

Khramhesi 1 JSC

Financial statements

*for the year ended 31 December 2015,
together with independent auditors' report*

Khrameshi 1 JSC
Financial statements
for the year ended 31 December 2015

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Independent auditors' report

To the management and the shareholder of Khramhesi 1 JSC

We have audited the accompanying financial statements of Khramhesi 1 JSC (the "Company"), which comprise the statement of financial position as at 31 December 2015, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and 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 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 auditors' 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 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 2015, and its financial performance and cash flows for the year ended in accordance with International Financial Reporting Standards.

Emphasis of matter

We draw your attention to Note 17 to financial statements, which discloses a significant concentration of the Company's transactions with related parties. Our opinion is not qualified in respect of this matter.

EY Georgia LLC

29 January 2016

Tbilisi, Georgia

Khrameshi 1 JSC
Statement of comprehensive income
for the year ended 31 December 2015
in thousands of Georgian Lari

	Note	2015	2014
Revenue from sale of electricity		18,488	16,604
Depreciation	8	(4,067)	(3,478)
Wages and other employee benefits		(1,514)	(1,393)
Property tax		(428)	(419)
Professional services		(226)	(273)
Insurance		(493)	(379)
Repairs and maintenance		(235)	(405)
Transportation expenses		(115)	(133)
Gain/(loss) on revaluation of property, plant and equipment	8	48	(3,231)
Other operating expenses		(533)	(392)
Operating income		10,925	6,501
Finance costs	6	-	(109)
Finance income	6	244	106
Income before income tax		11,169	6,498
Income tax charge	7	(1,671)	(947)
Net income for the year		9,498	5,551
Other comprehensive income			
<i>Items that will not be reclassified to profit or loss in subsequent periods (net of tax)</i>			
Revaluation of property, plant and equipment	7, 8	48	10,344
Total comprehensive income for the year, net of tax		9,546	15,895

These financial statements were approved by management on 29 January 2016 and were signed on its behalf by:

Devi Kandelaki
General Director



Elena Mchedlishvili
Financial Director

The accompanying notes on pages 7-27 are an integral part of these financial statements.

Khamhesi 1 JSC
Statement of financial position
for the year ended 31 December 2015
in thousands of Georgian Lari

	Note	31 December 2015	31 December 2014
Assets			
Non-current assets			
Property, plant and equipment	8	47,026	49,043
Intangible assets		48	2
Prepayments for non-current assets		–	783
Total non-current assets		47,074	49,828
Current assets			
Inventories		86	73
VAT assets		654	653
Trade receivables	9	7,896	5,400
Prepayments		133	159
Cash and cash equivalents	10	1,118	7,744
Total current assets		9,887	14,029
Total assets		56,961	63,857
Equity and liabilities			
Equity			
Issued capital	11	3,447	3,447
Revaluation reserve	11	9,401	10,206
Retained earnings		33,509	38,768
Total equity		46,357	52,421
Non-current liabilities			
Deferred tax liabilities	7	5,835	6,330
Total non-current liabilities		5,835	6,330
Current liabilities			
Taxes payable, other than income tax	12	108	103
Current income tax payable		298	1,565
Trade and other payables	13	4,363	3,438
Total current liabilities		4,769	5,106
Total liabilities		10,604	11,436
Total equity and liabilities		56,961	63,857

The accompanying notes on pages 7-27 are an integral part of these financial statements.

Khrameshi 1 JSC
Statement of changes in equity
for the year ended 31 December 2015
in thousands of Georgian Lari

	Issued capital	Revaluation reserve for property, plant and equipment	Retained earnings	Total
Balance at 31 December 2013	3,447	–	35,731	39,178
Net income for the year	–	–	5,551	5,551
Other comprehensive income for the year	–	10,344	–	10,344
Total comprehensive income for the year	–	10,344	5,551	15,895
Depreciation of revaluation reserve, net of tax	–	(138)	138	–
Dividends (Note 11)	–	–	(2,652)	(2,652)
Balance at 31 December 2014	3,447	10,206	38,768	52,421
Net income for the year	–	–	9,498	9,498
Other comprehensive income for the year	–	48	–	48
Total comprehensive income for the year	–	48	9,498	9,546
Depreciation of revaluation reserve, net of tax	–	(853)	853	–
Dividends (Note 11)	–	–	(15,610)	(15,610)
Balance at 31 December 2015	3,447	9,401	33,509	46,357

The accompanying notes on pages 7-27 are an integral part of these financial statements.

