Partnership Fund JSC

Consolidated Financial Statements for the year ended 31 December 2017

Contents

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Independent Auditors' Report

To the Supervisory Board
Partnership Fund JSC

Opinion

We have audited the consolidated financial statements of Partnership Fund JSC and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2017, 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 2017, 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.

Statement of Management Report

Management is responsible for the Management Report. The Management Report is expected to be made available to us after the date of this auditors' report.

Our opinion on the financial statements does not cover the Management Report and we will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the Management Report when it becomes available and, in doing so, consider whether the Management Report is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the Management Report, we conclude whether the other information:

- is consistent with the financial statements and does not contain material misstatement;
- contains all information that is required by and is compliant with the Law of Georgia on Accounting, Reporting and Auditing.

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.

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

Andrew Coxshall

KPMG Georgia LLC
Tbilisi, Georgia
28 September 2018

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Andrew Coxshall

KPMG Georgia LLC
Tbilisi, Georgia
28 September 2018

LIMITED LIABILITY COMPANY
KPMG
KPMG GEORGIA
404437695

’000 GEL	**Note**	**2017**	**2016**
Assets			
Property, plant and equipment	9	4,383,623	4,767,984
Investment property		11,863	22,163
Prepayments for non-current assets	10	178,685	145,263
Investments in equity accounted investees	11	70,498	57,526
Finance lease receivable	12	62,873	59,037
Loans receivable	13	6,588	25,740
Trade receivables	15	21,169	20,721
VAT receivable		7,458	14,796
Other non-current assets	10	91,369	91,595
Non-current assets		**4,834,126**	**5,204,825**
Loans receivable	13	1,661	34,670
Inventories		56,583	52,199
Prepayments and other current assets	14	72,515	97,016
Trade receivables	15	265,874	323,098
Current tax assets		8,462	12,281
Term deposits		-	112,456
Cash and cash equivalents	16	1,097,599	1,029,990
Current assets		**1,502,694**	**1,661,710**
Total assets		**6,336,820**	**6,866,535**
Equity			
Share capital	17	100,000	100,000
Owner contributions		2,654,412	2,601,334
Accumulated deficit		(504,790)	(18,186)
Equity attributable to owners of the Company		**2,249,622**	**2,683,148**
Non-controlling interests	23	42,483	48,162
Total equity		**2,292,105**	**2,731,310**
Liabilities			
Loans and borrowings	18	2,850,554	3,152,081
Advance received from the Government of Georgia	17(e)	46,594	73,809
Restructured liabilities	19	47,875	56,417
Grants related to assets	20	107,797	108,533
Other non-current liabilities		1,165	1,618
Non-current liabilities		**3,053,985**	**3,392,458**
Loans and borrowings	18	702,508	419,673
Restructured liabilities	19	15,000	10,000
Trade and other payables	21	249,646	288,063
Liabilities to the Government	17(d)	7,592	8,399
Provisions		10,940	11,534
Current tax liabilities		113	802
Grants related to assets	20	4,931	4,296
Current liabilities		**990,730**	**742,767**
Total liabilities		**4,044,715**	**4,135,225**
Total equity and liabilities		**6,336,820**	**6,866,535**

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 9 to 51.

’000 GEL	**Note**	**2017**	**2016**
Revenue	5	1,650,431	1,423,011
Operating expenses	6	(965,137)	(798,720)
Wages and other employee benefits		(216,078)	(209,248)
Depreciation and amortisation		(209,609)	(203,679)
Impairment loss on property and equipment	9	(632,733)	-
Share of profit of equity accounted investees (net of income tax)	11	3,995	1,387
Income from transferred property	17(f)	23,417	80,294
Other income		64,175	61,726
Results from operating activities		**(281,539)**	**354,771**
Finance income	7	77,151	77,865
Finance costs	7	(274,891)	(418,121)
Net finance costs		**(197,740)**	**(340,256)**
(Loss)/profit before income tax		**(479,279)**	**14,515**
Income tax (expense)/benefit	8	(2,703)	9,709
(Loss)/profit and total comprehensive income/(loss) for the year		**(481,982)**	**24,224**
(Loss)/profit and total comprehensive income/(loss) attributable to:			
Owners		(476,303)	22,447
Non-controlling interests		(5,679)	1,777
		(481,982)	**24,224**

These consolidated financial statements were approved by management on 28 September 2018 and were signed on its behalf by:

David Saganelidze
Chief Executive Officer

Giorgi Tsimakuridze
Chief Financial Officer

The consolidated statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 9 to 51.

'000 GEL	Note	2017	2016
Revenue	5	1,650,431	1,423,011
Operating expenses	6	(965,137)	(798,720)
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Giorgi Tsimakuridze
Chief Financial Officer

The consolidated statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 9 to 51.

’000 GEL	**Share capital**	**Owner contributions**	**Accumultated Deficit**	**Total**	**Non controlling interests**	**Total equity**
Balance at 1 January 2016	100,000	2,376,049	34,185	2,510,234	46,385	2,556,619
Total comprehensive income						
Profit for the year	-	-	22,447	22,447	1,777	24,224
Transactions with owners, recorded directly in equity						
Distributions of non-cash assets (see note 17(c))	-	-	(74,818)	(74,818)	-	(74,818)
Owner contributions (see note 17(b))	-	162,940	-	162,940	-	162,940
Transfer of property to the Government (see note 17(f))	-	62,345	-	62,345	-	62,345
Balance at 31 December 2016	**100,000**	**2,601,334**	**(18,186)**	**2,683,148**	**48,162**	**2,731,310**
Balance at 1 January 2017	100,000	2,601,334	(18,186)	2,683,148	48,162	2,731,310
Total comprehensive loss						
Loss for the year	-	-	(476,303)	(476,303)	(5,679)	(481,982)
Transactions with owners, recorded directly in equity						
Distributions of non-cash assets (see note 17(c))	-	-	(10,301)	(10,301)	-	(10,301)
Owner contributions (see note 17(b))	-	53,078	-	53,078	-	53,078
Balance at 31 December 2017	**100,000**	**2,654,412**	**(504,790)**	**2,249,622**	**42,483**	**2,292,105**

The consolidated statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 9 to 51.

’000 GEL	**Note**	**2017**	**2016**
Cash flows from operating activities			
(Loss)/profit before income tax		(479,279)	14,515
Adjustments for:			
Depreciation and amortisation		209,679	203,761
Net finance costs		197,740	340,256
Share of profit of equity accounted investees (net of income tax)		(3,995)	(1,387)
Impairment loss on trade receivables		230	-
Impairment loss on property, plant and equipment		632,733	-
Income from amortization of grants		(4,980)	(4,377)
Loss on disposal of property		8,696	6,045
Income from reversal of provisions		(1,340)	(9,149)
Recognized as income from the transferred property	17 (f)	(23,417)	(80,294)
		536,067	**469,370**
Changes in:			
Inventories		(4,383)	2,705
Trade receivables and prepayments and other current assets		(11,653)	(34,410)
Restricted cash		168	-
Trade and other payables		(40,650)	8,593
Change in tax payables		5,161	3,331
Provisions		(594)	222
Government grants		4,878	8,614
Cash flows from operations before income taxes and interest paid		**488,994**	**458,425**
Income tax paid		(2,681)	(18,611)
Interest paid		(195,985)	(175,580)
Net cash from operating activities		**290,328**	**264,234**
Cash flows from investing activities			
Interest received		63,609	66,642
Issue of loans		-	(59,538)
Dividends received		4,881	1,075
Repayment of loans issued		30,830	78,853
Acquisition of property, plant and equipment and changes in prepayments for non-current assets and other non-current assets		(419,072)	(420,015)
Proceeds from sale of property, plant and equipment		5,133	3,350
Acquisition of investments in equity accounted investees		(15,994)	(8,382)
Investing in other companies		(745)	(8,942)
Change in term deposits		148,909	110,939
Net cash used in investing activities		**(182,449)**	**(236,018)**
Cash flows from financing activities			
Proceeds from borrowings		201,218	737,940
Repayment of borrowings		(242,752)	(498,691)
Repayment of restructured liabilities		(10,387)	(7,000)
Receipt from share issue		38,540	-
Net cash (used in)/from financing activities		**(13,381)**	**232,249**
Net increase in cash and cash equivalents		**94,498**	**260,465**
Cash and cash equivalents at 1 January		1,029,990	718,908
Effect of movements in exchange rates on cash and cash equivalents		(26,889)	50,453
Cash and cash equivalents at 31 December	16	**1,097,599**	**1,029,826**

The consolidated statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 9 to 51.

1. Reporting entity

(a) 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.

(b) Organisation and operations

The Partnership Fund JSC (the "Fund") is a joint stock company domiciled in Georgia. The consolidated financial statements include financial statements of the Fund and its subsidiaries (together referred to as the "Group" and individually as "Group entities") and the Group's interest in associates and joint ventures. All the Group entities are Georgian joint stock and limited liability companies as defined in the "Law of Georgia on Entrepreneurs" and are disclosed in notes 1(c) and 23.

The Fund was established on 28 June 2011 as a wholly state-owned enterprise based on the "Law of Georgia on Partnership Fund JSC". The Fund is a specialised public sector entity established by the State of Georgia, governed by the Supervisory Board chaired by the Prime Minister of Georgia. It was created to support investments in less developed industries of the Georgian economy and to create new employment opportunities in the country.

The Fund's principal activity is to provide equity and debt financing, and guarantees to private and public sector companies operating in Georgia with priority for projects in the energy, agriculture, manufacturing and real estate sectors. The main sources of income are expected to come from dividends and guarantee fees.

The principal activities of the Group entities are the importation and sale of gas, rental of gas and oil pipelines, oil and gas exploration and extraction, operation of a nationwide railway system providing freight and passenger transportation services and transmission, sale and dispatching of electricity over the territory of 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 license 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 (see note 23).

The Fund obtained control over the significant subsidiaries following the decrees of the Government of Georgia dated 30 July and 14 August 2012, under which the 100% interests in Georgian State Electrosystem JSC, Electricity System Commercial Operator JSC and the remaining shares in former associates Georgian Oil and Gas Corporation JSC and Georgian Railway JSC were contributed by the Government of Georgia to the capital of the Fund.

The Fund's registered office is 15 Queen Tamar Avenue, 0112, Tbilisi, Georgia and the Company's registration number is #404404550.

The Fund is wholly owned by the State of Georgia represented by the Government of Georgia (the "Parent"). Related party transactions are detailed in note 27.

