Rompetrol Georgia LLC

International Financial Reporting Standards Financial Statements and Independent Auditor's Report

31 December 2017 and 2016

Contents

Independent Auditor's Report

To the Owner and Management of Rompetrol Georgia LLC

Our opinion

In our opinion, the financial statements (the 'financial statements') present fairly, in all material respects, the financial position of Rompetrol Georgia LLC (the 'Company') as at 31 December 2017 and 2016, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards and with the requirements of the Law of Georgia on Accounting, Reporting and Auditing.

What we have audited

The financial statements comprise:

- the statement of financial position as at 31 December 2017 and 2016;
- the statement of profit or loss and other comprehensive income for the years then ended;
- the statement of changes in equity for the years then ended;
- the statement of cash flows for the years then ended; and
- the notes to the financial statements, which include summary of significant accounting policies.

Basis for opinion

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

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

Independence

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

Other information

Management is responsible for the other information. Other information comprises Management Report (but does not include the financial statements and our auditor's report thereon).

Our opinion on the financial statements does not cover the Management Report.

In connection with our audit of the financial statements, our responsibility is to read the Management Report 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.

In addition, we are required by the Law of Georgia on Accounting, Reporting and Auditing to express an opinion whether certain parts of the Management Report comply with respective regulatory normative acts and to consider whether the Management Report includes the information required by the Law of Georgia on Accounting, Reporting and Auditing.

If, based on the work we have performed, we conclude that there is a material misstatement in the Management Report, we are required to report that fact. We have nothing to report in this regard.

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Based on the work performed in the course of our audit, in our opinion, in all material respects:

- the information given in the Management Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Management Report includes the information required by the Law of Georgia on Accounting, Reporting and Auditing and complies with respective regulatory normative acts.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards and with the requirements of the Law of Georgia on Accounting, Reporting and Auditing, and for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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.

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

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

7 November 2019
Tbilisi, Georgia

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

7 November 2019
Tbilisi, Georgia

In thousands of US Dollars	Note	31 December 2017	31 December 2016	31 December 2015
ASSETS				
Non-current assets				
Property, plant and equipment	9	12,043	10,929	8,011
Investment property		570	570	570
Intangible assets		573	611	457
Long-term prepayments		-	10	164
Other long-term receivables		-	-	37
Total non-current assets		**13,186**	**12,120**	**9,239**
Current assets				
Inventories	10	16,872	13,829	7,192
Current income tax prepayments	0	-	-	542
Trade and other receivables	11	6,432	4,982	3,778
Cash and cash equivalents	12	2,552	2,905	2,986
Total current assets		**25,856**	**21,716**	**14,498**
TOTAL ASSETS		**39,042**	**33,836**	**23,737**
EQUITY				
Charter capital	13	5,765	5,765	5,765
Retained earnings		9,156	6,442	4,271
TOTAL EQUITY		**14,921**	**12,207**	**10,036**
LIABILITIES				
Non-current liabilities				
Deferred income tax liabilities	0	-	-	27
Total non-current liabilities		**-**	**-**	27
Current liabilities				
Borrowings	14	-	-	4,383
Other taxes payable		4,875	3,392	2,194
Trade and other payables	15	17,796	16,391	5,749
Deferred revenues		1,450	1,846	1,348
Total current liabilities		**24,121**	**21,629**	**13,674**
TOTAL LIABILITIES		**24,121**	**21,629**	**13,701**
TOTAL LIABILITIES AND EQUITY		**39,042**	**33,836**	**23,737**

Approved for issue and signed on 7 November 2019.

Zamanbek Mirzayanov
General Director

Malik Tulekov
Finance Director

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Approved for issue and signed on 7 November 2019.

Zamanbek Mirzayanov
General Manager

Malik Tulekov
Finance Director

In thousands of US Dollars	**Note**	**2017**	**2016**	**2015**
Revenue	16	168,020	132,146	158,212
Cost of sales	17	(149,763)	(114,004)	(138,669)
Gross profit		**18,257**	**18,142**	**19,543**
Other operating income		82	200	214
Distribution costs	0	(11,665)	(11,567)	(9,864)
General and administrative expenses	19	(3,967)	(3,339)	(2,925)
Other operating expenses		(584)	(276)	(447)
Foreign exchange gain/(loss), net		503	(182)	(2,031)
Losses less gains from financial derivatives		-	-	(317)
Operating profit		**2,626**	**2,978**	**4,173**
Finance income		88	98	159
Finance costs		-	(225)	(687)
Profit before income tax		**2,714**	**2,851**	**3,645**
Income tax expense	0	-	(680)	(961)
PROFIT FOR THE YEAR		**2,714**	**2,171**	**2,684**
Other comprehensive income for the year		-	-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**2,714**	**2,171**	**2,684**

In thousands of US Dollars	**Charter capital**	**Retained earnings**	**Total equity**
At 1 January 2015	**5,765**	**1,587**	**7,352**
Profit for the year	-	2,684	2,684
Total comprehensive income for 2015	-	2,684	2,684
Balance at 31 December 2015	**5,765**	**4,271**	**10,036**
Profit for the year	-	2,171	2,171
Total comprehensive income for 2016	-	2,171	2,171
Balance at 31 December 2016	**5,765**	**6,442**	**12,207**
Profit for the year	-	2,714	2,714
Total comprehensive income for 2017	-	2,714	2,714
Balance at 31 December 2017	**5,765**	**9,156**	**14,921**

Rompetrol Georgia LLC
Statement of Cash Flows

In thousands of US Dollars	Note	2017	2016	2015
Cash flows from operating activities				
Profit before income tax		2,714	2,851	3,645
Adjustments for:				
Depreciation and impairment of property, plant and equipment	9	1,671	1,838	1,859
Amortisation and impairment of other intangible assets		145	100	83
Impairment/(recovery) of trade and other receivables	11	83	(13)	132
Loss/(gain) on disposals of property, plant and equipment	9	24	(18)	(10)
Finance income		(88)	(98)	(159)
Finance costs		-	225	687
Foreign exchange (gain)/loss		(264)	(232)	102
Operating cash flows before working capital changes		**4,285**	**4,653**	**6,339**
(Increase)/decrease in trade and other receivables	11	(1,523)	(1,000)	9,032
(Increase)/decrease in inventories	10	(3,043)	(6,637)	3,143
Decrease in tax receivables		-	-	1,212
Increase/(decrease) in trade and other payables	15	1,405	10,642	(10,739)
(Decrease)/increase in deferred revenues		(396)	498	(421)
Increase in taxes payable		1,483	1,198	2,075
Changes in working capital		**(2,074)**	**4,701**	**4,302**
Income taxes paid	0	-	(163)	(1,471)
Interest income received		88	98	159
Interest paid		-	(225)	(693)
Net cash from operating activities		**2,299**	**9,064**	**8,636**
Cash flows from investing activities				
Purchases of property, plant and equipment	9	(2,921)	(4,811)	(472)
Proceeds from the sale of property, plant and equipment	9	113	73	29
Acquisition of intangible assets		(108)	(254)	(12)
Net cash used in investing activities		**(2,916)**	**(4,992)**	**(455)**
Cash flows from financing activities				
Proceeds from borrowings		-	-	2,400
Repayment of borrowings		-	(4,385)	(11,200)
Net cash used in financing activities		**-**	**(4,385)**	**(8,800)**
Effect of exchange rate changes on cash and cash equivalents		264	232	(102)
Net decrease in cash and cash equivalents during the year		**(617)**	**(313)**	**(619)**
Cash and cash equivalents at the beginning of the year	12	**2,905**	**2,986**	**3,707**
Cash and cash equivalents at the end of the year	12	**2,552**	**2,905**	**2,986**

1 The Company and its Operations

These financial statements have been prepared in accordance with International Financial Reporting Standards and with the requirements of the Law of Georgia on Accounting, Reporting and Auditing for the years ended 31 December 2017 and 2016 for Rompetrol Georgia LLC (the “Company”).

The Company was incorporated on 5 December 2005 and is domiciled in Georgia. The Company is a limited liability company and was set up in accordance with Georgian regulations.

As of 31 December 2017, 31 December 2016 and 31 December 2015 the Company’s immediate and ultimate controlling party was KMG International N.V.

Principal activity. The Company’s principal business activity is import, wholesale and retail sale of fuel on the territory of Georgia. Retail chain consists of 76 gas stations throughout the country, rented from third parties, operating under name “Rompetrol”.

Registered address and place of business. The Company’s registered address is 19 Gamrekeli Street, Tbilisi, Georgia. The head office of the company is located in #12 M. Aleksidze Str., King David Business Center 4th floor, Tbilisi 0171, Georgia

Presentation currency. These financial statements are presented in United States Dollar ("USD" or “US Dollar”), unless otherwise stated.

2 Operating Environment of the Company

The Company’s principal business activities are within Georgia. Georgia displays certain characteristics of an emerging market, including relatively high inflation and high interest rates. Georgian tax legislation is subject to varying interpretations and frequent changes (Note 21).

