Electricity System Commercial Operator JSC

Financial Statements
for 2019

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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 2019, 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 2019, 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 International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Georgia, and we have fulfilled our other ethical responsibilities in accordance with 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. Our opinion on the financial statements does not cover the Management Report.

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

We do not express any form of assurance conclusion on the Management Report. We have read the Management Report and based on the work we have performed, we conclude that the Management Report:

– 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
25 September 2020

GEL	Notes	31 December 2019	31 December 2018*
Assets			
Right of use asset	3	954,309	-
Property and equipment	11	393,729	463,345
Intangible assets		128,195	159,798
Other investments	19	306,219	4,157
Non-current assets		**1,782,452**	**627,300**
Inventories		2,472	438
Trade and other receivables	12	70,080,093	73,481,201
Cash and cash equivalents	13	3,963,095	12,828,155
Current assets		**74,045,660**	**86,309,794**
Total assets		**75,828,112**	**86,937,094**
Equity	14		
Share capital		87,309	87,309
Non-cash owner contribution reserve		(15,660)	(15,660)
Property and equipment revaluation surplus		249,421	250,150
Retained earnings		12,994,028	13,450,570
Total equity		**13,315,098**	**13,772,369**
Liabilities			
Trade and other payables	15	60,543,486	73,096,789
Current tax liability		1,068,070	67,936
Lease liabilities	3	901,458	-
Current liabilities		**62,513,014**	**73,164,725**
Total liabilities		**62,513,014**	**73,164,725**
Total equity and liabilities		**75,828,112**	**86,937,094**

* The Company initially applied IFRS 16 at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated. See Note 3.

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 9 to 34.

GEL	Note	2019	2018*
Revenue	6	568,206,358	521,195,299
Cost of goods sold/service rendered	6	(562,755,559)	(514,359,858)
Gross profit		**5,450,799**	**6,835,441**
Other income		759,258	638,990
Administrative expenses	8	(4,202,484)	(4,188,700)
Recovery of bad debt expense, net	9	1,901,301	-
Impairment loss on trade receivables	9	(4,192,439)	(5,062,542)
Results from operating activities		**(283,565)**	**(1,776,811)**
Finance income	7	1,173,565	2,081,413
Finance costs	7	(306,964)	(142,207)
Net finance income		**866,601**	**1,939,206**
Profit before tax		**583,036**	**162,395**
Income tax expense	10	(39,578)	(112,741)
Profit for the year		**543,458**	**49,654**
Other comprehensive (loss)/income			
Items that will never be reclassified to profit or loss			
Revaluation of property and equipment	11	(729)	48,823
Other comprehensive (loss)/income		**(729)**	**48,823**
Total profit and other comprehensive income for the year		**542,729**	**98,477**

*The Company initially applied IFRS 16 at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated. See Note 3.

These financial statements were approved by management on 25 September 2020 and were signed on its behalf by:

Zaza Dvalishvili
General Director

Khatuna Chaduneli
Head of Finance Department

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 9 to 34.

GEL	Share capital	Non-cash owner contribution reserve	Property and equipment revaluation surplus	Retained earnings	Total equity
Balance at 1 January 2018	87,309	(15,660)	201,327	16,635,516	16,908,492
Total comprehensive income for the year					
Profit for the year	-	-	-	49,654	49,654
Other comprehensive income					
Revaluation of property, plant and equipment (note 11)	-	-	48,823	-	48,823
Total comprehensive income for the year	**-**	**-**	**48,823**	**49,654**	**98,477**
Transactions with owners recorded directly in equity					
Dividends (note 14(b))	-	-	-	(3,234,600)	(3,234,600)
Total transactions with owners recorded directly in equity	**-**	**-**	**-**	**(3,234,600)**	**(3,234,600)**
Balance at 31 December 2018	**87,309**	**(15,660)**	**250,150**	**13,450,570**	**13,772,369**
Balance at 1 January 2019*	87,309	(15,660)	250,150	13,450,570	13,772,369
Total comprehensive income for the year					
Profit for the year	-	-	-	543,458	543,458
Other comprehensive income					
Revaluation of property, plant and equipment (note 11)	-	-	(729)	-	(729)
Total comprehensive (loss)/income for the year	**-**	**-**	**(729)**	**543,458**	**542,729**
Transactions with owners recorded directly in equity					
Dividends (note 14(b))	-	-	-	(1,000,000)	(1,000,000)
Total transactions with owners recorded directly in equity	**-**	**-**	**-**	**(1,000,000)**	**(1,000,000)**
Balance at 31 December 2019	**87,309**	**(15,660)**	**249,421**	**12,994,028**	**13,315,098**

*The Company initially applied IFRS 16 at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated. See Note 3.

