Partnership Fund JSC

Consolidated Financial Statements
for the year ended 31 December 2016

Contents

Independent Auditors’ Report	3
Consolidated Statement of Financial Position	5
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

Opinion

We have audited the consolidated financial statements of Partnership Fund JSC and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2016, 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 significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, 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.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to

KPMG Georgia LLC, a company incorporated under the Laws of Georgia, and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

The engagement partner on the audit resulting in this independent auditors' report is:

Andrew Coxshall

KPMG Georgia LLC

KPMG Georgia LLC

Tbilisi, Georgia
27 September 2017

'000 GEL	Note	2016	2015
Assets			
Property, plant and equipment	9	4,767,984	4,320,278
Investment property		22,163	22,163
Prepayments for non-current assets	10	145,263	153,357
Investments in equity accounted investees	11	57,526	47,757
Finance lease receivable	12	59,037	55,423
Loans receivable	13	25,740	69,275
Trade receivables	16	20,721	-
Deferred tax assets	8	-	27,070
Term deposits	14	-	61,074
VAT receivable		14,796	24,078
Other non-current assets	10	91,595	99,727
Non-current assets		**5,204,825**	**4,880,202**
Loans receivable	13	34,670	58,332
Inventories		52,199	54,905
Prepayments and other current assets	15	97,016	94,099
Trade receivables	16	323,098	305,704
Current tax assets		12,281	19,522
Term deposits	14	112,456	148,266
Cash and cash equivalents	17	1,029,990	719,486
Current assets		**1,661,710**	**1,400,314**
Total assets		**6,866,535**	**6,280,516**
Equity			
Share capital	18	100,000	100,000
Owner contributions		2,601,334	2,376,049
(Accumulated deficit)/retained earnings		(18,186)	34,185
Equity attributable to owners of the Company		**2,683,148**	**2,510,234**
Non-controlling interests	24	48,162	46,385
Total equity		**2,731,310**	**2,556,619**
Liabilities			
Loans and borrowings	19	3,228,874	2,828,396
Advance received from the Government of Georgia	18(e)	73,809	221,788
Restructured liabilities	20	56,417	59,455
Grants related to assets	21	108,533	104,296
Deferred tax liabilities	8	-	59,613
Other non-current liabilities		1,618	1,698
Non-current liabilities		**3,469,251**	**3,275,246**
Loans and borrowings	19	342,880	143,720
Restructured liabilities	20	10,000	7,000
Trade and other payables	22	288,063	274,314
Liabilities to the Government	18(d)	8,399	8,009
Provisions		11,534	11,312
Current tax liabilities		802	-
Grants related to assets	21	4,296	4,296
Current liabilities		**665,974**	**448,651**
Total liabilities		**4,135,225**	**3,723,897**
Total equity and liabilities		**6,866,535**	**6,280,516**

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 54.

'000 GEL	Note	2016	2015
Revenue	5	1,423,011	1,379,630
Operating expenses	6	(798,720)	(728,838)
Wages and other employee benefits		(209,248)	(193,113)
Depreciation and amortisation		(203,679)	(182,449)
Share of profit/(loss) of equity accounted investees (net of income tax)	11	1,387	(8,318)
Income from transferred property	18(f)	80,294	7,503
Other income		61,726	50,320
Results from operating activities		**354,771**	**324,735**
Finance income	7	77,865	56,964
Finance costs	7	(418,121)	(585,966)
Net finauce costs		**(340,256)**	**(529,002)**
Profit/(loss) before iucome tax		**14,515**	**(204,267)**
Income tax benefit	8	9,709	9,537
Profit/(loss) and total comprehensive income/(loss) for the year		**24,224**	**(194,730)**
Profit/(loss) and total comprehensive income/(loss) attributable to:			
Owners		22,447	(193,452)
Non-controlling interests		1,777	(1,278)
		24,224	**(194,730)**

These consolidated financial statements were approved by management on 29 September 2017 and were signed on its behalf by:

David Saganelidze
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 54.

’000 GEL	**Share capital**	**Owner contributions**	**Retained earnings**	**Total**	**Non controlling interests**	**Total equity**
Balance at 1 January 2015	100,000	2,313,428	228,544	2,641,972	-	2,641,972
Total comprehensive income						
Loss for the year	-	-	(193,452)	(193,452)	(1,278)	(194,730)
Transactions with owners, recorded directly in equity						
Distributions of non-cash assets (see note 18(c))	-	-	(907)	(907)	-	(907)
Owner contributions (see note 18(b))	-	62,621	-	62,621	-	62,621
Other contribution (see note 24)	-	-	-		47,663	47,663
Balance at 31 December 2015	**100,000**	**2,376,049**	**34,185**	**2,510,234**	**46,385**	**2,556,619**
Balance at 1 January 2016	100,000	2,376,049	34,185	2,510,234	46,385	2,556,619
Total comprehensive income						
Profit for the year	-	-	22,447	22,447	1,777	24,224
Transactions with owners, recorded directly in equity						
Distributions of non-cash assets (see note 18(c))	-	-	(74,818)	(74,818)	-	(74,818)
Owner contributions (see note 18(b))	-	162,940	-	162,940	-	162,940
Transfer of property to the Government (see note 18(f))	-	62,345	-	62,345	-	62,345
Balance at 31 December 2016	**100,000**	**2,601,334**	**(18,186)**	**2,683,148**	**48,162**	**2,731,310**

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 54.

'000 GEL	**Note**	**2016**	**2015**
Cash flows from operating activities			
Profit / (loss) before income tax		14,515	(204,267)
Adjustments for:			
Depreciation and amortisation		203,761	182,449
Net finance costs		340,256	529,002
Share of (profit)/loss of equity accounted investees (net of income tax)		(1,387)	8,318
Income from amortization of grants		(4,377)	-
Loss on disposal of property		6,045	6,942
Income from reversal of provisions		(9,149)	-
Recognized as income from the transferred property	18 (f)	(80,294)	
		469,370	**522,444**
Changes in:			
Inventories		2,705	(11,930)
Trade receivables and prepayments and other current assets		(34,410)	(92,116)
Restricted cash		-	108
Trade and other payables		8,593	2,308
Change in tax payables		3,331	-
Provisions		222	2,257
Government grants		8,614	24,643
Cash flows from operations before income taxes and interest paid		**458,425**	**447,714**
Income tax paid		(18,611)	(20,954)
Interest paid		(175,580)	(173,888)
Net cash from operating activities		**264,234**	**252,872**
Cash flows from investing activities			
Interest received		66,642	76,132
Issue of loans		(59,538)	(50,868)
Dividends received		1,075	
Repayment of loans issued		78,853	-
Acquisition of property, plant and equipment and changes in prepayments for non-current assets and other non-current assets		(420,015)	(482,368)
Proceeds from sale of property, plant and equipment		3,350	-
Acquisition of investments in equity accounted investees		(8,382)	(4,600)
Investing in other companies		(8,942)	(5,660)
Other contributions		-	47,663
Change in term deposits		110,939	(148,266)
Net cash used in investing activities		**(236,018)**	**(567,967)**
Cash flows from financing activities			
Proceeds from borrowings		737,940	517,997
Repayment of borrowings		(498,691)	(198,750)
Repayment of restructured liabilities		(7,000)	(5,761)
Receipt from share issue		-	4,000
Net cash from financing activities		**232,249**	**317,486**
Net increase in cash and cash equivalents		**260,465**	**2,391**
Cash and cash equivalents at 1 January		718,908	656,065
Effect of movements in exchange rates on cash and cash equivalents		50,453	60,452
Cash and cash equivalents at 31 December	17	**1,029,826**	**718,908**

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 54.

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	14
8. Income taxes	15
9. Property, plant and equipment	17
10. Prepayments for non-current assets and other non-current assets	20
11. Investments in equity accounted investees	20
12. Finance lease receivable	22
13. Loan receivable	22
14. Term deposits	23
15. Prepayments and other current assets	23
16. Trade receivables	23
17. Cash and cash equivalents	24
18. Equity and liabilities to the Government	24
19. Loans and borrowings	26
20. Restructured liabilities	29
21. Grants related to assets	29
22. Trade and other payables	30
23. Fair values and risk management	30
24. Significant subsidiaries and non-controlling interests	37
25. Operating leases	39
26. Capital commitments	39
27. Contingencies	40
28. Related parties	41
29. Subsequent events	42
30. Basis of measurement	42
31. Significant accounting policies	42
32. New standards and interpretations not yet adopted	53

1. Reporting entity

(a) Business environment

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

(b) Organisation and operations

The Partnership Fund JSC (the "Fund") is a joint stock company domiciled in Georgia. The consolidated financial statements include financial statements of the Fund and its subsidiaries (together referred to as the "Group" and individually as "Group entities") and the Group's interest in associates and joint ventures. All the Group entities 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 24.

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

The Fund's principal activity is to provide equity and debt financing, and guarantees to private and public sector companies operating in Georgia with priority for projects in the energy, agriculture, manufacturing and real estate sectors. The main sources of income are expected to come from dividends and guarantee fees.

