Georgian Water and Power LLC

International Financial Reporting Standards Financial Statements and Independent Auditor's Report

31 December 2014

Contents

pwc

Independent Auditor's Report

To the Owner and Management of Georgian Water and Power LLC

We have audited the accompanying financial statements of Georgian Water and Power LLC, which comprise the statement of financial position as at 31 December 2014 and the statements of profit or loss and 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.

Auditor's 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 Georgian Water and Power LLC as at 31 December 2014, and their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers Central Asia & Caucasus B.V. Georgia Branch

29 April 2015
Tbilisi, Georgia

PricewaterhouseCoopers Central Asia and Caucasus B.V. Georgia Branch; Address: #7 Bambis Rigi Street, Business Center Mantashevi, Tbilisi 0105, Georgia, T: +995 (32) 250 80 50, F:+995 (32) 250 80 60, www.pwc.com/ge

GEORGIAN WATER AND POWER LLC
Statement of Financial Position
(Amounts expressed in thousands of Georgian Lari)

	Note	31 December 2014	31 December 2013
ASSETS			
Non-current assets			
Property, plant and equipment	8	244,027	226,886
Non-current trade receivables	11	571	1,667
Non-current loan issued	7	-	2,394
Other non-current assets	9	1,491	787
Deposit in bank	12	2,460	2,460
Total non-current assets		248,549	234,194
Current assets			
Inventories	10	11,124	11,812
Trade and other receivables	11	15,513	16,505
Loans issued	7	1,716	1,430
Current income tax prepayments		2,213	640
Restricted cash	26	-	1,207
Cash and cash equivalents	13	9,486	16,336
Total current assets		40,052	47,930
TOTAL ASSETS		288,601	282,124
EQUITY			
Charter capital	14	208,469	208,469
Accumulated deficit	14	(97,020)	(48,252)
Revaluation reserve	14	58,250	59,286
TOTAL EQUITY		169,699	219,503
LIABILITIES			
Non-current liabilities			
Long term borrowings	15	78,573	11,788
Deferred income tax liability	25	20,564	18,344
Total non-current liabilities		99,137	30,132
Current liabilities			
Current borrowings	15	356	8,544
Trade and other payables	16	16,671	18,928
Provisions for liabilities and charges	17	2,005	4,525
Other taxes payable		733	492
Total current liabilities		19,765	32,489
TOTAL LIABILITIES		118,902	62,621
TOTAL LIABILITIES AND EQUITY		288,601	282,124

Approved for issue and signed on behalf of Management on 29 April 2015:

Giorgi Tskhadadze
General Director

Giorgi Vakhtangishvili
Chief Financial Officer

The accompanying notes on pages 5 to 35 are an integral part of these financial statements.

GEORGIAN WATER AND POWER LLC
Statement of Profit or Loss and Comprehensive Income
(Amounts expressed in thousands of Georgian Lari)

	Note	2014	2013
Revenue	18	101,968	99,230
Other income	19	5,595	5,029
Provision of trade receivables	11	(1,127)	(1,517)
Salaries and benefits	20	(23,395)	(20,711)
Depreciation and amortisation	8,9	(16,998)	(17,567)
Electricity and transmission costs		(8,673)	(8,829)
Raw materials, fuel and other consumables		(5,036)	(4,740)
General and administrative expenses	21	(2,594)	(2,179)
Infrastructure assets maintenance expenditure		(3,523)	(2,329)
Disposal of construction in progress items	8	-	(2,043)
Other operating expenses	22	(14,535)	(11,425)
Operating profit		**31,682**	**32,919**
Finance income	23	667	950
Finance costs	24	(5,836)	(2,105)
Profit before income tax		**26,513**	**31,764**
Income tax expense	25	(5,509)	(7,191)
Profit for the year		**21,004**	**24,573**
Other comprehensive income for the year		**-**	**-**
Total comprehensive income for the year		**21,004**	**24,573**

GEORGIAN WATER AND POWER LLC
Statement of Changes in Equity
(Amounts expressed in thousands of Georgian Lari)

	Charter capital	Accumulated deficit	Revaluation reserve	Total
Balance at 31 December 2012	**208,469**	**(45,614)**	**59,788**	**222,643**
Profit for the year	-	24,573	-	24,573
Realised revaluation reserve, net of deferred tax	-	502	(502)	-
Total comprehensive income for the year	**-**	**25,075**	**(502)**	**24,573**
Dividends declared	-	(27,713)	-	(27,713)
Balance at 31 December 2013	**208,469**	**(48,252)**	**59,286**	**219,503**
Profit for the year	-	21,004	-	21,004
Realised revaluation reserve, net of deferred tax	-	1,036	(1,036)	-
Total comprehensive income for the year	**-**	**22,040**	**(1,036)**	**21,004**
Dividends declared	-	(22,869)	-	(22,869)
Dividends distribution for future periods	-	(47,939)	-	(47,939)
Balance at 31 December 2014	**208,469**	**(97,020)**	**58,250**	**169,699**

GEORGIAN WATER AND POWER LLC
Statement of Cash Flows
(Amounts expressed in thousands of Georgian Lari)

	Note	2014	2013
Cash flows from operating activities			
Profit before income tax		26,513	31,764
Adjustments for:			
Depreciation and amortisation	8,9	16,998	17,567
Provision for impairment of trade receivables	11	1,127	1,517
(Reversal)/charge of provisions	17,22	(2,520)	1,776
(Gain)/Loss from disposal of property, plant and equipment	19	(355)	183
Disposal of construction in progress items	8	-	2,043
Foreign exchange loss, net	24	2,417	875
Interest income	23	(667)	(950)
Interest expense	24	2,959	1,157
Operating cash flows before working capital changes		**46,472**	**55,932**
Decrease/(increase) in inventories		688	(3,481)
Decrease/(increase) in trade and other receivables		1,125	(1,584)
(Decrease)/increase in trade and other payables		(2,338)	4,037
Increase/(decrease) in tax payables		241	(1,701)
Decrease/(increase) in restricted cash		1,207	(1,207)
Interest received, net		246	343
Income tax paid		(5,769)	(3,844)
Net cash from operating activities		**41,872**	**48,495**
Cash flows from investing activities			
Purchase of property, plant and equipment and intangible assets	8,9	(35,032)	(22,724)
Proceeds from sale of property, plant and equipment		1,302	647
Issue of loans	7	(946)	(2,132)
Net cash used in investing activities		**(34,676)**	**(24,209)**
Cash flows from financing activities			
Proceeds from borrowings	15	98,798	17,633
Repayment of borrowings	15	(42,756)	(7,795)
Dividend paid to the Company's owner	14	(71,190)	(21,655)
Net cash used in financing activities		**(15,148)**	**(11,817)**
Effect of exchange rate changes on cash and cash equivalents		1,102	116
Net (decrease)/increase in cash and cash equivalents		**(6,850)**	**12,585**
Cash and cash equivalents at the beginning of year		16,336	3,751
Cash and cash equivalents at the end of year		**9,486**	**16,336**

Refer to Note 7 for transactions that did not require the use of cash and cash equivalents and were excluded from the statement of cash flows.

1 The Company and its Operations

These financial statements have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2014 for Georgian Water and Power LLC (hereafter the "Company").

The Company was incorporated on 23 May 1997 based on the decree of Tbilisi Municipal Cabinet and was set up as a limited liability company in accordance with Georgian regulations. The Company was incorporated and is domiciled in Georgia.

Principal activity. The Company's principal business activities are rendering water supply and wastewater collection services to legal entities and general population of Tbilisi City and the nearby villages. The Company owns and operates water and wastewater infrastructure assets used in water supply and wastewater collection. The Company also owns hydroelectric power stations generating electricity for own use and for sale to electricity market.

In 2008, the Company was privatised and Georgian Global Utilities LLC BVI (formerly Multiplex Energy LLC BVI) acquired the Company's 100% shareholding owned by the Tbilisi City Municipality.

As of 31 December 2014 the Company's ultimate parent company was Garnet Services Limited BVI Fund (31 December 2013: Sirius Private Equity Fund) and the Company was ultimately controlled by Mr. Andrey N. Rappoport. Neither the Company's immediate parent nor the ultimate parent company produces financial statements available for public use.

On 23 December 2014, Garrisa LLC BVI, sole shareholder of Georgian Global Utilities LLC BVI (GGU) signed the Share Purchase Agreement (SPA) with Bank of Georgia Holdings PLC and transferred 25% ownership of GGU. Per SPA, Bank of Georgia Holdings PLC has the right to acquire an additional 24.9% ownership of GGU during 10 months from completion of the deal. The total price of the deal amounted GEL 52 million.

In 2014, the Company had an average of 2,003 employees (2013: 1,853).

Registered address and place of business. The Company's registered address is at Kostava Street 33a 1st Lane Tbilisi, 0179, Tbilisi, Georgia.

Presentation currency. These financial statements are presented in Georgian Lari ("GEL"), unless otherwise indicated.

2 Operating Environment of the Company

Georgia continues to display certain characteristics of an emerging market. Tax, currency and customs legislation is subject to varying interpretations and contributes to the challenges faced by companies operating in Georgia. The future economic direction of Georgia is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government, together with tax, legal, regulatory and political developments.

Management is unable to predict all developments which could have an impact on business sector and the wider economy and consequently what effect, if any, they could have on the future financial position of the Company. Management believes it is taking all the necessary measures to support the sustainability and development of the Company's business.

3 Basis of Preparation and Significant Accounting Policies

Basis of preparation. These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention as modified by the initial recognition of financial instruments based on fair value, and by the revaluation of certain property, plant and equipment (land, real estate and infrastructure assets) which are stated at revalued amount. The principal accounting policies applied in the preparation of these financial statements are set out below.

