

“Uzbekistan GTL” LLC
Financial Statements

For the year ended 31 December 2017
Together with Independent Auditor's Report

CONTENTS

Independent auditor's report	
Statement of comprehensive income	1
Statement of financial position	2
Statement of changes in equity	3
Statement of cash flows	4

Notes to the financial statements

1. Corporate information and operating environment	5
2. Basis of preparation	7
3. Significant accounting judgments, estimates and assumptions	7
4. Summary of significant accounting policies	9
5. Research and development expenses	20
6. Other operating expenses	20
7. Foreign currency translation loss, net	20
8. Interest income	20
9. Property, plant and equipment	21
10. Asset under development	21
11. Prepaid finance costs	21
12. Advances paid	21
13. Cash and cash equivalents	22
14. Charter capital	22
15. Additional paid in capital	23
16. Trade and other payable	23
17. Balances and transactions with related parties	23
18. Financial risk management objectives and policies	24
19. Commitments	26
20. Events after the reporting period	28



Independent Auditor's Report

To the sole participant and management of «Uzbekistan GTL» Limited Liability Company

Our opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of «Uzbekistan GTL» Limited Liability Company (the "Company") as at 31 December 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

What we have audited

The Company's financial statements comprise:

- the statement of financial position as at 31 December 2017;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include significant accounting policies and other explanatory information.

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) together with the ethical requirements of the Code of Professional Ethics for Auditors of Uzbekistan and auditor's independence requirements that are relevant to our audit of the financial statements in the Republic of Uzbekistan. We have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

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 for such internal control as management determines is necessary to enable the preparation of 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.



Utkir Muhammadiyev
General Director
Certificate of auditor No. 05082
dated 23 February 2013

Shohruh Butaev
Auditor
Certificate of auditor No. 04819
dated 17 April 2010

Otabek Abdukodirov
Auditor
Certificate of auditor No. 05496
dated 28 July 2017

Audit Organization "PricewaterhouseCoopers" LLC
Audit Organization "PricewaterhouseCoopers" LLC
25 September 2018
Tashkent, Uzbekistan

"Uzbekistan GTL" LLC

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2017

(Amounts presented are in thousands of United States Dollars, unless otherwise indicated)

	Notes	2017	2016
Research and development expenses	5	(184)	(675)
Other operating expenses	6	(1,484)	(855)
Foreign currency translation loss, net	7	(3,947)	(1,748)
Operating loss		(5,615)	(3,278)
Interest income	8	272	-
Loss before income tax		(5,343)	(3,278)
Income tax expense	4	-	-
Loss for the year		(5,343)	(3,278)
Other comprehensive income		-	-
Total comprehensive loss for the year		(5,343)	(3,278)

Signed and authorised for issue on behalf of the management:

Fakhriddin Abdurasulov

Sayfullo Khakimov

25 September 2018

  General Director
Chief Accountant

“Uzbekistan GTL” LLC

STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

(Amounts presented are in thousands of United States Dollars, unless otherwise indicated)

	Notes	2017	2016
ASSETS			
Non-current assets			
Property, plant and equipment	9	614	895
Intangible assets		212	228
Prepayments for asset under development	10	77,544	-
Asset under development	10	811,208	262,918
		889,578	264,041
Current assets			
Inventory		176	217
Prepaid finance costs	11	23,409	12,788
Advances paid	12	608	172
Cash and cash equivalents	13	153,688	308,793
		177,881	321,970
TOTAL ASSETS		1,067,459	586,011
EQUITY AND LIABILITIES			
Participants' equity			
Charter capital	14	962,000	602,000
Additional paid in capital	15	80,000	-
Accumulated deficit		(59,931)	(54,588)
Total Participants' equity		982,069	547,412
Current liabilities			
Trade and other payable	16	84,977	38,536
Tax liabilities		413	63
		85,390	38,599
TOTAL LIABILITIES		85,390	38,599
TOTAL EQUITY AND LIABILITIES		1,067,459	586,011

Signed and authorised for issue on behalf of the management:

Fakhriddin Abdurasulov

Sayfullo Khakimov

25 September 2018

  General Director
Chief Accountant

“Uzbekistan GTL” LLC

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

(Amounts presented are in thousands of United States Dollars, unless otherwise indicated)

	Additional paid in capital	Charter capital	Accumulated deficit	Total Participants’ equity
Balance at 31 December 2015	-	282,000	(51,310)	230,690
Contributions to charter capital (Note 14)	-	320,000	-	320,000
Total comprehensive loss for the year	-	-	(3,278)	(3,278)
Balance at 31 December 2016	-	602,000	(54,588)	547,412
Contributions to charter capital (Notes 14, 15)	80,000	360,000	-	440,000
Total comprehensive loss for the year	-	-	(5,343)	(5,343)
Balance at 31 December 2017	80,000	962,000	(59,931)	982,069

“Uzbekistan GTL” LLC

STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

(Amounts presented are in thousands of United States Dollars, unless otherwise indicated)

	Notes	2017	2016
Operating activities			
Net loss before income tax		(5,343)	(3,278)
Adjustments to reconcile loss before tax to net cash flows			
Depreciation and amortisation	6	304	318
Interest income	8	(272)	-
Foreign exchange translation loss, net	7	3,947	1,748
Working capital adjustments:			
(Increase)/Decrease in advances paid		(506)	1784
Increase in prepaid finance cost		(10,621)	(137)
Decrease in inventory		41	45
Increase/(Decrease) in trade and other payables		119	(947)
Increase/(Decrease) in tax liabilities		418	(898)
Cash used in operating activities		(11,913)	(1,365)
Interest received	8	272	-
Income tax paid	4	-	-
Net cash used in operating activities		(11,641)	(1,365)
Investing activities			
Purchase of property, plant and equipment	9	-	(186)
Purchase of intangible assets		(7)	-
Purchase of asset under development		(579,493)	(11,781)
Net cash used in investing activities		(579,500)	(11,967)
Financing activities			
Proceeds from the Participants	14, 15	440,000	320,000
Net cash from financing activities		440,000	320,000
Effect of exchange rate changes on cash and cash equivalents	7	(3,964)	(1,719)
(Decrease)/Increase in cash and cash equivalents		(151,141)	306,668
Cash and cash equivalents at the beginning of the year		308,793	3,844
Cash and cash equivalents at the end of the year	13	153,688	308,793

(Amounts presented are in thousands of United States Dollars, unless otherwise indicated)

1. Corporate information and operating environment

General background

These financial statements have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2017 for “Uzbekistan GTL” LLC (hereinafter referred to as the “Company”).

