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**Operatori i Shpërndarjes së Energjisë
Elektrike Sha - OSHEE**

Financial Statements

for the year ended December 31, 2017

(with independent auditors' report thereon)

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INDEPENDENT AUDITOR'S REPORT

To the Sole Shareholder and the Management of Operatori i Shpërndarjes së Energjisë Elektrike Sh.a,

Disclaimer of Opinion

We were engaged to audit the financial statements of Operatori i Shpërndarjes së Energjisë Elektrike Sh.a ("the Company"), which comprise the statement of financial position as at December 31, 2017, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

We do not express an opinion on the accompanying financial statements of the Company. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of our report, we have not been able to obtain sufficient and appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

Basis for Disclaimer of Opinion

1. The Company recognizes revenue from sales of electricity based on energy measured and billed to customers. In 2017, the Company reports as billed 73.59% (2016: 71.96%) of the total energy quantity injected in the distribution network. The level of losses of energy in the network of 26.41%, technical and non-technical losses, respectively by 19.20% and 7.21% (2016: 28.04%, technical and non-technical losses, respectively by 21.04% and 7%) indicates inadequacy of the mechanism established around measuring and billing the energy consumed. In addition, the energy is measured by meters, recorded and interfaced to the billing system which generates the revenue calculation and invoicing. The Company has established certain controls over recording and processing of revenue, however due to ineffectiveness in their design, implementation and operation they cannot provide assurance as to whether the energy consumed is properly measured and billed. As a result of the above and in absence of adequate alternative procedures, we were unable to collect sufficient and appropriate audit evidence in relation to the completeness, accuracy, existence and cut off of revenues for the years ended December 31, 2017 and 2016. Consequently, we were unable to determine if any adjustment to such amounts and related balances as at and for the years ended December 31, 2017 and 2016 were necessary.
2. As described in Note 8 to the financial statements, property, plant and equipment's amount to Lek 38,512,254 thousand as at December 31, 2017 (2016: Lek 29,372,182 thousand). As of the date of the issuance of these financial statements, the Company has not performed a physical inspection to confirm the physical existence and condition of the assets included in the reported value of property, plant and equipment.
In addition, we were not provided by the Company with sufficient and appropriate evidence in relation to certain assets that were part of our selected audit sample and that were recorded as purchased or transferred to the Company in previous years, with a carrying amount of Lek 4,261,720 thousand.
Due to the limitations of the matters described above, and in absence of alternative audit procedures, we were not able to determine whether adjustments might have been found necessary to the carrying amount of property, plant and equipment as at December 31, 2017 and 2016 which constitute 50% and 48% of the total assets, respectively, and any related depreciation, impairment charges, deferred income tax, and revaluation reserves balance for the years then ended.

Basis for Disclaimer of Opinion (continued)

3. As disclosed in Note 5.a to the financial statements the Company reports a negative equity of Lek 33,212,473 thousand (2016: Lek 35,537,506 thousand) and accumulated losses of Lek 67,461,863 thousand (2016: Lek 70,050,329 thousand) as at December 31, 2017 and, as of that date, the Company's current liabilities exceeded its current assets by Lek 61,990,970 thousand (2016: Lek 54,304,322 thousand). IAS 36 "Impairment of Assets" requires that, where indications of impairment exist, management makes an estimate of the assets' or related Cash Generating Units ("CGU") recoverable amounts and recognizes an impairment loss, where appropriate. No such estimate was made by management at the date of the issuance of these financial statements. As a result we were unable to determine whether the recoverable amount of such assets exceeds its carrying amount as at December 31, 2017 and 2016 and whether any related adjustments might have been necessary to the statement of profit or loss and other comprehensive income for the years then ended.
4. The billing system does not automatically interface with the accounting system. The trade receivables generated by the billing system are lower than the accounting records by Lek 1,169,392 thousand as at December 31, 2017 (2016: Lek 1,287,749 thousand). As of the date of the issuance of these financial statements, management had not yet reconciled these differences. In absence of alternative procedures, we were unable to determine whether any adjustment would have been necessary to the trade receivables with regard to their accuracy, existence, completeness, valuation and allocation and presentation and disclosure. As a result, we were unable to determine whether any adjustments might have been found necessary in respect of recorded or unrecorded accounts receivable, and related adjustments in the statements of profit or loss and other comprehensive income, changes in equity and cash flows.
5. We were appointed as auditors of the Company on July 7, 2018 and thus did not observe the counting of the physical inventories at the beginning and end of the year. We were unable to satisfy ourselves by alternative means concerning inventory quantities held at December 31, 2017 and 2016. Moreover, since opening and closing inventories enter into the determination of the financial performance and cash flows of the Company, we were not able to determine whether any related adjustments might have been necessary to the statement of profit or loss and other comprehensive income and statement of cash flows for the years then ended.
6. As presented in note 12 and 19 to the financial statements, as at December 31, 2017 the Company has recognized prepaid expenses and income from penalties from KESH Sha as a result of the non-adherence of the contract in the amount of Lek 5,543,701 thousand. As at the date of this report, we were not provided by the Company with sufficient and appropriate evidence with regard to the recoverability of the amount and to the recognition of the income from penalty stated in the profit for the year ended December 31, 2017.
7. As described in note 20 to the financial statements, the Company has not reconciled and agreed with Posta Shqiptare Sha ("the Post Office") the amounts payable as at December 31, 2017 and 2016. As of the date of our audit report, we were not provided with any reconciliation report, or direct confirmation from the Post Office. We were unable to satisfy ourselves by alternative means concerning the completeness and measurement of these balances and therefore we were unable to determine whether any adjustments might have been found necessary in respect of recorded or unrecorded trade payables, other liabilities and provisions, and related adjustments to the statements of profit or loss and other comprehensive income, changes in equity and cash flows.

Basis for Disclaimer of Opinion (continued)

8. As required in IAS 12 “Income Taxes” where temporary differences arise from the carrying amount of an asset or liability in the statement of financial position and its tax base the Company should account for deferred tax assets and liabilities. As presented in note 29 to the financial statements the Company has estimated, however, neither recognised nor recorded in the financial statements deferred tax assets or liabilities. Due to the nature and limitations described above, we were unable to determine whether any adjustments might have been found necessary in respect of deferred tax assets and liabilities as at December 31, 2017 and 2016, and in respect of the income tax expense reported in the statement of profit or loss and other comprehensive income for the years ended December 31, 2017 and December 31, 2016.
9. As disclosed in Note 5.a to the financial statements the Company reports a negative equity of Lek 33,212,482 thousand (2016: Lek 35,537,506 thousand) and accumulated losses of Lek 67,461,863 thousand (2016: Lek 70,050,329 thousand) as at December 31, 2017 and, as of that date, the Company’s current liabilities exceeded its current assets by Lek 61,990,970 thousand (2016: Lek 54,304,322 thousand). The applicability of the going concern principle in the foreseeable future depends on the related parties’ continuing support and ultimately by decisions and actions of the state authorities. These conditions, along with other matters as set forth in Note 5.a, indicate the existence of a material uncertainty that may cast significant doubt about the Company’s ability to continue as a going concern.
10. As described in Note 3 to the financial statements, in 2016, the Company changed its accounting policy for the subsequent measurement of property, plant and equipment and intangible assets from the cost model to the revaluation model and effective as of January 1, 2016, revalued its property, plant and equipment and intangible assets at fair value. The description of the valuation techniques and significant unobservable inputs used in determining the fair value of property, plant and equipment categorized into Level 3 of the fair value hierarchy, as required by IFRS 13 ‘Fair value measurement’ was omitted by the Company in preparing the financial statements as at and for the year ended December 31, 2017 and 2016. It was impracticable for us to provide the information related to the omitted disclosure.
11. As described in Notes 6.f.i and 7.2.ii to the financial statements, the Company has developed a new impairment methodology for the period ended December 31, 2017 and December 31, 2016. Such methodology is based on historical trends of the probability of default, the timing of recoveries and the amount of loss incurred. The data used in assessing the probability of default are not reconciled with the underlying accounting records. This application of the selected accounting policy is not in accordance with IAS 39 ‘Financial Instruments: Recognition and Measurement’. We were not provided with sufficient and appropriate audit evidence with regard to the reconciling items, and as a result we were not able to determine the financial effect of the adjustments to the trade receivables and related adjustments to the statements of profit or loss and other comprehensive income for the years than ended.

Basis for Disclaimer of Opinion (continued)

12. As described in note 18, 19 and 20 in the financial statements, the Company has incorporated the results of reconciliation procedures undertaken on other liabilities, provisions and trade payables, for penalties in its 2017 financial statements, following the Ministry of Infrastructure and Energy decision no. 3664/12 dated March 23, 2018 “On the recognition of overdue liabilities from OSHEE Sha toward KESH Sha and OST Sha”. However, the Company has not accounted in full for amounts with regard to other liabilities as at December 31, 2017 due to KESH and Operatori i Sistemit te Transmetimit Sha (“OST”) as per confirmations received from those entities, were lower than the Company’s accounting records and financial statements amounts by Lek 785,741 thousand (2016: greater by Lek 5,996,587 thousand) and lower than the Company’s accounting records and financial statements amounts by Lek 2,744 thousand (2016: Lek 2,244,721 thousand), respectively. In addition, trade and other payables as at December 31, 2017 to two suppliers of energy as per confirmations received from those suppliers were greater than the accounting records by Lek 910,601 thousand (2016: Lek 905,405 thousand). We were unable to determine whether any adjustments might have been necessary to trade payables, other liabilities, provisions, income and deferred taxes, related adjustments in the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the years than ended.
13. As disclosed in note 17 to the financial statements, the Company has long and short term borrowings at total amortized cost of Lek 18,745,485 thousand (December 31, 2016: Lek 17,744,057 thousand). The Company has recognized the carrying amounts of those borrowings were based on contractual interest rates which were significantly lower or higher from the market rates at initial recognition, which is a departure from the requirements of IAS 39 “Financial Instruments: Recognition and Measurement” and IAS 24 “Related Party Disclosure”. Furthermore, as disclosed in Note 7.1 to the financial statements, the carrying amounts of the borrowings as at December 31, 2017 and 2016 approximate their fair values as at these dates and that the contractual rates of such borrowings approximate the market rates at initial recognition and at the reporting date. Furthermore, the sensitivity analysis with respect to interest rate risk as at December 31, 2017 and 2016, which is required by IFRS 7 “Financial instruments: Disclosures” was omitted by the Company. We were unable to determine whether any adjustments might have been necessary short term borrowings and related adjustments in the statements of profit or loss and other comprehensive income for the years than ended.
14. Due to the nature and limitations resulting from the matters described above as a result of the lack of internal controls on financial reporting, we were unable to obtain sufficient appropriate audit evidence to conclude on the information produced from the entity.

