

Electricity System Commercial Operator JSC

Financial Statements for 2014



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Independent Auditors' Report

To the Shareholder of
Electricity System Commercial Operator JSC

We have audited the accompanying financial statements of Electricity System Commercial Operator JSC (the "Company"), which comprise the statement of financial position as at 31 December 2014, and the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these 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 about whether the financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2014, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

KPMG Georgia LLC
24 June 2015

KPMG Georgia LLC



Electricity System Commercial Operator JSC
Statement of Financial Position as at 31 December 2014

GEL	Notes	31 December 2014	31 December 2013
Assets			
Property and equipment	10	202,815	240,772
Intangible assets		15,181	3,343
Other non-current assets		4,395	2,661
Deferred tax asset	11	444,492	440,915
Non-current assets		666,883	687,691
Inventories	12	6,134	7,663
Current tax assets		436,664	450,678
Trade and other receivables	13	22,989,213	18,968,685
Cash and cash equivalents	14	12,297,188	13,871,128
Current assets		35,729,199	33,298,154
Total assets		36,396,082	33,985,845
 Equity	 15		
Share capital		87,309	87,309
Non-cash owner contribution reserve		(15,660)	(15,660)
Property and equipment revaluation surplus		106,124	106,124
Retained earnings		6,694,403	5,475,059
Total equity		6,872,176	5,652,832
Liabilities			
Trade and other payables	16	29,523,906	28,333,013
Current liabilities		29,523,906	28,333,013
Total liabilities		29,523,906	28,333,013
Total equity and liabilities		36,396,082	33,985,845

Electricity System Commercial Operator JSC
Statement of Profit or Loss and Other Comprehensive Income for 2014

GEL	Note	2014	2013
Revenue	5	141,258,203	116,854,142
Cost of goods sold/service rendered	5	(134,774,381)	(112,690,795)
Gross profit		6,483,822	4,163,347
Other income	6	159,197	22,122
Administrative expenses	8	(3,714,101)	(3,437,260)
Other expenses		-	(11,557)
Results from operating activities		2,928,918	736,652
Finance income	7	1,131,717	1,155,926
Finance costs	7	(2,828,355)	(987,250)
Net finance (cost)/income		(1,696,638)	168,676
Profit before tax		1,232,280	905,328
Income tax (expense)/benefit	9	(12,936)	3,658
Profit for the year		1,219,344	908,986
Other comprehensive income			
<i>Items that will never be reclassified to profit or loss</i>			
Revaluation of property and equipment	10	-	32,377
Related income tax	11	-	(4,856)
Other comprehensive income, net of income tax		-	27,521
Total profit and other comprehensive income		1,219,344	936,507

These financial statements were approved by management on 24 June 2015 and were signed on its behalf by:


Vakhtang Ambokadze
General Director


Khatuna Chaduneli
Chief Accountant

Electricity System Commercial Operator JSC
Statement of Changes in Equity for 2014

GEL	Share capital	Non-cash owner contribution reserve	Property and equipment revaluation surplus	Retained earnings	Total equity
Balance at 1 January 2013	200	71,449	78,603	4,566,073	4,716,325
Total comprehensive income for the year					
Profit for the year	-	-	-	908,986	908,986
Other comprehensive income					
Revaluation of property and equipment, net of tax	-	-	27,521	-	27,521
Total comprehensive income for the year	-	-	27,521	908,986	936,507
Transactions with owners, recorded directly in equity					
Increase of share capital	87,109	(87,109)	-	-	-
Balance at 31 December 2013	87,309	(15,660)	106,124	5,475,059	5,652,832
Balance at 1 January 2014	87,309	(15,660)	106,124	5,475,059	5,652,832
Total comprehensive income for the year					
Profit for the year	-	-	-	1,219,344	1,219,344
Total comprehensive income for the year	-	-	-	1,219,344	1,219,344
Balance at 31 December 2014	87,309	(15,660)	106,124	6,694,403	6,872,176

