PARTNERSHIP FUND

2014

Partnership Fund Annual Report

PARTNERSHIP FUND

Forward Looking Statements

This Report includes forward-looking statements. Such statements may be identified by forward-looking words such as “may”, “will”, “expect”, “anticipate”, “believe”, “estimate” and “continue” or other similar words. They can also be identified by the fact that they do not relate strictly to historical or current facts.

Such statements should be read carefully because they discuss the Partnership Fund’s (“PF” or “Fund”) future expectations, contain projections of the PF’s future results of operations or of its financial condition or state other “forward-looking” information. PF believes that it is important to communicate its future expectations to investors. However, there may be events in the future that the PF is not able to accurately predict or control and that may cause its actual results to differ materially from those discussed as a result of various factors. By their very nature, forward-looking statements involve inherent risks and uncertainties. These factors should be considered carefully and readers should not place undue reliance on forward-looking statements, especially in light of the political, economic, social and legal environment in which the PF operates.

All forward-looking statements attributable to the PF or persons acting on its behalf are expressly qualified in their entirety.

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Overview

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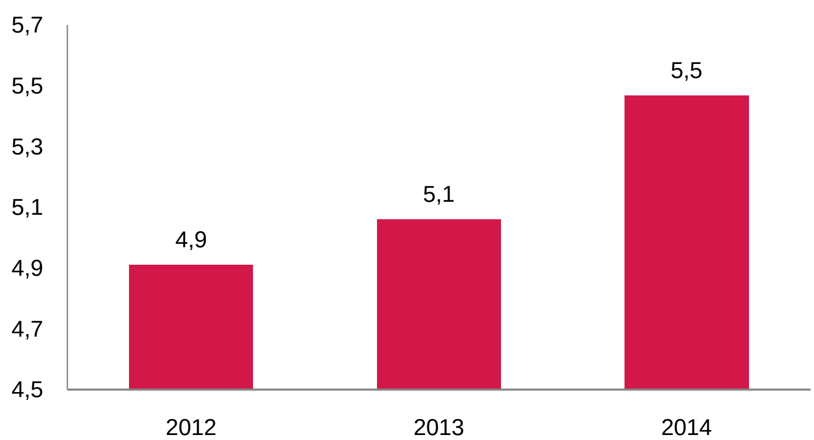
PF's 2014Highlights

- In 2014PF's Net profit and total comprehensive income increased by 69% (2014/2013) and Total assets and total equity increased by 8% and 9%, respectively.
- PF's long-term foreign and local currency Issuer Default Ratings (IDR) has been affirmed at BB- by Fitch Ratings (September 2015).
- During 2012-2014 Partnership Fund invested GEL 486.1 millionin 14 projects (including the amount invested in Gardabani CCPP by a PF subsidiary).

Key figures,GEL, thousand

	2012 Audited	2013 Audited	2014 Audited	Change 2014/2013
Statement of Financial Position				
Total assets	4,910,368	5,059,788	5,451,603	8%
Total equity	2,348,936	2,419,284	2,641,972	9%
Total liabilities	2,561,432	2,640,504	2,809,631	6%
Statement of Profit or Loss				
Revenues	410,618	979,399	1,094,386	12%
Results from operating activities	103,839	207,492	243,057	17%
Net profit and total comprehensive income	68,395	73,569	124,660	69%

Total Assets, billion, GEL



Chairman's Statement

Irakli Garibashvili

Prime Minister of Georgia

Chair of the Supervisory Board of the Partnership Fund

For Georgia 2014 was the year of further strengthening of its strategic function - being an important crossroad between Europe and Asia. Due to this fact foreign investments have driven economic growth over the last year despite challenging situation in our neighbourhood.

Allow me to emphasize that the Partnership Fund plays an important role in supporting investments in priority sectors of Georgian economy. The management of the fund has a good understanding of the business environment in Georgia, and a number of strategically important and successful projects were initiated in several priority sectors in 2014.

Thanks to its strategic location, Georgia aspires to become a successful transport corridor in the Caucasus region. With its simplified and service-oriented tax and customs legislation, pro-business and corruption free government, Georgia has made an impressive progress in improving its business climate. Georgia joined the EU Association Agreement, including Deep and Comprehensive Free Trade Agreement (DCFTA), which will promote Georgian export and improve the investment environment. This is an important moment both for the EU and for our county concerned as the Agreement will significantly deepen political and economic ties with a long-term perspective of closer political association and economic integration. The Partnership Fund plays a facilitating role in these processes by promoting investments and enabling successful public-private partnership practices.

We strongly believe that the management of the fund will take significant and effective steps to achieve these goals, while also strengthening the fund's role in developing Georgian economy.

CEO’s Statement

Mr Irakli Kovzanadze
Chief Executive Officer of Partnership Fund

JSC Partnership Fund (PF) was set up in 2011 and is 100 % owned by the state. The Fund’s goal is to support private investment in the major sectors of Georgian economy: energy, agribusiness, real estate/tourism, manufacturing, infrastructure and logistics.

With the dividends from Georgian Railway, Georgian Oil & Gas Corporation (GOGC), Georgian State Electricity System (GSE), Electricity System Commercial Operator (ESCO) and Telasi, which is the main sources of the Fund’s investment capital, PF is supporting private investors by providing them with the stable long-term equity and risk sharing.

The Fund’s current equity equals to GEL 2.6 billion (USD 1.4 billion). In 2014, the Fund’s Consolidated Revenue exceeded one billion GEL, while the total assets increased by 8% and exceeded 5.4 billion GEL. With Fitch rating "BB-", equal to sovereign ceiling of Georgia, the Fund promotes investment in Georgia by providing co-financing in large scale projects at their initial stage of development. According to its investment strategy, PF acts as a partner for private investors by providing mid to long term financing. Our participation is aimed at sharing project/business related entry risks with partners and supplementing the required amount of equity. As a minority shareholder, PF participates in green field operations as well as in already existing businesses.

In 2013, PF started construction of 233 million USD Gardabani Combined Cycle Gas Fired Thermal Power Plant; implementation of Polyurethane Sandwich Panel Production Facility; and conducted concept development for Tskhaltubo Spa Resort in Imereti. Other significant projects, which were implemented and are underway include: - 280 MW Nenskra HPP in Svaneti; 5-star Rixos Hotel in Likani. The Hotel Gino Wellness in Akhaltsikhe; Hotel Royal Batoni in Kvareli and Hog Farm in Koda. The Partnership Fund has already exited from the last three projects.

In 2015, we plan to continue asset allocation, while demonstrating higher level of flexibility. We remain committed to our values and principles and under the guidance of our supervisory board, we will make our valuable contribution to the economic growth of the country and support investment activities overall.
I believe that the dedication and talent of our team will be fruitful and the country will witness that PF continues successful performance in the years to come.

Investment Climate

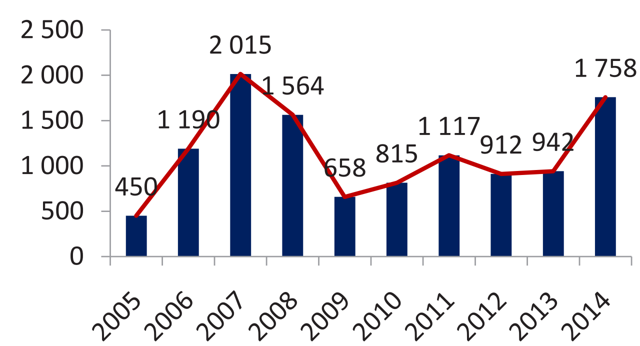
Key Macroeconomic Parameters

Georgia is located east of the Black Sea, bordering Turkey and Armenia to the south, Azerbaijan to the southeast, and Russia to the north. The country is located on the gateway between Europe and Asia. It has a population of approximately 3.7million according to the last 2014 General Population Census.

Over the last decade Georgia has experienced rapid economic growth, mostly driven by Foreign Direct Investments (FDI). From 2005 to 2014, FDI in Georgia amounted to US$ 11.4billion totally. In 2014, foreign direct investments amounted to US$ 1.76billion USD, that is 87% higher compared to the same period of the previous year. In 2014, Georgia's nominal GDP reached US$ 16.5 billionand USD 3,681* per capita. In 2014 GDP had almost the same structure as in 2013. The service sector accounted for 57% of GDP, followed by Industry 17%, Agriculture 9%, construction 7% and public sector accounted for 10%.

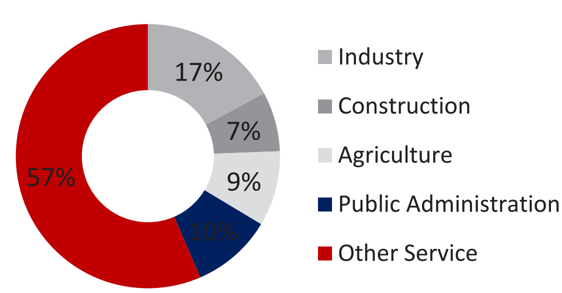
** Pre-census demographic data were used for the calculation of per capita indicators of 2014. Recalculation of 2003-2014 per capita indicators will be produced in 2016 after release of final 2014 population census data.*

FDI in Georgia, USD million



*Source: Geostat, **preliminary*

Georgia's GDP Structure in 2014**



*Source: Geostat, **preliminary*

According to the preliminary data in 2014, real GDP growth amounted to 4.8% y/y, while the end of period inflation was 2%. In 2014 total public debt to nominal GDP stood at 35.5%, down from 42.4% in 2010. In 2014 the country's current account deficit increasedand stood at 9.8% of GDP up from 5.8% of GDP in 2013, but it is lower than 11.7% in 2012.

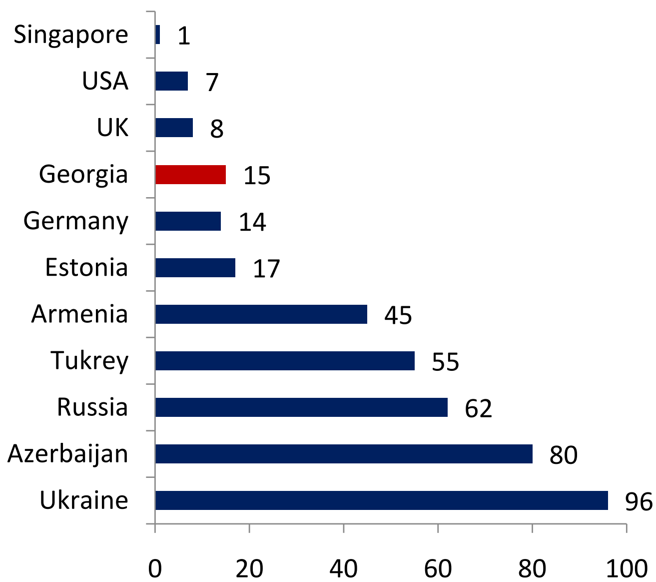
Key Figures

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014*
Real GDP, % y/y	9.6%	9.4%	12.3%	2.3%	-3.8%	6.3%	7.2%	6.2%	3.3%	4.8%
Nominal GDP, GEL, bn	11.6	13.8	17	19.1	18	20.7	24.3	26.1	26.8	29.2
Nominal GDP, USD, bn	6.4	7.8	10.2	12.8	10.8	11.6	14.4	15.8	16.1	16.5
GDP per capita, nominal, USD	1,483	1,763	2,315	2,921	2,455	2,623	3,231	3,523	3,600	3,681
CPI end of period (eop)	6.2%	8.8%	11.0%	5.5%	3.0%	11.2%	2.0%	-1.4%	2.4%	2.0%
GEL/USD, eop	1.79	1.71	1.59	1.67	1.69	1.77	1.67	1.66	1.74	1.86
GEL/USD, average	1.81	1.78	1.67	1.49	1.67	1.78	1.69	1.65	1.66	1.77
Current Account (CA) balance, % of GDP	11.1%	15.1%	19.8%	22.0%	10.5%	10.2%	12.7%	11.7%	5.8%	9.8%
FDI, US$ mln	450	1,190	2,015	1,564	658	815	1,117	912	942	1,758
Total public debt, % of GDP	40%	32%	26%	31%	41%	42%	37%	35%	35%	36%

*Source: Geostat, National Bank of Georgia, * preliminary*

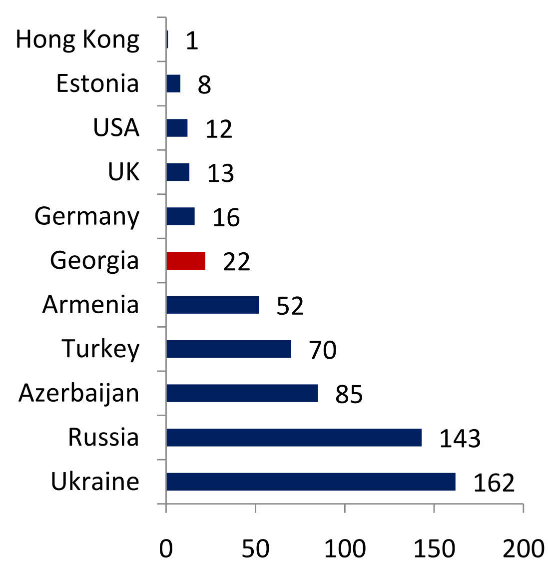
Georgia's investment climate is one of the most investor friendly in the region. According to the World Bank's Ease of Doing Business, the country is ranked number 15 in ease of doing business. The Heritage Foundation ranks Georgia as 22nd in Economic Freedom Index.

World Bank's Ease of Doing Business, 2015



Source: World Bank, 2015
(Rank out of 189 counties)

Economic Freedom Index, 2015

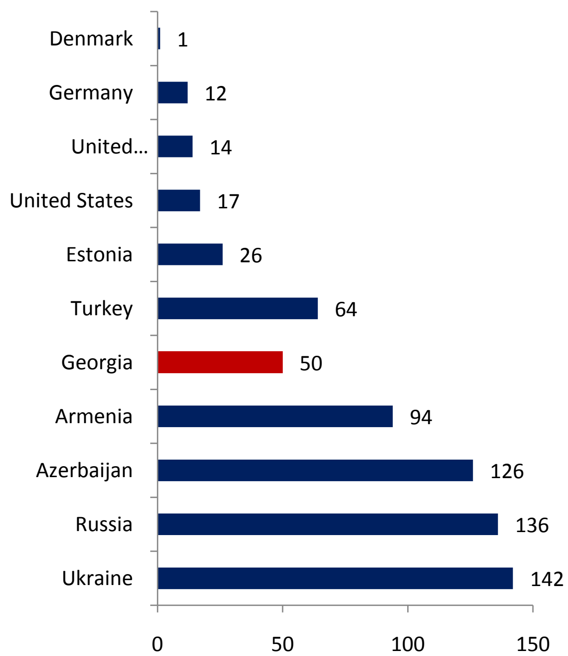


Source: The Heritage Foundation, 2015
(Rank out of 179 countries)

On June, 27, 2014, the EU and Georgia signed the Association agreement. The agreement introduces a preferential trade regime: the Deep and Comprehensive Free Trade Area (DCFTA). Within the framework of the DCFTA, Georgian production, meeting the certain standards, will get duty free tariff on the 500 mil.market of 28 European countries.Georgia will have gradual access to three out of four internal markets of the EU: goods, service and the free movement of capital. With its' entry into force, the DCFTA will promote attraction of new investors, new technologies and know how, opening of new enterprises and export production for Georgia. All of these further enhance economic development prospects for the country.

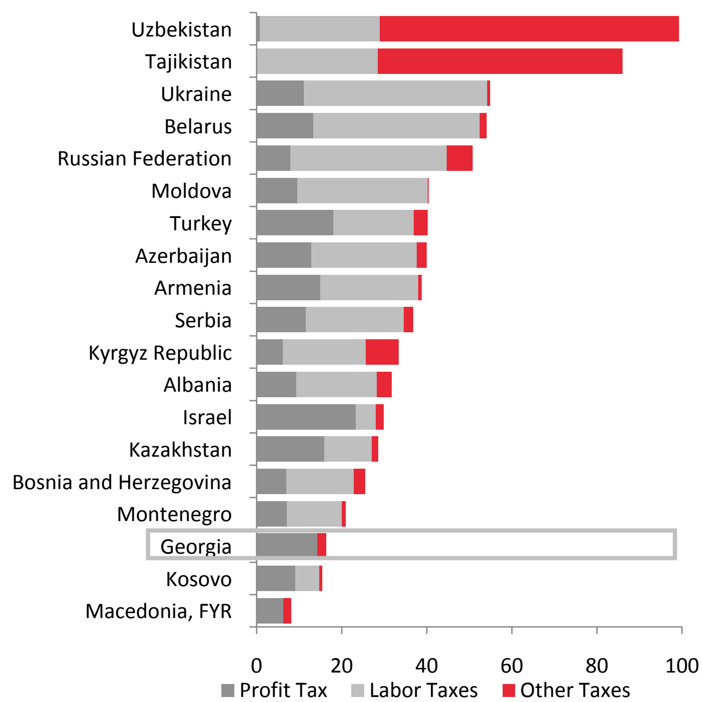
The Georgian investment environment improved considerably in recent years with fewer taxes and simplified procedures for starting a business. Georgia has also made great strides in eradicating red tape across all levels.

Transparency International's Corruption Perception Index, 2014



Source: Transparency International

The Total Tax Rates in Central Asia & Eastern Europe, 2014



Source: PwC analysis.

The tax code, passed in 2005, simplified the tax framework and reduced the number of taxes (from 21 to 6) and tax rates. Georgia has signed bilateral treaties on investment protection with 32 countries and bilateral double taxation avoidance treaties with 49 countries. The government also offers a number of tax benefits:

- No social insurance tax
- No wealth tax, or stamp duty
- Foreign-source income of individuals fully exempted from income tax
- Profit tax calculation allows100% depreciation and 10 year carry forward of losses
- Very strong political commitment to low and simple taxation and improvement of services
- Dividend tax exemption for legal entities and Interest income tax exemption for interest accrued on bank accounts

Taxes in Georgia

	2005	2006	2007	2008	2009-2014
Number of Taxes	7	7	7	6	6
VAT	20%	18%	18%	18%	18%
Income Tax	12%	12%	12%	25%	20%
Social Tax	20%	20%	20%	-	-
Corporate Profit Tax	20%	10%	20%	15%	15%
Dividend & Interest Income Tax	10%	10%	10%	10%	5%

Source: Ministry of Finance

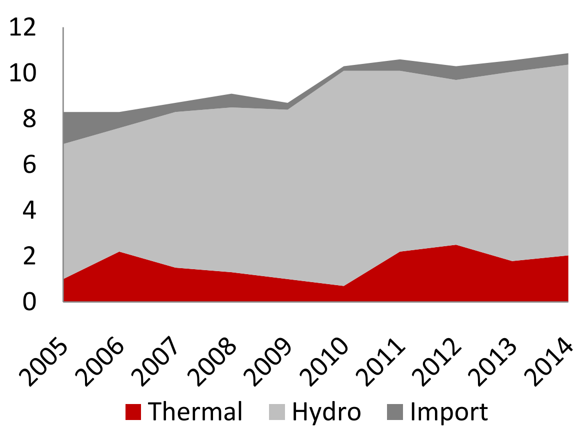
Meeting with the European Bank for Reconstrution and Development (EBRD) delegation led by Mr. Suma Chakrabat, the President of EBRD

Overview of the Energy Sector

In recent years, Georgia's energy sector has gone through a thorough overhaul. From electricity importer, Georgia became an electricity exporting country. Georgia has one of the largest untapped hydro resources in the world.The country has a potential to produce up to 22 TWh electricity annually (includes only hydro and coal resources), 2.1 times more than current output.

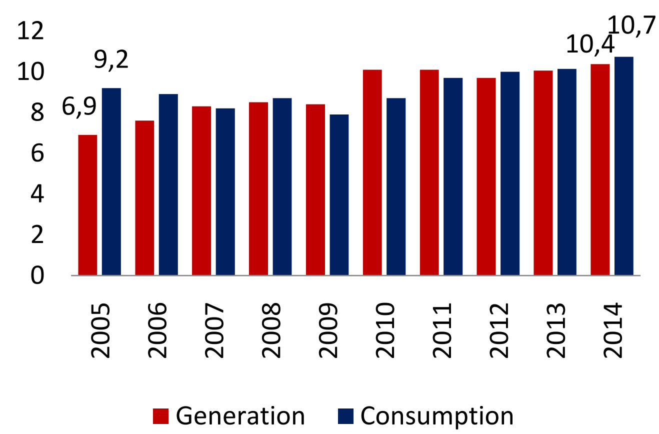
Since 2005, electricity generation increased by 50.7% reaching 10.4 TWh in 2014. The growth was driven by rehabilitated power plants, improved efficiency and increased total generation capacity. The local electricity consumption reached to10.7 TWh in 2014.