The Company was registered with the Ministry of Justice of the Republic of Uzbekistan on 2 December 2009. The Company conducts its operations in the territory of the Republic of Uzbekistan. From November 10, 2016 the Company was re-named from Joint Venture “Uzbekistan GTL” LLC to “Uzbekistan GTL” LLC. The Company was re-registered with the registration № 008600 on 10 November 2016.

As of 31 December 2017 and 2016 the Company’s immediate and ultimate parent company was National Holding Company “Uzbekneftegaz” (hereinafter referred to as the “UNG”). The ultimate controlling party of the Company is the Government of the Republic of Uzbekistan which owns 100% share in UNG.

Registered address

The Company’s registered legal address is 41/4, Mirabadskaya Street, 100015, Tashkent, Uzbekistan.

Principal activities

The activity of the Company is focused on the development of synthetic liquid fuel using gas-to-liquid (GTL) technology. The Company is planning to use methane rich gas from the Shurtan Gas Chemical Complex (SGCC) as feedstock for the GTL facility and Sasol’s GTL technology to produce GTL diesel, GTL aviation kerosene, GTL naphtha and liquefied petroleum gas (LPG) in Uzbekistan.

According to approved Baseline Schedule the following phases are considered by the Company for the project implementation:

- FEED Phase 1 – Feasibility study;
- FEED Phase 2 – front-end engineering and design of the GTL Plant;
- EPC Stage – Engineering, Procurement and Construction;
- Commissioning; and
- Start-up.

Project progress to date

FEED Phase 1 was completed on 16 September 2011 and ratified by Circular Resolution of the General Meeting of Participants. On 19 September 2011 an Investment Agreement was signed between the Participants, the Company and the Government of the Republic of Uzbekistan. In addition, on 19 September 2011 Presidential Decree # (ПП-1618) on further measures on implementation of the GTL Project was issued. Issue of the Presidential Decree and conclusion of the Investment Agreement gave occasion to proceed with FEED Phase 2. At the Extraordinary General Meeting of the Participants held on 1 October 2011, the Participants of the Company approved the commencement of FEED Phase 2 with the budget of USD 130,000 thousand as study fee and USD 194,000 thousand as long lead procurement, total investment of USD 324,000 thousand.

(Amounts presented are in thousands of United States Dollars, unless otherwise indicated)

1. Corporate information and operating environment (continued)

Project progress to date (continued)

Since the beginning of FEED Phase 2, steady progress on the project has been achieved, including but not limited to the following results:

- Basic engineering package was completed in February 2013;
- Reactor manufacturing contract was awarded to Hitachi Zosen on 18 October 2012. Since the award, the home fabrication has substantially progressed with the first shipment and last shipment ready for transportation in June 2015 and October 2015, respectively. The reactor is shipped in components and erected onsite. The transportation of the first shipment was dependent on the Notice to Proceed (NTP) decision date;
- Site preparation contract was awarded to Eriell Corporation s.r.o. in December 2013 with the work beginning in January 2014. All major work was completed in September 2015;
- EPC contract was awarded to the consortium of Hyundai Engineering and Construction and Hyundai Engineering on 24 December 2013 pending NTP, which was divided into two parts, namely, “the extended engineering design program (Early Works Package)” and “detailed engineering & execution”. The initial Early Works Package was completed in December 2014 and with the protraction of NTP, a second Early Works Package has been awarded in April 2015;
- On November 30, 2016, Uzbekistan GTL LLC issued the NTP to EPC contractor authorizing the consortia to advance in works on construction of the OLTIN YO’L GTL gas-to-liquids plant. The NTP entails development of detailed design, procurement arrangements and start of construction and installation operations at construction site.

Joint Venture Agreement

On 14 July 2009, UNG, Sasol Sunfuels International Netherlands Cooperatif U.A. (hereinafter referred to as the “Sasol”), Petronas International Corporation Ltd. (hereinafter referred to as the “Petronas”) concluded Joint Venture Agreement (hereinafter referred to as the “JVA”) that determined the corporate framework for implementation of GTL project in Uzbekistan.

In accordance with the JVA Addendum No 3 in 2 April 2015, it was determined that Petronas withdraws from the Company and transfers its participating interest to UNG. The term of 2 April 2015 was subsequently extended until 2 October 2015 by JVA addendum No 4. This addendum is effective from 1 April 2015 and was under execution by all the parties.

On 7 September 2016 UNG notified the Company that it has executed Sales and Purchase Agreement with Sasol, effected payment of purchase price to the designated bank of Sasol, and received confirmation from Sasol of receipt of purchase price, as a result UNG becomes the lawful holder of Sasol’s Participating Interest in Company’s equity structure. The Sales and Purchase Agreement with Sasol is effective from 31 May 2016 notwithstanding the date on which this agreement is signed and/or date of the payment of transfer price.

After purchasing of Participating Interest from Petronas and Sasol, UNG became the sole Participant of the Company.

Operating environment

The Uzbekistan economy displays characteristics of an emerging market, including but not limited to, a currency that is not freely convertible outside of the country and a low level of liquidity in debt and equity markets. Also, the banking sector in Uzbekistan is particularly impacted by local political, legislative, fiscal and regulatory developments. The largest Uzbek banks are state-controlled and act as an arm of Government to develop the country’s economy. The Government distributes funds from the country’s budget, which flow through the banks to various government agencies, and other state and privately owned entities.

