

EnergoTrans LLC

**Financial Statements
for 2017**

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Independent Auditors' Report

To the Supervisory Board of EnergoTrans LLC

Opinion

We have audited the financial statements of EnergoTrans LLC (the "Company"), which comprise the statement of financial position as at 31 December 2017, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of 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 (IFRS).

Basis for Opinion

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

Statement of Management Report

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

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

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

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

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

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, 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.

Auditors' 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 auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these 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 auditors' 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 auditors' 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.

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

Karen Safaryan



KPMG Georgia LLC
Tbilisi, Georgia
17 July 2018

'000 GEL	Note	2017	2016
ASSETS			
Non-current assets			
Property and equipment	8	285,363	555,347
Intangible assets		12	8
Trade and other receivables	9	7,458	14,796
Total non-current assets		292,833	570,151
Current assets			
Trade and other receivables	9	10,972	14,504
Inventories		804	782
Cash and cash equivalents	10	2,862	5,789
Total current assets		14,638	21,075
Total assets		307,471	591,226
EQUITY AND LIABILITIES			
Equity			
Charter capital	11	101,818	103,950
Revaluation reserve		478	478
Accumulated losses		(476,791)	(161,650)
Total equity		(374,495)	(57,222)
Non-current liabilities			
Loans and borrowings	13	301,685	524,005
Grants related to assets	14	56,911	59,755
Total non-current liabilities		358,596	583,760
Current liabilities			
Loans and borrowings	13	311,584	51,390
Grants related to assets	14	2,836	2,836
Trade and other payables	15	8,950	10,462
Total current liabilities		323,370	64,688
Total liabilities		681,966	648,448
Total equity and liabilities		307,471	591,226

EnergoTrans LLC
Statement of Profit or Loss and Other Comprehensive Income for 2017

'000 GEL	Note	2017	2016
Revenue	5	39,917	42,490
Other income		3,581	3,335
Impairment of property and equipment	8	(250,117)	-
Personnel expenses		(2,622)	(2,439)
Depreciation and amortization	8	(21,781)	(21,854)
Other expenses		(7,726)	(5,842)
Results from operating activities		(238,748)	15,690
Finance income	6	624	951
Finance costs	6	(77,017)	(51,228)
Net finance costs		(76,393)	(50,277)
Loss before income tax		(315,141)	(34,587)
Income tax benefit	7	-	1,622
Loss and total comprehensive loss for the year		(315,141)	(32,965)

These financial statements were approved by management on 17 July 2018 and were signed on its behalf by:

Kakha Sekhniashvili
Director

Irakli Manelidze
Finance Director

EnergoTrans LLC
Statement of Changes in Equity for 2017

'000 GEL	Charter capital	Revaluation reserve	Accumulated losses	Total
Balance at 1 January 2016	110,950	478	(128,685)	(17,257)
Total comprehensive loss for the year				
Loss for the year	-	-	(32,965)	(32,965)
Contributions by and distributions to owners				
Net decrease in charter capital (see note 11 (a))	(7,000)	-	-	(7,000)
Balance at 31 December 2016	103,950	478	(161,650)	(57,222)
Balance at 1 January 2017	103,950	478	(161,650)	(57,222)
Total comprehensive loss for the year				
Loss for the year	-	-	(315,141)	(315,141)
Contributions by and distributions to owners				
Net decrease in charter capital (see note 11 (a))	(2,132)	-	-	(2,132)
Balance at 31 December 2017	101,818	478	(476,791)	(374,495)

'000 GEL	Notes	2017	2016
Cash flows from operating activities			
Loss before income tax		(315,141)	(34,587)
<i>Adjustments for:</i>			
Depreciation and amortisation	8	21,781	21,854
Impairment loss on property and equipment	8	250,117	-
Property and equipment write-off		1,237	43
Net finance costs	6	76,393	50,277
Income from amortization of grants	14	(2,885)	(2,916)
		31,502	34,671
<i>Changes in:</i>			
Inventories		(22)	(177)
Trade and other receivables		10,870	12,037
Trade and other payables		(1,532)	411
Cash flows from operations before interest paid		40,818	46,942
Interest paid		(8,945)	(9,547)
Net cash from operating activities		31,873	37,395
Cash flows from investing activities			
Interest received		624	951
Acquisition of property and equipment		(3,129)	(377)
Net cash (used in)/from investing activities		(2,505)	574
Cash flows from financing activities			
Proceeds from grants	14	41	261
Repayment of borrowings		(30,385)	(33,780)
Increase in charter capital		-	5,098
Decrease in charter capital	11	(2,150)	(10,098)
Net cash used in financing activities		(32,494)	(38,519)
Net decrease in cash and cash equivalents		(3,126)	(550)
Cash and cash equivalents at 1 January		5,789	6,132
Effect of exchange rate fluctuations on cash and cash equivalents		199	207
Cash and cash equivalents at 31 December	10	2,862	5,789

1. Reporting entity

(a) Georgian business environment

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

(b) Organisation and operations

EnergoTrans LLC (the Company) is a Georgian limited liability company as defined in the Civil Code of Georgia. The Company was established as a state-owned enterprise in 2002.

