Partnership Fund JSC

Consolidated Financial Statements
for the year ended 31 December 2012

Contents

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Independent Auditors' Report

To the Supervisory Board
Partnership Fund JSC

We have audited the accompanying consolidated financial statements of Partnership Fund JSC (the "Fund") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2012, and the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2012, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

During the year the Group changed its accounting policy for accounting for acquisitions of associates from entities under common control. The reason for and the effects of this change are described in note 2(e) to the consolidated financial statements. We have audited the adjustments described in note 2(e) that were applied to restate the 2011 consolidated financial statements. In our opinion, such adjustments are appropriate and have been properly applied.

Tbilisi branch of KPMG CIS Limited

Tbilisi Branch of KPMG CIS Limited
31 July 2013

'000 GEL	Note	2012	28 June 2011 (date of incorporation) to 31 December 2011
Revenue	7	410,618	-
Operating expenses	8	(247,773)	(1,974)
Wages and other employee benefits		(54,209)	(220)
Depreciation and amortization		(52,219)	(5)
Impairment loss	11	(7,486)	-
Share of profit of equity accounted investees (net of income tax)	13	16,516	5,868
Dividend income		6,720	-
Other income	27(b)	31,672	-
Results from operating activities		**103,839**	**3,669**
Finance income	9	26,917	93
Finance costs	9	(59,718)	(10)
Net finance (costs)/income		**(32,801)**	**83**
Profit before income tax		**71,038**	**3,752**
Income tax (expense)/benefit	10	(2,643)	285
Profit and total comprehensive income for the year/period		**68,395**	**4,037**

These consolidated financial statements were approved by management on 31 July 2013 and were signed on its behalf by:

Irakli Kovzanadze
Chief Executive Officer

Giorgi Tsirnakuridze
Chief Financial Officer

The consolidated statement of comprehensive income is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 11 to 59.

’000 GEL	**Note**	**2012**	**2011**
			Restated
ASSETS			
Non-current assets			
Property, plant and equipment	11	3,385,222	189
Prepayments for non-current assets	12	323,353	2,942
Investments in equity accounted investees	13	55,679	103,323
Finance lease receivable	14	45,882	-
Loans receivable		13,147	-
Deferred tax assets	10	14,841	15,137
Term deposits	15	105,426	-
VAT receivable		55,217	-
Other non-current assets	12	76,292	2
Total non-current assets		**4,075,059**	**121,593**
Current assets			
Loans receivable	28	48,714	-
Inventories		43,851	-
Prepayments and other current assets	16	99,115	943
Trade receivables	17	154,147	-
Current tax assets		7,043	-
Term deposits	15	153,175	-
Cash and cash equivalents	18	329,264	2,537
Assets held for sale	6	-	167,197
Total current assets		**835,309**	**170,677**
Total assets		**4,910,368**	**292,270**

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 11 to 59.

’000 GEL	Note	2012	2011 Restated
EQUITY AND LIABILITIES			
Equity	19		
Share capital		100,000	-
Owner contributions		2,207,766	268,387
Retained earnings		41,170	4,037
Total equity		**2,348,936**	**272,424**
Non-current liabilities			
Loans and borrowings	20	1,764,454	-
Advance received from the Government	19	231,592	-
Restructured liabilities	21	58,370	-
Grants related to assets	22	72,183	-
Deferred tax liabilities	10	66,868	-
Other non-current liabilities		2,349	-
Total non-current liabilities		**2,195,816**	**-**
Current liabilities			
Loans and borrowings	20	56,414	745
Restructured liabilities	21	2,457	-
Trade and other payables	23	262,264	18,013
Liabilities to the Government	19	37,456	-
Provisions		5,054	1,088
Current tax liabilities		1,971	-
Total current liabilities		**365,616**	**19,846**
Total liabilities		**2,561,432**	**19,846**
Total equity and liabilities		**4,910,368**	**292,270**

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 11 to 59.

’000 GEL	**Share capital (note 19 (a))**	**Owner contributions (note 19 (b))**	**Retained earnings**	**Total equity**
Balance at 28 June 2011 (date of incorporation)	-	-	-	-
Total comprehensive income for the period				
Profit for the period	-	-	4,037	4,037
Transactions with owners, recorded directly in equity				
Owner contributions, including deferred tax of GEL 14,852 thousand (see note 10 (c)) (restated)	-	268,387	-	268,387
Balance at 31 December 2011 (restated)	**-**	**268,387**	**4,037**	**272,424**
Balance at 1 January 2012 (restated)	-	268,387	4,037	272,424
Total comprehensive income for the year				
Profit for the year	-	-	68,395	68,395
Transactions with owners, recorded directly in equity				
Net owner contributions	-	2,054,231	-	2,054,231
Distributions of non-cash assets net of tax of GEL 5,517 thousand (see note 19 (c))	-	-	(31,262)	(31,262)
Registration of share capital	100,000	(100,000)	-	-
Effect on derecognition of deferred tax assets (see note 10 (c))	-	(14,852)	-	(14,852)
Balance at 31 December 2012	**100,000**	**2,207,766**	**41,170**	**2,348,936**

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 11 to 59.

’000 GEL	Note	2012	28 June 2011 (date of incorporation) to 31 December 2011
Cash flows from operating activities			
Profit before income tax		71,038	3,752
Adjustments for:			
Depreciation and amortisation		52,219	5
Impairment losses	11	7,486	-
Loss on disposal of property, plant and equipment and other non-current assets		11,085	-
Net finance costs/ (income)		32,801	(83)
Share of profit of equity accounted investees (net of income tax)		(16,516)	(5,868)
Dividend income		(6,720)	-
Cash from/(used in) operating activities before changes in working capital and provisions		**151,393**	**(2,194)**
Change in inventories		20,953	**-**
Change in trade receivables and prepayments and other current assets		(48,771)	(192)
Change in restricted cash		(3,465)	-
Change in trade and other payables		(7,786)	998
Change in provisions		26	1,088
Change in grants	22	22,026	-
Cash flows from/(used in) operations before income taxes and interest paid		**134,376**	**(300)**
Income tax paid		(6,530)	-
Interest paid		(17,402)	-
Net cash from/(used in) operating activities		**110,444**	**(300)**
Cash flows from investing activities			
Interest received		23,541	15
Dividends received		11,520	-
Issue of loans		(59,798)	-
Acquisition of property, plant and equipment and changes in prepayments for non-current assets and other non-current assets		(323,993)	(196)
Acquisition of investments in equity accounted investees		(16,502)	(193)
Change in term deposits		(70,032)	-
Cash acquired in business combinations	29	558,775	-
Net cash from/(used in) investing activities		**123,511**	**(374)**

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 11 to 59.

'000 GEL	**Note**	**2012**	**28 June 2011 (date of incorporation) to 31 December 2011**
Cash flows from financing activities			
Proceeds from cash contributions by owners	19	36,480	2,480
Proceeds from borrowings		75,517	731
Repayment of borrowings		(12,140)	-
Repayment of restructured liabilities		(1,870)	-
Dividends paid by subsidiary to its prior parent		(7,000)	-
Net cash from financing activities		**90,987**	**3,211**
Net increase in cash and cash equivalents		**324,942**	**2,537**
Cash and cash equivalents at the beginning of the period		2,537	-
Effect of exchange rate fluctuations on cash and cash equivalents		(1,680)	-
Cash and cash equivalents at the end of the period	18	**325,799**	**2,537**

Details of major non-cash transactions are set out in note 19 of these consolidated financial statements.

The consolidated statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 11 to 59.

1. Background

(a) 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 jointly controlled entities. The Group entities are Georgian joint stock and limited liability companies as defined in the "Law of Georgia on Entrepreneurs" and are disclosed in notes 1(b) and 29.

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

The 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 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.

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

The Fund is wholly owned by the State of Georgia represented by the Government of Georgia (the "Parent"). The equity of the Fund is mainly formed by the contributions from the Government of Georgia of its interests in Georgian companies (see note 19 (b)). Related party transactions are detailed in note 28.

