

GEORGIAN INTERNATIONAL ENERGY CORPORATION LLC

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

GEORGIAN INTERNATIONAL ENERGY CORPORATION LLC

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GEORGIAN INTERNATIONAL ENERGY CORPORATION LLC

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

Management is responsible for the preparation of the separate financial statements that present fairly the financial position of LLC Georgian International Energy Corporation as of 31 December 2017, and the 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 separate 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 Company's financial position and financial performance;
- Making an assessment of the Company'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 Company;
- Maintaining adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company, and which enable them to ensure that the separate financial statements of the Company 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 Company; and
- Detecting and preventing fraud and other irregularities.

The separate financial statements of the Company for the year ended 31 December 2017 were approved by the Management on 8 June 2018.

On behalf of the Management:



Malkhaz Iashevili
Operational Director

8 June 2018
Tbilisi, Georgia



Lasha Gvazava
Chief Accountant

8 June 2018
Tbilisi, Georgia

INDEPENDENT AUDITOR'S REPORT

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

Opinion

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

In our opinion, the separate financial statements are prepared, in all material respects, in accordance with the basis of preparation set out in Note 2, which describes how IFRS have been applied in accordance with IFRS 1 "First-time Adoption of International Financial Reporting Standards", including the assumptions the management has made about the standards and interpretations expected to be effective, and the policies expected to be adopted, when the management prepares its first complete set of IFRS separate financial statements as at 31 December 2017.

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 Separate Financial Statements section of our report. We are independent of the Company 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 Separate Financial Statements

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

In preparing the separate financial statements, management is responsible for assessing the Company'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 Company or to cease operations, or has no realistic alternative but to do so.

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

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

Our objectives are to obtain reasonable assurance about whether the separate 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 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 separate 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 separate 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 Company'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 Company'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 separate 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 Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate 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 Company to express an opinion on the separate financial statements. We are responsible for the direction, supervision and performance of the Company 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 Robinson
on behalf of Deloitte and Touche LLC



Tbilisi, Georgia
8 June 2018

GEORGIAN INTERNATIONAL ENERGY CORPORATION LLC

SEPARATE STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER 2017

<i>In thousands of Georgian Lari</i>	Notes	31 December 2017	31 December 2016	1 January 2016
ASSETS				
Non-current assets				
Property, plant and equipment	5	79,410	77,376	78,990
Investment properties	6	-	11,434	9,987
Goodwill		516	516	516
Investments in associates	7	1,000	1,000	1,000
Investments in subsidiaries	8	55,826	40,220	36,739
Loans issued	9	13	24	5,072
Intangible assets		330	232	189
Other non-current assets		1,350	1,404	1,441
Total non-current assets		138,445	132,206	133,934
Current assets				
Inventories	11	5,439	5,175	6,373
Loans issued	9	28,887	15,995	4,172
Trade and other receivables	12	30,293	38,325	21,419
Taxes prepaid		-	-	1,921
Cash and cash equivalents	13	1,633	5,740	1,713
Total current assets		66,252	65,235	35,598
TOTAL ASSETS		204,697	197,441	169,532
EQUITY				
Charter capital	14	7,720	2,595	2,595
Retained earnings		80,914	71,230	54,879
TOTAL EQUITY		88,634	73,825	57,474
LIABILITIES				
Non-current liabilities				
Borrowings	15	57,699	66,855	63,061
Total non-current liabilities		57,699	66,855	63,061
Current liabilities				
Trade and other payables	16	20,933	24,423	12,845
Taxes payable		113	322	10,237
Borrowings	15	37,318	32,016	25,915
Total current liabilities		58,364	56,761	48,997
TOTAL LIABILITIES		116,063	123,616	112,058
TOTAL LIABILITIES AND EQUITY		204,697	197,441	169,532

Approved for issue and signed on behalf of the Management on 8 June 2018:

Malkhaz Iaseshvili
Operational Director

8 June 2018
Tbilisi, Georgia

Lasha Gvazava
Chief Accountant

8 June 2018
Tbilisi, Georgia

The accompanying notes set out on pages 8 to 40 form an integral part of these separate financial statements.

GEORGIAN INTERNATIONAL ENERGY CORPORATION LLC

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

<i>In thousands of Georgian Lari</i>	Notes	2017	2016
Revenues	17	118,027	115,978
Cost of sales	18	(88,986)	(78,373)
Gross profit		29,041	37,605
Selling and distribution expenses	19	(2,027)	(5,128)
General and administrative expenses	20	(8,101)	(8,059)
Other operating expenses, net	21	(1,361)	(1,942)
Operating profit		17,552	22,476
Gain on revaluation of investment properties	6	-	810
Finance income		4,840	2,702
Finance costs	22	(8,108)	(14,618)
Profit before income tax		14,284	11,370
Income tax benefit	10	-	9,681
PROFIT FOR THE YEAR		14,284	21,051
Other comprehensive income		-	-
Total comprehensive income		14,284	21,051

Approved for issue and signed on behalf of the Management on 8 June 2018:

Malkhaz Iaseshvili
Operational Director

8 June 2018
Tbilisi, Georgia

Lasha Gvazava
Chief Accountant

8 June 2018
Tbilisi, Georgia

The accompanying notes set out on pages 8 to 40 form an integral part of these separate financial statements.