GEL	Notes	2019	2018*
Cash flows from operating activities			
Profit for the year		543,458	49,654
Adjustments for:			
Depreciation and amortization	11	938,994	135,466
Impairment loss on trade receivables, net	9	2,291,138	5,062,542
Net finance income	7	(866,601)	(1,939,206)
Income tax expense		39,578	112,741
Cash from operating activities before changes in working capital and provisions		**2,946,567**	**3,421,197**
Change in inventories		(2,034)	945
Change in other non-current assets		-	(560)
Change in current tax liability		1,284,480	3,597,275
Change in trade and other receivables		2,159,874	(43,013,012)
Change in trade and other payables and lease liabilities		(13,603,207)	33,858,530
Cash flows used in operations before income tax paid		**(7,214,320)**	**(2,135,625)**
Income tax paid		(323,924)	-
Net cash used in operating activities		**(7,538,244)**	**(2,135,625)**
Cash flows from investing activities			
Interest received		1,173,565	2,081,413
Acquisition of other investments		(302,063)	-
Acquisition of property and equipment		(55,007)	(303,307)
Acquisition of intangible assets		(22,539)	(97,362)
Net cash from investing activities		**793,956**	**1,680,744**
Cash flows from financing activities			
Dividends paid		(1,000,000)	(3,000)
Repayment of lease liabilities		(1,000,000)	**-**
Net cash flows used in financing activities		**(2,000,000)**	**(3,000)**
Net decrease in cash and cash equivalents		**(8,744,287)**	**(457,881)**
Cash and cash equivalents at 1 January		12,828,155	13,414,057
Effect of exchange rate fluctuations on cash and cash equivalents		(120,733)	(128,021)
Cash and cash equivalents at 31 December	13	**3,963,095**	**12,828,155**

*The Company initially applied IFRS 16 at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated. See Note 3.

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 9 to 34.

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1. Reporting entity

(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 Georgian law about "Electroenergetics and Natural Gas" dated at 30 April 1999 became invalid on 20 December 2019 when the new Law "Georgian National Energy and Water Supply" came into force. The new law defines general framework of the upcoming markets and gives guidelines for transition period (note 20).

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 (note 20).

Related party transactions are disclosed in note 18.

(b) Georgian business environment

The Company's operations are primarily 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.

2. Basis of preparation

(a) Statement of compliance

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

This is the first set of the Company's annual financial statements in which IFRS 16 *Leases* has been applied. Changes to significant accounting policies are described in Note 5.

(b) 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.

(c) 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 6 – acting as an agent in the transactions regulated by the Government Decree N923;
– Note 6 – acting as a principal in the transactions with Abkhazia;
– Note 16(b)(ii) – allowances for trade receivables; and
– Note 20 - correction of prior periods losses as non-adjusting event.

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 the Note 16(b)(ii) – measurement of ECL allowance 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 16 - fair values and risk management.

3. Changes in significant accounting policies

Except for the changes below, the Company has consistently applied the accounting policies to all periods presented in these financial statements.

IFRS 16

The Company has initially adopted IFRS 16 *Leases* from 1 January 2019. IFRS 16 introduced a single, on-balance sheet accounting model for lessees. As a result, the Company, as a lessee, recognises right-of-use assets representing its rights to use the underlying assets and lease liabilities representing its obligation to make lease payments.

The Company has applied IFRS 16 using the modified retrospective approach and has measured right-of-use asset at the amount equal to the lease liability, adjusted for prepayments and accruals. Accordingly, the comparative information presented for 2018 has not been restated – i.e. it is presented, as previously reported, under IAS 17 and related interpretations. The details of the changes in accounting policies are disclosed below. Additionally, the disclosure requirements in IFRS 16 have not generally been applied to comparative information.

Definition of a lease

Previously, the Company determined at contract inception whether an arrangement was or contained a lease under IAS 17 *Leases* and IFRIC 4 *Determining Whether an Arrangement contains a Lease*. The Company now assesses whether a contract is or contains a lease based on the new definition of a lease. Under IFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for a consideration.

On transition to IFRS 16, the Company elected to apply the practical expedient to grandfather the assessment of which transactions are leases. The Company applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed for whether there is a lease under IFRS 16. Therefore, the definition of a lease under IFRS 16 was applied only to contracts entered into or changed on or after 1 January 2019.

As a lessee

The Company's lease contracts relate to leases of office area.

As a lessee, the Company previously classified leases as operating leases based on its assessment of whether the lease transferred substantially all of the risks and rewards of ownership. Under IFRS 16, the Company recognises right-of-use assets and lease liabilities for most leases – i.e. these leases are on-balance sheet. The Company recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

The right-of-use assets and related lease liabilities have been presented as a separate line item in the statement of financial position.

Maturity analysis of leases is disclosed in note 16(b)(iv).

The carrying amounts of right-of-use assets and lease liabilities as at 1 January 2019 and 31 December 2019 are as below:

'000 GEL	**Office rent**	**Total**
Carrying amount at 1 January 2019	**1,715,056**	**1,715,056**
Gross carrying amount at 31 December 2019	1,715,056	1,715,056
Depreciation charge in 2019 and accumulated depreciation at 31 December 2019	(760,747)	(760,747)
Net carrying amount at 31 December 2019	**954,309**	**954,309**
Lease liability at 1 January 2019	**(1,715,056)**	**(1,715,056)**
Interest charge	(186,402)	(186,402)
Payment of lease liability	1,000,000	1,000,000
Lease liability at 31 December 2019	**(901,458)**	**(901,458)**

The Company recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, and subsequently at cost less any accumulated depreciation and impairment losses, and adjusted for certain remeasurements of the lease liabilities.

