

Operatori i Shpërndarjes së Energjisë
Elektrike Sh.a - OSHEE

Consolidated Financial Statements
For the year ended December 31, 2018

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Independent Auditor's Report

To the Sole Shareholder and the Supervisory Council of Operatori i Shpërndarjes së Energjisë Elektrike Sha,

Disclaimer of opinion

We have audited the consolidated financial statements of Operatori i Shpërndarjes së Energjisë Elektrike Sha and its subsidiaries (referred to as "the Group" or "OSHEE"), which comprise the consolidated statement of financial position as at December 31, 2018, consolidated statement of profit and loss and other comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

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 consolidated financial statements in accordance with International Financial Reporting Standards (IFRS). Consequently, we do not express an opinion on these consolidated financial statements.

Basis for Disclaimer of Opinion

- 1 As described in note 20 to the consolidated financial statements, the Group reported as billed 76.10% (2017: 73.59%) of the total energy consumed in the distribution network. The level of losses of the energy in the network of 23.90%, consists of technical and non-technical losses 16.63% and 7.27% respectively (2017: 26.41% technical and non-technical losses of 19.20% and 7.21% respectively). The level of non-technical losses indicates inadequacy of the mechanisms established for measuring and billing the energy consumed. The Group has established certain controls over recording and billing of the measured energy. However these controls cannot provide assurance as to whether the consumed energy is properly measured and billed. They only relate to the billing of the read energy. Due to the lack of controls for identifying and preventing technical losses at the level of 7.27% (2017 - 7.21%), we were not able to obtain sufficient and appropriate evidence regarding the completeness, accuracy and occurrence of losses, existence and cut off of the technical losses and revenues for the year ended December 31, 2018 and December 31, 2017. Consequently, we are not able to determine whether adjustments are necessary to revenue for the year ended December 31, 2018 and December 31, 2017.

- 2 As described in note 6 to the consolidated financial statements, property, plant and equipment amount to ALL 42,538,730 thousand as at December 31, 2018 (2017: ALL 38,512,254 thousand). The Group has not performed a physical stocktaking and assessment of the recoverable amount of these assets. Furthermore, the Group does not possess full supporting documentation on old purchases of the categories of land, buildings and equipment included in property, plant and equipment. Also, the documentation of ownership titles for the land and buildings transferred by KESH at the time of spin off has not yet been finalized. The Group has obtained the documents of these title deeds only for a small number of properties. From the alternative procedures performed, we could not obtain sufficient and appropriate evidence to assure the valuation, existence, completeness and rights and obligations of property, plant and equipment. Consequently, we are not able to determine whether any adjustment is required for property, plant and equipment as at 31 December 2019 and 31 December 2018.
- 3 As presented in notes 4.2 and 4.3 of the consolidated financial statements, the Group applies the revaluation model for tangible and intangible assets. We could not obtain appropriate and sufficient evidence on the references used to the assessment based on the comparability method carried out by the Group, in determining the fair and recoverable amount of tangible and intangible assets. Consequently, we are not able to determine whether any adjustment is necessary for the value of tangible and intangible assets as at December 31, 2018 and December 31, 2017. Furthermore, the Group did not disclose the valuation technique applied in the consolidated financial statements and the significant unobservable inputs for the comparison method used in determining the fair value of property, plant and equipment categorized in Level 3 of the fair value hierarchy, as required by IFRS 13 “Fair Value Measurement”. These requirements were not considered by the Group for the preparation of the consolidated financial statements as at and for the year ended 31 December 2018 and 2017. Consequently, we are not able to provide information about the notes that were not included in the consolidated financial statements.
- 4 As presented in note 11 to the consolidated financial statements, trade receivables amount to ALL 20,323,829 thousand as at December 31, 2018 (2017: Lek 20,932,065 thousand). The billing system does not automatically interface with the accounting system and trade receivables generated by the billing system are lower than the accounting records by ALL 1,008,187 thousand as at December 31, 2018 (2017: ALL 1,169,392 thousand). As of the reporting date of these financial statements, management had not reconciled these differences. In absence of alternative procedures, we are not able to determine whether any adjustment would have been necessary to trade receivables with regard to their accuracy, existence, completeness, valuation and allocation and presentation and disclosure. As a result, we are not able to determine whether any adjustments might have been found necessary in respect of recorded or unrecorded accounts receivable, and related adjustments in the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows.
- 5 As presented in note 12 and 19 to the consolidated financial statements, as at December 31, 2018 the Group has recognized prepaid expenses and income from penalties from KESH Sha as a result of the non-fulfillment of the contract terms in the amount of Lek 220,850 thousand. As at the date of this report, we were not provided with sufficient and appropriate evidence with regard to the recoverability of the amount and to the recognition of the related income from penalty stated in the profit for the year ended December 31, 2018.

- 6 We were not contracted as Group auditors until December 31, 2018 and therefore did not observe physical inventory count at the beginning and end of the year. We were not able to obtain assurance through alternative procedures regarding quantities and values of inventory at December 31, 2018 and December 31, 2017. Consequently, we are not able to determine whether any adjustments are necessary to inventory at December 31, 2018 and December 31, 2017.
- 7 As required by IAS 12 “Income Taxes”, if temporary differences arise from the carrying amount of an asset or liability in the statement of financial position and its tax base, the Group should account for deferred tax assets and liabilities. Due to the nature and limitations described above, we were not able to determine whether any adjustments might have been necessary in respect of deferred tax assets and liabilities 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, 2018 and December 31, 2017.
- 8 As described in note 16 to the consolidated financial statements, the Group has not reconciled and agreed the amounts payable to Posta Shqiptare Sha (“the Post Office”) as at December 31, 2018 and 2017. 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 not able to satisfy ourselves by alternative procedures concerning the completeness and measurement of these balances and therefore we were not able to determine whether any adjustments might have been 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.
- 9 As disclosed in Note 3.1 to consolidated financial statements the Group reports a negative equity of ALL 31,499,835 thousand (2018: Lek 33,212,473 thousand) and accumulated losses of ALL 65,488,551 thousand as at December 31, 2018 (ALL 2017: 67,461,863 thousand) and, as of that date, the Group’s current liabilities exceeded its current assets by ALL 64,279,375 thousand (2017: ALL 61,990,970 thousand). Loan contracts no. 14394 and 14394/1 dated 16.10.2017 with the Ministry of Finance provide that in case of default, the Ministry of Finance and Economy reserve the right to confiscate the income from the activity of OSHEE sh.a. Management acknowledges that uncertainty rests on the Group’s ability to meet its liquidity needs and to repay its debts, as well as the continued support of related parties and the decisions and actions of state authorities. 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 3.1, indicate the existence of a material uncertainty that may cast significant doubt about the Group’s ability to continue as a going concern.

- 10 As described in Notes 4.9 and 5.2.1 to the consolidated financial statements, the Group has developed an impairment methodology for the years ended December 31, 2018 and December 31, 2017. Such methodology is based on historical trends of the probability of default, the timing of recoveries and the amount of loss incurred. This impairment methodology is not in accordance with International Financial Reporting Standard 9, 'Financial Instruments: Recognition and Measurement' which requires that future information to be considered for assessing and recognizing the expected credit losses by applying the 'expected credit loss model (ECL)'. Furthermore, we were not provided with sufficient and appropriate audit evidence with regard to the reconciling items for calculating the probability of default, the time of recovery and the amount of loss incurred. As a result we were not able to determine the financial effect of the adjustments to the trade receivables, the statements of profit or loss, other comprehensive income and the related disclosures as at 31 dhjetor 2018.
- 11 As described in note 18 to the consolidated financial statements, the Group 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 Recognition of Liabilities by OSHEE Sha to KESH Sha and OST Sha". The Group has not agreed to the liabilities as at 31 December 2018 and 31 December 2017 to KESH and the Transmission System Operator Sh.a ("OST"). From the performed procedures, we have identified that the liabilities to KESH and OST in the consolidated financial statements are respectively ALL 177,796 thousand (2017: ALL 5,187,755 thousand higher) and ALL 2,517,478 thousand (2017: ALL 2,744 thousand) lower than required by KESH and OST. Had the Group recognized the liabilities required by KESH and the OST, the profit for the period would have decreased by ALL 2,695,274 thousand, the liabilities and accumulated losses would have increased by the same amount.
- 12 As disclosed in note 15 to the consolidated financial statements, the Group long and short term borrowings at amortized cost amount to ALL 19,762,384 thousand (31 December 2018: 18,745,485 thousand). The Group did not recognize the fair value on day one of the borrowing as required by IFRS 9 Financial Instruments. Furthermore, these consolidated financial statements do not include the interest rate risk sensitivity analysis required by IFRS 7 Financial Instruments: Disclosures. We are not able to determine whether any adjustments are necessary for short-term and long-term loans and related adjustments in the consolidated statement of profit or loss and other comprehensive income as of December 31, 2018 and December 31, 2017.
- 13 Due to the nature and limitations resulting from the matters described above and as a result of the lack of internal controls on financial reporting, we were not able to obtain sufficient and appropriate audit evidence to conclude on the information produced from the Group.

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

Restriction on Use and Distribution

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

Other Matter

The consolidated financial statements of OSHEE as at and for the year ended December 31, 2017 were audited by another auditor who did not express an opinion on those statements on August 10, 2018.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group'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 Group or to cease operations, or has no realistic alternative but to do so.

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the Consolidated Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Consolidated Financial Statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- identify and evaluate the risks of material misstatement of the consolidated financial statements due to errors or misstatements, design and implement audit procedures that respond to those risks, and obtain complete and sufficient audit evidence to establish the basis for our opinion. The risk of non-disclosure of a material error resulting from a fraud is higher than that resulting from a mistake, as fraud may involve covert settlement, forgery, intentional omission, misrepresentation, or breach of internal controls. We obtain an understanding of internal control in relation to the audit, to plan appropriate procedures depending on the circumstances, rather than to express an opinion on the effectiveness of the Group's internal controls.

- evaluate the conformity of accounting policies used and the reasonableness of accounting estimates and disclosures made by management.
- conclude on the proper use of the accounting principle of continuity by management and, based on the evidence obtained during the audit, conclude that there is a material uncertainty associated with events or conditions that may give rise to doubts about the entity's ability to continue. If we conclude that there is material uncertainty, we should draw attention to our audit report for the relevant disclosures in the consolidated financial statements or, if this disclosure is insufficient, modify our opinion. Our conclusions are based on the audit evidence obtained to date of our auditor's report. However, future events or conditions may cause the Group to stop going forward.
- evaluate the overall presentation, structure and content of the consolidated financial statements, including disclosures, and whether the consolidated financial statements present the underlying transactions and events in such a way as to achieve a fair presentation.