Georgia's Electricity Supply Structure, TWh



Source: ESCO

Electricity Generation/Consumption, TWh

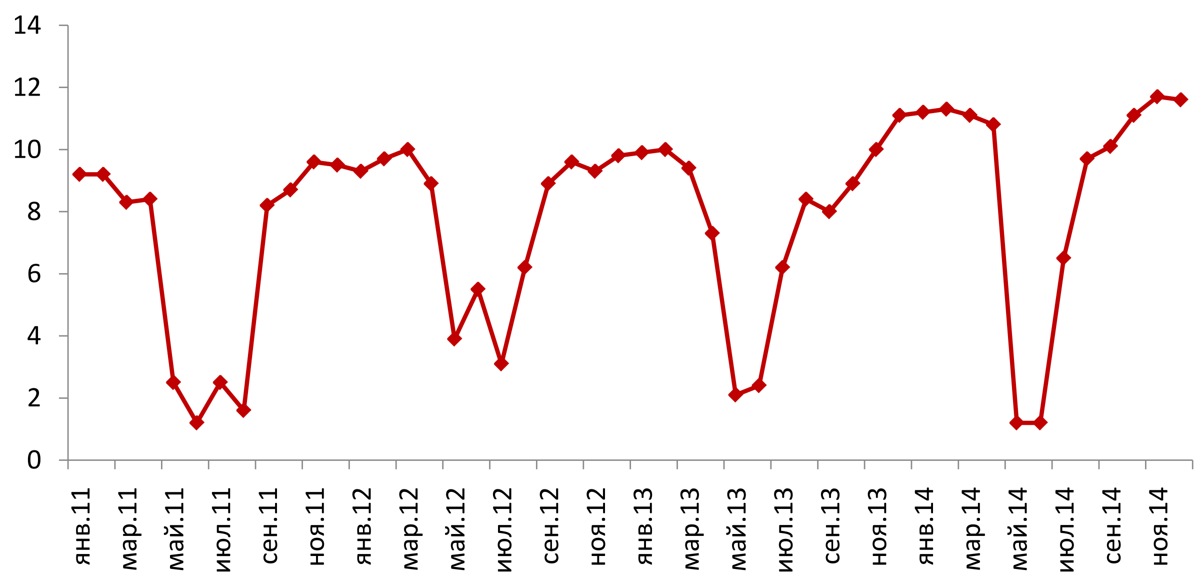


Source: ESCO

Given the competitive cost and seasonality of electricity generation in Georgia, the sector is poised to grow fast, to satisfy growing demand for electricity (household and industrial consumption) both inside the country and in the region. With its solid pipeline of hydro power plant (HPP) investments, Georgia's electricity export capacity is robust, given the vast untapped potential for renewable energy and investor-oriented business environment with cost advantages.We believe Georgia's electricity consumption will grow largely in line with the GDP growth rate of the country. In the coming years Georgia will need additional capacities to meet its growing consumption. According to the Ministry of Energy and Natural Resources by 2020 the country will need annually an additional 6.5 TWh of electricity.

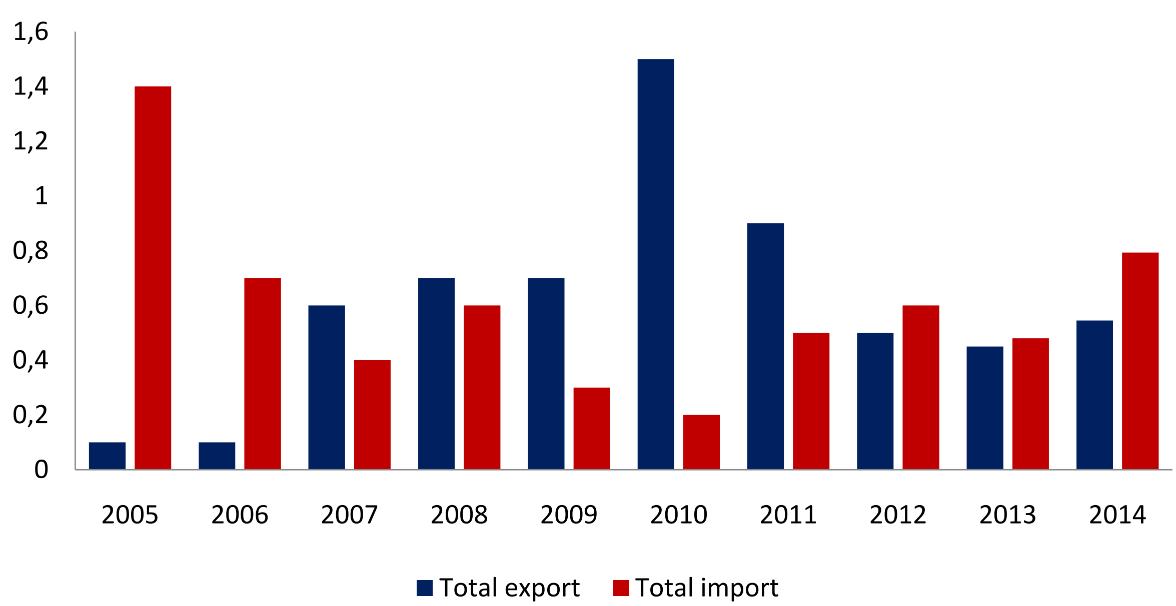
All generation units built after 2008 are unregulated. The best reference of the unregulated generation market price is the price at which the Electricity System Commercial Operator (ESCO) buys electricity. The weighted average monthly unregulated generation price in December2014 was GEL 0.116 per KWh.

ESCO's Weighted Average Electricity Tariff, Tetri



Source: ESCO

Electricity Import/Export, TWh



Source: ESCO

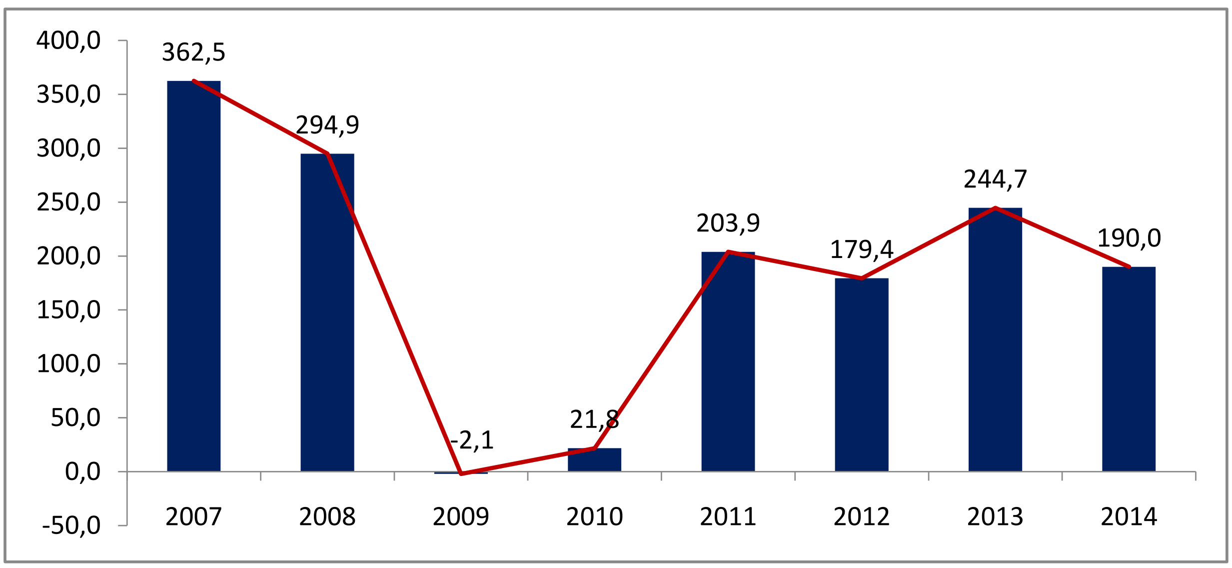
Georgia is marked by a seasonal supply of power, a surplus in summer and deficit in winter as water flow is relatively lower in the majority of rivers across the country. The gap during the winter period is bridged by thermal power as well as imports from Russia and Azerbaijan.

Turkey is the key export market for the surplus of Georgian electricity during the summer, as Turkey is likely to continue running an electricity deficit. Based on TEIAS (Turkish State Electricity Transmission Company) forecasts, Turkey will have an electricity deficit of 82 - 118 TWh by 2020. The shortfall is expected to be met by domestic generation and imports from neighbouring countries.

The Turkish market can absorb Georgia's extra electricity production during the summer period, due to its high seasonal demand in the June-August period. Turkey's summer peak demand outstrips winter peak demand, pushing high electricity prices in the summer. Turkey's consumption pattern moves in line to the pattern of Georgian hydro generation in the summer – Georgian consumption falls in summer, whilst Turkish demand peaks.

The Government of Georgia's investor outreach has been proactive, with a significant amount of effort deployed to explain hands-on business opportunities and provide aftercare investor services.

FDI in the Energy Sector, million USD



Source: Geostat

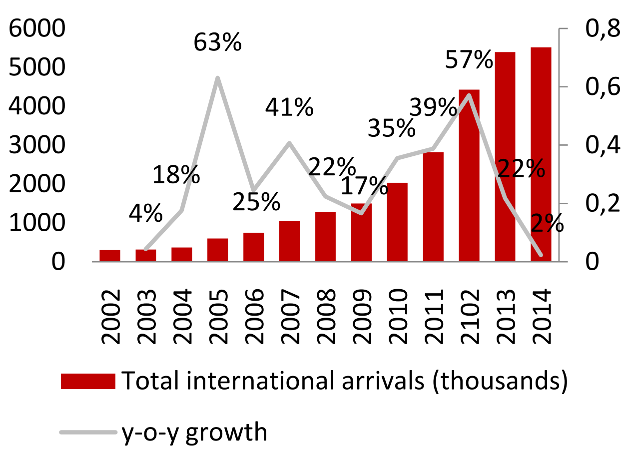
Given the strategic importance of the electricity sector in the context of Georgia's ongoing transformation into a regional logistical, economic and trade hub, the Partnership Fund is open to discussing strategic forms of public-private partnership in relation to implementation of large-scale greenfield electricity generation schemes wherein public action might catalyze enhanced interest of private investors.

Overview of the Tourism Sector

Throughout its history, Georgia has developed a significant niche as one of the key regional tourism destinations (summer, winter, skiing, health, spa, etc.).Even though the tourism sector contributed to only 6.6% of Georgia's total output in 2014, it is yet again one of the fastest growing industries. Since 2000, the number of visitors to Georgia increased by14 times reaching 5.5million in 2014. Various market analyses demonstrate thatthe growth rate of incoming visitors will be maintained in the coming years.

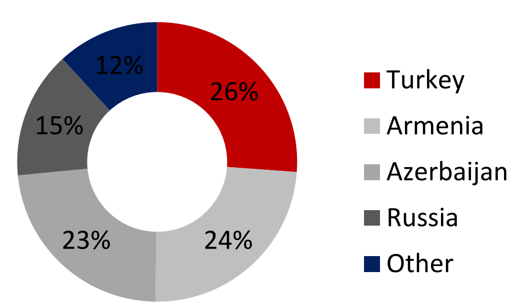
Significant growth in the number of visitors is driven by improved infrastructure, a low crime rate and increased awareness of Georgia via international promotion campaigns. Over the last decade airline connectivity has increased significantly. There are three international and one local airport in Georgia. Tbilisiand Batumi international airports, with annual passenger capacity of up to 2.8million and 0.6million respectively, were renovated by Turkish TAV, which currently operates them. In 2012, Kutaisi International airport with annual passenger capacity of 4.4million was also completed. The annual capacity of Mestia's airport,located in Svaneti region, is 0.3million. Several large international hotel operators are operating in the market including: Radisson, Sheraton, Marriott, Holiday Inn, etc.

Total International Arrivals by Year



Source: Geostat

International Arrivals by Country of Residence, 2014



Source: Geostat

The majority of international arrivals came from neighbouring countries. Turkey accounted for 26 percent of total international arrivals, followed by Armenia 24 percent, Azerbaijan 23 percent and Russian Federation15 percent. Tourists mostly visit Georgia for leisure and recreation purposes.

We believe thatthe Georgian tourism sector has significant untapped potential.

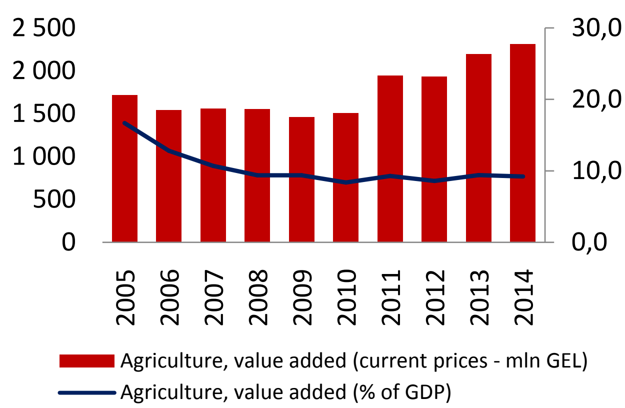
Overview of the Agricultural Sector

Georgia's diverse climate conditions and sound business environment are amenable to the production and processing of a wide diversity of fruit, vegetable and nut crops. Georgia's proximity and transport links to Europe and other regions, together with growing local and regional demand for fresh produce, make it an attractive agribusiness production and export hub.

Georgia is rich in agricultural tradition and there is considerable potential for growth. In 2014, agriculture accounted for 9.2% of the country's economy. It contributes 52% of total employment. For comparison, in 1990 agriculture accounted for 31% of country's economy. Since that period, the country has encountered challenging periods and agricultural infrastructure deteriorated, resulting in decreased production levels.

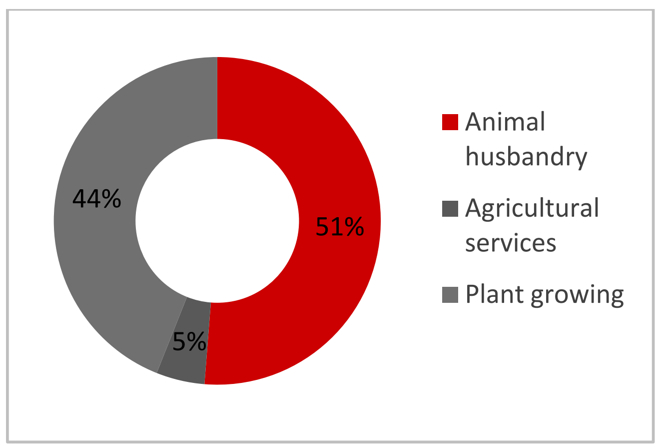
The total area of Georgia is 6.9 million ha, out of which 37.7% can be used for agricultural purposes including meadows and pasturelands. Soils are of volcanic origin located in the river valleys, fertile and reasonably easy to cultivate for agricultural purposes. There are over 21 micro-climates in the country which gives an opportunity to produce a wide range of grains, vegetables hard and soft fruits, etc.

Agriculture Production



Source: WB Database

Output of Agriculture, 2014



Source: Geostat

To date, more than 83%of people working in the agriculture sector are self-employed, which indicates that the agricultural sector is dominated by small subsistence farmers (average farm size of 1.5 ha).Due to the high fragmentation of land and lack of investments in machinery, the productivity of farmers is low.

Georgia is a net importer of agricultural and food products.Since 2003 Georgian agricultural product imports increased 6.2 timesto reach US$ 1.3billion in 2014, while exports increased 4.7 timesand equalled to US$ 0.8billion. But the negative trade balance of agricultural products has a downward trend, in 2014 the negative trade balance of agriculture products reduced by 7.3% compared 2013.

Due to the supportive policy of the Georgian Government in recent years, agriculture production has significantly increased. Since 2012 sown areas has increased by 24percent. In 2014, there was a growth in the production of annual crops and permanent crops as well as an increase of livestock numbers and the production of meat, milk and eggs. The upward trend is also supported by increased foreign direct investment. In 2014 FDI in the agriculture sector increased by 61% compared to the same period of 2013.

Overview of the Manufacturing Sector

PF works to facilitate construction materials manufacturing, apparel, yarns and textile production, and we keep our options open with respect to both light and heavy manufacturing.

Past experience, a high literacy rate, good geography, trade openness, relatively cheap labor costs, human talent, niche industry experience, developed infrastructure of in-country and cross-border connectivity, investor friendly low tax environment, reliable and relatively low cost utilities and low bureaucratic barriers (energy, water etc.) bring down costs of doing business, allowing Georgia to compete regionally and globally. The development of the production capacity in Georgia allows the country to cater for both Georgian and regional markets. Georgia's liberal economic model, trade openness, its extensive network of free trade arrangements with the broader region, as well as the Deep and Comprehensive Free Trade Agreement with the European Union contribute to Georgia's potential positioning as a manufacturing hub for the region.

Manufacturing, % of GDP

Source: WB Database

Business Overview

JSC Partnership Fund was established by the Government of Georgia on 28th of June 2011, according to the “Law of Georgia on Partnership Fund JSC”. The Fund is 100% state owned. PF was created to support growth of Georgian economy and attract investments into the country. PF has a mandate to provide financing to the private sector for the development of state priority sectorsof the economy. Fundfinances only commercially viable investment projects. PF is supervised by Supervisory Board, headed by the Prime Minister of Georgia.

Assets under management

PF has several strategically important assets under management: Georgian Railway (100%), Georgian Oil and Gas Corporation (100%), Georgian State Electrosystem (100%), Electricity System Commercial Operator (100%) and Telasi (24.5%). These assets were transferred to PF by the Government of Georgia as the contribution to the capital of the Fund.

Key assets owned by PF

Company		Ownership 2014	Total Assets, 2014, GEL, m	Total Equity, 2014, GEL, m	Activity
	Georgian Oil & Gas Corporation	100%	1,230.9	676	Oil & gas transportation/trading
	Georgian Railway	100%	2,968.4	1,562.8	Railroad transportation
	Electricity System Commercial Operator	100%	36	6.9	Electricity trading
	Georgian State Electrosystem	100%	1,078.4	259.8	Electricity transmission and dispatching
	Telasi	24.5%	264.8	114.6	Electricity distribution

Investment strategy

Based on the competitiveness analysis PF targetsfour major sectors: Agriculture, Real Estate (Tourism infrastructure), Manufacturing and Energy. Market studies show that these sectors are largely untapped and have great potential for further development.

PFfunds private investors with the following conditions:

- PF has a mandate to invest only in Georgia in any industry excluding the services sector;
- PF invests only in commercially viable projects;
- PF is authorized to provide equity financing and also subordinated/senior loans (both convertible and non-convertible);
- Maximum amount of funds (both debt and equity) that PF is able to invest in the project should not exceed the private investor’s equity investment;
- PF’s objective is to remain a mid to long-term minority shareholder of the project. Once the project becomes sustainable,PF can exercise its exit option from the project.

Policies and Procedures

An investment project can be initiated in two ways – by an investor or by PF itself.

a. Private investor has a project and seeks to attract financing

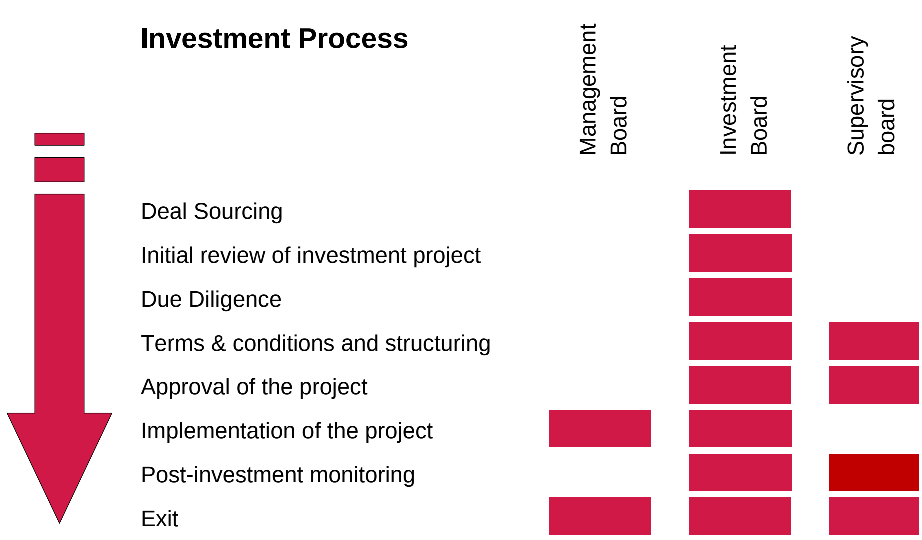
When a private investor is looking to attract capital from PF,the investment project goes through careful three-stage due diligence process:

1. Partner/Investor provides project documentation (project presentation, business plan, market Study, etc.) which is evaluated by PF's investment officers;
2. If the project meets PF's requirements, it is submitted to the Investment Board which undertakes further analysis of the investment project and submits its recommendations to the Supervisory Board;
3. Finally, a project needs to be approved by the supervisory board.

b. PF identifies investment opportunity and approaches private investors to participate in the project.

The project goes a through three-stage study process:

1. Preparation of an investment project, including technical and financial feasibility studies. This stage may also involve hiring consultancy firms;
2. Structuring and approval of the project based on the analysis carried out atthe initial stage;
3. PF attracts private investors for partnership and implementation.



