

JSC Khramhesi 1

Financial statements

*for the year ended 31 December 2017,
together with independent auditors' report*

JSC Khrameshi 1
Financial statements
for the year ended 31 December 2017

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Independent auditor's report

To the Shareholders and Board of Directors of JSC Khramhesi 1

Opinion

We have audited the financial statements of JSC Khramhesi 1 (the Company), which comprise the statement of financial position as at 31 December 2017, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

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.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants (IESBA Code)*, and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter

We draw your attention to Note 17 to financial statements, which discloses a significant concentration of the Company's transactions with related parties. Our opinion is not qualified in respect of this matter.

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 IFRSs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

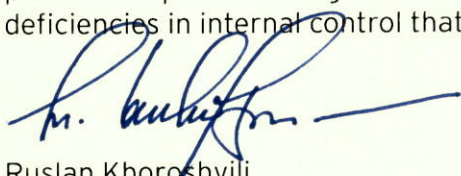
Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional 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 auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- ▶ Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.



Ruslan Khoroshvili

On behalf of EY Georgia LLC

Tbilisi, Georgia

30 January 2018

JSC Khamhesi 1
Statement of comprehensive income
for the year ended 31 December 2017
in thousands of Georgian Lari

	Note	2017	2016
Revenue from sale of electricity		16,512	18,323
Depreciation	8	(4,220)	(4,040)
Wages and other employee benefits		(1,591)	(1,615)
Property tax		(413)	(402)
Professional services		(263)	(222)
Insurance		(568)	(545)
Repairs and maintenance		(427)	(501)
Transportation expenses		(126)	(99)
Loss on revaluation of property, plant and equipment	8	(2,742)	-
Other operating expenses		(518)	(505)
Operating income		5,644	10,394
Finance costs	6	(9)	(889)
Finance income	6	251	59
Income before income tax		5,886	9,564
Income tax (charge)/benefit	7	(1,271)	2,342
Net income for the year		4,615	11,906
Other comprehensive income			
<i>Items that will not be reclassified to profit or loss in subsequent periods (net of tax)</i>			
Revaluation of property, plant and equipment	7,8	14,564	1,537
Total comprehensive income for the year, net of tax		19,179	13,443

These financial statements were approved by management on 30 January 2018 and were signed on its behalf by:

Devi Kandelaki
Chief Executive Officer



Elena Mchedlidze
Financial Director

The accompanying notes on pages 7-29 are an integral part of these financial statements.

JSC Khramhesi 1
Statement of financial position
for the year ended 31 December 2017
in thousands of Georgian Lari

	Note	31 December 2017	31 December 2016
Assets			
Non-current assets			
Property, plant and equipment	8	53,857	43,540
Intangible assets		40	43
Prepayments for non-current assets		–	368
Total non-current assets		53,897	43,951
Current assets			
Inventories		233	68
Tax assets, net	12	580	504
Trade receivables	9	9,479	8,148
Prepayments		144	137
Cash and cash equivalents	10	1,658	1,288
Total current assets		12,094	10,145
Total assets		65,991	54,096
Equity and liabilities			
Equity			
Issued capital	11	3,447	3,447
Revaluation reserve		23,487	10,106
Retained earnings		34,345	35,747
Total equity		61,279	49,300
Current liabilities			
Trade and other payables	13	4,712	4,796
Total current liabilities		4,712	4,796
Total liabilities		4,712	4,796
Total equity and liabilities		65,991	54,096

The accompanying notes on pages 7-29 are an integral part of these financial statements.

JSC Khramhesi 1
Statement of changes in equity
for the year ended 31 December 2017
in thousands of Georgian Lari

	Issued capital	Revaluation reserve for property, plant and equipment	Retained earnings	Total
Balance at 31 December 2015	3,447	9,401	33,509	46,357
Net income for the year	–	–	11,906	11,906
Other comprehensive income for the year	–	1,537	–	1,537
Total comprehensive income for the year	–	1,537	11,906	13,443
Depreciation of revaluation reserve, net of tax	–	(832)	832	–
Dividends (Note 11)	–	–	(10,500)	(10,500)
Balance at 31 December 2016	3,447	10,106	35,747	49,300
Net income for the year	–	–	4,615	4,615
Other comprehensive income for the year	–	14,564	–	14,564
Total comprehensive income for the year	–	14,564	4,615	19,179
Depreciation of revaluation reserve, net of tax	–	(1,183)	1,183	–
Dividends (Note 11)	–	–	(7,200)	(7,200)
Balance at 31 December 2017	3,447	23,487	34,345	61,279

The accompanying notes on pages 7-29 are an integral part of these financial statements.

