JSC Khramhesi 2

Financial statements

for the year ended 31 December 2016
together with independent auditor's report

JSC Khramhesi 2

Financial statements

for the year ended 31 December 2016

Contents

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Independent auditor's report

To the Shareholders and Board of Directors of JSC Khramhesi 2

Opinion

We have audited the financial statements of JSC Khramhesi 2 (the Company), which comprise the statement of financial position as at 31 December 2016, 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 2016 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 18 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.

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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.

EY Georgia LLC

EY Georgia LLC

Address: Kote Abkhazi 44 ,Tbilisi, 0105, Georgia.

30 January 2017

JSC Khramhesi 2

Statement of comprehensive income

for the year ended 31 December 2016

in thousands of Georgian Lari

	Note	2016	2015
Revenue from sale of electricity		31,438	32,127
Depreciation	8	(7,973)	(8,230)
Wages and other employee benefits		(1,705)	(1,599)
Property tax		(857)	(932)
Professional services		(226)	(226)
Insurance		(545)	(494)
Repairs and maintenance expenses		(418)	(274)
Regulation fee		(126)	(129)
Gain on revaluation of property, plant and equipment	8	–	26
Other operating expenses		(375)	(473)
Operating income		**19,213**	**19,796**
Finance cost	6	(7,688)	(8,177)
Finance income	6	101	169
Income before income tax		**11,626**	**11,788**
Income tax benefit/(charge)	7	9,921	(1,781)
Net income for the year		**21,547**	**10,007**
Other comprehensive income			
Items that will not be reclassified to profit or loss in subsequent periods (net of tax)			
Revaluation of property, plant and equipment	7, 8	1,083	73
Total comprehensive income for the year, net of tax		**22,630**	**10,080**

These financial statements were approved by management on 30 January 2017 and were signed on its behalf by:

Devi Kandelaki
General Director

Elena Mchedlidze
Financial Director

The accompanying notes on pages 7-31 are an integral part of these financial statements.

JSC Khramhesi 2

Statement of financial position

as at 31 December 2016

in thousands of Georgian Lari

	Note	31 December 2016	31 December 2015
Assets			
Non-current assets			
Property, plant and equipment	8	82,774	89,897
Intangible assets		43	48
Total non-current assets		**82,817**	**89,945**
Current assets			
Inventories	9	1,039	757
Tax assets, other than income tax		668	405
Current income tax asset		–	817
Trade receivables	10	8,473	8,251
Prepayments		137	133
Cash and cash equivalents	11	2,517	3,063
Total current assets		**12,834**	**13,426**
Total assets		**95,651**	**103,371**
Equity and liabilities			
Equity			
Issued capital	12	2,525	2,525
Revaluation reserve		7,097	6,635
Retained earnings		54,953	50,785
Total equity		**64,575**	**59,945**
Non-current liabilities			
Loans and borrowings	13	17,666	17,290
Deferred tax liabilities	7	–	13,911
Total non-current liabilities		**17,666**	**31,201**
Current liabilities			
Loans and borrowings	13	6,704	6,135
Trade and other payables	14	6,706	6,090
Total current liabilities		**13,410**	**12,225**
Total liabilities		**31,076**	**43,426**
Total equity and liabilities		**95,651**	**103,371**

The accompanying notes on pages 7-31 are an integral part of these financial statements.

JSC Khramhesi 2

Statement of changes in equity

for the year ended 31 December 2016

in thousands of Georgian Lari

	Issued capital	Revaluation reserve for property, plant and equipment	Retained earnings	Total
Balance at 31 December 2014	**2,525**	**7,226**	**59,616**	**69,367**
Net income for the year	–	–	10,007	**10,007**
Other comprehensive income for the year	–	73	–	**73**
Total comprehensive income for the year	**–**	**73**	**10,007**	**10,080**
Depreciation of revaluation reserve, net of tax	–	(664)	664	**–**
Dividends (Note 12)	–	–	(19,502)	**(19,502)**
Balance at 31 December 2015	**2,525**	**6,635**	**50,785**	**59,945**
Net income for the year	–	–	21,547	**21,547**
Other comprehensive income for the year	–	1,083	–	**1,083**
Total comprehensive income for the year	**–**	**1,083**	**21,547**	**22,630**
Depreciation of revaluation reserve, net of tax	–	(621)	621	**–**
Dividends (Note 12)	–	–	(18,000)	**(18,000)**
Balance at 31 December 2016	**2,525**	**7,097**	**54,953**	**64,575**

The accompanying notes on pages 7-31 are an integral part of these financial statements.