(c) Group structure

As at 31 December 2017 and 2016 the Fund has direct and indirect interests in the following entities:

Name	Country of incorporation and operation	2017 Ownership/ voting	2016 Ownership/ voting	Principal activities
Georgian Oil and Gas Corporation JSC and its subsidiaries				
Georgian Oil and Gas Corporation JSC	Georgia	100%	100%	Oil and gas sale, extraction and exploration and rent of pipelines
Gardabani TPP LLC	Georgia	100%	100%	Operation of a combined cycle power plant (CCPP)
Gardabani 2 TPP LLC	Georgia	100%	100%	Operation of a combined cycle power plant (CCPP)
GOGC Trading SA	Switzerland	100%	-	Trade of crude oil, petroleum products, petrochemicals and other commodities
Georgian Railway JSC and its subsidiaries				
Georgian Railway JSC	Georgia	100%	100%	Railroad transportation
GR Property Management LLC (former Railway Property Management LLC)	Georgia	100%	100%	Property Management and development
GR Logistics and Terminals LLC (former Trans Caucasus Terminals LLC)	Georgia	100%	100%	Container transportation
Georgian Railway Construction JSC	Georgia	100%	100%	Construction and other projects
Borjomi Bakuriani Railway LLC	Georgia	100%	100%	Passenger transportation
Georgia Transit LLC	Georgia	100%	100%	Transportation services
GR Transit LLC (former Georgian Transit LLC)	Georgia	100%	100%	Transportation services
GR Transit Line LLC	Georgia	100%	100%	Transportation services
GR Trans Shipment LLC	Georgia	100%	100%	Transportation services
Georgian State Electrosystem JSC and its subsidiaries				
Georgian State Electrosystem JSC	Georgia	100%	100%	Electricity dispatching and transmission
EnergoTrans LLC	Georgia	100%	100%	Electricity transmission
Karcal Energy JSC	Turkey	100%	100%	Electricity transmission
Electricity System Commercial Operator JSC	Georgia	100%	100%	Sale and purchase of electricity
Nenskra JSC	Georgia	100%	100%	Construction and operation of a hydro-power plant
Tbilisi Logistics Center LLC and its subsidiaries				
Tbilisi Logistics Center LLC	Georgia	100%	100%	Food services
Fruit and Vegetable Export Company LLC	Georgia	100%	100%	Export of fruit and vegetables
Georgian Product LLC	Georgia	100%	100%	Tourism development
Black Sea Port LLC	Georgia	100%	100%	Construction and operation of a port
Lagodekhi Trading Company LLC	Georgia	100%	100%	Construction and leasing out of a shopping mall in Lagodekhi
Borjomi Likani International JSC	Georgia	50%	50%	Construction and operation of a hotel
Panex JSC	Georgia	49%	49%	
Telasi JSC	Georgia	24.53%	24.53%	Purchase and distribution of electric power to industrial and residential customers in Tbilisi
Clinics Development Company LLC and its subsidiaries				
Clinics Development Company LLC	Georgia	100%	-	Management of healthcare provider subsidiaries
Tbilisi Children's Infection Clinical Hospital LLC	Georgia	100%	100%	Healthcare services
Universal Medical Center LLC	Georgia	100%	100%	Healthcare services
Nikoloz Kipshidze Central University Clinic LLC	Georgia	100%	100%	Healthcare services
Aerostructure Technologies Cyclone JSC	Georgia	66%	66%	Manufacture of spare parts for airplanes
Vanric Agro JSC	Georgia	49%	49%	Export of fruit
Rukhi Trading Center LLC	Georgia	100%	100%	Construction and leasing out of a shopping mall
Start-up Georgia LLC	Georgia	100%	100%	Venture capital
Imereti Greenery LLC	Georgia	46.34%	46.34%	Agriculture/farming
Tetri Khidi LLC	Georgia	-	50%	Construction and operation of a hotel
Caucasus Clean Energy I, LLP	United Kingdom	10%	10%	Investment fund
Georgian Industrial and Regional Development Company LLC	Georgia	100%	-	Investment fund, providing investments in regional developments in Georgia
Likani Residence LLC	Georgia	100%	-	Rennovation of Romanov Palace in Likani
Global Brand LLC	Georgia	100%	-	Wine export to USA
Infrastructure Development Partnership Company LLC	Georgia	100%	100%	Providing investments in Anaklia Port Project
Tsinandali Estates LLC	Georgia	45.51%	-	Hotel and spa resort in village Tsinandali
Gazelle Fund LP	Canada	29.10%	-	International investment company represented in Georgia
Lopota LLC	Georgia	37.78%	-	Hotel and spa resort near Lopota lake
Ytong Caucasus LLC	Georgia	28.9%	34.74%	Manufacturing of construction materials
Gino Green City Corporation LLC	Georgia	49%	49%	Real estate development
East West Bridge LLC	Georgia	100%	-	Ownership of investment fund

2. Basis of accounting

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 functional currency of the Group entities and the currency in which these consolidated financial statements are presented. All financial information presented in GEL has been rounded to the nearest thousand, except when otherwise indicated.

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 9(b) – impairment of Tbilisi Bypass project;
- Note 9(c) – impairment of property, plant and equipment (excluding Tbilisi Bypass Project);
- Note 12 – determination of whether the initial arrangement contains a lease and the fair value of the unguaranteed residual value at the end of the lease term;
- Note 16 – classification of deposits with original maturities of more than three months as cash and cash equivalents;
- Note 18(a) – fair value of loans and borrowings at initial recognition;
- Note 23 – assessment of control over Georgian State Electrosystem JSC.

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 9(c) – impairment test for property and equipment: key assumptions underlying recoverable amounts, including the recoverability of property and equipment
- Note 22(c)(ii) – recoverability of trade receivables;
- Note 30(j)(iii) – useful lives of property, plant and equipment.

Measurement of fair values

A number of the Group's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

When measuring the fair value of an asset or a liability, the Group uses market observable data as far as possible. 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 fair value measurement of financial assets and liabilities is included in note 22(a) – fair values of financial assets and liabilities.

5. Revenue

’000 GEL	**2017**	**2016**
Revenue from railway transportation	**426,359**	**430,123**
Freight traffic	312,960	345,586
Logistic services	73,775	52,582
Passenger traffic	22,843	18,007
Freight car rental	16,781	13,948
Revenue from gas and oil sales and pipelines	**471,876**	**445,238**
Sales of gas	379,561	348,226
Rent of gas pipelines	59,847	68,487
Oil transportation fees	18,315	18,047
Income from crude oil	14,153	10,478
Revenue from electricity	**680,298**	**480,317**
Sales of balancing electricity	327,453	152,153
Income from guaranteed capacity service	142,880	153,668
Transmission of electricity	106,640	90,919
Electricity generation	90,587	68,384
Dispatching of electricity	8,096	7,539
Revenue from transit	4,642	7,654
Healthcare revenue	**22,091**	**22,659**
Agency fees from oil trading	**-**	**4,023**
Other revenue	**49,807**	**40,651**
Total revenues	**1,650,431**	**1,423,011**

Railroad transportation, balancing electricity supply and transmission and dispatching of electricity are natural monopolies in Georgia. The tariffs on balancing electricity supply and transmission and dispatching of electricity services are established by the Georgian National Energy and Water Supply Regulatory Commission (GNEWRC).

Tariffs for freight transportation are based on the International Rail Transit Tariff.

On 28 September 2017, GR Transit LLC concluded a Ship-or-Pay Agreement (SoP) with a foreign company, according to which the foreign company had to transport at least 1,200,000 metric tons of crude oil and oil and gas condensate (Cargo) until the end of 2017 using the Group railway infrastructure. Included in the logistics services during 2017 is the revenue recognised in the above regards, amounting to GEL 26,440 thousand.

Notwithstanding the above, no Cargo was transported during 2017, however, the foreign company should still pay for the service, regardless of the Cargo transportation, as stipulated by the SoP (see note 15).

The Group rents its gas pipeline and related infrastructure to Georgian Gas Transportation Company LLC (GGTC). The rent agreement is non-cancellable and is valid until 1 January 2020. From September 2011 till 1 September 2017 the lease payments were calculated based on the volume of gas transported through the leased gas pipeline at a rate of $6.80 per 1,000 cubic meters. Since 1 September 2017 the rent fee is fixed at GEL 3,500 thousand per month. GGTC is responsible for all costs related to the repair, maintenance, operation and security of the main gas pipeline system. The Group is responsible for capital expenditures only.

6. Operating expenses

’000 GEL	**2017**	**2016**
Cost of gas and oil	392,649	391,141
Cost of sold balancing electricity	322,156	146,012
Taxes other than on income	53,125	45,033
Electricity and materials used in railroad transportation	40,828	45,910
Cost of guaranteed capacity service	39,715	43,816
Logistic services	12,996	14,270
Cost of medical services rendered	9,235	8,726
Freight car rental	4,095	4,407
Other*	90,338	99,405
	965,137	**798,720**

*Other operating expenses above include fees paid to the audit firm of about GEL 380 thousand, for the provision of audit and other professional services.

7. Finance income and finance costs

’000 GEL	**2017**	**2016**
Recognised in profit or loss		
Interest income on:		
- bank deposits and current accounts	70,889	65,911
- loans receivable	2,426	8,340
Unwinding of discount on finance lease receivable	3,836	3,614
Finance income	**77,151**	**77,865**
Interest expense on loans and borrowings	(153,683)	(163,231)
Net foreign exchange loss	(73,607)	(226,745)
Unwinding of discount on restructured liabilities	(6,220)	(5,989)
Loss on derecognition of financial asset	(5,194)	-
Impairment loss on trade receivables	(12,686)	(22,156)
Impairment loss on loans receivables	(23,501)	-
Finance costs	**(274,891)**	**(418,121)**
Net finance costs recognised in profit or loss	**(197,740)**	**(340,256)**

8. Income taxes

(a) Amounts recognised in profit or loss

The Group's applicable tax rate is the income tax rate of 17.64% (2016: 15%) applicable for Georgian companies.

'000 GEL	**2017**	**2016**
Current tax expense		
Current year	1,035	22,108
Under provided in prior years	1,668	726
Deferred tax expense		
Origination and reversal of temporary differences	-	-
Change in recognized deductible temporary differences	-	(32,543)
Total tax expense/(benefit)	**2,703**	**(9,709)**

Reconciliation of effective tax rate:

	2017		**2016**	
	'000 GEL	**%**	**'000 GEL**	**%**
(Loss)/profit before tax for the year	**(479,279)**		**14,515**	
Tax using the Group's tax rate	4,820	18	2,177	15
Change in recognized temporary differences (due to change in the legislation)	-	-	(32,543)	(224)
Differences between tax and IFRS bases of income and expenses	-	-	19,931	137
Under-provided in prior years	1,668	6	726	5
Non-deductible expenses	644	-	-	-
Set off of the tax payable on dividends	(4,429)	(16)		
	2,703	**8**	**(9,709)**	**(67)**

(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	(197,616)	197,616	-
Other non-current assets	(327)	327	-
Inventories	11,932	(11,932)	-
Trade receivables and prepayments and other current assets	35,211	(35,211)	-
Grants related to assets	14,512	(14,512)	-
Loans and borrowings	7,234	(7,234)	-
Trade and other payables	1,245	(1,245)	-
Provisions	1,249	(1,249)	-
Tax loss carry-forwards	94,017	(94,017)	-
	(32,543)	**32,543**	**-**