Khrameshi 1 JSC
Statement of cash flows
for the year ended 31 December 2015
in thousands of Georgian Lari

	Note	2015	2014
Operating activities			
Income before income tax		11,169	6,498
<i>Non-cash adjustments to reconcile income before tax to net cash flows</i>			
Depreciation	8	4,067	3,478
Amortization		1	2
Gain on disposal of property, plant and equipment		–	(36)
(Gain)/loss on revaluation of property, plant and equipment	8	(48)	3,231
Net foreign exchange gain on investing and financing activities		(102)	(98)
Finance income	6	(101)	(106)
Dividends received		–	(8)
Write-off of other payables		–	(2)
		14,986	12,959
<i>Working capital adjustments</i>			
Change in inventories		(13)	(8)
Change in trade receivables		(2,496)	(2,249)
Change in prepayments		26	(132)
Change in VAT assets		(1)	(288)
Change in trade and other payables		925	295
Change in taxes payable, other than on income tax		5	68
		13,432	10,645
Income tax paid		(3,444)	–
Net cash flows from operating activities		9,988	10,645
Investing activities			
Payments for property, plant and equipment		(1,161)	(1,533)
Payments for intangible assets		(46)	–
Sales of property, plant and equipment		–	37
Interest received		101	106
Dividends received		–	10
Net cash flows used in investing activities		(1,106)	(1,380)
Financing activities			
Dividends paid	11	(15,610)	(2,652)
Net cash flows used in financing activities		(15,610)	(2,652)
Net increase/(decrease) in cash and cash equivalents		(6,728)	6,613
Cash and cash equivalents at the beginning of the period	10	7,744	1,033
Net foreign exchange difference on cash and cash equivalents		102	98
Cash and cash equivalents at the end of the period	10	1,118	7,744

The accompanying notes on pages 7-27 are an integral part of these financial statements.

Khrameshi 1 JSC
Notes to the financial statements
for the year ended 31 December 2015
in thousands of Georgian Lari

1 Corporate information

Khrameshi 1 JSC (the "Company") is a joint stock company incorporated and domiciled in Georgia. The company's registered office is Khrameshi, Tsalka region.

The Company's principal activity is the generation of electricity. The Company's primary operating asset is a hydro-power plant located in the Tsalka region, Georgia (HPP Khrami 1). Generated electricity is sold in Georgia. The Company's main customer is Telasi JSC, an entity under common control.

The Company has an active license for the generation of electricity from HPP Khrami 1 until 24 December 2024.

As at 31 December 2015 and 2014, 100% of the Company's shares are owned by Gardabani Holding B.V. (the "Parent"). The ultimate parent of the Company is OJSC Inter RAO UES (the "Ultimate Parent"), which is controlled by the Russian Federation.

As discussed in Note 17, most of the Company's operating activities are with entities under common control.

These financial statements have not yet been approved by the Parent at the shareholders meeting. The shareholders meeting is usually held during the first half of the year consequent to the reporting date. The shareholders have the power to amend the financial statements after issue.

2 Basis of preparation

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

The financial statements have been prepared on the historical cost basis except for property, plant and equipment that have been measured using revaluation model.

The financial statements are presented in thousands of Georgian Lari (GEL) and all values are rounded to the nearest thousand, unless otherwise indicated.

3 Summary of significant accounting policies

Significant accounting policies have been consistently applied to the financial statements. Newly issued standards had no significant impact on the Company's financial statements.

(a) Foreign currency

GEL is the Company's functional currency, since it is a currency of a primary economic environment where it operates.