(b) Group structure

As at 31 December 2012 and 2011 the Fund has direct and indirect interests in the following entities:

Name	Country of incorporation and operation	2012 Ownership/ voting	2011 Ownership/ voting	Principal activities
Georgian Oil and Gas Corporation JSC and its subsidiaries				
Georgian Oil and Gas Corporation JSC	Georgia	100%	24%	Oil and gas sale, extraction and exploration and rent of pipelines
Namakhvani JSC	Georgia	100%	-	Construction and operation of a power plant
Georgian Railway JSC and its subsidiaries				
Georgian Railway JSC	Georgia	100%	24%	Railroad transportation
Georgian Railway Property Management LLC	Georgia	100%	-	Property Management and development
Trans Caucasus Terminals LLC (former Georgian Railway Transcontainer LLC)	Georgia	100%	-	Container transportation
Georgian Railway Construction JSC	Georgia	100%	-	Construction and other projects
Borjomi Bakuriani Railway LLC	Georgia	100%	-	Passenger transportation
Rail Parking LLC	Georgia	100%	-	Parking service
Georgian State Electrosystem JSC and its subsidiaries				
Georgian State Electrosystem JSC	Georgia	100%	-	Electricity dispatching and transmission
EnergoTrans LLC	Georgia	100%	-	Electricity transmission
Karcal Energy JSC	Turkey	100%	-	Electricity transmission
Electricity System Commercial Operator JSC	Georgia	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%	-	Export of fruit and vegetables
Georgian Product LLC	Georgia	100%	-	Tourism development
Port Lazika LLC	Georgia	100%	-	Construction and operation of Lazika port
Lagodekhi Trading Company LLC	Georgia	100%	-	Construction and leasing out of shopping mall in Lagodekhi
Gardabani LLC	Georgia	100%	-	Construction and operation of a power plant
Borjomi Likani International JSC	Georgia	50%	50%	Hotel operations
Telasi JSC	Georgia	24.53%	-	Purchase and distribution of electric power to industrial and residential customers in Tbilisi

(c) Georgian business environment

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

2. Basis of preparation

(a) Statement of compliance

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

(b) Basis of measurement

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

(c) Functional and presentation currency

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

(d) Use of estimates and judgments

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

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

Information about 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 10 (a) – determination of whether to recognize a temporary difference on initial recognition of the finance lease receivable;
- Note 14 – determination whether the arrangement contains a lease and the fair value of the unguaranteed residual value;
- Note 18 – classification of term deposits as cash and cash equivalents;
- Note 20 (a) – determination of the fair value of loans and borrowings at initial recognition.

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

- Note 3 (e) (iii) – useful lives and residual values of property, plant and equipment;
- Note 11 (a) – impairment of suspended construction in progress;
- Note 24 (b) (ii) – allowances for trade receivables.

(e) Change in accounting policies

With effect from 1 January 2012, the Group changed its accounting policy for accounting for acquisitions of associates from entities under common control at no consideration to book value rather than fair value. The decision to change the accounting policy was due to the fact that no market values are readily available for the contributed interests and other valuation techniques often involve significant estimations and may generate a wide range of fair value estimates. Management believes that the revised accounting policy is more practicable for accounting and provides more reliable information to the users of the consolidated financial statements.

The change in accounting policy has been applied retrospectively and resulted in the following changes in the comparative information reported previously:

’000 GEL	**Investments in equity accounted investees**	**Owner contributions**	**Deferred tax assets/ (liabilities)**
Balances at 31 December 2011, as previously reported	235,957	(382,730)	(3,154)
Impact of the change in accounting policy	(132,634)	114,343	18,291
Restated balances at 31 December 2011	**103,323**	**(268,387)**	**15,137**

3. 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 the Group entities.

(a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

(ii) Acquisitions from entities under common control

Business combinations arising from the transfers of interests in entities that are under the control of the shareholder that controls the Group are accounted for from the date the control is obtained by the Group. The assets and liabilities acquired are recognised at the carrying amounts recognised in the acquiree’s financial statements. The equities of the acquired entities are added to the Owner contributions reserve. Pre-acquisiton 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 jointly controlled entities (equity accounted investees)

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20% and 50% of the voting power of another entity. Jointly controlled entities are those entities over whose activities the Group has joint control, established by contractual agreement and requiring unanimous consent for strategic financial and operating decisions.

Investments in associates and jointly controlled entities 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 acquisistion 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) Jointly controlled operations

A jointly controlled operation is a joint venture 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. Transactions with equity accounted investees not involving assets are not eliminated in the consolidated financial statements.

(b) Foreign currency transactions

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

Non-monetary items in a foreign currency that are measured based on historical cost are translated using the exchange rate at the date of the transaction.

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

(c) Financial instruments

Non-derivative financial instruments comprise loans receivable, term deposits, cash and cash equivalents, trade receivables, other receivables, loans and borrowings, restructured liabilities and trade and other payables.

(i) Non-derivative financial assets

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

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 the transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the consolidated 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.

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

Loans and receivables

Loans and receivables are a category of financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are 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: trade and other receivables, term deposits, cash and cash equivalents 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.

(ii) Non-derivative financial liabilities

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

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

The Group classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognised initially at fair value 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.

(d) 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*.

(e) Property, plant and equipment

(i) Recognition and measurement

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

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

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

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

(ii) Subsequent costs

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

Maintenance and repair expenses are recognised as follows:

- Rolling stock included in "Transport, machinery, equipment and other" class:
  - current maintenance expenses during the useful life of equipment (repair work and replacement of unusable and missing parts) are recognised as operating expenses in profit or loss as incurred;
  - expenses under multi-year major overhaul programmes are capitalised as a separate overhaul component and depreciated separately from the main asset;
  - overhauls performed near the end of the useful life of an asset, together with refurbishment, are capitalised when they extend the useful life of the underlying asset.
- Fixed installations of rail track infrastructure:
  - current maintenance and repair expenses (technical inspections, maintenance contracts, etc.) are recognised as operating expenses in profit or loss as incurred;
  - labour, materials and other costs under multi-year major building or infrastructure maintenance programmes are capitalised through the partial or total replacement of each component concerned;
  - costs associated with infrastructure improvements are capitalized to the extent that they increase the functionality of the asset.

(iii) Depreciation

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

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

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

• buildings and constructions	15 - 50 years
• rail track infrastructure	20 - 25 years
• gas and oil pipelines	30 - 35 years
• oil wells	4 - 9 years
• power transmission lines	20 - 35 years
• Transport, machinery, equipment and other	2 - 14 years

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

(f) 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.

(g) 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 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.

(h) Impairment

(i) Non-derivative financial assets

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

Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy.

Loans and receivables

The Group considers evidence of impairment for loans and receivables at both a specific asset and collective level. All individually significant loans and receivables are assessed for specific impairment. All individually significant loans and receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and receivables that are not individually significant are collectively assessed for impairment by grouping together loans and receivables 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 in respect of a financial asset measured at amortised cost is calculated as the difference between its 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 against loans and receivables. 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, the decrease in impairment loss is reversed through profit or loss.

(ii) Equity accounted investees

An impairment loss in respect of an investment in an associate or jointly controlled entity is calculated as the difference between its carrying amount after application of the equity method of accounting (note 3(a) (iv)) and its recoverable amount. The recoverable amount of such investment is the greater of its value in use and its fair value less cost to sell. In determining the value in use of the investment the Group estimates: (a) its share of the present value of the estimated future cash flows expected to be generated by the investee, including the cash flows from the operations of the investee and the proceeds on the ultimate disposal of the investment; or (b) the present value of the estimated future cash flows expected to arise from the dividends to be received from the investee and from its ultimate disposal depending on which available information with respect to each investee is more reliable. An impairment loss is reversed to the extent that the recoverable amount of the investment subsequently increases and the resulting carrying amount does not exceed the carrying amount that would have been determined, after application of the equity method, had no impairment loss previously been recognised. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised.