We communicate with those charged with governance, among other matters, about the intended purpose and timing of the audit, important findings during the audit, including any significant deficiencies in internal control that we identify during the audit process.

Grant Thornton sh.p.k.

Tirana, Albania

20 December 2019

Kledian Kodra, PCA
Kodra



Operatori i Shpërndarjes së Energjisë Elektrike Sh.a - OSHEE
 Consolidated Statement of Financial Position as at December 31, 2018

(all amounts are expressed in thousand ALL, unless otherwise stated)

Consolidated Statement of Financial Position

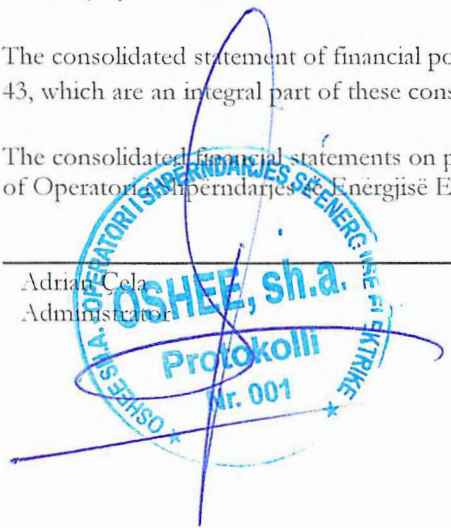
	Note	December 31, 2018	December 31, 2017
Assets			
Property, plant and equipment	6	42,538,730	38,512,254
Intangible assets	7	788,410	805,182
Financial assets	8	1,396	1,460
Non-current assets		43,328,536	39,318,896
Inventories	9	6,167,517	6,043,898
Other assets	10	6,538,220	6,229,972
Trade receivables, net	11	20,323,829	20,932,065
Restricted cash	12	2,025,444	2,424,915
Cash and cash equivalents	13	185,034	1,710,862
Current assets		35,240,044	37,341,712
Total assets		78,568,580	76,660,608
Equity			
Share capital	14	29,936,709	30,083,349
Revaluation reserve	14	1,135,996	1,250,030
Reserves	14	2,916,011	2,916,011
Accumulated losses		(65,488,551)	(67,461,863)
Total equity		(31,499,835)	(33,212,473)
Liabilities			
Borrowings	15	10,548,996	10,540,409
Non-current liabilities		10,548,996	10,540,409
Other liabilities	16	6,087,333	7,661,495
Provisions	17	5,838,384	2,984,656
Trade and other payables	18	70,636,922	72,197,636
Tax and social security liabilities	19	2,672,248	2,672,876
Corporate income tax payable	27	5,071,144	5,610,933
Borrowings	15	9,213,388	8,205,076
Current liabilities		99,519,419	99,332,672
Total liabilities		110,068,415	109,873,081
Total equity and liabilities		78,568,580	76,660,608

The consolidated statement of financial position should be read in conjunction with the notes on pages 5 to 43, which are an integral part of these consolidated financial statements.

The consolidated financial statements on pages 1 to 43 have been approved by the Supervisory Council of Operatori i Shpërndarjes së Energjisë Elektrike Sh.a - OSHEE and signed by:

Adrian Cella
 Administrator

Ceno Kosi
 Director of Economic Department



Consolidated Statement of Profit or Loss and Other Comprehensive Income

	Note	Year ended December 31, 2018	Year ended December 31, 2017
Revenues	20	54,625,237	53,542,863
Other income	21	1,979,768	6,860,275
		56,605,005	60,403,138
Purchased energy	22	(29,260,771)	(34,966,858)
Transmission fee	23	(4,932,721)	(4,639,553)
Materials and consumables used		(792,225)	(929,785)
Personnel expenses	24	(5,995,874)	(6,184,115)
Depreciation and amortization	6,7	(3,086,799)	(2,528,909)
Other expenses, net	25	(9,307,097)	(7,731,437)
		3,229,518	3,422,481
Finance income	26	420,746	521,678
Finance costs	26	(375,563)	(538,193)
Net finance costs		45,183	(16,515)
Profit before tax		3,274,701	3,405,966
Income tax expense	27	(1,337,449)	(1,575,808)
Profit for the year		1,937,252	1,830,159
Other comprehensive income			
Revaluation of property, plant and equipment		(114,019)	(263,433)
Other comprehensive income		(114,019)	(263,433)
Total comprehensive income		1,823,233	1,566,726

The consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the notes on pages 5 to 43, which are an integral part of these consolidated financial statements.

Operatori i Shpërndarjes së Energjisë Elektrike Sh.a - OSHEE
Consolidated Statement of Cash Flows for the year ended December 31, 2018

(all amounts are expressed in thousand ALL, unless otherwise stated)

Consolidated Statement of Cash Flows

	Note	Year ended December 31, 2018	Year ended December 31, 2017
Cash flows from operating activities			
Profit before tax		3,274,701	3,405,967
<i>Adjustments for:</i>			
Impairment of property, plant and equipment and intangible assets		-	(109,899)
Correction of prior year errors	6,7	3,086,799	2,528,909
Late payment fee terminated with compensation	25	(10,612)	(22,058)
Interest expense and payments for bank guarantees	25	375,563	538,193
Charge of inventory write-downs	24	(8,487)	141,437
Impairment for trade receivables	24	1,900,317	29,197
Provision expenses	24	2,853,953	1,930,279
Effects of exchange rate changes on the balance of borrowings held in foreign currencies		(698,301)	(702,152)
<i>Change in:</i>			
- Trade receivables		(1,292,081)	(445,650)
- Inventories		(115,131)	(1,716,527)
- Other assets		(308,248)	(5,881,253)
- Restricted cash		402,082	3,024,984
- Trade and other payables		(1,560,714)	26,490,222
- Tax and social security liabilities		(986)	(5,522,946)
- Provisions		2,853,727	(4,569,415)
- Other liabilities		(4,191,156)	(6,653,759)
		6,561,426	12,465,529
Income taxes paid		(2,227,031)	(1,007,000)
Interest paid		(126,741)	(48,853)
Interest paid on guarantees		(124,238)	(269,252)
Interest received		10,613	22,058
Net cash from operating activities		4,094,029	11,162,482
Cash flows from investing activities			
Additions to property plant and equipment	6	(10,393,196)	(20,080,127)
Disposal to property plant and equipment	6	3,366,100	8,338,156
Additions in intangible assets	7	(183,442)	(483,284)
Financial assets		65	146
Net cash used in investing activities		(7,210,473)	(12,225,109)
Cash flows from financing activities			
Disbursement of loans		4,212,913	4,418,580
Repayment of borrowings		(3,320,598)	(3,637,240)
Net cash from/ (used in) financing activities		892,315	781,340
Effects of exchange rate changes on the balance borrowings held in foreign currencies		698,301	702,152
Net increase/ (decrease) in cash and cash equivalents		(2,224,129)	(281,286)
Cash and cash equivalents at 1 January		1,710,862	1,289,996
Cash and cash equivalents at 31 December	11	185,034	1,710,862

The consolidated statement of cash flows should be read in conjunction with the notes on pages 5 to 43, which are an integral part of these consolidated financial statements.

(all amounts are expressed in thousand ALL, unless otherwise stated)

Consolidated statement of changes in equity

	Share capital	Revaluation reserve	Reserves	Accumulated losses	Total
Balance at January 1, 2017	30,083,349	1,513,463	2,916,011	(70,050,329)	(35,537,506)
Total comprehensive income					
Profit for the year	-	-	-	1,830,159	1,830,159
Correction of prior errors	-	-	-	494,874	494,874
	-	(263,433)	-	263,433	-
Revaluation of property, plant and equipment					
Total comprehensive income shirëse	-	(263,433)	-	2,588,466	2,325,033
Balance at 31 december 2017	30,083,349	1,250,030	2,916,011	(67,461,863)	(33,212,473)
Total comprehensive income					
Profit for the year	-	-	-	1,937,252	1,937,252
Correction of prior errors	-	-	-	-	-
Revaluation of property, plant and equipment	-	(114,034)	-	114,019	(15)
Total comprehensive income	-	(114,034)	-	2,051,271	1,937,237
Capital Reduction	(146,640)	-	-	-	(146,640)
Correction of prior errors (note 18)	-	-	-	(77,959)	(77,960)
Balance at 31 december 2018	29,936,709	1,135,996	2,916,011	(65,488,551)	(31,499,835)

The consolidated statement of changes in equity should be read in conjunction with the notes on pages 5 to 43, which are an integral part of these consolidated financial statements.

Notes to the consolidated financial statements

1. General Information

Operatori i Shpërndarjes së Energjisë Elektrike Sh.a (“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 decision no. 4, dated January 21, 2013 “On the Revocation of the Electricity Distribution License of CEZ Distribution Sh.a” The Energy Regulatory Entity (“ERE”) revoked the license of CEZ Distribution Sh.a.

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.

1 General Information (continued)

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

- Z. Ilir Bejtja - Deputy Minister of the Ministry of Energy and Industry, Chairman
- Znj. Matilda Kërçaku - Member
- Z. Agim Bregasi - Member
- Z. Xhoana Agolli - Member
- Z. Arjana Dyrmishi - Member
- Z. Enea Karakaçi – Member

On December 1, 2014, the Supervisory Council appointed Mr. Adrian Cela as Administrator of the Company until 05.06.2017. He was reappointed on 28.06.2017 according to Decision no. 28. During the period of 05.06.2017 until 28.06.2017 Mr. Haki Mustafa was the Administrator of the Company.

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

The main units of OSHEE in 2018, include the Commercial Division, Distribution Division and General Administration Division. OSHEE operates through eleven regional directorates and four high voltage directorates.

Creation of three new companies for sharing activity

Pursuant to Law No.43 / 2015 "On the Power Sector", the Management of the Company decided in February 2018 to establish three controlled joint stock companies with the aim of separating distribution activity, universal supply service and sales activity in the free electricity market. Created and registered companies are:

Company - Furnizuesi i Tregut të Lirë (FTL Sha) with activity scope of: purchasing and managing energy and operating in the free market, etc;

Company - Furnizimi i Shërbimit Universal (FSHU Sha) with activity scope of: power supply to regulated customers as well as commercial quality assurance of service, etc;

Company – Operatori i Sistemit të Shpërndarjes (OSSH Sha) with activity scope of: distribution of electricity, construction, operation and maintenance of electricity distribution network, customer connection, installation and service of electricity metering, etc.