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

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

3 Basis of Preparation

Statement of compliance. These financial statements include the first annual financial statements of the Company for the year ended 31 Decemer 2016 prepared in accordance with International Financial Reporting Standards (“IFRS”). The Company’s date of transition to IFRS is 1 January 2015. The Company adopted IFRS in accordance with IFRS 1, First-Time adoption of International Financial Reporting Standards. Subject to certain exceptions, IFRS 1 requires retrospective application of the version of standards and interpretations effective for the year ended 31 December 2016. This version was applied in preparing of the opening IFRS statement of financial position at 1 January 2015 and in subsequent periods up to the end of the first IFRS reporting period, i.e. as of 31 December 2016.

The Company did not issue financial statements for the year ended 31 December 2016 separately, rather along with 2015 compartive informaiton it was prepared and presented together with the financial statements prepared for the year ended 31 December 2017.

Basis of measurement. These financial statements have been prepared under the historical cost convention, as modified by the initial recognition of financial instruments based on fair value.

3 Basis of Preparation (Continued)

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

First-time adoption of IFRS. Under the local legislation, until the date of transition to IFRS, the Company was not required to prepare any financial statements and it has not prepared any financial statements in the past. Therefore, a reconciliation how the transition from previous accounting framework to IFRS has affected the Company's financial position, financial performance and cash flows is not presented in these financial statements. Before the transition to IFRS, the Company has kept the records applying the policies which to certain extent were based on tax regulation.

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

Fair value as deemed cost exemption. In preparing these financial statements, the Company has elected to measure certain items of property, plant and equipment at the date of transition to IFRS at their fair values and use those fair values as their deemed costs at that date.

4 Significant Accounting Policies

Foreign currency translation. The functional currency of the Company is United States Dollar ("USD" or "US Dollar") due to the following facts: a) the Company represents an integral foreign operation of the Parent company, being the extension of its operations in the environment different from the Parent's one; The Company is significantly inter-related with the Parent and they work as a single business rather than autonomously; b) Acquisition of inventory is mainly made from the Parent company while the prices are determined considering USD exchange rates. The acquisition cost takes key role in determining sales price on local market; c) secondary indicators point out at US dollar as majority of financing activities are in US dollars. Should the functional currency be chosen differently the foreign exchange gain/loss could be different. The financial statements are presented in United States Dollars.

Transactions and balances. Monetary assets and liabilities are translated into entity's functional currency at the official exchange rate of the National Bank of Georgia ("NBG") at the respective end of the reporting period. Foreign exchange gains and losses resulting from the settlement of the transactions and from the translation of monetary assets and liabilities into entity's functional currency at year-end official exchange rates of the NBG are recognised in profit or loss. Foreign exchange gains and losses that relate to borrowings are presented in the income statement within 'finance income or costs. All other foreign exchange gains and losses are presented in the income statement within 'Foreign exchange gains less losses. Translation at year-end rates does not apply to non-monetary items that are measured at historical cost. Non-monetary items measured at fair value in a foreign currency, including equity investments, are translated using the exchange rates at the date when the fair value was determined. Effects of exchange rate changes on non-monetary items measured at fair value in a foreign currency are recorded as part of the fair value gain or loss. As at 31 December 2017, the official rate of exchange, as determined by the National Bank of Georgia, was US Dollar ("USD") 1 = GEL 2.5922 and US Dollar ("USD") 1 = Euro 0.8350 (31 December 2016: USD 1 = GEL 2.6468 and USD 1 = Euro 0.9473; 31 December 2015: USD 1 = GEL 2.3949 and USD 1 = Euro 0.9152).

Property, plant and equipment. All items of property, plant and equipment are stated at cost, less accumulated depreciation and provision for impairment, where required. Construction in progress ("CIP") category includes assets under construction for future use as property, plant and equipment. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. Costs of minor repairs and day-to-day maintenance are expensed when incurred. Cost of replacing major parts or components of property, plant and equipment items are capitalised and the replaced part is retired.

4 Significant Accounting Policies (Continued)

At the end of each reporting period management assesses whether there is any indication of impairment of property, plant and equipment. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs of disposal and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in profit or loss for the year. An impairment loss recognised for an asset in prior years is reversed where appropriate if there has been a change in the estimates used to determine the asset's value in use or fair value less costs of disposal.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in profit or loss for the year within other operating income or expenses.

Depreciation. Land, CIP and uninstalled equipment are not depreciated. Depreciation on other items of property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives:

	Useful lives in years
Buildings and other constructions	2 to 32
Machinery and merchandising equipment	1 to 32
Leasehold improvements	Shorter of useful life (2 to 16) and the term of the lease
Office equipment	1 to 19
Vehicles	6 to 10

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

Investment property. Investment property is property held by the Company to earn rental income or for capital appreciation, or both and which is not occupied by the Company.

Investment property is stated at cost less accumulated depreciation and provision for impairment, where required. It is depreciated on a straight line basis over an expected useful life. In case of any indication that the investment properties may be impaired, the Company estimates the recoverable amount as the higher of value in use and fair value less costs to sell. The carrying amount of an investment property is written down to its recoverable amount through a charge to profit or loss for the year. An impairment loss recognised in prior years is reversed if there has been a subsequent change in the estimates used to determine the asset's recoverable amount.

Land included in investment property is not depreciated.

Earned rental income is recorded in profit or loss for the year within other operating income. Gains or losses on disposal of investment property are calculated as proceeds less the carrying amount and are recorded within other operating income or expenses.

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

If an investment property becomes owner-occupied, it is reclassified to property, plant and equipment.

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

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring them to use. All other costs associated with computer software, e.g. its maintenance, are expensed when incurred.

4 Significant Accounting Policies (Continued)

Computer software licenses are amortised using the straight-line method over their useful lives of 3 to 10 years.

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

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

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

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

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

Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or consideration of financial data of the investees are used to measure fair value of certain financial instruments for which external market pricing information is not available. Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on solely observable market data (that is, the measurement requires significant unobservable inputs). Transfers between levels of the fair value hierarchy are deemed to have occurred at the end of the reporting period. Refer to Note 23.

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

Amortised cost is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any write-down for incurred impairment losses. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to the maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of the related items in the statement of financial position.

4 Significant Accounting Policies (Continued)

The effective interest method is a method of allocating interest income or interest expense over the relevant period, so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date, except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate.

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

Loans and receivables are unquoted non-derivative financial assets with fixed or determinable payments other than those that the Company intends to sell in the near term. All of the financial assets of the Company fall into the loans and receivables category as at 31 December 2017, 2016 and 2015.

Classification of financial liabilities. Financial liabilities have the following measurement categories: (a) held for trading which also includes financial derivatives and (b) other financial liabilities. Liabilities held for trading are carried at fair value with changes in value recognised in profit or loss for the year (as finance income or finance costs) in the period in which they arise. Other financial liabilities are carried at amortised cost. All of the financial liabilities of the Company fall within other financial liabilities measurement category as at 31 December 2017, 2016 and 2015.

Initial recognition of financial instruments. Trading investments, derivatives and other financial instruments at fair value through profit or loss are initially recorded at fair value. All other financial instruments are initially recorded at fair value plus transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at trade date, which is the date on which the Company commits to deliver a financial asset. All other purchases are recognised when the entity becomes a party to the contractual provisions of the instrument.

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

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

Offsetting financial instruments. Financial assets and liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts, and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously. Such a right of set off (a) must not be contingent on a future event and (b) must be legally enforceable in all of the following circumstances: (i) in the normal course of business, (ii) in the event of default and (iii) in the event of insolvency or bankruptcy.

4 Significant Accounting Policies (Continued)

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

Trade and other receivables. Trade and other receivables are recognised initially at fair value and are subsequently carried at amortised cost using the effective interest method.

Impairment of financial assets carried at amortised cost. Impairment losses are recognised in profit or loss when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If the Company determines that no objective evidence exists that impairment was incurred for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics, and collectively assesses them for impairment. The primary factors that the Company considers in determining whether a financial asset is impaired are its overdue status and realisability of related collateral, if any. The following other principal criteria are also used to determine whether there is objective evidence that an impairment loss has occurred:

- the counterparty experiences a significant financial difficulty as evidenced by its financial information that the Company obtains;
- the counterparty considers bankruptcy or a financial reorganisation;
- there is adverse change in the payment status of the counterparty as a result of changes in the national or local economic conditions that impact the counterparty; or
- the value of collateral, if any, significantly decreases as a result of deteriorating market conditions.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

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

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

Impairment losses are always recognised through an allowance account to write down the asset's carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the original effective interest rate of the asset. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account through profit or loss for the year.

4 Significant Accounting Policies (Continued)

Uncollectible assets are written off against the related impairment loss provision after all the necessary procedures to recover the asset have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are credited to the impairment loss account within the profit or loss for the year.

