EnergoTrans LLC

Financial Statements
for 2016

Contents

KPMG Georgia LLC
2nd Floor, Besiki Business Centre
4, Besiki Street
0108 Tbilisi, Georgia
Telephone +995 322 93 5713
Internet www.kpmg.ge

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 2016, 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 2016, 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), 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.

Responsibilities of Management 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.

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 skepticism 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

5 May 2017

LIMITED LIABILITY COMPANY KPMG GEORGIA 404437695

’000 GEL	Note	2016	2015
ASSETS			
Non-current assets			
Property and equipment	8	555,347	576,864
Intangible assets		8	11
VAT recoverable	9	14,796	24,078
Total non-current assets		**570,151**	**600,953**
Current assets			
Trade and other receivables	9	14,504	17,259
Inventories		782	605
Cash and cash equivalents	10	5,789	6,132
Total current assets		**21,075**	**23,996**
Total assets		**591,226**	**624,949**
EQUITY AND LIABILITIES			
Equity	11		
Charter capital		103,950	110,950
Revaluation reserve		478	478
Accumulated losses		(161,650)	(128,685)
Total equity		**(57,222)**	**(17,257)**
Non-current liabilities			
Deferred tax liabilities	7	-	1,622
Loans and borrowings	13	524,005	505,194
Grants related to assets	14	59,755	62,410
Total non-current liabilities		**583,760**	**569,226**
Current liabilities			
Loans and borrowings	13	51,390	62,116
Grants related to assets	14	2,836	2,836
Trade and other payables	15	10,462	8,028
Total current liabilities		**64,688**	**72,980**
Total liabilities		**648,448**	**642,206**
Total equity and liabilities		**591,226**	**624,949**

The statement of financial position is to be read in conjunction with the notes to, and forming part of, the financial statements set out on pages 8 to 30.

'000 GEL	Note	2016	2015
Revenue	5	42,490	32,019
Other income		3,335	4,032
Personnel expenses		(2,439)	(2,206)
Depreciation and amortization	8	(21,854)	(21,844)
Other expenses		(5,842)	(5,627)
Results from operating activities		**15,690**	**6,374**
Finance income	6	951	1,365
Finance costs	6	(51,228)	(98,251)
Net finance costs		**(50,277)**	**(96,886)**
Loss before income tax		**(34,587)**	**(90,512)**
Income tax benefit/(expense)	7	1,622	(1,956)
Loss and total comprehensive loss for the year		**(32,965)**	**(92,468)**

These financial statements were approved by management on 5 May 2017 and were signed on its behalf by:

Kakha Sekhniashvili
Director

Irakli Manelidze
Finance Director

The statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to, and forming part of, the financial statements set out on pages 8 to 30.

’000 GEL	**Charter capital**	**Revaluation reserve**	**Accumulated losses**	**Total**
Balance at 1 January 2015	115,565	478	(36,217)	79,826
Total comprehensive loss for the year				
Loss for the year	-	-	(92,468)	(92,468)
Contributions by and distributions to owners				
Net decrease in charter capital (see note 11 (a))	(4,615)	-	-	(4,615)
Balance at 31 December 2015	**110,950**	**478**	**(128,685)**	**(17,257)**
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)**

The statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the financial statements set out on pages 8 to 30.

'000 GEL	Note	2016	2015
Cash flows from operating activities			
Loss before income tax		(34,587)	(90,512)
Adjustments for:			
Depreciation and amortisation	8	21,854	21,844
Property and equipment write-off		43	-
Net finance costs	6	50,277	96,886
Income from amortization of grants	14	(2,916)	(2,836)
		34,671	**25,382**
Changes in:			
Inventories		(177)	(42)
Trade and other receivables		12,037	7,250
Trade and other payables		411	-
Cash flows from operations before interest paid		**46,942**	**32,590**
Interest paid		(9,547)	(10,724)
Net cash from operating activities		**37,395**	**21,866**
Cash flows from investing activities			
Interest received		951	1,365
Acquisition of property and equipment		(377)	(5,406)
Net cash from/(used in) investing activities		**574**	**(4,041)**
Cash flows from financing activities			
Proceeds from grants	14	261	-
Repayment of borrowings		(33,780)	(29,750)
Increase in charter capital		5,098	4,500
Decrease in charter capital	11	(10,098)	(8,928)
Net cash used in financing activities		**(38,519)**	**(34,178)**
Net decrease in cash and cash equivalents		**(550)**	**(16,353)**
Cash and cash equivalents at 1 January		6,132	21,560
Effect of exchange rate fluctuations on cash and cash equivalents		207	925
Cash and cash equivalents at 31 December	10	**5,789**	**6,132**

The statement of cash flows is to be read in conjunction with the notes to, and forming part of, the financial statements set out on pages 8 to 30.