GEORGIAN INTERNATIONAL ENERGY CORPORATION LLC

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

<i>In thousands of Georgian Lari</i>	Charter capital	Retained earnings	Total
At 1 January 2016	2,595	54,879	57,474
Total comprehensive income	-	21,051	21,051
Dividends declared	-	(4,700)	(4,700)
At 31 December 2016	2,595	71,230	73,825
Total comprehensive income	-	14,284	14,284
Dividends declared	-	(4,600)	(4,600)
Increase in charter capital	5,125	-	5,125
At 31 December 2017	7,720	80,914	88,634

Approved for issue and signed on behalf of the Management on 8 June 2018:

Malkhaz Iashevili
Operational Director

8 June 2018
Tbilisi, Georgia

Lasha Gvazava
Chief Accountant

8 June 2018
Tbilisi, Georgia

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GEORGIAN INTERNATIONAL ENERGY CORPORATION LLC

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

<i>In thousands of Georgian Lari</i>	Notes	2017	2016
Cash flows from operating activities			
Cash receipts from customers		132,691	89,106
Cash paid to suppliers		(100,231)	(54,945)
Cash paid to employees		(5,930)	(5,996)
Cash generated from operations		26,530	28,165
Interest paid		(8,116)	(7,642)
Taxes paid, net		(4,005)	(4,653)
Net cash from operating activities		14,409	15,870
Cash flows from investing activities			
Increase (decrease) in charter capital		1,586	-
Increase (decrease) in subsidiary charter capital		(5,175)	(3,491)
Dividend received		464	634
Loans disbursed		(21,813)	(16,387)
Repayment of loans issued		11,028	11,019
Interest received		1,544	983
Purchase of intangible assets		(271)	(38)
Purchase of investment property		-	(475)
Proceeds from sale of investment property		3,312	212
Purchase of property, plant and equipment		(878)	(1,561)
Proceeds from sale of property, plant and equipment		29	35
Net cash used in investing activities		(10,174)	(9,069)
Cash flows from financing activities			
Proceeds from borrowings		25,800	36,277
Repayment of borrowings		(29,139)	(34,900)
Dividends paid		(5,007)	(4,210)
Net cash used financing activities		(8,346)	(2,833)
Effect of exchange rate changes on cash and cash equivalents		4	58
Net (decrease)/increase in cash and cash equivalents		(4,107)	4,026
Cash and cash equivalents at the beginning of the year		5,740	1,714
Cash and cash equivalents at the end of the year		1,633	5,740

Approved for issue and signed on behalf of the Management on 8 June 2018:

Malkhaz Iashevili
Operational Director

8 June 2018
Tbilisi, Georgia

Lasha Gvazava
Chief Accountant

8 June 2018
Tbilisi, Georgia

The accompanying notes set out on pages 8 to 40 form an integral part of these separate financial statements.

GEORGIAN INTERNATIONAL ENERGY CORPORATION LLC

NOTES TO THE SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

1. INTRODUCTION

LLC Georgian International Energy Corporation (the "Company" or "GIEC") was incorporated on 11 July 2005 and is domiciled in Georgia. The Company has been set up as limited liability Company 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 7 hydro power plants located throughout Georgia and controlled by the Company. 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.

Registered address and place of business. The Company's registered address is at #66 Stalin Street, Tetrtskaro 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 Company employed 543 employees (31 December 2016: 575 employees, 1 January 2016: 595)

NOTES TO THE SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance. These separate financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). These separate financial statements are the company's first annual financial information that fully comply with International Financial Reporting Standards ("IFRS"). The Company's IFRS transition date is 1 January 2016. Subject to certain exceptions, IFRS 1 requires retrospective application of the version of standards and interpretations effective for the year ended 31 December 2017. This version was applied in preparing the opening IFRS statement of financial position at 1 January 2016 and in subsequent periods up to the end of the IFRS reporting period.

As the Company was not required to prepare and did not prepare financial information under local GAAP, no reconciliations from previous GAAP to IFRS are presented in these separate financial statements.

Basis of preparation. These separate financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and Interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC").

The Company has prepared consolidated financial statements, on the same basis as presented here a copy of which can be found at the Company's office at 18 Gazapkhuli Street, 0177 Tbilisi, Georgia.

In addition to issuing consolidated financial statements, the Company has elected, as permitted under IAS 27 "Consolidated and Separate Financial Statements" and local law, to present stand alone financial statements. These separate financial statements are presented for the purpose of assessing the Company's separate financial position and the financial results and as a result do not include the consolidation of the Company's subsidiaries and associates.

The principal accounting policies applied in the preparation of these separate financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

The separate 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 Company 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 separate 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.

GEORGIAN INTERNATIONAL ENERGY CORPORATION LLC

NOTES TO THE SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

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

Investments in subsidiaries – a subsidiary is an entity over which the Company has a control. A control is when the investor is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Investments in subsidiaries are accounted at cost in these separate financial statements. Dividends received from a subsidiary or an associate are recognized in profit or loss when the right to receive the dividend is established.

The requirements of IAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Company's investment in a subsidiary. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 Impairment of Assets as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

Investments in 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 in the separate financial statements of the company are stated at cost, less any accumulated impairment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

Foreign currencies. In preparing the separate financial statements of the 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 Company in the preparation of the separate financial statements as at year-end are as follows:

	31 December 2017	31 December 2016	1 January 2016
GEL/1 US Dollar	2.5922	2.6468	2.3949
GEL/1 Euro	3.1044	2.7940	2.6169

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

GEORGIAN INTERNATIONAL ENERGY CORPORATION LLC

NOTES TO THE SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

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 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 Company 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 Company to earn rental income or for capital appreciation, or both and which is not occupied by the Company. 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 Company'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 Company and the cost can be measured reliably. All other repairs and maintenance costs are expensed when incurred.