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

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

Derivative financial instruments. Derivative financial instruments, including foreign exchange contracts, interest rate futures, forward rate agreements, currency and interest rate swaps, and currency and interest rate options are carried at their fair value. All derivative instruments are carried as assets when fair value is positive and as liabilities when fair value is negative. Changes in the fair value of derivative instruments are included in profit or loss for the year (losses less gains on derivatives). The Company does not apply hedge accounting.

Operating leases. Where the Company is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Company, the total lease payments are charged to profit or loss for the year on a straight-line basis over the lease term. The lease term is the non-cancellable period for which the lessee has contracted to lease the asset together with any further terms for which the lessee has the option to continue to lease the asset, with or without further payment, when at the inception of the lease it is reasonably certain that the lessee will exercise the option.

When assets are leased out under an operating lease, the lease payments receivable are recognised as rental income on a straight-line basis over the lease term.

Income taxes. Income taxes have been provided for in the financial statements in accordance with legislation enacted or substantively enacted by the end of the reporting period.

Before 1 January 2017, the income tax charge/(credit) comprised current tax and deferred tax and was recognised in profit or loss for the year, except if it was recognised in other comprehensive income or directly in equity because it related to transactions that were also recognised, in the same or a different period, in other comprehensive income or directly in equity.

Current tax was the amount expected to be paid to, or recovered from, the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxable profits or losses were based on estimates if financial statements were authorised prior to filing relevant tax returns.

Deferred income tax was provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes were not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax balances were measured at tax rates enacted or substantively enacted at the end of the reporting period, which were expected to apply to the period when the temporary differences reverse or the tax loss carry forwards be utilised.

Deferred tax assets for deductible temporary differences and tax loss carry forwards were recorded only to the extent that it is probable that the temporary difference will reverse in the future and there is sufficient future taxable profit available against which the deductions could be utilised.

Deferred income tax assets and liabilities were offset when there was a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities related to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there was an intention to settle the balances on a net basis.

4 Significant Accounting Policies (Continued)

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

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

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

Income tax arising from distribution of dividends is accounted for as an income tax expense in the period in which dividends are declared, regardless of the actual payment date or the period for which the dividends are paid. As a results, the Company derecognised all deferred tax assets and liabilities as of 31 December 2016 and accounted the respective impact in the profit and loss in 2016. A contingent income tax liability which would arise upon the payment of dividends is not recognised in the statement of financial position. In addition to the distribution of dividends, the tax is still payable on expenses or other payments incurred not related to economic activities, free delivery of assets or services and representation costs that exceed the maximum amount determined by the Tax Code of Georgia. All advances paid to entities registered in jurisdictions having preferential tax regime and other certain transactions with such entities as well as loans granted to individuals or non-residents are immediately taxable. Such taxes along with other taxes, net of tax credits claimed on assets or services received in exchange for the advances paid to entities registered in jurisdictions having preferential tax regime or recovery of loans granted to individuals or non-residents, are recorded under Taxes other than on income within operating expenses.

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

Value added tax. Output value added tax related to sales is payable to tax authorities on the earlier of (a) collection of receivables from customers or (b) delivery of goods or services to customers. Input VAT is generally recoverable against output VAT upon receipt of the VAT invoice. The tax authorities permit the settlement of VAT on a net basis. Input VAT related to acquisition of Property, Plant and Equipment items are deferred for 5 to 10 years for entities having more than 20% VAT exempted turnover.

On 7 December 2015, the Ministry of Finance of Georgia issued an order #407 according to which taxpayers' obligations under all taxes, including the corporate income tax, and all taxpayers' tax payments would be accounted for on a consolidated tax account. As a result, all tax liabilities and tax assets are presented on the net basis. The resulting balances of tax assets and liabilities are reported as 'Other taxes receivable, net' in the statement of financial position.

Inventories. Inventories are recorded at the lower of cost and net realisable value. The cost of inventory is determined on the weighted average basis. The cost of finished goods includes cost of purchase and other costs incurred in bringing them to their present location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and selling expenses.

4 Significant Accounting Policies (Continued)

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

Charter capital. The amount of Company's stated charter capital is determined by the Company's shareholder. The changes in the Company's stated capital shall be made only based on the decision of the Company's shareholder.

Dividends. Dividends are recorded as a liability and deducted from equity in the period in which they are declared and approved. Any dividends declared after the reporting period and before the financial statements are authorised for issue are disclosed in the subsequent events note.

Provisions for liabilities and charges. Provisions for liabilities and charges are non-financial liabilities of uncertain timing or amount. They are accrued when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised as an interest expense.

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

Revenue recognition. Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods supplied, stated net of discounts, returns and value added taxes. The Company recognises revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity, and when specific criteria have been met for each of the Company's activities, as described below. When the fair value of goods received in a barter transaction cannot be measured reliably, the revenue is measured at the fair value of the goods or service given up.

Sales of goods. Revenues from sales of goods are recognised at the point of transfer of risks and rewards of ownership of the goods, normally when the goods are shipped. If the Company agrees to transport goods to a specified location, revenue is recognised when the goods are passed to the customer at the destination point.

Where the customer pays the advance amount, a deferred revenue is recognised if the payments exceed the goods provided.

4 Significant Accounting Policies (Continued)

Sales incentives offered to customers are recorded as a reduction of revenue at the time of sale. Management uses its best estimate of incentives expected to be awarded to estimate the sales price. The potential impact of volume discounts is considered at the time of the original sale. Revenue from contracts that provide customers with volume discounts is measured by reference to the estimated volume of sales and the expected discounts. Revenue should not exceed the amount of consideration that would be received if the maximum discounts were taken if management cannot reliably estimate the expected discounts. Expected discounts are recognized as a deferred revenue at the end of financial period.

Employee benefits. Wages, salaries, paid annual leave and sick leave, bonuses, and non-monetary benefits are accrued in the year in which the associated services are rendered by the employees of the Company. The Company has no legal or constructive obligation to make pension or similar benefit payments.

Amendment of the financial statements after issue. Any changes to these financial statements after issue require approval of the Company’s management who authorised these financial statements for issue.

5 Critical Accounting Estimates and Judgements in Applying Accounting Policies

The Company makes estimates and assumptions that affect the amounts recognised in the financial statements and the carrying amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on management’s experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

Useful lives of property, plant and equipment. The estimation of the useful lives of items of property, plant and equipment is a matter of judgment based on the experience with similar assets. The future economic benefits embodied in the assets are consumed principally through use. However, other factors, such as technical or commercial obsolescence and wear and tear, often result in the diminution of the economic benefits embodied in the assets. Management assesses the remaining useful lives in accordance with the current technical conditions of the assets and estimated period during which the assets are expected to earn benefits for the Company. The following primary factors are considered: (a) the expected usage of the assets; (b) the expected physical wear and tear, which depends on operational factors and maintenance programme; and (c) the technical or commercial obsolescence arising from changes in market conditions.

Were the estimated useful lives to differ by 10% from management’s estimates, the impact on depreciation for the year ended 31 December 2017 would be to increase it by USD 80 thousand or decrease it by USD 120 thousand (2016 - increase by USD 97 thousand or decrease by USD 112 thousand; 2015 - increase by USD 186 thousand or decrease by USD 186 thousand).

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6 Adoption of New or Revised Standards and Interpretations

The following amended standards became effective from 1 January 2017 but did not have a material impact on the Company's financial statements for the year ended 31 December 2017.

- Disclosure Initiative – Amendments to IAS 7 (issued on 29 January 2016 and effective for annual periods beginning on or after 1 January 2017). The new disclosures are included in Note 14.
- Recognition of Deferred Tax Assets for Unrealised Losses – Amendment to IAS 12 (issued on 19 January 2016 and effective for annual periods beginning on or after 1 January 2017).
- Amendments to IFRS 12 included in Annual Improvements to IFRSs 2014-2016 Cycle (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2017).

7 New Accounting Pronouncements

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2018 or later, and which the Company has not early adopted.

IFRS 9 "Financial Instruments" (amended in July 2014 and effective for annual periods beginning on or after 1 January 2018). Key features of the new standard are:

- Financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortised cost, those to be measured subsequently at fair value through other comprehensive income (FVOCI) and those to be measured subsequently at fair value through profit or loss (FVPL).
- Classification for debt instruments is driven by the entity's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). If a debt instrument is held to collect, it may be carried at amortised cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held in a portfolio where an entity both holds to collect assets' cash flows and sells assets may be classified as FVOCI. Financial assets that do not contain cash flows that are SPPI must be measured at FVPL (for example, derivatives). Embedded derivatives are no longer separated from financial assets but will be included in assessing the SPPI condition.
- Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in other comprehensive income, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss.
- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.
- IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model. There is a 'three stage' approach which is based on the change in credit quality of financial assets since initial recognition. In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The model includes operational simplifications for lease and trade receivables.
- Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.

Based on an analysis of the Company's financial assets and financial liabilities as at 31 December 2017 and on the basis of the facts and circumstances that exist at that date, the management of the Company is not expecting a significant impact on its financial statements from the adoption of the new standard on 1 January 2018.