The principal activities of the Group entities are the importation and sale of gas, rental of gas and oil pipelines, oil and gas exploration and extraction, operation of a nationwide railway system providing freight and passenger transportation services and transmission, sale and dispatching of electricity over the territory of Georgia. Following the completion of the Gardabani Combined Cycle Power Plant (CCPP) construction in July 2015, electricity generation was added to the Group's principal activities. On 7 September 2015, Gardabani CCPP obtained the licence on operation for an unlimited period from the Georgian National Energy and Water Supply Regulatory Commission (GNERC) and commenced generating revenue in accordance with the deregulated tariffs on the electricity market in Georgia. In accordance with the Government of Georgia order # 475 dated 14 September 2015 (see note 24).

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

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

The Fund is wholly owned by the State of Georgia represented by the Government of Georgia (the "Parent"). Related party transactions are detailed in note 28.

(c) Group structure

As at 31 December 2016 and 2015 the Fund has direct and indirect interests in the following entities:

Name	Country of incorporation and operation	2016 Ownership/ voting	2015 Ownership/ voting	Principal activities
Georgian Oil and Gas Corporation JSC and its subsidiaries				
Georgian Oil and Gas Corporation JSC	Georgia	100%	100%	Oil and gas sale, extraction and exploration and rent of pipelines
Gardabani TPP LLC	Georgia	100%	100%	Operation of a combined cycle power plant (CCPP)
Georgian Railway JSC and its subsidiaries				
Georgian Railway JSC	Georgia	100%	100%	Railroad transportation
GR Property Management LLC (former Railway Property Management LLC)	Georgia	100%	100%	Property Management and development
GR Logistics and Terminals LLC (former Trans Caucasus Terminals 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
Georgia Tranzit LLC	Georgia	100%	100%	Transportation services
GR Transit LLC (former Georgian Transit LLC)	Georgia	100%	100%	Transportation services
GR Transit Line LLC	Georgia	100%	100%	Transportation services
GR Trans Shipment LLC	Georgia	100%	100%	Transportation services
Georgian State Electrosystem JSC and its subsidiaries				
Georgian State Electrosystem JSC	Georgia	100%	100%	Electricity dispatching and transmission
EnergoTrans LLC	Georgia	100%	100%	Electricity transmission
Karcal Energy JSC	Turkey	100%	100%	Electricity transmission
Electricity System Commercial Operator JSC	Georgia	100%	100%	Sale and purchase of electricity
Nenskra JSC	Georgia	100%	100%	Construction and operation of a hydro-power plant
Tbilisi Logistics Center LLC and its subsidiaries				
Tbilisi Logistics Center LLC	Georgia	100%	100%	Food services
Fruit and Vegetable Export Company LLC	Georgia	100%	100%	Export of fruit and vegetables
Georgian Product LLC	Georgia	100%	100%	Tourism development
Black Sea Port LLC	Georgia	100%	100%	Construction and operation of a port
Lagodekhi Trading Company LLC	Georgia	100%	100%	Construction and leasing out of a shopping mall in Lagodekhi
Borjomi Likani International JSC	Georgia	50%	50%	Construction and operation of a hotel
Panex JSC	Georgia	49%	49%	Manufacturing of construction materials
Telasi JSC	Georgia	24.53%	24.53%	Purchase and distribution of electric power to industrial and residential customers in Tbilisi
Tbilisi Children's Infection Clinical Hospital LLC	Georgia	100%	100%	Healthcare services
Universal Medical Center LLC	Georgia	100%	100%	Healthcare services
Nikoloz Kipshidze Central University Clinic LLC	Georgia	100%	100%	Healthcare services
Aerostructure Technologies Cyclone JSC	Georgia	66%	66%	Manufacture of spare parts for airplanes
Vanric Agro JSC	Georgia	49%	49%	Export of fruit
Rukhi Trading Center LLC	Georgia	100%	100%	Construction and leasing out of a shopping mall
Startup Georgia LLC	Georgia	100%	-	Venture capital
Imereti Greenery LLC	Georgia	46.34%	-	Agriculture/farming
Tetri Khidi LLC	Georgia	50%	-	Construction and operation of a hotel
Caucasus Clean Energy I, LLP	United Kingdom	10%	-	Investment fund

2. Basis of accounting

Statement of compliance

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

3. Functional and presentation currency

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

4. Use of estimates and judgments

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

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

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

- Note 12 – determination of whether the initial arrangement contains a lease and the fair value of the unguaranteed residual value at the end of the lease term;
- Note 17 – classification of deposits with original maturities of more than three months as cash and cash equivalents;
- Note 19(a) – fair value of loans and borrowings at initial recognition;
- Note 24 – assessment of control over Georgian State Electrosystem JSC.

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

- Note 9(a)(i) – recoverability of construction of Tbilisi Bypass project;
- Note 9(c) – impairment test for property and equipment: key assumptions underlying recoverable amounts, including the recoverability of property and equipment
- Note 18(f) - fair value of the land plots transferred to the Government of Georgia.
- Note 23(c) – recoverability of trade receivables and loans receivable;
- Note 31(j)(iii) – useful lives of property, plant and equipment.

Measurement of fair values

A number of the Group's accounting policies and disclosures require the measurement of fair values,

for both financial and non-financial assets and liabilities.

When measuring the fair value of an asset or a liability, the Group uses market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

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

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

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

Further information about the fair value measurement of financial assets and liabilities is included in note 23(a) – fair values of financial assets and liabilities.

5. Revenue

’000 GEL	**2016**	**2015**
Revenue from railway transportation	**430,123**	**567,785**
Freight traffic	345,586	471,951
Logistic services	52,582	56,086
Passenger traffic	18,007	15,487
Freight car rental	13,948	24,261
Revenue from gas and oil sales and pipelines	**445,238**	**446,701**
Sales of gas	348,226	349,588
Rent of gas pipelines	68,487	68,818
Oil transportation fees	18,047	17,977
Income from crude oil	10,478	10,318
Revenue from electricity	**480,317**	**315,268**
Income from guaranteed capacity service	153,668	67,098
Sales of balancing electricity	152,153	150,945
Transmission of electricity	90,919	72,877
Electricity generation	68,384	16,119
Revenue from transit	7,654	-
Dispatching of electricity	7,539	8,229
Healthcare revenue	**22,659**	**8,804**
Agency fees from oil trading	**4,023**	**-**
Other revenue	**40,651**	**41,072**
Total revenues	**1,423,011**	**1,379,630**

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

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

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

6. Operating expenses

’000 GEL	**2016**	**2015**
Cost of gas and production of electricity	391,141	337,154
Cost of sold balancing electricity	146,012	141,340
Electricity and materials used in railroad transportation	45,910	59,338
Taxes other than on income	45,033	38,050
Cost of guaranteed capacity service	43,816	44,761
Logistic services	14,270	17,197
Cost of medical services rendered	8,726	2,517
Freight car rental	4,407	11,210
Other	99,405	77,271
	798,720	**728,838**

7. Finance income and finance costs

’000 GEL	**2016**	**2015**
Recognised in profit or loss		
Interest income on:		
- bank deposits and current accounts	65,912	47,112
- loans receivable	8,340	6,470
Unwinding of discount on finance lease receivable	3,614	3,382
Finance income	**77,866**	**56,964**
Interest expense on loans and borrowings	(163,231)	(119,367)
Net foreign exchange loss	(226,746)	(422,527)
Unwinding of discount on restructured liabilities	(5,989)	(5,435)
Impairment loss on trade receivables	(22,156)	(38,637)
Finance costs	**(418,122)**	**(585,966)**
Net finance costs recognised in profit or loss	**(340,256)**	**(529,002)**

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	2016	2015
Current tax expense		
Current year	22,108	20,923
Under provided in prior years	726	-
Deferred tax expense		
Origination and reversal of temporary differences	-	(30,460)
Change in recognized deductible termporary differences	(32,543)	-
Total tax benefit	**(9,709)**	**(9,537)**

Reversal of previously recognized deferred tax assets and liabilities are attributable to changes in Georgian tax legislation. On 13 May 2016 the Parliament of Georgia passed a bill on corporate income tax reform (also known as the Estonian model of corporate taxation), which mainly moves the moment of taxation from when taxable profits are earned to when they are distributed. The law is effective for tax periods starting after 1 January 2017. Considering that the change in the Georgian Tax Code was enacted before the reporting date, the Group has recognized the full effect of the change by derecognizing previously recognized deferred tax assets and liabilities through the current period consolidated statement of profit or loss as an income tax expense.