JSC Khramhesi 2

Statement of cash flows

for the year ended 31 December 2016

in thousands of Georgian Lari

	Note	2016	2015
Operating activities			
Income before income tax		11,626	11,788
Non-cash adjustments to reconcile income before tax to net cash flows			
Depreciation	8	7,973	8,230
Amortization		5	1
Gain on disposal of property, plant and equipment		(32)	(2)
Gain on revaluation of property, plant and equipment	8	–	(26)
Net foreign exchange loss on investing and financing activities		2,396	4,017
Finance costs	6	4,150	3,924
Finance income	6	(101)	(169)
		26,017	**27,763**
Working capital adjustments			
Change in inventories		(282)	(73)
Change in trade receivables		(222)	(4,436)
Change in prepayments		(4)	34
Change in tax assets, other than on income tax		(358)	293
Change in trade and other payables		616	1,257
		25,767	**24,838**
Income tax paid		(1,995)	(6,908)
Interest paid		(994)	(987)
Net cash flows from operating activities		**22,778**	**16,943**
Investing activities			
Payments for property, plant and equipment	8	(854)	(483)
Payments for intangible assets		–	(45)
Sales of property, plant and equipment		36	11
Interest received		101	169
Net cash flows used in investing activities		**(717)**	**(348)**
Financing activities			
Dividends paid	12	(18,000)	(19,502)
Repayment of loans and borrowings		(4,633)	(4,297)
Net cash flows used in financing activities		**(22,633)**	**(23,799)**
Net decrease in cash and cash equivalents		**(572)**	**(7,204)**
Cash and cash equivalents at the beginning of the period	11	3,063	9,761
Net foreign exchange difference on cash and cash equivalents		26	506
Cash and cash equivalents at the end of the period	11	**2,517**	**3,063**

The accompanying notes on pages 7-31 are an integral part of these financial statements.

1. Corporate information

JSC Khramhesi 2 (the "Company") is a joint stock company incorporated and domiciled in Georgia. The Company's registered office is Khrami, Dmanisi 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 Dmanisi region, Georgia (HPP Khrami 2). 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 2 until 24 December 2024.

As at 31 December 2016 and 2015, 100% of the Company's shares are owned by Gardabani Holding B.V. (the "Parent"). The ultimate parent of the Company is OJSC Inter RAO UES (the "Ultimate Parent"), which is controlled by the Russian Federation.

As discussed in Note 18, 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.

3. Summary of significant accounting policies (continued)

(a) Foreign currency (continued)

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.

(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.

3. Summary of significant accounting policies (continued)

(c) Financial instruments (continued)

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 2016 and 2015 are classified as loans and receivables and include: trade receivables and cash and cash equivalents.

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.

3. Summary of significant accounting policies (continued)

(c) Financial instruments (continued)

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.

The Company assesses each of its financial assets for impairment on individual basis.

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 2016 and 2015 are classified as loans and borrowings and include: loans and borrowings and 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.

3. Summary of significant accounting policies (continued)

(c) Financial instruments (continued)

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.

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.

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 re-assessing 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 15.

(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.

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 of 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.

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.

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 main customers.

Sales tariffs for electricity within Georgia are regulated by the Georgian National Energy Regulating Commission (GNERC). Beginning from 1 January 2014 sales tariff is GEL 0.094 per MW/hr.

(h) Taxation

(i) Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, by the reporting date.

(ii) Deferred tax

Deferred tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised except:

- Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

3. Summary of significant accounting policies (continued)

(h) Taxation (continued)

Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (applicable to undistributed profits) and tax laws that have been enacted or substantively enacted by the end of the reporting period.

(iii) 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.

(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.

4. Use of estimates, judgments and assumptions (continued)

(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 31 October 2014 and reflected in the carrying value of the property, plant and equipment as at 31 December 2014. On 28 May 2015 the Company revalued its vehicles. A valuation methodology based on market approach was used (Note 8).

Based on the Company's judgment no revaluation of its property, plant and equipment is required on 31 December 2016, because there were no events or circumstances since last revaluation date which would indicate that the carrying amount differs materially from that which would be determined using fair value at the end of the reporting period.

