Georgian Oil and Gas Corporation JSC

Unaudited Interim Consolidated Condensed Financial Statements for the six months ended 30 June 2017

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'000 GEL	Note	30 June 2017	31 December 2016
		Unaudited	**Audited**
Assets			
Property, plant and equipment	11	798,697	775,511
Intangible assets		1,294	1,129
Finance lease receivable	12	60,909	59,037
Trade and other receivables		21,977	20,721
Equity accountable investees		13,725	12,640
Non-current assets		**896,602**	**869,038**
Loans given	13	1,667	2,651
Inventories		8,007	10,928
Current tax assets		21,274	3,659
Prepayments for current assets and expenses		68,310	48,521
Trade and other receivables		161,009	179,735
Term deposits		-	75,129
Cash and cash equivalents	14	391,587	391,609
Current assets		**651,854**	**712,232**
Total assets		**1,548,456**	**1,581,270**
Equity			
Share capital	15	624,872	617,093
Additional paid in capital		71,718	71,718
Fair value adjustment reserve for non-cash owner contributions		(282,181)	(282,181)
Retained earnings		430,171	264,778
Equity attributable to owners of the Company		**844,580**	**671,408**
Non-controlling interests		71,066	40,186
Total equity		**915,645**	**711,594**
Liabilities			
Loans and borrowings	16	591,892	650,806
Non-current liabilities		**591,892**	**650,806**
Loans and borrowings	16	20,310	151,593
Trade and other payables		18,543	64,410
Current tax liabilities		-	802
Provisions		2,065	2,065
Current liabilities		**40,918**	**218,870**
Total liabilities		**632,810**	**869,676**
Total equity and liabilities		**1,548,456**	**1,581,270**

The interim consolidated statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 7 to 18.

		Six months ended June	
		2017	**2016**
'000 GEL	**Note**	**Unaudited**	**Unaudited**
Revenue	7	416,773	326,612
Cost of gas		(274,133)	(196,706)
Depreciation and amortization		(20,673)	(16,990)
Personnel costs		(8,174)	(7,255)
Taxes, other than on income		(3,309)	(2,694)
Other expenses	8	(5,798)	(10,731)
Other income	9	2,802	1,712
Results from operating activities		**107,489**	**93,949**
Finance income	10	78,963	39,136
Finance costs	10	(25,319)	(22,628)
Net finance income		**53,644**	**16,508**
Profit before income tax		**161,133**	**110,456**
Income tax expense		-	(16,568)
Profit and total comprehensive income		**161,133**	**93,888**

These condensed consolidated interim financial statements were approved by management on 23 August 2017 and were signed on its behalf by:

David Tvalabeishvili
General Director

Givi Bakhtadze
Financial Director

The consolidated statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 7 to 18.

	Attributable to owners of the Company						
’000 GEL	**Share capital**	**Fair value reserve for non-cash owner contributions**	**APIC**	**Retained earnings**	**Total**	**Non-controlling interests**	**Total equity**
Balance at 1 January 2016	**610,901**	**(282,181)**	**71,718**	**276,171**	**676,609**	**43,513**	**720,122**
Profit and total comprehensive income for 6 months of 2016	-	-	-	93,888	93,888	9,095	102,983
Contributions and distributions							
Increase in share capital	967	-	-	-	967	-	967
Distribution of non-cash assets	-	-	-	(2,999)	(2,999)	-	(2,999)
Dividends	-	-	-	(12,676)	(12,676)	-	(12,676)
Balance at 30 June 2016	**611,868**	**(282,181)**	**71,718**	**354,384**	**755,788**	**52,608**	**808,396**
Balance at 1 January 2017	**617,093**	**(282,181)**	**71,718**	**273,500**	**680,129**	**40,186**	**720,315**
Profit and total comprehensive income for 6 months of 2017	-	-	-	161,133	161,133	30,880	192,013
Contributions and distributions							
Increase in share capital	7,778	-	-	-	7,778	-	7,778
Distribution of non-cash assets	-	-	-	(4,461)	(4,461)	-	(4,461)
Balance at 30 June 2017	**624,872**	**(282,181)**	**71,718**	**430,171**	**844,580**	**71,066**	**915,645**

The consolidated statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 7 to 18.

