SAQNAKHSHIRI (GIG GROUP) LTD

Special Purpose Consolidated and Separate Financial Information

Together with the Auditor's Report

Year ended 31 December 2017

Contents:

T: +995 32 254 58 45
T: +995 32 218 81 88
@ bdo@bdo.ge
www.bdo.ge

2 Tarkhnishvili Str.
Vere Business Centre
0179 Tbilisi
Georgia

INDEPENDENT AUDITOR'S REPORT

To shareholders and board of directors of SAQNAKHSHIRI (GIG GROUP)

Opinion

We have audited the accompanying special purpose consolidated and separate financial information of **SAQNAKHSHIRI (GIG GROUP) LTD** (hereinafter the "Company"), and its subsidiaries (the "Group"), which comprise the statements of consolidated and separate special purpose financial position as at 31 December 2017 and the statements of consolidated and separate special purpose profit or loss and other comprehensive income, consolidated and separate special purpose statement of cash flows and changes in equity for the year then ended, and notes to the special purpose consolidated and separate financial information, including a summary of significant accounting policies in accordance with classification, recognition and measurement principles of International Financial Reporting Standards ("IFRS)" and other considerations as described in the Basis of preparation as described in Note 2.

In our opinion, the accompanying special purpose consolidated and separate financial information of **SAQNAKHSHIRI (GIG GROUP) LTD** for the year ended 31 December 2017 are prepared, in all material respects, in accordance with the Basis of preparation as described in Note 2.

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 special purpose financial information section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (the "IESBA Code") together with the ethical requirements that are relevant to our audit of the special purpose financial information in Georgia, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter - Basis of Accounting and Restriction on Distribution and Use

We draw attention to Note 2 to the special purpose consolidated and separate financial information, where we explain that financial information without comparative information in respect of the previous period does not comprise a full set of consolidated and separate financial statements prepared in accordance with IFRS. This report is intended solely for the information and use of the management of the Group in connection with its conversion of the basis of the preparation of the Group's consolidated and separate 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. We accept no responsibility or liability to any party other than **SAQNAKHSHIRI (GIG GROUP)** in respect of the report. Should any third party take decisions based on the contents of the report, the responsibility for such decisions shall remain with those third parties. Our opinion is not modified in respect of this matter.

Without qualifying our opinion, we draw your attention to Note 20 (Financial instruments - risk management - Liquidity risk), which indicates that the Group may experience liquidity problems due to the liquidity gap between the assets and liabilities held as at 31 December 2017. Liquidity problems may have significant negative effect on the operating effectiveness of the Group in future.

BDO

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

Management is responsible for the preparation and fair presentation of the Special purpose consolidated and separate financial information in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of Special purpose consolidated and separate financial information that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the Special purpose consolidated and separate 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 these financial statements.

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

- Evaluate the overall presentation; structure and content of the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the 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.

The engagement partner responsible for the audit resulting in this independent auditor's report is

Ivane Zhuzhunashvili

For and on behalf of BDO LLC

Tbilisi, Georgia

4 July 2018

SAQNAKHSHIRI (GIG GROUP) LTD AND SUBSIDIARIES

SPECIAL PURPOSE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

(Thousands of Georgian Lari)

	Note	31.12.2017	01.01.2017
Assets			
Non-current assets			
Property, plant and equipment	5	120,646	129,853
Investment properties	6	8,269	8,978
Intangible assets	7	7,378	7,534
Prepayments for non-current assets		157	-
Total non-current assets		**136,450**	**146,365**
Current assets			
Inventories	8	4,464	3,721
Loans issued		-	911
Trade and other receivables	9	7,709	3,287
Cash and cash equivalents	10	1,408	927
Total current assets		**13,581**	**8,846**
TOTAL ASSETS		**150,031**	**155,211**
OWNER'S EQUITY AND LIABILITIES			
Owner's equity			
Statutory capital		20,981	20,981
Retained earnings		60,154	76,543
Other reserves		873	873
Total equity		**82,008**	**98,397**
Liabilities			
Non-current liabilities			
Borrowings	11	16,075	27,990
Total non-current liabilities		**16,075**	**27,990**
Current liabilities			
Trade and other payables	12	8,107	10,628
Borrowings	11	39,758	16,701
Taxes payable		4,083	1,495
Total current liabilities		**51,948**	**28,824**
Total liabilities		**68,023**	**56,814**
TOTAL LIABILITIES AND EQUITY		**150,031**	**155,211**

The Special purpose consolidated and separate financial information for the year ended 31 December 2017 were approved on behalf of the management on 4 July 2018 by:

Financial Director _____ M. Turabelidze

Chief accountant _____ O. Svanidze

Notes on pages 12-35 are the integral part of these special purpose financial statements.

SAQNAKHSHIRI (GIG GROUP) LTD AND SUBSIDIARIES

SPECIAL PURPOSE CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2017

(Thousands of Georgian Lari)

	Note	2017
Revenues	13	32,700
Cost of sales	14	(32,284)
Gross profit		416
Selling and distribution expenses		(415)
General and administrative expenses	15	(1,889)
Other operational income and expenses	16	(9,815)
Gains less (losses) from revaluation of investment properties		(709)
Operating loss		**(12,412)**
Finance income	17	238
Finance costs	18	(4,215)
Loss before income tax		**(16,389)**
Income tax expense	19	-
Total comprehensive loss for the year		**(16,389)**

Notes on pages 12-35 are the integral part of these special purpose financial statements.

SAQNAKHSHIRI (GIG GROUP) LTD AND SUBSIDIARIES

SPECIAL PURPOSE CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

(Thousands of Georgian Lari)

	2017
Cash flows from operating activities	
Cash receipts from customers	33,607
Cash paid to suppliers	(13,898)
Cash paid to employees	(12,690)
Cash generated from operations	**7,019**
Interest paid	(3,410)
Taxes paid	(7,479)
Net cash from operating activities	**(3,870)**
Cash flows from investing activities	
Prepayments for non-current assets	(157)
Repayment of loans issued	918
Interest received	36
Purchase of investment property	(3,312)
Purchase of property, plant and equipment	(3,513)
Disposal of property, plant and equipment	3
Net cash used in investing activities	**(6,025)**
Cash flows from financing activities	
Proceeds from borrowings	22,308
Repayment of borrowings	(11,948)
Net cash from financing activities	**10,360**
Exchange rate gain	29
Exchange rate loss	(13)
Effect of exchange rate changes on cash and cash equivalents	16
Cash and cash equivalents at the beginning of the year	**927**
Cash and cash equivalents at the end of the year	**1,408**

Notes on pages 12-35 are the integral part of these special purpose financial statements.