These policies have been consistently applied to all the periods presented, unless otherwise stated (refer to Note 5).

3 Basis of Preparation and Significant Accounting Policies (continued)

Financial instruments - ***key measurement terms***. Depending on their classification financial instruments are carried at fair value or amortised cost as described below.

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 best evidence of fair value is price in an active market. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Valuation techniques such as discounted cash flows models or models based on recent arm's length transactions or consideration of financial data of the investees are used to measure fair value of certain financial instruments for which external market pricing information is not available. Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on solely observable market data (that is, the measurement requires significant unobservable inputs). Transfers between levels of the fair value hierarchy are deemed to have occurred at the end of the reporting period. Refer to Note 28.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

Amortised cost is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any write-down for incurred impairment losses. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of related items in the statement of the financial position.

The effective interest method is a method of allocating interest income or interest expense over the relevant period so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate (refer to income and expense recognition policy).

Classification of financial assets. All of the Company's financial assets fall into loans and receivables measurement category.

Loans and receivables are unquoted non-derivative financial assets with fixed or determinable payments other than those that the Company intends to sell in the near term. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets.

Classification of financial liabilities. All of the Company's financial liabilities are classified as other financial liabilities and are carried at amortised cost.

3 Basis of Preparation and Significant Accounting Policies (continued)

Initial recognition of financial instruments. Trading investments are initially recorded at fair value. All other financial assets and liabilities are initially recorded at fair value plus transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at trade date, which is the date that the Company commits to deliver a financial asset. All other purchases are recognised when the entity becomes a party to the contractual provisions of the instrument.

The Company uses discounted cash flow valuation techniques to determine the fair value of loans to related parties that are not traded in an active market. Differences may arise between the fair value at initial recognition, which is considered to be the transaction price, and the amount determined at initial recognition using a valuation technique with level 3 inputs. Any such differences are amortised on a straight line basis over the term of the loans to related parties. The differences are immediately recognised in profit or loss if the valuation uses only level 1 or level 2 inputs.

Derecognition of financial assets. The Company derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expire or (b) the Company has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement whilst (i) also transferring substantially all the risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all the risks and rewards of ownership but not retaining control.

Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

Property, plant and equipment. The Company's property, plant and equipment are stated at revalued amount less accumulated depreciation and provision for impairment, where required. Increases in the carrying amount arising on revaluation are credited to other comprehensive income and increase of the revaluation surplus in equity. Decreases that offset previous increases of the same asset are recognised in other comprehensive income and decrease of the previously recognised revaluation surplus in equity; all other decreases are charged to profit or loss for the year. The revaluation reserve in equity is transferred directly to retained earnings when the revaluation surplus is realised on the retirement or disposal of the asset. Any accumulated depreciation, aggregated with accumulated impairment losses, at the date of revaluation is eliminated against the gross amount of the asset, and the net amount is restated to the revalued amount of the asset. When the asset is derecognised the revaluation surplus is transferred directly to accumulated deficit.

Land, real estate and infrastructure assets are subject to revaluation on a regular basis. The frequency of revaluation depends upon the movements in the fair values of the assets being revalued. The Company charges deferred tax liabilities in respect of revaluation of property, plant and equipment directly to equity and in other comprehensive income.

Costs of minor repairs and maintenance are expensed when incurred. Cost of replacing major parts or components of property, plant and equipment items are capitalised and the replaced part is retired.

At each end of the reporting period management assesses whether there is any indication of impairment of property, plant and equipment. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in profit or loss for the year to the extent it exceeds the previous revaluation surplus in equity and in other comprehensive income. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell. Gains and losses on disposals are determined by comparing proceeds with carrying amount and are recognised in profit or loss for the year.

3 Basis of Preparation and Significant Accounting Policies (continued)

Depreciation. Land is not depreciated. Construction in progress is not depreciated until the asset is available for use. Depreciation on other items of property, plant and equipment is calculated using the straight-line method to allocate their revalued amount to their residual values over their estimated useful lives.

	Useful lives in years
Real estate	50 years
Infrastructure assets	10-40 years
Fixtures and fittings	3 years
Vehicles	10 years

The residual value of an asset is the estimated amount that the Company would currently obtain from the disposal of the asset less the estimated costs of disposal, if the asset was already of the age and in the condition expected at the end of its useful life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Operating leases. Where the Company is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Company, the total lease payments are charged to profit or loss for the year on a straight-line basis over the lease term. The lease term is the non-cancellable period for which the lessee has contracted to lease the asset together with any further terms for which the lessee has the option to continue to lease the asset, with or without further payment, when at the inception of the lease it is reasonably certain that the lessee will exercise the option.

When assets are leased out under an operating lease, the lease payments receivable are recognised as rental income on a straight-line basis over the lease term.

Intangible assets. Intangible assets, which are acquired by the Company and which have finite useful lives, are stated at cost less accumulated amortisation. Intangible assets include acquired software licenses and are amortised on a straight-line basis over their estimated useful lives (3-5 years) from the date the asset is available for use.

Development costs that are directly associated with identifiable and unique software controlled by the Company are recorded as intangible assets if an inflow of incremental economic benefits exceeding costs is probable. Capitalised costs include staff costs of the software development team and an appropriate portion of relevant overheads. All other costs associated with computer software, e.g. its maintenance, are expensed when incurred.

If impaired, the carrying amount of intangible assets is written down to the higher of value in use and fair value less costs to sell.

Income taxes. Income taxes have been provided for in the financial statements in accordance with Georgian legislation enacted or substantively enacted by the end of the reporting period. The income tax charge/(credit) comprises current tax and deferred tax and is recognised in profit or loss for the year except if it is recognised in other comprehensive income or directly in equity because it relates to transactions that are also recognised, in the same or a different period, in other comprehensive income or directly in equity.

Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxable profits or losses are based on estimates if financial statements are authorised prior to filing relevant tax returns. Taxes other than on income are recorded within operating expenses.

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax balances are measured at tax rates enacted or substantively enacted at the end of the reporting period which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised.

3 Basis of Preparation and Significant Accounting Policies (continued)

Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis. Deferred tax assets and liabilities are netted only within the individual companies of the Company.

Uncertain tax positions. The Company's uncertain tax positions are reassessed by management at the end of each reporting period. Liabilities are recorded for income tax positions that are determined by management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the end of the reporting period, and any known court or other rulings on such issues. Liabilities for penalties, interest and taxes other than on income are recognized based on management's best estimate of the expenditure required to settle the obligations at the end of the reporting period. Adjustments for uncertain income tax positions are recorded within the income tax charge.

Inventories*.* Inventories are recorded at the lower of cost and net realisable value. The Cost of inventories comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost of inventory is determined using the weighted average basis. Net realisable value is the estimated selling price in the ordinary course of business, less the cost of completion and selling expenses.

Prepayments. Prepayments are carried at cost less provision for impairment. A prepayment is classified as non-current when the goods or services relating to the prepayment are expected to be obtained after one year, or when the prepayment relates to an asset which will itself be classified as non-current upon initial recognition. Prepayments to acquire assets are transferred to the carrying amount of the asset once the Company has obtained control of the asset and it is probable that future economic benefits associated with the asset will flow to the Company. Other prepayments are written off to profit or loss when the goods or services relating to the prepayments are received.

If there is an indication that the assets, goods or services relating to a prepayment will not be received, the carrying value of the prepayment is written down accordingly and a corresponding impairment loss is recognised in profit or loss for the year.

Trade and other receivables**.** Trade and other receivables are carried at amortised cost using the effective interest method.

Impairment of financial assets carried at amortised cost*.* Impairment losses are recognised in profit or loss when incurred as a result of one or more events that occurred after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If the Company determines that no objective evidence exists that impairment was incurred for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. The primary factors that the Company considers in determining whether a financial asset is impaired are its overdue status and realisability of related collateral, if any. The following other principal criteria are also used to determine whether there is objective evidence that an impairment loss has occurred:

3 Basis of Preparation and Significant Accounting Policies (continued)

- any portion or instalment is overdue and the late payment cannot be attributed to a delay caused by the settlement systems;
- the counterparty experiences a significant financial difficulty as evidenced by its financial information that the Company obtains;
- the counterparty considers bankruptcy or a financial reorganisation;
- there is adverse change in the payment status of the counterparty as a result of changes in the national or local economic conditions that impact the counterparty.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated. Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows (eg as per agreements for restructured trade receivables) of the assets and the experience of management in respect of the extent to which amounts will become overdue as a result of past loss events and the success of recovery of overdue amounts. Past experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect past periods and to remove the effects of past conditions that do not exist currently.

If the terms of an impaired financial asset held at amortised cost are renegotiated or otherwise modified because of financial difficulties of the counterparty, impairment is measured using the original effective interest rate before the modification of terms. The renegotiated asset is then derecognized and a new asset is recognized at its fair value only if the risks and rewards of the asset substantially changed. This is normally evidenced by a substantial difference between the present values of the original cash flows and the new expected cash flows.

Impairment losses are always recognised through an allowance account to write down the asset's carrying amount to the present value of expected cash flows discounted at the original effective interest rate of the asset.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account through profit or loss.

Uncollectible assets are written off against the related impairment loss provision after all the necessary procedures to recover the asset have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are credited to impairment loss account in profit or loss. Refer to Note 11 for further details on assessment and judgement applied in respect with impairment and write-off of trade receivables.

Cash and cash equivalents. Cash and cash equivalents includes cash in hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less and are subject to insignificant risk of change in value. Cash and cash equivalents are carried at amortised cost using the effective interest method. Restricted balances are excluded from cash and cash equivalents for the purposes of the cash flow statement. Balances restricted from being exchanged or used to settle a liability for at least twelve months after the end of the reporting period are included in other non-current assets.