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. During 2009 Georgian State Electrosystem JSC became the owner of the Company.

The Company's registered office is 2 Baratashvili Street, Tbilisi 0105, Georgia.

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 Meskheti 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 revenue is calculated based on the transmission tariffs established by the Georgian National Energy and Water Supply Regulatory Commission (GNERC).

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. Related party transactions are disclosed in note 18.

2. Basis of accounting

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 test for 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	**2016**	**2015**
Revenue from transmission of electricity within Georgia	33,203	20,555
Revenue from transit of electricity	6,061	-
Revenue from exporting electricity	3,226	3,443
Other revenue	-	8,021
Total revenues	**42,490**	**32,019**

The Company started transit of electricity mainly from 2016.

6. Net finance costs

’000 GEL	**2016**	**2015**
Recognised in profit or loss		
Interest income on bank accounts	951	1,365
Finance income	**951**	**1,365**
Interest expense on financial liabilities measured at amortised cost	(15,532)	(16,855)
Net foreign exchange loss	(35,696)	(81,396)
Finance costs	**(51,228)**	**(98,251)**
Net finance costs recognised in profit or loss	**(50,277)**	**(96,886)**

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	**2016**	**2015**
Deferred tax (benefit)/expense		
Origination and reversal of temporary differences	-	1,956
Change in recognised deductible temporary differences (due to change in the legislation)	(1,622)	-
Total tax (benefit)/expense	**(1,622)**	**1,956**

Reconciliation of effective tax rate:

	2016		2015	
	’000 GEL	**%**	**’000 GEL**	**%**
Loss before income tax	(34,587)	100	(90,512)	100
Income tax at applicable tax rate	(5,188)	15	(13,577)	15
Differences between tax and IFRS bases of income and expenses	5,188	(15)	-	-
Tax exempt income	-	-	(14)	-
Change in recognised deductible temporary differences (due to change in the legislation)	(1,622)	5	-	-
Current-year losses for which no deferred tax asset is recognized	-	-	15,547	(17)
	(1,622)	**5**	**1,956**	**(2)**

(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**	**-**

’000 GEL	**1 January 2015**	**Recognised in profit or loss**	**31 December 2015**
Property and equipment	(9,764)	(1,529)	(11,293)
Grants related to assets	10,098	(427)	9,671
	334	**(1,956)**	**(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 a bill on corporate income tax reform (also known as the Estonian model of corporate taxation), which mainly moves the moment of taxation from when taxable profits are earned to when they are distributed. The law is 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 utilise 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**
Cost/revalued amount					
Balance at 1 January 2015	35,354	170,256	387,303	29,014	621,927
Additions	373	-	-	134	507
Internal movements	49	-	201	(250)	-
Balance at 31 December 2015	**35,776**	**170,256**	**387,504**	**28,898**	**622,434**
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**
Depreciation:					
Balance at 1 January 2015	1,416	6,457	15,853	-	23,726
Depreciation for the year	1,378	4,870	15,596	-	21,844
Balance at 31 December 2015	**2,794**	**11,327**	**31,449**	**-**	**45,570**
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**
Carrying amounts					
At 1 January 2015	**33,938**	**163,799**	**371,450**	**29,014**	**598,201**
At 31 December 2015	**32,982**	**158,929**	**356,055**	**28,898**	**576,864**
At 31 December 2016	**31,599**	**153,858**	**341,925**	**27,965**	**555,347**

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 27,965 thousand as at 31 December 2016 (2015: GEL 28,898 thousand) represents spare parts of GEL 27,324 thousand (2015: GE 28,792 thousand) and stand-by equipment of GEL 641 thousand (2015: GEL 106 thousand) held to support the operations of the property and equipment.

(a) Security

As at 31 December 2016 property and equipment with the carrying amount of GEL 50,404 thousand (2015: GEL 52,155 thousand) is pledged as a security for loans and borrowings from Ministry of Finance (see note 13).

