

**Georgian Oil and Gas Corporation JSC**

**Consolidated Financial Statements  
for 2016**

**Contents**

Independent Auditors' Report	3
Consolidated Statement of Financial Position	6
Consolidated Statement of Profit or Loss and Other Comprehensive Income	7
Consolidated Statement of Changes in Equity	8
Consolidated Statement of Cash Flows	9
Notes to the Consolidated Financial Statements	10



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## **Independent Auditors' Report**

To the Board of Directors of Georgian Oil and Gas Corporation JSC

### ***Opinion***

We have audited the consolidated financial statements of Georgian Oil and Gas Corporation JSC (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2016, the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

### ***Basis for Opinion***

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

### ***Key Audit Matters***

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

<b>Recoverability of trade receivables</b>	
Please refer to the Note 22 b(iii) in the consolidated financial statements.	
<b>The key audit matter</b>	<b>How the matter was addressed in our audit</b>
<p>Recoverability of trade receivables is a significant risk due to the material nature of the balance. Related provisions are subjective and are influenced by assumptions concerning customer credit risk.</p> <p>As at 31 December 2016 the Group had material amounts of past due trade receivables due from a related party, Georgian Gas Transportation Company LLC ("GGTC") of GEL 20,721 thousand, the ageing profile of which had deteriorated as compared to the previous period-end due to customer specific reasons.</p> <p>The Group management believes that the debt will be fully recovered during 2018-2020 years taking into account the financial position and liquidity of the customer, its cash flows and expected repayments as verbally agreed with the ultimate shareholder of the the Group and GGTC.</p>	<p>Our audit procedures in relation to accounts receivable from GGTC included:</p> <ul style="list-style-type: none"> <li>– Analyzing the financial stability of the customer and its ability to repay debts to the Group. Our analysis was based on GGTC IFRS financial statements for 2016.</li> <li>– Analyzing the management estimates and judgments, including the repayment schedule and the discount rate, used in assessing the debt recoverability and impairment provision in relation to the GGTC receivable as at 31 December 2016.</li> <li>– Obtaining a verbal representation from the appropriate member of those charged with governance of GGTC regarding the repayment schedule.</li> <li>– Comparing the discount rate to the external market data.</li> </ul>

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

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

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

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

### **Auditors' Responsibilities for the Audit of the Consolidated Financial Statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 consolidated financial statements.

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

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


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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditors' report is:

Andrew Coxshall

  
KPMG Georgia LLC  
Tbilisi, Georgia  
30 June 2017

**Georgian Oil and Gas Corporation JSC**  
*Consolidated Statement of Financial Position as at 31 December 2016*

'000 GEL	Note	2016	2015 Restated
<b>Assets</b>			
Property, plant and equipment	12	775,511	758,264
Prepayments for non-current assets		-	2,064
Intangible assets		1,129	86
Finance lease receivable	13	59,037	55,424
Loans given	14	-	61,341
Trade and other receivables	16	20,721	-
Term deposits	15	-	61,074
Equity accounted investees	7	12,640	5,663
Deferred tax assets	11	-	14,381
<b>Non-current assets</b>		<b>869,038</b>	<b>958,297</b>
Loans given	14	2,651	5,763
Assets held for distribution		-	1,758
Inventories		10,928	8,825
Current tax assets		-	3,664
Taxes other than on income		3,659	5,019
Prepayments		48,521	48,147
Trade and other receivables	16	179,735	181,483
Term deposits	15	75,129	-
Cash and cash equivalents	17	391,609	191,088
<b>Current assets</b>		<b>712,232</b>	<b>445,747</b>
<b>Total assets</b>		<b>1,581,270</b>	<b>1,404,044</b>
<b>Equity</b>	18		
Share capital		617,093	610,901
Additional paid in capital		71,718	71,718
Fair value reserve for non-cash owner contributions		(282,181)	(282,181)
Retained earnings		264,778	270,908
<b>Equity attributable to owners of the Company</b>		<b>671,408</b>	<b>671,346</b>
Non-controlling interests	23	40,186	43,513
<b>Total equity</b>		<b>711,594</b>	<b>714,859</b>
<b>Liabilities</b>			
Loans and borrowings	20	650,806	587,172
Deferred tax liabilities	11	-	14,060
<b>Non-current liabilities</b>		<b>650,806</b>	<b>601,232</b>
Loans and borrowings	20	151,593	13,042
Trade and other payables	21	64,410	67,807
Taxes other than on income		-	5,039
Current tax liabilities		802	-
Provisions		2,065	2,065
<b>Current liabilities</b>		<b>218,870</b>	<b>87,953</b>
<b>Total liabilities</b>		<b>869,676</b>	<b>689,185</b>
<b>Total equity and liabilities</b>		<b>1,581,270</b>	<b>1,404,044</b>

The 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 10 to 43.

*Georgian Oil and Gas Corporation JSC*  
*Consolidated Statement of Profit or Loss and Other Comprehensive Income for 2016*

'000 GEL	Note	2016	2015 Restated
Revenue	6	633,638	495,431
Cost of gas and oil		(391,141)	(337,154)
Depreciation		(39,864)	(26,866)
Personnel costs		(15,722)	(11,702)
Taxes, other than on income		(10,195)	(8,968)
Other expenses	8	(28,190)	(22,756)
Other income	9	1,068	2,381
<b>Results from operating activities</b>		<b>149,594</b>	<b>90,366</b>
Finance income	10	61,305	30,951
Finance costs	10	(111,517)	(86,951)
<b>Net finance costs</b>		<b>(50,212)</b>	<b>(56,000)</b>
Share of loss of equity accounted investees	7	(1,964)	-
<b>Profit before income tax</b>		<b>97,418</b>	<b>34,366</b>
Income tax expense	11	(19,381)	(3,413)
<b>Profit and total comprehensive income for the year</b>		<b>78,037</b>	<b>30,953</b>
<b>Profit and total comprehensive income attributable to:</b>			
Owners of the Company		81,364	70,756
Non-controlling interests		(3,327)	(39,803)
		<b>78,037</b>	<b>30,953</b>

These consolidated financial statements were approved by management on 30 June 2017 and were signed on its behalf by:

David Tvalabeishvili  
General Director



Givi Bakhtadze  
Financial Director

	Attributable to owners of the Company						Total equity
	Share capital	Additional paid in capital	Fair value reserve for non-cash owner contributions	Retained earnings	Total	Non-controlling interests	
<b>'000 GEL</b>							
Balance at 1 January 2015	572,691	71,718	(282,181)	230,420	592,648	83,316	675,964
<b>Total comprehensive income (restated)</b>							
Profit and total comprehensive income for the year (restated)	-	-	-	70,756	70,756	(39,803)	30,953
<b>Transactions with owners of the Company</b>							
Contributions and distributions							
Dividends (see note 18(c))	-	-	-	(29,361)	(29,361)	-	(29,361)
Distribution of non-cash assets, net of tax (see note 18(c))	-	-	-	(907)	(907)	-	(907)
Increase in share capital (see note 18 (a))	38,210	-	-	-	38,210	-	38,210
<b>Total contributions and distributions</b>	<b>38,210</b>	<b>-</b>	<b>-</b>	<b>(30,268)</b>	<b>7,942</b>	<b>-</b>	<b>7,942</b>
<b>Balance at 31 December 2015 (restated)</b>	<b>610,901</b>	<b>71,718</b>	<b>(282,181)</b>	<b>270,908</b>	<b>671,346</b>	<b>43,513</b>	<b>714,859</b>
Balance at 1 January 2016 (restated)	610,901	71,718	(282,181)	270,908	671,346	43,513	714,859
<b>Total comprehensive income</b>							
Profit and total comprehensive income for the year	-	-	-	81,364	81,364	(3,327)	78,037
<b>Transactions with owners of the Company</b>							
Contributions and distributions							
Dividends (see note 18(c))	-	-	-	(12,676)	(12,676)	-	(12,676)
Distribution of non-cash assets (see note 18(c))	-	-	-	(74,818)	(74,818)	-	(74,818)
Increase in share capital (see note 18 (a))	6,192	-	-	-	6,192	-	6,192
<b>Total contributions and distributions</b>	<b>6,192</b>	<b>-</b>	<b>-</b>	<b>(87,494)</b>	<b>(81,302)</b>	<b>-</b>	<b>(81,302)</b>
<b>Balance at 31 December 2016</b>	<b>617,093</b>	<b>71,718</b>	<b>(282,181)</b>	<b>264,778</b>	<b>671,408</b>	<b>40,186</b>	<b>711,594</b>