Charter and paid-in capital. The amount of Company's authorised charter capital is defined by the Company's Charter. The changes in the Company's Charter (including changes in charter capital, ownership, etc) shall be made only based on the decision of the Company's owners. The authorised capital is recognised as charter capital in the equity of the Company to the extent that it was contributed by the owners to the Company.

All other cash or in-kind capital contributions, made by the Company's owners that were dedicated to increase the Company's charter capital but were not reflected in the Company's Charter at end of the reporting period, are recognised as paid-in capital in the equity.

3 Basis of Preparation and Significant Accounting Policies (continued)

Dividends. Dividends are recorded as a liability and deducted from equity in the period in which they are declared and approved. Any dividends declared after the end of the reporting period and before the financial statements are authorised for issue are disclosed in the subsequent events note.

Value added tax. Value added tax ("VAT") related to sales is payable to tax authorities when goods are shipped or services are rendered. Input VAT is recognised upon the receipt of a tax invoice from a supplier but is reclaimable against sales VAT only upon a payment of such invoice. The tax legislation permits the settlement of VAT on a net basis. Accordingly, VAT related to sales and purchases, which have not been settled at the end of the reporting period is recognised in the statement of financial position on a net basis. Where provision has been made for impairment of receivables, impairment loss is recorded for the gross amount of the debtor, including VAT.

Borrowings. Borrowings are carried at amortised cost using the effective interest method.

Capitalisation of borrowing costs. Borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial time to get ready for intended use or sale (qualifying assets) are capitalised as part of the costs of those assets, if the commencement date for capitalisation is on or after 1 January 2009.

The commencement date for capitalisation is when (a) the Company incurs expenditures for the qualifying asset; (b) it incurs borrowing costs; and (c) it undertakes activities that are necessary to prepare the asset for its intended use or sale.

Capitalisation of borrowing costs continues up to the date when the assets are substantially ready for their use or sale.

The Company capitalizes borrowing costs that could have been avoided if it had not made capital expenditure on qualifying assets. Borrowing costs capitalised are calculated at the Company's average funding cost (the weighted average interest cost is applied to the expenditures on the qualifying assets), except to the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset. Where this occurs, actual borrowing costs incurred less any investment income on the temporary investment of those borrowings are capitalised.

Government grants. Government grants relating to the purchase of property, plant and equipment are deducted in calculating the carrying amount of the asset. The grant is recognised in profit or loss over the life of a depreciable asset as a reduced depreciation expense.

Trade and other payables. Trade payables are accrued when the counterparty performs its obligations under the contract and are carried at amortised cost using the effective interest method.

Provisions for liabilities and charges. Provisions for liabilities and charges are non-financial liabilities of uncertain timing or amount. They are accrued when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole.

Where the Company expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

Foreign currency translation. Functional currency of the Company is the currency of the primary economic environment in which the entity operates. The functional and presentation currency of the Company is the national currency of Georgia, Georgian Lari ("GEL").

Monetary assets and liabilities denominated in foreign currencies are translated into GEL at the official exchange rate of the National Bank of Georgia at the end of the reporting period date. Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transaction.

3 Basis of Preparation and Significant Accounting Policies (continued)

Non-monetary assets and liabilities denominated in foreign currencies that are stated at historical cost are translated to GEL at the exchange rate ruling at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to GEL at the exchange rates ruling at the dates the fair values were determined.

Gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

As at 31 December 2014, the official rate of exchange, as determined by the National Bank of Georgia, was USD 1 = Georgian Lari 1.8636 (31 December 2013: USD 1 = Georgian Lari 1.7363). The principle average exchange rate for the year ended 31 December 2014 amounted to Lari 1.7659 to US Dollars 1.00 (2013: US Dollar 1 = Georgian Lari 1.6634). At present, the Georgian Lari is not a freely convertible currency in most countries outside of Georgia.

Offsetting. Financial assets and liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts, and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

Revenue recognition. Revenue, which excludes value added tax, represents the fair value of the income receivable in the ordinary course of business for services provided. 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. Revenue is not recognised until the services have been provided to the customer. When the fair value of goods received in a barter transaction cannot be measured reliably, the revenue is measured at the fair value of the goods or service given up.

Interest income is recognised on a time-proportion basis using the effective interest method.

Revenue from water supply to legal entities – includes amounts billed to the customers based on the metered or estimated usage of water by legal entities and by application of the relevant tariff for services set per unit of water supplied. Meters are read on a cyclical basis and the company recognises revenue for unbilled amounts based on estimated usage from the last billing through to the end of the financial year.

Revenue from water supply to population – includes amounts billed on monthly basis to the residential customers (with meter) based on the metered usage of water and by application of the relevant tariff for services set per unit of water supplied or based on the number of individual person registered by respective city municipality per each residential address (without meter) by application of the relevant tariff set per capita per month for general population.

Revenue from installation of water meters – includes amounts billed to population according to the acting rules of Georgian National Energy and Water Supply Regulatory Commission. Revenue is recognised upon completion of works in respect of water meter installation services to the individual customers.

Revenue from electric power sales – is recognised on the basis of metered electric power transferred.

Revenue from connection service – is recognised based on the completion of works in respect to connection services to the individual customers. In respect of long term contracts, revenue is recognised based on the value of work carried out during the year with reference to the total sales value and the stage of completion of these contracts.

Employee benefits. Wages, salaries, annual leave and sick leave, bonuses, and other benefits are accrued in the period in which the associated services are rendered by the employees of the Company.

Amendment of the financial statements after issue. Any changes to these financial statements after issue require approval of the Company's management who authorised these financial statements for issue.

4 Critical Accounting Estimates and Judgements in Applying Accounting Policies

The Company makes estimates and assumptions that affect the amounts recognised in the financial statements and the carrying amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

Going concern. Management prepared these financial statements on a going concern basis. In making this judgement management considered the Company's financial position, current intentions, profitability of operations, and access to financial resources, ability to meet commitments and to carry on its business without any interruption of operations for the foreseeable future.

Determination of the fair value of property, plant and equipment. According to the requirements of IAS 16 the management decided that revaluation of the property, plant and equipment was necessary (last revaluation was conducted as for 31 December 2010). Fair value and the remaining useful lives of the Company's certain property, plant and equipment have been determined by an independent appraiser as at 31 December 2010. The majority of the Company's property, plant and equipment is specialised in nature and is rarely sold on the open market other than as part of a continuing business. The market for similar property, plant and equipment is not active in Georgia and does not provide a sufficient number of sales of comparable property, plant and equipment for using a market-based approach for determining fair value. Consequently, the fair value of property, plant and equipment was primarily determined using depreciated replacement cost. This method considers the cost to reproduce or replace the property, plant and equipment, adjusted for physical, functional or economical depreciation, and obsolescence. Various market data were collected from published information, catalogues, statistical data, etc and industry experts and suppliers of property, plant and equipment were contacted in Georgia and abroad. The carrying value and depreciation of property, plant and equipment are affected by the estimates of replacement cost, depreciated replacement cost and remaining useful lives.

Initial recognition of related party transactions. In the normal course of business the Company enters into transactions with its related parties. IAS 39 requires initial recognition of financial instruments based on their fair values. Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analyses. Terms and conditions of related party balances are disclosed in Note 7.

Ownership and recognition of infrastructure assets. The Company's property, plant and equipment includes certain specific items, such like water supply and wastewater network pipelines, pump stations and other infrastructure assets, that were historically used by the Company in supply of water and wastewater services and that have been transferred to the Company based on the privatisation. Due to the lack of required documents and timing for registration, the Company was not able to obtain legal ownership title on certain fixed assets including infrastructure assets as at the date of these financial statements. However, based on the provisions of the Agreement referred to in Note 26, management has applied judgment and considered that as infrastructure assets include specific items that were historically used by the Company and could only be used by the Company (as a sole provider of water and water supply services in Tbilisi) there is high probability that the Company will continue operation of infrastructure assets in future and will obtain legal title of ownership. Based on this judgment and to the extent that there was no litigation against the Company or disputes on ownership, management recognised infrastructure assets as the Company's property, plant and equipment.

Useful lives of property, plant, equipment and intangible assets. The estimation of the useful life of an item of property, plant and equipment is a matter of management judgement based upon experience with similar assets. In determining the useful life of an asset, management considers the expected usage, estimated technical obsolescence, physical wear and tear and the physical environment in which the asset is operated. Changes in any of these conditions or estimates may result in adjustments for future depreciation rates (see Note 8).

4 Critical Accounting Estimates and Judgements in Applying Accounting Policies (continued)

Impairment of trade and other receivables. The impairment provision for accounts receivable is based on the Company's assessment of the collectability of specific customer accounts. If there is deterioration in a major customer's creditworthiness or actual defaults are higher than the estimates, the actual accounts receivable could differ from these estimates. If the Company determines that no objective evidence exists that impairment was incurred for an individually assessed accounts receivable, whether significant or not, it includes the account receivable in a group of accounts receivable with similar credit risk characteristics and collectively assesses them for impairment.

For the purposes of a collective evaluation of impairment accounts receivable are grouped on the basis of similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated. Trade receivables that are assessed not to be impaired individually are assessed collectively for impairment by reference to the Company's historical collection experience for receivables of similar age. Provisions against trade receivables are made based on historical experience of levels of recovery from accounts in a particular ageing category. The value of the impairment provision is sensitive to the specific percentages applied.

Refer to Note 11, which explains the details of assumptions and estimates used by the management in assessing the recoverability of the trade receivable balances as well as change in the management judgements resulted in the analysis of historical and existing events and circumstances.

The management's estimates can be further revised in the future, either negatively or positively, depending upon the outcome or expectations based on the facts surrounding each exposure.