The lease liability is initially measured at the present value of the future lease payments as at the date of transition, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payments made. It is remeasured when there is a change in future ease payments arising from a change in an index or rate, a change in the estimate of the amount expected to be payable under a residual value guarantee, or as appropriate, changes in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

A lease term reflects the Company's reasonable estimate of the period during which the underlying asset will be used. In determining the lease term the Company bases its judgement on the broader economics of the contract and the underlying asset, rather than the contractual terms only and allows factors like economic penalties, legislative approach to renewal of the lease and the future business plans of the Company to be effectively captured in the estimate of the lease term.

(i) Transition

Previously, the Company classified leases as operating leases under IAS 17. The Company uses the option to maintain this treatment for short-term leases and recognises the right-of-use asset and respective lease liability as per IFRS 16 for the contracts that are long-term either contractually or substantially. Since management applies the judgement in determining the effective lease terms, the lease terms used for IFRS 16 purposes may differ from the contractual minimum lease periods. On transition, management has applied contractual terms, which have maximum 1.5 year lease period.

At transition to IFRS 16 both the lease liabilities and related right-of-use assets were measured at the present value of the remaining lease payments, discounted at the Company's incremental borrowing rate as at 1 January 2019.

(ii) Impacts on transition

When measuring lease liabilities for leases that were classified as operating leases, the Company discounted lease payments using its incremental borrowing rate at 1 January 2019. The weighted-average rate applied is 11%.

4. 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 generally recognized in profit or loss.

(b) Financial instruments

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

(i) Classification and measurement of financial assets and financial liabilities

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities. However, it eliminates the previous IAS 39 categories for financial assets of held to maturity, loans and receivables and available for sale.

Under IFRS 9, on initial recognition, a financial asset is classified as measured at: amortised cost; FVOCI – debt investment; FVOCI – equity investment; or FVTPL. The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The effect of adopting IFRS 9 on the carrying amounts of financial assets at 1 January 2018 relates solely to the new impairment requirements, as described further below.

Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

Modification of financial assets and financial liabilities

Financial assets

If the terms of a financial asset are modified, the Company evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different (referred to as ‘substantial modification’), then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value.

The Company performs a quantitative and qualitative evaluation of whether the modification is substantial, i.e. whether the cash flows of the original financial asset and the modified or replaced financial asset are substantially different. The Company assesses whether the modification is substantial based on quantitative and qualitative factors in the following order: qualitative factors, quantitative factors, combined effect of qualitative and quantitative factors. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset deemed to have expired. In making this evaluation the Company analogizes to the guidance on derecognition of financial liabilities.

The Company concludes that the modification is substantial as a result of the following qualitative factors:

– change the currency of the financial asset;
– change in collateral or other credit enhancement;

If the cash flows of the modified asset carried at amortised cost are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the Company recalculates the gross carrying amount of the financial asset and recognises the amount arising from adjusting the gross carrying amount as a modification gain or loss in profit or loss. The gross carrying amount of the financial asset is recalculated as the present value of the renegotiated or modified contractual cash flows that are discounted at the financial asset's original effective interest rate. Any costs or fees incurred adjust the carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial asset.

Financial liabilities

The Company derecognizes a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognised in profit or loss.

If a modification (or exchange) does not result in the derecognition of the financial liability the Company applies accounting policy consistent with the requirements for adjusting the gross carrying amount of a financial asset when a modification does not result in the derecognition of the financial asset, i.e. the Company recognises any adjustment to the amortised cost of the financial liability arising from such a modification (or exchange) in profit or loss at the date of the modification (or exchange).

Changes in cash flows on existing financial liabilities are not considered as modification, if they result from existing contractual terms. The Company treats the modification of an interest rate to a current market rate using the guidance on floating-rate financial instruments. This means that the effective interest rate is adjusted prospectively.

Company performs a quantitative and qualitative evaluation of whether the modification is substantial considering qualitative factors, quantitative factors and combined effect of qualitative and quantitative factors. The Company concludes that the modification is substantial as a result of the following qualitative factors:

– change the currency of the financial liability;
– change in collateral or other credit enhancement;
– inclusion of conversion option;
– change in the subordination of the financial liability.

For the quantitative assessment the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

Derecognition

Financial assets

The Company derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Company neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The Company enters into transactions whereby it transfers assets recognised in its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets. In these cases, the transferred assets are not derecognised.

Financial liabilities

The Company derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire. The Company also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in profit or loss.

Offsetting

Financial assets and financial 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 amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

(ii) Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' (ECL) model. The new impairment model applies to financial assets measured at amortised cost, contract assets. Under IFRS 9, credit losses are recognised earlier than under IAS 39.

