



# BAKER TILLY GEORGIA LTD

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## INDEPENDENT AUDITOR'S REPORT

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To: the Founders of EKO Georgia Ltd

We have audited the accompanying special-purpose financial statements of Limited Liability Company EKO Georgia ("the Company"), which comprise special-purpose Balance sheet as at December 31, 2007, and the related special-purpose statements of Income and Changes in Owner's Equity for the year then ended, and a summary of significant accounting policies and explanatory notes. Management is responsible for the preparation and fair presentation of these special-purpose financial statements in accordance with the accounting principles established in the Company and summarized in Note 2 to special-purpose financial statements. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of special-purpose financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. Our responsibility is to express an opinion on these special-purpose financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the special-purpose financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the special-purpose financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the special-purpose financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the special-purpose financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the special-purpose financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

In our opinion, the special-purpose financial statements referred to in the first paragraph above, present fairly, in all material respects, the financial position of the Company as at December 31, 2007 and of its financial performance for the year then ended in accordance with the accounting principles described in Note 2.

*Baker Tilly Georgia Limited*

February 7, 2008  
Tbilisi, Georgia

**SPECIAL-PURPOSE BALANCE SHEET**

		31.12.2007	31.12.2006
<b>ASSETS</b>			
<i>Non-current assets</i>			
Intangible assets, net	Note 3	62,794	62,675
Property, plant and equipment, net	Note 4	8,104,062	8,322,200
<b>Total non-current assets</b>		<b>8,166,856</b>	<b>8,384,875</b>
<i>Current assets</i>			
Inventories	Note 5	2,894,572	2,319,900
Prepaid taxes	Note 6	1,427,822	1,453,709
Prepayments		360,402	361,531
Trade receivables, net	Note 7	25,302	34,873
Cash and cash equivalents		702,505	915,335
<b>Total current assets</b>		<b>5,410,603</b>	<b>5,085,348</b>
<b>TOTAL ASSETS</b>		<b>13,577,459</b>	<b>13,470,223</b>
<b>LIABILITIES AND OWNERS' EQUITY</b>			
Owners' equity		7,165,300	7,165,300
Accumulated losses		(124,672)	(1,598,031)
<b>Total owners' equity</b>		<b>7,040,628</b>	<b>5,567,269</b>
<i>Current liabilities</i>			
Borrowings		-	456,931
Miscellaneous short-term payables		110	9,312
Accounts payable		6,495,900	7,106,259
Tax liabilities		40,821	330,452
<b>Total current liabilities</b>		<b>6,536,831</b>	<b>7,902,954</b>
<b>TOTAL LIABILITIES AND OWNERS' EQUITY</b>		<b>13,577,459</b>	<b>13,470,223</b>

The Financial Statements were approved by the management on February 7, 2008 and signed on its behalf by:

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Mr. George Emanouil,  
Managing Director



FINANCIAL STATEMENTS

For the year ended December 31, 2007

(in Georgian Lari)



**SPECIAL-PURPOSE INCOME STATEMENT**

	Year ended 31.12.2007	Year ended 31.12.2006
Sales revenue	27,946,556	23,354,798
Cost of sales	(24,526,729)	(20,717,137)
<b>Gross profit</b>	<b>3,419,827</b>	<b>2,637,661</b>
General and administrative expenses	(1,525,196)	(1,535,583)
Tax expenses	(115,631)	(182,559)
Other operating income	129,025	125,222
Other operating expenses	(76,574)	(76,397)
<b>Operating result</b>	<b>1,831,451</b>	<b>968,344</b>
Financial income, net	92,858	(10,615)
Foreign exchange gains, net	524,725	367,814
Miscellaneous non-operating expenses, net	(51,028)	(71,988)
<b>Profit before profit tax</b>	<b>2,398,006</b>	<b>1,253,555</b>
Profit tax expense	(535,263)	(333,565)
Extraordinary losses	(389,384)	(538,346)
	<b>Note 8</b>	
<b>Net profit</b>	<b>1,473,359</b>	<b>381,644</b>

The Financial Statements were approved by the management on February 7, 2008 and signed on its behalf by:

Mr. George Emanouil,  
Managing Director



**FINANCIAL STATEMENTS**

As at and for the year ended December 31, 2007

*(in Georgian Lari)***SPECIAL-PURPOSE STATEMENT OF CHANGES IN OWNER'S EQUITY**

	Owner's Equity	Accumulated losses	Total
Opening balance as at 01.01.2006	7,165,300	(1,979,675)	5,185,625
Net profit	-	381,644	381,644
Closing balance as at 31.12.2006	7,165,300	(1,598,031)	5,567,269
Opening balance as at 01.01.2007	7,165,300	(1,598,031)	5,567,269
Net profit	-	1,473,359	1,473,359
Closing balance as at 31.12.2007	7,165,300	(124,672)	7,040,628

The Financial Statements were approved by the management on February 7, 2008 and signed on its behalf by:

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Mr. George Emanouil,  
Managing Director



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**NOTES TO SPECIAL-PURPOSE FINANCIAL STATEMENTS**

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**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 Company's legal and actual address is 74 I.Chavchavadze ave., Tbilisi 0162, Georgia.