Restriction on Distribution and Use

Our report is intended solely for the Shareholder and Management of the Company and Credit Institutions and should not be distributed to or used by parties other than the Company or the Credit Institutions without our written consent.

Other Matter

The financial statements of the Company as at and for the year ended December 31, 2016 were audited by another auditor who did not express an opinion on those statements on August 24, 2017.

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 responsibility is to conduct an audit of the Company's financial statements in accordance with International Standards on Auditing and to issue an auditors' report. However, because of the matters described in the Basis for Disclaimer of Opinion section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

We are independent of the Company in accordance with International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (IESBA Code) and with the ethical requirements that are relevant to our audit of the financial statements in Albania, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Deloitte Audit Albania
Deloitte Audit Albania sh.p.k

Rr. Elbasanit, Pallati poshte Fakultetit Gjeologjik-Minier, Tiranë, Albania

Identification number (NUIS): L41709002H



Enida Cara
Statutory Auditor

Tirana, Albania
August 31, 2018

Operatori i Shpërndarjes së Energjisë Elektrike Sha - OSHEE
Statement of Financial Position

In '000 LEK

	Note	December 31, 2017	December 31, 2016
Assets			
Property, plant and equipment	8	38,512,254	29,372,182
Intangible assets	9	805,182	512,341
Financial assets	10	1,460	1,607
Non-current assets		39,318,896	29,886,130
Inventories	11	6,043,898	4,468,808
Other assets	12	6,229,972	348,719
Trade receivables, net	13	20,932,065	20,515,613
Restricted cash	14	2,424,915	5,449,899
Cash and cash equivalents	15	1,710,862	1,289,996
Current assets		37,341,712	32,073,035
Total assets		76,660,608	61,959,165
Equity			
Share capital	16	30,083,349	30,083,349
Revaluation reserve	16	1,250,030	1,513,463
Reserves	16	2,916,011	2,916,011
Accumulated losses		(67,461,863)	(70,050,329)
Total equity		(33,212,473)	(35,537,506)
Liabilities			
Borrowings	17	10,540,409	11,119,314
Non-current liabilities		10,540,409	11,119,314
Other liabilities	18	7,661,495	14,673,562
Provisions	19	2,984,656	5,623,792
Trade and other payables	20	72,197,636	45,817,313
Tax and social security liabilities	21	2,672,876	8,195,822
Corporate income tax payable	29	5,610,933	5,442,125
Borrowings	17	8,205,076	6,624,743
Current liabilities		99,332,672	86,377,357
Total liabilities		109,873,081	97,496,671
Total equity and liabilities		76,660,608	61,959,165

The notes on pages 5 to 34 are an integral part of these financial statements.

Operatori i Shpërndarjes së Energjisë Elektrike Sha - OSHEE
Statement of Profit or Loss and Other Comprehensive Income
In '000 LEK

	Notes	Year ended December 31, 2017	Year ended December 31, 2016
Revenues	22	53,542,863	51,808,210
Other income	23	6,860,275	10,215,644
		60,403,138	62,023,854
Purchased energy	24	(34,966,857)	(21,737,924)
Transmission fee	25	(4,639,553)	(3,927,551)
Materials and consumables used		(929,785)	(976,205)
Personnel expenses	26	(6,184,115)	(5,001,793)
Depreciation and amortization	8,9	(2,528,909)	(1,835,303)
Other expenses, net	27	(7,731,437)	(6,348,815)
		3,422,482	22,196,263
Finance income	28	521,678	78,883
Finance costs	28	(538,193)	(918,773)
Net finance costs		(16,515)	(839,890)
Profit before tax		3,405,967	21,356,373
Income tax expense	29	(1,575,808)	(2,636,434)
Profit for the year		1,830,159	18,719,939
Other comprehensive income			
Revaluation of property, plant and equipment		(263,433)	1,513,463
Other comprehensive income		(263,433)	1,513,463
Total comprehensive income		1,566,726	20,233,402

The notes on pages 5 to 34 are an integral part of these financial statements.

Operatori i Shpërndarjes së Energjisë Elektrike Sha - OSHEE
Statement of Cash Flows
In '000 LEK

	Notes	Year ended December 31, 2017	Year ended December 31, 2016
Cash flows from operating activities			
Profit before tax		3,405,967	21,356,373
<i>Adjustments for:</i>			
Impairment of property, plant and equipment and intangible assets		-	826,969
Correction of prior year errors		758,307	-
Late payment fee terminated with compensation	23	(109,899)	(115)
Adjustment for income tax	29	(400,000)	(5,292)
Depreciation and amortization	8,9	2,528,909	1,835,303
Interest income	28	(22,058)	(78,883)
Interest expense and payments for bank guarantees	28	538,193	746,798
Charge of inventory write-downs	27	141,437	110,951
Impairment/ (reversal) of impairment for trade receivables	23	29,198	(8,331,410)
Provision expenses	19	1,930,279	237,748
Effects of exchange rate changes on the balance of borrowings held in foreign currencies		(702,152)	(87,950)
<i>Change in:</i>			
- Trade receivables		(445,650)	(4,953,657)
- Inventories		(1,716,527)	(2,115,990)
- Other assets		(5,881,253)	8,391
- Restricted cash		3,024,984	(1,549,816)
- Trade and other payables		26,490,222	3,230,452
- Tax and social security liabilities		(5,522,946)	1,651,898
- Provisions		(4,569,415)	(1,092,262)
- Other liabilities		(7,012,067)	14,160
		12,465,529	11,803,668
Income taxes paid	29	(1,007,000)	(1,300,000)
Interest paid		(48,853)	(82,526)
Interest paid on guarantees		(269,252)	(347,556)
Interest received		22,058	78,883
Net cash from operating activities		11,162,482	10,152,469
Cash flows from investing activities			
Additions to property plant and equipment		(20,080,127)	(9,400,994)
Disposal to property plant and equipment		8,338,156	15,753
Additions in intangible assets		(483,284)	(209,694)
Financial assets		146	629
Net cash used in investing activities		(12,225,109)	(9,594,306)
Cash flows from financing activities			
Disbursement of loans		4,418,580	999,805
Repayment of borrowings		(3,637,240)	(3,074,506)
Net cash from/ (used in) financing activities		781,340	(2,074,701)
Effects of exchange rate changes on the balance borrowings held in foreign currencies		702,152	87,950
Net increase/ (decrease) in cash and cash equivalents		420,866	(1,428,588)
Cash and cash equivalents at 1 January		1,289,996	2,718,584
Cash and cash equivalents at 31 December	15	1,710,862	1,289,996

The notes on pages 5 to 34 are an integral part of these financial statements.

	Share capital	Revaluation reserve	Reserves	Accumulated losses	Total
Balance at January 1, 2016	30,099,102	-	2,916,011	(88,770,268)	(55,755,155)
Total comprehensive income	-	-	-	18,719,939	18,719,939
Profit for the year	-	-	-	-	-
Revaluation of property, plant and equipment	-	1,513,463	-	-	1,513,463
Total comprehensive income	-	1,513,463	-	18,719,939	20,233,402
Capital reduction	(15,753)	-	-	-	(15,753)
Balance at December 31, 2016	30,083,349	1,513,463	2,916,011	(70,050,329)	(35,537,506)
Total comprehensive income	-	-	-	1,830,159	1,830,159
Profit for the year	-	-	-	494,874	494,874
Correction of prior year errors	-	-	-	-	-
Revaluation of property, plant and equipment	-	(263,433)	-	263,433	-
Total comprehensive income	-	(263,433)	-	2,588,466	2,325,033
Balance at December 31, 2017	30,083,349	1,250,030	2,916,011	(67,461,863)	(33,212,473)

The notes on pages 5 to 34 are an integral part of these financial statements.

The financial statements authorised for issue by the management of OSHEE Sha on August 27, 2018 and signed on their behalf by:

Adrian Çela
Administrator

Ceno Klosi
Director of Economic Department



1. Reporting entity

Operatori i Shpërndarjes së Energjisë Elektrike Sha ("OSHEE" or the "Company") has the sole responsibility for the distribution of electricity in Albania.

The Company was incorporated as a joint stock company on 19 June 2007, based on the Decision of the Council of Ministers No. 862, dated 20 December 2006. The entity was established as a result of spin-off from Korporata Elektroenergjitike Shqiptare Sha ("KESH") and started its operating activities from 1 January 2007.

On 29 May 2009, CEZ A.S with the registered office located at Duhova 211444, 14074, Prague 4, Czech Republic, became the owner of 76% of the shares of the Company (CEZ Shpërndarje Sha). The Republic of Albania, represented by the Ministry of Economic Development, Trade, Tourism and Entrepreneurship ("MEDTTE") maintained the ownership of 24% of the shares.

Based on the Decision No. 4, dated 21 January 2013 "On the revocation of the license of CEZ Shpërndarje Sha for the distribution of energy", the Albanian Energy Regulator ("ERE") revoked the license of CEZ Shpërndarje Sha

Based on the Decision No. 5, dated 21 January 2013, ERE appointed Mr. Sahit Dollapi as an Interim Administrator of the Company, whilst based on the Decision No. 118, dated 18 October 2013, ERE appointed Mr. Arben Seferaj as the new Interim Administrator of Company.

Based on the ERE's Board of Commissioners Decision No. 63, dated 17 July 2014, the name of the Company changed to "Operatori i Shpërndarjes së Energjisë Elektrike" – "OSHEE Sha".

In June 2014, the Government of Albania signed a share transfer and settlement agreement with CEZ A.S. Pursuant to the Law No. 114/2014, date 31 July 2014 "On the approval of the agreement for settlement negotiations between the Republic of Albania and the company CEZ A.S." the Albanian Parliament approved the agreement and the repurchase of 76% of the shares. On 23 October 2014, the shares were registered under the ownership of the Government, represented by the MEDTTE. The temporary administration period ended on 27 October 2014, pursuant to the Decision No. 98 of the ERE's Board of Commissioners.

The governing bodies of the Company are the General Assembly, the Supervisory Council and the Administrator. The Supervisory Council is composed as follows:

- Mr. Ilir Bejtja Deputy Minister of the Ministry of Energy and Industry, Chairman
- Mrs. Entela Çipa Member
- Mr. Agim Bregasi Member
- Mr. Tommy Kola Member
- Mr. Enton Duro Member
- Mr. Enea Karakaci Member

On 1 December 2014, the Supervisory Council appointed Mr. Adrian Çela as Administrator of the Company. The Company is domiciled in Albania. Following the decision no. 5670/1, dated August 4, 2017 of the General Assembly, the Company's registered office is at 'Boulevard "Gjergj Fishta", Building No. 88, H 1, Municipality unit no. 7, Tirana, Albania.

On 6 June 2016, the shares of the Company were registered under the ownership of the Albanian Government, represented by the Ministry of Energy and Industry ("MEI").

