JSC GEORGIAN RENEWABLE POWER COMPANY

Consolidated financial statements

for the year ended 31 December 2018
with independent auditor's report

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Independent auditor's report

To the Management and Shareholders of
Georgian Renewable Power Company JSC

Opinion

We have audited the consolidated financial statements of Georgian Renewable Power Company JSC and its subsidiaries (hereinafter, the "Group"), which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2018 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for opinion

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

Responsibilities of management and Shareholders 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.

The Shareholders are responsible for overseeing the Group's financial reporting process.

Building a better working world

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 assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group’s internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

Marchello Gelashvili
For and on behalf of EY LLC

11 April 2019

Tbilisi, Georgia

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

(Amounts expressed in thousands of Georgian Lari)

	Note	31 December 2018	31 December 2017
Assets			
Non-current assets			
Property, plant and equipment	6	114,457	48,025
Other non-current assets	7	42,160	34,890
Total non-current assets		**156,617**	**82,915**
Current assets			
Other current assets	8	1,615	3,909
Prepaid VAT		2,147	1,568
Cash and cash equivalents		8,388	8,298
Total current assets		**12,150**	**13,775**
Total assets		**168,767**	**96,690**
Equity			
Share capital	9	95,593	28,884
Accumulated deficit		(3,046)	(2,159)
Share discount	9	(2,457)	(2,457)
Other reserves	9	4,065	2,369
Equity attributable to the owners of the parent		**94,155**	**26,637**
Non-controlling interests	9	27	31
Total equity		**94,182**	**26,668**
Liabilities			
Non-current liabilities			
Borrowings	10	66,552	62,357
Deferred income	11	1,311	1,279
Total non-current liabilities		**67,863**	**63,636**
Current liabilities			
Borrowings	10	4,254	2,491
Trade and other payables	12	1,719	1,209
Derivative financial liabilities	4	718	–
Provisions for liabilities and charges	13	31	2,686
Total current liabilities		**6,722**	**6,386**
Total liabilities		**74,585**	**70,022**
Total liabilities and equity		**168,767**	**96,690**

Approved for issue and signed on behalf of Management on 11 April 2019:

Avtandil Namicheishvili
Director

Nana Mshvidobadze
Financial Manager

The accompanying notes on pages 5 to 29 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018

(Amounts expressed in thousands of Georgian Lari)

	Note	2018	2017
Salaries and other employee benefits	14	(302)	(205)
Other general and administrative expenses	15	(324)	(1,175)
Other operating expenses	16	(143)	(330)
		(769)	(1,710)
EBITDA		(769)	(1,710)
Depreciation and amortization	6, 7	(352)	(274)
Finance income		149	93
Finance costs		(19)	(24)
Net foreign exchange losses		(479)	(60)
Non-recurring items	17	579	(129)
Loss before income tax		(891)	(2,104)
Income tax expense		–	–
Loss for the year		(891)	(2,104)
Attributable to:			
Owners of the parent		(887)	(1,941)
Non-controlling interests		(4)	(163)
Other comprehensive income			
Other comprehensive income not to be reclassified to profit or loss in subsequent periods (net of tax)			
Gain from currency translation differences		1,696	609
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods		1,696	609
Other comprehensive income for the year, net of tax		1,696	609
Total comprehensive income/(loss) for the year, net of tax		805	(1,495)
Attributable to:			
Owners of the parent		809	(1,035)
Non-controlling interests		(4)	(460)

The accompanying notes on pages 5 to 29 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

(Amounts expressed in thousands of Georgian Lari)

	Attributable to the owners of the parent						
	Share capital	Share discount	Accumulated deficit	Other reserves	Total	Non-controlling interests	Total equity
Balance as at 31 December 2016	8,068	(588)	(218)	957	8,219	3,188	11,407
Loss for the year	–	–	(1,941)	–	(1,941)	(163)	(2,104)
Foreign currency translation reserve	–	–	–	906	906	(297)	609
Total comprehensive loss for the year	–	–	(1,941)	906	(1,035)	(460)	(1,495)
Issue of share capital of Parent (Note 9)	13,076	–	–	–	13,076	–	13,076
Increase in share capital of subsidiaries by non-controlling interests (Note 9)	–	–	–	–	–	1,560	1,560
Acquisition of non-controlling interests in existing subsidiaries (Note 9)	7,740	(1,869)	–	506	6,377	(4,257)	2,120
Balance as at 31 December 2017	28,884	(2,457)	(2,159)	2,369	26,637	31	26,668
Loss for the year	–	–	(887)	–	(887)	(4)	(891)
Foreign currency translation reserve	–	–	–	1,696	1,696	–	1,696
Total comprehensive income for the year	–	–	(887)	1,696	809	(4)	805
Issue of share capital of Parent (Note 9)	7,641	–	–	–	7,641	–	7,641
Conversion of loan (Note 9)	59,068	–	–	–	59,068	–	59,068
Balance as at 31 December 2018	95,593	(2,457)	(3,046)	4,065	94,155	27	94,182

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

(Amounts expressed in thousands of Georgian Lari)

	Note	2018	2017
Cash flows from operating activities			
Loss before income tax		(891)	(2,104)
Adjustments for:			
Depreciation and amortisation	6, 7	352	274
Net foreign exchange losses		478	60
Non-recurring items	17	(579)	129
Finance income		(149)	(93)
Finance costs		19	24
Operating cash flows before working capital changes		(770)	(1,710)
Change in trade and other receivables	8	(5)	(15)
Change in prepaid taxes other than income tax		936	(853)
Change in pre-payments	8	(775)	(27)
Change in trade and other payables	12	572	6
Interest received		149	93
Other finance costs paid		(19)	(24)
Net cash from/(used in) operating activities		88	(2,530)
Cash flows from investing activities			
Purchase of property, plant and equipment and intangible assets		(60,517)	(68,863)
Net cash used in investing activities		(60,517)	(68,863)
Cash flows from financing activities			
Proceeds from borrowings	10	63,743	61,768
Repayment of borrowings	10	(8,606)	(4,500)
Loans issued	8	(149)	–
Increase in share capital	9	7,733	13,076
Increase in share capital of subsidiaries by non-controlling interests	9	–	1,560
Acquisition of non-controlling interests	9	–	2,120
Net cash from financing activities		62,721	74,024
Effect of exchange rate changes on cash and cash equivalents		(2,202)	800
Net increase in cash and cash equivalents		90	3,431
Cash and cash equivalents at the beginning of year		8,298	4,867
Cash and cash equivalents at the end of year		8,388	8,298

The accompanying notes on pages 5 to 29 are an integral part of these consolidated financial statements.