JSC Khramhesi 1
Statement of cash flows
for the year ended 31 December 2017
in thousands of Georgian Lari

	Note	2017	2016
Operating activities			
Income before income tax		5,886	9,564
<i>Non-cash adjustments to reconcile income before tax to net cash flows</i>			
Depreciation	8	4,220	4,040
Amortization		5	5
Loss on disposal of property, plant and equipment		-	73
Loss on revaluation of property, plant and equipment	8	2,742	-
Net foreign exchange loss/(gain) on investing and financing activities		6	(8)
Finance income	6	(58)	(59)
		12,801	13,615
<i>Working capital adjustments</i>			
Change in inventories		(165)	18
Change in trade receivables		(1,331)	(252)
Change in prepayments		(7)	(4)
Change in tax assets, other than on income tax		(76)	(284)
Change in trade and other payables		(84)	433
		11,138	13,526
Income tax paid		(1,271)	(1,928)
Interest paid		(9)	-
Net cash flows from operating activities		9,858	11,598
Investing activities			
Payments for property, plant and equipment		(2,344)	(1,003)
Payments for intangible assets		(2)	-
Sales of property, plant and equipment		-	8
Interest received		58	59
Net cash flows used in investing activities		(2,288)	(936)
Financing activities			
Dividends paid	11	(7,200)	(10,500)
Proceeds from borrowings		2,417	-
Repayment of loans and borrowings		(2,411)	-
Net cash flows used in financing activities		(7,194)	(10,500)
Net increase in cash and cash equivalents		376	162
Cash and cash equivalents at the beginning of the period	10	1,288	1,118
Net foreign exchange difference on cash and cash equivalents		(6)	8
Cash and cash equivalents at the end of the period	10	1,658	1,288

The accompanying notes on pages 7-29 are an integral part of these financial statements.

JSC Khramhesi 1
Notes to the financial statements
for the year ended 31 December 2017
in thousands of Georgian Lari

1 Corporate information

JSC Khramhesi 1 (the "Company") is a joint stock company incorporated and domiciled in Georgia. The company's registered office is Khramhesi, Tsalka region.

The Company's principal activity is the generation of electricity. The Company's primary operating asset is a hydro-power plant located in the Tsalka region, Georgia (HPP Khrami 1). Generated electricity is sold in Georgia. The Company's main customer is JSC Telasi, an entity under common control.

The Company has an active license for the generation of electricity from HPP Khrami 1 until 24 December 2024.

As at 31 December 2017 and 2016, 100% of the Company's shares are owned by Gardabani Holding B.V. (the "Parent"). The ultimate parent of the Company is PJSC Inter RAO UES (the "Ultimate Parent"), which is controlled by the Russian Federation.

As discussed in Note 17, most of the Company's operating activities are with entities under common control.

These financial statements have not yet been approved by the Parent at the shareholders meeting. The shareholders meeting is usually held during the first half of the year consequent to the reporting date. The shareholders have the power to amend the financial statements after issue.

2 Basis of preparation

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

The financial statements have been prepared on the historical cost basis except for property, plant and equipment that have been measured using revaluation model.

The financial statements are presented in thousands of Georgian Lari (GEL) and all values are rounded to the nearest thousand, unless otherwise indicated.

3 Summary of significant accounting policies

Significant accounting policies have been consistently applied to the financial statements. Newly issued standards had no significant impact on the Company's financial statements.

(a) Foreign currency

GEL is the Company's functional currency, since it is a currency of a primary economic environment where it operates.

Transactions in foreign currency are initially recorded by the Company at the functional currency rates prevailing at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange ruling at the reporting date.

All differences are taken to the statement of comprehensive income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as the dates of the initial transactions.

Notes to the financial statements (continued)

3 Summary of significant accounting policies (continued)

(b) Current versus non-current classification

The Company presents assets and liabilities in statement of financial position based on current/non-current classification. An asset as current when it is:

- ▶ Expected to be realised or intended to sold or consumed in normal operating cycle.
- ▶ Held primarily for the purpose of trading.
- ▶ Expected to be realised within twelve months after the reporting period, or
- ▶ Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

A liability is current when:

- ▶ It is expected to be settled in normal operating cycle.
- ▶ It is held primarily for the purpose of trading.
- ▶ It is due to be settled within twelve months after the reporting period, or
- ▶ There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The Company classifies all other liabilities as non-current.

Deferred tax assets and liabilities are classified as non-current assets and liabilities.

(c) Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

(i) Financial assets

Initial recognition and subsequent measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. All financial assets are recognized initially at fair value plus, in the case of financial assets not recorded at fair value through profit or loss, transaction costs that are attributable to the acquisition of the financial asset.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Company commits to purchase or sell the asset.

All financial assets that the Company owns at 31 December 2017 and 2016 are classified as loans and receivables and include: trade receivables and cash and cash equivalents.

Notes to the financial statements (continued)

3 Summary of significant accounting policies (continued)**(c) Financial instruments (continued)***Subsequent measurement*

The subsequent measurement depends on the classification of financial asset.

This category is the most relevant to the Company. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate (EIR) method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance income in the statement of profit or loss. The losses arising from impairment are recognised in the statement of profit or loss in finance costs for loans and in cost of sales or other operating expenses for receivables.