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

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

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. 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.

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.

(i) Non-current assets held for sale

Non-current assets, or disposal groups comprising assets and liabilities, that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale. Immediately before classification as held for sale, the assets, or components of a disposal group, are remeasured in accordance with the 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 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, are not amortised or depreciated. In addition, equity accounting of equity-accounted investees ceases once classified as held for sale.

(j) Dividends

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

(k) 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.

(l) 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.

(m) 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.

(n) 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) Freight and passenger traffic

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.

(ii) Sale of gas and oil

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

(iii) Sale of electricity

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

For the purchase and sale of the Guaranteed Capacity, the Group acts in the capacity of an agent rather than as the principal in a transaction. The Group charges no commission on the purchase and sale of the Guaranteed Capacity.

(iv) Transmission and dispatching of electricity

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

(v) Rent of gas pipelines

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

(vi) Rental income

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

(vii) Oil transportation fees

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

(viii) 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.

(o) 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.

(p) Finance income and costs

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

Finance costs comprise interest expense on borrowings, unwinding of the discount on restructured liabilities, 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.

(q) Income tax

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

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

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss; or temporary differences related to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future.

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

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

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

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

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

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

4. New standards and interpretations not yet adopted

A number of new Standards, amendments to Standards and Interpretations are not yet effective as at 31 December 2012, and have not been applied in preparing these consolidated financial statements. Of these pronouncements, potentially the following will have an impact on the Group's operations. The Group plans to adopt these pronouncements when they become effective.

- IFRS 9 *Financial Instruments* will be effective for annual periods beginning on or after 1 January 2015. The new standard is to be issued in phases and is intended ultimately to replace International Financial Reporting Standard IAS 39 *Financial Instruments: Recognition and Measurement*. The first phase of IFRS 9 was issued in November 2009 and relates to the classification and measurement of financial assets. The second phase regarding classification and measurement of financial liabilities was published in October 2010. The remaining parts of the standard are expected to be issued during 2013. The Group recognises that the new standard introduces many changes to the accounting for financial instruments and is likely to have a significant impact on Group's consolidated financial statements. The impact of these changes will be analysed during the course of the project as further phases of the standard are issued. The Group does not intend to adopt this standard early.

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

- IFRS 12 *Disclosure of Interests in Other Entities* will be effective for annual periods beginning on or after 1 January 2013. The new standard contains disclosure requirements for entities that have interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. Interests are widely defined as contractual and non-contractual involvement that exposes an entity to variability of returns from the performance of the other entity. The expanded and new disclosure requirements aim to provide information to enable the users to evaluate the nature of risks associated with an entity's interests in other entities and the effects of those interests on the entity's financial position, financial performance and cash flows. Entities may present some of the IFRS 12 disclosures early without a need to early-adopt the other new and amended standards. However, if IFRS 12 is early-adopted in full, then IFRS 10, IFRS 11, IAS 27 (2011) and IAS 28 (2011) must also be early-adopted.

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

- Various *Improvements to IFRSs* have been dealt with on a standard-by-standard basis. All amendments, which result in accounting changes for presentation, recognition or measurement purposes, will come into effect for annual periods beginning after 1 January 2013.

The Group has not yet analysed the likely impact of the new and amended standards and improvements to standards on its financial position or performance.

5. Determination of fair values

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

(a) Assets held for sale

The fair value of the interest in associate classified as held for sale is calculated based on the Group's share of the present value of the estimated future cash flows from the investee, including cash flows from the operations of the investee and the proceeds on the ultimate disposal of the investment and excluding selling costs, where relevant.

(b) Property, plant and equipment

The fair value of property, plant and equipment contributed by the shareholder is based on market values. The market value of property is the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably and willingly. The fair value of items of plant, equipment, fixtures and fittings is based on market and cost approaches using quoted market prices for similar items when available.

When no quoted market prices are available, the fair value of property, plant and equipment is primarily determined using depreciated replacement cost. This method considers the cost to reproduce or replace the property, plant and equipment, adjusted for physical, functional or economical depreciation, and obsolescence.

(c) Financial assets in the loans and receivables category

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

(d) Financial liabilities

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

6. Assets held for sale

On 25 October 2011 the Government of Georgia transferred to the Fund its 24% interest in Georgian Railway LLC (Georgian Railway JSC as at 31 December 2012) in the form of a capital contribution (see note 19 (b)). On the same date, the interest was classified as held for sale as it was transferred with the view of subsequent disposal, efforts to sell the interest were commenced and a sale was highly probable. As at the contribution date and 31 December 2011, the fair value less costs to sell of the asset classified as held for sale was estimated at GEL 167,197 thousand as a result of an independent appraisal performed by BDO LLC using discounted cash flow techniques (see note 5(a)).

In August 2012 the sale plans for the investee were revised and the Fund obtained control over Georgian Railway JSC (see note 29).

7. Revenue

’000 GEL	**2012**	**28 June 2011 (date of incorporation) to 31 December 2011**
Revenue from railroad transportation	**179,097**	**-**
Freight traffic	157,555	-
Freight car rental	14,945	-
Passenger traffic	6,597	-
Revenue from gas and oil sales and pipelines	**137,960**	**-**
Sales of gas	101,372	-
Rent of gas pipelines	18,096	-
Income from crude oil	13,344	-
Oil transportation fees	5,148	-
Revenue from electricity	**89,308**	-
Sales of balancing electricity	67,891	-
Transmission of electricity	16,477	-
Dispatching of electricity	4,940	-
Other revenue	**4,253**	**-**
	410,618	**-**

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

Tariffs for freight transportation are based on the International Rail Transit Tariff. The Group is a co-signatory of the Tariff Agreement together with CIS countries, Latvia, Lithuania and Estonia. The parties to the Agreement hold annual conferences to determine the tariff policy for the following year: each party declares tariffs denominated in Swiss Francs (CHF) for railway transportation and states the general rules that apply to and modify tariffs. The agreed tariffs indicate the maximum level of tariffs applicable. The Group uses USD as the freight tariff currency due to the volatility of the exchange rates between the CHF and other currencies and also to better align costs and revenues from its customers, which mainly trade in USD or GEL.

8. Operating expenses

'000 GEL	**2012**	**28 June 2011 (date of incorporation) to 31 December 2011**
Cost of gas	96,782	-
Cost of sold balancing electricity	67,715	-
Electricity and materials used in railroad transportation	22,216	-
Taxes other than on income	11,747	-
Freight car rental	10,616	-
Other	38,697	1,974
	247,773	**1,974**

9. Finance income and finance costs

'000 GEL	**Note**	**2012**	**28 June 2011 (date of incorporation) to 31 December 2011**
Recognised in profit or loss			
Interest income on bank deposits and current accounts		23,247	15
Interest income on loans receivable		2,489	-
Unwinding of discount on finance lease receivable	14	1,181	-
Net foreign exchange gain		-	78
Finance income		**26,917**	**93**
Interest expense on loans and borrowings		(20,719)	(10)
Net foreign exchange loss		(35,128)	-
Unwinding of discount on restructured liabilities		(2,889)	-
Impairment loss on trade receivables	24 (b) (ii)	(982)	-
Finance costs		**(59,718)**	**(10)**
Net finance (costs)/income recognised in profit or loss		**(32,801)**	**83**

10. Taxation

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

’000 GEL	2012	28 June 2011 (date of incorporation) to 31 December 2011
Current tax expense		
Current year	32,435	-
Deferred tax benefit		
Origination and reversal of temporary differences	(29,792)	(285)
	2,643	**(285)**

Reconciliation of effective tax rate:

	2012		28 June 2011 (date of incorporation) to 31 December 2011	
	’000 GEL	**%**	**’000 GEL**	**%**
Profit before tax for the year/period	**71,038**		**3,752**	
Tax using the Group’s tax rate	10,656	15%	563	15%
Tax exempt income	(6,230)	(9%)	(848)	(23%)
Change in unrecognized deferred tax assets	(1,783)	(3%)	-	-
	2,643	**4%**	**(285)**	**(8%)**

(a) Unrecognised deferred tax assets

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

’000 GEL	2012	2011
Temporary difference on finance lease receivable	26,665	-
Tax loss carry-forwards	34,434	-
	61,099	**-**

Management has not recognized deferred tax on the temporary difference between the tax and accounting base of the finance lease receivable (see note 14) as the initial recognition of the finance lease affected neither accounting nor taxable profit or loss.

