# REPORT OF BAKER TILLY GEORGIA LTD TO EKO GEORGIA LTD

## FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT THEREON

AS AT 31 DECEMBER 2005

an independent member of
BAKER TILLY
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GEORGIA LTD

# TABLE OF CONTENTS

BAKER TILLY
GEORGIA LTD

74, Chavchavadze Avenue
0162 Tbilisi, Georgia
Tel/Fax: +(995 32) 253 657

## INDEPENDENT AUDITOR'S REPORT

To the Founders of EKO Georgia Ltd

We have audited accompanying balance sheet of Limited Liability Company EKO Georgia ("the Company") as at 31 December 2005 , and the related statements of income changes in owners' equity for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with the International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free of material misstatement. An audit includes examining on test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing of accounting principles used and significant estimates made by the management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above give a true and fair view of the financial position of EKO Georgia Ltd as at 31 December 2005, and the results of its operations for the year then ended in accordance with the accounting policies described in Note 3 to the financial statements.

Baker Tilly Georgia Limited

February 17, 2006
Tbilisi, Georgia

## BALANCE SHEET

| | | 31.12.2005 | 31.12.2004 |
|---|---|---|---|
| **ASSETS** | | | |
| ***Non-current assets*** | | | |
| Intangible assets, net | **Note 4** | 73,735 | 86,636 |
| Property, plant and equipment, net | **Note 5** | 8,402,420 | 8,100,471 |
| ***Total non-current assets*** | | ***8,476,155*** | ***8,187,107*** |
| ***Current assets*** | | | |
| Other current assets, net | **Note 6** | - | 165,300 |
| Inventories | **Note 7** | 3,366,482 | 2,279,836 |
| Prepaid taxes | **Note 8** | 878,090 | 568,901 |
| Prepayments, net | | 136,411 | 96,102 |
| Trade receivables, net | **Note 9** | 32,748 | 94,600 |
| Cash and cash equivalents | **Note 10** | 561,733 | 634,142 |
| ***Total current assets*** | | ***4,975,464*** | ***3,838,881*** |
| **TOTAL ASSETS** | | **13,451,619** | **12,025,988** |
| **LIABILITIES AND OWNERSô EQUITY** | | | |
| Ownersô equity | | 7,165,300 | 7,165,300 |
| Accumulated losses | | (1,979,675) | (2,828,200) |
| ***Total ownersô equity*** | | ***5,185,625*** | ***4,337,100*** |
| ***Non-current liabilities*** | | | |
| Long-term loans | **Note 11** | 239,001 | 486,667 |
| ***Total non-current liabilities*** | | ***239,001*** | ***486,667*** |
| ***Current liabilities*** | | | |
| Current portion of long-term loans | **Note 12** | 238,998 | 243,333 |
| Miscellaneous short-term payables | **Note 13** | 7,963 | 7,778 |
| Accounts payable | | 7,757,692 | 6,552,673 |
| Tax liabilities | **Note 14** | 22,340 | 398,437 |
| ***Total current liabilities*** | | ***8,026,993*** | ***7,202,221*** |
| **TOTAL LIABILITIES AND OWNERSô EQUITY** | | **13,451,619** | **12,025,988** |

The Financial Statements were approved by the management on February 17, 2006 and signed on its behalf by:

Mr. George Emanouil,
Deputy Managing Director

# INCOME STATEMENT

| | | Year ended 31.12.2005 | Year ended 31.12.2004 |
|---|---|---|---|
| Sales revenue | **Note 15** | 22,095,969 | 15,858,914 |
| Cost of sales | **Note 16** | (19,293,975) | (13,394,867) |
| ***Gross profit*** | | ***2,801,994*** | ***2,464,047*** |
| General and administrative expenses | **Note 17** | (1,230,172) | (1,333,523) |
| Tax expenses | **Note 18** | (139,686) | (198,107) |
| Other operating income | **Note 19** | 114,664 | 82,065 |
| Other operating expenses | **Note 20** | (76,669) | (334,985) |
| ***Operating result*** | | ***1,470,131*** | ***679,497*** |
| Interest income | | - | 294 |
| Foreign exchange gains, net | | 105,111 | 1,024,324 |
| Financial expenses | **Note 21** | (28,791) | (24,751) |
| Miscellaneous non-operating expenses, net | | (57,440) | (65,123) |
| ***Profit before profit tax*** | | ***1,489,011*** | ***1,614,241*** |
| Profit tax expense | **Note 18** | (337,170) | (439,639) |
| Extraordinary losses | **Note 22** | (303,316) | (268,471) |
| **Net profit** | | **848,525** | **906,131** |

