EnergoTrans LLC

Financial Statements for 2014

Contents

KPMG Georgia LLC
4, Besiki Street
Tbilisi, 0108
Georgia

Telephone +995 (32) 2935695
Fax +995 (32) 2935713
Internet www.kpmg.ge

Independent Auditors' Report

To the Supervisory Board
EnergoTrans LLC

We have audited the accompanying financial statements of EnergoTrans LLC (the Company) which comprise the statement of financial position as at 31 December 2014, and the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 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 financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2014, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

KPMG Georgia LLC

KPMG Georgia LLC
10 June 2015

LIMITED LIABILITY COMPANY
404437695
KPMG Georgia

’000 GEL	Note	2014	2013
ASSETS			
Non-current assets			
Property and equipment	8	598,201	617,322
Intangible assets		12	15
Prepayments for non-current assets		862	1,244
Deferred tax assets	7	334	3,808
Trade and other receivables	9	35,692	38,671
Total non-current assets		**635,101**	**661,060**
Current assets			
Trade and other receivables	9	12,895	14,855
Inventories		563	2,895
Cash and cash equivalents	10	21,560	22,128
Total current assets		**35,018**	**39,878**
Total assets		**670,119**	**700,938**
EQUITY AND LIABILITIES			
Equity	11		
Charter capital		115,565	115,565
Revaluation reserve		478	478
Accumulated losses		(36,217)	(44,797)
Total equity		**79,826**	**71,246**
Non-current liabilities			
Loans and borrowings	13	438,847	488,527
Grants related to assets	14	65,246	67,889
Total non-current liabilities		**504,093**	**556,416**
Current liabilities			
Loans and borrowings	13	70,299	37,453
Grants related to assets	14	2,836	2,828
Trade and other payables	15	13,065	32,995
Total current liabilities		**86,200**	**73,276**
Total liabilities		**590,293**	**629,692**
Total equity and liabilities		**670,119**	**700,938**

The statement of financial position is to be read in conjunction with the notes to, and forming part of, the financial statements set out on pages 8 to 29.

'000 GEL	**Note**	**2014**	**2013**
Revenue	5	27,585	6,846
Other income		3,396	4,931
Personnel expenses		(1,934)	(1,607)
Depreciation and amortization		(21,795)	(1,707)
Other expenses		(7,960)	(6,293)
Results from operating activities		**(708)**	**2,170**
Finance income	6	29,811	1,792
Finance costs	6	(17,049)	(46,526)
Net finance income/ (costs)		**12,762**	**(44,734)**
Profit/(loss) before income tax		**12,054**	**(42,564)**
Income tax expense	7	(3,474)	(6,969)
Profit/(loss) and total comprehensive income/(loss) for the year		**8,580**	**(49,533)**

These financial statements were approved by management on 10 June 2015 and were signed on its behalf by:

Kakha Sekhniashvili
Director

Irakli Manelidze
Finance Director

The statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to, and forming part of, the financial statements set out on pages 8 to 29.

'000 GEL	**Charter capital**	**Revaluation reserve**	**Accumulated losses**	**Total**
Balance at 1 January 2013	115,565	478	4,736	120,779
Total comprehensive loss for the year				
Loss for the year	-	-	(49,533)	(49,533)
Balance at 31 December 2013	**115,565**	**478**	**(44,797)**	**71,246**
Balance at 1 January 2014	115,565	478	(44,797)	71,246
Total comprehensive income for the year				
Profit for the year	-	-	8,580	8,580
Balance at 31 December 2014	**115,565**	**478**	**(36,217)**	**79,826**

The statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the financial statements set out on pages 8 to 29.

