Deloitte & Touche

Georgia: Auditibility Improvements for Five Energy Providers

Project Deliverables

SEGIR Privatization IQC No.
PCE-I-03-98-00016-00

Submitted by:
Deloitte & Touche

Submitted to:
USAID ENI/EEUD/EI
USAID/Georgia

November 2000

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November 21, 2000

Herb Emmrich
Senior Energy Advisor
USAID
20 Telavi St.
5th Floor
Tbilisi, 380003, Georgia

Mr. Emmrich:

In accordance with the terms of contract PCE-I-03-98-00016-00 (Georgia Audits), Deloitte & Touche are pleased to provide the following deliverables related to auditibility improvements at the selected energy providers:

- State Company Electrodispetcherizatsia 2000 – Compiled Financial Statements for the period from 7 March 2000 (date of inception) to 30 June 2000;
- Financial Forecast for State Company Electrodispetcherizatsia 2000;
- Enguri HPP, Vardnilli HPP and Enguri Dam - Compilation of Combined Financial Statements for the period from 1 January 2000 to 30 June 2000, and the year ended 31 December 1999;
- Financial Forecast for State Companies Enguri HPP, Vardnilli HPP, Enguri Dam;
- Company Policies and Procedures – Georgian International Gas Corporation;
- Company Policies and Procedures – Vardnilli Hydro Power Plan;
- Company Policies and Procedures – Electrogadatsema;
- Company Policies and Procedures – Enguri Dam;
- Company Policies and Procedures – Enguri Hydro Power Plant.

In addition to the above, we have provided the necessary training courses to all energy providers during the month of November, as required by the auditibility improvement action plan.

We appreciate the opportunity to serve USAID in your critical mission to restructure the energy sector of the Republic of Georgia, and would like to express our gratitude for the assistance provided to us in this project. Should you have any questions, please do not hesitate to contact me at 371-912-7966.

Sincerely,

for

Justin Bancroft
Director

Deloitte
Touche
Tohmatsu

State Company
Electrodispetcherizatsia 2000

Financial Statements
for the period from 7 March 2000 (date of inception)
to 30 June 2000

STATE COMPANY ELECTRODISPETCHERIZATSIA 2000

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INDEPENDENT ACCOUNTANTS' COMPILATION REPORT

To the Board of Directors and Shareholders of
Electrodispetcherizacia 2000
Tbilisi, Georgia

We have compiled the accompanying balance sheet of Electrodispetcherizatsia 2000 (the Enterprise) as of 30 June 2000 and 7 March 2000 (date of inception) and the related statements of income and fund balances and cash flows for the period from 7 March 2000 (date of inception) to 30 June 2000, in accordance with International Standards on Auditing applicable to compilation engagements issued by the International Federation of Accountants.

A compilation is limited to presenting, in the form of financial statements, information that is the representation of management. We have not audited or reviewed the accompanying financial statements and, accordingly, we do not express an opinion or any other form of assurance on them.

The accompanying financial statements have been prepared assuming that the Enterprise will continue as a going concern. As described in Note 18 to the financial statements, the Enterprise's recurring losses from operations raise substantial doubt about its ability to continue as a going concern. Management's plans concerning these matters are also described in Note 18. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Vilnius, Lithuania
01 September, 2000

STATE COMPANY ELECTRODISPETCHERIZATSIA 2000

BALANCE SHEETS
AS OF 30 JUNE 2000 AND 7 MARCH 2000 (date of inception)
All amounts stated in GEL unless otherwise stated

	Notes	30 June (unaudited)	7 March (unaudited)
ASSETS			
Current assets			
Cash	2	124,560	-
Inventory	3	84,889	209,693
Trade accounts receivable, net	4	606,703	-
Other accounts receivable, net	5	35,081	4
Total current assets		**851,233**	**209,697**
Non-current assets			
Fixed assets, net	6	**3,300,667**	**4,746,076**
TOTAL ASSETS		**4,151,900**	**4,955,773**
LIABILITIES			
Current liabilities			
Trade accounts payable	7	38,602	-
Short-term loans		195	-
Other liabilities	8	405,918	-
Taxes payable	9	1,390,942	-
Total current liabilities		**1,835,657**	**-**
FUND BALANCE	10		
Statutory fund		4,955,773	4,955,773
Accumulated deficit		(2,639,530)	-
TOTAL FUND BALANCE		**2,316,243**	**4,955,773**
TOTAL LIABILITIES AND FUND BALANCE		**4,151,900**	**4,955,773**

The accompanying notes are an integral part of these financial statements.

STATEMENT OF INCOME
FOR THE PERIOD FROM 7 MARCH 2000 (date of inception) TO 30 JUNE 2000
All amounts stated in GEL unless otherwise stated

	Notes	30 June 2000 (unaudited)
Sales	12	3,833,203
Cost of sales	13	352,920
GROSS PROFIT		**3,480,283**
Provision for doubtful debts	4, 5	3,094,971
Other operating expenses	14	1,306,484
General and administrative expenses	15	1,166,784
Total operating expenses		**5,568,239**
NET OPERATING LOSS		**(2,087,956)**
Interest expense		8,623
NET LOSS BEFORE TAXATION		**(2,096,579)**
Taxation	16	542,951
NET LOSS		**(2,639,530)**

The accompanying notes on are an integral part of these financial statements.

STATEMENTS OF FUND BALANCE
FOR THE PERIOD FROM 7 MARCH 2000 (date of inception) TO 30 JUNE 2000
All amounts stated in GEL unless otherwise stated

ELECTRODISPETCHERIZACIA LTD.

STATEMENTS OF FUND BALANCE
FOR THE YEARS ENDED 31 DECEMBER 1999 AND 1998
All amounts stated in 000' GEL unless otherwise stated

	Statutory fund	Accumulated deficit	Total
At 7 March 2000 (unaudited)	**4,955,773**	**-**	**4,955,773**
Loss for the period	-	(2,639,530)	**(2,639,530)**
At 30 June 2000 (unaudited)	**4,955,773**	**(2,639,530)**	**2,316,243**

The accompanying notes are an integral part of these financial statements.

STATE COMPANY ELECTRODISPETCHERIZATSIA 2000

STATEMENT OF CASH FLOWS
FOR THE PERIOD FROM 7 MARCH 2000 (date of inception) TO 30 JUNE 2000
All amounts stated in GEL unless otherwise stated

	30 June 2000 (unaudited)
CASH FLOW FROM OPERATING ACTIVITIES	
Net loss before taxation	(2,096,579)
Adjustments to reconcile net loss before taxation to net cash provided by operating activities:	
Depreciation	172,716
Write off of fixed assets	1,306,484
Provisions for bad debts	3,094,971
Interest expense	8,623
Operating profit before working capital changes	**2,486,215**
Changes in operating assets and liabilities:	
Inventory	124,804
Trade accounts receivable	(3,681,674)
Other accounts receivable	(55,077)
Trade accounts payable	38,602
Other liabilities	405,918
Taxes payable	847,991
Cash from operations	**166,779**
Interest paid	(8,623)
Net cash provided by operating activities	**158,156**
CASH FLOW FROM INVESTMENT ACTIVITIES	
Acquisition of fixed assets	(33,791)
Net cash used in investing activities	**(33,791)**
CASH FLOW FROM FINANCING ACTIVITIES	
Repayment of short-term borrowings	(198,005)
Proceeds from short-term borrowings	198,200
Net cash provided by financing activities	**195**
Net increase in cash	**124,560**
CASH AT BEGINNING OF YEAR	**-**
CASH AT END OF YEAR	**124,560**

The accompanying notes are an integral part of these financial statements.

STATEMENT OF CASH FLOWS
FOR THE PERIOD FROM 7 MARCH 2000 (date of inception) TO 30 JUNE 2000
All amounts stated in GEL unless otherwise stated

PRINCIPLES OF ACCOUNTING

The financial statements have been prepared in accordance with International Accounting Standards (IAS) on the historical cost basis of accounting. The principal accounting policies adopted are set out below.

The accounting records of the Enterprise are prepared based on the Accounting Law of the Republic of Georgia and taxation regulations in the Republic of Georgia. Under these requirements accounting records are prepared on historical cost basis.

The accompanying financial statements have been prepared in the national currency of the Republic of Georgia, Lari (GEL), which is the Enterprise's functional currency.

FOREIGN CURRENCIES

Translation rates

Transactions denominated in foreign currency are translated into GEL at the official exchange rate of the National Bank of the Republic of Georgia on the date of the transaction, which approximates the prevailing market rates. Monetary assets and liabilities are translated at the rate of exchange on the balance sheet date. The applicable rate used for the principal currency as of 30 June 2000 was (GEL for a unit of foreign currency) 1.9601:1 USD.

Translation gains and losses

Gains and losses on translation are credited or charged to the statement of profit and loss at the official exchange rate of the National Bank of the Republic of Georgia on the balance sheet date.

Exchange differences arising on the settlement of monetary items are recognized in the period in which they occur.

There are no exchange rate restrictions in Georgia. The official National bank exchange rate approximated the market rate as of the balance sheet date and during the period from 7 March 2000 (date of inception) to 30 June 2000.

CASH

Cash includes cash on hand as well as demand deposits with financial institutions.

ACCOUNTS RECEIVABLE

Basis of presentation

Accounts receivable are stated at the principal amounts outstanding net of provision for bad and doubtful debts. The provision for bad and doubtful accounts receivable as of the balance sheet date represents the estimated amount of probable losses that have been incurred at the balance sheet date.

Provisioning policies

The provisions for bad and doubtful accounts receivable are composed of estimated figures for the following:

- specific provision for significant delinquent accounts;
- general provision based on the overall performance of specific debtor categories.

The level of provisions is based on estimates considering known relevant factors affecting the collectibility of accounts receivable. Ultimate losses may vary from the current estimates. These estimates are reviewed periodically, and as adjustments become necessary, they are reported in earnings in the period in which they become known.

Due to the inherent lack of reliable information regarding the customers' creditworthiness, the estimate of probable losses is uncertain. Nevertheless, the management of the Enterprise has made its best estimate of losses and believe those loss estimates presented in the financial statements are reasonable in light of all available information.

INVENTORIES

Valuation of inventories

Inventories are stated at lower of cost and net realizable value. Physical inventories are taken on a periodic basis to identify obsolete or slow moving items and reserves are determined for slow moving or obsolete items. The inventories are reported net of these reserves.

The cost basis

The historical cost of inventories is computed under the weighted average cost method.

TANGIBLE FIXED ASSETS

Basis of presentation

Tangible fixed assets are stated at historical cost less accumulated depreciation. Based on local accounting practices, the Enterprise is unable to provide detailed information regarding the gross amount of fixed assets and accumulated depreciation.

A fixed asset is considered an asset with useful life over one year and with a minimum value of 150 GEL. Original historical cost of fixed assets consists of the purchase price, non-recoverable taxes and other expenses directly related to putting the fixed asset into use.

Depreciation

Depreciation is provided on all fixed assets based on their historical cost. The annual charge for depreciation is computed using the declining balance method which, in opinion of the management, is adequate to allocate the cost of properties over their estimated useful lives. The approximate average rates for the main fixed asset groups are the following:

Buildings	7%
Plant and equipment	7-15%
Vehicles	15-20%
Furniture and fixtures	15%

Assets under construction are not depreciated.

Self-constructed assets

The cost of self-constructed assets includes:

- costs directly related to the construction of the asset, such as direct labor, construction materials, fuel;
- an allocation of variable and fixed production overheads that are incurred in constructing the assets.

Borrowing costs are not included in the cost of self-constructed assets.

Repair and maintenance costs

Expenditures on fixed assets incurred after the asset has been put into its intended use are recognized as an asset if the expenditure improves the condition of the asset beyond its originally assessed standard of performance. The following types of repairs are normally capitalized:

- significant refurbishment of electricity lines, power plants and equipment;

- refurbishment of buildings, involving complete or partial replacement of structural elements and installations.

REVENUE RECOGNITION

Revenue recognition

Revenue consists of amounts due from customers in respect of electricity supplied. Revenue is recognized on the accrual basis and net of VAT.

Penalties

Penalties on overdue customer accounts are recognized when collected.

BORROWING COSTS

Interest costs are recognized as an expense in the period in which they are incurred. Ancillary costs incurred in connection with the arrangement of borrowings are expensed in the period when the borrowings have been arranged.

DEFERRED TAXES

Method of recognition

The tax expense for the period is determined on the basis of tax effect accounting, using the liability method. The expected tax effects of current timing differences are determined and reported either as liabilities for taxes payable in the future or as assets representing advance payments of future taxes. Deferred tax balances are adjusted for changes or expected future changes in the tax rate.

Deferred tax asset

The tax effect of timing differences that result in a deferred tax asset is recognized only if there is a reasonable expectation of its realization.

VALUE ADDED TAXES

Under statutory tax regulations value added taxes on purchases are recoverable only after payment of the liability (accounts payable to suppliers). VAT on sales is payable only after receipt of cash or settlement or barter of accounts receivable. Payables and receivables of VAT are recorded at their gross amounts.

PENSIONS AND SOCIAL SECURITY EXPENDITURE

The Enterprise does not provide any pension scheme for its employees.

Social security expenditure expenses are recognized in the period, in which they arise. Under local taxation requirements the Enterprise is obliged to pay a total of 31% tax on salaries, which is composed as follows:

- social tax	27%
- medical insurance tax	3%
- labor tax	1%

USE OF ESTIMATES

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

CLAIMS AND LITIGATION

The legal system in Georgia is in the process of development, and there is no centralized or regional court registry or other practicable means of readily identifying all legal actions that may be outstanding until such time as the Enterprise is notified by the court. There may be outstanding claims and judgements against the Enterprise of which it has not been notified, and the amounts of these outstanding claims and judgements is not reasonably estimable. The impact of such litigation could be material to the financial position of the Enterprise. Management records a provision for probable losses at the time they are notified of judgements against them or pending cases based on estimates of the ultimate amount at which the claim will be settled.

1. GENERAL INFORMATION AND RESTRUCTURING OF THE ENTERPRISE

Electrodispetcherizacia 2000 ("the Enterprise") was established as a limited liability company on 7 March 2000, as result of the re-organization of a state Enterprise Sakenergo Ltd. The Enterprise is wholly owned by the Ministry of State Property Management of Georgia and regulated by the Ministry of Fuel and Energy of Georgia. The Enterprise's headquarters are located at Baratshvili 2, Tbilisi, Georgia.

As of 30 June 2000, the Enterprise consisted of the following units/branches:

Dispatch and Technology Management Office
Guria
Gurjaani
Shida Kartli
Zugdidi
Zestaponi
Kvemo Kartli
Kutaisi
Meskheti
Racha
Senaki
CDTY
Tbilisi Central
Telavi
Telemekhanika

The Enterprise has issued no shares. Ownership of all branches is retained by the Ministry of State Property Management of Georgia.
During the period from 7 March 2000 (the date of inception) to 30 June 2000, the Enterprise's operating data was as follows:

	2000 (unaudited)
Dispatched electricity (7 March – 30 June, kW/h'000)	2,299,661,886
Dispatch service tariff (tetri / kWh, 7 March – 30 June)	0.17

The Enterprise's tariffs for dispatching the electricity are regulated by the state Energy Regulating Commission. The tariffs above are presented at the nominal value, including VAT.

2. CASH

At 30 June 2000 and 7 March 2000, cash was as follows:

	30 June 2000 (unaudited)	7 March 2000 (unaudited)
Cash on hand	438	-
Cash in bank	124,122	-
Total	**124,560**	**-**

After the balance sheet date all of the Enterprise's bank accounts were blocked as a result of default on most of its taxes payable (See Note 18).

3. INVENTORY

At 30 June 2000 and 7 March 2000, inventory was as follows:

	30 June 2000 (unaudited)	7 March 2000 (unaudited)
Low value items	-	114,716
Spare parts and special equipment for energy dispatch processing	72,534	76,839
Construction materials	7,040	8,050
Other	5,315	10,088
Total	**84,889**	**209,693**

4. TRADE ACCOUNTS RECEIVABLE, NET

At 30 June 2000 and 7 March 2000, trade accounts receivable were as follows:

	30 June 2000 (unaudited)	7 March 2000 (unaudited)
Energy Market	3,236,812	-
AES TAES	296,668	-
Transenergy	148,194	-
Total accounts receivable	**3,681,674**	-
		-
Less: provisions for doubtful debts	3,074,971	-
Total	**606,703**	-

Allowances for accounts receivable and other assets were made based on the current collection level, payment history and management's estimates. Actual results could differ from these estimates.

5. OTHER ACCOUNTS RECEIVABLE

At 30 June 2000 and 7 March 2000, other accounts receivable are composed as follows:

	30 June 2000 (unaudited)	7 March 2000 (unaudited)
Jsc. Amaltea	20,000	-
"G&G" Ltd.	15,000	-
Advances to employees	5,121	-
Magtivin Ltd.	4,685	-
VAT receivable	3,602	-
Telecom Georgia	1,200	-
Other	5,473	4
Total other accounts receivable	**55,081**	**4**
Less provisions for bad debts	20,000	-
Total other receivables	**35,081**	**4**

6. FIXED ASSETS, NET

As of 30 June and 7 March 2000, fixed assets are composed as follows:

	Buildings	Machinery and equipment	Other fixed assets	Construction in progress	Total
7 March 2000	**921,051**	**2,303,238**	**216,499**	**1,305,288**	**4,746,076**
Additions	-	17,443	15,152	1,196	**33,791**
Disposals and transfers	-	-	-	(1,306,484)	**(1,306,484)**
Depreciation for the year	(20,995)	(139,927)	(11,794)	-	**(172,716)**
30 June 2000	**900,056**	**2,180,754**	**219,857**	**-**	**3,300,667**

The assets stated above are held for the Enterprise's own use.

The Enterprise does not have land on its balance sheet, all land upon which the Enterprise facilities are located is owned by the state.

The carrying amount of fixed assets as of 7 March 2000 and 30 June 2000 is based upon the book value of fixed assets as at the date of inception of the Enterprise 7 March 2000 and the effect of subsequent additions and disposals.

7. TRADE ACCOUNTS PAYABLE

At 30 June 2000 and 7 March 2000, trade accounts payable were as follows:

	30 June 2000 (unaudited)	7 March 2000 (unaudited)
Professional Union and Security service	24,574	-
Lazi Ltd.	3,780	-
Personnel	2,060	-
Private company Nino	1,104	-
Other	7,084	-
Total trade accounts payable	**38,602**	**-**

Other payables comprise small payables of each branch to local utility and other services companies.

8. OTHER LIABILITIES

At 30 June 2000 and 7 March 2000, other liabilities are composed as follows:

	30 June 2000 (unaudited)	7 March 2000 (unaudited)
Wages and salaries	309,454	-
Vacation accruals	86,495	-
Employment fund	6,265	-
Other	3,704	-
Total	**405,918**	**-**

9. TAXES PAYABLE

At 30 June 2000 and 7 March 2000, taxes payable are composed as follows:

	30 June 2000 (unaudited)	7 March 2000 (unaudited)
Value-added tax	596,907	-
Corporate income tax	542,951	-
Social security and medicine tax	125,731	-
Payroll taxes	83,000	-
Road tax	23,233	-
Entrepreneurial tax	8,200	-
Property tax	3,300	-
Other	7,620	-
Total	**1,390,942**	**-**

10. STATUTORY FUND AND OTHER RESERVES

The authorized statutory fund of the Enterprise in accordance with the statutes registered on 7 March 2000 is GEL 4,955,773. The statutory fund of the Enterprise is owned by the Government of Georgia, through the Ministry of State Property Management. The Enterprise has not issued any shares.

11. RECONCILIATION BETWEEN STATUTORY AND IAS NET PROFIT AND FUND BALANCE

Reconciliation between statutory profit or loss and total fund balance and IAS loss and fund balance as for 30 June 2000 is as follows:

	30 June 2000	
	Total fund balance	**Income (Loss) for period**
Statutory	**4,931,146**	**496,116**
Allowance for bad debts	-	(3,094,971)
Recognition of income	-	2,218,638
Write off of assets	-	(1,437,673)
Income tax	-	(542,951)
Depreciation for the period	-	(167,567)
Accrued liabilities	-	(86,495)
Non taxable expenses	24,627	(24,627)
IAS	**4,955,773**	**(2,639,530)**

12. SALES

Sales by customer type for the period from 7 March 2000 (date of inception) to 30 June 2000, were as follows:

	30 June (unaudited)
Energy Market	2,947,343
AES TAES	723,075
Transenergy	162,785
Total	**3,833,203**

13. COST OF SALES

Cost of sales for the period from 7 March 2000 (date of inception) to 30 June 2000 were as follows:

	30 June (unaudited)
Salary and surcharges	271,938
Repairs and maintenance	38,334
Depreciation	30,718
Fuel	7,739
Communications	2,471
Travel	1,720
Total	**352,920**

During the period from 7 March (date of inception) to 30 June the average number of staff was 718.

14. OTHER OPERATING EXPENSES

Other operating expenses for the period from 7 March 2000 (date of inception) to 30 June 2000 comprise write off of construction in progress in amount of GEL 1,306,484.

15. GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses for the period from 7 March 2000 (date of inception) to 30 June 2000 are composed as follows:

	30 June (unaudited)
Salary and surcharges	779,263
Depreciation	141,998
Maintenance and utilities	121,840
Road tax	32,377
Entrepreneurial tax	17,353
Fuel	13,319
Communications	8,935
Travel	6,218
Real estate tax	3,397
Legal fees	3,286
Bank fees and commissions	2,122

Other	36,676
Total	**1,166,784**

16. TAXATION

The Enterprise is subject to corporate income tax at a statutory rate of 20%.

Reconciliation between the statutory and effective tax rate is as follows:

	30 June (unaudited)
Net loss before taxation	(2,096,579)
Statutory tax rate	20%
Expected income tax expense	-
Tax effect of current year loss	(419,315)
Non-taxable income and tax non-deductible expenses (permanent differences)	4,925
Deferred tax valuation allowance	957,341
Income tax charge for the period	**542,951**

Income tax expense comprises:	
Current income tax expense	99,223
Deferred income tax expense	443,728
Total	**542,951**

Deferred taxes arise from temporary differences in the carrying value of certain assets and liabilities between these financial statements and the Enterprise's tax return. A deferred tax asset has not been recognized as there is uncertainty regarding the amount and timing of its realization.

The provision for income taxes includes current and deferred taxes.

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The deferred tax reflects the manner in which the Enterprise expects to recover an asset or settle a liability.

Temporary differences, which give rise to significant amount of deferred tax assets (liabilities) as of 30 June 2000, are as follows:

	30 June (unaudited)
Deferred tax assets:	
Provisions on doubtful receivables	618,994
Write off of assets	287,535
Depreciation for the period	33,513
Accrued liabilities	17,299
Total deferred tax assets	**957,341**
Deferred tax liabilities	
Recognition of income	443,728
Total deferred tax assets, net	**513,613**
Less: valuation allowance	
charge for the period	957,341
balance at the end of period	**957,341**
Total deferred tax liability after valuation allowance	**443,728**

17. ECONOMIC SITUATION

Georgia is experiencing serious economic instability as a result of an unbudgeted fiscal deficit, high levels of interest rates, debt, low rates of tax collection, and lack of liquidity. Inability to obtain sufficient funds to remedy the situation has caused a significant devaluation of the currency, instability of the banking system and other serious economic and political consequences.

The return to economic stability depends to a large extent on the efficiency of the fiscal measures taken by the government and other actions beyond the Enterprise's control. The recoverability of the Enterprise's assets and the ability of the Enterprise to maintain or pay its debts as they mature, as well as the future operations of the Enterprise, may be significantly affected by such severe national economic difficulties.

The financial statements do not include any adjustments that might be necessary as a result of these uncertainties.

18. GOING CONCERN CONSIDERATIONS

The accompanying financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. As shown in the financial statements, during the period from 7 March 2000 to 30 June 2000, the Enterprise incurred net losses of GEL'000 2,640 and, as of 30 June 2000, the Enterprise's current liabilities exceeded its current assets by GEL'000 984. All of the Enterprise's bank accounts were blocked after the balance sheet date as a result of default on most of its tax liabilities. These factors, among others, indicate that the Enterprise may not be able to continue as a going concern for a reasonable period of time.

The financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amounts and classification of liabilities that might be necessary should the Enterprise be unable to continue as a going concern.

The Enterprise's continuation as going concern is dependent upon its ability to generate sufficient cash flow to meet its obligation on a timely basis, to obtain additional financing, and ultimately to attain successful operations. According to management losses and insufficient cash flows were caused by the major customer, Energy Market, which does not repay most of its debts.

* * * * * *

Financial Forecast for State Company Electrodispetcherizatsia

To the Boards of Directors and shareholders of
Electrodispetcerizatsia 2000 Ltd.

Deloitte & Touche have compiled the accompanying forecast balance sheet, statements of income and cash flows of Electrodispetcerizatsia 2000 Ltd. for the period from 1 July 2000 to 31 December 2000. Information is based on unaudited data received from the management of the company.

A compilation is limited to presenting in the form of forecast information that is the representation of management and does not include an evaluation of the support for the assumption underlying the forecast. We have not examined the forecast and, accordingly, do not express an opinion or any other form of assurance on the accompanying statements or assumptions. Furthermore, there will usually be differences between the forecast and actual results, because events and circumstances frequently do not occur as expected, and those different may be material.

We have no responsibility to update this report for events and circumstances occurring after the date of this report.

We are extremely happy to provide these services to Electrodispetcherizatsia 2000 Ltd. and would like to thank you for this opportunity.

Yours sincerely,

Deloitte & Touche

ELECTRODISPETCHERIZATSIA 2000
Financial forecast DRAFT VERSION

1. Background

Name of the Company:	ELECTRODISPETCHERIZATSIA 2000
Legal status:	Limited Liability Company
Registration date:	7 March, 2000
Address:	Baratashvili 2, Tbilisi, Georgia

2. General Information

Electrodispetcherizacia 2000 ("the Enterprise") was established as a limited liability company on 7 March 2000, as result of re-organization of a state Enterprise Sakenergo Ltd. The Enterprise is wholly owned by the Ministry of State Property Management of Georgia and regulated by the Ministry of Fuel and Energy of Georgia. The Enterprise's headquarters are located in Baratshvili 2, Tbilisi, Georgia.

As of 30 June 2000, the Enterprise consisted of the following units/branches:

Dispatch and Technology Management Office
Guria
Gurjaani
Shida Kartli
Zugdidi
Zestaponi
Kvemo Kartli
Kutaisi
Meskheti
Racha
Senaki
CDTY
Tbilisi Central
Telavi
Telemekhanika

The Enterprise has issued no shares. Ownership of all Enterprise property is retained by the Ministry of State Property Management of Georgia. The Enterprise provides electricity dispatch services to three primary clients - Georgian Wholesale Energy Market (GWEM), AES Telasi and Transenergy. Transenergy is a Turkish energy company, to whom energy is dispatched during the summer season.

During the period from 7 March 2000 (the date of inception) to 30 June 2000, the Enterprise's operating data was as follows:

	2000 (unaudited)
Dispatched electricity (7 March – 30 June, kW/h'000)	2,299,661,886
Dispatch service tariff (tetri / kWh, 7 March – 30 June)	0.17

The Enterprise's tariffs for dispatching the electricity are regulated by the state Energy Regulating Commission. The tariffs above are presented at the nominal value, less VAT. Effective 1 September 2000, the Energy Regulating Commission has set new tariffs for energy dispatch at 0.23 tetri per kWh.

3. Future plans

The major problem of the Enterprise is the fact that its biggest client – GWEM - is not able to pay for the services provided by the Enterprise. In September 2000 management of the GWEM officially announced that it is and will not able to pay for the services provided by the Enterprise. Therefore collection level of the services provided to the GWEM in this financial forecast has been assumed at 0%. Historic sales to GWEM have been written off by 95% as of 30 June 2000. The Management of the Enterprise is now in a process of negotiations with the State Government, Ministry of Fuel and Energy and the Energy Regulatory Commission on the possibilities of exempt transportation and dispatch of electricity from payment of VAT as well as a change of legal status of the GWEM to make it responsible for collection of payments from the final consumers, and development of efficient collection procedures. This would allow Enterprise to significantly improve financial performance that is currently a threat to proper functioning of the energy system.

4. Principal forecast factor

Sales were assumed as the principal forecast factor, restricting activity.

5. Customer Base

As discussed earlier there are three clients to whom energy is being dispatched at the moment – Georgian Wholesale Energy Market (Georgia), AES TELASI (Georgia) and TRANSENERGY (Turkey).

6. Sales budget

Sales are dependant on the time of the year (season) and tariffs that are set by the State Energy Regulatory Commission.

Management has prepared the following sales budget depicted in Table 1.

Table 1. Sales budget for the period from 1 July till 31 December 2000.

Month	Client	Units/kWh
Jul-00	*AES TELASI*	150,000,000
Jul-00	*Energy Market*	442,101,464
Jul-00	*Transenergy*	32,537,012
Aug-00	*AES TELASI*	150,000,000
Aug-00	*Energy Market*	442,101,464
Aug-00	*Transenergy*	32,537,012
Sep-00	*AES TELASI*	150,000,000
Sep-00	*Energy Market*	442,101,464
Sep-00	*Transenergy*	32,537,012
Oct-00	*AES TELASI*	225,000,000
Oct-00	*Energy Market*	700,000,000
Oct-00	*Transenergy*	-
Nov-00	*AES TELASI*	225,000,000
Nov-00	*Energy Market*	700,000,000
Nov-00	*Transenergy*	-
Dec-00	*AES TELASI*	225,000,000
Dec-00	*Energy Market*	700,000,000
Dec-00	*Transenergy*	-
Total:		**4,648,915,428**

The planned net revenues for the period from July till December 2000 are shown in Exhibit 2.

7. Management policies

The primary management policies incorporated into the forecast are following:

- Collections from AES TELASI is 90 days maximum;
- Collections from TRANSENERGY is 60 days maximum;
- All sales to Energy Market (GWEM) are considered uncollectable on the same month when the sale has occurred;
- VAT is paid to the state budget within 90 days after the sale.

8. Macroeconomic assumptions

The forecast was prepared in real prices, without effect of inflation.

9. The subsidiary budgets

The subsidiary budgets for respective items were prepared. The subsidiary budgets include the debtor cash inflow budget, cost of sales budget, general and administrative expenses budget, the financing budget and VAT payment budget as described below.

10. The Debtor Cash inflow budget (Exhibit 3)

Cash inflow budget consists of two parts. Cash received from sales and cash received from debtors (sales that occurred before the period under current forecast). Proceeds from sales are calculated based on the existing contracts with clients. In particular, AES Telasi has 90 debtor days and Transenergy 60 debtor days. No payments from GWEM are assumed under the current forecast. All amounts are stated net of VAT.

11. The Cost of Sales budget (Exhibit 4)

Historic gross profit margin was 9% due to the nature of Enterprise's business. Projections for the Cost of Sales budgets have been prepared based on the negotiations with the management of the Enterprise and on average are equal to 8.5%. Direct salary remains unchanged over the whole period of projections and is based on the historical information. Repairs and maintenance expenses are calculated based on the historic ratio of Repair and Maintenance expenses per unit of sales, which is 0.00001667 GEL per 1 kWh of electricity dispatched. Depreciation remains unchanged at 7,680 GEL per month over the projection period and is based on historic information. Fuel (0.00000337 GEL per 1 kW), Communication (0.00000107 GEL per 1 kWh) and Travel (0.00000075 GEL per 1 kWh) expenses are linked in the same way as Repairs and Maintenance to the number of units of electricity being dispatched over the projected period of time. Ratios used are based on the historic information and expectations provided by the management.

12. The administrative expenses budget (Exhibit 5)

Administrative costs include expenditures associated with the management of the Enterprise and other administrative cost occurring during the normal course of operations.

Salary, depreciation, road tax, entrepreneurial tax, real estate tax, legal fees, bank fees and commissions, and other expenses are not linked to the sales, but are taken on a historic base and remain unchanged over the projected period. Maintenance and utilities, fuel, communication, and travel expenses are taken on a historic base and are linked to the number of kWh of electricity being dispatched over the respective period of time.

13. The financing budget (Exhibit 6)
This budget has been prepared based on the cash requirements of the Enterprise which is a result of negative cash flows and poor collection from the largest customer, GWEM. Short term loans are projected in order to meet minimum cash flow requirements of the Enterprise. Loans assumed to be obtained from local banks for a period of one month each with an interest rate of 3% per month and both principle and interest amounts having to be repaid during the following month after the loan has been raised.

14. VAT payment budget (Exhibit 7)
VAT payment budget has been prepared based on the sales to the local clients (AES TELASI, GWEM) to whom VAT is applicable. VAT is calculated at the rate of 20% from the sales. Statutory tax regulations are different to IAS which are used as the format for presenting financial statements and a base for the financial forecast. Under the statutory requirements, revenue is recognised as amounts are directly paid in cash by the customer or 90 days after delivery of services to the customer. Therefore, to make the IAS based forecasting more representative it is assumed that VAT has to be paid 90 days after delivery of the services.

15. The master budget
Based on the subsidiaries budgets, the master budget was constructed. The master budget includes Income Statement, Pro-forma Balance Sheet and Forecast Cash Flow. Both Income Statements and Cash Flows have been forecasted on a monthly basis for the period from 1 July 2000 till 31 December 2000. The above forms are attached in Exhibits 8 and 9. The pro-forma Balance Sheet has been prepared as of 31 of December 2000 and is attached in Exhibit 10.

16. Income Statement (Exhibit 8)

16.1. Sales
Sales are net of VAT. Figures are taken from the Sales Budget (Exhibit2). Sales, as projected by the Management of the Company, will increase over the period from October, when the winter season starts and electricity consumption increases. Effective 1 September, State Energy Regulatory Commission approved new tariffs for electricity dispatch. Those have been incorporated into the forecast. Therefore increase in sales is a result of increase of tariffs and volume of electricity transmitted. From 1 October no more electricity will be dispatched to TRANSENERGY due to the start of the winter season and in order to make sure that electricity supply will be able to meet the demand of the Georgian local market.

16.2. Cost of Sales
Costs of sales, which basically are direct labour, depreciation of dispatch equipment and other direct expenses, in general are independent of the volume of electricity being dispatched and are not dependant at all on the tariffs set by the Government. As

described in paragraph 11 of this document, some of the items in the cost of sales budget are still linked to the sales in units.

16.3. Provisions for doubtful debts

As described above, all of the sales to GWEM are considered to be uncollectable, therefore these sales are written off in the same month as they occur. No provisions for sales to AES Telasi and Transenergy are assumed in this forecast.

16.4. Depreciation

The depreciation expense is based on the average depreciation rate applied on the gross value of fixed assets. Depreciation has been assumed to remain unchanged over the whole period of projection and is based on the average historic depreciation per month.

16.5. Income Tax

Income tax was calculated at the rate of 20 percent applied to the pre-tax income. Income tax is calculated only of Enterprise has pre-tax income. Income tax for the whole period from July to December is calculated not as sum of separate income taxes paid for each of the period but as 20% of the net profit before taxation.

16.6. Deferred Tax

Deferred tax has been calculated as a proportion between deferred tax and net sales as of 30 June 2000. Based on the historic information it was 11.58%. It is almost impossible to project deferred tax, therefore it was assumed that it should retain the same proportion of net sales as historically.

17. Balance Sheet (Exhibit 10)

The pro-forma Balance Sheet for the Enterprise has been prepared only as of 31 December 2000. Pro-forma balance sheet is prepared based on the existing IAS based accounts and its opening balance sheet. One major assumption that has been applied while compiling the balance sheet was that pro-forma balance sheet will be affected only by transactions which have been predicted in the subsidiary budgets. It was assumed that existing inventory, fixed assets, assets under construction, statutory fund, other accounts receivables, other liabilities and taxes payable that are stated in the opening Balance sheet as of 30 June 2000 will remain unchanged over the period of projection. Pro-forma balance sheet is affected only by transactions that are expected to take place from July 2000 as a result of new sales or proceeds received from debtors.

17.1. Fixed Assets

Fixed assets constitute almost 80% of balance sheet and mostly comprised of machinery and equipment. Fixed assets are stated net of depreciation. Not additions or disposals of fixed assets have been assumed.

17.2. Fund balance

It has been assumed that net profit will be retained over the entire projection period. No additions or disposals of statutory funds have been assumed.

18. Forecast Cash Flow for the period from 1 July till 31 December 2000

The Cash Flow for the period from 1 July till 31 December 2000 was forecast using the sources and applications method. The cash flow forecast was prepared on a monthly basis and is depicted in Exhibit 9.

ELECTRODISPETCHERIZATSIA 2000 Ltd.

Financial Statement Forecast for the period from July 1, 2000 till December 31, 2000

TABLE OF CONTENT

Exhibit 1.	SALES from March 7, 2000 (inception date) to June 30, 2000 *Provided by the Management of Electrodispetcherizatsia 2000 Ltd.*				
COMPANY	MONTH				
Energy market					
	kWh	Tariff	Sales	VAT	Total
March					
Aphkhaseti	96,016,404	0.0017			
Meskheti	742,400				
Alioni plus	14,228,706				
			184,979.18	**36,995.84**	**221,975.02**
Dispatch service	548,666,535	0.0017			
			914,444.23	**182,888.34**	**1,097,332.57**
April					
Dispatch service	499,434,413	0.0017			
			832,390.69	**166,478.14**	**998,868.83**
May					
Dispatch service	248,407,372	0.0017			
			414,012.28	**82,802.46**	**496,814.74**
June					
Dispatch service	360,910,027	0.0017			
			601,516.71	**120,303.34**	**721,820.05**
Total Energy Market	**1,768,405,857.00**		**2,947,343.09**	**589,468.12**	**3,536,811.21**
Ltd. AES Transenergy (TEAS)					
April					
Dispatch service	23574155	0.002			
			47,148.31		**47,148.31**
May					
Dispatch service	29810445	0.002			
			59,740.89		**59,740.89**
June					
Dispatch service	44226435	0.002			
			88,452.84		**88,452.84**
Total TEAS	**97,611,035.00**		**195,342.04**	**0.00**	**195,342.04**
AES TELASI*					
April					
Dispatch service	99305880	0.0017			
			165,843	**33,168.63**	**199,011.76**
May					
Dispatch service	186005159	0.0017			
			310,008.60	**62,001.72**	**372,010.32**
June					
Dispatch service	148333955	0.0017			
			247,223.26	**49,444.65**	**296,667.91**
Total AES TELASI	**433,644,994.00**		**723,074.99**	**144,615.00**	**867,689.99**
Total SALES	**2,299,661,886.00**		**3,865,760.12**	**734,083.12**	**4,599,843.24**

* Invoiced amounts are actually less than kWh supplied times tariff. Company provided documentation explaining differences, which mainly are corrections of mistakes in previous billings as well as losses of electricity during the dispatch service.

Exhibit 2. The sales budget for ElectroDispetcherizacia 2000 Ltd. for the period from July to December 2000.

Month	Client	Units/kWh	Tariff GEL/kWh	GEL	Per Month	VAT	Total	Per Month
Jul-00	*AES TELASI*	150,000,000	0.0017	255,000		51,000	306,000	
Jul-00	*Energy Market*	442,101,464	0.0017	751,572	**1,071,646**	150,314	901,886	**1,272,960**
Jul-00	*Transenergy*	32,537,012	0.0020	65,074		-	65,074	
Aug-00	*AES TELASI*	150,000,000	0.0017	255,000		51,000	306,000	
Aug-00	*Energy Market*	442,101,464	0.0017	751,572	**1,071,646**	150,314	901,886	**1,272,960**
Aug-00	*Transenergy*	32,537,012	0.0020	65,074		-	65,074	
Sep-00	*AES TELASI*	150,000,000	0.0023	345,000		69,000	414,000	
Sep-00	*Energy Market*	442,101,464	0.0023	1,016,833	**1,439,922**	203,367	1,220,200	**1,712,289**
Sep-00	*Transenergy*	32,537,012	0.0024	78,089		-	78,089	
Oct-00	*AES TELASI*	225,000,000	0.0023	517,500		103,500	621,000	
Oct-00	*Energy Market*	700,000,000	0.0023	1,610,000	**2,127,500**	322,000	1,932,000	**2,553,000**
Oct-00	*Transenergy*	-	0.0024	-		-	-	
Nov-00	*AES TELASI*	225,000,000	0.0023	517,500		103,500	621,000	
Nov-00	*Energy Market*	700,000,000	0.0023	1,610,000	**2,127,500**	322,000	1,932,000	**2,553,000**
Nov-00	*Transenergy*	-	0.0024	-		-	-	
Dec-00	*AES TELASI*	225,000,000	0.0023	517,500		103,500	621,000	
Dec-00	*Energy Market*	700,000,000	0.0023	1,610,000	**2,127,500**	322,000	1,932,000	**2,553,000**
Dec-00	*Transenergy*	-	0.0024	-		-	-	
Total:		**4,648,915,428**		**9,965,714**	**9,965,714**	**1,951,495**	**11,917,209**	**11,917,209**

Exhibit 3. Projected cash inflow from debtors for ElectroDispetcherizacia 2000 Ltd. for the period from July to December 2000.

Sales Budget	Jul-00	Aug-00	Sep-00	Oct-00	Nov-00	Dec-00	Total
Units / kWh	624,638,476	624,638,476	624,638,476	925,000,000	925,000,000	925,000,000	**4,648,915,428**
Net sales (GEL)	1,071,646	1,071,646	1,439,922	2,127,500	2,127,500	2,127,500	**9,965,714**
Cash from sales (GEL) - *AES TELASI*	-	-	-	255,000	255,000	345,000	**855,000**
Cash from sales (GEL) - *Energy Market*	-	-	-	-	-	-	**-**
Cash from sales (GEL) - *Transenergy*	-	-	65,074	65,074	78,089	-	**208,237**
Cash from debtors (GEL) - *AES TELASI*	165,843	310,009	247,223	-	-	-	**723,075**
Cash from debtors (GEL) - *Energy Market*	-	-	-	-	-	-	**-**
Cash from debtors (GEL) - *Transenergy*	59,741	88,453	-	-	-	-	**148,194**
Total cash received from debtors	***225,584***	***398,462***	***312,297***	***320,074***	***333,089***	***345,000***	***1,934,506***

Exhibit 4. **Costs of sales budget for ElectroDispetcherizacia 2000 Ltd. for the period from July to December 2000.**

Costs of Sales Budget	**Jul-00**	**Aug-00**	**Sep-00**	**Oct-00**	**Nov-00**	**Dec-00**	**Total**
Units / kWh	624,638,476	624,638,476	624,638,476	925,000,000	925,000,000	925,000,000	**4,648,915,428**
Net sales (GEL)	1,071,646	1,071,646	1,439,922	2,127,500	2,127,500	2,127,500	**9,965,714**
Direct Salary	67,985	67,985	67,985	67,985	67,985	67,985	**407,910**
Repairs and maintenance	10,413	10,413	10,413	15,420	15,420	15,420	**77,499**
Depreciation	7,680	7,680	7,680	7,680	7,680	7,680	**46,080**
Fuel	2,105	2,105	2,105	3,117	3,117	3,117	**15,666**
Communications	668	668	668	990	990	990	**4,974**
Travel	468	468	468	694	694	694	**3,486**
Total costs of sales	***89,319***	***89,319***	***89,319***	***95,886***	***95,886***	***95,886***	***555,615***

Exhibit 5. **General and Administration Expenses Budgets for ElectroDispetcherizacia 2000 Ltd. for the period from July to December 2000.**

General and Admin. Expense Budget	**Jul-00**	**Aug-00**	**Sep-00**	**Oct-00**	**Nov-00**	**Dec-00**	**Total**
Units / kWh	624,638,476	624,638,476	624,638,476	925,000,000	925,000,000	925,000,000	**4,648,915,428**
Net sales (GEL)	1,071,646	1,071,646	1,439,922	2,127,500	2,127,500	2,127,500	**9,965,714**
Salary and Surcharges	194,816	194,816	194,816	194,816	194,816	194,816	**1,168,896**
Depreciation	35,500	35,500	35,500	35,500	35,500	35,500	**213,000**
Maintenance and utilities	33,093	33,093	33,093	49,007	49,007	49,007	**246,300**
Road tax	8,094	8,094	8,094	8,094	8,094	8,094	**48,564**
Entrepreneurial tax	4,338	4,338	4,338	4,338	4,338	4,338	**26,028**
Fuel	3,617	3,617	3,617	5,356	5,356	5,356	**26,919**
Communications	2,430	2,430	2,430	3,598	3,598	3,598	**18,084**
Travel	1,687	1,687	1,687	2,498	2,498	2,498	**12,555**
Real Estate tax	849	849	849	849	849	849	**5,094**
Legal fees	822	822	822	822	822	822	**4,932**
Bank fees and commissions	531	531	531	531	531	531	**3,186**
Other	9,169	9,169	9,169	9,169	9,169	9,169	**55,014**
Total General and Admin. Expenses	***294,946***	***294,946***	***294,946***	***314,578***	***314,578***	***314,578***	***1,828,572***

Exhibit 6. **Financing Budget for ElectroDispetcherizacia 2000 Ltd. for the period from July to December 2000.**

	Jul-00	Aug-00	Sep-00	Oct-00	Nov-00	Dec-00	Total
Short-term loan (cash inflow)	-	-	-	60,000	270,000	540,000	**870,000**
Principle amount repayment	-	-	-	-	(60,000)	(270,000)	**(330,000)**
Interest amount repayment	-	-	-	-	(1,800)	(8,100)	**(9,900)**
Total financing costs	-	-	-	-	***(61,800)***	***(278,100)***	-

Exhibit 7. **VAT Payment Budget for ElectroDispetcherizacia 2000 Ltd. for the period from July to December 2000.**

	Jul-00	Aug-00	Sep-00	Oct-00	Nov-00	Dec-00	Total
Projected net sales	1,071,646	1,071,646	1,439,922	2,127,500	2,127,500	2,127,500	**9,965,714**
Calculated VAT	201,314	201,314	272,367	425,500	425,500	425,500	**1,951,495**
Estimated VAT payment	-	-	-	201,314	201,314	272,367	**674,995**
Total monthly payment	-	-	-	***201,314***	***201,314***	***272,367***	***674,995***

Exhibit 8. The Budgeted Profit and Loss account for ElectroDispetcherizacia 2000 Ltd. for the period from July to December 2000.

Budgeted Profit and Loss Account	Jul-00 (GEL)	Aug-00 (GEL)	Sep-00 (GEL)	Oct-00 (GEL)	Nov-00 (GEL)	Dec-00 (GEL)	Total (GEL)
Net sales	1,071,646	1,071,646	1,439,922	2,127,500	2,127,500	2,127,500	9,965,714
Cost of sales	(89,319)	(89,319)	(89,319)	(95,886)	(95,886)	(95,886)	(555,615)
GROSS PROFIT	**982,327**	**982,327**	**1,350,603**	**2,031,614**	**2,031,614**	**2,031,614**	**9,410,099**
Provision for Doubtful debts	(751,572)	(751,572)	(1,016,833)	(1,610,000)	(1,610,000)	(1,610,000)	(7,349,977)
General & Administrative expenses	(294,946)	(294,946)	(294,946)	(314,578)	(314,578)	(314,578)	(1,828,572)
Total Operating Expenses	*1,046,518*	*1,046,518*	*1,311,779*	*1,924,578*	*1,924,578*	*1,924,578*	*9,178,549*
NET OPERATING PROFIT/LOSS	**(64,191)**	**(64,191)**	**38,824**	**107,036**	**107,036**	**107,036**	**231,550**
Interest expense	-	-	-	-	(1,800)	(8,100)	(9,900)
NET PROFIT/LOSS BEFORE TAXATION	(64,191)	(64,191)	38,824	107,036	105,236	98,936	221,650
Income Tax*	-	-	(7,765)	(21,407)	(21,047)	(19,787)	(44,330)
Deferred Tax	(124,097)	(124,097)	(166,743)	(246,365)	(246,365)	(246,365)	(1,154,032)
NET PROFIT/LOSS	***(188,288)***	***(188,288)***	***(135,684)***	***(160,736)***	***(162,176)***	***(167,216)***	***(976,712)***

* Income tax is calculated at 20% of net profit before taxation for each of the months
Total income tax for the period from 1 July 2000 to 31 December 2000 is calculated not as sum of income taxes
for each of the periods but as 20% of cumulative net profit before taxation for all of the periods

Exhibit 9. **The Budgeted cashflow statement for ElectroDispetcherizacia 2000 Ltd. for period from July through December 2000.**

Cash Budget	Jul-00 (GEL)	Aug-00 (GEL)	Sep-00 (GEL)	Oct-00 (GEL)	Nov-00 (GEL)	Dec-00 (GEL)	Total (GEL)
Opening Cash Balance*	**124,560**	**42,228**	**161,607**	**174,499**	**15,568**	**18,212**	**124,560**
Cash from debtors (net)	225,584	398,462	312,297	320,074	333,089	345,000	1,934,506
VAT Received	33,169	62,002	49,445	51,000	51,000	69,000	315,616
Short-term loans	-	-	-	60,000	270,000	540,000	870,000
TOTAL RECEIPTS	**258,753**	**460,464**	**361,742**	**431,074**	**654,089**	**954,000**	**3,120,122**
Costs of Sale	89,319	89,319	89,319	95,886	95,886	95,886	555,615
Depreciation	(7,680)	(7,680)	(7,680)	(7,680)	(7,680)	(7,680)	(46,080)
Costs of Sale less Depreciation	81,639	81,639	81,639	88,206	88,206	88,206	509,535
General & Administrative expenses	294,946	294,946	294,946	314,578	314,578	314,578	1,828,572
Depreciation	(35,500)	(35,500)	(35,500)	(35,500)	(35,500)	(35,500)	(213,000)
General & Admin. Expenses less Depreciation	259,446	259,446	259,446	279,078	279,078	279,078	1,615,572
Principle amount repayment	-	-	-	-	60,000	270,000	330,000
Interest amount repayment	-	-	-	-	1,800	8,100	9,900
Income tax	-	-	7,765	21,407	21,047	19,787	44,330
VAT payment	-	-	-	201,314	201,314	272,367	674,995
TOTAL PAYMENTS	**341,085**	**341,085**	**348,850**	**590,005**	**651,445**	**937,538**	**3,184,332**
Net cashflow	**(82,332)**	**119,379**	**12,892**	**(158,931)**	**2,644**	**16,462**	**(64,210)**
Closing cash balance**	**42,228**	**161,607**	**174,499**	**15,568**	**18,212**	**34,674**	**60,350**

* Total opening cash balance is as of 1 July 2000. Total cash flow shows cash movements during the period from 1 July to 31 December 2000

** The difference between closing balances as of 31 December and total cash closing balance is effect of income tax - total income tax for the period from 1 July to 31 December is not equal to the sum of income taxes calculated for each month separately (Exhibit 8).

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Exhibit 10. **Deriving the budgeted balance sheet of ElectroDispetcherizacia 2000 Ltd. as of 31 December 2000.**

(GEL)	Opening Balance Sheet as of 30 June 2000	Sales	Deferred Tax	Cash rec'd from debtors	Bad Debt Provisions	VAT Payment	Income Tax	Loans received	Principle amounts paid	Interest amounts paid	Depreciation	COS plus Gen&Admin Expenses	VAT received	Closing balance sheet
Cash	**124,560**			1,934,506		(674,995)	(44,330)	870,000	(330,000)	(9,900)		(2,125,107)	315,616	**60,350**
Inventory	**84,889**													**84,889**
Trade account receivable, net	**606,703**	11,917,209		(1,934,506)	(7,349,977)								(315,616)	**2,923,813**
VAT receivable	**3,602**													**3,602**
Other account receivable, net	**31,479**													**31,479**
Fixed assets	**3,300,667**													**3,041,587**
Buildings	919,174													919,174
Plant and equipment	216,524													216,524
Vehicles and other FA	2,337,685													2,337,685
CIP	-													-
Depreciation	(172,716)										(259,080)			(431,796)
Investments	**-**													-
TOTAL ASSETS	**4,151,900**													**6,145,720**
Trade accounts payable	**(38,602)**													**(38,602)**
Short-term loans	**(195)**							(870,000)	330,000					**(540,195)**
Other liabilities	**(405,918)**													**(405,918)**
Taxes payable	**(1,390,942)**	(1,951,495)	(1,154,032)			674,995								**(3,821,474)**
	-													
Statutory fund	**(4,955,773)**													**(4,955,773)**
Accumulated Deficit	**2,639,530**	(9,965,714)	1,154,032		7,349,977		44,330			9,900	259,080	2,125,107		**3,616,242**
TOTAL LIABILITIES	**(4,151,900)**													**(6,145,720)**

Enguri Hydro Power Plant, Vardnilli Hydro Power Plant, and Enguri Dam

Combined Financial Statements for the period from 1 January 2000 to 30 June 2000 and the year ended 31 December 1999

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INDEPENDENT ACCOUNTANTS' COMPILATION REPORT

To the Boards of Directors and shareholders of
Enguri Hydro Power Plant Ltd,
Vardnilli Hydro Power Plant Ltd and
Enguri Dam Ltd:

We have compiled the accompanying combined balance sheets of Enguri Hydro Power Plant Ltd, Vardnilli Hydro Power Plant Ltd and Enguri Dam Ltd as of 30 June 2000 and 31 December 1999 and the related statements of income and fund balances and cash flows for the period ended 30 June 2000 and the year ended 31 December 1999, in accordance with International Standards on Auditing applicable to compilation engagements issued by the International Federation of Accountants.

A compilation is limited to presenting, in the form of financial statements, information that is the representation of management. We have not audited or reviewed the accompanying financial statements and, accordingly, we do not express an opinion on any other form of assurance on them.

The accompanying financial statements have been prepared assuming that the Enterprise will continue as a going concern. As described in Note 21 to the financial statements, the Enterprise's recurring losses from operations raise substantial doubt about its ability to continue as a going concern. Management's plans concerning these matters are also described in Note 21. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Vilnius, Lithuania
01 September 2000

ENGURI HPP, VARDNILLI HPP AND ENGURI DAM

COMBINED BALANCE SHEETS
AS OF 30 JUNE 2000 AND 31 DECEMBER 1999
All amounts stated in GEL'000 unless otherwise stated

	Notes	2000 (unaudited)	1999 (unaudited)
ASSETS			
Current assets			
Cash	4	565	8
Inventory		1,351	278
Trade receivables	5	6,584	12,555
Prepayments and other receivables	6	3,206	1,180
		11,706	**14,021**
Fixed Assets	7	116,588	132,835
TOTAL ASSETS		**128,294**	**146,856**
LIABILITIES			
Current liabilities			
Trade payables		6,290	4,826
Other payables	8	831	637
Short-term loans and accrued interest	9	146	1,201
Tax liabilities	10	5,119	3,537
Total current liabilities		**12,386**	**10,201**
Fund balance			
Paid in capital	11	111,685	111,685
Accumulated fund balance	11	4,223	24,970
Total fund balance		**115,908**	**136,655**
TOTAL LIABILITIES AND FUND BALANCE		**128,294**	**146,856**

The accompanying notes are an integral part of these financial statements.

COMBINED STATEMENTS OF PROFIT AND LOSS
FOR THE PERIOD FROM 1 JANUARY 2000 TO 30 JUNE 2000 AND FOR THE YEAR ENDED 31 DECEMBER 1999
All amounts stated in GEL'000 unless otherwise stated

	Notes	2000 (unaudited)	1999 (unaudited)
Sales of electricity	12	17,050	8,540
Cost of sales	13	11,321	3,545
GROSS PROFIT		**5,729**	**4,995**
Provision for doubtful debts	14	17,711	5,854
General and administrative expenses	15	7,724	760
NET OPERATING LOSS		**(19,706)**	**(1,619)**
Finance cost	16	-	551
Other expenses		-	47
NET LOSS BEFORE TAXATION		**(19,706)**	**(2,217)**
Taxation	17	1,041	193
NET (LOSS) FOR THE PERIOD		**(20,747)**	**(2,410)**

The accompanying notes on are an integral part of these financial statements

COMBINED STATEMENTS OF FUND BALANCE
FOR THE PERIOD FROM 1 JANUARY 2000 TO 30 JUNE 2000 AND FOR THE YEAR ENDED 31 DECEMBER 1999
All amounts stated in GEL'000 unless otherwise stated

	Paid in capital	Accumulated fund balance	Total
At 31 December 1998	**111,685**	**27,380**	**139,065**
Loss for the year	-	(2,410)	(2,410)
At 31 December 1999	**111,685**	**24,970**	**136,655**
Loss for the year	-	(20,747)	(20,747)
At 30 June 2000	**111,685**	**4,223**	**115,908**

The accompanying notes are an integral part of these financial statements.

ENGURI HPP, VARDNILLI HPP AND ENGURI DAM

COMBINED STATEMENTS OF CASH FLOWS
FOR THE PERIOD FROM 1 JANUARY 2000 TO 30 JUNE 2000 AND FOR THE YEAR ENDED 31 DECEMBER 1999
All amounts stated in GEL'000 unless otherwise stated

	2000 (unaudited)	1999 (unaudited)
OPERATING ACTIVITIES		
Net loss before taxation	(19,706)	(2,217)
Adjustments to reconcile net profit before taxation to net cash provided by operating activities		
Depreciation	9,502	2,987
Provision for doubtful debts	17,711	5,854
Provision for obsolete inventory	147	-
Loss from sale of fixed assets	16,367	-
Changes in operating assets and liabilities:		
Inventory	(1,220)	122
Trade receivables	(11,740)	25,521
Prepayments and other receivables	(2,026)	195
Trade payables	1,464	(4,003)
Other payables	194	(405)
Cash generated by operations	**10,693**	**27,861**
Interest paid	-	(511)
Income tax	541	(11,224)
Net cash (used in)/provided by operating activities	**11,234**	**16,319**
INVESTMENT ACTIVITIES		
Acquisition of fixed assets	(9,622)	(16,419)
Net cash (used in) investment activities	**(9,622)**	**(16,419)**
FINANCING ACTIVITIES		
Proceeds from loans granted	146	100
Repayment of loans	(1,201)	-
Net cash provided by financing activities	**(1,055)**	**100**
Net increase (decrease) in cash	**557**	**-**
Cash at the beginning of the period	**8**	**8**
CASH AT THE END OF THE PERIOD	**565**	**8**

The accompanying notes are an integral part of these financial statements.

BASIS OF PREPARATION

Principles of combination

The combined financial statements include the accounts of three related enterprises - limited liability companies Enguri Hydro Power Plant, Vardnilli Hydro Power Plant and Enguri Dam (the "Enterprises"). The Enterprises are under common ownership by the Ministry of State Property Management of Georgia. All intercompany transactions and balances between the Enterprises have been eliminated in these combined financial statements.

The accounting records of the Enterprises are prepared based on the Law on Accounting and taxation regulations in Georgia. The combined financial statements have been prepared from those accounting records, appropriately adjusted and reclassified to conform with International Accounting Standards (IAS). As a result the financial statements have been prepared in accordance with IAS on the historical cost basis. The principal accounting policies adopted are set out below.

The accompanying financial statements have been prepared in the national currency of Georgia, Lari (GEL), which is the Enterprises' functional currency.

FOREIGN CURRENCIES

Translation rates

Transactions denominated in foreign currency are translated into GEL at the official rate of the National Bank of Georgia on the date of the transaction, which approximates the prevailing market rates. Monetary assets and liabilities are translated at the official rate on the balance sheet date. The applicable rate used for the principal currency as at 31 December was as follows (GEL for a unit of foreign currency):

	2000	**1999**
USD	1.96	1.93

Translation gains and losses

Gains and losses on translation are credited or charged to the income statement at the National Bank of Georgia official exchange rate at the balance sheet date.

Exchange differences arising on the settlement of monetary items are recognised in the period in which they occur.

There are no exchange rate restrictions in Georgia. The official National bank exchange rate approximated the market rate as of the balance sheet date and the years ended 31 December 1999 and 1998.

CASH

Cash includes cash on hand as well as demand deposits with financial institutions.

ACCOUNTS RECEIVABLE

Basis of presentation

Accounts receivable are stated at the principal amounts outstanding net of the provision for bad and doubtful debts.

The Provision for bad and doubtful accounts receivable as at the balance sheet date represents the estimated amounts of probable losses that have been incurred at the balance sheet date.

Provisioning policies

The provision for bad and doubtful debts is composed of estimated figures for the following:

- specific provision for significant delinquent accounts;
- general provision based on the overall performance of specific debtor categories.

The level of provision is based on estimates considering known relevant factors affecting the collectibility of accounts receivable. Ultimate losses may vary from the current estimates. These estimates are reviewed periodically, and as adjustments become necessary, they are reported in earnings in the period in which they become known.

Due to the inherent lack of reliable information regarding the customers' creditworthiness, the estimate of probable losses is uncertain. Nevertheless, the management of the Enterprises has made its best estimate of losses and believe those loss estimates presented in the financial statements are reasonable in light of all available information.

Recoveries of the amounts previously provided for are recorded in the current period.

INVENTORIES

Inventory consists primarily of spare parts and other maintenance related items.

Valuation of inventories

Inventories are stated at lower of cost and net realizable value. Physical inventories are taken on a periodic basis to identify obsolete or slow moving items and reserves are determined for slow moving or obsolete items. The inventories are reported net of these reserves.

The cost basis

The historical cost of inventories is computed under the weighted average cost method.

TANGIBLE FIXED ASSETS

Basis of presentation

Tangible fixed assets are stated at revalued historical cost less accumulated depreciation.

A fixed asset is considered an asset with a useful life over one year and with a minimum value of 150 GEL. Original historical cost of fixed assets consists of purchase price, non-recoverable taxes and other expenses directly related to putting the fixed asset into use.

Depreciation policies

Depreciation is provided on all fixed assets based on the revalued amounts. The annual charge for depreciation is computed using the declining balance method based on the following composite average rates:

Buildings	7%
Plant and equipment	8%
Vehicles	20%
Furniture and fixtures	15%

Self-constructed assets

The cost of self-constructed assets include:

- costs directly related to the construction of an asset, such as direct labor, construction materials and fuel;
- allocation of variable and fixed production overheads that are incurred in constructing assets.

Borrowing costs are not included in the cost of self-constructed assets.

Repair and maintenance costs

Expenditures on fixed assets incurred after the asset has been put into its intended use are recognised as an asset if the expenditure improves the condition of the asset beyond its originally assessed standard of performance. The following types of repairs are normally capitalized:

- significant refurbishment of electricity lines, power plants and equipment;
- refurbishment of buildings, involving complete or partial replacement of structural elements and installations.

REVENUE RECOGNITION

Revenue recognition

Revenue consists of amounts due from customers in respect of electricity supplied. Revenue is recognized on the accrual basis.

Significant portions of revenue are settled through offsets and barter.

Penalties

Penalties on overdue customer accounts are recognized when collected.

BORROWING COSTS

Interest costs are recognized as an expense in the period in which they are incurred. Ancillary costs incurred in connection with the arrangement of borrowings are expensed in the period when the borrowings have been arranged.

DEFERRED TAXES

Method of recognition

The tax expense for the period is determined on the basis of tax effect accounting, using the liability method. The expected tax effects of current timing differences are determined and reported either as liabilities for taxes payable in the future or as assets representing advance payments of future taxes. Deferred tax balances are adjusted for changes or expected future changes in the tax rate.

Deferred tax assets

The tax effect of timing differences that result in a debit balance or a debit to the deferred tax balance is recognized only if there is a reasonable expectation of its realization.

USE OF ESTIMATES

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

1. GENERAL INFORMATION

During the period from 1 January 2000 to 30 June 2000 and in 1999 the Enterprises' operating data (unaudited) were as follows:

		2000		1999
	Enguri	**Vardnilli**	**Total**	
Generated kWh'000	1,284,319	249,822	1,534,141	3,089,681
Tariffs for Sakenergo and Energy Market (Tetri / kWh)	1.1	1.17	N/A	1.1 – 1.4
Tariffs for other customers Tetri / kWh	1.1	1.17	N/A	1.6 – 3.60

The Enterprises' activities and tariffs are regulated by the state organization Energy Regulating Commission. The tariffs above are presented at the nominal value, including VAT and not considering the effect of inflation.

Ownership of the equity of all Enterprises is retained with the Ministry of State Property Management of Georgia.

2. REORGANIZATION OF ENERGOGENERATSIA DURING 1999 AND SUBSEQUENT EVENTS

There occurred significant changes in the organizational structure of Energogeneratsia during 1999. The major branches were separated from Energogeneratsia, namely Enguri HP (October 1999), Vardnilli HP (November 1999), Enguri Dam (December 1999). These newly established enterprises were registered as separate limited liability companies. Energogeneratsia was restructured to a joint stock company. All the enterprises are wholly owned by the Ministry of State Property Management of Georgia and regulated by the Ministry of Fuel and Energy of Georgia. As Energogeneratsia was previously financed by the electricity tariff, after the separation of all operating power plants it has remained without any sources of revenue and finance.

The above listed reorganization was made in accordance with changes to the Commercial Law No.1805-110 effective from 19 February 1999.

All amounts stated in GEL'000 unless otherwise stated

3. FINANCIAL INFORMATION ON ENERGOGENERATSIA AND RELATED COMPANIES AS OF 30 JUNE 2000 AND FOR THE PEROD THEN ENDED

BALANCE SHEETS	Enguri HP	Enguri Dam	Vardnilli HP	TOTAL
Current assets				
Cash	562	1	2	565
Inventory	1,323	22	6	1,351
Intercompany receivables	342	4,123	-	4,465
Trade receivables	5,658	300	626	6,584
Prepayments and other Receivables	2,910	69	227	3,206
	10,795	**4,515**	**861**	**16,171**
Non-current assets				
Property, plant and equipment	32,773	73,555	9,633	115,961
Construction in progress	-	-	627	627
	32,773	**73,555**	**10,260**	**116,588**
TOTAL ASSETS	**43,568**	**78,070**	**11,121**	**132,759**
LIABILITIES				
Current liabilities				
Trade payables	3,181	1,639	1,150	5,970
Other payables	114	678	39	831
Intercompany payables	3,539	320	606	4,465
Short-term loans and accrued Interest	146	-	-	146
Tax liabilities	1,506	3,853	80	5,439
TOTAL LIABILITIES	**8,486**	**6,490**	**1,875**	**16,851**
Fund balance				
Paid in capital	30,797	64,858	16,030	111,685
Accumulated fund balance	4,285	6,722	(6,784)	4,223
Total fund balance	**35,082**	**71,580**	**9,246**	**115,908**
TOTAL LIABILITIES AND FUND BALANCE	**43,568**	**78,070**	**11,121**	**132,759**

All amounts stated in GEL'000 unless otherwise stated

STATEMENTS OF PROFIT AND LOSS	Enguri HP	Enguri Dam	Vardnilli HP	TOTAL
Sales of electricity	14,127	-	2,923	17,050
Cost of sales	(6,809)	(1,794)	(2,718)	(11,321)
GROSS PROFIT (LOSS)	**7,318**	**(1,794)**	**205**	**5,729**
Provision for doubtful debts	(6,593)	(7,747)	(10,571)	(24,911)
General and administrative expenses	(339)	(29)	(156)	(524)
Total operating expenses	**(6,932)**	**(7,776)**	**(10,727)**	**(25,435)**
NET OPERATING PROFIT (LOSS)	**386**	**(9,570)**	**(10,522)**	**(19,706)**
NET LOSS BEFORE TAXATION	**386**	**(9,570)**	**(10,522)**	**(19,706)**
Taxation	(1,395)	364	(10)	(1,041)
NET LOSS	**(1,009)**	**(9,206)**	**(10,532)**	**(20,747)**

4. CASH

As at 30 June 2000 and 31 December 1999 cash was composed of the following:

	2000 (unaudited)	1999 (unaudited)
Cash on hand	15	1
Bank accounts	550	7
Total	**565**	**8**

All amounts stated in GEL'000 unless otherwise stated

5. TRADE RECEIVABLES

As at 30 June 2000 and 31 December 1999 trade receivables were composed of the following:

	2000 (unaudited)	1999 (unaudited)
Due from Electrodispetcherizacia	9,011	7,611
Due from Georgian Wholesale Energy Market ("GWEM")	17,724	5,819
Due from Sakenergo	167	-
Factored receivables	-	3,117
Due from regional distributors and other customers	3,697	2,312
Gross receivables	**30,599**	**18,859**
Provision for trade accounts receivable	(24,015)	(6,304)
Total	**6,584**	**12,555**

In accordance with the Government's decree, from 1 July 1999, the collection of accounts receivable was assigned to the company GWEM.

The management has considered it necessary to record a full provision of 100% for Electrodispetcherizacia's debt (former state company Sakenergo). A high uncertainty over its recoverability exists because Electrodispetcherizacia has been in a difficult financial situation experiencing serious cash-flow problems and furthermore, after the split of Electrodispetcherizacia into Electrodispetcherizacia and Sakenergo 2000, the later took over all the old debts.

Factored receivables represent debts transferred to companies Metekhi Ltd. and Ertoba Ltd. They originated in 1997 and are fully provided for.

All provisions for bad and doubtful receivables were made based on the current collection level, payment history and management's estimates. Actual results could differ from these estimates.

All amounts stated in GEL'000 unless otherwise stated

6. PREPAYMENTS AND OTHER RECEIVABLES

As at 30 June 2000 and 31 December 1999 prepayments and other receivables were composed of the following:

	2000 (unaudited)	1999 (unaudited)
VAT prepayment	1,030	641
Prepayments to other suppliers	127	215
Prepayment to Project Implementation Unit (PIU)	1,812	290
Social security overpaid	63	-
Payroll tax prepayment	26	-
Pollution tax prepayment	44	-
Due from employees	104	34
Total	**3,206**	**1,180**

All amounts stated in GEL'000 unless otherwise stated

7. FIXED ASSETS

Fixed assets were composed as follows:

	Buildings and construc-tions	Machinery and equipment	Other fixed assets	Construc-tion in progress	Total
Restated historical cost					
1 January 2000	139,795	15,134	5,521	627	161,077
Additions	-	9,622	-	-	9,622
Disposals	(17,811)	-	-	-	(17,811)
30 June 2000	121,984	24,756	5,521	627	152,888
Accumulated depreciation					
1 January 2000	19,221	6,324	2,697	-	28,242
Charge for the year	8,423	667	412	-	9,502
Disposals	(1,444)				(1,444)
30 June 2000	26,200	6,991	3,109	-	36,300
Net book value					
1 January 2000	**120,574**	**8,810**	**2,824**	**627**	**132,835**
30 June 2000	**95,784**	**17,765**	**2,412**	**627**	**116,588**

The Enteprises do not have land on their balance sheet, all land upon which the Enterprises' facilities are located is owned by the state.

Due to an unstable political situation in Abkhazia, the control over Enguri and Vardnili hydroelectric power plants is limited. The total net book value of fixed assets located in Abkhazia as of 30 June 2000 is GEL 43,033 thousand.

All amounts stated in GEL'000 unless otherwise stated

8. OTHER PAYABLES

As at 30 June 2000 and 31 December 1999 other payables were composed of the following:

	2000 (unaudited)	1999 (unaudited)
Wages and salaries	323	496
Settlement with employees	9	-
Property insurance	415	-
Sundry payables	84	141
Total	**831**	**637**

The amount due for insurance relates to amounts payable to insurance companies for mandatory insurance of Enterprises' fixed assets.

9. SHORT-TERM LOANS AND ACCRUED INTEREST

	2000 (unaudited)	1999 (unaudited)
Short-term loans	146	101
Accrued interest	-	1,063
EBRD commitment fee payable	-	37
Total	**146**	**1,201**

A new short-term loan of GEL 146 thousand was granted on 16 June 2000 and is repayable by 16 September 2000 with an interest rate of 30% per annum.

The short-term loan held at 31 December 1999 for GEL 101 thousand was granted for the purpose of partial settlement of the EBRD loan commitment fee in November 1999. This loan bore an average interest rate of 36 % per annum and was denominated in US dollars.

All amounts stated in GEL'000 unless otherwise stated

10. TAXES PAYABLE

As at 30 June 2000 and 31 December 1999 taxes payable were composed of the following:

	2000 (unaudited)	1999 (unaudited)
VAT payable	1,278	2,365
Profit tax	3,350	193
Social and medical insurance	368	414
Entrepreneurial tax	67	399
Other taxes	56	166
Total	**5,119**	**3,537**

Taxes payable include fines and penalties accrued as the result of tax inspection protocols.

11. PAID IN CAPITAL AND ACCUMULATED FUND BALANCE

The statutory funds of the Enterprises were formed upon the re-organization of a state company Sakenergo on 1 June 1996. The statutory funds of the Enterprises are owned by the Government of Georgia, through the Ministry of State Property.

The combined statutory fund registered as of 30 June 2000 and as of 31 December 1999 was as following:

	2000 (unaudited)	1999 (unaudited)
Enguri HP Ltd.	30,797	30,797
Enguri Dam Ltd.	64,858	64,858
Vardnilli HP Ltd.	16,030	16,030
Total	**111,685**	**111,685**

All amounts stated in GEL'000 unless otherwise stated

12. SALES OF ELECTRICITY

For the period from 1 January 2000 to 30 June 2000 and for the year ended 31 December 1999 sales by hydro power plants were as follows:

	2000 (unaudited)	1999 (unaudited)
Enguri HP	14,127	7,827
Vardnilli HP	2,923	713
Total	**17,050**	**8,540**

13. COST OF SALES

For the period ended 30 June 2000 and for the year ended 31 December 1999 cost of sales were as follows:

	2000 (unaudited)	1999 (unaudited)
Depreciation	9,484	2,987
Inventory written off	147	-
Taxes	183	-
Repairing services	1,011	128
Wages and salaries	461	375
Materials and spare parts consumed	35	55
Total	**11,321**	**3,545**

The taxes included in production costs are comprised of production property tax, entrepreneurial tax, which is calculated as 1% of statutory gross margin and road tax.

14. PROVISION FOR DOUBTFUL DEBTS

The following table provides a reconciliation of the provisions for bad debts to the prior year balance:

	Amount
At 31 December 1998	**450**
Provision charged to the profit and loss account	5,854
At 31 December 1999	**6,304**
Provision charged to the profit and loss account	17,711
At 30 June 2000	**24,015**

All amounts stated in GEL'000 unless otherwise stated

15. GENERAL AND ADMINISTRATIVE EXPENSES

For the period ended 30 June 2000 and the year ended 31 December 1999 general and administrative expenses were as follows:

	2000 (unaudited)	1999 (unaudited)
Taxes, tax penalties and fines	58	396
Business trips	5	199
Salaries	216	-
Depreciation	18	-
Project implementation unit expenses	147	-
Phone, post and other communication	4	-
Fixed assets written off	7,200	-
PIU office expenses	-	71
Other	76	94
Total	**7,724**	**760**

16. FINANCE COST

For the period ended 30 June 2000 and the year ended 31 December 1999 finance cost were as follows:

	2000 (unaudited)	1999 (unaudited)
Interest expense	-	218
EBRD loan commitment fee	-	333
Total	**-**	**551**

17. TAXATION

	2000 (unaudited)	1999 (unaudited)
Current income tax	62	380
Deferred income tax	979	(187)
Total	**1,041**	**193**

All amounts stated in GEL'000 unless otherwise stated

The Enterprises are subject to corporate income tax at a statutory rate of 20%.

Reconciliation between the statutory tax rate and the effective income tax rate was as follows:

	2000 (unaudited)	1999 (unaudited)
Net loss before taxation	(19,706)	(2,217)
Statutory tax rate	20%	20%
Tax effect of current year loss	(3,941)	(443)
Tax non-deductible expenses and non-taxable income (permanent differences)	-	636
Deferred tax asset valuation allowance	4,982	-
Income tax charge for the period	**1,041**	**193**

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The deferred tax reflects the manner in which the Enterprises expect to recover an asset or settle a liability. Temporary differences, which give rise to deferred tax assets (liabilities) as of 30 June 2000 and 1999, were as follows:

All amounts stated in GEL'000 unless otherwise stated

	2000 (unaudited)	1999 (unaudited)
Deferred tax assets:		
Provisions for trade accounts receivable and other assets	4,982	16,339
Accrued expenses	3,194	-
Difference between NBV of fixed assets and their tax written down value	-	4,257
Total deferred tax assets	**8,176**	**20,596**
Deferred tax liabilities		
Revenue accrual	(4,173)	(10,449)
Net deferred tax	**(4,003)**	**10,147**
Less: valuation allowance	4,982	(10,147)
Deferred tax asset/(liability) after valuation allowance	**(979)**	**-**

The taxation system in Georgia is in an early stage of development and is subject to varying interpretations and to constant changes, which may be retroactive. The taxation is settled when the Taxation Authorities conduct an audit based on taxation regulations existing in Georgia. Because of the approach that they follow, and the potential retroactive effect of tax legislation and regulations, additional fines and penalties for the open tax years are possible.

All amounts stated in GEL'000 unless otherwise stated

18. RECONCILIATION BETWEEN STATUTORY AND IAS NET PROFIT AND RESERVES BALANCE

	2000 (unaudited)	
	Total reserves balance	**Profit (loss) for the period**
Statutory	**108,432**	**(4,547)**
Accrual adjustments	23,837	19,428
Expenses booked in equity	-	
Revaluation of fixed assets	24,826	7,307
Additional depreciation charge	(9,057)	(9,057)
Provision for Receivables and other assets	(24,163)	(25,911)
Provision to restore underwater cascades	(7,200)	(7,200)
Unrecorded tax and other liabilities	(185)	(185)
Other	(582)	(582)
IAS	**115,908**	**(20,747)**

19. COMMITMENTS AND CONTINGENCIES

On 22 December 1998 the state enterprise Sakenergo signed a loan agreement with EBRD for the "Enguri Rehabilitation Project" in the total amount of USD 38,750 thousand. This loan was subsequently ratified by the Georgian parliament in September 1999 and is guaranteed by the Georgian government through the Ministry of Finance. As the loan will only be used by the Enteprises, it is deemed that they will be liable for its repayment according to a project contract signed with Enguri HP. It is planned that the ultimate loan agreement liability will be transferred to a company Electrodispatcherizatsia, which will guarantee the loan by its portion of the electricity tariff. In October 1999 an independent legal entity Hydro Energy Project Implementation Unit Ltd. (the "PIU") was established to monitor the loan disbursements and repayment. All bank accounts of Enguri HP are under control of the PIU. The first disbursement from the loan occurred in January 2000. The loan bears an interest rate of 7.3% p.a. (6.3% base rate plus 1% margin) and a commitment fee of 0.5% p.a. on unused portion of the loan.

20. ECONOMIC SITUATION

Georgia is experiencing serious economic instability as a result of an unbudgeted fiscal deficit, high levels of interest rates, debt, low rates of tax collection, a lack of liquidity. Inability to obtain sufficient funds to remedy the situation has caused a significant devaluation of the currency, instability of the banking system and other serious economic and political consequences.

The return to economic stability depends to a large extent on the efficiency of the fiscal measures taken by the government and other actions beyond the Enterprises' control. The recoverability of the individual Enterprises' assets combined in these financial statements and their ability to maintain or pay their debts as they mature, as well as their future operations, may be significantly affected by such severe national economic difficulties.

Due to the current economic situation in Georgia, as described above, outdated power plants and low collection level, the Enterprises are experiencing serious liquidity and cash flow problems. The Enterprises' ability to continue functioning as a going concern depends on their financial and operational restructuring and continued government support.

The accompanying financial statements do not include any adjustments that might be necessary as a result of these uncertainties.

21. GOING CONCERN CONSIDERATIONS

Low collection levels from the Energy Market have caused the cash-flow problems in Enguri and Vardnilli Hydro Power Plants (HPP), and consequently Enguri Dam, which operations are fully financed by Enguri HPP.

Based on a presidential decree No.74 dated 29 February 2000, the main functions of Energogeneratsia should be technical supervision of the hydro power plants in Georgia, high level strategic planning in the energy generation sector, coordination of privatization of the hydro power plants, search for strategic investors, etc. Financing of Energogeneratsia is planned to be obtained by inclusion of its operating expenses into the electricity tariff. However, no agreement has been reached with the regulatory bodies on this issue and therefore the mission of Energogeneratsia remains unclarified. Currently the efforts of management are put to restore trust from the power plants and search for alternative sources of financing of Energogeneratsia's activities.

