Partnership Fund JSC

Consolidated Financial Statements
for the year ended 31 December 2013

Contents

Independent Auditors’ Report	3
Consolidated Statement of Financial Position	4
Consolidated Statement of Profit or Loss and Other Comprehensive Income	6
Consolidated Statement of Changes in Equity	7
Consolidated Statement of Cash Flows	8
Notes to the Consolidated Financial Statements	9

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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 2013, 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 2013, 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
27 August 2014

KPMG Georgia LLC, a company 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**	**2013**	**2012**
Assets			
Property, plant and equipment	9	3,557,114	3,385,222
Prepayments for non-current assets	10	317,316	323,353
Investments in equity accounted investees	11	46,380	55,679
Finance lease receivable	12	48,864	45,882
Loans receivable		750	13,147
Deferred tax assets	8	9,874	14,841
Term deposits	13	40,083	105,426
VAT receivable		38,671	55,217
Other non-current assets	10	66,551	76,292
Non-current assets		**4,125,603**	**4,075,059**
Loans receivable		51,414	48,714
Inventories		52,936	43,851
Prepayments and other current assets	14	84,644	99,115
Trade receivables	15	142,026	154,147
Current tax assets		13,221	7,043
Term deposits	13	78,493	153,175
Cash and cash equivalents	16	511,451	329,264
Current assets		**934,185**	**835,309**
Total assets		**5,059,788**	**4,910,368**

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 9 to 59.

’000 GEL	Note	2013	2012
Equity			
Share capital		100,000	100,000
Owner contributions		2,206,772	2,207,766
Retained earnings		112,512	41,170
Total equity	17	**2,419,284**	**2,348,936**
Liabilities			
Loans and borrowings	18	1,919,708	1,764,454
Advance received from the Government	17(e)	231,592	231,592
Restructured liabilities	19	59,167	58,370
Grants related to assets	20	71,060	72,183
Deferred tax liabilities	8	74,922	66,868
Other non-current liabilities		1,845	2,349
Non-current liabilities		**2,358,294**	**2,195,816**
Loans and borrowings	18	87,317	56,414
Restructured liabilities	19	4,599	2,457
Trade and other payables	21	166,786	262,264
Liabilities to the Government	17(d)	11,917	37,456
Provisions		8,762	5,054
Current tax liabilities		-	1,971
Grants related to assets	20	2,829	-
Current liabilities		**282,210**	**365,616**
Total liabilities		**2,640,504**	**2,561,432**
Total equity and liabilities		**5,059,788**	**4,910,368**

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 9 to 59.

'000 GEL	Note	2013	2012
Revenue	5	979,399	410,618
Operating expenses	6	(488,088)	(247,773)
Wages and other employee benefits		(164,730)	(54,209)
Depreciation and amortization		(153,537)	(52,219)
Share of (loss)/profit of equity accounted investees (net of income tax)	11	(9,299)	16,516
Dividend income		-	6,720
Impairment loss	9(b)	-	(7,486)
Other income		43,747	31,672
Results from operating activities		**207,492**	**103,839**
Finance income	7	56,386	26,917
Finance costs	7	(156,105)	(59,718)
Net finance costs		**(99,719)**	**(32,801)**
Profit before income tax		**107,773**	**71,038**
Income tax expense	8	(34,204)	(2,643)
Profit and total comprehensive income for the year		**73,569**	**68,395**

These consolidated financial statements were approved by management on 27 August 2014 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 9 to 59.

’000 GEL	Share capital (note 17)	Owner contributions (note 17 (b))	Retained earnings	Total equity
Balance at 1 January 2012	-	268,387	4,037	272,424
Total comprehensive income				
Profit for the year	-	-	68,395	68,395
Transactions with owners, recorded directly in equity				
Net owner contributions	-	2,054,231	-	2,054,231
Distributions of non-cash assets net of tax of GEL 5,517 thousand (see note 17(c))	-	-	(31,262)	(31,262)
Registration of share capital	100,000	(100,000)	-	-
Effect on derecognition of deferred tax assets (see note 8(c))	-	(14,852)	-	(14,852)
Balance at 31 December 2012	**100,000**	**2,207,766**	**41,170**	**2,348,936**
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 (see note 17(c))	-	(994)	(2,227)	(3,221)
Balance at 31 December 2013	**100,000**	**2,206,772**	**112,512**	**2,419,284**

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 9 to 59.

’000 GEL	Note	2013	2012
Cash flows from operating activities			
Profit before income tax		107,773	71,038
Adjustments for:			
Depreciation and amortisation		153,537	52,219
Impairment losses		-	7,486
Loss on disposal of property, plant and equipment and other non-current assets		1,839	11,085
Net finance costs		99,719	32,801
Share of loss/(profit) of equity accounted investees (net of income tax)		9,299	(16,516)
Dividend income		-	(6,720)
		372,167	**151,393**
Changes in:			
Inventories		(10,694)	20,953
Trade receivables and prepayments and other current assets		35,304	(48,771)
Restricted cash		960	(3,465)
Trade and other payables		32,256	(7,786)
Provisions		3,708	26
Government grants		1,706	22,026
Cash flows from operations before income taxes and interest paid		**435,407**	**134,376**
Income tax paid		(28,532)	(6,530)
Interest paid		(102,458)	(17,402)
Net cash from operating activities		**304,417**	**110,444**
Cash flows from investing activities			
Interest received		49,024	23,541
Dividends received		-	11,520
Issue of loans		-	(59,798)
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		(361,867)	(323,993)
Acquisition of investments in equity accounted investees		(5,108)	(16,502)
Change in term deposits		144,606	(70,032)
Cash acquired in business combinations		-	558,775
Net cash (used in)/from investing activities		**(161,621)**	**123,511**
Cash flows from financing activities			
Proceeds from cash contributions by owners		-	36,480
Proceeds from borrowings		67,301	75,517
Repayment of borrowings		(9,242)	(12,140)
Repayment of restructured liabilities		(2,922)	(1,870)
Dividends paid by subsidiary to its prior parent		(24,500)	(7,000)
Net cash from financing activities		**30,637**	**90,987**
Net increase in cash and cash equivalents		**173,433**	**324,942**
Cash and cash equivalents at 1 January		325,799	2,537
Effect of movements in exchange rates on cash and cash equivalents		9,714	(1,680)
Cash and cash equivalents at 31 December		**508,946**	**325,799**

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 9 to 59.