(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.

(i) Net realizable value of inventory

The Company assesses at each reporting date whether there is any objective evidence that an inventory is obsolete. If there is objective evidence that impairment loss has occurred, the carrying amount of the asset is reduced through the use of a reserve account and the amount of loss is recognised as current period expense.

(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 from JSC Telasi, an entity under common control (Note 10). Part of trade receivables from JSC Telasi are overdue but not impaired (Note 15).

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. 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 will analyse the contractual cash flow characteristics of those instruments in more detail before concluding whether all those instruments meet the criteria for amortised cost measurement under IFRS 9.

(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 expects to 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 need to 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 Group does not expect a significant impact as a result of applying IFRS 9.

5. Standards issued but not yet effective (continued)

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.

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. During 2016, the Company performed a preliminary assessment of IFRS 15, which is subject to changes arising from a more detailed ongoing analysis. Furthermore, the Company is considering the clarifications issued by the IASB in April 2016 and will monitor any further developments. The Company is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date using the full retrospective method.

The Company is in business of generation of electricity. The electricity generated is sold to an electricity distribution company, JSC Telasi, which represents an entity under common control. 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.

IAS 7 Disclosure Initiative – Amendments to IAS 7

The amendments to IAS 7 *Statement of Cash Flows* are part of the IASB's *Disclosure Initiative* and require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. On initial application of the amendment, entities are not required to provide comparative information for preceding periods. These amendments are effective for annual periods beginning on or after 1 January 2017, with early application permitted. Application of amendments will result in additional disclosure provided by the Company.

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.

5 Standards issued but not yet effective (continued)

IFRS 16 Leases (continued)

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.

6. Finance income and finance costs

	2016	2015
Interest expense on financial liabilities measured at amortized cost (Note 13)	(4,150)	(3,924)
Net foreign exchange loss	(3,538)	(4,253)
Total finance costs	**(7,688)**	**(8,177)**
Interest income on bank deposits and current accounts (Note 11)	101	169
Total finance income	**101**	**169**

Foreign exchange gains and losses are mainly caused by the revaluation of assets and liabilities of the Company denominated in US Dollars (USD) and Japanese Yen (JPY). For more details on the foreign currency risk please refer to Note 15.

7. Income taxes

In June 2016, amendments to the Georgian tax law in respect of corporate income tax became enacted. The amendments become 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 will be levied on profit distributed as dividends to the shareholders that are individuals or non-residents of Georgia, rather than on profit earned as under the current regulation. The amount of tax payable on a dividend distribution will be calculated as 15/85 of the amount of net distribution. The companies will be 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 will not be subject to corporate income tax.

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.

The Company recognized income tax benefit resulting from reversal of deferred tax assets and liabilities in amount of GEL 12,828 in profit or loss, and benefit of GEL 1,083 in other comprehensive income (to the extent that it related to items previously recognised in other comprehensive income) for the year ended 31 December 2016.

The corporate income tax benefit/(charge) comprises:

	2016	2015
Current income tax benefit/(charge)	(2,907)	(2,642)
Deferred tax benefit relating to origination and reversal of temporary differences	12,828	861
Total income tax benefit/(charge)	**9,921**	**(1,781)**

Reconciliation between tax expense and the accounting profit multiplied by Georgia's domestic tax rate for the year ended 31 December 2016 and 2015 is as follows:

	2016	2015
Accounting income before income tax	**11,626**	**11,788**
Income tax charge at applicable tax rate of 15%	**1,744**	**1,768**
Non-taxable income	(288)	(25)
Non-deductible expense	1,451	38
Effect of change in income tax legislation	(12,828)	–
Income tax (benefit)/charge	**(9,921)**	**1,781**

Movement in deferred tax relates to the following:

	31 December 2015	Recognized in profit or loss	Recognized in other comprehensive income	31 December 2016
Property, plant and equipment	(11,708)	10,625	1,083	–
Loans and borrowings	(2,318)	2,318	–	–
Inventories	45	(45)	–	–
Trade and other payables	70	(70)	–	–
	(13,911)	**12,828**	**1,083**	**–**