The ability of the Enterprises combined in these financial statements to continue functioning as a going concern depends on their financial and operational restructuring.

The financial statements have been prepared on the going concern assumption and they do not include any adjustments that might be necessary as a result of the uncertainties specified above.

Financial Forecast for the State Companies Enguri Hydri Power Plant, Vardnili Hydro Power Plant, and Enguri Dam

To the Boards of Directors and shareholders of
Enguri Hydro Power Plant Ltd,
Vardnilli Hydro Power Plant Ltd and
Enguri Dam Ltd:

Deloitte & Touche has compiled the accompanying combined forecasted balance sheet, statements of income and cash flows of Enguri Hydro Power Plant Ltd, Vardnilli Hydro Power Plant Ltd and Engury Dam Ltd (Enguri Group) for the period from 1 July 2000 to 31 December 2000. Information is based on combined financial statements as of 30 June 2000 prepared in accordance with International Standards on Auditing as well as unaudited operational data received from the management of the companies.

A compilation is limited to presenting in the form of forecast information that is the representation of management and does not include an evaluation of the support for the assumption underlying the forecast. We have not examined the forecast and, accordingly, do not express an opinion or any other form of assurance on the accompanying statements or assumptions. Furthermore, there will usually be differences between the forecast and actual results, because events and circumstances frequently do not occur as expected, and those differences may be material.

We have no responsibility to update this report for events and circumstances occurring after the date of this report.

We are extremely happy to provide these services to Enguri Group and would like to thank you for this opportunity.

Yours sincerely,

Deloitte & Touche

ENGURI HPP, VARDNILLI HPP and ENGURI DAM
Financial forecast DRAFT VERSION

1. General Information

During the period from 1 January 2000 to 30 June 2000 and in 1999 the Enterprises' operating data (unaudited) were as follows:

	2000			1999
	Enguri	**Vardnilli**	**Total**	
Generated kWh'000	1,284,319	249,822	1,534,141	3,089,681
Tariffs for Sakenergo and Energy Market (Tetri / kWh)	1.1	1.17	N/A	1.1 – 1.4
Tariffs for other customers Tetri / kWh	1.1	1.17	N/A	1.6 – 3.60

The Enterprises' activities and tariffs are regulated by the state organisation Energy Regulating Commission. The tariffs above are presented at the nominal value and do not consider the effect of inflation.

Both Engury HPP and Vardnilli HPP are exempt from VAT payments to the state budget. The Ministry of State Property Management of Georgia retains ownership of the equity of all Enterprises.

Due to an unstable political situation in Abkhazia, the control over Enguri and Vardnilli hydroelectric power plants is limited. The total net book value of fixed assets located in Abkhazia as of 30 June 2000 is GEL 43,033 thousand.

At the beginning of 1999 Enguri Group had a different organizational structure. At that time enterprise was named Energogeneratsia Ltd. Significant changes occurred in the organizational structure of Energogeneratsia during 1999. The major branches were separated from Energogeneratsia, namely Enguri HPP (October 1999), Vardnilli HPP (November 1999), Enguri Dam (December 1999).. These newly established enterprises were registered as separate limited liability companies. Energogeneratsia was restructured to a joint stock company. All the enterprises are wholly owned by the Ministry of State Property Management of Georgia and regulated by the Ministry of Fuel and Energy of Georgia. As Energogeneratsia was previously financed by the electricity tariff, after the separation of all operating power plants it has remained without any sources of revenue and finance.

The above listed reorganisations were made in accordance with changes to the Commercial Law No.1805-110 effective from 19 February 1999.

2. Future plans

The major problem of the Enterprises is the fact that its biggest client – GWEM - is not able to pay for the services provided by the Enterprise. Management of Enguri Group Enterprises have forecasted the collection level of the services provided to the GWEM at 8%. Historic sales to GWEM have been written off by 80% as of 30 June 2000. The remaining 20% of receivables from the GWEM are assumed to be collectible under this forecast period.

3. Principal forecast factor

Sales were assumed as the principal forecast factor, restricting activity.

4. Customer Base

Electricity is generated by two hydro power plants; Enguri HPP and Vardnilli HPP. The customer base of the power plants includes sales either to direct customers or to the energy market (GWEM). Until August 2000, Vardnilli HPP had a direct contract with Alioni Plus, whereas it supplied electricity directly to the client rather than via the energy market. From August Vardnilli HPP has all the sales directly with the energy market, except for September when just for one-month electricity is supplied directly to AES Telasi.

Enguri HPP technically has all the sales to the GWEM, but the portion of electricity supplied from the GWEM to AES Telasi is paid directly to the Enguri HPP, therefore under this forecast sales to AES Telasi are shown separately as direct contracts to show 100% collection rate.

5. Sales budget

Gross output in the sales budget for Enguri HPP has been prepared based on the information provided by the management of the Enterprise and actual figures for July 2000. Gross output for Vardnilli HPP has been prepared based on the operational results of the Enterprise in the same months of the previous year rounded to 100,000 kWh. Losses and own consumption of the electricity by both power plants are based on historic information as a percentage of average losses and own consumption per unit of output produced (Enguri HPP = 0.64%, Vardnilli HPP = 0.786%). Sales of Enguri HPP have been estimated at 75,000,000 kWh per month and the rest of the energy produced being sold to GWEM. All of the sales of Vardnilli HPP are to the GWEM except for July and September (see paragraph 4). Tariffs applied for electricity sales have been adopted from the Decree #8 of the State Energy Regulatory Commission from 31 August 2000.

Table 1. Sales budget for the period from 1 July till 31 December 2000.

Month	Hydro Power Plant	Gross Output kWh	Losses & Own Consumption kWh	Net Output kWh	Direct Contracts kWh	Through the Market kWh	
					AES Telasi	GWEM	Adjara
Jul-00	*Ehguri HPP*	391,759,200	2,507,258	389,251,942	78,000,000	311,251,942	-
Jul-00	*Vardnilli HPP*	47,858,400	357,895	47,500,505	22,956,280	24,544,225	-
Aug-00	*Ehguri HPP*	416,000,000	2,662,400	413,337,600	75,000,000	338,337,600	-
Aug-00	*Vardnilli HPP*	56,400,000	443,304	55,956,696	-	55,956,696	-
Sep-00	*Ehguri HPP*	220,000,000	1,408,000	218,592,000	75,000,000	143,592,000	-
Sep-00	*Vardnilli HPP*	41,800,000	328,548	41,471,452	14,730,000	26,741,452	-
Oct-00	*Ehguri HPP*	200,000,000	1,280,000	198,720,000	75,000,000	123,720,000	-
Oct-00	*Vardnilli HPP*	32,300,000	253,878	32,046,122	-	32,046,122	-
Nov-00	*Ehguri HPP*	190,000,000	1,216,000	188,784,000	75,000,000	113,784,000	-
Nov-00	*Vardnilli HPP*	38,800,000	304,968	38,495,032	-	38,495,032	-
Dec-00	*Ehguri HPP*	200,000,000	1,280,000	198,720,000	75,000,000	123,720,000	-
Dec-00	*Vardnilli HPP*	61,300,000	481,818	60,818,182	-	60,818,182	-
Total:		**1,896,217,600**	**12,524,069**	**1,883,693,531**	**490,686,280**	**1,393,007,251**	**-**

The planned net revenues for the period from July through December 2000 are shown in Exhibit 2.

6. Management policies

The primary management policies incorporated in the forecast are as follows:

- Collections from AES TELASI are in the same month that the sales occur;
- Collections from GWEM is 30 days at 8% collection level;
- 92% of sales to the Energy Market (GWEM) are considered uncollectible in the same month that the sale occurred and are written off;
- Accounts receivables from GWEM that have not been written off are collected within first 4 months of the forecast period.

7. Macroeconomic assumptions

The forecast was prepared using real prices, without any adjustments for the effects of inflation.

8. Subsidiary budgets

Subsidiary budgets include the debtor cash inflow budget, cost of sales budget, administrative expense budget and financing budget as described below.

9. Debtor cash inflow budget (Exhibit 3)

The debtor cash inflow budget consists of two parts: Cash received from sales and cash received from debtors (sales that occurred before the period under current forecast). Proceeds from sales are calculated based on the existing contracts with clients and historic information. In particular, AES Telasi has 0 debtor days and GWEM 30 debtor days. AES Telasi makes estimated payments (prepayments) to power plants based on the quantity of electricity supplied to them during the current month. Power plants issue invoices only in the following next month but they are adjusted to the payments from previous month.

10. Cost of sales budget (Exhibit 4)

Historic gross profit margin was 33% most of which is depreciation of fixed assets. Projections for the cost of sales budgets have been prepared based on negotiations with the management of the Enterprise and on average are equal to 43% of total sales. Direct salary is calculated based on the historical ratio of salary and surcharge expenses per unit of gross output (0.0003005 GEL per 1 kWh). Repair service expenses are calculated based on the historic ratio of repair and maintenance expense per unit of sales, which is 0.000659 GEL per 1 kWh of electricity produced. Depreciation remains unchanged at 1,580,667 GEL per month over the projected period and is based on historic information. Taxes (0.0001193 GEL per 1 kWh) and materials and spare parts consumed (0.0000228 GEL per 1 kWh) expenses are linked in the same way as salary and surcharges to the gross number of units of electricity being produced over the projected period of time. Ratios used are based on historic information and expectations provided by management.

11. Administrative expense budget (Exhibit 5)
Administrative expenses include expenditures associated with the management of the Enterprise and other administrative costs incurred during the normal course of operations.

Salary, depreciation, taxes, project implementation unit, travel, and other expenses are not linked to sales, but are taken on a historic base and remain unchanged over the projected period. Only communication expenses are taken on a historic basis and are linked to the number of kWh of electricity being produced over the respective period of time.

12. The financing budget (Exhibit 6)
The financing budget for Enguri Group consists of 3 parts – projections for new loans, existing loan prepayments, and EBRD loan interest and commitment fee payments.

A short-term loan of GEL 146 thousand was granted on 16 June 2000 and is repayable by 16 September 2000 with an interest rate of 30% per annum.

The interest payment under the EBRD loan N734 of 38,750,000 USD takes place twice per year on 26 November and May. Engury HPP is paying a 0,5% commitment charge and an interest rate of 7,3% (fixed) on the loan disbursed. For this purpose a debt service account has been opened where on a monthly basis cash is transferred from Enguri HPP to Enguri Rehabilitation Project Implementation Unit (PIU). These prepayments to PIU are recorded under the prepayments and other receivables item of the Enterprise balance sheet in the account – Prepayments to PIU. As of the start of the forecast period accumulated prepayments comprised 1,812 ('000 GEL).

Given the fact that Enguri Group has positive net cash-flows during the projected period, there is no need for short-term loans.

13. The master budget
Based on the subsidiaries budgets, the master budget was constructed. The master budget includes the income statement, pro-forma balance sheet and forecasted cash Flow. Both income statement and cash flow have been forecasted on a monthly basis for the period from 1 July 2000 till 31 December 2000. The above forms are attached in Exhibits 7 and 8. The pro-forma Balance Sheet has been prepared as of 31 of December 2000 and is attached in Exhibit 9.

14. Income statement (Exhibit 7)

14.1. Sales
Sales fugues are taken from the sales budget (Exhibit2). Sales, as projected by the management of the Company, will decrease over the period from September, when the water level in Enguri Dam will be low, therefore not providing sufficient pressure to power generator turbines. Effective 1 September, the State Energy Regulatory

Commission approved new tariffs for electricity producers. Those have been incorporated into the forecast.

14.2. Cost of sales

Costs of sales are taken from the cost of sales budget (Exhibit 4). All items are linked to the output of the power plants except for depreciation which is assumed to remain unchanged over the projection period.

14.3. Provisions for doubtful debts

As described above, 92% of all sales to GWEM are considered to be uncollectable, therefore these sales are written off in the same month as they occur. No provisions for sales to AES Telasi are estimated in this forecast.

14.4. Depreciation expense

Depreciation expense is based on the average depreciation rate applied on the gross value of fixed assets. Depreciation has been assumed to remain unchanged over the whole period of projection and is based on the average historic depreciation per month.

14.5. Interest expense

Interest expenses are payments for short-term loan and EBRD loan interest and commitment charge payments. No accruals have been made for interest expenses, therefore they are fully expensed in the same month as payments occur.

14.6. Deferred tax

Deferred tax has been calculated as a proportion of net sales as of 30 June 2000. Based on the historic information it was 5.74%. It is very difficult to project deferred tax, therefore it is assumed that it should retain the same proportion of net sales as historically.

15. Balance sheet (Exhibit 9)

The pro-forma balance sheet for the Enterprise has been prepared as of 31 December 2000. The pro-forma balance sheet is prepared based on the existing IAS based accounts and its opening balance sheet. One major assumption that has been applied while compiling the balance sheet was that the pro-forma balance sheet will be affected only by transactions which have been predicted in the subsidiary budgets. It was assumed that existing inventory, fixed assets, trade and other payables, and paid in capital that is stated in the opening balance sheet as of 30 June 2000 will remain unchanged over the period of projection. The pro-forma balance sheet is affected only by transactions that are expected to take place from July 2000 as a result of new sales or proceeds received from debtors.

15.1. Fixed Assets

Fixed assets constitute 90% of total assets and are mostly comprised of buildings and construction. Fixed assets are stated net of depreciation. No additions or disposals of fixed assets have been assumed.

15.2. Fund balance

It has been assumed that net profit will be retained over the entire projection period. No additions or disposals of statutory funds have been assumed.

16. Forecast cash flow for the period from 1 July till 31 December 2000

The cash flow for the period from 1 July till 31 December 2000 was forecasted using the sources and applications method. The cash flow forecast was prepared on a monthly basis and is shown in Exhibit 8.

ENGURI HPP, VARDNILLI HPP and ENGURI DAM

Financial Statement Forecast for the period from July 1, 2000 till December 31, 2000

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Exhibit 1. Historic Sales from July 1999 to July 2000 (provided by the client)

Enguri Hydro Plant

Name of Plant	*Year, Month*	*Gross Output kWh*	*Losses kWh*	*Own Consumption kWh*	*Net Output kWh*	*Direct Contracts kWh*	*Through the Market kWh*
Enguri	Jul-99	332,640,000	1,127,583	998,000	330,514,417	22,793,198	307,721,219
Enguri	Aug-99	368,474,400	1,249,055	1,105,000	366,120,345	73,399,377	292,720,968
Enguri	Sep-99	216,064,800	732,417	648,000	214,684,383	69,905,411	144,778,972
Enguri	Oct-99	165,715,200	562,033	411,179	164,741,988	94,761,391	69,980,597
Enguri	Nov-99	241,504,200	818,651	724,513	239,961,036	73,500,000	166,461,036
Enguri	Dec-99	290,115,000	986,391	870,000	288,258,609	73,500,000	214,758,609
Enguri	Jan-00	213,192,000	724,853	639,576	211,827,571	73,500,000	138,327,571
Enguri	Feb-00	92,458,800	314,360	277,376	91,867,064		91,867,064
Enguri	Mar-00	48,724,200	165,665	146,174	48,412,361		48,412,361
Enguri	Apr-00	240,408,000	817,387	721,224	238,869,389	70,000,000	168,869,389
Enguri	May-00	291,362,400	990,632	874,087	289,497,681	90,000,000	199,497,681
Enguri	Jun-00	332,866,800	1,131,747	998,600	330,736,453	78,000,000	252,736,453
Enguri	Jul-00	391,759,200	1,331,981	1,175,277	389,251,942	78,000,000	311,251,942
	Total	***3,225,285,000***	***10,952,755***	***9,589,006***	***3,204,743,239***	***797,359,377***	***2,407,383,862***

Vardnilli Hydro Plant

Name of Plant	*Year, Month*	*Gross Output kWh*	*Losses kWh*	*Own Consumption kWh*	*Net Output kWh*	*Direct Contracts kWh*	*Through the Market kWh*
Vardnilli	Jul-99	49,117,000	264,692	100,000	48,752,308		48,752,308
Vardnilli	Aug-99	56,370,240	304,399	100,000	55,965,841		55,965,841
Vardnilli	Sep-99	41,797,440	225,166	100,000	41,472,274		41,472,274
Vardnilli	Oct-99	32,341,680	174,105	100,000	32,067,575		32,067,575
Vardnilli	Nov-99	38,833,200	209,159	100,000	38,524,041	18,746,707	19,777,334
Vardnilli	Dec-99	61,305,120	330,508	100,000	60,874,612	2,299,664	58,574,948
Vardnilli	Jan-00	50,772,960	273,634	100,000	50,399,326	12,308,720	38,090,606
Vardnilli	Feb-00	26,148,240	140,660	100,000	25,907,580	16,780,010	9,127,570
Vardnilli	Mar-00	20,385,360	109,540	100,000	20,175,820	15,805,836	4,369,984
Vardnilli	Apr-00	43,205,040	232,767	100,000	42,872,273	24,486,758	18,385,515
Vardnilli	May-00	54,929,520	296,079	100,000	54,533,441	12,033,411	42,500,030
Vardnilli	Jun-00	56,337,120	303,680	100,000	55,933,440	18,482,096	37,451,344
Vardnilli	Jul-00	47,858,400	257,895	100,000	47,500,505	22,956,280	24,544,225
	Total	***579,401,320***	***3,122,284***	***1,300,000***	***574,979,036***	***143,899,482***	***431,079,554***

Exhibit 2. **The sales budget for Enguri Group for the period from July to December 2000.**

Month	Hydro Power Plant	Gross Output kWh	Losses & Own Consumption kWh	Net Output kWh	Direct Contracts kWh	Through the Market kWh		Direct Contracts GEL/kWh	Through the Market GEL/kWh		Direct Contracts GEL	Through the Market GEL		Total per Month GEL
					AES Telasi	GWEM	Adjara	AES Telasi	GWEM	Adjara		GWEM	Adjara	
Jul-00	*Enguri HPP*	391,759,200	2,507,258	389,251,942	78,000,000	311,251,942	-	0.0110	0.0110	0.0140	858,000	3,423,771	-	4,890,326
Jul-00	*Vardnilli HPP*	47,858,400	357,895	47,500,505	22,956,280	24,544,225	-	0.0140	0.0117		321,388	287,167	-	
Aug-00	*Enguri HPP*	416,000,000	2,662,400	413,337,600	75,000,000	338,337,600	-	0.0110	0.0110	0.0140	825,000	3,721,714	-	5,201,407
Aug-00	*Vardnilli HPP*	56,400,000	443,304	55,956,696	-	55,956,696	-		0.0117		-	654,693	-	
Sep-00	*Enguri HPP*	220,000,000	1,408,000	218,592,000	75,000,000	143,592,000	-	0.0110	0.0213	0.0256	825,000	3,058,510	-	4,358,415
Sep-00	*Vardnilli HPP*	41,800,000	328,548	41,471,452	14,730,000	26,741,452	-	0.0110	0.0117		162,030	312,875	-	
Oct-00	*Enguri HPP*	200,000,000	1,280,000	198,720,000	75,000,000	123,720,000	-	0.0110	0.0213	0.0256	825,000	2,635,236	-	3,835,176
Oct-00	*Vardnilli HPP*	32,300,000	253,878	32,046,122	-	32,046,122	-		0.0117		-	374,940	-	
Nov-00	*Enguri HPP*	190,000,000	1,216,000	188,784,000	75,000,000	113,784,000	-	0.0110	0.0213	0.0256	825,000	2,423,599	-	3,698,991
Nov-00	*Vardnilli HPP*	38,800,000	304,968	38,495,032	-	38,495,032	-		0.0117		-	450,392	-	
Dec-00	*Enguri HPP*	200,000,000	1,280,000	198,720,000	75,000,000	123,720,000	-	0.0110	0.0213	0.0256	825,000	2,635,236	-	4,171,809
Dec-00	*Vardnilli HPP*	61,300,000	481,818	60,818,182	-	60,818,182	-		0.0117		-	711,573	-	
Total:		1,896,217,600	12,524,069	1,883,693,531	490,686,280	1,393,007,251	-				5,466,418	20,689,706	-	26,156,124

Exhibit 3. **Projected cash inflow from debtors for Enguri Group for the period from July to December 2000.**

Sales Budget	Jul-00	Aug-00	Sep-00	Oct-00	Nov-00	Dec-00	Total
Units / kWh	436,752,447	469,294,296	260,063,452	230,766,122	227,279,032	259,538,182	**1,883,693,531**
Net sales (GEL)	4,890,326	5,201,407	4,358,415	3,835,176	3,698,991	4,171,809	**26,156,124**
Enguri HPP							
Cash from sales (GEL) - *Direct Contracts*	858,000	825,000	825,000	825,000	825,000	825,000	**4,983,000**
Cash from sales (GEL) - *Energy Market*	-	273,902	297,737	244,681	210,819	193,888	**1,221,027**
Vardnilli HPP							
Cash from sales (GEL) - *Direct Contracts*	-	321,388	-	162,030	-	-	**483,418**
Cash from sales (GEL) - *Energy Market*	-	22,973	52,375	25,030	29,995	36,031	**166,404**
Cash from debtors (GEL) - *Energy Market*	886,200	886,200	886,200	886,200			**3,544,800**
Total cash received from debtors	***1,744,200***	***2,329,463***	***2,061,312***	***2,142,941***	***1,065,814***	***1,054,919***	***10,398,649***

Exhibit 4. **Costs of sales budget for Enguri Group for the period from July to December 2000.**

Costs of Sales Budget	Jul-00	Aug-00	Sep-00	Oct-00	Nov-00	Dec-00	Total
Units / kWh	436,752,447	469,294,296	260,063,452	230,766,122	227,279,032	259,538,182	**1,883,693,531**
Net sales (GEL)	4,890,326	5,201,407	4,358,415	3,835,176	3,698,991	4,171,809	**26,156,124**
Depreciation	1,580,667	1,580,667	1,580,667	1,580,667	1,580,667	1,580,667	**9,484,002**
Repairing services	287,820	309,265	171,382	152,075	149,777	171,036	**1,241,355**
Wages & Salaries	131,244	141,023	78,149	69,345	68,297	77,991	**566,049**
Taxes	52,105	55,987	31,026	27,530	27,114	30,963	**224,725**
Materials ans spare parts consumed	9,958	10,700	5,929	5,261	5,182	5,917	**42,947**
Total costs of sales	***2,061,794***	***2,097,642***	***1,867,153***	***1,834,878***	***1,831,037***	***1,866,574***	***11,559,078***

Exhibit 5. **General and Administration Expenses Budgets for Enguri Group for the period from July to December 2000.**

General and Admin. Expense Budget	Jul-00	Aug-00	Sep-00	Oct-00	Nov-00	Dec-00	Total
Units / kWh	436,752,447	469,294,296	260,063,452	230,766,122	227,279,032	259,538,182	**1,883,693,531**
Net sales (GEL)	4,890,326	5,201,407	4,358,415	3,835,176	3,698,991	4,171,809	**26,156,124**
Salary and Surcharges	36,000	36,000	36,000	36,000	36,000	36,000	**216,000**
Project Implementation Unit expenses	24,500	24,500	24,500	24,500	24,500	24,500	**147,000**
Other	12,667	12,667	12,667	12,667	12,667	12,667	**76,002**
Taxes, penalties and fees	9,667	9,667	9,667	9,667	9,667	9,667	**58,002**
Depreciation	3,000	3,000	3,000	3,000	3,000	3,000	**18,000**
Communications	1,136	1,220	676	600	591	675	**4,898**
Business trips	833	833	833	833	833	833	**4,998**
Total General and Admin. Expenses	***87,803***	***87,887***	***87,343***	***87,267***	***87,258***	***87,342***	***524,900***

Exhibit 6. **Financing Budget for Enguri Group for the period from July to December 2000.**

New Loans	Jul-00	Aug-00	Sep-00	Oct-00	Nov-00	Dec-00	Total
Short term loan (cash inflow)	-	-	-	-	-	-	**-**
Principle amount repayment	-	-	-	-	-	-	**-**
Interest amount repayment	-	-	-	-	-	-	**-**
Existing Loan							
Principle amount repayment	-	-	146,000	-	-	-	**146,000**
Interest amount repayment	-	-	10,950	-	-	-	**10,950**
EBRD Loan (#734)							
Debt Service Account balance	1,812,000	1,812,000	1,801,050	1,801,050	1,543,445	1,543,445	**10,312,990**
Additions to Debt Service Account	-	-	-	-	-	-	**-**
Commitment charge payment	-	-	-	-	183,766	-	**183,766**
Interest amount payment	-	-	-	-	73,839	-	**73,839**
Total financing costs	***-***	***-***	***10,950***	***-***	***257,605***	***-***	***268,555***

Exhibit 7. The Budgeted Profit and Loss account for Enguri Group for the period from July to December 2000.

Budgeted Profit and Loss Account	**Jul-00** (GEL)	**Aug-00** (GEL)	**Sep-00** (GEL)	**Oct-00** (GEL)	**Nov-00** (GEL)	**Dec-00** (GEL)	**Total (GEL)**
Net sales	4,890,326	5,201,407	4,358,415	3,835,176	3,698,991	4,171,809	26,156,124
Cost of sales	(2,061,794)	(2,097,642)	(1,867,153)	(1,834,878)	(1,831,037)	(1,866,574)	(11,559,078)
GROSS PROFIT	**2,828,532**	**3,103,765**	**2,491,262**	**2,000,298**	**1,867,954**	**2,305,235**	**14,597,046**
Provision for Doubtful debts	(3,414,063)	(4,026,294)	(3,101,674)	(2,769,362)	(2,644,072)	(3,079,064)	(19,034,529)
General & Administrative expenses	(87,803)	(87,887)	(87,343)	(87,267)	(87,258)	(87,342)	(524,900)
Total Operating Expenses	*3,501,866*	*4,114,181*	*3,189,017*	*2,856,629*	*2,731,330*	*3,166,406*	*19,559,429*
NET OPERATING PROFIT/LOSS	**(673,334)**	**(1,010,416)**	**(697,755)**	**(856,331)**	**(863,376)**	**(861,171)**	**(4,962,383)**
Interest expense	-	-	(10,950)	-	(257,605)	-	(268,555)
NET PROFIT/LOSS BEFORE TAXATION	(673,334)	(1,010,416)	(708,705)	(856,331)	(1,120,981)	(861,171)	(5,230,938)
Income Tax	-	-	-	-	-	-	-
Deferred Tax	(280,705)	(298,561)	(250,173)	(220,139)	(212,322)	(239,462)	(1,501,362)
NET PROFIT/LOSS	***(954,039)***	***(1,308,977)***	***(958,878)***	***(1,076,470)***	***(1,333,303)***	***(1,100,633)***	***(6,732,300)***

Exhibit 8. **The Budgeted Cash Flow statement for Enguri Group for period from July through December 2000.**

Cash Budget	**Jul-00** (GEL)	**Aug-00** (GEL)	**Sep-00** (GEL)	**Oct-00** (GEL)	**Nov-00** (GEL)	**Dec-00** (GEL)	**Total** (GEL)
Opening Cash Balance	**565,000**	**1,743,270**	**3,470,871**	**5,004,404**	**6,808,867**	**7,540,053**	**565,000**
Cash from debtors (net)	1,744,200	2,329,463	2,061,312	2,142,941	1,065,814	1,054,919	10,398,649
Short-term loans	-	-	-	-	-	-	-
TOTAL RECEIPTS	**1,744,200**	**2,329,463**	**2,061,312**	**2,142,941**	**1,065,814**	**1,054,919**	**10,398,649**
Costs of Sale	2,061,794	2,097,642	1,867,153	1,834,878	1,831,037	1,866,574	11,559,078
Depreciation	(1,580,667)	(1,580,667)	(1,580,667)	(1,580,667)	(1,580,667)	(1,580,667)	(9,484,002)
Costs of Sale less Depreciation	481,127	516,975	286,486	254,211	250,370	285,907	2,075,076
General & Administrative expenses	87,803	87,887	87,343	87,267	87,258	87,342	524,900
Depreciation	(3,000)	(3,000)	(3,000)	(3,000)	(3,000)	(3,000)	(18,000)
General & Admin. Expenses less Depr.	84,803	84,887	84,343	84,267	84,258	84,342	506,900
Principle amount repayment	-	-	146,000	-	-	-	146,000
Interest amount repayment	-	-	10,950	-	-	-	10,950
EBRD Loan (#734)							
Additions to Debt Service Account	-	-	-	-	-	-	-
Income tax	-	-	-	-	-	-	-
TOTAL PAYMENTS	**565,930**	**601,862**	**527,779**	**338,478**	**334,628**	**370,249**	**2,738,926**
Net cash-flow	**1,178,270**	**1,727,601**	**1,533,533**	**1,804,463**	**731,186**	**684,670**	**7,659,723**
Closing cash balance	**1,743,270**	**3,470,871**	**5,004,404**	**6,808,867**	**7,540,053**	**8,224,723**	**8,224,723**

Exhibit 9. **Deriving the budgeted Balance Sheet of Enguri Group as of 31 December 2000.**

(GEL)	Opening Balance Sheet as of 30 June 2000	Sales	Deferred Tax	Cash rec'd from debtors	Bad Debt Provisions	Additions to debt serv. Account	Payment of Interest to EBRD	Income Tax	Loans received	Principle amounts paid	Interest amounts paid	Depreciation	COS plus Gen&Admin Expenses	Closing balance sheet
Current Assets														
Cash	565,000			10,398,649		-		-	-	(146,000)	(10,950)		(2,581,976)	8,224,723
Inventory	1,351,000													1,351,000
Trade account receivable, net	6,584,000	26,156,124		(10,398,649)	(19,034,529)									3,306,946
Prepayments and other receivables	3,206,000					-	(257,605)							2,948,395
Fixed assets	116,588,000											(9,502,002)		107,085,998
TOTAL ASSETS	**128,294,000**													**122,917,062**
Current liabilities														
Trade payables	(6,290,000)													(6,290,000)
Other payables	(831,000)													(831,000)
Short-term loans and accrued interest	(146,000)								-	146,000				-
Tax liabilities	(5,119,000)		(1,501,362)											(6,620,362)
Total current liabilities	**(12,386,000)**													**(13,741,362)**
	-													
Paid in Capital	(111,685,000)													(111,685,000)
Accumulated fund balance	(4,223,000)	(26,156,124)	1,501,362		19,034,529		257,605	-			10,950	9,502,002	2,581,976	2,509,300
TOTAL LIABILITIES	**(128,294,000)**													**(122,917,062)**

GiC

Company Policies and Procedures

Table of Contents

Company Policies and Procedures

Short-Term Financial Planning – Chapter 1

GIC
FINANCIAL PLANNING & ANALYSIS POLICIES

Number: 1.01

Effective Date:

Written By: Deloitte&Touche

Modified By:_ **Vice President Approval:**

Date Modified:_ **Date:**

Title: Annual Financial Plans/Operating Expense Budgets

1.0 Purpose and Scope

1.1 The purpose of this policy is to define the annual financial planning activities and responsibilities.

2.0 Definitions

2.1 ***Annual Financial Plan:*** Planned profitability by month in detail (i.e. Sales through Net Income in Income Statement format), supported by detailed operating expenses by account, function and by branches. Detailed capital expenditure plans and detailed headcount assumptions by function, department and branch.

3.0 Responsibilities

3.1 ASSISTANT GENERAL DIRECTOR is responsible for coordinating the entire process of preparing and implementing the annual financial plans.

3.2 The ASSISTANT GENERAL DIRECTOR of the company is responsible for preparing a detailed annual financial plan for approval by the Board of Directors (or Other structure).

4.0 Policy Statement

4.1 It is the policy of the Company to prepare detailed annual financial plans to facilitate achievement of overall corporate goals.

5.0 Procedures

5.1 The ASSISTANT GENERAL DIRECTOR assists the Board of Directors' (or Other structure) in identifying the strategic objectives for the Company that will form the basis for each annual financial plan.

5.2 The ASSISTANT GENERAL DIRECTOR establishes the framework for preparing the plan (i.e. timing, structure and format).

5.3 The ASSISTANT GENERAL DIRECTOR establishes detailed operating objectives for each individual operation.

5.4 The branches of the company should prepare their own annual plan and the ASSISTANT GENERAL DIRECTOR collects, collates and reviews the completed plans and ensures that the plans are consistent with corporate objectives as established.

5.5 The ASSISTANT GENERAL DIRECTOR compiles the consolidated plan for approval by the Board of directors'.

GIC
FINANCIAL PLANNING & ANALYSIS POLICIES

Number:_1.02

Effective Date:

Written By: __**Deloitte&Touche**__

Modified By:_ **Vice President Approval:**

Date Modified:_ **Date:**

Title: Key Indicator Monitoring System

1.0 Purpose and Scope

1.1 The purpose of this policy is to define activities and responsibilities related to the Key Indicators Monitoring System (KIMS).

2.0 Definitions

2.1 ***Key Indicators Monitoring System (KIMS):*** The monthly package used to report key business indicators to executive management.

2.2 ***Key Business Indicators:*** The ratios and relationships noted in the Key Indicators Monitoring System table of contents.

3.0 Responsibilities

3.1 The ASSISTANT GENERAL DIRECTOR is responsible for compiling and maintaining the monthly financial statement package used in the KIMS reporting.

3.2 The ASSISTANT GENERAL DIRECTOR is responsible for the collection of data from various sources and the compilation of the KIMS package.

4.0 Policy Statement

4.1 It is the policy of the Company to monitor business performance to identify areas of risk in a timely manner allowing management to take appropriate action to maintain the growth and profitability of the Company.

5.0 Procedures

5.1 The ASSISTANT GENERAL DIRECTOR's personnel gather data from the ACOUNTING DEPARTMENT and Human Resources Department.

5.2 The ASSISTANT GENERAL DIRECTOR's personnel review the information for accuracy and completeness, then input it to the KIMS spreadsheets and generates the KIMS graphs, reports and documents.

5.4 The KIMS is reviewed by the ASSISTANT GENERAL DIRECTOR and the CHIEF ACCOUNTANT and then distributed to executive management.

6.0 Exhibits/References

6.1 Exhibits

a. KIMS Table of Contents

1. Short-term solvency or Liquidity Ratios:

Current ratios = Current assets/Current Liabilities

Quick ratio = (current assets-Inventory)/current Liability

Cash ratio = Cash/ current Liabilities

Interval measure = Current assets/ average daily operating costs

2. Turnover ratios:

Inventory turnover = N/A for energy companies (works for GIC only)

Receivables turnover = Sales/Accounts receivables

Days' sales in receivables = 365/receivables turnover

3. Financial Leverage Ratios

Total debt ratio = (Total assets – Total Equity)/Total equity

Cash coverage ratio = (EBIT + Depreciation)/Interest

4. Profitability Ratios

Profit margin = Net income / Sales

Return on Assets = Net income/Total assets

Return on Equity (ROE)= Net income/Total equity

GIC

FINANCIAL PLANNING & ANALYSIS POLICIES

Number: 1.04

Effective Date:

Written By: Deloitte&Touche

Modified By:_ **Vice President Approval:**

Date Modified:_ **Date:**

Title: Income Statement and Balance Sheet Forecasting

1.0 Purpose and Scope

1.1 The purpose of this policy is to define the activities and responsibilities related to the monthly forecast of Company financial statements.

2.0 Definitions

2.1 ***P&L Forecast:*** A projection of future operating results based on available evidence and assumptions related to contract history, gross margin analysis, spending plans, debt and tax structure, etc.

2.2 ***Sales/Revenue Forecasts:*** The statistical sales forecast prepared for operations using contract histories.

3.0 Responsibilities

3.1 The ASSISTANT GENERAL DIRECTOR is responsible for the revenue and margin forecasts used to support the income statement and preparation of the monthly income statement and balance sheet forecasts.

3.2 The ASSISTANT GENERAL DIRECTOR is responsible for reviewing the forecast with the GENERAL DIRECTOR and CHIEF ACCOUNTANT.

4.0 Policy Statement

4.1 It is the policy of the Company to forecast profitability and financial condition to identify areas of risk in a timely manner allowing management the opportunity to take appropriate action to maintain the growth and profitability of the Company.

5.0 Procedures

5.1 The ASSISTANT GENERAL DIRECTOR estimates trade sales for each month within the forecast horizon using the various revenue forecasts and other available evidence.

5.2 The ASSISTANT GENERAL DIRECTOR's personnel prepare the P&L and balance sheet forecast using this and other available data including historical financial statements and evidence regarding anticipated changes in the asset, debt or capital structure of the company.

GIC
FINANCIAL PLANNING & ANALYSIS POLICIES

Number: 1.05

Effective Date:

Written By: Deloitte&Touche

Modified By:_ **Vice President Approval:**

Date Modified:_ **Date:**

Title: Capital Expenditure Authorization

1.0 Purpose and Scope

1.1 The purpose of this policy is to define the activities and responsibilities related to capital expenditure review and approval necessary for GIC to plan for capital resources and to ensure expenditures are consistent with the Company's business objectives.

2.0 Definitions

2.1 Capital Expenditure: Any asset of significant value (greater than 150 GEL) with a useful life of one year or more. The capitalized amount includes the purchase cost plus any freight, installation and/or construction costs, etc.

2.2 Capital Expenditures Budget: All planned or expected capital expenditures, regardless of amount, should be included in the annual budget and approved by the Reconstruction Department Manager and Board of Directors'.

2.3 Capital Expenditure Authorization (CEA): The form which describes and justifies the proposed asset purchase. It is prepared for all capital expenditures in excess of 20,000 GEL. The amount requiring approval via the CEA is the total cost of all assets in a given project.

This is in addition to the normal Purchase Requisition procedures to be followed for all purchases.

2.4 Purchase Requisition: The form, which is prepared for all purchases. **It is not a substitute for the CEA.** For capital expenditures requiring approval, the approved CEA must be attached to the Purchase Requisition and forwarded to Purchasing by the ASSISTANT GENERAL DIRECTOR's personnel.

3.0 Responsibilities

3.1 The REQUESTOR proposes capital expenditures in the annual budget, prepares the CEA and obtains appropriate approvals.

3.2 The ASSISTANT GENERAL DIRECTOR is responsible for initial approval of the annual capital expenditures budget and the CEA.

3.3 ASSISTANT GENERAL DIRECTOR's personnel analyzes the cost/benefit justification on the CEA and makes its recommendation to the ASSISTANT GENERAL DIRECTOR.

3.4 The GENERAL DIRECTOR, PRESIDENT (if greater than 50,000 GEL) and/or the BOARD OF DIRECTORS (if greater than 1 million GEL) approves or disapproves capital expenditures in accordance approved policies and the annual budget.

3.5 PURCHASING ensures an approved CEA and Purchase Requisition has been submitted, selects or approves vendor choices and issues a Purchase Order.

4.0 Policy Statement

4.1 It is the policy of the Company to prepare expenditure requests for capital items (which includes land, buildings and improvements, furniture and fixtures, machinery and equipment, software and vehicles) in excess of 20,000 GEL to be authorized in advance by an approved Capital Expenditure Authorization (CEA).

4.2 This policy is applicable to all capital additions regardless of financing alternatives. For example, consideration of lease financing does not preclude the need for a CEA.

It is also the policy of the Company to capitalize and depreciate these expenditures in accordance with International Accounting Standards (IAS) (See Fixed Asset Capitalization policies).

5.0 Procedures

5.1 Generally, for resource planning purposes, all proposed capital expenditures are included in the annual Capital Expenditures budget.

5.2 A CEA is completed for all capital expenditures in excess of 20,000 GEL. The CEA need not be prepared during the budgeting process if the assets will not be purchased immediately. All sections except the CEA# must be filled out by the Requestor. The justification explains the benefits of purchasing the item contrasted against the impact of not purchasing it. Information on recommended vendors and competitive bids or alternative sources must be provided with the CEA. If the recommended vendor's cost is higher than other sources, support for use of this vendor must be included with the CEA.

5.3 The completed CEA is submitted to the ASSISTANT GENERAL DIRECTOR's office, which adds the necessary accounting information, reviews the cost/benefit analysis provided and numbers the form sequentially. If clarification is needed, the office contacts the Requestor.

5.5 With his recommendation, the ASSISTANT GENERAL DIRECTOR forwards the CEA to the GENERAL DIRECTOR for approval.

5.6 Capital Expenditures in excess of 50,000 GEL are submitted to the President for approval. In addition, capital expenditures in excess of 1 million GEL require approval by the Board of Directors. The approved CEA is returned to the ASSISTANT GENERAL DIRECTOR's office to be distributed.

5.7 Once final approvals are obtained, the ASSISTANT GENERAL DIRECTOR sends a copy of the CEA to the Purchasing Department with the completed Purchase Requisition. **The CEA does not replace the Purchase Requisition**.

5.8 After verifying that appropriate approvals have been obtained, Purchasing obtains bids and/or approves the selection of a vendor and issues a Purchase Order.

5.9 The ASSISTANT GENERAL DIRECTOR provides a copy of the approved CEA to the General Accounting Department, which ensures that capital project costs for all approved CEAs are accumulated and accounted for properly.

5.10 If it becomes evident that the cost of a project will exceed the original estimate by 10% or more, the Requestor must prepare a supplemental CEA and circulate it with the original CEA for approval.

5.11 The ACCOUNTING ASSISTANT processes the vendor invoice for payment, once approved by the Requestor.

6.0 <u>Exhibits/References</u>

6.1 Exhibits

a. Capital Expenditure Authorization (CEA) Form
b. Purchase Requisition

GiC

Company Policies and Procedures

Accounts Receivable – Chapter 2

GIC
ACCOUNTS RECEIVABLE POLICIES

Number: <u>2.01</u> **Rev.**

Effective Date:

Written By: Deloitte & Touche

Modified By:_ **Vice President Approval:**

Date Modified:_ **Date:**

Title: Aged Accounts Receivable Report and Uses Thereof

1.0 Purpose and Scope

1.1 The purpose of this policy is to assign responsibility for the maintenance of the allowance for uncollectible accounts and to ensure that the responsible party maintains an adequate account balance in the allowance for uncollectible accounts. The purpose of this policy is also to establish procedures which define processes related to the allowance for uncollectible accounts such as a provisions process and a write-off process.

2.0 Definitions

2.1 ***Allowance for Uncollectible Accounts ("Allowance Account")***: The contra-account to Trade Accounts Receivable that is used to provide for potentially uncollectible accounts (General Ledger Account 82).

2.2 ***Aged Accounts Receivable Report:*** The detailed report of open accounts receivable which lists the balances of all open invoices, credit memos and unapplied payments. Totals are aged in the following categories: current; 1-30 days past due; 31-60 days past due; 61-90 days past due; 91+ days past due. The ACCOUNTING ASSISTANT uses the Aged Accounts Receivable Report to prepare his/her own analysis.

3.0 Responsibilities

3.1 The ACCOUNTING ASSISTANT is responsible for monitoring the allowance account's balance and for processing write-offs against the allowance. Using the above referenced analysis as a reference, the ACCOUNTING ASSISTANT makes allowance account adjustment recommendations to the CHIEF ACCOUNTANT.

3.2 The ACCOUNTING ASSISTANT is responsible for preparing the detailed analysis of open Accounts Receivable. The analysis calculates anticipated uncollectible account amounts. The ACCOUNTING ASSISTANT is also responsible for initiating the write-off of uncollectible customer accounts against the allowance account.

3.3 The CHIEF ACCOUNTANT reviews and approves adjustments to the allowance account. The CHIEF ACCOUNTANT is responsible for ensuring that the balance of the allowance account is adequate.

4.0 Policy Statement

4.1 It is the policy of the Company to maintain an adequate and appropriate allowance for uncollectible accounts. An adequate allowance ensures that the company's receivables are valued in accordance with International Accounting Standards (IAS). As such, this process shall be conducted annually to ensure adequacy of the reserve.

5.0 Procedures

5.1 At the end of each year, the ACCOUNTING ASSISTANT prepares a detailed analysis of the Accounts Receivable balance.

5.2 As part of the Accounts Receivable balance analysis, the ACCOUNTING ASSISTANT reviews each customer account which has a past due balance greater than 15,000 GEL. The ACCOUNTING ASSISTANT determines the amount of reserve (called a specific reserve) necessary to compensate for the accounts being reviewed.

In addition to this specific reserve, the reserve for accounts not included in the detailed review (called a general reserve) is determined. The general reserve amount compensates for accounts with past due balances less than 50,000 GEL. The general reserve amount is calculated using only accounts which are not included in the specific reserve. The general reserve amount is a summation of: 2% of the balance aged as current, 5% of the balance 1-30 days past due and 25% of the balance over 30 days past due. These percentages may be periodically updated or changed by the CHIEF ACCOUNTANT.

5.3 The ACCOUNTING ASSISTANT compares the results of this analysis to the balance of the allowance account. Then, the ACCOUNTING ASSISTANT recommends any necessary allowance account provisions to the CHIEF ACCOUNTANT.

5.4 All practical collection efforts are exhausted before an account is considered for write-off. This includes resolving disputes, establishing special payment schedules, using collection agencies and taking legal action to force payment. On an annual basis, the ACCOUNTING ASSISTANT prepares a list of customer accounts which are to be written off against the allowance account. When the ACCOUNTING ASSISTANT adds a customer account to this list, the ACCOUNTING ASSISTANT considers the amount in the customer account to be uncollectible.

This list is submitted to the CHIEF ACCOUNTANT for review and approval.

5.5 The CHIEF ACCOUNTANT reviews and approves all provisions to and write-offs against the allowance account.

6.0 **Exhibits/References**

6.1 Exhibits

a. Aged Accounts Receivable Report

GIC
ACCOUNTS RECEIVABLE POLICIES

Number: 2.02 Rev.

Effective Date:

Written By: Deloitte & Touche

Modified By:_ **Vice President Approval:**

Date Modified:_ **Date:**

Title: Invoice Processing

1.0 Purpose and Scope

1.1 The purpose of this policy is to define Accounts Receivables activities and responsibilities as related to invoice processing.

2.0 Definitions

2.1 No specific terms used.

3.0 Responsibilities

3.1 The LEGAL DEPARTMENT is responsible for supplying copies of contracts related to leasing agreements concluded with each customer.

3.2 The ACCOUNTING DEPARTMENT is responsible for the printing, verification and maintenance of all invoice records.

4.0 Policy Statement

4.1 It is the policy of the Company to process invoices in a complete, accurate and timely manner.

5.0 Procedures

5.1 General Comments:

a. Invoicing is currently performed manually.

5.2 Invoicing:

a. The ACCOUTING ASSISTANT obtains copies of lease contracts concluded with customers from the legal department. These contracts are the originating documents from which invoices are generated and should be referenced on all invoices.

b. The ACCOUNTING ASSISTANT processes and prints the invoices monthly.

c. The printed invoice forms are separated in the following manner.

Copy 1: The original invoice which is mailed to the customer.

Copy 2: This copy is maintained in a customer file. This information is also used by the ACCOUNTING ASSISTANT in verifying new applications for credit from existing customers.

5.3 Adjusting Invoices for Errors Discovered

a. In case of errors during processing of original invoices and subsequent discovery of such errors by the processor or the client, proper authorization should be obtained in order to issue credit memos.
b. The ACCOUNTING ASSISTANT should obtain the authorization of the CHIEF ACCOUNTANT by filling out the Credit Memo Authorization Form and obtaining the appropriate signature.
c. The amount is then entered into the A/R detail ledger as a credit memo. Posting to the G/L will occur when the detail journal is posted.
d. The printed credit memos are separated in the following manner:

Copy 1: The original credit memo which is mailed to the customer.

Copy 2: This copy is maintained in a customer file with the attached Credit Memo Authorization Form until the end of the fiscal year

6.0 Exhibits/References

6.1 Exhibits

a. GIC Invoice Form
b. Credit Memo Authorization Form

GIC
ACCOUNTS RECEIVABLE POLICIES

Number: 2.03 Rev.

Effective Date:

Written By: Deloitte & Touche

Modified By:_ **Vice President Approval:**

Date Modified:_ **Date:**

Title: Unapplied Cash

1.0 Purpose and Scope

1.1 The purpose of this policy is to define the activities and responsibilities related to Unapplied Cash.

2.0 Definitions

2.1 ***Unapplied Cash:*** Customer payment on an account that cannot be identified with a specific invoice.

3.0 Responsibilities

3.1 The ACCOUNTING ASSISTANT is responsible for applying unapplied payments to customers' accounts and for resolving with the customer all unapplied payments on the customer's account.

4.0 Policy Statement

4.1 It is the policy of the Company to handle unapplied cash resolution in a timely and accurate manner.

5.0 Procedures

5.1 Unapplied Cash:

a. The ACCOUNTING ASSISTANT analyzes (Review outstanding invoices, correspondence, etc.) the current day's unapplied cash transactions for any information that might be relevant in applying the received cash.

b. If the analysis does not reveal the necessary missing information, the ACCOUNTNG ASSISTANT contacts the customer's representative in order to understand to which invoice the payment relates.

c. After an unapplied payment has been resolved, the customer must apply the unapplied cash to specific invoices. The customer applies the unapplied cash by either deducting the credit amount from the customer's next payment remittance or by submitting a "0" (zero) remittance advice.

GIC
ACCOUNTS RECEIVABLE POLICIES

Number: 2.04 Rev.

Effective Date:

Written By: Deloitte & Touche

Modified By:_ **Vice President Approval:**

Date Modified:_ **Date:**

Title: Cash Receipts/Cash Application

1.0 Purpose and Scope

1.1 The purpose of this Policy is to define the activities and responsibilities which relate to the processing of cash receipts and payment of customer accounts.

2.0 Definitions

2.1 ***Accounts Receivable Aging:*** Excel detail file.

2.2 ***Cash Receipts Report:*** Account statements received from banks.

3.0 Responsibilities

3.1 The ACCOUNTING ASSISTANT is responsible for processing/posting cash receipts. The ASSISTANT is responsible for following up on and for resolving short paid items and unapplied cash payments (See Unapplied Cash Policy).

4.0 Policy Statement

4.1 It is the policy of the Company to apply cash receipts to customer accounts in a timely and accurate manner ensuring that customer accounts are accurately stated.

5.0 Procedures Categorized by Sub-section

5.1 Bank Transfers Processing

a. Bank transfer details are received from participating financial institutions. Each set of details is treated as a separate batch. Each batch is categorized according to the batch's origin (i.e. by bank). Each batch is assigned the next available sequential batch number as it is received.

b. The ACCOUNTING ASSISTANT begins the application process by entering the information received from the bank into the accounts receivable detail listing and A/R and cash journals by batch. After posting of all journals to the G/L at the end of the month, Cash and A/R balances should equal the bank statements and the detail A/R ledger.

GIC
CREDIT POLICIES

Number: 2.05 Rev.

Effective Date:

Written By: Deloitte & Touche

Modified By:_ **Vice President Approval:**

Date Modified:_ **Date:**

Title: Allowance for Doubtful Accounts

1.0 Purpose and Scope

1.1 The purpose of this procedure is to define the activities and responsibilities related to the computation of the annual Bad Debt Reserve.

2.0 Definitions

2.1 There are no unique terms or definitions.

3.0 Responsibilities

3.1 The ACCOUNTING ASSISTANT computes the Bad Debt Reserve using the procedures described.

4.0 Policy Statement

4.1 It is the policy of the Company to maintain an adequate and appropriate allowance for uncollectible accounts. An adequate allowance ensures that the company's receivables are valued in accordance International Accounting Standards (IAS). As such, this process shall be conducted annually to ensure adequacy of the reserve.

5.0 Procedures

5.1 The Year-End Accounts Receivable Aging is used to determine the Total, Current, 1-30 Days Past Due and Over 31 Days Past Due totals.

5.2 The Inter-Company accounts are deducted from the Quarter-End Accounts Receivable Aging in order to arrive at a starting number.

5.3 A Specific Reserve is computed by listing all accounts which show a debt of 15,000 GEL or more and which are 31 or more days past due.

5.4 An evaluation of these overdue accounts takes place; the evaluator determines the collectibility of the Past Due accounts. The evaluator uses the following percentages to determine the collectibility of Past Due accounts:

25% - Note or payment plan
50% - Attorney or Collection Account
75% - Attorney with less chance of recovery
100% - Bankrupt

5.5 The evaluator creates an analysis sheet which lists the uncollectible Past Due accounts. The evaluator computes the totals on the analysis sheet and subtracts the Past Due account totals from the Year-End Accounts Receivable Aging totals.

5.6 A General Reserve is computed with percentages provided by Accounting:

2% - Current
5% - 1-30 Days Past Due
25% - Over 31 Days Past Due

The percentages are multiplied by the remaining totals on the analysis sheet.

5.7 The General Reserve and Specific Reserve totals are added together to obtain the Reserve for Bad Debt total.

6.0 <u>Exhibits/References</u>

6.1 Exhibits

a. Reserve for Bad Debt Analysis
b. Specific Reserve Listing
c. General Reserve Calculation
d. Accounts Receivable Aging Analysis

GIC
CREDIT POLICIES

Number: 2.06 **Rev.**

Effective Date:

Written By: Deloitte & Touche

Modified By:_

Vice President Approval:

Date Modified:_

Date:

Title: Legal-Attorney or Collection Agency Accounts

1.0 Purpose and Scope

1.1 The purpose of this policy is to define the procedure for handling accounts receivable which have become uncollectible through normal in-house procedures.

2.0 Definitions

2.1 ***Placement:*** Turning an accounts receivable balance over to a collection agency or the company's internal attorney for action.

3.0 Responsibilities

3.1 The CHIEF ACCOUNTANT is responsible for approving the placement of any account with the internal attorney or collection agency.

4.0 Policy Statement

4.1 It is the policy of the Company to exhaust all in-house efforts to effect collection of past due receivables, before using outside means. The placement of accounts with outside attorneys or collection agencies is only made as a final collection effort, or to reaffirm the uncollectibility of the account.

5.0 Procedures

5.1 Unpaid receivables over 90 days old are reviewed once a month by the ACCOUNTING ASSISTANT. Determination is made if payment has been promised or a payment plan has been agreed upon.

5.2 A final demand for payment is sent to the account by certified mail.

5.3 If the customer does not respond to the final demand within thirty days, the customer, including copies of the open invoices and statement of account is forwarded to the CHIEF ACCOUNTANT for disposition.

5.4 If the account exceeds 50,000 GEL, the CHIEF ACCOUNTANT contacts the company attorney and placement is made.

5.5 If the account is less than 50,000 GEL, the CHIEF ACCOUNTANT decides which of the collection agencies will be used. This decision is usually based on geographical location of the debtor. The collection agency is contacted and placement is made.

5.6 Confirmation of receipt of the claim by the collection agency is usually received within fifteen days.

5.7 Collection activity begins and the account remains open on the Accounts Receivable Aging until payment in full is received or the account is deemed uncollectible and is written off against the Allowance for Doubtful Accounts (See Reserve for Bad Debt Computation and Allowance for Doubtful Accounts policies).

GIC
CREDIT POLICIES

Number: 2.07 **Rev.**

Effective Date:

Written By: Deloitte & Touche

Modified By:_ **Vice President Approval:**

Date Modified:_ **Date:**

Title: Credit Hold

1.0 Purpose and Scope

1.1 The purpose of this policy is to define how and why a customer account may be put on credit hold.

2.0 Definitions

2.1 ***Credit Hold:*** The process of stopping customer order placement and supplying of services.

2.2 ***Past Due:*** The condition when payment from a customer is not received in a timely manner, and the Accounting department has not been able to effect promise for payment from the customer.

3.0 Responsibilities

3.1 The ACCOUNTING ASSISTANT is responsible for collection of accounts receivable.

3.2 It is the CHIEF ACCOUNTANT'S responsibility to determine whether the account should be on credit hold.

3.3 The GENERAL DIRECTOR or the PRESIDENT may also put an account on credit hold.

4.0 Policy Statement

4.1 It is the policy of the Company that no additional credit shall be granted to a past due customer unless the Company's interests are adequately protected.

4.2 It is the policy of the Company to treat all customers fairly while protecting the Company's interests as they relate to accounts receivable.

5.0 Procedures

5.1 Accounts are reviewed monthly by the ACCOUNTING ASSISTANT, customers who are more than 30 days past due are contacted by telephone to determine why the past due item(s) have not been paid.

5.2 The ACCOUNTING ASSISTANT determines from the customer whether payment can be expected, and when.

5.3 The results of the conversation with the customer, the past due nature of the account, the credit risk involved with supplying more service if the customer is under their assigned credit limit, and the protection of the Company's interests all impact the determination of whether the account is put on credit hold. Any determination is reviewed by the CHIEF ACCOUNTANT for approval.

5.4 If it is determined that placing the account on credit hold is the appropriate action, the customer is notified by telephone by the ACCOUNTING ASSISTANT that the account is to be placed on hold. If the customer cannot be reached by telephone, a letter is sent.

5.5 The ACCOUNTING ASSISTANT enters the customer on a list of hold accounts and places the account on credit hold.

5.6 Hold status prevents delivery of additional services.

5.7 Hold status may only be lifted by the CHIEF ACCOUNTANT based on the agreement of the customer to pay or receipt of payment.

GIC
CREDIT POLICIES

Number: 2.08 Rev.

Effective Date:

Written By: Deloitte & Touche

Modified By:_ **Vice President Approval:**

Date Modified:_ **Date:**

Title: Customer Credit Terms

1.0 Purpose and Scope

1.1 The purpose of this policy is to define the terms and methods by which sales of Company services are made to our customers.

2.0 Definitions

2.1 ***Net 5:*** Standard payment terms for all customers. Payment is due 5 days from date of invoice.

3.0 Responsibilities

3.1 The PRESIDENT /GENERAL DIRECTOR are responsible for assignment of terms.

4.0 Policy Statement

4.1 It is the policy of the Company that all customers be treated fairly.

5.0 Procedures

5.1 The PRESDIENT/GENERAL DIRECTOR assigns the terms code based on credit limit review of the customer (See Credit Limits policy) and forwards their decision to the ACCOUNTING ASSISTANT in the accounting department.

5.2 A customer file is created in accounting and the ACCOUNTING ASSISTANT places the customer's terms as received from the PRESIDENT/GENERAL DIRECTOR, into the customer's file.

GIC
CREDIT POLICIES

Number: 2.09 **Rev.**

Effective Date:

Written By: Deloitte & Touche

Modified By:_ **Vice President Approval:**

Date Modified:_ **Date:**

Title: Credit Limits

1.0 Purpose and Scope

1.1 The purpose of this policy is to outline the method by which the PRESIDENT/GENERAL DIRECTOR establish credit limits for our customers.

2.0 Definitions

2.1 ***Standard Terms:*** Payment terms for most customers, payment due in 5 days from date of invoice.

2.2 ***Non-Standard Terms:*** Other than payment due in 5 days

3.0 Responsibilities

3.1 The PRESIDENT/GENERAL DIRECTOR are responsible for the analysis of the customer's credit and bank references and financial statements for the determination of customer credit limits during contract negotiations.

3.2 The PRESIDENT is responsible for approving all non-standard terms and credit limits over 50,000 GEL.

4.0 Policy Statement

4.1 It is the policy of the Company that credit limits be established for each customer which are commensurate with the customers requirements for our services and ability to pay for these services within the established payment terms.

5.0 Procedures

5.1 The Company's financial condition, present standing with trade creditors and financial institutions and length of time in business are evaluated to reach an acceptable line of credit.

5.2 All customers are informed in writing of the established credit line, if any.

5.3 Within the limits of sound credit practices, the PRESIDENT/GENERAL DIRECTOR endeavors to find a suitable credit basis on which to deal with every active or potential customer.

Company Policies and Procedures

Fixed Assets - Chapter 3

GIC
GENERAL LEDGER POLICIES

Number: 3.01 **Rev.**

Effective Date:

Written By: Deloitte & Touche

Modified By: **Vice President Approval:**

Date Modified: **Date:**

Title: Fixed Asset Capitalization for External Purchases

1.0 Purpose and Scope

1.1 The purpose of this policy is to define the activities and responsibilities which relate to the capitalization of company owned fixed assets that are purchased from external vendors.

2.0 Definitions

2.1 ***Fixed Assets:*** Tangible assets are the machinery, equipment, furniture and fixtures that GIC uses to conduct its business. Each asset is recorded on the Balance Sheet and is depreciated over the estimated useful life of the asset.

2.2 ***Useful Life:*** Period in which asset is used in the ordinary course of business operations. (See Section 4.0 for the estimated useful life of each fixed asset type).

3.0 Responsibilities

3.1 It is the responsibility of the ORIGINATING DEPARTMENT to complete the Purchase Requisition Form and to properly code the general ledger account number (01) for all items which meet the capitalization criteria (See Section 4.0). It is also the responsibility of the ORIGINATING DEPARTMENT to complete a Capital Equipment Authorization (CEA) Form and to obtain all appropriate approvals for purchases that exceed 20,000 GEL.

3.2 The PURCHASING DEPARTMENT is responsible for ensuring that all Purchase Requisition Forms for fixed asset purchases are coded to the proper general ledger account (01) and that an approved CEA Form is received prior to placing each order.

3.3 It is the responsibility of the ACCOUN TING ASSISTANT to match all purchase orders, invoices and receivers that are coded to account 01. The ACCOUNTING ASSISTANT is also responsible for accruing sales tax that may have been erroneously omitted from invoices.

3.4 It is the responsibility of the ASSISTANT ACCOUNTANT to ensure that the asset is appropriately capitalized, to determine the useful life of the asset, to record the asset in the Fixed Asset System and to issue Fixed Asset Tags to the Originating Department.

3.5 The DEPARTMENT MANAGER is responsible for the assets within his/her department. The DEPARTMENT MANAGER is responsible for tagging any equipment that has been capitalized. The DEPARTMENT MANAGER notifies the ACCOUNTING ASSISTANT when assets are transferred to other departments or when assets are retired from service.

3.6 If an asset is no longer being used, the DEPARTMENT MANAGER is responsible for the disposition of the asset and for notifying ACCOUNTING ASSISTANT via a Fixed Asset Transfer/Retirement Form. The Fixed Asset Transfer/Retirement Form is completed when an asset has been retired (i.e. transferred to the Excess & Obsolete inventory, sold or scrapped.)

4.0 Policy Statement

4.1 It is the policy of the Company to capitalize all fixed asset purchases when the unit cost of the fixed asset exceeds **150 GEL** per unit or the useful economic life of the asset is greater than one year. It is the policy of the Company to depreciate a capitalized fixed asset over the asset's estimated useful life based on the following:

Computer Equipment	3 years
Telephone Equipment	5 years
Tooling	5 years
Software	2 years
Machinery & Equipment	5 years
Leasehold Improvements	shorter of 5 years or the life of the lease
Autos	5 years
Furniture & Fixtures	5 years
Building	40 years

5.0 Procedures

5.1 The Originating Department completes a Purchase Requisition for the capital equipment being purchased. The account number referenced in the Purchase Requisition is 01. If the purchase requisition is greater than 20,000 GEL, an approved CEA Form accompanies the Purchase Requisition Form to Purchasing.

5.2 PURCHASING places the order after all appropriate approvals/CEAs have been reviewed.

5.3 Upon receipt of the order, the ACCOUNTING ASSISTANT processes the vendor invoice for payment. The ACCOUNTING ASSISTANT is responsible for ensuring that all appropriate receivers, CEAs other authorizations are complete prior to vouchering the invoice in the Accounts Payable system. The ACCOUNTING ASSISTANT also accrues sales tax if the vendor fails to include the sales tax on the invoice.

5.4 The ACCOUNTNG ASSISTANT reviews all appropriate documentation (i.e. invoices, authorizations, etc.) prior to capitalizing the asset on the fixed asset system. He/she also ensures that every piece of the purchase order has been received. The

ACCOUNTING ASSISTANT then issues an asset number and an inventory tag. The ACCOUNTING ASSISTANT sends the asset number and inventory tag to the DEPARTMENT MANAGER. The ACCOUNTING ASSISTANT also prepares a journal entry each month which transfers the assets vouchered out of account 07/08 and into the appropriate general ledger asset account (i.e. Machinery and Equipment, Furniture and Fixtures, etc.).

5.5 The DEPARTMENT MANAGER places the inventory tag on the asset and notifies the ACCOUNTING ASSISTANT if the asset is ever physically moved to another department. If the asset is ever moved to another department, the DEPARTMENT MANAGER completes a Fixed Asset Transfer/Retirement Form.

5.6 At the time the asset is no longer useful, the DEPARTEMENT MANAGER notifies the ACCOUNTING ASSISTANT via a Fixed Asset Transfer/Retirement Form. When a Fixed Asset Transfer/Retirement Form is received, the ACCOUNTING ASSISTANT ceases depreciation of the asset and retires the asset off the fixed asset and general ledger systems. The ACCOUNTING ASSISTANT then records the gain/loss on the retirement of the asset.

6.0 Exhibits/References

6.1 Exhibits

a. Purchase Requisition Form
b. Fixed Asset Transfer/Retirement Form

GIC
GENERAL LEDGER POLICIES

Number: 3.02 Rev.

Effective Date:

Written By: Deloitte & Touche

Modified By:_ **Vice President Approval:**

Date Modified:_ **Date:**

Title: Retirement of Capital Equipment

1.0 Purpose and Scope

1.1 The purpose of this policy is to define the activities and responsibilities related to retiring capital equipment.

2.0 Definitions

2.1 ***Fixed Assets:*** The tangible assets that GIC uses to conduct company business. Fixed assets include machinery, equipment, furniture and fixtures, etc. Fixed assets are recorded on the Balance Sheet in an asset account and are depreciated over the estimated useful life of the asset.

2.2 ***Estimated Useful Life:*** The period in which the asset is fully functional and is used to conduct company business (See Section 4.0 for estimated useful lives for each fixed asset type).

3.0 Responsibilities

3.1 It is the responsibility of the DEPARTMENT MANAGER to properly dispose of any capital equipment that is no longer being used to conduct company business. When an asset's estimated useful life has ended, the asset can be dealt with in several different ways: the asset can be sold to an outside party or the asset can be discarded. The DEPARTMENT MANAGER is also responsible for completing a GIC Fixed Asset Transfer/Retirement Form, obtaining proper authorization and forwarding the form to the ACCOUNTING ASSISTANT.

3.2 The ACCOUNTING ASSISTANT is responsible for retiring the asset from the Fixed Asset system and for properly recording the retirement in the General Ledger.

4.0 Policy Statement

4.1 It is the policy of the Company to capitalize and depreciate any asset with a unit cost greater than 150 GEL or a useful life of greater than one year. This practice is in accordance with Statutory accounting requirements in Georgia and does not represent a material departure from International Accounting Standards (IAS).

5.0 Procedures

5.1 Outside Sale of Asset:

a. If the asset is sold to an outside party, the DEPARTMENT MANAGER contacts the ACCOUNTING ASSISTANT to obtain the Net Book Value of the asset. Once sold, the DEPARTMENT MANAGER attaches the check to the Fixed Asset Transfer/Retirement Form. The DEPARTMENT MANAGER must approve the Fixed Asset Transfer/Retirement Form. The form is then sent to the ACCOUNTING ASSISTANT. If the asset's selling price is 15,000 GEL or more below the asset's Net Book Value, the GENERAL DIRECTOR also must approve the asset's disposal. All asset sale proceeds are booked to the Gain/Loss account (47).

b. The ACCOUNTING ASSISTANT retires the asset from the Fixed Asset system. The net book value is recorded as a debit to the Gain/Loss account on the General Ledger.

5.2 Permanent Disposal of Asset:

a. If the asset is permanently disposed of (other than by sale), DEPARTMENT MANAGER completes a Fixed Asset Transfer/Retirement Form and signs the form. If the Net Book Value of the asset exceeds 15,000 GEL, the General Director also approves of the disposal.

b. The ACCOUNTING ASSISTANT retires the asset from the Fixed Asset system. The net book value is recorded as a debit to the Gain/Loss account on the General Ledger.

GIC
GENERAL LEDGER POLICIES

Number: 3.03 Rev.

Effective Date:

Written By: Deloitte & Touche

Modified By: **Vice President Approval:**

Date Modified: **Date:**

Title: Physical Inventory of Fixed Assets

1.0 Purpose and Scope

1.1 The purpose of this policy is to define the activities and responsibilities related to inventorying fixed assets.

2.0 Definitions

2.1 ***Fixed Assets:*** The tangible assets that GIC uses to conduct company business. Fixed assets include machinery, equipment, furniture and fixtures, etc. Fixed assets are recorded on the Balance Sheet in an asset account and are depreciated over the estimated useful life of the asset.

3.0 Responsibilities

3.2 It is the responsibility of the CHIEF ACCOUNTANT to organize and oversee that the inventory process is conducted in an orderly and timely manner.

3.2 The CHIEF ACCOUNTANT or his/her DESIGNEE is responsible for recording the results of the fixed assets inventory in the fixed assets detail ledger and final posting to the general ledger.

4.0 Policy Statement

4.1 It is the policy of the Company to conduct a fixed assets inventory on an annual basis.

5.0 Procedures

5.1 Inventorying of Fixed Assets:

a. The CHIEF ACCOUNTANT is responsible for organizing a team which will perform the fixed assets inventory. Responsibility's should be divided among members according to locations of fixed assets.

b. TEAM MEMBERS should collect the following information before the beginning of the physical inventory process: physical inventory records from previous year inventories and copies of the detail fixed assets register.

c. Using the fixed assets register, TEAM MEMBERS, physically inspect all objects and verify items included in the list /record items excluded from the list as well as their descriptions, usage, fixed assets number and main technical and operating characteristics.

d. All unrecorded items found during the course of the physical inventory process should be evaluated for determination of historical cost and current accumulated depreciation (based on an estimate of the physical condition of the asset). These estimates, after approval by the CHIEF ACCOUNTANT, will become the basis for recording the items in the detail fixed assets ledger. All TEAM MEMBERS should return their inventory sheets for their areas of responsibility to the CHIEF ACCOUNTANT upon completion of the inventory.

e. The CHIEF ACCOUNTANT or his/her DESIGNEE are responsible for compiling and posting adjustments on the basis of the inventory sheets received from TEAM MEMBERS.

f. All fixed assets unfit for further use are not included in the inventory record. These items are included in a separate list showing date put into service, fixed assets number, location, historical cost, accumulated depreciation and cause of non-functioning. Such items are written off in accordance with established procedures. (See disposals procedures).

g. Any adjustments to fixed assets will be posted to the fixed assets detail ledger with net negative adjustments posted to a P&L loss account or net positive adjustments posted to a P&L gain account.

GIC
GENERAL LEDGER POLICIES

Number: 3.04 Rev.

Effective Date:

Written By: Deloitte & Touche

Modified By:_ **Vice President Approval:**

Date Modified:_ **Date:**

Title: Revaluation of fixed assets

1.0 Purpose and Scope

1.1 The purpose of this policy is to define the activities and responsibilities related to revaluation of fixed assets.

2.0 Definitions

2.1 ***Fixed Assets:*** The tangible assets that GIC uses to conduct company business. Fixed assets include machinery, equipment, furniture and fixtures, etc. Fixed assets are recorded on the Balance Sheet in an asset account and are depreciated over the estimated useful life of the asset.

3.0 Responsibilities

3.1 It is the responsibility of the CHIEF ACCOUNTANT to periodically review fixed assets for evidence of material departure from market value. The CHIEF ACCOUNTANT and GENERAL DIRECTOR are jointly responsible for presenting a proposal for formation of a REVALUATION COMMISSION to the BOARD OF DIRECTORS.

3.2 It is the responsibility of the BOARD OF DIRECTORS to appoint a REVALUATION COMMISSION to organize and oversee that the revaluation process is conducted properly and in an orderly and timely manner.

3.3 The REVALUATION COMMISSION or its DESIGNEE is responsible for selection of a qualified commercial appraiser as well as converting the appraiser's results into necessary information needed by the ACCOUNTING DEPARTMENT in order to restate the fixed assets to their adjusted cost.

4.0 Policy Statement

4.1 It is the policy of the Company to periodically review the value of its fixed assets for evidence of departure from market value and to adjust to market value if any material difference is found.

5.0 Procedures

5.1 Periodic search for evidence of material departure from market value:

a. On an annual basis, the CHIEF ACCOUNTANT reviews material classes of fixed assets in the fixed assets register and based on life of asset and information gathered from within the Company (those responsible for the fixed assets in question, purchasing, etc.) make a determination as to whether or not an indication exists that fixed assets is materially misstated from market values.

b. If the CHIEF ACCOUNTANT finds that such an indication of misstatement exists, a formal recommendation for formation of a REVALUATION COMMISSION is addressed to the BOARD OF DIRECTORS, giving the basis for such determination, and given to the GENERAL DIRECTOR for review and either approval or rejection.

c. Should the recommendation be approved by the GENERAL DIRECTOR, it is forwarded to the BOARD OF DIRECTORS for approval and creation of the COMMISSION.

5.2 Revaluation Commission Procedures:

a. Once the BOARD OF DIRECTORS has approved the formation of a REVALUATION COMMISSION and appointed its members, the COMMISSION is responsible for determining which classes (by recommendation of the CHIEF ACCOUNTANT and GENERAL DIRECTOR) of fixed assets are to undergo revaluation.

b. The COMMISSION is then responsible for obtaining estimates of time and cost required for completion of the project from qualified, commercial appraisers recognized by local law (if applicable).

c. The COMMISSION should then select a vendor based on the above criteria and set official requirements (level of detail needed in order to update the detail fixed assets register) and format of the final report in conjunction with the requirements of the ACCOUNTING DEPARTMENT.

d. The COMMISSION or its designee will be responsible for communication with the vendor and resolving issues which may arise in the course of the project.

e. Upon submission of the final report, the COMMISSION gives the report to the ACCOUNTING DEPARTMENT, which is then responsible for posting the individual item revaluation to the fixed assets subsidiary ledger which is then posted to the General Ledger.

f. In accordance with International Accounting Standards (IAS), the entry to post a positive adjustment would be as follows (a negative adjustment would be just the reverse):

	DR	CR
Fixed Assets	X	
Revaluation Reserve (Equity)		X

g. Once a revaluation reserve has been established, the ACCOUNTING DEPARTMENT must keep track of the related fixed assets and make sure that the revaluation reserve is retired to retained earnings when the associated fixed assets are retired.

GiC

Company Policies and Procedures

Monthly Close - Chapter 4

GIC
FINANCIAL REPORTING POLICIES

Number: 4.01

Effective Date:

Written By: Deloitte&Touche

Modified By:_ **CEO Approval:**

Date Modified:_ **Date:**

Title: Month-End Accounting Close

1.0 Purpose and Scope

1.1 The purpose of this policy is to define the activities and responsibilities of the accounting function as related to the accounting month-end close.

2.0 Definitions

2.1 ***Month-End Close:*** The process by which the Company closes each monthly accounting period.

2.2 ***Accounting Function:*** Chief accountant and other accountants who have direct impact to the process of preparation of financial statements.

2.3 ***Operating Month:*** *Operating* month lasts from the first working day in a calendar month to the last working day in a calendar month. Saturday, Sunday and public holidays are not considered working days although the Company incurs certain expenses and earns income during those days.

3.0 Responsibilities

3.1 The CHIEF ACCOUNTANT is responsible for preparation of the final set of financial statements and the completeness of schedules and disclosures in the financial statements.

3.2 The ACCOUNTING ASSISTANT is responsible for preparing information required by the Chief accountant and closing all accounts in a timely manner.

4.0 Policy Statement

4.1 It is the policy of the Company to close its accounting records and report its monthly financial results on a timely basis.

5.0 Procedures

5.1 5 working days before the end of the operating month, the Chief accountant distributes a check-list to all personnel within the Accounting function which indicates what action needs to be performed, who is responsible for performing the action, the deadline for the action to be finalized and the sign-off column where the preparer and the receiver date and sign when the action was finalized.

5.2 The ACCOUNTANT who is responsible for accounting for long term fixed assets carries out the following actions in relation to the closing of the account:

5.2.1 5 working days before the end of operating month the ACCOUNTANT makes sure he/she has received the checklist.

5.2.2 1 working day before the end of the operating month the ACCOUNTANT closes the accounts for fixed assets, accumulated depreciation, depreciation expense in cost of sales and administrative expenses and profit/loss on sale of fixed assets. The closing journal entries are shown at the end of this policy.

5.2.3 If an acquisition, sale or other disposal of fixed assets is anticipated during the last 1-3 days, those transactions should be included in the current month. If it is impossible to identify with certainty the actual day and amount of the transaction, CHIEF ACCOUTNANT should be notified and a decision to wait until the end of calendar month or to exclude the transaction should be made.

5.2.4 1 working day before the end of the operating month and after the closing of the accounts as described in 5.2.2, the ACCOUNTANT prepares depreciation expense summary to the costing department. The ACCOUNTANT also prepares other information as required by the CHIEF ACCOUNTANT, such as, but not limited to, fixed asset movement table, the net book value of fixed assets pledged as collateral against loans, fixed assets which are not in use, fixed assets that are almost depreciated but still in use, etc.

5.2.5 As a final activity, the ACCOUNTANT should date and sign the checklist, deliver all the information to the CHIEF ACCOUNTANT who has to confirm the date and information he/she has received.

5.2.6 The ACCOUNTANT is responsible for investigating and correcting all reconciling items before submitting the final information to the CHIEF ACCOUNTANT. If necessary, the CHIEF ACCOUNTANT should be consulted.

5.3 The ACCOUNTANT who is responsible for accounting for accounts receivable carries out the following actions in relation to the closing of the account:

5.3.1 5 working days before the end of operating month the ACCOUNTANT makes sure he/she has received the checklist.

5.3.2 1 working day after the operating month, the ACCOUNTANT collects data received from the legal department regarding the customer and contracts for services rendered and processes the final invoices.

5.3.3 1 working day after the operating month, the ACCOUNTANT receives information on last cash receipts and posts appropriate reductions in the accounts receivable ledger.

5.3.4 *(NOTE: This is performed once annually at the end of the period)* 1 working day after the operating period, the ACCOUNTANT updates the aging analysis of accounts receivable and submits that analysis to CHIEF ACCOUNTANT. The CHIEF ACCOUNTANT has to quantify the final provision for doubtful receivables and submit the approved final figure to the ACCOUNTING ASSISTANT in 1 working day.

5.3.5 *(NOTE: This is performed once annually at the end of the period)* 2 working days after the operating period the ACCOUNTANT should receive the final figure for provisions for doubtful receivables from the CHIEF ACCOUNTANT and make an appropriate journal entry. Journal entries relating to various levels of provisions are shown at the end of this policy.

5.3.6 1-2 working days after the end of the operating month, the ACCOUNTANT prepares a summary of accounts receivable from related parties and submits the summary to the CHIEF ACCOUNTANT.

5.3.7 As a final activity, the ACCOUNTANT should date and sign the checklist, deliver all the information to the CHIEF ACCOUNTANT who has to confirm the date and information he/she has received.

5.3.8 The ACCOUNTANT is responsible for investigating and correcting all reconciling items before submitting the final information to the CHIEF ACCOUNTANT. If necessary, the CHIEF ACCOUNTANT should be consulted.

5.4 The ACCOUNTANT who is responsible for accounting for accounts payable carries out the following actions in relation to the closing of the account:

5.4.1 5 working days before the end of operating month the ACCOUNTANT makes sure he/she has received the checklist.

5.4.2 5 working days after the operating month the ACCOUNTANT collects all invoices received up to that point and posts the necessary ones that relate to the operating month that has just ended.

5.4.3 5 working days after the operating month the ACCOUNTANT obtains information regarding payroll and related tax expense and posts those items in the payables ledger and income statement.

5.4.4 5 working days after the operating month, the ACCOUNTANT collects information from the PROCUREMENT DEPARTMENT and identifies if there are any supplies in transit for which the title and risk may have transferred to the Company. If such items exist, a journal entry must be posted for the full amount. Journal entry is shown at the end of this policy.