	Six months ended June	
	2017	**2016**
Cash flows from operating activities		
Cash receipts from customers	466,306	354,111
Cash paid to suppliers and employees	(373,979)	(312,439)
Cash flows from operations before income taxes and interest paid	**92,327**	**41,672**
Income tax paid	(8)	(15)
Net interest paid	729	3,949
Cash flows from operating activities	**93,047**	**45,606**
Cash flows from investing activities		
Deacrease in term deposit	74,375	-
Acquisition of property, plant and equipment	(9,867)	(17,946)
Investing in other companies	(350)	(8,942)
Loans given	-	(23,423)
Cash flows used in investing activities	**64,157**	**(50,311)**
Cash flows from financing activities		
Proceeds from borrowings	-	96,573
Repayment of the borrowings	(134,704)	(5,688)
Dividends paid	-	(12,676)
Net cash from/(used in) financing activities	**(134,704)**	**78,210**
Effect of exchange rate fluctuations on cash and cash equivalents	(22,523)	(4,097)
Net increase/(decrease) in cash and cash equivalents	**22,501**	**73,505**
Cash and cash equivalents at the beginning of the period	391,609	191,088
Cash and cash equivalents at 30 June	**391,587**	**260,496**

The consolidated statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 7 to 18.

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The consolidated statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 7 to 18.

1. Reporting entity

(a) Organisation and operations

Georgian Oil and Gas Corporation JSC (the “Company”) and its subsidiaries (the “Group”) comprise Georgian Joint Stock and Limited Liability Companies as defined in the Law of Georgia on Entrepreneurs. The Company was established as a 100% state-owned enterprise by the order of the Ministry of Economy of Georgia on 21 March 2006, on the basis of three Georgian state-owned companies: Georgian International Oil Corporation JSC, Georgian Gas International Corporation JSC and Teleti Oil Company JSC.

In 2006 and 2007, respectively, Georgian International Oil Corporation JSC and Georgian Gas International Corporation JSC ceased legal existence and the assets and liabilities were transferred to the Company. In November 2007 the shares in Teleti Oil Company JSC were taken over by the Government of Georgia. Related party transactions are detailed in note 19.

The Company’s registered office is 21 Kakheti Highway, Tbilisi 0190, Georgia.

The Group’s principal activities are natural gas import and sale, rent of gas pipelines and the oil and gas exploration and extraction in Georgia. Following the completion of the Gardabani Combined Cycle Power Plant (CCPP) construction in July 2015, electricity generation was added to the Group’s principal activities. On 7 September 2015 CCPP obtained the licence on operation for an unlimited period from Georgian National Energy and Water Supply Regulatory Commission (GNERC) and commenced generating revenue in accordance with the deregulated tariffs on the electricity market in Georgia. In accordance with the Government of Georgia order 475 dated 14 September 2015 Gardabani CCPP was granted the status of guaranteed capacity operator until 1 October 2040.

Since December 2006, when the Company has been granted the status of National Oil Company on behalf of the State of Georgia, the Company receives and sells the State’s share of extracted oil and gas in Georgia in accordance with Production Sharing Agreements signed between the State and investors.

(b) Business environment

The Group’s operations are located in Georgia. Consequently, the Group is exposed to the economic and financial markets of Georgia which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in Georgia. The consolidated financial statements reflect management’s assessment of the impact of the Georgian business environment on the operations and the financial position of the Group. The future business environment may differ from management’s assessment.

2. Basis of accounting

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRSs”).

3. Functional and presentation currency

The national currency of Georgia is the Georgian Lari ("GEL"), which is the Company's functional currency and the currency in which these consolidated financial statements are presented. All financial information presented in GEL has been rounded to the nearest thousand.

