JSC GEORGIAN RENEWABLE POWER COMPANY

Consolidated financial statements

for the year ended 31 December 2019
with independent auditor's report

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Independent auditor's report

To the Management of JSC Georgian Renewable Power Company

Opinion

We have audited the consolidated financial statements of JSC Georgian Renewable Power Company and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2019, 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 2019 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 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.

Management is responsible for overseeing the Group's financial reporting process.

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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 management 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.

Alexey Loza
On behalf of EY LLC

Tbilisi, Georgia

2 July 2020

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

(Amounts expressed in thousands of Georgian Lari)

	Note	31 December 2019	31 December 2018
Assets			
Non-current assets			
Property, plant and equipment	6	157,796	114,457
Right-of-use assets	4	1,055	-
Other non-current assets	7	5,878	42,160
Total non-current assets		**164,729**	**156,617**
Current assets			
Reimbursement assets	6	46,457	-
Other current assets	8	391	1,615
Prepaid VAT		2,266	2,147
Cash and cash equivalents	19	15,564	8,388
Total current assets		**64,678**	**12,150**
Total assets		**229,407**	**168,767**
Equity			
Share capital	9	99,903	95,593
Accumulated deficit		(755)	(3,046)
Share discount	9	(2,457)	(2,457)
Other reserves	9	10,618	4,065
Equity attributable to the owners of the parent		**107,309**	**94,155**
Non-controlling interests	9	24	27
Total equity		**107,333**	**94,182**
Liabilities			
Non-current liabilities			
Borrowings	10	102,788	66,552
Lease liabilities	4	973	-
Deferred income	11	1,385	1,311
Total non-current liabilities		**105,146**	**67,863**
Current liabilities			
Borrowings	10	9,485	4,254
Trade and other payables	12	7,411	1,719
Derivative financial liabilities	4	-	718
Provisions for liabilities and charges		32	31
Total current liabilities		**16,928**	**6,722**
Total liabilities		**122,074**	**74,585**
Total liabilities and equity		**229,407**	**168,767**

Approved for issue and signed on behalf of Management on 2 July 2020:

Giorgi Vakhtangishvili
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 2019

(Amounts expressed in thousands of Georgian Lari)

	Note	2019	2018
Revenue from electric power sales	13	4,730	–
Business interruption reimbursement gain	6	10,047	–
Total revenue and gains		**14,777**	–
Electric power transmission costs		(77)	–
Salaries and other employee benefits	14	(481)	(302)
Other general and administrative expenses	15	(1,899)	(324)
Other operating expenses	16	(220)	(143)
Total operating expenses		**(2,677)**	**(769)**
EBITDA		**12,100**	**(769)**
Depreciation and amortization	6, 7	(3,107)	(352)
Finance income		248	149
Finance costs	10	(5,975)	(19)
Net foreign exchange losses		(171)	(479)
Non-recurring items, net	17	(807)	579
Profit/(loss) before income tax		**2,288**	**(891)**
Income tax expense		-	–
Profit/(loss) for the year		**2,288**	**(891)**
Attributable to:			
Owners of the parent		2,291	(887)
Non-controlling interests		(3)	(4)
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		6,553	1,696
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods		**6,553**	**1,696**
Other comprehensive income for the year		**6,553**	**1,696**
Total comprehensive income for the year		**8,841**	**805**
Attributable to:			
Owners of the parent		8,844	809
Non-controlling interests		(3)	(4)

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 2019

(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 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 (Note 9)	7,641	–	–	–	**7,641**	–	**7,641**
Conversion of loan to equity (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**
Profit for the year	-	-	2,291	-	**2,291**	(3)	**2,288**
Foreign currency translation reserve	-	-	-	6,553	**6,553**		**6,553**
Total comprehensive income for the year	**-**	**-**	**2,291**	**6,553**	**8,844**	**(3)**	**8,841**
Issue of share capital (Note 9)	4,310	-	-	-	**4,310**		**4,310**
Balance as at 31 December 2019	**99,903**	**(2,457)**	**(755)**	**10,618**	**107,309**	**24**	**107,333**

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

(Amounts expressed in thousands of Georgian Lari)