9. Property, plant and equipment

'000 GEL	**Lands, buildings and constructions**	**Rail track infrastructure**	**Electricity Generating Unit**	**Gas and oil pipelines**	**Oil wells**	**Power transmission lines**	**Transport, machinery, equipment and other**	**Under construction and uninstalled equipment***	**Total**
Cost or deemed cost									
Balance at 1 January 2016	814,938	903,551	391,563	402,482	29,864	369,033	1,602,514	966,607	5,480,552
Additions	134,446	700	-	174	-	38	89,641	451,739	676,738
Revaluation	-	-	-	-	-	-	87	-	87
Disposals and write -offs	(5,075)	(12,423)	(3,555)	(335)	-	-	(11,639)	(18,109)	(51,136)
Transfers to uninstalled equipment	-	-	-	(10,672)	-	-	-	10,672	-
Transfers	23,236	48,437	2,896	-	5,540	24,592	106,676	(211,377)	-
Balance at 31 December 2016	**967,545**	**940,265**	**390,904**	**391,649**	**35,404**	**393,663**	**1,787,279**	**1,199,532**	**6,106,241**
Balance at 1 January 2017	967,545	940,265	390,904	391,649	35,404	393,663	1,787,279	1,199,532	6,106,241
Additions	1,472	255	-	8,380	-	214	75,194	399,498	485,013
Disposals and write-offs	(7,209)	(25,853)	-	(683)	-	-	(15,341)	(9,765)	(58,851)
Transfers	16,876	41,470	525	13,054	-	64,580	81,758	(221,520)	(3,257)
Reclassification	-	-	-	(603)	-	-	-	603	-
Balance at 31 December 2017	**978,684**	**956,137**	**391,429**	**411,797**	**35,404**	**458,457**	**1,928,890**	**1,368,348**	**6,529,146**
Depreciation and impairment losses									
Balance at 1 January 2016	51,626	291,435	7,065	122,990	22,540	103,181	561,437	-	1,160,274
Depreciation for the year	8,596	44,025	15,152	19,244	1,683	15,878	95,327	-	199,905
Disposals and write-offs	-	(12,167)	(111)	-	-	(21)	(9,623)	-	(21,922)
Transfers to uninstalled equipment	-	-	-	(6,270)	-	-	-	6,270	-
Balance at 31 December 2016	**60,222**	**323,293**	**22,106**	**135,964**	**24,223**	**119,038**	**647,141**	**6,270**	**1,338,257**
Balance at 1 January 2017	60,222	323,293	22,106	135,964	24,223	119,038	647,141	6,270	1,338,257
Depreciation for the year	8,969	47,977	15,291	17,674	1,207	24,161	90,966	-	206,245
Disposals and write offs	(1,352)	(25,316)	-	(529)	-	-	(4,515)	-	(31,712)
Impairment loss	46,382	-	-	-	-	69,925	150,545	365,881	632,733
Transfers	-	-	-	5	-	-	-	(5)	-
Balance at 31 December 2017	**114,221**	**345,954**	**37,397**	**153,114**	**25,430**	**213,124**	**884,137**	**372,146**	**2,145,523**
Carrying amounts									
At 31 December 2016	907,323	616,972	368,798	255,685	11,181	274,625	1,140,138	1,193,262	4,767,984
At 31 December 2017	**864,463**	**610,183**	**354,032**	**258,683**	**9,974**	**245,333**	**1,044,753**	**996,202**	**4,383,623**

*Uninstalled equipment consists of gas pipelines and turbines not yet put into use. Since the Georgian market is not developed, it is almost impossible to buy parts for thermal power plants quickly in urgent situations, hence the Group has to keep additional stock. Assets under construction mostly contains the construction / rehabilitation works related to the gas pipelines.

(a) Property, plant and equipment: construction in progress

As at 31 December 2017 the Group is undertaking the following significant capital expenditure projects:

During the year ended 31 December 2010 the Group started two large capital projects related to the Railways: the Main Line Modernization and the Tbilisi Bypass and started to incur expenditures for the projects in September 2010 and November 2010 respectively. To partly finance the projects the Group issued unsecured bonds in 2010. In 2012, the Group redeemed the bonds issued in 2010 by issuing new bonds for general corporate and liquidity management purposes (see note 18(a)).

All the borrowing costs of the 2010 unsecured bonds allocated to each project on a 59%/41% basis were capitalized upon starting to incur expenditures for the projects. The interest on the bonds issued in 2012 was capitalized to the two projects in proportion to the costs incurred on the projects based on a capitalization rate of 8% (2016: 8%). Capitalised borrowing costs during 2017 related to the projects amounted to GEL 50,687 thousand (2016: GEL 42,536 thousand).

(b) Impairment of Tbilisi Bypass Project (the Project)

In June 2013 the Group announced a decision to redesign the Tbilisi Bypass project. The Group held negotiations with the Government of Georgia and with the main third party construction companies to agree a plan for the conservation of the project for the period of redesigning. All construction works in progress were substantially completed by the end of October 2013 and further construction was suspended. No borrowing costs are capitalised after October 2013.

In March 2014, the Government of Georgia decided that the suspension of the construction of Tbilisi Bypass project would last for 18 months until the final modified project was presented.

During 2015 and 2016, the Group was in discussions with the Tbilisi City Hall and the Government of Georgia about various scenarios of completing the project. The most recent scenarios under discussion include an option envisaging a change of the original bypass location, as a result of which the existing bypass infrastructure may become redundant. The alternative scenarios also included the determination of the future use of the existing infrastructure, should it become redundant. The options of future use of the infrastructure were bypass automobile road, light rail/extension of the Tbilisi Metro System, freight depot, etc., however, as at 31 December 2017 and the date these consolidated financial statements were authorized for issue, no decision was made by the Government of Georgia about the redesign of the Tbilisi Bypass Project.

Due to significant uncertainties associated with either the continuation of the existing Project or implementation of any other scenarios, envisaging the change in the existing use of the Project, and also considering the fact that Management does not expect that the Project will generate any future economic benefit to the Group either individually, or in combination with other non-current assets, the carrying value of the Project was written-down to its recoverable amount.

Selling price less cost to sell:

The carrying value of Tbilisi Bypass Project included the cost of land (Land located under the Project) and the costs incurred for the construction of the tunnels, bridges and other land related works (Specific Assets).

Due to the nature of these Specific Assets and the fact that the Group would not generate any benefit from either their continuing use or from their sale, or the cost to sell those assets would be higher than their selling price, the recoverable amount of those assets were deemed to be nil.

The selling price the Lands located under the Project was determined based on market prices in the recent transactions or announced asking prices of the similar assets. The significant unobservable inputs related to the differences in the characteristics of the land plots, such as, location and physical conditions, for which the Group applied 0% to 10% adjustments to observed asking or transactions prices.

As a result, the carrying amount of the Project of GEL 397,305 thousand was determined to be higher than its recoverable amount of GEL 14,689 thousand and the respective impairment loss of GEL 382,616 thousand was recognized in the impairment loss during 2017, which is included in under construction and uninstalled equipment heading above.

(c) Impairment test for property and equipment (excluding Tbilisi Bypass Project)

At 31 December 2017 management identified an indicator that the Group's subsidiary, EnergoTrans LLC's property and equipment (referred to as "the CGU") may be impaired due to the fact, that in 2017 EnergoTrans LLC's net operating cash inflows were lower than projected, which was mainly driven by the shortfall from budgeted cash flows from the transit of electricity. The recoverable amount of the CGU was based on its value in use, determined by discounting future cash flows to be generated from the continuing use of the CGU.

The carrying amount of the CGU of GEL 535,480 thousand was determined to be higher than its recoverable amount of GEL 285,363 thousand and respective impairment loss of GEL 250,117 thousand was recognized in the impairment loss during 2017, which was allocated to the CGU on the pro-rata basis.

The following key assumptions are used in the estimation of the recoverable amount:

- Cash flows are projected for 28 years. Management believes that using the 28 years is justified as the period represents weighted average remaining useful life of the CGU, to account for reimbursement of investments in the CGU and required rate of return of the investors, as defined by tariff setting methodology approved by the Georgian National Energy and Water Supply Regulatory Commission (GWNERC);
- The Load factor for the 400kV energy transmission line projected in the forecast period of 17.53%. The load factor is calculated as the net projected export/import figure divided by the potential capacity of the transmission line;
- Cash inflows are expected from two main streams of revenue: transmission and export of electricity;
- Revenue from transmission and export of electricity is projected based on actual operating results and the Company's five-year business plan, which is developed according to the ten year development plan of the Georgian energy-transmission network, approved by the Government of Georgia;
- Due to the significant shortfall from budgeted amounts and external market information available, revenue from transit of electricity is assumed to be equal to nil.
- A pre-tax discount rate of 12.2% is applied in determining the present value of the future cash flows. The discount rate reflects the nominal required rate of return for the cash flows on the invested capital of the companies denominated in GEL.

The above estimates are particularly sensitive towards change in the discount rate. An increase of 1% point in the discount rate would have resulted in an increase in the impairment loss of approximately GEL 13,788 thousand.

As at 31 December 2017 the Group determined that there is an indication of impairment of non-current assets (referred to as the "CGU") of Georgian Railway JSC. The impairment testing was carried out by the Group due to the significant decline in the volumes transported (from 5,899 million metric-ton per kilometer of cargo in 2012 to 3,073 million metric-ton per kilometer of cargo in 2017) and revenue (from USD 212,413 thousand in 2012 to USD 106,454 thousand in 2017). Revenue from freight transportation services represents about 65% of the total revenue generated for the past two years, which was considered as the indicator of the impairment.

The recoverable amount of the CGU was based on its value in use, determined by discounting future cash flows to be generated from the continuing use of the CGU. Based on the analysis, it was concluded that no impairment was required.

The following main key assumptions are used in the estimation of the recoverable amount:

- Cash flows are projected based on actual operating results and cash flows for a period up to 2037, with the further calculation of the terminal value. Due to the significant impact that the construction of Anaklia Port is expected to have on volumes in the future, the Group has determined that it is justified to use cash flow projections for a period of 20 years since the Group believe that the 20 year period will allow cash flows to stabilize after the Anaklia Port is constructed. The projections are prepared in nominal terms;
- Volumes are projected based on the actually transported quantities during 2017, adjusted for the Georgian GDP growth rate of 4.6% up to 2022. No volume growth is projected from 2023. Tariffs to be applied to the quantities above are projected based on the budgeted tariff per metric-ton per kilometer for 2018, adjusted for the changes in the US CPI forecast. The forecast resulted in an increase of 2.25% during the first two projected years and 1.7% increase during the remaining projected period;
- Cash flows include annual maintenance capital expenditure and payments for the finalization of the Main Line Modernization project. Projected cash flows include USD 95 million associated with the Modernization project above. The finalization of the above project is expected to decrease the projected electricity and material costs by 10% during 2019 and 2020;
- A pre-tax discount rate of 11.9% is applied in determining the recoverable amount of the CGU. The discount rate reflects the required rate of return for the cash flows on the invested capital of similar companies denominated in USD. The long-term growth rate for the terminal period approximates to the long-term inflation forecast for USD, which is 1.9%.

Additional assumptions included in the estimation of the recoverable amount, which has the most significant effect on the determination of recoverable amount of the CGU is summarized below:

- Management expects that the completion of the Anaklia Deep Sea Port construction will result in increased cargo flows through Georgia. Accordingly, the projected cash flows include an increase in the container traffic of 9.2% from 2023, 5.7% from 2028 and 4.5% from 2033;
- The Group is in active discussions with CJSC Azerbaijan Railway based on which, management expects that the additional cargo will flow through Georgia, in the form of dry cargo and oil products. The projected cash flows include an increase in the specific dry cargo and oil products of 1,920 million tonnes per annum, starting from 2019. This represents an increase of 25% over the projected 2018 figures for dry cargo and oil products.

The key assumptions used to determine the value in use to which the calculation is most sensitive include:

- Volume growth from CJSC Azerbaijan Railway – The exclusion of these volumes from the projected cash flows would have resulted in an impairment loss of about GEL 353 million;
- Discount rate – An increase of 1% point in the discount rate used would have resulted in an impairment loss of approximately GEL 187 million.
- Volume growth due to Anaklia Deep Sea Port – The exclusion of these volumes from the projected cash flows would have resulted in an impairment loss of about GEL 73 million;
- Terminal growth rate – a decrease of 1% in the terminal growth rate would not have resulted in any impairment, however such a change would have reduced the recoverable amount by GEL 43 million;

(d) Security

At 31 December 2017 items of property and equipment (land plots with power-transmission lines and related technical equipment) with a carrying amount of GEL 61,102 thousand (2016: GEL 98,927 thousand) are pledged as a security against loans and borrowings from and restructured liabilities to the Ministry of Finance of Georgia (see notes 18 and 19).

At 31 December 2017, property with a carrying amount of GEL 108,365 thousand (2016: GEL 52,330 thousand) is pledged in respect of the secured loan from Credit Suisse (see note 18).

10. Prepayments for non-current assets and other non-current assets

’000 GEL	2017	2016
Prepayments for construction of railway infrastructure	79,071	100,976
Prepayments for construction of Gardabani II CCPP*	59,535	-
Other prepayments for non-current assets	40,079	44,287
Total prepayments for non-current assets	**178,685**	**145,263**
Construction materials for railway infrastructure	36,108	43,457
Intangible assets	35,400	30,444
Other	19,861	17,695
Total other non-current assets	**91,369**	**91,595**

*On 28 September 2016 the agreement was signed on engineering, procurement and construction of Gardabani II combined cycle thermal power plant, between Gardabani II LLC and China Tianchen Engineering Corporation. The completion period is 24 months from the commencement date. GEL 59,535 thousand was paid as an advance payment in accordance with the above agreement and is classified as a non-current asset.