Economic stability in Uzbekistan is largely dependent upon the effectiveness of economic measures undertaken by the Government, together with other legal, regulatory and political developments, all of which are beyond the Company’s control.

(Amounts presented are in thousands of United States Dollars, unless otherwise indicated)

1. Corporate information and operating environment (continued)

Operating environment (continued)

The Company's financial position and operating results will continue to be affected by future political and economic developments in Uzbekistan including the application and interpretation of existing and future legislation and tax regulations which greatly impact Uzbek financial markets and the economy overall.

Uzbekistan experienced following key economic indicators in 2017:

- Inflation: 14.4% (2016: 5.7%);
- GDP growth: 5.3% (2016: 7.8%);
- Central Bank refinancing rate: 14% (2016: 9%).
- Official exchange rates: 31 December 2017: USD 1 = UZS 8,120.07 (31 December 2016: USD 1 = UZS 3,231.48).

2. Basis of preparation

The accompanying financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). The accompanying financial statements have been prepared on a historical cost basis, except where IFRS require otherwise as described in the accounting policies in Note 4. The financial statements are presented in USD and all values are rounded to the nearest thousand except when otherwise indicated.

3. Significant accounting judgments, estimates and assumptions

The preparation of the accompanying financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of expenses, assets and liabilities at the date of the reporting period. Estimates and judgments are continuously 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. These estimates are based on information available as of the date of the financial statements. However, actual outcomes can differ from these estimates and it is possible that these differences may have a material effect on the financial statements.

Judgments

In the process of applying the Company's accounting policies, management have made the following judgements, apart from those involving estimates, which have the most significant effect on the amounts recognised in the financial statements:

Contingencies

By their nature, contingencies will only be resolved when one or more future events occur or fail to occur. The assessment of contingencies inherently involves the exercise of significant judgment and estimates of the outcome of future events.

Taxation

The Republic of Uzbekistan tax legislation is subject to varying interpretations and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Company may be challenged by the relevant national authorities. Tax authorities are taking a more assertive position in its interpretation of the legislation and assessments and, as a result, it is possible that transactions and activities that have not been challenged in the past may be challenged. As such, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for five calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

As of 31 December 2017, management believes that its interpretation of the relevant legislation is appropriate and that the Company's tax positions will be sustained.

(Amounts presented are in thousands of United States Dollars, unless otherwise indicated)

3. Significant accounting judgments, estimates and assumptions (continued)

Estimates and assumptions

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.

Capitalisation of development costs – intangible asset under development

Recognition of intangible assets arising from capitalisation of development costs (or from the development phase of an internal project) is made on the basis of a number of estimates in respect to the Company's ability to demonstrate all of the following:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- its intention to complete the intangible asset and use or sell it;
- its ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits. Among other things, the Company can demonstrate the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- its ability to measure reliably the expenditure attributable to the intangible asset during its development (requires approval from the board to commit sufficient resources to complete the project).

Capitalisation of asset under development

The Company incurred costs (as man-hours, travel, etc.) that are related to both, general administration operations, which should be expensed, and related to construction related activities, which should be capitalised as asset under development. These costs cannot be fully capitalised or fully expensed. To allocate these costs as capitalised and expensed, the Company used judgement and estimated the allocation percentage based on ratio of total expenses in total costs.

Impairment of property, plant and equipment

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the petroleum and gas price assumption may change which may then impact the estimated life of the assets and may then require a material adjustment to the carrying value of tangible assets. The Company monitors internal and external indicators of impairment relating to its tangible assets.

The Company assesses at each reporting date whether there is any indication that an asset may be impaired. If such indications exist, or when annual impairment testing for an asset is required, the Company makes an estimate of the assets' recoverable amount. An asset's recoverable amount is higher of an asset's or cash generating unit's fair value less costs to sell and its fair value in use and determined for an individual asset, unless the asset does not generate cash inflow that are largely independent of those from other assets or group of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value money and the risk specific to the assets.

(Amounts presented are in thousands of United States Dollars, unless otherwise indicated)

3. Significant accounting judgments, estimates and assumptions (continued)

Estimates and assumptions

The determination of impairment of property, plant and equipment involves the use of estimates that include, but are not limited to, the cause, timing and amount of the impairment. The recoverable amount and fair value are typically determined using a discounted cash flows method which incorporates reasonable market participant assumptions. The identification of impairment indicators, the estimation of future cash flows and the determination of fair values for assets (or group of assets) require management to make significant judgments concerning the identification and validation of impairment indicators, expected cash flows, applicable discount rates, useful lives and residual values. The determination of the recoverable amount of a cash generating unit involves the use of estimates by management. Methods used to determine the value in use include discounted cash flows - based methods. These estimates, including the methodologies used, can have a material impact on the fair value and ultimately the amount of any property, plant and equipment impairment.

Determination of functional currency

The functional currency is the currency of the primary economic environment in which the entity operates (Note 4). The primary economic environment in which an entity operates is normally the one in which it primarily generates and expends cash.

The Company's management considers various factors in determining its functional currency:

- the currency that mainly influences sales prices for goods and services,
- the currency that mainly influences material and other costs of providing goods,
- the currency in which the Company's finances are denominated, as well as other factors as required by International Accounting Standard 21 The Effects of Changes in Foreign Exchange Rates.

Overall, the factors relevant for determination of functional currency provide mixed evidence. Primary indicators are mixed while secondary indicators are generally in favour of USD. According to IAS 21, when indicators are mixed and the functional currency is not obvious, management uses its judgement to determine the functional currency that most faithfully represents the economic effects of the underlying transactions, events and conditions. Management of the Company believes that USD provides more faithful presentation of the financial statements.