Electricity System Commercial Operator JSC
Statement of Cash Flows for 2014

GEL	Note	2014	2013
Cash flows from operating activities			
Profit for the year before tax		1,232,280	905,328
<i>Adjustments for:</i>			
Depreciation and amortisation	10	58,586	103,877
Revaluation decrease/write off of property and equipment		-	11,505
Net finance cost/(income)	7	1,696,638	(168,676)
Cash from operating activities before changes in working capital and provisions		2,987,504	852,034
Change in inventories		1,529	2,586
Change in trade and other receivables		(4,020,528)	5,585,053
Change in trade and other payables		(1,637,462)	(1,833,701)
Cash flows (used in)/from operations before income tax paid		(2,668,957)	4,605,972
Income tax paid		(2,500)	(36,002)
Net cash (used in)/from operating activities		(2,671,457)	4,569,970
Cash flows from investing activities			
Interest received		1,131,717	1,155,926
Acquisition of property and equipment	10	(17,633)	(19,664)
Acquisition of intangible assets		(14,834)	(2,682)
Acquisition of other investments		(1,733)	(303)
Net cash from investing activities		1,097,517	1,133,277
Net (decrease)/increase in cash and cash equivalents		(1,573,940)	5,703,247
Cash and cash equivalents at 1 January		13,871,128	8,167,881
Cash and cash equivalents at 31 December	14	12,297,188	13,871,128

1. Background

(a) Organisation and operations

Electricity System Commercial Operator (the Company) was established in Georgia on 1 September 2006 as a limited liability company. On 18 August 2011 the legal form of the Company was changed to a Joint Stock Company based on the order of the Minister of Energy and Natural Resources of Georgia, dated 10 August 2011.

The Company's registered office is 2 Baratashvili Street, Tbilisi, Georgia.

The principal activities of the Company include the sale-purchase of balancing electricity and guaranteed capacity, import and export of electricity and facilitation of electricity sale-purchase in Georgia.

According to the "Georgian Law on Electricity and Natural Gas", starting from September 2010, the stability, security and reliability of Georgia's electric energy system is secured by the Guaranteed Capacity. The thermal power plants, which meet the demands of the technical parameters stipulated by the legislation, represent the Source of the Guaranteed Capacity. The minimum volume of the Guaranteed Capacity for each Source and periods of providing the Guaranteed Capacity are defined by the Government of Georgia. According to the "Electricity (Capacity) Market Rules", the trading with the Guaranteed Capacity is conducted exclusively by the Company. Until 31 August 2014 the Company acted in the capacity of an agent rather than as a principal in these transactions. Following the change in the legislation since 1 September 2014 the Company acts in the guaranteed capacity transaction as a principal.

The Company's principal activities are defined by the law of Georgia about "Electroenergetics and Natural Gas" and order N77 of the Minister of Energy and Natural Resources dated 30 August 2006, approved by "The Electricity (Capacity) Market Rules" issued by the Ministry of Energy and Natural Resources of Georgia.

The Company's founder and ultimate controlling party is the Government of Georgia. The 100% shareholder of the Company is JSC Partnership Fund, a wholly state owned entity.

Related party transactions are disclosed in note 19.

(b) Georgian business environment

The Company's operations are located in Georgia. Consequently, the Company is exposed to the economic and financial markets of Georgia which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in of Georgia. The financial statements reflect management's assessment of the impact of Georgian business environment on the operations and the financial position of the Company. The future business environment may differ from management's assessment.

2. Basis of preparation

(a) Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs").

(b) Basis of measurement

The financial statements are prepared on the historical cost basis except property and equipment that are remeasured at fair value on a regular basis.

(c) Functional and presentation currency

The national currency of Georgia is Georgian Lari ("GEL"), which is the Company's functional currency and the currency in which these financial statements are presented.

(d) Use of estimates and judgments

The preparation of financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Measurement of fair values

Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- *Level 1*: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- *Level 2*: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- *Level 3*: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

Further information about the assumptions made in measuring fair values is included in note 17 - fair values and risk management.

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements, and have been applied consistently by the Company.

(a) Foreign currency transactions

Transactions in foreign currencies are translated to the functional currency of the Company at exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items in a foreign currency that are measured based on historical cost are translated using the exchange rate at the date of the transaction.

Foreign currency differences arising in retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments which are recognised in other comprehensive income.

(b) Financial instruments

(i) Non-derivative financial assets

Non-derivative financial assets comprise trade and other receivables, and cash and cash equivalents.