SAQNAKHSHIRI (GIG GROUP) LTD AND SUBSIDIARIES

SPECIAL PURPOSE CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

(Thousands of Georgian Lari)

	Statutory capital	Retained Earnings	Other reserves	Total
01.01.2017	**20,981**	**76,543**	**873**	**98,397**
Total comprehensive loss for the year	-	(16,389)	-	**(16,389)**
31.12.2017	**20,981**	**60,154**	**873**	**82,008**

Notes on pages 12-35 are the integral part of these special purpose financial statements.

SAQNAKHSHIRI (GIG GROUP) LTD AND SUBSIDIARIES

SPECIAL PURPOSE SEPARATE STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

(Thousands of Georgian Lari)

	Note	31.12.2017	01.01.2017
Assets			
Non-current assets			
Property, plant and equipment	5	120,646	129,853
Investment properties	6	8,269	8,978
Intangible assets	7	7,378	7,534
Investments in subsidiaries		157	-
Total non-current assets		**136,450**	**146,365**
Current assets			
Inventories	8	4,464	3,721
Loans issued		-	911
Trade and other receivables	9	7,709	3,287
Cash and cash equivalents	10	1,408	927
Total current assets		**13,581**	**8,846**
TOTAL ASSETS		**150,031**	**155,211**
OWNER'S EQUITY AND LIABILITIES			
Owner's equity			
Statutory capital		20,981	20,981
Retained earnings		60,154	76,543
Other reserves		873	873
Total equity		**82,008**	**98,397**
Liabilities			
Non-current liabilities			
Borrowings	11	16,075	27,990
Total non-current liabilities		**16,075**	**27,990**
Current liabilities			
Trade and other payables	12	8,107	10,628
Borrowings	11	39,758	16,701
Taxes payable		4,083	1,495
Total current liabilities		**51,948**	**28,824**
Total liabilities		**68,023**	**56,814**
TOTAL LIABILITIES AND EQUITY		**150,031**	**155,211**

Notes on pages 12-35 are the integral part of these special purpose financial statements.

SAQNAKHSHIRI (GIG GROUP) LTD AND SUBSIDIARIES

SPECIAL PURPOSE SEPARATE STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

(Thousands of Georgian Lari)

	2017
Cash flows from operating activities	
Cash receipts from customers	33,607
Cash paid to suppliers	(13,898)
Cash paid to employees	(12,690)
Cash generated from operations	**7,019**
Interest paid	(3,410)
Taxes paid	(7,479)
Net cash from operating activities	**(3,870)**
Cash flows from investing activities	
Investment in subsidiaries	(157)
Repayment of loans issued	918
Interest received	36
Purchase of investment property	(3,312)
Purchase of property, plant and equipment	(3,513)
Disposal of property, plant and equipment	3
Net cash used in investing activities	**(6,025)**
Cash flows from financing activities	
Proceeds from borrowings	22,308
Repayment of borrowings	(11,948)
Net cash from financing activities	**10,360**
Exchange rate gain	29
Exchange rate loss	(13)
Effect of exchange rate changes on cash and cash equivalents	16
Cash and cash equivalents at the beginning of the year	**927**
Cash and cash equivalents at the end of the year	**1,408**

Special purpose consolidated statements of comprehensive income and Special purpose consolidated statements of changes in equity are same for the consolidated and separate financial information.

Notes on pages 12-35 are the integral part of these special purpose financial statements.

1. General information

Saqnakhshiri (GIG Group) LTD was founded on 27 April 2006 in accordance with the requirements of Georgian legislation. 100% interest holder of the Company is GIG Holding and the Company is ultimately controlled by Mr. Davit Bezhuashvili.

The Company is located at: 13 Tabukashvili Str. Tkibuli city, Georgia.

As defined in the charter, the principal activities of the Company are coal extraction, coal enrichment and coal realization. Coal mines are located in Tkibuli city, Georgia. Also, in 2016 the Company started generation of Electricity and its realization.

The Company has three subsidiaries founded Polchar Georgia LTD, The Trading House Saqnakhshiri (GIG GROUP) LLC and CBM Georgia LLC. CBM Georgia and Trading House Saqnakhshiri (GIG GROUP) LLC were founded in 2017. None of the Companies has operational activity as at 31 December 2017.

	31.12.2017	01.01.2017
Polchar Georgia LTD	50%	50%
The Trading House Saqnakhshiri (GIG GROUP) LTD	100%	100%
CBM Georgia LLC	100%	100%

2. Basis of preparation

Statement of compliance

This special purpose consolidated and separate financial information have been prepared in order to assist the Group and the Company in adoption of International Financial Reporting Standard ("IFRS") as at 31 December 2018.

In preparing this special purpose consolidated and separate financial information management has used its best knowledge of the expected standards and interpretations, facts and circumstances and accounting policies that will be applied when the Group prepares its full set of IFRS Consolidated and separate special purpose Financial Statements as at 31 December 2018.

Because the Group is adopting IFRS in the next financial year no prior period comparative figures are presented in the accompanying preliminary consolidated and separate special purpose information of consolidated statements of profit or loss and other comprehensive income, consolidated cash flows and changes in equity and respective consolidated notes of these preliminary special purpose consolidated and separate financial information.

Accordingly, these consolidated and separate special purposes financial information are not considered to present a complete set of Special purpose consolidated and separate financial information of the Group.

These consolidated and separate special purposes financial information were prepared based on classification, recognition, and measurement principles of International Financial Reporting Standards (IFRS) as described in Note 3. The financial statements are prepared to inform the Group and in order to comply with the statutory requirements. As a result, the statements may not be suitable for another purpose. This special purpose consolidated and separate financial information include the statement of consolidated financial position as at 31 December 2017 and 1 January 2017, and the statement of consolidated profit or loss and other comprehensive income, the statement of consolidated changes in equity, and the statement of cash flows for the years ended 2017.

The Group applied IFRS in consolidated financial statements as at 31 December 2015. Management decided to stop applying IFRS and resume it in 2018. At the date when the Group resumes preparing IFRS financial statements, it has the option either to apply IFRS 1 again or apply IFRSs retrospectively as if it had never stopped applying them. The IFRSs effective as at 31 December 2018 will be applied retrospectively, subject to a number of allowed exceptions and exemptions set out in IFRS 1(IFRS 1.7).

2. Basis of preparation (continued)

Basis of measurement

The special purpose consolidated and separate financial information have been prepared on the historical cost basis except for certain properties that are measured at revalued amounts or fair values at the end of each reporting period, as explained in the accounting policies in Note 3.