4. Summary of significant accounting policies

Foreign currency transactions

The functional currency of the Company was Uzbekistan Soums (“UZS”) until the last quarter of 2011 which reflected the economic substance of the underlying events and circumstances of the entity at the time. Starting from the last quarter of 2011, the functional currency of the Company has changed from UZS to USD. The change in functional currency was due to the signing a number of key agreements, which were denominated and to be settled in USD. Signing of these agreements was treated as a change in circumstances surrounding the Company's operating environment and the functional currency in accordance with IAS 21 “The Effects of Changes in Foreign Exchange Rates”. However, management has decided to implement the functional currency change with effect from 1 January 2012, assessing that effect of change would not be material to the financial statement of the Company. Accordingly, commencing 1 January 2012, the Company has changed its functional currency to USD.

The Company applied the translation procedures applicable to the new functional currency prospectively from the date of the change. Accordingly, all items in the balance sheet as of 1 January 2012 have been translated into USD using the exchange rate as of that date, i.e. USD 1 = UZS 1,795. The resulting translated amounts for non-monetary items are treated as their historical cost.

The financial statements of the Company are presented in USD, which is also the functional currency of the Company.

Transactions and balances denominated in foreign currencies

Transactions in foreign currencies are initially recorded by the Company at their respective functional rates prevailing at the date of transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rate of exchange ruling at the reporting date. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the dates of the initial transactions.

(Amounts presented are in thousands of United States Dollars, unless otherwise indicated)

4. Summary of significant accounting policies (continued)

Property, plant and equipment

Property, plant and equipment is recorded at the purchase or construction cost, excluding the costs of day-to-day servicing, less accumulated depreciation and impairment loss. Such cost includes the cost of replacing part of plant and equipment when that cost is incurred, if the recognition criteria are met.

At each reporting date 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 to sell and its value in use. The carrying amount is reduced to the recoverable amount, and the difference is recognised as an expense (impairment loss) in the statement of comprehensive income.

An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's recoverable amount.

Depreciation is calculated on a straight line basis over the useful life of the asset as follows:

	Number of Years
Furniture and office equipment	5 – 7
Vehicles	5

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, useful lives and depreciation methods are reviewed, and adjusted as appropriate at each financial year-end.

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.

Intangible assets other than goodwill

The Company's intangible assets other than goodwill have definite useful lives and primarily include mainly capitalised computer software, patents, trademarks and licences.

Acquired computer software licences, patents and trademarks are capitalised on the basis of the costs incurred to acquire and bring them to use.

Development costs that are directly associated with identifiable and unique software controlled by the Company are recorded as intangible assets if an inflow of incremental economic benefits exceeding costs is probable. Capitalised costs include staff costs of the software development team and an appropriate portion of relevant overheads. All other costs associated with computer software, e.g. its maintenance, are expensed when incurred.

Intangible assets, consisting mainly of software licensed, are amortised using the straight-line method over their useful lives of 5 years.

(Amounts presented are in thousands of United States Dollars, unless otherwise indicated)

4. Summary of significant accounting policies (continued)

Impairment of non-financial assets

Intangible assets that have an indefinite useful life or intangible assets not ready for use are not subject to amortisation and are tested annually for impairment. 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 (other than goodwill) are reviewed for possible reversal at each reporting date.

Treatment of specific costs related to capital projects

In principle, a capital project can be divided into two phases. The first phase consists of the research, identification of and selection of the most appropriate solution to meet the requirement. All costs incurred during this period do not meet the recognition criteria and thus are expensed immediately.

The second phase of the capital project is the development of the selected alternative, engineering, construction and testing of the project. Costs incurred during this phase are capitalised up to the date the asset is ready for its intended use.

Costs can only be capitalised to a project if:

- it is probable that the expected future benefits that are attributable to the asset will flow to the entity; and
- the cost of the asset can be measured reliably.

The costs capitalised to the project must be directly associated with the cost of developing the asset under construction and would only be costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Costs related to training and travelling would therefore have to be evaluated. The records of the cost being considered for capitalisation should be explanatory enough to substantiate the capitalisation to a specific project. In very rare circumstances can training be capitalised to projects.

Where external service providers are employed the invoices should be detailed enough to be able to identify which costs are associated with which aspect of the project, as well as which costs can be capitalised.

The following guidance is an indication of the type of costs that qualify for capitalisation and those that, even during the project phase, should be expensed:

Product development costs - New plants have certain product ranges that could potentially be produced. The evaluation and selection of the products that will be produced by the specific plant (including marketing feasibility studies) cannot be directly attributed to the construction of the plant and must therefore be expensed. Once the list of products to be produced by the plant has been established, the costs incurred to optimise the production and the product development expenses incurred thereafter qualify for capitalisation.

Practical approach – the Company has identified the products that will be produced. The Company incurred costs associated with change of product specification, to satisfy the local requirements, these costs were capitalised.

Marketing costs - Marketing costs (including feasibility studies) relate to the generation of income and cannot be directly attributed to the construction of the asset. Accordingly, all marketing costs are expensed.

Practical approach - All marketing costs were expensed.

(Amounts presented are in thousands of United States Dollars, unless otherwise indicated)

4. Summary of significant accounting policies (continued)

Treatment of specific costs related to capital projects (continued)

Training costs - Training costs are not recognised as part of the cost of an item of property, plant and equipment. If the asset is installed by a third party and training is part of the total contract price, then a part of the total price should be allocated to training and expensed as incurred. General training costs must be expensed in the period it is incurred.

Practical approach - All training costs were expensed.

Manpower and travel costs - To the extent that costs of employees or contractors can be specifically allocated to the construction of an item of property, plant and equipment or tangible assets under construction, these costs are capitalised. The cost of employee benefits, including share-based payments, that are incurred for employees working directly on the construction or acquisition of the asset are capitalised to the asset.

General management and administrative manpower costs must be expensed with the exception of the project management administration costs which are capitalised.

Where a contractor is appointed to carry out the ongoing duties of an employee assigned to a project, the contractor's costs do not qualify for capitalisation.