4. Use of estimates and judgments

The preparation of consolidated financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements is included in the following notes:

- Note 12 Finance lease receivable – determination of whether the initial arrangement contains a finance lease and the fair value of the unguaranteed residual value at the end of the lease term;
- Note 14 Cash and cash equivalents – classification of term deposits with original maturities of more than three months as cash and cash equivalents;

Measurement of fair values

Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

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

If the inputs used to measure the fair value of an asset or a liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

5. Operating segments

The Group has six reportable segments, as described below, which are the Group's strategic business units. The strategic business units offer different products and services, and are managed separately. For each of the strategic business units, the Company's General Director reviews internal management reports on at least a quarterly basis. The following summary describes the operations in each of the Group's reportable segments:

- *Gas supply:* Includes purchase and sale of natural gas.
- *Pipeline rental*: Includes rental income earned by the Group from the lease of gas pipelines to a related party, Georgian Gas Transportation Company LLC
- *Upstream activities*: Includes sale of oil from production-sharing arrangements.
- *Oil transportation: Includes income from transportation of oil through the territory of Georgia.*
- *Oil trading: Includes agency fees from crude oil delivery from Azerbaijan to Black Sea ports in Georgia.*
- *Electricity generation: Includes electricity sales and guaranteed capacity fees.*

Information regarding the results of each reportable segment is included below. Performance is measured based on segment profit before depreciation, personnel costs, net finance costs, other income/expenses and income and other taxes, as included in the internal management reports that are reviewed by the Company's General Director. The management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries. The Company's General Director does not monitor segment assets or liabilities.

(i) Information about reportable segments

'000 GEL	**Gas supply**		**Pipeline rental**		**Upstream activities**		**Oil transportation**		**Oil trading**		**Electricity generation**		**Total:**	
	6 months ended 30 June		**6 months ended 30 June**		**6 months ended 30 June**		**6 months ended 30 June**		**6 months ended 30 June**		**6 months ended 30 June**		**6 months ended 30 June**	
	2017	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
External revenues	263,169	190,125	40,508	31,037	4,929	8,173	9,879	9,125	-	2,232	98,288	85,920	416,773	326,612
Cost of gas and oil	(234,764)	(160,869)									(39,369)	(35,837)	(274,133)	(196,706)
Reportable segment profit before unallocated costs, net finance cost and income tax	28,404	29,256	40,508	31,037	4,929	8,173	9,879	9,125	-	2,232	58,920	50,083	142,640	129,906

* Product sharing arrangements are considered as joint operations and the revenue from oil sales is recognised only when it is sold to third parties

	Six months ended 30 June	
'000 GEL	**2017**	**2016**
Revenues		
Total revenue for reportable segments	**416,773**	**326,612**
Profit or loss		
Total profit for reportable segments	142,640	129,906
Unallocated personnel expenses	(8,174)	(7,225)
Unallocated depreciation and amortization expenses	(20,673)	(16,990)
Net finance income/(costs)	53,644	16,508
Other net unallocated income/(costs)	(6,304)	(11,712)
Consolidated profit before income tax	**161,133**	**110,456**

(ii) Geographical information

All of the Group's revenues are generated in Georgia and all non-current assets are located in Georgia.

(iii) Major customer

During the 6 months of 2017, one customer in the gas supply segment represented approximately 63% of the Group's total revenue GEL 416,773 thousand, (2016: 58%, GEL 326,612 thousand).

6. Seasonality of operations

Gas supply and pipeline rental revenues follow a seasonal pattern with an annual base-load of gas and a large heating peak occurring during the winter season. Natural gas obtained from suppliers is utilized to meet the peak heating season requirements. The Group's other revenues remain relatively stable during the year.

7. Revenue

	Six months ended 30 June	
'000 GEL	**2017**	**2016**
Sales of natural gas	263,169	190,125
Income from electricity generation	98,288	85,920
Income from rent of gas pipelines	40,508	31,037
Oil transportation fee	9,879	9,125
Income from crude oil sales	4,929	8,173
Oil trading	-	2,232
Total revenues	**416,773**	**326,612**

The Company rents its gas pipeline to Georgian Gas Transportation Company LLC. The lease payments are contingent on the volume of gas transported through the pipeline. Transactions with related parties are disclosed in note 19.

