Partnership Fund JSC

Consolidated Financial Statements
for the period from 28 June 2011
(date of incorporation) to 31 December 2011

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Independent Auditors' Report

To the Supervisory Board
Partnership Fund JSC

We have audited the accompanying consolidated financial statements of Partnership Fund JSC (the "Fund") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2011, and the consolidated statements of comprehensive income, changes in equity and cash flows for the period from 28 June 2011 (date of incorporation) to 31 December 2011, 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 2011, and its financial performance and its cash flows for the period from 28 June 2011 (date of incorporation) to 31 December 2011 in accordance with International Financial Reporting Standards.

Tbilisi Branch of KPMG CIS Limited.

Tbilisi Branch of KPMG CIS Limited
3 August 2012

Tbilisi Branch of KPMG CIS Limited, a branch incorporated under the Laws of Georgia, a subsidiary of KPMG Europe LLP, and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

'000 GEL	**Note**	**2011**
ASSETS		
Non-current assets		
Interests in equity accounted investees	10	235,957
Prepayments for non-current assets		2,942
Property and equipment		189
Intangible assets		2
Total non-current assets		**239,090**
Current assets		
Prepayments and other receivables		943
Cash and cash equivalents	11	2,537
Asset classified as held for sale	6	167,197
Total current assets		**170,677**
Total assets		**409,767**
EQUITY AND LIABILITIES		
Equity		
Owner contributions	12	382,730
Retained earnings		4,037
Total equity		**386,767**
Non-current liabilities		
Deferred tax liabilities	9	3,154
Total non-current liabilities		**3,154**
Current liabilities		
Loans and borrowings	13	745
Trade and other payables	15	18,013
Provisions	14	1,088
Total current liabilities		**19,846**
Total liabilities		**23,000**
Total equity and liabilities		**409,767**

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 36.

'000 GEL	Note	28 June 2011 (date of incorporation) to 31 December 2011
Share of results of equity accounted investees (net of income tax)	10	5,868
Operating expenses	7	(1,974)
Wages and other employee benefits		(220)
Depreciation and amortization		(5)
Results from operating activities		**3,669**
Finance income	8	93
Finance costs	8	(10)
Net finance income		**83**
Profit before income tax		**3,752**
Income tax benefit	9	285
Profit and total comprehensive income for the period		**4,037**

These consolidated financial statements were approved by management on 3 August 2012 and were signed on its behalf by:

Nika Gilauri
Chief Executive Officer

George Tsiamkuridze
Chief Financial Officer

The consolidated statement of 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 36.

’000 GEL	**Owner contributions (note 12)**	**Retained earnings**	**Total equity**
Balance at 28 June 2011 (date of incorporation)	-	-	-
Total comprehensive income for the period			
Profit for the period	-	4,037	4,037
Transactions with owners, recorded directly in equity			
Owner contributions, net of tax of GEL 3,439 thousand (see note 9)	382,730	-	382,730
Balance at 31 December 2011	**382,730**	**4,037**	**386,767**

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 36.

’000 GEL	Note	28 June 2011 (date of incorporation) to 31 December 2011
Cash flows from operating activities		
Profit before income tax		3,752
Adjustments for:		
Depreciation and amortisation		5
Share of results of equity accounted investees (net of income tax)		(5,868)
Net finance income		(83)
Cash used in operating activities before changes in working capital and provisions		**(2,194)**
Change in prepayments and other receivables		(192)
Change in trade and other payables		998
Change in provisions		1,088
Net cash used in operating activities		**(300)**
Cash flows from investing activities		
Interest received		15
Acquisition of property and equipment		(194)
Acquisition of intangible assets		(2)
Acquisition of interests in equity accounted investees		(193)
Net cash used in investing activities		**(374)**
Cash flows from financing activities		
Proceeds from owner contributions		2,480
Proceeds from borrowings		731
Net cash from financing activities		**3,211**
Net increase in cash and cash equivalents		**2,537**
Cash and cash equivalents at the beginning of the period		-
Cash and cash equivalents at the end of the period	11	**2,537**

During the period from 28 June 2011 (date of incorporation) to 31 December 2011 the Fund received non-cash capital contributions in the form of interests in investees and other current and non-current assets. Details of the transactions are set out in the note 12 of these consolidated financial statements.

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 36.

1. Background

(a) Organisation and operations

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 jointly controlled entities. The Group entities are Georgian joint stock and limited liability companies as defined in the "Law of Georgia on Entrepreneurs" and are disclosed in note 20.

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 the first specialised public sector entity established by the State of Georgia, accountable to the President of Georgia and 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 create new employment opportunities in the country.

The Group'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 capital of the Fund was formed by the contribution from the Government of Georgia of its 24% interests in Georgian Oil and Gas Corporation JSC and Georgian Railway LLC, both of which are state-owned monopoly companies operating in the gas distribution and transportation sectors respectively. In addition, 100% interests in Nenska JSC and Tbilisi Logistics Center LLC were contribution to the capital of the Fund by the Government of Georgia (see note 20).

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

As at 31 December 2011 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 19.