Transactions in foreign currency are initially recorded by the Company at the functional currency rates prevailing at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange ruling at the reporting date.

All differences are taken to the statement of comprehensive income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as the dates of the initial transactions.

Notes to the financial statements (continued)

3 Summary of significant accounting policies (continued)

(b) Investment in an associate

An associate is an entity over which the Company has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control over those policies.

The Company's investments in its associate are accounted for using the equity method.

Under the equity method, the investment in an associate is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Company's share of net assets of the associate since the acquisition date. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

The financial statements of the associate are prepared for the same reporting period as the Company using the same accounting policy.

(c) Current versus non-current classification

The Company presents assets and liabilities in statement of financial position based on current/non-current classification. An asset is current when it is:

- ▶ Expected to be realised or intended to sold or consumed in normal operating cycle.
- ▶ Held primarily for the purpose of trading.
- ▶ Expected to be realised within twelve months after the reporting period, or
- ▶ Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

A liability is current when:

- ▶ It is expected to be settled in normal operating cycle.
- ▶ It is held primarily for the purpose of trading.
- ▶ It is due to be settled within twelve months after the reporting period, or
- ▶ There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The Company classifies all other liabilities as non-current.

Deferred tax assets and liabilities are classified as non-current assets and liabilities.

(d) Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Notes to the financial statements (continued)

3 Summary of significant accounting policies (continued)

(d) Financial instruments (continued)

(i) Financial assets

Initial recognition and subsequent measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. All financial assets are recognized initially at fair value plus, in the case of financial assets not recorded at fair value through profit or loss, transaction costs that are attributable to the acquisition of the financial asset.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Company commits to purchase or sell the asset.

All financial assets that the Company owns at 31 December 2015 and 2014 are classified as loans and receivables and include: trade receivables and cash and cash equivalents.

Subsequent measurement

The subsequent measurement depends on the classification of financial asset.

This category is the most relevant to the Company. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate (EIR) method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance income in the statement of profit or loss. The losses arising from impairment are recognised in the statement of profit or loss in finance costs for loans and in cost of sales or other operating expenses for receivables.

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e. removed from the Company's statement of financial position) when:

- ▶ The rights to receive cash flows from the asset have expired, or
- ▶ The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Notes to the financial statements (continued)

3 Summary of significant accounting policies (continued)

(d) Financial instruments (continued)

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Company continues to recognise the transferred asset to the extent of the Company's continuing involvement. In that case, the Company also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

Impairment

The Company assesses, at each reporting date, whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that has occurred since the initial recognition of the asset (an incurred 'loss event'), has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

The amount of impairment loss identified is measured as the difference between the assets carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial assets original effective interest rate.

The carrying amount of the assets is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of comprehensive income. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

The interest income is recorded as part of finance income in the statement of comprehensive income. Loans and receivables, together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Company. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to finance costs in the statement of comprehensive income.

Notes to the financial statements (continued)

3 Summary of significant accounting policies (continued)

(d) Financial instruments (continued)

(ii) Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

All financial liabilities of the Company at 31 December 2015 and 2014 are classified as loans and borrowings and are comprises of trade and other payables.

After initial recognition, loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of profit or loss.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of profit or loss.

(iii) Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company 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.

(iv) Fair value of financial instruments

The Company measures financial instruments at fair value at each balance sheet date.

Fair value is 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. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- ▶ In the principal market for the asset or liability; or
- ▶ In the absence of a principal market, in the most advantageous market for the asset or liability.

Notes to the financial statements (continued)

3 Summary of significant accounting policies (continued)

(d) Financial instruments (continued)

The principal or the most advantageous market must be accessible to by the Company.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- ▶ Level 1 – quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- ▶ Level 2 – valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable;
- ▶ Level 3 – valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Company determines whether transfers have occurred between Levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, the Company has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

An analysis of fair values of financial instruments and further details as to how they are measured are provided in Note 15.

