

**Electricity System Commercial Operator JSC**

**Financial Statements  
for 2017**

## **Contents**

Independent Auditors' Report	3
Statement of Financial Position	5
Statement of Profit or Loss and Other Comprehensive Income	6
Statement of Changes in Equity	7
Statement of Cash Flows	8
Notes to the Financial Statements	9



KPMG Georgia LLC  
5th Floor, GMT Plaza  
4 Liberty Square,  
0105 Tbilisi, Georgia  
Telephone +995 322 93 5713  
Internet www.kpmg.ge

## Independent Auditors' Report

*To the Board of Directors of Electricity System Commercial Operator JSC*

### Opinion

We have audited the financial statements of Electricity System Commercial Operator JSC (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 (consolidated) financial statements in Georgia, and we have fulfilled our other ethical responsibilities in accordance with these requirements and 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 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  
13 July 2018



*Electricity System Commercial Operator JSC*  
*Statement of Financial Position as at 31 December 2017*

GEL	Notes	31 December 2017	31 December 2016
<b>Assets</b>			
Property and equipment	11	195,361	210,592
Intangible assets		107,015	54,278
Other non-current assets		3,597	5,332
<b>Non-current assets</b>		<b>305,973</b>	<b>270,202</b>
Inventories		1,383	1,498
Current tax assets	12	3,642,080	-
Trade and other receivables	13	35,117,230	52,193,754
Cash and cash equivalents	14	13,414,057	10,392,971
<b>Current assets</b>		<b>52,174,750</b>	<b>62,588,223</b>
<b>Total assets</b>		<b>52,480,723</b>	<b>62,858,425</b>
<b>Equity</b>	15		
Share capital		87,309	87,309
Non-cash owner contribution reserve		(15,660)	(15,660)
Property and equipment revaluation surplus		201,327	201,327
Retained earnings		16,635,516	6,586,359
<b>Total equity</b>		<b>16,908,492</b>	<b>6,859,335</b>
<b>Liabilities</b>			
Trade and other payables	16	35,572,231	55,999,090
<b>Current liabilities</b>		<b>35,572,231</b>	<b>55,999,090</b>
<b>Total liabilities</b>		<b>35,572,231</b>	<b>55,999,090</b>
<b>Total equity and liabilities</b>		<b>52,480,723</b>	<b>62,858,425</b>



*Electricity System Commercial Operator JSC*  
*Statement of Profit or Loss and Other Comprehensive Income for 2017*

GEL	Note	2017	2016
Revenue	5	501,759,526	325,340,040
Cost of goods sold/service rendered	5	(494,293,910)	(319,077,202)
<b>Gross profit</b>		<b>7,465,616</b>	<b>6,262,838</b>
Other income	6	2,029,120	2,120,334
Administrative expenses	8	(4,089,457)	(4,047,353)
Recovery of bad debt expense/ (bad debt expense), net	9	2,669,218	(2,778,642)
<b>Results from operating activities</b>		<b>8,074,497</b>	<b>1,557,177</b>
Finance income	7	1,998,660	885,137
Finance costs	7	-	(259,791)
<b>Net finance income</b>		<b>1,998,660</b>	<b>625,346</b>
<b>Profit before tax</b>		<b>10,073,157</b>	<b>2,182,523</b>
Income tax expense	10	-	(477,732)
<b>Profit for the year</b>		<b>10,073,157</b>	<b>1,704,791</b>
<b>Other comprehensive income</b>			
<i>Items that will never be reclassified to profit or loss</i>			
Revaluation of property and equipment	11	-	86,938
Reversal of deferred tax effect on revaluation of property, plant and equipment	10	-	17,158
<b>Other comprehensive income, net of income tax</b>		<b>-</b>	<b>104,096</b>
<b>Total profit and other comprehensive income for the year</b>		<b>10,073,157</b>	<b>1,808,887</b>

These financial statements were approved by management on 13 July 2018 and were signed on its behalf by:

Vakhtang Ambokadze  
General Director



Khatuna Chaduneli  
Chief Accountant

*Electricity System Commercial Operator JSC*  
*Statement of Changes in Equity for 2017*