The consolidated financial statements include the Company and its Subsidiaries (together referred to as the "Group"). The parent company prepares consolidated financial statements in accordance with IFRS for the Group Operatori i Shpërndarjes së Energjisë Elektrike Sh.a., which includes OSHEE, Furnizuesi i Tregut të Lirë (FTL Sha), Furnizimi i Shërbimit Universal (FSHU Sha) dhe Operatori i Sistemit të Shpërndarjes (OSSH Sha).

The Administrator of OSHEE Sh.a, will exercise the functions of a shareholder representative in the Subsidiaries which will have a level of management. OSHEE Sh.a as the sole shareholder of the three companies, financed a share capital of ALL 3,500,000 for each company, with a par value of 1,000 ALL. The Group is in completing the legal procedures for the allocation of fixed assets and financial accounts in accordance with the scope of the activity of the subsidiaries

The Group is located in Albania. Based on the decision of the General Assembly no. 5670/1, dated 4 August 2017, the address of its registered office is 'Gjergj Fishta Boulevard', Palace No. 88, H 1, No. 7, Tirana, Albania.

2. Basis of preparation

2.1 Statement of compliance

These financial statements have been prepared in accordance with financial reporting requirements and Albanian legislation. Accounting framework applied is based on accounting policies listed on note 4, which are based on the reporting requirements in accordance with International Financial Reporting Standards (IFRS). Below are presented the main accounting policies applied on the preparation of these financial statements. The subsidiaries, in which "The Group" controls directly or indirectly more than half of the voting rights, or owns the right to exercise control on their activities, are fully consolidated.

The Group has prepared the financial statements based on going concern basis which assume that the Group will meet its own financial requirements, to refund or to be able to pay its obligations in time and to continue its activity in the foreseeable future (see Note 3.1 on the judgements used in applying the going concern principle).

Details about accounting policies of the Group are included in note 4.

2.2 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 4.2 and 4.3).

2.3 Basis for consolidation

The Group's financial statements consolidate those of the parent and its subsidiaries since December 31, 2018. The Subsidiaries apply a reporting date as of December 31, 2018.

All transactions and balances between Group companies have been eliminated in consolidation, including unrealized gains and losses on transactions between Group companies. In cases where unrealized losses in in-group asset sales have been consolidated, the asset has also been tested for impairment from the group's perspective. The amounts reported in the financial statements of the Subsidiaries are adjusted where necessary to ensure compliance with the accounting policies adopted by the Group.

The gain or loss and other comprehensive income of the Subsidiaries acquired or sold during the year are recognized from the effective date of acquisition, or up to the effective date of sale, as the case may be.

The Group attributes the total comprehensive income or the loss of subsidiaries between the owners of the Parent and non-controlling interests based on their respective ownership interests.

2. Basis of preparation (Continued)

2.4 Business combinations

The Group applies the acquisition method in accounting for business combinations. Payments transferred by the Group to acquire control of a Subsidiary are calculated as the amount of fair value at the date of the effective acquisition of the transferred assets, liabilities and equity interests issued by the Group, and the fair value of each conditioned asset or liability regulated by agreement. Acquisition costs are recognized in the income statement as incurred. Acquired assets and liabilities are generally measured at fair value on the effective date of acquisition.

2.5 Functional and presentation currency

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

3. Use of estimates and judgments

The preparation of financial statements according to IFRS requires management to make estimates, judgments and assumptions that affect the application of policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and assumptions are reviewed on an ongoing basis.

Management's principal estimates relate to the evaluation of the useful lives of Property Plant and Equipment, the Impairment of Inventory and the Impairment of Financial Assets on an ongoing basis. Management assesses the useful lives of property, plant and equipment based on the technical experience of experts in the field, who assess the future period during which the Group expects economic benefits from those assets. Assessment of the useful lives of assets is performed on an ongoing basis, taking into account also the technical conditions of the assets and changes affecting their production capacities and levels. Management replaces damaged and outdated assets that would not meet the technical requirements for continuing operations.

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, 2018, is included in the following notes:

- Note 4.9: impairment of receivables;
- Note 4.8: revaluation to fair value of property, plant and equipment;
- Note 26: income tax; and
- Notes 17 and 29: recognition and measurement of provisions and contingencies.

3.1 Management assesment on the continuity of the Group's activities

Important judgments included in applying the going concern principle are presented below: Because of losses from previous periods since its establishment, the Group reports a negative equity of ALL 31,499,835 (2017: ALL 33,212,473) and accumulated losses of ALL 65,488,551 (2017: ALL 67,461,863). As of December 31, 2018 and at that date, the Group's short-term liabilities exceed short-term assets by 64,279,375 (2017: ALL 61,990,970). In order to meet its capital and liquidity needs and to continue operating, the Group has liabilities to related parties totaling ALL 70,275,155 (2017: ALL 66,633,992) (see note 28).

Management is aware of the existence of a material uncertainty that may give rise to significant doubts about the Group's ability to continue operating. The applicability of the continuity principle in the foreseeable future depends on the continued support from the related parties as well as the decisions and actions of state authorities.

Following the transfer of full ownership of the Group to the Albanian Government in October 2014 (see note 1), and given that OSHEE is the sole distributor of electricity throughout the country, as well as an important public service provider, the Albanian Government is committed to support OSHEE financially and through the implementation of the regulation. In response to this situation, management has taken some corrective action and developed the long-term recovery plan during 2015, which continued through 2018, with increased receivables, loss reduction and projected sales.

Regulatory requirements

During 2018, OSHEE continued to have the monopoly of energy distribution. Based on the law number 43/2015 "On the electrical energy sector", article 72, the parent Company should have separated its distribution and selling activities within 31 December 2018, however this process started its implementation during 2019 and aims to conclude the full separation within the year 2019. 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 provisions.

The Company reported net profits for the periods ended December 31, 2018 and 2017 as compared to losses reported for the prior periods.

Moreover, during 2018 continuous efforts have been made to improve the Group's financial indicators with the aim of:

- Reducing of (non-technical) losses through disconnection of illegal connections in the distribution network, metering controls and legal actions against theft of electricity;
- Reducing technical losses through network investments, focusing on the most problematic areas and unmetered consumption. Further investments aim at improving the metering system;
- Increasing receipts through incentives and options for debt restructuring;
- Efficient organization of work and maximum engagement of executives and professional staff;
- Improving the quality of energy distribution through technology investments aimed at improving the technical indicators of distribution;
- Reducing of power outages and fault repair time.

3. Use of estimates and judgments (Continued)

3.1 Management assessment on the continuity of the Group's activities (continued)

Financial results and position of the Group.

Because of the above actions, the Group reported its financial performance as follows:

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Profit for the year	1,937,252	1,830,159
Revenue	54,625,237	53,542,863
	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Collection Rate	98.00%	97.10%
Energy loss ratio	23.90%	26.41%

Support from the Government of Albania

In order to overcome the difficulties in the liquidity position during 2017, OSHEE was supported by the Albanian Government, which approved a short-term loan of ALL 1,000,000 and a long term loan of ALL 1,500,000 thousand (see note 15), based on the Normative Act No. 2, dated August 16, 2017, as well as DCM No. 539 date October 09, 2017. The management of the Group has also required the Albanian Government's support for greater involvement of the Group in the Law on fiscal amnesty implemented during 2017 from which OSHEE obtained an amount of ALL 5,403,204. 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 to improve collections and cash flows, reduce losses and ensure sustainable energy supply in order to achieve sustainability and rebuild the trust in the power system.

Under this plan, within a five-year period, the Group's negative equity would decrease to ALL 43 billion. The government is committed to ensuring the co-operation of all ministries and public institutions in implementing the plan. In fact, the results as of the year ended December 31, 2018 indicate that the Group's negative equity has decreased to ALL 31.5 billion. As a result, the Group is amending its recovery plan taking into account the current outcome and focusing on continuing to improve OSHEE financial performance indicators, further reducing technical and non-technical losses, and increasing the collection rate. Pursuant to Law No. 43/2015 "On the Energy Sector" dated July 1, 2016 OSHEE performs the activity of the supplier.

Through the Ministry of Finance, the Government has provided the OSHEE with low interest rate borrowings. A sub-loan agreement is signed between the Government of Albania and OSHEE in January 2015 and amended on January 19, 2018, for the amount of EUR 69,679 thousand (See note 15) financed by the International Bank for Reconstruction and Development (IBRD).

3. Use of estimates and judgments (continued)

3.1 Management assessment on the continuity of the Group's activities (continued)

Liquidity management

The Group managed to meet the mandatory loan repayment terms for CEZ A.S, as explained in Note 18 by August 2018.

The Group managed to pay its suppliers on payment terms with cash flows from operating activities during 2018.

On April 6, 2018, the Management of the Group signed a repayment contract with KESH for the purpose of full unconditional and final settlement of all liability on December 31, 2016, based on the reconciliation agreed between the two companies. The contract consists of a repayment schedule, which commences on 2018 with maturity until 2046. The Group has paid its 2018 liability.

Other measures

Management and the governing bodies played an active role in 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 Group 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.
- Approving 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.
- Implementing the requirements deriving from law number 43/2015 on activities separation and creation of a competitive open market. The Parent Company has separated its activities that are not linked to the energy distribution during 2018. However, the process of separating these activities because of the newly created companies from OSHEE in contrast to the improvement of the economic-financial and managerial indicators is a process that 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 Group as energy furnisher since July 2016.

Management recognizes the uncertainty about the Group's ability to meet its financing requirements and timely financing or settlement of payments. However, as described above, management has a reasonable expectation that the Group has sufficient resources and government support to continue operating activities for the foreseeable future.

3. Use of estimates and judgments (Continued)

3.2 Measurement of fair values

A number of the Group's accounting policies and disclosures require the measurement of fair values of 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 Group 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 Group 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 Group 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 Group 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 3.2.

4. Significant accounting policies

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

Certain comparative values in the consolidated statement of financial position and profit or loss and other comprehensive income are reclassified or presented as a result of any change in reclassification to reflect a better effect.