Amendments to IFRSs affecting amounts reported in the financial statements

a) New standards, interpretations and amendments effective from 1 January 2017

None of the new standards, interpretations and amendments, effective for the first time from 1 January 2017, have had a material effect on the consolidated financial statements, although an amendment to IAS 7 Statement of Cash Flows has resulted in a reconciliation of liabilities disclosed for the first time in Note 11.

b) New standards, interpretations and amendments not yet effective

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2017, and which the Group has not early adopted. This listing of standards and interpretations issued, which the Group reasonably expects to be applicable at a future date, therefore intends to adopt those standards when they become effective:

IFRS 15 Revenue from Contracts with Customers.

In May 2014, IFRS 15 was issued which 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 and services. Specifically, the standard provides a single, principles based five-step model to be applied to all contracts with customers.

The five steps in the model are as follows:

- 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.

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

IFRS 9 "Financial Instruments: Classification and Measurement" (amended in July 2014 and effective for annual periods beginning on or after 1 January 2018)

Key features of the new standard are:

- Financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortised cost, those to be measured subsequently at fair value through other comprehensive income (FVOCI) and those to be measured subsequently at fair value through profit or loss (FVPL).
- Classification for debt instruments is driven by the entity's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). If a debt instrument is held to collect, it may be carried at amortised cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held in a portfolio where an entity both holds to collect assets' cash flows and sells assets may be classified as FVOCI. Financial assets that do not contain cash flows that are SPPI must be measured at FVPL (for example, derivatives). Embedded derivatives are no longer separated from financial assets but will be included in assessing the SPPI condition.

2. Basis of preparation (continued)

- Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in other comprehensive income, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss.
- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.
- IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model. There is a 'three stages' approach which is based on the change in credit quality of financial assets since initial recognition. In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The model includes operational simplifications for lease and trade receivables.
- Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.

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

IFRS 16 Leases. In January 2016 the IASB issued IFRS 16. IFRS 16 supersedes IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

The accounting requirements for lessors have largely been carried forward unchanged from IAS 17. This means that a lessor continues to classify leases as operating or finance. The major changes are for lessees, with IFRS 16 setting out a single model for lessees which eliminates the distinction between operating and finance leases, and results in the statement of financial position reflecting a 'right of use' asset and a corresponding liability for most lease contracts. The asset is subsequently accounted for as property, plant and equipment or investment property and the liability is unwound using the interest rate implicit in the lease. However, entities have an option not to bring onto the statement of financial position short term leases (i.e. those with a term of 12 months or less) and leases of low value items.

As a result, a key question changes from whether a lease is an operating or a finance lease under current guidance, to whether an arrangement gives rise to something that meets the definition of a lease. The scope of IFRS 16 is wide, and some arrangements involving the use of assets that might be viewed as service contracts (which are executory and not recorded in the statement of financial position) may in fact result in a lease within the scope of IFRS 16. Significant changes to systems and processes may be required to comply with the new requirements.

In the income statement, the application of IFRS 16 will result in a depreciation charge (within operating expenses) and an interest expense. Assuming depreciation is charged on a straight-line basis, the total expense will be higher in the first part of a lease in comparison with later periods, because the lease liability and related interest expense will be higher.

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

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

3. Summary of significant accounting policies

Basis of consolidation

The special purpose consolidated and separate financial information incorporate the financial statements of the Group and entities controlled by the Company. Control is achieved when the Group:

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

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

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

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

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

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

When necessary, adjustments are made to the Special purpose consolidated and separate financial information of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

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

Changes in the Group's ownership interests in existing subsidiaries

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

When the Company loses control of a subsidiary, a gain or loss is recognized in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests.

3. Summary of significant accounting policies (Continued)

All amounts previously recognized in other comprehensive income in relation to that subsidiary are accounted for as if the Company had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

Foreign currency translation

The functional currency of the Group is the currency of the primary economic environment in which the entity operates. The Group's functional currency and the Group's presentation currency is the national currency of Georgia, Lari.
Monetary assets and liabilities are translated into functional currency at the official exchange rate for the respective balance sheet dates. Foreign exchange gains and losses resulting from the settlement of transactions and from the translation of monetary assets and liabilities at year-end official exchange rates are recognised in profit or loss. Translation at year-end rates does not apply to non-monetary items.
At 31 December 2017 and 1 January 2017 the closing rate of exchange used for translating foreign currency balances was:

	Official rate of the National Bank of Georgia	
	USD	***EUR***
Exchange rate as at 31.12.2017	2.5922	3.1044
Exchange rate as at 01.01.2017	2.6468	2.7940

Financial Instruments

Initial recognition. Financial assets in the scope of IAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held to maturity investments, or available for sale financial assets. The Group determines the classification of its financial assets upon initial recognition.

(a) Fair value through profit or loss

This category comprises only in-the-money derivatives. They are carried in the statement of financial position at fair value with changes in fair value recognised in the statement of comprehensive income in the finance income or expense line other than derivative financial instruments which are not designated as hedging instruments, the Group does not have any assets held for trading nor does it voluntarily classify any financial assets as being at fair value through profit or loss.

(b) Held to maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held to maturity when the Group has positive intention and ability to hold them upon maturity. The Group does not have any assets as being classified held to maturity.

(c) Loans and receivables

These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition or issue and are subsequently carried at amortised cost using the effective interest rate method, less provision for impairment.

3. Summary of significant accounting policies (Continued)

(d) Available-for-sale

Non-derivative financial assets not included in the above categories are classified as available for sale and comprise principally the Group's strategic investments in entities not qualifying as subsidiaries, associates or jointly controlled entities as well as corporate bonds. They are carried at fair value with changes in fair value generally recognised in other comprehensive income and accumulated in the available-for-sale reserve; Where there is a significant or prolonged decline in the fair value of an available for sale financial asset (which constitutes objective evidence of impairment), the full amount of the impairment, including any amount previously recognised in other comprehensive income, is recognised in profit or loss.

Purchases and sales of available for sale financial assets are recognised on settlement date with any change in fair value between trade date and settlement date being recognised in the available-for-sale reserve. On sale, the cumulative gain or loss recognised in other comprehensive income is reclassified from the available-for-sale reserve to profit or loss.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Fair value is the current bid price for financial assets and current asking price for financial liabilities which are quoted in an active market.
Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition and includes transaction costs.
Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

Amortised cost is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any write-down for incurred impairment losses. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method.

Accrued interest income and accrued interest expense are not presented separately and are included in the carrying values of related balance sheet items.

Derecognition of financial assets

The Group derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (b) the Group has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all the 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.