Corporate Governance

PF's Corporate Governance structure is composed of: Supervisory Board, Management Board and Investment Board.

Supervisory Board

The Supervisory Board includeseightboard members: fiveGovernment officials and three top managers of the local commercial banks. The Supervisory Board is chaired by the Prime Minister of Georgia. The Supervisory Board is the main decision making body in PF.

The mandate of the Board is following:

- Control over the management of the Fund (executive body);
- Control and inspection of the Fund's financial documentation;
- Assigning and depriving of representative and management authority to the Management Board members, defining level of authorization;
- Final decision on investment project financing;
- Monitoring of investment project implementation process;
- Distribution of authorities in companies established through participation of the Fund
- Decision on type and size participation in investment projects;
- Decision on transferof shares in ownership of the Fund
- Appointment of CEO of PF.

Management Board

The Management Board is an executive body of PF, which is responsible for the day-to-day management and oversees the implementation process of approved projects. The Board consists of the CEO, two deputy CEOs, CFO, CIO, CLO, Head of Administration, Head of Audit, Head of Analytical Service and Chief Accountant. The Management Board is accountable to the Supervisory Board.

Investment Board

The Investment Board of PF is responsible for the assessment of investment projects and provides its recommendations to the Supervisory Board. Investment Board consists of the CEO, two deputy CEOs, the CIO and two investment officers. The Board may include other experts.

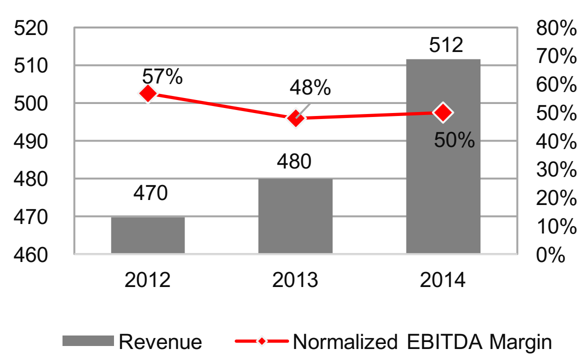
Overview of Strategic Assets

Georgian Railway

JSC Georgian Railway (GR) operates as a nationwide railway system and provides freight and passenger transportation services. It owns and operates 1,326 km of freight and passenger railway network, 114 stations and a sizeable rolling stock fleet (139 locomotives, 8,122 freight cars, 98 passenger railcars and more). It is Georgia's single largest employer with over 12,000 workers as of the end 2014.

The Georgia's railway line is the shortest route between Europe and Central Asia. GR and Azerbaijan Railway make up the key section of the Transportation Corridor with Europe and Caucasus Asia (TRACECA), which connects oil-rich Central Asia with Europe, making GR mainly a transit railway (transit accounts over 60% of all freight transported in 2014).

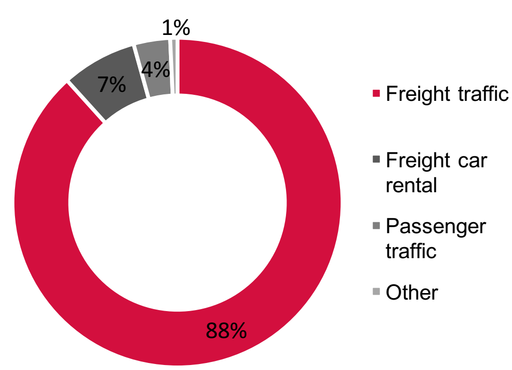
Revenue[1], GEL, million



**Revenue does not include other income*
*** Write off of non-current assets, premium on the early redemption of issued bonds and net foreign exchange loss are added back*

Source: GR Audited Financial Statements, PF Calculations

Revenue breakdown, 2014



Source: GR Audited Financial Statements

[1] Revenue includes other income but normalized EBIDTA margin is calculated based on main revenue only

GR audited financial statements, GEL, mn

Income Statement	2012	2013	2014	Change 2014/2013
Revenue	469.8	479.8	511.6	7%
Other Income	32.0	15.5	12.4	-20%
Employee benefits expense	(108.5)	(133.5)	(145.2)	9%
Depreciation and amortization expenses	(97.1)	(101.9)	(105.3)	3%
Electricity and materials used	(53.0)	(49.2)	(47.2)	-4%
Other Expenses	(88.4)	(89.3)	(81.5)	-9%
Results from operating activities	154.8	121.4	144.8	19%
Operating profit margin	*33%*	*25%*	*28%*	*3ppts*
Net finance income/expense	(40.2)	(45.2)	(99.6)	120%
Profit before income tax	114.6	76.2	45.2	-41%
Profit and total comprehensive income for the year	97.2	65.2	39.3	-40%
Net profit margin	*21%*	*14%*	*8%*	*-6ppts*
Normalized EBITDA*	266.7	229.3	253	10%
Normalized EBITDA margin	*57%*	*48%*	*50%*	*2ppts*
Normalized net profit*	153.2	105.6	104.3	-1%
Normalized net profit margin	*33%*	*22%*	*20%*	*-2ppts*

Balance Sheet	2012	2013	2014	Change 2014/2013
Total Non-current assets	2,479.7	2,529.7	2,550.0	1%
Total current assets	351.9	355.6	418.4	18%
Total Assets	2,831.5	2,885.2	2,968.4	3%
Total equity	1,530.8	1,569.1	1,562.8	0%
Total non-current liabilities	1,159.9	1,203.3	1,218.8	1%
Total current liabilities	140.9	112.8	186.8	66%
Total liabilities	1,300.7	1,316.1	1,405.6	7%
Total Equity and Liabilities	2,831.5	2,885.2	2,968.4	3%

Cash flow	2012	2013	2014	Change 2014/2013
Cash flows from operating activities	239.6	218.8	280.1	28%
Cash flows used in investing activities	(407.7)	(36.4)	(75.3)	107%
Cash flows from/(used in) financing activities	218.8	(94.8)	(123.2)	30%
Net change in cash and cash equivalents	50.7	87.6	81.7	-7%
Cash and cash equivalents at the end of the period	115.1	209.0	301.0	44%

Source: GR Audited Financial Statements, PF Calculations

** Write off of non-current assets, premium on the early redemption of issued bonds and net foreign exchange loss are added back*

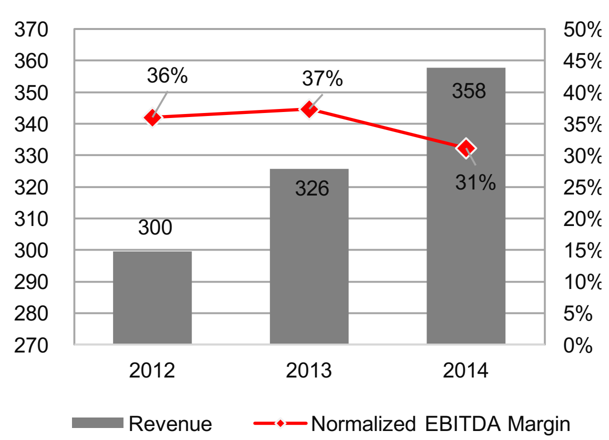
Georgian Oil and Gas Corporation

JSC "Georgian Oil and Gas Corporation" (GOGC) was formed in March 2006, as a result of the merger of three state owned companies: JSC Georgian International Oil Corporation, JSC Georgian Gas International Corporation and JSC Teleti Oil Company.

Major activities of the company are: import and sale of natural gas, rental of gas pipelines, oil and gas exploration and extraction in Georgia. The company holds the legal status of a National Oil Company and represents the state's interests in upstream crude oil and natural gas projects in Georgia via Production Sharing Agreements (PSAs).

GOGC represents the state in international energy transit projects such as the Western Route Export Pipeline (WREP), the Baku-Tbilisi-Ceyhan oil pipeline project (BTC) and the South Caucasus Pipeline project (SCP).The company owns Georgia's two key pipelines – the Main Gas Pipeline System (a network of 4 gas pipelines, including the North-South Gas Pipeline (NSGP), which transports gas from Russia to Armenia and three internal distribution pipelines) and the Georgian section of Western Route Export Pipeline (WREP transports crude oil from Azerbaijan to the Black Sea coast for further shipping to global markets).

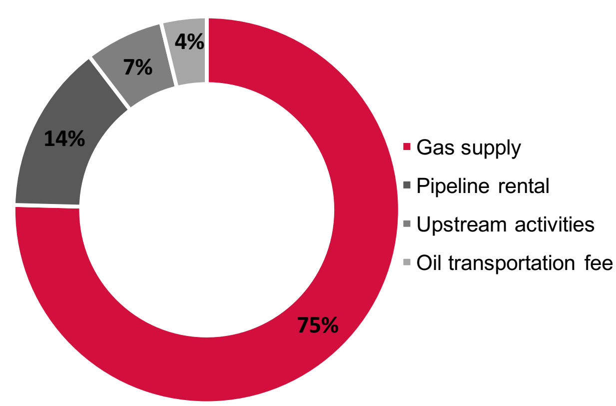
Revenue[2], GEL, million



* *For normalization purposes Impairment, Reversal of impairment loss of property, plant and equipment added back to EBITDA*

Source: GOGC Audited Financial Statements, PF Calculations

Revenue breakdown, 2014



Source: GOGC Audited Financial Statements

[2] Revenue includes other income but normalized EBIDTA margin is calculated based on main revenue only

GOGC audited financial statements, GEL, mn

Income statement	**2012**	**2013**	**2014**	**Change 2014/2013**
Revenue	299.6	325.8	357.8	10%
Cost of gas and oil	(178.2)	(198.5)	(224.3)	13%
Personnel costs	(8.5)	(7.3)	(9.2)	26%
Depreciation and amortization	(18.7)	(18.2)	(20.1)	10%
Taxes other than on income	(6.2)	(6.1)	(6.7)	10%
Impairment loss of property, plant and equipment	(7.5)	0.0	0.0	NMF
Other operating expenses	(8.7)	(9.2)	(7.9)	-14%
Other income	11.1	13.9	2.4	-83%
Operating profit	82.9	100.4	92.0	-8%
Operating profit margin	*28%*	*31%*	*26%*	*-5ppts*
Net finance income/(costs)	9.7	11.2	1.4	-88%
Income tax expense	(11.6)	(17.3)	(9.6)	-45%
Profit and total comprehensive income for the year	81	94.3	83.9	-11%
Net profit margin	*27%*	*29%*	*23%*	*-6ppts*
Normalized EBITDA from continuing operations*	**109.1**	**118.6**	**115.0**	**-3%**
*Normalized EBITDA margin**	*36%*	*36%*	*31%*	*-4ppts*
Normalized net profit from continuing operations*	**88.5**	**94.3**	**83.9**	**-11%**
Normalized net profit margin	*30%*	*29%*	*23%*	*- 6ppts*

Balance sheet	**2012**	**2013**	**2014**	**Change 2014/2013**
Non-current assets	519.6	647.6	924.6	43%
Current assets	358.8	407.3	306.3	-25%
Total assets	878.3	1054.9	1230.9	17%
Total equity	398.8	568.9	676.0	19%
Non-current liabilities	415.7	442.2	471.1	7%
Current liabilities	63.8	43.8	83.8	91%
Total liabilities	479.6	486.0	554.9	14%
Total equity and liabilities	878.3	1054.9	1230.9	17%

Cash flow	**2012**	**2013**	**2014**	**Change 2014/2013**
Cash flow from operating activities	65.6	152.1	79.9	-47%
Cash flow used in investing activities	(300.6)	(64.7)	(63.1)	-2%
Cash flow from/ (used in) financing activities	337.2	(41)	(42.3)	3%
Net (decrease)/increase in cash and cash equivalents	102.1	46.4	(25.5)	-155%
Ending cash balance	142.7	194.5	181.8	-7%

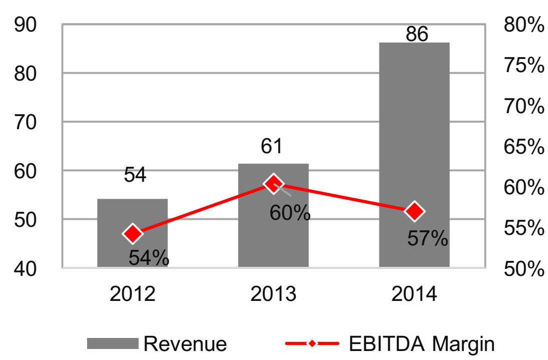
Source: GOGC Audited Financial Statements, PF Calculations

** Impairment loss of property, plant and equipment is added back*
*** NMF stands for "no meaningful figure"*

Georgian State Electrosystem

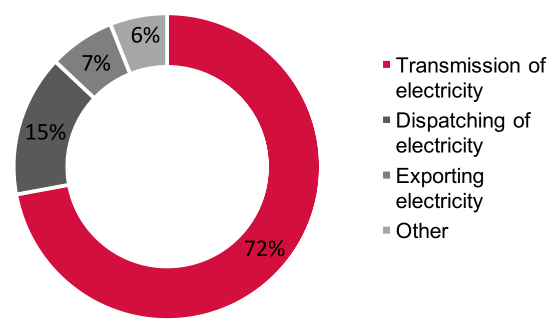
JSC “Georgian State Electrosystem” (GSE) is providing transmission and exclusive dispatch services to about 50 eligible companies in Georgia. GSE carries out technical control over the entire electric power system to ensure availability of the system for uninterrupted and reliable power supply. The company does not have the right to purchase or sell electricity.

Revenue, GEL, million



Source: GSE Audited Financial Statements, PF calculations

Revenue breakdown, 2014



Source: GSE Audited Financial Statements, PF calculations

GSE financial statements, GEL, mn

Income statement	**2012**	**2013**	**2014**	**Change 2014/2013**
Revenue	54.2	61.3	86.2	41%
Salaries and wages	(16.5)	(18.8)	(21.0)	12%
Depreciation and amortization	(32.4)	(33.1)	(51.1)	54%
Other operating income/expense	(8.1)	(5.5)	(15.7)	-185%
Operating Profit/ (Loss)	(2.9)	3.9	(1.6)	NMF
Operating profit margin	*-5%*	*6%*	*-1.9%*	*- 7.9ppts*
Net finance income/ (expense)	(11.6)	(61.5)	5.3	NMF
Profit before income tax	(14.6)	(57.5)	3.7	NMF
Net profit/ (loss) for the year	(10.7)	(63.2)	3.9	NMF
Net profit margin	*(19.70%)*	*(103%)*	*5%*	*NMF*
Total comprehensive income/ (loss) for the year	-10.9	-63	4	NMF

Balance sheet	**2012**	**2013**	**2014**	**Change 2014/2013**
Non-current assets	978	957.5	1,008.6	5%
Current assets	46.4	65.7	69.8	6%
Total assets	1,024.40	1,023.3	1,078.4	5%
Total equity	282.4	219.8	259.8	18%
Non-current liabilities	620.2	712.8	686.6	-4%
Current liabilities	121.7	90.6	132.0	46%
Total liabilities	741.9	803.5	818.5	2%
Total equity and liabilities	1,024.40	1,023.3	1,078.4	5%

Cash flow	2012	2013	2014	Change 2014/2013
Cash flow from/ (used in) operating activities	39.4	40.8	58.9	44%
Cash flow used in investing activities	(251.7)	(87.1)	-69.5	-20%
Cash flow from financing activities	145.3	55.8	8.9	NMF
Net (decrease)/increase in cash and cash equivalents	(67)	9.4	-1.7	NMF
Ending cash balance	21.9	32.9	31.1	-5%

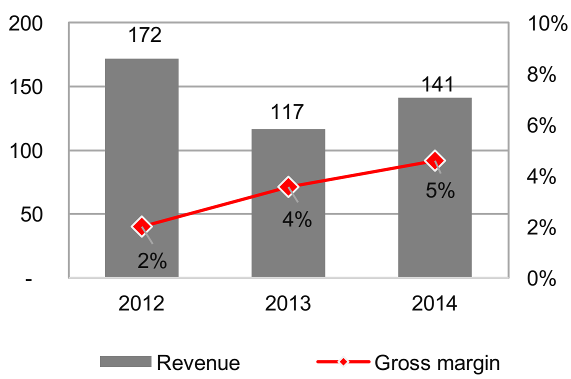
Source: GSE Audited Financial Statements, PF calculations

Electricity System Commercial Operator

JSC "Electricity System Commercial Operator" (ESCO) is the electricity market maker. Its major functions are:

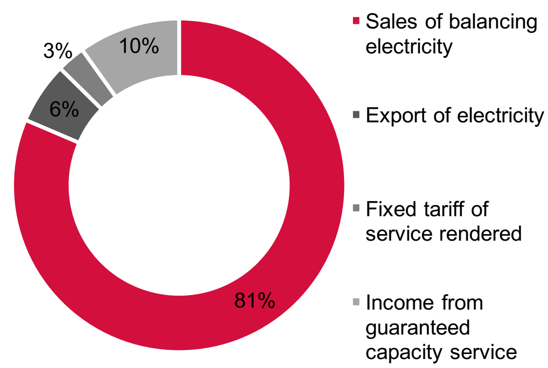
- Sale and purchase of balancing electricity (capacity);
- Trade with Guaranteed Capacity;
- Set up and operate an unified database on the wholesale trade including unified metering register;
- Submission of relevant information to the Dispatch licensee in order to plan electricity and capacity supply-demand for the whole electric energy system of Georgia.

Revenue, GEL, mn



Source: ESCO Audited Financial Statements, PF Calculations

Revenue breakdown, 2014



Source: ESCO Audited Financial Statements, PF Calculations

ESCO financial statements, GEL, mn

Income statement	2012	2013	2014	Change 2014/2013
Revenue	171.7	116.9	141.3	21%
Cost of goods sold/services rendered	(167.9)	(112.7)	(134.8)	20%
Gross profit	3.8	4.2	6.5	55%
Gross profit margin	*2%*	*4%*	*5%*	*1ppts*
Other income	0.33	0.02	0.16	NMF
Impairment reversal/ (loss) on trade receivables	0.1	0	0	NMF
Administrative expenses	(3.6)	(3.4)	(3.7)	9%
Operating Profit	0.6	0.74	2.93	NMF
Operating profit margin	*0.30%*	*0.63%*	*2.07%*	*1.44ppts*
Net finance income	0.9	0.2	(1.7)	NMF
Profit before income tax	1.5	0.9	1.2	NMF
Income tax	(0.1)	0.004	(0.013)	NMF
Profit and total comprehensive income for the year	1.5	0.9	1.2	NMF
Net profit margin	*1%*	*1%*	*1%*	*0ppts*

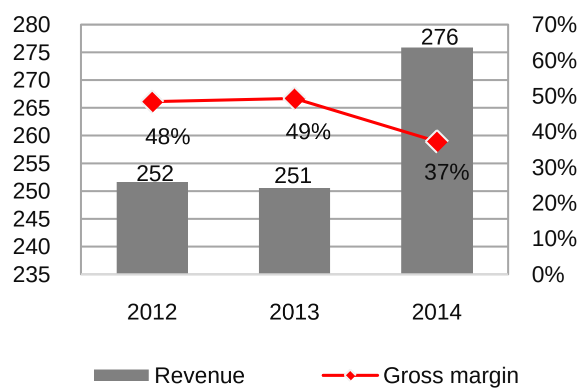
Balance sheet	2012	2013	2014	Change 2014/2013
Non-current assets	0.7	0.7	0.7	0%
Current assets	33.1	33.3	35.7	7%
Total assets	33.9	34	36	6%
Total equity	4.7	5.7	6.9	21%
Non-current liabilities	-	-	-	NMF
Current liabilities	29.2	28.3	29.5	4%
Total liabilities	29.2	28.3	29.5	4%
Total equity and liabilities	33.9	34	36	6%

Source: ESCO Audited Financial Statements, PF calculations

Telasi

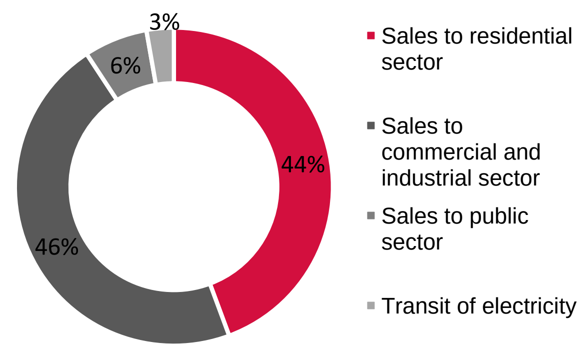
JSC "Telasi's" principal activity is the distribution of electrical power to residential and industrial customers in Tbilisi, Georgia. The company consists of a single operating segment. 75% of Telasi is owned by OJSC INTER RAO UES. 24.53% is under PF's ownership, while the remaining 0.47% is owned by private individuals. Telasi's shares are listed on the Georgian Stock Exchange.

