprise for which they act: they are obliged to present, in writing, in the agreed terms, and in case an agreement does not exist, at the end of each quarter, in particular, within the 10 days' term after a quarter is over, reports of their activities executed and the calculations of remuneration for services (provision) and commissions (payment of the commissioners).

The demands for the payment of provisions is arising from the moment the deal has been made by the enterprise; the payment is to be made at the end of the month the deal was made. The same rule applies also in the case where the commissioner is obliged to pay to the enterprise the profits less the commission. The right to claim provision also effects in the case where the enterprise fails to perform or, does not perform the deal in proper way as agreed between the parties. However this right is invalid when the non-performance of the deal is due to the other party and not to the enterprise. If it is established that the other party of the deal fails to perform its obligations, the right to claim the provision shall be annulled and the money received returned.

The enterprise shall pay the provisions monthly.

In making the payment the extracts from the account-books for which the provision is foreseen may be demanded for the certificates concerning the terms and conditions essential for the calculation of the claims for provision, terms of its calculation and payment.

Deviations from these rules to the detriment of the trade representative or the commissioner are impermissible.

11.3. In the cases where the amount of the provision or the commission is not fixed, the generally adopted norm in this field of activity shall be considered as agreed.

11.4. The provision shall be calculated from the sum to be paid by the party of the deal. In case of in-cash payment the discounts should be deducted. The same rule applies to the payment of extra expenditures connected with the circulating capital, freight, packing, custom duties unless these extra expenditures are subject to the payment by a third party.

In ceding the right to use or, in the cases of fixed-term agreements on use, the provision is to be calculated according to the sum and the term of the agreement. In the case of agreements of unlimited duration the provision is always calculated according to the sum of the agreement and is subject to the payment until the party to the deal is entitled to cancel the deal.

In insuring, the provision is to be calculated according to the insurance sum. If this sum is not fixed, the provision is to be calculated according to the insurance fee. This rule also applies to the provision for maintaining permanent clients.

11.5. The commissioner shall be responsible before the enterprise for the execution of the deal if, before the fulfilment of the commission, he (she) did not name the parties to the agreement. In case the commissioner does not act in accordance with the instructions of the enterprise and , he (she) was not authorized to depart from his (her) rights because of the changed situation, he (she) is obliged to cover the damages of the enterprise resulted from such actions.

The commissioner is responsible for the damages and losses of the property deposited to him (her), if these damages and losses are not caused by the circumstances the prevention of which by fair activity of a common trading enterprise was impossible.

11.6. If trade representatives or commissioners shall guarantee in advance, in writing, to the realization of all the obligations under the deal, they can claim for special benefits - provisions for the guarantee of fulfilment of obligations. Such guarantee can be made for concrete deals or for the concrete parties of the deal only. The rights to claim for the warrant provision shall arise from the moment the deal is signed.

11.7. Trade representatives and commissioners have no right to carry out any other activity than those defined and agreed with the enterprise or to participate directly or indirectly in the operations of a competing enterprise without the consent of the enterprise where they are engaged (prohibition of competition) except for the cases of the financial participation with no more than 5% interest rate.

The consent for participating in the activities of a competing enterprise shall be deemed granted if at the moment of the beginning of the agreement relationships the fact of the participation was known to the enterprise.

If trade representatives or commissioners violate their obligations, the enterprise may claim the compensation of damages. Besides, it may demand from the trade representative or the commissioner the handing over to the enterprise of the deals concluded with the competing enterprise as well as the return of the profit received or the refusal from claiming for this profit.

If it is agreed that the prohibition of competition remains in effect after the expiry of the agreement relationships, the said prohibition shall be in force only if the enterprise pays for the compensation calculated according to the sentences 3 and 4 of article 11.9. Such an agreement shall be allowed for not more than one-year term.

- 11.8. An agreement with the trade representative or the commissioner shall be concluded for one-year term, unless otherwise agreed by the parties. If any party to the agreement does not declare the cancellation of the agreement three months prior to the agreement's expiry, the agreement shall be automatically prolonged for the further one-year term. The opportunity of one party of the agreement to be acquainted with the declaration by the other party on the cancellation shall be decisive.

An immediate cancellation of the agreement relationships shall be subject to existence of significant circumstances.

- 11.9. The trade representative may upon the termination of contractual relations, claim for appropriate compensation from the enterprise, if:

- a) after the cancellation of the agreement relationships another enterprise has received the significant advantages in business relations with new clients attracted by the trade representative;
- b) the trade representative loses, because of the cancellation of the agreement relationships, the right of claiming for the provision which he would have in the case of the continuation of the deals already formed or to be formed in the future.

The expansion of business relations by the trade representative bringing important economic benefits, shall be equal to the attracting of new clients.

The rate of compensation should exceed the average amount of the annual provision or other annual remuneration computed for the last 5-years activity of the trade representative; in case of more shorter agreement relationships it shall be calculated from the average rate of remunerations within the whole period of the trade representative's activity. The refusal of the claim for the compensation or its preliminary satisfaction until the cancellation of the agreement is impermissible.

The claim shall not be valid if:

- a) the trade representative has canceled the agreement, except the cases when the actions of the enterprise caused him (her) to do so or, because of the age or illness of the trade representative it becomes impossible to continue the activity; or

- b) another enterprise has canceled the contractual relationships and if this cancellation was caused by serious reason proceeding from the illegal action of the trade representative; or
- c) on the basis of an agreement between the enterprise and the trade representative the latter is substituted with the third person. This agreement should not be concluded until the agreement relationships are canceled.

The right to claim for the compensation may be used within the one-year term from the moment the agreement is cancelled.

Article 12. The Broker.

12.1. The rights and obligations of a broker shall have a person who undertakes to conclude for other persons without permanent order by contract agreements and purchase of goods and stocks on insurance, transportation, hire of ships, or to mediate in other spheres of commercial activity.

The provisions of the present article shall not apply to for the deals except those mentioned above, in particular, for those connected with the mediation for the immovable property deals even in the cases when the mediation is performed through the broker.

12.2. The broker shall immediately, after the deal is made, submit to the parties the final signed certificate containing the data about the parties, the subject, terms and conditions of the deal in particular during the purchase of goods and stocks,- on their prices and quantities, as well as final terms of their execution, if it is not prohibited by the parties of the deal, or he is not released from this duties with account of the local terms and conditions of the consumption of the given types of goods.

For the deals which are not performed immediately the final certificate signed by the parties shall be handed over to each party.

If a party refuses to receive or sign the final certificate, the broker must immediately notify this to the other party.

12.3. If one of the parties receives the final certificate in which the broker does not name the other party, the said party shall become connected within the deals framework with the party to be named in addition, unless substantiated claims are presented against the said party.

The other party to the deal shall be named within the generally agreed period or, in cases where such a term is absent - within the period in conformity with circumstances.

If a party is not named or, the substantiated claims are to be presented against it, the party shall have the right to demand from the broker an explanation concerning the deal's realization. The claim shall not be accepted if the party does not respond immediately to the request of the broker, concerning the performance of the deal.

12.4. In selling goods by sampling, the broker shall keep the sample of the goods sold through his (her) mediation until the goods are purchased without the quality claims or, unless the deal is executed in other way, if the effects in cases when the parties of the deal or the local rules of

the goods' parties of local rules of consumption do not release the broker from this obligation.

The broker must mark the sample by a special sign.

- 12.5. The broker shall not be entitled to receive money payment or make any other profit from the agreements concluded between the counterparts through his mediation.
- 12.6. The broker shall be responsible before the both parties for the damage incurred through his fault.
- 12.7. If the parties have not agreed on the terms of compensation of the broker's services each party shall pay the half of the compensation sum unless local rules determine otherwise.
- 12.8. The broker must keep a diary to record all deals performed. The records must be done chronologically and contain the data fixed in the first paragraph of article 12.2. The broker must sign the daily records. The rules of keeping trade books shall apply to the trade broker's diary.
- 12.9. The broker is obliged to present, at any time, the signed records containing the data about the deals performed through his (her) mediation.

Article 13. Book-keeping and Accounting.

- 13.1. The rules of book-keeping and accounting in small enterprises differ from those in other enterprises. Simplified rules of book-keeping and accounting are used with respect to small enterprises having not more than 20 full-time employees. The full-time rate in this context means the 8-hours working day.

The rules of book-keeping and accounting are equally applied to the all types of enterprises except the cases when other rules are established for small enterprises.

- 13.1.1. Managers shall be responsible for the carrying out the book-keeping and accounting rules according to the legislation on book-keeping and accounting acting in the Republic of Georgia.

The book-keeping must be complete, clear, correct and based upon the double book-keeping system indissolubly connected with the nomenclature of accounts and the corresponding data of the previous year. The valuation should be in accordance with the principles of a prudent entrepreneur, as well as with the principles of the minimum valuation and imparity of profits and losses.

- 13.1.2. The book-keeping in small enterprises must be complete, correct, clear, indissolubly connected with the nomenclature of accounts. Such type of an enterprise must have the inventory list in order the state of the property owned be determined and the balance-sheet in the form of annual reports be composed.

- 13.2. Managers shall at the beginning of the operations as well as at the end of each economic year include into the inventory list the data about the plots of land, demands and debts, the amount of cash and all other material values. At the same time the cost of individual values

according to the principles of the minimum evaluation should be pointed and the ratio of the property and debts (balance; the state of property - for the small enterprises) should be totalled.

The duration of the economic year should not exceed twelve months.

In composing the inventory list the state of the material values may be determined according to their type, quantity and cost as well as upon the principles of selective checks on the basis of generally adopted mathematical and statistical methods. This process should accord with the book-keeping norms as adopted internationally. The informational value of the inventory list thus composed by conform to the informational value of the one composed upon the basis of material stock-taking.

In composing the inventory list at the end of the economic year, it is not necessary to make an inventory if the proper book-keeping ensures. The establishment of the material values according to their types, quantity and cost without resorting to the material inventory.

Material values do not require to be recorded in the inventory list at the end of the economic year, if:

- a) these subjects, according to their types, quantity and cost are recorded in the special inventory lists by means of stock-taking or by any other effective way, and are composed three months prior to the end of the economic year or after 2 months from the beginning of the new economic year with account of the state of one of the days; and
- b) the valuation of the really existing materials at the end of the economic year, based upon the special inventory list and carried out by means of the book-keeping procedures is ensured.

13.3. Managers must, during the ten years, keep the following documents:

- a) account books, inventory lists, balance-sheets and all necessary instructions and other organizational documents
- b) incoming and outgoing business mail;
- c) notes on current records in account books (book-keeping documentation).

13.4. Managers of the society must within the first three months of the economic year compose the annual balance of the previous economic year, reports on profits and losses (annual report), the reports on their activity and the final report. Managers of small enterprises must put their reports (the reports on the state of the property and on the profits and losses) into the documentation of the enterprise. The annual report is to be composed in the national currency unit and signed and dated by the managers.

13.5. In cases of disputes the Court can, on its own initiative or on the basis of the parties' request, ask for the book-keeping documents of one of the parties to the dispute. When the book-keeping records are presented at the court, it becomes possible for any party involved to be acquainted with their content if this content is connected with the subject disputable. If necessary, the extracts from the reports should be made. The other data of the records may be presented at the Court in the cases only, when is necessary to verify the correctness of

the book-keeping. In cases of disputes concerning the property, in hereditary cases in particular, when the subject matter is connected with the distribution of the society's property, the Court can request all of the records in order the Court be acquainted with the content.

Persons able to present the necessary documents by video-, audio- or some other technical means are obliged to present at his (her) own expenses the technical sources needed to read the documents; if necessary, these documents are to be published or their copies made in a readable without the said technical means form.

- 13.6. Rules concerning the structure and contents of annual balance, reports on the profits and losses are the integral part of the present Law and are given in the appendix to this Law.

Article 14. Duration, Liquidation, Transformation, Integration and Division in Kind.

- 14.1. A society may be established for a limited and unlimited term. If there are no indications in the Regulations of the society concerning the duration of the activity, the society is considered as unlimited in term.

14.1.1. Partners of the societies of joint responsibility and the limited partnerships can leave the society on the basis of their wish if the application is made twelve months prior to the end of the economic year and if a longer term is not fixed by the Regulations. The application, entails as a rule, only the withdrawal of the applicant unless the Regulations provide for the liquidation of the society. The society is subject to the liquidation if the partners - owners of more than 50% of the votes wish to leave the society.

14.1.2. The societies of limited responsibility and joint stock companies cannot be liquidated by one partner. The liquidation here takes place if the partners - owners of more than 50% of the authorized capital decide to liquidate the society.

14.1.3. If the society of limited responsibility or the joint stock company becomes insolvent, the directors should, without delay but not later than three weeks from the day of becoming insolvent, declare about the bankruptcy proceedings; this rule also applies to the cases, where the property of the society cannot cover the debts. If the directors make the bankruptcy proceedings in dutiful and sincere way, as the real businessmen do, their action would not be considered as the criminal delay.

The directors are obliged to compensate all the expenses of the society, incurred after becoming insolvent or, after the moment of defining the society's debts. This rule does not apply to the losses incurred after becoming insolvent, if the director of the society acted dutifully and sincerely, like a real businessman. In such cases the rules concerning the compensation of losses mentioned above in article 9.6 shall apply.

- 14.2. The liquidation is to be carried out by jointly made signatures of the persons as per article 9.1. With the mediation of one of the participants, if the significant reasons exist, the persons carrying out the liquidation (liquidators) can be appointed by the regional department of the Court at the society's location; in such cases the Court can also appoint the persons who are not the directors of the society as liquidators.

The liquidators must compose the balance sheet as soon as they are appointed. They must make special notification concerning the liquidation to the creditors known from the book-keeping records and other sources. The unknown creditors and those whose addresses are not fixed in the said sources should be notified publicly and invited in order to make their claims.

The liquidators are obliged to execute the routine matters, carry out the assets and fulfil the obligations of the society, if the assets do not exceed the liabilities in the balance. While the debts are being fixed, the liquidators should notify about it the Court which is to raise a case on the bankruptcy proceedings. The liquidators represent the society in the deals on the liquidation of the society, they carry on the related processes execute the arbitration cases and/or solve disputes by agreements. And, if necessary, they may participate in new deals. Moreover, the liquidators may sell freely the assets. In the long-term liquidation they should compose the annual intermediate balances. The society is responsible for the damages caused by unauthorized actions of the liquidator while carrying out his (her) business duties. Responsibilities of the liquidators are determined by article 9.7. of the present Law.

- 14.3. Property of the liquidated society is to be distributed, after the debts are covered, between the partners in proportion of the sums paid and the rights according to their shares unless otherwise provided by the Regulations of the society. The distribution is to be made after one year, from the date of threefold invitation of the debtors by means of a public notification. The distribution may be carried out by the Court earlier, if it causes no risk to the creditors.

If the known creditors do not declare their claims, the value of the claims is to be deposited by the Court. The value of disputable obligations and other liabilities of the society, whose execution is still due, are also deposited by the Court in cases if equal guarantees have not been provided for the creditors or the process of the distribution of the property has not been ceased until these obligations are executed.

The rules concerning the spending of the society's funds shall not be applied in the period of liquidation.

In case of disputes between the partners in the course of the property distribution, the liquidators must cease the process of distribution until the disputes are solved in the right way.

- 14.4. The partners may transform a society of one legal form to another with maintaining the sharing and the subject of the society's activity. The transformation is permitted within the term of six months from the end of the economic year with regard for the beginning of the new economic year. The assets are to be put into the balance of the transformation with their old or market value.

The market value is to be verified by independent experts. For the transformation of the societies of limited responsibility, joint stock companies and cooperatives the simple majority of votes is necessary. In any other cases the decision is to be made unanimously.

- 14.5. The societies and individual enterprises may be integrated (merged). For the integration in the joint stock companies, the societies of limited responsibility and the cooperatives the simple majority of the votes is required. In any other cases the decision is to be made

unanimously. It should be noted in the decision on the merger whether one society is joining another one or both societies are integrating and founding a new society.

In case of deviations from the balance value in the process of merging, the value of the merger balance is to be specified by an independent expert. The rights and obligations of the partners should be determined by the decision on merger if these partners do not conduct their activity in accordance with the principles of their share in the authorized capital. The society which have joined the other society, as well as the new society are the successors of the rights of the former society (societies).

- 14.6. The enterprise incorporating several units may be divided into these units and, these units may continue the activity as independent enterprises with their own organizational and legal forms (division in kind). Such enterprises present separate organizational units with their own sphere of activity. Division in kind is permitted in the book cost. The higher cost is subject to the verification by an independent expert. The decision on the division in kind may provide for that the former partners were participating in the enterprise thus divided in kind with different shares.
- 14.7. The merging and division in kind is permitted only at the date, when the annual report is composed and with the six-months' retroactive effect - from this date.

Article 15. Legal Limitation. Terms of Appeal

- 15.1. According to the present law, the term of legal limitation of claims is 5 years from the moment of their appearance, the liquidation of a society or a partner's withdrawal unless otherwise provided by the legislation.
- 15.2. Appeal against the decisions made by the meeting of partners, the general meeting and the supervision council after two months from the date the minutes of the meeting are composed is impermissible.

Article 16. The Branches.

- 16.1. The enterprise can establish its branches which are not legal entities. The establishment of a branch is to be notified to the regional court at the location of the enterprise. The said court is to send the documents for registration to the regional court on which territory the branch is to be established.

The signatures as provided for by legislation should be made and deposited in the court, which registers the branch

Article 17. The Concerns and Allied Enterprises

- 17.1. Concerns are created in cases when an enterprise participates in the activity of another enterprise with more than 25% of share. The concern is not a legal entity. It has the rights and obligations as determined by the present article only.

