MTKVARY ENERGY LLC

Preliminary Special Purpose Financial Information and Independent Auditor's Report

31 December 2017

Contents

Independent Auditor's Report

To the Management of Mtkvari Energy LLC

Our opinion

In our opinion, the preliminary special purpose financial information is prepared, in all material respects, in accordance with the basis set out in Note 3, which describes the accounting policies of Mtkvari Energy LLC (the "Company") based on International Financial Reporting Standards (IFRS) applied under IFRS 1 "First-time Adoption of International Financial Reporting Standards", including the assumptions management has made about the standards and interpretations expected to be effective, and the policies expected to be adopted when the Company prepares its first complete set of IFRS financial statements as at 31 December 2018.

What we have audited

The Company's preliminary special purpose financial information (hereinafter the "financial information") comprises:

- the preliminary special purpose statement of financial position as at 31 December 2017;
- the preliminary special purpose statement of profit or loss and other comprehensive income for the year then ended;
- the preliminary special purpose statement of changes in equity for the year then ended;
- the preliminary special purpose statement of cash flows for the year then ended;
- the notes to the preliminary special purpose financial information, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Information* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

Emphasis of matter – basis of accounting and restriction on distribution and use

We draw attention to the fact that Note 3 explains why there is a possibility that the accompanying financial information may require adjustment before constituting the final comparative information in the Company's first complete set of IFRS financial statements as at 31 December 2018. Moreover, we draw attention to the fact that financial information without comparative information in respect of the previous period does not comprise a full set of financial statements prepared in accordance with IFRS. Our opinion is not modified in respect of these matters.

This report is intended solely for the information and use of the management of the Company in connection with its conversion of the basis of the preparation of the Company's financial statements to IFRS. It may not be used for any other purpose or provided to other parties unless required by the legislation of Georgia.

Other information

Management is responsible for the other information. Other information comprises Management Report prepared in accordance with the Law of Georgia on Accounting, Reporting and Auditing (but does not include this financial information and our auditor's report thereon), which is expected to be made available to us after the date of this auditor's report.

Our opinion on this financial information does not cover the other information, including the Management Report.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. In addition, we are required to express an opinion whether certain parts of Management Report comply with respective regulatory normative acts and to consider whether the Management Report includes the information required by the Law of Georgia on Accounting, Reporting and Auditing.

We will issue our updated report where we will either state that we have nothing to report in respect of the above or describe any material misstatements identified by us in the Management Report based on our knowledge of the reporting entity and its circumstances, which we obtained during our audit. Our updated report will include also our opinion mentioned in the preceding paragraph.

Responsibilities of management and those charged with governance for the financial information

Management is responsible for the preparation of this financial information in accordance with the basis set out in Note 3, as part of the Company's conversion to IFRS, and for such internal control as management determines is necessary to enable the preparation of financial information that are free from material misstatement, whether due to fraud or error.

In preparing the financial information, 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 financial information

Our objectives are to obtain reasonable assurance about whether the financial information 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 this financial information.

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

- Identify and assess the risks of material misstatement of the financial information, 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 financial information 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.

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.

PricewaterhouseCoopers Georgia LLC

For and on behalf of PricewaterhouseCoopers Georgia LLC (Reg.# SARAS-F-775813)

Lasha Janelidze (Reg.#SARAS-A-562091)

16 April 2018
Tbilisi, Georgia

Mtkvary Energy LLC
Preliminary Special Purpose Statement of Financial Position
(Amounts expressed in thousands of Georgian Lari)

	Note	31 December 2017	1 January 2017
ASSETS			
Non-current assets			
Property, plant and equipment	8	113,442	117,706
Intangible assets		127	49
Total non-current assets		**113,569**	**117,755**
Current assets			
Inventories	9	7,956	8,121
Loans issued	7	136	-
Trade and other receivables	10	19,967	22,636
VAT recoverable and prepaid taxes		597	-
Cash and cash equivalents	11	581	620
Total current assets		**29,237**	**31,377**
TOTAL ASSETS		**142,806**	**149,132**
EQUITY			
Charter capital	12	10,377	10,377
Retained earnings		89,004	89,142
TOTAL EQUITY		**99,381**	**99,519**
LIABILITIES			
Non-current liabilities			
Borrowings	13	15,445	22,606
Total non-current liabilities		**15,445**	**22,606**
Current liabilities			
Borrowings	13	9,635	7,293
Taxes payable		-	37
Trade and other payables	14	18,345	19,677
Total current liabilities		**27,980**	**27,007**
TOTAL LIABILITIES		**43,425**	**49,613**
TOTAL LIABILITIES AND EQUITY		**142,806**	**149,132**

Approved for issue and signed on behalf of management on 16 April 2018 by:

Malkhaz Iaseshvili
General Director

Zurab Kitoshvili
Chief Financial Officer

The accompanying notes on pages 5 to 27 are an integral part of this preliminary special purpose financial information.

Mtkvary Energy LLC

Preliminary Special Purpose Statement of Profit or Loss and Other Comprehensive Income

(Amounts expressed in thousands of Georgian Lari)

	Note	2017
Revenues	15	**101,143**
Cost of sales	16	(95,821)
Gross profit		**5,322**
Selling and distribution expenses		(8)
General and administrative expenses	17	(3,303)
Other operating income and expenses, net	18	(669)
Operating profit		**1,342**
Finance income	19	683
Finance costs	20	(2,163)
Loss before tax		**(138)**
Income tax		-
LOSS FOR THE YEAR		**(138)**
Other comprehensive income		-
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		**(138)**

The accompanying notes on pages 5 to 27 are an integral part of this preliminary special purpose financial information.