The Company initially recognises receivables and deposits on the date that they are originated. All other financial assets are recognised initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

The Company derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Company is recognised as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Company classifies non-derivative financial assets into the loans and receivables category.

Loans and receivables

Loans and receivables are a category of financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

Loans and receivables category comprise the following classes of financial assets: trade and other receivables as presented in note 13 and cash and cash equivalents as presented in note 14.

Cash and cash equivalents

Cash and cash equivalents comprise cash and bank balances with original maturities of three months or less.

(ii) *Non-derivative financial liabilities*

The Company initially recognises debt securities issued on the date that they are originated. All other financial liabilities are recognised initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

The Company derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

The Company classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognised initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method.

Other financial liabilities consist of trade and other payables.

(c) *Share capital*

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

(d) *Property and equipment*

(i) *Recognition and measurement*

Items of property and equipment are initially measured at cost. Subsequently property and equipment are measured at fair value, based on periodic valuation by external independent valuers, less subsequent depreciation and impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. When parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

Any gain or loss on disposal of an item of property and equipment is determined by comparing the proceeds from disposal with the carrying amount of property and equipment, and is recognised net within other income/other expenses in profit or loss. When revalued assets are sold, any related amount included in the revaluation reserve as revaluation surplus is transferred to retained earnings.

(ii) *Subsequent costs*

The cost of replacing a component of an item of property and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the component will flow to the Company, and its cost can be measured reliably. The carrying amount of the replaced

component is derecognised. The costs of the day-to-day servicing of property and equipment are recognised in profit or loss as incurred.

(iii) Revaluation

A revaluation increase on property and equipment is recognised directly in the revaluation reserve in equity except to the extent that it reverses a previous revaluation decrease recognised in profit or loss, in which case it is recognised in profit or loss. A revaluation decrease on property and equipment is recognised in profit or loss except to the extent that it reverses a previous revaluation increase recognised directly in other comprehensive income, in which case the reversing amount is recognised directly in other comprehensive income.

(iv) Depreciation

Items of property and equipment are depreciated from the date that they are installed and are ready for use, or in respect of internally constructed assets, from the date that the asset is completed and ready for use. Depreciation is based on the cost of an asset less its residual value.

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset.

The estimated useful lives of significant items of property and equipment for the current and comparative periods are as follows:

- | | |
|------------------------------------|------------|
| • vehicles | 5 years; |
| • fixture and fittings | 4-5 years; |
| • computer and technical equipment | 4-5 years. |

Depreciation methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

(e) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the first-in first-out principle, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(f) Impairment

(i) Non-derivative financial assets

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Company on terms that the Company would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, adverse changes in the payment status of borrowers or issuers in the Company, economic conditions that correlate with defaults or the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

Loans and receivables

The Company considers evidence of impairment for loans and receivables at both a specific asset and collective level. All individually significant loans and receivables are assessed for specific impairment. All individually significant loans and receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified.

Available-for-sale financial assets

Impairment losses on available-for-sale financial assets are recognised by reclassifying the losses accumulated in the fair value reserve in equity, to profit or loss. The cumulative loss that is reclassified from equity to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss.

(ii) Non-financial assets

The carrying amounts of the Company's non-financial assets, other than inventories and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For intangible assets that have indefinite lives or that are not yet available for use, the recoverable amount is estimated each year at the same time. An impairment loss is recognised if the carrying amount of an asset exceeds its estimated recoverable amount.

The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets. Impairment losses are recognised in profit or loss.

An impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(g) Employee short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus if the Company has a present legal or constructive obligation to pay this

amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

(h) Revenue

(i) Sale of electricity

Revenue from the sale of electricity, including export of electricity, in the course of ordinary activities is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. Revenue is recognised when persuasive evidence exists, usually in the form of an executed sales agreement, that the significant risks and rewards of ownership have been transferred to the customer, recovery of the consideration is probable, the associated costs and possible return of electricity can be estimated reliably, there is no continuing management involvement with the electricity sold, and the amount of revenue can be measured reliably. If it is probable that discounts will be granted and the amount can be measured reliably, then the discount is recognised as a reduction of revenue as the sales are recognised.