'000 GEL	Note	2016	2015
<b>Cash flows from operating activities</b>			
Cash receipts from customers		678,142	425,656
Cash paid to suppliers and employees		(490,150)	(413,139)
Value added tax refund from the State		3,500	11,800
<b>Cash from operations before income taxes and interest</b>		<b>191,492</b>	<b>24,317</b>
Income tax paid		(12,341)	(17,105)
Interest paid		(42,913)	(40,918)
Interest received		22,848	37,436
<b>Net cash from operating activities</b>		<b>159,086</b>	<b>3,730</b>
<b>Cash flows from investing activities</b>			
Acquisition of property, plant and equipment		(53,115)	(101,934)
Repayment of loans given		41,015	120,015
Loans given		(39,858)	(2,402)
Acquisition of equity accounted investee		(8,942)	(5,663)
<b>Net cash (used in)/from investing activities</b>		<b>(60,900)</b>	<b>10,016</b>
<b>Cash flows from financing activities</b>			
Dividends paid		(12,676)	(29,361)
Proceeds from borrowings		550,431	-
Repayment of borrowings		(450,154)	-
<b>Net cash from/(used in) financing activities</b>		<b>87,601</b>	<b>(29,361)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>185,787</b>	<b>(15,615)</b>
Cash and cash equivalents at 1 January		191,088	181,799
Effect of exchange rate fluctuations on cash and cash equivalents		14,734	24,904
<b>Cash and cash equivalents at 31 December</b>	17	<b>391,609</b>	<b>191,088</b>

During 2015 and 2016, the Group received non-cash contributions and made non-cash distributions to the Government of Georgia (see notes 12 and 18).

During 2016 the Group made non-cash settlements of trade receivables with trade payables of GEL 29,210 thousand (2015: GEL 49,445 thousand).

<b>Note</b>	<b>Page</b>	<b>Note</b>	<b>Page</b>
1. Reporting entity	11	18. Equity	22
2. Basis of accounting	11	19. Capital management	23
3. Functional and presentation currency	12	20. Loans and borrowings	23
4. Use of estimates and judgments	12	21. Trade and other payables	24
5. Operating segments	13	22. Fair values and risk management	24
6. Revenue	15	23. Significant subsidiaries and non-controlling interest	29
7. Equity accounted investees	16	24. Capital and other commitments	30
8. Other expenses	16	25. Contingencies	30
9. Other income	16	26. Related party transactions	31
10. Finance income and finance costs	17	27. Subsequent events	33
11. Income tax expense	17	28. Basis of measurement	33
12. Property, plant and equipment	19	29. Restatement - correction of error	33
13. Finance lease receivable	20	30. Significant accounting policies	34
14. Loans given	20	31. New standards and interpretations not yet adopted	42
15. Term deposits	21		
16. Trade and other receivables	21		
17. Cash and cash equivalents	22		

## **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.

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 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, Gardabani CCPP obtained the licence on operation for an unlimited period from the 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.

Starting from February 2016 the Group acts as an agent for crude oil delivery from Azerbaijan to Batumi sea port located in Georgia.

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 13 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 17 Cash and cash equivalents – classification of term deposits with original maturities of more than three months as cash and cash equivalents;
- Note 23 Significant subsidiaries – determination of control over subsidiaries.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year is included in the following notes:

- Note 15 Term deposits - recoverability of the term deposit pledged as collateral for a loan obtained by a state controlled entity;
- Note 22 (b) Credit risk – recoverability of trade and other receivables and loans given.

#### ***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.

Further information about the assumptions made in measuring fair values is included in note 22 (a) – accounting classifications and fair values.

## 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 (see note 26).
- *Upstream activities:* Includes sale of oil from production-sharing arrangements.
- *Oil transportation:* Includes income from transportation of oil through the territory of Georgia.
- *Electricity generation and supply:* Includes electricity sales and guaranteed capacity fees.
- *Oil trading:* Includes agency fees from crude oil delivery from Azerbaijan to Black Sea ports in Georgia.

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

	Gas supply		Electricity generation and supply		Pipeline rental		Oil transportation		Upstream activities		Agency fee from oil trading		Total	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
'000 GEL														
Revenue	348,226	349,588	184,377	48,730	68,487	68,818	18,047	17,977	10,478	10,318	4,023	-	633,638	495,431
Cost of gas and oil	(308,875)	(312,147)	(82,266)	(25,007)	-	-	-	-	-	-	-	-	(391,141)	(337,154)
Reportable segment profit before unallocated costs and income tax	39,351	37,441	102,111	23,723	68,487	68,818	18,047	17,977	10,478	10,318	4,023	-	242,497	158,277

'000 GEL	2016	2015 Restated
<b>Revenues</b>		
Total revenue for reportable segments	633,638	495,431
<b>Profit or loss</b>		
Reportable segments profit	242,497	158,277
<i>Unallocated amounts:</i>		
Depreciation	(39,864)	(26,866)
Personnel costs	(15,722)	(11,702)
Net finance costs	(50,212)	(56,000)
Taxes, other than on income	(10,195)	(8,968)
Other expenses	(28,190)	(22,756)
Other income	1,068	2,381
Share of loss of equity accounted investees	(1,964)	-
Consolidated profit before income tax	<b>97,418</b>	<b>34,366</b>

**(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**

In 2016 sales to one customer in the gas supply segment represented GEL 345,874 thousand which represents approximately 55 % of the Group's total revenue (2015: GEL 347,298 thousand, 70%).

In 2016 sales to one customer in electricity generation and supply segment represented GEL 115,993 thousand which represents approximately 18% of the Group's total revenue (2015: GEL 32,611 thousand, 7%).

## 6. Revenue

'000 GEL	2016	2015
Sale of natural gas	348,226	349,588
Income from electricity generation and supply	184,377	48,730
Income from rent of gas pipelines	68,487	68,818
Oil transportation fee	18,047	17,977
Income from crude oil sales	10,478	10,318
Agency fees from oil trading	4,023	-
<b>Total revenues</b>	<b>633,638</b>	<b>495,431</b>

Income from electricity generation and supply includes the income from guaranteed capacity fees of GEL 109,852 thousand (2015: GEL 22,337 thousand) and income from electricity generation of GEL 74,525 thousand (2015: GEL 26,393 thousand).

The Company rents its gas pipeline to Georgian Gas Transportation Company LLC. The rent agreement is valid until 1 January 2020. The lease payments are contingent on the volume of gas transported through the pipeline. Transactions with related parties are disclosed in note 26.

Oil transportation fee is received for the oil transit from Azerbaijan to Turkey through the Baku-Supsa pipeline.

## 7. Equity accounted investees

As at 31 December 2016 the Group's contribution to the charter capital of Kartli Wind Power Station LLC, a subsidiary of Georgian Energy Development Fund JSC, was 42.85% and amounted to GEL 14,322 thousand (2015: GEL 5,381 thousand, 49.99%).

Kartli Wind Power Station LLC constructed the first wind power station in Georgia with a capacity of 20.7 MW. The construction of the station was completed in September 2016 and started operation from November 2016.