Mtkvary Energy LLC

Preliminary Special Purpose Statement of Changes in Equity

(Amounts expressed in thousands of Georgian Lari)

	Charter capital	Retained earnings	Total equity
Balance at 1 January 2017	**10,377**	**89,142**	**99,519**
Loss for the year	-	(138)	(138)
Total comprehensive loss for the year	-	(138)	(138)
Balance at 31 December 2017	**10,377**	**89,004**	**99,381**

The accompanying notes on pages 5 to 27 are an integral part of this preliminary special purpose financial information.

Mtkvary Energy LLC

Preliminary Special Purpose Statement of Cash Flows

(Amounts expressed in thousands of Georgian Lari)

	Note	2017
Cash flows from operating activities		
Cash received from customers		102,994
Cash paid to suppliers		(90,803)
Cash paid to employees		(3,625)
Taxes other than on income paid		(1,323)
Cash generated from operations		**7,243**
Interest paid		(2,126)
Net cash from operating activities		**5,117**
Cash flows from investing activities		
Issue of loans	7	(115)
Payments for intangible assets		(62)
Payments for property, plant and equipment	8	(824)
Proceeds from sale of property, plant and equipment	8	1
Net cash used in investing activities		**(1,000)**
Cash flows from financing activities		
Proceeds from borrowings	13	10,921
Repayment of borrowings	13	(15,074)
Net cash used in financing activities		**(4,153)**
Effect of foreign exchange rate changes on cash and cash equivalents		(3)
Net decrease in cash and cash equivalents		**(39)**
Cash and cash equivalents at the beginning of the year	11	620
Cash and cash equivalents at the end of the year	11	**581**

The accompanying notes on pages 5 to 27 are an integral part of this preliminary special purpose financial information.

1 LLC Mtkvary Energy and its Operations

This preliminary special purpose financial information has been prepared in order to assist LLC Mtkvary Energy (the "Company") in its conversion to International Financial Reporting Standards ('IFRS').

The Company was incorporated in 1999 and is domiciled in Georgia. The Company is a limited liability company, set up in accordance with Georgian regulations and is registered by Tbilisi Court of Didube-Chugureti district with identification number: 202066726.

As of 31 December 2017, the Company's immediate parent and 100% owner was LLC Georgian Industrial Group Holding ('GIG'), limited liability Company based in Georgia. The Company was acquired by GIG in June 2016. The ultimate parent of the Company is LTD Chemexim International, incorporated in the Republic of the Marshall Islands. The Company is ultimately controlled by Mr. David Bejhuashvili, citizen of Georgia.

In 2017 the Company had average 202 employees.

Principal activity. Principal business activity of the Company is provision of guaranteed capacity of electricity generation for Georgian electricity system and generation of electricity. The Company's primary operating asset is thermal power plant, located in town Gardabani, Georgia. The period of standby mode, the tariff of guaranteed capacity, as well as tariff for the produced electricity are regulated by the Government of Georgia and Georgian National Energy and Water Supply Regulatory Commission ('GNERC').

For the year 2017, the following period and tariffs were set by GNERC:

- The period for standby - 275 days;
- The tariff for guaranteed capacity - GEL 66,264 per day;
- The tariff ceiling for production of electricity - GEL 0.12194 per kwt/h.

For the year 2018, the tariff for guaranteed capacity per day decreased to GEL 59,630 and the tariff ceiling for production of electricity decreased to GEL 0.11512 per kwt/h.

Registered address and place of business. The Company's registered address and principal place of business is #2 Agmashenebeli Street, Gardabani, Georgia.

Presentation currency. This preliminary special purpose financial information is presented in thousands of Georgian Lari ('GEL', 'Lari').

2 Operating Environment of the Company

The Company's principal business activities are within Georgia. Georgia displays certain characteristics of an emerging market, including relatively high interest rates. Georgian tax legislation is subject to varying interpretations and frequent changes.

The future economic direction of Georgia is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government, together with tax, legal, regulatory and political developments.

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

3 Basis of Preparation

Statement of compliance. This preliminary special purpose financial information has been prepared for the year ended 31 December 2017 as a part of the Company's adoption of IFRS, following the requirements of IFRS 1 "First-time Adoption of International Financial Reporting Standards". This preliminary special purpose financial information have been prepared solely for the use of management of the Company in order to assist the Company in its conversion IFRS for the year ending 31 December 2018. The Company's date of transition to IFRS is 1 January 2017. This preliminary special purpose financial information does not contain comparative information for the periods before the transition date.

The preliminary special purpose financial information is intended to form the comparative information in the Company's first complete set of IFRS financial statements for the year ended 31 December 2018. Accordingly, this preliminary special purpose financial information is not considered to present a complete set of IFRS financial statements of the Company.

As required by IFRS 1, this preliminary special purpose financial information has been prepared on the basis of IFRS expected to be applicable at 31 December 2018. However, International Financial Reporting Standards are subject to ongoing amendments by the International Accounting Standards Board (IASB) and the IFRS Interpretations Committee (IFRS IC) and are therefore still subject to change. The preliminary IFRS financial information will be updated and restated as necessary for any such changes, should they occur, before constituting the final comparative information in the Company's first complete set of IFRS financial statements as at 31 December 2018.

The principal accounting policies applied in the preparation of this preliminary special purpose financial information are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

The preparation of preliminary special purpose financial information in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the preliminary special purpose financial information are disclosed in Note 5.

Re-adoption of IFRS. The Company applied valuation model for accounting of property, plant and equipment in its latest audited financial statements prepared in accordance with IFRS as at 31 December 2015. In June 2016, upon changes in ownership, new management decided to move to cost model for accounting of property plant and equipment, as considered to be more appropriate for energy industry sector in Georgia, also to be in consistent with accounting policies adopted by the immediate parent – GIG. However, due to incomplete accounting historical records management was not able to reconstruct the historical costs of property, plant and equipment and decided to stop applying IFRS for a year ended 31 December 2016. During 2016, the Company hire external appraisers to estimate fair value of its property, plant and equipment and use as deemed cost as at 1 January 2017. Management used option to apply IFRS 1 and to transit to IFRS again as at 1 January 2017 with intention to resume full IFRS application for the year ended 31 December 2018. Therefore, a reconciliations how the transition from 2016 accounting framework to IFRS has affected the Company's financial position, financial performance and cash flows is not presented in this preliminary special purpose financial information.