The financial assets at amortised cost consist of trade receivables and cash and cash equivalents.

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

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

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and informed credit assessment and including forward-looking information.

The Company assumes that the credit risk on a financial asset has increased significantly if it is more than 25 days past due.

The Company considers a financial asset to be in default when:

- the customer is unlikely to pay its credit obligations to the Company in full, without recourse by the Company to actions such as realising security (if any is held); or
- the financial asset is more than 180 days past due according to the type of receivable.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Company is exposed to credit risk.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive).

ECLs are discounted at the effective interest rate of the financial asset.

Presentation of impairment

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

Write-off

The gross carrying amount of a financial asset is written off when the Company has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. The Company individually makes an assessment with respect to the timing and amount of write-off based on whether there is a reasonable expectation of recovery. The Company expects no significant recovery from the amount written off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Company's procedures for recovery of amounts due.

(c) 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.

(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 valuators, 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 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

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) Share capital

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to issue of ordinary shares are recognised as a deduction from equity.

(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.

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.

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. 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 the purchase and sale of Guaranteed Capacity transactions.

(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.

(iii) Performance Obligations

The following table provides information about the nature and timing of the satisfaction of performance obligations in contracts with customers, including significant payment terms, and the related revenue recognition policies.

Type of product/ service	**Nature and timing of satisfaction of performance obligations, including significant payment terms**	**Revenue recognition under IFRS 15**
Sale of electricity (local and foreign), includes income from sale of: - balancing electricity; - guaranteed capacity, - import and export of electricity	While making sale based on contracts with customers, both domestic and foreign, customers obtain control on electricity at the time of making purchase. The Company calculated the tariff each month based on the actual prices of purchased electricity for that period. There are no any discount related to sales.	Revenue is recognized over time as services are provided, based on the volume of transmitted electricity.
Provision of services to customers (local and foreign) - income from fixed tariff of services rendered	While making sale based on contracts with customers, the Company received fixed tariff (note 6) for provision of services. The tariff is charged at the point of making purchase of electricity. There are no any discount related to sales.	Revenue is recognised at a point in time when the sale takes place.

(h) Finance income and costs

Interest income or expense is recognised 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.

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 from current tax. Current tax is 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 2023.

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

Tax reimbursement is available for the current tax paid on the undistributed earnings in the years 2008-2016, if those earnings are distributed in 2018 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.

(j) Leases

The Company has applied IFRS 16 using the modified retrospective approach, under which comparative information is not restated. The Company has disclosed accounting policies under both IFRS 16 (for the current period) and IAS 17 (for the comparative period presented) in order for users to understand the current period as well as comparative information and changes in significant accounting policies (Note 3).

Policy applicable from 1 January 2019

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company uses the definition of a lease in IFRS 16.

This policy is applied to contracts entered into, on or after 1 January 2019.

Policy applicable before 1 January 2019

For contracts entered into before 1 January 2019, the Company determined whether the arrangement was or contained a lease based on the assessment of whether:

- fulfilment of the arrangement was dependent on the use of a specific asset or assets; and
- the arrangement had conveyed a right to use the asset. An arrangement conveyed the right to use the asset if one of the following was met:
- the purchaser had the ability or right to operate the asset while obtaining or controlling more than an insignificant amount of the output;
- the purchaser had the ability or right to control physical access to the asset while obtaining or controlling more than an insignificant amount of the output; or
- facts and circumstances indicated that it was remote that other parties would take more than an insignificant amount of the output, and the price per unit was neither fixed per unit of output nor equal to the current market price per unit of output.

(i) Interests in equity-accounted investees

The Company's interests in equity-accounted investees comprise interests in associates.

Associates are those entities in which the Company has significant influence, but not control or joint control, over the financial and operating policies. Significant influence is presumed to exist when the Company holds between 20% and 50% of the voting power of another entity.

Interests in associates are accounted for using the equity method and are recognised initially at cost. The cost of the investment includes transaction costs.

The financial statements include the Company's share of the profit or loss and other comprehensive income of equity accounted investees, after adjustments to align the accounting policies with those of the Company, from the date that significant influence commences until the date that significant influence ceases.

When the Company's share of losses exceeds its interest in an equity-accounted investee, the carrying amount of that interest including any long-term investments, is reduced to zero, and the recognition of further losses is discontinued, except to the extent that the Company has an obligation or has made payments on behalf of the investee.

5. New standards and interpretations not yet adopted

A number of new standards are effective for annual periods beginning after 1 January 2020 and earlier application is permitted; however, the Company has not early adopted the new or amended standards in preparing these financial statements. The following amended standards and interpretations are not expected to have a significant impact on the Company's financial statements.