17.2. In case the enterprise owns at least 5% of shares in another enterprise located in the Republic of Georgia, the enterprise - the owner of the 5% share must notify, in writing, the latter about it. In case the enterprise owns more than half of the shares in another enterprise, this enterprise (basic enterprise) should notify the other enterprise (non-basic enterprise) immediately, in writing, about it. The obligation to make the notification arises in cases as well, when the share is less than the share subject to notification. The enterprise which receives the notification may at any time request the document certifying the amount of the share.

17.3. If the enterprise owns not less than 50% of the shares of other enterprises located in the Republic of Georgia, the following obligations are placed on the basic enterprise:

- a) compensation of yearly damages of the non-basic enterprise;
- b) compensation of the property losses of the non-basic enterprise incurred because of the deals or some other actions performed by the basic enterprise; the compensation of the related payments for the third partners;
- c) making-up of the balance-sheet of the concern integrating it with the balance-sheet of the non-basic enterprise;
- d) declaration of the participation in the non-basic enterprise for the registration in the Enterprise Register.

17.4. If the enterprise owns not less than 75% of the shares in the other enterprise, the basic enterprise bears the responsibility before the non-basic enterprise and the third persons for the damages caused by the deals or some other actions.

The responsibility does not apply if the conscientious manager of an independent enterprise would act in the same way, in accordance with the requirements of article 9.7.

The enterprise and its representatives owning 75% of shares of the other enterprise bear the same responsibility for the obligations of the non-basic enterprise. The basic enterprise shall bear joint responsibility for the said obligations together with the enterprise where it owns 75% of the shares.

17.5. According to the present article, in order to win the majority, the indirect shares of the basic enterprise should be integrated. According to articles 17.2.-17.4., the integration of several enterprises on a contractual agreemental basis and thus the gaining by them of more than half of votes in the non-basic enterprise may also correspond to the circumstances of the predominant share.

17.6. An agreement according to which the bodies of one enterprise are subjected to the will of another enterprise is void.

17.7. Bilateral participation with more than 5% in the authorized capital of any society is impermissible. If such participation exists for more than three months' term, the exceeded sum should be exempted according to the rules of article 3.8.

Article 18. Publication and Confidentiality

- 18.1. An enterprise shall publish information and facts stated by the present Law in particular, the data of the Enterprise Register, the information concerning the share and the partners' meetings according to article 17.2. To publish other information, a preliminary consent of the supervision council (if such a body exists), or the decision of the partners' meeting is necessary upon the whole.
- 18.2. In other cases the content and the results of the meetings shall be confidential, if these results are not subject to publication or unless otherwise determined by the Regulations of a society. Confidentiality is not applied to the meetings of joint stock companies and general meetings of registered cooperatives. Besides, upon the whole, the bodies of societies may take the decisions concerning the abolition of the confidentiality.

Article 19. Other Rules: Notary Form, Data of Business Letter Form, Appointment of Experts.

- 19.1. All the agreements according to which the enterprises are established or liquidated, as well as the alterations to them require to be notarized. The deal which does not meet this requirement is void.
- 19.2. Business letters sent to legal entities and partners should contain the address and the legal form of the society, the registration body, the registration number and the amount of the society's authorized capital.
- In business letters of the societies of limited responsibility, joint stock companies and cooperatives the names of all directors should be pointed as well as the names of the chairman of the supervision council and the chairman of the directorate, if necessary.
- 19.3. "An independent expert" as determined by the present Law, is an auditor or an authorized partner of the society entitled by the State to verify the book-keeping and accounting of enterprises, in general, according to the principles internationally adopted. At the same time, this person or the society should be personally and financially independent from the enterprise subject to verification. If the parties cannot agree to appoint such a person or a society, the decision is to be made by the regional court acting on the territory where the enterprise subject to verification is located.

II. SPECIAL PART

CHAPTER ONE. Society of Joint Responsibility

Article 20. Definition

- 20.1. A society of the joint responsibility is a society where several natural persons carry out repeated and independent entrepreneurship jointly, under the same firm's name, and are

responsible before the creditors as joint debtors - directly, immediately, without any limitation and with their whole property.

20.2. Partners of the society of joint responsibility can be individuals only.

Article 21. Counter Claim of a Partner

21.1. In case any partner is presented with a claim concerning the obligations of the society, he (she) may present the counter claim within the society's rights only.

21.2. The partner may refuse to satisfy the creditor's claims until the society has the right to dispute the deal upon which the obligations of the society are based.

21.3. The same right shall remain in effect until the creditor's claim may be satisfied by the execution of the counter claim of the society (mutual offsetting of monetary counter claims).

21.4. In order to make a claim to the partner's property by enforcement, the creditor shall be authorized to get executive documents against the society as well as against the partners.

Article 22. Meeting of Partners

22.1. Decisions, the significance of which is beyond the limits of the society's routine operations are to be made by the meeting of all the partners of the society.

22.2. Any partner has the authority to call, within the term of one week, the meeting of the partners by sending registered letters. The letter should contain the draft agenda. Within three days' after the letter is received, the partners can make amendments to the agenda. The meeting is authorized to take decisions if the majority of the partners is present. If the meeting is unauthorized to make decisions, the partner who calls the meeting can recall it by the same way and with the same agenda. The second meeting shall be authorized to take decisions, even if the majority of the partners is not present.

22.3. The partners of the meeting shall elect the chairman from among themselves by a simple majority of votes. Each partner has one vote. If the decision is related to the dispute between the society and one of the partners, this partner shall have no vote. As soon as the decision is made, the chairman shall make up and sign the minutes.

22.4. The Regulations of the society may foresee the decision-making by a simple majority, if the present Law does not state that the decisions are to be made unanimously and, if the decision does not place one of the partners in unequal position and does not affect his (her) essential interests.

Article 23. Management of Society

Unless otherwise determined by the Regulations of the society, any partner is authorized to manage the society's operations, which they conduct, if necessary, individually, if in individual cases no partner objects. In this case the above form of the management shall not apply.

Article 24. Partner's Right of Supervision

Any partner, even if he (she) is not participating in the management of the society, may be personally acquainted with the society's affairs and with this purpose check up books and documents of the society. He/she shall be entitled to the demand from other partners the execution of their obligations before the society and to lodge a claim against them with regard to the above.

Article 25. Profit and Losses

- 25.1. Annual profit and losses shall be fixed and each partner's share calculated at the end of the economic year, on the basis of the balance.
- 25.2. The share of a partner's profit shall be added to his (her) share in the authorized capital; the losses of a partner and the money spent from his (her) share of the authorized capital shall be withdrawn from his (her) profit.

Article 26. Distribution of Profit and Losses

- 26.1. Each partner shall have, first of all, the share of the annual profits in the amount of 4% of his (her) share in the authorized capital. If the annual profits are not enough for this, his (her) share is to be calculated by the lower interest rate accordingly.
- 26.2. According to article 26.1., in calculating the share of a partner's profits, the activity performed by the partner during the economic year - as a contribution - should be taken into consideration. If the partner spends the money from his (her) share in the authorized capital, then the spent money, in proportion to the period passed before this operation is to be taken into consideration.
- 26.3. The part of the annual share of profits that exceeds the sum of the share of profits calculated according to articles 26.1. and 26.2. and the losses incurred during the economic year are to be distributed between the partners and added to their shares to the authorized capital. The Regulations of the society may foresee other rules as well.

Article 27. Spending of Money by a Partner

- 27.1. A partner has the right to get the money from the society's cash-office in amount up to 4% of his (her) share to the authorized capital fixed at the previous economic year for his (her) own needs and, if it does not cause the obvious damage to the society, the partner may demand the payment of his (her) share from the profits of the previous year, which may exceed the above mentioned sum of money. The Regulations of the society may provide for other rules as well, in particular, the decision of the partners' meeting concerning the spending of money.

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27.2. In other cases a partner has not the right to reduce his (her) share of the authorized capital without the consent of other partners of the society.

Article 28. Reasons for Liquidation

The society of joint responsibility shall be liquidated in the following cases:

- a) the term of its activity has expired;
- b) by the decision of the partners;
- c) by the bankruptcy proceedings of the society;
- d) by the verdict of the Court.

Article 29. Liquidation by the Verdict of the Court

29.1. The societies established with the limited as well as unlimited terms may be liquidated on the basis of the declaration of a partner and by the verdict of the Court if an important reason for such a decision exists.

29.2. An important reason is, if a partner violates, intentionally or through gross carelessness, his (her) obligations imposed on him(her) by the Regulations of the society, or of it becomes impossible to execute the obligations.

29.3. Any agreement according to which a partner is deprived of the right or against the said norms his rights to demand the liquidation is restricted shall be void.

Article 30. Alienation of the Share in Capital

A partner may alienate his (her) share in capital if other partners of the society gave prior consent or the alienation is permitted by the Regulations of the society. The notarized agreement on the alienation containing the consent of other partners of the society is needed. Without the said consent the agreement is void.

Article 31. Withdrawal or Bankruptcy of a Partner.

31.1. If a partner expresses his (her) wish to withdraw from the society or, the bankruptcy proceedings on his (her) property start acting, the partner is considered withdrawn from the moment the above fact comes into the force.

31.2. If a partner violates, intentionally or through gross carelessness, the obligations imposed on him (her) before the society, or it becomes impossible to execute the obligations, or there are some other important reasons, the Court can, by the request of other partners, take the decision on his (her) discharge from the society.

Article 32. Relationships after Withdrawal of a Partner

- 32.1. In case of a partner's withdrawal or discharge from the society, his (her) share in the society's property is to be added to the shares of other partners of the society.
- 32.2. All the other partners of the society are obliged to free the withdrawing or discharged partner from the debts of the society and to pay the sum that he (she) would receive in case of the society's liquidation. The withdrawing or, discharged partner loses the right to claim guarantees.
- 32.3. The property of the society is to be valued at the date when the withdrawal and bankruptcy proceedings come into force, or the claim on discharge is submitted for. The requirement should be executed upon presentation of the balance of claims and liabilities.

Article 33. Death of a Partner

- 33.1. In case of the death of a partner who has no successors, his (her) share is to be added to the shares of other partners of the society.
- 33.2. If according to article 33.1. the partner has successors, each of these successors can remain at the society depending whether he (she) is granted the status of a partner, and whether the share of the deceased membership fee will be counted on his (her) credit as the partner's contribution. Unless the Regulations of the society determine otherwise, the share of the partner's profit shall be determined according to the successor's share from the former partner's membership fee.
- 33.3. If all the other partners of the society do not receive appropriate application of the successor, the successor shall be authorized to declare about his (her) withdrawal earlier than the fixed date comes.
- 33.4. The successor should make the declaration within the term of three months from the moment when he (she) accepts inheritance. If the successor does not become the member of the society as a joint responsible partner, he (she) shall bear responsibility for the debts of the society according to the rules determining the successor's responsibilities for the will obligations, until his (her) status is defined.
- 33.5. It may be foreseen by the Regulations of the society, that one or several successors may become partners of the society. In such cases the successor (successors) shall accept the status of a partner by the power of special authority and he/she (they) shall be obliged to pay the corresponding compensation to other successors. The obligation of the payment of compensation may not be foreseen by the Regulations of the society.

CHAPTER TWO. Limited Partnership

Article 34. Definition

- 34.1. A society where several persons jointly carry out multiple and independent entrepreneurship jointly and they have the firm's name, is the limited partnership, if the responsibility of one or

several partners before the creditors of the partnership is framed by the payment of the fixed guarantee sum and the responsibility of other partners is not limited (personally responsible partners).

- 34.2. Together with the rules mentioned in the general provisions of the present Law, the rules for the society of joint responsibility are used in respect to limited partnership, unless otherwise stated by the present Chapter.
- 34.3. Personally responsible partners (complementars) of the limited partnership can be individuals only.

Article 35. Prohibition of Competition

The prohibition of competition should not be applied to partners, unless otherwise stated by the Regulations of the society.

Article 36. Partner's Right Verification

- 36.1. The partner has the right to demand a copy of the annual report and check up its correctness according to the books and documents of the society.
- 36.2. The Court may, on the basis of the declaration of a partner, demand the presentation of the data of balance-sheets, annual report, other information and the books and documents of the society at any time, if the important reasons exist.

Article 37. Management of the Society.

- 37.1. Partners do not participate in the management of the society; they cannot have objections against the actions made by the personally responsible partners within the framework of the routine operations. If the said actions are beyond the frames of routine operations, the decision of the partners' meeting is needed to solve the matter.
- 37.2. If on the basis of the agreement a partner is authorized to execute juridical actions, beyond the frames of the general proxy, he (she) shall be responsible as a director of the society of limited responsibility.

Article 38. Profits and Losses

- 38.1. Provisions of article 25 concerning the calculation of profits and losses shall apply towards the partners as well.
- 38.2. A partner shall be responsible for losses within the volume of his (her) share and the unpaid fee only.
- 38.3. The share of a partner's profit is to be added to his (her) share of capital unless it reaches the agreed rate of the payment.

Article 39. Distribution of Profits and Losses

- 39.1. The share of partners in the profit is determined according to articles 26.1. and 26.2. of the present Law, unless the profit exceed < 4% of the share of the capital.
- 39.2. The profits and the losses of the economic year, exceeding the said amount, are to be distributed proportionally between the partners, unless otherwise stated by the Regulations of the society. An defining the proportion of the distribution, the partners' shares in the capital as well as their legal status should be taken into consideration.

Article 40. Use of the Profit by a Partner.

- 40.1. Article 27 of the present Law should not be applied to the partners.
- 40.2. A partner has the right to demand only his (her) due profit. He (she) has not the right to demand the profit until his(her) share in the capital is less than the agreed amount because of the losses or settlements.
- 40.3. The partner is not obliged to return the received profits because of future losses.

Article 41. Responsibilities of a Partner.

- 41.1. The guarantee sum of a partner in respect to the creditors of the society is determined according to the sum fixed in the Enterprise Register, if this sum has been already paid. In other cases articles 3.3.-3.5. shall apply.
- 41.2. Creditors may take into consideration the unregistered increase of the sum fixed in the Enterprise Register only in cases, if such an increase becomes known by rules adopted in the business relationships or the society notifies them by other sources.
- 41.3. The partner is not obliged to return the money received as the profit calculated on the basis of properly composed balance-sheet. In other cases article 3.6. shall apply.

Article 42. Responsibility of a Partner in Jointing the Partnership

Article 41 concerning the responsibility shall apply to the person who has in become a partner in the already established society.

Article 43. Transfer or Succession of a Partner's Share

- 43.1. The share of a partner may be transferred or succeeded without the consent of other partners, unless otherwise stated by the Regulations of the society.
- 43.2. A notarized agreement is required for the transfer of the share.

CHAPTER THREE. Limited Liability Company

Article 44. Definition

A society, responsibility of which is limited with its whole property and the responsibility of its partners are limited within their shares in the authorized capital, is a limited liability company. The limited liability company may be established by one person too.

Article 45. Authorized Capital. Contributions.

- 45.1. The authorized capital of the society is to make up at least 1000 USD in equivalent of the national currency unit.
- 45.2. The rate of contribution for individual partners may be determined differently, but it must be divided on 10 exactly.

Article 46. Rights and Obligations of a Partner.

- 46.1. A partner may transfer and succeed his (her) share.
- 46.2. If a partner acquires another share in order to add it to his (her) initial share, each shares, shall keep its independence.
- 46.3. The transfer of the share by a partner requires a notarially certified agreement. A notarial certificate is needed for the deals concerning the partner's obligations in transferring the share.
- 46.4. The Regulations of the society may include other terms and conditions for the transfer of the share in particular, a permission of the society or a decision of the partners' meeting may become necessary.
- 46.5. The transfer of a part of the share is possible by permission of the society only. The said permission should indicate the person receiving the share and the sum received in accordance with each share arisen in the result of the division of the integral sum. The provisions of article 45.2. concerning the amount of the fee shall apply to the division of the share accordingly.
- 46.6. Acquisition of the own share is impermissible.
- 46.7. Besides the contributions by the partners, the Regulations of the society may determine the procedure for making extra payments. Extra payments should be in proportion with the shares.

The increase of the payments placed on a partner by the regulations of the society is permitted with consent of other partners only.
- 46.8. The partners whose whole share constitutes of the 1/20 part of the authorized capital are authorized to calling the meeting of the partners with the indication of the purposes and reasons of the calling. If their request has no response or, the persons towards which the above request is forwarded are absent, the partners may, proceeding from the

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circumstances, call the meeting themselves. The meeting will solve the issue concerning the expenditures related to the calling.

46.9. The partners shall supervise the management of the society.

46.10. The directors of the society shall immediately inform the partners, on the basis of their request, about the society's activity and permit to acquaint themselves with the books and the records of the society.

The directors may refuse to provide such information if there is fear that it may be used to the detriment of the society and its subsidiaries partners' decision.

The decision on issuing the information by the directors is to be made by the Court if it so applied. The right to appeal shall belong to the partner who has been refused the information and acquaintance with he books and records of the society.

Article 47. Meeting of Partners.

47.1. The meeting of partners is held at least once a year to take decisions about the annual results, unless the partners use their right foreseen in article 47.7. The directors must call the meeting if the interests of the society require so or the partners request to call the meeting as per article 46.8.

47.2. Amendments to the Regulations of the society may be performed by the decision of the partners only. The said decision requires the simple majority of votes and the notarial verification.