(e) Property, plant and equipment

(i) Recognition and measurement

Property, plant and equipment is measured at fair value less accumulated depreciation and impairment loss recognised after the date of revaluation. Valuations are performed with sufficient frequency to ensure that the fair value of a revalued asset does not differ materially from its carrying amount.

Notes to the financial statements (continued)

3 Summary of significant accounting policies (continued)

(e) Property, plant and equipment (continued)

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 borrowing costs on qualifying assets. 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 revaluation surplus is recognised in other comprehensive income and accumulated in equity in the revaluation reserve for property, plant and equipment, except to the extent that it reverses a revaluation decrease of the same asset previously recognised as an expense, in which case the increase is recognised as gain on revaluation. A revaluation deficit is recognised as an expense, except to the extent that it offsets an existing surplus on the same asset recognised in the revaluation reserve for property, plant and equipment.

An annual transfer from the asset revaluation reserve to retained earnings is made for the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost. Additionally, accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings. Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets.

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of comprehensive income when the asset is derecognised.

(ii) Subsequent costs

The cost of replacing part 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 part will flow to the Company and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in the statement of comprehensive income as incurred.

(iii) Depreciation

Depreciation is recognised in statement of comprehensive income on a straight-line basis over the estimated useful lives 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. Significant components of individual assets are assessed and if a component has a useful life that is different from the remainder of that asset, that component is depreciated separately. Land is not depreciated.

Khramhesi 1 JSC

Notes to the financial statements (continued)

3 Summary of significant accounting policies (continued)

(e) Property, plant and equipment (continued)

The estimated useful lives for the current and comparative periods are as follows:

Buildings and facilities	up to 35 years
Plant and equipment	2-27 years
Vehicles	3-10 years
Other	2-5 years

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

(f) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on 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 estimated costs of completion and the estimated costs necessary to make the sale.

(g) Impairment of non-financial assets

The Company assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs of disposal and its value in use. Recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

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. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

The Company bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of the Company's CGUs to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of five years. For longer periods, a long-term growth rate is calculated and applied to project future cash flows after the fifth year.

Impairment losses of continuing operations, including impairment on inventories, are recognised in the statement of profit or loss in expense categories consistent with the function of the impaired asset, except for properties previously revalued with the revaluation taken to OCI. For such properties, the impairment is recognised in OCI up to the amount of any previous revaluation.

Notes to the financial statements (continued)

3 Summary of significant accounting policies (continued)

(g) Impairment of non-financial assets (continued)

For assets excluding goodwill, an assessment is made at each reporting date to determine whether there is an indication that previously recognised impairment losses no longer exist or have decreased. If such indication exists, the Company estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognized in the statement of profit or loss unless the asset is carried at a revalued amount, in which case, the reversal is treated as a revaluation increase.

(h) Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payments and excluding taxes or duty.

Revenue from the sale of electricity is determined monthly based on the amount of electricity sold to customers as determined by an act of receipt of electricity prepared by Georgian State Electrosystem, the operator of the high voltage electricity network of Georgia, and agreed with the customers.

Sales tariffs for electricity within Georgia are regulated by the Georgian National Energy Regulating Commission (GNERC). Beginning from 1 January 2014 sales tariff is GEL 0.082 per MW/hr.

(i) Taxes

(i) Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, by the reporting date.

(ii) Deferred tax

Deferred tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- ▶ Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- ▶ In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Notes to the financial statements (continued)

3 Summary of significant accounting policies (continued)

(i) Taxes (continued)

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised except:

- ▶ Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

(iii) Value added tax

Revenues, expenses and assets are recognised net of the amount of value added tax, except:

- ▶ Where the value added tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the value added tax is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable.
- ▶ Receivables and payables that are stated with the amount of value added tax included.

The net amount of value added tax recoverable from, or payable to, the taxation authority is included as part of VAT asset or liability in the statement of financial position.

(j) Cash and cash equivalents

Cash and short-term deposits in the statement of financial position comprise cash at banks and on hand and short-term deposits with a maturity of three months or less.