The Financial Statements were approved by the management on February 17, 2006 and signed on its behalf by:

Mr. George Emanouil,
Deputy Managing Director

## STATEMENT OF CHANGES IN OWNER'S EQUITY

| | Owner's Equity | Accumulated losses | Total |
|---|---|---|---|
| **Opening balance as at 01.01.2004** | **7,165,300** | **(3,734,331)** | **3,430,969** |
| Net profit | - | 906,131 | 906,131 |
| **Closing balance as at 31.12.2004** | **7,165,300** | **(2,828,200)** | **4,337,100** |
| | | | |
| **Opening balance as at 01.01.2005** | **7,165,300** | **(2,828,200)** | **4,337,100** |
| Net profit | - | 848,525 | 848,525 |
| **Closing balance as at 31.12.2005** | **7,165,300** | **(1,979,675)** | **5,185,625** |

The Financial Statements were approved by the management on February 17, 2006 and signed on its behalf by:

Mr. George Emanouil,
Deputy Managing Director

### *Note 1. Company Background*

Limited liability company EKO Georgia (the Company) was registered at Vake Saburtalo regional court on 20 October 1995, registration #5/4 -115.

The Companyôs legal and actual address is 74 I.Chavchavadze ave., Tbilisi 0162, Georgia.

EKO Georgia Ltd is a Georgian - Greek joint venture. Major shareholder of the company is EKO A.B.E.E. currently with 96.569% interest in ownerôs equity. On January 17, 2006 EKO A.B.E.E. has purchased S.S. SAKNAVTOBPRODUKTI shares in Eko Georgia Limited (0.181%).

Other shareholders of Eko Georgia are:

- HELLENIC PETROLEUM S.A. with 1 %,
- DUKA LTD with 0.254 %,
- MG COMPANY LTD with 1.052 %,
- JETROIL LTD with 0.363 %, and
- Physical person with 0.762 %.

The main activities of EKO Georgia Ltd are import and subsequent retail and bulk sales of high quality, Greek petroleum products (Gasoline RON 93, Gasoline RON 98, Diesel EN 590 & Eko Lubricants) in Georgia. Imported products conform to the latest European Union Production Standards & Specifications. The sale of products is mainly carried out through the network of service stations (19 in total) all over Georgia.

- Fourteen service stations ïCompany owned - Company operated
- Two service stations ïCompany owned ïdealer operated.
- one service station ïdealer owned ïdealer operated.
- Two Company owned service stations, located in Khashuri are leased out without franchise.

Besides the main activities EKO Georgia Ltd is operating lubrication & car washing workshops, and supermarket. As of September 2004 caf® departments located at certain service stations have been leased out to operating companies.

### *Note 2. Current environment*

As an emerging market, Georgia does not possess a well-developed business and regulatory infrastructure that generally exists in a more mature free market economy. As a result, operations carried out in Georgia involve certain risks that are not typically associated with those in developed countries. The ability of the Company to establish profitable operations is subject to, among other things, significant political, economic and social risks inherent in doing business in the Republics of the former Soviet Union. These include political risks arising out of government policies, economic conditions, imposition of taxes or other similar charges by governmental bodies, foreign exchange fluctuations and controls, civil disturbances, deprivation or enforceability of contractual rights, and taking of property without fair compensations. The company could be affected, for the foreseeable future, by these risks and their consequences. As a result, there are significant uncertainties that may affect future operations. The accompanying financial statements do not include any adjustments that may result from the future clarification of these uncertainties. Such adjustments, if any, will be reported in the Companyôs financial statements in the period when they become known and estimable.