Revenue, GEL, mn



Source: Telasi Audited Financial Statements, PF calculations

Revenue breakdown, 2014



Telasi audited financial statements, GEL, mn

Income statement	2012	2013	2014	Change 2014/2013
Revenue	251.6	250.6	275.8	10%
Purchased electrical power	(129.8)	(127)	(173)	36%
Salaries and other employee benefits	(52.2)	(51.6)	(56.1)	9%
Depreciation and amortization	(11.8)	(9.5)	(8.2)	-14%
Provisions made and reversed, net	(0.8)	5.8	3.0	-48%
Impairment losses	0	(64.3)	0.0	NMF
Other operating income/expense	(15.2)	(37.6)	(5.7)	NMF
Operating Profit	41.8	(33.6)	35.8	NMF
Operating profit margin	*17%*	*-13%*	*13%*	*NMF*
Net finance income/expense	(4.7)	(0.2)	-3.0	NMF
Profit/(loss) before income tax	37.1	(33.8)	32.8	NMF
Profit/(loss) and total comprehensive income for the year	24.96	(37.9)	28.0	NMF
Net profit margin	*10%*	*-15%*	*10%*	*NMF*

Balance sheet	2012	2013	2014	Change 2014/2013
Non-current assets	197.3	139.8	163.6	17%
Current assets	90.2	88.9	101.2	14%
Total assets	287.5	228.6	264.8	16%
Total equity	124.6	86.7	114.6	32%
Non-current liabilities	47.8	36.1	36.9	2%
Current liabilities	115.2	105.8	113.3	7%
Total liabilities	162.9	141.9	150.2	6%
Total equity and liabilities	287.5	228.6	264.8	16%

Source: Telasi Audited Financial Statements, PF calculations

Overview of Investment Projects

In 2012-2014 Partnership Fund's direct (standalone) investment amounted to GEL 486.1million (including committed investments and an indirect investment in Gardabani as at 31.12.2014). PF financed 14 start-up projects. The investments were made mostly in the form of equity. The largest portion of the investment went to the Energy sector.

Project	PF Investment (million GEL)	Activity	Form of PF participation
Gardabani CCPP	413.5	Construction of 230 MW combined cycle gas fired power plant	Equity
Likani Hotel	30.7	Construction of a hotel	Equity + Debt
Nenskra HPP	15.2	Construction and Development of HPP project	Equity
Black Sea Port	5.3	Project development of a deep sea port	Equity
Tbilisi Logistics Centre	4.0	Construction of logistics terminal with cold storage and dry warehouses	Equity
Tsinandali Hotel	3.8	Construction of a hotel	Convertible Debt
Oni HPP	2.9	Development of a HPP cascade	Equity
Akhaltsikhe Hotel	2.6	Construction of a hotel	Convertible Debt
Lagodekhi Trading Centre	2.2	Development of a border trading Centre	Equity
Hog Farm	2.1	Development of a hog farm	Convertible Debt
Kvareli Hotel	1.4	Construction of a hotel	Convertible Debt
Sairme Resort	1.0	Construction of a hotel	Convertible Debt
Panex	1.1	Construction of a sandwich panel production factory	Equity
Tskaltubo Spa Resort Development	0.3	Feasibility Study	

Real Estate

Rixos Borjimi Hotel

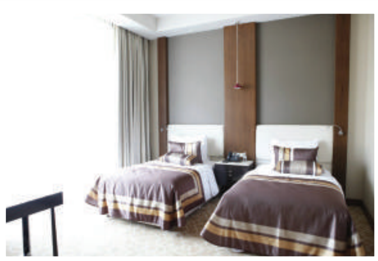
Project Description: Construction of a Rixos branded hotel and spa resort in Likani, Borjomi. Likani is a well-known healthcare and ecotourism destination for local and foreign visitors. The project can capitalize on high brand recognition of Borjomi while the former Borjomi-Likani healthcare resort was a well-known brand in the former Soviet Union and in CIS countries.

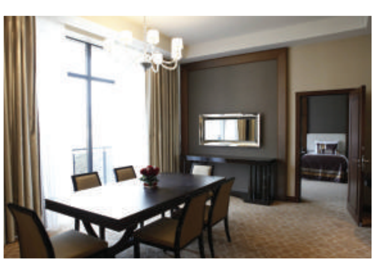
The resort is located around the unique mineral water reservoir – Borjomi – one of the most popular Georgian brand names internationally. Historically, Borjomi mineral water has been used for complex treatment of number of digestive diseases and remains one of the main tourist attractions for local and international travellers. Rixos Borjomi Hotel is also close to the Bakuriani Ski Resort – one of the most famous ski resorts in the region.

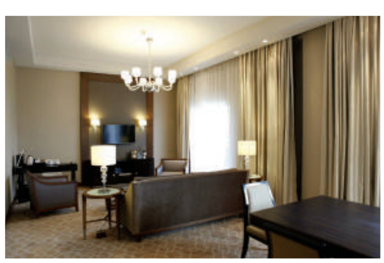
The partner in the project is KMGS Georgia. It is a subsidiary of the LLC KazMunaiGas-Service (Kazakh Company).

Project parameters:

- Number of rooms: 152
- Room rates: USD 200 - 250
- Total cost of the project: USD 38.6 million
- Fund Participation: USD 18.3 million Equity and Debt
- Hotel Opening: January 2015







Tskaltubo Spa Resort Development

Project Description: PF has been mandated by the Government of Georgia to redevelop the Tskaltubo Tourist Complex into a modern, internationally competitive spa destination. Tskaltubo is formerly well-known spa complex from the Soviet-era, set in the Imereti region, West Georgia.

A 70-hectare park containing six substantial bathing facilities is located in the heart of Tskaltubo, which is surrounded by a wealth of historical buildings of impressive size, architecture and cultural significance. Tskaltubo has a rich historical legacy in the wellness sector and it is in this context that the concept of "Tskaltubo reinvention" has been defined.

The spa waters (4 types) at Tskaltubo arewell-known for their medical quality. These waters successfully cure the array of medical conditions like rheumatic heart diseases, cholesterol metabolic disorders, cardiovascular system, gynaecological disorders and some post-operative conditions. The resort has an estimated potential to treat 15,000 visitors per day. In addition to this offering, it is expected that the development can offer other types of clinical treatments (both cosmetic, medicinal and wellness-orientated) such as fitness, therapies, beauty treatments, gastronomy and other types of leisure facilities such as golfing, horseback riding, cycling, yoga and fishing.

PF has hired a reputable international consultancy firm, Kohl and Partner (in order to preparea proper development strategy and concept for the resort. The scope of work includes:

- Feasibility study
- Market study
- Technical study
- Resort concept assessment
- Investment strategy

This study will be followed by a marketing process of this product among potential local and international investors.

Akhaltsike Hotel

Project Description: Construction of a boutique hotel in Akhaltsikhe. The city's geographical location makes it a potential tourist destination. The hotel is located in the historical and cultural part of Akhaltsikhe – Rabat Castle. The city is surrounded by attractive tourist sites (Vardzia, Abastumani). To date, the region lacked high quality hotels and failed to accommodate the growing number of visitors.

The project is owned and operated by Eurocom Investment Georgia (EIG). EIG's current shareholder owns and operates several multifunctional hotels and wellness &spa centres in Slovakia. Akhaltiskhe Hotel is the first project of the company in Georgia. The project was successfully completed and PF has already exercised its exit option.

Project parameters:

- Number of rooms: 38
- Room rates: USD 80-120
- Total project cost: USD 5 million
- PF: USD 2.4 million convertible loan
- Hotel launched in Q1 2013.

Kvareli Lake Hotel

Project Description: Construction of a boutique hotel in Kvareli, Kakheti region, eastern Georgia. The region is a key destination for wine tourism. Given the increasing number of tourists visiting Kakheti, demand for mid-class hotels is outstrips supply.

The project is owned by Winiveria Group. The company was established by the shareholders of Winiveria Ltd. Winiveria Ltd owns another small size hotel in the region - “Chateau Mere” (15 rooms) and a hotel located in Shuamta, Kakheti. Besides, Winiveria Group produces 12 different types of wine in Kakheti sold in Ukraine, USA, Latvia, etc.

Kvareli LakeHotel complex comprises a winery, a restaurant, a swimming pool, etc. The project was successfully completed and PF has already exercised its exit option.

Project parameters:

- Number of rooms: 34
- Room rates: USD 100-150
- Total Investment size: USD 2.3 million
- PF: USD 1.15 million convertible loan
- Hotel launched in Q3 2013.

Tskaltubo Spa Resort Development

Project Description: PF has been mandated by the Government of Georgia to redevelop the Tskaltubo Tourist Complex into a modern, internationally competitive spa destination. Tskaltubo is formerly well-known spa complex from the Soviet-era, set in the Imereti region, West Georgia.

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- Feasibility study
- Market study
- Technical study
- Resort concept assessment
- Investment strategy

This study will be followed by a marketing process of this product among potential local and international investors.

Tsinandali Radisson

Project Description: Construction of five star hotel in Tsinandali, Kakheti. The hotel will be operated by the Radisson brand. Tsinandali is a well-known destination for cultural and wine tourism attracting a growing number of tourists every year. The hotel is located on the territory ofA. Chavchavadze museum.

The project is co-financed by the Silk Road Group. The Silk Road Group is a diversified group covering a wide range of sectors including telecoms, infrastructure and real estate. The company has also gained experience in the hotel industry in recent years. Currently, the Silk Road Group owns two large hotels in Georgia, both of them operated by Radisson.

Project parameters:

- Number of rooms: 100
- Room rates: USD 100-160
- Total cost of the project: USD 22.2 million
- Fund Participation: USD6 million Equity
- Hotel opening: Expected 2016.

Manufacturing

Production of Airplane Parts

Project Description: Together with Israeli Partner Elbit Cyclone, Partnership Fund is building factory that will produce composite parts (e.g. doors, cargo floor beams, control surfaces and etc.) for civil aircrafts.

100% of the parts will be sold on the export market. With the support of PF's partner in the project, factory will go through all the required certification processes and supply its products to the major OEM's (Original Equipment Manufacturer) on the market. Potential customers of the factory will be large international companies like Boeing, Airbus, Bombardier and others.

Factory will employ about 300 local workers who will be trained by qualified experts from Elbit's existing factory in Israel.

Project Parameters:

- Total cost of the project: USD 85 million
- Fund Participation: USD 20 million
- Start of production: Beginning of 2018

Sandwich Panel Production Factory

Project Description: Together with Georgian Company ICES, Partnership Fund is building a factory in Georgia that will produce construction materials, so-called polyurethane sandwich panels. Two main products of the factory will be:

- Wall Panels (50, 80, 100 and 120 mm)
- Roof Panels (40, 50 and 80 mm)

The factory will use high-quality machinery produced by Italian company SAIP, which willensure the training of employees and the quality standard of the final product.

Polyurethane sandwich panels are used for industrial construction (e.g. cold storages, warehouses, etc.). The material is cheaper than concrete, requires less construction time and needs less space.Sandwich panels produced in Georgia will decrease the costs for construction companies operating in Georgia and substitute the major portion of the existing imports.

Project parameters:

- Production capacity: 2.8 million m^2 panels/year
- Total cost of the project: USD 6million
- Fund Participation: USD 2.2 millionequity
- Start of production: July 2015

Agriculture

Blueberry Production

Project Description: Together with Georgian Company Vanrik, Partnership Fund is developing blueberry plantation on 120 Ha in Guria, Georgia. Project includes blueberry growing, calibration and packaging.

Company already managed to build blueberry processing line and held first harvest in summer 2015. The majority of harvest was exported in European countries: Poland, Great Britain, Bulgaria, also in Armenia and Russia.

For Consultancy purposes "Vanrik Agro" hired experts From US and Germany, who will prepare reports regarding company's existing challenges and development plans together with value chain and marketing strategy.

Project parameters:

- Total cost of the project: USD 6.5 million
- Fund Participation: USD 2.2 million
- Start of production: June 2015.


Best Blueberries from Georgia
ANRIK
Best Blueberries from Georgia
ANRIK
Best Blueberries from Georgia
ANRIK

Hog Farm and Slaughterhouse

Project Description: Local pork production decreased dramatically in 2006-2007, due to African Swine Flu and it has not fully recovered yet. Imported cheap/low quality frozen pork became the only available supply on the market.Due to this fact, there was high demand for locally produced pork, but almost no reliable supply.

Partners made a decision to construct a hog farm and slaughterhouse in Koda, Georgia, whichtoday supplies high quality pork to the local consumers as well as the HoReCa (Hotel/Restaurant/Catering) sector. The hogs consumehigh quality locally produced grain and as a result farm offers sustainable pork quality to its consumers.

Big Dutchmen participated as designer, supplier of equipment and operator (at least 2 years) in the project providing good security against operational risks.

The partner in the project is GeoAgro. The company specializes in grain growing and trading. It owns more than 3,000 ha of agriculture land in Georgia. The majority shareholder GeoAgro owns significant agriculture assets in Kazakhstan (including a hog farm).

Project parameters:

- Production capacity: 11,500 pigs or 1,000 tons of pork annually
- Total cost of the project: USD 10 million
- Fund Participation: USD 2.5 million - subordinated convertible loan
- Farm started operation in Q4 2012.

Energy

Gardabani Combined Cycle Power Plant

Project Description: Gardabani Combined Cycle Thermal Power Plant (TPP) addresses the increasing energy consumption issue existing in the country. TPP's strategic importance ensures enhancing reserved capacity hence increasing sustainability of Georgia's energy system and energy independence. Gardabani TPP is the first Combined Cycle type plant in Georgia which is far more effective, compared to other TPP's lowering the cost of generated electricity.

Project parameters:

- Installed Capacity: 239 MW
- Av. Annual generation: 1.8 billion kWh
- EPC contractor: Calik Enerji
- Type:Combined Cycle
- Total cost of the project: USD 233 million
- Completion date: July 2015


საპარტნიორო ფონდი
PARTNERSHIP FUND

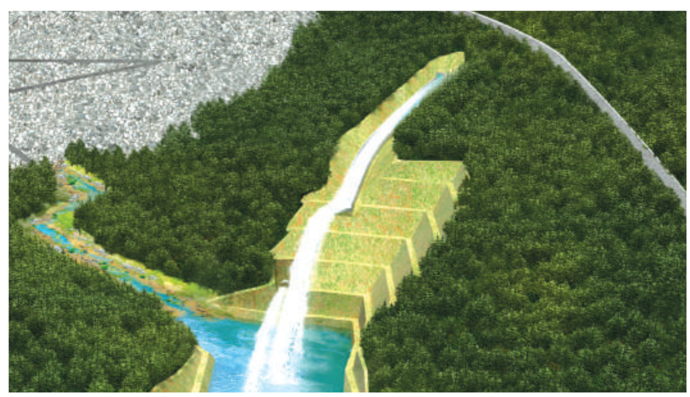

საპარტნიორო ფონდი
PARTNERSHIP FUND

Nenskra HPP

Project Description: PF and K Water (South Korea) will implement the Project together in Svaneti region, near the Georgian-Russian border. Nenskra is one of the main tributaries of the Enguri River (where the country's largest HPP, Enguri with installed capacity of 1,300MW is located). Installed capacity of Nenskra HPP is 280 MW and it can annually generate up to 1,194 GWh on average.

Project parameters:

- Installed capacity of 280 MW
- Av. annual generation: 1,194 GWh
- Est. construction cost: USD760 million
- First production of electricity: expected in 2019
- Construction period: 5 years



Oni HPP

Project Description: PF contractor, the Joint Venture Stucky Ltd and Stucky Caucasus Ltd performed the feasibility study of the Oni project. During the first stages of the Feasibility Study, a desk-top study was carried out in order to select the preferred layout of the Oni Cascade to be studied at the feasibility stage. Totally, 15 different alternatives were investigated, by varying dam location, dam height, installed capacity and location of additional intakes. The alternatives were presented, discussed and adjusted during several meetings held at PF and in the presence of the representatives of the Ministry of Energy. The main requirements for the Project were established and the basic assumptions were formulated, including a specific electricity tariff for the winter generation.

The dam height and dam type have been chosen after the first results from the site topographic works and the geological work were made available.

The total length of the tunneling works is about 33.5 km: 11.9 km for Oni 1 headrace (mostly excavated with the Tunnel Boring Machine), 14.6 km for Oni 2 headrace (mostly TBM), 5.4 km for Jejora diversion (TBM or optional Drill and Blast) and 1.6 km for Garula headrace/diversion, respectively.

At present, the project is being implemented by the Ministry of Energy of Georgia.

Infrastructure

Black Sea Port

Project Description: The project implies construction of a new deep seaport with the capacity to handle larger, PANAMAX type (5000+ TEU) cargo vessels. The new seaport will provide additional capacity to the fast growing and increasingly congested Georgian container maritime market. Port development will:

- Position the Caucasus route on international trade maps;
- Establish direct connections with major shipping lines;
- Eliminate growth limitations;
- Standardize time and cost of transportation.

PF has completed a feasibility study and the master plan. The project is being implemented by the Ministry of Energy of Georgia

Supervisory Board

Irakli Garibashvili
Prime Minister
Chairman of Supervisory Board

Mr. Garibashvilihas served as Prime Minister of Georgia since November 2013. Before becoming Prime Minister, he held the position of Minister of Internal Affairs of Georgia. He is a founder and acting Chair of the Georgian Dreampolitical party, which won the October 1, 2012 parliamentary election. Mr.Garibashvili hassignificant experience working in the private sector. He was Chair of the Supervisory Board of Cartu GroupJSC. Mr.Garibashvili graduated from Tbilisi State University, International Law and International RelationsDepartment. He received his Master's Degree in Political Sciences at Sorbonne University in Paris, France.

George Kvirikashvili
Minister of Economy &
Sustainable Development,
Vice Prime Minister,
Supervisory Board Member

Mr. Kvirikashvili is the Vice-Prime Minister and was Minister of Economy and Sustainable Development of Georgia and simultaneously member of Supervisory Board since October 2012 till Sep 2015.Before becoming minister, Mr. Kvirikashvili was taking various senior positions in the banking sector, including: Principal at Lenzie Fisher Hendry LLC US Consulting Firm, CEO of Cartu Bank JSC Tbilisi, Management Consultant to Executive Board of First Commercial Bank JSC (currently Privatbank),Director of Business Development and Branch Network Management, Deputy Director of Asset/ Liability Management Department at United Georgian Bank JSC. He also has extensive experience in the public sector; in 1999-2004Mr. Kvirikashvili was a member of the Parliament of Georgia. In 1999 he held the position of Deputy Head of Fiscal, Monetary and Foreign Economic Relations' Office in the State Chancellery of Georgia. Mr. Kvirikashvili holds aMSc from the University of Illinois (Champaign-Urbana). He received aBSc in Economics in Tbilisi State University. He also holds BSc degree in Medicine from Tbilisi State Medical Institute.

Kakha Kaladze
Minister of Energy,
Vice Prime Minister,
Supervisory Board Member

Mr. Kaladze is Minister of Energy of Georgia, simultaneously being a Vice Premier of Georgia.Prior to becoming minister Mr. Kaladze served as a Supervisory Board member of JSC Progress Bank since 2008. In 2007, he established international investing group Kala Capital and charity fund - Kala Fund in 2008. Before entering into politics Mr. Kaladze pursued a sporting career as a football player. In 1993, he started playing in F.C. Dinamo Tbilisi. From 2001-2010 he continued his career in A.C. Milan and later joined F.C. Genoa having been there till 2012. Mr. Kaladze was named the best Georgian football player. Mr. Kaladzeholds a BA degree in history from Tbilisi State University.

Nodar Khaduri
Minister of Finance
Supervisory Board Member

Mr. Khaduri is serving as the Minister of Finance of Georgia since October 2012. He is also a professor in theMacroeconomics Faculty in Tbilisi State University since 2006. Prior to becoming Minister,Mr. Khaduri was executive secretary of the political party Georgian Dream. In 2004-2008, he worked as a consultant in UNDP. In 2004-2005,Mr. Khaduri was Deputy Dean of Economics faculty in Tbilisi State University. In 2003-2004 he worked as aDeputy Minister of Finance. At different times, Mr.Khaduri was taking various senior positions in the public sector.Mr.Khaduri holds a Ph.D. in Economics from Tbilisi State University. He is also an author of more than 100 research articles on macroeconomic policy, fiscal and monetary policies, development of Georgian economy, etc.

Tea Tsulukiani
Minister of Justice
Supervisory Board Member

Ms. Tsulukiani is serving as the Minister of Justice of Georgia since October 2012. Before becoming Minister she was chairman of the political party Free Democrats. In 2000-2010, Ms. Tsulukiani was taking several senior positions in the European Court of Justice. She has also worked in Ministry of International Affairs of Georgia in the Department of Research and Analysis of International Politics. She received her BSc in International Law and Relations in Tbilisi State University. She continued her studies in ENA, where she received a Masters Degree in Public Administration (MPA).

Archil Gachechiladze
Deputy CEO of Bank
of Georgia
Supervisory Board Member

Mr. Gachechiladze is deputy CEO of Bank of Georgia. Before taking this position, he worked at Lehman Brothers Private Equity in London. Mr. Gachechiladze's nine-year experience in the financial services sector includes Salford Equity Partners (USD 350 million fund with offices in London, Moscow, Belgrade and Tbilisi), EBRD in Tbilisi and London, a Senior Financial Analyst at KPMG Barents in Tbilisi and as a Team Leader for the World Bank's CERMA Project in Tbilisi. Mr. Gachechiladze is a CFA Charterholder and a member of the CFA Society in the United Kingdom. He received an MBA with distinction from Cornell University and undergraduate degrees in Economics and Law from Tbilisi State University.