<b>GEL</b>	<b>Share capital</b>	<b>Non-cash owner contribution reserve</b>	<b>Property and equipment revaluation surplus</b>	<b>Retained earnings</b>	<b>Total equity</b>
Balance at 1 January 2016	87,309	(15,660)	97,231	4,905,568	5,074,448
<b>Total comprehensive income for the year</b>					
Profit for the year	-	-	-	1,704,791	1,704,791
<b>Other comprehensive income</b>					
Reversal of deferred tax effect (note 10)	-	-	17,158	-	17,158
Revaluation of property, plant and equipment	-	-	86,938	-	86,938
<b>Total comprehensive income for the year</b>	-	-	104,096	1,704,791	1,808,887
<b>Transactions with owners recorded directly in equity</b>					
Dividends	-	-	-	(24,000)	(24,000)
<b>Total transactions with owners recorded directly in equity</b>	-	-	-	(24,000)	(24,000)
<b>Balance at 31 December 2016</b>	<b>87,309</b>	<b>(15,660)</b>	<b>201,327</b>	<b>6,586,359</b>	<b>6,859,335</b>
Balance at 1 January 2017	87,309	(15,660)	201,327	6,586,359	6,859,335
<b>Total comprehensive income for the year</b>					
Profit for the year	-	-	-	10,073,157	10,073,157
<b>Total comprehensive income for the year</b>	-	-	-	10,073,157	10,073,157
<b>Transactions with owners recorded directly in equity</b>					
Dividends	-	-	-	(24,000)	(24,000)
<b>Total transactions with owners recorded directly in equity</b>	-	-	-	(24,000)	(24,000)
<b>Balance at 31 December 2017</b>	<b>87,309</b>	<b>(15,660)</b>	<b>201,327</b>	<b>16,635,516</b>	<b>16,908,492</b>

*Electricity System Commercial Operator JSC*  
*Statement of Cash Flows for 2017*

<b>GEL</b>	<b>Notes</b>	<b>2017</b>	<b>2016</b>
<b>Cash flows from operating activities</b>			
Profit for the year before tax		10,073,157	2,182,523
<i>Adjustments for:</i>			
Depreciation and amortization	11	75,089	83,028
Bad debt expense	9	230,057	2,778,642
Gain on disposal of property, plant and equipment		-	630
Net finance income	7	(1,998,660)	(625,346)
<b>Cash from operating activities before changes in working capital and provisions</b>		<b>8,379,643</b>	<b>4,419,477</b>
Change in inventories		115	6,283
Change in other non-current assets		1,735	-
Change in current tax - assets		(3,642,080)	-
Change in trade and other receivables		16,846,467	(12,937,510)
Change in trade and other payables		(20,098,248)	4,060,362
<b>Cash flows from/(used in) operations before income tax paid</b>		<b>1,487,631</b>	<b>(4,451,388)</b>
<b>Net cash from/(used in) operating activities</b>		<b>1,487,631</b>	<b>(4,451,388)</b>
<b>Cash flows from investing activities</b>			
Interest received		1,640,941	885,137
Acquisition of property and equipment	11	(37,706)	(18,921)
Acquisition of intangible assets		(74,887)	(27,111)
<b>Net cash from investing activities</b>		<b>1,528,348</b>	<b>839,105</b>
<b>Cash flows from financing activities</b>			
Dividends paid		(24,000)	(24,000)
<b>Net cash flows used in financing activities</b>		<b>(24,000)</b>	<b>(24,000)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>2,991,979</b>	<b>(3,636,283)</b>
Cash and cash equivalents at 1 January		10,392,971	14,380,352
Effect of exchange rate fluctuations on cash and cash equivalents		29,107	(351,098)
<b>Cash and cash equivalents at 31 December</b>	14	<b>13,414,057</b>	<b>10,392,971</b>



## **1. Background**

### **(a) Organisation and operations**

Electricity System Commercial Operator (the Company) was established in Georgia on 1 September 2006 as a limited liability company. On 18 August 2011 the legal form of the Company was changed to a Joint Stock Company based on the order # 142 of the Minister of Energy and Natural Resources of Georgia, dated 10 August 2011. The registration number of the Company is 205170036.