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e. removed from the Company's statement of financial position) when:

- ▶ The rights to receive cash flows from the asset have expired, or
- ▶ The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Company continues to recognise the transferred asset to the extent of the Company's continuing involvement. In that case, the Company also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

Impairment

The Company assesses, at each reporting date, whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that has occurred since the initial recognition of the asset (an incurred 'loss event'), has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Notes to the financial statements (continued)

3 Summary of significant accounting policies (continued)

(c) Financial instruments (continued)

Impairment (continued)

The amount of impairment loss identified is measured as the difference between the assets carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial assets original effective interest rate.

The carrying amount of the assets is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of comprehensive income. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

The interest income is recorded as part of finance income in the statement of comprehensive income. Loans and receivables, together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Company. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to finance costs in the statement of comprehensive income.

(ii) Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

All financial liabilities of the Company at 31 December 2017 and 2016 are classified as loans and borrowings and are comprises of trade and other payables.

After initial recognition, loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of profit or loss.

Notes to the financial statements (continued)

3 Summary of significant accounting policies (continued)**(c) Financial instruments (continued)***Derecognition*

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of profit or loss.

(iii) Offsetting of financial instruments

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 realise the asset and settle the liability simultaneously.

(iv) Fair value of financial instruments

The Company measures financial instruments at fair value at each balance sheet date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- ▶ In the principal market for the asset or liability; or
- ▶ In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible to by the Company.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Notes to the financial statements (continued)

3 Summary of significant accounting policies (continued)**(c) Financial instruments (continued)**

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- ▶ Level 1 – quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- ▶ Level 2 – valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable;
- ▶ Level 3 – valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Company determines whether transfers have occurred between Levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, the Company has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

An analysis of fair values of financial instruments and further details as to how they are measured are provided in Note 14.

(d) Property, plant and equipment**(i) Recognition and measurement**

Property, plant and equipment is measured at fair value less accumulated depreciation and impairment loss recognised after the date of revaluation. Valuations are performed with sufficient frequency to ensure that the fair value of a revalued asset does not differ materially from its carrying amount.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located, and borrowing costs on qualifying assets. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Any revaluation surplus is recognised in other comprehensive income and accumulated in equity in the revaluation reserve for property, plant and equipment, except to the extent that it reverses a revaluation decrease of the same asset previously recognised as an expense, in which case the increase is recognised as gain on revaluation. A revaluation deficit is recognised as an expense, except to the extent that it offsets an existing surplus on the same asset recognised in the revaluation reserve for property, plant and equipment.

Notes to the financial statements (continued)

3 Summary of significant accounting policies (continued)**(d) Property, plant and equipment (continued)**

An annual transfer from the asset revaluation reserve to retained earnings is made for the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost. Additionally, accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings. Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets.

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of comprehensive income when the asset is derecognised.

(ii) Subsequent costs

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

(iii) Depreciation

Depreciation is recognised in statement of comprehensive income on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Significant components of individual assets are assessed and if a component has a useful life that is different from the remainder of that asset, that component is depreciated separately. Land is not depreciated.

The estimated useful lives for the current and comparative periods are as follows:

Buildings and facilities	up to 35 years
Plant and equipment	2-27 years
Vehicles	2-6 years
Other	2-5 years

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

Notes to the financial statements (continued)

3 Summary of significant accounting policies (continued)**(e) Inventories**

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on weighted average cost principle, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

(f) Impairment of non-financial assets

The Company assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs of disposal and its value in use. Recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

The Company bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of the Company's CGUs to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of five years. For longer periods, a long-term growth rate is calculated and applied to project future cash flows after the fifth year.

Impairment losses of continuing operations, including impairment on inventories, are recognised in the statement of profit or loss in expense categories consistent with the function of the impaired asset, except for properties previously revalued with the revaluation taken to OCI. For such properties, the impairment is recognised in OCI up to the amount of any previous revaluation.

For assets excluding goodwill, an assessment is made at each reporting date to determine whether there is an indication that previously recognised impairment losses no longer exist or have decreased. If such indication exists, the Company estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognized in the statement of profit or loss unless the asset is carried at a revalued amount, in which case, the reversal is treated as a revaluation increase.

Notes to the financial statements (continued)

3 Summary of significant accounting policies (continued)**(g) Revenue**

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payments and excluding taxes or duty.

Revenue from the sale of electricity is determined monthly based on the amount of electricity sold to customers as determined by an act of receipt of electricity prepared by Georgian State Electrosystem, the operator of the high voltage electricity network of Georgia, and agreed with the customers.

Sales tariffs for electricity within Georgia are regulated by the Georgian National Energy Regulating Commission (GNERC). Beginning from 1 January 2014 until 1 November 2017 sales tariff was GEL 0.082 per MW/hr. Based on the GNERC decree dated 31 October 2017 the tariff was increased to GEL 0.09781 per MW/hr starting from 1 November 2017.