(b) Group structure

As at 31 December 2011 the Fund has interests in the following entities:

		31 December 2011	
Name	**Country of incorporation and operation**	**Ownership/voting**	**Principal activities**
Nenskra JSC	Georgia	100%	Construction and operation of hydro-power plant
Tbilisi Logistics Center LLC	Georgia	100%	Servicing food commodities
Borjomi Likani International JSC	Georgia	50%	Hotel operations
Georgian Oil and Gas Corporation JSC	Georgia	24%	Oil and gas sale, extraction and exploration and rent of pipelines
Georgian Railway LLC	Georgia	24%	Railroad transportation

(c) Georgian 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 conflict between Georgia and the Russian Federation has created additional uncertainty in the environment. 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.

2. Basis of preparation

(a) Statement of compliance

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

(b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except that interests in investees contributed by the owners and assets classified as held for sale are measured at fair value and fair value less costs to sell, respectively, at initial recognition.

(c) Functional and presentation currency

The national currency of Georgia is the Georgian Lari ("GEL"), which is the Group's functional currency 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.

(d) 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 significant areas of estimation uncertainty and 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 6 - estimating the fair value less costs to sell for asset classified as held for sale
- Note 10 - estimating the fair value of interests in investees contributed by the owner on initial recognition

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 note 18 – contingencies.

3. Significant accounting policies

The accounting policies set out below have been consistently applied throughout the period 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. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

(ii) Investments in associates and jointly controlled entities (equity accounted investees)

Associates are those entities in which the Group has significant influence, but not 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. Jointly controlled entities are those entities over whose activities the Group has joint control, established by contractual agreement and requiring unanimous consent for strategic financial and operating decisions.

Investments in associates and jointly controlled entities, other than interests in investees contributed by the owners, are recognised initially at cost. The cost of the investment includes transaction costs. Interests in investees contributed by the owners are recognized initially at fair value.

Investments in associates and jointly controlled entities are accounted for using the equity method and are carried in the consolidated statement of financial position at cost as adjusted for post-acquisition changes in the Group's share of net assets of the investee, less any impairment in the value of individual investments. Distributions received from an investee reduce the carrying amount of the investment.

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.

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

Foreign currency differences arising in retranslation are recognised in profit or loss.

(c) Financial instruments

Non-derivative financial instruments comprise loans and receivables, cash and cash equivalents, loans and borrowings and trade and other payables.

(i) Non-derivative financial assets

The Group classifies non-derivative financial assets into the following categories: loans and receivables and cash and cash equivalents.

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

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

Cash and cash equivalents comprise bank balances as presented in note 11.

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.

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) Non-derivative financial liabilities

The Group initially recognises financial liabilities on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

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

The Group classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognised initially at fair value plus 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 as presented in note 13 and trade and other payables as presented in note 15.

(d) Equity

(i) Owner contributions

Owner contributions comprise contributions of monetary and non-monetary assets into the share capital of the Fund.

Non-cash owner contributions are recognised at fair value of the assets contributed, net of deferred tax, at the date of the contribution.

(e) Property and equipment

(i) Recognition and measurement

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

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

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

(ii) Subsequent costs

The cost of replacing a component of an item of property and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the component will flow to the Group, and its cost can be measured reliably. The costs of the day-to-day servicing of property and equipment are recognised in profit or loss as incurred.

(iii) Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of individual assets from the date of their acquisition.

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

(f) Leased assets

All leases are operating leases and the leased assets are not recognised on the Group's statement of financial position. Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease.

(g) Impairment

(i) Financial assets

A financial asset 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 the disappearance of an active market for a security.

Loans and receivables

The Group reviews its loans and receivables, to assess impairment on a regular basis. A loan is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the loan and that event (or events) has had an impact on the estimated future cash flows of the loan that can be reliably estimated.

The Group first assesses whether objective evidence of impairment exists individually for loans that are individually significant, and individually or collectively for loans that are not individually significant.

If the Group determines that no objective evidence of impairment exists for an individually assessed loan, whether significant or not, it includes the loan in a group of loans with similar credit risk characteristics and collectively assesses them for impairment. Loans that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on a loan has been incurred, the amount of the loss is measured as the difference between the carrying amount of the loan and the present value of estimated future cash flows including amounts recoverable from guarantees and collateral discounted at the loan's original effective interest rate. Contractual cash flows and historical loss experience adjusted on the basis of relevant observable data that reflect current economic conditions provide the basis for estimating expected cash flows.

Equity accounted investees

An impairment loss in respect of an investment in an associate or jointly controlled entity is calculated as the difference between its carrying amount after application of the equity method of accounting (note 3(a) (ii)) 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 reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised.

Impairment losses and subsequent reversals for an investment in an associate or jointly controlled entity are recognized in profit or loss.

(ii) Non-financial assets

Non-financial assets, other than deferred taxes, are assessed at each reporting date for any indications of impairment. The recoverable amount of non financial assets is the greater of their fair value less costs to sell and their value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs. An impairment loss is recognised when the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

All impairment losses in respect of non financial assets are recognized in profit or loss and reversed only if there has been a change in the estimates used to determine the recoverable amount. Any impairment loss reversed is only reversed 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.

(h) Non-current assets held for sale

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. Immediately before classification as held for sale, the assets, or components of a disposal group, are remeasured in accordance with the relevant 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 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.