(Amounts expressed in thousands of Georgian Lari)

1. CORPORATE INFORMATION

JSC Georgian Renewable Power Company (the "Company" or "GRPC") was founded in 2015 as a joint stock company in accordance with Georgian regulations.

The Company is a holding parent company and consolides the following subsidiaries in its financial statements:

Name	Country of operation	Proportion of ownership interest 2018	Proportion of ownership interest 2017
JSC Svaneti Hydro	Georgia	100%	100%
JSC Geo Hydro	Georgia	85%	85%
JSC Zoti Hydro	Georgia	100%	100%
JSC Caucasian Wind Company	Georgia	100%	100%
JSC Caucasus Solar Company	Georgia	100%	100%

The Company together with its subsidiaries makes up a group of companies (the "Group").

The Group is engaged in development of renewable energy projects in Georgia. In 2017, the Group commenced construction of 50MW Mestiachala hydro power plants ("HPPs") in the north-western part of Georgia and 46.0 MW Zoti HPPs in the western part of Georgia.

As at 31 December 2018, 65% of the Company's shares were owned by JSC Georgia Capital, the ultimate parent of which is Georgia Capital PLC ("GCAP"). As at 31 December 2018, 35% of the Company's shares were owned by RP Global Investments GmbH ("RP Global"), which is ultimately controlled by Dr. Gerhard Matzinger and the family.

As at 31 December 2017, 65% of the Company's shares were owned by JSC BGEO Investments, the ultimate parent of which was BGEO Group PLC ("BGEO"). As at 31 December 2017, 35% of the Company's shares were owned by RP Global , which was ultimately controlled by Dr. Gerhard Matzinger and family.

On 29 May 2018, BGEO completed demerger of its business activities into a London-listed banking business, Bank of Georgia Group PLC, and a London-listed investment business, Georgia Capital PLC. As a result, Georgia Capital PLC became the ultimate parent of the Group. No individual shareholder owns more than 8% of GCAP shares as at 31 December 2018.

The Company's legal address is N 79, Agmashenebeli Ave., Tbilisi, Georgia.

2. OPERATING ENVIRONMENT

The Group's business is concentrated in Georgia. As an emerging market, Georgia does not possess a well-developed business and regulatory infrastructure that would generally exist in a more mature market economy. Operations in Georgia may involve risks that are not typically associated with those in developed markets, including the risk that the Georgian Lari is not freely convertible outside the country, there are currency exchange fluctuation risks, debt and equity markets are not well developed. However, over the last few years the Georgian government has made a number of developments that positively affect the overall investment climate of the country, specifically implementing the reforms necessary to enhance banking, judicial, taxation and regulatory systems. This includes the adoption of a new body of legislation, including new Tax Code and procedural laws. In the view of the Management, these steps contribute to mitigation of the risks of doing business in Georgia.

(Amounts expressed in thousands of Georgian Lari)

2. OPERATING ENVIRONMENT (continued)

The existing tendency aimed at the overall improvement of the business environment is expected to persist. The future stability of the Georgian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the Government. However, the Georgian economy is vulnerable to market downturns and economic slowdowns elsewhere in the developed countries.

3. BASIS OF PREPARATION

These consolidated financial statements of the Group for the year ended 31 December 2018 have been prepared in accordance with International Financial Reporting Standards ("IFRS") and International Financial Reporting Interpretations Committee ("IFRIC") interpretations issued by the International Accounting Standards Board ("IASB") effective for 2018 reporting.

The consolidated financial statements have been prepared on a historical cost basis except for derivative financial instruments that have been measured at fair value.

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented apart for adoption of IFRS 9, Financial Instruments (Note 4).

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 31 December 2018. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Specifically, the Group controls an investee if, and only if, the Group has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee;
- The ability to use its power over the investee to affect its returns.

Generally, there is a presumption that a majority of voting rights results in control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of consolidation (continued)

Profit or loss and each component of other comprehensive income are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

Government grants

Government grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognized as income on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed. When the grant relates to an asset, it is recognised as income in equal amounts over the expected useful life of the related asset. When the Group receives grants of non-monetary assets, the asset and the grant are recorded at nominal amounts and released to profit or loss over the expected useful life of the asset, based on the pattern of consumption of the benefits of the underlying asset by equal annual instalments.

Financial assets

Initial recognition and measurement

All of the Group's financial assets including trade and other receivables, loans issued and cash in bank fall into loans and receivables measurement category.

Loans and receivables are unquoted non-derivative financial assets with fixed or determinable payments other than those that the Group intends to sell in the near term. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets.

Loans and receivables are initially recognized at fair value plus transaction costs and subsequently carried at amortized cost using the effective interest method. This calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. Gains and losses are recognized in the profit or loss when the receivables are derecognized or impaired, as well as through the amortization process.

Derecognition of assets

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

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (continued)

Derivative financial instruments

The Group uses currency swap contracts, to mitigate its foreign currency risks. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. The fair values are estimated based on standard derivative pricing models that take into account observable and non-observable information about spot and forward exchange rates and interest rates. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative. Gains and losses resulting from these instruments are included in the consolidated statement of profit or loss and other comprehensive income in net foreign exchange losses.

Impairment of financial assets

The Group assesses, at each reporting date, whether there is objective evidence that a financial asset or a group of financial assets is impaired.

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence of impairment may include:

- Significant financial difficulty of the counterparty;
- A breach of agreement, such as a default or past due event;
- It is becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- There is adverse change in the payment status of the counterparty as a result of changes in the national or local economic conditions that impact the counterparty.

Financial liabilities

The Group's financial liabilities, including derivatives and payables for non-current assets, are held at fair value. The Group's borrowings are carried at amortised cost.

Borrowings

Initial recognition

Borrowings are initially recognised at fair value of the consideration received less directly attributable transaction costs. Transaction costs include fees and commissions paid to technical and legal advisors, insurance brokers and fees paid to the lender during the initial financial assessment process. Transaction costs do not include debt premiums or discounts. After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in the consolidated income statement when borrowings are derecognised as well as through the amortisation process.

Effective interest rate ("EIR") includes the transaction related costs such as bank commission, due diligence and insurance costs related to obtaining the loan. Initially transaction costs are recognized as Pre-payments when the costs are incurred. When the loan is obtained, the transaction related costs are included in EIR calculation.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Borrowings (continued)

Derecognition

The Group's borrowings comprise of loans from Georgian financial institutions and parent companies. A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the profit or loss (Note 4).