(h) Taxation**(i) Income tax**

The annual profit earned by entities other than banks, insurance companies and microfinance organizations is not taxed in Georgia starting from 1 January 2017 (Note 7). Corporate income tax is paid on dividends is levied on profit distributed as dividends to the shareholders that are individuals or non-residents of Georgia at the rate of 15/85 of net distribution. The corporate income tax arising from the payment of dividends is accounted for as a liability and expense in the period in which dividends are declared, regardless of the actual payment date or the period for which the dividends are paid. In certain circumstances, deductions from income tax charge payable are available that are accounted as reduction of income tax expense related to respective distribution. Due to the nature of the Georgian taxation system, no deferred tax assets and liabilities arise for the entities registered in Georgia. Withholding tax payable in respect of dividend distribution to the shareholders of the Company is recognized as deduction from equity in the statement of changes in equity.

Georgian tax legislation also provides for charging corporate income tax on certain transactions that are considered deemed profit distributions (for example, transactions at non-market prices, non-business related expenses or supply of goods and services free of charge). Taxation of such transactions is accounted similar to operating taxes and is reported as Other taxes within Other operating expenses in income statement.

(ii) Value added tax

Revenues, expenses and assets are recognised net of the amount of value added tax, except:

- ▶ Where the value added tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the value added tax is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable.
- ▶ Receivables and payables that are stated with the amount of value added tax included.

The net amount of value added tax recoverable from, or payable to, the taxation authority is included as part of VAT asset or liability in the statement of financial position.

Notes to the financial statements (continued)

3 Summary of significant accounting policies (continued)**(i) Cash and cash equivalents**

Cash and short-term deposits in the statement of financial position comprise cash at banks and on hand and short-term deposits with a maturity of three months or less.

(j) Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Company expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset, but only when the reimbursement is virtually certain. The expense relating to a provision is presented in the statement of comprehensive income net of any reimbursement.

4 Use of estimates, judgments and assumptions

The preparation of the financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

(a) Judgments

In the process of applying the Company's accounting policies, management has made the following judgments, which have the most significant effect on the amounts recognized in the financial statements:

(i) Frequency for fair valuation of property, plant and equipment

The Company elected revalued basis for accounting of its property, plant and equipment. IAS 16 property, plant and equipment requires a company to make revaluations with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

The last revaluation of property, plant and equipment was done as at 30 September 2017 and reflected in the carrying value of the property, plant and equipment as at 31 December 2017 (Note 8).

(b) Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are described below. The Company based its assumptions and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments however, may change due to market changes or circumstances arising beyond the control of the Company. Such changes are reflected in the assumptions when they occur.

(ii) Allowance for trade receivables

The Company assesses at each reporting date whether there is any objective evidence that trade receivables are impaired. The Company's trade receivables are in total comprised of receivables JSC Telasi, an entity under common control (Note 9). Part of receivables from JSC Telasi are overdue but not impaired (Note 14).

Notes to the financial statements (continued)

5 Standards issued but not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Company's financial statements which may have impact on the Company's financial statements are disclosed below. The Company intends to adopt these standards when they become effective. Management does not expect application of other new standards and interpretations to have significant impact on financial statements.

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 *Financial Instruments* that replaces IAS 39 *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

The Company plans to adopt the new standard on the required effective date and will not restate comparative information. Overall the Company expects no significant impact on its balance sheet and equity after adoption of IFRS 9.

(a) Classification and measurement

The adoption of IFRS 9 will have an effect on the classification and measurement of the Company's financial assets, but no impact on the classification and measurement of the Company's financial liabilities. The trade receivables of the Company are held to collect contractual cash flows and are expected to give rise to cash flows representing solely payment of principal amount. Thus, the Company expects that these will continue to be measured at amortised cost under IFRS 9. The Company analysed the contractual cash flow characteristics of those instruments and concluded that they meet the criteria for amortised cost measurement under IFRS 9. Therefore, reclassification for these instruments is not required.

(b) Impairment

IFRS 9 requires the Company to record expected credit losses on all of its debt securities, loans and trade receivables, either on a 12-month or lifetime basis. The Company will apply the simplified approach and record lifetime expected losses on all trade receivables. The Company expects a significant impact on its equity due to unsecured nature of its loans and receivables, but it will perform a more detailed analysis which considers all reasonable and supportable information, including forward-looking elements to determine the extent of the impact.

(c) Hedge accounting

The Company currently does not have any hedge relationships, thus the Company does not expect any impact as a result of applying IFRS 9.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 and establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15 revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

Notes to the financial statements (continued)

5 Standards issued but not yet effective (continued)*IFRS 15 Revenue from Contracts with Customers (continued)*

The new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018. Early adoption is permitted. The Company plans to adopt the new standard on the required effective date using the full retrospective method. During 2016 the Company performed a preliminary assessment of IFRS 15, which was continued with a more detailed analysis completed in 2017.