Note	Page
1. Reporting entity	10
2. Basis of accounting	12
3. Functional and presentation currency	12
4. Use of estimates and judgments	12
5. Revenue	13
6. Operating expenses	14
7. Finance income and finance costs	15
8. Income taxes	15
9. Property, plant and equipment	19
10. Prepayments for non-current assets and other non-current assets	21
11. Investments in equity accounted investees	21
12. Finance lease receivable	23
13. Term deposits	24
14. Prepayments and other current assets	25
15. Trade receivables	25
16. Cash and cash equivalents	26
17. Equity and liabilities to the Government	26
18. Loans and borrowings	28
19. Restructured liabilities	31
20. Grants related to assets	32
21. Trade and other payables	32
22. Fair values and risk management	32
23. Significant subsidiaries	41
24. Operating leases	42
25. Capital commitments	42
26. Contingencies	43
27. Related parties	44
28. Subsequent events	45
29. Basis of measurement	46
30. Changes in accounting policies	46
31. Significant accounting policies	47
32. New standards and interpretations not yet adopted	58

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. The Group entities 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 the first 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 statements of profit or loss and other comprehensive income and cash flows of the subsidiaries are consolidated in these consolidated financial statements from the date that the Fund obtained control of the subsidiaries. As a result, the amounts in the consolidated statements of profit or loss and other comprehensive income and cash flows for the years ended 31 December 2013 and 2012 are not entirely comparable.

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"). The equity of the Fund is mainly formed by the contributions from the Government of Georgia of its interests in Georgian companies (see note 17(b)). Related party transactions are detailed in note 27.

(c) Group structure

As at 31 December 2013 and 2012 the Fund has direct and indirect interests in the following entities:

Name	Country of incorporation and operation	2013 Ownership/ voting	2012 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
Namakhvani JSC	Georgia	100%	100%	Construction and operation of a hydro electric power plant
Gardabani LLC	Georgia	100%	100%	Construction and operation of a combined cycle power plant (CCPP)
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	Georgia	100%	100%	Parking service
Georgia Tranzit LLC	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 of Georgia LLC (former Port Lazika 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
Telasi JSC	Georgia	24.53%	24.53%	Purchase and distribution of electric power to industrial and residential customers in Tbilisi

2. Basis of accounting

(a) 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 a temporary difference on initial recognition of the finance lease receivable;
- Note 12 – determination whether the arrangement contains a lease and the fair value of the unguaranteed residual value;
- Note 16 – classification of deposits with original maturities of more than three months as cash and cash equivalents;
- Note 18(a) – determination of the fair value of loans and borrowings at initial recognition;
- Note 9(a)(i) – suspension of capitalization of borrowing cost;
- 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 8(d) – non-recognition of deferred tax assets on tax losses carried forward;
- Note 9(a)(i) – recoverability of suspended construction in progress;
- Note 13 – recoverability of a term deposit pledged as collateral for a loan obtained by a State controlled entity;
- Note 22(c)(ii) – impairment for trade receivables;
- Note 31(j)(iii) – useful lives and residual values of property, plant and equipment;
- Note 25 – termination of agreements related to the Namakhvani project.

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	**2013**	**2012**
Revenue from railway transportation	**476,938**	**179,097**
Freight traffic	424,586	157,555
Freight car rental	34,308	14,945
Passenger traffic	18,044	6,597
Revenue from gas and oil sales and pipelines	**325,761**	**137,960**
Sales of gas	240,619	101,372
Rent of gas pipelines	42,666	18,096
Income from crude oil	30,524	13,344
Oil transportation fees	11,952	5,148
Revenue from electricity	**148,703**	**89,308**
Sales of balancing electricity	93,021	67,891
Transmission of electricity	43,555	16,477
Dispatching of electricity	12,127	4,940
Other revenue	**27,997**	**4,253**
Total revenues	**979,399**	**410,618**

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 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 uses USD as the freight tariff currency due to the volatility of the exchange rates between the CHF and other currencies and also to better align costs and revenues from its customers, which mainly trade in USD or GEL.

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.

6. Operating expenses

’000 GEL	**2013**	**2012**
Cost of gas and oil	198,483	96,782
Cost of sold balancing electricity	93,021	67,715
Electricity and materials used in railroad transportation	47,494	22,216
Taxes other than on income	36,072	11,747
Freight car rental	21,845	10,616
Other	91,173	38,697
	488,088	**247,773**

7. Finance income and finance costs

’000 GEL	**2013**	**2012**
Recognised in profit or loss		
Interest income on:		
- bank deposits and current accounts	46,290	23,247
- loans receivable	7,114	2,489
Unwinding of discount on finance lease receivable	2,982	1,181
Finance income	**56,386**	**26,917**
Interest expense on loans and borrowings	(48,683)	(20,719)
Net foreign exchange loss	(92,178)	(35,128)
Unwinding of discount on restructured liabilities	(5,912)	(2,889)
Impairment loss on trade receivables	(9,332)	(982)
Finance costs	**(156,105)**	**(59,718)**
Net finance costs recognised in profit or loss	**(99,719)**	**(32,801)**

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	**2013**	**2012**
Current tax expense		
Current year	17,135	32,435
Under-provided in prior years	4,048	-
Deferred tax expense		
Origination and reversal of temporary differences	13,021	(29,792)
Total tax expense	**34,204**	**2,643**