The timing of the transfers of risks and rewards varies depending on the individual terms of the sales agreement. For sales of balancing electricity, transfer usually occurs when the electricity is delivered to the point at the electricity grid system from where electricity is distributed into power lines and is considered to be received by the customer.

For the purchase and sale of the Guaranteed Capacity before 1 September 2014 the Company acted in the capacity of an agent rather than as the principal in a transaction. Since September 2014, due to changes in relevant legislation, the Company acts as a principal in the purchase and sale of Guaranteed Capacity and therefore recognises revenue and respective cost of sales. The Company charges no commission on the purchase and sale of the Guaranteed Capacity.

(ii) Services

Revenue is recognized to the extent the Company has rendered services under respective laws and regulations, the amount of revenue can be measured reliably and it is probable that the economic benefits associated with the transaction will flow to the Company.

(i) Finance income and costs

Finance income comprises interest income on funds invested. Interest income is recognised as it accrues in profit or loss, using the effective interest method.

Foreign currency gains and losses are reported on a net basis as either finance income or finance cost depending on whether foreign currency movements are in a net gain or net loss position.

(j) Income tax

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Current tax payable also includes any tax liability arising from the declaration of dividends.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss.

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

In determining the amount of current and deferred tax the Company takes into account the impact of uncertain tax positions and whether additional taxes, penalties and late-payment interest may be due. The Company believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretations of tax law and prior experience. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Company to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact the tax expense in the period that such a determination is made.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets and liabilities, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

4. New standards and interpretations not yet adopted

A number of new Standards, amendments to Standards and Interpretations are not yet effective as at 31 December 2014, and have not been applied in preparing these financial statements. Of these pronouncements, potentially the following will have an impact on the Company's operations. The Company plans to adopt these pronouncements when they become effective.

New or amended standard	Summary of the requirements	Possible impact on financial statements
IFRS 9 <i>Financial Instruments</i>	IFRS 9, published in July 2014, replaces the existing guidance in IAS 39 <i>Financial Instruments: Recognition and Measurement</i> . IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.	The Company is assessing the potential impact on its financial statements resulting from the application of IFRS 9.
IFRS 15 <i>Revenue from Contracts with Customers</i>	IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 <i>Revenue</i> , IAS 11 <i>Construction Contracts</i> and IFRIC 13 <i>Customer Loyalty Programmes</i> . The core principle of the new standard is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The new standard results in enhanced disclosures about revenue, provides guidance for transactions that were not previously addressed comprehensively and improves guidance for multiple-element arrangements. IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2017, with early adoption permitted.	The Company is assessing the potential impact on its financial statements resulting from the application of IFRS 15.

- Various *Improvements to IFRSs* have been dealt with on a standard-by-standard basis. All amendments, which result in accounting changes for presentation, recognition or measurement purposes, will come into effect not earlier than 1 January 2015. The Company has not yet analysed the likely impact of the improvements on its financial position or performance.

5. Revenue and cost of sales

GEL	2014	2013
Income from sales of balancing electricity	115,146,913	94,693,257
Income from guaranteed capacity service (note 13)	13,875,124	-
Income from export of electricity	8,377,917	18,386,936
Income from fixed tariff of services rendered	3,858,249	3,773,949
Total revenue	141,258,203	116,854,142

GEL	2014	2013
Cost of sold balancing electricity	(113,915,599)	(94,693,257)
Cost of guaranteed capacity service (note 13)	(13,875,124)	-
Cost of export of electricity	(6,983,658)	(17,997,538)
Total cost of electricity sold/services rendered	(134,774,381)	(112,690,795)

The Company has a natural monopoly on balancing electricity supply. Prices on balancing electricity are set according to the order "The Electricity (Capacity) Market Rules" issued by the Ministry of Energy and Natural Resources of Georgia.

The fixed tariff of GEL 0.00019 per KW/H for the Company's service is defined by the decision of the Ministry of Energy and Natural Resources and Georgian National Energy and Water Regulatory Commission made on 4 December 2008.