GEORGIAN INTERNATIONAL ENERGY CORPORATION LLC

NOTES TO THE SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

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

Intangible assets. The Company'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 life 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 statement of financial position on a net basis 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

NOTES TO THE SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

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 Company 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 Company'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 Company determines that no objective evidence exists that impairment was incurred for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. The primary factors that the company considers in determining whether a financial asset is impaired are its overdue status and realisability of related collateral, if any. The following other principal criteria are also used to determine whether there is objective evidence that an impairment loss has occurred:

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

**NOTES TO THE SEPARATE FINANCIAL STATEMENTS
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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 Company'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 Company incurs expenditures for the qualifying asset; (b) it incurs borrowing costs; and (c) it undertakes activities that are necessary to prepare the asset for its intended use or sale.

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

The Company 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 Company's average funding cost (the weighted average interest cost is applied to the expenditures on the qualifying assets), except to the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset. Where this occurs, actual borrowing costs incurred less any investment income on the temporary investment of those borrowings are capitalised.

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 Company commits to deliver a financial asset. All other purchases are recognised when the entity becomes a party to the contractual provisions of the instrument.

GEORGIAN INTERNATIONAL ENERGY CORPORATION LLC

NOTES TO THE SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

Derecognition of financial assets. The Company derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expire or (b) the Company has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement 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 Company has obtained control of the asset and it is probable that future economic benefits associated with the asset will flow to the Company. Other prepayments are written off to profit or loss when the goods or services relating to the prepayments are received. If there is an indication that the assets, goods or services relating to a prepayment will not be received, the carrying value of the prepayment is written down accordingly and a corresponding impairment loss is recognised in profit or loss for the year.

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 separate 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 Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. 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 Tbilisres 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.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

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

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

**NOTES TO THE SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)**

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.

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

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

The Company's liabilities arising from financing activities consist of borrowings (note 15). A reconciliation between the opening and closing balances of these items is provided in note 15. Consistent with the transition provisions of the amendments, the Company has not disclosed comparative information for the prior period. Apart from the additional disclosure in note 15, the application of these amendments has had no impact on the Company's separate financial statements.

Annual Improvements to IFRSs - 2014-2016 Cycle

The Company 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 Company's separate financial statements.

New and revised IFRSs in issue but not yet effective

The Company 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;

**NOTES TO THE SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)**

- 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 Cycle¹;
- Annual Improvements to IFRSs 2015-2017 Cycle².

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 Company does not anticipate that new and revised IFRSs in issue but not effective has impact on the separate 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.

**NOTES TO THE SEPARATE FINANCIAL STATEMENTS
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- **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 Company'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 Company 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 Company 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.

**NOTES TO THE SEPARATE FINANCIAL STATEMENTS
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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.

In contrast, for finance leases the Company has no finance lease and in cases where the Company is a lessor (for both operating and finance leases), the management of the Company does not anticipate that the application of IFRS 16 will have a significant impact on the amounts recognised in the Company's separate financial statements, 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 Company does not anticipate that the application of this IFRIC will have a material impact on the Company's separate financial statements as the Company 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 Company anticipates that the application of these amendments may have an impact on the Company's separate financial statements in future periods should there be a change in use of any of its properties.

**NOTES TO THE SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)**

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 Company does not anticipate that the application of this IFRIC will have a material impact on the Company's separate financial statements as the Company 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 separate 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 Company does not anticipate that the application of the amendments in the future will have any impact on the Company's separate financial statements as the Company is neither a first-time adopter of IFRS nor a venture capital organisation. Furthermore, the Company 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.

GEORGIAN INTERNATIONAL ENERGY CORPORATION LLC

NOTES TO THE SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

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

5. PROPERTY, PLANT AND EQUIPMENT

The following table represents movements of property, plant and equipment for the years ended 31 December 2017, 31 December 2016 and 1 January 2016:

<i>In thousands of Georgian Lari</i>	Land buildings and constructions	Hydro- technical structures	Gas Pipe- lines	Machinery and equipment	Motor vehicles	Fixtures and fittings	Total
Cost At 1 January 2016	37,152	28,903	401	33,563	2,353	1,136	103,508
Additions	343	226	-	692	782	202	2,245
Disposals	(200)	-	-	(88)	(199)	(18)	(505)
Intra-group reclassifications	(596)	22	-	510	-	64	-
At 31 December 2016	36,699	29,151	401	34,677	2,936	1,384	105,248
Additions	333	14	-	778	317	308	1,750
Disposals	(7,332)	-	-	(52)	(176)	(96)	(7,656)
Transfer from investment property	11,434	-	-	-	-	-	11,434
Intra-group reclassifications	(110)	-	-	(38)	1	147	-
At 31 December 2017	41,024	29,165	401	35,365	3,078	1,743	110,776
Accumulated depreciation							
At 1 January 2016	5,062	5,415	229	12,310	830	672	24,518
Depreciation expense	545	637	57	1,896	188	142	3,465
Accumulated depreciation on assets disposed	(6)	-	-	(11)	(79)	(15)	(111)
Intra-group reclassifications	(246)	-	1	245	1	(1)	-
At 31 December 2016	5,355	6,052	287	14,440	940	798	27,872
Depreciation expense	738	636	57	1,870	246	208	3,755
Accumulated depreciation on assets disposed	(28)	-	-	(45)	(113)	(75)	(261)
Intra-group reclassifications	(89)	-	-	-	-	89	-
At 31 December 2017	5,976	6,688	344	16,265	1,073	1,020	31,366
Carrying amount							
At 1 January 2016	32,090	23,488	172	21,253	1,523	464	78,990
At 31 December 2016	31,344	23,099	114	20,237	1,996	586	77,376
At 31 December 2017	35,048	22,477	57	19,100	2,005	723	79,410