The main units of OSHEE in 2017, included the Commercial Division, Distribution Divisions, and General Administration Divisions. OSHEE operates through eleven regional directorates and four high voltage directorates.

2. Basis of accounting

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

The Company has prepared these financial statements on the going concern basis, which assumes that the Company will be able to meet its funding requirements, to refinance or repay its payables as they fall due and to continue in operational existence for the foreseeable future (see note 5.a for judgments involved in using the going concern basis of accounting). Details of the Company's accounting policies are included in Note 6.

3. Basis of measurement

The financial statements have been prepared on the historical cost basis except for the property, plant and equipment and intangible assets which are revalued at fair value. In 2016, the Company adopted the revaluation model and changed its accounting policy for the subsequent measurement for property, plant and equipment and intangible assets (see Note 8).

4. Functional and presentation currency

These financial statements are presented in Albanian Lek, which is the Company's functional and presentation currency. All amounts have been rounded to the nearest thousand, unless otherwise indicated.

5. Use of estimates and judgments

In preparing these financial statements, management has made judgments, estimates and assumptions that affect the application of the Company's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized prospectively.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the year ending December 31, 2017, is included in the following notes:

- Note 7.2.ii: impairment of receivables;
- Note 8: revaluation to fair value of property, plant and equipment;
- Note 29: tax exposures; and
- Notes 19 and 31: recognition and measurement of provisions and contingencies.

Significant judgments involved in the conclusion to use the going concern basis of accounting are disclosed below:

a. Judgments about the application of the going concern assumption

As a result of the losses incurred in previous years since establishment, the Company reports a negative equity of Lek 33,212,482 thousand (2016: Lek 35,537,506 thousand) and accumulated losses of Lek 67,461,863 thousand (2016: Lek 70,050,329 thousand) at December 31, 2017 and, as of that date, the Company's current liabilities exceeded its current assets by Lek 61,990,970 thousand (2016: Lek 54,304,322 thousand). In order to meet its capital and liquidity needs and to continue operations, the Company has received financing from related parties, funds totaling Lek 66,633,992 thousand (2016: Lek 62,955,673 thousand) (see note 30).

Management acknowledges that a material uncertainty exists that may cast significant doubt about the Company's ability to continue as a going concern. The applicability of the going concern principle in the foreseeable future depends on the related parties' continuing support and ultimately by decisions and actions of the state authorities.

Following the transfer of full ownership of the Company to the Government of Albania in October 2014 (see note 1), and given that OSHEE as the sole electricity distributor throughout the country is the provider of an important public service, the Government of Albania committed to support the Company financially and through regulatory enforcement.

In response to this situation, Management undertook several remedial actions and developed the long-term recovery plan during 2015, which continued also in during 2017.

Regulatory requirements

During 2017, OSHEE continued to have the monopoly of energy distribution. Based on the law number 43/2015 "On the electrical energy sector", article 72, the Company should have separated its distribution and selling activities within 31 December 2017, however this process started its implementation during 2018 and aims to conclude the full separation within the year 2018 (see note 32). The scope of the law is to regulate a competitive and open energy market. Such changes will result in the loss on energy distribution monopoly from OSHEE and will require additional years upon full compliance with the requirements of the law.

The Company resulted in net profits for the periods ended December 31, 2017 and 2016 as compared to losses reported for the prior periods.

5. Use of estimates and judgments (continued)

a. Judgments about the application of the going concern assumption (continued)

During 2017 the Company has encountered significant financial difficulties as a result of the improvements in the energy sector which had a significant impact over the Company's financial performance due to the followings:

- Due to the dry weather conditions in the country, KESH and the local HPP's where not able to supply OSHEE in accordance with the contracted and approved energy. As a result, OSHEE was forced to purchase the required quantity of energy to meet the end consumer demand in the open market. During 2017, KESH and the local HPP's supplied 1,370 GwH less than the contracted energy quantity with an average price of Lek 8.9 per Kwh compared to the planned price of Lek 3 per Kwh.
- Additional demand on energy quantities beyond the forecasted amount was 406 GwH.
- Increase in the average import price by 38% or from Lek 6.42 per KwH during Lek to 8.9 Lek / Kwh

As a result of the above-mentioned factors, OSHEE incurred additional costs of Lek 14.2 billion or approximately EUR 106.7 million in addition to the forecasted amount on the purchase of energy.

Furthermore during 2017 continuous efforts were done to improve the financial indicators of the Company aiming at the following:

- Reduction of financial (non-technical) losses through interruption of illegal network connections, controls over the meters and legal actions against energy misappropriation;
- Reduction of technical losses through investments in the network, focusing the most problematic areas and consumption without meters. Further investments aim the improvement of the metering system;
- Increased collections through provision of debt restructuring options and incentives;
- Efficient organization of the workflow and maximum commitment of the directors and professional staff;
- Improvement in the quality of energy distribution through investments in technology aiming at an improvement of the technical distribution indicators;
- Reduction of the energy interruptions and timing of repairing the damages.

Improved financial results and position of the Company

As a result of the actions described above, the Company improved its financial performance compared as follows:

	December 31, 2017	December 31, 2016
Profit for the year	1,830,159	18,719,939
Revenue	53,542,863	51,808,210
Total operating expenses	(56,980,656)	(39,827,591)
Earnings before interest, tax, depreciation and amortization	5,951,391	24,031,566
Net equity	(33,212,473)	(35,537,506)
Accumulated losses	(67,461,863)	(70,050,329)
Current liabilities exceed current assets	(61,990,961)	(54,304,322)
	December 31, 2017	December 31, 2016
Collection rate	97.10%	91.94%
Energy loss ratio	26.41%	28.04%

Government of Albania support

In order to overcome the difficult liquidity situation during 2017, OSHEE was supported by the Albanian Government, which approved a short-term loan of Lek 1,000,000 thousand and a long term loan of Lek 1,500,000 thousand (see note 16), based on the Normative Act No. 2, date August 16, 2017, as well as DCM No. 539 date October 09, 2017. The management of the Company has also required the Albanian Government's support for greater involvement of the company in the Law on fiscal amnesty implemented during 2017 from which OSHEE benefited an amount of Lek 5,403,204 thousand (see note 18). Based on the Decision No. 171, dated February 25, 2015 of the Council of Ministers, the Government approved the Plan for Financial Recovery in the Power Sector, aiming improved collections and cash flows, reduced losses and sustainable energy supply in order to achieve sustainability and rebuild the trust in the power system.

5. Use of estimates and judgments (continued)

a. Judgments about the application of the going concern assumption (continued)

Such plan aimed achieving a negative equity of Lek 43 billion for OSHEE within a period of five years. The Government has engaged to ensure the collaboration of the Ministry of Interiors and all relevant ministries and public institutions in implementing the plan. Actual reported for the year ended as at December 31, 2017 show a negative equity of Lek 33.2 billion. As a result the Company is currently amending the recovery plan to take into account the actual results and to focus on continuous improvement of the financial performance of the Company, further reduction of the technical losses as well as improvement in collection rates. In accordance with the law number 43/2015 "On the energy sector", starting from July 2016 the Company performs the furnishing activity.

Through the Ministry of Finance, the government has enabled the lending of the Company with lower market interest rates. The Loan Agreement signed between the Albanian Government and OSHEE in January 2015, amended as at January 19, 2018 for the amount of EUR 69,679 thousand (see note 17), financed by the International Bank for Reconstruction and Development ("IBRD"). By the end of 2017 for the amount of EUR 21,500 thousand has been disbursed while during the first quarter of 2018 the EBRD disbursed an additional amount of EUR 4,300 thousand. During 2018 and onwards, investments as part of the project of this agreement are expected to be much higher, significantly improving the technical distribution grid network.

Liquidity management

In accordance with the terms imposed by the loan agreement with International Bank for Reconstruction and Development ("IBRD") and the terms set by the Plan for Financial Recovery in the Power Sector, during 2017 the Company must settle at least 100% of the energy purchased from KESH and of the transmission services received from OST. The payments made during 2017, represent 102% of the annual purchases invoiced by KESH and 98% of the annual purchases invoiced by OST. Subsequently the percentage shall increase to at least 100% in 2018 and 105% thereafter.

The Company used its cash flows from operating activities in order to meet the mandatory repayment terms of the borrowings facilities payable to CEZ A.S as disclosed in Note 17 and will fully repay the full outstanding amount within August 2018 .

The Company managed to repay its suppliers as per repayment term with its cash flow generated from operating activities during 2017.

As at April 6, 2018 the Management of the Company entered into a repayment agreement with KESH for the settlement of the overdue liabilities as at December 31, 2016 based on the reconciliation act between the two Companies. The agreement consists of a repayment schedule which begins during 2018 with a maturity up to 2046. The Company has repaid the instalment due in 2018.

Management acknowledges that uncertainty remains over the Company's ability to meet its funding requirements and to refinance or repay its payables as they fall due. However, as described above, management has a reasonable expectation that the Company has adequate resources and support from the Shareholder to continue in operational existence for the foreseeable future.

5. Use of estimates and judgments (continued)

a. Judgments about the application of the going concern assumption (continued)

Other measures

Management and the governing bodies played an active role in responsive decision-making, aiming to improve the performance and effective management of the Company, including the following:

- Continuing the work of the Task Force Unit that was established by the Albanian Government in December 2013, under the direction of the Deputy Prime Minister. The role of the task force is to support the Company in improving the collection rate and the losses ratio, by performing field inspections and discontinuing the supply with energy in the cases of theft and unsettled payments of invoices.
- Approval of the investments plan with focus in its implementation. This plan foresees significant investments in the energy measurement system and is expected to ensure higher quality of the energy supply, minimized losses from theft, and reduced energy losses in the network.
- Implementation of the requirements deriving from law number 43/2015 on activities separation and creation of a competitive open market. The Company has separated its activities which are not linked to the energy distribution during 2018. However, the process of separating these activities as a result of the newly created companies from OSHEE in contrast to the improvement of the economic-financial and managerial indicators is a process which will be developed under the supervision and experience of foreign consultants and direct observation and supervision of the Albanian Government.
- Fulfilling the activity of the Company as energy furnisher since July 2016.

b. Measurement of fair values

A number of the Company's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Company uses its judgment to select a variety of methods and make assumptions that are mainly based on market conditions existing at each reporting date. The Company uses discounted cash flow analysis for financial assets and liabilities that were not traded in active markets.

When measuring the fair value of an asset or a liability, the Company uses observable market data as far as possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability fall into different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. The Company recognizes transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred. Further information about the assumptions made in measuring fair values is included in Note 7.1.