Vakhtang Butskhrikidze
CEO of TBC Bank
Supervisory Board Member

Mr. Butskhrikidze graduated from the Tbilisi State University in 1992 and holds a postgraduate degreefrom the Institute of Economics, Academy of Sciences of Georgia and the European School of Management in Tbilisi. Between 1993 and 1994, he acted as a Junior Specialist at the Institute of Economics, Academy of Sciences of Georgia, as well as Assistant to the Minister of Finance of Georgia. Mr. Butskhrikidze joined TBC Bank as a Senior Manager of the Credit Department in 1993 and was elected as Deputy Chairman of the Management Board in 1994. He became Chairman of the Management Board in 1995. Since 1998, he held the position of CEO of the Bank and has headed a number of the bank's committees. Mr. Butskhrikidze is also a member of the Supervisory Boards of the Association of Banks of Georgia and the Georgian Stock Exchange and is the Chairman of the Financial Committee of the Business Association of Georgia.

Lado Gurgenidze
Chairman of the
Supervisory Board
of Liberty Bank
Supervisory Board Member

Mr. Lado Gurgenidze is a career banker who after a decade spent at several investment banks in Eastern Europe and London returned to his native country in 2004 and spearheaded, as Executive Chairman and CEO, a turnaround of Bank of Georgia (LSE: BGEO). Prior to taking the helm at Bank of Georgia, Mr. Gurgenidzeserved as Head of Europe at Putnam Lovell (now part of Jefferies) and as Head of Technology Corporate Finance and Head of M&A, Emerging Europe at ABN Amro advising such clients as SWIFT, Reuters, Moneyline Telerate, Wirtualna Polska, Marconi, Andrew Corporation, Merloni Elettrodomestici, News Corp, Global One, Golden Telecom, UPC and Philips. In 2007-2008, Mr. Gurgenidze served as Prime Minister of Georgia. In August 2009, he was invited to join, as Chairman, the supervisory board of Bank of Kigali, the largest bank in Rwanda. Since 2009, Mr. Gurgenidze serves as chairman of Liberty Bank. Mr. Gurgenidzereceived his MBA from Goizueta Business School of Emory University in 1993 (and is the recipient of the 2010 Sheth Distinguished International Alumni Award), following undergraduate studies at Middlebury College and Tbilisi State University.

Management Board

Irakli Kovzanadze
Chief Executive Officer

Appointed as CEO in November 2012, Mr. Kovzanadze is a career banker having over 20 years of professional experience in serving as CEO at the commercial banks of Georgia and sitting on boards of leading banks in Post-Soviet countries and Europe. From 2004 to 2008, he was an MP and held the position of the Chairman of the Budget and Finance Committee of the Georgian Parliament. In 2007-2008, he chaired EBRD/OECD Task Force on Corporate Governance of Banks in Eurasia. Mr. Irakli Kovzanadze worked as EBRD Board Nominee Director at several financial institutions in CIS countries (2008–2012). He is recognized as one of the pioneers of challenging reforms in the financial sectors of transition economy countries. A Candidate of Physics and Mathematical Sciences (PhD 1990), Doctor of Economic Sciences (2002), Professor (2004) and the Chairman of Banking and Finance Department at I. Javakhishvili Tbilisi State University, Mr. Kovzanadze is author of several books and more than 50 articles about economics.

Natia Turnava
Deputy Chief
Executive Officer

Before joining the Partnership Fund in 2013, Ms. Turnava has over 15 years of top executive management experience in private and public sectors. She was also a management board member of the largest Georgian private industrial group (GIG) and CEO of its subsidiary, the Georgian International Energy Corporation (GIEC). Under her management since 2007, GIEC increased its sales by 55%, electric power output sevenfold and installed capacity twelvefold. Before joining largest national corporations, Ms. Turnava served the post of the First Deputy Minister of Economy for seven years and participated in the design and implementation of internationally acclaimed reforms which led to Georgia's double-digit economic growth (2007) and the World's Top Reformer title (WB, 2006). Other occupations held were predominantly of an executive level, in the public sector (Parliamentary Secretary Office of the President (1999), Tbilisi City Council (1998–2000), State Chancellery (1997-98)). PhD in Economics from Tbilisi State University obtained in 1994 was followed by Senior Scientist-Researcher work at the Institute of Democracy and Political Science of Georgia (1994-96) and further academic development through crash courses at Harvard and IMF. As a progressively developing professional, Ms. Turnava is now a 2014 MBA at UK University of Cambria in Collaboration with Robert Kennedy College (Zurich).

Ucha Mamatsashvili
Deputy Chief Executive Officer

Mr. Ucha Mamatsashvili works at Partnership Fund since 2012 and in 2013, he was appointed on the post of Deputy CEO. Throughout his career Mr. Mamatsashvili held top management positions at large Russian corporations, including the post of CEO (2002-2006), followed by Vice Presidency at "Stoilenskaya Niva" (2006-2012). He was Deputy CEO of "Metaloinvest" (1996-2002) Deputy Head of Stock Exchange and Investment Department at "Rosiisky Kredit" (1993-1996). Ucha Mamatsashvili graduated Interdisciplinary Institute for Capacity Building and Development of Management Staff at Russian Economic Academy of G.V. Plekhanov in 1996 with major in Finances and Credit. He also received a diploma of an economist from Moscow State University of Railway Engineering.

George Tsimakuridze
Chief Financial Officer

Mr. Tsimakuridze has held the position of CFO since July 2011. He also serves as a board member of Georgian Oil & Gas Corporation and Gardabani TPP. Before joining PF, he was taking various senior positions in Georgian Railway and its subsidiaries. He holds several executive certificates from University of Pennsylvania and Harvard Business school.

Giorgi Cherkezishvili
Chief Investment Officer

Prior to joining PFMr. Giorgi Cherkezishvili occupied various leading positions in the Corporate Banking Department of JSC Bank of Georgia (since 2009), including Business Development Manager, Energy Sector Senior Relationship Managers, VIP Banking Director. Before his banking career, Mr. Cherkezishvili was chief specialist at International Relations and Reforms Department of Chamber of Control of Georgia, also, worked as an administrative assistance at EU TACIS project – TA to Chamber of Control of Georgia (2001-2002). Mr.Giorgi Cherkezishvili accomplished various executive courses at Geneva Graduate Institute of International Affairs (Capacity Building in International Relations) and received Swiss Leadership award in 2011. In 1997-2003 Mr. Cherkezishvili majored in International Economic Relations at Iv. Javakhishvili Tbilisi State University and received Bachelors and Masters degrees (2001 and 2003). He is a candidate of Dual MBA Degree from Grenoble Graduate School of Business (France) and Caucasus School of Business (Georgia) (2014).

Vakhtang Jorbenadze
Chief Legal Officer

Mr. Vakhtang Jorbenadze's professional experience in the field of law covers both public and privet sectors. During his career, he has been working as a Head of Legal Departments in the ministries of Finance, Economy and Defence. His private sector experience includes legal practice at private law firm VBAT and as well as in-house position in the PF's Subsidiary Company. Mr. Jorbenadze graduated with honours from Tbilisi State University majoring in Law, acquired master's degree and qualification of a lawyer. He has successfully passed attorney qualification exams in Civil Law and accomplished professional courses in humanitarian and international law at US Defence Institute of International Legal Studies.

Davit Kereselidze
Head of Administration

Mr. Kereslidze joined Partnership Fund in 2012 initially as a General Counsel to Executive Director and later on changed his position to Head of Administration. Prior to joining PF Mr. Kereselidze occupied high managerial positions in Georgian public sector throughout number of years. He was the First Deputy and then the Head of the Government Chancellery and has served as Head of Legal Department of the same institution. Mr. Kereselidze also was the First Deputy State Minister and Advisor of the Prime Minister of Georgia. Along with this, Mr. Kereselidze lectured at the Law Faculty of Tbilisi State University and carried out research work. He has acquired the highest special title of State Legal Counsel and was assigned the rank of State Counsel.

Gogi Kontridze
Head of Internal Audit

Mr. Gogi Kontridze joined Partnership Fund as the Head of Audit Service in November of 2012. Before joining PF, he held leading positions in the Georgian banking industry for nineteen years in the areas of financial management, budgeting and branch supervision. Mr. Kontridze holds Doctorate (PhD) from Ivane Javakhishvili Tbilisi State University, where he has worked as an Associate Professor of Finance at the Faculty of Economics and Business since 2006. He successfully completed "Bankers Certification" and "Strategic Planning" programs offered by the United States Agency for International Development and authored one University level textbook and more than ten scholarly articles on economics.

Natia Lomidze
Chief Accountant

Prior to joining Partnership Fund as a Chief Accountant,Mrs. Lomidze worked in the same capacity in “Global One”. In 2008-2009, she worked in real estate investment management company – Bennett & Bennett Capital as a Chief Accountant. In 2009-2011, Mrs. Lomidze was heading Accounting and Reportingdivision in Georgian Railway. She holds several certificates in IFRS accounting and tax regulation. She has also passed several ACCA exams. She received her MBA from ESM. She holds master’s degree in Banking from Tbilisi State University.

Konstantine Chanturia
Head of Risk Management
and Analytical Service

Konstantine Chanturia joined Partnership Fund in September, 2014. Prior joining, he occupied various leading positions in commercial and development banks both at local and international level. During his over 10 year working experience, he covered the fields of project finance, corporate banking, real estate and equipment financing. In 2014, he received MBA Degree in finance from University of Texas – Arlington, Texas, USA, through the Muskie Fellowship Program.

Audited Financial Statements

Partnership Fund JSC

Consolidated Financial Statements
for the year ended 31 December 2014

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Independent Auditors' Report

To the Supervisory Board
Partnership Fund JSC

We have audited the accompanying consolidated financial statements of the Partnership Fund JSC and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2014, and the consolidated 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 Consolidated Financial Statements

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements present fairly, in all material respects, the financial position of the Group 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

KPMG Georgia LLC
31 August 2015

LIMITED LIABILITY COMPANY 404437695 KPMG Georgia

’000 GEL	Note	2014	2013
Assets			
Property, plant and equipment	9	3,948,166	3,557,114
Prepayments for non-current assets	10	224,494	317,316
Investments in equity accounted investees	11	54,228	46,380
Finance lease receivable	12	52,041	48,864
Loans receivable		49,628	750
Deferred tax assets	8	11,198	9,874
Term deposits	13	44,372	40,083
VAT receivable		35,692	38,671
Other non-current assets	10	68,253	66,551
Non-current assets		**4,488,072**	**4,125,603**
Loans receivable		13,143	51,414
Inventories		42,973	52,936
Prepayments and other current assets	14	83,124	84,644
Trade receivables	15	153,946	142,026
Current tax assets		14,172	13,221
Term deposits	13	-	78,493
Cash and cash equivalents	16	656,173	511,451
Current assets		**963,531**	**934,185**
Total assets		**5,451,603**	**5,059,788**
Equity			
Share capital		100,000	100,000
Owner contributions		2,313,428	2,206,772
Retained earnings		228,544	112,512
Total equity	17	**2,641,972**	**2,419,284**
Liabilities			
Loans and borrowings	18	1,931,435	1,919,708
Advance received from the Government	17(e)	229,377	231,592
Restructured liabilities	19	59,636	59,167
Grants related to assets	20	80,057	71,060
Deferred tax liabilities	8	74,201	74,922
Other non-current liabilities		1,791	1,845
Non-current liabilities		**2,376,497**	**2,358,294**
Loans and borrowings	18	175,932	87,317
Restructured liabilities	19	5,000	4,599
Trade and other payables	21	229,230	166,786
Liabilities to the Government	17(d)	8,467	11,917
Provisions		9,054	8,762
Current tax liabilities		1,559	-
Grants related to assets	20	3,892	2,829
Current liabilities		**433,134**	**282,210**
Total liabilities		**2,809,631**	**2,640,504**
Total equity and liabilities		**5,451,603**	**5,059,788**

The consolidated statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 8 to 51.

'000 GEL	**Note**	**2014**	**2013**
Revenue	5	1,094,386	979,399
Operating expenses	6	(530,310)	(488,088)
Wages and other employee benefits		(180,950)	(164,730)
Depreciation and amortisation		(176,724)	(153,537)
Share of profit/(loss) of equity accounted investees (net of income tax)	11	6,690	(9,299)
Other income		29,965	43,747
Results from operating activities		**243,057**	**207,492**
Finance income	7	31,705	56,386
Finance costs	7	(134,885)	(156,105)
Net finance costs		**(103,180)**	**(99,719)**
Profit before income tax		**139,877**	**107,773**
Income tax expense	8	(15,217)	(34,204)
Profit and total comprehensive income for the year		**124,660**	**73,569**

These consolidated financial statements were approved by management on 31 August 2015 and were signed on its behalf by:

Irakli Kovzanadze
Chief Executive Officer

Giorgi Tsimakuridze
Chief Financial Officer

The consolidated statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 8 to 51.

’000 GEL	**Share capital**	**Owner contributions**	**Retained earnings**	**Total equity**
Balance at 1 January 2013	100,000	2,207,766	41,170	2,348,936
Total comprehensive income				
Profit for the year	-	-	73,569	73,569
Transactions with owners, recorded directly in equity				
Distributions of non-cash assets	-	(994)	(2,227)	(3,221)
Balance at 31 December 2013	**100,000**	**2,206,772**	**112,512**	**2,419,284**
Balance at 1 January 2014	100,000	2,206,772	112,512	2,419,284
Total comprehensive income				
Profit for the year	-	-	124,660	124,660
Transactions with owners, recorded directly in equity				
Distributions of non-cash assets (see note 17(c))	-	-	(8,628)	(8,628)
Owner contributions (see note 17(b))	-	106,656	-	106,656
Balance at 31 December 2014	**100,000**	**2,313,428**	**228,544**	**2,641,972**

The consolidated statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 8 to 51.

'000 GEL	**Note**	**2014**	**2013**
Cash flows from operating activities			
Profit before income tax		139,877	107,773
Adjustments for:			
Depreciation and amortisation		176,724	153,537
Loss on disposal of property, plant and equipment		2,529	1,839
Net finance costs		103,180	99,719
Share of (profit)/loss of equity accounted investees (net of income tax)		(6,690)	9,299
		415,620	**372,167**
Changes in:			
Inventories		9,963	(10,694)
Trade receivables and prepayments and other current assets		(11,665)	35,304
Restricted cash		2,397	960
Trade and other payables		16,780	32,256
Provisions		292	3,708
Government grants		10,060	1,706
Cash flows from operations before income taxes and interest paid		**443,447**	**435,407**
Income tax paid		(10,707)	(28,532)
Interest paid		(127,897)	(102,458)
Net cash from operating activities		**304,843**	**304,417**
Cash flows from investing activities			
Interest received		47,161	49,024
Issue of loans		(7,095)	-
Repayment of loans issued		-	11,724
Acquisition of property, plant and equipment and changes in prepayments for non-current assets and other non-current assets		(296,901)	(361,867)
Acquisition of investments in equity accounted investees		(1,158)	(5,108)
Change in term deposits		74,204	144,606
Net cash used in investing activities		**(183,789)**	**(161,621)**
Cash flows from financing activities			
Proceeds from borrowings		68,625	67,301
Repayment of borrowings		(54,213)	(9,242)
Repayment of restructured liabilities		(5,431)	(2,922)
Dividends paid by subsidiary to its prior parent		-	(24,500)
Cash distributed on the transfer of subsidiaries		(9,395)	-
Net cash (used in)/from financing activities		**(414)**	**30,637**
Net increase in cash and cash equivalents		**120,640**	**173,433**
Cash and cash equivalents at 1 January		508,946	325,799
Effect of movements in exchange rates on cash and cash equivalents		26,479	9,714
Cash and cash equivalents at 31 December	16	**656,065**	**508,946**

The consolidated statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 8 to 51.

1. Reporting entity

(a) Business environment

The Group's operations are located in Georgia. Consequently, the Group 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 Georgia. The consolidated financial statements reflect management's assessment of the impact of the Georgian business environment on the operations and the financial position of the Group. The future business environment may differ from management's assessment.

(b) Organisation and operations

The Partnership Fund JSC (the "Fund") is a joint stock company domiciled in Georgia. The consolidated financial statements include financial statements of the Fund and its subsidiaries (together referred to as the "Group" and individually as "Group entities") and the Group's interest in associates and joint ventures. All the Group entities, except for one insignificant subsidiary, are Georgian joint stock and limited liability companies as defined in the "Law of Georgia on Entrepreneurs" and are disclosed in notes 1(c) and 23.

The Fund was established on 28 June 2011 as a wholly state-owned enterprise following the "Law of Georgia on Partnership Fund JSC" as of 8 April 2011. The Fund is a specialised public sector entity established by the State of Georgia, governed by the Supervisory Board chaired by the Prime Minister of Georgia. It was created to support investments in less developed industries of the Georgian economy and to create new employment opportunities in the country.

The Fund's principal activity is to provide equity and debt financing, and guarantees to private and public sector companies operating in Georgia with priority for projects in the energy, agriculture, manufacturing and real estate sectors. The main sources of income are expected to come from dividends and guarantee fees. The principal activities of the Group entities are the importation and sale of gas, rental of gas and oil pipelines, oil and gas exploration and extraction, operation of a nationwide railway system providing freight and passenger transportation services and transmission, sale and dispatching of electricity over the territory of Georgia (see note 23).

The Fund obtained control over the significant subsidiaries following the decrees of the Government of Georgia dated 30 July and 14 August 2012, under which the 100% interests in Georgian State Electrosystem JSC, Electricity System Commercial Operator JSC and the remaining shares in former associates Georgian Oil and Gas Corporation JSC and Georgian Railway JSC were contributed by the Government of Georgia to the capital of the Fund.

The Fund's registered office is 15 Queen Tamar Avenue, 0112, Tbilisi, Georgia.

The Fund is wholly owned by the State of Georgia represented by the Government of Georgia (the "Parent"). Related party transactions are detailed in note 27.

(c) Group structure

As at 31 December 2014 and 2013 the Fund has direct and indirect interests in the following entities:

Name	Country of incorporation and operation	2014 Ownership/ voting	2013 Ownership/ voting	Principal activities
Georgian Oil and Gas Corporation JSC and its subsidiaries				
Georgian Oil and Gas Corporation JSC	Georgia	100%	100%	Oil and gas sale, extraction and exploration and rent of pipelines
Gardabani TPP LLC	Georgia	100%	100%	Construction and operation of a combined cycle power plant (CCPP)
Namakhvani HPP JSC (see note 17(c))	Georgia	-	100%	Construction and operation of a hydro-power plant
Georgian Railway JSC and its subsidiaries				
Georgian Railway JSC	Georgia	100%	100%	Railroad transportation
Georgian Railway Property Management LLC	Georgia	100%	100%	Property Management and development
Trans Caucasus Terminals LLC (former Georgian Railway Transcontainer LLC)	Georgia	100%	100%	Container transportation
Georgian Railway Construction JSC	Georgia	100%	100%	Construction and other projects
Borjomi Bakuriani Railway LLC	Georgia	100%	100%	Passenger transportation
Rail Parking LLC (liquidated in 2014)	Georgia	-	100%	Parking service
Georgia Tranzit LLC	Georgia	100%	100%	Transportation services
GR Transit Line LLC (established in 2014)	Georgia	100%	-	Transportation services
Georgian State Electrosystem JSC and its subsidiaries				
Georgian State Electrosystem JSC	Georgia	100%	100%	Electricity dispatching and transmission
EnergoTrans LLC	Georgia	100%	100%	Electricity transmission
Karcal Energy JSC	Turkey	100%	100%	Electricity transmission
Electricity System Commercial Operator JSC	Georgia	100%	100%	Sale and purchase of electricity
Nenskra JSC	Georgia	100%	100%	Construction and operation of a hydro-power plant
Tbilisi Logistics Center LLC and its subsidiaries				
Tbilisi Logistics Center LLC	Georgia	100%	100%	Food services
Fruit and Vegetable Export Company LLC	Georgia	100%	100%	Export of fruit and vegetables
Georgian Product LLC	Georgia	100%	100%	Tourism development
Black Sea Port LLC	Georgia	100%	100%	Construction and operation of a port
Lagodekhi Trading Company LLC	Georgia	100%	100%	Construction and leasing out of a shopping mall in Lagodekhi
Borjomi Likani International JSC	Georgia	50%	50%	Construction and operation of a hotel
Panex JSC	Georgia	49%	-	Manufacturing of construction materials
Telasi JSC	Georgia	24.53%	24.53%	Purchase and distribution of electric power to industrial and residential customers in Tbilisi

2. Basis of accounting

Statement of compliance

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

3. Functional and presentation currency

The national currency of Georgia is the Georgian Lari (“GEL”), which is the functional currency of the Group entities and the currency in which these consolidated financial statements are presented. All financial information presented in GEL has been rounded to the nearest thousand, except when otherwise indicated.