The Company's registered office is 2 Baratashvili Street, Tbilisi 0105, Georgia and the Company's registration number is 5/4-3329.

The Company's principal activity is electricity transmission including export and transit of electricity via 500kV Vardzia and Zekari energy transmission lines and the 400kV Meskheta interconnection line with Turkey constructed as a part of 'Black Sea Transmission Network Project' (BSTN). The new line provides additional security to Georgia's transmission network, by adding a second west-east 500kV link, and creates energy export capacity to Turkey. The BSTN project was completed by the end of 2013, until when the Company's primary objective was to serve the BSTN project as an executing agency, carrying out overall control, supervision and monitoring over the performance by the contractors of all project-related construction works and activities. The Company operates under the licenses obtained from the Georgian National Energy and Water Supply Regulatory Commission (the Regulator).

The Regulator sets the tariff for the Company in a way to fully reimburse investments related to the construction of the 500kV energy transmission lines and 17.53% (see note 8(c)) of the investments related to construction of the 400kV energy transmission line, all related expenses and a required return on the initial investments.

Investments related to the construction of the 500kV and 400kV energy transmission lines represents the regulatory asset base (RAB) for the purpose of tariff determination by the Regulator. In addition to RAB, the Company has fixed assets received from grants of GEL 59,747 thousand (see note 14) and construction in progress of GEL 17,067 thousand (see note 8). These assets are not included in the calculation of the tariff.

The Company is wholly owned by Georgian State Electrosystem JSC. The Company's ultimate parent company is Partnership Fund JSC and the Company's ultimate controlling party is the Government of Georgia.

The majority of the Company's funding is from, and credit exposures are to, other entities within the group headed by Partnership Fund JSC. As a result the Company is economically dependent upon the Group headed by Partnership Fund JSC. In addition, the activities of the Company are closely linked with the requirements of the Group headed by Partnership Fund JSC. Related party transactions are disclosed in note 18.

2. Basis of accounting

(a) Statement of compliance

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

3. Functional and presentation currency

The national currency of Georgia is the Georgian Lari (“GEL”), which is the Company’s functional currency and the currency in which these financial statements are presented. All financial information presented in GEL has been rounded to the nearest thousand, except when otherwise indicated.

4. Use of estimates and judgments

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

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

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

- Note 13 - fair values of loans and borrowings at initial recognition;
- Note 20 (f)(iv) – useful lives of property and equipment.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year is included in note 8(c)–impairment of property and equipment.

Measurement of fair values

A number of the Company’s accounting policies and disclosures require the determination of fair values for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and for disclosure purposes.

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

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

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

Further information about the assumptions made in measuring fair values is included in the following notes:

- Note 8(b) – revaluation of land;
- Note 16(a) – fair values of financial assets and liabilities.

5. Revenue

'000 GEL	2017	2016
Revenue from transmission of electricity	33,765	33,203
Revenue from exporting electricity	4,234	3,226
Revenue from transit of electricity	1,918	6,061
Total revenues	39,917	42,490

The Company started transit of electricity mainly from 2016.

6. Net finance costs

'000 GEL	2017	2016
Recognised in profit or loss		
Interest income on bank accounts	624	951
Finance income	624	951
Interest expense on financial liabilities measured at amortised cost	(15,900)	(15,532)
Net foreign exchange loss	(61,117)	(35,696)
Finance costs	(77,017)	(51,228)
Net finance costs recognised in profit or loss	(76,393)	(50,277)

7. Income taxes

(a) Amounts recognised in profit or loss

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

'000 GEL	2017	2016
Current tax expense		
Current year	-	-
Deferred tax benefit		
Change in recognised deductible temporary differences (due to change in the legislation)	-	(1,622)
Total tax benefit	-	(1,622)

Reconciliation of effective tax rate:

	2017		2016	
	'000 GEL	%	'000 GEL	%
Distributed profit as dividends/(loss) before income tax	-	-	(34,587)	100
Income tax at applicable tax rate	-	-	(5,188)	15
Differences between tax and IFRS bases of income and expenses	-	-	5,188	(15)
Change in recognised deductible temporary differences (due to change in the legislation)	-	-	(1,622)	5
	-	-	(1,622)	5