6. Significant accounting policies

The Company has consistently applied the following accounting policies to all periods presented in these financial statements.

a. Foreign currency

Transactions in foreign currencies are translated into the functional currency of the Company at the exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated to the functional currency at the exchange rate at the reporting date. Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated to the functional currency at the exchange rate when the fair value was determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Foreign currency differences are generally recognized in profit or loss.

b. Property, plant and equipment

i. Recognition and measurement

Effective from 1 January 2016, items of property, plant and equipment are stated in the statement of financial position at their revalued amounts, being the fair value at the date of revaluation, less accumulated depreciation and any subsequent accumulated impairment losses.

Revaluations are performed with sufficient regularity such that the carrying amounts do not differ significantly from those that would be determined using fair values at the end of each reporting period.

Any surplus arising on the revaluation is recognized in Other Comprehensive Income ('OCI') except to the extent that the surplus reverses a previous revaluation deficit on the same asset recognized in profit or loss, in which case the credit to that extent is recognized in profit or loss. Any deficit on revaluation is recognized in profit or loss except to the extent that it reverses a previous revaluation surplus on the same asset, in which case the debit to that extent is recognized in OCI. Therefore, revaluation increases and decreases cannot be offset, even within a class of assets. The revaluation reserve is included in other reserves (Note 16) and is transferred to retained earnings as the corresponding assets are used.

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

Assets in process are carried at cost, less any recognized impairment loss (if any) and are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Cost includes all the expenditure directly attributable to the acquisition of the asset. This expenditure includes professional fees and, for qualifying assets, borrowing costs capitalized in accordance with the Company's accounting policy.

Any gain or loss on disposal of an item of property, plant and equipment is recognized in profit or loss.

ii. Subsequent expenditure

Subsequent expenditure is capitalized only if it is probable that the future economic benefits associated with the expenditure will flow to the Company.

iii. Depreciation

Depreciation is calculated to write off the cost of items of property, plant and equipment less their estimated residual values using the straight-line method over their estimated useful lives, and is generally recognized in profit or loss. Land and assets in progress are not depreciated.

The estimated useful lives of property, plant and equipment for current and comparative periods are as follows:

• Building and land improvement	20 to 80 Years
• Machinery and equipment	4 to 44 Years
• Vehicles	3 to 11 Years
• IT and office equipment	3 to 20 Years

c. Intangible assets

i. Recognition and measurement

Intangible assets acquired or developed by the Company are measured at cost less accumulated amortization and any accumulated impairment losses. Intangible assets include software and related licenses.

6. Significant accounting policies (continued)

c. Intangible assets (continued)

ii. Subsequent expenditure

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognized in profit or loss as incurred.

iii. Amortization

Amortization is calculated to write off the cost of intangible assets less their estimated residual values using the straight-line method over their estimated useful lives, and is generally recognized in profit or loss.

The estimated useful lives of intangible assets for current and comparative periods are as follows:

- | | |
|------------|--------------|
| • Software | 2 to 5 years |
| • License | 3 to 5 years |

d. Inventories

Inventories are measured at the lower of cost and net realizable value. The cost of inventories is based on the average cost method, and includes expenditure incurred in acquiring the inventories. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

e. Financial instruments

The Company classifies non-derivative financial assets as loans and receivables and non-derivative financial liabilities as other financial liabilities.

i. Recognition and derecognition

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

The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred, or it neither transfers nor retains substantially all of the risks and rewards of ownership and does not retain control over the transferred asset. Any interest in such derecognized financial assets that is created or retained by the Company is recognized as a separate asset or liability.

The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled, or expire.

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

ii. Measurement

Non-derivative financial assets are initially measured at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortized cost using the effective interest method.

Non-derivative financial liabilities including borrowings, and trade and other payables, are initially measured at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these liabilities are measured at amortized cost using the effective interest method.

(All amounts are expressed in '000 LEK, unless otherwise stated)

6. Significant accounting policies (continued)

f. Impairment

i. Non-derivative financial assets

Financial assets classified as trade and other receivables, are assessed at each reporting date to determine whether there is objective evidence of impairment. Objective evidence that financial assets are impaired includes default or delinquency by a debtor.

The Company considers evidence of impairment for these assets at both an individual asset and a collective level. All individually significant assets are individually assessed for impairment. Individually significant assets include certain receivables from the state and state owned entities and from debtors not directly related to sale of electricity. Trade receivables relating to distribution of electricity are generally collectively assessed for impairment. Collective assessment is carried out by grouping together assets with similar risk characteristics.

An impairment loss is calculated as the difference between an asset's carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account. When the Company considers that there are no realistic prospects of recovery of the asset, the relevant amounts are written off. If the amount of impairment loss subsequently decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, then the previously recognised impairment loss is reversed through profit or loss.

ii. Non-financial assets

At each reporting date, the Company reviews the carrying amounts of its non-financial assets to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

An impairment loss is recognized if the carrying amount of an asset or CGU exceeds its recoverable amount. Impairment losses are recognized in profit or loss.

g. Provisions

Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as finance cost.

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

h. Share capital

Ordinary shares are classified as equity. The share capital is recognized at par value.

i. Revenue recognition

Revenue represents the fair value of the consideration that has been received or is receivable. Revenue is stated at the amounts invoiced to customers and excludes value added tax, rebates and discounts.

The Company is involved in the distribution and sale of electricity as well as in performing related services. The Company recognizes revenue, when the amount of the revenue can be reliably measured and it is probable that future economic benefits will flow to the entity.

6. Significant accounting policies (continued)

i. Revenue recognition (continued)

(i) Sale of electricity

Revenues from sale of electricity is composed of the amounts invoiced based on the electricity supplied and measured on a monthly basis.

Revenue estimations are not used when meter readings do not coincide with reporting periods. Revenue is recognized in the period when meters are read.

Revenue estimations are used for consumption of energy which is not measured by meters, in cases where meters are temporarily unavailable. The Company bases its estimates on historical customer trends, taking into consideration the type of customer, the specifics of each arrangement, seasonal variation factors and existing tariffs.

(ii) Other income

Income from other services provided to the customer including changes in contracts, meter verification and other services are recognized when the service is provided. Included in other income are also the interest for late payments.

j. Finance income and finance costs

The Company's finance income and finance costs include interest income, interest expense and foreign currency gain or loss. Interest income or expense is recognized using the effective interest method.

k. Income tax

Income tax expense comprises current and deferred tax. Current and deferred tax are recognized in profit or loss except to the extent that it relates to items recognized directly in equity or in OCI.

i. Current tax

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to the tax payable or receivable in respect of previous years. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any. It is measured using tax rates enacted or substantively enacted at the reporting date.

Current tax assets and liabilities are offset only if certain criteria are met.

ii. Deferred tax

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is not recognized for temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting, nor taxable profit or loss.

Deferred tax assets are recognized for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Unrecognized deferred tax assets are reassessed at each reporting date and recognized to the extent that it has become probable that future taxable profits will be available against which they can be used.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

The measurement of deferred tax reflects the tax consequences that would follow from the manner in which the Company expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset only if certain criteria are met.

l. Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease.

6. Significant accounting policies (continued)

m. Employee benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognized for the amount expected to be paid if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

i. Social, pension and health contributions

The Company is obliged by the current Albanian legislation to make fixed contributions on behalf of the employees in a social fund operated by the Government. Obligations for contributions are expensed as the related service is provided.

ii. Termination benefits

Termination benefits are expensed at the earlier of when the Company can no longer withdraw the offer of those benefits and when the Company recognizes costs for a restructuring. If benefits are not expected to be settled wholly within 12 months of the reporting date, then they are discounted.

n. Adoption of new or revised standards and interpretations

The accounting policies for the preparation of the financial statements have been consistently applied by the Company to the years 2016 and 2017, after taking into account the following amendments to standards which were issued by the International Accounting Standards Board (IASB):

- **Amendments to IAS 7 “Statement of Cash Flows”** - Disclosure Initiative (effective for annual periods beginning on or after 1 January 2017),
- **Amendments to IAS 12 “Income Taxes”** - Recognition of Deferred Tax Assets for Unrealised Losses (effective for annual periods beginning on or after 1 January 2017),
- **Amendments to IFRS 12 due to “Improvements to IFRSs (cycle 2014-2016)”** resulting from the annual improvement project of IFRS (IFRS 1, IFRS 12 and IAS 28) primarily with a view to removing inconsistencies and clarifying wording (amendments to IFRS 12 are to be applied for annual periods beginning on or after 1 January 2017).

The adoption of these amendments to the existing standards has not led to any material changes in the Company’s financial statements.

6. Significant accounting policies (continued)

o. Standards and interpretations issued but not yet effective

Standards and interpretations issued, not yet effective as of the date of issuance of the Company's financial statements are presented below. The Company did not have any early implementation. Standards and amendments that are not applicable to the Company have not been disclosed.

- IFRS 9 “Financial Instruments” (effective for annual periods beginning on or after January 1, 2018).
- IFRS 15 “Revenue from Contracts with Customers” and further amendments (effective for annual periods beginning on or after January 1, 2018).
- IFRS 16 “Leases” (effective for annual periods beginning on or after January 1, 2019).
- IFRS 17 “Insurance Contracts” (effective for annual periods beginning on or after January 1, 2021).
- Amendments to IFRS 4 “Insurance Contracts” - Applying IFRS 9 “Financial Instruments” with IFRS 4 “Insurance Contracts” (effective for annual periods beginning on or after January 1, 2018 or when IFRS 9 “Financial Instruments” is applied first time).
- Amendments to IFRS 9 “Financial Instruments” - Prepayment Features with Negative Compensation (effective for annual periods beginning on or after January 1, 2019).
- Amendments to IAS 40 “Investment Property” - Transfers of Investment Property (effective for annual periods beginning on or after January 1, 2018).
- Amendments to IFRS 1 and IAS 28 due to “Improvements to IFRSs (cycle 2014-2016)” resulting from the annual improvement project of IFRS (IFRS 1, IFRS 12 and IAS 28) primarily with a view to removing inconsistencies and clarifying wording (amendments to IFRS 1 and IAS 28 are to be applied for annual periods beginning on or after January 1, 2018).
- Amendments to different standards due to “Improvements to IFRSs (cycle 2015-2017)” resulting from the annual improvement project of IFRS (IFRS 3, IFRS 11, IAS 12 and IAS 28) primarily with a view to removing inconsistencies and clarifying wording (amendments to IFRS 1 and IAS 28 are to be applied for annual periods beginning on or after January 1, 2019).
- IFRIC 22 “Foreign Currency Transactions and Advance Consideration” (effective for annual periods beginning on or after January 1, 2018).

The Company has elected not to adopt these new standards, amendments to existing standards and new interpretations in advance of their effective dates. The Company anticipates that the adoption of these standards, amendments to existing standards and new interpretations will have no material impact on the financial statements of the Company in the period of initial application.