As of 31 December 2017, property, plant and equipment items with a carrying value of GEL 72,369 thousand (31 December 2016: GEL 70,034 thousand, 1 January 2016: GEL 69,431 thousand) were pledged to third parties as collateral for borrowings (refer to note 15).

GEORGIAN INTERNATIONAL ENERGY CORPORATION LLC

NOTES TO THE SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

6. INVESTMENT PROPERTIES

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

<i>In thousands of Georgian Lari</i>	2017	2016
Investment properties at fair value as at 1 January	11,434	9,987
Additions	-	637
Transferred to property, plant and equipment	(11,434)	-
Gain on revaluation of investment properties	-	810
Investment properties at fair value as at 31 December	-	11,434

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.

The fair value of the Company's investment property at 31 December 2016 and 1 January 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 Company. It has appropriate qualification and recent experience in the valuation of properties in the relevant locations.

Property under valuation is general non-specialized building –commercial space 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.

<i>In thousands of Georgian Lari</i>	Fair Value Hierarchy	31 December 2017	31 December 2016	1 January 2016
Land and buildings Tbilisi, Gazaphkhuli street	Level 3	-	11,434	9,987
Investment properties at fair value as at 31 December		-	11,434	9,987

7. INVESTMENT IN ASSOCIATES

All Company's principal associates are registered in Georgia and were as follows as of 31 December 2017, 2016 and 1 January 2016.

(GEL'000)		31 December 2017		31 December 2016		1 January 2016	
Name	Nature of business	Carrying value	Ownership share	Carrying value	Ownership share	Carrying value	Ownership share
LLC Gama+	Gas retail sales	1,000	25%	1,000	25%	1,000	25%
		1,000		1,000		1,000	

GEORGIAN INTERNATIONAL ENERGY CORPORATION LLC

NOTES TO THE SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

8. INVESTMENT IN SUBSIDIARIES

All Company's principal associates are registered in Georgia and were as follows as of 31 December 2017, 2016 and 1 January 2016.

(GEL'000)		31 December 2017		31 December 2016		1 January 2016	
Name	Nature of business	Carrying value	Ownership share	Carrying value	Ownership share	Carrying value	Ownership share
LLC C Power	Electricity generation	20,463	100.0%	5,038	100.0%	1,599	100.0%
LLC Batumi City	Real estate development	16,738	100.0%	16,581	100.0%	16,529	100.0%
LLC Neogas	Gas refuelling operator	15,445	100.0%	15,445	100.0%	15,455	100.0%
LLC Ritseulahesi	Electricity generation	3,156	88.5%	3,156	88.5%	3,156	88.5%
LLC Power Export	Gas equipped vehicle testing	24	100.0%	-	100%	-	100%
LLC Power Trade	Electricity trading	-	100.0%	-	100.0%	-	100.0%
LLC Jorjian Hydro Power EPC	HPP engineering	-	51.0%	-	51.0%	-	51.0%
LLC X Gazi	Gas refuelling operator	-	50%	-	50%	-	50%
		55,826		40,220		36,739	

9. LOANS ISSUED

<i>In thousands of Georgian Lari</i>	Interest rate	31 December 2017	31 December 2016	1 January 2016
Non-current				
Private individuals	13.0% - 20.0%	13	17	22
LLC Saknakshiri	16%	-	-	4,772
JSC Khashuri Glass Package	15%	-	-	278
LLC Global International Energy Corporation	18%	-	7	-
Total non-current loans issued		13	24	5,072
<i>In thousands of Georgian Lari</i>	Interest rate	31 December 2017	31 December 2016	1 January 2016
Current				
LLC Saknakshiri	13.6% - 16.0%	15,110	9,611	3,232
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	37
LLC Neogas	8.5% - 11.6%	576	-	-
Individuals	10.8% - 20.0%	349	383	101
LLC 1 Stereo	15.0%	370	293	631
LLC Globaltrans	14.1%	159	186	-
LLC Power trade	14.0%	30	28	25
LLC Business Centre Saburtalo	9.6%	1	338	-
LLC Global International Energy Corporation	11.4%	-	-	146
Total current loans issued		28,887	15,995	4,172

GEORGIAN INTERNATIONAL ENERGY CORPORATION LLC

NOTES TO THE SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

As at 31 December 2017, 2016 and 1 January 2016 accrued interest included in loans issued amounted to GEL 5,428 thousand, GEL 4,247 thousand and GEL 3,449 thousand, respectively.

Loans issued partly consist of related party balances and are stated as current in the separate 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 28,900 thousand (31 December 2016: GEL 16,019 thousand and 1 January 2016: GEL 9,244 thousand). All of the interest rates attached to the loans are fixed.