(b) Movement in deferred tax balances

'000 GEL	1 January 2016	Recognised in profit or loss	31 December 2016
Property and equipment	(11,293)	11,293	-
Grants related to assets	9,671	(9,671)	-
	(1,622)	1,622	-

In 2016 reversal of previously recognized deferred tax liabilities of GEL 1,622 thousand is attributable to changes in Georgian tax legislation. On 13 May 2016 the Parliament of Georgia passed the bill on corporate income tax reform (also known as the Estonian model of corporate taxation), which mainly moves the moment of taxation from when taxable profits are earned to when they are distributed. The law is enacted since 13 May 2016 and is effective for tax periods starting on or after 1 January 2017. Considering that the change in the Georgian Tax Code was enacted before the reporting date, the Company has recognized the full effect of the change by derecognizing previously recognized deferred tax liabilities through the current period statement of profit or loss as an income tax benefit.

Due to the change in the Tax Code, the Company will not be able to utilize the tax losses carry forward from the prior periods.

8. Property and equipment

'000 GEL	Land and buildings	Power transmission lines	Equipment, vehicles and other	Construction in progress	Total
<i>Cost/revalued amount</i>					
Balance at 1 January 2016	35,776	170,256	387,504	28,898	622,434
Additions	-	-	-	377	377
Disposals	-	-	(31)	(39)	(70)
Internal movements	-	(222)	1,493	(1,271)	-
Balance at 31 December 2016	35,776	170,034	388,966	27,965	622,741
Balance at 1 January 2017	35,776	170,034	388,966	27,965	622,741
Additions	18	-	-	3,129	3,147
Disposals	-	-	(1,500)	(24)	(1,524)
Internal movements	350	730	(2,443)	1,363	-
Balance at 31 December 2017	36,144	170,764	385,023	32,433	624,364
<i>Depreciation:</i>					
Balance at 1 January 2016	2,794	11,327	31,449	-	45,570
Depreciation for the year	1,383	4,870	15,601	-	21,854
Disposals	-	(21)	(9)	-	(30)
Balance at 31 December 2016	4,177	16,176	47,041	-	67,394
Balance at 1 January 2017	4,177	16,176	47,041	-	67,394
Depreciation for the year	1,393	4,884	15,500	-	21,777
Disposals	-	-	(287)	-	(287)
Impairment loss	14,281	69,925	150,952	14,959	250,117
Internal movements	-	-	(407)	407	-
Balance at 31 December 2017	19,851	90,985	212,799	15,366	339,001
<i>Carrying amounts</i>					
At 1 January 2016	32,982	158,929	356,055	28,898	576,864
At 31 December 2016	31,599	153,858	341,925	27,965	555,347
At 31 December 2017	16,293	79,779	172,224	17,067	285,363

Property and equipment mainly represents energy-transmission lines constructed within the framework of the 'Black Sea Transmission Network' project which was completed in 2013. The project was financed by credit facilities and grants provided by the European Bank for Reconstruction and Development, the European Investment Bank and Kreditanstalt für Wiederaufbau (KfW) (see notes 13, 14). Construction in progress of GEL 17,067 thousand as at 31 December 2017 (2016: GEL 27,965 thousand) represents spare parts of GEL 16,676 thousand (2016: GEL 27,324) and stand-by equipment of GEL 391 thousand (2016: GEL 641 thousand) held to support the operations of property and equipment.

(a) Security

As at 31 December 2017 property and equipment with the carrying amount of GEL 25,594 thousand (2016: GEL 50,404 thousand) is pledged as a security for loans and borrowings from Ministry of Finance of Georgia (see note 13).

(b) Revaluation of land

In preparing these financial statements management assessed the fair value of land as at 31 December 2017. The fair value was determined based on market prices in recent transactions or announced asking prices of similar properties. Based on the assessment performed, management believes that no adjustment is needed to the carrying value of land in order for it to approximate to its fair value.

(c) Impairment of property and equipment

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

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

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

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

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

9. Trade and other receivables

'000 GEL	2017	2016
VAT recoverable	12,948	21,016
Trade receivables	4,521	7,231
Receivables from owner	846	846
Other receivables	115	207
	18,430	29,300
Non-current	7,458	14,796
Current	10,972	14,504
	18,430	29,300

The Company's exposure to credit risk related to trade and other receivables is disclosed in note 16.