- *Amendments to References to Conceptual Framework in IFRS Standards.*
- *Definition of a Business (Amendments to IFRS 3).*
- *Definition of Material (Amendments to IAS 1 and IAS 8).*
- *Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)*
- *IFRS 17 Insurance Contracts.*
- *Classification of liabilities as current or non-current (Amendments to IAS 1)*

6. Revenue and cost of sales

GEL	2019	2018
Revenue from contracts with customers		
Income from sales of balancing electricity	392,041,667	341,196,885
Income from guaranteed capacity service	164,063,485	156,115,181
Income from export of electricity	6,044,007	19,086,610
Income from fixed tariff of services rendered	4,735,985	4,796,623
Income from direct contracts (import)	1,321,214	-
Total revenue	**568,206,358**	**521,195,299**

GEL	2019	2018
Cost of sold balancing electricity	(392,041,667)	(341,196,887)
Cost of guaranteed capacity service	(164,063,484)	(156,115,181)
Cost of export of electricity	(5,337,698)	(17,015,780)
Cost of imported electricity	(1,312,710)	-
Other	-	(32,010)
Total cost of electricity sold/services rendered	**(562,755,559)**	**(514,359,858)**

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.

According to the clause 38.2 of Electricity (Capacity) Market Rules the Government of Georgia shall provide the electricity to Abkhazia territory in case of shortage of supply encountered by the suppliers of Abkhazia. Per the same clause (38.2) the amount of supplied electricity to Abkhazia is subject to return to the Company in terms of the electricity, afterwards the Company can resell the same electricity to other counterparties with the same terms of trading with balancing electricity. In 2019 the amount of supplied electricity to Abkhazia was GEL 12.7m (2018: nil) as a balancing electricity. As of 31 December 2019 the amount of electricity receivable is GEL 5.4 million (2018: nil) which was subsequently returned to the Company in 2020. The transaction with Abkhazia is accounted under the income from sales of balancing electricity, as the Company acts as a principal in arrangement like in other transactions of balancing electricity trading.

During 2018 the Company has acted as a financial agent while providing services based on the Georgian Government's decree N923, dated April 27, 2018. On April 9, 2015, the Government of Georgia and the Government of Turkey signed an agreement on cooperation in the energy sector. In accordance with Article #11 of this agreement, the return of debt to Turkey for electricity with total volume of 1,000,000,000 kWh was accepted by the Government of Georgia. The Company was identified as the electricity supplier from the Georgian side, whereas the electricity trading company TETAS was chosen from Turkish side. According to the decree N923, the Company was ordered to purchase electricity from Enguri HPP and service organizations and supply to TETAS free of charge. In 2018 total value of electricity purchased from Enguri HPP and service organizations is GEL 6,465,202. Per the same decree N923, Georgian Government covers half of the expenses arisen from the aforementioned activities from the Company's retained earnings, and the remaining portion of the costs is covered by the Ministry of Finance of Georgia in cash (see Note 14).
No such transactions have been occurred in 2019.

In the transactions of purchase and supply of the electricity under the decree N923 the Company acted as an intermediary between the Governments of Georgia and Turkey. In those transactions management of the Company estimated that the Company acts as an agent rather than as the principal.

Management considered the following factors in distinguishing between an agent and a principal:

- The Company does not take title of the goods and has no responsibility in respect of the goods sold.
- The Company does not select the customer and/or from which electricity supplier to purchase the electricity.
- The Company does not bear any credit risk for the purchased electricity.
- The Company cannot impact on the selling prices which should be same as purchase prices set by the electricity supplier.

The effect of initially applying IFRS 15 on the Company's revenue from contracts with customers is described in note 3. Due to the transition method chosen in applying IFRS 15, comparative information has not been restated to reflect the new requirements.

(a) Disaggregation of revenue from contracts with customers

In the following table, revenue from contracts with customers is disaggregated by the primary geographical markets, the major revenue streams and timing of revenue recognition.

GEL **Primary geographical markets**	**2019**	**2018**
Domestic	562,162,351	502,108,689
Foreign	6,044,007	19,086,610
Total revenues	**568,206,358**	**521,195,299**

(b) Contract balances

The following table provides information about receivables from contracts with customers.

GEL	**2019**	**2018**
Receivables, which are included in 'trade and other receivables'	69,976,603	73,377,851

Due to the nature of the business operations, the Company does not have contract assets and contract liabilities from the contracts with customers.

(c) Performance obligations and revenue recognition policies

Revenue is measured based on the consideration specified in a contract with a customer. The Company recognises revenue when it transfers control over a good or service to a customer, see note 3(b).

7. Net finance income

GEL	**2019**	**2018**
Interest income on bank accounts under the effective interest method	1,173,565	2,081,413
Finance income	**1,173,565**	**2,081,413**
Interest expense accrued under IFRS 16	(186,402)	-
Net foreign exchange loss	(120,562)	(142,207)
Finance costs	**(306,964)**	**(142,207)**
Net finance income recognised in profit or loss	**866,601**	**1,939,206**

8. Administrative expenses

GEL	2019	2018
Wages and salaries	2,834,022	2,694,128
Depreciation and amortization*	938,994	135,465
Representative and business trip expenses	79,615	109,622
Utilities	62,716	41,845
Office expenses	62,298	34,781
Office supplies	39,437	28,365
Vehicle maintenance and repair	32,409	24,985
Fuel	30,295	24,070
Professional services	23,949	19,712
Insurance	9,878	10,153
Taxes other than on income	1,525	4,628
Rent (note 3)	-	1,000,000
Other expenses	87,346	60,946
	4,202,484	**4,188,700**

*Depreciation and amortization include depreciation of right of use assets in amount of GEL 761 thousand.