The tax losses expire in 2015. Deferred tax assets have not been recognised in respect of tax losses because it is not probable that future taxable profit will be available against which the Group can utilise the benefits there from.

(b) Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		**Liabilities**		**Net**	
’000 GEL	**2012**	**2011 (restated)**	**2012**	**2011 (restated)**	**2012**	**2011 (restated)**
Property, plant and equipment	-	-	(112,355)	(4)	(112,355)	(4)
Investments in equity accounted investees	-	3,591	-	-	-	3,591
Other non-current assets	148	-	-	-	148	-
Assets held for sale	-	11,261	-	-	-	11,261
Inventories	13,619	-	-	-	13,619	-
Trade receivables and prepayments and other current assets	26,894	-	-	-	26,894	-
Grants related to assets	10,485	-	-	-	10,485	-
Loans and borrowings	4,632	-	-	-	4,632	-
Trade and other payables	1,130	56	(12)	-	1,118	56
Provisions	783	163	-	-	783	163
Tax loss carry-forwards	2,649	70	-	-	2,649	70
Tax (liabilities)/assets	**60,340**	**15,141**	**(112,367)**	**(4)**	**(52,027)**	**15,137**
Set off of tax	(45,499)	(4)	45,499	4	-	-
Net tax (liabilities)/assets	**14,841**	**15,137**	**(66,868)**	**-**	**(52,027)**	**15,137**

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

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

’000 GEL	28 June 2011 (date of incorporation)	Recognised in profit or loss	Recognised directly in equity (restated)	31 December 2011 (restated)
Property, plant and equipment	-	(4)	-	(4)
Investments in equity accounted investees	-	-	3,591	3,591
Assets held for sale	-	-	11,261	11,261
Trade and other payables	-	56	-	56
Provisions	-	163	-	163
Tax loss carry-forwards	-	70	-	70
	-	**285**	**14,852**	**15,137**

11. Property, plant and equipment

'000 GEL	Lands, buildings and constructions	Rail track infrastructure	Gas and oil pipelines	Oil wells	Power transmission lines	Transport, machinery, equipment and other	Construction in progress	Total
Cost								
Balance at 28 June 2011 (date of incorporation)	-	-	-	-	-	-	-	-
Additions	-	-	-	-	-	115	78	193
Balance at 31 December 2011	**-**	**-**	**-**	**-**	**-**	**115**	**78**	**193**
Balance at 1 January 2012	-	-	-	-	-	115	78	193
Acquisitions through business combinations	760,181	741,073	259,272	29,834	143,900	909,065	1,083,511	3,926,836
Additions	19,415	668	-	-	-	31,716	191,633	243,432
Disposals	(2,675)	(7,634)	-	-		(3,207)	(11,639)	(25,155)
Transfers	2,014	6,401	-	-	10,295	10,283	(28,993)	-
Balance at 31 December 2012	**778,935**	**740,508**	**259,272**	**29,834**	**154,195**	**947,972**	**1,234,590**	**4,145,306**
Depreciation and impairment losses								
Balance at 28 June 2011 (date of incorporation)	-	-	-	-	-	-	-	-
Depreciation for the period	-	-	-	-	-	4	-	4
Balance at 31 December 2011	**-**	**-**	**-**	**-**	**-**	**4**	**-**	**4**
Balance at 1 January 2012	-	-	-	-	-	4	-	4
Acquisitions through business combinations	31,624	193,054	70,359	16,788	48,326	345,823	-	705,974
Depreciation for the year	2,630	11,321	6,833	693	5,567	24,649	-	51,693
Impairment loss	-	-	-	-	-	-	6,179	6,179
Disposals	(13)	(2,985)	-	-	-	(768)	-	(3,766)
Balance at 31 December 2012	**34,241**	**201,390**	**77,192**	**17,481**	**53,893**	**369,708**	**6,179**	**760,084**
Carrying amounts								
At 31 December 2011	-	-	-	-	-	111	78	189
At 31 December 2012	**744,694**	**539,118**	**182,080**	**12,353**	**100,302**	**578,264**	**1,228,411**	**3,385,222**

(a) Property, plant and equipment under construction

As at 31 December 2012 the Group is undertaking the following significant capital expenditure projects (included in construction in progress):

(i) Development of rail track infrastructure: the Main Line Modernization and Tbilisi Bypass projects which are expected to be completed by the end of 2016 and 2014, respectively. The projects are partly financed by the bonds issued by the Group (see note 20 (a)). The interest on the bonds issued were capitalized to the two projects in proportion to the costs incurred on the projects based on a capitalization rate of 8% and amounted to GEL 21,886 thousand (28 June 2011 (date of incorporation) to 31 December 2011: nil).

(ii) Construction of new power-transmission lines within the framework of the BSTN project (see note 29) financed by credit facilities and grants provided by the European Bank for Reconstruction and Development (EBRD), the European Investment Bank (EIB) and Kreditanstalt für Wiederaufbau (KfW) received by and sub-loaned through the Ministry of Finance of Georgia (see note 20 (a)). Capitalised borrowing costs related to the construction of the new energy transmission lines amounted to GEL 3,989 thousand (28 June 2011 (date of incorporation) to 31 December 2011: nil).

Included in construction in progress are assets with a carrying amount of GEL 48,793 thousand which were suspended due to prioritisation of the Main Line Modernization and Tbilisi Bypass projects above. Management believes that these assets are not impaired as the construction is expected to be completed within the next two years.

(b) Impairment

As at 31 December 2012 management recognised an impairment for property, plant and equipment of GEL 6,179 thousand and prepayments for current assets of GEL 1,307 thousand related to Namakhvani Hydro Power Plant (Namakhvani HPP) project that were no longer considered as recoverable. The construction of Namakhvani HPP was put on hold because during the preparation of the detailed project design of the plant, international consultants have identified the need for additional geological and hydrological studies. In light of these circumstances and the high level of uncertainty over the resumption of the project, the assets related to the construction of Namakhvani Hydro Power Plant were considered fully impaired.

(c) Security

At 31 December 2012 properties with a carrying amount of GEL 83,192 thousand and GEL 3,526 thousand (2011: none) are pledged under secured loans from financial institutions/restructured liabilities to the Ministry of Finance of Georgia and the secured bank facility, respectively (see note 20 (a)).

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

’000 GEL	**Note**	**2012**	**2011**
Prepayments for construction of railway infrastructure	11 (a)	207,450	-
Prepayments for construction of Gardabani CCPP		82,549	-
Prepayments for BSTN project	11 (a)	32,016	-
Other prepayments for non-current assets		1,338	2,942
Total prepayments for non-current assets		**323,353**	**2,942**
Construction materials for railway infrastructure		72,134	-
Other		4,158	2
Total other non-current assets		**76,292**	**2**

By the end of 2012 the Group commenced the construction of the Gardabani Combined Cycle Power Plant (Gardabani CCPP). The estimated project cost is USD 205 million and the Group will use the proceeds from the issuance of Eurobonds (see note 20 (a)) to fund the project. The construction works are planned to be completed by the end of 2014. The Gardabani CCPP is expected to be fully operational from 2015.