'000 GEL	2016	2015
Balance at 1 January	5,663	282
Contributions made	8,941	5,381
Group's share of loss, net of income tax	(1,964)	-
<b>Balance at 31 December</b>	<b>12,640</b>	<b>5,663</b>

None of the Group's equity accounted investees are publicly listed entities and consequently do not have published price quotations.

## 8. Other expenses

'000 GEL	2016	2015 Restated
Write off and disposal of assets	-	6,192
Transportation, materials, repair and maintenance	9,822	3,581
Impairment loss on trade receivables	8,818	-
Regulatory fees	2,595	2,265
Office expenses	1,649	1,233
Pre-feasibility study	1,428	-
Benefits to employees	537	676
Representative and business trip expenses	504	364
Professional services	266	1,876
Legal fees	11	3,302
Litigation settlement (see note 25 (b))	-	1,702
Other	2,560	1,565
	<b>28,190</b>	<b>22,756</b>

## 9. Other income

'000 GEL	2016	2015
Oil processing	464	902
Customer penalties for late payment	-	124
Other	604	1,355
	<b>1,068</b>	<b>2,381</b>



## 10. Finance income and finance costs

'000 GEL	2016	2015
<b>Recognised in profit or loss</b>		
Interest income on bank deposits	24,037	9,544
Interest income on loans given	5,904	5,402
Customer late payment penalties	27,751	12,622
Unwinding of discount on finance lease receivable (note 13)	3,613	3,383
<b>Finance income</b>	<b>61,305</b>	<b>30,951</b>
Interest expense on loans and borrowings	(48,049)	(21,760)
Net foreign exchange loss	(50,413)	(65,191)
Early redemption fees	(13,055)	-
<b>Finance costs</b>	<b>(111,517)</b>	<b>(86,951)</b>
<b>Net finance costs recognised in profit or loss</b>	<b>(50,212)</b>	<b>(56,000)</b>

Commission fees of GEL 13,055 thousand relates to early redemption of bonds maturing in May 2017 (see note 20).

In 2016 there was no capitalization of interest, as qualifying asset (Gardabani CCPP), was put into operation in September 2015. In 2015 when the Group capitalised net interest on bonds issued of GEL 6,621 thousand. This was the net result of interest expense on bonds issued of GEL 20,869 thousand and interest income on bank deposits and loans given of GEL 5,033 thousand and GEL 9,215 thousand, respectively. Interest income was received from funds temporarily invested from the bond issuance proceeds in bank deposits and loans issued.

## 11. Income tax expense

### (a) Amount recognized in profit and loss

The Group's applicable tax rate is the income tax rate of 15% for Georgian companies.

'000 GEL	2016	2015 Restated
<b>Current tax expense</b>		
Current year	18,333	15,875
Under provided in prior years	726	-
	<b>19,059</b>	<b>15,875</b>
<b>Deferred tax benefit</b>		
Origination and reversal of temporary differences	322	(12,462)
	<b>322</b>	<b>(12,462)</b>
	<b>19,381</b>	<b>3,413</b>

Reversal of previously recognized deferred tax assets and liabilities of GEL 322 thousand are attributable to changes in Georgian tax legislation. On 13 May 2016 the Parliament of Georgia passed a bill on corporate income tax reform (also known as the Estonian model of corporate taxation), which mainly moves the moment of taxation from when taxable profits are earned to when they are distributed. The law is effective for tax periods starting after 1 January 2017. Considering that the change in the Georgian Tax Code was enacted before the reporting date, the Group has recognized the full effect of the change by derecognizing previously recognized deferred tax assets and liabilities through the current period consolidated statement of profit or loss as an income tax expense.

**(b) Amount recognized in equity**

In 2015 current tax deduction of GEL 160 thousand related to the distribution of non-cash assets was recognized directly in equity. In 2016 no such tax deduction was recognized.

**Reconciliation of effective tax rate:**

	2016		2015 Restated	
	'000 GEL	%	'000 GEL	%
Profit before income tax	97,418	100	34,366	100
Income tax at applicable tax rate	14,613	15	5,155	15
Non-deductible expenses	-	-	192	1
Under provided in prior years	726	1	-	-
Change in recognized deductible/(taxable) temporary differences (due to change in the legislation)	322	0	-	-
Differences between tax and IFRS bases of income and expenses	3,720	4	-	-
Change in unrecognised temporary differences on finance lease receivable	-	-	(1,934)	(6)
	<b>19,381</b>	<b>20</b>	<b>3,413</b>	<b>10</b>

**(c) Recognized deferred tax assets and liabilities**

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2016	2015	2016	2015 Restated	2016	2015 Restated
'000 GEL						
Property, plant and equipment	-	-	-	(76,511)	-	(76,511)
Inventories	-	349	-	-	-	349
Trade and other receivables	-	216	-	-	-	216
Loans and borrowings	-	957	-	-	-	957
Tax loss carry-forwards	-	75,254	-	-	-	75,254
Trade and other payables	-	57	-	-	-	57
Tax (assets)/liabilities	-	76,833	-	(76,511)	-	322
Set off of tax	-	(62,451)	-	62,451	-	-
Net tax (assets)/liabilities	-	<b>14,381</b>	-	<b>(14,060)</b>	-	<b>322</b>

Movement in temporary differences during the year:

'000 GEL	1 January 2016	Recognised in profit or loss	31 December 2016
Property, plant and equipment	(76,511)	76,511	-
Inventories	349	(349)	-
Trade and other receivables	216	(216)	-
Loans and borrowings	957	(957)	-
Tax loss carry-forwards	75,254	(75,254)	-
Trade and other payables	57	(57)	-
	<b>322</b>	<b>(322)</b>	<b>-</b>

'000 GEL	1 January 2015	Recognised in profit or loss Restated	31 December 2015 Restated
Property, plant and equipment	(15,498)	(61,013)	(76,511)
Inventories	279	70	349
Trade and other receivables	216	-	216
Loans and borrowings	620	337	957
Tax loss carry-forwards	2,243	73,011	75,254
Trade and other payables	-	57	57
	<b>(12,140)</b>	<b>12,462</b>	<b>322</b>

## 12. Property, plant and equipment

'000 GEL Cost	Gas and oil pipelines	Land and buildings	Electricity Generating unit	Oil wells	Plant and equipment	Other	Under construction and uninstalled equipment	Total
Balance at 1 January 2015	366,778	38,263	-	29,864	6,660	4,894	288,118	734,577
Additions	27,418	344	-	-	11,819	2,593	159,730	201,904
Transfers	16,611	55	391,563	-	-	113	(408,342)	-
Disposals (restated)	(8,325)	(1,077)	-	-	-	(11)	-	(9,413)
<b>Balance at 31 December 2015 (restated)</b>	<b>402,482</b>	<b>37,585</b>	<b>391,563</b>	<b>29,864</b>	<b>18,479</b>	<b>7,589</b>	<b>39,506</b>	<b>927,068</b>
Balance at 1 January 2016	402,482	37,585	391,563	29,864	18,479	7,589	39,506	927,068
Additions	174	5,576	-	-	363	1,796	55,253	63,162
Transfers	-	636	2,896	5,540	749	373	(10,194)	-
Disposals and write offs	(335)	(117)	(3,555)	-	(581)	-	(1,680)	(6,268)
Transfers to uninstalled equipment	(10,672)	-	-	-	-	-	10,672	-
<b>Balance at 31 December 2016</b>	<b>391,649</b>	<b>43,680</b>	<b>390,904</b>	<b>35,404</b>	<b>19,010</b>	<b>9,758</b>	<b>93,557</b>	<b>983,962</b>
<b>Depreciation and impairment losses</b>								
Balance at 1 January 2015	109,038	5,140	-	21,138	5,397	3,272	-	143,985
Depreciation for the year	15,989	612	7,065	1,402	1,372	416	-	26,856
Disposals (restated)	(2,037)	-	-	-	-	-	-	(2,037)
<b>Balance at 31 December 2015 (restated)</b>	<b>122,990</b>	<b>5,752</b>	<b>7,065</b>	<b>22,540</b>	<b>6,769</b>	<b>3,688</b>	<b>-</b>	<b>168,804</b>
Balance at 1 January 2016	122,990	5,752	7,065	22,540	6,769	3,688	-	168,804
Depreciation for the year	19,244	744	15,152	1,683	2,340	595	-	39,758
Disposals	-	-	(111)	-	-	-	-	(111)
Transfers to uninstalled equipment	(6,270)	-	-	-	-	-	6,270	-
<b>Balance at 31 December 2016</b>	<b>135,964</b>	<b>6,496</b>	<b>22,106</b>	<b>24,223</b>	<b>9,109</b>	<b>4,283</b>	<b>6,270</b>	<b>208,451</b>
<b>Carrying amounts</b>								
At 1 January 2015	257,740	33,123	-	8,726	1,263	1,622	288,118	590,592
<b>At 31 December 2015 (restated)</b>	<b>279,492</b>	<b>31,833</b>	<b>384,498</b>	<b>7,324</b>	<b>11,710</b>	<b>3,901</b>	<b>39,506</b>	<b>758,264</b>
<b>At 31 December 2016</b>	<b>255,685</b>	<b>37,184</b>	<b>368,798</b>	<b>11,181</b>	<b>9,901</b>	<b>5,475</b>	<b>87,287</b>	<b>775,511</b>

