GEORGIAN INTERNATIONAL ENERGY CORPORATION GROUP

Consolidated Financial Statements and
Independent Auditor's Report
For the Year Ended 31 December 2017

GEORGIAN INTERNATIONAL ENERGY CORPORATION GROUP

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GEORGIAN INTERNATIONAL ENERGY CORPORATION GROUP

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

Management is responsible for the preparation of the consolidated financial statements that present fairly the financial position of LLC Georgian International Energy Corporation and its subsidiaries (the "Group") as of 31 December 2017, and the consolidated results of its operations, changes in equity and cash flows for the year then ended, in compliance with International Financial Reporting Standards ("IFRS").

In preparing the consolidated financial statements, management is responsible for:

- Properly selecting and applying accounting policies;
- Presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Providing additional disclosures when compliance with the specific requirements in IFRS are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's consolidated financial position and financial performance;
- Making an assessment of the Group's ability to continue as a going concern.

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls, throughout the Group;
- Maintaining adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the consolidated financial position of the Group, and which enable them to ensure that the consolidated financial statements of the Group comply with IFRS;
- Maintaining statutory accounting records in compliance with local legislation and accounting standards;
- Taking such steps as are reasonably available to them to safeguard the assets of the Group; and
- Detecting and preventing fraud and other irregularities.

The consolidated financial statements of the Group for the year ended 31 December 2017 were approved by the Management on 4 May 2018.

On behalf of the Management:

Malkhaz Iaseshvili
Operational Director

4 May 2018
Tbilisi, Georgia

Lasha Gvazava
Chief Accountant

4 May 2018
Tbilisi, Georgia

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INDEPENDENT AUDITOR'S REPORT

To the Owners and Management of LLC Georgian International Energy Corporation:

Opinion

We have audited the consolidated financial statements of LLC Georgian International Energy Corporation (hereinafter the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always

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detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

John Rob

John Robinson
on behalf of Deloitte and Touche LLC

Deloitte & Touche

4 May 2018
Tbilisi, Georgia

GEORGIAN INTERNATIONAL ENERGY CORPORATION GROUP

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2017

In thousands of Georgian Lari	**Notes**	**31 December 2017**	**31 December 2016**
ASSETS			
Non-current assets			
Property, plant and equipment	5, 6	250,047	98,811
Investment properties	7	41,475	51,401
Goodwill		726	726
Investments in associates		830	747
Loans issued	8	13	25
Intangible assets		392	303
Other non-current assets		1,418	1,404
Total non-current assets		**294,901**	**153,417**
Current assets			
Inventories	10	7,963	7,077
Loans issued	8	29,146	16,737
Trade and other receivables	11	22,132	33,625
Taxes prepaid		272	569
Cash and cash equivalents	12	2,652	6,610
Total current assets		**62,165**	**64,618**
TOTAL ASSETS		**357,066**	**218,035**
EQUITY			
Charter capital	13	7,720	2,595
Retained earnings		226,253	86,507
Equity attributable to:			
Owner of the Company		233,973	89,102
Non-controlling interest		1,792	1,881
TOTAL EQUITY		**235,765**	**90,983**
LIABILITIES			
Non-current liabilities			
Borrowings	14	59,860	66,855
Total non-current liabilities		**59,860**	**66,855**
Current liabilities			
Trade and other payables	15	22,306	25,901
Taxes payable		1,013	735
Borrowings	14	38,122	33,561
Total current liabilities		**61,441**	**60,197**
TOTAL LIABILITIES		**121,301**	**127,052**
TOTAL LIABILITIES AND EQUITY		**357,066**	**218,035**

Approved for issue and signed on behalf of the Management on 4 May 2018:

Malkhaz Iaseshvili
Operational Director

4 May 2018
Tbilisi, Georgia

Lasha Gvazava
Chief Accountant

4 May 2018
Tbilisi, Georgia

The accompanying notes set out on pages 8 to 44 form an integral part of these consolidated financial statements.

GEORGIAN INTERNATIONAL ENERGY CORPORATION GROUP

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2017

In thousands of Georgian Lari	**Notes**	**2017**	**2016**
Revenues	16	130,832	126,173
Cost of sales	17	(92,352)	(82,177)
Gross profit		**38,480**	**43,996**
Selling and distribution expenses	18	(12,558)	(13,381)
General and administrative expenses	19	(8,973)	(8,134)
Other operating expenses, net	20	(1,035)	(2,500)
Operating profit		**15,914**	**19,981**
Gain on revaluation of investment properties	7	1,492	303
Finance income		4,084	1,919
Finance costs	21	(8,475)	(15,024)
Share of profit of associates		421	548
Profit before income tax		**13,436**	**7,727**
Income tax benefit	9	-	13,770
PROFIT FOR THE YEAR		**13,436**	**21,497**
Other comprehensive income		-	-
Total comprehensive income		**13,436**	**21,497**
Total comprehensive income attributable to:			
Owner of the Company		13,468	21,545
Non-controlling interest		(32)	(48)
Total comprehensive income		**13,436**	**21,497**

Approved for issue and signed on behalf of the Management on 4 May 2018:

Malkhaz Iaseshvili
Operational Director

4 May 2018
Tbilisi, Georgia

Lasha Gvazava
Chief Accountant

4 May 2018
Tbilisi, Georgia

The accompanying notes set out on pages 8 to 44 form an integral part of these consolidated financial statements.

GEORGIAN INTERNATIONAL ENERGY CORPORATION GROUP

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2017

In thousands of Georgian Lari	Attributable to the owner of the Company				
	Charter capital	**Retained earnings**	**Total**	**Non-controlling interests**	**Total**
At 1 January 2016	**2,595**	**69,768**	**72,363**	**2,125**	**74,488**
Total comprehensive income	-	21,545	**21,545**	(48)	**21,497**
Dividends declared	-	(4,700)	**(4,700)**	(117)	**(4,817)**
Increase in ownership interest of LLC Adjara Autogas	-	(106)	**(106)**	(79)	**(185)**
At 31 December 2016	**2,595**	**86,507**	**89,102**	**1,881**	**90,983**
Total comprehensive income	-	13,468	**13,468**	(32)	**13,436**
Dividends declared	-	(4,600)	**(4,600)**	(57)	**(4,657)**
Increase in charter capital	5,125	-	**5,125**	-	**5,125**
Additional contribution from parent	-	130,878	**130,878**	-	**130,878**
At 31 December 2017	**7,720**	**226,253**	**233,973**	**1,792**	**235,765**

Approved for issue and signed on behalf of the Management on 4 May 2018:

Malkhaz Iaseshvili
Operational Director

4 May 2018
Tbilisi, Georgia

Lasha Gvazava
Chief Accountant

4 May 2018
Tbilisi, Georgia

GEORGIAN INTERNATIONAL ENERGY CORPORATION GROUP

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2017

In thousands of Georgian Lari	Notes	2017	2016
Cash flows from operating activities			
Cash receipts from customers		161,285	106,052
Cash paid to suppliers		(110,109)	(62,504)
Cash paid to employees		(8,961)	(8,379)
Cash generated from operations		**42,215**	**35,169**
Interest paid		(8,310)	(7,673)
Taxes paid, net		(17,575)	(10,412)
Net cash from operating activities		**16,330**	**17,084**
Cash flows from investing activities			
Acquisition of additional ownership interest in subsidiary/associate, net of cash acquired		-	(116)
Increase (decrease) in charter capital		1,586	-
Dividend received from associates		338	233
Loans disbursed		(20,799)	(17,151)
Repayment of loans issued		10,528	11,019
Interest received		1,568	995
Purchase of intangible assets		(272)	(76)
Purchase of investment property		(16)	(475)
Proceeds from sale of investment property		3,312	212
Purchase of property, plant and equipment		(9,498)	(6,023)
Proceeds from sale of property, plant and equipment		32	35
Net cash used in investing activities		**(13,221)**	**(11,347)**
Cash flows from financing activities			
Proceeds from borrowings		28,208	37,166
Repayment of borrowings		(30,207)	(34,900)
Dividends paid		(5,061)	(4,327)
Net cash from financing activities		**(7,060)**	**(2,061)**
Effect of exchange rate changes on cash and cash equivalents		(7)	68
Net (decrease)/increase in cash and cash equivalents		**(3,958)**	**3,744**
Cash and cash equivalents at the beginning of the year		6,610	2,866
Cash and cash equivalents at the end of the year		**2,652**	**6,610**

For the year ended 31 December 2017 revenue recognised under barter transaction equalled to GEL zero. (For 2016: GEL 18,627 thousand).

Approved for issue and signed on behalf of the Management on 4 May 2018:

Malkhaz Iaseshvili
Operational Director

4 May 2018
Tbilisi, Georgia

Lasha Gvazava
Chief Accountant

4 May 2018
Tbilisi, Georgia

1. INTRODUCTION

LLC Georgian International Energy Corporation (the "Company" or "GIEC") was incorporated on 11 July 2005 and is domiciled in Georgia. The Company and its subsidiaries (together referred to as the "Group" or "GIEC Group") have been set up as limited liability companies in accordance with Georgian regulations.

As of 31 December 2017 and 2016 the Company's immediate parent company was LLC Georgian Industrial Group Holding and the Company was ultimately controlled by Mr. David Bejhuashvili.

Principal activity. The Company is a parent of a group of companies incorporated in Georgia, whose primary business activities include generation of electricity, operating of gas refuelling stations, testing of gas equipped vehicles, as well as development and disposal of investment properties.