Reconciliation of effective tax rate:

	2013		**2012**	
	’000 GEL	**%**	**’000 GEL**	**%**
Profit before tax for the year	**107,773**		**71,038**	
Tax using the Group’s tax rate	16,166	15	10,656	15
Tax exempt income	(529)	0	(6,230)	(9)
Change in unrecognized deferred tax assets	14,519	13	(1,783)	(3)
Under-provided in prior years	4,048	4	-	-
	34,204	**32**	**2,643**	**4**

(b) Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		**Liabilities**		**Net**	
'000 GEL	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**
Property, plant and equipment	-	-	(126,877)	(112,355)	(126,877)	(112,355)
Other non-current assets	46	148	-	-	46	148
Inventories	13,625	13,619	-	-	13,625	13,619
Trade receivables and prepayments and other current assets	28,093	26,894	-	-	28,093	26,894
Grants related to assets	10,968	10,485	-	-	10,968	10,485
Loans and borrowings	4,948	4,632	-	-	4,948	4,632
Trade and other payables	662	1,130	-	(12)	662	1,118
Provisions	923	783	-	-	923	783
Tax loss carry-forwards	2,564	2,649	-	-	2,564	2,649
Tax (liabilities)/assets	**61,829**	**60,340**	**(126,877)**	**(112,367)**	**(65,048)**	**(52,027)**
Set off of tax	(51,955)	(45,499)	51,955	45,499	-	-
Net tax (liabilities)/assets	**9,874**	**14,841**	**(74,922)**	**(66,868)**	**(65,048)**	**(52,027)**

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

'000 GEL	1 January 2013	Recognised in profit or loss	Acquired	Disposed of	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)**

'000 GEL	1 January 2012	Recognised in profit or loss	Acquired	Disposed of	31 December 2012
Property, plant and equipment	(4)	62,160	(174,511)	-	(112,355)
Investments in equity accounted investees	3,591	-	-	(3,591)	-
Other non-current assets	-	(82)	230	-	148
Assets held for sale	11,261	-	-	(11,261)	-
Inventories	-	(7,538)	21,157	-	13,619
Trade receivables and prepayments and other current assets	-	(14,885)	41,779	-	26,894
Grants related to assets	-	(5,803)	16,288	-	10,485
Loans and borrowings	-	(2,564)	7,196	-	4,632
Trade and other payables	56	(588)	1,650	-	1,118
Provisions	163	(343)	963	-	783
Tax loss carry-forwards	70	(565)	3,144	-	2,649
	15,137	**29,792**	**(82,104)**	**(14,852)**	**(52,027)**

(d) Unrecognised deferred tax assets

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

'000 GEL	**2013**	**2012**
Temporary difference on finance lease receivable	24,422	26,665
Tax loss carry-forwards	51,196	34,434
	75,618	**61,099**

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.

The tax losses expire in 2015 (GEL 34,434 thousand) and 2018 (GEL 12,967 thousand). Deferred tax assets have not been recognised in respect of tax losses because it is not probable that future taxable profit will be available against which the Group can utilise the benefits there from.

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 2012	-	-	-	-	-	115	78	193
Acquisitions through business combinations	760,181	741,073	259,272	29,834	143,900	909,065	1,083,511	3,926,836
Additions	19,415	668	-	-	-	31,716	191,633	243,432
Disposals	(2,675)	(7,634)	-	-		(3,207)	(11,639)	(25,155)
Transfers	2,014	6,401	-	-	10,295	10,283	(28,993)	-
Balance at 31 December 2012	**778,935**	**740,508**	**259,272**	**29,834**	**154,195**	**947,972**	**1,234,590**	**4,145,306**
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**
Depreciation and impairment losses								
Balance at 1 January 2012	-	-	-	-	-	4	-	4
Acquisitions through business combinations	31,624	193,054	70,359	16,788	48,326	345,823	-	705,974
Depreciation for the year	2,630	11,321	6,833	693	5,567	24,649	-	51,693
Impairment loss	-	-	-	-	-	-	6,179	6,179
Disposals	(13)	(2,985)	-	-	-	(768)	-	(3,766)
Balance at 31 December 2012	**34,241**	**201,390**	**77,192**	**17,481**	**53,893**	**369,708**	**6,179**	**760,084**
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
Disposals	(745)	(15,145)	-	-	-	(7,992)	-	(23,882)
Transfers	(5)	-	-	-	-	5	-	-
Balance at 31 December 2013	**41,343**	**227,904**	**92,489**	**19,084**	**69,137**	**432,486**	**6,179**	**888,622**
Carrying amounts								
At 31 December 2012	744,694	539,118	182,080	12,353	100,302	578,264	1,228,411	3,385,222
At 31 December 2013	**769,618**	**617,915**	**210,687**	**10,750**	**266,945**	**1,028,368**	**652,831**	**3,557,114**

(a) Property, plant and equipment under construction

As at 31 December 2013 the Group is undertaking the following significant capital expenditure projects:

(i) Development of rail track infrastructure: the Main Line Modernization and Tbilisi Bypass projects, which are expected to be completed by 2019 and 2017, respectively. The projects are partly financed by the bonds issued by the Group (see note 18). The interest on the bonds issued were capitalized to the two projects in proportion to the costs incurred on the projects based on a capitalization rate of 8% (2012: 8%) and amounted to GEL 55,628 thousand (2012: GEL 21,886 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. The Group believes that the modification of the project will only affect future construction and will not result in any existing construction becoming redundant.

(ii) In 2013 construction of new power-transmission lines within the framework of the BSTN project (see note 23) was completed. The project was financed by credit facilities and grants provided by the European Bank for Reconstruction and Development (EBRD), the European Investment Bank (EIB) and Kreditanstalt für Wiederaufbau (KfW) received by and sub-loaned through the Ministry of Finance of Georgia (see note 18). Capitalised borrowing costs related to the construction of the new energy transmission lines amounted to GEL 18,996 thousand (2012: GEL 3,989 thousand).