7. Financial instruments - Fair values and risk management

7.1 Accounting classifications and fair values

The Company has not disclosed the fair value of financial instruments such as cash and cash equivalents, trade and other receivables, payables and borrowings on December 31, 2017 and 2016 because their carrying amount is a reasonable approximation of their fair value. In addition, the contractual interest rates for borrowings approximate the market rates at recognition and at the reporting date.

7.2 Financial risk management

The Company has exposure to the following risks arising from financial instruments:

- credit risk;
- market risk; and
- liquidity risk.

i. Risk management framework

The risk management function within the Company is carried out in respect of financial risks (credit, market, and liquidity), operational risks (such as environmental risk) and legal risks.

ii. Credit risk

The Company is exposed to credit risk, which is the risk that a customer or counterparty to a financial instrument fails to meet its contractual obligations. The major exposure from the credit risk arises principally from the Company's receivables from customers.

The carrying amount of the following financial assets represents the maximum credit exposure:

	December 31, 2017	December 31, 2016
Cash and cash equivalents	1,710,862	1,289,996
Restricted cash	2,424,915	5,449,899
Trade receivables, net	20,932,065	20,515,613
Other assets (excluding prepayments, see note 12)	686,271	278,654
Financial assets	1,460	1,607
Total maximum exposure to credit risk	25,755,573	27,535,769

The maximum exposure to credit risk for trade receivables by type of counterparty was as follows:

	December 31, 2017	December 31, 2016
State owned and governmental units and institutions	321,839	263,794
Households	15,289,015	15,723,463
Non state owned	987,038	843,271
Private entities	4,334,173	3,685,085
Total	20,932,065	20,515,613

Further details of revenue by type of counterparty are included in Note 22.

The Company's exposure to credit risk is influenced by the individual characteristics of each customer.

At December 31, 2017 and December 31, 2016, the ageing of trade receivables and the loss ratios used for each bucket were as follows:

	Trade receivables gross	Allowance for impairment	Trade receivables net	2017 Loss rate
Neither past due nor impaired and past due up to 30 days	5,477,174	(333,149)	5,144,025	6%
Past due 31–60 days	664,584	(98,859)	565,725	15%
Past due 61–180 days	634,164	(235,039)	399,125	37%
More than 180 days	66,190,080	(51,366,890)	14,823,190	78%
Total	72,966,002	(52,033,937)	20,932,065	71%

(All amounts are expressed in '000 LEK, unless otherwise stated)

7. Financial Instruments - Fair values and risk management (continued)

7.2 Financial risk management (continued)

ii. Credit risk (continued)

	Trade receivables gross	Allowance for impairment	Trade receivables net	2016 Loss rate
Neither past due nor impaired and past due 1–30 days	5,551,106	(394,442)	5,156,664	7%
Past due 31–60 days	253,067	(64,497)	188,570	25%
Past due 61–180 days	368,020	(156,254)	211,766	42%
More than 180 days	66,348,159	(51,389,546)	14,958,613	77%
Total	72,520,352	(52,004,739)	20,515,613	72%

Based on an internal decision approved by the Supervisory Board number 39, dated 20 July 2017. In assessing collective impairment, the Company uses statistical modelling of historical trends of the probability of default, the timing of recoveries and the amount of loss incurred.

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

	2017	2016
At January 1,	52,004,739	60,336,149
Impairment/ (reversal of) charge	29,198	(8,331,410)
At December 31, (see note 13)	52,033,937	52,004,739

No amounts were written off during 2017 (2016: nil).

The allowance for impairment and movement in the allowance for impairment for other receivables and financial assets are detailed in notes 10 and 13.

7. Financial Instruments - Fair values and risk management (continued)

7.2 Financial risk management (continued)

iii. Market risk

Market risk is the risk of loss that results from changes in domestic market prices (electricity sale prices), foreign exchange rates, and interest rates. The level of market risk to which the Company is exposed varies depending on market conditions, expectations of future price or market rate movements and the composition of the Company's asset and contracts.

Energy prices

Under the current energy market model, the Company only charges a fixed tariff per unit of energy as approved by Albanian Energy Regulatory Entity ("ERE").

In April 2015, the Albanian Parliament approved a new law "On the Power sector", which among others, provides for customer protection, sustainability of energy supply, and competition in the power market. The energy market model is expected to change in subsequent periods in line with the new law.

Under the legislative framework, the Company is expected to bear the costs arising in the form of losses in the distribution network as well as purchase and sale of energy, which is the amount of energy required to fill in the gap between consumption and supply of energy in a given period of the day. The price of electricity in the local and international markets is particularly important to the Company under such circumstances.

The energy prices that the Company is able to charge to consumers are subject to approval by ERE, which gives rise to price risk. At the end of 2014, ERE approved the electricity prices which are applicable even for 2016 and 2017.

Interest rate risk

In the normal course of business the Company borrows to finance its operations. The Company is exposed to interest rate risk because the fair value of fixed rate borrowings and the cash flows associated with floating rate borrowings will fluctuate with changes in interest rates.

The Company does not have formal policies and procedures in place for management of interest rate risks. The Company has received loans at fixed interest rates.

Currency risk

Exchange rate risk derives from the fact that the Company's revenues and most of its financial assets are denominated in LEK, while a substantial part of the Company's borrowings and trade payables for imports of energy are denominated in foreign currencies (including EUR, USD, CHF, YEN, and KRW). The risk is that the functional currency value of cash flows arising from repayment of borrowings and related interest and from payments for purchase of energy will vary as a result of movements in exchange rates, which may significantly impact the profit of the Company.

The main exchange rates used to translate the monetary assets and liabilities denominated in foreign currencies at December 31, 2017 and 2016 are as follows:

<i>In Lek:</i>	2017	2016
EUR	132.95	135.23
USD	111.1	128.17
GBP	149.95	157.56
CHF	113.94	126.05
SDR	157.84	171.76
YEN	98.74	109.75
KRW	10.38	9.39

7. Financial Instruments - Fair values and risk management (continued)

7.2 Financial risk management (continued)

iii. Market risk (continued)

Currency risk (continued)

The summary quantitative data about the Company's exposure to currency risk is as follows:

	Euro	USD	SDR	KRW	YEN	GBP	Lek	Total
<i>As at December 31, 2017</i>								
Trade receivables, net	11,817	-	-	-	-	-	20,920,248	20,932,065
Restricted cash	1,683,810	-	-	-	-	-	741,105	2,424,915
Cash and cash equivalents	31,530	524	-	-	-	6	1,678,802	1,710,862
Total	1,727,157	524	-	-	-	6	23,340,155	25,067,842
Trade and other payables	8,898,262	12,055	-	-	-	-	63,287,319	72,197,636
Borrowings	8,287,021	1,280,096	759,884	875,421	2,132,401	-	5,410,662	18,745,485
Total	17,185,283	1,292,151	759,884	875,421	2,132,401	-	68,697,981	90,943,121
Currency gap	(15,458,126)	(1,291,627)	(759,884)	(875,421)	(2,132,401)	6	(45,357,826)	(65,875,279)

As at December 31, 2016

	Euro	USD	SDR	KRW	YEN	GBP	Lek	Total
Trade receivables, net	1,512	-	-	-	-	-	20,514,101	20,515,613
Restricted cash	3,340,629	-	-	-	-	-	2,109,270	5,449,899
Cash and cash equivalents	298,957	513	-	-	-	7	990,519	1,289,996
Total	3,641,098	513	-	-	-	7	23,613,890	27,255,508
Trade and other payables	1,136,671	231	-	-	-	-	44,680,411	45,817,313
Borrowings	12,133,085	1,472,806	825,676	878,828	2,433,662	-	-	17,744,057
Total	13,269,756	1,473,037	825,676	878,828	2,433,662	-	44,680,411	63,561,370
Currency gap	(9,628,658)	(1,472,524)	(825,676)	(878,828)	(2,433,662)	7	(21,066,521)	(36,305,862)

The management of currency risk is supplemented by monitoring the sensitivity of the Company's financial assets and liabilities to various standard and non-standard foreign exchange rate scenarios. Standard scenarios that are considered on a regular basis include a 100 basis point (bp) parallel fall or rise in all exchange rates.

An analysis of the Company's sensitivity to an increase or decrease in the value of Lek against foreign currencies (assuming no asymmetrical movement and a constant statement of financial position) is as follows:

	2017		2016	
	100 bp increase	100 bp decrease	100 bp increase	100 bp decrease
Estimated profit (loss) effect				
EUR	(1,553,433)	1,553,433	(962,866)	962,866
USD	(129,163)	129,163	(147,252)	147,252

7. Financial Instruments - Fair values and risk management (continued)

7.2 Financial risk management (continued)

iv. Liquidity risk

Liquidity risk is defined as the risk that an entity will encounter difficulty in meeting 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 have sufficient liquidity to meet its liabilities when they are due, under both normal and stressed conditions, without incurring unacceptable losses.

The Company faces delays in collection of receivables for energy from customers. The process of liquidity management adopted by the management includes also postponing payments to certain creditors.

The table below shows the remaining contractual maturities of financial liabilities as at December 31, 2017 and December 31, 2016. The amounts disclosed in the maturity table are the contractual discounted cash flows. When the amount payable is not fixed, the amount disclosed is determined by reference to the conditions existing at the reporting date. Foreign currency payments are translated using the spot exchange rate at the reporting date.

Exposure to liquidity risk

	Carrying amount	Contractual discounted cash flows			Total
		Up to 1 year	1-5 years	>5 years	
2017					
Trade and other payables	72,197,636	72,197,636	-	-	72,197,636
Other liabilities	7,661,496	7,661,496	-	-	7,661,496
Borrowings	18,745,485	8,205,076	4,510,993	6,029,416	18,745,485
Total	98,604,617	88,064,208	4,510,993	6,029,416	98,604,617
	Carrying amount	Contractual discounted cash flows			Total
		Up to 1 year	1-5 years	>5 years	
2016					
Trade and other payables	45,817,313	45,817,313	-	-	45,817,313
Other liabilities	14,673,562	14,673,562	-	-	14,673,562
Borrowings	17,744,057	6,624,743	4,231,887	6,887,427	17,744,057
Total	78,234,932	67,115,618	4,231,887	6,887,427	78,234,932

7.3 Management of capital

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for the shareholder and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

There have been no changes in the structure of capital of the Company during 2017.