6. Other income

GEL	2014	2013
Income from penalties	158,152	22,122
Other	1,045	-
	159,197	22,122

7. Net finance income

GEL	2014	2013
Interest income on bank accounts	1,131,717	1,155,926
Finance income	1,131,717	1,155,926
Net foreign exchange loss	(2,828,355)	(987,250)
Finance costs	(2,828,355)	(987,250)
Net finance (cost)/income recognised in profit or loss	(1,696,638)	168,676

8. Administrative expenses

GEL	2014	2013
Wages and salaries	2,436,358	2,131,218
Rent	1,000,000	1,000,000
Depreciation and amortization	58,586	103,877
Representative and business trip expenses	46,154	53,235
Utilities	36,334	33,328
Professional services	25,211	580
Office expenses	24,035	16,886
Fuel	15,885	20,887
Office supplies	13,468	3,425
Vehicles maintenance and repair	13,399	13,207
Insurance	9,535	32,396
Taxes other than on income	32	781
Other expenses	35,104	27,440
	3,714,101	3,437,260

9. Income tax benefit (expense)

The Company's applicable tax rate is the income tax rate of 15%.

GEL	Note	2014	2013
Current tax expense			
Current year		16,513	8,279
Deferred tax benefit			
Origination and reversal of temporary differences	12	(3,577)	(11,937)
Total tax expense/(benefit)		12,936	(3,658)

Reconciliation of effective tax rate:

	2014		2013	
	GEL	%	GEL	%
Profit before tax for the year	1,232,280	100.0	905,328	100.0
Tax at applicable domestic tax rate	184,842	15.0	135,799	15.0
Non-taxable income	(171,906)	(14.0)	(139,457)	(15.4)
	12,936	1.0	(3,658)	(0.4)

10. Property and equipment

GEL	Vehicles	Fixtures and fittings	Computers and technical equipment	Total
<i>Cost /Revalued amount</i>				
Balance at 1 January 2013	213,470	146,556	105,207	465,233
Additions	-	3,507	16,157	19,664
Revaluation	(96,770)	(79,322)	(61,060)	(237,152)
Write-off	-	(1,973)	(1,234)	(3,207)
Balance at 31 December 2013	116,700	68,768	59,070	244,538
Balance at 1 January 2014	116,700	68,768	59,070	244,538
Additions	-	12,269	5,365	17,634
Balance at 31 December 2014	116,700	81,037	64,435	262,172
<i>Depreciation and impairment losses</i>				
Balance at 1 January 2013	(70,280)	(55,043)	(36,679)	(162,002)
Depreciation for the year	(42,694)	(32,364)	(27,937)	(102,995)
Revaluation	112,974	84,082	62,055	259,111
Write-off	-	1,195	925	2,120
Balance at 31 December 2013	-	(2,130)	(1,636)	(3,766)
Balance at 1 January 2014	-	(2,130)	(1,636)	(3,766)
Depreciation for the year	(23,340)	(16,921)	(15,330)	(55,591)
Balance at 31 December 2014	(23,340)	(19,051)	(16,966)	(59,357)
<i>Carrying amounts</i>				
At 1 January 2013	143,190	91,513	68,528	303,231
At 31 December 2013	116,700	66,638	57,434	240,772
At 31 December 2014	93,360	61,986	47,469	202,815
<i>Carrying amounts had no revaluations taken place</i>				
At 1 January 2013	108,265	91,042	45,604	244,911
At 31 December 2013	79,720	54,219	52,531	186,470
At 31 December 2014	56,380	49,567	42,566	148,513

Depreciation expense has been charged in total to administrative expenses.

Revaluation of property and equipment

In 2013, management commissioned an independent valuator to independently appraise property and equipment as at 31 December 2013. The fair value of property and equipment was determined to be GEL 240,772. As of 31 December 2014 the Company analysed market prices for its property and equipment and concluded that the market price of the property and equipment was not materially different from its carrying value.

The fair value of property and equipment was primarily determined using market values for the similar items of property and equipment in the open market.