During 2016 the Government of Georgia contributed gas pipelines of GEL 174 thousand, land plots of GEL 4,611 thousand, plant and equipment of GEL 363 thousand and intangible assets of GEL 1,044 thousand (2015: gas pipeline of GEL 27,471 thousand, land plots of GEL 326 thousand, plant and equipment of GEL 10,054 thousand and inventory of GEL 359 thousand) in the form of an increase in share capital. The nominal value of these assets approximates their fair value.

### 13. Finance lease receivable

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

The Group has recognized the finance lease receivable of GEL 39,229 thousand at the date when the title of the pipelines was transferred to the Group. The finance 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 and the present value of the net investment in the lease has been recognised in equity as a fair value adjustment for non-cash owner contributions.

'000 GEL	2016	2015
Finance lease receivable at 1 January	55,424	52,041
Unwinding of discount on finance lease receivable	3,613	3,383
Finance lease receivable at 31 December	<b>59,037</b>	<b>55,424</b>

Contingent rent related to oil transportation recognized in the consolidated statement of profit or loss and other comprehensive income during 2016 amounted to GEL 18,047 thousand (2015: GEL 17,977 thousand).

### 14. Loans given

'000 GEL	2016	2015
<b>Non-current assets</b>		
Loan given to the state controlled entity	-	58,919
Loan given to third party	-	2,422
<b>Total non-current</b>	-	<b>61,341</b>
<b>Current assets</b>		
Loan given to third party	2,651	-
Short term part of loan given to the state controlled entity	-	5,763
<b>Total current</b>	<b>2,651</b>	<b>5,763</b>
	<b>2,651</b>	<b>67,104</b>

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.

In October 2016 the Group and the Government of Georgia, as represented by the Ministry of Economics and Sustainable Development, concluded an agreement according to which the Group transferred the right to demand the loan issued to the state controlled entity to the Government of Georgia in the amount of GEL 68,180 thousand as at the agreement date. This transaction was accounted for as a distribution to owners (see note 18 (c)).

The Group's exposure to credit risks and impairment losses related to loans are disclosed in note 22.

## 15. Term deposits

Terms and conditions of the term deposits are as follows:

'000 GEL	Currency	Nominal interest rate	Year of maturity	31 December 2016		31 December 2015	
				Face value	Carrying amount	Face value	Carrying amount
Non-current term deposit	USD	7.125%	2017	-	-	61,074	61,074
Current term deposit	USD	7.125%	2017	75,129	75,129	-	-
				<b>75,129</b>	<b>75,129</b>	<b>61,074</b>	<b>61,074</b>

The term deposits include GEL 26,468 thousand (2015: GEL 23,949 thousand) which have been pledged as collateral for a loan obtained by a state controlled entity in the agriculture sector. The Ministry of Agriculture of Georgia has confirmed its intent to provide support to the state controlled entity to enable it to repay the loan. The loan was not overdue at 31 December 2016. The management believes that, if required, the Ministry of Agriculture of Georgia will provide support to the extent permitted by the Georgian legislation to the state controlled entity and that there is no impairment risk.

The Group's exposure to credit and currency risks and impairment losses related to term deposits are disclosed in note 22.

## 16. Trade and other receivables

'000 GEL	2016	2015
<b>Non-current assets</b>		
Trade receivables	20,721	-
<b>Total non-current</b>	<b>20,721</b>	<b>-</b>
<b>Current assets</b>		
Trade receivables	179,345	181,113
Other receivables	390	370
<b>Total current</b>	<b>179,735</b>	<b>181,483</b>
	<b>200,456</b>	<b>181,483</b>

The Group's exposure to credit and currency risks and impairment losses related to trade and other receivables are disclosed in note 22.

## 17. Cash and cash equivalents

'000 GEL	2016	2015
Cash and cash equivalents	219,902	114,341
Call deposits	171,543	76,169
Restricted cash	164	578
<b>Cash and cash equivalents in the consolidated statement of cash flows and in the consolidated statement of financial position</b>	<b>391,609</b>	<b>191,088</b>

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.

The Group's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in note 22.

## 18. Equity

### (a) Share capital

*Number of shares unless otherwise stated*

	<b>Ordinary shares</b>	
	2016	2015
Par value	GEL 20	GEL 20
On issue at 1 January	30,545,028	28,634,529
Issue of shares in exchange for non-cash assets contributed	309,623	1,910,499
On issue at 31 December	30,854,651	30,545,028

### 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.

### (b) Additional paid in capital

Additional paid in capital represents benefits provided to the Group by the Government of Georgia acting in its role of the shareholder and non-cash assets transferred by the Group to the Government of Georgia.

### (c) Dividends and other distribution to shareholders

In 2016 dividends of GEL 12,676 thousand were declared and paid (2015: GEL 29,361 thousand were declared and paid).

In 2016 the Group transferred the right to demand on the loan given to the state controlled entity of GEL 68,180 thousand (see note 14) and made a distribution of other non-cash assets to the state controlled entities with a carrying amount of GEL 6,638 thousand (2015: GEL 1,067 thousand). Due to nature of distributions no related tax effect was recognized, in 2015 the related tax effect was GEL 160 thousand.

**(d) Non-controlling interests**

Non-controlling interest represents the Partnership Fund JSC's contribution to the charter capital and its share of the cumulative retained earnings of Gardabani TPP LLC, a subsidiary of the Group (see note 23).

**19. Capital management**

The Group has no formal policy for capital management but management seeks to maintain a sufficient capital base for meeting the Group's operational and strategic needs, and to maintain confidence of market participants. This is achieved with efficient cash management, constant monitoring of the Group's revenues and profit, and long-term investment plans mainly financed by the Group's operating cash flows. With these measures the Group aims for steady profits growth.

There were no changes in the Group's approach to capital management during the year.

Neither the Company nor its subsidiary are subject to externally imposed capital requirements.

**20. Loans and borrowings**

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings, which are measured at amortised cost. For more information about the Group's exposure to interest rate, foreign currency and liquidity risk, see note 22.