8. Property, plant and equipment	Land	Building and land improvement	Machinery and equipment	Other assets	Assets in progress	Total
<i>Cost or evaluation</i>						
As at January 1, 2016	1,030,909	3,779,299	32,842,892	1,490,800	2,441,142	41,585,042
Elimination of accumulated depreciation	-	(1,567,485)	(17,898,308)	(1,038,028)	-	(20,503,821)
Revaluation increase	68,669	498,809	927,006	18,979	-	1,513,463
Revaluation decrease charge	(48,378)	(396,260)	(370,013)	(18,873)	-	(833,524)
Additions	-	526,869	4,913,979	270,707	3,689,439	9,400,994
Reclassifications	-	116,413	1,157,857	9,922	(1,284,192)	-
Disposals	(15,753)	-	-	-	-	(15,753)
As at December 31, 2016	1,035,447	2,957,645	21,573,413	733,507	4,846,389	31,146,401
Additions	-	778,809	7,089,037	629,681	11,582,600	20,080,127
Disposals	(2)	(292)	(7,396)	(297)	(8,593,625)	(8,601,612)
As at December 31, 2017	1,035,445	3,736,162	28,655,054	1,362,891	7,835,364	42,624,916
<i>Accumulated depreciation</i>						
As at January 1, 2016	-	(1,567,485)	(17,898,308)	(1,038,028)	-	(20,503,821)
Elimination of accumulated depreciation	-	1,567,485	17,898,308	1,038,028	-	20,503,821
Charge for the period	-	(112,061)	(1,535,798)	(126,360)	-	(1,774,219)
As at December 31, 2016	-	(112,061)	(1,535,798)	(126,360)	-	(1,774,219)
Charge for the period	-	(135,719)	(1,946,182)	(256,565)	-	(2,338,466)
Disposals	-	23	-	-	-	23
As at December 31, 2017	-	(247,757)	(3,481,980)	(382,925)	-	(4,112,662)
<i>Carrying amount</i>						
As at January 1, 2016	1,030,909	2,211,814	14,944,584	452,772	2,441,142	21,081,221
As at December 31, 2016	1,035,447	2,845,584	20,037,615	607,147	4,846,389	29,372,182
As at December 31, 2017	1,035,445	3,488,405	25,173,074	979,966	7,835,364	38,512,254

Assets in progress represent the construction not yet completed and assets not available for use as at year end.

There were no assets pledged as collateral as at December 31, 2017 and 2016.

8. Property, plant and equipment (continued)

The Company has not yet performed the assets' physical inspection and counting as of the date of the preparation of these financial statements.

On 8 April 2008, the Council of Ministers decided to transfer the ownership of the real estate property from KESH to the Company. On 30 July 2008, the Council of Ministers approved the detailed list of real estate property transferred from KESH to the Company. The ownership title for lands and buildings transferred from KESH during the spin-off (see note 1) has not been obtained yet. The Company has obtained such title only for few properties.

Revaluation and Measurement of fair value - Fair value hierarchy

In 2016, the Company performed a revaluation of its property, plant and equipment and intangible assets based on the Decision No. 1460, dated February 20, 2015, amended with the Decision No. 8910, dated 19 November 2015. Effective as of January 1, 2016, property, plant and equipment and intangible assets were measured at fair value, resulting in a net increase of Lek 670,742 thousand, composed of a revaluation surplus of Lek 1,513,463 thousand recognized as a revaluation reserve, and a decrease of Lek 833,508 thousand recognized in profit or loss as a loss from revaluation to fair value.

If the cost model had been used, the carrying amounts of the property, plant and equipment as at December 31, 2017 would be Lek 38,512,254 (2016: Lek 29,372,182 thousand).

The fair value of property, plant and equipment was determined by a group of external experts appointed by the Ministry of Economic Development, Trade, Tourism and Entrepreneurship based on Order No. 1460, dated 20 February 2015, and amended with Order no. 8910 dated 19 November 2015. The group of experts comprised certified real estate property valuers and certified accountants. The valuers' report is dated January 2017, whilst the effective date of revaluation is January 1, 2016.

The fair values of the Company's property, plant and equipment are categorized into Level 3 of the fair value hierarchy. The fair value was measured using references to the current market, depreciated replacement cost, and direct comparison as valuation techniques. Significant unobservable inputs were used in such measurement. The table above shows a reconciliation from the beginning balances to the closing balances for the property, plant and equipment of the Company.

The revaluation of property, plant and equipment was performed using the existing underlying records of the Company, without The assumptions are based on the data provided by the Company, including the assets for which there are no ownership titles, and without completing a stocktaking of property, plant and equipment.

Value in use

As described above, the fair value of the majority of the property, plant and equipment of the Company, due to their specialized nature, was determined based on the depreciated replacement cost method (DRC). For this purpose, the Company carried out also a valuation of its property and equipment which were subject to revaluation and estimated their recoverable amount as at 1 January 2016 based on value in use model.

For this purpose, management allocated all of assets to one cash generating unit ("CGU"). The value in use was determined by discounting the future cash flows to be generated from the continuing use of the CGU.

The movements in the revaluation reserves are as follows:

	December 31, 2017	December 31, 2016
Balance as at January 1	1,513,463	-
Revaluation of property, plant and equipment	-	1,513,463
Transfer to revaluation reserve	(263,433)	-
Balance as at December 31	1,250,030	1,513,463

(All amounts are expressed in '000 LEK, unless otherwise stated)

9. Intangibles assets

	Software and licenses	Assets in process	Total
<i>Cost or evaluation</i>			
At January 1, 2016	371,172	137,636	508,808
Elimination of accumulated amortization	(45,277)	-	(45,277)
Revaluation effect	(9,197)	-	(9,197)
Additions	143,505	66,189	209,694
At December 31, 2016	460,203	203,825	664,028
Additions	429,627	53,657	483,284
At December 31, 2017	889,830	257,482	1,147,312
<i>Accumulated amortization</i>			
At January 1, 2016	(135,880)	-	(135,880)
Elimination of accumulated amortization	45,277	-	45,277
Charge of the year	(61,084)	-	(61,084)
At December 31, 2016	(151,687)	-	(151,687)
Charge of the year	(190,443)	-	(190,443)
As at December 31, 2017	(342,130)	-	(342,130)
<i>Carrying amount</i>			
As at January 1, 2016	235,292	137,636	372,928
As at December 31, 2016	308,516	203,825	512,341
As at December 31, 2017	547,700	257,482	805,182

Intangible assets include software and related licenses and the cost of the internally developed billing system. Assets in process include software which is not yet available for use.

In 2016, the Company performed a revaluation of its intangible assets (see Note 9), which resulted in a decrease of Lek 9,197 thousand.

10. Financial assets

Financial assets comprise loans granted to employees in previous years.

	December 31, 2017	December 31, 2016
Advances to employees	23,103	23,249
Allowances for impairment	(21,642)	(21,642)
Net	1,461	1,607

The allowance for impairment reflects the estimated unrecoverable loans to employees.

Movements in allowance for impairment is as follows:

	2017	2016
As at January 1,	21,642	21,642
Impairment charge	-	-
As at December 31,	21,642	21,642

11. Inventories

	December 31, 2017	December 31, 2016
Materials and consumables	6,403,957	4,687,430
Less: Allowance for write-downs	(360,059)	(218,622)
Total	6,043,898	4,468,808

The allowance for inventory write-downs as at December 31, 2017 relates to items classified as "non-useable". Inventories are classified as non-useable if identified as (i) obsolete items; (ii) items not useable in the current distribution network; and (iii) damaged items. The movement in the allowance for inventory write-downs for the years ended December 31, 2017 and 2016 is as follows:

	December 31, 2017	December 31, 2016
At January 1	218,622	107,670
Increase in allowance	141,437	110,952
At December 31	360,059	218,622

At the end of the year 2017 and 2016, the Company carried out stocktaking of the inventory in its warehouses.

12. Other assets

	December 31, 2017	December 31, 2016
Prepaid expenses	5,543,701	70,065
Other debtors not related to sale of electricity, net	25,590	53,832
Receivables from sale of materials	12,766	12,766
Receivables from employees, net	2,906	2,791
Other receivables for other services offered to consumers	645,009	209,265
	6,229,972	348,719

Prepaid expenses are comprised of penalties invoiced to KESH Sha in the amount of Lek 5,543,701 as a result of the third party not being able to execute the full supply with energy as agreed in the contract agreement during 2017, approved from ERE no. 62 dated May 11, 2017.

Other assets include the following receivables that are not directly related to the sale of electricity:

	2017			2016		
	Gross	Allowance	Net	Gross	Allowance	Net
KESH	1,917,247	(1,917,247)	-	1,917,247	(1,917,247)	-
State	3,038,536	(3,038,536)	-	3,038,536	(3,038,536)	-
Other debtors	889,906	(244,897)	645,009	418,530	(209,265)	209,265
Total	5,845,689	(5,200,680)	645,009	5,374,313	(5,165,048)	209,265

Receivables from the State relate to subsidies for disable people.

The movements in the allowance for other debtors are as follows:

	2017	2016
At January 1,	244,897	244,897
Reversal of allowance for other debtors	-	-
At December 31	244,897	244,897

(All amounts are expressed in '000 LEK, unless otherwise stated)

13. Trade receivables, net

The Company's trade receivables at December 31, 2017 and 2016, represent unpaid electricity invoices.

	December 31, 2017	December 31, 2016
Trade receivables	72,966,002	72,520,352
Less: allowances for doubtful receivables	(52,033,937)	(52,004,739)
Carrying amount	20,932,065	20,515,613

Information about the Company's exposure to credit risk and impairment allowances for trade receivables is included in Note 7.2.ii.

14. Restricted cash

Restricted cash of Lek 2,424,915 thousand (2016: Lek 5,449,899 thousand) represent amounts blocked with banks to secure borrowings or other transactions, based on the respective contractual agreements.

15. Cash and cash equivalents

	December 31, 2017	December 31, 2016
Balances with banks	1,531,708	1,249,695
Cash on hand	408	217
Cash in transit	178,745	40,084
Total	1,710,861	1,289,996

16. Equity

At December 31, 2017, the share capital of the Company was comprised of 30,083,349 shares with a par value of Lek 1,000 per share (2016: 30,083,102 shares with a par value of Lek 1,000 per share). The Parent and sole shareholder of the Company is the Ministry of Energy and Industry ("MEI").

In 2016, the Company decreased the value of property, plant and equipment and the Share Capital by Lek 15,753 thousand, based on shareholder's decision number 403 dated 6 December 2016.

The revaluation reserve relates to the revaluation of property, plant and equipment (refer to Note 8). Other reserves were inherited from KESH as part of the spin off (see note 1).

17. Borrowings

	December 31, 2017	December 31, 2016
Non-current		
KESH	6,629,747	7,342,032
IBRD – Ministry of Finance	2,910,662	992,083
CEZ A.S.	-	2,785,199
Ministry of Finance	1,000,000	-
Total	10,540,409	11,119,314
Current		
KESH	3,967,946	3,946,432
CEZ A.S.	2,737,130	2,678,311
Ministry of Finance	1,500,000	-
Total	8,205,076	6,624,743
Total	18,745,485	17,744,057

Borrowings from KESH, as transferred during the spin off, comprise amounts borrowed by KESH from local and international financial institutions, foreign governments and other foreign government agencies and invested in distribution activities until December 2006. KESH sub-lent these borrowings with the same terms to the Company through the agreement dated 10 March 2009.