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

The principal activities of the Company include the sale-purchase of balancing electricity and guaranteed capacity, import and export of electricity and facilitation of electricity sale-purchase in Georgia.

According to the "Georgian Law on Electricity and Natural Gas", starting from September 2010, the stability, security and reliability of Georgia's electric energy system is secured by the Guaranteed Capacity. The thermal power plants, which meet the demands of the technical parameters stipulated by the legislation, represent the Source of the Guaranteed Capacity. The minimum volume of the Guaranteed Capacity for each Source and periods of providing the Guaranteed Capacity are defined by the Government of Georgia. According to the "Electricity (Capacity) Market Rules", the trading with the Guaranteed Capacity is conducted exclusively by the Company. Until 31 August 2014 the Company acted in the capacity of an agent rather than as a principal in these transactions. Following the change in the legislation since 1 September 2014 the Company acts in the guaranteed capacity transaction as a principal.

The Company's principal activities are defined by the law of Georgia about "Electroenergetics and Natural Gas" and order N77 of the Minister of Energy and Natural Resources dated 30 August 2006, approved by the "Electricity (Capacity) Market Rules" issued by the Ministry of Energy and Natural Resources of Georgia.

The Company's founder and ultimate controlling party is the Government of Georgia. The 100% shareholder of the Company is JSC Partnership Fund, a wholly state owned entity.

Related party transactions are disclosed in note 19.

### **(b) 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 of Georgia. The financial statements reflect management's assessment of the impact of Georgian business environment on the operations and the financial position of the Company. The future business environment may differ from management's assessment.

## **2. Basis of preparation**

### **(a) Statement of compliance**

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



**(b) Basis of measurement**

The financial statements are prepared on the historical cost basis except property and equipment that are remeasured at fair value on a regular basis.

**(c) Functional and presentation currency**

The national currency of Georgia is 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 is rounded to the nearest unit of currency.

**(d) 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 note 17(b)(ii) – allowances for trade receivables.

***Measurement of fair values***

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 note 17 - fair values and risk management.

**3. Significant accounting policies**

The accounting policies set out below have been applied consistently to all periods presented in these financial statements, and have been applied consistently by the Company.

**(a) Foreign currency transactions**

Transactions in foreign currencies are translated to the functional currency of the Company at exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency 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 assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. 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 recognized in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments which are recognized in other comprehensive income.

**(b) Financial instruments**

**(i) Non-derivative financial assets**

Non-derivative financial assets comprise trade and other receivables, and cash and cash equivalents.

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

The Company derecognizes 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 recognized as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

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

***Loans and receivables***

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

Loans and receivables category comprise the following classes of financial assets: trade and other receivables as presented in note 13 and cash and cash equivalents as presented in note 14.

***Cash and cash equivalents***

Cash and cash equivalents comprise cash and bank balances with original maturities of three months or less.

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

Other financial liabilities consist of trade and other payables.



**(c) Share capital**

*Ordinary shares*

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

**(d) Property and equipment**

**(i) Recognition and measurement**

Items of property and equipment are initially measured at cost. Subsequently property and equipment are measured at fair value, based on periodic valuation by external independent valuers, less subsequent depreciation and impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. When 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 costs**

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**

A revaluation increase on property and equipment is recognised directly in the revaluation reserve in equity except to the extent that it reverses a previous revaluation decrease recognised in profit or loss, in which case it is recognised in profit or loss. A revaluation decrease on property and equipment is recognised in profit or loss except to the extent that it reverses a previous revaluation increase recognised directly in other comprehensive income, in which case the reversing amount is recognised directly in other comprehensive income.

**(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 residual value.

Depreciation is 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.

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

- |                                    |            |
|------------------------------------|------------|
| • vehicles                         | 5 years;   |
| • fixture and fittings             | 4-5 years; |
| • computer and technical equipment | 4-5 years. |

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



**(e) 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 (including equity securities) 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 or issuer will enter bankruptcy, adverse changes in the payment status of borrowers or issuers in the Company, economic conditions that correlate with defaults or the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

*Loans and receivables*

The Company considers evidence of impairment for loans and receivables at both a specific asset and collective level. All individually significant loans and receivables are assessed for specific impairment. All individually significant loans and receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified.