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. Summary of significant accounting policies (Continued)

IFRS 7 fair value measurement hierarchy

IFRS 7 requires certain disclosures which require the classification of financial assets and financial liabilities measured at fair value using a fair value hierarchy that reflects the significance of the inputs used in making the fair value measurement. The fair value hierarchy has the following levels:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);
- Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices) (Level 2); and
- Inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

The level in the fair value hierarchy within which the financial asset or financial liability is categorised is determined on the basis of the lowest level input that is significant to the fair value measurement. Financial assets and financial liabilities are classified in their entirety into only one of the three levels.

The Group has no financial assets or liabilities measured at fair value; accordingly, they are not presented under the IFRS 7 fair value measurement hierarchy.

Carrying amounts of trade receivables and other financial assets approximate fair values due to their short-term maturities.

Management of the Group considers that the carrying amounts of financial liabilities recorded in the financial statements approximate their fair values.

The fair value of cash and cash equivalents was determined using level 1 measurement, fair values of borrowings were determined using the level 2 and other financial assets and liabilities were determined using level 3 measurement.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, non-restricted cash on current accounts in banks, and non-restricted cash on bank deposits with original maturity of less than 3 months.

Trade and other receivables

Trade and other receivables are amounts due from customers for provision of service or delivery of goods in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.
Trade and other receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment.
Impairment provisions are recognized when there is objective evidence (such as significant financial difficulties on the part of the counterparty or default or significant delay in payment) that the Group will be unable to collect all of the amounts due under the terms receivable, the amount of such a provision being the difference between the net carrying amount and the present value of the future expected cash flows associated with the impaired receivable. For Trade and other receivables, which are reported net such provisions are recorded in a separate allowance account with the loss being recognised within other expenses in the statement of comprehensive income. On confirmation that the Trade and other receivables will not be collectable, the gross carrying value of the asset is written off against the associated provision.

Property, plant and equipment

(a) Recognition and measurement

Land and buildings and constructions held for use in the production or supply of goods or services, or for administrative purposes, are stated in the statement of financial position as at 1 January 2017 at their revalued amounts, being the deemed cost at the date of revaluation 1 January 2017, less any subsequent accumulated depreciation and subsequent accumulated impairment losses.
Revaluation model was used for accounting for Property, plant and equipment in the Group's accounts for the year ended 31 December 2015 and earlier periods. The Group applied IFRS in its financial statements as at 31 December 2015.

3. Summary of significant accounting policies (Continued)

The cost model of accounting for Property, plant and equipment is used instead of previously applied revaluation model, as the rest of the Group (Georgian Industrial Group Holding LLC and subsidiaries) applies the cost model. For further details about the change in accounting policy refer to the (Note 4). The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in the income statement.

(b) Reclassification to investment property

When the use of a property changes from owner-occupied to investment property, the property is re-measured to fair value and reclassified as investment property.

Any gain arising on re-measurement is recognised in profit or loss to the extent that it reverses a previous impairment loss on the specific property, with any remaining gain recognised in other comprehensive income and presented in the revaluation reserve in equity. Any loss is recognised immediately in profit or loss.

(c) Subsequent costs

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 Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

(d) Construction in progress

Construction in progress expenses includes the costs of production and construction of property, plant and equipment. Cost of construction in progress includes such expenses incurred on production and construction: materials, labour costs; depreciation of property items participating in production and construction and other overheads. Depreciation of construction in progress begins when it will be put into exploitation and when it will be in the location and condition necessary for it to be capable of operating in the manner intended by management.

(e) Depreciation

Depreciable amount is the cost of an item of property, plant and equipment less its residual value. The residual value of an asset is the estimated amount that the Group would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The residual value of an asset is nil if the Group expects to use the asset until the end of its physical life.

Charging depreciation on the property, plant and equipment or particular items starts when such property is ready to use, i.e. brought to the place and conditions ready for use. Once the property is put into exploitation the respective depreciation is charged to the whole useful life of an item, if the item is not classified to the category of items held for sale according to IFRS 5 Non-current Asset Held for Sale, or upon termination of recognition of the property item.

Land is not depreciated. Most part of the property, plant and equipment is charged depreciation under straight line method according to the useful life on an asset, and the part of items are depreciated under units of production method.

See below the table of useful lives of property, plant and equipment per category:

Class	Useful life (year)
Land	Not depreciated
Buildings and constructions	5 - 55
Deep mines work	depreciated under units of production method
Operating properties	4 – 25
Administrative equipment	3 – 14
Construction in progress	Not depreciated

Depreciation amounts per period are partially added to the cost of extracted coal, partially to the assets participating in production or construction of particular items of property, plant and equipment, and partially to the administrative expenses incurred for common administrative purposes.

3. Summary of significant accounting policies (Continued)

Intangible assets

(a) Recognition and measurement

The Group's intangible assets have definite useful lives and primarily include accounting software and licenses for mineral extraction.

Intangible assets acquired separately are reported at cost less accumulated amortization and accumulated impairment losses, if any.

The Group has taken following licenses for its performance:

Date of taking a license	License No.	Mining territory	Mining volume, defined by license (tons)	License term (year)
15-Aug-2006	№100752	Tkibuli region – Licensed area 8 Ha	2010-2011 Min 110,000 ton per year All The following years unlimited	Till 14 August, 2036
25-Dec-2007	№01018	Tkibuli and Ambrolauri region – Licensed area 5,479.9 Ha	233,298,000	45
20-Jan-2010	№100785	Near the City Tkibuli Licensed area 0.75 Ha	Unlimited: sandstone total gain 54,840M^3	20
01-Jan-2017	№1003794	Near the City Tkibuli Licensed area 5.02 Ha	602,400 M^3	20

(b) Amortization

Charging amortization on the Intangible assets starts when such intangible assets are ready to use, i.e. brought to the place and conditions ready for use. Once it is ready for intended use, the respective amortization is charged to the whole useful life of an item, if the item is not classified to the category of items held for sale according to IFRS 5 Non-current Asset Held for Sale, or upon termination of recognition of the intangible item.

Intangible assets are charged amortization under straight line method according to the useful life on an asset.

See below the table of useful lives of Intangible assets per category:

Class	Useful life (year)
Licenses	5 – 45
Maps	45
Accounting programs	5

Amortization amount per period is partially added to the cost of extracted coal and partially to the administrative expenses.

Investment property

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

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

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

3. Summary of significant accounting policies (Continued)

Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognized.

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

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

Inventories, work-in-progress and finished goods

The Group's inventories are initially recognised at cost, and subsequently at the lower of cost and net realizable value. Cost comprises all costs of purchase and other costs incurred in bringing the inventories to their present location and condition. For example, cost of transportation, import duty and other directly attributable expenses.