	Note	2019	2018 Restated (Note 4)
Cash flows from operating activities			
Receipts from electric power sales		4,664	-
Payments to suppliers		(2,154)	(631)
Payments to employees	15	(506)	(208)
Interest received		244	143
VAT reimbursed		154	-
Net cash from/(used) in operating activities		**2,402**	**(696)**
Cash flows from investing activities			
Purchases of property, plant and equipment and intangible assets	6	(32,676)	(68,117)
VAT reimbursed related to capital expenditures		2,613	5,962
Loans issued		(720)	(140)
Repayment of loans issued		597	-
Net cash used in investing activities		**(30,186)**	**(62,295)**
Cash flows from financing activities			
Proceeds from borrowings	10	29,355	55,137
Interest paid	10	(120)	(1,074)
Lease payments		(232)	
Proceeds from increase in share capital	9	4,310	7,733
Net cash from financing activities		**33,313**	**61,796**
Effect of exchange rate changes on cash and cash equivalents		1,647	1,285
Net increase in cash and cash equivalents		**7,176**	**90**
Cash and cash equivalents at the beginning of year	19	8,388	8,298
Cash and cash equivalents at the end of year	**19**	**15,564**	**8,388**

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 consolidates the following subsidiaries in its financial statements:

Name	Country of operation	Proportion of ownership interest 2019	2018
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%
LLC Bakhvi 2	Georgia	95%	–

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 the second quarter of 2019 the Group completed construction of 50MW Mestiachala hydro power plants ("HPPs") in the north-western part of Georgia. Construction of 46MW Zoti HPPs in the western part of Georgia commenced in the third quarter of 2019.

In 2019, the Group has acquired 95% share in LLC Bakhvi 2 ("Bakhvi") from LLC Georgian Hydro Power for GEL 2,479. The Company has a right to build and operate a 36MW HPP located in Guria, Georgia. The acquisition was accounted for as an asset acquisition.

As at 31 December 2019 and 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 2019 and 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.

The Company's legal address is N 79, Agmashenebeli Ave., Tbilisi, Georgia. The actual address is 10 Medea (Mzia) Jugheli Str, 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 2019 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 2019 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.

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 Group and its subsidiaries as at 31 December 2019. 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.

(Amounts expressed in thousands of Georgian Lari)

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

Financial assets in the scope of IFRS 9 are classified at initial recognition, as subsequently measured at amortised cost and fair value through profit or loss ("FVPL").

With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under IFRS 15.

For purposes of subsequent measurement, financial assets of the Group are classified as financial assets at amortised cost, which include trade and other receivables, loans issued and cash at bank. The Group does not have any financial assets measured at either FVOCI or FVPL. The Group's financial assets are included in current assets, except for assets with maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets.

The Group measures financial assets at amortised cost if both of the following conditions are met:

- the financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest ("EIR") method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

4. Summary of significant accounting policies (continued)

Financial assets (continued)

Derivative financial instruments

The Group uses forward currency 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 forward pricing models that take into accounting 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 combined statement of profit or loss and other comprehensive income in net foreign exchange losses.

Impairment of receivables

The Group recognises an allowance for expected credit losses ("ECLs") for all debt instruments not held at FVPL. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate.

For receivables the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date.

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.

If, in a subsequent year, the amount of the estimated ECLs increases or decreases, the previously recognised ECLs are increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the profit or loss in the allowance for impairment of trade receivables line with a negative sign as a reversal of impairment.

The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. Impairment losses are always recognised through an allowance account to write down the asset's carrying amount to the present value of expected cash flows discounted at the original effective interest rate of the asset.

Financial liabilities

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

(Amounts expressed in thousands of Georgian Lari)

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.

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 include change in the currency of the borrowing, change of borrowing's interest rate from fixed to floating or visa verse, or introduction of an equity conversion feature.

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 cost.

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.

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
Buildings	60
Pipes and wells	5
Equipment	10 to 50
Computers	3
Vehicles	10

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, unless reimbursement is virtually certain, and is 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 assets' recoverable amount. An asset's recoverable amount is the higher of an asset's or cash generating unit's ("CGU's") fair value less costs of disposal and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

(Amounts expressed in thousands of Georgian Lari)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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. The policy was applicable until 1 January 2019.