IFRS 1 requires presenting a statement of financial position at the transition date to IFRS and includes certain mandatory exceptions and optional exemptions from retrospective application of IFRS. In preparing this preliminary special purpose financial information, the Company has applied the mandatory exceptions and has elected to apply the following optional exemption from retrospective application:

Fair value as deemed cost exemption. In preparing this preliminary special purpose financial information, the Company has elected to measure items of property, plant and equipment at the date of transition to IFRS at their fair values and use those fair values as their deemed costs at that date. As a result, the carrying amount of property, plant and equipment was increased by GEL 104,750 thousand.

4 Significant Accounting Policies

The principal accounting policies applied in the preparation of this preliminary special purpose financial information are set out below:

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

***Transactions and balances*.** Monetary assets and liabilities are translated into entity's functional currency at the official exchange rate of the National Bank of the Georgia ("NBG") at the respective end of the reporting period. Foreign exchange gains and losses resulting from the settlement of the transactions and from the translation of monetary assets and liabilities into entity's functional currency at year-end official exchange rates of the NBG are recognised in profit or loss as finance income or costs. Translation at year-end rates does not apply to non-monetary items that are measured at historical cost.

At 31 December 2017, the official rate of exchange, as determined by the National Banks of Georgia was US Dollar ("USD") 1 = GEL 2.5922 and EURO ("EUR") 1 = GEL 3.1044 (31 December 2016: USD 1 = GEL 2.6468 and EUR 1= 2.7940). At present, Georgian Lari is not a freely convertible currency outside of Georgia.

Property, plant and equipment*.* Property, plant and equipment items are stated in this special purpose financial information at their fair values, being the deemed cost at the date of transition to IFRS, less accumulated depreciation and provision for impairment, where required. The fair value estimation was made as of 31 October 2016 by independent appraiser and were roll-forwarded to the date of transition to IFRS.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. Costs of minor repairs and day-to-day maintenance are expensed when incurred. Cost of replacing major parts or components of property, plant and equipment items are capitalised and the replaced part is retired. At 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 of disposal 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 of disposal. Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in profit or loss for the year.

Depreciation. Land and construction in progress 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	20 to 35
• Hydro-technical structure	20 to 35
• Energy pipelines and fittings	14 to 20
• Machinery and equipment	7 to 20
• Fixtures and fittings	5 to 7
• Motor vehicles	5 to 7

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

4 Significant Accounting Policies (Continued)

Intangible assets. The Company's intangible assets have definite useful lives and primarily include capitalised computer software and licences.

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring them to use.

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

Intangible assets are amortised using the straight-line method over their useful lives. Useful lives for the Company's software and licences ranges from 2 years to 10 years.

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

Impairment of non-financial assets. Intangible assets that have an indefinite useful life or intangible assets not ready for use are not subject to amortisation and are tested annually for impairment. Assets that are subject to depreciation and amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are largely independent cash inflows (cash-generating units). Prior impairments of non-financial assets are reviewed for possible reversal at each reporting date.

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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The best evidence of fair value is the price in an active market. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Fair value of financial instruments traded in an active market is measured as the product of the quoted price for the individual asset or liability and the number of instruments held by the entity. This is the case even if a market's normal daily trading volume is not sufficient to absorb the quantity held and placing orders to sell the position in a single transaction might affect the quoted price.

Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or consideration of financial data of the investees are used to measure fair value of certain financial instruments for which external market pricing information is not available. Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on solely observable market data (that is, the measurement requires significant unobservable inputs). Transfers between levels of the fair value hierarchy are deemed to have occurred at the end of the reporting period (refer to Note 25).

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

4 Significant Accounting Policies (Continued)

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 the 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 the 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.

Classification of financial assets. Financial assets have the following categories: (a) loans and receivables; (b) available-for-sale financial assets; (c) financial assets held to maturity and (d) financial assets at fair value through profit or loss. Financial assets at fair value through profit or loss have two sub-categories: (i) assets designated as such upon initial recognition, and (ii) those classified as held for trading.

Loans and receivables are unquoted non-derivative financial assets with fixed or determinable payments other than those that the Company intends to sell in the near term. The Company's loans and receivables comprise of 'trade and other receivables' and 'cash and cash equivalents' in the statement of financial position.

Classification of financial liabilities. Financial liabilities have the following measurement categories: (a) held for trading which also includes financial derivatives and (b) other financial liabilities. Liabilities held for trading are carried at fair value with changes in value recognised in profit or loss for the year (as finance income or finance costs) in the period in which they arise. Other financial liabilities are carried at amortised cost. The Company's other financial liabilities comprise of 'trade and other payables' and 'borrowings' in the statement of financial position.

Initial recognition of financial instruments. Trading investments, derivatives and other financial instruments at fair value through profit or loss are initially recorded at fair value. All other 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.

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

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

4 Significant Accounting Policies (Continued)

Offsetting financial instruments*.* 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. Such a right of set off (a) must not be contingent on a future event and (b) must be legally enforceable in all of the following circumstances: (i) in the normal course of business, (ii) in the event of default and (iii) in the event of insolvency or bankruptcy.

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

Trade and other receivables**.** Trade and other receivables are recognised initially at fair value and are subsequently 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 reliability 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:

- 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.