In the production process transition step between raw material and finished good is work-in-progress. During the month, all production costs incurred, and raw materials or other inventories spent are collected in this account. Examples of production costs are: depreciation, labour cost, and inventory to be allocated to future period, cost of security, insurance of plant and machinery, cost of electricity and other overhead expenses. Weighted average cost method is used to determine the cost of raw materials spent in the production process.

Taxation

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

Current tax is the amount expected to be paid to, or recovered from, the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxable profits or losses are based on estimates if special purpose financial information is authorized prior to filing relevant tax returns. Taxes other than on income are recorded within the statement of profit or loss.

In May 2016, the parliament of Georgia approved a change in the current corporate taxation model, with changes applicable on January 1, 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 Group's profit before tax, regardless of the retention or distribution status. The change has had an immediate impact on deferred tax asset and deferred tax liability balances attributable to previously recognized temporary differences arising from prior periods.

Borrowings

Borrowings are initially recognized at fair value of consideration received. Subsequently, amounts due are stated at amortized cost and any difference between net proceeds and the redemption value is recognized in the statement of operations over the period of the borrowings, using the effective interest method.

Statutory capital

Financial instruments issued by the Group are treated as equity only to the extent that they do not meet the definition of a financial liability. The Group's statutory capital is classified as equity instruments.

3. Summary of significant accounting policies (Continued)

Revenue

Revenue from the sales of goods is recognised when the Group has transferred the significant risks and rewards of the ownership of the goods to the buyer and it is probable that the Group will receive the previously agreed upon payment. These criteria are considered to be met when the goods are delivered to the buyer. Where the buyer has a right to return, the Group defers recognition of revenue until the right to return has lapsed.

Other income

Other income is recognized when there is an assurance that the economic benefits associated with the transaction will flow to the Group and the amount of the revenue can be measured reliably. Revenue, net of the related expenses, is recognized in the period when the operation is performed.

Recognition of expenses

Expenses are recognized in the income statement if there arises any decrease of future economic profit related to the decrease of an asset or increase of a liability that can be reliably assessed.

Expenses are recognized in the income statement immediately, if the expenses do not result in future economic profit any more, or if future economic profit do not meet or stop to meet the requirements of recognition as an asset in the balance sheet.

Post balance-sheet events

Post-balance sheet events and events before the date of financial statements authorization for issue that provide additional information about the Group's financial statements are reported in the financial statements. Post-balance sheet events that do not affect the financial position of the Group at the balance sheet date are disclosed in the notes to the financial statements when material.

Provisions, Contingent Liabilities and Contingent Assets

Contingent liabilities are not reflected in the financial statements, except for the cases when the outflow of economic benefits is likely to origin and the amount of such liabilities can be reliably measured. The information on contingent liabilities is disclosed in the notes to the financial statements with the exception of cases, when the outflow of economic benefits is unlikely.

Contingent assets are not reflected in the financial statements, but the information on them is disclosed when inflow of economic benefits is probable. If economic benefits are sure to occur, an asset and related income are recognized in the financial statements for the period, when the evaluation change occurred.

A provision is a liability of uncertain timing or amount. A liability is a present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits. An obligating event is an event that creates a legal or constructive obligation that results in an entity having no realistic alternative to settling that obligation.

A legal obligation is an obligation that derives from:

(a) A contract (through its explicit or implicit terms);

(b) Legislation; or

(c) Other operation of law.

A constructive obligation is an obligation that derives from an entity's actions where:

(a) By an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities; and

(b) As a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

4. Critical accounting estimates and judgments

The Group makes certain estimates and assumptions regarding the future. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may deviate from these estimates and assumptions. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

• **Fair value recognition as Deemed cost of property plant and equipment.** Property, plant and equipment is the largest item at the Group's Consolidated Statement of Financial Position. Revaluation model was used for accounting for Property, plant and equipment in the Group's accounts for the year ended 31 December 2015 and earlier periods. The Group applied IFRS in its audited financial statements as at 31 December 2015.

After 31 December 2015 the cost model of accounting for Property, plant and equipment is used instead of previously applied revaluation model, as the rest of the Group applies the cost model.

Due to incomplete accounting historical records the Group is not able to reconstruct the historical cost of Property Plant and equipment. According to IFRS 1, the entity is allowed to measure an item of Property, Plant and equipment at the date of transition to IFRS as its fair value and use that fair value as its deemed cost at that date (IFRS 1.16). Therefore, the Group is using Fair value of Property, plant and equipment as at 1 January 2017 as its deemed cost. (IFRS 1.16). The detailed valuation of Property, plant and equipment as at 1 January 2017 was performed by an independent valuator.

• **Useful lives of part of property, plant and equipment**. The part of property, plant and equipment are depreciated over their useful lives. Useful lives are based on the management's estimates of the period that the assets will generate revenue, which are periodically reviewed for continued appropriateness. Changes to estimates can result in significant variations in the carrying value and amounts charged to the statement of comprehensive income in specific periods. More details including carrying values are included in Note 5.

5. Property, plant and equipment

Property, Plant and equipment can be presented as follows:

	Deep mines work	Machinery and equipment	CIP, land and buildings	Motor vehicle	Fixtures and fittings	Total
Historical cost 01.01.2017	**65,027**	**33,170**	**27,607**	**3,744**	**305**	**129,853**
Additions	2,492	2,632	77	597	31	**5,829**
Transfer from CIP	1,571	-	(1,571)	-	-	**-**
Disposals	(218)	(891)	(36)	(58)	(10)	**(1,213)**
Historical cost 31.12.2017	**68,872**	**34,911**	**26,077**	**4,283**	**326**	**134,469**
Accumulated Depreciation 01.01.2017	**-**	**-**	**-**	**-**	**-**	**-**
Depreciation	(3,368)	(8,002)	(1,577)	(1,451)	(83)	**(14,481)**
Accumulated depreciation of disposals	213	400	-	43	2	**658**
Accumulated Depreciation 31.12.2017	**(3,155)**	**(7,602)**	**(1,577)**	**(1,408)**	**(81)**	**(13,823)**
Net book value 01.01.2017	65,027	33,170	27,607	3,744	305	129,853
Net book value 31.12.2017	**65,717**	**27,309**	**24,500**	**2,875**	**245**	**120,646**

Property, plant and equipment of Saqnakhshiri (GIG Group) LTD is pledged as a collateral for the borrowings received from TBC bank.
The Group has revalued its property, plant and equipment and recorded fair value as deemed cost as at 01 January 2017.