**(ii) *Non-financial assets***

The carrying amounts of the Company's non-financial assets, other than inventories 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 intangible assets that have indefinite lives or that are not yet available for use, the recoverable amount is estimated each year at the same time. An impairment loss is recognised if the carrying amount of an asset exceeds its estimated recoverable amount.

The recoverable amount of an asset 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. 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.

Impairment losses are recognised in profit or loss.

An 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.

**(f) *Employee short-term benefits***

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.



**(g) Revenue**

**(i) Sale of electricity**

Revenue from the sale of electricity, including export of electricity, in the course of ordinary activities is measured at the fair value of the consideration received or receivable. No returns, trade discounts and volume rebates are made. Revenue is recognised when persuasive evidence exists, usually in the form of an executed sales agreement, that the significant risks and rewards of ownership have been transferred to the customer, recovery of the consideration is probable, the associated costs and possible return of electricity can be estimated reliably, there is no continuing management involvement with the electricity sold, and the amount of revenue can be measured reliably. If it is probable that discounts will be granted and the amount can be measured reliably, then the discount is recognised as a reduction of revenue as the sales are recognised.

The timing of the transfers of risks and rewards varies depending on the individual terms of the sales agreement. For sales of balancing electricity, transfer usually occurs when the electricity is delivered to the point at the electricity grid system from where electricity is distributed into power lines and is considered to be received by the customer.

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

**(ii) Services**

Revenue is recognized to the extent the Company has rendered services under respective laws and regulations, 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.

**(h) Finance income and costs**

Finance income comprises interest income on funds invested. Interest income is recognised as it accrues 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.

Prices on balancing electricity are set according to the order "Electricity (Capacity) Market Rules" issued by the Ministry of Energy and Natural Resources of Georgia. In the formation of the prices of the balancing electricity to be sold to the qualified enterprises, according to the same market rules the Company considers the effect of the foreign exchange rate differences and adjusted the prices of balancing electricity accordingly.

**(i) Income tax**

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

**(i) Current tax**

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



On 13 May 2016 the Parliament of Georgia passed the bill on corporate income tax reform (also known as the Estonian model of corporate taxation), which mainly moves the moment of taxation from when taxable profits are earned to when they are distributed. The law has entered into force in 2016 and is effective for tax periods starting after 1 January 2017 for all entities except for financial institutions (such as banks, insurance companies, microfinance organizations, pawnshops), for which the law will become effective from 1 January 2019.

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

#### **4. New standards and interpretations not yet adopted**

A number of new Standards, amendments to Standards and Interpretations are effective for annual periods beginning after 1 January 2018 and have not been applied in preparing these 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.

##### ***IFRS 9 Financial Instruments***

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.

##### ***IFRS 15 Revenue from Contracts with Customers***

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. 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



***Estimated impact of the adoption of IFRS 9 and IFRS 15***

The Company is required to adopt IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers* from 1 January 2018. The Company has assessed and determined the initial application of IFRS 9 and IFRS 15 will not have a material impact on its financial statements. The estimated impact of the adoption of these standards on the Company's equity as at 1 January 2018 is based on preliminary assessments undertaken to date.

***IFRS 16 Leases***

IFRS 16 introduces a single, on-balance lease sheet accounting model for lessees. A lessee recognizes 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. IFRS 16 is effective for annual reporting periods beginning on or after 1 January 2019, early adoption is permitted if IFRS 15 Revenue from Contracts with Customers is also adopted. The Company is assessing the potential impact on its financial statements resulting from the application of IFRS 16.