All travelling during the first phase of the capital project (feasibility study) must be expensed. Travelling costs incurred directly as a result of the construction of the plant are capitalised.

Practical approach - The Company capitalised manpower and travel costs that can be specifically allocated to the construction of the plant and project management. For manpower, travel and related costs that include both, construction and/or project management, and the general management, but which cannot be specifically allocated, the company estimated the percentage, according to which part of the costs were capitalised and the rest expensed. The estimate was based on the share of costs specifically attributable to construction in total costs.

Internally generated intangible assets

To assess whether an internally generated intangible asset meets the criteria for recognition, the Company classifies the generation of the asset into a research phase and a development phase.

If the Company cannot distinguish the research phase from the development phase of an internal project to create an intangible asset, the Company treats the expenditure on that project as if it were incurred in the research phase only and therefore expensed as incurred in the statement of comprehensive income.

Development costs are capitalised only after technical and commercial feasibility of the asset for sale or use have been established. This means that the Company intends and be able to complete the intangible asset and either uses it or sells it and be able to demonstrate how the asset will generate future economic benefits.

The cost of an internally generated intangible asset is the sum of expenditure incurred from the date when it first meets the recognition criteria of an internally generated intangible asset or intangible asset under construction. It comprises all directly attributable costs necessary to create, produce, and prepare the asset to be capable of operating in the manner intended by management.

Financial instruments – key measurement terms. Financial instruments are carried at 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.

(Amounts presented are in thousands of United States Dollars, unless otherwise indicated)

4. Summary of significant accounting policies (continued)

Financial instruments – key measurement terms (continued)

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.

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.

The Company classifies its financial assets into loans and receivables. 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.

Classification of financial liabilities.

The Company classifies its financial liabilities into financial liabilities carried at amortised cost.

Initial recognition of financial instruments.

Financial assets and liabilities are initially recorded at fair value plus/less 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.

(Amounts presented are in thousands of United States Dollars, unless otherwise indicated)

4. Summary of significant accounting policies (continued)

Impairment of financial assets carried at amortised cost (continued)

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 assesses them for impairment. The primary factors that the Company considers in determining whether a financial asset is impaired are its overdue status.

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.

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.

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 financial condition), the previously recognised impairment loss is reversed by adjusting the allowance account through profit or loss for the year.

Uncollectible assets are written off against the related impairment after three years creating a provision as required from the 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.

Cash and cash equivalents

Cash and cash equivalents include cash in 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.

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.

Inventories

Inventories are recorded at the lower of cost and net realisable value. The cost of inventory is determined on the weighted average basis. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and selling expenses.

(Amounts presented are in thousands of United States Dollars, unless otherwise indicated)

4. Summary of 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 Company participant's ownership interest is classified as equity since the Company has an unconditional right to refuse redemption of the member's interest, based on its charter and local legislation.

Charter capital is represented by monetary contributions at fair value from the Company's participants, and is equal to the amount registered in the foundation documents of the Company. Increase or decrease of the charter capital can only be made based on participants' decision after introducing respective changes to the foundation documents of the Company.

Additional paid in capital

Additional paid in capital is comprised of contributions from participants to the Company's charter capital, which were not yet formally registered with relevant regulatory state authorities at the end of a reporting period.

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.

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.

Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of comprehensive income net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

Retirement and other benefit obligations

The Company does not have any pension arrangements separate from the State pension system of the Republic of Uzbekistan, which requires current contributions by the employer calculated as a percentage of current gross salary payments; such expense is charged in the period the related salaries are earned. The Company has no post-retirement benefits or other compensated benefits requiring accrual.

(Amounts presented are in thousands of United States Dollars, unless otherwise indicated)

4. Summary of significant accounting policies (continued)

Taxes

Starting from 1 October 2011, the Company operates under general taxation regime and the Company is obliged to assess and pay the Corporate Income Tax and other taxes and contributions to budget.

Exemption from taxes

According to the Presidential Resolution (ПП- 1618) dated 19 September 2011, as well as resultant Resolution of Cabinet of Ministers #343 dated 27 December 2011 (together referred as the “Resolutions”), as part of the measures taken by the Government for facilitation of the GTL project implementation, the Company became exempt from customs payments on purchased technical resources and equipment, VAT on imported services/works rendered as part of project implementation, Corporate Income Tax, Infrastructure Development tax, Property tax as well as Withholding tax since incorporation date for a period of ten years from the date that production commences. The production commencement date is expected to be in 2020.

Deferred income tax

Deferred tax assets and liabilities are calculated in respect of temporary differences using the liability method. Deferred income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes, affects neither the accounting profit nor taxable profit or loss.

A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the reporting date.

Since the Company received exemption on Corporate Income Tax according to the Resolutions, no deferred income tax has been recognised up to 2017.

Payroll taxes

The Company accrues and pays the Unified Social Payment assessed on total payroll at the rate of 25% and withholds from employees' income Individual Income Tax and other mandatory contributions to the State Pension Funds.

Adoption of new or revised standards and interpretations

The following amended standards became effective for the Company from 1 January 2017, but did not have any material impact on the Company.

- 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 16.
- 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).

(Amounts presented are in thousands of United States Dollars, unless otherwise indicated)

4. Summary of significant accounting policies (continued)

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: Classification and Measurement” (amended in July 2014 and effective for annual periods beginning on or after 1 January 2018). Key features of the new standard are:

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

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

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 recognised 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 recognised, 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. The Company is currently assessing the impact of the new standard on its financial statements.

(Amounts presented are in thousands of United States Dollars, unless otherwise indicated)

4. Summary of significant accounting policies (continued)

New Accounting Pronouncements (Continued)

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. The Company is currently assessing the impact of the amendment on its financial statements.

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 recognise: (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 income statement. 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 recognising 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 recognising the loss immediately. The Company is currently assessing the 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.

(Amounts presented are in thousands of United States Dollars, unless otherwise indicated)

4. Summary of significant accounting policies (continued)

New Accounting Pronouncements (Continued)

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. 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 and 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).
- Long-term Interests in Associates and Joint Ventures – Amendments to IAS 28 (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019).
- 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).