4.1 Foreign currency transactions

The Group's consolidated financial statements are prepared in ALL, which is the currency of the economic environment in which the Group operates.

In preparing the financial statements, transactions in currencies other than the entity's functional currency (foreign currencies) are recognized at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated to the functional currency at the reporting date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated at the exchange rate at the date that fair value was established. Foreign exchange differences are recognized in profit or loss. Foreign currency non-monetary assets and liabilities that are measured at historical cost are translated at the exchange rate at the date of the transaction. Foreign exchange differences are generally recognized in profit or loss.

4. Significant accounting policies (Continued)

4.1 Foreign currency transactions (Continued)

The applicable ALL exchange rates used to prepare these consolidated financial statements for the currencies EUR, USD, CHF as of December 31, 2018 and December 31, 2017 are as follows:

	Exchange rates on reporting day	
	2018	2017
EUR/ALL	123.42	132.95
USD/ALL	107.82	111.10
CHF/ALL	109.6	113.94

4.2 Goodwill

Goodwill represents the future economic benefits arising from a business combination that are not individually identified and recognized separately. Goodwill is carried at cost less accumulated impairment losses.

4.3 Control assessment

OSHEE sh.a owns 100% of the common stock and voting rights of Furnizuesi i Tregut të Lirë (FTL Sha), Furnizimi i Shërbimit Universal (FSHU Sha) and Operatori i Sistemit të Shpërndarjes (OSSH Sha).

Consequently, management has concluded that OSHEE Sh.a has complete control over Furnizuesi i Tregut të Lirë (FTL Sha), Furnizimi i Shërbimit Universal (FSHU Sha) and Operatori i Sistemit të Shpërndarjes (OSSH Sha). Management has gained control of the Subsidiaries from the date of their creation on March 28, 2018.

4.4 Property, plant and equipment.

Recognition and measurement

As of January 1, 2016, property plant and equipment are presented in the consolidated statement of financial position with their revalued amounts being fair values at revaluation date less any accumulated impairment and any subsequent accumulated impairment loss.

Any revaluation surplus is recognized in other comprehensive income ('OCI') unless the revaluation surplus reverses the previous revaluation deficit of the same asset recognized in profit or loss, in which case credit is recognized to that extent in profit or loss. Any revaluation deficit is recognized in profit or loss, except to the extent that it reverses a previous revaluation surplus of the same asset, in which case the deficit to that extent is recognized in the OCI. Therefore, surpluses and depreciation cannot be net even within the same asset class. The revaluation reserve (Note 14) is transferred to the gains carried on the use of the relevant asset.

If significant portions of a property, plant and equipment have different useful lives, they are recognized as a separate asset (major components) of the asset.

4. Significant accounting policies (continued)

4.4 Property, plant and equipment (continued)

Assets in progress are carried at cost less any impairment loss recognized (if any) and classified in the appropriate categories of property and equipment when completed and available for use. Cost includes all costs directly attributable to the acquisition of the asset. These expenses include professional fees, while for qualified assets borrowing costs are capitalized in accordance with the Group's accounting policies.

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

Subsequent expenditure

Subsequent costs of an item of property, plant and equipment are capitalized if it is expected that the Group will have future economic benefits from those costs.

Depreciation

Depreciation is calculated to allocate 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	2 to 20 Years

4.5 Intangibles assets

Recognition and measurement

As of January 1, 2016, tangible assets are presented in the statement of financial position with their revalued amounts being their fair values at revaluation date less any accumulated impairment and any subsequent accumulated impairment losses. Intangible assets include software and other licenses.

Subsequent expenditure

Subsequent costs are capitalized only if it is expected that the Group will have additional future economic benefits from these costs. Other expenses are recognized in the income statement as incurred.

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	2 to 5 years

4. Significant accounting policies (continued)

4.6 Inventories

Inventories are measured at the lower of cost and net realizable value. Inventory cost is based on the average cost method and includes the costs of acquiring inventories, production or transformation costs and other costs incurred in bringing them to location and existing conditions.

Net realizable value is the estimated selling price in the ordinary course of business by subtracting the estimated completion costs and selling costs.

4.7 Financial instruments

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

4.7.1 Initial classification and measurement of financial assets

Except for trade receivables that do not contain a significant financing component and are measured at transaction price in accordance with IFRS 15, all financial assets are initially measured at fair value adjusted for transaction costs (where applicable). Financial assets other than those designated and effective as hedging instruments are classified in the following categories:

- At amortized cost
- Fair value through profit or loss (FVTPL)
- Fair value through other comprehensive income (FVOCI).

The classification is determined by:

- the business model of the entity for managing the financial asset
- the contractual cash flow characteristics of the financial asset.

Income and expenses related to financial assets that are recognized in profit or loss are presented within financial expenses, financial income or other financial items, except for depreciation expense of trade receivables which are included within other expenses.

Recognition and deregistration

The Group recognizes trade and other receivables on the date that they are created. All other financial assets are initially recognized on the trade date when the Group becomes a party to the contractual terms of the instrument.

The Group derecognizes a financial asset when the Group's contractual rights to cash flows expire or when the Group transfers the contractual right to receive cash flows from the financial asset in a transaction in which all the risks and rewards of ownership of the asset financial assets are transferred, or do not transfer nor retain fully all the risks and rewards of ownership and there is no control over the transferred asset. Any interest in transferred financial assets created or held by the Group is recognized as a separate asset or liability.

The Group derecognizes a financial liability when the contractual obligations are fulfilled, ceased or terminated.

4. Significant accounting policies (continued)

4.7 Financial instruments (continued)

Non-derivative financial assets

The Group initially recognizes financial, trade and other receivables, and deposits on the date that they are created. All other financial assets are initially recognized on the trade date when the Group becomes a party to the contractual terms of the instrument.

The Group derecognizes a financial asset when the Group's contractual rights to cash flows expire or when the Group transfers the contractual right to receive cash flows from the financial asset in a transaction in which all the risks and rewards of ownership of the financial asset transferred. Any interest in transferred financial assets that is created or held by the Group is recognized as a separate asset or liability.

Financial assets and liabilities are presented at fair value in the statement of financial position when and only when the Group has a legal right to net their amounts, and intends to either settle the net amount, or realize the asset and settle the liability simultaneously.

Trade and other receivables

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

Cash and cash equivalents

Cash and cash equivalents include cash and cash equivalents with deposits not exceeding three months.

4.7.2 Classification and measurement of financial liabilities.

As the accounting for financial liabilities remains largely the same under IFRS 9 compared to IAS 39, the Group's financial liabilities have not been affected by the adoption of IFRS 9.

Financial liabilities are initially measured at fair value and, where applicable, are adjusted for transaction costs unless the Group has determined a financial liability at fair value through profit or loss.

Subsequently, financial liabilities are measured at amortized cost using the effective interest method, except for derivatives and financial liabilities set out in FVTPL, which are subsequently carried at fair value through profit or loss recognized in profit or loss (other than financial instruments derivatives which are designated and effective as hedging instruments).

All interest-related payments and, if applicable, changes in the fair value of an instrument that are reported in profit or loss are included in financial costs or financial income.

4. Significant accounting policies (continued)

4.7 Financial instruments (continued)

Non-derivative financial liabilities

The Group initially recognizes financial liabilities at the trade date when the Group becomes a party to the contractual terms of the instrument.

The Group derecognizes a financial liability when its contractual obligations are settled, canceled or terminated.

Financial assets and liabilities are presented at fair value in the statement of financial position when and only when the Group has a legal right to net their amounts, and intends to either settle the net amount, or realize the asset and settle the liability simultaneously.

The Group's non-derivative financial liabilities are as follows: Loans, trade payables, and other accounts.

These financial liabilities are initially recognized at fair value plus costs directly attributable to the transaction. After initial recognition, these trade and other payables and loans are measured at amortized cost using the effective interest method, except at lower interest rates market rates, which are measured at fair value, whose changes are recognized in the consolidated statement of comprehensive income.

4.8 Provisions

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

The amount recognized as a provision is the best estimate of the amount required to settle the current liability at the end of the reporting period, taking into account the risks and uncertainties about the liability. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those flows (when the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered by a third party, a receivable is recognized as an asset if it is practically certain that the refund will be received and the amount receivable can be measured reliably.

4.9 Share capital and dividends

Share capital

Ordinary shares are classified as equity. Share capital is recognized at face value.

Dividends

The distribution of dividends to the Group's shareholder is recognized in the Group's consolidated financial statements as a liability in the period in which they are approved by the Group's shareholder.

4. Significant accounting policies (Continued)

4.10 Impairment of non-financial assets

The carrying amount of the Group's non-financial assets other than inventories and deferred tax assets is reviewed at each reporting date to determine whether there is any evidence of impairment. If such data exists, then the asset's recoverable amount is estimated.

The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. When estimating value in use, expected future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In order to test for impairment, assets that cannot be individually tested are grouped together into the smaller pool of assets that generate cash inflows from the continued use of assets that are largely independent of the inflows of other assets or groups of assets (cash generating unit or 'CGU').

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its recoverable amount. Impairment losses are recognized in profit or loss. Impairment losses recognized in relation to CGUs are distributed by subtracting the carrying amount of the assets in the unit (Group of entities) in a proportionate manner.

Impairment losses are estimated at each reporting date if there is any indication that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the carrying amount of the asset does not exceed the carrying amount that would have been determined after depreciation was deducted if no impairment loss had been recognized.

4. Significant accounting policies (continued)

4.11 Impairment of financial assets

The impairment requirements of IFRS 9 use more forward-looking information to recognize expected credit losses - the 'expected credit loss model (ECL)'. This replaces IAS 39 'the pattern of incurred losses'.

Financial instruments, within the new requirements, included loans and other debt financial assets measured at amortized cost, receivables, financial assets measured at fair value through OCI, recognized and contracted assets and measured under IFRS 15 and loan commitments and certain financial guarantee contracts (to the issuer) that are not measured at fair value through profit or loss.

Recognizing credit losses no longer depends on identifying an individual credit loss event on an individual basis. Instead, the Group considers a wider range of information when assessing credit risk and measuring expected credit losses, including past events, current conditions, reasonable and supported forecasts that affect the expected receivables of the future cash flows of the instrument.

The measurement of expected credit losses is determined by a weighted estimate of the probability of credit losses over the expected life of the financial instrument.