47.3. Unless Regulations of the society include other provisions, the meeting of the partners shall be authorized to take decisions for all issues, in particular:

- a) determination of the general principles of the economic policy;
- b) acquisition and transfer of shares as well as acquisition, transfer and liquidation of enterprises;
- c) starting and cessation of various forms of entrepreneurship and economic activity;
- d) establishment and liquidation of the branch enterprises;
- e) acquisition, transfer and burdening of the immovable property;
- f) investments, the value of which separately or jointly, to exceeds 10% of the balance sum of the previous year in one economic year;
- g) taking loans and credits which separately or jointly exceed the norm fixed by the meeting of partners;
- h) insurance of loans and credits being outside the routine economic activities;
- i) determination of the principles of participation of the managers in the profits and general incomes as well as of issuing pensions to them;
- j) issuing and cancellation of procurations;

- k) use of extra rights of the society or of the management regulations to the partners and directors; representation of the society in the processes against the directors;
 - l) approval and use of the annual results;
 - m) demands for the payment of the fees;
 - n) return of extra fees;
 - o) appointment and discharge of directors, conclusion and cancellation of labour contracts with them, approval of their reports.
- 47.4. All decisions importance of which is outside the routine operations of the society shall be made by the meeting with the attendance of all partners unless otherwise stated by the Regulations of the society. The Regulations may provide for giving separate instructions to the management by the meeting of partners within the competence of the management.
- 47.5. The directors may, within the term of one week, call the meeting of partners by sending registered letters. The letter should contain the draft agenda. During the three days' term from the moment the letter is received, the partners can make amendments to the agenda. The meeting is authorized to make decisions if the majority of the partners is present. If the meeting is unauthorized to take decisions, the director who has called the meeting may recall it with the same agenda. The second meeting is authorized to take decisions even if the majority of the partners is not present.
- 47.6. The meeting must be called immediately if the annual balance-sheet or the balance composed during the year shows that the society may loss half of its capital.
- 47.7. It is not necessary to call the meeting if all the partners send their written consent concerning the issue under consideration.
- 47.8. It may be foreseen by the Regulations of the society that the decision is to be taken by the majority of the votes, unless the present Law determines the taking of decisions unanimously and the content of the decision creates inadequate state of a partner and restrict his (her) essential interests.
- 47.9. The minutes of the meeting is to be composed after the decision is taken by the partners. The chairman of the meeting must sign the minutes.

Article 48. Supervisory Council

Establishing of the supervisory council may be foreseen in the Regulations of the society. In such cases the rules of the present Law concerning the supervisory council of joint stock companies shall apply.

Article 49. Directors

49.1. Management and representation of the society are placed on the directors according to article 9 of the present Law.

49.2. The directors should realize their tasks fairly and sincerely, as real businessmen do, as per article 9.7.

Article 50. Annual Results

Partners shall have the right to receive annual undistributed profits including the remainder less losses, if the present Law or the Regulations of the society or the decision of the partners permits to distribute this sum between the partners.

When taking the decision on the use of the results, the partners may deposit the money at the discounts or introduce it as the profit, unless otherwise determined by the Regulations of the society.

Net annual profit is to be distributed proportionally with the shares. Article 57.2. shall be applied accordingly.

CHAPTER FOUR. Joint Stock Company

Article 51. Definition. Book of Company.

51.1. Joint stock company is a society with the authorized capital distributed on shares. The minimum nominal value of the authorized capital makes up to 1000 USD in equivalent of the national currency unit and the nominal value of a share is 1 USD in equivalent of the national currency unit or its multiple.

51.2. The joint stock company must perform the registration of all the documents belonging to it (the book of company). The registration covers the Regulations of the company, any kind of information necessary for the registration and all the shares. If the shares are issued in the form of the share card, there shall be registered the date, of issue, nominal value and the number of the card in the registration book. If the cards are not issued, the registration made in the book of company replaces it. In such cases the shares are to be issued as inscribed shares.

Any record in the book of company is to be signed by all the directors and the chairman of the supervision council.

Article 52. Types of Shares. Other Forms of Securities Capital

52.1. Ordinary shares may be issued as both bearer's shares and inscribed shares. The inscribed shares can be transferred by endorsement on the card or, if the cards are not issued by notarized agreement and the registration in the book of company.

The issued ordinary shares' minimum nominal value ensures one vote at the general meeting, if needed.

52.2. Until the general nominal value of the ordinary shares is reached, the preference shares can be issued with higher dividends than in ordinary shares but without the voting rights at the general meeting; despite this, according to the second paragraph of article 52.1., the share

of nominal value shall ensure one vote if in previous economic years a shareholder did not use his preferential rights. The preference shares should be issued as the bearer shares only.

- 52.3. The transfer of the inscribed shares to other person shall be subject to the consent of the company. The necessity of the consent should be indicated in the Regulations of the company, the card and the book of company. The consent shall be granted unless it endangers the essential interests of the company. The Regulations of the company may regulate in details the questions related to the consent. The consent is to be granted by the directors by permission of the supervising council.
- 52.4. The joint stock company may, in order to form the authorized capital with the consent of the National Bank, issue debentures as bearers and inscribed stocks, as well as debentures of the conversion loan with the right to convert them into the shares, and optional loans with the right to receive further the bearer and inscribed shares. If the rights to these securities are not pointed in the share cards but are registered in the book of the company only, these rights can be fixed to the owners names.
- 52.5. The shares of the company and other securities are issued for the nominal value at least. In cases when they are issued with higher value than the nominal is, after discounting the expenses, the difference remains and is added to the reserve funds. The same rule applies in the case of non-monetary payments as well, when the payment sum exceeds the nominal value.

Article 53. Rights and Responsibilities of Shareholders

- 53.1. The most important obligation of shareholders is the payment of fees for getting the certain of shares. Proceeding from the interests of the company, the Regulations can foresee some other obligations as well requiring the consent of the shareholders.
- 53.2. The share of shareholders in the profits shall be determined according to the nominal value of a share, taking into consideration the preferential rights. Obligations arising from other securities should be executed first.
- Uncompleted payments participate in the distribution of the profits in proportion to their amount. The fees paid during the economic year participate in the distribution from the date the payment is performed, in proportion of 1/365 of the profits, unless otherwise determined by the Regulations.
- 53.3. Usually the shareholders execute their rights (voting right, right to receive information, right of verification, right to call an extraordinary general meeting (article 15.2.)) at the general meeting.
- 53.3.1. The shareholder has the right to ask the directors and the supervising council for the explanation of any item of the agenda and express his (her) opinion. If the inquiry is made in written form ten days before the meeting, it should be performed or discussed as one of the issues of the agenda. Refusal to grant the information is possible on the basis of the essential interests of the company only.

53.3.2. Shareholders - owners of 5% of the authorized capital at least, have the right to demand a special check of the economic activity and the annual balance if they consider that there are certain violations. In case their demands are not satisfied by the general meeting, the decision on the special check may be made by the regional court on the territory where the concrete company is located.

53.3.3. Shareholders - owners of 5% of the authorized capital, have the right to demand the calling of a special meeting if the interests of the company so require. The demand is to be motivated in written form. If the directors do not hold the meeting within 20 days from the date the demand is made, the shareholders may appeal to the regional court on the territory where the concrete company is located.

53.4. Shareholders may use their voting right in their personal interests except the cases where the decision relates to the deals with them or to their discharge.

Article 54. General Meeting

54.1. Regular general meetings are held yearly, within the term of two months after the annual balance has been composed where the annual results and other possible subjects of the agenda are considered. In other cases an extraordinary general meeting is to be held by the directors or the supervising council or at request of the shareholders, according to article 53.3.3.

54.2. The general meeting is to be called within the term of 20 days after the directors have sent notification to the shareholders or published the notification in mass-media sources at the latest juridical address recorded in the book of company or, at any other place on the territory of the Republic of Georgia. The said notification should include the agenda and the recommendations of the directors and the supervising council in order to take decisions. Possible amendments to the Regulations of the company should also be declared in advance.

54.3. A shareholder by introducing the share or, if the share is not provided for, by some other certificate, shall prove his (her) right to participate in the activity of the meeting and to vote. Representation by proxy in writing is permitted. The Regulations may, as an amendment, foresee keeping the share at the notary office or at the bank, which grant the shareholder a proper document to be kept at the company.

54.4. The general meeting is guided by the chairman of the supervising council. In case of his (her) absence the meeting is headed by the deputy-chairman. In case of absence of the deputy-chairman the meeting is headed by one of the directors. The minutes of the meeting are to be composed by a notary.

54.5. The general meeting is authorized to take decisions if at least half of the owners of the authorized capital or their representatives are present. If the meeting is unauthorized to take decisions, within the term defined by the chairman, but not more than eight days, a new meeting is to be called with the same agenda. The said meeting is authorized to take decisions despite the declared or submitted capital quota.

54.6. The general meeting is authorized:

- a) to make amendments to the Regulations of the company, in particular, the authorized capital, firm's name, the subject of activity, and to solve the question of its liquidation;
- b) to take decisions on the issuance of shares and stocks at the stock market;
- c) to take decisions on the merging other societies;
- d) to cancel completely or partially the right of the preferential purchases of the shares in increasing of the authorized capital (article 59) and when realizing the measures according article 52.4.;
- e) to adopt or reject proposals of the supervising council or directors concerning the use of the profits or to take decision concerning the use of the net profit, if the said bodies cannot present a mutually agreed proposal;
- f) to elect representatives of the shareholders at the supervising council;
- g) to approve the report prepared by the directors and the supervising council;
- h) to handle the salary issues of the members of the supervising council;
- i) to elect the auditor and the special controller;
- j) to take decisions on the participation in the court proceedings against the directors and the supervising council members; to appoint its representative for the above action;
- k) to take decisions on other cases foreseen by the present Law.
- l) On any other issue not included in the present article the decisions are to be made by the directors or the supervising council.

54.7. In order to take decisions on the issues as per article 54.6. more than 50% of the present owners of the corresponding shares with the voting right is required.

Article 55. Supervising Council

55.1. The supervising council consists of not less than three and not more than twenty one members. At the same time, the number of members must divide by three. 2/3 of the members are elected by the general meeting, and 1/3 may be elected from among the personnel (the rule of electing the supervising council members from the personnel is to be determined by special voting instructions by the general meeting).

55.2. Each member of the supervising council is elected for four years, but their authority shall be prolonged until the next regular meeting is called. Discharge until the expiry of the term is possible only if there are essential reasons to do so. Any member of the supervising council may leave it at any time. If after six months from the date a member left the board a new member is not elected, the regional court on the territory where the company is located may, by declaration of a shareholder or a director or a member of the observation, board appoint a new member.

- 55.3. A member of the supervising council shall not be entitled to act as a director at the same time. He (she) as a representative of shareholders must be an experienced person in the economic activity.
- 55.4. The supervising council elects the chairman and deputy-chairman from its members. If the decision is not reached the regional court on the territory where the concrete company is located, shall take such a decision.
- 55.5. The chairman (the deputy-chairman when the chairman is absent) calls the meetings and determines the agenda. The minutes are to be prepared by the chairman or the secretary of the meeting.
- 55.6. The meetings of the supervising council are to be held not less than once a quarter. The notification is to be sent in writing, with the intended agenda, not later than before eight days. The members of the supervising council may be represented by other members of the council. One member may be presents one member only.
- 55.7. The supervising council is authorized to take decisions if more than half of the members are present. If the supervising council is unauthorized to take decisions, the chairman (deputy-chairman in case of the chairman's absence) may, within the term of three days, call a new meeting. The new meeting is authorized to take decisions despite the number of the members present.

The supervising council takes decisions by simple majority of votes of the present or attended members. Each member has one vote. Article 53.5. shall apply accordingly.

- 55.8. Tasks and competence of the supervising council are the following:
- a) the observation board supervises the activity of the directors;
 - b) the supervising council may, at any time, demand the reports of the directors concerning the company's activity including the relationships with the affiliated enterprises;
 - c) the supervising council may demand and check up the book-keeping of the company as well as its property objects, in particular the cash-office and the state of securities any goods, it may engage individuals or experts to execute this activity;
 - d) the supervising council calls the general meeting if it is necessary for the company;
 - e) the supervising council checks the annual reports, proposals for the distribution of the profit and informs the general meeting accordingly. The council should indicate how and in what volumes it has checked the activity of the managers of the company during the previous year, what parts of the annual report it has checked up and whether these checks caused significant changes of the final results.
 - f) the supervising council may appoint and discharge the directors, conclude and cancel labour contracts with them;
 - g) the supervising council is authorized to represent the company in deals with directors and be against the disputable aspects related to the activity of the company and adopted by the general meeting. The board may, if it is a matter of the responsibility of its

member, claim against the directors without or contrary to the decision of the general meeting;

- h) the functions of the directors should not be delegated to the members of the supervising council.
- i) The following activities should be performed exclusively with the consent of the supervising council:
 - j) acquisition and transfer of capital investments as well as the transfer and cessation of the enterprises' activity;
 - k) acquisition, transfer and burdening of the immovable property and property rights;
 - l) formation and liquidation of the branches;
 - m) planning of annual budget as a planned balance and a profit and losses plan as well as an investment plan, the assessment of obligations proceeding from long-term legal relationships;
 - n) investments, which purchase value exceeds, separately or as a whole, 10% of the sum of the annual balance for the previous year;
 - o) taking of credits and loans in a higher amount than fixed by the council;
 - p) security of credits and loans if they are outside the routine economic activity. Such a security shall not apply to the directors and the members of the supervising council;
 - q) beginning and cessation of economic activity and productions;
 - r) determination of general principles of the economic policy;
 - s) determination of the principles of participation of the managers in the profits and other related relations as well as the granting of pensions to them;
 - t) appointment and discharge of trade representatives (procurators).

55.10. With respect to the responsibilities of the supervising council article 56.4. shall apply.

Article 56. Directors

56.1. The management and representation of the company shall be duty of the directors.

56.2. The authority of the directors shall be determined by the instructions approved by the supervising council. If such instructions do not exist, the general principles of management shall apply.

56.3. The directors represent the joint stock company at the Court and in other relationships.

If more than one director is appointed and unless otherwise determined by the Regulations of the company, the directors shall make deals and sign the documents only jointly. A director may be granted a special authority to make separate deals and to guide a certain activity. In order to express one's will towards the company, it is enough to express such a will towards one director.

In case more than one director guide jointly the company's activity, the Regulations may foresee that one of them is granted the authority to represent the company independently or together with the trade representative. But, at the same time, it should be possible for the directors to represent the company independently, without trade representatives.

- 56.4. The directors must perform their activity fairly and diligently. If a director does not execute his(her) obligations, he(she) shall compensate the damages while the directors shall bear joint responsibility. In case the fact of damage is established, the directors shall prove that they have guided the company's activity fairly and diligently. The company may not refuse to claim the compensation. This claim may be used by the creditors of the company if they do not receive the compensation from the company.

Article 57. Annual Report and use of Profits. Property Preservation Commitment

- 57.1. The directors shall draw up the annual report and the progress report, a proposal on the distribution of profits for the presentation at the supervising council. If the profit distribution plan is not adopted and, the directors and the supervising council cannot agree about the distribution, the proposal concerning the distribution of the net profit may be put forward at the general meeting.

All the net profit may be remain at the enterprise and foreseen in a new report.

- 57.2. The shareholders shall not be granted with the other benefits except the dividends. In case of violation of this rule, a shareholder who received a benefit shall be obliged to return it or compensate in cash the caused property damages. The directors and the supervising council shall be jointly responsible before the company for the violation of this principle. The general meeting cannot reject the use of this right. This right may be used by creditors of the company if they do not receive the compensation from the company.

Article 58. Auditing

- 58.1. A regular general meeting shall elect an auditor yearly at the proposal of the supervising council. The auditor must be independent economically and juridically from the company, the directors and the shareholders.
- 58.2. The auditing covers the check of accounting, the annual report and proceedings. The information about any emergency case, especially in the business relationships with other enterprises must be provided to the shareholders. The usual annual report is to be checked by the audit certificate. The certificate should certify that the necessary auditing was executed according to the book of company and other documents as well as on the basis of the explanations and arguments of the directors, the annual report and the progress report, if the latter contains the annual report in accordance with the rules foreseen by the present Law. The auditors should indicate the day and the place of the check-up.
- 58.3. The responsibility of the audit shall be determined according to article 56.4. of the present Law.

Article 59. Measures for Acquiring Capital. Increase of the Capital from Company's Funds

- 59.1. The decision concerning the increase of the authorized capital should determine the nominal sum, the possible high sum of expenses, the distribution of securities, the types of shares and the term of increase. In case of non-monetary payment, the conclusion on the valuation made by an independent expert should be presented in the Enterprise Register for public control.
- 59.2. The general meeting may increase the capital in permitted forms, i.e. the directors are authorized to increase the authorized capital of the company completely or partially, up to the sum pointed out in the decision by issuing new shares within five years with the consent of the supervising council. The decision should foresee whether the increase relates to the preference, ordinary or bearer and inscribed shares and what amount.
- 59.3. According to article 52.4, the decision on the measures on acquiring capital may also be adopted in the form of the permitted capital if the prerequisites of article 59.2. exist.
- 59.4. According to article 52.4., the general meeting may take a decision on the issue of the conventional capital to provide shares to the personnel, to fulfil the measures of acquiring capital, and because of merging. The decision should define the term and the prerequisites of the use of the terms and conditions in such a way that these terms and conditions should not depend upon the directors and the supervising council. Besides, the said decision should determine the form of the shares granted.
- 59.5. The permitted capital may be issued only in the amount of 50% of the ordinary or preference shares; the conventional capital should be issued only in the amount equal to the sum of the securities as per article 52.4., or not more than the total sum of the authorized capital.
- 59.6. The question concerning the increase of the capital may be solved by transferring the reserve funds into the authorized capital. In this case the prohibition of the shareholders' preferential right to purchase shares shall not apply.
- 59.7. In any case of acquiring the capital or increasing the securities by measures as per article 55.1., the shareholders shall have the preferential right of acquiring shares in proportion of nominal sums, which is determined according to the value of the increased capital. In case the ordinary or preference shares are issued or the shareholders are granted with the rights determined by article 55.1., the preferential rights shall be granted to the ordinary and authorized shareholders only. The decisions concerning the exceptions to this rule are to be made by the general meeting according to articles 54.6. and 54.7.