11. Deferred tax assets and liabilities

(a) Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

GEL	Assets		Liabilities		Net	
	2014	2013	2014	2013	2014	2013
Property, plant and equipment	-	-	(28,279)	(31,829)	(28,279)	(31,829)
Intangible assets	119	92	-	-	119	92
Trade receivables	472,652	472,652	-	-	472,652	472,652
Net tax assets/(liabilities)	472,771	472,744	(28,279)	(31,829)	444,492	440,915

(b) Movement in temporary differences during the year

'000 GEL	1 January 2014	Recognised in profit or loss	Recognized in other comprehensive income	31 December 2014
Property, plant and equipment	(31,829)	3,550	-	(28,279)
Intangible assets	92	27	-	119
Trade receivables	472,652	-	-	472,652
	440,915	3,577	-	444,492

'000 GEL	1 January 2013	Recognised in profit or loss	Recognized in other comprehensive income	31 December 2013
Property, plant and equipment	(39,033)	12,060	(4,856)	(31,829)
Intangible assets	215	(123)	-	92
Trade receivables	472,652	-	-	472,652
	433,834	11,937	(4,856)	440,915

Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes give rise to net deferred tax assets as at 31 December 2014 and 2013. These deferred tax assets are recognised in these financial statements. The future tax benefits will only be realised if profits will be available against which the deferred tax

assets can be utilised and there are no changes to the law and regulations that adversely affect the Company's ability to claim the deductions in future periods.

These deductible temporary differences do not expire under current tax legislation.

12. Inventories

GEL	2014	2013
Sealing-wax	4,479	4,479
Fuel	77	89
Other	1,578	3,095
	6,134	7,663

13. Trade and other receivables

GEL	2014	2013
Balancing electricity	17,493,208	14,242,606
Guaranteed capacity	3,571,402	3,945,868
Services rendered	412,435	377,656
Other receivables (penalties)	523,371	370,865
Prepaid expenses	18,010	16,066
Prepaid taxes	970,787	15,624
	22,989,213	18,968,685

Guaranteed capacity

Until 31 August 2014 the Company acted as an agent in the purchase of the Guaranteed Capacity from the Sources and selling it to the Qualified Enterprises (Distribution Licensee, Direct Customer and/or Exporter). For the sold Guaranteed Electricity the Company collects debts from the Qualified Enterprises and transfers the receipts to the Sources.

Starting from 1 September 2014, due to changes in relevant legislation, the Company must reimburse the Sources whether or not it receives funds from Qualified Enterprises. Therefore, starting from September 2014 the Company no longer acts as an agent and recognises revenue and cost of sales in full.

The Company does not expect a benefit from such receipts and transfers but starting from September 2014 the Company bears credit risk on these operations; these transactions were reflected as agent's transactions in the Company's 2013 financial statements.

The total sale and purchase transactions with respect to the agent's operations (sale/purchase of the Guaranteed Capacity) from 1 January 2014 to 31 August 2014 period and during 2013 are given below:

GEL	1 January 2014 to 31 August 2014	2013
Sale of the Guaranteed Capacity	23,788,606	39,827,364
Purchase of the Guaranteed Capacity	(23,788,606)	(39,827,364)

The Company's exposure to credit and currency risks are disclosed in note 17.

14. Cash and cash equivalents

GEL	2014	2013
Bank balances	12,297,188	13,871,128
Cash and cash equivalents in the statements of financial position and of cash flows	12,297,188	13,871,128

The Company's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in note 18.

15. Capital and reserves

(a) Share capital

<i>Number of shares</i>	Ordinary shares	
	2014	2013
Authorised shares	87,309	87,309
Par value	GEL 1	GEL 1
On issue at 31 December	87,309	87,309

Ordinary shares

The holders of ordinary shares are entitled to receive dividends as declared from time to time, and are entitled to one vote per share at meetings of the Company.

(b) Non-cash owner contribution reserve

In 2011 the Ministry of Energy and Natural Resources of Georgia contributed office equipment with a nominal amount of GEL 87,109 and fair value of GEL 71,449 to the share capital of the Company. The Company registered the respective increase in share capital in 2013. The difference between registered share capital and fair value of consideration contributed is recognized as non-cash owner contribution reserve in the statement of changes in equity.

(c) Dividends

Dividends payable are restricted to the maximum retained earnings of the Company, which are determined according to legislation of Georgia.

At the reporting date and subsequent to 31 December 2014 no dividends have been declared by the Company (2013: nil).

(d) Revaluation surplus

The revaluation surplus relates to the revaluation of property and equipment.