Based on an internal decision approved by Supervisory Board No. 39, dated July 20, 2017 "In Assessing Collective Impairment" The Group uses statistical modeling of the historical trend of probability of default, the time of recovery and the amount of loss incurred.

4 Significant Accounting Policies (continued)

4.12 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 Group is involved in the distribution and sale of electricity as well as in performing related services. The Group 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.

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 Group 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.

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.

4.13 Financial income and expenses

The Group'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.

4.14 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.

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.

4 Significant Accounting Policies (continued)

4.14 Income tax (continued)

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 Group 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.

4.15 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.

4.16 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 Group 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.

Social, pension and health contributions

The Group 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.

Termination benefits

Termination benefits are expensed at the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group 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.

4 Significant Accounting Policies (continued)

4.17 Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial year. Changes arising from improvements in IFRSs do not have any impact on the accounting policies, financial position or performance of the Group.

4.17.1 New and revised standards effective for annual periods beginning on or after January 1, 2018

IFRS 15 "Revenue from Contracts with Customers"

IFRS 15 introduces new requirements for revenue recognition, replacing IAS 18 'Income', 'IAS 11 Construction Contracts', and certain income-related Interpretations. The new standard establishes an income control-based recognition model and provides additional guidance in many areas that are not covered in detail by existing IFRSs, including how to recognize multiple performance obligations agreements, variable prices, consumer reimbursement rights, supplier repurchase options from suppliers, and other common complexities. IFRS 15 came into effect in annual reporting periods beginning on or after January 1, 2018. The Group estimates that the impact from IFRS 15 is insignificant due to the nature of its activities.

IFRS "Financial Instruments" 9

The new standard for financial instruments (IFRS 9) introduces major changes to the guidance in IAS 39 on the classification and measurement of financial assets and introduces a new "expected credit loss" model for impairment of financial assets. IFRS 9 also provides new guidance on applying hedge accounting. IFRS 9 also contains new requirements for applying hedge accounting. The new requirements seek to align hedge accounting more closely with the entity's risk management activities by increasing the availability of hedged deposits and hedging instruments and introducing a more principles-based approach to assess hedge effectiveness. The Group applies the new hedge accounting requirements prospectively and all hedges qualify to be considered a continuing hedge relationship.

The adoption of IFRS 9 has affected the following areas:

- classification and measurement of the Group's financial assets.
- depreciation of financial assets using the expected credit loss model. This affects the Group's trade receivables and investments in debt-type assets measured at amortized cost.

The Group applies a simplified model of recognizing expected credit losses on the Group's trade receivables and investments in debt-type assets measured at amortized cost and estimates that it does not have a significant financial impact on the date of initial application of the standard.

4 Significant Accounting Policies (continued)

4.17 Changes in accounting policies (continued)

4.17.2 Standards, amendments and interpretations of existing standards not yet in force and not previously adopted by the Group

At the date of authorization of these consolidated financial statements, some new standards, as well as changes to existing standards that are not yet effective and have not been previously adopted by the Group, have been published by the IASB. Information on those standards that are expected to be relevant to the Group's consolidated financial statements is set out below. Management expects that all relevant standards will be adopted in the Group's accounting policies for the first period beginning after the date of promulgation. The new standards, interpretations and amendments that have not been adopted or listed below are not expected to have a material impact on the Group's consolidated financial statements.

IFRS 16 "Leases"

IFRS 16 will replace IAS 17 and the three relevant Interpretations. This completes the IASB's long-standing project to review lease accounting. Leases will be recorded in the consolidated statement of financial position in the form of a right to use an asset and a lease obligation.

IFRS 16 is effective for periods beginning on or after 1 January 2019. Management is still assessing the full impact of the Standard and is therefore unable to provide quantitative information.

However, to determine the impact, the Group is in the process of:

- conducting a full review of all arrangements and assessing whether any additional contracts will now be leased under the new definition of IFRS 16.
- defining transitional provisions to be adopted; full retrospective application or partial retrospective application (meaning comparative information does not have to be restated). The application of the partial method also provides a mitigation option for reassessing whether existing contracts are, or contain, a lease, as well as other facilities. Determining which of these practices will be adopted is important as they are irreversible choices.
- valuation of its current disclosures about financial leases and operating leases as these are likely to form the basis of the amounts to be capitalized and to become asset use rights.
- evaluation of the IT system and if a new leasing system is needed.
- assessment of additional disclosures that will be needed.

The Group is likely not to adopt a standard, revisions, and interpretation of their effective dates. The Group plans to adopt IFRS 16 on 1 January 2019 using a standard method and retrospective modification. According to the most valuable, cumulative effective data initially applied to IFRS 16 the same as a capital adjustment at the date of initial application. Events information is not restated.

Choosing this transition approach results in further policy decisions that the Group has to make as there are some other transitional easements that can be implemented. These relate to those leases previously held as ordinary leases and may be applied on the basis of the analysis of each contract. The group is currently assessing the impact of implementing these other transitional facilities.

5 Financial Instruments - Fair value and risk management

5.1 Accounting classifications and fair value

The Group has not disclosed the fair value of financial instruments such as cash and cash equivalents, trade and other receivables, payables and borrowings, because their carrying amount is a reasonable approximation of their fair value.

The fair value of long-term financial accounts receivable is determined using valuation techniques. In addition, the contractual interest rates for borrowings approximate the market rates at recognition and at the reporting date.

5.2 Financial risk management

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

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

The risk management function within the Group is carried out in respect of financial risks (credit, market, and liquidity), operational risks (such as environmental risk) and legal risks. The main objective of the financial risk management function is to set risk limits, and further to ensure that exposure to risks is kept within these limits. Operational and legal risk functions are designed to ensure the proper functioning of internal policies and procedures to minimize operational and legal risks.

5.2.1 Credit risk

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

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

	December 31, 2018	December 31, 2017
Cash and cash equivalents	185,034	1,710,862
Restricted cash	2,025,444	2,424,915
Trade receivables, net	20,323,829	20,932,065
Other assets (excluding repayments, see note 10)	6,317,370	686,271
Financial assets	1,396	1,460
Total maximum exposure to credit risk	28,853,073	25,755,573

The maximum exposure to credit risk on trade receivables by counter party category is as follows:

	December 31, 2018	December 31, 2017
State owned and governmental units and institutions	209,339	321,839
Households	14,681,349	15,289,015
Non state-owned	1,126,938	987,038
Private entities	4,306,203	4,334,173
Total	20,323,829	20,932,065

Further details of revenue by type of counterparty are given in note 20.

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

5 Financial Instruments - Fair value and risk management

5.2 Financial Risk Management (continued)

5.2.1 Credit risk (continued)

As of December 31, 2018 and 2017, the age of receivables that have not been impaired and the fixed loss rates used for each grouping are as follows:

<i>Seniority</i>	Trade receivables gross	Impairment Provison	Trade receivables net	2018 Loss rate
Neither past due nor impaired and past due up to 30 days	5,008,688	(589,746)	4,418,942	12%
Past due 31–60 days	619,837	(127,212)	492,625	21%
Past due 61 - 180 days	937,555	(350,421)	587,134	37%
More than 180 days	67,692,003	(52,866,875)	14,825,128	78%
Total	74,258,083	(53,934,254)	20,323,829	73%

<i>Seniority</i>	Trade receivables gross	Impairment Provison	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%

Based on an internal decision approved by Supervisory Board No. 39, dated July 20, 2017 “In Assessing Collective Impairment” The Group uses statistical modeling of the historical trend of probability of default, the time of recovery and the amount of loss incurred.

Impairment

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

	2018	2017
At January 1	52,033,937	52,004,739
Impairment of charge	1,900,317	29,198
Balance at December 31 (see note 11)	53,934,254	52,033,937

The policy of deletion

The Group deletes the receivables balances (and any impairment loss related funds) when management determines that the receivables are uncollectible. This decision is reached as information such as the significant measures taken to recover the amount are considered, and there are no other options for collecting outstanding balances.

No amount has been deleted during 2018 (2017: nul).

The allowance for impairment and movement in the allowance for impairment for other receivables and financial assets are detailed in notes 8 and 10.

5. Financial Instruments - Fair Value and Risk Management (continued)

5.2 Financial Risk Management (continued)

5.2.2 Market risk

Market risk is the risk of loss resulting from changes in internal market prices (selling price of energy), exchange rates and interest rates. The level of market risk to which the Group is exposed at a given point in time varies depending on market conditions, expectations of future prices or changes in market rates and the composition of the physical assets and portfolio of the Group's contracts.

Energy Prices

Under the current energy market model, the Group 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 Group 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 Group under such circumstances.

The energy prices that the Group 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 2017 and 2018.

Interest Rate Risk

In the normal course of business, the Group borrows to finance its operations. The Group 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 Group does not have formal policies and procedures in place for management of interest rate risks. The Group has received loans at fixed interest rates.

Currency risk

Exchange rate risk derives from the fact that the Group's revenues and most of its financial assets are denominated in LEK, while a substantial part of the Group'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 Group.

The major exchange rates used to translate foreign currency monetary assets and liabilities at December 31, 2018 and 2017 are as follows:

<i>In ALL:</i>	2018	2017
EUR	123.42	132.95
USD	107.82	111.1
GBP	137.42	149.95
CHF	109.60	113.94
SDR	149.95	157.84
YEN	0.98	0.9874
KRW	0.097	0.1038

5. Financial Assets - Fair Value and Risk Management (continued)

5.2 Financial Risk Management (continued)

5.2.2 Market risk (continued)

Currency risk (continued)

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

<i>As at December 31, 2018</i>	Euro	USD	SDR	KRW	YEN	GBP	ALL	Total
Trade receivables, net	5,414						20,318,415	20,323,829
Restricted cash	1,142,877	-	-	-	-	-	882,567	2,025,444
Cash and cash equivalents	29,355	291	-	-	-	-	155,388	185,034
Total	1,177,646	291	-	-	-	-	21,356,370	22,534,307
Trade and other payables	6,755,435	11,713					63,869,775	70,636,923
Borrowings	9,393,775	1,624,838	721,899	833,073	2,145,638	-	5,043,162	19,762,385
Total	16,149,210	1,636,551	721,899	833,073	2,145,638	-	68,912,937	90,399,308
Exchange rate gap	(14,971,564)	(1,636,260)	(721,899)	(833,073)	(2,145,638)	-	(47,556,567)	(67,865,001)

<i>As at December 31, 2017</i>	Euro	USD	SDR	KRW	YEN	GBP	ALL	Total
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 others 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)

The management of currency risk is supplemented by monitoring the sensitivity of the Group'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 Group'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:

	2018		2017	
	100 bp increase	100 bp decrease	Estimated profit (loss) effect	100 bp increase
Estimated profit (loss) effect				
EUR	(1,497,156)	1,497,156	EUR	(1,497,156)
USD	(163,626)	163,626	USD	(163,626)

5. Financial Assets - Fair Value and Risk Management (continued)

5.2 Financial Risk Management (continued)

5.2.3 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 Group'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 Group 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, 2018 and December 31, 2017. 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	Up-to-date contractual flows			Total
		Up to 1 year	1-5 year	>5 years	
2018					
Trade and other payables	70,636,922	70,636,922	-	-	70,636,922
Other liabilities	6,087,333	6,087,333	-	-	6,087,333
Borrowings	19,762,384	9,213,388	2,041,256	8,507,740	19,762,384
Total	96,486,639	85,937,643	2,041,256	8,507,740	96,486,639

	Carrying amount	Contractual flows			Total
		Up to 1 year	1-5 year	>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
Loan	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

5.3 Management of capital

The Group's objectives when managing capital are to safeguard the Group'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 Group's capital structure during 2018.