'000 GEL	**Note**	**2014**	**2013**
Cash flows from operating activities			
Profit/(loss) before income tax		12,054	(42,564)
Adjustments for:			
Depreciation and amortisation	8	21,795	1,707
Net finance (income)/ costs	6	(12,762)	44,734
Income from amortization of grants	14	(2,828)	-
		18,259	**3,877**
Changes in:			
Inventories		2,332	(2,702)
Trade and other receivables		4,939	7,643
Trade and other payables		(294)	222
Cash flows from operations before interest paid		**25,236**	**9,040**
Interest paid		(4,346)	-
Net cash from operating activities		**20,890**	**9,040**
Cash flows from investing activities			
Interest received		1,563	1,792
Acquisition of property and equipment		(21,686)	(70,805)
Net cash used in investing activities		**(20,123)**	**(69,013)**
Cash flows from financing activities			
Proceeds from increase of charter capital		-	3,107
Proceeds from borrowings		14,201	67,301
Proceeds from grants	14	193	2,235
Repayment of borrowings	13	(15,261)	-
Net cash (used in)/ from financing activities		**(867)**	**72,643**
Net (decrease)/ increase in cash and cash equivalents		**(100)**	**12,670**
Cash and cash equivalents at 1 January		22,128	7,875
Effect of movements in exchange rates on cash and cash equivalents		(468)	1,583
Cash and cash equivalents at 31 December	10	**21,560**	**22,128**

The statement of cash flows is to be read in conjunction with the notes to, and forming part of, the financial statements set out on pages 8 to 29.

1. Reporting entity

(a) Georgian business environment

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

(b) Organisation and operations

EnergoTrans LLC (the Company) is a Georgian limited liability company as defined in the Civil Code of Georgia. The Company was established as a state-owned enterprise in 2002. During 2009 Georgian State Electrosystem JSC became the owner of the Company.

The Company's registered office is 16 Kindzmarauli Street, Tbilisi 0105, Georgia.

The Company's principal activity is electricity transmission including export and transit of electricity via 500kV Vardzia and Zekari energy transmission lines and the 400kV Meskheti interconnection line with Turkey constructed as a part of 'Black Sea Transmission Network Project' (BSTN). The new line provides additional security to Georgia's transmission network, by adding a second west-east 500kV link, and creates energy export capacity to Turkey. The BSTN project was completed by the end of 2013, until when the Company's primary objective was 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 Company operates under the licenses obtained from the Georgian National Energy and Water Supply Regulatory Commission.

The Company is wholly owned by Georgian State Electrosystem JSC. The Company's ultimate parent company is Partnership Fund JSC and the Company's ultimate controlling party is the Government of Georgia. Related party transactions are disclosed in note 18.

2. Basis of accounting

Statement of compliance

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

3. Functional and presentation currency

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

4. Use of estimates and judgments

The preparation of 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 financial statements is included in the following notes:
- Note 13 - fair values of loans and borrowings at initial recognition;
- Note 20 (f) (iv) – useful lives of property and equipment.

Management has not identified any assumptions or estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year.

Measurement of fair values

A number of the Company's accounting policies and disclosures require the determination of fair values for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and for disclosure purposes.

Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows.

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

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

Further information about the assumptions made in measuring fair values is included in the following notes:

- Note 8 (b) – revaluation of land;
- Note 16 (a) - fair values and risk management.

5. Revenue

’000 GEL	2014	2013
Revenue from transmission of electricity	20,219	6,846
Revenue from exporting electricity	2,416	-
Other revenue	4,950	-
Total revenues	**27,585**	**6,846**

The Company started local transmission of electricity from 1 September 2013. The revenue is calculated based on the transmission tariff established by the Georgian National Energy and Water Supply Regulatory Commission (GNERC).

6. Net finance income/ (costs)

’000 GEL	2014	2013
Recognised in profit or loss		
Interest income on bank accounts	1,563	1,792
Net foreign exchange gain	28,248	-
Finance income	**29,811**	**1,792**
Interest expense on financial liabilities measured at amortised cost	(17,049)	(813)
Net foreign exchange loss	-	(45,713)
Finance costs	**(17,049)**	**(46,526)**
Net finance income/ (costs) recognised in profit or loss	**12,762**	**(44,734)**

7. Income taxes

(a) Amounts recognised in profit or loss

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

’000 GEL	2014	2013
Current tax expense		
Adjustment for prior years	-	965
	-	**965**
Deferred tax expense		
Origination and reversal of temporary differences	3,474	6,004
Total tax expense	**3,474**	**6,969**