**5. Revenue and cost of sales**

<b>GEL</b>	<b>2017</b>	<b>2016</b>
Income from sales of balancing electricity	328,114,893	152,153,006
Income from guaranteed capacity service	142,880,298	153,667,590
Income from export of electricity	23,676,747	14,770,263
Income from fixed tariff of services rendered	4,529,911	4,399,910
Income from direct contracts (import)	2,557,677	349,271
<b>Total revenue</b>	<b>501,759,526</b>	<b>325,340,040</b>
<b>GEL</b>	<b>2017</b>	<b>2016</b>
Cost of sold balancing electricity	(328,114,893)	(152,153,007)
Cost of guaranteed capacity service	(142,880,298)	(153,667,588)
Cost of export of electricity	(20,752,484)	(12,908,419)
Cost of imported electricity	(2,546,235)	(348,188)
<b>Total cost of electricity sold/services rendered</b>	<b>(494,293,910)</b>	<b>(319,077,202)</b>

The Company has a natural monopoly on balancing electricity supply. Prices on balancing electricity are set according to the order the "Electricity (Capacity) Market Rules" issued by the Ministry of Energy and Natural Resources of Georgia.

The fixed tariff of GEL 0.00019 per KW/H for the Company's service is defined by the decision of the Ministry of Energy and Natural Resources of Georgia and Georgian National Energy and Water Regulatory Commission made on 4 December 2008.

## 6. Other income

GEL	2017	2016
Income from penalties	2,024,935	2,118,562
Other	4,185	1,772
	<b>2,029,120</b>	<b>2,120,334</b>

GEL 1,150,396 in income from penalties for 2017 are due from Georgian Manganese LLC (2016: GEL 1,673,920).

## 7. Net finance income

GEL	2017	2016
Interest income on bank accounts	1,642,624	885,137
Net foreign exchange gain	356,036	-
<b>Finance income</b>	<b>1,998,660</b>	<b>885,137</b>
Net foreign exchange loss	-	(259,791)
<b>Finance costs</b>	<b>-</b>	<b>(259,791)</b>
<b>Net finance income recognised in profit or loss</b>	<b>1,998,660</b>	<b>625,346</b>

## 8. Administrative expenses

GEL	2017	2016
Wages and salaries	2,726,510	2,704,467
Rent	1,000,000	1,000,000
Utilities	78,501	39,557
Depreciation and amortization	75,090	83,028
Representative and business trip expenses	40,448	39,385
Office supplies	29,796	21,958
Professional services	23,304	34,291
Vehicle maintenance and repair	21,299	13,216
Fuel	18,489	14,831
Insurance	14,042	9,882
Taxes other than on income	9,471	2,470
Office expenses	2,806	32,562
Other expenses	49,701	51,706
	<b>4,089,457</b>	<b>4,047,353</b>

The professional services above include fees paid to the audit firm of about GEL 20 thousand, for the provision of audit and other professional services.

## 9. (Recovery of bad debt expense)/bad debt expense

GEL	Note	2017	2016
Provision for trade receivables	17(d)	-	2,196,831
Other bad debt expense		230,057	702,241
Recovery of previously charged bad debt expense		(2,899,275)	(120,430)
<b>(Recovery of bad debt expense)/bad debt expense, net</b>		<b>(2,669,218)</b>	<b>2,778,642</b>



## 10. Income tax expense

### (a) Amounts recognised in profit or loss

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

GEL	Note	2017	2016
Deferred tax expense			
Origination and reversal of temporary differences		-	477,732
<b>Total tax expense</b>		<b>-</b>	<b>477,732</b>

### Reconciliation of effective tax rate:

	2017		2016	
	GEL	%	GEL	%
Profit before tax for the year	-	-	2,182,523	100
Tax at applicable domestic tax rate	-	-	327,378	15
Differences between tax and IFRS bases of income and expenses	-	-	(327,378)	(15)
Change in recognised deductible temporary differences (due to change in the legislation)	-	-	477,732	22
	<b>-</b>	<b>-</b>	<b>477,732</b>	<b>22</b>

### (b) Amounts recognised in other comprehensive income

GEL	2017			2016		
	Before tax	Tax	Net of tax	Before tax	Tax	Net of tax
Revaluation of property, plant and equipment	-	-	-	86,938	17,158*	104,096
	<b>-</b>	<b>-</b>	<b>-</b>	<b>86,938</b>	<b>17,158</b>	<b>104,096</b>

\* reversal of deferred tax liability, previously recognised on the property, plant and equipment revaluation reserve, due to change in the legislation (note 11(b)).