(i) Dividends

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

(j) Provisions

A provision is recognized 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.

(k) Share of results of equity accounted investees

Share of results of equity accounted investees, net of income tax, after adjustments to align the accounting policies with those of the Group, is recognized in profit or loss from the date that significant influence or joint control commences until the date that significant influence or joint control ceases.

(l) Finance income and costs

Finance income comprises interest income on funds invested, dividend income and foreign currency gains. Interest income is recognised as it accrues in profit or loss, using the effective interest method. Dividend income is recognised in profit or loss on the date that the Group's right to receive payment is established.

Finance costs comprise interest expense on borrowings, unwinding of the discount on provisions and foreign currency losses.

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.

(m) 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 the items recognised directly in equity, in which case it is recognized in equity.

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

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: 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 and differences related to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future.

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 tax legislation of the Georgia, 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.

4. New standards and interpretations not yet adopted

A number of new Standards, amendments to Standards and Interpretations are not yet effective as at 31 December 2011, 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.

- IAS 28 (2011*) Investments in Associates and Joint Ventures* combines the requirements in IAS 28 (2008) and IAS 31 that were carried forward but not incorporated into IFRS 11 and IFRS 12. The amended standard will become effective for annual periods beginning of or after 1 January 2013 with retrospective application required. Early adoption of IAS 28 (2011) is permitted provided the entity also early-adopts IFRS 10, IFRS 11, IFRS 12 and IAS 27 (2011). The Group does not intend to adopt this standard early.

- IFRS 9 *Financial Instruments* will be effective for annual periods beginning on or after 1 January 2015. The new standard is to be issued in phases and is intended ultimately to replace International Financial Reporting Standard IAS 39 *Financial Instruments: Recognition and Measurement*. The first phase of IFRS 9 was issued in November 2009 and relates to the classification and measurement of financial assets. The second phase regarding classification and measurement of financial liabilities was published in October 2010. The remaining parts of the standard are expected to be issued during 2012. The Group recognises that the new standard introduces many changes to the accounting for financial instruments and is likely to have a significant impact on Group's consolidated financial statements. The impact of these changes will be analysed during the course of the project as further phases of the standard are issued. The Group does not intend to adopt this standard early.

- IFRS 10 *Consolidated Financial Statements* will be effective for annual periods beginning on or after 1 January 2013. The new standard supersedes IAS 27 Consolidated and Separate Financial Statements and SIC-12 Consolidation – Special Purpose Entities. IFRS 10 introduces a single control model which includes entities that are currently within the scope of SIC-12 Consolidation – Special Purpose Entities. Under the new three-step control model, an investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with that investee, has the ability to affect those returns through its power over that investee and there is a link between power and returns. Consolidation procedures are carried forward from IAS 27 (2008). When the adoption of IFRS 10 does not result a change in the previous consolidation or non-consolidation of an investee, no adjustments to accounting are required on initial application. When the adoption results a change in the consolidation or non-consolidation of an investee, the new standard may be adopted with either full retrospective application from date that control was obtained or lost or, if not practicable, with limited retrospective application from the beginning of the earliest period for which the application is practicable, which may be the current period. Early adoption of IFRS 10 is permitted provided an entity also early-adopts IFRS 11, IFRS 12, IAS 27 (2011) and IAS 28 (2011). The Group does not intend to adopt this standard early.

- IFRS 11 *Joint Arrangements* will be effective for annual periods beginning on or after 1 January 2013 with retrospective application required. The new standard supersedes IAS 31 Interests in Joint Ventures. The main change introduced by IFRS 11 is that all joint arrangements are classified either as joint operations, which are consolidated on a proportionate basis, or as joint ventures, for which the equity method is applied. The type of arrangement is determined based on the rights and obligations of the parties to the arrangement arising from joint arrangement's structure, legal form, contractual arrangement and other facts and circumstances. When the adoption of IFRS 11 results a change in the accounting model, the change is accounted for retrospectively from the beginning of the earliest period presented. Under the new standard all parties to a joint arrangement are within the scope of IFRS 11 even if all parties do not participate in the joint control. Early adoption of IFRS 11 is permitted provided the entity also early-adopts IFRS 10, IFRS 12, IAS 27 (2011) and IAS 28 (2011). The Group does not intend to adopt this standard early.

- IFRS 12 *Disclosure of Interests in Other Entities* will be effective for annual periods beginning on or after 1 January 2013. The new standard contains disclosure requirements for entities that have interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. Interests are widely defined as contractual and non-contractual involvement that exposes an entity to variability of returns from the performance of the other entity. The expanded and new disclosure requirements aim to provide information to enable the users to evaluate the nature of risks associated with an entity's interests in other entities and the effects of those interests on the entity's financial position, financial performance and cash flows. Entities may early present some of the IFRS 12 disclosures early without a need to early-adopt the other new and amended standards. However, if IFRS 12 is early-adopted in full, then IFRS 10, IFRS 11, IAS 27 (2011) and IAS 28 (2011) must also be early-adopted. The Group does not intend to adopt this standard early.