(b) Revaluation of land

In preparing these financial statements management assessed the fair value of land as at 31 December 2016. 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 test for property and equipment

At 31 December 2016 management identified an indicator that the Company's property and equipment (referred as "the CGU") may be impaired due to the fact, that in 2016 the Company's net operating cash inflows were lower than projected. 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 recoverable amount of the CGU was determined to be higher than its carrying amount by GEL 68,000 thousand and, respectively, no impairment loss was recognized.

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

- Cash inflows are expected from three main streams of revenue: transmission, export and transit 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;
- Revenue of approximately GEL 15 million is expected in each of the years 2018 and 2019, from transit of electricity; the same service is forecasted to generate the revenue of approximately GEL 19 million for the years 2020 and 2021, each. This projection is based on the assumption that from 2018 there will be significant demand in the region for the transit of electricity through Georgia, as, starting from 2015 the countries in the region are in active negotiations on this subject, which led to generation of revenue for transit of electricity of approximately GEL 6 million in 2016. In addition, there are further discussions between the entities from Azerbaijan, Turkey and Georgia, on future cooperation for significantly increased transit volumes. However, as at the date these financial statements were authorised for issue, the projected revenues for 2017-2021 years are not yet contracted;
- A discount rate of 11.49% (income tax is not applied, as considering the balance of the accumulated losses, it is highly unlikely that the Company will be paying dividends during the next 5 years; this is in line with the changed corporate income tax model - also known as the Estonian model of corporate taxation – see note 20(d)) 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 in the following areas:

- An increase of one percentage point in the discount rate used would have decreased the value in use (VIU) by approximately GEL 60,652 thousand;
- An assumption, that no revenue is generated by the Company from transit of electricity, would have decreased the VIU by approximately GEL 155,816 thousand.

9. Trade and other receivables

'000 GEL	2016	2015
VAT recoverable	21,016	33,625
Trade receivables	7,231	6,769
Receivables from owner	846	846
Other receivables	207	97
	29,300	**41,337**
Non-current	14,796	24,078
Current	14,504	17,259
	29,300	**41,337**

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	2016	2015
Bank balances	5,789	6,132
Cash and cash equivalents in the statement of financial position and in the statement of cash flows	**5,789**	**6,132**

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

(a) Charter capital

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

'000 GEL	2016	2015
Balance as at 1 January	110,950	115,565
Movement during the year		
Non-cash owner contributions	-	373
Increase of charter capital, received in cash	5,098	4,500
Decrease of charter capital, paid out in cash	(10,098)	(8,928)
Decrease of charter capital, unpaid	(2,000)	(560)
Net decrease in charter capital	**(7,000)**	**(4,615)**
Balance as at 31 December	**103,950**	**110,950**

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	**2016**	**2015**
Non-current liabilities		
Unsecured loans from financial institutions	501,351	479,644
Secured loan from related party	22,654	25,550
	524,005	**505,194**
Current liabilities		
Current portion of unsecured loans from financial institutions	40,289	50,966
Current portion of secured loan from related party	11,101	11,150
	51,390	**62,166**

(a) Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

				31 December 2016		**31 December 2015**	
'000 GEL	**Currency**	**Nominal interest rate**	**Year of maturity**	**Face value**	**Carrying amount**	**Face value**	**Carrying amount**
Unsecured loans from financial institutions:							
Ministry of Finance of Georgia - Kreditanstalt für Wiederaufbau	EUR	KfW reference rate +4%	2017-2027	214,587	214,587	204,622	204,622
Ministry of Finance of Georgia - European Investment Bank	EUR	Euribor+ 0.75%	2017-2033	208,567	208,567	202,526	202,526
Ministry of Finance of Georgia - European Bank for Reconstruction and Development	EUR	Euribor+ 1%	2017-2025	118,486	118,486	123,462	123,462
Secured loan from related party:							
Ministry of Finance of Georgia	EUR	7.5%	2017-2020	33,755	33,755	36,700	36,700
Total interest-bearing liabilities				**575,395**	**575,395**	**567,310**	**567,310**

Collateral for loans and borrowings is disclosed in note 8 (a)).

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 obligation to repay them, 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.

14. Grants related to assets

’000 GEL	**2016**	**2015**
Balance at 1 January	65,246	68,082
Credited to profit and loss	(2,916)	(2,836)
Received during the year	261	-
Balance at 31 December	**62,591**	**65,246**
Non-current	59,755	62,410
Current	2,836	2,836
	62,591	**65,246**

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	**2016**	**2015**
Payables for the construction work performed	7,819	7,505
Other payables	2,643	523
	10,462	**8,028**

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:

	Carrying amount	
'000 GEL	**2016**	**2015**
Domestic	**7,231**	**6,769**

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.