	31 December 2014	Recognized in profit or loss	Recognized in other comprehensive income	31 December 2015
Property, plant and equipment	(12,615)	920	(13)	(11,708)
Loans and borrowings	(2,257)	(61)	–	(2,318)
Inventories	45	–	–	45
Trade and other payables	68	2	–	70
	(14,759)	**861**	**(13)**	**(13,911)**

7. Income taxes (continued)

The amendments to the Georgian tax law described above also provide for charging corporate income tax on certain transactions that are considered deemed profit distributions, e.g. some transactions at non-market prices, non-business related expenses or supply of goods and services free of charge. Taxation of such transaction is outside scope of IAS 12 *Income Taxes* and will be accounted similar to operating taxes starting from 1 January 2017. Tax law amendments related to such deemed profit distribution did not have any effect on the Company's financial statements for the year ended 31 December 2016.

8. Property, plant and equipment

At 31 December 2016 property, plant and equipment consist of the following:

	Land	Building and facilities	Plant and equipment	Vehicles	Construction in progress	Other	Total
Cost							
At 31 December 2014	**231**	**57,549**	**40,959**	**85**	**25**	**63**	**98,912**
Additions	–	308	152	–	–	23	**483**
Disposals	–	–	–	(3)	–	–	**(3)**
Revaluation increase recognized in OCI	–	–	–	86	–	–	**86**
Revaluation increase recognized in income statement	–	–	–	26	–	–	**26**
Elimination of accumulated depreciation at revaluation	–	–	–	(24)	–	–	**(24)**
At 31 December 2015	**231**	**57,857**	**41,111**	**170**	**25**	**86**	**99,480**
Additions	–	–	542	123	68	121	**854**
Disposals	–	–	–	(59)	–	–	**(59)**
Transfers	–	9	17	–	(26)	–	**–**
At 31 December 2016	**231**	**57,866**	**41,670**	**234**	**67**	**207**	**100,275**
Accumulated depreciation							
At 31 December 2014	**–**	**(750)**	**(616)**	**(7)**	**–**	**(3)**	**(1,376)**
Depreciation for the year	–	(4,546)	(3,592)	(74)	–	(18)	**(8,230)**
Elimination of accumulated depreciation at revaluation	–	–	–	23	–	–	**23**
At 31 December 2015	**–**	**(5,296)**	**(4,208)**	**(58)**	**–**	**(21)**	**(9,583)**
Disposals	–	–	–	55	–	–	**55**
Depreciation for the year	–	(4,568)	(3,293)	(81)	–	(31)	**(7,973)**
At 31 December 2016	**–**	**(9,864)**	**(7,501)**	**(84)**	**–**	**(52)**	**(17,501)**
Net book value							
At 31 December 2014	**231**	**56,799**	**40,343**	**78**	**25**	**60**	**97,536**
At 31 December 2015	**231**	**52,561**	**36,903**	**112**	**25**	**65**	**89,897**
At 31 December 2016	**231**	**48,002**	**34,169**	**150**	**67**	**155**	**82,774**

9. Inventories

	31 December 2016	31 December 2015
Spare parts	888	592
Petrochemicals	151	165
	1,039	**757**

10. Trade receivables

	31 December 2016	31 December 2015
Trade receivables due from related parties (Note 18)	8,473	8,251

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 15).

11. Cash and cash equivalents

	31 December 2016	31 December 2015
Cash at bank	2,517	3,063
	2,517	**3,063**

Interest earned on cash and cash equivalents in 2016 amounted to GEL 101 (2015: GEL 169).

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

12. Equity

(a) Issued capital

As at 31 December 2016 and 2015 the Company had 2,524,699 shares authorised and issued of GEL 0.001 each. 100% of the shares are owned by Gardabani Holdings B.V as at 31 December 2016 and 31 December 2015.

(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 2016 the Company declared and paid out dividends in amount of GEL 18,000 (2015: GEL 19,502).