In 2016 reversal of previously recognized deferred tax assets of GEL 477,732 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 effective for tax periods starting 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 through the statement of profit or loss as an income tax expense.

According to the new Georgia Tax Code, 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 subsequent years. Total tax reimbursement as at 31 December, 2017 and as at 31 December 2016, available for those earnings that are distributed in 2018 or further years amounts is GEL 954,610.

## 11. Property and equipment

GEL	Vehicles	Fixtures and fittings	Computers and technical equipment	Total
<i>Cost/revalued amount</i>				
Balance at 1 January 2016	100,758	94,027	88,408	283,193
Additions	-	9,543	9,378	18,921
Disposals	-	(2,199)	(5,364)	(7,563)
Revaluation	39,520	24,830	22,588	86,938
<b>Balance at 31 December 2016</b>	<b>140,278</b>	<b>126,201</b>	<b>115,010</b>	<b>381,489</b>
Balance at 1 January 2017	140,278	126,201	115,010	381,489
Additions	-	11,845	25,861	37,706
<b>Balance at 31 December 2017</b>	<b>140,278</b>	<b>138,046</b>	<b>140,871</b>	<b>419,195</b>
<i>Depreciation and impairment losses</i>				
Balance at 1 January 2016	(35,448)	(37,858)	(37,100)	(110,406)
Depreciation for the year	(23,340)	(21,184)	(22,899)	(67,423)
Disposals	-	1,959	4,973	6,932
<b>Balance at 31 December 2016</b>	<b>(58,788)</b>	<b>(57,083)</b>	<b>(55,026)</b>	<b>(170,897)</b>
Balance at 1 January 2017	(58,788)	(57,083)	(55,026)	(170,897)
Depreciation for the year	(17,240)	(16,963)	(18,734)	(52,937)
<b>Balance at 31 December 2017</b>	<b>(76,028)</b>	<b>(74,046)</b>	<b>(73,760)</b>	<b>(223,834)</b>
<i>Carrying amounts</i>				
At 1 January 2016	65,310	56,169	51,308	172,787
At 31 December 2016	<b>81,490</b>	<b>69,118</b>	<b>59,984</b>	<b>210,592</b>
<b>At 31 December 2017</b>	<b>64,250</b>	<b>64,000</b>	<b>67,111</b>	<b>195,361</b>
<i>Carrying amounts had no revaluations taken place</i>				
At 1 January 2016	28,330	43,750	46,405	118,485
At 31 December 2016	4,990	31,869	32,493	69,352
At 31 December 2017	-	23,214	22,752	45,966

Depreciation expense has been charged in total to administrative expenses.

### Revaluation of property and equipment

In 2016, the management commissioned an independent valuator to independently appraise property and equipment as at 31 December 2016. The fair value of property and equipment was determined to be GEL 210,592 as at 31 December 2016. As at 31 December 2017 per management estimates the fair value of property, plant and equipment was GEL 195,361.

The fair value of property and equipment was primarily determined using market values for the similar items of property and equipment in the open market, which has been categorised as a Level 2 fair value.

## 12. Current tax assets

Originally the Company had a right to provide Customs Declarations during 90 days period from the end of the month in which the electricity has been imported. The Company set off the VAT on the imported electricity considering VAT arising from the electricity sold to customers during this 90 days period. Based on the clarification received from the Revenue Services of Georgia in 2017, since May 2017 the Company has been instructed to pay the VAT on the imported electricity on the date



of the Customs Declaration (date of electricity import). The above was the reason of increase in current tax assets as at 31 December 2017.

From 1 January 2016 all taxes are to be settled on a single unified state treasury account. The Company had netted of tax assets and liabilities as at 31 December 2017 and 31 December 2016.

### 13. Trade and other receivables

GEL	2017	2016
Balancing electricity	30,316,115	29,176,826
Guaranteed capacity	4,261,767	20,125,208
Services rendered	413,525	627,460
Prepaid expenses	103,350	121,436
Prepaid taxes	13,596	95,653
Other receivables (penalties)	8,877	2,047,171
	<b>35,117,230</b>	<b>52,193,754</b>

### 14. Cash and cash equivalents

GEL	2017	2016
Bank balances	13,414,057	10,392,971
<b>Cash and cash equivalents in the statements of financial position and of cash flows</b>	<b>13,414,057</b>	<b>10,392,971</b>

The Company's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in note 17.