Management believes that as at 31 December 2016 the Company has sufficient liquidity to meet its liabilities when due, as management expects significant increases in net cash flows from operating activities in the future years and the Government of Georgia has demonstrated its intention to support the operations of the Company if necessary.

In addition, the Company maintains VAT recoverable of GEL 21,016 thousand as at 31 December 2016 (2015: GEL 33,625 thousand) that can be settled against future tax payables.

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

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**

31 December 2015		**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	530,610	603,235	50,966	258,273	293,996
Secured loan from related party	36,700	42,021	11,150	30,871	-
Trade and other payables	8,028	8,028	8,028	-	-
	575,338	**653,284**	**70,144**	**289,144**	**293,996**

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 2016	EUR-denominated 2015
Cash and cash equivalents	3,237	3,049
Loans and borrowings	(575,395)	(567,310)
Trade and other payables	(322)	(8)
Net exposure	**(572,480)**	**(564,269)**

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

in GEL	Average rate		Reporting date spot rate	
	2016	**2015**	**2016**	**2015**
EUR 1	2.6172	2.5204	2.7940	2.6169

Sensitivity analysis

A reasonably possible strengthening/(weakening) of GEL, as indicated below, against EUR at 31 December would have affected profit or loss before taxes 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 2015.

’000 GEL	Strengthening	Weakening
	Profit or (loss)	**Profit or (loss)**
31 December 2016		
EUR (10% movement)	57,248	(57,248)
31 December 2015		
EUR (10% movement)	56,427	(56,427)

(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	
	2016	**2015**
Fixed rate instruments		
Financial liabilities	33,755	36,700
Variable rate instruments		
Financial liabilities	541,640	530,610

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 2015.

	Profit or (loss)	
’000 GEL	**100 bp increase**	**100 bp decrease**
2016		
Variable rate instruments	(5,416)	5,416
2015		
Variable rate instruments	(5,306)	5,306

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 financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

The tax position of the Company up to 1 August 2015 is closed by the tax investigation finalized in 2015. No material additional taxes or penalties were levied on the Company by the Georgian Tax Authorities.

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 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	**2016**	**2015**
Salaries and bonuses	**792**	**713**

(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 44% of the Company's revenue (2015: 27%) is from three entities significantly influenced or controlled by the Government of Georgia.

19. Basis of measurement

The financial statements are prepared on the historical cost basis except for certain items of property and equipment that were revalued to determine deemed cost as part of the adoption of IFRSs in 2009 and the land that is measured at fair value.

20. 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 has entered into force in 2016 and is effective for tax periods starting after 1 January 2017 for all entities except for financial institutions (such as banks, insurance companies, microfinance organizations, pawnshops), for which the law will become effective from 1 January 2019.

The new system of corporate income taxation does not imply exemption from 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.

(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.

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.

(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.

21. New Standards and interpretations not yet adopted

A number of new Standards, amendments to Standards and Interpretations are not yet effective as at 31 December 2016, and have not been applied in preparing these 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.

- Dosclosure Initiative (Amendments to IAS 7) require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes. The amendments are effective for annual periods beginning on or after 1 January 2017, with early adoption permitted. To satisfy the new disclosure requirements, the Company intends to present a reconciliation between the opening and closing balances for liabilities with changes arising from financing activities.
- IFRS 9, published in July 2014, replaces the existing guidance in IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted. The Company is assessing the potential impact on its financial statements resulting from the application of IFRS 9.

- 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 core principle of the new standard is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The new standard results in enhanced disclosures about revenue, provides guidance for transactions that were not previously addressed comprehensively and improves guidance for multiple-element arrangements. IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted. The Company is assessing the potential impact on its financial statements resulting from the application of IFRS 15.
- IFRS 16 introduces a single, on-balance lease sheet 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 optional 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. IFRS 16 replaces the existing lease accounting guidance in 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 reporting periods beginning on or after 1 January 2019. Early adoption is permitted for entities that apply IFRS 15 *Revenue from Contracts with Customers* at or before the date of initial application of IFRS 16. The Company is assessing the potential impact on its financial statements resulting from the application of IFRS 16.