13. Loans and borrowings

	31 December 2016	31 December 2015
Non-current		
Loans from Ministry of Finance	17,666	17,290
	17,666	**17,290**
Current		
Current portion of loans from Ministry of Finance	5,283	4,832
Loan from related party – principal (Note 18)	331	299
Loan from related party – interest (Note 18)	1,090	1,004
	6,704	**6,135**

Terms and conditions of outstanding loans were as follows:

	Interest rate	Currency	Maturity	31 December 2016	31 December 2015
Loan from related party (a)	16.6%	USD	On demand	1,421	1,303
Loans from Ministry of Finance					
- Ministry of Finance of Georgia (JICA loan) (c)	2.3%	JPY	1 June 2024	19,593	18,491
- Ministry of Finance of Georgia (c)	3.5%	GEL	1 June 2024	3,356	3,631
				24,370	**23,425**

(a) Loan from related party

On 27 January 2000, Inter RAO Management B.V, an entity under common control acting as the managing company issued an unsecured loan to the Company. The loan has no stated maturity, accordingly the Company accounts for the entire balance as payable on demand. Interest on the loan is set by amendments signed between the Company and Inter RAO Management B.V. Based on the latest amendment signed on 1 January 2008, the interest rate has been set at 16.6% per annum.

In 2016 interest expense on the loan amounted to GEL 49 (2015: GEL 48).

(b) Loans from the Ministry of Finance

Loans from the Ministry of Finance comprise the loans which were transferred to the Company together with the rehabilitated HPP Khrami 2.

(i) Loan from the Ministry of Finance (JICA)

The loan from JICA was disbursed to the Government of Georgia in relation to the rehabilitation of the HPP Khrami 2. The Government of Georgia, in its turn, transferred amounts received under the facilities, together with an obligation to repay them, to the Company. The lender has not legally released the Government of Georgia from the primary responsibility for the repayment of the loans, accordingly the Government of Georgia acted as a principal in this transaction and accordingly current loans payable by the Company are towards the Ministry of Finance of Georgia. According to the loan agreement dated 10 December 2008 the total loan amount was defined to be JPY 2,954,862 thousand which is repayable by semi-annual equal installments commencing 1 July 2009 and ending on 1 June 2024 with an interest rate of 2.3% per annum.

13. Loans and borrowings (continued)

(b) Loans from the Ministry of Finance (continued)

(ii) Loan from the Ministry of Finance

In addition to the aforementioned loan, the Ministry of finance issued an additional loan to the Company for the same purposes.

According to the loan agreement dated 10 December 2008 the total loan amount was defined to be GEL 10,788 which is repayable by semi-annual instalments commencing 1 July 2009 and ending on 1 June 2024 with an interest rate of 3.5% per annum.

14. Trade and other payables

	31 December 2016	31 December 2015
Management fee payable to a related party (Note 18)	5,843	5,287
Technical fee payable to a related party (Note 18)	499	452
Trade payables to suppliers	117	113
Other payables	247	238
	6,706	**6,090**

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 form 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.

15. Financial instruments and risk management

Overview

The Company's principal financial liabilities comprise loans and borrowings and 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 on 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.

15. Financial instruments and risk management (continued)

(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 and financial institutions.

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 amount to GEL 8,473 at 31 December 2016 (2014: GEL 8,251) out of which GEL 5,307 is overdue for more than one year.

The Company is part of a larger group of companies controlled by the Ultimate Parent. Settlement of overdue loans 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 with strong balance sheet. 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.

All cash and cash equivalents are held with the two 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:

	Carrying amount	
	31 December 2016	**31 December 2015**
Trade receivables (Note 10)	8,473	8,251
Cash at bank (Note 11)	2,517	3,063
	10,990	**11,314**

(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 (borrowings) 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.

15. Financial instruments and risk management (continued)

(b) Liquidity risk (continued)

The following are the contractual maturities of financial liabilities, including estimated interest payments. It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts, except for amounts due to related parties.

31 December 2016	Carrying value	Contractual cash flows	On demand	0 to 3 months	3 months to 1 year	1 to 5 years	More than 5 years
Financial liabilities							
Loans and borrowings (Note 13)	24,370	42,745	1,421	413	5,445	22,568	12,898
Trade and other payables (Note 14)	6,706	6,706	6,342	364	-	-	-
	31,076	**49,451**	**7,763**	**777**	**5,445**	**22,568**	**12,898**

31 December 2015	Carrying value	Contractual cash flows	On demand	0 to 3 months	3 months to 1 year	1 to 5 years	More than 5 years
Financial liabilities							
Loans and borrowings (Note 13)	23,425	43,300	1,303	424	4,930	20,309	16,334
Trade and other payables (Note 14)	6,090	6,090	5,739	351	-	-	-
	29,515	**49,390**	**7,042**	**775**	**4,930**	**20,309**	**16,334**

(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 2016 and 2015. 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.