6. Investment property

Investment property can be presented as follows:

	Land and buildings
At the date 01.01.2017	**8,978**
Additions	-
Losses from fair value adjustments	(709)
At the date 31.12.2017	**8,269**

The fair value of investment property as at 31 December 2017 is categorised as a level 3 recurring fair value measurement.

Fair value of investment property was measured by an independent appraiser. Fair value of investment property was measured under Direct Sales Comparison and Income Capitalization Approach, which involves the analysis of market prices on similar property and Cost Approach, which considers the cost of property, plant and equipment according to its recovery cost less depreciation.

The investment properties mainly consist of lands and buildings in Tkibuli and Tbilisi cities. Investment properties of Saqnakhshiri LTD are pledged as collateral for borrowings from Georgian Banks (Note 11).

7. Intangible assets

Intangible assets can be presented as follows:

Historical cost	Licenses	Accounting software	Maps	Total
Historical cost 01.01.2017	**9,008**	**112**	**15**	**9,135**
Additions	73	-	-	**73**
Historical cost 31.12.2017	**9,081**	**112**	**15**	**9,208**
Accumulated depreciation				
Accumulated depreciation at 01.01.2017	**(1,510)**	**(89)**	**(2)**	**(1,601)**
Depreciation	(223)	(3)	(3)	**(229)**
Accumulated depreciation at 31.12.2017	**(1,733)**	**(92)**	**(5)**	**(1,830)**
Net book value				
Net book value 01.01.2017	**7,498**	**23**	**13**	**7,534**
Net book value 31.12.2017	**7,348**	**20**	**10**	**7,378**

Intangible assets of Saqnakhshiri (GIG Group) LTD is pledged as a collateral for the borrowings received from JSC TBC bank.

8. Inventories

Inventories can be presented as follows:

	31.12.2017	01.01.2017
Spare parts and consumables	3,894	2,888
Goods in transit*	292	422
Raw coal	136	364
Enriched coal	18	1
Other	124	46
Total	**4,464**	**3,721**

*Goods in transit consist of coal that was not delivered to client by the end of reporting date.

9. Trade and other receivables

Trade and other receivables can be presented as follows:

	31.12.2017	01.01.2017
Trade receivables	7,136	2,747
Prepayments	1,416	816
Advances to employees	72	269
Impairment loss provision	(915)	(545)
Total	**7,709**	**3,287**

The carrying value of trade and other receivables classified as financial assets measured at amortized cost approximates fair value.

Movements in the provision for impairment of trade and other receivables are as follows:

	31.12.2017	01.01.2017
1 January	**(545)**	**(1,253)**
Provision for receivables impairment	(370)	(356)
write off	-	1,064
31 December	**(915)**	**(545)**

9. Trade and other receivables (Continued)

The aging of financial trade and other receivables according to credit risk analyse of the Group are provided below:

	31.12.2017	01.01.2017
Neither past due not impaired	**3,922**	**162**
Past due:		
Less than 30 days	2,119	1,869
30-90 days	46	49
91-180 days	75	144
180-360 days	141	121
Over than 360 days	198	40
Total	**6,501**	**2,385**

10. Cash and cash equivalents

Cash and cash equivalents can be presented as follows:

	31.12.2017	01.01.2017
Cash at bank in Gel	1,407	906
Cash at bank in foreign currencies	1	21
Total	**1,408**	**927**

11. Borrowings

Borrowings can be presented as follows:

		Non-current	
	Interest rate %	31.12.2017	01.01.2017
JSC TBC Bank	7.50% - 8.55%	16,075	18,838
Chemexim International LTD	15.00%	-	8,239
Mr. Davit Bezhuashvili	15.50%	-	913
Total non-current borrowings		**16,075**	**27,990**

		Current	
	Interest rate %	31.12.2017	01.01.2017
Georgian International Energy Corporation LLC	13.6% - 16.00%	15,110	9,611
JSC TBC Bank	7.5% - 8.55%	14,692	5,954
Chemexim International LTD	15.00%	8,681	-
Ritseulahesi LLC	13.60%	837	742
Business Center Saburtalo LLC	14.00%	438	-
Mr. Davit Bezhuashvili	15.50%	-	394
Total current borrowings		**39,758**	**16,701**
Total borrowings		**55,833**	**44,691**

Loans from TBC Bank are secured with:

- Part of Property, plant and equipment of GIEC – Georgian International Energy Corporation LLC;
- Property, plant and equipment of Saqnakhshiri (GIG GROUP) LTD;
- Intangible assets of Saqnakhshiri (GIG GROUP) LTD;
- Partial guarantee of Mtkvari Energy LLC;

Carrying amounts of borrowings do not differ from their fair values.

11. Borrowings (Continued)

Notes supporting statement of cash flows

changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes can be presented as follows:

	Total borrowings
At 01 January 2017	**44,691**
Cash flows	6,950
Non-cash flows:	
Interest accrued in period	4,158
Effects of foreign exchange	34
At 31 December 2017	**55,833**

12. Trade and other payables

Trade and other payables as can be presented as follows:

	31.12.2017	01.01.2017
Trade payables	7,284	9,932
Salaries payable	801	675
Customer prepayments	22	21
Total	**8,107**	**10,628**

The carrying values of trade and other payables measured at amortized cost approximates fair value.

13. Revenues

Revenues can be presented as follows:

	2017
HeidelbergCement Georgia LTD	27,453
Other	5,247
Total	**32,700**

	2017
Enriched coal	29,171
Sale of electricity	3,246
Raw coal	283
Total	**32,700**

14. Cost of sales

Cost of sales can be presented as follows:

	2017
Depreciation and amortization	(11,011)
Staff costs	(10,616)
Repairs and maintenance	(2,081)
Materials and consumables used	(2,019)
Cost of coal for electricity generation	(1,745)
Electricity	(1,556)
Cost of coal purchased for subsequent production	(1,020)
Tax on mineral resources	(978)
Transportation	(397)
Operating lease expense for property, plant and equipment	(300)
Insurance costs	(257)
Mountain rescue service costs	(212)
Information, consulting and other professional services	(43)
Security services	(39)
Other	(10)
Total	**(32,284)**

	2017
Enriched coal	(28,772)
Electric energy	(3,154)
Raw coal	(358)
Total	**(32,284)**

15. General and administrative expenses

General and administrative expenses can be presented as follows:

	2017
Staff costs	(1,031)
Information, consulting and other professional services	(402)
Transportation and car expenses	(85)
Depreciation and Amortization	(59)
Canteen and other staff facilities	(59)
Utility	(46)
Business trips	(42)
Telecommunications expenses	(31)
Operating lease expense for property, plant and equipment	(22)
Insurance	(20)
Representation expenses	(11)
Repairs and maintenance	(5)
Other	(76)
Total	**(1,889)**

16. Other operational income/(expenses)

Other operational income/(expenses) can be presented as follows:

	2017
Derecognition of liabilities*	515
Rental income	246
Income from Inventory count, net	135
Penalties income	25
Income from property, plant and equipment count, net	13
Other income and expenses	75
Abnormal expenses	(4,767)
Cost of Inventory impairment expenses exceeding net realizable value	(3,245)
Taxes other than on income	(1,621)
Gains less losses on sale/disposal of spare parts, materials and scrap	(526)
Provision/Recovery for receivables impairment	(370)
Charity and sponsorship expenses	(228)
Penalty charges	(67)
Total	**(9,815)**

* Derecognition of liabilities is mostly comprised from tax liabilities related to natural resources fee forgiven by tax authorities.