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. VAT related to capital expenditures is reflected in cash flows from investing activities, while VAT related to operating activities is reflected in cash flow from operating activities.

(Amounts expressed in thousands of Georgian Lari)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Prepayments

Prepayments 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. Prepayments 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 prepayments 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 prepayments 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.

Revenue

Revenue from electric power sales is recognised on the basis of metered electric power transferred and by application of the fixed price according to the agreement formed with customers. Customers are usually obliged to pay the respective balances by a following month end.

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.

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 2019 and 2018 were GEL 2.8677 and GEL 2.6766 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.

Standards issued but not yet effective

The following standards/interpretations that became effective on 1 January 2019 did not have any impact on the Group's financial statements:

- IFRS 17 *Insurance Contracts*;
- Amendments to IFRS 3: *Definition of a Business*;
- Amendments to IAS 1 and IAS 8: *Definition of Material.*

(Amounts expressed in thousands of Georgian Lari)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Adoption of new or revised standards and interpretations

The Group applied IFRS 16 *Leases* for the first time. The nature and effect of the changes as a result of adoption of this new accounting standard is described below.

Certain other amendments and interpretations apply for the first time in 2019, but do not have an impact on the consolidated financial statements of the Group. The Group has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

IFRS 16 Leases

IFRS 16 supersedes 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*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise most leases on the balance sheet.

Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 does not have an impact for leases where the Group is the lessor.

Transition to IFRS 16

The Group is a lessee in a small number of land leases. The Group's lease arrangements usually do not include any variable component, are concluded for the period from 30 to 50 years and are denominated in Georgian Lari or US Dollar.

The Group adopted IFRS 16 using the modified method with the date of initial application of 1 January 2019. The Group recognized cumulative catch-up adjustment on 1 January 2019 without the restatement of prior period comparative financial information. At transition, the Group recognised a lease liability for leases previously classified as an operating lease applying IAS 17. Lease liability is measured at the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application. Only the lease payments specified in IFRS 16 are included in the recognised lease liability. Variable lease payments that do not depend on an index or a rate and are not in-substance fixed, such as those based on the performance or usage of the underlying asset, are not reflected in the recognised lease liability. The Group also 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 consolidated statement of financial position immediately before the date of initial application.

(Amounts expressed in thousands of Georgian Lari)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Adoption of new or revised standards and interpretations (continued)

The effect of adoption of IFRS 16 is as follows:

Impact on the consolidated statement of financial position as at 1 January 2019:

	1 January 2019
Property, plant and equipment (right-of-use assets)	364
Total assets	**364**
Lease liabilities	364
Total liabilities	**364**

The weighted average incremental borrowing rate was 11% for lease payments in GEL.

The movements in right-of-use assets in 2019 were as follows:

Balance as at 31 December 2018	-
The effect of adoption of IFRS 16	364
Balance as at 1 January 2019	364
Additions	745
Balance as at 31 December 2019	**1,109**
Accumulated depreciation	(54)
Right-of-use assets as at 31 December 2019	**1,055**

Impact on the consolidated statement of profit or loss (increase/(decrease)) in 2019:

Rent expense (included in Other operating expenses)	(178)
Net effect on EBITDA in 2019	**(178)**
Depreciation charge	54
Finance costs	76
	130
Attributable to:	
Owners of the parent	(48)
Non-controlling interests	-

(Amounts expressed in thousands of Georgian Lari)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Adoption of new or revised standards and interpretations (continued)

Set out below are the new accounting policies of the Group upon adoption of IFRS 16:

Right-of-use assets

Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. The recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

Lease liabilities

The Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

Short-term leases and leases of low-value assets

The Group elected to use the exemptions proposed by the standard and therefore not to record right-of-use assets and lease liabilities on lease contracts for which the lease terms ends within 12 months for leased vehicles and equipment and lease contracts for which the underlying asset is of low value.

The following standards or interpretations relevant to the Group's activities became effective on 1 January 2019 and had no impact on the Group's consolidated financial position or results of operations:

- Amendments to IFRS 9 *Prepayment Features with Negative Compensation;*
- Annual improvements to IFRSs 2015-2017 cycle: IAS 23 *Borrowing Costs*.