CHAPTER FIVE. Cooperatives

Article 60. Definition

- 60.1. Cooperative is a society based on the labour activity of its members or established for developing the economy and increasing the profits of its members. The cooperative is not directed to the gaining of profits mainly.

The following entities belong to cooperatives:

- a) cooperatives obtaining raw materials to meet their members' needs;
- b) cooperatives which realize jointly agricultural and trade production;
- c) cooperatives which produce agricultural as well as other goods and realize them with integrated expenditures (agricultural and industrial cooperatives);
- d) cooperatives which buy consumer goods by retail and realize them by wholesale trade (consumer cooperatives);
- e) cooperatives which buy, use and realize jointly material and technical resources necessary to produce agricultural and trade goods.

60.2. Members of a cooperative have the right to participate in the activity of another cooperative if the latter is aimed to develop the economy and to support the members of the said cooperative in gaining their profits.

60.3. The cooperative is responsible for its obligations before the creditors with its own property only.

Article 61. Share. Membership.

61.1. The minimum share of a cooperative member shall be determined by the founders. Each share should be divided by 50 exactly. One member of the cooperative may have several shares.

61.2. After the registration of a cooperative in the Enterprise Register, one can become its member if he (she) presents the signed and notarized application on membership in the cooperative.

In admitting a new member the board of the cooperative should pass the said application to the Enterprise Register. The membership comes into force from the moment of registration of the application in the Enterprise Register.

61.3. The application should unambiguously reflect the obligation of the member to make the fixed payments in accordance with the Law and the Regulations. If the Regulations determine that the members of the cooperative must do extra, limited or unlimited payments up to the amount of the guarantee sum, the application should so reflect.

Article 62. Withdrawal from the Cooperative

62.1. Each member of the cooperative has the right to withdraw from the cooperative if he (she) so applies. The withdrawal is permitted at the end of the economic year only. The application

should be done in writing, not later than three months prior to the withdrawal. The Regulations may establish a longer term, but not more than five years.

- 62.2. If an amendment introduced to the Regulations significantly changes the subject the cooperative's activity, the withdrawal shall be permitted for:
- a) any member of the cooperative who participates in the general meeting and fixes his (her) dissent concerning the amendment in the minutes of the meeting or if its entry to the minutes was declined;
 - b) any member not present at the meeting because he (she) was not allowed, or the meeting was not called properly, or the decision concerning the amendment was not announced properly.
- 62.3. The withdrawal from the cooperative in the cases as per article 62.2 should be executed in writing. The application is to be made within one month from the date the information concerning the decision is received; the withdrawal shall be executed at the end of the economic year.
- 62.4. A cooperative member may be discharged from it because of his (her) membership in another cooperative which operates at the same territory and carries out the same activity. The discharge shall be executed by decision of the board at the end of the economic year. The Regulations of the cooperative may establish other reasons for discharge as well.
- 62.5. The board shall present the information on the withdrawal of its member to the Enterprise Register not later than six weeks before the end of the economic year. A document certifying that the withdrawal has taken place in time should also be provided.
- 62.6. The substantiated reason of the withdrawal of a member should be recorded in the list of the members immediately. A member is considered withdrawn from the moment the corresponding registration is made in the Enterprise Register.
- 62.7. The final settlement with the person withdrawn shall be performed on the basis of the balance on the day of the withdrawal. If the withdrawal takes place during the economic year, the final balance should be taken into account. The profits of the withdrawn member shall be compensated within six months. According to paragraph 3 of the present article, the mentioned member has not the right to claim for the reserve funds and other property of the cooperative.
- If the whole property including the [profits and the reserve funds of the withdrawn person is not enough to cover the debts, the said person must compensate the difference from his (her) own monetary sources is to be calculated with taking into consideration the number of the cooperative members, unless otherwise determined by the Regulations.
- The Regulations may foresee that the members who have already paid their shares completely would be entitled to claim their shares back from the reserve fund created for these purposes on the basis of yearly differences. This claim may depend on the length of service of the member. The Regulations may provide for other terms and limitations as well.
- 62.8. Any cooperative member may, at any time, and within the economic year transfer his (her) share to any person, by a written agreement, and thus withdraw from a cooperative without

the final settlement if the said person becomes or is a member of the cooperative. The Regulations may prohibit or permit such a transfer of shares with additional terms and conditions. The board of the cooperative must present the agreement to the Enterprise Register immediately. The transfer performed should be recorded in the list of the cooperative members immediately; the day of registration is considered the date of withdrawal.

- 62.9. In the case of the death of a member his (her) membership rights shall pass into the hands of the successors. The membership shall end at the end of the economic year when the successor has received the rights of the former member. Several successors may execute their voting rights through one authorized representative.

The Regulations may provide for that in the case of the death of a cooperative member, his (her) successors become members of the cooperative. But, it may depend on the personal features of the successors. In the case of several successors, the membership may be terminated if the hereditary rights are not passed to one of the successors within the terms fixed by the Regulations. The board of the cooperative shall notify the Enterprise Register about the death of its member to register the fact in the list of the cooperative members.

Article 63. General Meeting

- 63.1. Members of the cooperative shall execute the rights of their activity at the general meetings unless otherwise determined by the Law.

- 63.2. The general meeting shall take decisions by the simple majority of votes unless more votes or some other requirements are determined by the Law or the Regulations.

The Regulations may provide for an exceptional procedure.

- 63.3. Each member has one vote. The Regulations may provide for several votes for each member as well for the members who make great contributions to the activity of the cooperative. The terms and conditions of establishing the right of several votes for one person should be determined by the Regulations. However one person shall not have more than three votes.

- 63.4. A cooperative member shall personally exercise his right to vote. The right to vote of incapable natural persons or the persons with restricted capability as well as the right to vote of legal persons shall be exercised by their legally authorized representative, while the right to vote of a joint liability company and a limited partnership shall be exercised by a person authorized for the representations.

A cooperative member or his (her) representative may issue a proxy for voting. The proxy shall be issued in writing. The authorized person shall be entitled to replace two members at most. The proxy may provide for the authorized person personal preliminary conditions, namely the exclusion of the authority of those persons executing their voting right as an activity, or the complete exclusion of the representation by proxy.

63.5. No person shall have the right to execute his (her) or other person's voting right if there is a decision to hear his (her) or his (her) representative's report, or that he (she) is to be released from the obligations, or the cooperative is to claim against him (her) or his (her) representative.

63.6. The general meeting shall be called by the board unless other officials are authorized by the Regulations to do it.

The general meeting shall to be called than once a year at least except special cases foreseen by the Regulations and the present Law when the interests of a cooperative require so.

63.7. The general meeting should be called immediately if 1/10 of the cooperative members or the less number of members as per the Regulations require it in their signed application. The application should include the concrete reason for the calling.

If the requirement is not met, the regional court acting on the territory where the cooperative is located may authorize the persons who demand for the meeting to call it or announce the agenda. The said authority should be published.

63.8. The general meeting shall be called not less than three weeks before the date fixed and published in one of the official newspapers of the Republic of Georgia or in the newspaper determined by the Regulations.

The agenda of the general meeting shall be announced at the moment of the calling. The decisions not being announced within three days before the meeting shall not be considered, except the cases when they relate to the procedures and the calling of an extraordinary meeting.

63.9. The decisions of the general meeting shall be put down in the minutes of the meeting. The minutes should include the day and the date of the meeting, the name of the chairman, the types and results of voting, the chairman's instructions concerning the decisions and other items.

The minutes shall be signed by the chairman and the members of the board present. The minutes are enclosed with other materials of the meeting.

Any member shall be allowed to acquaint himself with the minutes. The minutes shall be kept at the cooperative and the Enterprise Register should be informed about them.

63.10. The general meeting approves the annual balance. It takes decisions on the usage of the annual profit or covering the annual losses, the approval of the reports of the board and the supervising council.

The general meeting shall be held during the first half of the economic year.

The annual balance-sheet, the report concerning the routine activity and the report of the supervising council shall be displayed in the office of the cooperative or in other place determined by the board not later than a week before the date of the meeting. Each member is authorized to demand the copies of annual balance-sheet, other documents and the report of the supervising council at his (her) own expense.

63.11. The general meeting shall have the exclusive authority to take decisions concerning the amendments to the Regulations and prolongation of the term of activity of the cooperative. The said decisions should be notarized.

Below, there is a list of items for which the simple majority of votes is required in order to make amendments to them (unless otherwise determined by the Regulations):

- a) change of the subject matter of activity;
- b) increase of shares;
- c) adoption or expansion of the participation with several obligatory shares;
- d) adoption or expansion of the obligation of extra contributions;
- e) prolongation of the withdrawal term by more than 2 years;
- f) adoption or expansion of the participation of the "reserve" members;
- g) determination or expansion of the right of several votes for one person;
- h) distribution of shares.

For amendments to the Regulations introducing or expanding a member's obligations on the usage of the cooperative's equipment or on the execution of some other activity or introducing a new service, units 9/10 of the votes shall be required. The Regulations may consider some other requirements as well. The decision shall not be effective until the Enterprise Register is notified.

Article 64. Meeting of Representatives

64.1. If the cooperative engages more than 500 members, the meeting of representatives shall be called instead of the general meeting. In case the number of the members exceeds 200, it may be determined by the Regulations to hold the meeting of representatives instead of the general meeting.

64.2. Any capable individual, a member of the cooperative may be elected as the representative, unless the said person is a member of the board or the supervising council.

64.3. The meeting of representatives shall consist of not less than 50 representatives elected by the members of the cooperative. The representatives shall have not be entitled to transfer their rights to other persons. They are unauthorized to have several votes as well.

64.4. The representatives are elected on the basis of the universal, direct, equal elections by the secret ballot. During elections, article 63.4. shall apply to the representatives. A person can be elected as a representative for four years at most.

The Regulations shall determine:

- a) the number of the members represented by one representative;
- b) duration of the representation.

Other more detailed instructions concerning the rules of election including the determination of results may be drawn up in the statute on elections jointly adopted by the board and the supervising council. The consent of the general meeting is required for the above. The board takes decision unanimously.

- 64.5. A reserve person for each representative shall be elected, if the representative is discharged until the term of the representation expires the reserve shall replace him. This person shall be elected only with equal authority and with the same term.
- 64.6. The list of the representatives and the reserve persons elected should be displayed in the office of the cooperative within the two weeks in order the members be acquainted with it. The information concerning the elections shall be published in one of the official newspapers of the Republic of Georgia or in the newspaper determined by the Regulations for this purpose. The term of display starts from the day of the publication. Each member is authorized to receive immediately a copy of the list if necessary.

Article 65. The Supervising Council

- 65.1. The supervising council of the cooperative shall consist of not less than 3 and not more than 15 members elected by the simple majority of votes present at the general meeting. The number of members is determined by the Regulations.

The members of the supervising council are authorized to have a certain remuneration for their job, if a corresponding decision of the general meeting exists.

The general meeting may annul the membership until the election term is expired. 3/4 of the voters present is required to take this decision.

- 65.2. The members of the supervising council shall not be entitled to be the members or the deputies of the board at the same time or perform the activity of the cooperative by some other way. The members withdrawn from the board before their reports are confirmed cannot be elected as the members of the supervising council.

- 65.3. The supervising council shall supervise all the aspects of the activity performed by the board and receive any related information. The observation board may at any time demand the board's reports and check up itself or through authorized persons the book-keeping and other documents, as well as the state of securities and goods. The supervising council shall check up the annual balance, the reports and the proposals on the distribution of the annual profits, and present the results at the general meeting, before the annual balance is confirmed.

The supervising council shall call the general meeting for the cooperative's interests of necessary.

Other functions of the supervising council may be determined by the Regulations. The members of the observation board cannot delegate their functions to other persons.

65.4. The supervising council shall be entitled to represent the cooperative together with the board when concluding agreements with third persons and institute proceedings against the members of cooperative, if the general meeting establishes so.

Any credit granted to a member of the board shall require the confirmation of the supervising council. The same rule applies in the cases of granting credits when a member of the board acts as a warrantor.

Article 66. The Board Directors.

66.1. The board of the cooperative shall consist of not less than two directors (members of the board). The directors may not be the members of the cooperative. The Regulations may consider some other terms and conditions concerning the above.

66.2. The directors shall be elected by four years term unless otherwise determined by the Regulations.

66.3. In other cases article 9 shall apply.

Article 67. The Annual Report.

In checking up the annual reports article 58 shall apply.

Article 68. Distribution of Profits and Losses.

When confirming the annual report the profits and the losses foreseen for the members of the cooperative shall be distributed among them. For the first economic year, the distribution shall be performed proportion to the members' contributions. For the following years the distribution shall be performed by adding the profits and writing off the losses in proportion to the shares existing by the end of the previous economic year. The adding of the profits shall last until the sum of the shares is reached.

The Regulations may provide for other rules of the distribution of the profits and the losses. The profits shall not be distributed until the amount of shares (reduced because of the losses) is reached.

The Regulations or the general meeting may provide for the possibility of charging profits completely or partially to the reserve fund.

1. Structure of the Annual Balance

1.1. The following items shall be presented in the structure of the annual balance, unless the field of activity determines it otherwise, assets:

A. Unpaid investments of the fees to the society's capital, including the investments due.

B. Fixed Assets:

1. Buildings and equipment:

- 1.1. Land plots used in production and the right to land with buildings and equipment on it;
- 1.2. Land plots of the society used for non-production purposes and the rights to land with dwellings;
- 1.3. Land plots of the society and rights to it without buildings;
- 1.4. Buildings on the land plots owned by other entities, not included in items 1 and 2;
- 1.5. Machinery and equipment;
- 1.6. Office facilities;
- 1.7. Uncompleted capital investments.

2. Non-material sources:

- 2.1. Concessions, intellectual property and licenses;
- 2.2. The firm value.

3. Financial investments:

- 3.1. Investing other societies;
- 3.2. Bonds and other securities;
- 3.3. Long-term investments: loans granted for more than one year term, including those secured by the lease of the plots.

C. Circulating assets:

1. Reserves:

- 1.1. Raw materials, basic and non-basic materials;
- 1.2. Semi-products;
- 1.3. Ready-made products, goods.

2. Other circulating assets:

- 2.1. Deposits paid;
- 2.2. Delivery and the service requirements;
- 2.3. Bills;
- 2.4. Cheques;
- 2.5. Cash balance and cash holdings in national banks;
- 2.6. Cash holdings in other banks;
- 2.7. Other securities;

- 2.8. Requirements to affiliated enterprises (branches);
- 2.9. Credit requirements of the management and the supervising council;
- 2.10. Credit requirements of the partners of the society;
- 2.11. Other requirements;
- 2.12. Other material and non-material values.

D. Intended expenditures.

Liabilities:

a) Own capital:

- 1. Authorized capital;
- 2. Reserve funds:
 - 2.1. Reserve funds established by the Law;
 - 2.2. Voluntary reserve funds.
- 3. Purpose appropriations (covered participations in other societies);
- 4. Non-distributed profits and uncovered losses of the previous year;
- 5. Profits and losses of the current economic year;

b) Social security funds:

- 1. Pensions' fund;
- 2. Other funds.

c) Foreign capital:

- 1. Loans:
 - 1.1. Long-term loans;
 - 1.2. Short-term loans.
- 2. Obligations before the banks:
 - 2.1. Long-term obligations;
 - 2.2. Short-term obligations.

Hypothetically secured, among them.

- 3. Delivery and service obligations;
- 4. Bill obligations;
- 5. Obligations before the partners;
- 6. Received advances;
- 7. Obligations before the liaison (branches and the others) enterprises;
- 8. Other obligations.

d) Intended profits.

- 1.2. If society is devoid of data on the above-mentioned items, the reflection of the present item shall not be necessary.
- 1.3. If a datum belongs to several articles, in the article where it is presented, it should be indicated that the said datum belongs to the other articles as well, if it is necessary for the purposes to compose the annual report clearly and understandably. The requirements and obligations towards the liaison enterprises, as a rule, should be introduced by this way; if these requirements and obligations are pointed out in the other articles this fact should also be indicated.
- 1.4. Discounts, regulation of the prices, reserve funds and transfers, the special articles concerning the monetary and reserve shares should be introduced in the annual balance. The same rule effects in cases of spending the money from the reserve fund, when this operation is performed according to the Law or the agreement, or by the directors and the observation board.

The cases when the articles of the profits exceed the articles of the losses (balance profits) or vice versa balance losses), should be considered separately, without the distribution, at the end of the annual balance-sheet.

- 1.5. The following issues should be introduced in full amount, separately, in the annual balance-sheet, if they are not presented on the side of losses:
 - a) Obligations arisen from the issuance or transfer of the bills;
 - b) Obligations arisen from the guarantees and the guarantees of bills and cheques;
 - c) Obligations arisen from the guarantee agreements;
 - d) Responsibilities arisen from the guarantees of the other partners' obligations;
 - e) Obligations arisen from the long-term obligatory relationships should be evaluated according to the expenditures in the following survey period.

The said obligations should be introduced in cases as well, when the reciprocal requirements are facing to them. If the obligation or the responsibility towards the liaison enterprises exist, it should be indicated as the special notification, by pointing out the amount of money.

2. Instructions Concerning Separate Items of the Annual Balance

- 2.1. In The item "Fixed assets (fixed capital of the company)" only those objects shall be reflected which on the day of the annual balance calculation serve as durables in the company's activities. The flux and influx of money, crediting amounts to accounts, depreciation charges for the financial year as well as transfer of sums shall be reflected in the annual balance as separate clauses of the items "Fixed assets" (fixed capital of the company).
- 2.2. Participation in the activities of other company shall be deemed the contributions the nominal value of which makes up the 1/4 part of the authorized capital.
- 2.3. The nominal value of the participation or of the types of all shares should be indicated separately in the-authorized capital of the society.