8. Other expenses

	six months ended 30 June	
'000 GEL	**2017**	**2016**
Banking, consulting and other professional services	(153)	(6,718)
Representative and business trip expenses	(248)	(559)
Office and related equipment maintenance	-	(453)
Utility costs	(375)	(303)
Transportation, materials and repair and maintenance	(4,024)	(194)
Communication expenses	(66)	(64)
Other	(931)	(2,439)
	(5,798)	**(10,731)**

9. Other income

	six months ended 30 June	
'000 GEL	**2017**	**2016**
Oil processing	229	244
Rent income	264	215
Other	2,309	1,254
	2,802	**1,712**

10. Finance income and finance costs

	six months ended 30 June	
’000 GEL	**2017**	**2016**
Recognised in profit or loss		
Customer penalties for late payment	9,823	13,912
Interest income on bank deposits	20,112	11,595
Interest accrued on given loans	100	3,126
Unwinding of discount on finance lease receivable	1,873	1,768
Net foreign exchange gain	47,055	8,736
Finance income	**78,963**	**39,136**
Interest expense on bonds payable	(25,319)	(22,628)
Finance costs	**(25,319)**	**(22,628)**
Net finance costs recognised in profit or loss	**53,644**	**16,508**

Interest income was received from funds temporarily invested from the bond issuance proceeds in bank deposits and loans issued.

11. Property, plant and equipment

In thousand GEL	Gas and oil pipelines	Land and Buildings	Electricity Generating Unit	Oil wells	Plant and equipment	Other	CIP	Total
Opening net book amount as at 1 January 2017	**255,685**	**37,184**	**368,798**	**11,181**	**9,901**	**5,475**	**87,287**	**775,511**
Additions	20,477	716	457	373	3	362	34,783	**57,172**
Disposals	(12,687)	(554)	-	(73)	(6)	(6)	-	**(13,326)**
Depreciation	(9,648)	(351)	(8,660)	(841)	(986)	(174)	-	**(20,660)**
Closing net book amount as at 30 June 2017	**253,827**	**36,994**	**360,595**	**10,639**	**8,913**	**5,657**	**122,070**	**798,697**

12. Finance lease receivable

In 1996 the Government of Georgia entered into a 30 year arrangement with a consortium of oil companies that undertook major rehabilitation of existing pipeline from the border with Azerbaijan to the Georgian Black Sea coast and construction of Supsa oil terminal. The arrangement granted the oil companies the right to transport oil across Georgia through that pipeline. The pipeline infrastructure on Georgian territory, being the property of the Government of Georgia and ownership of this infrastructure was transferred to the Company in June-July 2010 through a contribution to its charter capital with a nominal value of GEL 269,299 thousand. In exchange for the oil company's use of the pipeline, the Group receives a transit fee for each barrel of oil transported through the pipeline. Management has determined that the initial arrangement contained a finance lease at inception.

The Group has recognized a lease receivable of GEL 39,229 thousand at the date that title was transferred to the business. The lease receivable is the present value of the net investment in the lease comprising the present value of the assets' unguaranteed residual value at the end of the lease term. The difference of GEL 230,070 thousand between the nominal amount and the present value of the net investment in the lease has been recognized in equity as fair value adjustment for non-cash owner contributions.

’000 GEL	30 June 2017	31 December 2016
Balance at the beginning of the year/date of title transfer	**59,037**	55,424
Unwinding of discount on finance lease receivable	1,873	3,613
Balance at the end of the period	**60,909**	**59,037**

Contingent rents related to oil transportation recognized in the consolidated statement of comprehensive income during six months of 2017 amounted to GEL 9,879 thousand (six months of 2016 GEL 9,125 thousand).

13. Loans given

	30 June	31 December
’000 GEL	**2017**	**2016**
Current		
Current portion of loan given to the third party	1,667	2,651
Total current	**1,667**	**2,651**

The loan given to a third party bears the contractual rate of interest of 9.5% and matures within 1 year and is secured by the borrower’s property, plant and equipment.