4. Use of estimates and judgments

The preparation of consolidated 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.

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements is included in the following notes:

- Note 8(d) – determination of whether to recognize deferred tax related to temporary difference on initial recognition of the finance lease receivable;
- Note 12 – determination of whether the initial arrangement contains a lease and the fair value of the unguaranteed residual value at the end of the lease term;
- Note 16 – classification of deposits with original maturities of more than three months as cash and cash equivalents;
- Note 18 – fair value of loans and borrowings at initial recognition;
- Note 23 – assessment of control over Georgian State Electrosystem JSC.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year is included in the following notes:

- Note 9(a)(i) – recoverability of construction of Tbilisi Bypass project;
- Note 22(c) – recoverability of trade receivables and loans receivable;
- Note 30(j)(iii) – useful lives of property, plant and equipment.

Measurement of fair values

A number of the Group's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

When measuring the fair value of an asset or a liability, the Group uses market observable data as far as possible. 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.

The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Further information about the fair value measurement of financial assets and liabilities is included in note 22(a) – fair values of financial assets and liabilities.

5. Revenue

'000 GEL	**2014**	**2013**
Revenue from railway transportation	**507,909**	**476,938**
Freight traffic	451,781	424,586
Freight car rental	37,811	34,308
Passenger traffic	18,317	18,044
Revenue from gas and oil sales and pipelines	**357,813**	**325,761**
Sales of gas	269,791	240,619
Rent of gas pipelines	50,785	42,666
Income from crude oil	23,584	30,524
Oil transportation fees	13,653	11,952
Revenue from electricity	**201,171**	**148,703**
Sales of balancing electricity	115,147	93,021
Income from guaranteed capacity service	13,875	-
Transmission of electricity	61,676	43,555
Dispatching of electricity	10,473	12,127
Other revenue	**27,493**	**27,997**
Total revenues	**1,094,386**	**979,399**

Railroad transportation, balancing electricity supply, transmission and dispatching of electricity are natural monopolies in Georgia. The tariffs on balancing electricity supply and transmission and dispatching of electricity services are established by the Georgian National Energy and Water Supply Regulatory Commission (GNEWRC).

Tariffs for freight transportation are based on the International Rail Transit Tariff. The Group is a co-signatory of the Tariff Agreement together with CIS countries, Latvia, Lithuania and Estonia. The parties to the Agreement hold annual conferences to determine the tariff policy for the following year: each party declares tariffs denominated in Swiss Francs (CHF) for railway transportation and states the general rules that apply to and modify tariffs. The agreed tariffs indicate the maximum level of tariffs applicable

The Group rents its gas pipeline to Georgian Gas Transportation Company LLC, a state controlled entity. The contract is valid until 1 January 2020. The lease payments are contingent on the volume of gas transported through the leased gas pipeline.

Oil transportation fee is received for the oil transit from Azerbaijan to Turkey through the Baku-Supsa pipeline.

6. Operating expenses

’000 GEL	**2014**	**2013**
Cost of gas and oil	224,346	198,483
Cost of sold balancing electricity	113,916	93,021
Electricity and materials used in railroad transportation	44,915	47,494
Taxes other than on income	37,684	36,072
Freight car rental	19,992	21,845
Other	89,457	91,173
	530,310	**488,088**

7. Finance income and finance costs

’000 GEL	2014	2013
Recognised in profit or loss		
Interest income on:		
- bank deposits and current accounts	27,249	46,290
- loans receivable	1,279	7,114
Unwinding of discount on finance lease receivable	3,177	2,982
Finance income	**31,705**	**56,386**
Interest expense on loans and borrowings	(66,341)	(48,683)
Net foreign exchange loss	(52,013)	(92,178)
Unwinding of discount on restructured liabilities	(6,191)	(5,912)
Impairment loss on trade receivables	(10,340)	(9,332)
Finance costs	**(134,885)**	**(156,105)**
Net finance costs recognised in profit or loss	**(103,180)**	**(99,719)**

8. Income taxes

(a) Amounts recognised in profit or loss

The Group’s applicable tax rate is the income tax rate of 15% for Georgian companies.

’000 GEL	2014	2013
Current tax expense		
Current year	20,200	17,135
(Over)/under-provided in prior years	(2,938)	4,048
Deferred tax expense		
Origination and reversal of temporary differences	(2,045)	13,021
Total tax expense	**15,217**	**34,204**

Reconciliation of effective tax rate:

	2014		2013	
	’000 GEL	%	’000 GEL	%
Profit before tax for the year	139,877		107,773	
Tax using the Group’s tax rate	20,982	15	16,166	15
Non-deductible expenses	910	1	(529)	0
Change in unrecognized temporary differences	(3,737)	(3)	14,519	13
(Over)/under-provided in prior years	(2,938)	(2)	4,048	4
	15,217	**11**	**34,204**	**32**

(b) Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
'000 GEL	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**
Property, plant and equipment	-	-	(128,225)	(126,877)	(128,225)	(126,877)
Other non-current assets	46	46	-	-	46	46
Inventories	11,267	13,625	-	-	11,267	13,625
Trade receivables and prepayments and other current assets	30,407	28,093	-	-	30,407	28,093
Grants related to assets	12,477	10,968	-	-	12,477	10,968
Loans and borrowings	5,586	4,948	-	-	5,586	4,948
Trade and other payables	673	662	-	-	673	662
Provisions	967	923	-	-	967	923
Tax loss carry-forwards	3,799	2,564	-	-	3,799	2,564
Tax (liabilities)/assets	**65,222**	**61,829**	**(128,225)**	**(126,877)**	**(63,003)**	**(65,048)**
Set off of tax	(54,024)	(51,955)	54,024	51,955	-	-
Net tax (liabilities)/assets	**11,198**	**9,874**	**(74,201)**	**(74,922)**	**(63,003)**	**(65,048)**

(c) Movement in temporary differences during the year/period

'000 GEL	**1 January 2014**	**Recognised in profit or loss**	**31 December 2014**
Property, plant and equipment	(126,877)	(1,348)	(128,225)
Other non-current assets	46	-	46
Inventories	13,625	(2,358)	11,267
Trade receivables and prepayments and other current assets	28,093	2,314	30,407
Grants related to assets	10,968	1,509	12,477
Loans and borrowings	4,948	638	5,586
Trade and other payables	662	11	673
Provisions	923	44	967
Tax loss carry-forwards	2,564	1,235	3,799
	(65,048)	**2,045**	**(63,003)**

’000 GEL	1 January 2013	Recognised in profit or loss	31 December 2013
Property, plant and equipment	(112,355)	(14,522)	(126,877)
Other non-current assets	148	(102)	46
Inventories	13,619	6	13,625
Trade receivables and prepayments and other current assets	26,894	1,199	28,093
Grants related to assets	10,485	483	10,968
Loans and borrowings	4,632	316	4,948
Trade and other payables	1,118	(456)	662
Provisions	783	140	923
Tax loss carry-forwards	2,649	(85)	2,564
	(52,027)	**(13,021)**	**(65,048)**

(d) Unrecognised deferred tax assets

Deferred tax assets have not been recognised in respect of the following items:

’000 GEL	2014	2013
Temporary difference on finance lease receivable	22,342	24,422
Tax loss carry-forwards	45,188	51,196
	67,530	**75,618**

Management has not recognized deferred tax on the temporary difference between the tax and accounting base of the finance lease receivable (see note 12) as the initial recognition of the finance lease affected neither accounting nor taxable profit or loss.

Under the Georgian legislation, tax losses expire in 5 years, although companies are entitled, upon application to the Georgian Tax Authorities (GTA), to extend the tax loss carry-forward period up to 10 years. This, however, will result in the extension of the statute of limitations period to 11 years. The Group has applied to the GTA to extend the tax loss carry forward period for the tax losses generated in 2010 up to 10 years. As a result, tax losses of GEL 31,265 thousand as at 31 December 2014 will expire in 2020.

9. Property, plant and equipment

'000 GEL	Lands, buildings and constructions	Rail track infrastructure	Gas and oil pipelines	Oil wells	Power transmission lines	Transport, machinery, equipment and other	Construction in progress	Total
Cost								
Balance at 1 January 2013	778,935	740,508	259,272	29,834	154,195	947,972	1,234,590	4,145,306
Additions	2,994	125	51	-	-	80,171	257,624	340,965
Disposals	(8,816)	(15,289)	-	-	-	(8,999)	(7,431)	(40,535)
Transfers	37,848	120,475	43,853	-	181,887	441,710	(825,773)	-
Balance at 31 December 2013	**810,961**	**845,819**	**303,176**	**29,834**	**336,082**	**1,460,854**	**659,010**	**4,445,736**
Balance at 1 January 2014	810,961	845,819	303,176	29,834	336,082	1,460,854	659,010	4,445,736
Additions	10,544	54	60,947	30	-	24,178	484,241	579,994
Disposals	(564)	(6,203)	-	-	-	(17,770)	(12,702)	(37,239)
Write-offs	(825)	(426)	-	-	-	(1)	(3,544)	(4,796)
Transfers	1,497	32,435	2,655	-	28,276	50,795	(115,658)	-
Balance at 31 December 2014	**821,613**	**871,679**	**366,778**	**29,864**	**364,358**	**1,518,056**	**1,011,347**	**4,983,695**
Depreciation and impairment losses								
Balance at 1 January 2013	34,241	201,390	77,192	17,481	53,893	369,708	6,179	760,084
Depreciation for the year	7,852	41,659	15,297	1,603	15,244	70,765	-	152,420
Impairment loss	(745)	(15,145)	-	-	-	(7,992)	-	(23,882)
Disposals	(5)	-	-	-	-	5	-	-
Balance at 31 December 2013	**41,343**	**227,904**	**92,489**	**19,084**	**69,137**	**432,486**	**6,179**	**888,622**
Balance at 1 January 2014	41,343	227,904	92,489	19,084	69,137	432,486	6,179	888,622
Depreciation for the year	7,859	43,405	16,549	2,054	17,185	89,672	-	176,724
Disposals	(396)	(6,203)	-	-	-	(16,697)	(6,179)	(29,475)
Write-offs	(125)	(216)	-	-	-	(1)	-	(342)
Balance at 31 December 2014	**48,681**	**264,890**	**109,038**	**21,138**	**86,322**	**505,460**	**-**	**1,035,529**
Carrying amounts								
At 31 December 2013	769,618	617,915	210,687	10,750	266,945	1,028,368	652,831	3,557,114
At 31 December 2014	**772,932**	**606,789**	**257,740**	**8,726**	**278,036**	**1,012,596**	**1,011,347**	**3,948,166**

(a) Property, plant and equipment under construction

As at 31 December 2014 the Group is undertaking the following significant capital expenditure projects:

(i) During the year ended 31 December 2010 the Group started two large capital projects (included in construction in progress): the Main Line Modernization and the Tbilisi Bypass and started to incur expenditures for the projects in September 2010 and November 2010 respectively. To partly finance the projects the Group issued unsecured bonds in 2010. In 2012, the Group redeemed the bonds issued in 2010 by issuing new bonds for general corporate and liquidity management purposes (see note 18).

All the borrowing costs of the 2010 unsecured bonds allocated to each project on a 59%/41% basis were capitalized upon starting to incur expenditures for the projects. The interest on the bonds issued in 2012 was capitalized to the two projects in proportion to the costs incurred on the projects based on a capitalization rate of 8% (2013: 8%). Capitalised borrowing costs during 2014 related to the projects amounted to GEL 29,391 thousand (2013: GEL 55,628 thousand).

In June 2013 the Group announced a decision to redesign the Tbilisi Bypass project. The Group held negotiations with the Government of Georgia and with the main third party construction companies to agree a plan for the conservation of the project for the period of redesigning. All construction works in progress were substantially completed by the end of October 2013 and further construction was suspended. No borrowing costs are capitalised after October 2013. In March 2014, the Government of Georgia decided that the suspension of the construction of Tbilisi Bypass project will last for 18 months until the final modified project is presented. The modified project will be completed within an additional 18 months. The Group signed the amended construction contract with the main third party construction companies in accordance with the Government decision. In January 2015, a comparative study for the existing and the bypass line was prepared by a third party consultant. The study analyzed different scenarios and concluded that the best option is maintaining only the current rail system on the existing main line (demolishing supporting railway infrastructure, such as depots and intermediate stations except the main terminal station) and constructing the Tbilisi Bypass line. Following this option the cargo from West to East will be transported via the Tbilisi Main Line and the cargo from East to West - via the new Tbilisi Bypass. Currently the Group is in discussions with the Tbilisi City Hall about various scenarios including the best option identified by the third party consultants. The Group believes that the modification of the project will have an effect only on how the future construction will proceed and will not result in any existing construction become redundant.

(ii) During 2012 the Group commenced the construction of the Gardabani Combined Cycle Power Plant (Gardabani CCPP). The construction works were completed in July 2015. GEL 268,370 thousand of assets under construction relates to the construction of Gardabani Combined CCPP.

(b) Security

At 31 December 2014 properties (land plots with power-transmission lines and related technical equipment) with a carrying amount of GEL 103,070 thousand (2013: GEL 109,001 thousand) are pledged as a security for loans and borrowings and restructured liabilities to the Ministry of Finance of Georgia (see notes 18 and 19).

10. Prepayments for non-current assets and other non-current assets

'000 GEL	**2014**	**2013**
Prepayments for construction of railway infrastructure	103,338	116,238
Prepayments for construction of Gardabani CCPP	96,632	199,832
Other prepayments for non-current assets	24,524	1,246
Total prepayments for non-current assets	**224,494**	**317,316**
Construction materials for railway infrastructure	65,662	63,500
Other	2,591	3,051
Total other non-current assets	**68,253**	**66,551**

11. Investments in equity accounted investees

'000 GEL	**2014**	**2013**
Balance at the beginning of the period	46,380	55,679
Contributions to associate	1,158	-
Group's share of profit/(loss) of equity accounted investees (net of income tax) recognized in profit or loss	6,690	(9,299)
Balance at 31 December	**54,228**	**46,380**

None of the Group's equity accounted investees are publicly listed entities and consequently do not have published price quotations.

(a) Joint venture

Borjomi Likani International JSC is the only joint arrangement in which the Group participates. It was established in 2011 by the Group and KMG Group (represented by Kazmunaygas Service LLP and KMG Service Georgia LLC), with the aim to construct a high-class hotel at the Likani resort to be operated by an internationally recognized hotel brand. The hotel opened in 2015.

The Group has rights to the net assets of Borjomi Likani International JSC. Accordingly, the Group has classified its interest in Borjomi Likani International JSC as a joint venture.

The following table summarises the financial information of Borjomi Likani International JSC as included in its own financial statements. The table also reconciles the summarised financial information to the carrying amount of the Group's interest in Borjomi Likani International JSC.

’000 GEL	2014	2013
Percentage ownership interest	**50%**	**50%**
Non-current assets	65,921	43,171
Current assets (including cash and cash equivalents – 2014: GEL 17,232 thousand; 2013: GEL 120 thousand)	25,300	7,112
Non-current liabilities	(29,141)	-
Current liabilities	(7,236)	(43)
Net assets (100%)	54,844	50,240
Group’s share of net assets (50%)	**27,422**	**25,120**
Revenue	-	-
Loss and total comprehensive loss (100%)	(142)	(12)
Group’s share of loss and total comprehensive loss	**(71)**	**(6)**

(b) Associates

At 31 December 2014 the Group has interest in two associates - Telasi JSC and Panex JSC (2013: Telasi JSC).

24.53% of the shares of Telasi JSC were transferred to the Group as a capital contribution by the Government of Georgia on 30 July 2012. The investment in associate was recognised at the Fund’s share of net assets of Telasi JSC as at the transfer date of GEL 27,548 thousand. Telasi JSC is involved in the purchase and distribution of electric power to industrial and residential customers in Tbilisi.

The following table summarises the financial information of Telasi JSC as included in its own financial statements. The table also reconciles the summarised financial information to the carrying amount of the Group’s interest in Telasi JSC.

’000 GEL	2014	2013
Percentage ownership interest	**24.53%**	**24.53%**
Non-current assets	163,611	139,751
Current assets	101,193	88,863
Non-current liabilities	(36,920)	(36,141)
Current liabilities	(113,304)	(105,804)
Net assets (100%)	114,580	86,669
Group’s share of net assets (24.53%)	**28,106**	**21,260**
Revenue	275,841	250,570
Profit/(loss) and total comprehensive income/(loss) (100%)	27,984	(37,883)
Group’s share of profit/(loss) and total comprehensive income/(loss)	**6,864**	**(9,293)**

12. Finance lease receivable

In 1996 the State of Georgia entered into a 30 year arrangement with a consortium of oil companies that undertook the construction and development of an oil pipeline system from the Georgian-Azerbaijan state border to the Supsa oil terminal on the Georgian Black Sea coast. The arrangement granted the oil companies the right to transport oil across the territory of Georgia through that pipeline system that became the property of the State of Georgia. The ownership of this pipeline was transferred to the Company in June-July 2010 as a contribution to the charter capital of the Company at a nominal value of GEL 269,299 thousand. In exchange for the oil companies using the pipeline, the Group receives a transit fee for each barrel of oil transported. Management has determined that the initial arrangement contained a finance lease at inception date.

The Group has recognized the finance lease receivable of GEL 39,229 thousand at the date when the title of the pipelines was transferred to the Group. The finance lease receivable is the present value of the net investment in the lease comprising the present value of the assets' unguaranteed residual value at the end of the lease term.

'000 GEL	**2014**	**2013**
Finance lease receivable at 1 January	48,864	45,882
Unwinding of discount on finance lease receivable	3,177	2,982
Finance lease receivable at 31 December	**52,041**	**48,864**

Contingent rents related to oil transportation recognized in the consolidated statement of profit or loss and other comprehensive income during 2014 amounted to GEL 13,653 thousand (2013: GEL 11,952 thousand).

13. Term deposits

Terms and conditions of the term deposits are as follows:

				31 December 2014		**31 December 2013**	
'000 GEL	**Currency**	**Nominal interest rate**	**Year of maturity**	**Face value**	**Carrying amount**	**Face value**	**Carrying amount**
Non-current term deposit	USD	7.13%	2017	44,372	44,372	40,083	40,083
Current term deposits	USD	7.5% -11.25%	2014	-	-	78,493	78,493

The Group's exposure to credit and currency risks and impairment losses related to term deposits are disclosed in note 22.

14. Prepayments and other current assets

'000 GEL	**2014**	**2013**
Taxes other than on income	41,059	54,989
Prepayments to suppliers	34,275	24,531
Non-current assets held for distribution	-	1,141
Other receivables	10,651	6,431
Impairment allowance for other receivables	(2,861)	(2,448)
	83,124	**84,644**

15. Trade receivables

'000 GEL	**2014**	**2013**
Trade receivables	335,909	313,649
Allowance for trade receivables	(181,963)	(171,623)
	153,946	**142,026**

Guaranteed capacity

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

Starting from 1 September 2014, due to changes in relevant legislation, the Group must reimburse the Sources whether or not it receives funds from Qualified Enterprises. Therefore, starting from September 2014 the Group no longer acts as an agent and recognises revenue and cost of sales in full. The Group does not expect a benefit from such receipts and transfers but starting from September 2014 the Group bears credit risk on these operations; these transactions were reflected as agent's transactions in the Group'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 and during 2013 are given below:

'000 GEL	**2014**	**2013**
Sale of Guaranteed Capacity	23,789	39,828
Purchase of Guaranteed Capacity	(23,789)	(39,828)

The Group's exposure to credit and currency risks and impairment losses related to trade receivables are disclosed in note 22.

16. Cash and cash equivalents

’000 GEL	**2014**	**2013**
Bank balances	358,788	336,757
Call deposits	297,274	174,594
Petty cash	111	100
Cash and cash equivalents in the consolidated statement of financial position	**656,173**	**511,451**
Restricted cash	(108)	(2,505)
Cash and cash equivalents in the consolidated statement of cash flows	**656,065**	**508,946**

Call deposits represent term deposits with banks with maturities greater than three months from the acquisition date but for which the Group has the unilateral right to withdraw the deposits within a few days of providing notification without incurring significant penalties or loss of interest. Consequently, these term deposits have been classified in accordance with their nature which is that of a call deposit.

The Group’s exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in note 22.

17. Equity and liabilities to the Government

(a) Share capital

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 Fund.

Following the decree of the Government of Georgia on 8 May 2012 the share capital of the Fund was determined as 100,000,000 ordinary shares with a par value of GEL 1.

(b) Owner contributions

During 2014 the State of Georgia contributed gas pipelines and related land plots in the amount of GEL 62,799 thousand and GEL 342 thousand respectively (2013: land plots of GEL 252 thousand) in the equity of the Group. During 2014 the State of Georgia also contributed transmission lines and related land plots and equipment of GEL 36,464 thousand in the equity of the Group.