- IFRS 13 *Fair Value Measurement* will be effective for annual periods beginning on or after 1 January 2013. The new standard replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. It provides a revised definition of fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. IFRS 13 does not introduce new requirements to measure assets or liabilities at fair value, nor does it eliminate the practicability exceptions to fair value measurement that currently exist in certain standards. The standard is applied

prospectively with early adoption permitted. Comparative disclosure information is not required for periods before the date of initial application. The Group does not intend to adopt this standard early.

- Amendment to IAS 1 *Presentation of Financial Statements: Presentation of Items of Other Comprehensive Income.* The amendment requires that an entity present separately items of other comprehensive income that may be reclassified to profit or loss in the future from those that will never be reclassified to profit or loss. Additionally, the amendment changes the title of the statement of comprehensive income to statement of profit or loss and other comprehensive income. However, the use of other titles is permitted. The amendment shall be applied retrospectively from 1 July 2012 and early adoption is permitted. The Group does not intend to adopt this standard early.

- Various *Improvements to IFRSs* have been dealt with on a standard-by-standard basis. All amendments, which result in accounting changes for presentation, recognition or measurement purposes, will come into effect for annual periods beginning after 1 January 2011. The Group has not yet analysed the likely impact of the improvements on its financial position or performance.

5. Determination of fair values

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and for disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(a) Interests in investees contributed by the owners

The fair value of the interests in investees, including interest classified as held for sale, contributed by the owners is calculated based on the Group's share of the present value of the estimated future cash flows from the investee, including cash flows from the operations of the investee and the proceeds on the ultimate disposal of the investment and excluding selling costs, where relevant. This fair value is determined for measurement at initial recognition purposes.

(b) Loans and receivables

The fair value of loans and receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. This fair value is determined for disclosure purposes.

(c) Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

6. Asset classified as held for sale

On 25 October 2011 the Government of Georgia transferred to the Fund its 24% interest in Georgian Railway LLC, which operates a nationwide railway system providing freight and passenger transportation services within Georgia, in the form of a capital contribution (see note 12 (a)). On the same date, the interest was classified as held for sale as it was transferred with the view of subsequent disposal. As of the transfer date and 31 December 2011 efforts to sell the interest have commenced, and a sale was highly probable in 2012.

(a) Determination of fair value less costs to sell

As at 25 October 2011 the fair value less costs to sell was estimated at GEL 167,197 thousand as a result of an independent appraisal performed by BDO LLC.

The fair value less costs to sell of the 24% interest in the investee was determined by BDO LLC using discounted cash flow techniques based on the share of contracted and expected cash inflows and outflows arising from the operations of the investee and the proceeds on the ultimate disposal of the investment less costs on disposal.

The following key assumptions were used in determination of the fair value of the 24% interest in Georgian Railway LLC:

- Cash flows were projected based on actual operating results and the five-year business plan at the valuation date;
- Sales volume for the main revenue stream, transportation of dry and liquid cargo (freight traffic), was derived assuming a 9% and 2% average increase, respectively, through the five-year period;
- Sales prices were projected to remain relatively flat with average annual increase of 2-3% through the five-year period;
- Capital expenditure of GEL 1,516,636 thousand was projected for the five-year period. Capital expenditure for the terminal period was derived as 16.7% of terminal period revenue based on the capex-to-revenue ratio for the comparable companies;
- The after-tax discount rate of 16.39% was estimated in nominal terms based on the weighted average cost of capital;
- A terminal value was derived following the forecast period assuming a 3% annual growth rate. A terminal rate of 13.39% was considered in estimating the terminal value;
- The estimated fair value was adjusted for selling costs estimated at 3% of the estimated fair value.

The values assigned to the key assumptions represent management's assessment of future trends in the business and are based on both external sources and internal sources.

The results were particularly sensitive to the following key assumptions:

- A 2% decrease in the projected price levels of freight traffic revenue would have resulted in a decrease in the value of the interest in investee by GEL 15,513 thousand;
- A 5% decrease in the projected level of sales volumes of freight traffic revenue would have resulted in a GEL 38,782 thousand decrease in value of the interest in investee;
- A 5% increase in the projected level of capital expenditure would have resulted in a decrease in the value of the interest in investee by GEL 15,949 thousand;

- A 1% increase in the discount rate would have resulted in a GEL 24,594 thousand decrease in the value of the interest in investee;
- A 1% decrease in the annual growth rate would have resulted in a GEL 17,379 thousand decrease in the value of the interest in investee.

As at 31 December 2011, the management believes that the carrying value of the 24% interest in the investee, estimated as above, was not materially different from its fair value less costs to sell at that date. Consequently, at 31 December 2011 the asset held for sale comprised the 24% interest in Georgian Railway LLC at the carrying value of GEL 167,197 thousand.