6 Property, plant and equipment

	Land	Building and land improvement	Equipment and machinery	Other assets	Assets in process	Total
<i>Cost or valuation</i>						
At January 1, 2017	1,035,446	2,957,645	21,573,413	733,507	4,846,390	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)
At December 31, 2017	1,035,444	3,736,162	28,655,054	1,362,891	7,835,365	42,624,916
Additions	28,467	571,488	5,734,875	426,356	3,417,473	10,178,659
Disposals	(7)	(18)	(229,063)	(53,545)	(3,083,467)	(3,366,100)
At December 21, 2018	1,063,904	4,307,632	34,160,866	1,735,702	8,169,371	49,437,475
<i>Accumulated amortization</i>						
At January 1, 2017	-	(112,061)	(1,535,798)	(126,360)	-	(1,774,219)
Charge of the year	-	(135,719)	(1,946,182)	(256,565)	-	(2,338,466)
Disposals	-	23	-	-	-	23
At December 31, 2017	-	(247,757)	(3,481,980)	(382,925)	-	(4,112,662)
Charge of the year	-	(159,092)	(2,327,328)	(400,165)	-	(2,886,585)
Disposals	-	3	75,005	25,494	-	100,502
At December 31, 2018	-	(406,846)	(5,734,303)	(757,596)	-	(6,898,745)
<i>Carrying amount</i>						
At January 1, 2017	1,035,446	2,845,584	20,037,615	607,147	4,846,390	29,372,183
At December 31, 2017	1,035,444	3,488,405	25,173,074	979,966	7,835,365	38,512,254
At December 31, 2018	1,063,904	3,900,786	28,426,563	978,106	8,169,371	42,538,730

The assets in process represent assets under construction or not ready for use at the end of the year. By Shareholder Decision no. 8292/3, dated July 11, 2018, the Group transferred Machinery and Equipment to Operatori i Sistemit te Transmetimit Sh.a and reduced the capital for transferred machinery and equipment to the equivalent of ALL 146,640 thousand.

There are no pledged collateral as of December 31, 2018 and 2017.

6 Property, plant and equipment (continued)

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

Revaluation and Measurement of fair value - Fair value hierarchy

In 2016, the Group made an assessment of its tangible and intangible assets based on Decision No. 1460, dated 20 February 2015, amended with the Decision no. 8910, dated November 19, 2015. Effective as of January 1, 2016, tangible and intangible assets were measured at fair value, resulting in a net increase of ALL 1,513,463 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 Decision no. 1460, dated 20 February 2015, and amended with Decision no. 8910, dated 19 November 2015. The group of experts comprised certified real estate property appraisers and certified accountants. The appraisers' report is dated January 2017, while the effective date of revaluation is January 1, 2016.

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

The revaluation of property, plant and equipment was performed using existing underlying recordings of the Group. The assumptions are based on data obtained from the Group, including assets for which there are no ownership titles, and without inventorying property, plant and equipment.

The movements in the revaluation reserve are as follows:

	December 31, 2018	December 31, 2017
Balance at January 1	1,250,030	1,513,463
Transfer to accumulated gain / loss	(114,034)	(263,433)
Balance at December 31	1,135,996	1,250,030

7 Intangible assets

	Software and licenses	Assets in process	Total
<i>Cost or valuation</i>			
At January 1, 2017	460,203	203,825	664,028
Additions	429,627	53,657	483,284
Disposals	-	-	-
At December 31, 2017	889,830	257,482	1,147,312
Additions	241,788	-	241,788
Disposals	-	(58,346)	(58,346)
At December 31, 2018	1,131,618	199,136	1,330,754
<i>Accumulated amortization</i>			
At January 1, 2017	(151,687)	-	(151,687)
Charge of the year	(190,443)	-	(190,443)
At December 31, 2017	(342,130)	-	(342,130)
Charge of the year	(200,214)	-	(200,214)
At December 31, 2018	(542,344)	-	(542,344)
<i>Carrying amount</i>			
As at January 1, 2017	308,516	203,825	512,341
As at December 31, 2017	547,700	257,482	805,182
As at December 31, 2018	589,274	199,136	788,410

Intangible assets include software and related licenses as well as the cost of developing an internal billing system. Assets in process include software, which is not yet available for use.

8 Financial assets

Financial assets comprise loans granted to employees in previous years.

	December 31, 2018	December 31, 2017
Advances to employees	22,838	23,102
Allowances for impairment	(21,442)	(21,642)
Net	1,396	1,460

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

The movements in allowance for impairment are as follows:

	2018	2017
At January 1	21,642	21,642
Impairment charge	(200)	-
At December 31	21,442	21,642

9 Inventories

	<u>December 31 2018</u>	<u>December 31 2017</u>
Consumption materials	6,519,089	6,403,957
Minus: Impairment allowance	<u>(351,572)</u>	<u>(360,059)</u>
Total	<u>6,167,517</u>	<u>6,043,898</u>

The inventory depreciation deduction at December 31, 2018 relates to items classified as “unusable”. Inventories are classified as unusable if identified as (i) obsolete inventory; (ii) unusable inventory in the current distribution network; and (iii) impaired inventory.

The movements in inventory deductions for disposals for the year ended December 31, 2018 and 2017 are detailed below:

	<u>December 31 2018</u>	<u>December 31 2017</u>
At January 1	360,059	218,622
Impairment allowance of the year	60,351	147,629
Reversal of Impairment allowance	<u>(68,838)</u>	<u>(6,192)</u>
At December 31	<u>351,572</u>	<u>360,059</u>

The Group has recognized reversals of impairment allowance during 2018 and 2017 for inventories used in these years depreciated in previous years.

10 Other assets

	<u>December 31 2018</u>	<u>December 31 2017</u>
Prepaid expenses	220,850	5,543,701
Other non-energy receivables, net	5,853,905	25,590
Receivables from the sale of materials	42,092	12,766
Receivable from employees, net	528	2,906
Other debtors	<u>420,845</u>	<u>645,009</u>
Total	<u>6,538,220</u>	<u>6,229,972</u>

Prepaid expenses consist of accrued penalties to KESH Sha. In 2017, these amounted to Euro 41,896,683 due to the non-fulfillment of the contract agreement during 2017 for the power supply, approved by ERE with no. 62 dated May 11, 2017. These penalties were accepted by KESH and were invoiced during the year ended 31.12.2018.

Receivables for other services provided to customers include the following receivables that are not directly related to the sale of electricity:

	2018			2017		
	Gross	Discount	Net	Gross	Zbritje	Net
KESH	1,917,247	(1,917,247)	-	1,917,247	(1,917,247)	-
The Government	3,038,536	(3,038,536)	-	3,038,536	(3,038,536)	-
Other debtors	665,742	(244,897)	420,845	889,906	(244,897)	645,009
Total	<u>5,621,525</u>	<u>(5,200,680)</u>	<u>420,845</u>	<u>5,845,689</u>	<u>(5,200,680)</u>	<u>645,009</u>

Government receivables relate to subsidies for persons with disabilities.

The movements in allowances for other debtors are as follows:

	<u>2018</u>	<u>2017</u>
On January 1	244,897	244,897
Additions / Reductions	<u>-</u>	<u>-</u>
On December 31	<u>244,897</u>	<u>244,897</u>

11 Trade receivables, net

The Group's trade receivables at December 31, 2018 and 2017, represent unpaid electricity invoiced.

	<u>December 31, 2108</u>	<u>December 31, 2017</u>
Trade receivables	74,258,083	72,966,002
Less: allowances for doubtful receivables	<u>(53,934,254)</u>	<u>(52,033,937)</u>
Carrying amount	<u>20,323,829</u>	<u>20,932,065</u>

Information about the Group's exposure to credit risk, and declined on value are included in note 5.2.1.

12 Restricted cash

Restricted cash of Lek 2,022,833 thousand (2017: 2,424,915 thousand) represent the restricted amounts at banks to secure borrowings or other transactions, based on respective contractual agreements.

Restricted cash at local banks are analyzed as below;

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Credins Bank	2,009,473	2,233,152
Raiffeisen Bank	10,021	10,505
Abi Bank	5,843	49,692
Pro Credit Bank	107	100,000
Union Bank	-	31,455
BKT	-	108
Total	<u>2,025,444</u>	<u>2,424,912</u>

13 Cash and cash equivalents

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Balances with banks	184,342	1,531,709
Cash on hands	455	408
Cash in transit	<u>237</u>	<u>178,745</u>
Total	<u>185,034</u>	<u>1,710,862</u>

14 Equity

At December 31, 2018, the share capital of Group's was comprised of 29,936,709 shares with par value of Lek 1,000 per share (2017: 30,083,102 shares with par value Lek 1,000 per Share). The Parent and sole shareholder of the Group is the Ministry of Energy and Industry ("MEI"). In 2018, the Group decreased the value of property plant and equipment and the Share Capital by Lek 146,640, based on shareholder decision's number. 8292/3, dated on 11 July 2018.

The revaluation reserve relates to revaluation of property, plant and equipment (refer to note 6). Other reserves are inherited from KESH as part of the spin off (refer to note 1).