15. Financial instruments and risk management (continued)

(c) Market risk (continued)

Exposure to currency risk

The Company does not hedge its exposure to currency risk. The Company's exposure to foreign currency risk was as follows:

	USD – denominated		JPY – denominated	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015
Loans and borrowings	(1,421)	(1,303)	(19,593)	(18,491)
Trade payables	(6,342)	(5,739)	-	-
Cash and cash equivalents	275	2,282	-	-
Net exposure	**(7,488)**	**(4,760)**	**(19,593)**	**(18,491)**

The following significant exchange rates applied during the year:

	Average rate		Reporting date spot rate	
in GEL	**2016**	**2015**	**31 December 2016**	**31 December 2015**
USD	2.3667	2.2702	2.6468	2.3949
JPY	2.1786	0.0188	2.2651	0.0199

A strengthening/weakening of the GEL, as indicated below, against the USD and JPY at 31 December 2016 would have increased/(decreased) profit or loss by the amounts shown below. This analysis is based on foreign currency exchange rate variances that the Company considered to be reasonably possible at the end of the reporting period. The analysis is performed on the same basis as at 31 December 2015.

	Strengthening	Weakening
31 December 2016		
USD (20% movement)	1,498	(1,498)
JPY (27.7% movement)	5,427	(5,427)
31 December 2015		
USD (15% movement)	714	(714)
JPY (27.7% movement)	1,849	(1,849)

(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. 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 settlement of liabilities.

15. Financial instruments and risk management (continued)

(d) Fair values (continued)

Set out below is a comparison by class of the carrying amounts and fair values of the Company's financial instruments that are carried in the financial statements.

	Carrying amount		Fair value	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015
Financial assets				
Trade receivables	8,473	8,251	8,473	8,251
Cash and cash equivalents	2,517	3,063	2,517	3,063
Total assets	**10,990**	**11,314**	**10,990**	**11,314**
Financial liabilities				
Loans and borrowings	(24,370)	(23,425)	(30,449)	(30,868)
Trade and other payables	(6,706)	(6,090)	(6,706)	(6,090)
Total financial liabilities	**(31,076)**	**(29,515)**	**(37,155)**	**(36,958)**

The following methods and assumptions were used to estimate the fair values:

- Fair value of cash and cash equivalents, trade receivables and trade and other payables are equal to their carrying amounts due to short-term maturities of these instruments.
- Fair value of long-term fixed rate loans and borrowings from Ministry of Finance are adjusted to fair value based on the market interest rates as at respective statement of financial position date.

All of the financial assets and financial liabilities for which fair values are disclosed are measured at level 3 of fair value hierarchy.

(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.

16. Capital commitments

Contracts to acquire property, plant and equipment

As of 31 December 2016 and 2015 the Company does not have any open contracts to purchase property, plant and equipment.

17. Contingencies

(a) Taxation contingencies

The taxation system in Georgia is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are sometimes unclear, contradictory and subject to varying interpretation. 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.

17. Contingencies (continued)

(a) Taxation contingencies (continued)

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.

18. Related party transactions

(i) Transactions with management

Key management personnel of the Company received GEL 130 remuneration during the year (2015: GEL 121), which is included in wages and bonuses and other employee benefits.

The Company's related party transactions are disclosed below.

(ii) Revenue

	Sales to related parties during 2016	Sales to related parties during 2015	Amounts owed by related parties 31 December 2016	Amounts owed by related parties 31 December 2015
Sale of electricity				
Entities under common control (Note 10)	31,438	32,127	8,473	8,251
	31,438	**32,127**	**8,473**	**8,251**

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

(iii) Trade and other payables

	Amounts owed to related parties 31 December 2016	Amounts owed to related parties 31 December 2015
Entities under common control		
Management Fees (Note 14)	5,843	5,287
Technical Fees (Note 14)	499	452
	6,342	**5,739**

18. Related party transactions (continued)

(iv) Loans

	Interest expense 2016	Interest expense 2015	Amounts owed to related parties 31 December 2016	Amounts owed to related parties 31 December 2015
Loans received				
Inter RAO Management B.V (Note 13)	49	48	1,421	1,303
	49	**48**	**1,421**	**1,303**

19. Events after the reporting date

On 3 January 2017 the Company repaid GEL 413 from its loan to the Ministry of Finance in line with the repayment schedule.