Electricity is generated by a thermal power plant ("Tbilsresi") and 8 hydro power plants located throughout Georgia and controlled by the Group. Electricity is sold to various private companies and to a state-established LLC Electricity System Commercial Operator ("ESCO"). The thermal power plant ("TPP") has an installed capacity of 272 megawatts and its tariffs for sales to ESCO are regulated by statute. Each of the hydro power plants has an installed capacity of less than 13 megawatts and their tariffs are not subject to regulation by statute.

The Company is engaged in barter transactions with an Armenian-based thermal power plant operator, whereby GIEC supplies electricity in exchange for natural gas. Natural gas is also purchased from major gas suppliers operating in the Caucasus region and capable of making large-volume deliveries. Major gas customers are large Georgian industrial companies and networks of natural gas refuelling stations. The Group is also involved in the retail business of sale of gas through its own refuelling stations.

The Company is a parent of a group of companies incorporated in Georgia, whose primary business activities include development and disposal of investment properties, operation of gas refuelling stations, testing of gas equipped vehicles, as well as generation of electricity.

These consolidated financial statements include the following principal subsidiaries:

Subsidiary	31 December 2017 Ownership/voting %	31 December 2016 Ownership/voting %	Year of acquisition/ establishment	Industry
LLC Batumi City	100.0%	100.0%	2011	Real estate development
LLC Power Trade	100.0%	100.0%	2012	Electricity trading
LLC Neogas	100.0%	100.0%	2014	Gas refuelling operator
LLC C Power	100.0%	100.0%	2015	Electricity generation
LLC Power Export	100.0%	100.0%	2017	Gas equipped vehicle testing
LLC Ritseulahesi	88.5%	88.5%	2008	Electricity generation
LLC Adjara Autogas	74.0%	74.0%	2009	Gas refuelling operator
LLC Mobilgorigas	55.0%	55.0%	2011	Gas refuelling operator
LLC Georgian Hydro Power EPC	51.0%	51.0%	2012	HPP engineering
LLC Delta P	50.0%	50.0%	2015	Gas refuelling operator
LLC X Gazi	50.0%	50.0%	2012	Gas refuelling operator
LLC Akhalgas	50.0%	50.0%	2010	Gas refuelling operator
LLC Ibergas	50.0%	50.0%	2010	Gas refuelling operator

In 2017 no acquisition/increase of additional ownership interest has taken place.

In 2016 the Company acquired an additional 14% in LLC Adjara Autogas and increased its ownership share up to 74%.

Registered address and place of business. The Company's registered address is at #66 Stalin Street, Tetritskaro Region 2309, Georgia. The Company's principal place of business is at #2 David Aghmashenebeli Street, Gardabani 1300, Georgia.

As at 31 December 2017, the Group employed 1,019 employees (31 December 2016: 964 employees).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards.

Basis of preparation. The consolidated financial statements have been prepared on the historical cost basis except for investment properties are measured at revalued amounts, as explained in the accounting policies below.

Historical cost is generally based on the fair value of the consideration given in exchange for assets.

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, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis

In addition, for financial reporting purposes, fair value measurements are categorized into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

Functional and presentation currency. The national currency of Georgia is the Georgian Lari ("GEL"), which is the functional currency of the Company, its subsidiaries and associates and the currency in which the Group's consolidated financial statements are presented. All amounts presented in the consolidated financial statements have been rounded to the nearest thousand.

Basis of consolidation. The consolidated financial statements incorporate the financial statements of the Company and entities (including structured entities) controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Company has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an investee are sufficient to give it power, including:

- the size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Company, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the consolidated financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intra group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Changes in the Group's ownership interests in existing subsidiaries. Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non- controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, a gain or loss is recognized in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognized in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

Business combinations. Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with IAS 12 and IAS 19 respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 Share-based Payment at the acquisition date; and
- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that Standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another IFRS.

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with IAS 39, or IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, as appropriate, with the corresponding gain or loss being recognised in profit or loss.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control) and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

Goodwill. Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Purchases of subsidiaries from parties under common control. Purchases of subsidiaries from parties under common control are accounted for using the predecessor values method. The results of the acquired entities are incorporated from the date on which the business combination between entities under common control occurred. The assets and liabilities of the subsidiary transferred under common control are at the predecessor entity's carrying amounts. The predecessor entity is considered to be the highest reporting entity in which the subsidiary's IFRS financial information was consolidated. Related goodwill inherent in the predecessor entity's original acquisitions is also recorded in these consolidated financial statements. Any difference between the carrying amount of net assets, including the predecessor entity's goodwill and the consideration for the acquisition is accounted for in these consolidated financial statements as an adjustment to the retained earnings within equity.

Associates. Associates are entities over which the Company has significant influence (directly or indirectly), but not control, generally accompanying a shareholding of between 20 and 50 percent of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. Dividends received from associates reduce the carrying value of the investment in associates. Other post-acquisition changes in Group's share of net assets of an associate are recognised as follows: (i) the Group's share of profits or losses of associates is recorded in the consolidated statement of profit or loss and other comprehensive income as share of result of associates, (ii) the Group's share of other comprehensive income is recognised in other comprehensive income and presented separately, (iii); all other changes in the Group's share of the carrying value of net assets of associates are recognised in profit or loss within the share of result of associates.

However, when the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Foreign currencies. In preparing the consolidated financial statements of each individual group entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing by National Bank of Georgia at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing by National Bank of Georgia at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing by National Bank of Georgia at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognised in profit or loss in the period in which they arise except for exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings.

The exchange rates used by the Group in the preparation of the consolidated financial statements as at year-end are as follows:

	31 December 2017	31 December 2016
GEL/1 US Dollar	2.5922	2.6468
GEL/1 Euro	3.1044	2.7940

At present, the Georgian Lari is not a freely convertible currency in most countries outside of Georgia.

Property, plant and equipment. Property, plant and equipment are stated at cost less accumulated depreciation and provision for impairment, where required.

Cost of replacing major parts or components of property, plant and equipment items are capitalised and the replaced part is retired. Subsequent expenditure is capitalised if future economic benefits will arise from the expenditure. Costs of minor repairs and maintenance are expensed when incurred.

At the end of each 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. An impairment loss recognised for an asset in prior years is reversed where appropriate 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 the consolidated statement of profit or loss and other comprehensive income within other operating income and expenses.

Depreciation. Land is not depreciated. Depreciation on other items of property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives:

	Useful lives in years
Buildings and constructions	10 to 50 years
Hydro-technical structures	5 to 60 years
Gas pipelines	5 to 40 years
Machinery and equipment	5 - 30 years
Motor vehicles – heavy trucks	5 to 20 years
Motor vehicles – light cars	5 to 15 years
Fixtures and fittings	2 - 10 years

The residual value of an asset is the estimated amount that the Group would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset were 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.

Investment property. Investment property is property held by the Group to earn rental income or for capital appreciation, or both and which is not occupied by the Group. Investment property is initially recognised at cost, including transaction costs, and subsequently remeasured at fair value updated to reflect market conditions at the end of the reporting period.

Market value of the Group's investment property is determined based on reports of independent appraisers, who hold a recognised and relevant professional qualification and who have recent experience in valuation of property of similar location and category.

Earned rental income is recorded in profit or loss for the year within other operating income. Gains and losses resulting from changes in the fair value of investment property are recorded in profit or loss for the year and presented separately.

An investment property is derecognized upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognized.

If an investment property becomes owner-occupied, it is reclassified as property, plant and equipment, and its carrying amount at the date of reclassification becomes its deemed cost for accounting purposes.

Subsequent expenditure is capitalised to the asset's carrying amount only when it is probable that future economic benefits associated with the expenditure will flow to the Group and the cost can be measured reliably. All other repairs and maintenance costs are expensed when incurred.

Operating leases. Where the Group is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Group, 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.

Intangible assets. The Group's intangible assets other than goodwill have definite useful lives and primarily include acquired computer and accounting software licences which are stated at cost less accumulated amortisation. Intangible assets are amortised on a straight-line basis over their estimated useful lives from the date the asset is available for use. The estimated useful live for computer software licenses are determined to be 5 years and accounting software for 10 years.

Income taxes. In May 2016, the parliament of Georgia approved a change in the current corporate taxation model, with changes applicable on 1 January 2017 for all entities apart from certain financial institutions. The changed model implies zero corporate tax rate on retained earnings and a 15% corporate tax rate on distributed earnings, compared to the previous model of 15% tax rate charged to the company's profit before tax, regardless of the retention or distribution status.

The new profit tax rules are effective as of 1 January 2017, which applies to the company and the tax base comprise both actual and deemed profit distributions, including the following:

- Distributed profits;
- Expenses incurred or other payments not related to economic activities;
- Gratuitous supplies of goods/services and/or transfers of funds; and
- Representation expenses that exceed the maximum amount defined in the tax code.

Income tax on distributed profits is recognized as an expense at the moment dividends are declared and recorded under "income tax" in the statement of profit or loss. Current tax assets and tax liabilities for current and previous periods are measured at the amount expected to be obtained from or paid to tax authorities.

Tax imposed on the areas other than distributed profits as described above is recorded under "Taxes and duties" in the statement of profit and loss.

As a result of the new legislation the Company ceased recognising income tax expense when profits are earned and will only incur income tax charges in the event of a distribution of profits. All deferred tax balances were released and recognized in the statement of profit and loss for the period ended 31 December 2016.