Modification

When the existing debt terms and conditions are modified the Group performs analysis on whether the original debt has been replaced by another debt with "substantially" different terms. The Group performs quantitative and qualitative tests. Under the quantitative test, the Group calculates if the net present value of the cash flows under the new terms discounted at the original effective interest rate is at least 10% different from the carrying amount of the original debt. If the change is less than 10% the change is not substantial under the quantitative test.

The Group also performs qualitative test, which includes the analysis of whether the change in terms and conditions is so fundamental, that immediate de-recognition is required. Fundamental changes can include the following: if the interest rate has been changed from/to fixed to/from floating rate, if collateral amounts or items are different, etc.

A "substantial" debt modification or a debt exchange with "substantially" different terms is accounted for as an extinguishment of the original financial liability. This results in de-recognition of the original loan and the recognition of a new financial liability at its fair value. This results in a direct impact on profit or loss due to the difference between the carrying amount of the original financial liability and the fair value of the new financial liability (taking also into account any cash consideration paid or non-cash assets transferred).

If the change is not substantial, the Group presents the existing loan with the new terms and conditions at the reporting date at amortized value.

Property, plant and equipment

Items of property, plant and equipment are initially recognised at cost. As well as the purchase price, cost of property, plant and equipment, including assets under construction, includes directly attributable costs and the estimated present value of any future unavoidable costs of dismantling and removing items. Directly attributable costs include professional services provided by technical, environmental and other relevant experts. Additionally, directly attributable costs consider pre-permission expenditures, which include studies and services provided during the project assessment period, such as measurement studies, design expenditure, technical and environmental expertise, geological surveys. Contributions to the local governing bodies incurred for obtaining building permissions of power plants are also part of directly attributable costs. The liability for dismantling and removing items is recognised within provisions.

After initial recognition, property, plant and equipment are recorded at historical cost less accumulated depreciation and recognized impairment loss, if any.

(Amounts expressed in thousands of Georgian Lari)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment (continued)

The gain or loss on disposal of an item of property, plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of the property, plant and equipment, and is recognised net within other income / other expenses in profit or loss.

Depreciation

Depreciation of an asset commences from the date the asset is ready and available for use. In case of power plants commencement date of operations means finalization of testing period and obtaining of the generation license.

Assets under construction and land are not depreciated. Assets under construction are put into exploitation and depreciation charges start once it is brought to the condition of target use. Depreciation is calculated on a straight-line basis over the following estimated useful lives:

	Useful lives in years
Infrastructure assets	5 years
Fixtures and fittings	5 years
Vehicles	5 years

Infrastructure assets include wind and solar measurement masts, automatic hydrological stations and other instruments and structures as at 31 December 2018 and 2017.

Contingencies

Contingent liabilities are not recognised in the statement of financial position but are disclosed unless the possibility of any outflow in settlement is remote. A contingent asset is not recognised in the statement of financial position but disclosed when an inflow of economic benefits is probable.

Impairment of non-financial assets

The Group assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount and determines if the assest should be considered impaired and written down.

Operating leases

Where the Group is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Group, the total lease payments are charged to profit or loss for the year on a straight-line basis over the lease term. The lease term is the non-cancellable period for which the lessee has contracted to lease the asset together with any further terms for which the lessee has the option to continue to lease the asset, with or without further payment, when at the inception of the lease it is reasonably certain that the lessee will exercise the option.

(Amounts expressed in thousands of Georgian Lari)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Operating leases (continued)

On 1 January 2019 the Group adopted IFRS 16 Leases, under which the leases are capitalised at the commencement of the lease at the inception date fair value of the leased agreement (Note 4). Lease payments are apportioned between finance charges and reduction of the lease liability. Finance charges are recognized in finance costs in the statement of profit or loss. A leased asset is depreciated over the lease term. .

When assets are leased out under an operating lease, the lease payments receivable are recognised as rental income on a straight-line basis over the lease term.

Intangible assets

Intangible assets, which are acquired by the Group and which have finite useful lives, are stated at cost less accumulated amortisation. Intangible assets primarily include licenses and permits required for construction of HPPs and are amortised on a straight-line basis over their estimated useful lives (36 months) from the date the asset is available for use.

If impaired, the carrying amount of intangible assets is written down to the higher of value in use and fair value less costs to sell.

Taxation

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

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

Value added tax

Value added tax (“VAT”) related to sales is payable to tax authorities when goods are shipped or services are rendered. Input VAT is recognised upon the receipt of a tax invoice from a supplier but is reclaimable against sales VAT only upon a payment of such invoice.

(Amounts expressed in thousands of Georgian Lari)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Pre-payments

Pre-payments are carried at cost less provision for impairment. A prepayment is classified as non-current when the goods or services relating to the prepayment are expected to be obtained after one year, or when the prepayment relates to an asset which will itself be classified as non-current upon initial recognition. Pre-payments to acquire assets are transferred to the carrying amount of the asset once the Group has obtained control of the asset and it is probable that future economic benefits associated with the asset will flow to the Group. Other Pre-payments are written off to profit or loss when the goods or services relating to the Pre-payments are received.

If there is an indication that the assets, goods or services relating to a prepayment will not be received, the carrying value of the prepayment is written down accordingly and a corresponding impairment loss is recognised in profit or loss for the year.

Cash and cash equivalents

Cash and cash equivalents comprise of cash at bank that includes deposits held at call with banks with original maturities of three months or less and are subject to insignificant risk of change in value. Cash at bank are carried at amortised cost using the effective interest method.

Share capital

The amount of Company's authorised share capital is defined by the Company's Charter. The difference between par value and actual contribution received is recognized in share discount/premium in the consolidated statement of changes in equity.

Borrowing costs

Borrowing costs comprise interest expense calculated using the effective interest method, exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs, the due diligence fees and insurance costs related to acquiring the loans.

Transaction costs are recognized as Pre-payments when the costs are incurred. These costs are incurred during the selection/approval process of the lender. The costs are the 'lender shopping costs' and are included in EIR when the final decision is made in relation to financing.

Borrowing costs directly attributable to the acquisition or construction of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the respective assets. All other borrowing costs are expensed in the period in which they occur.

The amount of borrowing costs eligible for capitalisation is determined as the actual borrowing costs incurred on that borrowing during the period of respective property development phase.