The loans issued are denominated in currencies as follows:

<i>In thousands of Georgian Lari</i>	31 December 2017	31 December 2016	1 January 2016
Loans issued denominated in:			
- GEL	16,860	10,464	8,379
- US Dollars	10,061	5,262	234
- EUR	1,979	293	631
Loans issued, net	28,900	16,019	9,244

The maturities of loans issued are as follows:

<i>In thousands of Georgian Lari</i>	31 December 2017	31 December 2016	1 January 2016
Less than one year	28,887	15,995	4,172
Between one and two years	5	12	5,055
Between two and five years	8	12	16
Over five years	-	-	1
Total loans issued	28,900	16,019	9,244

10. INCOME TAX

<i>In thousands of Georgian Lari</i>	2017	2016
Current tax expense	-	556
Deferred tax benefit	-	(10,237)
Income tax benefit for the year	-	(9,681)

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.

GEORGIAN INTERNATIONAL ENERGY CORPORATION LLC

NOTES TO THE SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

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.

11. INVENTORIES

<i>In thousands of Georgian Lari</i>	31 December 2017	31 December 2016	1 January 2016
Spare parts and consumables	5,313	5,049	6,152
Scrap and other materials	126	126	221
Total inventories	5,439	5,175	6,373

12. TRADE AND OTHER RECEIVABLES

<i>In thousands of Georgian Lari</i>	31 December 2017	31 December 2016	1 January 2016
Trade receivables	30,102	38,020	20,648
Other financial receivables	48	48	59
Less: impairment loss provision	(730)	(897)	(799)
Total financial assets within trade and other receivables	29,420	37,171	19,908
Prepayments	836	1,135	1,448
Advances to employees	-	3	15
Other receivables	37	16	48
Total trade and other receivables	30,293	38,325	21,419

As of 31 December 2017, gross trade receivables of GEL 1,348 thousand (31 December 2016: GEL 2,067 thousand; 1 January 2016: GEL 7,075 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:

GEORGIAN INTERNATIONAL ENERGY CORPORATION LLC

NOTES TO THE SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

<i>In thousands of Georgian Lari</i>	31 December 2017	31 December 2016	1 January 2016
Neither past due nor individually impaired	16,406	23,535	17,246
Total neither past due nor individually impaired	16,406	23,535	17,246
<i>Past due but not impaired</i>			
- less than 30 days overdue	6,718	4,382	1,544
- 30 to 90 days overdue	370	140	117
- 91 to 180 days overdue	711	429	127
- 181 to 360 days overdue	182	7,429	192
- over 360 days overdue	4,991	1,362	674
Total past due but not individually impaired	12,972	13,742	2,654
<i>Individually determined to be impaired</i>			
- less than 30 days overdue	-	-	2
- 30 to 90 days overdue	-	-	1
- 91 to 180 days overdue	-	-	8
- 181 to 360 days overdue	-	1	15
- over 360 days overdue	772	790	781
Total individually impaired	772	791	807
Less impairment provision	(730)	(897)	(799)
Total trade and other financial receivables	29,420	37,171	19,908

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:

<i>In thousands of Georgian Lari</i>	2017	2016
Provision for impairment at 1 January	897	799
Provision for impairment of trade and other receivables	14	139
Recovery of provision against trade and other receivables	(181)	(41)
Provision for impairment at 31 December	730	897

GEORGIAN INTERNATIONAL ENERGY CORPORATION LLC

NOTES TO THE SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

13. CASH AND CASH EQUIVALENTS

<i>In thousands of Georgian Lari</i>	31 December 2017	31 December 2016	1 January 2016
Cash on hand	2	7	20
Bank balances payable on demand	1,631	5,733	1,693
Total cash and cash equivalents	1,633	5,740	1,713

Banks with which the Company 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:

<i>In thousands of Georgian Lari</i>	31 December 2017	31 December 2016	1 January 2016
BB-	1,624	5,723	659
BB+	7	3	188
A	-	7	846
Total cash at banks	1,631	5,733	1,693

All cash and cash equivalents are classified as current and not impaired. As of 31 December 2017, GEL 401 thousand (31 December 2016: GEL 5,604 thousand; 1 January 2016: GEL 16 thousand) equivalent were held in USD and 28 thousand GEL equivalent (31 December 2016: GEL 7 thousand; 1 January 2016: GEL 1 thousand) was denominated in EUR.

14. CHARTER CAPITAL

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

As at 31 December 2017, 100% of ownership interest in the Company (31 December 2016: 100%, 1 January 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.

GEORGIAN INTERNATIONAL ENERGY CORPORATION LLC

NOTES TO THE SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

15. BORROWINGS

<i>In thousands of Georgian Lari</i>	Contractual interest rate (per annum)	31 December 2017	31 December 2016	1 January 2016
Non-current				
Borrowings from non-related parties				
JSC TBC Bank	8.55% - 9.64%	48,033	35,417	35,783
JSC Bank of Georgia	10.57% - 10.66%	4,222	5,776	6,436
JSC VTB Bank Georgia	7.00%	5,444	5,559	-
JSC Bank Republic	9.13%	-	13,395	14,523
Borrowings from related parties				
Individuals	15.00% - 15.44%	-	6,708	6,319
Total non-current borrowings		57,699	66,855	63,061
Current				
Borrowings from non-related parties				
JSC Bank of Georgia	6.00% - 10.66%	14,445	9,766	1,154
JSC TBC Bank	7.50% - 9.64%	14,324	4,389	8,867
VTB Bank Georgia	7.00%	13	11	-
JSC Bank Republic	6.30% - 9.13%	-	17,765	15,813
Borrowings from related parties				
Individuals	15.00% - 15.50%	8,536	85	81
Total current borrowings		37,318	32,016	25,915
Total borrowings		95,017	98,871	88,976

All of the interest rates attached to loans are fixed except for borrowings from TBC and JSC Bank of Georgia, which represent 6 month LIBOR plus 7.81% and 9% respectively. As at 31 December 2017 the estimated fair value of total borrowings approximated GEL 95,017 thousand (31 December 2016: GEL 98,871 thousand, 1 January 2016: GEL 88,976 thousand).