Value added tax ('VAT'). Output VAT related to sales is payable to tax authorities upon delivery of the goods to customers. Input VAT is generally recoverable against output VAT upon receipt of the VAT invoice. The tax authorities permit the settlement of VAT on a net basis. VAT related to sales and purchases is recognised in the consolidated statement of financial position on a net basis per each Group entity and disclosed as either an asset or a liability. Where provision has been made for impairment of receivables, impairment loss is recorded for the gross amount of the debtor, including VAT.

Inventories. Inventories are stated at the lower of cost and net realisable value. The cost of inventories is determined on the weighted average cost basis and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated selling expenses.

Financial instruments - key measurement terms. Financial instruments are carried at amortized cost as described below.

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 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.

Financial assets. The Group classifies its financial assets into "loans and receivables" measurement category.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the reporting date. These are classified as non-current assets.

The Group's loans and receivables comprise trade and other receivables, loans issued and cash and cash equivalents.

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

Cash and cash equivalents. Cash and cash equivalents comprise cash in hand and cash deposited in banks due on demand or with original maturities of less than three months. Cash and cash equivalents 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 ("loss 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 Group 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 Group 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:

- 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 Group 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; or
- the value of collateral, if any, significantly decreases as a result of deteriorating market conditions.

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.

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 (which exclude future credit losses that have not been incurred) discounted at the original effective interest rate of the asset. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

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 (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account through profit or loss for the year. 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 within the profit or loss for the year.

Financial liabilities. The Group's financial liabilities include trade and other payables and borrowings.

Trade and other payables. Trade and other payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method. Trade payables are stated inclusive of value added tax.

Borrowings. Borrowings are recognised initially at their fair values less transaction costs incurred. Fair value is determined using the prevailing market rate of interest for a similar instrument. Subsequent to initial recognition, borrowings are carried at amortised cost using the effective interest method, with any difference between the amount at initial recognition and redemption amount being recognised in profit or loss as an interest expense over the period of the borrowings.
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.

The commencement date for capitalisation is when (a) the Group 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 Group capitalises borrowing costs that could have been avoided if it had not made capital expenditure on qualifying assets. Borrowing costs capitalised are calculated at the group'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.

Initial recognition of financial instruments. All financial instruments 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 on which the Group commits to deliver a financial asset. All other purchases are recognised when the entity becomes a party to the contractual provisions of the instrument.

Derecognition of financial assets. The Group derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expire or (b) the Group has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all 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.

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 Group has obtained control of the asset and it is probable that future economic benefits associated with the asset will flow to the Group. 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.

Charter capital. The amount of authorised charter capital is defined by the Company's charter. The changes in the Company's charter shall be made only based on the decision of the Company's owner. The authorised capital is recognised as charter capital in the equity of the Company to the extent that it was contributed by the owner to the Company.

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 reporting period and before the consolidated financial statements are authorised for issue are disclosed in the subsequent events note.

Provisions for liabilities and charges. Provisions for liabilities and charges are non-financial liabilities of uncertain timing or amount. They are accrued when the Group 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. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Revenue recognition. Revenues from the sale of gas and electricity are recognised on the basis of metered delivery to and/or usage by customers.

Available capacity fee for Tbilsresi thermal power plant is recognised based on the number of days the plant is available to supply electricity at its installed capacity. Daily availability tariff is set by Georgian National Energy and Water Supply Regulatory Commission.

Sales are shown net of VAT and discounts.

Revenues are measured at the fair value of the consideration received or receivable. 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.

Barter transactions and mutual cancellations. A portion of sales and purchases are settled by mutual cancellations, barter or non-cash settlements. These transactions are generally in the form of direct settlements by dissimilar goods and services from the final customer (barter), cancellation of mutual balances or through a chain of non-cash transactions involving several companies.

Sales and purchases that are expected to be settled by mutual settlements, barter or other non-cash settlements are recognised based on management's estimate of the fair value to be received or given up in non-cash settlements. The fair value is determined with reference to observable market information.

Finance income and expenses. Finance income and expenses comprise interest expense on borrowings, interest income on loans issued, interest accrued on bank deposits and foreign exchange gains and losses that relate to borrowings and cash and cash equivalents.

Employee benefits. Wages, salaries, paid annual leave, sick leave, bonuses and non-monetary benefits are accrued in the year in which the associated services are rendered by the employees of the Group. The Group has no legal or constructive obligation to make pension or similar benefit payments.

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

3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The Group makes estimates and assumptions that affect the amounts recognised in the consolidated 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 consolidated financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

Consolidation of subsidiaries. Group's management applied judgements in respect with the entities where the Group has 50% shareholdings (Refer to Note 1). The Group has the power to appoint and remove directors and has the power to direct the relevant financial and operational activities as the management member of the Company is also director of these entities. Therefore, management of the Company concluded that the Group effectively controls these entities. Therefore, the Group fully consolidated such entities in these consolidated financial statements.

Initial recognition of related party transactions. In the normal course of business, the Group 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 analysis. Terms and conditions of related party balances are disclosed in Note 26.

Useful lives of property, plant and equipment. The estimation of the useful lives of items of property, plant and equipment is a matter of judgment based on the experience with similar assets. The future economic benefits embodied in the assets are consumed principally through use. However, other factors, such as technical or commercial obsolescence and wear and tear, often result in the diminution of the economic benefits embodied in the assets. Management assesses the remaining useful lives in accordance with the current technical conditions of the assets and estimated period during which the assets are expected to earn benefits for the Group. The following primary factors are considered: (a) expected usage of the assets; (b) expected physical wear and tear, which depends on operational factors and maintenance programme; and (c) technical or commercial obsolescence arising from changes in market conditions.

Valuation of investment properties. Investment properties are stated at fair value based on reports prepared by an independent appraiser at the end of each reporting period.

In preparing the valuation reports on the Group's investment property, the external appraiser excluded distressed sales when considering comparable sales prices. For each piece of investment property, three market comparatives were identified. As comparatives were somewhat different from the appraised properties, the quoted prices of the comparatives were further adjusted based on the differences in their location, condition, size, accessibility, age and expected discounts to be achieved through negotiations with the vendors. Comparative prices per square meter so determined were then multiplied by the area of the valued property to arrive at the appraised value of the investment property.

Management has reviewed the appraisers' approach to the selection of the comparative properties and assumptions underlying the adjustments to quoted market prices and confirmed that the approach adopted and conclusions reached were reasonable in the circumstances.

Capitalization of expenses. Construction in Note 6 includes capitalized expenditures including, but not limited to investment project planning, financial analysis and presentations, planning and executing budgeting and reporting process, legal services, technical design engineering and other services required for the construction asset. These services are provided by LLC Georgian Industrial Group, the entity under common control in accordance with an agreement between LLC C-Power and LLC Georgian Industrial Group dated on 1 May 2015.

In making their judgment, the management considered the detailed criteria for capitalization of expenditures set out in IAS 16, in particular, whether carried costs are required to bring the asset to the condition necessary for it to be capable of operating in the manner intended by the management for the periods of active development of the asset. Following the detailed analysis of expenditures, the management is satisfied that the capitalized expenditures are an integral part of the construction and are required to bring the asset to the condition necessary for it to be capable of operating in the manner intended by the management for the periods of active development of the asset. The estimation of the budgeted hours and the pricing of these services was done by the management internally based on the experience with similar services provided on the market. The total investment cost is expected to be in the range of USD 180-250m out of which in total, GEL 2.8 m will be formed by these capitalized costs from LLC Georgian Industrial Group.

Determination of fair value **–** The fair value of the assets acquired from an entity under common control was determined by an independent valuation expert using recognised valuation techniques. The valuation experts adopted the market and cost approach method for the valuation of the acquired assets due to the merger and determined replacement cost. The value in use of the assets has been determined based on a number of significant assumptions.

The present value of future cash flows was computed on an pre-tax basis by applying forecast prices of domestic deregulated sales tariff (7 Cents kwh increasing by 2% inflation in every year) and power purchase agreement sales tariff (7.9 Cents kwh increasing by 2% inflation on every year) to estimated sales volume of domestic deregulated sales (982,800,000 kwh) and power purchase agreement sales (236,359,200 kwh), less estimated expenditures including cost of coal (estimated based on consumed volume of 754,159 tons on every year multiplied by forecasted price USD 59.2 increasing by 2% inflation on every year), operating expenses and property tax.

4. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

Amendments to IFRSs affecting amounts reported in the financial statements

In the current year, the following new and revised Standards and Interpretations have been adopted and have affected the amounts reported in these consolidated financial statements:

- Amendments to IAS 7 Disclosure Initiative;
- Annual Improvements to IFRSs 2014-2016 Cycle – amendments to IFRS 12.

Amendments to IAS 7 Disclosure Initiative

The Group has applied these amendments for the first time in the current year. The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes.

The Group's liabilities arising from financing activities consist of borrowings (note 14). A reconciliation between the opening and closing balances of these items is provided in note 14. Consistent with the transition provisions of the amendments, the Group has not disclosed comparative information for the prior period. Apart from the additional disclosure in note 14, the application of these amendments has had no impact on the Group's consolidated financial statements.

Annual Improvements to IFRSs - 2014-2016 Cycle

The Group has applied the amendments to IFRS 12 included in the Annual Improvements to IFRSs 2014-2016 Cycle for the first time in the current year. The other amendments included in this package are not yet mandatorily effective and they have not been early adopted by the Company (see the list of new and revised IFRSs in issue but not yet effective below).

IFRS 12 states that an entity need not provide summarised financial information for interests in subsidiaries, associates or joint ventures that are classified (or included in a disposal group that is classified) as held for sale. The amendments clarify that this is the only concession from the disclosure requirements of IFRS 12 for such interests.