Reconciliation of effective tax rate:

	2016		2015	
	'000 GEL	**%**	**'000 GEL**	**%**
Profit / (loss) before tax for the year	**14,515**		**(204,267)**	
Tax using the Group's tax rate	2,177	15	(31,568)	15
Change in recognized temporary differences (due to change in the legislation)	(32,543)	(224)	-	0
Differences between tax and IFRS bases of income and expenses	19,931	137	-	0
Under-provided in prior years	726	5	-	0
Change in unrecognized deferred tax assets	-	0	23,856	(12)
Non-deductible expenses	-	0	212	0
Change in unrecognized temporary differences	-	0	(1,934)	1
Current year losses for which no deferred tax asset is recognized	-	0	364	1
Recognition of tax effect of previously unrecognised tax losses	-	0	(467)	0
	(9,709)	**(67)**	**(9,537)**	**5**

(b) Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
’000 GEL	**2016**	**2015**	**2015**	**2015**	**2016**	**2015**
Property, plant and equipment	-	-	-	(197,616)	-	(197,616)
Other non-current assets	-	-	-	(327)	-	(327)
Inventories	-	11,932	-	-	-	11,932
Trade receivables and prepayments and other current assets	-	35,211	-	-	-	35,211
Grants related to assets	-	14,512	-	-	-	14,512
Loans and borrowings	-	7,234	-	-	-	7,234
Trade and other payables	-	1,245	-	-	-	1,245
Provisions	-	1,249	-	-	-	1,249
Tax loss carry-forwards	-	94,017	-	-	-	94,017
Tax (liabilities)/assets	**-**	**165,400**	**-**	**(197,943)**	**-**	**(32,543)**
Set off of tax	-	(138,330)	-	138,330	-	-
Net tax (liabilities)/assets	**-**	**27,070**	**-**	**(59,613)**	**-**	**(32,543)**

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

’000 GEL	**1 January 2016**	**Recognised in profit or loss**	**31 December 2015**
Property, plant and equipment	(197,616)	197,616	-
Other non-current assets	(327)	327	-
Inventories	11,932	(11,932)	-
Trade receivables and prepayments and other current assets	35,211	(35,211)	-
Grants related to assets	14,512	(14,512)	-
Loans and borrowings	7,234	(7,234)	-
Trade and other payables	1,245	(1,245)	-
Provisions	1,249	(1,249)	-
Tax loss carry-forwards	94,017	(94,017)	-
	(32,543)	**32,543**	**-**

’000 GEL	**1 January 2016**	**Recognised in profit or loss**	**31 December 2015**
Property, plant and equipment	(128,225)	(69,391)	(197,616)
Other non-current assets	46	(373)	(327)
Inventories	11,267	665	11,932
Trade receivables and prepayments and other current assets	30,407	4,804	35,211
Grants related to assets	12,477	2,035	14,512
Loans and borrowings	5,586	1,648	7,234
Trade and other payables	673	572	1,245
Provisions	967	282	1,249
Tax loss carry-forwards	3,799	90,218	94,017
	(63,003)	**30,460**	**(32,543)**

9. Property, plant and equipment

'000 GEL	Lands, buildings and constructions	Rail track infrastructure	Electricity Generating Unit	Gas and oil pipelines	Oil wells	Power transmission lines	Transport, machinery, equipment and other	Construction in progress	Total
Cost or deemed cost									
Balance at 1 January 2015	821,613	871,679	-	366,778	29,864	364,358	1,518,056	1,011,347	4,983,695
Additions	4,103	-	-	27,418	-	-	48,520	493,686	573,727
Disposals	(15,012)	(14,485)	-	(8,325)	-	-	(38,985)	(47)	(76,854)
Write-offs	-	-	-	-	-	-	(16)	-	(16)
Transfers	4,234	46,357	391,563	16,611	-	4,675	74,939	(538,379)	-
Balance at 31 December 2015	**814,939**	**903,551**	**391,563**	**402,482**	**29,864**	**369,033**	**1,602,514**	**966,607**	**5,480,552**
Balance at 1 January 2016	814,939	903,551	391,563	402,482	29,864	369,033	1,602,514	966,607	5,480,552
Additions	134,446	700	-	174	-	38	89,641	451,739	676,738
Revaluation	-	-	-	-	-	-	87	-	87
Disposals and write-offs	(5,075)	(12,423)	(3,555)	(335)	-	-	(11,639)	(18,109)	(51,136)
Transfers to unistalled equipment	-	-	-	(10,672)	-	-	-	10,672	-
Transfers	23,236	48,437	2,896	-	5,540	24,592	106,676	(211,377)	-
Balance at 31 December 2016	**967,545**	**940,265**	**390,904**	**391,649**	**35,404**	**393,663**	**1,787,279**	**1,199,532**	**6,106,241**
Depreciation and impairment losses									
Balance at 1 January 2015	48,681	264,890	-	109,038	21,138	86,322	505,460	-	1,035,529
Depreciation for the year	8,046	40,910	7,065	15,989	1,402	16,859	92,296	-	182,567
Disposals	(5,101)	(14,365)	-	(2,037)	-	-	(36,330)	-	(57,833)
Write-offs	-	-	-	-	-	-	11	-	11
Balance at 31 December 2015	**51,626**	**291,435**	**7,065**	**122,990**	**22,540**	**103,181**	**561,437**	**-**	**1,160,274**
Balance at 1 January 2016	51,626	291,435	7,065	122,990	22,540	103,181	561,437	-	1,160,274
Depreciation for the year	8,596	44,025	15,152	19,244	1,683	15,878	95,327	-	199,905
Disposals and write offs	-	(12,167)	(111)	-	-	(21)	(9,623)	-	(21,922)
Transfers to unistalled equipment	-	-	-	(6,270)	-	-	-	6,270	-
Balance at 31 December 2016	**60,222**	**323,293**	**22,106**	**135,964**	**24,223**	**119,038**	**647,141**	**6,270**	**1,338,257**
Carrying amounts									
At 31 December 2015	763,312	612,116	384,498	279,492	7,324	265,852	1,041,077	966,607	4,320,278
At 31 December 2016	**907,323**	**616,972**	**368,798**	**255,685**	**11,181**	**274,625**	**1,140,138**	**1,193,262**	**4,767,984**

(a) Property, plant and equipment: construction in progress

As at 31 December 2016 the Group is undertaking the following significant capital expenditure projects:

(i) During the year ended 31 December 2010 the Group started two large capital projects (included in construction in progress): the Main Line Modernization and the Tbilisi Bypass and started to incur expenditures for the projects in September 2010 and November 2010 respectively. To partly finance the projects the Group issued unsecured bonds in 2010. In 2012, the Group redeemed the bonds issued in 2010 by issuing new bonds for general corporate and liquidity management purposes (see note 19(a).

All the borrowing costs of the 2010 unsecured bonds allocated to each project on a 59%/41% basis were capitalized upon starting to incur expenditures for the projects. The interest on the bonds issued in 2012 was capitalized to the two projects in proportion to the costs incurred on the projects based on a capitalization rate of 8% (2015: 8%). Capitalised borrowing costs during 2016 related to the projects amounted to GEL 42,536 thousand (2015: GEL 33,310 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 would last for 18 months until the final modified project was presented.

During 2015 and 2016, the Group was in discussions with the Tbilisi City Hall and the Government of Georgia about various scenarios of completing the project. The most recent scenarios under discussion include an option envisaging a change of the original bypass location, as a result of which the existing bypass infrastructure may become redundant. As at 31 December 2016 and the date these consolidated financial statements were authorized for issue, no decision was made by the Government of Georgia about the redesign of the Tbilisi Bypass project. The Group has not yet developed the plan how this redundant infrastructure may be used in future in case the above mentioned scenario is approved by the Government. Currently, an independent management expert is performing a feasibility study for the most recent scenarios of the completion of the Bypass project discussed with the Government. The feasibility study also includes determination of the future use of the existing infrastructure, should it become redundant. The options of future use of the infrastructure are automobile bypass road, light rail/ extension of the Tbilisi Metro System, freight depot. The feasibility study is not completed as at the date these consolidated financial statements were authorized for issue.

The Group extended the construction contracts with the main third party construction companies to allow for the final decision to be made with regards to the project. Per Management's assessment, no impairment should be recognized on those assets as at 31 December 2016.

(ii) During 2016 the State contributed the land plot on which Nikoloz Kipshidze Central University Clinic is located in the form of an increase in share capital. The fair value of the land plot amounted to GEL 103,359 thousand.

(b) Security

At 31 December 2016 items of property and equipment (land plots with power-transmission lines and related technical equipment) with a carrying amount of GEL 98,827 thousand (2015: GEL 95,750 thousand) are pledged as a security against loans and borrowings from and restructured liabilities to the Ministry of Finance of Georgia (see notes 19 and 20).

At 31 December 2016 property with a carrying amount of GEL 52,330 thousand (2015: none) is pledged in respect of the secured loan obtained from Credit Suisse (see note 19)

(c) Impairment test for property and equipment

At At 31 December 2016 management identified an indicator that the property and equipment of EnergoTrans LLC (referred to as "the CGU") may be impaired due to the fact, that in 2016 net operating cash inflows were lower than projected. The recoverable amount of the CGU was based on its value in use, determined by discounting future cash flows to be generated from the continuing use of the CGU. The recoverable amount of the CGU was determined to be higher than its carrying amount (GEL 555,347 thousand) by GEL 68,000 thousand and, respectively, no impairment loss was recognized.