The following is the summarised consolidated financial information for Georgian Railway LLC as at and the year ended 31 December 2011:

'000 GEL	**2011**
Total assets	2,416,354
Total liabilities	(614,346)
Total equity	**1,802,008**
Revenue	477,377
Profit and total comprehensive income	**174,413**

7. Operating expenses

'000 GEL	**Note**	**28 June 2011 (date of incorporation) to 31 December 2011**
Provision	14	1,088
Consulting expenses		693
Other		193
		1,974

8. Finance income and finance costs

'000 GEL	**28 June 2011 (date of incorporation) to 31 December 2011**
Interest income on current accounts	15
Net foreign exchange gain	78
Finance income	**93**
Interest expense on loans and borrowings	(10)
Finance costs	**(10)**
Net finance income recognised in profit or loss	**83**

9. Income tax benefit

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

'000 GEL	**28 June 2011 (date of incorporation) to 31 December 2011**
Current tax expense	
Current year	-
	-
Deferred tax benefit	
Origination and reversal of temporary differences	285
	285

Tax recognised directly in equity

	28 June 2011(date of incorporation) to 31 December 2011		
'000 GEL	**Before tax**	**Tax**	**Net of tax**
Transactions with owners (note 12 (a))	386,169	(3,439)	382,730
	386,169	**(3,439)**	**382,730**

Reconciliation of effective tax rate:

	28 June 2011(date of incorporation) to 31 December 2011	
	'000 GEL	%
Profit for the period	4,037	
Total tax benefit	(285)	
Profit excluding tax	**3,752**	**100%**
Tax at applicable domestic tax rate	563	15%
Non-taxable income	(848)	(23%)
	(285)	**(8%)**

(a) Recognised deferred tax assets and liabilities

As at 31 December 2011 deferred tax assets and liabilities are attributable to the following:

'000 GEL	Assets	Liabilities	Net
Interests in equity accounted investees	-	(14,700)	(14,700)
Property and equipment	-	(4)	(4)
Asset classified as held for sale	11,261	-	11,261
Trade and other payables	56	-	56
Provisions	163	-	163
Tax loss carry-forwards	70	-	70
Net tax assets/(liabilities)	**11,550**	**(14,704)**	**(3,154)**

(b) Movement in temporary differences during the period

'000 GEL	28 June 2011 (date of incorporation)	Recognised in profit or loss	Recognised directly in equity	31 December 2011
Interests in equity accounted investees	-	-	(14,700)	(14,700)
Property and equipment	-	(4)	-	(4)
Asset classified as held for sale	-	-	11,261	11,261
Trade and other payables	-	56	-	56
Provisions	-	163	-	163
Tax loss carry-forwards	-	70	-	70
	-	**285**	**(3,439)**	**(3,154)**

10. Interests in equity accounted investees

'000 GEL	**Note**	**2011**
Balance at 28 June (date of incorporation)		-
Interests in investees contributed by the owners	12, 10 (a)	212,799
Incorporation of jointly controlled entity	10 (b)	17,290
Share of results of equity accounted investees (net of income tax)		5,868
Balance at 31 December		**235,957**

The equity accounted investees in which the Group holds more than 20% but less than 51% of the holding are:

Company name	**Note**	**Place of incorporation and operation**	**Principal activity**	**31 December 2011 Ownership interest, %**
Georgian Oil and Gas Corporation JSC	10 (a)	Georgia	Oil and gas sale, extraction and exploration and rent of pipelines	24%
Borjomi Likani International JSC	10 (b)	Georgia	Hotel operations	50%

In 2011 the Group did not receive dividends from any of its investments in equity accounted investees.

The following is summarised financial information for equity accounted investee:

’000 GEL	**Reporting period**	**Ownership**	**Total assets**	**Total liabilities**	**Revenue**	**Profit/(loss)**	**Group share of net assets**	**Group share of profit/(loss)**
2011								
Georgian Oil and Gas Corporation JSC*	2011	24%	426,544	68,075	239,917	114,072	86,032	5,868
Borjomi Likani International JSC**	22 September 2011 (date of incorporation) to 31 December 2011	50%	34,546	195	-	-	17,176	-
							103,208	**5,868**

* The profit for year of Georgian Oil and Gas Corporation JSC did not include GEL 8,444 thousand of profit from discontinued operations as it related to the period before the acquisition date of the interest in the investee.

** Total assets of Borjomi Likani International JSC comprise current and non-current assets of GEL 17,186 thousand and GEL 17,360 thousand, respectively.

(a) Georgian Oil and Gas Corporation JSC

On 25 October 2011 the Government of Georgia transferred to the Fund 24% of the shares in Georgian Oil and Gas Corporation JSC, a company involved in importation and sale of gas, the rental of gas pipelines and oil and gas exploration and extraction in Georgia, in the form of a capital contribution (see note 12 (a)). The investment in associate was recognised at its fair value of GEL 212,799 thousand as at the transfer date according to accounting policies of the Fund (see note 3(a)(ii)).

The fair value of 24% interest in investee was determined by an independent appraiser, BDO LLC, using discounted cash flow techniques based on the share of contracted and expected cash inflows and outflows arising from the operations of the investee and the proceeds on the ultimate disposal of the investment.

The following key assumptions were used in the determination of fair value:

- Cash flows were projected based on actual operating results and the ten-year business plan derived from the investee's fixed contractual arrangements for the projected period;
- Sales prices of gas were projected based on the prices set in sales agreements and forecasted gas prices in the European market;
- Capital expenditure of GEL 480,729 thousand was projected for the five-year period. Capital expenditure for the terminal period was derived as 5.7% of terminal period revenue based on the capex-to-revenue ratio for the comparable companies;
- The after-tax discount rate of 14.82% was estimated in nominal terms based on the weighted average cost of capital;
- A terminal value was derived following the forecast period assuming a 3% annual growth rate. A terminal rate of 11.82% was considered in estimating the terminal value.