Future cash flows of financial assets that are individually evaluated for impairment, are estimated on the basis of the contractual cash flows of the assets and the experience of management in respect of the extent to which amounts will become overdue as a result of past loss events and the success of recovery of overdue amounts. Past experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect past periods, and to remove the effects of past conditions that do not exist currently.

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

Impairment losses are always recognised through an allowance account to write down the asset's carrying amount to the present value of expected cash flows (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.

4 Significant Accounting Policies (Continued)

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 the impairment loss account within the profit or loss for the year.

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

Borrowings*.* Borrowings are recognised initially at fair value, net of transaction costs incurred and are subsequently carried at amortised cost using the effective interest method.

Capitalisation of borrowing costs*.* General and specific borrowing costs directly attributable to the acquisition, construction or production of assets that are not carried at fair value and that necessarily take a substantial time to get ready for intended use or sale (qualifying assets) are capitalised as part of the costs of those assets, if the commencement date for capitalisation is on or after 1 January 2009.

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

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

The Company 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 on the specific borrowings less any investment income on the temporary investment of these borrowings are capitalised.

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.

Income taxes*.* Income taxes have been provided for in the preliminary special purpose financial information in accordance with legislation enacted or substantively enacted by the end of the reporting period.

On 13 May 2016 the Government of Georgia enacted the changes in the Tax Code of Georgia whereby companies (other than banks, credit unions, insurance companies, microfinance organisations and pawn shops) do not have to pay income tax on their profit earned since 1 January 2017, until that profit is distributed or deemed distributed in a form of dividend.

15 % income tax is payable on gross up value (i.e. net dividends shall be grossed up by withholding tax 5%, if applicable, and divided by 0.85) at the moment of the dividend payment to individuals or to non-resident legal entities. Dividends paid to resident legal entities from the profits earned since 1 January 2017 are tax exempted.

4 Significant Accounting Policies (Continued)

Dividends on earnings accumulated during the period from 1 January 2008 to 1 January 2017 is subject to income tax on grossed up value, reduced by respective tax credit calculated as a share of corporate income tax declared and paid on taxable profits vs total net profits for the same period multiplied to the dividend to be distributed. However, tax credit amount should not exceed the actual income tax imposed on dividend distribution.

Income tax arising from distribution of dividends is accounted for as an income tax expense in the period in which dividends are declared, regardless of the actual payment date or the period for which the dividends are paid. A contingent income tax liability which would arise upon the payment of dividends is not recognised in the statement of financial position.

In addition to the distribution of dividends, the tax is still payable on expenses or other payments incurred not related to economic activities, free delivery of assets or services and representation costs that exceed the maximum amount determined by the Tax Code of Georgia. All advances paid to entities registered in jurisdictions having preferential tax regime and other certain transactions with such entities as well as loans granted to individuals or non-residents are immediately taxable. Such taxes along with other taxes, net of tax credits claimed on assets or services received in exchange for the advances paid to entities registered in jurisdictions having preferential tax regime or recovery of loans granted to individuals or non-residents, are recorded under Taxes other than on income within operating expenses.

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

Value added tax*.* Output VAT - the sale of generated electricity and the supply of guaranteed capacity service is exempted from VAT, except for the supply to direct customer which is taxed at 18% and is payable on the earlier of (a) collection of receivables from customers or (b) delivery of goods or services 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.

Inventories. Inventories are recorded at the lower of cost and net realisable value. The cost of inventory comprise the purchase price, import duties and non-recoverable taxes and transport, handling and other costs directly attributable to the acquisition of goods. The cost of inventories is determined on the weighted average basis. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and selling expenses.

Prepayments. Prepayments are carried at cost less provision for impairment. A prepayment is classified as non-current when the goods or services relating to the prepayment are expected to be obtained after one year, or when the prepayment relates to an asset which will itself be classified as non-current upon initial recognition. Prepayments to acquire assets are transferred to the carrying amount of the asset once the Company has obtained control of the asset and it is probable that future economic benefits associated with the asset will flow to the Company. Other prepayments are written off to profit or loss when the goods or services relating to the prepayments are received. If there is an indication that the assets, goods or services relating to a prepayment will not be received, the carrying value of the prepayment is written down accordingly and a corresponding impairment loss is recognised in profit or loss for the year.

Charter capital. The amount of Company's charter capital is defined by the Company's Charter. The changes in the Company's Charter (including changes in charter capital, ownership, etc.) shall be made only based on the decision of the Company's owner.

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 preliminary special purpose financial information is authorised for issue are disclosed in the subsequent events note.

4 Significant Accounting Policies (Continued)

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. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised as an interest expense.

Levies and charges, such as taxes other than income tax or regulatory fees based on information related to a period before the obligation to pay arises, are recognised as liabilities when the obligating event that gives rise to pay a levy occurs, as identified by the legislation that triggers the obligation to pay the levy. If a levy is paid before the obligating event, it is recognised as a prepayment.

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

Revenue recognition*.* Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods supplied, stated net of discounts, returns and value added taxes. The Company recognises revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Company's activities, as described below. 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.

Sales of electricity. Revenues from the sales of electricity are recognised on the bases of the metered volume of sold electricity and is calculated in accordance with the enacted tariffs, set by GNERC. Revenue from the sales of electricity in determined monthly, based on acceptance act.

Sales of guaranteed capacity. Revenues from guaranteed capacity are recognised based on the number of days the plant is available to supply the electricity at its installed capacity. Daily tariff for guaranteed capacity is set by GNERC.

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

Employee benefits. Wages, salaries, paid annual leave and sick leave, bonuses, and non-monetary benefits (such as health services and kindergarten services) are accrued in the year in which the associated services are rendered by the employees of the Company. The Company does not incur any expenses in relation to provision of pensions or other post-employment benefits to its employees.