(k) Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Company expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset, but only when the reimbursement is virtually certain. The expense relating to a provision is presented in the statement of comprehensive income net of any reimbursement.

Notes to the financial statements (continued)

4 Use of estimates, judgments and assumptions

The preparation of the financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

(a) Judgments

In the process of applying the Company's accounting policies, management has made the following judgments, which have the most significant effect on the amounts recognized in the financial statements:

(i) Frequency for fair valuation of property, plant and equipment

The Company elected revalued basis for accounting of its property, plant and equipment. IAS 16 property, plant and equipment requires a company to make revaluations with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

The last revaluation of property, plant and equipment was done as at 31 October 2014 and reflected in the carrying value of the property, plant and equipment as at 31 December 2014. On 28 May 2015 the Company revalued its vehicles. A valuation methodology based on market approach was used (Note 8).

Based on the Company's judgment no revaluation of its property, plant and equipment is required on 31 December 2015, because there were no events or circumstances since last revaluation date which would indicate that the carrying amount differs materially from that which would be determined using fair value at the end of the reporting period.

(b) Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are described below. The Company based its assumptions and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments however, may change due to market changes or circumstances arising beyond the control of the Company. Such changes are reflected in the assumptions when they occur.

(ii) Allowance for trade receivables

The Company assesses at each reporting date whether there is any objective evidence that trade receivables are impaired. The Company's trade receivables are in total comprised of receivables JSC Telasi, an entity under common control (Note 9). Part of receivables from JSC Telasi are overdue but not impaired (Note 14).

Notes to the financial statements (continued)

5 Standards issued but not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Company's financial statements which may have impact on the Company's financial statements are disclosed below. The Company intends to adopt these standards when they become effective. Management does not expect application of other new standards and interpretations to have significant impact on financial statements.

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 *Financial Instruments* that replaces IAS 39 *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

The Company plans to adopt the new standard on the required effective date.

The adoption of IFRS 9 will have an effect on the classification and measurement of the Company's financial assets, but no impact on the classification and measurement of the Company's financial liabilities.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 and establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15 revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018, when the IASB finalises their amendments to defer the effective date of IFRS 15 by one year. Early adoption is permitted. The Company is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date using the full retrospective method.

Amendments to IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation

The amendments clarify the principle in IAS 16 and IAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are effective prospectively for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact to the Company given that the Company has not used a revenue-based method to depreciate its non-current assets.

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Notes to the financial statements (continued)

5 Standards issued but not yet effective (continued)

Annual improvements 2012-2014 cycle

These improvements are effective for annual periods beginning on or after 1 January 2016 and are not expected to have a material impact on the Company. They include:

IFRS 5 Non-current Assets Held for Sale and Discontinued Operations

Assets (or disposal groups) are generally disposed of either through sale or distribution to owners. The amendment clarifies that changing from one of these disposal methods to the other would not be considered a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in IFRS 5. This amendment must be applied prospectively.

IFRS 7 Financial Instruments: Disclosures

(i) Servicing contracts

The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and the arrangement against the guidance for continuing involvement in IFRS 7 in order to assess whether the disclosures are required. The assessment of which servicing contracts constitute continuing involvement must be done retrospectively. However, the required disclosures would not need to be provided for any period beginning before the annual period in which the entity first applies the amendments.

IAS 19 Employee Benefits

The amendment clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used. This amendment must be applied prospectively.

Amendments to IAS 1 Disclosure Initiative

The amendments to IAS 1 *Presentation of Financial Statements* clarify, rather than significantly change, existing IAS 1 requirements. The amendments clarify:

- ▶ The materiality requirements in IAS 1.
- ▶ That specific line items in the statement(s) of profit or loss and OCI and the statement of financial position may be disaggregated.
- ▶ That entities have flexibility as to the order in which they present the notes to financial statements.
- ▶ That the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement(s) of profit or loss and OCI. These amendments are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted.