Recognition of revenue from water supply services. Revenue generated from customers whose consumption is metered (mainly legal entities) during the accounting period are estimated between the date of the last meter reading and the year end based on historic data and consumption statistics. Meters are read on a cyclical basis and the Company recognises revenue for unbilled amounts based on estimated usage from the last billing through to the end of the financial year. The estimated usage is based on historic data, judgement and assumptions. Actual results could differ from these estimates, which would result in operating revenue being adjusted in the period that the revision to the estimates is determined.

The customers who do not have a meter are billed based on the number of individual person formally registered by the civil register and by application of the relevant tariff fixed per capita per month. The actual number of population using the water and wastewater collection services may differ to the number of formally registered individuals. Consequently, the revenue billed to the general publication is sensitive to the accuracy and completeness of the civil register, which is out of control of the Company's management. For details of revenue refer to Note 18.

Provision for liabilities and charges*.* The Company's estimates for provisions for liabilities and charges are based on currently available facts and the Company's estimates of the ultimate outcome or resolution of the liability in the future. Actual results may differ from the estimates and the Company's estimates can be revised in the future, either negatively or positively, depending upon the outcome or expectations based on the facts surrounding each exposure (see Note 17).

Tax legislation*.* As discussed further in Note 26, compliance with tax legislation in Georgia is subject to a significant degree of interpretation and can be routinely challenged by the tax authorities. Liabilities are recorded for income tax positions that are determined by management as probable to result in additional taxes being levied if the positions were to be challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the end of the reporting period and any known court or other rulings on such issues. Liabilities for penalties, interest and taxes other than on income are recognised based on management's best estimate of the expenditure required to settle the obligations at the end of the reporting period.

5 Adoption of New or Revised Standards and Interpretations

The following new standards and interpretations became effective for the Company from 1 January 2014:

"Offsetting Financial Assets and Financial Liabilities" - Amendments to IAS 32 (issued in December 2011 and effective for annual periods beginning on or after 1 January 2014). The amendment added application guidance to IAS 32 to address inconsistencies identified in applying some of the offsetting criteria. This includes clarifying the meaning of 'currently has a legally enforceable right of set-off' and that some gross settlement systems may be considered equivalent to net settlement. The standard clarified that a qualifying right of set off (a) must not be contingent on a future event and (b) must be legally enforceable in all of the following circumstances: (i) in the normal course of business, (ii) the event of default and (iii) the event of insolvency or bankruptcy. The amended standard did not have a material impact on the Company's financial statements.

"Amendments to IFRS 10, IFRS 12 and IAS 27 - Investment entities" (issued on 31 October 2012 and effective for annual periods beginning 1 January 2014). The amendment introduced a definition of an investment entity as an entity that (i) obtains funds from investors for the purpose of providing them with investment management services, (ii) commits to its investors that its business purpose is to invest funds solely for capital appreciation or investment income and (iii) measures and evaluates its investments on a fair value basis. An investment entity is required to account for its subsidiaries at fair value through profit or loss, and to consolidate only those subsidiaries that provide services that are related to the entity's investment activities. IFRS 12 was amended to introduce new disclosures, including any significant judgements made in determining whether an entity is an investment entity and information about financial or other support to an unconsolidated subsidiary, whether intended or already provided to the subsidiary. The amended standard did not have a material impact on the Company's financial statements.

IFRIC 21 – "Levies" (issued on 20 May 2013 and effective for annual periods beginning 1 January 2014). The interpretation clarifies the accounting for an obligation to pay a levy that is not income tax. The obligating event that gives rise to a liability is the event identified by the legislation that triggers the obligation to pay the levy. The fact that an entity is economically compelled to continue operating in a future period, or prepares its financial statements under the going concern assumption, does not create an obligation. The same recognition principles apply in interim and annual financial statements. The application of the interpretation to liabilities arising from emissions trading schemes is optional. The amended interpretation did not have a material impact on the Company's financial statements.

Amendments to IAS 36 – "Recoverable amount disclosures for non-financial assets" (issued in May 2013 and effective for annual periods beginning 1 January 2014; earlier application is permitted if IFRS 13 is applied for the same accounting and comparative period). The amendments remove the requirement to disclose the recoverable amount when a CGU contains goodwill or indefinite lived intangible assets but there has been no impairment. The amended standard did not have a material impact on the Company's financial statements.

Amendments to IAS 39 – "Novation of Derivatives and Continuation of Hedge Accounting" (issued in June 2013 and effective for annual periods beginning 1 January 2014). The amendments allow hedge accounting to continue in a situation where a derivative, which has been designated as a hedging instrument, is novated (i.e parties have agreed to replace their original counterparty with a new one) to effect clearing with a central counterparty as a result of laws or regulation, if specific conditions are met. The amended standard did not have a material impact on the Company's financial statements.

6 New Accounting Pronouncements

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2015 or later, and which the Company has not early adopted.

IFRS 9 "Financial Instruments: Classification and Measurement" (amended in July 2014 and effective for annual periods beginning on or after 1 January 2018). Key features of the new standard are:

- Financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortised cost, those to be measured subsequently at fair value through other comprehensive income (FVOCI) and those to be measured subsequently at fair value through profit or loss (FVPL).
- Classification for debt instruments is driven by the entity's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). If a debt instrument is held to collect, it may be carried at amortised cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held in a portfolio where an entity both holds to collect assets' cash flows and sells assets may be classified as FVOCI. Financial assets that do not contain cash flows that are SPPI must be measured at FVPL (for example, derivatives). Embedded derivatives are no longer separated from financial assets but will be included in assessing the SPPI condition.
- Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in other comprehensive income, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss.
- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.
- IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model. There is a 'three stage' approach which is based on the change in credit quality of financial assets since initial recognition. In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The model includes operational simplifications for lease and trade receivables.
- Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.

The Group is currently assessing the impact of the new standard on its financial statements.

The following other new pronouncements are not expected to have any material impact on the Company when adopted:

- Amendments to IAS 19 – "Defined benefit plans: Employee contributions" (issued in November 2013 and effective for annual periods beginning 1 July 2014).
- Annual Improvements to IFRSs 2012 (issued in December 2013 and effective for annual periods beginning on or after 1 July 2014).
- Annual Improvements to IFRSs 2013 (issued in December 2013 and effective for annual periods beginning on or after 1 July 2014).
- IFRS 14, Regulatory deferral accounts (issued in January 2014 and effective for annual periods beginning on or after 1 January 2016).

6 New Accounting Pronouncements (continued)

- Accounting for Acquisitions of Interests in Joint Operations - Amendments to IFRS 11 (issued on 6 May 2014 and effective for the periods beginning on or after 1 January 2016).
- Clarification of Acceptable Methods of Depreciation and Amortisation - Amendments to IAS 16 and IAS 38 (issued on 12 May 2014 and effective for the periods beginning on or after 1 January 2016).
- IFRS 15, Revenue from Contracts with Customers (issued on 28 May 2014 and effective for the periods beginning on or after 1 January 2017).
- Agriculture: Bearer plants - Amendments to IAS 16 and IAS 41 (issued on 30 June 2014 and effective for annual periods beginning 1 January 2016).
- Equity Method in Separate Financial Statements - Amendments to IAS 27 (issued on 12 August 2014 and effective for annual periods beginning 1 January 2016).
- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture - Amendments to IFRS 10 and IAS 28 (issued on 11 September 2014 and effective for annual periods beginning on or after 1 January 2016).
- Annual Improvements to IFRSs 2014 (issued on 25 September 2014 and effective for annual periods beginning on or after 1 January 2016).

The new standards and interpretations are not expected to affect significantly the Company's financial statements.

7 Balances and Transactions with Related Parties

Parties are generally considered to be related if one party has the ability to control the other party or can exercise significant influence over the other party in making financial and operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

The outstanding balances with related parties were as follows:

	Relationship	31 December 2014	31 December 2013
Cash and Cash equivalents	Other related parties	3,634	314
Loan issued	Entities under common control	1,716	3,824
Trade and other receivables	Entities under common control	7,149	7,551
Provision for trade receivables	Entities under common control	(5,174)	(4,722)
Prepayments for non-current assets	Entities under common control	724	-
Borrowings (Note 15)	Other related parties	(78,600)	-
Trade and other payables	Entities under common control	(533)	(1,822)

In 2014 the Company issued GEL 142 loan to Mtskheta Water LLC at an annual interest rate of 11% with maturity of 31 December 2016.

In 2014, Dividend payable of USD 1,527 (GEL equivalent 2,887) was offset against the loan issued to Tara International B.V. Refer to note 14.

In 2014 borrowings from Rustavi Water LLC was netted to accounts receivable balances in the amount of GEL 809.

7 Balances and Transactions with Related Parties (continued)

The income and expense items with related parties were as follows:

	Relationship	2014	2013
Income			
Revenue	Entities under common control	2,666	1,252
Other income	Entities under common control	927	1,198
Income from rent	Entities under common control	795	432
Interest income	Entities under common control	404	204
Interest income	Owner	-	208
Expenses			
Interest expenses	Other related parties	(1,751)	-
Production expenses	Entities under common control	(1,422)	(785)
Provision for trade receivables	Entities under common control	(384)	(399)
Interest expenses	Entities under common control	(154)	-
Other expenses	Entities under common control	(46)	(90)
Other Transactions			
Purchase of PPE and capital expenditure	Entities under common control	(1,904)	(6,968)

Directors' compensation. Compensation paid to key management (includes the General Directors' of the Company) for their services in full time executive management positions is made up of salary, performance bonus depending on financial performance of the Company and other compensation in form of reimbursement of housing, business trips, communication and other costs. Total compensation included in the statement of profit or loss and comprehensive income amounted to GEL 466 and GEL 515 for the years ended 31 December 2014 and 2013, respectively.