Amendment of the preliminary special purpose financial information after issue. Any changes to this preliminary special purpose financial information after issue require approval of the Company's management who authorised this preliminary special purpose financial information for issue.

5 Information about Key Sources of Estimation, Uncertainty and Judgements

The Company makes estimates and assumptions that affect the amounts recognised in the financial information 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 this preliminary special purpose financial information and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

Fair value recognition as Deemed cost of property plant and equipment. Fair value of property, plant and equipment of the Company has been determined by an independent appraiser. Those fair values were used as deemed costs of property, plant and equipment at the date of transition to IFRS. The majority of the Company's property, plant and equipment is specialised in nature and is rarely sold on the open market, other than as part of a continuing business. The market for similar property, plant and equipment is not active in Georgia and does not provide evidence for using a market-based approach for determining their fair values. Consequently, the fair values of property, plant and equipment was primarily determined using a depreciated replacement cost bases of valuation. This method considers the cost to reproduce or replace the property, plant and equipment, adjusted for physical, functional or economical depreciation, and obsolescence. In addition to the determination of the depreciated replacement cost, the income approach was applied to assess the reasonableness of those values. Depreciated replacement costs were adjusted to the values determined based of the income approach, when values determined based on the income approach were lower than depreciated replacement costs.

The carrying values and depreciation of property, plant and equipment are affected by the estimates and assumptions related to market values, replacement cost, depreciated replacement cost, estimated future net incomes, weighted average cost of capital, expected economic usage of the assets and etc. Changes in these assumptions could have a material impact to the fair value of property, plant and equipment.

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

6 New Accounting Pronouncement

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2019 or later, and which the Company has not early adopted.

IFRS 16, Leases (issued on 13 January 2016 and effective for annual periods beginning on or after 1 January 2019). The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the statement of profit or loss and other comprehensive income. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. The Company is currently assessing the impact of the new standard on its financial statements.

6 New Accounting Pronouncements (Continued)

IFRS 17 "Insurance Contracts" (issued on 18 May 2017 and effective for annual periods beginning on or after 1 January 2021). IFRS 17 replaces IFRS 4, which has given companies dispensation to carry on accounting for insurance contracts using existing practices. As a consequence, it was difficult for investors to compare and contrast the financial performance of otherwise similar insurance companies. IFRS 17 is a single principle-based standard to account for all types of insurance contracts, including reinsurance contracts that an insurer holds. The standard requires recognition and measurement of groups of insurance contracts at: (i) a risk-adjusted present value of the future cash flows (the fulfilment cash flows) that incorporates all of the available information about the fulfilment cash flows in a way that is consistent with observable market information; plus (if this value is a liability) or minus (if this value is an asset) (ii) an amount representing the unearned profit in the group of contracts (the contractual service margin). Insurers will be recognizing the profit from a group of insurance contracts over the period they provide insurance coverage, and as they are released from risk. If a group of contracts is or becomes loss-making, an entity will be recognizing the loss immediately. The Company does not expects any impact of the new standard on its financial statements.

IFRIC 23 "Uncertainty over Income Tax Treatments" (issued on 7 June 2017 and effective for annual periods beginning on or after 1 January 2019). IAS 12 specifies how to account for current and deferred tax, but not how to reflect the effects of uncertainty. The interpretation clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. An entity should determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments based on which approach better predicts the resolution of the uncertainty. An entity should assume that a taxation authority will examine amounts it has a right to examine and have full knowledge of all related information when making those examinations. If an entity concludes it is not probable that the taxation authority will accept an uncertain tax treatment, the effect of uncertainty will be reflected in determining the related taxable profit or loss, tax bases, unused tax losses, unused tax credits or tax rates, by using either the most likely amount or the expected value, depending on which method the entity expects to better predict the resolution of the uncertainty. An entity will reflect the effect of a change in facts and circumstances or of new information that affects the judgments or estimates required by the interpretation as a change in accounting estimate. Examples of changes in facts and circumstances or new information that can result in the reassessment of a judgment or estimate include, but are not limited to, examinations or actions by a taxation authority, changes in rules established by a taxation authority or the expiry of a taxation authority's right to examine or re-examine a tax treatment. The absence of agreement or disagreement by a taxation authority with a tax treatment, in isolation, is unlikely to constitute a change in facts and circumstances or new information that affects the judgments and estimates required by the Interpretation. The Company is currently assessing the impact of the interpretation on its financial statements.

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

- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28 (issued on 11 September 2014 and effective for annual periods beginning on or after a date to be determined by the IASB).
- Prepayment Features with Negative Compensation - Amendments to IFRS 9 (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019).
- Long-term Interests in Associates and Joint Ventures - Amendments to IAS 28 (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019.

Unless otherwise described above, the new standards and interpretations are not expected to affect significantly the Company’s financial statements.

7 Balances and Transactions with Related Parties

Parties are generally considered to be related if 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.

The outstanding receivables balances with related parties were as follows:

	Relationship	31 December 2017	1 January 2017
LLC Saknakhshiri	EUCC*	11	1
JSC Global Benefits Georgia	Other related parties	157	-
LLC C Power	EUCC*	2	-
LLC Georgian International Energy Corporation	EUCC*	3	-
Total		**173**	**1**

(*) EUCC – Entities under common control

The outstanding payables balances with related parties were as follows:

	Relationship	31 December 2017	1 January 2017
LLC Georgian Industrial Group	EUCC*	118	-
LLC Neogas	EUCC*	9	-
Total		**127**	**-**

The payables to related parties are due two months after the date of purchase. The payables bear no interest.