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Notes to the financial statements (continued)

6 Finance income and finance cost

	2015	2014
Net foreign exchange loss	–	(109)
Total finance costs	–	(109)
Interest income on bank deposits and current accounts (Note 10)	101	106
Net foreign exchange gain	143	–
Total finance income	244	106

Foreign exchange gains and losses are mainly caused by the revaluation of assets and liabilities of the Company denominated in US Dollars (USD). For more details on the foreign currency risk please refer to Note 14.

7 Income taxes

The corporate income tax charge comprises:

	2015	2014
Income tax charged to the profit for the year		
Deferred tax benefit relating to origination and reversal of temporary differences	504	929
Current income tax charge	(2,175)	(1,876)
Total income tax charge	(1,671)	(947)

Reconciliation between tax expense and the accounting profit multiplied by Georgia's domestic tax rate for the year ended 31 December 2015 and 2014 is as follows:

	2015	2014
Accounting income before income tax	11,169	6,498
Income tax charge at applicable tax rate 15%	1,675	975
Non-taxable income	(16)	(34)
Non-deductible expense	12	6
Income tax charge	1,671	947

Movement in deferred tax relates to the following:

	31 December 2014	Recognized in profit or loss	Recognized in other comprehensive income	31 December 2015
Property, plant and equipment	(6,399)	501	(9)	(5,907)
Trade and other payables	69	3	–	72
	(6,330)	504	(9)	(5,835)

	31 December 2013	Recognized in profit or loss	Recognized in other comprehensive income	31 December 2014
Property, plant and equipment	(5,474)	900	(1,825)	(6,399)
Trade and other payables	40	29	–	69
	(5,434)	929	(1,825)	(6,330)

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Notes to the financial statements (continued)

8 Property, plant and equipment

At 31 December 2015 property, plant and equipment consist of the following:

	Land	Buildings and facilities	Plant and equipment	Vehicles	Other	Total
Cost						
At 31 December 2013	556	31,013	20,736	598	95	52,998
Additions	-	-	565	173	12	750
Disposals	-	-	(3)	(61)	-	(64)
Revaluation increase recognized in OCI	-	4,834	7,275	50	10	12,169
Revaluation decrease recognized in income statement	(242)	(375)	(2,339)	(246)	(29)	(3,231)
Elimination of accumulated depreciation at revaluation	-	(6,734)	(5,774)	(346)	(53)	(12,907)
At 31 December 2014	314	28,738	20,460	168	35	49,715
Additions	-	163	553	-	1,229	1,945
Revaluation increase recognized in OCI	-	-	-	57	-	57
Revaluation increase recognized in income statement	-	-	-	48	-	48
Elimination of accumulated depreciation at revaluation	-	-	-	(20)	-	(20)
At 31 December 2015	314	28,901	21,013	253	1,264	51,745
Accumulated depreciation						
At 31 December 2013	-	(5,271)	(4,517)	(332)	(44)	(10,164)
Disposals	-	-	2	61	-	63
Depreciation for the year	-	(1,814)	(1,570)	(84)	(10)	(3,478)
Elimination of accumulated depreciation at revaluation	-	6,734	5,774	346	53	12,907
At 31 December 2014	-	(351)	(311)	(9)	(1)	(672)
Depreciation for the year	-	(2,107)	(1,872)	(83)	(5)	(4,067)
Elimination of accumulated depreciation at revaluation	-	-	-	20	-	20
At 31 December 2015	-	(2,458)	(2,183)	(72)	(6)	(4,719)
Net book value						
At 31 December 2013	556	25,742	16,219	266	51	42,834
At 31 December 2014	314	28,387	20,149	159	34	49,043
At 31 December 2015	314	26,443	18,830	181	1,258	47,026

On 28 May 2015 an independent appraiser, Atos LLC, determined the fair value of the Company's vehicles. The appraiser is an industry specialist in valuing this type of property. The fair value of vehicles was primarily appraised on the basis of recent market transactions. The market transactions are quoted in USD, thus the fair value of the vehicles is sensitive to GEL/USD exchange rates. Increase in GEL/USD exchange rate would increase the fair value of the vehicles.