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

<i>In thousands of Georgian Lari</i>	31 December 2017	31 December 2016	1 January 2016
US Dollars	88,305	93,461	82,626
Euro	5,193	3,891	4,831
GEL	1,519	1,519	1,519
Total borrowings	95,017	98,871	88,976

GEORGIAN INTERNATIONAL ENERGY CORPORATION LLC

NOTES TO THE SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

The table below details changes in the Company'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 Company's 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	98,871	(3,339)	337	(852)	95,017

- 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.

16. TRADE AND OTHER PAYABLES

<i>In thousands of Georgian Lari</i>	31 December 2017	31 December 2016	1 January 2016
Trade payables	20,758	23,843	12,585
Dividends payable	103	510	20
Salaries payable	15	16	8
Other payables	-	-	193
Total financial liabilities within trade and other payables	20,876	24,369	12,806
Customer prepayments	57	54	39
Total trade and other payables	20,933	24,423	12,845

As of 31 December 2017, trade and other payables of GEL 93 thousand (31 December 2016: GEL 123 thousand and 1 January 2016: GEL 7,233 thousand) were denominated in USD. All other trade and other payables were denominated in Georgian Lari.

17. REVENUES

<i>In thousands of Georgian Lari</i>	2017	2016
<i>Sale of Gas</i>		
Sale of gas – wholesale - domestic clients	56,436	49,274
Sale of gas – retail	-	4
	56,436	49,278
<i>Sale of electricity</i>		
Sale of electricity - domestic clients	45,576	33,754
Tbilsresi TPP available capacity fee	10,756	14,209
Sale of electricity - export of electricity (own generation)	4,578	6,157
Sale of electricity - export of electricity (trading)	596	8,504
Sale of electricity – purchased outside the country (trading)	-	3,966
	61,506	66,590
<i>Other revenue</i>		
Rendering services	85	110
	85	110
Total revenues	118,027	115,978

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

GEORGIAN INTERNATIONAL ENERGY CORPORATION LLC

NOTES TO THE SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

arrangement with Armenia-based thermal power plant operator. The Company receives natural gas in exchange for the electricity delivered through the barter agreement.

18. COST OF SALES

<i>In thousands of Georgian Lari</i>	2017	2016
<i>Cost of gas</i>		
Cost of gas purchased for subsequent resale	47,939	41,133
	47,939	41,133
<i>Cost of electricity</i>		
Cost of gas purchased for electricity generation (Tbilsres TPP)	27,484	18,491
Cost of electricity purchased outside the country	-	3,729
Cost of electricity purchased for export resale	104	2,117
Cost of electricity purchased for import resale	-	-
	27,588	24,337
<i>Overheads</i>		
Staff costs	5,165	5,106
Depreciation of property, plant and equipment	3,013	3,036
Repairs and maintenance	1,641	987
Utilities	755	652
Insurance	621	618
Water supply services	472	451
Georgian National Energy and water supply regulatory commission and other regulation fees	396	372
Transportation and car expenses	269	239
Security services	239	239
Operating lease expense for property, plant and equipment	219	299
Information, consulting and other professional services	181	50
Materials and consumables used	166	526
Other	322	328
	13,459	12,903
Total cost of sales	88,986	78,373

19. SELLING AND DISTRIBUTION EXPENSES

<i>In thousands of Georgian Lari</i>	2017	2016
Electricity transfer fee	1,832	4,591
Georgian National Energy and water supply regulatory commission and other regulation fees	117	124
Depreciation of property, plant and equipment	64	55
Advertisement and publicity expenses	10	279
Utilities	4	4
Staff costs	-	71
Insurance	-	3
Other	-	1
Total selling and distribution expenses	2,027	5,128

GEORGIAN INTERNATIONAL ENERGY CORPORATION LLC

NOTES TO THE SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

20. GENERAL AND ADMINISTRATIVE EXPENSES

<i>In thousands of Georgian Lari</i>	2017	2016
Information, consulting and other professional services	2,467	2,501
Staff costs	2,423	2,490
Representation expenses	1,030	1,062
Depreciation of property, plant and equipment	745	406
Business trips	470	686
Transportation and car expenses	232	231
Insurance	123	99
Utilities	130	124
Telecommunications expenses	107	138
Operating lease expense for property, plant and equipment	54	50
Repairs and maintenance	31	4
Other	289	268
Total general and administrative expenses	8,101	8,059