### 15. Capital and reserves

#### (a) Share capital

	Ordinary shares	
Number of shares	2017	2016
Authorised shares	87,309	87,309
Par value	GEL 1	GEL 1
On issue at 31 December	<b>87,309</b>	<b>87,309</b>

#### Ordinary shares

The holders of ordinary shares are entitled to receive dividends as declared from time to time, and are entitled to one vote per share at meetings of the Company.

#### (b) Dividends

Dividends payable are restricted to the maximum retained earnings of the Company, which are determined according to legislation of Georgia. In accordance with Georgian legislation the Company's distributable reserves are limited to the balance of retained earnings as recorded in the Company's statutory financial statements prepared in accordance with IFRS.

In 2017 Company declared and paid dividends of GEL 24,000 (2016: GEL 24,000).



## 16. Trade and other payables

GEL	2017	2016
Balancing electricity	30,786,328	32,745,729
Guaranteed capacity	4,180,710	22,094,551
Services received	388,714	138,428
Electricity to export	137,490	130,480
Taxes payable (net)	-	833,265
Other payables	78,989	56,637
	<b>35,572,231</b>	<b>55,999,090</b>

The Company's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 17.

## 17. Fair values and risk management

### (a) Measurement of fair values

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 fair values using valuation techniques. The objective of 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.

The Company estimates the fair value of financial assets and liabilities to be not materially different from their carrying values.

### (b) Financial risk management

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

- credit risk
- liquidity risk
- market risk

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

### (c) Risk Management framework

The management of the Company has overall responsibility for the establishment and oversight of the Company's risk management framework. The Management of the Company is responsible for developing and monitoring the Company's risk management policies.

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.



**(d) 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 investment securities.

**(i) Exposure to credit risk**

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

GEL	Carrying amount	
	2017	2016
Trade and other receivables	35,000,284	51,976,665
Cash and cash equivalents	13,414,057	10,392,971
	<b>48,414,341</b>	<b>62,369,636</b>

**Trade receivables**

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the demographics of the Company's customer base, including the default risk of the industry and country, in which customers operate, as these factors may have an influence on credit risk. Approximately 45% (2016: 34%) of the Company's revenue is attributable to sales transactions with a single customer, JSC Energo Pro Georgia. The Company's export sales are to Russia, Armenia, Turkey and Azerbaijan, comprising 51.7%, 32.0%, 15.1% and 1.2% respectively, of total export sales in 2017 (2016: Russia 99.9% and Azerbaijan 0.1%, respectively).

The management of the Company 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 analysis of the information from external sources, when available.

As a result of the change in legislation from 1 September 2014 the Company acts as principal and bears all the credit risks for the sold balancing and guaranteed electricity. The Company is also responsible to make payment to the producers of the electricity for the produced and provided balancing and guaranteed electricity.

More than 90% of the Company's customers have been transacting with the Company for over three years, and losses have occurred infrequently. In monitoring customer credit risk, customers are grouped according to their credit characteristics, geographic location, aging profile, maturity and existence of previous financial difficulties. Trade receivables relate to the Company's wholesale customers. Current legislation does not envisage advance guarantees, respectively the Company does not require collateral in respect of trade receivables.

The Company establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade receivables. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets.

99.7% of the Company's trade receivables at the reporting date related to domestic wholesale customers. As at 31 December 2017 the Company had four wholesale domestic customers (2016: four customers) comprising more than 98% (2016: 97%) of total trade receivables.



### Impairment losses

The aging of trade receivables at the reporting date was:

GEL	Gross 2017	Impairment 2017	Gross 2016	Impairment 2016
Not past due	35,117,230	-	36,041,457	-
Past due 0-30 days	-	-	2,001,435	(604,763)
Past due 31-120 days	-	-	4,005,401	(633,707)
Past due 121-150 days	-	-	1,589,519	-
Past due 151-365 days	-	-	8,466,987	(958,361)
Past due more than a year	-	-	21,526	-
	<b>35,117,230</b>	<b>-</b>	<b>52,126,325</b>	<b>(2,196,831)</b>

The management believes that the unimpaired amounts that are past due are probable to be collected, based on historic payment behavior and analyses on the underlying customers' credit ratings, when available.