The following key assumptions are used in the estimation of the recoverable amount:

– Cash inflows are expected from three main streams of revenue: transmission, export and transit of electricity;

– Revenue from transmission and export of electricity is projected based on actual operating results and the Company's five-year business plan, which is developed according to the ten year development plan of the Georgian energy-transmission network, approved by the Government of Georgia;

– Revenue from transit of approximately GEL 15 million is expected in each of the years 2018 and 2019; the same service is forecasted to generate revenue of approximately GEL 19 million for the years 2020 and 2021, each. This projection is based on the assumption that from 2018 there will be significant demand in the region for the transit of electricity through Georgia, as, starting from 2015 the countries in the region are in active negotiations on this subject, which led to generation of revenue for transit of electricity of approximately GEL 6 million in 2016. In addition, there are further discussions between the entities from Azerbaijan, Turkey and Georgia, on future cooperation for significantly increased transit volumes. However, as at the date these financial statements were authorized for issue, the projected revenues for 2017-2021 years are not yet contracted;

– A discount rate of 11.49% (income tax is not applied, as EnergoTrans LLC is not going to pay dividends for the period considered in the 5-year model; this is in line with the Estonian model of corporate taxation (see Note 31 (g)) is applied in determining the present value of the future cash flows. The discount rate reflects the nominal required rate of return for the cash flows on the invested capital of the companies denominated in GEL.

The above estimates are particularly sensitive in the following areas:

– An increase of one percentage point in the discount rate used would have decreased the value in use (VIU) by approximately GEL 60,652 thousand;

– An assumption, that no revenue is generated by EnergoTrans LLC from transit of electricity, would have decreased the VIU by approximately GEL 155,816 thousand.

At 31 December 2016, due to a decline of net operating cash flows in 2016 compared to prior year, the Group determined that there is an indication of impairment of the non-current assets (referred as "the CGU") of Georgian Railway JSC. The recoverable amount of the Railway CGU was based on its value in use, determined by discounting future cash flows to be generated from the continuing use of the Railway CGU. The recoverable amount of the Railway CGU was determined to be higher than its carrying amount (GEL 2,696,449 thousand) and, respectively, no impairment loss was recognized.

The following key assumptions are used in the estimation of the recoverable amount:

- Cash flows are projected based on actual operating results and the Group's five-year business plan. A long-term growth rate for the terminal period is determined as the approximate long-term economy growth forecast for Georgia and the region affecting the Group's operations;
- Cash flows include annual maintenance capital expenditure and payments for the finalization of the modernization project and Tbilisi bypass project under the original scenario;
- A discount rate of 9.9% (income tax is not applied; this is in line with the Estonian model of corporate taxation (see Note 31 (g)) is applied in determining the recoverable amount of the CGU. The discount rate reflects the required rate of return for the cash flows on the invested capital of similar companies denominated in USD.

The above estimates are particularly sensitive towards changes in the discount rate and the growth rates expected under the five-year business plan and the terminal growth rate. An increase of 1% point in the discount rate used would have resulted in an impairment loss of approximately GEL 100 million while a 2% decrease in the growth rate under the five-year business (from 5% - 6% down to 3% - 4%) would have resulted in an impairment loss of approximately GEL 144 million while a 2% decrease in the growth rate in the terminal period (from 3% to 1%) would have resulted in an impairment loss of approximately GEL 248 million.

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

'000 GEL	**2016**	**2015**
Prepayments for construction of railway infrastructure	100,976	88,341
Other prepayments for non-current assets	44,287	65,016
Total prepayments for non-current assets	**145,263**	**153,357**
Construction materials for railway infrastructure	43,457	56,232
Intangible assets	30,444	33,835
Other	17,694	9,660
Total other non-current assets	**91,595**	**99,727**

11. Investments in equity accounted investees

'000 GEL	**2016**	**2015**
Balance at the beginning of the period	47,757	54,228
Contributions to associate	8,382	4,006
Group's share of profit/(loss) of equity accounted investees (net of income tax) recognized in profit or loss	1,387	(8,318)
Dividends received	-	(2,159)
Balance at 31 December	**57,526**	**47,757**

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 material joint arrangement in which the Group

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

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

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

'000 GEL	**2016**	**2015**
Percentage ownership interest	**50%**	**50%**
Non-current assets	61,850	66,499
Current assets (including cash and cash equivalents – 2016: GEL 4,576 thousand; 2015: GEL 7,266 thousand)	7,734	13,033
Non-current liabilities	(33,170)	(30,130)
Current liabilities	(11,310)	(12,841)
Net assets (100%)	25,104	36,561
Group's share of net assets (50%)	**12,552**	**18,280**
Revenue	9,964	5,126
Loss and total comprehensive loss (100%)	(12,373)	(18,284)
Group's share of loss and total comprehensive loss	**(6,187)**	**(9,142)**

(b) Associates

At 31 December 2016 the Group has interest in four associates – Vanric Agro LLC, Telasi JSC, Panex JSC, and Imereti Greenery LLC (2015: Telasi JSC, Vanric Agro LLC, and Panex JSC). Telasi is a significant associate of the Group.

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	**2016**	**2015**
Percentage ownership interest	**24.53%**	**24.53%**
Non-current assets	205,385	185,480
Current assets	83,656	77,843
Non-current liabilities	(22,124)	(29,843)
Current liabilities	(115,658)	(120,941)
Net assets (100%)	151,259	112,539
Group's share of net assets (24.53%)	**37,104**	**27,606**
Revenue	395,872	313,247
Profit and total comprehensive income (100%)	38,720	6,761
Group's share of profit and total comprehensive income	**9,498**	**1,658**

12. Finance lease receivable

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

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

'000 GEL	**2016**	**2015**
Finance lease receivable at 1 January	55,423	52,041
Unwinding of discount on finance lease receivable	3,614	3,382
Finance lease receivable at 31 December	**59,037**	**55,423**

Contingent rents related to oil transportation recognized in the consolidated statement of profit or loss and other comprehensive income during 2016 amounted to GEL 18,047 thousand (2015: GEL 17,977 thousand).

13. Loans receivable

'000 GEL	**2016**	**2015**
Non-current assets		
Loan receivable from the state controlled entity	6,209	66,103
Loan receivable from third party	630	3,172
Loan receivable from entity managed by the Group*	18,901	-
Total non-current	**25,740**	**69,275**
Current assets		
Short term part of the loan receivable from the state controlled entity	1,486	44,423
Short term part of the loan receivable from the third party	29,210	13,909
Short term part of the loan receivable from entity managed by the Group*	3,974	-
Total current	**34,670**	**58,332**
	60,410	**127,607**

In October 2016 the Group and the Government of Georgia, as represented by the Ministry of Economics and Sustainable Development, concluded an agreement according to which the Group transferred the right to demand the loan issued to the state controlled entity to the Government of Georgia in the amount of GEL 68,180 thousand as at the agreement date. This transaction was accounted for as a distribution to owners by the Fund's subsidiary.

The loan given to a third party bears the contractual rate of interest of 9.5% and matures within 1 year and is secured by the borrower's fixed assets.

* The loan is issued to a terminal storage company, which is under the management of the Group until 2023.

14. Term deposits

Terms and conditions of the term deposits are as follows:

				31 December 2016		31 December 2015	
'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	-	-	61,074	61,074
Current term deposit	GEL	9%-10.3%	2016	-	-	81,431	81,431
Current term deposit	USD	7.13%	2017	75,129	75,129	-	-
Current term deposit	USD	0.25%-3.5%	2016	-	-	66,835	66,835
Current term deposit	USD	2%-5.5%	2017	37,327	37,327	-	-
				112,456	**112,456**	**209,340**	**209,340**

The term deposits include GEL 26,468 thousand (2015: GEL 23,949 thousand) which have been pledged as collateral for a loan obtained by a state controlled entity in the agriculture sector. The Ministry of Agriculture of Georgia has confirmed its intent to provide support to the state controlled entity to enable it to repay the loan. The loan was not overdue at 31 December 2016. The management believes that, if required, the Ministry of Agriculture of Georgia will provide support to the extent permitted by the Georgian legislation to the state controlled entity and that there is no impairment risk.

The Group's exposure to credit and currency risks and impairment losses related to term deposits are disclosed in note 23.

15. Prepayments and other current assets

'000 GEL	**2016**	**2015**
Prepayments to suppliers	50,964	49,625
Receivable from the Government (see note 18 (f))	23,690	-
Taxes other than on income	16,967	37,274
Non-current assets held for distribution	-	1,758
Other receivables	7,980	8,151
Impairment allowance for other receivables	(2,585)	(2,709)
	97,016	**94,099**

16. Trade receivables

'000 GEL	**2016**	**2015**
Non-current assets		
Trade receivables	29,441	-
Allowance for trade receivables	(8,720)	-
	20,721	-
Current assets		
Trade receivables	557,134	526,304
Allowance for trade receivables	(234,036)	(220,600)
	323,098	**305,704**
Total	**343,819**	**305,704**

Guaranteed capacity of electricity production

Until 31 August 2014 the Group acted as an agent in the purchase of the guaranteed capacity of electricity production from electricity producers and selling it to the Qualified Enterprises (Distribution Licensee, Direct Customer and/or Exporter). For the sold Guaranteed Electricity the Group collects debts from the Qualified Enterprises and transfers the receipts to the electricity producers. Starting from 1 September 2014, due to changes in relevant legislation, the Group must reimburse the electricity producers whether or not it receives funds from Qualified Enterprises.