5.4.5 5-6 working days after the operating month, the ACCOUNTANT updates a list of expenditure for which invoices are usually not received within 10-15 days after the operating month, estimates the amount of expenditure (if necessary, he/she contacts the CHIEF ACCOUNTANT and/or other personnel who can provide the required information) and delivers the summary to the CHIEF ACCOUNTANT for approval. The CHIEF ACCOUNTANT reviews the expenditure estimates and changes or leaves them, whichever is the most appropriate based on the best of his/her knowledge. After the amounts are approved, the CHIEF ACCOUNTANT should deliver the summary to the ACCOUNTANT who then makes the necessary journal entries. The journal entries are shown at the end of this policy. The summary of expenditure for accruals should include all expenditure regardless whether an invoices is issued or not (interest expense, vacation accrual, taxes, etc.).

5.4.6 5-6 working days after the operating month, the ACCOUNTANT obtains information on all payments processed in the operating month and posts the relating reductions in the payables ledger.

5.4.7 5-6 working days after the end of operating month, the ACCOUNTANT prepares a summary of accounts payable to related parties and submits the summary to the CHIEF ACCOUNTANT.

5.4.8 5-6 working days after the operating month the ACCOUNTANT obtains official foreign currency exchange rates applicable to the last calendar day of a month and recalculates the balance of liabilities denominated in foreign currencies. Any differences should be posted to the income statement. Journal entries are shown at the end of this policy.

5.4.9 As a final activity, the ACCOUNTANT should date and sign the checklist, deliver all the information to the CHIEF ACCOUNTANT who has to confirm the date and information he/she has received.

5.4.10 The ACCOUNTANT is responsible for explaining and correcting all reconciling items before submitting the final information to the CHIEF ACCOUNTANT. If necessary, the Chief accountant should be consulted.

5.5 The CHIEF ACCOUNTANT carries out the following actions in relation to the closing of month:

5.5.1 The CHIEF ACCOUNTANT makes sure that all accountants receive the checklist 5 working days before the end of operating month.

5.5.2 The CHIEF ACCOUNTANT investigates all the queries received from the ACCOUNTING ASSISTANT and makes a final decision.

5.5.3 1 working day before the end of the operating month the CHIEF ACCOUNTANT makes sure that he/she receives the closing journal entries from the ACCOUNTANT responsible for accounting for fixed assets. The journal entries have to be reviewed. If doubt in regards to the amounts, correctness, classification, etc. arise, the CHIEF ACCOUNTANT should obtain additional information from the ACCOUNTANT or other personnel. The CHIEF ACCOUNTANT should date and sign the checklist provided by the ACCOUNTANT.

5.5.4 1 working day after the operating month the CHIEF ACCOUNTANT obtains an aging analysis from the accounts receivable ACCOUNTANT. The CHIEF ACCOUNTANT quantifies the final provision amount. Then the summary is returned to the accounts receivable ACCOUNTANT. 2 working days after the operating month the CHIEF ACCOUNTANT receives the closing journal entries from the accounts receivable ACCOUNTANT. The journal entries should be reviewed. If doubt arises as to the amounts, correctness, classification, etc., the CHIEF ACCOUNTANT should obtain additional information from the ACCOUNTANT or other personnel. The CHIEF ACCOUNTANT has to date and sign the checklist provided by the ACCOUNTANT.

5.5.5 5-6 working days after the operating month the CHIEF ACCOUNTANT obtains a summary of expenditure estimates from the accounts payable ACCOUNTANT. The CHIEF ACCOUNTANT should review the summary and modify it to the best of his/her knowledge, after which the summary is returned to the accounts payable ACCOUNTANT. 6 working days after the operating month the CHIEF ACCOUNTANT receives the closing journal entries from the accounts payable ACCOUNTANT. The journal entries should be reviewed. If doubt arises as to the amounts, correctness, classification, etc., the CHIEF ACCOUNTANT should obtain additional information from the ACCOUNTANT or the other personnel. The CHIEF ACCOUNTANT should date and sign the checklist provided by the ACCOUNTANT.

5.5.6 7 working days after the operating month the CHIEF ACCOUNTANT ensures that all checklists have been received and that all of them are signed-off. If any items are not received or signed-off, they have to be followed-up immediately and cleared within the same day.

5.5.7 7 working days after the operating month the CHIEF ACCOUNTANT performs the consolidation procedures (described as a separate policy).

5.5.8 7 working days after the operating month the CHIEF ACCOUNTANT prepares draft financial statements by putting together all journals (accounts receivable, accounts payable, sales, purchases, payroll, etc.) into a trial balance. The CHIEF ACCOUNTANT checks to make sure that the trial balance balances. In case it does not, the CHIEF ACCOUNTANT should investigate and correct the reconciling items.

5.5.9 After the trial balance is ready, the CHIEF ACCOUNTANT assembles and groups the trial balance accounts into draft financial statements. The CHIEF ACCOUNTANT also prepares all disclosures and notes to the financial statements.

5.5.10 8 working days after the operating month the CHIEF ACCOUNTANT delivers draft financial statements to the GENERAL DIRECTOR for review.

6.0 A sample form of the checklist

Task	Due date	Performed by	Date	Reviewed by	Date
Fixed assets					
The checklist received	5 days before month end				
All fixed asset acquisitions (including in transit) accounted for	1 day before month end				
All fixed assets disposals accounted for	1 day before month end				
Asked CA about anticipated sales acquisitions of fixed assets	1 day before month end				
Depreciation charged	1 day before month end				
Depreciation expense summary submitted to the costing department	1 day before month end.				
All reconciling items cleared	1 day before month end				
Closing entries submitted to the CA	1 day before month end				
Accounts receivable					
The checklist received	5 days before month end				
Final invoices issued	1 day after month end				
Last cash receipts checked and posted	1 day after month end				
Aging analysis updated and submitted to the CA	1 day after month end				
Approved provision obtained and posted	2 days after month end				
Accounts receivable from related parties summarized and submitted to the CA	2 days after month end				
All reconciling items cleared	2 days after month end				
Closing entries submitted to the CA	2 days after month end				
Accounts payable					
The checklist received	5 days before month end				

All invoices received were collected and the necessary ones were posted	5 days after month end				
Information from payroll and tax departments received and posted	5 days after month end				
Supplies in transit received and posted	5 days after month end				
Accrued expenditure list updated and submitted to the CA	5 days after month end				
Approved accruals received and posted	6 days after month end				
Last cash payments posted	5 days after month end				
Amounts in foreign currency translated and the difference posted	5 days after month end				
Accounts payable to related parties summarized and submitted to the CA	5 days after month end				
All reconciling items cleared	6 days after month end				
Closing entries submitted to the CA	6 days after month end				
CA					
The checklist distributed within the accounting function	5 days before month end				
The closing entries from fixed asset accountant received and checked	1 day before month end				
Aging analysis of accounts receivable received and checked	1 day after month end				
Approval of the aging analysis received and analysis passed to accounts receivable accountant	2 days after month end				
The closing entries from accounts receivable accountant received and checked	2 days after month end				
Summary of accruals received and checked	5 days after month end				
Approval of the summary received and the summary passed to accounts payable accountant	6 days after month end				
The closing entries from accounts payable accountant received and checked	6 days after month end				
All checklists received	7 days after month end				
Consolidation entries posted	7 days after month end				
Income statement closed	7 days after month end				
Draft financial statements prepared and submitted to General Director.	8 days after month end				

7.0 Closing journal entries

7.1 The following entries should be made when performing actions in 5.2.2:

Description	Balance sheet		Income statement	
	Dr	Cr	Dr	Cr
Posting the final acquisitions of fixed assets	Fixed assets	Cash, accounts payable, share capital		
Charging depreciation		Accumulated depreciation	Cost of sales depreciation, administrative expenses depreciation	
Sale of a fixed asset (disposal)	Accounts receivable, cash	Fixed assets	Cost of the fixed asset	Revenue from the sale

7.2 The following entries should be made when performing actions in 5.3.5 :

Description	Balance sheet		Income statement	
	Dr	Cr	Dr	Cr
Write-off of receivable	Allowance for Doubtful Accounts	Accounts receivable		
Posting an initial provision		Allowance for Doubtful Accounts	Provision for doubtful receivables	
Increasing the level of provisions		Allowance for Doubtful Accounts	Provision for doubtful receivables	
Reducing the level of provisions	Allowance for Doubtful Accounts			Provision for doubtful receivables

7.3 The following entries should be made when performing actions in 5.4.3, 5.4.4, 5.4.5 and 5.4.8:

Description	Balance sheet		Income statement	
	Dr	Cr	Dr	Cr
Posting payroll and tax expenses		Accounts payable	Cost of sales payroll expense, cost of sales tax expense, administrative expenses payroll, administrative expenses	

			taxes	
Posting supplies in transit	Inventory in transit	Accounts payable		
Posting estimated accruals (initial)		Accrued Interest, Payroll	Interest expense, payroll expense	
Posting accruals in the next month (at first release previous period accruals)	Accrued Interest (previous period)	Accrued Interest (current period)	Interest expense (current period)	Interest expense (previous period)
Recalculation of payables in foreign currency (income)	Accounts payable			Forex income
Recalculation of payables in foreign currency (loss)		Accounts payable	Forex loss	

7.4 The following entries should be made when performing actions in 5.5.9:

Description	Balance sheet		Income statement	
	Dr	**Cr**	**Dr**	**Cr**
Closing the trial balance income statement accounts	Current period loss (if expenses are higher than revenue)	Current period profit (if revenue is higher than expenses)	All revenue and income accounts (all credits)	All expense accounts (all debits)

GIC

The sales budget for the period from January to June 2001.

(kWh)

Branch	% of Losses	Jan Gross Input	Jan Net Input	Feb Gross Input	Feb Net Input	March Gross Input	March Net Input	Apr Gross Input	Apr Net Input	May Gross Input	May Net Input	June Gross Input	June Net Input	Total: Losses:	Total: Net input
1	5.2	250,000.00	237,000.00	456,000.00	432,288.00	457,900.00	434,089.20	375,000.00	355,500.00	450,000.00	426,600.00	450,000.00	426,600.00	126,822.80	2,312,077.20
2	5.5	70,000.00	66,150.00	120,000.00	113,400.00	130,000.00	122,850.00	1,400,000.00	1,323,000.00	1,200,560.00	1,134,529.20	250,000.00	236,250.00	174,380.80	2,996,179.20
3	5.5	500,000.00	472,500.00	450,000.00	425,250.00	460,000.00	434,700.00	456,000.00	430,920.00	325,000.00	307,125.00	325,000.00	307,125.00	138,380.00	2,377,620.00
4	5.4	1,500,000.00	1,419,000.00	1,200,000.00	1,135,200.00	1,250,000.00	1,182,500.00	1,350,000.00	1,277,100.00	1,470,000.00	1,390,620.00	1,570,000.00	1,485,220.00	450,360.00	7,889,640.00
5	10.0	680,000.00	612,000.00	6,980,000.00	6,282,000.00	5,680,000.00	5,112,000.00	3,580,000.00	3,222,000.00	3,270,000.00	2,943,000.00	2,250,000.00	2,025,000.00	2,244,000.00	20,196,000.00
Total:		**3,000,000.00**	**2,806,650.00**	**9,206,000.00**	**8,388,138.00**	**7,977,900.00**	**7,286,139.20**	**7,161,000.00**	**6,608,520.00**	**6,715,560.00**	**6,201,874.20**	**4,845,000.00**	**4,480,195.00**	**3,133,943.60**	$\boxed{35,771,516.40}$

Exhibit 2.

GIC

The sales budget for the period from January to June 2001.

(GEL)

	Tariffs	Kwh	GEL	Kwh	GEL	Kwh	GEL	Kwh	GEL	Kwh	GEL	Kwh	GEL	Kwh	GEL
Rental Contracts:															
Customer 1	1.31	250,000.00	327,500.00	1,250,000.00	1,637,500.00	250,000.00	327,500.00	250,000.00	327,500.00	250,000.00	327,500.00	370,000.00	484,700.00	2,620,000.00	3,432,200.00
Customer 2	1.31	470,000.00	615,700.00	480,000.00	628,800.00	470,000.00	615,700.00	470,000.00	615,700.00	470,000.00	615,700.00	470,000.00	615,700.00	2,830,000.00	3,707,300.00
Customer 3	1.31	580,000.00	759,800.00	670,000.00	877,700.00	580,000.00	759,800.00	580,000.00	759,800.00	580,000.00	759,800.00	1,005,545.00	1,317,263.95	3,995,545.00	5,234,163.95
Customer 4	1.31	260,000.00	340,600.00	1,260,000.00	1,650,600.00	260,000.00	340,600.00	260,000.00	340,600.00	260,000.00	340,600.00	260,000.00	340,600.00	2,560,000.00	3,353,600.00
Customer 5	1.31	120,000.00	157,200.00	1,502,900.00	1,968,799.00	599,489.20	785,330.85	120,000.00	157,200.00	615,224.20	805,943.70	120,000.00	157,200.00	3,077,613.40	4,031,673.55
Customer 6	1.31	276,650.00	362,411.50	375,238.00	491,561.78	276,650.00	362,411.50	1,078,520.00	1,412,861.20	276,650.00	362,411.50	276,650.00	362,411.50	2,560,358.00	3,354,068.98
Transportation Contracts	1.31	850,000.00	1,113,500.00	2,850,000.00	3,733,500.00	4,850,000.00	6,353,500.00	3,850,000.00	5,043,500.00	3,750,000.00	4,912,500.00	1,978,000.00	2,591,180.00	18,128,000.00	23,747,680.00
Total:		**2,806,650.00**	**3,676,711.50**	**8,388,138.00**	**10,988,460.78**	**7,286,139.20**	**9,544,842.35**	**6,608,520.00**	**8,657,161.20**	**6,201,874.20**	**8,124,455.20**	**4,480,195.00**	**5,869,055.45**	**35,771,516.40**	**46,860,686.48**
	check	**2,806,650.00**		**8388138**		**7,286,139.20**		**6,608,520.00**		**6,201,874.20**		**4,480,195.00**		$\boxed{35,771,516.40}$	
		0.00		**0.00**		**0.00**		**0.00**		**0.00**		**0.00**		**0.00**	

Exhibit 3.

GIC

Cash returns projection based on historical information

	% of returns	Cash returns	% of returns	Cash returns	% of returns	Cash returns	% of returns	Cash returns	% of returns	Cash returns	% of returns	Cash returns	% of returns	Cash returns
Rental Contracts														
Customer 1	80	262,000.00	80	1,310,000.00	80	262,000.00	80	262,000.00	80	262,000.00	80	387,760.00	80	2,745,760.00
Customer 2	27	166,239.00	27	169,776.00	27	166,239.00	27	166,239.00	27	166,239.00	27	166,239.00	27	1,000,971.00
Customer 3	32	243,136.00	32	280,864.00	32	243,136.00	32	243,136.00	32	243,136.00	32	421,524.46	32	1,674,932.46
Customer 4	3	10,218.00	3	49,518.00	3	10,218.00	3	10,218.00	3	10,218.00	3	10,218.00	3	100,608.00
Customer 5	33	51,876.00	33	649,703.67	33	259,159.18	33	51,876.00	33	265,961.42	33	51,876.00	33	1,330,452.27
Customer 6	1	3,624.12	1	4,915.62	1	3,624.12	1	14,128.61	1	3,624.12	1	3,624.12	1	33,540.69
Transportation Contracts	5	55,675.00	80	2,986,800.00	80	5,082,800.00	80	4,034,800.00	80	3,930,000.00	80	2,072,944.00	80	18,998,144.00
Total:		**792,768.12**		**5,451,577.29**		**6,027,176.30**		**4,782,397.61**		**4,881,178.54**		**3,114,185.58**		**25,884,408.43**
Allowance for the doubtful debts total:		(2,883,943.39)		(5,536,883.49)		(3,517,666.06)		(3,874,763.59)		(3,243,276.67)		(2,754,869.87)		(20,976,278.06)
including:														
Rental Contracts		(1,826,118.39)		(4,790,183.49)		(2,246,966.06)		(2,866,063.59)		(2,260,776.67)		(2,236,633.87)		(16,226,742.06)
Transportation Contracts		(1,057,825.00)		(746,700.00)		(1,270,700.00)		(1,008,700.00)		(982,500.00)		(518,236.00)		(4,749,536.00)

GIC

Projected cash inflow from debtors for the period from January 1 to June 30, 2001

	Jan-01	Feb-01	Mar-01	Apr-01	May-01	Jun-01	Total:
Sales Budget							
kWh:							
Rental Contracts	1,956,650.00	5,538,138.00	2,436,139.20	2,758,520.00	2,451,874.20	2,502,195.00	**17,643,516.40**
Transportation Contracts	850,000.00	2,850,000.00	4,850,000.00	3,850,000.00	3,750,000.00	1,978,000.00	**18,128,000.00**
Sales (VAT excl) GEL							
Rental Contract							
Sales	2,563,211.50	7,254,960.78	3,191,342.35	3,613,661.20	3,211,955.20	3,277,875.45	**23,113,006.48**
Less: allowance	(1,826,118.39)	(4,790,183.49)	(2,246,966.06)	(2,866,063.59)	(2,260,776.67)	(2,236,633.87)	**(16,226,742.06)**
Net inflow:	**737,093.12**	**2,464,777.29**	**944,376.30**	**747,597.61**	**951,178.54**	**1,041,241.58**	**6,886,264.43**
Transportation Contract							
Sales	1,113,500.00	3,733,500.00	6,353,500.00	5,043,500.00	4,912,500.00	2,591,180.00	**23,747,680.00**
Less: allowance	(1,057,825.00)	(746,700.00)	(1,270,700.00)	(1,008,700.00)	(982,500.00)	(518,236.00)	**(5,584,661.00)**
Net inflow:	**55,675.00**	**2,986,800.00**	**5,082,800.00**	**4,034,800.00**	**3,930,000.00**	**2,072,944.00**	**18,163,019.00**
Net cash flow from Debtors	**792,768.12**	**5,451,577.29**	**6,027,176.30**	**4,782,397.61**	**4,881,178.54**	**3,114,185.58**	**25,049,283.43**

GIC

Cost of Sales budget for the period from Jan 1 to June 30, 2001

GEL:	Jan-01	Feb-01	Mar-01	Apr-01	May-01	Jun-01	Total:
Sales:							
Rental Contracts	2,563,211.50	7,254,960.78	3,191,342.35	3,613,661.20	3,211,955.20	3,277,875.45	**23,113,006.48**
Transportation Contracts	1,113,500.00	3,733,500.00	6,353,500.00	5,043,500.00	4,912,500.00	2,591,180.00	**23,747,680.00**
Total:	**3,676,711.50**	**10,988,460.78**	**9,544,842.35**	**8,657,161.20**	**8,124,455.20**	**5,869,055.45**	**46,860,686.48**
Depreciation	1,103,013.45	3,296,538.23	2,863,452.71	2,597,148.36	2,437,336.56	1,760,716.64	**14,058,205.95**
Repairing services	257,369.81	769,192.25	668,138.96	606,001.28	568,711.86	410,833.88	**3,280,248.05**
Wages & Salaries	220,602.69	659,307.65	572,690.54	519,429.67	487,467.31	352,143.33	**2,811,641.19**
Taxes	110,301.35	329,653.82	286,345.27	259,714.84	243,733.66	176,071.66	**1,405,820.59**
Maintenance costs	73,534.23	219,769.22	190,896.85	173,143.22	162,489.10	117,381.11	**937,213.73**
Total costs of sales	***1,764,821.52***	***5,274,461.17***	***4,581,524.33***	***4,155,437.38***	***3,899,738.50***	***2,817,146.62***	***22,493,129.51***
Gross margin:	***1,911,889.98***	***5,713,999.61***	***4,963,318.02***	***4,501,723.82***	***4,224,716.71***	***3,051,908.83***	***24,367,556.97***

Exhibit 6.
GIC

Admin expenses budget for the period from Jan 1 to June 30, 2001

GEL:	Jan-01	Feb-01	Mar-01	Apr-01	May-01	Jun-01	Total:
Sales:							
Rental Contracts	2,563,211.50	7,254,960.78	3,191,342.35	3,613,661.20	3,211,955.20	3,277,875.45	23,113,006.48
Transportation Contracts	1,113,500.00	3,733,500.00	6,353,500.00	5,043,500.00	4,912,500.00	2,591,180.00	23,747,680.00
Total:	**3,676,711.50**	**10,988,460.78**	**9,544,842.35**	**8,657,161.20**	**8,124,455.20**	**5,869,055.45**	**46,860,686.48**
Admin&General Expenses							
Administration Salary	257,369.81	769,192.25	668,138.96	606,001.28	568,711.86	410,833.88	3,280,248.05
Taxes on Salary	73,534.23	219,769.22	190,896.85	173,143.22	162,489.10	117,381.11	937,213.73
Inventory and spare parts	36,767.12	109,884.61	95,448.42	86,571.61	81,244.55	58,690.55	468,606.86
Communication	110,301.35	329,653.82	286,345.27	259,714.84	243,733.66	176,071.66	1,405,820.59
Depreciation (Building of the Head office)	73,534.23	219,769.22	190,896.85	173,143.22	162,489.10	117,381.11	937,213.73
Business trips	18,383.56	54,942.30	47,724.21	43,285.81	40,622.28	29,345.28	234,303.43
Other	25,736.98	76,919.23	66,813.90	60,600.13	56,871.19	41,083.39	328,024.81
Total Admin & General Expenses	***595,627.26***	***1,780,130.65***	***1,546,264.46***	***1,402,460.11***	***1,316,161.74***	***950,786.98***	***7,591,431.21***

GIC

The budget of Profit and Loss account

GEL:	Jan-01	Feb-01	Mar-01	Apr-01	May-01	Jun-01	Total:
Net sales	3,676,711.50	10,988,460.78	9,544,842.35	8,657,161.20	8,124,455.20	5,869,055.45	**46,860,686.48**
Cost of sales	1,764,821.52	5,274,461.17	4,581,524.33	4,155,437.38	3,899,738.50	2,817,146.62	**22,493,129.51**
GROSS PROFIT	***1,911,889.98***	***5,713,999.61***	***4,963,318.02***	***4,501,723.82***	***4,224,716.71***	***3,051,908.83***	***24,367,556.97***
Provision for Doubtful debts	**(2,883,943.39)**	**(5,536,883.49)**	**(3,517,666.06)**	**(3,874,763.59)**	**(3,243,276.67)**	**(2,754,869.87)**	**(21,811,403.06)**
General & Administrative expenses	595,627.26	1,780,130.65	1,546,264.46	1,402,460.11	1,316,161.74	950,786.98	**7,591,431.21**
NET OPERATING PROFIT/LOSS	**(1,567,680.67)**	**(1,603,014.53)**	**(100,612.49)**	**(775,499.88)**	**(334,721.70)**	**(653,748.02)**	**(5,035,277.30)**
Interest expense							
NET PROFIT/LOSS BEFORE TAXATION	(1,567,680.67)	(1,603,014.53)	(100,612.49)	(775,499.88)	(334,721.70)	(653,748.02)	**(5,035,277.30)**
Income Tax							
Deferred Tax							
NET PROFIT/LOSS	(1,567,680.67)	(1,603,014.53)	(100,612.49)	(775,499.88)	(334,721.70)	(653,748.02)	**(5,035,277.30)**

GIC

Cash Flow Budget

GEL:	Jan-01	Feb-01	Mar-01	Apr-01	May-01	Jun-01	Total:
Opening Cash Budget	**1,200,000.00**	**808,867.01**	**2,722,159.93**	**5,675,896.99**	**7,670,688.69**	**9,935,792.65**	
Cash received (from Debtors)	792,768.12	5,451,577.29	6,027,176.30	4,782,397.61	4,881,178.54	3,114,185.58	25,049,283.43
Short terms Loans							
TOTAL CASH AVAIALBLE	**1,992,768.12**	**6,260,444.30**	**8,749,336.22**	**10,458,294.60**	**12,551,867.23**	**13,049,978.23**	**53,062,688.70**
Cost of Sales	1,764,821.52	5,274,461.17	4,581,524.33	4,155,437.38	3,899,738.50	2,817,146.62	22,493,129.51
Depreciation (-)	(1,103,013.45)	(3,296,538.23)	(2,863,452.71)	(2,597,148.36)	(2,437,336.56)	(1,760,716.64)	(14,058,205.95)
Admin and General Expenses	595,627.26	1,780,130.65	1,546,264.46	1,402,460.11	1,316,161.74	950,786.98	7,591,431.21
Depreciation (-)	(73,534.23)	(219,769.22)	(190,896.85)	(173,143.22)	(162,489.10)	(117,381.11)	(937,213.73)
Interest Expense 3% / month							
TOTAL OUTFLOW	**1,183,901.10**	**3,538,284.37**	**3,073,439.24**	**2,787,605.91**	**2,616,074.58**	**1,889,835.85**	15,089,141.05
CASH BALANCE	**808,867.01**	**2,722,159.93**	**5,675,896.99**	**7,670,688.69**	**9,935,792.65**	**11,160,142.38**	37,973,547.65

(Note: Enter the appropriate years on this sheet)

	January	February	March	April	May	June	July	August	September	October	November	December
Cash	50											
Accounts Receivable	100											
Inventory	25											
Current Assets	**175**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Fixed assets	70											
Total Assets	**245**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Current Liabilities	180											
Interest Bearing Debt	30											
Total current liabilities	**210**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Retained earnings	80	0	0	0	0	0	0	0	0	0	0	0
Equity	65											
Total equity	**145**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Total Liabilities	**245**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Sales	550											
Operating Expenses	300											
Depreciation	150											
Interest	15											
Income Taxes	5											
Net Income	80	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Net Income+Interest	**95**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Net Income+Interest+Taxes	**100**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**

Short-term solvency or Liquidity Ratios:

	January	February	March	April	May	June	July	August	September	October	November	December
Current Ratio	0.83	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Quick Ratio	0.83	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Cash Ratio	0.28	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!

Turnover Ratios:

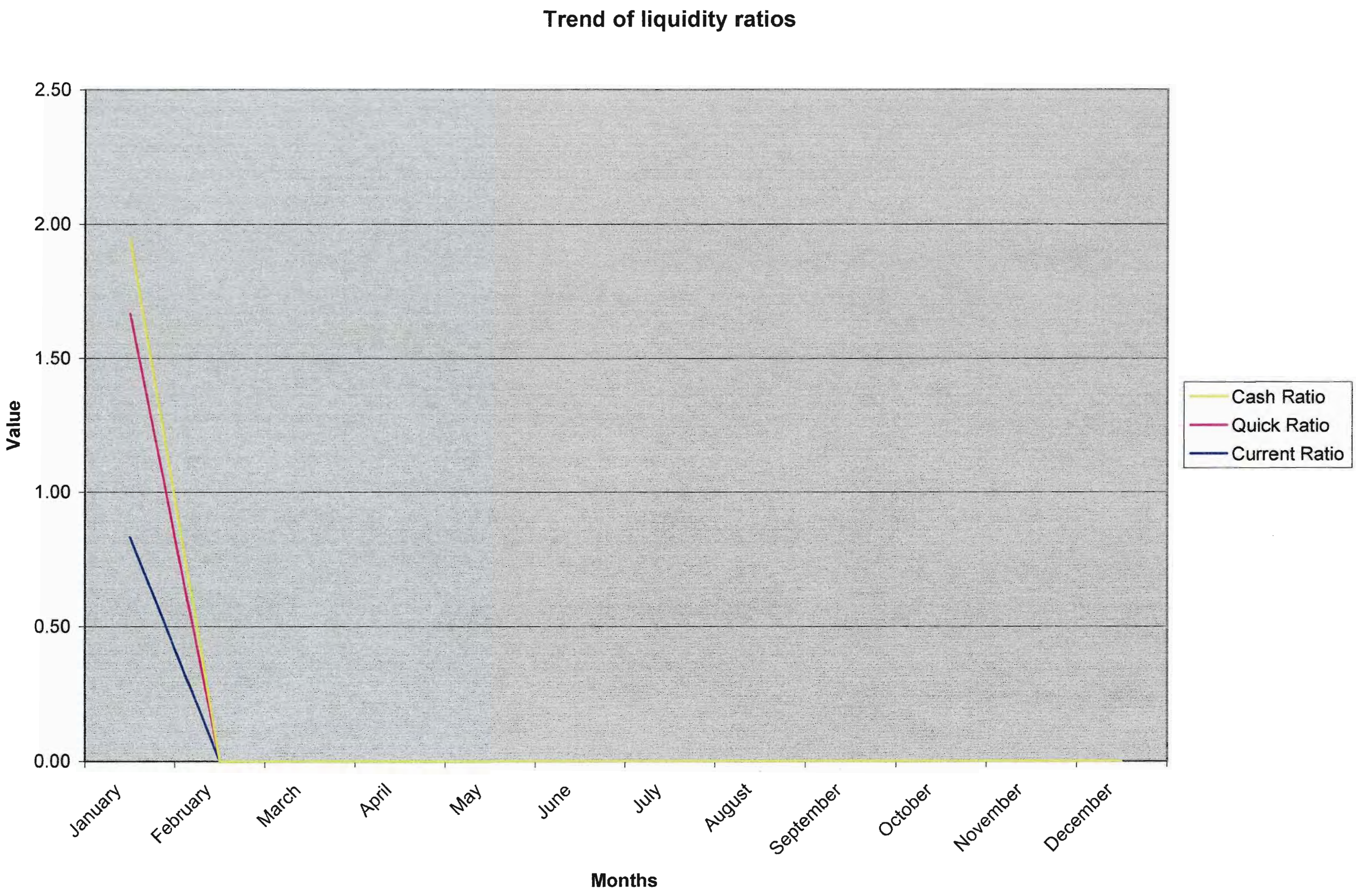
	January	February	March	April	May	June	July	August	September	October	November	December
Receivables Turnover	5.50	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Days' Sales in Receivables	66.36	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!

Financial Leverage Ratios

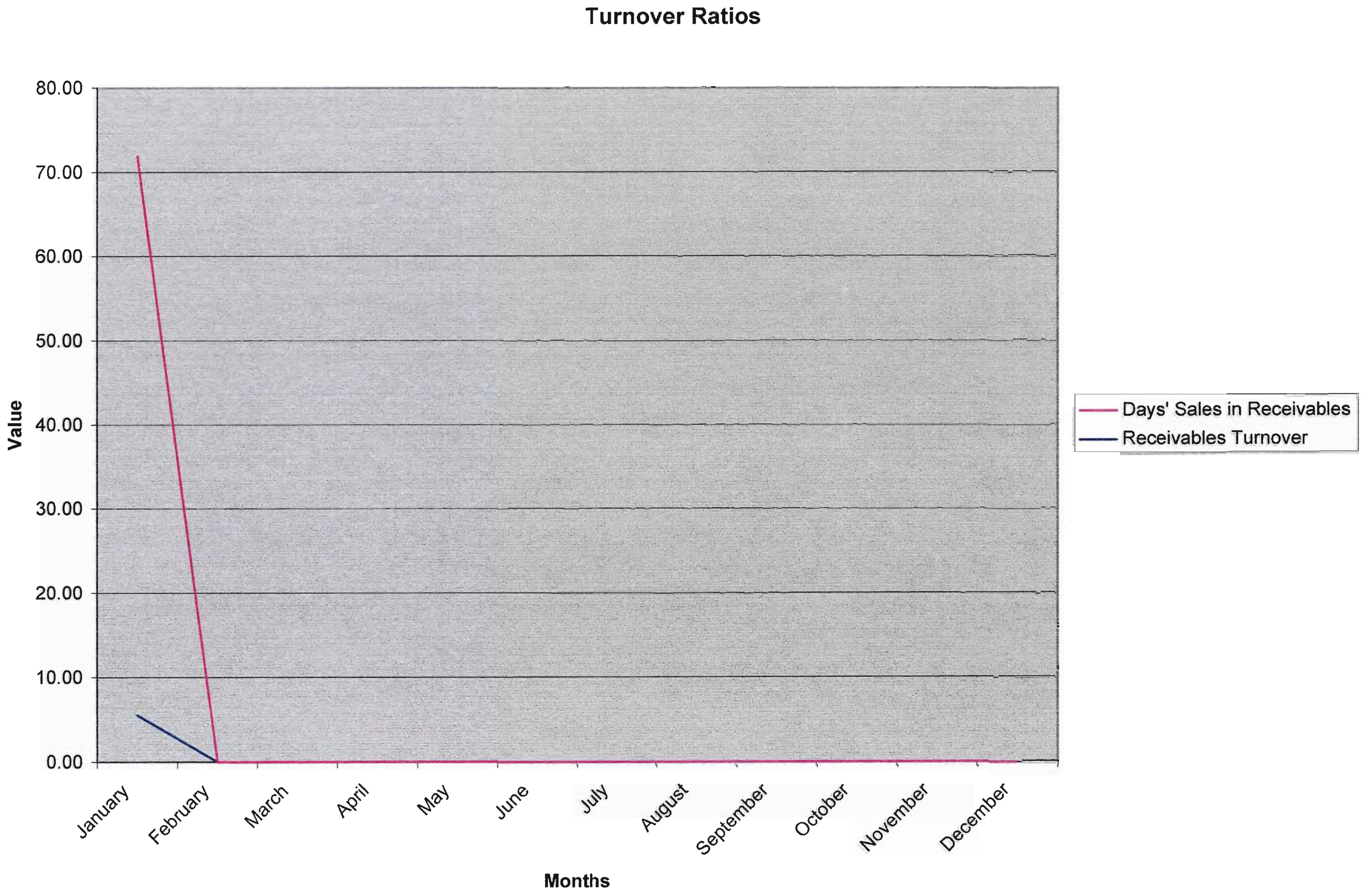
	January	February	March	April	May	June	July	August	September	October	November	December
Total Debt Ratio	0.69	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Interest Coverage Ratio	16.67	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Debt Ratio	0.46	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!

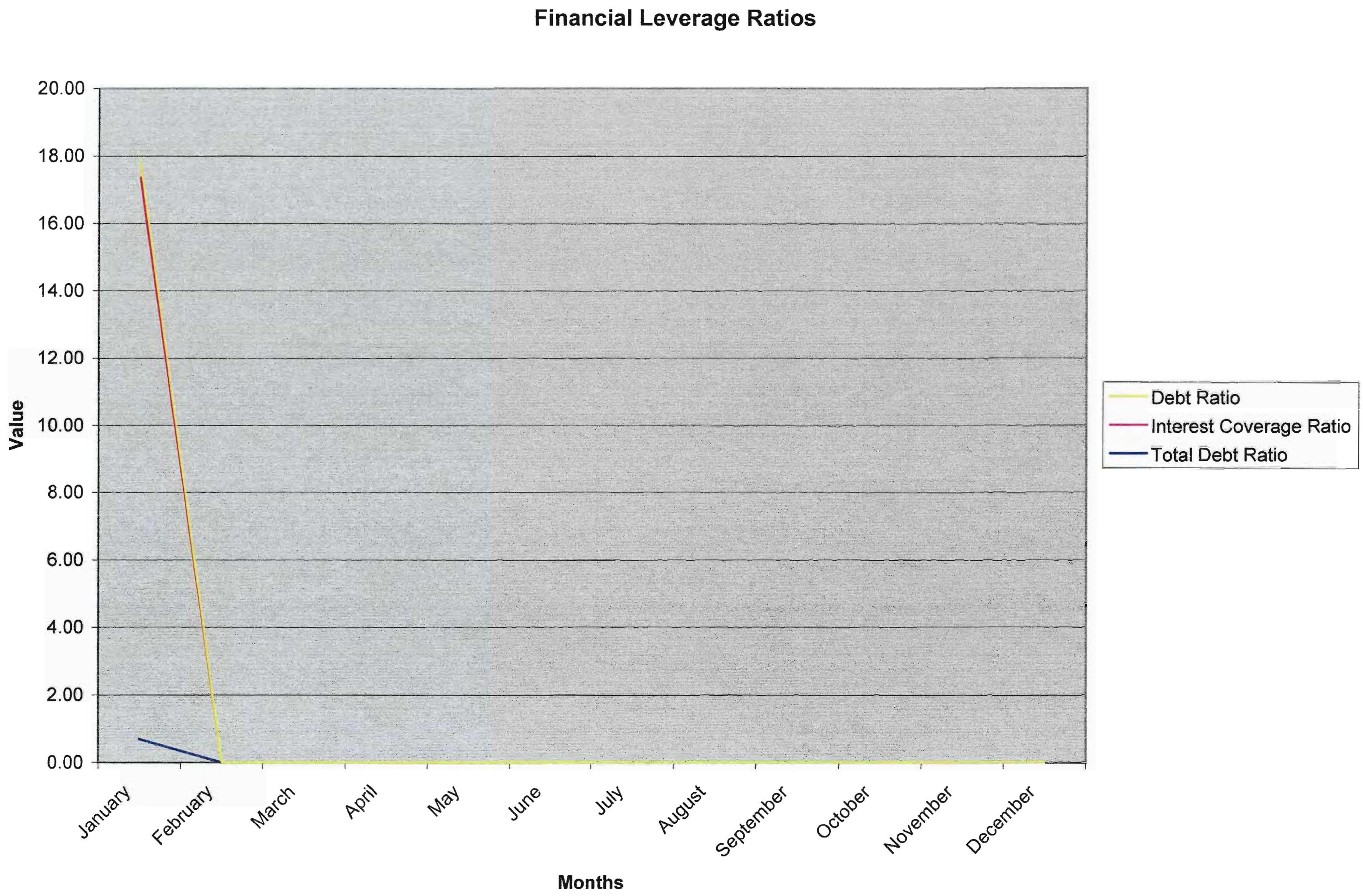
Profitability Ratios

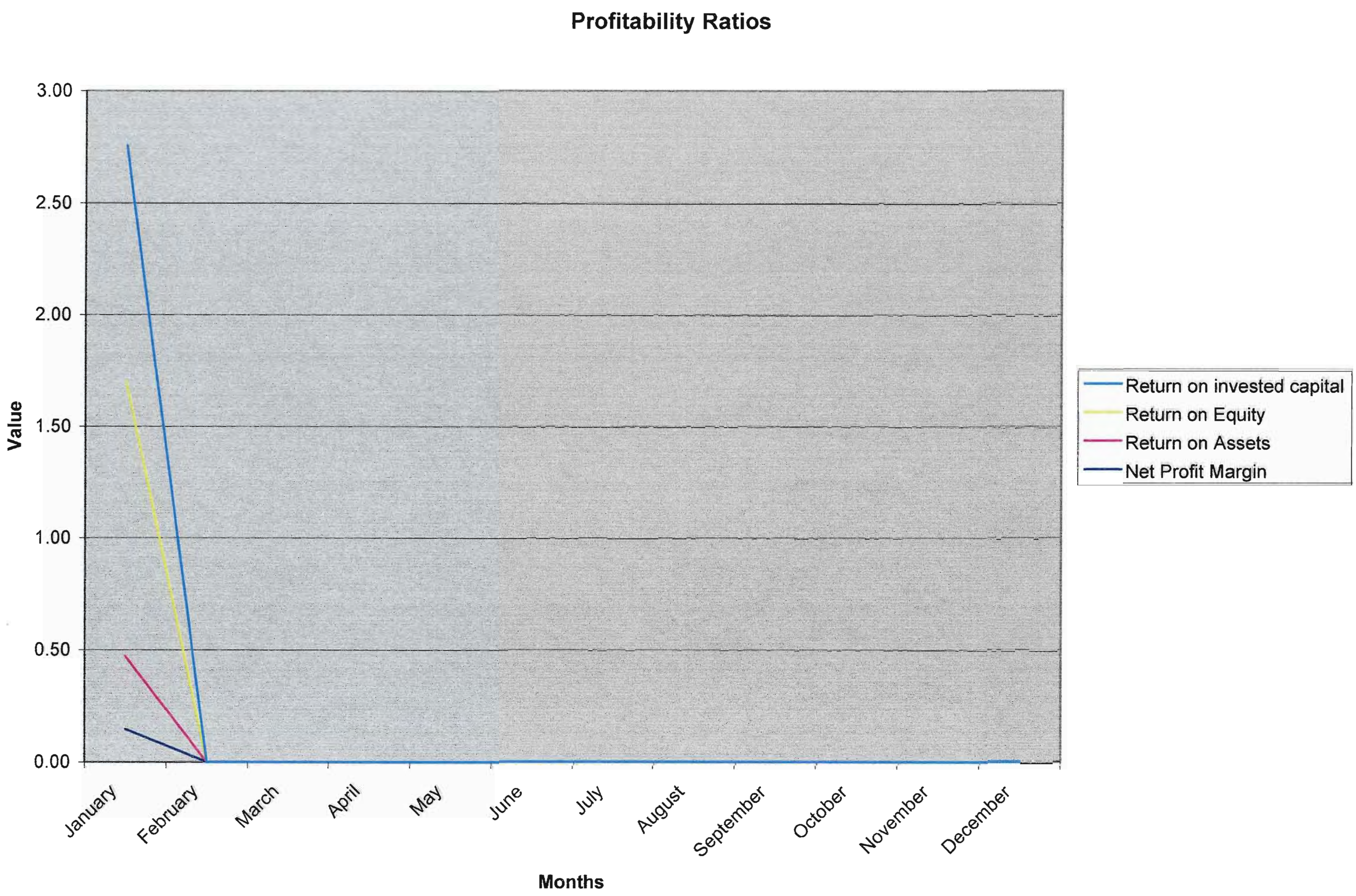
	January	February	March	April	May	June	July	August	September	October	November	December
Net Profit Margin	0.15	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Return on Assets	0.33	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Return on Equity	1.23	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Return on invested capital	1.05	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!



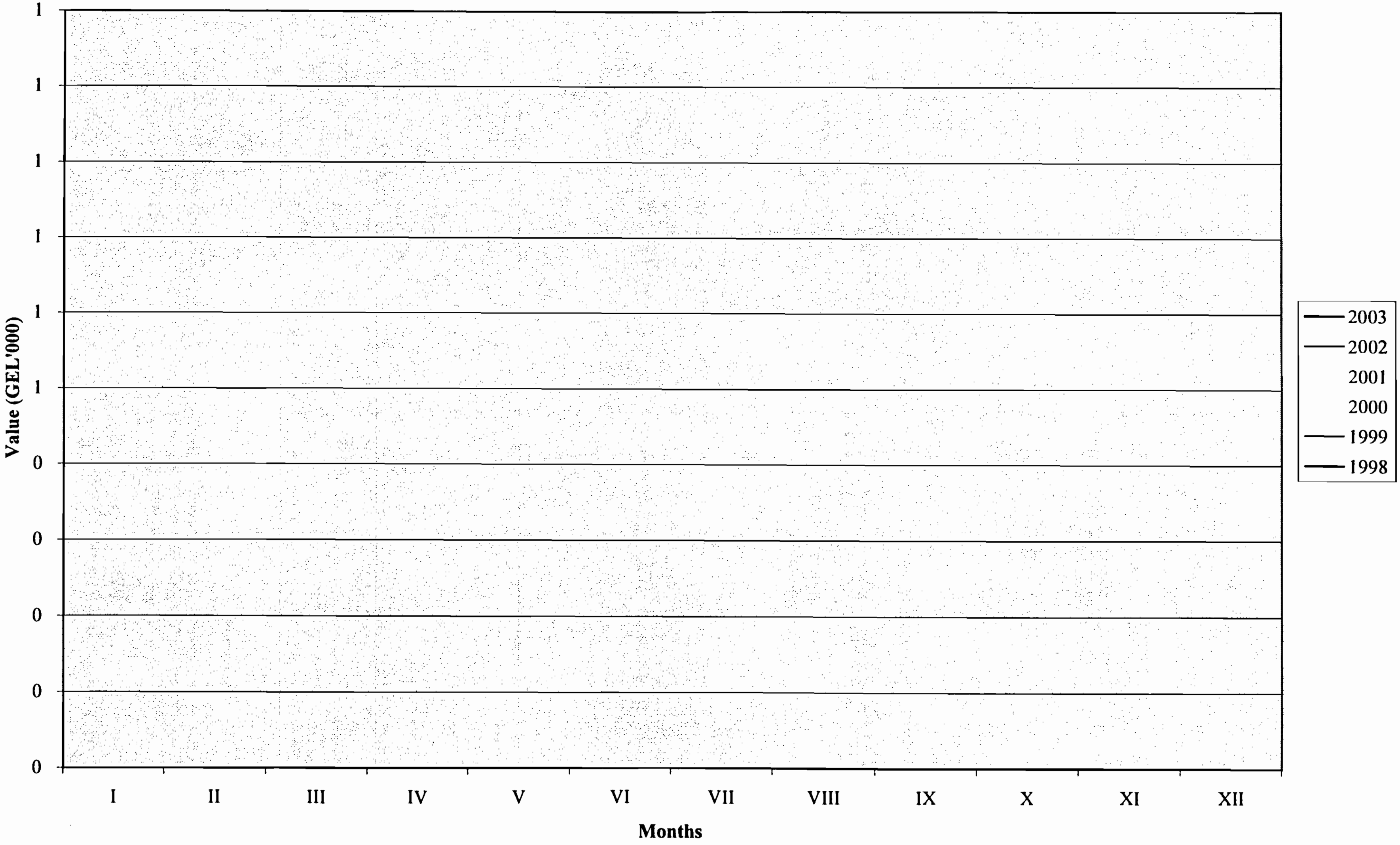
Trend of liquidity ratios
2.50
2.00
1.50
1.00
0.50
0.00
Value
Cash Ratio
Quick Ratio
Current Ratio
January
February
March
April
May
June
July
August
September
October
November
December
Months


Turnover Ratios
80.00
70.00
60.00
50.00
40.00
30.00
20.00
10.00
0.00
Value
January
February
March
April
May
June
July
August
September
October
November
December
Months
Days' Sales in Receivables
Receivables Turnover

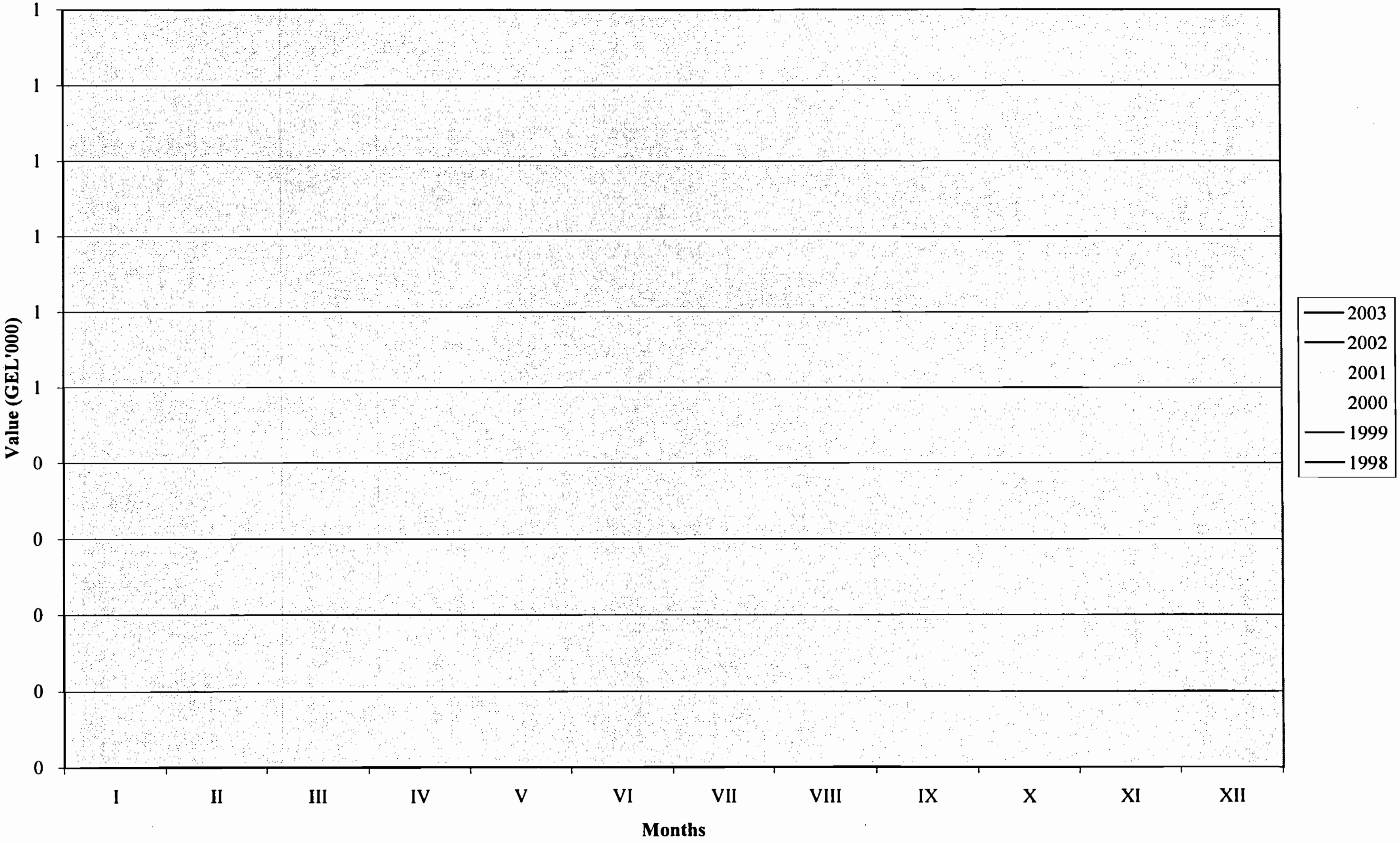

Financial Leverage Ratios
Value
20.00
18.00
16.00
14.00
12.00
10.00
8.00
6.00
4.00
2.00
0.00
January
February
March
April
May
June
July
August
September
October
November
December
Months
Debt Ratio
Interest Coverage Ratio
Total Debt Ratio


Profitability Ratios
3.00
2.50
2.00
1.50
1.00
0.50
0.00
Value
January
February
March
April
May
June
July
August
September
October
November
December
Months
Return on invested capital
Return on Equity
Return on Assets
Net Profit Margin

Trend of Sales



Trend of Cost of sales



GIC

Sales

	I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII
1998												
1999												
2000												
2001												
2002												
2003												

Expenses (cost of sales)

	I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII
1998												
1999												
2000												
2001												
2002												
2003												

A/R Ageing Example

Accounts Receivable Detail

debitoruli davalianeba

Period Ending Date

10/31/00

Invoice # a/f #	Company Name dasaxeleba	Date of Sale miwodebis TariRi	Payment Terms gadaxdis pirobebi	Amount Tanxa	Payment Date gadaxdis TariRi	Paid Amount gadaxdili Tanxa	Discounts Granted gacemuli fasdakleba	Returns saqonlis dabruneba	Net A/R davali-aneba	Days Overdue vadagada-cileba	Remarks SeniSvna
'0013	ss marsi	10/8/2000		3,000					3,000	23	
'0021	Sps "dedamiwa"	12/15/1999	10	100,000	12/17/1999	8,000			92,000	331	
'0020	Sps "merkuri"	12/14/1999	10	16,000	12/16/1999	16,000		1,000	-	332	
'0019	ss "marsi"	12/3/1999		3,600	12/15/1999				3,600	333	Camoiwera
'0017	Sps mze	11/15/1999	10	3,000	12/3/1999	3,000			-	361	
'0016	Sps "dedamiwa"	11/3/1999		8,000	11/18/1999	8,000			-	363	
'0015	Sps "merkuri"	10/20/1999		3,600	11/15/1999	3,600			-	377	
'0018	ss marsi	11/18/1999	30	6,200	12/14/1999	6,200			-	378	
'0014	ss "marsi"	10/15/1999		6,200	11/3/1999	6,000			200	382	Camoiwera
'0012	Sps mze	9/20/1999	30	8,000	10/15/1999	8,000	1,000		-	437	
'0011	Sps "dedamiwa"	9/16/1999	30	14,000	10/8/1999	14,000		3,000	-	441	
'0010	Sps "merkuri"	9/15/1999	30	5,000	9/20/1999	5,000			-	442	
'0009	ss "marsi"	8/23/1999	30	23,000	9/16/1999	18,000			5,000	465	Camoiwera
'0008	ss marsi	8/18/1999	30	16,000	9/15/1999				16,000	470	
'0007	Sps mze	7/23/1999	10	5,000	8/23/1999	5,000		1,000	-	476	
'0005	Sps "merkuri"	7/22/1999	10	6,000	1/15/2000	6,000	600		-	477	
'0006	Sps "dedamiwa"	7/22/1999	10	1,000	1/15/2000	1,000			-	477	
'0004	ss "marsi"	7/21/1999	30	10,000					10,000	498	Camoiwera
'0003	Sps "dedamiwa"	6/2/1999	10	2,600	7/22/1999	2,600			-	527	
'0002	ss "mTvare"	6/1/1999	10	3,000	8/18/2000	3,000			-	528	
'0001	Sps mze	6/1/1999	30	5,000	7/1/1999	4,000			1,000	548	
									-	-	
									-	-	
									-	-	
									-	-	
				248,200		***117,400***	***1,600***	***5,000***	***130,800***		

Total by Client

Sum of davali-aneba	
dasaxeleba	Total
Sps "dedamiwa"	92,000
Sps "merkuri"	-
Sps mze	1,000
ss "marsi"	18,800
ss "mTvare"	-
ss marsi	19,000
Grand Total	130,800

Ageing by Days Outstanding			
Greater Than	Less Than	Total	% of Total
	30	3,000	2%
29	59	-	0%
59	90	-	0%
89		127,800	98%

Total	130,800

A/R Analysis for Calculation of General & Specific Allowance

Specific Allowance

See 2.05 in Policies & Procedures Manual

Note or payment Plan	25%
Attorney or Collection Account	50%
Attorney with less chance of recovery	75%
Bankrupt	100%

Inv. #	Amount	Specific Reserve
'0021	92,000	23,000

General Reserve

See 2.05 in Policies & Procedures Manual

2%	Current
5%	1-30 Days Past Due
25%	Over 31 Days Past Due

		Less Specific	Total	General Reserve
Current	-		-	-
1 to 30	3,000		3,000	150
> 31	127,800	(92,000)	35,800	8,950
Total	130,800	(92,000)	38,800	9,100

BEST AVAILABLE COPY

Fixed Asstes Purchase Requisition

Date: Supplier:

Agreement No: Date of Agreement:

#	Description	Quantity	Group	Dep. %	Unit price	Purchase Order (Invoice)			Balance amount
						No	Date	Note	

Expenses	Amount	Acc. #
Transportation		
Customs fee		
Installation		
Other expenses		
Total expenses		

Approved by: (Authorisation)

Name .... Signature ....

Possition .... Date ....

Transaction

1 Dr .... 2 Dr .... 3 Dr ....

Cr.............................. Cr.............................. Cr..............................

Capital Expenditures Authorization Form

(All items over 20,000 GEL)

Fiscal year of planned acquisition: ____________________

Capital Expenditure Authorization # __________

REQUESTOR ____

Total Amt. of Project (GEL): ____

Recommended Vendors & Competitive Bid Information:
(Please shoe recommended Vendor & Bid with "X")

	Vendor	Bid
1	____	__________
2	____	__________
3	____	__________
4	____	__________

Justification *(Explain benefit of purchasing against impact of not purchasing. If recommended vendor above is not the least expensive bid, please provide an explanation for recommendation.)*

____

____

____

____

____

____

____

____

Assistant General Director	General Director	(If > 50,000 GEL) President	(If > 1 million GEL) Chairman of Board of Directors
______________________________	______________________________	______________________________	______________________________

Fixed Assets Disposal Order

Date: No:

Date and No of Agreement: Date and No of Act:

#	Description	Quantity	Price	Date of purchase	Value				Note
					Historical Cost	Accum. Depr.	Depr. from beginning the year	Net Value	

Gain or losses		Acc. #

Approved by: (Authorisation)

Name .... Signature ....

Position .... Date ....

Transaction

1 Dr .... 2 Dr .... 3 Dr ....

Cr............................... Cr............................... Cr...............................

Credit Application

Company Name: ______________________________

Date of Application ______________________________

Trade References:

1

Company Name: ______________________________

Relationship to Company: ______________________________

Contact Person: ______________ Tel. ______________

Title: ______________ Fax ______________

2

Company Name: ______________________________

Relationship to Company: ______________________________

Contact Person: ______________ Tel. ______________

Title: ______________ Fax ______________

Banking References:

1

Bank Name: ______________________________

Services provided to Company ______________________________

Contact Person: ______________ Tel. ______________

Title: ______________ Fax ______________

2

Bank Name: ______________________________

Services provided to Company ______________________________

Contact Person: ______________ Tel. ______________

Title: ______________ Fax ______________

Please return application with copies of latest available audited financial statements.

Signature of Authorizing Individual ______________________________

Title ______________________________

GiC

Address	
Tel/Fax	
e-mail	
ntification Code	

Invoice Number	1290
Contract #	
G/I Transaction #	

Customer

Customer Nam					
Address					
City	Tbilisi	Region	4	Code	21
Telephone	37-37-37	Fax			

Date	20/01/2000
Order #	12-23/10
Date of Receipt of Invoice	03/02/2000

Quantity	Item	Unit Price	Total
300	nedli navTobi # 234	$120.00	36,000.00
120	nedli navTobi # 177	$100.00	12,000.00

Gross	48,000.00
20%	9,600.00
20%	9,600.00
3%	1,440.00
Grand Total	65,760.00

Payment Conditions

- [x] Cash
- [ ] Credit
- [ ] Bank Transfer

Acct. #

Bank

Bank Code

Signature

Director

Chief Accountant

Additional Terms

Conditions of Discount: Payment should be made within 30 days; if payment is made within 10 days a 3% discount is granted.

Payment

Payment	Amount	Description
20/01/2000	25,000.00	
31/01/2000	39,000.00	Bank Transfer
Balance	1,760.00	

Company Policies and Procedures

VHPP

Company Policies and Procedures

Financial Planning and Analysis – Chapter 1

VARDNILI HPP
FINANCIAL PLANNING & ANALYSIS POLICIES

Number: 1.01

Effective Date:

Written By: Deloitte&Touche

Modified By: **CEO Approval:**

Date Modified: **Date:**

Title: Annual Financial Plans/Operating Expense Budgets

1.0 Purpose and Scope

1.1 The purpose of this policy is to define the annual financial planning activities and responsibilities.

1.2 This policy is effective for Vardnili HPP operations.

2.0 Definitions

2.1 ***Annual Financial Plan:*** Planned profitability by month, by division in detail (i.e. Sales through Net Income in Income Statement format), supported by detailed operating expenses by account, function and by divisions; detailed capital expenditure plans and detailed headcount assumptions by function, department and division.

3.0 Responsibilities

3.1 Chief Financial Officer (CFO) is responsible for coordinating the entire process of preparing and implementing the annual financial plans.

3.2 The Planning Department of the company is responsible for reviewing and collecting financial plans from each division and preparing a detailed company's annual financial plan for approval by the Board of Directors.

4.0 Policy Statement

4.1 It is the policy of the Company to prepare detailed annual financial plans for each subsidiary and for the consolidated Company to facilitate achievement of overall corporate goals.

5.0 Procedures

5.1 The CFO assists the Board of Directors in identifying the strategic objectives for the Company that will form the basis for each annual financial plan.

5.2 The CFO establishes the framework for preparing the plan (i.e. timing, structure and format).

5.3 Planning Department establishes detailed operating objectives for each individual operation.

5.4 The head of each division of the company prepares his/her own annual plan and Planning Department collects, collates and reviews the completed plans and ensures that the plans are consistent with corporate objectives as established.

5.5 The CFO compiles the consolidated plan for approval by the Board of Directors.

5.6 Planning Department compares and analyses the actual and planned results. All variances above the set level have to be investigated and corrective action has to be suggested. The investigation together with suggested actions has to be approved by the CFO.

6.0 <u>Exhibits</u>

6.1 Planning Timeline (example for planning for the year 2001)

Date	Responsible person	Activity
June 2000	CFO and Board of Directors	Review the strategic objectives for the company (to identify if there should be any changes made or not)
June 2000	CFO and Planning Department	Establish the framework for preparing the plan and prepare conformable forms (if this is the second year, reviews for any changes since last year)
June 2000	Heads of each division	Fill the forms (prepared by Planning department and approved by CFO and Board of Directors) of planning
June 2000	Planning Department	Collects, collates and reviews the completed plans and ensures that the plans are consistent with corporate objectives as established
June 2000	CFO	Compiles the consolidated plan for approval by the Board of Directors
June 2000	Board of Directors	Approves the plan
December 2000	Planning Department	Analyses the last year results (according to actual results) and suggest corrections for already created plan for the next year
December 2000	CFO	Approves changes and give to Board of Directors for approval
March 2001	CFO, Planning department	Analyses and made final correction to the financial plan for the year 2001.
March 2001	Board of Directors	Approves the final version of the financial plan.
June 2001	CFO and Board of Directors	Review the strategic objectives for the company (to identify if there should be any changes made or not)

6.2 Annual financial plan

VARDNILI HPP FINANCIAL PLANNING & ANALYSIS POLICIES	
Number: 1.02	
Effective Date:	
Written By: Deloitte&Touche	
Modified By:	**CEO:**
Date Modified:	**Date:**

Title: Revenue Forecast for Material Requirements Planning

1.0 Purpose and Scope

1.1 The purpose of this policy is to define and document the activities and responsibilities related to the Revenue Forecast for Material Requirements Planning.

1.2 This policy is effective for Vardnili HPP operations.

2.0 Definitions

2.1 ***Material Requirements Planning (MRP):*** The process of determining type, quantity and timing of materials to be purchased and used for repairing and maintanance of fixed assets. The result is the demand created for each component by applying the forecasted sales to the bills of materials.

2.2 ***Domestic Revenue Forecast:*** The monthly summary of projected trade sales of electicity by part number for domestic regions.

2.3 ***International Revenue Forecast:*** The monthly summary of projected trade sales of electicity by part number for international regions.

3.0 Responsibilities

3.1 The CFO is responsible for coordinating the domestic and international detail forecasts.

3.2 The Planning Department is responsible for preparing financial plans.

4.0 Policy Statement

4.1 It is the policy of the Company to create a revenue forecast monthly for use in the Material Requirements Planning process.

5.0 Procedures

5.1 Planning department reviews the initial input to the Domestic Revenue Forecast and makes adjustments as needed for product availability and current booking rates.

5.2 Planning department reviews the initial input to the International Revenue Forecast and makes adjustments as needed for product availability and current booking rates.

5.3 The Domestic Revenue Forecast is consolidated with the International Revenue Forecast, summarized and presented to the Board of Directors for approval.

6.0 Exhibits/References

6.1 Exhibits

a. Domestic Revenue Forecast
b. International Revenue Forecast

VARDNILI HPP
FINANCIAL PLANNING & ANALYSIS POLICIES

Number: 1.03

Effective Date:

Written By: Deloitte&Touche

Modified By: **Chief Executive Officer Approval:**

Date Modified: **Date:**

Title: Key Indicator Monitoring System

1.0 Purpose and Scope

1.1 The purpose of this policy is to define activities and responsibilities related to the Key Indicators Monitoring System (KIMS).

1.2 This policy is effective for Vardnili HPP operations.

2.0 Definitions

2.1 ***Key Indicators Monitoring System (KIMS):*** The monthly package used to report key business indicators to executive management.

2.2 ***Key Business Indicators:*** The ratios and relationships noted in the Key Indicators Monitoring System table of contents.

3.0 Responsibilities

3.1 CFO is responsible for compiling and maintaining the monthly financial statement package used in the KIMS reporting.

3.2 Planning Department is responsible for the collection of data from various sources and the compilation of the KIMS package.

4.0 Policy Statement

4.1 It is the policy of the Company to monitor business performance to identify areas of risk in a timely manner allowing management to take appropriate action to maintain the growth and profitability of the Company.

5.0 Procedures

5.1 Planning Department personnel gather data from the Financial Reporting Department, Human Resources Department and sales history maintained by Vardnili HPP.

5.2 Planning Department reviews the information for accuracy and completeness then inputs it to the KIMS spreadsheets and generates the KIMS graphs, reports and documents.

5.4 The KIMS is reviewed by Planning Department and CFO and then distributed to executive management.

6.0 Exhibits

6.1 KIMS Table of Contents:

1. Short-Term solvency or Liquidity Ratios:

Current ratios = Current Assets/Current Liabilities

Quick ratio = (Current Assets-Inventory)/Current Liabilities

Cash ratio = Cash/ Current Liabilities

2. Turnover ratios:

Receivables turnover = Sales/Accounts Receivables

Days' sales in Receivables = 365/Receivables turnover

3. Financial Leverage Ratios

Total debt ratio = (Total assets – Total Equity)/Total Equity

Interest coverage ratio = (EBIT + Depreciation)/Interest

Debt ratio = Interest Bearing Debt/Equity

4. Profitability Ratios

Net Profit margin = Net Income/Sales

Return on Assets = Net Income/Total assets

Return on Equity (ROA)= Net Income/Total Equty

Return on Invested Capital = Earnings after tax but before interest and dividends/
(Equity + Interest Bearing Liabilities)

VARDNILI HPP
FINANCIAL PLANNING & ANALYSIS POLICIES

Number: 1.04

Effective Date:

Written By: Deloitte&Touche

Modified By: **CEO Approval:**

Date Modified: **Date:**

Title: Income Statement and Balance Sheet Forecasting

1.0 Purpose and Scope

1.1 The purpose of this policy is to define the activities and responsibilities related to the monthly forecast of Company financial statements.

1.2 This policy is effective for Vardnili HPP.

2.0 Definitions

2.1 **Income statement *Forecast*:** A projection of future operating results based on available evidence and assumptions related to order and shipment history, gross margin analysis, spending plans, debt and tax structure, etc.

2.2 ***Sales/Revenue Forecasts*:** The statistical sales forecast prepared for domestic operations using contract data with direct customers and shipment histories prepared each month to support the product planning process.

3.0 Responsibilities

3.1 Financial department is responsible for preparing detailed structure of operating expenses, including the direct labor, inventory (mostly oil for transformators), and overhead projections and forwarding the information to Planning Department for review and inclusion in the forecast.

3.2 Planning Department is responsible for the revenue and margin forecasts used to support the income statement and preparation of the monthly income statement and balance sheet forecasts.

3.3 Planning Department is responsible for reviewing the forecast with the CFO.

4.0 Policy Statement

4.1 It is the policy of the Company to forecast profitability and financial condition to identify areas of risk in a timely manner allowing management the opportunity to take appropriate action to maintain the growth and profitability of the Company.

5.0 Procedures

5.1 Planning Department estimates trade sales for each month within the forecast horizon using the various revenue forecasts and other available evidence.

5.2 Planning Department prepares the Income statement and balance sheet forecast using this and other available data including historical financial statements and evidence regarding anticipated changes in the asset, debt or capital structure of the company.

6.0 Exhibits

a. Income Statement Forecast
b. Sales/Revenue Forecast

VARDNILI HPP
FINANCIAL PLANNING & ANALYSIS POLICIES

Number: 1.05

Effective Date:

Written By: Deloitte&Touche

Modified By: **CEO Approval:**

Date Modified: **Date:**

Title: Capital Expenditure Authorization

1.0 Purpose and Scope

1.1 The purpose of this policy is to define the activities and responsibilities related to capital expenditure review and approval necessary for Vardnili HPP to plan for capital resources and to ensure expenditures are consistent with the Company's business objectives.

1.2 This policy is effective for Vardnili HPP operations.

2.0 Definitions

2.1 ***Capital Expenditure:*** Any asset of significant value (greater than GEL 1,000) with a useful life of more than one year. The capitalized amount includes the purchase cost plus any freight, installation and/or construction costs, etc.

2.2 ***Capital Expenditures Budget:*** All planned or expected capital expenditures, regardless of amount, should be included in the annual budget and approved by the Chief Financial Officer and Board of Directors'.

2.3 ***Capital Expenditure Authorization (CEA):*** The form which describes and justifies the proposed asset purchase. It is prepared for all capital expenditures in excess of GEL 10,000. However, if a project has been included in the annual budget and does not exceed GEL 20,000, the cost/benefit section of the CEA need not be completed. The amount requiring approval via the CEA is the total cost of all assets in a given project.

This is in addition to the normal Purchase Requisition procedures to be followed for all purchases.

2.4 ***Purchase Requisition:*** The form which is prepared for all purchases. **It is not a substitute for the CEA.** For capital expenditures requiring approval, the approved CEA must be attached to the Purchase Requisition and forwarded to Procurement Department by the Accounting Department.

2.5 ***Signature Authorization List:*** The CEO office publishes a signature limit listing which is updated quarterly or on authority change for anyone in the listing. The listing establishes the required authorization levels for company purchases.

3.0 Responsibilities

3.1 The Requestor proposes capital expenditures in the annual budget, prepares the CEA and obtains appropriate approvals.

3.2 The Director of Procurement Department is responsible for initial approval of the annual capital expenditures budget and the CEA.

3.3 Planning Department analyzes the cost/benefit justification on the CEA and makes its recommendation to the CFO.

3.4 The CFO and the Board of Directors approves or disapproves capital expenditures in accordance with the Signature Authorization List and the annual budget.

3.5 Procurement Department ensures an approved CEA and Purchase Requisition has been submitted, selects or approves vendor choices and issues a Purchase Order.

4.0 Policy Statement

4.1 It is the policy of the Company to prepare expenditure requests for capital items (which includes land, buildings and improvements, furniture and fixtures, machinery and equipment, software and vehicles) in excess of GEL 10,000 to be authorized in advance by an approved Capital Expenditure Authorization (CEA).

4.2 This policy is applicable to all capital additions regardless of financing alternatives. For example, consideration of lease financing does not preclude the need for a CEA.

It is also the policy of the Company to capitalize and depreciate these expenditures in accordance with Generally Accepted Accounting Principles (GAAP).

5.0 Procedures

5.1 Generally, for resource planning purposes, all proposed capital expenditures are included in the annual Capital Expenditures budget.

5.2 A CEA is completed for all capital expenditures in excess of GEL 10,000. The CEA need not be prepared during the budgeting process if the assets will not be purchased immediately. All sections except the CEA# and those designated FINANCE AND ACCOUNTING must be filled out by the Requestor. The justification explains the benefits of purchasing the item contrasted against the impact of not purchasing it. Information on recommended vendors and competitive bids or alternative sources must be provided with the CEA. If the recommended vendor's cost is higher than other sources, support for use of this vendor must be included with the CEA.

5.3 The completed CEA is submitted to Planning Department, which reviews the cost/benefit analysis provided and numbers the form sequentially. If clarification is

needed, Planning Department contacts the Requestor. Planning Department may also prepare a cash flow analysis if it is deemed relevant to the approval decision.

5.4 Financial Department reviews the CEA and exhibits for vendor-supplied financing quotes and evaluates financing alternatives and capital requirements. Decisions related to financing are made by the Financial Department after consulting with the Requestor and Procurement Department regarding the circumstances of the purchase. Financial Department, if necessary, provides Purchasing with instructions regarding third party leasing companies, etc.

5.5 With its recommendation, Planning Department forwards the CEA to the CFO and deputy CEO for approval.

5.6 Capital Expenditures in excess of GEL 30,000 are submitted to the CEO. In addition, capital expenditures in excess of GEL 1 million require approval by the Board of Directors. The approved CEA is returned to Planning Department to be distributed.

5.7 Once final approvals are obtained, Planning Department sends a copy of the CEA to the Procurement Department with the completed Purchase Requisition. **The CEA does not replace the Purchase Requisition**. The Requestor indicates any vendor recommendations and other pertinent information on the Purchase Requisition.

5.8 After verifying that appropriate approvals have been obtained, Procurement Department and issues a Purchase Order.

5.9 Planning Department provides a copy of the approved CEA to the Accounting Department, which ensures that capital project costs for all approved CEA's are accumulated and accounted for properly.

5.10 If it becomes evident that the cost of a project will exceed the original estimate by 10% or more, the Requestor must prepare a supplemental CEA and circulate it with the original CEA for approval.

6.0 Exhibits/References

6.1 Exhibits

a. Capital Expenditure Authorization (CEA) Form
b. Purchase Requisition

6.2 References

a. Fixed Asset Capitalization Policies

Company Policies and Procedures

Accounts Receivable - Chapter 2

VARDNILI HPP
ACCOUNTS RECEIVABLE POLICIES

Number: 2.01

Effective Date:

Written By: Deloitte & Touche

Modified By:_ **CEO Approval:**

Date Modified:_ **Date:**

Title: Aged Accounts Receivable Report and Uses Thereof

1.0 Purpose and Scope

1.1 The purpose of this policy is to assign responsibility for the maintenance of the allowance for uncollectible accounts and to ensure that the responsible party maintains an adequate account balance in the allowance for uncollectible accounts. The purpose of this policy is also to establish procedures that define processes related to the allowance for uncollectible accounts such as a provision process and a write-off process.

2.0 Definitions

2.1 ***Allowance for Uncollectible Accounts ("Allowance Account")***: The contra-account to Trade Accounts Receivable that is used to provide for potentially uncollectible accounts (General Ledger Account 1320).

2.2 ***Aged Accounts Receivable Report: The*** detailed report of open accounts receivable which lists the balances of all open invoices, credit memos and unapplied payments. Totals are aged in the following categories: current; 1-30 days past due; 31-60 days past due; 61-90 days past due; 91+ days past due. The deputy chief accountant uses the Aged Accounts Receivable Report to prepare his/her own analysis.

3.0 Responsibilities

3.1 The accounts receivable accountant is responsible for monitoring the allowance account's balance and for processing write-offs against the allowance when the deputy chief accountant requests the processing of the write-offs. Using the approved analysis as a reference, the accounts receivable accountant makes allowance account adjustments.

3.2 The deputy chief accountant is responsible for preparing the detailed analysis of open Accounts Receivable. The analysis calculates anticipated uncollectible account amounts. The deputy chief accountant is also responsible for initiating the write-off of uncollectible customer accounts against the allowance account.

3.3 The Chief accountant reviews and approves adjustments to the allowance account. The Chief accountant is responsible for ensuring that the balance of the allowance account is adequate.

4.0 Policy Statement

4.1 It is the policy of the Company to maintain an adequate and appropriate allowance for uncollectible accounts. An adequate allowance ensures that the company's receivables are valued in accordance with International Accounting Standards (IAS). As such, this process shall be conducted quarterly to ensure adequacy of the reserve.

5.0 Procedures

5.1 At the end of each month, the Accounts receivable accountant delivers to the Deputy chief accountant a detailed analysis of the Accounts Receivable balance.

5.2 As part of the Accounts Receivable balance analysis, the Deputy chief accountant reviews each customer account which has a past due balance greater than 50,000 GEL. The deputy chief accountant determines the amount of reserve (called a specific reserve) necessary to compensate for the accounts being reviewed.

In addition to this specific reserve, the reserve for accounts not included in the detailed review (called a general reserve) is determined. The general reserve amount compensates for accounts with past due balances less than 50,000 GEL. The general reserve amount is calculated using only accounts that are not included in the specific reserve. The general reserve amount is a summation of: 2% of the balance aged as current, 5% of the balance 1-30 days past due and 25% of the balance over 30 days past due. These percentages may be periodically updated or changed by the Deputy chief accountant and the Chief accountant.

5.3 The deputy chief accountant recommends any necessary allowance account provisions to the Chief accountant.

5.4 All practical collection efforts are exhausted before an account is considered for write-off. This includes resolving disputes, establishing special payment schedules, using collection agencies and taking legal action to force payment. On a monthly basis, the Deputy chief accountant prepares a list of customer accounts that are to be written off against the allowance account. When the Deputy chief accountant adds a customer account to this list, the Deputy chief accountant considers the amount in the customer account to be uncollectible.

This list is submitted to the Chief accountant for review and approval.

5.5 The Chief accountant reviews and approves all provisions to and write-offs against the allowance account.

VARDNILI HPP
ACCOUNTS RECEIVABLE POLICIES

Number: 2.02

Effective Date:

Written By: Deloitte & Touche

Modified By:_ **CEO Approval:**

Date Modified:_ **Date:**

Title: Invoice Processing

1.0 Purpose and Scope

1.1 The purpose of this policy is to define Accounts Receivables activities and responsibilities as related to invoice processing.

2.0 Definitions

2.1 No specific terms used.

3.0 Responsibilities

3.1 The accounts receivable accountant is responsible for confirming the volume of power transmitted for each customer.

3.2 The accounting department is responsible for the printing, verification and maintenance of all invoice records.

4.0 Policy Statement

4.1 It is the policy of the Company to process invoices in a complete, accurate and timely manner.

5.0 **Procedures**

5.1 General Comments:

a. Invoicing takes place on XXX system.

5.2 Invoicing:

a. The accounts receivable accountant obtains confirmations from clients indicating the amount of energy received (in order to account for electricity lost during transmission). These confirmations are the originating documents from which invoices are generated and should be referenced on the invoices as well as attached to copies of invoices for filing purposes.

b. The accounts receivable accountant processes and prints the invoices monthly, passes them to the Chief accountant for approval (together with a copy of confirmation from the customer) and after the approval is granted, the invoice is mailed to the customer.

c. The printed invoice forms are separated in the following manner.

Copy 1: The original invoice that is mailed to the customer.

Copy 2: This copy is maintained in a customer file with the attached confirmation until the end of the fiscal year.

5.3 Adjusting Invoices for Errors Discovered

a. In case of errors during processing of original invoices and subsequent discovery of such errors by the processor or the client, proper authorization should be obtained in order to issue credit memos.
b. The accounts receivable accountant should obtain the authorization of the Chief accountant by filling out the Credit Memo Authorization Form and obtaining the appropriate signature.
c. The amount is then entered into the A/R detail ledger and note made for posting to the G/L.

VARDNILI HPP
ACCOUNTS RECEIVABLE POLICIES

Number: 2.03

Effective Date:

Written By: Deloitte & Touche

Modified By:_ **CEO Approval:**

Date Modified:_ **Date:**

Title: Unapplied Cash

1.0 Purpose and Scope

1.1 The purpose of this policy is to define the activities and responsibilities related to Unapplied Cash.

2.0 Definitions

2.1 ***Unapplied Cash:*** Customer payment on an account that cannot be identified with a specific invoice.

3.0 Responsibilities

3.1 The accounts receivable accountant is responsible for applying unapplied payments to customers' accounts and for notifying the deputy chief accountant when a customer's payment cannot be identified/applied.

3.2 The deputy chief accountant is responsible for resolving with the customer all unapplied payments on the customer's account.

4.0 Policy Statement

4.1 It is the policy of the Company to handle unapplied cash resolution in a timely and accurate manner.

5.0 Procedures

5.1 Unapplied Cash:

a. The cash and bank accountant provides the accounts receivable accountant with a photocopy of all bank transfers that cannot be applied to specific invoices because the remittance advice lacks the necessary information.

b. On a daily basis, the accounts receivable accountant reviews the prior day's unapplied cash transactions. The accounts receivable accountant searches for information that was not available to the cash and bank accountant.

c. If the analysis does not reveal the necessary missing information, the accounts receivable accountant generates a Payment Discrepancy Form (PDF) and sends the form to the deputy chief accountant.

d. The accounts receivable accountant maintains the follow-up copy of the Payment Discrepancy Form and adds the information to an open items list.

e. The accounts receivable accountant follows up on items in the open items list. The accounts receivable accountant checks with the deputy chief accountant to determine the status of open items list items.

f. After an unapplied payment has been resolved, the customer must apply the unapplied cash to specific invoices. The customer applies the unapplied cash by either deducting the credit amount from the customer's next payment remittance or by submitting a "0" (zero) remittance advice.

VARDNILI HPP
ACCOUNTS RECEIVABLE POLICIES

Number: 2.04

Effective Date:

Written By: Deloitte & Touche

Modified By:_ **CEO Approval:**

Date Modified:_ **Date:**

Title: Cash Receipts/Cash Application

1.0 Purpose and Scope

1.1 The purpose of this Policy is to define the activities and responsibilities that relate to the processing of cash receipts and payment of customer accounts.

2.0 Definitions

2.1 ***Accounts Receivable Aging:*** **The** weekly report of aging of accounts receivable.

2.2 ***Daily Cash Receipts Report:*** **The** daily report of cash receipts.