Reconciliation of effective tax rate:

	2014		2013	
	’000 GEL	%	’000 GEL	%
Profit/(loss) before tax	12,054	100	(42,564)	100
Income tax at applicable tax rate (15%)	1,808	15	(6,385)	15
Non-deductible expenses/ (tax exempt income)	479	4	(347)	1
Under provided in prior years	-		965	(2)
Current-year losses for which no deferred tax asset is recognized	1,187	10	12,736	(30)
	3,474	**29**	**6,969**	**(16)**

(b) Movement in deferred tax balances

’000 GEL	1 January 2014	Recognised in profit or loss	31 December 2014
Property and equipment	(6,685)	(3,079)	(9,764)
Grants related to assets	10,493	(395)	10,098
	3,808	**(3,474)**	**334**

’000 GEL	1 January 2013	Recognised in profit or loss	31 December 2013
Property and equipment	(118)	(6,567)	(6,685)
Grants related to assets	9,930	563	10,493
	9,812	**(6,004)**	**3,808**

(c) Unrecognized deferred tax assets

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

’000 GEL	31 December 2014	31 December 2013
Tax loss carry forwards	**92,820**	**84,907**

The tax losses of GEL 84,907 thousand and GEL 7,913 thousand expire in 2018 and 2019 respectively. As at 31 December 2014, deferred tax assets in respect of tax losses amounting to GEL 13,923 thousand, have not been recognized because it is not probable that future taxable profits will be available against which the Company can utilise the benefits there from.

8. Property and equipment

'000 GEL	Land and buildings	Power transmission lines	Equipment, vehicles and other	Construction in progress	Total
Cost/ Deemed cost/Revalued amount					
Balance at 1 January 2013	1,134	-	1,196	567,811	570,141
Additions	-	-	-	49,115	49,115
Transfers	34,135	170,242	384,762	(589,139)	-
Balance at 31 December 2013	**35,269**	**170,242**	**385,958**	**27,787**	**619,256**
Balance at 1 January 2014	35,269	170,242	385,958	27,787	619,256
Additions	-	-	-	3,254	3,254
Disposals	-	-	-	(583)	(583)
Transfers	85	14	1,345	(1,444)	-
Balance at 31 December 2014	**35,354**	**170,256**	**387,303**	**29,014**	**621,927**
Depreciation					
Balance at 1 January 2013	29	-	200	-	229
Depreciation for the year	7	1,590	108	-	1,705
Balance at 31 December 2013	**36**	**1,590**	**308**	**-**	**1,934**
Balance at 1 January 2014	36	1,590	308	-	1,934
Depreciation for the year	1,380	4,867	15,545	-	21,792
Balance at 31 December 2014	**1,416**	**6,457**	**15,853**	**-**	**23,726**
Carrying amounts					
At 1 January 2013	**1,105**	**-**	**996**	**567,811**	**569,912**
At 31 December 2013	**35,233**	**168,652**	**385,650**	**27,787**	**617,322**
At 31 December 2014	**33,938**	**163,799**	**371,450**	**29,014**	**598,201**

Property and equipment mainly represents energy-transmission lines constructed within the framework of the 'Black Sea Transmission Network' project which was completed in 2013. The project was financed by credit facilities and grants provided by the European Bank for Reconstruction and Development, the European Investment Bank and Kreditanstalt für Wiederaufbau (KfW) (see notes 13, 14). Construction in progress of GEL 29,014 thousand as at 31 December 2014 represents spare parts and stand-by equipment held to support the operations of property and equipment.

(a) Security

As at 31 December 2014 property and equipment with the carrying amount of GEL 53,737 thousand (2013: GEL 55,731 thousand) is pledged as a security for loans and borrowings (see note 13).

(b) Revaluation of land

In preparing these financial statements management assessed the fair value of land as at 31 December 2014. The fair value was determined based on market prices in recent transactions or announced asking prices of similar properties. Based on the assessment performed, management believes that no adjustment is needed to the carrying value of land in order for it to approximate to its fair value.