***Note 3. Summary of significant accounting policies***

The significant accounting policies adopted in the preparation of these financial statements are set out below:

**a) Basis of accounting**

The financial statements have been prepared under the historical cost convention, on the accrual basis of accounting.

**b) Foreign currency translation**

Transactions denominated in foreign currencies are reported at the Tbilisi Inter-Bank Currency Exchange (TIBEX) rates prevailing at the date of transactions. Differences between the contractual exchange rates at the date of the transaction and TIBEX exchange rates on the date of the transaction are included in foreign exchange gains or losses. Any gains or losses on assets and liabilities denominated in foreign currencies arising from change in exchange rates subsequent to the date of the transaction are recognized as foreign exchange gains or losses.

The exchange rates of the US dollar against Georgian Lari as at December 31, 2005 and 2004 were 1.7925 and 1.825, respectively.

**c) Non-current assets**

An asset is classified as a non-current asset when it is not expected to be realized in, or is not held for trading purposes or sale or consumption in, the normal course of the Companyôs operating cycle and when its estimated useful life is more than one financial year.

- **Property, plant and equipment**

Property, plant and equipment are recorded at historical cost. Cost includes all expenditures directly attributable to bringing the asset to working condition for its intended use. Subsequently, property, plant and equipment are carried at cost less accumulated depreciation.

The depreciation of the Property, plant and equipment is calculated in accordance with the depreciation rates governed by the Article 54 of the Georgian Tax Code on the Cost Balance of each group at the end of a fiscal year. At the end of a year the Cost Balance of a group is represented by the amount, determined by the following rules: at the end of a year the cost balance of a group is reduced by the depreciation sum of the year plus the value of the property, plant and equipment, added to the group and minus the amount, received during the fiscal year as a result of a sale of the property, plant and equipment of the group.

The applicable rates are as follows:

| Group Name | Annual rate |
|---|---|
| Buildings | 7 % |
| Cars, special instruments, computers & other equipments for data processing | 20 % |
| Trucks, buses, special cars & trailers, cars & equipment, electronic equipment, office furniture | 15 % |
| Railway, heavy machinery & equipment, turbine equipment & diesel generators, transmission & communication equipment, pipelines. | 8 % |
| Other assets not included above | 10% |

- **Intangible assets**

Intangible assets are recorded at historical cost. The assets are carried at historical cost less accumulated amortization.

The amortization of the intangible assets is calculated in accordance with the amortization rate (10% per annum) governed by the Article 54 of the Georgian Tax Code on the Cost Balance of the group at the end of a fiscal year. At the end of a year the Cost Balance of the group is represented by the amount, determined by the following rules: at the end of a year the cost balance of the group is reduced by the amortization sum of the year plus the value of the intangible assets, added to the group and minus the amount, received during the fiscal year as a result of a sale of assets of the group.

**d) Current assets**

An asset is classified as a current asset when it:

(a) is expected to be realized in, or is held for sale or consumption in, the normal course of the Company's operating cycle; or

(b) is held primarily for trading purposes or for the short-term and expected to be realized within twelve months of the balance sheet date; or

(c) is cash or cash equivalent asset which is not restricted in its use.

- **Other current assets**

Other current assets are carried at cost less any specific allowance for impairment or write-off of bad debts. Allowances for impairment and bad debt write-offs occur as a result of management's assessment of recoverability of the assets.

- **Inventories**

Inventories are stated at cost on a weighted-average basis.

- **Prepayments**

Prepayments are carried at cost less any allowances for impairment of irrecoverable amounts as assessed by management.

- **Trade receivables**

Trade receivables are carried at cost less any specific allowance for or write-off of doubtful and bad debts, respectively. Specific allowances and bad debt write- offs occur as a result of management's assessment of recoverability of the assets.

- **Cash and cash equivalents**

Cash and cash equivalents consist of cash in hand and balance with banks.

**e) Non-current liabilities**

A liability is classified as a non-current liability when its remaining maturity period extends beyond 12 months of the balance sheet date. Long-term interest bearing liabilities are continued to be classified as non-current, even when they are due to be settled within 12 months of the balance sheet date if:

(a) the original term was for a period of more than twelve months,

(b) the Company intends to refinance the obligation on a long-term basis, and

(c) that intention is supported by an agreement to refinance, or to reschedule payments, which is completed before the financial statements are approved.