2.3 ***Monthly Miscellaneous Cash Receipt Report:*** **The** monthly reports of cash receipts that cannot be applied or any other cash receipts except the usual cash receipts.

2.4 ***Adjustments Report:*** **The** monthly report of adjustments to accounts receivable.

3.0 Responsibilities

3.1 The cash and bank accountant is responsible for processing/posting cash receipts. The accounts receivable accountant is responsible for following up on and for resolving short paid items and unapplied cash payments (See Unapplied Cash and Open Credit Memo Resolution Policy and Payment Discrepancies Policy).

3.2 The IT department is responsible for the daily processing of data entry and for the printing of daily/weekly/monthly audit reports.

3.3 The cash and bank accountant is responsible for the maintenance of banking relationships.

4.0 Policy Statement

4.1 It is the policy of the Company to apply cash receipts to customer accounts in a timely and accurate manner ensuring that customer accounts are accurately stated.

5.0 Procedures Categorized by Sub-section

5.1 Bank Transfers Processing

a. Bank transfer details are received daily from participating financial institutions. Each set of details is treated as a separate batch. Each batch is categorized according to the batch's origin. Each batch is assigned the next available sequential batch number when it is entered in system.

b. The cash and bank accountant begins the application process by entering the information received from the bank into the accounts receivable detail listing by batch. Once this has been performed, the appropriate journal entries are documented for cash and A/R. After posting of all items at the end of the month, Cash and A/R balances should equal the bank statements and the detail A/R ledger.

VARDNILI HPP
CREDIT POLICIES

Number: 2.05

Effective Date:

Written By: Deloitte & Touche

Modified By:_ **CEO Approval:**

Date Modified:_ **Date:**

Title: New Accounts

1.0 Purpose and Scope

1.1 The purpose of this procedure is to define activities and responsibilities related to applications which request open account terms, otherwise known as credit. Customers seeking open account terms wish to purchase Vardnili HPP services on credit.

2.0 Definitions

2.1 There are no unique terms or definitions.

3.0 Responsibilities

3.1 Deputy chief accountant is responsible for reviewing credit applications to ensure that the credit applications meet the requirements for becoming a direct account with Vardnili HPP. The applications are then forwarded to the Chief accountant.

3.2 The Chief accountant processes the applications and together with the CEO determine if credit terms should be granted.

4.0 Policy Statement

4.1 It is the policy of the Company to extend open account terms to customers after the completion of a financial review and after the acquisition of management's approval.

5.0 Procedures

5.1 The signed credit application form is sent from the deputy chief accountant to the Chief accountant.

5.2 Upon receipt of the credit application, the deputy chief accountant reviews the application; the deputy chief accountant ensures that application has been filled out properly and has been signed by an officer of the client company.

5.3 The deputy chief accountant also signs the application. The signature assures the Chief accountant that the customer on the application meets the requirements.

5.4 The Chief accountant reviews the application and looks for (1) bank references; (2) trade references.

5.5 A financial statement accompanies the credit application. The financial statement is either an audited financial statement or a financial statement that bears signatures that attest to the financial statement's accuracy and validity. If financial statements do not accompany the credit application, the credit department sends the applicant a letter requesting financial statements.

5.6 Reference letters are mailed to all references, both bank and trade.

5.7 Chief accountant reviews the returned references and available financials and together with CEO determine if a line of credit can be established based on this information.

5.8 If a line of credit is established, a letter documenting the credit terms is sent to the deputy chief accountant, the accounts receivable accountant and to the customer. The accounts receivable accountant types the credit limit into the computer.

5.9 If a credit limit cannot be established based on the accumulated information, a letter is sent advising the customer to submit additional information or to make other arrangements. The Chief accountant then evaluates the additional information and alternative arrangements to determine if the customer should be granted open account terms.

5.10 If credit cannot be granted, a letter is sent advising the customer of this fact and of alternative financing options external to Vardnili HPP.

VARDNILI HPP
CREDIT POLICIES

Number: **2.06**

Effective Date:

Written By: **Deloitte & Touche**

Modified By: _ **CEO Approval:**

Date Modified: _ **Date:**

Title: Allowance for Doubtful Accounts

1.0 Purpose and Scope

1.1 The purpose of this procedure is to define the activities and responsibilities related to the computation of the quarterly Bad Debt Reserve.

1.2 This procedure is effective for VARDNILI HPP domestic operations.

2.0 Definitions

2.1 There are no unique terms or definitions.

3.0 Responsibilities

3.1 The deputy chief accountant computes the Bad Debt Reserve using the procedures described.

4.0 Policy Statement

4.1 It is the policy of the Company to maintain an adequate and appropriate allowance for uncollectible accounts. An adequate allowance ensures that the company's receivables are valued in accordance International Accounting Standards (IAS). As such, this process shall be conducted monthly to ensure adequacy of the reserve.

5.0 Procedures

5.1 The month-end Accounts Receivable Aging is used to determine the Total, Current, 1-30 Days Past Due and Over 31 Days Past Due totals.

5.2 The Inter-Company accounts are deducted from the month-end Accounts Receivable Aging in order to arrive at a starting number.

5.3 A Specific Reserve is computed by listing all accounts which show a debt of 50,000 GEL or more and which are 31 or more days past due.

5.4 An evaluation of these overdue accounts takes place; the evaluator determines the collectibility of the Past Due accounts. The evaluator uses the following percentages to determine the collectibility of Past Due accounts:

25% - Note or payment plan
50% - Attorney or Collection Account
75% - Attorney with less chance of recovery
100% - Bankrupt

5.5 The evaluator creates an analysis sheet that lists the uncollectible Past Due accounts. The evaluator computes the totals on the analysis sheet and subtracts the Past Due account totals from the month-end Accounts Receivable Aging totals.

5.6 A General Reserve is computed with percentages provided by Accounting:

2% - Current
5% - 1-30 Days Past Due
25% - Over 31 Days Past Due

The percentages are multiplied by the remaining totals on the analysis sheet.

5.7 The General Reserve and Specific Reserve totals are added together to obtain the Reserve for Bad Debt total.

VARDNILI HPP
CREDIT POLICIES

Number: 2.07

Effective Date:

Written By: Deloitte & Touche

Modified By:_ **CEO Approval:**

Date Modified:_ **Date:**

Title: Legal-Attorney or Collection Agency Accounts

1.0 Purpose and Scope

1.1 The purpose of this policy is to define the procedure for handling accounts receivable which have become uncollectible through normal in-house procedures.

2.0 Definitions

2.1 ***Placement:*** Turning an accounts receivable balance over to a collection agency or attorney for action.

3.0 Responsibilities

3.1 The Chief accountant is responsible for approving the placement of any account with an outside attorney or collection agency.

4.0 Policy Statement

4.1 It is the policy of the Company to exhaust all in-house efforts to effect collection of past due receivables, before using outside means. The placement of accounts with outside attorneys or collection agencies is only made as a final collection effort, or to reaffirm the uncollectibility of the account.

5.0 Procedures

5.1 Unpaid receivables over 90 days old are reviewed twice a month by the deputy chief accountant. Determination is made if payment has been promised or a payment plan has been agreed upon.

5.2 A final demand for payment is sent to the account by certified mail. A copy of the demand is also sent to the Chief accountant and CEO.

5.3 If the customer does not respond to the final demand within ten days, the customer, including copies of the open invoices and statement of account is forwarded to the Chief accountant for disposition.

5.4 If the account exceeds 20,000 GEL, the Chief accountant contacts a legal firm and placement is made.

5.5 If the account is less than 20,000 GEL, the Chief accountant decides which of the two collection agencies will be used. This decision is usually based on geographical location of the debtor. The collection agency is contacted and placement is made.

5.6 Confirmation of receipt of the claim by the attorney or the collection agency is usually received within seven days.

5.7 Outside collection activity begins and the account remains open on the Accounts Receivable Aging until payment in full is received or the account is deemed uncollectible and is written off against the Allowance for Doubtful Accounts (See Reserve for Bad Debt Computation and Allowance for Doubtful Accounts policies).

VARDNILI HPP
CREDIT POLICIES

Number: 2.08

Effective Date:

Written By: Deloitte & Touche

Modified By:_ **CEO Approval:**

Date Modified:_ **Date:**

Title: Credit Hold

1.0 Purpose and Scope

1.1 The purpose of this policy is to define how and why a customer account may be put on credit hold.

2.0 Definitions

2.1 ***Credit Hold:*** The process of stopping customer order placement and supplying of services.

2.2 ***Past Due:*** The condition when payment from a customer is not received in a timely manner, and the deputy chief accountant has not been able to effect promise for payment from the customer.

3.0 Responsibilities

3.1 The deputy chief accountant is responsible for the collection of the accounts receivable.

3.2 It is the Chief accountant and CEO's responsibility to determine whether the account should be on credit hold.

3.3 It is the responsibility of the accounts receivable accountant to enter the credit hold in the system file.

4.0 Policy Statement

4.1 It is the policy of the Company that no additional credit shall be granted to a past due customer unless the Company's interests are adequately protected.

4.2 It is the policy of the Company to treat all customers fairly while protecting the Company's interests as they relate to accounts receivable.

5.0 Procedures

5.1 Accounts are reviewed daily by the accounts receivable accountant, customers who are more than 15 days past due are identified to passed to the deputy chief accountant to be contacted by telephone to determine why the past due item(s) have not been paid.

5.2 The deputy chief accountant determines from the customer whether payment can be expected, and when.

5.3 The results of the conversation with the customer, the past due nature of the account, the credit risk involved with shipping more product if the customer is under their assigned credit limit, and the protection of the Company's interests all impact the determination of whether the account is put on credit hold. If the deputy chief accountant determines that the customer should be placed on hold, he/she has to receive an approval from the Chief accountant and CEO.

5.4 If it is determined that placing the account on credit hold is the appropriate action and the approval has been received, the customer is notified by telephone by the deputy chief accountant that the account is to be placed on hold. If the customer cannot be reached by telephone, a letter is sent.

5.5 The accounts receivable accountant enters the system and places the account on credit hold.

5.6 Hold status prevents delivery of additional services.

5.7 Hold status may only be lifted by the CEO and the Chief accountant based on the agreement of the customer to pay or receipt of payment.

VARDNILI HPP
CREDIT POLICIES

Number: 2.09

Effective Date:

Written By: Deloitte & Touche

Modified By: _ **CEO Approval:**

Date Modified: _ **Date:**

Title: Customer Credit Terms

1.0 Purpose and Scope

1.1 The purpose of this policy is to define the terms and methods by which sales of Company services are made to our customers.

2.0 Definitions

2.1 ***Net 30:*** Standard payment terms for all customers. Payment is due 30 days from date of invoice.

2.2 ***Cash In Advance:*** Payment terms for a customer who cannot qualify for Net 30 terms. Payment is due prior to providing of services.

3.0 Responsibilities

3.1 The Chief accountant is responsible for assignment of terms.

4.0 Policy Statement

4.1 It is the policy of the Company that all customers be treated fairly.

5.0 Procedures

5.1 The Chief accountant assigns the terms code based on credit limit review of the customer (See Credit Limits policy).

5.1 An order must be placed by the customer before an account number is assigned by Chief accountant.

5.3 Once the account is assigned, the accounts receivable accountant enters the customer's terms code into the system file.

VARDNILI HPP
CREDIT POLICIES

Number: 2.10

Effective Date:

Written By: Deloitte & Touche

Modified By:_ **CEO Approval:**

Date Modified:_ **Date:**

Title: Credit Limits

1.0 Purpose and Scope

1.1 The purpose of this policy is to define the method by which the Credit Department establishes credit limits for our customers.

2.0 Definitions

2.1 ***Standard Terms:*** Payment terms for most customers, payment due in 30 days from date of invoice.

2.2 ***Non-Standard Terms:*** Other than payment due in 30 days

3.0 Responsibilities

3.1 The Chief accountant and deputy chief accountant are responsible for the analysis of the customer's credit application, credit and bank references and financial statements for the determination of customer credit limits.

3.2 The Chief accountant is responsible for approving all non-standard terms and credit limits over 100,000 GEL.

4.0 Policy Statement

4.1 It is the policy of the Company that credit limits be established for each customer which are commensurate with the customers requirements for our products and ability to pay for these products within the established payment terms.

5.0 Procedures

5.1 The Company's financial condition, present standing with trade creditors and financial institutions and length of time in business are evaluated to reach an acceptable line of credit.

5.2 All customers are informed in writing of the established credit line, if any, as is the accounts receivable accountant.

5.3 Within the limits of sound credit practices, the Chief accountant endeavors to find a suitable credit basis on which to deal with every active or potential customer.

5.4 In the performance of its duties, the Chief accountant shall maintain a positive and constructive attitude towards the Company's customers. The standards by which credit risks are accepted or rejected shall be flexible enough to permit maximum profitable sales with safety of investment.

Company Policies and Procedures

Fixed Assets – Chapter 3

VARDNILI HPP
GENERAL LEDGER POLICIES

Number: 3.01

Effective Date:

Written By: Deloitte & Touche

Modified By: _ **CEO Approval:**

Date Modified: _ **Date:**

Title: Fixed Asset Capitalization for External Purchases

1.0 Purpose and Scope

1.1 The purpose of this policy is to define the activities and responsibilities that relate to the capitalization of company owned fixed assets that are purchased from external vendors.

2.0 Definitions

2.1 ***Fixed Assets: Tangible*** assets are the machinery, equipment, furniture and fixtures that Vardnili HPP uses to conduct its business. Each asset is recorded on the Balance Sheet and is depreciated over the estimated useful life of the asset.

2.2 ***Useful Life:*** Period in which asset is used in the ordinary course of business operations. (See Section 4.0 for the estimated useful life of each fixed asset type).

3.0 Responsibilities

3.1 It is the responsibility of the ORIGINATING DEPARTMENT to complete the Purchase Requisition Form and to properly code the general ledger account number (000-1799) for all items which meet the capitalization criteria (See Section 4.0). It is also the responsibility of the ORIGINATING DEPARTMENT to complete a Capital Equipment Authorization (CEA) Form and to obtain all appropriate approvals for purchases that exceed **40,000 GEL**.

3.2 The PURCHASING DEPARTMENT is responsible for ensuring that all Purchase Requisition Forms for fixed asset purchases are coded to the proper general ledger account (000-1799) and that an approved CEA Form is received prior to placing each order.

3.3 It is the responsibility of the accounts payable accountant to make copies of all purchase orders, invoices and receivers that are coded to account 1799. The accounts payable accountant is also responsible for accruing sales tax that may have been erroneously omitted from invoices.

3.4 It is the responsibility of the deputy chief accountant to ensure that the asset is appropriately capitalized, to determine the useful life of the asset, approve these matters and to pass the information to the fixed assets accountant to record the asset in the Fixed Asset System and to issue Fixed Asset Tags to the Originating Department.

3.5 The DEPARTMENT MANAGER is responsible for the assets within his/her department. The DEPARTMENT COORDINATOR is responsible for tagging any equipment that has been capitalized. The DEPARTMENT COORDINATOR notifies the deputy chief accountant when assets are transferred to other departments or when assets are retired from service.

3.6 The DEPARTMENT MANAGER is responsible for the assets within his/her department. The DEPARTMENT COORDINATOR (or designee) is responsible for tagging any equipment that has been capitalized. The DEPARTMENT COORDINATOR notifies deputy chief accountant if an asset is transferred to another department.

If an asset is no longer being used, the DEPARTMENT COORDINATOR is responsible for the disposition of the asset and for notifying deputy chief accountant via a Fixed Asset Transfer/Retirement Form. The Fixed Asset Transfer/Retirement Form is completed when an asset has been retired (i.e. transferred to the Excess & Obsolete inventory, sold or scrapped.)

4.0 Policy Statement

4.1 It is the policy of the Company to capitalize all fixed asset purchases when the unit cost of the fixed asset exceeds **150 GEL** per unit or the useful economic life of the asset is greater than one year. It is the policy of the Company to depreciate a capitalized fixed asset over the asset's estimated useful life based on the following:

Computer Equipment	3 years
Telephone Equipment	5 years
Tooling	5 years
Software	2 years
Machinery & Equipment	5 years
Leasehold Improvements	shorter of 5 years or the life of the lease
Autos	5 years
Furniture & Fixtures	5 years
Building	40 years

5.0 Procedures

5.1 The Originating Department completes a Purchase Requisition for the capital equipment being purchased. The account number referenced in the Purchase Requisition is 000-1799. The Purchase Requisition also references the department number that will be charged with the depreciation expense. If the purchase is

greater than **40,000 GEL**, an approved CEA Form accompanies the Purchase Requisition Form to Purchasing.

5.2 Purchasing places the order after all appropriate approvals/CEAs have been reviewed.

5.3 Upon receipt of the order, the accounts payable accountant processes the vendor invoice for payment. The accounts payable accountant is responsible for ensuring that all appropriate receivers and authorizations are complete prior to vouchering the invoice in the Accounts Payable system. The accounts payable accountant also accrues sales tax if the vendor fails to include the sales tax on the invoice. The accounts payable accountant forwards a copy of the invoice to the deputy chief accountant.

5.4 The deputy chief accountant reviews all appropriate documentation (i.e. invoice copies, CEAs, etc.) prior to passing this information to the fixed asset accountant for capitalizing the asset on the fixed asset system. The deputy chief accountant also ensures that every piece of the purchase order has been received. The deputy chief accountant then authorizes the fixed asset accountant to issue an asset number and an inventory tag. The fixed asset accountant sends the asset number and inventory tag to the Department Coordinator. The fixed asset accountant also prepares a journal entry each month which transfers the assets vouched by the accounts payable accountant out of account 1799 and into the appropriate general ledger asset account (i.e. Machinery and Equipment, Furniture and Fixtures, etc.).

5.5 The Department Coordinator places the inventory tag on the asset. The Department Coordinator notifies the deputy chief accountant if the asset is ever physically moved to another department. If the asset is ever moved to another department, the Department Manager completes a Fixed Asset Transfer/Retirement Form.

5.6 At the time the asset is no longer useful, the Department Coordinator notifies the deputy chief accountant via a Fixed Asset Transfer/Retirement Form. When a Fixed Asset Transfer/Retirement Form is received, the deputy chief accountant orders the fixed asset accountant to cease depreciation of the asset and retire the asset off the fixed asset and general ledger systems. The fixed asset accountant then records the gain/loss on the retirement of the asset.

6.0 Exhibits/References

6.1 Exhibits

a. Purchase Requisition Form
b. Fixed Asset Transfer/Retirement Form

VARDNILI HPP
GENERAL LEDGER POLICIES

Number: 3.02

Effective Date:

Written By: Deloitte & Touche

Modified By:_ **CEO Approval:**

Date Modified:_ **Date:**

Title: Retirement of Capital Equipment

1.0 Purpose and Scope

1.1 The purpose of this policy is to define the activities and responsibilities related to retiring capital equipment.

2.0 Definitions

2.1 ***Fixed Assets:*** The tangible assets that Vardnili HPP uses to conduct company business. Fixed assets include machinery, equipment, furniture and fixtures, etc. Fixed assets are recorded on the Balance Sheet in an asset account and are depreciated over the estimated useful life of the asset.

2.2 ***Estimated Useful Life:*** The period in which the asset is fully functional and is used to conduct company business (See Section 4.0 for estimated useful lives for each fixed asset type).

3.0 Responsibilities

3.1 It is the responsibility of the DEPARTMENT COORDINATOR to properly dispose of any capital equipment that is no longer being used to conduct company business (Please reference the Procedure Section of this document for capital equipment disposition instructions). When an asset's estimated useful life has ended, the asset can be dealt with in several different ways: the asset can be transferred to the Excess & Obsolete Department for salvage; the asset can be sold to an outside party or the asset can be discarded. The DEPARTMENT COORDINATOR is also responsible for completing an Vardnili HPP Fixed Asset Transfer/Retirement Form, obtaining proper authorization and forwarding the form to the deputy chief accountant.

3.2 The deputy chief accountant is responsible for ordering the fixed asset accountant to retire the asset from the Fixed Asset system and to properly record the retirement in the General Ledger.

4.0 Policy Statement

4.1 It is the policy of the Company to capitalize and depreciate any asset with a unit cost greater than **150 GEL or a useful life of greater than one year**. This practice is in accordance with Statutory accounting requirements in Georgia.

5.0 Procedures

5.1 Transfers to E&O:

a. If the asset is to be transferred to the Excess & Obsolete (E&O) Department, the Department Coordinator lets the E&O Department know the condition of the asset (good/poor/junk). The Department Coordinator completes the Fixed Asset Transfer/Retirement Form, obtains the signature of the Department Manager and attaches it to the equipment securely. If the net book value of the asset exceeds **5,000 GEL**, the CEO also approves the retirement.

b. The Department Coordinator contacts the Facilities Department to pick up the equipment. The Department Coordinator completes a "RAN Equipment Pick Up Form" which must be signed by Facilities as proof the equipment was indeed picked up. The E&O Manager inspects the equipment, signs the Retirement Form and forwards it to the deputy chief accountant.

c. The deputy chief accountant orders the fixed asset accountant to retire the asset from the Fixed Asset system. The net book value of the equipment is posted to the E&O Salvage account (090-4631).

d. The E&O Department then attempts to sell the asset. Any proceeds from a sale are coded to the E&O Salvage accounts (090-4631). Any deficiency/excess under/over book value upon sale is posted to the P&L Gain/Loss account.

5.3 Outside Sale of Asset:

a. If the asset is sold to an outside party, the Department Coordinator contacts the deputy chief accountant to obtain the Net Book Value of the asset. Once sold, the Department Coordinator attaches the check to the Fixed Asset Transfer/Retirement Form. The Department Manager must approve the Fixed Asset Transfer/Retirement Form. The form is then sent to the deputy chief accountant. If the asset's selling price is 5,000 GEL or more below the asset's Net Book Value, the CEO also must approve the asset's disposal. All asset sale proceeds are booked to the Gain/Loss account (000-9010).

b. The deputy chief accountant orders the fixed asset accountant to retire the asset from the Fixed Asset system. The net book value is automatically recorded as a debit to the Gain/Loss account on the General Ledger.

5.4 Permanent Disposal of Asset:

a. If the asset is permanently disposed of (other than by sale), the Department Coordinator completes a Fixed Asset Transfer/Retirement Form and obtains the Department Manager's signature on the form. If the Net Book Value of the asset exceeds 5,000 GEL, the CEO also approves of the disposal.

b. The deputy chief accountant orders the fixed asset accountant to retire the asset from the Fixed Asset system. The net book value automatically records as a debit to the Gain/Loss account on the General Ledger.

VARDNILI HPP
GENERAL LEDGER POLICIES

Number: 3.03

Effective Date:

Written By: Deloitte & Touche

Modified By:_ **CEO Approval:**

Date Modified:_ **Date:**

Title: Transfer of Company Owned Assets

1.0 Purpose and Scope

1.1 The purpose of this policy is to ensure that the appropriate paperwork is completed and forwarded to the deputy chief accountant when fixed assets are moved from one department to another department. The successful completion and routing of paperwork ensures that the appropriate department receives the fixed asset depreciation expense and that company owned assets are stated properly when the fixed assets are reported in accounting statements and tax reports.

2.0 Definitions

2.1 ***Fixed Assets***: The tangible assets that Vardnili HPP uses to conduct company business. Fixed assets include machinery, equipment, furniture and fixtures, etc. Fixed assets are recorded on the Balance Sheet in an asset account and are depreciated over the estimated useful life of the asset.

2.2 ***Estimated Useful Life***: The period in which the asset is full functional and is used to conduct company business (See Fixed Asset Capitalization for Internal Purchases Policy for the estimated useful life of each fixed asset type).

3.0 Responsibilities

3.1 It is the responsibility of the DEPARTMENT TRANSFERRING THE ASSET to complete a Fixed Asset Transfer Form, to acquire the appropriate authorizations on the Fixed Asset Transfer Form and to forward the approved form to the deputy chief accountant.

3.2 It is the responsibility of the deputy chief accountant to authorize the fixed asset accountant to account for the transfer of an asset in the fixed asset system and in the general ledger system.

4.0 Policy Statement

4.1 It is the policy of the Company that a completed and approved Fixed Asset Transfer Form accompanies equipment that is moved from one department to another department.

5.0 Procedures

5.1 The Originating Department obtains the equipment's Asset Number from the deputy chief accountant. The Originating Department is responsible for completing a Fixed Asset Transfer Form and for obtaining the necessary approvals on the form; both the sending and receiving department managers must authorize the asset transfer. Then, the Originating Department forwards the approved Fixed Asset Transfer Form to the deputy chief accountant.

5.2 The deputy chief accountant is responsible for authorizing the fixed asset accountant to transfer the asset to the appropriate department within the Fixed Asset System. The deputy chief accountant is also responsible for authorizing the fixed asset accountant to record all of the recipient department's future depreciation expenses on the general ledger.

Company Policies and Procedures

Financial Reporting – Chapter 4

VARDNILI HPP
FINANCIAL REPORTING POLICIES

Number: 4.01

Effective Date:

Written By: Deloitte&Touche

Modified By:_ **CEO Approval:**

Date Modified:_ **Date:**

Title: Month-End Accounting Close

1.0 Purpose and Scope

1.1 The purpose of this policy is to define the activities and responsibilities of the accounting function as related to the accounting month-end close.

1.2 This policy is effective for Vardnili HPP.

2.0 Definitions

2.1 ***Month-End Close:*** The process by which the Company closes each monthly accounting period.

2.2 ***Accounting Function:*** Chief accountant, deputy chief accountant, other accountants and other employees who have direct impact to the process of preparation of financial statements.

2.3 ***Operating Month:*** *Operating* month lasts from the first working day in a calendar month to the last working day in a calendar month. Saturday, Sunday and public holidays are not considered working days although the Company incurs certain expenses and earns income during those days.

3.0 Responsibilities

3.1 The Chief accountant is responsible for preparation of the final set of financial statements and the completeness of schedules and disclosures in the financial statements.

3.2 The deputy chief accountant is responsible for collecting all information necessary for closing the month from other accountants, preparing draft financial statements and submitting them to the Chief accountant for final review.

3.3 Other accountants are responsible for preparing information required by Chief accountant and deputy chief accountant and closing the account they are responsible for in time. Other accountants are responsible for accuracy and completeness of the closed account they are responsible for.

4.0 Policy Statement

4.1 It is the policy of the Company to close its accounting records and report its monthly financial results on a timely basis.

5.0 Procedures

5.1 5 working days before the end of the operating month Chief accountant distributes a check-list to all personnel within the Accounting function which indicates what action needs to be performed, who is responsible for performing the action, the deadline for the action to be finalized and the sign-off column where the preparer and the receiver date and sign when the action was finalized.

5.2 The accountant who is responsible for accounting for long term fixed assets carries out the following actions in relation to the closing of the account:

5.2.1 5 working days before the end of operating month the accountant makes sure he/she has received the checklist.

5.2.2 1 working day before the end of the operating month the accountant closes the accounts for fixed assets, accumulated depreciation, depreciation expense in cost of sales and administrative expenses and profit/loss on sale of fixed assets. The closing journal entries are shown at the end of this policy.

5.2.3 If an acquisition, sale or other disposal of fixed assets is anticipated during the last 1-3 days, those transactions should be included in the current month. If it is impossible to identify with certainty the actual day and amount of the transaction, Chief accountant should be notified and a decision to wait until the end of calendar month or to exclude the transaction should be made.

5.2.4 1 working day before the end of the operating month and after the closing of accounts as described in 5.2.2, the accountant prepares depreciation expense summary to the costing department. The accountant also prepares other information as required by the Chief accountant, such as, but not limited to, fixed asset movement table, the net book value of fixed assets pledged as collateral against loans, fixed assets which are not in use, fixed assets that are almost depreciated but still in use, etc.

5.2.5 As a final activity, the accountant should date and sign the checklist, deliver all the information to the deputy chief accountant who has to confirm the date and information he/she has received.

5.2.6 The accountant is responsible for investigating and correcting all reconciling items before submitting the final information to the deputy chief accountant. If necessary, the Chief accountant and deputy chief accountant should be consulted.

5.3 The accountant who is responsible for accounting for accounts receivable carries out the following actions in relation to the closing of the account:

5.3.1 5 working days before the end of operating month the accountant makes sure he/she has received the checklist.

5.3.2 1 working day after the operating month, the accountant collects data from the dispatcher regarding the customer and the amount of electricity (kWh) sold to that customer (including the last day of a calendar month) and processes the final invoices.

5.3.3 1 working day after the operating month, the accountant receives information on last cash receipts from the cash and bank accountant and posts appropriate reductions in the accounts receivable ledger.

5.3.4 1 working day after the operating month, the accountant updates the aging analysis of accounts receivable and submits that analysis to the deputy chief accountant. The deputy chief accountant has to quantify the final provision for doubtful receivables and submit the approved final figure to the accounts receivable accountant in 1 working day.

5.3.5 2 working days after the operating month the accountant should receive the final figure for provisions for doubtful receivables from the deputy chief accountant and make an appropriate journal entry. Journal entries relating to various levels of provisions are shown at the end of this policy.

5.3.6 1-2 working days after the end of operating month, the accountant prepares a summary of accounts receivable from Engouri Dam and Engouri HPP and submits the summary to the deputy chief accountant.

5.3.7 As a final activity, the accountant should date and sign the checklist, deliver all the information to the deputy chief accountant who has to confirm the date and information he/she has received.

5.3.8 The accountant is responsible for investigating and correcting all reconciling items before submitting the final information to the deputy chief accountant. If necessary, the Chief accountant and deputy chief accountant should be consulted.

5.4 The accountant who is responsible for accounting for accounts payable carries out the following actions in relation to the closing of the account:

5.4.1 5 working days before the end of operating month the accountant makes sure he/she has received the checklist.

5.4.2 5 working days after the operating month the accountant collects all invoices received up to that point and posts the necessary ones that relate to the operating month that has just ended.

5.4.3 5 working days after the operating month the accountant receives information from the payroll accountant regarding payroll and related tax expense and posts those items in the payables ledger and income statement.

5.4.4 5 working days after the operating month, the accountant collects information from the procurement department and identifies if there are any supplies in transit for which the title and risk may have transferred to the Company. If such items exist, a journal entry must be posted for the full amount. Journal entry is shown at the end of this policy.

5.4.5 5-6 working days after the operating month, the accountant updates a list of expenditure for which invoices are usually not received within 10-15 days after the operating month, estimates the amount of expenditure (if necessary, he/she contacts the deputy chief accountant and/or other personnel who can provide the required information) and delivers the summary to the deputy chief accountant for approval. The deputy chief accountant has to review the expenditure estimates and change or leave them, whichever is the most appropriate based on the best of his/her knowledge and submit tothe Chief accountant for approval. After the amounts are approved, the deputy chief accountant should deliver the summary to the accountant who then makes the necessary journal entries. The journal entries are shown at the end of this policy. The summary of expenditure for accruals should include all expenditure regardless whether an invoices is issued or not (interest expense, vacation accrual, taxes, etc.).

5.4.6 5-6 working days after the operating month, the accountant collects information from the cash and bank accountant on all payments processed in the operating month and posts the relating reductions in the payables ledger.

5.4.7 5-6 working days after the end of operating month, the accountant prepares a summary of accounts payable to Engouri Dam and Engouri HPP and submits the summary to the deputy chief accountant.

5.4.8 5-6 working days after the operating month the accountant obtains official foreign currency exchange rates applicable to the last calendar day of a month and recalculates the balance of liabilities denominated in foreign currencies. Any differences should be posted to the income statement. Journal entries are shown at the end of this policy.

5.4.9 As a final activity, the accountant should date and sign the checklist, deliver all the information to the deputy chief accountant who has to confirm the date and information he/she has received.

5.4.10 The accountant is responsible for explaining and correcting all reconciling items before submitting the final information to the deputy chief accountant. If necessary, the Chief accountant and deputy chief accountant should be consulted.

5.5 The deputy chief accountant carries out the following actions in relation to the closing of month:

5.5.1 The deputy chief accountant makes sure that all accountants received the checklist 5 working days before the end of operating month.

5.5.2 The deputy chief accountant investigates all the queries received from other accountants and makes a decision. The decision has to be coordinated with the Chief accountant and Chief accountant's approval is necessary for all decisions which require any sort of judgement or estimation to be made.

5.5.3 1 working day before the end of operating month the deputy chief accountant makes sure that he/she receives the closing journal entries from the accountant responsible for accounting for fixed assets. The journal entries have to be reviewed. If doubt to the amounts, correctness, classification, etc. rise, the deputy chief accountant has to obtain additional information from the accountant, the Chief accountant or the rest of the personnel. The deputy chief accountant has to date and sign the checklist provided by the accountant.

5.5.4 1 working day after the operating month the deputy chief accountant obtains an aging analysis from the accounts receivable accountant. The deputy chief accountant quantifies the final provision amount and obtains an approval from the Chief accountant. Then the summary is returned to the accounts receivable accountant. 2 working days after the operating month the deputy chief accountant receives the closing journal entries from the accounts receivable accountant. The journal entries have to be reviewed. If doubt to the amounts, correctness, classification, etc. rise, the deputy chief accountant has to obtain additional information from the accountant, the Chief accountant or the rest of the personnel. The deputy chief accountant has to date and sign the checklist provided by the accountant.

5.5.5 5-6 working days after the operating month the deputy chief accountant obtains a summary of expenditure estimates from the accounts payable accountant. The deputy chief accountant has to review the summary and modify it to the best of his/her knowledge. Then the summary has to be approved by the Chief accountant, after which the summary is returned to the accounts payable accountant. 6 working days after the operating month the deputy chief accountant receives the closing journal entries from the accounts payable accountant. The journal entries have to be reviewed. If doubt to the amounts, correctness, classification, etc. rise, the deputy chief accountant has to obtain additional information from the accountant, the Chief accountant or the rest of the personnel. The deputy chief accountant has to date and sign the checklist provided by the accountant.

5.5.6 7 working days after the operating month the deputy chief accountant makes sure that all checklists have been received and that all of them are signed-off. If any items are not received or signed-off, they have to be followed-up immediately and cleared within the same day.

5.5.7 7 working days after the operating month the deputy chief accountant performs the consolidation procedures (described as a separate policy).

5.5.8 7 working days after the operating month the deputy chief accountant prepares draft financial statements by putting together all journals (accounts receivable, accounts payable, sales, purchases, payroll, etc.) into a trial balance. The deputy chief accountant checks if the trial balance balances. In case it does not, the deputy chief accountant has to investigate and correct the reconciling items (if necessary the Chief accountant should be consulted).

5.5.9 After the trial balance is ready, the deputy chief accountant assembles and groups the trial balance accounts into draft financial statements. The deputy chief accountant also prepares all disclosures and notes to the financial statements.

5.5.10 8 working days after the operating month the deputy chief accountant delivers draft financial statements to the Chief accountant for review. The delivery pack should include draft financial statements, working papers, copies of closing journal entries, description of reconciling items etc.

5.6 The Chief accountant carries out the following actions in relation to the closing of month:

5.6.1 1 working day after the operating month the Chief accountant received a proposed level of provisions for accounts receivable from the deputy chief accountant. The Chief accountant has to conclude whether the provision is reasonable (if not, it has to be modified) and approve the final amount. The approved provision level is returned to the deputy chief accountant.

5.6.2 6 days after the operating month the Chief accountant receives a summary of estimated expenditure accruals. The Chief accountant has to make sure that all expenses and in full amounts have been included in the summary. The Chief accountant should follow the conservative principal when determining the amount of any accruals. The approved summary is returned to the deputy chief accountant.

5.6.3 8 working days after the operating month the Chief accountant receives a pack from the deputy chief accountant that has to include draft financial statements, working papers, copies of closing journal entries, description of reconciling items etc.

5.6.4 The Chief accountant has to review the working papers done by the deputy chief accountant when preparing the financial statements, draft financial statements, closing journal entries, reconciling items, consolidation adjustments etc. After the review the Chief accountant approves the financial statements. By approving the financial statements, the Chief accountant certifies that to the best of his/her knowledge all liabilities both actual and contingent have been accounted for, all assets are stated at lower of cost or net realizable value, all necessary disclosures have been made and that the financial statements are not materially misstated.

6.0 A sample form of the checklist

Task	Due date	Performed by	Date	Reviewed by	Date
Fixed assets					
The checklist received	5 days before month end				
All fixed asset acquisitions (including in transit) accounted for	1 day before month end				
All fixed assets disposals accounted for	1 day before month end				
The CA and DCA inquired about anticipated sales acquisitions of fixed assets	1 day before month end				
Depreciation charged	1 day before month end				
Depreciation expense summary submitted to the costing department	1 day before month end				
All reconciling items cleared	1 day before month end				
Closing entries submitted to the DCA	1 day before month end				
Accounts receivable					
The checklist received	5 days before month end				
Final invoices issued	1 day after month end				
Last cash receipts checked and posted	1 day after month end				
Aging analysis updated and submitted to the DCA	1 day after month end				
Approved provision obtained and posted	2 days after month end				
Accounts receivable from Engouri Dam and Engouri HPP summarized and submitted to the DCA	2 days after month end				
All reconciling items cleared	2 days after month end				
Closing entries submitted to the DCA	2 days after month end				
Accounts payable					
The checklist received	5 days before month end				
All invoices received were collected and the necessary ones were posted	5 days after month end				
Information from payroll and tax departments received and posted	5 days after month end				
Supplies in transit received and posted	5 days after month end				
Accrued expenditure list updated and submitted to the DCA	5 days after month end				

Approved accruals received and posted	6 days after month end				
Last cash payments posted	5 days after month end				
Ammounts in foreign currency translated and the difference posted	5 days after month end				
Accounts payable to Engouri Dam and Engouri HPP summarized and submitted to the DCA	5 days after month end				
All reconciling items cleared	6 days after month end				
Closing entries submitted to the DCA	6 days after month end				

Task	Due date	Performed by	Date	Reviewed by	Date
DCA					
The checklist distributed within the accounting function	5 days before month end				
The closing entries from fixed asset accountant received and checked	1 day before month end				
Aging analysis of accounts receivable received and checked	1 day after month end				
Approval of the aging analysis received and analysis passed to accounts receivable accountant	2 days after month end				
The closing entries from accounts receivable accountant received and checked	2 days after month end				
Summary of accruals received and checked	5 days after month end				
Approval of the summary received and the summary passed to accounts payable accountant	6 days after month end				
The closing entries from accounts payable accountant received and checked	6 days after month end				
All checklists received	7 days after month end				
Consolidation entries posted	7 days after month end				
Income statement closed	7 days after month end				
Draft financial statements prepared and submitted to the CA	8 days after month end				
CA					
Aging analysis of accounts receivable received and approved	2 days after month end				
Summary of accruals received and approved	6 days after month end				
The pack received and checked	8 days after month end				
Financial statements approved	9 days after month end				

Key: CA – Chief accountant, DCA – accountant.

7.0 Closing journal entries

7.1 The following entries should be made when performing actions in 5.2.2:

Description	Balance sheet		Income statement	
	Dr	Cr	Dr	Cr
Posting the final acquisitions of fixed assets	Fixed assets	Cash, accounts payable, share capital		
Charging depreciation		Accumulated depreciation	Cost of sales depreciation, administrative expenses depreciation	
Sale of a fixed asset (disposal)	Accounts receivable, cash	Fixed assets	Cost of the fixed asset	Revenue from the sale

7.2 The following entries should be made when performing actions in 5.3.5:

Description	Balance sheet		Income statement	
	Dr	Cr	Dr	Cr
Identifying a doubtful receivable	Doubtful receivables	Accounts receivable		
Posting an initial provision		Doubtful receivables	Provision for doubtful receivables	
Increasing the level of provisions		Doubtful receivables	Provision for doubtful receivables	
Reducing the level of provisions	Doubtful receivables			Provision for doubtful receivables

7.3 The following entries should be made when performing actions in 5.4.3, 5.4.4, 5.4.5 and 5.4.8:

Description	Balance sheet		Income statement	
	Dr	Cr	Dr	Cr
Posting payroll and tax expenses		Accounts payable	Cost of sales payroll expense, cost of sales tax expense, administrative expenses payroll, administrative expenses taxes	
Posting supplies in transit	Inventory in transit	Accounts payable		
Posting estimated accruals (initial)		Accrued expenditure	Interest expense, payroll expense	
Posting accruals in the next month (at first release previous period accruals)	Accrued expenditure (previous period)	Accrued expenditure (current period)	Interest expense (current period)	Interest expense (previous period)
Recalculation of payables in foreign currency (income)	Accounts payable			Forex income
Recalculation of payables in foreign currency (loss)		Accounts payable	Forex loss	

7.4 The following entries should be made when performing actions in 5.5.9:

Description	Balance sheet		Income statement	
	Dr	Cr	Dr	Cr
Closing the trial balance income statement accounts	Current period loss (if expenses are higher than revenue)	Current period profit (if revenue is higher than expenses)	All revenue and income accounts (all credits)	All expense accounts (all debits)

Company Policies and Procedures

Combinations - Chapter 5

VARDNILI HPP
FINANCIAL REPORTING POLICIES

Number: 5.01

Effective Date:

Written By: Deloitte & Touche

Modified By:_ **CEO:**

Date Modified:_ **Date:**

Title: Monthly Financial Statement Consolidation

1.0 Purpose and Scope

1.1 The purpose of this policy is to define the activities and responsibilities of the accounting function as related to the consolidation of monthly financial statements.

1.2 This policy is effective for Vardnili HPP.

2.0 Definitions

2.1 ***Related Companies***: Engouri HPP, Engouri Dam and Vardnili HPP owned by the government. The parent company is Engouri HPP. Engouri Dam and Vardnili are subsidiaries of Engouri HPP.

2.2 ***Consolidating Company***: Engouri HPP will be responsible for preparation of the consolidated financial statements for all the related companies.

2.3 ***Consolidation***: Process by which the financial results of related companies are consolidated and presented as a consolidated entity in accordance with Generally Accepted Accounting Principles (GAAP).

2.4 ***Elimination Entries***: Accounting entries made in the preparation of consolidated financial statements to eliminate the effect of activity between related companies (i.e., intercompany transactions) in order to accurately present financial results of the consolidated entity.

3.0 Responsibilities

3.1 The deputy chief accountant of each related company is responsible for preparation of transmission of financial statements, supporting detail schedules and additional data necessary to compute elimination entries on a monthly basis to the consolidating company. The detailed requirements and reporting deadlines are described below.

3.2 Chief accountants of each of the related companies are responsible for timely accurate exchange of information necessary to consolidate the financial statements. They are also responsible for prompt solving of any problems that may rise during the consolidation process.

4.0 Policy Statement

4.1 It is the policy to report financial results on a consolidated basis in compliance with Generally Accepted Accounting Principles (GAAP).

5.0 Procedures

5.1 7 working days after the end of a month a deputy chief accountant of each related company prepares the information required for consolidation (this information is described in 6.0). The deputy chief accountant has to send this information to the other two companies in order to agree it with the information deputy chief accountants in those companies have. If any differences are identified, they have to be cleared immediately. If necessary, chief accountants have to be consulted. After all the differences are cleared, the information has to be sent to the consolidating company.

5.2 9 working days after the end of a month, deputy chief accountants send the full set of approved financial statements to the consolidating company.

5.3 The deputy chief accountant of the consolidating company makes sure that information he/she received from the two companies is accurate and complete.

5.4 9 working days after the end of a month, the deputy chief accountant of the consolidating company adds the financial statements of the related companies into one set. After that the following eliminating/consolidating entries are made (all entries are shown at the end of this policy):

a. Intercompany Sales and Cost of Sales: All sales and related cost of sales between related companies are eliminated in the consolidated income statement.

b. Intercompany Royalties: All royalties recorded between related companies are eliminated in the consolidated income statement.

c. Intercompany Receivables and Payables: Intercompany receivable and payable balances between related companies are eliminated on the consolidated balance sheet.

d. Intercompany Profit Elimination: The difference between the value of intercompany inventory carried on each related company's books (generally recorded at transfer price) and the value of that inventory computed using the worldwide standard cost is eliminated from the consolidated inventory balance.

e. Intercompany Profit Elimination: The difference between the value of intercompany fixed assets carried on each related company's books (generally recorded at transfer price) and the value of that fixed asset computed using the worldwide standard cost is eliminated from the consolidated fixed assets balance. Depreciation charge of such fixed assets is adjusted accordingly to eliminate depreciation rate differences from the original amount.

f. Engouri HPP Investment in Subsidiaries: Engouri HPP investment in each subsidiary and the related capital account balances of the subsidiary are eliminated from the consolidated balance sheet.

5.5 Once the data received from the related companies and the eliminating/consolidating entries are made, the deputy chief accountant of the consolidating company prepares the consolidated financial statements and other supporting detail schedules.

5.6 10 working days after the end of a month the deputy chief accountant of the consolidating entity submits the consolidated financial statements to the Chief accountant of the consolidating company for approval. The Chief accountant of the consolidating company has to check the eliminating entries made and approve the consolidated financial statements.

5.7 11 working days after the end of a month the deputy chief accountant of the consolidating company delivers the approved consolidated financial statements to other related companies.

6.0 <u>Information for consolidation purposes</u>

6.1 The following information has to be sent by every related company to the rest two and agreed with the records in those two companies: sales and cost of sales from transactions among the related companies; intercompany receivables and payables; the amount and unit cost of inventory items held which were purchased from other related companies; the profit element for every type of inventory sold to another related company; the net book value of fixed assets acquired from another related company and depreciation charged for the period; the profit/loss element for each fixed asset sold to another related company; and any other royalties charged to other companies.

7.0 <u>Journal entries during the consolidation</u>

7.1 First of all the balance sheets and income statements should be added for all the related companies.

7.2 Then any unrealized profit element in inventory should be identified and eliminated together with intercompany sales and cost of sales. The entry is debit sales (total intercompany sales), credit cost of sales (total cost of intercompany sales), credit inventory (unrealized profit element from intercompany purchases). If all inventory which was acquired from another related company has been sold to a third party by the end of a month, then the debit of sales equals the credit of cost of sales.

7.3 Third, any unrealized gain/loss on sale of fixed assets should be identified and eliminated. The entry is a reverse entry of the sale transaction as if the fixed assets have never been sold. The profit element should be debited in the income statement and fixed assets should be credited. The loss element should be credited in the income statement and fixed assets should be debited. Depreciation expense for such assets has to be credited in the income statement and debited in the balance sheet. A new depreciation amount (based on the original value of the fixed asset) should be calculated and debited in the income statement and credited in the balance sheet.

7.4 Last, income from intercompany royalties should be debited in the income statement and royalties paid should be credited in the income statement.

7.5 Last, investment in subsidiaries in Engouri HPP balance sheet has to be credited and equity balances of subsidiaries have to be debited.

Verdnili HPP
The sales budget for the period from XXX to XXX

(kWh)

	Jan				Feb				March				Apr				May				June			
	Gross Input	Self Exemption	% of Losses	Net Input	Gross Input	Self Exemption	% of Losses	Net Input	Gross Input	Self Exemption	% of Losses	Net Input	Gross Input	Self Exemption	% of Losses	Net Input	Gross Input	Self Exemption	% of Losses	Net Input	Gross Input	Self Exemption	% of Losses	Net Input
				0				0				0				0				0				0
				0				0				0				0				0				0
				0				0				0				0				0				0
				0				0				0				0				0				0
				0				0				0				0				0				0
Total:	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0

Exhibit 2.
Verdnili HPP
The sales budget for the period from XXX to XXX

(GEL)	Tariffs	Kwh (Net Input)	GEL	Kwh (Net Input)	GEL	Kwh (Net Input)	GEL	Kwh (Net Input)	GEL	Kwh (Net Input)	GEL	Kwh (Net Input)	GEL	Kwh (Net Input)	GEL
Direct contracts:															
AES - Telasi			0		0		0		0		0		0	0	0
			0		0		0		0		0		0	0	0
			0		0		0		0		0		0	0	0
			0		0		0		0		0		0	0	0
			0		0		0		0		0		0	0	0
			0		0		0		0		0		0	0	0
Energy Market			0		0		0		0		0		0	0	0
Total domestic		0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total International		0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total:		0	0	0	0	0	0	0	0	0	0	0	0	0	0

Exhibit 3.
Verdnili HPP
Cash returns projection based on historical information

	% of returns	Cash returns	% of returns	Cash returns	% of returns	Cash returns	% of returns	Cash returns	% of returns	Cash returns	% of returns	Cash returns	% of returns	Cash returns
Direct contracts:														
AES - Telasi		0		0		0		0		0		0		0
		0		0		0		0		0		0		0
		0		0		0		0		0		0		0
		0		0		0		0		0		0		0
		0		0		0		0		0		0		0
		0		0		0		0		0		0		0
Energy Market		0		0		0		0		0		0		0
Total:		0		0		0		0		0		0		0
Allowance for the doubtful debts total:		0		0		0		0		0		0		0
including:														
Direct contracts		0		0		0		0		0		0		0
Energy Market		0		0		0		0		0		0		0

Vardnili HPP

Projected cash inflow from debtors for the period from XXX to XXX

	Jan-01	Feb-01	Mar-01	Apr-01	May-01	Jun-01	Total:
Sales Budget							
kWh:							
Direct contracts	0	0	0	0	0	0	**0**
Energy Market	0	0	0	0	0	0	**0**
Sales (VAT excl) GEL							
Direct contracts:							
Sales	0	0	0	0	0	0	**0**
Less: allowance	0	0	0	0	0	0	**0**
Net inflow:	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Energy Market							
Sales	0	0	0	0	0	0	**0**
Less: allowance	0	0	0	0	0	0	**0**
Net inflow:	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Net cash flow from Debtors	**0**	**0**	**0**	**0**	**0**	**0**	**0**

Vardnili HPP

Cost of Sales budget for the period from XXX to XXX

GEL:	**Jan-01**	**Feb-01**	**Mar-01**	**Apr-01**	**May-01**	**Jun-01**	**Total:**
Sales:							
Direct Contracts							**0**
Energy Market							**0**
Total:	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Depreciation							**0**
Repairing services							**0**
Wages & Salaries							**0**
Taxes on Salary							**0**
Taxes							**0**
Materials (oil) and spare parts							**0**
Dam Service	0	0	0	0	0	0	**0**
Total costs of sales	***0***	***0***	***0***	***0***	***0***	***0***	***0***
Gross margin:	***0***	***0***	***0***	***0***	***0***	***0***	***0***

Exhibit 6.
Vardnili HPP

Admin expenses budget for the period from XXX to XXX

GEL:	**1-Jan**	**1-Feb**	**1-Mar**	**1-Apr**	**1-May**	**1-Jun**	**Total:**
Sales:							
Direct Contracts							**0**
Energy Market							**0**
Total:	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Admin&General Expenses							
Administration Salary							**0**
Taxes on Salary							**0**
Inventory and spare parts							**0**
Communication							**0**
Depreciation (Building of the Head office)							**0**
Bisiness trips							**0**
Other Taxes							**0**
Other Admin&General Expenses							**0**
Total Admin & General Expenses	***0***	***0***	***0***	***0***	***0***	***0***	***0***

Vardnili HPP

The budget of Profit and Loss account

GEL:	**Jan-01**	**Feb-01**	**Mar-01**	**Apr-01**	**May-01**	**Jun-01**	**Total:**
Net sales	0	0	0	0	0	0	**0**
Cost of sales	0	0	0	0	0	0	**0**
GROSS PROFIT	***0***	***0***	***0***	***0***	***0***	***0***	***0***
Provision for Doubtful debts	**0**	**0**	**0**	**0**	**0**	**0**	**0**
General & Administrative expenses	0	0	0	0	0	0	**0**
NET OPERATING PROFIT/LOSS	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Interest expense (for Local Bank's Loans)							
Interest expense (for EBRD Loan)							
Commitment Fee expense							
NET PROFIT/LOSS BEFORE TAXATION	0	0	0	0	0	0	**0**
Income Tax	0	0	0	0	0	0	**0**
Deferred Tax							**0**
NET PROFIT/LOSS	0	0	0	0	0	0	**0**

Vardnili HPP

Cash Flow Budget

GEL:	Jan-01	Feb-01	Mar-01	Apr-01	May-01	Jun-01	Total:
Opening Cash Budget							
Cash received (from Debtors)	0	0	0	0	0	0	0
Short terms Loans							
TOTAL CASH AVAIALBLE	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Cost of Sales	0	0	0	0	0	0	0
Depreciation (-)	0	0	0	0	0	0	0
Admin and General Expenses	0	0	0	0	0	0	0
Depreciation (-)	0	0	0	0	0	0	0
Interest Expense	0	0	0	0	0	0	0
TOTAL OUTFLOW	**0**	**0**	**0**	**0**	**0**	**0**	0
CASH BALANCE	**0**	**0**	**0**	**0**	**0**	**0**	0

Vardnili HPP

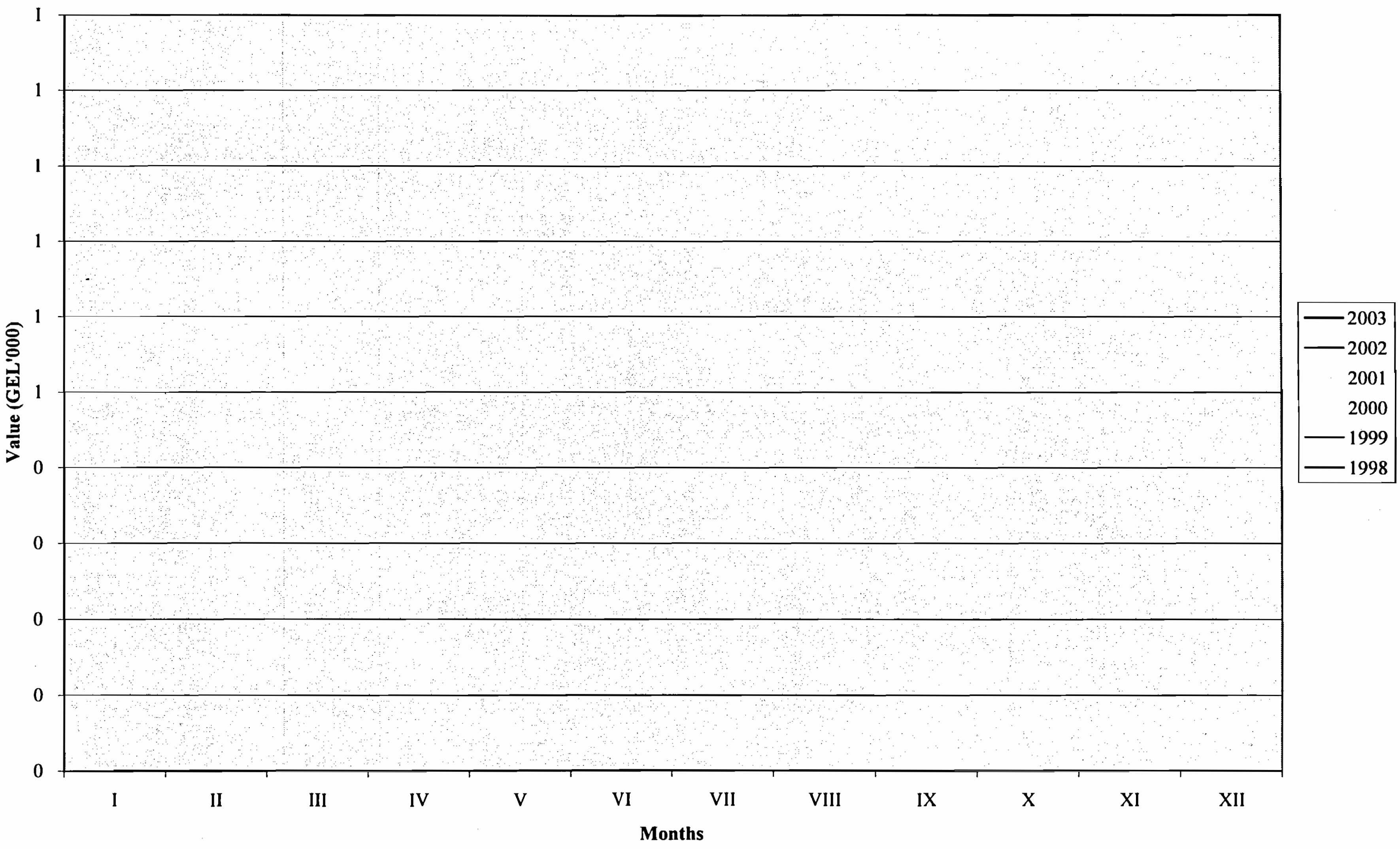
Sales

	I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII
1998												
1999												
2000												
2001												
2002												
2003												

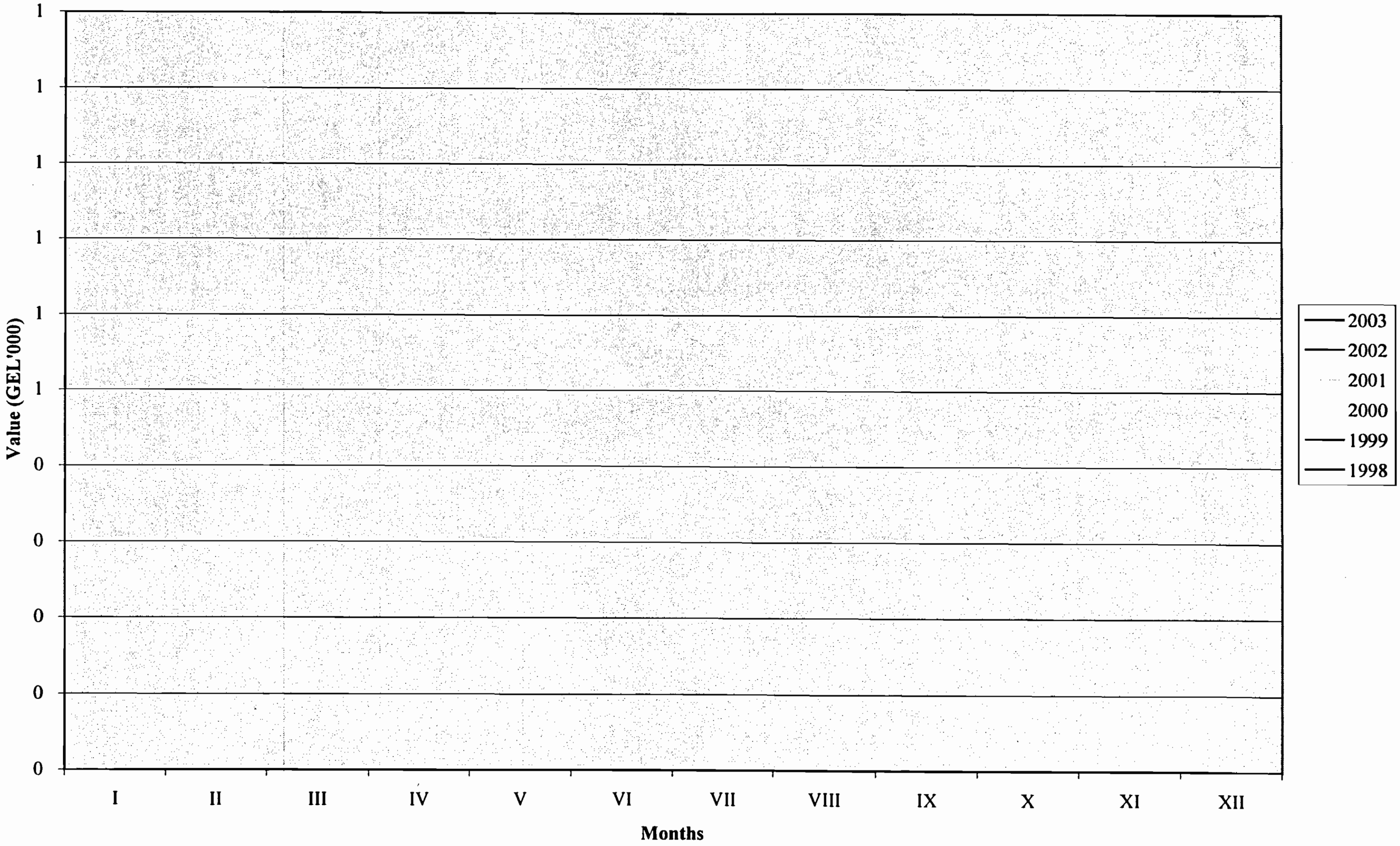
Expenses (cost of sales)

	I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII
1998												
1999												
2000												
2001												
2002												
2003												

Trend of Sales



Trend of Cost of sales



(Note: Enter the appropriate years on this sheet)

	January	February	March	April	May	June	July	August	September	October	November	December
Cash												
Accounts Receivable												
Inventory												
Other Current Assets												
Current Assets	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Fixed assets												
Long Term Investments												
Total Assets	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Current Liabilities												
Interest Bearing Debt												
Total current liabilities	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Retained earnings	0	0	0	0	0	0	0	0	0	0	0	0
Equity												
Total equity	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Total Liabilities	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Sales												
Operating Expenses												
Depreciation												
Interest												
Income Taxes												
Net Income	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Net Income+Interest	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Net Income+Interest+Taxes	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**

Vardnili HPP

Short-term solvency or Liquidity Ratios:

	January	February	March	April	May	June	July	August	September	October	November	December
Current Ratio	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Quick Ratio	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Cash Ratio	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!

Turnover Ratios:

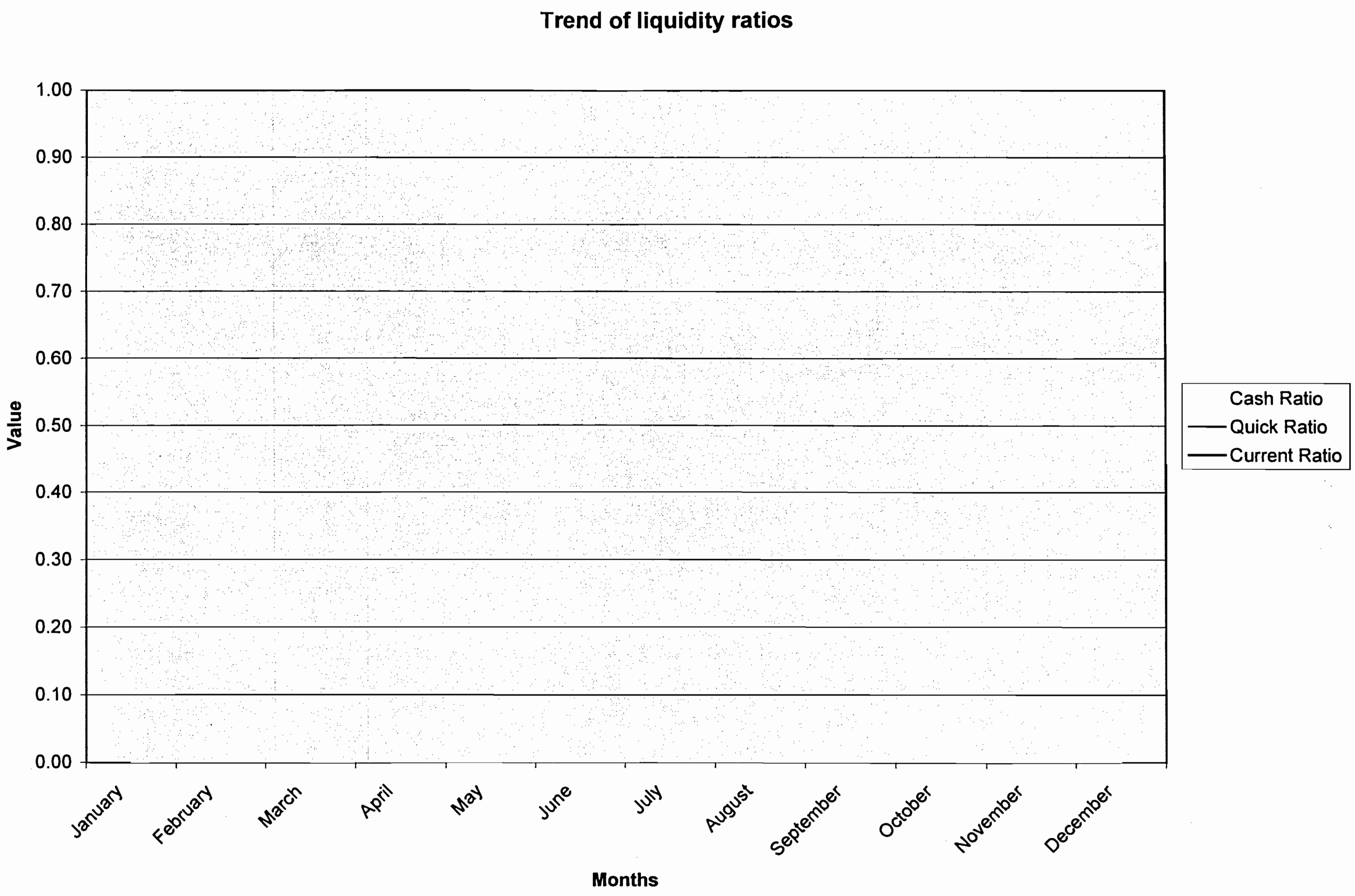
	January	February	March	April	May	June	July	August	September	October	November	December
Receivables Turnover	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Days' Sales in Receivables	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!

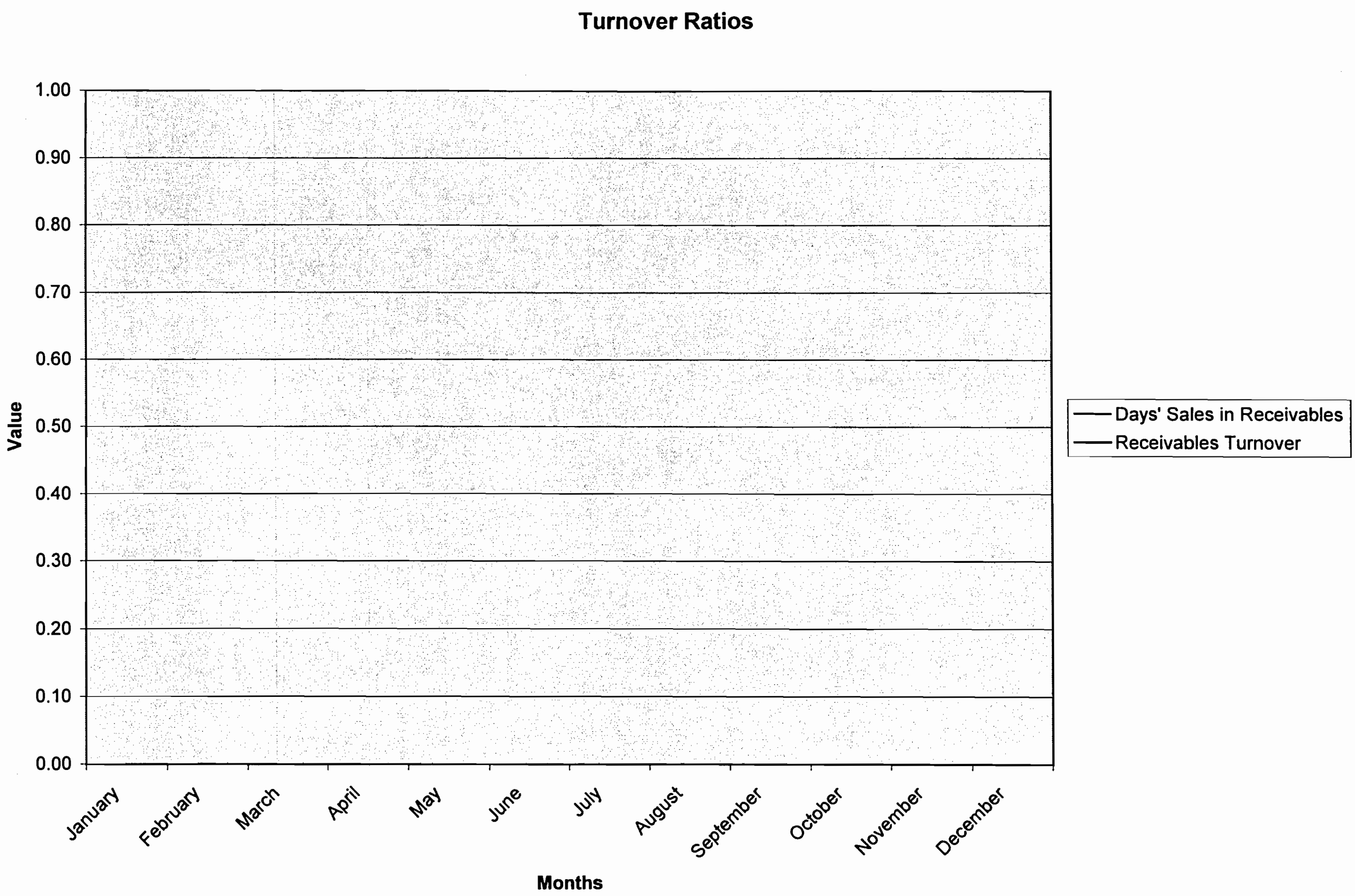
Financial Leverage Ratios

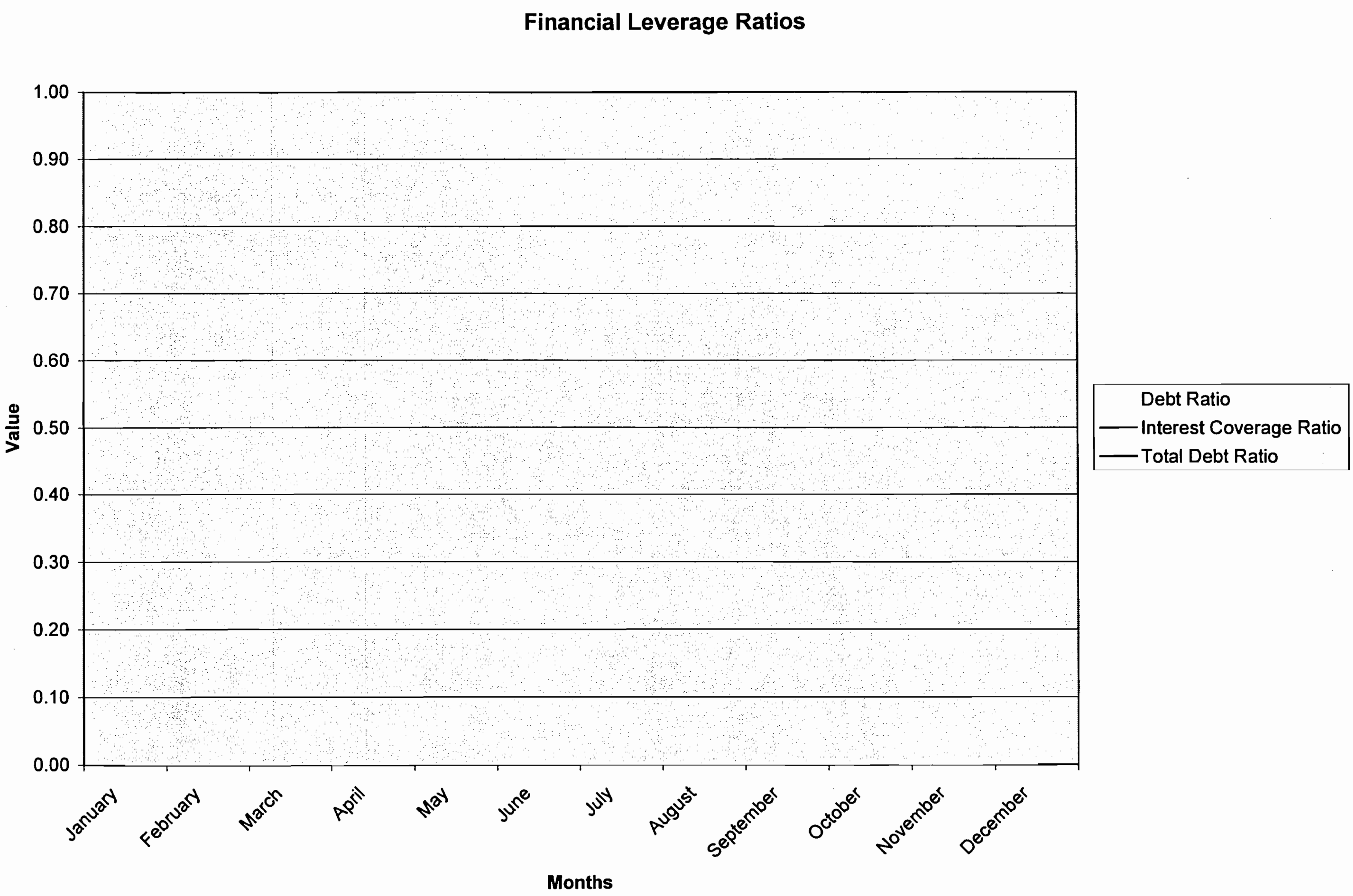
	January	February	March	April	May	June	July	August	September	October	November	December
Total Debt Ratio	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Interest Coverage Ratio	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Debt Ratio	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!

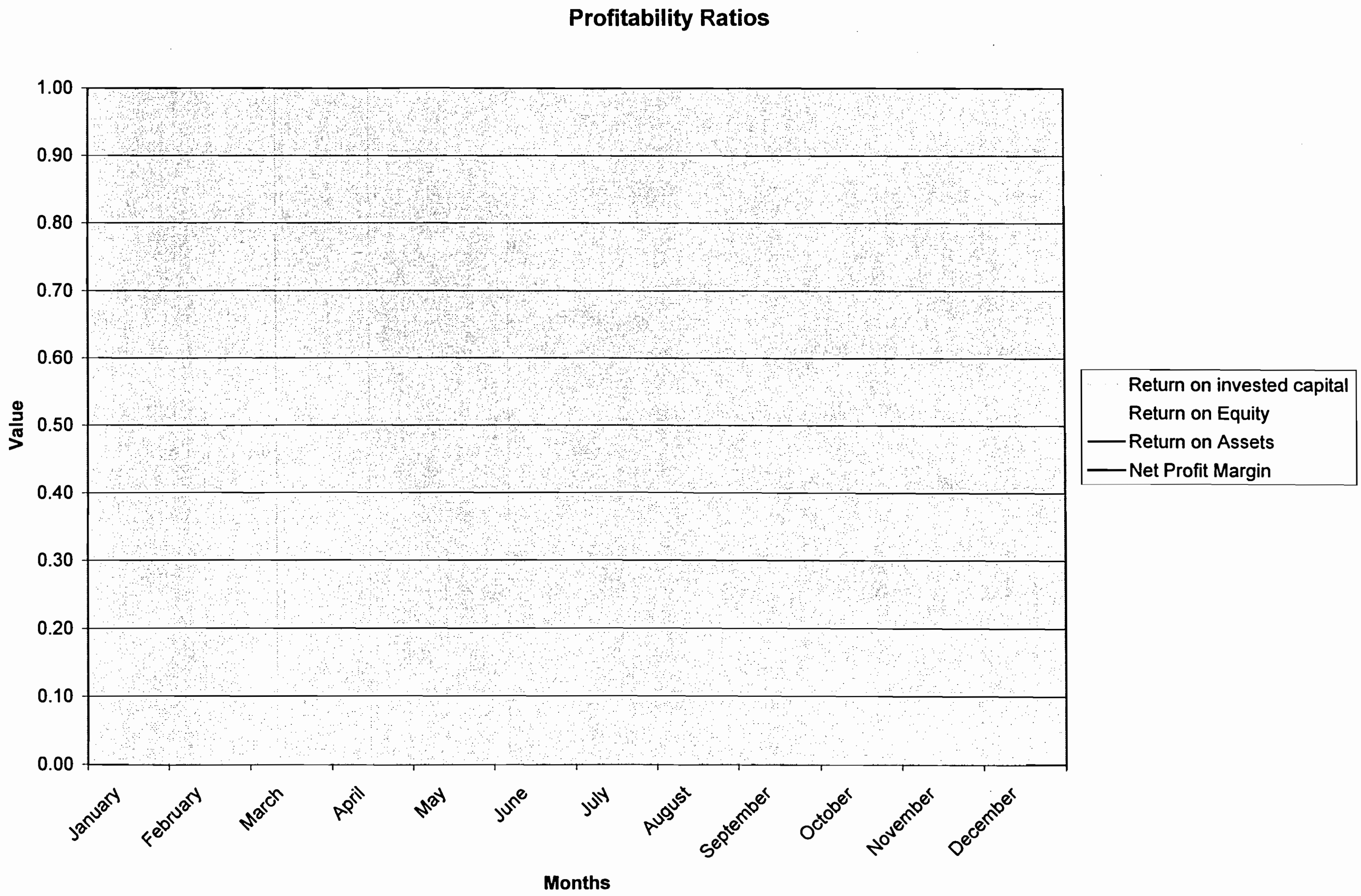
Profitability Ratios

	January	February	March	April	May	June	July	August	September	October	November	December
Net Profit Margin	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Return on Assets	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Return on Equity	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Return on invested capital	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!


Trend of liquidity ratios
1.00
0.90
0.80
0.70
0.60
0.50
0.40
0.30
0.20
0.10
0.00
Value
January
February
March
April
May
June
July
August
September
October
November
December
Months
Cash Ratio
Quick Ratio
Current Ratio


Turnover Ratios
Value
1.00
0.90
0.80
0.70
0.60
0.50
0.40
0.30
0.20
0.10
0.00
January
February
March
April
May
June
July
August
September
October
November
December
Months
Days' Sales in Receivables
Receivables Turnover


Financial Leverage Ratios
1.00
0.90
0.80
0.70
0.60
0.50
0.40
0.30
0.20
0.10
0.00
Value
January
February
March
April
May
June
July
August
September
October
November
December
Months
Debt Ratio
Interest Coverage Ratio
Total Debt Ratio



Profitability Ratios
Value
1.00
0.90
0.80
0.70
0.60
0.50
0.40
0.30
0.20
0.10
0.00
January
February
March
April
May
June
July
August
September
October
November
December
Months
Return on invested capital
Return on Equity
Return on Assets
Net Profit Margin

Fixed Asstes Purchase Requisition

Date: Supplier:

Agreement No: Date of Agreement:

#	Description	Quantity	Group	Dep. %	Unit price	Purchase Order (Invoice)			Balance amount	Date of expluatation
						No	Date	Note		

Expenses	Amount	Acc. #
Transportation		
Customs fee		
Installation		
Other expenses		
Total expenses		

Approved by: (Authorisation)

Name ……………………………………………. Signature ………………………………………

Possition ……………………………………… Date ………………………………………………..

Transaction

1 Dr …………………………. 2 Dr …………………………. 3 Dr ………………………….

Cr…………………………. Cr…………………………. Cr………………………….

Fiscal year of planned acquisition: ____________ **Capital Expenditure Authorization #** ________

REQUESTOR ____________________

Total Amt. of Project (GEL): ____________________

Recommended Vendors & Competitive Bid Information:
(Please shoe recommended Vendor & Bid with "X")

	Vendor	Bid
1		
2		
3		
4		

Justification *(Explain benefit of purchasing against impact of not purchasing. If recommended vendor above is not the least*

Tecnikal Director	General Director	(If > 100 thousand GEL) Chairman of Board of Directors

Fixed Assets Disposal Order

Date: No:

Date and No of Agreement: Date and No of Act:

#	Description	Quantity	Price	Date of purchase	Value				Note
					Historical Cost	Accum. Depr.	Depr. from beginning the year	Net Value	

Gain or losses		Acc. #

Approved by: (Authorisation)

Name .... Signature ....

Position .... Date ....

Transaction

1 Dr .... 2 Dr .... 3 Dr ....

Cr............................. Cr............................. Cr.............................