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Notes to the financial statements (continued)

9 Trade receivables

	31 December 2015	31 December 2014
Trade receivables due from related parties (Note 17)	7,896	5,400

Trade receivables are non-interest bearing and are generally on 30 day terms. A significant part of trade receivables are past due but not impaired (Note 14).

10 Cash and cash equivalents

	31 December 2015	31 December 2014
Cash at bank	1,118	7,744
	1,118	7,744

Interest earned on cash and cash equivalents in 2015 amounted to GEL 101 (2014: GEL 106).

Cash at banks earn the annual interest based on agreed bank deposit rates.

11 Equity

(a) Issued capital

As at 31 December 2015 and 2014 the Company had 3,447,238 shares authorised and issued of GEL 0.001 each. 100% of the shares are owned by Gardabani Holdings B.V. as at 31 December 2015 and 2014.

(b) Dividends

In accordance with Georgian legislation, a company can declare dividends from its profits. The Company's retained earnings are mostly result of fixed assets revaluation during adoption of IFRS on 1 January 2011. Georgian law is silent on the Company's right to distribute such reserves as dividends.

During 2015 the Company declared and paid out dividends in amount of GEL 15,610 (2014: GEL 2,652).

12 Taxes payable, other than income tax

	31 December 2015	31 December 2014
Payroll related taxes	55	46
Other	53	57
	108	103

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Notes to the financial statements (continued)

13 Trade and other payables

	31 December 2015	31 December 2014
Management fee payable to a related party (Note 17)	3,121	2,428
Technical fee payable to a related party (Note 17)	893	695
Trade payables to suppliers	114	114
Other payables	235	201
	4,363	3,438

Terms and conditions of the above financial liabilities:

- ▶ Trade payables are non-interest bearing and are normally settled on 30-day terms.
- ▶ Payables to a related party originated from transactions prior to 2011, they are overdue but not paid since the related party does not request repayment.
- ▶ Trade and other payables are mainly denominated in USD.

14 Financial instruments and risk management

Overview

The Company's principal financial liabilities comprise trade and other payables. The main purpose of these financial liabilities is to finance the Company's capital and operating expenditures. The Company has trade receivables and cash on current accounts that arrive directly from its operations.

The Company is exposed to credit risk, liquidity risk and market risk.

The Company is part of a large group controlled by the Ultimate Parent. Most of the financial risks are overseen and controlled at the level of the Ultimate Parent. Most of financial assets and liabilities of the Company are with entities under common control. Financial risk management objective of the Company's management is to safeguard Company's day-to-day operations, raise sufficient cash from operations to finance operating and on-going capital expenditures and service obligations to third parties.

(a) Credit risk

Credit risk is the risk that counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Company is exposed to credit risk from its operating activities (primarily for trade receivables) and from its financing activities, including deposits with banks and financial institutions.

The Company has a significant concentration of credit risk with a single customer, Telasi JSC, an entity under common control. The total amount receivable from Telasi JSC amounted to GEL 7,896 at 31 December 2015 (2014: GEL 5,400). From the above balance, GEL 2,620 is overdue for a period of more than a year. GEL 3,243 is overdue for more than 180 days (originated in February and April 2015).

The Company is part of a larger group of companies controlled by the Ultimate Parent. Settlement of overdue loans and other financial instruments within this group is managed by the Ultimate Parent based on the group's need for cash resources, rather than maturities of the instruments. JSC Telasi is a creditworthy company with strong balance sheet. Management believes that repayment will happen without complications if such need arises in the Company and therefore no provision was made on amounts receivable from JSC Telasi.

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Notes to the financial statements (continued)

14 Financial instruments and risk management (continued)

(a) Credit risk (continued)

All cash and cash equivalents are held with the two largest Georgian banks. None of cash and cash equivalents are impaired or past due.

The maximum exposure to credit risk at the reporting date was:

	31 December 2015	31 December 2014
Trade receivables (Note 9)	7,896	5,400
Cash and cash equivalents (Note 10)	1,118	7,744
	9,014	13,144

(b) 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.