17. Finance income

Financial income for the year ended 31 December 2017 represents interest income from loans issued, foreign exchange gain, net and interest from cash deposited at bank, totally amounting GEL238.

18. Finance costs

Financial costs can be presented as follows:

Financial costs for the year ended 31 December 2017 represents interest expenses of borrowings received and bank fees and charges, totally amounting GEL4,215.

19. Income tax expense

In Georgia new model of Corporate Income Tax (Profit Tax) is effective from 1 January 2017. The purpose of this taxation model is simplification of the tax administration, promotion of business development and economic growth.

The main amendment under the new model of Corporate Income Tax is postponing taxation of corporate income until distribution of net income. This will increase availability of the funds and promote reinvestment of earned profits into the same or new activities. Corporate Income Tax rate remains the same as before - 15%, technically, the 15%/85% rate will be applied to the amount of taxable object. In addition, instead of annual charge, Corporate Income Tax shall be charged on monthly basis, no later than 15th day of the following month.

According to the new model of Corporate Income Tax, the objects of taxation are following transactions/actual payments:

- Payment of dividends
- Differences between contract price and market price
- Expenses not related to economic activity
- Payments not related to economic activity
- Free of charge supply and gifts
- Representative expenses above limits

Owing to the specific nature of the taxation system, there are no differences between the carrying amounts and tax bases of the assets and liabilities of companies registered in Georgia that could result in deferred tax assets or deferred tax liabilities.

19. Income tax expense (Continued)

As at 1 January 2017 there is no temporary difference between the carrying amounts and tax bases of the assets and liabilities of the Group and temporary differences are recognized as income tax benefit in 2016.

20. Financial instruments – risk management

The Group is exposed through its operations to the following financial risks:

- Credit risk
- Market risk
  - Interest rate risk
  - Currency risk
- Geographical risk
- Liquidity risk

In common with all other businesses, the Group is exposed to risks that arise from its use of financial instruments. This note describes the Group's objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these financial statements.

Principal financial instruments

The principal financial instruments used by the Group, from which financial instrument risk arises, are as follows:

	31.12.2017	01.01.2017
Loans issued	-	911
Trade and other receivables	6,501	2,385
Cash and cash equivalents	1,408	927
Total financial assets	**7,909**	**4,223**
Borrowings	55,833	44,691
Trade and other payables	8,085	10,607
Total financial liabilities	**63,918**	**55,298**

General objectives, policies and processes

The Board has overall responsibility for the determination of the Group's risk management objectives and policies and, whilst retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure the effective implementation of the objectives and policies to the Group's finance function. The Board and appropriate committees receive monthly reports from the Managers through which they review the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets.

The overall objective of the Board is to set polices that seek to reduce risks as far as possible without unduly affecting the Group's competitiveness and flexibility. Further details regarding these policies are set out below.

Credit risk

Credit risk 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. The Group is exposed to credit risk, which is the risk that a counterparty will not be able to pay in full when due.

The carrying amount of trade and other receivables, the total of cash and cash equivalents and loans issued represent the maximum amount exposed to credit risk. Although collection of receivables and loans issued could be influenced by economic factors, management believes that there is no significant risk of loss to the Group beyond the provisions already recorded.

20. Financial instruments – risk management (Continued)

Market risk

Market risk is the risk that the fair value of a financial instrument will decrease because of changes in market factors.

Market risk arises from the Group's use of interest bearing, tradable and foreign currency financial instruments. It is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in interest rates (interest rate risk) and foreign exchange rates (currency risk).

Interest rate risk

The interest rate risk is the risk (with variable value) related to the interest-bearing assets – loans, because of the variable rate. The Group has given and received all credits at fixed interest rate and respectively is never exposed to the risk of losing even small part of the interest receivables due to the market interest rate fall.

Foreign exchange risk

Foreign exchange risk arises through changing the value of the currency against the other currency. The Group has significant balance of borrowings as at 31 December 2017 and 1 January 2017 in foreign currency, the exchange rate effect for which will have significant impact on the performance.

Currency risk

The Group's exposure to foreign currency exchange rate risk is presented in the table below:

	GEL	USD	EUR	31.12.2017
Financial assets				
Trade and other receivables	587	5,914	-	**6,501**
Cash and cash equivalents	1,408	-	-	**1,408**
Total financial assets	**1,995**	**5,914**	**-**	**7,909**
Financial liabilities				
Borrowings	14,776	39,447	1,610	**55,833**
Trade and other payables	6,904	508	673	**8,085**
Total financial liabilities	**21,680**	**39,955**	**2,283**	**63,918**
Open balance sheet position	**(19,685)**	**(34,041)**	**(2,283)**	

	GEL	USD	EUR	RUB	01.01.2017
Financial assets					
Loans issued	-	911	-	-	**911**
Trade and other receivables	2,345	40	-	-	**2,385**
Cash and cash equivalents	906	19	2	-	**927**
Total financial assets	**3,251**	**970**	**2**	**-**	**4,223**
Financial liabilities					
Borrowings	10,354	33,030	1,307	-	**44,691**
Trade and other payables	9,930	597	53	27	**10,607**
Total financial liabilities	20,284	33,627	1,360	27	55,298
Open balance sheet position	**(17,033)**	**(32,657)**	**(1,358)**	**(27)**	

20. Financial instruments – risk management (Continued)

Currency risk sensitivity

The following table details the Group's sensitivity to a 20% increase and decrease in the USD and EUR against the GEL. 20% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the possible change in foreign currency exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the period for a 20% change in foreign currency rates.