The Company is in business of generation of electricity. The electricity generated is mainly sold to an electricity distribution company, JSC Telasi, which represents an entity under common control. In rare cases the Company may sell electricity directly to third parties. The electricity is sold in separate identified contracts. These contracts in which sale of electricity is the only performance obligation are not expected to have an impact on the Company's profit and loss. The Company expects the revenue recognition to occur at a point in time when control of the asset is transferred to the customer, generally upon delivery.

IFRS 15 provides presentation and disclosure requirements, which are more detailed than under current IFRS. The presentation requirements represent a significant change from current practice, however due to the specifics of the revenue generated by the Company, it is not expected that the volume of disclosures required in Company's financial statements will increase significantly.

IFRS 16 Leases

IFRS 16 was issued in January 2016 and it replaces 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 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

IFRS 16 also requires lessees and lessors to make more extensive disclosures than under IAS 17.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted, but not before an entity applies IFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs. In 2017, the Company plans to assess the potential effect of IFRS 16 on its financial statements.

Notes to the financial statements (continued)

5 Standards issued but not yet effective (continued)***Annual Improvements 2014-2016 Cycle (issued in December 2016)****IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration*

The Interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine the transaction date for each payment or receipt of advance consideration. Entities may apply the amendments on a fully retrospective basis.

Alternatively, an entity may apply the Interpretation prospectively to all assets, expenses and income in its scope that are initially recognised on or after:

(i) The beginning of the reporting period in which the entity first applies the interpretation
Or

(ii) The beginning of a prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation.

The Interpretation is effective for annual periods beginning on or after 1 January 2018. Early application of interpretation is permitted and must be disclosed. However, since the Company's current practice is in line with the Interpretation, the Company does not expect any effect on its consolidated financial statements.

6 Finance income and finance cost

	2017	2016
Interest expense on financial liabilities measured at amortized cost	(9)	-
Net foreign exchange loss	-	(889)
Total finance costs	(9)	(889)
Interest income on bank deposits and current accounts (Note 10)	58	59
Net foreign exchange gain	193	-
Total finance income	251	59

Foreign exchange gains and losses are mainly caused by the revaluation of assets and liabilities of the Company denominated in US Dollars (USD). For more details on the foreign currency risk please refer to Note 14.

7 Income taxes

In June 2016, amendments to the Georgian tax law in respect of corporate income tax became enacted. The amendments became effective from 1 January 2017 for all Georgian companies except the banks, insurance companies and microfinance organization, for which the effective date is 1 January 2019. Under the new regulation, corporate income tax is levied on profit distributed as dividends to the shareholders that are individuals or non-residents of Georgia, rather than on profit earned. The amount of tax payable on a dividend distribution is calculated as 15/85 of the amount of net distribution. The companies are able to offset corporate income tax liability arising from dividend distributions out of profits earned in 2008-2016 by the amount of corporate income tax paid for the respective period under the current regulation. Dividends distributions between Georgian resident companies is not subject to corporate income tax.

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Notes to the financial statements (continued)

7. Income taxes (continued)

Following the enactment of the amendments, as at 31 December 2016 the Company reversed in full its deferred tax assets and liabilities based on IAS 12 Income Taxes requirement to measure deferred taxes at 0% tax rate applicable for undistributed profits starting from 1 January 2017.

In 2017 the Company recognized income tax charge on distributed profits (dividends) in amount of GEL 1,271 in profit or loss. In 2016 the Company recognized income tax benefit resulting from reversal of deferred tax assets and liabilities in amount of GEL 4,298 in profit or loss, and benefit of GEL 1,537 in other comprehensive income (to the extent that it related to items previously recognised in other comprehensive income).

The corporate income tax (charge)/benefit comprises:

	2017	2016
Income tax charged to the profit for the year		
Deferred tax benefit relating to origination and reversal of temporary differences	–	4,298
Current income tax (charge)	(1,271)	(1,956)
Total income tax (charge)/benefit	(1,271)	2,342

The effective income tax rate differs from the statutory income tax rates. A reconciliation of the income tax expense based on statutory rates with actual is as follows:

	2017	2016
Net dividends / Profit before tax	7,200	9,564
Statutory tax rate	15/85	15%
Theoretical income tax expense/(benefit) at the statutory rate	1,271	1,435
Effect from change in tax legislation	–	(4,298)
Tax exempt income	–	(19)
Non-deductible expenditures	–	540
Income tax expense/(benefit)	1,271	(2,342)

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Notes to the financial statements (continued)

8 Property, plant and equipment

At 31 December 2017 property, plant and equipment consist of the following:

	Land	Buildings and facilities	Plant and equipment	Vehicles	Construction in Progress	Other	Total
Cost							
At 31 December 2015	314	28,901	21,013	253	1,231	33	51,745
Additions	-	-	527	-	103	5	635
Disposals	-	-	(5)	(8)	(74)	-	(87)
Transfers	-	-	1,168	-	(1,168)	-	-
At 31 December 2016	314	28,901	22,703	245	92	38	52,293
Additions	-	-	525	-	2,179	11	2,715
Disposals	-	-	-	-	-	-	-
Transfers	-	531	-	-	(531)	-	-
Revaluation increase recognized in OCI	70	10,527	5,867	50	-	3	16,517
Revaluation decrease recognized in OCI	-	-	(1,953)	-	-	-	(1,953)
Revaluation increase recognized in income statement	242	9	299	-	-	7	557
Revaluation decrease recognized in income statement	-	(133)	(2,811)	(18)	(311)	(26)	(3,299)
Elimination of accumulated depreciation at revaluation	-	(6,161)	(5,340)	(187)	-	(15)	(11,703)
At 31 December 2017	626	33,674	19,290	90	1,429	18	55,127
Accumulated depreciation							
At 31 December 2015	-	(2,458)	(2,183)	(72)	-	(6)	(4,719)
Disposals	-	-	1	5	-	-	6
Depreciation for the year	-	(2,116)	(1,832)	(86)	-	(6)	(4,040)
At 31 December 2016	-	(4,574)	(4,014)	(153)	-	(12)	(8,753)
Disposals	-	-	-	-	-	-	-
Elimination of accumulated depreciation at revaluation	-	6,161	5,340	187	-	15	11,703
Depreciation for the year	-	(2,308)	(1,863)	(42)	-	(7)	(4,220)
At 31 December 2017	-	(721)	(537)	(8)	-	(4)	(1,270)
Net book value							
At 31 December 2015	314	26,443	18,830	181	1,231	27	47,026
At 31 December 2016	314	24,327	18,689	92	92	26	43,540
At 31 December 2017	626	32,953	18,753	82	1,429	14	53,857

Notes to the financial statements (continued)

8 Property, plant and equipment (continued)

On 30 September 2017 an independent appraiser, XLPartners, determined the fair value of the Company's property, plant and equipment. The appraiser is an industry specialist in valuing these types of property, plant and equipment.

The majority of the Company's property, plant and equipment is specialised in nature and is rarely sold on the open market other than as part of a continuing business. The market for similar property, plant and equipment is not active in Georgia and does not provide evidence for using a market-based approach for determining their fair value. Consequently, the fair value of property, plant and equipment was primarily determined using a depreciated replacement cost basis for valuation, except for land, which was appraised on the basis of recent market transactions.

Depreciated replacement cost method considers the cost to reproduce or to replace the property, plant and equipment, adjusted for physical, functional or economic depreciation, and obsolescence. The depreciated replacement cost was estimated based on internal sources and analysis of the Georgian and international markets for similar property, plant and equipment. In addition to determination of the depreciated replacement cost, cash flow testing was conducted in order to assess the reasonableness of those values. The value based on the cash flow testing was lower, and accordingly the fair value of property, plant and equipment was adjusted to the value determined by the cash flow testing model.

Key assumptions used in value in use calculations

The key assumption used in performing the cash flow testing:

- ▶ The cash flows were forecasted based on actual operating results and the business plan as of the valuation date.
- ▶ For cash flow testing purposes management considered all property, plant and equipment as one cash generating unit as it is interdependent and a substantial part of cash outflows cannot be allocated to separate items of property, plant and equipment on a reasonable basis.
- ▶ Electricity generation of 225,000 MW/hr is projected for 2018-2027. This is an average actual generation for the past 10 years (2007-2017). This parameter is lower by 10% than the Company's actual business plan for years 2018-2021.
- ▶ Selling price was projected based on the new tariffs enacted by the GNERC from 1 November 2017 until 31 December 2025, adjusted for the future increases in tariff starting from 2020 triggered by the expected increase of the GEL/USD exchange rates. Starting from 2026 the selling price was determined based on the general tariff-setting methodology of the GNERC. The table below shows the tariffs set by the GNERC for years 2018-2025 and tariffs used in value in use (VIU) calculations:

Year(s)	Tariff set by GNERC	Tariff used in VIU calculations
2018	GEL 0.0978	GEL 0.0978
2019	GEL 0.0915	GEL 0.0915
2020 - 2021	GEL 0.09147	GEL 0.1074
2022	GEL 0.023	GEL 0.027
2023 - 2025	GEL 0.023	GEL 0.0275

The tariff calculated based on the GNERC methodology is GEL 0.0666 for years 2026 and 2027 and GEL 0.0615 from 2028.

- ▶ An average discount rate of 14.3% was applied in determining the recoverable amount of property, plant and equipment. The discount rate was estimated based on an industry average weighted average cost of capital.

Notes to the financial statements (continued)

8 Property, plant and equipment (continued)

Terminal value of expected cash flows after 10 years (forecasted period) was estimated by discounting for perpetuity. The long-term growth rate assumed when calculating the terminal value is 3.1%.