In the item "Own capital", the total sum of all shares in other companies or all the kinds of shares should be reflected.

- 2.4. The following issues should be indicated separately in the item "Open reserves":
1. The sums on which the meeting of the society ceased payments from the balance profit of the previous year.
 2. The sum on which payments are ceased from the annual profit of the economic year.
 3. The sums to be spent in the financial year.
- 2.5. The reserve fund deductions may be made for unforeseen obligations as well as for intended losses from the uncompleted deals. Besides, the reserve fund deductions effected to cover:
- a) unused in the current year equipment maintenance expenses which will be due in the next economic year;
 - b) the guarantees issued without the legal obligations; these reserve fund deductions shall be introduced separately with the detailed indication of their purposes. The reserve fund deductions for other purposes is not permitted. In the item "pension fund deductions" future deductions for the payment of pensions shall be reflected.
- 2.6. Liabilities should not be calculated with the obligations unpaid services - with the advances; the mortgage - with the land plots burdening.
- 2.7. The items differentiating expenditures and incomes between adjacent accounting periods shall reflect:
- a) in the assets - the revenues prior to the annual balance settlement in case they do not correspond to the expenditures in the given time period;
 - b) in the liabilities - revenues prior to the annual balance settlement in case they correspond to the income in a given time - period following this time-period;

3. Assessment of the Fixed Assets' Value of the Company

- 3.1. The cost of the fixed assets shall be defined as the acquisition expenses or production expenses less depreciation deductions or the balance cost adjustment.
- 3.2 In calculating the production expenditures, the depreciation and conditions decreasing the cost as well as corresponding production and administration expenses may be taken into account in case they occur in the period of production; sales expenses are not included in the production and administration expenses.
- 3.3. The item of assets for the objects of intellectual property may be reflected only if these objects have been paid for:
- 3.4. The expenses for setting up the company and the primitive accumulation of capital cannot be reflected as assets.

Expenditures for starting the enterprise may be reflected under the expenditures for property in the form of buildings and equipment. This sum shall be reflected separately, and in the each following year shall be subject to covering by depreciation for 1/5 part at least.

- 3.5. A special item of assets is not intended, as a rule, for reflecting the cost of a company or a firm. However if the payment for the enterprise during its transfer exceeds the value of separate objects of the property of this enterprise at the moment of transfer, this difference should be reflected in the item of fixed asserts if the enterprise "Value of the firm". The sum should be expressed (reflected) separately, and in each following year shall be subject to covering through depreciation for 1/5 part at least.

4. Depreciation Expense; Adjustment of the Book cost.

4.1. For the objects of the fixed capital the use of which is limited in time, the acquisition or production expenses should be reduced by the planned amount of amount of depreciation deductions or the adjusted book cost. These expenditures should be distributed in a plan under the principle of depreciation deductions, by economic years during which the use of respective objects is preliminarily planned.

4.2. Despite the limited use of the objects in time, the unplanned depreciation or book-cost adjustments may take place in the following objects of the fixed capital:

- a) with lower value at the day when the balance-sheet is closed; or
- b) with lower value permitted for the purposes of taxation of profits. The operation should be performed in the cases where a long-term regulation of prices is foreseen. The low value may be retained also, when the grounds depreciations and the book-cost adjustment are absent.

5. Valuation of the Cost of the Circulating Capital Objects

5.1. Objects of the circulating capital are valued in respect of the expenses for acquisition and production unless lower valuation of the cost is admitted. Should this correspond to the principles of proper book-accounting, the valuation of the cost of similar objects of reserve may be effected under the assumption that the primarily or subsequently acquired goods were used or sold in the first turn or in any definite succession.

5.2. If the acquisition or production express exceed the cost at the date of the annual balance calculation from the stock or market price, the v goods shall be evaluated at the lowest cost. In case the stock or market price cannot be established and the acquisition and production expenses exceed the cost at the date of calculating the balance, the goods shall be evaluated by this cost (fixed at the date of the balance calculation).

Objects of the circulating capital may be assessed at lower price, if the lower price:

- a) is necessary for a reasonable commercial assessment to prevent future changes in the evaluation of these objects due to the value fluctuations, or

b) is allowable in substantiation of collection of income and profit taxes.

The lower evaluation of cost may also be retained in cases when the reasons for it no longer exist.

6. Assessment of Liabilities

6.1. The authorized capital shall be assessed at nominal value.

6.2. Liabilities shall be assessed by the sum of their repayment; the pension liabilities shall be assessed at their actual cost.

6.3. If the liability repayment or loan sums exceed the total expenses, the difference may be expressed (reflected) in the assets differentiating the discount of expenses and revenues between adjacent accounting periods:

This sum should be expressed (reflected) separately and be repaid by planned yearly depreciation deductions distributed for the whole period of action.

6.4. The reserve fund deductions shall be calculated within the limits of the sum, which according to the reasonable commercial assessment, is necessary.

7. The Statement of Profit and Losses

7.1. The statement of profit and losses shall have the following items:

1. Sales revenue;
2. Increase or decrease of the finished goods and semi-products in stock;
3. Other own products;
4. Total output, total efficiency;
5. Raw, auxiliary and production materials costs;
6. Total gain, total costs;
7. Profit tax revenue;
8. Income from participation in other activities;
9. Other revenues;
10. Other interest and related incomes;
11. Income from sales of fixed assets and increase of book;
cost of fixed assets;
12. Income from the lumpsum adjustment of the book cost with respect to
liabilities;
13. Income from the suspension of the reserve fund deductions;
14. Other income, including unforeseen;
15. Income from decreasing the assumed costs;
16. Wages (salaries);
17. Social deductions;
18. Expenses on old-age benefits and supporting allowances (to young
families);

19. Depreciation deductions and adjustment of the book cost of material and non-material securities based on the invested capital;
 20. Depreciation deductions and adjustment of the book cost of financial deposits except for the sum related to liabilities during the lumpsum adjustment;
 21. Losses from decreasing the cost or sales of the circulating capital goods, except the stock (assets) and related to liabilities during the lumpsum adjustment of the book cost;
 22. Losses on sales of the fixed capital goods;
 23. Interest and related losses;
 24. Losses on assuming losses;
 25. Other losses;
 26. Tax revenue;
 27. Income tax;
 28. Taxes;
 29. Annual excess/annual deficit;
 30. Transfer of income, and losses from the previous year;
 31. Withdrawal of funds from open reserves:
 - a) from reserves provided for by the law;
 - b) from free reserves.
 32. Transfer from annual excess to open reserves:
 - a) to the reserves provided for by the law;
 - b) to the free reserves.
 33. Balance profit/balance losses
- 7.3. In case the profit and losses are reflected under any other item in comparison with similar losses and profit per profit and losses of the previous economic year, the statement of profit and losses should note so with the indication of their amount.

8. Instructions to Individual Items of the Statement of Profit and Losses

- 8.1. The sales revenue is the revenue obtained from selling and transfer for use of typical products and goods as well as the service revenue less the revenue decrease and turnover tax.
- 8.2. In changing the amount of stock, both the quantity and cost changes should be taken into account; the depreciation deductions here shall be the deductions which do not exceed the deductions normal for the given enterprise.

The non-planned depreciation deductions and the depreciation deductions deemed necessary to prevent future changes in the cost of commodities because of fluctuations in the cost shall be expressed (reflected) separately or noted as enclosures.

The profit and losses from assuming losses as well as the profit gained or given on the bases of the joint profit or the agreement on complete or partial deduction of profit shall be also reflected separately under respective denotation.

The items "Unforeseen profit" and "Unforeseen losses" shall express (reflect) the profit and losses gained by the company outside usual economic activities. These items shall be explained in the appendix with regard to the sums and types of unforeseen losses and profit, in case said sums are important for the assessment of the level of profit. This shall also apply to the profits and losses attributed to the other financial year.

8.3. According to the agreement a sum due to the partners, who are not members of the company, shall be deducted from the profit obtained under the agreement on complete or partial allocation of profit; should this sum exceed the profit, the sum shall be expressed (reflected) in the losses on assuming losses. Other sums cannot be deducted from the profit.

8.4. The sums paid by the company as a taxpayer shall be expressed (reflected) as taxes.

9. Indication of the Pension Benefits

The annual balance - sheet should reflect the amount of pension deductions effected in the current economic year, including the payments to legally independent social support offices and the interest rates of these sums, which supposedly shall be carried out during the next five economic years.

10. Contents of the Annual Progress Report

10.1. The annual report shall reflect the course of economic activities of the company and its economic state. It shall also report the events of special significance for the company taking place after the economic year has ended.

10.2. Besides the annual report shall contain explanations to the annual balance. At the same time the methods of cost evaluation and conduct of depreciation deductions shall be reflected (expressed) as detailed as will be necessary for obtaining the most comprehensive understanding of the company's property and financial state; a reference to these methods in the annual report for the earlier economic year can also be made, if this report was preceded by three economic years at least. Apart from that, each annual report shall note deferences between the annual balance drawn up in the given economic year and the annual balance drawn up at the end of past economic year having negative effect compared with the last annual balance, in particular the significant changes in the methods of cost estimation and conduct of depreciation deductions, including extraordinary depreciation deductions and balance cost adjustments; details are not necessary here. If due to changes in the methods of cost estimation and conduct of depreciation deductions, including extraordinary depreciation deductions and balance cost adjustments, the extra profit or annual deficit originate exceeding or lowering the sum which could have been obtained without these changes for more than ten percent, the annual report shall indicate the difference if its value does not exceed 0,5 percent of the company's capital.

10.3. Each annual report shall include the following date:

- a) the availability and receipts of contributions used by a partner at the expense of the company or its enterprise, where the company is the founder or a shareholder, or in fulfilling a

shareholder's right to purchase new shares or their exchange during the capital's increase; should such investments took place during the economic year, this fact and the amount of obtained profit and the ways of its application shall be indicated;

- b) the investments withdrawn during the capital's increase in the given economic year;
- c) the joint stock increased on account of the issue of shares;
- d) the right of non-members of the joint-stock company to a part of the profit or receipts from its liquidation, or related rights arisen in the economic year;
- e) liability relations not indicated in the balance-sheet, including the provision of guarantees for own liabilities;
- f) total gains (wages, profit sharing, compensation of expenses, insurance premiums, commissions, and other extra payments of any kind) of the members of management and bodies of supervision of the company's activity, or other similar bodies. The total gains shall also include the profits which are not paid but are transformed into other requirements or are used for increasing other demands. Besides the gains in the given economic year the indication should be made of other incomes as well which were also obtained in the given economic year but were not indicated in any annual report. If the company's directors obtain extra profits from other affiliated companies for their activities to the benefit of the society or for their activities in the capacity of legal representatives or employees of the affiliated company, these gains shall be expressed (reflected) separately,
- g) the total gains (compensations, old-age and long-service benefits, other related allowances) of the former directors and their family members. If the former directors and their family members receive compensations and old-age and long-service pensions from the affiliated companies too, these gains shall be separately expressed (reflected);
- h) the legal and commercial relations with the affiliated companies located in the same country as well as the economic activities of these companies which may significantly influence the state of events in the company;
- i) the participation in the activities of any company at the same time the indication should be made of the fact who owns the participation and whether it exceeds the fourth part of all shares of the company or whether the given company is the holder of the block of shares.

10.4. The report must correspond to the principles of fair and correct accounting. The preparation of the report shall be carried out to the extent which meets the public interests. In preparing the report the indication of any detailed data is not necessary, if, according to the reasonable commercial estimate, the indication of such data may cause a serious damage to the company or its affiliated enterprises. If these data cannot be cited because of its confidentiality, in the annual report under the entry where these data should be indicated there will be an indication that to the data to be cited under this entry a special restrictive and protective condition shall apply.

10.5. The report must include names of one of the company's directors at least and members of the supervising council as well, if within the economic year and afterwards they did not leave

the company's management. The supervising council's chairman, his deputy and the possible chairman of the company's board of directors should also be indicated.

11. Subject and Volume of the Audit

- 11.1. The annual balance must be checked with the application of book-accounting and the annual progress report of the company by one or several independent competent experts (final audit). If such an audit was not conducted, the approval of the annual balance shall be impossible.
- 11.2. The purpose of auditing the annual balance is the control over the observance of legal provisions and the Regulations as well as the correctness of data indicated in the annual report.
- 11.3. If the annual balance or the annual progress report is amended by the company's directors after the audit results have been obtained, the annual balance and the annual progress report shall be subject to the repeated audit by experts, if so required by the amendments.
- 11.4. Experts shall be elected by the company's partners by simple majority of votes.

12. Limited Accountability for Small Enterprises

12.1. Small enterprises may submit an inventory instead of the balance-sheet, which in contradiction to article 1.1 of this appendix shall contain the following items:

A. Fixed assets (fixed capital of the company)

1. Buildings and equipment:
 - 1.1. Land plots and the right to landed property with buildings;
 - 1.2. Land plots and the right to landed property with dwellings;
 - 1.3. Land plots and the right to landed property without buildings;
 - 1.4. Buildings on the land plots not belonging to the company which do not meet articles 1.1. and 1.2. of the present Appendix
 - 1.5. Machines and equipment;
 - 1.6. Office and factory equipment;
 - 1.7. Machines and equipment in assembly.
2. Objects of intellectual property:
 - 2.1. Concessions, intellectual property and licences;
 - 2.2. Cost of a firm.
3. Investments:
 - 3.1. Investing other companies;
 - 3.2. Bonds and other securities;
 - 3.3. Long-term investments

loans with the validity period one year at least including:

- affiliated enterprises;
company partners;
mortgage right secured.

B. Circulating assets

1. Raw, auxiliary and production materials;
2. Semi-products;
3. Finished goods;
4. Bills;
5. Cheques;
6. Cash in national banks;
7. Cash in other banks;
8. Other material and non-material values.

C. Liabilities with the validity not less than 1 year

1. Loans, including on the security;
2. Liabilities to crediting institutions, including on the security;
3. Other liabilities, including on the security.

D. Other liabilities

1. Liabilities to crediting institutions unless they are indicated in item B;
2. Other liabilities.

12.2. Instead of the statement of profit and losses (item 7.1 of this Appendix) small enterprises may draw up only the calculation of receipts and profits containing the following items:

1. Sales revenues;
2. Increase or decrease of finished goods and semi-products in stock;
3. Cost of raw, auxiliary and production materials;
4. Total gain/total losses;
5. Revenues from participation in other enterprises;
6. Revenues from other investments;
7. Other interest and related revenues;
8. Revenues from selling objects of fixed assets and increasing the book;
cost of fixed assets;
9. Other revenues;
10. Wages;
11. Social deductions;
12. Expenses on old-age and support allowances;
13. Depreciation deductions and adjustment of the book cost of material and
non-material securities based on investments;
14. Depreciation deductions and adjustment of the book cost of investments;
15. Losses of the company's fixed capital;
16. Interests and similar losses;
17. Other losses;
18. Income before tax;

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- 19. Taxes;
- 20. Annual excess/annual deficit.

12.3. Instructions concerning the notes of pension payments, annual progress reports and audits shall not apply to small enterprises.

*Chairman of Parliament,
Head of State
Speaker of Parliament*

Edward Shevardnadze

Vakhtang Gogvadze

*Tbilisi, October 28, 1994
No. 577-16*

Registration card (sample)
for limited partnerships

Ser. No.	Date . . .	Name, date and place of birth, occupation, address, guarantee fee of partners	Representation by complementars	Trade representatives (procurators)

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Appendix II

Registration card (sample)
for individual entrepreneurs

Ser. No.	Date . . .	Name, date and place of birth, occupation, address of the owner	Subject of activity	Trade representatives (procurators)

Registration card (sample)
for societies of joint responsibility

Ser. No.	Date . . .	Name, date and place of birth, occupation, address, of partners	Representation by partners	Trade representatives (procurators)

Appendix II

Registration card (sample)
for joint stock companies

Ser. No.	Date	Subject of activity and capital	Types of shares; sharing	Name, date and place of birth, occupation, address of directors	Name, date and place of birth, occupation, address of members of the supervisory council	Representation of directors	Trade representatives (procurators)

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**Registration card (sample)
for societies of limited responsibility**

Ser. No.	Date	Subject of activity and aggregate capital of the society	Name, date and place of birth, occupation, address of partners	Name, date and place of birth, occupation, address of directors	Name, date and place of birth, occupation of members of the supervisory council (if any)	Representation of directors	Trade representatives (procurators)

Appendix II

**Registration card (sample)
for registered cooperatives**

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Ser. No.	Date	Subject of activity and capital	Name, date and place of birth, occupation, address of directors	Name, date and place of birth, occupation, address of members of the supervisory council (if any)	Representation of directors	Procurators

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The Consulting Firm "Dikke International" Ltd.