21. OTHER OPERATING EXPENSES, NET

<i>In thousands of Georgian Lari</i>	2017	2016
Gains/(losses) on sale/disposal of property, plant and equipment	547	(29)
Rental income	471	354
Recovery (provision) of impaired trade and other receivables	167	(98)
Income from rendering of services	157	462
Penalties income	7	6
Taxes and duties	(2,126)	(1,779)
Derecognition of financial assets and liabilities, net	(79)	47
Charity and sponsorship expenses	(396)	(562)
Penalty charges	(146)	(66)
Losses on disposal of spare parts, materials and scrap	(60)	(48)
Others, net	97	(229)
Total other operating expenses, net	(1,361)	(1,942)

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

22. FINANCE COSTS

<i>In thousands of Georgian Lari</i>	2017	2016
Interest expenses	8,019	7,681
Foreign exchange losses, net	-	6,808
Bank fees and charges	89	129
Total finance costs	8,108	14,618

GEORGIAN INTERNATIONAL ENERGY CORPORATION LLC

NOTES TO THE SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

23. FINANCIAL RISK MANAGEMENT

Credit risk. The Company 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 Company to credit risk, consist principally of loans issued, trade receivables and cash and cash equivalents. The Company 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 Company beyond the provisions already recorded.

The Company 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 16 major customers at the reporting dates, which constitutes 92%, 93% and 91% of total trade receivables as at 31 December 2017, 31 December 2016 and 1 January 2016, respectively.

<i>In thousands of Georgian Lari</i>	31 December 2017	31 December 2016	1 January 2016
LLC Neogas	10,192	5,427	3,215
JSC Telasi	6,827	-	-
LLC Saqnakhshiri	4,039	7,411	7,298
JSC Energo-Pro	1,844	29	3,338
Private Individuals	1,037	-	-
LLC Gas Energy	863	1,388	1,208
ESCO	805	16,684	986
LLC Global Trans	616	596	524
LLC Heidelbergcement Georgia	533	467	751
LLC Georgian Media holding	456	456	456
Erevanskaia Tec	311	311	-
JSC Sachkheregas	285	421	375
LLC Azerenerji	-	1,356	879
JSC Greenhouse corporation	-	575	252
INDAR	-	388	-
LLC Acord	-	172	172
Total	27,808	35,681	19,454

For details of significant loans issued, refer to Note 9. 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 Company 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 Company 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).

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 Company 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 Company's assets are located in Georgia. The country continues to display certain characteristics of an emerging market. As such, the Company is exposed to any deterioration of the business environment within Georgia.

The Company 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

GEORGIAN INTERNATIONAL ENERGY CORPORATION LLC

NOTES TO THE SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

would impact the Company's ability to continue its activities in the ordinary course of business. Similarly, the Company 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 Company 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 Company 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, Company's retained earnings would have been GEL 15,318 thousand (31 December 2016: GEL 16,130 thousand; 1 January 2016: GEL 16,544 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 Company's retained earnings would have been GEL 637 thousand (31 December 2016: GEL 718 thousand; 1 January 2016: GEL 840 thousand) lower/higher, mainly as a result of foreign exchange losses/gains on translation of Euro-denominated borrowings.

The table below summarises the Company's exposure to foreign currency exchange rate risk at the reporting dates:

<i>In thousands of Georgian Lari</i>	31 December 2017	31 December 2016	1 January 2016
USD – denominated:			
Monetary financial assets	11,810	12,932	7,332
Monetary financial liabilities	(88,398)	(93,582)	(90,052)
EUR – denominated:			
Monetary financial assets	2,008	300	632
Monetary financial liabilities	(5,193)	(3,890)	(4,831)
USD net position	(76,588)	(80,650)	(82,720)
EUR net position	(3,185)	(3,590)	(4,199)

Capital risk management. The Company manages its capital to ensure that entities in the Company 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 Company 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 statement of

GEORGIAN INTERNATIONAL ENERGY CORPORATION LLC

NOTES TO THE SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

financial position) less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the statement of financial position plus net debt.

<i>In thousands of Georgian Lari</i>	31 December 2017	31 December 2016	1 January 2016
Total borrowings (Note 15)	95,017	98,871	88,976
Less: Cash and cash equivalents (Note 13)	(1,633)	(5,740)	(1,713)
Net debt	93,384	93,131	87,263
Total equity	88,634	73,825	57,474
Total capital	182,018	166,956	144,737
Net debt to equity ratio	105%	126%	152%
Gearing ratio	51%	56%	60%

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

The Company 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 Company and aggregated by Company finance. Such forecasts take into consideration the Company's debt refinancing plans. Company finance monitors rolling forecasts of the Company'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 Company does not breach borrowing limits.

The Company's liquidity reserve comprised of undrawn borrowing facility and cash and cash equivalents (Note 13). 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; 1 January 2016: GEL 5,000 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 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:

<i>In thousands of Georgian Lari</i>	Less than 1 year	From 1 to 2 years	From 2 to 5 years	Over 5 years	Total
Trade and other payables	(20,876)	-	-	-	(20,876)
Borrowings	(42,107)	(19,583)	(35,584)	(15,026)	(112,300)
Total financial payables	(62,983)	(19,583)	(35,584)	(15,026)	(133,176)

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NOTES TO THE SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

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

<i>In thousands of Georgian Lari</i>	Less than 1 year	From 1 to 2 years	From 2 to 5 years	Over 5 years	Total
Trade and other payables	(24,369)	-	-	-	(24,369)
Borrowings	(37,417)	(25,098)	(37,495)	(19,649)	(119,659)
Total financial payables	(61,786)	(25,098)	(37,495)	(19,649)	(144,028)