The values assigned to the key assumptions represented in the management's best assessment of future trends in the business and were based on data from both external sources and internal sources available to the management at that time.

The calculation of a fair value of property, plant and equipment is more sensitive to the following assumptions:

- ▶ Discount rate;
- ▶ Selling prices.

Discount rate – Discount rate represents the current market assessment of the risks specific to the underlying assets, regarding time value of money. It also includes individual risks of the underlying assets which have not been incorporated in the cash flow estimates. The discount rate calculation is derived from its weighted average cost of capital (WACC). The WACC takes into account the both cost and equity. The cost of equity is derived from the expected return on investment by the investors. The cost of debt is based on the interest bearing borrowings with the comparative risks and timing.

Selling prices – Selling price represents the current assessment of the tariffs that will be set by the regulator for the Company in the future. The selling prices for period 2018-2025 are based on the latest enacted tariffs for the period, with an uplift for the period 2020-2025 caused by expected further increase triggered by the GEL devaluation against USD. The selling tariffs after 2025 are calculated based on the general tariff-setting methodology of the GNERC.

Sensitivity to changes in assumptions

The above estimates are particularly sensitive in the following area:

- ▶ An increase of 1% in the discount rate used would have decreased the fair value by 5% (GEL 2,484).
- ▶ A decrease of 5% in the selling price projected after 2025 would have decreased the fair value by 3% (GEL 1,774).

9 Trade receivables

	31 December 2017	31 December 2016
Trade receivables due from related parties (Note 17)	9,479	8,148

Trade receivables are non-interest bearing and are generally on 30 day terms. A significant part of trade receivables are past due but not impaired (Note 14).

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Notes to the financial statements (continued)

10 Cash and cash equivalents

	31 December 2017	31 December 2016
Cash at bank	1,658	1,288
	1,658	1,288

Interest earned on cash and cash equivalents in 2017 amounted to GEL 58 (2016: GEL 59).

Cash at banks earn the annual interest based on agreed bank deposit rates.

11 Equity

(a) Issued capital

As at 31 December 2017 and 2016 the Company had 3,447,238 shares authorised and issued of GEL 0.001 each. 100% of the shares are owned by Gardabani Holdings B.V. as at 31 December 2017 and 2016.

(b) Dividends

In accordance with Georgian legislation, a company can declare dividends from its profits. The Company's retained earnings are mostly result of fixed assets revaluation during adoption of IFRS on 1 January 2011. Georgian law is silent on the Company's right to distribute such reserves as dividends.

During 2017 the Company declared and paid out dividends in amount of GEL 7,200 (2016: GEL 10,500).

12 Tax assets, net

Tax assets represent majorly the VAT asset, which is netted off with taxes payable as follows:

	31 December 2017	31 December 2016
VAT asset	1,364	873
Payroll related taxes payable	(70)	(68)
Current income tax payable	-	(326)
Other taxes (payable)/receivable	(714)	25
Tax assets other than income tax, net	580	504

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Notes to the financial statements (continued)

13 Trade and other payables

	31 December 2017	31 December 2016
Management fee payable to a related party (Note 17)	3,378	3,449
Technical fee payable to a related party (Note 17)	966	987
Trade payables to suppliers	116	112
Other payables	252	248
	4,712	4,796

Terms and conditions of the above financial liabilities:

- ▶ Trade payables are non-interest bearing and are normally settled on 30-day terms.
- ▶ Payables to a related party originated from transactions prior to 2011, they are overdue but not paid since the related party does not request repayment.
- ▶ Trade and other payables are mainly denominated in USD.

14 Financial instruments and risk management

Overview

The Company's principal financial liabilities comprise trade and other payables. The main purpose of these financial liabilities is to finance the Company's capital and operating expenditures. The Company has trade receivables and cash on current accounts that arrive directly from its operations.

The Company is exposed to credit risk, liquidity risk and market risk.

The Company is part of a large group controlled by the Ultimate Parent. Most of the financial risks are overseen and controlled at the level of the Ultimate Parent. Most of financial assets and liabilities of the Company are with entities under common control. Financial risk management objective of the Company's management is to safeguard Company's day-to-day operations, raise sufficient cash from operations to finance operating and on-going capital expenditures and service obligations to third parties.

(a) Credit risk

Credit risk is the risk that counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Company is exposed to credit risk from its operating activities (primarily for trade receivables) and from its financing activities, including deposits with banks.

The Company has a significant concentration of credit risk with a single customer, JSC Telasi, an entity under common control. The total amount receivable from JSC Telasi amounted to GEL 9,479 at 31 December 2017 (2016: GEL 8,148). From the above balance, GEL 5,863 is overdue for a period of more than a year (2016: GEL 5,863). GEL 1,161 is overdue for more than 180 days (originated in April 2017).