8 Property, Plant and Equipment

Movements in the carrying amount of property, plant and equipment were as follows:

	Land plot	Real estate	Infrastructure assets	Vehicles	Fixtures and fittings	CIP and other*	Total
Revalued amount at 31 December 2012	64,539	15,034	166,617	4,975	802	8,317	260,284
Accumulated depreciation and impairment	-	(1,764)	(29,606)	(1,557)	(412)	-	(33,339)
Carrying amount at 31 December 2012	**64,539**	**13,270**	**137,011**	**3,418**	**390**	**8,317**	**226,945**
Additions	20	762	12,724	-	178	10,716	24,400
Transfers	65	605	8,913	534	66	(10,183)	-
Disposals	(662)	(13)	(4,315)	(31)	(2)	(2,043)	(7,066)
Depreciation charge	-	(846)	(15,446)	(861)	(240)	-	(17,393)
Carrying amount at 31 December 2013	**63,962**	**13,778**	**138,887**	**3,060**	**392**	**6,807**	**226,886**
Revalued amount at 31 December 2013	63,962	16,387	183,757	5,435	1,038	6,807	277,386
Accumulated depreciation and impairment	-	(2,609)	(44,870)	(2,375)	(646)	-	(50,500)
Carrying amount at 31 December 2013	**63,962**	**13,778**	**138,887**	**3,060**	**392**	**6,807**	**226,886**
Additions	13	880	6,935	623	305	26,668	35,424
Transfers	(193)	261	13,074	2,086	256	(15,484)	-
Disposals	(1,036)	(7)	(73)	(137)	(3)	(210)	(1,466)
Depreciation charge	-	(948)	(14,891)	(748)	(230)		(16,817)
Carrying amount at 31 December 2014	**62,746**	**13,964**	**143,932**	**4,884**	**720**	**17,781**	**244,027**
Revalued amount at 31 December 2014	62,746	17,519	203,627	7,913	1,556	17,781	311,142
Accumulated depreciation and impairment	-	(3,555)	(59,695)	(3,029)	(836)	-	(67,115)
Carrying amount at 31 December 2014	**62,746**	**13,964**	**143,932**	**4,884**	**720**	**17,781**	**244,027**
Historical carrying amount							
at 31 December 2013	*790*	*10,888*	*153,695*	*1,560*	*336*	*6,807*	*174,076*
at 31 December 2014	*803*	*11,366*	*154,084*	*3,410*	*144*	*17,781*	*187,588*

(*)CIP and other – Construction in progress and other uninstalled equipment

Infrastructure assets comprise a network of systems consisting of raw water aqueducts, mains and sewers, impounding and pumped raw water storage reservoirs and sludge pipelines. Investment expenditure on infrastructure assets relating to increases in capacity or enhancements of the network and asset replacements to maintain the operating capability of the network is treated as an addition and recorded at cost, whilst repair and maintenance expenditure which does not enhance the asset base is charged as an operating cost.

8 Property, Plant and Equipment (continued)

In 2014 the Company obtained government grants of GEL 9,668 (2013: GEL 855) for rehabilitation and development of infrastructure asset and netted off from the carrying value of the asset.

Refer to Note 26, for details of commitments assumed in respect of the Company's property, plant and equipment, amount of pledged assets for the borrowed loans and tax liabilities.

9 Other Non-current Assets

	31 December 2014	31 December 2013
Intangible assets	633	534
Prepayments for non-current assets	858	253
Total other non-current assets	**1,491**	**787**

Amortisation charge during the year on intangible assets, including software licences, was GEL 181 (2013: GEL 174).

10 Inventories

	31 December 2014	31 December 2013
Raw materials and operating supplies	3,868	7,302
Work in progress	611	220
Other inventories	6,645	4,290
Total inventories	**11,124**	**11,812**

11 Trade and Other Receivables

	31 December 2014	31 December 2013
Non-current		
Trade receivables for water supply services from general population	641	879
Trade receivables for installation of water meters from general population	169	1,617
Less impairment loss provision	(239)	(829)
Total non-current trade receivables, net	**571**	**1,667**
Current		
Trade receivables for water supply services from general population	25,061	26,208
Trade receivables for water supply services from legal entities	12,572	11,477
Trade receivables for installation of water meters	2,713	4,773
Penalty receivables for water supply services from legal entities	1,017	1,342
Trade receivables for technical services	1,163	380
Trade receivables for electric power sales	69	368
Less impairment loss provision	(33,120)	(33,886)
Total current trade receivables, net	**9,475**	**10,662**
Receivables from related parties	1,975	2,829
Prepaid taxes	1,634	319
Other receivables	697	478
Receivables from Insurance company	907	-
Prepaid expenses	825	2,217
Total trade and other receivables	**15,513**	**16,505**

11 Trade and Other Receivables (continued)

The carrying amounts of Company's trade and other receivables approximate their fair values and are denominated in Georgian Lari.

Historically, the Company had significant issues in collecting cash from the customers, especially from certain part of the general population. The Company records included customers who have never paid for billed services, and at each end of the reporting period the management assessed the historical information (e.g. billing vs. collection) to estimate the recoverability of doubtful debts and to write off bad debts (e.g. customers who never paid). Accordingly, no revenue was recognised for billed services of GEL 396 (2013: GEL 514) to the customers who never paid.

Analysis by credit quality of trade receivables is as follows:

	31 December 2014	31 December 2013
Neither past due nor impaired		
Legal entities – for technical services and electric power	1,163	380
Legal entities – for water supply services	729	835
General population – for water supply services	619	409
Legal entities – for electric power sales	69	368
Total neither past due nor impaired	**2,580**	**1,992**
Collectively assessed impaired loans (gross)		
- Not overdue	1,664	5,322
- less than 30 days overdue	488	497
- 30 to 90 days overdue	2,491	2,592
- 91 to 180 days overdue	1,563	1,474
- 181 to 360 days overdue	3,408	2,236
- over 360 days overdue	31,211	32,931
Total past due and impaired	**40,825**	**45,052**
Less impairment provision	(33,359)	(34,715)
Total trade receivables, net	**10,046**	**12,329**

Other receivables do not contain impaired assets. The maximum exposure to credit risk at the reporting date is the fair value of each class of receivable mentioned above. The Company does not hold any collateral as security.

The movements in the impairment provision for the trade receivables are as follows:

	2014	2013
Provision for impairment at 1 January	**34,715**	**35,891**
Provision of impairment during the year	1,548	2,157
Bad debts written off	(2,904)	(3,333)
Provision for impairment at 31 December	**33,359**	**34,715**

The provision of trade receivables is as follows:

	2014	2013
Recovery of previously written off trade receivables	492	731
Provision for impairment	(1,548)	(2,157)
VAT portion of bad debts written off from revenue	(71)	(91)
Total provision of trade receivables	**(1,127)**	**(1,517)**

12 Deposit in Bank

	31 December 2014	31 December 2013
Deposit in bank		
GEL 2,460 placed on 7 February 2011 with annual interest of 7.5% and maturity date on 7 February 2016	2,460	2,460
Total deposit in bank	**2,460**	**2,460**

Deposit in bank was pledged as security towards the outstanding loan (Note 15) and guarantee agreement with TBC Bank on behalf of the company's owner (Note 26). Deposit in bank is classified as non-current and not impaired.

13 Cash and Cash Equivalents

	31 December 2014	31 December 2013
Current accounts at banks – Georgian Lari	9,419	14,401
Current accounts at banks – US Dollar	20	1,868
Current account at bank – EURO	47	67
Total cash and cash equivalents	**9,486**	**16,336**

All cash and cash equivalent balances are classified as current and not impaired.

14 Charter Capital

As at 31 December 2014, the Company had fully contributed charter capital of GEL 208,469 (2013: GEL 208,469).

Gross dividend in the amount of GEL 70,808 was declared during the year 2014 (2013: GEL 27,713), including GEL 47,939 (US Dollars 25 million) attributable for the future periods. During 2014 gross dividend paid to the owner amounted to GEL 71,190 and GEL 2,887 was offset against loan issued to the entity under common control (Note 7).

15 Borrowings

	31 December 2014		31 December 2013	
	Current liabilities	**Non-Current liabilities**	**Current liabilities**	**Non-current liabilities**
National Bank of Georgia (i)	6	323	17	77
Bank of Georgia JSC (ii)	339	78,250	3,214	4,485
TBC Bank JSC (iii)	-	-	5,313	7,226
Rustavi Water LLC	11	-	-	-
Total borrowings	**356**	**78,573**	**8,544**	**11,788**

(i) National Bank of Georgia

The loan from National Bank of Georgia was given to the Company for reconstruction works related to the rehabilitation of energy sector financed by the credit from Kreditanstalt für Wiederaufbau (KFW). EUR 190 was obtained on 1 December 2003, with two equal payments during the year at an annual interest of 0.75% and maturing on 25 June 2036.

15 Borrowings (continued)

(ii) Bank of Georgia JSC

According to the term facility agreement signed on 27 June 2013, Georgian Water and Power LLC obtained a loan from Bank of Georgia JSC of USD 5,000 at an annual interest rate of 9.77% (US 6 months Libor - 0.42%+9.35%) payable on a monthly basis. This loan has been fully repaid during the year prior to its maturity date of 1 July 2016.

According to the term facility agreement signed on 19 June 2014, Georgian Water and Power LLC obtained a loan of GEL 13,500 from Bank of Georgia JSC at an annual interest rate of 7.9% (interest rate 4%+refinance rate set by NBG) payable on a monthly basis with grace period of 3 years for the repayment of principal, for the purpose of refinancing of TBC Bank loan and capital expenditure. This loan matures on 19 June 2019.