Management believes that from September 2014 the Group has been acting as a principal in the guarantee capacity's sale and purchase transactions and recognizes relevant revenue and cost of sales in full. Management's estimate is also based on the fact that the Group is obliged to buy the balancing electricity and the guaranteed capacity based on the Law of Georgia on Electricity and Natural Gas and the Electricity (Capacity) Market Rules and that the Group bears full credit risk on the purchased and sold capacities.

The Group's exposure to credit and currency risks and impairment losses related to trade receivables are disclosed in note 23.

17. Cash and cash equivalents

000 GEL	**2016**	**2014**
Bank balances	802,532	491,409
Call deposits	227,380	227,938
Petty cash	78	139
Cash and cash equivalents in the consolidated statement of financial position	**1,029,990**	**719,486**
Restricted cash	(164)	(578)
Cash and cash equivalents in the consolidated statement of cash flows	**1,029,826**	**718,908**

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

The Group's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in note 23.

18. Equity and liabilities to the Government

(a) Share capital

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

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

(b) Owner contributions

During 2016 the Government of Georgia contributed gas pipelines of GEL 174 thousand, land plots of GEL 4,611 thousand, plant and equipment of GEL 363 thousand and intangible assets of GEL 1,044 thousand (2015: gas pipeline of GEL 27,471 thousand, land plots of GEL 12,193 thousand, plant and equipment of GEL 10,054 thousand, and inventory of GEL 359 thousand) in the form of an increase in share capital. The Government also contributed land plots, transmission lines and other fixed assets of GEL 156,748 thousand (2015: GEL 6,511 thousand of land plots, transmission lines and related equipment) in the form of an increase in share capital. GEL 103,359 thousand from GEL 156,748 thousand is related to the contribution of the land plot on which Nikoloz Kipshidze Central University Clinic is located (see note 9(a)(ii)). The nominal value of these assets approximates their fair value.

During 2015 the Government of Georgia contributed 100% of the shares of Tbilisi Children's Infection Hospital LLC, Universal Medical Center JSC, and Nikoloz Kipshidze Central University Clinic LLC in the form of an increase in share capital. The aforementioned capital contributions amounted to GEL 6,033 thousand.

(c) Distributions to the shareholder

In 2016 the Group transferred the right to demand on the loan given to the state controlled entity of GEL 68,180 thousand (see note 13) and made a distribution of other non-cash assets to the state controlled entities with a carrying amount of GEL 6,638 thousand (2015: GEL 1,067 thousand). Due to nature of distributions no related tax effect was recognized, in 2015 the related tax effect was GEL 160 thousand.

(d) Liabilities to the Government

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

(e) Advance received from the Government

In April 2012, Georgian Railway JSC and the Government of Georgia entered into the Bypass Project Memorandum. According to the Bypass Project Memorandum the Government is interested and aims to purchase from the Group approximately 70.1 hectares of land plots which will be freed up as a result of the removal of railway infrastructure from Tbilisi city center and construction of a new bypass railway route for the purposes of further development of the land plots. The Government agrees to pay to Georgian Railway JSC CHF 138 million equivalent in national currency through the reduction in the amount of dividends payable to the Government . In 2012, Georgian Railway JSC declared dividends of GEL 231,592 thousand (CHF 138 million) and classified the amount as an advance received from the Government for the sale of land in accordance with the Bypass Project Memorandum. As a result, the dividend payable was classified as an advance received from the Government for the sale of land (see note 18(f)).

(f) Transfer of property to the Government

In 2016 and 2015 the Company transferred land plots of 89,166 and 3,266 square meter with attached constructions, respectively, to the Government within the framework of the Bypass Project Memorandum. The fair value of these land plots with attached constructions was determined by an independent appraiser based on announced asking prices of similar properties in the similar location and physical condition. The fair value estimate is categorized into Level 3 of the fair value hierarchy, because of significant unobservable adjustments used in the valuation methods. The significant

unobservable inputs related to the differences in the characteristics of the properties, such as size, location, access to the property and discount achieved through negotiation, for which the appraiser applied 0% to 15% adjustments to observed asking prices.

The difference between the fair value and the carrying value of the transferred property was recognized as income in the consolidated statement of profit or loss. The difference between the cost of the transferred property, as agreed between the Group and the Government which is used for the reduction of advances received from the Government, and the fair value of the transferred property was recognized directly in equity as a non-cash owner contribution reserve.

’000 GEL	**2016**	**2015**
Cost of the transferred property, as agreed between the Group and the Government	147,979	7,588
Less: fair value of the transferred property	(85,634)	(7,588)
Recognized in non-cash owner contribution reserve	**62,345**	**-**
Fair value of the transferred property	85,634	7,588
Less: carrying value of the transferred property	(5,340)	(85)
Recognized as income from the transferred property	**80,294**	**7,503**

The Group has recognized receivable of GEL 23,690 thousand (see note 15) as a result of the transfer of the property to the Government, as according to the Bypass Project Memorandum, the Government will reimburse the Group for the value added tax payable incurred on such transfers.

19. 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 23.

’000 GEL	**2016**	**2015**
Non-current liabilities		
Unsecured bonds	1,969,620	1,780,473
Unsecured loans from financial institutions	1,156,012	979,834
Secured loans from financial institutions	80,588	42,349
Secured loan from Ministry of Finance	22,654	25,740
	3,228,874	**2,828,396**
Current liabilities		
Current portion of unsecured bonds	201,806	57,897
Current portion of unsecured loans from financial institutions	113,444	66,018
Current portion of secured loans from financial institutions	16,529	8,845
Current portion of secured loan from Ministry of Finance	11,101	10,960
	342,880	**143,720**

(a) Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

				31 December 2016		31 December 2015	
’000 GEL	**Currency**	**Nominal interest rate**	**Year of maturity**	**Face value**	**Carrying amount**	**Face value**	**Carrying amount**
Unsecured bonds	USD	6.875%	2017	141,485	142,431	598,725	600,214
Unsecured bonds	USD	7.75%	2022	1,369,027	1,369,027	1,238,156	1,238,156
Unsecured bonds	USD	6.75%	2021	661,700	659,968	-	-
Unsecured loans from financial institutions:							
Ministry of Finance of Georgia - KfW	EUR	KfW reference rate+4%	2027	214,587	214,587	204,622	204,622
Ministry of Finance of Georgia - KfW	EUR	1%-1.5%	2025-2037	95,460	95,460	74,602	74,602
Ministry of Finance of Georgia - EIB	EUR	Euribor+0.75%	2033	208,567	208,567	202,526	202,526
Ministry of Finance of Georgia - EBRD	EUR	Euribor+1%	2025-2028	152,103	152,103	141,720	141,720
Ministry of Finance of Georgia - ADB	USD	1%-1.5%	2044	112,962	112,962	39,923	39,923
Ministry of Finance of Georgia – IBRD	USD	World Bank's lending treasury rates	2038	76,793	76,793	18,479	18,479
Unsecured loan from financial institutions	USD	Libor +5.95%	2020	408,984	408,984	363,980	363,980
Secured loans from financial institutions:							
Ministry of Finance of Georgia - KfW	EUR	4%	2021	10,538	10,538	11,844	11,844
Ministry of Finance of Georgia - IDA	USD	World Bank's lending treasury rates	2022	36,832	36,832	39,350	39,350
Secured loan from Credit Suisse	USD	Libor+1.25%	2026	49,747	49,747	-	-
Secured loan from Ministry of Finance of Georgia	EUR	7.50%	2020	33,755	33,755	36,700	36,700
Total interest-bearing liabilities				**3,572,540**	**3,571,754**	**2,970,627**	**2,972,116**

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 Main Line Modernization and Tbilisi Bypass projects (see notes 9 and 10).

Loans received before 2014 from EBRD, EIB and KfW were disbursed to the Government of Georgia in relation to the BSTN project. Loans received before 2014 from IDA and KfW were disbursed to the Government of Georgia for the implementation of the Electricity Market Support Project (the "EMSP"), "Energy IV", "Sector Program Power Supply" and "Regional Power Network Rehabilitation l " projects. Loans received in 2014 from ADB, KfW and EBRD were disbursed to the Government of Georgia in relation to the construction and enhancement of Jvari - Khorga electricity transmission lines and substations as well as other transmission network rehabilitation projects.

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

In April 2016 the Group carried out the issuance, placement and registration (listing) on the London Stock Exchange of unsecured bonds of USD 250 million and the early part redemption of the Bonds maturing in 2017. As a result, the Group has issued USD 250 million 6.75% bonds due in 2021 and redeemed 78.62% of the outstanding Bonds maturing in 2017 with a face value of USD 197 million as at 31 December 2016.

The secured loan from Credit Suisse was obtained for the sole purpose of the acquisition of passenger trains. The secured loan is collateralized by the underlying passenger trains of GEL 52,330 thousand (see note 9(b))

As at 31 December 2016, the Group maintains a committed credit line of GEL 161,400 thousand. During 2015, the Group acquired a new loan from an international bank of USD 150,000 thousand. The purpose of the loans was to refinance existing loan exposures.

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. Management estimates that the carrying values of unsecured loan from financial institutions and secured loan from Credit Suisse are reasonable approximation of their fair values.