Issued loan balances with related parties were as follows:

	Relationship	31 December 2017	1 January 2017
Principal			
Chemexim Investments S.A.R.L.	EUCC*	47	-
Gardabani Holdings PP B.V	EUCC*	83	-
Accrued interest			
Chemexim Investments S.A.R.L.	EUCC*	2	-
Gardabani Holdings PP B.V	EUCC*	5	-
Total		**137**	**-**

Borrowing balances with related parties were as follows:

	Relationship	31 December 2017	1 January 2017
Principal			
LLC European School	Other related parties	662	-
Accrued interest			
LLC European School	Other related parties	2	-
Total		**664**	**-**

7 Balances and Transactions with Related Parties (Continued)

The expense items with related parties were as follows:

	Relationship	Nature of service	2017
LLC Kutaisi Automotive Factory	EUCC*	Repair and maintenance expense	1,315
LLC Georgian Industrial Group	EUCC*	Consulting expenses	1,200
JSC Global Benefits Georgia	Other related parties	PP&E insurance expense	526
LLC European School	Other related parties	Interest expense on loans	29
Total			**3,070**

The income items with related parties were as follows:

	Relationship	Nature of service	2017
LLC Georgian International Energy Corporation	EUCC*	Operating lease income	145
LLC Kutaisi Automotive Factory	EUCC*	Income from sale of scrap	38
LLC Saknakhshiri	EUCC*	Repair and maintenance income	9
Chemexim Investments S.A.R.L.	EUCC*	Interest income	2
LLC C Power	EUCC*	Income from operating lease	2
Total			**196**

(*) EUCC – Entities under common control

There are no other rights and obligations connected to related parties.

Key management compensation. Key management includes the General Director and ultimate controlling party of the Company. In 2017 compensation to key management personnel, which represents the short-term salaries and bonuses and other benefits comprised GEL 297 thousand.

There are no commitments and contingent obligations towards key management personnel.

8 Property, Plant and Equipment

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

	Land	Buildings	Hydro-technical structures	Energy pipelines and fittings	Machinery and equipment	Fixtures and fittings	Motor vehicle	Total
Deemed cost								
At 1 January 2017	5,931	24,541	52,984	9,347	25,084	195	553	118,635
Additions	-	31	8	-	316	126	820	1,301
Disposals	-	-	-	-	(8)	(22)	(1)	(31)
At 31 December 2017	**5,931**	**24,572**	**52,992**	**9,347**	**25,392**	**299**	**1,372**	**119,905**
Accumulated depreciation								
At 1 January 2017	-	(141)	(320)	(87)	(351)	(6)	(24)	(929)
Depreciation charge	-	(860)	(1,866)	(514)	(2,095)	(48)	(154)	(5,537)
Disposals	-	-	-	-	-	3	-	3
At 31 December 2017	**-**	**(1,001)**	**(2,186)**	**(601)**	**(2,446)**	**(51)**	**(178)**	**(6,463)**
Carrying amount								
At 1 January 2017	5,931	24,400	52,664	9,260	24,733	189	529	117,706
At 31 December 2017	**5,931**	**23,571**	**50,806**	**8,746**	**22,946**	**248**	**1,194**	**113,442**

Property plant and equipment with carrying value GEL 113,442 thousand (1 January 2017: GEL 117,706 thousand) have been pledged as a security to credit line and loans from JSC TBC Bank (refer to Note 13).

9 Inventories

	31 December 2017	1 January 2017
Spare parts and consumables	7,892	8,034
Scrap and other materials	64	87
Total inventories	**7,956**	**8,121**

10 Trade and Other Receivables

	31 December 2017	1 January 2017
Trade receivables	19,722	22,037
Total financial assets within trade and other receivables	*19,722*	*22,037*
Advances to employees	-	1
Prepayments	245	598
Total trade and other receivables	**19,967**	**22,636**

Trade receivables are non-interest bearing and are generally with 30-day term.

Trade receivables are not impaired.

10 Trade and Other Receivables (Continued)

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

	31 December 2017	1 January 2017
Neither past due nor impaired	19,683	20,164
Past due, but not impaired		
- less than 30 days overdue	6	1,793
- 30 to 90 days overdue	3	21
- 91 to 180 days overdue	-	10
- 181 to 360 days overdue	2	2
- over 360 days overdue	28	47
Total trade receivables	**19,722**	**22,037**

11 Cash and Cash Equivalents

	31 December 2017	1 January 2017
Bank balances payable on demand	581	620
Total cash and cash equivalents	**581**	**620**

The credit quality of cash equivalents balances may be summarised as follows by Fitch ratings:

	31 December 2017	1 January 2017
BB-	3	594
BB-	563	11
BB+	15	15
Total cash and cash equivalents	**581**	**620**

12 Charter Capital

The Company is 100% owned by LLC Georgian Industrial Group Holding. The charter capital of the Company is GEL 10,377 thousand.

The Company did not declare dividends in 2017.

13 Borrowings

	Interest rate	31 December 2017	1 January 2017
Non-current			
JSC TBC Bank	8.5%	15,445	22,606
Total non-current borrowings		**15,445**	**22,606**
Current			
JSC TBC Bank	8.5% - 12%	8,971	7,293
LLC European School	11.8%	664	-
Total current borrowings		**9,635**	**7,293**
Total borrowings		**25,080**	**29,899**

13 Borrowings (Continued)

Borrowings from JSC TBC Bank:

USD 7,570 thousand loan was granted on 30 June 2016 with the annual interest rate of 8.5%, maturing on 1 January 2021, payable on a monthly basis.

GEL 3,000 thousand credit line was granted on 23 October 2017 with the annual interest rate of 12%, maturing on 23 October 2018, payable on monthly basis.

USD 3,840 thousand loan was granted on 27 December 2016 with the annual interest rate of 8.5%, maturing on 1 January 2021, payable on a monthly basis.

Borrowings from LLC European School:

GEL 1,100 thousand granted on 29 September 2017 with the annual interest rate of 11.8%, maturing on 31 December 2018, payable at maturity date.