According to the term facility agreement signed on 19 June 2014, Georgian Water and Power LLC obtained a loan of USD 6,100 from Bank of Georgia JSC at an annual interest rate of 7.5%+six month US Libor payable on a monthly basis with grace period of 3 years for the repayment of principal, for the purpose of refinancing of TBC Bank loan. This loan matures on 19 June 2019.

According to the term facility agreement signed on 19 June 2014, Georgian Water and Power LLC obtained a loan of USD 3,645 from Bank of Georgia JSC at an annual interest rate of 7.5%+six month US Libor payable on a monthly basis with grace period of 3 years for the repayment of principal, for the purpose of refinancing of TBC Bank loan. This loan matures on 19 June 2019.

According to the term facility agreement signed on 5 December 2014, Georgian Water and Power LLC obtained a loan from Bank of Georgia JSC of USD 25,000 at an annual interest rate of 7.5%+six month US Libor payable on a monthly basis with grace period of 3 years for the repayment of principal, for the purpose of financing of dividend issue. This loan matures on 3 December 2021.

Refer to note 26, for the carrying amount of pledged property, plant and equipment items as collateral for borrowings.

(iii) TBC Bank JSC

According to the term facility agreement signed on 22 December 2010, Georgian Water and Power LLC obtained a loan of USD 5,100 from TBC Bank JSC at an annual interest rate of 8.8% (US 6 months Libor - 0.3%+8.5%) payable on a monthly basis. This loan was fully paid during the year prior to its maturity of 22 December 2015 through the refinancing of the loan obtained from Bank of Georgia JSC.

According to the term facility agreement signed on 7 October 2013, Georgian Water and Power LLC obtained a loan of USD 5,000 from TBC Bank JSC at an annual interest rate of 9.37% (US 6 months Libor - 0.37%+9%) payable on a monthly basis. This loan was fully repaid during the year prior to its maturity of 7 October 2016through the refinancing of the loan obtained from Bank of Georgia JSC.

At 31 December 2014, the estimated fair value of borrowings was GEL 78,929 (2013: GEL 20,332).

16 Trade and Other Payables

	31 December 2014	31 December 2013
Prepayments received from customers	6,885	10,992
Trade payables	6,802	5,864
Payables for non-current assets	2,355	1,597
Payables to employees	629	475
Total trade and other payables	**16,671**	**18,928**

17 Provisions for Liabilities and Charges

Movements in provisions for liabilities and charges are as follows:

	Tax provisions	Legal claims	Total
Carrying amount at 31 December 2012	**1,594**	**248**	**1,842**
Additions charged to profit or loss	2,677	6	2,683
Carrying amount at 31 December 2013	**4,271**	**254**	**4,525**
Additions charged to profit or loss	-	1,152	1,152
Reversal of provision	(3,672)	-	(3,672)
Carrying amount at 31 December 2014	**599**	**1,406**	**2,005**

All of the above provisions have been classified as current liabilities because the Company does not have an unconditional right to defer settlement beyond one year.

Provision for uncertain tax positions and related penalties and interest. In January 2014 the Revenue Service of the Ministry of Finance of Georgia commenced tax inspection of the Company covering the tax period from 29 February 2008 to 1 January 2014. As specified in tax examination report issued in December 2014 the additional taxes payable was assessed at GEL 28.9 million including tax penalties and fines, mainly in respect with income tax. The Company has pledged its Property, plant and equipment against this claim assessed by Revenue Service. In December 2014 the management filed the corresponding complaint with the Ministry of Finance to rescind this tax assessment, which was ongoing as of 31 December 2014. The management has accrued a maximum amount of GEL 599 as they believe that this amount is sufficient to cover the tax assessment liabilities. On 14 April 2015 the Revenue Service of the Ministry of Finance of Georgia issued the decision #11738 rescinding the above tax assessment in favour of the company and majority of the initial additional tax assessment was cancelled.

Legal claims. The provision for legal claims relates to claims disclosed in the Note 26. Management do not consider it feasible to accurately estimate when the provision will be fully utilised, given the varying levels of court hearings and appeal processes that each claim may be subject to. However, it is expected that all cases will be settled within the next five years. In addition, there remains uncertainty as to the merits of each individual claim and the final decision of the court in respect of each claim. After taking appropriate legal advice, management considers that the outcome of these legal claims will not give rise to any significant loss beyond the amounts accrued in these financial statements.

18 Revenue

	2014	2013
Revenue from water supply to legal entities	63,113	60,652
Revenue from water supply to general population	27,264	26,910
Revenue from electric power sales	8,673	4,905
Revenue from connection service	2,600	2,726
Revenue from installation of water meters	318	4,037
Total revenue	**101,968**	**99,230**

19 Other Income

	2014	2013
Reversal of charge for tax provisions	2,765	-
Income from rent	1,205	1,099
Net gain/(loss) from disposal of PPE	355	(183)
Management fee	305	305
Penalties imposed to vendors for breach of contracts	115	109
Net income from reconstruction of network	28	2,624
Net loss from sale of inventories	(106)	-
Other income	928	1,075
Total other income	**5,595**	**5,029**

20 Salaries and Benefits

	2014	2013
Salaries	22,615	20,148
Bonuses	760	548
Other employee benefits	20	15
Total salaries and benefits	**23,395**	**20,711**

21 General and Administrative Expenses

	2014	2013
Security expensesSecurity expenses	932	925
	545	258
Utility expenses	451	454
Communication expenses	226	219
Office expenses	280	222
Advertising expenses	120	60
Business trip expenses	40	41
Total general and administrative expenses	**2,594**	**2,179**

22 Other Operating Expenses

	2014	2013
Taxes other than on income	3,555	3,904
Losses from rendering services	2,045	-
Plant inspection expenses	1,759	1,126
Professional fees	1,339	740
Bill processing expenses	1,089	1,099
Bad debt collection expenses	869	803
Transport maintenance expenses	779	618
Rent expenses	759	440
Fines and penalties	679	191
Charge for provisions, net	245	1,776
Insurance expense	169	61
Lubricants	99	144
Other expenses	1,149	523
Total other operating expenses	**14,535**	**11,425**

23 Finance Income

	2014	2013
Interest income	667	950
Total finance income	**667**	**950**

24 Finance Costs

	2014	2013
Interest expenses	2,959	1,157
Foreign exchange losses less gains	2,417	875
Bank fees and charges	460	73
Total finance costs	**5,836**	**2,105**

25 Income Taxes

	2014	2013
Current tax	3,289	5,593
Deferred tax charge	2,220	1,598
Income tax expense	**5,509**	**7,191**

Reconciliation between the expected and the actual taxation charge is provided below:

	2014	2013
Profit before income tax	**26,513**	**31,764**
Theoretical income tax charge at statutory rate	(3,977)	(4,765)
Imputed tax payables for commercial loss	(1,308)	(1,369)
Reversal/(charge) for provision for uncertain tax position	907	(907)
Unrecognised deferred tax related to recovery of bad and doubtful debts	(228)	(305)
Tax effect of items which are not taxable/(deductible)	(903)	155
Income tax expense	**(5,509)**	**(7,191)**

25 Income Taxes (continued)

Differences between IFRS and relevant statutory taxation regulations give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences is detailed below and is recorded at the rate of 15%:

	31 December 2013	Credited/(charged) to profit and loss	31 December 2014
Tax effects of deductible temporary differences			
Provisions for liabilities and charges	38	173	211
Borrowings	(38)	89	51
Accounts payable tax deductible in different period	106	45	151
Gross deferred income tax asset	**106**	**307**	**413**
Tax effect of taxable temporary differences			
Difference between tax and accounting value of Property, plant and equipment	(18,355)	(2,312)	(20,667)
Trade and other receivables taxable in different period	(95)	(215)	(310)
Gross deferred income tax liability	**(18,450)**	**(2,527)**	**(20,977)**
Net deferred income tax liability	**(18,344)**	**(2,220)**	**(20,564)**

	31 December 2012	Credited/(charged) to profit and loss	31 December 2013
Tax effects of deductible temporary differences			
Provisions for liabilities and charges	37	1	38
Accounts payable tax deductible in different period	226	(120)	106
Gross deferred income tax asset	**263**	**(119)**	**144**
Tax effect of taxable temporary differences			
Difference between tax and accounting value of Property, plant and equipment	(16,935)	(1,420)	(18,355)
Borrowings	(42)	4	(38)
Trade and other receivables taxable in different period	(32)	(63)	(95)
Gross deferred income tax liability	**(17,009)**	**(1,479)**	**(18,488)**
Net deferred income tax liability	**(16,746)**	**(1,598)**	**(18,344)**

The Company did not recognise deferred tax in respect with the impairment loss on trade receivables and bad debt write offs (Note 11). While bad debt is an allowable expenditure according to the current tax legislation it is required that the Company pursue a debtor with legal proceedings first and then based on the court decision, claim the allowance for bad debt for tax purposes, which was regarded as impractical due to large number of customers.

Management estimates that deferred tax liabilities of GEL 18,117 (2013: GEL 15,855) are recoverable after more than twelve months after the end of the reporting period.

26 Contingencies and Commitments

Legal proceedings. In the normal course of business the Company is a party to legal actions. As of the reporting date, other than as presented below, management is unaware of any actual, pending or threatened claims against the Company that would have a material impact on the Company's financial position. Litigations and claims provided for were as follows:

	31 December 2014	31 December 2013
Population	899	-
Legal entities	507	254
Total litigations	**1,406**	**254**

Tax legislation. The taxation system in Georgia is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of government bodies, which have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the five subsequent calendar years, however, under certain circumstances a tax year may remain open longer.

On 18 December 2013, the instruction on assessment of international controlled operations was approved by the Minister of Finance of Georgia. The instruction provides an implementation guide for transfer pricing rules and principles (together referred to as "TP legislation") introduced by new the Tax Code of Georgia effective from 1 January 2011.