A/R Ageing Example

Accounts Receivable Detail
debitoruli davalianeba

Period Ending Date
_10/31/00_

Invoice # a/f #	Company Name dasaxeleba	Date of Sale miwodebis TariRi	Payment Terms gadaxdis pirobebi	Amount Tanxa	Payment Date gadaxdis TariRi	Paid Amount gadaxdili Tanxa	Discounts Granted gacemuli fasdakleba	Returns saqonlis dabruneba	Net A/R davali-aneba	Days Overdue vadagada-cileba	Remarks SeniSvna
'0013	ss marsi	10/8/2000		3,000					3,000	23	
'0021	Sps "dedamiwa"	12/15/1999	10	100,000	12/17/1999	8,000			92,000	331	
'0020	Sps "merkuri"	12/14/1999	10	16,000	12/16/1999	16,000		1,000	-	332	
'0019	ss "marsi"	12/3/1999		3,600	12/15/1999				3,600	333	Camoiwera
'0017	Sps mze	11/15/1999	10	3,000	12/3/1999	3,000			-	361	
'0016	Sps "dedamiwa"	11/3/1999		8,000	11/18/1999	8,000			-	363	
'0015	Sps "merkuri"	10/20/1999		3,600	11/15/1999	3,600			-	377	
'0018	ss marsi	11/18/1999	30	6,200	12/14/1999	6,200			-	378	
'0014	ss "marsi"	10/15/1999		6,200	11/3/1999	6,000			200	382	Camoiwera
'0012	Sps mze	9/20/1999	30	8,000	10/15/1999	8,000	1,000		-	437	
'0011	Sps "dedamiwa"	9/16/1999	30	14,000	10/8/1999	14,000		3,000	-	441	
'0010	Sps "merkuri"	9/15/1999	30	5,000	9/20/1999	5,000			-	442	
'0009	ss "marsi"	8/23/1999	30	23,000	9/16/1999	18,000			5,000	465	Camoiwera
'0008	ss marsi	8/18/1999	30	16,000	9/15/1999				16,000	470	
'0007	Sps mze	7/23/1999	10	5,000	8/23/1999	5,000		1,000	-	476	
'0005	Sps "merkuri"	7/22/1999	10	6,000	1/15/2000	6,000	600		-	477	
'0006	Sps "dedamiwa"	7/22/1999	10	1,000	1/15/2000	1,000			-	477	
'0004	ss "marsi"	7/21/1999	30	10,000					10,000	498	Camoiwera
'0003	Sps "dedamiwa"	6/2/1999	10	2,600	7/22/1999	2,600			-	527	
'0002	ss "mTvare"	6/1/1999	10	3,000	8/18/2000	3,000			-	528	
'0001	Sps mze	6/1/1999	30	5,000	7/1/1999	4,000			1,000	548	
									-	-	
									-	-	
									-	-	
									-	-	
				248,200		***117,400***	***1,600***	***5,000***	***130,800***		

Total by Client

Sum of davali-aneba	
dasaxeleba	Total
Sps "dedamiwa"	92,000
Sps "merkuri"	-
Sps mze	1,000
ss "marsi"	18,800
ss "mTvare"	-
ss marsi	19,000
Grand Total	130,800

A/R Ageing Example

Ageing by Days Outstanding			
Greater Than	Less Than	Total	% of Total
	30	3,000	2%
29	59	-	0%
59	90	-	0%
89		127,800	98%

Total	130,800

A/R Analysis for Calculation of General & Specific Allowance

Specific Allowance

See 2.05 in Policies & Procedures Manual

Note or payment Plan	25%
Attorney or Collection Account	50%
Attorney with less chance of recovery	75%
Bankrupt	100%

Inv. #	Amount	Specific Reserve
'0021	92,000	23,000

General Reserve

See 2.05 in Policies & Procedures Manual

2%	Current
5%	1-30 Days Past Due
25%	Over 31 Days Past Due

		Less Specific	Total	General Reserve
Current	-		-	-
1 to 30	3,000		3,000	150
> 31	127,800	(92,000)	35,800	8,950
Total	130,800	(92,000)	38,800	9,100

Address		**Invoice Number**	1290
Tel/Fax		Contract/Confirm. #	
e-mail			
ntification Code		**G/I Transaction #**	

Customer

Customer Nam	**saaqcio sazogadoeba "merkuri"**				
Address	**gamsaxurdias gamz. 65**				
City	**Tbilisi**	Region	4	Code	21
Telephone	11-11-11	Fax			

Date	20/01/2000
Order #	12-23/10
Date of Receipt	
of Invoice	03/02/2000

Quantity	Item	Unit Price	Total
300	nedli navTobi # 234	$120.00	36,000.00
120	nedli navTobi # 177	$100.00	12,000.00
		Gross	48,000.00
		20%	9,600.00
		20%	9,600.00
		3%	1,440.00
		Grand Total	65,760.00

Payment Conditions

- [x] Cash
- [ ] Credit
- [ ] Bank Transfer

Acct. # 954332

Bank

Bank Code

Signature

Director

Chief Accountant

Additional Terms

Conditions of Discount: Payment should be made within 30 days; if payment is made within 10 days a 3% discount is granted.

Payment

Payment	Amount	Description
20/01/2000	25,000.00	
31/01/2000	39,000.00	Bank Transfer
Balance	1,760.00	

Company Policies and Procedures

Electrogadatsema

Company Policies and Procedures

Financial Planning and Analysis - Chapter 1

ELECTROGADATSEMA COMPANY
FINANCIAL PLANNING & ANALYSIS POLICIES

Number: 1.01

Effective Date:

Written By: Deloitte&Touche

Modified By: **Chief Executive Officer Approval:**

Date Modified: **Date:**

Title: Annual Financial Plans/Operating Expense Budgets

1.0 Purpose and Scope

1.1 The purpose of this policy is to define annual financial planning activities and responsibilities.

1.2 This policy is effective for Electrogadatsema Company operations.

2.0 Definitions

2.1 ***Annual Financial Plan:*** Planned profitability by month, by branch in detail (i.e. Sales through Net Income in Income Statement format), supported by detail of operating expenses by account, function and by branches; detailed capital expenditure plans and detailed headcount assumptions by function, department and branch.

3.0 Responsibilities

3.1 The Chief Financial Officer (CFO) is responsible for coordinating the entire process of preparing and implementing the annual financial plans.

3.2 The chief accountant of each branch is responsible for preparing each annual branch's financial plans based on established company objectives and branch needs.

3.3 The Planning Department of the Head Office (Planning Department) of the company is responsible for reviewing and collecting financial plans from each branch and preparing a detailed company annual financial plan for approval by the Board of Directors.

4.0 Policy Statement

4.1 It is the policy of the Company to prepare detailed annual financial plans for each subsidiary and for the consolidated Company to facilitate achievement of overall corporate goals.

5.0 Procedures

5.1 The CFO assists the Board of Directors in identifying the strategic objectives for the Company that will form the basis for each annual financial plan.

5.2 The CFO establishes the framework for preparing the plan (i.e. timing, structure and format).

5.3 The Planning Department establishes detailed operating objectives for each individual operation.

5.4 The chief accountant of each branch of the company prepares his/her own annual plan and the Planning Department collects, collates and reviews the completed plans and ensures that the plans are consistent with corporate objectives as established.

5.5 The CFO compiles the consolidated plan for approval by the Board of Directors.

5.6 Planning Department compares and analyses the actual and planned results. All variances above the set level should be investigated and corrective action should be suggested. The investigation together with suggested actions should be approved by the CFO.

6.0 Exhibits

6.1 Planning Timeline (example for planning for the year 2001)

Date	Responsible person	Activity
June 2000	CFO and Board of Directors	Review the strategic objectives for the company (to identify if there should be any changes made or not)
June 2000	CFO and Planning Department	Establish the framework for preparing the plan and prepare appropriate forms (if this is the second year, reviews for any changes since last year)
June 2000	Chief accountants of each branch	Fill the forms (prepared by Planning department and approved by CFO and Board of Directors) of planning
June 2000	Planning Department	Collects, collates and reviews the completed plans and ensures that the plans are consistent with corporate objectives as established
June 2000	CFO	Compiles the consolidated plan for approval by the Board of Directors
June 2000	Board of Directors	Approves the plan
December 2000	Planning Department	Analyses the prior year results (according to actual results) and suggest corrections for already created plan for the next year
December 2000	CFO	Approves changes and give to Board of Directors for approval
March 2001	CFO, Planning department	Analyses and make final corrections to the financial plan for the year 2001.
March 2001	Board of Directors	Approves the final version of the financial plan.
June 2001	CFO and Board of Directors	Review the strategic objectives for the company (to identify if there should be any changes made or not)

6.2 Annual financial plan.

ELECTROGADATSEMA COMPANY
FINANCIAL PLANNING & ANALYSIS POLICIES

Number: 1.02

Effective Date:

Written By: Deloitte&Touche

Modified By: **Chief Executive Officer Approval:**

Date Modified: **Date:**

Title: Revenue Forecast for Material Requirements Planning

1.0 Purpose and Scope

1.1 The purpose of this policy is to define and document the activities and responsibilities related to the Revenue Forecast for Material Requirements Planning.

1.2 This policy is effective for Electrogadatsema Company operations.

2.0 Definitions

2.1 ***Material Requirements Planning (MRP):*** The process of determining type, quantity and timing of materials to be purchased and used for repairing and maintanance of fixed assets. The result is demand created for each component by applying the forecasted sales to the bills of materials.

2.2 ***Domestic Revenue Forecast:*** The monthly summary of projected trade sales of electricity by domestic regions.

2.3 ***International Revenue Forecast:*** The monthly summary of projected trade sales of electicity by international regions.

3.0 Responsibilities

3.1 The CFO is responsible for coordinating the domestic and international detail forecasts.

3.2 The Planning Department is responsible for preparing financial plans.

4.0 Policy Statement

4.1 It is the policy of the Company to create a revenue forecast monthly for use in the Material Requirements Planning process.

5.0 Procedures

5.1 Planning department reviews the initial input to the Domestic Revenue Forecast and makes adjustments as needed for product availability and current booking rates.

5.2 Planning department reviews the initial input to the International Revenue Forecast and makes adjustments as needed for product availability and current booking rates.

5.3 The Domestic Revenue Forecast is consolidated with the International Revenue Forecast, summarized and presented to the Board of Directors for approval.

ELECTROGADATSEMA COMPANY
FINANCIAL PLANNING & ANALYSIS POLICIES

Number: 1.03

Effective Date:

Written By: Deloitte&Touche

Modified By: **Chief Executive Officer Approval:**

Date Modified: **Date:**

Title: Key Indicator Monitoring System

1.0 Purpose and Scope

1.1 The purpose of this policy is to define activities and responsibilities related to the Key Indicators Monitoring System (KIMS).

1.2 This policy is effective for Electrogadatsema Company operations.

2.0 Definitions

2.1 ***Key Indicators Monitoring System (KIMS):*** The monthly package used to report key business indicators to executive management.

2.2 ***Key Business Indicators:*** The ratios and relationships noted in the Key Indicators Monitoring System table of contents.

3.0 Responsibilities

3.1 CFO is responsible for compiling and maintaining the monthly financial statement package used in the KIMS reporting.

3.2 Planning Department is responsible for the collection of data from various sources and the compilation of the KIMS package.

4.0 Policy Statement

4.1 It is the policy of the Company to monitor business performance to identify areas of risk in a timely manner allowing management to take appropriate action to maintain the growth and profitability of the Company.

5.0 Procedures

5.1 Planning Department personnel gather data from the Financial Reporting Department, Human Resources Department and sales history maintained by Electrogadatsema Company.

5.2 Planning Department reviews the information for accuracy and completeness then inputs it to the KIMS spreadsheets and generates the KIMS graphs, reports and documents.

5.4 The KIMS is reviewed by Planning Department and CFO and then distributed to executive management.

6.0 Exhibits

6.1 KIMS Table of Contents:

1. Short-Term solvency or Liquidity Ratios:

Current ratios = Current Assets/Current Liabilities

Quick ratio = (Current Assets-Inventory)/Current Liabilities

Cash ratio = Cash/ Current Liabilities

2. Turnover ratios:

Receivables turnover = Sales/Accounts Receivables

Days' sales in Receivables = 365/Receivables turnover

3. Financial Leverage Ratios

Total debt ratio = (Total assets – Total Equity)/Total Equity

Interest coverage ratio = (EBIT + Depreciation)/Interest

Debt ratio = Interest Bearing Debt/Equity

4. Profitability Ratios

Net Profit margin = Net Income/Sales

Return on Assets = Net Income/Total assets

Return on Equity (ROE)= Net Income/Total Equty

Return on Invested Capital = Earnings after tax but before interest and dividends/ (Equity + Interest Bearing Liabilities)

ELECTROGADATSEMA COMPANY
FINANCIAL PLANNING & ANALYSIS POLICIES

Number: 1.04

Effective Date:

Written By: Deloitte&Touche

Modified By: **Chief Executive Officer Approval:**

Date Modified: **Date:**

Title: Income Statement and Balance Sheet Forecasting

1.0 Purpose and Scope

1.1 The purpose of this policy is to define the activities and responsibilities related to the monthly forecast of Company financial statements.

1.2 This policy is effective for Electrogadatsema Company.

2.0 Definitions

2.1 **Income statement *Forecast*:** A projection of future operating results based on available evidence and assumptions related to order and shipment history, gross margin analysis, spending plans, debt and tax structure, etc.

2.2 ***Sales/Revenue Forecasts*:** The statistical sales forecast prepared for domestic operations using contract data with direct customers and shipment histories prepared each month to support the product planning process.

3.0 Responsibilities

3.1 Financial department is responsible for preparing detailed structure of operating expenses, including the direct labor, inventory (mostly oil for transformers), and overhead projectors and forwarding the information to Planning Department for review and inclusion in the forecast.

3.2 Planning Department is responsible for the revenue and margin forecasts used to support the income statement and preparation of the monthly income statement and balance sheet forecasts.

3.3 Planning Department is responsible for reviewing the forecast with the CFO.

4.0 Policy Statement

4.1 It is the policy of the Company to forecast profitability and financial position to identify areas of risk in a timely manner allowing management the opportunity to take appropriate action to maintain the growth and profitability of the Company.

5.0 Procedures

5.1 The Planning Department estimates trade sales for each month within the forecast horizon using the various revenue forecasts and other available evidence.

5.2 The Planning Department prepares the income statement and balance sheet forecast using this and other available data including historical financial statements and evidence regarding anticipated changes in the assets, debt or capital structure of the company.

6.0 Exhibits

a. Income Statement Forecast
b. Sales/Revenue Forecast

ELECTROGADATSEMA COMPANY
FINANCIAL PLANNING & ANALYSIS POLICIES

Number: 1.05

Effective Date:

Written By: Deloitte&Touche

Modified By: **Chief Executive Officer Approval:**

Date Modified: **Date:**

Title: Capital Expenditure Authorization

1.0 Purpose and Scope

1.1 The purpose of this policy is to define the activities and responsibilities related to capital expenditure review and approval necessary for Electrogadatsema Company to plan for capital resources and to ensure expenditures are consistent with the Company's business objectives.

1.2 This policy is effective for Electrogadatsema Company operations.

2.0 Definitions

2.1 ***Capital Expenditure:*** Any asset of value greater than GEL 150 with a useful life of more than one year. The capitalized amount includes the purchase cost plus any freight, installation and/or construction costs, etc.

2.2 ***Capital Expenditures Budget:*** All planned or expected capital expenditures, regardless of amount, should be included in the annual budget and approved by the Financial Chief Officer and Board of Directors'.

2.3 ***Capital Expenditure Authorization (CEA):*** The form which describes and justifies the proposed asset purchase. It is prepared for all capital expenditures in excess of GEL 10,000. However, if a project has been included in the annual budget and does not exceed GEL 50,000, the cost/benefit section of the CEA need not be completed. The amount requiring approval via the CEA is the total cost of all assets in a given project.

This is in addition to the normal Purchase Requisition procedures to be followed for all purchases.

2.4 ***Purchase Requisition:*** The form which is prepared for all purchases. **It is not a substitute for the CEA.** For capital expenditures requiring approval, the approved CEA must be attached to the Purchase Requisition and forwarded to the Procurement Department by the Financial Department.

3.0 Responsibilities

3.1 The Requestor proposes capital expenditures in the annual budget, prepares the CEA and obtains appropriate approvals.

3.2 The Director of Procurement Department is responsible for initial approval of the annual capital expenditures budget and the CEA.

3.3 Planning Department analyzes the cost/benefit justification on the CEA and makes its recommendation to the CFO.

3.4 The CFO and the Board of Directors approves or disapproves capital expenditures in accordance with the Signature Authorization List and the annual budget.

3.5 The Procurement Department ensures an approved CEA and Purchase Requisition has been submitted, selects or approves vendor choices and issues a Purchase Order.

4.0 Policy Statement

4.1 It is the policy of the Company to prepare expenditure requests for capital items (which includes land, buildings and improvements, furniture and fixtures, machinery and equipment, software and vehicles) in excess of GEL 10,000 to be authorized in advance by an approved Capital Expenditure Authorization (CEA).

4.2 This policy is applicable to all capital additions regardless of financing alternatives. For example, consideration of lease financing does not preclude the need for a CEA.

It is also the policy of the Company to capitalize and depreciate these expenditures in accordance with International Accounting Standards (IAS).

5.0 Procedures

5.1 Generally, for resource planning purposes, all proposed capital expenditures are included in the annual Capital Expenditures budget.

5.2 A CEA is completed for all capital expenditures in excess of GEL 10,000. The CEA need not be prepared during the budgeting process if the assets will not be purchased immediately. All sections except the CEA# must be filled out by the Requestor. The justification explains the benefits of purchasing the item contrasted against the impact of not purchasing it. Information on recommended vendors and competitive bids or alternative sources must be provided with the CEA. If the recommended vendor's cost is higher than other sources, support for use of this vendor must be included with the CEA.

5.3 The completed CEA is submitted to the Planning Department, which reviews the cost/benefit analysis provided and numbers the form sequentially. If clarification is needed, the Planning Department contacts the Requestor.

5.4 The Financial Department reviews the CEA for vendor-supplied financing quotes and evaluates financing alternatives and capital requirements. Decisions related to financing are made by the Financial Department after consulting with the Requestor and Procurement Department regarding the circumstances of the purchase. The

Financial Department, if necessary, provides Purchasing with instructions regarding third party leasing companies, etc.

5.5 With its recommendation, the Planning Department forwards the CEA to the CFO and Deputy General Director for approval.

5.6 Capital Expenditures in excess of GEL 50,000 are submitted to the General Director for approval. In addition, capital expenditures in excess of GEL 1 million require approval by the Board of Directors. The approved CEA is returned to the Planning Department to be distributed.

5.7 Once final approvals are obtained, the Planning Department sends a copy of the CEA to the Procurement Department with the completed Purchase Requisition. **The CEA does not replace the Purchase Requisition.**

5.8 After verifying that appropriate approvals have been obtained, the Procurement Department issues a Purchase Order.

5.9 The Planning Department provides a copy of the approved CEA to the Financial Department, which ensures that capital project costs for all approved CEA's are accumulated and accounted for properly.

5.10 If it becomes evident that the cost of a project will exceed the original estimate by 10% or more, the Requestor must prepare a supplemental CEA and circulate it with the original CEA for approval.

6.0 Exhibits/References

6.1 Exhibits

a. Capital Expenditure Authorization (CEA) Form
b. Purchase Requisition

6.2 References

a. Fixed Asset Capitalization Policies

Company Policies and Procedures

Accounts Receivable - Chapter 2

ELECTROGADATSEMA COMPANY
ACCOUNTS RECEIVABLE POLICIES

Number: 2.01

Effective Date:

Written By: Deloitte & Touche

Modified By: **Chief Executive Officer Approval:**

Date Modified: **Date:**

Title: Aged Accounts Receivable Report and Uses Thereof

1.0 Purpose and Scope

1.1 The purpose of this policy is to assign responsibility for the maintenance of the allowance for uncollectible accounts and to ensure that the responsible party maintains an adequate account balance in the allowance for uncollectible accounts. The purpose of this policy is also to establish procedures, which define processes, related to the allowance for uncollectible accounts such as a provisions process and a write-off process.

2.0 Definitions

2.1 ***Allowance for Uncollectible Accounts ("Allowance Account")*:** The contra-account to Trade Accounts Receivable that is used to provide for potentially uncollectible accounts (General Ledger Account 1410).

2.2 ***Aged Accounts Receivable Report:*** The detailed report of open accounts receivable which lists the balances of all open invoices, credit memos and unapplied payments. Totals are aged in the following categories: current; 1-30 days past due; 31-60 days past due; 61-90 days past due; 91+ days past due. The Chief accountant uses the Aged Accounts Receivable Report to prepare his own analysis.

3.0 Responsibilities

3.1 The Chief Accountant is responsible for monitoring the allowance account's balance and for processing write-offs against the allowance when the CFO requests the processing of the write-offs. Using the CFO or his/her staff analysis as a reference, the Chief Accountant makes allowance account adjustment recommendations to the accountant.

3.2 The CFO is responsible for preparing the detailed analysis of open Accounts Receivable. The analysis calculates anticipated uncollectible account amounts. The CFO is also responsible for initiating the write-off of uncollectible customer accounts against the allowance account.

3.3 The Chief Accountant reviews and approves adjustments to the allowance account. The Chief Accountant is responsible for ensuring that the balance of the allowance account is adequate.

4.0 Policy Statement

4.1 It is the policy of the Company to maintain an adequate and appropriate allowance for uncollectible accounts. An adequate allowance ensures that the company's receivables are valued in accordance with International Accounting Standards (IAS). As such, this process shall be conducted quarterly to ensure adequacy of the reserve.

5.0 Procedures

5.1 At the end of each quarter, the Chief Accountant requests from the CFO a detailed analysis of the Accounts Receivable balance.

5.2 As part of the Accounts Receivable balance analysis, the CFO reviews each customer account, including direct contractor (AES Telasi, Tbilwater Supply Company), and Energy Market. The CFO determines the amount of reserve (called a specific reserve) necessary to compensate for the accounts being reviewed.

5.3 The Chief Accountant compares the results of this analysis to the balance of the allowance account. Then, the Chief Accountant recommends any necessary allowance account provisions to the accountant.

5.4 All practical collection efforts are exhausted before an account is considered for write-off. This includes resolving disputes, establishing special payment schedules, using collection agencies and taking legal action to force payment. On a quarterly basis, the CFO prepares a list of customer accounts, which are to be written off against the allowance account. When the CFO adds a customer account to this list, he considers the amount in the customer account to be uncollectible. The final decision regarding uncollectability are made by a Commission. The commission includes:

- Chief Financial Officer
- Technical Director
- Chief Accountant
- Deputy CFO
- The Head of Main Financial Section

After authorization the list is submitted to the accountant.

5.5 The accountant posts all provisions and write-offs against the allowance account.

ELECTROGADATSEMA COMPANY
ACCOUNTS RECEIVABLE POLICIES

Number: 2.02

Effective Date:

Written By: Deloitte & Touche

Modified By: **Chief Executive Officer Approval:**

Date Modified: **Date:**

Title: Invoice Processing

1.0 Purpose and Scope

1.1 The purpose of this policy is to define Accounts Receivables activities and responsibilities as related to invoice processing.

2.0 Definitions

2.1 No specific terms used.

3.0 Responsibilities

3.1 The Technical Department is responsible for confirming the volume of power transmitted for each customer.

3.2 The Accounting Department is responsible for the printing, verification and maintenance of all invoice records.

4.0 Policy Statement

4.1 It is the policy of the Company to process invoices in a complete, accurate and timely manner.

5.0 Procedures

5.1 General Comments:

a. Invoicing takes place in the Accounts Receivable Department.

5.2 Invoicing:

a. The Accounting Department obtains confirmations from the Technical Department indicating the amount of energy transmitted (less electricity lost during transmission). These confirmations are the originating documents from which invoices are generated and should be referenced on the invoices as well as attached to copies of invoices for filing purposes.

b. The Accounts Receivable Invoicing Accountant processes and prints the invoices monthly.

c. The printed invoice forms are separated in the following manner.

1 original invoice and 1 copy of invoice are mailed to the customer

2 copies are maintained in a customer file with the attached confirmation

5.3 Adjusting Invoices for Errors Discovered

a. In case of errors during processing of original invoices and subsequent discovery of such errors by the processor or the client, proper authorization should be obtained in order to issue credit memos.
b. The A/R accountant should obtain the authorization of the Chief Accountant by filling out the Memo Authorization Form and obtaining the appropriate signature.
c. The amount is then entered into the A/R detail ledger. Posting to the G/L will occur when the detail journal is posted.

ELECTROGADATSEMA COMPANY
ACCOUNTS RECEIVABLE POLICIES

Number: 2.03

Effective Date:

Written By: Deloitte & Touche

Modified By: **Chief Executive Officer Approval:**

Date Modified: **Date:**

Title: Unapplied Cash

1.0 Purpose and Scope

1.1 The purpose of this policy is to define the activities and responsibilities related to Unapplied Cash.

2.0 Definitions

2.1 ***Unapplied Cash:*** Customer payment on an account that cannot be identified with a specific invoice.

3.0 Responsibilities

3.1 The Accounting Department is responsible for applying unapplied payments to customers' accounts and for notifying the Chief Accountant when a customer's payment cannot be identified/applied.

3.2 The Accounting Department is responsible for resolving with the customer all unapplied payments on the customer's account.

4.0 Policy Statement

4.1 It is the policy of the Company to handle unapplied cash resolution in a timely and accurate manner.

5.0 Procedures

5.1 Unapplied Cash:

a. The Cash Entry accountant provides the Planning Department Analysts with a photocopy of all bank transfers that cannot be applied to specific invoices because the remittance advice lacks the necessary information.

b. On a monthly basis, the Cash Entry accountant or analysts review the prior month's unapplied cash transactions. The Analytical Staff and Chief accountant searches for information that was not available to the Cash Entry accountant.

c. After an unapplied payment has been resolved, the Chief Accountant issues the Form of Corrections with adjusted information, and approves the adjustments in the Accounts Receivables Journal and Cash Disbursements and Receipts Journals.

ELECTROGADATSEMA COMPANY
CREDIT POLICIES

Number: 2.04

Effective Date:

Written By: Deloitte & Touche

Modified By: **Chief Executive Officer Approval:**

Date Modified: **Date:**

Title: Allowance for Doubtful Accounts

1.0 Purpose and Scope

1.1 The purpose of this procedure is to define the activities and responsibilities related to the computation of the quarterly Bad Debt Reserve.

1.2 This procedure is effective for Electrogadatsema operations.

2.0 Definitions

2.1 There are no unique terms or definitions.

3.0 Responsibilities

3.1 The Planning Department Analysts compute the Bad Debt Reserve using the described procedures.

4.0 Policy Statement

4.1 It is the policy of the Company to maintain an adequate and appropriate allowance for uncollectible accounts. An adequate allowance ensures that the company's receivables are valued in accordance with International Accounting Standards (IAS). As such, this process shall be conducted quarterly to ensure adequacy of the reserve.

5.0 Procedures

5.1 The Quarter-End Accounts Receivable Aging is used to determine the Total, Current, 1-30 Days Past Due and Over 31 Days Past Due totals.

5.2 The Inter-Company accounts are deducted from the Quarter-End Accounts Receivable Aging in order to arrive at a starting number.

5.3 A Specific Reserve is computed by listing all accounts which show a debt of 50,000 GEL or more and which are 31 or more days past due.

5.4 An evaluation of these overdue accounts takes place; the Planing Department Analysts determines the collectibility of the Past Due accounts. The evaluator uses the following percentages to determine the collectibility of Past Due accounts:

25% - Note or payment plan
50% - Attorney or Collection Account
75% - Attorney with less chance of recovery
100% - Bankrupt

5.5 The Planing Department Analysts creates an analysis sheet, which lists the uncollectible Past Due accounts. The Planing Department Analysts computes the totals on the analysis sheet and subtracts the Past Due account totals from the Quarter-End Accounts Receivable Aging totals.

5.6 A General Reserve is computed with percentages provided by Accounting:

2% - Current
5% - 1-30 Days Past Due
25% - Over 31 Days Past Due

The percentages are multiplied by the remaining totals on the analysis sheet.

5.7 The General Reserve and Specific Reserve are added together to obtain the Reserve for Bad Debt total.

Company Policies and Procedures

Fixed Assets - Chapter 3

ELECTROGADATSEMA COMPANY
GENERAL LEDGER POLICIES

Number: 3.01

Effective Date:

Written By: Deloitte & Touche

Modified By: **Chief Executive Officer Approval:**

Date Modified: **Date:**

Title: Fixed Asset Capitalization for External Purchases

1.0 Purpose and Scope

1.1 The purpose of this policy is to define the activities and responsibilities, which relate to the capitalization of company owned fixed assets that are purchased from external vendors.

2.0 Definitions

2.1 ***Fixed Assets:*** Tangible assets are the machinery, equipment, furniture and fixtures that Electrogadatsema uses to conduct its business. Each asset is recorded on the Balance Sheet and is depreciated over the estimated useful life of the asset.

2.2 ***Useful Life:*** Period in which asset is used in the ordinary course of business operations. (See Section 4.0 for the estimated useful life of each fixed asset type).

3.0 Responsibilities

3.1 It is the responsibility of the Requestor to complete the Purchase Requisition Form and to properly code the general ledger account number for all items which meet the capitalization criteria (See Section 4.0). It is also the responsibility of the Requestor to complete a Capital Equipment Authorization (CEA) Form and to obtain all appropriate approvals for purchases that exceed 10,000 GEL.

3.2 The Deputy Financial Officer is responsible for ensuring that all Purchase Requisition Forms for fixed asset purchases are coded to the proper general ledger account and that an approved CEA Form is received prior to placing each order.

3.3 It is the responsibility of the Accounting Department to ensure that the asset is appropriately capitalized, to determine the useful life of the asset, to record the asset in the Fixed Asset System.

3.4 The Department Manager is responsible for the assets within his/her department.

3.5 If an asset is no longer being used, the Department Manager is responsible for the disposition of the asset and for notifying the Accounting Department via a Fixed Asset Transfer/Retirement Form. The Fixed Asset Transfer/Retirement Form is completed when an asset is retired.

4.0 Policy Statement

4.1 It is the policy of the Company to capitalize all fixed asset purchases when the unit cost of the fixed asset **exceeds 150 GEL** per unit or the useful economic life of the asset is greater than one year. It is the policy of the Company to depreciate a capitalized fixed asset over the asset's estimated useful life based on the following:

Computer Equipment	3 years
Telephone Equipment	5 years
Tooling	5 years
Software	2 years
Machinery & Equipment	5 years
Leasehold Improvements	shorter of 5 years or the life of the lease
Autos	5 years
Furniture & Fixtures	5 years
Building	40 years

5.0 Procedures

5.1 The Requestor completes a Purchase Requisition for the capital equipment being purchased. The Procurement Department references the department number, which will be charged with the depreciation expense. If the purchase is greater than 10,000 GEL an approved CEA Form accompanies the Purchase Requisition Form to Purchasing.

5.2 Purchasing places the order after all appropriate approvals/CEAs have been reviewed.

5.3 Upon receipt of the order, the Accounting Department processes the vendor invoice for payment. The Accounting Department accountant is responsible for ensuring that all appropriate receivers and authorizations are complete prior to vouchering the invoice in the Accounts Payable system. The Accounting Department also accrues sales tax if the vendor fails to include the sales tax on the invoice.

5.4 The Accounting Department reviews all appropriate documentation (i.e. invoice copies, CEAs, etc.) prior to capitalizing the asset on the fixed asset system. The Accounting Department also ensures that every piece of the purchase order has been received. The Accounting Department then issues an asset number and an inventory tag. The Accounting Department sends the asset number and inventory tag to the Department Manager.

5.5 The Department clerk places the inventory tag on the asset. The Department clerk notifies Accounting Department if the asset is ever physically moved to another department. If the asset is ever moved to another department, the Department Manager completes a Fixed Asset Transfer/Retirement Form.

5.6 At the time the asset is no longer useful, the Department Manager notifies Accounting Department via a Fixed Asset Transfer/Retirement Form. When a Fixed Asset Transfer/Retirement Form is received, Accounting Department ceases depreciation of the asset and retires the asset off the fixed asset and general ledger systems. Accounting Department then records the gain/loss on the retirement of the asset.

6.0 Exhibits/References

6.1 Exhibits

a. Purchase Requisition Form

ELECTROGADATSEMA COMPANY
GENERAL LEDGER POLICIES

Number: 3.02

Effective Date:

Written By: Deloitte & Touche

Modified By: **Chief Executive Officer Approval:**

Date Modified: **Date:**

Title: Retirement of Capital Equipment

1.0 Purpose and Scope

1.1 The purpose of this policy is to define the activities and responsibilities related to retiring capital equipment.

2.0 Definitions

2.1 ***Fixed Assets:*** The tangible assets that Electrogadatsema uses to conduct company business. Fixed assets include machinery, equipment, furniture and fixtures, etc. Fixed assets are recorded on the Balance Sheet in an asset account and are depreciated over the estimated useful life of the asset.

2.2 ***Estimated Useful Life:*** The period in which the asset is fully functional and is used to conduct company business (See Section 4.0 for estimated useful lives for each fixed asset type).

3.0 Responsibilities

3.1 It is the responsibility of the Department Manager to properly dispose of any capital equipment that is no longer being used to conduct company business (Please reference the Procedure Section of this document for capital equipment disposition instructions). When an asset's estimated useful life has ended, the asset can be dealt with in several different ways: the asset can be transferred to the Excess & Obsolete Department for salvage; the asset can be sold to an outside party or the asset can be discarded. The Department Manager is also responsible for completing Electrogadatsema Fixed Asset Transfer/Retirement Form, obtaining proper authorization and forwarding the form to the Accounting Department.

3.2 Accounting Department is responsible for retiring the asset from the Fixed Asset system and for properly recording the retirement in the General Ledger.

4.0 Policy Statement

4.1 It is the policy of the Company to capitalize and depreciate any asset with a unit cost greater than **150 GEL or a useful life of greater than one year**. This practice is in accordance with statutory accounting requirements in Georgia and does not materially differ from requirements for International Accounting Standards (IAS).

5.0 Procedures

5.1 Transfers to E&O:

a. If the asset is to be transferred to the Excess & Obsolete (E&O) Department, the Department Manager lets the E&O Department know the condition of the asset (good/poor/junk). The Department Manager completes the Fixed Asset Transfer/Retirement Form, obtains the signature of the Department Manager and attaches it to the equipment securely. If the net book value of the asset exceeds 10,000 GEL, the functional Vice President also approves the retirement.

The Department Manager contacts the Facilities Department to pick up the equipment. The Department Manager completes a "RAN Equipment Pick Up Form" which must be signed by Facilities as proof the equipment was indeed picked up. The E&O Manager inspects the equipment, signs the Retirement Form and forwards it to the Accounting Department.

b. The Accounting Department retires the asset from the Fixed Asset system. The net book value of the equipment is posted to the E&O Salvage account.

c. The E&O Department then attempts to sell the asset. Any proceeds from a sale are coded to the E&O Salvage account. Any deficiency/excess under/over book value upon sale is posted to the P&L Gain/Loss account.

5.3 Outside Sale of Asset:

a. If the asset is sold to an outside party, the Department Manager contacts the Accounting Department to obtain the Net Book Value of the asset. Once sold, the Department Manager attaches the check to the Fixed Asset Transfer/Retirement Form. The Department Manager must approve the Fixed Asset Transfer/Retirement Form. The form is then sent to the Accounting Department. If the asset's selling price is 10,000 GEL or more below the asset's Net Book Value, the General Director also must approve the asset's disposal. All asset sale proceeds are booked to the Gain/Loss account.

b. Accounting Department retires the asset from the Fixed Asset system. The net book value is automatically recorded as a debit to the Gain/Loss account on the General Ledger.

5.4 Permanent Disposal of Asset:

a. If the asset is permanently disposed of (other than by sale), the Department Manager completes a Fixed Asset Transfer/Retirement Form and obtains the Department Manager's signature on the form. If the Net Book Value of the asset exceeds 10,000 GEL, the functional General Director also approves of the disposal.

b. The Accounting Department retires the asset from the Fixed Asset system. The net book value is automatically recorded as a debit to the Gain/Loss account on the General Ledger.

ELECTROGADATSEMA COMPANY
GENERAL LEDGER POLICIES

Number: 3.03

Effective Date:

Written By: Deloitte & Touche

Modified By: **Chief Executive Officer Approval:**

Date Modified: **Date:**

Title: Transfer of Company Owned Assets

1.0 Purpose and Scope

1.1 The purpose of this policy is to ensure that the appropriate paperwork is completed and forwarded to General Ledger when fixed assets are moved from one department to another department. The successful completion and routing of paperwork ensures that the appropriate department receives the fixed asset depreciation expense and that company owned assets are stated properly when the fixed assets are reported in accounting statements and tax reports.

2.0 Definitions

2.1 ***Fixed Assets***: The tangible assets that Electrogadatsema uses to conduct company business. Fixed assets include machinery, equipment, furniture and fixtures, etc. Fixed assets are recorded on the Balance Sheet in an asset account and are depreciated over the estimated useful life of the asset.

2.2 ***Estimated Useful Life***: The period in which the asset is full functional and is used to conduct company business (See Fixed Asset Capitalization for Internal Purchases Policy for the estimated useful life of each fixed asset type).

3.0 Responsibilities

3.1 It is the responsibility of the Requestor to complete a Fixed Asset Transfer Form, to acquire the appropriate authorizations on the Fixed Asset Transfer Form and to forward the approved form to the Accounting Department.

3.2 It is the responsibility of the Accounting Department to account for the transfer of an asset in the fixed asset system and in the general ledger system.

4.0 Policy Statement

4.1 It is the policy of the Company that a completed and approved Fixed Asset Transfer Form accompanies equipment that is moved from one department to another department.

5.0 Procedures

5.1 The Requestor obtains the equipment's Asset Number from the Accounting Department. The Requestor is responsible for completing a Fixed Asset Transfer Form and for obtaining the necessary approvals on the form; both the sending and receiving department managers must authorize the asset transfer. Then, the Requestor forwards the approved Fixed Asset Transfer Form to the Accounting Department.

5.2 The Accounting Department is responsible for transferring the asset to the appropriate department within the Fixed Asset System. The Accounting Department is also responsible for recording all of the recipient department's future depreciation expenses on the general ledger.

ELECTROGADATSEMA COMPANY
GENERAL LEDGER POLICIES

Number: 3.04

Effective Date:

Written By: Deloitte & Touche

Modified By: **Chief Executive Officer Approval:**

Date Modified: **Date:**

Title: Physical Inventory of Fixed Assets

1.0 Purpose and Scope

1.1 The purpose of this policy is to define the activities and responsibilities related to inventorying fixed assets.

2.0 Definitions

2.1 ***Fixed Assets:*** The tangible assets that Electrogadatsema uses to conduct company business. Fixed assets include machinery, equipment, furniture and fixtures, etc. Fixed assets are recorded on the Balance Sheet in an asset account and are depreciated over the estimated useful life of the asset.

3.0 Responsibilities

3.2 It is the responsibility of the Chief Accountant to organize and oversee that the inventory process is conducted in an orderly and timely manner.

3.2 The Chief Accountant is responsible for recording the results of the fixed assets inventory in the fixed assets detail ledger and final posting to the general ledger.

4.0 Policy Statement

4.1 It is the policy of the Company to conduct a fixed assets inventory on an annual basis.

5.0 Procedures

5.1 Inventorying of Fixed Assets:

a. The Chief Accountant is responsible for organizing a team, which will perform the fixed assets inventory. Responsibilities should be divided among members according to locations of fixed assets.

b. TEAM MEMBERS should collect the following information before the beginning of the physical inventory process: physical inventory records from previous year inventories and copies of the detail fixed assets register.

c. Using the fixed assets register, TEAM MEMBERS, physically inspect all objects and verify items included in the list /record items excluded from the list as well as their descriptions, usage, fixed assets number and main technical and operating characteristics.

d. All unrecorded items found during the course of the physical inventory process should be evaluated for determination of historical cost and current accumulated depreciation (based on an estimate of the physical condition of the asset). These estimates, after approval by the Chief Accountant, will become the basis for recording the items in the detail fixed assets ledger. All TEAM MEMBERS should return their inventory sheets for their areas of responsibility to the Chief Accountant upon completion of the inventory.

e. The Chief Accountant is responsible for compiling and posting adjustments on the basis of the inventory sheets received from TEAM MEMBERS.

f. All fixed assets unfit for further use are not included in the inventory record. These items are included in a separate list showing date put into service, fixed assets number, location, historical cost, accumulated depreciation and cause of non-functioning. Such items are written off in accordance with established procedures.

g. Any adjustments to fixed assets will be posted to the fixed assets detail ledger with net negative adjustments posted to a P&L loss account or net positive adjustments posted to a P&L gain account.

ELECTROGADATSEMA COMPANY
GENERAL LEDGER POLICIES

Number: 3.05

Effective Date:

Written By: Deloitte & Touche

Modified By: **Chief Executive Officer Approval:**

Date Modified: **Date:**

Title: Revaluation of fixed assets

1.0 Purpose and Scope

1.1 The purpose of this policy is to define the activities and responsibilities related to revaluation of fixed assets.

2.0 Definitions

2.1 ***Fixed Assets:*** The tangible assets that Electrogadatsema uses to conduct company business. Fixed assets include machinery, equipment, furniture and fixtures, etc. Fixed assets are recorded on the Balance Sheet in an asset account and are depreciated over the estimated useful life of the asset.

3.0 Responsibilities

3.1 It is the responsibility of the Chief Accountant to periodically review fixed assets for evidence of material departure from market value. The Chief Accountant and Technical Director are jointly responsible for presenting a proposal for formation of a Revaluation Commission to the Board of Directors.

3.2 It is the responsibility of the Board of Directors to appoint a Revaluation Commission to organize and oversee that the revaluation process is conducted properly and in an orderly and timely manner.

3.3 The Revaluation Commission is responsible for selection of a qualified commercial appraiser as well as converting the appraiser's results into necessary information needed by the Accounting Department in order to restate the fixed assets to their adjusted cost.

4.0 Policy Statement

4.1 It is the policy of the Company to periodically review the value of its fixed assets for evidence of departure from market value and to adjust to market value if any material difference is found.

5.0 Procedures

5.1 Periodic search for evidence of material departure from market value:

a. On an annual basis, the Chief Accountant reviews material classes of fixed assets in the fixed assets register and based on life of asset and information gathered from within the Company (those responsible for the fixed assets in question, purchasing, etc.) make a determination as to whether or not an indication exists that fixed assets are materially misstated from market values.

b. If the Chief Accountant finds that such an indication of misstatement exists, a formal recommendation for formation of a Revaluation Commission is addressed to the Board of Directors, giving the basis for such determination, and given to the General Director for review and either approval or rejection.

5.2 Revaluation Commission Procedures:

a. Once the Board of Directors has approved the formation of a Revaluation Commission and appointed its members, the Revaluation Commission is responsible for determining which classes (by recommendation of Chief Accountant and General Director) of fixed assets are to undergo revaluation.

b. The Revaluation Commission is then responsible for obtaining estimates of time and cost required for completion of the project from qualified, commercial appraisers recognized by local law (if applicable).

c. The Revaluation Commission should then select a vendor based on the above criteria and set official requirements (level of detail needed in order to update the detail fixed assets register) and format of the final report in conjunction with the requirements of the Accounting Department.

d. The Revaluation Commission will be responsible for communication with the vendor and resolving issues, which may arise in the course of the project.

e. Upon submission of the final report, the Revaluation Commission gives the report to the Accounting Department, which is then responsible for posting the individual item revaluation to the fixed assets subsidiary ledger, which is then posted to the General Ledger.

f. In accordance with International Accounting Standards (IAS), the entry to post a positive adjustment would be as follows (a negative adjustment would be just the reverse):

Dr. Fixed Assets
Cr. Revaluation Reserve (equity)

Once a revaluation reserve has been established, the Accounting Department must keep track of the related fixed assets and make sure that the revaluation reserve is retired to retained earnings when the associated fixed assets are retired.

Company Policies and Procedures

Financial Reporting – Chapter 4

ELECTROGADATSEMA COMPANY
FINANCIAL REPORTING POLICIES

Number: 4.01

Effective Date:

Written By: Deloitte&Touche

Modified By: **Chief Executive Officer Approval:**

Date Modified: **Date:**

Title: Month-End Accounting Close

1.0 Purpose and Scope

1.1 The purpose of this policy is to define the activities and responsibilities of the accounting function as related to the accounting month-end close.

1.2 This policy is effective for Electrogadatsema Company.

2.0 Definitions

2.1 ***Month-End Close:*** The process by which the Company closes each monthly accounting period.

2.2 ***Accounting Function:*** Chief accountant, deputy chief accountant, other accountants and other employees who have direct impact on the process of preparation of financial statements.

2.3 ***Operating Month:*** *The operating* month lasts from the first working day in a calendar month to the last working day in a calendar month. Saturday, Sunday and public holidays are not considered working days although the Company incurs certain expenses and earns income during those days.

3.0 Responsibilities

3.1 The Chief accountant is responsible for preparation of the final set of financial statements and the completeness of schedules and disclosures in the financial statements.

3.2 The deputy chief accountant is responsible for collecting all information necessary for closing the month from other accountants, preparing draft financial statements and submitting them to the Chief accountant for final review.

3.3 Other accountants are responsible for preparing information required by the Chief accountant and deputy chief accountant and closing the accounts for which they are responsible on time. Other accountants are responsible for accuracy and completeness of the closed account for which they are responsible.

4.0 Policy Statement

4.1 It is the policy of the Company to close its accounting records and report its monthly financial results on a timely basis.

5.0 Procedures

5.1 5 working days before the end of the operating month, the Chief accountant distributes a check-list to all personnel within the Accounting function which indicates what action needs to be performed, who is responsible for performing the action, the deadline for the action to be finalized and the sign-off column where the preparer and the receiver date and sign when the action was finalized.

5.2 The accountant who is responsible for accounting for long term fixed assets carries out the following actions in relation to the closing of the account:

5.2.1 5 working days before the end of the operating month the accountant makes sure he/she has received the checklist.

5.2.2 1 working day before the end of the operating month the accountant closes the accounts for fixed assets, accumulated depreciation, depreciation expense in cost of sales and administrative expenses and profit/loss on sale of fixed assets. The closing journal entries are shown at the end of this policy.

5.2.3 If an acquisition, sale or other disposal of fixed assets is anticipated during the last 1-3 days, those transactions should be included in the current month. If it is impossible to identify with certainty the actual day and amount of the transaction, the Chief accountant should be notified and a decision to wait until the end of the calendar month or to exclude the transaction should be made.

5.2.4 1 working day before the end of the operating month and after the closing of the accounts as described in 5.2.2, the accountant prepares a depreciation expense summary for the costing department. The accountant also prepares other information as required by the Chief accountant, such as, but not limited to, fixed asset movement table, the net book value of fixed assets pledged as collateral against loans, fixed assets which are not in use, fixed assets that are almost depreciated but still in use, etc.

5.2.5 As a final activity, the accountant should date and sign the checklist, deliver all the information to the deputy chief accountant who has to confirm the date and information he/she has received.

5.2.6 The accountant is responsible for investigating and correcting all reconciling items before submitting the final information to the deputy chief accountant. If necessary, the Chief accountant and deputy chief accountant should be consulted.

5.3 The accountant who is responsible for accounting for accounts receivable carries out the following actions in relation to the closing of the account:

5.3.1 5 working days before the end of the operating month the accountant makes sure he/she has received the checklist.

5.3.2 1 working day after the operating month, the accountant collects data from the dispatcher regarding the customer and the amount of electricity (kWh) sold to that customer (including the last day of a calendar month) and processes the final invoices.

5.3.3 1 working day after the operating month, the accountant receives information on last cash receipts from the cash and bank accountant and posts appropriate reductions in the accounts receivable ledger.

5.3.4 1 working day after the operating month, the accountant updates the aging analysis of accounts receivable and submits that analysis to the deputy chief accountant. The deputy chief accountant has to quantify the final provision for doubtful receivables and submit the approved final figure to the accounts receivable accountant in 1 working day.

5.3.5 2 working days after the operating month the accountant should receive the final figure for provisions for doubtful receivables from the deputy chief accountant and make an appropriate journal entry. Journal entries relating to various levels of provisions are shown at the end of this policy.

5.3.6 1-2 working days after the end of the operating month, the accountant prepares a summary of accounts receivable from customers and submits the summary to the deputy chief accountant.

5.3.7 As a final activity, the accountant should date and sign the checklist, deliver all the information to the deputy chief accountant, who should confirm the date and information he/she has received.

5.3.8 The accountant is responsible for investigating and correcting all reconciling items before submitting the final information to the deputy chief accountant. If necessary, the Chief accountant and deputy chief accountant should be consulted.

5.4 The accountant who is responsible for accounting for accounts payable carries out the following actions in relation to the closing of the account:

5.4.1 5 working days before the end of the operating month the accountant makes sure he/she has received the checklist.

5.4.2 5 working days after the operating month, the accountant collects all invoices received up to that point and posts the necessary items that relate to the operating month that has just ended.

5.4.3 5 working days after the operating month the accountant receives information from the payroll accountant regarding payroll and related tax expense and posts those items in the payables ledger and income statement.

5.4.4 5 working days after the operating month, the accountant collects information from the procurement department and identifies if there are any supplies in transit for which the title and risk may have transferred to the Company. If such items exist, a journal entry must be posted for the full amount. The journal entry is shown at the end of this policy.

5.4.5 5-6 working days after the operating month, the accountant updates a list of expenditure for which invoices are usually not received within 10-15 days after the operating month, estimates the amount of expenditure (if necessary, he/she contacts the deputy chief accountant and/or other personnel who can provide the required information) and delivers the summary to the deputy chief accountant for approval. The deputy chief accountant should review the expenditure estimates and change or leave them, whichever is the most appropriate based on the best of his/her knowledge and submits these tothe Chief accountant for approval. After the amounts are approved, the deputy chief accountant should deliver the summary to the accountant who then makes the necessary journal entries. The journal entries are shown at the end of this policy. The summary of expenditure for accruals should include all expenditures regardless of whether an invoices is issued or not (interest expense, vacation accrual, taxes, etc.).

5.4.6 5-6 working days after the operating month, the accountant collects information from the cash and bank accountant on all payments processed in the operating month and posts the relating reductions in the payables ledger.

5.4.7 5-6 working days after the end of the operating month, the accountant prepares a summary of accounts payable to suppliers and submits the summary to the deputy chief accountant.

5.4.8 5-6 working days after the operating month, the accountant obtains official foreign currency exchange rates applicable to the last calendar day of a month and recalculates the balance of liabilities denominated in foreign currencies. Any differences should be posted to the income statement. Journal entries are shown at the end of this policy.

5.4.9 As a final activity, the accountant should date and sign the checklist, deliver all the information to the deputy chief accountant who should confirm the date and information he/she has received.

5.4.10 The accountant is responsible for explaining and correcting all reconciling items before submitting the final information to the deputy chief accountant. If necessary, the Chief accountant and deputy chief accountant should be consulted.

5.5 The deputy chief accountant carries out the following actions in relation to the closing of the month:

5.5.1 The deputy chief accountant makes sure that all accountants receive the checklist 5 working days before the end of the operating month.

5.5.2 The deputy chief accountant investigates all queries received from other accountants and resolves these items. The decision should be coordinated with the Chief accountant and the Chief accountant's approval is necessary for all decisions which require any sort of judgement or estimation.

5.5.3 1 working day before the end of the operating month, the deputy chief accountant makes sure that he/she receives the closing journal entries from the accountant responsible for accounting for fixed assets. The journal entries should be reviewed. If doubt to the amounts, correctness, classification, etc. arise, the deputy chief accountant should obtain additional information from the accountant, the Chief accountant or other personnel. The deputy chief accountant should date and sign the checklist provided by the accountant.

5.5.4 1 working day after the operating month the deputy chief accountant obtains an aging analysis from the accounts receivable accountant. The deputy chief accountant quantifies the final provision amount and obtains an approval from the Chief accountant. Then, the summary is returned to the accounts receivable accountant. 2 working days after the operating month the deputy chief accountant receives the closing journal entries from the accounts receivable accountant. The journal entries should be reviewed. If doubt to the amounts, correctness, classification, etc. arise, the deputy chief accountant should obtain additional information from the accountant, the Chief accountant or other personnel. The deputy chief accountant should date and sign the checklist provided by the accountant.

5.5.5 5-6 working days after the operating month, the deputy chief accountant obtains a summary of expenditure estimates from the accounts payable accountant. The deputy chief accountant should review the summary and modify it to the best of his/her knowledge. Then the summary should be approved by the Chief accountant, after which the summary is returned to the accounts payable accountant. 6 working days after the operating month the deputy chief accountant receives the closing journal entries from the accounts payable accountant. The journal entries should be reviewed. If doubt to the amounts, correctness, classification, etc. arise, the deputy chief accountant should obtain additional information from the accountant, the Chief accountant or other personnel. The deputy chief accountant should date and sign the checklist provided by the accountant.

5.5.6 7 working days after the operating month the deputy chief accountant makes sure that all checklists have been received and that all of them are signed-off. If any items are not received or signed-off, they should be followed-up on immediately and cleared within the same day.

5.5.7 7 working days after the operating month, the deputy chief accountant performs the consolidation procedures (described as a separate policy).

5.5.8 7 working days after the operating month the deputy chief accountant prepares draft financial statements by putting together all journals (accounts receivable, accounts payable, sales, purchases, payroll, etc.) into a trial balance. The deputy chief accountant checks if the trial balance balances. In case it does not, the deputy chief accountant should investigate and correct the reconciling items (if necessary the Chief accountant should be consulted).

5.5.9 After the trial balance is ready, the deputy chief accountant assembles and groups the trial balance accounts into draft financial statements. The deputy chief accountant also prepares all disclosures and notes to the financial statements.

5.5.10 8 working days after the operating month the deputy chief accountant delivers draft financial statements to the Chief accountant for review. The delivery pack should include draft financial statements, working papers, copies of closing journal entries, description of reconciling items etc.

5.6 The Chief accountant carries out the following actions in relation to the closing of month:

5.6.1 1 working day after the operating month the Chief accountant receives a proposed level of provisions for accounts receivable from the deputy chief accountant. The Chief accountant should conclude whether the provision is reasonable (if not, it should be modified) and approve the final amount. The approved provision level is returned to the deputy chief accountant.

5.6.2 6 days after the operating month the Chief accountant receives a summary of estimated expenditure accruals. The Chief accountant should make sure that all expenses and in full amounts have been included in the summary. The Chief accountant should follow the principle of conservatism when determining the amount of any accruals. The approved summary is returned to the deputy chief accountant.

5.6.3 8 working days after the operating month the Chief accountant receives a pack from the deputy chief accountant that should include draft financial statements, working papers, copies of closing journal entries, descriptions of reconciling items etc.

5.6.4 The Chief accountant should review the working papers done by the deputy chief accountant when preparing the financial statements, draft financial statements, closing journal entries, reconciling items, consolidation adjustments etc. After the review, the Chief accountant approves the financial statements. By approving the financial statements, the Chief accountant certifies that to the best of his/her knowledge all liabilities both actual and contingent have been accounted for, all assets are stated at lower of cost or net realizable value, all necessary disclosures have been made and that the financial statements are not materially misstated.

6.0 A sample form of the checklist

Task	Due date	Performed by	Date	Reviewed by	Date
Fixed assets					
The checklist received	5 days before month end				
All fixed asset acquisitions (including in transit) accounted for	1 day before month end				
All fixed assets disposals accounted for	1 day before month end				
The CA and DCA inquired about anticipated sales acquisitions of fixed assets	1 day before month end				
Depreciation charged	1 day before month end				
Depreciation expense summary submitted to the costing department	1 day before month end				
All reconciling items cleared	1 day before month end				
Closing entries submitted to the DCA	1 day before month end				
Accounts receivable					
The checklist received	5 days before month end				
Final invoices issued	1 day after month end				
Last cash receipts checked and posted	1 day after month end				
Aging analysis updated and submitted to the DCA	1 day after month end				
Approved provision obtained and posted	2 days after month end				
Accounts receivable from customers summarized and submitted to the DCA	2 days after month end				
All reconciling items cleared	2 days after month end				
Closing entries submitted to the DCA	2 days after month end				
Accounts payable					
The checklist received	5 days before month end				
All invoices received were collected and the necessary ones were posted	5 days after month end				
Information from payroll and tax departments received and posted	5 days after month end				
Supplies in transit received and posted	5 days after month end				
Accrued expenditure list updated and submitted to the DCA	5 days after month end				

Approved accruals received and posted	6 days after month end				
Last cash payments posted	5 days after month end				
Ammounts in foreign currency translated and the difference posted	5 days after month end				
Accounts payable to suppliers summarized and submitted to the DCA	5 days after month end				
All reconciling items cleared	6 days after month end				
Closing entries submitted to the DCA	6 days after month end				
DCA					
The checklist distributed within the accounting function	5 days before month end				
The closing entries from fixed asset accountant received and checked	1 day before month end				
Aging analysis of accounts receivable received and checked	1 day after month end				
Approval of the aging analysis received and analysis passed to accounts receivable accountant	2 days after month end				
The closing entries from accounts receivable accountant received and checked	2 days after month end				
Summary of accruals received and checked	5 days after month end				
Approval of the summary received and the summary passed to accounts payable accountant	6 days after month end				
The closing entries from accounts payable accountant received and checked	6 days after month end				
All checklists received	7 days after month end				
Consolidation entries posted	7 days after month end				
Income statement closed	7 days after month end				
Draft financial statements prepared and submitted to the CA	8 days after month end				
CA					
Aging analysis of accounts receivable received and approved	2 days after month end				
Summary of accruals received and approved	6 days after month end				
The pack received and checked	8 days after month end				
Financial statements approved	9 days after month end				

Key: CA – Chief accountant, DCA – accountant.

7.0 Closing journal entries

7.1 The following entries should be made when performing actions in 5.2.2:

Description	Balance sheet		Income statement	
	Dr	Cr	Dr	Cr
Posting the final acquisitions of fixed assets	Fixed assets	Cash, accounts payable, share capital		
Charging depreciation		Accumulated depreciation	Cost of sales depreciation, administrative expenses depreciation	
Sale of a fixed asset (disposal)	Accounts receivable, cash	Fixed assets	Cost of the fixed asset	Revenue from the sale

7.2 The following entries should be made when performing actions in 5.3.5:

Description	Balance sheet		Income statement	
	Dr	Cr	Dr	Cr
Identifying a doubtful receivable	Doubtful receivables	Accounts receivable		
Posting an initial provision		Doubtful receivables	Provision for doubtful receivables	
Increasing the level of provisions		Doubtful receivables	Provision for doubtful receivables	
Reducing the level of provisions	Doubtful receivables			Provision for doubtful receivables

7.3 The following entries should be made when performing actions in 5.4.3, 5.4.4, 5.4.5 and 5.4.8:

Description	Balance sheet		Income statement	
	Dr	Cr	Dr	Cr
Posting payroll and tax expenses		Accounts payable	Cost of sales payroll expense, cost of sales tax expense, administrative expenses payroll, administrative expenses taxes	

Posting supplies in transit	Inventory in transit	Accounts payable		
Posting estimated accruals (initial)		Accrued expenditure	Interest expense, payroll expense	
Posting accruals in the next month (at first release previous period accruals)	Accrued expenditure (previous period)	Accrued expenditure (current period)	Interest expense (current period)	Interest expense (previous period)
Recalculation of payables in foreign currency (income)	Accounts payable			Forex income
Recalculation of payables in foreign currency (loss)		Accounts payable	Forex loss	

7.4 The following entries should be made when performing actions in 5.5.9:

Description	**Balance sheet**		**Income statement**	
	Dr	**Cr**	**Dr**	**Cr**
Closing the trial balance income statement accounts	Current period loss (if expenses are higher than revenue)	Current period profit (if revenue is higher than expenses)	All revenue and income accounts (all credits)	All expense accounts (all debits)

JSC "Electrogadatsema"
The sales budget for the period from January to June 2001.

(kWh)

	% of Losses	Jan Gross Input	Jan Net Input	Feb Gross Input	Feb Net Input	March Gross Input	March Net Input	Apr Gross Input	Apr Net Input	May Gross Input	May Net Input	June Gross Input	June Net Input	Total: Losses:	Total: Net input
Branch															
Telavi	5.2	250,000.00	237,000.00	456,000.00	432,288.00	457,900.00	434,089.20	375,000.00	355,500.00	450,000.00	426,600.00	450,000.00	426,600.00	126,822.80	2,312,077.20
Racha	5.5	70,000.00	66,150.00	120,000.00	113,400.00	130,000.00	122,850.00	1,400,000.00	1,323,000.00	1,200,560.00	1,134,529.20	250,000.00	236,250.00	174,380.80	2,996,179.20
Zestaphoni	5.5	500,000.00	472,500.00	450,000.00	425,250.00	460,000.00	434,700.00	456,000.00	430,920.00	325,000.00	307,125.00	325,000.00	307,125.00	138,380.00	2,377,620.00
Guria	5.4	1,500,000.00	1,419,000.00	1,200,000.00	1,135,200.00	1,250,000.00	1,182,500.00	1,350,000.00	1,277,100.00	1,470,000.00	1,390,620.00	1,570,000.00	1,485,220.00	450,360.00	7,889,640.00
Kutaisi	10.0	680,000.00	612,000.00	6,980,000.00	6,282,000.00	5,680,000.00	5,112,000.00	3,580,000.00	3,222,000.00	3,270,000.00	2,943,000.00	2,250,000.00	2,025,000.00	2,244,000.00	20,196,000.00
Total:		**3,000,000.00**	**2,806,650.00**	**9,206,000.00**	**8,388,138.00**	**7,977,900.00**	**7,286,139.20**	**7,161,000.00**	**6,608,520.00**	**6,715,560.00**	**6,201,874.20**	**4,845,000.00**	**4,480,195.00**	**3,133,943.60**	$\boxed{35,771,516.40}$

Exhibit 2.
JSC "Electrogadatsema"
The sales budget for the period from January to June 2001.

(GEL)

	Tariffs	Kwh	GEL	Kwh	GEL	Kwh	GEL	Kwh	GEL	Kwh	GEL	Kwh	GEL	Kwh	GEL
Direct contracts:															
AES Telasi	1.31	250,000.00	327,500.00	1,250,000.00	1,637,500.00	250,000.00	327,500.00	250,000.00	327,500.00	250,000.00	327,500.00	370,000.00	484,700.00	2,620,000.00	3,432,200.00
Georgian Railway	1.31	470,000.00	615,700.00	480,000.00	628,800.00	470,000.00	615,700.00	470,000.00	615,700.00	470,000.00	615,700.00	470,000.00	615,700.00	2,830,000.00	3,707,300.00
Tbilwatersupply system	1.31	580,000.00	759,800.00	670,000.00	877,700.00	580,000.00	759,800.00	580,000.00	759,800.00	580,000.00	759,800.00	1,005,545.00	1,317,263.95	3,995,545.00	5,234,163.95
Alioni plus	1.31	260,000.00	340,600.00	1,260,000.00	1,650,600.00	260,000.00	340,600.00	260,000.00	340,600.00	260,000.00	340,600.00	260,000.00	340,600.00	2,560,000.00	3,353,600.00
Chaturnangarum	1.31	120,000.00	157,200.00	1,502,900.00	1,968,799.00	599,489.20	785,330.85	120,000.00	157,200.00	615,224.20	805,943.70	120,000.00	157,200.00	3,077,613.40	4,031,673.55
Fero Zestaponi	1.31	276,650.00	362,411.50	375,238.00	491,561.78	276,650.00	362,411.50	1,078,520.00	1,412,861.20	276,650.00	362,411.50	276,650.00	362,411.50	2,560,358.00	3,354,068.98
Energy Market	1.31	850,000.00	1,113,500.00	2,850,000.00	3,733,500.00	4,850,000.00	6,353,500.00	3,850,000.00	5,043,500.00	3,750,000.00	4,912,500.00	1,978,000.00	2,591,180.00	18,128,000.00	23,747,680.00
Total:		**2,806,650.00**	**3,676,711.50**	**8,388,138.00**	**10,988,460.78**	**7,286,139.20**	**9,544,842.35**	**6,608,520.00**	**8,657,161.20**	**6,201,874.20**	**8,124,455.20**	**4,480,195.00**	**5,869,055.45**	**35,771,516.40**	**46,860,686.48**
	check	2,806,650.00		8388138		7,286,139.20		6,608,520.00		6,201,874.20		4,480,195.00		$\boxed{35,771,516.40}$	
		0.00		**0.00**		**0.00**		**0.00**		**0.00**		**0.00**		**0.00**	

Exhibit 3.
JSC "Electrogadatsema"
Cash returns projection based on historical information

	% of returns	Cash returns	% of returns	Cash returns	% of returns	Cash returns	% of returns	Cash returns	% of returns	Cash returns	% of returns	Cash returns	% of returns	Cash returns
Direct contracts:														
AES Telasi	80	262,000.00	80	1,310,000.00	80	262,000.00	80	262,000.00	80	262,000.00	80	387,760.00	80	2,745,760.00
Georgian Railway	27	166,239.00	27	169,776.00	27	166,239.00	27	166,239.00	27	166,239.00	27	166,239.00	27	1,000,971.00
Tbilwatersupply system	32	243,136.00	32	280,864.00	32	243,136.00	32	243,136.00	32	243,136.00	32	421,524.46	32	1,674,932.46
Alioni plus	3	10,218.00	3	49,518.00	3	10,218.00	3	10,218.00	3	10,218.00	3	10,218.00	3	100,608.00
Chaturnangarum	33	51,876.00	33	649,703.67	33	259,159.18	33	51,876.00	33	265,961.42	33	51,876.00	33	1,330,452.27
Fero Zestaponi	1	3,624.12	1	4,915.62	1	3,624.12	1	14,128.61	1	3,624.12	1	3,624.12	1	33,540.69
Energy Market	5	55,675.00	80	2,986,800.00	80	5,082,800.00	80	4,034,800.00	80	3,930,000.00	80	2,072,944.00	80	18,998,144.00
Total:		792,768.12		5,451,577.29		6,027,176.30		4,782,397.61		4,881,178.54		3,114,185.58		25,884,408.43
Allowance for the doubtful debts total:		#########		##########		(3,517,666.06)		#########		(3,243,276.67)		(2,754,869.87)		(20,976,278.06)
including:														
Direct contracts		#########		##########		(2,246,966.06)		#########		(2,260,776.67)		(2,236,633.87)		(16,226,742.06)
Energy Market		#########		(746,700.00)		(1,270,700.00)		#########		(982,500.00)		(518,236.00)		(4,749,536.00)

JSC "Electrogadatsema"
Projected cash inflow from debtors for the period from January 1 to June 30, 2001

	Jan-01	Feb-01	Mar-01	Apr-01	May-01	Jun-01	Total:
Sales Budget							
kWh:							
Direct contracts	1,956,650.00	5,538,138.00	2,436,139.20	2,758,520.00	2,451,874.20	2,502,195.00	**17,643,516.40**
Energy Market	850,000.00	2,850,000.00	4,850,000.00	3,850,000.00	3,750,000.00	1,978,000.00	**18,128,000.00**
Sales (VAT excl) GEL							
Direct contracts:							
Sales	2,563,211.50	7,254,960.78	3,191,342.35	3,613,661.20	3,211,955.20	3,277,875.45	**23,113,006.48**
Less: allowance	(1,826,118.39)	(4,790,183.49)	(2,246,966.06)	(2,866,063.59)	(2,260,776.67)	(2,236,633.87)	**(16,226,742.06)**
Net inflow:	**737,093.12**	**2,464,777.29**	**944,376.30**	**747,597.61**	**951,178.54**	**1,041,241.58**	**6,886,264.43**
Energy Market							
Sales	1,113,500.00	3,733,500.00	6,353,500.00	5,043,500.00	4,912,500.00	2,591,180.00	**23,747,680.00**
Less: allowance	(1,057,825.00)	(746,700.00)	(1,270,700.00)	(1,008,700.00)	(982,500.00)	(518,236.00)	**(5,584,661.00)**
Net inflow:	**55,675.00**	**2,986,800.00**	**5,082,800.00**	**4,034,800.00**	**3,930,000.00**	**2,072,944.00**	**18,163,019.00**
Net cash flow from Debt	**792,768.12**	**5,451,577.29**	**6,027,176.30**	**4,782,397.61**	**4,881,178.54**	**3,114,185.58**	**25,049,283.43**

JSC "Electrogadatsema"

Cost of Sales budget for the period from Jan 1 to June 30, 2001

GEL:	Jan-01	Feb-01	Mar-01	Apr-01	May-01	Jun-01	Total:
Sales:							
Direct Contracts	2,563,211.50	7,254,960.78	3,191,342.35	3,613,661.20	3,211,955.20	3,277,875.45	**23,113,006.48**
Energy Market	1,113,500.00	3,733,500.00	6,353,500.00	5,043,500.00	4,912,500.00	2,591,180.00	**23,747,680.00**
Total:	**3,676,711.50**	**10,988,460.78**	**9,544,842.35**	**8,657,161.20**	**8,124,455.20**	**5,869,055.45**	**46,860,686.48**
Depreciation	1,103,013.45	3,296,538.23	2,863,452.71	2,597,148.36	2,437,336.56	1,760,716.64	**14,058,205.95**
Repairing services	257,369.81	769,192.25	668,138.96	606,001.28	568,711.86	410,833.88	**3,280,248.05**
Wages & Salaries	220,602.69	659,307.65	572,690.54	519,429.67	487,467.31	352,143.33	**2,811,641.19**
Taxes	110,301.35	329,653.82	286,345.27	259,714.84	243,733.66	176,071.66	**1,405,820.59**
Materials (oil) and spare parts	73,534.23	219,769.22	190,896.85	173,143.22	162,489.10	117,381.11	**937,213.73**
Total costs of sales	***1,764,821.52***	***5,274,461.17***	***4,581,524.33***	***4,155,437.38***	***3,899,738.50***	***2,817,146.62***	***22,493,129.51***
Gross margin:	***1,911,889.98***	***5,713,999.61***	***4,963,318.02***	***4,501,723.82***	***4,224,716.71***	***3,051,908.83***	***24,367,556.97***

Exhibit 6.
JSC "Electrogadatsema"

Admin expenses budget for the period from Jan 1 to June 30, 2001

GEL:	Jan-01	Feb-01	Mar-01	Apr-01	May-01	Jun-01	Total:
Sales:							
Direct Contracts	2,563,211.50	7,254,960.78	3,191,342.35	3,613,661.20	3,211,955.20	3,277,875.45	23,113,006.48
Energy Market	1,113,500.00	3,733,500.00	6,353,500.00	5,043,500.00	4,912,500.00	2,591,180.00	23,747,680.00
Total:	**3,676,711.50**	**10,988,460.78**	**9,544,842.35**	**8,657,161.20**	**8,124,455.20**	**5,869,055.45**	**46,860,686.48**
Admin&General Expenses							
Administration Salary	257,369.81	769,192.25	668,138.96	606,001.28	568,711.86	410,833.88	3,280,248.05
Taxes on Salary	73,534.23	219,769.22	190,896.85	173,143.22	162,489.10	117,381.11	937,213.73
Inventory and spare parts	36,767.12	109,884.61	95,448.42	86,571.61	81,244.55	58,690.55	468,606.86
Communication	110,301.35	329,653.82	286,345.27	259,714.84	243,733.66	176,071.66	1,405,820.59
Depreciation (Building of the Head offi	73,534.23	219,769.22	190,896.85	173,143.22	162,489.10	117,381.11	937,213.73
Bisiness trips	18,383.56	54,942.30	47,724.21	43,285.81	40,622.28	29,345.28	234,303.43
Other	25,736.98	76,919.23	66,813.90	60,600.13	56,871.19	41,083.39	328,024.81
Total Admin & General Expenses	***595,627.26***	***1,780,130.65***	***1,546,264.46***	***1,402,460.11***	***1,316,161.74***	***950,786.98***	***7,591,431.21***

JSC "Electrogadatsema"

The budget of Profit and Loss account

GEL:	**Jan-01**	**Feb-01**	**Mar-01**	**Apr-01**	**May-01**	**Jun-01**	**Total:**
Net sales	3,676,711.50	10,988,460.78	9,544,842.35	8,657,161.20	8,124,455.20	5,869,055.45	**46,860,686.48**
Cost of sales	1,764,821.52	5,274,461.17	4,581,524.33	4,155,437.38	3,899,738.50	2,817,146.62	**22,493,129.51**
GROSS PROFIT	***1,911,889.98***	***5,713,999.61***	***4,963,318.02***	***4,501,723.82***	***4,224,716.71***	***3,051,908.83***	***24,367,556.97***
Provision for Doubtful debts	**(2,883,943.39)**	**(5,536,883.49)**	**(3,517,666.06)**	**(3,874,763.59)**	**(3,243,276.67)**	**(2,754,869.87)**	**(21,811,403.06)**
General & Administrative expenses	595,627.26	1,780,130.65	1,546,264.46	1,402,460.11	1,316,161.74	950,786.98	**7,591,431.21**
NET OPERATING PROFIT/LOSS	**(1,567,680.67)**	**(1,603,014.53)**	**(100,612.49)**	**(775,499.88)**	**(334,721.70)**	**(653,748.02)**	**(5,035,277.30)**
Interest expense							
NET PROFIT/LOSS BEFORE TAXATIOI	(1,567,680.67)	(1,603,014.53)	(100,612.49)	(775,499.88)	(334,721.70)	(653,748.02)	**(5,035,277.30)**
Income Tax							
Deferred Tax							
NET PROFIT/LOSS	(1,567,680.67)	(1,603,014.53)	(100,612.49)	(775,499.88)	(334,721.70)	(653,748.02)	**(5,035,277.30)**

JSC "Electrogadatsema"

Cash Flow Budget

GEL:	Jan-01	Feb-01	Mar-01	Apr-01	May-01	Jun-01	Total:
Opening Cash Budget	**1,200,000.00**	**808,867.01**	**2,722,159.93**	**5,675,896.99**	**7,670,688.69**	**9,935,792.65**	
Cash received (from Debtors)	792,768.12	5,451,577.29	6,027,176.30	4,782,397.61	4,881,178.54	3,114,185.58	25,049,283.43
Short terms Loans							
TOTAL CASH AVAIALBLE	**1,992,768.12**	**6,260,444.30**	**8,749,336.22**	**10,458,294.60**	**12,551,867.23**	**13,049,978.23**	**53,062,688.70**
Cost of Sales	1,764,821.52	5,274,461.17	4,581,524.33	4,155,437.38	3,899,738.50	2,817,146.62	22,493,129.51
Depreciation (-)	(1,103,013.45)	(3,296,538.23)	(2,863,452.71)	(2,597,148.36)	(2,437,336.56)	(1,760,716.64)	(14,058,205.95)
Admin and General Expenses	595,627.26	1,780,130.65	1,546,264.46	1,402,460.11	1,316,161.74	950,786.98	7,591,431.21
Depreciation (-)	(73,534.23)	(219,769.22)	(190,896.85)	(173,143.22)	(162,489.10)	(117,381.11)	(937,213.73)
Interest Expense 3% / month							
TOTAL OUTFLOW	**1,183,901.10**	**3,538,284.37**	**3,073,439.24**	**2,787,605.91**	**2,616,074.58**	**1,889,835.85**	15,089,141.05
CASH BALANCE	**808,867.01**	**2,722,159.93**	**5,675,896.99**	**7,670,688.69**	**9,935,792.65**	**11,160,142.38**	37,973,547.65

JSC Electogadatsema

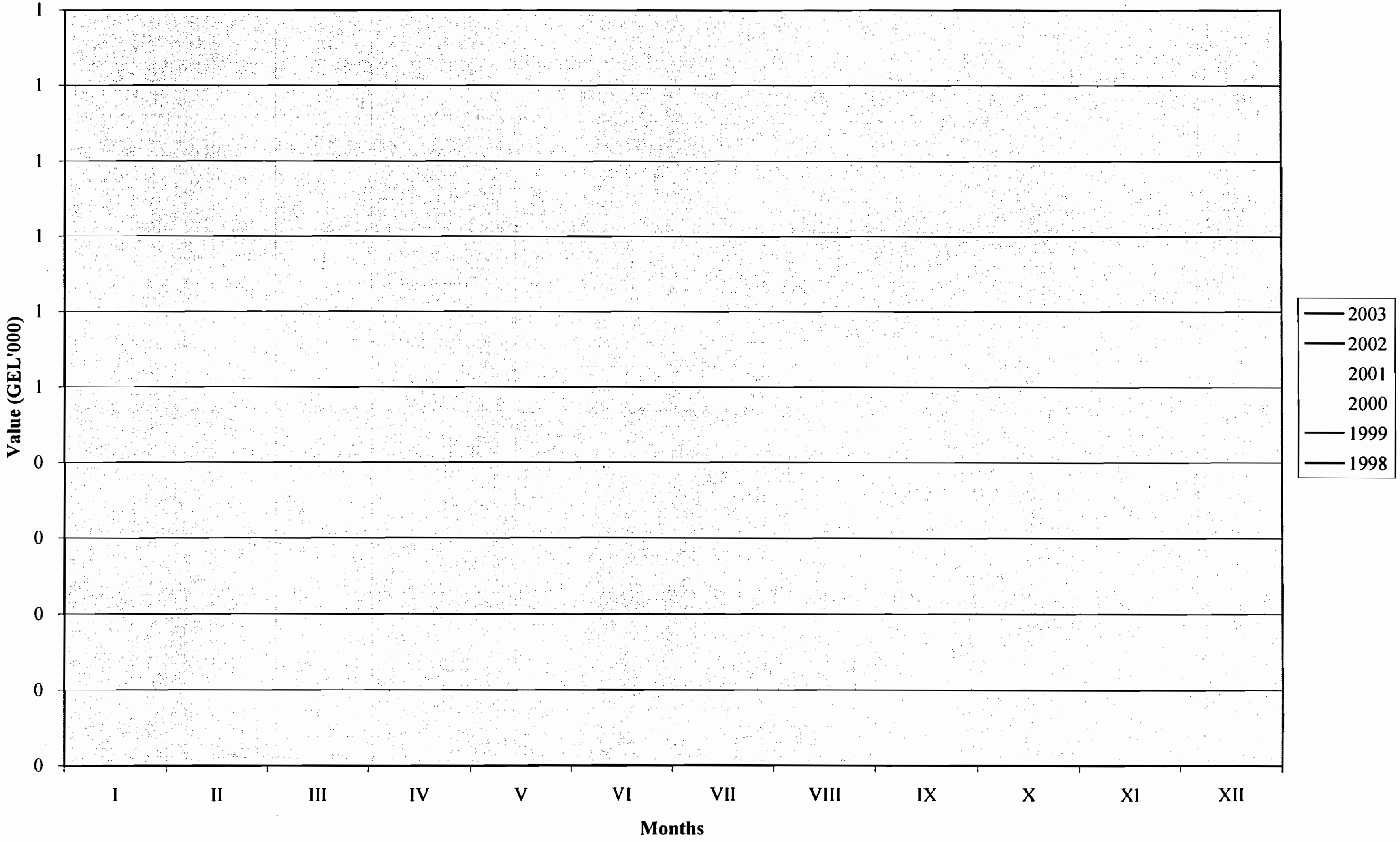
Sales

	I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII
1998												
1999												
2000												
2001												
2002												
2003												

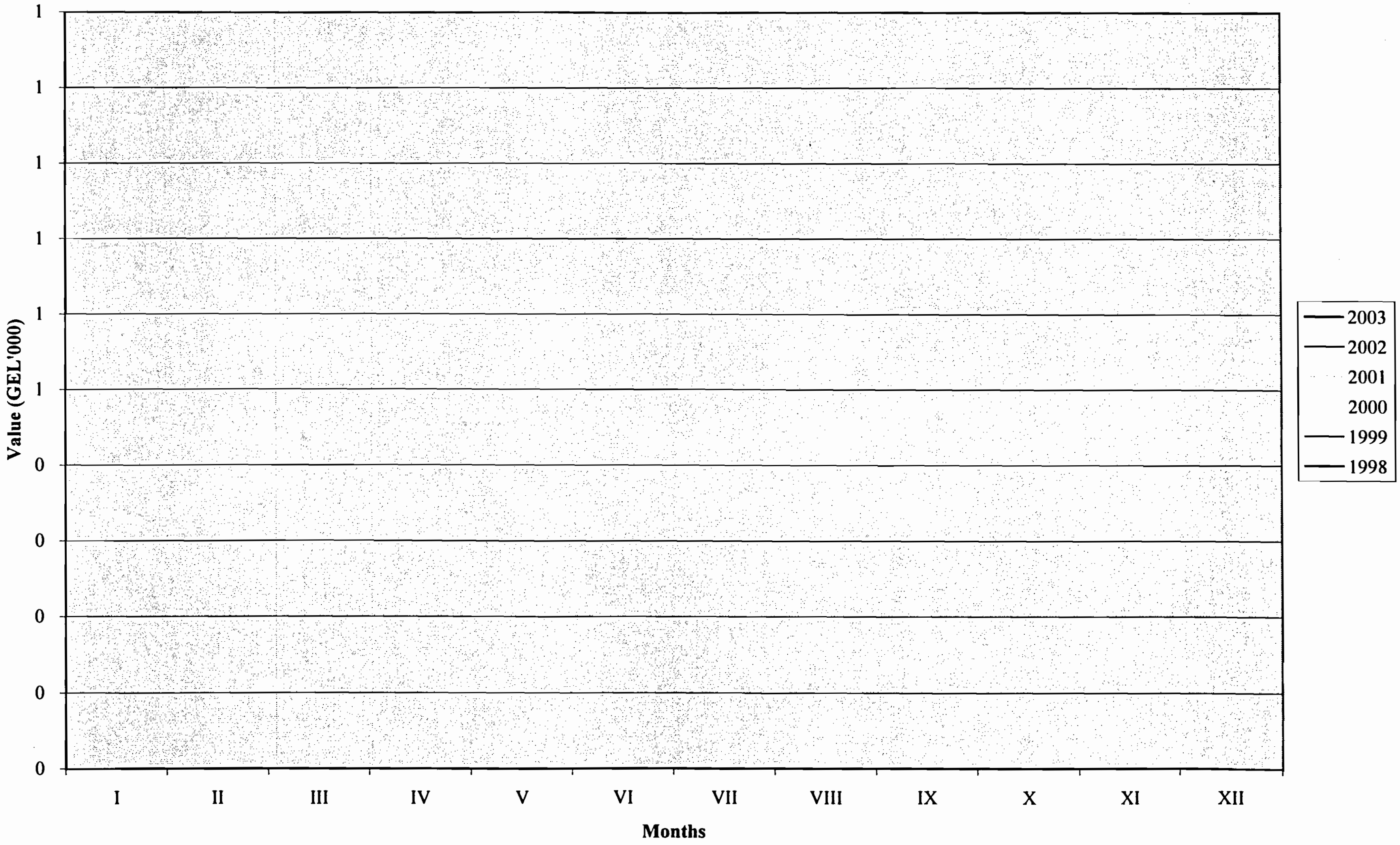
Expenses (cost of sales)

	I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII
1998												
1999												
2000												
2001												
2002												
2003												

Trend of Sales



Trend of Cost of sales



(Note: Enter the appropriate years on this sheet)

	January	February	March	April	May	June	July	August	September	October	November	December
:ash	50											
ccounts Receivable	100											
ventory	25											
:urrent Assets	**175**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
ixed assets	70											
otal Assets	**245**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
:urrent Liabilities	180											
terest Bearing Debt	30											
otal current liabilities	**210**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
tetained earnings	80	0	0	0	0	0	0	0	0	0	0	0
:quity	65											
otal equity	**145**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
otal Liabilities	**245**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
;ales	550											
)perating Expenses	300											
)epreciation	150											
nterest	15											
ncome Taxes	5											
let Income	**80**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
let Income+Interest	**95**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
let Income+Interest+Taxes	**100**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**

Short-term solvency or Liquidity Ratios:

	January	February	March	April	May	June	July	August	September	October	November	December
Current Ratio	0.83	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Quick Ratio	0.83	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Cash Ratio	0.28	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!