13. Investments in equity accounted investees

’000 GEL	**Note**	**2012**	**28 June 2011 (date of incorporation) to 31 December 2011 (restated)**
Balance at the beginning of the period		103,323	-
Interests in investees contributed by the owners	19 (b)	27,548	90,859
Contributions to jointly controlled entity		8,283	17,290
Group’s share of profit of equity accounted investees (net of income tax) recognized in profit or loss		16,516	5,868
Group’s share of other changes in net assets of equity accounted investees recognized directly in equity	19 (b)	1,221	(10,694)
Dividends received		(4,800)	-
Disposed of by obtaining control	29	(96,412)	-
Balance at the end of the period		**55,679**	**103,323**

None of the Group's equity accounted investees are publicly listed entities and consequently do not have published price quotations. The following is summarised financial information for equity accounted investees:

'000 GEL	Reporting date	Ownership	Total assets	Total liabilities	Revenue	Profit/(loss)	Group share of net assets	Group share of profit/(loss)	Group share of other changess in net assets
2012									
Telasi JSC	31 December	24.53%	287,495	162,943	251,641	24,958	30,553	3,005	-
Borjomi Likani International JSC	31 December	50%	50,362	111	-	(894)	25,126	(447)	-
Georgian Oil and Gas Corporation JSC							-	13,958	1,221
							55,679	**16,516**	**1,221**
2011 (restated)									
Georgian Oil and Gas Corporation JSC	31 December	24%	426,544	68,075	239,917	114,072	86,033	5,868	(10,694)
Borjomi Likani International JSC	31 December	50%	34,775	195	-	-	17,290	-	-
							103,323	**5,868**	**(10,694)**

As at 31 December 2012 the total assets of Borjomi Likani International JSC comprise current and non-current assets of GEL 15,764 thousand and GEL 34,598 thousand, respectively. As at 31 December 2011 the total assets of Borjomi Likani International JSC comprise current and non-current assets of GEL 17,415 thousand and GEL 17,360 thousand, respectively.

(a) Georgian Oil and Gas Corporation JSC

On 25 October 2011 the Government of Georgia transferred to the Fund 24% of the shares in Georgian Oil and Gas Corporation JSC, a company involved in the importation and sale of gas, rental of gas pipelines and oil and gas exploration and extraction in Georgia, in the form of a capital contribution (see note 19 (b)). The investment in associate was recognised at the Fund's share of net assets of Georgian Oil and Gas Corporation JSC as at the transfer date of GEL 90,859 thousand.

On 30 July 2012 the Fund obtained control over Georgian Oil and Gas Corporation JSC (see note 29). The carrying amount of the associate of GEL 96,412 thousand was recognized directly through equity (see note 19 (b)).

(b) Borjomi Likani International JSC

In 2011 the Group and KMG Group (represented by Kazmunaygas Service LLP and KMG Service Georgia LLC) established a jointly-controlled entity, Borjomi Likani International JSC, with the aim to construct a high-class hotel at the Likani resort to be operated by an internationally recognized hotel brand.

As at 31 December 2012 and 2011 the Group had an outstanding payable for the interest in Borjomi Likani International JSC of GEL 8,283 thousand and GEL 17,097 thousand respectively (see note 23).

(c) Telasi JSC

On 30 July 2012 the Government of Georgia transferred to the Fund 24.53% of the shares in Telasi JSC, a company involved in the purchase and distribution of electric power to industrial and residential customers in Tbilisi in the form of a capital contribution. 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.

14. Finance lease receivable

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

The Group management has determined that the initial arrangement contained a finance lease at inception. The lease receivable is the present value of the net investment in the lease comprising the present value of the assets' unguaranteed residual value at the end of the lease term.

'000 GEL	**2012**	**2011**
Balance at the beginning of the period	-	-
Acquired in business combination	44,701	-
Unwinding of discount on finance lease receivable	1,181	-
Balance at the end of the period	**45,882**	**-**

Contingent rents related to oil transportation recognized in the consolidated statement of comprehensive income during 2012 amounted to GEL 5,148 thousand (28 June 2011 (date of incorporation) to 31 December 2011: nil).

15. Term deposits

Terms and conditions of the term deposits are as follows:

				31 December 2012		**31 December 2011**	
'000 GEL	**Currency**	**Nominal interest rate**	**Year of maturity**	**Face value**	**Carrying amount**	**Face value**	**Carrying amount**
Non-current term deposit	USD	7.125%-8%	2014-2017	105,426	105,426	-	-
				105,426	**105,426**	**-**	**-**
Current term deposits	USD	7.75% - 11.25%	2013	153,175	153,175	-	-
				153,175	**153,175**	**-**	**-**

The Group's non-current term deposits include GEL 16,567 thousand (2011: nil) which have been pledged as collateral for a loan obtained by a state controlled entity. The Ministry of Agriculture has confirmed that relevant funding has been included in its 2013 budget for repayment of the loan obtained by the state controlled entity.

The Group's current term deposits include GEL 57,156 thousand (2011: nil) whose use has been temporarily restricted for the purpose of providing a guarantee of payment as per terms of payment under an agreement to purchase property, plant and equipment.

The Group's exposure to credit and currency risks and impairment losses related to term deposits are disclosed in note 24.

16. Prepayments and other current assets

’000 GEL	**2012**	**2011**
Prepayments to suppliers	42,183	943
Taxes other than on income	53,792	-
Other receivables	5,085	-
Impairment allowance for other receivables	(1,945)	-
	99,115	**943**

The Group’s exposure to credit and currency risks and impairment losses related to other receivables are disclosed in note 24.

17. Trade receivables

’000 GEL	**2012**	**2011**
Trade receivables	316,438	-
Allowance for trade receivables	(162,291)	-
	154,147	**-**

Guaranteed capacity

Trade receivables and trade payables of GEL 4,325 thousand and GEL 4,109 thousand (see note 23) respectively are attributable to transactions where the Group acts as an agent rather than as a principal.

The Group acts as an agent in the purchase of the Guaranteed Capacity from the Electricity Generators and selling it to the Qualified Enterprises (Distribution Licensee, Direct Customer and/or Exporter). For the sold Guaranteed Electricity the Group collects debts from the Qualified Enterprises and transfers the receipts to the Electricity Generators. The Group does not expect a benefit from such receipts and transfers and also does not bear any risk on these operations; these transactions are reflected as agent’s transactions in the Group’s consolidated financial statements.

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

’000 GEL	**2012**	**28 June 2011 (date of incorporation) to 31 December 2011**
Sale of Guaranteed Capacity	45,999	-
Purchase of Guaranteed Capacity	(45,999)	-

The Group’s exposure to credit and currency risks and impairment losses related to trade receivables are disclosed in note 24.

18. Cash and cash equivalents

’000 GEL	**2012**	**2011**
Bank balances	148,280	2,537
Call deposits	180,829	-
Petty cash	155	-
Cash and cash equivalents in the consolidated statement of financial position	**329,264**	**2,537**
Restricted cash	(3,465)	**-**
Cash and cash equivalents in the consolidated statement of cash flows	**325,799**	**2,537**

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

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

None of the cash balances are impaired or past due. The majority of the Group’s cash in banks is with banks rated by Fitch and Standard & Poor’s as BB- (long-term rating), BB (long-term rating) and B (short-term rating).

The Group’s exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in note 24.

19. 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.

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

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

(b) Owner contributions

’000 GEL	Note	2012	28 June 2011 (date of incorporation) to 31 December 2011 (restated)
Balance at the beginning of the period		268,387	-
Cash contributions		**36,480**	**2,480**
Non-cash owner contributions			
Interests in equity accounted investees	13	27,548	94,450
Interest in associate held for sale	6	-	178,458
Group’s share of other changes in net assets of equity accounted investees	13	1,221	(10,694)
Net contribution of subsidiaries	29	1,973,134	-
Property, plant and equipment and other assets		15,848	3,693
Total non-cash owner contributions		**2,017,751**	**265,907**
Total owner contributions		**2,054,231**	**268,387**
Reversal of deferred tax, previously recognized on interest in equity accounted investee and asset classified as held for sale	10 (c)	(14,852)	-
Registration of share capital	19 (a)	(100,000)	-
Balance at the end of the period		**2,207,766**	**268,387**

(c) Dividends and other distributions to the shareholder

In accordance with Georgian legislation the Fund’s distributable reserves are limited to the balance of retained earnings as recorded in the Fund’s statutory financial statements prepared in accordance with IFRS. As at 31 December 2012 the Fund had retained earnings of GEL 58,566 thousand (2011: GEL 4,037 thousand).