11. Investments in equity accounted investees

’000 GEL	2017	2016
Balance at the beginning of the period	57,526	47,757
Contributions to associate	15,994	8,382
Group’s share of profit/(loss) of equity accounted investees (net of income tax) recognized in profit or loss	3,995	1,387
Dividends received	(4,906)	-
Decrease of the investment in associates/jointly controlled entity	(2,111)	-
Balance at 31 December	**70,498**	**57,526**

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

(a) Joint venture

Borjomi Likani International JSC is the only material joint arrangement in which the Group participates. It was established in 2011 by the Group and KMG Group (represented by Kazmunaygas Service LLP and KMG Service Georgia LLC), with the aim to construct a high-class hotel at the Likani resort to be operated by an internationally recognized hotel brand. The hotel opened in 2015.

The Group has rights to the net assets of Borjomi Likani International JSC. Accordingly, the Group has classified its interest in Borjomi Likani International JSC as a joint venture.

The following table summarises the financial information of Borjomi Likani International JSC as included in its own financial statements. The table also reconciles the summarised financial information to the carrying amount of the Group’s interest in Borjomi Likani International JSC.

’000 GEL	2017	2016
Percentage ownership interest	**50%**	**50%**
Non-current assets	59,763	61,850
Current assets (including cash and cash equivalents – 2017: GEL 5,506 thousand, 2016: GEL 4,576 thousand)	7,183	7,734
Non-current liabilities	(26,415)	(33,170)
Current liabilities	(19,659)	(11,310)
Net assets (100%)	20,872	25,104
Group’s share of net assets (50%)	**10,436**	**12,552**
Revenue	12,099	9,964
Loss and total comprehensive loss (100%)	(4,500)	(12,373)
Group’s share of loss and total comprehensive loss	**(2,250)**	**(6,187)**

(b) Associates

At 31 December 2017 the Group has interest in nine associates – Vanric Agro LLC, Telasi JSC, Panex JSC, Imereti Greenery LLC, Tsinantali Estates LLC, Gazelle Fund LP, Lopota LLC, Ytong Caucasus LLC and Gino Green City Corporation LLC (2016: Telasi JSC, Vanric Agro LLC, Imerety Greenery LLC, Ytong Caucasus LLC, Gino Green City Corporation LLC and Panex JSC). Telasi is a significant associate of the Group.

24.53% of the shares of Telasi JSC were transferred to the Group as a capital contribution by the Government of Georgia on 30 July 2012. The investment in associate was recognised at the Fund's share of net assets of Telasi JSC as at the transfer date of GEL 27,548 thousand. Telasi JSC is involved in the purchase and distribution of electric power to industrial and residential customers in Tbilisi.

The following table summarises the financial information of Telasi JSC as included in its own financial statements. The table also reconciles the summarised financial information to the carrying amount of the Group's interest in Telasi JSC.

'000 GEL	**2017**	**2016**
Percentage ownership interest	**24.53%**	**24.53%**
Non-current assets	236,631	205,385
Current assets	82,253	83,656
Non-current liabilities	(42,748)	(22,124)
Current liabilities	(122,690)	(115,658)
Net assets (100%)	153,446	151,259
Group's share of net assets (24.53%)	**37,640**	**37,104**
Revenue	420,338	395,872
Profit and total comprehensive income (100%)	22,187	38,720
Group's share of profit and total comprehensive income	**5,442**	**9,498**

12. 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, as the lease agreement transferred substantially all of the risks and rewards incidental to ownership to the lessee.

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 discounted at the interest rate implicit in the lease. 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	**2017**	**2016**
Finance lease receivable at 1 January	59,037	55,423
Unwinding of discount on finance lease receivable	3,836	3,614
Finance lease receivable at 31 December	**62,873**	**59,037**

Contingent rent related to oil transportation recognized in the consolidated statement of profit or loss and other comprehensive income during 2017 amounted to GEL 18,315 thousand (2016: GEL 18,047 thousand).

13. Loans receivable

’000 GEL	2017	2016
Non-current assets		
Loan receivable from the state controlled entity	6,084	6,209
Loan receivable from third party	500	630
Loan receivable from entity managed by the Group	4	18,901
Total non-current	**6,588**	**25,740**
Current assets		
Short term part of the loan receivable from the state controlled entity	1,661	1,486
Short term part of the loan receivable from the third party	-	29,210
Short term part of the loan receivable from entity managed by the Group*	-	3,974
Total current	**1,661**	**34,670**
	8,249	**60,410**

As at 31 December 2017, Management identified an indicator that the loan receivable from the Entity managed by the Group may be impaired. Compared to initial payment schedule principal and interest payments of GEL 4,762 thousand are past due as at 31 December 2017 and as it is not generating the sufficient cash flows as was initially expected. As a result, the Group recognized an impairment loss for the carrying value of the loan receivable as at 31 December 2017, amounting to GEL 23,502 thousand which was recognised in finance costs during 2017.

14. Prepayments and other current assets

’000 GEL	2017	2016
Prepayments to suppliers	59,798	50,964
Receivable from the Government* (see note 17 (f))	27,149	23,690
Impairment allowance on receivable from the Government*	(27,149)	-
Taxes other than on income	7,504	16,967
Other receivables	7,254	7,980
Impairment allowance for other receivables	(2,041)	(2,585)
	72,515	**97,016**

*Receivable from the Government of Georgia (hereinafter the Government or the GoG) was recognized as a result of the transfer of the property to the GoG, as according to the Bypass Project Memorandum of Understanding (MoU), the Government will reimburse the Group for the value added tax payable incurred on such transfers.

Based on discussions with the GoG and due to uncertainties associated with the reimbursement of the above receivable, the Group recognized an impairment loss on the receivable from the Government, which was recognised in finance cost during 2017.

15. Trade receivables

’000 GEL	2017	2016
Non-current assets		
Trade receivables	21,169	29,441
Allowance for trade receivables	-	(8,720)
	21,169	**20,721**
Current assets		
Trade receivables	445,088	557,134
Allowance for trade receivables	(179,214)	(234,036)
	265,874	**323,098**
Total	**287,043**	**343,819**

Trade receivables as at 31 December 2017 include the receivable from a foreign company (see note 5), amounting to GEL 21,256 thousand. As at 31 December 2017 and the date these consolidated financial statements were authorised for issue, the receivable above was fully overdue.

During the first two month after the reporting date, the counterparty made additional payments of GEL 6,040 thousand. The Group and the foreign company agreed on updated payment terms on the outstanding amount above. The counterparty provided the first and second payments of USD 200 thousand and USD 550 thousand according to the schedule in May 2018 and July 2018, respectively. Based on all of the above, the Group expects to recover the receivable by the end of 2018 and thus, did not make any provision for the outstanding balance as at 31 December 2017.

Guaranteed capacity of electricity production

Until 31 August 2014 the Group acted as an agent in the purchase of the guaranteed capacity of electricity production from electricity producers and selling it to the Qualified Enterprises (Distribution Licensee, Direct Customer and/or Exporter). For the sold Guaranteed Electricity the Group collects debts from the Qualified Enterprises and transfers the receipts to the electricity producers. Starting from 1 September 2014, due to changes in relevant legislation, the Group must reimburse the electricity producers whether or not it receives funds from Qualified Enterprises.

Management believes that from September 2014 the Group has been acting as a principal in the guarantee capacity's sale and purchase transactions and recognizes relevant revenue and cost of sales in full. Management's estimate is also based on the fact that the Group is obliged to buy the balancing electricity and the guaranteed capacity based on the Law of Georgia on Electricity and Natural Gas and the Electricity (Capacity) Market Rules and that the Group bears full credit risk on the purchased and sold capacities.

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

16. Cash and cash equivalents

000 GEL	**2017**	**2016**
Bank balances	638,408	802,532
Call deposits	459,113	227,380
Petty cash	78	78
Cash and cash equivalents in the consolidated statement of financial position	**1,097,599**	**1,029,990**
Restricted cash	-	(164)
Cash and cash equivalents in the consolidated statement of cash flows	**1,097,599**	**1,029,826**

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.

17. Equity and liabilities to the Government

(a) Share capital

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 Fund.

Following the decree of the Government of Georgia on 8 May 2012 the share capital of the Fund was determined as 100,000,000 ordinary shares with a par value of GEL 1.

(b) Owner contributions

During 2017, the Government of Georgia contributed gas pipelines of GEL 7,421 thousand, land plots of GEL 313 thousand and inventories of GEL 89 thousand (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) in the form of an increase in share capital. The Government also made a contribution to the Group's share capital of land plots of GEL 6,715 thousand and contributions in the form of cash of GEL 38,540 thousand (2016: GEL 156,748 thousand land plots, transmission lines and other fixed assets).

(c) Distributions to the shareholder

In 2017 the Group transferred land plots located in Anaklia, Zugdidi of GEL 10,301 thousand to the state controlled entity.

In 2016 the Group transferred the right to demand the loan given to the state controlled entity of GEL 68,180 thousand (see note 13) and made a distribution of other non-cash assets to the state controlled entities with a carrying amount of GEL 6,638 thousand. Due to the nature of distributions no related tax effect was recognized.

(d) Liabilities to the Government

Liabilities to the Government represent liabilities in the form of property, plant and equipment which are withdrawn as a reduction in equity but not yet transferred formally to the owners. These liabilities are recorded at the carrying amount of assets to be transferred to the owner.

(e) Advance received from the Government

In April 2012, Georgian Railway JSC and the Government of Georgia entered into the Bypass Project Memorandum. According to the Bypass Project Memorandum the Government is interested and aims to purchase from the Group approximately 70.1 hectares of land plots which will be freed up as a result of the removal of railway infrastructure from Tbilisi city center and construction of a new bypass railway route for the purposes of further development of the land plots. The Government agrees to pay to Georgian Railway JSC CHF 138 million equivalent in national currency through the reduction in the amount of dividends payable to the Government. In 2012, Georgian Railway JSC declared dividends of GEL 231,592 thousand (CHF 138 million) and classified the amount as an advance received from the Government for the sale of land in accordance with the Bypass Project Memorandum. As a result, the dividend payable was classified as an advance received from the Government for the sale of land (see note 17(f)).

(f) Transfer of property to the Government

During 2017 and 2016, the Group transferred 55,787 and 89,166 square meters of land plots with attached constructions, respectively, to the Government within the framework of the Bypass Project Memorandum. The fair value of these land plots with attached constructions was determined by an independent appraiser based on announced asking prices of similar properties in the similar location and physical condition. The fair value estimate is categorized into Level 3 of the fair value hierarchy, because of significant unobservable adjustments used in the valuation methods. The significant unobservable inputs related to the differences in the characteristics of the properties, such as size, location, access to the property and discount achieved through negotiation, for which the appraiser applied 0% to 15% adjustments to observed asking prices.

The difference between the fair value and the carrying value of the transferred property was recognized as income in the consolidated statement of profit or loss. The difference between the cost of the transferred property, as agreed between the Group and the Government and used for the reduction of advances received from the Government, and the fair value of the transferred property was recognized directly in equity as a non-cash owner contribution reserve.