The values assigned to the key assumptions represent management's assessment of future trends in the business and are based on both external sources and internal sources (historical data).

The results were particularly sensitive to the following key assumptions:

- A 2% decrease in the projected sales price level would have resulted in a decrease in the value of the interest in investee by GEL 10,284 thousand;
- A 5% decrease in the projected level of sales volumes would have resulted in a GEL 13,606 thousand decrease in the value of the interest in investee;
- A 10% increase in the projected level of capital expenditure would have resulted in a decrease in the value of the interest in investee by GEL 7,604 thousand;
- A 1% increase in the discount rate would have resulted in GEL 21,190 thousand decrease in the value of the interest in investee;
- A 1% decrease in the annual growth rate would have resulted in GEL 8,968 thousand decrease in the value of the interest in investee.

(b) Borjomi Likani International JSC

In 2011 the Group and KMG Group (represented by Kazmunaygas Service LLP and KMG Service Georgia LLC) established a jointly-controlled entity, Borjomi Likani International JSC, with the aim to construct a high-class hotel in the resort of Likani to be operated by an internationally recognized hotel brand. The Group's contribution into the jointly controlled entity was GEL 17,290 thousand.

During 2011 the Group made cash contribution of GEL 193 thousand into the jointly controlled entity.

At the reporting date the Group has an outstanding payable for the interest in Borjomi Likani International JSC of GEL 17,097 thousand (see note 15) which is due by 31 December 2012.

11. Cash and cash equivalents

'000 GEL	2011
Bank balances	2,537
Cash and cash equivalents in the consolidated statement of financial position and in the consolidated statement of cash flows	**2,537**

None of the cash balances are impaired or past due.

The Group's exposure to interest rate and credit risks related to cash and cash equivalents are disclosed in note 16. The majority of the Group's cash in banks is with banks rated by Fitch and Standard & Poor's as BB- (long-term rating), BB (long-term rating) and B (short-term rating).

12. Equity

(a) Contributions by owner

As at 31 December 2011 the charter documents of the Fund did not define the par value and quantity of shares in issue. According to the Georgian Law on Entrepreneurs, the share capital of a joint stock company can be undetermined. Consequently the management classified capital contributions from Government of Georgia as owner contributions.

In 2011 the Group received the following assets as capital contributions from the owner:

'000 GEL	Note	2011
24% interest in Georgian Oil and Gas Corporation JSC, net of deferred tax liability of GEL 14,700 thousand (see note 9)	10	198,099
24% interest in Georgian Railway LLC, net of deferred tax asset of GEL 11,261 thousand (see note 9)	6	178,458
Prepayments for non-current assets	20	2,942
Prepayments and other receivables	20	751
Cash and cash equivalents	20	2,480
Total capital contributions		**382,730**

(b) Dividends

The owners are entitled to receive dividends as declared from time to time. In accordance with Georgian legislation the Fund's distributable reserves are limited to the balance of retained earnings as recorded in the Fund's statutory financial statements prepared in accordance with IFRSs. As at 31 December 2011 the Fund had retained earnings of GEL 4,037 thousand.

13. 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 risk, see note 16.

'000 GEL	**2011**
Current liabilities	
Unsecured bank loan	745
	745

(a) Terms and debt repayment schedule

Terms and conditions of outstanding loan were as follows:

				31 December 2011	
'000 GEL	**Currency**	**Nominal interest rate**	**Year of maturity**	**Face value**	**Carrying amount**
Unsecured bank loan	USD	9.5%	2012	745	745
Total interest-bearing liabilities				**745**	**745**

(b) Unused credit line facility

On 17 August 2011 the Group negotiated a credit line agreement with TBC Bank JSC with an available facility of USD 5,000 thousand expiring in 2012.

As at 31 December 2011 the available credit line facility under the credit line agreement was USD 4,560 thousand.

14. Provisions

'000 GEL	**2011**
Balance at 28 June (date of incorporation)	-
Provision made during the year	1,088
Balance at 31 December	**1,088**
Non-current	-
Current	1,088
	1,088

The provision relates to the consulting services received by the Group but not billed by the counterparties during the period from 28 June 2011 (date of incorporation) to 31 December 2011. The provision represents management's best estimate of the Group's probable cash outflows relating to the above services. The Group expects to incur the liability over the next year.

15. Trade and other payables

’000 GEL	Note	2011
Payable for the interest in an equity accounted investee	10 (b)	17,097
Taxes payable other than income tax		32
Other payables		884
		18,013

The Group’s exposure to foreign currency and liquidity risks related to trade and other payables are disclosed in note 16.

16. Financial instruments and risk management

(a) Overview

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

- credit risk
- liquidity risk
- market risk

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 Board of Directors has overall responsibility for the establishment and oversight of the Group’s risk management framework. The Group’s Supervisory Board oversees how management monitors compliance with the Group’s risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Supervisory Board has established a Risk Management Committee, which is responsible for developing and monitoring the Group’s risk management policies. The committee reports regularly to the Board of Directors and Supervisory Board on its activities.