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

“Uzbekistan GTL” LLC**Notes to the financial statements**

(Amounts presented are in thousands of United States Dollars, unless otherwise indicated)

5. Research and development expenses

Research and development expenses consist of the following:

	2017	2016
Man-hours	123	669
Marketing and technical consultancy	61	6
	<u>184</u>	<u>675</u>

Man-hours are expenses incurred on professional hours of personnel's working for the Project.

Marketing and technology consultancy are expenses related consulting services on gas reserves, marketing researches of the Company's products for the Company and potential lenders.

6. Other operating expenses

Other operating expenses consist of the following:

	2017	2016
Payroll and related charges	501	312
Rental expenses	352	56
Depreciation	304	318
Other	327	169
	<u>1,484</u>	<u>855</u>

Included in payroll and related charges statutory pension contributions of USD 37 thousand (2016: USD 23 thousand).

7. Foreign currency translation loss, net

Net foreign currency translation loss originated mainly from revaluation of cash and cash equivalents and accounts payable.

8. Interest income

The Company earned interest of USD 272 thousand on its current deposit accounts at local banks.

(Amounts presented are in thousands of United States Dollars, unless otherwise indicated)

9. Property, plant and equipment

Property, plant and equipment and related accumulated depreciation consist of the following:

	Furniture and office equipment	Vehicles	Total
Cost			
At 31 December 2015	861	846	1,707
Additions	186	-	186
At 31 December 2016	1,047	846	1,893
Additions	-	-	-
Disposals	-	-	-
At 31 December 2017	1,047	846	1,893
Accumulated Depreciation			
At 31 December 2015	247	455	702
Depreciation charge for the year	139	157	296
At 31 December 2016	386	612	998
Depreciation charge for the year	133	148	281
Depreciation of disposed assets	-	-	-
At 31 December 2017	519	760	1,279
Net book value			
At 31 December 2016	661	234	895
At 31 December 2017	528	86	614

10. Asset under development

As at 31 December asset under development consist of the following capitalised cost:

	2017	2016
Cost capitalised relating to property, plant and equipment	762,813	250,394
Cost capitalised relating to intangible assets (Note 18)	48,395	12,524
	811,208	262,918

Prepayments for asset under development consist of advances paid to the contractors of EPC Consortium.

11. Prepaid finance costs

Prepaid finance costs consist of capitalised expenses related to the raising of the loan, including costs of legal and financial advisors, consultants and other.

12. Advances paid

Advances paid consist of prepaid expenses and advances paid for rent, professional services, education and other services.

(Amounts presented are in thousands of United States Dollars, unless otherwise indicated)

13. Cash and cash equivalents

At 31 December cash and cash equivalents consist of the following:

	2017	2016
Cash at bank in USD	152,184	300,263
Cash at bank in UZS	1,504	8,530
	153,688	308,793

As at 31 December 2017 and 2016, cash and cash equivalents were neither past due nor impaired with S&P's B, Moody's AA2, B2 and Fitch B rated local banks.

14. Charter capital

At the Extraordinary General Meeting of the Participants held on 10 March 2011, the Participants of the Company revised the Company's budget at completion of FEED Phase 1 to be USD 33,000 thousand and approved increase of the charter capital of the Company up to USD 33,000 thousand.

At the Extraordinary General Meeting of the Participants held on 1 October 2011, the Participants of the Company approved the Company's budget for FEED Phase 2 to be USD 324,000 thousand and increase of the charter capital of the Company up to USD 100,000 thousand. At 31 December 2011, the revised charter capital has been fully paid up.

At the Extraordinary General Meeting of the Participants held on 10 December 2012, the Participants approved increase of the charter capital of the Company up to USD 183,000 thousand. At 31 December 2012, the revised charter capital has been fully paid up.

At the Extraordinary General Meeting of the Participants held on 14 February 2014 the Participants approved increase the charter capital of the Company up to USD 236,600 thousand. At 28 March 2014, the revised charter capital has been fully paid up.

At the Extraordinary General Meeting of the Participants held on 15 January 2015 the Participants approved increase the charter capital of the Company up to USD 261,600 thousand with an increase of the UNG participating interest from USD 105,287 thousand up to USD 130,287 thousand. At 23 February 2015, the revised charter capital has been fully paid up.

At the Extraordinary General Meeting of the Participants held on 29 June 2015 the Participants approved increase the charter capital of the Company up to USD 282,000 thousand with an increase of the UNG participating interest from USD 130,287 thousand up to USD 150,687 thousand. At 12 October 2015, the revised charter capital has been fully paid up.

On 2 October 2015 PETRONAS has withdrawn from the Company with transfer of its participating share to UNG on the basis of Participating Interest Sale Agreement dated 16 December 2015 thereby increasing UNG share from USD 150,687 thousand up to USD 176,713 thousand.

At the General Meeting of the Participants held on 23 March 2016 the Participants approved increase the charter capital of the Company up to USD 302,000 thousand with an increase of the UNG participating interest from USD 176,713 thousand up to USD 196,713 thousand. At 23 March 2016, the revised charter capital has been fully paid up.

On 31 May 2016 SASOL has withdrawn from the Company with transfer of its participating share to UNG on the basis of Participating Interest Sale Agreement dated 12 August 2016 thereby making UNG the sole shareholder with the total participating interest of USD 302,000 thousand.

(Amounts presented are in thousands of United States Dollars, unless otherwise indicated)

14. Charter capital (continued)

The Circular Resolution of the Sole Participant dated 27 December 2016 approved increase of the charter capital of the Company up to USD 602,000 thousand. At 31 December 2016, the revised charter capital has been fully paid up.

The Circular Resolution of the Sole Participant dated 27 January 2017 approved increase the charter capital of the Company up to USD 640,000 thousand.