Included in construction in progress are assets with a carrying amount of GEL 67,819 thousand (2012: GEL 48,793 thousand) which were suspended due to prioritisation of the Main Line Modernization and Tbilisi Bypass projects. Management believes that these assets are not impaired and the construction is expected to be completed within the next two years. No borrowing costs have been capitalised on these suspended projects during 2013 and 2012.

(b) Impairment

Impairment of assets related to the Namakhvani HPP project as at 31 December 2012 represent construction in progress of GEL 6,179 thousand and prepayments for current assets of GEL 1,307 thousand for the construction of the Namakhvani Hydro Power Plant.

Following the October 2012 parliamentary elections, the Government of Georgia's strategy in terms of constructing large hydro power plants has been reviewed. The construction of Namakhvani Hydro Power Plant was put on hold because during the preparation of the detailed project design of the plant, international consultants have identified the need for additional geological and hydrological studies. In light of these circumstances and the high level of uncertainty over the resumption of the project, the assets related to the construction of Namakhvani Hydro Power Plant were considered fully impaired. In April 2014, the Namakhvani HPP project was transferred to the Government of Georgia (see note 28).

(c) Security

At 31 December 2013 properties (land plots with power-transmission lines and related technical equipment) with a carrying amount of GEL 109,001 thousand (2012: GEL 83,192 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	2013	2012
Prepayments for construction of railway infrastructure	116,238	207,450
Prepayments for construction of Gardabani CCPP	199,832	82,549
Prepayments for BSTN project	-	32,016
Other prepayments for non-current assets	1,246	1,338
Total prepayments for non-current assets	**317,316**	**323,353**
Construction materials for railway infrastructure	63,500	72,134
Other	3,051	4,158
Total other non-current assets	**66,551**	**76,292**

During 2012 the Group commenced the construction of the Gardabani Combined Cycle Power Plant (Gardabani CCPP). The construction works are planned to be completed by the end of 2015. The Gardabani CCPP is expected to be fully operational from 2016. As at 31 December 2013, the prepayment of GEL 199,832 thousands represents amounts paid to the constructor and supervisor of the construction. The Group will use the proceeds from the issuance of Eurobonds (see note 18) to fund the project.

11. Investments in equity accounted investees

'000 GEL	Note	2013	2012
Balance at the beginning of the period		55,679	103,323
Interests in investees contributed by the owners	17(b)	-	27,548
Contributions to joint venture		-	8,283
Group's share of (loss)/profit of equity accounted investees (net of income tax) recognized in profit or loss		(9,299)	16,516
Group's share of other changes in net assets of equity accounted investees recognized directly in equity	17(b)	-	1,221
Dividends received		-	(4,800)
Disposed of by obtaining control	11(b)	-	(96,412)
Balance at 31 December		**46,380**	**55,679**

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 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.

As at 31 December 2013 and 2012 the Group had an outstanding payable for the interest in Borjomi Likani International JSC of GEL 3,175 thousand and GEL 8,283 thousand respectively (see note 21).

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	**2013**	**2012**
Percentage ownership interest	**50%**	**50%**
Non-current assets	43,171	34,598
Current assets (including cash and cash equivalents – 2013: GEL 120 thousand; 2012: GEL 1,705 thousand)	7,112	15,764
Current liabilities	(43)	(111)
Net assets (100%)	50,240	50,251
Group's share of net assets (50%)	**25,120**	**25,126**
Revenue	-	-
Depreciation and amortisation	(38)	(43)
Income tax benefit	8	147
Loss and total comprehensive loss (100%)	(12)	(894)
Group's share of loss and total comprehensive loss	**(6)**	**(447)**

(b) Associates

At 31 December 2013 the Group has interest in one associate - Telasi JSC (2012: 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	**2013**	**2012**
Percentage ownership interest	**24.53%**	**24.53%**
Non-current assets	139,751	197,259
Current assets	88,863	90,236
Non-current liabilities	(36,141)	(47,780)
Current liabilities	(105,804)	(115,163)
Net assets (100%)	86,669	124,552
Group's share of net assets (24.53%)	**21,260**	**30,553**
Revenue	250,570	251,641
Profit and total comprehensive (loss)/income (100%)	(37,883)	24,958
Group's share of (loss)/profit and total comprehensive (loss)/income - Telasi JSC	**(9,293)**	**3,005**
Group's share of profit and total comprehensive income - Georgian Oil and Gas Corporation JSC	-	13,958
Group's share of (loss)/profit and total comprehensive (loss)/income of associates	**(9,293)**	**16,963**

On 30 July 2012 the Fund obtained control over Georgian Oil and Gas Corporation JSC (see note 23). The carrying amount of the associate of GEL 96,412 thousand was derecognized directly through equity (see note 17(b)). Accordingly, the table above includes the results of Georgian Oil and Gas Corporation JSC only for the period from 1 January to 30 July 2012.

12. Finance lease receivable

In 1996 the Government of Georgia entered into a 30 year arrangement with a consortium of oil companies that undertook responsibility for the construction and development of a pipeline system from the border with Azerbaijan 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. The pipeline infrastructure on Georgian territory became the property of the Government of Georgia and the ownership of this infrastructure was transferred to Georgian Oil and Gas Corporation JSC, in June-July 2010 through a contribution to the charter capital with the nominal value of GEL 269,299 thousand. In exchange for the oil companies' use of the pipeline, the Group receives a transit fee for each barrel of oil transported through the pipeline.

The Group management has determined that the initial arrangement contained a finance lease at inception. The 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	2013	2012
Balance at the beginning of the period	45,882	-
Acquired in business combination	-	44,701
Unwinding of discount on finance lease receivable	2,982	1,181
Balance at the end of the period	**48,864**	**45,882**

Contingent rents related to oil transportation recognized in the consolidated statement of comprehensive income during 2013 amounted to GEL 11,952 thousand (2012: GEL 5,148 thousand).