- **Bank loans**

  Loans received are carried at cost less repayments and portions payable within 12 months period of the balance sheet date. Such payables are classified as current portion of long-term payables under current liabilities.

**f) Current liabilities**

A liability is classified as a current liability when it:

(a) is expected to be settled in the normal course of the Companyôs operating cycle, or

(b) is due to be settled within twelve months of the balance sheet date.

**g) Revenue recognition**

Revenue recognition principals differ according to the underlying operation types:

- Wholesale and retail sales are recognized as revenues when goods are made available to customers;
- Where customers opt for bulk purchases via appropriate coupons, revenues are recognized when coupons are transferred to clients.

**h) Expenses**

Expenses are recognized when incurred.

**i) Taxes**

Tax charges are calculated in accordance with regulations of Georgia.

**j) Cash flow statement**

This statement analyzes changes in cash and cash equivalents.

## *Note 4. Intangible assets*

| | Licenses | Other | Total |
|---|---|---|---|
| **Cost:** | | | |
| As at 31.12.2004 | 116,477 | 40,214 | 156,691 |
| Additions | - | - | - |
| As at 31.12.2005 | 116,477 | 40,214 | 156,691 |
| **Accumulated amortization:** | | | |
| As at 31.12.2004 | (49,922) | (20,133) | (70,055) |
| Charge for the year | (10,192) | (2,709) | (12,901) |
| As at 31.12.2005 | (60,114) | (22,842) | (82,956) |
| **Net book value as at 31.12.2004** | **66,555** | **20,081** | **86,636** |
| **Net book value as at 31.12.2005** | **56,363** | **17,372** | **73,735** |

## *Note 5. Property, plant and equipment*

| | Land | Buildings | Machinery | Equipment | Vehicles | Construction in progress | Furniture and Fittings | Total |
|---|---|---|---|---|---|---|---|---|
| ***Cost:*** | | | | | | | | |
| As at 31.12.2004 | 2,256,991 | 4,323,130 | 1,633,107 | 417,974 | 214,445 | 1,195,876 | 178,612 | 10,220,135 |
| Additions | 8,215 | 43,888 | 40,395 | 576,188 | 11,118 | 29,822 | 8,432 | 718,058 |
| As at 31.12.2005 | 2,265,206 | 4,367,018 | 1,673,502 | 994,162 | 225,563 | 1,225,698 | 187,044 | 10,938,193 |
| ***Accumulated depreciation:*** | | | | | | | | |
| As at 31.12.2004 | - | (1,383,217) | (522,015) | (99,067) | (58,414) | - | (56,951) | (2,119,664) |
| Charge | - | (168,720) | (155,983) | (42,564) | (29,519) | - | (19,323) | (416,109) |
| As at 31.12.2005 | - | (1,551,937) | (677,998) | (141,631) | (87,933) | - | (76,274) | (2,535,773) |
| Net book value as at 31.12.2004 | 2,256,991 | 2,939,913 | 1,111,092 | 318,907 | 156,031 | 1,195,876 | 121,661 | 8,100,471 |
| Net book value as at 31.12.2005 | 2,265,206 | 2,815,081 | 995,504 | 852,531 | 137,630 | 1,225,698 | 110,770 | 8,402,420 |

## *Note 6. Other current assets*

| | 31.12.05 | 31.12.04 |
|---|---|---|
| Shareholdersô contributions receivable | - | 165 300 |
| Other | - | 779 |
| Allowance for impairment | - | (779) |
| **Total** | **-** | **165 300** |

***Note 7. Inventories***

| | **31.12.05** | **31.12.04** |
|---|---|---|
| Fuel and lubricants | 2,944,421 | 1,859,591 |
| Retail goods | 34,156 | 34,760 |
| Spare parts | 387,336 | 380,066 |
| Other | 569 | 5,419 |
| **Total** | **3,366,482** | **2,279,836** |