The fair value of current borrowings equals their carrying amount, as the impact of discounting is not significant. The fair values are based on cash flows discounted and are within level 2 of the fair value hierarchy.

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

	31 December 2017	1 January 2017
US Dollars	22,295	28,908
Georgian Lari	2,785	991
Total borrowings	**25,080**	**29,899**

14 Trade and Other Payables

	31 December 2017	1 January 2017
Trade payables	18,345	19,669
Total financial payables within trade and other payables	*18,345*	*19,669*
Customer prepayments	-	8
Total trade and other payables	**18,345**	**19,677**

15 Revenues

	2017
Revenue from the sale of electricity	82,920
Revenue from guaranteed capacity	18,223
Total revenues	**101,143**

16 Cost of Sale

	2017
Cost of gas purchase	80,943
Depreciation and amortisation	4,837
Staff costs	3,856
Repairs and maintenance costs	3,257
Insurance expenses	1,182
Utilities	652
GNERC and other regulation fees	429
Security service costs	171
Cost of materials and consumables used	125
Transportation and car expenses	96
Information, consulting and other professional service expenses	45
Operating lease expense	7
Other	221
Total cost of sales	**95,821**

17 General and Administrative Expenses

	2017
Information, consulting and other professional service expenses*	1,553
Staff costs	763
Depreciation and amortisation	745
Insurance expenses	64
Transportation and car expenses	38
Repairs and maintenance costs	33
Utilities	23
Telecommunications expenses	18
Operating lease expenses	5
Business trip expenses	1
Other	60
Total general and administrative expenses	**3,303**

(*) Professional service fee includes GEL 74 thousand - fees incurred for audit and other professional services provided by Auditor/Audit Firm as defined by the Law of Georgia on Accounting, Reporting and Auditing.

18 Other Operating Income and Expenses, Net

	2017
Rent income	294
Income from property, plant and equipment count, net	121
Excess to inventory identified during count, net	29
Gains on disposal of materials	51
Taxes other than on income	(933)
Charity and sponsorship expenses	(287)
Penalty expenses	(26)
Other income and expenses, net	82
Net other operating income and expenses	**(669)**

19 Finance Income

	2017
Foreign exchange gain, net	676
Interest income	7
Total finance income	**683**

20 Finance Costs

	2017
Interest expenses	2,149
Bank fees and charges	14
Total finance costs	**2,163**

21 Contingencies and Commitments

Tax legislation. The taxation system in Georgia is regulated by Georgian Tax Code and various by-laws, which are characterised by frequent changes. Also a new regime of Corporate Income Tax has been enacted from 2017, which aims to simplify the taxation of companies' profits. Though, since the changes in Corporate Income Tax are new, there are still remained some legislative gaps and uncertain areas.

As a result, the Georgian tax legislation could be sometimes unclear and leaving room for different interpretations. Taxes are subject to review and inspection of tax authorities and understatement of tax liabilities may lead severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the three subsequent calendar years, however, under certain circumstances a tax year may remain open longer.

These circumstances may create tax risks in Georgia that could be more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Georgian tax legislation and established practice. However, the interpretations of the tax authorities could differ and the effect on this preliminary special purpose financial information, if the authorities were successful in enforcing their own interpretations, could be significant.

Assets pledged and restricted. The Company has the following assets pledged as collateral for the borrowings and credit line from JSC TBC Bank:

	Note	31 December 2017	1 January 2017
Property, plant and equipment	8	113,442	117,706
Intangible assets		127	49
Total pledged assets		**113,569**	**117,755**

Compliance with covenants. The Company is subject to certain covenants related primarily to its borrowings from JSC TBC Bank. Non-compliance with such covenants may result in negative consequences for the Company including growth in the cost of borrowings and declaration of default. The Company was not in compliance with covenants at 31 December 2017. A wavier from JSC TBC bank was obtained on 29 December 2017, according to which JSC TBC Bank relinquished the legal rights and claims related to breach of covenants.

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

22 Financial Risk Management

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

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

The Company's maximum exposure to credit risk by class of assets is as follows:

	31 December 2017	1 January 2017
Trade and other receivables		
Trade receivables (Note 10)	19,722	22,037
Issue loans	136	-
Cash and cash equivalents		
Bank balances payable on demand (Note 11)	581	620
Total maximum exposure to credit risk	**20,439**	**22,657**

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

The Company's management reviews ageing analysis of outstanding trade receivables and follows up on past due balances. Management therefore considers it appropriate to provide ageing and other information about credit risk as disclosed in Note 10.

Credit risks concentration. The Company is exposed to concentrations of credit risk. At 31 December 2017 the Company's major customers included 3 counterparties (1 January 2017: 2 counterparties). The total aggregate balance from these customers was GEL 19,645 thousand (1 January 2017: GEL 31,919 thousand) or 98% (1 January 2017: 97%) of the gross amount of trade and other receivables.

Market risk. The Company takes on exposure to market risks. Market risks arise from open positions in (a) foreign currencies and (b) interest bearing assets and liabilities, all of which are exposed to general and specific market movements. Management sets limits on the value of risk that may be accepted, which is monitored on a daily basis. However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

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

22 Financial Risk Management (Continued)

Currency risk. In respect of currency risk, management sets limits on the level of exposure by currency and in total. The positions are monitored monthly. The table below summarises the Company's exposure to foreign currency exchange rate risk at the end of the reporting period:

	At 31 December 2017			At 1 January 2017		
	Monetary financial assets	**Monetary financial liabilities**	**Net balance sheet position**	**Monetary financial assets**	**Monetary financial liabilities**	**Net balance sheet position**
Georgian Lari	20,258	(21,130)	(872)	22,061	(20,556)	1,505
US Dollars	43	(22,295)	(22,252)	596	(28,923)	(28,327)
Euros	136	-	136	-	(10)	(10)
Others currencies	2	-	2	-	-	-
Total	**20,439**	**(43,425)**	**(22,997)**	**22,657**	**(49,489)**	**(26,832)**

The above analysis includes only monetary assets and liabilities. Investments in equities and non-monetary assets are not considered to give rise to any material currency risk.