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. Impairment loss on trade receivables/(Recovery of bad debt expense, net)

GEL	Note	2019	2018
Provision for trade receivables	16(b)(ii)	4,192,439	5,062,542
Recovery of previously charged bad debt expense	16(b)(ii)	(1,901,301)	-
Impairment loss on trade receivables and /(recovery of impairment loss)		**2,291,138**	**5,062,542**

In 2019 the Company recovered previously fully provisioned balance of one customer, while because of the financial difficulties of new customer, the balance was fully provisioned as at 31 December 2019.

During 2018 the Company has made contracts with new customers. Receivable balances of two of these new customers were provisioned by 100% as at 31 December 2018. One of these two customers, with balance of GEL 2,619,859 became bankrupt and the second: with balance of GEL 2,031,868 went into financial difficulties. As at 31 December 2018, in their expected credit loss estimates, the management considered the above balances as defaulted with nil probability to recover those balances, hence, management of the Company decided to provide 100% provision on those balances as at 31 December 2018.

10. Income taxes

(a) Amounts recognised in profit or loss

The Company's applicable tax rate is the income tax rate of 17.64% for Georgian companies.

GEL	2019	2018
Current tax expense		
Current year	39,578	112,741
Total tax expense	**39,578**	**112,741**

Reconciliation of effective tax rate

	2019		2018	
	GEL	**%**	**GEL**	**%**
Dividends declared	1,000,000		3,234,600	
CIT applicable dividends	**1,000,000**		**3,234,600**	
Tax using domestic tax rate *	176,471	17.64	570,683	17.64
Set off the tax payable on dividends	(136,893)	(13.69)	(457,942)	(14.16)
Income tax expense	**39,578**	**3.96**	**112,741**	**3.49**

* According to the Tax Code of Georgia (TCG), Article 309 Part 92-93 a tax relief 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 dividends declared in 2018 and 2017 were from undistributed earnings in the years 2008-2016.

11. Property and equipment

GEL	**Vehicles**	**Fixtures and fittings**	**Computers and technical equipment**	**Total**
Cost or deemed cost/revalued amount				
Balance at 1 January 2018	140,278	138,046	140,871	419,195
Additions	-	43,499	269,296	312,795
Disposals	-	(3,207)	(2,265)	(5,472)
Revaluation	30,880	15,043	2,900	48,823
Balance at 31 December 2018	**171,158**	**193,381**	**410,802**	**775,341**
Balance at 1 January 2019	171,158	193,381	410,802	775,341
Additions	-	11,703	43,304	55,007
Disposals	-	(559)	(23)	(582)
Revaluation	-	63	2	65
Balance at 31 December 2019	**171,158**	**204,588**	**454,085**	**829,831**
Depreciation and impairment losses				
Balance at 1 January 2018	(76,028)	(74,046)	(73,760)	(223,834)
Depreciation for the year	(17,240)	(19,566)	(54,079)	(90,885)
Disposals	-	1,590	1,133	2,723
Balance at 31 December 2018	**(93,268)**	**(92,022)**	**(126,706)**	**(311,996)**
Balance at 1 January 2019	(93,268)	(92,022)	(126,706)	(311,996)
Depreciation for the year	(16,520)	(24,847)	(82,739)	(124,106)
Balance at 31 December 2019	**(109,788)**	**(116,869)**	**(209,445)**	**(436,102)**
Carrying amounts				
At 1 January 2018	**64,250**	**64,000**	**67,111**	**195,361**
At 31 December 2018	**77,890**	**101,359**	**284,096**	**463,345**
At 31 December 2019	**61,370**	**87,719**	**244,640**	**393,729**
Carrying amounts had no revaluations taken place				
At 1 January 2018	-	23,214	22,752	45,966
At 31 December 2018	-	45,530	236,837	282,367
At 31 December 2019	-	31,828	197,379	229,207

Revaluation of property and equipment

In 2018, the management commissioned an independent valuator to independently appraise property and equipment as at 31 December 2018, using market comparison approach. Analyzing fair values of the property and equipment at 31 December 2019, management determined that carrying values of GEL 393,729 approximate to their fair values. 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 categorized as a Level 2 fair value.

12. Trade and other receivables

GEL	2019	2018
Balancing electricity	51,290,921	57,018,952
Guaranteed capacity	15,737,987	15,517,048
Direct contracts	1,971,883	170,535
Services rendered	428,476	463,261
Prepayments	103,490	103,350
Other receivables	547,336	208,055
	70,080,093	**73,481,201**

The Company's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in note 16.