'000 GEL	2016	2015
<b>Non-current liabilities</b>		
Unsecured bond issue	650,806	587,172
	<b>650,806</b>	<b>587,172</b>
<b>Current liabilities</b>		
Current portion of unsecured bond issue	151,593	13,042
	<b>151,593</b>	<b>13,042</b>

**Terms and debt repayment schedule**

Terms and conditions of outstanding loans were as follows:

				31 December 2016		31 December 2015	
'000 GEL	Currency	Nominal interest rate	Year of maturity	Face value	Carrying amount	Face value	Carrying amount
Unsecured bond issue	USD	6.875%	2017	141,485	142,431	598,725	600,214
Unsecured bond issue	USD	6.750%	2021	661,700	659,968	-	-
<b>Total interest-bearing liabilities</b>				<b>803,185</b>	<b>802,399</b>	<b>598,725</b>	<b>600,214</b>

In May 2012 the Group issued Eurobonds on the London Stock Exchange with a face value of USD 250 million maturing in May 2017 (the "2012 Bonds"). The bonds bear a contractual rate of interest of 6.875% per annum on the nominal amount.

Initially, the proceeds were planned to be used for the Namakhvani Hydro Power Plant cascade construction and for general corporate purposes. The Namakhvani Hydro Power Plant was put on hold and subsequently, on 3 April 2014, the Group transferred its wholly owned subsidiary

Namakhvani HPP JSC to the State. The bond proceeds were instead used for the Gardabani Combined Cycle Power Plant construction (see note 23).

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 Bonds with a face value of USD 197 million as at 31 December 2016.

## 21. Trade and other payables

'000 GEL	2016	2015
Trade payables	64,367	67,763
Other payables	43	44
	<b>64,410</b>	<b>67,807</b>

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 22.

## 22. Fair values and risk management

### (a) Accounting classifications and fair values

The estimates of fair value are intended to approximate the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. However given the uncertainties and the use of subjective judgment, the fair value should not be interpreted as being realisable in an immediate sale of the assets or transfer of liabilities.

#### (i) Measurement of fair values

##### Financial instruments not measured at fair value

Type	Fair value	Valuation technique	Significant unobservable inputs
Financial assets	Level 2	Discounted cash flows	Not applicable
Financial liabilities	Level 2	Discounted cash flows	Not applicable

The carrying values of financial assets and liabilities of the Group are a reasonable approximation of their fair values.

### (b) Financial risk management

The Group has exposure to the following risks from its use of financial instruments:

- credit risk (see (b)(ii));
- liquidity risk (see (c));
- market risk (see (d)).



**(i) Risk management framework**

The Supervisory Board has overall responsibility for the establishment and oversight of the Group's risk management framework.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities.

**(ii) Credit risk**

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers, loans given, term deposits and cash and cash equivalents.

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was as follows:

'000 GEL	Carrying amount	
	2016	2015
Trade and other receivables	200,456	181,483
Loans given	2,651	67,104
Term deposits	75,129	61,074
Cash and cash equivalents	391,609	191,088
	<b>669,845</b>	<b>500,749</b>

**(iii) Trade and other receivables**

Credit risk is managed by requesting prepayments from customers or assessing their creditworthiness prior to extending credit. No collateral in respect of trade and other receivables is generally required.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables.

The maximum exposure to credit risk for trade receivables at the reporting date by geographic region was:

'000 GEL	Carrying amount	
	2016	2015
Domestic	198,921	180,105
CIS countries	1,535	1,378
	<b>200,456</b>	<b>181,483</b>

The maximum exposure to credit risk for trade receivables at the reporting date by type of customer was:

'000 GEL	Carrying amount	
	2016	2015
Gas distributors	129,777	143,222
Electricity distributors	25,476	19,655
Gas pipeline rentals	20,721	15,972
Oil trading	22,172	-
Others	2,310	2,634
	<b>200,456</b>	<b>181,483</b>

As at 31 December 2016 the Group had one customer whose balance exceeded 10% of total trade receivables (31 December 2015: one customer). The carrying value of this balance as at 31 December 2016 was GEL 129,631 thousand (31 December 2015: GEL 143,222 thousand).

### Impairment losses

The ageing of trade and other receivables at the reporting date was as follows:

'000 GEL	Gross 2016	Impairment 2016	Gross 2015	Impairment 2015
Not past due	79,041	-	96,008	-
Past due 0-30 days	49,728	779	43,336	-
Past due 31-365 days	79,903	7,943	41,371	-
Past due more than one year	4,071	3,565	4,238	3,470
	<b>212,743</b>	<b>12,287</b>	<b>184,953</b>	<b>3,470</b>

The Group believes that the amounts that are past due by more than 30 days are still collectible, based on historic payment behaviour and analysis of customer credit risk.

As at 31 December 2016 the Group had material overdue balance (past due 31-365 days) from several counterparties of GEL 79,903 thousand, which was fully repaid after 31 December 2016 except for the amount due from Georgian Gas Transportation Company LLC ("GGTC") of GEL 29,441 thousand, the gross amount. The Group management believes that the debt will be fully recovered during 2018-2020. The management's assertion is based on the analysis of GGTC's liquidity position, cash flows and informal communication with the Group's ultimate shareholder (the Government of Georgia, represented by the Ministry of Energy of Georgia), which is also the ultimate shareholder of GGTC. Per communications with the ultimate shareholder, GGTC expects a significant upward tariff revision to be approved by the Regulator in July 2017, resulting in increased cash flows for GGTC. The Management believes that in case of the successful outcome of tariff negotiations, which it estimates as highly probable, the outstanding balance will be fully repaid until 31 December 2020 in equal annual installments starting from 1 January 2018. The Management discounted the outstanding balance as at 31 December 2016 for 2-4 years at a discount rate of 12.6%, which represents the average market interest rate for loans issued by Georgian commercial banks in the national currency during 2016. The present value of future cash flows, as at 31 December 2016, receivable from GGTC amounted GEL 20,719 thousand. The difference between the gross receivable balance due from GGTC as at 31 December 2016 in the amount of GEL 29,441 thousand and the present value of cash flows of GEL 20,719 thousand is presented as an impairment loss on trade receivables of GEL 8,722 thousand under other expenses (see note 8).

The estimate is particularly sensitive towards changes in the term of repayment and the discount rate used. An extension of repayment period by 1 year would have resulted in impairment provision increase by GEL 1,114 thousand. An increase in 1% point in the discount rate used would have resulted in increase of impairment provision by GEL 528 thousand.

**(iv) Loans given**

The Group provided loan to a State controlled entity, which was fully settled as at 31 December 2016 (see note 18(c)). The secured loan to a third party is not past due as at 31 December 2016.

**(v) Term deposits and cash and cash equivalents**

As at 31 December 2016 the Group had placements with 4 banks whose balances exceeded 10% of total term deposits and cash and cash equivalents (31 December 2015: 5 banks). The carrying value of these balances as of 31 December 2016 was GEL 334,413 thousand (31 December 2015: GEL 234,550 thousand). As at 31 December 2016, approximately 90% of bank balances are held with 4 Georgian banks with long-term Fitch credit rating of BB-.

**(c) Liquidity risk**

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. The Group's liquidity management also involves monitoring the covenants embedded in the bond issue agreements.

Typically the Group ensures that it has sufficient cash on demand to meet expected operational expenses for a period of 60 days, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

**Exposure to liquidity risk**

The following are the contractual maturities of financial liabilities at the reporting date. The amounts include estimated interest payments. It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

**2016**

	<u>Carrying amount</u>	<u>Contractual cash flows</u>	<u>0-6 mths</u>	<u>6-12 mths</u>	<u>1-2 yrs</u>	<u>2-3 yrs</u>	<u>3-5 yrs</u>
<b>Non-derivative financial liabilities</b>							
Unsecured bond issues	802,399	1,031,371	168,681	22,332	44,664	44,664	751,030
Trade and other payables	64,410	64,410	64,410	-	-	-	-
	<u>866,809</u>	<u>1,095,781</u>	<u>233,091</u>	<u>22,332</u>	<u>44,664</u>	<u>44,664</u>	<u>751,030</u>

**2015**

	<u>Carrying amount</u>	<u>Contractual cash flows</u>	<u>0-6 mths</u>	<u>6-12 mths</u>	<u>1-2 yrs</u>	<u>1-2 yrs</u>
<b>Non-derivative financial liabilities</b>						
Unsecured bond issues	600,214	660,468	20,581	20,581	619,306	-
Trade and other payables	67,807	67,807	67,807	-	-	-
	<u>668,021</u>	<u>728,275</u>	<u>88,388</u>	<u>20,581</u>	<u>619,306</u>	<u>-</u>

**(d) Market risk**

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

**(i) Currency risk**

The Group is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than the respective functional currencies of Group entities. The currency in which these transactions primarily are denominated is USD. Generally, the Group's borrowings are denominated in currencies that match the cash flows generated by the underlying operations of the Group. This provides an economic hedge without a need to enter into derivatives contracts.