Provisions for liabilities and charges

Provisions for liabilities and charges are non-financial liabilities of uncertain timing or amount. They are accrued when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Provisions for liabilities and charges (continued)

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole.

Where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

EBITDA

The Group separately presents EBITDA on the face of statement of profit or loss and other comprehensive income. EBITDA is not defined in IFRS and is defined by the Group as earnings before interest, taxes, depreciation and amortisation, net foreign exchange losses or gains and net non-recurring items.

Non-recurring items

The Group separately classifies and discloses those income and expenses that are non-recurring by nature. Any type of income or expense may be non-recurring by nature. The Group defines non-recurring income or expense as income or expense triggered by or originated from an unusual economic, business or financial event that is not inherent to the regular and ordinary business course of the Group and is caused by uncertain or unpredictable external factors that cannot be reasonably expected to occur in the future and thus they should not be taken into account when making projections of the future results.

Offsetting

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position only when there is a legally enforceable right to offset the recognised amounts, and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

Functional currencies and foreign currency translation

The functional currency of the Group's subsidiaries and the parent is US dollars ("USD") considering the following circumstances:

- The electricity tariff is set in USD in Georgia, hence the Group's revenue will be denominated in USD;
- Currently the Group is in a stage of constructing HPPs and majority of construction costs of the Group are denominated in USD;
- Capital contributions from the shareholders were in USD;
- The Group's financing structure is planned to be USD denominated.

Transactions in foreign currencies are initially recorded in the functional currency, converted at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated into functional currency at functional currency rate of exchange ruling at the reporting date. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Functional currencies and foreign currency translation (continued)

Gains and losses from the translation of foreign currency transactions are recognised in the profit or loss within net foreign exchange losses.

Differences between the contractual exchange rate of a certain transaction and the National Bank of Georgia ("NBG") exchange rate on the date of the transaction are included in foreign exchange losses less gains. The official NBG exchange rates as at 31 December 2018 and 2017 were GEL 2.6766 and GEL 2.5922 to 1 USD, respectively.

In accordance with statutory requirement the Group's presentation currency is GEL. Items in the consolidated financial statements are translated to presentation currency based on following principles: assets and liabilities are translated into GEL at the rate of exchange ruling at the reporting date, income and expenses are translated at the exchange rates at the dates of the transactions (or at the average rate for the period when this is a reasonable approximation) and equity components are maintained at the rate of exchange ruling at the date of change in functional currency. The exchange differences arising on the translation are taken to other comprehensive income.

Included in Effect of exchange rate changes on cash and cash equivalents in consolidated statement of cash flow are net foreign exchange gain/loss on cash and cash equivalents and effect of foreign currency translation done in order to prepare consolidated statement of cash flow in GEL.

Employee benefits

Wages, salaries, annual leave and sick leave, cash bonuses and other benefits are accrued in the period in which the associated services are rendered by the employees of the Group.

Adoption of new or revised standards and interpretations

The following standards/interpretations that became effective on 1 January 2018 did not have any impact on the Group's financial statements:

- IFRS 9 Financial Instruments;
- IFRIC Interpretation 22 Foreign Currency Transactions and Advance Considerations;
- Amendments to IAS 40 Transfers of Investment Property;
- IFRS 2 Classification and Measurement of Share-based Payment Transactions – Amendments to IFRS 2.

IFRS 9 Financial Instruments

The Group adopted IFRS 9 Financial Instruments as at 1 January 2018 which did not have material impact on the financial position and performance of the Group in the consolidated financial statements.

<u>Cash and cash equivalent</u>

Due to short-term and highly liquid nature of these financial assets, the Group has assessed corresponding expected credit losses to be immaterial. Therefore, no impairment will be recognized for cash and cash equivalents under IFRS 9.

(Amounts expressed in thousands of Georgian Lari)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Adoption of new or revised standards and interpretations (continued)

Trade and other receivables

Due to the nature of existing trade and other receivables, the Group hass assessed the expected credit losses to be immaterial. Therefore, no impairment will be recognized for trade and other receivables under IFRS 9.

Standards issued but not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's consolidated financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

IFRS 16 Leases

IFRS 16 was issued in January 2016 and it replaces IAS 17 Leases, IFRIC 4 Determining Whether an Arrangement Contains a Lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

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

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

IFRS 16, which is effective for annual periods beginning on or after 1 January 2019, requires lessees and lessors to make more extensive disclosures than under IAS 17.

Transition to IFRS 16

The Group adopted IFRS 16 using modified retrospective approach, i.e. the Group recognized cumulative catch-up adjustment on 1 January 2019 balance sheet without the restatement of prior period comparatives. At transition the Group recognised a lease liability for leases previously classified as an operating lease applying IAS 17. Lease liability will be measured at the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application. The Group recognised a right-of-use asset for such leases at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position immediately before the date of initial application.

The impact of IFRS 16 adoption is expected to be GEL 364 increase in assets and liabilities of the Group as at 1 January 2019.

(Amounts expressed in thousands of Georgian Lari)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Standards issued but not yet effective (continued)

IAS 23 Borrowing Costs – borrowing costs eligible for capitalisation

The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.

An entity applies those amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments.

An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019. Earlier application is permitted.

The Group assessed the impact of IAS 23 Borrowing Costs amendments on its consolidated financial statements as immaterial.

Annual improvements to IFRSs 2015-2017 cycle

IAS 12 Income Taxes – income tax consequences of payments on financial instruments classified as equity

The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognises the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognised those past transactions or events.

An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019. Earlier application is permitted. When an entity first applies those amendments, it applies them to the income tax consequences of dividends recognised on or after the beginning of the earliest comparative period.

The Group is currently assessing the impact of IAS 12 Income Taxes amendments on its consolidated financial statements.

5. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The Group makes estimates and assumptions that affect the amounts recognised in the consolidated financial statements and the carrying amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the consolidated financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

Value of assets under construction

Assets under construction is stated at cost, net of accumulated impairment losses, if any. The Group capitalises construction related costs directly attributable to the construction process. Initial capitalisation of costs is based on management's judgement during the construction process. Operating leases, construction related taxes, borrowing costs and other costs directly attributable to the construction of an asset that necessarily takes a substantial period of time to get ready for its intended use are capitalised as part of the cost of the asset.