In 2012 non-cash assets with a carrying amount of GEL 36,779 thousand were transferred to the shareholder (28 June 2011 (date of incorporation) to 31 December 2011: nil).

(d) Liabilities to the Government

’000 GEL	2012	2011
Dividends payable by subsidiary to its prior parent	24,500	**-**
Other liabilities	12,956	**-**
	37,456	**-**

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

(e) Advance received from the Government

In April 2012, Georgian Ralway JSC (see note 6) and the Government of Georgia entered into the Bypass Project Memorandum. According to the Bypass Project Memorandum the Government is interested and aims to purchase from the Group approximately 70.1 hectares of land plots which will be freed up as a result of the removal of railway infrastructure from Tbilisi city centre and construction of a new bypass railway route for the purposes of further development of the land plots. The Government agrees to pay to Georgian Railway JSC CHF 138 million equivalent in national currency through the reduction in the amount of dividends payable to the Government.

In July 2012, Georgian Railway JSC declared dividends of GEL 331,592 thousand, out of which GEL 100,000 thousand was paid in cash and GEL 231,592 thousand (CHF 138 million) was classified as an advance received from the Government for the sale of land in accordance with the Bypass Project Memorandum. Dividends of GEL 84,556 thousand from the above distribution, attributable to the Fund, were paid directly to the State.

20. Loans and borrowings

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings, which are measured at amortised cost. For more information about the Group's exposure to interest rate, foreign currency and liquidity risk, see note 24.

'000 GEL	**2012**	**2011**
Non-current liabilities		
Unsecured bonds	1,277,117	-
Unsecured loans from financial institutions	421,204	-
Secured loans from financial institutions	47,886	-
Secured loans from related party	18,247	-
	1,764,454	**-**
Current liabilities		
Current portion of unsecured bonds	37,810	-
Unsecured loans from financial institutions	11,212	745
Secured loans from financial institutions	6,725	-
Loans issued by Government of Georgia	667	-
	56,414	**745**

(a) Terms and debt repayment schedule

Terms and conditions of outstanding loans and borrowings were as follows:

				31 December 2012		31 December 2011	
'000 GEL	**Currency**	**Nominal interest rate**	**Year of maturity**	**Face value**	**Carrying amount**	**Face value**	**Carrying amount**
Unsecured bonds	USD	6.875%	2017	414,175	410,606	-	-
Unsecured bonds	USD	7.75%	2022	828,350	857,025	-	-
Unsecured bonds	USD	9.90%	2015	45,592	47,296	-	-
Unsecured loans from financial institutions:							
Ministry of Finance of Georgia - KfW	EUR	KfW reference rate +4%	2024	162,963	162,963	-	-
Ministry of Finance of Georgia - KfW	EUR	1%-1.5%	2025-2037	48,879	48,879	-	-
Ministry of Finance of Georgia - EIB	EUR	Euribor+0.75%	2033	107,164	107,164	-	-
Ministry of Finance of Georgia - EBRD	EUR	Euribor+1%	2025	104,908	104,908	-	-
Unsecured bank loan	USD	9.50%	2013/2012	8,502	8,502	745	745
Secured loans from financial institutions:							
Ministry of Finance of Georgia - KfW	EUR	4%	2021	14,818	14,818	-	-
Ministry of Finance of Georgia - IDA	USD	World Bank's lending treasury rates	2022	39,760	39,760	-	-
Secured bank facility	USD	11.50%	2013	33	33	-	-
Secured loan from related party:							
Ministry of Finance of Georgia	EUR	7.50%	2018	18,247	18,247	-	-
Unsecured loan from related party:							
Government of Georgia	GEL	0.50%	2013	617	667	-	-
Total interest-bearing liabilities				**1,794,008**	**1,820,868**	**745**	**745**

Collateral for secured loans and borrowings is detailed in note 11.

Unsecured bonds are issued on the London Stock Exchange and are mainly used for Gardabani CCPP, Main Line Modernization and Tbilisi Bypass projects (see notes 11 and 12).

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

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

(b) Unused credit line facilities

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

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

As at 31 December 2011 the Group’s available credit line facility under an unsecured bank loan agreement was USD 4,560 thousand.

21. Restructured liabilities

'000 GEL	2012	2011
Payables to the State Budget	78,536	-
Trade payables	26,939	-
Loans and interest accrued	3,708	-
	109,183	**-**
Amortized cost adjustment	(48,356)	-
Balance at 31 December	**60,827**	**-**
Current	2,457	-
Non-current	58,370	-
	60,827	**-**

Restructured liabilities represent the amounts originated before 2006, the repayments of which have been deferred due to the financial difficulties of Georgian State Electrosystem JSC, the Group entity as at 31 December 2012 (see note 29). According to the Rehabilitation Plan, drawn-up initially in 2006 through court proceedings and agreed with the majority of creditors, the repayments of these debts have been deferred until 2011; thereafter the amounts will be repaid by instalments until 2023, the end of the rehabilitation period.

The Rehabilitation Plan sets out the strategic targets of the Group entity for the coming 15 years, as well as defines the main operating and financial objectives of the Group entity. According to the Rehabilitation Plan, the Rehabilitation Manager has been appointed to undertake the governance of Georgian State Electrosystem JSC throughout the entire rehabilitation period.

The main creditor of Georgian State Electrosystem JSC is the Ministry of Finance of Georgia. The amounts payable to the Ministry of Finance of Georgia are taxes and duties, as well as loans and interest accrued.

Restructured liabilities are presented at discounted amounts. The fair value of these liabilities on the Rehabilitation Plan approval date has been determined by discounting future cash flows at an average market interest rate of 9.57%.

22. Grants related to assets

'000 GEL	2012	2011
Balance at the beginning of the period	-	-
Acquired in business combination	50,381	-
Recognised in profit and loss	(224)	-
Received during the year	22,026	-
Balance at the end of the period	**72,183**	**-**

Grants related to assets mainly represent financial contributions received from KfW within the framework of the BSTN project for the construction of a new power transmission line (see note 11). The financial contribution is not repayable unless the Group misuses the funds received or seriously jeopardizes the implementation of the project.

23. Trade and other payables

’000 GEL	Note	2012	2011
Trade payables		122,693	-
Payables for construction works under BSTN project	11 (a)	102,445	-
Advances received from customers		18,272	-
Payable for the interest in an equity accounted investee	13 (b)	8,283	17,097
Taxes other than on income		1,711	32
Other payables		8,860	884
		262,264	**18,013**

Trade payables of GEL 4,109 thousand are attributable to transactions where the Group acts as an agent rather than as a principal (see note 17).

The Group’s exposure to currency and liquidity risk related to trade and other payables is disclosed in note 24.

24. Financial Instruments and Risk Management

(a) Overview

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

- credit risk
- liquidity risk
- market risk

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

Risk management framework

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

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

(b) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's 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:

		Carrying amount	
'000 GEL	**Note**	**2012**	**2011**
Finance lease receivable	14	45,882	-
Trade receivables	17	149,822	-
Other receivables	16	3,140	-
Loans receivable		61,861	-
Term deposits	15	258,601	-
Cash and cash equivalents	18	329,109	2,537
		848,415	**2,537**

Receivables from the sale of Guaranteed Capacity of GEL 4,325 thousand (see note 17) are not included in the credit risk exposure as in these transactions the Group acts as an agent and does not bear a credit risk.

(ii) Trade receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the demographics of the Group's customer base, including the default risk of the industry and country in which customers operate, as these factors may have an influence on credit risk, particularly in the current economic circumstances. Approximately 38%, 77%, 30% and 44% of the Group's revenue from the sales of balancing electricity, sales of gas and oil, railroad transportation and electricity transmission and dispatching activities, respectively, are attributable to sales transactions with a single customer for each type of revenue.