During 2017, the Company repaid principal and interest of Lek 2,981,304 thousand (2016: Lek 199,301 thousand). The total amount of overdue principal and interest at December 31, 2017 is Lek 3,642,492 thousand (2016: Lek 3,508,538 thousand), including overdue principal of Lek 3,060,271 thousand and overdue interest of Lek 582,227 thousand (December 31, 2016: overdue principal Lek 2,951,506 thousand and overdue interest Lek 557,032 thousand).

Borrowings from KESH as at December 31, 2017 and 2016 bear fixed interest rates as follows:

- EUR: 0.25 % to 4.77 % p.a.
- USD: 0.30 % to 3.13 % p.a.
- JPY: 2.30% p.a.
- SDR: 3.13% p.a.
- KRW: 3.00% p.a.

In July 2014, the Company and CEZ AS agreed to consolidate borrowings and accounts payable to CEZ A.S. into a single debt agreement. The Albanian Parliament approved this agreement on July 31, 2014 by Law No. 114/2014 “On approval of the agreement for settlement negotiations between the Republic of Albania and the company CEZ AS”.

Borrowings from CEZ S.A. bear interest at 3.79% p.a. and are payable in five instalments as follows:

- EUR 10,000,000: settled in August 2014;
- EUR 21,750,000: settled in July 2015;
- EUR 21,083,333 settled in July 2016; and
- EUR 21,083,333: payable each year from 2017 to 2018.

The above installments with a total of EUR 95 million, include principal and interest payable. As at December 31, 2017 the Company has paid the principal and interest due as at the year end.

In January 2015, the Company and the Ministry of Finance entered into a sub-loan agreement in the framework of the project of “Recovery of the Energy Sector” between the Republic of Albania and the International Bank for Reconstruction and Development (“IBRD”) for an amount of EUR 72,901 thousand or equivalent of Lek 9,692,188 thousand further amended as at January 19, 2018 for an amount of EUR 69,679 thousand or equivalent of Lek 9,263,823 thousand. As at December 31, 2017 the amount of EUR 21,500 thousand or equivalent of Lek 2,858,425 thousand has been disbursed. The disbursements are performed in the account of the Company or by direct payments for the project. During 2017, the Company repaid interest of Lek 11,443 thousand (2016: Lek 5,187 thousand). The borrowing bears interest at 0.75%, and is repayable in semi-annual instalments starting from November 2021 up to May 2036, with a grace period of 7 years.

17. Borrowings (continued)

As at October 16, 2017 the Ministry of Finance approved a short-term loan of Lek 1,000,000 thousand and a long term loan of Lek 1,500,000 thousand for the purpose to overcome the difficult liquidity situation during 2017. The borrowings have a respective maturity of one and two years and are repayable by annual and quarterly instalments. The borrowings bear an interest rate of 0.25%.

18. Other liabilities

	December 31, 2017	December 31, 2016
Accruals for energy purchases	4,565,906	12,477,464
Accruals for services provided by the Post Office	47,411	332,046
Transmission costs payable to OST	-	498,180
Accruals for investments	1,268,844	-
Payable to personnel	337,863	332,641
Concession fee payable	245,382	23,168
TV tax fee payable	106,811	103,978
Other payables to KESH	518,329	518,327
Other creditors	570,950	387,758
Total	7,661,496	14,673,562

Accruals at December 31, 2017 and 2016, include estimations of the cost of services and other expenses supplied but not yet billed. Accruals for energy purchases are detailed below:

Supplier	December 31, 2017	December 31, 2016
KESH	23,302	10,266,963
GSA	1,936,244	102,721
EFT	1,216,587	26,347
3G	35,661	14,884
Various HECs	1,130,364	1,366,105
Other suppliers	223,748	700,444
Total	4,565,906	12,477,464

Accruals payable to EFT and GSA relate to energy purchased to cover losses for the years 2016 and 2015. Accruals for energy supplied by KESH are detailed as follows:

	December 31, 2017	December 31, 2016
Supply of energy with regulated tariffs for 2012	-	2,032,336
Energy used to cover losses for the periods 2010 - 2012	-	4,519,287
Energy with fixed tariffs used to cover losses for the periods 2014 – 2015	-	-
Penalties for late payments until 2013	-	3,695,851
Other accruals from 2014	23,302	19,489
Total	23,302	10,266,963

Accruals for services provided by the Post Office relate mainly to payables for the collection of trade receivables which is a service provided by Posta Shqiptare Sha (the 'Post Office') to the Company, and to postal services for periods before 2013. The Company has not agreed with the Post Office the amounts payable at December 31, 2017 and 2016.

In 2016, the Company hired an external consultant to reconcile the differences with the Post Office. Based on the report of that consultant which was dated November 30, 2016, the amounts payable to the Post Office at December 31, 2014 of Lek 1,164,840 thousand, respectively Lek 876,137 thousand trade payables and Lek 288,703 in other liabilities, were offset against an amount of Lek 1,177,307 thousand included in trade receivables for collections made by the Post Office until end of 2014, and the resulting difference of Lek 12,467 thousand represents receivables from the Post Office for collections made until December 31, 2014.

18. Other liabilities (continued)

The Company has accounted for the adjustment during 2017, however such amounts have not yet been agreed and confirmed by the Post Office. In addition, the Company is in the process of reconciling its accounting records for amounts payable to the Post Office and for trade receivables which should be offset against such payables. Such reconciliation was not yet completed prior to the approval of these financial statements. The total payables to the Post Office at December 31, 2017, 2016, 2015 and 2014 reported by the Company are as follows:

	As at December 31, 2017	As at December 31, 2016	As at December 31, 2015	As at December 31, 2014
Accruals for services provided by the Post Office	47,411	332,046	319,991	334,907
Payables to the Post Office (note 18)	126,335	769,984	723,070	803,964
Total	173,746	1,102,030	1,043,061	1,138,871

Transmission costs payable as at December 31, 2017 to OST are nil, while in 2016 these liabilities relate to services provided in 2012.

Following the Sole Shareholder decision 3664/ 12 dated March 23, 2018 “On the recognition of overdue invoices between OSHEE Sha, KESH Sha and OST Sha”, the parties have sought to reconcile major part of the overdue liabilities. The total balances of trade payables, other liabilities and provisions for penalties payable as at December 31, 2017 and 2016 to KESH and OST as per reconciliations with those entities, were lower than the accounting records by Lek 785,741 (2016: greater than the accounting record by Lek 5,996,587 thousand) and lower than the accounting records by Lek 2,744,490 (2016: Lek 2,247,874 thousand).

Payables to employees for salaries and other benefits were settled in January 2018.

The TV Tax fee is collected on behalf of the State.

Other payables to KESH represent interest for borrowings from KESH, which were wrongly accrued and were reclassified from borrowings to other liabilities in 2015, based on the Decision of the Shareholder, dated January 29, 2016.

19. Provisions

Provisions are composed as follows:

	December 31, 2016	Used	Net Charge	December 31, 2017
KESH Penalties	2,181,322	(2,181,322)	-	-
OST Penalties	2,353,776	(2,353,776)	-	-
Other Penalties	218,367	(34,317)	225	184,276
Litigations	870,327	-	1,930,054	2,800,381
Total provisions	5,623,792	(4,569,415)	1,930,279	2,984,656

As at December 31, 2017, the Company was involved as defendant legal cases with customers, former employees and local government units. Provisions for litigations have been calculated using the best estimate of the outflows required to settle the obligation. Provisions for penalties with KESH and OST were offset toward trade payables as a result of the Sole Shareholder decision no. 3664/12, dated March 23, 2018 (see note 18).

20. Trade and other payables

	December 31, 2017	December 31, 2016
Payables to KESH for purchased energy	46,659,995	32,320,767
Payables to OST for transmission costs	9,130,232	8,062,972
Payables for imported energy	8,339,225	866,497
Payables to local HECs for purchased energy	891,966	890,748
Payable to Posta Shqiptare Sha for collection services	126,335	769,984
Suppliers for investments and purchases of assets	3,851,803	1,587,223
Other trade payables	3,198,080	1,319,122
Total	72,197,636	45,817,313

Payables to KESH and OST at December 31, 2017 relate to purchases of energy and transmission costs during the periods from 2013 to 2017.

Based on the Sole Shareholder decision no. 3664/12, dated March 23, 2018 (see note 18) the Company recognized total liabilities toward KESH Sha in the amount of Lek 19,598,892 thousand and Lek 582,637 thousand toward OST Sha. As a result of the dry weather conditions during the second half of 2017, the Company has purchased energy from import leading to an increase in payables for imported energy in the amount of Lek 7,473 thousand.

21. Tax and social security liabilities

	December 31, 2017	December 31, 2016
Other taxes payable	2,480,940	7,859,330
VAT payable, net	842	150,669
Health and social insurance	111,361	110,228
Personal income tax	74,188	71,788
Withholding tax	4,444	2,785
Other social organizations – unions	1,101	1,022
Total	2,672,876	8,195,822

Other taxes payable include tax payables and related penalties reported by tax authorities in previous years. Following the law no. 33/2017 “On the settlement and amnesty of tax liabilities, custom duties, and the procedure on the removal of transport vehicles after the cancellation / cancellation of tax liabilities” the Company has recently sought to reconcile such amounts with those recorded in the tax system. From the control report no. 1473/2, dated March 27, 2018 the Company resulted in fiscal amnesty for the amount of Lek 5,403,204 thousand as follows:

	Liability	Penalties	Total
Tax on profit	2,068,999	2,207,467	4,276,466
Value added tax	13,585	1,112,782	1,126,367
Social Contributions	-	366	366
Withholding tax	-	5	5
Total	2,082,584	3,320,620	5,403,204

22. Revenues

	Year ended December 31, 2017	Year ended December 31, 2016
Households	25,479,245	24,856,692
Private entities	20,389,060	19,777,246
State owned and governmental entities	7,025,421	6,633,407
Total Sale of Electricity (billed)	52,893,726	51,267,345
Connection fees	649,137	540,865
Total	53,542,863	51,808,210

(All amounts are expressed in '000 LEK, unless otherwise stated)

23. Other income

	Year ended December 31, 2017	Year ended December 31, 2016
Late payment penalties	1,214,206	1,677,202
Services	44,380	21,596
(Impairment)/ reversal of impairment charge for receivables (Note 7.2.ii)	(29,198)	8,331,410
Other	5,630,887	185,436
Total	6,860,275	10,215,644

Late payment penalties include the following:

- Penalties offset against payables to KESH (see note 5.a) amounting Lek 109,890 thousand (2016: Lek 115 thousand);
- Penalties collected from customers amounting to Lek 1,214,206 thousand (2016: Lek 1,677,202 thousand).