15 Borrowings

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Non-current		
KESH	5,957,962	6,629,747
IBRD – Ministry of Finance	4,591,034	2,910,662
Ministry of Finance	-	1,000,000
Total	10,548,996	10,540,409
Current		
KESH	4,176,362	3,967,946
CEZ A.S.	4,485	2,737,130
Ministry of Finance	2,500,000	1,500,000
Overdraft	2,532,541	-
	9,213,388	8,205,076
Total	19,762,384	18,745,485

The borrowings from KESH, carried forward in OSHEE since the spin off, comprise amounts borrowed by KESH from international financial institutions, foreign governments and other foreign governments agencies and invested in distribution assets until December 2006. KESH sub-lent these borrowings with the same terms to the Parent Company through the agreement dated March 10, 2009.

With the purpose of unconditional and final settlement of the liability that OSHEE has due to KESH in December 31, 2018, in the total amount of ALL 51,438,460 thousand, two companies signed on 6 april 2018 the agreement on the settlement of the overdue liabilities.

According to the agreement, debt will be paid on annual instalements starting from October 2018 until 2022 and six months instalements starting from 2023 until 2046.

During 2018, the Group has not paid any installement of principal and interest. The total amount overdue of principal and interest at December 31, 2018 is ALL 3,855,310, (2017: ALL 3,642,492), including the principal of ALL 3,222,464 thousand and overdue interest of ALL 632,846 thousand (December 31 , 2017: overdue principal ALL 3,060,271 thousand and overdue interest ALL 582,227 thousand).

Borrowings from KESH in December 31, 2018 and 2017 has fixed interest rates listed as below :

- 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 parent Company and CEZ A.S entered into an agreement to consolidate debts and CEZ payables on a single payment. Albanian Parliment approved this agreement on July 31, 2014 according to the law number 114/2014 “On the approval of the Agreement on a Settlement of Understanding between the Republic of Albania and CEZ A.S.”

15 Borrowings – (continued)

Borrowings from CEZ A.S has an annual interest rate of 3.79% and are payable on five instalments

- 10,000,000 Euro: settled in July 2014
- 21,750,000 Euro: settled in July 2015;
- 21,083,333 Euro settled in July 2016;
- 21,083,333 Euro settled in July 2017;
- 21,083,333 Euro: settled in July 2018.

The above instalments with a total of EUR 95 million include principal and the payable interest. In December 31, 2018 the Group paid all the principal and interest and closed all the debt with CEZ S.A.

In January 2015, the parent 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 ALL 9,692,188 thousand further amended in January 19, 2018 for an amount of EUR 69,679 thousand or equivalent of ALL 9,263,823 thousand. As at December 31, 2018 the amount of EUR 34,600 thousand or equivalent of ALL 4,591,034 thousand has been disbursed. (until 2017; EUR 21,500 thousand or equivalents of ALL 2,858,425 thousand). The disbursements are performed in the account of the parent Company or by direct payments to the project. During 2018, the Group repaid the interest of ALL 28,601 thousand (2017: ALL 11,443). The borrowing bear interest at 0.75% and is repayable with semi-annual settlements starting from 2021 to 2036 with a grace period of 7 years.

In 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 of overcoming 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. As at 31.12.2018, both of the loans are listed as long-term loans and has an accumulated interest of LEK 3635 thousand. The borrowings bear an interest rate of 0.25%.

Loan agreements with the Ministry of Finance provide that in case of default, the Ministry of Finance and Economy reserves the right to confiscate the proceeds of OSHEE sh.a. During 2018, due to insufficient liquidity, the Supervisory Council decided to approve the opening of 3 overdrafts in three commercial banks: National Commercial Bank, Credins Bank and Raiffeisen Bank respectively with a limit of ALL 1,000 thousand at 4.25% interest rate, 1,000 ALL thousand with interest rate 5.3% - 6% and ALL 1,000 thousand and ALL 1,258 thousand with 4% interest rate.

The Group has settled as collateral receivables in the amount of ALL 2,000,000 for the overdraft with National Commercial Bank, receivables in the amount of ALL 3,500,000 for the overdraft with Credins Bank and for the overdraft with Raiffesien Bank receivable in the amount of 1,200 thousand Euro.

16 Other liabilities

	<u>December 31, 2018</u>	<u>December 31, 2018</u>
Accruals for energy purchases	2,733,506	4,514,451
Accruals for services provided by Post Office	40,614	47,411
Accruals for investments	76,050	1,268,844
Payables to personnel	342,656	337,863
Payable concession fee	580,573	245,382
TV tax fee payable	110,003	106,811
Other payables to KESH	1,796,494	518,329
Other creditors	407,437	622,404
Total	<u>6,087,333</u>	<u>7,661,495</u>

Based on the sole Shareholder Decision no. 3664/12 dated March 23, 2018 "On the recognition of late invoices between OSHEE Sha, KESH Sha and OST Sh.a", the parties have sought to recognize the majority of late liabilities. Total trade payables, other liabilities and provisions for penalties paid on December 31, 2018 and 2017 to KESH and OST by reconciliation with these entities were higher than the accounting data by ALL 177,796 thousand respectively (2017: lower by ALL 5,187,755 thousand) for KESH Sh.a and ALL 2,517,478 thousand (2017: ALL 2,744 thousand) for OST Sh.a.

Concessionary tariffs payable is the amount due to the Ministry of Infrastructure and Energy, related to the concession tariff levy obligation of the local HPP under concession agreements on the amount of electricity billed. The liability relate to the period from July 2016 until the end of 2018. Personnel expenses relate to salaries and other personnel benefits which are paid in January 2018. Television tax is collected in favor of the Government.

Other payables to KESH represent interest payable on loans to KESH, which were incorrectly calculated in past periods and reclassified from loans to other liabilities in 2015, based on the Decision Shareholder, dated January 29, 2016.

The estimated costs for the services provided by the Post Office relate mainly to the obligation to collect accounts receivable, which is a service provided by the Albanian Post ("Post Office") to OSHEE and to postal services for the periods prior to 2013. The Group has disagreed with the Post Office on the amounts payable at December 31, 2018 and 2017.

In 2016, the Group hired an external consultant to reconcile the differences with Albanian Post. Based on the report of the consultant dated on 30 November 2016, the amounts payable to the Albanian Post at 31 December 2014 amounting to ALL 1,164,840 thousand comprising respectively ALL 876,137 thousand trade payables and ALL 288,703 in other liabilities, were offset against ALL 1,177,307 thousand included in the receivables to customers collected by Albanian Post until the end of 2014, and the remaining difference of 12,467 thousand Lek represents receivables from Albanian Post collected up to December 31, 2014. On 12.11.2018 the Group has signed an reconciliation with Albanian Post Sh.a for the liabilities up to 31.12.2014, based on which systematic actions have been carried out on past losses and other receivables for the amount of ALL 77,960 thousand.

The Group has recorded the adjustment during 2017, however such amounts have not yet been agreed and confirmed by the Albanian Post. In addition, the Group is in the process of reconciling its accounting records for the amounts payable to the Albanian Post Office and for accounts receivable which are to be offset against those payable. Such reconciliation had not yet been completed prior to the adoption of these consolidated financial statements.

16 Other liabilities (continued)

Total of payables to Post Office in December 31, 2018 and December 31, 2017 reported from the Group are as below:

	<u>December 31 2018</u>	<u>December 31 2017</u>
Accruals for services provided by the Post Office	40,614	47,411
Payables to the Post Office (Note 18)	128,710	126,335
Total	<u>169,324</u>	<u>173,746</u>

Accruals at December 31, 2018 and 2017, include estimations of the cost of services and other expenses supplied but not yet billed. Accruals for energy purchases are detailed below:

Supplier	<u>December 31 2018</u>	<u>December 31 2017</u>
KESH	-	7,508
GSA	331,990	1,936,244
EFT	844,930	1,216,587
GEN I Tirana	557,102	-
NOA Energy Trade	104,677	-
Various HEC	795,264	1,130,364
Others suppliers	99,543	223,748
Total	<u>2,733,506</u>	<u>4,514,451</u>

17 Provisions

Provisions are composed as follows:

	<u>December 31 2017</u>	<u>Used</u>	<u>Net charge</u>	<u>December 31 2018</u>
Other penalties	184,276	(226)	-	184,050
Litigation	2,800,380	-	2,853,953	5,654,333
Total provisions	<u>2,984,656</u>	<u>(226)</u>	<u>2,853,953</u>	<u>5,838,383</u>

As at December 31 2018 and December 31,2017, the Group is in legal proceedings with several customers, former employees and local government units. Provisions for litigations have been calculated using the best estimate of the amounts required to settle the potential obligations.

18 Trade and other payables

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Payables to KESH for purchased energy	49,487,860	46,659,995
Payables to OST for transmission costs	10,652,971	9,130,232
Payables for imported energy	6,446,454	8,339,225
Payables to local HECs for purchased energy	674,477	891,966
Payable to Posta Shqiptare Sha for collection services	128,710	126,335
Suppliers for investments and purchases of assets	1,299,782	3,851,803
Other trade payables	1,946,668	3,198,080
Total	<u>70,636,922</u>	<u>72,197,636</u>

Payable to KESH and OST më 31 dhjetor 2018 relate to purchase of energy and transmission costs during the periods of 2013 to 2018.

19 Tax and social securities payables

	<u>31 dhjetor 2018</u>	<u>31 dhjetor 2017</u>
Other payables taxes	2,476,725	2,480,940
VAT payable , NET	2,482	842
Health and social insurance	113,810	111,361
Personal income tax	75,287	74,188
Withholding tax	2,845	4,444
Other social organisations – unions	1,099	1,101
Total	<u>2,672,248</u>	<u>2,672,876</u>

The amount due to the Institute of the Persecuted Political Persons constitute a liability of 1% calculated on the current year's payroll fund, but not paid at the end of the period.

Other tax payable amounting to ALL 2,476,725 thousand, include penalties and late payments during 2015-2018 connected with unpaid income tax, reconciled with tax authorities at the end of the 2018 fiscal period. Other tax payable includes payable taxes and related penalties reported by tax authorities in previous years. Based on 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 cancelations of tax liabilities”, the Group recently sought to reconcile such amounts with those recorded in the tax system.