13. Term deposits

Terms and conditions of the term deposits are as follows:

				31 December 2013		31 December 2012	
'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	40,083	40,083	105,426	105,426
Current term deposits	USD	7.5% -11.25%	2014	78,493	78,493	153,175	153,175

The Group's non-current term deposits include GEL 17,363 thousand (2012: GEL 16,567 thousand) which have been pledged as collateral for a loan obtained by a state controlled entity. The Ministry of Agriculture has confirmed its intent to provide support to the state controlled entity to enable it to repay the loan. The loan obtained by the state controlled entity was not overdue at 31 December 2013.

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	2013	2012
Prepayments to suppliers	24,531	42,183
Taxes other than on income	54,989	53,792
Non-current assets held for distribution	1,141	-
Other receivables	6,431	5,085
Impairment allowance for other receivables	(2,448)	(1,945)
	84,644	**99,115**

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

15. Trade receivables

’000 GEL	2013	2012
Trade receivables	313,649	316,438
Allowance for trade receivables	(171,623)	(162,291)
	142,026	**154,147**

Guaranteed capacity

Trade receivables and trade payables of GEL 3,946 thousand (2012: GEL 4,325 thousand) and GEL 3,758 thousand (2012: GEL 4,109 thousand) (see note 21) respectively are attributable to transactions where the Group acts as an agent rather than as a principal.

The Group acts as an agent in the purchase of the Guaranteed Capacity from the Electricity Generators 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 Generators. The Group does not expect a benefit from such receipts and transfers and also does not bear any risk on these operations; these transactions are reflected as agent’s transactions in the Group’s consolidated financial statements.

The total sale and purchase transactions with respect to the agent’s operations (sale/purchase of the Guaranteed Capacity) are given below:

’000 GEL	2013	2012
Sale of Guaranteed Capacity	39,828	45,999
Purchase of Guaranteed Capacity	(39,828)	(45,999)

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	**2013**	**2012**
Bank balances	336,757	148,280
Call deposits	174,594	180,829
Petty cash	100	155
Cash and cash equivalents in the consolidated statement of financial position	**511,451**	**329,264**
Restricted cash	(2,505)	(3,465)
Cash and cash equivalents in the consolidated statement of cash flows	**508,946**	**325,799**

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.

As at 31 December 2013 the bank balances with a carrying amount of GEL 2,505 thousand (2012: GEL 3,465 thousand) were pledged as security for trade and other payables.

None of the cash balances are impaired or past due. The majority of the Group’s cash in banks is with banks rated by Fitch as B or higher.

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

'000 GEL	Note	2013	2012
Balance at the beginning of the period		2,207,766	268,387
Cash contributions		**-**	36,480
Non-cash owner contributions/(distributions)			
Interests in equity accounted investees	11	-	27,548
Group's share of other changes in net assets of equity accounted investees		-	1,221
Net contribution of subsidiaries		-	1,973,134
Property, plant and equipment and other assets		(994)	15,848
Total non-cash owner contributions		**(994)**	**2,017,751**
Total owner contributions		**(994)**	**2,054,231**
Reversal of deferred tax, previously recognized on interest in equity accounted investee and asset classified as held for sale	8(c)	-	(14,852)
Registration of share capital		-	(100,000)
Balance at the end of the period		**2,206,772**	**2,207,766**

(c) Dividends and other distributions to the shareholder

In 2013 non-cash assets with a carrying amount of GEL 2,227 thousand were transferred to the shareholder (2012: GEL 36,779 thousand).

(d) Liabilities to the Government

'000 GEL	2013	2012
Dividends payable by subsidiary to its prior parent	-	24,500
Other liabilities	11,917	12,956
	11,917	**37,456**

Other liabilities to the Government represent liabilities in the form of property, plant and equipment which are withdrawn as a reduction in share capital 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 July 2012, Georgian Railway JSC declared dividends of GEL 331,592 thousand, out of which GEL 100,000 thousand was paid in cash and GEL 231,592 thousand (CHF 138 million) was classified 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	**2013**	**2012**
Non-current liabilities		
Unsecured bonds	1,338,893	1,277,117
Unsecured loans from financial institutions	505,557	421,204
Secured loans from financial institutions	44,716	47,886
Secured loans from related party	30,542	18,247
	1,919,708	**1,764,454**
Current liabilities		
Current portion of unsecured bonds	39,873	37,810
Current portion of unsecured loans from financial institutions	32,491	11,212
Current portion of secured loans from financial institutions	7,025	6,725
Current portion of secured loans from related party	7,928	-
Loans issued by Government of Georgia	-	667
	87,317	**56,414**

(a) Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

				31 December 2013		31 December 2012	
'000 GEL	**Currency**	**Nominal interest rate**	**Year of maturity**	**Face value**	**Carrying amount**	**Face value**	**Carrying amount**
Unsecured bonds	USD	6.875%	2017	434,075	431,825	414,175	410,606
Unsecured bonds	USD	7.75%	2022	897,263	897,263	857,025	857,025
Unsecured bonds	USD	9.90%	2015	49,678	49,678	47,296	47,296
Unsecured loans from financial institutions:							
Ministry of Finance of Georgia - KfW	EUR	KfW reference rate+4%	2024	178,173	178,173	162,963	162,963
Ministry of Finance of Georgia - KfW	EUR	1%-1.5%	2025-2037	50,538	50,538	48,879	48,879
Ministry of Finance of Georgia - EIB	EUR	Euribor+0.75%	2033	189,746	189,746	107,164	107,164
Ministry of Finance of Georgia - EBRD	EUR	Euribor+1%	2025	119,591	119,591	104,908	104,908
Unsecured bank loan	USD	9.50%	2013	-	-	8,502	8,502
Secured loans from financial institutions:							
Ministry of Finance of Georgia - KfW	EUR	4%	2021	14,418	14,418	14,818	14,818
Ministry of Finance of Georgia - IDA	USD	World Bank's lending treasury rates	2022	37,323	37,323	39,760	39,760
Secured bank facility	USD	11.50%	2013	-	-	33	33
Secured loan from related party:							
Ministry of Finance of Georgia	EUR	7.50%	2018	38,470	38,470	18,247	18,247
Unsecured loan from related party:							
Government of Georgia	GEL	0.50%	2013	-	-	617	667
Total interest-bearing liabilities				**2,009,275**	**2,007,025**	**1,824,387**	**1,820,868**

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).