Financial covenants

In relation to the loan received from IBRD, in accordance with the loan and related project implementation agreements, the Group Company (Georgian State Electrosystem JSC) should maintain a ratio of current assets to current liabilities of not less than 1.

The management calculates the above financial covenant at the end of each year based on both, stand-alone financial information of the Company and consolidated financial statements of the Group prepared in accordance with IFRSs.

As at 31 December 2016 the the Group was in breach of the above financial covenant as the ratio of current assets to current liabilities based on financial information of the Group Company prepared in accordance with IFRSs was less than 1 (as at 31 December 2015 the Group Company and the Group was also in breach of the above financial covenant).

The Group management assessed that the main reason for the breach of the covenant is related to the fact that current liabilities also includes payables in relation to construction activities financed by IBRD and other creditors. Without considering that part of payables related to construction activities, the current ratio would have been above 1 (i.e. in compliance with the covenant) for the Group Company's standalone financial information.

In case of breach of the covenant the loan agreement does not prescribe explicitly any change in the loan disbursement or repayment schedule. The management of the Group obtained clarification from the IBRD that in general, the remedial measures in case of breaching a financial covenant such as acceleration, suspension, and cancellation is applied in extreme cases when the risk, which the

respective financial covenant is aimed to address, is materialized. Such risks include many factors and are not limited to the financial covenants only.

Therefore, the Group management does not expect that the above breach of financial covenant as at 31 December 2016 will affect the loan repayment schedule.

20. Restructured liabilities

'000 GEL	**2016**	**2015**
Payables to the State Budget	58,622	65,192
Trade payables	28,593	27,885
Loans and interest accrued	3,983	4,196
	91,198	**97,273**
Amortized cost adjustment	(24,781)	(30,818)
Balance at 31 December	**66,417**	**66,455**
Current	10,000	7,000
Non-current	56,417	59,455
	66,417	**66,455**

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 24). According to the Rehabilitation Plan, drawn-up initially in 2006 through court proceedings and agreed with the majority of creditors, the repayments of these debts have been deferred until 2011; thereafter the amounts will be repaid by instalments until 2023, the end of the rehabilitation period.

The Rehabilitation Plan sets out the strategic targets of the Group entity for the coming 15 years, as well as defines the main operating and financial objectives of the Group entity. According to the Rehabilitation Plan, the Rehabilitation Manager has been appointed to undertake the governance of Georgian State Electrosystem JSC throughout the entire rehabilitation period. The main creditor of Georgian State Electrosystem JSC is the Ministry of Finance of Georgia. The amounts payable to the Ministry of Finance of Georgia are taxes and duties, as well as loans and interest accrued. Restructured liabilities are presented at discounted amounts. Following the approval of the new Rehabilitation Plan in 2008, the Group has estimated the fair value of deferred payables, to effect the amendments in the repayment terms. The fair value of these liabilities on the Rehabilitation Plan approval date has been determined by discounting future cash flows at an average market interest rate of 9.57%.

21. Grants related to assets

'000 GEL	**2016**	**2015**
Balance at 1 January	108,592	83,949
Recognised in profit and loss	(4,377)	(4,638)
Received during the year	8,614	29,281
Balance at 31 December	**112,829**	**108,592**
Non-current	108,533	104,296
Current	4,296	4,296
	112,829	**108,592**

A grant related to assets of EUR 25,000 thousand mainly represents financial contributions received from KfW within the framework of the BSTN project for the construction of a new power transmission line.

The grant of GEL 10,399 thousand was received in 2015 from KfW for the construction of the 500/220 kV Jvari substation. In addition GEL 8,614 thousand was received in 2016.

The financial contribution is not repayable unless the Group misuses the funds received or seriously jeopardizes the implementation of the project.

22. Trade and other payables

’000 GEL	**2016**	**2015**
Trade payables	210,863	193,055
Payables for construction works under BSTN project	40,542	34,627
Advances received from customers	18,386	16,194
Taxes other than on income	1,047	5,874
Other payables	17,225	24,564
	288,063	**274,314**

The Group’s exposure to currency and liquidity risk related to trade and other payables is disclosed in note 23.

23. 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 23(c));
- liquidity risk (see 23(d));
- market risk (see 23(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		**2016**	**2015**
Finance lease receivable	12	59,037	55,423
Trade receivables	16	343,819	305,704
Other receivables	15	5,395	5,442
Loans receivable	13	60,410	127,607
Term deposits	14	112,456	209,340
Cash and cash equivalents	17	1,029,912	719,347
		1,611,029	**1,422,863**

(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 34%, 55%, 13%,42%, 43%, and 34% of the Group's revenue from the sales of balancing electricity, sales of gas and oil, railroad transportation and electricity transmission and dispatching activities, revenue generation, and income from guaranteed capacity respectively, are attributable to sales transactions with a single customer for each type of revenue (2015: 68%, 70%, 22%,37%, 41%, and 53% respectively).

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

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

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

	Carrying amount	
'000 GEL	**2016**	**2015**
Domestic	285,132	249,782
CIS countries	58,687	55,922
	343,819	**305,704**

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

	Carrying amount	
'000 GEL	**2016**	**2015**
Gas distributors	129,777	143,222
Foreign railway companies	55,880	42,024
Wholesale electricity customers	49,930	39,462
Electricity distributors	24,479	18,658
Gas pipeline rentals	20,721	15,972
Oil Trading	22,172	-
Other	40,860	46,366
	343,819	**305,704**

All of the trade receivables from gas distributors is represented by a single customer. The Group's two most significant customers from foreign railway companies account for GEL 55,580 thousand of the trade receivables carrying amount as at 31 December 2016 (2015: GEL 41,143 thousand).

Impairment losses

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

'000 GEL	**Gross 2016**	**Impairment 2016**	**Gross 2015**	**Impairment 2015**
Neither past due nor impaired	132,770	-	148,788	-
Past due 0 - 90 days	150,329	14,761	95,702	8,040
Past due 91-180 days	8,256	1,928	18,857	9,988
Past due 181-365 days	18,977	4,505	37,685	18,355
Past due more than one year	276,243	221,562	225,272	184,217
	586,575	**242,756**	**526,304**	**220,600**

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

'000 GEL	**2016**	**2015**
Balance at beginning of the year	220,600	181,963
Increase during the year	22,156	38,637
Balance at end of the year	**242,756**	**220,600**

Most of the impairment loss at 31 December 2016 and 2015 relates to several railway 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, receivables of GEL 44,721 thousand (2015: GEL 42,024 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.

As at 31 December 2016 the Group had material overdue balance from Georgian Gas Transportation Company LLC ("GGTC") of GEL 29,441 thousand, the gross amount. The Group management believes that the debt will be fully recovered during 2018-2020. The management's assertion is based on the analysis of GGTC's liquidity position, cash flows and informal communication with the Group's ultimate shareholder (the Government of Georgia, represented by the Ministry of Energy of Georgia), which is also the ultimate shareholder of GGTC. The tariff for gas transporation was revised in July 2017, resulting in increased cash flows for GGTC. The Management believes that the outstanding balance will be fully repaid until 31 December 2020 in equal annual installments starting from 1 January 2018. The Management discounted the outstanding balance as at 31 December 2016 for 2-4 years at a discount rate of 12.6%, which represents the average market interest rate for loans issued by Georgian commercial banks in the national currency during 2016. The present value of future cash flows, as at 31 December 2016, receivable from GGTC amounted GEL 20,719 thousand. The difference between the gross receivable balance due from GGTC as at 31 December 2016 in the amount of GEL 29,441 thousand and the present value of cash flows of GEL 20,719 thousand is presented as an impairment loss on trade receivables of GEL 8,720 thousand under other expenses (see note 16).

(iii) Loans receivable

The Group provided loan to a State controlled entity, which was fully settled as at 31 December 2016 (see note 13). The secured loan to a third party is not past due as at 31 December 2016.

As at 31 December 2016, the Group has issued loans to the entity managed by the Group (see note 13). Scheduled principal and interest payments of around GEL 1.5 million of the loan receivable from the entity managed by the Group are past due as at 31 December 2016. However, management believes, that as at 31 December 2016 the loan is fully recoverable and the counterparty will be able to follow the loan repayment schedule during 2017 and following years up to the loan maturity. Management based its analysis on the subsequent payments made in 2017 and the improved financial results of the counterparty subsequent to the reporting date.

(iv) Receivable from the Government

The Group has incurred receivable of GEL 23,690 thousand as a result of the transfer of the property to the Government (note 18 (f)). Management believes that the Group is not exposed to a significant amount of credit risk relating to this receivable as the Government is legally committed to reimburse the value added tax payable on the transfer of the property within the framework of the Bypass Project Memorandum.

(v) Cash and cash equivalents and term deposits

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

(d) Liquidity risk

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

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

The Group has significant contractual commitments for the purchase and construction of property, plant and equipment (see note 26). Management believes that the cash and cash equivalents held by the Group, proceeds from loans and borrowings and credit lines and cash flows from operating activities will be sufficient to finance the capital expenditure projects.