By the inspection report no.1473/2, dated 27 March, 2018, the Group resulted in fiscal amnesty for the amount of ALL 5,403,204 thousand as below:

	<u>Liability</u>	<u>Penalties</u>	<u>Total</u>
Tax on profit	2,068,999	2,207,467	4,276,466
VAT	13,585	1,112,782	1,126,367
Social Contributions	-	366	366
Withhold tax	-	5	5
Total	<u>2,082,584</u>	<u>3,320,620</u>	<u>5,403,204</u>

20 Revenues

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Family	25,721,308	25,479,245
Privat consumers	20,459,452	20,389,060
State owned institutionals	663,414	7,025,421
Privat consumers-35 kv FMF	38,362	-
Families-35 KBFMF	7,089,786	-
Total sale of electricity (billed)	<u>53,972,322</u>	<u>52,893,726</u>
Connection fees	652,915	649,137
Total	<u>54,625,237</u>	<u>53,542,863</u>

In 2018, the Group reported as invoiced 76.10% (2017: 73.59%) of the total of the electricity included on distribution system. The electricity network loss is 23.90% includes tecnic loss and non-technic loss respectively 16.63% and 7.27% (2017: 26.41% technical loss and non-technical loss 19.20% and 7.21%).

21 Other income

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Late payments incomes	1,089,313	1,214,206
Penalties income	462,951	5,487,014
Services	136,077	44,380
Others	291,427	143,871
Total	<u>1,979,768</u>	<u>6,889,471</u>

Late payment income and penalties include as following:

- Late payments collected from clients for ALL 1,089,313 thousand (2017: ALL 1,214,206 thousand).
- Penalties offset payable to KESH amounting ALL 462,951 thousand (2017: ALL 5,487,014 thousand) for a shortfall in contract.

22 Purchased energy

As below is listed the purchase of energy in LEK:

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
KESH – regulated tariffs	5,983,830	9,760,582
Local HEC – regulated tariffs	14,299,354	3,641,967
KESH – electricity to cover loss	794,214	786,770
Electricity imported to cover losses	8,183,373	20,777,539
Total	<u>29,260,771</u>	<u>34,966,858</u>

As following are listed purchase of energy in MWh:

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
KESH	3,730,766	2,876,324
Local HEC and import	1,153,018	1,905,674
Totali purchase	<u>4,883,784</u>	<u>4,781,998</u>
Electricity purchased to cover loss -KESH	144,796	21,174
Electricity purchased to cover loss –other suppliers	1,393,707	1,695,343
Electricity purchased to cover loss	<u>1,538,503</u>	<u>1,716,517</u>
Purchased MWh	<u>6,422,287</u>	<u>6,498,515</u>

The adjusted tariff payable to KESH for electricity purchased during 2018 was ALL 1,500 per MWh (2017: ALL 1,450;). The applicable tariff as of 01.01.2018 has been amended based on the Decision of the Minister of Infrastructure and Energy no. 3924/1, dt. 12/29/2019.

23 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 2018 to OST amounted to ALL 4,932,721 thousand (2017: ALL 4,639,553 thousand). The regulated tariff payable to OST for the transmission of energy is ALL 650 per Mwh (2017: ALL 650 per MWh).

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Transmission fee	4,461,549	3,997,142
Purchase imbalance	821,930	1,036,543
Selling imbalances	(350,758)	(394,132)
Total	<u>4,932,721</u>	<u>4,639,553</u>

24 Personnel expenses

	<u>31 dhjetor 2018</u>	<u>31 dhjetor 2017</u>
Salaries	4,123,679	4,224,475
Health and social securities	796,038	816,391
Bonusses	350,648	397,952
Other profits	725,509	745,297
Total	<u>5,995,874</u>	<u>6,184,115</u>

Other benefits relate mainly with bonusses and food expenses. Number of employees in December 31, 2018 is 6,361 (2017: 6,292).

25 Other operative expenses, net

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Net provision charges	2,853,753	2,480,918
Net impairment charge for receivables	1,900,317	29,197
Penalties	989,203	1,528,681
Comissioning costs for energy meters	650,299	660,547
Receivables and postage services from Albaninan post office.	522,359	511,857
Rent expenses	489,570	469,302
Services from third party	515,695	468,371
Other receivables and postage services	189,028	165,571
Inventory write downs	(8,487)	141,437
Printing expenses	68,987	60,364
Internet and telephone expenses	21,315	35,619
Others	1,115,058	1,179,573
Total	<u>9,307,097</u>	<u>7,731,437</u>

Fines and penalties resulted from reconciliations performed 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 2,853,953 (2017: ALL 1,930,054 thousand) (see note 17) and Lek 0 (2017: 575,000 thousand) as a result of additional VAT as a result of technical losses.

26 Net finance costs

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Interest income	10,612	22,058
Exchange rate gains, net	410,134	499,620
	<u>420,746</u>	<u>521,678</u>
Financial Expenses		
Interest expenses on borrowings	(251,325)	(268,941)
Other financial expenses (guarantee)	(124,238)	(269,252)
	<u>375,563</u>	<u>(538,193)</u>
Financial expenses, net	<u>45,183</u>	<u>(16,515)</u>

Payments for bank guarantees relate to the agreement with a bank to guarantee borrowings with CEZ AS on amount of ALL 76,988 thousand(2017: ALL217,966), guaranteed also by the government of Albania.

27 Income tax

The Group computes the tax at the end of the year in accordance with the Albanian tax legislation. In 2018, the corporate tax rate on profit was equal to 15% (2017: 15%) of taxable income.

	December 31, 2018	December 31, 2017
Current tax	(1,337,449)	(1,575,816)
Deferred income tax	-	-
Total	<u>(1,337,449)</u>	<u>(1,575,816)</u>

The following is a profit tax reconciliation calculated based on the tax rate applicable to tax expense:

	Norm	2018	Norm	2017
Profit before tax		<u>3,284,824</u>		<u>3,405,966</u>
Tax calculated as 15%	15%	492,724	15%	510,895
Reversal allowance for impairment and provisions	0%	-	(0%)	-
Tax effect of non-deductible expenses.	44%	<u>1,446,047</u>	31%	<u>1,064,913</u>
Tax expense	41%	<u>1,337,449</u>	46%	<u>1,575,808</u>

In determining the amount of current and deferred tax, the Group takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. The management 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 management to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities will affect tax expense in the period that such a determination is made.

Movements in the income tax payables are presented as follows

	December 31, 2018	December 31, 2017
Opening balance	(5,610,933)	(5,442,125)
Payment during the year	2,100,000	1,007,000
Current income tax	(1,337,449)	(1,575,808)
Other compensations	<u>(222,762)</u>	<u>400,000</u>
Payable income tax	<u>(5,071,144)</u>	<u>(5,610,933)</u>

Deffered tax is analysed as following:

	December 31, 2018	December 31, 2017
Allowances for other receivables	8,638,950	8,355,205
Other provisions	1,163,345	735,285
Accounting depreciation in excess of tax depreciation	<u>722,528</u>	<u>679,316</u>
Total deffered tax, net	10,524,823	9,769,806
Unrecorded deffered tax	<u>(10,524,823)</u>	<u>(9,769,806)</u>
Deffered tax	<u>-</u>	<u>-</u>

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

28 Related parties

As at 2015 the Parent 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 Parent Company were fully transferred under the ownership the Ministry of Energy and Industry ("MEI"), of the Republic of Albania.

	December 31, 2018	December 31, 2017
Client receivables		
Institution and government entities	1,336,277	1,308,877
KESH receivables	7,485,287	7,095,649
OST receivables	454,003	-
	9,275,567	8,404,526
Trade and other payables		
KESH Sha other payable for energy purchase	50,027,540	47,201,625
Other KESH payables	541,630	541,630
Aktive KESH	17,400	17,400
KESH SLM Durrës	16,864	16,864
	50,603,434	47,777,519
OST payable for transmission fee	10,652,971	9,130,232
	10,652,971	9,130,922
Trade payables to Albanian Post Office	128,710	126,335
Other payables to Albanian Post Office	40,614	47,411
	169,323	173,746
Trade payables to UKT SH A	17,113	21,250
Other payable accruals UKT Sh.A	352	364
	17,465	21,614
Other payable taxes	2,476,725	2,480,940
Payable VAT, net	2,482	842
Health and social securities	113,810	111,361
Personal Income taxes	75,287	74,188
Withholding tax	2,845	4,444
TV tax fee payable	110,003	106,811
Concession payable fee	580,573	245,382
Current income tax	5,071,144	5,610,933
	64,804,561	60,127,769
Borrowings		
KESH Sh.a	10,128,189	10,597,693
Ministry of Finance	7,091,034	5,410,662
	17,219,223	16,008,355
Statement of profit and loss:		
Revenue		
Budgetary and non-budgetary institutions	7,128,149	7,025,421
Other income penalties KESH	-	109,900
	7,128,149	7,135,321
Expense		
Purchased energy from KESH	6,778,044	4,467,750
Transmission fee	4,461,549	3,927,551
Operating expenses with Posta	522,359	511,857
Interest expenses KESH	78,317	93,219
	11,840,269	9,000,377

28 Related parties (continued)

As at December 31, 2018, the parent Company received financing from KESH and OST in the form of trade payables, loans and other debts in the amount ALL 70,808,700 thousand (2016: ALL 66,930,240 thousand).

Expenses for the Key Personnel Compensation are shown in note:

	31 dhjetor 2018	31 dhjetor 2017
Key personnel compensation	<u>6,566</u>	<u>7,943</u>
Total	<u>6,566</u>	<u>7,943</u>

29 Commitment and contingencies

Operating lease commitments – The Group 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, 2018 and December 31, 2017 are as follows:

	31 dhjetor 2018	31 dhjetor 2017
Less than a year	<u>220,156</u>	<u>220,156</u>
Between one and five years	<u>74,001</u>	<u>74,001</u>
	<u>294,156</u>	<u>294,157</u>

Loan Line Commitments (Overdrafts)

The loan lines commitments at December 31, 2018 and December 31, 2017 are analyzed as follows:

	31 dhjetor 2018	31 dhjetor 2017
Raiffeisen Bank Sh.a	<u>243,924,107</u>	<u>-</u>
Credins Bank Sh.a	<u>38,301,685</u>	<u>-</u>
Banka Kombetare Tregtare	<u>113,118,204</u>	<u>-</u>
Total	<u>395,343,996</u>	<u>-</u>

Contingent liabilities

During its activity, the Group is involved in certain legal cases. The management estimates the probability of winning 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 (refer to note 25).

30 Events after reporting date

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