24. Purchased energy

	Year ended December 31, 2017	Year ended December 31, 2016
KESH - regulated tariffs	4,170,670	9,760,582
Local HECs – regulated tariffs	7,993,068	3,641,967
Electricity purchased from KESH to cover losses	297,080	786,770
Electricity imported to cover losses - at import prices	22,506,040	7,548,605
Total	34,966,858	21,737,924
<i>MWH purchased</i>	<i>6,498,514</i>	<i>6,399,716</i>

During 2017, the Company purchased energy 4,781,998 MWh includes energy purchased from KESH of 2,876,324 MWh and from other suppliers (HEC and import) of 1,905,674 MWh. The energy purchased to cover losses amounting to 1,716,517 MWh includes energy purchased from KESH of 21,174 MWh and energy imported from other suppliers of 1,695,343 MWh. The regulated tariff payable to KESH for the energy supplied during 2017 was Lek 1,450 per MWh. (2016: was Lek 3,000 per MWh and since August 2016 the tariff decreased to Lek 1,450).

(All amounts are expressed in '000 LEK, unless otherwise stated)

25. Transmission fee

The transmission fee is payable to Operatori i Sistemit te Transmetimit Sha ("OST") for transmission of energy and allocation of capacity. A fixed transmission fee is applied per each Kwh transmitted. The transmission fees paid during 2017 to OST amounted to Lek 4,639,553 thousand (2016: Lek 3,927,551 thousand). The regulated tariff payable to OST for the transmission of energy is Lek 650 per Mwh (2016: Lek 650 per Mwh).

26. Personnel expenses

	Year ended December 31, 2017		Year ended December 31, 2016	
	Total	Key personnel compensation	Total	Key personnel compensation
Salaries	4,224,475	7,943	3,317,341	6,722
Social and health security contributions	816,391	317	655,780	240
Bonuses	397,952	300	336,807	150
Other benefits	745,297	118	691,865	125
Total	6,184,115	8,678	5,001,793	7,237

Other benefits relate mainly to compensation for food and certain other costs. The number of employees at December 31, 2017 was 6,292 (2016: 6,118).

27. Other expenses, net

	2017	2016
Net provision charges (note 19)	2,480,918	237,748
Fines and penalties	1,528,681	1,783,391
Commissioning costs for energy meters	660,547	661,164
Receivables and postage services from Albanian Post office	511,857	501,093
Rent expenses	469,302	412,117
Services from third party	468,371	591,434
Other receivable and postage services	165,571	118,554
Inventory write-downs (note 11)	141,437	110,951
Printing costs	60,364	122,678
Telephone and internet expenses	35,619	31,226
Decrease in the value of property, plant and equipment (Note 8)	-	833,524
Decrease in the value of intangible assets (Note 9)	-	9,197
Other	1,208,770	935,738
Total	7,731,437	6,348,815

Fines and penalties resulted from a reconciliation with the Tax Authorities for penalties related to tax liabilities not recognized in the previous years. Provision charges during the year are related to provision for legal cases in the amount of Lek 1,930,054 thousand (see note 19) and Lek 575,000 thousand as a result of additional VAT as a result of technical losses.

28. Net finance costs

	2017	2016
Interest income	22,058	78,883
Foreign exchange gain, net	499,620	-
	521,678	78,883
Finance costs		
Interest expense on borrowings	(268,941)	(399,242)
Other financial expenses (guarantee)	(269,252)	(347,556)
Foreign exchange loss, net	-	(171,975)
	(538,193)	(918,773)
Net finance cost	(16,515)	(839,890)

Payments for bank guarantees relate to the agreement with a bank to guarantee borrowings with CEZ AS, also guaranteed by Government of Albania.

(All amounts are expressed in '000 LEK, unless otherwise stated)

29. Income tax expense

The Company determines taxation at the end of the year in accordance with the Albanian tax legislation. In 2017, the corporate tax rate on profit was equal to 15% (2016: 15%) of taxable income.

	2017	2016
Current tax	(1,575,808)	(2,636,434)
Deferred income tax	-	-
Total	(1,575,808)	(2,636,434)

The following is a reconciliation of income taxes calculated at the applicable tax rate to income tax expense:

	Tax rate	2017	Tax rate	2016
Profit before income tax		3,405,966		21,356,373
Tax calculated at the tax rate of 15%	15%	510,895	15%	3,203,456
Reversal of allowance for impairment and provisions	(0%)	-	(7%)	(1,413,551)
Tax effect of non-deductible expenses	31%	1,064,913	4%	846,529
Income tax expense	46%	1,575,808	12%	2,636,434

In determining the amount of current and deferred tax the Company takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. The Company believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretations of tax law and prior experience. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Company to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination is made.

Movements in the income tax payables are presented as follows:

	2017	2016
Opening Balance	(5,442,125)	(4,110,983)
Payments during the year	1,007,000	1,300,000
Current income tax	(1,575,808)	(2,636,434)
Other – Compensation (see note 21)	400,000	5,292
Income tax payable	(5,610,933)	(5,442,125)

Deferred tax assets are comprised of the following:

	2017	2016
Allowances for other receivables	8,355,205	8,329,610
Other provisions	735,285	1,131,156
Accounting depreciation in excess of tax depreciation	679,316	665,340
Total deferred tax, net	9,769,806	10,126,106
Unrecorded deferred tax asset	(9,769,806)	(10,126,106)
Deferred tax	-	-

Deferred tax assets are not recognized because it is not certain that they can be used.

30. Related Parties

As at 2015 the Company was controlled by the Ministry of Economic Development, Tourism, Trade and Entrepreneurship ('MDETTE'), of the Republic of Albania, which owned 100% of the Company's shares. On 6 June 2016, the shares of the Company were fully transferred under the ownership the Ministry of Energy and Industry ("MEI"), of the Republic of Albania.

Statement of financial position

	Note	2017	2016
Trade receivables			
State owned and governmental units and institutions	7.2.ii	1,330,787	1,107,065
		1,330,787	1,107,065
Trade and other payables			
KESH Sha trade payable energy purchase	20	46,659,995	32,320,767
KESH Sha other payable accruals energy purchase	18	541,630	10,785,291
KESH Assets		17,400	17,400
KESH SLM Durres		16,864	16,864
KESH penalties provisions	19	-	2,181,322
		47,235,889	45,321,644
OST Sha trade payables	18	9,130,922	8,062,972
OST Sha other payables accruals	18	-	498,179
OST Sha penalties provisions	19	-	2,353,776
		9,130,922	10,914,927
Posta Shqiptare Sha trade payables	20	126,335	769,984
Posta Shqiptare Sha other payables accruals	18	47,411	332,046
		173,746	1,102,030
UKT Sha trade payables		21,250	20,168
UKT Sha other payables accruals		364	145
		21,614	20,313
Other taxes payables	21	2,480,940	7,859,330
VAT Payable, net	21	842	150,669
Health and Social Insurance	21	111,361	110,228
Personal Income Tax	21	74,188	71,788
Withholding tax	21	4,444	2,785
TV tax fee payable	20	106,811	103,978
Concession fee payable	20	245,382	23,168
Current income tax payable	29	5,610,941	5,442,125
		65,197,080	71,122,985
Borrowings			
KESH Sha	17	10,597,693	11,288,464
Ministry of Finance	17	5,410,663	992,083
		16,008,356	12,280,547
Statement of profit and loss			
Revenue			
Budgetary and non-budgetary institutions	22	7,025,421	6,633,407
Other income penalties KESH	23	109,900	115
		7,135,321	6,633,522
Expense			
Purchased energy from KESH	24	4,467,750	10,547,352
Transmission fee	25	3,927,551	3,927,551
Operating expenses with Posta	27	511,857	501,093
Interest expenses KESH	28	117,172	117,172
		9,024,330	15,093,168

30. Related Parties (continued)

As at December 31, 2017, the Company received financing from KESH and OST in the form of trade payables, loans and other debts in the amount Lek 66,930,240 thousand (2016: Lek 62,955,673 thousand). Expenses for the Key Personnel Compensation are shown in note 26.

31. Commitment and Contingencies

Operating lease commitments - Company as lessee

The Company has entered into commercial leases on certain premises. These leases have an average life of between 1 and 3 years with renewal option included in the contracts. Lease commitments under non-cancellable operating leases as at December 31, 2017 and December 31, 2016 are as follows:

	<u>2017</u>	<u>2016</u>
Less than one year	220,156	184,197
Between one to 5 years	74,001	78,847
	<u>294,156</u>	<u>263,044</u>

Contingent liabilities

During its activity, the Company is involved in certain legal cases. The Company estimates the probability of gaining or losing the legal cases and in cases when it is more probable that cash outflows will be necessary to settle the liabilities, it recognises the respective provisions as expenses (see note 19).

32. Events after the reporting date

The creation of three different entities with the purpose of separation of activities:

Following the requirements of the law no.43/2015 "On the Energy Sector", the management of the Company, decided in February 2018, the creation of three controlled joint stock companies in order to split the distribution activity, the universal service of supply and sales activity in the free market.

The new joint stock companies are as follows:

- Free Market Supplier (FTL Sha) – the main activity of the Company is the purchase, management and operation of the energy in the free market.
- Supply of Universal Service (FSHU Sha) – the main activity of the Company is related to the energy supply to the regulated tariff end customers and the maintenance of a high quality of commercial service.
- Distribution System Operator (OSSH Sha) – the main activity of the Company is the distribution of the energy to end customers, contract with the customers, installation and measurement of energy.

The administrator of OSHEE Sha will exercise the function of the representative of the Shareholder. The companies will be administered with a tier one structure of administration.

OSHEE Sha, in the capacity of the sole Shareholder of the three companies performed a capital injection of Lek 3,500,000 per each company, with a nominal value of Lek 1,000 per share, each.

The Company will undertake all legal procedures for the allocation of fixed assets and financial accounts in accordance with the object of the activity of the controlled companies by the end of 2018.

Contract agreement with KESH for the settlement of overdue liabilities:

For the purpose of the unconditional and final full discharge of all the obligation that OSHEE Sha has towards KESH Sha as at December 31, 2018 for the total amount of Lek 51,438460 thousand, the two companies signed an agreement on the settlement of these obligations as at April 6, 2018.

According to the agreement, the obligation will be paid into annual instalments beginning from October 2018 to 2022 and with semi-annual instalments starting from 2023 to 2046.

This agreement not only will improve the liquidity management of the Company but will as well serve as a tool to stop the calculation of penalties charged from KESH Sha, with regard to late payment obligations.

There are no other events after the reporting date that may require adjustment or disclosure in the financial statements.

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