Turnover Ratios:

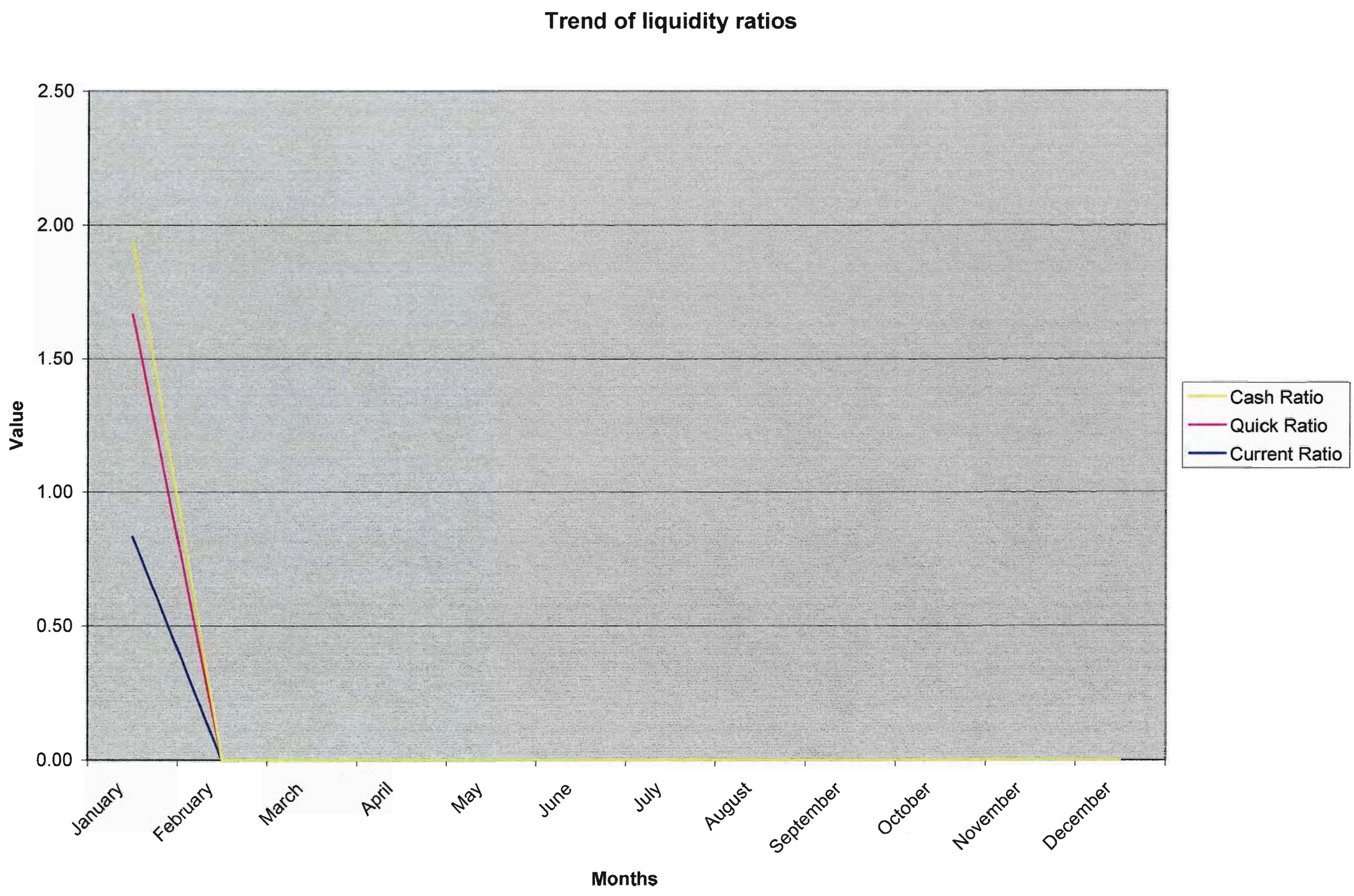
	January	February	March	April	May	June	July	August	September	October	November	December
Receivables Turnover	5.50	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Days' Sales in Receivables	66.36	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!

Financial Leverage Ratios

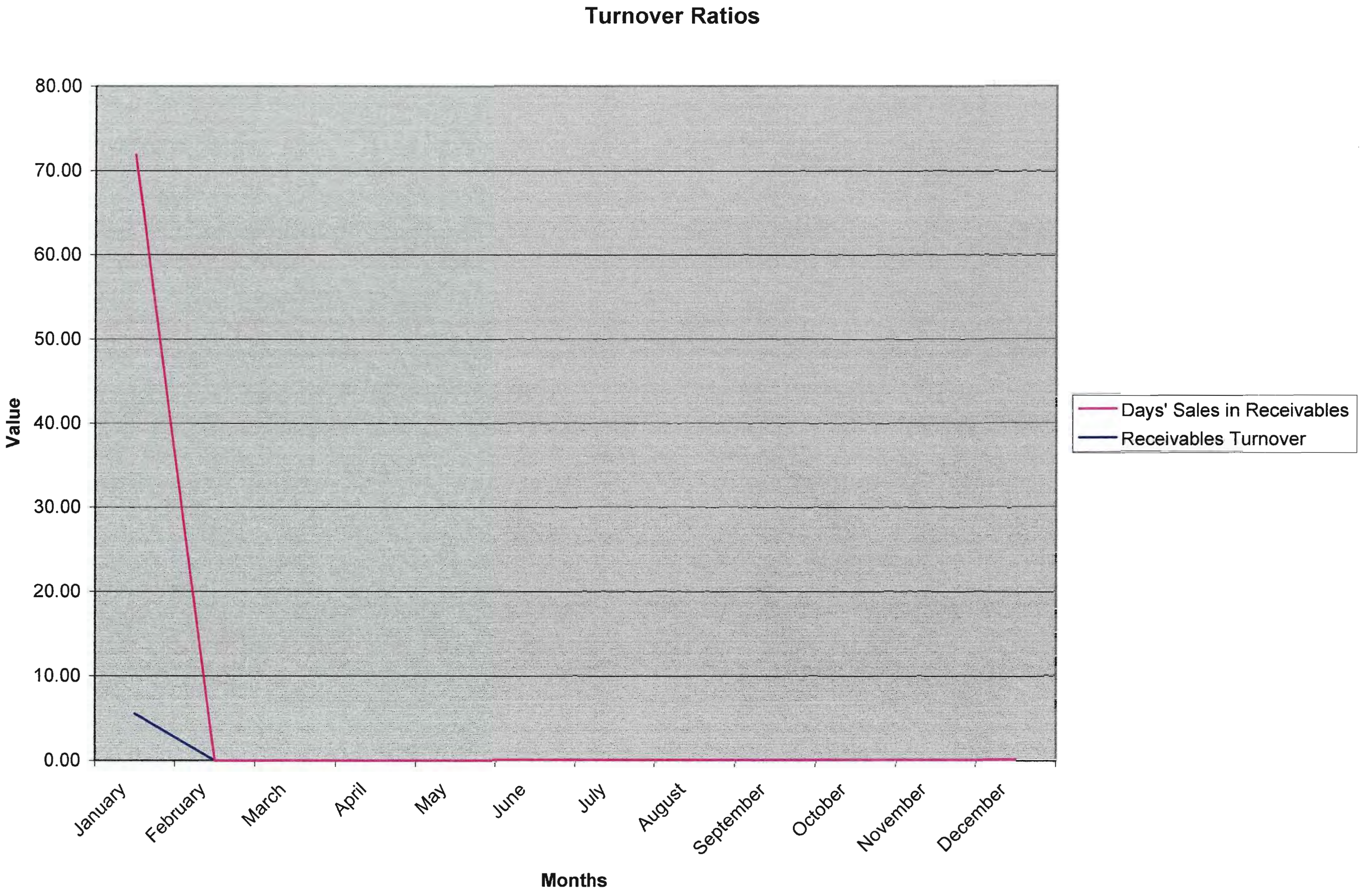
	January	February	March	April	May	June	July	August	September	October	November	December
Total Debt Ratio	0.69	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Interest Coverage Ratio	16.67	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Debt Ratio	0.46	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!

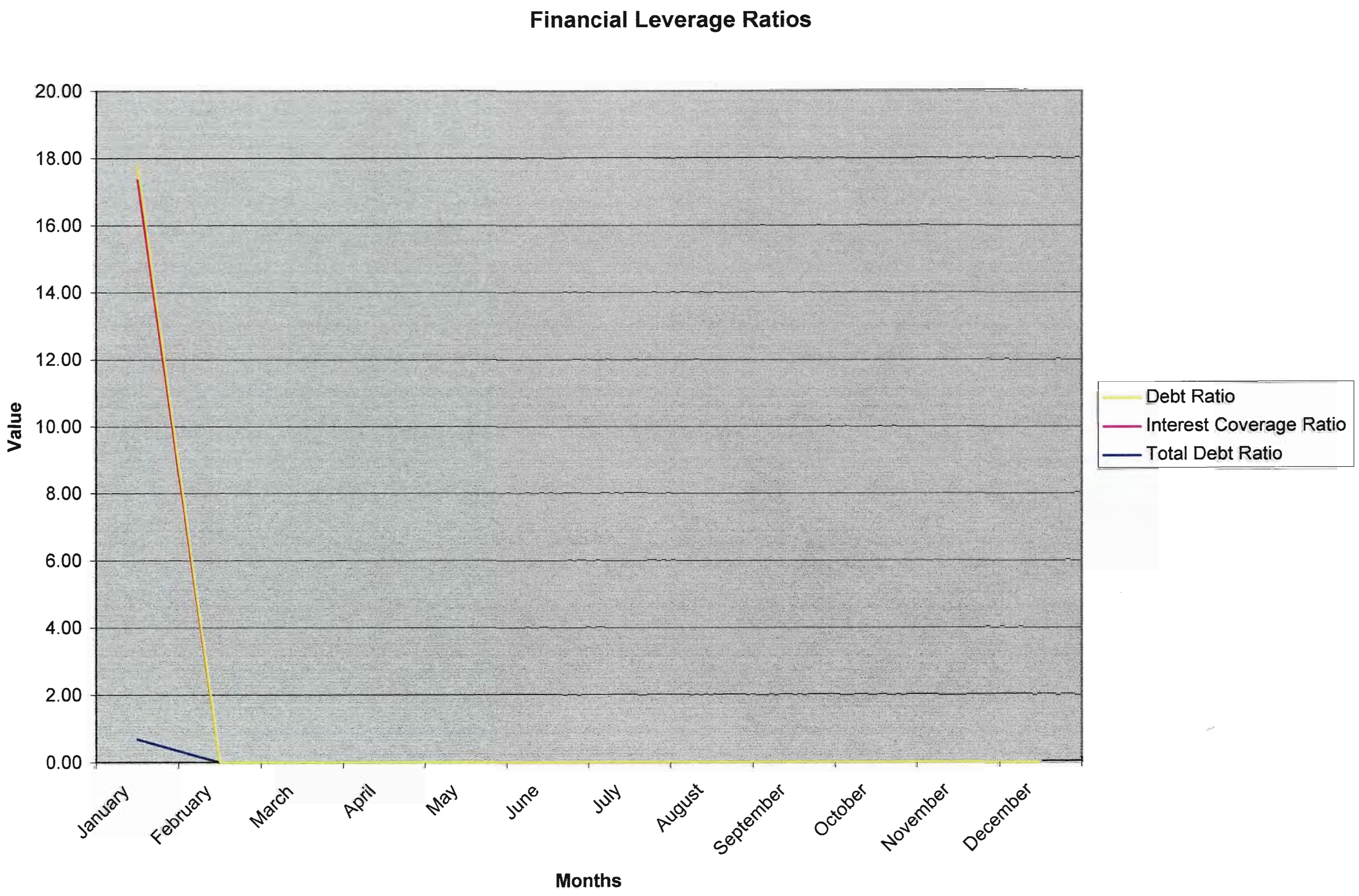
Profitability Ratios

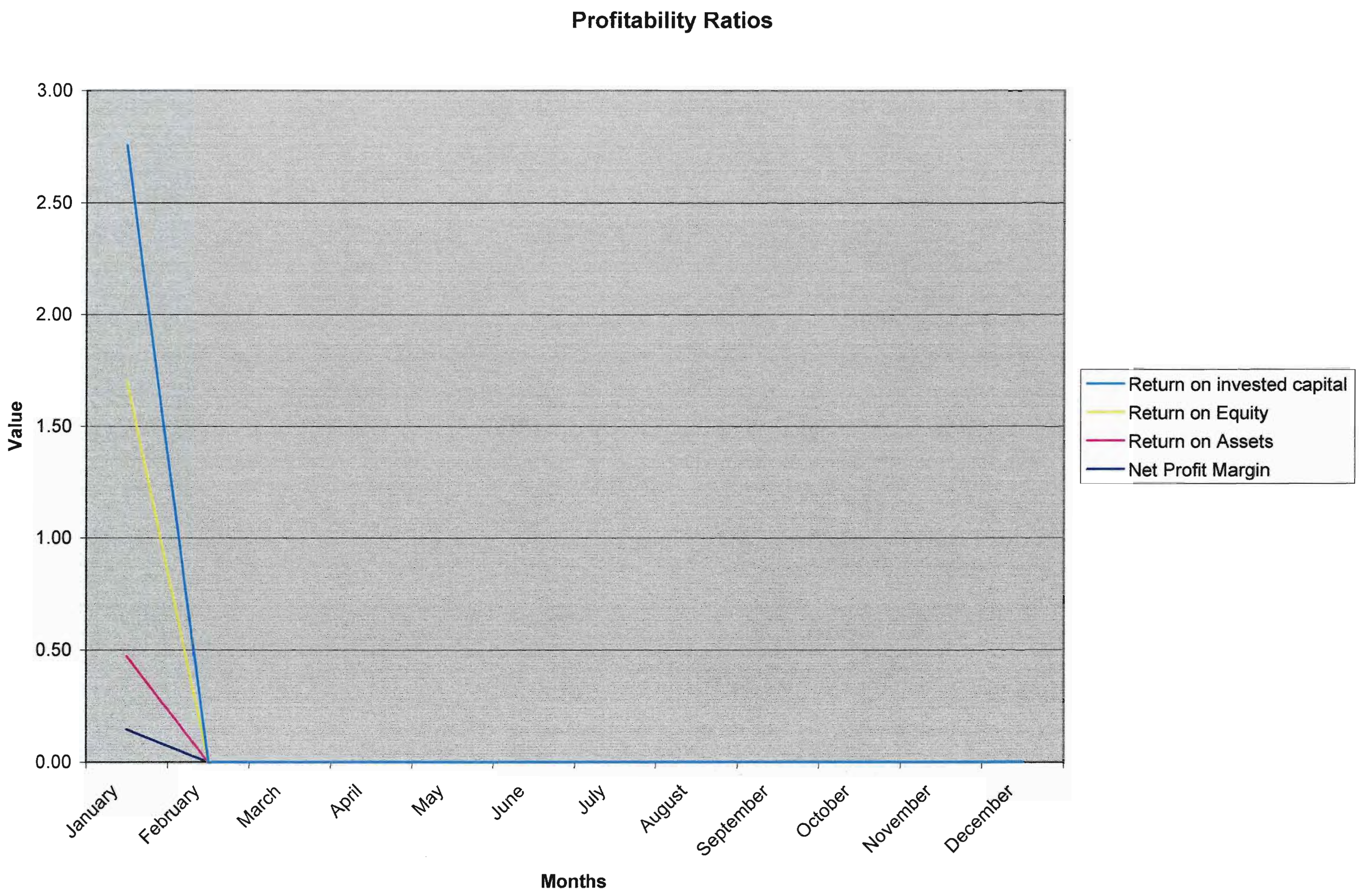
	January	February	March	April	May	June	July	August	September	October	November	December
Net Profit Margin	0.15	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Return on Assets	0.33	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Return on Equity	1.23	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Return on invested capital	1.05	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!



Trend of liquidity ratios
2.50
2.00
1.50
1.00
0.50
0.00
Value
January
February
March
April
May
June
July
August
September
October
November
December
Months
Cash Ratio
Quick Ratio
Current Ratio


Turnover Ratios
80.00
70.00
60.00
50.00
40.00
30.00
20.00
10.00
0.00
Value
January
February
March
April
May
June
July
August
September
October
November
December
Months
Days' Sales in Receivables
Receivables Turnover


Financial Leverage Ratios
20.00
18.00
16.00
14.00
12.00
10.00
8.00
6.00
4.00
2.00
0.00
Value
January
February
March
April
May
June
July
August
September
October
November
December
Months
Debt Ratio
Interest Coverage Ratio
Total Debt Ratio


Profitability Ratios
3.00
2.50
2.00
1.50
1.00
0.50
0.00
Value
January
February
March
April
May
June
July
August
September
October
November
December
Months
Return on invested capital
Return on Equity
Return on Assets
Net Profit Margin

Fixed Asstes Purchase Requisition

Date: Supplier:

Agreement No: Date of Agreement:

#	Description	Quantity	Group	Dep. %	Unit price	Purchase Order (Invoice)			Balance amount	Date of expluatation
						No	Date	Note		

Expenses	Amount	Acc. #
Transportation		
Customs fee		
Installation		
Other expenses		
Total expenses		

Approved by: (Authorisation)

Name .... Signature ....

Possition .... Date ....

Transaction

1 Dr .... 2 Dr .... 3 Dr ....

Cr.............................. Cr.............................. Cr..............................

Fiscal year of planned acquisition: ____________________

Capital Expenditure Authorization # __________

REQUESTOR ________________________________

Total Amt. of Project (GEL): ________________________________

Recommended Vendors & Competitive Bid Information:
(Please shoe recommended Vendor & Bid with "X")

	Vendor	Bid
1	________________________	________
2	________________________	________
3	________________________	________
4	________________________	________

Justification *(Explain benefit of purchasing against impact of not purchasing. If recommended vendor above is not the least*

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Assistant General Director	General Director	(If > 1 million GEL) Chairman of Board of Directors
____________________	____________________	____________________

Fixed Assets Disposal Order

Date: No:

Date and No of Agreement: Date and No of Act:

#	Description	Quantity	Price	Date of purchase	Value				Note
					Historical Cost	Accum. Depr.	Depr. from beginning the year	Net Value	

Gain or losses		Acc. #

Approved by: (Authorisation)

Name .... Signature ....

Position .... Date ....

Transaction

1 Dr .... 2 Dr .... 3 Dr ....

Cr............................... Cr............................... Cr...............................

A/R Ageing Example

Accounts Receivable Detail
debitoruli davalianeba

Period Ending Date
10/31/00

Invoice # a/f #	Company Name dasaxeleba	Date of Sale miwodebis TariRi	Payment Terms gadaxdis pirobebi	Amount Tanxa	Payment Date gadaxdis TariRi	Paid Amount gadaxdili Tanxa	Discounts Granted gacemuli fasdakleba	Returns saqonlis dabruneba	Net A/R davali-aneba	Days Overdue vadagada-cileba	Remarks SeniSvna
'0013	ss marsi	10/8/2000		3,000					3,000	23	
'0021	Sps "dedamiwa"	12/15/1999	10	100,000	12/17/1999	8,000			92,000	331	
'0020	Sps "merkuri"	12/14/1999	10	16,000	12/16/1999	16,000		1,000	-	332	
'0019	ss "marsi"	12/3/1999		3,600	12/15/1999				3,600	333	Camoiwera
'0017	Sps mze	11/15/1999	10	3,000	12/3/1999	3,000			-	361	
'0016	Sps "dedamiwa"	11/3/1999		8,000	11/18/1999	8,000			-	363	
'0015	Sps "merkuri"	10/20/1999		3,600	11/15/1999	3,600			-	377	
'0018	ss marsi	11/18/1999	30	6,200	12/14/1999	6,200			-	378	
'0014	ss "marsi"	10/15/1999		6,200	11/3/1999	6,000			200	382	Camoiwera
'0012	Sps mze	9/20/1999	30	8,000	10/15/1999	8,000	1,000		-	437	
'0011	Sps "dedamiwa"	9/16/1999	30	14,000	10/8/1999	14,000		3,000	-	441	
'0010	Sps "merkuri"	9/15/1999	30	5,000	9/20/1999	5,000			-	442	
'0009	ss "marsi"	8/23/1999	30	23,000	9/16/1999	18,000			5,000	465	Camoiwera
'0008	ss marsi	8/18/1999	30	16,000	9/15/1999				16,000	470	
'0007	Sps mze	7/23/1999	10	5,000	8/23/1999	5,000		1,000	-	476	
'0005	Sps "merkuri"	7/22/1999	10	6,000	1/15/2000	6,000	600		-	477	
'0006	Sps "dedamiwa"	7/22/1999	10	1,000	1/15/2000	1,000			-	477	
'0004	ss "marsi"	7/21/1999	30	10,000					10,000	498	Camoiwera
'0003	Sps "dedamiwa"	6/2/1999	10	2,600	7/22/1999	2,600			-	527	
'0002	ss "mTvare"	6/1/1999	10	3,000	8/18/2000	3,000			-	528	
'0001	Sps mze	6/1/1999	30	5,000	7/1/1999	4,000			1,000	548	
									-	-	
									-	-	
									-	-	
									-	-	
				248,200		***117,400***	***1,600***	***5,000***	***130,800***		

Total by Client

Sum of davali-aneba	
dasaxeleba	Total
Sps "dedamiwa"	92,000
Sps "merkuri"	-
Sps mze	1,000
ss "marsi"	18,800
ss "mTvare"	-
ss marsi	19,000
Grand Total	130,800

Ageing by Days Outstanding			
Greater Than	***Less Than***	***Total***	***% of Total***
	30	3,000	2%
29	59	-	0%
59	90	-	0%
89		127,800	98%

Total	130,800

A/R Analysis for Calculation of General & Specific Allowance

Specific Allowance

See 2.05 in Policies & Procedures Manual

Note or payment Plan	25%
Attorney or Collection Account	50%
Attorney with less chance of recovery	75%
Bankrupt	100%

Inv. #	***Amount***	***Specific Reserve***
'0021	92,000	23,000

General Reserve

See 2.05 in Policies & Procedures Manual

2%	Current
5%	1-30 Days Past Due
25%	Over 31 Days Past Due

		Less Specific	**Total**	**General Reserve**
Current	-		-	-
1 to 30	3,000		3,000	150
> 31	127,800	(92,000)	35,800	8,950
Total	130,800	(92,000)	38,800	***9,100***

Address		**Invoice Number**	1290
Tel/Fax		*Contract/Confirm. #*	
e-mail			
ntification Code		**G/I Transaction #**	

Customer

Customer Nam	**saaqcio sazogadoeba "merkuri"**				
Address	**gamsaxurdias gamz. 65**				
City	**Tbilisi**	Region	4	Code	21
Telephone	11-11-11	Fax			

Date	20/01/2000
Order #	12-23/10
Date of Receipt	
of Invoice	03/02/2000

Quantity	Item	Unit Price	Total
300	nedli navTobi #234	$120.00	36,000.00
120	nedli navTobi #177	$100.00	12,000.00

Gross	48,000.00
20%	9,600.00
20%	9,600.00
3%	1,440.00
Grand Total	65,760.00

Payment Conditions

- [x] Cash
- [ ] Credit
- [ ] Bank Transfer

Acct. # 954332

Bank

Bank Code

Signature

Director

Chief Accountant

Additional Terms

Conditions of Discount: Payment should be made within 30 days; if payment is made within 10 days a 3% discount is granted.

Payment

Payment	**Amount**	**Description**
20/01/2000	25,000.00	
31/01/2000	39,000.00	Bank Transfer
Balance	1,760.00	

Company Policies and Procedures

Engouri Dam

Company Policies and Procedures

Financial Planning and Analysis - Chapter 1

ENGOURI DAM
FINANCIAL PLANNING & ANALYSIS POLICIES

Number: 1.01

Effective Date:

Written By: Deloitte&Touche

Modified By: **CEO Approval:**

Date Modified: **Date:**

Title: Annual Financial Plans/Operating Expense Budgets

1.0 Purpose and Scope

1.1 The purpose of this policy is to define the annual financial planning activities and responsibilities.

1.2 This policy is effective for Engouri Dam operations.

2.0 Definitions

2.1 ***Annual Financial Plan:*** Planned profitability by month, by division in detail (i.e. Sales through Net Income in Income Statement format), supported by detailed operating expenses by account, function and by divisions; detailed capital expenditure plans and detailed headcount assumptions by function, department and division.

3.0 Responsibilities

3.1 Chief Financial Officer (CFO) is responsible for coordinating the entire process of preparing and implementing the annual financial plans.

3.2 The Planning Department of the company is responsible for reviewing and collecting financial plans from each division and preparing a detailed company's annual financial plan for approval by the Board of Directors.

4.0 Policy Statement

4.1 It is the policy of the Company to prepare detailed annual financial plans for each subsidiary and for the consolidated Company to facilitate achievement of overall corporate goals.

5.0 Procedures

5.1 The CFO assists the Board of Directors in identifying the strategic objectives for the Company that will form the basis for each annual financial plan.

5.2 The CFO establishes the framework for preparing the plan (i.e. timing, structure and format).

5.3 Planning Department establishes detailed operating objectives for each individual operation.

5.4 The head of each division of the company prepares his/her own annual plan and Planning Department collects, collates and reviews the completed plans and ensures that the plans are consistent with corporate objectives as established.

5.5 The CFO compiles the consolidated plan for approval by the Board of Directors.

5.6 Planning Department compares and analyses the actual and planned results. All variances above the set level have to be investigated and corrective action has to be suggested. The investigation together with suggested actions has to be approved by the CFO.

6.0 Exhibits

6.1 Planning Timeline (example for planning for the year 2001)

Date	Responsible person	Activity
June 2000	CFO and Board of Directors	Review the strategic objectives for the company (to identify if there should be any changes made or not)
June 2000	CFO and Planning Department	Establish the framework for preparing the plan and prepare conformable forms (if this is the second year, reviews for any changes since last year)
June 2000	Heads of each division	Fill the forms (prepared by Planning department and approved by CFO and Board of Directors) of planning
June 2000	Planning Department	Collects, collates and reviews the completed plans and ensures that the plans are consistent with corporate objectives as established
June 2000	CFO	Compiles the consolidated plan for approval by the Board of Directors
June 2000	Board of Directors	Approves the plan
December 2000	Planning Department	Analyses the last year results (according to actual results) and suggest corrections for already created plan for the next year
December 2000	CFO	Approves changes and give to Board of Directors for approval
March 2001	CFO, Planning department	Analyses and made final correction to the financial plan for the year 2001.
March 2001	Board of Directors	Approves the final version of the financial plan.
June 2001	CFO and Board of Directors	Review the strategic objectives for the company (to identify if there should be any changes made or not)

6.2 Annual financial plan

ENGOURI DAM
FINANCIAL PLANNING & ANALYSIS POLICIES

Number: 1.02

Effective Date:

Written By: Deloitte&Touche

Modified By: **CEO:**

Date Modified: **Date:**

Title: Revenue Forecast for Material Requirements Planning

1.0 Purpose and Scope

1.1 The purpose of this policy is to define and document the activities and responsibilities related to the Revenue Forecast for Material Requirements Planning.

1.2 This policy is effective for Engouri Dam operations.

2.0 Definitions

2.1 ***Material Requirements Planning (MRP):*** The process of determining type, quantity and timing of materials to be purchased and used for repairing and maintanance of fixed assets. The result is the demand created for each component by applying the forecasted sales to the bills of materials.

2.2 ***Domestic Revenue Forecast:*** The monthly summary of projected trade sales of electicity by part number for domestic regions.

2.3 ***International Revenue Forecast:*** The monthly summary of projected trade sales of electicity by part number for international regions.

3.0 Responsibilities

3.1 The CFO is responsible for coordinating the domestic and international detail forecasts.

3.2 The Planning Department is responsible for preparing financial plans.

4.0 Policy Statement

4.1 It is the policy of the Company to create a revenue forecast monthly for use in the Material Requirements Planning process.

5.0 Procedures

5.1 Planning department reviews the initial input to the Domestic Revenue Forecast and makes adjustments as needed for product availability and current booking rates.

5.2 Planning department reviews the initial input to the International Revenue Forecast and makes adjustments as needed for product availability and current booking rates.

5.3 The Domestic Revenue Forecast is consolidated with the International Revenue Forecast, summarized and presented to the Board of Directors for approval.

6.0 Exhibits/References

6.1 Exhibits

a. Domestic Revenue Forecast
b. International Revenue Forecast

ENGOURI DAM
FINANCIAL PLANNING & ANALYSIS POLICIES

Number: 1.03

Effective Date:

Written By: Deloitte&Touche

Modified By: **Chief Executive Officer Approval:**

Date Modified: **Date:**

Title: Key Indicator Monitoring System

1.0 Purpose and Scope

1.1 The purpose of this policy is to define activities and responsibilities related to the Key Indicators Monitoring System (KIMS).

1.2 This policy is effective for Engouri Dam operations.

2.0 Definitions

2.1 ***Key Indicators Monitoring System (KIMS):*** The monthly package used to report key business indicators to executive management.

2.2 ***Key Business Indicators:*** The ratios and relationships noted in the Key Indicators Monitoring System table of contents.

3.0 Responsibilities

3.1 CFO is responsible for compiling and maintaining the monthly financial statement package used in the KIMS reporting.

3.2 Planning Department is responsible for the collection of data from various sources and the compilation of the KIMS package.

4.0 Policy Statement

4.1 It is the policy of the Company to monitor business performance to identify areas of risk in a timely manner allowing management to take appropriate action to maintain the growth and profitability of the Company.

5.0 Procedures

5.1 Planning Department personnel gather data from the Financial Reporting Department, Human Resources Department and sales history maintained by Engouri Dam.

5.2 Planning Department reviews the information for accuracy and completeness then inputs it to the KIMS spreadsheets and generates the KIMS graphs, reports and documents.

5.4 The KIMS is reviewed by Planning Department and CFO and then distributed to executive management.

6.0 Exhibits

6.1 KIMS Table of Contents:

1. Short-Term solvency or Liquidity Ratios:

Current ratios = Current Assets/Current Liabilities

Quick ratio = (Current Assets-Inventory)/Current Liabilities

Cash ratio = Cash/ Current Liabilities

2. Turnover ratios:

Receivables turnover = Sales/Accounts Receivables

Days' sales in Receivables = 365/Receivables turnover

3. Financial Leverage Ratios

Total debt ratio = (Total assets – Total Equity)/Total Equity

Interest coverage ratio = (EBIT + Depreciation)/Interest

Debt ratio = Interest Bearing Debt/Equity

4. Profitability Ratios

Net Profit margin = Net Income/Sales

Return on Assets = Net Income/Total assets

Return on Equity (ROA)= Net Income/Total Equty

Return on Invested Capital = Earnings after tax but before interest and dividends/ (Equity + Interest Bearing Liabilities)

ENGOURI DAM
FINANCIAL PLANNING & ANALYSIS POLICIES

Number: 1.04

Effective Date:

Written By: Deloitte&Touche

Modified By: **CEO Approval:**

Date Modified: **Date:**

Title: Income Statement and Balance Sheet Forecasting

1.0 Purpose and Scope

1.1 The purpose of this policy is to define the activities and responsibilities related to the monthly forecast of Company financial statements.

1.2 This policy is effective for Engouri Dam.

2.0 Definitions

2.1 **Income statement *Forecast*:** A projection of future operating results based on available evidence and assumptions related to order and shipment history, gross margin analysis, spending plans, debt and tax structure, etc.

2.2 ***Sales/Revenue Forecasts*:** The statistical sales forecast prepared for domestic operations using contract data with direct customers and shipment histories prepared each month to support the product planning process.

3.0 Responsibilities

3.1 Financial department is responsible for preparing detailed structure of operating expenses, including the direct labor, inventory (mostly oil for transformators), and overhead projections and forwarding the information to Planning Department for review and inclusion in the forecast.

3.2 Planning Department is responsible for the revenue and margin forecasts used to support the income statement and preparation of the monthly income statement and balance sheet forecasts.

3.3 Planning Department is responsible for reviewing the forecast with the CFO.

4.0 Policy Statement

4.1 It is the policy of the Company to forecast profitability and financial condition to identify areas of risk in a timely manner allowing management the opportunity to take appropriate action to maintain the growth and profitability of the Company.

5.0 Procedures

5.1 Planning Department estimates trade sales for each month within the forecast horizon using the various revenue forecasts and other available evidence.

5.2 Planning Department prepares the Income statement and balance sheet forecast using this and other available data including historical financial statements and evidence regarding anticipated changes in the asset, debt or capital structure of the company.

6.0 Exhibits

a. Income Statement Forecast
b. Sales/Revenue Forecast

ENGOURI DAM
FINANCIAL PLANNING & ANALYSIS POLICIES

Number: 1.05

Effective Date:

Written By: Deloitte&Touche

Modified By: **CEO Approval:**

Date Modified: **Date:**

Title: Capital Expenditure Authorization

1.0 Purpose and Scope

1.1 The purpose of this policy is to define the activities and responsibilities related to capital expenditure review and approval necessary for Engouri Dam to plan for capital resources and to ensure expenditures are consistent with the Company's business objectives.

1.2 This policy is effective for Engouri Dam operations.

2.0 Definitions

2.1 ***Capital Expenditure:*** Any asset of significant value (greater than GEL 1,000) with a useful life of more than one year. The capitalized amount includes the purchase cost plus any freight, installation and/or construction costs, etc.

2.2 ***Capital Expenditures Budget:*** All planned or expected capital expenditures, regardless of amount, should be included in the annual budget and approved by the Chief Financial Officer and Board of Directors'.

2.3 ***Capital Expenditure Authorization (CEA):*** The form which describes and justifies the proposed asset purchase. It is prepared for all capital expenditures in excess of GEL 10,000. However, if a project has been included in the annual budget and does not exceed GEL 20,000, the cost/benefit section of the CEA need not be completed. The amount requiring approval via the CEA is the total cost of all assets in a given project.

This is in addition to the normal Purchase Requisition procedures to be followed for all purchases.

2.4 ***Purchase Requisition:*** The form which is prepared for all purchases. **It is not a substitute for the CEA.** For capital expenditures requiring approval, the approved CEA must be attached to the Purchase Requisition and forwarded to Procurement Department by the Accounting Department.

2.5 ***Signature Authorization List:*** The CEO office publishes a signature limit listing which is updated quarterly or on authority change for anyone in the listing. The listing establishes the required authorization levels for company purchases.

3.0 Responsibilities

3.1 The Requestor proposes capital expenditures in the annual budget, prepares the CEA and obtains appropriate approvals.

3.2 The Director of Procurement Department is responsible for initial approval of the annual capital expenditures budget and the CEA.

3.3 Planning Department analyzes the cost/benefit justification on the CEA and makes its recommendation to the CFO.

3.4 The CFO and the Board of Directors approves or disapproves capital expenditures in accordance with the Signature Authorization List and the annual budget.

3.5 Procurement Department ensures an approved CEA and Purchase Requisition has been submitted, selects or approves vendor choices and issues a Purchase Order.

4.0 Policy Statement

4.1 It is the policy of the Company to prepare expenditure requests for capital items (which includes land, buildings and improvements, furniture and fixtures, machinery and equipment, software and vehicles) in excess of GEL 10,000 to be authorized in advance by an approved Capital Expenditure Authorization (CEA).

4.2 This policy is applicable to all capital additions regardless of financing alternatives. For example, consideration of lease financing does not preclude the need for a CEA.

It is also the policy of the Company to capitalize and depreciate these expenditures in accordance with Generally Accepted Accounting Principles (GAAP).

5.0 Procedures

5.1 Generally, for resource planning purposes, all proposed capital expenditures are included in the annual Capital Expenditures budget.

5.2 A CEA is completed for all capital expenditures in excess of GEL 10,000. The CEA need not be prepared during the budgeting process if the assets will not be purchased immediately. All sections except the CEA# and those designated FINANCE AND ACCOUNTING must be filled out by the Requestor. The justification explains the benefits of purchasing the item contrasted against the impact of not purchasing it. Information on recommended vendors and competitive bids or alternative sources must be provided with the CEA. If the recommended vendor's cost is higher than other sources, support for use of this vendor must be included with the CEA.

5.3 The completed CEA is submitted to Planning Department, which reviews the cost/benefit analysis provided and numbers the form sequentially. If clarification is

needed, Planning Department contacts the Requestor. Planning Department may also prepare a cash flow analysis if it is deemed relevant to the approval decision.

5.4 Financial Department reviews the CEA and exhibits for vendor-supplied financing quotes and evaluates financing alternatives and capital requirements. Decisions related to financing are made by the Financial Department after consulting with the Requestor and Procurement Department regarding the circumstances of the purchase. Financial Department, if necessary, provides Purchasing with instructions regarding third party leasing companies, etc.

5.5 With its recommendation, Planning Department forwards the CEA to the CFO and deputy CEO for approval.

5.6 Capital Expenditures in excess of GEL 30,000 are submitted to the CEO. In addition, capital expenditures in excess of GEL 1 million require approval by the Board of Directors. The approved CEA is returned to Planning Department to be distributed.

5.7 Once final approvals are obtained, Planning Department sends a copy of the CEA to the Procurement Department with the completed Purchase Requisition. **The CEA does not replace the Purchase Requisition**. The Requestor indicates any vendor recommendations and other pertinent information on the Purchase Requisition.

5.8 After verifying that appropriate approvals have been obtained, Procurement Department and issues a Purchase Order.

5.9 Planning Department provides a copy of the approved CEA to the Accounting Department, which ensures that capital project costs for all approved CEA's are accumulated and accounted for properly.

5.10 If it becomes evident that the cost of a project will exceed the original estimate by 10% or more, the Requestor must prepare a supplemental CEA and circulate it with the original CEA for approval.

6.0 <u>Exhibits/References</u>

6.1 Exhibits

a. Capital Expenditure Authorization (CEA) Form
b. Purchase Requisition

6.2 References

a. Fixed Asset Capitalization Policies

Company Policies and Procedures

Accounts Receivable - Chapter 2

ENGOURI DAM
ACCOUNTS RECEIVABLE POLICIES

Number: 2.01

Effective Date:

Written By: Deloitte & Touche

Modified By:_ **CEO Approval:**

Date Modified:_ **Date:**

Title: Aged Accounts Receivable Report and Uses Thereof

1.0 Purpose and Scope

1.1 The purpose of this policy is to assign responsibility for the maintenance of the allowance for uncollectible accounts and to ensure that the responsible party maintains an adequate account balance in the allowance for uncollectible accounts. The purpose of this policy is also to establish procedures that define processes related to the allowance for uncollectible accounts such as a provision process and a write-off process.

2.0 Definitions

2.1 ***Allowance for Uncollectible Accounts ("Allowance Account")***: The contra-account to Trade Accounts Receivable that is used to provide for potentially uncollectible accounts (General Ledger Account 1320).

2.2 ***Aged Accounts Receivable Report: The*** detailed report of open accounts receivable which lists the balances of all open invoices, credit memos and unapplied payments. Totals are aged in the following categories: current; 1-30 days past due; 31-60 days past due; 61-90 days past due; 91+ days past due. The deputy chief accountant uses the Aged Accounts Receivable Report to prepare his/her own analysis.

3.0 Responsibilities

3.1 The accounts receivable accountant is responsible for monitoring the allowance account's balance and for processing write-offs against the allowance when the deputy chief accountant requests the processing of the write-offs. Using the approved analysis as a reference, the accounts receivable accountant makes allowance account adjustments.

3.2 The deputy chief accountant is responsible for preparing the detailed analysis of open Accounts Receivable. The analysis calculates anticipated uncollectible account amounts. The deputy chief accountant is also responsible for initiating the write-off of uncollectible customer accounts against the allowance account.

3.3 The Chief accountant reviews and approves adjustments to the allowance account. The Chief accountant is responsible for ensuring that the balance of the allowance account is adequate.

4.0 Policy Statement

4.1 It is the policy of the Company to maintain an adequate and appropriate allowance for uncollectible accounts. An adequate allowance ensures that the company's receivables are valued in accordance with International Accounting Standards (IAS). As such, this process shall be conducted quarterly to ensure adequacy of the reserve.

5.0 Procedures

5.1 At the end of each month, the Accounts receivable accountant delivers to the Deputy chief accountant a detailed analysis of the Accounts Receivable balance.

5.2 As part of the Accounts Receivable balance analysis, the Deputy chief accountant reviews each customer account which has a past due balance greater than 50,000 GEL. The deputy chief accountant determines the amount of reserve (called a specific reserve) necessary to compensate for the accounts being reviewed.

In addition to this specific reserve, the reserve for accounts not included in the detailed review (called a general reserve) is determined. The general reserve amount compensates for accounts with past due balances less than 50,000 GEL. The general reserve amount is calculated using only accounts that are not included in the specific reserve. The general reserve amount is a summation of: 2% of the balance aged as current, 5% of the balance 1-30 days past due and 25% of the balance over 30 days past due. These percentages may be periodically updated or changed by the Deputy chief accountant and the Chief accountant.

5.3 The deputy chief accountant recommends any necessary allowance account provisions to the Chief accountant.

5.4 All practical collection efforts are exhausted before an account is considered for write-off. This includes resolving disputes, establishing special payment schedules, using collection agencies and taking legal action to force payment. On a monthly basis, the Deputy chief accountant prepares a list of customer accounts that are to be written off against the allowance account. When the Deputy chief accountant adds a customer account to this list, the Deputy chief accountant considers the amount in the customer account to be uncollectible.

This list is submitted to the Chief accountant for review and approval.

5.5 The Chief accountant reviews and approves all provisions to and write-offs against the allowance account.

ENGOURI DAM
ACCOUNTS RECEIVABLE POLICIES

Number: 2.02

Effective Date:

Written By: Deloitte & Touche

Modified By:_ **CEO Approval:**

Date Modified:_ **Date:**

Title: Invoice Processing

1.0 Purpose and Scope

1.1 The purpose of this policy is to define Accounts Receivables activities and responsibilities as related to invoice processing.

2.0 Definitions

2.1 No specific terms used.

3.0 Responsibilities

3.1 The accounts receivable accountant is responsible for confirming the volume of power transmitted for each customer.

3.2 The accounting department is responsible for the printing, verification and maintenance of all invoice records.

4.0 Policy Statement

4.1 It is the policy of the Company to process invoices in a complete, accurate and timely manner.

5.0 Procedures

5.1 General Comments:

a. Invoicing takes place on XXX system.

5.2 Invoicing:

a. The accounts receivable accountant obtains confirmations from clients indicating the amount of energy received (in order to account for electricity lost during transmission). These confirmations are the originating documents from which invoices are generated and should be referenced on the invoices as well as attached to copies of invoices for filing purposes.

b. The accounts receivable accountant processes and prints the invoices monthly, passes them to the Chief accountant for approval (together with a copy of confirmation from the customer) and after the approval is granted, the invoice is mailed to the customer.

c. The printed invoice forms are separated in the following manner.

Copy 1: The original invoice that is mailed to the customer.

Copy 2: This copy is maintained in a customer file with the attached confirmation until the end of the fiscal year.

5.3 Adjusting Invoices for Errors Discovered

a. In case of errors during processing of original invoices and subsequent discovery of such errors by the processor or the client, proper authorization should be obtained in order to issue credit memos.
b. The accounts receivable accountant should obtain the authorization of the Chief accountant by filling out the Credit Memo Authorization Form and obtaining the appropriate signature.
c. The amount is then entered into the A/R detail ledger and note made for posting to the G/L.

ENGOURI DAM
ACCOUNTS RECEIVABLE POLICIES

Number: **2.03**

Effective Date:

Written By: **Deloitte & Touche**

Modified By:_ **CEO Approval:**

Date Modified:_ **Date:**

Title: Unapplied Cash

1.0 Purpose and Scope

1.1 The purpose of this policy is to define the activities and responsibilities related to Unapplied Cash.

2.0 Definitions

2.1 ***Unapplied Cash:*** Customer payment on an account that cannot be identified with a specific invoice.

3.0 Responsibilities

3.1 The accounts receivable accountant is responsible for applying unapplied payments to customers' accounts and for notifying the deputy chief accountant when a customer's payment cannot be identified/applied.

3.2 The deputy chief accountant is responsible for resolving with the customer all unapplied payments on the customer's account.

4.0 Policy Statement

4.1 It is the policy of the Company to handle unapplied cash resolution in a timely and accurate manner.

5.0 Procedures

5.1 Unapplied Cash:

a. The cash and bank accountant provides the accounts receivable accountant with a photocopy of all bank transfers that cannot be applied to specific invoices because the remittance advice lacks the necessary information.

b. On a daily basis, the accounts receivable accountant reviews the prior day's unapplied cash transactions. The accounts receivable accountant searches for information that was not available to the cash and bank accountant.

c. If the analysis does not reveal the necessary missing information, the accounts receivable accountant generates a Payment Discrepancy Form (PDF) and sends the form to the deputy chief accountant.

d. The accounts receivable accountant maintains the follow-up copy of the Payment Discrepancy Form and adds the information to an open items list.

e. The accounts receivable accountant follows up on items in the open items list. The accounts receivable accountant checks with the deputy chief accountant to determine the status of open items list items.

f. After an unapplied payment has been resolved, the customer must apply the unapplied cash to specific invoices. The customer applies the unapplied cash by either deducting the credit amount from the customer's next payment remittance or by submitting a "0" (zero) remittance advice.

ENGOURI DAM
ACCOUNTS RECEIVABLE POLICIES

Number: 2.04

Effective Date:

Written By: Deloitte & Touche

Modified By: _ **CEO Approval:**

Date Modified: _ **Date:**

Title: Cash Receipts/Cash Application

1.0 Purpose and Scope

1.1 The purpose of this Policy is to define the activities and responsibilities that relate to the processing of cash receipts and payment of customer accounts.

2.0 Definitions

2.1 ***Accounts Receivable Aging:*** **The** weekly report of aging of accounts receivable.

2.2 ***Daily Cash Receipts Report:*** **The** daily report of cash receipts.

2.3 ***Monthly Miscellaneous Cash Receipt Report:*** **The** monthly reports of cash receipts that cannot be applied or any other cash receipts except the usual cash receipts.

2.4 ***Adjustments Report:*** **The** monthly report of adjustments to accounts receivable.

3.0 Responsibilities

3.1 The cash and bank accountant is responsible for processing/posting cash receipts. The accounts receivable accountant is responsible for following up on and for resolving short paid items and unapplied cash payments (See Unapplied Cash and Open Credit Memo Resolution Policy and Payment Discrepancies Policy).

3.2 The IT department is responsible for the daily processing of data entry and for the printing of daily/weekly/monthly audit reports.

3.3 The cash and bank accountant is responsible for the maintenance of banking relationships.

4.0 Policy Statement

4.1 It is the policy of the Company to apply cash receipts to customer accounts in a timely and accurate manner ensuring that customer accounts are accurately stated.

5.0 Procedures Categorized by Sub-section

5.1 Bank Transfers Processing

a. Bank transfer details are received daily from participating financial institutions. Each set of details is treated as a separate batch. Each batch is categorized according to the batch's origin. Each batch is assigned the next available sequential batch number when it is entered in system.

b. The cash and bank accountant begins the application process by entering the information received from the bank into the accounts receivable detail listing by batch. Once this has been performed, the appropriate journal entries are documented for cash and A/R. After posting of all items at the end of the month, Cash and A/R balances should equal the bank statements and the detail A/R ledger.

ENGOURI DAM
CREDIT POLICIES

Number: **2.05**

Effective Date:

Written By: **Deloitte & Touche**

Modified By:_ **CEO Approval:**

Date Modified:_ **Date:**

Title: New Accounts

1.0 Purpose and Scope

1.1 The purpose of this procedure is to define activities and responsibilities related to applications which request open account terms, otherwise known as credit. Customers seeking open account terms wish to purchase Engouri DAM services on credit.

2.0 Definitions

2.1 There are no unique terms or definitions.

3.0 Responsibilities

3.1 Deputy chief accountant is responsible for reviewing credit applications to ensure that the credit applications meet the requirements for becoming a direct account with Engouri DAM. The applications are then forwarded to the Chief accountant.

3.2 The Chief accountant processes the applications and together with the CEO determine if credit terms should be granted.

4.0 Policy Statement

4.1 It is the policy of the Company to extend open account terms to customers after the completion of a financial review and after the acquisition of management's approval.

5.0 Procedures

5.1 The signed credit application form is sent from the deputy chief accountant to the Chief accountant.

5.2 Upon receipt of the credit application, the deputy chief accountant reviews the application; the deputy chief accountant ensures that application has been filled out properly and has been signed by an officer of the client company.

5.3 The deputy chief accountant also signs the application. The signature assures the Chief accountant that the customer on the application meets the requirements.

5.4 The Chief accountant reviews the application and looks for (1) bank references; (2) trade references.

5.5 A financial statement accompanies the credit application. The financial statement is either an audited financial statement or a financial statement that bears signatures that attest to the financial statement's accuracy and validity. If financial statements do not accompany the credit application, the credit department sends the applicant a letter requesting financial statements.

5.6 Reference letters are mailed to all references, both bank and trade.

5.7 Chief accountant reviews the returned references and available financials and together with CEO determine if a line of credit can be established based on this information.

5.8 If a line of credit is established, a letter documenting the credit terms is sent to the deputy chief accountant, the accounts receivable accountant and to the customer. The accounts receivable accountant types the credit limit into the computer.

5.9 If a credit limit cannot be established based on the accumulated information, a letter is sent advising the customer to submit additional information or to make other arrangements. The Chief accountant then evaluates the additional information and alternative arrangements to determine if the customer should be granted open account terms.

5.10 If credit cannot be granted, a letter is sent advising the customer of this fact and of alternative financing options external to Engouri DAM.

ENGOURI DAM
CREDIT POLICIES

Number: 2.06

Effective Date:

Written By: Deloitte & Touche

Modified By:_ **CEO Approval:**

Date Modified:_ **Date:**

Title: Allowance for Doubtful Accounts

1.0 Purpose and Scope

1.1 The purpose of this procedure is to define the activities and responsibilities related to the computation of the quarterly Bad Debt Reserve.

1.2 This procedure is effective for ENGOURI DAM domestic operations.

2.0 Definitions

2.1 There are no unique terms or definitions.

3.0 Responsibilities

3.1 The deputy chief accountant computes the Bad Debt Reserve using the procedures described.

4.0 Policy Statement

4.1 It is the policy of the Company to maintain an adequate and appropriate allowance for uncollectible accounts. An adequate allowance ensures that the company's receivables are valued in accordance International Accounting Standards (IAS). As such, this process shall be conducted monthly to ensure adequacy of the reserve.

5.0 Procedures

5.1 The month-end Accounts Receivable Aging is used to determine the Total, Current, 1-30 Days Past Due and Over 31 Days Past Due totals.

5.2 The Inter-Company accounts are deducted from the month-end Accounts Receivable Aging in order to arrive at a starting number.

5.3 A Specific Reserve is computed by listing all accounts which show a debt of 50,000 GEL or more and which are 31 or more days past due.

5.4 An evaluation of these overdue accounts takes place; the evaluator determines the collectibility of the Past Due accounts. The evaluator uses the following percentages to determine the collectibility of Past Due accounts:

25% - Note or payment plan
50% - Attorney or Collection Account
75% - Attorney with less chance of recovery
100% - Bankrupt

5.5 The evaluator creates an analysis sheet that lists the uncollectible Past Due accounts. The evaluator computes the totals on the analysis sheet and subtracts the Past Due account totals from the month-end Accounts Receivable Aging totals.

5.6 A General Reserve is computed with percentages provided by Accounting:

2% - Current
5% - 1-30 Days Past Due
25% - Over 31 Days Past Due

The percentages are multiplied by the remaining totals on the analysis sheet.

5.7 The General Reserve and Specific Reserve totals are added together to obtain the Reserve for Bad Debt total.

ENGOURI DAM
CREDIT POLICIES

Number: 2.07

Effective Date:

Written By: Deloitte & Touche

Modified By:_ **CEO Approval:**

Date Modified:_ **Date:**

Title: Legal-Attorney or Collection Agency Accounts

1.0 Purpose and Scope

1.1 The purpose of this policy is to define the procedure for handling accounts receivable which have become uncollectible through normal in-house procedures.

2.0 Definitions

2.1 ***Placement:*** Turning an accounts receivable balance over to a collection agency or attorney for action.

3.0 Responsibilities

3.1 The Chief accountant is responsible for approving the placement of any account with an outside attorney or collection agency.

4.0 Policy Statement

4.1 It is the policy of the Company to exhaust all in-house efforts to effect collection of past due receivables, before using outside means. The placement of accounts with outside attorneys or collection agencies is only made as a final collection effort, or to reaffirm the uncollectibility of the account.

5.0 Procedures

5.1 Unpaid receivables over 90 days old are reviewed twice a month by the deputy chief accountant. Determination is made if payment has been promised or a payment plan has been agreed upon.

5.2 A final demand for payment is sent to the account by certified mail. A copy of the demand is also sent to the Chief accountant and CEO.

5.3 If the customer does not respond to the final demand within ten days, the customer, including copies of the open invoices and statement of account is forwarded to the Chief accountant for disposition.

5.4 If the account exceeds 20,000 GEL, the Chief accountant contacts a legal firm and placement is made.

5.5 If the account is less than 20,000 GEL, the Chief accountant decides which of the two collection agencies will be used. This decision is usually based on geographical location of the debtor. The collection agency is contacted and placement is made.

5.6 Confirmation of receipt of the claim by the attorney or the collection agency is usually received within seven days.

5.7 Outside collection activity begins and the account remains open on the Accounts Receivable Aging until payment in full is received or the account is deemed uncollectible and is written off against the Allowance for Doubtful Accounts (See Reserve for Bad Debt Computation and Allowance for Doubtful Accounts policies).

ENGOURI DAM
CREDIT POLICIES

Number: 2.08

Effective Date:

Written By: Deloitte & Touche

Modified By:_ **CEO Approval:**

Date Modified:_ **Date:**

Title: Credit Hold

1.0 Purpose and Scope

1.1 The purpose of this policy is to define how and why a customer account may be put on credit hold.

2.0 Definitions

2.1 ***Credit Hold:*** The process of stopping customer order placement and supplying of services.

2.2 ***Past Due:*** The condition when payment from a customer is not received in a timely manner, and the deputy chief accountant has not been able to effect promise for payment from the customer.

3.0 Responsibilities

3.1 The deputy chief accountant is responsible for the collection of the accounts receivable.

3.2 It is the Chief accountant and CEO's responsibility to determine whether the account should be on credit hold.

3.3 It is the responsibility of the accounts receivable accountant to enter the credit hold in the system file.

4.0 Policy Statement

4.1 It is the policy of the Company that no additional credit shall be granted to a past due customer unless the Company's interests are adequately protected.

4.2 It is the policy of the Company to treat all customers fairly while protecting the Company's interests as they relate to accounts receivable.

5.0 Procedures

5.1 Accounts are reviewed daily by the accounts receivable accountant, customers who are more than 15 days past due are identified to passed to the deputy chief accountant to be contacted by telephone to determine why the past due item(s) have not been paid.

5.2 The deputy chief accountant determines from the customer whether payment can be expected, and when.

5.3 The results of the conversation with the customer, the past due nature of the account, the credit risk involved with shipping more product if the customer is under their assigned credit limit, and the protection of the Company's interests all impact the determination of whether the account is put on credit hold. If the deputy chief accountant determines that the customer should be placed on hold, he/she has to receive an approval from the Chief accountant and CEO.

5.4 If it is determined that placing the account on credit hold is the appropriate action and the approval has been received, the customer is notified by telephone by the deputy chief accountant that the account is to be placed on hold. If the customer cannot be reached by telephone, a letter is sent.

5.5 The accounts receivable accountant enters the system and places the account on credit hold.

5.6 Hold status prevents delivery of additional services.

5.7 Hold status may only be lifted by the CEO and the Chief accountant based on the agreement of the customer to pay or receipt of payment.

ENGOURI DAM
CREDIT POLICIES

Number: 2.09

Effective Date:

Written By: Deloitte & Touche

Modified By:_ **CEO Approval:**

Date Modified:_ **Date:**

Title: Customer Credit Terms

1.0 Purpose and Scope

1.1 The purpose of this policy is to define the terms and methods by which sales of Company services are made to our customers.

2.0 Definitions

2.1 ***Net 30:*** Standard payment terms for all customers. Payment is due 30 days from date of invoice.

2.2 ***Cash In Advance:*** Payment terms for a customer who cannot qualify for Net 30 terms. Payment is due prior to providing of services.

3.0 Responsibilities

3.1 The Chief accountant is responsible for assignment of terms.

4.0 Policy Statement

4.1 It is the policy of the Company that all customers be treated fairly.

5.0 Procedures

5.1 The Chief accountant assigns the terms code based on credit limit review of the customer (See Credit Limits policy).

5.1 An order must be placed by the customer before an account number is assigned by Chief accountant.

5.3 Once the account is assigned, the accounts receivable accountant enters the customer's terms code into the system file.

ENGOURI DAM
CREDIT POLICIES

Number: 2.10

Effective Date:

Written By: Deloitte & Touche

Modified By: _ **CEO Approval:**

Date Modified: _ **Date:**

Title: Credit Limits

1.0 Purpose and Scope

1.1 The purpose of this policy is to define the method by which the Credit Department establishes credit limits for our customers.

2.0 Definitions

2.1 ***Standard Terms:*** Payment terms for most customers, payment due in 30 days from date of invoice.

2.2 ***Non-Standard Terms:*** Other than payment due in 30 days

3.0 Responsibilities

3.1 The Chief accountant and deputy chief accountant are responsible for the analysis of the customer's credit application, credit and bank references and financial statements for the determination of customer credit limits.

3.2 The Chief accountant is responsible for approving all non-standard terms and credit limits over 100,000 GEL.

4.0 Policy Statement

4.1 It is the policy of the Company that credit limits be established for each customer which are commensurate with the customers requirements for our products and ability to pay for these products within the established payment terms.

5.0 Procedures

5.1 The Company's financial condition, present standing with trade creditors and financial institutions and length of time in business are evaluated to reach an acceptable line of credit.

5.2 All customers are informed in writing of the established credit line, if any, as is the accounts receivable accountant.

5.3 Within the limits of sound credit practices, the Chief accountant endeavors to find a suitable credit basis on which to deal with every active or potential customer.

5.4 In the performance of its duties, the Chief accountant shall maintain a positive and constructive attitude towards the Company's customers. The standards by which credit risks are accepted or rejected shall be flexible enough to permit maximum profitable sales with safety of investment.

Company Policies and Procedures

Fixed Assets - Chapter 3

ENGOURI DAM
GENERAL LEDGER POLICIES

Number: 3.01

Effective Date:

Written By: Deloitte & Touche

Modified By: _

CEO Approval:

Date Modified: _

Date:

Title: Fixed Asset Capitalization for External Purchases

1.0 Purpose and Scope

1.1 The purpose of this policy is to define the activities and responsibilities that relate to the capitalization of company owned fixed assets that are purchased from external vendors.

2.0 Definitions

2.1 ***Fixed Assets: Tangible*** assets are the machinery, equipment, furniture and fixtures that Engouri Dam uses to conduct its business. Each asset is recorded on the Balance Sheet and is depreciated over the estimated useful life of the asset.

2.2 ***Useful Life:*** Period in which asset is used in the ordinary course of business operations. (See Section 4.0 for the estimated useful life of each fixed asset type).

3.0 Responsibilities

3.1 It is the responsibility of the ORIGINATING DEPARTMENT to complete the Purchase Requisition Form and to properly code the general ledger account number (000-1799) for all items which meet the capitalization criteria (See Section 4.0). It is also the responsibility of the ORIGINATING DEPARTMENT to complete a Capital Equipment Authorization (CEA) Form and to obtain all appropriate approvals for purchases that exceed **40,000 GEL**.

3.2 The PURCHASING DEPARTMENT is responsible for ensuring that all Purchase Requisition Forms for fixed asset purchases are coded to the proper general ledger account (000-1799) and that an approved CEA Form is received prior to placing each order.

3.3 It is the responsibility of the accounts payable accountant to make copies of all purchase orders, invoices and receivers that are coded to account 1799. The accounts payable accountant is also responsible for accruing sales tax that may have been erroneously omitted from invoices.

3.4 It is the responsibility of the deputy chief accountant to ensure that the asset is appropriately capitalized, to determine the useful life of the asset, approve these matters and to pass the information to the fixed assets accountant to record the asset in the Fixed Asset System and to issue Fixed Asset Tags to the Originating Department.

3.5 The DEPARTMENT MANAGER is responsible for the assets within his/her department. The DEPARTMENT COORDINATOR is responsible for tagging any equipment that has been capitalized. The DEPARTMENT COORDINATOR notifies the deputy chief accountant when assets are transferred to other departments or when assets are retired from service.

3.6 The DEPARTMENT MANAGER is responsible for the assets within his/her department. The DEPARTMENT COORDINATOR (or designee) is responsible for tagging any equipment that has been capitalized. The DEPARTMENT COORDINATOR notifies deputy chief accountant if an asset is transferred to another department.

If an asset is no longer being used, the DEPARTMENT COORDINATOR is responsible for the disposition of the asset and for notifying deputy chief accountant via a Fixed Asset Transfer/Retirement Form. The Fixed Asset Transfer/Retirement Form is completed when an asset has been retired (i.e. transferred to the Excess & Obsolete inventory, sold or scrapped.)

4.0 Policy Statement

4.1 It is the policy of the Company to capitalize all fixed asset purchases when the unit cost of the fixed asset exceeds **150 GEL** per unit or the useful economic life of the asset is greater than one year. It is the policy of the Company to depreciate a capitalized fixed asset over the asset's estimated useful life based on the following:

Computer Equipment	3 years
Telephone Equipment	5 years
Tooling	5 years
Software	2 years
Machinery & Equipment	5 years
Leasehold Improvements	shorter of 5 years or the life of the lease
Autos	5 years
Furniture & Fixtures	5 years
Building	40 years

5.0 Procedures

5.1 The Originating Department completes a Purchase Requisition for the capital equipment being purchased. The account number referenced in the Purchase Requisition is 000-1799. The Purchase Requisition also references the department number that will be charged with the depreciation expense. If the purchase is

greater than **40,000 GEL**, an approved CEA Form accompanies the Purchase Requisition Form to Purchasing.

5.2 Purchasing places the order after all appropriate approvals/CEAs have been reviewed.

5.3 Upon receipt of the order, the accounts payable accountant processes the vendor invoice for payment. The accounts payable accountant is responsible for ensuring that all appropriate receivers and authorizations are complete prior to vouchering the invoice in the Accounts Payable system. The accounts payable accountant also accrues sales tax if the vendor fails to include the sales tax on the invoice. The accounts payable accountant forwards a copy of the invoice to the deputy chief accountant.

5.4 The deputy chief accountant reviews all appropriate documentation (i.e. invoice copies, CEAs, etc.) prior to passing this information to the fixed asset accountant for capitalizing the asset on the fixed asset system. The deputy chief accountant also ensures that every piece of the purchase order has been received. The deputy chief accountant then authorizes the fixed asset accountant to issue an asset number and an inventory tag. The fixed asset accountant sends the asset number and inventory tag to the Department Coordinator. The fixed asset accountant also prepares a journal entry each month which transfers the assets vouched by the accounts payable accountant out of account 1799 and into the appropriate general ledger asset account (i.e. Machinery and Equipment, Furniture and Fixtures, etc.).

5.5 The Department Coordinator places the inventory tag on the asset. The Department Coordinator notifies the deputy chief accountant if the asset is ever physically moved to another department. If the asset is ever moved to another department, the Department Manager completes a Fixed Asset Transfer/Retirement Form.

5.6 At the time the asset is no longer useful, the Department Coordinator notifies the deputy chief accountant via a Fixed Asset Transfer/Retirement Form. When a Fixed Asset Transfer/Retirement Form is received, the deputy chief accountant orders the fixed asset accountant to cease depreciation of the asset and retire the asset off the fixed asset and general ledger systems. The fixed asset accountant then records the gain/loss on the retirement of the asset.

6.0 Exhibits/References

6.1 Exhibits

a. Purchase Requisition Form
b. Fixed Asset Transfer/Retirement Form

ENGOURI DAM
GENERAL LEDGER POLICIES

Number: 3.02

Effective Date:

Written By: Deloitte & Touche

Modified By:_ **CEO Approval:**

Date Modified:_ **Date:**

Title: Retirement of Capital Equipment

1.0 Purpose and Scope

1.1 The purpose of this policy is to define the activities and responsibilities related to retiring capital equipment.

2.0 Definitions

2.1 ***Fixed Assets:*** The tangible assets that Engouri Dam uses to conduct company business. Fixed assets include machinery, equipment, furniture and fixtures, etc. Fixed assets are recorded on the Balance Sheet in an asset account and are depreciated over the estimated useful life of the asset.

2.2 ***Estimated Useful Life:*** The period in which the asset is fully functional and is used to conduct company business (See Section 4.0 for estimated useful lives for each fixed asset type).

3.0 Responsibilities

3.1 It is the responsibility of the DEPARTMENT COORDINATOR to properly dispose of any capital equipment that is no longer being used to conduct company business (Please reference the Procedure Section of this document for capital equipment disposition instructions). When an asset's estimated useful life has ended, the asset can be dealt with in several different ways: the asset can be transferred to the Excess & Obsolete Department for salvage; the asset can be sold to an outside party or the asset can be discarded. The DEPARTMENT COORDINATOR is also responsible for completing. an Engouri Dam Fixed Asset Transfer/Retirement Form, obtaining proper authorization and forwarding the form to the deputy chief accountant.

3.2 The deputy chief accountant is responsible for ordering the fixed asset accountant to retire the asset from the Fixed Asset system and to properly record the retirement in the General Ledger.

4.0 Policy Statement

4.1 It is the policy of the Company to capitalize and depreciate any asset with a unit cost greater than **150 GEL or a useful life of greater than one year**. This practice is in accordance with Statutory accounting requirements in Georgia.

5.0 Procedures

5.1 Transfers to E&O:

a. If the asset is to be transferred to the Excess & Obsolete (E&O) Department, the Department Coordinator lets the E&O Department know the condition of the asset (good/poor/junk). The Department Coordinator completes the Fixed Asset Transfer/Retirement Form, obtains the signature of the Department Manager and attaches it to the equipment securely. If the net book value of the asset exceeds **5,000 GEL**, the CEO also approves the retirement.

b. The Department Coordinator contacts the Facilities Department to pick up the equipment. The Department Coordinator completes a "RAN Equipment Pick Up Form" which must be signed by Facilities as proof the equipment was indeed picked up. The E&O Manager inspects the equipment, signs the Retirement Form and forwards it to the deputy chief accountant.

c. The deputy chief accountant orders the fixed asset accountant to retire the asset from the Fixed Asset system. The net book value of the equipment is posted to the E&O Salvage account (090-4631).

d. The E&O Department then attempts to sell the asset. Any proceeds from a sale are coded to the E&O Salvage accounts (090-4631). Any deficiency/excess under/over book value upon sale is posted to the P&L Gain/Loss account.

5.3 Outside Sale of Asset:

a. If the asset is sold to an outside party, the Department Coordinator contacts the deputy chief accountant to obtain the Net Book Value of the asset. Once sold, the Department Coordinator attaches the check to the Fixed Asset Transfer/Retirement Form. The Department Manager must approve the Fixed Asset Transfer/Retirement Form. The form is then sent to the deputy chief accountant. If the asset's selling price is 5,000 GEL or more below the asset's Net Book Value, the CEO also must approve the asset's disposal. All asset sale proceeds are booked to the Gain/Loss account (000-9010).

b. The deputy chief accountant orders the fixed asset accountant to retire the asset from the Fixed Asset system. The net book value is automatically recorded as a debit to the Gain/Loss account on the General Ledger.

5.4 Permanent Disposal of Asset:

a. If the asset is permanently disposed of (other than by sale), the Department Coordinator completes a Fixed Asset Transfer/Retirement Form and obtains the Department Manager's signature on the form. If the Net Book Value of the asset exceeds 5,000 GEL, the CEO also approves of the disposal.

b. The deputy chief accountant orders the fixed asset accountant to retire the asset from the Fixed Asset system. The net book value automatically records as a debit to the Gain/Loss account on the General Ledger.

ENGOURI DAM
GENERAL LEDGER POLICIES

Number: 3.03

Effective Date:

Written By: Deloitte & Touche

Modified By:_ **CEO Approval:**

Date Modified:_ **Date:**

Title: Transfer of Company Owned Assets

1.0 Purpose and Scope

1.1 The purpose of this policy is to ensure that the appropriate paperwork is completed and forwarded to the deputy chief accountant when fixed assets are moved from one department to another department. The successful completion and routing of paperwork ensures that the appropriate department receives the fixed asset depreciation expense and that company owned assets are stated properly when the fixed assets are reported in accounting statements and tax reports.

2.0 Definitions

2.1 ***Fixed Assets***: The tangible assets that Engouri Dam uses to conduct company business. Fixed assets include machinery, equipment, furniture and fixtures, etc. Fixed assets are recorded on the Balance Sheet in an asset account and are depreciated over the estimated useful life of the asset.

2.2 ***Estimated Useful Life***: The period in which the asset is full functional and is used to conduct company business (See Fixed Asset Capitalization for Internal Purchases Policy for the estimated useful life of each fixed asset type).

3.0 Responsibilities

3.1 It is the responsibility of the DEPARTMENT TRANSFERRING THE ASSET to complete a Fixed Asset Transfer Form, to acquire the appropriate authorizations on the Fixed Asset Transfer Form and to forward the approved form to the deputy chief accountant.

3.2 It is the responsibility of the deputy chief accountant to authorize the fixed asset accountant to account for the transfer of an asset in the fixed asset system and in the general ledger system.

4.0 Policy Statement

4.1 It is the policy of the Company that a completed and approved Fixed Asset Transfer Form accompanies equipment that is moved from one department to another department.

5.0 Procedures

5.1 The Originating Department obtains the equipment's Asset Number from the deputy chief accountant. The Originating Department is responsible for completing a Fixed Asset Transfer Form and for obtaining the necessary approvals on the form; both the sending and receiving department managers must authorize the asset transfer. Then, the Originating Department forwards the approved Fixed Asset Transfer Form to the deputy chief accountant.

5.2 The deputy chief accountant is responsible for authorizing the fixed asset accountant to transfer the asset to the appropriate department within the Fixed Asset System. The deputy chief accountant is also responsible for authorizing the fixed asset accountant to record all of the recipient department's <u>future</u> depreciation expenses on the general ledger.

Company Policies and Procedures

Financial Reporting – Chapter 4

ENGOURI DAM
FINANCIAL REPORTING POLICIES

Number: 4.01

Effective Date:

Written By: Deloitte&Touche

Modified By:_ **CEO Approval:**

Date Modified:_ **Date:**

Title: Month-End Accounting Close

1.0 Purpose and Scope

1.1 The purpose of this policy is to define the activities and responsibilities of the accounting function as related to the accounting month-end close.

1.2 This policy is effective for Engouri Dam.

2.0 Definitions

2.1 ***Month-End Close:*** The process by which the Company closes each monthly accounting period.

2.2 ***Accounting Function:*** Chief accountant, deputy chief accountant, other accountants and other employees who have direct impact to the process of preparation of financial statements.

2.3 ***Operating Month:*** *Operating* month lasts from the first working day in a calendar month to the last working day in a calendar month. Saturday, Sunday and public holidays are not considered working days although the Company incurs certain expenses and earns income during those days.

3.0 Responsibilities

3.1 The Chief accountant is responsible for preparation of the final set of financial statements and the completeness of schedules and disclosures in the financial statements.

3.2 The deputy chief accountant is responsible for collecting all information necessary for closing the month from other accountants, preparing draft financial statements and submitting them to the Chief accountant for final review.

3.3 Other accountants are responsible for preparing information required by Chief accountant and deputy chief accountant and closing the account they are responsible for in time. Other accountants are responsible for accuracy and completeness of the closed account they are responsible for.

4.0 Policy Statement

4.1 It is the policy of the Company to close its accounting records and report its monthly financial results on a timely basis.

5.0 Procedures

5.1 5 working days before the end of the operating month Chief accountant distributes a check-list to all personnel within the Accounting function which indicates what action needs to be performed, who is responsible for performing the action; the deadline for the action to be finalized and the sign-off column where the preparer and the receiver date and sign when the action was finalized.

5.2 The accountant who is responsible for accounting for long term fixed assets carries out the following actions in relation to the closing of the account:

5.2.1 5 working days before the end of operating month the accountant makes sure he/she has received the checklist.

5.2.2 1 working day before the end of the operating month the accountant closes the accounts for fixed assets, accumulated depreciation, depreciation expense in cost of sales and administrative expenses and profit/loss on sale of fixed assets. The closing journal entries are shown at the end of this policy.

5.2.3 If an acquisition, sale or other disposal of fixed assets is anticipated during the last 1-3 days, those transactions should be included in the current month. If it is impossible to identify with certainty the actual day and amount of the transaction, Chief accountant should be notified and a decision to wait until the end of calendar month or to exclude the transaction should be made.

5.2.4 1 working day before the end of the operating month and after the closing of accounts as described in 5.2.2, the accountant prepares depreciation expense summary to the costing department. The accountant also prepares other information as required by the Chief accountant, such as, but not limited to, fixed asset movement table, the net book value of fixed assets pledged as collateral against loans, fixed assets which are not in use, fixed assets that are almost depreciated but still in use, etc.

5.2.5 As a final activity, the accountant should date and sign the checklist, deliver all the information to the deputy chief accountant who has to confirm the date and information he/she has received.

5.2.6 The accountant is responsible for investigating and correcting all reconciling items before submitting the final information to the deputy chief accountant. If necessary, the Chief accountant and deputy chief accountant should be consulted.

5.3 The accountant who is responsible for accounting for accounts receivable carries out the following actions in relation to the closing of the account:

5.3.1 5 working days before the end of operating month the accountant makes sure he/she has received the checklist.

5.3.2 1 working day after the operating month, the accountant collects data from the dispatcher regarding the customer and the amount of electricity (kWh) sold to that customer (including the last day of a calendar month) and processes the final invoices.

5.3.3 1 working day after the operating month, the accountant receives information on last cash receipts from the cash and bank accountant and posts appropriate reductions in the accounts receivable ledger.

5.3.4 1 working day after the operating month, the accountant updates the aging analysis of accounts receivable and submits that analysis to the deputy chief accountant. The deputy chief accountant has to quantify the final provision for doubtful receivables and submit the approved final figure to the accounts receivable accountant in 1 working day.

5.3.5 2 working days after the operating month the accountant should receive the final figure for provisions for doubtful receivables from the deputy chief accountant and make an appropriate journal entry. Journal entries relating to various levels of provisions are shown at the end of this policy.

5.3.6 1-2 working days after the end of operating month, the accountant prepares a summary of accounts receivable from Vardnili HPP and Engouri HPP and submits the summary to the deputy chief accountant.

5.3.7 As a final activity, the accountant should date and sign the checklist, deliver all the information to the deputy chief accountant who has to confirm the date and information he/she has received.

5.3.8 The accountant is responsible for investigating and correcting all reconciling items before submitting the final information to the deputy chief accountant. If necessary, the Chief accountant and deputy chief accountant should be consulted.

5.4 The accountant who is responsible for accounting for accounts payable carries out the following actions in relation to the closing of the account:

5.4.1 5 working days before the end of operating month the accountant makes sure he/she has received the checklist.

5.4.2 5 working days after the operating month the accountant collects all invoices received up to that point and posts the necessary ones that relate to the operating month that has just ended.

5.4.3 5 working days after the operating month the accountant receives information from the payroll accountant regarding payroll and related tax expense and posts those items in the payables ledger and income statement.

5.4.4 5 working days after the operating month, the accountant collects information from the procurement department and identifies if there are any supplies in transit for which the title and risk may have transferred to the Company. If such items exist, a journal entry must be posted for the full amount. Journal entry is shown at the end of this policy.

5.4.5 5-6 working days after the operating month, the accountant updates a list of expenditure for which invoices are usually not received within 10-15 days after the operating month, estimates the amount of expenditure (if necessary, he/she contacts the deputy chief accountant and/or other personnel who can provide the required information) and delivers the summary to the deputy chief accountant for approval. The deputy chief accountant has to review the expenditure estimates and change or leave them, whichever is the most appropriate based on the best of his/her knowledge and submit tothe Chief accountant for approval. After the amounts are approved, the deputy chief accountant should deliver the summary to the accountant who then makes the necessary journal entries. The journal entries are shown at the end of this policy. The summary of expenditure for accruals should include all expenditure regardless whether an invoices is issued or not (interest expense, vacation accrual, taxes, etc.).