(b) 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 cash balances and other receivables.

(i) Exposure to credit risk

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

'000 GEL	**Note**	**2011**
Other receivables		699
Cash and cash equivalents	11	2,537
		3,236

(ii) Other receivables

The Group is not significantly exposed to credit risk from other receivables.

Based on the monitoring of customer credit risk, the Group believes that no impairment allowance is necessary in respect of other receivables.

(iii) Cash at banks

The Group held cash and cash equivalents of GEL 2,537 thousand at 31 December 2011, which represents its maximum credit exposure on these assets. The cash and cash equivalents are held with three of the top Georgian banks with short term issuer default ratings of B.

Management does not believe that any of the counterparties will fail to meet its obligations.

(iv) 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.

At 31 December 2011 no guarantees were outstanding.

(c) 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.

For this purpose the Group makes short-term forecasts for cash flows based on estimated financial needs determined by the nature of operating activities. As a rule these needs are envisaged for an annual and monthly basis. In order to manage its financial needs the Group maintains an unused credit line facility (see note 13). The above ensures that the Group has enough cash to meet its financial obligations.

Typically the Group ensures that it has 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 contractual commitments to purchase property and equipment (see note 17).

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

2011 **'000 GEL**	**Carrying amount**	**Contractual cash flows**	**On demand**	**2-12 months**
Non-derivative financial liabilities				
Unsecured bank loan	745	789	-	789
Trade and other payables	17,981	17,981	884	17,097
	18,726	**18,770**	**884**	**17,886**

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

(d) 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.

(i) Currency risk

The Group is exposed to currency risk on supplies and borrowings that are denominated in a currency other than GEL. The currency in which these transactions primarily are denominated is USD. In respect of other monetary assets and liabilities denominated in foreign currencies, the Group ensures that its net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates when necessary to address short-term imbalances.

Interest on borrowings is denominated in the currency of the borrowings.

Exposure to currency risk

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

'000 GEL	**USD-denominated** **2011**
Loans and borrowings	745
Trade and other payables	17,865
Net exposure	**18,610**

The following significant exchange rates applied during the year:

in GEL	**Average rate**	**Reporting date spot rate**
	28 June 2011 (date of incorporation) to 31 December 2011	**2011**
USD 1	1.6583	1.6703

Sensitivity analysis

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

	28 June 2011 (date of incorporation) to 31 December 2011 GEL'000
10% appreciation of USD against GEL	(1,582)

A strengthening of the GEL against the above currencies at 31 December 2011 would have had the equal but opposite effect on the above currencies to 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 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.

Profile

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

	Carrying amount
'000 GEL	**2011**
Fixed rate instruments	
Financial assets	2,537
Financial liabilities	(745)
	1,792

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.

(e) Accounting classifications and fair values

(i) Fair values versus carrying amounts

The fair values of financial assets and liabilities, together with the carrying amounts shown in the statement of financial position, are as follows.

'000 GEL	Note	Loans and receivables	Other financial liabilities	Total carrying amount	Fair value
31 December 2011					
Cash and cash equivalents	11	2,537	-	2,537	2,537
Other receivables		699	-	699	699
		3,236	-	**3,236**	**3,236**
Unsecured bank loan	13	-	745	745	745
Trade and other payables	15	-	17,981	17,981	17,981
		-	**18,726**	**18,726**	**18,726**

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

(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. This is achieved with efficient cash management and long-term investment plans mainly financed by the dividends received from the equity accounted investees and contributions from the shareholder.

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

'000 GEL	**2011**
Total liabilities	19,846
Less: cash and cash equivalents	(2,537)
Net debt	**17,309**
Total equity	386,767
Debt to capital ratio at 31 December	**0.04**

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

17. Capital commitments

During the period from 28 June 2011 (date of incorporation) to 31 December 2011 the Group entered into a contract for capitalised expenses on property and equipment for GEL 7,434 thousand.

18. Contingencies

(a) Insurance

The Group does not have full coverage for business interruption and third party liability arising from Group's operations. Until the Group obtains adequate insurance coverage, there is a risk that the loss or destruction of certain operations could have a material adverse effect on the Group's operations and financial position.

(b) 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.

(c) Other contingencies

During 2011 Group entered into the agreement with a consulting firm on provision of corporate finance services. Under the agreement the Group agreed to pay a success fee to the consulting firm in case the financing is obtained by the Group within the period of fifteen months from the expiration date of the contract.

As at 31 December 2011 no liability was recognized for the agreement as no financing was received by the Group. At the date when these consolidated financial statements were approved for issuance, management assessed the likelihood that the Group will be required to make a payment of success fee to the consulting company as possible. At the reporting date it was not practicable to estimate the potential financial effect of a contingent liability.

19. Related party transactions

(a) Control relationships

As at 31 December 2011 the Fund is wholly owned by the State of Georgia represented by the Government of Georgia.