Changes in accounting policies and disclosures

The Group changed its accounting policy on presentation of its consolidated statement of cash flows. Starting from 2019, the Group presents cash flows from operating activities using direct method, as opposed to indirect method applied in prior periods. Under a direct method, the Group discloses major classes of gross cash receipts and gross cash payments arising from operating activities. In addition, the Group presents interest paid, previously presented in cash flows from operating activities, within cash flows from financing activities. The Group considers direct method of presentation of cash flows from operating activities and presentation of interest paid within cash flows from financing activities to provide more relevant and reliable information to the users of consolidated financial statements, as it may be more useful in estimating future cash flows of the Group. Comparative consolidated statement of cash flows for 2018 was restated to comply with the new presentation.

(Amounts expressed in thousands of Georgian Lari)

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:

Measurement of infrastructure assets and assets under construction

Infrastructure assets and assets under construction are 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. In case of any impairment as a result of physical damage or destruction of assets, the Group assesses the extent of such damage for each individual item and writes off respective portion of the property, plant and equipment, which involves, for partially damaged items, exercise of judgment in determination of the impairment charge. In addition, significant judgment is required to assess whether an insurance reimbursement for respective loss events virtually certain and whether recognition of respective reimbursement asset is appropriate, as well as in the measurement of the reimbursement asset at the reporting date. Information about impairment losses and the respective insurance reimbursement recognised in 2019 is disclosed in Note 6.

6. PROPERTY, PLANT AND EQUIPMENT AND RIGHT-OF-USE ASSETS

The movements in property, plant and equipment in 2019 were as follows:

	Land	Infrastructure assets	Pipes and wells	Fixtures and fittings	Vehicles	Assets under construction	Total
Historical cost 31 December 2018	**423**	**2,795**	**-**	**146**	**200**	**112,581**	**116,145**
Additions	315	4,674	2,684	163	754	60,672	**69,262**
Transfers	-	89,966	63,410	-	(751)	(152,625)	**-**
Disposals	-	(188)		-	-	-	**(188)**
Damaged assets write-off	-	(35,236)	(3,775)	-	-	-	**(39,011)**
Currency translation differences	42	18,814	390	364	64	(5,069)	**14,605**
Historical cost 31 December 2019	**780**	**80,825**	**62,709**	**673**	**267**	**15,559**	**160,813**
Accumulated depreciation and impairment							
31 December 2018	**–**	**(1,086)**	**–**	**(22)**	**(41)**	**(539)**	**(1,688)**
Depreciation charge		(1,900)	(1,053)	(22)	(21)	-	**(2,996)**
Disposals	-	31	-	-	-	-	**31**
Transfers	-	(539)	-	-	-	539	**-**
Impairment charge	-	1,369	324	-	-	-	**1,693**
Currency translation differences	-	(47)	(6)	(1)	(3)	-	**(57)**

(Amounts expressed in thousands of Georgian Lari)

Accumulated depreciation and impairment 31 December 2019	-	**(2,172)**	**(735)**	**(45)**	**(65)**	-	**(3,017)**
Net book value							
31 December 2018	**423**	**1,709**	-	**124**	**159**	**112,042**	**114,457**
31 December 2019	**780**	**78,653**	**61,974**	**628**	**202**	**15,559**	**157,796**

The movements in property, plant and equipment in 2018 were as follows:

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

The majority of assets under construction has been transferred to Infrastructure assets and Pipes and wells following commissioning of the Mestiachala HPPs in the second quarter of 2019.

Infrastructure assets mainly comprise of turbine-generators, intakes and reservoirs for Svaneti Hydro HPPs, as well as measurement masts required for wind projects and waterflow measurement stations.

Assets under construction are mainly related to civil works carried out on Zoti Hydro during 2019.

In July 2019, a mudflow in Mestia, Svaneti, Georgia in the valley of the Mestiachala river caused damage to the 30MW Mestiachala 1 and 20MW Mestiachala 2 HPPs and the surrounding infrastructure. Mestiahala received the first major hit of the wave and served as a deterrent of the mudflow stream. As a result of this mudflow, Mestiachala HPPs were damaged and ceased generating revenue. Mestiachala 1 HPP returned on-line in December 2019. Mestiachala 2 HPP is expected to resume generation by the end of 2020.