Exposure to liquidity risk

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

31 December 2016		**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	3,571,754	4,644,766	304,329	159,923	2,029,758	2,150,756
Restructured liabilities	66,417	91,152	10,000	-	70,000	11,152
Trade and other payables	270,668	270,669	270,669	-	-	-
	3,908,839	**5,006,587**	**584,998**	**159,923**	**2,099,758**	**2,161,908**

31 December 2015		**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	2,972,116	3,848,896	145,383	99,222	1,790,140	1,814,151
Restructured liabilities	66,455	97,172	7,000	-	61,000	29,172
Trade and other payables	249,707	249,707	194,206	-	51,915	-
	3,288,635	**4,192,189**	**346,589**	**99,222**	**1,903,055**	**1,843,323**

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 2016	CHF - denominated 2016	EUR - denominated 2016	USD - denominated 2015	CHF - denominated 2015	EUR - denominated 2015
Cash and cash equivalents	620,641	499	3,374	425,533	324	3,064
Term deposits	112,456	-	-	123,102	-	-
Trade and other receivables	28,235	57,152	17	2,328	54,544	13
Loans receivable	60,410	-	-	127,607	-	-
Loans and borrowings	(2,856,744)	-	(715,008)	(2,300,102)	-	(672,015)
Restructured liabilities	(7,676)	-	(3,777)	(6,929)	-	(4,009)
Trade and other payables	(47,113)	-	(25,626)	(50,129)	-	(23,347)
Net exposure	**(2,089,791)**	**57,651**	**(741,020)**	**(1,678,590)**	**54,868**	**(696,294)**

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

in GEL	Average rate		Reporting date spot rate	
	2016	2015	2016	2015
USD 1	2.3667	2.2702	2.6468	2.3949
CHF 1	2.4012	2.3600	2.5982	2.4200
EUR 1	2.6172	2.5204	2.7940	2.6169

Sensitivity analysis

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

’000 GEL	Profit or loss
31 December 2016	
USD (10% weakening)	(208,979)
CHF (10% weakening)	5,765
EUR (10% weakening)	(74,102)
31 December 2015	
USD (20% weakening)	(161,670)
CHF (20% weakening)	9,328
EUR (20% weakening)	(118,370)

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	
	2016	**2015**
Fixed rate instruments		
Financial assets	987,148	899,031
Financial liabilities	(2,424,141)	(2,001,440)
	(1,436,993)	**(1,102,409)**
Variable rate instruments		
Financial liabilities	(1,164,424)	(970,305)
	(1,164,424)	**(970,305)**

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 2015.

	Profit or loss	
'000 GEL	**100 bp increase**	**100 bp decrease**
2016		
Variable rate instruments	(11,644)	11,644
Cash flow sensitivity (net)	**(11,644)**	**11,644**
2015		
Variable rate instruments	(8,248)	8,248
Cash flow sensitivity (net)	**(8,248)**	**8,248**

(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	**2016**	**2015**
Total liabilities	4,135,225	3,724,826
Less: cash and cash equivalents	(1,029,990)	(719,486)
Net debt	**3,105,235**	**3,005,340**
Total equity	**2,731,310**	**2,561,882**
Debt to capital ratio at 31 December	**1.14**	**1.17**

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.

24. Significant subsidiaries and non-controlling interests

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

Georgian Oil and Gas Corporation JSC was established as a 100% state-owned enterprise by the order of the Ministry of Economy of Georgia on 21 March 2006, on the basis of three Georgian state-owned companies: Georgian International Oil Corporation JSC, Georgian Gas International Corporation JSC and Teleti Oil Company JSC. The principal activities of Georgian Oil and Gas Corporation JSC are the importation and sale of natural gas, the rental of gas and oil pipelines, oil and gas exploration and extraction in the territory of Georgia. In December 2006 Georgian Oil and Gas Corporation JSC was granted the status of "National Oil Company" by Presidential decree number 736 and it acts on behalf of the State of Georgia, receives and sells the State's share of

extracted oil and gas produced by contractors in the territory of Georgia in accordance with the "Law of Georgia on Oil and Gas" and production sharing agreements signed between the State and the contractors. In October 2013 a new subsidiary, Gardabani TPP LLC, was created by the Company and Partnership Fund JSC with 51% and 49% interest, respectively. The charter capital was defined at USD 100,000 thousand. The paid in charter capital as at 31 December 2016 amounted to GEL 171,349 thousand. The subsidiary was created for the construction and operation of Gardabani Combined Cycle Power Plant (CCPP). The construction works were completed in July 2015. The Gardabani CCPP began generating revenue from September 2015.

Georgian State Electrosystem JSC was established under the laws of Georgia on 12 November 2002 by the means of the merger of Electrogadatsema JSC and Electrodispetcherizatsia-2000 LLC and is their legal successor in title. The major subsidiary of Georgian State Electrosysem JSC is EnergoTrans LLC, an entity established as a state-owned enterprise in 2002. The principal activities of Georgian State Electrosystem JSC and its subsidiaries are electricity transmission and dispatching over the entire territory of Georgia that are regulated by the law on Electricity and Natural Gas on the basis of the licenses obtained from the Georgian National Energy and Water Supply Regulatory Commission. EnergoTrans LLC owns the 500kV Vardzia and Zekari power transmission lines and the 400kV Meskheti interconnection line with Turkey constructed as part of the "Black Sea Transmission Network Project" (BSTN). The BSTN project was completed by the end of 2013. The new lines provide additional security to Georgia's transmission network, by adding a second west-east 500kV link, and create energy export capacity to Turkey. Due to financial difficulties in the past, Georgian State Electrosystem JSC is currently under rehabilitation process managed by a Rehabilitation Manager in accordance with a Rehabilitation Plan (see note 20). 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.

In March 2015 a new subsidiary, Aerostructure Technologies Cyclone JSC, was established in Georgia by Partnership Fund JSC, Project LLC (under 100% ownership of the Group), and Elbit Systems - Cyclone Ltd, with 33.33%, 33.33%, and 33.34% interest, respectively. The parties agreed to incorporate the subsidiary with the authorized share capital of USD 60,000 thousand.

In accordance with the shareholders agreement, unanimous agreement is required for certain decisions. Management has concluded that the Group has control over the subsidiary because the Group is exposed to (has rights to) variable returns from its involvement with the subsidiary, and has the ability to affect those returns through its power over the subsidiary. The conclusion is based on the percentage of the ownership interest and the significance of decisions defined in shareholders agreement of the subsidiary for which only a simple majority of votes is required.

The subsidiary was created for the purpose to engage in the development, production, sale and support of composite aero-structure products for the commercial (civil) market.

The following table summarises the information relating to the Group's subsidiary Aerostructure Technologies Cyclone JSC:

’000 GEL	**2016**	**2015**
NCI Percentage	34%	34%
Non-current assets	55,723	58,783
Current assets	85,934	77,642
Non-current liabilities	-	-
Current liabilities	(5)	-
Net assets	141,652	136,425
Carrying amount of NCI	48,162	46,385
Revenue	-	-
Profit/(loss)	5,227	(3,759)
Total comprehensive loss	**5,227**	**(3,634)**
Profit/(loss) allocated to NCI	1,777	(1,278)
Cash flows from/(used in) operating activities	(1,679)	(3,759)
Cash flows used in investment activities	-	(57,520)
Cash flows from financing activities (dividends to NCI: nil)	1,589	140,184
Net increase in cash and cash equivalents	**(90)**	**78,905**

25. Operating leases

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

’000 GEL	**2016**	**2015**
Less than one year	4,499	4,832
Between one and five years	6,663	5,686
More than five years	19,288	17,754
	30,450	**28,272**

Operating leases mainly 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.

26. Capital commitments

As at 31 December 2016 the Group had entered into contracts for the construction and purchase of property, plant and equipment of GEL 612,862 thousand (2015: GEL 628,928 thousand) mainly relating to the Main Line Modernization and Tbilisi Bypass projects.

The Group had entered into contracts for construction of pipelines with outstanding capital commitments as at 31 December 2016 of GEL 35,138 thousand (2015: GEL 30,163 thousand).

The Group is a party to a Supplemental Gas purchase agreement effective until 2026 in accordance with which the Group shall take and pay for or pay for if not taken certain quantities of gas and at predetermined prices, which are significantly below the current market price of natural gas. As at 31 December 2016 the total remaining amount of Supplemental Gas to be purchased and paid for amounted to GEL 1,014,071 thousand (2015: GEL 1,002,546 thousand). The Group is also a party to a gas sale agreement based on which its customer must take and pay for or pay for if not taken the whole quantity of gas purchased by the Group including the whole amount of the Supplemental Gas. As a result the Group considers that their commitment in respect of the purchase of Supplemental Gas is set off by the commitment of the Group’s customer to buy that amount of gas and represents

an effective back-to-back contractual arrangement whereby the Group passes its obligations towards the customer of the Group.

As at 31 December 2016 the Group also had contractual commitments to purchase equipment for the construction and rehabilitation of energy-transmission lines for GEL 100,150 thousand (2015: GEL 219,885 thousand).

Capital commitments are attributable to various project-related construction works and will be funded by undisbursed loan facilities from international financial institutions (see note 19)

27. 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

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 three 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.