(b) Transactions with key management personnel

Key management received the following remuneration during the period from 28 June 2011 (date of incorporation) to 31 December 2011, which is included in wages and other employee benefits:

'000 GEL	**28 June 2011 (date of incorporation) to 31 December 2011**
Salaries	**105**

(c) Other related party transactions

(i) Transactions with the government

The Group transacts in its daily operations with a number of entities that are either controlled, jointly controlled or under significant influence by 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.

Management estimates that the aggregate amounts of all income and expenses and the related balances with government-related entities at the reporting date are not significant.

Transactions with the shareholder are disclosed in note 12 of these consolidated financial statements.

20. Subsidiaries

As at 31 December 2011 the Fund has direct interests in the following subsidiaries, which affected assets and liabilities of the Group:

		31 December 2011	
Subsidiary	**Country of incorporation and operation**	**Ownership/voting**	**Principal activities**
Nenskra JSC	Georgia	100%	Construction and operation of hydro-power plant
Tbilisi Logistics Center LLC	Georgia	100%	Servicing food commodities

On 10 and 27 December 2011, respectively, the Group obtained control of Tbilisi Logistics Center LLC and Nenskra JSC. The subsidiaries were received in the form of a capital contribution from the Government of Georgia acting in its capacity as a shareholder. The Group treats the receipt of the subsidiaries as asset contributions as none of the companies constituted a business at the contribution date.

The assets contributed were recognized by the Group at fair value. The fair value was appraised on the basis of recent market transactions and determined to be GEL 6,173 thousand.

The following is summarised information of the assets owned by the subsidiaries at the contribution date:

’000 GEL	**Note**	**Nenskra JSC**	**Tbilisi Logistics Center LLC**	**Total**
Prepayments for non-current assets	12	2,942	-	2,942
Prepayments and other receivables	12	716	35	751
Cash and cash equivalents	12	1,240	1,240	2,480
Total		**4,898**	**1,275**	**6,173**

21. Events subsequent to the reporting date

In March 2012, Georgian Oil and Gas Corporation JSC and Georgian Railway LLC declared dividends of GEL 20 million and GEL 28 million, respectively. 24% of the declared amounts should be treated as dividend income and the remaining 76% should be recognised as a capital contribution from the Government of Georgia.

In April 2012, the Fund was rated by Fitch as BB- (long-term rating) and B (short-term rating).

In April 2012, a Memorandum of Understanding (“MoU”) was signed between Georgian Railway LLC and the Government of Georgia, which creates a set-off mechanism for the former whereby dividends that would otherwise be payable to the State in respect of its shares in the company are offset against the future expenses of Georgian Railway LLC in relation to the Bypass Project and in exchange for the transfer, by Georgian Railway LLC to the Government, of 70.1 hectares of land plots in Central Tbilisi. The amount to be offset under this mechanism is subject to an aggregate cap of CHF 138.0 million. If the dividends payable to the State are insufficient to cover the reimbursable expenses in full, Georgian Railway LLC has the right to retain a pro-rata ownership interest in the land plots.

In April 2012, Georgian Railway LLC changed its legal form from a Limited Liability Company to a Joint Stock Company with a share capital of 1,049,751,200 shares each with a par value of GEL 1.

Pursuant to Government Resolution No. 789 as of 30 April 2012 on “Contributing the Shares of JSC “Georgian Railway” owned by the State into the capital of JSC Partnership Fund” the Fund received additional shares in Georgian Railway JSC, representing 1.5% of the latter’s authorized capital, by the way of a capital contribution from the owner.

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.

In May 2012, five year bonds of Georgian Oil and Gas Corporation JSC in the amount of USD 250 million maturing in 2017 and a coupon rate of 6.875% were placed on the London Stock Exchange.

In July 2012, Nika Gilauri, the former Prime Minister of the Government of Georgia, was appointed as the Chief Executive Officer of the Fund.

In July 2012, the 100% interests in Georgian State Electrosystem JSC, Electricity System Commercial Operator JSC, 24.529% interest in Telasi JSC and remaining shares in Georgian Oil and Gas Corporation JSC were contributed by the Government of Georgia to the capital of the Fund. Except for dividend declaration, Supervisory Board formation and share distribution, the Fund should grant rights associated with the shareholding of the above companies to the Ministry of Energy and Natural Resources of Georgia.

In July 2012 Georgian Railway JSC declared dividends of CHF 138 million and GEL 100 million. 74.5% of the dividends, attributable to the Government of Georgia, are to be utilized in a manner described in the MoU above, with any remaining surplus directly payable to the State budget. 25.5% of the dividends, attributable to the Fund, are also repayable to the State in the form of a dividend payment by the Fund to the Government of Georgia.

In July 2012, 10 year bonds of Georgian Railway JSC in the amount of USD 500 million maturing in 2022 and a coupon rate of 7.75% were placed on the London Stock Exchange. On the issue Georgian Railway JSC acquired back about 90% of its existing USD 250 million bonds.

In July 2012, a new subsidiary was established by the Fund with a charter capital of USD 1 million. The subsidiary was created for the purpose of the project on construction of a sea port in Anaklia.

In July 2012, a new subsidiary was established by Tbilisi Logistics Center LLC, with a charter capital of GEL 200 thousand. The subsidiary was created for the purpose of the project on facilitating the food commodities’ trading process.