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 type of customer was:

	Carrying amount	
’000 GEL	**2012**	**2011**
Gas distributors	79,600	-
Foreign railway companies	31,585	-
Wholesale electricity customers	19,331	-
Others	19,306	-
	149,822	**-**

The Group’s two most significant customers from foreign railway companies account for GEL 29,922 thousand of trade receivables carrying amount as at 31 December 2012. 99% of trade receivables from gas distributors is represented by a single customer.

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

	Carrying amount	
’000 GEL	**2012**	**2011**
Domestic	111,166	-
CIS countries	33,545	-
Euro-zone countries	5,111	-
	149,822	**-**

Impairment losses

The aging of trade receivables at the reporting date was:

	Gross	Impairment	Gross	Impairment
’000 GEL	**2012**	**2012**	**2011**	**2011**
Not past due	68,198	-	-	-
Past due 0 - 90 days	36,793	2,409	-	-
Past due 91-180 days	28,174	2,151	-	-
Past due 181-365 days	14,119	3,047	-	-
Past due more than one year	164,829	154,684	-	-
	312,113	**162,291**	**-**	**-**

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

'000 GEL	**2012**	**28 June 2011 (date of incorporation) to 31 December 2011**
Balance at the beginning of the period	-	-
Acquired in business combination	161,309	-
Increase during the year	982	-
Balance at the end of the period	**162,291**	**-**

Most of the impairment loss at 31 December 2012 relates to several customers that have indicated that they are not expecting to be able to pay their outstanding balances either because of economic circumstances or as a result of bankruptcy. The allowance account in respect of trade receivables is used to record impairment losses until all possible opportunities for recovery have been exhausted and the respective debtors are formally liquidated; at that point the amounts are written off against the financial asset directly.

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

(iii) Loans receivable

The loans are not overdue and management expects that the amounts are collectible based on an analysis of the borrowers' credit risk. In assessing the recoverability of the loan to the state controlled entity, the Group also considered the intent from the Government of Georgia to provide support to repay the loan at maturity should the state controlled entity be unable to.

(iv) Cash and cash equivalents and term deposits

The cash and cash equivalents and term deposits are held with banks, with short term issuer default ratings of B.

(c) Liquidity risk

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

To manage the liquidity requirements, the Group makes short-term forecasts for cash flows based on estimated financial needs determined by the nature of operating activities and maintains unused credit line facilities (see note 20). Typically the Group ensures that it has sufficient cash on demand to meet expected operational expenses for a period of 60 days, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

The Group has significant contractual commitments for the purchase and construction of property, plant and equipment (see note 26). Management believes that the proceeds from the loans and borrowings, credit lines (see note 20) and cash flows from operating activities will be sufficient to finance the capital expenditure projects.

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

2012 '000 GEL	**Carrying amount**	**Contractual cash flows**	**0-6 months**	**6-12 months**	**1-5 years**	**Over 5 years**
Non-derivative financial liabilities						
Loans and borrowings	1,820,868	2,717,147	55,692	63,783	1,076,233	1,521,439
Restructured liabilities	60,827	109,183	-	2,671	27,000	79,512
Trade and other payables	242,143	242,143	128,397	113,694	52	-
Dividends payable	24,500	24,500	24,500	-	-	-
	2,148,338	**3,092,973**	**208,589**	**180,148**	**1,103,285**	**1,600,951**

2011 '000 GEL	**Carrying amount**	**Contractual cash flows**	**0-6 months**	**6-12 months**	**1-5 years**	**Over 5 years**
Non-derivative financial liabilities						
Unsecured bank loan	745	789	-	789	-	-
Trade and other payables	17,981	17,981	17,981	-	-	-
	18,726	**18,770**	**17,981**	**789**	**-**	**-**

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

(d) Market risk

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

The Group does not apply hedge accounting in order to manage violatility 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).

The Group does not hedge its exposure to currency risk.

Exposure to currency risk

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

2012 '000 GEL	USD - denominated 2012	CHF - denominated 2012	EUR - denominated 2012
Cash and cash equivalents	203,014	23,919	7,587
Term deposits	258,601	-	-
Trade and other receivables	5,785	32,639	4
Loans receivable	60,810	-	-
Loans and borrowings	(1,363,222)	-	(456,979)
Restructured liabilities	(4,799)	-	(3,817)
Trade and other payables	(49,616)	-	(105,924)
Net exposure	**(889,427)**	**56,558**	**(559,129)**

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

The following significant exchange rates applied during the year:

in GEL	**Average rate**		**Reporting date spot rate**	
	2012	**28 June 2011 (date of incorporation) to 31 December 2011**	**2012**	**2011**
USD 1	1.6513	1.6583	1.6567	1.6703
CHF 1	1.7615	1.9221	1.8065	1.7780
EUR 1	2.1232	2.2947	2.1825	2.1614

Sensitivity analysis

A 10% weakening of the GEL, as indicated below, against the USD, CHF and EUR at 31 December would have increased/(decreased) profit or loss net of taxes by the amounts shown below. There would be no direct impact on other comprehensive income or equity. This analysis is based on foreign currency exchange rate variances that the Group considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis as at 31 December 2011.

'000 GEL	**Profit or loss**
2012	
USD (10% movement)	(75,601)
CHF (10% movement)	4,807
EUR (10% movement)	(47,526)
2011	
USD (10% movement)	(1,582)

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 management uses its judgment to decide whether it believes that a fixed or variable rate would be more favourable to the Group over the expected period until maturity.

Profile

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

'000 GEL	**Carrying amount**	
	2012	**2011**
Fixed rate instruments		
Financial assets	649,571	2,537
Financial liabilities	(1,406,073)	(745)
	(756,502)	**1,792**
Variable rate instruments		
Financial assets	-	-
Financial liabilities	(414,795)	-
	(414,795)	**-**

Fair value sensitivity analysis for fixed rate instruments

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

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates as at 31 December 2012 would have increased (decreased) profit or loss net of taxes by the amounts shown below. There would be no direct impact on other comprehensive income or equity. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

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

(e) Fair values versus carrying amounts

Management believes that the fair value of the Group’s financial assets and liabilities approximates their carrying amounts. The basis for determining fair values is disclosed in note 5.

The interest rates used to discount estimated cash flows, where applicable, are based on the government yield curve at the reporting date plus an adequate credit spread, and were as follows:

	2012	**2011**
Financial liabilities – with non-commercial terms	1%-2%	-
Financial assets and liabilities – with commercial terms	7.5%-12%	-

(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	2012	2011
Total liabilities	2,561,432	19,846
Less: cash and cash equivalents	(325,799)	(2,537)
Net debt	**2,235,633**	**17,309**
Total equity	2,348,936	272,424
Debt to capital ratio at 31 December	**0.95**	**0.06**

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.

25. Operating leases

Non-cancellable operating lease rentals are receivable as follows:

'000 GEL	2012	2011
Less than one year	1,390	-
Between one and five years	5,061	-
More than five years	35,584	-
	42,035	**-**

Operating leases relate to rent of other 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 2012 the Group had entered into contracts for the construction and purchase of property, plant and equipment of GEL 985,865 thousand (2011: GEL 7,434 thousand) mainly relating to the Main Line Modernization (GEL 433,121 thousand), Tbilisi Bypass (GEL 163,286 thousand) and Gardabani CCPP (GEL 247,702 thousand) projects (see notes 11(a) and 12).

As at 31 December 2012 the Group has commitments related to the construction of Namakhvani HPP cascade of GEL 17,388 thousand (2011: nil). The construction has been suspended and the Group is in the process of terminating the construction related agreements (see note 11(b)). These agreements are cancellable without penalty on a written notice from the Group and management assesses that the termination of the agreements will not result in a significant cash outflow to the Group.

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 and financial guarantees

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

Included in other income is a reversal of a provision of GEL 15.6 million related to a Group entity's guarantee of a third party's loan from a Georgian bank. In 2010 the Group entity recognised a provision for the guarantee as there were indications that the beneficiary of the guarantee will not be able to discharge its liabilities. On 5 November 2012 the Group entity received a notification from the bank that the beneficiary of the guarantee had discharged its liabilities to the bank and the provision was fully reversed.