The loans from EBRD, EIB, IDA and KfW were disbursed to the Government of Georgia in relation to the BSTN and the Electricity Market Support Project (the "EMSP"), "Energy IV", "Sector Program Power Supply" and "Regional Power Network Rehabilitation 1" projects and the proceeds were subsequently transferred together with an obligation to repay the proceeds and contractual interest payments to the Group. The lender has not legally released the Government of Georgia from the primary responsibility for the repayment of the principal and interest payments. Consequently, the Government of Georgia is acting as principal in the transaction and the loans payable by the Group are due to the Ministry of Finance of Georgia.

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. 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.

(b) Unused credit line facilities

As at 31 December 2013 the Group has the following available credit line facilities:

- USD 17,000 thousand unsecured overdraft facility with an interest rate of 8.5% per annum;
- GEL 40,682 thousand unsecured overdraft facility with an interest rate of 12%-14.5% per annum;
- EUR 16,000 thousand within the framework of the BSTN project from EBRD. Interest would be payable at the rate of Euribor+1%.

As at 31 December 2012 the Group had the following available credit line facilities:

- USD 53,000 thousand unsecured overdraft facility with an interest rate of 8.69%-9.69% per annum;
- GEL 40,000 thousand unsecured overdraft facility with an interest rate of 12%-14.5% per annum;
- EUR 31,775 thousand within the framework of the BSTN project from EBRD. Interest would be payable at the rate of Euribor+1%;
- EUR 30,763 thousand within the framework of the BSTN project from the EIB. Interest would be payable at the rate of Euribor+0.75%.

19. Restructured liabilities

’000 GEL	**2013**	**2012**
Payables to the State Budget	76,000	78,536
Trade payables	26,281	26,939
Loans and interest accrued	3,929	3,708
	106,210	**109,183**
Amortized cost adjustment	(42,444)	(48,356)
Balance at 31 December	**63,766**	**60,827**
Current	4,599	2,457
Non-current	59,167	58,370
	63,766	**60,827**

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. 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	2013	2012
Balance at the beginning of the period	72,183	-
Acquired in business combination	-	50,381
Recognised in profit and loss	(528)	(224)
Received during the year	2,234	22,026
Balance at the end of the period	**73,889**	**72,183**

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 (see note 9). 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	2013	2012
Trade payables	98,256	122,693
Payables for construction works under BSTN project	32,686	102,445
Advances received from customers	16,643	18,272
Payable for the interest in an equity accounted investee (see note 11(a))	3,175	8,283
Taxes other than on income	6,524	1,711
Other payables	9,502	8,860
	166,786	**262,264**

Trade payables of GEL 3,758 thousand (2012: GEL 4,109 thousand) are attributable to transactions where the Group acts as an agent rather than as a principal (see note 15).

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 see 22(d));
- market risk (see 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		**2013**	**2012**
Finance lease receivable	12	48,864	45,882
Trade receivables	15	138,080	149,822
Other receivables	14	3,983	3,140
Loans receivable		52,164	61,861
Term deposits	13	118,576	258,601
Cash and cash equivalents	16	511,451	329,264
		873,118	**848,570**

Receivables from the sale of Guaranteed Capacity of GEL 3,946 thousand (2012: GEL 4,325 thousand) (see note 15) are not included in the credit risk exposure as in these transactions the Group acts as an agent and does not bear any 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 48%, 73%, 17% and 40% 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 (2012: 38%, 77%, 30% and 44% 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 and other receivables at the reporting date by geographic region was as follows:

	Carrying amount	
'000 GEL	**2013**	**2012**
Domestic	90,255	111,166
CIS countries	47,817	33,545
Euro-zone countries	8	5,111
	138,080	**149,822**

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

	Carrying amount	
'000 GEL	**2013**	**2012**
Gas distributors	61,935	79,600
Foreign railway companies	43,883	31,585
Wholesale electricity customers	14,620	19,331
Other	17,642	19,306
	138,080	**149,822**

99% of 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 38,502 thousand of the trade receivables carrying amount as at 31 December 2013 (2012: GEL 29,922 thousand).

Impairment losses

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

	Gross	**Impairment**	**Gross**	**Impairment**
'000 GEL	**2013**	**2013**	**2012**	**2012**
Neither past due nor impaired	70,889	-	68,198	-
Past due 0 - 90 days	23,832	3,037	36,793	2,409
Past due 91-180 days	14,934	3,280	28,174	2,151
Past due 181-365 days	15,502	5,450	14,119	3,047
Past due more than one year	184,546	159,856	164,829	154,684
	309,703	**171,623**	**312,113**	**162,291**

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

'000 GEL	**2013**	**2012**
Balance at beginning of the year	162,291	-
Acquired in business combination	-	161,309
Increase during the year	9,656	982
Decrease due to reversal	(324)	-
Balance at end of the year	**171,623**	**162,291**

Most of the impairment loss at 31 December 2013 and 2012 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 43,883 thousand (2012: GEL 31,585 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 past due as at 31 December 2013. In April 2014, the Group signed a restructuring agreement with the borrower. 100% of the shares of a wholly owned subsidiary of the borrower with an estimated fair value approximating the carrying value of the loan were pledged to secure the loan. Management believes that the loan is collectible based on the review of the value of collateral and willingness of the National Agency of State Property of the Ministry of Economy and Sustainable Development of Georgia to provide further support to the borrower to enable it to repay these loans.