7 New Accounting Pronouncements (Continued)

No significant changes are expected for financial liabilities, other than changes in the fair value of financial liabilities designated at FVTPL that are attributable to changes in the instrument's credit risk, which will be presented in other comprehensive income.

All loans and receivables at carrying value per IAS 39 will be reclassified to those to be measured subsequently at amortised costs per IFRS 9 without significant changes in carrying value on 1 January 2018.

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Company's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

IFRS 15, Revenue from Contracts with Customers (issued on 28 May 2014 and effective for the periods beginning on or after 1 January 2018). The new standard introduces the core principle that revenue must be recognized when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately recognized, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalised and amortised over the period when the benefits of the contract are consumed.

Amendments to IFRS 15, Revenue from Contracts with Customers (issued on 12 April 2016 and effective for annual periods beginning on or after 1 January 2018). The amendments do not change the underlying principles of the Standard but clarify how those principles should be applied. The amendments clarify how to identify a performance obligation (the promise to transfer a good or a service to a customer) in a contract; how to determine whether a company is a principal (the provider of a good or service) or an agent (responsible for arranging for the good or service to be provided); and how to determine whether the revenue from granting a licence should be recognised at a point in time or over time. In addition to the clarifications, the amendments include two additional reliefs to reduce cost and complexity for a company when it first applies the new Standard.

In accordance with the transition provisions in IFRS 15 the Company has elected simplified transition method with the effect of transition to be recognised as at 1 January 2018 in the financial statements for the year-ending 31 December 2018 which will be the first year when the Company will apply IFRS 15.

The Company plans to apply the practical expedient available for simplified transition method. The Company applies IFRS 15 retrospectively only to contracts that are not completed at the date of initial application (1 January 2018).

The adoption of IFRS 15 will result in changes in accounting policies. Based on the analysis of the Company's revenue streams for the year ended 31 December 2017, individual contracts' terms and on the basis of the facts and circumstances that exist at that date, in view of simplified transition method application, the management of the Company is not expecting a significant impact on its financial statements from the adoption of the new standard on 1 January 2018.

The main changes expected from adoption of IFRS 15 are explained below:

- Accounting for contract modifications,
- Additional performance obligations identified,
- Accounting for variable consideration,
- Accounting for significant financing component,
- Accounting for customer loyalty programs,
- Changes in timing of revenue recognition (from over time to point in time or vice versa),
- Accounting for refunds,
- Accounting for licences,
- Accounting for costs to obtain a contract,
- Accounting for costs to fulfil a contract,
- Presentation of contract assets and contract liabilities,
- Other.

7 New Accounting Pronouncements (Continued)

In summary, management does not expect the adjustments to be made to the amounts that will be recognised in the statement of financial position as at 1 January 2018 which is the date of initial application of IFRS 15 by the Company in the financial statements for the year ending 31 December 2018.

IFRS 16, Leases (issued on 13 January 2016 and effective for annual periods beginning on or after 1 January 2019). The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model.

Lessees will be required to recognize: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the statement of profit or loss and other comprehensive income. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. The Company is currently assessing the impact of the new standard on its financial statements.

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

IFRIC 22 "Foreign currency transactions and advance consideration" (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018). This interpretation considers how to determine the date of the transaction when applying the standard on foreign currency transactions, IAS 21. The interpretation applies where an entity either pays or received consideration in advance for foreign currency-denominated contracts. The interpretation specifies that the date of transaction is the date on which the entity initially recognizes the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance, the Interpretation requires an entity to determine the date of transaction for each payment or receipt of advance consideration. The Company is currently assessing the impact of the interpretation on its financial statements.

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

7 New Accounting Pronouncements (Continued)

Examples of changes in facts and circumstances or new information that can result in the reassessment of a judgment or estimate include, but are not limited to, examinations or actions by a taxation authority, changes in rules established by a taxation authority or the expiry of a taxation authority's right to examine or re-examine a tax treatment. The absence of agreement or disagreement by a taxation authority with a tax treatment, in isolation, is unlikely to constitute a change in facts and circumstances or new information that affects the judgments and estimates required by the Interpretation. The Company is currently assessing the impact of the interpretation on its financial statements.

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

- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28 (issued on 11 September 2014 and effective for annual periods beginning on or after a date to be determined by the IASB).

- Amendments to IFRS 2, Share-based Payment (issued on 20 June 2016 and effective for annual periods beginning on or after 1 January 2018).

- Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts - Amendments to IFRS 4 (issued on 12 September 2016 and effective, depending on the approach, for annual periods beginning on or after 1 January 2018 for entities that choose to apply temporary exemption option, or when the entity first applies IFRS 9 for entities that choose to apply the overlay approach).

- Transfers of Investment Property - Amendments to IAS 40 (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).

- Annual Improvements to IFRSs 2014-2016 cycle - Amendments to IFRS 1 an IAS 28 (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).

Prepayment Features with Negative Compensation – Amendments to IFRS 9 (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019). The amendments enable measurement at amortised cost of certain loans and debt securities that can be prepaid at an amount below amortised cost, for example at fair value or at an amount that includes a reasonable compensation payable to the borrower equal to present value of an effect of increase in market interest rate over the remaining life of the instrument. In addition, the text added to the standard's basis for conclusion reconfirms existing guidance in IFRS 9 that modifications or exchanges of certain financial liabilities measured at amortised cost that do not result in the derecognition will result in an gain or loss in profit or loss. Reporting entities will thus in most cases not be able to revise effective interest rate for the remaining life of the loan in order to avoid an impact on profit or loss upon a loan modification. The Company does not expect a material impact of the amendments on its financial statements.

Amendments to IAS 28 "Long-term Interests in Associates and Joint Ventures" (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019).The amendments clarify that reporting entities should apply IFRS 9 to long-term loans, preference shares and similar instruments that form part of a net investment in an equity method investee before they can reduce such carrying value by a share of loss of the investee that exceeds the amount of investor's interest in ordinary shares. The Company does not expect a material impact of the amendments on its financial statements.

Annual Improvements to IFRSs 2015-2017 cycle - amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23 (issued on 12 December 2017 and effective for annual periods beginning on or after 1 January 2019).The narrow scope amendments impact four standards. IFRS 3 was clarified that an acquirer should remeasure its previously held interest in a joint operation when it obtains control of the business. Conversely, IFRS 11 now explicitly explains that the investor should not remeasure its previously held interest when it obtains joint control of a joint operation, similarly to the existing requirements when an associate becomes a joint venture and vice versa. The amended IAS 12 explains that an entity recognises all income tax consequences of dividends where it has recognised the transactions or events that generated the related distributable profits, e.g. in profit or loss or in other comprehensive income.

7 New Accounting Pronouncements (Continued)

It is now clear that this requirement applies in all circumstances as long as payments on financial instruments classified as equity are distributions of profits, and not only in cases when the tax consequences are a result of different tax rates for distributed and undistributed profits. The revised IAS 23 now includes explicit guidance that the borrowings obtained specifically for funding a specified asset are excluded from the pool of general borrowings costs eligible for capitalisation only until the specific asset is substantially complete. The Company does not expect a material impact of the amendments on its financial statements.

Amendments to IAS 19 "Plan Amendment, Curtailment or Settlement" (issued on 7 February 2018 and effective for annual periods beginning on or after 1 January 2019). The amendments specify how to determine pension expenses when changes to a defined benefit pension plan occur. When a change to a plan—an amendment, curtailment or settlement—takes place, IAS 19 requires to remeasure net defined benefit liability or asset. The amendments require to use the updated assumptions from this remeasurement to determine current service cost and net interest for the remainder of the reporting period after the change to the plan. Before the amendments, IAS 19 did not specify how to determine these expenses for the period after the change to the plan. By requiring the use of updated assumptions, the amendments are expected to provide useful information to users of financial statements. The Company does not expect a material impact of the amendments on its financial statements.

Amendments to the Conceptual Framework for Financial Reporting (issued on 29 March 2018 and effective for annual periods beginning on or after 1 January 2020).The revised Conceptual Framework includes a new chapter on measurement; guidance on reporting financial performance; improved definitions and guidance - in particular the definition of a liability; and clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting.

Definition of a business – Amendments to IFRS 3 (issued on 22 October 2018 and effective for acquisitions from the beginning of annual reporting period that starts on or after 1 January 2020).The amendments revise definition of a business. A business must have inputs and a substantive process that together significantly contribute to the ability to create outputs. The new guidance provides a framework to evaluate when an input and a substantive process are present, including for early stage companies that have not generated outputs. An organised workforce should be present as a condition for classification as a business if are no outputs. The definition of the term 'outputs' is narrowed to focus on goods and services provided to customers, generating investment income and other income, and it excludes returns in the form of lower costs and other economic benefits. It is also no longer necessary to assess whether market participants are capable of replacing missing elements or integrating the acquired activities and assets. An entity can apply a 'concentration test'. The assets acquired would not represent a business if substantially all of the fair value of gross assets acquired is concentrated in a single asset (or a group of similar assets). The Company does not expect a material impact of the amendments on its financial statements.