9. Trade and other receivables

’000 GEL	2014	2013
VAT recoverable	44,692	50,671
Trade receivables	2,971	1,934
Receivables from owner	846	846
Other receivables	78	75
	48,587	**53,526**
Non-current	35,692	38,671
Current	12,895	14,855
	48,587	**53,526**

The Company’s exposure to credit risk related to trade and other receivables is disclosed in note 16.

10. Cash and cash equivalents

’000 GEL	2014	2013
Bank balances	21,560	22,128
Cash and cash equivalents in the statement of financial position and in the statement of cash flows	**21,560**	**22,128**

The Company’s exposure to currency and credit risks and a sensitivity analysis for financial assets and liabilities are disclosed in note 16.

11. Equity

(a) Charter capital

Charter capital represents the nominal amount of capital in the founding documentation of the Company. As at 31 December 2014 and 2013 the charter capital of the Company is GEL 115,565 thousand.

(b) Dividends

In accordance with Georgian legislation the Company's distributable reserves are limited to the balance of retained earnings as recorded in the Company's statutory financial statements prepared in accordance with International Financial Reporting Standards.

(c) Revaluation surplus

The revaluation surplus relates to the revaluation of land.

12. Capital management

The Company has no formal policy for capital management but management seeks to maintain a sufficient capital base for meeting the Company's operational and strategic needs. This is achieved with efficient cash management and long-term investment plans mainly financed by the Company's long-term borrowings.

There were no changes in the Company's approach to capital management during the year.
The Company is not subject to externally imposed capital requirements.

13. Loans and borrowings

This note provides information about the contractual terms of the Company's interest-bearing loans and borrowings, which are measured at amortised cost. For more information about the Company's exposure to interest rate, foreign currency and liquidity risk, see note 16.

'000 GEL	**2014**	**2013**
Non-current liabilities		
Unsecured loans from financial institutions	416,404	457,984
Secured loan from related party	22,443	30,543
	438,847	**488,527**
Current liabilities		
Current portion of unsecured loans from financial institutions	56,687	29,526
Current portion of secured loan from related party	13,612	7,927
	70,299	**37,453**

As at 31 December 2014 and 2013 the related party loan is secured by property and equipment of GEL 53,737 thousand and GEL 55,731 thousand respectively (see note 8).

(a) Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

				31 December 2014		31 December 2013	
’000 GEL	**Currency**	**Nominal interest rate**	**Year of maturity**	**Face value**	**Carrying amount**	**Face value**	**Carrying amount**
Unsecured loans from financial institutions:							
Ministry of Finance of Georgia - Kreditanstalt für Wiederaufbau	EUR	KfW reference rate +4%	2024	179,096	179,096	178,173	178,173
Ministry of Finance of Georgia - European Investment Bank	EUR	Euribor+ 0.75%	2033	177,963	177,963	189,746	189,746
Ministry of Finance of Georgia - European Bank for Reconstruction and Development	EUR	Euribor+1 %	2025	116,032	116,032	119,591	119,591
Secured loan from related party:							
Ministry of Finance of Georgia	EUR	7.5%	2018	36,055	36,055	38,470	38,470
Total interest-bearing liabilities				**509,146**	**509,146**	**525,980**	**525,980**

The unsecured loans from financial institutions are loans received from the European Bank for Reconstruction and Development (EBRD), the European Investment Bank (EIB) and Kreditanstalt für Wiederaufbau (KfW). Loans from EBRD, EIB and KfW were disbursed to the Government of Georgia in relation to the ‘Black Sea Transmission Network’ project for the construction of new energy transmission lines. The Government of Georgia, in turn, transferred the amounts received under the facilities, together with the obligation to repay them, to the Company. The lenders have not legally released the Government of Georgia from the primary responsibility for the repayment of the loans, accordingly the Government of Georgia acted as a principal in these transactions and the loans payable by the Company are towards the Ministry of Finance of Georgia. Secured loan from related party represents interest accrued on unsecured loans from financial institutions and paid by the Government of Georgia on behalf of the Company.

Management estimates that the fair values of loans and borrowings 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.