The Circular Resolution of the Sole Participant dated 18 May 2017 approved increase the charter capital of the Company up to USD 712,000 thousand.

The Circular Resolution of the Sole Participant dated 14 July 2017 approved increase the charter capital of the Company up to USD 862,000 thousand.

The Circular Resolution of the Sole Participant dated 2 November 2017 approved increase the charter capital of the Company up to USD 962,000 thousand. At 31 December 2017, the revised charter capital has been fully paid up.

15. Additional paid in capital

Additional paid in capital is comprised of contributions to charter capital made by UNG, which were not yet registered with the regulatory state authorities as at 31 December 2017. The Circular Resolution of the Sole Participant dated 12 December 2017 approved increase the charter capital of the Company from USD 962,000 thousand up to USD 1,042,000 thousand. At 31 December 2017, the revised charter capital has been fully paid up. However, the Company registered the increase with the regulatory state authorities on 15 January 2018.

16. Trade and other payable

Accounts payable are financial, non-interest bearing and are normally settled on 90 day's terms. Trade and other payable mainly include payables for asset under development in the amount of USD 84,476 thousand as at 31 December 2017 (2016: USD 38,135 thousand).

	2017	2016
Trade and other payables in USD	85,282	38,447
Trade and other payables in UZS	108	152
	<u>85,390</u>	<u>38,599</u>

17. 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.

Key management

Key management personnel consist of six employees of the Company. Compensation of two key management personnel equalled to USD 44 thousand (2016 – USD 131 thousand) and the cost incurred through salaries and related cost. Included in key management compensation are statutory pension contributions of UZS 3 thousand (2014 – UZS 9 thousand).

“Uzbekistan GTL” LLC

Notes to the financial statements

(Amounts presented are in thousands of United States Dollars, unless otherwise indicated)

17. Balances and transactions with related parties (continued)

The following tables show the transactions which have been entered into with related parties for the relevant financial periods:

2017	Purchases from the related parties	Payables to the related parties
<i>Entities under Parent's control:</i>		
UzLITI	28	-
Gissarneftegaz	1	-
Shurtan gas and chemical complex	4	21
	33	21
2016	Purchases from the Participants and other related parties	Payables to the Participants and other related parties (Note 15)
<i>Participants:</i>		
Sasol Synfuels International (Pty) Ltd.	2,771	-
<i>Entities under Participants' control:</i>		
Sasol Technology (Pty) Ltd.	503	-
UzLITI	163	-
Uzogirneftgazkimyoloyixa	11	-
Shurtan gas and chemical complex	4	-
	3,452	-

Commitments with related parties

As discussed in Note 18, the Company concluded a number of purchase and sale agreements with its related parties.

18. Financial risk management objectives and policies

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.

The Company's principal financial liabilities comprise accounts payable and other current liabilities, which arise directly from its operations. The Company has financial assets represented by cash and cash equivalents, which arise from contributions made by the Participants to the charter capital.

The Company is exposed to market risk, credit risk and liquidity risk. Management reviews and agrees policies for mitigating each of these risks which are summarised below.

(Amounts presented are in thousands of United States Dollars, unless otherwise indicated)

18. Financial risk management objectives and policies (continued)

Market risk

The Company takes on exposure to market risks. Market risks arise from open positions in (a) foreign currencies and (b) interest bearing assets and liabilities.

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.

Foreign currency risk

Currency risk. In respect of currency risk, management sets limits on the level of exposure by currency and in total. The positions are monitored monthly. The table below summarises the Company’s exposure to foreign currency exchange rate risk at the end of the reporting period:

	At 31 December 2017			At 31 December 2016		
	Monetary assets	Monetary liabilities	Net balance sheet position	Monetary assets	Monetary liabilities	Net balance sheet position
UZS	1,504	108	1,396	8,530	152	8,378
Total	1,504	108	1,396	8,530	152	8,378

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 respective Company entities, with all other variables held constant:

Increase / decrease in foreign exchange rate	Effect on loss before tax (gain/(loss))	
	2017	2016
UZS strengthening by 153% (2016: 16%)	(2,134)	(1,339)
UZS weakening by 153% (2016: 16%)	2,134	1,339

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

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. The Company is exposed to credit risk from its operating activities for cash and cash equivalents which are held and placed with local reputable banks.

Liquidity risk

The Company is at start-up phase and depends on financing from the Participants. Management believes that the Company is capable of sustaining its ongoing operations by means of contributions that will be available from the Participants.

Accounts payable and other current liabilities are expected to be settled within one year from the reporting date. Therefore, their carrying amounts at 31 December 2017 and 2016, approximate their undiscounted contractual maturities.

Capital Management

Capital includes the contribution of the Participants to the charter capital. The Company performs its activities on the basis of budget approved by all Participants for each stage of the Project until start of the production in 2020.

18. Financial risk management objectives and policies (continued)

Fair value

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

Fair values analysed by level in the fair value hierarchy and the carrying value of assets and liabilities not measured at fair value at 31 December 2017 and 31 December 2016. Cash and cash equivalents are categorised at level two and trade and other payables are categorised at level three. The fair value of cash and cash equivalents and trade and other payables was estimated to be equal to their carrying amount.

The fair values in level two and level three 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.

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 fair value of liabilities were determined using valuation techniques. 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.

19. Commitments

Legal proceedings

From time to time and in the normal course of business, claims against the Company may be received. Management is not aware of any existing or potential claims that could significantly affect these financial statements.

Tax contingencies

Uzbek tax, currency and customs legislation, which was enacted or substantively enacted at the end of the reporting period, is subject to varying interpretations when being applied to the transactions and activities of the Company. Consequently, tax positions taken by management and the formal documentation supporting the tax positions may be challenged tax authorities. As a result, the Company may be assessed additional taxes, penalties and interest. Fiscal periods remain open to review by the authorities in respect of taxes for five calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

The Company's management believes its interpretation of the relevant legislation is appropriate and the Company's tax, currency and customs positions will be sustained. Accordingly, at 31 December 2017 and 2016 no provision for potential tax liabilities had been recorded. In addition, the Company estimates that it has no potential obligations from exposure to other than remote tax risks.