The application of these amendments has had no effect on the Group's financial statements.

New and revised IFRSs in issue but not yet effective

The Group has not applied the following new and revised IFRSs that have been issued but are not yet effective:

- IFRS 9 *Financial Instruments*[1];
- IFRS 15 *Revenue from Contracts with Customers (and the related Clarifications)1;*
- IFRS 16 *Leases*[2];
- IFRS 17 *Insurance Contracts*[3];
- IFRIC 22 *Foreign Currency Transactions and Advance Consideration*[1];
- IFRIC 23 *Uncertainty Over Income Tax Treatments*[2];
- Amendments to IFRS 2 – *Classification and Measurement of Share-based Payment Transactions*[1];
- Amendments to IFRS 10 and IAS 28 – *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4];
- Amendments to IAS 40 – *Transfers of Investment Property*[1];
- Amendments to IFRS 4 – *Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*[1];
- Amendments to IFRS 9 – *Prepayment Features With Negative Compensation*[2];
- Amendments to IAS 28 – *Long-Term Interests in Associates and Joint Ventures*[2];

- Annual Improvements to IFRSs 2014-2016 Cycle[1];
- Annual Improvements to IFRSs 2015-2017 Cycle[2].

[1] Effective for annual periods beginning on or after 1 January 2017, with earlier application permitted.
[2] Effective for annual periods beginning on or after 1 January 2018, with earlier application permitted.
[3] Effective for annual periods beginning on or after 1 January 2019, with earlier application permitted.
[4] Effective for annual periods beginning on or after a date to be determined. Earlier application is permitted.

Except for the below listed items the Group does not anticipated that new and revised IFRSs in issue but not effective has impact on the consolidated financial statements.

IFRS 9 Financial Instruments

IFRS 9 issued in November 2009 introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in July 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' (FVTOCI) measurement category for certain simple debt instruments.

The key requirements of IFRS 9 are:

- **Classification and measurement of financial assets**. All recognised financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at FVTOCI. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading nor contingent consideration recognised by an acquirer in a business combination) in other comprehensive income, with only dividend income generally recognised in profit or loss.
- **Classification and measurement of financial liabilities.** With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of a financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of such changes in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.
- **Impairment.** In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.
- **Hedge accounting.** The new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in IAS 39. Under IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the

types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

The management has not finalized the analysis of the Group's financial assets and liabilities as at 31 December 2017. On the basis of the facts and circumstances that exist at that date, the management of the Group anticipated that IFRS 9 mostly impacts trade receivables and loans issued.

In general, the management anticipates that the application of the expected credit loss model of IFRS 9 will result in earlier recognition of credit losses for the respective item and will increase the amount of loss allowance.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and the related Interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

- Identify the contract with the customer;
- Identify the performance obligations in the contract;
- Determine the transaction price;
- Allocate the transaction price to the performance obligations in the contracts;
- Recognise revenue when (or as) the entity satisfies a performance obligation.

Under IFRS 15, an entity recognises revenue when or as a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

In April 2016, the IASB issued Clarifications to IFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

The management of the Group anticipates that the application of IFRS 15 in the future may have a significant impact on the amount and timing of revenue recognition. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 15 until detailed review has been completed.

IFRS 16 Leases

IFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 will supersede the current lease guidance including IAS 17 Leases and the related interpretations when it becomes effective.

IFRS 16 distinguishes leases and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases (off balance sheet) and finance leases (on balance sheet) are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees (i.e. all on balance sheet) except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. Furthermore, the classification of cash flows will also be affected as operating lease payments under IAS 17 are presented as operating cash flows; whereas under the IFRS 16 model, the lease payments will be split into a principal and an interest portion which will be presented as financing and operating cash flows respectively.

In contrast to lessee accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by IFRS 16.

A preliminary assessment of potential lease contracts of gas stations indicates that these arrangements may meet the definition of a lease under IFRS 16, however at present, it is not practicable to provide reasonable estimate of the effect of IFRS 16 until a detailed review has been completed.

IFRIC 22 Foreign Currency Transactions and Advance Consideration

IFRIC 22 addresses how to determine the 'date of transaction' for the purpose of determining the exchange rate to use on initial recognition of an asset, expense or income, when consideration for that item has been paid or received in advance in a foreign currency which resulted in the recognition of a non-monetary asset or non-monetary liability (e.g. a non-refundable deposit or deferred revenue).

The Interpretation specifies that the date of transaction is the date on which the entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance, the Interpretation requires an entity to determine the date of transaction for each payment or receipt of advance consideration.

The Interpretation is effective for annual periods beginning on or after 1 January 2018 with earlier application permitted. Entities can apply the Interpretation either retrospectively or prospectively. Specific transition provisions apply to prospective application.

The management of the Group does not anticipate that the application of this IFRIC will have a material impact on the Group's consolidated financial statements as the Group currently uses the approach prescribed in IFRIC 22.

Amendments to IAS 40 Transfers of Investment Property

The amendments clarify that a transfer to, or from, investment property necessitates an assessment of whether a property meets, or has ceased to meet, the definition of investment property, supported by observable evidence that a change in use has occurred. The amendments further clarify that situations other than the ones listed in IAS 40 may evidence a change in use, and that a change in use is possible for properties under construction (i.e. a change in use is not limited to completed properties).

The amendments are effective for annual periods beginning on or after 1 January 2018 with earlier application permitted. Entities can apply the amendments either retrospectively (if this is possible without the use of hindsight) or prospectively. Specific transition provisions apply.

The management of the Group anticipates that the application of these amendments may have an impact on the Group's consolidated financial statements in future periods should there be a change in use of any of its properties.

IFRIC 23 Uncertainty over Income Tax Treatments

IFRIC 23 sets out how to determine the accounting tax position when there is uncertainty over income tax treatments. The Interpretation requires an entity to:

- determine whether uncertain tax positions are assessed separately or as a group; and
- assess whether it is probable that a tax authority will accept an uncertain tax treatment used, or proposed to be used, by an entity in its income tax filings:
    - If yes, the entity should determine its accounting tax position consistently with the tax treatment used or planned to be used in its income tax filings.
    - If no, the entity should reflect the effect of uncertainty in determining its accounting tax position.

The Interpretation is effective for annual periods beginning on or after 1 January 2019 with earlier application permitted. Entities can apply the Interpretation either fully retrospectively (if it is possible without the use of hindsight) or to apply modified retrospective approach without restatement of comparatives.

The management of the Group does not anticipate that the application of this IFRIC will have a material impact on the Group's consolidated financial statements as the Group currently uses the approach to recognition of uncertain tax position, which is consistent with IFRIC 23.

Annual Improvements to IFRSs 2014-2016 Cycle

The Annual Improvements include amendments to IFRS 1 and IAS 28 which are not yet mandatorily effective for the Company. The package also includes amendments to IFRS 12 which is mandatorily effective for the Company in the current year – see the details of application in section Amendments to IFRSs affecting amounts reported in the financial statements.

The amendments to IAS 28 clarify that the option for a venture capital organisation and other similar entities to measure investments in associates and joint ventures at FVTPL is available separately for each associate or joint venture, and that election should be made at initial recognition of the associate or joint venture. In respect of the option for an entity that is not an investment entity (IE) to retain the fair value measurement applied by its associates and joint ventures that are IEs when applying the equity method, the amendments make a similar clarification that this choice is available for each IE associate or IE joint venture. The amendments apply retrospectively with earlier application permitted.

Both the amendments to IFRS 1 and IAS 28 are effective for annual periods beginning on or after 1 January 2018. The management of the Group does not anticipate that the application of the amendments in the future will have any impact on the Group's consolidated financial statements as the Group is neither a first-time adopter of IFRS nor a venture capital organisation. Furthermore, the Group does not have any associate or joint venture that is an investment entity.

Annual Improvements to IFRSs 2015-2017 Cycle

Annual Improvements to IFRSs 2015-2017 Cycle makes amendments to several standards.

The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business. The amendments to IFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business.

The amendments to IAS 12 clarify that all income tax consequences of dividends (i.e. distribution of profits) should be recognised in profit or loss, regardless of how the tax arises.

The amendments to IAS 23 clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalisation rate on general borrowings.

All amendments are effective for annual periods beginning on or after 1 January 2019.

The management does not anticipate that the application of these amendments will have a material impact on the Group's consolidated financial statements.

5. CONTRIBUTION OF INVESTMENTS IN C POWER

On 13 March 2017, the Management of Georgian Industrial Group Holding ("Parent") made the decision to contribute its investments in subsidiary M Power to the capital of Georgian International Energy Corporation ("Company"). On the same date, the Company contributed investments in M Power to the capital of its subsidiary C Power. Following these transactions, M Power ceased operations and merged with C Power.

Up to the date of the merger with C Power, M Power did not have any operational activities and owned property and equipment in the amount of GEL 3,539, that was accounted for at historical cost less accumulated depreciation and impairment. M Power did not have any activities since inception, therefore the transaction described above, was accounted for as the acquisition of the assets, rather than a business combination.

The property and equipment comprised of buildings, turbo aggregates, transformers, generators and other assets, which were of specialized in nature and had very limited use within M Power.

C Power is in the process of construction of a coal-fired thermal power plant with capacity of 300 MW in Gardabani Municipality. They identified an alternative way in which to maximise the value of the combined assets, which has resulted in the recognition of the contributed assets at fair value GEL 134,417 thousand taking into account its highest and best use value.

According to the accounting policy of the Group, acquisition of the assets from entities under common control are initially recognised at fair value. The difference between the carrying amount of the assets before contribution and the fair value at the date of contribution is recognised directly in equity within the retained earnings.