10. Cash and cash equivalents

'000 GEL	2017	2016
Bank balances	2,862	5,789
Cash and cash equivalents in the statement of financial position and in the statement of cash flows	2,862	5,789

The Company's exposure to currency and credit risks and a sensitivity analysis for financial assets and liabilities are disclosed in note 16.

11. Equity

Charter capital

Charter capital represents the nominal amount of capital in the founding documentation of the Company.

'000 GEL	2017	2016
Balance as at 1 January	103,950	110,950
Movement during the year		
Non-cash owner contributions	18	-
Increase of charter capital received in cash	-	5,098
Decrease of charter capital, paid out in cash	(2,150)	(10,098)
Decrease of charter capital, unpaid	-	(2,000)
Net decrease in charter capital	(2,132)	(7,000)
Balance as at 31 December	101,818	103,950

12. Capital management

The Company has no formal policy for capital management but management seeks to maintain a sufficient capital base for meeting the Company's operational and strategic needs. This is achieved with efficient cash management and long-term investment plans mainly financed by the Company's long-term borrowings.

There were no changes in the Company's approach to capital management during the year. The Company is not subject to externally imposed capital requirements.

13. Loans and borrowings

This note provides information about the contractual terms of the Company's interest-bearing loans and borrowings, which are measured at amortised cost. For more information about the Company's exposure to interest rate, foreign currency and liquidity risk, see note 16.

'000 GEL	2017	2016
Non-current liabilities		
Unsecured loans from financial institutions	301,685	501,351
Secured loan from related party	-	22,654
	301,685	524,005
Current liabilities		
Current portion of unsecured loans from financial institutions	276,709	40,289
Current portion of secured loan from related party	34,875	11,101
	311,584	51,390

(a) Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

'000 GEL		Nominal Currency	interest rate	Year of maturity	31 December 2017		31 December 2016	
					Face value	Carrying amount	Face value	Carrying amount
Unsecured loans from financial institutions:								
Ministry of Finance of Georgia - Kreditanstalt für Wiederaufbau	EUR	KfW reference rate +4%	2027	244,760	244,760	214,587	214,587	
Ministry of Finance of Georgia - European Investment Bank	EUR	Euribor+ 0.75%	2033	216,626	216,626	208,567	208,567	
Ministry of Finance of Georgia - European Bank for Reconstruction and Development	EUR	Euribor+1%	2025	117,008	117,008	118,486	118,486	
Secured loan from related party:								
Ministry of Finance of Georgia	EUR	7.5%	2020	34,875	34,875	33,755	33,755	
Total interest-bearing liabilities				613,269	613,269	575,395	575,395	

As at 31 December 2017 property and equipment with the carrying amount of GEL 25,594 thousand (2016: GEL 50,404 thousand) is pledged as a security for loans and borrowings from Ministry of Finance of Georgia (see note 8(s)).

The unsecured loans from financial institutions are loans received from the European Bank for Reconstruction and Development (EBRD), the European Investment Bank (EIB) and Kreditanstalt für Wiederaufbau (KfW). Loans from EBRD, EIB and KfW were disbursed to the Government of Georgia in relation to the 'Black Sea Transmission Network' project for the construction of new energy transmission lines. The Government of Georgia, in turn, transferred the amounts received under the facilities, together with the repayment obligation to the Company. The lenders have not legally released the Government of Georgia from the primary responsibility for the repayment of the loans, accordingly the Government of Georgia acted as a principal in these transactions and the loans payable by the Company are towards the Ministry of Finance of Georgia. The secured loan from related party represents interest accrued on unsecured loans from financial institutions and paid by the Government of Georgia on behalf of the Company.

Management estimates that the fair values of loans and borrowings are not different from loaned amounts at initial recognition as these loans are provided in a separate market segment which is different from the commercial lending market.

(b) Breach of contractual terms

During 2017, due to the cash shortage, the contractual amounts falling due under Subsidiary Loan Agreement (KfW) concluded between the Company and the Government of Georgia were not repaid on time. The Company failed to negotiate restructuring of loan terms with the Government of Georgia in 2017, accordingly no formal consent for postponement of payments falling due in 2017 were obtained from the Government of Georgia. The breach of contractual terms represents the Event of Default under the Subsidiary Loan Agreement (KfW) which gives the Government of Georgia an unconditional right to request immediate repayment of loans and borrowings of GEL 276,166 thousand as at 31 December 2017 (see note 16 (b)(iii)). As at 31 December 2017 the loan was reclassified as current on the statement of financial position of the Company.