The TP legislations appear to be technically elaborate and aligned with the international transfer pricing principles developed by the Organization for Economic Cooperation and Development (OECD) and it provides the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of controlled transactions (transactions with some related parties and unrelated parties), if the transaction price is not arm's length.

Management believes that it has implemented internal controls to be in compliance with the TP legislation. Given that the practice of implementation of the Georgian transfer pricing rules has not yet developed, the impact of any challenge of the Company's transfer prices cannot be reliably estimated; however, it may be significant to the financial conditions and/or the overall operations of the Company.

For the details of accrued tax provision, refer to the note 17.

Compliance with covenants. The Company is subject to certain covenants related primarily to its borrowings. Non-compliance with such covenants may result in negative consequences for the Company including termination of the loan agreement and withdrawal of loan amount or any part thereof. The Company was in compliance with covenants as at 31 December 2014 and 2013.

Commitments. In accordance with the Share Purchase Agreement (to purchase 100% shares of the Company and other three entities) dated 14 May 2008 and amended on 22 December 2009 (the "Agreement"), the Buyer (Georgian Global Utilities LLC BVI, formerly Multiplex Energy LLC BVI) assumed the following commitments in respect of the Company:

- Water quality shall correspond to the recommendations of the World Health Organisation, but shall not be worse than the water quality levels in the City of Tbilisi as of the date of the Agreement;
- The City of Tbilisi shall be supplied with water on an uninterrupted basis for 24 hours within the old borders from 1 January 2013 and new borders from 1 January 2015. However before these dates the water supply shall not be worse than water quality levels in the City of Tbilisi, as of the date of the Agreement. The Company commissioned an independent consultant (Grant Thornton LLC) to carry out the analysis of status of water supply within the old borders of Tbilisi. The independent consultant concluded the existence of uninterrupted 24-hour water supply within the old boundaries of Tbilisi from 1 January 2013, as required under terms of the Agreement. As for commitment regarding water supply to the new borders, Grant Thornton LLC is currently working on assessment. Management believes that the Company is in compliance with above described commitments.

26 Contingencies and Commitments (continued)

- The discharge of effluent and waste water into the Mtkvari River from within the administrative borders of Tbilisi shall be eliminated by 1 January 2014. Based on the report dated 22 September 2014 issued by LLP Levan Samkharauli National Forensics Bureau, Commitment has been fulfilled.

- For the first five years following the signing date (14 May 2008) of the Agreement the water supply from the Zhinvali reservoir shall be maintained at an average output of no less than 30 cubic meters per second. Based on the resolution of Tbilisi city hall #28.40.1396 dated 13 November 2013 entity is in compliance with this commitment.

- Cooperate in good faith with the seller in order to accommodate within the framework of its planned program of works infrastructure rehabilitation and development projects as indicated by the seller and reasonably notified in advance by the seller.

- According to the Agreement, the Buyer is obliged to make an investment of total sum not less than US Dollars 220 million in equivalent Georgian Lari in order to fulfil the commitments assumed in respect with privatisation of the Company and other three entities.

- Also, According to the Agreement, the Buyer does not have the right, without preliminary written consent of the Seller, to sell or pledge the Company's property that as of the date of the Agreement were directly related to the provision of water and wastewater collection services and those that are required to fulfil obligation in respect with operation of infrastructure network.

- In accordance with the standby agreement dated 14 January 2010 with TBC Bank, the company is liable to all the liabilities on behalf of its the parent Georgian Global Utilities LLC BVI towards the performance guarantee issued to the Government of Georgia in order to secure the execution of the commitments as per SPA. The performance guarantee currently amounts to US Dollars 6 million (GEL equivalent 11,182) (Notes 8 and 12).

Guarantees. Guarantees are irrevocable assurances that the Company will make payments in the event that another party cannot meet its obligations. The Company has guaranteed the following obligations:

	Note	2014	2013
Credit related commitments:			
Time and Motion General Trading LLC		-	47
Ufuk Boru Sanayi ve Ticaret A.S		-	284
Hidroplastic San.Tic A.S		-	87
Performance guarantees:			
AS Georgia LLC		-	618
JSC Calik Enerji Sanayi ve ticaret Georgian Branch		-	100
Local administrative body of Gldani district		-	2,238
Local administrative body of Samgori district		-	2,763
Local administrative body of Saburtalo district		-	582
Total guarantees		**-**	**6,719**

Assets pledged and restricted. The Company has the following assets restricted and pledged as collateral:

		31 December 2014		31 December 2013	
	Notes	Asset pledged	Related liability	Asset pledged	Related liability
Property, plant and equipment	8, 15, 17	244,027	79,188	23,938	20,238
Restricted cash		-	-	1,207	-
Total		**244,027**	**79,188**	**25,145**	**20,238**

26 Contingencies and Commitments (continued)

The carrying amount of property, plant and equipment amounting to 244,027 GEL is pledged towardssecuring accrued tax liability of GEL 599 (See Note 17) and and for the borrowing of GEL 78,589 from Bank of Georgia JSC.

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

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. Although the Company have full coverage for its Real Estates and vehicles, third party liability and insurance from misconduct of the Company's management, the product risk and related damages are not yet covered by insurance contracts due to unavailability of such products. Until the Company obtains adequate insurance coverage, the loss from uncovered risks could have a material adverse effect on the Company's operations and financial position.

27 Financial Risk Management

The risk management function within the Company is carried out in respect of financial risks, operational risks and legal risks. Financial risk comprises market risk (including currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The primary objectives of the financial risk management function are to establish risk limits, and then ensure that exposure to risks stays within these limits. The operational and legal risk management functions are intended to ensure proper functioning of internal policies and procedures to minimise operational and legal risks.

Credit risk. The Company takes on exposure to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Exposure to credit risk arises as a result of the provision of Company's services on credit terms and other transactions with counterparties giving rise to financial assets. The Company's maximum exposure to credit risk by class of assets is as follows:

	31 December 2014	**31 December 2013**
Trade and other receivables (Note 11)		
- Current and non-current trade receivables	10,046	12,329
- Other receivables	3,579	3,307
- Loans issued	1,716	3,824
Cash and cash equivalents (Notes 12 and 13)		
- Bank balances payable on demand	9,486	16,336
- Deposit in bank	2,460	2,460
- Restricted cash	-	1,207
Total maximum exposure to credit risk	**27,287**	**39,463**

The Company structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to counterparties or groups of counterparties. Such risks are monitored on a revolving basis and subject to an annual or more frequent review.

The Company's management reviews ageing analysis of outstanding trade receivables and follows up on past due balances. Management therefore considers it appropriate to provide ageing and other information about credit risk as disclosed in Note 11.

27 Financial Risk Management (continued)

Credit risks concentration. The Company has no significant concentrations of credit risk since the customers portfolio is diversified among a large number of customers, both private individuals and companies. Although collection of receivables could be influenced by economic factors, management believes that there is no significant risk of loss to the Company beyond the provisions already recorded.

Cash is placed in financial institutions, which are considered at time of deposit to have minimal risk of default. All the material bank balances and term deposits are neither past due nor impaired and held in Top 10 Georgian Banks, rated as "BB-" and "B+" by Fitch.

Market risk. The Company takes on exposure to market risks. Market risks predominately relate to the tariffs that are imposed on the Company and affect the price of the electricity purchased and the price that can be charged to customers for the water and electricity consumed. The conclusive decisions on tariff levels are outside of its control, while political factors also temper with the finalisation of these tariffs. In addition, the Company has open positions in interest rate and currency positions, which are exposed to general and specific market movements. Management sets limits on the value of risk that may be accepted, which is monitored on regular basis. However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

Sensitivities to market risks included below are based on a change in a factor while holding all other factors constant. In practice this is unlikely to occur and changes in some of the factors may be correlated - for example, changes in interest rate and changes in foreign currency rates.

Currency risk. Major concentration of the currency risk arises from the US Dollar denominated borrowings. Due to undeveloped market of financial instruments in Georgia, the management does not hedge the Company's foreign exchange risk.

At the end of the reporting period, if the Georgian Lari had weakened/strengthened by 10 per cent against the US Dollar with all other variables held constant, post-tax loss for the year ended 31 December 2014 would have been GEL 6,502 (2013: GEL 1,707) higher/lower, mainly as a result of foreign exchange gains/losses on translation of US Dollar denominated bank balances and borrowings.

Interest rate risk. The Company takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. The Company's interest-bearing assets include bank term deposits when available. Bank term deposits are short term and are classified as cash and cash equivalents if their original maturities are three months or less or separately as deposits if their original maturities are more than three months. The Company's interest rate risk arises mainly from borrowings. Borrowings issued at fixed rates and fluctuation rates expose the Company to fair value interest rate risk.

The Company analyses its interest rate exposure on a dynamic basis mainly by reference to the available alternative financing sources. At 31 December 2014, if interest rates at that date has been 100 basis points higher/lower with all other variables held constant, post-tax loss for the year ended 31 December 2014 would have been GEL 320 (2013: GEL 105) lower/higher.

Liquidity risk. Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Company is exposed to daily calls on its available cash resources. Management monitors weekly rolling forecasts of the Company's cash flows. The Company seeks to maintain a stable funding base primarily consisting of amounts due to other banks, corporate and customer prepayments.

27 Financial Risk Management (continued)

The table below shows liabilities at 31 December 2014 and 31 December 2013 by their remaining contractual maturity. The amounts disclosed in the maturity table are the contractual undiscounted cash flows and gross loan commitments. Such undiscounted cash flows differ from the amount included in the statement of financial position, because the amount is based on discounted cash flows.