13. Cash and cash equivalents

GEL	2019	2018
Bank balances	3,963,095	12,828,155
Cash and cash equivalents in the statements of financial position and of cash flows	**3,963,095**	**12,828,155**

Bank balances represent callable deposits with maturities of three months or less from the acquisition date.

The Company's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in note 16.

14. Capital and reserves

(a) Share capital

	Ordinary shares	
Number of shares	**2019**	**2018**
Authorised shares	87,309	87,309
Par value	GEL 1	GEL 1
On issue at 31 December	**87,309**	**87,309**

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 2019 the Company declared and repaid dividends of GEL 1,000,000 according to the decision dated at 1 July 2019 issued by Partnership Fund.

In 2018 Company declared dividends of GEL 3,231,600 according to Government of Georgia decree N923, dated on 27 April 2018 and in addition to this the Company paid GEL 3,000 for membership. For more details on payment of dividends and decree N923 see Note 6. The dividends were distributed from retained earnings of 2008-2016 years.

15. Trade and other payables

GEL	**2019**	**2018**
Balancing electricity	44,413,276	56,306,946
Guaranteed capacity	15,089,020	15,610,971
Electricity to export	682,832	682,824
Services received	320,655	429,556
Other payables	37,703	66,492
	60,543,486	**73,096,789**

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

16. Fair values and risk management

(a) Accounting classifications and 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 (see i);
– liquidity risk (see ii);
– market risk (see iii).

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.

(i) 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.

(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 investment securities.

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:

	Carrying amount	
GEL	**2019**	**2018**
Trade and other receivables*	64,596,031	73,377,851
Cash and cash equivalents	3,963,095	12,828,155
	68,559,126	**86,206,006**

***** Trade and other receivables balance is presented excluding the receivable amount from Abkhazia (Note 6)

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 31% (2018: 46%) of the Company's revenue is attributable to sales transactions with a single customer, JSC EnergoPro Georgia. The Company's export sales are to Turkey, Russia, Armenia, and Azerbaijan, comprising nil, 47%, 20% and 33% respectively, of total export sales in 2019 (2018: Turkey – 58%, Russia - 21 %, Armenia - nil, and Azerbaijan - 21%).

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 for 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.

98% of the Company's trade receivables at the reporting date related to domestic wholesale customers. As at 31 December 2019 the Company had eight wholesale domestic customers (2018: four customers) comprising more than 65% (2018: 98%) of total trade receivables.

Impairment losses

A summary of the Company's exposure to credit risk for trade receivables:

GEL	Credit impaired	Gross 2019	Impairment 2019	Gross 2018	Impairment 2018
Low risk	No	64,720,325	(371,382)	73,788,666	(410,815)
High risk (note 9)	Yes	7,229,387	(6,982,298)	4,651,727	(4,651,727)
		71,949,711	**(7,353,680)**	**78,440,393**	**(5,062,542)**

In monitoring customer credit risk, customers are grouped according to their credit characteristics, including whether they are an individual or legal entity, aging profile, maturity and existence of previous financial difficulties.

Low risk - the counterparties have a strong capacity to meet its contractual cash flow obligations in the near term and adverse changes in economic and business conditions in the longer term may not likely reduce the ability of the customer to fulfil its contractual cash flow obligations. Weighted average loss rate for low risk grade is approximately 1% (2018: 1%).

High risk - the counterparties have a week capacity to meet their contractual cash flow obligations in the near term and adverse changes in economic and business conditions in the longer term may likely increase the ability of the counterparties to fulfil their contractual cash flow obligations. Weighted average loss rate for high risk grade is approximately 90-100%.

The Company establishes an allowance for impairment that represents its estimate of expected losses in respect of trade and other receivables. The main component of this allowance is a collective loss component. The Company's trade receivables are mainly from the domestic customers who has long working experience with the Company and good credit history.

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

GEL	Impairment allowance	
	2019	**2018**
Balance at beginning of the year	**(5,062,542)**	**-**
Impairment loss recognized on non-credit impaired receivables	-	(410,815)
Impairment loss recognized on credit impaired receivables	(4,192,439)	(4,651,727)
Recovery of previously recognized impairments (note 9)	1,901,301	-
Balance at end of the year	**(7,353,680)**	**(5,062,542)**

An impairment rate of 100% was applied to gross trade and other receivables from retail customers overdue by more than 365 days, with lower impairment rates applied for ageing categories of trade and other receivables that are overdue for shorter periods. The allowance account in respect of trade and other receivables is used to record impairment losses unless the Company is satisfied that no recovery of the amount owing is possible; at that point the amount is considered irrecoverable and is written off against the financial asset directly.

(iii) Cash and cash equivalents

The Company held cash and cash equivalents of GEL 3,963,095 at 31 December 2019 (2018: GEL 12,828,155), 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.

Management does not believe that counterparty will fail to meet its obligations.

Impairment on cash and cash equivalents has been measured on a 12-month expected loss basis and reflects the short maturities of the exposures. The Company considers that its cash and cash equivalents have low credit risk based on the external credit ratings of the counterparties.