Definition of materiality – Amendments to IAS 1 and IAS 8 (issued on 31 October 2018 and effective for annual periods beginning on or after 1 January 2020).The amendments clarify the definition of material and how it should be applied by including in the definition guidance that until now has featured elsewhere in IFRS. In addition, the explanations accompanying the definition have been improved. Finally, the amendments ensure that the definition of material is consistent across all IFRS Standards. Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. The Company does not expect a material impact of the amendments on its financial statements.

Interest rate benchmark reform – Amendments to IFRS 9, IAS 39 and IFRS 7 (issued on 26 September 2019 and effective for annual periods beginning on or after 1 January 2020). The amendments were triggered by replacement of benchmark interest rates such as LIBOR and other inter-bank offered rates ('IBORs'). The amendments provide temporary relief from applying specific hedge accounting requirements to hedging relationships directly affected by the IBOR reform. Cash flow hedge accounting under both IFRS 9 and IAS 39 requires the future hedged cash flows to be 'highly probable'. Where these cash flows depend on an IBOR, the relief provided by the amendments requires an entity to assume that the interest rate on which the hedged cash flows are based does not change as a result of the reform. Both IAS 39 and IFRS 9 require a forward-looking prospective assessment in order to apply hedge accounting.

7 New Accounting Pronouncements (Continued)

While cash flows under IBOR and IBOR replacement rates are currently expected to be broadly equivalent, which minimises any ineffectiveness, this might no longer be the case as the date of the reform gets closer. Under the amendments, an entity may assume that the interest rate benchmark on which the cash flows of the hedged item, hedging instrument or hedged risk are based, is not altered by IBOR reform. IBOR reform might also cause a hedge to fall outside the 80–125% range required by retrospective test under IAS 39. IAS 39 has therefore been amended to provide an exception to the retrospective effectiveness test such that a hedge is not discontinued during the period of IBOR-related uncertainty solely because the retrospective effectiveness falls outside this range. However, the other requirements for hedge accounting, including the prospective assessment, would still need to be met. In some hedges, the hedged item or hedged risk is a non-contractually specified IBOR risk component. In order for hedge accounting to be applied, both IFRS 9 and IAS 39 require the designated risk component to be separately identifiable and reliably measurable. Under the amendments, the risk component only needs to be separately identifiable at initial hedge designation and not on an ongoing basis. In the context of a macro hedge, where an entity frequently resets a hedging relationship, the relief applies from when a hedged item was initially designated within that hedging relationship. Any hedge ineffectiveness will continue to be recorded in profit or loss under both IAS 39 and IFRS 9. The amendments set out triggers for when the reliefs will end, which include the uncertainty arising from interest rate benchmark reform no longer being present. The amendments require entities to provide additional information to investors about their hedging relationships that are directly affected by these uncertainties, including the nominal amount of hedging instruments to which the reliefs are applied, any significant assumptions or judgements made in applying the reliefs, and qualitative disclosures about how the entity is impacted by IBOR reform and is managing the transition process. The Company does not expect a material impact of the amendments on its financial statements.

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

8 Balances and Transactions with Related Parties

Parties are generally considered to be related if the parties are under common control or if one party has the ability to control the other party or can exercise significant influence or joint control over the other party in making financial and operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

At 31 December 2017, 31 December 2016 and 31 December 2015 the outstanding balances with related parties were as follows:

In thousands of US Dollars	**Relationship**	**31 December 2017**	**31 December 2016**	**31 December 2015**
Gross amount of trade receivables	Entities under common control	91	103	37
Gross amount of other financial receivables	Entities under common control	38	24	8
Borrowings - Loans (contractual interest rate: 7 %)	Entities under common control	-	-	4,383
Trade and other payables	Entities under common control	16,073	14,997	4,517

The income and expense items with related parties for the year ended 31 December 2017, 31 December 2016 and 31 December 2015 were as follows:

In thousands of US Dollars	**Relationship**	**2017**	**2016**	**2015**
Revenues	Entities under common control	6	23	48
Cost of sales (excluding purchased fuel)	Entities under common control	(1,729)	(1,721)	(1,686)
Distribution costs	Entities under common control	(1)	(5)	(5)
General and administrative expenses	Entities under common control	(364)	(261)	(225)
Other operating expenses	Entities under common control	-	(1)	(35)
Finance costs	Entities under common control	-	(71)	(687)

During 2017 the Company purchased inventories (goods for resale) in the amount of USD 109,959 thousand (2016: USD 96,568 thousand; 2015: USD 114,025 thousand) from entities under common control.

Key management compensation. Key management includes General Director, Deputy General Director, Chief Financial Officer and Commercial Director. Key management compensation is presented below:

	2017		**2016**		**2015**	
In thousands of US Dollars	**Expense**	**Accrued liability**	**Expense**	**Accrued liability**	**Expense**	**Accrued liability**
Short-term benefits:						
- Salaries	352	-	278	-	221	-
- Short-term bonuses	70	64	12	11	11	6
- Benefits in-kind	135	-	139	-	1	-
Total	**557**	**64**	**429**	**11**	**233**	**6**

Short-term bonuses fall due wholly within twelve months after the end of the period in which management rendered the related services.

9 Property, Plant and Equipment

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

In thousands of US Dollars	**Land**	**Buildings and Other Constructions**	**Machinery and Merchandising Equipment**	**Leasehold Improvements**	**Office Equipment**	**Vehicles**	**CIP and Uninstalled Equipment**	**Total**
Deemed cost / cost at 1 January 2015	1,475	1,013	3,330	5,120	583	231	624	12,376
Accumulated depreciation	-	-	-	(2,959)	-	-	-	(2,959)
Carrying amount at 1 January 2015	**1,475**	**1,013**	**3,330**	**2,161**	**583**	**231**	**624**	**9,417**
Additions	92	-	201	-	6	-	173	472
Transfers	-	-	99	-	13	-	(112)	-
Disposals (cost)	-	-	(8)	-	(5)	(8)	(1)	(22)
Disposals (accumulated depreciation)	-	-	2	-	-	1	-	3
Depreciation charge	-	(93)	(837)	(751)	(151)	(27)	-	(1,859)
Carrying amount at 31 December 2015	**1,567**	**920**	**2,787**	**1,410**	**446**	**197**	**684**	**8,011**
Cost at 31 December 2015	1,567	1,013	3,622	5,120	597	223	684	12,826
Accumulated depreciation	-	(93)	(835)	(3,710)	(151)	(26)	-	(4,815)
Carrying amount at 31 December 2015	**1,567**	**920**	**2,787**	**1,410**	**446**	**197**	**684**	**8,011**
Additions	-	2,257	150	37	133	-	2,234	4,811
Transfers	-	-	125	-	162	-	(287)	-
Disposals (cost)	-	(3)	-	-	(2)	(58)	-	(63)
Disposals (accumulated depreciation)	-	1	-	-	1	6	-	8
Depreciation charge	-	(135)	(826)	(702)	(157)	(18)	-	(1,838)
Carrying amount at 31 December 2016	**1,567**	**3,040**	**2,236**	**745**	**583**	**127**	**2,631**	**10,929**

9 Property, Plant and Equipment (Continued)

In thousands of US Dollars	Land	Buildings and Other Constructions	Machinery and Merchandising Equipment	Leasehold Improvements	Office Equipment	Vehicles	CIP and Uninstalled Equipment	Total
Cost at 31 December 2016	1,567	3,267	3,897	5,157	890	165	2,631	17,574
Accumulated depreciation	-	(227)	(1,661)	(4,412)	(307)	(38)	-	(6,645)
Carrying amount at 31 December 2016	**1,567**	**3,040**	**2,236**	**745**	**583**	**127**	**2,631**	**10,929**
Additions	285	65	115	426	162	-	1,868	2,921
Transfers	-	831	475	-	95	-	(1,401)	-
Disposals (cost)	-	-	(83)	-	(13)	(47)	-	(143)
Write off (cost)	-	(19)	(283)	(3,495)	(18)	-	-	(3,815)
Write off (accumulated depreciation)	-	19	283	3,495	18	-	-	3,815
Disposals (accumulated depreciation)	-	-	4	-	1	2	-	7
Depreciation charge	-	(360)	(777)	(297)	(223)	(14)	-	(1,671)
Carrying amount at 31 December 2017	**1,852**	**3,576**	**1,970**	**874**	**605**	**68**	**3,098**	**12,043**
Cost at 31 December 2017	1,852	4,144	4,121	2,088	1,116	118	3,098	16,537
Accumulated depreciation	-	(568)	(2,151)	(1,214)	(511)	(50)	-	(4,494)
Carrying amount at 31 December 2017	**1,852**	**3,576**	**1,970**	**874**	**605**	**68**	**3,098**	**12,043**

The Company has elected to measure all items of property, plant and equipment other than Leasehold improvements at 1 January 2015 at their fair values. The total fair value of USD 7,256 thousand was considered to be the deemed cost for these items at 1 January 2015.