'000 GEL	**2017**	**2016**
Cost of the transferred property, as agreed between the Group and the Government	27,715	147,979
Less: fair value of the transferred property	(27,715)	(85,634)
Recognized in non-cash owner contribution reserve	**-**	**62,345**
Fair value of the transferred property	27,215	85,634
Less: carrying value of the transferred property	(3,798)	(5,340)
Recognized as income from the transferred property	**23,417**	**80,294**

The receivable from the Government within the scope of the Bypass Project memorandum as at 31 December 2017 amounted to GEL 27,149 thousand (31 December 2016: GEL 23,690 thousand). The receivable as at 31 December 2017 was fully provisioned (see note 14).

18. 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 risks, see note 22.

'000 GEL	**2017**	**2016**
Non-current liabilities		
Unsecured bonds	1,931,450	1,969,620
Unsecured loans from financial institutions	809,415	1,079,219
Secured loans from financial institutions	109,689	80,588
Secured loan from Ministry of Finance	-	22,654
	2,850,554	**3,152,081**
Current liabilities		
Current portion of unsecured bonds	58,108	201,806
Current portion of unsecured loans from financial institutions	588,329	190,237
Current portion of secured loans from financial institutions	21,196	16,529
Current portion of secured loan from Ministry of Finance	34,875	11,101
	702,508	**419,673**

(a) Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

				31 December 2017		31 December 2016	
’000 GEL	**Currency**	**Nominal interest rate**	**Year of maturity**	**Face value**	**Carrying amount**	**Face value**	**Carrying amount**
Unsecured bonds							
Unsecured bonds issue Short Term	USD	6.875%	2017	-	-	141,485	142,431
Unsecured bonds issue Long Term	USD	6.75%	2021	648,052	648,388	661,700	659,968
Unsecured bonds	USD	7.8%	2022	1,341,170	1,341,170	1,369,027	1,369,027
Unsecured loans from financial institutions:							
Loan from bank	USD	5.0%	2018	12,979	12,979	-	-
Loan from bank	USD	6.5%	2018	54,533	54,533	-	-
Ministry of Finance of Georgia - KfW	EUR	KfW reference rate + 4%	2027	244,760	244,760	214,587	214,587
Ministry of Finance of Georgia - KfW	EUR	2.2%	2025	75,052	75,052	46,764	46,764
Ministry of Finance of Georgia - EIB	EUR	Euribor+0.75%	2033	216,626	216,626	208,567	208,567
Ministry of Finance of Georgia - EBRD	EUR	Euribor+1%	2025-2028	176,260	176,260	152,103	152,103
Ministry of Finance of Georgia - KfW	EUR	1%-1.5%	2025-2037	50,249	50,249	48,696	48,696
Ministry of Finance of Georgia - ADB	USD	1%-1.5%	2044	112,928	112,928	112,962	112,962
Ministry of Finance of Georgia - IBRD	USD	World Bank's lending treasury rates	2038	104,650	104,650	76,793	76,793
Unsecured loan from financial institutions	USD	Libor+5.95%	2020	349,708	349,708	408,984	408,984
Secured loans from financial institutions:							
Ministry of Finance of Georgia - KFW	EUR	4%	2021	9,366	9,366	10,538	10,538
Ministry of Finance of Georgia - IDA	USD	World Bank's lending treasury rates	2022	29,516	29,516	36,832	36,832
Secured loan from Credit Suisse	USD	Libor+1.25%	2026	92,002	92,002	49,747	49,747
Ministry of Finance of Georgia	EUR	7.50%	2020	34,875	34,875	33,755	33,755
Total interest-bearing liabilities				**3,552,726**	**3,553,062**	**3,572,540**	**3,571,754**

Collateral for secured loans and borrowings is detailed in note 9.

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. In May 2017 the Group repaid in full the remaining part of the Eurobonds issued in 2012.

Unsecured bonds are issued on the London Stock Exchange and are mainly used for the Main Line Modernization and project (see notes 9 and 10).

Loans received before 2014 from EBRD, EIB and KfW were disbursed to the Government of Georgia in relation to the BSTN project. Loans received before 2014 from IDA and KfW were disbursed to the Government of Georgia for the implementation of the Electricity Market Support Project (the "EMSP"), "Energy IV", "Sector Program Power Supply" and "Regional Power Network Rehabilitation l " projects. Loans received in 2014 from ADB, KfW and EBRD were disbursed to the Government of Georgia in relation to the construction and enhancement of Jvari - Khorga electricity transmission lines and substations as well as other transmission network rehabilitation projects.

The Government of Georgia, in its turn, transferred amounts received under the facilities, together with an obligation to repay them, to the Group. The lender has not legally released the Government of Georgia from the primary responsibility for the repayment of the loans, accordingly the Government of Georgia acted as a principal in this transaction and accordingly the loans payable by the Group are towards the Ministry of Finance of Georgia. The secured loan from Ministry of Finance of Georgia represents interest accrued on part of the unsecured loans from financial institutions and paid by the Government of Georgia on behalf of the Group.

The secured loan was obtained for the sole purpose of the acquisition of passenger trains. The secured loan is collateralized by the underlying passenger trains, with the carrying amount of GEL 108,365 thousand as at 31 December 2017 (31 December 2016: GEL 52,330 thousand) (see note 9 (d)).

As at 31 December 2017, the Group maintains a committed credit line of GEL 349,709 thousand. During 2015, the Group acquired a new loan from an international bank of USD 150,000 thousand. The purpose of the loans was to refinance existing loan exposures.

Management estimates that the fair values of loans and borrowings from the above-mentioned international financial institutions are not different from loaned amounts at initial recognition as these loans are provided in a separate market segment which is different from the commercial lending market. Management estimates that the carrying values of unsecured loan from financial institutions and secured loan from Credit Suisse are reasonable approximation of their fair values.

Breach of financial covenants

During 2017, due to cash shortages, the contractual amounts falling due under the KfW loan with a maturity of 2027 concluded between EnergoTrans LLC and the Government of Georgia were not paid on time. EnergoTrans LLC failed to negotiate a restructuring of the loan terms with the Government of Georgia in 2017, accordingly no formal consent for postponement of payments falling due in 2017 were obtained from the Government of Georgia. The breach of contractual terms represents an Event of Default under the Loan agreement which gives the Government of Georgia an unconditional right to request immediate repayment of loans and borrowings of GEL 276,166 thousand as at 31 December 2017. As at 31 December 2017 the loan was reclassified as current in the consolidated statement of financial position of the Group.

As at 31 December 2017, EnergoTrans LLC was in breach of the financial covenant (debt service coverage ratio) stipulated in the Subsidiary Loan Agreement with EBRD. Management obtained a waiver for the breach of the covenant before the year ended 31 December 2017. Management is in the process of negotiation with EBRD to remove the financial covenant requirement from the aforementioned sub-loan agreement.

(b) Reconciliation of movements of assets and liabilities to cash flows arising from financing activities

’000 GEL	Loans and borrowings	Restructured Liabilities	Total
Balance at 1 January 2017	3,571,754	66,417	3,638,171
Proceeds from borrowings	201,218	-	201,218
Repayment of borrowings	(242,752)	-	(242,752)
Repayment of restructured liabilities	-	(10,387)	(10,387)
Total changes from financing cash flows	(41,534)	(10,387)	(51,921)
The effect of changes in foreign exchange rates	15,648	625	16,273
Interest expense	153,425	-	153,425
Interest expense capitalised as borrowing costs	49,754	-	49,754
Unwinding of discount	-	6,220	6,220
Interest paid	(195,985)		(195,985)
Total liability-related other changes	22,842	6,845	29,697
Balance at 31 December 2017	**3,553,062**	**62,875**	**3,615,937**

19. Restructured liabilities

’000 GEL	2017	2016
Payables to the State Budget	48,995	58,622
Trade payables	28,765	28,593
Loans and interest accrued	3,586	3,983
	81,346	**91,198**
Amortized cost adjustments	(18,471)	(24,781)
Balance at 31 December	**62,875**	**66,417**
Current	15,000	10,000
Non-current	47,875	56,417
	62,875	**66,417**

Restructured liabilities represent the amounts originated before 2006, the repayments of which have been deferred due to the financial difficulties of Georgian State Electrosystem JSC, a Group entity (see note 23). According to the Rehabilitation Plan, drawn-up initially in 2006 through court proceedings and agreed with the majority of creditors, the repayments of these debts have been deferred until 2011; thereafter the amounts will be repaid by instalments until 2023, the end of the rehabilitation period.

The Rehabilitation Plan sets out the strategic targets of the Group entity for the coming 15 years, as well as defines the main operating and financial objectives of the Group entity. According to the Rehabilitation Plan, the Rehabilitation Manager has been appointed to undertake the governance of Georgian State Electrosystem JSC throughout the entire rehabilitation period. The main creditor of Georgian State Electrosystem JSC is the Ministry of Finance of Georgia. The amounts payable to the Ministry of Finance of Georgia are taxes and duties, as well as loans and interest accrued. Restructured liabilities are presented at discounted amounts. Following the approval of the new Rehabilitation Plan in 2008, the Group has estimated the fair value of deferred payables, to effect the amendments in the repayment terms. The fair value of these liabilities on the Rehabilitation Plan approval date has been determined by discounting future cash flows at an average market interest rate of 9.57%.

20. Grants related to assets

’000 GEL	2017	2016
Balance at 1 January	112,830	108,592
Recognised in profit and loss	(4,980)	(4,377)
Received during the year	4,878	8,614
Balance at 31 December	**112,728**	**112,829**
Non-current	107,797	108,533
Current	4,931	4,296
	112,728	**112,829**

In 2017, KfW provided a grant related to the construction of the 500/220 kV Jvari substation comprising GEL 2,220 thousand (2016: GEL 8,614 thousand). In addition, GEL 2,658 thousand was received in 2017 from KfW for a feasibility study for the Extension of the Transmission Network.

The financial contribution is not repayable unless the Group misuses the funds received or seriously jeopardizes the implementation of the project.

21. Trade and other payables

’000 GEL	2017	2016
Trade payables	147,285	210,863
Payables for construction works under BSTN project	38,168	40,542
Advances received from customers	17,645	18,386
Taxes other than on income	10,983	1,047
Other payables	35,565	17,225
	249,646	**288,063**

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) Fair values of financial assets and liabilities

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 realizable in an immediate sale of the assets or transfer of liabilities.

Management believes that the fair values of the Group’s financial assets and liabilities approximate their carrying amounts.

The Company has determined fair values using valuation techniques. The valuation technique used is the discounted cash flow model, based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

The interest rates used to discount estimated cash flows, where applicable, are based on the government yield curve at the reporting date plus an appropriate credit spread.

(b) Financial risk management

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

– credit risk (see 22(c));
– liquidity risk (see 22(d));
– market risk (see 22(e)).

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

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. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Supervisory Boards of the Fund and the Group entities have overall responsibility for the establishment and oversight of the Group entities' risk management framework. The Supervisory Boards oversee how management monitors compliance with the Group entities' risk management policies and procedures and review the adequacy of the risk management framework in relation to the risks faced by the Group entities.

(c) 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 receivable, term deposits and cash and cash equivalents.

(i) Exposure to credit risk

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

	Note	**Carrying amount**	
'000 GEL		**2017**	**2016**
Finance lease receivable	12	62,873	59,037
Trade receivables	15	287,043	343,819
Other receivables	14	5,210	5,395
Loans receivable	13	8,249	60,410
Term deposits		-	112,456
Cash and cash equivalents	16	1,097,520	1,029,912
		1,460,895	**1,611,029**

(ii) Trade receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the demographics of the Group's customer base, including the default risk of the industry and country in which customers operate, as these factors may have an influence on credit risk, particularly in the current economic circumstances.

Approximately 45%, 56%, 8%, and 28% of the Group's revenue from the sales of balancing electricity and guaranteed capacity, sales of gas, railroad transportation, electricity transmission and dispatching activities, respectively, are attributable to sales transactions with a single customer for each type of revenue (2016: 34%, 55%, 13%, and respectively 42%).