The Group's exposure to foreign currency risk was as follows:

**Exposure to currency risk**

'000 GEL	USD-denominated 2016	USD-denominated 2015
Trade and other receivables	23,814	1,771
Loans given	2,651	67,104
Term deposits	75,129	61,074
Cash and cash equivalents	171,113	73,756
Trade and other payables	(22,125)	(24,145)
Loans and borrowings	(802,399)	(600,214)
<b>Net exposure</b>	<b>(551,817)</b>	<b>(420,654)</b>

The following significant exchange rates have been applied during the year:

in GEL	Average rate		Reporting date spot rate	
	2016	2015	2016	2015
USD	2.3667	2.2702	2.6468	2.3949

**Sensitivity analysis**

A reasonably possible 20% strengthening of the GEL, as indicated below, against USD at 31 December would have affected the measurement of financial instruments denominated in a foreign currency and increased/(decreased) profit or loss by the amounts shown below. The analysis assumes that all other variables, in particular interest rates, remain constant and ignores any impact of forecast sales and purchases.

'000 GEL	Profit or loss
31 December 2016	93,809
31 December 2015	71,512

A weakening of the GEL against USD at 31 December would have had the equal but opposite effect to the amounts shown above, on the basis that all other variables remain constant. There would be no impact directly in equity as a result of foreign currency fluctuations.

**(ii) Interest rate risk**

Changes in interest rates impact primarily loans and borrowings by changing either their fair value (fixed rate debt) or their future cash flows (variable rate debt). Management does not have a formal policy of determining how much of the Group's exposure should be to fixed or variable rates. However, at the time of raising new loans or borrowings management uses its judgment to decide whether it believes that a fixed or variable rate would be more favourable to the Group over the expected period until maturity.

**Exposure to interest rate risk**

At the reporting date the interest rate profile of the Group's interest-bearing financial instruments was as follows:

'000 GEL	Carrying amount	
	2016	2015
<b>Fixed rate instruments</b>		
Loans given	2,651	67,104
Term deposits	75,129	61,074
Cash and cash equivalents	391,609	191,088
Loans and borrowings	(802,399)	(600,214)
	<b>(333,010)</b>	<b>(280,948)</b>

**Fair value sensitivity analysis for fixed rate instruments**

The Group does not account for any fixed-rate financial instruments as fair value through profit or loss or as available-for-sale. Therefore a change in interest rates at the reporting date would not have an effect in profit or loss or in equity.

**23. Significant subsidiaries and non-controlling interest**

In October 2013 a new subsidiary, Gardabani TPP LLC, was created by the Company and Partnership Fund JSC with 51% and 49% interest, respectively. The charter capital was defined at USD 100,000 thousand. The paid in charter capital as at 31 December 2016 amounted to GEL 171,370 thousand (2015: GEL 171,349 thousand).

In accordance with the charter of the subsidiary, unanimous agreement is required for certain decisions. Management has concluded that the Group has control over the subsidiary because the Group is exposed to (has rights to) variable returns from its involvement with the subsidiary, and has the ability to affect those returns through its power over the subsidiary. The conclusion is based on the percentage of the ownership interest and the significance of decisions defined in the charter of the subsidiary for which only a simple majority of votes is required.

The subsidiary was created for the construction and operation of the Gardabani Combined Cycle Power Plant (CCPP). The construction works were completed in July 2015. The Gardabani CCPP began generating revenue from September 2015.

The following table summarises the information relating to the Group's subsidiary Gardabani TPP LLC that has material non-controlling interest (NCI):

<b>'000 GEL</b>	<b>2016</b>	<b>2015</b>
<b>NCI percentage</b>	49%	49%
Non-current assets	431,144	442,313
Current assets	47,943	49,941
Non-current liabilities	(383,220)	(365,888)
Current liabilities	(13,856)	(37,564)
<b>Net assets</b>	<b>82,011</b>	<b>88,802</b>
Carrying amount of NCI	40,186	43,513
Revenue	184,377	48,977
Loss	(6,790)	(81,231)
<b>Total comprehensive loss</b>	<b>(6,790)</b>	<b>(81,231)</b>
Loss allocated to NCI	(3,327)	(39,803)
Cash flows from operating activities	64,482	7,723
Cash flows used in investment activities	(8,936)	(78,524)
Cash flows (used in)/from financing activities (dividends to NCI: nil)	(49,053)	71,052
<b>Net increase in cash and cash equivalents</b>	<b>6,493</b>	<b>251</b>

In August 2016 a new subsidiary Gardabani 2 TPP LLC, with charter capital of GEL 10,000 thousand, was founded in which the Company holds 100% interest. As at 31 December and for the year then ended the subsidiary did not have material transactions and balances and was at the start-up phase. The construction of Gardabani 2 Combined Cycle Power Plant with installed capacity of 230 MW is expected to be completed by the end of 2020.

## 24. Capital and other commitments

The Group had entered into contracts for construction of pipelines with outstanding capital commitments as at 31 December 2016 of GEL 35,138 thousand (31 December 2015: GEL 30,163 thousand).

The Group is a party to a Supplemental Gas purchase agreement effective until 2026 in accordance with which the Group shall take and pay for or pay for, if not taken, certain quantities of gas and at predetermined prices, which are significantly below the current market price of natural gas. As at 31 December 2016 the total remaining amount of Supplemental Gas to be purchased and paid for amounted to GEL 1,014,071 thousand (31 December 2015: GEL 1,002,546 thousand). The Group is also a party to a gas sale agreement based on which its customer must take and pay for or pay for, if not taken, the whole quantity of gas purchased by the Group including the whole amount of the Supplemental Gas. As a result the Group considers that their commitment in respect of the purchase of Supplemental Gas is set off by the commitment of the Group's customer to buy that amount of gas and represents an effective back-to-back contractual arrangement whereby the Group passes its obligations towards the customer of the Group.

## 25. 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) Litigation**

The Group has reached the settlement with regards to the claim brought by the foreign companies in 2010. The alleged counterparty initiated court proceedings in Israel aimed at the commencement of the respective arbitration proceedings with respect of this dispute. The arbitration proceedings itself started in March 2014. Finally and conclusively, in August 2015, the dispute was settled by the parties against the payment by the Group of the settlement consideration.

**(c) Taxation contingencies**

The taxation system in Georgia is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are sometimes unclear, contradictory and subject to varying interpretation. 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 three 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.

**(d) 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.

**26. Related party transactions**

**(a) Control relationships**

As at 31 December 2016 and 2015 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:

'000 GEL	2016	2015
Salaries and bonuses	1,038	922

**(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.

The Group's related party transactions are disclosed below. Transactions with the Government of Georgia are disclosed in notes 6, 12, 13, 15, 16 and 18 of these consolidated financial statements.