As a result of this natural disaster, the Group wrote off damaged items of property, plant and equipment of GEL 37,319 in 2019. The loss was included in Non-recurring items in the consolidated statement of profit or loss and other comprehensive income for 2019.

In relation to the loss event, the Group recognized an insurance claim receivable from JSC Insurance Company Aldagi ("Aldagi"), a related party, of GEL 46,457 in the consolidated statement of financial position as at 31

(Amounts expressed in thousands of Georgian Lari)

December 2019, the related Business interruption reimbursement gain of GEL 10,047and reimbursement of incurred damages of GEL 36,707, included in the Non-recurring items, in the consolidated statement of profit or loss and comprehensive income for 2019. The Group considers insurance reimbursement to be virtually certain.

7. OTHER NON-CURRENT ASSETS

	31 December 2019	31 December 2018
Prepayments for non-current assets	5,595	42,092
Intangible assets, net of accumulated amortisation	85	45
Financial assets	198	-
Other non-current assets	-	23
Total other non-current assets	**5,878**	**42,160**

As at 31 December 2018, prepayments 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, commissioned in the first half of 2019.

Gross carrying amount of intangible assets and accumulated amortisation as at 31 December 2019 amounted to GEL 341 and GEL 256, respectively (2018: GEL 248 and GEL 203). Amortisation charge on intangible assets was GEL 53 in 2019 (2018: GEL 25).

The Group pledged the intangible assets of JSC Svaneti Hydro as collateral for its borrowings with carrying amount of GEL 135 as at 31 December 2019 (2018: GEL 45).

8. OTHER CURRENT ASSETS

	31 December 2019	31 December 2018
Loans issued	167	149
Prepayments	111	802
Inventory	57	-
Trade and other receivables	56	19
Derivative financial assets	-	645
Total current assets	**391**	**1,615**

9. EQUITY

Share capital

Authorized share capital of the Company comprised of 39,000 thousand and 38,000 thousand ordinary shares as of 31 December 2019 and 2018, respectively. Each share has a nominal value of 1 (one) USD. 38,823 and 37,273 thousand shares were issued and fully paid as of 31 December 2019 and 2018, respectively.

(Amounts expressed in thousands of Georgian Lari)

Issued and fully paid shares in thousands	**31 December 2019**		**31 December 2018**	
	Number	**Amount**	**Number**	**Amount**
Georgia Capital JSC	25,462	65,521	24,228	62,136
RP Global	13,361	34,382	13,045	33,457
Total	**38,823**	**99,903**	**37,273**	**95,593**

In 2019, the Company issued 900,000 shares with the nominal value of 1 (one) USD in amount of GEL 2,392. In addition, Parent injected GEL 1,918 (USD 650) for 650,000 shares into the share capital of the Group.

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.

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 2019 and 2018.

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

Non-controlling interests

As of 31 December 2019 and 2018, Georgian Energy Development Fund ("GEDF") held 15% share in JSC Geohydro. GEDF does not represent a significant share in the Group's activities and cash flows. As of 31 December 2019, LLC Georgian Hydro Power held 5% share in Bakhvi 2.

(Amounts expressed in thousands of Georgian Lari)

10. BORROWINGS

	31 December 2019		31 December 2018	
	Current liabilities	Non-current liabilities	Current liabilities	Non-current liabilities
Loans from Georgian Financial institutions	9,485	102,788	4,254	66,552
Total borrowings	**9,485**	**102,788**	**4,254**	**66,552**

As at 31 December 2019 borrowings include:

- USD denominated loan from a Georgian financial institution with a floating interest rate of 5.3% plus 6m LIBOR. The loan matures on 25 January 2034. As at 31 December 2019, the Group has available USD 2,962 (GEL 8,493) undrawn facility.
- GEL denominated loan from a Georgian financial institution with a floating interest rate of NBG refinancing rate plus 4.5%. The loan matures on 1 November 2020. As at 31 December 2019, the Group has available GEL 5,133 undrawn facility.

As at 31 December 2018 borrowings included:

- 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).