6. PROPERTY, PLANT AND EQUIPMENT

The following table represents movements of property, plant and equipment for the years ended 31 December 2017 and 2016:

In thousands of Georgian Lari	Land buildings and constructions	Hydro-technical structures	Gas Pipe-lines	Machinery and equipment	Motor vehicles	Fixtures and fittings	Total
Cost At 1 January 2016	**46,028**	**29,520**	**3,433**	**49,377**	**3,078**	**1,634**	**133,070**
Additions	4,114	226	25	1,295	831	358	6,849
Disposals	(217)	-	(15)	(96)	(199)	(27)	(554)
Intra-group reclassifications	(596)	22	(105)	623	-	56	-
At 31 December 2016	**49,329**	**29,768**	**3,338**	**51,199**	**3,710**	**2,021**	**139,365**
Additions	150,214	14	4	2,073	354	501	153,160
Disposals	(7,481)	-	-	(131)	(177)	(113)	(7,902)
Transfer from investment property	11,434	-	-	-	-	-	11,434
Reclassification to inventory	(183)	-	-	-	-	-	(183)
Intra-group reclassifications	(126)	-	(36)	15	-	147	-
At 31 December 2017	**203,187**	**29,782**	**3,306**	**53,156**	**3,887**	**2,556**	**295,874**
Accumulated depreciation							
At 1 January 2016	**5,974**	**5,652**	**2,053**	**19,516**	**1,116**	**1,006**	**35,317**
Depreciation expense	881	647	448	2,908	265	222	5,371
Accumulated depreciation on assets disposed	(15)	-	(6)	(16)	(79)	(18)	(134)
Intra-group reclassifications	(246)	1	(103)	350	-	(2)	-
At 31 December 2016	**6,594**	**6,300**	**2,392**	**22,758**	**1,302**	**1,208**	**40,554**
Depreciation expense	1,038	645	386	2,931	334	287	5,621
Accumulated depreciation on assets disposed	(53)	-	-	(100)	(114)	(81)	(348)
Intra-group reclassifications	(66)	-	(23)	-	-	89	-
At 31 December 2017	**7,513**	**6,945**	**2,755**	**25,589**	**1,522**	**1,503**	**45,827**
Carrying amount							
At 31 December 2016	**42,735**	**23,468**	**946**	**28,441**	**2,408**	**813**	**98,811**
At 31 December 2017	**195,674**	**22,837**	**551**	**27,567**	**2,365**	**1,053**	**250,047**

As of 31 December 2017, construction in progress, included under land, buildings, constructions, turbo aggregates, transformers, generators and other assets amounted to GEL 122,636 thousand (31 December 2016: GEL 7,071 thousand).

As of 31 December 2017, property, plant and equipment items with a carrying value of GEL 224,620 thousand (31 December 2016: GEL 80,488 thousand) were pledged to third parties as collateral for borrowings (Refer to Note 14).

7. INVESTMENT PROPERTIES

Movements in the carrying amounts of the Group's investments properties were as follows:

In thousands of Georgian Lari	2017	2016
Investment properties at fair value as at 1 January	**51,401**	**50,461**
Additions	16	637
Transferred to property, plant and equipment	(11,434)	-
Sale of investment property	-	-
Gain on revaluation of investment properties	1,492	303
Investment properties at fair value as at 31 December	**41,475**	**51,401**

As of 31 December 2017 the investment properties mainly consist of a residential complex in Batumi which is currently under construction. As of 31 December 2016 the investment properties mainly consisted of a residential complex in Batumi which was under construction and one commercial building located in Tbilisi which was leased out primarily to related parties.

In 2017, the commercial building located in Tbilisi which was leased out primarily to related parties ceased to meet the definition of investment property because it became owner occupied and was transferred to property, plant and equipment.

As of 31 December 2017, investment properties with a carrying value of GEL 41,475 thousand (31 December 2016: GEL 51,401 thousand) were pledged to third parties as collateral for borrowings. (Refer to Note 14).

The fair value of the Group's investment property at 31 December 2017 and 31 December 2016 has been arrived at on the basis of a valuation carried out on the respective dates by an independent valuator not related to the Group. It has appropriate qualification and recent experience in the valuation of properties in the relevant locations.

Properties under valuation are general non-specialized buildings – residential houses, commercial spaces and land plot. For the fair value estimation the appraiser applied the sales comparison method, which is a generally accepted method for real estate valuation when there are enough comparable in the open market. Method reflects recent transaction prices for similar properties.

In thousands of Georgian Lari	Fair Value Hierarchy	31 December 2017	31 December 2016
Land and buildings Batumi, Rustaveli street	Level 3	41,475	39,967
Land and buildings Tbilisi, Gazaphkhuli street	Level 3	-	11,434
Investment properties at fair value as at 31 December		**41,475**	**51,401**

8. LOANS ISSUED

In thousands of Georgian Lari	Interest rate	31 December 2017	31 December 2016
Non-current			
Individuals	13.0% - 20.0%	13	18
LLC Global International Energy Corporation	18%	-	7
Total gross non-current loans issued		**13**	**25**
Allowance for impairment of non-current loans		-	-
Total non-current loans issued, net of allowance for impairment		**13**	**25**

In thousands of Georgian Lari	Interest rate	31 December 2017	31 December 2016
Current			
LLC Saqnakhshiri	13.6% - 16.0%	15,948	10,354
LTD Luraq Investments	9.6%	6,922	4,628
LLC Geo Development	8.3% - 11.1%	4,561	-
JSC Khashuri Glass Package	15.0%	809	528
Individuals	10.8% - 22.4%	376	410
LLC 1 Stereo	15.0%	370	293
LLC Autogas	15.0%	319	299
LLC Globaltrans	14.1%	159	186
LLC Business Center Saburtalo	9.6%	1	338
Total gross current loans issued		**29,465**	**17,036**
Allowance for impairment of current loans		(319)	(299)
Total current loans issued, net of allowance for impairment		**29,146**	**16,737**

As at 31 December 2017 and 2016 accrued interest included in loans issued amounted to GEL 5,540 thousand and GEL 4,284 thousand, respectively.

Loans issued partly consist of related party balances and are stated as current in the financial statements based on contractual terms and these terms with related parties may change. Terms and conditions of related party balances are disclosed in Note 26.

Fair value of loans issued as at 31 December 2017 approximated GEL 29,159 thousand (31 December 2016: GEL 16,762 thousand). All of the interest rates attached to the loans are fixed.

The loans issued are denominated in currencies as follows:

In thousands of Georgian Lari	31 December 2017	31 December 2016
Loans issued denominated in:		
- GEL	17,694	11,207
- US Dollars	9,485	5,262
- EUR	1,980	293
Loans issued, net	**29,159**	**16,762**

The maturities of loans issued are as follows:

In thousands of Georgian Lari	31 December 2017	31 December 2016
Less than one year	29,465	17,037
Between one and two years	5	12
Between two and five years	8	12
Over five years	-	-
Total gross loans issued	**29,478**	**17,061**
Less: Allowance for impairment	(319)	(299)
Loans issued, net of impairment allowance	**29,159**	**16,762**

Movement in impairment provision for loans issued during the reporting period was as follows:

In thousands of Georgian Lari	31 December 2017	31 December 2016
Provision for impairment at 1 January	**299**	**280**
Provision for impairment of loans issued	20	19
Provision for impairment at 31 December	**319**	**299**

9. INCOME TAX

In thousands of Georgian Lari	2017	2016
Current tax expense	-	769
In respect of prior years	-	(23)
Deferred tax benefit	-	(14,516)
Income tax benefit for the year	**-**	**(13,770)**

In May 2016 the Georgian parliament adopted and the president signed into legislation changes to the corporate tax code, with changes applicable on 1 January 2017. The code is applicable for Georgian companies and permanent establishments ('PE's) of nonresident companies, apart from certain financial institutions.

The previous profit tax regime, under which companies were subject to tax on their annual taxable profits, is now changed to a system where tax will have to be paid only if corporate profits are distributed.

The change has had an immediate impact on deferred tax of the Companies as it abolishes temporary differences between a carrying value of certain assets and liabilities for financial reporting purposes and their tax bases. Due to the changes of the tax legislation balance of deferred tax asset attributable to previously recognized temporary differences arising from prior periods was fully written off in the statement of profit and loss.

10. INVENTORIES

In thousands of Georgian Lari	**31 December 2017**	**31 December 2016**
Spare parts and consumables	7,654	6,775
Scrap and other materials	309	302
Total inventories	**7,963**	**7,077**

11. TRADE AND OTHER RECEIVABLES

In thousands of Georgian Lari	**31 December 2017**	**31 December 2016**
Trade receivables	20,786	32,634
Other financial receivables	508	508
Less: impairment loss provision	(1,311)	(1,454)
Total financial assets within trade and other receivables	**19,983**	**31,688**
Prepayments	1,927	1,785
Advances to employees	168	135
Other receivables	54	17
Total trade and other receivables	**22,132**	**33,625**

As of 31 December 2017, gross trade receivables of GEL 1,876 thousand (31 December 2016: GEL 2,067 thousand) were denominated in USD. All other trade receivables were denominated in Georgian Lari. None of the trade receivables were subject to any interest or other penalties.