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

'000 GEL

	Individual impairments	
	2017	2016
Balance at beginning of the year	(2,196,831)	(99,242)
Impairment loss recognised	-	(2,196,831)
Recovery of written off receivables	2,196,831	99,242
<b>Balance at end of the year</b>	<b>-</b>	<b>(2,196,831)</b>

### (ii) Cash and cash equivalents

The Company held cash and cash equivalents of GEL 13,414,057 at 31 December 2017 (2016: GEL 10,392,971), which represents its maximum credit exposure on these assets. The cash and cash equivalents are held with a leading Georgian bank, with short term issuer default rating of B based on rating agency Fitch ratings.

### (e) 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.

Cash and cash equivalents are fully placed on the current account in the bank, which also contributes to the liquidity of the Company.

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

31 December 2017	Carrying amount	Contractual cash flows	Less than 2 months
GEL			
Non-derivative financial liabilities			
Trade and other payables	35,572,231	35,572,231	35,572,231
31 December 2016			
GEL			
Non-derivative financial liabilities			
Trade and other payables	55,165,821	55,165,821	55,165,821

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

**(f) 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.

**(i) Currency risk**

Based on the "Electricity (Capacity) Market Rules" issued by the Ministry of Energy and Natural Resources of Georgia (note 3(h)), the Company is not exposed to significant currency risk.

**(g) Capital management**

Given the nature of the Company's operations, the Company does not have a formal capital management policy. In addition the Company is not subject to externally imposed capital requirements.

## **18. Contingencies**

**(a) Taxation contingencies in Georgia**

The taxation system in Georgia is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are sometimes unclear, contradictory and subject to varying interpretation. In the event of a breach of tax legislation, no liabilities for additional taxes, fines or penalties may be imposed by the tax authorities after three years have passed since the end of the year in which the breach occurred.

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

**(b) Litigations and claims**

In the opinion of management, there are no current legal proceedings or other claims outstanding, which could have a material effect on the result of operations or financial position of the Company and which have not been accrued or disclosed in these financial statements

**(c) Electricity purchase contracts**

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



## 19. Related party transactions

### (a) Control relationships

The Company's founder and ultimate controlling party is the Government of Georgia. The Company's 100% ultimate parent company is JSC Partnership (as state owned entity), however, the right of control of 100% of the Company's shares are held by the Ministry of Energy and National Resources of Georgia. Whose legal successor is the Ministry of Economy and Sustainable Development of Georgia.

JSC Partnership Fund issues publicly available IFRS financial statements.

### (b) Transactions with key management personnel

#### *Key management remuneration*

Key management received the following remuneration during the year, which is included in salaries and wages (see note 8):

GEL	2017	2016
Salaries and bonuses	<u>270,873</u>	<u>271,200</u>

### (c) Transactions with Georgian Government

JSC Partnership Fund has 100% (2016: 100%) of the shares and 100% of voting rights of the Company has Ministry of Energy and National Resources of Georgia (2016: 100%) and this ownership allows the Government significant influence over the Company. Additionally, the Company transacts in its daily operations with a number of entities that are either controlled, jointly controlled or under a significant influence 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.

#### *Collectively, but not individually, significant transactions*

The Company operates in the energy sector dominated by entities directly or indirectly controlled by the Government of Georgia through its government-related entities.

These transactions are conducted in the ordinary course of Company's business on terms comparable to those with other entities that are not government-related. The Company has established procurement policies and approval processes for purchases of products and services, which are independent of whether the counterparties are government-related entities or not.

For the year ended 31 December 2017, management estimates that the aggregate amount of the Company's significant transactions with other government-related entities are at least 23% (2016: 25%) of its sales of balancing electricity and guaranteed capacity and between 1.3% and 2.9% (2016: between 4.2% and 4.5%) of its purchase of balancing electricity and guaranteed capacity.