(c) Loan covenant waiver

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

(d) Reconciliation of movements of liabilities to cash flows arising from financing activities

GEL'000	1 January 2017	Cash inflow	Accrued interest	Cash outflow (principal)	Cash outflow (interest)	Net foreign exchange loss	31 December 2017
Borrowed funds	575,395	-	15,900	(30,385)	(8,945)	61,304	613,269

14. Grants related to assets

'000 GEL	2017	2016
Balance at 1 January	62,591	65,246
Credited to profit and loss	(2,885)	(2,916)
Received during the year	41	261
Balance at 31 December	59,747	62,591
Non-current	56,911	59,755
Current	2,836	2,836
	59,747	62,591

Grant related to assets of EUR 25,000 thousand represents the financial contribution received from KfW within the framework of the Black Sea Transmission Network project for the construction of new energy transmission lines. The financial contribution is not repayable unless the Company misuses the funds received or seriously jeopardizes the implementation of the project.

15. Trade and other payables

'000 GEL	2017	2016
Payables for the construction work performed	7,731	7,819
Other payables	1,219	2,643
	8,950	10,462

The Company's exposure to currency and liquidity risks related to trade and other payables is disclosed in note 16.

16. Fair values and risk management

(a) Fair values of financial assets and liabilities

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

The Company has determined the fair values of financial assets and liabilities using valuation techniques. The objective of the valuation techniques is to arrive at a fair value determination that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date. The valuation technique used is the discounted cash flow model. Fair value of all financial assets and liabilities is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

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

(b) Financial risk management

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

- credit risk;
- liquidity risk;
- market risk.

(i) Risk management framework

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

The Company's risk management policies are established to identify and analyse the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities. The Company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

(ii) Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from customers and bank balances.

The carrying amount of financial assets represents the maximum credit risk exposure.

Trade and other receivables

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. Geographically, the credit risk is concentrated mainly in Georgia.

Management has established a credit policy under which each new customer is analysed individually for creditworthiness before the Company's standard payment and delivery terms and conditions are offered. The Company's review includes external ratings, when available, and in some cases bank references.

No collateral in respect of trade and other receivables is generally required.

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

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

'000 GEL	Carrying amount	
	2017	2016
Domestic	4,521	7,231

None of the Company's trade receivables are impaired or past due.

Cash and cash equivalents

The cash and cash equivalents are held with one Georgian bank with short term issuer default rating of B, rated by Fitch Ratings, and management does not believe that this counterparty will fail to meet its obligations.

(iii) Liquidity risk

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

The Company manages liquidity requirements by the use of both short-term and long-term projections. Management regularly monitors monthly forecasts of the Company's cash flows. The Company has established an annual budgeting process with the shareholder. The budget is reviewed by the Supervisory Board and approved by the owner. The budget is updated on a monthly basis based on the actual results. The Company aims to maintain the level of cash and cash equivalents at an amount in excess of expected cash outflows on financial liabilities over the next 60 days.

As at 31 December 2017 management analysed the overall financial results, financial position and cash flows from operating activities of the Company and considered the mitigating actions listed below and concluded that the Company will have sufficient liquidity to meet its liabilities when due and that the management's going concern assumption as of the reporting date is appropriate.

The management's above assumption is based on the following facts and estimates:

- The loans and borrowings of GEL 613,269 thousand are due to the Ministry of Finance of Georgia, out of the total loans and borrowings balance, GEL 578,394 thousand represent sub-loan agreements of the Ministry of Finance's obligation towards the financial institutions (EBRD, KfW and EIB, see note 13), and the balance of GEL 34,875 thousand is due to the Ministry of Finance.

- A support letter has been obtained from the Ministry of Economy and Sustainable Development of Georgia (ultimate controlling party), where the Ministry of Economy and Sustainable Development expressed its intention and ability to provide further financial and other support to the Company, if necessary, to permit the Company meet its financial obligations as they fall due.
- In addition, the Company maintains a VAT recoverable of GEL 12,948 thousand (2016: GEL 21,016 thousand) as at 31 December 2017 that can be offset against the Company's tax liabilities.

The following are the remaining contractual maturities of financial liabilities at the reporting date. The amounts are gross and undiscounted, include estimated interest payments.