(Amounts expressed in thousands of Georgian Lari)

6. PROPERTY, PLANT AND EQUIPMENT

The movements in property, plant and equipment during the year ended 31 December 2018 were as follows:

	Infrastructure assets	Fixtures and fittings	Assets under construction	Vehicles	Land	Total
Historical cost 31 December 2017	1,828	33	47,150	95	388	49,494
Additions	1,066	92	59,127	99	20	60,404
Disposals	(188)	–	–	–	–	(188)
Translation	89	21	6,304	6	15	6,435
Historical cost 31 December 2018	2,795	146	112,581	200	423	116,145
Accumulated depreciation and impairment						
31 December 2017	(910)	(8)	(536)	(15)	–	(1,469)
Depreciation charge	(286)	(13)	–	(28)	–	(327)
Disposals	48	–	–	–	–	48
Translation	62	(1)	(3)	2	–	60
Accumulated depreciation and impairment 31 December 2018	(1,086)	(22)	(539)	(41)	–	(1,688)
Net book value						
31 December 2017	918	25	46,614	80	388	48,025
31 December 2018	1,709	124	112,042	159	423	114,457

The movements in property, plant and equipment during the year ended 31 December 2017 were as follows:

	Infrastructure assets	Fixtures and fittings	Assets under construction	Vehicles	Land	Total
Historical cost 31 December 2016	267	17	5,463	29	120	5,896
Additions	184	16	42,020	64	263	42,547
Transfers to (from) other account	1,352	–	(1,352)	–	–	–
Translation	25	–	1,019	2	5	1,051
Historical cost 31 December 2017	1,828	33	47,150	95	388	49,494
Accumulated depreciation and impairment						
31 December 2016	(130)	(3)	–	(6)	–	(139)
Depreciation charge	(200)	(5)	–	(9)	–	(214)
Impairment (Note 13)	(579)	–	(536)	–	–	(1,115)
Translation	(1)	–	–	–	–	(1)
Accumulated depreciation 31 December 2017	(910)	(8)	(536)	(15)	–	(1,469)
Net book value						
31 December 2016	137	14	5,463	23	120	5,757
31 December 2017	918	25	46,614	80	388	48,025

Infrastructure assets mainly comprise of measurement masts required for wind projects and water – flow measurement stations.

Assets under construction are mainly related to civil works carried out on Mestiachala HPPs.

The Group pledged the property, plant and equipment of Svaneti Hydro JSC, a subsidiary, as collateral for its borrowings with carrying amount of GEL 108,332 as at 2018 (2017: GEL 42,258).

(Amounts expressed in thousands of Georgian Lari)

7. OTHER NON-CURRENT ASSETS

	31 December 2018	31 December 2017
Pre-payments for non-current assets	42,092	33,245
Intangible assets	45	107
Other non-current assets	23	1,538
Total other non-current assets	42,160	34,890

As at 31 December 2018 and 2017, Pre-payments for non-current assets mainly comprise payments to civil works contractor and suppliers of hydro-mechanical equipment and generators in relation to construction of Mestiachala HPPs, which is anticipated to be finished in 2019.

As at 31 December 2017, other non-current assets mainly include prepaid fees for due diligence services in relation to borrowings to fund Mestiachala HPPs which was recognised as borrowing related transaction cost and included in the effective interest rate as at 31 December 2018.

Gross carrying amount of intangible assets and accumulated amortisation as at 31 December 2018 amounted to GEL 248 and GEL 203, respectively (2017: GEL 190 and GEL 83).

Amortisation charge on intangible assets was GEL 25 in 2018 (2017: GEL 65).

The Group pledged the intangible assets of Svaneti Hydro JSC, a subsidiary, as collateral for its borrowings with carrying amount of GEL 45 as at 31 December 2018 (2017: GEL 107).

8. OTHER CURRENT ASSETS

	31 December 2018	31 December 2017
Pre-payments	802	27
Derivative financial assets	645	–
Loans issued	149	–
Trade and other receivables	19	15
Receivables on insurance contracts (Note 13)	–	3,867
Total current assets	1,615	3,909

Pre-payments as at 31 December 2018 relate to construction of Bakhvi HPP.

9. EQUITY

Share capital

Authorized share capital of the Company comprised of 38,000 thousand and 20,000 thousand ordinary shares as of 31 December 2018 and 2017, respectively. Each share has a nominal value of 1 (one) USD. 37,273 and 11,982 thousand shares were issued and fully paid as of 31 December 2018 and 2017, respectively.

(Amounts expressed in thousands of Georgian Lari)

9. EQUITY (continued)

Share capital (continued)

As at 31 December 2018 and 2017 the Company had fully contributed share capital of GEL 95,592 and GEL 28,884, respectively.

Issued and fully paid shares in thousands	31 December 2018 Number	31 December 2018 Amount	31 December 2017 Number	31 December 2017 Amount
Georgia Capital JSC	24,228	62,136	–	–
BGEO Investments JSC	–	–	7,788	18,724
RP Global	13,045	33,457	4,194	10,160
Total	37,273	95,593	11,982	28,884

On 25 December 2018, borrowings from the parent companies of GEL 59,068 were converted into share capital of the Company. In 2018, the Company also issued the shares with the nominal amount of GEL 7,641 increasing the total share capital with amount of GEL 66,709.

In 2018, the Company issued 3,100,000 shares with the nominal amount of GEL 7,641 for cash consideration of GEL 7,733.

In 2017, the Company issued 5,320,000 shares with the nominal amount of GEL 13,076 for cash consideration of GEL 13,076 except of the shares issued for the transaction related to acquisition of additional interests in Svaneti Hydro JSC and Zoti Hydro JSC, as described below. In order to purchase 35% of the shares in Svaneti Hydro JSC and Zoti Hydro JSC, the Company issued 3,213,642 shares with nominal value of GEL 7,740 (see non-controlling interests below).

Management of capital

The Group's objectives when managing its capital are:

- To safeguard the Group's ability to continue as a going concern, so that it can provide returns for shareholders and benefits for other stakeholders;
- To maintain sufficient size to make the operation of the Group cost-efficient.

The Group is not subject to any externally imposed capital requirements.

The Group defines capital for capital management purposes in the same way as it is presented in the consolidated financial statements.

No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2018 and 2017.

Other reserves comprise of unrealised gains/(losses) from dilution or sale/acquisition of shares in existing subsidiaries, and foreign currency translation reserve.