5.4.6 5-6 working days after the operating month, the accountant collects information from the cash and bank accountant on all payments processed in the operating month and posts the relating reductions in the payables ledger.

5.4.7 5-6 working days after the end of operating month, the accountant prepares a summary of accounts payable to Vardnili HPP and Engouri HPP and submits the summary to the deputy chief accountant.

5.4.8 5-6 working days after the operating month the accountant obtains official foreign currency exchange rates applicable to the last calendar day of a month and recalculates the balance of liabilities denominated in foreign currencies. Any differences should be posted to the income statement. Journal entries are shown at the end of this policy.

5.4.9 As a final activity, the accountant should date and sign the checklist, deliver all the information to the deputy chief accountant who has to confirm the date and information he/she has received.

5.4.10 The accountant is responsible for explaining and correcting all reconciling items before submitting the final information to the deputy chief accountant. If necessary, the Chief accountant and deputy chief accountant should be consulted.

5.5 The deputy chief accountant carries out the following actions in relation to the closing of month:

5.5.1 The deputy chief accountant makes sure that all accountants received the checklist 5 working days before the end of operating month.

5.5.2 The deputy chief accountant investigates all the queries received from other accountants and makes a decision. The decision has to be coordinated with the Chief accountant and Chief accountant's approval is necessary for all decisions which require any sort of judgement or estimation to be made.

5.5.3 1 working day before the end of operating month the deputy chief accountant makes sure that he/she receives the closing journal entries from the accountant responsible for accounting for fixed assets. The journal entries have to be reviewed. If doubt to the amounts, correctness, classification, etc. rise, the deputy chief accountant has to obtain additional information from the accountant, the Chief accountant or the rest of the personnel. The deputy chief accountant has to date and sign the checklist provided by the accountant.

5.5.4 1 working day after the operating month the deputy chief accountant obtains an aging analysis from the accounts receivable accountant. The deputy chief accountant quantifies the final provision amount and obtains an approval from the Chief accountant. Then the summary is returned to the accounts receivable accountant. 2 working days after the operating month the deputy chief accountant receives the closing journal entries from the accounts receivable accountant. The journal entries have to be reviewed. If doubt to the amounts, correctness, classification, etc. rise, the deputy chief accountant has to obtain additional information from the accountant, the Chief accountant or the rest of the personnel. The deputy chief accountant has to date and sign the checklist provided by the accountant.

5.5.5 5-6 working days after the operating month the deputy chief accountant obtains a summary of expenditure estimates from the accounts payable accountant. The deputy chief accountant has to review the summary and modify it to the best of his/her knowledge. Then the summary has to be approved by the Chief accountant, after which the summary is returned to the accounts payable accountant. 6 working days after the operating month the deputy chief accountant receives the closing journal entries from the accounts payable accountant. The journal entries have to be reviewed. If doubt to the amounts, correctness, classification, etc. rise, the deputy chief accountant has to obtain additional information from the accountant, the Chief accountant or the rest of the personnel. The deputy chief accountant has to date and sign the checklist provided by the accountant.

5.5.6 7 working days after the operating month the deputy chief accountant makes sure that all checklists have been received and that all of them are signed-off. If any items are not received or signed-off, they have to be followed-up immediately and cleared within the same day.

5.5.7 7 working days after the operating month the deputy chief accountant performs the consolidation procedures (described as a separate policy).

5.5.8 7 working days after the operating month the deputy chief accountant prepares draft financial statements by putting together all journals (accounts receivable, accounts payable, sales, purchases, payroll, etc.) into a trial balance. The deputy chief accountant checks if the trial balance balances. In case it does not, the deputy chief accountant has to investigate and correct the reconciling items (if necessary the Chief accountant should be consulted).

5.5.9 After the trial balance is ready, the deputy chief accountant assembles and groups the trial balance accounts into draft financial statements. The deputy chief accountant also prepares all disclosures and notes to the financial statements.

5.5.10 8 working days after the operating month the deputy chief accountant delivers draft financial statements to the Chief accountant for review. The delivery pack should include draft financial statements, working papers, copies of closing journal entries, description of reconciling items etc.

5.6 The Chief accountant carries out the following actions in relation to the closing of month:

5.6.1 1 working day after the operating month the Chief accountant received a proposed level of provisions for accounts receivable from the deputy chief accountant. The Chief accountant has to conclude whether the provision is reasonable (if not, it has to be modified) and approve the final amount. The approved provision level is returned to the deputy chief accountant.

5.6.2 6 days after the operating month the Chief accountant receives a summary of estimated expenditure accruals. The Chief accountant has to make sure that all expenses and in full amounts have been included in the summary. The Chief accountant should follow the conservative principal when determining the amount of any accruals. The approved summary is returned to the deputy chief accountant.

5.6.3 8 working days after the operating month the Chief accountant receives a pack from the deputy chief accountant that has to include draft financial statements, working papers, copies of closing journal entries, description of reconciling items etc.

5.6.4 The Chief accountant has to review the working papers done by the deputy chief accountant when preparing the financial statements, draft financial statements, closing journal entries, reconciling items, consolidation adjustments etc. After the review the Chief accountant approves the financial statements. By approving the financial statements, the Chief accountant certifies that to the best of his/her knowledge all liabilities both actual and contingent have been accounted for, all assets are stated at lower of cost or net realizable value, all necessary disclosures have been made and that the financial statements are not materially misstated.

6.0 A sample form of the checklist

Task	Due date	Performed by	Date	Reviewed by	Date
Fixed assets					
The checklist received	5 days before month end				
All fixed asset acquisitions (including in transit) accounted for	1 day before month end				
All fixed assets disposals accounted for	1 day before month end				
The CA and DCA inquired about anticipated sales acquisitions of fixed assets	1 day before month end				
Depreciation charged	1 day before month end				
Depreciation expense summary submitted to the costing department	1 day before month end				
All reconciling items cleared	1 day before month end				
Closing entries submitted to the DCA	1 day before month end				
Accounts receivable					
The checklist received	5 days before month end				
Final invoices issued	1 day after month end				
Last cash receipts checked and posted	1 day after month end				
Aging analysis updated and submitted to the DCA	1 day after month end				
Approved provision obtained and posted	2 days after month end				
Accounts receivable from Vardnili HPP and Engouri HPP summarized and submitted to the DCA	2 days after month end				
All reconciling items cleared	2 days after month end				
Closing entries submitted to the DCA	2 days after month end				
Accounts payable					
The checklist received	5 days before month end				
All invoices received were collected and the necessary ones were posted	5 days after month end				
Information from payroll and tax departments received and posted	5 days after month end				
Supplies in transit received and posted	5 days after month end				
Accrued expenditure list updated and submitted to the DCA	5 days after month end				

Approved accruals received and posted	6 days after month end				
Last cash payments posted	5 days after month end				
Ammounts in foreign currency translated and the difference posted	5 days after month end				
Accounts payable to Vardnili HPP and Engouri HPP summarized and submitted to the DCA	5 days after month end				
All reconciling items cleared	6 days after month end				
Closing entries submitted to the DCA	6 days after month end				

Task	Due date	Performed by	Date	Reviewed by	Date
DCA					
The checklist distributed within the accounting function	5 days before month end				
The closing entries from fixed asset accountant received and checked	1 day before month end				
Aging analysis of accounts receivable received and checked	1 day after month end				
Approval of the aging analysis received and analysis passed to accounts receivable accountant	2 days after month end				
The closing entries from accounts receivable accountant received and checked	2 days after month end				
Summary of accruals received and checked	5 days after month end				
Approval of the summary received and the summary passed to accounts payable accountant	6 days after month end				
The closing entries from accounts payable accountant received and checked	6 days after month end				
All checklists received	7 days after month end				
Consolidation entries posted	7 days after month end				
Income statement closed	7 days after month end				
Draft financial statements prepared and submitted to the CA	8 days after month end				
CA					
Aging analysis of accounts receivable received and approved	2 days after month end				
Summary of accruals received and approved	6 days after month end				
The pack received and checked	8 days after month end				
Financial statements approved	9 days after month end				

Key: CA – Chief accountant, DCA – accountant.

7.0 Closing journal entries

7.1 The following entries should be made when performing actions in 5.2.2:

Description	Balance sheet		Income statement	
	Dr	Cr	Dr	Cr
Posting the final acquisitions of fixed assets	Fixed assets	Cash, accounts payable, share capital		
Charging depreciation		Accumulated depreciation	Cost of sales depreciation, administrative expenses depreciation	
Sale of a fixed asset (disposal)	Accounts receivable, cash	Fixed assets	Cost of the fixed asset	Revenue from the sale

7.2 The following entries should be made when performing actions in 5.3.5:

Description	Balance sheet		Income statement	
	Dr	Cr	Dr	Cr
Identifying a doubtful receivable	Doubtful receivables	Accounts receivable		
Posting an initial provision		Doubtful receivables	Provision for doubtful receivables	
Increasing the level of provisions		Doubtful receivables	Provision for doubtful receivables	
Reducing the level of provisions	Doubtful receivables			Provision for doubtful receivables

7.3 The following entries should be made when performing actions in 5.4.3, 5.4.4, 5.4.5 and 5.4.8:

Description	Balance sheet		Income statement	
	Dr	**Cr**	**Dr**	**Cr**
Posting payroll and tax expenses		Accounts payable	Cost of sales payroll expense, cost of sales tax expense, administrative expenses payroll, administrative expenses taxes	
Posting supplies in transit	Inventory in transit	Accounts payable		
Posting estimated accruals (initial)		Accrued expenditure	Interest expense, payroll expense	
Posting accruals in the next month (at first release previous period accruals)	Accrued expenditure (previous period)	Accrued expenditure (current period)	Interest expense (current period)	Interest expense (previous period)
Recalculation of payables in foreign currency (income)	Accounts payable			Forex income
Recalculation of payables in foreign currency (loss)		Accounts payable	Forex loss	

7.4 The following entries should be made when performing actions in 5.5.9:

Description	Balance sheet		Income statement	
	Dr	**Cr**	**Dr**	**Cr**
Closing the trial balance income statement accounts	Current period loss (if expenses are higher than revenue)	Current period profit (if revenue is higher than expenses)	All revenue and income accounts (all credits)	All expense accounts (all debits)

Company Policies and Procedures

Combinations - Chapter 5

ENGOURI DAM
FINANCIAL REPORTING POLICIES

Number: 5.01

Effective Date:

Written By: Deloitte & Touche

Modified By:_ **CEO:**

Date Modified:_ **Date:**

Title: Monthly Financial Statement Consolidation

1.0 Purpose and Scope

1.1 The purpose of this policy is to define the activities and responsibilities of the accounting function as related to the consolidation of monthly financial statements.

1.2 This policy is effective for Engouri Dam.

2.0 Definitions

2.1 ***Related Companies***: Engouri HPP, Engouri Dam and Vardnili HPP owned by the government. The parent company is Engouri HPP. Engouri Dam and Vardnili are subsidiaries of Engouri HPP.

2.2 ***Consolidating Company***: Engouri HPP will be responsible for preparation of the consolidated financial statements for all the related companies.

2.3 ***Consolidation***: Process by which the financial results of related companies are consolidated and presented as a consolidated entity in accordance with Generally Accepted Accounting Principles (GAAP).

2.4 ***Elimination Entries***: Accounting entries made in the preparation of consolidated financial statements to eliminate the effect of activity between related companies (i.e., intercompany transactions) in order to accurately present financial results of the consolidated entity.

3.0 Responsibilities

3.1 The deputy chief accountant of each related company is responsible for preparation of transmission of financial statements, supporting detail schedules and additional data necessary to compute elimination entries on a monthly basis to the consolidating company. The detailed requirements and reporting deadlines are described below.

3.2 Chief accountants of each of the related companies are responsible for timely accurate exchange of information necessary to consolidate the financial statements. They are also responsible for prompt solving of any problems that may rise during the consolidation process.

4.0 Policy Statement

4.1 It is the policy to report financial results on a consolidated basis in compliance with Generally Accepted Accounting Principles (GAAP).

5.0 Procedures

5.1 7 working days after the end of a month a deputy chief accountant of each related company prepares the information required for consolidation (this information is described in 6.0). The deputy chief accountant has to send this information to the other two companies in order to agree it with the information deputy chief accountants in those companies have. If any differences are identified, they have to be cleared immediately. If necessary, chief accountants have to be consulted. After all the differences are cleared, the information has to be sent to the consolidating company.

5.2 9 working days after the end of a month, deputy chief accountants send the full set of approved financial statements to the consolidating company.

5.3 The deputy chief accountant of the consolidating company makes sure that information he/she received from the two companies is accurate and complete.

5.4 9 working days after the end of a month, the deputy chief accountant of the consolidating company adds the financial statements of the related companies into one set. After that the following eliminating/consolidating entries are made (all entries are shown at the end of this policy):

a. Intercompany Sales and Cost of Sales: All sales and related cost of sales between related companies are eliminated in the consolidated income statement.

b. Intercompany Royalties: All royalties recorded between related companies are eliminated in the consolidated income statement.

c. Intercompany Receivables and Payables: Intercompany receivable and payable balances between related companies are eliminated on the consolidated balance sheet.

d. Intercompany Profit Elimination: The difference between the value of intercompany inventory carried on each related company's books (generally recorded at transfer price) and the value of that inventory computed using the worldwide standard cost is eliminated from the consolidated inventory balance.

e. Intercompany Profit Elimination: The difference between the value of intercompany fixed assets carried on each related company's books (generally recorded at transfer price) and the value of that fixed asset computed using the worldwide standard cost is eliminated from the consolidated fixed assets balance. Depreciation charge of such fixed assets is adjusted accordingly to eliminate depreciation rate differences from the original amount.

f. Engouri HPP Investment in Subsidiaries: Engouri HPP investment in each subsidiary and the related capital account balances of the subsidiary are eliminated from the consolidated balance sheet.

5.5 Once the data received from the related companies and the eliminating/consolidating entries are made, the deputy chief accountant of the consolidating company prepares the consolidated financial statements and other supporting detail schedules.

5.6 10 working days after the end of a month the deputy chief accountant of the consolidating entity submits the consolidated financial statements to the Chief accountant of the consolidating company for approval. The Chief accountant of the consolidating company has to check the eliminating entries made and approve the consolidated financial statements.

5.7 11 working days after the end of a month the deputy chief accountant of the consolidating company delivers the approved consolidated financial statements to other related companies.

6.0 Information for consolidation purposes

6.1 The following information has to be sent by every related company to the rest two and agreed with the records in those two companies: sales and cost of sales from transactions among the related companies; intercompany receivables and payables; the amount and unit cost of inventory items held which were purchased from other related companies; the profit element for every type of inventory sold to another related company; the net book value of fixed assets acquired from another related company and depreciation charged for the period; the profit/loss element for each fixed asset sold to another related company; and any other royalties charged to other companies.

7.0 Journal entries during the consolidation

7.1 First of all the balance sheets and income statements should be added for all the related companies.

7.2 Then any unrealized profit element in inventory should be identified and eliminated together with intercompany sales and cost of sales. The entry is debit sales (total intercompany sales), credit cost of sales (total cost of intercompany sales), credit inventory (unrealized profit element from intercompany purchases). If all inventory which was acquired from another related company has been sold to a third party by the end of a month, then the debit of sales equals the credit of cost of sales.

7.3 Third, any unrealized gain/loss on sale of fixed assets should be identified and eliminated. The entry is a reverse entry of the sale transaction as if the fixed assets have never been sold. The profit element should be debited in the income statement and fixed assets should be credited. The loss element should be credited in the income statement and fixed assets should be debited. Depreciation expense for such assets has to be credited in the income statement and debited in the balance sheet. A new depreciation amount (based on the original value of the fixed asset) should be calculated and debited in the income statement and credited in the balance sheet.

7.4 Last, income from intercompany royalties should be debited in the income statement and royalties paid should be credited in the income statement.

7.5 Last, investment in subsidiaries in Engouri HPP balance sheet has to be credited and equity balances of subsidiaries have to be debited.

Engouri Dam
The sales budget for the period from XXX to XXX

(GEL)	GEL		GEL		GEL		GEL		GEL		GEL		GEL	
Direct contracts:														
		0		0		0		0		0		0		0
		0		0		0		0		0		0		0
		0		0		0		0		0		0		0
		0		0		0		0		0		0		0
		0		0		0		0		0		0		0
		0		0		0		0		0		0		0
Vardnili HPP		0		0		0		0		0		0		0
Engouri HPP		0		0		0		0		0		0		0
Total domestic		0		0		0		0		0		0		0
Total International	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total:	0	0	0	0	0	0	0	0	0	0	0	0	0	0

Exhibit 2.
Engouri Dam
Cash returns projection based on historical information

	% of returns	Cash returns	% of returns	Cash returns	% of returns	Cash returns	% of returns	Cash returns	% of returns	Cash returns	% of returns	Cash returns	% of returns	Cash returns
Direct contracts:														
		0		0		0		0		0		0		0
		0		0		0		0		0		0		0
		0		0		0		0		0		0		0
		0		0		0		0		0		0		0
		0		0		0		0		0		0		0
		0		0		0		0		0		0		0
Vardnili HPP														
Engouri HPP		0		0		0		0		0		0		0
Total:		0		0		0		0		0		0		0
Allowance for the doubtful debts total:		0		0		0		0		0		0		0
including:														
Vardnili HPP		0		0		0		0		0		0		0
Engouri HPP		0		0		0		0		0		0		0

Engouri Dam
Projected cash inflow from debtors for the period from XXX to XXX

	Jan-01	Feb-01	Mar-01	Apr-01	May-01	Jun-01	Total:
Sales Budget							
kWh:							
Direct contracts	0	0	0	0	0	0	**0**
Engouri HPP	0	0	0	0	0	0	**0**
Sales (VAT excl) GEL							
Direct contracts:							
Sales	0	0	0	0	0	0	**0**
Less: allowance	0	0	0	0	0	0	**0**
Net inflow:	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Engouri HPP							
Sales	0	0	0	0	0	0	**0**
Less: allowance	0	0	0	0	0	0	**0**
Net inflow:	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Net cash flow from Debtors	**0**	**0**	**0**	**0**	**0**	**0**	**0**

Exhibit 5.
Engouri Dam

Cost of Sales budget for the period from XXX to XXX

GEL:	Jan-01	Feb-01	Mar-01	Apr-01	May-01	Jun-01	Total:
Sales:							
Direct Contracts							**0**
Engouri HPP							**0**
Total:	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Depreciation							**0**
Repairing services							**0**
Wages & Salaries							**0**
Taxes on Salary							**0**
Taxes							**0**
Materials (oil) and spare parts							**0**
Dam Service	0	0	0	0	0	0	**0**
Total costs of sales	***0***	***0***	***0***	***0***	***0***	***0***	***0***
Gross margin:	***0***	***0***	***0***	***0***	***0***	***0***	***0***

Engouri Dam

Admin expenses budget for the period from XXX to XXX

GEL:	1-Jan	1-Feb	1-Mar	1-Apr	1-May	1-Jun	Total:
Sales:							
Direct Contracts							**0**
Engouri HPP							**0**
Total:	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Admin&General Expenses							
Administration Salary							**0**
Taxes on Salary							**0**
Inventory and spare parts							**0**
Communication							**0**
Depreciation (Building of the Head office)							**0**
Bisiness trips							**0**
Other Taxes							**0**
Other Admin&General Expenses							**0**
Total Admin & General Expenses	***0***	***0***	***0***	***0***	***0***	***0***	***0***

Engouri Dam

The budget of Profit and Loss account

GEL:	Jan-01	Feb-01	Mar-01	Apr-01	May-01	Jun-01	Total:
Net sales	0	0	0	0	0	0	**0**
Cost of sales	0	0	0	0	0	0	**0**
GROSS PROFIT	***0***	***0***	***0***	***0***	***0***	***0***	***0***
Provision for Doubtful debts	**0**	**0**	**0**	**0**	**0**	**0**	**0**
General & Administrative expenses	0	0	0	0	0	0	**0**
NET OPERATING PROFIT/LOSS	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Interest expense (for Local Bank's Loans)							
Interest expense (for EBRD Loan)							
Commitment Fee expense							
NET PROFIT/LOSS BEFORE TAXATION	0	0	0	0	0	0	**0**
Income Tax	0	0	0	0	0	0	**0**
Deferred Tax							**0**
NET PROFIT/LOSS	0	0	0	0	0	0	**0**

Engouri Dam

Cash Flow Budget

GEL:	Jan-01	Feb-01	Mar-01	Apr-01	May-01	Jun-01	Total:
Opening Cash Budget							
Cash received (from Debtors)	0	0	0	0	0	0	0
Short terms Loans							
TOTAL CASH AVAILABLE	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Cost of Sales	0	0	0	0	0	0	0
Depreciation (-)	0	0	0	0	0	0	0
Admin and General Expenses	0	0	0	0	0	0	0
Depreciation (-)	0	0	0	0	0	0	0
Interest Expense	0	0	0	0	0	0	0
TOTAL OUTFLOW	**0**	**0**	**0**	**0**	**0**	**0**	0
CASH BALANCE	**0**	**0**	**0**	**0**	**0**	**0**	0

(Note: Enter the appropriate years on this sheet)

	January	February	March	April	May	June	July	August	September	October	November	December
Cash												
Accounts Receivable												
Inventory												
Other Current Assets												
Current Assets	0	0	0	0	0	0	0	0	0	0	0	0
Fixed assets												
Long Term Investments												
Total Assets	0	0	0	0	0	0	0	0	0	0	0	0
Current Liabilities												
Interest Bearing Debt												
Total current liabilities	0	0	0	0	0	0	0	0	0	0	0	0
Retained earnings	0	0	0	0	0	0	0	0	0	0	0	0
Equity												
Total equity	0	0	0	0	0	0	0	0	0	0	0	0
Total Liabilities	0	0	0	0	0	0	0	0	0	0	0	0
Sales												
Operating Expenses												
Depreciation												
Interest												
Income Taxes												
Net Income	0	0	0	0	0	0	0	0	0	0	0	0
Net Income+Interest	0	0	0	0	0	0	0	0	0	0	0	0
Net Income+Interest+Taxes	0	0	0	0	0	0	0	0	0	0	0	0

Engouri Dam

Short-term solvency or Liquidity Ratios:

	January	February	March	April	May	June	July	August	September	October	November	December
Current Ratio	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Quick Ratio	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Cash Ratio	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!

Turnover Ratios:

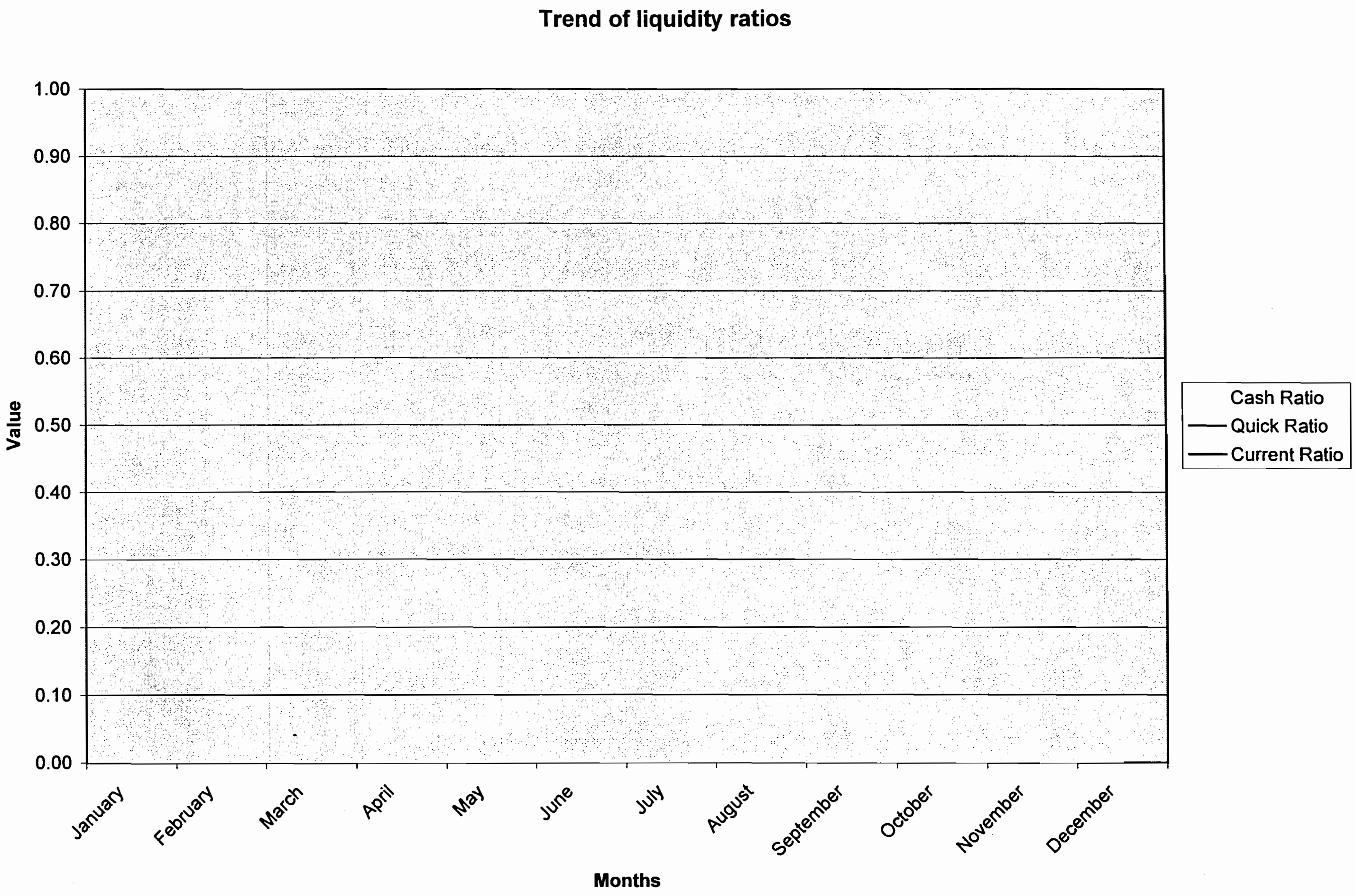
	January	February	March	April	May	June	July	August	September	October	November	December
Receivables Turnover	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Days' Sales in Receivables	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!

Financial Leverage Ratios

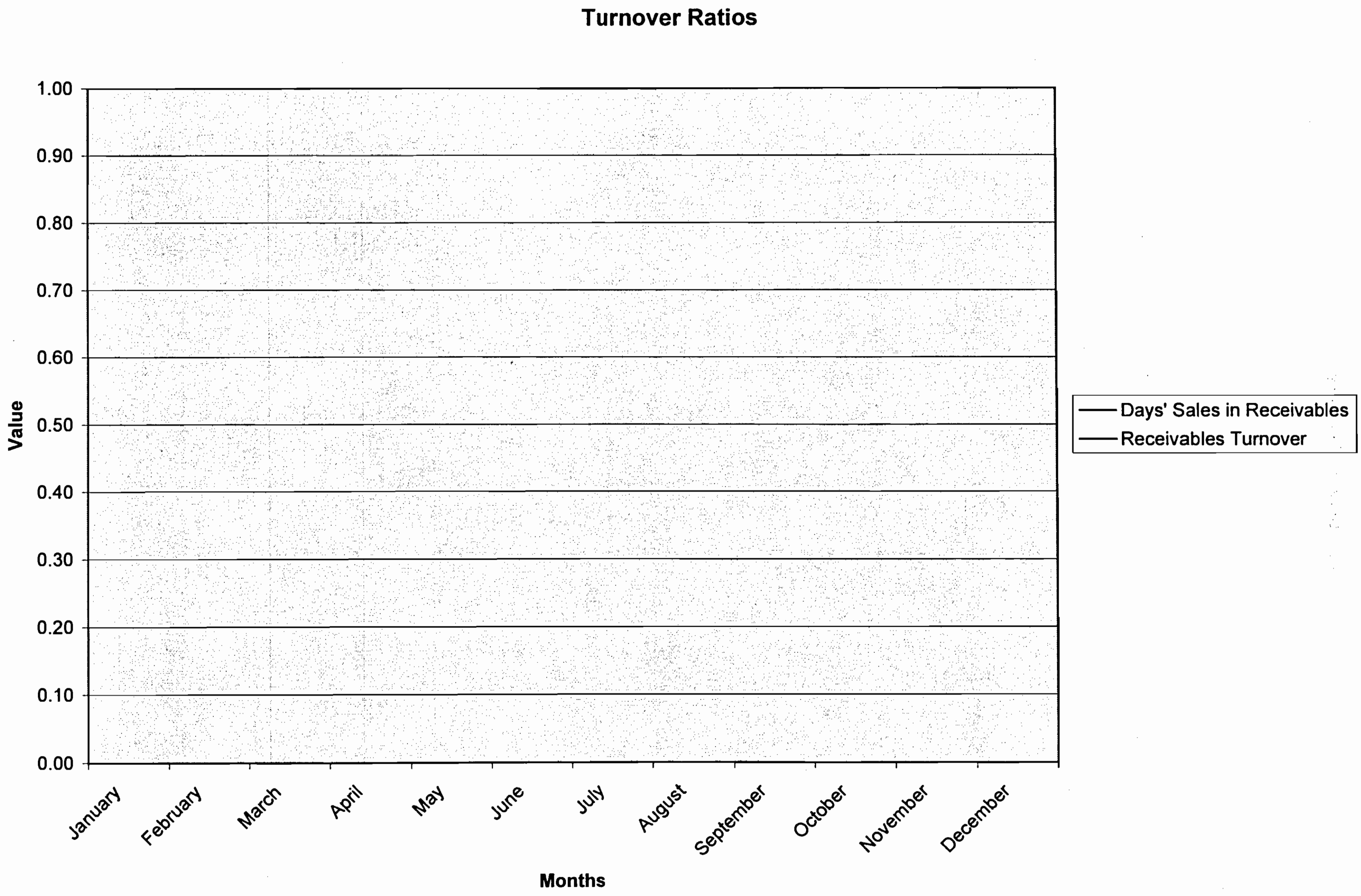
	January	February	March	April	May	June	July	August	September	October	November	December
Total Debt Ratio	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Interest Coverage Ratio	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Debt Ratio	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!

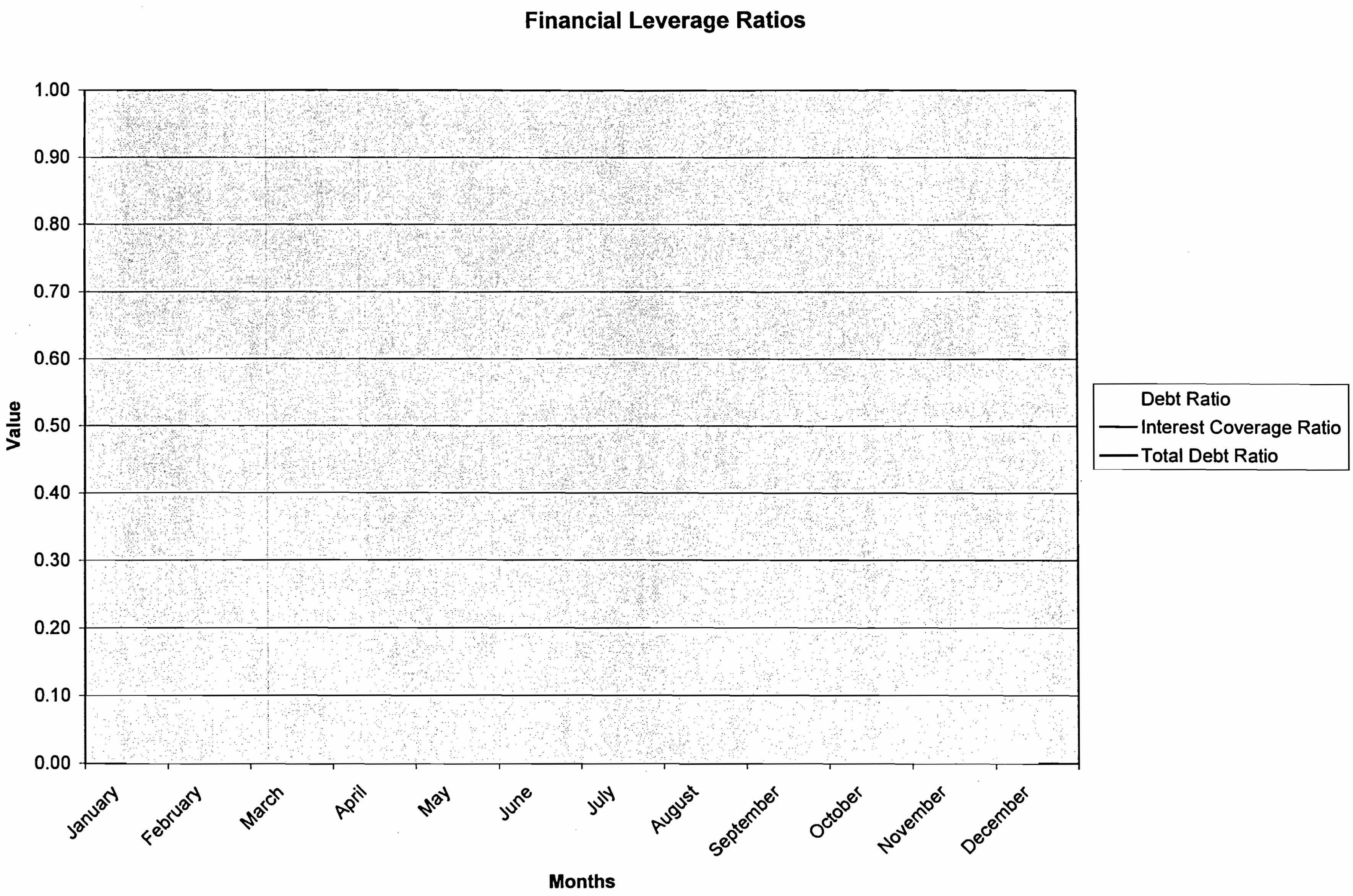
Profitability Ratios

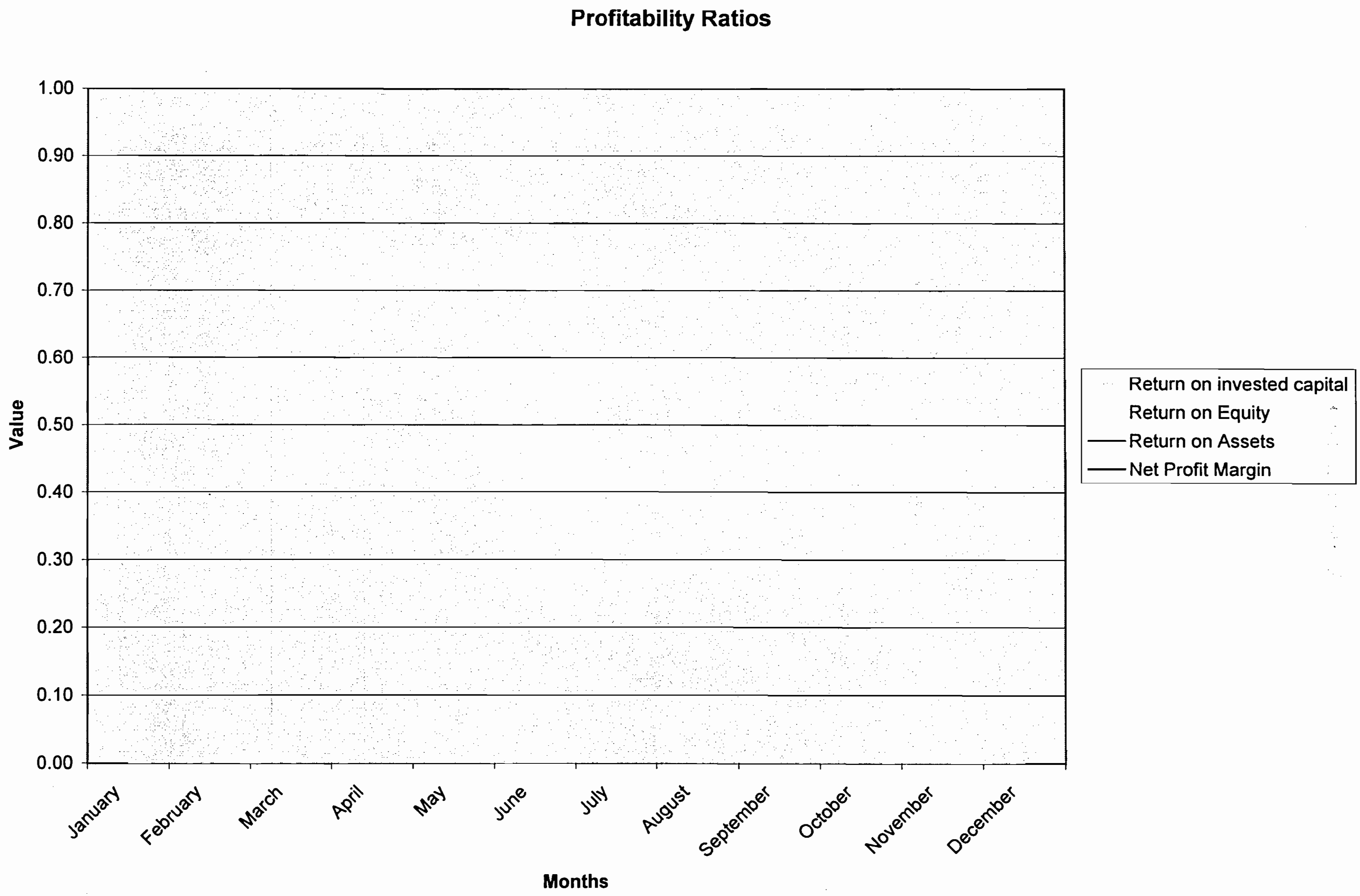
	January	February	March	April	May	June	July	August	September	October	November	December
Net Profit Margin	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Return on Assets	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Return on Equity	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Return on invested capital	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!



Trend of liquidity ratios
Value
1.00
0.90
0.80
0.70
0.60
0.50
0.40
0.30
0.20
0.10
0.00
January
February
March
April
May
June
July
August
September
October
November
December
Months
Cash Ratio
Quick Ratio
Current Ratio


Turnover Ratios
1.00
0.90
0.80
0.70
0.60
0.50
0.40
0.30
0.20
0.10
0.00
Value
January
February
March
April
May
June
July
August
September
October
November
December
Months
Days' Sales in Receivables
Receivables Turnover


Financial Leverage Ratios
1.00
0.90
0.80
0.70
0.60
0.50
0.40
0.30
0.20
0.10
0.00
Value
January
February
March
April
May
June
July
August
September
October
November
December
Months
Debt Ratio
Interest Coverage Ratio
Total Debt Ratio


Profitability Ratios
1.00
0.90
0.80
0.70
0.60
0.50
0.40
0.30
0.20
0.10
0.00
Value
January
February
March
April
May
June
July
August
September
October
November
December
Months
Return on invested capital
Return on Equity
Return on Assets
Net Profit Margin

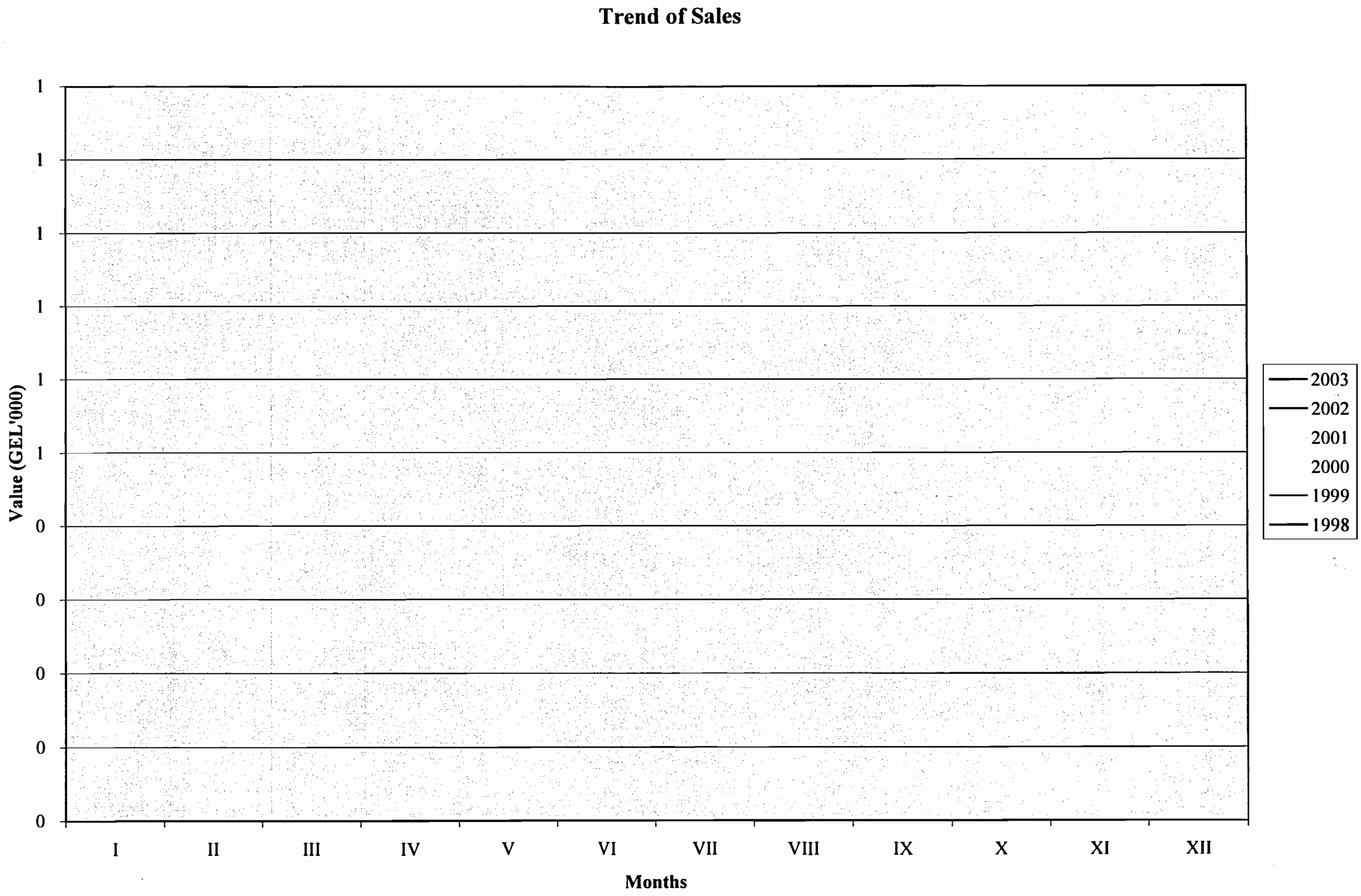
Engouri Dam

Sales

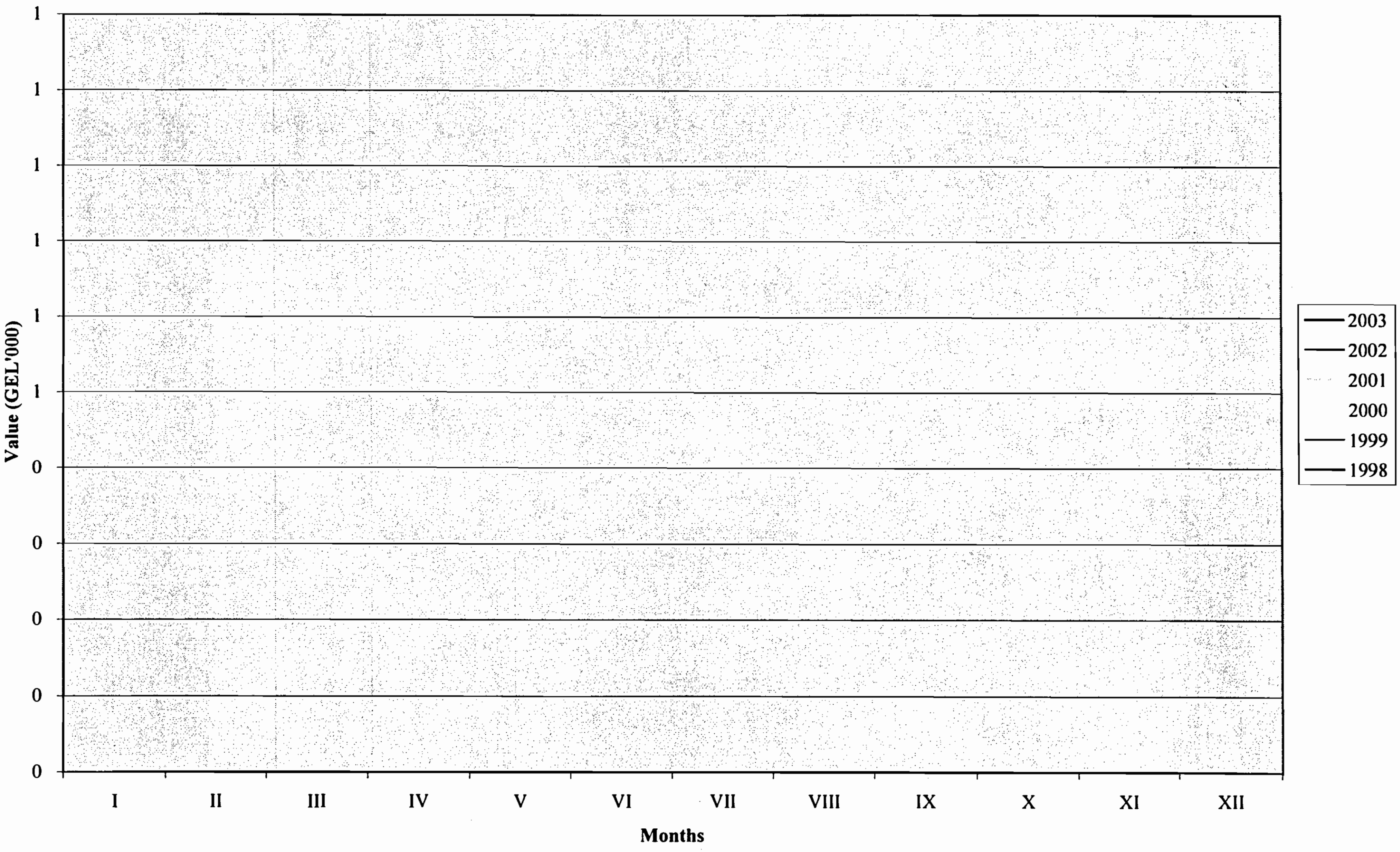
	I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII
1998												
1999												
2000												
2001												
2002												
2003												

Expenses (cost of sales)

	I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII
1998												
1999												
2000												
2001												
2002												
2003												


Trend of Sales
Value (GEL'000)
1
1
1
1
1
1
0
0
0
0
0
I
II
III
IV
V
VI
VII
VIII
IX
X
XI
XII
Months
2003
2002
2001
2000
1999
1998

Trend of Cost of sales



Fixed Asstes Purchase Requisition

Date: Supplier:

Agreement No: Date of Agreement:

#	Description	Quantity	Group	Dep. %	Unit price	Purchase Order (Invoice)			Balance amount	Date of expluatation
						No	Date	Note		

Expenses	Amount	Acc. #
Transportation		
Customs fee		
Installation		
Other expenses		
Total expenses		

Approved by: (Authorisation)

Name .... Signature ....

Possition .... Date ....

Transaction

1 Dr .... 2 Dr .... 3 Dr ....

Cr............................... Cr............................... Cr...............................

Fiscal year of planned acquisition: ____________

Capital Expenditure Authorization # ________

REQUESTOR ____________

Total Amt. of Project (GEL): ____________

Recommended Vendors & Competitive Bid Information:
(Please shoe recommended Vendor & Bid with "X")

	Vendor	**Bid**
1		
2		
3		
4		

Justification ***(Explain benefit of purchasing against impact of not purchasing. If recommended vendor above is not the least***

Tecnikal Director

General Director

(If > 100 thousand GEL)
Chairman of Board of Directors

Fixed Assets Disposal Order

Date: No:

Date and No of Agreement: Date and No of Act:

#	Description	Quantity	Price	Date of purchase	Value				Note
					Historical Cost	Accum. Depr.	Depr. from beginning the year	Net Value	

Gain or losses		Acc. #

Approved by: (Authorisation)

Name ………………………………………… Signature ……………………………………

Position …………………………………… Date ………………………………………..

Transaction

1 Dr ………………………… 2 Dr ………………………… 3 Dr …………………………

Cr………………………… Cr………………………… Cr…………………………

BEST AVAILABLE

A/R Ageing Example

Accounts Receivable Detail
debitoruli davalianeba

Period Ending Date
10/31/00

Invoice # a/f #	Company Name dasaxeleba	Date of Sale miwodebis TariRi	Payment Terms gadaxdis pirobebi	Amount Tanxa	Payment Date gadaxdis TariRi	Paid Amount gadaxdili Tanxa	Discounts Granted gacemuli fasdakleba	Returns saqonlis dabruneba	Net A/R davali-aneba	Days Overdue vadagada-cileba	Remarks SeniSvna
'0013	ss marsi	10/8/2000		3,000					3,000	23	
'0021	Sps "dedamiwa"	12/15/1999	10	100,000	12/17/1999	8,000			92,000	331	
'0020	Sps "merkuri"	12/14/1999	10	16,000	12/16/1999	16,000		1,000	-	332	
'0019	ss "marsi"	12/3/1999		3,600	12/15/1999				3,600	333	Camoiwera
'0017	Sps mze	11/15/1999	10	3,000	12/3/1999	3,000			-	361	
'0016	Sps "dedamiwa"	11/3/1999		8,000	11/18/1999	8,000			-	363	
'0015	Sps "merkuri"	10/20/1999		3,600	11/15/1999	3,600			-	377	
'0018	ss marsi	11/18/1999	30	6,200	12/14/1999	6,200			-	378	
'0014	ss "marsi"	10/15/1999		6,200	11/3/1999	6,000			200	382	Camoiwera
'0012	Sps mze	9/20/1999	30	8,000	10/15/1999	8,000	1,000		-	437	
'0011	Sps "dedamiwa"	9/16/1999	30	14,000	10/8/1999	14,000		3,000	-	441	
'0010	Sps "merkuri"	9/15/1999	30	5,000	9/20/1999	5,000			-	442	
'0009	ss "marsi"	8/23/1999	30	23,000	9/16/1999	18,000			5,000	465	Camoiwera
'0008	ss marsi	8/18/1999	30	16,000	9/15/1999				16,000	470	
'0007	Sps mze	7/23/1999	10	5,000	8/23/1999	5,000		1,000	-	476	
'0005	Sps "merkuri"	7/22/1999	10	6,000	1/15/2000	6,000	600		-	477	
'0006	Sps "dedamiwa"	7/22/1999	10	1,000	1/15/2000	1,000			-	477	
'0004	ss "marsi"	7/21/1999	30	10,000					10,000	498	Camoiwera
'0003	Sps "dedamiwa"	6/2/1999	10	2,600	7/22/1999	2,600			-	527	
'0002	ss "mTvare"	6/1/1999	10	3,000	8/18/2000	3,000			-	528	
'0001	Sps mze	6/1/1999	30	5,000	7/1/1999	4,000			1,000	548	
									-	-	
									-	-	
									-	-	
									-	-	
				248,200		***117,400***	***1,600***	***5,000***	***130,800***		

Total by Client

Sum of davali-aneba	
dasaxeleba	Total
Sps "dedamiwa"	92,000
Sps "merkuri"	-
Sps mze	1,000
ss "marsi"	18,800
ss "mTvare"	-
ss marsi	19,000
Grand Total	130,800

Ageing by Days Outstanding			
Greater Than	Less Than	Total	% of Total
	30	3,000	2%
29	59	-	0%
59	90	-	0%
89		127,800	98%

Total	130,800

A/R Analysis for Calculation of General & Specific Allowance

Specific Allowance

See 2.05 in Policies & Procedures Manual

Note or payment Plan	25%
Attorney or Collection Account	50%
Attorney with less chance of recovery	75%
Bankrupt	100%

Inv. #	Amount	Specific Reserve
'0021	92,000	23,000

General Reserve

See 2.05 in Policies & Procedures Manual

2%	Current
5%	1-30 Days Past Due
25%	Over 31 Days Past Due

		Less Specific	Total	General Reserve
Current	-		-	-
1 to 30	3,000		3,000	150
> 31	127,800	(92,000)	35,800	8,950
Total	130,800	(92,000)	38,800	9,100

Address		**Invoice Number**	1290
Tel/Fax		Contract/Confirm. #	
e-mail			
ntification Code		**G/L Transaction #**	

Customer

Customer Nam						Date	20/01/2000
Address						Order #	12-23/10
City	**Tbilisi**	Region	4	Code	21	Date of Receipt	
Telephone	11-11-11	Fax				of Invoice	03/02/2000

Quantity	Item	Unit Price	Total
300	nedli navTobi # 234	$120.00	36,000.00
120	nedli navTobi # 177	$100.00	12,000.00
		Gross	48,000.00
		20%	9,600.00
		20%	9,600.00
		3%	1,440.00
		Grand Total	**65,760.00**

Payment Conditions

- [x] Cash
- [ ] Credit
- [ ] Bank Transfer

Acct. #

Bank

Bank Code

Signature

Director

Chief Accountant

Additional Terms

Conditions of Discount: Payment should be made within 30 days; if payment is made within 10 days a 3% discount is granted.

Payment

Payment	Amount	Description
20/01/2000	25,000.00	
31/01/2000	39,000.00	Bank Transfer
Balance	1,760.00	

Company Policies and Procedures

EHPP

Company Policies and Procedures

Financial Planning and Analysis - Chapter 1

ENGOURI HPP
FINANCIAL PLANNING & ANALYSIS POLICIES

Number: 1.01

Effective Date:

Written By: Deloitte&Touche

Modified By: **CEO Approval:**

Date Modified: **Date:**

Title: Annual Financial Plans/Operating Expense Budgets

1.0 Purpose and Scope

1.1 The purpose of this policy is to define the annual financial planning activities and responsibilities.

1.2 This policy is effective for Engouri HPP operations.

2.0 Definitions

2.1 ***Annual Financial Plan:*** Planned profitability by month, by division in detail (i.e. Sales through Net Income in Income Statement format), supported by detailed operating expenses by account, function and by divisions; detailed capital expenditure plans and detailed headcount assumptions by function, department and division.

3.0 Responsibilities

3.1 Chief Financial Officer (CFO) is responsible for coordinating the entire process of preparing and implementing the annual financial plans.

3.2 The Planning Department of the company is responsible for reviewing and collecting financial plans from each division and preparing a detailed company's annual financial plan for approval by the Board of Directors.

4.0 Policy Statement

4.1 It is the policy of the Company to prepare detailed annual financial plans for each subsidiary and for the consolidated Company to facilitate achievement of overall corporate goals.

5.0 Procedures

5.1 The CFO assists the Board of Directors in identifying the strategic objectives for the Company that will form the basis for each annual financial plan.

5.2 The CFO establishes the framework for preparing the plan (i.e. timing, structure and format).

5.3 Planning Department establishes detailed operating objectives for each individual operation.

5.4 The head of each division of the company prepares his/her own annual plan and Planning Department collects, collates and reviews the completed plans and ensures that the plans are consistent with corporate objectives as established.

5.5 The CFO compiles the consolidated plan for approval by the Board of Directors.

5.6 Planning Department compares and analyses the actual and planned results. All variances above the set level have to be investigated and corrective action has to be suggested. The investigation together with suggested actions has to be approved by the CFO.

6.0 **Exhibits**

6.1 Planning Timeline (example for planning for the year 2001)

Date	Responsible person	Activity
June 2000	CFO and Board of Directors	Review the strategic objectives for the company (to identify if there should be any changes made or not)
June 2000	CFO and Planning Department	Establish the framework for preparing the plan and prepare conformable forms (if this is the second year, reviews for any changes since last year)
June 2000	Heads of each division	Fill the forms (prepared by Planning department and approved by CFO and Board of Directors) of planning
June 2000	Planning Department	Collects, collates and reviews the completed plans and ensures that the plans are consistent with corporate objectives as established
June 2000	CFO	Compiles the consolidated plan for approval by the Board of Directors
June 2000	Board of Directors	Approves the plan
December 2000	Planning Department	Analyses the last year results (according to actual results) and suggest corrections for already created plan for the next year
December 2000	CFO	Approves changes and give to Board of Directors for approval
March 2001	CFO, Planning department	Analyses and made final correction to the financial plan for the year 2001.
March 2001	Board of Directors	Approves the final version of the financial plan.
June 2001	CFO and Board of Directors	Review the strategic objectives for the company (to identify if there should be any changes made or not)

6.2 Annual financial plan

ENGOURI HPP
FINANCIAL PLANNING & ANALYSIS POLICIES

Number: 1.02

Effective Date:

Written By: Deloitte&Touche

Modified By: **CEO:**

Date Modified: **Date:**

Title: Revenue Forecast for Material Requirements Planning

1.0 Purpose and Scope

1.1 The purpose of this policy is to define and document the activities and responsibilities related to the Revenue Forecast for Material Requirements Planning.

1.2 This policy is effective for Engouri HPP operations.

2.0 Definitions

2.1 ***Material Requirements Planning (MRP):*** The process of determining type, quantity and timing of materials to be purchased and used for repairing and maintanance of fixed assets. The result is the demand created for each component by applying the forecasted sales to the bills of materials.

2.2 ***Domestic Revenue Forecast:*** The monthly summary of projected trade sales of electicity by part number for domestic regions.

2.3 ***International Revenue Forecast:*** The monthly summary of projected trade sales of electicity by part number for international regions.

3.0 Responsibilities

3.1 The CFO is responsible for coordinating the domestic and international detail forecasts.

3.2 The Planning Department is responsible for preparing financial plans.

4.0 Policy Statement

4.1 It is the policy of the Company to create a revenue forecast monthly for use in the Material Requirements Planning process.

5.0 Procedures

5.1 Planning department reviews the initial input to the Domestic Revenue Forecast and makes adjustments as needed for product availability and current booking rates.

5.2 Planning department reviews the initial input to the International Revenue Forecast and makes adjustments as needed for product availability and current booking rates.

5.3 The Domestic Revenue Forecast is consolidated with the International Revenue Forecast, summarized and presented to the Board of Directors for approval.

6.0 Exhibits/References

6.1 Exhibits

a. Domestic Revenue Forecast
b. International Revenue Forecast

ENGOURI HPP
FINANCIAL PLANNING & ANALYSIS POLICIES

Number: 1.03

Effective Date:

Written By: Deloitte&Touche

Modified By: **Chief Executive Officer Approval:**

Date Modified: **Date:**

Title: Key Indicator Monitoring System

1.0 Purpose and Scope

1.1 The purpose of this policy is to define activities and responsibilities related to the Key Indicators Monitoring System (KIMS).

1.2 This policy is effective for Engouri HPP operations.

2.0 Definitions

2.1 ***Key Indicators Monitoring System (KIMS):*** The monthly package used to report key business indicators to executive management.

2.2 ***Key Business Indicators:*** The ratios and relationships noted in the Key Indicators Monitoring System table of contents.

3.0 Responsibilities

3.1 CFO is responsible for compiling and maintaining the monthly financial statement package used in the KIMS reporting.

3.2 Planning Department is responsible for the collection of data from various sources and the compilation of the KIMS package.

4.0 Policy Statement

4.1 It is the policy of the Company to monitor business performance to identify areas of risk in a timely manner allowing management to take appropriate action to maintain the growth and profitability of the Company.

5.0 Procedures

5.1 Planning Department personnel gather data from the Financial Reporting Department, Human Resources Department and sales history maintained by Engouri HPP.

5.2 Planning Department reviews the information for accuracy and completeness then inputs it to the KIMS spreadsheets and generates the KIMS graphs, reports and documents.

5.4 The KIMS is reviewed by Planning Department and CFO and then distributed to executive management.

6.0 Exhibits

6.1 KIMS Table of Contents:

1. Short-Term solvency or Liquidity Ratios:

Current ratios = Current Assets/Current Liabilities

Quick ratio = (Current Assets-Inventory)/Current Liabilities

Cash ratio = Cash/ Current Liabilities

2. Turnover ratios:

Receivables turnover = Sales/Accounts Receivables

Days' sales in Receivables = 365/Receivables turnover

3. Financial Leverage Ratios

Total debt ratio = (Total assets – Total Equity)/Total Equity

Interest coverage ratio = (EBIT + Depreciation)/Interest

Debt ratio = Interest Bearing Debt/Equity

4. Profitability Ratios

Net Profit margin = Net Income/Sales

Return on Assets = Net Income/Total assets

Return on Equity (ROA)= Net Income/Total Equty

Return on Invested Capital = Earnings after tax but before interest and dividends/ (Equity + Interest Bearing Liabilities)

ENGOURI HPP
FINANCIAL PLANNING & ANALYSIS POLICIES

Number: 1.04

Effective Date:

Written By: Deloitte&Touche

Modified By: **CEO Approval:**

Date Modified: **Date:**

Title: Income Statement and Balance Sheet Forecasting

1.0 Purpose and Scope

1.1 The purpose of this policy is to define the activities and responsibilities related to the monthly forecast of Company financial statements.

1.2 This policy is effective for Engouri HPP.

2.0 Definitions

2.1 **Income statement *Forecast*:** A projection of future operating results based on available evidence and assumptions related to order and shipment history, gross margin analysis, spending plans, debt and tax structure, etc.

2.2 ***Sales/Revenue Forecasts*:** The statistical sales forecast prepared for domestic operations using contract data with direct customers and shipment histories prepared each month to support the product planning process.

3.0 Responsibilities

3.1 Financial department is responsible for preparing detailed structure of operating expenses, including the direct labor, inventory (mostly oil for transformators), and overhead projections and forwarding the information to Planning Department for review and inclusion in the forecast.

3.2 Planning Department is responsible for the revenue and margin forecasts used to support the income statement and preparation of the monthly income statement and balance sheet forecasts.

3.3 Planning Department is responsible for reviewing the forecast with the CFO.

4.0 Policy Statement

4.1 It is the policy of the Company to forecast profitability and financial condition to identify areas of risk in a timely manner allowing management the opportunity to take appropriate action to maintain the growth and profitability of the Company.

5.0 Procedures

5.1 Planning Department estimates trade sales for each month within the forecast horizon using the various revenue forecasts and other available evidence.

5.2 Planning Department prepares the Income statement and balance sheet forecast using this and other available data including historical financial statements and evidence regarding anticipated changes in the asset, debt or capital structure of the company.

6.0 Exhibits

a. Income Statement Forecast
b. Sales/Revenue Forecast

ENGOURI HPP
FINANCIAL PLANNING & ANALYSIS POLICIES

Number: 1.05

Effective Date:

Written By: Deloitte&Touche

Modified By: **CEO Approval:**

Date Modified: **Date:**

Title: Capital Expenditure Authorization

1.0 Purpose and Scope

1.1 The purpose of this policy is to define the activities and responsibilities related to capital expenditure review and approval necessary for Engouri HPP to plan for capital resources and to ensure expenditures are consistent with the Company's business objectives.

1.2 This policy is effective for Engouri HPP operations.

2.0 Definitions

2.1 ***Capital Expenditure:*** Any asset of significant value (greater than GEL 1,000) with a useful life of more than one year. The capitalized amount includes the purchase cost plus any freight, installation and/or construction costs, etc.

2.2 ***Capital Expenditures Budget:*** All planned or expected capital expenditures, regardless of amount, should be included in the annual budget and approved by the Chief Financial Officer and Board of Directors'.

2.3 ***Capital Expenditure Authorization (CEA):*** The form which describes and justifies the proposed asset purchase. It is prepared for all capital expenditures in excess of GEL 10,000. However, if a project has been included in the annual budget and does not exceed GEL 20,000, the cost/benefit section of the CEA need not be completed. The amount requiring approval via the CEA is the total cost of all assets in a given project.

This is in addition to the normal Purchase Requisition procedures to be followed for all purchases.

2.4 ***Purchase Requisition:*** The form which is prepared for all purchases. **It is not a substitute for the CEA.** For capital expenditures requiring approval, the approved CEA must be attached to the Purchase Requisition and forwarded to Procurement Department by the Accounting Department.

2.5 ***Signature Authorization List:*** The CEO office publishes a signature limit listing which is updated quarterly or on authority change for anyone in the listing. The listing establishes the required authorization levels for company purchases.

3.0 Responsibilities

3.1 The Requestor proposes capital expenditures in the annual budget, prepares the CEA and obtains appropriate approvals.

3.2 The Director of Procurement Department is responsible for initial approval of the annual capital expenditures budget and the CEA.

3.3 Planning Department analyzes the cost/benefit justification on the CEA and makes its recommendation to the CFO.

3.4 The CFO and the Board of Directors approves or disapproves capital expenditures in accordance with the Signature Authorization List and the annual budget.

3.5 Procurement Department ensures an approved CEA and Purchase Requisition has been submitted, selects or approves vendor choices and issues a Purchase Order.

4.0 Policy Statement

4.1 It is the policy of the Company to prepare expenditure requests for capital items (which includes land, buildings and improvements, furniture and fixtures, machinery and equipment, software and vehicles) in excess of GEL 10,000 to be authorized in advance by an approved Capital Expenditure Authorization (CEA).

4.2 This policy is applicable to all capital additions regardless of financing alternatives. For example, consideration of lease financing does not preclude the need for a CEA.

It is also the policy of the Company to capitalize and depreciate these expenditures in accordance with Generally Accepted Accounting Principles (GAAP).

5.0 Procedures

5.1 Generally, for resource planning purposes, all proposed capital expenditures are included in the annual Capital Expenditures budget.

5.2 A CEA is completed for all capital expenditures in excess of GEL 10,000. The CEA need not be prepared during the budgeting process if the assets will not be purchased immediately. All sections except the CEA# and those designated FINANCE AND ACCOUNTING must be filled out by the Requestor. The justification explains the benefits of purchasing the item contrasted against the impact of not purchasing it. Information on recommended vendors and competitive bids or alternative sources must be provided with the CEA. If the recommended vendor's cost is higher than other sources, support for use of this vendor must be included with the CEA.

5.3 The completed CEA is submitted to Planning Department, which reviews the cost/benefit analysis provided and numbers the form sequentially. If clarification is

needed, Planning Department contacts the Requestor. Planning Department may also prepare a cash flow analysis if it is deemed relevant to the approval decision.

5.4 Financial Department reviews the CEA and exhibits for vendor-supplied financing quotes and evaluates financing alternatives and capital requirements. Decisions related to financing are made by the Financial Department after consulting with the Requestor and Procurement Department regarding the circumstances of the purchase. Financial Department, if necessary, provides Purchasing with instructions regarding third party leasing companies, etc.

5.5 With its recommendation, Planning Department forwards the CEA to the CFO and deputy CEO for approval.

5.6 Capital Expenditures in excess of GEL 30,000 are submitted to the CEO. In addition, capital expenditures in excess of GEL 1 million require approval by the Board of Directors. The approved CEA is returned to Planning Department to be distributed.

5.7 Once final approvals are obtained, Planning Department sends a copy of the CEA to the Procurement Department with the completed Purchase Requisition. **The CEA does not replace the Purchase Requisition**. The Requestor indicates any vendor recommendations and other pertinent information on the Purchase Requisition.

5.8 After verifying that appropriate approvals have been obtained, Procurement Department and issues a Purchase Order.

5.9 Planning Department provides a copy of the approved CEA to the Accounting Department, which ensures that capital project costs for all approved CEA's are accumulated and accounted for properly.

5.10 If it becomes evident that the cost of a project will exceed the original estimate by 10% or more, the Requestor must prepare a supplemental CEA and circulate it with the original CEA for approval.

6.0 <u>Exhibits/References</u>

6.1 Exhibits

a. Capital Expenditure Authorization (CEA) Form
b. Purchase Requisition

6.2 References

a. Fixed Asset Capitalization Policies

Company Policies and Procedures

Accounts Receivable - Chapter 2

ENGOURI HPP
ACCOUNTS RECEIVABLE POLICIES

Number: 2.01

Effective Date:

Written By: Deloitte & Touche

Modified By:_ **CEO Approval:**

Date Modified:_ **Date:**

Title: Aged Accounts Receivable Report and Uses Thereof

1.0 Purpose and Scope

1.1 The purpose of this policy is to assign responsibility for the maintenance of the allowance for uncollectible accounts and to ensure that the responsible party maintains an adequate account balance in the allowance for uncollectible accounts. The purpose of this policy is also to establish procedures that define processes related to the allowance for uncollectible accounts such as a provision process and a write-off process.

2.0 Definitions

2.1 ***Allowance for Uncollectible Accounts ("Allowance Account")***: The contra-account to Trade Accounts Receivable that is used to provide for potentially uncollectible accounts (General Ledger Account 1320).

2.2 ***Aged Accounts Receivable Report: The*** detailed report of open accounts receivable which lists the balances of all open invoices, credit memos and unapplied payments. Totals are aged in the following categories: current; 1-30 days past due; 31-60 days past due; 61-90 days past due; 91+ days past due. The deputy chief accountant uses the Aged Accounts Receivable Report to prepare his/her own analysis.

3.0 Responsibilities

3.1 The accounts receivable accountant is responsible for monitoring the allowance account's balance and for processing write-offs against the allowance when the deputy chief accountant requests the processing of the write-offs. Using the approved analysis as a reference, the accounts receivable accountant makes allowance account adjustments.

3.2 The deputy chief accountant is responsible for preparing the detailed analysis of open Accounts Receivable. The analysis calculates anticipated uncollectible account amounts. The deputy chief accountant is also responsible for initiating the write-off of uncollectible customer accounts against the allowance account.

3.3 The Chief accountant reviews and approves adjustments to the allowance account. The Chief accountant is responsible for ensuring that the balance of the allowance account is adequate.

4.0 <u>Policy Statement</u>

4.1 It is the policy of the Company to maintain an adequate and appropriate allowance for uncollectible accounts. An adequate allowance ensures that the company's receivables are valued in accordance with International Accounting Standards (IAS). As such, this process shall be conducted quarterly to ensure adequacy of the reserve.

5.0 <u>Procedures</u>

5.1 At the end of each month, the Accounts receivable accountant delivers to the Deputy chief accountant a detailed analysis of the Accounts Receivable balance.

5.2 As part of the Accounts Receivable balance analysis, the Deputy chief accountant reviews each customer account which has a past due balance greater than 50,000 GEL. The deputy chief accountant determines the amount of reserve (called a specific reserve) necessary to compensate for the accounts being reviewed.

In addition to this specific reserve, the reserve for accounts not included in the detailed review (called a general reserve) is determined. The general reserve amount compensates for accounts with past due balances less than 50,000 GEL. The general reserve amount is calculated using only accounts that are not included in the specific reserve. The general reserve amount is a summation of: 2% of the balance aged as current, 5% of the balance 1-30 days past due and 25% of the balance over 30 days past due. These percentages may be periodically updated or changed by the Deputy chief accountant and the Chief accountant.

5.3 The deputy chief accountant recommends any necessary allowance account provisions to the Chief accountant.

5.4 All practical collection efforts are exhausted before an account is considered for write-off. This includes resolving disputes, establishing special payment schedules, using collection agencies and taking legal action to force payment. On a monthly basis, the Deputy chief accountant prepares a list of customer accounts that are to be written off against the allowance account. When the Deputy chief accountant adds a customer account to this list, the Deputy chief accountant considers the amount in the customer account to be uncollectible.

This list is submitted to the Chief accountant for review and approval.

5.5 The Chief accountant reviews and approves all provisions to and write-offs against the allowance account.

ENGOURI HPP
ACCOUNTS RECEIVABLE POLICIES

Number: 2.02

Effective Date:

Written By: Deloitte & Touche

Modified By:_ **CEO Approval:**

Date Modified:_ **Date:**

Title: Invoice Processing

1.0 Purpose and Scope

1.1 The purpose of this policy is to define Accounts Receivables activities and responsibilities as related to invoice processing.

2.0 Definitions

2.1 No specific terms used.

3.0 Responsibilities

3.1 The accounts receivable accountant is responsible for confirming the volume of power transmitted for each customer.

3.2 The accounting department is responsible for the printing, verification and maintenance of all invoice records.

4.0 Policy Statement

4.1 It is the policy of the Company to process invoices in a complete, accurate and timely manner.

5.0 Procedures

5.1 General Comments:

a. Invoicing takes place manually.

5.2 Invoicing:

a. The accounts receivable accountant obtains confirmations from clients indicating the amount of energy received (in order to account for electricity lost during transmission). These confirmations are the originating documents from which invoices are generated and should be referenced on the invoices as well as attached to copies of invoices for filing purposes.

b. The accounts receivable accountant processes and prints the invoices monthly, passes them to the Chief accountant for approval (together with a copy of confirmation from the customer) and after the approval is granted, the invoice is mailed to the customer.

c. The printed invoice forms are separated in the following manner.

Copy 1: The original invoice that is mailed to the customer.

Copy 2: This copy is maintained in a customer file with the attached confirmation until the end of the fiscal year.

5.3 Adjusting Invoices for Errors Discovered

a. In case of errors during processing of original invoices and subsequent discovery of such errors by the processor or the client, proper authorization should be obtained in order to issue credit memos.
b. The accounts receivable accountant should obtain the authorization of the Chief accountant by filling out the Credit Memo Authorization Form and obtaining the appropriate signature.
c. The amount is then entered into the A/R detail ledger and note made for posting to the G/L.

ENGOURI HPP
ACCOUNTS RECEIVABLE POLICIES

Number: 2.03

Effective Date:

Written By: Deloitte & Touche

Modified By:_ **CEO Approval:**

Date Modified:_ **Date:**

Title: Unapplied Cash

1.0 Purpose and Scope

1.1 The purpose of this policy is to define the activities and responsibilities related to Unapplied Cash.

2.0 Definitions

2.1 ***Unapplied Cash:*** Customer payment on an account that cannot be identified with a specific invoice.

3.0 Responsibilities

3.1 The accounts receivable accountant is responsible for applying unapplied payments to customers' accounts and for notifying the deputy chief accountant when a customer's payment cannot be identified/applied.

3.2 The deputy chief accountant is responsible for resolving with the customer all unapplied payments on the customer's account.

4.0 Policy Statement

4.1 It is the policy of the Company to handle unapplied cash resolution in a timely and accurate manner.

5.0 Procedures

5.1 Unapplied Cash:

a. The cash and bank accountant provides the accounts receivable accountant with a photocopy of all bank transfers that cannot be applied to specific invoices because the remittance advice lacks the necessary information.

b. On a daily basis, the accounts receivable accountant reviews the prior day's unapplied cash transactions. The accounts receivable accountant searches for information that was not available to the cash and bank accountant.

c. If the analysis does not reveal the necessary missing information, the accounts receivable accountant generates a Payment Discrepancy Form (PDF) and sends the form to the deputy chief accountant.

d. The accounts receivable accountant maintains the follow-up copy of the Payment Discrepancy Form and adds the information to an open items list.

e. The accounts receivable accountant follows up on items in the open items list. The accounts receivable accountant checks with the deputy chief accountant to determine the status of open items list items.

f. After an unapplied payment has been resolved, the customer must apply the unapplied cash to specific invoices. The customer applies the unapplied cash by either deducting the credit amount from the customer's next payment remittance or by submitting a "0" (zero) remittance advice.

ENGOURI HPP
ACCOUNTS RECEIVABLE POLICIES

Number: 2.04

Effective Date:

Written By: Deloitte & Touche

Modified By:_ **CEO Approval:**

Date Modified:_ **Date:**

Title: Cash Receipts/Cash Application

1.0 Purpose and Scope

1.1 The purpose of this Policy is to define the activities and responsibilities that relate to the processing of cash receipts and payment of customer accounts.

2.0 Definitions

2.1 ***Accounts Receivable Aging:*** The weekly report of aging of accounts receivable.

2.2 ***Daily Cash Receipts Report:*** The daily report of cash receipts.

2.3 ***Monthly Miscellaneous Cash Receipt Report:*** The monthly reports of cash receipts that cannot be applied or any other cash receipts except the usual cash receipts.

2.4 ***Adjustments Report:*** The monthly report of adjustments to accounts receivable.

3.0 Responsibilities

3.1 The cash and bank accountant is responsible for processing/posting cash receipts. The accounts receivable accountant is responsible for following up on and for resolving short paid items and unapplied cash payments (See Unapplied Cash and Open Credit Memo Resolution Policy and Payment Discrepancies Policy).

3.2 The IT department is responsible for the daily processing of data entry and for the printing of daily/weekly/monthly audit reports.

3.3 The cash and bank accountant is responsible for the maintenance of banking relationships.

4.0 Policy Statement

4.1 It is the policy of the Company to apply cash receipts to customer accounts in a timely and accurate manner ensuring that customer accounts are accurately stated.

5.0 **Procedures Categorized by Sub-section**

5.1 Bank Transfers Processing

a. Bank transfer details are received daily from participating financial institutions. Each set of details is treated as a separate batch. Each batch is categorized according to the batch's origin. Each batch is assigned the next available sequential batch number when it is entered in system.

b. The cash and bank accountant begins the application process by entering the information received from the bank into the accounts receivable detail listing by batch. Once this has been performed, the appropriate journal entries are documented for cash and A/R. After posting of all items at the end of the month, Cash and A/R balances should equal the bank statements and the detail A/R ledger.

ENGOURI HPP
CREDIT POLICIES

Number: 2.05

Effective Date:

Written By: Deloitte & Touche

Modified By:_ **CEO Approval:**

Date Modified:_ **Date:**

Title: New Accounts

1.0 Purpose and Scope

1.1 The purpose of this procedure is to define activities and responsibilities related to applications which request open account terms, otherwise known as credit. Customers seeking open account terms wish to purchase Engouri HPP services on credit.

2.0 Definitions

2.1 There are no unique terms or definitions.

3.0 Responsibilities

3.1 Deputy chief accountant is responsible for reviewing credit applications to ensure that the credit applications meet the requirements for becoming a direct account with Engouri HPP. The applications are then forwarded to the Chief accountant.

3.2 The Chief accountant processes the applications and together with the CEO determine if credit terms should be granted.

4.0 Policy Statement

4.1 It is the policy of the Company to extend open account terms to customers after the completion of a financial review and after the acquisition of management's approval.

5.0 Procedures

5.1 The signed credit application form is sent from the deputy chief accountant to the Chief accountant.

5.2 Upon receipt of the credit application, the deputy chief accountant reviews the application; the deputy chief accountant ensures that application has been filled out properly and has been signed by an officer of the client company.

5.3 The deputy chief accountant also signs the application. The signature assures the Chief accountant that the customer on the application meets the requirements.

5.4 The Chief accountant reviews the application and looks for (1) bank references; (2) trade references.

5.5 A financial statement accompanies the credit application. The financial statement is either an audited financial statement or a financial statement that bears signatures that attest to the financial statement's accuracy and validity. If financial statements do not accompany the credit application, the credit department sends the applicant a letter requesting financial statements.

5.6 Reference letters are mailed to all references, both bank and trade.

5.7 Chief accountant reviews the returned references and available financials and together with CEO determine if a line of credit can be established based on this information.

5.8 If a line of credit is established, a letter documenting the credit terms is sent to the deputy chief accountant, the accounts receivable accountant and to the customer. The accounts receivable accountant types the credit limit into the computer.

5.9 If a credit limit cannot be established based on the accumulated information, a letter is sent advising the customer to submit additional information or to make other arrangements. The Chief accountant then evaluates the additional information and alternative arrangements to determine if the customer should be granted open account terms.

5.10 If credit cannot be granted, a letter is sent advising the customer of this fact and of alternative financing options external to Engouri HPP.