**Law
of Georgia
On Making Amendments and
Supplements in the Law of the
Republic of Georgia
"On Entrepreneurs"**

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**Resolution
of the Parliament of Georgia
Concerning the Law of Georgia**

**“On Making Amendments and Supplements in the Law of the Republic of Georgia “On
Entrepreneurs”**

The Parliament of Georgia resolves:

1. The law “On Making Amendments and Supplements in the Law of the Republic of Georgia “On Entrepreneurs” shall be put into force on promulgation.
2. Legal persons specified in the Law of Georgia “On Entrepreneurs” shall carry out the accounting in forms provided by this Law from the second quarter, 1997.
3. Article 15 of the Law “On Making Amendments and Supplements in the Law of the Republic of Georgia “On Entrepreneurs” shall be applied to liabilities arisen in the limited liability companies till January 1, 1997, as well.
4. Articles 16 and 17 of the Law “On Making Amendments and Supplements in the Law of the Republic of Georgia “On Entrepreneurs” are not applied to the companies registered before January 1, 1997.
5. To request from the President of Georgia:
 - I. On providing for:
 - a) that the Ministry of Justice of Georgia shall:
 - work out the simplified procedure of registration of enterprises specified by the Law of Georgia “On Entrepreneurs” at the courts.
 - ensure the publication of all public information mentioned by the Law of Georgia “On Entrepreneurs” at the expense of sums entered from enterprises registration fees.
 - b) that till April 1, 1997 the Ministry of Finance of Georgia shall:
 - work out the appropriate instructions on scope and kinds of accounting;
 - bring subordinate normative acts regulating the accounting at enterprises in conformity with the Law of Georgia “On Entrepreneurs”;
 - declare the letter No. 12-03 of the Ministry of Finance of Georgia “Concerning Forms and Methods of Accounting at Enterprises, Associations and Organizations” of January 11, 1993 as null and void.
 - II. On nullification of:
 - a) Resolution No. 888 of the Cabinet of Ministers of the Republic of Georgia “Concerning Approval of the Interim Statute of Accounting and Accounts in the Republic of Georgia” of September 4, 1992, and

- b) Resolution No. 565 of the Cabinet of Ministers of the Republic of Georgia "Concerning Approval of the Statute of Procedure of Formation of Composition of Costs to Be Included into the Cost Value of Goods (Works, Services) and Formation of Financial Results" of August 16, 1994

from the very date of approval of the instructions stipulated by the first paragraph of subpoint "b" of the first part of Article 5 of the present Resolution.

6. To allow legal persons specified in the Law of Georgia "On Entrepreneurs", including banks, foundations and insurance companies to transfer sums accounted in the special funds of estimation of the fixed assets to their authorised capital as provided by Resolution No. 933 of 23.12.1993 and Resolution No. 263 of 16.05.1995 of the Cabinet of Ministers of the Republic of Georgia.
7. To declare the clause 9 of Resolution of the Parliament of Georgia "Concerning the Law of the Republic of Georgia "On Entrepreneurs" of October 28, 1994 as null and void.

*Vice -Chairman
of the Parliament of Georgia*

Vakhtang Kolbaya

Signed

Tbilisi

December 13, 1996

No. 536-Is

Law of Georgia

On Making Amendments and Supplements in the Law of Republic of Georgia "On Entrepreneurs"

The Parliament of Georgia resolves:

to make the following amendments and supplements in the law of the Republic of Georgia "On Entrepreneurs" (Bulletin of the Parliament of Georgia, 1994, No. 21-22, Art. 455):

1. Substitute the words "American dollar equivalent in lari" for "American dollar equivalent in the national currency unit" all over the text of Law.
2. Word the first sentence of Article 1.2 as follows: "Creative, scientific, architectural, medical activity, attorney or notary, auditor, consultant (including consultant in taxation) practice, activity in agriculture or forestry of individuals shall not be considered as entrepreneurship".
3. Add the words "or more than 500 employees" after the word "partners" to Article 2.4.
4. Substitute the word "an auditor" for "expert" in Article 3.3.
5. Word the first sentence of Article 3.4 as follows:

"Contributors in the limited partnership, partners in the limited responsibility company, promoters of the joint-stock company, partners in the cooperative society shall be responsible before the creditors until the total sum is paid as provided by Article 3.2".

6. Add the words: "... if a founder is the legal person - his firm name and registration data (legal address, the court which has registered the legal person, date and number of registration, organizational and legal type, data on his representative) to paragraph "f" of Article 5.4.1.
7. Add the words: "... and each member of the supervisory council (in event of its existence)" after the word "director" in paragraph "c" of Article 5.4.3.
8. Withdraw paragraph "c" of Article 5.5. from the Law.
9. Add the sentence: "Substitution of promoters in joint-stock companies does not require the registration in the Enterprise Register" to Article 5.6.
10. Word Article 5.9 as follows:

"5.9. The court shall carry out the registration procedure within 15 calendar days following the presentation of necessary documents. If the registration procedure is not made within the said term or the applicant is not notified in writing on the refusal of registration the enterprise shall be considered as registered and the court shall issue the certificate on corporation to the applicant at request of the latter without any delay".

11. Word Article 13 of the Law as follows:

Article 13. Book-keeping and Accounting

13.1. The rules of book-keeping and accounting are equally applied to all enterprises except those cases when other rules are established for small enterprises. The simplified rules of book-keeping and accounting are applied to those small enterprises (excluding joint-stock companies) having not more than 10 full-time employees and the annual receipts of which do not exceed 40.000 lari.

13.1.1. Managers shall be responsible for compliance of enterprise book-keeping and accounting with the international standards. The book-keeping shall be accurate, complete, clear and based on the double book-keeping system continuously connected with the nomenclature of accounts and corresponding date of the previous year. The estimate shall correspond to the principles of a provident entrepreneur as well as the principles of minimal estimate and imparity of revenues and expenditures.

13.1.2. The book-keeping at small enterprises must be accurate, complete, clear and continuously connected with the nomenclature of accounts. Such type of enterprise shall draw up the report on assets and liabilities and annual profit and loss account on the basis of inventory list.

13.2. Managers shall include into the inventory list the data concerning plots of land, claims and liabilities, the cash amount, capital assets and all other material values. At the same time, each separate material values shall be reflected in accordance with the principle of minimum estimate and the balance expressing the assets and liabilities relationship, or list of assets and liabilities for small enterprises, shall be draw up.

If the accounting provides for the establishment of composition of assets in respect of their kinds, amount and value without complete inventory, the drawing up of inventory list is not required after the end of a fiscal year.

When drawing up the inventory list the composition of assets in respect of their kind, amount and value may be established on the basis of selective check-up applying the mathematical and statistical methods. This process shall comply with the international principles of accounting. The informational value of the inventory list thus drawn up shall conform to the informational value of complete inventory.

If the enterprises has carried out the complete or selective check-up of its assets and liabilities within three months before the end of a fiscal year and at the same time the accounting has provided for the establishment of actual state of assets and liabilities by the end of a fiscal year, the carrying out of inventory by the end of a fiscal year is not required.

The duration of a fiscal year shall not exceed twelve months.

13.3. The managers shall keep the following documents for ten years:

- a) account books, inventory lists, balance-sheets, and all instructions and other documents required for interpretation;

- b) incoming and outgoing business correspondence;
 - c) account documents confirming the records in the account book.
- 13.4. The company managers shall draw up the annual report (balance-sheet and profit and loss account) and report on activity, and, the small enterprise manager shall draw up the list of assets and liabilities and account of revenues and expenditures within the first three months following the end of a fiscal year. The annual report shall be signed by the managers indicating the date of signing.
- 13.5. Should the disputes arise the court is entitled, on its own initiative or on the basis of application of any party, to ask for the account books of a party in dispute. If account books are presented within the dispute and they concern the subject-matter, the content of those books shall be disclosed in the presence of parties in dispute. In case of need the extract from those books shall be made. The other data of record may be presented at the court in those events only, when it is necessary to verify the correctness of the book-keeping. In cases of property disputes, namely, disputes over legacy, division of a company, the court may ask for all records in order to familiarise with their entire content. A person who is able to present the necessary documents in kind of video-, audio or other technical materials shall provide for technical means those required for reading of the documents at his own expense; in case of need he shall print those documents or present such copies of those documents which are readable without the technical means.
- 13.6. The rules on structure and content of annual balance and profit and loss account are enclosed to the Law and are the integral part of the present Law.
12. Add the third paragraph which words as follows to Article 16:
- "The following documents shall be presented to the court when registering branches:
- a) decision of managing bodies of the enterprise concerning establishment of a branch;
 - b) brief description of a branch activity;
 - c) copy of the enterprise charter;
 - d) decision on appointment of the manager of branch or power of attorney authorising a person to manage the branch;
 - e) certificate on incorporation".
13. Add the word "other" after the word "and" to the title of Article 17.
- Substitute the word "more" for the words "not less" in the first paragraph of Article 17.3
- Substitute the words "more than 75%" for the words "not less than 75%" in Article 17.4.
- The second sentence in Article 17.7 shall be worded as follows:
- "If such participation continues for more than three months the extra share shall be exacted according to the procedure provided by the second paragraph of Article 3.3.
14. Word the first sentence of Article 44 as follows:

"A company the responsibility of which before the creditors is limited within its total property is a limited liability company".

15. Word Article 45.1 as follows:

45.1. "The authorised capital of the company shall total at least two thousand laris".

16. Word the second sentence of Article 51.1 as follows:

"The minimum nominal value of the capital stock shall total fifteen thousand laris and the nominal value of a share - one lari or a value divisible."

17. Substitute the words "according to the third sentence" for the words "according to the second sentence" in Article 52.2.

18. Substitute the words "or approval of their account" for the words "or their discharge" in Article 53.4.

19. Word Appendices to the Law of Georgia "On Entrepreneurs" as follows:

Appendix I

1. Structure of Annual Balance Sheet

1.1. The following items shall be presented in the structure of annual balance sheet (for separate fields of industry there may be established the other structure equated to the structure given in this Appendix), at the same time the structure of annual balance sheet may be further improved.

Assets:

A) *Unpaid contributions to the authorised capital of a company, including the contributions due.*

B) *Fixed capital*

1. Fixed assets

1.1. Plots of land with buildings and premises.

1.2. Plots of land without buildings and premises.

1.3. Buildings and premises on a plot of land owned by the other person.

1.4. Machinery, equipment and transport means.

1.5. Office facilities.

1.6. Other tangible assets.

1.7. Uncompleted capital investments.

2. Non-tangible assets

2.1. Concessions, intellectual property and licenses.

2.2. Goodwill

- 2.3. Other non-tangible assets
- 3. Financial investments
 - 3.1. Participation in other companies
 - 3.2. Bonds and other securities
 - 3.3. Loans granted for term of more than 1 year, including those loans on mortgage of land.

C) Circulating assets

- 1. Stores and supplies
 - 1.1. Raw and other materials
 - 1.2. Goods in process
 - 1.3. Final produce, goods
- 2. Other circulating assets
 - 2.1. Payment and rental in advance
 - 2.2. Claims arisen out of supply and service
 - 2.3. Received bills
 - 2.4. Cheques
 - 2.5. Cash balance
 - 2.6. Moneys on bank accounts
 - 2.7. Short-term financial investments
 - 2.8. Claims against affiliated enterprises (subsidiaries)
 - 2.9. Claims arisen from credits issued to the managers and members of the supervisory council of a company
 - 2.10. Claims arisen from credits issued to the partners of a company.
 - 2.11. Other circulating assets.

D) Intended expenditures

Liabilities:

- a) Own capital
 - 1. Stock
 - 2. Reserves
 - 3. Target-oriented financing
 - 4. Retained profit of the previous year
 - 5. Uncovered losses of the previous year
 - 6. Retained profit (uncovered losses) of the current year

b) Deductions

1. Deductions to the pension fund
2. Other deductions

c) Attracted capital and other liabilities

1. Liabilities to banks
 - 1.1. Long-term liabilities
 - 1.2. Short-term liabilities, including those against the pledge of land (mortgage)
2. Loans
 - 2.1. Long-term loans
 - 2.2. Short-term loans
3. Obligations arisen from supply and service
4. Liabilities on bills
5. Obtained advance payments
6. Liabilities to affiliated enterprises (subsidiaries, branches)
7. Liabilities before the partners
8. Obligations before employees
9. Liabilities to the budget
10. Other liabilities

d) Intended profits

- 1.2. If an entrepreneur does not obtain data determined this item will not be reflected in the balance-sheet.
- 1.3. If any item consolidates data of some items this fact shall be mentioned in the operating report of company for making of clear and understandable annual balance sheet. Claims and liabilities to affiliated enterprises, as a rule, shall be shown separately; if they are consolidated in another items this fact shall be mentioned in the report of activity.
- 1.4. Withdrawals, deductions and reserves shall be taken into account when drawing up the annual balance sheet. The same rule operates when creating and spending reserves as provided by the law or the company charter, or under decision of the directors or supervisory council. Retained profit or uncovered loss of a fiscal year shall be shown in the balance sheet separately.
- 1.5. As not shown in the liabilities of balance sheet the operating report shall completely present:
 - a) liabilities to transfer of bills;
 - b) liabilities to the contract of indemnity;
 - c) responsibility for warranty issued under other's liabilities.

The said liabilities shall be mentioned in the events of equivalent counter claims. Liability or responsibility to an affiliated enterprise (if presents) shall be divided separately.

2. Standards of Separate Items of Annual Balance Sheet

- 2.1. The composition of fixed capital shall reflect those funds only which are used permanently. Inflow and outflow, withdrawals, transfer to other accounts of those funds within a fiscal year shall be reflected in the operating report of a company.
- 2.2. A share which nominal value exceeds the 1/4 of authorised capital of a company is deemed as participation.
- 2.3. Total nominal value of a share or stocks of any kind shall be reflected in the authorised capital of company separately.
- 2.4. When reflecting reserves the operating report shall separately show the amount transferred to the reserves from the profit of previous and current year as well as the amount spent during the fiscal year.
- 2.5. Certain charges may be used for stipulated expenses and anticipated losses for non-completed transactions. Besides, the charges may be used for:
 - a) repairs, maintenance and improvement to be made within the current year which will be due in the next fiscal year;
 - b) guarantees arisen without legal obligations. The item "pension deductions" shall reflect the charges for current payment of pensions and the right to pension requirement.The charges shall be reflected separately with respect to their target. The charges shall not be formed for other targets.
- 2.6. Claims should not be covered with liabilities, unpaid services - with advance payment, and tenancy right - with liabilities against a plot of land. Reserves, price adjustments and deductions shall not be reflected as liabilities.
- 2.7. Items differentiating revenues and expenditures shall be reflected:
 - a) as for assets - in kind of "Deferred charges" - expenditures of period prior to the date of drawing up of the balance sheet, which make up the expenses of the next period;
 - b) as for liabilities - in kind of "Deferred Income" - sums gained prior to the date of drawing up of the balance sheet, which make up the income of the next period.

3. Estimation of Fixed Assets

- 3.1. Fixed assets shall be introduced to the revenues accounting the amount of their purchase or expenses spent for their production.

Fixed assets shall be reflected in the balance sheet accounting the amount of their purchase or expenses spent for their production and considering depreciation, deductions and price adjustment.

- 3.2. Together with other expenditures, the expenditures of enterprise may include depreciation of the used fixed assets and other decrease in their value, as well as that part of production and management costs which concerns the production period. Expenses on selling shall not be included in the production and management expenses.
- 3.3. The objects of non-tangible assets if purchased may be reflected in the balance-sheet.
- 3.4. The expenses for establishment and initial accumulation of capital shall not be reflected as assets. Expenditures for putting the enterprise into operation may be reflected in kind of expenses for construction of premises and equipment. This sum shall be shown separately and be subject to cover by writing off at rate of at least 1/5 of its value every following year.
- 3.5. No item of assets is stipulated, as a rule, for reflecting the value of enterprise or firm. If the amount of payment for enterprise exceeds the cost of separate property objects of this enterprise by the moment of acquisition, this difference shall be shown in the item of fixed capital as the "Firm Value". The amount will be reflected separately and at least of the 1/5 of its value shall be covered in kind of writing off (depreciation) every following year.

4. Writing off and Price Adjustment

- 4.1. Purchase or production costs of those objects of the fixed capital the use of which is limited in time shall be reduced by the planned writing off (depreciation) or price adjustment. As provided by methods of appropriate writing off of principles of accounting the plan of depreciation shall distribute the purchase and production costs for those intended fiscal years within which the object may be used.
- 4.2. As to objects of fixed capital, without respect to that if the term of their use is limited in time or not, non-planned writing off and price adjustment may be carried out, for the objects be reflected:
- a) by a lower value they have by the date of making-up of balance sheet; or
 - b) by a lower value allowed according to the principles of profit tax.

Those methods shall be applied if long-term observation of low prices on those objects is stipulated. That low value shall be observed as well if the basis of non-planned depreciation and price adjustment does not exist anymore.

5. Estimation of Circulating Assets

- 5.1. Circulating assets shall be reflected according to the purchase or production costs. As provided by principles of accounting there may be allowed, when fixing the cost of similar supplies those objects purchased or produced primarily or subsequently will be used or sold in the first turn or in other secession.
- 5.2. If purchase or production costs by the date of making-up of balance sheet exceed the exchange or market price the circulating assets shall be shown in the balance sheet by the lower price. If the exchange or market price is not fixed, and purchase or production costs exceed the price of objects by the date of drawing up of the balance sheet, the balance shall reflect that price.

The circulating assets may be shown by a lower value if such reflection:

- a) is necessary from the point of view of a reasonable commercial valuation for the anticipated fluctuation of prices in the next future, or for prevention of change in price for those objects, or
- b) is allowed by the principles of profit taxation. Maintenance of a lower price is allowed time also, when the basis for this price does not exist already.

6. Liabilities

- 6.1. The authorised capital shall be shown in its nominal value.
- 6.2. The liabilities shall be shown in amount of repayment and pension obligations - in their actual value.
- 6.3. If amount of repayment of liabilities or loans exceeds the initial amount the difference may be shown in assets as the charges of next period. The sum may be covered in kind of the planned writing off to be distributed for the entire period.
- 6.4. The deductions shall be calculated in amount required for reasonable commercial valuation.