(c) Distributions to the shareholder

On 3 April 2014 the Group distributed its wholly owned non-operating subsidiary, Namakhvani HPP JSC with net assets of GEL 7,658 thousand to the State of Georgia (National Agency of State Property). The subsidiary contributed GEL 78 thousand to the net profit for the year.

(d) Liabilities to the Government

Liabilities to the Government represent liabilities in the form of property, plant and equipment which are withdrawn as a reduction in equity but not yet transferred formally to the owners. These liabilities are recorded at the carrying amount of assets to be transferred to the owner.

(e) Advance received from the Government

In April 2012, Georgian Railway JSC and the Government of Georgia entered into the Bypass Project Memorandum. According to the Bypass Project Memorandum the Government is interested and aims to purchase from the Group approximately 70.1 hectares of land plots which will be freed up as a result of the removal of railway infrastructure from Tbilisi city centre and construction of a new bypass railway route for the purposes of further development of the land plots. The Government agrees to pay to Georgian Railway JSC CHF 138 million equivalent in national currency through the reduction in the amount of dividends payable to the Government. In 2012, Georgian Railway JSC declared dividends of GEL 231,592 thousand (CHF 138 million) and classified the amount as an advance received from the Government for the sale of land in accordance with the Bypass Project Memorandum.

18. Loans and borrowings

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings, which are measured at amortised cost. For more information about the Group's exposure to interest rate, foreign currency and liquidity risks, see note 22.

'000 GEL	**2014**	**2013**
Non-current liabilities		
Unsecured bonds	1,386,283	1,338,893
Unsecured loans from financial institutions	482,603	505,557
Secured loans from financial institutions	40,106	44,716
Secured loans from related party	22,443	30,542
	1,931,435	**1,919,708**
Current liabilities		
Current portion of unsecured bonds	95,629	39,873
Current portion of unsecured loans from financial institutions	59,545	32,491
Current portion of secured loans from financial institutions	7,146	7,025
Current portion of secured loans from related party	13,612	7,928
	175,932	**87,317**

(a) Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

				31 December 2014		31 December 2013	
’000 GEL	**Currency**	**Nominal interest rate**	**Year of maturity**	**Face value**	**Carrying amount**	**Face value**	**Carrying amount**
Unsecured bonds	USD	6.875%	2017	465,900	465,209	434,075	431,825
Unsecured bonds	USD	7.75%	2022	963,253	963,253	897,263	897,263
Unsecured bonds	USD	9.90%	2015	53,450	53,450	49,678	49,678
Unsecured loans from financial institutions:							
Ministry of Finance of Georgia - KfW	EUR	KfW reference rate+4%	2024	179,096	179,096	178,173	178,173
Ministry of Finance of Georgia - KfW	EUR	1%-1.5%	2025-2037	53,122	53,122	50,538	50,538
Ministry of Finance of Georgia - EIB	EUR	Euribor+0.75%	2033	177,963	177,963	189,746	189,746
Ministry of Finance of Georgia - EBRD	EUR	Euribor+1%	2025	122,591	122,591	119,591	119,591
Ministry of Finance of Georgia - ADB	USD	1%-1.5%	2044	9,098	9,098	-	-
Ministry of Finance of Georgia – EBRD	USD	World Bank's lending treasury rates	2038	278	278	-	-
Secured loans from financial institutions:							
Ministry of Finance of Georgia - KfW	EUR	4%	2021	11,965	11,965	14,418	14,418
Ministry of Finance of Georgia - IDA	USD	World Bank's lending treasury rates	2022	35,287	35,287	37,323	37,323
Secured loan from related party:							
Ministry of Finance of Georgia	EUR	7.50%	2018	36,055	36,055	38,470	38,470
Total interest-bearing liabilities				**2,108,058**	**2,107,367**	**2,009,275**	**2,007,025**

Collateral for secured loans and borrowings is detailed in note 9.

Unsecured bonds are issued on the London Stock Exchange and are mainly used for Gardabani CCPP, Main Line Modernization and Tbilisi Bypass projects (see notes 9 and 10).

Loans received before 2014 from EBRD, EIB and KfW were disbursed to the Government of Georgia in relation to the BSTN project. Loans received before 2014 from IDA and KfW were disbursed to the Government of Georgia for the implementation of the Electricity Market Support Project (the

"EMSP"), "Energy IV", "Sector Program Power Supply" and "Regional Power Network Rehabilitation l " projects. Loans received in 2014 from ADB, KFW and EBRD were disbursed to the Government of Georgia in relation to the construction and enhancement of Jvari - Khorga electricity transmission lines and substations as well as other transmission network rehabilitation projects.

The Government of Georgia, in its turn, transferred amounts received under the facilities, together with an obligation to repay them, to the Group. The lender has not legally released the Government of Georgia from the primary responsibility for the repayment of the loans, accordingly the Government of Georgia acted as a principal in this transaction and accordingly the loans payable by the Group are towards the Ministry of Finance of Georgia. The secured loan from related party represents interest accrued on part of the unsecured loans from financial institutions and paid by the Government of Georgia on behalf of the Group.

Management estimates that the fair values of loans and borrowings from the above-mentioned international financial institutions are not different from loaned amounts at initial recognition as these loans are provided in a separate market segment which is different from the commercial lending market.

19. Restructured liabilities

’000 GEL	**2014**	**2013**
Payables to the State Budget	70,730	76,000
Trade payables	26,501	26,281
Loans and interest accrued	3,658	3,929
	100,889	**106,210**
Amortized cost adjustment	(36,253)	(42,444)
Balance at 31 December	**64,636**	**63,766**
Current	5,000	4,599
Non-current	59,636	59,167
	64,636	**63,766**

Restructured liabilities represent the amounts originated before 2006, the repayments of which have been deferred due to the financial difficulties of Georgian State Electrosystem JSC a Group entity (see note 23). According to the Rehabilitation Plan, drawn-up initially in 2006 through court proceedings and agreed with the majority of creditors, the repayments of these debts have been deferred until 2011; thereafter the amounts will be repaid by instalments until 2023, the end of the rehabilitation period.

The Rehabilitation Plan sets out the strategic targets of the Group entity for the coming 15 years, as well as defines the main operating and financial objectives of the Group entity. According to the Rehabilitation Plan, the Rehabilitation Manager has been appointed to undertake the governance of Georgian State Electrosystem JSC throughout the entire rehabilitation period. The main creditor of Georgian State Electrosystem JSC is the Ministry of Finance of Georgia. The amounts payable to the Ministry of Finance of Georgia are taxes and duties, as well as loans and interest accrued.

Restructured liabilities are presented at discounted amounts. Following the approval of the new Rehabilitation Plan in 2008, the Group has estimated the fair value of deferred payables, to effect the amendments in the repayment terms. The fair value of these liabilities on the Rehabilitation Plan approval date has been determined by discounting future cash flows at an average market interest rate of 9.57%.

20. Grants related to assets

’000 GEL	**2014**	**2013**
Balance at 1 January	73,889	72,183
Recognised in profit and loss	(3,357)	(528)
Received during the year	13,417	2,234
Balance at 31 December	**83,949**	**73,889**
Non-current	80,057	71,060
Current	3,892	2,829
	83,949	**73,889**

Grant related to assets of EUR 25,000 thousand mainly represents financial contributions received from KfW within the framework of the BSTN project for the construction of a new power transmission line. The financial contribution is not repayable unless the Group misuses the funds received or seriously jeopardizes the implementation of the project.

21. Trade and other payables

’000 GEL	**2014**	**2013**
Trade payables	122,169	98,256
Payables for construction works under BSTN project	64,075	32,686
Advances received from customers	21,032	16,643
Payable for the interest in an equity accounted investee	-	3,175
Taxes other than on income	5,180	6,524
Other payables	16,774	9,502
	229,230	**166,786**

The Group’s exposure to currency and liquidity risk related to trade and other payables is disclosed in note 22.

22. Fair values and risk management

(a) Fair values of financial assets and liabilities

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.

Management believes that the fair values of the Group's financial assets and liabilities approximate their carrying amounts.

The Company has determined fair values using valuation techniques. The valuation technique used is the discounted cash flow model, based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

The interest rates used to discount estimated cash flows, where applicable, are based on the government yield curve at the reporting date plus an appropriate credit spread.

(b) Financial risk management

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

- credit risk (see 22(c));
- liquidity risk (see 22(d));
- market risk (see 22(e)).

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

Risk management framework

The Group's risk management policies are established to identify and analyse the risks faced by the Group, 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 Group's activities. The Group, 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.

The Supervisory Boards of the Fund and the Group entities have overall responsibility for the establishment and oversight of the Group entities' risk management framework. The Supervisory Boards oversee how management monitors compliance with the Group entities' risk management policies and procedures and review the adequacy of the risk management framework in relation to the risks faced by the Group entities.

(c) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers, loans receivable, term deposits and cash and cash equivalents.

(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:

	Note	**Carrying amount**	
'000 GEL		**2014**	**2013**
Finance lease receivable	12	52,041	48,864
Trade receivables	15	153,946	138,080
Other receivables	14	7,790	3,983
Loans receivable		62,771	52,164
Term deposits	13	44,372	118,576
Cash and cash equivalents	16	656,062	511,351
		976,982	**873,018**

In 2013 receivables of GEL 3,946 thousand 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.

(ii) Trade receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the demographics of the Group'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, particularly in the current economic circumstances.

Approximately 57%, 75%, 18% and 43% of the Group's revenue from the sales of balancing electricity, sales of gas and oil, railroad transportation and electricity transmission and dispatching activities, respectively, are attributable to sales transactions with a single customer for each type of revenue (2013: 48%, 73%, 17% and 40% respectively).

Credit risk is managed by requesting prepayments from customers or assessing their creditworthiness prior to extending credit, as well as through the monthly monitoring of receivable balances and requiring immediate repayment of a debt when the balance approaches specific limits set for each individual counterparty. No collateral in respect of trade receivables is generally required.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade receivables. The main component of this allowance is a specific loss component that relates to individually significant exposures.

The maximum exposure to credit risk for trade receivables at the reporting date by geographic region was as follows:

	Carrying amount	
'000 GEL	**2014**	**2013**
Domestic	107,942	90,255
CIS countries	45,996	47,817
Euro-zone countries	8	8
	153,946	**138,080**

The maximum exposure to credit risk for trade receivables at the reporting date by type of customer was as follows:

	Carrying amount	
'000 GEL	**2014**	**2013**
Gas distributors	67,509	61,935
Foreign railway companies	38,663	43,883
Wholesale electricity customers	21,477	14,620
Other	26,297	17,642
	153,946	**138,080**

All of the trade receivables from gas distributors is represented by a single customer. The Group's two most significant customers from foreign railway companies account for GEL 34,267 thousand of the trade receivables carrying amount as at 31 December 2014 (2013: GEL 38,502 thousand).

Impairment losses

The ageing of trade receivables and the related impairment amount at the reporting date was as follows:

	Gross	Impairment	Gross	Impairment
'000 GEL	**2014**	**2014**	**2013**	**2013**
Neither past due nor impaired	86,014	-	70,889	-
Past due 0 - 90 days	18,834	2,777	23,832	3,037
Past due 91-180 days	3,755	837	14,934	3,280
Past due 181-365 days	11,797	4,457	15,502	5,450
Past due more than one year	215,509	173,892	184,546	159,856
	335,909	**181,963**	**309,703**	**171,623**

The movement in the allowance for impairment in respect of trade receivables during the year was as follows:

'000 GEL	**2014**	**2013**
Balance at beginning of the year	171,623	162,291
Increase during the year	10,458	9,656
Decrease due to reversal	(118)	(324)
Balance at end of the year	**181,963**	**171,623**

Most of the impairment loss at 31 December 2014 and 2013 relates to several customers that have indicated that they are not expecting to be able to pay their outstanding balances either because of economic circumstances or as a result of bankruptcy.

The allowance account in respect of trade receivables is used to record impairment losses until all possible opportunities for recovery have been exhausted and the respective debtors are formally liquidated; at that point the amounts are written off against the financial asset directly.

The Group believes that the unimpaired amounts that are past due are still collectible, based on historic payment behaviour and analyses on the underlying customers' credit ratings, when available. In addition, net receivables of GEL 38,663 thousand (2013: GEL 43,883 thousand) relate to freight car rental customers with which the Group incurs freight car rental expense and related payables. These receivables and payables are periodically net settled.

(iii) Loans receivable

Loans receivable mainly consists of a loan to a state controlled entity, which was not past due as at 31 December 2014 (the loans was past due as at 31 December 2013). In May 2014, the Group signed a restructuring agreement with the borrower. The management believes that, if required, the State of Georgia (National Agency of State Property of the Ministry of Economy and Sustainable Development) will provide support to the extent permitted by the Georgian legislation to the state controlled entity to enable it to repay the loan.

(iv) Cash and cash equivalents and term deposits

The Group held cash and cash equivalents and term deposits with banks which are rated B or higher based on rating agency Fitch ratings. None of the balances are impaired or past due.

(d) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group'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 Group's reputation. The Group's liquidity management also involves monitoring the covenants embedded in the bond issue agreements.

To manage the liquidity requirements, the Group makes short-term forecasts for cash flows based on estimated financial needs determined by the nature of operating activities and maintains unused credit line facilities. Typically the Group entities ensures that those have sufficient cash on demand to meet expected operational expenses for a period of 60 days, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

The Group has significant contractual commitments for the purchase and construction of property, plant and equipment (see note 25). Management believes that the cash and cash equivalents held by the Group, proceeds from loans and borrowings and credit lines and cash flows from operating activities will be sufficient to finance the capital expenditure projects.

Exposure to liquidity risk

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

31 December 2014	Contractual cash flows					
’000 GEL	Carrying amount	Total	0-6 mths	6-12 mths	1-5 yrs	Over 5 yrs
Non-derivative financial liabilities						
Loans and borrowings	2,107,367	2,841,231	151,746	105,941	1,063,156	1,520,388
Restructured liabilities	64,636	100,889	5,000	-	49,000	46,889
Trade and other payables	194,503	194,503	166,501	28,002	-	-
	2,366,506	**3,136,623**	**323,247**	**133,943**	**1,112,156**	**1,567,277**

31 December 2013	Contractual cash flows					
’000 GEL	Carrying amount	Total	0-6 mths	6-12 mths	1-5 yrs	Over 5 yrs
Non-derivative financial liabilities						
Loans and borrowings	2,007,025	2,814,664	104,959	58,848	1,095,888	1,554,969
Restructured liabilities	63,766	106,210	-	5,000	37,000	64,210
Trade and other payables	138,964	138,964	138,964	-	-	-
	2,209,755	**3,059,838**	**243,923**	**63,848**	**1,132,888**	**1,619,179**

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

(e) 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 Group’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.

The Group does not apply hedge accounting in order to manage volatility in profit or loss.

(i) Currency risk

The Group is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than GEL. The currencies in which these transactions primarily are denominated are U.S. Dollar (USD), Swiss Franc (CHF) and Euro (EUR).

Exposure to currency risk

The Group's exposure to foreign currency risk was as follows:

'000 GEL	USD-denominated 2014	CHF - denominated 2014	EUR - denominated 2014	USD - denominated 2013	CHF - denominated 2013	EUR - denominated 2013
Cash and cash equivalents	266,284	3,297	7,571	326,321	8,222	17,153
Term deposits	44,372	-	-	118,576	-	-
Trade and other receivables	5,782	46,319	9	4,465	45,019	19
Loans receivable	52,392	-	-	51,353	-	-
Loans and borrowings	(1,526,575)	-	(580,792)	(1,416,089)	-	(590,936)
Restructured liabilities	(5,392)	-	(3,676)	(5,024)	-	(4,099)
Trade and other payables	(85,272)	-	(6,480)	(54,744)	-	(25,786)
Net exposure	**(1,248,409)**	**49,616**	**(583,368)**	**(975,142)**	**53,241**	**(603,649)**

The following significant exchange rates have been 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
CHF 1	1.9300	1.7955	1.8800	1.9491
EUR 1	2.3462	2.2094	2.2656	2.3891

Sensitivity analysis

A reasonably possible weakening of the GEL, as indicated below, against all other currencies at 31 December would have affected the measurement of financial instruments denominated in a foreign currency and affected equity and profit or loss net of taxes by the amounts shown below. There would be no direct impact on other comprehensive income or equity. The analysis assumes that all other variables, in particular interest rates, remain constant and ignores any impact of forecast sales and purchases.

'000 GEL	Profit or loss
31 December 2014	
USD (20% weakening)	(212,230)
CHF (20% weakening)	8,435
EUR (20% weakening)	(99,173)

’000 GEL	Profit or loss
31 December 2013	
USD (10% weakening)	(82,887)
CHF (10% weakening)	4,525
EUR (10% weakening)	(51,310)

A strengthening of the GEL against the above currencies at 31 December would have had the equal but opposite effect on the above currencies on the amounts shown above, on the basis that all other variables remain constant.

(ii) *Interest rate risk*

Changes in interest rates impact primarily loans and borrowings by changing either their fair value (fixed rate debt) or their future cash flows (variable rate debt). Management does not have a formal policy of determining how much of the Group’s exposure should be to fixed or variable rates. However, at the time of raising new loans or borrowings the Group entities’ management uses its judgment to decide whether it believes that a fixed or variable rate would be more favourable to the Group over the expected period until maturity.

Exposure to interest rate risk

At the reporting date the interest rate profile of the Group’s interest-bearing financial instruments was as follows:

’000 GEL	Carrying amount	
	2014	**2013**
Fixed rate instruments		
Financial assets	661,206	482,100
Financial liabilities	(1,583,054)	(1,482,192)
	(921,848)	**(1,000,092)**
Variable rate instruments		
Financial liabilities	(524,313)	(524,833)
	(524,313)	**(524,833)**

Fair value sensitivity analysis for fixed rate instruments

The Group does not account for any fixed-rate financial instruments as fair value through profit or loss or as available-for-sale. Therefore a change in interest rates at the reporting date would not have an effect in profit or loss or in equity.

Cash flow sensitivity analysis for variable rate instruments

A reasonably possible change of 100 basis points in interest rates at the reporting date would have increased (decreased) equity and profit or loss net of taxes by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2013.

	Profit or loss	
’000 GEL	**100 bp increase**	**100 bp decrease**
2014		
Variable rate instruments	(4,457)	4,457
Cash flow sensitivity (net)	**(4,457)**	**4,457**
2013		
Variable rate instruments	(4,461)	4,461
Cash flow sensitivity (net)	**(4,461)**	**4,461**

(f) Capital management

The Group’s objectives when managing capital are to safeguard the Group’s ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets.

The Board’s policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business.

The Group’s debt to capital ratio at the end of the reporting period was as follows:

’000 GEL	**2014**	**2013**
Total liabilities	2,809,631	2,640,504
Less: cash and cash equivalents	(656,173)	(511,451)
Net debt	**2,153,458**	**2,129,053**
Total equity	**2,641,972**	**2,419,284**
Debt to capital ratio at 31 December	**0.82**	**0.88**

There were no changes in the Group’s approach to capital management during the year.

Neither the Fund nor any of its subsidiaries are subject to externally imposed capital requirements.

23. Significant subsidiaries

Georgian Railway JSC was established as a state-owned enterprise in December 1998 by the Decree of the President of Georgia # 929 as an entity engaged in the provision of railway transportation services in Georgia. The principal activity of Georgian Railway JSC is the operation of a nationwide railway system providing freight and passenger transportation services, maintenance and development of railway infrastructure and construction of railway lines within Georgia.

Georgian Oil and Gas Corporation JSC was established as a 100% state-owned enterprise by the order of the Ministry of Economy of Georgia on 21 March 2006, on the basis of three Georgian state-owned companies: Georgian International Oil Corporation JSC, Georgian Gas International Corporation JSC and Teleti Oil Company JSC. The principal activities of Georgian Oil and Gas Corporation JSC are the importation and sale of natural gas, the rental of gas and oil pipelines, oil and gas exploration and extraction in the territory of Georgia. In December 2006 Georgian Oil and Gas Corporation JSC was granted the status of "National Oil Company" by Presidential decree number 736 and it acts on behalf of the State of Georgia, receives and sells the State's share of extracted oil and gas produced by contractors in the territory of Georgia in accordance with the "Law of Georgia on Oil and Gas" and production sharing agreements signed between the State and the contractors. Georgian Oil and Gas Corporation JSC is also involved in the realization of the Gardabani CCPP project.

Georgian State Electrosystem JSC was established under the laws of Georgia on 12 November 2002 by the means of the merger of Electrogadatsema JSC and Electrodispetcherizatsia-2000 LLC and is their legal successor in title. The major subsidiary of Georgian State Electrosysem JSC is EnergoTrans LLC, an entity established as a state-owned enterprise in 2002. The principal activities of Georgian State Electrosystem JSC and its subsidiaries are electricity transmission and dispatching over the entire territory of Georgia that are regulated by the law on Electricity and Natural Gas on the basis of the licenses obtained from the Georgian National Energy and Water Supply Regulatory Commission. EnergoTrans LLC owns the 500kV Vardzia and Zekari power transmission lines and the 400kV Meskheti interconnection line with Turkey constructed as part of the "Black Sea Transmission Network Project" (BSTN). The BSTN project was completed by the end of 2013. The new lines provide additional security to Georgia's transmission network, by adding a second west-east 500kV link, and create energy export capacity to Turkey. Due to financial difficulties in the past, Georgian State Electrosystem JSC is currently under rehabilitation process managed by a Rehabilitation Manager in accordance with a Rehabilitation Plan (see note 19). In assessing control over Georgian State Electrosystem JSC, management has considered, among other things, its ability to terminate the rehabilitation process and remove the rehabilitation manager by way of repayment of the debt.