The maturity analysis of financial liabilities is as follows:

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
At 31 December 2014				
Borrowings	5,957	11,058	63,364	22,658
Accounts payables	9,157	-	-	-
Total future payments	**15,114**	**11,058**	**63,364**	**22,658**
At 31 December 2013				
Borrowings	8,906	9,085	4,757	114
Accounts payables	7,461	-	-	-
Total future payments	**16,367**	**9,085**	**4,757**	**114**

Management of Capital. The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for owners and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to owners, return capital to owners, issue new shares or sell assets to reduce debt.

The gearing ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings and other financial liabilities less cash and cash equivalents. Total capital is calculated as equity, as shown in the statement of the financial position, plus net debt.

The gearing ratios were as follows:

	31 December 2014	31 December 2013
Total borrowings	78,929	20,332
Other financial liabilities	9,786	7,936
Less: deposit at bank	(2,460)	(2,460)
Less: Restricted cash	-	(1,207)
Less: cash and cash equivalents	(9,486)	(16,336)
Net debt	76,769	8,265
Total equity	169,699	219,503
Total capital	**246,468**	**227,768**
Gearing ratio	**31%**	**4%**

28 Fair Value of Financial Instruments

Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on observable market data (that is, unobservable inputs). Management applies judgement in categorising financial instruments using the fair value hierarchy. If a fair value measurement uses observable inputs that require significant adjustment, that measurement is a Level 3 measurement. The significance of a valuation input is assessed against the fair value measurement in its entirety.

a) Recurring fair value measurements

Recurring fair value measurements are those that the accounting standards require or permit in the statement of financial position at the end of each reporting period.

The levels in the fair value hierarchy into which the recurring fair value measurements are categorised are as follows:

	2014				2013			
	Level 1	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
NON-FINANCIAL ASSETS								
- Property, plant and equipment	-	-	244,027	244,027	-	-	226,886	226,886
TOTAL ASSETS RECURRING FAIR VALUE MEASUREMENTS	**-**	**-**	**244,027**	**244,027**	**-**	**-**	**226,886**	**226,886**

The valuation technique, inputs used in the fair value measurement for level 3 measurements and related sensitivity to reasonably possible changes in those inputs are as follows at 31 December 2014:

	Fair value	**Valuation technique**	**Inputs used**	**Range of inputs (weighted average)**	**Reasonable change**	**Sensitivity of fair value measurement**
ASSETS AT FAIR VALUE NON-FINANCIAL ASSETS						
- Property, plant and equipment	244,027	Discounted cash flows (“DCF”)	WACC; future cash flows	13.16%	± 1 %	± [23,000]
TOTAL RECURRING FAIR VALUE MEASUREMENTS AT LEVEL 3	**244,027**					

28 Fair Value of Financial Instruments (continued)

There were no changes in valuation technique for level 3 recurring fair value measurements during the year ended 31 December 2014 (2013: none).

b) Valuation processes for recurring and non-recurring level 3 fair value measurements

Level 3 valuations are reviewed on an annual basis by the Company's financial director who report to the Board of Directors on a quarterly basis. The financial director considers the appropriateness of the valuation model inputs, as well as the valuation result using various valuation methods and techniques.

c) ***Assets and liabilities not measured at fair value but for which fair value is disclosed***

Fair values analysed by level in the fair value hierarchy and carrying value of assets and liabilities not measured at fair value are as follows:

	31 December 2014				31 December 2013			
	Level 1	**Level 2**	**Level 3**	**Carrying value**	**Level 1**	**Level 2**	**Level 3**	**Carrying value**
ASSETS								
Other financial assets								
- Cash and cash equivalents	9,486	-	-	9,486	16,336	-	-	16,336
- Restricted cash	-	-	-	-	1,207	-	-	1,207
- Deposit in banks	2,460	-	-	2,460	2,460	-	-	2,460
- Trade and other receivables	-	13,625	-	13,625	-	15,636	-	15,636
- Loans issued	-	-	1,716	1,716	-	-	3,824	3,824
TOTAL ASSETS	**11,946**	**13,625**	**1,716**	**27,287**	**20,003**	**15,636**	**3,824**	**39,463**
LIABILITIES								
Borrowings								
- Borrowings	-	78,929	-	78,929	-	20,332	-	20,332
Other financial liabilities								
- Trade and other payables	-	9,786	-	9,786	-	7,461	-	7,461
TOTAL LIABILITIES	**-**	**88,715**		**88,715**	**-**	**27,793**	**-**	**27,793**

The fair values in level 2 and level 3 of fair value hierarchy were estimated using the discounted cash flows valuation technique. The fair value of floating rate instruments that are not quoted in an active market was estimated to be equal to their carrying amount. The fair value of unquoted fixed interest rate instruments was estimated based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity.

Georgia continues to display some characteristics of an emerging market and economic conditions continue to limit the volume of activity in the financial markets. Market quotations may be outdated or reflect distress sale transactions and therefore not represent fair values of financial instruments. Management has used all available market information in estimating the fair value of financial instruments.

28 Fair Value of Financial Instruments (continued)

Financial assets carried at amortised cost. The fair value of floating rate instruments is normally their carrying amount. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Discount rates used depend on credit risk of the counterparty. Fair value of held-to-maturity investments was determined based on quoted bid prices.

Liabilities carried at amortised cost. The estimated fair value of fixed interest rate instruments with stated maturity, for which a quoted market price is not available, was estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Carrying amounts of trade payables and other financial liabilities approximate fair values due to their short term maturities.

There were no changes in valuation technique for level 2 and level 3 measurements of assets and liabilities not measured at fair values during the year ended 31 December 2014 (2013: none).

29 Presentation of Financial Instruments by Measurement Category

For the purposes of measurement, IAS 39, *Financial Instruments: Recognition and Measurement*, classifies financial assets into the following categories: (a) loans and receivables; (b) available-for-sale financial assets; (c) financial assets held to maturity and (d) financial assets at fair value through profit or loss (“FVTPL”). Financial assets at fair value through profit or loss have two sub-categories: (i) assets designated as such upon initial recognition, and (ii) those classified as held for trading. In addition, finance lease receivables represent a separate category. All of the Company’s financial assets fall in the loans and receivables category. All of the Company’s financial liabilities are carried at amortized cost.

30 Events after the End of Reporting Period

The following subsequent events were identified:

As of the date of these financial statements the exchange rate for 1 US Dollar was Georgian Lari 2.3087.

On 24 March 2015 Georgian Water and Power LLC and Rustavi Water LLC signed the joint credit agreement with Pasha Bank Georgia JSC for a loan of GEL 22.5 million with an annual interest rate of 12% payable on monthly basis maturing in 36 months after the issuance of the loan, with 3 months grace period for principal payments. The Bank disbursed GEL 12.5 million to Georgian Water and Power LLC and GEL 10 million to Rustavi Water LLC. Per the Agreement the purpose of this loan is to refinance the Bank of Georgia JSC USD denominated loans.

On 2 April 2015 Rustavi Water LLC issued a loan of USD 4.46 million to Georgian Water and Power LLC with annual interest rate of 10.1%.

GEORGIAN WATER AND POWER LLC
Appendix – Financial results by operating segments
(Amounts expressed in thousands of Georgian Lari)

	Sub note	Electricity generation	Water supply and wastewater collection services	Elimination entries	Total
Revenue	1	13,676	93,295	(5,003)	101,968
Other income		-	5,595	-	5,595
Provision of trade receivables		-	(1,127)	-	(1,127)
Salaries and benefits	2	(1,326)	(22,069)	-	(23,395)
Depreciation and amortisation		(1,223)	(15,775)	-	(16,998)
Electricity and transmission costs	1	-	(13,676)	5,003	(8,673)
Raw materials, fuel and other consumables		(110)	(4,926)	-	(5,036)
General and administrative expenses		(127)	(2,467)	-	(2,594)
Infrastructure assets maintenance expenditure		(84)	(3,439)	-	(3,523)
Other operating expenses		(460)	(14,075)	-	(14,535)
Operating profit		10,346	21,336		31,682
Finance income	3	31	636	-	667
Finance costs	3	(379)	(5,457)	-	(5,836)
Profit before income tax		9,998	16,515	-	26,513
Income tax expense	4	(2,077)	(3,432)	-	(5,509)
Profit for the year		7,921	13,083	-	21,004
Net profit Margin*		58%	13%	-	20%

* Net Profit Margin =Profit for the year / (Revenue + Other income)

Revenue and cost allocation principles

The majority elements of revenue and costs were attributed to the relevant segments based on the actual results in the Financial Information. The allocation principles and methods used by the management for revenue and costs elements, which cannot be directly attributed to the relevant business segments, were provided below. In particular:

1. **Revenue** – During the year 2014 GWP consumed internally generated (by Zhinvali HPP and Tetrikhevi HPP) electricity 273,372 thousands kW/h. For the purpose of this Financial Information, the revenue from the internally used electricity was recorded at tariff of – 1.83 tetri per kW/h excluding 18% VAT for Electricity generation segment. The above tariff is stated by Georgian National Energy and Water supply Regulatory Commission (decree #33, dated 4 December 2008). The respective cost of electricity for water supply and wastewater collection services segment is increased by the similar amount.

2. **Salaries and benefits** – the costs of salaries and other benefits except that of administrative staff were attributed directly to the appropriate segments based on actual expenditure. Salaries and benefits of the administrative staff were allocated proportionally based on the number of employees in each operating segment.

3. **Finance income and costs** were allocated to each segment proportionally based on the total revenue of each of the operating segment.

4. **Income tax expense** – Income tax expense was apportioned between the segments proportionally based on the profit before income tax of each of the operating segment.

Approved for issue and signed on behalf of Management on 29 April 2015:

Giorgi Tskhadadze
General Director

Giorgi Vakhtangishvili
Chief Financial Office