(c) Taxation contingencies

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

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

(d) Environmental matters

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

28. Related party transactions

(a) Control relationships

As at 31 December 2012 and 2011 the Fund is wholly owned by the State of Georgia represented by the Government of Georgia.

(b) Transactions with key management personnel

(i) Key management remuneration

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

’000 GEL	**2012**	**28 June 2011 (date of incorporation) to 31 December 2011**
Salaries and bonuses	**2,605**	**105**

(c) Transactions with Government related entities

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

The significant transactions with state controlled entities and balances for these transactions are disclosed below. Management estimates that the aggregate amounts of all other income and expenses and the related balances with government-related entities at the reporting dates are not significant. Transactions with the shareholder are disclosed in note 19 of these consolidated financial statements.

(i) Revenue

’000 GEL	**Transaction value**		**Outstanding balance as at 31 December**	
	2012	**28 June 2011 (date of incorporation) to 31 December 2011**	**2012**	**2011**
Entities controlled or significantly influenced by the State:				
Rent of pipelines	18,096	-	-	-
Transmission and dispatching of electricity	6,838	-	2,432	-
Sale of balancing electricity	18,273	-	8,065	-

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.

(ii) Expenses

’000 GEL	Transaction value		Outstanding balance as at 31 December	
	2012	**28 June 2011 (date of incorporation) to 31 December 2011**	**2012**	**2011**
State controlled entities:				
Cost of gas	16,675	-	785	-

(iii) Loans

’000 GEL	Interest income/expense		Outstanding balance as at 31 December	
	2012	**28 June 2011 (date of incorporation) to 31 December 2011**	**2012**	**2011**
Loans receivable:				
State controlled entity	647	-	48,714	-
Loans received:				
Ministry of Finance of Georgia	1,826	-	496,739	-
Government of Georgia	-	-	667	-

Loans receivable from state controlled entity bear a contractual rate of interest of 11% per annum and are repayable on maturity in 2013. The National Agency of State Property of the Ministry of Economy and Sustainable Development of Georgia has confirmed its intent to provide support to the extent permitted by the Georgian legislation, if required, to the state controlled entity to enable it to repay these loans.

The interest rates and maturities of loans from related parties are disclosed in note 20 (a).

(iv) Restructured liabilities

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

29. Significant subsidiaries

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 Georgian Oil and Gas Corporation JSC (see note 13(a)) and Georgian Railway JSC (see note 6) were contributed by the Government of Georgia to the capital of the Fund.

The following summarizes the major classes of assets and liabilities of each significant direct subsidiaries or subsidiary groups acquired at the acquisition dates:

’000 GEL	**Note**	**Georgian Railway JSC**	**Georgian Oil and Gas Corporation JSC**	**Georgian State Electrosystem JSC**	**Electricity State Commercial Operator JSC**	**Total**
Non-current assets						
Property, plant and equipment	11	2,117,699	297,377	805,404	382	3,220,862
Prepayments for non-current assets and other non-current assets		290,189	264	81,128	6	371,587
Finance lease receivable	14	-	44,701	-	-	44,701
Term deposits		-	49,776	-	-	49,776
Deferred tax assets	10	-	-	-	433	433
VAT receivable		-	-	60,180	-	60,180
Current assets						
Inventories		45,727	10,740	8,323	14	64,804
Current tax assets		-	-	14,267	435	14,702
Trade receivables and prepayments and other current assets		96,107	89,897	6,363	18,495	210,862
Term deposits		37,796	100,786	-	-	138,582
Assets held for distribution		-	26,573	-	-	26,573
Cash and cash equivalents		216,109	280,829	56,180	5,657	558,775
Non-current liabilities						
Loans and borrowings		(870,832)	(406,798)	(395,442)	-	(1,673,072)
Grants related to assets	22	-	-	(50,381)	-	(50,381)
Restructured liabilities		-	-	(56,298)	-	(56,298)
Advances received from the Government of Georgia	19	(231,592)	-	-	-	(231,592)
Other non-current liabilities		-	-	(2,417)	-	(2,417)
Deferred tax liabilities	10	(58,067)	(9,926)	(14,544)	-	(82,537)
Current liabilities						
Loans and borrowings		(7,135)	(7,414)	(5,503)	-	(20,052)
Restructured liabilities		-	-	(3,508)	-	(3,508)
Trade and other payables		(128,615)	(16,802)	(189,716)	(20,958)	(356,091)
Liabilities to the Government of Georgia		(12,956)	(31,500)	-	-	(44,456)
Provisions		(3,940)	-	-	-	(3,940)
Current tax liabilities		-	(750)	-	-	(750)
Net assets		**1,490,490**	**427,753**	**314,036**	**4,464**	**2,236,743**
Carrying amount of associates derecognized	6, 13	(167,197)	(96,412)	**-**	**-**	(263,609)
Net contribution	19(b)	**1,323,293**	**331,341**	**314,036**	**4,464**	**1,973,134**

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

Georgian Oil and Gas Corporation JSC was established as a 100% state-owned enterprise by the order of the Ministry of Economy of Georgia on 21 March 2006, on the basis of three Georgian state-owned companies: Georgian International Oil Corporation JSC, Georgian Gas International Corporation JSC and Teleti Oil Company JSC. The principal activities of Georgian Oil and Gas Corporation JSC are the importation and sale of gas, the rental of gas pipelines, oil and gas exploration and extraction in the territory of Georgia. In December 2006 Georgian Oil and Gas Corporation JSC has been granted the status of "National Oil Company" by Presidential decree number 736 and it acts on behalf of the State of Georgia, receives and disposes of the State's share of extracted oil and gas produced by contractors in the territory of Georgia in accordance with the "Law of Georgia on Oil and Gas" and production sharing agreements signed between the State and the contractors. Georgian Oil and Gas Corporation JSC has not recognized an intangible asset for this right as the Group does not control the right.

Georgian State Electrosystem JSC was established under the laws of Georgia on 12 November 2002 by the means of the merger of Electrogadatsema JSC and Electrodispetcherizatsia-2000 LLC and is their legal successor in title. The major subsidiary of Georgian State Electrosysem JSC is EnergoTrans LLC, an entity established as a state-owned enterprise in 2002. The principal activities of Georgian State Electrosystem JSC and its subsidiaries are electricity transmission and dispatching over the entire territory of Georgia that are regulated by the law on Electricity and Natural Gas on the basis of the licenses obtained from the Georgian National Energy Regulation Committee on 20 December 2002. EnergoTrans LLC owns the 500kV Vardzia and Zekari power transmission lines and the 400kV Meskheti interconnection line with Turkey currently under construction as part of the "Black Sea Transmission Network Project" (BSTN). The primary objective of EnergoTarns LLC is to serve the BSTN project as an executing agency, carrying out overall control, supervision and monitoring over the performance by the contractors of all project-related construction works and activities. The new lines will provide additional security to Georgia's transmission network, by adding a second west-east 500kV link, and create energy export capacity to Turkey. After the construction, EnergoTrans LLC's principal activities will be the export and import of electricity via the newly-built power transmission lines.

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.

30. Events subsequent to the reporting date

On 21 March 2013, the Asian Development Bank (ADB) and the Government of Georgia signed the Loan and Project Agreements on "Regional Power Transmission Enhancement Project". ADB allocated a USD 48,000 thousand credit facility for project funding purposes. The project will be implemented by the Group. The project is expected to start in 2013 and be completed in 2-3 years.

On 2 April 2013, the Group signed a Share Purchase Agreement to acquire 100% of Georgia Transit LLC (one of its largest customers of railroad transportation) for cash consideration of GEL 48 thousand. The purpose of the acquisition is to marginally improve profitability by consolidating an intermediary between the Group and its final customers in railroad transportation sector. At the date these consolidated financial statements are authorized for issue, the initial accounting for the business combination is incomplete.