Credit risk is managed by requesting prepayments from customers or assessing their creditworthiness prior to extending credit, as well as through the monthly monitoring of receivable balances and requiring immediate repayment of a debt when the balance approaches specific limits set for each individual counterparty. No collateral in respect of trade receivables is generally required.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade receivables. The main component of this allowance is a specific loss component that relates to individually significant exposures.

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

	Carrying amount	
’000 GEL	**2017**	**2016**
Domestic	217,221	285,132
CIS countries	69,822	58,687
	287,043	**343,819**

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

	Carrying amount	
’000 GEL	**2017**	**2016**
Gas distributors	117,133	129,777
Foreign railway companies	-	55,880
Wholesale electricity customers	34,991	49,930
Electricity distributors	10,274	24,479
Gas pipeline rentals	29,829	20,721
Oil Trading	4,954	22,172
Other	89,862	40,860
	287,043	**343,819**

As at 31 December 2017 the Group had two customers whose balance exceeded 10% of total trade receivables of gas distributors (31 December 2016: one customer). The carrying value of these balances as at 31 December 2017 was GEL 116,749 thousand (31 December 2016: GEL 129,631 thousand) and GEL 43,746 thousand (31 December 2016: GEL 20,721 thousand). The Group's two most significant customers from foreign railway companies account for GEL 40,681 thousand of the trade receivables carrying amount as at 31 December 2017 (2016: GEL 55,580 thousand).

Impairment losses

The ageing of trade receivables and the related impairment amount at the reporting date was as follows:

’000 GEL	**Gross 2017**	**Impairment 2017**	**Gross 2016**	**Impairment 2016**
Neither past due nor impaired	84,914	-	132,770	-
Past due 0 - 90 days	145,239	-	150,329	14,761
Past due 91-180 days	4,520	1,270	8,256	1,928
Past due 181-365 days	1,606	680	18,977	4,505
Past due more than one year	229,978	177,264	276,243	221,562
	466,257	**179,214**	**586,575**	**242,756**

The movement in the allowance for impairment in respect of trade receivables during the year was as follows:

’000 GEL	**2017**	**2016**
Balance at beginning of the year	242,756	220,600
Increase during the year	12,686	22,156
Amounts written off against trade receivables	(76,228)	-
Balance at end of the year	**179,214**	**242,756**

Most of the remaining impairment loss at 31 December 2017 relates to several customers that have indicated that they are not expecting to be able to pay their outstanding balances either because of economic circumstances or as a result of bankruptcy. The Group believes that the unimpaired amounts that are past due are still collectible, based on historic payment behaviour and analyses on the underlying customers' credit ratings, when available.

In addition, receivables of GEL 10,335 thousand (2016: GEL 42,024 thousand) relate to freight car rental customers with which the Group incurs freight car rental expense and related payables. These receivables and payables are periodically net settled.

The allowance account in respect of trade receivables is used to record impairment losses until all possible opportunities for recovery have been exhausted; at that point the amounts are written off against the financial asset directly.

Based on historic default rates, the Group believes that, apart from the above, no impairment allowance is necessary in respect of trade receivables.

(iii) Loans receivable

As at 31 December 2016 Group had issued loan to the Entity managed by the Group amounting to GEL 22,875. As at 31 December 2017 per management assessment the loan was impaired. As a result, the Group recognized an impairment loss for the carrying value of the loan receivable as at 31 December 2017, amounting to GEL 23,502, which was recognised in finance costs during 2017.

(iv) Cash and cash equivalents and term deposits

The Group held cash and cash equivalents with banks which are rated B or higher based on rating agency Fitch ratings. None of the balances are impaired or past due.

(d) 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.

To manage the liquidity requirements, the Group makes short-term forecasts for cash flows based on estimated financial needs determined by the nature of operating activities and maintains unused credit line facilities. Typically the Group entities ensures, that they have 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.

As described in note 13, due to the breach of covenants, a number of loans and borrowings were reclassified as current as at 31 December 2017. Management believes that despite the right of the lenders to request immediate repayment of the loans and borrowings, the likelihood of actual requests is remote due to the ability of the Group to remediate the breach of covenants by means of obtaining waivers from the lenders. In addition, a support letter has been obtained from the Ministry of Economy and Sustainable Development of Georgia (ultimate controlling party), where the Ministry of Economy and Sustainable Development expressed its intention and ability to provide further financial and other support to the Group, if necessary, to permit the Group meet its financial obligations as they fall due.

The Group has significant contractual commitments for the purchase and construction of property, plant and equipment (see note 25). Management believes that the cash and cash equivalents held by the Group, proceeds from loans and borrowings and credit lines and cash flows from operating activities will be sufficient to finance the capital expenditure projects.

Exposure to liquidity risk

The following are the remaining contractual maturities of financial liabilities at the reporting date, including estimated interest payments and excluding the impact of netting agreements.

31 December 2017			**Contractual cash flows**			
’000 GEL	**Carrying amount**	**Total**	**0-6 mths**	**6-12 mths**	**1-5 yrs**	**Over 5 yrs**
Non-derivative financial liabilities						
Loans and borrowings	3,553,062	4,702,238	530,472	287,639	3,038,788	845,339
Restructured liabilities	62,875	81,347	15,000	-	60,000	6,347
Trade and other payables	232,001	232,001	232,001	-	-	-
	3,847,938	**5,015,586**	**777,473**	**287,639**	**3,098,788**	**851,686**

31 December 2016			**Contractual cash flows**			
’000 GEL	**Carrying amount**	**Total**	**0-6 mths**	**6-12 mths**	**1-5 yrs**	**Over 5 yrs**
Non-derivative financial liabilities						
Loans and borrowings	3,571,754	4,723,389	379,924	159,923	2,024,028	2,159,513
Restructured liabilities	66,417	91,152	10,000	-	70,000	11,152
Trade and other payables	270,668	270,669	270,669	-	-	-
	3,908,839	**5,085,210**	**660,593**	**159,923**	**2,094,028**	**2,170,665**

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

(e) 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.

The Group does not apply hedge accounting in order to manage volatility in profit or loss.

(i) Currency risk

The Group is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than GEL. The currencies in which these transactions primarily are denominated are U.S. Dollar (USD), Swiss Franc (CHF) and Euro (EUR).

Exposure to currency risk

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

’000 GEL	**USD-denominated 2017**	**CHF - denominated 2017**	**EUR - denominated 2017**	**USD - denominated 2016**	**CHF - denominated 2016**	**EUR - denominated 2016**
Cash and cash equivalents	488,633	1,891	99	620,641	499	3,374
Term deposits	-	-	-	112,456	-	-
Trade and other receivables	48,279	28,505	95	28,235	57,152	17
Loans receivable	37,902	-	-	60,410	-	-
Loans and borrowings	(2,745,875)	-	(807,188)	(2,856,744)	-	(715,008)
Restructured liabilities	(7,052)	-	(4,041)	(7,676)	-	(3,777)
Trade and other payables	(43,517)	-	(470,574)	(47,113)	-	(25,626)
Net exposure	**(2,221,630)**	**30,396**	**(1,281,609)**	**(2,089,791)**	**57,651**	**(741,020)**

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

in GEL	**Average rate**		**Reporting date spot rate**	
	2017	**2016**	**2017**	**2016**
USD 1	2.5086	2.3667	2.5922	2.6468
CHF 1	2.5466	2.4012	2.6584	2.5982
EUR 1	2.8322	2.6172	3.1044	2.7940

Sensitivity analysis

A reasonably possible weakening of the GEL, as indicated below, against all other currencies at 31 December would have affected the measurement of financial instruments denominated in a foreign currency and affected equity and profit or loss net of taxes by the amounts shown below. There would be no direct impact on other comprehensive income or equity. 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 2017	
USD (10% weakening)	(222,163)
CHF (10% weakening)	3,040
EUR (10% weakening)	(128,161)
31 December 2016	
USD (10% weakening)	(208,979)
CHF (10% weakening)	5,765
EUR (10% weakening)	(74,102)

A strengthening of the GEL against the above currencies at 31 December would have had the equal but opposite effect on the above currencies on the amounts shown above, on the basis that all other variables remain constant.

(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 the Group entities’ 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**	
	2017	**2016**
Fixed rate instruments		
Financial assets	1,013,282	987,148
Financial liabilities	(2,339,540)	(2,424,141)
	(1,326,258)	**(1,436,993)**
Variable rate instruments		
Financial liabilities	(1,213,521)	(1,164,424)
	(1,213,521)	**(1,164,424)**

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.

Cash flow sensitivity analysis for variable rate instruments

A reasonably possible change of 100 basis points in interest rates at the reporting date would have increased (decreased) equity and profit or loss net of taxes by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2016.

	Profit or loss	
’000 GEL	**100 bp increase**	**100 bp decrease**
2017		
Variable rate instruments	(12,135)	12,135
Cash flow sensitivity (net)	**(12,135)**	**12,135**
2016		
Variable rate instruments	(11,644)	11,644
Cash flow sensitivity (net)	**(11,644)**	**11,644**

(f) Capital management

The Group’s objectives when managing capital are to safeguard the Group’s ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets.

The Board’s policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business.

The Group’s debt to capital ratio at the end of the reporting period was as follows:

’000 GEL	**2017**	**2016**
Total liabilities	4,044,715	4,135,225
Less: cash and cash equivalents	(1,097,599)	(1,029,990)
Net debt	**2,947,116**	**3,105,235**
Total equity	**2,292,105**	**2,731,310**
Debt to capital ratio at 31 December	**1.29**	**1.14**

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

Neither the Fund nor any of its subsidiaries are subject to externally imposed capital requirements.

23. Significant subsidiaries and non-controlling interests

Georgian Railway JSC was established as a state-owned enterprise in December 1998 by the Decree of the President of Georgia # 929 as an entity engaged in the provision of railway transportation services in Georgia. The principal activity of Georgian Railway JSC is the operation of a nationwide railway system providing freight and passenger transportation services, maintenance and development of railway infrastructure and construction of railway lines within Georgia.

Georgian Oil and Gas Corporation JSC 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 principal activities of Georgian Oil and Gas Corporation JSC are the importation and sale of natural gas, the rental of gas and oil pipelines, oil and gas exploration and extraction in the territory of Georgia. In December 2006 Georgian Oil and Gas Corporation JSC was granted the status of “National Oil Company” by Presidential decree number 736 and it acts on behalf of the State of Georgia, receives and sells the State’s share of extracted oil and gas produced by contractors in the territory of Georgia in accordance with the “Law of Georgia on Oil and Gas” and production sharing agreements signed between the State and the contractors. 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 2017 amounted to GEL 175,185 thousand. The subsidiary was created for the construction and operation of Gardabani Combined Cycle Power Plant (CCPP). The construction works were completed in July 2015. The Gardabani CCPP began generating revenue from September 2015.

Georgian State Electrosystem JSC was established under the laws of Georgia on 12 November 2002 by the means of the merger of Electrogadatsema JSC and Electrodispetcherizatsia-2000 LLC and is their legal successor in title. The major subsidiary of Georgian State Electrosysem JSC is EnergoTrans LLC, an entity established as a state-owned enterprise in 2002. The principal activities of Georgian State Electrosystem JSC and its subsidiaries are electricity transmission and dispatching over the entire territory of Georgia that are regulated by the law on Electricity and Natural Gas on the basis of the licenses obtained from the Georgian National Energy and Water Supply Regulatory Commission. EnergoTrans LLC owns the 500kV Vardzia and Zekari power transmission lines and the 400kV Meskheti interconnection line with Turkey constructed as part of the “Black Sea Transmission Network Project” (BSTN). The BSTN project was completed by the end of 2013. The new lines provide additional security to Georgia’s transmission network, by adding a second west-east 500kV link, and create energy export capacity to Turkey. Due to financial difficulties in the past, Georgian State Electrosystem JSC is currently under rehabilitation process managed by a Rehabilitation Manager in accordance with a Rehabilitation Plan (see note 19). In assessing control over Georgian State Electrosystem JSC, management has considered, among other things, its ability to terminate the rehabilitation process and remove the rehabilitation manager by way of repayment of the debt.