(iv) 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 2019 **GEL**	**Carrying amount**	**Contractual cash flows**	**Less than 12 months**
Non-derivative financial liabilities			
Lease liabilities	901,458	1,000,000	1,000,000
Trade and other payables	60,543,486	60,543,486	60,543,486
	61,444,944	**61,543,486**	**61,543,486**

31 December 2018 **GEL**	**Carrying amount**	**Contractual cash flows**	**Less than 12 months**
Non-derivative financial liabilities			
Trade and other payables	**73,096,789**	**73,096,789**	**73,096,789**

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

(v) 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 optimizing the return.

Currency risk

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

(c) 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.

17. Contingencies

(a) Litigation

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

(b) 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. 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.

(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 7 contracts (2018: 48 contracts) have been initiated electric power stations are under construction as of 31 December 2019 and planning to be finalised between 2020. In 2019 construction of eleven power stations were finalized (2018: five 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.

18. Related parties

(a) Parent and ultimate controlling party

The Company's founder and ultimate controlling party is the Government of Georgia. The Company's 100% parent company is JSC Partnership Fund (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.

JSC Partnership Fund issues publicly available IFRS financial statements.

(b) Transactions with key management personnel

(i) Key management remuneration

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

GEL	**2019**	**2018**
Salaries and bonuses	**255,043**	**361,600**

(c) Transactions with Government of Georgia

JSC Partnership Fund has 100% (2018: 100%) of the shares and 100% of voting rights of the Company has Ministry of Energy and National Resources of Georgia (2018: 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 2019, management estimates that the aggregate amount of the Company's significant transactions with other government-related entities are at least 28% (2018: 38%) of its sales of balancing electricity and guaranteed capacity and 0.2% (2018: 1%) of its purchase of balancing electricity and guaranteed capacity.

19. Other investments

Georgian Energy Exchange JSC was established in December 2019, with equal shares of 50% participation of the Company and Georgian State Electrosystem JSC. Georgian Energy Exchange JSC is an operator of organized electricity markets and ensures establishment of daily markets. During 2019, the Company made an investment of GEL 302 thousand.

According to the terms of the agreement under which the entity is established, the management determined that the Company does not control Georgian Energy Exchange JSC. Thus, the entity is accounted as an investment in associate under the equity method as at 31 December 2019.

20. Subsequent events

Correction of prior periods actual and actual average losses

On 16 January 2020, the Company received a letter from Georgian State Electrosystem JSC informing the Company to correct actual and actual average loss quantities for the electricity delivered/consumed for the period from 1 August 2017 to 1 September 2019. In monetary terms the correction resulted in decrease in trade and other receivables and payables (balancing electricity) by GEL 2,011 thousand, out of which GEL 766 thousand related to purchased and sold electricity during 2019.

Considering the nature of the correction management treated the correction in 2020 as a non-adjusting event. Management believes that the original estimates to determine the electricity losses at each reporting dates were appropriate, as all facts and conditions (including acts and confirmations approved by counterparties) existed as of the reporting dates were considered in those estimates and that the calculations were performed in accordance with the Electricity (Capacity) Market Rules.

Change in parent company

According to the decision issued on 28 February 2020 by the Government of Georgia, the Company's immediate parent company Partnership Fund JSC will be replaced by Ministry of Economy and Sustainable Development of Georgia. According to this decision, the Company's ultimate parent company is the Government of Georgia, under the name of Ministry of Economy and Sustainable Development of Georgia.

Outbreak of COVID-19

On 11 March 2020, the World Health Organization (WHO) declared the COVID-19 coronavirus pandemic. The first case in Georgia was officially reported on 26 February 2020. As measures against spreading of the virus, Government of Georgia imposed various restrictions over activities within the country. The restrictions imposed at various times include ban on all cross-border travel, restriction over all travel within the country during specific hours, closing of all public transport, stopping all commercial activity except those which can be done distantly from home as well as except specific business (groceries, pharmacies, commercial banks, gas stations, post offices etc.).

The outbreak of COVID-19 and its rapid spread in the world, has caused substantial impact and changes to the business environment in all countries over the world, including Georgia, which resulted in announcement of the State of Emergency, on the basis of Decree of the President of Georgia dated 21 March 2020. As per the Decree the State of Emergency shall last until 21 April 2020; which is further prolonged till 22 May 2020.

The restrictions imposed by the Government of Georgia do not apply to any of the Company's operations.

New Market Concept

Under the order N246 by the Government of Georgia dated at 16 April 2020 new market concept was established. New market concept will be effective from 1 July 2021. Before this date, the Company will continue its operations in the same way and newly founded JSC Georgian Exchange Energy (note 19) will be working in the testing-mode. After 1 July 2021 the function of the Company will be following:

- purchase of electricity generated by the electricity producer providing public services, at the tariff established by the Georgian National Energy and Water Regulatory Commission and sale of purchased electricity for the purpose of earning income;
- if necessary, financial security of electricity consumption in the occupied territories of Georgia, taking into account this concept and the requirements of the relevant legislation;
- act as a wholesale public service organization and trade only with guaranteed electricity.