14. Grants related to assets

’000 GEL	**2014**	**2013**
Balance at 1 January	70,717	68,482
Credited to profit and loss	(2,828)	-
Received during the year	193	2,235
Balance at 31 December	**68,082**	**70,717**
Non-current	65,246	67,889
Current	2,836	2,828
	68,082	**70,717**

Grant related to assets of EUR 25,000 thousand represents financial contribution received from KfW within the framework of the Black Sea Transmission Network project for the construction of new energy transmission lines. The financial contribution is not repayable unless the Company misuses the funds received or seriously jeopardizes the implementation of the project.

15. Trade and other payables

’000 GEL	**2014**	**2013**
Payables for the construction work performed	13,050	32,686
Other payables	15	309
	13,065	**32,995**

The Company’s exposure to currency and liquidity risks related to trade and other payables is disclosed in note 16.

16. Fair values and risk management

(a) Fair values of financial assets and liabilities

The estimates of fair value are intended to approximate the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. However given the uncertainties and the use of subjective judgment, the fair value should not be interpreted as being realizable in an immediate sale of the assets or transfer of liabilities. The Company has determined the fair values of financial assets and liabilities using valuation techniques. The objective of the valuation techniques is to arrive at a fair value determination that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date. The valuation technique used is the discounted cash flow model. Fair value of all financial assets and liabilities 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.

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

(b) Financial risk management

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

- credit risk (see 16(c)(ii));
- liquidity risk (see 16(c)(iii));
- market risk (see 16(c)(iv)).

(i) Risk management framework

The management has overall responsibility for the establishment and oversight of the Company's risk management framework.

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

(ii) Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from customers and bank balances.

The carrying amount of financial assets represents the maximum credit risk exposure.

Trade and other receivables

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. Geographically, the credit risk is concentrated mainly in Georgia.

Management has established a credit policy under which each new customer is analysed individually for creditworthiness before the Company's standard payment and delivery terms and conditions are offered. The Company's review includes external ratings, when available, and in some cases bank references.

No collateral in respect of trade and other receivables is generally required.

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

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

	Carrying amount	
'000 GEL	**2014**	**2013**
Domestic	**2,971**	**1,934**

None of the Company's trade receivables are impaired or past due.

Cash and cash equivalents

The cash and cash equivalents are held with two Georgian banks with short term issuer default rating of B and management does not believe that any of the counterparties will fail to meet its obligations.

(iii) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company'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 Company's reputation.

The Company manages liquidity requirements by the use of both short-term and long-term projections. Management regularly monitors monthly forecasts of the Company's cash flows. The Company has established an annual budgeting process with the owner. The budget is reviewed by the Supervisory Board and approved by the owner. The budget is updated on a monthly basis based on the actual results. The Company aims to maintain the level of cash and cash equivalents at an amount in excess of expected cash outflows on financial liabilities over the next 60 days.

In addition, as at 31 December 2014 the Company has VAT recoverable of GEL 44,692 thousand that can be claimed back from the Georgian Tax Authorities.

The following are the remaining contractual maturities of financial liabilities at the reporting date. The amounts are gross and undiscounted, include estimated interest payments and exclude the impact of netting agreements.

31 December 2014	**Contractual cash flows**				
’000 GEL	**Carrying amount**	**Total**	**up to 1 year**	**1-5 yrs**	**Over 5 yrs**
Non-derivative financial liabilities					
Unsecured loans from financial institutions	473,091	553,327	69,015	182,855	301,457
Secured loan from related party	36,055	41,345	15,837	25,508	-
Trade and other payables	13,050	13,050	13,050	-	-
	522,196	**607,722**	**97,902**	**208,363**	**301,457**

31 December 2013	**Contractual cash flows**				
’000 GEL	**Carrying amount**	**Total**	**up to 1 year**	**1-5 yrs**	**Over 5 yrs**
Non-derivative financial liabilities					
Unsecured loans from financial institutions	487,510	584,236	42,509	186,013	355,714
Secured loan from related party	38,470	45,666	7,927	37,739	-
Trade and other payables	32,686	32,686	32,686	-	-
	558,666	**662,588**	**83,122**	**223,752**	**355,714**

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

(iv) 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 Company’s income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

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

Currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company’s exposure to the risk of changes in foreign exchange rates relates primarily to the financial liabilities denominated in foreign currencies. The currency in which these transactions are primarily denominated is EUR.