7. Structure of Profit and Loss Account

- 7.1. The profit and loss account, unless the given field of industry provides another structure, shall have the following items in succession (the present structure may be improved):

a) applying the method of total expenses;

1. Receipts from the sale of goods (works, services);
2. Increase or decrease in balance of final goods and goods in process.
3. Other capitalised own work.
4. Total amount of produced goods (works, services)

5. Expenses for raw and other materials.
 6. Income gained from subsidiaries.
 7. Income gained from partnership in other enterprises.
 8. Returns on financial investments
 9. Interest and similar income
 10. Profit on sale and revaluation of objects of fixed capital
 11. Income from the increase in deductions for conflicting demands
 12. Income from amounts not used for deductions formed for cover of the referred expenses.
 13. Income from the decrease in the assumed costs
 14. Other income
 15. Remuneration (wages, salaries)
 16. Payment on social security
 17. Expenses for social welfare and support of the old-age people.
 18. Writing off and price adjustment of value of objects of tangible and non-tangible assets.
 19. Writing off and price adjustment of financial investments.
 20. Price adjustment and losses from charges or writing off of other circulating assets.
 21. Loss from charge (writing off, sale) of objects of the fixed capital.
 22. Other interest and similar losses.
 23. Other costs.
 25. Profit (loss) from the ordinary entrepreneurship
 26. Unexpected income.
 27. Contingencies
 28. Annual profit (loss)
 29. Profit to be transferred to the concern
 30. Income tax
 31. Annual net profit
 32. Transfers to the reserves or for other purpose.
 33. Retained income (uncovered loss) of a fiscal year.
- b) applying the method of distribution expenses:***
1. Revenue of sale of goods (works, services).
 2. Main costs for the sold goods (works, services).
 3. Sale total

4. Commercial costs
 5. Management costs
 6. Other earned income
 7. Other operating costs
 8. Income gained from partnership in other enterprises.
 9. Income gained from other financial investments.
 10. Interest and similar income.
 11. Writing off of financial investments.
 12. Interest and similar charges.
 13. Profit (loss) from ordinary entrepreneurship.
 14. Unexpected income
 15. Factory overheads.
 16. Annual profit (loss).
 17. Profit to be transferred to the concern.
 18. Income tax.
 19. Annual net profit.
 20. Transfer to reserves and for other purpose.
 21. Retained profit (uncovered loss) of a fiscal year.
- 7.2. If the enterprise does not obtain profit or loss stipulated those items may not be shown.
- 7.3. If profits and losses are given under other items as compared with similar profits and losses per the profit and loss account of the previous fiscal year the operating report shall mention this fact indicating the amounts.
- 7.4. Sums (dividends, share of the profits) to be distributed among the company's partners shall be shown in the operating report separately mentioning the corresponding sources.

8. Standards of Certain Items of Profit and Loss Account

- 8.1. There shall be shown in the first subpoint of points "a" and "b" of Article 7.1 of profit and loss account that income which will be gained from the sale or transfer of produce and goods, rendering service typical for ordinary activity of an enterprise less adjustment of taxes and revenues.
- 8.2. Property modification mentioned in the second subpoint of point "a" of Article 7.1 is accounted both as quantitative and cost variation. At the same time when fixing the value there shall be accounted those depreciation only which do not exceed the planned depreciation established for the enterprise.

Non-planned writing off as well as writing off which, under reasonable commercial estimation, is necessary for prevention of change in the cost arisen out of price fluctuation in the nearest future, shall be separately shown or mentioned in the operating report.

Revenues and expenditures connected with the profit or part of profit under the agreement made between enterprises shall be shown under separate title.

The items "Unexpected income" and "Contingencies" shall reflect those income and expenses which are not connected with ordinary activity of the enterprise. They shall be interpreted in the operating report according to their kind and amount, if they are of significant importance to the valuation of enterprise's activity. This rule shall be applied also to those profits and losses which belong to the previous fiscal year.

- 8.3. Profit gained under the agreement on transfer of total profit or share of profit, made between the enterprises, shall be reduced by the amount which belongs to other partners of the transferring enterprise. If this amount exceeds the amount of profit this increment shall be shown in the losses for the assumed costs. Other sums shall not be reduced from those profits.
- 8.4. Those sums which are to be paid by an enterprise as a person liable to the taxation shall be reflected in kind of taxes.

9. Pension Deductions

The annual report shall interpret the amount paid within a fiscal year, including the amount of pension deductions transferred to the legally independent agencies of social welfare and the percentage of intended amounts to be annually paid within the next five fiscal years.

10. Operating Report

- 10.1. The operating report shall include the information of economic activity of a company. It shall also indicate the events of special significance taking place after the fiscal year has ended.
- 10.2. The operating report shall contain also interpretation on annual balance. At the same time the methods of estimation and writing off shall be the most detailed for complete understanding of property and financial state of the company. The detailed description of those methods is not required if they have not been changed within the last three years and were described in the report of previous years. The operating report shall show those differences preventing the comparison of annual report of the previous year to the last annual report, namely, the significant changes in the methods of estimation and writing off, including those ones in not planned writing off or price adjustment. The detailed data are not required here if extra annual profit or loss arisen due to those changes in methods of estimation and writing off, including not planned writing off or price adjustment, does not exceed 10% of the amount to be obtained without the said amendments.
- 10.3. Every operating report shall include:

- a) data on general and additional contributions, which any partner has obtained as the founder or shareholder's right, or in order to increase the authorised capital when exchanging shares for his company or an independent enterprise, or applying the right of first refusal for that enterprise, the majority shares of which belongs to the company. Should realization of such shares take place during the fiscal year, this fact and the amount of gained profit and the ways of its use shall be indicated;
- b) shares obtained for the increase of authorised capital within the fiscal year;
- c) capital stock;
- d) the right of non-members of the company to own the part of profit or receipts after the winding up, mentioning the rights arisen within a fiscal year;
- e) responsibility not indicated in the balance sheet, including the secured own liabilities;
- f) total earnings (wages, profit sharing, compensation of expenses, insurance premiums, allowances and any other earnings) of members of managing and supervisory body or similar bodies with respect to each body separately. The total earnings shall also include the receipts not to be paid but to be transformed to the claims of other kinds or used for increasing of other demands.

Besides the earnings of the given fiscal year, there shall be reflected also those profits which have been gained within the given fiscal year but has not been shown in any annual report. If company's directors gain additional income from their activity as legal representatives or employees of the affiliated company, those income shall be shown separately;

- g) total income (final settlement, pensions, allowance for the loss of bread-winner and other similar income) of former directors and members of their family. If the former directors and their families receive compensations or pensions from the affiliated companies as well, those gains shall be shown separately;
 - h) the legal and commercial relations with affiliated enterprises located inside the country as well as economic activities of those companies which may significantly influence over the state of the company;
 - i) the other's participation in the society, at the same time there shall be indicated whom does this share belongs to, and, does this share exceed the 1/4 of total shares, or is he the holder of controlling interest.
- 10.4. The report shall correspond to the principles of fair and correct accounting. The report shall be made up in correspondence with the public interests. No detailed data shall be shown in the report if, according to the reasonable commercial estimation, the reflection of such data may cause a significant damage to the company or its affiliates. If any datum is not included for protection of commercial secrecy, there shall be mentioned in that item of operating report where that datum should be reflected, that in respect of that datum the rules of protection of secrecy have been applied as provided by the corresponding standards.
- 10.5. The operating report shall contain full names of all members of company's directors and supervisory bodies as well as of those ones who have left the company within the fiscal year

and afterwards. The personality of a supervisory body chairman, his deputies and chairman of company's board, if exists, shall be indicated too.

11. Subject and Scope of Audit

- 11.1. The annual accounts, account books and operating report shall be checked up by one or some independent auditors (final audit). Annual balance sheet cannot be approved without such audit.
- 11.2. The audit of annual balance sheet shall establish if requirements of the law and charter are observed in respect of the annual balance and if the data given in the balance sheet not create a false image of business conducted in the society.
- 11.3. Should the company's directors change the annual balance sheet after making up of auditor's statement the auditors shall carry out the audit of annual balance sheet for the second time.
- 11.4. Auditors are to be elected by the partners by the simple majority of votes.

12. Brief Accounts for Small Enterprises

The small enterprises may instead of the balance sheet and profit and loss account, make up the list of assets and liabilities on the grounds of inventory and the credit-and-debit sheet as provided by the tax law.

*President of Georgia
Tbilisi
December 13, 1996
N 535-Is*

Eduard Shevardnadze

Signed & sealed

Law of Georgia

**Concerning making amendments and Supplements in the Law of Republic of Georgia «On
Entrepreneurs»**

The Parliament of Georgia enacts:

- I. To make following amendments and supplements in the Law of Republic Georgia «On
Entrepreneurs» of October 28, 1994 (Bulletin of the Parliament of Georgia, 1994, NN 21-22,
Art.455):
 1. To delete the words «consumer cooperatives» from subparagraph «d» of Paragraph 2 of
Article 60.1.
 2. To add subparagraph «g: to Paragraph 2 of the same Article:
«g) Consumer (diversified) cooperatives the legal, economic and social basis of which shall be
regulated by he Law of Georgia «On Consumer Cooperation».
- II. The present Law shall become effective upon its promulgation.

President of Georgia

Eduard Shevardnadze

Signed & sealed

Tbilisi

May 15, 1997

N 712-11s

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LAW OF GEORGIA

On Making Supplement in Law of Georgia On Entrepreneurs

The Parliament of Georgia resolves:

To add the item "f" of the following content to paragraph 1 of Article 60 of the Law of Republic of Georgia On Entrepreneurs of 28.10.1994 (Bulletin of Parliament of Georgia, 1994, No. 21-22, Art. 455):

"f) agricultural-credit cooperatives".

President of Georgia

Eduard Shevardnadze

Tbilisi

June 13, 1996

No. 175-II

LAW OF GEORGIA
On Making Supplement and Amendment in Law of Georgia On
Entrepreneurs

The Parliament of Georgia resolves:

- I. To make the following amendment and supplement in the Law of Republic of Georgia On Entrepreneurs of 28.10.1994 (Bulletin of Parliament of Georgia, 1994, No. 21-22, Art. 455):
 1. To delete the words "consumer cooperatives" from item "d" of paragraph 2 of Article 60.1.
 2. To add the item "g" to paragraph 2 of the same Article:

"g) the consumer (diversified) cooperatives the legal, economic and social principles of which are regulated under the law of Georgia On Consumer Cooperation".
- II. This law is effective from its promulgation.

President of Georgia

Eduard Shevardnadze

Tbilisi

June 13, 1996

No. 715-II

LAW OF GEORGIA

On Making Supplements and Amendments in Law of Georgia On Entrepreneurs

The Parliament of Georgia resolves:

- I. To make the following amendments and supplements in the Law of Republic of Georgia On Entrepreneurs of 28.10.1994 (Bulletin of Parliament of Georgia, 1994, No. 21-22, Art. 455):
 1. To word item 4 of article 2 as follows:

“2.4. An entity other than a cooperative, with more than 50 partners shall be incorporated as a joint-stock company only.
 2. To word item 6 of Article 13 as follows:

“13.6. The rules on structure of the annual balance and profit-loss account as well as content of relevant information are given in the Appendix to this Law and may be applied separately in cases provided by the law.
 3. To add item 3 of the following content to Article 51:

“ 51.3. The joint stock company the number of shareholders of which exceeds 100 shall keep the shareholders register through the independent registrar under the contract with him. If the number of shareholders does not exceed 100, it may, at their discretion, keep the register by itself or through the independent registrar”.
 4. To add the following text to item 7 of Article 54:

“Other than those decisions provided by items “a”, “b” and “c” which shall be made by more than 2/3 of the attended voting shares, and decisions provided by item “c” and “d” which shall be made by more than 3/4 of the attended voting shares”.
 5. To add the Chapter 6 of the following content to the Law:

“Chapter VI

Transitional Provisions

Article 69. Keeping Share Register

1. Before the passing of Law of Georgia On Security Market the rule of keeping the shares register and activity of registrars shall be regulated under the orders of President of Georgia.
2. Item 4 of Article 1 of this Law will be extended to the joint stock companies registered before its effective date from September 1, 1999.

3. To request the President of Georgia to submit the draft law On Making Amendments and Supplements in the Law of Georgia On Entrepreneurs till October 1, 1998.

II. This Law is effective from August 1, 1998.

President of Georgia

Eduard Shevardnadze

Tbilisi

June 26, 1996

No. 1510-II

ATTACHMENT 8

**GEORGIAN LAW ON PROMOTION AND GUARANTEES
OF INVESTMENT ACTIVITY**

Non-Official Translation

The Consulting Firm "Dikke International" Ltd.

Law of Georgia
**"On Promotion and Guarantees of
Investment"**

Law of Georgia

"On Promotion and Guarantees of Investment"

The Law determines legal grounds of realization of both foreign and domestic investments and guarantees of their protection. The target of Law is establishment of instrumental legal regime of investments.

Chapter I.

General Provisions

Article 1. Investment

1. Investment is any kind of property or intellectual value or right contributed and used within the entrepreneurship implemented on the territory of Georgia for earning of possible income.
2. Such value or right may be:
 - a) funds, shares, stocks and other securities;
 - b) movable and immovable property - land, buildings, equipment and other material values;
 - c) land tenure or right to use other natural resources. (concession, as well), patent, license, "know-how", experience and other intellectual value;
 - d) other legally recognised property and intellectual value or right.

Article 2. Subject (Investor) and Object of Investment

1. Investor is any physical or legal person, or international organization realizing investments in Georgia.
2. Foreign investor may be:
 - a) a citizen of foreign country (alien);
 - b) a stateless person not permanently residing on the territory of Georgia;
 - c) a citizen of Georgia permanently residing abroad;
 - d) a legal person registered outside Georgia.
3. Rights of an enterprise with at least 25% of foreign investor's share are equated to the rights of a foreign investor.
4. The investment on the territory of Georgia may be contributed into an object of any legal type investing in which is not prohibited by clause 9.1. of the present Law. Investing in objects listed in Article 9 and 12 of the present Law may be realized on the grounds of appropriate

Chapter II.

Legal Statute of Subjects of Investment

Article 3. Investor's Rights

1. A foreign investor whilst executing investment and entrepreneurship shall enjoy rights and guarantees in limits not less the those granted to a physical and legal person of Georgia.
2. An investor is entitled to open current and other accounts in any currency with any banking institution on the territory of Georgia.
3. An investor is entitled to take a loan in any banking and finance institution, or from physical or legal persons both in Georgia and abroad.
4. An investor is entitled to acquire stocks, bonds and other securities and property existing both on the territory of Georgia and abroad.
5. A foreign investor after payment of taxes and other charges is entitled to convert the earnings (income) gained after investments as well as other funds at the market exchange rate in bank institutions of Georgia as well as to repatriate them abroad without any limitation.

Those funds include:

- a) any contribution to the capital stock of an object established with foreign investment;
 - b) any profit and dividend as well as assets remained after the entire or partial sale or liquidation of foreign investment;
 - c) payments related to contractual obligations and acknowledgements of debt;
 - d) property use right tax which shall be determined as percentage of profit gained after use of other's property, including natural resources, copyright, patent - royalty, as well as managerial and other rent.
6. A foreign investor is entitled to take his owned property abroad.
 7. The right provided by Clause 5.5. may be restricted because of bankruptcy, commission of crime recognised by the court or in connection with non-fulfilment of civil duties, as provided by the law.

Article 4. Investor's Duty

The investor shall carry out his activity in accordance with the applicable law, including laws concerning environment and health protection.

Chapter III.

Promotion of Investment and Registration

Article 5. Promotion of Investment

Working out of state program for promotion of investment and of state policy related to its implementation shall be executed by the Ministry of Economy of Georgia together with appropriate departments.

Article 6. State Registration of Foreign Investment

1. A foreign investor shall within 60 days following the investing register the investment in amount not less 100,000 dollars USA (or its equivalent) at the Foreign Investment Agency existing at the Ministry of Trade and Foreign Economic Relations of Georgia. Otherwise he shall be banned on investment. The aim of registration is creation of a single statistic base of investments realised in Georgia.
2. A foreign investor shall once a year (till the end of a fiscal year) to submit information of amount of additional investments to the Foreign Investment Agency.
3. For registration a foreign investor shall submit:
 - a) full title of investment objects; brief description of main directions of investment;
 - b) copy of certificate on corporation of appropriate enterprise;
 - c) certificate on investment value;
 - d) special permit, including licence, for events stipulated in Articles 9 and 12 of this Law.
4. The agency has no right to require on submission of any other data from the investor except those listed in Clause 3 of this Article.
5. In 5 days following the submission of application for registration the Foreign Investment Agency existing at the Ministry of Trade and Foreign Economic Relations of Georgia shall pass a foreign investment through registration. Should the agency not examine the matter of registration within the fixed term such investment will be considered as registered under the law.
6. Refusal of state registration may be given only in the event if investor does not meet requirements specified in Clauses 1 and 2 of Article 9 of this Law.
7. Refusal of state registration may be appealed against according to the order established by Article 16 of this Law.

Chapter IV.

Investment Protection Guarantees

Article 7. Inviolability of Investment

1. The investment is entirely and unconditionally protected in Georgia by the applicable law.
2. Investment may be withdrawn in cases directly specified by the law only, by court ruling or in case of emergency established by the fundamental law and with appropriate compensation.
3. Decision on withdrawal of investment as well as compensation terms may be appealed against at the court, and if the investor is an alien, the matter shall be settled in accordance with order established by Article 16 of this Law.

Article 8. Compensation for Withdrawal of Investment

1. Compensation to be given to the investor shall correspond to the real market value of the withdrawn investment by the very moment of the withdrawal.
2. Compensation shall be given without any delay and shall estimate those losses which have occurred from the moment of withdrawal till the payment of a compensation amount.
3. A foreign investor has right to convert the compensation amount at the market exchange rate in the bank institutions of Georgia and transfer it abroad freely and without delay.