31 December 2017	Contractual cash flows				
'000 GEL	Carrying amount	Total	up to 1 year	1-5 yrs	Over 5 yrs
Non-derivative financial liabilities					
Unsecured loans from financial institutions	578,394	589,483	276,709	126,096	186,678
Secured loan from related party	34,875	35,178	35,178	-	-
Trade and other payables	8,950	8,950	8,950	-	-
	622,219	633,611	320,837	126,096	186,678

31 December 2016	Contractual cash flows				
'000 GEL	Carrying amount	Total	up to 1 year	1-5 yrs	Over 5 yrs
Non-derivative financial liabilities					
Unsecured loans from financial institutions	541,640	645,139	40,289	212,312	392,538
Secured loan from related party	33,755	39,256	11,101	28,155	-
Trade and other payables	10,462	10,462	10,462	-	-
	585,857	694,857	61,852	240,467	392,538

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

(iv) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Company's income or the value of its holdings of financial instruments.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

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

Currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company's exposure to the risk of changes in foreign exchange rates relates primarily to the financial liabilities denominated in foreign currencies. The currency in which these transactions are primarily denominated is EUR.

The Company does not hedge its exposure to currency risk.

Exposure to currency risk

The Company's exposure to foreign currency risk was as follows based on notional amounts:

'000 GEL	EUR-denominated	
	2017	2016
Cash and cash equivalents	99	3,237
Loans and borrowings	(613,269)	(575,395)
Trade and other payables	(225)	(322)
Net exposure	(613,395)	(572,480)

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

in GEL	Average rate		Reporting date spot rate	
	2017	2016	2017	2016
EUR 1	2.8322	2.6172	3.1044	2.7940

Sensitivity analysis

A reasonably possible strengthening/(weakening) of GEL, as indicated below, against EUR at 31 December would have affected profit or loss by the amounts shown below. There would have been no impact directly on equity. The analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2016.

'000 GEL	Strengthening		Weakening	
	Profit or (loss)		Profit or (loss)	
31 December 2017				
EUR (10% movement)		61,340		(61,340)
31 December 2016				
EUR (10% movement)		57,248		(57,248)

(v) **Interest rate risk**

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

Exposure to interest rate risk

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

'000 GEL	Carrying amount	
	2017	2016
Fixed rate instruments		
Financial liabilities	34,875	33,755
Variable rate instruments		
Financial liabilities	578,394	541,640

Fair value sensitivity analysis for fixed rate instruments

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

Cash flow sensitivity analysis for variable rate instruments

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

'000 GEL	Profit or (loss)	
	100 bp increase	100 bp decrease
2017		
Variable rate instruments	(5,784)	5,784
2016		
Variable rate instruments	(5,416)	5,416

17. Contingencies

(a) Insurance

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

(b) Taxation contingencies

The taxation system in Georgia is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are sometimes unclear, contradictory and subject to varying interpretation. A tax year remains open for review by the tax authorities during the three subsequent calendar years, however under certain circumstances a tax year may remain open longer.

These circumstances may create tax risks in Georgia that are more significant than in other countries with more developed taxation systems. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Georgian tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these consolidated financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

18. Related parties

(a) Parent and ultimate controlling party

The Company's immediate parent company is Georgian State Electrosystem JSC. The Company's ultimate parent company is Partnership Fund JSC and the Company's ultimate controlling party is the Government of Georgia.

Partnership Fund JSC produces publicly available financial statements in accordance with IFRSs which are available on the entity's website.

(b) Transactions with key management personnel

(i) Key management remuneration

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

'000 GEL	2017	2016
Salaries and bonuses	876	792

(c) Other related party transactions

The Company transacts in its daily operations with a number of entities that are either controlled or jointly controlled by the Government of Georgia. The Company applies the exemption in IAS 24 *Related party disclosures* that allows to present reduced related party disclosures regarding transactions with government-related entities.

All of the Company's loans and borrowings and interest expense on loans and borrowings are payable to the Ministry of Finance of Georgia. The Company's grants related to assets are mainly received in the transactions where the Government of Georgia acted as an intermediary.

Approximately 38% of the Company's revenue (2016: 44%) is from three entities significantly influenced or controlled by the Government of Georgia.

19. Subsequent event

In January 2018, the Company did not pay the scheduled payment falling due under the Subsidiary Loan Agreement with EBRD. The Company is in the process of negotiation with the Government of Georgia regarding the restructuring of terms of the the Subsidiary Loan Agreement (EBRD).

20. Basis of measurement

The financial statements are prepared on the historical cost basis except for land that is measured at fair value.

21. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

(a) Revenue

(i) Services

Revenue is recognized to the extent the Company has rendered services under an agreement, the amount of revenue can be measured reliably and it is probable that the economic benefits associated with the transaction will flow to the Company. Revenue is measured at the fair value of the consideration received, exclusive of sales taxes and discounts.

The Company primarily derives revenue from transmission of electric power. Revenue is recognized when the actual services are delivered based on the volume of transmitted electricity at the reporting date.