(e) Electricity purchase contracts

The Group has entered into contracts for the purchase of electricity to be produced by the new hydro-electric power stations, thermo-electric power stations and wind-electric power stations. In total 65 such contracts have been initiated and electric power stations are under construction as of 31 December 2016 and planning to be finalised between 2017-2019. In 2016 construction of two power station was finalized. According to the management such contracts represent 'Executory contracts' and are not onerous contracts as defined in IAS 37 Provisions, Contingent Liabilities and Contingent Assets and it is not possible to measure reliably the approximate amount of revenue and cost of sales which the Group will face after completion of the constructions and when the electric power stations will start generating electricity.

28. Related parties

(a) Parent and ultimate controlling party

As at 31 December 2016 and 2015 the Fund is wholly owned 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	**2016**	**2015**
Salaries and bonuses	4,970	4,705

(c) Transactions with Government related entities

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

The significant transactions with entities controlled or significantly influenced by the State and balances for these transactions are disclosed below. Management estimates that the aggregate amounts of all other income and expenses and the related balances with government-related entities at the reporting dates are not significant. Transactions with the shareholder are disclosed in note 18.

(i) Revenue

'000 GEL	**Transaction value**	
	2016	**2015**
Entities controlled or significantly influenced by the State:		
Rent of gas pipelines	68,487	68,818
Transmission and dispatching of electricity	866	6,738
Electricity generation	68,384	10,625

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**	
	2016	**2015**
Entities and agencies controlled or significantly influenced by the State:		
Cost of gas	14,394	60,839
Purchase of balancing electricity and guaranteed capacity	13,762	8,748

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**	
	2016	**2015**	**2016**	**2015**
Loans receivable:				
State controlled entity	4,602	5,763	7,695	64,682
Loans received:				
Ministry of Finance of Georgia	19,925	21,236	941,597	769,766

The interest rates and maturities of loans from related parties are disclosed in note 19(a).

(iv) Restructured liabilities

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

29. Subsequent events

In May 2017, the Group fully redeemed the outstanding part (21.38%) of unsecured 2012 bonds of USD 250 million, due in 2017, issued by the Group in May 2012.

30. Basis of measurement

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

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. Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

(ii) Acquisitions from entities under common control

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

(iii) Loss of control

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

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

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

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

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

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

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

(v) Joint operations

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

(vi) Transactions eliminated on consolidation

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

(b) Revenue

Revenue in the course of ordinary activities is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates.

Revenue from sale of goods is recognized when persuasive evidence exists, usually in the form of an executed sales agreement, that the significant risks and rewards of ownership have been transferred to the customer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. If it is probable that discounts will be granted and the amount can be measured reliably, then the discount is recognized as a reduction of revenue as the sales are recognized.

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

(i) Transportation activities

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

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

(ii) Sale of gas and oil

Revenue from the sale of gas and oil is recognized in profit or loss according to the timing of the transfers of risks and rewards that varies depending on the individual terms of the sales agreement. For sales of gas, the sale is recognized on the basis of metered usage of gas by customers. For sales of oil, transfer occurs upon loading the product onto the relevant carriers, inspection by an independent inspector and sealing of carriers based on FCA (Incoterms 2000) terms at Vaziani or

Supsa stations (Georgia). The seller is responsible for delivery of goods to the named points, uploading goods to the buyer's wagons and customs registration.

(iii) Sale of electricity

Revenue from the sale of balancing electricity is recognized in profit or loss when the electricity is delivered to the point at the electricity grid system from where electricity is distributed into power lines and is considered to be received by the customer.

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

(iv) Electricity generation and supply

Revenue from the sale of electricity is recognised on the basis of metered delivery to the JSC Georgian State Electrosystem.

(v) 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.

(vi) 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.

(vii) 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.

(viii) 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.

(ix) 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.

(x) Healthcare revenue

The Group recognizes revenue from healthcare services when the amount can be reliably measured and it is probable that future economic benefits will flow to the entity. Healthcare revenue is shown net of corrections, discounts, and rebates.

Healthcare revenue comprises the fair value of consideration receivable or received for providing healthcare services to the following counterparties:

- State – the Group recognizes revenue from individuals, who are insured by the state programs based on the completion of the actual medical service and agreed upon terms between counterparties.
- Insurance Companies – the Group recognizes revenue from individuals, who are insured by difference insurance companies based on the completion of the actual medical service and agreed upon terms between counterparties.
- Free flow – the Group recognizes revenue from non-insured individuals based on the completion of actual medical service and approved prices by the Group.

(xi) Oil Trading

In oil trading transactions the Group acts in the capacity of an agent rather than as the principal. The related net revenue is recognised in the amount of agency fee received.

(xii) 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 financial liabilities measured at amortised cost, 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. Current tax payable also includes any tax liability arising from dividends.

On 13 May 2016 the Parliament of Georgia passed the bill on corporate income tax reform (also known as the Estonian model of corporate taxation), which mainly moves the moment of taxation from when taxable profits are earned to when they are distributed. The law has entered into force in 2016 and is effective for tax periods starting after 1 January 2017 for all entities except for financial institutions (such as banks, insurance companies, microfinance organizations, pawnshops), for which the law will become effective from 1 January 2019.

The new system of corporate income taxation does not imply exemption from the corporate income tax, rather the taxation is shifted from the moment of profit earning to the moment of its distribution. The Tax Code of Georgia defines distributed earnings to shareholders as dividends, however some other transactions (e.g. non-arm’s length cross-border transactions with related parties and transactions with tax exempt persons) are also considered as distributed earning. In addition, the taxable base also includes expenses or other payments not related to the entity’s economic activities, free of charge supply of good and services and representative expenses exceeding tax deductible limits.

The corporate income tax arising from the payment of dividends is accounted for as an expense in the period when dividends are declared, regardless of the actual payment date or the period in relation to which the dividends are paid.

(ii) Deferred tax

Due to the nature of the new taxation system as described above, the entities registered in Georgia do not have any differences between the tax and accounting base of assets and liabilities and hence, no deferred tax arise.

(h) Inventories

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

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

(i) Assets held for sale or distribution

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

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

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

(j) Property, plant and equipment

(i) Recognition and measurement

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

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

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

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

(ii) Subsequent costs

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

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

Maintenance and repair expenses are recognised as follows:

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

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

(iii) Depreciation

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

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

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

- buildings and constructions 15 - 50 years
- rail track infrastructure 17 - 25 years
- gas and oil pipelines 30 - 35 years
- oil wells 4 - 9 years
- power transmission lines 20 - 35 years
- electricity generating unit 25 years
- transport, machinery, equipment and other 2 - 25 years

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

(k) Financial instruments

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

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

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

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

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

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

(ii) Loans and receivables - measurement

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

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

Cash and cash equivalents

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

(iii) Non-derivative financial liabilities - measurement

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

Other financial liabilities comprise loans and borrowings, restructured liabilities and trade and other payables.

(l) Equity

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

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

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

(m) Impairment

(i) Non-derivative financial assets

A financial asset, including an interest in an equity-accounted investee, is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include:

- default or delinquency by a debtor,
- restructuring of an amount due to the Group on terms that the Group would not consider otherwise,
- indications that a debtor or issuer will enter bankruptcy,
- adverse changes in the payment status of borrowers or issuers in the Group,
- economic conditions that correlate with defaults; or
- observable data indicating that there is measurable decrease in expected cash flows from a group of financial assets.

Financial assets measured at amortised cost

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

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

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

Equity accounted investees

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

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

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

(ii) Non-financial assets

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGU.

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

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

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

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

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

(n) Dividends

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

(o) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will

be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

(p) Guarantees

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

(q) Leases

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

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

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

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 2015, 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.

New or amended standard	Summary of the requirements	Possible impact on consolidated financial statements
IFRS 9 *Financial Instruments*	IFRS 9, published in July 2014, replaces the existing guidance in IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.	The Group is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 9.

New or amended standard	**Summary of the requirements**	**Possible impact on consolidated financial statements**
IFRS 15 *Revenue from Contracts with Customers*	IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and IFRIC 13 *Customer Loyalty Programmes*. The core principle of the new standard is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The new standard results in enhanced disclosures about revenue, provides guidance for transactions that were not previously addressed comprehensively and improves guidance for multiple-element arrangements. IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.	The Group is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 15.
IFRS 16 *Leases*	IFRS 16 replaces the existing lease accounting guidance in IAS 17 *Leases,* IFRIC 4 *Determining whether an Arrangement contains a lease,* SIC-15 *Operating Leases – Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. It eliminates the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, there is a single, on-balance sheet accounting model that is similar to current finance lease accounting. Lessor accounting remains similar to current practice – i.e. lessors continue to classify leases as finance and operating leases. IFRS 16 is effective for annual reporting periods beginning on or after 1 January 2019, early adoption is permitted if IFRS 15 *Revenue from Contracts with Customers* is also adopted.	The Group is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 16.
IAS 7 Statement of Cash Flows	Disclosure Initiative (Amendments to IAS 7) requires disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes. The amendments are effective for annual periods beginning on or after 1 January 2017, with early adoption permitted.	To satisfy the new disclosure requirements, the Group intends to present a reconciliation between the opening and closing balances for liabilities with changes arising from financing activities.