Electricity System Commercial Operator JSC was established in Georgia on 1 September 2006 with the primary objective to sell/purchase balancing electricity and guaranteed capacity, import and export electricity and facilitate electricity sale-purchase in Georgia.

24. Operating leases

At 31 December, non-cancellable operating lease rentals are receivable as follows:

'000 GEL	**2014**	**2013**
Less than one year	3,028	1,935
Between one and five years	5,883	5,379
More than five years	16,103	36,333
	25,014	**43,647**

Operating leases relate to rent of buildings, containers, locomotives and fittings owned by the Group with lease terms of between 10 to 50 years. Lessees do not have an option to purchase the property at the end of the lease term.

25. Capital commitments

As at 31 December 2014 the Group had entered into contracts for the construction and purchase of property, plant and equipment of GEL 561,489 thousand (2013: GEL 658,214 thousand) mainly relating to the Main Line Modernization and Tbilisi Bypass projects.

The Group has entered into contracts for construction of the Gardabani CCPP and purchase of inventory with outstanding capital commitments of GEL 49,968 thousand at 31 December 2014 (2013: GEL 149,719 thousand).

As at 31 December 2014 the Group also had contractual commitments to purchase equipment for the construction and rehabilitation of energy-transmission lines for GEL 152,011 thousand (2013: GEL 17,937 thousand).

As at 31 December 2013 the Group had commitments related to the construction of Namakhvani HPP cascade of GEL 18,056 thousand. In April 2014 JSC Namakhvani HPP was transferred to the Government of Georgia. Related commitments were also transferred to the Government of Georgia.

26. Contingencies

(a) Insurance

The insurance industry in Georgia is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Group does not have full coverage for its plant facilities, business interruption, or third party liability in respect of property or environmental damage arising from accidents on Group property or relating to Group operations. Until the Group obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Group's operations and financial position.

(b) Litigations and financial guarantees

In the ordinary course of business, the Group is subject to legal actions, litigations and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial condition or the results of future operations.

(c) Taxation contingencies

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 consolidated financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

(d) Environmental matters

The enforcement of environmental regulation in Georgia is evolving and the enforcement posture of government authorities is continually being reconsidered. The Group periodically evaluates its obligations under environmental regulations. As obligations are determined, they are recognized immediately. Potential liabilities, which might arise as a result of changes in existing regulations, civil litigation or legislation, cannot be estimated but could be material. In the current enforcement climate under existing legislation, management believes that there are no significant liabilities for environmental damage.

27. Related parties

(a) Parent and ultimate controlling party

As at 31 December 2014 and 2013 the Fund is wholly owned by the State of Georgia represented by the Government of Georgia.

(b) Transactions with key management personnel

(i) Key management remuneration

Key management received the following remuneration during the year, which is included in wages and other employee benefits.

’000 GEL	**2014**	**2013**
Salaries and bonuses	4,611	4,151

(c) Transactions with Government related entities

The Group transacts in its daily operations with a number of entities that are either controlled/ jointly controlled by or under significant influence of the Government of Georgia. The Group has opted to apply the exemption in IAS 24 *Related Party Disclosures* that allows the presentation of reduced related party disclosures regarding transactions with government-related entities.

The significant transactions with entities controlled or significantly influenced by the State and balances for these transactions are disclosed below. Management estimates that the aggregate amounts of all other income and expenses and the related balances with government-related entities at the reporting dates are not significant. Transactions with the shareholder are disclosed in note 17.

(i) Revenue

’000 GEL	**Transaction value**	
	2014	**2013**
Entities controlled or significantly influenced by the State:		
Rent of gas pipelines	50,785	42,666
Transmission and dispatching of electricity	7,265	11,381
Sale of balancing electricity and income from guaranteed capacity	8,920	21,779

The Group rents its gas pipeline to Georgian Gas Transportation Company LLC, a state controlled entity. The contract is valid until 1 January 2020. The lease payments are contingent on the volume of gas transported through the leased gas pipeline.

The Group does not usually have significant balances for the above transactions.

(ii) Expenses

'000 GEL	**Transaction value**	
	2014	**2013**
Entities and agencies controlled or significantly influenced by the State:		
Cost of gas	49,253	33,918
Purchase of balancing electricity and guaranteed capacity	3,273	11,756

The Group does not usually have significant balances for the above transactions.

(iii) Loans

'000 GEL	**Interest income/expense**		**Outstanding balance as at 31 December**	
	2014	**2013**	**2014**	**2013**
Loans receivable:				
State controlled entity	4,673	5,463	50,567	47,055
Loans received:				
Ministry of Finance of Georgia	20,922	23,923	625,455	628,259

The interest rates and maturities of loans from related parties are disclosed in note 18(a).

(iv) Restructured liabilities

The Group's restructured liabilities mainly consist of payables to the Government of Georgia or Government bodies.

28. Subsequent events

In July 2015 the Group completed construction of Gardabani CCPP and performed a test launch of the plant.

In 2015 the Group signed a loan agreement with TBC Bank for USD 40 million for the purpose of financing the project for aircraft materials production plant construction in Georgia.

Depreciation of the GEL during 2015 (around 25% against USD and around 16% against EUR) caused significant foreign exchange losses to the Group since the Group held net USD and EUR liability positions. Management of the Group has not completed its analysis of the effect on the Group's operations and financial position; however, the sensitivity analysis provided in note 22(e)(i) shows the effects of reasonably possible changes in foreign exchange rates on the Group's financial assets and liabilities as at the reporting date. Management believes that the impact of GEL depreciation will be partly offset by the Group's foreign currency denominated future sales.

29. Basis of measurement

The consolidated financial statements are prepared on the historical cost basis.

30. Significant accounting policies

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

(a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

(ii) Acquisitions from entities under common control

Business combinations arising from the transfers of interests in entities that are under the control of the shareholder that controls the Group are accounted for from the date the control is obtained by the Group. The assets and liabilities acquired are recognised at the carrying amounts recognised in the acquiree's financial statements. The equities of the acquired entities are added to the equity of the Group. Pre-acquisition interests are not remeasured. Any cash paid for the acquisition is recognised directly in equity.

(iii) Loss of control

Upon the loss of control, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in profit or loss. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently it is accounted for as an equity-accounted investee or as an available-for-sale financial asset depending on the level of influence retained.

(iv) Investments in associates and joint ventures (equity accounted investees)

The Group's interests in equity-accounted investees comprise interest in associates and joint ventures.

Associates are those entities in which the Group has significant influence, but not control or joint control over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20% and 50% of the voting power of another entity. A joint venture is an arrangement in which the Group has joint control, whereby the Group has rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities.

Interests in associates and joint ventures are accounted for using the equity method and are recognised initially at cost or at the Group's share of the carrying value of the net assets of the investee recognised in the equity accounted investee's financial statements at the date of the acquisition if the acquisition is from an entity under common control. The cost of the investment includes transaction costs.

The consolidated financial statements include the Group's share of the profit or loss and other comprehensive income of equity accounted investees, after adjustments to align the accounting policies with those of the Group, from the date that significant influence or joint control commences until the date that significant influence or joint control ceases.

When the Group's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest including any long-term investments is reduced to zero and the recognition of further losses is discontinued, except to the extent that the Group has an obligation or has made payments on behalf of the investee.

(v) Joint operations

A joint operation is an arrangement carried on by each venturer using its own assets in pursuit of the joint operations. The consolidated financial statements include the assets that the Group controls and the liabilities that it incurs in the course of pursuing the joint operation, and the expenses that the Group incurs and its share of the income that it earns from the joint operation.

(vi) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(b) Revenue

Revenue 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 from sale of goods is recognized 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 goods can be estimated reliably, there is no continuing management involvement with the goods, 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 recognized as a reduction of revenue as the sales are recognized.

Revenue from services rendered is recognised in profit or loss in proportion to the stage of completion of the transaction at the reporting date.

(i) Transportation activities

Revenue from freight and passenger transportation is measured at the fair value of the consideration received or receivable. Freight and passenger transportation revenue is recognized in profit or loss according to the percentage of completed service method based on transit time of freight and passengers moving from the original location to the final destination.

Revenue from services rendered in stations is recognised in profit or loss when the service is rendered.

(ii) Sale of gas and oil

Revenue from the sale of gas and oil is recognized in profit or loss according to the timing of the transfers of risks and rewards that varies depending on the individual terms of the sales agreement. For sales of gas, the sale is recognized on the basis of metered usage of gas by customers. For sales of oil, transfer occurs upon loading the product onto the relevant carriers, inspection by an independent inspector and sealing of carriers based on FCA (Incoterms 2000) terms at Vaziani or Supsa stations (Georgia). The seller is responsible for delivery of goods to the named points, uploading goods to the buyer’s wagons and customs registration.

(iii) Sale of electricity

Revenue from the sale of balancing electricity is recognized in profit or loss 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 Group 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 Group acts as a principal in the purchase and sale of Guaranteed Capacity and therefore recognises revenue and respective cost of sales. The Group charges no commission on the purchase and sale of the Guaranteed Capacity.

(iv) Transmission and dispatching of electricity

Revenue from transmission and dispatching of electricity is recognized in profit or loss when the actual services are delivered based on the volume of transmitted and dispatched electricity at the reporting date.

(v) Rent of gas pipelines

Revenue from rent of gas pipelines is recognized in profit or loss on the basis of the metered gas transferred through the pipelines at the contract rate.

(vi) Other rental income

Rental income from investment property or other assets rented is recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income, over the term of the lease.

(vii) Oil transportation fees

Oil transportation fees received in cash are recognized on the basis of the metered oil transferred through the pipelines at the contract rate for barrels of oil.

(viii) Commissions

When the Group acts in the capacity of an agent rather than as the principal in a transaction, the revenue recognised is the net amount of commission made by the Group.

(ix) Grants

Grants are recognised initially as deferred income at fair value when there is reasonable assurance that they will be received and that the Group will comply with the conditions associated with the grant and are then recognised in profit or loss as other income on a systematic basis over the useful life of the asset. Grants that compensate the Group for expenses incurred are recognised in profit or loss as other income on a systematic basis in the same periods in which the expenses are recognised.

(c) Other expenses

(i) Lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

(ii) Social expenditure

To the extent that the Group's contributions to social programs benefit the community at large and are not restricted to the Group's employees, they are recognised in profit or loss as incurred.

(d) Finance income and costs

Finance income comprises interest income on funds invested, unwinding of discount on finance lease receivable and foreign currency gains. Interest income is recognised as it accrues in profit or loss, using the effective interest method.

Finance costs comprise interest expense on borrowings, unwinding of the discount on restructured liabilities, premium on early redemption of issued bonds, foreign currency losses and impairment losses recognised on trade receivables.

Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised 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.

(e) Foreign currency transactions

Transactions in foreign currencies are translated to GEL at exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to GEL at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in GEL 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 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.

(f) Short-term employee 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 or profit-sharing plans if the Group 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.

(g) 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.

(i) Current tax

Current tax comprises 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.

(ii) Deferred tax

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;
- temporary differences related to investments in subsidiaries, associates and joint arrangements to the extent that the Group is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Group 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 Group takes into account the impact of uncertain tax positions and whether additional taxes, penalties and late-payment interest may be due. The Group 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 Group 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.

In accordance with the Georgian tax legislation, tax losses and current tax assets of a company in the Group may not be set off against taxable profits and current tax liabilities of other Group companies.

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.

(h) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is principally determined 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.

(i) Assets held for sale or distribution

Non-current assets, or disposal groups comprising assets and liabilities, that are expected to be recovered primarily through sale or distribution rather than through continuing use, are classified as held for sale or distribution.

Immediately before classification as held for sale, the assets, or components of a disposal group, are remeasured in accordance with the Group's accounting policies. Thereafter generally the assets, or disposal group, are measured at the lower of their carrying amount and fair value less cost to sell. Impairment losses on initial classification as held for sale or distribution and subsequent gains or losses on remeasurement are recognised in profit or loss. Gains are not recognised in excess of any cumulative impairment loss.

Intangible assets and property, plant and equipment once classified as held for sale or distribution are not amortised or depreciated. In addition, equity accounting of equity-accounted investees ceases once classified as held for sale or distribution.

(j) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located, and capitalised borrowing costs. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Any gain or loss on disposal of an item of property, plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and is recognised net within other income/other expenses in profit or loss.

(ii) Subsequent costs

The cost of replacing a component of an item of property, plant 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 Group, 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, plant and equipment are recognised in profit or loss as incurred.

Maintenance and repair expenses are recognised as follows:

- Rolling stock included in "Transport, machinery, equipment and other" class:
  - current maintenance expenses during the useful life of equipment (repair work and replacement of unusable and missing parts) are recognised as operating expenses in profit or loss as incurred;
  - expenses under multi-year major overhaul programmes are capitalised as a separate overhaul component and depreciated separately from the main asset;
  - overhauls performed near the end of the useful life of an asset, together with refurbishment, are capitalised when they extend the useful life of the underlying asset.

- Fixed installations of rail track infrastructure:
  - current maintenance and repair expenses (technical inspections, maintenance contracts, etc.) are recognised as operating expenses in profit or loss as incurred;
  - labour, materials and other costs (associated with the installation of rails, sleepers and ballast) under multi-year major building or infrastructure maintenance programmes are capitalised through the partial or total replacement of each component concerned;
  - costs associated with infrastructure improvements are capitalized to the extent that they increase the functionality (traffic working speed) of the asset.

(iii) Depreciation

Items of property, plant 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 life of each part of an item of property, plant and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Land is not depreciated.

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

• buildings and constructions	15 - 50 years
• rail track infrastructure	20 - 25 years
• gas and oil pipelines	30 - 35 years
• oil wells	4 - 9 years
• power transmission lines	20 - 35 years
• transport, machinery, equipment and other	2 - 25 years

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

(k) Financial instruments

The Group classifies non-derivative financial assets into the loans and receivables category and non-derivative financial liabilities into the other financial liabilities category.

(i) Non-derivative financial assets and financial liabilities – recognition and derecognition

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

The Group 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 Group is recognised as a separate asset or liability.

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

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group 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.

(ii) Loans and receivables - measurement

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 recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

Loans and receivables category comprises the following classes of financial assets: cash and cash equivalents, term deposits, trade receivables, other receivables and loans receivable.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances, call deposits and highly liquid investments with maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value. Call deposits represent term deposits with banks with maturities greater than three months from the acquisition date but for which the Group has the unilateral right to withdraw the deposits within a few days of providing notification without incurring significant penalties or loss of interest.

(iii) Non-derivative financial liabilities - measurement

The Group 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 comprise loans and borrowings, restructured liabilities and trade and other payables.

(l) Equity

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.

Non-cash owner contributions, except for contributions of interests in associates and subsidiaries constituting a business, are recognised at fair value of the assets contributed, net of deferred tax, at the date of the contribution.

Non-cash distributions are recognized at the carrying amount of the assets distributed if those distributions are out of scope of IFRIC 17 *Distributions of Non-cash Assets to Owners*.

(m) Impairment

(i) Non-derivative financial assets

A financial asset, including an interest in an equity-accounted investee, 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 are impaired can include:

- default or delinquency by a debtor,
- restructuring of an amount due to the Group on terms that the Group 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 Group,
- economic conditions that correlate with defaults; or
- observable data indicating that there is measurable decrease in expected cash flows from a group of financial assets.

Financial assets measured at amortised cost

The Group considers evidence of impairment for these assets at both a specific asset and a collective level. All individually significant assets are assessed for specific impairment. Those found not to be impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Assets that are not individually significant are collectively assessed for impairment by grouping together assets with similar risk characteristics.

In assessing collective impairment the Group uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss is calculated as the difference between an asset's carrying amount, and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account. When the Group considers that there are no realistic prospects of recovery of the asset, the relevant amounts are written off. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease and the decrease can be related objectively to an event occurring after the impairment was recognised, the decrease in impairment loss is reversed through profit or loss.

Equity accounted investees

An impairment loss in respect of an equity-accounted investee is calculated as the difference between its carrying amount after application of the equity method of accounting and its recoverable amount.

The recoverable amount of such investment is the greater of its value in use and its fair value less cost to sell. In determining the value in use of the investment the Group estimates: (a) its share of the present value of the estimated future cash flows expected to be generated by the investee, including the cash flows from the operations of the investee and the proceeds on the ultimate disposal of the investment; or (b) the present value of the estimated future cash flows expected to arise from the dividends to be received from the investee and from its ultimate disposal depending on which available information with respect to each investee is more reliable. An impairment loss is reversed to the extent that the recoverable amount of the investment subsequently increases and the resulting carrying amount does not exceed the carrying amount that would have been determined, after application of the equity method, had no impairment loss previously been recognised.

An impairment loss is recognized in profit or loss, and reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

(ii) Non-financial assets

The carrying amounts of the Group’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 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 or CGU.

The Group’s corporate assets do not generate separate cash inflows and are utilised by more than one CGU. Corporate assets are allocated to CGUs on a reasonable and consistent basis and tested for impairment as part of the testing of the CGU to which the corporate asset is allocated.

The recoverable amount of an asset or CGU 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 or CGU.

An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit (CGU) exceeds its estimated recoverable amount.

Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated to the carrying amounts of the assets in the CGU (group of CGUs) on a pro rata basis.

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.

(n) Dividends

Dividends on ordinary shares are reflected as an appropriation of retained earnings in the period in which they are declared.

(o) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

(p) Guarantees

The Group considers that financial guarantee contracts entered into by the Group to guarantee the indebtedness of other parties are insurance arrangements, and accounts for them as such. In this respect, the Group treats the guarantee contract as a contingent liability until such time as it becomes probable that the Group will be required to make a payment under the guarantee.

(q) Leases

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership of leased assets are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to the initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and the leased assets are not recognised on the Group's statement of financial position.

When the Group is the lessor in a lease agreement that transfers substantially all of the risks and rewards incidental to ownership of the asset to the lessee, the arrangement is classified as a finance lease and a receivable equal to the net investment in the lease is recognized and presented within loans and receivables. Subsequently, the recognition of finance income is based on a pattern reflecting a constant periodic rate of return on the Group's net investment in the finance lease.

31. 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 consolidated financial statements. Of these pronouncements, potentially the following will have an impact on the Group's operations. The Group plans to adopt these pronouncements when they become effective.

- IFRS 9, published in July 2014, replaces the existing guidance in IAS 39 *Financial Instruments: Recognition and Measurement*. 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 Group is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 9.

- 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 *Revenue*, IAS 11 *Construction Contracts* and IFRIC 13 *Customer Loyalty Programmes*. 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 2018, with early adoption permitted. The Group is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 15.

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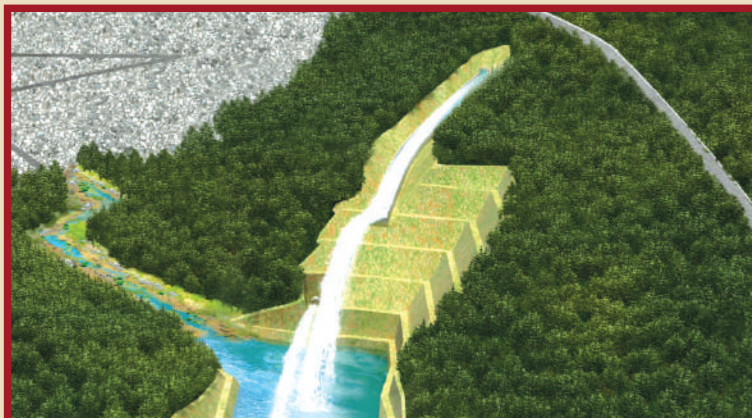

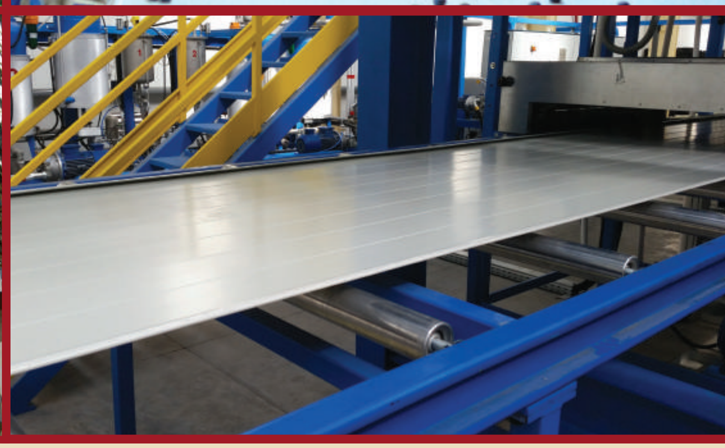

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