The Company is part of a larger group of companies controlled by the Ultimate Parent. Settlement of overdue payables and other financial instruments within this group is managed by the Ultimate Parent based on the group's need for cash resources, rather than maturities of the instruments. JSC Telasi is a creditworthy company. Management believes that repayment will happen without complications if such need arises in the Company and therefore no provision was made on amounts receivable from JSC Telasi.

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Notes to the financial statements (continued)

14 Financial instruments and risk management (continued)

(a) Credit risk (continued)

All cash and cash equivalents are held with the three largest Georgian banks. None of cash and cash equivalents are impaired or past due.

The maximum exposure to credit risk at the reporting date was:

	31 December 2017	31 December 2016
Trade receivables (Note 9)	9,479	8,148
Cash and cash equivalents (Note 10)	1,658	1,288
	11,137	9,436

(b) 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.

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities. The majority of the Company's current liabilities and current assets (receivables) are due to/from related parties and therefore management believes that this provides the Company with sufficient flexibility with regard to the timing of payments and receipts as required for ensuring adequate liquidity in the business into the future, except for amounts due to related parties. Even after deducting the amount of total overdue receivables from an entity under common control, classified as current as at 31 December 2017, the Company's current assets exceed its current liabilities as at the reporting date.

The following are the contractual maturities of financial liabilities.

31 December 2017	Carrying value	Contract- ual cash flows	On demand	0 to 3 months	3 months to 1 year	1 to 5 years
Financial liabilities						
Trade and other payables (Note 13)	4,712	4,712	4,344	368	-	-
	4,712	4,712	4,344	368	-	-
31 December 2016	Carrying value	Contract- ual cash flows	On demand	0 to 3 months	3 months to 1 year	1 to 5 years
Financial liabilities						
Trade and other payables (Note 13)	4,796	4,796	4,436	360	-	-
	4,796	4,796	4,436	360	-	-

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Notes to the financial statements (continued)

14 Financial instruments and risk management (continued)

(c) Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market prices comprise two types of risks: Interest rate risk and currency risk. Financial instruments affected by market risk include loans and borrowings and current accounts in banks.

The sensitivity analysis in the following sections relate to the position as at 31 December 2017 and 2016. The sensitivity analyses have been prepared on the basis that the amount of net debt, the rate profile of the debt and the proportion of financial instruments in foreign currencies are all constant.

The Company is not subject to interest rate risk due to the fact that all of its financial assets and liabilities have fixed interest rates.

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

The Company does not hedge its exposure to currency risk.

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

	USD – denominated	
	31 December 2017	31 December 2016
Trade and other payables	(4,344)	(4,436)
Cash and cash equivalents	115	81
Net exposure	(4,229)	(4,355)

A strengthening/weakening of the GEL, as indicated below, against the USD at 31 December 2017, would have increased/(decreased) profit or loss by the amounts shown below. The analysis is based on foreign currency exchanges rate variances that the Company considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant.

	Strengthening	Weakening
31 December 2017		
USD (20% movement)	846	(846)
31 December 2016		
USD (20% movement)	871	(871)

(d) Fair values

The estimates of fair value are intended to approximate the amount for which a financial instrument could be exchanged between knowledgeable, willing parties in an arm's length transaction. Fair values of the Company's financial assets and liabilities approximate their carrying values due to their short-term nature. All of the financial assets and financial liabilities for which fair values are estimated are measured at level 3 of fair value hierarchy.

Notes to the financial statements (continued)

14 Financial instruments and risk management (continued)

(e) Capital management

The Company has no formal policy for capital management but management seeks to maintain a sufficient capital base for meeting the Company's operational and strategic needs.

15 Capital commitments

Contracts to acquire property, plant and equipment

As of 31 December 2017 the Company does not have any open contracts to purchase property, plant and equipment (2016: GEL 1,291).

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

At each reporting date, management makes assessment of its tax positions and considers those transactions which may be challenged by Georgian Tax Authorities. When probability is assessed as high, the Company creates provisions.

17 Related party transactions

(i) Transactions with management

Key management personnel of the Company received GEL 96 as remuneration during 2017 (2016: GEL 121), which is included in wages and bonuses and other employee benefits.

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Notes to the financial statements (continued)

17 Related party transactions (continued)

(ii) Revenue

	Sales to related parties 2017	Sales to related parties 2016	Amounts owed by related parties 31 December 2017	Amounts owed by related parties 31 December 2016
<i>Sale of electricity</i>				
Entities under common control (Note 9)	15,282	18,323	9,479	8,148
	15,282	18,323	9,479	8,148

Sales are based on approved tariff as set by the GNERC.

(iii) Trade and other payables

	Amounts owed to related parties 31 December 2017	Amounts owed to related parties 31 December 2016
<i>Entities under common control</i>		
Management fees (Note 13)	3,378	3,449
Technical fees (Note 13)	966	987
	4,344	4,436

(iv) Loans received

During 2017 the Company received and fully repaid a short-term loan from an entity under common control - Silk Road Holdings B.V. in amount of GEL 2,417. Interest expense accrued and repaid amounted to GEL 9.