***Note 8. Prepaid taxes***

| | **31.12.05** | **31.12.04** |
|---|---|---|
| Profit tax | 150,186 | - |
| Value added tax | 555,926 | 252,784 |
| Income taxes | 30,552 | 122,344 |
| Social taxes | 87,307 | 99,446 |
| Property tax | 3,309 | 71,496 |
| Tax on entrepreneurial activities | 13,907 | 13,907 |
| Other | 36,903 | 8,924 |
| **Total** | **878,090** | **568,901** |

***Note 9. Trade Receivables***

| | **31.12.05** | **31.12.04** |
|---|---|---|
| Gross trade receivables | 278,188 | 313,290 |
| Doubtful debt allowance | (245,440) | (218,690) |
| **Trade receivables, net** | **32,748** | **94,600** |

***Note 10. Cash and cash equivalents***

| | **31.12.05** | **31.12.04** |
|---|---|---|
| Cash on hand | 50,979 | 35,474 |
| Cash at bank, local currency | 508,140 | 583,872 |
| Cash at bank, foreign currencies | 2,614 | 14,796 |
| **Total** | **561,733** | **634,142** |

***Note 11. Long-term loans***

| | **31.12.05** | **31.12.04** |
|---|---|---|
| Bank loan, Emporiki Bank of Greece S.A. ïAGR 83 | 239,001 | 486 667 |
| **Total** | **239,001** | **486 667** |

Bank loan AGR 83 from the Emporiki Bank of Greece S.A. was procured on 22 August 2003, EKO ELDA Industrial and Emporiki Petroleum Company S.A. acting as the guarantor. The maximum amount of the loan is 400 000 United States Dollars. It became effective on 5 September 2003 following the first drawdown. The Company drew maximum available ï400 000 United States Dollars. Annual interest at the aggregate six months LIBOR applicable to the respective interest period (maturity of each interest period being six months until the full repayment) plus margin up to 1.50% is charged on outstanding daily balances in respect of each interest period. Current effective interest rate is calculated on the basis of 360 days financial year for the actual number of days elapsed. Interest accrued during the first two interest periods (six months ending on 5 March 2004 and six months ending on 5 September 2004) were to be deferred and capitalized, adding to loan principal or the Company could (and did) exercise the option to repay the interest immediately. Maturity period of the loan is four years ending on 5 September 2007.

***Note 12. Current portion of long-term loans***

| | **31.12.05** | **31.12.04** |
|---|---|---|
| Bank loan, Emporiki Bank of Greece S.A. ïAGR 83 | 238,998 | 243,333 |
| **Total** | **238,998** | **243,333** |

***Note 13. Miscellaneous short-term payables***

| | **31.12.05** | **31.12.04** |
|---|---|---|
| Interest payable on long-term loans | 7,853 | 7,668 |
| Other | 110 | 110 |
| **Total** | **7,963** | **7,778** |

***Note 14. Tax liabilities***

| | **31.12.05** | **31.12.04** |
|---|---|---|
| Property tax | - | 59,385 |
| Road tax | - | - |
| Personal income tax | 22,340 | 1,407 |
| Profit tax | - | 337,645 |
| **Total** | **22,340** | **398,437** |

### *Note 15. Sales revenue*

| | Year ended 31.12.2005 | Year ended 31.12.2004 |
|---|---|---|
| Fuel, direct | 16,618,292 | 12,005,811 |
| Fuel, coupons | 5,436,201 | 3,805,395 |
| Lubricants | 24,225 | 30,253 |
| Services | 16,136 | 16,560 |
| Other | 1,115 | 895 |
| **Total** | **22,095,696** | **15,858,914** |

### *Note 16. Cost of sales*

| | Year ended 31.12.2005 | Year ended 31.12.2004 |
|---|---|---|
| Cost of goods sold | 18,253,461 | 12,396,062 |
| Salaries and wages (including social charges) | 488,268 | 497,789 |
| Transportation | 113,361 | 118,511 |
| Security | 110,311 | 84,929 |
| Fuel loss, natural | 92,143 | 79,880 |
| Utilities | 67,680 | 52,268 |
| Maintenance | 17,600 | 13,792 |
| Coupons | 11,433 | 48,237 |
| Insurance | 5,692 | 9,447 |
| Permits, certification and analysis | 13,235 | 6,961 |
| Miscellaneous | 120,791 | 86,991 |
| **Total** | **19,293,975** | **13,394,867** |