As at 31 December 2017 included in the cost of property, plant and equipment are fully depreciated assets with carrying value of USD 824 thousand (31 December 2016 – USD 2,545 thousand; 31 December 2015 – zero).

10 Inventories

In thousands of US Dollars	31 December 2017	31 December 2016	31 December 2015
Goods for resale	9,736	13,818	7,078
Goods in transit	6,675	-	-
Other inventories	461	11	114
Total inventories	**16,872**	**13,829**	**7,192**

The cost of inventories recognised as an expense during 2017, 2016 and 2015 representing cost of sales amounted to USD 149,763 thousand, USD 114,110 thousand and USD 138,872 thousand, respectively.

During 2016 and 2015 the Company reversed inventories previously written-down to their net realisable value in the amount of USD 106 and 203 thousand, respectively. The amount reversed has been included in cost of sales in profit or loss for the year. No such reversal took place in 2017. As at 31 December 2017 inventories of USD 17,145 thousand (31 December 2016: 14,032 thousand; 31 December 2015: USD 7,078 thousand) are valued at net realisable value.

11 Trade and Other Receivables

In thousands of US Dollars	31 December 2017	31 December 2016	31 December 2015
Trade receivables	5,179	3,473	3,134
Other financial receivables	414	379	245
Less impairment loss provision	(246)	(163)	(176)
Total financial assets within trade and other receivables	***5,347***	***3,689***	***3,203***
Prepayments	1,085	1,293	575
Total trade and other receivables	**6,432**	**4,982**	**3,778**

Majority of trade and other receivables balances are denominated in Georgian Lari. Trade and other financial receivables of USD 170 thousand are denominated in US Dollar (31 December 2016: USD 168 thousand; 31 December 2015: USD 106 thousand).

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

In thousands of US Dollars	Trade receivables	Other financial receivables
Provision for impairment at 1 January 2015	**82**	**15**
(Recovery of)/provision for impairment during the year	(2)	134
Amounts written off during the year as uncollectible	(53)	-
Provision for impairment at 31 December 2015	**27**	**149**
(Recovery of)/provision for impairment during the year	3	(16)
Amounts written off during the year as uncollectible	-	-
Provision for impairment at 31 December 2016	**30**	**133**
(Recovery of)/provision for during the year	80	3
Amounts written off during the year as uncollectible	-	-
Provision for impairment at 31 December 2017	**110**	**136**

11 Trade and Other Receivables (Continued)

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

	31 December 2017	
In thousands of US Dollars	Trade receivables	Other financial receivables
Neither past due nor impaired – exposure to		
- Georgian dealers and companies	4,920	278
Total neither past due nor impaired	**4,920**	**278**
Individually determined to be impaired (gross)		
- less than 30 days overdue	65	-
- 30 to 90 days overdue	32	-
- 91 to 180 days overdue	77	-
- 181 to 360 days overdue	55	-
- over 360 days overdue	30	136
Total individually impaired	**259**	**136**
Less impairment provision	**(110)**	**(136)**
Total	**5,069**	**278**

	31 December 2016		31 December 2015	
In thousands of US Dollars	Trade receivables	Other financial receivables	Trade receivables	Other financial receivables
Neither past due nor impaired – exposure to				
- Georgian dealers and companies	3,443	246	3,080	96
Total neither past due nor impaired	**3,443**	**246**	**3,080**	**96**
Individually determined to be impaired (gross)				
- less than 30 days overdue	-	-	11	-
- 30 to 90 days overdue	-	-	18	-
- 91 to 180 days overdue	-	-	-	-
- 181 to 360 days overdue	-	-	-	-
- over 360 days overdue	30	133	25	149
Total individually impaired	**30**	**133**	**54**	**149**
Less impairment provision	**(30)**	**(133)**	**(27)**	**(149)**
Total	**3,443**	**246**	**3,107**	**96**

12 Cash and Cash Equivalents

In thousands of US Dollars	31 December 2017	31 December 2016	31 December 2015
Cash on hand	389	301	181
Bank balances payable on demand	2,163	2,604	2,805
Total cash and cash equivalents	**2,552**	**2,905**	**2,986**

The credit quality of Bank balances payable on demand may be summarised based on Moody's ratings as follows:

In thousands of US Dollars	31 December 2017	31 December 2016	31 December 2015
Neither past due nor impaired			
- Lower than A- rated	2,161	2,601	2,803
- Unrated	2	3	2
Total	**2,163**	**2,604**	**2,805**

13 Charter Capital

According to the Company's Charter dated 14 February 2013, the authorised Charter Capital of the Company is USD 5,765 thousand. The amount has been contributed in cash.

No dividends have been declared or paid during the year 2017, 2016 and 2015.

14 Borrowings

In thousands of US Dollars	31 December 2017	31 December 2016	31 December 2015
Related party loan	-	-	4,383
Total borrowings	**-**	**-**	**4,383**

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

In thousands of US Dollars	31 December 2017	31 December 2016	31 December 2015
Borrowings denominated in US Dollars	-	-	4,383
Total borrowings	**-**	**-**	**4,383**

Related party loan matured until April 2016 and bears coupon of 7% annually (1 January 2015: 7% annually).

The carrying amounts and fair values of borrowings are relatively the same.

15 Trade and Other Payables

In thousands of US Dollars	31 December 2017	31 December 2016	31 December 2015
Trade payables	16,059	14,798	4,402
Accrued liabilities and other creditors	988	1,134	761
Management fee payable	14	9	67
Total financial payables within trade and other payables	*17,061*	*15,941*	*5,230*
Advances received	311	195	311
Accrued employee benefit costs	424	255	208
Trade and other payables	**17,796**	**16,391**	**5,749**

Trade payables of USD 16,059 thousand (31 December 2016: USD 14,798; 31 December 2015: USD 4,402 thousand) are denominated in the following currencies, 100% in US Dollars (31 December 2016: 99%; 31 December 2015: 99%), 0% in Euro (31 December 2016: 1%; 31 December 2015: 1%).

16 Revenue

In thousands of US Dollars	2017	2016	2015
Revenue from retail sale of fuel	127,691	95,788	87,659
Revenue from wholesale sale of fuel	40,329	36,358	70,553
Total revenue	**168,020**	**132,146**	**158,212**

Revenue from wholesale sale of fuel includes deferred volume discount in the amount of USD 131 thousand measured by reference to the estimated volume of sales and the expected discount (2016 and 2015: zero).

17 Cost of Sales

In thousands of US Dollars	2017	2016	2015
Cost of fuel	149,763	114,110	138,872
Write-down of inventories to net realisable value	-	(106)	(203)
Total cost of sales	**149,763**	**114,004**	**138,669**

18 Distribution Costs

In thousands of US Dollars	2017	2016	2015
Rent expenses	6,150	5,789	4,463
Payroll and related charges	1,613	1,746	1,643
Depreciation expense	1,600	1,820	1,810
Repair and maintenance expenses	411	453	527
Utilities	402	352	327
Professional fees	299	150	237
Telecommunications expenses	249	246	249
Installation of Fill & Go systems	184	310	46
Amortisation expenses	145	100	48
Other	612	601	514
Total distribution costs	**11,665**	**11,567**	**9,864**

19 General and Administrative Expenses

In thousands of US Dollars	2017	2016	2015
Payroll and related charges	1,876	1,534	1,409
Professional expenses*	466	353	217
Bank charges	382	257	177
Management fee	366	267	225
Rent expenses	251	209	203
Business trip expenses	174	283	194
Depreciation expense	71	18	49
Repair and maintenance expenses	63	125	158
Other	318	293	293
Total general and administrative expenses	**3,967**	**3,339**	**2,925**

(*) Professional service fee includes USD 33 thousand (2016:USD 22 thousand, 2015: USD 40 thousand) - fees incurred for audit and other professional services provided by Auditor/Audit Firm as defined in the Law of Georgia on Accounting, Reporting and Auditing.

20 Income Taxes

(a) Components of income tax expense

Income tax expense recorded in profit or loss comprises the following:

In thousands of US Dollars	2017	2016	2015
Current tax	-	(707)	(702)
Deferred tax			(259)
Re-measurement of deferred tax due to changes in tax law	-	27	-
Income tax expense	**-**	**(680)**	**(961)**

The income tax rate applicable to the Company’s 2016 year income was 15%. Until the changes in the Tax Code of Georgia, as explained in the Note 4, differences between the amounts recognised for the Company’s assets and liabilities in the statement of financial position and the recognition of those assets and liabilities by the tax authorities, and carry forward of currently unused tax losses and tax credits gave rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases.

20 Income Taxes (Continued)

Deferred tax assets and liabilities consisted of amounts described below in section C:

(b) Reconciliation between the tax expense and profit or loss multiplied by applicable tax rate

The income tax rate applicable to the Company's income as at 31 December 2016 and 31 December 2015 is 15%. A reconciliation between the expected and the actual taxation charge is provided below.