16. Trade and other payables

GEL	2014	2013
Balancing electricity	25,803,419	23,029,147
Guaranteed capacity (note 13)	3,395,341	3,758,148
Services received	301,911	200,211
Electricity to export	627	113,943
VAT payable	-	1,207,281
Other payables	22,608	24,283
	29,523,906	28,333,013

The Company's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 17.

17. Fair values and risk management

(a) Measurement of fair values

The estimates of fair value are intended to approximate the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. However given the uncertainties and the use of subjective judgment, the fair value should not be interpreted as being realizable in an immediate sale of the assets or transfer of liabilities.

The Company has determined fair values using valuation techniques. The objective of valuation techniques is to arrive at a fair value determination that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date. The valuation technique used is the discounted cash flow model.

The Company estimates the fair value of financial assets and liabilities to be not materially different from their carrying values. The fair value measurements are Level 2 in the fair value hierarchy.

(b) Financial risk management

The Company has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital. Further quantitative disclosures are included throughout these financial statements.

(c) Risk Management framework

The management of the Company has overall responsibility for the establishment and oversight of the Company's risk management framework. The Management of the Company is responsible for developing and monitoring the Company's risk management policies.

The Company's risk management policies are established to identify and analyse the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities. The Company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

(d) Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from customers and investment securities.

(i) Exposure to credit risk

The carrying amount of financial assets represents the maximum credit risk exposure. The maximum exposure to credit risk at the reporting date was as follows:

GEL	Carrying amount	
	2014	2013
Trade and other receivables	22,000,415	14,991,127
Cash and cash equivalents	12,297,188	13,871,128
	34,297,604	28,862,255

In 2013 receivables from the Guaranteed Capacity were not included in the credit risk exposure as in these transactions the Company acted as an agent and did not bear a credit risk (note 13).

(ii) Trade receivables

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the demographics of the Company's customer base, including the default risk of the industry and country, in which customers operate, as these factors may have an influence on credit risk. Approximately 57% (2013: 48%) of the Company's revenue is attributable to sales transactions with a single customer, JSC Energo Pro Georgia.

The Company's export sales are to Russia and Azerbaijan, comprising 99.9% and 0.1%, respectively, of total export sales in 2014 (2013: 99.9% and 0.1%, respectively).

The management of the Company established a credit policy under which each new customer is analysed individually for creditworthiness before the Company's standard payment and delivery terms and conditions are offered. The Company's review includes analysis of the information from external sources, when available.

More than 90% of the Company's customers have been transacting with the Company for over three years, and losses have occurred infrequently. In monitoring customer credit risk, customers are grouped according to their credit characteristics, geographic location, aging profile, maturity and existence of previous financial difficulties. Trade receivables relate to the Company's wholesale customers. The Company does not require collateral in respect of trade receivables.

The Company establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade receivables. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets.

99% of the Company's trade receivables at the reporting date related to domestic wholesale customers. At 31 December 2014 the Company had three wholesale domestic customers (2013: three customers) comprising more than 94% (2013: 80%) of total trade receivables.

Impairment losses

The aging of trade receivables at the reporting date was:

GEL	Gross 2014	Impairment 2014	Gross 2013	Impairment 2013
Not past due	21,052,123	-	18,049,347	-
Past due 0-30 days	137,439	-	156,305	-
Past due 31-120 days	12,973	-	-	-
Past due 121-150 days	11,603	-	105,543	-
Past due 151-365 days	262,907	-	254,935	-
	21,477,045	-	18,566,130	-

The management believes that the unimpaired amounts that are past due are still collectible, based on historic payment behavior and analyses on the underlying customers' credit ratings, when available.

(iii) Cash and cash equivalents

The Company held cash and cash equivalents of GEL 12,297,188 at 31 December 2014 (2013: GEL 13,871,128), which represents its maximum credit exposure on these assets. The cash and cash equivalents are held with a leading Georgian bank, with short term issuer default rating of B.

(e) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

The Company receives cash flows on a daily basis from its customers. This ensures that the Company has enough cash to meet its financial obligations for a minimum period of 60 days. This excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements.