Electricity System Commercial Operator JSC was established in Georgia on 1 September 2006 with the primary objective to sell/purchase balancing electricity and guaranteed capacity, import and export electricity and facilitate electricity sale-purchase in Georgia.

In March 2015 a new subsidiary, Aerostructure Technologies Cyclone JSC, was established in Georgia by Partnership Fund JSC, Project LLC (under 100% ownership of the Group), and Elbit Systems - Cyclone Ltd, with 33.33%, 33.33%, and 33.34% interest, respectively. The parties agreed to incorporate the subsidiary with the authorized share capital of USD 60,000 thousand.

In accordance with the shareholders agreement, 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 shareholders agreement of the subsidiary for which only a simple majority of votes is required.

The subsidiary was created for the purpose to engage in the development, production, sale and support of composite aero-structure products for the commercial (civil) market.

The following table summarises the information relating to the Group’s subsidiary Aerostructure Technologies Cyclone JSC:

’000 GEL	**2017**	**2016**
NCI Percentage	34%	34%
Non-current assets	91,068	55,723
Current assets	42,126	85,934
Non-current liabilities		-
Current liabilities	(8,243)	(5)
Net assets	124,951	141,652
Carrying amount of NCI	42,483	48,162
Revenue		-
Profit/(loss)	(16,699)	5,227
Total comprehensive loss	**(16,699)**	**5,227**
Profit/(loss) allocated to NCI	(5,677)	1,777
Cash flows from/(used in) operating activities	(9,008)	(1,679)
Cash flows used in investment activities	(40,200)	-
Cash flows from financing activities (dividends to NCI: nil)	1,296	1,589
Net decrease in cash and cash equivalents	**(47,912)**	**(90)**

24. Operating leases

At 31 December, non-cancellable operating lease rentals are receivable as follows:

’000 GEL	**2017**	**2016**
Less than one year	4,378	4,499
Between one and five years	5,660	6,663
More than five years	18,250	19,288
	28,288	**30,450**

Operating leases mainly relate to rent of buildings, containers, locomotives and fittings owned by the Group with lease terms of between 10 to 50 years. Lessees do not have an option to purchase the property at the end of the lease term.

25. Capital commitments

As at 31 December 2017, the Group had entered into contracts for the construction or purchase of property, plant and equipment of GEL 488,135 thousand (2016: GEL 612,862 thousand) mainly relating to the Main Line Modernization project of GEL 267,305 thousand (2016: GEL 335,250 thousand) and Tbilisi Bypass project of GEL 216,375 thousand (2016: GEL 211,476 thousand).

Management does not expect that the cessation of the construction agreement with the counterparty, responsible for the Tbilisi Bypass project completion, will result in the payment of the above amount.

The Group had entered into contracts for construction of pipelines and the Gardabani 2 Combined Cycle Power Plant with outstanding capital commitments as at 31 December 2017 of GEL 24,900 thousand and GEL 375,105 thousand respectively. (2016: GEL 35,138 thousand-pipelines only).

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 2017 the total remaining amount of Supplemental Gas to be purchased and paid for amounted to GEL 902,590 thousand (31 December 2016: GEL 1,014,071 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.

As at 31 December 2017 the Group had long-term contractual commitments to purchase equipment for the construction and rehabilitation of energy-transmission lines for GEL 165,295 thousand (2016: GEL 100,150 thousand).

Capital commitments are attributable to various project-related construction works and will be funded by undisbursed loan facilities from international financial institutions.

26. Contingencies

(a) Insurance

The insurance industry in 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) Litigations

In the ordinary course of business, the Group is subject to legal actions, litigations and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial condition or the results of future operations.

(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 Group 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.

(e) Electricity purchase contracts

The Company has entered into contracts for the purchase of electricity to be produced by the new hydro-electric power stations, thermo-electric power stations and wind-electric power stations. In total 40 contracts (2016: 65 contracts) have been initiated and electric power stations are under construction as of 31 December 2017 and planning to be finalised between 2018-2020. In 2017 construction of four power stations were finalized (2016: two power stations). Management believes that such contracts represent 'Executory contracts' and are not onerous contracts as defined in IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and it is not possible to measure reliably the approximate amount of revenue and cost of sales which the Company will face after completion of the constructions and when the electric power stations will start generating electricity.

27. Related parties

(a) Parent and ultimate controlling party

As at 31 December 2017 and 2016 the Fund is wholly owned by the Government of Georgia.

(b) Transactions with key management personnel

(i) Key management remuneration

Key management received the following remuneration during the year, which is included in wages and other employee benefits.

’000 GEL	**2017**	**2016**
Salaries and bonuses	4,862	4,970

(c) Transactions with Government related entities

The Group transacts in its daily operations with a number of entities that are either controlled/ jointly controlled by 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.

The significant transactions with entities controlled or significantly influenced by the State and balances for these transactions are disclosed below. Management estimates that the aggregate amounts of all other income and expenses and the related balances with government-related entities at the reporting dates are not significant. Transactions with the shareholder are disclosed in note 17.

(i) Revenue

’000 GEL	**Transaction value**	
	2017	**2016**
Entities controlled or significantly influenced by the State:		
Rent of gas pipelines	59,847	68,487
Transmission and dispatching of electricity	3	866
Electricity generation	74,506	68,384

The Group rents its gas pipeline to Georgian Gas Transportation Company LLC, a state controlled entity. The contract is valid until 1 January 2020. The lease payments are contingent on the volume of gas transported through the leased gas pipeline.

The Group does not usually have significant balances for the above transactions.

(ii) Expenses

’000 GEL	**Transaction value**	
	2017	**2016**
Entities and agencies controlled or significantly influenced by the State:		
Cost of gas	31,516	14,394
Purchase of balancing electricity and guaranteed capacity	13,659	13,762

The Group does not usually have significant balances for the above transactions.

(iii) Loans

’000 GEL	**Interest income/expense**		**Outstanding balance as at 31 December**	
	2017	**2016**	**2017**	**2016**
Loans receivable:				
State controlled entity	-	4,602	-	7,695
Loans received:				
Ministry of Finance of Georgia	21,280	19,925	1,054,283	941,597

The interest rates and maturities of loans from related parties are disclosed in note 18(a).

(iv) Restructured liabilities

The Group's restructured liabilities mainly consist of payables to the Government of Georgia or Government bodies.

28. Subsequent events

In June 2018 the Fund acquired a 100% ownership in KMG Service Georgia LLC, which was in a joint venture with the Fund and was a co-owner of Borjomi-Likani International JSC, an entity, which operates a hotel in Likani, Georgia. Total consideration of the transaction amounted to USD 25,442 thousand. It comprised the price of the shareholding in KMG Service Georgia LLC of USD 10,300 thousand and repayment of Borjomi-Likani International JSC's loan against KMG Group, amounting to USD 15,142 thousand. Upon completion the deal the Fund became the 100% owner of Borjomi-Likani International JSC.

In August 2018 Georgian Oil and Gas Corporation JSC signed an agreement with KfW Development Bank for the promotional loan of EUR 150 million for the construction of the first underground gas storage facility in Georgia. The total investment in the project amounts approximately to EUR 220-250 million and is to be financed by KfW Bank, along with European Investment Bank (EIB) and Georgian Oil and Gas Corporation JSC.

29. Basis of measurement

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

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) 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.

(ii) Acquisitions from entities under common control

Business combinations arising from the transfers of interests in entities that are under the control of the shareholder that controls the Group are accounted for from the date the control is obtained by the Group. The assets and liabilities acquired are recognised at the carrying amounts recognised in the acquiree's financial statements. The equities of the acquired entities are added to the equity of the Group. Pre-acquisition interests are not remeasured. Any cash paid for the acquisition is recognised directly in equity.

(iii) Loss of control

Upon the loss of control, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in profit or loss. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently it is accounted for as an equity-accounted investee or as an available-for-sale financial asset depending on the level of influence retained.

(iv) Investments in associates and joint ventures (equity accounted investees)

The Group's interests in equity-accounted investees comprise interest in associates and joint ventures.

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. A joint venture is an arrangement in which the Group has joint control, whereby the Group has rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities.

Interests in associates and joint ventures are accounted for using the equity method and are recognised initially at cost or at the Group's share of the carrying value of the net assets of the investee recognised in the equity accounted investee's financial statements at the date of the acquisition if the acquisition is from an entity under common control. 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 or joint control commences until the date that significant influence or joint control 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.

(v) Joint operations

A joint operation is an arrangement carried on by each venturer using its own assets in pursuit of the joint operations. The consolidated financial statements include the assets that the Group controls and the liabilities that it incurs in the course of pursuing the joint operation, and the expenses that the Group incurs and its share of the income that it earns from the joint operation.

(vi) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(b) Revenue

Revenue 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 from sale of goods 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.

Revenue from services rendered is recognised in profit or loss in proportion to the stage of completion of the transaction at the reporting date.

(i) Transportation activities

Revenue from freight and passenger transportation is measured at the fair value of the consideration received or receivable. Freight and passenger transportation revenue is recognized in profit or loss according to the percentage of completed service method based on transit time of freight and passengers moving from the original location to the final destination.

Revenue from services rendered in stations is recognised in profit or loss when the service is rendered.

(ii) Sale of gas and oil

Revenue from the sale of gas and oil is recognized in profit or loss according to the timing of the transfers of risks and rewards that 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) terms at Vaziani or Supsa stations (Georgia). The seller is responsible for delivery of goods to the named points, uploading goods to the buyer’s wagons and customs registration.

(iii) Sale of electricity

Revenue from the sale of balancing electricity is recognized in profit or loss when the electricity is delivered to the point at the electricity grid system from where electricity is distributed into power lines and is considered to be received by the customer.

For the purchase and sale of the Guaranteed Capacity before 1 September 2014 the Group acted in the capacity of an agent rather than as the principal in a transaction. Since September 2014, due to changes in relevant legislation, the Group acts as a principal in the purchase and sale of Guaranteed Capacity and therefore recognises revenue and respective cost of sales. The Group charges no commission on the purchase and sale of the Guaranteed Capacity.

(iv) Electricity generation and supply

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

(v) Transmission and dispatching of electricity

Revenue from transmission and dispatching of electricity is recognized in profit or loss when the actual services are delivered based on the volume of transmitted and dispatched electricity at the reporting date.

(vi) Rent of gas 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.

(vii) Other rental income

Rental income from investment property or other assets rented is recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income, over the term of the lease.

(viii) Oil transportation fees

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.

(ix) Commissions

When the Group acts in the capacity of an agent rather than as the principal in a transaction, the revenue recognised is the net amount of commission made by the Group.

(x) Healthcare revenue

The Group recognizes revenue from healthcare services when the amount can be reliably measured and it is probable that future economic benefits will flow to the entity. Healthcare revenue is shown net of corrections, discounts, and rebates.

Healthcare revenue comprises the fair value of consideration receivable or received for providing healthcare services to the following counterparties:

– State – the Group recognizes revenue from individuals, who are insured by the state programs based on the completion of the actual medical service and agreed upon terms between counterparties.

– Insurance Companies – the Group recognizes revenue from individuals, who are insured by different insurance companies based on the completion of the actual medical service and agreed upon terms between counterparties.

– Free flow – the Group recognizes revenue from non-insured individuals based on the completion of actual medical service and approved prices by the Group.