In thousands of US Dollars	2016	2015
Profit before tax	**2,895**	**3,645**
Theoretical tax charge at statutory rate of 15%:	(434)	(547)
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Non-taxable income	(45)	(41)
- Non-deductible expenses	(52)	(79)
Re-measurement of deferred tax due to changes in tax law	27	-
Remeasurement into functional currency	(176)	(294)
Income tax expense for the year	**(680)**	**(961)**

(c) Deferred taxes analysed by type of temporary difference

Differences between IFRS and statutory taxation regulations in Georgia give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases.

The tax effect of the movements in these temporary differences is detailed below as at 31 December 2015.

In thousands of US Dollars	1 January 2015	Charged/ (credited) to profit or loss	31 December 2015
Tax effect of deductible/(taxable) temporary differences			
Property, plant and equipment	(77)	(134)	(211)
Intangible Assets	(22)	(7)	(29)
Inventories	55	(65)	(10)
Trade and other receivables	266	(58)	208
Trade and other payables	10	5	15
Net deferred tax asset/(liability)	**232**	**(259)**	**(27)**
Recognised deferred tax asset	331	(108)	223
Recognised deferred tax liability	(99)	(151)	(250)
Net deferred tax asset/(liability)	**232**	**(259)**	**(27)**

20 Income Taxes (Continued)

The movements in deferred tax during the 2016 is as follows:

In thousands of US Dollars	**2016**
Net deferred tax liabilities at the beginning of the year	(27)
Re-measurement of deferred tax due to changes in tax law	27
Net deferred tax assets/(liabilities) at the end of the year	**-**

21 Contingencies and Commitments

***Legal proceedings*.** From time to time and in the normal course of business, claims against the Company may be received. On the basis of its own estimates and internal professional advice, management is of the opinion that no material losses will be incurred in respect of claims.

On 15 July 2015 the Competition Agency of Georgia issued a decree establishing that the Company together with other major downstream fuel retailers in Georgia has breached Georgian Law on Competition. The Company was fined in amount of USD 4,500 thousand. At 31 December 2017 the Company was engaged in litigation proceedings with Competition Agency of Georgia having a claim with regard to the mentioned decree. No provision has been recognised as the Company's management believed that it was not likely that the fact would cause any significant loss. For results of court case see Note 25.

Tax legislation. The taxation system in Georgia is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of government bodies, which have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the five subsequent calendar years, however, under certain circumstances a tax year may remain open longer. These circumstances may create tax risks in Georgia that are substantially more significant than in many other countries.

The Company's uncertain tax positions are reassessed by management at the end of each reporting period. Liabilities are recorded for income tax positions that are determined by management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the end of the reporting period. Liabilities for penalties, interest and taxes other than on income are recognised based on management's best estimate of the expenditure required to settle the obligations at the end of the reporting period.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 financial statements, if the authorities were successful in enforcing their own interpretations, could be significant.

Operating lease commitments. Where the Company is the lessee, the future minimum lease payments under non-cancellable operating leases are as follows:

In thousands of US Dollars	**2017**	**2016**	**2015**
Not later than 1 year	5,503	5,503	5,416
Later than 1 year and not later than 5 years	16,851	21,907	16,592
Later than 5 years	8,414	14,516	7,877
Total operating lease commitments at 31 December	**30,768**	**41,926**	**29,885**

Compliance with covenants. The Company was subject to certain covenants related to its related party loans during 2016 and 2015. Non-compliance with such covenants may result in negative consequences for the Company. The Company was in compliance with covenants at 31 December 2016 and 31 December 2015.

22 Financial Risk Management

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

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

The Company's maximum exposure to credit risk by class of assets is reflected in the carrying amounts of financial assets in the statement of financial position:

In thousands of US Dollars	**31 December 2017**	**31 December 2016**	**31 December 2015**
Other non-current assets			
- Other long-term receivables	-	-	37
Trade and other receivables (Note 11)			
- Trade receivables	5,104	3,443	3,107
- Other financial receivables	243	246	96
Cash and cash equivalents (Note 12)			
- Bank balances payable on demand	2,163	2,604	2,805
Total on-balance sheet exposure	**7,510**	**6,293**	**6,045**
Total maximum exposure to credit risk	**7,510**	**6,293**	**6,045**

The Company's management reviews ageing analysis of outstanding trade receivables and follows up on past due balances. Management therefore considers it appropriate to provide ageing and other information about credit risk as disclosed in Note 11.

Credit risks concentration. The Company is exposed to concentrations of credit risk. Management monitors and discloses concentrations of credit risk by obtaining reports listing exposures to counterparties with aggregated balances in excess of 10% of the Company's net assets. At 31 December 2017 and 31 December 2016, the company did not have such trade and other receivables balance. At 31 December 2015 the Company had one counterparty with aggregated payable balances above USD 1,000 thousand. The total amount of these balances was USD 1,386 thousand or 37% of the gross amount of trade and other receivables.

The Company's bank deposits are held only with six banks (31 December 2016: six banks; 31 December 2015: five banks) thus exposing the Company to a limited concentration of credit risk.

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

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

22 Financial Risk Management (Continued)

Currency risk. The table below summarises the Company's exposure to foreign currency exchange rate risk at the end of the reporting period:

In thousands of US Dollars	At 31 December 2017 Monetary financial assets	 Monetary financial liabilities	 Net balance sheet position
Georgian Lari	7,704	841	6,863
US Dollars	190	16,216	(16,026)
Euros	5	4	1
Total	**7,899**	**17,061**	**(9,162)**

In thousands of US Dollars	At 31 December 2016 Monetary financial assets	 Monetary financial liabilities	 Net balance sheet position	At 31 December 2015 Monetary financial assets	 Monetary financial liabilities	 Net balance sheet position
Georgian Lari	4,458	1,251	3,207	3,458	678	2,780
US Dollars	2,132	14,631	(12,499)	2,767	8,926	(6,159)
Euros	4	59	(55)	1	9	(8)
Total	**6,594**	**15,941**	**(9,347)**	**6,226**	**9,613**	**(3,387)**

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

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

In thousands of US Dollars	At 31 December 2017 Impact on profit or loss	 Impact on equity
Georgian Lari strengthening by 10%	686	686
Georgian Lari weakening by 10%	(686)	(686)
Euro strengthening by 10%	-	-
Euro weakening by 10%	-	-

In thousands of US Dollars	At 31 December 2016 Impact on profit or loss	 Impact on equity	At 31 December 2015 Impact on profit or loss	 Impact on equity
Georgian Lari strengthening by 10% (31 December 2015: strengthening by 10%)	321	273	278	236
Georgian Lari weakening by 10% (31 December 2015: weakening by 10%)	(321)	(273)	(278)	(236)
Euro strengthening by 10% (31 December 2015: strengthening by 10%)	(6)	(5)	(1)	(1)
Euro weakening by 10% (31 December 2015: weakening by 10%)	6	5	1	1

22 Financial Risk Management (Continued)

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

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

In thousands of US Dollars	**Demand and less than 1 month**	**From 1 to 6 months**	**From 6 to 12 months**	**More than 1 year**	**Non-interest bearing**	**Total**
31 December 2017						
Total financial assets	-	-	-	-	7,899	7,899
Total financial liabilities	-	-	-	-	17,061	17,061
Net interest sensitivity gap at 31 December 2017	-	-	-	-	**(9,162)**	**(9,162)**
31 December 2016						
Total financial assets	-	-	-	-	6,594	6,594
Total financial liabilities	-	-	-	-	15,941	15,941
Net interest sensitivity gap at 31 December 2016	**-**	-	-	-	**(9,347)**	**(9,347)**
31 December 2015						
Total financial assets	-	-	-	-	6,226	6,226
Total financial liabilities	-	4,383	-	-	5,230	9,613
Net interest sensitivity gap at 31 December 2015	**-**	**(4,383)**	**-**	**-**	**996**	**(3,387)**
1 January 2015						
Total financial assets	-	-	-	-	16,255	16,255
Total financial liabilities	-	5,000	8,189	-	16,018	29,207
Net interest sensitivity gap at 1 January 2015	**-**	**(5,000)**	**(8,189)**	**-**	**237**	**(12,952)**

The Company does not have formal policies and procedures in place for the management of interest rate risks as management considers this risk as insignificant to the Company's business.

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

The table below shows liabilities at the reporting period end by their remaining contractual maturity. The amounts disclosed in the maturity table are the contractual undiscounted cash flows. Such undiscounted cash flows differ from the amount included in the statement of financial position because the statement of financial position amount is based on discounted cash flows.

22 Financial Risk Management (Continued)

When the amount payable is not fixed, the amount disclosed is determined by reference to the conditions existing at the end of the reporting period. Foreign currency payments are translated using the spot exchange rate at the end of the reporting period.