Analysis by credit quality of trade and other financial receivables is as follows:

In thousands of Georgian Lari	**31 December 2017**	**31 December 2016**
Neither past due nor individually impaired	13,190	20,000
Total neither past due nor individually impaired	**13,190**	**20,000**
Past due but not impaired		
- less than 30 days overdue	641	2,452
- 30 to 90 days overdue	390	144
- 91 to 180 days overdue	687	427
- 181 to 360 days overdue	137	7,455
- over 360 days overdue	4,965	1,376
Total past due but not individually impaired	**6,820**	**11,854**
Individually determined to be impaired		
- less than 30 days overdue	-	-
- 30 to 90 days overdue	-	-
- 91 to 180 days overdue	1	-
- 181 to 360 days overdue	2	3
- over 360 days overdue	1,281	1,285
Total individually impaired	**1,284**	**1,288**
Less impairment provision	(1,311)	(1,454)
Total trade and other financial receivables	**19,983**	**31,688**

Trade receivables past due and not impaired partly consist of related party customers. In some cases, management may permit such debtors to delay repayment of the past due and not impaired amounts. Provision for impairment of trade and other receivables was determined based on the examination of customer payment trends, subsequent receipts and settlements and the analysis of expected future cash flows of each individual significant customer.

Movement in provision for impairment of trade and other receivables during the reporting period was as follows:

In thousands of Georgian Lari	**2017**	**2016**
Provision for impairment at 1 January	**1,454**	**1,318**
Provision for impairment of trade and other receivables	51	181
Recovery of provision against trade and other receivables	(194)	(45)
Provision for impairment at 31 December	**1,311**	**1,454**

12. CASH AND CASH EQUIVALENTS

In thousands of Georgian Lari	31 December 2017	31 December 2016
Cash on hand	52	48
Bank balances payable on demand	2,567	6,534
Restricted cash	33	28
Total cash and cash equivalents	**2,652**	**6,610**

Banks with which the Group held cash had the following credit ratings as affirmed by Fitch's Investor Services. For foreign subsidiary Georgian Banks which are not rated, parent Bank rating were used for the following table:

In thousands of Georgian Lari	31 December 2017	31 December 2016
BB-	2,555	6,521
BB+	7	3
B+	5	-
A	-	10
Total cash at banks	**2,567**	**6,534**

All cash and cash equivalents are classified as current and not impaired. As of 31 December 2017, GEL 404 thousand (31 December 2016: GEL 5,727 thousand) equivalent were held in USD and GEL 28 thousand equivalent (31 December 2016: GEL 8 thousand) was denominated in EUR.

13. CHARTER CAPITAL

In thousands of Georgian Lari	31 December 2017	31 December 2016
At 1 January	2,595	2,595
Increase in charter capital	5,125	-
At 31 December	**7,720**	**2,595**

As at 31 December 2017, 100% of ownership interest in the Company (31 December 2016: 100%) was held by LLC Georgian Industrial Group Holding.

On 1 February 2017 the Georgian Industrial Group Holding made a non-cash contribution into the charter capital of Georgian International Energy Corporation in the amount of GEL 3,539.

On 25 and 26 December 2017 the Georgian Industrial Group Holding made a cash contribution into the charter capital of Georgian International Energy Corporation in the amount of GEL 600 thousand and GEL 986 thousand, respectively.

14. BORROWINGS

In thousands of Georgian Lari	Contractual interest rate (per annum)	31 December 2017	31 December 2016
Non-current			
Borrowings from non-related parties			
JSC TBC Bank	8.55% - 9.64%	48,033	35,417
JSC Bank of Georgia	10.57% - 10.66%	4,222	5,776
JSC Pasha Bank	8.66%	2,161	-
JSC VTB Bank Georgia	7.00%	5,444	5,559
JSC Bank Republic	9.13%	-	13,395
Borrowings from related parties			
Individuals	15.00% - 15.44%	-	6,708
Total non-current borrowings		**59,860**	**66,855**
Current			
Borrowings from non-related parties			
JSC Bank of Georgia	6.00% - 10.66%	14,445	9,766
JSC TBC Bank	7.50% - 9.64%	14,324	4,389
VTB Bank Georgia	7.00%	14	11
Individuals	13.00%	450	417
JSC Pasha Bank	8.66%	301	-
JSC Bank Republic	6.30% - 9.13%	-	17,765
Riddlesford Financial SA	10.00%	-	1,079
Borrowings from related parties			
Individuals	15.00% - 15.50%	8,536	85
LLC Air Company	16.00%	48	45
LLC NGS Tsnori	16.00%	4	4
Total current borrowings		**38,122**	**33,561**
Total borrowings		**97,982**	**100,416**

All of the interest rates attached to loans are fixed except for borrowings from TBC, JSC Bank of Georgia and JSC Pasha Bank Georgia, which represent 6 month LIBOR plus 7.81%, 9% and 7% respectively. As at 31 December 2017 the estimated fair value of total borrowings approximated GEL 97,982 thousand (31 December 2016: GEL 100,416 thousand).

The Group's loans and borrowings are denominated in currencies as follows:

In thousands of Georgian Lari	31 December 2017	31 December 2016
US Dollars	90,768	94,540
Euro	5,193	3,890
GEL	2,021	1,986
Total borrowings	**97,982**	**100,416**

As of 31 December 2017, property, plant and equipment with a carrying value of GEL 224,620 thousand (31 December 2016: GEL 80,488 thousand) and investment properties with a carrying value of GEL 41,475 thousand (31 December 2016: GEL 51,401 thousand) were pledged to third parties as collateral for borrowings. Refer to Notes 6 and 7.

As at 31 December 2017 and 2016 accrued interest included in borrowings amounted to GEL 1,054 thousand and GEL 724 thousand, respectively.

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	1 January 2017	**Financing cash flows (i)**	**Interest changes (ii)**	**Foreign exchange gain**	**31 December 2017**
Borrowings	100,416	(1,999)	330	(765)	97,982

i) The cash flows from loans from related parties make up the net amount of proceeds from borrowings and repayments of borrowings in the statement of cash flows.
ii) Interest changes include interest accruals and payments.

15. TRADE AND OTHER PAYABLES

In thousands of Georgian Lari	**31 December 2017**	**31 December 2016**
Trade payables	21,351	24,478
Dividends payable	103	510
Salaries payable	24	19
Other payables	1	-
Total financial liabilities within trade and other payables	**21,479**	**25,007**
Customer prepayments	402	590
Deferred revenues	425	304
Total trade and other payables	**22,306**	**25,901**

As of 31 December 2017, trade and other payables of GEL 169 thousand (31 December 2016: GEL 189 thousand) were denominated in USD. All other trade and other payables were denominated in Georgian Lari.

Deferred revenues represent the Group's obligation for use of loyalty card accruals. In October 2015 the Group launched a marketing campaign for stimulation of retail gas sales by developing a loyalty card program. Retail customers are collecting money from purchase of natural gas and later exchanging these for additional gas consumption. Accrued amount is available for less than one-year period starting from the last accrual transaction date for each loyalty card.

For the year ended 31 December 2017, the Group declared dividends with total amount of GEL 4,657 thousand. Dividends payable of GEL 5,064 thousand was paid in cash.

For the year ended 31 December 2016, the Group declared dividends with total amount of GEL 4,817 thousand. Dividends payable of GEL 4,327 thousand was paid in cash.

16. REVENUES

In thousands of Georgian Lari	2017	2016
Sale of Gas		
Sale of gas – retail	47,298	38,835
Sale of gas – wholesale - domestic clients	20,082	18,563
Sale of gas – retail from withdrawal of loyalty card accruals	1,259	1,083
Sale of gas - wholesale – export	-	-
	68,639	**58,481**
Sale of electricity		
Sale of electricity - domestic clients	46,262	34,856
Tbilsresi TPP available capacity fee	10,756	14,209
Sale of electricity - export of electricity (trading)	-	8,129
Sale of electricity - export of electricity (own generation)	5,175	6,532
Sale of electricity – purchased outside the country (trading)	-	3,966
	62,193	**67,692**
Total revenues	**130,832**	**126,173**

The Company receives guaranteed capacity fee for maintaining Tbilsresi thermal power plant in readiness to generate electricity at full capacity upon request from state-owned LLC Electricity System Commercial Operator. The export sales of electricity include sales made through barter arrangement with Armenia-based thermal power plant operator. The Group receives natural gas in exchange for the electricity delivered through the barter agreement.