(Amounts expressed in thousands of Georgian Lari)

9. EQUITY (continued)

Non-controlling interests

Acquisition of additional interest in Svaneti Hydro JSC and Zoti Hydro JSC

In 2017, the Group acquired an additional 35% interest of issued shares of Svaneti Hydro JSC and Zoti Hydro JSC, hence the Company increased its ownership interest to 100% in both subsidiaries. The shares were purchased in exchange to participation in the Company. The newly issued shares were allocated in order to attribute RP Global Investments GmbH 35% in GRPC. 3,213,642 shares were issued, with a par value of GEL 7,740 and value determined for legal purposes of GEL 5,871. The difference of GEL 1,869 was recognized in share discount. As part of the transaction RP Global Investments GmbH contributed also cash consideration of USD 880 (GEL 2,120). The carrying value of the non-controlling interests in Svaneti Hydro JSC and Zoti Hydro JSC were GEL 3,634 and GEL 623 at the date of transaction, respectively. Following is a schedule of the respective transactions:

Cash consideration received	2,120
Carrying value of Svaneti Hydro JSC 35%	3,634
Carrying value of Zoti Hydro JSC 35%	623
Nominal value of the shares issued	(7,740)
Share discount	1,869
Difference recognized in other reserves	(506)

Other non-controlling interests

As of 31 December 2018 and 2017, Georgian Energy Development Fund (“GEDF“) holds 15% of the Group’s subsidiary Geohydro JSC. GEDF does not have significant share in the Group’s activities and cash flows.

Increase in share capital by non-controlling interests

In 2017, GEL 1,560 was contributed to share capital of subsidiaries by owners of respective non-controlling interests.

10. BORROWINGS

	31 December 2018		31 December 2017	
	Current liabilities	Non-current liabilities	Current liabilities	Non-current liabilities
Loans from Georgian financial institutions	4,254	66,552	2,491	9,795
Loans from parent companies	–	–	–	52,562
Total borrowings	4,254	66,552	2,491	62,357

(Amounts expressed in thousands of Georgian Lari)

10. BORROWINGS (continued)

As at 31 December 2018 borrowings include:

- USD denominated loan from Georgian financial institution with a floating interest rate of 5.3% plus 6m LIBOR. The loan matures on 1 November 2029. As at 31 December 2018, the Group has available GEL 18,428 undrawn facility.
- GEL denominated loan from Georgian financial institution with a floating interest rate of NBG refinancing rate plus 4.5%. The loan matures on 1 November 2019. As at 31 December 2018, the Group has available GEL 1,195 undrawn facility.

As at 31 December 2018 the Group has converted the loans from parent companies into share capital (Note 9).

As at 31 December 2017 borrowings included:

- USD denominated loan from Georgian financial institution with a floating interest rate of 8% plus 3m LIBOR. The loan matures on 1 November 2029. As at 31 December 2017, the Group has available GEL 77,714 undrawn facility.
- GEL denominated loan from Georgian financial institution with a floating interest rate of NBG refinancing rate plus 5.25%. The loan matures on 1 November 2019. As at 31 December 2017, the Group has available GEL 4,771 undrawn facility.
- USD denominated loans from the parent companiess with a fixed interest rate of 10.5%. Loans from the parent companies were maturing on average in 5 years.

Refer to Notes 6 and 7 for the carrying amount of property, plant and equipment and intangible assets pledged as collateral for borrowings.

Material non-cash transactions

Changes in liabilities arising from financial activities

	Borrowings
Carrying amount at 31 December 2016	–
Foreign currency translation	3,215
Cash proceeds	63,736
Cash repayments	(4,500)
Interest accrued	3,219
Interest paid	(196)
Borrowings related transactions costs	(626)
Carrying amount at 31 December 2017	64,848
Foreign currency translation	4,490
Cash proceeds	63,743
Cash repayments	(8,606)
Interest accrued	8,419
Interest paid	(1,074)
Conversion of loan into share capital	(59,068)
Other non-cash changes in carrying value	(2,143)
Net foreign exchange losses	197
Carrying amount at 31 December 2018	70,806

(Amounts expressed in thousands of Georgian Lari)

10. BORROWINGS (continued)

Material non-cash transactions (continued)

In 2018, interest accrued on borrowings in amount of GEL 8,606 was capitalized (2017: GEL 3,219). Interest paid in 2018 in amount of GEL 1,074 (2017: GEL 196) was presented as purchase of property, plant and equipment and intangible assets in the consolidated statement of cash flow.

Proceeds from borrowings presented in the consolidated statement of cash flows for the year ended 31 December 2017 include “cash proceeds”, “borrowings related transactions costs” in amount of GEL 626 presented in the table above and borrowing related costs of GEL 1,342, which were born for borrowings not obtained as at 31 December 2017 and these fees are presented under other non-current assets.

11. DEFERRED INCOME

On 27 of December 2017, the Group received a grant from Oesterreichische Entwicklungsbank AG (“OEEB”), an Austrian government agency. The grant amounted to EUR 416 thousand (GEL 1,279 at 31 December 2018 exchange rate) and after meeting certain contractual conditions, reimbursed for amounts paid in relation to technical design of Mestiachala HPPs. Amount was recorded as deferred income and will be recognised as income in equal amounts over the expected useful life of the related asset.

12. TRADE AND OTHER PAYABLES

	31 December 2018	31 December 2017
Payables to employees	1,049	470
Payables for non-current assets	670	732
Other payables	–	7
Total trade and other payables	1,719	1,209

13. PROVISIONS FOR LIABILITIES AND CHARGES

Provision due to natural disasters

In 2017 the Group started construction of the Mestiachala HPPs with a 50 MW capacity. Mestiachala HPPs are run-of-the-river plants located in a mountainous region of Georgia. In September 2017, a heavy flood event occurred at the Mestiachala river and damaged the construction. As the result, the Group wrote off the damaged items of property, plant and equipment of GEL 495 and incurred expense for settling flood related charges of third parties in amount of GEL 160. In addition, the Group recognized provision for additional cost towards Group’s contactors for reinstating the works and elimination of the possible delay in amount of GEL 2,686 as at 31 December 2017. Considering that the project has the relevant insurance policy in place, the Group recorded receivables on insurance contracts for the flood event in amount of GEL 3,222 as at 31 December 2017 (Note 8). The receivables on insurance contracts was estimated based on additional costs that the Group incurs in relation to the flood event and considering the insurance policy in place and analysis carried by the Group and external consultants, The Group believes that insurance reimbursement is virtually certain. The difference of GEL 119 between total of property impairment, provision and other expenses incurred in relation to the flood event and the amount of respective recovery asset was recognized as non-recurring expense in the consolidated statement of profit or loss and other comprehensive income of 2017.