14. Cash and cash equivalents

	six months ended 30 June	
’000 GEL	**2017**	**2016**
Cash and cash equivalents	344,479	231,921
Call deposits	47,108	28,575
Cash and cash equivalents in the consolidated statement of cash flows and in the consolidated statement of financial position	**391,587**	**260,496**

Call deposits represent term deposits with banks with maturities greater than three months from the acquisition date but for which the Group has the unilateral right to withdraw the deposits within a few days of providing notification without incurring significant penalties or loss of interest. Consequently, these term deposits have been classified in accordance with their nature which is that of a call deposit.

15. Equity

Share capital

Number of shares unless otherwise stated	Ordinary shares	
	30 June 2017	**31 December 2016**
Par value	GEL 20	GEL 20
On issue at 1 January	30,854,651	30,545,028
Issue of shares in exchange for non-cash assets	388,928	309,623
On issue at the reporting date	**31,243,579**	**30,854,651**

Ordinary shares

The holders of ordinary shares are entitled to receive dividends as declared from time to time, and are entitled to one vote per share at meetings of the Company.

16. Loans and borrowings

	six months ended 30 June	
’000 GEL	**2017**	**2016**
Non-current liabilities		
Unsecured bond issue	591,892	681,283
	591,892	**681,283**
Current liabilities		
Current portion of unsecured bond issue	20,310	14,525
	20,310	**14,525**

In April 2016 the Group carried out the issuance, placement and registration (listing) on the London Stock Exchange of unsecured bonds of USD 250 million and the early part redemption of the 2012 Bonds. As a result, the Group has issued USD 250 million 6.75% bonds due in 2021 and redeemed 78.62% of the outstanding 2012

17. Financial risk management

The Group’s financial risk management objectives and policies are consistent with those disclosed in the consolidated financial statements as at and for the twelve months ended 31 December 2016.

18. Contingencies

(a) Insurance

The insurance industry in the Georgia is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Group does not have full coverage for its plant facilities, business interruption, or third party liability in respect of property or environmental damage arising from accidents on Group property or relating to Group operations. Until the Group obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Group’s operations and financial position.

(b) Taxation contingencies

The taxation system in Georgia is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions. In the event of a breach of tax legislation, no liabilities for additional taxes, fines or penalties may be imposed by the tax authorities after six years have passed since the end of the year in which the breach occurred.

These circumstances may create tax risks in Georgia that are 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, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these consolidated financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

(c) 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 recognized 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.

19. Related party transactions

(a) Control relationships

As at 30 June 2017 Georgian Oil and Gas Corporation JSC is wholly owned by Partnership Fund JSC. The ultimate controlling party of the Group is the Government of Georgia. The Group's parent company produces publicly available financial statements.

(b) Transactions with key management personnel

(i) Key management remuneration

Key management received the following remuneration during the year, which is included in personnel costs:

	six months ended 30 June	
'000 GEL	**2017**	**2016**
Salaries and bonuses	**481**	**526**

(c) Other related party transactions

The Group transacts in its daily operations with a number of entities that are either controlled, jointly controlled or under significant influence of the Government of Georgia. The Group has opted to apply the exemption in IAS 24 *Related Party Disclosures* that allows the presentation of reduced related party disclosures regarding transactions with government-related entities.

Management estimates that the aggregate amounts of other income and expenses and the related balances with Government-related entities, except as disclosed below are not significant.

(i) Revenue

	Transaction value for the six months ended 30 June		Outstanding balance as at	
			30 June	31 December
'000 GEL	**2017**	**2016**	**2017**	**2016**
State controlled entities:				
Rent of pipelines	40,508	36,624	81,932	20,721
Income from electricity generation	98,288	85,959	12,356	25,426
	138,796	**122,583**	**94,288**	**46,147**

(ii) Expenses

	Transaction value for the six months ended 30 June		Outstanding balance as at	
			30 June	31 December
'000 GEL	**2017**	**2016**	**2017**	**2016**
State controlled entities:				
Purchase of Gas	28,613	13,241	38,016	4,215
	28,613	**13,241**	**38,016**	**4,215**