As of November 2007 Hellenic Petroleum Georgia (Holding) Limited holds 99 percent interest in the Company. Hellenic Petroleum S.A. holds remaining 1 percent.

The main activities of EKO Georgia Ltd are import and subsequent retail and bulk sales of high quality, Greek petroleum products (Gasoline RON 100, RON 98, RON 92, Diesel EN 590 50 ppm, and 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 all over Georgia.

- Fourteen service stations – Company owned - Company operated
- Two service stations – Company owned – dealer operated.
- one service station – rented – company 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..

**Note 2. Summary of significant accounting policies**

The significant accounting policies adopted in the preparation of these special-purpose 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.

**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 Company's 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.

Depreciation of the Property, plant and equipment is calculated as follows: the rates are applied to opening residual balance of property, plant and equipment plus any additions in the current year.

Applicable rates are as follows:

- a) Buildings – 5 percent,
- b) Machinery – 8, 20 percent,
- c) Equipment – 8, 20 percent,
- d) Other – 15 percent.

- **Intangible assets**

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

To calculate annual amortization, the amortization rate at 10 percent is applied to the opening residual balance of intangible assets plus additions during the current year.

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) **Current liabilities**

A liability is classified as a current liability when it:

- (a) is expected to be settled in the normal course of the Company's operating cycle, or
- (b) is due to be settled within twelve months of the balance sheet date.

f) **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.

g) **Expenses**

Expenses are recognized when incurred.

h) **Taxes**

Tax charges are calculated in accordance with regulations of Georgia.

**Note 3. Intangible assets**

	Licenses	Other	Total
<b>Cost:</b>			
As at 31.12.2006	116,477	40,214	156,691
Additions	-	-	-
As at 31.12.2007	116,477	40,214	156,691
<b>Accumulated amortization:</b>			
As at 31.12.2006	(60,114)	(22,842)	(82,956)
Charge for the year	(8,758)	(2,302)	(11,060)
As at 31.12.2007	(68,872)	(25,144)	(94,016)
<b>Net book value as at 31.12.2006</b>	<b>56,363</b>	<b>17,372</b>	<b>73,735</b>
<b>Net book value as at 31.12.2007</b>	<b>47,605</b>	<b>15,070</b>	<b>62,675</b>

**Note 4. Property, plant and equipment**

	LAND	BUILDINGS	MACHINERY	EQUIPMENT	VEHICLES	CONSTRUCTION IN PROGRESS	FURNITURE AND FITTINGS	TOTAL
<b>Cost:</b>								
As at 31.12.2006	2,265,206	5,036,300	1,758,056	1,000,085	327,390	838,119	187,044	11,412,200
Movement	-	26,098	113,181	10,242	75,720	59,464	-	284,706
As at 31.12.2007	2,265,206	5,062,398	1,871,237	1,010,327	403,110	897,583	187,044	11,696,906
<b>Accumulated depreciation:</b>								
As at 31.12.2006	-	(1,737,842)	(828,108)	(299,932)	(131,848)	-	(92,270)	(3,090,000)
Charge	-	(177,914)	(139,831)	(129,983)	(42,176)	-	(12,940)	(502,844)
As at 31.12.2007	-	(1,915,756)	(967,939)	(429,915)	(174,024)	-	(105,210)	(3,592,844)
<b>Net book value as at 31.12.2006</b>	<b>2,265,206</b>	<b>3,298,458</b>	<b>929,948</b>	<b>700,153</b>	<b>195,542</b>	<b>838,119</b>	<b>94,774</b>	<b>8,322,200</b>
<b>Net book value as at 31.12.2007</b>	<b>2,265,206</b>	<b>3,146,642</b>	<b>903,298</b>	<b>580,413</b>	<b>229,086</b>	<b>897,583</b>	<b>81,834</b>	<b>8,104,062</b>



**Note 5. Inventories**

	31.12.2007	31.12.2006
Fuel and lubricants	2,557,758	2,013,663
Retail goods	39,993	45,834
Spare parts	295,353	259,834
Other	1,468	569
<b>Total</b>	<b>2,894,572</b>	<b>2,319,900</b>

**Note 6. Prepaid taxes**

	31.12.2007	31.12.2006
Profit tax	-	114,442
Value added tax	1,043,878	1,126,661
Income taxes	113,166	67,889
Social taxes	137,868	112,883
Property tax	96,838	6,495
Tax on entrepreneurial activities	13,907	13,907
Other	22,165	11,432
<b>Total</b>	<b>1,427,822</b>	<b>1,453,709</b>

**Note 7. Trade Receivables**

	31.12.2007	31.12.2006
Gross trade receivables	270,742	280,313
Doubtful debt allowance	(245,440)	(245,440)
<b>Trade receivables, net</b>	<b>25,302</b>	<b>34,873</b>

**Note 8. Extraordinary losses**

	Year ended 31.12.2007	Year ended 31.12.2006
Unordinary losses of inventories	362,661	463,627
Tax penalties and fines on unordinary losses of inventories	26,274	74,549
Miscellaneous	-	170
<b>Total</b>	<b>389,384</b>	<b>538,346</b>