(Amounts expressed in thousands of Georgian Lari)

13. PROVISIONS FOR LIABILITIES AND CHARGES (continued)

Provision due to natural disasters (continued)

In 2018, the Group received the insurance reimbursement of GEL 3,605. The Group recognized the gain of GEL 1,355 as non-recurring income in the consolidated statement of profit or loss and other comprehensive income (Note 17).

In 2018, the Group covered all liabilities related to the flood event.

The Group is in a pre-construction stage of its wind energy projects. Currently relevant measurement studies are conducted, for which the Group maintains special equipment. In December 2017, part of the equipment was damaged by heavy wind and ice. The Group wrote off the damaged assets with the carrying amount of GEL 620 and incurred damage related expenses in amount of GEL 35. The Group has valid insurance policy, covering the above described events, and recognized receivables on insurance contracts in amount of GEL 645 as at 31 December 2017 (Note 8). The receivables on insurance contracts was estimated based on damage incurred in relation to the measurement masts and considering the insurance policy in place, the Group believes that insurance reimbursement is virtually certain. The difference of GEL 10 between total of property impairment and other expenses incurred in relation to the above event and the amount of respective recovery asset was recognized as non-recurring expense in the consolidated statement of profit or loss and other comprehensive income.

In 2018, the Group received the insurance reimbursement of GEL 304. The Group recognized the loss of GEL 464 as non-recurring expense in the consolidated statement of profit or loss and other comprehensive income (Note 17).

14. SALARIES AND OTHER EMPLOYEE BENEFITS

	2018	2017
Salaries	191	122
Bonuses	111	83
Total salaries and other employee benefits	302	205

15. OTHER GENERAL AND ADMINISTRATIVE EXPENSES

	2018	2017
Professional fees	149	448
Taxes other than income tax	48	543
Business trip expenses	41	53
Representation expenses	33	118
Communication expenses	29	9
Advertising expenses	22	–
Office supplies	2	4
Total general and administrative expenses	324	1,175

(Amounts expressed in thousands of Georgian Lari)

16. OTHER OPERATING EXPENSES

	2018	2017
Rent expenses	59	177
Transport maintenance expenses	39	17
Charity expenses	34	104
Custom and registration fees	–	21
Other expenses	11	11
Total other operating expenses	143	330

17. NON-RECURRING ITEMS

	2018	2017
Gain on insurance reimbursement on flood event (Note 13)	1,355	–
Loss on reimbursement of insurance on damaged measurement masts (Note 13)	(464)	(129)
Accelerated employee share based compensation	(244)	–
Other non-recurring expenses	(68)	–
Total non-recurring items	579	(129)

Non-recurring employee share based compensation expenses relate to the demerger of BGEO Group, which triggered recognition of fees for services received in connection with the demerger and acceleration of share-based compensation expenses.

18. COMMITMENTS AND CONTINGENCIES

Commitments

In 2014 JSC Svaneti Hydro signed the Memorandum of Understanding with the Government of Georgia, JSC Georgian State Electrosystem, JSC United Energy System Sakrusenergo, JSC Electricity System Commercial Operator and LLC Energotrans in regards to construction of Mestiachala HPPs, with a total installed capacity of 50MW. Based on the document, JSC Svaneti Hydro commited to finish the construction of the Mestiachala 2 HPP and Mestiachala 1 HPP and commence the operations in 2019 and 2020, respectively.

In 2015, JSC Zoti Hydro signed the Memorandum of Understanding with the Government of Georgia, JSC Georgian State Electrosystem, JSC United Energy System Sakrusenergo, JSC Electricity System Commercial Operator and LLC Energotrans in regards to construction of 46 MW Zoti HPPs. Based on the document, JSC Zoti Hydro commited to finish the construction of the HPPs and commence the operations in 2021.

In 2017, JSC Caucasian Wind Company has signed Memorandum of Understanding for several sites. Based on the documents, the Group commited to conduct necessary studies on the identified locations and submit the decision on the construction of wind and solar power plants to the Ministry of Economy and Sustainable Development of Georgia.

As at 31 December 2018, capital expenditure commitment for purchase of property, plant and equipment equals to GEL 5,803.

(Amounts expressed in thousands of Georgian Lari)

18. COMMITMENTS AND CONTINGENCIES (continued)

Environmental matters

The enforcement of environmental regulation in Georgia is evolving and the enforcement position of government authorities is continually being reconsidered. The Group periodically evaluates its obligations under environmental regulations. As obligations are determined, they are recognised immediately. Potential liabilities, which might arise as a result of changes in existing regulations, civil litigation or legislation, cannot be estimated but could be material. In the current enforcement climate under existing legislation, management believes that there are no significant liabilities for environmental damage.

19. FINANCIAL INSTRUMENTS

Fair value measurement

Fair value of all financial instruments held by the Group as at 31 December 2018 and 2017, are measured at fair value using a valuation technique with market observable and unobservable inputs.

The Management assessed that the fair values of cash and cash equivalents, other current assets, trade payables approximate their carrying amounts largely due to the short-term maturities of these instruments.

The fair value of payables for non-current assets was estimated to be equal to their carrying amount. The fair value of floating interest rate borrowings was estimated based on the estimated future cash flows expected to be paid discounted at current interest rates for new instruments with similar credit risk and remaining maturity.

Risk arising from financial instruments

In the course of its ordinary activity the Group is exposed to currency, interest rate, credit and liquidity risks. The Group's management oversees the management of these risks.

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

As at 31 December 2018 and 2017 currency risk arises from the EUR and GEL denominated cash and cash equivalents, trade payables and trade receivables and GEL denominated borrowings. The effect of reasonably possible change is disclosed in below table:

Currency	Increase/ decrease in % 2018	Effect on profit 2018
EUR	+11.00%	(11)
EUR	-7.00%	7
GEL	+11.00%	(123)
GEL	-11.00%	123

(Amounts expressed in thousands of Georgian Lari)

19. FINANCIAL INSTRUMENTS (continued)

Risk arising from financial instruments (continued)

Currency	Increase/ decrease in % 2017	Effect on profit 2017
EUR	+12.5%	154
EUR	-7.5%	(93)

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect the fair value of the financial instruments or the future cash flows on the financial instruments. As at 31 December 2018 the Group has floating interest rate borrowings linked to LIBOR and NBG refinancing rates and is therefore exposed to interest rate risk. The following table demonstrates sensitivity to a reasonable possible change:

LIBOR	Increase/ decrease in % 2018	Effect on profit 2018
USD	0.50%	(345)
USD	-0.15%	104

NBG	Increase/ decrease in % 2018	Effect on profit 2018
GEL	0.75%	(14)
GEL	-0.75%	14

As at 31 December 2017 80% of the Group's outstanding borrowings were at a fixed rate. As the interest expense is fully capitalized to the construction in progress, fluctuation in LIBOR or NBG refinancing rates would not have any material impact on profit before tax and would have minor effect on the cash flow.