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

Changes in liabilities arising from financial activities

	Borrowings
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**
Foreign currency translation	7,066
Cash proceeds	103,361
Cash repayments	(74,006)
Interest accrued	7,994

(Amounts expressed in thousands of Georgian Lari)

Interest paid	(3,023)
Carrying amount at 31 December 2019	**112,273**

In 2019, interest accrued on borrowings in amount of GEL 2,095 was capitalized (2018: GEL 8,606) and GEL 5,899 was expensed as Mestiachala HPPs commenced operations during the period. Interest paid in 2019 in amount of GEL 2,903 (2018: GEL 1,074) was presented as purchase of property, plant and equipment and intangible assets in the consolidated statement of cash flow, while GEL 120 was presented as Interest paid in the consolidated statement of cash flow.

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 GEL 1,385 at 31 December 2019 (2018: GEL 1,311) 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 2019	31 December 2018
Payables for non-current assets	6,221	–
Payables to employees	1,190	1,049
Payables for non-current assets	-	670
Total trade and other payables	**7,411**	**1,719**

13. REVENUE FROM ELECTRIC POWER SALES

In April and June 2019, the Group commissioned Mestiachala 1 and 2 HPPs, respectively. The Group has entered into a power purchase agreement ("PPA") with the Electricity System Commercial Operator ("ESCO") for 8 months (from August till May), while during the remaining period the electric power is sold to the open market. Revenue from the electric power sales is recognized monthly based on the actual metered generation.

2019	Revenue from electric power sales
PPA sales	**234**
Open market sales	**4,496**
Total revenue from electric power sales	**4,730**

(Amounts expressed in thousands of Georgian Lari)

14. SALARIES AND OTHER EMPLOYEE BENEFITS

	2019	2018
Salaries	325	191
Bonuses	156	111
Total salaries and other employee benefits	**481**	**302**

15. OTHER GENERAL AND ADMINISTRATIVE EXPENSES

	2019	2018
Taxes other than income tax	1,081	48
Insurance expense	267	-
Professional fees	230	149
Communication expenses	73	29
Security	70	-
Other	178	98
Total general and administrative expenses	**1,899**	**324**

16. OTHER OPERATING EXPENSES

	2019	2018
Charity expenses	75	34
Transport maintenance expenses	58	39
Other expenses	55	11
Rent expenses	17	59
Research and certification expenses	15	–
Total other operating expenses	**220**	**143**

17. NON-RECURRING ITEMS

	2019	2018
Gain on insurance reimbursement (Note 6)	36,707	1,355
Loss of property, plant and equipment to natural disaster event (Note 6)	(37,336)	-
Loss on reimbursement of insurance on damaged measurement masts	-	(464)
Other non-recurring expenses	(178)	(68)
Accelerated employee share-based compensation	-	(244)
Total non-recurring items	**(807)**	**579**

Non-recurring employee share-based compensation expenses relate to the demerger of BGEO Group (GCAP 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. Svaneti Hydro JSC committed to finish the construction of the Mestiachala 2 HPP and Mestiachala 1 HPP and commence the operations in 2019 and 2020, respectively. Commitments were met since construction of Svaneti Hydro HPPs was completed in the first half of 2019.

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 committed to finish the construction of the HPPs and commence the operations in 2021.

In 2017, JSC Caucasian Wind Company has signed the Memorandums of Understanding for several sites with the Government of Georgia. Based on the memorandums, the Group committed 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.

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 2019 and 2018, 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.

(Amounts expressed in thousands of Georgian Lari)

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 2019 and 2018 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 % 2019	Effect on profit 2019
EUR	11.00%	(449)
EUR	-6.00%	245
GEL	10.00%	(409)
GEL	-5.00%	204

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

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 2019 and 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 % 2019	Effect on profit 2019
USD	0.35%	386
USD	-0.35%	(386)

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

(Amounts expressed in thousands of Georgian Lari)

NBG	Increase/ decrease in % 2019	Effect on profit 2019
GEL	2.00%	41
GEL	-2.00%	(41)

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

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 2019 and 2018, the Group has no other significant financial assets subject to credit risk except for:

- Cash and cash equivalents: as at 31 December 2019 total cash and cash equivalents of GEL 15,564 (2018: GEL 5,603) was kept on current accounts with Georgian banks having rating of "BB-/bb-" from Fitch Ratings.
- Receivables on insurance contracts with the estimated recoverable amount of GEL 46,457 being virtually certain as at 31 December 2019 (2018: GEL 3,222) (Note 6).