**(i) Revenue**

	Transaction value for the year ended 31 December		Outstanding balance as at 31 December	
	2016	2015	2016	2015
'000 GEL				
State controlled entities:				
Income from rent of gas pipelines	68,487	68,818	20,721	15,973
Income from electricity generation and supply	184,377	43,236	25,426	16,754
	<b>252,864</b>	<b>112,054</b>	<b>46,147</b>	<b>32,727</b>

Outstanding balances related to the income from rent of gas pipelines are to be settled in cash during 2018-2020 years. The Group recognized an impairment loss on the outstanding balance of GEL 8,722 thousand in relation to a State controlled entity during the year ended 31 December 2016 (see note 22 (b)(iii)).

Outstanding balances related to the income from electricity generation and supply are to be settled in cash within six months at the end of the reporting period.

None of the balances are secured.

**(ii) Expenses**

	Transaction value for the year ended 31 December		Outstanding balance as at 31 December	
	2016	2015	2016	2015
'000 GEL				
State controlled entities:				
Purchase of natural gas	14,394	60,839	4,215	30,307
	<b>14,394</b>	<b>60,839</b>	<b>4,215</b>	<b>30,307</b>

Outstanding balances are to be settled in cash within six months at the end of the reporting period.



**(iii) Loans**

'000 GEL	Interest accrued		Outstanding balance	
	2016	2015	2016	2015
Loans given:				
Shareholder	1,078	8,566	-	-
State controlled entity	4,602	5,763	-	64,682
	<b>5,680</b>	<b>14,329</b>	<b>-</b>	<b>64,682</b>

**27. Subsequent events**

In May 2017, the Group fully redeemed outstanding part (21.38%) of unsecured 2012 bonds of USD 250 million, due in 2017, issued by the Group in May 2012.

**28. Basis of measurement**

The consolidated financial statements are prepared on the historical cost basis.

**29. Restatement - correction of error**

During the preparation of consolidated financial statements for 2016, the management of the Group identified that the write-off of property, plant and equipment in the amount of GEL 6,192 thousand should have been accounted for and recorded in previously issued consolidated financial statements for 2015.

The write off was the result of property, plant and equipment physical verification performed by the Group management at the end of 2015, as a result of which it was identified that certain assets with total net book value of GEL 6,192 thousand do not exist, therefore the property, plant and equipment was overstated and other expenses were understated by that amount.

The error has been corrected by restating each of affected consolidated financial statements line items for the prior period.

The following table summarises the impacts on the Group's consolidated financial statements:

***Consolidated statement of financial position***

**31 December 2015**

'000 GEL	As previously reported	Adjustments	As restated
Property, plant and equipment	764,456	(6,192)	758,264
<b>Total assets</b>	<b>1,410,236</b>	<b>(6,192)</b>	<b>1,404,044</b>
Deferred tax liabilities	14,989	(929)	14,060
<b>Total liabilities</b>	<b>690,114</b>	<b>(929)</b>	<b>689,185</b>

**31 December 2015**

'000 GEL	As previously reported	Adjustments	As restated
Retained earnings	276,171	(5,263)	270,908
<b>Total equity</b>	<b>720,122</b>	<b>(5,263)</b>	<b>714,859</b>

***Consolidated statement of profit or loss and other comprehensive income***

**Year ended 31 December 2015**

'000 GEL	As previously reported	adjustments	As restated
Other expenses	(16,564)	(6,192)	(22,756)
<b>Results from operating activities</b>	<b>96,558</b>	<b>(6,192)</b>	<b>90,366</b>
Income tax expense	(4,342)	929	(3,413)
<b>Profit and total comprehensive income for the year</b>	<b>36,216</b>	<b>(5,263)</b>	<b>30,953</b>

### **30. Significant accounting policies**

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities.

**(a) Basis of consolidation**

**(i) Non-controlling interests**

Non-controlling interests are measured at their proportionate share of the acquiree's identifiable net assets at the acquisition date.

**(ii) Subsidiaries**

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group. Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

**(iii) Interests in equity-accounted investees**

The Group's interests in equity-accounted investees comprise interests in associates.

Associates are those entities in which the Group has significant influence, but not control or joint control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20% and 50% of the voting power of another entity.

Interests in associates are accounted for using the equity method and are recognised initially at cost. The cost of the investment includes transaction costs.

The consolidated financial statements include the Group's share of the profit or loss and other comprehensive income of equity accounted investees, after adjustments to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases.

When the Group's share of losses exceeds its interest in an equity-accounted investee, the carrying amount of that interest including any long-term investments, is reduced to zero, and the recognition of further losses is discontinued, except to the extent that the Group has an obligation or has made payments on behalf of the investee.

**(iv) *Transactions eliminated on consolidation***

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated.

**(b) *Revenue***

**(i) *Sale of gas and oil***

Revenue from the sale of gas and oil in the course of ordinary activities is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates.

Revenue is recognized when persuasive evidence exists, usually in the form of an executed sales agreement, that the significant risks and rewards of ownership have been transferred to the customer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. If it is probable that discounts will be granted and the amount can be measured reliably, then the discount is recognized as a reduction of revenue as the sales are recognized.

The timing of the transfers of risks and rewards varies depending on the individual terms of the sales agreement. For sales of gas, the sale is recognized on the basis of metered usage of gas by customers. For sales of oil, transfer occurs upon loading the product onto the relevant carriers, inspection by an independent inspector and sealing of carriers based on FCA (Incoterms 2000) at Vaziani or Supsa (Georgia) stations. The seller is responsible for delivery of goods to the named points, uploading goods to the buyer's wagons and customs registration.

**(ii) *Electricity generation and supply***

Revenue from the sale of electricity is recognised on the basis of metered delivery to the JSC Georgian State Electrosystem.

Revenue for the available capacity fee is recognised based on the number of days during the month the plant was ready to supply electricity at the agreed upon capacity. Daily capacity fee is set by Georgian National Energy and Water Supply Regulatory Commission (GNERC).

**(iii) Rent of pipelines**

Revenue from rent of gas pipelines is recognized in profit or loss on the basis of the metered gas transferred through the pipelines at the contract rate.

**(iv) Services**

Revenue from services rendered is recognized in profit or loss in proportion to the stage of completion of the transaction at the reporting date. The stage of completion is assessed by reference to surveys of work performed.

Oil transportation fees received in cash are recognized on the basis of the metered oil transferred through the pipelines at the contract rate for barrels of oil.

**(v) Oil trading**

In oil trading transactions the Group acts in the capacity of an agent rather than as the principal. The related net revenue is recognised in the amount of agency fee received.

**(c) Finance income and costs**

The Group's finance income and finance costs include:

- interest income;
- unwinding of discount on finance lease receivable;
- interest expense
- Customer late payment penalties

Interest income or expense is recognised using the effective interest method.

Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

**(d) Foreign currency transactions**

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period.

Non-monetary items in a foreign currency that are measured based on historical cost are translated using the exchange rate at the date of the transaction.

Foreign currency differences arising in retranslation are recognised in profit or loss.

**(e) Employee benefits**

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under

short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

**(f) Income tax**

Income tax expense comprises current and deferred tax. It is recognized in profit or loss except to the extent that it relates to items recognized directly in equity or in other comprehensive income.

**(i) Current tax**

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Current tax payable also includes any tax liability arising from dividends.

On 13 May 2016 the Parliament of Georgia passed the bill on corporate income tax reform (also known as the Estonian model of corporate taxation), which mainly moves the moment of taxation from when taxable profits are earned to when they are distributed. The law has entered into force in 2016 and is effective for tax periods starting after 1 January 2017 for all entities except for financial institutions (such as banks, insurance companies, microfinance organizations, pawnshops), for which the law will become effective from 1 January 2019.

The new system of corporate income taxation does not imply exemption from the corporate income tax, rather the taxation is shifted from the moment of profit earning to the moment of its distribution. The Tax Code of Georgia defines distributed earnings to shareholders as dividends, however some other transactions (e.g. non-arm's length cross-border transactions with related parties and transactions with tax exempt persons) are also considered as distributed earning. In addition, the taxable base also includes expenses or other payments not related to the entity's economic activities, free of charge supply of good and services and representative expenses exceeding tax deductible limits.