(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.

(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 (see note 18(b)). 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 significant contractual commitments for the purchase and construction of property, plant and equipment (see note 25). Management believes that the proceeds from the loans and borrowings, 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 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**

31 December 2012		**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	1,820,868	2,717,147	55,692	63,783	1,076,233	1,521,439
Restructured liabilities	60,827	109,183	-	2,671	27,000	79,512
Trade and other payables	242,143	242,143	128,397	113,694	52	-
Dividends payable	24,500	24,500	24,500	-	-	-
	2,148,338	**3,092,973**	**208,589**	**180,148**	**1,103,285**	**1,600,951**

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**	**CHF - denominated**	**EUR - denominated**	**USD - denominated**	**CHF - denominated**	**EUR - denominated**
	2013	**2013**	**2013**	**2012**	**2012**	**2012**
Cash and cash equivalents	326,321	8,222	17,153	203,014	23,919	7,587
Term deposits	118,576	-	-	258,601	-	-
Trade and other receivables	4,465	45,019	19	5,785	32,639	4
Loans receivable	51,353	-	-	60,810	-	-
Loans and borrowings	(1,416,089)	-	(590,936)	(1,363,222)	-	(456,979)
Restructured liabilities	(5,024)	-	(4,099)	(4,799)	-	(3,817)
Trade and other payables	(54,744)	-	(25,786)	(49,616)	-	(105,924)
Net exposure	**(975,142)**	**53,241**	**(603,649)**	**(889,427)**	**56,558**	**(559,129)**

The following significant exchange rates have been applied during the year:

in GEL	**Average rate**		**Reporting date spot rate**	
	2013	**2012**	**2013**	**2012**
USD 1	1.6634	1.6513	1.7363	1.6567
CHF 1	1.7955	1.7615	1.9491	1.8065
EUR 1	2.2094	2.1232	2.3891	2.1825

Sensitivity analysis

A reasonably possible movement 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 2013	
USD (10% weakening)	(82,887)
CHF (10% weakening)	4,525
EUR (10% weakening)	(51,310)
31 December 2012	
USD (10% weakening)	(75,601)
CHF (10% weakening)	4,807
EUR (10% weakening)	(47,526)

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**	
	2013	**2012**
Fixed rate instruments		
Financial assets	482,100	649,571
Financial liabilities	(1,482,192)	(1,406,073)
	(1,000,092)	**(756,502)**
Variable rate instruments		
Financial assets	-	-
Financial liabilities	(524,833)	(414,795)
	(524,833)	**(414,795)**

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 2012.

	Profit or loss	
'000 GEL	**100 bp increase**	**100 bp decrease**
2013		
Variable rate instruments	(4,461)	4,461
Cash flow sensitivity (net)	**(4,461)**	**4,461**
2012		
Variable rate instruments	(3,526)	3,526
Cash flow sensitivity (net)	**(3,526)**	**(3,526)**

(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	**2013**	**2012**
Total liabilities	2,640,504	2,561,432
Less: cash and cash equivalents	(508,946)	(325,799)
Net debt	**2,131,558**	**2,235,633**
Total equity	**2,419,284**	**2,348,936**
Debt to capital ratio at 31 December	**0.88**	**0.95**

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 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 disposes of 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 has not recognized an intangible asset for this right as the Group does not control the right. 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 Regulation Committee on 20 December 2002. 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, with the primary objective of EnergoTrans LLC to serve the BSTN project as an executing agency, carrying out overall control, supervision and monitoring over the performance by the contractors of all project-related construction works and activities. 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	**2013**	**2012**
Less than one year	1,935	1,390
Between one and five years	5,379	5,061
More than five years	36,333	35,584
	43,647	**42,035**

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 2013 the Group had entered into contracts for the construction and purchase of property, plant and equipment of GEL 658,214 thousand (2012: GEL 692,679 thousand) mainly relating to the Main Line Modernization and Tbilisi Bypass projects (see note 9(a)).

The Group has entered into contracts for construction of the Gardabani Combined Cycle Power Plant (CCPP) and purchase of inventory with outstanding capital commitments of GEL 149,719 thousand at 31 December 2013 (2012: GEL 247,702 thousand).

As at 31 December 2013 the Group has commitments related to the construction of Namakhvani HPP cascade of GEL 18,056 thousand (2012: GEL 17,388 thousand). The construction has been suspended and the Group is in the process of terminating the construction related agreements (see note 9(b)). These agreements are cancellable without penalty on a written notice from the Group and management assesses that the termination of the agreements will not result in a significant cash outflow to the Group. Later, the Company and the Government of Georgia signed an agreement to transfer JSC Namakhvani HPP to the Government of Georgia (see note 28). The commitments related to the Namakhvani HPP cascade were also transferred to the Government of Georgia.

As at 31 December 2013 the Group also had contractual commitments to purchase equipment for the construction and rehabilitation of energy-transmission lines for GEL 17,937 thousand (2012: GEL 17,599 thousand).