The Company does not hedge its exposure to currency risk.

Exposure to currency risk

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

'000 GEL	**EUR-denominated 2014**	**EUR-denominated 2013**
Cash and cash equivalents	7,552	17,024
Loans and borrowings	(509,146)	(525,980)
Trade and other payables	(4,465)	(25,183)
Net exposure	**(506,059)**	**(534,139)**

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

in GEL	**Average rate**		**Reporting date spot rate**	
	2014	**2013**	**2014**	**2013**
EUR 1	2.3462	2.2094	2.2656	2.3891

Sensitivity analysis

A reasonably possible strengthening/ (weakening) of GEL, as indicated below, against EUR at 31 December would have affected profit or loss before taxes by the amounts shown below. There would have been no impact directly on equity. The analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2013.

'000 GEL	**Strengthening**	**Weakening**
	Profit or (loss)	**Profit or (loss)**
31 December 2014		
EUR (10% movement)	50,606	(50,606)
31 December 2013		
EUR (10% movement)	53,414	(53,414)

(v) 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 Company'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 Company over the expected period until maturity.

Exposure to interest rate risk

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

'000 GEL	Carrying amount	
	2014	**2013**
Fixed rate instruments		
Financial liabilities	36,055	38,470
Variable rate instruments		
Financial liabilities	473,091	487,510

Fair value sensitivity analysis for fixed rate instruments

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

Cash flow sensitivity analysis for variable rate instruments

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

	Profit or (loss)	
'000 GEL	**100 bp increase**	**100 bp decrease**
2014		
Variable rate instruments	(4,731)	4,731
2013		
Variable rate instruments	(4,875)	4,875

17. 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 Company 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 the Company's property or relating to the Company's operations. Until the Company obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Company's operations and financial position.

(b) Taxation contingencies

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

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

The tax position of the Company up to 31 December 2009 is closed by the tax investigation finalized in 2014. No material additional taxes or penalties were levied on the Company by the Georgian Tax Authorities.

18. Related parties

(a) Parent and ultimate controlling party

The Company's immediate parent company is Georgian State Electrosystem JSC. The Company's ultimate parent company is Partnership Fund JSC and the Company's ultimate controlling party is the Government of Georgia. Partnership Fund JSC produces publicly available financial statements which are available on the entity's website.

(b) Transactions with key management personnel

(i) Key management remuneration

Key management received the following remuneration during the year, which is included in personnel expenses:

'000 GEL	**2014**	**2013**
Salaries and bonuses	**724**	**502**

(c) Other related party transactions

The Company transacts in its daily operations with a number of entities that are either controlled or jointly controlled by the Government of Georgia. The Company applies the exemption in IAS 24 *Related party disclosures* that allows to present reduced related party disclosures regarding transactions with government-related entities.

All of the Company's loans and borrowings and interest expense on loans and borrowings are payable to the Ministry of Finance of Georgia. The Company's grants related to assets are mainly received in the transactions where the Government of Georgia acted as an intermediary.

Approximately 40% of the Company's revenue (2013: 37%) is from three entities significantly influenced or controlled by the Government of Georgia.

19. Basis of measurement

The financial statements are prepared on the historical cost basis except for certain items of property and equipment that were revalued to determine deemed cost as part of the adoption of IFRSs in 2009 and the land that is measured at fair value.

20. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

(a) Revenue

(i) Services

Revenue is recognized to the extent the Company has rendered services under an agreement, the amount of revenue can be measured reliably and it is probable that the economic benefits associated with the transaction will flow to the Company. Revenue is measured at the fair value of the consideration received, exclusive of sales taxes and discounts.

The Company primarily derives revenue from transmission of electric power. Revenue is recognized when the actual services are delivered based on the volume of transmitted electricity at the reporting date.

(ii) Government grants

Government grants are recognised initially as deferred income at fair value when there is reasonable assurance that they will be received and that the Company 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 Company 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.