(Amounts presented are in thousands of United States Dollars, unless otherwise indicated)

19. Commitments (continued)

Environmental matters

The enforcement of environmental regulation in the Republic of Uzbekistan is evolving and the enforcement posture of government authorities is continually being reconsidered. The Company periodically evaluates its obligations under environmental regulations. As obligations are determined, they are recognised immediately. Potential liabilities, which might arise as a result of changes in existing regulations, civil litigation or legislation, cannot be estimated but could be material. In the current enforcement climate under existing legislation, management believes that there are no significant liabilities for environmental damage.

Contractual commitments

On 19 September 2011, Presidential Decree # (ПП-1618) on further realization of the GTL Project has been issued. According to the Decree the increase and change in the structure of the charter capital of the Company (Note 14), Investment Agreement and Gas Purchase and Sales Agreement have been approved.

On 19 September 2011, the Investment Agreement has been signed between the Participants, the Company and Government of Uzbekistan. According to the agreement, the Government has committed to provide preferences to the Participants and the Company and arrange proper conditions for GTL project in the Republic of Uzbekistan including provision of land usage rights 136.12 hectares of area for the GTL plant free of charge, other than an annual rent payment not exceeding the maximum amount of land tax.

On 19 September 2011, the Company together with SASOL and PETRONAS concluded the Gas Sale and Purchase Agreement with UNG to purchase a maximum daily quantity of methane rich gas and pipeline gas within the next 25 years beginning on the production commencement date. According to the agreement, the methane rich gas and pipeline gas will be purchased at fixed price during the first 10 years. The agreement became ineffective from the date of PETRONAS and SASOL withdrawal from the Company. Currently the new agreement between the Company and UNG is in the process of ratification. The agreement is being concluded on the same subject matter with minor changes in terms. It is expected to be signed by the end of 2018.

On 19 September 2011, the Company together with the SASOL and PETRONAS concluded the Product Off-take Agreement with UNG, to sell to the latter, an agreed amount of GTL products within the next 25 years beginning on the production commencement date. The prices in respect of the GTL Diesel and Kerosene will be calculated by reference to the price per Barrel for Brent crude oil FOB and the price for GTL Liquefied petroleum gas will be based on the weighted average of the Butane Saudi Contract Price per Barrel, both quoted by Platts. The agreement became ineffective from the date of PETRONAS and SASOL withdrawal from the Company. Currently the new agreement between the Company and UNG is in the process of ratification. The agreement is being concluded on the same subject matter with minor changes in terms. It is expected to be signed by the end of 2018.

On 19 September 2011, the Company concluded the Engineering Services Agreement with Sasol Technology (Pty) Ltd. (subsidiary of the Sasol Limited) to purchase services on provision of the Engineering Design Package to the Company. Total amount of the agreement will be a maximum of USD 57,500 thousand. As of 31 December 2017 the outstanding commitment on this contract was USD 31,603 thousand (2016: USD 32,120 thousand).

On 19 September 2011, the Company concluded the Licence Agreement with Sasol Technology (Pty) Ltd. to purchase the licence for GTL patent rights amounting to USD 80,000 thousand for an indefinite period, unless terminated in accordance with terms of the Licence Agreement (Note 10). As of 31 December 2017 the outstanding commitment on this contract was USD 31,199 thousand (2016: USD 67,070 thousand).

On 19 September 2011, the Company concluded the Reactor Services Agreement with Sasol Technology (Pty) Ltd. to purchase services on provision of the Mechanical Package to the manufacturer of LTFT Reactors amounting to USD 16,500 thousand. As of 31 December 2017 the outstanding commitment on this contract was USD 12,084 thousand (2016: USD 12,479 thousand).

On 19 September 2011, the Company concluded the Catalyst Supply Agreement with Sasol Cobalt Catalyst Manufacturing (Pty) Ltd. (subsidiary of the Participant) to purchase agreed amount of Sasol LTFT Catalyst within the next 25 years beginning on the production commencement date.

(Amounts presented are in thousands of United States Dollars, unless otherwise indicated)

19. Commitments (continued)

Contractual commitments (continued)

On 18 October 2012, the Company signed an agreement “HITACHI ZOOSSEN CORPORATION” for the supply of the LTFT reactor for USD 78,695 thousand. On 31 March 2014 this contract was novated to Hyundai Engineering and Construction Co., Ltd. and Hyundai Engineering Co., Ltd. (EPC contractor).

On 25 November 2013 the Company signed site preparation agreement with Eriell Corporation s.r.o. for USD 45,618 thousand. On 14 March 2014, this agreement was also novated to the Company’s EPC contractor.

On 24 December 2013 the Company signed EPC contract for work relating to the Engineering, Procurement, and Construction of the plant with consortium of Hyundai Engineering & Construction and Hyundai Engineering with the condition for EPC contractor to enter the required novation agreements (LTFT reactor agreement and site preparation agreement) to make the EPC contract effective. The contract amount was USD 3,101,205 thousand. The novation agreements were signed in March 2014 and consequently make the effective date of the EPC contracts as 1 April 2014.

On 16 November 2016 Enter Engineering Pte. Ltd became part of EPC Consortium, after the Company successfully negotiated the EPC contract cost in the amount of USD 2,634,000 thousand.

20. Subsequent events

On 15 January 2018 the Company registered the increase to the charter capital of the Company up to USD 1,042,000 thousand.

The Circular Resolution of the Sole Participant dated 7 May 2018 approved increase the charter capital of the Company up to USD 1,043,700 thousand.

The Circular Resolution of the Sole Participant dated 12 June 2018 approved increase the charter capital of the Company up to USD 1,045,202 thousand.

The Circular Resolution of the Sole Participant dated 30 July 2018 approved increase the charter capital of the Company up to USD 1,046,357 thousand.