(ii) Government grants

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

(b) Finance income and costs

The Company's finance income and finance costs include:

- interest income on funds invested;
- interest expense on financial liabilities measured at amortized cost;
- the foreign currency gain or loss on financial assets and financial liabilities.

Interest income or expense is recognised as it accrues in profit or loss using the effective interest method. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method. Foreign currency gains and losses are reported on a net basis as either finance income or finance cost depending on whether foreign currency movements are in a net gain or net loss position.

(c) Foreign currency transactions

Transactions in foreign currencies are translated to GEL at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to GEL at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period. Non-monetary items in a foreign currency that are measured based on historical cost are translated using the exchange rate at the date of the transaction. Foreign currency differences arising in retranslation are recognised in profit or loss.

(d) Income tax

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

(i) Current tax

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

On 13 May 2016 the Parliament of Georgia passed the bill on corporate income tax reform (also known as the Estonian model of corporate taxation), which mainly moves the moment of taxation from when taxable profits are earned to when they are distributed. The law entered into force in 2016 and is effective for tax periods starting after 1 January 2017 for all entities except for financial institutions (such as banks, insurance companies, microfinance organizations, pawnshops), for which the law will become effective from 1 January 2023.

The new system of corporate income taxation does not imply exemption from Corporate Income Tax (CIT), rather CIT taxation is shifted from the moment of earning the profits to the moment of their distribution; i.e. the main tax object is distributed earnings. The Tax Code of Georgia defines Distributed Earnings (DE) to mean profit distributed to shareholders as a dividend. However some other transactions are also considered as DE, for example non-arm's length cross-border transactions with related parties and/or with persons exempted from tax are also considered as DE for CIT purposes. In addition, the tax object includes expenses or other payments not related to the entity's economic activities, free of charge supply and over-limit representative expenses.

Tax reimbursement is available for the current tax paid on the undistributed earnings in the years 2008-2016, if those earnings are distributed in 2017 or further years.

The corporate income tax arising from the payment of dividends is accounted for as an expense in the period when dividends are declared, regardless of the actual payment date or the period for which the dividends are paid. The amount of tax payable on a dividend distribution is calculated as 15/85 of the amount of the net distribution.

The Tax Code of Georgia provides for charging corporate income tax on certain transactions not related to the entity's economic activities, free of charge supplies and representative expenses over the allowed limit. The Company considers the taxation of such transaction as outside of the scope of IAS 12 Income Taxes and accounts for the tax on such items as taxes other than on income.

(ii) Deferred Tax

Due to the nature of the new taxation system described above, the entities registered in Georgia do not have any differences between the tax bases of assets and their carrying amounts and hence, no deferred income tax assets and liabilities arise.

Tax losses accrued in the prior periods cannot be utilized against the future taxable profits.

(e) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the weighted average cost principle, and includes expenditure incurred in acquiring the

inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition.

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

(f) Property and equipment

(i) Recognition and measurement

Items of property and equipment, except for land, are measured at cost less accumulated depreciation and any accumulated impairment losses. The cost of certain items of property, plant and equipment at 1 January 2009, the Company's date of transition to IFRSs, was determined by reference to its fair value at that date.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located, and capitalised borrowing costs. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment. If significant parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

Any gain or loss on disposal of an item of property and equipment is determined by comparing the proceeds from disposal with the carrying amount of property and equipment, and is recognised net within other income/other expenses in profit or loss. When revalued assets are sold, any related amount included in the revaluation reserve as revaluation surplus is transferred to retained earnings.

(ii) Subsequent expenditure

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

(iii) Revaluation of land

Land is measured at fair value, based on periodic valuation by external independent valuers or the management of the Company. A revaluation increase on land is recognised directly under the heading of revaluation surplus in other comprehensive income. However, the increase is recognised in profit or loss to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss.

A revaluation decrease on land is recognised in profit or loss. However, the decrease is recognised in other comprehensive income to the extent of any credit balance existing in the revaluation surplus.

(iv) Depreciation

Items of property and equipment are depreciated from the date that they are installed and are ready for use, or in respect of internally constructed assets, from the date that the asset is completed and ready for use. Depreciation is based on the cost of an asset less its estimated residual value. Depreciation is generally recognised in profit or loss on a straight-line basis over the estimated useful

lives of each part of an item of property and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Company will obtain ownership by the end of the lease term. Land is not depreciated.

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

- buildings 15-25 years;
- power transmission lines 35 years;
- equipment, vehicles and other 5-25 years.

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

(g) Financial instruments

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

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

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

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

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

Loans and receivables

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

Loans and receivables category comprise trade and other receivables and cash and cash equivalents.