(b) Finance income and costs

The Company's finance income and finance costs include:

• interest income on funds invested;
• interest expense on financial liabilities measured at amortized cost;
• the foreign currency gain or loss on financial assets and financial liabilities.

Interest income or expense is recognised as it accrues in profit or loss using the effective interest method. 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.

(c) 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 translated 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 the functional currency 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.

(d) Income tax

Income tax expense comprises current and deferred tax. It is recognized directly in the profit or loss except to the extent that it relates to items recognized directly in equity or in other comprehensive income.

(i) Current tax

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

(ii) Deferred tax

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss.

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.

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

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.

In determining the amount of current and deferred tax the Company takes into account the impact of uncertain tax positions and whether additional taxes, penalties and late-payment interest may be due. The Company 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 Company 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.

(e) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the weighted average cost 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.

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

(f) Property and equipment

(i) Recognition and measurement

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

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

Any gain or loss on disposal of an item of property and equipment is determined by comparing the proceeds from disposal with the carrying amount of property and equipment, and is recognised net within other income/other expenses in profit or loss. When revalued assets are sold, any related amount included in the revaluation reserve as revaluation surplus is transferred to retained earnings.

(ii) Subsequent expenditure

The cost of replacing a component of an item of property and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the component will flow to the Company, 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 and equipment are recognised in profit or loss as incurred.

(iii) Revaluation of land

Land is measured at fair value, based on periodic valuation by external independent valuers or the management of the Company. A revaluation increase on land is recognised directly under the heading of revaluation surplus in other comprehensive income. However, the increase is recognised in profit or loss to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss.

A revaluation decrease on land is recognised in profit or loss. However, the decrease is recognised in other comprehensive income to the extent of any credit balance existing in the revaluation surplus.

(iv) Depreciation

Items of property 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 estimated residual value.

Depreciation is generally recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property 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 Company will obtain ownership by the end of the lease term. Land is not depreciated.

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

- buildings 15-25 years
- power transmission lines 35 years
- equipment, vehicles and other 5-25 years

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

(g) Financial instruments

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

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

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

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

The Company derecognises a financial liability when its contractual obligations are discharged or cancelled or expire. Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

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 comprise trade and other receivables and cash and cash equivalents.

Cash and cash equivalents

Cash and cash equivalents comprise bank balances.

(ii) Non-derivative financial liabilities – measurement

Other 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 and trade and other payables.

(iii) Equity

Charter capital is classified as equity.

Increase of charter capital

When charter capital is increased, any difference between the registered amount of charter capital and the fair value of the assets contributed is recognized as a separate component of equity in the fair value adjustment reserve for non-cash owner contributions.

(h) Impairment

(i) Non-derivative financial assets

A financial asset not carried at fair value through profit or loss 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 Company on terms that the Company would not consider otherwise;
- indications that a debtor will enter bankruptcy;
- economic conditions that correlate with defaults.

Financial assets measured at amortised cost

The Company considers evidence of impairment for these assets at both an individual asset and a collective level. All individually significant assets are individually assessed for impairment. Those found not to be impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Assets that are not individually significant are collectively assessed for impairment by grouping together assets with similar risk characteristics. In assessing collective impairment the Company uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

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

(ii) Non-financial assets

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

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

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

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

An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit (CGU) exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are to reduce the carrying amounts of the other 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.

21. New Standards and interpretations not yet adopted

A number of new Standards, amendments to Standards and Interpretations are not yet effective as at 31 December 2014, and have not been applied in preparing these financial statements. Of these pronouncements, potentially the following will have an impact on the Company's operations. The Company plans to adopt these pronouncements when they become effective.

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

- IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes. The core principle of the new standard is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The new standard results in enhanced disclosures about revenue, provides guidance for transactions that were not previously addressed comprehensively and improves guidance for multiple-element arrangements. IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2017, with early adoption permitted. The Company is assessing the potential impact on its financial statements resulting from the application of IFRS 15.

- Various Improvements to IFRS are 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 not earlier than 1 January 2015. The Company has not yet analysed the likely impact of the improvements on its financial position or performance.