ENGOURI HPP
CREDIT POLICIES

Number: 2.06

Effective Date:

Written By: Deloitte & Touche

Modified By: _ **CEO Approval:**

Date Modified: _ **Date:**

Title: Allowance for Doubtful Accounts

1.0 Purpose and Scope

1.1 The purpose of this procedure is to define the activities and responsibilities related to the computation of the quarterly Bad Debt Reserve.

1.2 This procedure is effective for ENGOURI HPP domestic operations.

2.0 Definitions

2.1 There are no unique terms or definitions.

3.0 Responsibilities

3.1 The deputy chief accountant computes the Bad Debt Reserve using the procedures described.

4.0 Policy Statement

4.1 It is the policy of the Company to maintain an adequate and appropriate allowance for uncollectible accounts. An adequate allowance ensures that the company's receivables are valued in accordance International Accounting Standards (IAS). As such, this process shall be conducted monthly to ensure adequacy of the reserve.

5.0 Procedures

5.1 The month-end Accounts Receivable Aging is used to determine the Total, Current, 1-30 Days Past Due and Over 31 Days Past Due totals.

5.2 The Inter-Company accounts are deducted from the month-end Accounts Receivable Aging in order to arrive at a starting number.

5.3 A Specific Reserve is computed by listing all accounts which show a debt of 50,000 GEL or more and which are 31 or more days past due.

5.4 An evaluation of these overdue accounts takes place; the evaluator determines the collectibility of the Past Due accounts. The evaluator uses the following percentages to determine the collectibility of Past Due accounts:

25% - Note or payment plan
50% - Attorney or Collection Account
75% - Attorney with less chance of recovery
100% - Bankrupt

5.5 The evaluator creates an analysis sheet that lists the uncollectible Past Due accounts. The evaluator computes the totals on the analysis sheet and subtracts the Past Due account totals from the month-end Accounts Receivable Aging totals.

5.6 A General Reserve is computed with percentages provided by Accounting:

2% - Current
5% - 1-30 Days Past Due
25% - Over 31 Days Past Due

The percentages are multiplied by the remaining totals on the analysis sheet.

5.7 The General Reserve and Specific Reserve totals are added together to obtain the Reserve for Bad Debt total.

ENGOURI HPP
CREDIT POLICIES

Number: 2.07

Effective Date:

Written By: Deloitte & Touche

Modified By:_ **CEO Approval:**

Date Modified:_ **Date:**

Title: Legal-Attorney or Collection Agency Accounts

1.0 Purpose and Scope

1.1 The purpose of this policy is to define the procedure for handling accounts receivable which have become uncollectible through normal in-house procedures.

2.0 Definitions

2.1 ***Placement:*** Turning an accounts receivable balance over to a collection agency or attorney for action.

3.0 Responsibilities

3.1 The Chief accountant is responsible for approving the placement of any account with an outside attorney or collection agency.

4.0 Policy Statement

4.1 It is the policy of the Company to exhaust all in-house efforts to effect collection of past due receivables, before using outside means. The placement of accounts with outside attorneys or collection agencies is only made as a final collection effort, or to reaffirm the uncollectibility of the account.

5.0 Procedures

5.1 Unpaid receivables over 90 days old are reviewed twice a month by the deputy chief accountant. Determination is made if payment has been promised or a payment plan has been agreed upon.

5.2 A final demand for payment is sent to the account by certified mail. A copy of the demand is also sent to the Chief accountant and CEO.

5.3 If the customer does not respond to the final demand within ten days, the customer, including copies of the open invoices and statement of account is forwarded to the Chief accountant for disposition.

5.4 If the account exceeds 20,000 GEL, the Chief accountant contacts a legal firm and placement is made.

5.5 If the account is less than 20,000 GEL, the Chief accountant decides which of the two collection agencies will be used. This decision is usually based on geographical location of the debtor. The collection agency is contacted and placement is made.

5.6 Confirmation of receipt of the claim by the attorney or the collection agency is usually received within seven days.

5.7 Outside collection activity begins and the account remains open on the Accounts Receivable Aging until payment in full is received or the account is deemed uncollectible and is written off against the Allowance for Doubtful Accounts (See Reserve for Bad Debt Computation and Allowance for Doubtful Accounts policies).

ENGOURI HPP
CREDIT POLICIES

Number: 2.08

Effective Date:

Written By: Deloitte & Touche

Modified By:_ **CEO Approval:**

Date Modified:_ **Date:**

Title: Credit Hold

1.0 Purpose and Scope

1.1 The purpose of this policy is to define how and why a customer account may be put on credit hold.

2.0 Definitions

2.1 ***Credit Hold:*** The process of stopping customer order placement and supplying of services.

2.2 ***Past Due:*** The condition when payment from a customer is not received in a timely manner, and the deputy chief accountant has not been able to effect promise for payment from the customer.

3.0 Responsibilities

3.1 The deputy chief accountant is responsible for the collection of the accounts receivable.

3.2 It is the Chief accountant and CEO's responsibility to determine whether the account should be on credit hold.

3.3 It is the responsibility of the accounts receivable accountant to enter the credit hold in the system file.

4.0 Policy Statement

4.1 It is the policy of the Company that no additional credit shall be granted to a past due customer unless the Company's interests are adequately protected.

4.2 It is the policy of the Company to treat all customers fairly while protecting the Company's interests as they relate to accounts receivable.

5.0 Procedures

5.1 Accounts are reviewed daily by the accounts receivable accountant, customers who are more than 15 days past due are identified to passed to the deputy chief accountant to be contacted by telephone to determine why the past due item(s) have not been paid.

5.2 The deputy chief accountant determines from the customer whether payment can be expected, and when.

5.3 The results of the conversation with the customer, the past due nature of the account, the credit risk involved with shipping more product if the customer is under their assigned credit limit, and the protection of the Company's interests all impact the determination of whether the account is put on credit hold. If the deputy chief accountant determines that the customer should be placed on hold, he/she has to receive an approval from the Chief accountant and CEO.

5.4 If it is determined that placing the account on credit hold is the appropriate action and the approval has been received, the customer is notified by telephone by the deputy chief accountant that the account is to be placed on hold. If the customer cannot be reached by telephone, a letter is sent.

5.5 The accounts receivable accountant enters the system and places the account on credit hold.

5.6 Hold status prevents delivery of additional services.

5.7 Hold status may only be lifted by the CEO and the Chief accountant based on the agreement of the customer to pay or receipt of payment.

ENGOURI HPP
CREDIT POLICIES

Number: **2.09**

Effective Date:

Written By: **Deloitte & Touche**

Modified By:_ **CEO Approval:**

Date Modified:_ **Date:**

Title: Customer Credit Terms

1.0 Purpose and Scope

1.1 The purpose of this policy is to define the terms and methods by which sales of Company services are made to our customers.

2.0 Definitions

2.1 ***Net 30:*** Standard payment terms for all customers. Payment is due 30 days from date of invoice.

2.2 ***Cash In Advance:*** Payment terms for a customer who cannot qualify for Net 30 terms. Payment is due prior to providing of services.

3.0 Responsibilities

3.1 The Chief accountant is responsible for assignment of terms.

4.0 Policy Statement

4.1 It is the policy of the Company that all customers be treated fairly.

5.0 Procedures

5.1 The Chief accountant assigns the terms code based on credit limit review of the customer (See Credit Limits policy).

5.1 An order must be placed by the customer before an account number is assigned by Chief accountant.

5.3 Once the account is assigned, the accounts receivable accountant enters the customer's terms code into the system file.

ENGOURI HPP CREDIT POLICIES	
Number: **2.10**	
Effective Date:	
Written By: **Deloitte & Touche**	
Modified By:	**CEO Approval:**
Date Modified:	**Date:**

Title: Credit Limits

1.0 Purpose and Scope

1.1 The purpose of this policy is to define the method by which the Credit Department establishes credit limits for our customers.

2.0 Definitions

2.1 ***Standard Terms:*** Payment terms for most customers, payment due in 30 days from date of invoice.

2.2 ***Non-Standard Terms:*** Other than payment due in 30 days

3.0 Responsibilities

3.1 The Chief accountant and deputy chief accountant are responsible for the analysis of the customer's credit application, credit and bank references and financial statements for the determination of customer credit limits.

3.2 The Chief accountant is responsible for approving all non-standard terms and credit limits over 100,000 GEL.

4.0 Policy Statement

4.1 It is the policy of the Company that credit limits be established for each customer which are commensurate with the customers requirements for our products and ability to pay for these products within the established payment terms.

5.0 Procedures

5.1 The Company's financial condition, present standing with trade creditors and financial institutions and length of time in business are evaluated to reach an acceptable line of credit.

5.2 All customers are informed in writing of the established credit line, if any, as is the accounts receivable accountant.

5.3 Within the limits of sound credit practices, the Chief accountant endeavors to find a suitable credit basis on which to deal with every active or potential customer.

5.4 In the performance of its duties, the Chief accountant shall maintain a positive and constructive attitude towards the Company's customers. The standards by which credit risks are accepted or rejected shall be flexible enough to permit maximum profitable sales with safety of investment.

Company Policies and Procedures

Fixed Assets - Chapter 3

ENGOURI HPP
GENERAL LEDGER POLICIES

Number: 3.01

Effective Date:

Written By: Deloitte & Touche

Modified By:_ **CEO Approval:**

Date Modified:_ **Date:**

Title: Fixed Asset Capitalization for External Purchases

1.0 Purpose and Scope

1.1 The purpose of this policy is to define the activities and responsibilities that relate to the capitalization of company owned fixed assets that are purchased from external vendors.

2.0 Definitions

2.1 ***Fixed Assets: Tangible*** assets are the machinery, equipment, furniture and fixtures that Engouri HPP uses to conduct its business. Each asset is recorded on the Balance Sheet and is depreciated over the estimated useful life of the asset.

2.2 ***Useful Life:*** Period in which asset is used in the ordinary course of business operations. (See Section 4.0 for the estimated useful life of each fixed asset type).

3.0 Responsibilities

3.1 It is the responsibility of the ORIGINATING DEPARTMENT to complete the Purchase Requisition Form and to properly code the general ledger account number (000-1799) for all items which meet the capitalization criteria (See Section 4.0). It is also the responsibility of the ORIGINATING DEPARTMENT to complete a Capital Equipment Authorization (CEA) Form and to obtain all appropriate approvals for purchases that exceed **40,000 GEL**.

3.2 The PURCHASING DEPARTMENT is responsible for ensuring that all Purchase Requisition Forms for fixed asset purchases are coded to the proper general ledger account (000-1799) and that an approved CEA Form is received prior to placing each order.

3.3 It is the responsibility of the accounts payable accountant to make copies of all purchase orders, invoices and receivers that are coded to account 1799. The accounts payable accountant is also responsible for accruing sales tax that may have been erroneously omitted from invoices.

3.4 It is the responsibility of the deputy chief accountant to ensure that the asset is appropriately capitalized, to determine the useful life of the asset, approve these matters and to pass the information to the fixed assets accountant to record the asset in the Fixed Asset System and to issue Fixed Asset Tags to the Originating Department.

3.5 The DEPARTMENT MANAGER is responsible for the assets within his/her department. The DEPARTMENT COORDINATOR is responsible for tagging any equipment that has been capitalized. The DEPARTMENT COORDINATOR notifies the deputy chief accountant when assets are transferred to other departments or when assets are retired from service.

3.6 The DEPARTMENT MANAGER is responsible for the assets within his/her department. The DEPARTMENT COORDINATOR (or designee) is responsible for tagging any equipment that has been capitalized. The DEPARTMENT COORDINATOR notifies deputy chief accountant if an asset is transferred to another department.

If an asset is no longer being used, the DEPARTMENT COORDINATOR is responsible for the disposition of the asset and for notifying deputy chief accountant via a Fixed Asset Transfer/Retirement Form. The Fixed Asset Transfer/Retirement Form is completed when an asset has been retired (i.e. transferred to the Excess & Obsolete inventory, sold or scrapped.)

4.0 Policy Statement

4.1 It is the policy of the Company to capitalize all fixed asset purchases when the unit cost of the fixed asset exceeds **150 GEL** per unit or the useful economic life of the asset is greater than one year. It is the policy of the Company to depreciate a capitalized fixed asset over the asset's estimated useful life based on the following:

Computer Equipment	3 years
Telephone Equipment	5 years
Tooling	5 years
Software	2 years
Machinery & Equipment	5 years
Leasehold Improvements	shorter of 5 years or the life of the lease
Autos	5 years
Furniture & Fixtures	5 years
Building	40 years

5.0 Procedures

5.1 The Originating Department completes a Purchase Requisition for the capital equipment being purchased. The account number referenced in the Purchase Requisition is 000-1799. The Purchase Requisition also references the department number that will be charged with the depreciation expense. If the purchase is

greater than **40,000 GEL**, an approved CEA Form accompanies the Purchase Requisition Form to Purchasing.

5.2 Purchasing places the order after all appropriate approvals/CEAs have been reviewed.

5.3 Upon receipt of the order, the accounts payable accountant processes the vendor invoice for payment. The accounts payable accountant is responsible for ensuring that all appropriate receivers and authorizations are complete prior to vouchering the invoice in the Accounts Payable system. The accounts payable accountant also accrues sales tax if the vendor fails to include the sales tax on the invoice. The accounts payable accountant forwards a copy of the invoice to the deputy chief accountant.

5.4 The deputy chief accountant reviews all appropriate documentation (i.e. invoice copies, CEAs, etc.) prior to passing this information to the fixed asset accountant for capitalizing the asset on the fixed asset system. The deputy chief accountant also ensures that every piece of the purchase order has been received. The deputy chief accountant then authorizes the fixed asset accountant to issue an asset number and an inventory tag. The fixed asset accountant sends the asset number and inventory tag to the Department Coordinator. The fixed asset accountant also prepares a journal entry each month which transfers the assets vouched by the accounts payable accountant out of account 1799 and into the appropriate general ledger asset account (i.e. Machinery and Equipment, Furniture and Fixtures, etc.).

5.5 The Department Coordinator places the inventory tag on the asset. The Department Coordinator notifies the deputy chief accountant if the asset is ever physically moved to another department. If the asset is ever moved to another department, the Department Manager completes a Fixed Asset Transfer/Retirement Form.

5.6 At the time the asset is no longer useful, the Department Coordinator notifies the deputy chief accountant via a Fixed Asset Transfer/Retirement Form. When a Fixed Asset Transfer/Retirement Form is received, the deputy chief accountant orders the fixed asset accountant to cease depreciation of the asset and retire the asset off the fixed asset and general ledger systems. The fixed asset accountant then records the gain/loss on the retirement of the asset.

6.0 Exhibits/References

6.1 Exhibits

a. Purchase Requisition Form
b. Fixed Asset Transfer/Retirement Form

ENGOURI HPP
GENERAL LEDGER POLICIES

Number: **3.02**

Effective Date:

Written By: **Deloitte & Touche**

Modified By:_ **CEO Approval:**

Date Modified:_ **Date:**

Title: Retirement of Capital Equipment

1.0 Purpose and Scope

1.1 The purpose of this policy is to define the activities and responsibilities related to retiring capital equipment.

2.0 Definitions

2.1 ***Fixed Assets:*** The tangible assets that Engouri HPP uses to conduct company business. Fixed assets include machinery, equipment, furniture and fixtures, etc. Fixed assets are recorded on the Balance Sheet in an asset account and are depreciated over the estimated useful life of the asset.

2.2 ***Estimated Useful Life:*** The period in which the asset is fully functional and is used to conduct company business (See Section 4.0 for estimated useful lives for each fixed asset type).

3.0 Responsibilities

3.1 It is the responsibility of the DEPARTMENT COORDINATOR to properly dispose of any capital equipment that is no longer being used to conduct company business (Please reference the Procedure Section of this document for capital equipment disposition instructions). When an asset's estimated useful life has ended, the asset can be dealt with in several different ways: the asset can be transferred to the Excess & Obsolete Department for salvage; the asset can be sold to an outside party or the asset can be discarded. The DEPARTMENT COORDINATOR is also responsible for completing an Engouri HPP Fixed Asset Transfer/Retirement Form, obtaining proper authorization and forwarding the form to the deputy chief accountant.

3.2 The deputy chief accountant is responsible for ordering the fixed asset accountant to retire the asset from the Fixed Asset system and to properly record the retirement in the General Ledger.

4.0 Policy Statement

4.1 It is the policy of the Company to capitalize and depreciate any asset with a unit cost greater than **150 GEL or a useful life of greater than one year**. This practice is in accordance with Statutory accounting requirements in Georgia.

5.0 Procedures

5.1 Transfers to E&O:

a. If the asset is to be transferred to the Excess & Obsolete (E&O) Department, the Department Coordinator lets the E&O Department know the condition of the asset (good/poor/junk). The Department Coordinator completes the Fixed Asset Transfer/Retirement Form, obtains the signature of the Department Manager and attaches it to the equipment securely. If the net book value of the asset exceeds **5,000 GEL**, the CEO also approves the retirement.

b. The Department Coordinator contacts the Facilities Department to pick up the equipment. The Department Coordinator completes a "RAN Equipment Pick Up Form" which must be signed by Facilities as proof the equipment was indeed picked up. The E&O Manager inspects the equipment, signs the Retirement Form and forwards it to the deputy chief accountant.

c. The deputy chief accountant orders the fixed asset accountant to retire the asset from the Fixed Asset system. The net book value of the equipment is posted to the E&O Salvage account (090-4631).

d. The E&O Department then attempts to sell the asset. Any proceeds from a sale are coded to the E&O Salvage accounts (090-4631). Any deficiency/excess under/over book value upon sale is posted to the P&L Gain/Loss account.

5.3 Outside Sale of Asset:

a. If the asset is sold to an outside party, the Department Coordinator contacts the deputy chief accountant to obtain the Net Book Value of the asset. Once sold, the Department Coordinator attaches the check to the Fixed Asset Transfer/Retirement Form. The Department Manager must approve the Fixed Asset Transfer/Retirement Form. The form is then sent to the deputy chief accountant. If the asset's selling price is 5,000 GEL or more below the asset's Net Book Value, the CEO also must approve the asset's disposal. All asset sale proceeds are booked to the Gain/Loss account (000-9010).

b. The deputy chief accountant orders the fixed asset accountant to retire the asset from the Fixed Asset system. The net book value is automatically recorded as a debit to the Gain/Loss account on the General Ledger.

5.4 Permanent Disposal of Asset:

a. If the asset is permanently disposed of (other than by sale), the Department Coordinator completes a Fixed Asset Transfer/Retirement Form and obtains the Department Manager's signature on the form. If the Net Book Value of the asset exceeds 5,000 GEL, the CEO also approves of the disposal.

b. The deputy chief accountant orders the fixed asset accountant to retire the asset from the Fixed Asset system. The net book value automatically records as a debit to the Gain/Loss account on the General Ledger.

ENGOURI HPP
GENERAL LEDGER POLICIES

Number: **3.03**

Effective Date:

Written By: **Deloitte & Touche**

Modified By: _ **CEO Approval:**

Date Modified: _ **Date:**

Title: Transfer of Company Owned Assets

1.0 Purpose and Scope

1.1 The purpose of this policy is to ensure that the appropriate paperwork is completed and forwarded to the deputy chief accountant when fixed assets are moved from one department to another department. The successful completion and routing of paperwork ensures that the appropriate department receives the fixed asset depreciation expense and that company owned assets are stated properly when the fixed assets are reported in accounting statements and tax reports.

2.0 Definitions

2.1 ***Fixed Assets***: The tangible assets that Engouri HPP uses to conduct company business. Fixed assets include machinery, equipment, furniture and fixtures, etc. Fixed assets are recorded on the Balance Sheet in an asset account and are depreciated over the estimated useful life of the asset.

2.2 ***Estimated Useful Life***: The period in which the asset is full functional and is used to conduct company business (See Fixed Asset Capitalization for Internal Purchases Policy for the estimated useful life of each fixed asset type).

3.0 Responsibilities

3.1 It is the responsibility of the DEPARTMENT TRANSFERRING THE ASSET to complete a Fixed Asset Transfer Form, to acquire the appropriate authorizations on the Fixed Asset Transfer Form and to forward the approved form to the deputy chief accountant.

3.2 It is the responsibility of the deputy chief accountant to authorize the fixed asset accountant to account for the transfer of an asset in the fixed asset system and in the general ledger system.

4.0 Policy Statement

4.1 It is the policy of the Company that a completed and approved Fixed Asset Transfer Form accompanies equipment that is moved from one department to another department.

5.0 Procedures

5.1 The Originating Department obtains the equipment's Asset Number from the deputy chief accountant. The Originating Department is responsible for completing a Fixed Asset Transfer Form and for obtaining the necessary approvals on the form; both the sending and receiving department managers must authorize the asset transfer. Then, the Originating Department forwards the approved Fixed Asset Transfer Form to the deputy chief accountant.

5.2 The deputy chief accountant is responsible for authorizing the fixed asset accountant to transfer the asset to the appropriate department within the Fixed Asset System. The deputy chief accountant is also responsible for authorizing the fixed asset accountant to record all of the recipient department's future depreciation expenses on the general ledger.

Company Policies and Procedures

Financial Reporting - Chapter 4

ENGOURI HPP
FINANCIAL REPORTING POLICIES

Number: 4.01

Effective Date:

Written By: Deloitte&Touche

Modified By:_ **CEO Approval:**

Date Modified:_ **Date:**

Title: Month-End Accounting Close

1.0 Purpose and Scope

1.1 The purpose of this policy is to define the activities and responsibilities of the accounting function as related to the accounting month-end close.

1.2 This policy is effective for Engouri HPP.

2.0 Definitions

2.1 ***Month-End Close:*** The process by which the Company closes each monthly accounting period.

2.2 ***Accounting Function:*** Chief accountant, deputy chief accountant, other accountants and other employees who have direct impact to the process of preparation of financial statements.

2.3 ***Operating Month:*** *Operating* month lasts from the first working day in a calendar month to the last working day in a calendar month. Saturday, Sunday and public holidays are not considered working days although the Company incurs certain expenses and earns income during those days.

3.0 Responsibilities

3.1 The Chief accountant is responsible for preparation of the final set of financial statements and the completeness of schedules and disclosures in the financial statements.

3.2 The deputy chief accountant is responsible for collecting all information necessary for closing the month from other accountants, preparing draft financial statements and submitting them to the Chief accountant for final review.

3.3 Other accountants are responsible for preparing information required by Chief accountant and deputy chief accountant and closing the account they are responsible for in time. Other accountants are responsible for accuracy and completeness of the closed account they are responsible for.

4.0 Policy Statement

4.1 It is the policy of the Company to close its accounting records and report its monthly financial results on a timely basis.

5.0 Procedures

5.1 5 working days before the end of the operating month Chief accountant distributes a check-list to all personnel within the Accounting function which indicates what action needs to be performed, who is responsible for performing the action, the deadline for the action to be finalized and the sign-off column where the preparer and the receiver date and sign when the action was finalized.

5.2 The accountant who is responsible for accounting for long term fixed assets carries out the following actions in relation to the closing of the account:

5.2.1 5 working days before the end of operating month the accountant makes sure he/she has received the checklist.

5.2.2 1 working day before the end of the operating month the accountant closes the accounts for fixed assets, accumulated depreciation, depreciation expense in cost of sales and administrative expenses and profit/loss on sale of fixed assets. The closing journal entries are shown at the end of this policy.

5.2.3 If an acquisition, sale or other disposal of fixed assets is anticipated during the last 1-3 days, those transactions should be included in the current month. If it is impossible to identify with certainty the actual day and amount of the transaction, Chief accountant should be notified and a decision to wait until the end of calendar month or to exclude the transaction should be made.

5.2.4 1 working day before the end of the operating month and after the closing of the accounts as described in 5.2.2, the accountant prepares depreciation expense summary to the costing department. The accountant also prepares other information as required by the Chief accountant, such as, but not limited to, fixed asset movement table, the net book value of fixed assets pledged as collateral against loans, fixed assets which are not in use, fixed assets that are almost depreciated but still in use, etc.

5.2.5 As a final activity, the accountant should date and sign the checklist, deliver all the information to the deputy chief accountant who has to confirm the date and information he/she has received.

5.2.6 The accountant is responsible for investigating and correcting all reconciling items before submitting the final information to the deputy chief accountant. If necessary, the Chief accountant and deputy chief accountant should be consulted.

5.3 The accountant who is responsible for accounting for accounts receivable carries out the following actions in relation to the closing of the account:

5.3.1 5 working days before the end of operating month the accountant makes sure he/she has received the checklist.

5.3.2 1 working day after the operating month, the accountant collects data from the dispatcher regarding the customer and the amount of electricity (kWh) sold to that customer (including the last day of a calendar month) and processes the final invoices.

5.3.3 1 working day after the operating month, the accountant receives information on last cash receipts from the cash and bank accountant and posts appropriate reductions in the accounts receivable ledger.

5.3.4 1 working day after the operating month, the accountant updates the aging analysis of accounts receivable and submits that analysis to the deputy chief accountant. The deputy chief accountant has to quantify the final provision for doubtful receivables and submit the approved final figure to the accounts receivable accountant in 1 working day.

5.3.5 2 working days after the operating month the accountant should receive the final figure for provisions for doubtful receivables from the deputy chief accountant and make an appropriate journal entry. Journal entries relating to various levels of provisions are shown at the end of this policy.

5.3.6 1-2 working days after the end of operating month, the accountant prepares a summary of accounts receivable from Engouri Dam and Vardnili HPP and submits the summary to the deputy chief accountant.

5.3.7 As a final activity, the accountant should date and sign the checklist, deliver all the information to the deputy chief accountant who has to confirm the date and information he/she has received.

5.3.8 The accountant is responsible for investigating and correcting all reconciling items before submitting the final information to the deputy chief accountant. If necessary, the Chief accountant and deputy chief accountant should be consulted.

5.4 The accountant who is responsible for accounting for accounts payable carries out the following actions in relation to the closing of the account:

5.4.1 5 working days before the end of operating month the accountant makes sure he/she has received the checklist.

5.4.2 5 working days after the operating month the accountant collects all invoices received up to that point and posts the necessary ones that relate to the operating month that has just ended.

5.4.3 5 working days after the operating month the accountant receives information from the payroll accountant regarding payroll and related tax expense and posts those items in the payables ledger and income statement.

5.4.4 5 working days after the operating month, the accountant collects information from the procurement department and identifies if there are any supplies in transit for which the title and risk may have transferred to the Company. If such items exist, a journal entry must be posted for the full amount. Journal entry is shown at the end of this policy.

5.4.5 5-6 working days after the operating month, the accountant updates a list of expenditure for which invoices are usually not received within 10-15 days after the operating month, estimates the amount of expenditure (if necessary, he/she contacts the deputy chief accountant and/or other personnel who can provide the required information) and delivers the summary to the deputy chief accountant for approval. The deputy chief accountant has to review the expenditure estimates and change or leave them, whichever is the most appropriate based on the best of his/her knowledge and submit tothe Chief accountant for approval. After the amounts are approved, the deputy chief accountant should deliver the summary to the accountant who then makes the necessary journal entries. The journal entries are shown at the end of this policy. The summary of expenditure for accruals should include all expenditure regardless whether an invoices is issued or not (interest expense, vacation accrual, taxes, etc.).

5.4.6 5-6 working days after the operating month, the accountant collects information from the cash and bank accountant on all payments processed in the operating month and posts the relating reductions in the payables ledger.

5.4.7 5-6 working days after the end of operating month, the accountant prepares a summary of accounts payable to Engouri Dam and Vardnili HPP and submits the summary to the deputy chief accountant.

5.4.8 5-6 working days after the operating month the accountant obtains official foreign currency exchange rates applicable to the last calendar day of a month and recalculates the balance of liabilities denominated in foreign currencies. Any differences should be posted to the income statement. Journal entries are shown at the end of this policy.

5.4.9 As a final activity, the accountant should date and sign the checklist, deliver all the information to the deputy chief accountant who has to confirm the date and information he/she has received.

5.4.10 The accountant is responsible for explaining and correcting all reconciling items before submitting the final information to the deputy chief accountant. If necessary, the Chief accountant and deputy chief accountant should be consulted.

5.5 The deputy chief accountant carries out the following actions in relation to the closing of month:

5.5.1 The deputy chief accountant makes sure that all accountants received the checklist 5 working days before the end of operating month.

5.5.2 The deputy chief accountant investigates all the queries received from other accountants and makes a decision. The decision has to be coordinated with the Chief accountant and Chief accountant's approval is necessary for all decisions which require any sort of judgement or estimation to be made.

5.5.3 1 working day before the end of operating month the deputy chief accountant makes sure that he/she receives the closing journal entries from the accountant responsible for accounting for fixed assets. The journal entries have to be reviewed. If doubt to the amounts, correctness, classification, etc. rise, the deputy chief accountant has to obtain additional information from the accountant, the Chief accountant or the rest of the personnel. The deputy chief accountant has to date and sign the checklist provided by the accountant.

5.5.4 1 working day after the operating month the deputy chief accountant obtains an aging analysis from the accounts receivable accountant. The deputy chief accountant quantifies the final provision amount and obtains an approval from the Chief accountant. Then the summary is returned to the accounts receivable accountant. 2 working days after the operating month the deputy chief accountant receives the closing journal entries from the accounts receivable accountant. The journal entries have to be reviewed. If doubt to the amounts, correctness, classification, etc. rise, the deputy chief accountant has to obtain additional information from the accountant, the Chief accountant or the rest of the personnel. The deputy chief accountant has to date and sign the checklist provided by the accountant.

5.5.5 5-6 working days after the operating month the deputy chief accountant obtains a summary of expenditure estimates from the accounts payable accountant. The deputy chief accountant has to review the summary and modify it to the best of his/her knowledge. Then the summary has to be approved by the Chief accountant, after which the summary is returned to the accounts payable accountant. 6 working days after the operating month the deputy chief accountant receives the closing journal entries from the accounts payable accountant. The journal entries have to be reviewed. If doubt to the amounts, correctness, classification, etc. rise, the deputy chief accountant has to obtain additional information from the accountant, the Chief accountant or the rest of the personnel. The deputy chief accountant has to date and sign the checklist provided by the accountant.

5.5.6 7 working days after the operating month the deputy chief accountant makes sure that all checklists have been received and that all of them are signed-off. If any items are not received or signed-off, they have to be followed-up immediately and cleared within the same day.

5.5.7 7 working days after the operating month the deputy chief accountant performs the consolidation procedures (described as a separate policy).

5.5.8 7 working days after the operating month the deputy chief accountant prepares draft financial statements by putting together all journals (accounts receivable, accounts payable, sales, purchases, payroll, etc.) into a trial balance. The deputy chief accountant checks if the trial balance balances. In case it does not, the deputy chief accountant has to investigate and correct the reconciling items (if necessary the Chief accountant should be consulted).

5.5.9 After the trial balance is ready, the deputy chief accountant assembles and groups the trial balance accounts into draft financial statements. The deputy chief accountant also prepares all disclosures and notes to the financial statements.

5.5.10 8 working days after the operating month the deputy chief accountant delivers draft financial statements to the Chief accountant for review. The delivery pack should include draft financial statements, working papers, copies of closing journal entries, description of reconciling items etc.

5.6 The Chief accountant carries out the following actions in relation to the closing of month:

5.6.1 1 working day after the operating month the Chief accountant received a proposed level of provisions for accounts receivable from the deputy chief accountant. The Chief accountant has to conclude whether the provision is reasonable (if not, it has to be modified) and approve the final amount. The approved provision level is returned to the deputy chief accountant.

5.6.2 6 days after the operating month the Chief accountant receives a summary of estimated expenditure accruals. The Chief accountant has to make sure that all expenses and in full amounts have been included in the summary. The Chief accountant should follow the conservative principal when determining the amount of any accruals. The approved summary is returned to the deputy chief accountant.

5.6.3 8 working days after the operating month the Chief accountant receives a pack from the deputy chief accountant that has to include draft financial statements, working papers, copies of closing journal entries, description of reconciling items etc.

5.6.4 The Chief accountant has to review the working papers done by the deputy chief accountant when preparing the financial statements, draft financial statements, closing journal entries, reconciling items, consolidation adjustments etc. After the review the Chief accountant approves the financial statements. By approving the financial statements, the Chief accountant certifies that to the best of his/her knowledge all liabilities both actual and contingent have been accounted for, all assets are stated at lower of cost or net realizable value, all necessary disclosures have been made and that the financial statements are not materially misstated.

6.0 A sample form of the checklist

Task	Due date	Performed by	Date	Reviewed by	Date
Fixed assets					
The checklist received	5 days before month end				
All fixed asset acquisitions (including in transit) accounted for	1 day before month end				
All fixed assets disposals accounted for	1 day before month end				
The CA and DCA inquired about anticipated sales acquisitions of fixed assets	1 day before month end				
Depreciation charged	1 day before month end				
Depreciation expense summary submitted to the costing department	1 day before month end				
All reconciling items cleared	1 day before month end				
Closing entries submitted to the DCA	1 day before month end				
Accounts receivable					
The checklist received	5 days before month end				
Final invoices issued	1 day after month end				
Last cash receipts checked and posted	1 day after month end				
Aging analysis updated and submitted to the DCA	1 day after month end				
Approved provision obtained and posted	2 days after month end				
Accounts receivable from Engouri Dam and Vardnili HPP summarized and submitted to the DCA	2 days after month end				
All reconciling items cleared	2 days after month end				
Closing entries submitted to the DCA	2 days after month end				
Accounts payable					
The checklist received	5 days before month end				
All invoices received were collected and the necessary ones were posted	5 days after month end				
Information from payroll and tax departments received and posted	5 days after month end				
Supplies in transit received and posted	5 days after month end				
Accrued expenditure list updated and submitted to the DCA	5 days after month end				

Approved accruals received and posted	6 days after month end				
Last cash payments posted	5 days after month end				
Ammounts in foreign currency translated and the difference posted	5 days after month end				
Accounts payable to Engouri Dam and Vardnili HPP summarized and submitted to the DCA	5 days after month end				
All reconciling items cleared	6 days after month end				
Closing entries submitted to the DCA	6 days after month end				

Task	Due date	Performed by	Date	Reviewed by	Date
DCA					
The checklist distributed within the accounting function	5 days before month end				
The closing entries from fixed asset accountant received and checked	1 day before month end				
Aging analysis of accounts receivable received and checked	1 day after month end				
Approval of the aging analysis received and analysis passed to accounts receivable accountant	2 days after month end				
The closing entries from accounts receivable accountant received and checked	2 days after month end				
Summary of accruals received and checked	5 days after month end				
Approval of the summary received and the summary passed to accounts payable accountant	6 days after month end				
The closing entries from accounts payable accountant received and checked	6 days after month end				
All checklists received	7 days after month end				
Consolidation entries posted	7 days after month end				
Income statement closed	7 days after month end				
Draft financial statements prepared and submitted to the CA	8 days after month end				
CA					
Aging analysis of accounts receivable received and approved	2 days after month end				
Summary of accruals received and approved	6 days after month end				
The pack received and checked	8 days after month end				
Financial statements approved	9 days after month end				

Key: CA – Chief accountant, DCA – accountant.

7.0 Closing journal entries

7.1 The following entries should be made when performing actions in 5.2.2:

Description	Balance sheet		Income statement	
	Dr	Cr	Dr	Cr
Posting the final acquisitions of fixed assets	Fixed assets	Cash, accounts payable, share capital		
Charging depreciation		Accumulated depreciation	Cost of sales depreciation, administrative expenses depreciation	
Sale of a fixed asset (disposal)	Accounts receivable, cash	Fixed assets	Cost of the fixed asset	Revenue from the sale

7.2 The following entries should be made when performing actions in 5.3.5:

Description	Balance sheet		Income statement	
	Dr	Cr	Dr	Cr
Identifying a doubtful receivable	Doubtful receivables	Accounts receivable		
Posting an initial provision		Doubtful receivables	Provision for doubtful receivables	
Increasing the level of provisions		Doubtful receivables	Provision for doubtful receivables	
Reducing the level of provisions	Doubtful receivables			Provision for doubtful receivables

7.3 The following entries should be made when performing actions in 5.4.3, 5.4.4, 5.4.5 and 5.4.8:

Description	Balance sheet		Income statement	
	Dr	Cr	Dr	Cr
Posting payroll and tax expenses		Accounts payable	Cost of sales payroll expense, cost of sales tax expense, administrative expenses payroll, administrative expenses taxes	
Posting supplies in transit	Inventory in transit	Accounts payable		
Posting estimated accruals (initial)		Accrued expenditure	Interest expense, payroll expense	
Posting accruals in the next month (at first release previous period accruals)	Accrued expenditure (previous period)	Accrued expenditure (current period)	Interest expense (current period)	Interest expense (previous period)
Recalculation of payables in foreign currency (income)	Accounts payable			Forex income
Recalculation of payables in foreign currency (loss)		Accounts payable	Forex loss	

7.4 The following entries should be made when performing actions in 5.5.9:

Description	Balance sheet		Income statement	
	Dr	Cr	Dr	Cr
Closing the trial balance income statement accounts	Current period loss (if expenses are higher than revenue)	Current period profit (if revenue is higher than expenses)	All revenue and income accounts (all credits)	All expense accounts (all debits)

Company Policies and Procedures

Combinations - Chapter 5

ENGOURI HPP FINANCIAL REPORTING POLICIES	
Number: 5.01	
Effective Date:	
Written By: Deloitte & Touche	
Modified By:_	**CEO:**
Date Modified:_	**Date:**

Title: Monthly Financial Statement Consolidation

1.0 Purpose and Scope

1.1 The purpose of this policy is to define the activities and responsibilities of the accounting function as related to the consolidation of monthly financial statements.

1.2 This policy is effective for Engouri HPP.

2.0 Definitions

2.1 ***Related Companies***: Engouri HPP, Engouri Dam and Vardnili HPP owned by the government. The parent company is Engouri HPP. Engouri Dam and Vardnili are subsidiaries of Engouri HPP.

2.2 ***Consolidating Company***: Engouri HPP will be responsible for preparation of the consolidated financial statements for all the related companies.

2.3 ***Consolidation***: Process by which the financial results of related companies are consolidated and presented as a consolidated entity in accordance with Generally Accepted Accounting Principles (GAAP).

2.4 ***Elimination Entries***: Accounting entries made in the preparation of consolidated financial statements to eliminate the effect of activity between related companies (i.e., intercompany transactions) in order to accurately present financial results of the consolidated entity.

3.0 Responsibilities

3.1 The deputy chief accountant of each related company is responsible for preparation of transmission of financial statements, supporting detail schedules and additional data necessary to compute elimination entries on a monthly basis to the consolidating company. The detailed requirements and reporting deadlines are described below.

3.2 Chief accountants of each of the related companies are responsible for timely accurate exchange of information necessary to consolidate the financial statements. They are also responsible for prompt solving of any problems that may rise during the consolidation process.

4.0 Policy Statement

4.1 It is the policy to report financial results on a consolidated basis in compliance with Generally Accepted Accounting Principles (GAAP).

5.0 Procedures

5.1 7 working days after the end of a month a deputy chief accountant of each related company prepares the information required for consolidation (this information is described in 6.0). The deputy chief accountant has to send this information to the other two companies in order to agree it with the information deputy chief accountants in those companies have. If any differences are identified, they have to be cleared immediately. If necessary, chief accountants have to be consulted. After all the differences are cleared, the information has to be sent to the consolidating company.

5.2 9 working days after the end of a month, deputy chief accountants send the full set of approved financial statements to the consolidating company.

5.3 The deputy chief accountant of the consolidating company makes sure that information he/she received from the two companies is accurate and complete.

5.4 9 working days after the end of a month, the deputy chief accountant of the consolidating company adds the financial statements of the related companies into one set. After that the following eliminating/consolidating entries are made (all entries are shown at the end of this policy):

a. Intercompany Sales and Cost of Sales: All sales and related cost of sales between related companies are eliminated in the consolidated income statement.

b. Intercompany Royalties: All royalties recorded between related companies are eliminated in the consolidated income statement.

c. Intercompany Receivables and Payables: Intercompany receivable and payable balances between related companies are eliminated on the consolidated balance sheet.

d. Intercompany Profit Elimination: The difference between the value of intercompany inventory carried on each related company's books (generally recorded at transfer price) and the value of that inventory computed using the worldwide standard cost is eliminated from the consolidated inventory balance.

e. Intercompany Profit Elimination: The difference between the value of intercompany fixed assets carried on each related company's books (generally recorded at transfer price) and the value of that fixed asset computed using the worldwide standard cost is eliminated from the consolidated fixed assets balance. Depreciation charge of such fixed assets is adjusted accordingly to eliminate depreciation rate differences from the original amount.

f. Engouri HPP Investment in Subsidiaries: Engouri HPP investment in each subsidiary and the related capital account balances of the subsidiary are eliminated from the consolidated balance sheet.

5.5 Once the data received from the related companies and the eliminating/consolidating entries are made, the deputy chief accountant of the consolidating company prepares the consolidated financial statements and other supporting detail schedules.

5.6 10 working days after the end of a month the deputy chief accountant of the consolidating entity submits the consolidated financial statements to the Chief accountant of the consolidating company for approval. The Chief accountant of the consolidating company has to check the eliminating entries made and approve the consolidated financial statements.

5.7 11 working days after the end of a month the deputy chief accountant of the consolidating company delivers the approved consolidated financial statements to other related companies.

6.0 Information for consolidation purposes

6.1 The following information has to be sent by every related company to the rest two and agreed with the records in those two companies: sales and cost of sales from transactions among the related companies; intercompany receivables and payables; the amount and unit cost of inventory items held which were purchased from other related companies; the profit element for every type of inventory sold to another related company; the net book value of fixed assets acquired from another related company and depreciation charged for the period; the profit/loss element for each fixed asset sold to another related company; and any other royalties charged to other companies.

7.0 Journal entries during the consolidation

7.1 First of all the balance sheets and income statements should be added for all the related companies.

7.2 Then any unrealized profit element in inventory should be identified and eliminated together with intercompany sales and cost of sales. The entry is debit sales (total intercompany sales), credit cost of sales (total cost of intercompany sales), credit inventory (unrealized profit element from intercompany purchases). If all inventory which was acquired from another related company has been sold to a third party by the end of a month, then the debit of sales equals the credit of cost of sales.

7.3 Third, any unrealized gain/loss on sale of fixed assets should be identified and eliminated. The entry is a reverse entry of the sale transaction as if the fixed assets have never been sold. The profit element should be debited in the income statement and fixed assets should be credited. The loss element should be credited in the income statement and fixed assets should be debited. Depreciation expense for such assets has to be credited in the income statement and debited in the balance sheet. A new depreciation amount (based on the original value of the fixed asset) should be calculated and debited in the income statement and credited in the balance sheet.

7.4 Last, income from intercompany royalties should be debited in the income statement and royalties paid should be credited in the income statement.

7.5 Last, investment in subsidiaries in Engouri HPP balance sheet has to be credited and equity balances of subsidiaries have to be debited.

Engouri HPP
The sales budget for the period from XXX to XXX

(kWh)

	Jan				Feb				March				Apr				May				June			
	Gross Input	Self Exemption	% of Losses	Net Input	Gross Input	Self Exemption	% of Losses	Net Input	Gross Input	Self Exemption	% of Losses	Net Input	Gross Input	Self Exemption	% of Losses	Net Input	Gross Input	Self Exemption	% of Losses	Net Input	Gross Input	Self Exemption	% of Losses	Net Input
				0				0				0				0				0				0
				0				0				0				0				0				0
				0				0				0				0				0				0
				0				0				0				0				0				0
				0				0				0				0				0				0
Total:	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0

Exhibit 2.
Engouri HPP
The sales budget for the period from XXX to XXX

(GEL)

	Tariffs	Kwh (Net Input)	GEL	Kwh (Net Input)	GEL	Kwh (Net Input)	GEL	Kwh (Net Input)	GEL	Kwh (Net Input)	GEL	Kwh (Net Input)	GEL	Kwh (Net Input)	GEL
Direct contracts:															
ABS - Tdasi			0		0		0		0		0		0	0	0
			0		0		0		0		0		0	0	0
			0		0		0		0		0		0	0	0
			0		0		0		0		0		0	0	0
			0		0		0		0		0		0	0	0
			0		0		0		0		0		0	0	0
Energy Market			0		0		0		0		0		0	0	0
Total domestic		0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total International		0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total:		0	0	0	0	0	0	0	0	0	0	0	0	0	0

Engouri HPP

Projected cash inflow from debtors for the period from XXX to XXX

	Jan-01	Feb-01	Mar-01	Apr-01	May-01	Jun-01	Total:
Sales Budget							
kWh:							
Direct contracts	0	0	0	0	0	0	**0**
Energy Market	0	0	0	0	0	0	**0**
Sales (VAT excl) GEL							
Direct contracts:							
Sales	0	0	0	0	0	0	**0**
Less: allowance	0	0	0	0	0	0	**0**
Net inflow:	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Energy Market							
Sales	0	0	0	0	0	0	**0**
Less: allowance	0	0	0	0	0	0	**0**
Net inflow:	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Net cash flow from Debtors	**0**	**0**	**0**	**0**	**0**	**0**	**0**

Engouri HPP

Cost of Sales budget for the period from XXX to XXX

GEL:	Jan-01	Feb-01	Mar-01	Apr-01	May-01	Jun-01	Total:
Sales:							
Direct Contracts							0
Energy Market							0
Total:	0	0	0	0	0	0	0
Depreciation							0
Repairing services							0
Wages & Salaries							0
Taxes on Salary							0
Taxes							0
Materials (oil) and spare parts							0
Dam Service	0	0	0	0	0	0	0
Total costs of sales	***0***	***0***	***0***	***0***	***0***	***0***	***0***
Gross margin:	***0***	***0***	***0***	***0***	***0***	***0***	***0***

Exhibit 6.
Engouri HPP

Admin expenses budget for the period from XXX to XXX

GEL:	1-Jan	1-Feb	1-Mar	1-Apr	1-May	1-Jun	Total:
Sales:							
Direct Contracts							0
Energy Market							0
Total:	0	0	0	0	0	0	0
Admin&General Expenses							
Administration Salary							0
Taxes on Salary							0
Inventory and spare parts							0
Communication							0
Depreciation (Building of the Head office)							0
Bisiness trips							0
Other Taxes							0
Other Admin&General Expenses							0
Total Admin & General Expenses	***0***	***0***	***0***	***0***	***0***	***0***	***0***

Engouri HPP

The budget of Profit and Loss account

GEL:	**Jan-01**	**Feb-01**	**Mar-01**	**Apr-01**	**May-01**	**Jun-01**	**Total:**
Net sales	0	0	0	0	0	0	**0**
Cost of sales	0	0	0	0	0	0	**0**
GROSS PROFIT	***0***	***0***	***0***	***0***	***0***	***0***	***0***
Provision for Doubtful debts	**0**	**0**	**0**	**0**	**0**	**0**	**0**
General & Administrative expenses	0	0	0	0	0	0	**0**
NET OPERATING PROFIT/LOSS	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Interest expense (for Local Bank's Loans)							
Interest expense (for EBRD Loan)							
Commitment Fee expense							
NET PROFIT/LOSS BEFORE TAXATION	0	0	0	0	0	0	**0**
Income Tax	0	0	0	0	0	0	**0**
Deferred Tax							**0**
NET PROFIT/LOSS	0	0	0	0	0	0	**0**

Engouri HPP

Cash Flow Budget

GEL:	Jan-01	Feb-01	Mar-01	Apr-01	May-01	Jun-01	Total:
Opening Cash Budget							
Cash received (from Debtors)	0	0	0	0	0	0	0
Short terms Loans							
TOTAL CASH AVAIALBLE	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Cost of Sales	0	0	0	0	0	0	0
Depreciation (-)	0	0	0	0	0	0	0
Admin and General Expenses	0	0	0	0	0	0	0
Depreciation (-)	0	0	0	0	0	0	0
Interest Expense	0	0	0	0	0	0	0
TOTAL OUTFLOW	**0**	**0**	**0**	**0**	**0**	**0**	0
CASH BALANCE	**0**	**0**	**0**	**0**	**0**	**0**	0

(Note: Enter the appropriate years on this sheet)

	January	February	March	April	May	June	July	August	September	October	November	December
Cash												
Accounts Receivable												
Inventory												
Other Current Assets												
Current Assets	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Fixed assets												
Long Term Investments												
Total Assets	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Current Liabilities												
Interest Bearing Debt												
Total current liabilities	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Retained earnings	0	0	0	0	0	0	0	0	0	0	0	0
Equity												
Total equity	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Total Liabilities	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Sales												
Operating Expenses												
Depreciation												
Interest												
Income Taxes												
Net Income	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Net Income+Interest	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Net Income+Interest+Taxes	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**

Engouri HPP

Short-term solvency or Liquidity Ratios:

	January	February	March	April	May	June	July	August	September	October	November	December
Current Ratio	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Quick Ratio	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Cash Ratio	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!

Turnover Ratios:

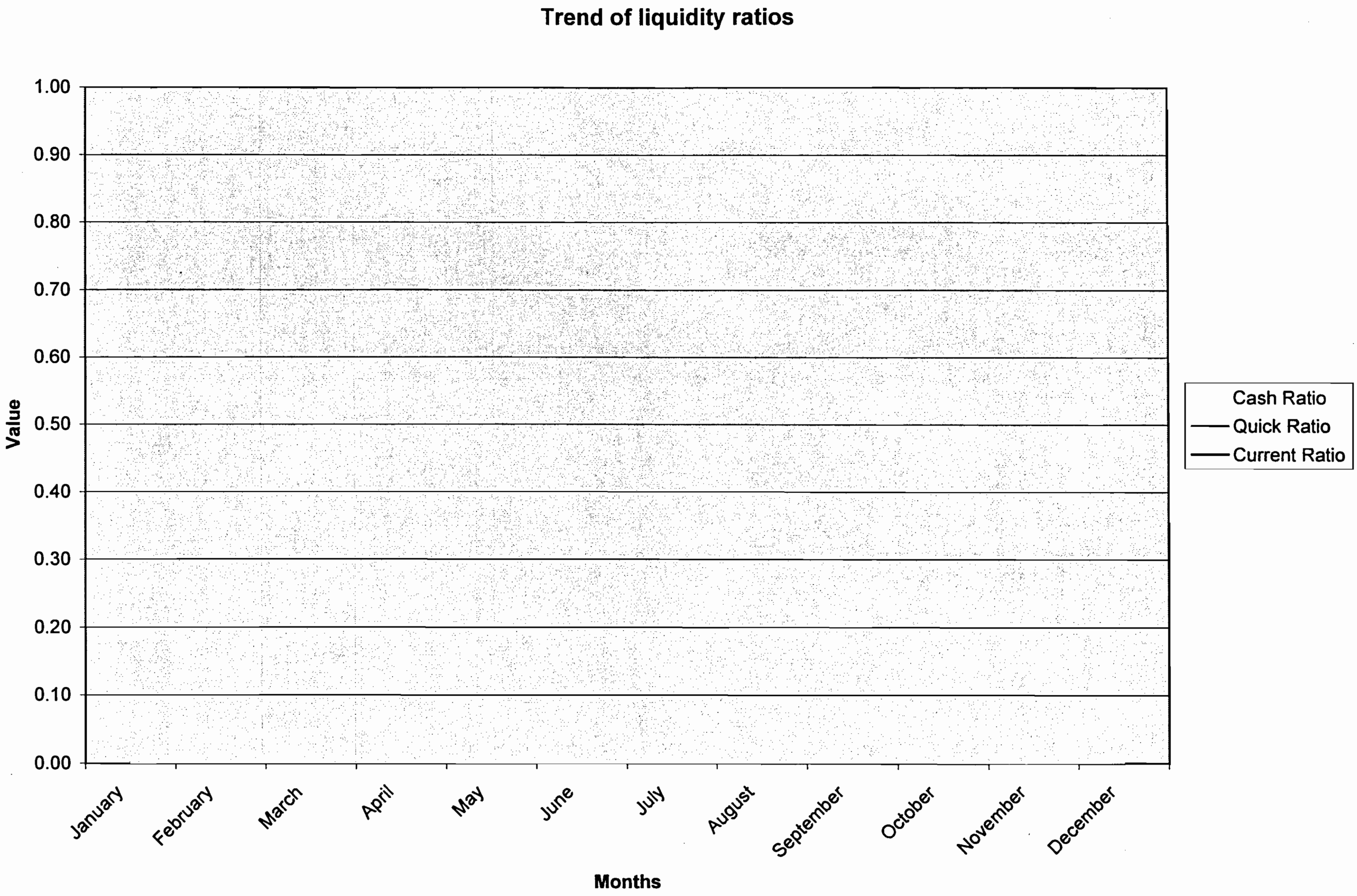
	January	February	March	April	May	June	July	August	September	October	November	December
Receivables Turnover	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Days' Sales in Receivables	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!

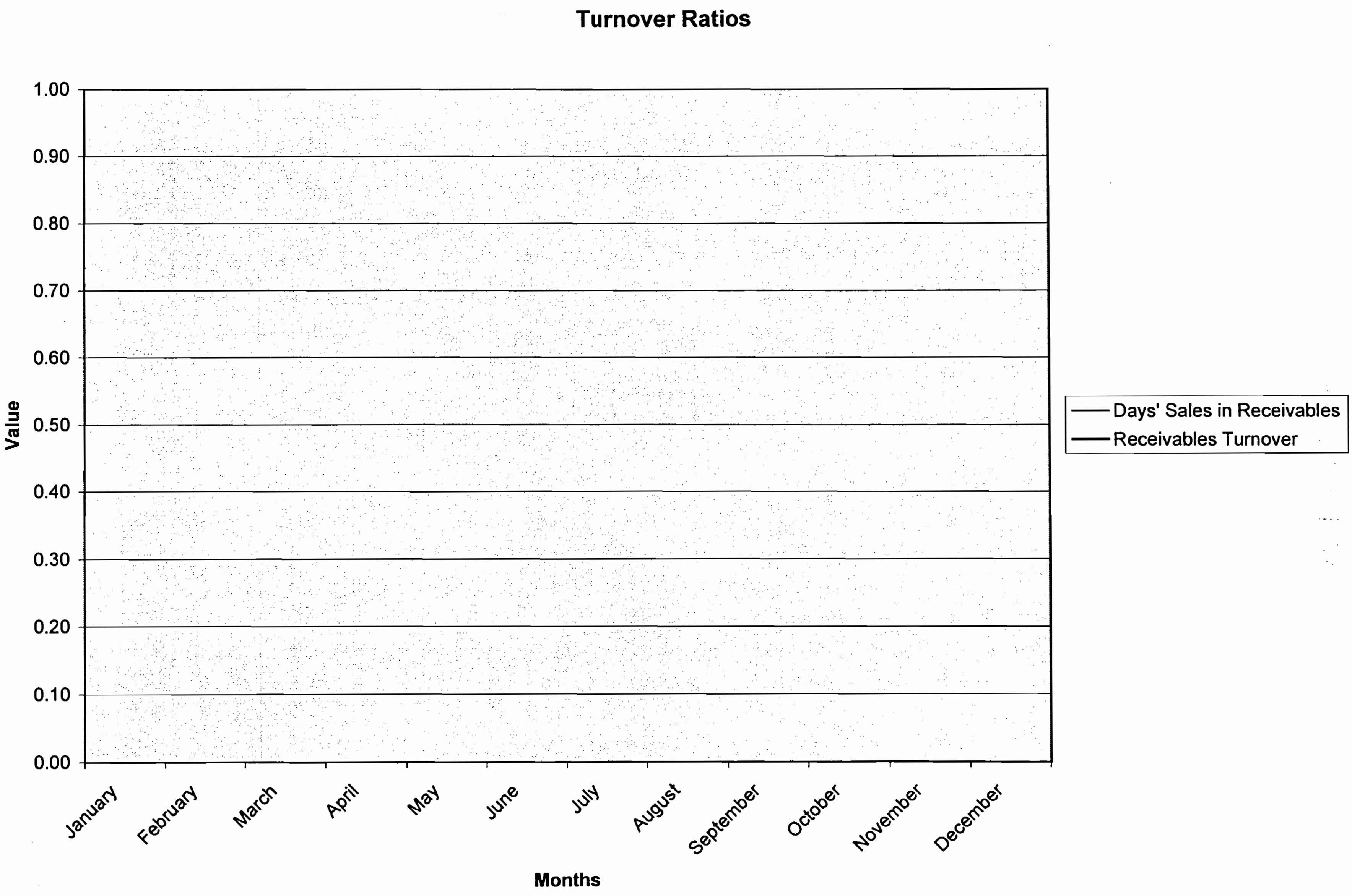
Financial Leverage Ratios

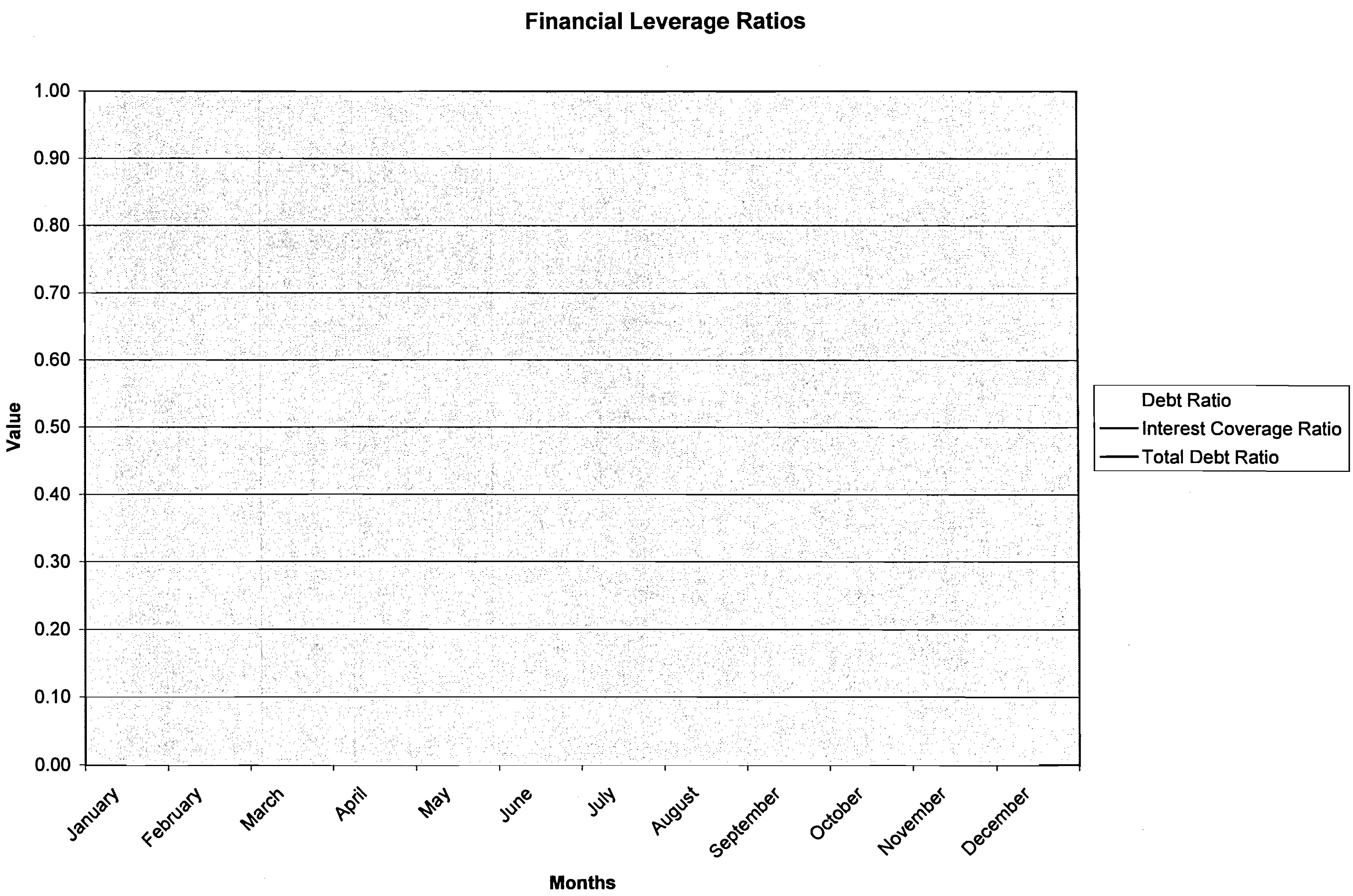
	January	February	March	April	May	June	July	August	September	October	November	December
Total Debt Ratio	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Interest Coverage Ratio	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Debt Ratio	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!

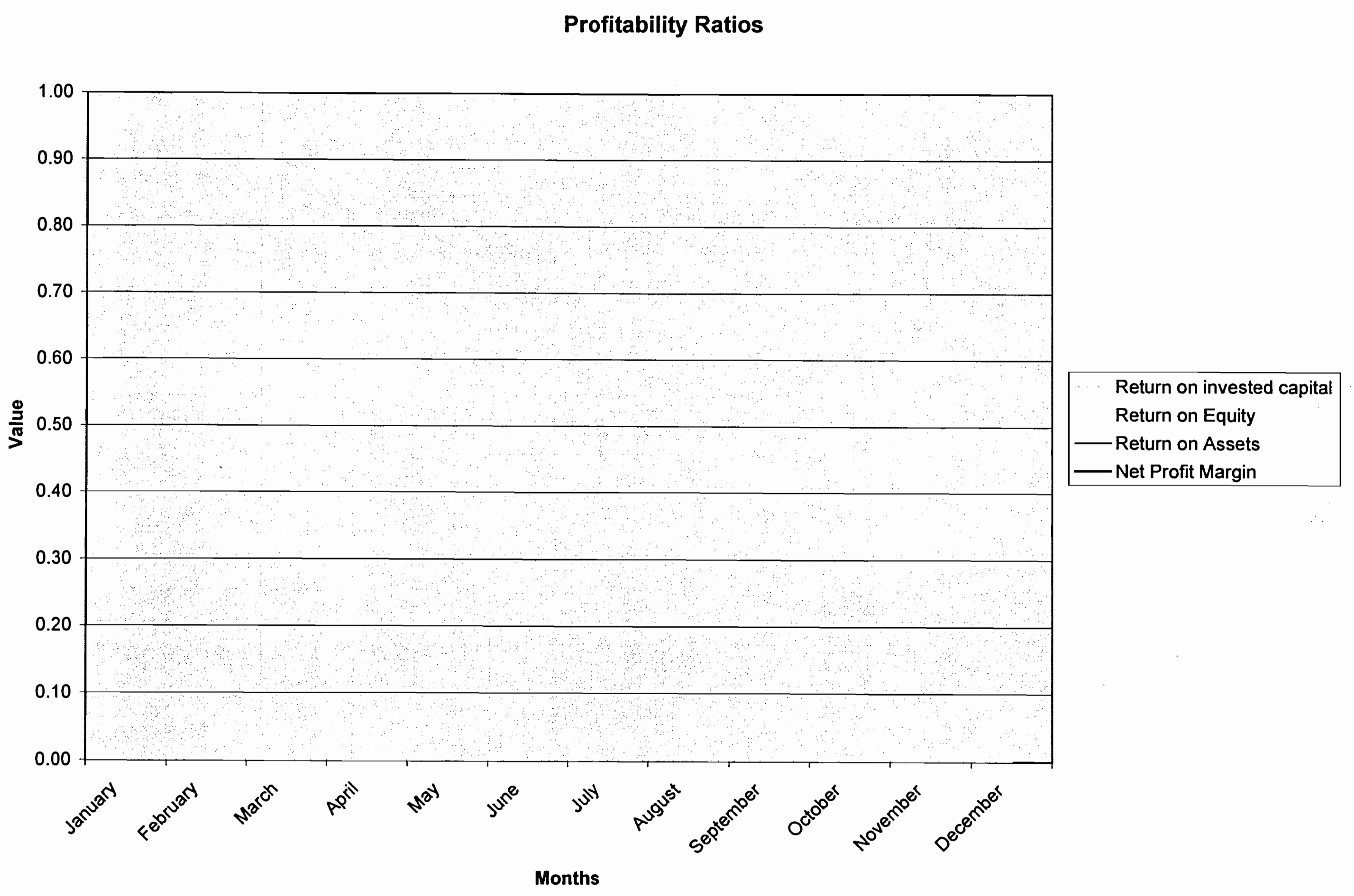
Profitability Ratios

	January	February	March	April	May	June	July	August	September	October	November	December
Net Profit Margin	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Return on Assets	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Return on Equity	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Return on invested capital	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!


Trend of liquidity ratios
1.00
0.90
0.80
0.70
0.60
0.50
0.40
0.30
0.20
0.10
0.00
Value
January
February
March
April
May
June
July
August
September
October
November
December
Months
Cash Ratio
Quick Ratio
Current Ratio


Turnover Ratios
Value
1.00
0.90
0.80
0.70
0.60
0.50
0.40
0.30
0.20
0.10
0.00
January
February
March
April
May
June
July
August
September
October
November
December
Months
Days' Sales in Receivables
Receivables Turnover


Financial Leverage Ratios
1.00
0.90
0.80
0.70
0.60
0.50
0.40
0.30
0.20
0.10
0.00
Value
January
February
March
April
May
June
July
August
September
October
November
December
Months
Debt Ratio
Interest Coverage Ratio
Total Debt Ratio


Profitability Ratios
1.00
0.90
0.80
0.70
0.60
0.50
0.40
0.30
0.20
0.10
0.00
Value
January
February
March
April
May
June
July
August
September
October
November
December
Months
Return on invested capital
Return on Equity
Return on Assets
Net Profit Margin

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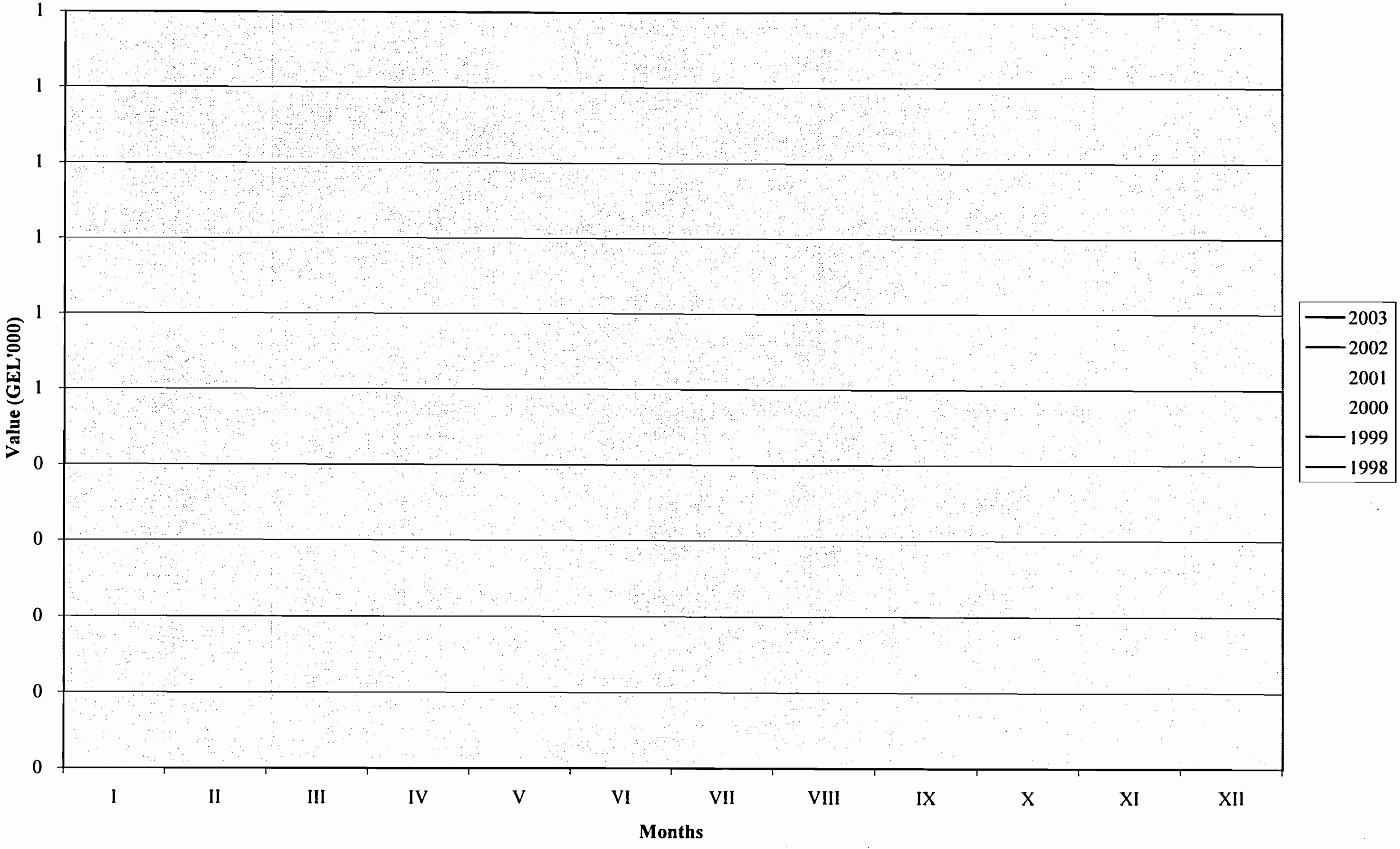
Sales

	I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII
1998												
1999												
2000												
2001												
2002												
2003												

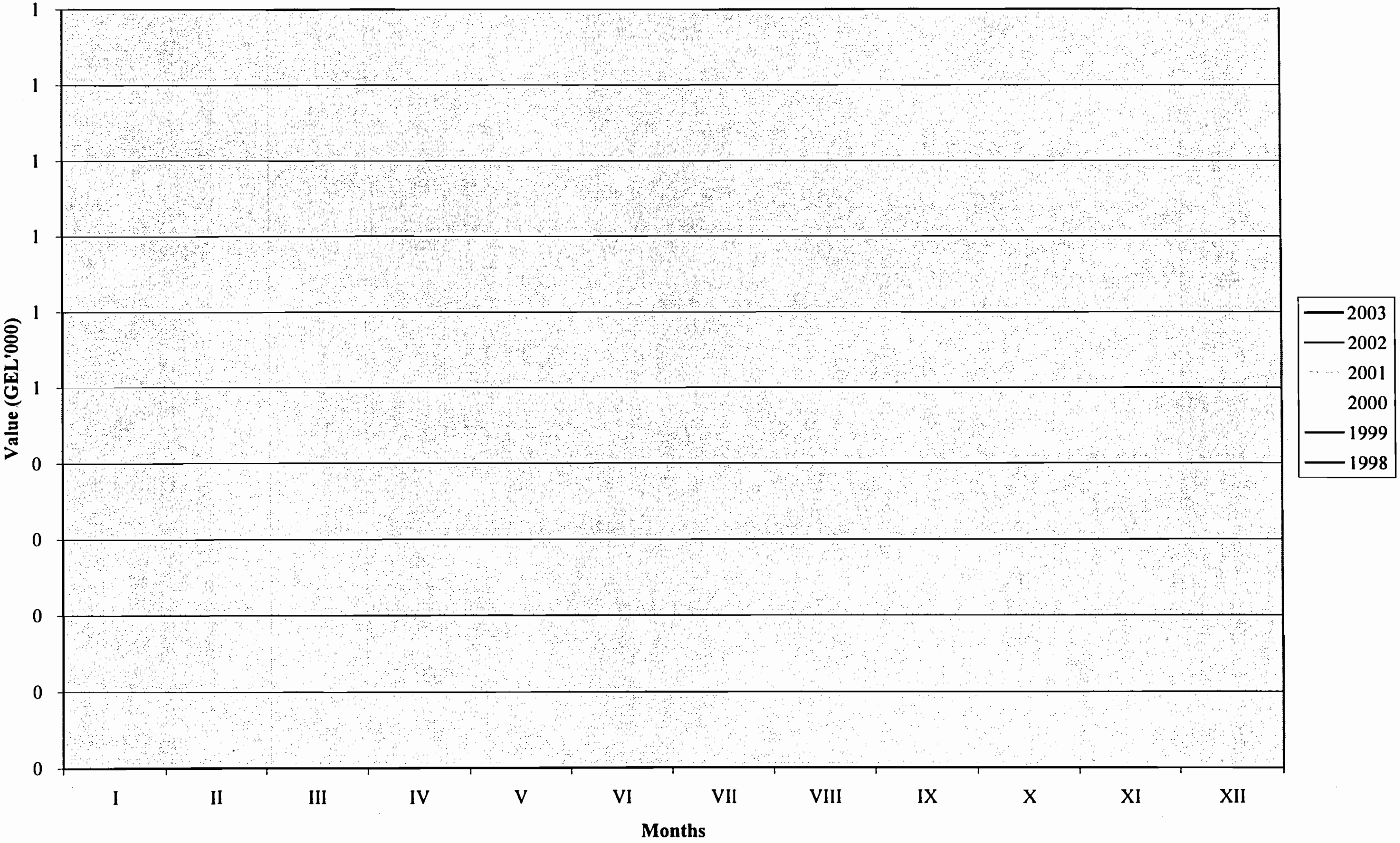
Expenses (cost of sales)

	I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII
1998												
1999												
2000												
2001												
2002												
2003												

Trend of Sales



Trend of Cost of sales



Fixed Asstes Purchase Requisition

Date: Supplier:

Agreement No: Date of Agreement:

#	Description	Quantity	Group	Dep. %	Unit price	Purchase Order (Invoice)			Balance amount	Date of expluatation
						No	Date	Note		

Expenses	Amount	Acc. #
Transportation		
Customs fee		
Installation		
Other expenses		
Total expenses		

Approved by: (Authorisation)

Name .... Signature ....

Possition .... Date ....

Transaction

1 Dr .... 2 Dr .... 3 Dr ....

Cr............................... Cr.............................. Cr..............................

BEST AVAILABLE

Fiscal year of planned acquisition: ____________ **Capital Expenditure Authorization #** ________

REQUESTOR ____________________

Total Amt. of Project (GEL): ____________________

Recommended Vendors & Competitive Bid Information:
(Please shoe recommended Vendor & Bid with "X")

	Vendor	Bid
1	____________________	________
2	____________________	________
3	____________________	________
4	____________________	________

Justification *(Explain benefit of purchasing against impact of not purchasing. If recommended vendor above*

Tecnikal Director ____________________

General Director ____________________

(If > 100 thousand GEL)
Chairman of Board of Directors ____________________

Fixed Assets Disposal Order

Date: No:

Date and No of Agreement: Date and No of Act:

#	Description	Quantity	Price	)ate of purchas	Value				Note
					Historical Cost	Accum. Depr.	Depr. from beginning the year	Net Value	

Gain or losses		Acc. #

Approved by: (Authorisation)

Name ………………………………………………. Signature ………………………………………

Position ……………………………………… Date ……………………………………………..

Transaction

1 Dr ………………………… 2 Dr ………………………… 3 Dr …………………………

Cr………………………… Cr………………………… Cr…………………………

Accounts Receivable Detail
debitoruli davalianeba

Period Ending Date
10/31/00

Invoice #	Company Name	Date of Sale	Payment Terms	Amount	Payment Date	Paid Amount	Discounts Granted	Returns	Net A/R	Days Overdue	Remarks
a/f #	dasaxeleba	miwodebis TariRi	gadaxdis pirobebi	Tanxa	gadaxdis TariRi	gadaxdili Tanxa	gacemuli fasdakleba	saqonlis dabruneb	davali-aneba	vadagada-cileba	SeniSvna
'0013	ss marsi	10/8/2000		3,000					3,000	23	
'0021	Sps "dedamiwa"	12/15/1999	10	100,000	12/17/1999	8,000			92,000	331	
'0020	Sps "merkuri"	12/14/1999	10	16,000	12/16/1999	16,000		1,000	-	332	
'0019	ss "marsi"	12/3/1999		3,600	12/15/1999				3,600	333	Camoiwera
'0017	Sps mze	11/15/1999	10	3,000	12/3/1999	3,000			-	361	
'0016	Sps "dedamiwa"	11/3/1999		8,000	11/18/1999	8,000			-	363	
'0015	Sps "merkuri"	10/20/1999		3,600	11/15/1999	3,600			-	377	
'0018	ss marsi	11/18/1999	30	6,200	12/14/1999	6,200			-	378	
'0014	ss "marsi"	10/15/1999		6,200	11/3/1999	6,000			200	382	Camoiwera
'0012	Sps mze	9/20/1999	30	8,000	10/15/1999	8,000	1,000		-	437	
'0011	Sps "dedamiwa"	9/16/1999	30	14,000	10/8/1999	14,000		3,000	-	441	
'0010	Sps "merkuri"	9/15/1999	30	5,000	9/20/1999	5,000			-	442	
'0009	ss "marsi"	8/23/1999	30	23,000	9/16/1999	18,000			5,000	465	Camoiwera
'0008	ss marsi	8/18/1999	30	16,000	9/15/1999				16,000	470	
'0007	Sps mze	7/23/1999	10	5,000	8/23/1999	5,000		1,000	-	476	
'0005	Sps "merkuri"	7/22/1999	10	6,000	1/15/2000	6,000	600		-	477	
'0006	Sps "dedamiwa"	7/22/1999	10	1,000	1/15/2000	1,000			-	477	
'0004	ss "marsi"	7/21/1999	30	10,000					10,000	498	Camoiwera
'0003	Sps "dedamiwa"	6/2/1999	10	2,600	7/22/1999	2,600			-	527	
'0002	ss "mTvare"	6/1/1999	10	3,000	8/18/2000	3,000			-	528	
'0001	Sps mze	6/1/1999	30	5,000	7/1/1999	4,000			1,000	548	
									-	-	
									-	-	
									-	-	
									-	-	
				248,200		***117,400***	***1,600***	***5,000***	***130,800***		

Total by Client

Sum of davali-aneba	
dasaxeleba	Total
Sps "dedamiwa"	92,000
Sps "merkuri"	-
Sps mze	1,000
ss "marsi"	18,800
ss "mTvare"	-
ss marsi	19,000
Grand Total	130,800

A/R Ageing Example

Ageing by Days Outstanding			
Greater Than	***Less Than***	***Total***	***% of Total***
	30	3,000	2%
29	59	-	0%
59	90	-	0%
89		127,800	98%

Total	130,800

A/R Analysis for Calculation of General & Specific Allowance

Specific Allowance

See 2.05 in Policies & Procedures Manual

Note or payment Plan	25%
Attorney or Collection Account	50%
Attorney with less chance of rec	75%
Bankrupt	100%

Inv. #	***Amount***	***Specific Reserve***
'0021	92,000	23,000

General Reserve

See 2.05 in Policies & Procedures Manual

2%	Current
5%	1-30 Days Past Due
25%	Over 31 Days Past Due

		Less Specific	Total	General Reserve
Current	-		-	-
1 to 30	3,000		3,000	150
> 31	127,800	(92,000)	35,800	8,950
Total	130,800	(92,000)	38,800	***9,100***

Address		**Invoice Number**	1290
Tel/Fax		*Contract/Confirm. #*	
e-mail			
ification Code		**Transaction #**	

Customer

Customer N.	**saaqcio sazogadoeba "merkuri"**			Date	20/01/2000
Address	**gamsaxurdias gamz. 65**			Order #	12-23/10
City	**Tbilisi**	Region 4	Code 21	Date of Receipt	
Telephone	11-11-11	Fax	22-22-22	of Invoice	03/02/2000

Quantity	Item	Unit Price	Total
300	nedli navTobi # 234	$120.00	36,000.00
120	nedli navTobi # 177	$100.00	12,000.00

	Gross	48,000.00
VAT	20%	9,600.00
Excise	20%	9,600.00
Discount	3%	1,440.00
Grand Total		**65,760.00**

Payment Conditions

- [x] Cash
- [ ] Credit
- [ ] Bank Transfer

Acct. # 954332

Bank s/s saqarTvelos banki

Bank Code 220101233

Signature

Director

Chief Accountant

Additional Terms

Conditions of Discount: Payment should be made within 30 days; if payment is made within 10 days a 3% discount is granted.

Payment

Payment	Amount	Description
20/01/2000	25,000.00	
31/01/2000	39,000.00	Bank Transfer
Balance	1,760.00	