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 2013 and 2012 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	**2013**	**2012**
Salaries and bonuses	**4,151**	**2,605**

(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 state controlled entities 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**	
	2013	**2012**
Entities controlled or significantly influenced by the State:		
Rent of gas pipelines	42,666	18,096
Transmission and dispatching of electricity	11,381	6,838
Sale of balancing electricity	21,779	18,273

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**	
	2013	**2012**
State controlled entities and agencies:		
Cost of gas	33,918	16,675

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**	
	2013	**2012**	**2013**	**2012**
Loans receivable:				
State controlled entity	5,463	647	47,055	48,714
Loans received:				
Ministry of Finance of Georgia	23,923	1,826	628,259	496,739
Government of Georgia	-	-	-	667

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 2013 the Government of Georgia signed the Loan and Project Agreements on "Regional Power Transmission Enhancement Project" with Asian Development Bank (ADB), KfW and EBRD for SDR 30,981 thousand, EUR 35,000 thousand and EUR 25,205 thousand respectively. In 2014 the Government of Georgia transferred these credit facilities, together with an obligation to repay them, to the Group. The credit facilities received will be used by the Company mainly for the construction and enhancement of Jvari - Khorga electricity transmission lines and substations as well as other transmission network rehabilitation projects. The construction and rehabilitation process is expected to start in 2014 and be completed in 2-3 years.

In April 2014 the Georgian Oil and Gas Corporation JSC and the Government of Georgia signed an agreement to transfer JSC Namakhvani to the Government of Georgia free of charge. The JSC Partnership Fund also announced that in the event of the resumption of the Namakhvani project, the Group will not be responsible for funding the Namakhvani HPP project (see note 25).

In July 2014 the Government of Georgia contributed Kutaisi-Abasha 47 km and Abasha-Senaki 29 km natural gas pipelines to the capital of the Group.

29. Basis of measurement

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

30. Changes in accounting policies

Except for the changes below, the Group has consistently applied the accounting policies set out in note 31 to all periods presented in these consolidated financial statements.

The Group has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of 1 January 2013.

a. IFRS 10 Consolidated Financial Statements (2011)
b. IFRS 11 Joint Arrangements
c. IFRS 12 Disclosure of Interests in Other Entities
d. IFRS 13 Fair Value Measurement

The nature and effects of the changes are explained below.

(a) Subsidiaries

As a result of IFRS 10 (2011), the Group has changed its accounting policy for determining whether it has control over and consequently whether it consolidates its investees. IFRS 10 (2011) introduces a new control model that focuses on whether the Group has power over an investee, exposure or rights to variable returns from its involvement with the investee and ability to use its power to affect those returns.

The adoption of this Standard had no impact on the Group's financial position or performance.

(b) Joint arrangements

As a result of IFRS 11, the Group has changed its accounting policy for its interests in joint arrangements. Under IFRS 11, the Group has classified its interests in joint arrangements as either joint operations (if the Group has rights to the assets, and obligations for the liabilities, relating to an arrangement) or joint ventures (if the Group has rights only to the net assets of an arrangement). When making this assessment, the Group considered the structure of the arrangements, the legal form of any separate vehicles, the contractual terms of the arrangements and other facts and circumstances. Previously, the structure of the arrangement was the sole focus of classification.
The Group has re-evaluated its involvement in its only joint arrangement and has reclassified the investment from a jointly controlled entity to a joint venture. Notwithstanding the reclassification, the investment continues to be recognised by applying the equity method and there has been no impact on the recognised assets, liabilities and comprehensive income of the Group.

(c) Disclosure of interests in other entities

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.

As a result of IFRS 12, the Group has expanded its disclosures about its interests in subsidiaries and equity-accounted investees.

(d) Fair value measurement

IFRS 13 establishes a single framework for measuring fair value and making disclosures about fair value measurements when such measurements are required or permitted by other IFRSs. It unifies the definition of fair value as 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. It replaces and expands the disclosure requirements about fair value measurements in other IFRSs, including IFRS 7.

The change had no significant impact on the measurements of the Group's assets and liabilities.

31. 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 an associate and a joint venture.

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, the Group acts in the capacity of an agent rather than as the principal in a transaction. 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 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 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 - 14 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.

32. 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 2013, 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 *Financial Instruments* sets out the requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 *Financial Instruments: Recognition and Measurement*. The new standard includes revised guidance on the classification and measurement of financial assets, including a new expected credit loss model for estimating impairment and new general hedge accounting requirements. The standard will be effective for the annual periods beginning on or after 1 January 2018 and will be applied retrospectively with some exemptions. Early adoption is permitted. 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 the Group's consolidated financial statements. However, the Group has not yet analysed the impact of those changes on its consolidated financial position or performance. The Group does not intend to adopt this standard early.

- Amendments to IAS 32 *Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities* specify that an entity currently has a legally enforceable right to set-off if that right is not contingent on a future event; and enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties. The amendments are effective for annual periods beginning on or after 1 January 2014, and are to be applied retrospectively.

- IFRIC 21 *Levies* provides guidance on accounting for levies in accordance with the requirements of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*. The interpretation defines a levy as an outflow from an entity imposed by a government in accordance with legislation. Levies do not arise from executory contracts or other contractual arrangements. However, outflows within the scope of IAS 12 *Income taxes*, fines and penalties, and liabilities arising from emission trading schemes are explicitly excluded from the scope. The interpretation confirms that an entity recognises a liability for a levy when – and only when

– the triggering event specified in the legislation occurs. An entity does not recognise a liability at an earlier date, even if it has no realistic opportunity to avoid the triggering event. The interpretation is effective for annual periods commencing on or after 1 January 2014. The interpretation is applied on a retrospective basis. Early adoption is permitted.

- IFRS 15 *Revenue from Contracts with Customers* supersedes IAS 11 *Construction Contracts*; IAS 18 *Revenue*; IFRIC 13 *Customer Loyalty Programmes*; IFRIC 15 *Agreements for the Construction of Real Estate*; IFRIC 18 *Transfers of Assets from Customers* and SIC-31 *Revenue - Barter Transactions Involving Advertising Services.* 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. The standard will be effective for annual periods beginning on or after 1 January 2017. Early application is permitted. The Group has not yet analysed the likely impact of the standard on its consolidated financial position or performance. 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 on or after 1 July 2014. Entities are permitted to apply them earlier. The Group has not yet analysed the likely impact of the improvements on its financial position or performance.