The following table presents sensitivities of profit and loss and equity to reasonably possible changes in exchange rates applied at the end of the reporting period relative to the functional currency of the respective Company entities, with all other variables held constant:

	2017
USD strengthening by 20%	(4,450)
USD weakening by 20%	4,450
EUR strengthening by 20%	27
EUR weakening by 20%	(27)

The exposure was calculated only for monetary balances denominated in currencies other than the functional currency of the respective entity of the Company.

Interest rate risk. The Company takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. The table below summarises the Company's exposure to interest rate risks. The table presents the aggregated amounts of the Company's financial assets and liabilities at carrying amounts, categorised by the earlier of contractual interest repricing or maturity dates.

	Demand and less than 1 month	**From 1 to 6 months**	**From 6 to 12 months**	**More than 1 year**	**More than 5 years**	**Total**
31 December 2017						
Total financial assets	20,303	47	89	-	-	20,439
Total financial liabilities	(19,054)	(1,428)	(7,498)	(15,445)	-	(43,425)
Net interest sensitivity gap at 31 December 2017	**1,249**	**(1,381)**	**(7,409)**	**(15,445)**	**-**	**(22,986)**
1 January 2017						
Total financial assets	22,657	-	-	-	-	22,657
Total financial liabilities	(868)	(20,649)	(5,381)	(22,670)	-	(49,568)
Net interest sensitivity gap at 1 January 2017	**21,789**	**(20,649)**	**(5,381)**	**(22,670)**	**-**	**(26,911)**

If interest rates at that date had been 100 basis points lower with all other variables held constant, profit for the year would have been GEL 255 thousand higher, mainly as a result of lower interest expense on variable interest liabilities.

22 Financial Risk Management (Continued)

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

The table below shows liabilities at their remaining contractual maturity. The amounts disclosed in the maturity table are the contractual undiscounted cash flows, including gross finance lease obligations (before deducting future finance charges). Such undiscounted cash flows differ from the amount included in the statement of financial position because the statement of financial position 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 end of the reporting period. Foreign currency payments are translated using the official exchange rate at the end of the reporting period.

The maturity analysis of financial liabilities at 31 December 2017 is as follows:

	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 12 months to 5 years	Over 5 years	Total
Liabilities						
Trade payables (Note 14)	18,345	-	-	-	-	18,345
Borrowings (Note 13)	885	1,759	8,436	16,868	-	27,948
Total future payments, including future principal and interest payments	**19,230**	**1,759**	**8,436**	**16,868**	**-**	**46,293**

The maturity analysis of financial liabilities at 1 January 2017 is as follows:

	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 12 months to 5 years	Over 5 years	Total
Liabilities						
Trade payables (Note 14)	421	19,248	-	-	-	19,669
Borrowings (Note 13)	582	1,796	6,910	25,693	-	34,981
Total future payments, including future principal and interest payments	**1,003**	**21,044**	**6,910**	**25,693**	**-**	**54,650**

23 Management of Capital

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

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 borrowings and trade and other payables, as shown in the statement of financial position) less cash and cash equivalents. Total capital is calculated as equity, as shown in the statement of financial position, plus net debt.

23 Management of Capital (Continued)

The gearing ratios at 31 December 2017 and 1 January 2017 were as follows:

	31 December 2017	1 January 2017
Borrowings	25,080	29,899
Trade and other payables	18,345	19,669
Less: cash and cash equivalents	(581)	(620)
Net debt	**42,844**	**48,948**
Total equity	99,381	99,519
Total capital	**142,225**	**148,467**
Gearing ratio	**30%**	**33%**

24 Fair Value Disclosure

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

Assets and liabilities not measured at fair value but for which fair value is disclosed. Fair values analysed by level in the fair value hierarchy and the carrying value of assets and liabilities not measured at fair value are as follows:

	31 December 2017			
	Level 1 fair value	**Level 2 fair value**	**Level 3 fair value**	**Carrying value**
ASSETS				
FINANCIAL ASSETS				
- Cash and cash equivalents	581	-	-	581
- Trade and other financial receivables	-	19,722	-	19,722
- Issued loans		136		136
TOTAL ASSETS	**581**	**19,858**	**-**	**20,439**
LIABILITIES				
Other financial liabilities				
- Trade and other financial payables	-	18,345	-	18,345
- Borrowings	-	25,080	-	25,080
TOTAL LIABILITIES	**-**	**43,425**	**-**	**43,425**

24 Fair Value Disclosure (Continued)

	1 January 2017			
	Level 1 fair value	**Level 2 fair value**	**Level 3 fair value**	**Carrying value**
ASSETS				
FINANCIAL ASSETS				
- Cash and cash equivalents	620	-	-	620
- Trade and other financial receivables	-	22,037	-	22,037
TOTAL ASSETS	**620**	**22,037**	**-**	**22,657**
LIABILITIES				
Other financial liabilities				
- Trade and other financial payables	-	19,669	-	19,669
- Borrowings	-	29,899	-	29,899
TOTAL LIABILITIES	**-**	**49,568**	**-**	**49,568**

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

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 risks and remaining maturities. Discount rates used depend on the credit risk of the counterparty.

Liabilities carried at amortised cost. The estimated fair value of fixed interest rate instruments with stated maturities were estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risks and remaining maturities.

25 Presentation of Financial Instruments by Measurement Category

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

26 Events after the End of the Reporting Period

There were no events after the end of the reporting period that may require adjustment of or disclosure in this preliminary special purpose financial information.