17. COST OF SALES

In thousands of Georgian Lari	2017	2016
Cost of gas		
Cost of gas purchased for subsequent resale	49,092	43,071
	49,092	**43,071**
Cost of electricity		
Cost of gas purchased for electricity generation (Tbilsresi TPP)	27,486	18,491
Cost of electricity purchased outside the country	-	3,729
Cost of electricity purchased for export resale	-	2,072
Cost of electricity purchased for import resale	-	-
	27,486	**24,292**
Overheads		
Staff costs	5,352	5,296
Depreciation of property, plant and equipment	3,137	3,164
Repairs and maintenance	1,656	993
Utilities	764	661
Insurance	650	648
Water supply services	472	451
Georgian National Energy and water supply regulatory commission and other regulation fees	397	374
Transportation and car expenses	255	246
Security services	239	239
Operating lease expense for property, plant and equipment	226	296
Materials and consumables used	191	552
Information, consulting and other professional services	182	52
Other	2,253	1,842
	15,774	**14,814**
Total cost of sales	**92,352**	**82,177**

18. SELLING AND DISTRIBUTION EXPENSES

In thousands of Georgian Lari	2017	2016
Staff costs	3,316	2,865
Electricity transfer fee	1,526	4,286
Depreciation of property, plant and equipment	1,804	1,833
Utilities	1,999	1,690
Operating lease expense for property, plant and equipment	1.108	550
Repairs and maintenance	577	428
Transportation and car expenses	497	271
Advertisement and publicity expenses	311	314
Materials and consumables used	288	265
Insurance	231	191
Information, consulting and other professional services	217	195
Georgian National Energy and water supply regulatory commission and other regulation fees	117	124
Other	567	369
Total selling and distribution expenses	**12,558**	**13,381**

19. GENERAL AND ADMINISTRATIVE EXPENSES

In thousands of Georgian Lari	2017	2016
Information, consulting and other professional services	3,283	2,503
Staff costs	2,468	2,545
Representation expenses	1,030	1,062
Depreciation of property, plant and equipment	746	407
Business trips	470	686
Transportation and car expenses	230	231
Insurance	133	107
Utilities	131	126
Telecommunications expenses	107	138
Operating lease expense for property, plant and equipment	54	50
Repairs and maintenance	32	11
Other	289	268
Total general and administrative expenses	**8,973**	**8,134**

20. OTHER OPERATING EXPENSES, NET

In thousands of Georgian Lari	2017	2016
Gains/(losses) on sale/disposal of property, plant and equipment	933	(97)
Rental income	513	392
Recovery (provision) of impaired trade and other receivables	143	(124)
Income from rendering of services	132	434
Penalties income	29	15
Derecognition of financial assets and liabilities, net	4	51
Taxes and duties	(2,242)	(2,324)
Charity and sponsorship expenses	(403)	(564)
Penalty charges	(234)	(90)
Gains/(losses) on sale/disposal of spare parts, materials and scrap	(64)	12
Provision for impairment of loans issued	(19)	(27)
Others, net	173	(178)
Total other operating expenses, net	**(1,035)**	**(2,500)**

Penalty charges for the years ended 31 December 2017 and 2016 represent amounts for the late payments on trade payables to counterparties.

21. FINANCE COSTS

In thousands of Georgian Lari	2017	2016
Interest expenses	8,228	7,793
Foreign exchange losses, net	-	6,987
Bank fees and charges	247	244
Total finance costs	**8,475**	**15,024**

22. BUSINESS COMBINATIONS

During 2017, no additional acquisition of ownership interest has taken place.

On 16 June 2016, the Company acquired additional 14% ownership interest in LLC Adjara Autogas by consideration paid of GEL 116 thousand and contribution of GEL 69 thousand fair value loans issued and increased its ownership share up to 74%.

23. FINANCIAL RISK MANAGEMENT

Credit risk. The Group is exposed to credit risk, which is the risk that a counterparty will not be able to pay in full when due. Financial assets, which potentially subject the Group to credit risk, consist principally of loans issued, trade receivables and cash and cash equivalents. The Group has procedures in place to ensure that goods are supplied to customers with an appropriate credit history, or alternative payment procedures are put in place otherwise (for example, advance payments). The carrying amount of accounts receivable, the total of cash and cash equivalents and loans issued represent the maximum amount exposed to credit risk. Although collection of receivables and loans issued could be influenced by economic factors, management believes that there is no significant risk of loss to the Group beyond the provisions already recorded.

The Group has a concentration of credit risk since the customer portfolio is concentrated in a small number of large natural gas and electricity purchasers. The table below shows the trade receivable balances, net of provision for impairment, of the 10 major customers at the reporting dates, which constitutes 82% and 84% of total trade receivables as at 31 December 2017 and 2016, respectively.

In thousands of Georgian Lari	31 December 2017	31 December 2016
JSC Telasi	6,827	-
LLC Saqnakhshiri	4,039	7,411
JSC Energo-Pro	1,844	29
Private Individuals	1,555	-
LLC Gas Energy	863	1,388
ESCO	805	16,684
LLC Global Trans	616	596
FORNOVOGAS	541	-
LLC Heidelbergcement Georgia	533	468
LLC Georgian Media holding	456	456
LLC Azerenerji	-	1,356
Total	**18,079**	**28,388**

For details of significant loans issued, refer to Note 8. Surplus cash balances are placed in financial institutions, which are considered at time of deposit to have a minimal risk of default.

Market risk. The Group takes on exposure to market risks. Market risks predominantly relate to the prices of goods determined by the market forces and thus setting limits on the price that can be charged to the customer. Despite the Group having certain influence over the setting of some of these prices for wholesale customers, its power is limited by actions of competitors such as LLC Socar Gas (main national wholesale gas suppliers). In retail gas sales, the Group accepts prices set by the market, where its primary competitors are LLC Wissol Petroleum and LLC Socar Gas.

During the reporting period, natural gas was primarily acquired from LLC Socar Georgia Gas for cash consideration. Price of gas purchased from LLC Socar Georgia Gas is agreed in advance

In addition, the Group has open currency position, which is exposed to general and specific market movements. Management sets limits on the value of risk that may be accepted, which are monitored regularly as required. However, the use of this approach does not prevent losses beyond these limits in the event of more significantly unfavourable market movements.
Geographical risk. The Group's assets are located in Georgia. The country continues to display certain characteristics of an emerging market. As such, the Group is exposed to any deterioration of the business environment within Georgia.

The Group is also exposed to developments between the relations of Georgia and other countries, particularly Azerbaijan and Armenia. Any events affecting the price of gas supplied would impact the Group's ability to continue its activities in the ordinary course of business. Similarly, the Group would be affected if its profitable barter transaction with Armenia-based thermal power plant operator were hindered by government-imposed restrictions on export of the electricity from Georgia.

Foreign exchange risk. Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. The Group has exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. As of 31 December 2017, the Group had significant balances primarily in relation to certain borrowings and trade receivables denominated in US Dollars and Euros.

At 31 December 2017, if the Georgian Lari had weakened/strengthened by 20 percent against the US Dollar with all other variables held constant, Group's retained earnings would have been GEL 15,833 thousand (31 December 2016: GEL 16,359 thousand) lower/higher, mainly as a result of foreign exchange losses/gains on translation of US Dollar-denominated bank balances, receivables, loans issued, borrowings and trade payables.

At 31 December 2017, if the Georgian Lari had weakened/strengthened by 20 percent against the Euro with all other variables held constant, the Group's retained earnings would have been GEL 637 thousand (31 December 2016: GEL 718 thousand) lower/higher, mainly as a result of foreign exchange losses/gains on translation of Euro-denominated borrowings.
The table below summarises the Group's exposure to foreign currency exchange rate risk at the reporting dates:

In thousands of Georgian Lari	**31 December 2017**	**31 December 2016**
USD – denominated:		
Monetary financial assets	11,765	12,934
Monetary financial liabilities	(90,928)	(94,728)
EUR – denominated:		
Monetary financial assets	2,008	301
Monetary financial liabilities	(5,193)	(3,890)
USD net position	**(79,163)**	**(81,794)**
EUR net position	**(3,185)**	**(3,589)**

Capital risk management. The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximizing the return to stakeholders through the optimization of the debt and equity balance.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including "current and non-current borrowings" as shown in the consolidated statement of financial position) less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the consolidated statement of financial position plus net debt.

In thousands of Georgian Lari	**31 December 2017**	**31 December 2016**
Total borrowings (Note 14)	97,982	100,416
Less: Cash and cash equivalents (Note 12)	(2,652)	(6,610)
Net debt	95,330	93,806
Total equity	235,765	90,983
Total capital	331,095	184,789
Net debt to equity ratio	**40%**	**103%**
Gearing ratio	**29%**	**51%**

Liquidity risk. Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding with an adequate amount of committed credit facilities.

The Group manages liquidity risk by maintaining access to the debt capital and by continuously monitoring forecasted and actual cash flows. Cash flow forecasting is performed in the operating entities of the Group and aggregated by Group finance. Such forecasts take into consideration the Group's debt refinancing plans. Group finance monitors rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities at all times so that the Group does not breach borrowing limits.

The Company's liquidity reserve comprised of undrawn borrowing facility and cash and cash equivalents (Note 12). As of 31 December 2017, GIEC had undrawn borrowing facilities from commercial banks amounting to GEL 193 thousand (31 December 2016: GEL 4,860 thousand).

The table below shows liabilities analysed by their remaining contractual maturity. The amounts disclosed in the maturity table are the contractual undiscounted cash flows, including gross loan commitments. Such undiscounted cash flows differ from the amount included in the consolidated statement of financial position because this amount is based on discounted cash flows.

When the amount payable is not fixed, the amount disclosed is determined by reference to the conditions existing at the reporting date. Foreign currency payments are translated using the spot exchange rate at the reporting date.

The maturity analysis of contractual payments as at 31 December 2017 is as follows:

In thousands of Georgian Lari	**Less than 1 year**	**From 1 to 2 years**	**From 2 to 5 years**	**Over 5 years**	**Total**
Trade and other payables	(21,479)	-	-	-	**(21,479)**
Borrowings	(43,107)	(20,081)	(37,077)	(15,773)	**(116,038)**
Total financial payables	**(64,586)**	**(20,081)**	**(37,077)**	**(15,773)**	**(137,517)**

The maturity analysis of contractual payments as at 31 December 2016 is as follows:

In thousands of Georgian Lari	Less than 1 year	From 1 to 2 years	From 2 to 5 years	Over 5 years	Total
Trade and other payables	(25,007)	-	-	-	**(25,007)**
Borrowings	(38,962)	(25,098)	(37,495)	(19,649)	**(121,204)**
Total financial payables	**(63,969)**	**(25,098)**	**(37,495)**	**(19,649)**	**(146,211)**

Management believes that increased draw on the Group's liquidity will be addressed by obtaining new credit facilities from commercial banks or reducing interest rates on existing borrowings, further improving management of cost base, increasing output and actively seeking out new contracts.