Impact on net profit and equity based on asset values:

31.12.2017	**USD impact**		**EUR impact**	
	GEL/USD 20%	**GEL/USD -20%**	**GEL/EUR 20%**	**GEL/EUR -20%**
Profit/(loss)	(6,808)	6,808	(457)	457

01.01.2017	**USD impact**		**EUR impact**	
	GEL/USD 20%	**GEL/USD -20%**	**GEL/EUR 20%**	**GEL/EUR -20%**
Profit/(loss)	(6,531)	6,531	(272)	272

Liquidity risk

Liquidity risk refers to the availability of sufficient funds to meet loan repayments and other financial commitments associated with financial instruments as they actually fall due.

The Management board controls these types of risks by means of maturity analysis, determining the Group's strategy for the next financial period.

In order to manage liquidity risk, the Group performs regular monitoring of future expected cash flows, which is a part of assets/liabilities management process. The Group may experience liquidity problems due to the liquidity gap between the assets and liabilities held. The Management believes that the Group will be able to generate positive cash-flows to cover its liabilities in future.

An analysis of the liquidity is presented in the following table:

	Up to 1 year	**1 year to 2 years**	**2 years to 5 years**	**Over 5 years**	**31.12.2017 Total**
Financial assets					
Trade and other receivables	6,501	-	-	-	**6,501**
Cash and cash equivalents	1,408	-	-	-	**1,408**
Total financial assets	**7,909**	**-**	**-**	**-**	**7,909**
Financial liabilities					
Borrowings	41,214	3,860	11,580	4,503	**61,157**
Total interest bearing financial liabilities	**41,214**	**3,860**	**11,580**	**4,503**	**61,157**
Trade and other payables	8,085	-	-	-	**8,085**
Total financial liabilities	**49,299**	**3,860**	**11,580**	**4,503**	**69,242**
Liquidity gap	**(41,390)**	**(3,860)**	**(11,580)**	**(4,503)**	
Cumulative liquidity gap	**(41,390)**	**(45,250)**	**(56,830)**	**(61,333)**	

20. Financial instruments – risk management (Continued)

Financial assets	Up to year	1 years to 2 years	2 years to years	Over 5 years	01.01.2017 Total
Loans issued	911	-	-	-	**911**
Total interest bearing financial assets	**911**	**-**	**-**	**-**	**911**
Trade and other receivables	2,385	-	-	-	**2,385**
Cash and cash equivalents	927	-	-	-	**927**
Total financial assets	**4,223**	-	-	-	**4,223**
Financial liabilities					
Borrowings	18,382	13,094	11,824	8,540	**51,840**
Total interest bearing financial liabilities	**18,382**	**13,094**	**11,824**	**8,540**	**51,840**
Trade and other payables	10,607	-	-	-	**10,607**
Total financial liabilities	**28,989**	**13,094**	**11,824**	**8,540**	**62,447**
Liquidity gap	**(24,766)**	**(13,094)**	**(11,824)**	**(8,540)**	
Cumulative liquidity gap	**(24,766)**	**(37,860)**	**(49,684)**	**(58,224)**	

Capital disclosures

The Group's objectives when maintaining capital are:

- To safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders; and
- To provide returns for owner and benefits for other stakeholders and maintain an optimal capital structure to reduce the cost of capital

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including "current and non-current borrowings" as shown in the 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.

The debt to adjusted capital ratios	2017	2016
Long/short term borrowings	55,833	44,691
Less: cash and cash equivalents	1,408	927
Net debt	**54,425**	**43,764**
Total equity	82,008	98,397
Total adjusted capital	**82,008**	**98,397**
Debt to adjusted capital ratio (%)	**66%**	**44%**

21. Transactions with related parties

Related parties or transactions with related parties, as defined by IAS 24 "Related party disclosures", represent:

a) Parties that directly, or indirectly through one or more intermediaries: control, or are controlled by, or are under common control with, the Group (this includes parents, subsidiaries and fellow subsidiaries); have an interest in the Group that gives then significant influence over the Group; and that have joint control over the Group;
b) Members of key management personnel of the Group or its parent;
c) Close members of the family of any individuals referred to in (a) or (b);
d) Parties that are entities controlled, jointly controlled or significantly influenced by, or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (c) or (b);

In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form. Details of transactions between the Group and other related parties are disclosed below:

		31.12.2017	01.01.2017
	Relationship	**Related party balances**	**Related party balances**
Loans issued		**-**	**911**
- Business Center Saburtalo LLC	EUCC*	-	911
Trade and other receivables		**462**	**-**
- Georgian Media Holding LLC	EUCC*	437	-
- Industria Kiri LLC	EUCC*	25	-
Borrowings		**25,066**	**19,899**
- Georgian International Energy Corporation LLC	EUCC*	15,110	9,611
- Chemexim International LLC	Shareholder	8,681	8,239
- Mr. *Davit Bezhuashvili*	Shareholder	-	1,307
- Ritseulahesi LLC	EUCC*	837	742
- Business Center Saburtalo LLC	EUCC*	438	
Trade and other payables		**5,283**	**8,475**
- GIG Holding LLC	Shareholder	262	262
- Kutaisi Auto Mechanical Plant LLC	EUCC*	955	799
- Georgian International Energy Corporation LLC	EUCC*	3,937	7,313
- Global Trans LLC	EUCC*	110	99
- GIG LLC	EUCC*	8	1
- Mtkvari Energy LLC	EUCC*	11	1

* EUCC – Entities under common control

Key management compensation. Key management includes member of the Board of Directors. Compensation paid to key management for their services in full time executive management positions is made up of a contractual salary, performance bonus depending on financial performance of the Group and other compensation in form of reimbursement of business trips, fuel and communication expenses.

The remuneration of directors and other members of key management were as follows:

	2017
Compensation of key management	114

21. Transactions with related parties (Continued)

Included in the statement of comprehensive income are the following amounts which were recognized in transactions with related parties:

		2017
	Relationship	**Related party transactions**
Interest expense		**(1,883)**
- *Georgian International Energy Corporation LLC*	EUCC*	(1,136)
- *Chemexim International LTD*	Shareholder	(594)
- Mr. *Davit Bezhuashvili*	EUCC*	(58)
- *Ritseulahesi LLC*	EUCC*	(95)

* EUCC – Entities under common control

22. Commitments and contingencies

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

Operating environment – Emerging markets such as Georgia are subject to different risks than more developed markets, including economic, political and social, and legal and legislative risks. Laws and regulations affecting businesses in Georgia continue to change rapidly, tax and regulatory frameworks are subject to varying interpretations. The future economic direction of Georgia is heavily influenced by the fiscal and monetary policies adopted by the government, together with developments in the legal, regulatory, and political environment.

23. Post balance sheet events

There have been no subsequent events that need to be disclosed in the financial information.