The maturity analysis of contractual payments as at 1 January 2016 is as follows:

<i>In thousands of Georgian Lari</i>	Less than 1 year	From 1 to 2 years	From 2 to 5 years	Over 5 years	Total
Trade and other payables	(12,806)	-	-	-	(12,806)
Borrowings	(31,092)	(18,416)	(34,906)	(28,628)	(113,042)
Total financial payables	(43,898)	(18,416)	(34,906)	(28,628)	(125,848)

Management believes that increased draw on the Company'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 Company'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 Company does not have a formal policy of determining how much of the Company'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 JSC TBC (Previous Bank Republic Loan) and JSC Bank of Georgia, which represent 6 month LIBOR plus 7.81% and 9% 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 Company 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:

Weighted-average % per annum	31 December 2017			31 December 2016			1 January 2016		
	GEL	USD	EUR	GEL	USD	EUR	GEL	USD	EUR
Loans issued									
Related parties	14.56%	9.25%	15.41%	15.71%	9.64%	15.00%	15.95%	12.24%	15.00%
Non-related parties	15.14%	10.80%	-	15.67%	10.80%	-	16.00%	15.00%	-
Borrowings									
Related parties	15.00%	15.00%	15.24%	15.00%	15.00%	15.14%	15.00%	15.00%	15.14%
Non-related parties	-	8.29%	-	-	8.13%	8.00%	-	8.68%	8.00%

NOTES TO THE SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

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 Company 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 Company considers that the carrying amounts of financial liabilities recorded in the separate 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 Company 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 separate 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 Company may be assessed additional taxes, penalties and interest. The Company believes that it has already made all tax payments, and therefore no allowance has been made in the separate financial statements. Tax years remain open to review by the tax authorities for three years.

Commitments assumed under the auction for Tbilisresli assets.

As a result of succeeding in the auction for JSC Tbilisresli 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 Tbilisresli 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;

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NOTES TO THE SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

- 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 Company.

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:

<i>In thousands of Georgian Lari</i>	Immediate or intermediary parent companies	Entities under common control	Associates	Other related parties*	Subsidiary
Gross amount of trade receivables	56	5,484	358	-	10,327
Impairment provision for trade and other receivables	-	35	-	-	-
Gross amount of loans issued (contractual interest rate: 8.30%-20.0% p.a.)	-	23,372	-	4,586	606
Borrowings	-	-	-	8,536	-
Trade and other payables	103	460	-	-	182

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NOTES TO THE SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

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

<i>In thousands of Georgian Lari</i>	Immediate or intermediary parent companies	Entities under common control	Associates	Other related parties*	Subsidiary
Sale of gas - wholesale - domestic clients	-	1,212	885	-	36,356
Sale of electricity - domestic clients	-	186	-	-	-
Rental income	8	121	-	-	70
Interest income	-	1,742	-	161	-
Interest expenses	-	-	-	1,096	-
Rendering of services	-	-	-	-	85
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	-	92	-	-	-
Income from rendering of services	-	81	-	-	51
Operating lease expense for property, plant and equipment	-	52	-	-	9
Information, consulting and other professional services	-	1,805	-	-	-
Water supply services	-	126	-	-	-
Repairs and maintenance	-	463	-	-	-
Insurance	-	-	-	15	-
Electricity transfer fee	-	-	-	-	305
Other	-	10	-	-	-

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

<i>In thousands of Georgian Lari</i>	Immediate or intermediary parent companies	Entities under common control	Associates	Other related parties*	Subsidiary
Gross amount of trade receivables	46	8,868	300	-	5,797
Impairment provision for trade and other receivables	-	35	-	-	-
Gross amount of loans issued (contractual interest rate: 9.6%-20.0% p.a.)	-	10,964	-	4,659	28
Borrowings	-	-	-	6,794	-
Trade and other payables	510	719	-	-	204

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NOTES TO THE SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

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

<i>In thousands of Georgian Lari</i>	Immediate or intermediary parent companies	Entities under common control	Associates	Other related parties*	Subsidiary
Sale of gas - wholesale - domestic clients	-	714	1,418	-	30,711
Rental income	8	142	-	-	115
Interest income	-	943	-	244	3
Interest expense	-	-	-	952	-
Other income	-	22	-	-	-
Gains less losses from rendering of services	-	58	-	-	62
Gains less losses on sale of property, plant and equipment	-	90	-	-	-
Gains less losses on sale of spare parts, materials and scrap	-	151	-	-	19
Rendering of services	-	-	-	-	109
Electricity transfer fee	-	-	-	-	305
Operating lease expense for property, plant and equipment	-	134	-	-	9
Information, consulting and other professional services	-	1,805	-	-	-
Water supply services	-	124	-	-	-
Repairs and maintenance	-	195	-	-	-
Other	-	1	-	-	-

At 1 January 2016, outstanding balances with related parties were as follows

<i>In thousands of Georgian Lari</i>	Immediate or intermediary parent companies	Entities under common control	Associates	Other related parties*	Subsidiary
Gross amount of trade receivables	37	8,629	250	-	3,350
Impairment provision for trade and other receivables	-	35	-	-	-
Gross amount of loans issued (contractual interest rate: 10.6%-20.0% p.a.)	-	9,095	-	39	25
Borrowings	-	-	-	6,400	-
Trade and other payables	20	405	-	-	184

* 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 Company 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.