Interest rate risk. Interest rate risk is the exposure of the Group's financial position to adverse movements in interest rates, which is expressed by an increase in the interest amounts against attracted funds or by a decrease in income received from allocated funds. The Group does not have a formal policy of determining how much of the Group's exposure should be to fixed or variable rates. However, as at reporting date, all of the interest rates attached to loans are fixed except for borrowings from TBC (Previous Bank Republic Loan), JSC Bank of Georgia and JSC Pasha Bank Georgia, which represent 6 month LIBOR plus 7.81%, 9% and 7% respectively.

Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. The Group does not hedge its interest rate risk.

The table below summarises weighted-average contractual interest rates on interest-bearing financial assets and liabilities as at reporting dates, based on reports reviewed by key management personnel:

	31 December 2017			**31 December 2016**		
Weighted-average % per annum	GEL	USD	EUR	GEL	USD	EUR
Loans issued						
Related parties	14.53%	9.30%	15.41%	15.56%	9.64%	15.00%
Non-related parties	17.84%	10.80%	-	17.07%	10.80%	-
Borrowings						
Related parties	15.03%	15.00%	15.24%	15.03%	15.00%	13.28%
Non-related parties	13.00%	8.30%	-	13.00%	8.16%	8.00%

24. FAIR VALUE OF FINANCIAL INSTRUMENTS

IFRS defines fair value as 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 estimated fair values of financial instruments have been determined by the Group using available market information, where it exists, and appropriate valuation methodologies. However, judgement is necessarily required to interpret market data to determine the estimated fair value. 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.

Financial assets carried at amortised cost. 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. Carrying amounts of trade receivables and other financial assets approximate fair values due to their short term maturities.

Liabilities carried at amortised cost. The estimated fair value of fixed interest rate instruments with stated maturity was estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Management of the Group considers that the carrying amounts of financial liabilities recorded in the financial statements approximate their fair values.

The fair value of cash and cash equivalents was determined using level 1 measurement and the fair value of other financial assets and liabilities were determined using level 3 measurement.

25. COMMITMENTS AND CONTINGENCIES

Legal proceedings. From time to time and in the normal course of business, claims against the Group may be received. On the basis of its own estimates, as well as internal and external professional advice, management is of the opinion that no material losses will be incurred in respect of claims. Therefore, no provisions for litigations and claims have been made in these consolidated financial statements.

Taxation. Georgian tax legislation in particular may give rise to varying interpretations and amendments. In addition, as management's interpretation of tax legislation may differ from that of the tax authorities, transactions may be challenged by the tax authorities, and as a result the Group may be assessed additional taxes, penalties and interest. The Group believes that it has already made all tax payments, and therefore no allowance has been made in the consolidated financial statements. Tax years remain open to review by the tax authorities for three years.

Commitments assumed under the auction for Tbilsresi assets.

As a result of succeeding in the auction for JSC Tbilsresi assets on 23 February 2010, among other obligations, the Company assumed commitments to ensure the following:

- Proper operation of electricity generating units, in accordance with the requests of licensing authorities;
- Proper maintenance of the existing capacity (272 megawatts) at least by 2025;
- Construction of a coal power plant with the capacity of 100-150 megawatts in Gardabani and putting the plant into operation not later than 31 December 2013;
- Storage of state-owned fuel oil in its reservoirs, free of charge.

On 23 October 2015 the Company signed an agreement with Ministry of Economy and Sustainable Development of Georgia and Ministry of Energy of Georgia with the aim to amend and clarify obligations arising from the auction for JSC Tbilsresi assets on 23 February 2010. Under new agreement the Company is obliged to:

- Until 30 July 2020 put into operation coal-fired thermal power plant with capacity of 100-150 MW in Tkhibuli municipality;
- Begin the construction of the coal-fired thermal power plant no later than 30 September 2016.

On 4 July 2016 the Company signed an amendment to the construction of coal-fired thermal power plant in Tkhibuli municipality with Ministry of Energy of Georgia and LLC Electricity System Commercial Operator ("ESCO"). According to the amendment the Company assumed commitment to put into operation coal-fired thermal power plant with capacity of 150-300 MW (+/-10%) in Gardabani municipality until 31 July 2020.

The Company met currently all of the commitments and is in the construction process of the new coal-fired thermal power plant with capacity of 300 MW in Gardabani municipality.

Environmental matters. Emerging markets such as Georgia are subject to different risks than more developed markets; these include economic, political and social, and legal and legislative risks. Laws and regulations affecting businesses in Georgia continue to evolve rapidly with tax and regulatory frameworks subject to varying interpretations. The future direction of Georgia's economy is heavily influenced by the fiscal and monetary policies adopted by the government, together with developments in the legal, regulatory, and political environment.

For the last two years Georgia has experienced a number of legislative changes, which have been largely related to Georgia's accession plan to the European Union. Whilst the legislative changes implemented during 2016 and 2017 paved the way, more can be expected as Georgia's action plan for achieving accession to the European Union continues to develop.

26. RELATED PARTY TRANSACTIONS

Control relationships. The Company's immediate parent is LLC Georgian Industrial Group Holding which has been established under Georgian legislation and has a legal address at Gazapkhuli str. #18, Tbilisi 0177, Georgia. LLC Georgian Industrial Group Holding is controlled by Chemexim International Limited B.V., which has been established under the laws of the Republic of the Marshall Islands and has legal address at Trust Company Complex, Ajeltake Road, Ajeltake Island, Majuro, Marshall Islands, MH96960. Chemexim International Limited is controlled by Mr. David Bejhuashvili, who is the ultimate controlling party of the Group.

The most significant transactions are associated with issuing of loans and transactions that are part of the Company's business, such as the supply of natural gas.

Transactions and balances with related parties. Parties are generally considered to be related if the parties are under common control or if one party has the ability to control the other party or can exercise significant influence or joint control 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.

At 31 December 2017, outstanding balances with related parties were as follows:

In thousands of Georgian Lari	**Immediate or intermediary parent companies**	**Entities under common control**	**Associates**	**Other related parties***
Gross amount of trade receivables	69	5,499	360	-
Impairment provision for trade and other receivables	-	35	-	-
Gross amount of loans issued (contractual interest rate: 8.30%-20.0% p.a.)	-	24,209	-	4,904
Impairment provisions for loans issued	-	-	-	319
Borrowings	-	-	52	8,536
Trade and other payables	103	740	-	-

The income and expense items with related parties for the year ended 31 December 2017 were as follows:

In thousands of Georgian Lari	**Immediate or intermediary parent companies**	**Entities under common control**	**Associates**	**Other related parties***
Sale of gas - wholesale - domestic clients	-	1,214	885	-
Sale of gas – retail	-	4	-	-
Sale of electricity - domestic clients	-	186	-	-
Rental income	8	121	27	-
Provision for impairment of loans issued	-	-	-	20
Interest income	-	1,837	-	161
Interest expenses	-	-	3	1,096
Other income and expenses	-	39	-	-
Gains less losses on sale/disposal of property, plant and equipment	-	1	-	-
Gains less losses on sale/disposal of spare parts, materials and scrap	-	102	-	-
Income from rendering of services	-	81	-	-
Operating lease expense for property, plant and equipment	-	54	-	-
Information, consulting and other professional services	-	2,614	-	-
Water supply services	-	126	-	-
Repairs and maintenance	-	475	-	-
Insurance	-	-	-	16
Other	-	10	-	-

At 31 December 2016, outstanding balances with related parties were as follows:

In thousands of Georgian Lari	**Immediate or intermediary parent companies**	**Entities under common control**	**Associates**	**Other related parties***
Gross amount of trade receivables	59	8,868	308	-
Impairment provision for trade and other receivables	-	35	-	-
Gross amount of loans issued (contractual interest rate: 9.6%-20.0% p.a.)	-	10,964	-	5,701
Impairment provisions for loans issued	-	-	-	299
Borrowings	-	-	49	6,794
Trade and other payables	510	719	-	-

The income and expense items with related parties for the year ended 31 December 2016 were as follows:

In thousands of Georgian Lari	Immediate or intermediary parent companies	Entities under common control	Associates	Other related parties*
Sale of gas - wholesale - domestic clients	-	714	1,418	-
Rental income	8	142	36	-
Rendering of services	-	58	-	-
Impairment of trade and other receivable	-	35	-	-
Impairment of loans issued	-	-	-	19
Interest income	-	985	-	263
Interest expense	-	-	3	952
Losses on sale of spare parts, materials and scrap	-	151	1	-
Losses on sale of property, plant and equipment	-	90	-	-
Operating lease expense for property, plant and equipment	-	138	-	-
Information, consulting and other professional services	-	1,805	-	-
Water supply services	-	124	-	-
Repairs and maintenance	-	195	-	-

For the year ended 31 December 2017, consulting expenses in the amount of GEL 2,805 thousand were capitalized on construction of C-Power LLC. Consulting services were provided by entity under common control Georgian Industrial Group LLC.

* Other related parties include family members of the ultimate controlling party.

Key management compensation. Key management includes member of the Board of Directors. Compensation paid to key management for their services in full time executive management positions is made up of a contractual salary, performance bonus depending on financial performance of the Group and other compensation in form of reimbursement of business trips, fuel and communication expenses. Total compensation for key management personnel amounted to GEL 594 thousand for the year ended 31 December 2017 (2016: GEL 561 thousand) and was fully comprised of short-term employee benefits.

27. EVENTS AFTER THE REPORTING DATE

No significant events occurred after the reporting date.