### *Note 17. General and administrative expenses*

| | Year ended 31.12.2005 | Year ended 31.12.2004 |
|---|---|---|
| Salaries and wages | 443,825 | 472,313 |
| Depreciation and amortization | 429,010 | 505,687 |
| Professional fees | 98,744 | 86,361 |
| Bank fees | 80,528 | 68,961 |
| Rent | 70,311 | 69,204 |
| Maintenance | 9,399 | 4,588 |
| Utilities | 27,395 | 23,598 |
| Advertisement | 3,934 | 19,983 |
| Business trips | 13,935 | 17,769 |
| Transportation | 22,329 | 22,229 |
| Insurance | 4,757 | 9,330 |
| Lease | - | 1,892 |
| Miscellaneous | 26,005 | 31,608 |
| **Total** | **1,230,172** | **1,333,523** |

### *Note 18. Tax expenses*

| | Year ended 31.12.2005 | Year ended 31.12.2004 |
|---|---|---|
| Road tax | - | 42,475 |
| Value added tax | 70,710 | 86,072 |
| Property tax | 63,802 | 59,385 |
| Tax on entrepreneurial activities | - | - |
| Ecology | - | 91 |
| Advertisement tax | - | 8,871 |
| Other | 5,174 | 1,213 |
| **Total** | **139,696** | **198,107** |

### *Note 19. Other operating income*

| | Year ended 31.12.2005 | Year ended 31.12.2004 |
|---|---|---|
| Supermarket sales | 102,751 | 67,369 |
| Other | 11,913 | 14,696 |
| **Total** | **114,664** | **82,065** |

### *Note 20. Other operating expenses*

| | Year ended 31.12.2005 | Year ended 31.12.2004 |
|---|---|---|
| Cost of sales, supermarket | 75,705 | 47,490 |
| Cost of sales, caf® | - | 2,090 |
| Membership fees | - | 2,807 |
| Penalties and fines | - | 259,478 |
| Other | 964 | 23,120 |
| **Total** | **76,669** | **334,985** |

Penalties and fines relate to tax inspections carried out by tax authorities in 2004: a separate inspection of road taxes covering the period from 1 January 1999 to 1 July 2004, and general inspection covering the period from 1 May 2000 to 1 June 2004.

### *Note 21. Financial expenses*

| | Year ended 31.12.2005 | Year ended 31.12.2004 |
|---|---|---|
| Bank loan, Commercial Bank of Greece ïAGR 49 | - | 62 |
| Bank loan, National Bank of Greece ïAGR 3563 | - | 1,500 |
| Bank loan, Emporiki Bank of Greece S.A. ïAGR 83 | 28,791 | 23,189 |
| **Total** | **24,751** | **24,751** |

***Note 22. Extraordinary losses***

Extraordinary losses arise from theft of cash and unordinary losses of inventories.

On 17 September 2001, Georgia State Department of Standardization, Metrology and Certification has issued a report setting scientifically calculated and approved rates of natural losses of various fuel types during transportation and storage specifically for the facilities used by EKO Georgia Ltd. Such losses occur mainly due to natural vaporization of fuels during transportation and storage. Any losses of inventories above and beyond aforementioned standard rates are considered extraordinary. Due to the characteristics of Georgian Legislation, any unordinary losses of property, if not supported by a proper report of theft, are assessable for profit tax purposes, resulting in additional financial losses.

| | **Year ended 31.12.2005** | **Year ended 31.12.2004** |
|---|---|---|
| Extraordinary losses on inventories | 303,316 | 264,443 |
| Other | - | 4,028 |
| **Total** | **303,316** | **268,471** |

***Note 23. Uncertainties and contingencies***

The Company has successfully sued State Company Saqenergo (and its legatee Saqenergo 2000) for a sum of 200 000 GEL. State Company Saqenergo 2000 does not have financial resources to repay the debt. However, management intends to undertake factoring with some of the current debtors of Saqenergo 2000. The outcome of such actions cannot be predicted at this point.