31 December 2014 GEL	Carrying amount	Contractual cash flows	Less than 2 months
Non-derivative financial liabilities			
Trade and other payables	29,523,906	29,523,906	29,523,906
31 December 2013 GEL	Carrying amount	Contractual cash flows	Less than 2 months
Non-derivative financial liabilities			
Trade and other payables	27,125,732	27,125,732	27,125,732

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

(f) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

(i) Currency risk

The Company is exposed to currency risk on sales, purchases that are denominated in a currency other than the functional currency of the Company (GEL). The currencies in which these transactions primarily are denominated are U.S. Dollars and Euro.

The Company has no formal policy for managing currency risk.

Exposure to currency risk

The Company's exposure to foreign currency risk was as follows based on notional amounts:

GEL	USD- denominated 2014	EUR- denominated 2014	USD- denominated 2013	EUR- denominated 2013
Trade receivables	-	-	560	-
Trade payables	(21,970,507)	(577,343)	(21,912,016)	(378,481)
Net exposure	(21,970,507)	(577,343)	(21,911,456)	(378,481)

The following significant exchange rates applied during the year:

in GEL	Average rate		Reporting date spot rate	
	2014	2013	2014	2013
USD 1	1.7659	1.6634	1.8636	1.7363
EUR 1	2.3462	2.2094	2.2656	2.3891

Sensitivity analysis

A strengthening (weakening) of the GEL, as indicated below, against USD and EUR at 31 December would have increased (decreased) profit or loss net of taxes by the amounts shown below. This analysis is based on foreign currency exchange rate variances that the Company considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant.

GEL	Strengthening	Weakening
31 December 2014		
USD (30% movement)	5,602,479	(5,602,479)
EUR (30% movement)	147,222	(147,222)
31 December 2013		
USD (10% movement)	1,862,474	(1,862,474)
EUR (10% movement)	32,171	(32,171)

(g) Accounting classifications and fair values

The management believes that the fair value of its financial assets and liabilities approximates their carrying values.

The basis for determining fair values is disclosed in note 5.

(h) Capital management

Given the nature of the Company's operations, the Company does not have a formal capital management policy. In addition the Company is not subject to externally imposed capital requirements.

18. Contingencies

(a) Taxation contingencies in Georgia

The taxation system in Georgia is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are sometimes unclear, contradictory and subject to varying interpretation. In the event of a breach of tax legislation, no liabilities for additional taxes, fines or penalties may be imposed by the tax authorities after six years have passed since the end of the year in which the breach occurred.

These circumstances may create tax risks in Georgia that are more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Georgian tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

19. Related party transactions

(a) Control relationships

The Company's founder and ultimate controlling party is the Government of Georgia. In April 2011 the right of control of 100% of the Company's shares were transferred from the Ministry of Energy and Natural Resources to a state entity, JSC Partnership Fund.

JSC Partnership Fund issues publicly available financial statements.

(b) Transactions with key management personnel

Key management remuneration

Key management received the following remuneration during the year, which is included in salaries and wages (see note 8):

GEL	2014	2013
Salaries and bonuses	308,643	327,411

(c) Transactions with Georgian Government

JSC Partnership Fund has 100% of the shares and voting rights of the Company (2013: 100%) and this ownership allows the Government significant influence over the Company. Additionally, the Company transacts in its daily operations with a number of entities that are either controlled, jointly controlled or under a significant influence by the Government of Georgia. The Company applies the exemption in IAS 24 *Related Party Disclosures* that allows to present reduced related party disclosures regarding transactions with government-related entities.

Collectively, but not individually, significant transactions

The Company operates in the energy sector dominated by entities directly or indirectly controlled by the Government of Georgia through its government-related entities.

These transactions are conducted in the ordinary course of Company's business on terms comparable to those with other entities that are not government-related. The Company has established procurement policies and approval processes for purchases of products and services, which are independent of whether the counterparties are government-related entities or not.

For the year ended 31 December 2014, management estimates that the aggregate amount of the Company's significant transactions with other government-related entities are at least 24% (2013: 23%) of its sales of balancing electricity and guaranteed capacity and between 4.0% and 4.5% (2013: between 4.0% and 4.5%) of its purchase of balancing electricity and guaranteed capacity.