Cash and cash equivalents

Cash and cash equivalents comprise bank balances.

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

Other financial liabilities are recognised initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method. Other financial liabilities comprise loans and borrowings and trade and other payables.

(iii) *Equity*

Charter capital is classified as equity.

When charter capital is increased, any difference between the registered amount of charter capital and the fair value of the assets contributed is recognized as a separate component of equity in the fair value adjustment reserve for non-cash owner contributions.

(h) *Impairment*

(i) *Non-derivative financial assets*

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include:

- default or delinquency by a debtor;
- restructuring of an amount due to the Company on terms that the Company would not consider otherwise;
- indications that a debtor will enter bankruptcy;
- economic conditions that correlate with defaults.

Financial assets measured at amortised cost

The Company considers evidence of impairment for these assets at both an individual asset and a collective level. All individually significant assets are individually assessed for impairment. Those found not to be impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Assets that are not individually significant are collectively assessed for impairment by grouping together assets with similar risk characteristics. In assessing collective impairment the Company uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss is calculated as the difference between an asset's carrying amount, and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account. When the Company considers that there are no realistic prospects of recovery of the asset, the relevant amounts are written off. Interest on the impaired asset continues to be recognised through the unwinding of

the discount. When a subsequent event causes the amount of impairment loss to decrease and the decrease can be related objectively to an event occurring after the impairment was recognised, the decrease in impairment loss is reversed through profit or loss.

(ii) Non-financial assets

The carrying amounts of the Company's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGU.

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

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

An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit (CGU) exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are to reduce the carrying amounts of the other assets in the CGU (group of CGUs) on a pro rata basis.

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

22. New Standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective as at 31 December 2017 and have not been applied in preparing these separate financial statements. Of these pronouncements, potentially the following will have an impact on the Company's operations. The Company plans to adopt these pronouncements when they become effective.

(a) IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and IFRIC 13 *Customer Loyalty Programmes*.

The Company is required to adopt IFRS 15 *Revenue from Contracts with Customers* from 1 January 2018. The Company has assessed and determined the initial application of IFRS 15 will not have a material impact on its financial statements. The estimated impact of the adoption of this standard on the Company's equity as at 1 January 2018 is based on preliminary assessments undertaken to date.

(a) **Services**

The company is involved in electricity transmission, export and transit service. Revenue is currently recognized after the completion of service. Under IFRS 15, the total consideration in the service will be allocated to all contractual obligations based on their stand-alone selling prices. The stand-alone selling prices will be determined based on the prices at which the Company sells the service in separate transactions. Based on the Company's assessment the stand-alone selling prices of the services are clearly identifiable and the entity is regulated by the state, therefore fair value and stand-alone selling prices are not subject of comparing to each other. Considering all facts and circumstances the Company does not expect the application of IFRS 15 to result in significant differences in the timing of revenue recognition for these services.

(b) **Transition**

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

(b) **IFRS 9 Financial Instruments**

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

The Company is required to adopt IFRS 9 *Financial Instruments with Customers* from 1 January 2018. The Company has assessed and determined the initial application of IFRS 9 will not have a material impact on its financial statements. The estimated impact of the adoption of these standard on the Company's equity as at 1 January 2018 is based on preliminary assessments undertaken to date.

(c) **Classification - Financial assets**

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

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

(i) **Impairment - Financial assets and contract assets**

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

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

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

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

Lifetime ECL measurement applies if the credit risk of a financial asset at the reporting date has increased significantly since initial recognition and 12-month ECL measurement applies if it has not. A Company may determine that a financial asset's credit risk has not increased significantly if the asset has low credit risk at the reporting date. However, lifetime ECL measurement always applies for trade receivables and contract assets without a significant financing component; a Company may choose to apply this policy also for trade receivables and contract assets with a significant financing component.

The Company believes that impairment losses are likely to increase and become more volatile for assets in the scope of the IFRS 9 impairment model. Based on the impairment methodology described above, the Company has estimated that application of IFRS 9's impairment requirements at 1 January 2018 will not result in additional significant impairment losses.

(ii) Classification - Financial liabilities

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities.

However, under IAS 39 all fair value changes of liabilities designated as at FVTPL are recognised in profit or loss, whereas under IFRS 9 these fair value changes are generally presented as follows:

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

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

(iii) Disclosures

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

(iv) Transition

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

(d) IFRS 16 Leases

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

The standard is effective for annual periods beginning on or after 1 January 2019. Early adoption is permitted for entities that apply IFRS 15 at or before the date of initial application of IFRS 16.

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases.

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