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

In thousands of US Dollars	**Demand and less than 1 month**	**From 1 to 3 months**	**From 3 to 12 months**	**From 12 months to 5 years**	**Over 5 years**	**Total**
Liabilities						
Trade payables (Note 15)	16,059	-	-	-	-	16,059
Other financial payables (Note 15)	1,002	-	-	-	-	1,002
Total future payments, including future principal and interest payments	**17,061**	**-**	**-**	**-**	**-**	**17,061**

The maturity analysis of financial liabilities at 31 December 2016 is as follows:

In thousands of US Dollars	**Demand and less than 1 month**	**From 1 to 3 months**	**From 3 to 12 months**	**From 12 months to 5 years**	**Over 5 years**	**Total**
Liabilities						
Trade payables (Note 15)	14,798	-	-	-	-	14,798
Other financial payables (Note 15)	1,143	-	-	-	-	1,143
Total future payments, including future principal and interest payments	**15,941**	**-**	**-**	**-**	**-**	**15,941**

The maturity analysis of financial liabilities at 31 December 2015 is as follows:

In thousands of US Dollars	**Demand and less than 1 month**	**From 1 to 3 months**	**From 3 to 12 months**	**From 12 months to 5 years**	**Over 5 years**	**Total**
Liabilities						
Related party loan (Note 14)	4,383	-	-	-	-	4,383
Trade payables (Note 15)	4,402	-	-	-	-	4,402
Other financial payables (Note 15)	828	-	-	-	-	828
Total future payments, including future principal and interest payments	**9,613**	**-**	**-**	**-**	**-**	**9,613**

23 Fair Value Disclosures

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

23 Fair Value Disclosures (Continued)

The significance of a valuation input is assessed against the fair value measurement in its entirety.

Assets and liabilities not measured at fair value but for which fair value is disclosed

Fair values analysed by level in the fair value hierarchy and the carrying value of assets and liabilities not measured at fair value are as follows:

	31 December 2017			
In thousands of US Dollars	**Level 1 fair value**	**Level 2 fair value**	**Level 3 fair value**	**Carry-ing value**
ASSETS				
FINANCIAL ASSETS				
- Trade and other financial receivables	-	5,347	-	5,347
- Other long-term receivables		-	-	-
NON-FINANCIAL ASSETS				
- Investment properties at cost	-	-	570	570
TOTAL ASSETS	**-**	**5,347**	**570**	**5,917**
LIABILITIES				
Borrowings				
- Related party loan	-	-	-	-
Other financial liabilities				
- Trade and other financial payables	-	17,061	-	17,061
TOTAL LIABILITIES	**-**	**17,061**	**-**	**17,061**

	31 December 2016				31 December 2015			
In thousands of US Dollars	**Level 1 fair value**	**Level 2 fair value**	**Level 3 fair value**	**Carry-ing value**	**Level 1 fair value**	**Level 2 fair value**	**Level 3 fair value**	**Carry-ing value**
ASSETS								
FINANCIAL ASSETS								
- Trade and other financial receivables	-	3,689	-	3,689	-	3,203	-	3,203
- Other long-term receivables		-		-		37	-	37
NON-FINANCIAL ASSETS								
- Investment properties at cost	-	-	570	570	-	-	570	570
TOTAL ASSETS	**-**	**3,689**	**570**	**4,259**	**-**	**3,240**	**570**	**3,810**
LIABILITIES								
Borrowings								
- Related party loan	-	-	-	-	-	4,383	-	4,383
Other financial liabilities								
- Trade and other financial payables	-	15,941	-	15,941	-	5,230	-	5,230
TOTAL LIABILITIES	**-**	**15,941**	**-**	**15,941**	**-**	**9,613**	**-**	**9,613**

23 Fair Value Disclosures (Continued)

The fair values in level 2 of the fair value hierarchy were estimated using the discounted cash flows valuation technique. The fair value of unquoted fixed interest rate instruments was estimated based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risks and remaining maturities. The fair values in level 3 of the fair value hierarchy were estimated using the market comparison approach based on publicly available data on real estate prices.

Financial assets carried at amortised cost. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risks and remaining maturities. Discount rates used depend on the credit risk of the counterparty.

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

24 Presentation of Financial Instruments by Measurement Category

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

25 Events after the Reporting Period

Changes in the key management of the Company. General Manager of the Company at the end of 2016, Kairat Kabylov, was later replaced by Zamanbek Mirzayanov in 2017. Changes affected the CFO and the Commercial Director in 2016 as well, when the CFO – Shota Gvetadze was replaced by Malik Tulekov and the employment agreement with the Commercial Director – Tengiz Chichinadze was terminated.

Tax audit. In January 2019 Revenue Services commenced tax review for the period beggining from 1 April 2016 up to 31 December 2018. The tax review was still ongoing at the date of issuing these financial statements.

Legal cases. In April 2018, the legal case against the LEPL Competition Agency of Georgia (Note 21), was resolved, based on which the initial amount of possible penalty was significantly decreased and the Company was obliged to pay GEL 754 thousand. The total amount was fully paid by the Company. For details regarding the foreign exchange rates refer to the Note 4.

Other subsequent events. In October 2017 the Company purchased land plot in Borjomi town, where the Company plans to construct a gas station.

During 2019, six new filling stations have been opened throughout the regions of Georgia reaching to total of 80 stations as of the date of these financial statements.

Rompetrol Georgia LLC

Management Report
2017

1. The company and its operations

Rompetrol Georgia (hereinafter referred to as "the Company") was incorporated on 5 December 2005 and is domiciled in Georgia. The Company is a limited liability company and was set up in accordance with Georgian regulations and is registered by Tbilisi Tax Inspection with identification number N204493002.

As of 31 December 2017 the Company's immediate and ultimate controlling party is KMG International N.V.(100%)

Principal activity: The Company's principal business activity is import and sale of fuel on the territory of Georgia via retail and wholesale channels. The company is one of the main players on Georgian fuel market. In 2017 The company has employed around 761 people.

2. Operating Environment of the Company

The Company's principal business activities include import and sale of fuel on the territory of Georgia via retail and wholesale channels. As at 31 December 2017 retail chain consists of 76 gas stations throughout the country.

After launching Loyalty program in August 2017 customer base of loyal consumers has increased to 83,494 for the end of the year.

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

Management believes it is taking all the necessary measures to support the sustainability and development of the Company's business.

3. Human Resource policies

As of 2017, average head count in Rompetrol Georgia was 761, out of which approximately 2% are represented by Top and Middle Management and 10% by various professionals working from the office, the rest is represented by the operational employees of Gas Station network and Depots.

Rompetrol Georgia is one of the best employers on Georgian market and provides various programs oriented on development and well-being of its employees.

The effective execution of employee and talent development programs are ensured by learning and development dedicated fund consisting of 2% of total staff cost.

The company has implemented and effectively uses the performance evaluation system that includes management of effectiveness and performance with KPIs, MBOs and competency model. Employees (except commercial and retail network teams) are eligible to annual performance bonus based on their individual achievements, in frames of the performance evaluation system in force.

As for the commercial and retail network teams, effective quarterly bonus system is in place and quarterly payouts are based on achievements vs planned goals.

Well-being of its employees is of high priority for Rompetrol Georgia, therefore, the company offers very rich and diverse employee well-being programs to its people. For instance, employee well-being programs include, but are not limited to: payment of employee part in pension fund, health insurance programs including life insurance and travel insurance, sports academy, additional 4 days of holiday on top of national holidays, paid special leave days for learning, short working day on Friday for office employees and many other.

4. Company development strategies

The company in concentrated on developing its retail network through opening new Gas Stations on different locations in Georgia. Besides, customer satisfaction is a priority for the company and it continuously works on improvement of customer service. Periodically different surveys are made to monitor customer satisfaction and service quality.

5. Main Financial Indicators of the company

Financial year	Revenues (USD)	Total Asset Value (USD)
2016	132,146	33,836
2017	168,020	39,042

6. Financial Risks

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

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

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

Currency risk. The table below summarises the Company's exposure to foreign currency exchange rate risk at the end of the reporting period:

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Euros	5	4	1
Total	**7,899**	**17,061**	**(9,162)**

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

7. Research and Development

The company has strongly improved the brand image, through a complex Rebranding program, together with better-quality and range of services and products in stations, and, moreover, with an intensive marketing and communication campaign through all channels. The company is also oriented on continuous development of digital services.

One of the particularities of Georgian market is the popularity of Loyalty programs. Companies use cards, coupons, online applications to offer discount or point accumulation through different mechanisms to reward their client's loyalty. The market is well educated in using this type of programs. During 2017 the company has been under Rebranding process and at the end of it, launching the Loyalty program was a strong message to the marketing that the company entered a new development phase and our intention and investments are a long-term commitment.

8. Corporate Social Responsibility

The company is official sponsor of The Georgian Weightlifting Federation. The company is promoting healthy life-style in young generations.

Finance Director: Malik Tulekov

General Manager: Zamanbek Mirzayanov

Date: November 7, 2019

	At 31 December 2017		
In thousands of US Dollars	**Monetary financial assets**	**Monetary financial liabilities**	**Net balance sheet position**
Georgian Lari	7,704	841	6,863
US Dollars	190	16,216	(16,026)
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