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 2019 and 2018, 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 2019 and 2018 based on contractual undiscounted repayment obligations.

(Amounts expressed in thousands of Georgian Lari)

	Less than 1 year	Over 1 year	Total
As at 31 December 2019			
Long-term and short-term borrowings	15,885	165,863	**181,748**
Other non-current liabilities	25	791	**816**
Trade and other payables	6,221	-	**6,221**
Total future payments	**22,131**	**166,654**	**188,785**
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**

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.

GCAP Group entities as at 31 December 2019 and 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		**GCAP Group**		**RP Global**	**RP Global**
	Parent Company	**Entities under common control**	**Parent Company**	**Entities under common control**	**Entity with significant influence over the Group**	**Entity with significant influence over the Group**
	31 December 2019	**31 December 2019**	**31 December 2018**	**31 December 2018**	**31 December 2019**	**31 December 2018**
Reimbursement assets	–	46,457	–	–	–	–
Property, plant and equipment (capitalized costs)	5,397	–	5,397	–	2,835	2,835
Total assets	**5,397**	**46,457**	**5,397**	**-**	**2,835**	**2,835**
Borrowings as at 1 January	**–**	–	**34,221**	–	**–**	**18,341**

(Amounts expressed in thousands of Georgian Lari)

Interest accrued and translation during the year	–	–	4,173	–	–	2,333
Conversion of loan into share capital	–	–	(38,394)	–	–	(20,674)
Borrowings as at 31 December	**–**	–	**–**	–	**–**	**–**
Total liabilities	**–**	–	**–**	–	**–**	**–**

	GCAP Group Entities under common control 2019	**GCAP Group Entities under common control 2018**	**GCAP Group Entities under common control 2018[1]**
Income and (expenses)	**46,754**	**(140)**	**37**
Finance income	–	–	41
Business interruption reimbursement gain	10,047	–	–
Other non-recurring items	36,707		
Other general and administrative expenses	–	(140)	(4)

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

Business interruption reimbursement income in 2019 represents the business interruption insurance reimbursement from an entity under common control (Note 6).

Directors' compensation

The Group's key management personnel in 2019 and 2018 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 1,537 and GEL 1,541 in 2019 and 2018, respectively, as follows:

	2019	**2018**
Salaries	532	584
Bonuses	659	790
Share-based expenses	346	167
Total management compensation	**1,537**	**1,541**

21. EVENTS AFTER THE END OF REPORTING PERIOD

On 25 February 2020, GCAP acquired 34.4% RP Global's shares in the Company and became the owner of 100% shares in the Group.

During February 2020, the Group increased share capital in exchange of cash consideration from the shareholders of GEL 5,608.

(Amounts expressed in thousands of Georgian Lari)

In February 2020, the Group has submitted the insurance claim for the business interruption reimbursement of GEL 9,488 for August-December 2019 business interruptions (US$ 3.3 million).

In February-June 2020, the Group received GEL 9,658 in settlement of reimbursement asset related to business interruption.

In March 2020 the World Health Organization confirmed the novel coronavirus ("COVID-19") as a global pandemic. There is uncertainty over the magnitude of the global slowdown that will result from this pandemic and its impact on Georgian economy. First COVID-19 infection was confirmed by the National Center for Disease Control ("NCDC") in February 2020. The Government of Georgia has introduced number of measures aimed at containment of the spread of COVID-19, which have significant social and economic impact. The Group is monitoring impact of coronavirus (COVID-19) outbreak on its business, customers and employees and follows the official guidance introduced by the Government of Georgia to safeguard its people and to maintain business continuity. The further spread of COVID-19 in Georgia and globally, is expected to have a negative impact on the economy, however it is too early to fully understand the impact this may have on the Group's business. The management of the Group considers coronavirus (COVID-19) outbreak to be a non-adjusting post balance sheet event, but it is still assessing its impact on the financial position and performance of the Group.