(xi) Grants

Grants are recognised initially as deferred income at fair value when there is reasonable assurance that they will be received and that the Group will comply with the conditions associated with the grant and are then recognised in profit or loss as other income on a systematic basis over the useful life of the asset. Grants that compensate the Group for expenses incurred are recognised in profit or loss as other income on a systematic basis in the same periods in which the expenses are recognised.

(c) Other expenses

(i) Lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

(ii) Social expenditure

To the extent that the Group’s contributions to social programs benefit the community at large and are not restricted to the Group’s employees, they are recognised in profit or loss as incurred.

(d) Finance income and costs

Finance income comprises interest income on funds invested, unwinding of discount on finance lease receivable and foreign currency gains. Interest income is recognised as it accrues in profit or loss, using the effective interest method.

Finance costs comprise interest expense on financial liabilities measured at amortised cost, unwinding of the discount on restructured liabilities, premium on early redemption of issued bonds, foreign currency losses and impairment losses recognised on trade receivables.

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.

Foreign currency gains and losses are reported on a net basis as either finance income or finance cost depending on whether foreign currency movements are in a net gain or net loss position.

(e) Foreign currency transactions

Transactions in foreign currencies are translated to GEL at exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to GEL at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in GEL 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.

(f) Short-term 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.

(g) Income tax

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that it relates to a business combination, or items recognised 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.

(h) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is principally determined 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.

(i) Assets held for sale or distribution

Non-current assets, or disposal groups comprising assets and liabilities, that are expected to be recovered primarily through sale or distribution rather than through continuing use, are classified as held for sale or distribution.

Immediately before classification as held for sale, the assets, or components of a disposal group, are remeasured in accordance with the Group's accounting policies. Thereafter generally the assets, or disposal group, are measured at the lower of their carrying amount and fair value less cost to sell. Impairment losses on initial classification as held for sale or distribution and subsequent gains or losses on remeasurement are recognised in profit or loss. Gains are not recognised in excess of any cumulative impairment loss.

Intangible assets and property, plant and equipment once classified as held for sale or distribution are not amortised or depreciated. In addition, equity accounting of equity-accounted investees ceases once classified as held for sale or distribution.

(j) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses.

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 capitalised borrowing costs. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When 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 recognised net within other income/other expenses in profit or loss.

(ii) Subsequent costs

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.

Maintenance and repair expenses are recognised as follows:

- Rolling stock included in "Transport, machinery, equipment and other" class:
  - current maintenance expenses during the useful life of equipment (repair work and replacement of unusable and missing parts) are recognised as operating expenses in profit or loss as incurred;
  - expenses under multi-year major overhaul programmes are capitalised as a separate overhaul component and depreciated separately from the main asset;
  - overhauls performed near the end of the useful life of an asset, together with refurbishment, are capitalised when they extend the useful life of the underlying asset.
- Fixed installations of rail track infrastructure:
  - current maintenance and repair expenses (technical inspections, maintenance contracts, etc.) are recognised as operating expenses in profit or loss as incurred;

- labour, materials and other costs (associated with the installation of rails, sleepers and ballast) under multi-year major building or infrastructure maintenance programmes are capitalised through the partial or total replacement of each component concerned;
- costs associated with infrastructure improvements are capitalized to the extent that they increase the functionality (traffic working speed) of the asset.

(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 life 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:

• buildings and constructions	15 - 50 years
• rail track infrastructure	17 - 25 years
• gas and oil pipelines	30 - 35 years
• oil wells	4 - 9 years
• power transmission lines	20 - 35 years
• electricity generating unit	25 years
• transport, machinery, equipment and other	2 - 25 years

Depreciation methods, useful lives and residual values are reviewed at each financial year end and adjusted, if appropriate.

(k) Financial instruments

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

(i) Non-derivative financial assets and financial liabilities – recognition and derecognition

The Group initially recognises loans and receivables and debt securities issued 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 derecognises 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 recognised 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 has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

(ii) Loans and receivables - measurement

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 recognised 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 comprises the following classes of financial assets: cash and cash equivalents, term deposits, trade receivables, other receivables and loans receivable.

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 an insignificant risk of changes in their fair value. 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.

(iii) Non-derivative financial liabilities - measurement

The Group classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognised 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, restructured liabilities and trade and other payables.

(l) Equity

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

Non-cash owner contributions, except for contributions of interests in associates and subsidiaries constituting a business, are recognised at fair value of the assets contributed, net of deferred tax, at the date of the contribution.

Non-cash distributions are recognized at the carrying amount of the assets distributed if those distributions are out of scope of IFRIC 17 *Distributions of Non-cash Assets to Owners*.

(m) Impairment

(i) Non-derivative financial assets

A financial asset, including an interest in an equity-accounted investee, 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 a specific asset and a collective level. All individually significant assets are assessed for specific 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 recognised 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 recognised 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.

Equity accounted investees

An impairment loss in respect of an equity-accounted investee is calculated as the difference between its carrying amount after application of the equity method of accounting and its recoverable amount.

The recoverable amount of such investment is the greater of its value in use and its fair value less cost to sell. In determining the value in use of the investment the Group estimates: (a) its share of the present value of the estimated future cash flows expected to be generated by the investee, including the cash flows from the operations of the investee and the proceeds on the ultimate disposal of the investment; or (b) the present value of the estimated future cash flows expected to arise from the dividends to be received from the investee and from its ultimate disposal depending on which available information with respect to each investee is more reliable. An impairment loss is reversed to the extent that the recoverable amount of the investment subsequently increases and the resulting carrying amount does not exceed the carrying amount that would have been determined, after application of the equity method, had no impairment loss previously been recognised.

An impairment loss is recognized in profit or loss, and reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

(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.

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 Group's corporate assets do not generate separate cash inflows and are utilised by more than one CGU. Corporate assets are allocated to CGUs on a reasonable and consistent basis and tested for impairment as part of the testing of the CGU to which the corporate asset is allocated.

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.

An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit (CGU) exceeds its estimated recoverable amount.

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

Impairment losses recognised 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 recognised.

(n) Dividends

Dividends on ordinary shares are reflected as an appropriation of retained earnings in the period in which they are declared.

(o) 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.

(p) Guarantees

The Group considers that financial guarantee contracts entered into by the Group to guarantee the indebtedness of other parties are insurance arrangements, and accounts for them as such. In this respect, the Group treats the guarantee contract as a contingent liability until such time as it becomes probable that the Group will be required to make a payment under the guarantee.

(q) Leases

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership of leased assets 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 the initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

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

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.

31. New standards and interpretations not yet adopted

A number of new Standards, amendments to Standards and Interpretations are effective for annual periods beginning after 1 January 2018 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.

(a) IFRS 15 Revenue from Contracts with Customers

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 *Revenue*, IAS 11 *Construction Contracts* and IFRIC 13 *Customer Loyalty Programmes*.

The Group is required to adopt IFRS 15 *Revenue from Contracts with Customers* from 1 January 2018. The Group is assessing potential effect of the initial application of IFRS 15 on its consolidated financial statements. Based on the preliminary assessment estimated impact of the adoption of this standard on the Group's equity as at 1 January 2018 will not be material for the consolidated financial statements.

(i) Revenue

Group revenue is currently recognized after the completion of service or delivery of goods. Under IFRS 15, the total consideration in the service or gas sales contracts will be allocated to all contractual obligations based on their stand-alone selling prices. The stand-alone selling prices will be determined based on the prices at which the Group sells the service or goods in separate transactions. Based on the Group's preliminary assessment the stand-alone selling prices of the services or goods are clearly identifiable and the entity is regulated by the State, therefore fair value and stand-alone selling prices are not directly comparable. Considering all facts and circumstances, the Group does not expect the application of IFRS 15 to result in significant differences in the timing of revenue recognition for these services or selling of goods.

(ii) Transition

The Group plans to adopt IFRS 15 using the cumulative effect method, with the effect of initially applying this standard recognized in equity at 1 January 2018. As a result, the Group will not apply the requirements of IFRS 15 to the comparative period presented. If any adjustment occurs it will be presented in full within the consolidated financial statements to be prepared for the year ended 31 December 2018.

(b) IFRS 9 Financial Instruments

IFRS 9 *Financial Instruments* sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 *Financial Instruments: Recognition and Measurement*.

The Group is required to adopt IFRS 9 Financial Instruments with Customers from 1 January 2018.

The Company has performed preliminary assessment of the impact that the initial application of IFRS 9 will have on its consolidated financial statements. The approximate estimated impact of the adoption of this standard on the Groups' equity as at 1 January 2018 is based on preliminary assessments undertaken to date. Based on the Company's assessment approximate adjustment on retained earnings due to adoption of IFRS 9 as at 1 January 2018 will be GEL 10 million. The effect is mainly related to the additional impairment losses calculated on cash and cash equivalents and trade and other receivables.

(i) Classification - Financial assets

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics.

IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The standard eliminates the existing IAS 39 categories of held to maturity, loans and receivables and available for sale. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never bifurcated. Instead, the hybrid financial instrument as a whole is assessed for classification. Based on its preliminary assessment, the Group does not believe that the new classification requirements will have a material impact on its accounting for its financial assets.

(ii) Impairment - Financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' (ECL) model. This will require considerable judgment as to how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis.

The new impairment model will apply to financial assets measured at amortised cost or FVOCI, except for investments in equity instruments.

Under IFRS 9, loss allowances will be measured on either of the following bases:

- *12-month ECLs*. These are ECLs that result from possible default events within the 12 months after the reporting date; and
- *lifetime ECLs*. These are ECLs that result from all possible default events over the expected life of a financial instrument.

Lifetime ECL measurement applies if the credit risk of a financial asset at the reporting date has increased significantly since initial recognition and 12-month ECL measurement applies if it has not. A Company may determine that a financial asset's credit risk has not increased significantly if the asset has low credit risk at the reporting date. However, lifetime ECL measurement always applies for trade receivables and without a significant financing component; the Group may choose to apply this policy also for trade receivables and with a significant financing component. The Group believes that impairment losses are likely to increase and become more volatile for assets in the scope of the IFRS 9 impairment model. Based on the impairment methodology described above, the Group has estimated that application of IFRS 9 impairment requirements at 1 January 2018 results in additional impairment losses as disclosed in note 29(b) above.

(iii) Classification - Financial liabilities

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities. However, under IAS 39 all fair value changes of liabilities designated as at FVTPL are recognized in profit or loss, whereas under IFRS 9 these fair value changes are generally presented as follows:

- the amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in OCI; and
- the remaining amount of change in the fair value is presented in profit or loss.

The Group has not designated any financial liabilities at FVTPL and it has no current intention to do so. The Group's preliminary assessment did not indicate any material impact regarding the classification of financial liabilities at 1 January 2018.

(iv) Disclosures

IFRS 9 will require extensive new disclosures, in particular credit risk and expected credit losses. The Group's preliminary assessment included an analysis to identify data gaps against current processes and the Group plans to implement the system and controls changes that it believes will be necessary to capture the required data.

(v) Transition

The Group will use the modified retrospective approach to transition and will not present restated comparative information for prior periods. Adjustments to the carrying amounts of financial assets arising from the adoption of IFRS 9 will be recognized in retained earnings and reserves as at 1 January 2018.

(c) IFRS 16 Leases

IFRS 16 replaces existing leases guidance including IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 Operating Leases—Incentives and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

The standard is effective for annual periods beginning on or after 1 January 2019. Early adoption is permitted for entities that apply IFRS 15 at or before the date of initial application of IFRS 16. IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognizes a beeright-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases.

The Group is assessing the potential impact on its financial statements resulting from the application of IFRS 16. The actual impact of applying IFRS 16 on the consolidated financial statements in the period of initial application will depend on future economic conditions, including the Group's borrowing rate at 1 January 2019, the composition of the Group's lease portfolio at that date, the Group's latest assessment of whether it will exercise any lease renewal options and the extent to which the Group chooses to use practical expedients and recognition exemptions.