The corporate income tax arising from the payment of dividends is accounted for as an expense in the period when dividends are declared, regardless of the actual payment date or the period in relation to which the dividends are paid.

**(ii) Deferred tax**

Due to the nature of the new taxation system as described above, the entities registered in Georgia do not have any differences between the tax and accounting base of assets and liabilities and hence, no deferred tax arise

**(g) Inventories**

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the first-in first-out principle, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

**(h) Property, plant and equipment**

**(i) Recognition and measurement**

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Property, plant and equipment contributed by the shareholder are initially measured at fair value. The cost of property, plant and equipment at the date of adopting IFRS, 1 January 2008, was determined by reference to its fair value at that date ("deemed cost").

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located, and capitalized borrowing costs. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

If significant parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Any gain or loss on disposal of an item of property, plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and is recognized net within other income/other expenses in profit or loss.

**(ii) Subsequent expenditure**

The cost of replacing a component of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the component will flow to the Group, and its cost can be measured reliably. The carrying amount of the replaced component is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

**(iii) Depreciation**

Items of property, plant and equipment are depreciated from the date that they are installed and are ready for use, or in respect of internally constructed assets, from the date that the asset is completed and ready for use. Depreciation is based on the cost of an asset less its residual value.

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Land is not depreciated.

The estimated useful lives of significant items of property, plant and equipment for the current and comparative periods are as follows:

– gas and oil pipelines	30-35 years;
– buildings	50 years;
– electricity generating unit	25 years;
– oil wells	4-9 years;
– plant and equipment	2-14 years;
– other	1-6 years.

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

**(i) Financial instruments**

The Group classifies non-derivative financial assets into the loans and receivables.

The Group classifies non-derivative financial liabilities into the other financial liabilities category.

**(i) *Non-derivative financial assets***

The Group initially recognizes loans and receivables and deposits on the date that they are originated. All other financial assets and financial liabilities are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognized as a separate asset or liability.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

***Loans and receivables***

Loans and receivables are a category of financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

Loans and receivables category comprise loans given, trade and other receivables, term deposits and cash and cash equivalents.

***Cash and cash equivalents***

Cash and cash equivalents comprise cash balances, call deposits and highly liquid investments with maturities of three months or less from the acquisition date that are subject to insignificant risk of changes in their fair value.

**(ii) *Non-derivative financial liabilities-measurement***

The Group classifies non-derivative financial liabilities into the other financial liability category. Such financial liabilities are recognized initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method.

Other financial liabilities comprise loans and borrowings and trade and other payables.

**(j) Share capital**

*Ordinary shares*

Ordinary shares are classified as equity. Incremental costs directly attributable to issue of ordinary shares and share options are recognized as a deduction from equity, net of any tax effects.

*Reduction of share capital*

Share capital reductions and non-cash distributions are recognized at the carrying amount of the assets distributed. Non-cash distributions of the Company are out of scope of IFRIC 17 *Distributions of Non-cash Assets to Owners* since the ultimate controlling party controls the assets before and after the distribution.

*Increase of share capital*

Share capital increase is effected through issuance of new shares. When share capital is increased, any difference between the registered amount of share capital and the fair value of the assets contributed is recognized as a separate component of equity as fair value adjustment reserve for non-cash owner contributions.

**(k) Impairment**

**(i) Non-derivative financial assets**

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include:

- default or delinquency by a debtor;
- restructuring of an amount due to the Group on terms that the Group would not consider otherwise;
- indications that a debtor or issuer will enter bankruptcy;
- adverse changes in the payment status of borrowers or issuers in the Group;
- economic conditions that correlate with defaults; or
- observable data indicating that there is measurable decrease in expected cash flows from a group of financial assets.

*Financial assets measured at amortised cost*

The Group considers evidence of impairment for these assets at both an individual asset and a collective level. All individually significant loans and receivables are individually assessed for impairment. Those found not to be impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Assets that are not individually significant are collectively assessed for impairment by grouping together assets with similar risk characteristics.

In assessing collective impairment the Group uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss is calculated as the difference between an asset's carrying amount, and the present value of the estimated future cash flows discounted at the asset's original effective interest



rate. Losses are recognized in profit or loss and reflected in an allowance account. When the Group considers that there are no realistic prospects of recovery of the asset, the relevant amounts are written off. Interest on the impaired asset continues to be recognized through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease and the decrease can be related objectively to an event occurring after the impairment was recognised, the decrease in impairment loss is reversed through profit or loss.

**(ii) Non-financial assets**

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. An impairment loss is recognized if the carrying amount of an asset or its related cash-generating unit (CGU) exceeds its estimated recoverable amount.

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGU.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

Impairment losses are recognised in profit or loss. Impairment losses recognized in respect of CGUs are allocated to reduce the carrying amounts of the assets in the CGU on a pro rata basis.

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognized.

**(l) Provisions**

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

**(m) Leased assets**

Assets held by the Group under leases that transfer to the Group substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

When the Group is the lessor in a lease agreement that transfers substantially all of the risks and rewards incidental to ownership of the asset to the lessee, the arrangement is classified as a finance lease and a receivable equal to the net investment in the lease is recognized and presented within

loans and receivables. Subsequently the recognition of finance income is based on a pattern reflecting a constant periodic rate of return on the Group's net investment in the finance lease.

Other leases are operating leases and the leased assets are not recognised on the Group's statement of financial position.

## **(n) Segment reporting**

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are reviewed regularly by the General Director to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Segment results that are reported to the General Director include items directly attributable to a segment.

## **31. New standards and interpretations not yet adopted**

A number of new Standards, amendments to Standards and Interpretations are not yet effective as at 31 December 2016, and have not been applied in preparing these consolidated financial statements. Of these pronouncements, potentially the following will have an impact on the Group's operations. The Group plans to adopt these pronouncements when they become effective.

<b>New or amended standard</b>	<b>Summary of the requirements</b>	<b>Possible impact on consolidated financial statements</b>
IFRS 9 <i>Financial Instruments</i>	IFRS 9, published in July 2014, replaces the existing guidance in IAS 39 <i>Financial Instruments: Recognition and Measurement</i> . IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.	The Group is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 9.
IFRS 15 <i>Revenue from Contracts with Customers</i>	IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 <i>Revenue</i> , IAS 11 <i>Construction Contracts</i> and IFRIC 13 <i>Customer Loyalty Programmes</i> . The core principle of the new standard is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The new standard results in enhanced disclosures about revenue, provides guidance for transactions that were not previously addressed comprehensively and improves guidance for multiple-element arrangements. IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.	The Group is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 15.

<b>New or amended standard</b>	<b>Summary of the requirements</b>	<b>Possible impact on consolidated financial statements</b>
IFRS 16 <i>Leases</i>	<p>IFRS 16 replaces the existing lease accounting guidance in IAS 17 <i>Leases</i>, IFRIC 4 <i>Determining whether an Arrangement contains a lease</i>, SIC-15 <i>Operating Leases – Incentives</i> and SIC-27 <i>Evaluating the Substance of Transactions Involving the Legal Form of a Lease</i>. It eliminates the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, there is a single, on-balance sheet accounting model that is similar to current finance lease accounting. Lessor accounting remains similar to current practice – i.e. lessors continue to classify leases as finance and operating leases.</p> <p>IFRS 16 is effective for annual reporting periods beginning on or after 1 January 2019, early adoption is permitted if IFRS 15 <i>Revenue from Contracts with Customers</i> is also adopted.</p>	The Group is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 16.
IAS 7 Statement of Cash Flows	<p>Disclosure Initiative (Amendments to IAS 7) requires disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes. The amendments are effective for annual periods beginning on or after 1 January 2017, with early adoption permitted.</p>	The Group has assessed that there is no significant impact on financial statements resulting from the application of IAS 7 except that additional disclosure may be required.