Credit risk

Credit risk is the risk that the Group will incur a loss because counterparties failed to discharge their contractual obligations. The Group manages and controls credit risk it undertakes by setting limits on the amount of risk accepted in relation to counterparties or groups of counterparties. Such risks are monitored on a continuous basis and subject to an annual or more frequent review.

As at 31 December 2018 and 2017 the Group has no other significant financial assets subject to credit risk except for:

- Cash and cash equivalents: as at 31 December 2018 total cash and cash equivalents of GEL 5,603 (2017: GEL 8,298) was kept with Georgian banks having rating of "BB-/bb-" from Fitch Ratings.
- Receivables on insurance contracts with the estimated recoverable amount of GEL 3,222 being virtually certain as at 31 December 2017 (Note 13).

(Amounts expressed in thousands of Georgian Lari)

19. FINANCIAL INSTRUMENTS (continued)

Risk arising from financial instruments (continued)

All cash and cash equivalents balances are classified as current and not impaired. Due to short-term and highly liquid nature of these financial assets, the Group has assessed corresponding expected credit losses to be immaterial. Therefore, no impairment will be recognized for cash and cash equivalents under IFRS 9. The credit quality of all financial assets that are neither past due nor impaired is appropriate and is constantly monitored in order to identify any potential adverse changes in the credit quality. There are no financial assets that have had renegotiated terms that would otherwise, without that renegotiation, have been past due or impaired.

As at 31 December 2018 and 2017 carrying values of financial instruments best represent their maximum exposure to the credit risk.

Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting its payment obligations associated when they fall due under normal or stress circumstances. Management monitors rolling forecasts of the Group's cash flows on a monthly basis. The Group seeks to maintain a stable funding base primarily consisting of borrowings and trade and other payables.

The table below shows financial liabilities as at 31 December 2018 and 2017 based on contractual undiscounted repayment obligations.

	Less than 1 year	Over 1 year	Total
As at 31 December 2018			
Long-term and short-term borrowings	11,953	99,207	111,160
Trade and other payables	1,719	–	1,719
Total future payments	13,672	99,207	112,879
As at 31 December 2017			
Long-term and short-term borrowings	3,466	88,188	91,654
Trade and other payables	1,209	–	1,209
Total future payments	4,675	88,188	92,863

20. RELATED PARTIES DISCLOSURE

In accordance with IAS 24 Related Party Disclosures, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties. All transactions with related parties disclosed below have been conducted on an arm's-length basis.

(Amounts expressed in thousands of Georgian Lari)

20. RELATED PARTIES DISCLOSURE (continued)

BGEO Group entities as at 31 December 2017 are represented by members of BGEO Group (Note 1).

Subsequent to demerger (Note 1) Bank of Georgia Group entities are not considered to be related parties.

GCAP Group entities as at 31 December 2018 are represented by members of GCAP.

RP Global entities are represented by RP Global Holding and RP GLOBAL Investments GmbH.

The volumes of related party transactions, outstanding balances at the year end, and related expense and income for the year are as follows:

	GCAP Group entities	BGEO Group entities	RP Global entities	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Cash and cash equivalents	–	4,788	–	–
Other current assets	–	3,867	–	–
Other non-current assets	–	446	–	–
Property, plant and equipment	5,397	1,965	2,835	987
Total assets	5,397	11,066	2,835	987
Borrowings as at 1 January	34,221	–	18,341	–
Proceeds from borrowings	–	32,237	–	17,273
Interest accrued and translation during the year	4,173	1,984	2,333	1,068
Conversion of loan into share capital	(38,394)	–	(20,674)	–
Borrowings as at 31 December	–	34,221	–	18,341
Total liabilities	–	34,221	–	18,341

	GCAP Group entities	BGEO Group entities	BGEO Group entities
	2018	2018[1]	2017
Income and expenses	(140)	37	(19)
Finance income	–	41	40
Other general and administrative expenses	(140)	(4)	(59)

[1] Included in 2018 under BGEO Group entities are income and expenses generated before demerger (Note 1) by the companies not included in GCAP Group entities.

Other general and administrative expense in amount of GEL 140 in 2018 represents rent and other consulting expenses.

Other current assets in amount of GEL 3,867 as at 31 December 2017 represent receivables on insurance contract (Note 8).

(Amounts expressed in thousands of Georgian Lari)

20. RELATED PARTIES DISCLOSURE (continued)

Other non-current assets in amount of GEL 446 as of 31 December 2017 represent insurance fee paid in relation to borrowing to be obtained. The insurance fees were considered as transaction related costs for borrowings and transferred to the borrowings balance as at 31 December 2018.

Property, plant and equipment balance addition from related parties is in regards to capitalized interest expense incurred during 2017 in amount of GEL 1,965.

Directors' compensation

The Group's key management personnel in 2018 and 2017 include three members of the Supervisory Board and members of management board. The members of the Supervisory Board do not get compensation from the Group. Compensation paid to key executive management personnel (includes the director of the Group and 4 members of management board) for their services in full time executive management positions is made up of salary, performance bonus depending on the performance of the Group other compensation in form of reimbursement of housing, business trips, communication and other costs. Total compensation paid to key management amounted to GEL 1,292 and GEL 1,016 in 2018 and 2017, respectively, as follows:

	2018	2017
Salaries	584	430
Bonuses	708	586
Total management compensation	1,292	1,016

21. EVENTS AFTER THE END OF REPORTING PERIOD

In January 2019, existing credit line for funding construction of Mestiachala HPPs of GEL 88,327 (USD 33,000 thousand) was increased up to GEL 107,064 (USD 40,000 thousand) and maturity was prolonged from 1 November 2029 to 25 January 2034.

On 21 February 2019, the Company issued 900,000 shares with the nominal value of USD 1 each. The shares were purchased by RP Global and GCAP proportionally to their shareholdings (Note 1).

In April 2019, the Group commissioned the first phase (30MW) of Mestiachala hydro power plant, while also remaining on track to launch the second phase (20MW HPP) in June 2019. The 50MW cascade of Mestiachala HPPs is located in Svaneti region, in the north-western part of Georgia. The construction of the run-of-the-river type plant commenced in May 2017.