Article 9. Ban and Restriction in the Sphere of Realization of Investment

1. The list of those fields and branches where investing is prohibited shall be approved by the Parliament of Georgia after nomination of the President of Georgia.
2. An investor has no right to carry out the following activity without permit or license of appropriate department:
 - a) preparation and sale of the arms and explosives;
 - b) preparation and sale of medicines and substances subject to special control;
 - c) use of forestry and entrails;
 - d) arrangement of casinos and other games of chance and lotteries;
 - e) banking activity;
 - i) insurance activity;
 - g) issue of marketable securities, stocks and bonds;
 - h) wireless connection service and creation of broadcast channels;

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2. Articles 7,8,14 and 16 of the present Law shall not be subject to legislative modification in future.

Article 16. Rule of Resolution of Disputes

1. Disputes between a foreign investor and enterprise registered in Georgia shall be settled by amicable agreement as established by procedure or by the court of Georgia.
2. Disputes between a foreign investor and governmental body, if the order of its resolution is not agreed between them, shall be settled at the court of Georgia or at the International Centre for the Resolution of Investment Disputes. Should dispute be not considered in the International Centre for the Resolution of Investment Disputes the foreign investor is entitled to refer a dispute to the additional institution of the Centre or to any international arbitration established in accordance with regulations provided by the arbitration and international agreements of the Commission of the United Nations for International Trade Law - UNCITRAL.
3. The award of the international arbitration mentioned in Clause 2 of this Article is final and shall be without appeal. Its enforcement shall be provided by the state.

President of Georgia

Eduard Shevardnadze

Tbilisi

12.11.1996

No. 473-Is

LAW ABOUT PRIVATIZATION OF STATE PROPERTY

The law determines legislative, economic, organizational and social bases of privatization of state property of Georgia; main principles of implementation of privatization; promotes the process of acquisition of state property by physical and legal persons, or their mergers. Objective of the law is to assure establishment of ownership relations, that encourage development of efficient and socially oriented market economy.

Article 1.

General Provisions

Clause 1. Definitions Used in the Law

For the purpose of this Law, the following words shall have the following meanings:

1. "State Property" - shall mean enterprises, or their subdivisions that can be separated as independent enterprises; buildings, constructions, facilities or other tangible and non-tangible asset, both liquidated or subject to liquidation; shares and stocks being in governmental ownership.
2. "Privatization" - shall mean acquisition by physical or legal persons, or their mergers, of ownership rights over state property, that results in revocation of the State's rights to own, use and control the privatized property, whereas the state agencies - rights to manage the same.

Clause 2. Georgian Legislation on Privatization of State Property

1. Privatization of state property in Georgia shall be conducted in accordance to the Georgian Constitution, the Civil Code, the present law and the other laws and sub-law normative acts. The present law does not regulate the issues concerning the privatization of lands and of the state household asset.
2. Purchaser of the state property can be a Georgian or foreign physical and legal person, if the Georgian state or local government's (in transition period - local authority) share in his capital does not exceed 25%.

Clause 3. Body of Implementation and Control of Privatization of State Property

1. Control and privatization of the state property shall be responsibility of the Ministry of State Property Management.
2. Appropriate bodies of state property management shall be created in autonomous republics, whereas appropriate structural sub-divisions - in regions and cities.
3. In order to promote an omnibus privatization policy in Georgia the Ministry shall:
 - a. represent an authorized owner of the state property, that holds, controls and manages the state property.
 - b. elaborate, in conjunction with appropriate structures of executive power and in other governmental bodies, and submit to the President for approval, sole draft plan on omnibus privatization for individual branches of the economy, considering specifics of each branch, as well as, if necessary, amendments and changes to this plan.
 - c. provide methodical and organizational guidance and supervision to the process of privatization in the State, identify decisions and facts in this area conflicting with a Law and undertake measures to eliminate such.
4. During the privatization and management of the state property, the Ministry of State Property Management and its regional bodies are authorized to act through their representatives (Trustees) , or through intermediaries.
5. The list of utilities to be privatized shall be approved by the Ministry of State Property Management in conjunction with the Ministry Economy and with corresponding ministries and agencies. The list of utilities of state municipal subordination, subject to privatization, shall be approved by corresponding local authority in conjunction with the Ministry of State Property Management.
6. Privatization of the state property shall be implemented by the Ministry of State Property Management, and of the state municipal property - by its local body. The Ministry of State property Management shall be authorized to transfer the rights of privatization of the state property (except shares) to its local bodies.
7. Transfer of the rights to control the state shares shall only be made upon bidding

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Clause 4. State Property Exempt From Privatization

1. State property as follows shall not be subject to be privatized:
 - a. mineral, water resources, territorial waters, continental shelves, special economic and boundary zones, forest reserves, air space, natural territories protected or subject to usage by special rules;
 - b. objects of historical-cultural and art treasury, state archives of historical and cultural importance, state funds of audio and video documentation, state museums, theaters, archives and funds of scientific-research institutions of Georgian ministries (agencies);
 - d. state contingency stocks, state reserves, precious metals' reserves;
 - e. electricity transmission/dispatch services;
 - f. institutions of fundamental sciences of the Georgian Academy of Science, institutions of state higher education and scientific-research institutes subordinated to such and financed by the state budget;
 - g. piers of the sea ports of general state importance, hydro-technical constructions, light-houses, buoys and territorial waters;
 - h. railway of state importance, main gas pipeline, highways (in case of absence of the parallel state road), air traffic control systems and runways;
 - i. current and reserve property of security, interior, defense, prosecution and judicial systems;
 - j. frequency spectrum of state mail links, TV and broadcasting, inter-city and international telephone communications, facilities of governmental communication and positions of the Georgian property on geo-station orbit.
 - k. enterprises manufacturing radioactive and military materials, property of their pilot/construction and scientific institution;
 - l. state cemeteries and pantheons;
 - m. common system of the state water supply and sewage water supply;
 - n. state medical institutions of vital importance, subject to listing with regard to the existing rules;
 - o. administrative buildings of the state bodies.

Clause 5. Social Guarantees and Bonuses to the Employees

1. For the purpose of protection of interests of employees in enterprises, after the filing of the privatization application (regardless of initiator of privatization) and before the purchaser acquires rights of possession over the property, without approval of the Ministry of State Property Management forbidden shall be:
 - a. reorganization or liquidation of the enterprise;
 - b. changes in personnel system, as well as increase or reduction of number of employees;
 - c. selling or trade, lease or rent, mortgage, suspension or termination of earlier agreements on use of the main asset.
2. Prior to the time of establishment of the enterprise as a Joint Stock Company, the employees shall be given up to 10% of shares the entire charter capital free, but not exceeding 100 times of the minimal salary rate, fixed in Georgia, per employee. The said bonuses apply to:
 - a. employees for whom the enterprise is a main affiliation;
 - b. persons, who have a right to return to the enterprise, according to the existing legislation;
 - c. pensioners, retired from the enterprise and had worked at the enterprise for not less than 5 years;
 - d. persons, downsized during the year prior to the establishment of the enterprise as a Joint Stock Company, and registered as unemployed.
3. Within three months after registration of acquisition of rights on property, purchaser of an enterprise shall draw the agreement with employees; such agreement shall reflect all commitments concerning the labor organization, labor protection and salary issues.
4. Amount of simultaneous financial support and labor arrangements for the employees, dismissed by an initiative of purchaser of the enterprise shall be made with regard to the existing legislation.

Article 2.

Forms and Rules of Privatization

Clause 6. Forms of Privatization of the State Property

1. Privatization shall be made thorough acquisition of property by bidding, auction, lease -purchase or direct selling.
2. Purpose of the bidding is to grant the rights on property to the purchaser, that offers the best conditions.
3. Purpose of the auction is to grant the rights on property to the purchaser, who offers the highest price during the auction.
4. Purpose of lease-purchase of the state property is to grant the rights of operational ownership and use of tangible values for the fixed period of time to assure independent economic activity.
5. Purpose of direct selling is to attract investments on the basis of proposed business-plan and considering specific of the property to be sold.
6. Decision on form of privatization of the state property shall be made by the Ministry of State Property Management or its regional body, except the cases of direct selling, subject to be decided by the President of Georgia.
7. By-laws of individual forms of privatization of the state property shall be approved by the Ministry of State Property Management, according to the Georgian legislation.

Clause 7. Rules of Determination of Initial Price of the Property and of Payment

1. Rules of determination of initial privatization price shall be approved by the President of Georgia.
2. Price of the state property to be sold by budding, auction and lease-purchase forms shall be determined bidding system.
3. Payment for the property acquired can be made simultaneously or by installment.
4. Full price of the state property sold by bidding shall be paid within two years.

5. Full price of the state property sold by auction shall be paid within thirty calendar days.
6. Full price of the state property, privatized by lease-purchase form, shall be paid within ten years from the day the lease agreement was signed.
7. Full price of the state property sold directly shall be paid wholly within thirty days from the day the decision was made.
8. If the state property fails twice to be privatized by bidding, auction or lease-purchase, the initial price of the property shall be reduced up to 50%.

Clause 8. Allocation of the Funds from Privatization

1. Funds received from privatization of the state property shall be allocated in priority as follows:
 - a. financing measures on development of small business;
 - b. financing measures on creation of new labor positions in industry;
 - c. financing logistic expenses of the privatization process;
 - d. financing contingency expenses, as decided by the President of Georgia.
2. Rationing of allocation of the funds from privatization shall be determined by the President of Georgia according to the existing legislation.

Clause 9. Information on the Property to be Privatized

1. The information about the state property to be privatized through bidding, auction, lease-purchase and direct selling shall be published by formal bulletins of the Ministry of State Property Management or by local releases (if privatization is conducted by the local authority of the Ministry of State Property Management). Other sources of information may also be used.
2. The information about privatization of the state property shall be released at least one month before the bidding, auction, lease-purchase or direct selling is held.
3. The information released shall contain the data on square space of the objects to be privatized, as well as characteristics of the facilities on such space, address and conditions of selling. Purchaser may request for additional information, if necessary.

Article 3.

Rules of Completion of Agreements

Clause 10. Agreements on Privatization

1. While privatizing by bidding, auction and direct selling, the purchaser and the seller shall enter into Purchase-Sell Agreement, subject to notary rules. Lease agreement shall be drawn for Lease-Purchase cases.
2. The agreement shall contain: information about the Purchaser and the Seller, title of the property, its composition and price, addresses of the parties, purchaser's commitments on prospective use of the property purchased.
3. Pursuant to the Clause 10.1 of the present law, the Purchaser acquires rights on the property upon issuance for the Purchaser of the evidence of ownership. Such evidence shall be issued not later than two months after the full price of the property was paid out, subject to prove.
4. Purchaser of the state property shall become a legal successor. Extent of successorship shall be determined by the share of the Purchaser in the charter capital.

Clause 11. Cancellation of Privatization Agreements

1. Disputes and issues on cancellation concerning the privatization shall be subject to review by the Court.
2. Legal and ownership results of cancellation of privatization agreements shall be determined pursuant to the Georgian legislation.
3. Dispute cases concerning the privatization of the state property shall be valid during three years.
4. Examination of legitimacy of documentation about the privatized state property shall be conducted solely by the Chamber of Control of Georgia through the coordinated rule, with participation of appropriate specialists and in the central and regional structures of state property management. Review of individual issues directly in privatized enterprises may be allowed, in exceptional cases, with participation of representatives of the Ministry of State Property Management and of its local representatives, also in cases determined by the legislation. The financial information on stocks, shares of the legal or physical persons can be made available only by the person's or court's decision.

Article 4

Transition Provisions

Clause 12. The Rules and Regulations which shall be adopted for Enforcement of this Law

1. Within three months from the day the present law becomes effective, the Ministry of State Property Management shall prepare and submit for presidential approval items as follows:
 - a. draft plan on privatization of individual branches of the national economy;
 - b. rules of determination of initial prices for the property to be privatized;
2. Within three months from the day the present law is valid, the Minister of State Property Management approves the by-laws as follows:
 - a. about privatization of the state property through bidding;
 - b. about privatization of the state property through auction;
 - c. about privatization of the state property through lease-purchase;
 - d. about privatization of the state property by direct selling;
 - e. about the bidding form of transferring the rights on management of the state shares;
3. The government of Georgia, and the National Bank of Georgia shall prepare within two months and submit to the Parliament for consideration proposals about feasibility of participation of account holders in the privatization process (prior to April 1, 1993) and the mechanism of their participation.

Article 5

Conclusive Provisions

Clause 13. Effectiveness of the Law and the List of Superseded Rules and Regulations

1. The present law shall become effective upon its publication.

2. from the day the present law is effective, following shall be superseded:
- a. Statement #342-1S of the Supreme Council of the Republic of Georgia "About Privatization of the State Enterprises", August 9, 1991, making effective the law of the Republic of Georgia (Georgian Supreme Council Herald, 1991, # 8, Article. 583);
 - b. The Law of the Republic of Georgia "About Privatization of the State Enterprises" August 9, 1991 Georgian Supreme Council Herald, 1991, # 8, Article. 582);
 - c. Statement #209-1S of the Parliament of Georgia "About Delegation of Right to Approve the List of the Utilities to be Privatized According to the State Program of 1993 to the Cabinet of Ministers of the Republic of Georgia", April 6, 1993 (Georgian Parliament Herald, 1993, # 6, Article. 84).
 - d. Decree #238 of the Head of the State of Georgia "About Extension of Validity and About Partial Amendment of the State Program of Privatization of the Republic of Georgia", November 26, 1993.
 - e. Order #80 of the Head of the State of Georgia "About Indispensable Measures on Improvement of Privatization of the State Enterprises of the Republic of Georgia", April 11, 1994.
 - f. Order # 120 of the Head of the State of Georgia "About Some Issues Concerning the Control of Privatization Process of the State Property in the Regions of the Republic", June 22, 1994
 - g. Decree #278 of the Head of the State of Georgia "About Additional Measures on Privatization of Incomplete Constructions", August 26, 1994.
 - h. Decree #13 of the Head of State of Georgia "About Amendments and Changes in the State Program of Privatization of the State Enterprises of the republic of Georgia as of 1995", January 17, 1995
 - i. Decree #63 of the Head of the State of Georgia "About Organization-Economic Measures of Promotion of Massive Privatization", March 13, 1995.
 - j. Decree # 228 of the Head of the State of Georgia "About Establishment of the State Holding Company "Georgian Oil Product", June 11, 1995.
 - k. Order #88 of the Head of the State of Georgia "About the Measures on Improvement of Massive Privatization and Participation of Georgian Citizens", June 21, 1995.

- l. Decree #250 of the Head of the State of Georgia "About Acceleration of Privatization of Non-living Spaces and About Organization of Control Over the Real Estate in Kutaisi", June 21, 1995.
- m. Order #209 of the Head of the State of Georgia "About additional Measures on further Acceleration of Privatization Process of the State Enterprises", September 27, 1995.
- n. Decree of The Governmental Council of the republic of Georgia "About the State Commission of Management of Privatization of the State Property", may 20, 1992.
- o. Statement #943 of the Government of the Republic of Georgia "About Transfer of the Right of Possession and Use of the State Property to Ministries and Agencies", September 21, 1992.
- p. Statement #268 of the Cabinet of Minister of the republic of Georgia "About Some Measures on Promotion of Privatization Process", March 5, 1992.
- q. Statement # 612 of the Government of the republic of Georgia "About Approval of By-Laws Concerning the Adoption of the Law of Georgia About Privatization", May 29, 1992
- r. Statement #829 of the Government of the Republic of Georgia "About the State Program of Privatization of State Enterprises", August 11, 1992
- s. Statement #287 of the Cabinet of Ministers of the Republic of Georgia "About Establishment of Coordinating Council and of Regional Committees for Enforcement of Privatization Vouchers", April 14, 1993
- t. Statement #628 of the Cabinet of Ministers of Georgia "About Introduction in Georgia of Privatization Vouchers", August 19, 1993.
- u. Statement #634 of the Cabinet of Ministers of Georgia "About Establishment of Holding Companies and Approval of By-Laws Concerning the Activity", August 20, 1993.
- v. Statement #809 of the Cabinet of Ministers of Georgia "About Extensions of Validity and Partial Amendment of the State Program of Privatization of State Enterprises", November 17, 1993.
- w. Statement of the Cabinet of Ministers of the Republic of Georgia "About Approval of By-Laws Concerning the Bidding Form of Privatization of State (Municipal) Utilities", January 21, 1994.

- x. Statement #725 of the Cabinet of Ministers of the Republic of Georgia "About Improvement of the Process of Privatization of Utilities Located in the Buildings of Rustavi Living/Accommodating System", October 10, 1994.
- y. Statement #916 of the Cabinet of Ministers of the Republic of Georgia "About Amendments and Changes in the State Program of Privatization of State Enterprises as of 1995", December 31, 1994.
- z. Statement #20 of the Cabinet of Ministers of the Republic of Georgia "About Determination of Rules of Payment and Amount of Lease During the Leasing of State Enterprises", January 8, 1995
- aa. Statement #14 of the Cabinet of Ministers of the Republic of Georgia "About the Measures on Enactment of the Privatization Vouchers in the Republic of Georgia", January 18, 1995.
- bb. Statement #128 of the Cabinet of Ministers of the Republic of Georgia "About Acceleration of Privatization of Utilities Located in Non-Living Spaces under the Jurisdiction of Municipal Living-Accommodating Authorities", March 10, 1995.
- cc. Statement #248 of the Cabinet of Ministers of the Republic of Georgia "About The Measures Accelerating Privatization and Commercialization of Enterprises and Institutions of the Department "SakGas", may 10, 1995.
- dd. Statement #267 of the Cabinet of Ministers of the Republic of Georgia "About the Organizational Measures of Circulation of and Payment for the Privatization Vouchers", May 20, 1995
- ee. Statement #329 of the Cabinet of Ministers of The Republic of Georgia "About Specialized Investment Funds of Privatization", June 6, 1995.

President of Georgia

E. Shevardnadze

Tbilisi,
May 30, 1997