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities. The majority of the Company's current liabilities and current assets (receivables) are due to/from related parties and therefore management believes that this provides the Company with sufficient flexibility with regard to the timing of payments and receipts as required for ensuring adequate liquidity in the business into the future, except for amounts due to related parties.

The following are the contractual maturities of financial liabilities.

31 December 2015	Carrying value	Contract ual cash flows	On demand	0 to 3 months	3 months to 1 year	1 to 5 years
Financial liabilities						
Trade and other payables (Note 13)	4,363	4,363	3,998	365	-	-
	4,363	4,363	3,998	365	-	-
31 December 2014	Carrying value	Contract ual cash flows	On demand	0 to 3 months	3 months to 1 year	1 to 5 years
Financial liabilities						
Trade and other payables (Note 13)	3,438	3,438	3,123	315	-	-
	3,438	3,438	3,123	315	-	-

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Notes to the financial statements (continued)

14 Financial instruments and risk management (continued)

(c) Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market prices comprise two types of risks: Interest rate risk and currency risk. Financial instruments affected by market risk include loans and borrowings and current accounts in banks.

The sensitivity analysis in the following sections relate to the position as at 31 December 2015 and 2014. The sensitivity analyses have been prepared on the basis that the amount of net debt, the rate profile of the debt and the proportion of financial instruments in foreign currencies are all constant.

The Company is not subject to interest rate risk due to the fact that all of its financial assets and liabilities have fixed interest rates.

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 Company does not hedge its exposure to currency risk.

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

	USD – denominated	
	31 December 2015	31 December 2014
Trade and other payables	(4,014)	(3,123)
Cash and cash equivalents	459	2,144
Net exposure	(3,555)	(979)

A strengthening/weakening of the GEL, as indicated below, against the USD at 31 December 2015, would have increased/(decreased) profit or loss by the amounts shown below. The analysis is based on foreign currency exchanges rate variances that the Company 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.

	Strengthening	Weakening
31 December 2015		
USD (15% movement)	533	(533)
31 December 2014		
USD (7.01% movement)	69	(69)

(d) Fair values

The estimates of fair value are intended to approximate the amount for which a financial instrument could be exchanged between knowledgeable, willing parties in an arm's length transaction. Fair values of the Company's financial assets and liabilities approximate their carrying values due to their short-term nature. All of the financial assets and financial liabilities for which fair values are estimated are measured at level 3 of fair value hierarchy.

Notes to the financial statements (continued)

14 Financial instruments and risk management (continued)

(e) 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.

15 Capital commitments

Contracts to acquire property, plant and equipment

As of 31 December 2015 the Company does not have any open contracts to purchase plant and equipment (2014: GEL 1,101).

16 Contingencies

(a) Taxation contingencies in Georgia

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.

At each reporting date, management makes assessment of its tax positions and considers those transactions which may be challenged by Georgian Tax Authorities. When probability is assessed as high, the Company creates provisions. Based on the management's assessment, tax risk that did not meet the criteria for recognition as a provision at 31 December 2015 do not exceed GEL 110.

17 Related party transactions

(i) Transactions with management

Key management personnel of the Company received GEL 121 as remuneration during 2015 (2014: GEL 115), which is included in wages and bonuses and other employee benefits.

The Company's related party transactions are disclosed below.

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Notes to the financial statements (continued)

17 Related party transactions (continued)

(ii) Revenue

	Sales to related parties 2015	Sales to related parties 2014	Amounts owed by related parties 31 December 2015	Amounts owed by related parties 31 December 2014
<i>Sale of electricity</i>				
Entities under common control (Note 9)	18,488	16,604	7,896	5,400
	18,488	16,604	7,896	5,400

Sales are based on approved tariff as set by the GNERC.

(iii) Trade and other payables

	Amounts owed to related parties 31 December 2015	Amounts owed to related parties 31 December 2014
<i>Entities under common control</i>		
Management fees (Note 13)	3,121	2,428
Technical fees (Note 13)	893	695
	4,014	3,123